

The Gaps in New York's Unemployment Insurance System: A Preliminary Analysis Comparing Neighboring States

By

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What follows is a preliminary analysis of the latest available data comparing New York's unemployment insurance (UI) system with its neighboring states – Connecticut, New Jersey and Pennsylvania. The analysis was prepared at the request of the New York Unemployment Project (NYUP) to help evaluate the adequacy of the UI system in New York and inform reform proposals.

The analysis, based on data published by the U.S. Department of Labor for the Second Quarter of 2002 and other sources, examines each of several basic measures of the adequacy of New York's UI system. These measures (described below) include access to the UI system, the amount of weekly benefits available, the rates at which workers run out of UI benefits, as well as the solvency of the state's UI trust fund and UI payroll tax levels. *On nearly every basic measure of program performance, New York's UI system ranked extremely poor compared with all the state's neighbors.*

- **Compared with each of the neighboring states, far fewer workers are able to access New York's unemployment system.**
 - Fewer than half (47%) of unemployed New Yorkers collect UI benefits, which is far less than Connecticut (75%), Pennsylvania (62%) and New Jersey (57%) (Figure 1). In recent years, the rate in New York was even lower, but it has increased in response to the layoffs caused by the recent recession.
 - Only 58% of unemployed New Yorkers apply for UI, which is also far lower than Pennsylvania (79%) and Connecticut (69%) and somewhat lower than New Jersey (62%) (Figure 2). New York's comparatively low "take up" rate raises questions about the state's outreach efforts and the accessibility of the UI application process.
 - One out of every four (26%) UI claims that is rejected in New York because of an insufficient work history was improperly denied according to the U.S. Department of Labor's latest quality control review (Figure 3). This error rate is three times the level of each of the neighboring states and triple the national average as well. This problem raises questions related to the reporting of wage information by employers and monitoring of the system by the state.
- **The average unemployed New Yorker receives less in UI compared with the amount of benefits provided in each of the neighboring states.**
 - The average New Yorker's weekly unemployment check (\$276) replaces less than one-third (31%) of the state's average weekly wage (\$897). New York ranks lower than each

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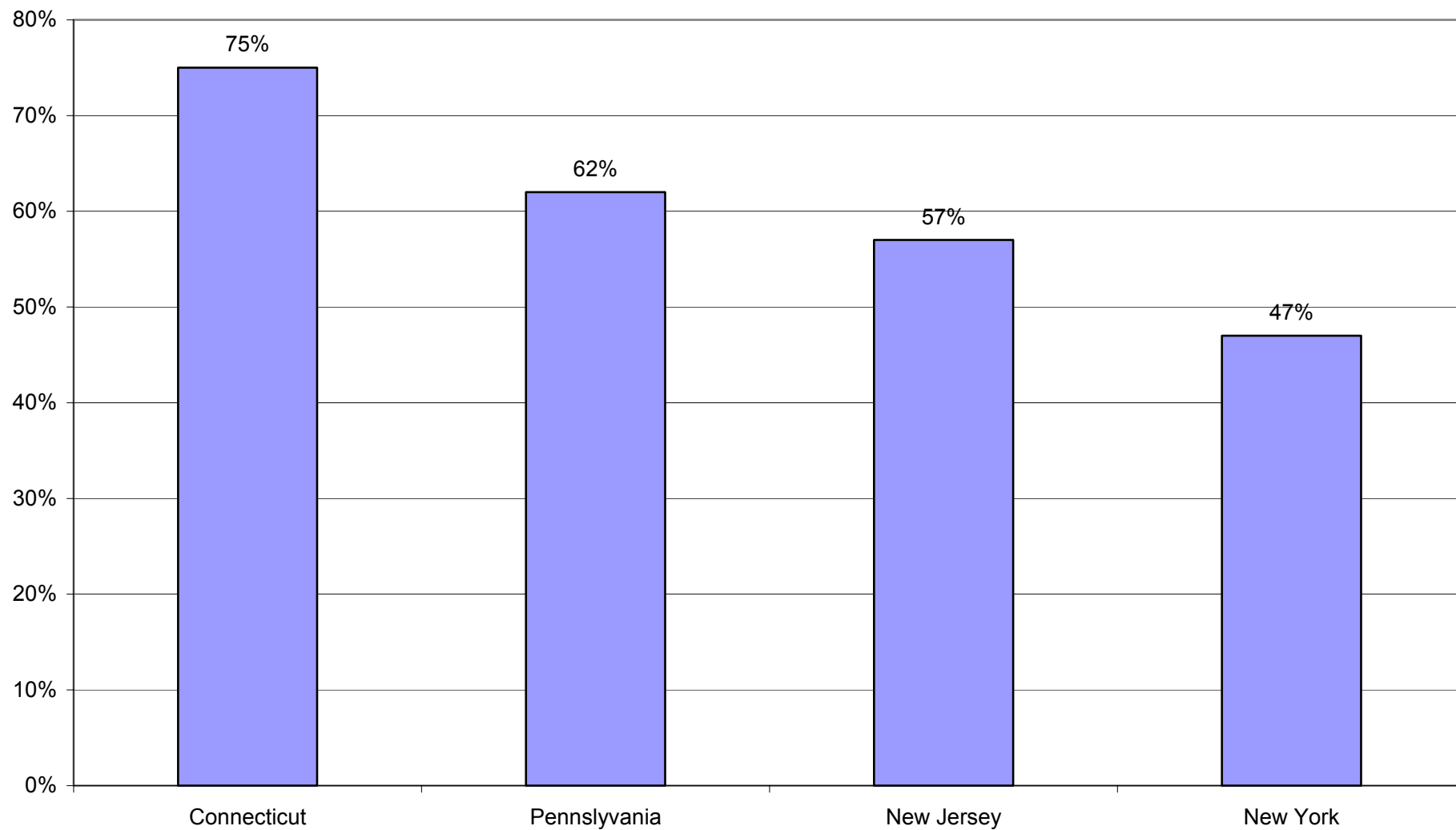
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of its neighboring states (Figure 4). Pennsylvania's average weekly unemployment check replaces 44% of the state's average weekly wage, New Jersey 40% and Connecticut 32%.

