Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs

National Foundation for Unemployment Compensation and Workers' Compensation
2015 National UI Issues Conference
San Diego, California
June 18, 2015

Research Objectives

- What were the circumstances in which states reduced the maximum duration of their UI benefits to fewer than 26 weeks?
- What have been the implications of these reductions for individual UI claimants in these states?
- What was the effect, if any, on costs for the federal government?
- What is known about the broader economic effects of these benefit reductions?

Scope and Methodology

- Reviewed relevant federal laws and regulations and relevant state laws
- Interviewed federal UI program officials
- Interviewed UI officials in 7 states that reduced maximum duration
- Visited 2 duration reduction states: Michigan & Georgia
    - In these states, we interviewed selected state legislators, researchers, governor’s workforce policy advisors, employer groups, and labor advocates
- Interviewed UI officials in 4 states that did not reduce duration
- Conducted a cluster analysis of all 50 states and DC to identify the characteristics that most distinguished the states that reduced maximum duration from those that did not

Scope and Methodology (continued)

- Analyzed data for all 9 states that reduced maximum duration and for the 4 selected comparison states that did not to examine any trends before and after implementation of duration reduction

- Analyzed data provided by 2 states that reduced maximum duration (Georgia and Missouri) to examine the implications for federal costs

- Reviewed the economic literature to understand:
  - The significance of UI for individuals, including those related to labor force attachment, and
  - The effects of UI on the economy.

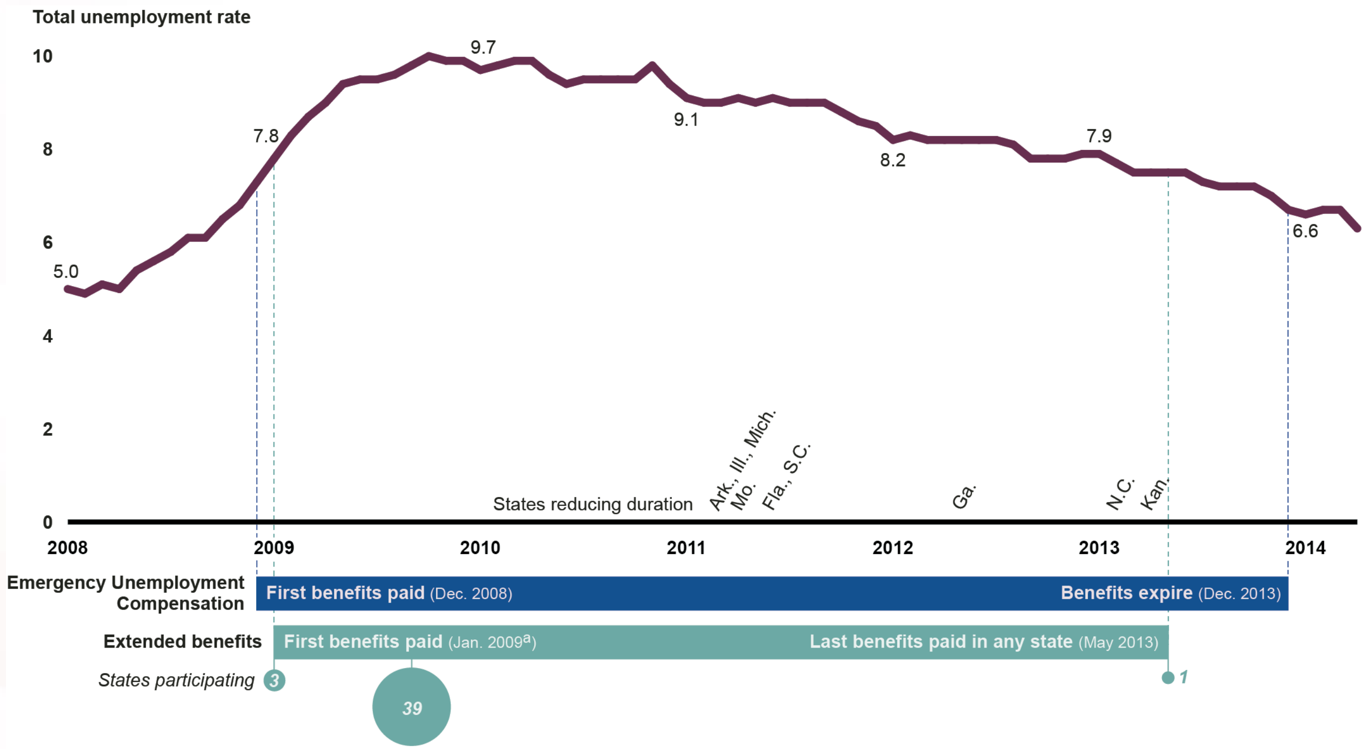
- Our work was conducted between November 2013 and April 2015 in accordance with generally accepted government auditing standards

