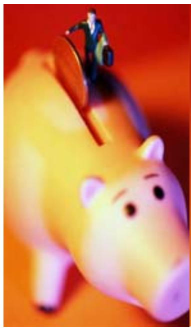

SUPPORTING WORK IN A CHANGING ECONOMY:
Options to Modernize Indiana's Unemployment Insurance System

FEBRUARY 2005

ICHHI
Indiana Coalition on Housing and Homeless Issues, Inc.

NELP
National Employment Law Project

INDIANA INSTITUTE FOR WORKING FAMILIES

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Prepared by

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About the Organizations

NATIONAL EMPLOYMENT LAW PROJECT (NELP)
NELP is a non-profit policy and legal organization that has advocated on behalf of low-wage and unemployed workers for over 30 years. Its work on the Unemployment Insurance Safety Net Project is funded by the Joyce Foundation, the Ford Foundation, the Annie E. Casey Foundation, and the Rockefeller Foundation.

INDIANA INSTITUE FOR WORKING FAMILIES
The Indiana Institute for Working Families is a non-partisan research program that advocates for public policies that strengthen the capacity of working Hoosier families to achieve and maintain economic self-sufficiency. The Indiana Institute for Working Families receives generous support from the Joyce Foundation of Chicago, Illinois. The Institute is managed by the Indiana Coalition on Housing and Homeless Issues (ICHHI).

INDIANA COALITION ON HOUSING AND HOMELESS ISSUES (ICHHI)
The Indiana Coalition on Housing and Homeless Issues (ICHHI) is a statewide association dedicated to the right of all Indiana citizens to safe, decent, and affordable housing and necessary supportive services. Through information, education, and service to members, ICHHI is helping to develop long-term solutions to homelessness, affordable housing, and poverty.

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OVERVIEW

Unemployment insurance (UI) provides jobless individuals with temporary, partial replacement for wages lost due to involuntary unemployment. The program is funded through a small payroll tax paid by employers. This briefing paper discusses reforms that can address shortcomings in Indiana's UI safety net, with an emphasis on better protecting low-wage unemployed individuals. In particular, the focus is on changes in the program that could expand eligibility for UI benefits to part-time workers and those with recent earnings. The paper also discusses other significant features of Indiana's UI program that are important to strengthening the safety net features of the UI program.[1]

The balance of Indiana's UI trust was over $642 million on September 30, 2004.[2] UI payroll tax contributions from employers in Indiana have been lower than average for several years, and remained below average in 2004. In fact, estimated state UI tax rates remained around 0.6 percent of total wages, or 60 cents on every 100 dollars of Indiana payrolls during 2004.

Despite the significant assistance to jobless workers and the economy provided by UI benefits, ill-considered limitations upon UI eligibility undermines the program's ability to achieve its goals. Indiana's unemployment insurance program has significant shortcomings, especially with respect to its treatment of low-wage workers. For example, Indiana uses a traditionally-defined "base period" that uses wages as much as 18 months prior to a claim to determine eligibility, excluding from consideration wages earned from three to six months prior to the claim. In contrast, 20 states, including Michigan, Ohio, Wisconsin, and, most recently, Illinois, have adopted the "alternative base period," that allows workers who are ineligible under the traditional base period to use their recent wages to gain eligibility for UI benefits.

Indiana also limits eligibility for part-time workers, many of which are low-wage earners and female. This is despite the fact that employers are required to pay UI taxes on part-time employees and some of these workers may meet the monetary eligibility requirements. As will be discussed in this paper, restrictions on part-time eligibility reflect out-of-date stereotypes about part-time workers and do not acknowledge the way the labor market has changed over the past several decades. In recent years, a number of states have revised their part-time eligibility guidelines to modernize their UI programs and 24 states currently follow rules that permit part-

[1] This briefing paper is prepared jointly by The Indiana Institute for Working Families and National Employment Law Project (NELP). A number of prior NELP publications have been adopted or incorporated into this work, including a recent report on Ohio's unemployment program and portions of NELP fact sheets on related topics. All NELP publications are available on its website at www.nelp.org.

[2] In 2002, Indiana received a total of $174 in Reed Act funds. In the 2003 General Assembly session, legislation was passed that dedicated $72 million of this distribution for various improvements to the UI system. As of September 2004, very little of the appropriated funds have been drawn out, thereby remaining in the state's trust fund.

time jobless workers to draw UI benefits under more favorable rules. Indiana should join the ranks of the growing number of states that have expanded eligibility for part-time jobless workers.

In order to increase the effectiveness of Indiana's UI safety net, there are four policy shortcomings that should be fixed through the adoption of policies more consistent with today's labor market and the realities facing Indiana's working families. Indiana should:

- Adopt an Alternative Base Period,
- Extend UI benefits to part-time workers,
- Eliminate the one-week waiting period, and
- Raise and index the UI taxable wage base.

As detailed in the report, the approximate cost of making the first three improvements to the UI system is modest – $82 million. This figure can be compared to the $743 million in benefits paid out in 2003. The last recommendation contained in this report is that Indiana should consider raising and indexing the UI taxable wage base to further increase the solvency of its trust fund. Indiana is tied with several other states as having the lowest taxable wage base in the country. Over 30 percent of employers pay just $7 annually per employee in UI payroll taxes. In addition, Indiana's taxable wage base has not been raised since 1983.

The combination of these changes would make a stronger, more equitable UI system and simultaneously strengthen Indiana overall. Indeed, the improvements would help jobless workers, their families, their communities, the state's economy and could be done without significantly raising UI taxes for employers.

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Part I. Recent Trends in Indiana's Labor Market and Unemployment

SUMMARY

Indiana has a labor force of over 3 million workers, of which 540,000 are part-time workers. Part-time workers are overwhelmingly women and tend to have higher concentrations of workers with lower educational attainment. Indiana has experienced dramatic job losses over the past several years. Although the state's overall unemployment rate is lower than the national average, several counties in Indiana are experiencing very high rates of unemployed workers. A significant number of the unemployed are considered "long-term" unemployed (i.e., have not had employment in over six months). Part-time workers made up approximately 18 percent of the employed workers in Indiana in 2001-2003.

Characteristics of the Indiana Labor Market

Indiana had a labor force of over 3 million workers in 2003. Approximately 53 percent of all workers were male and 47 percent were female. Part-time workers made up about 18 percent of all workers and were much more likely to be female. Indeed, 68 percent of part-time workers in Indiana were female in 2003. Twenty-three percent of Indiana's workers had a Bachelor's degree or higher. Full-time workers were more likely to have a higher educational attainment than their part-time counterparts. Table 1 below highlights characteristics of Indiana's employed workers in 2003 by full-time and part-time status.

