A Report from

Policy Matters Ohio

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

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Policy Matters Ohio, the publisher of this study, is a non-profit research institute dedicated to bridging the gap between research and policy in Ohio. Policy Matters seeks to broaden the debate about economic policy in Ohio by providing quantitative and qualitative analysis of important issues facing working people in the state. Other areas of inquiry for Policy Matters have included women and work, tax policy, wages, temporary work and privatization of public services. Funding for the institute comes primarily from the George Gund Foundation.

TABLE OF CONTENTS

TABLE OF FIGURES & TABLES

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.

I. Introduction & History

Ohio's unemployment insurance system provides much-needed support to hundreds of thousands of jobless workers every year. It generally gets little public attention, except from those who need to use it.

Many more Ohioans need to use it today, with the recent rise in unemployment. It's also more important than ever because welfare, one of the other original parts of the safety net developed in the 1930s to protect citizens against destitution, has been sharply limited. It's been more than a decade since significant changes were made in how the system is financed or how earnings requirements to qualify for benefits are set.

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. Other research from Policy Matters Ohio later may examine the transition to filing most claims over the telephone instead of at offices.

Federal law defines much of the unemployment insurance 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. 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 for jobseekers to get by temporarily. Recipients get half of their previous weekly earnings, up to a maximum, for up to 26 weeks.

Besides meeting an earnings test to qualify for benefits, jobless applicants in Ohio must be able, available and actively seeking "suitable" work (Ohio Revised Code, Sections 4141.29(A)(4)(a) and (F)). The Ohio Department of Job & Family Services is mandated to take into account the individual's prior training and experience, among other factors. The agency considers suitable work to be work done under conditions that are normal for the applicant's occupation.

Unemployment insurance serves other purposes besides the crucial one of sustaining people through temporary periods of joblessness and ensuring they do not become destitute. It adds purchasing power to the economy at a time when local communities most need it. As the U.S. Supreme Court said in a 1971 decision, "Early payment of insurance benefits serves to prevent a decline in the purchasing power of the unemployed, which in turns serves to aid industries producing goods and services" (California Dept., 1971).*

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* A Plain Dealer editorial said in 1982: "Unemployment benefits help individuals, it's true. But the value to the state and nation as a whole is often overlooked. One of the main reasons this nation now has a severe

History

Ohio played a key role in shaping the U.S. unemployment insurance system when it emerged in the 1930s. A state commission in 1932 called for a pooled state fund of taxes paid by employers and employees to support the system, rather than individual employer reserves (Blaustein et al, p. 119). That concept of pooled funds later was adopted around the country.

Ohio began its unemployment insurance program after the Social Security Act of 1935 provided the framework and impetus for states to set up such funds. Ohio employers started paying into the fund in 1936, and the first benefits were paid in 1939 (Mackey, p. 28).

But since a crisis in the early 1980s when Ohio and other states found themselves in hock to the federal government for billions of dollars, low-wage workers in the state have had to earn more to qualify for benefits.

The recessions of the mid-70s and early '80s placed enormous strain on the unemployment insurance system, causing states to raise taxes, tighten eligibility rules and cut benefit levels.

Quiz: How Does Ohio Unemployment Work?

1. When her husband James was transferred from Cincinnati to Toledo, Michelle had to leave her secretarial job. Was she eligible for Unemployment Insurance (UI)?
2. Raymond supported his wife Angela and their one- and three-year olds on his $600/week job at Mr. Coffee. When he was laid off, was his family eligible for dependent benefits?
3. Sam worked thirty hours a week, earning the minimum wage at a Youngstown convenience store. When the store closed unexpectedly, was Sam eligible for UI?
4. After four years in an abusive marriage, Lucy got the courage to take her two boys, leave her abusive husband, and go live with her mother in Marietta. Was she eligible for UI from her four years working in Lima?
5. Desmond works twenty hours a week earning $8.00 an hour at a Columbus men's clothing store. When the store had to let him go, did Desmond qualify for benefits?
6. When Susan lost her $15/hour, full-time job as a nurse, could she maintain herself, her six-year old, and her four-year old twins above the poverty level on her UI benefits?
7. How many Ohio employers are paying no state unemployment taxes this year?

