Building a National Unemployment Insurance System

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Overview

This paper first makes the **case for comprehensive reform** of the Unemployment Insurance (UI) program in the United States, exploring the many ways in which the program has failed in recent decades to accomplish both its macroeconomic goal of economic stabilization and its microeconomic goal of temporary income restoration for workers laid off through no fault of their own. It then outlines options for reform and recommends a uniform, much more consistent **national UI program** that would be administered by the Social Security Administration consistently and equitably across all states. The national UI program would be phased in over two years beginning in 2022. This paper also presents a number of recommended **complementary reforms**, including a JobSeeker Assistance (JSA) program to cover groups that have traditionally been left out of the regular program, enhanced funding for UI and Employment Service (ES) administration and services, better coordination with workforce development programs, as well as Universal Adjustment Assistance (UAA). It ends with a list of **immediate steps** that should be taken in 2021 without legislation to transition to the National UI Program, including developing model state UI application, payment and related systems that can be exported to states to allow them to avoid wasteful investments in 53 different IT systems during the transition.

The Case for Reform[1]

The Unemployment Insurance program was initially created in the depths of the Great Depression of the 1930s to address two primary goals: the macroeconomic goal of economic stabilization, and the microeconomic goal of temporary, partial income restoration for workers laid off through no fault of their own. For many years, the program served as a critical part of the nation's arsenal for dealing with recessions. But in recent decades, the UI program has come up short. While Congress and numerous Administrations have devised various improvements, they have been limited at best, and the program remains inadequate.

O'Leary and Wandner (2020) presented a strong case for UI reform months before the pandemic's arrival made the program's failures even more apparent, describing four issues affecting the overall program that have not been addressed: first, Congressional neglect over time of its legislative framework; second, major economic shifts resulting in a decline in temporary layoffs, a rise in permanent layoffs and increased unemployment durations; third, demographic shifts, including rising female and older worker labor force participation and two-earner households; and, fourth, inconsistent and limited policy and program responses at the

[1] This Better Employment and Training Strategies Task Force Policy Brief builds directly upon the work of Dr. Stephen Wandner, one of the nation's leading experts on Unemployment Insurance. Formerly the Director of research for employment, training and UI with the U.S. Department of Labor, Dr. Wandner is a Senior Fellow with the National Academy of Social Insurance. Dr. King is a Senior Research Scientist at the University of Texas at Austin's Ray Marshall Center, which he directed for many years.

federal and state level leading to declining benefit payments and tax collections to support the UI program and its administration.

Key shortcomings of the current UI program include:

- In sharp contrast to Social Security, the taxable wage base as a percent of total wages for UI has declined markedly over time leading to a structural deficit in financing. This has put significant downward pressure on UI benefit payments and led to underinvestment in UI and ES program administration and staffing at the federal and state levels.
- As a result of declining revenues, UI wage replacement rates (i.e., the percentage of wages replaced by UI benefits) and UI payment duration have fallen over time as well. Since 2008, UI wage replacement has fallen below 35%. These declines have been much sharper in low-benefit states (e.g., North Carolina) than in others, reflecting employer opposition to paying taxes to support the unemployed.
- The percentage of unemployed workers receiving UI (the "recipiency rate") has fallen as well from a peak or 43% in 1938, 38% in 1979 to just over 30% recently, meaning fewer than a third of the unemployed receive any regular UI benefits. And, in a majority of states, the percentage of the unemployed receiving UI were less than 25%.
- Disinvestment in UI and ES at the federal and state level has meant that when an unemployed worker seeks help in finding work, the reemployment services that are available are increasingly inadequate. Although authorized, short-time compensation or work sharing programs, under which individuals may receive a mix of wages and UI payments while working reduced hours, remain under-supported as well.
- IT systems supporting UI applications, eligibility determinations and payments have become seriously antiquated and inflexible in recent decades, as demonstrated by the systems' inability to be programmed to handle the rapid growth in claims and federal efforts to provide additional aid to those laid off as a result of the pandemic. Those systems also have been vulnerable to widespread hacking.

UI has become far less able to timely respond to the needs of the economy and unemployed workers, depending on drawn-out Congressional action to address economic downturns and declines in earnings. These and other shortcomings have resulted in a UI program that is unable to address its economic stabilization goals for the economy or to respond to the income replacement needs of today's unemployed workers. The time for action is long overdue.

Reforming the Regular UI Program in 2021 & Beyond: Enhancing and Expanding
Three (3) main goals for reforming the UI program are to:

- Pay adequate benefits to workers unemployed through no fault of their own, while treating states and similarly situated individuals equitably in terms of access to benefits, benefit amounts and benefit durations.

- Provide sufficient funding to operate the program through a low uniform tax rate and a progressive—or at least less regressive—payroll taxable wage base.
- Provide a comprehensive set of reemployment services to ensure that UI recipients are better supported in actively searching for and rapidly returning to work.

Wandner (2020b) presents three main frameworks or options for substantial reform:

> ***An Enhanced Federal-State Program.*** States, continuing to act as partners with the USDOL, would continue to administer the federal-state UI program while adding Congressionally-mandated federal standards that ensure uniform access and qualifying provisions for individuals, equal benefits, and sufficient revenue via progressive taxes.
> ***A Single, Enhanced Federal Program*.** State and extended benefit programs would be consolidated into one federal program with a single set of access, benefit payment and tax provisions. States would continue to administer the federal program.
> ***A Nationalized UI Program.*** A national UI program, phased in over a two-year period, would be administered by the Social Security Administration and have consistent access, benefit payment and tax provisions across all states and jurisdictions.

