Testimony of Claire McKenna
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B21-370, the “Unemployment Benefits Modernization Amendment Act of 2015”

Hearing before the Council of the District of Columbia
Committee on Business, Consumer, and Regulatory Affairs

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Thank you Chairman Orange and members of the Committee on Business, Consumer, and Regulatory Affairs, for the opportunity to speak today. My name is Claire McKenna. I am a Senior Policy Analyst with the National Employment Law Project (NELP). NELP is a national non-profit organization based in New York City that conducts research and recommends public policies to support unemployed and lower-wage workers in the United States. NELP is committed to improving the unemployment insurance (UI) program by promoting reforms at the state and federal levels that maximize program access for individuals employed in lower-wage and non-standard jobs and strengthen benefits for all workers.

I am testifying this afternoon in support of B21-370, the “Unemployment Benefits Modernization Amendment Act of 2015.” This bill would: 1) raise the maximum weekly benefit amount to $430, and ensure that it does not erode in value relative to the cost of living; 2) make available to all UI claimants up to 26 weeks of benefits; 3) and reduce the penalty associated with working part time while UI claimants search for full-time work.

The Role of Unemployment Insurance

By partially replacing lost wages, UI helps people who are involuntarily unemployed maintain basic living standards while they look for another job. This stabilizes the economy during difficult times, by mitigating the drop in overall consumption that accompanies a recession. UI recipients spend their weekly benefit payments on necessary expenses like groceries, rent and mortgage payments, and medical bills. This continued spending helps to keep local businesses afloat. The UI program also connects workers to job-search assistance through local career centers, also known as American Job Centers.

In 2009 alone, when national unemployment exceeded 9 percent, and the federal government provided up to 73 additional weeks of benefits in the hardest hit states, including Washington, D.C., unemployment insurance kept an estimated five million people—including jobless workers and their families—out of poverty. From 2008 to 2012, UI benefits prevented an estimated 1.4 million home foreclosures. Wayne Vroman of the Urban Institute estimated that regular and federal emergency UI benefits helped to reduce the gap in real gross domestic product caused by the Great Recession by about one-fifth (18.3 percent). The gap refers to the difference between the economy’s actual output of goods and services and its potential output.

The District’s UI Program during the Great Recession and Recovery

The unemployment insurance program played a key role in moderating the impact on the District of Columbia’s economy of the worst global recession since the Great Depression. The District’s annual unemployment rate increased from 5.5 percent in 2007 to 10.2 percent in 2011 (Table 1). Nationally, annual unemployment hit 9.6 percent. In addition to the basic state UI program, Congress authorized two extension programs (known as Extended Benefits and Emergency Unemployment Compensation), which provided additional weeks of federally funded benefits between July 2008 and December 2013. Since 2011, District unemployment has fallen by about one-third; but, at 6.9 percent as of 2015, it remains above its pre-recession level.

Between 2008 and 2015, the Department of Employment Services made about 211,200 first payments to eligible unemployed, or about 26,400 per year, on average (Table 1). The District’s UI trust fund paid out approximately $1.2 billion in state benefits, while an additional $974.9 million was distributed under the two federal programs. The District of Columbia was one of just 17 states
that did not require advances from the federal government to continue paying state benefits. As the District’s economy recovers, both the number of beneficiaries and benefits paid are declining, but have yet to return to 2007 levels.

**B21-370, the “Unemployment Benefits Modernization Amendment Act of 2015”**

**I. Raising the District’s Maximum Weekly Benefit Amount**

Unemployment insurance is intended to provide partial wage replacement for involuntarily unemployed individuals who demonstrate a sufficient work history. Traditionally, the goal has been to replace about half of a worker’s previous wages. With a maximum weekly benefit frozen at just $359 since March 2005, there is strong evidence that the District of Columbia is failing to meet this goal.

As of 2015, the average weekly UI benefit in the District was just under $300 ($297), replacing just 19 percent of average weekly wages in covered employment over the same time period. On this measure, the District ranks at the bottom of all states.\(^4\) A slightly more precise measure of UI benefit adequacy compares a state’s average weekly benefit with the average wages of claimants before becoming unemployed. If a state’s claimants earn lower wages than covered workers, on average, the reported replacement rate will understate the actual replacement rate; the opposite is true if claimants earn higher wages than covered workers, on average. In 2015, just 39 percent of pre-layoff wages of District claimants were replaced by UI benefits, on average (Figure 1). This measure has trended downward since 1988, the earliest year of available data, when average benefits replaced about 54 percent of pre-layoff wages. Nationally, UI benefits replace 46 percent of pre-layoff wages, on average; this measure has been relatively flat over time (Figure 1).