Background

- Since 2011, 9 states have reduced the maximum duration of UI benefits to less than 26 weeks:

State	New Maximum Duration
Arkansas	25 weeks
Florida	12-23 weeks
Georgia	14-20 weeks
Illinois	25 weeks
Kansas	16-26 weeks
Michigan	20 weeks
Missouri	20 weeks
North Carolina	12-20 weeks
South Carolina	20 weeks

Background: Changes in Unemployment Benefits and US Unemployment Rate, 2008-2014



Source: Department of Labor and Congressional Research Service. | GAO-15-281

Background: Duration

- No requirement regarding minimum or maximum duration
- Advisory council recommended 6 months in 1996
- In 1938, most states provided up to 16 weeks
- However, since the 1960s, all states have provided maximum durations of at least 26 weeks; 2 states provide more
- Current duration reductions seen as unprecedented by one expert

Background: Federal UI Programs Provide Benefits Beyond 26 Weeks

- Emergency Unemployment Compensation
  - Temporary program; expired December 2013
  - Fully-federally funded
  - Provided up to 53 additional weeks
- Extended Benefits
  - No expiration, but no states qualified since May 2013
  - Typically federally- and state-funded, but fully federally funded through December 2013
  - Provides up to 13 additional weeks in periods of high unemployment
- Durations in both programs are tied to regular benefits

Background: UI Financing

- UI program was designed to be self-financed and "forward funded"
- Primarily funded through taxes on employers
  - Employers receive a tax credit depending on the extent to which their state complies with federal criteria
- States set taxable wage base (the maximum amount of an employee's wages subject to tax), and tax rates, and may levy surtaxes or surcharges for specific purposes
- State tax rates for each employer may vary according to the employer's layoff records (experience rating)

Background: UI Financing

- States may make changes to help ensure that funds are available to pay benefits (e.g., eligibility criteria, benefit amounts)
  - However, a federal “nonreduction” rule made EUC availability conditional on a state not actively changing its method of calculating UI benefits, if doing so would decrease weekly benefit amounts

Background: UI Financing

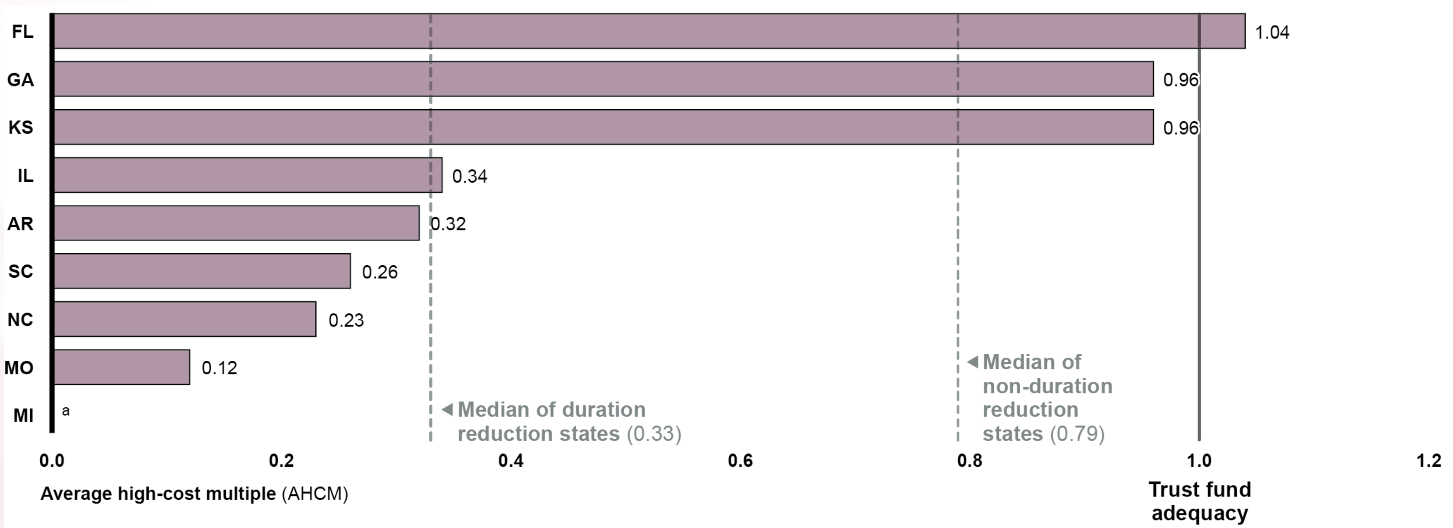
- States can exhaust the funds available to pay benefits during periods of high unemployment
- In such times, states may borrow interest-free from the federal government, subject to certain requirements
- In states that do not repay their loans within a specified period, employers lose a portion of the tax credit
- During the recent recession, most states opted to borrow: 36 states had loans, and the total amount reached $48.5 billion
- While there are several measures of solvency, an average high cost multiple (AHCM) measure of 1.0 is considered the target for solvency and is specified in DOL regulations
- States may also issue bonds to pay their federal loans

