

LEGISLATURE MUST ACT FOR CALIFORNIANS TO RECEIVE ADDITIONAL UNEMPLOYMENT INSURANCE BENEFITS AND \$838.7 MILLION IN FEDERAL FUNDS

California's workers will receive Unemployment Insurance (UI) benefits for a longer period of time and have expanded access to UI if the Legislature adopts two policy changes recommended by Congress. Under the American Recovery and Reinvestment Act (ARRA), the federal government will pay the full cost of up to 20 weeks of UI benefits through the Extended Benefits (EB) Program if the Legislature enacts an optional program "trigger."¹ The ARRA will also provide \$838.7 million to California's UI fund if the state agrees to use workers' recent earnings for determining eligibility for UI.² These two provisions could bring much-needed financial assistance to the state's UI system while aiding jobless workers and their local communities.

Changing a "Trigger" Will Give the Long-Term Unemployed Up to an Additional 20 Weeks of UI Benefits

California's long-term unemployed will receive up to 20 additional weeks of fully federally funded UI benefits – if the Legislature changes a "trigger" for the EB Program.³ The ARRA's expansion of the EB Program provides a longer benefit period than the current Extended Benefits system, which runs for a maximum of 13 weeks, and the ARRA offers full federal funding, without requiring the standard 50 percent state match.

Under the current system, the EB Program "triggers on" automatically when the state's "insured unemployment rate" or IUR – the number of workers receiving UI benefits in the past 13 weeks divided by the number of employed workers – exceeds 5.0 percent and is significantly higher than in the previous two years.⁴ Because a substantial share of unemployed workers do not receive UI benefits, the threshold

of a 5.0 percent IUR can be very difficult to reach, even when unemployment is high.⁵ States can choose a second EB "trigger" defined as a total unemployment rate (TUR) of more than 6.5 percent over a three-month period if the TUR is at least 10 percent higher than in the last two years. In other words, this option requires that unemployment be high and rising, regardless of workers' ability to qualify for UI benefits. And with exceptionally high unemployment – a TUR above 8.0 percent – the EB program provides benefits for 20 weeks, rather than the 13 weeks otherwise available when the TUR is more than 6.5 percent but less than 8.0 percent. California would qualify for the 20-week benefit program.

Eleven states have adopted the TUR "trigger" for the EB Program. The National Employment Law Project (NELP) estimates that 168,505 Californians will run out of UI benefits in 2009.⁶ These workers will be eligible for nearly five additional months of UI benefits if the Legislature takes advantage of the ARRA's EB Program. Federally funded EB benefit payments to Californians are expected to total \$2.5 billion to \$3 billion in 2009 if this provision is enacted.⁷

Federal Incentive Funds Will Provide UI to Jobless Workers Who Are Currently Denied Benefits

California will receive \$838.7 million in federal incentive funds from the ARRA if the Legislature changes the way eligibility for UI is determined. Current California law bases eligibility on an individual's earnings during the first four of the past five completed calendar quarters. This definition ignores any amounts earned during the quarter in progress and the most recently completed quarter. Take, for example, a person who attempted to establish a claim on March 17, 2009. That person's eligibility is based on amounts earned between October 2007 and September 2008. Any amounts earned between October 2008 and March 17, 2009 would be ignored (Table 1). Workers with substantial recent earnings may be denied UI benefits, or experience a delay in receiving benefits, if they have insufficient earnings in the base period. With an "alternative base period" (ABP), workers can use their earnings in the four most recent completed calendar quarters if they do not have enough earnings under the current formula. In the example above, the ABP is January 2008 through December 2008.

Table 1: The Current Base Period Definition Ignores Recent Work History That Is Included in an Alternative Base Period

For Claims Beginning in:	The Current Base Period Includes Earnings Received During the First Four of the Past Five Completed Quarters:	The Alternative Base Period Includes Earnings Received During the Last Four Completed Quarters:
January, February, March 2009	October 2007 Through September 2008	January 2008 Through December 2008
April, May, June 2009	January 2008 Through December 2008	April 2008 Through March 2009
July, August, September 2009	April 2008 Through March 2009	July 2008 Through June 2009
October, November, December 2009	July 2008 Through June 2009	October 2008 Through September 2009

