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UNEMPLOYMENT INSURANCE:

Changes Harm Jobless Workers, Broader Economy

BY ALEXANDRA FORTER SIROTA, *Director*, **and SABINE SCHOENBACH,** *Policy Analyst*

MEDIA CONTACT:

ALEXANDRA FORTER SIROTA

919/861-1468
alexandra@ncjustice.org

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north carolina
JUSTICE CENTER

P.O. Box 28068
Raleigh, NC 27611-8068

www.ncjustice.org

Cuts to unemployment insurance in North Carolina have made it harder for jobless families to make ends meet and get back on their feet in an economy that is still providing too few jobs to go around. Contrary to what proponents of the cuts claim, a recent decline in unemployment in North Carolina is largely driven by people leaving the workforce because they cannot find jobs, not due to employment growth. And far from helping the state's economy, the cuts have left thousands of North Carolinians with less money to spend on food, clothing and other necessities, which also harms local businesses.

Specifically:

- The average weekly benefit for unemployed North Carolinians plunged to $245.98 in December 2013, from $301.89 in June, the month before the new law started taking effect. Over the course of a month, the cut means an average of $224 less for a family hit by unemployment, equivalent to a family of two's monthly food budget.

- The recent drop in North Carolina's unemployment rate is largely due to people leaving the workforce because they can't find jobs, not due to significant job growth. Only 11 percent of the decline in unemployment is due to people getting jobs.

- Fewer than two in 10 unemployed workers in North Carolina are receiving unemployment insurance, and the recipiency rate declined by 13.2 percent in North Carolina from November 2012 to November 2013, compared to only a 4.7 percent drop for the nation as a whole. The drop in recipiency may be related to fewer claimants entering the system due to more restrictive eligibility rules, more people leaving the system due to fewer weeks available or more restrictive "suitable work" requirements.

- Permanent benefit cuts and an almost sole reliance on temporary increases in employer contributions are a result of this legislation. Permanent state tax changes represent just a $24 million increase for employers, even though reductions in their previous contributions to the state's unemployment fund were a major reason North Carolina ran out of money to pay benefits during the recession and had to borrow federal funds.

- Unemployed North Carolinians are shouldering two-thirds of the cost of paying back money the state had to borrow from the federal government to pay unemployment benefits at the height of the Great Recession. Employers are contributing only 22.5 percent to the repayment.

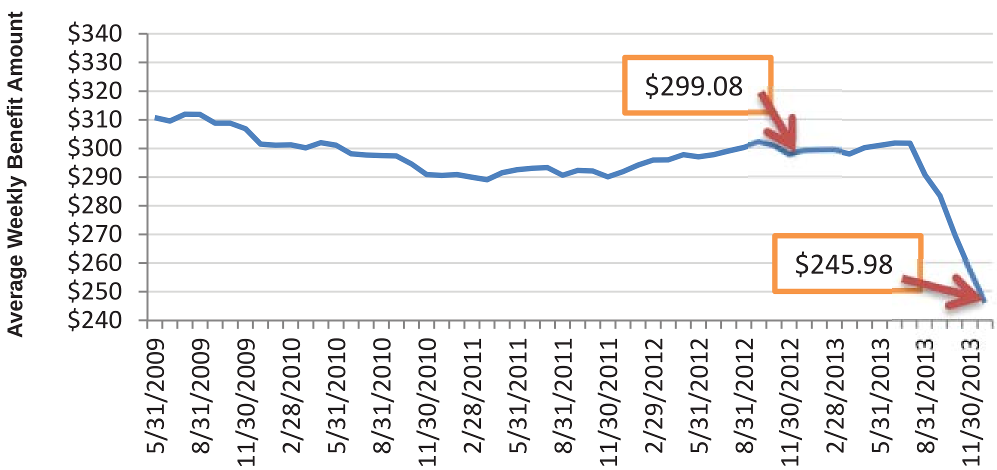
- Nearly 30 percent of unemployed North Carolinians aren't getting their benefits in a timely manner. While federal guidelines suggest that at least 87 percent of unemployed workers should get their first benefits within two weeks after the week ending date of the first compensable week, only 71.4 percent are in North Carolina.