(for answers, see page 20)

Ohio was no exception. Facing a $2 billion debt to the federal government, the legislature froze benefits, boosted employer taxes and toughened the rules to qualify. Taxes have since fallen and benefits, though they haven't caught up to 1970s levels in inflation-adjusted dollars, are once again linked to wages. But the monetary eligibility standard also has tightened. According to a recent study by Jeffrey Wenger of the Economic

recession rather than a true depression is its system of unemployment benefits and other social aid programs…Ohio pays out $152 million a month in unemployment benefits. Most of that is spent in the state, for basic, life-sustaining goods and services. What would the state's economy be like without it?" The Plain Dealer, "Hard times get harder," May 30, 1982, p4-AA.

Policy Institute, Ohio was one of only 10 states and the District of Columbia that increased minimum earnings requirements between 1990 and 2000 (Wenger, "Divided We Fall," p. 6).

Welfare

Unemployment insurance has become even more important with the time limits that have been imposed on welfare benefits. Those have been set in Ohio at three years for a recipient's lifetime, with certain limited exceptions.

Besides income for retirees, the Social Security Act set up two income-support systems. One was unemployment insurance, designed for temporarily replacing part of the paychecks of jobless workers. The other was relief for unmarried mothers and their dependents. That policy changed when Congress in 1996 decided instead that single mothers with children must work. But no changes have been made in unemployment insurance that covers these workers who often are on the margins of the labor force, so that they are likely to receive benefits if they are thrown out of work.

Former welfare recipients are especially likely to face unemployment. Case Western Reserve University's Center on Urban Poverty and Social Change found in its continuing study of people leaving cash assistance in Cuyahoga County that 89 percent of those it interviewed held at least one job during the six-month period after they left. However, only half the adults who left cash assistance worked continuously--meaning at least 20 hours each week in all of the months--in the first six months. "Although almost everyone held a job at some point, 30 percent were not working at the time of the interview. Their reasons for not working were mainly related to health problems of themselves or family members, difficulty locating child care or to trouble finding a job." (Coulton et al, p.7)

It's unclear exactly what proportion of jobless former welfare recipients receives unemployment insurance.[*] Citing low earnings and other factors, UI expert Wayne Vroman of the Urban Institute estimated in 1998 that "no more than 20 percent of former welfare recipients who experience unemployment would be expected to be eligible for unemployment benefits" (Vroman, "Effects of Welfare Reform…"). Harry J. Holzer has questioned that the number would be that low, citing improving employment experiences of current and former welfare recipients (Holzer, p.5).

Whatever the exact proportion, fewer will be able to receive welfare benefits as time goes on, making an unemployment insurance system that covers lower-income workers who may lose their jobs all the more crucial. In a recent report on low-wage workers and unemployment insurance, the General Accounting Office said that, "A UI program that supports all workers who lose their jobs through no fault of their own during times of economic hardship can play an important role in helping many former welfare recipients maintain their places in the labor force and out of the welfare system" (GAO, p. 34).

[*] Various studies, including those by the Case Western Reserve University Center on Urban Poverty and Social Change and one recently released by the Ohio Department of Job & Family Services and Ohio State University, have reported on the earnings of former welfare recipients. But they have not specifically reported how many received unemployment benefits after becoming unemployed.

II. The Ohio System

Ohio has one of the strictest standards in the nation on how much someone must earn before qualifying for unemployment benefits. A worker 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 he or she is employed. With the average weekly wage at $617, that works out this year to $169 a week (ODJFS, UC Letter). Seasonal workers can receive benefits on a prorated basis.

At a minimum, then, an Ohio worker must earn $3,380 -- $169 a week times 20 weeks of work -- to be eligible for benefits. That amount ranks the state third among states, to Florida and North Carolina (U.S. DOL, "Comparison…"; UWC, 2001).[*] Under Ohio's requirements, a worker could be employed every week of the year making $168 a week – a total of $8,736 -- and not qualify for benefits.

Most states use other kinds of earnings standards. Typically, they tie eligibility to weekly benefit amounts or to earning a certain amount during more than a single quarter of the year. Table 1 shows how Ohio's standard compares with that of bordering states.

Table 1
Ohio and its neighbors:
Minimum earnings to qualify for unemployment insurance

State	Minimum earnings
Ohio	$3,380
Pennsylvania	$1,320
West Virginia	$2,200
Kentucky	$1,500
Indiana	$2,750
Michigan	$2,997

Source: Highlights of State Unemployment Compensation Laws January 2001, UWC

Alternate base period

One feature of Ohio's eligibility standard does make it easier for workers to qualify compared to elsewhere. Ohio is one of only 11 states that permit earnings from the most recently ended quarter to be included in the determination of eligibility if an applicant doesn't qualify on the basis of the four previous quarters.

