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WHAT'S THE HARM? PLENTY.

Unemployment Insurance Changes Threaten the State's Economy and Hurt the Unemployed

BY ALEXANDRA FORTER SIROTA, *Project Director*

The changes made to the state's unemployment insurance system a year ago have caused pain for North Carolina workers and communities, and things will get even worse for many because of new limits to how long anyone can receive insurance that took effect July 1.

Two changes—lowering the maximum duration of weeks and a new formula that significantly reduces average weekly insurance amounts—fall most heavily on jobless workers in areas of the state's highest unemployment, and primarily in rural counties. The cumulative effect of these changes is a double whammy for people out of work through no fault of their own – the amount of money they can collect has gone down and so has the number of weeks they can collect it.

As of July 1, North Carolinians who have lost their job through no fault of their own will be able to receive a maximum of only 14 weeks of unemployment insurance compared to the previous maximum of 26. No other state offers fewer weeks. Meanwhile jobless workers qualifying for unemployment insurance will get nearly $300 less on average each month.

The combined result will be a significant reduction in the capacity of jobless workers to afford the basics for their families, let alone put gas in their cars to get to job interviews. And the ripple effect of these policy changes suggests the potential to slow the state's economy. As jobless workers continue to struggle to find work in a labor market with too few jobs, there will be fewer consumers for goods and services, meaning local businesses have less demand and might lay off their own workers or be unable to sustain new positions.

As the changes in North Carolina's unemployment insurance system continue to be implemented, there needs to be a continuing review of the empirical data on how the unemployment insurance system is operating under those changes and how it is impacting jobless workers. It is clear from the data to date that stopping the sliding scale for maximum weeks and returning to the prior formula for calculating benefits are essential first steps to minimizing the harm of the changes overall. As the state pays down the debt quickly on the backs of jobless workers and as the decline in the state unemployment rate fails to reflect an improved labor market for communities and jobless workers, policymakers must reverse course and consider ways to put in place a forward-financing system that temporarily and effectively supports jobless workers who have lost their jobs through no fault of their own.

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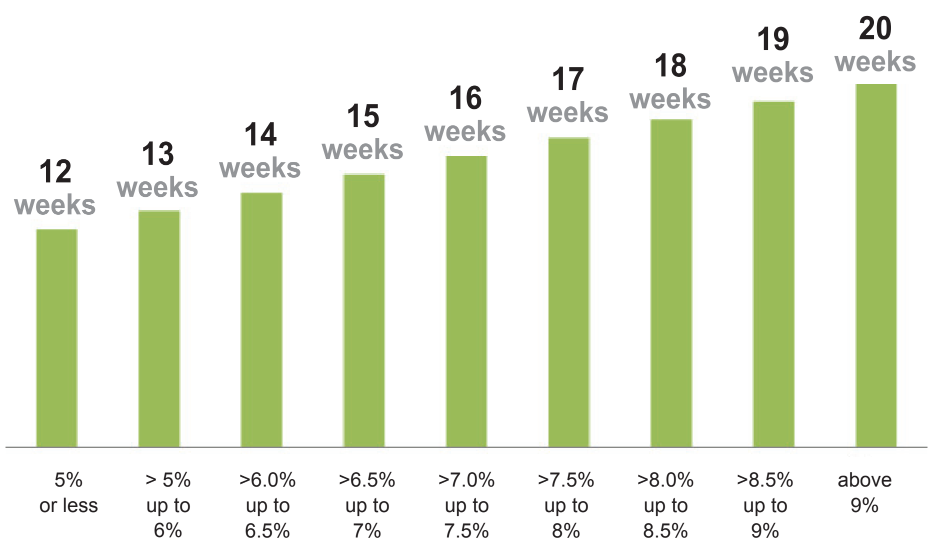
Reduction in Weeks Available to Drop to a Maximum of 14 Weeks on July 1

The state unemployment insurance overhaul enacted last year included a provision that changed the way the number of weeks of insurance an unemployed person could receive are determined. Now, the duration of unemployment insurance is established by a sliding scale tied to the overall state unemployment rate. The lower the rate, the fewer weeks of insurance anyone can get — even if their own job prospects are far worse than the state's as a whole. Only two other states—Florida and Georgia—determine the maximum allowable weeks of insurance through this method.

Under the previous system in North Carolina, and 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. The system that began a year ago in North Carolina would provide, at most, 20 weeks. But even that number would not be available except in the most historic of downturns, like the Great Recession. In the 2001 recession, for example, the maximum duration of benefits would have been only 15 weeks. In the 1990 recession, the maximum duration of benefits would have reached just 13 weeks.