Unemployment insurance payments are declining

The average weekly benefit amount has been sharply decreasing since the third quarter of 2013. The average benefit was $245.98 in December 2013 compared to $301.89 in June of the same year (see Figure 1) and $299.08 in December 2012.[1] The decline is likely driven by the changes to North Carolina's unemployment insurance (UI) system, as the drop-off lags slightly the implementation of HB4 in July 2013.

The new law made two major changes to the way North Carolina calculates weekly benefits. First, it caps the maximum weekly benefit at a flat $350 per week.[2] Previously, North Carolina's maximum benefit was indexed to 66.7 percent of the state's average weekly wage, which allowed unemployment compensation to keep pace with wage growth and cost-of-living increases. Most states base their maximum unemployment benefit on the average weekly wage, and it is widely recognized as the most effective way to determine the benefit.[3]

FIGURE 1: The Average Weekly Benefit Amount (AWBA) in December 2013 was 18 percent less than the amount one year prior



SOURCE: US DOL Employment & Training Administration, Monthly Program and Financial Data

Also, North Carolina became the first state in the nation to calculate benefits based on the last two completed quarters of earnings.[4] The vast majority of states calculate benefits using either a high quarter method, in which benefits are determined as a fraction of wages in the highest-earnings quarter, or an average of the two highest quarters. These calculations are designed to reflect workers' customary full-time work and earning patterns. North Carolina's new method of calculating benefits is likely resulting in lower benefits for workers who have varied earnings due to irregular schedules, reduced hours, or seasonal fluctuations.

Even before the unemployment compensation cuts, North Carolina's average weekly benefit amount was in the middle of the pack compared to other states, ranking 25th in the nation during the second quarter of 2013.[5] The following quarter, during which the new law took effect, North Carolina's average weekly benefit dropped to 29th in the nation.[6] (The ranking for the final quarter ranking of 2013 has not been released yet, but given the earlier decline in North Carolina's benefits, the state may sink even lower.)

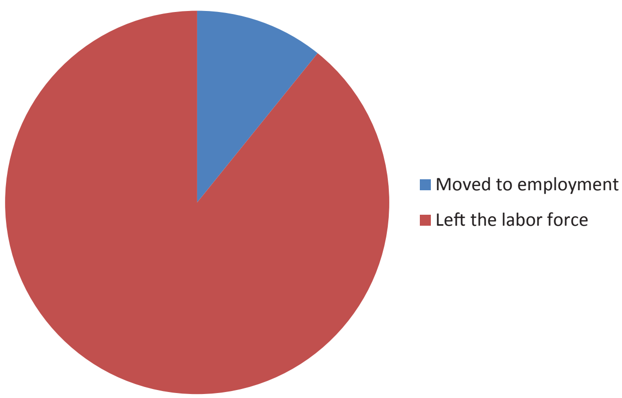
The average benefit decrease from June to December translates to a loss of $224 per month, a decline that does real harm to jobless workers who are already stretching their savings to cover basic needs. The cut is equivalent to a conservative estimate of a monthly food budget for a family of two in North Carolina.[7]

With jobs still scarce, unemployed are leaving labor force

Unemployed men and women in North Carolina face a stark reality: There simply are not enough jobs to go around. About 65,000 jobs were created in North Carolina in 2013, lower than net job growth in 2012.[8]

The recent drop in the state's unemployment rate is largely due to discouraged people stopping their job hunt, which means they are no longer included when the unemployment rate is calculated. Only 11 percent of the decline in the unemployment rate over the past year is due to people getting jobs; the other 89 percent is due to people leaving the workforce. (See Figure 2).

