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CHANGES IN STATE UNEMPLOYMENT INSURANCE HURTING WORKERS AND COMMUNITIES

BY ALEXANDRA F. SIROTA, BTC PROJECT DIRECTOR

North Carolinians who have lost their jobs through no fault of their own stand less chance of collecting unemployment insurance or—if they do—replacing prior wages than before changes were made to the system in 2013.

At the same time unemployment insurance (UI) is doing less to stabilize the temporarily unemployed and the communities where they live, it also has failed to establish prudent solvency thresholds that would help avoid having to borrow money from the federal government in the next economic downturn.

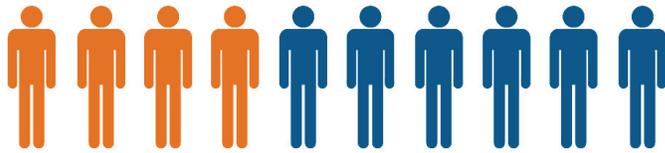
North Carolina UI failing to provide temporary, partial wage replacement

The unemployment insurance system's purpose is to provide temporary, partial wage replacement at a level that staves off a drop in consumer spending that would destabilize the broader economy. By failing to design the system to cover a significant share of those who have lost their jobs and to provide payment that is meaningful relative to the wages earned through prior work, the system is not as effective as it should be. When UI doesn't help jobless men and women meet basic needs and stay attached to the labor market, it erodes purchases of goods and services in the local economy. In other words, an inadequate UI system doesn't just hurt the jobless; it hurts the businesses where they would shop and, by extension, the economy as a whole.

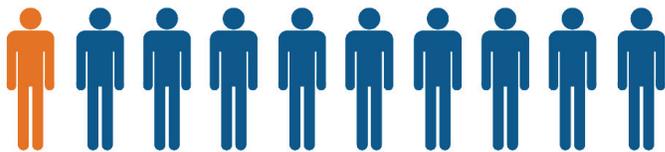
North Carolina's unemployment insurance system served its role adequately before changes legislated in 2013. It was by no means generous, falling in the middle of the pack among all states on most measures. In the second quarter of 2013, North Carolina reached 39 percent of jobless workers with unemployment insurance—24th in the nation. Today the state ranks last: just 11 percent of jobless North Carolinians received unemployment insurance payments in the third quarter of 2015.¹ (See **Figure 1**).

For those who do receive unemployment insurance—fewer than 25,000 North Carolinians in December 2015—the average weekly payment amount has fallen by more than \$65 a week on average since the second quarter of 2013. North Carolina had an average weekly benefit amount of \$301 back then—25th in the nation. In the third quarter of 2015, the average weekly benefit was just under \$237—46th in the country.² This \$250-a-month loss in money coming into a household forces difficult

FIGURE 1: Too few North Carolinians receive unemployment insurance today to stabilize families, communities



Before changes were enacted in 2013, **nearly 4 out of 10** jobless workers received **unemployment insurance**.



Today, just **1 out of 10** jobless workers do.

decisions for families. As an example, for a household with one adult, one child, \$250 is roughly equivalent to a monthly food budget or health care costs.³

Another way to illustrate the decline in support to jobless workers from UI is to look at what share of prior wages the unemployed receive. In the second quarter of 2013, UI payments in North Carolina averaged 36 percent of wages, which was 25th in the nation. In the third quarter of 2015, average weekly UI payments as a share of average weekly wages dropped to 27 percent—44th in the nation.⁴

UI fails to stabilize local North Carolina labor markets

The recent announcements of a series of mass layoffs to occur in 2016 at a brewery in Eden, NC (520 jobs), a truck manufacturing plant in Salisbury (936 jobs) and at related manufacturing facilities in Gaston and Rowan counties (1,200 jobs) will prove a significant test to a system already demonstrated to be ineffective in serving jobless workers and their communities.⁵

Indeed, the uneven nature of the economic recovery—with some North Carolina communities still mired in unemployment and others faring better—is made worse by the changes made to UI in 2013. Under the previous system in North Carolina, as in most other states, workers who lose their job