Table 1
Characteristics of Indiana Employed Workers by Full-Time and Part-Time, 2001-2003

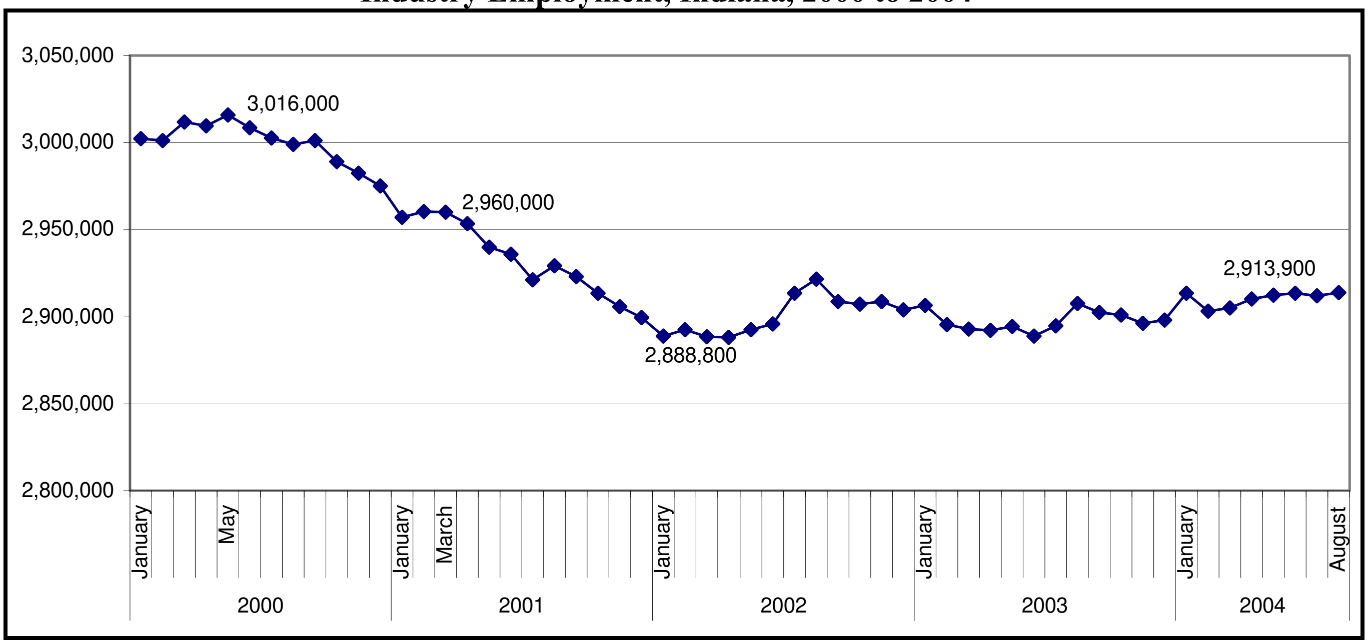
	All	Full-Time	Part-Time
NUMBER OF WORKERS (in thousands)	3,055	2,515	540
PERCENT OF ALL WORKERS	100%	82%	18%
GENDER			
Male	53%	58%	31%
Female	47%	42%	69%
AGE			
16 - 19	5%	2%	19%
20 - 34	28%	29%	27%
35 and older	67%	69%	54%
RACE / ETHNICITY			
White	90%	89%	92%
Hispanic	9%	10%	7%
EDUCATION			
Less than high school	11%	9%	23%
High school	38%	39%	33%
Some college	28%	27%	28%
Bachelor's or higher	23%	25%	16%

<u>**Source:**</u> Analysis of Current Population Survey by the Economic Policy Institute.

Current Trends in Indiana's Labor Market

Indiana's labor market remains sluggish three years after the official end of the 2001 recession. In fact, Indiana began to lose jobs almost ten months before the recession began officially in March 2001. As can be seen in Chart 1, the State reached peak employment in May 2000, and by January 2002, 127,200 jobs had been lost. By August 2004, Indiana was still over 102,000 jobs below its May 2000 employment level.

Chart 1
Industry Employment, Indiana, 2000 to 2004



__Source:__ **Bureau of Labor Statistics, Covered Employment Survey.**

Unemployment reached its low point in September 2000 at 75,693 job seekers. Unemployed persons have risen steadily since 2000 reaching a high of 178,714 in March 2004 – more than 103,000 without jobs than in 2000. The latest available number of unemployed in Indiana was 153,993 in August 2004.[3] In terms of the percentage of unemployed, Indiana's rate is lower than the national average. As of September 2004, Indiana's unemployment rate was 4.8 percent as compared to 5.4 percent nationally. However, over half the counties in Indiana have a higher unemployment rate, with several counties experiencing rates of over six percent.[4]

In terms of numbers of unemployed who are filing for UI benefits, 458,000 initial claims were filed in 2003. Of these, 288,300 were new claims. A total of 287,524 claimants received UI benefits for some part of 2003. Over 92,000 exhausted their benefits during this time.[5]

[3] Stats-Indiana, Bureau of Labor Statistics, Local Area Unemployment Statistics.
[4] Data from the Indiana Department of Workforce Development and the U.S. Department of Labor.
[5] Data from the Indiana Department of Workforce Development.

Demographics of the Unemployed in Indiana

Among the unemployed in Indiana during 2003, 61 percent were male and 39 percent were female. The percentage of unemployed Hoosier males was slightly higher than the U.S. at 57.3 percent. This probably reflects the proportionately larger loss of manufacturing jobs in Indiana, an industry with a higher concentration of male employees. [6]

Twenty-six percent of the unemployed in 2003 fell into the category of long-term unemployed, those that remain unemployed after six months. This percentage is slightly higher than the U.S. which was 22.1 percent. The table below highlights the duration of unemployment in Indiana. These figures are the latest data available and based on 2002 annual averages.

Table 2
Duration of Unemployment, Indiana, 2002, Percent Distribution

Less than 5 Weeks	33.7%
5 to 14 Weeks	31.9%
15 Weeks and Over	34.4%
Source: 2002 Geographical Profile of Unemployment, Table 23, Bureau of Labor Statistics.	

[6] Data source is Office of Workforce Security, U.S. Department of Labor and Economic Policy Institute analysis of Current Population Survey monthly data.

Part II. Evaluating How Indiana's UI System Helps Low-Wage Workers & Working Families

SUMMARY

Indiana's UI program has improved since the late 1990s, especially with respect to the proportion of wages replaced by UI benefits. In 2003, Indiana's average weekly benefits of $263 were a great improvement over its average benefit of only $107 a week in 1990. In terms of benefit recipiency, Indiana reached national average levels of performance in 2003, but still ranks in the middle third of states in terms of recipiency rates. The state needs to maintain its progress on benefit adequacy while addressing restrictive eligibility rules that are keeping low wage workers from drawing UI benefits.

The Purpose of the UI Program

State unemployment insurance programs have two related goals: 1) to assist jobless workers and their families, and 2) to boost the economy by maintaining consumer spending when unemployment rises.[7] By accumulating UI trust funds built by employer payroll taxes (and federal interest payments), state UI programs can meet the demands of higher UI claims during economic downturns without immediately boosting taxes on employers. Accordingly, employers should pay UI taxes that build up trust fund reserves during years of economic expansion, while during an economic downturn, trust fund balances fall as UI payments rise.

Recent growth in unemployment and changes in the state's labor market indicate that a re-examination of Indiana's UI program is in order. If too restrictive, UI eligibility rules undercut the effectiveness of UI programs in protecting jobless workers and affected communities from the worst aspects of higher unemployment by limiting the numbers of persons receiving UI benefits.

In fact, the lack of an adequate UI system ends up shifting the cost of protecting unemployed workers onto systems which should not be the "first line of defense". For example, some unemployed workers denied UI benefits must turn to governmental assistance programs, such as Temporary Assistance for Needy Families, Township Trustees, and/or local social services agencies for assistance. These systems do not have the capacity to replace the wages lost by the laid off, part-time factory worker or the low-wage worker who does not meet the wage requirements under the current UI system.

