



**ENJOY READING
THESE REPORTS?**

Please consider making a donation to support the Budget & Tax Center at www.ncjustice.org

MEDIA CONTACT:

ALEXANDRA F. SIROTA
919-861-1468
alexandra@ncjustice.org

BUDGET & TAX CENTER

a project of the

north carolina
JUSTICE CENTER

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

www.ncjustice.org

NC's unemployment insurance stabilizes households and industries

Current downturn reveals that state UI needs to be fixed

By **ALEXANDRA F. SIROTA**, director of the Budget & Tax Center

On the heels of federal action to extend key unemployment insurance (UI) provisions to stabilize households and in turn the economy, North Carolina is poised to commemorate the one-year anniversary of the first cases of COVID-19 in the state and the subsequent historic spike in the number of unemployed workers.

The necessary shutdown of businesses to contain the spread of the virus resulted in unprecedented claims under the flawed state UI system. Even as of the latest weekly data from March 5, 2021, North Carolina is still experiencing elevated claims each week. Year-over-year, there were 5,500 more initial claims than the prior year, or a more than 300 percent increase.¹

The state's ability to serve a historic level of UI claims and ensure that jobless workers who lost work have the support to stay connected with the labor market were compounded by underinvestment in the administration of the state's UI program. The Division of Employment Security saw a zeroing out of its state appropriations after 2013, which meant technology and staffing were falling behind before the pandemic hit.²

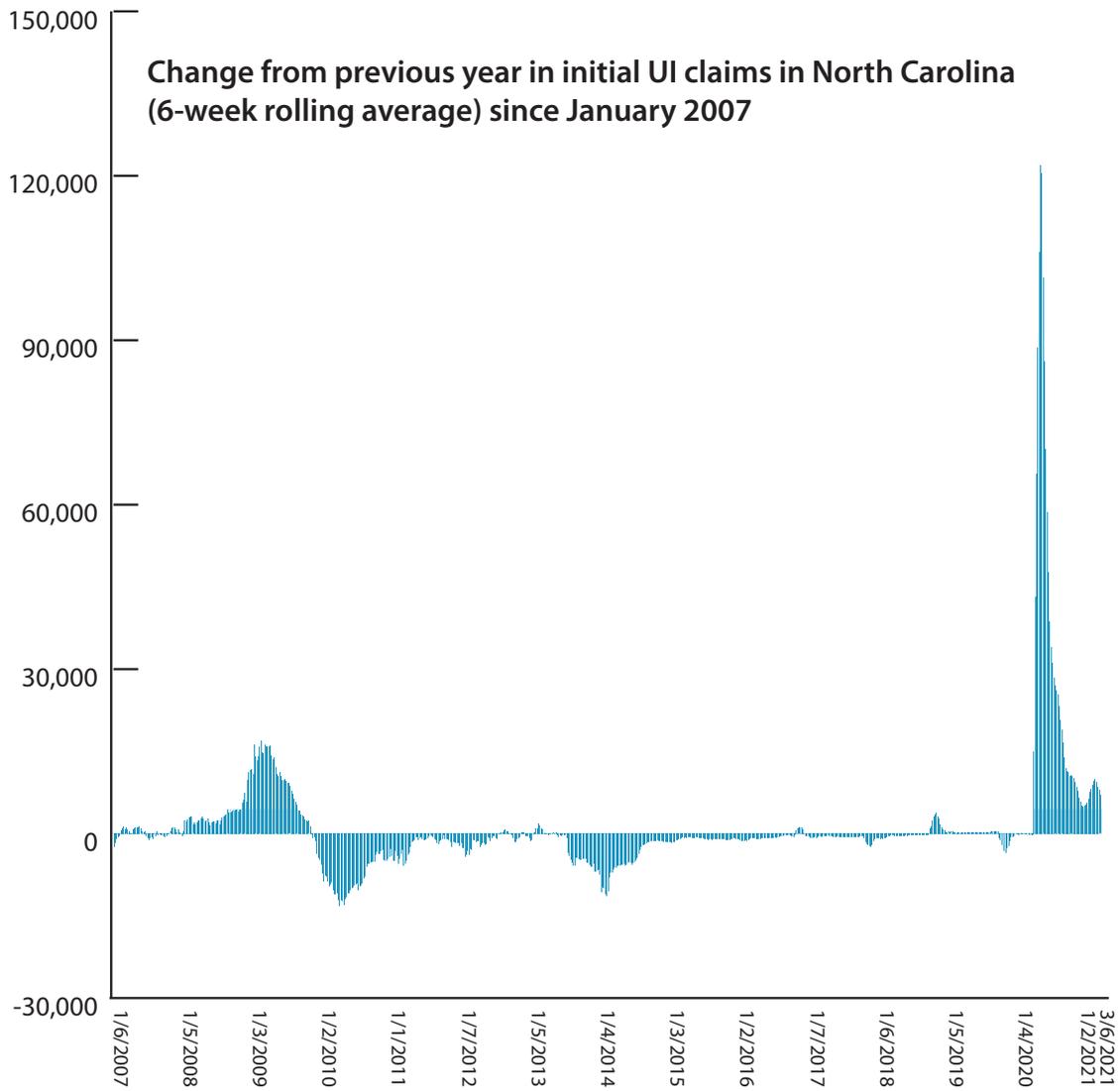
However, the single greatest challenge to aligning our state's UI program to the current moment is simple: **North Carolina provides too little in wage replacement to too few jobless workers for too short a duration.** The policy choices that designed the system in this way are reducing the effectiveness of the program to support people, their spending, and the broader economy.

