

EARNED BUT NOT RECEIVED:

Unemployment Benefits for Low-Wage Workers during the Illinois Recession

“The outlook on people who get unemployment is that they are lazy, or that they don’t want to go look for a job. I’ve been out there every day looking for a job. Every day. And I’ve applied for everything . . . I got bills I gotta pay, I’ve got rent I gotta pay.”

—Focus Group Participant

A report from:

National Employment Law Project

Work, Welfare and Families:

An Illinois Coalition Working to End Poverty

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Additional Resources

National Employment Law Project developed a report on the insolvency of the Illinois UI trust fund last year, *Financing Unemployment Insurance in Illinois*. Copies of this report can be found at www.nelp.org or www.workwelfareandfamilies.org.

About the Authors

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Executive Summary

In November 2004, the Illinois unemployment rate was 6%. Roughly, this represented 390,000 people out of 6.4 million people counted in the labor force.

Source: Illinois Department of Employment Security

Illinois' unemployment insurance (UI) program fails to reach the state's workforce effectively. In fact, low-wage workers are at a significant disadvantage relative to those with higher wages. Disparities also exist in receiving unemployment benefits for women, Blacks, Hispanics and young people aged 16-24. This study analyzes unemployment benefit receipt during the recent recession (2001-2003) to help understand which populations are supported by the program at a time when benefits are most needed and when program usage increased.

Illinois' recent recession brought a labor market slowdown that turned attention to the state's unemployment insurance program. The program continues to figure prominently in the daily lives of Illinoisans since, at the release of this report, the unemployment rate for Illinois still hovers at 6%, higher than the national average and close to rates during the recession.

By replacing a portion of lost wages for workers who have lost their jobs involuntarily, the state's unemployment insurance program fulfills a crucial role for communities hit by job loss. Benefits provide vital support to working families in good times and bad, furnishing temporary income to pay for basic necessities like housing and food in between jobs.

Even during a period of high program usage, we find that access to unemployment benefits is directly impacted by the kind of job a worker has been separated from. Drawing on original research, this analysis finds that unemployed low-wage workers are only about half as likely to access benefits as their high-wage counterparts: 54% of high-wage workers received benefits compared to 33% of low-wage workers.

■ **Unemployed workers from low-wage industries like retail, hospitality and health care are 21 percentage points less likely than high-wage workers to receive benefits while jobless.**

This result challenges a common belief that the Illinois program treats low-wage workers favorably because prior income requirements to receive benefits are small. Low-wage employers contribute to the program in the same way as high-wage employers. Most low-wage workers "earn" benefits through work experience that meets the general thresholds set for the program. Even with Illinois' small income threshold, these low-wage workers are shortchanged, revealing a significant problem for an increasing number of working families.

In the last twenty years, Illinois has seen unprecedented growth in low-wage industries, where workers often occupy jobs in retail and services.¹ But a full-time job in these industries does not ensure that ends meet; nor can many workers count on getting full-time hours each week. These workers are also least likely to be in a position to save, and their jobs frequently lack benefits. They are less likely to have a high-school education, stay in a job longer than two years or be unionized.² And, they are more likely to be women. All these factors mitigate against higher unemployment insurance reciprocity rate among low-wage workers.

In addition to finding that low-wage workers are at a disadvantage in the program, we identify other factors that influence who receives benefits. For example, unionization ensures greater receipt not only because union scale is higher than minimum wage but because unions have historically advocated for their workers in the UI system, a system that can be difficult to navigate. And while part-time work is covered under the Illinois program, the state's practices can exclude experienced part-time workers who are a bona fide part of the labor force.

Due to their lower wages and these factors, we find that women and minority workers trail in unemployment benefit receipt.

- **Women are 8 percentage points less likely to receive jobless benefits than men, because women are more likely to occupy non-union, lower paying or part-time jobs. If women received UI at an equal rate to men, another \$200 million in benefits annually would flow to women and their families.**
- **Blacks and Hispanics are also more likely to be losers in the system. Blacks are 7 percentage points less likely than whites to receive support from the system. Hispanics are 6 percentage points less likely than non-Hispanics to receive UI benefits.**

Our study has identified these substantial gaps based from analyzing administrative data, and we will be pursuing further research to identify the key causes of these discrepancies

Comparing Illinois to neighboring states in the Midwest and other states nationally shows that the Illinois program lags in several key categories that can impact benefit receipt among low-wage workers.

- Most Midwest states provide benefits to a greater share of their jobless populations than Illinois.
- Application rates are higher in other Midwest states than Illinois; and,
- Illinois ranks below all other Midwestern states except Missouri in terms of wage replacement.

2004 ushered in a host of changes to the unemployment system in Illinois, enacted by legislation. The Illinois Department of Employment Security (IDES) bailed out the UI trust fund, which pays for benefits, through a billion dollar bond agreement, stabilizing the financing and making some positive steps towards solvency. Changes also were made to eligibility requirements that will benefit women and low-wage workers in the long-run.

There is still a way to go before the Illinois program fully recognizes the work of low-wage workers. Examining the Illinois unemployment program through the experience of low-workers during the recession can help us gauge its reach and recalibrate the program to better serve this vital sector. We recommend that IDES, policymakers and elected officials consider the following points to ensure that all workers who have earned unemployment insurance receive it:

1. **Evaluate reciprocity according to wage levels, gender, race and ethnicity and age, assessing the magnitude of barriers at each point of the program, including:**
 - a. **Outreach and education to these groups; and,**
 - b. **Benefit denials of low-wage workers for misconduct and voluntary quits.**
2. **Clarify part-time eligibility.**
3. **Clarify and strengthen administrative procedures governing services to limited English speakers.**
4. **Ensure more comprehensive outreach to low-wage workers, women, Blacks, Hispanics and young people. Community organizations serving such low-income families have an important role in increasing awareness and providing support for unemployment claims.**
5. **Conduct an analysis of former TANF recipients' take-up of UI benefits.**
6. **Illinois should revisit legislation governing the UI program and enact changes that can benefit low-wage workers and women.**
7. **Enhance existing language on victims of domestic violence to include victims of sexual violence and broaden protections for these individuals.**
8. **Strengthen the financing of the UI trust fund, which pays out benefits, so that Illinois is able to maximize its use of federal interest to finance benefits during recessionary periods.**

What is Unemployment Insurance?

Established in 1935 by the Social Security Act, unemployment insurance (UI) provides prompt wage replacement for jobless workers. It is the first line of defense for workers and their families during economic hard times. The system is meant to partially replace lost wages, allowing families to make ends meet while at the same time stimulating the economy.

