Testimony by Andrew Stettner to the joint Senate / House hearing on Unemployment Insurance Benefits

I am Andrew Stettner, policy analyst with the National Employment Law Project (NELP). NELP is a thirty-year old national advocacy organization that specialized in unemployment benefits. I am happy to share some of our perspectives on the value of unemployment benefits, the strengths and weaknesses of the Massachusetts program, and why the Governor’s proposals, H. 604 would point the program in the wrong direction.

1. Testimony in opposition to H. 604, the Governor’s Proposals on Unemployment Insurance

- Strong unemployment programs are vital to families and our economy

Unemployment insurance is one of our organization’s central concerns, because of the importance of this benefit to the welfare of working families over their career. UI is different from many other social programs that respond to the problems caused by poverty. UI prevents families from even falling into poverty, giving unemployed families time to get back to work and get their lives back on track.

Research on these effects is dramatic. A recent study by Congressional Budget office found that UI benefits cut short-term poverty rates among unemployed families in half— from 50 percent to 25 percent.1 This effect was observed after a family had a breadwinner out of work for more than three months, when bills are beginning to pile up. MIT Economist Jonathan Gruber has demonstrated that UI intercepts a number of acute issues caused by job loss. Gruber finds that without UI, unemployed workers would consume 22 percent less food compared to when they were working.2 Along these lines, the presence of UI reduces the chances that a worker will be forced to sell the family home by almost one-half.3

Even in a weakened job market, nearly two out of every three unemployment benefit recipients (62%) in Massachusetts are able to find work before their benefits run out.4 What’s more important is that the UI program specifically allows working families to find a job that is a suitable replacement for the one that they had previously lost. For example, one recent economic analysis concluded that UI benefits increased jobless workers odds of finding a job with health insurance by 5.7 percent for men and 5.6 percent for women.5

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4 US Department of Labor, UI QUARTERLY DATA SUMMARY, 4th Quarter 2004
• The UI program delivered nearly $4 billion in net benefits to the Massachusetts economy during the jobs slowdown.

A strong UI program also acts as a stabilizer for the economy. When unemployment increases and jobs are lost, consumer spending can drop off and further stall economic growth. With great efficiency, however, UI benefits dampen this effect by replacing a portion of worker’s wages. Workers spend their unemployment checks in local communities on basic necessities like food, clothing and housing. Thus, unemployment benefit checks are immediately recycled as payments to Massachusetts businesses for goods and services. Because recipients spend their UI allotments so quickly, a recent survey found that UI benefits packed the most dollar-for-dollar recessionary fighting punch of any possible government responses to an economic slowdown, including tax cuts.6

This economic stimulus effect was experienced distinctly in Massachusetts. During the period from the beginning of 2001 to the end of 2004, overall employment in Massachusetts dropped from 3.37 million to 3.18 million, a five percentage point decrease. The UI program was there to pick up the slack. State UI Benefit payments to working families amounted to $6.4 billion and 100 percent Federal Extended Benefits paid to state workers topped $1.2 billion. Subtracting out the $3.9 billion in taxes paid by employers, the stimulus effect totals $3.7 billion in added consumer spending, even without any multiplier effect factored in.7

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• Massachusetts should be proud to have a strong and not overly generous unemployment program.

This committee, and Massachusetts as a whole, should be proud to have an unemployment program that is able to deliver these results for working families. Over the four year period from 2001-2004, more than one million Bay State residents counted on the unemployment program when joblessness unexpectedly disrupted their lives. As of April 2005, 81,000 Massachusetts residents were currently receiving UI benefits out of a total 157,000 currently jobless workers.