While an enhanced federal-state program and a single, enhanced federal program would address some of the current UI program's shortcomings — e.g., increasing the consistency of access, eligibility and benefits— neither would go as far as a national program in doing so. As outlined below, a nationalized UI program would deliver those same benefits, while also offering a more robust means of finance, a more timely response to economic needs, and greater efficiency in program administration and related service provision. If this proves to be a bridge too far, we recommend a single enhanced federal program that includes as many of the following features as possible.

Key features of the recommended National UI Program include:

- Administration by the Social Security Administration, including tax collection, eligibility determination, benefit payment, and the provision of related services. The U.S. Department of Labor lacks experience with collecting taxes or paying benefits; the Social Security Administration has well established mechanisms in place for both.
- Use of a simple, online UI application form supplemented by online as well as telephone assistance from state-based staff, as needed.
- Improved program access and common eligibility requirements such that approximately 50% of the unemployed would be able to receive UI benefits in *all* states.
- Wage replacement of 50% of lost wages up to two-thirds of the national average wage.
- Maximum potential payment duration of 26 weeks for all eligible unemployed workers nationally.
- A taxable wage base pegged directly to the Social Security wage base ($142,800 in 2021) with an estimated tax of approximately 1.4% paid by employers (Pavosevich, 2020), resulting in a far more efficient UI program in terms of tax collection and revenue stability.

- Elimination of employer experience rating, in which states levy UI taxes based on employer-specific layoff rates, because of weaknesses in the current system (Miller & Pavosevich, 2019).
- Automatic triggers to institute extended (longer-duration) UI benefits paid from federal general revenue. Emergency benefits to cover extraordinary circumstances established by Congress, as needed.
- Substantially increased funding and support for self-employment and reemployment services (Spiker, 2020).
- Much stronger federal support for short-time compensation/work sharing options (Becker & Roberts, 2020).
- Increased funding to support and expand current state and local ES/UI merit system staff, including administrative law judges and others or, alternatively, ensure their transfer to the Social Security Administration with full employment and seniority rights.
- A common UI/SSA data record based on a single set of definitions for benefit and tax systems for terms like "employer," "employment," "wages" and other key items. Quarterly employment and wage reporting thus would be simplified and less costly, especially for multi-state employers, which now are required to report and pay taxes in multiple jurisdictions.
- A single application, benefit payment and tax system, in which all UI data systems would be centrally held and analyzed by a federally-funded research and development center (Lane, 2020).

Complementary Reforms

In addition to reforming the regular federal/state UI program, we recommend several complementary reforms to improve the attainment of both the macroeconomic and the microeconomic goals of UI.

- First, a new *JobSeeker Assistance (JSA)* program would be established to provide unemployment support for new labor market entrants, reentrants, and other non-covered groups, e.g., gig economy workers, who fall outside the coverage of the regular UI program for experienced, regular wage and salary workers (West et al. 2016). The temporary Pandemic Unemployment Assistance effort has filled this void since March 2020 but an ongoing program to address this shortcoming is needed.
- Second, the definition of "employed workers" would be expanded to include large and growing numbers of workers who are currently misclassified as independent contractors even though their pay and the everyday details of their work are set by the businesses they serve. A method for covering self-employed workers also would be developed.
- Third, funding for the ES would be increased so that staff-assisted reemployment services could be provided to *all* permanently laid off unemployed workers.
- Fourth, for those unemployed workers who require additional skills training to qualify for new jobs, the UI program needs to be much better integrated with the array of existing workforce training programs, as discussed further in an earlier BETS brief (McCarthy, Van Horn & Prebil, 2021). The result would be a smoother flow of

unemployed workers, as needed, from UI to ES and on to workforce training programs, aligning with recent recommendations made by UI program staff.

- Fifth, Universal Adjustment Assistance (UAA) would be provided to unemployed workers who need income support while training for new skills, along the lines of what the current Trade Adjustment Assistance program now provides, as discussed in a recent BETS brief (Good, 2021). Too many unemployed workers have been unable to participate in training in recent decades due to their inability to support themselves and their families while attending school or training programs. While evaluations have found that TAA's economic costs tend to exceed its benefits (D'Amico & Schochet, 2012), providing such support is more a matter of equity than efficiency. Moreover, a major reason for TAA's inefficiency is the time-consuming burden – for workers and administrators — of proving that the job loss was the result of trade or production off-shoring, something that has no bearing on their prospects for reemployment. Providing assessments, counseling and provider performance information would lead to greater program effectiveness (Barnow, 2009).

Immediate 2021 Actions

The reforms presented above are changes that would be accomplished over the next two years through Congressional action. Several administrative/executive and legislative actions are needed immediately as well (Wandner, 2021).

Administrative actions for consideration include:

- Increase staffing for the National UI office by filling vacancies and recruiting experienced state staff
- Expand UI and ES services by state UI and ES agency consultants temporarily detailed to the national office to improve program administration and guidance
- Greater use of proactive advice to the state programs using UI Program Letters and providing more technical assistance.
- Formally reestablish the US Employment Service, required by the Wagner-Peyser Act but which was allowed to lapse in 2002-2003.

Legislative actions for consideration include:

- Develop an exportable model (low-cost, flexible) state UI application, benefit payment, tax and reporting systems with dedicated funding from Congress, thereby avoiding wasteful, large-scale IT investments in 50-plus state legacy systems.
- For the remainder of the pandemic-induced recession and subsequent recovery, enact federal UI programs that 1) increase the duration of UI payments, 2) continue the Pandemic Unemployment Assistance program, and 3) increase the UI replacement rate beyond 50% of lost wages. Rigorous research indicates that increased UI payments during the pandemic-induced recession are not incentivizing most workers to choose unemployment over work (Edwards, 2020).