There is no avoiding the costs of unemployment on families, communities, and Indiana's economy. The only question is whether or not the state's UI program assumes its assigned responsibility as "first responder" in cases of joblessness. In too many cases, Indiana's UI

[7] Advisory Council on Unemployment Insurance, (1996). *Defining Federal and State Roles in Unemployment Insurance.* U.S. Department of Labor. p. 230.

program is not living up to this responsibility, especially with respect to low-wage workers. For this reason, the state's UI safety net needs improvement, as is detailed in this briefing paper. To begin, an overview of Indiana's UI program with some comparative information about programs in neighboring states is provided.

Wage Replacement

In terms of preventing hardship and maintaining consumer spending, an important indicator of UI program performance is the percentage of wages replaced by UI benefits. Wage replacement in Indiana has improved in the past decade and is now a stronger feature than in the past. In 1990, Indiana's average weekly benefit of $107 replaced only 26 percent of average wages in the state and was among the worst in the nation. By 2003, average benefits had increased to $263 a week, replacing 42 percent of state average wages and ranking 15th among the states. [8]

Adequate weekly benefits promote the income replacement and economic stimulation goals of UI, while inadequate UI benefit levels undercut the ability of UI programs to fully fulfill these goals. Generally, a replacement rate of pre-layoff wages by UI benefits in the range of 50 percent is recommended, up to a maximum weekly rate set by law. Indiana's program pays a weekly benefit that is 5 percent of the first $2,000 of high quarter wages (in other words, $100), and 4 percent of remaining high quarter wages up to a maximum of $8,733 (or, at most $349). In addition, the Legislature sets a maximum weekly benefit. This was last done in 2002 and is currently fixed at $369.

As will be discussed at length in Part IV of this report, Indiana should automatically adjust its maximum weekly benefit to ensure that benefit levels keep pace with growth in wages in future years and preserve the gains it has made in benefit adequacy.

Recipiency of UI Benefits

Another key measure of a UI program's performance is the proportion of jobless workers that receive UI benefits. This measure is often called the "recipiency rate." Unemployment insurance recipiency rates are usually calculated by comparing those considered "totally unemployed" with those who are out of work and receiving UI benefits. Despite the state's progress on benefit adequacy, restrictive UI program eligibility rules remain in place and less than average proportions of jobless individuals receive UI benefits in Indiana.

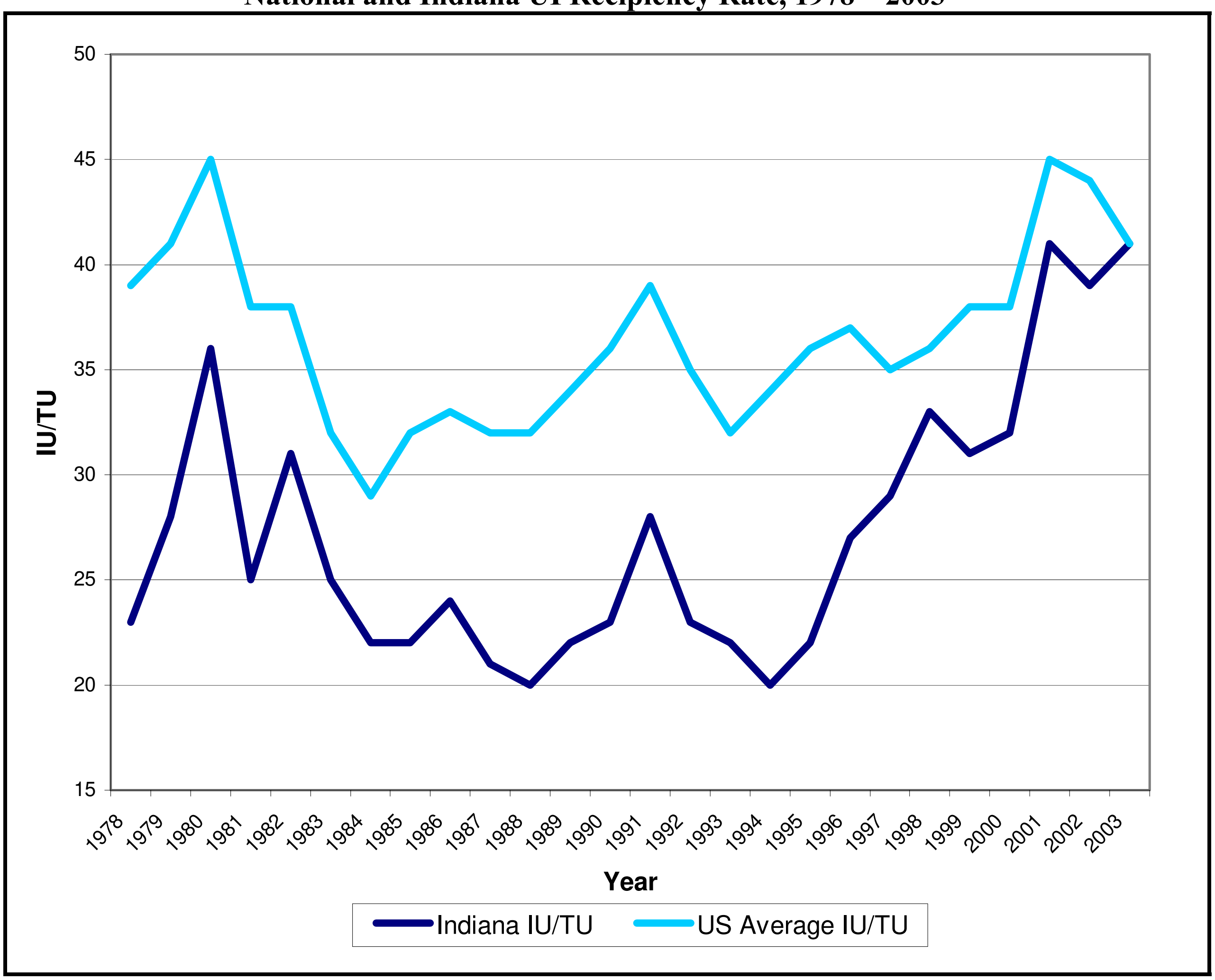
For every 100 jobless individuals in Indiana, 41 received UI benefits for calendar year 2003. The national recipiency rate in the entire country during 2003 was 41 as well. Last year, there were 41 "insured unemployed" workers receiving benefits (or serving a waiting week) for every 100 "totally unemployed" workers (those without work that actively sought a job).

[8] For unemployment insurance purposes, District of Columbia, Puerto Rico, and Virgin Islands are treated as "states," resulting in 53 jurisdictions for comparison purposes. Most of the UI program statistics we use in this report are taken from two U.S. Department of Labor sources, the *UI Data Handbook No. 394* (information for 2003 and earlier years) and the *UI Data Summary* for 2004. Both are available online at www.workforcesecurity.doleta.gov/unemploy. Additional data were collected through Indiana's 2002-2003 Annual Unemployment Insurance report.

While Indiana has climbed out of the cellar in regard to UI recipiency, it needs to make additional progress. Indiana's UI recipiency level was only 20.6 in 1993, among the four lowest states in the nation. Indiana's 2003 recipiency level of 41 ranked it 28th of 53 jurisdictions. In evaluating this ranking, keep in mind that about 10 states still perform woefully with regard to benefit recipiency—paying UI benefits to one-third or less of jobless workers. As a result, states like Indiana can reach higher rankings on recipiency without fully addressing UI program shortcomings. States with the best recipiency rates (Connecticut, Massachusetts, Delaware, Pennsylvania, Vermont) pay benefits to around 5 out of 10 of their jobless workers, while other states (Louisiana, New Mexico, Texas, Utah) pay UI benefits to fewer than 3 in 10 jobless workers.

