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June 2020

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Unemployment Insurance will strengthen recovery from COVID-19

Why NC's investments, policy choices are essential to jobless response

By **ALEXANDRA FORTER SIROTA**, Budget & Tax Center Director
with **LEILA PEDERSEN**, Public Policy Analyst

When workers lose their jobs through no fault of their own, the Unemployment Insurance system provides the support needed to keep jobless workers connected to the labor market until the work returns or until people get connected to new jobs. To achieve maximum effectiveness and equity in the design of this recession-fighting policy, Unemployment Insurance must replace wages at an adequate level for a realistic duration so that hardship does not ripple throughout the economy.

A strong Unemployment Insurance — at both the federal and state level — recognizes the central role that workers play in the well-being of the economy. Without the contribution of workers, businesses lose demand and communities lose income. The well-being of workers will determine the strength of the economic recovery.

In the historic context of the COVID-19 pandemic, the Unemployment Insurance system is replacing lost wages while necessary public health measures have closed businesses, reduced hours, curtailed demand, and affected the work of people across the state. More than 1 million North Carolinians have claimed Unemployment Insurance since the pandemic began.¹

With the establishment of new federal Unemployment Insurance programs — which extended the duration of Unemployment Insurance from North

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¹ NC Division of Employment Security, Department of Commerce, accessed at: <https://des.nc.gov/need-help/unemployment-benefits-data>

Carolina's current 12 weeks to add an additional 13 weeks and created the Pandemic Unemployment Compensation program to provide \$600 a week to those who lost work, as well as adding eligibility for gig workers and sole proprietors — there are now more jobless workers receiving support through these federal Unemployment Insurance programs.

This finding alone signals that gaps exist that leave workers out of our state UI program and thus diminish the program's broad-based benefits to our economy. But this evidence isn't all that policymakers should review to assess the necessary steps to strengthen our Unemployment Insurance and the recovery from COVID-19.

The expiration of federal provisions, which begins in July, combined with the persistent administrative challenges in reaching out-of-work North Carolinians mean that many jobless workers will not have a firewall protection against deepening poverty and their communities also will suffer unless state policymakers act quickly.

While Unemployment Insurance is a state-federal partnership, North Carolina for years has fallen short in making the commitments to ensure that the system can serve its role in protecting workers from further economic harm, minimizing the long-term negative impacts on health and well-being, and stabilizing local economies.

State policymakers can strengthen the power of Unemployment Insurance to boost the economy and secure a more inclusive recovery by addressing underinvestment in program administration, recognizing the infrastructure necessary to keep people connected to work, dismantling barriers for workers of color, and fixing the eligibility and policy design of the state system.

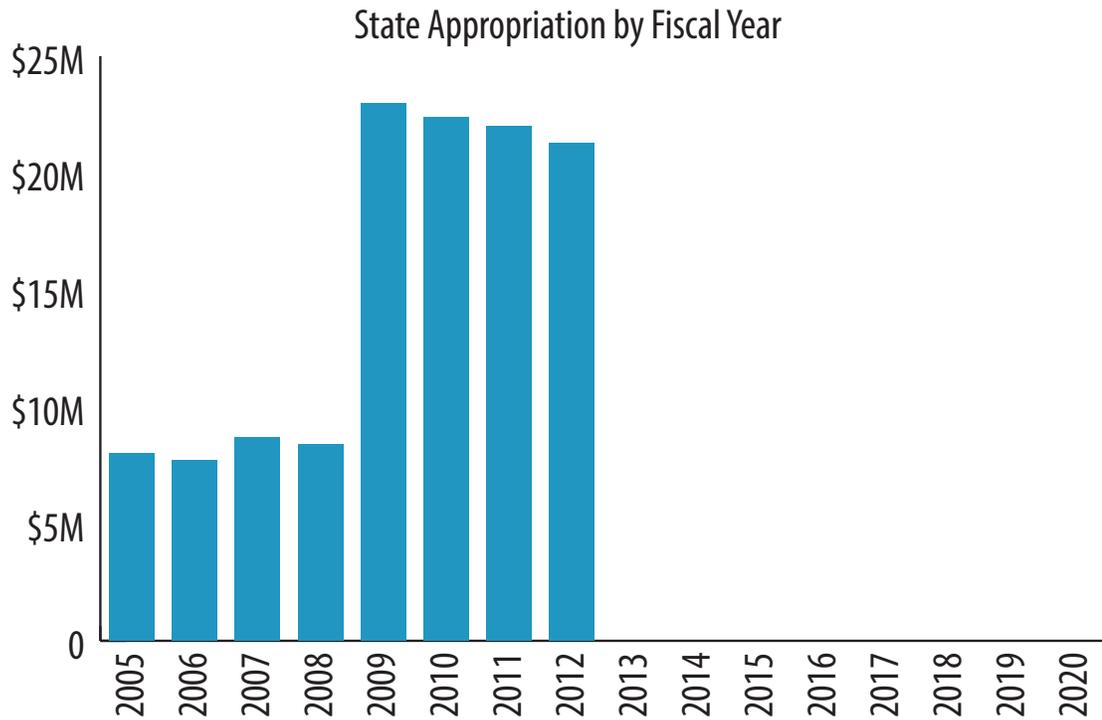
State's Unemployment Insurance system needs funding to administer an efficient and equitable claims process