- Reestablish a dedicated research and evaluation budget for the Employment and Training Administration, one that is separate and distinct from the one for the Chief Evaluation Office of USDOL.

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Appendices

- Appendix A: Wandner 2020b paper with Pavosevich appendix
- Appendix B: Wandner 2021 paper on short-term UI reforms

A National Unemployment Insurance Reform Proposal: Appendix A

Stephen A. Wandner, Ph.D. 12/10/20

Summary and Overview

The federal-state unemployment insurance (UI) partnership has been deteriorating for over four decades. As a result, the UI program has not been fulfilling either of its two goals: 1) providing adequate temporary wage replacement to workers unemployed through no fault of their own, and 2) automatically stabilizing the U.S. economy by helping to maintain consumption during recessionary periods. The percentage of unemployed workers who collect UI benefits has been declining, and, for those who collect benefits, the wage replacement rate and the maximum potential duration of benefits also have been declining. These overall declines mask the wide variation in the adequacy of UI benefits across states, with a substantial number of states engaging in a "race to the bottom." Many states have severely weakened their state UI benefit payment systems and have refused to fully fund the program, resulting in a decline in UI benefits available to unemployed workers as a percent of total wages (O'Leary and Wandner 2020). Today, the program desperately needs comprehensive reform.

While comprehensive UI reform could make use of various alternative approaches (Wandner 2020), this proposal recommends a national UI program run like the Social Security Administration's (SSA's) old age assistance program.[2] The U.S. Department of Labor's (USDOL's) Office of Unemployment Insurance, with its steadily declining staff – now comprising fewer than 50 professional staff – is not able to oversee a multi-billion-dollar program operating separately in 50 states, the District of Columbia and two territories (Wandner 2019). The troubled response of the UI program to the COVID-19 recession suggests that the UI program should start over as a national program, an approach that was considered before the enactment of the Social Security Act of 1935 (Witte 1962, pp. 114-118).

In 1934, the staff of the President Franklin Delano Roosevelt's Committee on Economic Security initially favored creating a national UI program similar in structure to the Social Security old age assistance program. Instead, out of political concerns that included potential rejection by the federal courts, the final Committee Report recommended a federal-state program, stating that "(t)he plan for unemployment compensation, we suggest, is frankly experimental" (NCSW 1985, 43). Eighty-five years later, it can be said that the experiment has largely failed. Reforming the current UI program will require comprehensive federal statutory changes.

Goals for Reform

Because the current UI system is neither working for most unemployed workers nor helping the program stabilize the U.S. economy as it was intended to do, comprehensive reform must achieve a number of important goals:

[2] This proposal deals only with long-term reform of the UI program. It does not deal with the short-term UI stimulus policy that could be implemented during over the next several months, either legislatively or administratively. Short-term changes, however, could incorporate aspects of this proposal.

- Adequate benefits paid to workers unemployed through no fault of their own during periods of both high and low aggregate unemployment
- Equity between states and between similarly situated individuals in access to benefits, benefit amounts, and durations
- Sufficient funding to operate the program raised through a low uniform tax rate and a progressive payroll tax identical to the Social Security taxable wage base
- Provision of a comprehensive set of reemployment services to ensure that UI recipients are better supported in actively searching for and rapidly returning to work

Three Frameworks for Comprehensive Reform

While the need for comprehensive UI reform is clear, there are essentially three alternative frameworks for comprehensive federal legislative reform relating to the administration of the UI program to achieve these goals (Wandner 2020).

<u>Option 1: Enhanced federal-state program</u>

- Retain state administration of the existing federal-state UI program with states administering the benefit and tax provisions of the program under state UI laws
- Add a substantial number of federal conformity standards ensuring uniform access and qualifying provisions, adequate benefits, sufficient revenue raised through progressive tax provisions, resulting in interstate equity. USDOL would continue to oversee the UI program

<u>Option 2: Federal program</u>

- Convert the regular state program and extended benefits programs into one federal program with a single set of access, benefit payment, and tax provisions
- The states would act as agents of the federal government through contractual agreements for the operation of programs – similar to the current UI programs for veterans, civilian federal employees and trade impacted workers
- State UI and Employment Service (ES) staff would remain state employees but would be subject to federal merit staffing rules
- USDOL would oversee the federalized UI program in all states and jurisdictions (i.e., the 50 states, the District of Columbia, and two territories)

<u>Option 3: National program</u>

- The UI program would be administered and overseen by a single federal agency, the Social Security Administration or the U.S. Department of Labor
- UI access, benefit payment, and tax provisions would be established by Congress and applied consistently across all states and jurisdictions
- All benefit and tax provisions would be identical in each state/territory as determined by national criteria applied throughout the U.S.
- UI and ES staff would be federal employees

Federal Provisions and Standards for All Options for Comprehensive UI Reform
Any policy of comprehensive UI reform, whether administered as a federal-state, federal or national program, would apply evidence-based policy conclusions from an extensive body of UI research (O'Leary and Wandner 2018). Reform would require improved access to the UI program, uniform qualifying requirements, adequate benefit amounts and durations, and tax provisions that fully fund UI benefits:

- an application process that all unemployed workers can easily complete online or via telephone—with in-person assistance available as needed
- an adequate benefit amount and duration with interstate equity
- an extended benefit program that is responsive to recessionary increases in unemployment
- a tax system that collects enough revenue to fully fund adequate benefits and does so in a more progressive manner through a substantially increased taxable wage base
- adequate administrative financing
- enhanced and more consistently delivered reemployment services

