Updated December 14, 2010

QUESTION & ANSWER
UNEMPLOYMENT INSURANCE MODERNIZATION:
FILLING THE GAPS IN THE UNEMPLOYMENT SAFETY NET WHILE STIMULATING THE ECONOMY

1. What is Unemployment Insurance Modernization?

The Recovery Act (the American Recovery and Reinvestment Act of 2009), signed into law by President Obama on February 17, 2009, established provisions for states to modernize their unemployment insurance (UI) programs. Specifically, it provides states with substantial financial incentives ($7 billion) to close the major gaps in their programs that deny benefits to large numbers of hard-working families. In addition, the Recovery Act provides $500 million in necessary funding for state agencies to better serve the record numbers of workers now applying for unemployment benefits and seeking to navigate today's challenging job market. (See Table 1 for the funding amounts for those states who have not yet enacted the full package of reforms).

2. What are the most serious gaps in the unemployment program and which workers are helped most by the Recovery Act's UI modernization provisions?

Today, only 32 percent of unemployed workers collect state unemployment benefits, due in large part to the failure of the program to adapt to the changing workforce. Compared to 1935, when the program was created in response to the Great Depression, far more low-wage, part-time and women workers now participate in the labor market, and many more workers find themselves long-term unemployed due to globalization and the loss of manufacturing jobs. The Recovery Act responds to these new realities by rewarding states that adopt innovative and successful eligibility reforms, thus providing benefits to more than 500,000 workers a year who were falling through the cracks before the Recovery Act. Reforms already adopted will help hundreds of thousands of these workers qualify for UI benefits.

3. What are the specific policy reforms that qualify for UI modernization incentive funding?

A state qualifies for one-third of its federal incentive funding if it has in place a policy called the "alternative base period," which counts an individual's recent earnings when needed for the worker to qualify for benefits. Over 40% of workers who fail to qualify for benefits because of insufficient earnings (whose earnings average just $9.00/hour) end up collecting benefits with the help of the alternative base period.

To qualify for the remaining two-thirds of the federal incentive funding, the states have the option of providing benefits in at least two of the following four situations: 1) part-time workers who are denied state benefits because they are required to seek full-time work; 2) individuals who leave work for specific compelling family reasons, including domestic violence; 3) workers with dependent family members who qualify for state benefits but whose benefits should be increased to help care for their dependents; or 4) permanently laid-off workers who

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require extra unemployment benefits to participate in training. (See Table 2 for the individual state law provisions).

For further information, as well as model legislation, pertaining to these reforms, see *Implementing the Unemployment Insurance Modernization Provisions of the Recovery Act in the States*, which can be found on NELP's website (click here for the document).

4. How much will the UI modernization incentive funding help states to quickly enact the model reforms?

Over the past decade, more than half the states have adopted the sound reforms that qualify for federal incentive funding. During recessions, states are most likely to seek improvements to their unemployment program. Thus, the UI modernization provisions in the Recovery Act are now especially well positioned to build on the recent state interest and momentum to reform the program. The remaining 18 states could qualify for an additional $2.7 billion, if they acted to take their full share of benefits. The average state will collect enough in federal incentive funds to pay for just over four years of new benefits covered by the provisions in the Recovery Act. (See Tables 3 and 4 for the state cost estimates).

5. If a state qualifies for all or part of its UI modernization incentive funding, does it have to spend the funds on the new benefits?

No, the federal funding is deposited into the state's unemployment insurance trust fund, which means it can be used to pay for any unemployment benefits, not just the new reforms provided for in the Recovery Act. In addition, the states are permitted by the federal law to spend their incentive funds to help pay for administration of the state unemployment programs provided the state first passes legislation authorizing it to do so.

6. How long do the states have to expand their unemployment insurance policies to qualify for the UI modernization incentive funding, and what is the process to apply for the funding from the U.S. Department of Labor?

States have until August 22, 2011 to apply to the U.S. Secretary of Labor to have their laws certified to establish that they indeed comply with the UI modernization provisions of the Recovery Act and therefore qualify for incentive funding. Once the Secretary of Labor certifies the state's application (which should take no longer than 30 days), the state will receive all of its federal incentive funding. Significantly, the provisions in the Recovery Act allow a state to apply for the incentive funding once the required state law is passed, even if the state has not immediately started paying benefits. However, the new measure must take effect within a year of when it was signed into law, and must take effect no later than September 21, 2012. The Recovery Act is also clear that the state laws may not sunset or only take effect temporarily. Such laws will not qualify for modernization incentive funds.

7. How do the UI modernization provisions in the Recovery Act help to stimulate an economic recovery?

Unemployment benefits go a long way to stimulate the economy, providing at least $1.60 in economic growth for every dollar in benefits spent by workers and their families on housing, groceries and other basic necessities. The workers benefiting most from modernization – low-wage, women, and part-time workers and the long-term unemployed – are also those most likely to spend their benefits on basic necessities. Thus, the UI modernization provisions will foster both lasting positive reforms and boost the nation's economy to help prevent a more prolonged and deep recession.

