KENTUCKY CENTER for ECONOMIC POLICY

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Unemployment Insurance Important to Economy but Limited for Workers

The loss of over 100,000 Kentucky jobs during the severe economic downturn of the last few years would have been even worse for the economy—and Kentucky families—if it wasn't for unemployment insurance (UI). Since 2008, UI has provided over $5 billion to Kentuckians who lost jobs, helping families make ends meet in difficult times and injecting much-needed demand in a weak economy. As the state's unemployment insurance system rebuilds its trust fund in future years, it is important that already-limited benefits for workers be protected.

Unemployment insurance good for Kentucky economy and needed by families

Since 2008, $2.9 billion in state unemployment benefits (and a total of $5.5 billion including federal benefits) have helped Kentucky families make ends meet through the biggest recession since the Great Depression.[1] Unemployment insurance played a major role in stopping the country's economic decline, and in helping Kentucky families meet basic needs in the face of severe income losses.

Spending on unemployment insurance is designed to increase when unemployment rises and serves as a countercyclical force in economic downturns. By allowing families with a worker who lost his or her job to at least partially maintain purchasing power, unemployment insurance is a needed source of spending in an economy where consumers and businesses are unable or unwilling to spend. According to a recent study by Dr. Wayne Vroman of the Urban Institute, unemployment insurance closed about 18 percent of the gap in real gross domestic product created by the recession, making it a major factor in limiting the depth of the downturn. He estimated that each dollar of benefits provided about a two dollar economic jolt, making it one of the most effective ways to stimulate the economy. [2]

In addition to its economic benefits, unemployment insurance helps struggling families pay bills and make ends meet during tough times. In 2009, unemployment insurance helped keep 3.3 million American families out of poverty.[3] According to one study, the amount that a family spends on food declines by seven percent when the head of the household loses his or her job, but would fall 22 percent without the help of unemployment benefits.[4]

Unemployment insurance in Kentucky is not generous

Benefit levels in Kentucky's unemployment insurance program are very modest. The average weekly benefit is $287 a week, or $14,924 on an annual basis. In comparison, the poverty rate for a family of three in 2011 was $18,530, meaning that the average unemployment insurance benefit would put such a family 19 percent below the poverty level.[5] Compared to other states, $286 a week places Kentucky 27th in its average benefit levels. The average benefit replaces only 39 percent of the average weekly wage in Kentucky.[6]

Kentucky's maximum weekly benefit, at $415 a week, is also not high. North Carolina, Arkansas and 25 other states have maximum benefits as high or higher. While it is true that there are states like Mississippi and Louisiana that have lower maximum benefits than Kentucky, it is not evident that those high poverty states should provide models for Kentucky.[7]

What's more, the state will further reduce benefits as part of the comprehensive trust fund solvency legislation passed in House Bill 5 of the 2010 special session of the Kentucky General Assembly. The legislation maintained triggers that will freeze the maximum benefit at $415 a week until approximately 2018. If the poverty line grows between now and 2018 at historic rates of inflation, even the maximum benefit in Kentucky won't be enough to bring a family of three above the poverty line.[8]

Also, the legislation cut the wage replacement rate from 68 percent of previous wages to 62 percent beginning this year. And starting this year, workers must go through a one-week waiting period before receiving benefits. The benefit cuts were part of a package that also included tax increases on employers to help the state regain solvency in its unemployment insurance system over the next decade.

Access to unemployment insurance in Kentucky is limited. Currently, only 20 percent of the unemployed in Kentucky are receiving state unemployment benefits, and only 45 percent of Kentucky's unemployed are receiving either state or federal benefits. That ranks Kentucky 44th and 35th among the states in those two measures.[9]

There are a number of reasons that only a small portion of the unemployed in Kentucky receive benefits. The state has an overly complex formula for determining monetary eligibility that disqualifies many workers. Unlike many states, Kentucky disallows those who quit their jobs for compelling family circumstances. Kentucky is one of only 12 states that have not enacted modernization measures that would address qualification problems and increase access to unemployment benefits among low-wage workers, part-time workers, women and the long-term unemployed. The Recovery Act included incentives to enact a set of improvements, and Kentucky was eligible to receive $90 million if it made those changes by August 2011. The state, however, chose not to act.[10]

Contrary to misrepresentation, most workers do not stay on unemployment insurance for the full amount of time they are eligible or choose to remain on benefits when they could work. In Kentucky, the average time on state benefits is currently 17 weeks.[11] Long-term unemployment is a problem for some, largely because enough jobs

About Unemployment Insurance

Unemployment insurance (UI) is an income assistance program for: those who have lost a job through no fault of their own; are ready, willing and able to take a suitable new job; and have earned at least a minimum amount of money during a period before becoming unemployed. It was created during the Great Depression in 1935, and is paid for through an employee tax paid by employers.

