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UNEMPLOYMENT INSURANCE AND ARRA: An Overdue Win for Arkansas Families

Jim Metzger
Rich Huddleston
Ginny Blankenship

Executive Summary

- Arkansas is expected to receive approximately \$271 million in new funding for unemployment insurance benefits through the American Recovery and Reinvestment Act (ARRA). This money will not only help protect thousands of additional Arkansas workers from job cuts and loss of income during this recession, but it has also presented a great opportunity for the state to fundamentally reform its unemployment insurance program over the long term.
- In response to the unemployment insurance stimulus legislation, the Arkansas General Assembly passed Act 802 of 2009, which will give unemployed workers quicker access to unemployment benefits, a \$25 increase in weekly benefits and an extended benefit period, among other measures.
- The changes embodied in the federal Unemployment Insurance Modernization Act (UIMA) and Arkansas's Act 802 will enable the state's unemployment insurance program to maintain its ability to help individual workers and their families. It will also boost consumer spending and local economic health, even if unemployment lingers or deepens before the recession ends.
- Unemployment insurance benefits entire communities. Research shows that one dollar in unemployment insurance generates \$2.15 in the general economy through purchases of food, clothing, housing and other basics.
- The unemployment insurance reforms are a strong example of how Arkansas is using the stimulus package to help thousands of vulnerable families through the recession and move ahead in the future.

Introduction

The economic stimulus program of the Obama administration, ARRA, is intended to save jobs and increase consumer spending during the worst economic downturn since the Great Depression. The tremendous infusion—\$787 billion—will provide toward tax cuts and support a wide spectrum of government services, including health, education, energy, housing and many other areas.

One important part of ARRA that will benefit many Arkansas workers and their families is the modernization of the state's unemployment insurance benefits. Our state is expected to receive about \$271 million in new unemployment insurance funding, which is about 9 percent of all stimulus money the state is expected to receive.¹ The funds will be distributed during fiscal years 2009 through 2011, and the state has about eight years to spend both the modernization and administrative money (to implement reforms) and the incentive payments (to assist with increased benefits).²

Unemployment benefits will make up 9 percent of all stimulus spending in Arkansas.

The unemployment funding in the stimulus package will not only help protect thousands of additional Arkansas workers from job cuts and loss of income during this recession, but the recent reforms that Arkansas has made will also lead us to have a stronger unemployment insurance program over the long term.

Why is Unemployment Insurance Critical to Families and Local Economies?

Unemployment benefits are the ultimate safety net for American workers at all income levels. We all pay into the program through taxes to provide economic security in case of a layoff, or if our entire community is devastated by a major employer leaving town. Unemployment payments provide a temporary financial aid to struggling families with unemployed workers. The assistance is designed to be short-term; helping families to weather the storm until the father or mother can return to work. National research shows that many unemployed workers have limited resources to fall back on when the paychecks stop coming. One study showed that nearly one-third of these workers cannot replace even 10 percent of the lost wages with savings.³

Unemployment assistance is important to the economy at all levels because it helps maintain a certain level of aggregate consumer demand, thus easing the strain on businesses and allowing them to remain productive during an economic downturn.

Research has shown that one dollar in unemployment assistance creates \$2.15 in the general economy through purchases of food, clothing, housing, and other basics.⁴

Each dollar spent generates \$2.15 in the local economy.

Arkansas's economy has fared better than many states during the recession that began in December 2007. Our economy is more diverse than many, with economic activity spread among the agricultural, manufacturing, natural resource and government sectors. Also, the state has not been as affected by the housing-market collapse as states in the Midwest and on the coasts.

About 89,000 Arkansans are out of work and looking for a new job.

The recession, however, has hit many Arkansans with layoffs in recent months, and the state's unemployment rate has begun to climb. The state's unemployment rate has increased to 6.5 percent, meaning that about 89,000 workers were out of work and looking for the next job. This is an increase of 23,000 unemployed since March 2008.⁵

Over the years the unemployment insurance systems in many states, including Arkansas, have not kept pace with the changing nature of America's workforce and the national economy. When the recession started in 2007, unemployment insurance benefits were slow in coming and so restrictive that many workers and their families could not obtain the help they needed. The unemployment insurance system in Arkansas and in many states was in need of major reform.