More specifically:
Access

- Bring the percentage of unemployed workers receiving benefits into parity among the states, averaging approximately 50% (i.e., roughly the average percent of experienced workers who become unemployed through no fault of their own), although varying over the business cycle. This would be achieved by providing:
  - Substantial and easy-to-understand information about how to apply for UI benefits
  - A simple UI application form with prompts to help complete the application online or by telephone
  - Access to individual UI program staff who could assist with application, if needed
  - Increased coverage of independent contractors and self-employed workers, mostly through expanding the federal definition of the employer-employee relationship for all programs, including UI. (Nearly all wage and salary employees are currently covered by the UI program)

Benefits

- Qualifying for Benefits: Unemployed workers must have earned at least $1,500 (subsequently indexed to wage growth) in one quarter and have some earnings in at least 2 quarters during a one-year period (the UI base period)
- Benefit Replacement Rate: 50 % of prior wages up to a maximum weekly benefit amount
- Maximum Weekly Benefit: 2/3 of state (or national) average weekly wage
- Maximum Potential Duration of Regular UI Benefits: 26 weeks in all states and jurisdictions

- Extended benefits would be triggered on an off by the Bureau of Labor Statistics (BLS) measure of total unemployment, and the weeks of benefits would increase as the unemployment rate increases
- Increase eligibility to workers reflect changes in the labor force, including providing benefits for part-time workers, workers seeking part-time employment, workers following spouses/partners to new locations, and disregarding pensions for older workers remaining attached to the labor force

Taxes/Financing

- Taxable Wage Base: Social Security wage base ($137,700 in 2020)
- Tax Rate: Approximately 1.4 percent of taxable wages paid by each employer (Pavosevich 2020), varying year by year as needed, set by the Social Security Administration's actuarial assessment, or by a schedule of rates varying with Unemployment Trust Fund solvency
- Eliminate Experience Rating: shown to be difficult to administer and ineffective (Miller and Pavosevich 2019)
- Increase employee "ownership" of the UI program: Consider splitting the tax between employers and employees similar to the approach of the Social Security old age insurance program
- When insolvent, the Unemployment Trust Fund could borrow from the Treasury

Recommendation: National UI Proposal Administered by SSA

A national UI program should be adopted because the state UI programs have been shown to be 1) ineffective in providing equitable and adequate income replacement, 2) inefficient, and 3) slow to adapt to changing labor markets and technology. These deficiencies are especially problematic in times of national emergencies and when the UI program has been called upon to administer increasingly complex federal unemployment assistance programs.

<u>Program Administration</u>

- A national program would be administered by the Social Security Administration – paying benefits, collecting taxes, administering UI work search requirements (the UI work test), and providing adequate self-service and staff-assisted reemployment services
- The Social Security Administration would be best able to administer a national UI program because of its large staff with experience administering large social insurance programs including as paying benefits and collecting taxes, whereas USDOL has no such experience
- State and local UI and ES staff would become federal employees of the Social Security Administration
- Ease access to the UI program by creating a simple online national UI application form with prompts to assist applicants and the availability of robust telephone assistance as needed

Regular Benefits

- Improved program access and a single set of eligibility requirements consisting of minimum earnings requirements when workers become unemployed through no fault of their own would result in approximately 50% of unemployed workers receiving UI benefits (the UI recipiency rate) – although the recipiency rate will vary over the business cycle. In 2018, the recipiency rate varied between states from a high of 52 to a low of 11 percent
- Replacing 50 percent of prior wages up to a maximum of 2/3 of the national average weekly wage, such that the maximum benefit is the same in all states and for all individuals
- Maximum potential duration of benefits would be set at 26 weeks for all eligible unemployed workers

Extended and Emergency Benefits

- Extended benefits funded by federal general revenue
- Extended benefits would increase in duration as unemployment rates rise, triggered on and off by state and national BLS civilian unemployment rates (See O'Leary and Wandner 2018, pp. 145-150)
- Emergency unemployment compensation enacted by Congress in times of emergency

Taxes

- Taxable wage base equal to that of Social Security ($137,700 in 2020)
- Tax rate of approximately 1.4 percent (Pavosevich 2020 – attached), potentially varying annually as determined by actuarial analysis or a pre-established schedule of rates varying with Unemployment Trust Fund solvency
- Taxes paid by employers. Alternatively, the tax burden could be shared by workers and employers to ensure that employees have a direct interest in program management

Data Systems

- A national UI program would have a single set of definitions for UI benefit and tax systems, including a single definition of "employers," "employees," "employment," and "wages"
- This shift to a single set of definitions would make it easier for multi-state employers to file quarterly wage reports and make tax payments. It also would improve the use of quarterly wage data for policy, program, and statistical analyses

Reemployment Services

- Rigorous work test to ensure UI recipients are unemployed through no fault of their own and are available for and actively seeking work
- Greatly expanded reemployment services to assist in the rapid return to work, approximately doubling the funding for the Employment Service to provide UI claimants with staff-assisted services to speed their return to work

- National programs for work sharing/short-time compensation and self-employment assistance

Implementation
- Phase in over two years. SSA would develop new application, benefit payment, tax, and administrative systems, making use of the best processes currently used by the states
- UI functions would be transferred to SSA and UI moved to co-located local offices or to new, separate UI offices by the end of the transition period
- Existing state UI staff would be given the opportunity to transfer from state employment to working for the SSA to implement and operate the new UI program

Transition
- Starting on January 1st after the enactment of a national UI program:
    - State UI agencies would become agents of USDOL for two years until the Social Security Administration could take over the administration of the UI program
    - Assuming a reasonably low national unemployment rate, some state UI staff would begin transferring to the SSA
    - States would pay UI benefit recipients 50% of prior wages, up to a maximum of 2/3 of the national average weekly wage. Maximum potential duration would be 26 weeks in all states and jurisdictions
    - The state UI tax would become a flat tax of approximately 1.4 percent on employers, paid on the Social Security wage base – to ensure a maintenance of effort by the states during the transition