Characteristics of States that Reduced Duration

- Weaker trust fund balances before the recession
- Lower total taxable resources
- Reliance on federal loans to a greater degree
- Higher unemployment rates
- Lower union membership rates
- Greater political homogeneity

Characteristics of States that Reduced Duration: Weaker Trust Fund Balances

- In the 4th quarter of 2007, 8 of the 9 states that reduced duration had an AHCM below 1.0—89 percent, as compared to 60 percent of the states that did not reduce duration



Source: Department of Labor. | GAO-15-281

Characteristics of States that Reduced Duration (continued)

- **Lower Total Taxable Resources**: in 2010, 8 of the 9 states had measures below the median per capita indexed value for the U.S. as a whole, indicating weaker overall fiscal capacity
- **Reliance on federal loans:** All 9 states took federal loans at some point during the recession, compared to 61 percent of states that did not reduce duration
- **Higher unemployment rates:** 7 of the 9 states had unemployment rates over 9 percent before duration reduction, compared to one-third of other states in 2010
- **Lower union membership rates:** 7 of the 9 states had union membership rates below the median for non-reduction states
- **Greater political homogeneity:** 8 of the 9 states had one party controlling state government before reduction, compared to 45 percent of non-reduction states in 2010

Circumstances of States that Reduced Duration

- **Federal nonreduction rule** identified as possible factor in 4 of the 7 duration reduction states we contacted, as it limited the options available to states to reduce costs
- **Availability of federal benefits** cited by 4 of the 7 duration reduction states we contacted, as eligible claimants could continue to receive benefits beyond the new duration
- In all 9 states, duration reductions were one element among reforms that included tax increases, changes to eligibility and program integrity measures
- The employer groups we contacted in 4 states explained that they supported duration reductions and tax increases

Implications for Individuals: Reduced Benefits

- Reductions in state benefit durations resulted in some individuals receiving substantially less in total UI benefits.
- From 2009-2013, individuals who exhausted state benefits could receive additional weeks of federal benefits. Duration of federal benefits was based on the duration of state benefits.
- As a result, some individuals received substantially less in total UI benefits because the durations of both their state and federal benefits were reduced.
- For example, in 2013, an individual in a state that had shortened its maximum benefit duration to 20 weeks could have received up to 52.4 additional weeks of federal benefits, for a total of 72.4 weeks, compared to up to 93 weeks in a state with maximum duration of 26 weeks.

Implications for Individuals: Reduced Benefits

- In duration reduction states, as of 2014, the total foregone **state** benefits for individuals ranged from $289 to $2926

- In duration reduction states, as of May 2013, assuming 93 weeks of total benefits before duration reduction, total foregone benefits—**state + federal**—ranged from $723 to $24,831

- Also, in 8 of the 9 duration reduction states, the average length of unemployment in 2014 exceeded the new maximum durations by 5.1 to 27.7 weeks

Implications for Individuals: Poverty, Labor Force and Program Participation

- **Poverty reduction effects:** Recent studies have found effects; e.g, one study found that UI reduced poverty among unemployed workers from 22.5 to 13.6 percent.

- **Labor force participation effects:** Studies that specifically consider net employment for the entire labor force indicate little effect from shorter benefit durations. Shorter benefit durations do not necessarily result in rapid reemployment.

- **Effects on participation in other programs:** Studies are inconclusive as to whether reduced UI benefits result in effects for SSDI, SSI, TANF, and SNAP.

Implications for Individuals: UI Program and Economic Indicators

- On average, individuals in duration reduction states were less likely to participate in UI and more likely to leave the labor force than individuals in nonreduction states.

- On average, UI exhaustion rates for individuals have been consistently higher in duration reduction states than in nonreduction states.

- Attributing causation is difficult, given other state and federal program changes, the availability of federal benefits, and changes in the economy.