Suppose, for example, that someone applies for benefits on June 15. The state will examine first if they met the earnings test in the year that ended Dec. 31. If the applicant didn't make enough during that "base period" to qualify, the Ohio Department of Job & Family Services will look at the four quarters ended March 31, or the "alternate base period." For a worker who only started working in November or December, that would make all the difference. That's very important for people who may only recently have

[*] The state of Washington has no earnings test, but requires applicants to have worked 680 hours, which also works out to more than the minimum Ohio requirement for those making the minimum wage.

gotten jobs, such as former welfare recipients, and for those who aren't able to work all the time.

However, Ohio's earnings requirement was stiffened substantially in the 1980s, making it much harder for low-wage workers to qualify. It has never returned to anything like its previous level. In recent years, it has edged up further in inflation-adjusted terms, since the eligibility standard is indexed to the state average weekly wage. For details, see Figure 1:

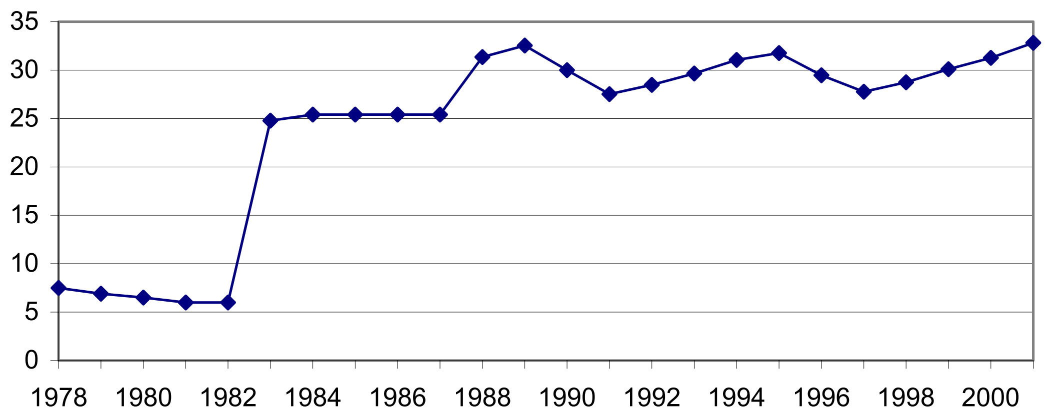
Figure 1

Source: Ohio Department of Job & Family Services

The minimum wage has not risen as much as earnings requirements have. Ever since the standard was boosted in 1982, it has taken many more hours of work to qualify. The rise in the minimum wage in 1996 and 1997 reduced that amount temporarily. But the number has grown again in the last few years, as average wages have grown and the U.S. minimum wage has remained flat. An Ohio worker making the federal minimum wage now must work 32.8 hours a week for 20 weeks to qualify for benefits.

Figure 2

Weekly hours needed for minimum-wage worker in Ohio to qualify for benefits



Source: Ohio Department of Job & Family Services

How low-wage workers in Ohio are affected

Tens of thousands of workers in Ohio can't get unemployment benefits because of the stringent monetary eligibility standards.

Some 156,000 Ohio workers were paid the minimum wage or less in 2000, representing 4.6 percent of the total hourly workforce over the age of 16 (Some of these workers also receive tips or commissions). Close to two-thirds of them were women. And they weren't all teenagers: Two-thirds were 20 years old or more (Bureau of Labor Statistics, "Unpublished tabulations…"). An additional 609,000 workers were paid less than $7.15 an hour. Nearly 23 percent of the state's hourly workforce was paid less than $7.15. At this rate, a worker has to work 23.6 hours a week to qualify for benefits.

Ohio is one of only five states in the country in which a worker making the minimum wage working all year for 20 hours a week would not be eligible for any unemployment benefits (UWC, pp. 47-52). But it's not just minimum-wage workers who may be excluded by the state's monetary requirements. For example, those making $8 an hour and working 20 hours a week will never qualify for unemployment insurance. That happens to be exactly how much the typical part-time worker in Ohio makes, and how long she works (Wenger, Personal communication).