In 2004, an average of 55 percent of jobless workers received unemployment benefits. This puts Massachusetts among the group of states that attains the reasonable goal of half of all jobless workers receiving benefits. This recipiency rate is on par with other programs in

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neighboring states like Connecticut (53 percent), Vermont (54 percent) and Rhode Island (46 percent). The fact that the national average UI recipiency is just 37 percent can be attributed to the 14 grossly inadequate state programs that compensated less than thirty percent of their jobless population.\textsuperscript{8}

It is not surprising most of these low benefit states, including Mississippi, Arizona, Louisiana and Texas, are low wage states. Massachusetts has followed the higher road to growing its economy. Based on reports by employers to the unemployment insurance system, the average worker in Massachusetts earned $914 per week, the fourth highest in the nation.\textsuperscript{9} Wage growth has continued even as the economy works to recover all the jobs lost during the recession.

When the average wage is taken into consideration, the average weekly UI benefit of $353 per week cannot be taken as an exorbitant sum even if it does prevent poverty. Indeed, a $353 per week benefit translates into just $1,482, which is less than the $1,780 per month that the average Bostonian, for example, needs to maintain basic self-sufficiency. Even with the modest dependent benefit allowance of $25 per week, the average benefit of $1,587 a month falls far short of the $3,670 a month a single mother and child need to get by comfortably.\textsuperscript{10}

\textit{Average unemployment benefits only replace 38.1\% of an average worker’s paychecks, ranking Massachusetts 24\textsuperscript{th} in wage replacement of 53 UI jurisdictions.} Certainly, a ranking of 24 of 53 jurisdictions severely undercuts claims that high levels of weekly benefit amounts are a cause of inappropriate costs for the Commonwealth’s UI program.

- \textbf{Working families should not be penalized in order to make improvements to the UI trust fund.}

Our overall assessment of the Massachusetts unemployment program is that the strong elements should be preserved, while making low-cost improvements that will provide equal access to lower-wage claimants. For the last several years, the condition of the state’s unemployment trust fund have threatened this policy agenda.

UI financing has been a concern in the Commonwealth for more than a decade. In the early 1990s, the state was forced to borrow from the federal government to pay benefits through 1991, 1992 and 1993. In order to be able to better respond to changes in unemployment benefit payout rates caused by fluctuations in the economy, the legislature enacted a new tax schedule in 1992. This structure was designed to head off trouble by incrementally varying UI tax rates each year as the condition of the unemployment fund ebbed and flowed.

However, the Commonwealth quickly forgot these lessons. Over the 10 year period from 1994 to 2003, the legislature overrode the scheduled tax rates in nine of these years. These

\textsuperscript{8} Ibid.
\textsuperscript{9} Ibid.
tax cuts saved employers close to $1.7 billion in UI taxes.\textsuperscript{11} During this period, no major benefit expansions were enacted that might have increased benefit payouts. However, even with a boom economy of the late 1990s and series of years with low unemployment benefit pay outs, the trust fund was no better off in 2000 than it was 1989 on the eve of the last recession. In each case, the unemployment trust fund equaled 1.8% of the total wages in the state’s economy. By the end of 2002, reserves had fallen to just 0.79% and predictably by early 2004, the trust fund was once again forced to borrow from the federal government to pay benefits. The familiar pattern occurred even though benefit payouts peaked at a lower level (1.6% of total wages) in 2002 than they had in 1992 (2.0% of total wages). Massachusetts cannot afford to have such levels going into a recession because benefit payments vary more widely in the state than in other parts of the country.\textsuperscript{12} In other words, the trust fund problems that occurred over the last several years were predictable and preventable—and employer tax reductions were the clear culprit.

- Tax reductions now will put the trust fund at risk and could lead to large debts to the federal government in the future.