North Carolina provides too little in wage replacement to too few jobless workers for too short a duration.

1 Economic Policy Institute, March 5, 2021, State UI Claims Workbook, Analysis of US Department of Labor Weekly Claims News Release.

2 Sirota, Alexandra, "Unemployment Insurance Will Strengthen the Recovery from COVID-19," Budget & Tax Center Brief, June 25, 2020. <https://www.ncjustice.org/publications/unemployment-insurance-will-strengthen-recovery-from-covid-19/>

Figure 1: Initial unemployment insurance claims have not reached pre-COVID lows.



Source: Economic Policy Institute, March 5, 2021, State UI Claims Workbook, Analysis of US Department of Labor Weekly Claims News Release.

Unemployment insurance is necessary to our recovery

UI is a frontline response system to an economic downturn. When the state provides timely wage replacement to people who have lost their job through no fault of their own, their households can maintain spending and stay connected to the labor market. This benefits businesses and employers who don't see demand for their goods and services fall off as steeply as they would otherwise. It also improves the likelihood that jobless workers will have a good job match after a period of unemployment that will not reduce wages over their career and will minimize any disruptions to business productivity.

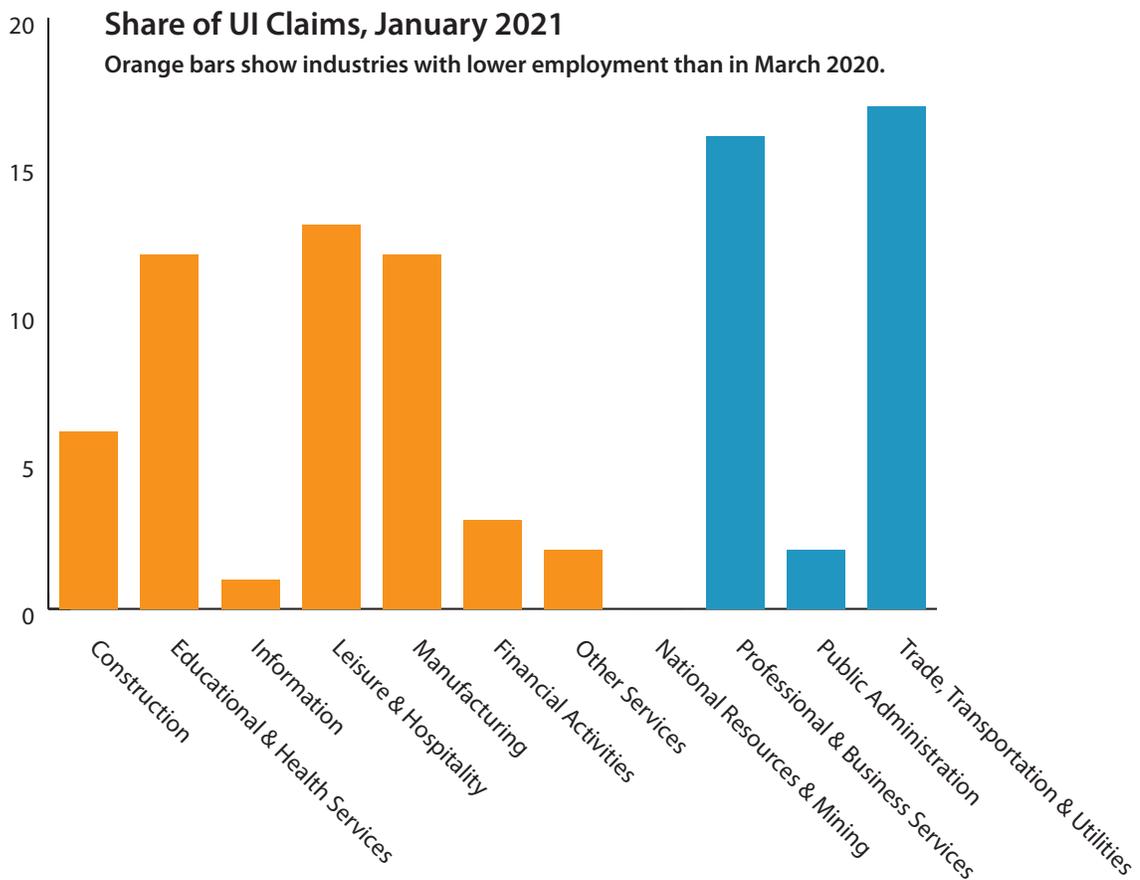
Because UI is income and is taxed accordingly, payments also provide an even broader public benefit as evidenced by the impact of federal UI in North Carolina over the past year. Revenue collections were, in part, stabilized by this income when they otherwise would have declined