The ARRA provides these funds to encourage the expansion of UI to cover more part-time, low-wage, and women workers. To receive its full share of ARRA funding, a state must establish at least two policies in addition to the ABP, to cover part-time workers, workers with compelling family reasons for leaving a job, or unemployed workers receiving job training, or to add benefits for dependents. California provides all of these except dependent benefits, so adoption of an ABP is the only action needed for California to receive these funds.⁸

Twenty-two states currently use an ABP.⁹ An estimated 30,000 workers will gain UI eligibility under the ABP, at a modest annual cost of \$69 million.¹⁰ California will receive the full \$838.7 million in federal incentive funds – enough to pay anticipated ABP claims for more than 12 years – in a single payment once the ABP is enacted.¹¹

The Alternative Base Period Helps Low-Wage Workers While Modestly Increasing Total UI Payments

Low-wage workers will gain the most from the ABP's recognition of recent earnings, according to a study by the Government Accountability Office.¹² Workers who have an intermittent work history – those employed in seasonal industries such as leisure and hospitality or construction, for instance – will also be more likely to qualify for UI with an ABP.¹³ Some workers who would qualify for UI if they filed a claim in a later quarter will get benefits sooner under an ABP.

An ABP will have a modest impact on California's UI spending. Research indicates that benefit payments will only increase by 1.8 percent with an ABP.¹⁴ Moreover, some of the additional cost of an ABP may be balanced by reduced spending in other programs. The Employment Development Department has estimated that two-thirds of new benefits associated with an alternative base period would be paid to individuals who otherwise would have qualified for cash assistance in the CalWORKs Program.¹⁵

Federal Funds Will Help California's Insolvent UI Fund, the State's Employers, and the General Fund

California's UI fund, which is financed by payroll taxes paid by employers, has run out of money. The state has borrowed more than \$1.0 billion from the federal unemployment trust fund through March 18, 2009 and is expected to have a deficit of more than \$4.9 billion by the end of 2010.¹⁶ The Governor has recommended increasing employers' taxes in order to bring the fund back into solvency.¹⁷ The \$838.7 million available under the ARRA will reduce the state's debt and hold down employers' taxes. The state's General Fund will also benefit, because interest on UI loans is paid from the General Fund.¹⁸ The ARRA waives interest due on federal UI loans through 2010 – California is expected to owe \$20.2 million for the period ending September 30, 2009 and \$133.5 million for the next year – but the state is likely to have loans outstanding past that date.¹⁹ Lower state borrowing now means lower overall interest payments.

Other Provisions of the Federal Recovery Bill Will Increase Economic Security for the Unemployed, Help Stabilize California's UI Fund, and Augment Funding for Administrative Costs

The ARRA includes several other provisions that direct funds to California's unemployed and to the state's UI program without legislative action. Jobless workers and the state will benefit from:

- New federal funding to add \$25 per week to UI benefits. All workers receiving UI under any program (the regular program, the Emergency Unemployment Compensation Program, or the Extended Benefits Program) get the additional money.
- A subsidy for unemployed workers who continue receiving employer-provided health insurance. The federal government will pay 65 percent of the insurance premium for up to nine months for workers who were laid off between September 1, 2008 and December 31, 2009.²⁰
- An extension of the Emergency Unemployment Compensation Program. This program gives up to 33 additional weeks of UI to workers who remain unemployed once their regular benefit period (a maximum of 26 weeks) ends.

- Suspension of federal personal income tax on the first \$2,400 of UI benefits received in tax year 2009.
- Expanded training, job search, income support, and re-employment services for workers displaced by increased imports.²¹ The ARRA reauthorizes the federal Trade Adjustment Assistance Program and broadens its coverage to include service-sector workers.²²
- \$59.9 million to help with the Employment Development Department's cost of administering the UI program.
- \$45.5 million for employment services.