How Does Unemployment Insurance Work?

The unemployment insurance program provides a cushion to workers during times when they are involuntarily unemployed. Most employers in the state pay a small tax on their payrolls, with the rate varying by employer. Prior to the new law, employers had to pay this tax on the first \$10,000 of each worker's wages (it will now be the first \$12,000). The proceeds from the tax are used to support the unemployment insurance fund, and payments to workers are not subject to a state income tax (although federal taxes are usually applied).

The average weekly benefit in 2008 was \$275.

A worker's benefits are not based on financial need, but on the employment wages he or she earned during a previous 12-month period called the "base period." The average weekly amount in 2008 for Arkansas was \$275, and a maximum benefit of \$431 applies to all workers regardless of their income during the base period. Until the passage of ARRA and Arkansas's new law, the base period was defined as the first four of the last five quarters prior to the quarter when the initial claim for benefits was made. This could cause several months of delay and reduce the amount of weekly benefits (see more information on this below, under "Alternate Benefits Period.")

In order to qualify and receive a weekly benefit, laid-off workers must be "ready, willing, and able" to work. This means that while unemployed or reduced to working part-time, workers must be able to work and be ready to report for work without delay should an opening occur. In addition, they must register with the state's employment services office, continue searching for work, and make a required number of contacts with potential employers each week. If the worker meets these qualifications, he or she can receive the weekly benefit for 26 weeks (and an additional 13 weeks under special conditions).

In a normal year, the state handles about 18,000 new claims per week. Overall, the number of workers receiving benefits totals about 67,500 claimants during the year, and the state pays unemployment insurance compensation of about \$5 million to \$6 million weekly.⁶

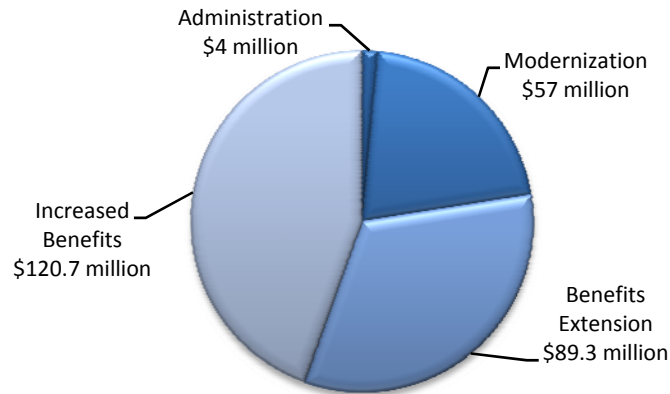
Table 1: Comparison of Unemployment Insurance Benefits in Arkansas and Surrounding States as of January 2009 (Before UI Changes under ARRA)

State	Maximum Weekly Benefit	Average Weekly Benefit
Arkansas	\$431	\$275
Louisiana	\$284	\$214
Mississippi	\$230	\$196
Missouri	\$320	\$253
Oklahoma	\$409	\$292
Tennessee	\$275	\$225
Texas	\$392	\$315
U.S. Average		\$306

Source: U.S. Department of Labor's Bureau of Labor Statistics data compiled by the National Employment Law Project, February 2009

How Does ARRA Help?

The primary vehicle for improving unemployment benefits for the states is the federal Unemployment Insurance Modernization Act (UIMA), which is part of the ARRA package. Arkansas will receive \$271 million in unemployment insurance funding for increasing benefits, extending the benefit period and modernizing the program (such as expanding eligibility and creating an alternative base period). While approximately \$210 million will be used for increased benefits and the extension of time that benefits can be received (in some cases), the remaining \$61 million will be used for modernization and administrative changes (see Figure 1 on the next page).⁷

Figure 1: Federal ARRA Funds for Arkansas UI Reforms

Source: Recovery.Arkansas.Gov

Among other changes, the UIMA will provide the following:

- An immediate increase of \$25 per week in payments to the unemployed.
- A nine-month extension in the eligibility period for the unemployed to receive emergency unemployment payments for an additional 13 weeks (under the 2008 Emergency Unemployment Compensation program).
- A suspension of federal income taxes on unemployment insurance benefits up to \$2,400 received during tax year 2009.
- New funding for unemployment insurance modernization for states that qualify for the UIMA program by agreeing to adopt the new Alternative Benefits Period (ABP) and other reforms. One third of the state's funding is contingent on this first step of the program, and no other funding is available if the ABP is not changed.

