



OPENING OPPORTUNITY:

# Tying unemployment benefits to economic conditions

NOVEMBER 20, 2019

Victoria Eardley  
Research Fellow

Jonathan Ingram  
Vice President of Policy and Research



# KEY FINDINGS

1

PROLONGED UNEMPLOYMENT INSURANCE BENEFITS ARE KEEPING PEOPLE OUT OF THE WORKFORCE.



2

TYING BENEFITS TO ECONOMIC CONDITIONS HELPS ENROLLEES CYCLE OFF THE PROGRAM MUCH FASTER.



3

STATES THAT HAVE TAKEN THIS APPROACH HAVE SEEN 71 PERCENT LOWER COSTS AND...



4

UNEMPLOYMENT TRUST FUNDS ARE **84 PERCENT MORE SOLVENT** IN THESE STATES.



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IF ALL STATES INDEXED UNEMPLOYMENT BENEFITS, UP TO 1.5 MILLION WORKERS COULD REJOIN THE WORKFORCE.



## BOTTOM LINE:

POLICYMAKERS SHOULD REFORM THEIR UNEMPLOYMENT PROGRAMS AND HELP MOVE AMERICANS BACK TO WORK.

## What is unemployment insurance?

Nationwide, nearly 147 million workers are covered through the unemployment insurance (UI) system.<sup>1</sup> The UI system provides unemployment benefits to eligible workers who are jobless through no fault of their own and meet a variety of other state eligibility requirements.<sup>2</sup>

Benefits are financed primarily by state and federal employment taxes.<sup>3</sup> More than 8.5 million employers pay into the unemployment insurance system annually, totaling \$7 billion in federal UI taxes and another \$39 billion in state UI taxes.<sup>4</sup>

The unemployment system's structure confirms its original purpose: to help counteract economic instability, like recessions.<sup>5</sup> As the economy grows, UI revenues rise as increases in workers and higher wages push tax collections higher, while program expenditures fall due to decreased caseloads.

A key tenet of the program, across all states, is that enrollees must be actively looking for work and must accept any suitable job offer.<sup>6-8</sup> Individuals can actively look for work in a variety of ways, including contacting an employer, an employment agency, a school or university employment center; submitting resumes; filling out job applications; going to job interviews; answering or placing job advertisements; and many other active job search activities.<sup>9</sup>

States have substantial control over their UI programs. In addition to their ability to change tax rates for employers, states can make changes to benefits to help ensure the sustainability of the program.<sup>10</sup> States can also change program eligibility rules to limit or expand the enrollee population.<sup>11-12</sup>

This authority means that states have options to reform the system to ensure its sustainability and promote work.



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## **The problem: Prolonged benefits are keeping workers out of the workforce**

Studies have shown that receiving benefits for an extended amount of time can reduce unemployed workers' job search efforts, decreasing their likelihood of becoming reemployed.<sup>13-18</sup> In fact, individuals are more likely to find employment shortly before benefits are gone and even more likely as benefits expire.<sup>19-20</sup>

A recent systematic review of employment rates and benefit exhaustion found that when unemployment benefits start ending, the job-finding rate increases by 80 percent.<sup>21</sup> The research concluded that shortening the duration of unemployment benefits could reduce "long and unproductive job searches" and lower the overall unemployment level.<sup>22</sup>

Other studies have also noted that these type of long-term unemployment benefits reduce the urgency to seek employment.<sup>23-25</sup>

Today's booming economy has reduced the unemployment rate to 3.5 percent—a 50-year low.<sup>26-27</sup> Employers are desperate to find workers, with many sectors and regions facing severe labor shortages. Nationwide, more than seven million open jobs sit unfilled.<sup>28</sup> More than a third of small businesses have job openings—a record high.<sup>29</sup> Employers are offering record-high wages, signing bonuses, and other incentives to attract and retain talent at all skill levels.<sup>30</sup>

Getting unemployed workers back into the workforce can help ease these labor shortages.<sup>31</sup> The longer individuals are unemployed, the more likely they are to fall into long-term dependency and the harder it is to find work.<sup>32-37</sup>

Policymakers should make getting workers back into the workforce as quickly as possible a top priority. Reforming the unemployment system is one way to do just that.

## **The solution: Tie the unemployment benefit duration to economic conditions**

One strategy states have successfully implemented is tying the time enrollees spend collecting UI benefits to the state's unemployment rate.

States that index unemployment benefits set a maximum amount of time an individual can collect UI benefits, which fluctuates as states' unemployment rates rise or fall.<sup>38</sup> An additional week is added for each 0.5 percentage points that the unemployment rate rises above 5.5 percent, up to a maximum of 20 weeks if the unemployment rate goes above nine percent.<sup>39</sup>

Florida, Georgia, and North Carolina have all successfully indexed their UI programs to economic conditions—with tremendous results.