The UI system is a joint federal-state program. Payment for benefits comes from the UI trust fund, with dedicated revenues coming from a UI tax assessed on each employer's payroll. Tax rates vary by each employer's use of the program. Program administration is funded through a federal UI tax, with federal grants made to the state.

In order to be eligible, workers must have earned \$1,600 in two quarters of a one year period of prior employment. Eligibility is limited by reason of unemployment—with most workers laid off qualifying for benefits. Workers who are fired or quit their job can be disqualified from receiving benefits. The Illinois Department of Economic Security administers the program and makes these decisions.

In Illinois, workers found to be eligible for benefits can receive up to six months of unemployment benefits over a one year period (dating from their approval). Benefit checks equal 48% of a worker's prior paycheck, from a weekly minimum of \$51 for individuals and \$57 for families up to a weekly maximum of \$326 for individuals and \$442 for families in 2004.

Workers can also receive checks for weeks of total or partial unemployment (triggered by significantly reduced hours or part-time work). In order to receive benefits, workers must be part of the labor force —meaning they are ready and able to take a job and certify that they are looking for work.

See Appendix C for a more detailed definition of terms.



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Reciency Rate:

The standard measure of the coverage of the unemployment program is the percentage of unemployed workers who receive benefits (computed as insured unemployment) divided by total unemployment (the IU/TU ratio). Identifying what percentage of jobless workers is paid benefits determines how effectively the state's program provides support to the Illinois workforce.

The Unemployed:

Our counts of unemployed Illinois residents come from the survey used to create the official unemployment statistics, the Current Population Survey. Thus, we only include those who are actively looking for a job and ready and willing to work and exclude people who are disabled, discouraged workers and retired. Such individuals meet the threshold definition of unemployment for the purpose of benefit eligibility—they are unemployed but still part of the workforce.

From 2000 to 2003, the nation was hit by a recession for the first time since welfare reform. The recession seized the Illinois economy, costing over 200,000 jobs and eroding the quality of jobs. During this period, Illinois consistently experienced unemployment rates higher than the national average, peaking at 6.4%. For African-Americans the high was 13.2% and for Latinos 9.1%.³ Illinois' unemployment (UI) program provided a great boost to the economy during these three years by injecting an additional \$3.1 billion of spending power into communities, with total benefit pay-outs doubling from 2000 to 2002.⁴

Unemployment insurance plays the crucial role of replacing a portion of lost wages for workers who have lost their jobs involuntarily. It allows recipients to continue to pay for basic necessities like housing and food as they look for new jobs, propping up the local economy. Research shows that UI benefits prevent individuals from falling into poverty and help them remain attached to the workforce.⁵ For employers, UI ensures that a ready workforce stays within the area to fill job openings as the economy picks up.

The Illinois recession hit on the heels of unprecedented job growth in low-wage industries, such as retail and services,⁶ and a significant caseload reduction among families receiving public aid, who primarily entered these low-wage industries as they transitioned off of welfare.⁷ The timing of the recession called to question whether the Illinois UI program could reach low-wage workers newly unemployed during this period. To address this question, our original analysis focuses on data from the height of the recession, 2001-2003.

Analyzing state data for the recession shows how the Illinois UI program is performing at peak demand. During a downturn the program is responding to workers who are more likely to lose their jobs due to

downsizing or other eligible reasons. In comparison, during better economic times a greater share of those workers counted as unemployed in any week are more likely to quit jobs for better opportunities and are ineligible for UI.

The data in this study show that jobless low-wage workers continue to receive UI benefits at rates much lower than other workers even during a recessionary period, and reveal some of the reasons for substantial gaps among groups in receiving benefits. (See Appendix B for methodology in determining low- and high-wage industries.)

This analysis documents that access to unemployment benefits is significantly impacted by what kind of job a worker has been separated from, even during periods of high program usage. Unemployed low-wage workers in Illinois receive UI benefits at rates far lower than high-wage workers—in fact, 21 percentage points lower. This result represents a significant shortcoming in the program's effectiveness. Findings also point to disparities in reciency among women, Blacks, Hispanics and young people aged 16-24. Our study also sheds light on the importance of strengthening the safety net for unemployed workers in our post-welfare reform era.

Low-wage workers should receive unemployment benefits at rates equal to higher wage counterparts, considering that the Illinois program has a small income requirement and employers pay into the UI trust fund for low-wage workers in the same proportion that they pay for other workers. The failure to access benefits represents a major loss for low-income families and for the Illinois economy.

Such workers have less savings to weather a period of unemployment than high-wage workers, are unlikely to receive a severance package and no longer can count on welfare benefits to support their children. Better access to unemployment benefits would help to mitigate the instability the low-wage workforce faces.

Even though Illinois enacted legislative changes to the UI program in late 2003 that are being phased in over several years to benefit low-wage workers (see Appendix A), there is still room for Illinois to improve its program. Such improvements would insure that more individuals on whose behalf contributions have been made into the system can receive the unemployment benefits that they have earned.

I. Illinois' UI Program Favors High-Wage Workers

During the recession, 54% of high-wage workers, or 1 out of 2, received unemployment benefits. These workers were employed in industries such as business services, information, and construction. Only 33% of low-wage workers actually

received benefits, creating a 21 percentage point difference in reciprocity. Our data show that these workers were employed in industries with the lowest wages in the state including retail, food services, hotels, education and health care, which are dominated by women and part-time workers. These workers are often doubly disadvantaged by low wages and limited benefits on the job and less access to unemployment benefits when they are laid off.

The 21 percentage point difference in receipt between high and low-wage workers is surprising, considering that the Illinois UI program has a small earnings requirement. Qualifying for benefits is not as easy as low eligibility requirements might make it appear. The minimum earnings to qualify for benefits are \$1600 annually, requiring 4-6 months of work and can accommodate even minimum-wage workers. But because of the way earnings are counted on UI applications, up to six months of the most recent earnings might not count toward meeting the minimum requirements. Workers who are fired or who quit a job are often disqualified, as are those who are paid off

the books or as independent contractors. Employers frequently challenge the validity of UI claims made by their former employees. All these forces work together to limit access to unemployment benefits for low-wage workers.

It is worth noting that employers from low-wage industries indirectly benefit from low reciprocity rates among their former employees. Each company's UI tax rates are based in part on how much their former employees draw in benefits. Companies have an incentive to challenge unemployment claims, and may employ specialized firms that assist them with these challenges. Workers in low-wage industries are less likely to have support from a union or other quarters to defend their rights to benefits.