Besides the obvious economic stimulus of the UIMA package, the program is a push for states to improve the way that unemployment insurance benefits are administered and delivered. Studies have shown that unemployment insurance programs have not kept pace with the changes in the workforce that have occurred in recent years. Many jobholders today are low-wage, part-time, seasonal and female workers who are unemployed for longer periods of time due to global competition, technology, family obligations and the loss of U.S. manufacturing jobs. Nationally, it has been estimated that more than 500,000 workers were not being served adequately by the old-style unemployment insurance programs.⁸

Changes to the UI system are helping part-time, low-wage, seasonal and female workers.

Alternative Benefits Period (ABP)

A good system of unemployment insurance benefits quickly provides important income to workers and their families when an economic downturn or job change causes them to lose their employment. Unfortunately, prior to recent stimulus-related reforms, many workers did not receive unemployment insurance benefits promptly due to the calculation of their benefit period (base period). For example, the normal base period looks back more than one year for a worker's income history. This base period then calculates the employer's contributions for the first four of the last five quarters prior to the quarter when the initial claim was made. This creates an unneeded delay for the duration of the fifth quarter before a claim can be handled by the state, thereby resulting in a delay of up to three months in receiving the unemployment insurance benefit.

The updated system means workers don't have to wait months before getting benefits.

The new law eliminates this problem by using the alternative benefits period (ABP), which simply calculates the employer's contributions in the most recent four quarters. That means that no waiting period is necessary before a claim can be processed and the state can begin making payments to the unemployed worker. According to Jeffery Wegner of the University of Georgia, the practical effect of adopting the ABP is simple but significant: It more quickly puts money into the hands of the unemployed when they need it the most, rather than making them wait three to six months.⁹

Of course, this change commits the state to providing unemployment insurance payments earlier than it normally would, and thus will cost the state more money. Partly for this reason, some states have resisted the adoption of the ABP in the belief that it could force them to continue with this change even when federal assistance is no longer available from ARRA or other programs. Fortunately, Arkansas has not viewed this change as an unwanted reform, and state officials have embraced the opportunity to modernize the unemployment insurance program as part of the UIMA. However, Gov. Mike Beebe has confirmed that the change does not commit the state to continue using ABP indefinitely, especially if federal assistance is withdrawn in the future.¹⁰

Arkansas leaders have embraced modernizing the UI system.

Other Unemployment Insurance Improvements

As part of the stimulus package, UIMA creates a financial incentive for states to improve unemployment insurance services. Besides the adoption of ABP and the longer benefit periods, the program requires each state to choose two other reforms from a potential list of four innovations that are designed to help lower-wage workers. In return for these modifications, the federal government will agree to provide additional money to these state programs for seven years.

The four optional reforms involve providing benefits to the following categories of workers' families who currently do not receive unemployment insurance help:

- 1) Part-time workers who are denied benefits because they are required to seek full-time work.
- 2) Individuals who leave work for compelling family reasons, including domestic violence, spousal relocation and other specific situations.
- 3) Permanently laid-off workers who require extra unemployment benefits to participate in substantial training for new jobs.
- 4) Increased unemployment benefits for workers who care for family members, such as dependent children.

Arkansas has already adopted two of four optional reforms in order to get federal incentives.

Arkansas adopted the first two of these reforms with Act 809.

In addition to adopting two of these four measures, states are required to expand the wage base that is subject to the unemployment insurance tax (from \$10,000 to \$12,000 in 2010), thus increasing employers' contributions to the state unemployment insurance fund. Currently, the rate varies by employer. Prior to the new law, the rate only applied to the first \$10,000 of each worker's wages. Under the new law, that same rate will be applied to an additional \$2,000 of each worker's wages, and generate \$46 million in additional revenue from employers to increase the size of the unemployment insurance fund.