- The average weekly unemployment check in New York (\$276) is much less than the average \$339 in New Jersey, and less than the amount that workers collect in both Pennsylvania (\$294) and Connecticut (\$286) (Figure 5). The average UI benefit in New York provides less income than it takes to support a family of three living at the official poverty level.
- More than one-third (35%) of all New Yorkers collect less than \$200 a week in unemployment benefits (Figure 6).
 - **New Yorkers are exhausting all state and federal unemployment benefits in increasing numbers and at rates far exceeding nearly every other state.**
- During the past 12 months, about 357,000 New Yorkers have run out of all state unemployment benefits, averaging 29,743 a month (Figure 7). By contrast, in 2000, about half as many workers exhausted their state UI benefits (186,345 workers exhausted their state UI benefits, averaging 15,529 per month).
- In August 2002, 33,508 exhausted their state benefits, which is nearly twice the number who exhausted about one year earlier (17,622).
- As a result of the tight labor market, more than half of (53.4%) New Yorkers run out of all 26 weeks of state UI benefits available, which is far more than Connecticut (30.2%) and Pennsylvania (31.4%) and about equal to New Jersey (55.1%) (Figure 8).
- As of September 2002, 114,000 New Yorkers also exhausted their 13 weeks of federal extended benefits. By December when the federal program is scheduled to expire, another 62,000 will run out of all federal and state UI benefits according to the Center on Budget & Policy Priorities.
- Because of the absence of a state program of extended benefits, those New Yorkers who have exhausted their federal benefits have no additional resources available to them. In response to the recession, New Jersey enacted a program providing an extra 10 weeks of extended UI benefits paid for from the interest earned on the state's trust fund.
 - **New York's UI Trust Fund is the least prepared for recession of any state in the nation, forcing the state to take out a federal loan to pay the state's unemployment benefits and to forfeit \$189 million in available federal funds.**
- New York's UI trust fund (supported by UI payroll contributions) has less in reserves than any state other than Texas. As of October 7, 2002, New York was the only state in the nation forced to take out a loan from the federal government to pay state unemployment benefits.

- *As a result of the federal loan, New York forfeited \$189 million in surplus federal funds (“Reed Act”) that otherwise would have been deposited in the state’s unemployment trust fund to pay for, or expand, state unemployment benefits. (New York was to receive \$491 million in federal surplus UI funds distributed to the states in March 2002, but the amount was reduced by New York’s loan balance of \$189 million resulting instead in a federal distribution of \$303 million).*
- Because of the absence of any UI reserves to pay state claims, New York was forced to use the remaining \$309 million in federal Reed Act funds to pay state UI benefits, rather than fund expansions of UI benefits, improve administration of the UI program or provide other needed employment services.
- *New York’s insolvent trust fund substantially predates the current recession. In 2000, New York’s trust fund had only enough reserves to pay benefits for less than four months during a peak recession, which was the lowest reserve fund available in any state other than Texas (Figure 9).*
 - **New York’s employers pay less in UI payroll taxes than most of the neighboring states, and the rate has fallen significantly in the past decade thus costing the state’s trust fund billions of dollars in lost revenue.**
- New York employers pay only half of one-percent (0.5%) of total wages in UI payroll taxes, compared with 0.9% in Pennsylvania and Connecticut and 0.4% in New Jersey (Figure 10).
- New York employers pay UI taxes on only the first \$8,500 in wages for each employee, which is far less than the \$23,500 taxable wage base in New Jersey and the \$15,000 in Connecticut, yet slightly more than amount in Pennsylvania (\$8,000) (Figure 11).
- The rate of the UI payroll tax has dropped significantly in New York in recent years. In 1994, the average UI payroll tax amounted to 1.10% of total wages, thus it has dropped to less than half its former level.
- If employers had continued paying at the 1994 average tax rate through to the year 2000, New York’s UI trust fund would have accumulated an estimated \$5 billion in additional revenue. For example, in 2000, New York collected about \$1.9 billion in UI taxes at the average tax rate of 0.72%. If the state had been collecting taxes at the 1994 rate of 1.10%, the fund would have accumulated about \$3.3 billion in reserves in 2000 alone.
- In 1998, Governor Pataki championed a change in the state’s UI tax law that cut UI taxes by \$420 million, taking place after an \$85 million cut in taxes the year before. In 1998, New York’s UI trust fund was the least solvent of any state in the nation. That year, New York’s trust fund had only enough reserves to pay benefits for less than four months during a peak recession, even after an extended period of favorable economic growth when UI reserves would normally build up in preparation for the next recession.