Paying UI benefits to a lower proportion of jobless workers undercuts both the wage replacement and economic stimulus goals of Indiana's UI program. Indiana's UI program has paid UI benefits to a smaller proportion of its jobless workers than the national average for many years. Chart 2 below shows Indiana's UI recipiency rate as compared to the national average recipiency rate over the last 25 years.

Chart 2
National and Indiana UI Recipiency Rate, 1978 – 2003



As seen in Chart 2, Indiana's UI recipiency rate stayed well below national averages for recipiency between 1978 and 1998, improving considerably since that time. It is not completely clear why the state's performance improved to finally reach national average recipiency in 2003. Legislative changes that took effect in July 2002, including adjudication of only the most recent employer for non-monetary determinations and deletion of the ten-week requirement regarding previously secured employment may have had an impact on recipiency from 2002 to 2003. While there is little question that a state's statutory eligibility and disqualification provisions impact recipiency of UI benefits, factors like state agency administration and economic cycles have a role as well.[9] In recent years, both the national recipiency rate and the state's recipiency rate rose in tandem, a pattern seen in past economic downturns.[10]

Indiana in Comparison to Neighboring States

Another way to evaluate Indiana's UI program is to compare it to UI programs in neighboring states. Here, Indiana again shows improvement from the 1980s and early 1990s, when it frequently ranked with states like Florida and Mississippi, rather than with states in close geographic proximity. Table 3 shows Indiana and its four neighboring states and presents selected UI performance indicators for 2003.

Table 3

Unemployment Insurance Overview, Midwest States in 2003

State	Insured Unemploy/ Total Unemploy Ratio	Average Weekly Benefit	Weekly Benefit as Percent of State Average Weekly Wage	Average High Cost Multiple (1.0 = One Year)	Average Tax Rate on Total Wages
Indiana	41	$263	41.3	0.83	0.45
Illinois	44	$281	36.2	0.0	0.72
Kentucky	36	$250	41.1	0.38	0.67
Michigan	45	$291	38.6	0.58	0.84
Ohio	37	$252	37.6	0.27	0.49
United States	41	$262	37.0	0.42	0.64

[9] For a broader overview of UI recipiency see Wayne Vroman, *Low Benefit Unemployment Insurance Programs*, U.S. Department of Labor UI Occasional Paper No. 01-05, 2001.

[10] This pattern of increased recipiency occurs because recessions bring a higher proportion of individuals filing claims with wages that satisfy monetary eligibility rules and more separations due to layoffs that typically result in payment of UI benefits. During better economic times, there are more individuals out of work due to quits and these individuals are less likely to draw UI benefits. Generally, there are more claims filed later in an economic cycle that do not have enough wages to satisfy earnings requirements. As a result, recipiency typically peaks prior to the recovery and falls from this peak as the economy recovers.

Columns 2 and 3 of Table 3 show that Indiana's UI program is now up to speed in terms of wage replacement and benefit levels, with average benefits replacing 41 percent of state average wages. In terms of UI recipiency, Indiana now performs better than weaker programs in Ohio and Kentucky, but does not help as many of its jobless workers as Illinois and Michigan.

Column 4 gives information regarding the "average high cost multiple" or AHCM. This is a measure of trust fund solvency, and prior to a recession authorities recommend an AHCM of 1.0. Column 4 indicates that Indiana's UI program has retained solvency despite the recession and prolonged weak labor market of 2001 to date. Indiana finished 2003 with an AHCM of 0.83—two times the national average and best of the neighboring states.[11]

Average state UI tax rates, shown in column 5, were 0.45 of total wages in Indiana for 2003, lowest in the neighborhood, and about 70 percent of the national average UI tax rate of 0.64 percent. Thirty-two percent of all "credit balance" employers in Indiana pay just $7 in UI taxes per employee annually. Another 25 percent pay between $21 and $77 annually per employee.[12]

[11] For more information on UI trust fund solvency, see Wayne Vroman, Topics in Unemployment Insurance Financing. (Kalamazoo, Michigan. Upjohn Institute, 1998) and National Employment Law Project, Briefing Paper: "State Unemployment Insurance Trust Fund Solvency: How Are States Doing in the Continuing Job Slump?" (February 2004).

[12] See 2002-2003 Indiana Annual Unemployment Insurance Report at http://www.in.gov/dwd/newsroom/pubs/UIreport03.PDF and Appendix A for more information.

Part III. Strengthening Indiana's UI System

SUMMARY

Indiana has two main eligibility provisions that reduce benefit recipiency and undercut the income replacement and economic stimulus purposes of UI. Unlike a growing number of states, Indiana does not have an "alternative base period" permitting workers to use recent wages to establish eligibility for UI when needed. Secondly, Indiana requires availability for full-time work, meaning that jobless part-time workers are sometimes denied UI benefits. Both these restrictions disproportionately impact low-wage workers and should be reexamined in light of today's economy and workforce. In addition, Indiana should eliminate the one-week waiting period, making available an additional week of benefits to those workers who do not exhaust their UI benefits. The approximate cost of making these improvements to the UI system is modest - $82 million. This figure can be compared to the $743 million in total benefits paid out of the system in 2003.

Indiana Should Adopt an Alternative Base Period

All states use a "base period" to determine whether laid off workers have earned enough wages to qualify for UI benefits. A base period is typically four calendar quarters. (The calendar quarters are January through March, April through June, July through September, and October through December.) The earnings required in the base period determine "monetary eligibility." States set a variety of monetary eligibility requirements.

To satisfy monetary eligibility, Indiana requires workers to earn at least $2,750 in their base period. In addition, the claimant's high quarter wages must equal $825, and a claimant must earn wages of $1,650 in his/her last two calendar quarters. While these wage requirements are not high, claimants with fluctuating earnings may not qualify if they don't meet the various quarterly earnings requirements.

Most states, including Indiana, traditionally define their base periods as "the first four of the last five completed calendar quarters." Depending upon when a UI claim is filed and how the state defines its base period, the quarters of wages considered can include wages earned as long as 18 months prior to the filing of the UI claim, with wages earned in more recent calendar quarters excluded from the base period.

Beginning in the late 1980s, states fixed this wage exclusion problem by adopting so-called "alternative" or "alternate" base periods. States with alternative base periods permit workers to use these more recent wages in cases where they fail to establish monetary eligibility using the traditional base period. The most common alternative base period (ABP) definition (currently used in 14 states and adopted in two more) uses only the "lag quarter" wages, while three states permit the use of filing quarter wages.[13] In all, 20 states currently have ABPs, while Indiana is among 33 states retaining traditional base periods.

[13] A total of 17 states have alternative base periods using lag quarter wages on their books, but we list only the 15 states with ABPs currently in effect in Figure 1. We list two states with an asterisk. Illinois recently adopted the alternative base period, but the state's legislation doesn't take effect until 2008. Oklahoma's alternative base period law includes a suspension when the state's trust fund is below a specified level of reserves. For that reason its ABP is not in effect during 2004. With the addition of the three states using even more recent quarter wages, the 15 states currently using lag quarter ABPs, and Illinois and Oklahoma, there are a total of 20 states with some form of alternative base period law in 2004.