With initial delays to deliver Unemployment Insurance to workers and the challenges of ramping up new federal programs, the need for a public system at the state level that can efficiently and equitably process claims is clear. North Carolina was among the early states to administer Pandemic Unemployment Assistance and continues to make progress toward ensuring resolution of claims. The Division of Employment Security, as of June 17, noted that 13 percent of claims are pending resolution either for state or federal payments.² When workers who have claimed Unemployment Insurance have to wait for a week, or weeks, it is particularly difficult to meet basic needs, and landlords, lenders, and local grocery stores and retailers are also at risk of losing consumers. The surge in claims in March 2020 came after North Carolina had cut back for years on supporting the administration of Unemployment Insurance. State appropriations into UI administration were completely eliminated in 2013 (see Figure 1), which increased reliance on the declining federal funds delivered through the Wagner-Peyser Act.³ The result was that staffing dedicated to initial claims processing dropped in 2005 from

2 Division of Employment Security, North Carolina Department of Commerce, Unemployment Insurance Dashboard, accessed on June 17, 2020, at <https://des.nc.gov/need-help/unemployment-benefits-data>

3 Quinterno, John, March 2007. Buddy Can you Spare a Dime? NC Justice Center, Raleigh, N.C., accessed at: http://theprogressivepulse.org/sites/default/files/902_ncbudgetandtaxcenterunemploymentinsurance.pdf

Figure 1: State investment in Unemployment Insurance administration was eliminated in 2013.



Source: Special Data Request to Office of State Budget & Management, June 12, 2020.

177 staff years, basically the measure of the staff time to tasks, to 69 staff years in 2020.⁴ The decrease in staffing may have happened as claims declined during the economic expansion, but it also was the case that administrative rules changed to require weekly review, for example, of job search requirements and thus demanded staff time.