Many of the low-wage industries where we find low UI reciprocity rates are those traditionally dominated by women, like health care, social services, food services and retail. These service sectors represent a growing portion of the state and nation's economy. The low reciprocity rates in these jobs stands in particular contrast to better paying blue collar jobs occupied predominantly by men, like construction and manufacturing. In today's world with more and more women working out of the home, children and families are particularly impacted by a mother's unemployment. Our data indicate that UI system could do a fairer job of filling these gaps in family income.

II. Several Factors Contribute to Low Reciprocity for Low-Wage Workers

Workers from low-wage industries are more likely to have characteristics that mitigate against the receipt of UI benefits. Part-time job status, union membership and wage levels are all workforce characteristics likely to influence which segments of the Illinois labor market will receive UI

Table 1 Unemployment Insurance Reciprocity among High and Low-Wage Workers, 2003

	Unemployment Insurance Recipients (IU)	Total Unemployed Workers (TU)	Reciprocity Rate (IU/TU)
Industry of Employment			
Low-Wage	65,854	197,220	33%
High-Wage	110,534	205,424	54%

In Table 1, the first column displays "insured unemployment" those who are receiving unemployment benefits or serving a waiting period. The second column displays total unemployment, which includes both those who are receiving benefits and who are not. The third column computes the key result—the percentage of jobless workers in each category receiving unemployment benefits over the three year period while they are looking for work. Table 1 is limited to 2003 because IDES implemented new industrial codes before the Current Population Survey was changed. See Appendix B for more details.

Table 2 Selected Characteristics of Illinois Workers Employed in High- & Low-Wage Industries, 2003

	Part-Time	Unionized	Women
Low-Wage Industries	27%	13%	60%
High-Wage Industries	9%	21%	35%

Source: Author’s analysis of Current Population Survey Outgoing Rotation Group files.

benefits.⁸ Table 2 illustrates how these characteristics interface with wage levels and gender and help to explain why these groups of workers are likely to be at a disadvantage in receiving benefits.

Part-Time Status: Part-time workers face several barriers to UI benefits, even if they qualify for benefits under the earnings requirements. First, workers who lost a part-time job involuntarily can qualify. However, if they restrict their job search to part-time work due to family responsibilities or other reasons they may run afoul of a number of UI eligibility rules which are designed with full-time workers in mind. As described in Section V, Illinois law has begun to become more favorable to part-time workers, but the rules need to be clarified in order to ensure that no workers are disqualified based on their availability for part-time work alone. In addition, part-time workers are more likely than full-time workers to have problems

In Table 3, the first column displays “insured unemployment” those who are receiving unemployment benefits or serving a waiting period. The second column displays total unemployment, which includes both those who are receiving benefits and who are not. The third column computes the key result—the percentage of jobless workers in each category receiving unemployment benefits over the three year period while they are looking for work.

meeting the state’s minimum earnings requirements for UI eligibility.

Unionization: Unions frequently make their members aware of UI benefits and provide assistance with unemployment applications and subsequent issues that arise with claims. Numerous studies have documented that unionized workers are more likely to receive UI benefits, one of the key factors for the gender gap in UI reciprocity.⁹

III. Women, Minorities and Young People Lose Out on Unemployment Benefits

Women, Blacks, Hispanics and young people all receive benefits at lower rates than their white male counterparts. By focusing solely on gender, race and ethnicity, and age as illustrated in Table 3, we can see that these groups are at a disadvantage in the Illinois program *without* factoring in wage levels. Disparities among these groups range from 6 percentage points for Hispanics and 8 percentage points for women to 41 percentage points for young people aged 16 to 24.

Like our results, other national studies have documented a wide gap in UI reciprocity between low-wage and high-wage workers, primarily related to challenges meeting income eligibility rules, eligibility barriers for women and part-

Table 3 UI Reciprocity in Illinois: Ethnicity, Gender, Race and Age, 2001-2003

	Unemployment Insurance Recipients (IU)	Total Unemployed Workers (TU)	Reciprocity Rate (IU/TU)
Overall	174,673	399,575	44%
Gender			
Men	105,923	223,271	47%
Women	68,750	176,304	39%
Race			
White	130,199	282,375	46%
Black	39,180	99,284	39%
Ethnicity			
Hispanic	24,572	62,581	39%
Non-Hispanic	150,099	336,994	45%
Age			
16-24	14,628	122,430	12%
25-44	95,691	182,133	53%
45-64	60,632	87,514	69%

time workers and unionization rates.¹⁰ Table 4 illustrates the average weekly earnings of different groups of the state's workers—part of the reason that women, Blacks and Hispanic workers would be likely to have lower UI reciprocity. From this table, it can be determined that, on average, wage levels for women, Blacks and Hispanic workers fall below \$700 a week, the threshold for low-wage work established for this study. These levels are significantly lower when compared to those of men or whites respectively. This suggests that low reciprocity among these groups is impacted by their wage levels.

Women Workers: In any given week of unemployment, jobless women in Illinois are 8 percentage points less likely than men to receive UI benefits. In this context, this gap is quite significant—equivalent to more than 14,000 fewer women receiving jobless benefits each week than if the rate was equivalent to a man's rate. With benefits running at an average of \$277 a week during this period, this gap translates into \$200 million dollars of support annually that could have reached women and their families if women received benefits at the same rates as men.

There are a number of reasons why this gender gap exists. As compared to men, women are more likely to work part-time and less likely to belong to a union according to Table 4. In addition, their average weekly earnings are below those of men. They are also more likely to become unemployed due to family issues. In other words, a woman may be forced to leave a particular job because of a conflict between work and family, such as a change in a child care arrangement or because she has had to move to follow her spouse. Such reasons for unemployment are less likely to be covered by UI, contributing to low reciprocity among women.

Table 4 Key Illinois Workforce Characteristics Related to UI Coverage, 2003

	Usually Work Part-Time	Unionized Coverage	Average Weekly Earnings
Women	25.8%	12.9%	\$591.35
Men	10.6%	20.3%	\$824.99
Black non-Hispanic	13.6%	24.5%	\$586.04
White non-Hispanic	19.3%	16.3%	\$759.14
Hispanic	12.6%	15.9%	\$532.04

Source: Author's analysis of Current Population Survey Outgoing Rotation group files. Average weekly earnings are for workers age 18-64. Differences in weekly earnings are related both to hourly wages and hours worked per week.

