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Unemployment Insurance

Unemployment Insurance

Introduction

Unemployment insurance (UI) is a shared federal-state system that provides partial wage replacement to workers who lose their jobs through no fault of their own and who are able to work, available to work, and actively seeking work. It also connects workers with reemployment services.

Virtually all workers face the risk of becoming laid off at some point during their careers. In 2014, 10.9 percent of those who worked or looked for work were unemployed at some point during the year.¹ When unemployment occurs, most workers find it difficult to make ends meet. Unemployment insurance is intended to help these workers stay afloat during the search for new employment.

Between 2008 and 2013, which included the years of the Great Recession, 24 million workers received extended and emergency benefits.

The number of workers meeting eligibility requirements and receiving UI benefits varies depending on how the economy is doing, as well as due to state differences in eligibility rules, benefit levels, and benefit durations. In 2015, when the unemployment rate was roughly half of what it was early in the economic recovery in 2010, 6.6 million workers applied for and received benefits. In comparison, 14.4 million workers applied for and received benefits in 2009 and joined millions more already receiving benefits. Between 2008 and 2013, which included the years of the Great Recession, 24 million workers received extended and emergency benefits.² The total system cost of UI benefits varies with changes in the number of recipients. In 2015, total benefits paid from the regular UI program were \$32.5 billion. In 2010, this figure, including all state and federal benefits, was five times as large at \$156 billion.³ These differences are partially the result of increased numbers of unemployed people and in part the result of temporary changes in the UI system during the recession.

The following sections of this *Report* describe and take stock of the UI system's benefits, administration, financing, and reemployment services. Within each section, a set of current policy challenges and reform options is presented.

¹ U.S. Department of Labor, 2015, "Work Experience Summary," Bureau of Labor Statistics, December 9, 2015, <http://www.bls.gov/news.release/work.nr0.htm>.

² These benefits are described in the following section. Council of Economic Advisers and the Department of Labor, 2013, "The Economic Benefits of Extending Unemployment Insurance," <https://www.whitehouse.gov/sites/default/files/docs/uiereport-2013-12-4.pdf>.

³ U.S. Department of Labor, 2016, "Unemployment Insurance Outlook: FY 2017 Midsession Review," Division of Fiscal and Actuarial Services, Office of Unemployment Insurance.

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Reemployment Services

Reemployment Services

Background

The Employment Service (ES) and unemployment insurance are partner programs. The ES was established in 1933 by the Wagner-Peyser Act, and UI was established by the Social Security Act of 1935. By 1938, all states began paying UI benefits through public ES offices. Since that beginning, the ES has cooperated with UI by providing trained counselors to accept claims for benefits, check initial eligibility for UI, provide job-finding and placement services to UI claimants and local employers seeking to fill jobs, and validate continuing UI eligibility before payment of benefits. The latter function has come to be known as the “UI work test.” It is based on the principle that UI be paid only to involuntarily unemployed workers while they are engaged in active reemployment efforts.

A significant body of research finds that reemployment services can help UI beneficiaries get back to work quickly. Evaluation studies since the 1980s have shown that many displaced and experienced workers require only adequate screening and job search assistance (JSA) to return to employment.¹⁶ Additionally, randomized controlled trials testing strategies to renew linkages between

ES and UI have estimated shorter unemployment durations and lower UI benefit payment costs result from closer cooperation between reemployment and payment services.¹⁷ These results suggest that cost savings to the unemployment trust fund (UTF) can be achieved by providing job finding and placement services, and exposing UI claimants to suitable jobs. This is particularly true for younger and dislocated UI claimants.¹⁸

Cost savings to the unemployment trust fund can be achieved by providing job finding and placement services, and exposing UI claimants to suitable jobs.

Evidence of effectiveness for job search assistance targeted to displaced workers emerged in the final report of the New Jersey UI Reemployment

¹⁶ Walter Corson et al., 1989, “New Jersey Unemployment Insurance Reemployment Demonstration Project,” Unemployment Insurance Occasional Paper No. 89-3, Employment and Training Administration, U.S. Department of Labor; Terry R. Johnson et al., 1985, “An Evaluation of the Impact of ES Referrals on Applicant Earnings,” *The Journal of Human Resources*, 20(1): 117–137; Louis S. Jacobson et al., 2004, “Evaluation of Labor Exchange in the One-Stop Delivery System Environment,” Westat, Inc. ETA Occasional Paper 2004-09, U.S. Department of Labor, Employment and Training Administration.

