

## POLICY BRIEF

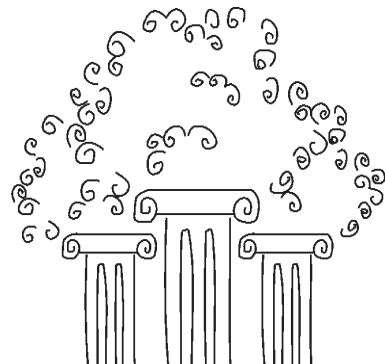
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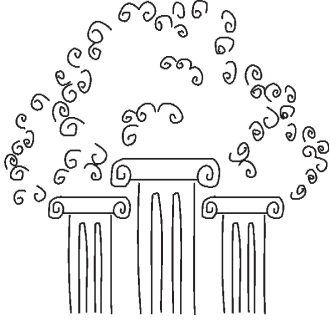
# Unemployment Insurance Modernization: Good for Nebraska

Low Income Self Sufficiency Program

Nebraska Appleseed Center for Law in the Public Interest

December 2009





CORE VALUES | COMMON GROUND | EQUAL JUSTICE

These are Nebraska Appleseed's guiding principles, and have been since our non-profit, non-partisan law project started "sowing the seeds of justice" in 1996. Nebraska Appleseed focuses on advancing policies and practices that promote self-sufficiency for Nebraska's working poor families, insure affordable access to health care, promote the integration and participation of immigrant populations in communities across Nebraska, provide safe and adequate child welfare services to children who need protection, increase low-income people's access to the legal system and support democracy by removing barriers to low-income people's participation in the electoral and public policy decision-making processes.

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## **POLICY BRIEF**

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# **UNEMPLOYMENT INSURANCE MODERNIZATION: GOOD FOR NEBRASKA**

### **OVERVIEW**

Nebraska lawmakers have a unique opportunity to improve a system designed to protect and support our workforce, the Unemployment Insurance (UI) program. The American Recovery and Reinvestment Act (ARRA) provides new funding for states to implement modernization efforts, particularly by extending benefits to workers who have been excluded in the past due to outdated eligibility rules.

The American Recovery and Reinvestment Act would draw \$43.6<sup>1</sup> million dollars of federal funding into the state during this difficult economic time. It would also decrease assessments on businesses by \$17-18 million in 2011.<sup>2</sup>

This is particularly important because Nebraska has some of the most dedicated workers in the nation. The “Midwestern Work Ethic” is alive and well here. In fact, our state ranks second in the nation for participation in the labor force and second in the nation for the most people holding more than one job.<sup>3</sup> Nebraska workers pay into the unemployment system. Our state should modernize the program so that our workers can benefit during this difficult time, particularly those working part time jobs to make ends meet.

If Nebraska does not act now to modernize our Unemployment Insurance system, our state will lose an important opportunity to improve our system to better serve modern day workers and to receive federal funds. Nebraska workers will continue to miss out on benefits that could help keep them financially afloat through a period of unemployment. The time is now for Nebraska to take advantage of federal funding to modernize our Unemployment Insurance system to meet the needs of our workers now and in the future.

## **BASICS OF NEBRASKA'S UNEMPLOYMENT INSURANCE SYSTEM**

Nebraska's Unemployment Insurance (UI) system is designed to help laid-off workers get back on their feet. Both Nebraska employees and employers pay into an unemployment insurance trust fund that is administered by the Department of Labor. Workers impacted by layoffs or closures or that become unemployed for other reasons qualify for a payment from the trust fund if they 1) are actively searching for work and 2) have earned a minimum amount of money over the last fifteen months (or five quarters of work).

### *UI by the Numbers*

Nebraska's unemployment rate has been lower compared to the rest of the nation, but it has still risen in the last year. At the same time, just under half of Nebraska's unemployed are not receiving benefits. The American Recovery and Reinvestment Act represents a unique opportunity to modernize our state's program.

