

Testimony to the House Insurance Committee on House Bill 394

By Zach Schiller and Hannah Halbert

Good morning, Chairman Hackett, Ranking Member Bishoff and members of the committee. My name is Zach Schiller and I am research director at Policy Matters Ohio, a nonprofit, nonpartisan organization with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify today regarding House Bill 394.

The original bill was severely flawed because it was not a balanced package; all of the savings came from unemployed workers. It was not a true solvency package, as it came nowhere near achieving its own solvency goal. It misdiagnosed the problem, which is mostly a result of tax levels that have been set too low. And its extreme reductions in benefits and access to benefits would take Ohio well outside the mainstream.

Unfortunately, none of these factors appear to have changed with Rep. Sears's proposed amendments. The fiscal analyses of key provisions in the bill by the Ohio Department of Job and Family Services and the Legislative Service Commission showed it would result in a 41 percent reduction in benefits amounting to an average \$475 million a year. None of the elements in those analyses has changed. Nor has the average \$313 million annual tax cut for employers. The bill relies entirely on jobless workers to improve the solvency of the system, now as before. Meanwhile, as a group, employers see a sizeable tax cut. This is an unbalanced plan that will not make Ohio's system truly solvent.

Our previous testimony noted that Ohio's unemployment compensation (UC) system has been underfunded mostly because taxes have been set too low, especially the share of wages that is taxed. We have noted that the increase in the taxable wage base called for in the bill is inadequate, and that according to ODJFS estimates, we will fall far short of meeting the minimum safe level set in the bill. That appears to be unchanged under these amendments. In addition, the bill does nothing to address other flaws in the tax system that undercut the solvency of Ohio's UC fund.

For instance, a component of every employer's unemployment tax known as the "mutualized rate" was cut in 2010 when we had more than \$2 billion in debt, and incongruously has been set at zero for four years. This portion of the tax covers benefits that can't be assigned to a specific employer, such as those that are paid to employees if their employer goes out of business. Many employers

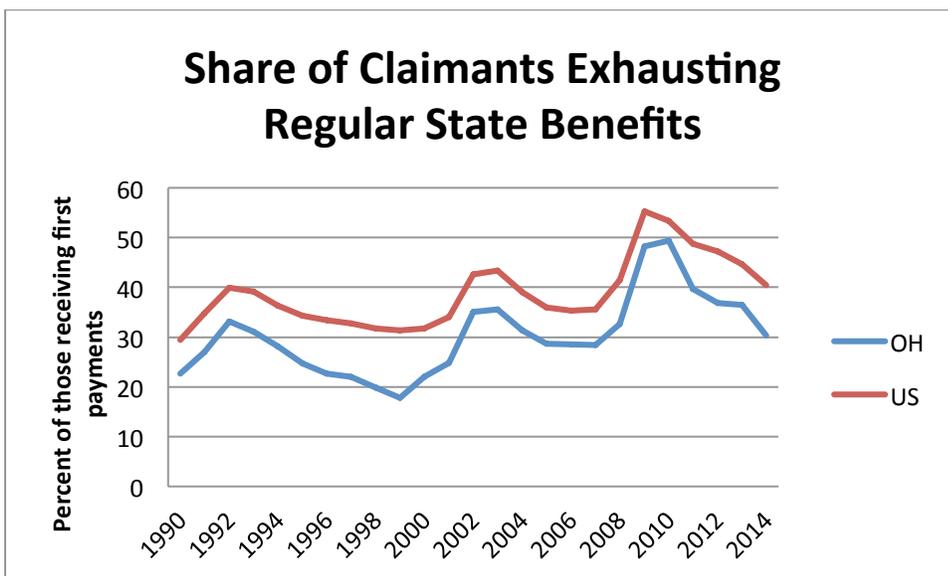
would probably be surprised to find out that, under Ohio law, the added federal tax they are paying has resulted in a reduction in this portion of their state unemployment tax. This part of the current law is one reason that our state UC taxes are so low, and makes no sense. Yet there is no attempt to fix that in the bill.