FIGURE 1: Maximum Weeks Available by Unemployment Rate



SOURCE: Provision of House Bill 4

The calculation of maximum weeks of unemployment insurance begins with the seasonally adjusted statewide unemployment rate in April and October. They are then used for determining duration of payments beginning on July 1 and January 1, respectively (See Figure 1). The April 2014 statewide seasonally adjusted unemployment rate of 6.2 percent triggered a maximum of 14 weeks in unemployment insurance for the period of July 1 through December 31. This is less than the average duration of a jobless worker receiving unemployment insurance in May of 2014, which was 17.5 weeks.[1]

Shorter duration of maximum weeks comes at a time when length of unemployment remains high and communities and workers struggle with recession level unemployment

Three important problems arise under this system, which work against many unemployed persons. First, the state unemployment rate at any given time does not necessarily signal an improved labor market overall. Second, conditions vary across the state. So someone living in an area of unemployment much higher than the state as a whole would lose insurance because of it. 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.

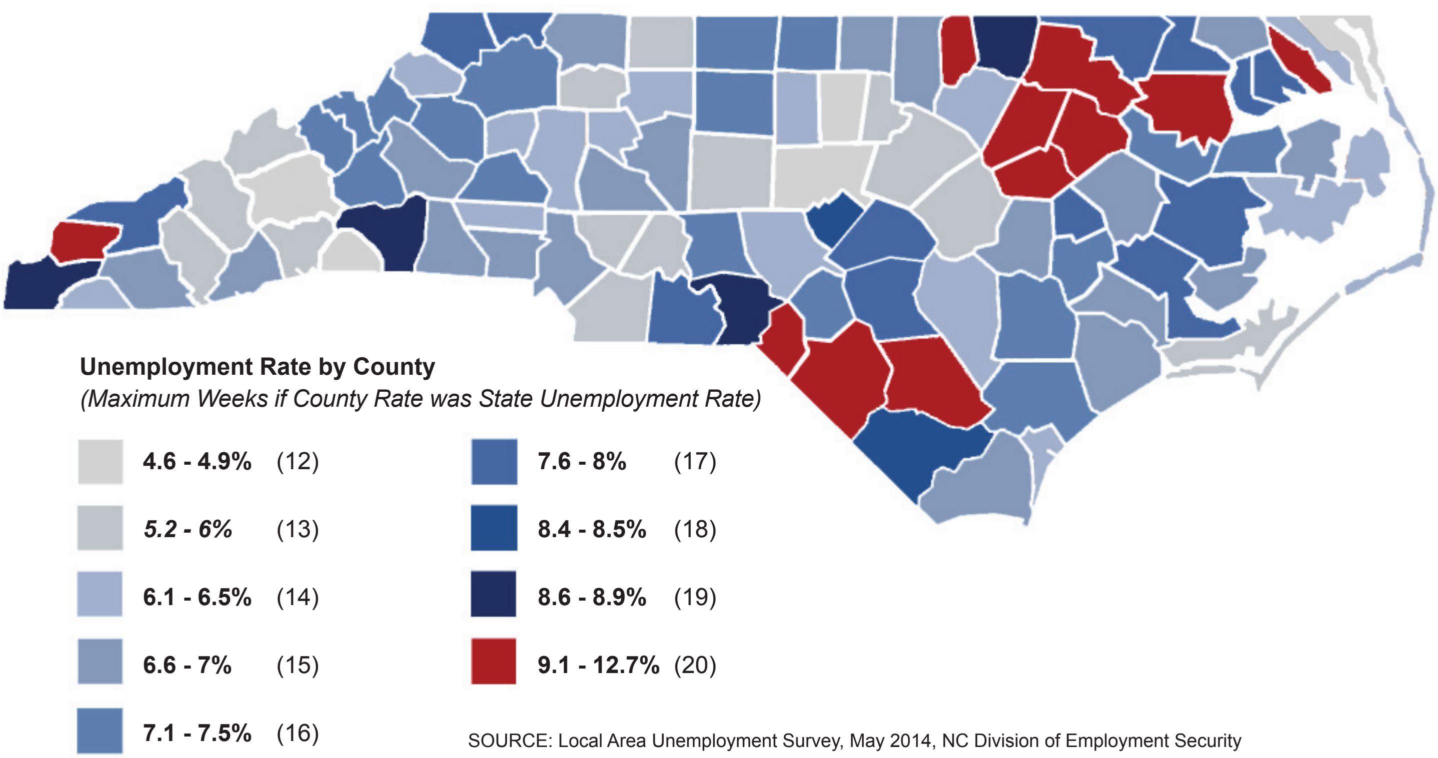
The underlying assumption of policymakers in changing the calculation of weeks of insurance allowed was that if the unemployment rate declines, job opportunities must be increasing, so people need less help. But the decline in North Carolina's unemployment rate is not the best way to assess the quality of the labor market.