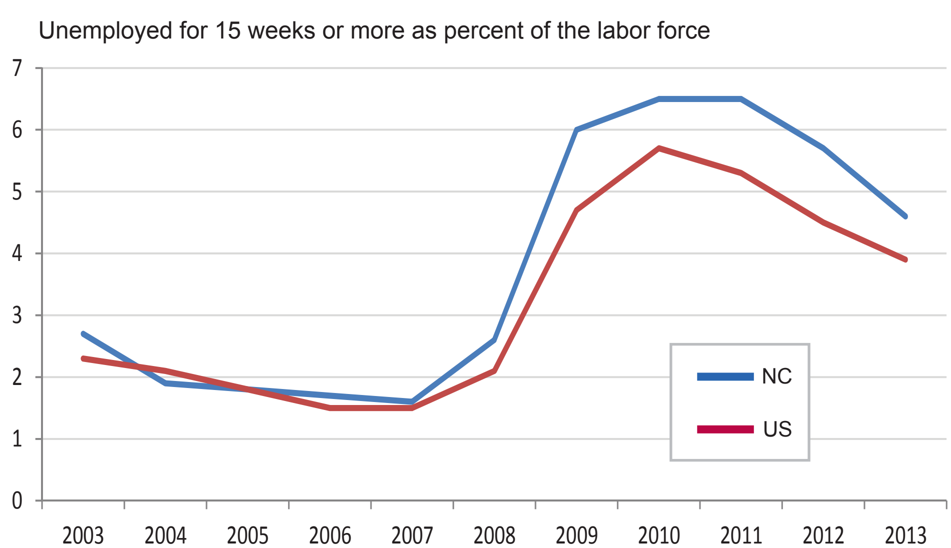
FIGURE 2: **Drop in Unemployment in North Carolina Driven by Discouraged Workers Leaving Labor Force**



SOURCE: Local Area Unemployment Statistics, December 2012 to December 2013

Some have claimed that unemployment insurance itself is to blame for high unemployment. But in the past decade, before benefits were cut and jobs were more plentiful in North Carolina, the share of workers experiencing longer periods of unemployment was lower and tracks the national trend. (See Figure 3). Moreover, unemployment insurance plays a powerful role in keeping jobless workers looking for work, particularly during recessions and slow economic recoveries like the one we are experiencing. Evidence from the Great Recession shows those who have seen their insurance payments end have stopped looking for work.[9]

FIGURE 3: **Long-term unemployment in North Carolina spiked after last recession**



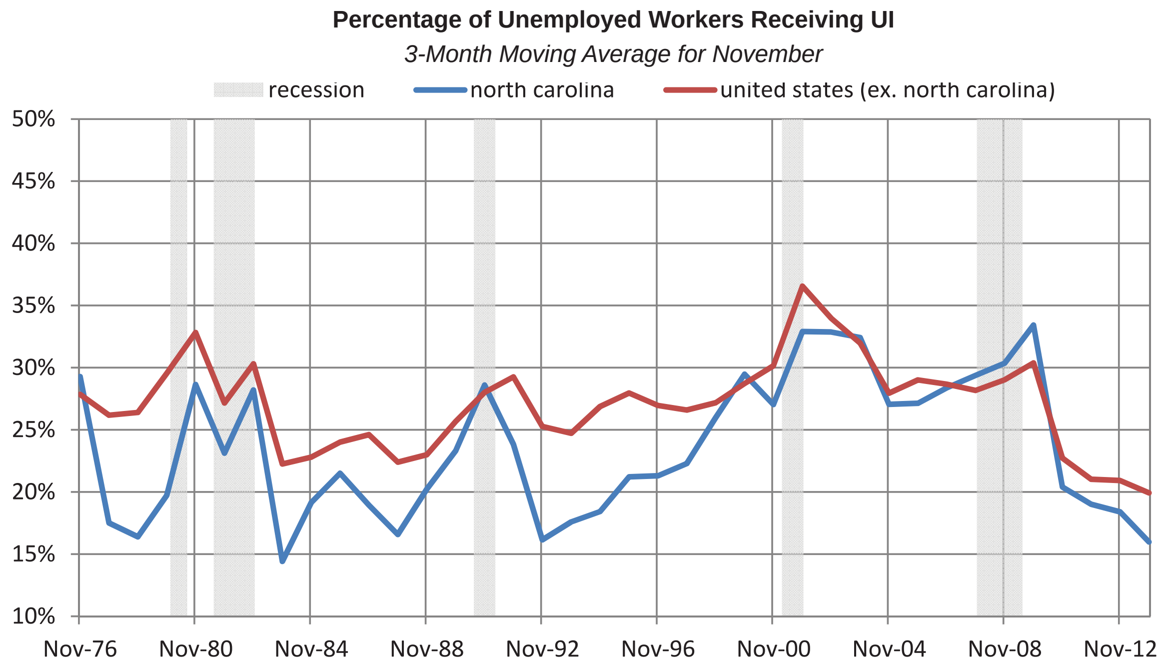
SOURCE: Bureau of Labor Statistics, Alternative Measures of Labor Underutilization for States, Annual Averages

North Carolina's unemployment insurance recipiency rate is low and falling

The percentage of unemployed workers actually receiving unemployment benefits, known as the "recipiency rate," is one of the most common measures used to evaluate the effectiveness of a state's unemployment insurance program. A low rate can indicate that unemployed workers are falling through the cracks of the system. Currently, not even 2 in 10 unemployed workers receive unemployment insurance in North Carolina.