Black and Hispanic Workers: Black and Hispanic unemployed workers in Illinois each trail whites in their receipt of UI benefits. Jobless Hispanics are 6 percentage points less likely to be compensated for a week of unemployment than non-Hispanics.¹¹ The gap also exists between whites and Blacks, since Blacks are 7 percentage points less likely to receive UI benefits for a week of unemployment.

Unemployed Black workers are more likely to be classified as re-entrants to the labor market as opposed to job losers, meaning that they have sporadic work histories and are more likely to fall short of UI work history requirements. On the other hand, Table 4 indicates that Black workers are more likely to be in unionized jobs which should improve their reciprocity, but they still trail whites and Hispanics. With these conflicting forces, it proves difficult to isolate the probable causes of below-average unemployment benefit receipt among Black jobless workers in Illinois, and additional research in this area would prove beneficial.

While smaller, the gap for Hispanic unemployed workers especially should be noted. Table 4 shows that Hispanics are

most likely to have a very low average weekly wage and slightly less likely to be unionized. Our analysis of unemployment data reveals that Hispanic unemployed workers are 22 percent more likely to have been "job losers" than non-Hispanic workers. In general, job losers (those who have been laid off, had a temporary job end or were fired) are more likely to qualify for UI than those who quit their job or are re-entering the labor market after a period of not searching for work. Based on reason of unemployment alone, Hispanic workers should have higher UI benefit receipt than non-Hispanics.

There are several factors that contribute to this deficit. Language barriers exacerbate confusion on issues of legal status and eligibility. To qualify for UI, jobless workers must have earned their wages under a legal status and must continue to be legally able to work while receiving unemployment benefits. Documented immigrants—those with green cards—can receive UI, but may elect not to apply because they are unsure of their eligibility. They are especially vulnerable when language-appropriate and immigrant-appropriate services are not given throughout the application process.

Younger Workers Aged 16 to 24:

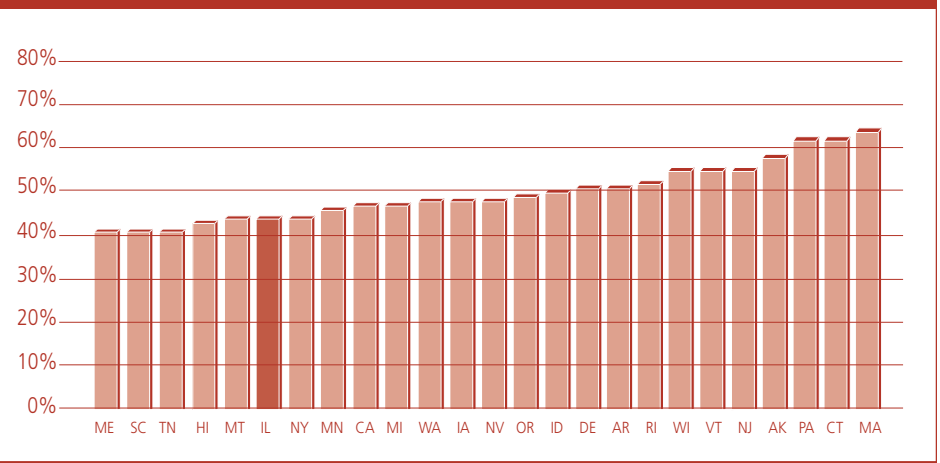
Young jobless workers are 41 percentage points less likely to receive UI benefits than prime-age unemployed workers. This large disparity relates to the fact that younger workers are likely to be new entrants into the labor force. Such younger workers have insufficient work histories to receive jobless benefits. Moreover, when young workers apply for benefits they face frequent disqualifications if they are laid off from a part-time job while going to school.

IV. Illinois' UI Program Lags behind Neighboring States

The disparities among worker access within the state are especially important given the ranking of Illinois' UI program nationally. By most program measures, Illinois appears to have an average system with significant room for improvement. For example less than half of jobless (44%) received benefits during the high demand period of the recession, roughly equal to a national average **reciency rate** of 43%. This mediocre performance is troubling given that the national average includes restrictive programs from Southern states where less than a third of workers receive benefits. Figure 1 shows the 2001-2003 UI reciency rates for the top 25 states with Illinois lagging by 10-20 percentage points below the better states. States, which have had reciency rates ranging from the high 50s to mid-60s during the recessionary years, include Alaska, Connecticut, Massachusetts, New Jersey, Pennsylvania, Vermont, Washington, and Wisconsin.

Another way to look at UI programs is **wage replacement**—how well UI benefits replace a worker's former wage. In 2003, Illinois paid an average weekly UI benefit of \$281, which replaced 37% of the state-wide average weekly wage of \$754. This ranked Illinois 35th of 53 UI jurisdictions. Illinois ranks below all of the other Midwestern states except Missouri in terms

Figure 1 UI Reciency Rate, 2001 - 2003, Top 25 States By Reciency



of wage replacement. Illinois' lower ranking among the states springs from less generous rules for calculating weekly benefits than other states and higher overall wages—see box on page 8.

Table 5 illustrates how Illinois fails to exceed the performances of its neigh-

boring states. Wisconsin, Michigan, Minnesota and Iowa are neighboring states that each provide benefits to a greater share of their jobless population. These states have each had one of several key eligibility reforms in place in recent years, helping to increase their reciency rates. Illinois ranks below all of the other Midwestern states except Missouri in terms of wage replacement.

Table 5 Key Illinois Workforce Characteristics Related to UI Coverage, 2003

State	Percent of Unemployed Collecting UI (CY 2001-2003)	Average Weekly Benefit (Nearest \$, 2003)	Weekly Benefit as Percent of State Avg. Weekly Wage (2003)	Application Rate (1977-1998)
Illinois	44%	\$281	37%	46%
Indiana	40%	\$265	42%	45%
Iowa	48%	\$261	46%	50%
Michigan	47%	\$289	39%	61%
Minnesota	46%	\$317	44%	42%
Missouri	40%	\$206	33%	65%
Ohio	41%	\$252	38%	52%
Wisconsin	55%	\$252	40%	70%
United States	43%	\$261	37%	53%

Sources: U.S. Department of Labor, Urban Institute

Calculating Unemployment Benefits in Illinois

Starting in 2004, Illinois calculates the weekly benefit amount of an unemployment check to be 48% of a worker's average weekly wage in top two quarters a reduction from 49.5% previously. Many other states calculate the weekly benefit amount based on average wages in the single highest quarter. Illinois' formula is thus less generous to those workers who have uneven earnings.

Illinois has a lower **application rate** than Iowa, Wisconsin and Michigan, suggesting that there may be "front door" issues discouraging workers from applying for benefits.¹² This is particularly a problem for the state's significant immigrant population.