As a case in point, North Carolina experienced a rapid decline in its state unemployment rate from April 2013 to April 2014. The cause of this 1.9 percentage-point drop, however, was not the movement of unemployed people into jobs but rather the movement of jobless workers out of the labor force entirely. If someone gives up looking for work or leaves the labor force, he or she no longer is counted as unemployed. Moreover, the state continues to face a significant "job deficit," meaning the number of jobs needed to make up for those lost during the Great Recession and meet the needs of the state's growing population is less than the jobs available. Today that deficit in North Carolina is nearly half a million. While it is true that North Carolina is adding jobs, the state is following the national trend of job gains, an insufficient pace to make up for previous job losses.

The unemployment insurance overhaul bill will particularly hurt workers who live in counties with especially high unemployment. For many counties, even in good times unemployment rates have remained high. For example, if the new sliding-scale system were in place in the 2001 recession, more than 63,000 unemployed workers would have received fewer weeks of unemployment insurance than they actually got. In 2006, a "boom" year, more than 28,000 unemployed workers would have received fewer weeks. Today, even as the state unemployment rate declines, there remain 11 counties with unemployment rates above 9 percent: Bertie, Bladen, Edgecombe, Graham, Halifax, Nash, Pasquotank, Robeson, Scotland, Vance, and Wilson. Only if the overall state unemployment rate were as high as it is in those counties would workers there be able to get the maximum allowable 20 weeks of UI payments.

Nor does the use of the unemployment rate alone take into account the various employment histories and skills of jobless workers. For some, the jobs that they have had in the past are unlikely to return and they need skills training and certifications to prepare for jobs available now and in the future. This takes time, as does finding a job

FIGURE 2: Eleven Counties had Unemployment Rates Above 9 percent



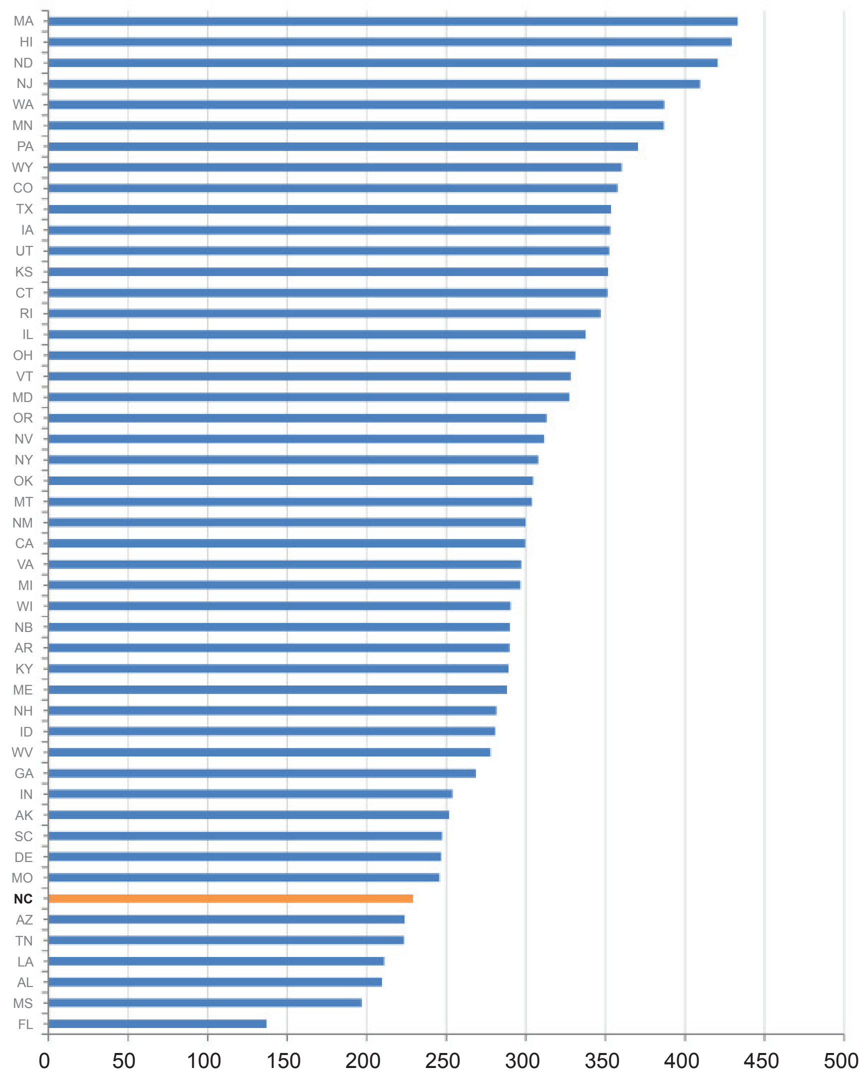
SOURCE: Local Area Unemployment Survey, May 2014, NC Division of Employment Security in new industries regardless of training or certification requirements. For certain North Carolinians the barriers to employment are greater and their experience of unemployment is often 26 weeks or longer. These long-term unemployed in North Carolina are more likely to be older, African-American and oftentimes need to transition careers as the industries where they have worked will not recover the same level of jobs.