It is not unusual for the recipiency rate to increase during a recession, along with layoffs, and decrease during an economic recovery, when layoffs decrease and a smaller share of the unemployed are eligible for benefits.[10] However, North Carolina's recipiency rate is falling faster than the U.S. average. From November 2012 to November 2013, there was a 13.2 percent drop in North Carolina's recipiency rate, compared to a 4.7 percent drop for the U.S. (See Figure 4).

FIGURE 4: NC's recipiency rate appears to be falling at a greater rate than the U.S. average



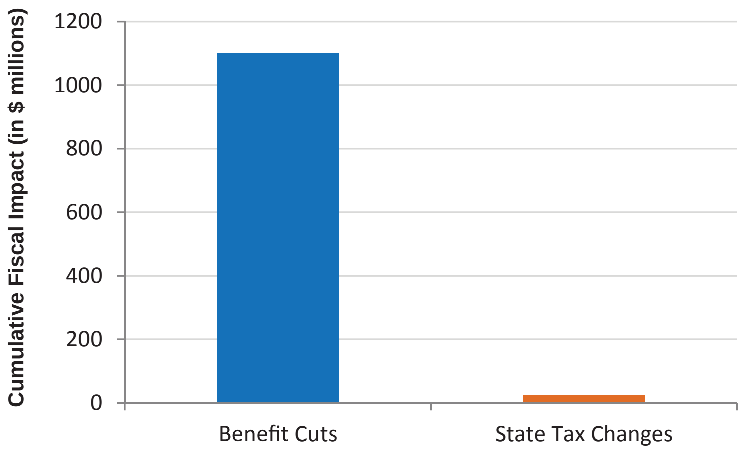
SOURCE: NELP analysis of Current Population Survey, LAUS, and UI weeks claimed and compensated

The drop in recipiency may be related to fewer claimants entering the system due to more restrictive eligibility rules, more people leaving the system due to fewer weeks available, or more restrictive "suitable work" requirements. HB4 repealed three qualifying 'quit' provisions – circumstances under which workers quit but remain eligible for benefits – and created more restrictive requirements on what is considered "suitable work." After the 10th week of unemployment, suitable work is now defined as any employment offer paying 120 percent of the weekly benefit amount. For a worker receiving the average weekly benefit amount, that would mean taking a job that pays $15,000, poverty wages, regardless of prior earnings, skills or training. It will remain important to monitor the recipiency rate as the full impacts of the implementation of HB4 become apparent.

Debt levels drop due to benefit cuts, employer contributions to fall

North Carolina failed to adequately finance its unemployment insurance system before the 2001 and 2008-09 recessions. A series of cuts in the unemployment taxes paid by businesses in the 1990s left the trust fund used to pay benefits at risk of insolvency with even a modest downturn.[11] The unprecedented job loss of the Great Recession

FIGURE 5: **Permanent changes to the unemployment insurance system are lopsided.**



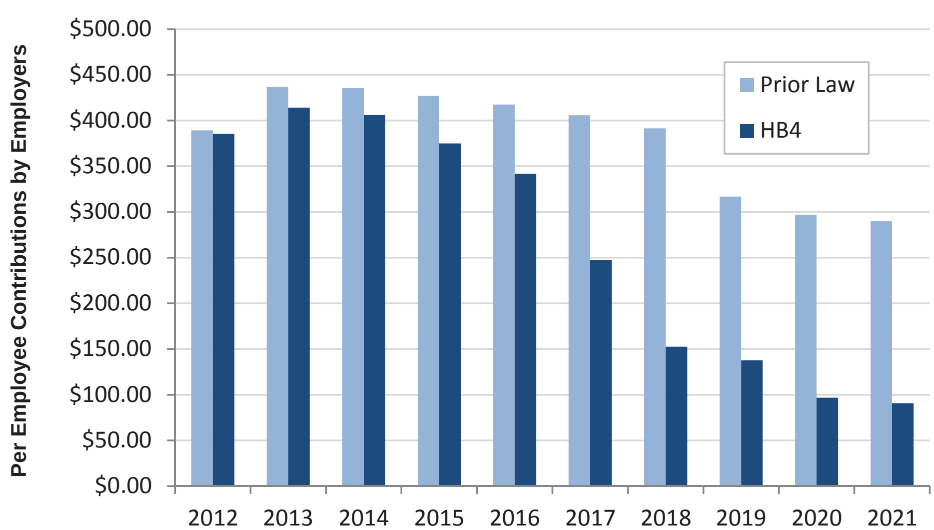
SOURCE: Fiscal Research Division, Impact by Individual Change, January 2013.