**Figure 1: Percent of the Unemployed Collecting UI Benefits
New York & Neighboring States (2nd Quarter, 2002)**



**Figure 2: Percent of Unemployed Workers Applying for UI Benefits
New York & Neighboring States (1977-1998)**

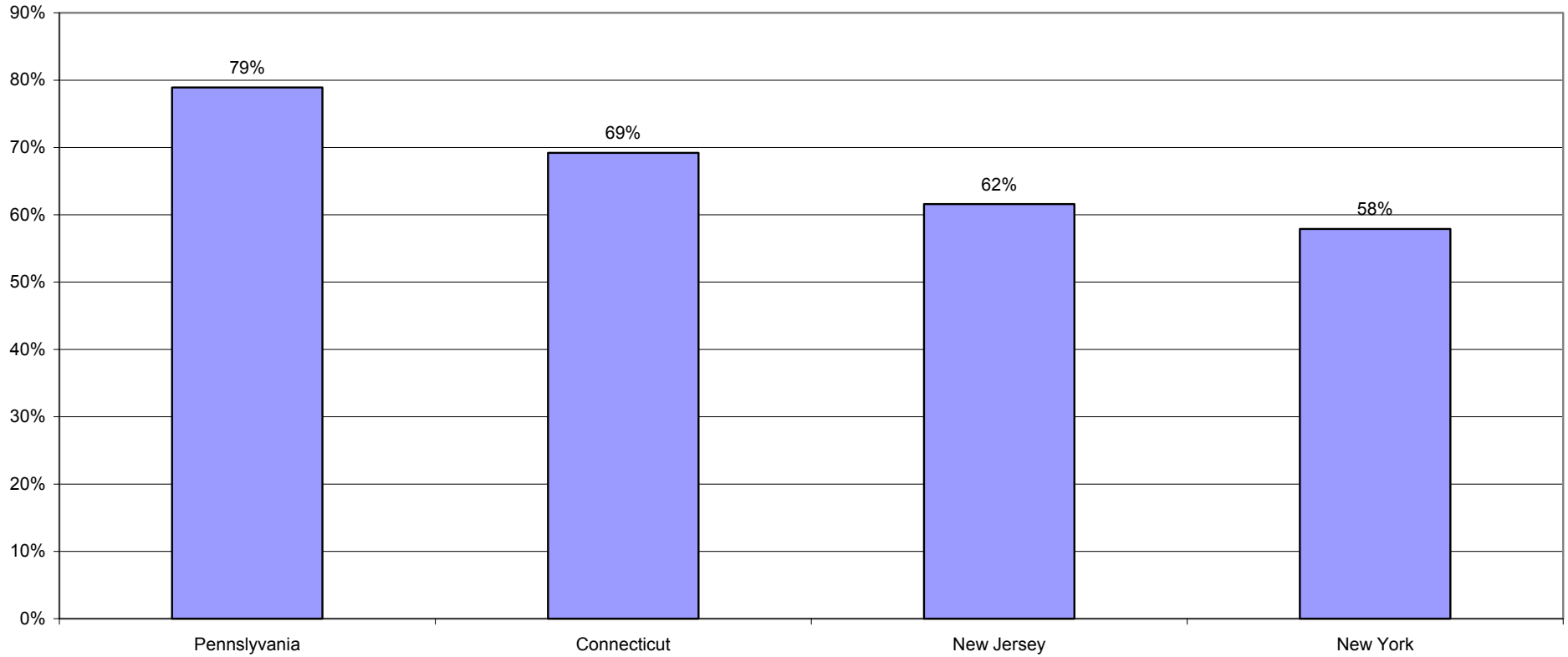
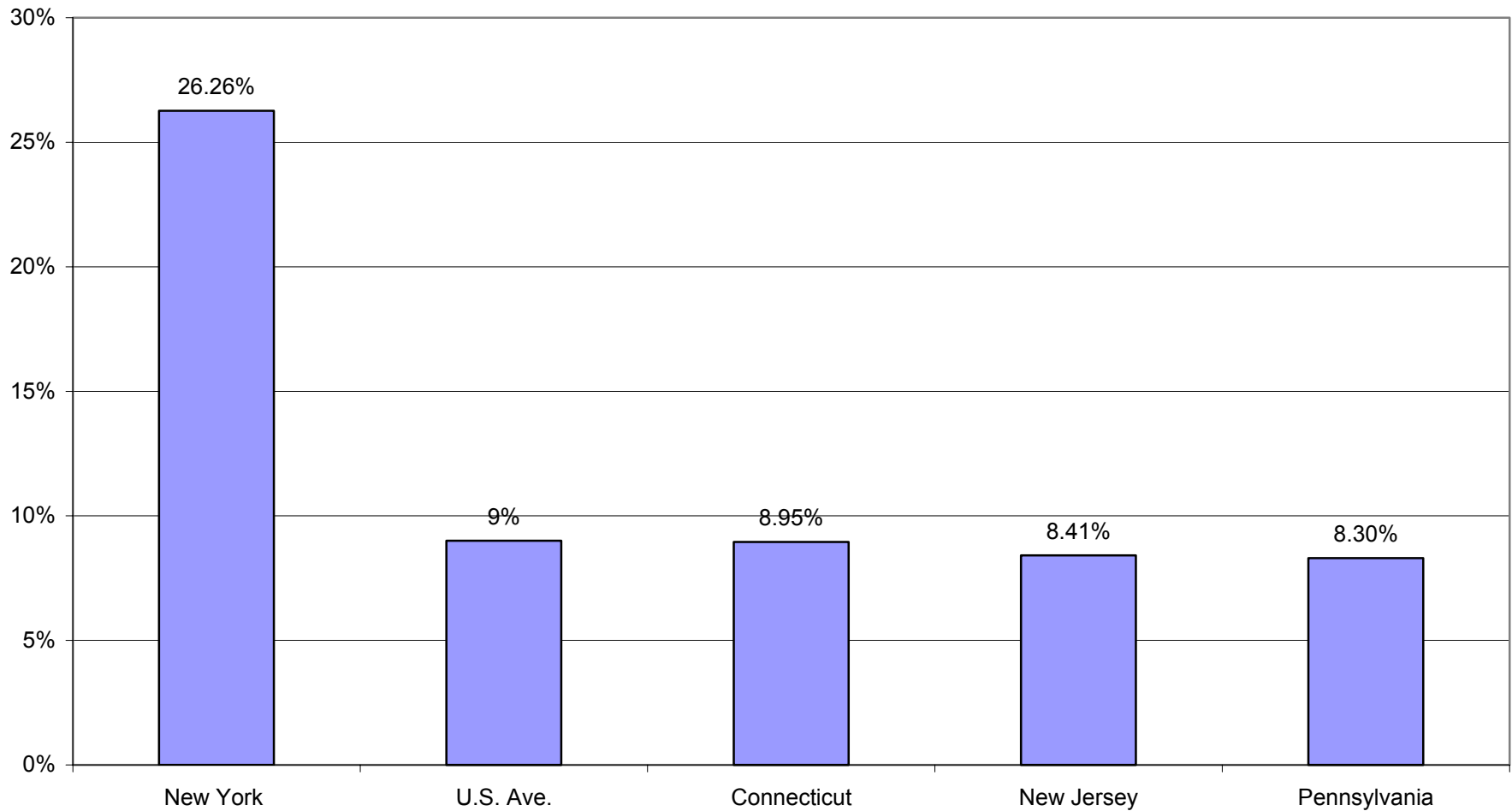
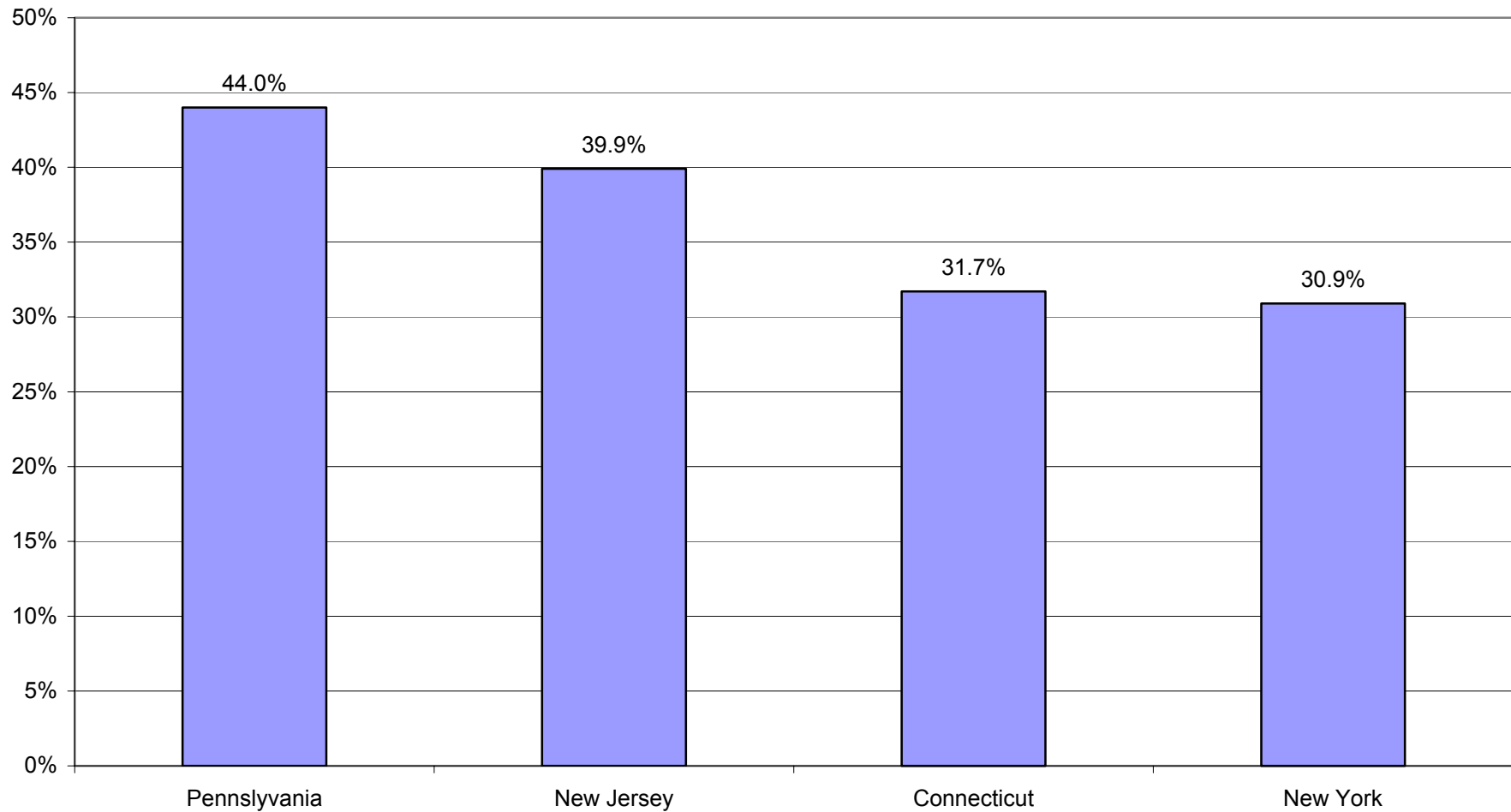


