

The Legacy of House Bill 4: North Carolina's Unemployment Insurance Program Is No Longer Working

Presentation by National Employment Law Project

North Carolina Justice Center

April 7, 2016



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Characteristics of an Effective Unemployment Insurance Program

The primary goal of unemployment insurance (UI) is to provide workers who lose jobs involuntarily with partial wage replacement that will:

- Allow workers to meet basic necessities of living for themselves and families (e.g. housing, food, transportation)
- Allow workers to conduct an active search for a new job that is as close a match as possible to job they lost for a reasonable period of time
- Minimize disruption in local economies (e.g. stimulate spending, avert foreclosures and evictions, prevent fall into poverty, promote best possible employment outcomes).

HB4 Dramatically Reduced the Capacity of UI to Help Unemployed NC Workers

- **Lower Maximum.** HB4 reduced maximum benefit amount from \$535 (with indexed increase) to \$350 weekly (*without* indexing)
 - The maximum benefit of \$350 represents 40% of NC's average weekly wage (\$869)
- **Lower Average Benefits.** HB4 changed the formula for calculating weekly benefit in a way that was designed to substantially reduce average weekly benefit
 - In 2012, average weekly benefit amount was \$298; today the average benefit is \$235 (a reduction of 21%)
- **Less Weeks.** Before HB4, eligible unemployed workers could receive up to 26 weeks of benefits; today that maximum is 13 weeks

How HB4 Reduces Weekly Benefits for Most UI Claimants

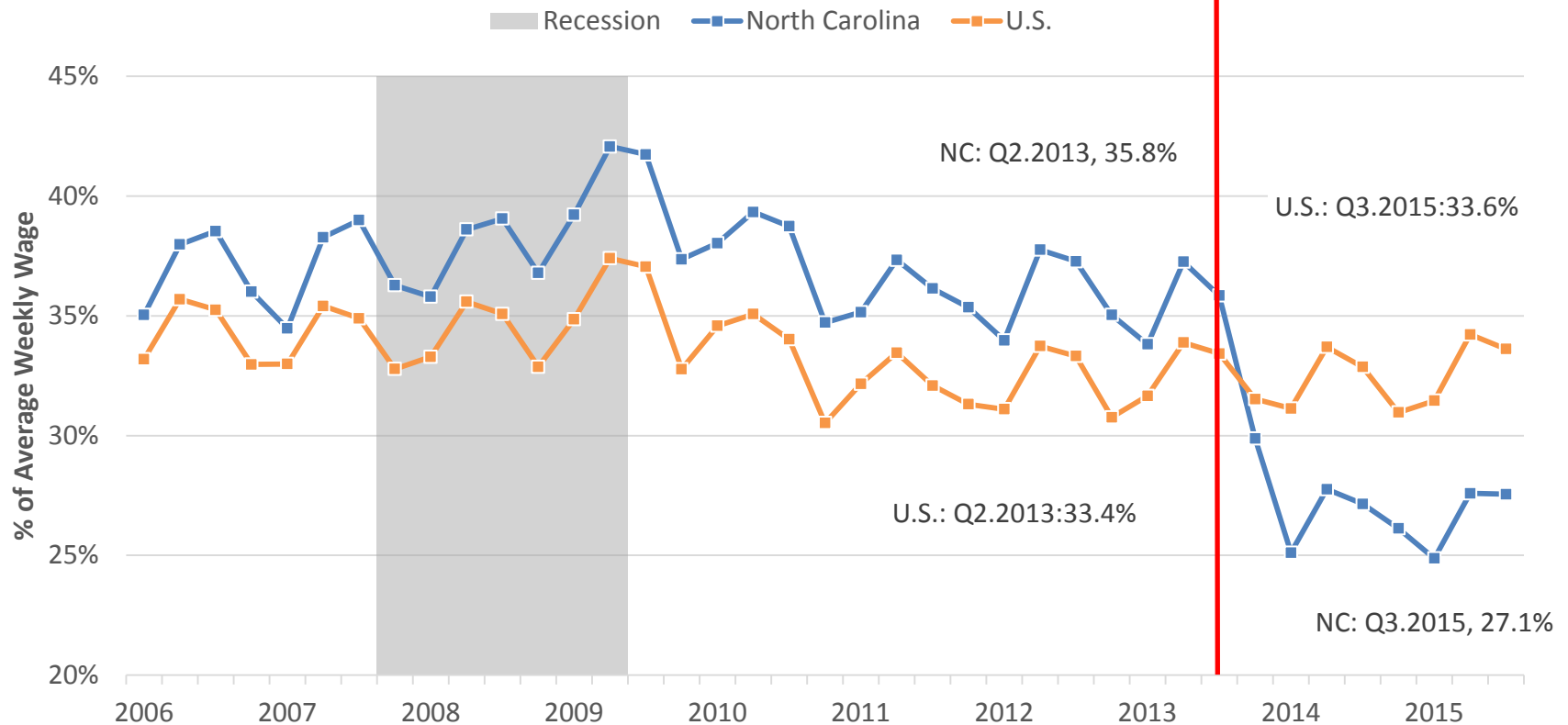
- Formula should aim to provide 50% of pre-layoff weekly earnings
- Most common means to that goal is to divide highest quarter earnings in base period by 26 (23 states)
- 2nd most common approach is to average 2 highest quarters (17 states)
- HB4 averages ***last 2 quarters*** in base period (even if no wages)- no other state uses this formula; arbitrarily depresses benefits based on recent wage decline; disproportionately impacts workers with repeated bouts of unemployment, temporary and part-time workers
- \$350 maximum reduces benefits for any worker averaging more than \$700 per week in wages

