A Report from

Policy Matters Ohio

Unemployment Isn't Working: A Proposal to Better Insure Ohio's workers

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Executive Summary

This report reviews the history and operation of the Ohio unemployment insurance system. It describes how eligibility standards work and how the qualifying requirements affect low-wage workers. The study further examines how the system is financed and its current condition. It suggests a number of changes in the financing and provision of benefits, including ways to extend coverage to more Ohioans who have lost their jobs.

Ohio has one of the strictest standards in the nation on how much people must earn before they qualify for unemployment benefits. Yet we have been cutting taxes by tens of millions of dollars annually, so thousands of employers have been paying no state unemployment insurance taxes at all. Many more jobless Ohioans could receive needed benefits if the eligibility standard and tax structure were overhauled.

In Ohio, as elsewhere, employers pay taxes into a trust fund held by the federal government based on how many of their workers become unemployed. The system provides benefits only to workers who are established members of the labor force, and who lose their jobs through no fault of their own. It has been aimed at providing enough money to get by temporarily, which is set at half of a worker's previous earnings, up to a maximum. Federal law defines much of the system, but state law plays a key role in determining who qualifies, how much they may receive in benefits, and how much employers are taxed to pay for it.

Unemployment benefits for the typical Ohio worker are in the middle of the pack. The state has an unusual system for paying allowances for dependents, granting them only to workers making more than $606 a week, or just below the Ohio average weekly wage. That allows many workers with above-average incomes to receive more in benefits, but leaves out lower-paid workers with families. In fact, though average benefits are higher than in most states, benefits for minimum-wage workers are below most other states' payments.

To be eligible for benefits, jobless Ohioans must work at least 20 weeks during the year-long base period, and make 27.5 percent of the state average weekly wage during the weeks that they are employed. This year, that works out to $169 a week, or $3,380 at a minimum, among the highest levels of any state in the country.

Tens of thousands of workers in Ohio can't get unemployment benefits because of these stiff earnings requirements. It's not just minimum-wage workers who may be excluded. The typical part-time worker in Ohio, who works 20 hours a week at $8.00 an hour, will never qualify. Yet low-wage workers are also more likely to become unemployed.

Others are excluded because they quit their jobs to meet pressing domestic responsibilities, such as caring for sick family members. A recent survey conducted by the General Accounting Office found Ohio to be among the most restrictive states in barring workers from receiving benefits because of personal circumstances. Part-timers – nearly 19 percent of Ohio's workers – often cannot receive benefits if they seek the same

jobs that they earlier lost. Women are disproportionately affected by these rules. Such weaknesses in the UI system are especially important now that lifetime limits on welfare have been implemented. They also are problematic because of how important women's earnings are for families to get by.

One feature of Ohio's program allows recent earnings to be included in determining eligibility, making it easier for workers to qualify. But all told, a consistently smaller proportion of unemployed workers in Ohio receive benefits than jobless workers do nationally. With just 31 percent of its unemployed receiving benefits last year, Ohio ranked 34th in the country.

Even while many low-wage workers are excluded from the system, employers have seen a huge reduction in taxes. Some 35,000 Ohio employers – more than 15 percent of all those in the state – aren't paying any state taxes for unemployment insurance. An across-the-board rate cut slashed taxes by more than $40 million a year in each of the last three years. Those specific cuts could end next year because unemployment has risen. But they are part of much larger overall cuts. Ohio's taxes are now at their lowest levels in 30 years.

Several things in the structure of the unemployment insurance system contribute to the tax reductions. They include the flat, unchanging base of just $9,000 in employee earnings on which taxes are paid; rates which depend on each employer's experience with unemployment claims by their employees and their payments; and a system that automatically cuts taxes when reserves reach a certain level.

Unemployment taxes have fallen across the country. But Ohio's rates continue to trail the nation's. Last year, the state ranked 33rd in taxes as a proportion of wages.

Despite building a $2.3 billion reserve fund, Ohio remains less solvent than most states. The fund is solid enough to withstand a moderate recession, but would be threatened in a severe downturn.

A more inclusive system in line with today's economic realities might include some of these changes:

- Determine eligibility based on hours of work, not earnings, as a couple of states already do. As a starting point, Ohio could reduce its earnings requirements by allowing any minimum-wage earner working 20 hours a week for 20 weeks to qualify.
- Consider increasing benefits for low-wage workers to 60 percent of their previous weekly wages and revising the system for dependents' allowances.
- Allow workers to collect UI benefits if they leave a job for compelling family reasons, such as caring for a sick parent or child, or being victimized by domestic violence.
- Permit unemployed part-time employees working at least 20 hours a week who are seeking similar part-time work to qualify.

- To finance these changes, index the taxable wage base to wage levels.

Ohio may be able to finance broader eligibility in part through federal funds. In any event, the state can afford to raise unemployment insurance taxes, based on rates that are below the national average and those of nearly all neighboring states. Apart from any changes in eligibility, taxes should be indexed to wage levels -- as benefits are -- for financial stability. Seventeen states already set their taxable wage bases according to average wages.

Unemployment insurance is a crucial, temporary support for jobless workers. But Ohio's system doesn't fit the needs of today's workforce, especially those who are lower-paid. The modest changes suggested here will safeguard the state's workers at a time when unemployment benefits are more important than ever.