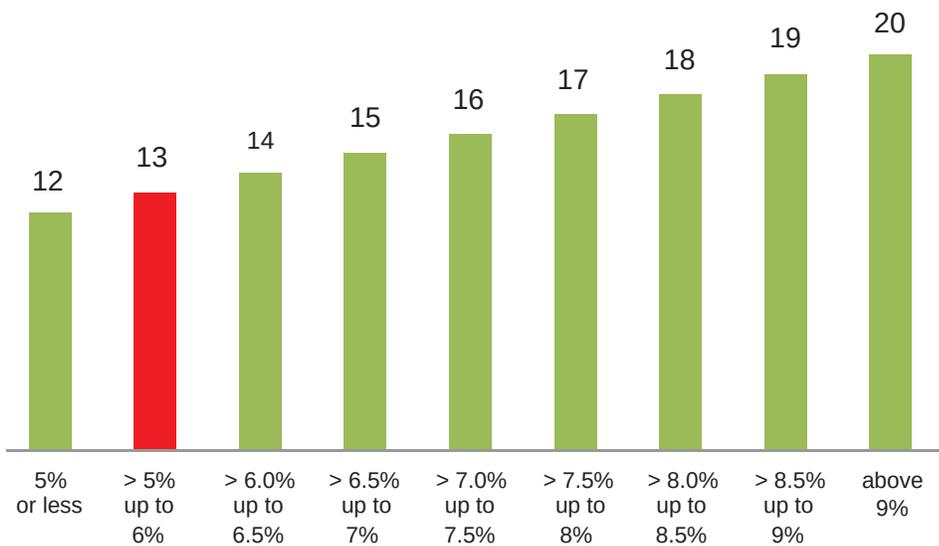
through no fault of their own can receive up to 26 weeks of unemployment insurance payments. North Carolina now provides no more than 20 weeks.

And now the maximum length for receiving UI payments is allowed to fluctuate, according to the statewide unemployment rate. That means right now North Carolina's jobless workers can receive a maximum of only 13 weeks until the duration is reset again based on January 2016 data (see Figure 2).

The December 2015

Under the previous system in North Carolina, as in most other states, workers who lose their job

FIGURE 2: Maximum duration of unemployment insurance now tied to state unemployment rate



SOURCE: House Bill 4,

state unemployment rate was 5.6 percent, an increase over the prior year, meaning that the six-month calibration of maximum weeks lags economic conditions statewide. It also fails to reflect the variation in job opportunities across the state. In that same month, 55 North Carolina counties had unemployment rates higher than the state rate. In 14 counties, the unemployment rate was a full two percentage points higher than the state rate.⁶

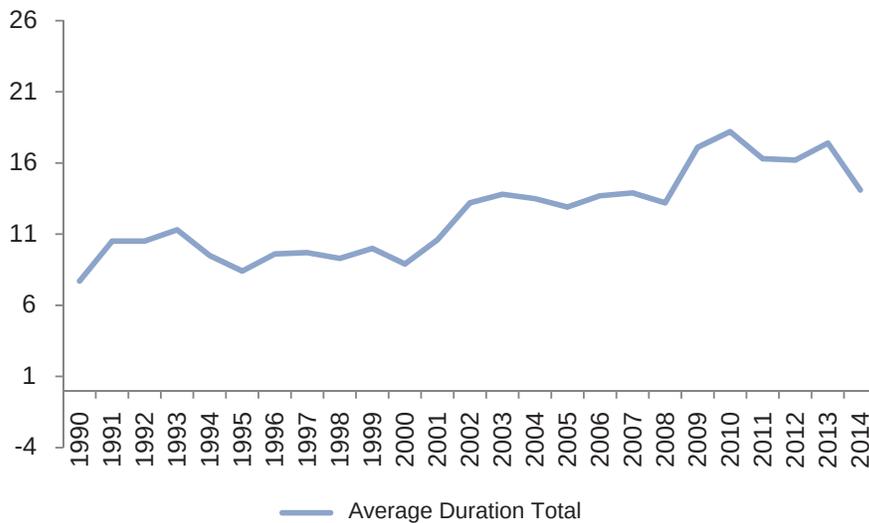
In part because the state unemployment rate fails to capture the economic realities in communities across the state, the unemployment rate itself should not be the only indicator used to assess the health of the labor market. Measures like employment to population levels and labor force participation levels are critical to understanding the degree to which jobless workers are finding work and staying engaged in looking for work. Another measure that is helpful to assess the level of job opportunities in counties is the ratio of jobless workers to job openings produced by the state Department of Commerce. In December 2015, 50 of North Carolina’s 100 counties reported two or more jobless workers per job opening.⁷ This means that even if every jobless worker in those counties found a job there would still be one jobless worker without employment.

