

## Executive Summary

Unemployment compensation provides crucial basic support to jobless workers and their families, and boosts the economy by maintaining consumer spending when unemployment rises. This report examines Ohio's unemployment compensation system, and finds that while it has provided significant assistance to jobless workers and the economy recently, ill-advised limitations upon eligibility undermine the program's ability to achieve its goals.

Unemployed Ohioans are less likely to receive unemployment compensation than jobless workers elsewhere in the United States. For every 100 jobless Ohio workers, only 36 got unemployment compensation (UC) in 2003. Nationally, 41 of every 100 jobless workers received benefits last year; states with the greatest coverage paid to well over 50 of every 100 unemployed residents.

Workers in Ohio must earn more than those in almost any other state in order to qualify for unemployment compensation. Ohio's monetary eligibility requirement, set at 27.5 percent of the state's average weekly wage, amounts to \$181 a week in 2004. This means that a minimum-wage worker working 35 hours weekly and making \$180.25 each week in 2004 (\$9373) is ineligible for benefits in Ohio. Our analysis of Census Bureau data finds that:

- Extending UC monetary eligibility to individuals working 20-35 hours per week and at least 20 weeks per year at the minimum wage or more (roughly \$100/week) would expand potential UC eligibility by 352,000 individuals, or an additional 6.8% of the total Ohio workforce.
- On average, these currently excluded workers are employed 44 weeks a year, not significantly less than the 50 weeks that higher-wage workers currently eligible for UC worked on average.
- Sixty-seven percent of workers who potentially would become eligible for benefits are women. In comparison, 46.4 percent of workers qualifying under current UC rules are female.

Improving monetary eligibility would not cost a great deal. The Ohio Department of Job and Family Services has estimated that if monetary eligibility rules covered individuals working the equivalent of at least 20 hours a week for 20 weeks, it would cost between \$4 million and \$6 million a year, or less than half of one percent of benefit costs.

Part-time workers in Ohio face other obstacles in obtaining UC benefits. Agency practice results in the denial of benefits to most claimants who state that they are limiting their availability to part-time work, even where these individuals previously worked part-time. The exclusion of part-timers disproportionately affects low-wage and women workers. A growing number of states, recognizing that the exclusion of part-time workers is based on outdated assumptions that part-time workers are not really supporting families, have expanded eligibility for these workers.

Unemployment compensation helps both jobless workers and the economy by providing benefits to involuntarily jobless workers. UC programs best perform these functions by building up reserves from employer payroll taxes during economic good times in order to pay UC benefits during downturns. Ohio's UC program paid more than \$4 billion in benefits overall in 2001, 2002, and 2003, helping hundreds of thousands of Ohioans each month. By drawing down reserves to pay higher UC claims, the program provided a net \$2 billion boost to the state's economy over and above UC taxes paid by Ohio employers during these years.

## Unemployment Compensation in Ohio

Ohio benefit levels, though in the middle of the pack nationally, have lost ground relative to other states in recent years. Weekly UC benefit amounts averaged \$252 in 2003, or \$10 a week below the national average. Ohio is the only state that pays dependency allowances only to workers who earned a minimum amount -- currently \$646 a week -- rather than to all jobless breadwinners.

Ohio sets UC payroll tax rates based upon the prior claims experience of employers compared to their past contributions. Taxes also depend on the balance in the state's trust fund and benefit charges that cannot be recovered from a specific employer account. The state's "minimum safe level" mechanism lowers and raises UC tax rates by comparing trust fund balances to prior benefit payment levels. Ohio's UC financing system favors lowering taxes instead of allowing trust fund reserves to build up during good times, reducing federal interest the fund receives. By lowering UC taxes during economic recovery periods, the minimum safe level mechanism ensures that Ohio enters recessions with lower reserve levels than it would have otherwise. This means that the state must raise taxes to a greater degree following recessions to avoid insolvency.

State UC tax rates remained around 0.5 percent of total wages, or 50 cents on every 100 dollars of Ohio payrolls, between 1997 and 2003. They remain below the national average. In order to pay higher benefit costs and to replenish Ohio's UC trust fund, employer payroll tax contributions are currently increasing, with tax rates expected to climb for the near future.

Since 1995, Ohio employers have paid tax on the first \$9,000 of each employee's earnings. Each year this amount becomes a smaller proportion of total wages. Meanwhile, UC benefit levels keep pace with rising wages, placing a long-term squeeze on UC financing. In general, states with higher taxable wage bases can recover from or avoid insolvency better than states with lower taxable wage bases. Seventeen states automatically adjust their taxable wage bases each year to wages, keeping pace with economic growth.

### Recommendations

1. *Ohio should adopt a monetary eligibility standard that permits individuals working at least 20 hours a week for at least 20 weeks a year to get UC benefits. These individuals are eligible for UC in most states and have enough work history to justify eligibility for benefits.*
2. *Current policies deny benefits to some part-time workers because they are available only for part-time work regardless of their circumstances. Ohio should clarify its policy regarding part-time workers, permitting those with substantial part-time work history to draw UC benefits so long as reasonable numbers of part-time jobs exist in the labor market.*
3. *Ohio, like other states, should look to ensure over time that its UC benefit levels come closer to replacing the average wage. The state should modify its dependency allowances to increase UC benefit payments to all jobless breadwinners*
4. *In order to better prepare for the next economic downturn, Ohio should modify its UC financing mechanism to improve forward financing of its UC trust fund. This will result in employers paying somewhat higher taxes during the growth phase of economic cycles in order to build higher trust fund reserves to cushion employers and the state's economy from UC tax increases before an economic recovery is fully in place.*
5. *Ohio's unchanging \$9000 taxable wage base results in a declining financial base for the state's UC program. Ohio should raise and index its taxable wage base by automatically increasing it to keep pace with annual growth in state average wages.*