Pros and Cons of National UI Program

Pros
- Access, qualifying requirements, benefit, and tax provisions would be the same in all states, creating interstate and interpersonal equity in program administration and outcomes
- Benefits would be more adequate and equitable for all UI recipients
- Taxes would be sufficient to pay benefits, and, with a higher taxable wage base for UI taxes, taxes would be more progressive due to the expanded wage base
- The UI tax would be modest, raising the total employer Social Security-UI tax rate from 6.2% to 7.4%, if employers were to pay the entire tax, or raising the tax to 6.9% for both employers and employees, if the tax were shared
- Reduced administrative costs from simplifying and consolidating administration from 53 jurisdictions
- More flexible and timely response to Congressional enactment of recessionary add-on federal UI programs
- Improved defense and security from UI benefit payment and tax fraud
- More timely and reliable reporting of UI unemployment, employment, and wage data

- A single set of data definitions and a single data system would be advantageous for employers, employees, and analysts who want to understand and use UI program, employment, and wage data, including for the U.S. national income accounts
- A single national definition and wage record would make it easier for unemployed workers to apply for UI benefits and be certain that all their wages would be counted, since there no longer would be interstate claims for benefits

<u>Cons</u>

- The current 53 state UI agencies would be eliminated, states would lose direct control of the UI system, and state UI employees would have to compete for jobs and transfer to the Social Security Administration
- Likely opposition from some state governments, some members of Congress, and some employer groups, especially in high wage, low unemployment industries and sectors
- There would be a potentially disruptive transition period of approximately two years during which time the state UI programs would have to continue administering their programs and maintain their level of effort

Conclusions

While the UI system has been in decline for four decades, the COVID-19 recession has been a wake-up call about how inadequate the current system really is. Without a massive increase in staffing and resources, the U.S. Department of Labor would be unprepared to take the lead as a strong federal partner in a reformed UI program. It also is clear that many states have UI programs that are so weak that they have not been able to deal with the onslaught of UI applications and new federal programs during the current recession.

As a result, it is time to turn to the federal government to operate a national UI program. The Social Security Administration has effectively and efficiently run the Social Security old age assistance program for many years – a much larger program than UI. It is thus recommended that Congress create an effective, efficient, and equitable UI system that would be administered by SSA with expertise they would acquire from current federal and state UI staff members.

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How Much Would a National Unemployment Insurance Program Cost?

Robert Pavosevich September 24, 2020
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Introduction

Creating a single U.S. Unemployment Insurance (UI) program and eliminating each individual state program would simplify the assessment and collection of UI taxes. Under the current federal-state structure as laid out in the Social Security Act (1935), there are two taxes that employers pay quarterly – one a state tax that is based on the individual experience of the employer and which is used only to pay for benefits to claimants; the second tax is a flat rated tax assigned to each taxable employer and is 0.6% on the first $7,000 of an employee's wages (the Federal Unemployment Tax Act (FUTA) tax). Revenues from this tax pay for the administration of the UI and Wagner-Peyser Act employment service (ES) programs in states, loans to states, and the federal part of the federal-state extended benefits system. In a national program, there would be one tax; the level of that tax would be determined by the specific assumptions about how this program would operate. This paper describes the cost estimate for one potential national program.

Assumptions

This cost estimate for a proposed national UI program is based on the following assumptions:

- The national program would use average cost financing, rather than be a forward-funded program.
- The yearly tax rate would be set at an average of the total benefit costs (benefits divided by total wages) over the past twenty years (or inclusive of two recessions, whichever is longer).
- Access to the UI program would be facilitated such that on average approximately 50% of unemployed workers would receive UI benefits across the U.S.
- All eligible claimants would receive a minimum benefit standard of 50% of their calculated base year wages,
    - with a maximum weekly benefit that is 2/3 of the nation's average prior year wages,
    - and be eligible for a maximum potential duration of 26 weeks.
- The provision of enhanced reemployment services to UI claimants and other job seekers and the administering of a rigorous UI work test. Funding for the Employment Service would be about doubled to approximately $1.5 billion per year.
- Cost estimates are retrospective for the period through 2019 and do not include extraordinary COVID-19 UI costs.
- The tax would include the amount of administrative financing necessary to operate the program:

  Yearly National UI Tax Rate = Avg. of Past Twenty Yrs. Ben. Costs + Administrative Costs

Estimate
The average of yearly benefit costs (total benefits as a percent of total wages) over the past twenty years (2000-2019) is 0.78% of total wages. In this case, benefit costs include regular plus extended benefits, but not federal emergency benefits. Yearly benefit costs range from a low of .37% in 2019 (a boom year) to a high of 1.8% in 2009 (a recession year).