**TREMENDOUS  
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CONDITIONS**

## The benefits: Economic growth, more workers, lower taxes, and more

Indexing unemployment benefits is a proven solution to growing problems in state unemployment programs. By indexing the time spent on unemployment to the state unemployment rate states can increase employment, grow their economies, lower taxes, and build up their UI trust funds.

### 1. BOOST ECONOMIC GROWTH

Past reductions in unemployment duration have led to strong economic growth. Under the temporary Emergency Unemployment Compensation (EUC) program, enacted in the midst of the Great Recession, individuals could receive unemployment benefits for as many as 99 weeks, or almost two years.<sup>40</sup>

Congress expanded and extended EUC benefits nearly a dozen times between 2008 and 2012.<sup>41-51</sup> In 2013, Congress abruptly ended the EUC program and reduced maximum durations back to normal levels starting in December 2013, ultimately moving nearly five million UI recipients off the program.<sup>52</sup>

The American economy kicked into overdrive almost immediately after this change, adding more than three million jobs in 2014 alone.<sup>53</sup> Job growth outpaced recent post-recession growth by more than 50 percent and outpaced the growth in even the best preceding years by nearly 30 percent.<sup>54-56</sup> More people joined the labor force, the unemployment rate dropped, and employers ramped up hiring efforts and job postings.<sup>57-61</sup>

Economists have called the resulting economic boom an “employment miracle,” concluding that ending the EUC program increased employment by a whopping 2.5 million workers—accounting for nearly three-quarters of total employment growth.<sup>62</sup> Studies of state-level changes to UI duration have found similar results.<sup>63</sup> The results are clear: shortening UI duration boosts the economy, increasing the labor force, and gets more Americans back to work.



**ENDING THE  
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## 2. HELP PEOPLE QUICKLY TRANSITION BACK INTO WORK

Individuals cycle out of the unemployment system significantly faster in states that index UI to economic conditions. In states that allow enrollees to collect UI benefits for at least 26 weeks, individuals stay on the program for an average of 16.1 weeks—roughly four months.<sup>64</sup> However, in Florida, Georgia, and North Carolina—states that reformed their UI systems by indexing duration—enrollees stay on the program for an average of 8.6 weeks—just over two months.<sup>65</sup> These states are helping individuals on UI cycle out of the program nearly twice as fast as in other states.<sup>66</sup>

Moving people out of the program and putting them back on the path to work as quickly as possible is critical to easing labor shortages, stimulating economic growth, and keeping individuals self-sufficient.

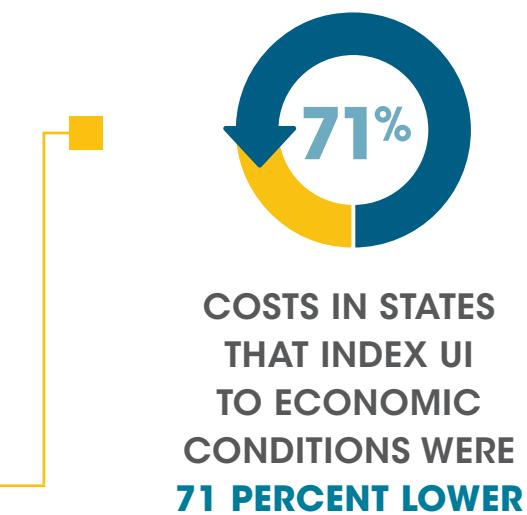
## 3. LOWER COSTS FOR TAXPAYERS AND EMPLOYERS

States that index UI to economic conditions also have significantly lower costs and lower taxes on employers. In 2018, for example, states offering 26 or more weeks had a benefit cost rate—the cost of UI benefits as a proportion of total wages—of roughly 0.38 percent.<sup>67-69</sup> Florida, Georgia, and North Carolina, on the other hand, had a benefit cost rate of 0.11 percent—meaning costs were 71 percent lower than in standard states.<sup>70</sup>

Lower costs have translated into lower taxes for employers. In states allowing individuals to collect benefits for 26 or more weeks, employers pay an average of \$5.60 for every \$1,000 of wages in state UI taxes.<sup>71</sup>

In Florida, Georgia, and North Carolina, on the other hand, employers pay an average of just \$2.30 for every \$1,000 of wages.<sup>72</sup>

This is direct savings to employers, who can use those savings to hire more workers, reinvest in their employees with higher wages or better benefits, expand their businesses, and further contribute to their states' economic growth.



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## 4. PREPARE AND PROTECT FOR THE NEXT RECESSION

States that index their UI systems to economic conditions are also far better prepared to weather future recessions.