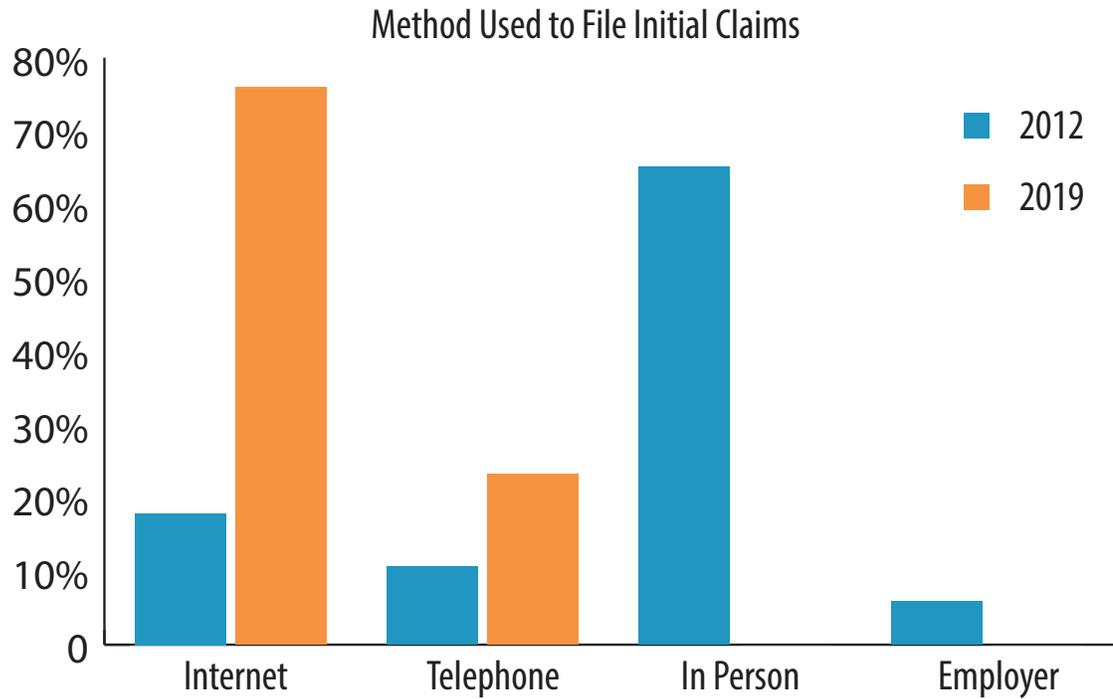
Infrastructure in every community is needed to accommodate the shift to online filing of claims

North Carolina, unlike other states, made an investment to transition the state away from antiquated COBOL-based data systems that have been faulted for many issues in processing claims.⁵ However, even with the state’s transition to more up-to-date technology that could more readily be programmed for new federal initiatives, technology still represents a barrier to filing. Over the course of the period from 2012 to 2019, North Carolina’s process for filing initial claims underwent a massive shift away from in-person filing to an overwhelming reliance on online filing (see Figure 2). This shift meant that for those workers without reliable internet access filing became more challenging, which could be part of the explanation for the low levels of claims in more

4 Office of Unemployment Insurance, U.S. Department of Labor, Unemployment Insurance Budget Data Tables for 2005 and 2020 accessed at: <https://oui.doleta.gov/unemploy/content/futa/fy2005att1.pdf> and <https://oui.doleta.gov/unemploy/content/futa/fy2020att1.pdf>

5 Kelly, Makena, April 2020. Unemployment checks are being held up by a coding language almost no one knows. Verge, accessed at: <https://www.theverge.com/2020/4/14/21219561/coronavirus-pandemic-unemployment-systems-cobol-legacy-software-infrastructure> and NC Department of Information Technology, 2015-2017 State Technology Plan, accessed at: <https://it.nc.gov/document/state-information-technology-plan>

Figure 2: Elimination of filing unemployment claims in person or through employers means a greater reliance on technology and a dependence on broader internet access in every community.



Source: U.S. Department of Labor, Unemployment Insurance Claims Filing Method, accessed at: <https://oui.doleta.gov/unemploy/filingmethods.asp>.

rural parts of the state that due to industry composition would have predicted much higher joblessness.⁶ Moreover, workers cannot work with employers to file attached claims if they expect to be called back to the same job, which in the current context could be a significant number of workers.