- Nebraska's unemployment rate rose from 3.6 percent in October of 2008 to 4.9 percent in October of 2009<sup>4</sup>
- In the first quarter of 2009, 48,100 workers were unemployed, but only 20,900 received regular UI payments
- 56.5% of unemployed workers do not qualify for UI<sup>5</sup>
- The maximum weekly benefit is \$308, ranking 43<sup>rd</sup> lowest in the nation<sup>6</sup>
- Nebraska stands to receive \$43,625,769 from the American Recovery and Reinvestment Act if the state takes steps to modernize the program<sup>7</sup>

## **BENEFITS OF REFORM FOR WORKERS, BUSINESSES AND THE ECONOMY**

Unemployment Insurance provides workers who have lost their jobs through no fault of their own with payments while they look for work. This helps families remain stable and continue to pay mortgages and buy groceries while working to get back on their feet.

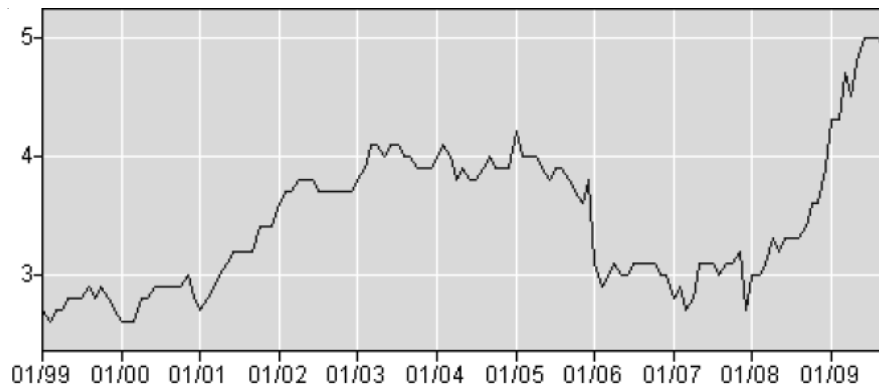
UI also helps companies maintain a valuable workforce. Workers accessing UI have already proven themselves in the labor market. UI helps these workers to stay in their homes and communities instead of moving elsewhere for work. This helps companies to maintain a quality workforce and communities to retain a stronger tax base.

Unemployment Insurance modernization is good for Nebraska workers, Nebraska companies and the UI system overall, and should be enacted quickly to make the most of federal dollars to aid struggling families and to enable Nebraska's workforce to move more quickly towards economic recovery.

### **Workers**

UI protects the stability of families as workers search for new employment. The need for the UI program is clear. The unemployment rate in Nebraska has nearly doubled from 2.8 percent in at the beginning of the recession in January of 2007 to a projected 5.1 percent in July of 2009 (figure 1.1).<sup>8</sup>

Figure 1.1 Nebraska's Unemployment Rate 1999-2009 (percentage)<sup>9</sup>



### **Businesses**

Recovery Act funding, if enacted, would save employers \$17-18 million in taxes in 2011.<sup>10</sup> This is a particularly important relief to businesses as the economy continues to struggle.

Nebraska's trust fund is one of the most financially sound in the nation. In spite of this, the trust fund has fallen below the balance that triggers a tax increase. Due to this drop, employers have been subject to an adjustment and tax increases. The recovery act reforms would bring \$46.3 million to the trust fund while the reforms would cost \$2 million per year. Utilizing recovery act funds prior to computing taxes for 2011 would raise the trust fund level and save employers \$17-\$18 million in 2011 taxes<sup>11</sup>.

Further, interest generated by the state unemployment insurance trust fund is used for worker training. Unemployed workers in need of new business skills are trained using these funds, making a higher balance in the trust fund important on multiple levels.

### **Economy**

According to one Department of Labor review, unemployment benefits contribute \$2.15 in economic growth for every dollar of benefits.<sup>12</sup> Most unemployment insurance payments are spent immediately on basic needs. Therefore, unemployment insurance payments to more workers would boost local economies – particularly because the Recovery Act includes a \$25 monthly increase in federal benefits.<sup>13</sup>

## **OPPORTUNITIES FOR FEDERAL FUNDING**

The American Recovery and Reinvestment Act provides our state with a new opportunity to modernize and improve unemployment insurance, one of the vital systems designed to support our workforce. Holes in Nebraska's unemployment insurance system mean that workers impacted by recent layoffs and closures will not receive unemployment benefits even though they have contributed to the system<sup>14</sup>. \$43.6<sup>15</sup> million dollars in federal funding is now available to make this program better serve hardworking Nebraskans. Certain requirements must be met to qualify for the funding, but the state has several options to consider.

