



THE UNEMPLOYMENT INSURANCE MODERNIZATION ACT: OPPORTUNITIES FOR MISSISSIPPI

Summary

The Unemployment Insurance Modernization Act (UIMA) is a part of the recently passed American Recovery and Reinvestment Bill. UIMA provides incentive funding to states to make specific changes that update their Unemployment Insurance (UI) systems. If Mississippi makes the updates, Mississippi could receive up to \$56.1 million to increase coverage of workers who lose their job through no fault of their own but currently do not qualify for UI benefits. By participating in UIMA, Mississippi would receive a much needed economic boost and cover approximately 39,600 workers who are currently not eligible for unemployment insurance benefits. At an estimated annual cost of approximately \$13.9 million, the federal funding would cover modernization for approximately 4 years without a commitment to raise taxes in the future.

To receive the funding, Mississippi would need to update three elements of the state's current UI system. The funding would be available as soon as the state's application was approved and the state would have 12 months to make changes to its system. When the funds run out, Mississippi would maintain the flexibility to change its UI benefit system back to its existing state to ensure affordability for businesses.

Unemployment Insurance and the Need for Modernization

Unemployment Insurance Defined

The Unemployment Insurance (UI) program is a federal-state partnership designed to partially replace lost earnings of individuals who become unemployed through no fault of their own. Benefits paid through the program also serve to stabilize the economy during economic downturns. To receive UI benefits, a worker must meet the state minimum earning requirements over a defined base period. In addition, workers must have become unemployed for good cause as determined by state law, and be available and able to work.

The Need for Modernization

Although the workforce has changed fundamentally since the UI program was established in 1935, the unemployment insurance program has not kept pace with these changes. A 2007 report by the Government Accountability Office concluded that over time the UI program has become less effective at ensuring the financial security of America's workforce, with continued disparities for low-wage and part-time workers.¹ Unlike the mostly full-time, predominately male, workforce that existed when the program was established, today's workforce is made up of significantly more part-time and female workers. Additionally, loss of manufacturing jobs and globalization have contributed to an increasing number of workers who find themselves unemployed for long periods or needing to retrain for available work.

In addition to helping working families provide basic necessities during times unemployment, UI also serves an important role in stabilizing local economies during recession. In fact, a U.S. Department of Labor study examining the effectiveness of UI benefits in 5 recent recessions concluded that UI benefits contributed \$2.15 in economic growth for every \$1 paid in benefits.²

The \$56.1 million available from participating in the UIMA could generate \$120.6 million in economic activity in hard-hit local economies throughout the state. As workers spend this money in their local communities, their patronage helps preserve jobs.

Required and Optional Modernization Changes

Alternative Base Period

The centerpiece of UIMA is reform called the “alternative base period.” This is the first reform a state must make to participate in UIMA. If a state adopts the alternative base period it qualifies for one-third of its UIMA funding. This amount is estimated at \$18.7 million for the state of Mississippi.³

How Alternative Base Period Works

In measuring whether a worker has sufficient recent attachment to the workforce to qualify for unemployment benefits, states look at a worker’s earnings during a past four-quarter “base period.” Most states use a **standard base period** which counts the first four of the last completed 5 quarters. As a result, standard base period can omit up to 6 months of recent earnings when determining eligibility. As illustrated in Figure 1, **alternative base period** would mean looking at the most recent 4 completed quarters to determine eligibility.

**Figure 1
Alternative Base Period⁴**

| 1st Quarter 2008 | 2nd Quarter 2008 | 3rd Quarter 2008 | 4th Quarter 2008 | 1st Quarter 2009 | 2nd Quarter 2009 | |
|------------------|------------------|------------------|------------------|------------------|------------------|-------------------------|
| | | | | | | Standard Base Period |
| | | | | | | Alternative Base Period |

Additional Reforms

The state has the option to choose which two additional reforms make sense for Mississippi. In order to qualify for the remaining two thirds of UIMA funding, a state must provide benefits to unemployed workers in least two of the following four situations:

- 1) Part-time workers who are denied state benefits because they are required to seek full-time work;
- 2) Individuals who leave work for compelling family reasons, including domestic violence, illness or disability of an immediate family member, or the need to accompany a spouse whose employment location is beyond commuting distance;
- 3) Permanently laid off workers who require extra unemployment benefits to continue participation in WIA authorized training; or

- 4) Provide a dependent allowance of at least \$15 per dependent for workers who qualify for state benefits.