V. Changes that Can Improve Reciprocity

Illinois' unemployment insurance program has critical shortcomings, especially when considering its treatment of low-wage workers. The recent legislative reform of the program that took effect in 2004 will improve the treatment of low-wage workers through two specific changes, with the first phasing in over time: 1) counting workers most recent earnings and 2) granting eligibility to victims of domestic violence. (See Appendix A for a description of this legislation.)

However, further improvements are needed to meet the goal of **low-wage workers receiving unemployment benefits at rates equal to higher wage counterparts**. Low-wage workers contribute to the vitality of the Illinois economy and should receive benefits for which they are eligible. We recommend that IDES, policymakers and elected officials consider the following points to ensure that all workers who have earned unemployment insurance receive it:

1. Evaluate reciprocity according to wage levels, gender, race and ethnicity and age, assessing the magnitude of barriers at each point of the program.

At the time this report was printed, no known evaluation has been conducted to assess and identify what program procedures wrongly diminish reciprocity among low-wage workers, women, Blacks, Hispanics and young people. The process to apply for and receive benefits should be evaluated at the following points:

a. Outreach and education to low-wage workers, women, minorities, and young people: These populations receive benefits at rates lower than their white male counterparts. This study also shows the importance of work-related networks, such as union membership, in improving reciprocity rates. It needs to be determined how the Department conducts outreach to these groups and whether additional improvements should be made in these efforts. (See recommendations three and four.) **Based on our finding this study should also evaluate if there are any procedures that might inhibit UI applications among low-wage workers.**

b. Benefit denials of low-wage workers for misconduct and voluntary quits. When a claim for benefits has been denied, a worker has the right to appeal the decision. The review process, however, poses several inherent challenges that involve a good understanding of how the denial has been determined as well as a good sense of procedural know-how to appeal the decision. Both employers and employees can be involved in an appeal process. An evaluation of the appeals process should analyze the denial and appeal rates among low and high wage workers.

Such analysis should particularly focus those workers who are fired from their jobs, and then denied benefits because their dismissal was found to be for misconduct. (Workers dismissed for

poor performance are eligible for UI). The charge of misconduct, that is losing a job due to willful and deliberate action, is frequently applied to claims, denying access to benefits. It needs to be determined whether this term is too broadly applied and whether low-wage workers are at a disadvantage in its interpretation. The analysis should also cover voluntary quit denials, where referees have to make a decision about whether a worker has left a job for a reason considered good cause.

2. Clarify part-time eligibility.

Illinois generally requires that a jobless worker be able to accept a full-time job if one is offered to him or her. At the same time, the program recognizes some part-time workers. This causes confusion for applicants and should be clarified further to put part-time and full-time workers on more equal footing. Restrictions on part-time eligibility were initially justified by stereotypical assumptions that most part-time workers were married women and not really supporting their families.¹³ These assumptions have no validity today, when roughly one out of every six workers in the state work part-time; and many employers, especially in the retail and service sectors, recruit and hire a high proportion of part-time workers.

For these reasons, Illinois should clarify its eligibility policies so that it treats jobless part-time workers uniformly. In short, those who are laid-off and need or want to work part-time should not have to meet other standards than jobless full-time workers; namely, that he or she is looking for a sufficient range of jobs to justify that they are a bona fide part of the workforce. Eight states (California, Delaware, Kansas, Nebraska, New Mexico, Pennsylvania, South Dakota, Vermont, and Wyoming) have such non-discriminatory policies with respect to part-time work and UI. Another 14 states and the District of Columbia treat part-time workers favorably, if not equally to full-time

workers. These states allow part-time workers to qualify for UI, if they have a history of part-time work before being laid off or if they have to restrict their search to part-time work for good cause.

Illinois law supports part-time eligibility, recognizing the issue but leaving the details to regulations. However, as currently interpreted, the regulations are unduly restrictive—only those workers who are searching for part-time work for “circumstances beyond their control,” such as a medical condition, are deemed eligible for UI.¹⁴ Those workers who have a demonstrated history of part-time work—for example a working mother who works 25 hours a week during school hours—could be disqualified under the state’s eligibility rules. By making these workers clearly eligible under program regulations, Illinois can join the growing number of states who treat part-time workers more equitably. Particularly because part-time workers have lower earnings and thus qualify for smaller than average UI benefit checks, this reform can be made at a minimal cost.

3. Clarify and strengthen administrative procedures governing services to limited English speakers.

Certain notices and hearing decisions are currently not translated during the review process of benefits. And there are not any assurances that an adjudicator will be bilingual if a claim is under review. The federal government requires all agencies to issue policy guidance to address the provision of benefits to limited English speakers, establishing the translation of certain processes and the language(s) of translation. Each agency administering these benefits must make “reasonable efforts” and take “reasonable steps” to provide information and services in appropriate languages.¹⁵ The U.S. Department of Labor rendered the decision in March 2004 that a guidance must be developed by IDES for individuals working with limited English speakers. This guidance has yet to be released.

4. Ensure more comprehensive outreach to low-wage workers, women, Blacks, Hispanics and young people. Community organizations serving such low-income families have an important role in increasing awareness and providing support for unemployment claims.

Research has shown that low-wage workers often do not apply for benefits because they do not think that they are eligible. And, low-wage workers often lack work-related networks that inform them of their rights and opportunities, a role that has historically been fulfilled by unions. Community organizations can serve as an important outlet in educating low-income individuals about unemployment benefits.

5. Conduct an analysis of former TANF recipients’ take-up of UI benefits.

In 1996, welfare reform launched Illinois’ commitment to being a work-first state. Yet, only about half of former recipients tracked by the Illinois Families Study, a longitudinal study evaluating the Illinois program, were employed in 2003. Particularly in light of the recent recession, the question remains as to whether those moving from welfare to work have been able to take-up unemployment benefits when necessary.

Unemployment benefits can prevent working families from having to rely on welfare benefits—especially since single parents now face a five year lifetime limit on cash assistance and there is a lengthy lag before TANF benefits can be received. Increasing access to UI benefits would provide an additional incentive for mothers to increase their labor force participation by allowing them to build up wage credits towards UI eligibility to insure themselves and their family against the risk of job loss.

6. Revisit legislation governing the UI program and enact changes that can benefit low-wage workers and women.

It is commonly thought that only those workers who are “let go” (laid off or

fired) qualify for unemployment benefits. However this is not the case—workers who are found to have left a job for a compelling reason or “good cause” can receive jobless pay.