The GAO report concluded that nationally between 1992 and 1995, workers making $8 an hour or less were "twice as likely to be out of work as higher-wage workers but only half as likely to receive unemployment benefits" (GAO, p. 13). It also said that in a downturn, many low-wage workers wouldn't qualify for unemployment insurance. Even among workers who had worked similar periods of time, low-wage workers were less likely to receive UI benefits, the GAO found (Ibid, p. 15). Workers in services and retail trade are far less likely than those in manufacturing and construction to receive benefits.

Some low-wage workers also are excluded from receiving benefits because of rules that discriminate against part-timers. The unemployment insurance system is set up to assist regular, established workers who have a "substantial attachment" to the labor force.

According to a 1998 study by Vroman, only 12 percent of part-timers nationally qualify for unemployment benefits (Vroman, "Labor Market Changes…"). He concluded that most part-timers who filed for benefits could meet the monetary eligibility criteria. The low rate of those getting benefits "is due mainly to other factors," he said. Ohio's law is less restrictive than some states in its treatment of part-time workers, in that it does not specifically require that unemployed applicants for benefits seek full-time work. In one recent case where a claimant had been working part-time because of a health condition, a Trumbull County court reversed the ODJFS review commission and held that his availability for only part-time work did not make him ineligible for unemployment compensation benefits (Kahn, 2001).

Part-time Workers

Part-time workers are a crucial part of the regular labor force in Ohio. In 1999, an average of 1,033,000 people or 18.8 percent of Ohio's labor force worked less than 35 hours a week.Though a popular image of part-timers may be teenagers flipping burgers, Ohio's part-timers include far more adults than teenagers. (U.S. DOL, BLS Geographic Profile, 1999)

In Ohio as elsewhere, most part-timers are women. Altogether, there are 727,000 women working less than 35 hours a week, making up 28 percent of the women employed in the Ohio workforce and 70 percent of the state's part-timers. (Ibid.)

However, that ruling only resulted in a reversal of that one claimant's case. In practice, as it did in the Trumbull County case, the agency often denies benefits to applicants who say they are seeking part-time work. Many unemployed don't go to court when that happens.

Ohio's temporary workers, who numbered close to 150,000 as of last December, are eligible like others for jobless benefits if they become unemployed. But they can face special difficulties when they apply for it. For instance, a worker placed by a temporary agency in a position leading to a permanent job may find if they are laid off from that job that they are denied benefits for quitting the temporary employer.

Non-monetary disqualification

Workers in Ohio must have had "just cause" to quit their jobs if they are to receive benefits. They may not receive benefits if they quit because of domestic obligations (Ohio Revised Code, Section 4141.29(D)(2)(c)). That includes quitting to care for a sick child or to follow a spouse who has been transferred to another job. Refusing work on a night shift to care for a child also may disqualify someone for benefits.

A survey conducted by the GAO for its recent study found Ohio to be among the most restrictive states in barring workers from receiving benefits because of personal circumstances (GAO, pp. 50-52). Along with Ohio, only Idaho prohibited benefits in each of the six hypothetical cases the GAO inquired about.

The GAO posed hypothetical situations to each state about whether workers would be eligible for benefits. In one case, it assumed the worker was a stockroom clerk who had quit a job at a retail chain because they were required to change from the day to the night shift and child care was unavailable then. Ohio was one of only nine states to say it didn't allow benefits in such a case.

Sometimes, depending on the situation, courts in Ohio have taken a less stringent position. However, the inability of part-time workers who work regular, substantial hours to receive benefits underlines how the economy has changed, but the unemployment insurance system has not.