GAO
Accountability * Integrity * Reliability

Effect on Federal Costs

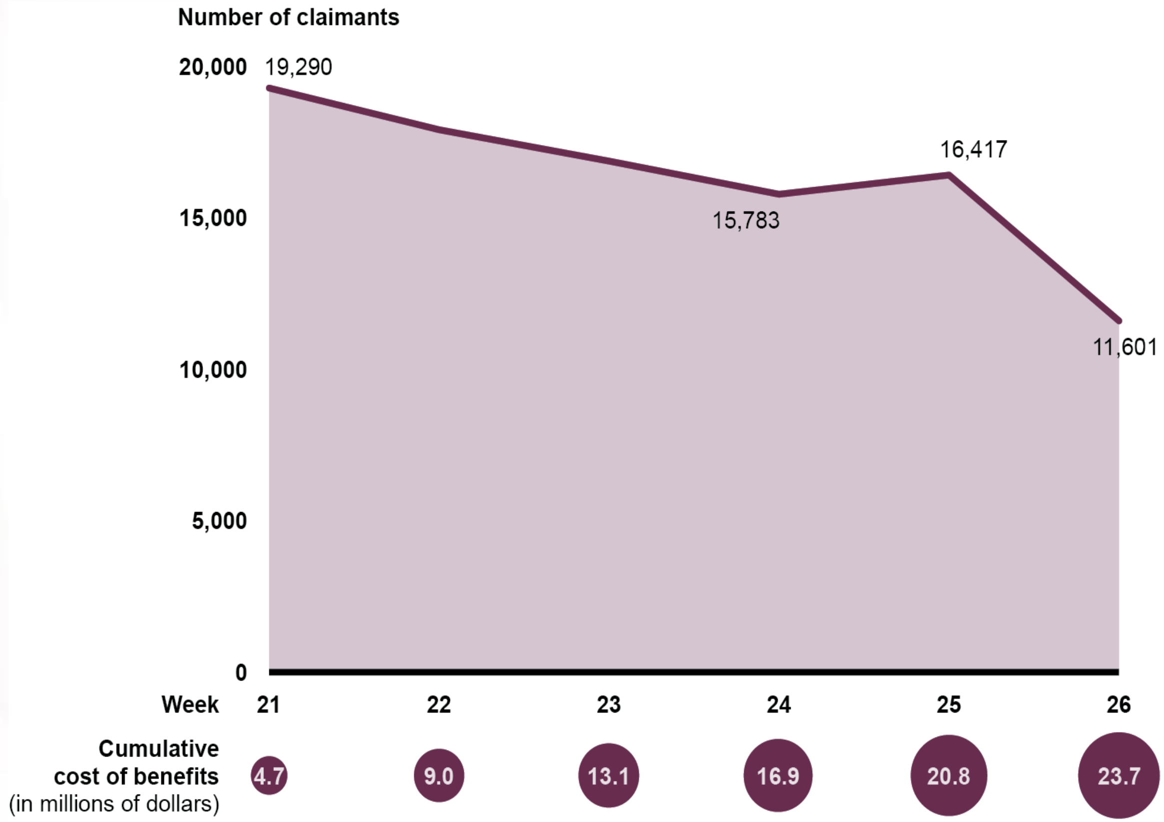
- When federal benefits are available, the net impact on federal UI costs would depend on how reductions in the duration of state benefits affect the number of people receiving federal benefits and for how long.

- On the one hand, federal costs are **increased** to the extent that state duration reductions shift individuals to federal benefits earlier.

- On the other hand, federal costs are **decreased** to the extent that fewer weeks of federal UI benefits are available.

Objective Three:

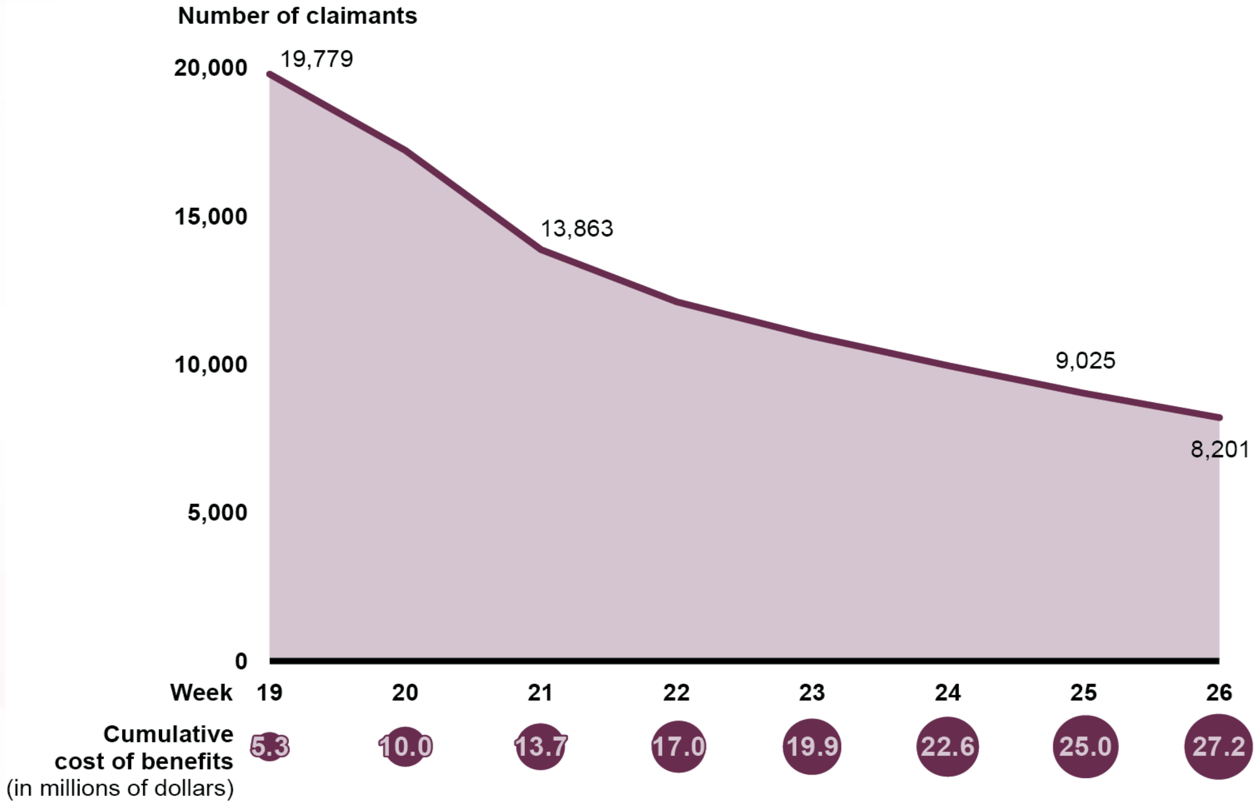
Estimated Federal Costs After Missouri's Reduction, Weeks 21-26



Source: GAO analysis of Missouri and Department of Labor data. | GAO-15-281

Objective Three:

Estimated Federal Costs After Georgia's Reduction, Weeks 19-26



Source: GAO analysis of Georgia and Department of Labor data. | GAO-15-281

Economic Effects

- Research has focused on “multiplier effect” of UI—i.e., the expansion in GDP or employment related to some change in public spending or taxes; a multiplier of 1.5 means $1 spending increase expands GDP by $1.5

- Examples: in 2011, CBO estimated multipliers of between .4 and 1.9 for UI; in 2012, Moody’s estimated 1.55

- Multipliers for UI have been estimated to be higher than for other types of spending; also, multipliers are higher during downturns than at other times

- Estimates exist for UI multiplier effects on employment

Conclusions

- States determine the amount and duration of UI benefits, but their decisions have an impact on the federal government's role and costs

- While states have flexibility, their actions recast the federal role, with the federal government paying for weeks of benefits that were formerly the states' to pay

- Duration reductions will lead to reduced benefits for some claimants, and adversely affect UI's role as an economic stabilizer

Recommendation

- To inform the design of any future federal UI programs, the Secretary of Labor should examine the implications of state reductions in maximum UI benefit duration on federal UI costs, for example, by modeling the net effect of paying federal benefits earlier to more beneficiaries, albeit for a possibly shorter period of time, and develop recommendations for the program, if appropriate.

For More Information

- See full report at www.gao.gov: *Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs,* GAO-15-281

- Contacts: Nagla'a El-Hodiri, Assistant Director, U.S. Government Accountability Office, 202-512-7279 or elhodirin@gao.gov, and Chris Morehouse, Senior Analyst, U.S. Government Accountability Office, 202-512-7214 or morehousec@gao.gov

GAO's Workforce-Related Work

Over the last several years, GAO has examined:

- Factors Affecting UI Benefit Receipt
- UI Trust Fund Solvency
- Characteristics of UI Exhaustees
- Experience Rating in State UI Programs
- US Manufacturing Policy
- Unemployed Older Workers
- Multiple Employment and Training Programs
- Federal Support for Adult English Language Learners
- H-2A and H-2B Visa Programs
- Meeting Employers' Needs in Worker Training Programs
- Veteran's Employment and Training
- Trade Adjustment Assistance
- Workforce Development and Community Colleges
- SNAP Employment and Training Program
- Worker Protection and Worker Safety

(*Reports are available at www.gao.gov*)