Compared with the rest of states, the District ranks 46\(^{th}\) out of 51 on this measure, exceeded only by Tennessee, Illinois, Louisiana, Indiana, and Alaska. Maryland and Virginia have respective rates of 48 percent and 44 percent.

Crucially, this legislation would raise the District’s maximum benefit to $430, also the current maximum in Maryland. In addition, this legislation would automatically adjust the maximum each year in proportion to changes in the cost of living, a process known as indexing, thus obviating the need for further legislative action by the Council. Had the maximum benefit increased with the region’s cost of living since it was last raised in 2005, it would be about $450 today. Currently, an estimated thirty states make similar adjustments to their maximum benefit levels.\(^5\)

According to the Economic Policy Institute—which every year estimates the income level necessary for families of various sizes to maintain a modest living standard in more than 600 locations across the country—the District of Columbia is the most expensive area for a family of four, including two parents and two children.\(^6\) Though these changes to the District’s UI program would be relatively modest in the aggregate, they will be especially significant to claimants with earnings histories that are by all measures low, but which qualify them for the District’s maximum benefit (for example, a claimant needs only $14,001 in two calendar quarters to qualify for the current maximum benefit for 19 weeks). For a family living in or near poverty, an increase to $430 per week could mean an additional week’s worth of groceries, or a full tank of gas for a spouse’s commute to work. On the whole, the adoption of this bill would mean that the District’s UI program could once again fulfill its main objective of protecting workers and families against the negative income shock that results from the loss of a job.

**II. Making Available up to 26 Weeks of UI Benefits to All District Claimants**
A second provision in this legislation would make available up to 26 weeks of unemployment insurance benefits to all claimants in the District of Columbia, as long as their past earnings and employment meet existing minimum requirements for monetary eligibility. NELP strongly supports this change.

As background, the maximum potential duration of UI benefits is 26 weeks in most states. This refers to the number of weeks that claimants who remain eligible, and receive benefits for the entire duration of their claim, may receive. This is not to be confused with the number of weeks that individual claimants will each actually receive, which in many instances will be lower than the potential duration if they find work. Currently nine states, including neighboring Maryland, provide 26 weeks to all individuals who meet minimum earnings requirements. The rest of states, including the District of Columbia, vary duration according to past earnings and employment.

Currently, District claimants may receive between 19 and 26 weeks of benefits. The current formula provides that claimants may receive in their benefit year up to fifty percent of their total base period earnings, or twenty-six times their full weekly benefit amount, whichever is smaller. Each individual’s potential duration is then calculated by dividing this total benefit amount by his or her weekly benefit amount. In the District of Columbia, individuals with less than full-year work—for example, recent labor force entrants—and an uneven distribution of earnings in their base period, frequently will qualify for fewer than 26 weeks of benefits under this formula. In addition, individuals with the same amount of total base period earnings can qualify for different durations and weekly benefit amounts. For example, as shown in Table 2, under existing law, an individual who earns the minimum wage, works over half a year, and has even modestly uneven earnings in her base period, will be eligible for fewer than 26 weeks of benefits, whereas an otherwise similar individual with the same total earnings, distributed evenly across her base period, will be eligible for 26 weeks. In this scenario, the individual with uneven earnings will receive a slightly greater weekly benefit, for fewer weeks.

This legislation would eliminate the cap on the total amount of UI benefits that claimants may receive in their benefit year of fifty percent of total base period wages, and provide that otherwise eligible claimants may receive their weekly benefit amount for up to 26 weeks, if necessary.

There is significant justification to offer up to 26 weeks of UI benefits to all claimants. In addition to smoothing household income and stabilizing the economy during recessions, the goal of unemployment insurance is to give jobless workers enough time to search for a job that is similar in wages and working conditions to their prior employment. Ensuring that workers accept employment that matches their skills and backgrounds is important for a smoothly functioning economy.

While critics may contend that UI benefits may lead to longer spells of unemployment, and that cutting UI claimants off of benefits may encourage them to accept work, ample recent evidence reaches different conclusions. For example, one study compared the unemployment durations of involuntary job losers—a group of workers traditionally eligible for UI benefits—with the durations of jobless workers traditionally ineligible for benefits during the Great Recession, and found that both groups experienced similar increases in unemployment duration. UI benefits keep workers actively searching for jobs, especially lower-wage workers. In addition, research finds that once claimants exhaust their benefits in a weak economy, they are more likely to stop their job-search and drop out of the labor force than find work. Lastly, a recent study offers statistical evidence in support of the idea that more generous UI benefits could lead claimants to find higher-paying jobs.
upon reemployment. Indeed, providing in-person reemployment services is proven to help UI claimants find higher-paying jobs more quickly than claimants not provided these services.