Figure 3: Percent of Monetary Eligibility Cases Improperly Denied by State (USDOL Preliminary Estimates for FY 2002, Adjusted to Account for Cases Being Corrected by the State Agency & on Appeal)



**Figure 4: Percent of the State's Average Weekly Wage Replaced by the Average Weekly UI Benefit
New York & Neighboring States (2nd Quarter, 2002)**



**Figure 5: Average Weekly Unemployment Benefits
New York & Neighboring States (2nd Quarter, 2002)**

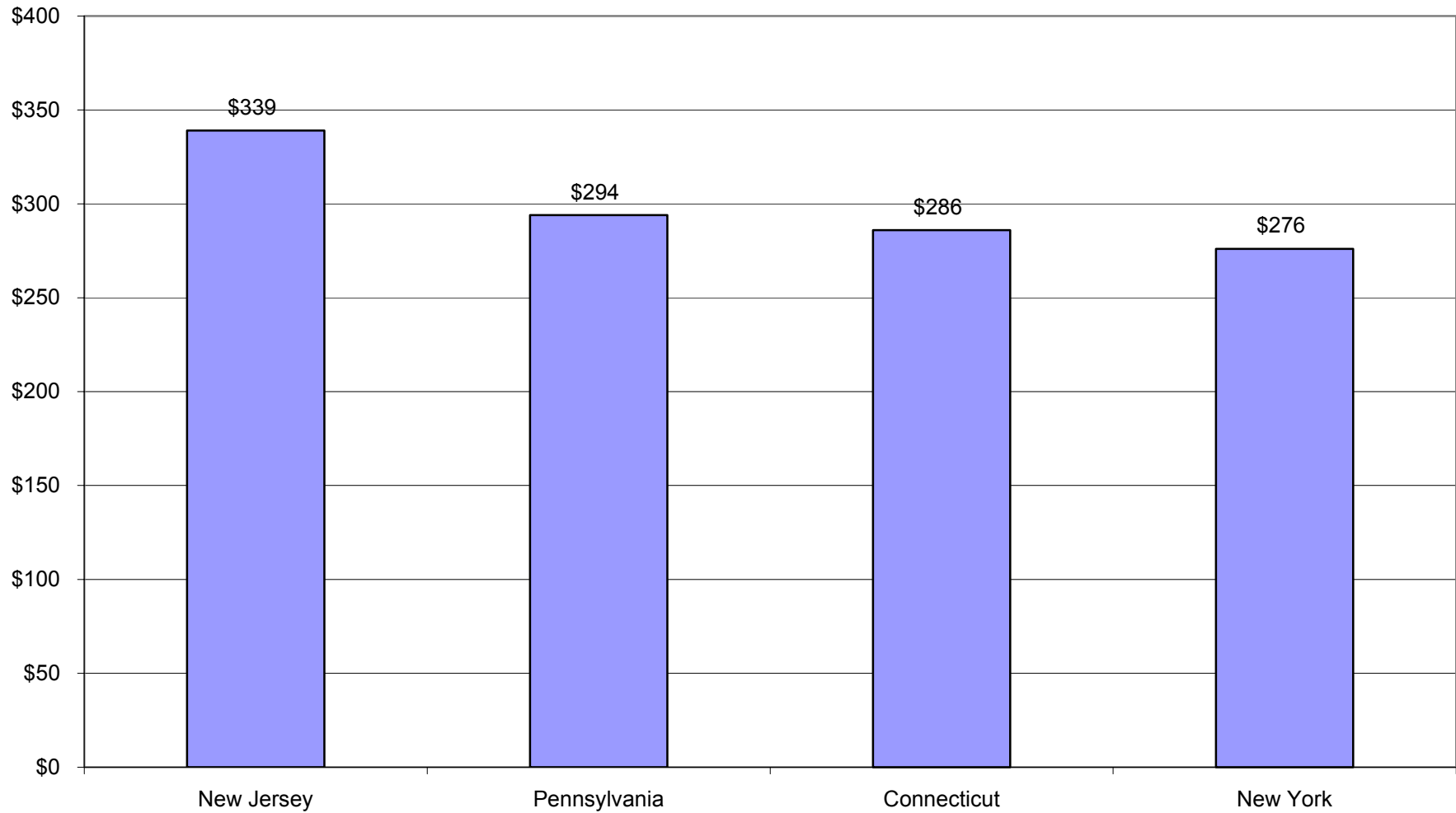


Figure 6: Percent of New York UI Recipients Collecting at Different Weekly Benefits Levels (2000)

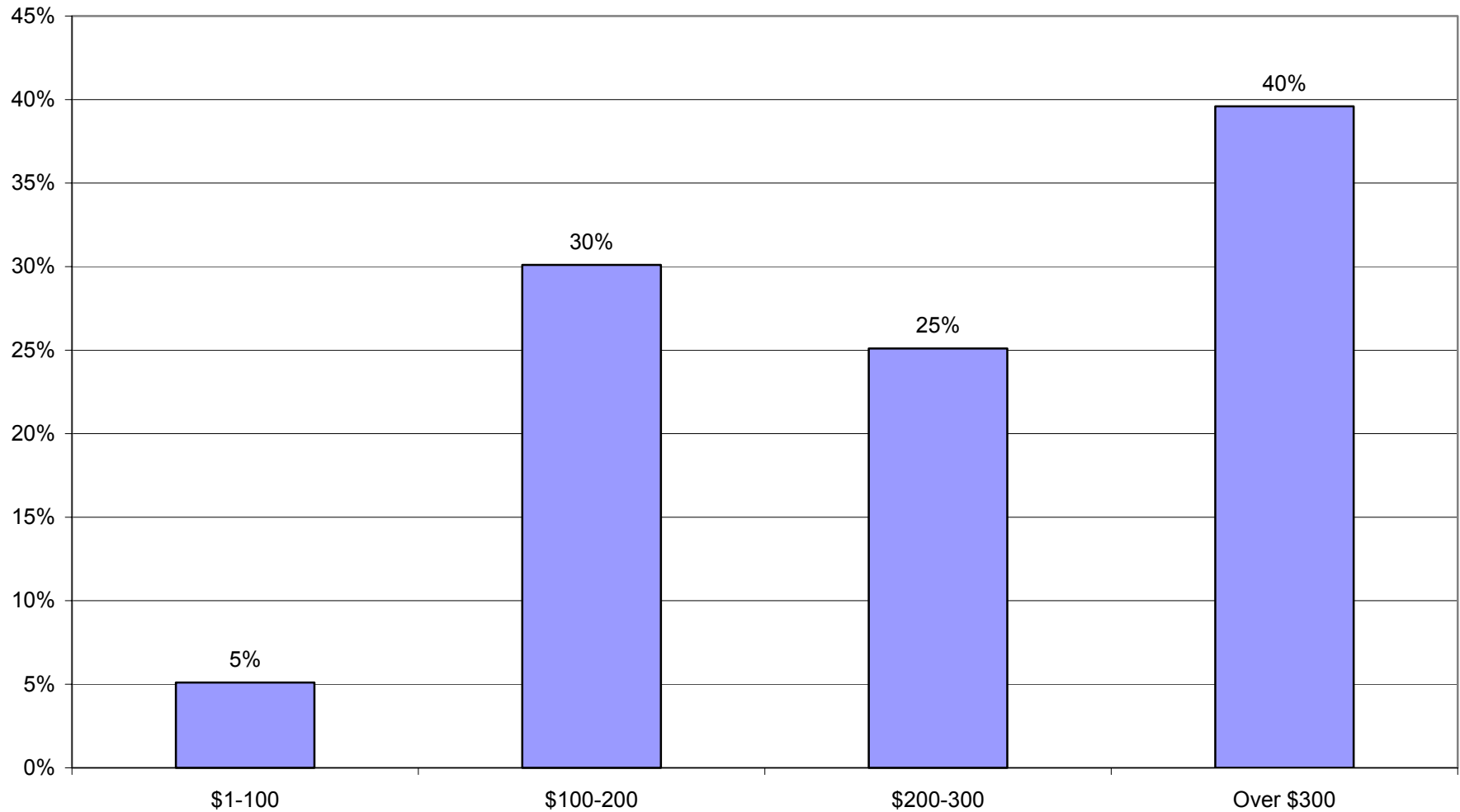
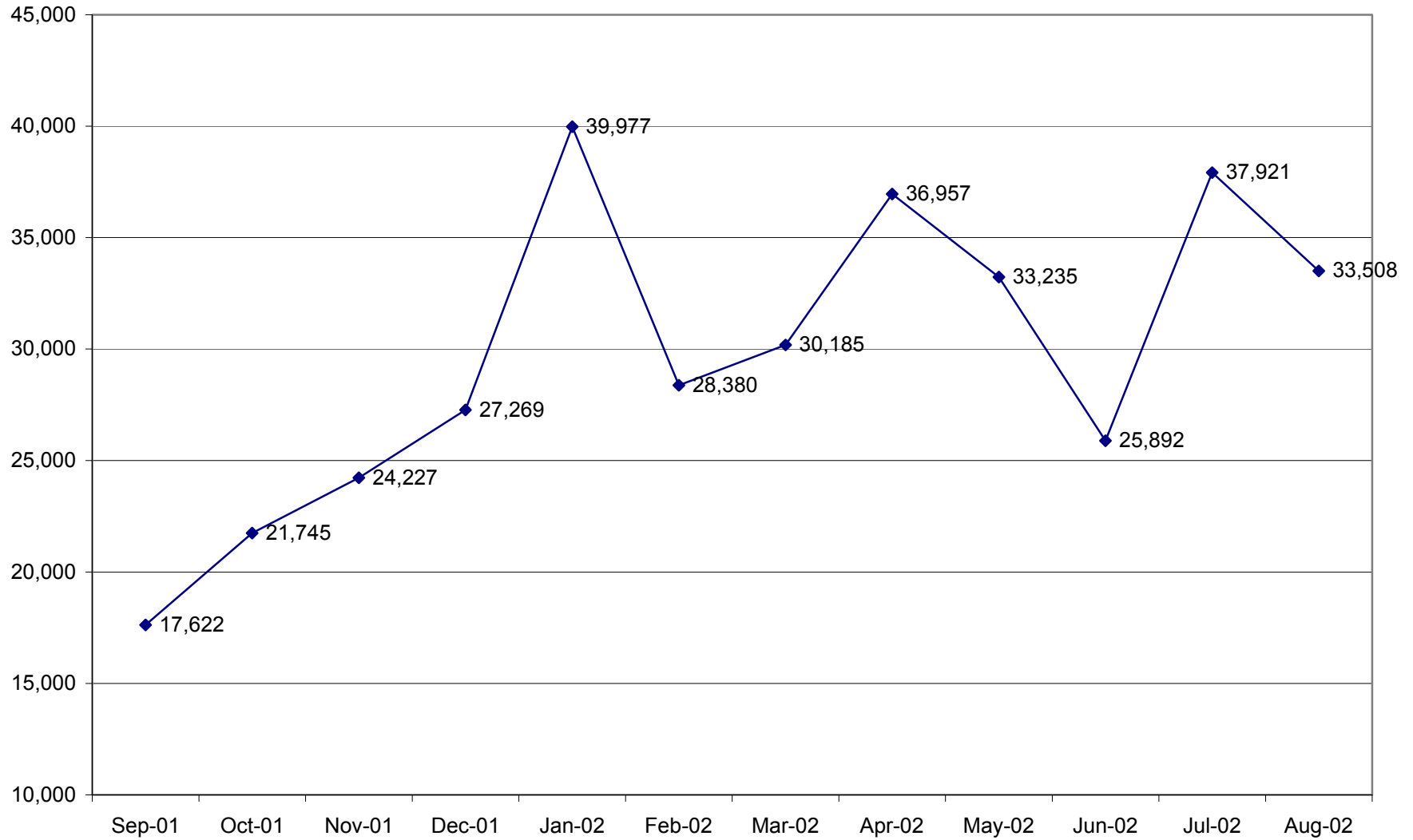


