TESTIMONY
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Unemployment Compensation

Testimony on HB 382 & HJR 4 before the House Government Accountability and Oversight Committee

Hannah Halbert and Zach Schiller

Good morning, Chairman Blessing, Ranking Member Clyde and members of the committee. My name is Hannah Halbert. I am a researcher 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.

I am joined today by our research director, Zach Schiller, who previously testified on House Bill 382 and House Joint Resolution 4. We appreciate Rep. Schuring's work on this issue and in particular, the substitution of an employee premium for more extreme benefit cuts. These bills are an improvement over previous legislation, but further improvements are needed (see also our letter to Rep. Schuring). We are here today to make three additional points:

- It is not possible to say that this is a 50-50 deal, where employers and employees each are paying a comparable share of the costs. To start with, one very substantial benefit to employers appears to have been omitted from the calculation. Other factors also aren't included.
- Unemployment compensation (UC) benefits in Ohio are not overly generous, and cutting benefits as the bill would do would make Ohio an outlier among states.
- The main source of our trust fund problem is that it was underfinanced for many years. Employer taxes have been below average. The solution to a problem should be based on its main causes, and in this case, that is inadequate taxation.

One of the major reasons we are searching for a solvency solution is to avoid what happened when we went broke the last time: Employers, even those that may never have laid anyone off, had to pay additional federal taxes to pay off our debt to the federal government. Altogether, Ohio employers paid more than $1.4 billion in additional federal unemployment tax between 2012 and 2016. The debt resulted not from overly generous benefits, but from high levels of unemployment, especially long-term unemployment, and a fund that was one of the least solvent going into the last recession.

Estimates from the Ohio Department of Job & Family Services used by the Legislative Service Commission are based on the Ohio fund going broke in either 2020 if there is a moderate recession or 2021 without one. In other words, absent a solvency fix, Ohio employers are highly likely to find themselves once again paying additional federal taxes to pay off debt. Yet nowhere in the LSC memo on HB 382 describing the employer and employee share of the cost is this mentioned. If the bill manages to stave off federal borrowing so it can be paid off fairly quickly, it will avoid or at least lessen the amount of federal tax employers would otherwise pay. For that reason alone, talk of this being a 50-50 deal is simply that – talk.

Moreover, the estimates are based on having at most one moderate recession between now and 2030. That would mean just one recession in a 21-year period, from 2009 to 2030. The current recovery since June 2009 to January 2018 is now more than 100 months long. According to the National Bureau of Economic Research, a private research group that declares when a recession begins and tracks the history of business cycles, the typical time between recessions since World War II has been 58.4 months. The longest recovery in U.S. economic history lasted 120 months. The assumption that we will have just one recession over the next 13 years is very optimistic. And if we were to experience a second recession during that time, it is clear that benefits would take a hit, based on the bill's provisions.

These are not the only reasons that it can't be said with any confidence that the bill represents a 50-50 deal. The fiscal estimates do not cover, for example, the bill provisions covering dependency. The LSC fiscal note states: "While this provision will likely reduce the amount of benefits disbursed, it is not possible to estimate the fiscal impact until ODJFS promulgates rules."

In 2016, 186,486 Ohioans received unemployment compensation. That was the smallest number since 1972 – and through last November, fewer still were getting benefits than the year before. Ohio benefit costs as a share of wages, the key measure of cost, have been below the national average for the last seven years. In fact, for many years, unemployed Ohioans have been less likely to qualify for benefits than jobless workers nationally. We require that workers earn more to qualify than in almost any other state. We deny benefits to jobless Ohioans seeking part-time work, even if they are seeking similar part-time status to the jobs they were laid off from, and even though their employers paid taxes on their wages. As the Department of Job & Family Services told a House committee studying the UC solvency issue in 2014, "Simply put it, is already more difficult to qualify for unemployment benefits in Ohio than in most states." Yet HB 382 would further limit eligibility by reducing the maximum number of weeks one could receive benefits.

In Ohio, the average duration of unemployment compensation is just 14.7 weeks. This is slightly better than the national average of 15.6 weeks. Ohio's exhaustion rate – the rate at which people run out of all the benefits for which they qualify – is the 8th lowest in the nation. Most UC recipients quickly move on to new employment. But some do struggle in an economy that still has fewer jobs than it did 17 years ago. Cutting weeks will have a disproportionate impact on some regions of the state and some populations. In a report we released in 2016, we found that people living in the southeastern part of the state were much more likely to struggle finding work. There were just too few job openings for the number of unemployed jobseekers. Older workers are also more likely to be harmed by cutting weeks, and older workers are a growing share of Ohio UC claimants. Shortening the path to benefit exhaustion will not help Ohioans get reemployed. Workers who exhaust their benefits are more likely to drop out of the labor force. Ending UC early also ends mandatory work search activities and supports. Cutting the number of weeks available to Ohio workers will weaken the system and harm families.

Thirty-two of the 50 states adjust their benefits based on wage levels each year. Forty-one offer up to a maximum of 26 weeks of benefits. Ohio is in the mainstream with both our maximum for benefit weeks and our annual adjustment of benefit levels, which merely ensures that benefits are in line with wage levels. Ask yourself: Would you be able to pay your bills on $359 a week? That is the average weekly benefit. It is below the federal poverty standard for a family of three.

Ohio is not in danger of losing an economic competition to other states because of our unemployment benefit levels. As we testified earlier, state unemployment taxes are a tiny share of business costs. Ohio employers and companies across the nation are paying well under 1 percent of wages in state unemployment taxes. And Ohio employer taxes are low. The top tax rate last year of $783 ranked below that of 34 other states. Average taxes of $251 were well below the national average of $337. Even the $11,000 taxable wage base called for in the bill would be below that of 33 other states.

Dr. Wayne Vroman, the leading economist on UC financing in the U.S., was commissioned by ODJFS in 2007 to help study the state's UC financing. Dr. Vroman made projections and simulated the impact of solvency scenarios. He made expert solvency recommendations based upon these projections. He concluded that, "…it would seem that most of the adjustments should involve enhancements to revenue since the benefit side of Ohio's program has not grown, but taxes have lagged economic growth." Dr. Vroman recommended increasing and indexing the taxable wage base, making other changes in the structure of the tax, and freezing the maximum weekly benefit for three years, along with other changes. Dr. Vroman's recommendations were ignored, and nothing was done.

Unemployment compensation does not just help families buy the essentials they need, and permit job seekers to look for work more effectively because they have money to put gas in the car and keep their Internet access. Unemployment benefits "allow the unemployed to maintain more of their previous consumption than they would otherwise be able to," ODJFS noted in a 2014 filing. "When the unemployed cut back on spending, the business owners that serve them lose. By cushioning the fall in these families' incomes, unemployment insurance not only helps the families that receive it, but also prevents further production cuts and layoffs." This is a key reason why we have unemployment insurance, and should be taken into consideration as you review HB 382 and HJR 4.

Thank you for this opportunity to testify. I will be glad to take any questions.