



Unemployment Insurance Modernization: Helping Utah's Workers and Businesses Outlast the Recession

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In the coming months, Utah lawmakers will have a unique opportunity to improve the state's existing unemployment insurance (UI) program by extending benefits to workers who have been excluded in the past under outdated eligibility rules. As laid out in House Bill 428, which was introduced near the end of the 2009 Legislative session, these reforms would tap into available Federal funding to bring UI benefits to a greater number of the state's low-wage and part-time workers, as well as those who leave their jobs to accompany relocating spouses, including members of the military.

The amount that Utah would gain by making these changes is significant: \$61 million of American Recovery and Reinvestment Act of 2009 (ARRA) monies would be deposited into the state's Unemployment Compensation Fund. This is equivalent to the cost of providing benefits for newly-eligible workers for about six years.¹ The injection of \$61 million into the Fund also would help it remain above the mandated minimum adequate reserve in coming years. By doing so, the ARRA funds may help keep UI rates lower for businesses.

No one knows how long the current economic downturn will last, but we do know that too many Utah families are hurting today. It makes sense for lawmakers to act now to draw down Federal funds and help families in our communities during this recession. Since HB 428 provides for an annual evaluation of the

impacts of any changes to Utah law, the Legislature can act to repeal it if it does not live up to expectations. Either way, the \$61 million will remain in the state's Unemployment Compensation Fund.

The basics of Utah's unemployment insurance

Utah's unemployment insurance (UI) program is designed to help laid-off workers and down-sized companies get back on their feet much sooner than would otherwise be possible. To be eligible, a worker must be actively searching for a full-time job and must have had earnings above a certain minimum level in four of the last five calendar quarters.

- Utahns unemployed in March, 2009 = 71,714; Utahns who filed UI claims (week ending March 28, 2009) = 43,380.
- Average share of unemployed Utahns who receive UI benefits, 2000 to 2008 = 26%; Average share, January to March, 2009 = 59%.
- Average size of weekly payments, 2009 = \$313; Maximum = \$444.
- Maximum number of weeks that UI payments can be received = 46; Minimum = 10.
- Federal "incentive" payment for Utah if changes to UI are adopted = \$61 million.
- Additional Utahns who would become eligible for coverage under UI modernization = 4,100.
- Estimated cost of benefits for newly eligible unemployed Utah workers = \$10.8 million. If unemployment falls, this amount would fall as well.
- UI rate paid by Utah businesses: Minimum = 0.2% of first \$27,800 per worker; Maximum = 9.2%.

Thousands of Utah families need the benefits unemployment insurance *today*

As the nationwide recession began to be felt in Utah, unemployment has grown rapidly. At 5.2% in March, 2009, it is double the lowest recent annual average, 2.6% in 2007 (see Figure 1). Indeed, this marks the highest unemployment rate since 2003.

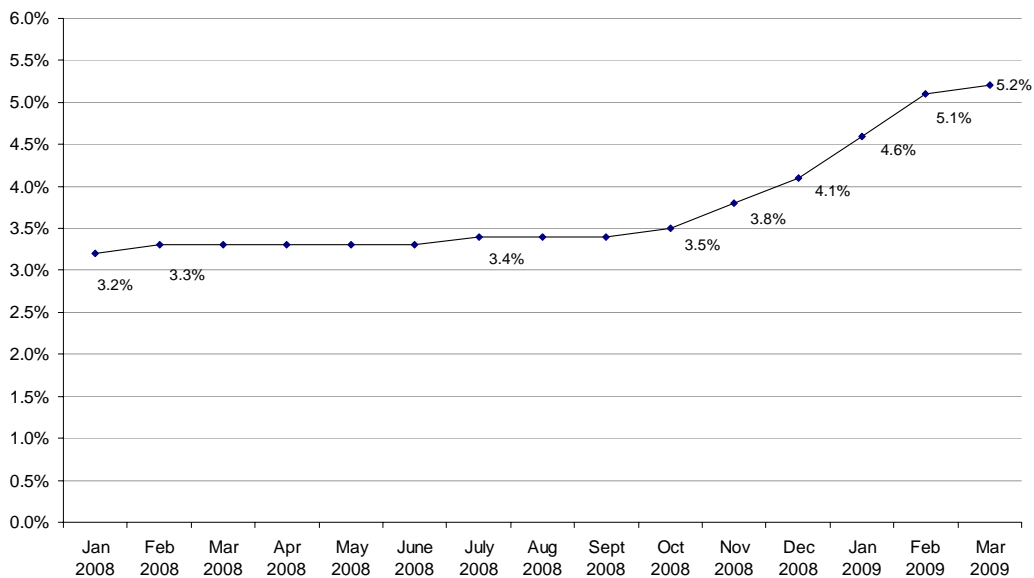
The clock is already ticking for nearly 72,000 Utahns who have lost their jobs. Effects are visible throughout the state in statistics that document increased use of emergency Food Banks, growing numbers of foreclosures on homes, and constrained consumer spending, which further slows economic recovery.

Unemployment insurance provides workers who have lost their jobs through no fault of their own with small cash payments while they look for new work. It helps families continue to pay mortgages, buy groceries and keep their children in school, even when the economy remains unsteady.