Conclusion

The Legislature can bring significant federal funding to the state by enacting two UI reforms recommended by Congress. Funds for Extended Benefits will circulate in local communities as jobless Californians spend their UI benefits, and adopting an alternative base period will expand UI's safety net to more low-wage workers and those with intermittent employment. Both changes are consistent with the UI system's fundamental goals of providing temporary wage replacement to workers who become jobless through no fault of their own and stabilizing the economy during economic downturns by boosting the purchasing power of unemployed workers. With the state's unemployment rate now above 10 percent, California cannot afford to pass up this help.²³

Vicky Lovell prepared this Budget Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ National Employment Law Project, *The Economic Recovery Bill's New "Extended Benefits" State Option – 840,000 Workers May Qualify for an Extra 13 to 20 Weeks of Jobless Benefits When They Run Out of the Federal Emergency Extension* (February 16, 2009), downloaded from http://nelp.3cdn.net/8328aaf325a33fe316_64m6b9thw.pdf on February 25, 2009).
- ² National Employment Law Project, *Implementing the Model Provisions of the Unemployment Insurance Modernization Act in the States* (February 18, 2009), downloaded from http://nelp.3cdn.net/dcc61269e71d7220ef_t8m6b9prp.pdf on February 25, 2009.
- ³ National Employment Law Project, *The Economic Recovery Bill's New "Extended Benefits" State Option – 840,000 Workers May Qualify for an Extra 13 to 20 Weeks of Jobless Benefits When They Run Out of the Federal Emergency Extension* (February 16, 2009), downloaded from http://nelp.3cdn.net/8328aaf325a33fe316_64m6b9thw.pdf on February 25, 2009). According to oral testimony of Deborah Bronow, deputy director of the Unemployment Insurance Branch of the Employment Development Department, before the Assembly Committee on Insurance on March 4, 2009, the ARRA EB program would entail some General Fund expenditures for unemployed state and local government and school employees. These entities do not pay UI taxes, but reimburse the UI system for benefits paid to their former employees; federal funding would not be provided for extended benefits for their workers. In addition, Ms. Bronow suggested that California might "trigger on" the EB program under existing law by late April 2009, if unemployment continues to increase. In this event, workers would receive up to 13 weeks of 100 percent federally funded extended benefits, rather than the full 20 weeks available under the ARRA.
- ⁴ The current trigger requires that the IUR be 20 percent higher than it was during each of the last two years. National Employment Law Project, *The Economic Recovery Bill's New "Extended Benefits" State Option – 840,000 Workers May Qualify for an Extra 13 to 20 Weeks of Jobless Benefits When They Run Out of the Federal Emergency Extension* (February 16, 2009), downloaded from http://nelp.3cdn.net/8328aaf325a33fe316_64m6b9thw.pdf on February 25, 2009.
- ⁵ For example, California's IUR was 3.8 percent in the fourth quarter of 2008, even though the state's average monthly unemployment rate in that period was 8.3 percent