required the state to borrow from the federal government to make its required payments to workers who had lost their jobs through no fault of their own.

Proponents claim that benefit cuts were necessary to pay down the debt. However, policymakers opted for permanent reductions to benefits and chose to implement those benefit cuts earlier than tax changes. From employers, policymakers primarily rely on temporary federal tax increases, amounting to $800 million over three years, to achieve solvency. In the long-term, businesses will see significant reductions in their state unemployment insurance taxes, however, and jobless workers will receive fewer benefits. The result is that unemployment insurance will not be adequately funded to weather future downturns nor will it be capable of serving as a stabilizer in the economy.

Benefit reductions represent two-thirds of the unemployment law changes that are aimed at reducing the debt, while employers are responsible for only 22.5 percent, primarily via temporary federal taxes (See Figure 5).[12] Benefit cuts — resulting from changes to the way benefits are calculated, a drop in the maximum number of weeks unemployed workers can receive benefits and a reduction in the maximum amount of benefits -- will total $1.1 billion by 2017, when the state's unemployment insurance system is expected to be solvent.

FIGURE 6: **Employer contributions are projected to fall considerably under similar economic conditions**



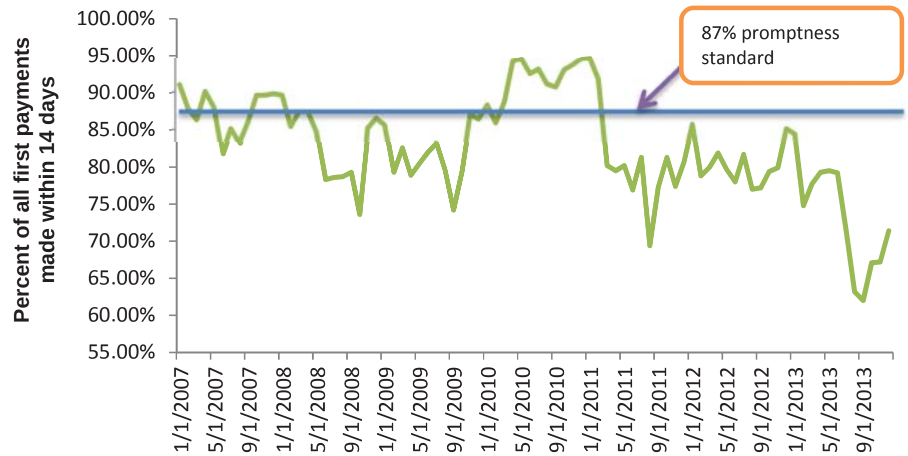
SOURCE: Contribution projections are from the Upjohn Institute analysis of HB4 and projections on covered employment are based on historic data from the Bureau of Labor Statistics

Employer contribution per employee will fall to only one-third of the level projected under prior law, based on our calculations using estimates by the Upjohn Institute of contributions by employers and projections on the growth in covered employment. Even before the new law, North Carolina employers paid less to fund unemployment insurance than their counterparts in most other states, with their contributions ranking 30th in the nation.

