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Unemployment Insurance: \$22 Million at Stake for West Virginia

Paul Miller

West Virginia witnessed a dramatic increase in its unemployment rate from a yearly average of 4.3 percent in 2008 to 8 percent in 2009. The monthly average of state residents without work rose from 34,000 persons in 2008 to 63,000 in 2009. Recent improvements in the economy have done little to boost employment. Nationally, there were six people available on average for every job opening at the end of 2009. Hence, the Unemployment Insurance (UI) program remains a critical lifeline for jobless workers and their families.

The American Recovery and Reinvestment Act of 2009 (ARRA) includes \$7 billion in incentive payments for states to modernize their unemployment insurance (UI) programs and cover certain groups of workers who are currently excluded. West Virginia's share of the allotment is \$33 million dollars. Since the passage of ARRA in February 2009, 25 states have completed the necessary steps to draw down their entire allotment of available federal incentive payments.¹ West Virginia has drawn down one-third of its allotment to date.

The UI modernization incentive payments were designed to correct for the inadequacies of the UI program. West Virginia adopted the initial prerequisite by changing its Alternative Base Period (ABP) during the 2009 legislative session and has received \$11 million dollars in return. This provision helps low-wage workers who typically don't have enough earnings and wages to qualify for UI benefits. A worker must earn a minimum of \$2,200 dollars in their base period, which historically consisted of four out of the last five quarters of earnings. The ABP allows for the inclusion of the most recent quarter of earnings which was previously overlooked for qualification purposes. This change will benefit an estimated 500 West Virginia workers.

Today, West Virginia stands to receive an additional \$22 million dollars if it enacts two of the four remaining UI modernization reforms. The four options include (1) Compelling Family Reasons, (2) Part-Time Workers, (3) Workers in Training, and (4) Dependent Allowance.

West Virginia needs to adopt any two of these reforms before the end of August 2011 in order to qualify for the remaining funds. Federal stimulus incentive payments that remain on the table after August 2011 will be redistributed to states that have adopted the necessary UI modernization reforms.

Most states have opted for both the Compelling Family Reasons and the Part-Time Workers provisions because they tend to be less expensive and less burdensome to manage. Workers in Training is by far the most expensive provision, while the Dependent Allowance is portrayed as an administrative nightmare. Therefore, this brief focuses on the Compelling Family Reasons and Part-Time Workers provisions as the most viable options.

Compelling Family Reasons

To qualify for UI benefits, workers must become unemployed due to no fault of their own. Involuntary unemployment includes layoffs, work stoppages, and employers going out of business. ARRA allows states to add "Compelling Family Reasons" to the list of covered circumstances. An estimated 513 West Virginia workers would benefit from this provision, which includes the following:

- Domestic violence that causes persons to reasonably believe that their continued employment would jeopardize their or their immediate family's safety. The state may require a statement from a qualified professional and must keep all information confidential.
- The illness or disability of a member of the person's immediate family, which at a minimum must include spouses, parents and minor children. "Illness or disability" means a verified condition that necessitates care of the ill or disabled person for a period of time longer than that which the employer is willing to grant (paid or otherwise).

- The need for the person to accompany his/her spouse due to a change in location of the spouse's employment at a distance too far to commute.

Part-Time Workers

Under this provision, states may allow for payment of unemployment benefits to certain individuals seeking only part-time work. At a minimum, people who worked part-time during the majority of weeks in their base period must be allowed to seek only part-time work if they so choose. An estimated 1,850 West Virginia workers would benefit from this improvement. The state's definition of "seeking only part-time work" must include one or more of the following:

- Situations where the person is willing to work at least 20 hours per week.
- Situations where the person is available to work a comparable number of hours as worked during the base period. (For example, the state could require a person who worked 30 hours per week during the base period to seek jobs offering at least 30 hours of work).
- Situations where the person is available to work a comparable number of hours as worked at the time he or she became unemployed.

The state could also adopt a broader definition of part-time work, which could take into account the decline of full-time jobs during a recession. Nationally, the number of part-time workers who were involuntarily substituting part-time work instead of the preferred full-time employment increased 42 percent in 2008. By way of comparison, the recession of 2001 saw an increase of 28 percent in part-time workers who were unable to find full-time employment. The magnitude and duration of the Great Recession will continue to result in thousands of additional involuntarily part-time workers in West Virginia.

