CURRENT UNEMPLOYMENT INSURANCE QUALIFYING FORMULAS *Reward Beneficiaries Who Work Less*

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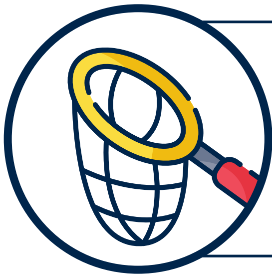
KEY FINDINGS



THE UNEMPLOYMENT INSURANCE (UI) PROGRAM WAS DESIGNED TO PROVIDE A TEMPORARY SAFETY NET WHILE INDIVIDUALS LOOK FOR WORK.

DESPITE NINE MILLION OPEN JOBS NATIONWIDE, ONE-THIRD OF ALL UI CLAIMANTS EXHAUSTED THEIR BENEFITS IN 2023.

STATE UI FORMULAS DISINCENTIVIZE LONG-TERM EMPLOYMENT AND CONTRIBUTE TO THIS PROBLEM.

BY REFORMING UI QUALIFYING AND BENEFIT FORMULAS, STATES CAN PROMOTE CONSISTENT EMPLOYMENT.

THE BOTTOM LINE:

STATE UI PROGRAMS SHOULD PRIORITIZE WORKFORCE PARTICIPATION, NOT LONG-TERM DEPENDENCY.

Overview

The UI program was designed to provide temporary, limited benefits to assist unemployed Americans while they search for work.[1-2] Unfortunately, this temporary safety net is being transformed into a long-term dependency trap.

One-third of all UI claimants exhausted their benefits in 2023—despite there being nine million open jobs available nationwide.[3-4] Even worse, the labor force participation rate is still down when compared to pre-pandemic levels as the demand for workers continues to outpace the number of people willing to work.[5]

Worse yet, many state policies actually incentivize this behavior, rather than advancing the intended goals of the program. To reverse course, states should reform these policies to ensure that their UI programs are focused on facilitating a return to consistent work.

ONE-THIRD OF ALL UI CLAIMANTS EXHAUSTED THEIR BENEFITS—DESPITE THERE BEING NINE MILLION JOBS AVAILABLE NATIONWIDE.

Qualifying formulas reward inconsistent work history

UI benefit eligibility calculations are based on wages earned during a claimant's "base period."[6] The base period consists of a four- or five-quarter period before an initial UI claim is filed.[7] In all states, a claimant is only required to show wages in a minimum of two quarters during this base period to qualify for benefits.[8] Unsurprisingly, this means that inconsistent workforce participation is often sufficient for establishing UI eligibility.

For example, in Illinois, a person only needs to work in two quarters (not for two quarters) and have total wages of just $1,600 to qualify for unemployment benefits.[9] Similarly, in Maryland claimaints only need $1,800 of wages over two quarters before becoming eligible for benefits.[10]

Ohio also has a very low threshold to qualify for benefits, only requiring workers to have some wages in at least 20 weeks out of the base year to receive benefits.[11] While meeting this minimum does not qualify an Ohio worker for the maximum unemployment benefit, the 20-week qualifying requirement is still less than the 26 weeks of benefits that are available.[12]

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Nevada requires wages in at least three of the preceding four quarters, but only as part of an alternative base year calculation.[13] The remainder of that formula requires just $400 in total wages in the highest of those three quarters for benefits to be triggered.[14] A person making minimum wage in Nevada would meet the $400 earnings requirement after just a week of work in a single quarter.[15]

Thirty-eight states and territories require base period wages of at or below $3,000 to qualify for benefits.[16] While many workers achieve more than just the minimum dollar amount in qualifying for benefits, the low threshold, combined with the requirement that wages be earned in just two quarters, means UI programs could do much more to promote consistent and stable employment.

Adjusting the qualifying formulas can reward workforce participation

The stated intent of the UI program is to provide a temporary helping hand to workers who find themselves unemployed through no fault of their own—with the ultimate goal being that these workers find suitable employment. State unemployment programs can, and should, do more to promote stable and consistent employment.

Requiring UI claimants to have wages across at least three of the four or five quarters of their base year and defining minimum qualifying earnings as a product of the state's minimum wage times full-time or nearly full-time employment over that period, would foster consistent participation in the workforce.

As a temporary safety net, UI was not designed to be a long-term welfare program. Tying baseline eligibility requirements to robust but achievable labor force attachment ensures the program remains targeted at providing temporary financial assistance to workers who truly need it.

AS A TEMPORARY SAFETY NET, UI WAS NOT DESIGNED TO BE A LONG-TERM WELFARE PROGRAM.

THE BOTTOM LINE: State UI programs should prioritize workforce participation and not long-term dependency.

Like most safety net programs, the UI system was created with good intentions—to provide a helping hand to workers who suddenly became unemployed through no fault of their own. But policies designed to help can have harmful consequences if their real impact is not understood. Promoting rapid re-entry into the workforce remains the priority of UI programs and ensuring that is the actual outcome will require states to revisit their qualifying and benefit amount formulas.

States should reform UI formulas to promote workforce participation, job attachment, and fiscal responsibility. To qualify for benefits, workers should show real attachment to employment, and once qualified, their benefits should be based on the actual amount of wages earned. In adopting these reforms, states can ensure that UI remains a strong tool for promoting re-employment.

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