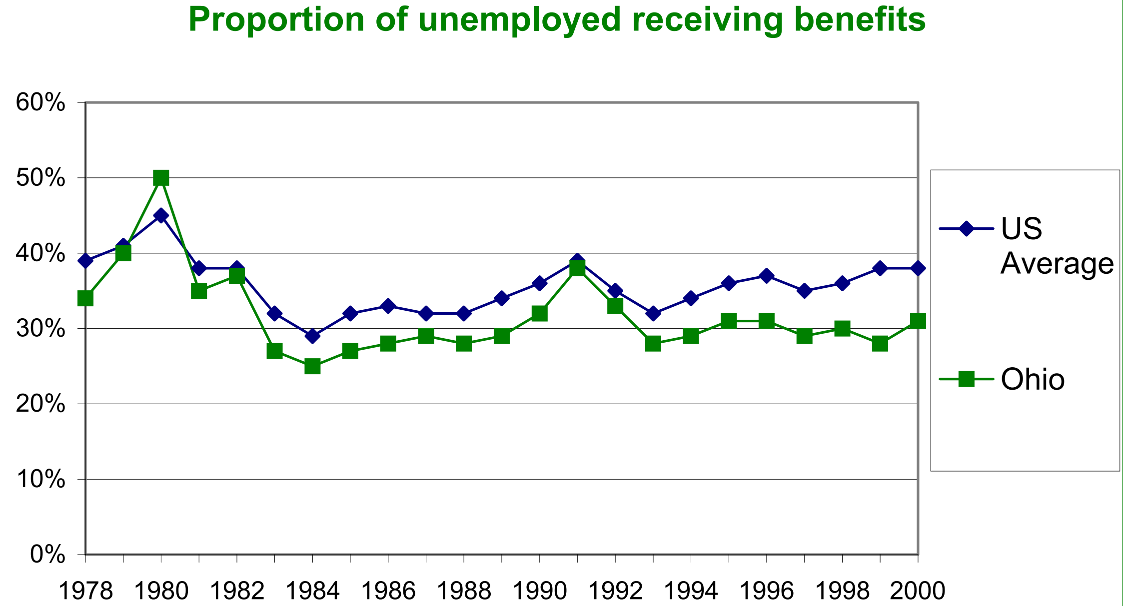
Commenting on the GAO report, the U.S. Department of Labor noted that the current unemployment insurance system was designed 60 years ago for a certain type of worker. "Since then, the U.S. economy and the composition for its labor force have changed while the UI program has been slow to adapt to these changes. The result is a larger portion of the labor force more closely resembles the category of worker for which UI was not designed. More recently, the reform of the welfare system has further increased the number of workers in this category" (GAO, p. 53).

Receipt of benefits

The proportion of workers nationally who receive benefits when they are unemployed is far lower than it was years ago; last year, only 38 percent of workers who were jobless collected unemployment insurance. The declines "threaten to undermine the two primary functions of the UI system: to provide partial wage replacement for unemployed workers, and to counter economic downturns by automatically pumping more money into the economy when unemployment is high" (Advisory Council on Unemployment Compensation, p. 31, 1994).

With just 31 percent of its unemployed receiving benefits last year, Ohio ranked 34th in the nation (U.S. DOL, "State Level…" The ranking includes Puerto Rico and District of Columbia, which rank higher than Ohio).

Figure 3



Source: U.S. Department of Labor, Bureau of Labor Statistics and Employment & Training Administration

Some observers question the usefulness of recipiency rates. In fact, there is tremendous variation in them from state to state. The unemployment rate upon which they are figured includes many people who are unlikely to be candidates for unemployment insurance, such as new job seekers just joining the labor market and others who have quit work voluntarily. Also, some unemployed never apply for benefits (Wandner & Stettner, 2000). Thus, recipiency rates may exaggerate the proportion of unemployed who aren't getting benefits.

On the other hand, the unemployment rate also excludes others who are out of work but haven't searched for it in the past four weeks. Recipiency rates remain the most widely accepted measure of the proportion of unemployed receiving benefits. And the obvious alternative, the proportion of people receiving benefits compared only to those who've lost their jobs, shows the same trend: A smaller proportion of jobless workers in Ohio than in the nation as a whole receive benefits (U.S. DOL, Stengle). Only during recessions, when more manufacturing workers in heavily industrialized Ohio are likely to receive benefits, does this change.*

* In the first quarter of 2001, Ohio's recipiency level soared to 51 percent, higher than the national average. However, that increase is based on faulty data. An important reason for the huge rise was low reported unemployment rates in February and March that were sharply questioned by state labor market experts at the ODJFS. See press releases of March 23 and April 20, 2001, from the ODJFS and also Clare Ansberry, "Odd Numbers: States Discover It Is Hard Work to Figure Their Jobless Rate," The Wall Street Journal, June 4, 2001, p. A1)

Benefit levels

Unemployed Ohioans who qualify receive weekly benefits of half their weekly wage, up to a maximum that depends on whether they have any dependents. A worker with no dependents this year can get benefits of up to $303; one with one or two dependents gets up to $367, and a worker with three or more dependents receives up to a maximum of $407 a week. Those amounts are increased each year by the same percentage as the growth in the average weekly wage. They can't exceed half, 60 percent and two-thirds of the weekly wage, respectively (ODJFS, Anderson & Welsh; Ohio Revised Code, Section 4141.30). Those who apply can get up to 26 weeks of payments, if they have worked at least 26 weeks. Benefits may be extended if unemployment in the state rises high and fast, but Ohio is not yet approaching the required trigger points.