Figure 1
How States Define Base Periods

◄	Traditional Base Period		►	Alternative Base Period	
First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Completed "Lag" Quarter**	**Filing Quarter**
			Indiana ends its base period after this quarter and excludes wages from the two most recent calendar quarters.	Connecticut, District of Columbia, Georgia, Hawaii, Maine, Michigan, New Hampshire, New Mexico, New York, North Carolina, Ohio, Rhode Island, Virginia, Washington, Wisconsin (*Illinois, Oklahoma) all have an ABP.	Massachusetts, New Jersey, and Vermont use filing quarter wages when necessary.

As the illustration shows, with a traditional base period, wages earned in the current calendar quarter (the "filing quarter") and the intervening calendar quarter (the "lag quarter") are not used to determine if a laid off worker qualifies for UI benefits in Indiana. This means that as much as the most recent five months of wages are not included in the determination of monetary eligibility, depending upon the month a claim is filed.

Figure 2
An Example of a Claimant in Indiana, Under Traditional and Alternative Base Periods

◄	Traditional Base Period		►	Alternative Base Period	
First Quarter October 1st – December 31st	**Second Quarter** January 1st – March 30th	**Third Quarter** April 1st – June 30th	**Fourth Quarter** July 1st – September 30th	**Completed "Lag" Quarter** October 1st – December 31st	**Filing Quarter** January 1st – March 30th
			Karen's wages count under both base periods.	Karen's wages count under ABP. They ***do not*** count under the Traditional Base Period.	Karen files UI claim March 1st. Karen's wages ***do not*** count under either base period.

In Figure 2, for example, Karen files an UI claim March 1^{st}. Her filing quarter is from January 1^{st} through March 30^{th}. Her wages for the filing quarter are not counted under either the traditional or alternative base period. However, her most recently completed quarter's wages (October 1^{st} through December 31^{st}) ***do*** count under the alternative base period but ***do not*** count under the traditional base period. Karen's earnings from July 1^{st} through September 30^{th} count under both base periods. Under this simulation, Karen's wages for the most recent five months are not counted.

UI claimants gaining eligibility through ABPs have wages that meet existing monetary eligibility requirements. Their only fault is that they earned those wages too recently for their consideration under a traditional base period. From a policy perspective, it is difficult to argue that older wages are more relevant in determining labor market attachment than recent wages or that jobless workers with sufficient earnings should be forced to wait until a later calendar quarter to file a valid claim.

Since low-wage workers have less base period earnings, a higher proportion of low-wage workers fail to establish monetary eligibility and would benefit from ABPs. Studies have also found that workers in seasonal industries and former welfare recipients gain eligibility from ABPs. For this reason, policy makers that are trying to support low-wage workers have advocated ABPs for many years, and states have steadily adopted them. In the Midwest, Ohio, Michigan, and Wisconsin have APBs, and Illinois passed legislation late last year that adopted an ABP beginning in 2008.

Costs of Adopting Alternative Base Periods Are Modest

Since ABPs expand eligibility for UI benefits, there is necessarily an added cost in benefits related to their use. However, the costs of adopting an alternative base period are modest. According to a 1995 national study of the states that had adopted ABPs, the costs of alternative base periods have not been significant. On average, the benefits paid out of UI trust funds have increased by between four and six percent. Valid claims expanded in the range of six to eight percent. For Indiana, using 2003 data, these figures translate to between $30 and $45 million a year for about 13,000 to 17,000 jobless individuals.[14] These estimates should be compared to the $743 million in UI benefits paid to 213,000 claimants in that year.

Given the significant numbers of workers who could benefit from ABPs, this estimated cost is justified. These individuals have sufficient earnings to merit monetary eligibility, but fail to gain access to UI benefits simply because their recent wages are not considered. States that have adopted ABPs have an established record that shows that they help low-wage workers gain access to UI benefits without resulting in a drain on state trust funds. For these reasons, we recommend that Indiana adopt an alternative base period.

[14] The disparity between the increased costs and claims levels occurs because claimants earning lower wages draw lower-than-average weekly benefits. See Wayne Vroman, *The Alternative Base Period in Unemployment Insurance: Final Report*, U.S. Department of Labor Occasional Paper, January 1995, and Wayne Vroman, *The Alternative Base Period in Unemployment Insurance: Final Report*, U.S. Department of Labor Occasional Paper, January 1995. Also, for the purposes of these calculations, data used were from the U.S. Department of Labor.

Indiana Should Extend Benefit Eligibility for Part-time Workers

A second restrictive eligibility rule applied to Indiana's UI program concerns jobless part-time workers.[15] In the past, many states treated those looking only for part-time work as not seriously connected with the workforce, adopting eligibility rules requiring workers to seek full-time work in order to get UI benefits. Indiana's restrictive treatment of part-time jobless workers is another feature of its UI program that should be reexamined in light of changes in today's labor market and the realities of working families.

The original basis for the exclusion of part-time workers from UI was outdated assumptions about part-time workers. Common wisdom held that part-time workers were mostly female and not really supporting families. These assumptions were consistent with the "male breadwinner" model that underlies the early days of UI programs.[16] It has been recognized by authorities in the field for over 40 years that rather than presuming that part-time workers are insufficiently attached to the labor market to warrant UI eligibility, it is better policy to simply apply the ordinary UI eligibility rules to all jobless workers.[17]

Indeed, part-time work is a significant part of our modern economy. Nationally, 1 out of 6 workers have a part-time work schedule. Indiana had 540,000 part-time workers in 2003, the vast majority of whom were female.[18] For many employers and workers, part-time work is a necessity and in many occupations part-time work is prevalent. For every part-time worker there is an employer with a part-time position to fill. In addition, part-time work is an important strategy for female workers in their "prime" working years (25-44 years old) to balance family responsibilities with their careers. Indeed, 1 out of 5 employed women aged 25-44 work part-time as compared to 1 out of 20 men in the same age group.[19] In addition, research has shown that part-time workers work consistently across the weeks of a year. Part-timers average 36 weeks of work a year as compared to 48 weeks for full-time workers.

By offering UI benefits to part-time workers, the system can also assist more workers who earn low wages. This is because low-wage workers are disproportionately part-time workers. In addition, many of these low-wage part-time workers are women (71 percent are female in Indiana), and, as a result, holding part-time workers ineligible for UI falls particularly hard on female workers.

Take as an example, Karen. Karen works part-time so she can take care of her disabled mother, who lives with her. Karen also has two school-aged children. Karen has worked for six years at a retail store, most recently working between 25 and 30 hours per week at $10 an hour. The

[15] Indiana's statute requires that a claimant "is available for work ....", Employment and Training Act §22-4-14-3(2), and the statute does not directly address part-time work. The state's regulations state that a "claimant shall be ineligible…[if he or she] failed to make effort to secure full-time work …." Unempl. Ins. Bd. Rules R646IAC 3-10-18(b). As a result, claimants that have a past history of part-time work or that have compelling reasons for limiting their availability to part-time work are ineligible to receive UI benefits in Indiana.

[16] Rebecca Smith, et al., *Between a Rock and a Hard Place: Confronting the Failure of State Unemployment Insurance Systems to Serve Women and Working Families* (National Employment Law Project, March 2003).

[17] William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy. (Richard D. Irwin, 1966), p. 267-268, 271-276.

[18] Economic Policy Institute analysis of Current Population Survey data.