HB4 Moves Wage Replacement Value of UI in NC from Middle to Back of the Pack Nationally

- The combined impact of the dramatic reduction in the maximum benefit and a new restrictive benefit formula that no other state uses has eviscerated the wage replacement value of UI for NC jobless workers.
- **Average Benefit.** Today, NC's average weekly benefit of \$235 ranks 46th in US (national average is \$328).
 - In 2012, average benefit of \$298 ranked 25th in US
- **Replacement Rate.** Today, NC average weekly benefit replaces 27% of state's average weekly wage (43rd in US)
 - In 2012, average benefit replaced 36.6 % of average weekly wage (21st in US)

NC's Average Weekly Benefit Amount Now Replaces Much Lower Share of State Average Weekly Wage

% of Average Weekly Wages Replaced by Average Weekly UI Benefits in NC and the U.S., by quarter, Jan. 2006 to Feb. 2016



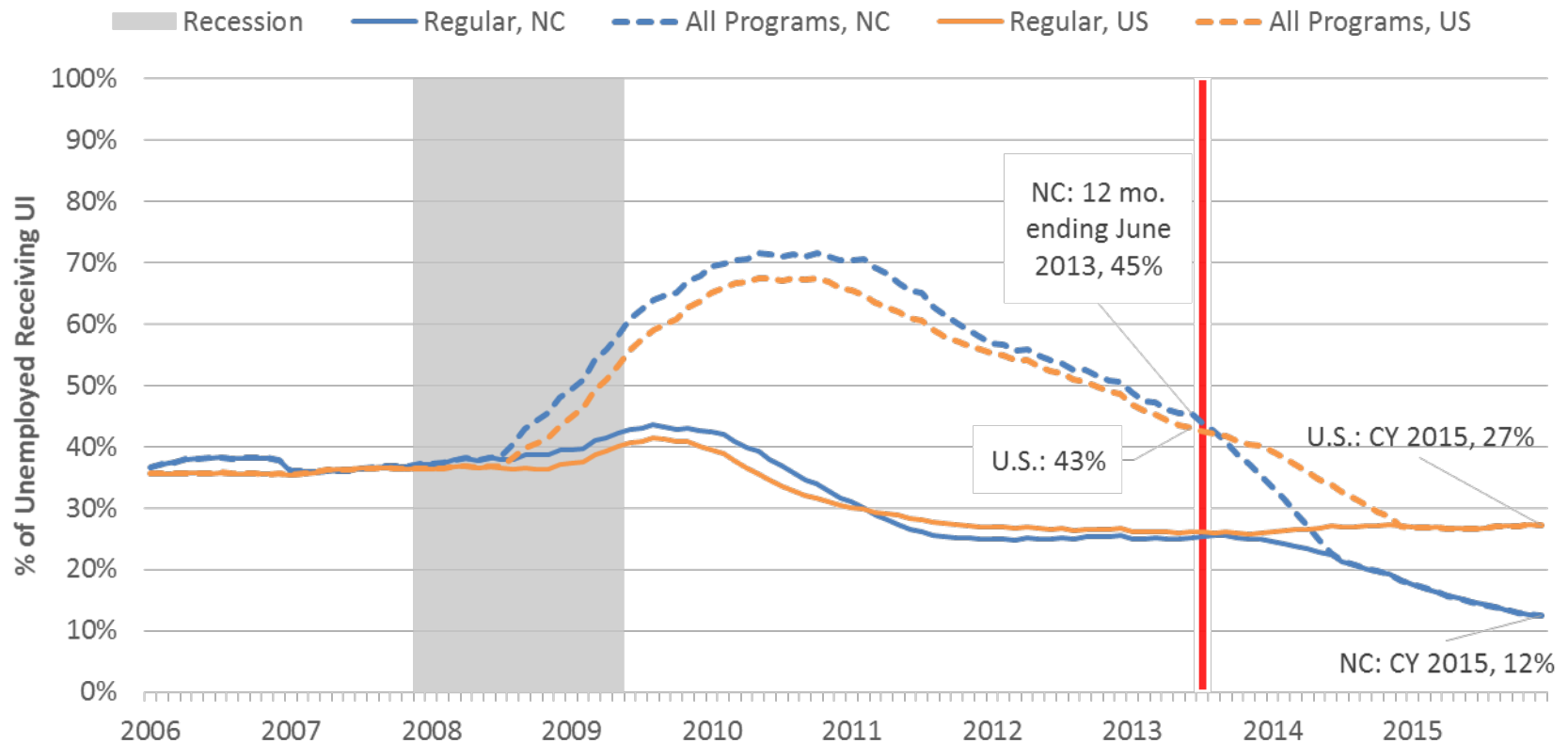
Source: NELP calculations of NC and U.S. average weekly wage data, by quarter, from the Quarterly Census of Employment and Wages, and average weekly benefit data from ETA report 5159, USDOL/ETA-OUI. Average benefit amounts cover State UI only and apply to total unemployment.

Since HB4, UI Reciprocity Has Plummeted in North Carolina

- In 2012, 24% of unemployed NC workers were receiving state UI benefits and (and another 25% were receiving federal EUC benefits)
- Since HB4, the percentage of unemployed workers receiving UI benefits has dropped to 12%
- This is the 2nd lowest UI reciprocity rate in the nation (Florida is last at 11%)
- The national UI reciprocity rate is 28%

Fewer than 1 in 8 Jobless North Carolinians Receives UI--Less than Half the U.S. average

% of Jobless Workers in NC and the U.S. Receiving UI Benefits, 12-month moving average, Jan. 2006 to Dec. 2015