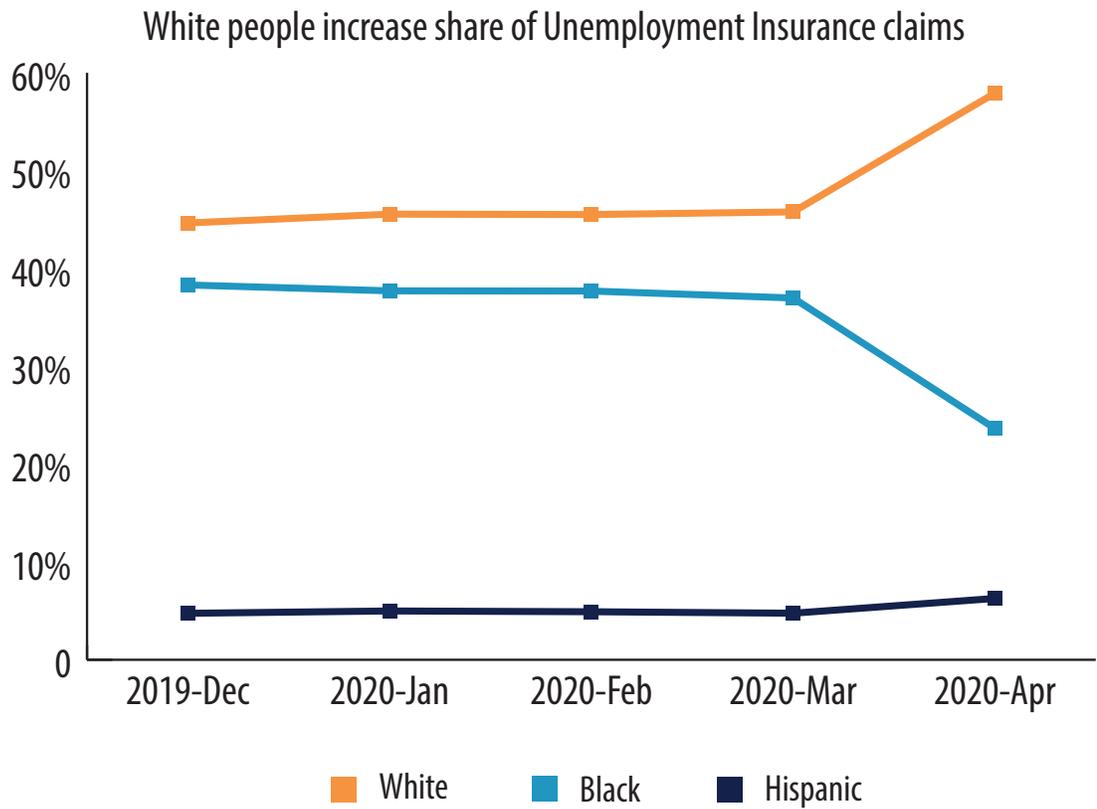
Workers of color should have equal access to Unemployment Insurance

Researchers have found that Black workers are less likely to claim Unemployment Insurance, in part due to persistent discrimination in employment and education, the perception that the program is not accessible to them, and factors that would make them ineligible — such as the higher likelihood of leaving work for family reasons, the greater likelihood of having part-time work, and sporadic work histories that also are driven by policy choices.⁷ Given that white workers are more likely to claim Unemployment Insurance in the current context, despite evidence that COVID-19 job impacts are disproportionately being felt by workers of color, it is important to consider design changes that could remove barriers to access (see Figure 3). Without such changes, the economic harm of job losses will present additional barriers to economic well-being for Black and brown workers. Among the changes needed to remove barriers and modernize

6 NC Department of Commerce, Regional Dashboard on UI Claims, accessed at <https://bi.nc.gov/t/COM-LEAD/views/RegionalUIDashboard/RegionalUIDashboard?isGuestRedirectFromVizportal=y&embed=y>

7 Nichols, Austin and Margaret Simms, June 4, 2012. Racial and Ethnic Differences of Unemployment Insurance in the Great Recession. Urban Institute, accessed at: <https://www.urban.org/sites/default/files/publication/25541/412596-Racial-and-Ethnic-Differences-in-Receipt-of-Unemployment-Insurance-Benefits-During-the-Great-Recession.PDF>

Figure 3: White workers represent an increasing share of Unemployment Insurance claims despite representing a lower share of those impacted by the loss of jobs and work hours.



Source: U.S. Department of Labor, Characteristics of the Insured Unemployed, accessed at: <https://oui.doleta.gov/unemploy/chariu.asp>.