[19] National Employment Law Project. (March 2004). Part-Time Workers and Unemployment Insurance. New York, NY. www.nelp.org.

economic recession caused the store to close and Karen lost her job. Karen meets all UI eligibility criteria except she is not "available" for full-time work, thus can not claim UI benefits. Although her mother receives Social Security, it is not enough to cover the household's expenses, including the mortgage, food and utilities. Without the critical wage replacement that UI benefits provide, Karen and her family would face extreme hardship and, at worst, could lose their housing.

One final note on the part-time issue; the wages of part-time workers are subject to UI payroll and other employment taxes *on the same basis* as the wages of full-time employees. In other words, employers must pay UI taxes for their part-time workers in Indiana even though those workers are likely to be ineligible for UI benefits.

Cost of Offering Benefits to Part-time Workers

The cost of offering benefits to part-time workers, along with how many would potentially qualify can be estimated through utilizing existing research and data sources on the UI program.[20] An estimated 13,219 workers would receive benefits at $99 per week for an average of 10.2 weeks. This would cost Indiana's UI trust fund approximately $13.3 million, a very modest amount when considering that total benefits paid out through the trust fund in 2003 was $743 million.

Other States Offering Part-time Worker Eligibility for Benefits

Recognizing the realities of the current labor force, there is a growing trend of states reexamining their rules for part-time UI eligibility. Between 2001 and 2003, six states expanded UI eligibility for part-time workers (California, Maine, Minnesota, New Jersey, New Mexico, and North Carolina). As a result, 24 states now have significantly expanded eligibility for part-time jobless workers and no longer flatly require availability for full-time work. Table 4 below highlights these 24 states and their part-time worker rules.[21]

Table 4
States Offering Eligibility to Part-time Workers

States	Part-time Worker Eligibility
California, Delaware, Kansas, Nebraska, New Mexico, Pennsylvania, South Dakota, Vermont, and Wyoming	Essential parity with full-time workers.
Arkansas, Colorado, Florida, Hawaii, Iowa, Louisiana, Maine, Minnesota, New Jersey, New York, North Carolina, Oklahoma, and Puerto Rico	Eligible if worker has substantial part-time work history.
District of Columbia and Rhode Island	Eligible if worker has good cause for limiting employment to part-time.

[20] See Appendix B for methodology used to calculate these estimated figures.
[21] National Employment Law Project. (March 2004, Revised). *Fact Sheet: Part-time Workers and Unemployment Insurance.*

Indiana should join the growing ranks of states protecting part-time jobless workers by expanding UI eligibility to include part-time workers that remain available for and seek part-time work while demonstrating adequate attachment to the labor market. Expanding UI eligibility for part-time workers involves doing no more than asserting that the usual rules of availability be applied on an individual basis to part-time workers, rather than subjecting part-time workers to ineligibility. In short, these workers would have to show that they are available for a significant number of jobs in their local labor market and that they are actively seeking such work. This commonly utilized UI eligibility standard properly applies to part-time and full-time jobless individuals alike. A policy assuming that part-time workers are not available for work cannot be justified in light of today's labor market and the increasing role of part-time work in maintaining family income.

Indiana Should Eliminate the Waiting Week

The "waiting week" is a common feature of state UI laws. Despite its name, waiting weeks involve a "no benefits" week of unemployment for the first week of a spell of unemployment. During this week, jobless workers must meet all other eligibility requirements, but they get no UI benefits. As a result, unemployed workers that exhaust UI benefits draw their final payment one week later than they do in states without a waiting week. All other claimants not exhausting benefits (no more than 26 weeks in Indiana) are effectively denied one week of benefits. Waiting weeks are another feature of UI laws that need reexamination in light of contemporary conditions.

The history of "waiting weeks" demonstrates that there is no longer a valid reason for their continued use. In the early days of unemployment insurance there was concern that paying benefits for longer durations would not be affordable, so waiting periods of two, and even four weeks, were found in state UI laws. In addition, it was not possible to pay claims rapidly in the early days of UI programs, so the delay was administratively necessary. Since that time, states have moved toward fairly uniform maximum claims duration of no more than 26 weeks and computer technology now makes it possible to pay UI benefits for the first week of a new UI claim.

Most defenders of waiting weeks rely upon a cost savings argument and resist their repeal despite the fact that their original rationale has long been undercut. In 2003, Indiana had 214,000 jobless individuals that received first payments of UI benefits. The average duration of a claim was 13.6 weeks, meaning that most workers did not draw their final week of benefits. In fact, nearly 92,000 individuals exhausted their UI claims, thus receiving their last week of state UI benefits. This means that 122,000 jobless Hoosiers lost one week of benefits due to the waiting week in 2003. Eliminating the waiting week in 2003 would have resulted in additional benefit payments of $32 million if these individuals had received the average weekly UI benefit for their lost week of benefits.

The chief argument for eliminating the waiting week is that most individuals who work for a living do not have sufficient savings to sustain their families' spending for essential goods and services in the event of job loss. Jobless individuals and their families already wait up to 21 days to get their first UI check. Since weekly benefits only replace pre-layoff wages up to a maximum of $369 a week in Indiana, asking families to suffer the additional burden of losing income replacement for a week is a recipe for hardship in many cases. Utility companies, landlords, and grocery stores do not offer jobless workers a "waiting week" for bills, and they are expected to continue to promptly meet their families' obligations despite their loss of wages. For these reasons, Indiana should eliminate its waiting week.

Thirteen states (Alabama, Connecticut, Delaware, Georgia, Iowa, Kentucky, Maryland, Michigan, Nevada, New Hampshire, New Jersey, Vermont, and Wisconsin) have no waiting week. Two additional states, Tennessee and Texas, pay their waiting week if unemployment continues for 3 weeks or more. The remaining states, including Indiana, all have a waiting period of one week's duration.

Part IV. Financing Reform of Indiana's UI System

SUMMARY

Indiana's UI program is paid for by employer payroll tax contributions. Over an economic cycle, states should accumulate reserves that can sustain higher benefit payments during economic downturns and moderate tax increases that will replenish lower trust fund levels in the years of recovery. In order to strengthen its UI financing mechanism, Indiana should raise and index its taxable wage base to broaden the financial base of its UI program. In addition, despite having faced the recession of 2001 and its aftermath, the state's trust fund is in relatively good shape. Indiana's UI payroll tax rates are lower than average and, even considering expected increases in coming years, should remain at affordable levels.

State unemployment insurance programs are essentially self-financing, in the sense that UI benefits are financed through employer UI payroll taxes that are retained in an UI trust fund. UI taxes impact employers and a state's economy, but are separate from the overall state budget and general revenue taxes. One of the main goals of unemployment insurance is to accumulate payroll tax revenues in a trust fund during the growth phase of an economic cycle and to automatically stimulate the economy by using those funds to pay increased benefit claims during economic downturns.

Maintaining an adequately financed UI program is critical for working families, employers, and the state's economy. There are several features of Indiana's UI financing mechanism that limit its ability to respond to funding challenges. In particular, Indiana has the lowest maximum tax rate and taxable wage base permitted under federal law. While Indiana's current trust fund balance shows that the state is not in immediate danger, over the long term, these features pose risks to the UI program's solvency.

Raising and Indexing Indiana's Taxable Wage Base

Not all wages are subject to UI payroll taxes. Indiana's taxable wage base remains at $7,000 – the minimum tax base permitted under federal law. Indiana's taxable wage base has been set at $7000 since 1983. All but 12 other states have adopted higher taxable wage bases. A low taxable wage base means that UI financing is based upon an increasingly narrow portion of wages. For example, in Indiana the $7,000 taxable wage base represented 40.5 percent of all wages in 1983, but only 24 percent of total wages in 2003.