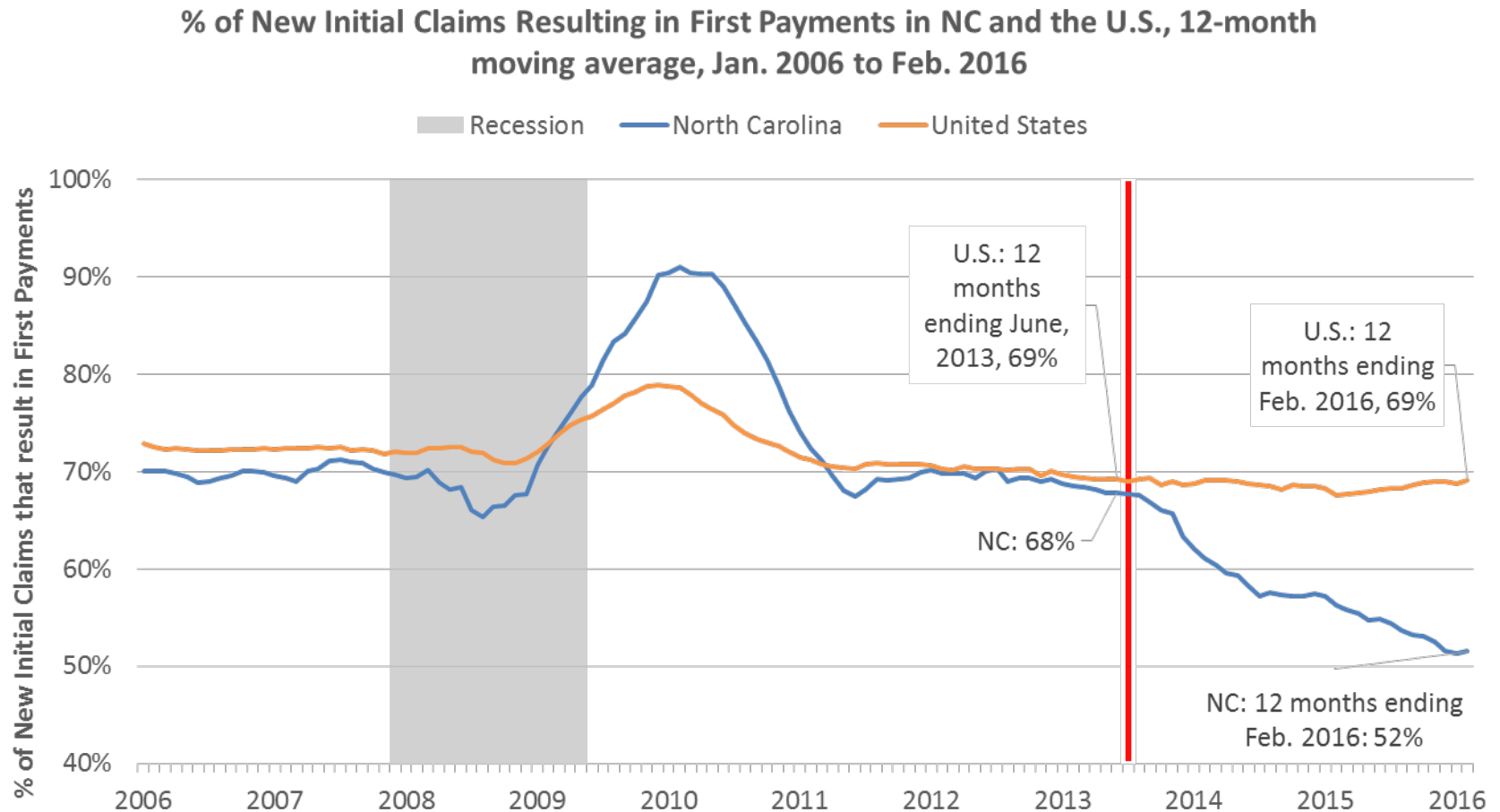


Source: NELP calculations of monthly UI continued claims from ETA report 5159, USDOL/ETA-OUI, and monthly NSA unemployment data from Bureau of Labor Statistics. Regular programs include State UI, UCFE, and UCX; all programs include all regular programs plus federal extensions and Extended Benefits.

Why Are Only 1 in 8 Jobless NC Workers Receiving Unemployment Insurance?

- Likely factors driving drop in UI reciprocity include:
 - Reduction in maximum weeks from 26 to 13
 - Elimination of alternate base period (recent workforce entrants)
 - More restrictions on personal reasons for leaving employment
 - New benefit formula, multiple waiting weeks
 - disproportionately impact workers with repeated bouts of unemployment and workers in part-time and temporary industries
 - Access Issues (increase in process disqualifications, reporting requirements)

HB4 Dramatically Reduced the Share of New UI Applications that Result in First Payments



Source: NELP calculations of ETA 5159 data, USDOL/ETA-OUI. Due to data limitations, new initial claims and first payments are limited to intrastate claims for State UI benefits. Interstate claims, and claims for the UCFE and UCX programs, are excluded.

Cutting Available UI Benefits Leaves Large Numbers of Unemployed Without Income

- Prior to July 2013, NC UI program provided up to 26 weeks of UI benefits (like 42 other states). Average duration of unemployment in NC was 41.8 weeks in 2012 and 2013.
- Effective July 1, 2013, HB4 implemented a sliding scale maximum tied to state unemployment rate (12 weeks of benefits when rate is 5% or less up to 20 weeks when rate is over 9%).
- Today, NC provides maximum of 13 weeks, 2nd lowest in nation (Florida maximum is 12 weeks).