The goal of state UI programs should be to provide claimants with enough weeks of benefits to conduct an adequate job-search during non-recession years. And, during recessions, when job opportunities are scarce, and spells of unemployment increase, the federal partner will pick up the slack by providing additional weeks, most recently Emergency Unemployment Compensation and federally-funded Extended Benefits. Unfortunately, even in non-recession years, jobless workers in the District must contend with longer-than-average spells of unemployment.

Once workers lose their jobs in the District of Columbia they face the highest probability of long-term unemployment of all states. Long-term unemployment refers to the number of people who have been unemployed and searching for work for at least 27 weeks. In 2015, nearly 1 in 2 (48.1 percent) District unemployed workers were long-term unemployed, on average, compared to slightly fewer than 1 in 5 before the recession in 2007 (Figure 2). Nationally, fewer than 1 in 3 jobless workers were long-term unemployed in 2015. Of District workers who were long-term unemployed in 2015, more than two-thirds had been looking for work for at least one year. The average duration of unemployment was 49 weeks, the longest of all states (Figure 2).

The difficulty of finding a job for District claimants is also evident in UI durational measures. In 2015, the average duration of UI receipt in the District was about 18 weeks, compared to about 16 weeks (15.5) nationally. Just five other states have longer average UI durations. Of District claimants who exhausted their benefits over the last ten years, about 14 percent had entitlements of fewer than 26 weeks.

In summary, in light of evidence that UI benefits support active job search, and potentially lead to higher-quality reemployment, in combination with the fact that jobless workers in the District are more likely to contend with extended spells of unemployment, NELP strongly recommends the adoption of a uniform duration of 26 weeks for all District UI claimants as provided in B21-370.

III. Helping District Claimants Maintain Stronger Connections to Work

A third and final provision in this legislation would make necessary improvements to the District’s UI rules pertaining to partial unemployment, or underemployment. All state UI programs, including the District’s program, provide partial UI benefits to claimants who work part time while they look for a permanent, full-time job. Employees who experience a sharp drop in earnings due to job scheduling volatility may also qualify for partial income support. In general, otherwise eligible workers can claim partial benefits as long as their weekly earnings are below a statutory threshold. The rate at which a claimant’s weekly benefit is reduced by his or her earnings is determined by a disregard. This is the portion of earnings that is not deducted from the weekly benefit.

Currently, District claimants can receive partial UI benefits if 80 percent of their earnings from a week of part-time work are less than their usual weekly benefit plus $20. For each week of any work, claimants’ benefits are reduced by 80 cents for every dollar earned in excess of $20. In effect, this means that to qualify for partial benefits, District claimants must usually have part-time earnings below 1.33 times, up to 1.4 times, their full weekly benefit; this proportion is higher for lower-wage claimants. For example, a claimant who is normally eligible for $300 can claim partial benefits if 80 percent of her earnings from part-time work are less than $320. This means she can qualify as long as her weekly earnings are less than $400 (80 percent of $400 is $320). Similarly, District claimants eligible for the maximum benefit can qualify for partial benefits as long as their
part-time earnings are less than $474 (80 percent of $474 is $379) (see Table 3 for claimant examples).

Thus, under existing law, higher-wage claimants, eligible for the outdated maximum benefit, who find relatively well-paying part-time work are more likely to be shut out from receiving any UI benefits at all. Middle- and lower-wage claimants may be more likely to find part-time jobs that pay below the required thresholds. But, the resulting benefits may be too low to make a significant difference in their total weekly income. For example, under current law, if a District claimant who normally receives a $150 weekly benefit finds a part-time job paying $200 per week, she will receive a partial UI benefit worth just $10. She will take home just $210 in total (the partial payment plus $200 in earnings) (Table 3).

Under current law, District claimants who have an opportunity to work part time and take home just a fractional amount more than they would by claiming full UI benefits may choose to decline such offers and continue receiving full benefits. This is risky, given that the probability of reemployment declines the longer someone is unemployed. Otherwise, if they decide to work, they could lose all or most of their UI benefits, even though their earnings may be substantially lower than they were before becoming unemployed. Current law also disadvantages employed workers who contend with erratic job schedules, which recent survey research suggests is a significant problem in certain service sectors in the District of Columbia. Work-hours reductions must often be significant in order for employees to qualify for benefits.