Table 2

Examples of Ohio unemployment compensation benefits

Weekly earnings	Number of dependents	Weekly benefit	Comments
$160	0	$0	Insufficient earnings
$169	0	$84	Minimum Benefit
$206	0	$103	Full-time minimum wage
$206	2	$103	Doesn't earn enough for dependent allowance
$400	0	$200	
$400	3	$200	Doesn't earn enough for dependent allowance
$800	1	$367	Top benefit for anyone with one dependent
$800	3	$400	
$1,000	0	$303	Top benefit for anyone with no dependents
$1,000	3	$407	Maximum benefit

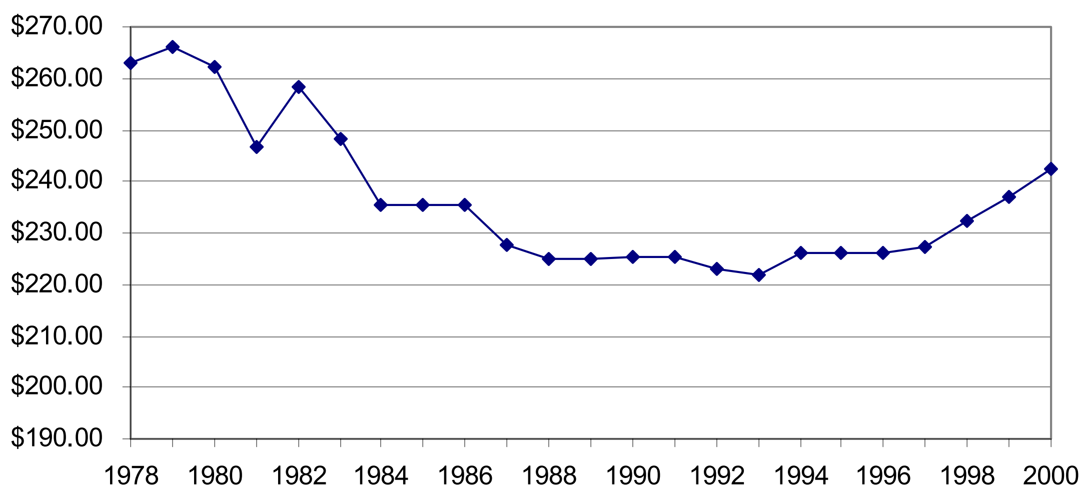
Source: ODJFS, author's calculations

Dependent allowances allow many workers with above-average incomes to receive more in benefits. However, since the state only pays the allowances to workers making more than $606 a week, or nearly the Ohio average weekly wage, lower-earning workers are excluded from receiving them. The benefit caps also limit how much higher-paid workers receive, keeping them from getting half of their weekly pay in benefits.

Benefit caps are tied to the state average weekly wage, so benefit levels have risen as wages have gone up in recent years. However, average weekly benefits still don't match the levels of the late 1970s once they are adjusted for inflation. The average weekly benefit in real terms fell from $263 in 1978 to $242.55 last year. The erosion of real wages and freeze on benefit levels in the 1980s contributed to that trend, which is shown in Figure 4:

Figure 4

Average weekly benefit in Ohio, 1978-2000 (2000 dollars)



Source: Ohio Department of Job & Family Services

Despite the fall-off in real benefits since the late 1970s, Ohio's average weekly benefit ranked 15th among states in the first quarter of this year at $247.93 (U.S. DOL, UI Data Summary). Unemployment benefits for the typical Ohio worker are in the middle of the pack nationally. Those who had been earning the median wage – meaning that they were making more than half the workers in the state, and less than half – received $252 a week last year, according to Wenger of the Economic Policy Institute. That ranked Ohio 25th among states (Wenger, "Divided we fall," Appendix Table A3). While high monetary eligibility requirements exclude many low-wage workers, Ohio has high minimum and maximum benefit levels.

Yet Ohio recipients of unemployment benefits last year got only 42 percent of their former wages, ranking the state among the lowest in the country. Some workers in other states get more than 50 percent of their previous pay, while benefit caps prevent many Ohio workers from receiving half of their old salaries.

Partly, that could be because the state has more people working in manufacturing and who are members of unions, so they are both higher-paid and more likely to apply for benefits than others. However, that's unlikely to be the only explanation, since similar industrial states like Michigan and Pennsylvania don't show the same pattern.