Changes to Formula for Calculating Benefits Drives Decline in Average Weekly Payment Amount

Another aspect of the unemployment insurance overhaul has driven a steep decline in the average weekly insurance payment. The average payment in May 2014 was $227.91. In June 2013 it was $301.89.[2] Even before the unemployment compensation cuts, North Carolina's average weekly payment was in the middle of states, ranking 25th in the nation during the second quarter of 2013.[3] North Carolina now ranks 44th; only Alabama, Arizona, Florida, Louisiana, Tennessee and Mississippi pay less on average.[4]

The new law made two major changes that reduce the amount of insurance many jobless North Carolinians can receive. First, it limits the maximum weekly benefit to $350 per week.[5] Previously, North Carolina's maximum benefit was set at 66.7 percent of the state's average weekly wage. This allowed unemployment compensation to keep pace with wage growth and cost-of-living increases. Under that system the potential highest weekly payment was $520 the last year that calculation was used. Most states base their maximum unemployment benefit on the average weekly wage, which is widely recognized as the most effective way to determine the benefit.[6] The change

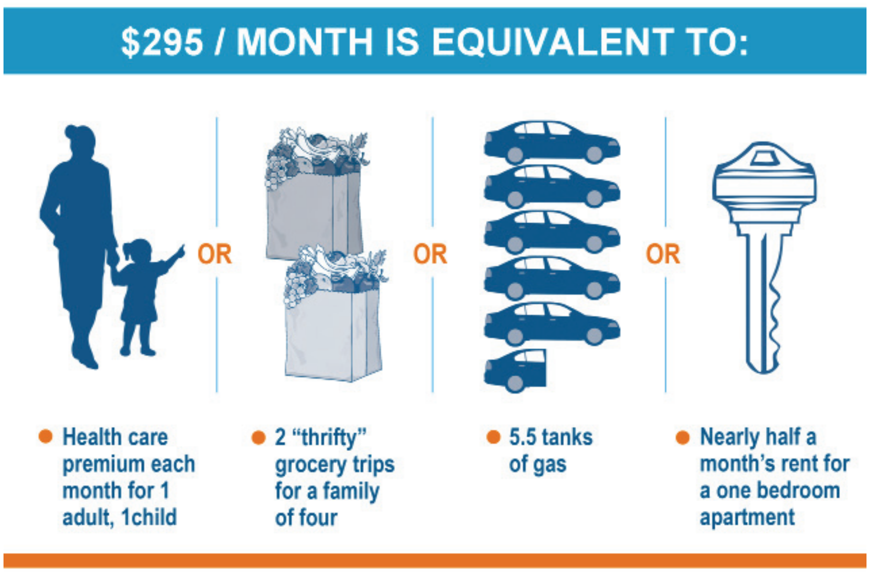
FIGURE 3: NC has the 44th lowest average weekly benefit amount



SOURCE: U.S. Department of Labor, Unemployment Insurance Data Summary, 1st Quarter 2014 to a flat dollar amount will not adjust to the underlying wage structure in the state or the cost of living.

The second major change is that North Carolina became the first state in the nation to base unemployment insurance payments on a person's last two completed quarters of earnings.[7] The vast majority of states calculate benefits either as a fraction of wages in the highest-earnings quarter, or an average of the two highest quarters. North Carolina had in place a formula based on the two highest quarters. Such calculations reflect workers' customary full-time work and earning patterns. North Carolina's new method of calculating benefits, however, is lowering the average payment and particularly harming workers whose earnings tend to vary due to irregular schedules, reduced hours, or seasonal fluctuations. Moreover, the formula can result in workers with the same overall earnings over the past year experiencing different benefit amounts because their earnings in just the last two quarters vary.

