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Why Indexing Unemployment Is the Natural Next Step for Arkansas

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KEY FINDINGS



THE COVID-19 PANDEMIC HAS
WREAKED HAVOC ON STATE
UNEMPLOYMENT TRUST FUNDS.



ARKANSAS HAS TAKEN **IMPORTANT FIRST STEPS**
TOWARD REFORMING THEIR UNEMPLOYMENT
PROGRAM, BUT THERE IS STILL MORE
WORK TO BE DONE.



INDEXING UNEMPLOYMENT HAS A PROVEN TRACK
RECORD OF BOLSTERING TRUST FUNDS, REDUCING
TAXES ON SMALL BUSINESSES, AND MOVING
INDIVIDUALS BACK INTO THE WORKFORCE.



FLORIDA AND NORTH CAROLINA
HAVE BECOME **NATIONAL LEADERS**
BY INDEXING UNEMPLOYMENT.

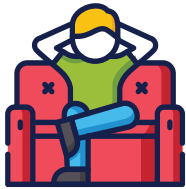
THE BOTTOM LINE:

LAWMAKERS SHOULD INDEX UNEMPLOYMENT
TO ECONOMIC CONDITIONS TO MAKE
ARKANSAS A NATIONAL LEADER.

Overview

The unemployment system has a long history of waste, fraud, and abuse.¹ Unfortunately, the COVID-19 pandemic and the congressional action that followed exasperated the problem, making an already bad situation much worse.²

As the country continues to try to move forward, the economic outlook remains bleak. There are currently more than 11 million open jobs that employers are desperate to fill—a near-record high.³ Worse yet, Americans are quitting their jobs at a near-record rate.⁴ In fact, labor force participation sits near a 45-year low.⁵



**LABOR FORCE PARTICIPATION SITS
NEAR A 45-YEAR LOW.**

While the situation is dire, it is not entirely unique. Following the Great Recession, the country was plagued by similar unemployment woes due to the Emergency Unemployment Compensation program, which expanded benefit duration and led to massive enrollment growth.⁶

But Arkansas managed to bounce back and took important first steps toward reforming their unemployment program.

Arkansas has made progress, but there is more work to be done

In 2011, Arkansas took steps to strengthen their unemployment program by reducing maximum benefit duration from 26 to 25 weeks.⁷ This was an important first step, setting Arkansas on a path toward success. In 2015, the maximum benefit duration was reduced again—from 25 to 20 weeks.⁸ Again in 2017, benefit duration was reduced to 16 weeks.⁹

Gradually reducing benefit duration helped strengthen Arkansas's unemployment system tremendously. In 2014, the state trust fund was teetering, and the state only had \$97 million in reserves.¹⁰ Meanwhile, the state owed the federal government as much as \$360 million for advances.¹¹ But in 2021, Arkansas turned a corner. The state boasted a trust fund balance of more than \$800 million in November—one of the strongest in the nation.¹²



**THE STATE BOASTED A TRUST FUND BALANCE OF MORE
THAN \$800 MILLION IN NOVEMBER—ONE OF
THE STRONGEST IN THE NATION.**

While these efforts have made Arkansas's unemployment trust fund more solvent, there is still more work to be done. To build on their success, and become even more competitive, Arkansas should index unemployment to economic conditions.

Prolonged benefits can lead to decreased outcomes

The unemployment system was designed to provide limited, temporary assistance to workers that lost their job through no fault of their own.¹³ The original intent of the program was to be a helping hand while searching for work, rather than a recurring paycheck.¹⁴

Prior to the pandemic, an individual could remain on unemployment in Arkansas for 16 weeks.¹⁵ But the unfortunate reality is that the longer an individual is on unemployment, the less likely they are to find work.¹⁶ Studies have shown that individuals are more likely to begin seeking employment once benefits start to wind down, and even more likely after they expire.¹⁷ In fact, when unemployment benefits approach their end, the job-acceptance rate surges by 80 percent.¹⁸



WHEN UNEMPLOYMENT BENEFITS APPROACH THEIR END, THE JOB-ACCEPTANCE RATE SURGES BY 80 PERCENT.

Arkansas experienced this just last year. Under the strong leadership of Governor Asa Hutchinson and the legislature, the state announced its plan to opt out of the enhanced federal unemployment benefits.¹⁹ In the weeks after the expiration of the bonus, the number of Arkansans registered for work increased by nearly 30 percent.²⁰ And more than 160,000 jobs were created in the months following the bonus's expiration—with nearly 2,600 jobs created in the state each day.²¹

In the weeks following the expiration, new unemployment claims decreased by 21 percent.²² Unemployment spending has plummeted by an impressive 90 percent, saving the state nearly \$24 million in less than a month.²³

To build on this trend, Arkansas should index unemployment benefits to economic conditions.

