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How Unemployment Indexing Helped Alabama Weather the COVID-19 Pandemic

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KEY FINDINGS



ALABAMA'S UNEMPLOYMENT SYSTEM **WAS STRUGGLING** PRIOR TO THE PANDEMIC.



THANKS TO UNEMPLOYMENT INDEXING, **FAR FEWER ALABAMIANS WERE DEPENDENT UPON UNEMPLOYMENT** DURING THE PANDEMIC.



AS A RESULT OF UNEMPLOYMENT INDEXING, **ALABAMIANS RE-ENTERED THE WORKFORCE MORE QUICKLY.**

THE BOTTOM LINE:

ALABAMA'S UNEMPLOYMENT PROGRAM IS STRONGER THAN EVER—AND OTHER STATES SHOULD FOLLOW ITS LEAD.

Overview

The COVID-19 pandemic delivered a blow to states' unemployment systems as they were flooded with both legitimate claims and fraud.¹ Trust funds were decimated as recipients moved onto the program en masse and stayed on for months.²⁻³ Fraudsters bilked states out of billions, decimating resources for the truly needy.⁴ In short, it was chaos.

However, there was a silver lining for some states. States that had indexed unemployment benefits to economic conditions were able to weather the effects of the pandemic better than non-reform states.⁵ By tying the duration of benefits to the unemployment rate, indexing helps individuals move back into the workforce when the economy is strong but offers them a little more time to search for work when the economy is faltering.⁶

States that have adopted unemployment indexing have benefited from stronger trust funds, lower unemployment taxes on small businesses, and reduced rates of dependency on the program.⁷⁻⁹ This can help states better manage a crisis like the COVID-19 pandemic.

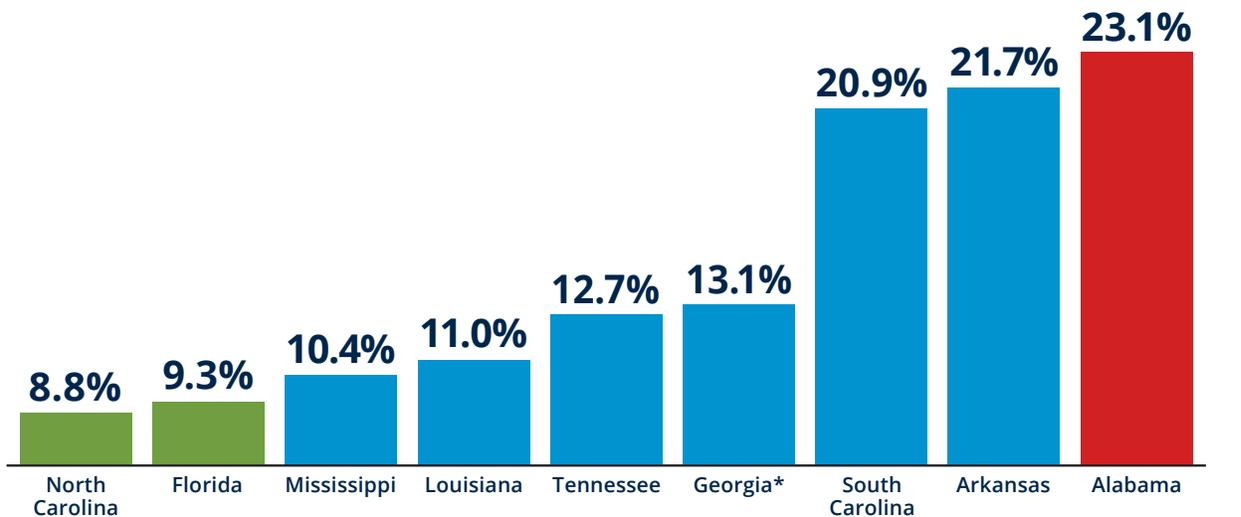
Alabama is a prime example of how unemployment indexing can bolster states' unemployment systems, even during a crisis.