First Payment promptness is dropping

Proponents also claimed that the unemployment insurance changes would make the payment of benefits more efficient. However, more North Carolinians are now experiencing a lag in receiving their first benefit payments.[13]

FIGURE 7: **First payment promptness has fallen below the federal standard and seems to be trending downward**



SOURCE: US DOL Employment & Training Administration, Benefits Timeliness and Quality (BTQ) Reports of State Workforce Agencies

FIGURE 8: **North Carolina's percentage of first payment promptness has fallen below the US average**

All First Payments - 14/21 day Timeliness	NC Percentage	US Percentage	Percentage Point Difference
July to September 2009	79.2	79.7	-0.5
October to December 2009	84.7	81.5	3.2
January to March 2010	87.7	82.7	5
April to June 2010	93.9	82.9	11
July to September 2010	91.7	80.2	11.5
October to Decemter 2010	93.8	83.9	9.9
January to March 2011	89.5	84.6	4.9
April to June 2011	78.9	85.2	-6.3
July to September 2011	75.8	82.6	-6.8
October to December 2011	79.8	84.4	-4.6
January to March 2012	82.3	83.2	-0.9
April to June 2012	79.9	82.6	-2.7
July to September 2012	79	79.8	-0.8
October to December 2012	81.7	81.5	0.2
January to March 2013	80.1	80.8	-0.7
April to June 2013	79.3	81.5	-2.2
July to September 2013	66.1	78.4	-12.3
October to December 2013	68.6	78.6	-10

SOURCE: US DOL Employment & Training Administration, State Rankings of Core Measures

One of the ways the U.S. Department of Labor judges the performance of each state's unemployment insurance system is how promptly recipients get their first payments after losing a job.[14] According to those standards, 87 percent of all first payments should be made within 14 days after the week ending date of the first compensable week. North Carolina has continually fallen short of this benchmark since 2011, with a particularly low rate — 62 percent — in September 2013.[15]

While most states, on average, fail to meet the national standard for prompt payment of initial benefits, North Carolina's performance over the past year appears to falling further behind.

Unemployment Insurance Changes Dismantle the System's Economic Stabilizing Power

Unemployment insurance was designed to serve as a buffer for the economy during economic downturns. It works by collecting sufficient contributions from employers in good times, so that when a downturn hits there is enough money to pay benefits to unemployed workers to sustain consumer spending on their goods and services. North Carolina's new unemployment law is a dire threat to the effectiveness of this insurance system for the economy since it significantly reduces benefits – leaving the unemployed with less money to spend on food, clothing and other necessities – and fails to require sufficient employer contributions to ensure North Carolina will have enough money to pay benefits during the next downturn. The ability of jobless workers to meet their most basic needs and spend in their local communities has been severely compromised, which will create a ripple effect through the economy.

1 Average weekly benefit for weeks of total unemployment. United State Department of Labor, Employment & Training Administration Monthly Program and Financial Data accessed at http://www.ows.doleta.gov/unemploy/5159report.asp

2 General Assembly of North Carolina, Session 2013. House Bill 4, Section 96-14.2(a)

3 Advisory Council on Unemployment Compensation, February 1995. "Unemployment Insurance in the United States: Benefits, Financing, Coverage."

4 General Assembly of North Carolina, Session 2013. House Bill 4, Section 96 – 14.2(a)

5 US Department of Labor, Employment & Training Administration. Unemployment Insurance Data Summary.

6 Ibid.

7 USDA's Thrifty Food Plan for May 2013, $255.50 for a family of two (mother and infant).

8 Prosperity Watch, January 7, 2014. North Carolina job creation in 2013 lowest since 2009.

9 Farber, Henry S. and Robert G. Vanetta, April 2013. "Do Extended Unemployment Benefits Lengthen Unemployment Spells? Evidence from Recent Cycles in the US Labor Market." Federal Reserve Bank of San Francisco and Rothstein, Jesse, Fall 2011. Unemployment Insurance and Job Search in the Great Recession. Brookings Paper on Economic Activity.

10 Vroman, Wayne, 2001. "Low Benefit Recipiency in State Unemployment Insurance Programs," The Urban Institute.

11 Sirota, Alexandra Forter, 2012. "Getting Solvent: Rebuilding the Unemployment Insurance Trust Fund to Protect North Carolina's Economy." *BTC Reports:* North Carolina Justice Center, Raleigh, NC.

12 Upjohn Institute, February 6, 2013.

13 See "Some Wait Longer to Receive NC Jobless Benefits under New System," *Raleigh News & Observer,* February 2, 2014.

14 US Department of Labor, Employment & Training Administration. Unemployment Insurance Performance Management.

15 US Department of Labor, Employment & Training Administration, Benefits Timeliness and Quality Reports of State Workforce Agencies.

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P.O. Box 28068 • Raleigh, NC 27611-8068
919/856-2176 • alexandra@ncjustice.org

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