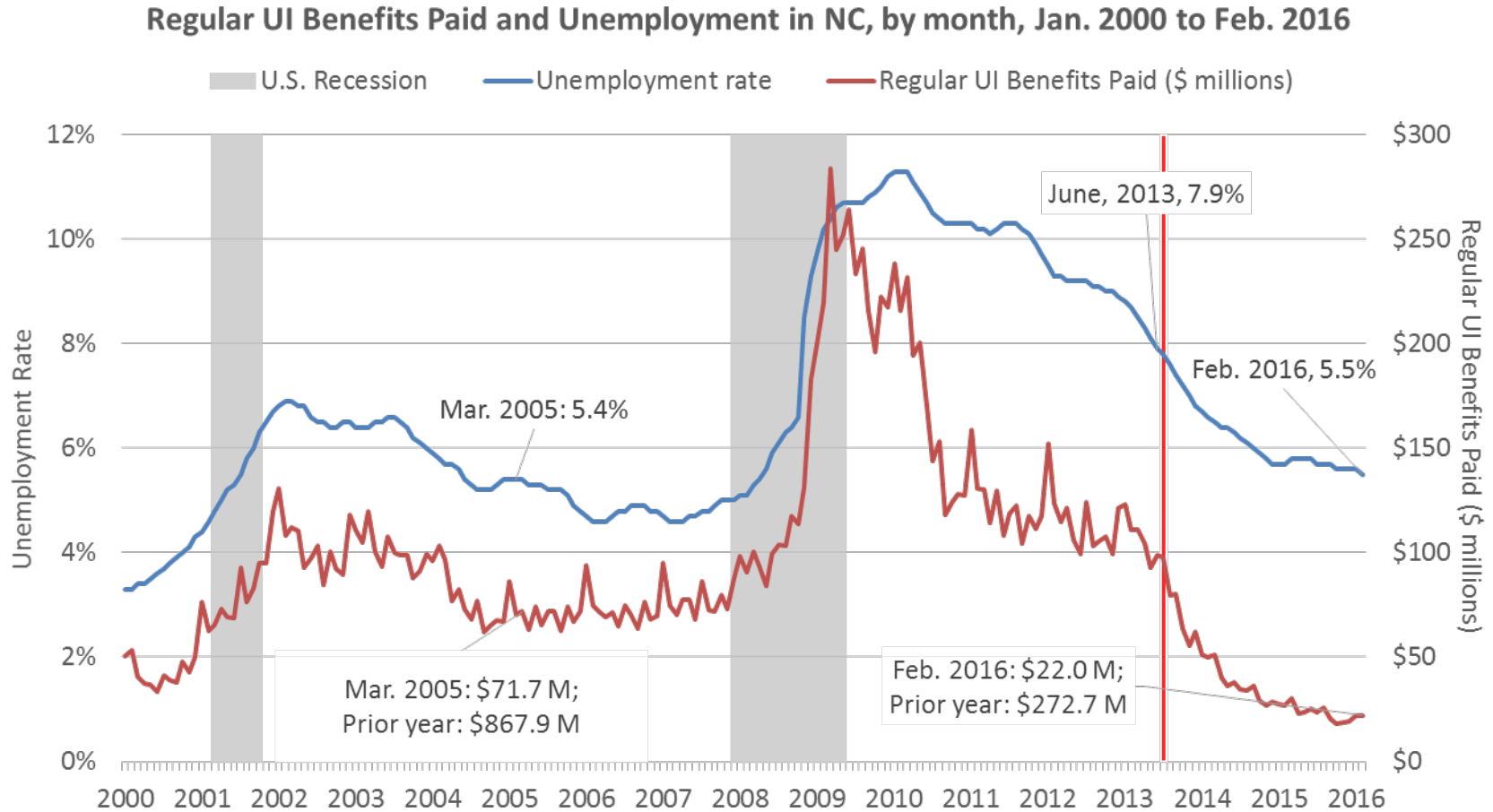
HB4 Undermines Role of UI in Helping Unemployed NC Workers Find Good Jobs