**Establish an Alternative Base Period:** The current unemployment insurance system requires workers to have earned a minimum amount of money over the last fifteen months. However, due to an outdated calculation method, only earnings in the first twelve months of the total fifteen months are considered. Implementing an alternative base period would allow workers to qualify for unemployment insurance using their most recent work experience, rather than disregarding the most recent calendar quarter. 2,100 workers stand to benefit from this change<sup>16</sup>. This calculation method is already used in twenty-eight other states<sup>17</sup>. Implementation of the alternative base period alone would allow Nebraska to draw down one third of the total American Recovery and Reinvestment Act dollars available to the state (\$14,541,923). No legislation is required to make this change; the Commissioner of Labor may change this regulation.

*If, and only if, Nebraska chooses to implement the Alternative Base Period and qualify for the first third of funding, our state can qualify for the remaining two-thirds (\$29,083,846) by implementing two of the following four options:*

**1. Provide unemployment benefits to workers seeking part-time work as defined by the Secretary of Labor.**

Current Practice: Nebraska currently allows individuals seeking part-time work to draw unemployment benefits, but our state's calculation of benefits is based on the amount of wages earned, rather than the number of weeks worked as required by ARRA.

Options for Change: Nebraska could choose to make this regulatory change or amend the statute.

Fiscal Impact: No projected fiscal impact.

**2. Allow workers voluntarily leaving employment for “compelling family reasons” to qualify for benefits.**

Current Practice: Nebraska currently provides unemployment benefits to people who voluntarily quit a position if they have experienced domestic violence, if they leave work to care for a sick or disabled family member or if they leave work to accompany a spouse to a new location.

Options for Change: The American Recovery and Reauthorization Act requires that states leaving workers for compelling reasons qualify whether they quit or are discharged. Nebraska could modify state law to accommodate *discharges* in addition to quits.

Fiscal Impact: Combined additional cost of complying with incentive payment criteria for the three compelling family reasons estimated at \$1 million per year.

**3. Guarantee twenty-six additional weeks of unemployment to workers who were previously employed in “declining occupations” and are currently training for “high demand” occupations.**

Current Practice: Nebraska does not currently extend benefits to such workers.

Options for Change: Nebraska could position workers to find high-demand jobs by extending benefits to workers receiving training in high demand occupations.

Fiscal Impact: Estimated cost of \$10.6 million per year.

**4. Provide a “dependents allowance.”**

Current Practice: Nebraska does not currently pay a “dependents allowance,” which would provide an increase in the weekly benefit amount of between \$15 per dependent and \$50 per dependent.

Options for Change: Establish a “dependents allowance” of no less than \$15 per dependent with a cap of \$50, or one-half the individual’s weekly benefit amount.

Fiscal Impact: Estimated cost of \$8.8 million per year.

## **CONTINUED COMPETITIVENESS**

### ***Business Impacts***

A Department of Labor analysis shows that ongoing tax rates would be comparable.<sup>18</sup> Without Unemployment Insurance Modernization, the average tax rate is projected to be 3.52% in 2010 and 2.22% in 2014. Depending on options chosen for modernization implementation, average tax rates are projected to be 3.23% in 2010 and between 2.27% and 2.55% in 2014. For further analysis, see appendix A. The Recovery Act dollars will likely cover the costs of the necessary administrative changes and cover the additional workers for years to come. Given the relatively low impact on business tax rates, and the high benefit to workers, implementation is a solid option for Nebraska. Twenty-eight states, including the Midwestern states of South Dakota, Iowa, Kansas, Wisconsin, Minnesota and Illinois have enacted modernization reform.<sup>19</sup>

### ***Solid Workforce***

Nebraska’s workforce is, and likely will continue to be, one of the strongest in the nation, even in the face of an economic downturn. Nebraska ranks the fourth highest in the nation for the percentage of workers who do not have a job and are actively seeking one.<sup>20</sup>

## **SUMMARY**

Nebraska has an historic opportunity to do what is right for the families hardest hit by unemployment in our state. This choice is one that will better include working people in the unemployment system and will help families remain stable until workers are able to get back to work. Further, it will help boost local economies and reform our unemployment system to meet the new challenges of the twenty-first Century – all using federal stimulus dollars. Unemployment Insurance modernization is good for Nebraska by encouraging the state’s workforce and leading toward quick economic recovery.