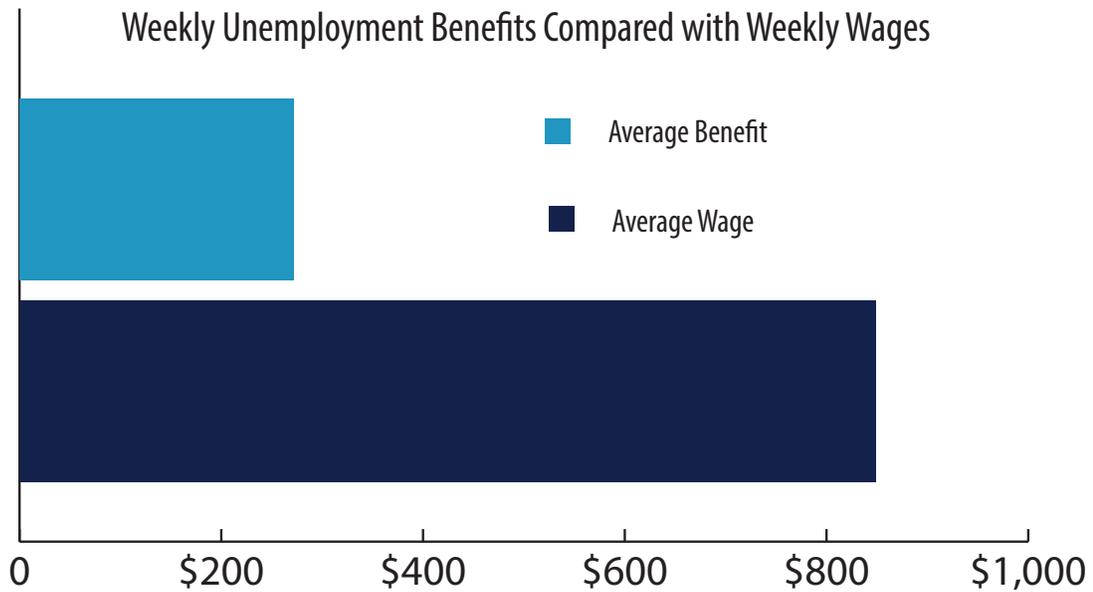
the system to the needs of the current labor market would be to ensure that workers aren't penalized for being given fewer work hours by adopting short-time compensation programs or to address the low earnings set-aside, which often precludes workers with part-time work and low-wages from accessing Unemployment Insurance despite experiencing reduced hours.⁸

Underlying inadequacy of the state Unemployment Insurance to stabilize households with adequate wage replacement should be urgently addressed

Across a range of measures, North Carolina's Unemployment Insurance system falls short of reaching standards that deliver maximum benefits to jobless workers and the broader economy.⁹ One particular measure is the rate of wage replacement, which in North

8 Rowe, Bill, April 24, 2020. Unemployment Insurance changes needed in North Carolina, NC Justice Center Fact Sheet, accessed at: <https://www.ncjustice.org/publications/unemployment-insurance-changes-needed-in-north-carolina/>
 9 Sirota, Alexandra, April 2020. A Sound Unemployment Insurance System that Serves Workers is Critical. Budget & Tax Center, Raleigh, N.C., accessed at: <https://www.ncjustice.org/publications/sound-unemployment-insurance-that-serves-workers-is-critical/>

Figure 4: North Carolina's Unemployment Insurance would provide inadequate wage replacement to secure a strong recovery and workers' well-being.



Source: U.S. Department of Labor, Unemployment Insurance Data Summary, 4th Quarter of 2019.

Carolina falls short of the recommended standard of replacing half of wages lost from job loss. North Carolina replaces 37 cents for every \$1 in wages, the lowest rate in the Southeast. Two changes to weekly benefit amounts would go some way toward improving the effectiveness of Unemployment Insurance — removing the arbitrary cap on the maximum amount of Unemployment Insurance and changing the formula for calculating average weekly benefit amounts to the two highest quarters in a benefit period.