By enacting any two of these four reforms, Mississippi would qualify for an additional \$37.4 million in incentive funding.⁵

Part-Time Worker Eligibility

Many states exclude part-time workers from UI benefits by requiring them to look for full-time work in order to receive UI. The result is that many part-time workers are excluded from UI even though their wages were subject to UI payroll taxes and their earnings prior to layoff meet state monetary eligibility rules. A growing number of states (23 to date including southern states Louisiana and North Carolina) have adopted policies that provide UI benefits to many unemployed part-time workers in their state. To be eligible for UI in Mississippi you must be available for work, ready to go to work, and willing to accept both full-time and part-time work.⁶

Eligibility for Compelling Family Reasons

Under the UIMA, states qualify for incentive funding if they have adopted policies providing benefits to those who leave work for each of the following compelling family circumstances: domestic violence, the individual's spouse relocates to another location ("trailing spouse"), or the individual is taking care of a sick or disabled family member. Currently, "marital, filial, or domestic circumstances are not considered good cause for leaving employment in Mississippi."⁷ Twenty nine states have adopted coverage for workers who leave their jobs due to domestic violence and compelling reasons. The southern states of North Carolina, South Carolina, and Texas are among those states who consider domestic violence to be good cause for leaving employment.

Dependent Allowances

Some states provide a supplemental UI benefit to recognize the financial hardships that families with children face when a wage-earner is unemployed. Unemployment insurance benefits too often are insufficient to provide for the needs of the children in working families that struggle to make ends meet even in good times. Thirteen states, plus the District of Columbia, address the special hardships for families trying to subsist on an unemployment check by paying a regular weekly dependent or children's allowance as part of a UI check. There are currently no southern states providing dependent allowances.

Extended Unemployment Benefits While in Training

Five states extend UI benefits to jobless workers in approved training, with specific requirements differing from state to state. State UI extensions provide these workers with income support beyond the normal duration of state UI benefits. Since these extensions are paid under state laws, states have considerable leeway in targeting specific sectors or occupations for this type of subsidized retraining.

State extensions for retraining – known as "additional benefits" – serve important needs in states that use them. Generally, states require that jobless workers have lost work in a declining industry or occupation in order to qualify. States furnish extensions where retraining is necessary for the claimant to find a full-time job in another sector, one in which there are labor shortages or growing numbers of jobs. Workers who are approved for training are permitted to attend the training rather than searching for new work. Benefits extensions for workers in training are paid from state UI trust funds to workers who qualify for UI, and, in most cases, these benefits are not charged directly to former employers. There are currently no southern states that extend benefits while workers are in training.

Cost and Benefit of Reforms for Mississippi

As detailed in Figure 2, all three reforms are estimated to cost a total of between \$11.1 and \$13.9 million dollars. Once enacted, the state would receive \$56.1 million which would allow federal funding to pay for updated UI benefits for approximately four years.

| Figure 2 | | | |
|---|----------------|---|---|
| American Recovery Reinvestment Act | | | |
| Select Unemployment Insurance Modernization Act Provision Estimates | | | |
| UI Modernization | Benefit | Cost to State | Legislative Change Needed? (Y/N) |
| Alternative Base Period | \$18.7 Million | <ul style="list-style-type: none"> • \$7.3 million annually | Y |
| <ul style="list-style-type: none"> • Part Time Work • Leave (Domestic Violence, illness, Spouse relocation) | \$37.4 Million | <ul style="list-style-type: none"> • \$3.1 million annually • \$3.5 million annually | Y |
| Totals | \$56.1 Million | <ul style="list-style-type: none"> • \$13.9 annually • Estimated number of Mississippians served: 39,600 • Estimated years of funding: 4 | |
| Source: National Employment Law Project, MEPC Estimates | | | |

1 GAO, Unemployment Insurance: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt, GAO-07-1147 (Washington, D.C.: Sept. 7, 2007).

2 Lawrence Chimerine, et al., "Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness Over Three Decades. Washington, DC (Frances Perkins Building, Room S-4231, 200 Constitution Avenue, N.W., Washington, 20210) : U.S. Dept. of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Research and Policy, 1999.

3 National Employment Law Project, http://nelp.3cdn.net/c763952a5b73e8852c_3iim6sj65.pdf

4 Chart reproduced with permission from the National Employment Law Project. May 2008, http://nelp.3cdn.net/9a398fa5e086804cea_obm6yhxp.pdf

5 National Employment Law Project, January 30, 2009, http://nelp.3cdn.net/c763952a5b73e8852c_3iim6sj65.pdf

6 Mississippi Department of Employment Security, Unemployment Services FAQ available at <http://www.mdes.ms.gov>

7 Id.