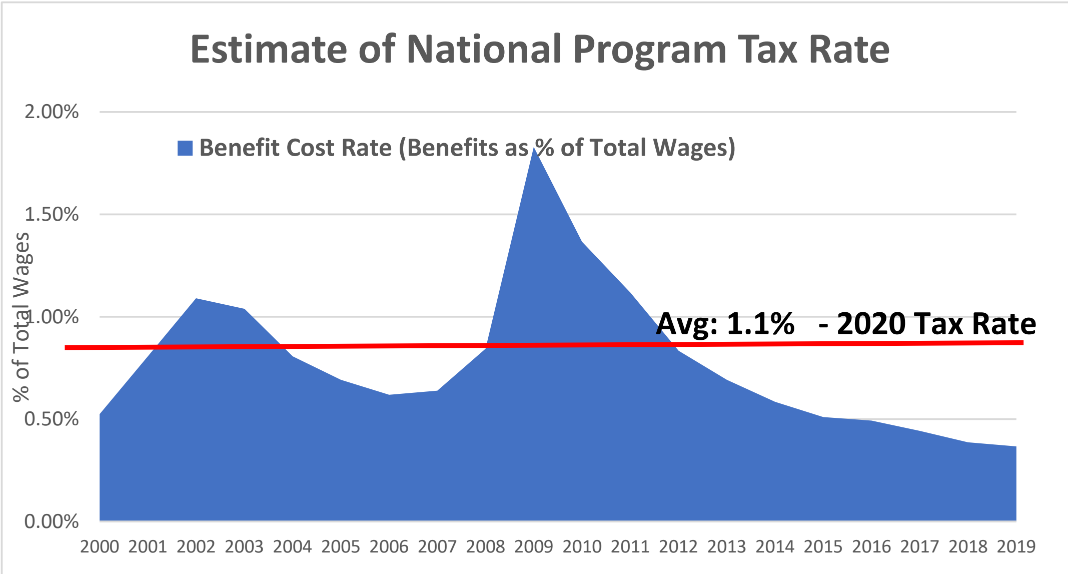
If claimants were paid benefits based on a new minimum benefit standard, then it is estimated that benefits would increase by approximately 25% to 30% over their current level. This estimate is based on state laws in existence in 2019, where 1) only 2 jurisdictions paid less than a 50% replacement rate for their weekly benefit amount (WBA), 2) 8 jurisdictions paid fewer than 26 weeks for their maximum potential duration, and 3) only 2 jurisdictions maintained a maximum weekly benefit that was two-thirds of the U.S. average weekly wage in the prior year.

The amount needed to fund administrative costs is difficult to project. Potentially there could be tremendous savings achieved through economies of scale in a national program by eliminating much of the duplicative effort across states in the current program. At the same time, there would need to be some increase in funding to establish new computing and administrative systems needed for a new national program and increased reemployment services, so the current administrative funding level of about 0.11% of total wages (approximately $7.0 billion in 2020 – reflecting a decline in UI administrative costs under SSA and an increase in the provision of reemployment services), would seem to be a reasonable level to include for administrative operations.

In total, estimating for 2020, a yearly tax rate of 1.13% of total wages = (.78% * 1.30) + .11% appears to be an adequate level to fund a regular national UI program.

Based on historical data about U.S. business cycles, using an average cost formula of twenty years would still allow for a sufficient buildup in the UI program reserves to pay benefits in an average recession. For instance, a total collection of approximately $80 billion is estimated for 2020 which is well above the amount of benefits needed in an expansionary, non-recessionary, year (Figure 1).

Figure 1.



Converting the cost estimate of a national program into a percent of taxable wages depends on the level chosen for the taxable wage base (the maximum amount of annual earnings taxed for the collection of the UI tax). Increasing the taxable wage base from its current minimum level of $7,000 and using a yearly indexing formula will not impact the financing of the program, since the necessary corresponding tax rate will lower for any desired amount of tax revenue. However, a higher wage base will greatly reduce the regressivity of the tax towards low wage employers since the proportion of their payrolls would then be taxed on a similar basis as high wage employers. And for financing purposes, as long as the wage base is indexed each year, long-term deterioration in program finances will be prevented.

If the program adopts a wage base equal to the U.S. average wage in UI covered employment ($59,000 - 2019) then the UI tax rate needed to raise revenue sufficient to fund a UI program costing 1.1% of total wages would be 2.3% of taxable wages. If the same taxable wage base as the Social Security ($137,700 in 2020) were used, then the UI tax rate for 2020 would be approximately 1.4% of taxable wages.

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UI Reform and Improvement: Short-Term Ideas: Appendix B

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Introduction

The proposals below are for short-term UI program reform and improvement during 2021. The administrative proposals could be implemented without legislation. Most of the legislative proposals may achievable by the Democratic controlled the Senate. These proposals are divided into two categories: items that can be achieved administratively or legislatively. A separate discussion describes a conditional loan forgiveness program that also would have to be enacted legislatively. These proposals also do not address a recovery package to replace the UI legislation enacted by the Congress in March 2020. An exception is the final item that would be a potential alternative to a fixed flat add-on payment to UI recipients' UI weekly benefit amount.

While there are strong reasons for enacting substantial long-run changes to the UI system and potential administrative arrangements for accomplishing them (O'Leary and Wandner 2020, Wandner 2020), those changes are beyond the scope of the menu of proposals below. Some of the below options, however, would facilitate more comprehensive reform.

Administrative Items

Staffing of the Office of Unemployment Insurance (*OUI) within the U.S. Department of Labor*

Onboard national office staffing of the OUI has been declining for decades and is currently only approximately 40 individuals. The decline in staffing has had negative effects on the ability of OUI to provide the direction, leadership and technical assistance that is essential for an effective federal state partnership (Wandner 2019).

The staff of the OUI should be substantially increased to allow OUI to provide direction, leadership, and technical assistance to state workforce agencies. Hiring could begin immediately by filling the current empty FTEs, but full staffing and training of new staff will take time. Some experienced staff, however, could be recruited from state UI programs.

New Contract Services for the OUI and the United States Employment Service (USES)

Given the inadequacy of the number of current OUI staff (and the total lack of USES staff) as well as the time required to hire and train new staff, the UI program should procure contract services (in part from former federal and state UI and ES staff members) to help the UI program more rapidly improve oversight and direction of UI programs and provide policy, legislative, and actuarial services. Also, additional staffing for OUI and USES could be initiated through the Intergovernmental Personnel Act which allows state UI and ES staff to work temporarily (generally for up to 2 years) in federal service.