more significantly.³

UI provides direct support for industries by providing jobless workers with wage replacement when employers have to reduce payroll due to a downturn. Some industries hard hit by the pandemic couldn't shift their workforce to remote status or maintain payroll, and they benefitted from the Payroll Protection Program. The declines in employment in Leisure & Hospitality and Retail & Transportation were particularly significant at 22 percent and nearly 10 percent, respectively, and remain unrecovered to pre-COVID-19 employment levels.⁴

As employment declined, UI did not provide the needed level of support to workers across all industries. By working to maximize how many workers can return to their previous jobs, UI provides support to businesses in a range of industries who then will experience fewer costs associated with higher and better job matches with experienced workers.⁵ In North Carolina,

Figure 2: Industries with UI claims still below COVID-19 employment levels.



Source: North Carolina Unemployment Insurance Claims Dashboard, NC Department of Commerce, January 2021, <https://bi.nc.gov/t/COM-LEAD/views/RegionalUIDashboard/RegionalUIDashboard?isGuestRedirectFromVizportal=y&embed=y> Current Employment Survey, March 2020 to December 2020, US Department of Labor

3 Consensus Revenue Forecast (NC Fiscal Research Division, February 2021). https://files.nc.gov/ncosbm/documents/files/ConsensusForecast_2021Febweb.pdf
 4 Current Employment Statistics, January 2021.
 5 Nund, R. and Parsons, J. (2020). How long can we expect temporary layoffs to remain temporary? Retrieved from the Brookings Institution website: <https://www.brookings.edu/blog/up-front/2020/03/26/how-long-can-we-expect-temporary-layoffs-to-remain-temporary/>.

the industries hardest hit, however, were not as likely to see their workforce receive the support of the state's UI system (see Figure 2). Jobless workers from Leisure & Hospitality represented 13 percent of all unemployment insurance claims in January 2021, but employment still remained 22 percent below pre-COVID-19 levels.

Our state's unemployment insurance is underperforming

Ultimately, North Carolina's bad UI policy is putting North Carolina's jobless workers at a greater disadvantage in this recession and pandemic than jobless workers in other states. Our state is leaving federal dollars on the table that could be helping jobless workers instead of making the pathway to recovery for the state's economy even more difficult.

Since policy changes were made to the system in 2013, North Carolina's UI has been designed to do very little to bolster jobless workers through a job loss and economic crisis.⁶ Instead, changes were meant to pay down debt quickly so employers would not have to pay more in taxes after UI tax cuts in the 1990s.⁷

The state system is particularly ill-equipped to handle the unique characteristics of this recession, as it excludes many of the workers — those who are part-time and earn low wages — who have been hit hardest by the COVID-19 recession. It also provides too few weeks, even as the public health crisis continues to impact employment a year later.

The length of time that a jobless worker can receive UI in North Carolina is capped at 20 weeks, unlike the national standard of 26 weeks, but it can also drop to as low as 12 weeks based on the average unemployment rate over a certain period.⁸ When the pandemic hit, this sliding scale resulted in jobless workers only receiving 12 weeks of UI payments. For the many workers who lost their jobs last spring, this meant that state UI expired by June.

When jobless workers exhaust their state UI, they can move to the federal Pandemic Unemployment Compensation (PUC) program and then the Extended Benefit Program.⁹ The duration of the Extended Benefit program decreased this fall because it is also tied to the state's duration. This means North Carolina's jobless workers will have 3.5 fewer weeks of UI even if there aren't jobs to go back to during the pandemic.