Another plausible reason is that more lower-wage workers are excluded from benefits in Ohio. Unlike higher-wage workers, who bump up against maximum benefit levels, low-paid workers who qualify generally receive 50 percent of their former pay in unemployment benefits.

Still, benefit levels for qualifying low-wage workers aren't as high here as in many other states. Full-time minimum-wage workers in Ohio get $103 a week. Four other states have lower benefits, and another 12 offer the same amount (Wenger, "Divided We Fall," Appendix Table A3). Such a benefit leaves a worker well below the poverty line if he or she has no one else to support, and for a family of three, amounts to less than 40 percent of the poverty level (Council for Economic Opportunities in Greater Cleveland, 2001).

Financing

Some 35,000 Ohio employers – more than 15 percent of all those in the state – aren't paying any state taxes for unemployment insurance (Lind, 2000).[*] This is the third year of an across-the-board tax cut for employers in the state, and it means a tax holiday for those with the highest balances of payments into the system versus charges. Without the cut, contributions would have brought in an additional $42.6 million in 1999, and like amounts in 2000 and this year (ODJFS, Hedgecock).

The recent cuts are only part of the huge reduction in taxes that has taken place since 1994. Overall, tax rates in Ohio as a proportion of total wages are at their lowest in 30 years, not too far above the lowest level ever (U.S. DOL, ETA Handbook No. 394**;** Unemployment Insurance Program Letter 48-01). Altogether, Ohio employers are paying 45 percent less per employee than they did in 1994.

[*] Separate from the state levy, employers also pay an 0.8 percent federal tax on the first $7,000 each employee makes a year to support administration of the unemployment insurance system, state employment services, extended benefits and other programs.

Figure 5

Source: U.S. Department of Labor, Employment & Training Administration

How financing works

Fundamentally, even while many low-wage workers are excluded from the system, employers have seen a huge reduction in taxes. How is this possible? Several factors contribute. They include the flat, unchanging base of employee earnings on which taxes are paid; rates, which depend on each employer's past payments and their experience with unemployment claims by their employees; and a system that automatically cuts taxes when reserves reach a certain level.

In Ohio, employers pay unemployment insurance taxes only on the first $9,000 each employee makes in wages. As wages go up, taxes don't; last year, only 30 percent of wages in the state actually were taxed (U.S. DOL, Pavosevich).

The tax base last was raised in January 1995, but has trailed way behind increases in pay. When the federal government first set minimum standards for such taxes in 1935, they were paid on all earnings. But in 1939, effective the following year, it was changed to apply only to the first $3,000 of each covered worker's pay—ironically, to make it the same as Social Security old age insurance (Blaustein, p. 174). Today, employers pay Social Security taxes on the first $72,600 of each employee's earnings, while the federal minimum for unemployment taxes is only $7,000.

This low tax base sharply limits growth of tax revenues. Ohio's $9,000-per-employee tax base is in line with those of neighboring states, and is in the middle nationwide. It and four other states rank 25th (U.S. DOL, "Comparison…," Table 200).

Experience ratings

Employers pay unemployment insurance taxes based on their own experience. In Ohio, this generally depends on how much they have paid into the system since it first covered them, compared to the amount of benefits paid to unemployed workers whom they had employed. This "experience rated" system "is intended to discourage layoffs, provide for an equitable allocation of the costs of UI benefits payments across employers, and give employers an incentive to challenge unjustified benefit claims" (Advisory Council, 1994, p.89).

Rates in Ohio currently range from 0 percent to 6.4 percent of an employer's taxable payroll, which is figured as an average amount over the last three years (ODJFS, Comparison of Contribution Rates). Take an employer whose taxable payroll is $100,000. If the balance of tax payments minus claims over time is $14,000, or 14 percent or more of its taxable payroll, they would be in the lowest bracket, and pay nothing in UI taxes. Those employers that have lower percentages pay more.

Even an employer in the lowest tax bracket may well have laid off some of its employees. Take the one with the $100,000 taxable payroll. That employer might have had $6,000 charged against their account from employees who lost their jobs and received unemployment compensation. But if the employer had paid in $20,000, they would still be at the minimum rate. On the other hand, an employer with a negative balance of 20 percent or more would be at the maximum experience rating.