Contract services could include the development of some of the items described below, including model UI application, benefit payment, tax collection and reporting systems; a model reemployment services curriculum; and the development of new worker profiling models.

Proactive Advice to States Regarding the Interpretation of Legislation and the Provision of Other Guidance (e.g., Unemployment Insurance Program Letters and more comprehensive guidance like the manual published in 1962, *Unemployment Legislative Policy, Recommendations for State Legislation* (BES No. U212, October 1962) which established long standing federal benefit and tax adequacy objectives for states.

For several decades through the 1970s, the OUI provided helpful interpretations of federal UI legislation to the states along with guidance regarding state conforming UI legislation. Specifically, federal staff provided 1) comments on proposed state legislative changes, 2) program letters that interpreted federal UI laws and 3) books that interpreted federal law and provided recommendations about how states should enact conforming state legislation and administer these provisions.

The OUI could reestablish its practice of providing interpretations and guidance regarding many issues that have been ignored for decades. The scope would cover a broad range of benefit payment, tax collection, reporting and administrative issues. For example, OUI has never provided an interpretation of what state experience rating systems must look like or regarding issues such as how many tax schedules a state must have and how many rates must be in any state tax schedule and the extent of non-charging of benefits. A draft experience rating UI program letter was developed, but it was never issued.

Reestablish the United States Employment Service (USES)
The Wager-Peyser Act requires the Secretary of Labor to establish and maintain a separate organization within USDOL called the United States Employment Service. Nevertheless, in 2002 and 2003 the USES was eliminated and has never been reestablished (Wandner 2008, pp. 210-212). Little USDOL guidance or direction has been provided to state employment service (ES) staff, although ES grants to states are allocated each year to fund state ES staff. Both OUI and USES grants are funded out of the Federal Unemployment Tax Act, and there are specific requirements in the Wagner-Peyser Act to assist UI in the administration of the work test and provision of reemployment services to UI claimants.

A federal USES was critical to the operation of the UI program in the states because it provided guidance and direction to state ES staff in their carrying out of UI work test for UI claimants and the provision of reemployment services, as well as for the referrals to career training, USES should be reestablished early in the Biden Administration. Working within the FY 2021 USDOL budget, a USES Administrator should be appointed, and a reasonable number of full-time equivalent (FTE) positions transferred to the USES so that hiring can begin.

At the state level, governors through state workforce agencies have responsibility for the statewide delivery of UI and ES services, which is different from job training programs that are under the control of local workforce boards in over 520 workforce investment areas nationwide. The reestablished USES should immediately begin providing guidance to the states.

One of the first issues dealt with should be informing states that state UI and ES staff must be merit-staffed with career civil servants as required by the Wagner-Peyser Act.

Annual UI Report to the President

Beginning with the calendar year 2020, the OUI could develop a comprehensive report on UI benefits, tax collection and the program's performance throughout the nation and in the individual states. The first report could be issued by June 2021. The report should include historical data but also the ranking of the states with respect to existing program measures for 2020.

The annual reports would be available for public policy analysis by the Executive Branch and the Congress. It could be used by interest groups concerned about UI performance both nationally and in the individual states. It also might have the effect of "shaming" states that rank at the bottom with respect to one or more measures into corrective action. In the past, USDOL has been resistant to ranking states regarding many performance measures to avoid embarrassment of individual states, but there is reason to think that some states may improve their programs if pressure is placed on them from public scrutiny.

Developing Improved Job Search Assistance Programs for Dislocated Workers

Once reestablished, the USES should develop model curricula for providing reemployment services to permanently separated workers. The new curricula could make use of exemplary state programs, the Department of Defense's Transition Assistance Program for exiting troops, and other programs that have been developed for USDOL's job search assistance demonstration projects. The goal should be that every permanently laid off UI claimant be provided with tailored services that include an assessment, preparation of a resume, development of an "elevator speech," interview techniques, job matching and referral to suitable job openings.

Reestablish the Advisory Council on Unemployment Compensation

USDOL held periodic meetings of the Advisory Council for many years into the 1970s. The members were chosen from employee and employer groups, and it also included public members. Reestablishing the Advisory Council would foster discussion about current UI program policy as well as ideas for future change. Meetings of the Advisory Council would be subject to the Federal Advisory Committee Act and would have to be announced in the *Federal Register*.

<u>Legislative Items</u>

The following are items that might be attached to a stimulus package or to a supplemental budget appropriation if such legislation is enacted in 2021. They also could be included in the President's March 2021 Budget Request for FY 2022.

Development of Exportable Model State UI Application, Benefit Payment, Tax and Reporting Systems

- Funding would be provided to USDOL to contract for the development of low-cost, flexible IT systems for the UI application process and for benefit payment, tax collection and reporting systems that potentially could be used by all states. The contract would be with a non-profit organization. Consideration should be given to using a Federally Funded Research and Development Center (FFRDC) – see below. The contractor initially would test the systems in 3 volunteer states.
- Given that states have not been able to quickly deal with non-monetary eligibility issues during COVID-19, and state adjudicators have not been able to keep up with applications that raise issues, a component of the benefit system would include an artificial intelligence system to help make determinations in many cases, reducing the burden on trained adjudicators.
- Systems developed under the contract would be in the public domain, so that they could be exported at low cost with modifications to other states. This approach would limit the cost of making much needed improvements to current IT systems.
- USDOL would request input about the design of the system from the states.
- If successful, this approach to IT reform would be far cheaper and more effective than having IT systems built by private for-profit vendors for each state. Many past private vendor efforts have not been done efficiently or effectively.
- If the 3-state implementation is successful, a second contract could be let to implement similar systems in other states that chose to participate.