Before the Great Recession, UI recipients spent an average of just over 100 days on the program—roughly 15 weeks.<sup>73</sup> As a result, when the economy took a downturn in 2008, many states had insufficient funds to cover their state unemployment benefit payments for longer periods of time.<sup>74-75</sup> Most states took out loans to meet their benefit obligations, accruing interest if the loans were not repaid by the end of the fiscal year.<sup>76-77</sup> Many states were simply unprepared for the recession.

Unfortunately, states have not learned from this experience, and many states’ UI trust funds are poised for insolvency at the next recession. A state’s solvency level is determined by the amount of money built up in a state’s UI trust fund in anticipation of upcoming recessions.<sup>78</sup>

Currently, states that allow individuals to collect 26 or more weeks of benefits have a solvency level of less than 64 percent.<sup>79-81</sup> However, Florida, Georgia, and North Carolina have solvency levels of nearly 117 percent, on average.<sup>82</sup>

In all, states that index unemployment to economic conditions operate UI trust funds that are **84 percent more solvent than other states.**<sup>83</sup>

## 5. INCREASE EMPLOYMENT

After eliminating the EUC program in 2013, shortened UI durations boosted employment, increased labor force participation, and reduced the unemployment rate.<sup>84</sup> Similar successes have followed state-level reforms to UI.<sup>85</sup> If all states indexed unemployment benefits to economic conditions—following the lead of Florida, Georgia, and North Carolina—the amount of time enrollees would be allowed to stay on the program would drop to 12 weeks in most states.<sup>86</sup>

**This shortened duration would increase employment by upwards of 1.5 million new workers, pull more Americans into the labor force, and lead to a modest decline in the unemployment rate.**<sup>87-92</sup>

## The opportunity: Unemployment systems should align with economic conditions

From the 1960s through the Great Recession, all states paid up to at least 26 weeks of unemployment compensation benefits to eligible enrollees.<sup>93</sup>

In 2011, six states passed legislation to decrease the maximum duration of time individuals could collect unemployment benefits: Arkansas, Florida, Michigan, Missouri, South Carolina, and Illinois.<sup>94-95</sup> In 2012, Georgia joined these states, and Kansas and North Carolina followed suit in 2013.<sup>96</sup>

Some states, like Arkansas and South Carolina, have tried to get people back to work faster with flat duration changes.<sup>97</sup> Florida, Georgia, and North Carolina have had incredible success by indexing the maximum duration of benefits with the unemployment rate.

Other states have a great opportunity in front of them. Today, the national unemployment rate is 3.5 percent, the lowest in 50 years.<sup>98-99</sup> In some states, the unemployment rate is as low as 2.2 percent.<sup>100</sup> Employers have 7.1 million open jobs, while just 5.8 million Americans are looking for work.<sup>101-102</sup> Yet in most states, the unemployment system is not responsive to a growing economy.

The current unemployment system incentivizes individuals to sit on the sideline when there has never been a better time to find work. Policymakers need to take advantage of the booming economy and move more of the unemployed back into the workforce.

Policymakers must act now to fill open jobs, help employers, move enrollees to independence, and keep the U.S. economy growing and thriving.

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## APPENDIX 1

### INDEXING UNEMPLOYMENT BENEFITS TO ECONOMIC CONDITIONS WOULD INCREASE EMPLOYMENT BY UP TO 1.5 MILLION

STATE	INCREASED EMPLOYMENT
Alabama	24,600
Alaska	3,000
Arizona	37,900
Arkansas	6,900
California	215,100
Colorado	34,700
Connecticut	21,100
Delaware	5,400
District of Columbia	4,400
Florida	N/A
Georgia	N/A
Hawaii	7,700
Idaho	7,700
Illinois	71,800
Indiana	38,100
Iowa	19,100
Kansas	7,700
Kentucky	22,900
Louisiana	23,200
Maine	7,800
Maryland	35,400
Massachusetts	42,800
Michigan	40,400
Minnesota	34,500
Mississippi	14,100

## APPENDIX 1 (CONTINUED)

STATE	INCREASED EMPLOYMENT
Missouri	25,400
Montana	6,200
Nebraska	11,600
Nevada	16,700
New Hampshire	8,600
New Jersey	49,000
New Mexico	10,500
New York	106,000
North Carolina	N/A
North Dakota	4,500
Ohio	63,700
Oklahoma	20,700
Oregon	23,200
Pennsylvania	71,300
Rhode Island	6,200
South Carolina	19,200
South Dakota	5,200
Tennessee	36,200
Texas	154,800
Utah	17,400
Vermont	3,900
Virginia	49,000
Washington	41,900
West Virginia	8,600
Wisconsin	35,100
Wyoming	3,200
<b>TOTAL</b>	<b>1,524,400</b>