- Studies show that UI helps keep unemployed workers attached to the labor market
- Immediately before HB4, roughly 50% of NC claimants exhausted 26 weeks of state UI benefits without finding new employment
- Even with lower unemployment rate, 48.7% of NC claimants currently exhaust 13 weeks of state UI benefits without finding new job (4th highest rate in US)
 - Nationally, the rate at which UI claimants exhaust state benefits has dropped from 45% to 38% in this same period

Honey, I Shrunk the UI Program: HB4 Decimated Any Stimulative Impact of UI Benefits on NC Economy

- **UI stimulates local economies.** Each UI dollar generates \$1.55 in economic activity. (Zandi, Moody's Economy.com)
- **Recession Performance.** NC paid more than \$1 billion annually in state UI benefits from 2008-2013 (\$2.7 B in 2009)
- **Program immediately cut nearly in half.** In first year after enactment (July 2013-June 2014), UI payouts in NC declined from \$1.24 billion to \$673 million (a 45% decrease during year when unemployment rate dropped 1.5 points or 13%).
- **Long-term effects far worse.**
 - In 2005 when unemployment rate was under 5.4 %, NC UI program put \$867M into state and local economies.
 - In last year (ending Feb.2016) with comparable unemployment rate (5.5%), NC UI program paid \$273M –less than 1/3 of 2005 payout.

UI Benefits Paid in NC Disproportionately Low Relative to State's Unemployment Rate



Source: NELP calculations of ETA 5159 benefits paid data, covering State UI, UCFE, and UCX programs. Monthly SA state unemployment rate data are from BLS.

North Carolina UI Program Measures Before and After House Bill 4

	2012	2015
<u>Average Benefit</u>	\$298 (25)	\$235 (46)
<u>Replacement Rate</u> (Benefit as % of average wage)	36.6% (21)	\$27.1% (43)
<u>Reciency Rate</u> (% of unemployed receiving UI)	24% (35)	12% (51)
<u>Maximum Weeks</u>	26	13
<u>Average Duration</u>	16.2 wks (29)	11.0 wks (52)
<u>Exhaustion Rate</u> (% of claimants exhausting UI without finding job)	54.4% (6)	47.6% (4)

Even as Program Shrinks, State's Delivery of UI Benefits Slows

- US Supreme Court has held that for UI program to serve its purpose under the Social Security Act, benefits must be delivered in a timely manner (“when due”)
- Federal standard: 87% of first payments must be made within 3 weeks of applying for benefits.
- In 3 years before HB4, NC made 82.4% of first payments timely (34th in US)
- Since HB4 became effective in July 2013, NC ranks last in the nation in first payment timeliness (64.3%)
- Cases requiring adjudication have average turnaround of 5 weeks (Dept. of Commerce report – 2/3/16)

HB4 Was Too Extreme and Overshot its Mark; NC UI Program Now Far Outside Mainstream

- Business interests were served by HB4:
 - Debt has been repaid
 - Increased FUTA taxes eliminated
 - Trust Fund being replenished
 - Benefits program is serving less than 1 in 8 unemployed and paying out third of benefits in comparable pre-recession period
- All aspects of program that benefit workers and help economy have been badly damaged, ranking NC at or near the bottom in every measure of program efficacy
- NC UI program will be ineffective in next downturn
 - Less weeks will mean less federal help
 - Long-term unemployed will suffer more, lapse into poverty more quickly

Time to Restore Balance & Equity: A Checklist for Change

- Before redistributing Trust Fund revenues into more employer tax cuts, NC executive & legislature need to review the consequences of HB4 and identify measures to restore balance
- **Checklist for change:**
 1. **Increase maximum duration of benefits** - 42 states pay 26 weeks; 3 states (MI, SC, ARK) never pay less than 20 weeks
 2. **Increase maximum benefit/index to wage increases**
 3. **Change benefit formula** from last 2 base period quarters- 23 states use highest quarter (23 states); 17 states use average 2 highest quarters
 4. **Review impact of other HB4 changes on reciprocity**

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