In sum, basing the maximum duration of UI payments on the average unemployment rate works against many unemployed persons and their communities—and the goal of moving people to employment. First, conditions vary across the state as evidenced from the data above. So someone could live in an area of unemployment much higher than the state as a whole and would lose unemployment insurance because of it. Second, a declining state unemployment rate at any given time does not necessarily

signal an improved labor market overall. The unemployment rate can decline—as it did in 2014—primarily due to people giving up on finding a job (and no longer being counted as unemployed), not an increase in people working. And third, certain groups of jobless workers may find it more difficult to find work quickly due to the need for skill upgrades and their age, for example.

A set maximum number of weeks at a level sufficient to cover the duration on unemployment insurance of the

FIGURE 3: Weeks receiving unemployment insurance for the average jobless worker tracks availability of jobs



SOURCE: US Department of Labor, ET Financial Data Handbook 394 Report, North Carolina, 1990 to 2014.

average jobless workers is a better policy. Most states provide UI payments for a maximum of 26 weeks. It is clear that North Carolina’s average duration has been responsive to economic conditions. When jobs are available—as they were in the 1990s—jobless workers will move to employment quicker than when they are not (see Figure 3). This suggests that artificial thresholds don’t make it more likely people will go back to work. Instead, they undermine the ability of the system to help families get by until work is available.

North Carolina UI system ill-equipped for today’s economic realities

The economic transition in North Carolina from manufacturing to service employment, the decline in middle-wage jobs, changing demographics of the workforce and the urbanization of growth prompted North Carolina to modernize unemployment insurance in the 1990s. Many of those reforms were repealed in 2013 and additional barriers were erected.

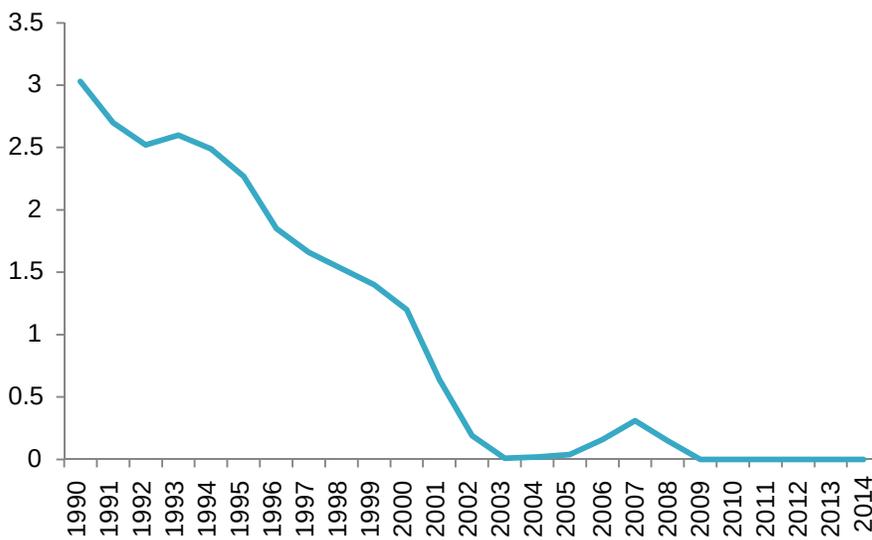
The prospects of technological unemployment and a future of work where the relationship between employers and employees is changed presents challenges for designing an unemployment insurance that serves to stabilize the economy. As technology evolves, there could be significant loss of occupations due to automation that will create more frequent and longer spells of unemployment.⁸