UI financing experts have found that states with higher taxable wage bases have better UI trust fund solvency and enhanced ability to raise revenues for UI trust funds when UI claims rise.[22] The

[22] Wayne Vroman, Topics in Unemployment Insurance Financing (Kalamazoo, Michigan. Upjohn Institute, 1998); Mike Miller, Robert Pavosevich, and Wayne Vroman, "Trends in Unemployment Benefit Financing," in Christopher J. O'Leary and Stephen A. Wandner, ed., Unemployment Insurance in the United States: Analysis of Policy Issues (Upjohn Institute. Kalamazoo, Michigan, 1997).

Advisory Council on Unemployment Compensation found that increasing state taxable wage bases were associated with improvements in the solvency of UI trust funds, as measured by reserve ratios (percent of total wages in trust fund reserves).[23]

A low taxable wage base also means that employers of low-wage employees pay UI taxes on a higher proportion of their wages than do employers of higher wage workers. For example, an Indiana worker making $10,000 in 2003 had 70 percent of his or her wages subjected to UI taxes. An individual making $70,000 only had UI payroll taxes imposed on 10 percent of his or her wages.

Employer groups support a policy of low taxable wage bases, although the reasons for this policy stance are murky. A low taxable wage base undercuts UI financing mechanisms, including experience rating of UI taxes. Indiana's low maximum tax rate and small taxable wage base undoubtedly restrict the ability of the experience rating system to effectively charge high cost employers. In addition, in the event of a severe economic downturn, these features would impair the ability of the trust fund to recover quickly and maintain adequate reserves.

In summary, states need to regularly adjust their taxable wage bases upward to ensure that the financial base for their UI programs is adequate. The best practice among states is indexing the wage base to a portion of statewide average annual wages. Thirty-four other states automatically index their maximum weekly benefit to their statewide average wage. [24] It has been 20 years since Indiana has raised its UI tax base. Rather than relying upon Indiana's Legislature to raise the taxable wage base at regular intervals, Indiana should adopt indexing as a way to bring its wage base back into line with the state's wage levels.

UI Taxes in Indiana

It should be noted up front that Indiana's recent program history demonstrates that – to a significant degree – the state's trust fund solvency reflects sacrifices made by unemployed workers. Rather than employer tax effort, analysis shows that federal interest on trust fund balances, low UI recipiency, and modest weekly benefit levels, especially in the early 1990s, made substantial contributions to Indiana's trust fund solvency prior to the current recession. Over the decade of the 1990s, federal interest payments averaged roughly $80 million a year, about a third of employer state payroll tax contributions in this period. In addition, in the early 1990s, UI recipiency in Indiana was below 30 percent while wage replacement rates were below 33 percent. Both these performance levels were far from acceptable and translated to thousands of jobless Hoosiers deprived of UI benefits or paid inadequate benefits.

[23] Advisory Council on Unemployment Insurance (1996). Defining Federal and State Roles in Unemployment Insurance, U.S. Department of Labor.
[24] U.S. Department of Labor, Comparison of State Unemployment Insurance Laws (July 2004).

In order to better assess the affordability of our proposed reforms expanding eligibility, a review of Indiana's UI financing and trust fund history is in order. Table 5 presents some historical data on UI financing, trust fund solvency, tax rates, and benefit payments.

Table 5
Indiana UI Financing Overview, 1990 - 2003

Year	Trust Fund Balance (billions)	Trust Fund as Percent of Total Wages	Average Tax Rate on Total Wages	Regular Benefits Paid (millions)	Payroll Tax Revenues (millions)	Federal Trust Interest (millions)
1990	$0.879	2.03%	0.45%	$134.8	$185.0	$71.9
1991	$0.899	2.02%	0.40%	$207.3	$169.2	$74.5
1992	$0.942	1.99%	0.42%	$192.7	$188.1	$71.4
1993	$1.025	2.05%	0.43%	$193.9	$205.0	$70.4
1994	$1.132	2.11%	0.42%	$217.1	$228.9	$71.8
1995	$1.228	2.16%	0.41%	$223.9	$232.2	$80.9
1996	$1.273	2.13%	0.38%	$233.3	$216.5	$85.5
1997	$1.362	2.14%	0.39%	$208.8	$246.1	$88.9
1998	$1.418	2.06%	0.32%	$223.1	$222.9	$93.2
1999	$1.519	2.10%	0.38%	$270.5	$266.5	$96.6
2000	$1.606	2.10%	0.37%	$311.8	$277.1	$103.0
2001	$1.330	1.78%	0.27%	$596.4	$210.6	$95.4
2002	$1.124	1.53%	0.31%	$697.0	$251.8	$78.6
2003	$0.758	1.00%	0.45%	$616.9	$329.8	$56.7
TOTAL				**$4327.50**	**$3229.70**	**$1138.80**

Sources: U.S. Department of Labor, Handbook No. 394. Available at "Program Statistics" from http://workforcesecurity.doleta.gov/. Note: 2003 tax rates provided by UIPL 28-04 (July 21, 2004).

Several observations about the data in Table 5 are worth noting. First, state payroll tax rates have remained in a fairly narrow range over this entire period, and while they have risen in recent years, they are doing so from low levels reached at the end of the late 1990s economic boom. Tax rates fell by 40 percent in the 1990s, from 0.45 percent in 1990 to 0.27 percent in 2001. Second, even though taxes have risen in 2003 and 2004, they remain lower than national averages. Indiana UI payroll tax rates on total wages for 2003 were 0.45 percent, or 45 cents for every 100 dollars of payroll. This compares with a 0.64 percent national average. Tax rates for 2004 are estimated by the U.S. Department of Labor at 0.6 in Indiana, as compared with a 0.8 percent national average. Indiana's tax rate is the second to the lowest of its neighboring states. [25]

[25] Both 2003 tax rates and 2004 estimated tax rates are from U.S. Department of Labor, Office of Workforce Security, "Preliminary Estimates of Calendar Year (CY) 2004 Average Employer Contribution Rates," Unemployment Insurance Program Letter 28-04 (July 21, 2004). http://workforcesecurity.doleta.gov/dmstree/uipl/uipl2k4/uipl_2804a1.htm

A third point about taxes arises by comparing the figures in the last three columns of Table 5. These columns provide amounts of benefit payments, tax revenues, and federal interest, respectively. For most years during the 1990s, revenues only roughly matched benefit payments. The gradual growth in trust fund balances observed in column 1 is due as much to federal trust fund interest payments as to UI tax revenues. In fact, between 1990 and 2000, state tax revenues only exceeded benefit payments by $20.3 million, while federal interest was 37.25 percent of state taxes for the decade. In other words, federal interest accounted for almost all of Indiana's trust fund growth during this period. Indeed, federal interest was over 35 percent of overall trust fund income during the 1990 through 2003 period.

It is important to note that over 31 percent of Indiana employers subject to UI payroll taxes pay just $7 annually per employee and another 22 percent pay between $21 and $77 per employee. See Appendix A for data on UI employers and their tax rates for 2003.

A final observation about UI taxes in Indiana. As a result of the higher UI claims beginning with the 2001 recession, the lower tax rates and higher interest earnings of the late 1990s are over. As the trust fund balance has fallen, interest payments have declined. And, given that benefit payments have exceeded tax revenues for every year since 1999, with the disparity amounting to hundreds of millions of dollars in 2001, 2002, and 2003, UI tax increases must continue for several more years in order to replenish the state's trust fund.