FIGURE 4: A 25 percent decrease in the average benefit does real harm to jobless workers



SOURCE: Calculations using the North Carolina Justice Center 2014 Living Income Standard

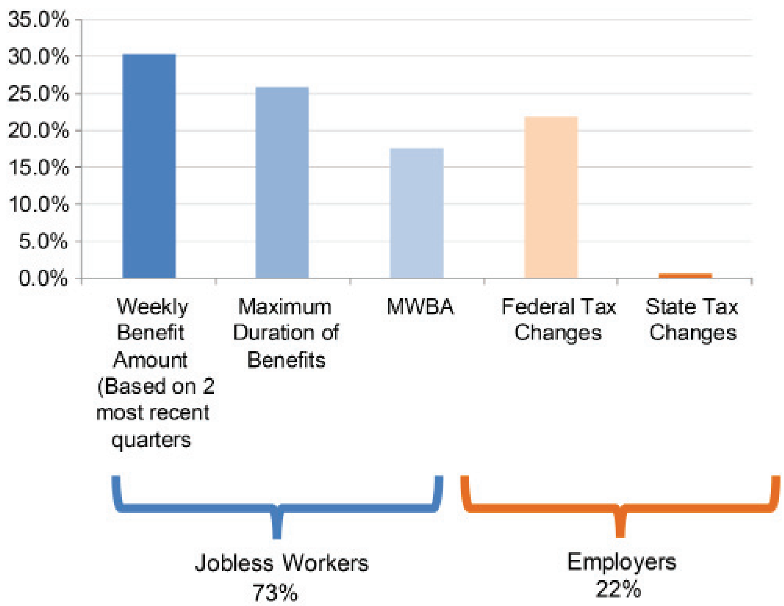
A 25 percent decrease in the average benefit translates to a loss of $295 per month per person, a decline that does real harm to jobless workers who are already stretching their savings to cover basic needs. The cut is equivalent to a low-side estimate of a monthly food budget for a family of two in North Carolina plus a tank of gas.[8]

Changes to Maximum Weeks and Calculation of Weekly Benefits Pay Down Employers' Unemployment Insurance Debt

Supporters of the state Unemployment Insurance overhaul stressed that it was needed because the system had reached significant levels of debt after the historic job loss of the Great Recession. But part of the problem also was that the amount of money that employers were required to pay into the state fund – even in good times – was too little because of tax cuts in the 1990s.[9] In North Carolina, the system had been running counter to its ideal design rather than employers contributing to an unemployment insurance trust fund in good times so that in tough times, when benefit payouts increase and payrolls shrink, funds are available for workers who lose their jobs through no fault of their own, those contributions were not being made. The solution the state chose has been to reduce the money jobless people can receive in order to pay off that debt more quickly so as to reduce the federally required contributions that employers must now make.

Jobless workers are contributing two-thirds of the debt repayment while employers through state level changes are contributing just 0.7 percent (See Figure 5).[10] Of the

FIGURE 5: **Change to Unemployment Insurance Benefits Drives Unemployment Insurance Debt Repayment**



SOURCE: Fiscal Research Analysis of HB 4 of Fiscal Impact of Individual Change

changes impacting jobless workers, the reduction of maximum weeks and the way in which the calculation of weekly payments are made are the primary contributors to paying down employers' unemployment insurance debt.

The imbalance in the unemployment insurance overhaul is causing significant harm to workers, their families and communities and can be addressed through sensible reforms that ensure employers are contributing more adequately and equitably to the financing of a critical system that protects the state's economy in downturns.

1 NC Division of Employment Security, Workforce Monthly Activity Report, May 2014.

2 Average weekly benefit, May 2014. United State Department of Labor, Employment & Training Administration Monthly Program and Financial Data accessed at **http://www.ows.doleta.gov/unemploy/5159report.asp**

3. Sirota, et al 2014. North Carolina Living Income Standard. NC Justice Center, Raleigh, NC.

4 Ibid.

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

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

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

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

9 Sirota, 2013.

10 Sirota, Alexandra March 2011. The Path to Insolvency: Tax Changes, Great Recession Drive Unemployment Insurance Trust Fund Challenges. BTC Brief: NC Justice Center, Raleigh, NC.

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