In all states, those who leave work for “good cause” related to work are not disqualified because they are considered as “involuntarily” unemployed. Aside from establishing “good cause”, Illinois requires that the claimant’s reasons for leaving the job must also be “connected with work” or “attributable to the employer.” This work connection requirement results in disqualifications for those claimants who are forced to leave work for compelling domestic circumstances, like caring for a sick child or relative or moving to accompany a spouse who has been transferred.

However, there is a strong case for awarding benefits to claimants falling under these categories. When a worker quits for an urgent personal reason, the loss of employment is just as “involuntary” as a layoff. Many of those jobless are experienced workers who have paid into the system and merit support as they look for a new job. Indeed, fifteen states recognize

Amending Eligibility

The national standard defining eligibility for benefits largely hinges on the term of *losing one’s job through no fault of one’s own*, meaning that a claimant must prove that he was laid off and did not voluntarily quit the job in order to receive benefits. In Illinois, job loss must also be proven to be *attributable to the employer*, a clause that was added to statute in 1980. This clause has prevented Illinois’ program from responding to family responsibilities and extraordinary circumstances that weigh most heavily on low-wage workers given their lack of resources during a period of job loss. Illinois provided an exception to this rule in 2004 by recognizing the special needs of victims of domestic violence that other public programs honor.

such compelling personal circumstance as valid reasons to leave work. In such states the reason for leaving must be truly compelling, and unemployment checks are only paid during those weeks when individuals are capable of working. Other states recognize other specific reasons (such as illness, disability or quitting to follow a spouse).

Illinois took a step in the right direction by joining the list of 27 states that provide UI to women forced to quit their job due to domestic violence. Illinois could continue this progress by adopting more modern rules for primary wage earners leaving a job for other urgent reasons.

7. Enhance existing language on victims of domestic violence to include victims of sexual violence and broaden protections for these individuals.

Current language on violence against women is too restrictive, focusing only on victims of domestic violence, and only on the voluntary leave provision of UI law. Furthermore, given the requirements for documentation, it serves to deter potential applicants falling under this category, which may put them at risk of further harm. UI law and policy must, at minimum, adhere to the threshold standard of “do no harm”, and should strive to respond to the reality of the violence in the lives of its victims and their need to maintain economic independence. This can be accomplished by amending the requirements that are over and above what any other claimant is required to provide such as the notice and documentation requirements, by ensuring that no “misconduct” or “refusal to work” that is related to the violence act as a bar to the receipt of UI benefits, and, that confidentiality is maintained not only by the Department, but also by the employer. These changes will not only allow victims of domestic and sexual violence to receive UI benefits, but more importantly, will serve to allow them to maintain their employment. Furthermore, full implementation of this standard threshold has been estimated at little cost to the program, or .015% of total non-chargeable UI benefits and less than \$15,000 in Illinois. Economic

security is important for all workers, but is of particular importance for victims of domestic and sexual violence. Without employment or UI benefits, they remain at great risk of further harm.

8. Strengthen the financing of the UI trust fund, which pays out benefits, so that Illinois is able to maximize its use of federal interest to finance benefits during recessionary periods.

Like a number of large states, Illinois entered the 2001 recession with insufficient savings in its UI trust fund. The state faced insolvency in 2003, having to borrow to pay out benefits. The State was able to rectify the financing for the UI trust fund without major cuts to UI benefits, making some positive steps towards solvency such as increasing the taxable wage

base. However, further changes will need to be made in the financing system such as indexing the taxable wage base and making sure the tax rate structure (minimum and maximum tax rates) generates adequate revenue to build a surplus during economic boom periods to save for recessionary periods.

By taking action to improve benefits structure, the state can avoid some of the hidden costs of insolvency. For example, the structure of the federal extended benefits program in effect in 2002 and 2003, provided a 3-1 match to states allowing long-term unemployed workers to receive an additional 26 weeks of benefits. While Illinois qualified under the program (available to states with a 6.5% unemployment rate), the state was not able to participate due to its funding constraints.

VI. Conclusion

Wage levels serve as the greatest indicator of reciprocity in the Illinois UI program despite a small earnings requirement to qualify for the program. The substantial gap in UI reciprocity among high and low-wage workers represents a significant shortcoming in the program's effectiveness. Even as employers make contributions on behalf of all their employees, low-wage workers are much less likely to claim the benefits that they have earned. Furthermore, women, Blacks, Hispanics and young people aged 16-24 are also less likely to receive benefits than their white male counterparts, a finding that is also influenced by wage levels.

Our results shed light on the importance of strengthening the safety net for unemployed workers in our post-welfare reform era. Low-wage workers spend a greater share of their paychecks on their basic necessities, and are more likely to live paycheck to paycheck. When they lose their job, an inability to access jobless pay is more likely to mean increased troubles paying for healthcare, housing, education and food for their families and a greater likelihood of going into debt. Receiving unemployment benefits allows such unemployed low-wage

workers to concentrate on finding new work. UI benefits also lessen the danger that they will fall out of the workforce and into poverty due to family upheaval and need emergency supports such as emergency housing that are expensive for the state. Women, more so than any other group, have the highest risk of being disqualified from receiving benefits, since as a rule they earn less and are more likely to work part-time in non-union jobs. In the many low and moderate households led by unmarried employed women, job loss often leads to immediate hardship because there is not a spouse's wage to cover basic family necessities.

The reforms we outline in this paper—clarifying eligibility rules for part-time workers and extending UI eligibility to individuals whose family responsibilities caused them to leave a particular job—are some of the key changes needed to reach low-wage workers. Thus, unemployment benefits could provide an earned benefit supporting working families as they go through cycles of joblessness and economic instability. UI policy and practice in Illinois should continue to be strengthened until low-wage workers receive UI benefits at rates equal to higher wage counterparts.

Appendix A

Reforming the Unemployment Program in Illinois: Legislative Changes in 2004

In 2003, several factors called to question the adequacy of the Illinois unemployment program to meet the needs of today's workforce. The trust fund, responsible for financing benefits, was insolvent at a time when Illinois faced its first recession in a decade. Second, at the time the recession hit in 2000, the Illinois labor market counted more low-wage workers among its ranks. Illinois employment levels had peaked at a 30-year high, reflecting enormous growth in the low-wage job market and a steep decline in welfare recipients.