- (US Department of Labor, *Unemployment Insurance Data Summary*, downloaded from <http://www.workforcesecurity.doleta.gov/unemploy/content/data.asp> on February 25, 2009, and Employment Development Department data).
- ⁶ These workers have received all the benefits available to them from both the regular UI program (a maximum of 26 weeks of benefits) and a federally funded 33-week extension (the Emergency Unemployment Compensation Program of 2008). National Employment Law Project, *The Economic Recovery Bill's New "Extended Benefits" State Option – 840,000 Workers May Qualify for an Extra 13 to 20 Weeks of Jobless Benefits When They Run Out of the Federal Emergency Extension* (February 16, 2009), downloaded from http://nelp.3cdn.net/8328aaf325a33fe316_64m6b9thw.pdf on February 25, 2009.
 - ⁷ Assembly Committee on Appropriations analysis of AB 23xxx (March 9, 2009).
 - ⁸ National Employment Law Project, *Implementing the Model Provisions of the Unemployment Insurance Modernization Act in the States* (February 18, 2009), downloaded from http://nelp.3cdn.net/dcc61269e71d7220ef_t8m6b9pprp.pdf on February 25, 2009.
 - ⁹ "Twenty-two states" includes the District of Columbia. The Iowa Legislature has also passed legislation to adopt the ABP; the provision awaits the Governor's signature. US Department of Labor, Employment and Training Administration, *Significant Provisions of State Unemployment Insurance Laws* (January 2009), downloaded from <http://www.ows.doleta.gov/unemploy/content/sigpros/2000-present/January2009.pdf> on February 25, 2009, and National Employment Law Project, *Iowa and South Dakota the First States To Approve Unemployment Insurance Stimulus Funds* (March 13, 2009), downloaded from <http://www.nelp.org/page/UI/iowa.south.dakota.press.release.pdf?nocdn=1> on March 18, 2009.
 - ¹⁰ Assembly Committee on Insurance analysis of SB 3xxx (March 16, 2009).
 - ¹¹ Memo from Douglas F. Small, US Department of Labor, Employment and Training Administration, to State Workforce Agencies (February 26, 2009), downloaded from http://wdr.doleta.gov/directives/corr_doc.cfm?docn=2715 on March 18, 2009.
 - ¹² US Government Accountability Office, *Unemployment Insurance: Low-Wage and Part-Time Workers Continue To Experience Low Rates of Receipt* (September 2007), downloaded from <http://www.gao.gov/new.items/d071147.pdf> on February 26, 2009.
 - ¹³ Wayne Vroman, *Analysis of UI Benefits in Ohio* (May 30, 2008), downloaded from http://www.urban.org/UploadedPDF/411745_ui_benefits.pdf on March 5, 2009; US Government Accountability Office, *Unemployment Insurance: Low-Wage and Part-Time Workers Continue To Experience Low Rates of Receipt* (September 2007), downloaded from <http://www.gao.gov/new.items/d071147.pdf> on February 26, 2009; and Andrew Stettner, Heather Boushey, and Jeffrey Wenger, *Clearing the Path to Unemployment Insurance for Low-Wage Workers* (National Employment Law Project and Center for Economic and Policy Research: August 2005), downloaded from <http://www.cepr.net/documents/publications/ABPreport2005.pdf> on March 5, 2009.
 - ¹⁴ Michael Dardia, David C. Latterman, James Pearce, and Hugh Roghmann, *Effects of an Alternate Base Period on Unemployment Benefits in California* (SPHERE Institute: December 20, 2002).
 - ¹⁵ Senate Floor analysis of AB 3010 of 2002 (July 1, 2002).
 - ¹⁶ Data on the state's borrowing are from US Department of Labor, *UI Budget* (n.d.), downloaded from <http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans> on March 20, 2009; the estimated 2010 deficit is from Employment Development Department, *October 2008 Unemployment Insurance (UI) Fund Forecast* (n.d.), downloaded from http://www.edd.ca.gov/about_edd/pdf/edd-uiforecast.pdf on March 10, 2009. The Legislative Analyst's Office states that the deficit is likely to be higher than the EDD's October 2008 estimate (*2009-10 Budget Analysis Series: General Government* (January 30, 2009), downloaded from http://www.lao.ca.gov/analysis_2009/general_govt/gengov_anl09.pdf on March 9, 2009).
 - ¹⁷ Legislative Analyst's Office, *2009-10 Budget Analysis Series: General Government* (January 30, 2009), downloaded from http://www.lao.ca.gov/analysis_2009/general_govt/gengov_anl09.pdf on March 9, 2009.
 - ¹⁸ The state can choose to pay UI loan interest from other new or existing tax revenues. California Budget Project, *Building a Sound Foundation for California's Unemployment Insurance System* (April 2004), downloaded from <http://www.cbp.org/pdfs/2004/0404uireport.pdf> on January 9, 2009.
 - ¹⁹ Legislative Analyst's Office, *2009-10 Budget Analysis Series: General Government* (January 30, 2009), downloaded from http://www.lao.ca.gov/analysis_2009/general_govt/gengov_anl09.pdf on March 9, 2009.
 - ²⁰ Workers eligible for other group insurance or Medicaid are not eligible, and subsidies are not available for any coverage received prior to February 17, 2009 (US Department of Labor, *COBRA Continuation Coverage Assistance Under the American Recovery and Reinvestment Act* (n.d.), downloaded from <http://www.dol.gov/ebsa/cobra.html> on March 4, 2009).
 - ²¹ US Department of Labor, *Trade Adjustment Assistance Fact Sheet* (n.d.), downloaded from <http://www.doleta.gov/programs/factsht/taa.htm> on October 20, 2008.
 - ²² US Senate Committee on Finance and US House of Representatives Committee on Ways & Means, *The American Recovery and Reinvestment Act of 2009: Full Summary of Provisions From Senate Finance, House Ways & Means Committees* (February 12, 2009), downloaded from <http://finance.senate.gov/press/Bpress/2009press/prb021209.pdf> on February 12, 2009.
 - ²³ Employment Development Department, *California Labor Market Review* (January 2009), downloaded from <http://www.calmis.ca.gov/file/1fmonth/calmr.pdf> on March 10, 2009.