Now, jobless workers can only hope that the legislature will continue on the positive path that began with the passage of solvency legislation passed in 2003. The state has taken advantage of federal rules that allow for interest free borrowing if loans are paid off by September 30\textsuperscript{th} of each year. An increase in the taxable wage base to $14,000, improvements in tax tables, and an experienced rated solvency tax will ensure that revenues exceed benefit payments in 2005 and years to come. The end of the year trust fund balance is scheduled to land at $450 million dollars by the end of 2005, triple the level of 2004.\textsuperscript{13}

While improving the long term forecast is not simply rosy. Under current laws, the DUA forecasts that the long-term trust fund forecast of $1.7 billion by 2009.\textsuperscript{14} While this represents an improvement, it will still leave the state with less in reserves in total dollars than the state’s fund had in 1999 even though the state’s economy will be substantially larger. If greater than expected economic growth occurs, the trust fund could do better than these projections especially with fund certain to be debt free at the end of 2005 (in contrast with the prior period where end of the year debts lingered until 1993). However, reversing the course set by the legislature in 2003 now could have a disastrous effect.

Scaling back the tax schedule from “D” to “C” (an across the board tax reduction) would thwart the trust fund’s gingerly progress towards forward financing. Under forward financing, a UI system builds up a surplus in the trust fund during positive economic periods to save for an inevitable spike in claims during downturns. Cutting taxes to the “C” level will severely limit the savings the state could reap as claims go down from 2006 through 2008. That’s because UI revenues won’t exceed benefits by enough to achieve any meaningful

\textsuperscript{11} Massachusets Senate Committee on Post Audit and Oversight, “\textit{BROKEN TRUST: FIXING THE UNEMPLOYMENT TRUST FUND IN MASSACHUSETTS},” April 2003

\textsuperscript{12} Wayne Vroman, \textit{AN ANALYSIS OF UNEMPLOYMENT INSURANCE FINANCING IN MASSACHUSETTS}, February, 1997.

\textsuperscript{13} Massachusetts Division of Unemployment Assistance, \textit{MASSACHUSETTS TRUST FUND REPORT}, April 2005.

\textsuperscript{14} Ibid.
savings, which are compounded through generous federal interest.

In such a scenario, the next economic downturn would be far worse for the unemployment trust fund. In that case, the state would be unlikely to repay the federal government for loans to cover the payment of regular unemployment benefits. With a negative end of the year trust fund balance, the state would end up owing the federal government millions of dollars in interest. Not only would employer tax rates have to increase sharply to rebuild a battered fund, but a special state or federal assessment would be needed to cover the interest on the loans.

- **Lowering the UI taxable wage base would further destabilize the UI trust fund for years to come.**

The proposal to reduce the taxable wage base from $14,000 to $12,800 should be especially worrisome to these committees. The taxable wage base is the proportion of each worker’s paycheck that is subject to unemployment insurance taxes. A taxable wage base that captures a large proportion leads to rational UI financing. Following a recession, a robust TWB allows the experience rating system to get those employers who lay off more of their workers to repay the trust fund for these benefits more quickly and allows the overall trust fund to recover more effectively from across the board solvency adjustments. In good times and bad, an adequate TWB ensures that UI taxes are distribute evenly between high- and low-wage employers.

As the attached graph indicates, the increase in the taxable wage base to $14,000 in 2003 only brought up the taxable wage base to 30 percent of average wages; a level far less than the last consistent increase to $10,800 in 1992. If the taxable wage base was decreased now, Massachusetts would be quickly find itself in a situation where a record low proportion of compensation was subject to UI taxes.
• The UI trust fund must be able to keep up with the cost drivers in the system which increase along with overall wages in the state.

In considering the possibility of tax relief, the Legislature should be aware that the cost drivers of the state’s unemployment program cannot be meaningfully altered by making changes around the edges of the program. If UI benefits are to remain a meaningful form of insurance for jobless workers, they must achieve fifty percent wage replacement for the majority of the workforce. This is accomplished through the current benefit calculation formula for relating worker’s two highest quarters of wages to their benefit amount. The maximum weekly benefit amount that is set at 57.5 percent of the state’s average weekly wage—guaranteeing that a plurality of workers receive half of their prior pay. It is worth restating that Massachusetts falls squarely in the middle of the nation on these measures. To continue meeting these basic standards, benefit costs will continue to rise as Massachusetts remains a state with a high standard of living and high wages.