¹⁷ Walter Corson, David Long, and Walter Nicholson, 1985, “Evaluation of the Charleston Claimant Placement and Work Test Demonstration,” Unemployment Insurance Occasional Paper No. 85-2, Employment and Training Administration, U.S. Department of Labor; Christopher J. O’Leary, 2006, “State UI Job Search Rules and Reemployment Services,” *Monthly Labor Review* 129 (6): 27–37.

¹⁸ Analyzing data from Washington State, Marta Lachowska, Merve Meral, and Stephen A. Woodbury found that for the dislocated UI applicants the work test reduced time to reemployment by 1 to 2 quarters, and increased post-UI job tenure by about 2 quarters. Marta Lachowska, Merve Meral, and Stephen A. Woodbury, 2015, “The Effects of Eliminating the Work Search Requirement on Job Match Quality and Other Long-Term Employment Outcomes,” Department of Labor.

Demonstration project.¹⁹ The findings were strengthened by a five-year follow-up study that found positive second-year effects from the job search assistance treatment. A demonstration testing targeted job search assistance supported the New Jersey results, and random trials in Kentucky provided further evidence in support of targeting reemployment services to those most likely to exhaust their UI entitlements.²⁰

Intensive services—staff assistance with finding and keeping a job—not only help people find a job, but also lead to higher earnings.

The most recent evidence of ES effectiveness comes from interim results from random trials in the national evaluation of services provided at American Job Centers. “Intensive services—staff assistance with finding and keeping a job—not only help people find a job, but also lead to higher earnings.”²¹

Policy Challenges

Inadequate funding for reemployment services

Revenues from the federal unemployment tax are paid into the UTF to finance Wagner-Peyser employment services, UI program administration, emergency loans to states, and the federal share of extended benefits. However, because the federal taxable wage has remained constant in nominal terms at \$7,000 since 1983 (meaning that it has eroded considerably in real terms), federal unemployment tax revenue has not increased to the point that federal appropriators have chosen to increase Wagner-Peyser funding. Dedicated funding through the federal unemployment tax may provide inadequate funding for reemployment services and administration of the work test.

Federal appropriations for Employment Service

Since 1984, federal Wagner-Peyser appropriations from the UTF for ES have fallen in real terms by more than half.

¹⁹ Walter Corson et al., 1989.

²⁰ Dan Black, Jeffrey Smith, Mark Berger, and Brett Noel, 2003, “Is the Threat of Reemployment Services More Effective than the Services Themselves? Evidence from Random Assignment in the UI System,” *American Economic Review* 93(4): 131-1327; Paul T. Decker, Robert B. Olson, Lance Freeman, and Daniel H. Klepinger, 2000, “Assisting Unemployment Insurance Claimants: The Long-Term Impact of the Job Search Assistance Demonstration,” OWS Occasional Paper 2000-02, Office of Workforce Security, Employment and Training Administration, U.S. Department of Labor; Walter Corson and Joshua Haimson, 1995, “The New Jersey Unemployment Insurance Reemployment Demonstration Project Six-Year Follow-Up and Summary Report,” USDOL/ETA, UI Occasional Paper 95-2.

²¹ Sheena McConnell Main Document Only. McConnell, Linda Rosenberg, Ronald D'Amico, Kate Dunham, Verenice Chavoya-Perez, Deborah Kogan, Melissa Mack, Marian Negoita, and Anne Paprocki. 2015, “Providing Public Workforce Services to Job Seekers: Implementation Findings on the WIA Adult and Dislocated Worker Programs,” report to the U.S. Department of Labor, ETA, OPDR. Washington, DC: Mathematica Policy Research.

Figure 1. UI and Social Security taxable wage bases and the ratio of total to UI taxable wages, 1937-2015



Source: Christopher J. O'Leary and Kenneth J. Kline, 2016, "Are State Unemployment Insurance Reserves Sufficient for the Next Recession?" Upjohn Institute Working Paper 16-257, Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

As a result of the decline in real Wagner-Peyser funding for employment services between 1984 and 2015, states have not adequately staffed employment centers. Instead, states have implemented technological solutions at the expense of one-on-one engagement. Automated initial UI eligibility systems have

not only compromised job search, they have also contributed to low rates of benefit receipt among the unemployed. Some states have gone further by replacing call centers for initial UI claims with entirely on-line and automated voice-response systems. In such cases, the absence of alternative points of access may deter individuals, especially individuals with limited literacy, limited English proficiency, or other labor market challenges, from properly completing UI applications for benefits.

The reduced availability of employment services and lack of work test enforcement may also contribute to longer unemployment durations.²²

²² Instead of funding the statutory Wagner-Peyser ES program, in recent years DOL has granted federal funds to states for new reemployment initiatives such as reemployment and eligibility assessments (REA). It is worth mentioning that this and other UI efforts like payment accuracy are fully funded, while the ES has not been sufficiently funded for years.

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Structural underfunding means the ES program cannot serve the full array of job seekers who could benefit from reemployment services. Most developed industrial nations provide a free public employment service as a right to all citizens. Indeed, most wealthy nations and many middle-income nations, are signatories to the 1948 International Labor Organization Convention 88 on public employment services.²³ The United States is not a signatory of ILO Convention 88, but has respected the principle of the Convention that all nations “shall maintain or ensure the maintenance of a free public employment service.” The idea is that labor force members should have a right to free labor market information and job matching services as a means to social participation. As President Eisenhower said, “state employment security offices are important for a smoothly operating free labor market in a growing economy.”²⁴

Disconnect between speeding the return to work and automated UI Administration

To be most effective, reemployment services should be delivered to UI recipients in the manner that is best suited to claimants’ needs.

To be most effective, reemployment services should be delivered to UI recipients in the manner that is best suited to claimants’ needs. Generally, these services are more effective when delivered in person, rather than remotely by phone or internet. Furthermore, any risk that paying cash benefits during joblessness might

prolong spells of unemployment—an effect known as moral hazard — is magnified when a vigorous reemployment effort is not supported by high quality comprehensive reemployment services. By July 2000, very few states were still taking UI claims one-on-one at employment offices. Most claims were being taken over the telephone through call centers or by internet, meaning that UI was operationally separate from the reemployment services and work test provided by the ES.

²³ ILO, 1988, C088 - Employment Service Convention, 1948 (No. 88), Convention concerning the Organization of the Employment Service (Entry into force: 10 Aug 1950), Adoption: San Francisco, 31st ILC session (09 Jul 1948) - Status: Instrument with interim status (Technical Convention).

²⁴ Federal Reserve Archive, 1960, Budget of the United States, Fiscal Year Ending June 30, 1961, Message of the President, p. M 60, Washington DC: Government Printing Office.

Policy Options

Extensive research has found that staff-assisted employment services are effective for returning UI beneficiaries back to work quickly—especially those most likely to become long-term unemployed. In our society, where work is the avenue to self-sufficiency, a free and open public labor exchange is essential to supporting broad based labor market success. To achieve this goal, a number of policy options could be pursued.

Address Funding Inadequacy to Improve Availability of In-Person Services for UI Claimants

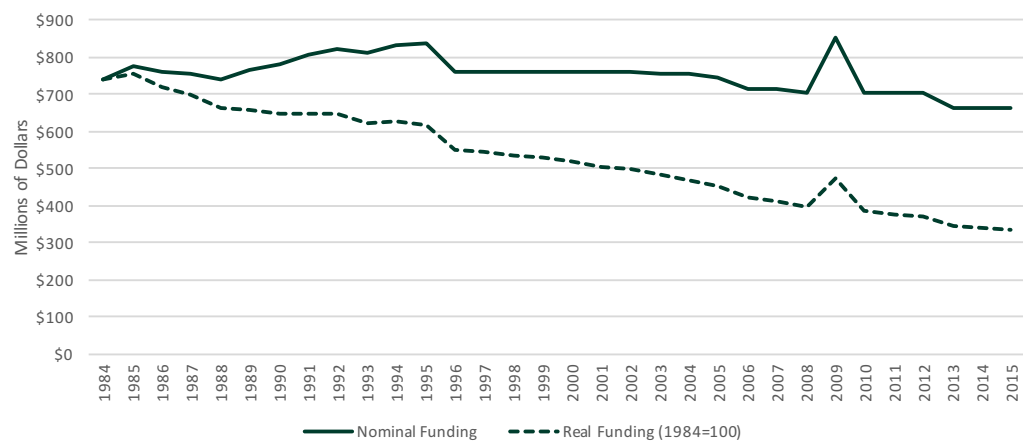
Increase funding for the Employment Service

To reverse the structural underfunding of the Employment Service, and to support adequate funding in the future, the FUTA taxable wage base of \$7,000 could be increased and indexed to wage growth, or tied to the Social Security taxable wage base. With sufficient FUTA funding, annual DOL Wagner-Peyser appropriations requests to Congress for the ES could return funding to 1984 levels in real terms and maintain that level in future years without additional strain on the federal budget.