What Does Arkansas's New Act 802 Provide?

In response to the unemployment insurance stimulus legislation, the Arkansas General Assembly passed Act 802 of 2009. This legislation allows Arkansas to qualify for federal stimulus money under the UIMA program through its adoption of the ABP and two of the reforms dealing with previously disqualifying conditions: those who worked part-time or had special family conditions. The Arkansas Department of Workforce Services (DWS) estimates that the change to the ABP will impact 1,650 workers a year. Although state officials think the effect of the two reforms dealing with previous disqualifying conditions will be small, the National Employment Law Project estimates that about 2,300 workers would be impacted by the part-time worker provisions and about 400 people would be affected by the family conditions changes.¹¹

As a result of the changes brought about by the federal stimulus provisions and Act 802, Arkansas's reformed unemployment insurance system will help unemployed workers in several key ways (see Table 2 for a comparison of the old and new provisions):

- Quicker access to unemployment insurance payments beginning July 1, 2009, when

the new ABP is used to calculate eligibility for the program.

- An extension of the benefit period for those already receiving payments, so that unemployment insurance payments can continue for nine additional months. Under the 2008 Emergency Unemployment Compensation program (EUC 08), the extension for qualifying would have ended on March 31, 2009. Now that time period has been extended to December 31, 2009, for claims under EUC 08, and payments can continue until May 2010.
- Payment amounts will increase immediately by \$25 per week, as part of the economic stimulus package for participating states.
- Federal income taxes will not apply to unemployment insurance payments during the tax year 2009 on the first \$2,400 of benefits paid during 2009. Withholding of taxes will continue only if the worker had previously requested that taxes be withheld.
- Eligibility will be extended to groups of workers who were previously unserved or underserved by the unemployment insurance program. They include part-timers, people who leave work for family reasons, and those need extra time for training in new lines of work. For example, this means that benefits cannot be denied to workers who were part-timers during their ABP and are now only seeking part-time work. Also, workers cannot be disqualified from their benefits if domestic violence or a family illness forces them to relocate away from their employer. Lastly, workers who are enrolled in certain job-training programs and have exhausted their regular unemployment insurance benefits may continue to receive unemployment insurance payments during the extended period, as long as the training is for a high-demand occupation that is defined by the state.¹²

Table 2 Comparison of UI Benefits Before and After Modernization

Former UI Provisions	New Provisions Under UIMA
Weekly benefit based on contributions	Benefit increased by \$25 per week
Base period from first four quarters out of recent five-quarter work history	Alternative base period from last four quarters; no wait for fifth quarter
Employer UI rate applied to the first \$10,000 of each worker’s wages	Employer UI rate applied to the first \$12,000 of each worker’s wages
Extended benefits end March 31, 2009	New benefit extension to December 31, 2009
Federal income taxes apply to UI payments	No federal income taxes applied to UI payments under \$2,400 in 2009
Eligibility restricted for part-time workers, training programs and in certain family situations	Eligibility extended for part-time workers, training programs, and in certain family situations

Arkansas isn't committed to higher spending levels once federal funds run out.

Funding for the increased costs associated with these recent reforms will come initially from the stimulus package of about \$271 million and from the increased contributions of employers (who will pay the current rates on the increased wage base). The latter change is expected to raise about \$46 million annually starting in 2010.¹³ Most of the federal money is one-time funding: \$57 million is available for the state to spend on unemployment insurance reforms immediately, and the remainder can be used to cover increased benefits over the next eight years (the time depends on the length of the current recession and the period necessary to replenish the state unemployment insurance fund during a future recovery).