While changes to public benefits programs can be made through legislation or administrative rule, changes to the unemployment program tend to be made through an agreed bill process, a practice that has been applied intermittently in Illinois (but not in other states) since the 1980's. Appointees of the Governor, the legislature, labor and business negotiate substantive and fiduciary rule changes to the program. Once an agreement is reached to produce the "agreed" bill, it is introduced to the legislature and typically passed unanimously without discussion or dissent. This practice is largely conducted to minimize the controversial nature of negotiations. The agreed bill practice is also employed for negotiations on workers' compensation.

In 2001, a coalition of labor and advocacy organizations developed four reforms to better accommodate low-wage workers, women and working families to help inform the negotiations that took place regarding the program. At the centerpiece of the coalition's policy recommendation stood two core points: restoring solvency to the trust fund, which by all measures was going bankrupt, and improving eligibility requirements to accommodate low-wage workers, now an essential portion of the Illinois workforce. The four reforms included:

1. *Restore solvency through rainy day financing* by seeking to build the balance of the trust fund to carry the program through recessions and take advantage of matching federal funds when needed (extended benefits).
2. *Count workers most recent earnings* by including pay up to two months prior to job loss.
3. *Recognize compelling family circumstances* by providing benefits to individuals who have lost their jobs through family emergencies such as illness or natural disaster.
4. *Accommodate the special needs of victims of domestic and sexual violence* by ensuring that eligibility recognizes these situations as legitimate reason for collecting benefits.

Illinois made progress on some of these recommendations. The agreed bill passed during veto session in 2003 and took effect at the beginning of 2004 and changes will be phased in to 2009. The Employment Security Advisory Board was

expanded from 9 to 12 members, with four members to be appointed from each of three groups (labor, employer and the public). Further, the Board has been charged with holding hearings on the UI program and by April 2007 must submit its findings to the General Assembly.

Enacting two reforms to eligibility, the program now covers victims of domestic violence who lose their job through circumstances of this violence. In 2008, eligibility will take into consideration a worker's most recent earnings. On the negative side, there was a reduction in the amount of each workers unemployment check. Starting in 2004, workers will generally receive 48% of their average weekly wages in UI benefits, a cut from 49.5% prior to the bills passage.

Significant changes were made to the financing structure of the trust fund, and the Illinois Department of Employment Security should be commended for the financial bail-out conducted at the lowest possible cost to the State. However, these reforms were not strong enough to return the trust fund to solvency (carry a positive balance) prior to 2009 under economic modeling assumed at the time. Furthermore, these structural changes continue to keep a low balance in the trust fund. Illinois has preferred this system since the 1980s which prevents any opportunity to build a reserve sufficient enough to carry Illinois through the next recession without borrowing or to meet the match necessary for extended benefits should the need arise.

Appendix B

Methodology in Determining High- and Low-Wage Workers

Available data allow us to construct unemployment insurance reciprocity ratios that compare UI reciprocity on a number of dimensions: between low-wage and high-wage workers, male and female workers, Black and white workers and Hispanic and non-Hispanic workers. Our analysis of UI reciprocity presented in Table 1 spans the critical three year period from 2001-2003, when unemployment increased significantly in the state and jobless benefits became more critical.

By analyzing the former industry of UI recipients, we can examine the question of low-wage worker receipt. **IDES was not able to provide us with detailed data on the prior wages or occupations of UI recipients. Thus, to investigate the question of low-wage worker receipt we have to analyze the industry of former employment.** For the purposes of this analysis, low-wage workers are those who work in any industry whose average wage is less than \$700 per week, and high-wage workers are those who work an industry whose average wage is more than \$700 per week. Table 4 below identifies which industries fall into the low and high-wage categories, accounting for roughly half of the Illinois workforce each.

Average wages vary greatly by industry in the state, with weekly earnings averaging under \$400 a week for workers in the Food and Accommodation Services industries up to nearly \$1,000 a week for workers in the Professional, Scientific and Technical Services industries. We break down workers into high-wage and low-wage categories based on industries of prior employment, with the cut-off point being \$700 per week. This amount of pay would barely meet the budget of a two person household under the Illinois self-sufficiency standard (or 200% of the

federal poverty level) and would not meet the budget of three person household. It also divides employment by industry in the state by half. In lieu of more accurate data, this method provides us a helpful window into the reciprocity of low-wage workers in the state. This portion of the analysis centers on 2003. Industry codes

have been in the process of being switched from the Standard Industrial Coding (SIC) to North American Industrial Classification System (NAICS). IDES implemented the switch in 2001, while the federal Current Population Survey was only changed in 2003. Thus the data are only comparable in this way for 2003.

Table 5

High-Wage Industries	Low-Wage Industries
Utilities	Agriculture
Construction	Mining
Manufacturing	Retail Trade
Wholesale Trade	Educational Services
Transportation & Warehousing	Health Care & Social Assistance
Information	Arts, Entertainment & Recreation
Financial, Insurance & Real Estate	Accommodation & Food Services
Professional, Scientific & Technical Services	Management, Administrative, Waste & Support Services
Public Administration	Other Services

Endnotes

Cover: In the fall of 2003, focus groups were conducted in partnership with the University of Illinois at Chicago, Center on Urban Economic Development.

¹ U.S. Department of Commerce, Bureau of Economic Analysis. Illinois Employment by Industry, 1980-2000, *The Illinois Job Index*, Illinois Coalition for Jobs, Growth & Prosperity, May 2004

² Rachel Unruh and Whitney Smith, *Making the Pieces Fit: A Plan for Ensuring a Prosperous Illinois*, Women Employed Institute and Chicago Jobs Council, February 2004

³ Robert E. Gleeson and Paul Kleppner, *The State of Working Illinois, 2004: National and Global Trends Yield Mixed Results for Working Families in Illinois since 2000*, NIU Regional Development Institute, September 2004

⁴ This figure was above and beyond UI payroll tax contributions over these years. While this \$3 billion boost to the economy took place, state UI tax rates remained less than 0.6 percent of total wages, or 6 cents on every 100 dollars of Illinois payrolls during this period.

⁵ Walter Corson, et al. "Emergency Unemployment Compensation: The

1990's Experience," Mathematica Policy Research, published by U.S. Department of Labor as Unemployment Insurance Occasional Paper 99-4. Daniel S. Hamermesh, "Unemployment Insurance and Labor Supply" *International Economic Review*, Vol. 21, No. 3, 517-527 1980

⁶ Same as endnote 1

⁷ *The Illinois Families Study* (Reports 1-4), University Consortium on Welfare Reform

⁸ To analyze the gaps in the UI program, we have conducted an original analysis of data obtained from the Illinois Department of Economic Security on the characteristics of unemployment insurance recipients. We compare this data on the total number of unemployed workers counted in the Census Bureau's Current Population Survey for different segments of the workforce—which allows us to estimate what percentage of different parts of the workforce receive UI. For example, we compare the number of women receiving unemployment benefits to the total number of unemployed women to find the percentage of jobless women receiving UI. Our analysis is somewhat limited by the data provided by IDES—and centers on the gender, race, ethnicity, age and type of job of the jobless.