Establishment of a Federally Funded Research and Development Center (FFRDC) for Social and Economic Service Programs.
An FFRDC would be a multi-agency effort that would include programs such as TANF and SNAP and perhaps some education programs. (The Biden Commerce transition team was considering pursuing an FFRDC to make innovative use of Census and other data.)

- Functions:
    - Data collection: UI and workforce data: states supply program data
    - Database development and maintenance
    - Data analysis and reports would be provided to states and federal agencies for policy and program analysis. Potential examples include frequent periodic reports to states and feds; the development of state application, benefit payment and tax collection systems for export to the states; updates to and the maintenance of profiling models for targeting reemployment services; and actuarial analyses for individual states
    - Research projects prepared for states, the Executive Branch, and the Congress
- A federal-state oversight committee for the FFRDC would consist of participating federal agencies and state representatives

Reestablish a Research and Evaluation Budget for the Employment and Training Administration

There are two levels of research organizations that serve the Employment and Training Administration (ETA), one in ETA and the other in the Office of the Chief Evaluation Officer. ETA traditionally had its own research and evaluation budget as a line item in the ETA budget. That budget item has been eliminated. Now ETA must request funding for individual projects, including for UI research and evaluation projects, from the Chief Evaluation Officer. While the research budget for all USDOL should be increased, more research and evaluation targeted for employment, training and UI programs would be conducted if ETA had a substantial research and evaluation budget of its own.

National Study Commission for Comprehensive UI Reform

- Short-term commission composed of public and private sector stake holders with a report with recommendations due in a timely manner
- Review components of a reform package, including reform of benefit, tax, and reemployment services
- There have been two study commissions, one in the late 1970s and the other in the mid-1990s. While these commissions were difficult to set up, they were good at identifying components of the UI program that needed change. But employer and employee groups tend to disagree on how to proceed. Nevertheless, it would be worthwhile examining the two reports to identify issues for UI reform, at least in historic context.
- An alternative to establishing a new study commission would be for USDOL to monitor the work and products of the National Academy of Social Insurance's national UI workgroup that will be issuing a report on options for comprehensive UI reform during the summer of 2021

Biden Administration Proposed Conditional Loan Forgiveness Program for the States

It is likely that most state unemployment trust fund accounts will have to borrow substantial amounts of money to continue to pay benefits during the current downturn. As a result, states are likely to be highly interested in loan forgiveness. The Biden Administration could proactively propose such a program in early 2021 that also would create a strong incentive for states to adopt needed UI benefit and tax reforms. The proposal:

- A conditional loan forgiveness reform package would be offered to each state, contingent on the state's acceptance and legislative enactment of a series of UI benefit and tax reforms
- To ensure that the reform efforts are not repealed in the future, the full loan amount plus interest would have to be repaid if the state does not maintain the adopted provisions
- Forgiveness would be effective on the date of implementation of the new state legislation conforming to a state loan forgiveness agreement
- New state legislation would include a combination of some (or all) items of the state benefit and tax reforms that are considered best practices based on past research, e.g.,

a standardized, improved and simplified application process; a benefit payment maximum benefit amount of 2/3 of the state's average weekly wage, a benefit payment potential duration of at least 26-weeks, an indexed taxable wage base of x percent of the Social Security taxable wage base, experience-rated state tax rates established through a system that better reflects employer experience, e.g., an "array system".

Assumptions:

- State UI account debt will be substantial by mid-2021, so many states and employer groups are likely to be eager for loan forgiveness, especially if a state's loan amount is large. This process might not be supported by some high wage employers who would have to pay higher taxes under the new legislation.
- For the states, generous benefit provisions and strong tax provisions may seem like a reasonable tradeoff for loan forgiveness, but perhaps only to states which already have more generous benefit provisions and therefore would not have to make large benefit payment changes. States also would likely be more interested if their loan amounts were large.
- Actuarial analysis will show that the new tax provisions will greatly decrease the need for future Treasury borrowing by participating states.
- Changes are likely to be permanent because of the costly repayment provisions if states do not maintain the required contractual obligation of maintaining specified benefit payment and tax collection legislative provisions.

<u>A Stimulus UI Add-On to the Weekly Benefit Amount: Doubling the Weekly Benefit Amount</u>

The March recovery package included a flat $600 add-on benefit to each UI recipient's weekly benefit amount. The fixed, flat amount add-on was agreed to because many state UI programs said they could not increase the UI replacement rate above 50 percent as many Western European countries had done this year with their Short-Time Compensation and wage supplement programs.

Republican opposition against the $600 add-on grew, and the add-on expired at the end of July. I received a call from an economist at the Council of Economic Advisors in August, asking about why some states could not increase their recipiency rates. I explained, and then we discussed potential alternatives. He was interested in the concept of doubling the UI weekly benefit amount. Under this approach, each week states would pay one regular state UI check to UI recipients and then a second federally funded check of the same amount. Making such a second payment may be feasible for most or all states.

For Republicans, a double payment is likely to be more attractive than a fixed, flat add-on, because UI recipients would receive up to 100 percent of their prior wages. Thus, no UI recipients would receive more than their prior weekly wages. Such an approach, however, would not be as progressive as a fixed, flat add-on. It also would provide less stimulus than an add-on of $600. A double payment, however, might be more attractive if negotiations about the fixed, flat add-on yielded an amount as low as $200 to $300 – because a double payment could be more generous to almost all workers.

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