State Distributions Under the Unemployment Insurance Modernization Provisions of the Recovery Act

December 2010

State	Does the State have an Alternative Base Period (ABP)?	Allotment in Millions			Modernization Administrative Allocation (in Millions)
		One-third Incentive Payment for the ABP*	Two-thirds Incentive Payment	Remaining Share of the $7 billion Distribution	
Alabama		$33.5	$66.9	$100.5	$7.2
Arizona		$50.0	$100.0	$150.1	$10.7
Florida		$148.0	$295.9	$444.3	$31.7
Indiana		$49.5	$98.9	$148.5	$10.6
Kentucky		$30.0	$60.1	$90.2	$6.4
Louisiana		$32.8	$65.5	$98.4	$7.0
Michigan	Yes	--	$138.7	$138.7	$14.9
Mississippi		$18.7	$37.4	$56.1	$4.0
Missouri		$44.4	$88.8	$133.3	$9.5
North Dakota		$4.9	$9.7	$14.6	$1.0
Ohio	Yes	--	$176.2	$176.2	$18.9
Pennsylvania		$91.0	$182.0	$273.3	$19.5
Texas		$185.0	$370.1	$555.7	$39.7
Utah	Yes	--	$40.6	$40.6	$4.4
Virginia	Yes	--	$125.5	$125.5	$13.5
Washington	Yes	--	$97.6	$97.6	$10.5
West Virginia	Yes	--	$22.1	$22.1	$2.4
Wyoming		$4.7	$9.5	$14.2	$1.0
Total		NA	NA	$2,680	NA

* States with "--" enacted ABP legislation, so have been alotted one-third of their incentive payment.

Source: US Department of Labor

Unemployment Insurance Modernization State Incentive Funding Provisions

December 2010

State	Alternative Base Period	Extended UI While in Training	Part-time Worker Coverage*	Weekly Dependent Allowance of $15	Compelling Family Reasons for Leaving Work**		
					Domestic Violence	Spouse Relocates	Illness and Disability
Alabama							
Arizona					X	X	X
Florida							
Indiana					X	X	
Kentucky							
Louisiana			X				
Michigan	X			O			
Mississippi							
Missouri							
North Dakota							
Ohio	X			O			
Pennsylvania			X	O		X	
Texas					X		X
Utah	X						
Virginia	X						
Washington	X	O			X	X	X
West Virginia	X						
Wyoming			X		X		
*Total****	*39*	*16*	*28*	*8*	*32*	*26*	*24*

Key: X = Provision enacted pre-ARRA; O = Provision exists in some form, although not ARRA-compliant.

* State law provisions that require the entire work history to include part-time work are not counted for the purposes of this survey.

** State law provisions that include specific "good cause" exemptions for the categories listed and those exempt "personal" reasons for leaving work are counted for the survey.

*** Total figures are for the U.S., including states not displayed.

Workers Benefitting from Unemployment Insurance Modernization Reforms

November 2009

State	Alternative Base Period		Part-Time Worker Coverage		Family Reasons for Leaving Work		Totals	
	Workers Benefitting	Benefits Paid (in millions)	Workers Benefitting	Benefits Paid (in millions)	Workers Benefitting	Benefits Paid (in millions)	Workers Benefitting	Benefits Paid (in millions)
Alabama	17,117	$18.4	5,548	$4.6	2,199	$4.0	24,864	$27.0
Arizona	13,908	$22.1	7,615	$9.3	0	$0.0	21,523	$31.4
Florida	63,138	$112.1	9,973	$13.6	13,084	$39.4	86,194	$165.1
Indiana	27,053	$50.5	7,904	$11.3	1,772	$5.6	36,728	$67.4
Kentucky	7,871	$16.3	4,654	$7.4	1,692	$5.9	14,217	$29.6
Louisiana	15,040	$21.1	0	$0.0	1,685	$4.0	16,725	$25.1
Michigan	0	$0.0	21,891	$36.9	5,084	$19.0	26,975	$55.9
Mississippi	6,310	$7.3	2,407	$2.1	1,604	$3.1	10,321	$12.5
Missouri	22,719	$37.8	8,181	$10.4	3,992	$11.2	34,892	$59.4
North Dakota	428	$0.6	829	$0.9	254	$0.6	1,511	$2.1
Ohio	0	$0.0	19,913	$33.7	3,615	$13.5	23,528	$47.2
Pennsylvania	48,821	$129.2	0	$0.0	3,052	$13.7	51,873	$142.9
Texas	36,711	$73.0	13,454	$20.5	2,879	$9.7	53,044	$103.2
Utah	0	$0.0	2,593	$4.1	787	$2.8	3,380	$6.9
Virginia	0	$0.0	9,206	$12.0	1,218	$3.5	10,424	$15.5
Washington	0	$0.0	11,142	$19.4	0	$0.0	11,142	$19.4
West Virginia	0	$0.0	1,966	$2.4	720	$1.9	2,686	$4.3
Wyoming	1,014	$2.0	0	$0.0	158	$0.5	1,172	$2.5

Estimated Years of Benefits Reforms Paid for with Unemployment Insurance Modernization Incentive Funds

November 2009

State	Remaining Share of the $7 billion Distribution (in millions)	Estimated Number of Years Reform Benefits are Covered Under Full Recovery Act Provisions
Pennsylvania	$273.3	1.9
Indiana	$148.5	2.2
Missouri	$133.3	2.2
Michigan	$138.7	2.5
Florida	$444.3	2.7
Kentucky	$90.2	3.1
Alabama	$100.5	3.7
Ohio	$176.2	3.7
Louisiana	$98.4	3.9
Mississippi	$56.1	4.5
Arizona	$150.1	4.8
Washington	$97.6	5.0
West Virginia	$22.1	5.2
Texas	$555.7	5.4
Wyoming	$14.2	5.6
Utah	$40.6	5.9
North Dakota	$14.6	6.8
Virginia	$125.5	8.1

States that Receive Funding for:	
Over 3 Years	13 states
Over 5 Years	6 states
Median	4.2 years