Data from the U.S. Department of Labor confirm that District workers are claiming partial UI benefits at below-average rates. Between 2006 and 2015, 6 percent of all state UI weeks claimed in the District of Columbia were for weeks of partial unemployment, compared to respective rates of 7 percent and 9 percent in Maryland and Virginia, and 9 percent nationally. In states with relatively strong partial UI rules (Connecticut, New Jersey and Pennsylvania), the average ratio was 14 percent.

When structured properly, partial benefits encourage UI claimants to work part time work while they continue looking for more stable employment. Their reduced benefits supplement their part-time earnings. They maintain stronger connections to work, which may better position them for future job opportunities. This may have potential longer-run impacts on the District’s reserves. In addition, partial benefits help to mitigate the impact of sudden drops in earnings that occur when employees are subject to unstable job schedules.

This legislation would allow claimants to receive UI benefits if two-thirds of their earnings from part-time work are less than their usual benefit plus $50. Thus, claimants’ benefits would be reduced by about 66 cents for every dollar earned in excess of $50. In the same example cited above, the District claimant who normally receives a $150 weekly benefit, and finds a part-time job paying $200, would under this legislation receive a partial UI benefit worth $67. She would take home $267 in total, an increase of $57 per week from current law (Table 3). Similarly, a claimant eligible for the current maximum could earn in excess of $450 and still qualify for UI support. This threshold would rise even further under a maximum benefit of $430.

In light of ample evidence documenting the consequences associated with job loss and extended unemployment—including material hardship, poor health, and a lower probability of reemployment in a good job—the District’s UI program should be taking every possible action to help claimants maintain stronger connections to work. Therefore, NELP unequivocally supports the proposed changes to the District’s partial UI rules outlined in B21-370.
Conclusion

The District of Columbia was one of just 17 states that did not have to borrow from the federal government during the Great Recession to continue paying state UI benefits to jobless workers. As of January 1st of this year, the District of Columbia had UI reserves totaling $351.2 million. At this level, the District is one of just twenty states that meet, or approach, the standard of UI solvency recommended by the U.S. Department of Labor. By this measure, the District of Columbia is able to pay UI benefits for one year at the level reached in the average of the last three recessions. This includes the Great Recession, the most severe economic contraction since the Great Depression. Thus, the District’s trust fund is in a strong position to sustain the three sensible reforms proposed in the legislation under question. By raising the maximum weekly benefit to $430, and ensuring that it does not erode in value in the future; making available up to 26 weeks of benefits to all District claimants; and strengthening claimant connections to work by improving partial UI rules, the Council is taking the necessary steps to ensure that the unemployment insurance program will remain a vital piece of the safety net for working families in the District of Columbia, today and in the inevitable next recession.
### Appendix: Tables and Figures

**Table 1:** Annual Unemployment and UI Payments in the District of Columbia, 2007 to 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Unemployment rate</th>
<th>Benefits Paid (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>United States</td>
<td>District of Columbia</td>
</tr>
<tr>
<td>2007</td>
<td>4.6%</td>
<td>5.5%</td>
</tr>
<tr>
<td>2008</td>
<td>5.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>2009</td>
<td>9.3%</td>
<td>9.3%</td>
</tr>
<tr>
<td>2010</td>
<td>9.6%</td>
<td>9.4%</td>
</tr>
<tr>
<td>2011</td>
<td>8.9%</td>
<td>10.2%</td>
</tr>
<tr>
<td>2012</td>
<td>8.1%</td>
<td>9.0%</td>
</tr>
<tr>
<td>2013</td>
<td>7.4%</td>
<td>8.5%</td>
</tr>
<tr>
<td>2014</td>
<td>6.2%</td>
<td>7.8%</td>
</tr>
<tr>
<td>2015</td>
<td>5.3%</td>
<td>6.9%</td>
</tr>
<tr>
<td>2008-15</td>
<td>--</td>
<td>--</td>
</tr>
</tbody>
</table>