Indiana's UI Trust Fund Solvency

In terms of UI trust fund solvency, Indiana entered the 2001 recession with a trust fund balance of $1.6 billion. This was over two percent of state total wages, and represented over a year's worth of reserves at the state's highest recorded payout levels (in other words, a high cost multiple of 1.2). These levels of reserves enabled the state to pay benefits at rates greatly exceeding tax revenues since 2001 without dramatically raising UI taxes to this point. As of September 2004, the state's trust fund balance was $640 million resulting in a trust fund that can pay nearly a year's worth of benefits without taking in new revenues.

Federal Reed Act Funds

In 2002, Indiana received $174 million in federal Reed Act funds that boosted trust fund solvency as well. Unlike other state trust fund dollars, Reed Act funds can be spent to administer UI, employment services, and One-Stops as well as pay for UI benefits. Because Reed Act funds have flexibility in comparison to other trust fund dollars, they should be spent carefully. In 2003, legislation approved use of $72.2 million of the Reed Act distribution for various improvements to UI related programs and services. These included:

- $25 million to "meet the workforce needs of Hoosier employers who have occupations that are high wage, high skill, and in high demand,"
- $8 million for administration of Workforce Investment Boards and WorkOne centers, and
- $39.2 million for UI system modernization and simplification.

$104 million was appropriated to remain in the trust fund. According to the federal Office of Public Debt, as of September 2004, very little of the appropriated funds have been drawn out of the state's trust fund.

Conclusion: Reforming Indiana's UI System

Indiana's UI system has made recent improvements in both eligibility and benefit adequacy. For example, in 2002, positive changes took place including: 1) adjudication of only the most recent employer for non-monetary determination, and 2) elimination of the ten-week requirement regarding previously secured employment. In addition, benefit levels have improved significantly since 1997 – raising Indiana's benefit adequacy to the top tier of Midwest states.

Indiana now has the opportunity to further modernize its UI system through the adoption of provisions outlined in this report. These include:

- Adoption of an Alternative Base Period,
- Extension of UI benefits to part-time workers,
- Elimination the one-week waiting period, and
- Raising and indexing the UI taxable wage base to increase solvency.

These improvements would not only modernize Indiana's UI system, but make it more accurately reflect the configuration of the current labor market while benefiting workers at the same time. Local economies and employers profit as well during hard economic times; more workers, who have been attached to the labor force but find themselves unemployed, will qualify for UI benefits and have a portion of their wages replaced. This means more cash in their pockets to pay bills and buy goods and services from businesses. In fact, the U.S. Department of Labor has estimated that for every dollar in UI benefits paid out, another $2.15 of economic activity trickles through local economies. Finally, the cost of implementing these reforms is modest – just $82 million annually as compared to the $743 million in benefits paid out in 2003.

Appendix A
Demographics of UI Employers
Schedule C for Rating Year 2003[26]

Experience Factor	Current Rate Schedule C	Number of Employers	Percent of All Employer Accounts	Cumulative Number of Employer Accounts	Cumulative Percent of Employer Accounts to all Employer Accounts	Annual Tax Per Employee
Demographics of Credit Balance Employers						
3.00 & over	0.10%	28,001	24.00%	28,001	24.00%	$7
2.80-2.99	0.10%	3,773	3.23%	31,774	27.23%	$7
2.60-2.79	0.10%	5,038	4.32%	36,812	31.55%	$7
2.40-2.59	0.30%	5,684	4.87%	42,496	36.42%	$21
2.20-2.39	0.50%	4,985	4.27%	47,481	40.69%	$35
2.00-2.19	0.70%	5,180	4.44%	52,661	45.13%	$49
1.80-1.99	0.90%	4,515	3.87%	57,176	49.00%	$63
1.60-1.79	1.10%	3,675	3.15%	60,851	52.15%	$77
1.40-1.59	1.30%	2,752	2.36%	63,603	54.51%	$91
1.20-1.39	1.50%	2,233	1.91%	65,836	56.42%	$105
1.00-1.19	1.70%	1,844	1.58%	67,680	58.00%	$119
0.80-0.99	1.90%	1,491	1.28%	69,171	59.28%	$133
0.60-0.79	2.10%	1,342	1.15%	70,513	60.43%	$147
0.40-0.59	2.30%	1,094	0.94%	71,607	61.37%	$161
0.20-0.39	2.50%	934	0.80%	72,541	62.17%	$175
0.00-0.19	2.70%	1,330	1.14%	73,871	63.31%	$189
Total Credit Balance Employers		**73,871**	**63.31%**			
Demographics of Debit Balance Employers						
Less than 1.5	4.20%	3,984	3.41%	3,984	3.41%	$294
1.50-2.99	4.50%	2,320	1.99%	6,304	5.40%	$315
3.00-4.49	4.70%	1,377	1.18%	7,681	6.58%	$329
4.50-5.99	5.10%	1,004	0.86%	8,685	7.44%	$357
6.00 & over	5.40%	4,862	4.17%	13,547	11.61%	$378
Total Debit Balance Employers		**13,547**	**11.61%**			
Demographics of Specially Rated Employers						
Governmental	1.00%	18	0.02%	18	0.02%	$70
Delinquent Employers	5.50%	5,505	4.72%	5,523	4.73%	$385
Total Specially Rated Employers		**5,523**	**4.73%**			
Demographics of New Credit Balance Employers						
New Credit Balance Employers	2.7%	23,741	20.35%	23,741	20.35%	$189
Total All Subject Employers		**116,682**	**100.00%**			
Source: Indiana Department of Workforce Development.						

[26] The rate at which Indiana employers are charged a UI payroll tax is somewhat complicated and involves several factors. For a thorough discussion of the formula, see the 2002-2003 Unemployment Insurance Annual Report at http://www.in.gov/dwd/newsroom/pubs/UIreport03.PDF.

Appendix B

Indiana Part-time Estimate Detailed Methodology

Step	Result	Detail	Description
1	25,932	Jobless workers looking for part-time work	Labor Force Population
2	$99	Weekly Benefit Amount for Median Worker	Average weekly wage * replacement rate formula
3	0.41	State IUTU ratio, 2002	Recipiency Rate
4		State Average Recipiency, reduced for weeks of insured unemployment not paid by the trust fund	Waiting Week Factor
5	0.27	Reduce for nonmonetary eligibility by 33%. Step 3 X 67%.	Job loser factor - estimate from data
6	0.18	Reduce for monetary eligibility by 33%. Step 5 X 67%.	Monetary eligibility factor- estimate is from research
7	0.10	Reduce for workers already receiving UI. Step 6 - .08	"Cheating Factor"
8			
9	2,593	Multiply by Part-time unemployment to find average recipients in a time period (Step 1 * Step 7)	Average recipients in a time period
10	134,836	Multiply by 52 weeks to find out weeks compensated (Step 9 X 52)	Total
11	13,348,764	Multiply by Benefit Amount to find cost (Step 10 X Step 2)	Total Cost
12	13,219	Divide by Average Duration of 10.2 weeks (25% less than overall duration). Step 10/10.2	Total Number of Beneficiaries

Conclusion: 13,219 people are going to receive benefits at $99 per week for 10.2 weeks at an estimated cost of $13.3 million annually.

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