Some of the amendments proposed by Rep. Sears make improvements to the bill, but they do not change the key features of House Bill 394. No changes have been made in some of the bill’s most significant provisions reducing benefits and eligibility. For instance, the freeze on maximum benefits, as estimated by the sponsor, would last at least until 2025. If average wages were to rise at the same rate as they have over the past nine years, the maximum benefit would be more than 22 percent less than it would have otherwise been in 2025. As previously described, the reduction in the maximum weeks of benefits allowed discriminates against those who happen to live in high unemployment areas. In contrast to what some proponents have said, the 12-to-20-week scale in the bill has been adopted by only one other state.

Ohio’s existing unemployment compensation system has among the most stringent earnings requirements in the country in order to qualify. This year, you must earn \$243 a week, averaged over at least 20 weeks. This means that a minimum-wage worker employed under 30 hours a week all year does not qualify if he or she is laid off.

This is one reason why for years a smaller share of unemployed Ohio workers has received UC benefits than the average across the country. Most recently, in the 12 months ended in September, 23 percent of jobless Ohioans received benefits, ranking us 34th among jurisdictions covered (these include the 50 states, the District of Columbia, Puerto Rico and the Virgin Islands).

Ohio’s solvency issue is not a function of a high level of workers staying on unemployment until their benefits run out compared with other states. On the contrary, a smaller share of Ohioans has exhausted their benefits than in most states – in the 12 months ended in September, 27 percent of Ohioans exhausted their benefits, ranking us 47th in the country.



Yet even after they are amended, a number of provisions would further narrow eligibility. While under the amendments some of them may do so less than the original bill did, that is still their effect—whether it's the requirement that claimants have wages in two of the last three quarters, that additional waiting weeks be served beyond the existing one, or that some recipients of Social Security retirement income see their UC benefits reduced. These measures also continue to stand out as extreme compared with other states. For instance, while an amendment would require wages in two of the three most recent quarters instead three out of four, that would still make Ohio one of only four states in the country with a provision of this kind.

[Rep. Sears, the sponsor of HB 394, told the committee at its Jan. 12 hearing that she was withdrawing the amendment cited in this paragraph. She is putting forward another that would reinstate the Social Security offset to unemployment benefits, so that half of one's Social Security retirement payments would be deducted from UC benefits. Ohio's offset was unanimously repealed by both houses of the Ohio General Assembly in 2007.] Proponents of the legislation have argued that unemployment compensation is not a public benefits program. Why, then, should we introduce a means test for those unemployed workers who also receive Social Security retirement income? How will income be defined – will it be income before or after becoming unemployed? And if the reason for adopting a Social Security offset is cost, as some proponents have said, the amount saved would be small. In 2007, when both houses of the Ohio General Assembly voted unanimously to repeal the existing offset, the LSC estimated that it would cost between \$11.9 million and \$20.6 million a year (see <http://www.lsc.ohio.gov/fiscal/fiscalnotes/127ga/sb0116en.htm>). Using the higher estimate, the Social Security offset accounted for 2 percent of the total benefits paid out between 2008 and 2014. Under Amendment 1531, a much smaller share of Ohioans would be affected by the offset than the earlier total. It stretches the imagination to suggest that adding this offset will significantly improve the finances of the fund. And yet this will add cost and bureaucracy in order to enforce the news means test.

Two amendments specifically would relax the bill's provisions for construction workers, allowing them to avoid the requirement for wages in two out of three quarters and setting a single benefit maximum of 20 weeks. What is the rationale for exempting just one occupational group from the harsher requirements of the bill? Others, including many others who are paid less, are left with lesser benefits and more difficult qualifying requirements.

In slicing benefits and eligibility, this bill, with its amendments, is going after the wrong target. While the benefit payout rose significantly during the recession, as it did across the country, that has not been sustained. Ohio's unemployment benefit levels are not out of line with the nation, and they are not the prime cause of our solvency problem. Chronic underfunding is. We recommend that you start over with a new approach.

Thank you for allowing me to testify on this legislation. I am happy to answer any questions that you may have.

*Policy Matters Ohio is a nonprofit, non-partisan research institute
with offices in Cleveland and Columbus.*