Increase funding for Reemployment Eligibility Assessments and Reemployment Services

DOL could also increase funding for Reemployment Eligibility Assessments and Reemployment Services. This way, states would have funds to maintain statistical profiling systems, enhance targeted enforcement of the work test, and provide effective job placement services for UI beneficiaries at highest risk of long-term unemployment.

Figure 3. Wagner-Peyser Funding for Employment Services in Nominal and Real Dollars (1984=100)



Source: Christopher J. O’Leary and Stephen A. Wandner, 2016, “Unemployment Insurance Research and Reform,” prepared for the Association for Public Policy Analysis and Management (APPAM) fall research conference November 3–5, 2016.

Expand Programs that Speed Return to Work

Require states to establish Short-Time Compensation as an option for employers
Work sharing, also known as short-time compensation (STC), is one of the few public employment policies available to directly address declining labor demand. Under STC the cost of work reductions is shared by employers and workers by reducing work hours, instead of laying off workers and by partially replacing workers' income from those lost hours. Currently 29 states have STC plans. In those states, STC is used infrequently compared to regular UI, but usage dramatically increases when unemployment rises in recessions. State STC laws could require pass-through to employer accounts of any federal reimbursement of STC benefit charges. This is necessary for federal reimbursement of STC costs to be an effective instrument of fiscal policy and for short-time compensation for workers in times of economic crisis.

Require states to offer the option of Self-Employment Assistance
Self-Employment Assistance (SEA) is a small, but often effective program based on evidence from field experiments. UI beneficiaries at risk of long-term UI receipt can accept a waiver of the UI requirement to search for work while receiving benefits if they get entrepreneurial training and undertake efforts to set-up and start their own self-employment activity. The program is cost neutral because it is targeted to those most likely to exhaust UI benefits, and often saves UI benefit costs in future years. The federal government could require all states to make SEA an option for UI recipients who are identified early as being at high risk of long-term unemployment.

Allow states to offer targeted reemployment bonuses

Reemployment bonuses provide lump-sum payments to permanently laid-off workers who take new, full-time jobs within 6 to 12 weeks of beginning to receive UI benefits, and hold those jobs for at least three to four months. Reemployment bonuses are designed to be a positive way to overcome the moral hazard risk of prolonged unemployment from receiving UI. Results from initial experiments indicate that, on net, bonuses speeded return to work, but were cost neutral. Evidence from simulations "suggest that such a targeted bonus offer would yield

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appreciable net benefits to the UI trust funds if implemented as a permanent program.”²⁵ The recommendation was for a low bonus amount of about three times the weekly benefit amount and a long qualification period of about 12 weeks. Using the 2016 national average weekly benefit amount, the bonus amount would average just over \$1,000. In sum, UI reemployment bonuses, if targeted to UI beneficiaries at high risk of long-term unemployment, could be a policy option to states allowed by the federal government.

Coordinate additional reemployment services with Extended Benefits

States facing a high rate of unemployment in a recession can be eligible for federal cost-sharing of Extended Benefits (EB), but do not automatically become eligible for more intensive reemployment services. Core reemployment services include such services as job referrals and résumé preparation assistance; intensive services include counseling and referrals to job training.²⁶ When states meet thresholds for high rates of unemployment that determine their eligibility for EB, they could also meet thresholds for receiving federal cost sharing of intensive reemployment services. By speeding workers’ return to work, this option could help to reduce the costs of the UI system during recessions and therefore mitigate the need for additional forward funding.

²⁵ Christopher J. O’Leary, Paul T. Decker, and Stephen A. Wandner, 2005, “Cost Effectiveness of Targeted Reemployment Bonuses.” *Journal of Human Resources* 40(1): 270-279.

²⁶ Christopher J. O’Leary, 2006, “State UI Job Search Rules and Reemployment Services,” *Monthly Labor Review* June 2006, Bureau of Labor Statistics, <http://www.bls.gov/opub/mlr/2006/06/art3full.pdf>.