At a time when many people have been out of work since the public health crisis began in March 2020, the duration of UI is being held down by policy choices and the broader measures in place to contain the virus, not by the interest to move to work.¹⁰ During past recessions, spells of unemployment tended to last an average of 40 weeks, and even then, states and localities saw labor force declines after periods of significant unemployment.

The goal of UI is to replace lost wages at a level that keeps workers from being pushed into deeper

6 Alexandra Sirota, Sound Unemployment Insurance that Serves Workers Is Critical. (Raleigh, NC, Budget & Tax Center, March 18, 2020), <https://www.ncjustice.org/publications/sound-unemployment-insurance-that-serves-workers-is-critical/>

7 Alexandra Sirota, The Path to Insolvency: Tax Changes, Great Recession Drive Unemployment Insurance Trust Fund Challenges. (Budget & Tax Center, Raleigh, NC, March 1, 2011), <https://www.ncjustice.org/publications/the-path-to-insolvency-tax-changes-great-recession-drive-unemployment-insurance-trust-fund-challenges/>

8 North Carolina General Statute, Chapter 96, https://www.ncleg.net/enactedlegislation/statutes/html/bychapter/chapter_96.html

9 "COVID-19 NC Unemployment Insurance Information," accessed March 10, 2021, <https://des.nc.gov/need-help/covid-19-nc-unemployment-insurance-information>

10 "Fact Sheet: Unemployment Insurance and why the effect of work disincentives is greatly overstated amid the coronavirus recession." (Equitable Growth, July 21, 2020), <https://equitablegrowth.org/factsheet-unemployment-insurance-and-why-the-effect-of-work-disincentives-is-greatly-overstated-amid-the-coronavirus-recession/>

hardship and also stabilizes the economy. Economists generally agree the goal should be 50 percent wage replacement. By December, the average weekly benefit amount of \$233 represented less than one-quarter of the state's average weekly wage. For households, on average, that loss of 75 percent of prior wages meant not only pulling back on spending but challenges in putting food on the table, paying rent, and keeping up with other bills and other costs of living, as evidenced by the Household Pulse Survey.

In short, North Carolina's UI system is providing support to very few jobless workers. In the last week of data, the state's insured unemployment rate, a measure of the number of jobless workers receiving state UI, was 3.3 percent. Meanwhile, some jobless workers have moved to federal programs, and many more have exhausted UI altogether. The state's exhaustion rate was already high before the pandemic due to the short duration of state UI, but the number of jobless workers who are losing benefits without returning to work is the highest it's been since the month of June. More than 570,000 jobless workers exhausted state UI by December 2020.

When state UI doesn't work well, it hurts everyone

When jobless workers receive too little wage replacement for too short of a time, it impacts their ability to pay rent, keep food on the table, and keep businesses open that depend on people spending locally. It also means that North Carolina has cut off workers, businesses, and the economy from the full benefit of federal UI programs at a critical time.

The evidence is clear that the benefits of an effective UI extend well beyond individual jobless workers.

- By ensuring that jobless workers have a strong foundation of support at the state level, North Carolina reduces the reliance on federal policymaking and guarantees the system is designed to match the state's labor market and industry composition in the economy.¹¹
- By providing adequate support for the duration of time it takes to find work or return to work, UI can reduce inequities in employment recovery for workers in different industries and geographies.¹²
- By providing adequate wage replacement to keep people connected to the labor market, UI can reduce costly economic scarring caused by job loss that often includes poorer health outcomes and housing stability.¹³

North Carolina's unemployment insurance system needs action by policymakers to ensure that jobless workers and the broader economy have the necessary supports to sustain a strong, just recovery.

11 Annelies Goger, Tracy Hadden Loh and Caroline George. (2020). Unemployment insurance is failing workers during COVID-19. Here's how to strengthen it. Brookings Institution: Washington, DC. Retrieved from <https://www.brookings.edu/research/unemployment-insurance-is-failing-workers-during-covid-19-heres-how-to-strengthen-it/>

12 Elise Gould and Josh Bivens. (2020) Reinstating and extending pandemic unemployment insurance programs through 2021 could create or save 5.1 million jobs. Economic Policy Institute: Washington, DC. Retrieved from <https://www.epi.org/blog/reinstating-and-extending-the-pandemic-unemployment-insurance-programs-through-2021-could-create-or-save-5-1-million-jobs/>

13 Alexandra Sirota. "Recovery from historic Unemployment Claims will take time" April 18, 2020. <http://pulse.ncpolicywatch.org/2020/04/18/recovery-from-historic-unemployment-claims-will-take-time/#sthash.0RIKk7gz.dpbs>