Alabama's unemployment system was struggling prior to the pandemic

Before COVID-19 hit, Alabama's unemployment system was struggling. Despite a low unemployment rate, a larger share of unemployed Alabamians were claiming unemployment benefits than in any other state in the region.¹⁰

MORE UNEMPLOYED ALABAMIANS WERE CLAIMING BENEFITS THAN ANY OTHER STATE IN THE REGION

Unemployment compensation recipiency rates by state, Q2 2019



*While Georgia has been an indexing state historically, its indexing program was suspended during a significant portion of the COVID-19 pandemic.

■ Unemployment indexing state

Source: U.S. Department of Labor

Meanwhile, enrollees were staying on the program for more than three months on average, despite a red-hot economy with a near-record number of open jobs at the time.¹¹⁻¹²

Alabama legislators and Governor Kay Ivey wisely decided to act by adopting unemployment indexing, which became effective at the beginning of 2020.¹³ As a result, when COVID-19 hit, Alabama was much better prepared than its peer states to handle the crisis.

Far fewer Alabamians were dependent upon unemployment during the pandemic

Prior to the start of the COVID-19 pandemic and the implementation of unemployment indexing in Alabama, a larger share of unemployed Alabamians were claiming unemployment benefits than in the nearby non-indexing states of Louisiana, Tennessee, and Mississippi.¹⁴

However, once indexing went into effect in January 2020, Alabama became a rising star among its peer states despite the effects of the pandemic. **Compared to Louisiana, Tennessee, and Mississippi, Alabama's reciprocity rate—the rate at which unemployed Alabamians were receiving unemployment benefits from the government—rose the least during the pandemic.**¹⁵



ONCE INDEXING WENT INTO EFFECT IN JANUARY 2020, ALABAMA BECAME A RISING STAR AMONG ITS PEER STATES DESPITE THE EFFECTS OF THE PANDEMIC.

By September 2020, fewer than two in five unemployed Alabamians were receiving unemployment benefits—compared to nearly 75 percent of unemployed Tennesseans, and more than 100 percent of unemployed residents of Mississippi and Louisiana—meaning that their programs had more than just unemployed persons receiving benefits due in part to federal benefit expansions.¹⁶

In September 2021, Alabama's unemployment reciprocity rate was less than half of what it was prior to the pandemic, while its peer states saw their reciprocity rates double or triple compared to pre-pandemic levels.¹⁷