Indexing unemployment is the natural next step

Indexing unemployment is a commonsense next step for the Natural State to reduce taxes on small businesses, strengthen the unemployment trust fund, and move the unemployed back to work.

The concept is simple: When the unemployment rate is high and the economy is struggling, individuals have longer to look for work. But in times of prosperity when the unemployment rate is low, individuals are cycled back into the workforce sooner.

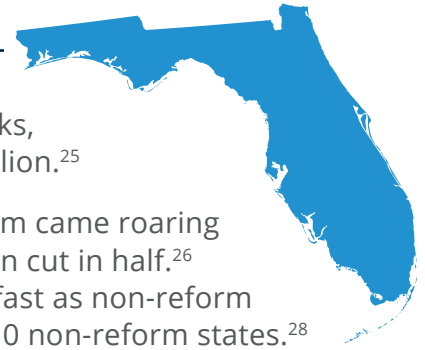
THE IMPACT OF INDEXING UNEMPLOYMENT

Florida and North Carolina have all indexed unemployment, and the results speak for themselves.

FLORIDA

Before reform, Florida's unemployment program was in shambles.²⁴ Individuals were collecting benefits for nearly 20 weeks, costs were high, and the trust fund was in the red by nearly \$2 billion.²⁵

But after implementing reform, the state's unemployment program came roaring back. The time individuals spent on unemployment was more than cut in half.²⁶ Spending was slashed by nearly 80 percent—more than twice as fast as non-reform states.²⁷ And spending remained lower than more than seven in 10 non-reform states.²⁸ By 2018, the unemployment trust fund was nearly \$4 billion in the black—a swing of nearly \$6 billion.²⁹ Meanwhile, unemployment taxes dropped by nearly 80 percent and were 73 percent lower than non-reform states.³⁰



NORTH CAROLINA

North Carolina's trust fund was insolvent in 2009.³¹ This forced the state to borrow nearly \$3 billion from the federal government just to maintain operations.³² Four years later, North Carolina still owed federal taxpayers more than \$2 billion.³³ But by 2013, the state indexed unemployment and things began to turn around.³⁴

By 2020, the state's unemployment trust fund had grown to more than \$4 billion in the black.³⁵ Even after the pandemic began to ravage unemployment programs nationwide, North Carolina stood strong, and the trust fund maintained at \$3.9 billion—more than twice as solvent as non-reform states.³⁶ Meanwhile, North Carolina was able to cycle individuals from unemployment back into the workforce at a faster rate.³⁷



HOW INDEXING UNEMPLOYMENT COULD BOLSTER ARKANSAS'S UNEMPLOYMENT PROGRAM

If Arkansas were to index unemployment, the state could expect to see similar results to Florida and North Carolina—and have one of the strongest unemployment programs in the nation.

In November 2021, Arkansas's unemployment trust fund sat at \$828 million.³⁸ But with indexing, the state could expect to add more than \$300 million to their trust fund, putting the total balance over \$1.1 billion and making it one of the most solvent in the country.³⁹

But the benefits do not end there. By implementing the reform, Arkansas could slash unemployment tax rates on small businesses by nearly 40 percent—reducing them from \$2.30 to \$1.40.⁴⁰

Individuals would also be cycled back into the workforce much more quickly. By indexing unemployment, the average benefit duration would drop by more than two weeks—from nearly 11 weeks down to just 8.5 weeks.⁴¹

States that have implemented the reform outperform their non-reform counterparts in every important metric.⁴² Arkansas can add its name to the list, and become a model for other states to follow.



States that have implemented the reform outperform their non-reform counterparts in every important metric.



THE BOTTOM LINE: Lawmakers should index unemployment to economic conditions to make Arkansas a national leader.

Arkansas has already taken strides toward reforming their unemployment program under the strong leadership of Gov. Asa Hutchinson and the legislature. To keep the momentum going, lawmakers should index unemployment to economic conditions to make the state program even stronger.

The evidence is clear: If Arkansas were to index unemployment, the state could expect a more robust trust fund, lower unemployment taxes, and a stronger workforce. Arkansas is a national leader on a number of issues, and with unemployment indexing, the state would become a model for unemployment reform.



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