**APPENDIX A.**  
**PROJECTED AVERAGE TAX RATES 2010-2014\***

<b>Option</b>	<b>Average Tax Rate 2010</b>	<b>Average Tax Rate 2014</b>
No UI Modernization	3.52%	2.22%
ABP, Part time work, Compelling family reasons	3.23%	2.27%
ABP, Part time work, Training	3.23%	2.42%
ABP, Part time work, Dependent's allowance	3.23%	2.39%
ABP, Compelling family reasons, Training	3.23%	2.43%
ABP, Compelling family reasons, Dependent's allowance	3.23%	2.40%
ABP, Training, Dependent's Allowance	3.23%	2.55%

\* Assuming insured unemployment rates as follows: 2009: 2.5%, 2010-11: 2.0%, 2012-13: 1.8%.<sup>21</sup>

**CITATIONS**

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- <sup>2</sup> National Employment Law Project, "Modernizing the State Unemployment Insurance Systems: The Basics of Recovery Act's Federal Incentive Funding Program," 2009
- <sup>3</sup> Working Poor Families Project, "Overall Labor Force Participation Rate," Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment 2008, Working Poor Families Project, "Percent of Workers over 18 who hold More than One Job", Population Reference Bureau Analysis of Current Population Survey, 2008
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- <sup>5</sup> U.S. Department of Labor, Office of Workforce Security, Employment and Training Administration, 2009, "Unemployment Insurance Data Summary," [http://www.ows.doleta.gov/unemploy/content/data\\_stats/datasum09/DataSum\\_2009\\_1.pdf](http://www.ows.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_1.pdf)
- <sup>6</sup> Working Poor Families Project, U.S. Department of Labor, Employment and Training Administration, Jan. 2009.
- <sup>7</sup> State of Nebraska, Department of Labor.
- <sup>8</sup> U.S. Bureau of Labor Statistics "Local Area Unemployment Statistics," Statewide, Nebraska, Seasonally Adjusted, 2009.
- <sup>9</sup> U.S. Bureau of Labor Statistics, "Local Area Unemployment Statistics," Statewide, Nebraska, Seasonally Adjusted, 2009.
- <sup>10</sup> National Employment Law Project, "Modernizing the State Unemployment Insurance Systems: The Basics of Recovery Act's Federal Incentive Funding Program," 2009
- <sup>11</sup> National Employment Law Project, "Modernizing the State Unemployment Insurance Systems: The Basics of Recovery Act's Federal Incentive Funding Program," 2009
- <sup>12</sup> Center on Budget and Policy Priorities "Number of Workers Exhausting Federal Unemployment Insurance Benefits will Reach and Estimated 1.5 Million," 2002 <http://www.cbpp.org/cms/index.cfm?fa=view&id=2206>.
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- <sup>14</sup> U.S. Department of Labor, "Unemployment Insurance Data Summary," [http://www.ows.doleta.gov/unemploy/content/data\\_stats/datasum09/DataSum\\_2009\\_1.pdf](http://www.ows.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_1.pdf)
- <sup>15</sup> Omaha World Herald, "Senator Says Heineman Ducking on Stimulus," [http://www.omaha.com/index.php?u\\_page=2798&u\\_sid=10612067](http://www.omaha.com/index.php?u_page=2798&u_sid=10612067)
- <sup>16</sup> National Employment Law Project, "Benefits of Key Reforms Paid for by Federal Modernization Funding," 2009
- <sup>17</sup> National Employment Law Project, 2009 "Federal Stimulus Funding Produces Unprecedented Wave of State Unemployment Insurance Reforms," updated December 2, 2009
- <sup>18</sup> "American Recovery and Reinvestment Act Input for Unemployment Insurance Combined Tax Rate and Trust Fund," Advisory Council, March 10, 2009.
- <sup>19</sup> National Employment Law Project, 2009, "Federal Stimulus Funding Produces Unprecedented Wave of State Unemployment Insurance Reforms," updated December 2, 2009
- <sup>20</sup> Working Poor Families Project, "Percent of all Workers who are Unemployed," Population Reference Bureau, analysis of Basic Monthly Current Population Survey, 2008.
- <sup>21</sup> "American Recovery and Reinvestment Act Input for Unemployment Insurance Combined Tax Rate and Trust Fund," Advisory Council, March 10, 2009.