

**Unemployment Insurance
Oversight Hearing**

**Texas Legislature
House Economic Development Committee**

**Testimony
submitted by**

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**“The Texas Unemployment Insurance System:
Barriers to Access for Low-Wage,
Part-Time & Women Workers” (NELP\IWPR)**

Key Findings

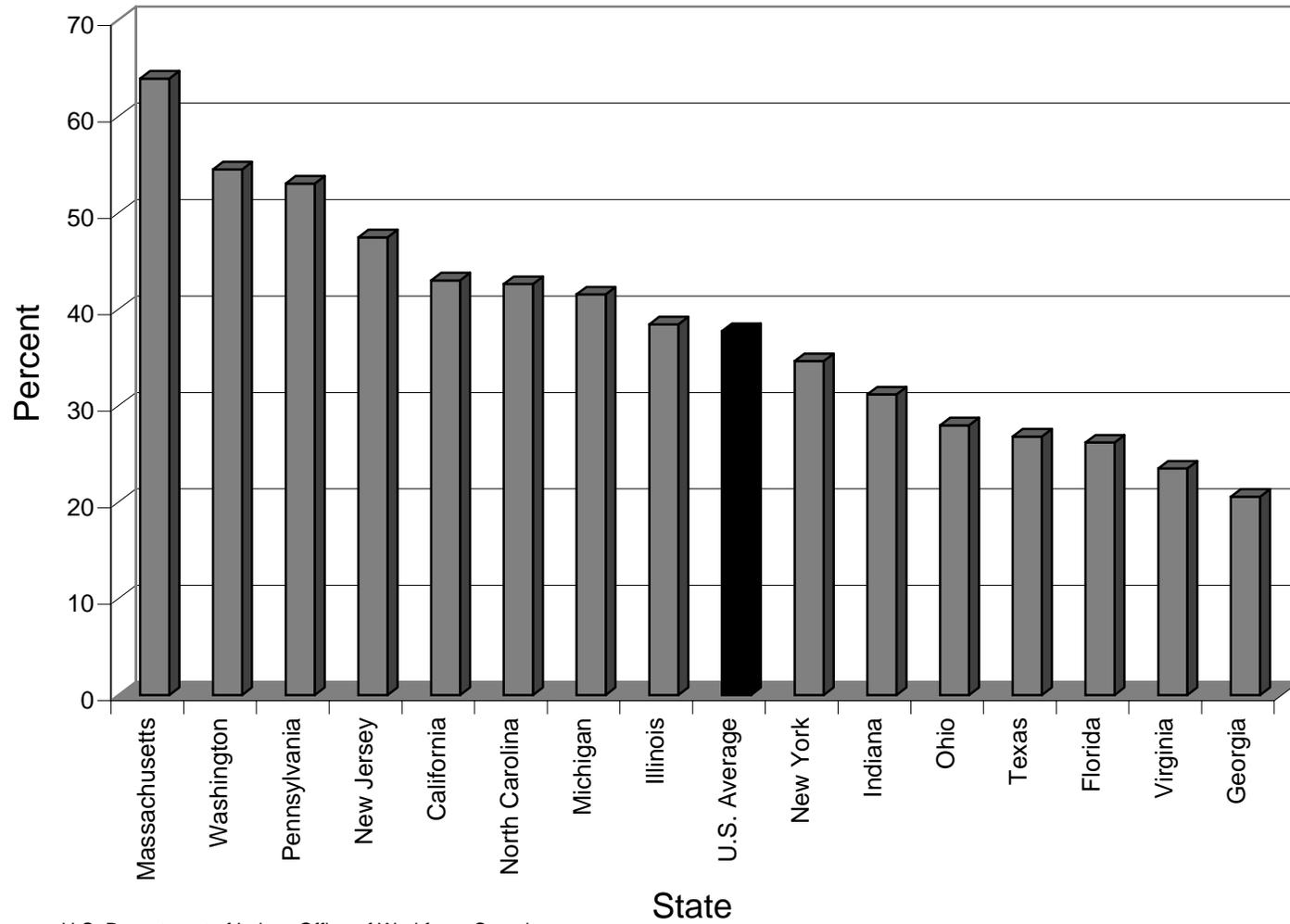
- **The Texas UI system has failed to meet the goal of providing a modest measure of income support to unemployed workers.**
- **The problem is due mostly to the failure of the UI system to keep pace with the fundamental changes in the labor market, including the growth of low-wage, part-time and women workers.**
- **Less than one in four (23.3%) of unemployed Texans collect UI, ranking 7th lowest in the nation.**
- **The failure to access UI in Texas is not a function of who is working hard and who is not. Low-wage working families are having an even harder time collecting UI although they are working as much as most other Texans.**

Percent of Unemployed Collecting UI (Texas & U.S. Average, 1978-1999)



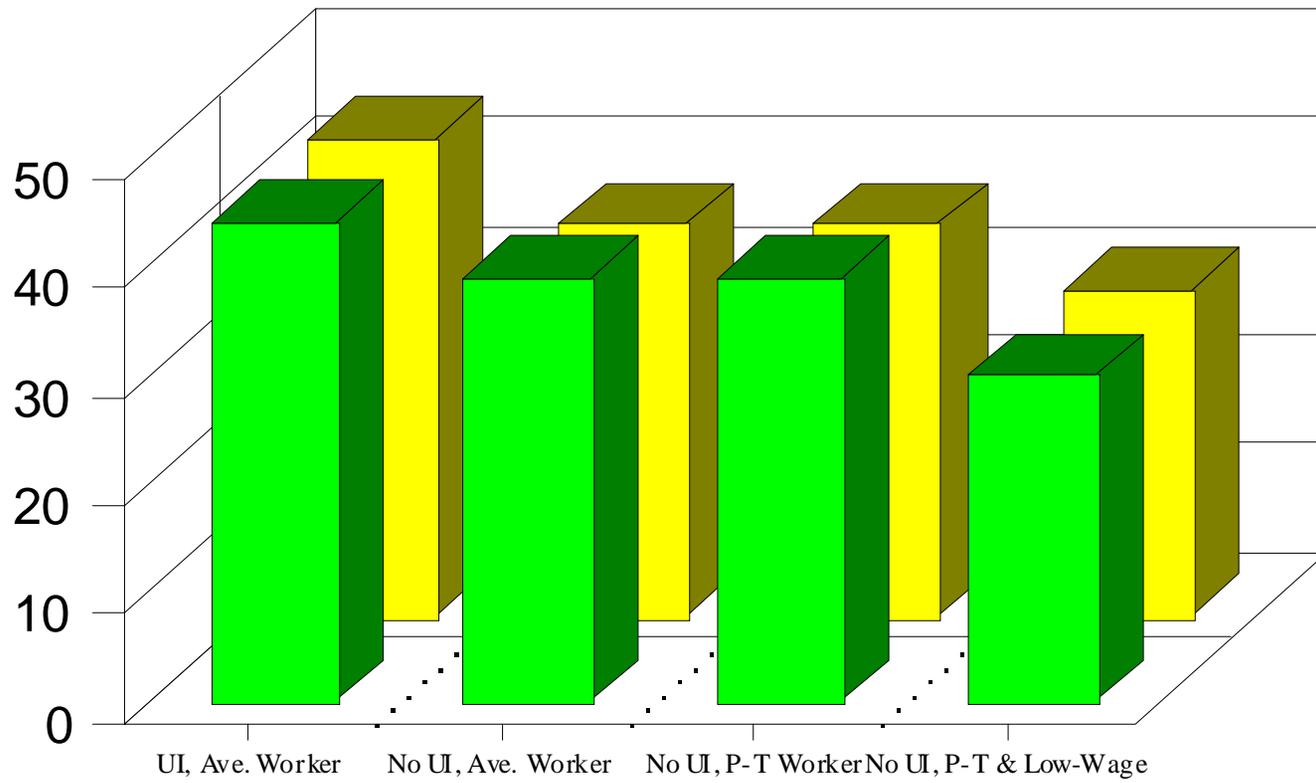
Source: U.S. Department of Labor, Office of Workforce Security

Percent of Unemployed Collecting UI (15 Largest States by Population, 1999)



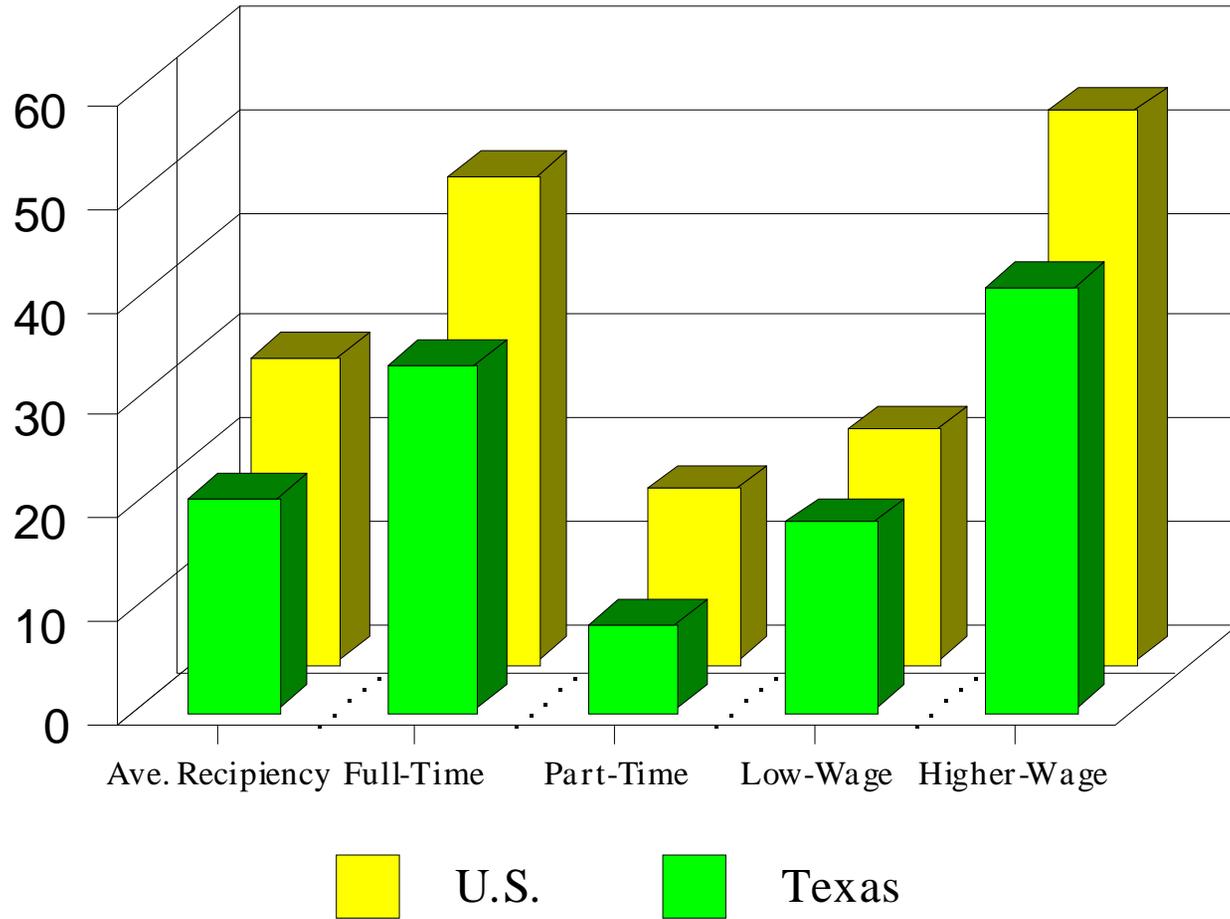
Source: U.S. Department of Labor, Office of Workforce Security

Work Characteristics of UI Recipients & Non-Recipients in Texas



 Weeks Worked Yearly
 Hours Worked Weekly

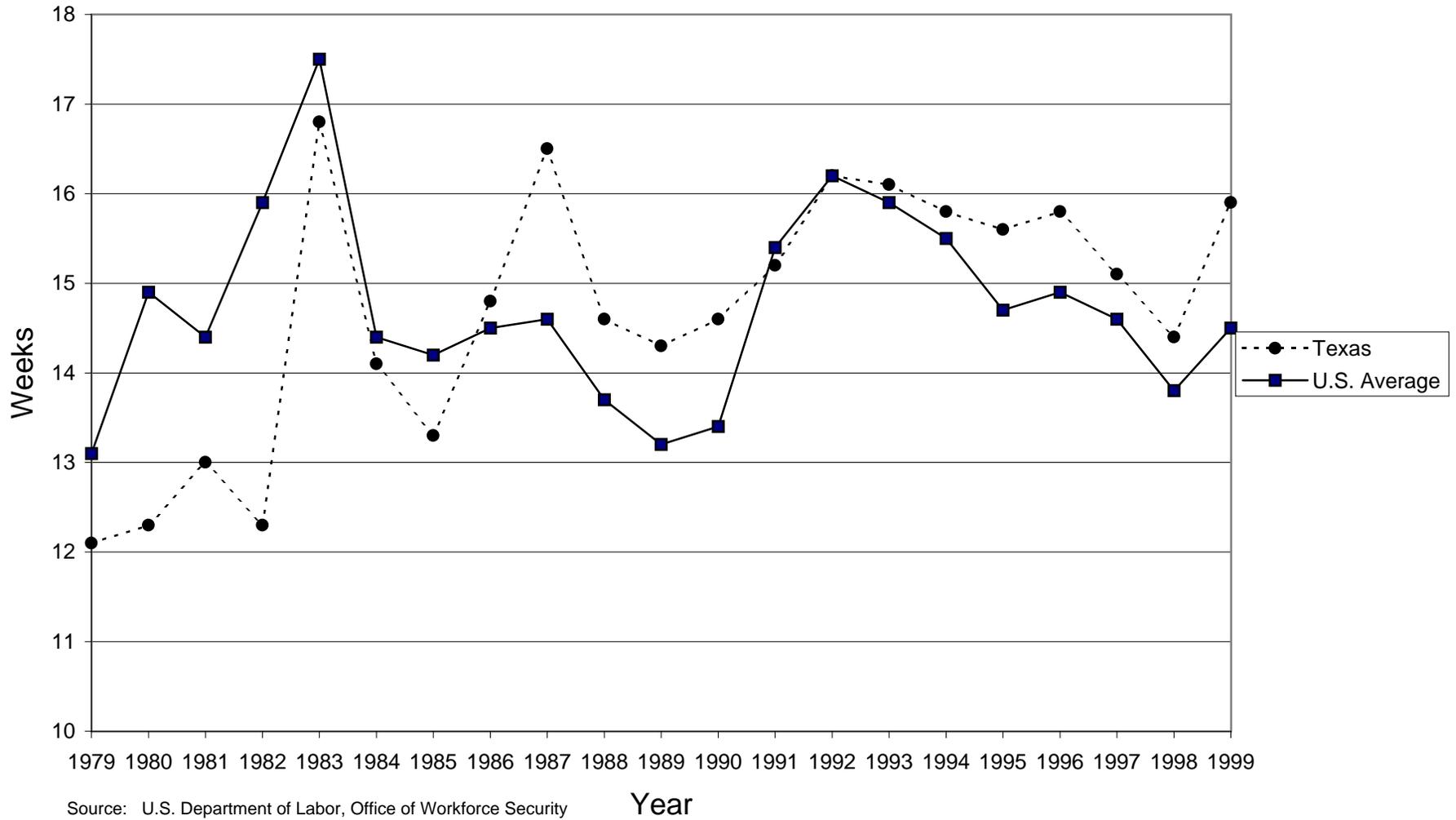
UI Reciprocity Rates, by Labor Market Characteristics



What about the increase in the number of Texans who are exhausting their unemployment benefits?

- **Consistent with the rest of the nation, the average stay on UI in Texas is fairly high (14.9 weeks on average in Texas) due to loss of manufacturing jobs, demographics and other factors.**
- **However, the rate at which Texans have exhausted their UI has increased significantly, especially since the last recession (50.9% in Texas, compared with 31.9% nationally).**
- **The reason for the increase in exhaustees is not that Texans are more inclined to stay on UI longer than unemployed workers in other states.**
- **In Texas, the average potential duration on UI was 21.3 weeks in 1999, 2.5 weeks less than the national average (14th lowest in the country). The low average potential duration is especially a problem for low-wage workers. For example, those earning about \$7,000 in the base period only qualify for a maximum of 13.5 weeks of UI.**
- **Due to the shorter potential duration, more Texans are likely to exhaust UI (10 states have a flat 26 weeks of UI, while Texas starts at 9 weeks)**

Average Duration on UI (Texas and U.S. Average, 1979-99)



Reform the Texas Qualifying Standards to Create a More Equitable UI System for Low- Wage, Part-Time & Women Workers

Policy Recommendations

- **#1: Adopt the “alternative base period” (ABP) taking into account the most recent wages of those workers who need them to initially qualify for UI.**
- **#2: Recognize compelling domestic circumstances for leaving work as grounds for collecting UI, including domestic violence and other family needs. Examine the especially high rates of Texas claims denied (twice the national average) based on reasons for leaving work.**
- **#3: Remove the requirement that all part-time workers be willing to accept full-time work to continue receiving UI, thus accommodating the increasing number of workers balancing work and family obligations by working part-time jobs.**

#1 Adopt the Alternative Base Period, Allowing Far More Low-Wage & Part-Time Workers to Initially Qualify for UI

- **The Texas eligibility rules fail to include three to six months of an individual's most recent work, thus penalizing those workers who most need to include their recent wages to qualify.**
- **The policy dates back to when claims were all hand-processed, producing a lag between the time wages were reported by an employer and then made available to the state to determine the individual's eligibility.**
- **In Texas, 27% of those workers who initially failed to qualify for UI using the standard base period would have been found eligible using the ABP (counting the earnings in the most recently completed quarter).**

- **Large proportions of those who benefit from the ABP are low-wage workers (their average total earnings was \$7,363, or just 26% of the earnings for claimants who qualify using the standard base period). About two-thirds were also Hispanic and African American workers.**
- **Their average potential duration on UI (the most weeks of UI they could collect given their earnings) was just 13.5 weeks (or \$1,970), compared with over 21 weeks for the average Texas worker.**
- **As recommended by the federal Advisory Council on Unemployment Compensation, 12 states have adopted the ABP, covering one-third of the nation's UI claims in several of the country's most populous states. The ABP was most recently adopted on a bi-partisan basis in Wisconsin, New Jersey and New Hampshire.**
- **In 1997, the ABP was estimated by the TWC to cost less than \$24 million, while expanding benefits to 12,000 workers.**

- **The estimate assumed that everyone who qualifies will apply (versus the average 60-70% “take up” rate) and that they will all use up their maximum benefits. It also does not take into account that a significant number of claimants (39% in another state) would collect UI anyway after waiting the necessary weeks or months to eventually qualify.**
- **If 70% of those eligible apply, the cost drops to \$16.8 million. The number drops to \$12.5 million assuming claimants collect UI for 75% of the maximum weeks available. It drops further, to \$10.7 million, assuming that 15% of those who qualify would have eventually applied after the required waiting period.**
- **The administrative costs of adopting an ABP in Texas are extremely low because the computer programming capability already exists in Texas to operate an ABP system.**
- **The \$11-24 million estimated cost in benefits is 20-50% of the annual interest earned on the UI trust fund this year.**

#2 Accommodate working families by recognizing more compelling domestic circumstances for leaving work

- **The Texas UI system is premised on outdated concepts of work and family, still denying benefits to workers forced to leave their jobs because of emergency child care problems or other domestic reasons not considered directly “connected with the individual’s last work.”**
- **Recognizing the needs of the changing workforce, many more states have recently enacted UI reforms covering domestic circumstances.**
- **Recently, 13 states covered women who leave their job due to domestic violence, costing these states very little in benefits according to a recent survey. A GAO survey of the states found that another 17 states cover workers who leave their job when their child care suddenly becomes unavailable.**

- **As now provided for families who leave work to care for sick children, Texas should also cover workers who leave work for additional compelling family circumstances, such as emergency child care problems or domestic violence.**
- **These benefits will be “non-charged” to the employer, meaning they are absorbed by the trust fund and not charged to the experience rating of individual employers.**
- **Texas should closely examine its policy of denying a large proportion of claims (double the national average) for reasons related to the reason for leaving work.**
- **Texas denies 25% of initial claims on the basis of “misconduct” (redefined in 1981 to broadly cover “mismanagement of a position of employment by action or inaction”), compared to a national average of 10%. 15% of Texas claims are denied due to a “voluntary quit,” compared with 10% nationally.**

- **The high denial rates may discourage large numbers of eligible claimants from filing for UI, bringing down the state's reciprocity rate. It also reduces the experience rate of many employers, lowering the tax rate of employers and reducing UI revenue.**

#3 Allow part-time workers to collect UI by eliminating the rule that they accept full-time work

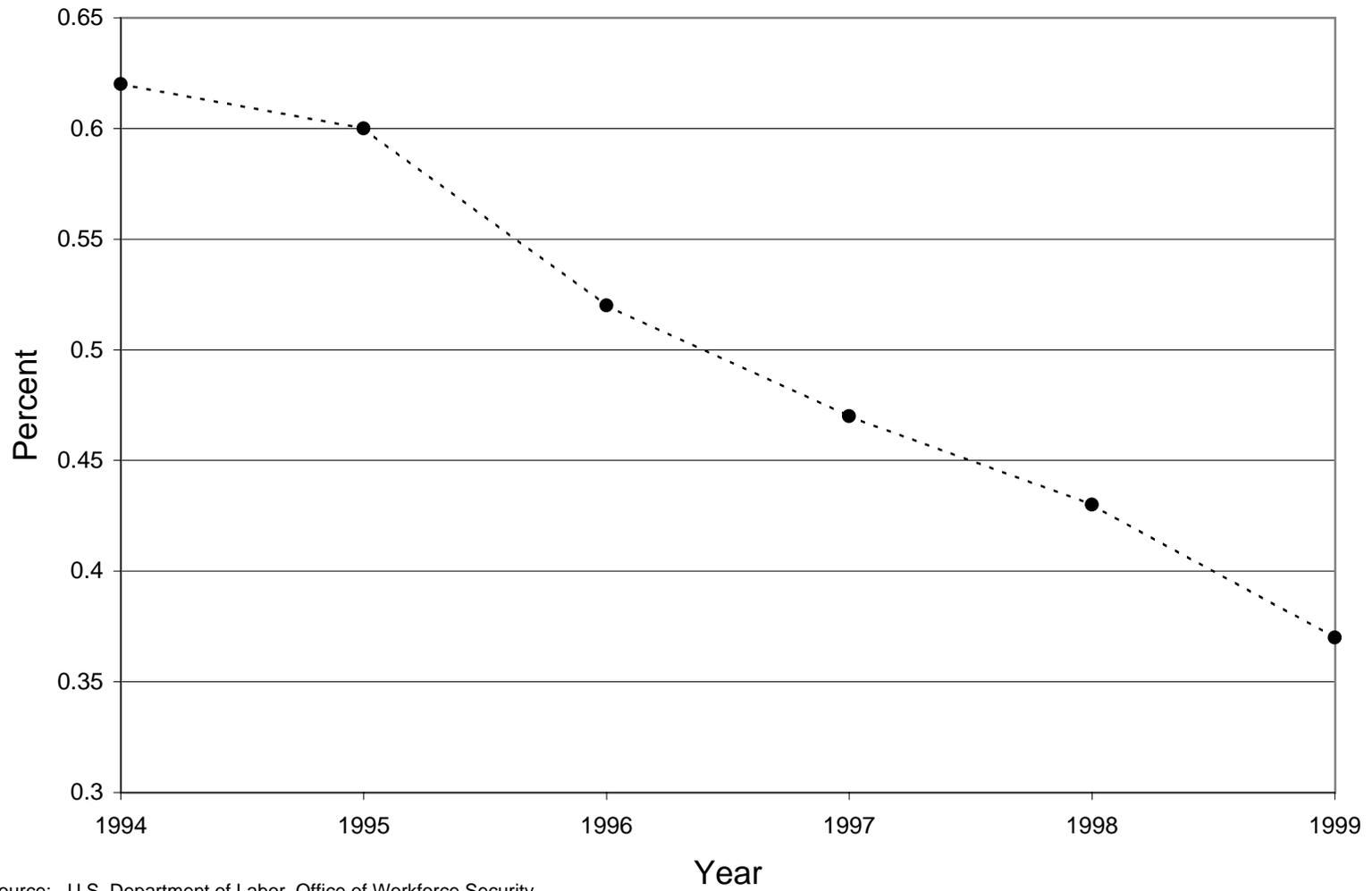
- **In Texas, only 8.5% of unemployed part-time workers collect UI. These workers, who are often balancing work and family responsibilities, still labor an average of 30 weeks a year and 30 hours a week at \$7.00 an hour.**
- **Texas law denies UI to part-time workers by requiring that they be “available” to accept full-time work, despite the fact that UI payroll taxes already cover part-time workers.**
- **According to a recent GAO survey, 20 states provide UI to workers who were previously employed for 30 hours a week and are willing to accept similar work not exceeding 30 hours.**
- **Texas law should cover part-time workers by removing the requirement that they always be willing to accept part-time work.**

- **The estimates of the cost of this reform should take into account a number of factors not considered in TWC's preliminary estimate.**
- **Specifically, part-time workers tend to be unemployed for fewer weeks than full-time workers (5 weeks versus 8 weeks, based on national figures). Their UI benefits will be much lower because they earn less than full-time workers (\$7.00/hour in Texas on average, versus \$12.00/hour for full-time workers).**

Putting the UI Reform Costs in Context

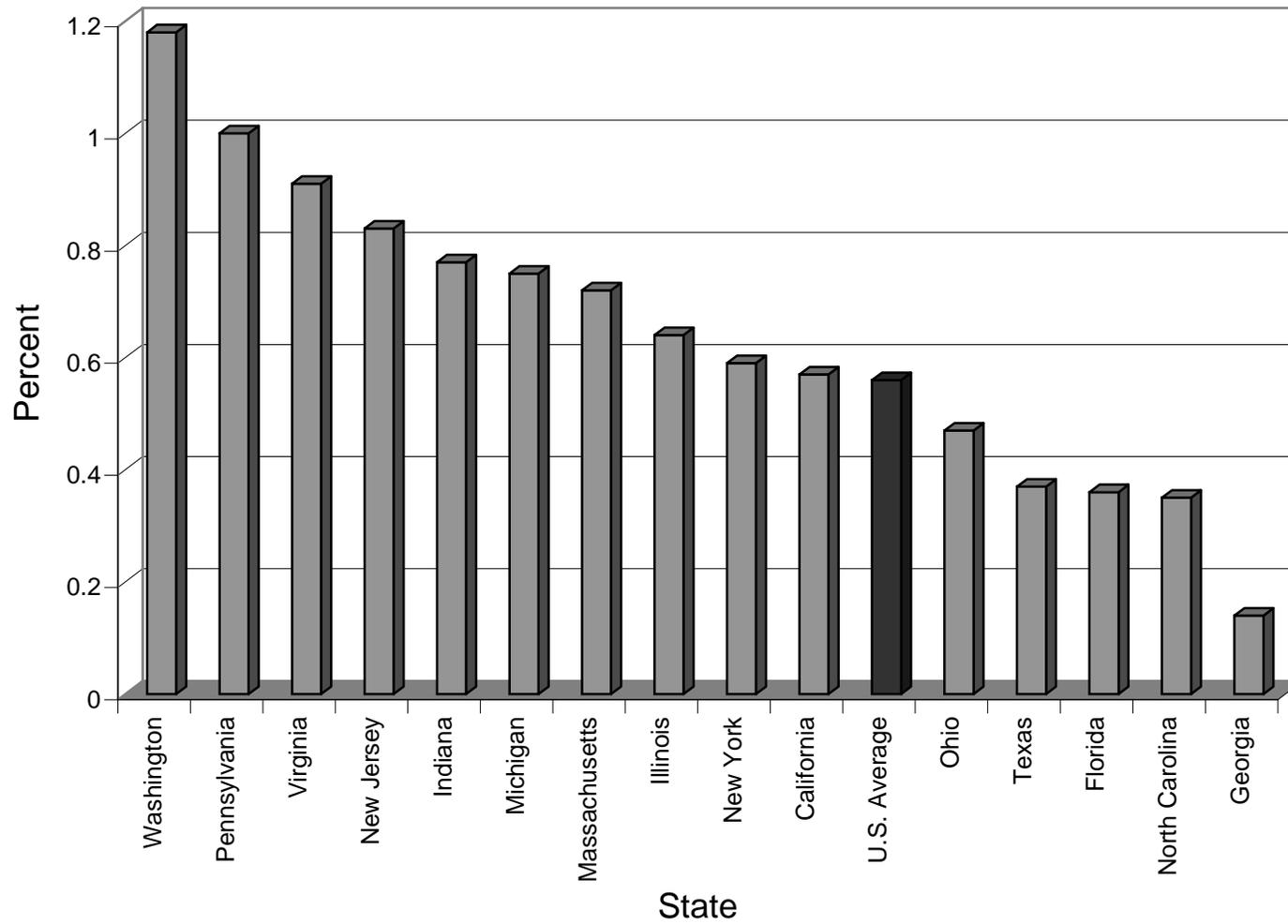
- **When the economy slows down, having a more workers collect UI (i.e., at a reciprocity rate far above the Texas average) promotes the key “countercyclical” goal of the UI system by pumping money into the state’s economy when needed, especially in those communities hardest hit by unemployment.**
- **Assuming the total package of proposed UI reforms costs less than \$50 million, it would not exceed the interest recently earned on the UI trust fund.**
- **By contrast, the average UI payroll tax on employers has dropped significantly in recent years, costing the UI trust fund hundreds of millions of dollars.**
- **Since 1988, the average UI payroll tax as a percent of total wages has fallen 73%, from an average of 1.39% to just .37% in 1999. If employers had continued paying at the 1995 average tax rate of .60%, the UI trust fund would have accumulated an additional \$1.3 billion (\$538 million in 1999 alone).**

Average UI Payroll Tax in Texas as a Percent of Total Wages (1994-99)



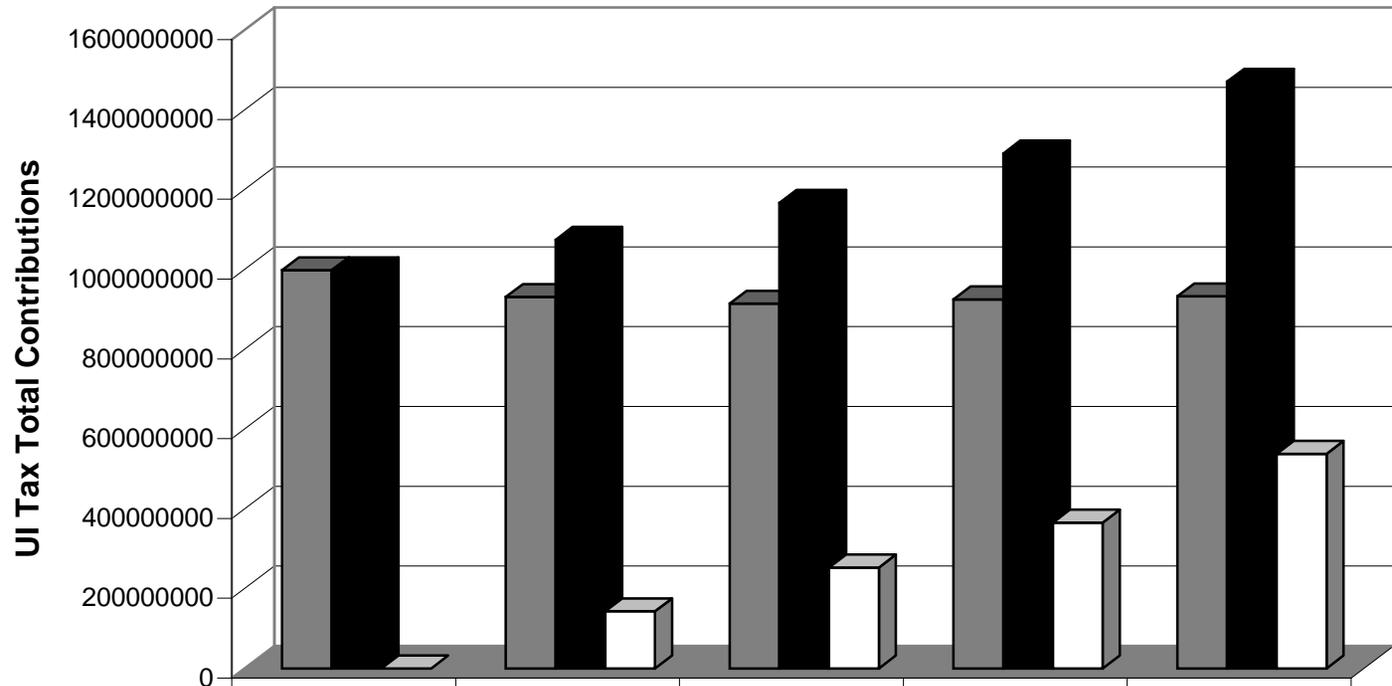
Source: U.S. Department of Labor, Office of Workforce Security

Average UI Payroll Tax Rate as a Percent of Total Wages (15 Largest States by Population, 1999)



Source: U.S. Department of Labor, Office of Workforce Security

UI Tax Contributions in Texas: A Comparison of Actual Yearly Totals with Estimated Totals Based on the 1995 Average UI Tax Rate



	1995	1996	1997	1998	1999
■ Actual UI Contributions	997812000	930801000	914023000	924766000	932386000
■ Estimated UI Contributions (based on the 1995 rate as a percentage of total wage (.60%))	997812000	1074001154	1166837872	1290371163	1470259883
□ Difference between the Actual and Estimated UI Contributions (\$1,299,494,072)	0	143200153.8	252814872.3	365605162.8	537873883.2

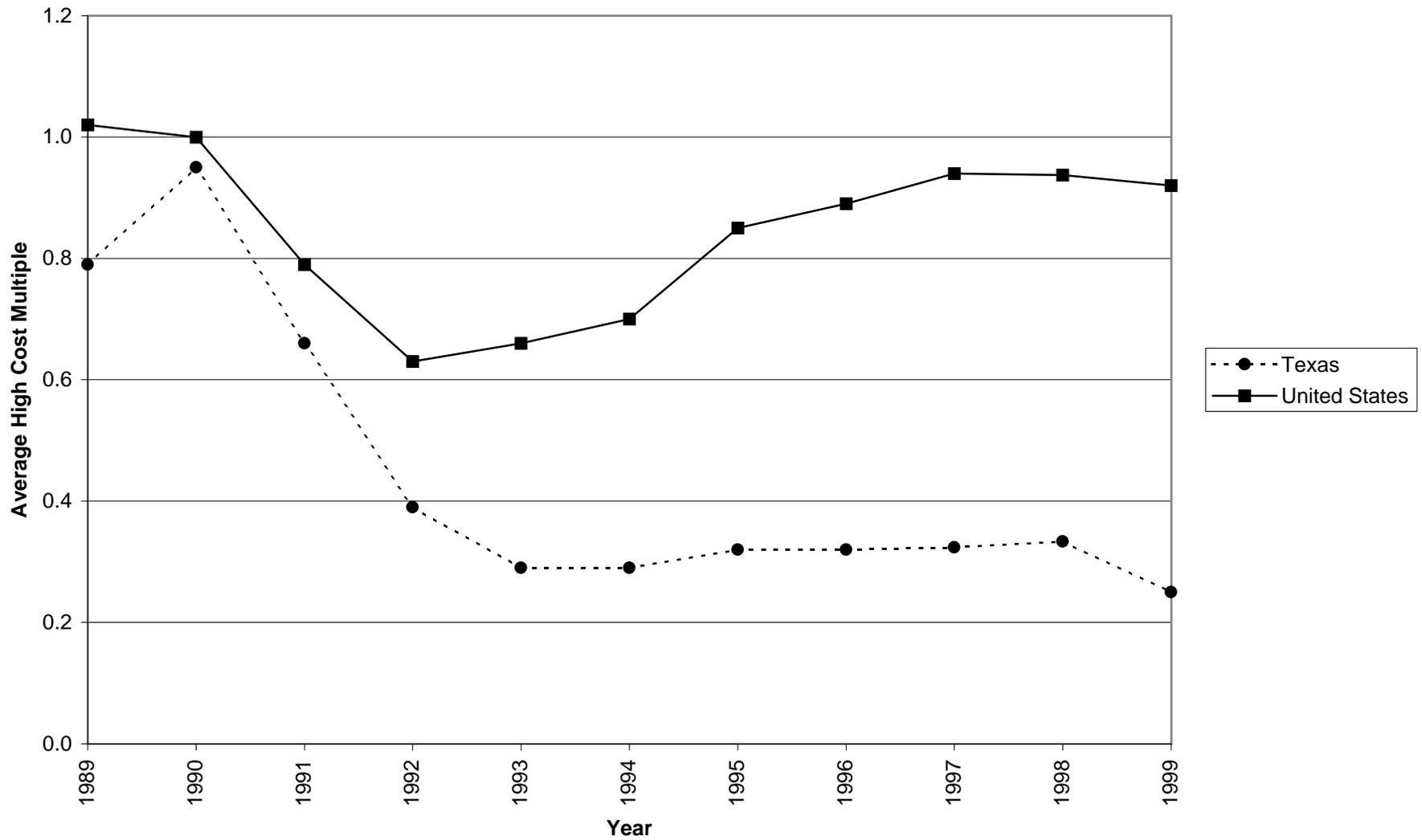
Year

Source: U.S. Department of Labor, Office of Workforce Security

Observations Related to the Solvency of the Texas Trust Fund

- **In direct conflict with national trend and generally principles of UI financing, the Texas UI trust fund has become less solvent in recent years despite low unemployment and the expanding wage base. More extreme than almost any other state, except New York.**
- **Since 1990, when Texas was able to pay almost a year in benefits at peak recession rates without taking in additional revenue (the generally accepted solvency measure), the trust fund has dropped to just three to four months of available recession-level benefits.**
- **Clear that the revenue needed to create a solvent trust fund is not generated due to the falling average tax rates, with the bottom rate falling again this year from .30 to .24%.**
- **Also clear that the deficit tax (triggered when the fund falls below 1% of taxable wages) is ineffective as a mechanism to insure even minimal solvency.**

Average High Cost Multiples for Texas and the U.S. Average (1989-1999)



Options to Consider Related to the Solvency of the Texas Trust Fund

- **Evaluate whether UI claims being denied and discouraged, especially due to misconduct determinations, are significantly reducing the experience rates (i.e, the UI contributions) of Texas employers.**
- **Forego any future tax reductions, either in the replenishment tax (the November 2000 drop from .20% to .14% cost the fund \$46 million) or the proposed reduction in the new employer tax rate (estimated to cost the fund \$41 million annually if lowered from 2.7% to 1.5%).**
- **As in most states, Texas should set the replenishment ratio at a flat rate for all employers so that the amount recovered does not depend on the employer's general tax rate.**

- **Increase the taxable wage base in Texas from \$9,000 to the national average of \$12,000, and index the taxable wage base according to the average weekly wage or another appropriate measure as is the practice in 19 states.**
- **Impose a solvency assessment to bring the fund to a level much closer to solvency according to the generally accepted level of 1.0 AHCM.**
- **Significantly revise the deficit tax to trigger when the fund reaches a more acceptable level of solvency based on the AHCH or another generally accepted measure of solvency.**