UI Benefits West Virginia's Economy

President Roosevelt devised a social insurance system that would be effective during a downturn in the economy. Unemployment insurance benefits act as an effective countercyclical program by minimizing the economic hardships of those families who've lost their jobs. Countercyclical programs are purposely designed to kick in when unemployment increases, thereby acting as a safety valve or a "brake" on a further eroding

economy. President Roosevelt understood the economic benefits of unemployment insurance to the American economy when he said, "[UI] should be constructed in such a way as to afford every practical aid and incentive toward the larger purpose of employment stabilization."² The Committee on Economic Security announced that the new UI program would serve as "the first line of defense"³ to protect families from becoming destroyed by a jobless economy.

The UI program serves a very important public policy function: it protects the economy from further damage while simultaneously preventing the breakup of families crushed by the lack of employment income. The UI program helps to protect the economy by providing benefits that are quickly spent because low-wage earners make up the bulk of UI claimants. A major study of other recessions found that unemployment benefits contribute \$2.15 in economic growth for every dollar of benefits provided.⁴

Unemployment Insurance Reforms Needed

The federal government has long recognized that state UI programs are outdated and ill-suited to adapt to the fundamental changes of the American workforce. Unlike the workforce that existed during the period when the UI program began, the workforce today includes a significant number of female, low-wage, and part-time workers. Furthermore, the type of jobs workers are employed in has dramatically shifted. The American worker today is more likely to have a job in the service sector than in the manufacturing sector that typified the period during which the UI program was created.

Only one-third of West Virginia's workforce qualify for unemployment insurance benefits if they lose their jobs, and the lowest paid workers in West Virginia make up nearly two-thirds of all those who become unemployed. Low-wage workers are especially vulnerable because they are less likely to have adequate savings and investments to fall back upon once they become unemployed. Without a job or UI benefits, low-wage unemployed families are pushed further into poverty, creating further long-term damage especially to children.

The unemployment insurance program is designed to help alleviate the financial stresses visited upon low-wage workers who lose their jobs through no fault of their own. America soon learned two valuable lessons during the Great Depression about the need for such a temporary income support program. First, it is a laudable and necessary public policy goal to keep families intact whose economic survival is threatened by forces they

did not cause. Second, working families without employment earnings or unemployment insurance benefits are forced to withdraw their purchasing power, creating a further destabilized and volatile local economy. It was for these two purposes that President Roosevelt created the Unemployment Insurance program as part of the 1935 Social Security Act.

Cost to the State

If enacted, the Compelling Family Reasons and Part-Time Workers reforms would represent approximately three percent of unemployment claims today. ARRA funds would cover the entire cost of the modernization reforms for four to seven years, depending on unemployment rates. This estimate is based on analysis conducted by the West Virginia Center on Budget and Policy and the National Employment Law Project. The state would pay the cost thereafter unless the Legislature chose to repeal the reforms.

Conclusion

The opportunity to adopt the UI modernization reforms is quickly evaporating. The state's adoption of these reforms would help bring the state's UI program in line with the current makeup of the state's labor force. In return, the UI program would begin to cover more than two thousand workers currently ineligible for the benefits. Part-time, low-wage, and female workers would especially benefit if the state adopted these reforms. The state and local economy would also receive a boost from the distribution of these UI benefits as they begin to circulate within the economy and generate additional multiplier effects.

Paul Miller is a Policy Analyst at the West Virginia Center on Budget and Policy. He can be reached at (304) 720-8682 or pmiller@wvpolicy.org.

End Notes

- 1 National Employment Law Practice, "Federal Stimulus Funding Produces Unprecedented Wave of State Unemployment Insurance Reforms," December 02, 2009, <http://www.nelp.org/page/-/UI/UIIMARoundup1209.pdf?nocdn=1>
- 2 Edwin Witte, *The Development of the Social Security Act*, University of Wisconsin Press, 1962, page 128.
- 3 Murray Larson, "The Development of the Unemployment Insurance System in the United States," *Vanderbilt Law Review* 8. 181, 186 (1955).
- 4 Chimerine, et al. "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades," U.S. Department of Labor, Unemployment Insurance Occasional Paper 9908, 1999.