**Figure 1:** Annual UI Replacement Rate in the District of Columbia and the United States, 1988 to 2015


**Table 2:** Comparison of UI Weekly Benefit Amounts and Potential Durations for Individuals Earning the Minimum Wage in the District of Columbia
<table>
<thead>
<tr>
<th></th>
<th>FT, Full-year</th>
<th>FT, Half-year</th>
<th>PT, Full-year</th>
<th>PT, Half-year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Hourly wage</strong></td>
<td>$10.50</td>
<td>$10.50</td>
<td>$10.50</td>
<td>$10.50</td>
</tr>
<tr>
<td><strong>Hours per week (FT or PT)</strong></td>
<td>40</td>
<td>40</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td><strong>Weeks per year</strong></td>
<td>52</td>
<td>52</td>
<td>26</td>
<td>26</td>
</tr>
<tr>
<td><strong>Base period wages (BPW)</strong></td>
<td>$21,840</td>
<td>$10,920</td>
<td>$10,920</td>
<td>$5,460</td>
</tr>
<tr>
<td><strong>Q1</strong></td>
<td>$5,460</td>
<td>$5,280</td>
<td>$2,730</td>
<td>--</td>
</tr>
<tr>
<td><strong>Q2</strong></td>
<td>$5,460</td>
<td>$5,280</td>
<td>$2,730</td>
<td>$2,640</td>
</tr>
<tr>
<td><strong>Q3 (HQ)</strong></td>
<td>$5,460</td>
<td>$6,000</td>
<td>$2,730</td>
<td>$3,000</td>
</tr>
<tr>
<td><strong>Q4</strong></td>
<td>$5,460</td>
<td>$5,280</td>
<td>$2,730</td>
<td>$2,640</td>
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<tr>
<td><strong>WBA (1/26 HQ)</strong></td>
<td>$210</td>
<td>$230</td>
<td>$105</td>
<td>$115</td>
</tr>
<tr>
<td><strong>Total Benefit Amt. (Lesser of):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26 * WBA</td>
<td>$5,460</td>
<td>$5,980</td>
<td>$5,460</td>
<td>$5,980</td>
</tr>
<tr>
<td>50% of BPW</td>
<td>$10,920</td>
<td>$10,920</td>
<td>$5,460</td>
<td>$5,460</td>
</tr>
<tr>
<td><strong>Potential Duration</strong></td>
<td>26</td>
<td>26</td>
<td>26</td>
<td>26</td>
</tr>
</tbody>
</table>


**Figure 2:** Percentage of unemployed that are long-term unemployed (27+ weeks), and average (and median) duration of unemployment in weeks, District of Columbia, 1994 to 2015

Source: NELP calculations of U.S. Bureau of Labor Statistics data. 2015 figures were provided upon request, and are preliminary estimates. Median duration of unemployment for 2015 is not available.

**Table 3:** Comparison of Partial Benefit Amounts and Total Income of Lower-, Middle-, and, Higher-Wage Claimants in the District of Columbia, under Current Law and B21-370
<table>
<thead>
<tr>
<th></th>
<th>WBA</th>
<th>P-T Earnings</th>
<th>P-T Earnings Disregarded</th>
<th>P-T Earnings Deducted</th>
<th>Partial Benefit</th>
<th>Total Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current law</td>
<td>$359</td>
<td>$477</td>
<td>$0</td>
<td>$477</td>
<td>$0</td>
<td>$477</td>
</tr>
<tr>
<td>B21-370</td>
<td>$359</td>
<td>$477</td>
<td>$209</td>
<td>$268</td>
<td>$91</td>
<td>$568</td>
</tr>
<tr>
<td>Current law</td>
<td>$300</td>
<td>$399</td>
<td>$100</td>
<td>$299</td>
<td>$1</td>
<td>$400</td>
</tr>
<tr>
<td>B21-370</td>
<td>$300</td>
<td>$399</td>
<td>$183</td>
<td>$216</td>
<td>$84</td>
<td>$483</td>
</tr>
<tr>
<td>Current law</td>
<td>$150</td>
<td>$200</td>
<td>$60</td>
<td>$140</td>
<td>$10</td>
<td>$210</td>
</tr>
<tr>
<td>B21-370</td>
<td>$150</td>
<td>$200</td>
<td>$117</td>
<td>$83</td>
<td>$67</td>
<td>$267</td>
</tr>
</tbody>
</table>


Note: Tables models impact of weekly P-T earnings worth 1.33 times the three weekly benefit amounts shown.

### Endnotes

8. The period of work on which an individual’s UI eligibility and entitlement are based is called the base period. The one-year period in which claimants may receive benefits is called the benefit year.
For example, see Cristobal Young, "Unemployment Insurance and Job Search Activity: Evidence from Random Audits," Stanford University Sociology Department (July 2012), available at http://web.stanford.edu/~cy10/public/UI_and_Job_Search_Activity.pdf


Technically speaking, an average high cost multiple (AHCM) of 1.0 means that a state is able to pay one year of benefits at a level equal to the average payout in the three highest-payout calendar years in the last 20 years (or a period including three recessions, if longer). As of January 2016, the District of Columbia had an AHCM of 0.97. See U.S. Department of Labor, "Solvency Report."