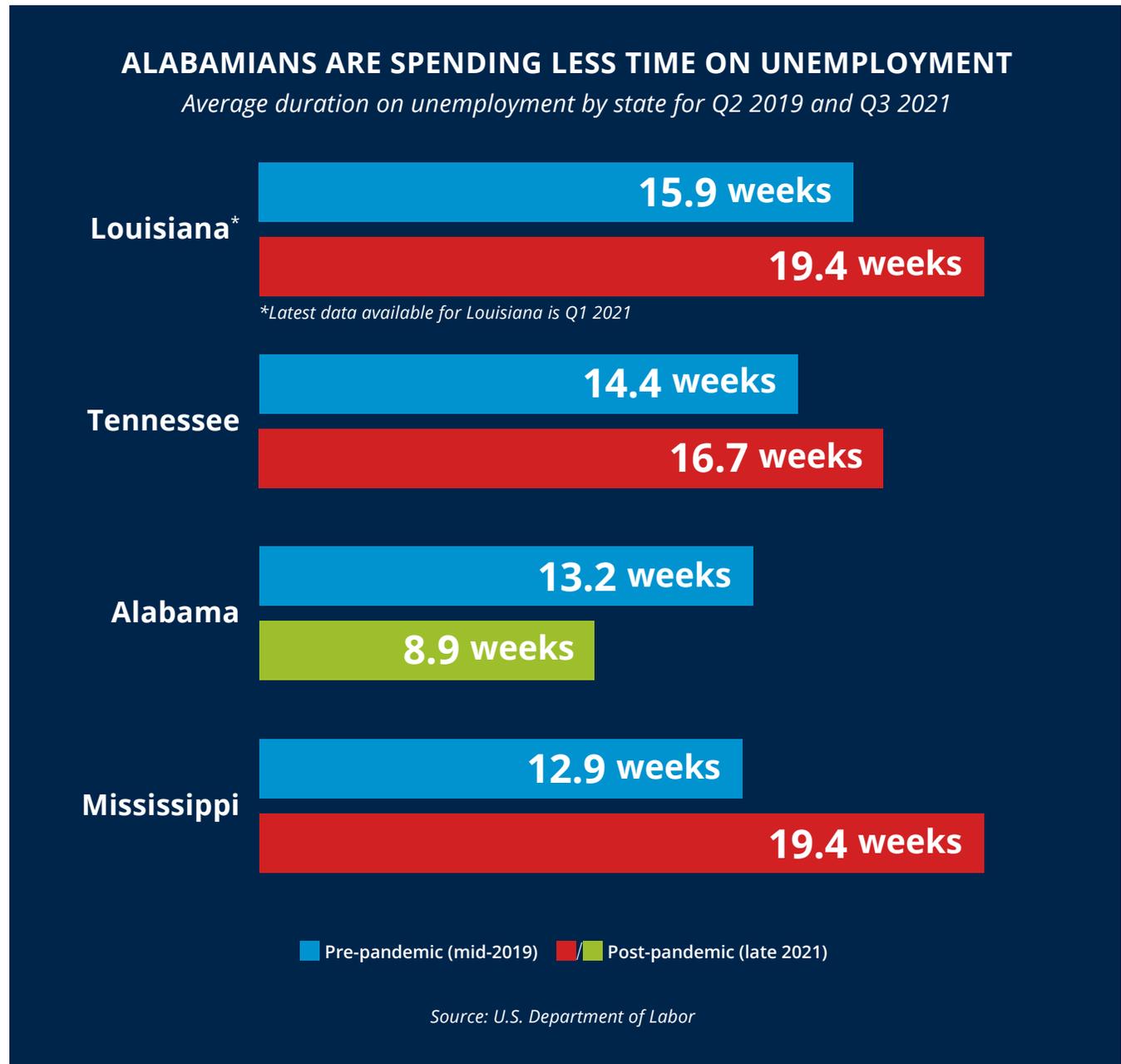


BY SEPTEMBER 2020, FEWER THAN TWO IN FIVE UNEMPLOYED ALABAMIANS WERE RECEIVING UNEMPLOYMENT BENEFITS.

Alabamians re-entered the workforce more quickly

Even before COVID-19, the average Alabaman on unemployment spent more than three months receiving benefits.¹⁸ But as the average duration of benefits spiked in peer states during the pandemic, it actually declined in Alabama once unemployment indexing was implemented.¹⁹

By September 2021, Alabama was the only state among its peers to have individuals staying on the program for less time than they did before the pandemic hit.²⁰



For example, the average Alabaman on unemployment moved off the program after 8.9 weeks by late 2021—twice as quickly as the average Mississippian, who remained on the program for 19.4 weeks.²¹ Put simply, as recipients were staying on unemployment for a longer and longer period in peer states, they were moving more quickly back into the workforce in Alabama—helping to fill thousands of open jobs.

Bottom Line: Alabama’s unemployment program is stronger than ever—and other states should follow its lead.

Thanks in large part to unemployment indexing, Alabama now has one of the strongest unemployment systems in the nation. Not only does Alabama have a three percent unemployment rate as of February 2022, but it also has one of the lowest unemployment reciprocity rates and lowest average duration of benefits in the nation.²²⁻²³ Meanwhile, its unemployment trust fund has already bounced back to pre-pandemic levels.²⁴

Thanks to the leadership of Gov. Ivey and state policymakers, Alabama’s unemployment system was well prepared to face the COVID-19 pandemic—and has emerged stronger than ever. Other states can and should follow Alabama’s lead to strengthen their unemployment systems.



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