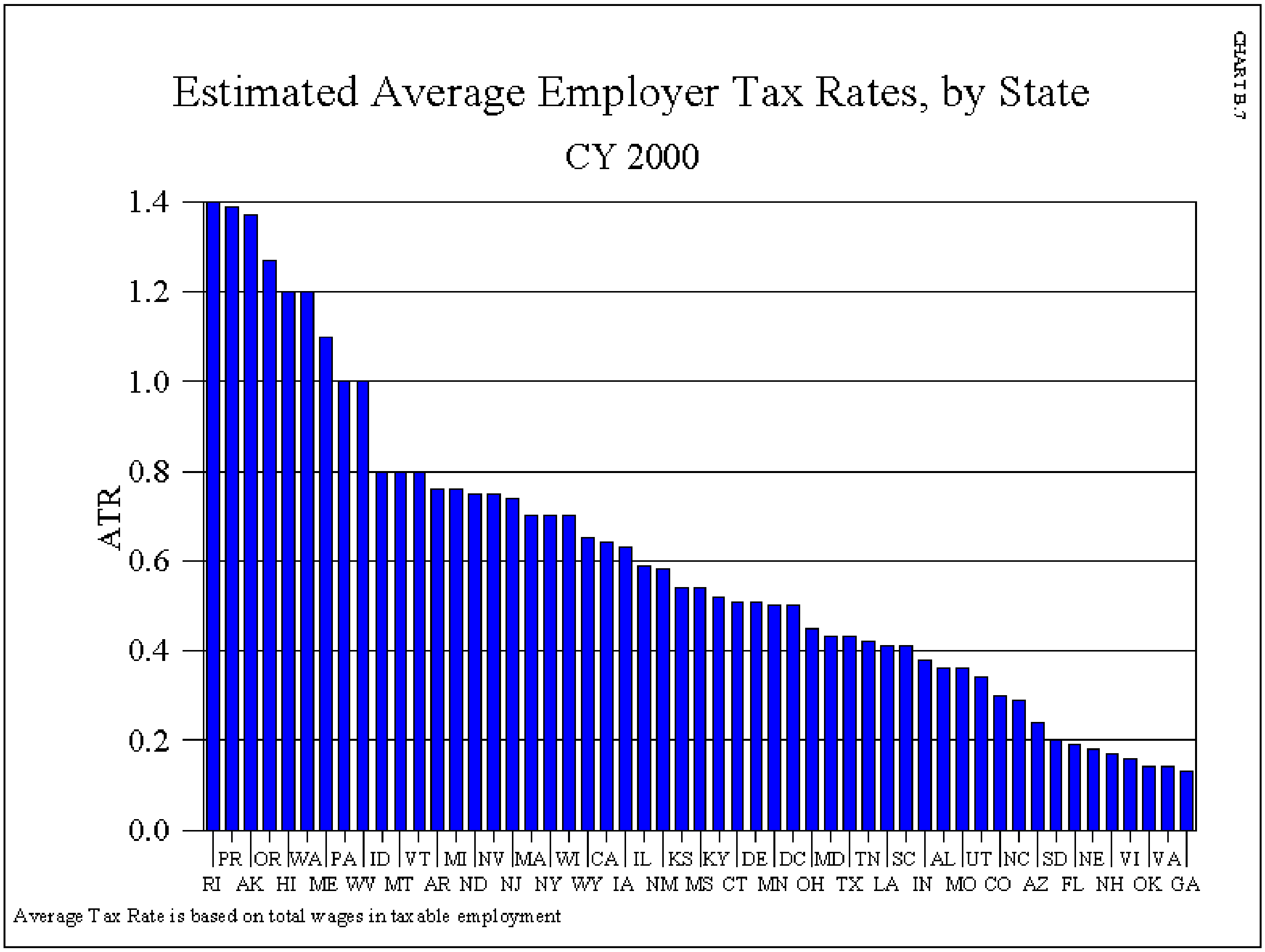
An employer that pays nothing one year may or may not be liable for taxes the following one. It would depend on the level of both their taxable payroll and benefits paid to any workers they laid off. If their taxable payroll grew or employees lost their jobs and received benefits, it could mean the balance of payments minus claims no longer amounts to 14 percent of taxable payroll, so they would have to start paying again.

The low unemployment for most of the mid- to late '90s meant that more Ohio employers fell lower on the experience rating scale, and paid lower taxes as a result.

Across the country, unemployment taxes have been coming down (U.S. DOL, Unemployment Insurance Chartbook, