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# POLICY MATTERS OHIO

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2912 EUCLID AVENUE • CLEVELAND, OHIO, 44115 • TEL: 216/931-9922 • FAX: 216/931-9924  
COLUMBUS OFFICE • P.O. BOX 1772 • COLUMBUS, OHIO, 43216 • TEL: 614/486-4601 • FAX: 614/486-4603  
[HTTP://WWW.POLICYMATTERSOHIO.ORG](http://www.policymattersohio.org)

## – Questions and Answers –

### **Social Security Retirement Benefits and Unemployment Insurance: Protecting Jobless Older Ohioans**

#### **What is an “offset” of Social Security retirement benefits and how does it impact unemployment benefits?**

- “Offsets” of unemployment benefits due to receipt of Social Security retirement benefits result in older jobless Ohioans having their unemployment benefits denied or reduced because they get Social Security retirement benefits. In other words, an otherwise eligible jobless retiree loses unemployment benefits simply because he or she is getting Social Security benefits. The term used to describe this in the unemployment insurance field is “offset.”

#### **How do offsets of Social Security work to reduce or deny unemployment benefits?**

- The monthly amount of Social Security benefits is multiplied by 12 and divided by 52 to calculate a weekly amount of Social Security income. This weekly amount is subtracted from the weekly unemployment benefit amount (half of previous weekly wages, up to a maximum amount). In many cases, this reduces the unemployment benefits to zero, while in others a remaining amount left over after subtraction of the Social Security offset is paid as a reduced unemployment benefit amount.
- Example: Jackie works 35 hours a week at \$7 an hour. If laid off, her potential weekly unemployment benefit is \$122 (half of her previous pay). If her Social Security retirement benefits are \$750 a month, her weekly Social Security income is \$173. When offset against (subtracted from) her unemployment benefits, her weekly unemployment benefit is zero. As a result, Jackie has lost \$245 in wages and is forced to live on her Social Security retirement benefits alone, even though she meets all other qualifications for unemployment insurance benefits. Jackie’s weekly income has fallen from \$418 to \$173.

#### **How many states have unemployment insurance offsets of Social Security?**

- Forty states and the District of Columbia do not offset any Social Security retirement benefits against unemployment benefits. Ohio is the only one of the 50 states that offsets 100 percent of Social Security benefits against state unemployment benefits. Puerto Rico and the Virgin Islands offset 100 percent, and 9 states offset 50 percent of Social Security benefits.
- There is a definite trend toward eliminating or reducing Social Security offsets in the states. A dozen states have done so since 2003. As a result of the laws passed in Pennsylvania and West Virginia last year, no state that borders Ohio now has an offset. Ohio should join this trend.

### **Why should Ohio stop offsetting unemployment benefits for Social Security recipients?**

- Eliminating the offset for Social Security recipients will make Ohio’s unemployment insurance rules more consistent with today’s labor market. Many older individuals continue working after “retirement” and need the protection of unemployment insurance when they are laid off while receiving Social Security retirement benefits.
- Wages of working Social Security recipients are subject to unemployment-insurance payroll taxes on the same basis as those of other Ohio workers, but when they lose their jobs they are denied full unemployment benefits under offset rules.
- Social Security retirement benefits are based upon a lifetime of work; the lion’s share of these benefits are not paid based on post-retirement employment. Unemployment insurance benefits partially replace lost wages of involuntarily jobless individuals who remain attached to the labor market and have earned monetary eligibility based upon recent employment. The receipt of both benefits at the same time is consistent with the complementary purposes of the two programs.
- Providing unemployment benefits to involuntarily unemployed Social Security retirees regardless of their receipt of Social Security benefits is consistent with American values rewarding work and disfavoring discrimination based upon age.

### **How much will changing this rule cost?**

- The state unemployment agency (the Department of Job & Family Services) estimated in 2005 that 2,360 individuals are impacted annually by the Social Security offset in Ohio and that the yearly cost of repealing the offset would be \$12.4 million (or \$15 million, assuming that 20 percent of those who would be eligible but don’t currently file for benefits decide to do so). The AARP, which supports elimination of the offset, similarly has estimated the annual cost at just under \$13 million.
- The cost of eliminating the offset of Social Security benefits is modest when compared to the overall size of Ohio’s unemployment program. For example, the \$15 million cost estimated by the ODJFS is 1.3 percent of 2004 net benefits payments of more than \$1.17 billion. With the state’s trust fund balance at \$490 million on Jan. 5, 2006, the estimated cost of eliminating offsets represents 3.1 percent of the state’s reserves.
- Economic fundamentals drive the overall financing of unemployment insurance, including payroll tax levels. Lower trust fund balances are increasing employer tax rates, and higher tax rates will continue until the trust fund balance recovers from higher costs in recent years. Eliminating Social Security offsets in Ohio will have little impact on the overall financing of unemployment insurance, which is driven by the state’s economy, and not by modest reform measures.

### **Why not just move to a 50 percent offset in Ohio, rather than eliminating it entirely?**

- While half a Social Security offset is better than a 100 percent offset, a 50 percent offset still falls heavily on Social Security recipients, especially those with lower unemployment benefit levels. For example, in the first year of its 50 percent offset, Virginia found that 1,311 individuals were affected by Social Security offsets. Of these, 507 individuals received no weekly UI benefits as a result of the 50 percent offset.

- Example: If we look again at Jackie’s situation, a 50 percent Social Security offset would mean that her \$122 weekly unemployment benefit would be reduced by 50 cents of every dollar of her Social Security retirement benefits, or \$86.50 a week. As a result, Jackie would receive an unemployment benefit of no more than \$36. Her weekly income would still fall from \$418 to \$209. With no offset, Jackie’s weekly income totals \$295, consisting of \$173 in Social Security and \$122 in unemployment benefits.

**Will eliminating the offset ensure that older Ohioans who become involuntarily unemployed and are seeking work will be able to get benefits?**

- No, it is only part of the solution. Ohio also has one of the toughest earnings requirements for unemployment insurance of any state in the country. This year, an Ohioan who makes the federal minimum wage and is employed 37 hours a week all year long will not qualify for unemployment insurance. Nor will a worker who makes \$9 an hour and works 20 hours a week.
- Many older workers don’t qualify for unemployment insurance because of Ohio’s standard, which this year requires average pay of \$193 a week over at least a 20-week period. For them, elimination of the Social Security offset will be meaningless unless the eligibility standard also is changed.
- Ohio can join the mainstream and make sure more older workers qualify if it reduces the earnings requirement to \$103 a week. At 20 times the federal minimum wage, that would put Ohio in the middle of what most states require. The ODJFS estimated in 2003 that such a change would cost just \$4 million to \$6 million a year.

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