Figure 7: Number of New Yorkers Exhausting State UI Benefits



**Figure 8: Percent of UI Claimants Exhausting State UI Benefits
New York & Neighboring States (2nd Quarter, 2002)**

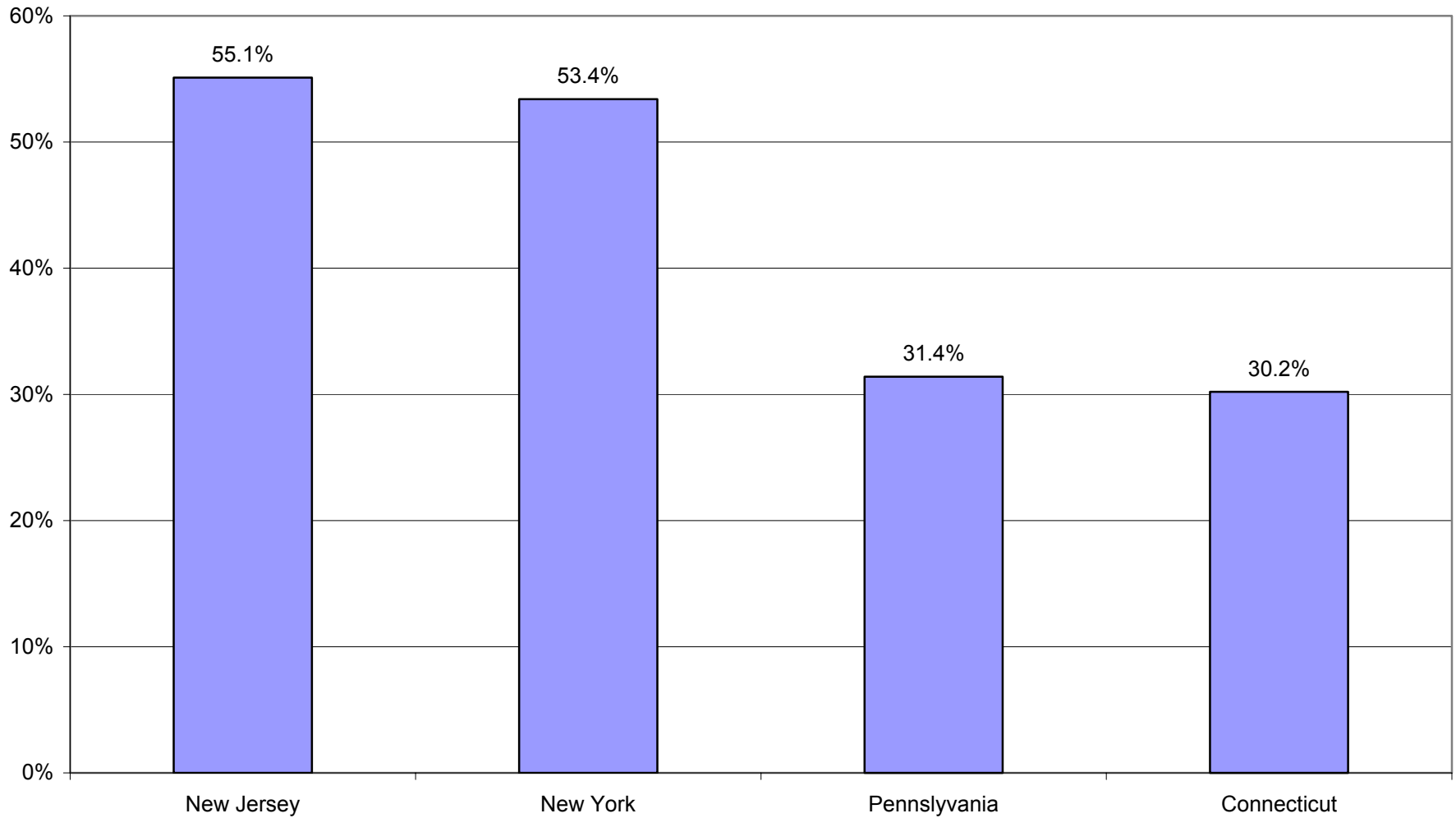
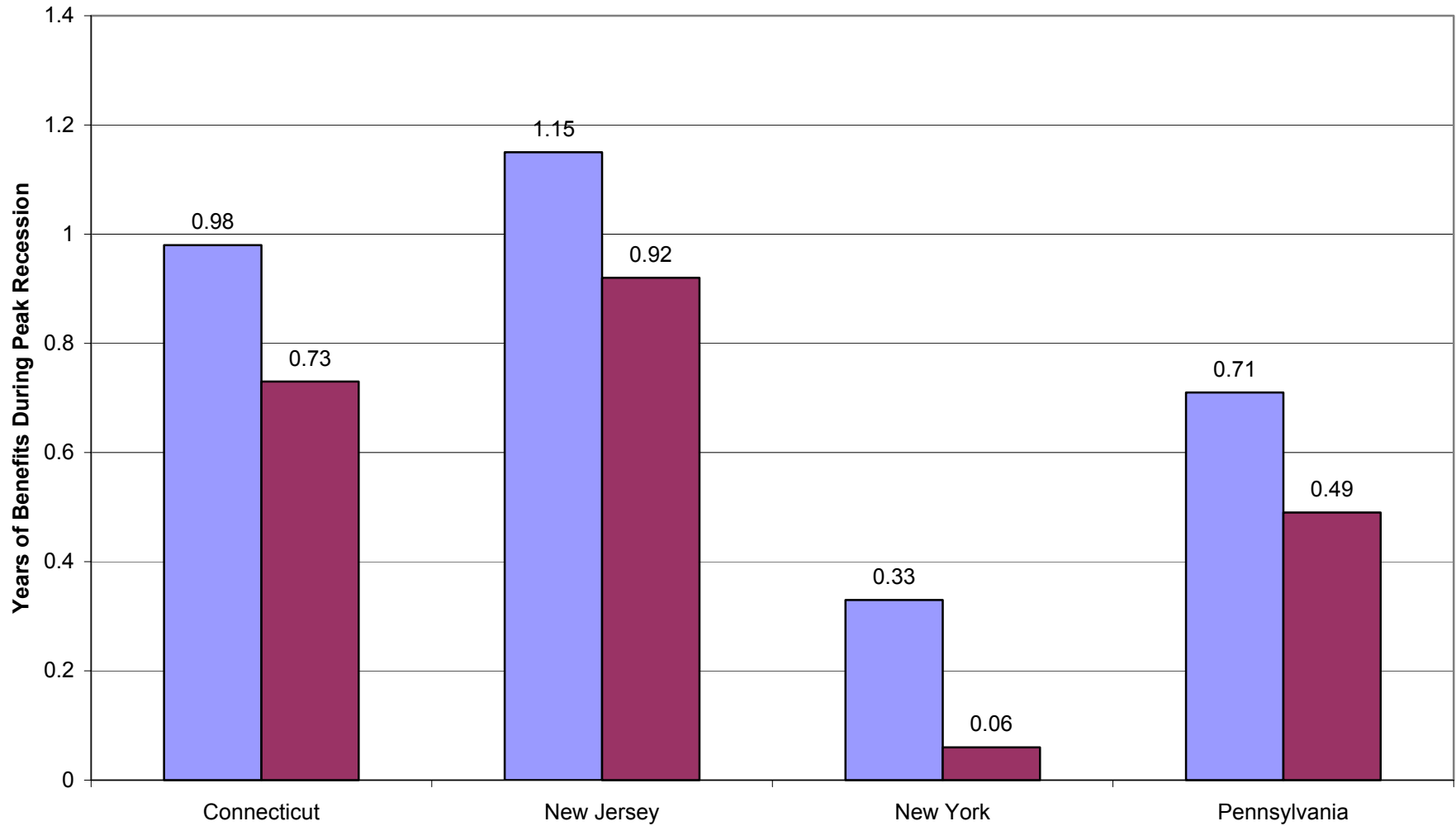
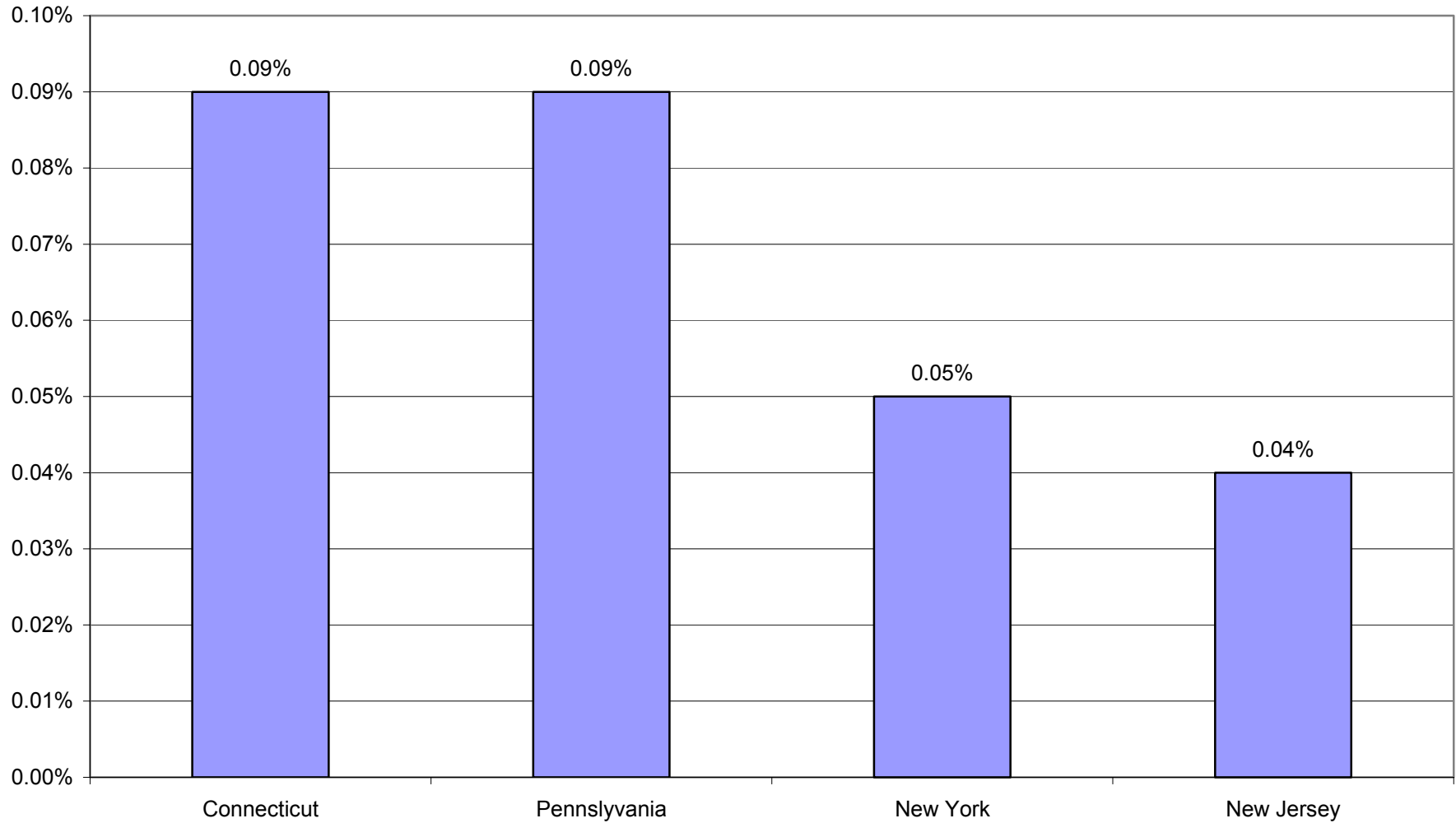


Figure 9: Comparing the Solvency of State UI Trust Funds for the Years 2000 & 2002 (12 months ending September 30th)



**Figure 10: Average UI Tax Rate as a Percent of Total Wages
New York & Neighboring States (2nd Quarter, 2002)**



**Figure 11: UI "Taxable Wage Base"
New York & Neighboring States (2002)**