Two particularly important barriers to effective functioning of the unemployment insurance system under these emerging economic trends are the length of time people have to wait for UI payments and the lack of integration and funding for skills training to help people move to new occupations. The 2013 changes make North Carolina the only state to require jobless workers to wait a week before they receive unemployment insurance each time that they make a claim. And, the lack of dedicated funding to help jobless workers receiving unemployment insurance get retrained for new occupations—and specifically to receive an industry-recognized credential that requires skills training for more than 13 weeks would allow—hurts the state’s ability to help people adapt to the changing opportunities in the labor market. Both of which will be critical as the future economy is transformed by automation.

It is time to build a solvent and balanced unemployment insurance system

During the Great recession, North Carolina was among many states that had to borrow money from the federal government to make UI payments. The state paid back the money, primarily through reducing UI benefits to jobless workers. Now the state needs to turn its attention to reassess the current approach and make changes that will finance a UI system that meets the state’s economic needs.

FIGURE 4: North Carolina’s Trust Fund is not solvent



SOURCE: US Department of Labor, Annual Program Performance Data, North Carolina.

Unemployment insurance systems work by collecting unemployment insurance payroll taxes from employers whose contributions to a Trust Fund allow the system to pay unemployment insurance when joblessness is high. The ideal financing method is to establish adequate reserves in good times so that funds are available to pay benefits without significantly changing the tax structure for employers in a downturn.

In order to build a financing system that is forward financed, it is

necessary to address the rules that trigger UI tax cuts for employers. Under current law, a second employer tax cut (the first came in 2015) will occur once the Trust Fund reaches a reserve ratio where it has \$1 for every \$1 in insured wages in the economy. Such a threshold is too low to ensure the system can provide adequate temporary wage replacement and or even sustain existing payments without borrowing in a future downturn. Economists generally point to a reserve ratio that represents \$2 for every \$1 in insured wages as healthy.⁹ This reserve ratio is based on what is needed to cover wages in the economy—a floor to prevent the bottom from falling out when people lose jobs through no fault of their own and shrink their spending. Such a reserve ratio would require North Carolina to have at least \$3 billion in reserves.¹⁰ Today it has more than \$1.3 billion in reserves. North Carolina's reserve ratio plummeted beginning in the 1994, despite the recovery from the 1991 recession taking hold, due to the pursuit of a series of cuts to the state unemployment insurance tax for employers (see Figure 4).

There are other ways to measure the solvency of an unemployment insurance system by taking into account historic experience in paying out benefits so that the system can cover workers during periods of high job loss. One such measure, called the Average High Cost Multiple (AHCM), is the average of the three most recent high cost calendar years that include either 3 recessions or at least 20 years' history. While proponents of the drastic reductions in unemployment insurance benefits would argue that this measure is meaningless under the new normal where UI payments to jobless workers has been so reduced, it is important to note that the system prior to the 2013 cuts represented the middle of the road relative to other states. Furthermore, the changing nature of the economy and the severity of the last downturn suggest a more fiscally responsible approach is needed to avoid future borrowing. This solvency measure should therefore also inform decisions about the balance needed in the Trust Fund to effectively meet the mandate of ensuring jobless workers have adequate wage replacement to stabilize the economy. The Advisory Council on Unemployment Compensation, a federal advisory panel, recommended in 1995 that states maintain a pre-recession AHCM of 1.0. To reach that threshold in North Carolina in 2016, the Trust Fund would need to have a balance of \$2.6 billion.

There is much work to be done to establish an effective unemployment insurance system in North Carolina. Despite the campaign season rhetoric, North Carolina's recent policy changes have hurt jobless workers and their communities and left the state with less support to prepare for a strong economic future.

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