At the same time, thanks to UI, companies maintain access to valuable local workers—those who have already proven their worth in the labor market. UI helps these workers remain in the community after a layoff, rather than moving elsewhere to find jobs. This means that an experienced and skilled workforce is immediately available for hiring or re-hiring by local companies when economic conditions begin to improve.

Thus, while Federal rules would allow Utah's lawmakers to access the \$61 million available for the Unemployment Compensation Fund several months or even years from now, no clear policy objective would be served by this delay. Immediate expansion of UI coverage will help more Utah workers keep their families intact. It will also mean that Utah employers retain their access to a greater number of skilled and experienced workers no matter how long this economic crisis lasts.

Figure 1. Utah's Monthly Unemployment Rate



The nuts and bolts of unemployment insurance modernization in Utah

House Bill 428 was crafted in the 2009 General Legislative Session to modernize Utah's UI laws and bring \$61 million of Federal aid to the state. Unfortunately, there was not enough time before the session ended for members to feel comfortable adopting it. With the prospect of a Special Session on the horizon, it makes sense to re-examine HB 428. The bill wisely includes a provision for an annual report on the impacts of the changes to Utah's UI, which would allow legislators to carefully assess the need to alter or even repeal the law later on.

The Department of Workforce Services estimates that the reforms enacted by HB 428 would allow about 4,100 additional Utah workers each year to access UI benefits. Under current law, these workers are denied any benefits at all, even though they lose their jobs for reasons beyond their own control.

The three primary reforms contemplated in HB 428 are the following:

1. *Establish an Alternative Base Period* that would allow Utah workers to qualify for UI based on their most recent employment experience, rather than disregarding the most recent calendar quarter.² This "alternative" calculation method is already in use in 21 other states. About 1,200 workers per year would be affected by this change.

2. *Allow UI eligibility for a worker who quits his or her job to accompany a spouse who must move to a distant location for work or military service.* Fourteen other states already have this provision. This would affect about 400 Utah workers per year.

3. *Allow part-time workers who are laid-off to qualify for UI* even if they are searching for only part-time employment. Nineteen states already recognize the contribution of part-time workers to their family budgets. About 2,300 Utah workers per year would benefit from this change.

Providing these three groups of previously ineligible workers with UI benefits would shift about \$10.8 million dollars from the state's Unemployment Compensation Fund to the household budgets of about 4,100 Utah families. These families are likely to spend their share of these benefits in their local communities, paying for groceries and other household necessities, and injecting cash into the local economy.

The amount that each worker receives, of course, would vary depending on his or her personal work history and the time that it takes to find new employment. On average, however, these unemployed workers would receive a total of about \$2,600 per year.

Is there a down-side to modernizing unemployment insurance?

Some lawmakers have expressed concern that making the changes needed to receive the \$61 million in Federal monies for Utah's Unemployment Compensation Fund might result in higher costs for businesses. The reasoning, presumably, is that Federal funding for the newly-eligible unemployed Utahns will eventually run out, leaving Utah companies to pick up the tab.

Predictions of future changes in the UI rate, however, are more complicated than some opponents suggest. In fact, a great number of variables go into calculations of UI rates for

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individual companies. As it turns out, the primary determinant of UI rates is the overall health of Utah's economy. Simply put, if fewer workers lose their jobs, the amount of UI benefits claimed will be lower.

Whether or not Utah's economy continues to slide in future months, state officials anticipate that the influx of ARRA funds could avert an increase in UI rates for employers in 2010 or beyond.

In addition, only those businesses whose former workers actually claim UI benefits would be affected by this expansion of eligibility. Very few businesses depend exclusively on the kinds of workers who would become eligible for UI benefits under HB 428, so few firms would see their experience ratings rise significantly.

Furthermore, the number of unemployed workers who become eligible (4,100) would not be especially burdensome in a state workforce that totals over 1.2 million. Most companies

would be affected to a greater extent by changes in the balance of the Unemployment Compensation Fund and the "social costs" that all businesses must share.

This is not to suggest that accepting the ARRA funds will guarantee that Utah's UI rates remain fixed in the future. The point is simply that there are so many other factors in the economy affecting these rates that it would be unwise to reject the funds on the basis of potential effects on a small number of firms. In fact, DWS estimates that fewer than 10% of employers would be affected by the addition of newly-eligible workers.

By updating Utah's laws and accepting these Federal funds, nearly 4,100 of Utah's unemployed workers who are currently ineligible for benefits would begin to receive weekly cash payments through the UI system. The combined benefits of these newly-eligible workers would amount to an estimated \$10.8 million—money that would help local economies immediately as recipients spend it on rent, groceries, and other basics.

Indeed, Mark Zandi of Moody's Economy.com has estimated that every dollar of federal funds invested in UI benefits provides \$1.63 in benefits as it cycles through the economy.³ Utah lawmakers should allow this investment to move forward as quickly as they can.

¹ Figures in this report are based on estimates by Utah's Department of Workforce Services.

² If the Alternative Base Period alone is approved, without the other two policy changes, Utah would qualify for \$20.3 million in Federal monies for the Unemployment Compensation Fund.

³ Mark Zandi, *The Economic Impact of the American Recovery and Reinvestment Act*, Jan. 21, 2009, p. 9. http://www.economy.com/markzandi/documents/Economic_Stimulus_House_Plan_012109.pdf.