Source: Authors' calculations

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75. In the wake of the Great Recession only 15 state Unemployment Trust Fund accounts remained solvent: Alaska, Iowa, Louisiana, Maine, Mississippi, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, Oregon, Utah, Washington, West Virginia, and Wyoming. See, e.g., Pedro Amaral et. al. "State Unemployment Insurance policy responses during the Great Recession," Federal Reserve Bank of Cleveland (2014), <https://www.clevelandfed.org/en/newsroom-and-events/publications/economic-trends/2014-economic-trends/et-20140812-state-unemployment-insurance-policy-responses-during-the-great-recession.aspx>.
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78. Office of Unemployment Insurance, "State Unemployment Insurance Trust Fund Solvency Report," U.S. Department of Labor (2019), <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2019.pdf>.
79. Authors' calculations based on data provided by U.S. Department of Labor on the trust fund solvency in each state and trust fund balances in each state.
80. Employment and Training Administration, "State Unemployment Insurance Trust Fund solvency report: 2019," U.S. Department of Labor (2019), <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2019.pdf>.
81. Employment and Training Administration, "Unemployment insurance data summary: 1st quarter 2018 through 4th quarter 2018," U.S. Department of Labor (2019), [https://oui.doleta.gov/unemploy/data\\_summary/DataSum.asp](https://oui.doleta.gov/unemploy/data_summary/DataSum.asp).
82. Authors' calculations based on data provided by U.S. Department of Labor on the trust fund solvency in each state and trust fund balances in each state.
83. Ibid.
84. Marcus Hagedorn et al., "The impact of unemployment benefit extensions on employment: The 2014 employment miracle?" National Bureau of Economic Research (2016), <https://www.nber.org/papers/w20884>.
85. Andrew C. Johnston and Alexandre Mas, "Potential Unemployment Insurance duration and labor supply: The individual and market-level response to a benefit cut," Journal of Political Economy (2018), <https://www.journals.uchicago.edu/doi/abs/10.1086/699973>.
86. If all states were operating under the same indexing model used in North Carolina, the maximum duration would be 12 weeks in all states except Alaska, which would have a maximum duration of 15 weeks.
87. Authors' calculations based upon the results of a proprietary simulation model of state-level changes to employment and labor force participation resulting from changes to maximum UI duration.

88. The proprietary simulation model incorporates the benchmark finding from research on the 2013 EUC expiration that a one percent reduction in benefit duration is associated with an increase of 0.0214 log points in the employment-to-population ratio and an increase of 0.0145 log points in the labor force participation rate. See, e.g., Marcus Hagedorn et al., "The impact of unemployment benefit extensions on employment: The 2014 employment miracle?" National Bureau of Economic Research (2016), <https://www.nber.org/papers/w20884>.
89. The proprietary simulation model incorporates data provided by the U.S. Department of Labor on the labor force participation and employment status of non-institutionalized civilian population, disaggregated by state. See, e.g., Bureau of Labor Statistics, "Geographic profile of employment and unemployment: 2018," U.S. Department of Labor (2019), <https://www.bls.gov/opub/geographic-profile/2018/home.htm>.
90. The proprietary simulation model incorporates data provided by the Congressional Research Service on current maximum UI durations, disaggregated by state. See, e.g., Kaitlin P. Isaacs, "Unemployment insurance: Consequences of changes in state unemployment compensation laws," Congressional Research Service (2018), <https://fas.org/sgp/crs/misc/R41859.pdf>.
91. The proprietary simulation model incorporates data provided by the Department of Labor on current average UI duration, disaggregated by state. See, e.g., Employment and Training Administration, "Unemployment insurance data summary: 1st quarter 2018 through 4th quarter 2018," U.S. Department of Labor (2019), [https://oui.doleta.gov/unemploy/data\\_summary/DataSum.asp](https://oui.doleta.gov/unemploy/data_summary/DataSum.asp).
92. The proprietary simulation model assumes all states adopt North Carolina's statutory indexing model. Florida and Georgia operate under similar, albeit slightly different, indexing models. Due to the similarity in both maximum duration and average duration in 2018, the proprietary simulation model excludes any impact in those states.
93. Prior to 2011, Massachusetts provided up to 30 weeks of benefits, Montana provided up to 28 weeks of benefits, and all other states provided up to 26 weeks of benefits. See, e.g., Kaitlin P. Isaacs, "Unemployment insurance: Consequences of changes in state unemployment compensation laws," Congressional Research Service (2018), <https://fas.org/sgp/crs/misc/R41859.pdf>.
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15275 Collier Boulevard | Suite 201-279

Naples, Florida 34119

(239) 244-8808

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