⁹ See for example, Marc Baldwin and Richard McHugh, *Unprepared for Recession: the Erosion of State Unemployment Insurance Coverage Fostered by Public Policy in the 1980s*. Economic Policy Institute Briefing Paper, February 1992

¹⁰ U.S. General Accounting Office, *Unemployment Insurance: Role As Safety Net For Low-Wage Workers Is Limited*, Gao-01-181, December 2000

¹¹ Race and ethnicity are separate categories due to data limitations, meaning that Hispanics and Blacks are not being compared to non-white Hispanics.

¹² The Urban Institute estimated UI application rates for each of the Midwest states by comparing initial unemployment claims to new spells of unemployment. Wayne Vroman, "Low Benefit Reciprocity in State Unemployment Insurance Programs," Urban Institute published as the U.S. Department of Labor, Unemployment Insurance Occasional Paper, 2001-5

¹³ Margaret M. Dahm and Phyllis H. Fineshriber, *The Issue of Part-Time Employment*, National Commission on Unemployment Compensation, *Studies and Research* (VOL. I), p. 29-33, 1980

¹⁴ Illinois Code of Regulations, 2865.125

¹⁵ U.S. Department of Labor. 29 CFR 37.35

Appendix C

Unemployment Insurance A Basic Glossary of Terms

“ABLE AND AVAILABLE”

In order to continue receiving unemployment insurance (UI), most workers must prove that they are still part of the labor force by showing that they are actively looking for work and thus, “able and available” to work at a job for which they are qualified.

BASE PERIOD

When the UI system determines an individual's eligibility for benefits, the state looks at four quarters of past earnings-called the base period. The base period usually covers the first four of the last five completed calendar quarters. States with an alternative base period (ABP) count a worker's most recent earnings, if a worker is ineligible under the regular base period. Without ABP, up to six months of recent earnings are not included in the base period.

BENEFIT YEAR

The period when a given worker's weekly rate and duration of benefits starts (beginning with the day the worker first applies for UI). A worker is only entitled to payments for the specified benefit year if he or she goes on UI and is quickly re-employed and laid off again.

DISCOURAGED WORKERS

Discouraged workers are classified as not in the labor force. A worker is counted as discouraged if they are available for work but did not look for work in the last four weeks. They are not counted as unemployed because they have not made specific efforts to find work.

EXTENDED BENEFITS (EB)

Extended benefits (EB) is a permanent program that pays up to 13 weeks of extended benefits to workers in states with a 5 percent insured unemployment rate (several states have adopted the more effective 6.5 percent total unemployment rate trigger). The cost of the EB program is equally shared by the federal UI system and each state's UI system. Since this EB trigger is not very effective, Congress has passed emergency programs, most of them completely funded by the federal government, during the last two recessions. The 2002 program is called Temporary Extended Unemployed Compensation (TEUC).

EXHAUSTIONS

This term refers to UI recipients who “run out” of benefits before they return to work. Also called “final payments,” they are the last payment to which workers are entitled.

EXPERIENCE RATING

Experience rating is the UI tax structure that seeks to distribute the costs of UI to employers who cause the most unemployment. Under experience rating, companies with greater lay-off histories generally pay higher UI taxes.

“GOOD CAUSE” and VOLUNTARY QUILTS

Workers who “voluntarily” quit their jobs are disqualified from receiving benefits unless they can demonstrate “good cause” for leaving. The broadness of “good cause” exceptions varies widely from state to state, including employment-related reasons (shift changes or compulsory retirement) and personal reasons (domestic violence or illness). In most states, a worker denied benefits because of voluntary quit rules cannot again qualify for UI unless he or she first becomes re-employed for a given period of time. In other states, the worker can still receive benefits, provided he or she serves a disqualification period.

MISCONDUCT

In order to receive UI benefits, fired workers must show that they were not fired for misconduct. Definitions of misconduct vary from state to state and different periods of ineligibility may apply, depending on the severity of the misconduct. Typically, misconduct is defined as “deliberate misconduct against the employing unit's best interest.” Neither workers fired simply for poor performance nor capriciously fired workers should be denied UI benefits.

MONETARY ELIGIBILITY

To qualify for UI, unemployed workers must meet a state-specific requirement of recent earnings and/or minimum hours or weeks worked (such as minimum earnings in a high quarter, average wages, or minimum weeks or hours worked).

NON-MONETARY ELIGIBILITY

Non-monetary eligibility is the component of UI eligibility that deals with requirements unrelated to earnings and hours, most often referring to whether the worker has quit for “good cause” and is “able and available” for “suitable work.”

PARTIAL BENEFITS OR PARTIAL UI

Partial benefits are the practice in which certain workers can receive some UI benefits while they are working.

RECIPIENCY RATE

See page 3

SUITABLE WORK

Workers on UI are allowed to limit their job search to “suitable work”-jobs that fit their skills, personal circumstances, and the “prevailing conditions of work” in the community.

TAXABLE WAGE BASE

Refers to the amount of taxes an employer pays on an employee's earnings. An employer's UI payroll taxes only apply to a limited portion of a worker's earnings, a minimum of \$7,000 for federal and state taxes. States often impose a higher level for state taxes.

UNEMPLOYED

See page 3

UNEMPLOYMENT INSURANCE TRUST FUND

UI expenses are paid out of separate accounts, funded solely by UI taxes. State trust funds are funded by state UI payroll taxes and pay for regular UI benefits. UI administration, extended benefits, and loans to states are paid by a federal trust fund supported by a flat 0.8 percent tax on the first \$7,000 of worker earnings (FUTA taxes).

WAITING WEEK

In most states, workers are not allowed to receive a UI check for their first week of unemployment. So unless they remain unemployed for the entire 26 weeks they are eligible to receive state UI benefits, unemployed workers collect one fewer week of benefits.

Note:

For more detailed definitions or for additional information, refer to the

U.S. Department of Labor Office of Workforce Security's Data Glossary:

http://www.workforcsecurity.doleta.gov/unemploy/content/data_stats/datasum02/2ndqtr/gloss.asp OR

Comparison of State UI Laws:

<http://www.workforcsecurity.doleta.gov/unemploy/comparison.asp>

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