Some legislators in Arkansas (and elsewhere) have worried that states will be liable for increased funding in future years when the federal subsidy ends in seven years. However, administrators with the Arkansas Department of Workforce Services have maintained that, should the federal support disappear in future years, the General Assembly could revise the unemployment insurance law in light of economic conditions at that time. Gov. Mike Beebe confirmed with the U.S. Department of Labor that the change does not commit the state to using ABP indefinitely.¹⁴

Conclusion: Help for Arkansas's Working Families

Public policymakers and budget analysts have always recognized the dual nature of the benefits provided by some government programs like unemployment insurance systems. First and foremost, the payments from these business-supported funds at the state level provide a temporary financial aid to struggling families with unemployed workers. The assistance is designed to be short-term in nature, so that families can weather the storm until the father or mother can return to work. Secondly, these payments benefit the economies at all levels because it helps maintain a certain level of aggregate consumer demand, thus easing the strain on businesses and allowing them to remain productive during an economic downturn.

Unfortunately, the unemployment insurance systems of many states, including Arkansas, have not kept pace with the changing nature of America's workforce. When the recession hit, unemployment benefits were slow in coming and so restrictive that many workers and their families could not obtain the help they needed.

Our UI system will better serve Arkansans, especially if the recession deepens.

With the changes embodied in the federal UIMA and the state's Act 802, benefits will be expanded, delays and restrictions will be dramatically reduced, and eligibility expanded for certain types of workers. This means that if unemployment lingers or even deepens before the recovery takes place, as expected

in the next year or so, the state's unemployment insurance program will maintain its ability to both help individual workers and their families and boost consumer spending and local economic health.

Arkansas's positive legislative response to the unemployment insurance provisions in the ARRA will provide much needed assistance to Arkansas workers and their families, both during the current recession and beyond. The reforms, which will go into effect after July 1, 2009, represent a potential success story—hopefully the first of many—resulting from ARRA and the economic stimulus.

Rich Huddleston is Executive Director of AACF, James Metzger is a consulting economist and Ginny Blankenship is AACF's Research and Fiscal Policy Director.

¹ Latest figures available online at <http://recovery.arkansas.gov>

² Federal Funds Information for States (2009). "UI Modernization Included in Stimulus Bill," Issue Brief 09-Washington, D.C..

³ Gruber, J. (2001). "The Wealth of the Unemployed," *Industrial and Labor Relations Review*, 55(1):79-94.

⁴ National Employment Law Project (2009). "Modernizing Unemployment Insurance: The American Recovery and Reinvestment Act":

http://www.nelp.org/index.php/site/issues/category/modernizing_unemployment_insurance

⁵ "Arkansas' Jobless Rate Increases to 6.5 Percent," Arkansas Department of Workforce Services (DWS), press release, April 17, 2009.

⁶ Personal communication with Department of Workforce Services' (DWS) UI administration division, April 27, 2009.

⁷ <http://recovery.arkansas.gov>

⁸ National Employment Law Project, 2009.

⁹ Wenger, J. (2004). "Georgia's Alternative Base Period: A Preliminary Evaluation," University of Georgia, School of Public and International Affairs.

¹⁰ "Letter on U.S. jobless aid eases concerns of Beebe," *Arkansas Democrat-Gazette*, April 2, 2009, p. 8; see also "Senate approves framework for receiving stimulus money for unemployment," Arkansas News Bureau, March 26, 2009.

¹¹ DWS, April 27, 2009; National Employment Law Project, 2009.

¹² "An Act to Amend Various Provisions of the Department of Workforce Services Law; and for Other Purposes," Arkansas General Assembly, SB 429 as engrossed March 17, 2009.

¹³ "Changes to State's Unemployment Law Cruising Through Legislature," *Arkansas Business*, March 27, 2009.

¹⁴ "Senate passes bill to change state's jobless benefit plan," *Arkansas Democrat-Gazette*, March 27, 2009, p. 8; "Letter on U.S. jobless aid eases concerns of Beebe," *Arkansas Democrat*, April 2, 2009, p. 8.



AACF's tax and budget work is supported by the State Fiscal Analysis Initiative. For more information, contact Rich Huddleston, AACF Executive Director, at rhuddleston@aradvocates.org.



Union Station, Suite 306
1400 West Markham
Little Rock, AR 72201
(501) 371-9678

614 East Emma, Suite 127
Springdale, AR 72764
(479) 927-9800

www.aradvocates.org