UI benefit costs have increased in recent years because average wage growth has continued at a steady rate. Even the governor’s proposed 10 percent cut to unemployment benefits would leave these main program components virtually unchanged.\(^{15}\) Average benefit costs will rise year after year with a revenue system that cannot keep up with this pace. Paying for these benefits is part of the price that employers must bear for doing business in a state with a highly productive and value-added workforce.

• H604 would only exacerbate existing inequities in the state’s UI program

The Governor’s proposal H604 would exacerbate the inequities that low-wage workers face when they apply for unemployment. Research has consistently shown that low-wage workers have trouble accessing the unemployment benefits that they have earned. The U.S. Government Accountability Office found that low-wage workers were only half as likely as high-wage workers to receive UI.\(^ {16}\) A more recent analysis of jobless workers in Illinois found that 54 percent of workers from high-wage industries received UI, compared to just 33 percent of those for low-wage sectors.\(^ {17}\) Low-wage workers face a number of barriers to unemployment receipt, such as more frequent challenges to claims and the lack of union representation.

The Governor proposes to change the weekly wage calculation from the average of the two highest quarters of wages to the three highest quarters of wages. This change would have no impact on full-year, salaried workers who get laid off as their calculated average weekly wage would remain unchanged. However, workers who have uneven earnings due to fluctuating hours or unsteady employment would now have to make due with less in their unemployment checks.

\(^{15}\) Massachusetts Division of Unemployment Assistance, MASSACHUSETTS TRUST FUND REPORT, April 2005.
Higher-wage workers will qualify for the maximum weekly benefit amount under either formula even if they worked for less than the whole year. This new restrictive rule would only affect those low and moderate-income workers who qualify for less than the maximum weekly benefit amount and can least afford to get by with less in unemployment assistance during their period of unemployment.

These workers are already disadvantaged by the rules that determine how long a jobless worker can receive benefits. In Massachusetts, several UI program rules put low-wage workers at a disadvantage. Nine states provide 26 weeks of unemployment benefits to all jobless workers that qualify for UI. In Massachusetts, low-wage recipients can be limited to as little as 10 weeks of unemployment benefits. Only Kansas, Utah, Idaho and Arkansas have such a low minimum duration of unemployment benefits.¹⁸

Furthermore, workers who have only two quarters of base period employment face a different eligibility formula from other workers that makes them more likely to be disqualified. Low-wage workers are more likely to be found in seasonal, temporary or part-time jobs that can run afoul of eligibility restrictions found in Massachusetts. For example,

- Twenty-eight states have better policies that Massachusetts regarding UI access for temporary staff agency employees.
- Twenty-two states and the District of Columbia treat part-time workers on a more equal basis than Massachusetts.
- The governors other proposal also penalize those workers who have the hardest time finding a new job before they get laid off.

H. 604 proposes reducing the maximum duration of unemployment benefits from 30 to 26 weeks. Only one out of four workers collecting unemployment used up between 27 and 30 weeks of assistance before reaching the end of their benefit allotment. Long-term joblessness has become a growing problem throughout the nation, as a sizable share of jobless workers must overcome structural shifts in the economy in order to find a new job.¹⁹ Shaving one to four weeks of precious assistance from the long-term unemployed would reap savings for the state at a heavy cost to the families that UI benefits are supposed to serve the best.

We urge this panel to carefully consider restrictions in the UI program designed to reduce UI costs. A policy of staying the course in UI financing while making low-cost improvements that will provide equal access to lower-wage claimants is far more prudent.

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¹⁸ Low-wage workers who don’t qualify for the maximum weekly benefit are uniquely affected by this low minimum duration. Duration of unemployment benefits are capped at 36 percent of total base period earnings, but high-wage workers don’t bump up against this cap.

¹⁹ Andrew Stettner and Sylvia A. Allegretto, THE RISING STAKES OF JOB LOSS, STUBBORN LONG-TERM JOBLESSNESS AMID FALLING UNEMPLOYMENT RATES, National Employment Law Project & Economic Policy Institute, May 2005