UI is run by the states (which set eligibility and benefit levels) and overseen by the U. S. Department of Labor. The steep recession has led to extended unemployment benefits paid for by the federal government. Due to its high unemployment rate, Kentucky is one of 22 states in which up to 99 weeks of benefits are available:

- The basic state program, which provides up to 26 weeks of benefits;
- The Extended Benefits (EB) program, which provides up to an additional 20 weeks of compensation to workers who have exhausted their state benefits. EB is normally funded jointly by the states and the federal government, but is currently paid for by the federal government.
- The Emergency Unemployment Compensation (EUC) program, which provides up to 53 more weeks of compensation to those who exhaust previous benefits.

Source: Center on Budget and Policy Priorities, U. S. Department of Labor simply do not exist. For nearly three years, the country has had over four job seekers for every job opening.[12]

Conclusion

Unemployment insurance is important to Kentucky's economy as a source of demand in weak economic periods, and is critical to helping families facing job loss provide for their basic needs. However, it is a very modest benefit with limits on qualification. As KCEP explores in a separate brief, Kentucky must now create a mechanism to pay interest payments on the loans the state owes to the federal government for its unemployment insurance trust fund.[13] And over future years, the higher tax rates to pay back those borrowed funds will go into effect. Employers and political leaders must not respond to those changes with further cuts to already limited unemployment benefits.

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The Kentucky Center for Economic Policy is a non-profit, non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED). For more information, please visit KCEP's website at www.kypolicy.org.

[1] United States Department of Labor, Employment and Training Administration, email correspondence, January 11, 2012.
[2] Dr. Wayne Vroman, "The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession," Impaq International, July 2010, http://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf.
[3] Arloc Sherman, "Looking at Today's Poverty Numbers," Center on Budget and Policy Priorities, September 16, 2010, http://www.offthechartsblog.org/looking-at-today%E2%80%99s-poverty-numbers/.
[4] Jonathan Gruber, "The Consumption Smoothing Benefits of Unemployment Insurance," *American Economic Review* (March 1997), , pp. 192-205 as cited in Vroman, "Role of Unemployment Insurance."
[5] 2011 Department of Health and Human Services Poverty Guidelines, http://aspe.hhs.gov/poverty/11poverty.shtml.
[6] United States Department of Labor, Employment and Training Administration, Unemployment Insurance Data Summary, 1st Quarter 2011, http://www.ows.doleta.gov/unemploy/content/data.asp.
[7] United States Department of Labor, Employment and Training Administration, "Significant Provisions of State Unemployment Insurance Laws, Effective January 2011," http://www.ows.doleta.gov/unemploy/content/sigpros/2010-2019/January2011.pdf.
[8] The average increase in the consumer price index from 2000-2010 was 2.7 percent. At that rate of growth, the federal poverty level would be $22,268 a year by 2018. $415 a week translates to only $21,580 a year.
[9] Department of Labor, Unemployment Insurance Data Summary.
[10] Jason Bailey, "Kentucky Will Forego $90 Million for Jobless Workers Unless Unemployment Insurance Updates Made by August," Kentucky Center for Economic Policy, February 2, 2011, http://www.kypolicy.us/sites/kcep/files/Unemployment%20Modernization.pdf.
[11] Department of Labor, Unemployment Insurance Data Summary.
[12] Heidi Shierholz, "Nearly Three Years of a Job-Seekers Ratio Above 4-to-1" Economic Policy Institute, January 10, 2012, http://www.epi.org/publication/job-seekers-ratio-above-4-to-1/.
[13] "Kentucky Center for Economic Policy, "Kentucky Should Re-Enact Surcharge to Pay Unemployment Interest, January 11, 2011, http://kypolicy.org/kentucky-re-enact-surcharge-pay-unemployment-interest/.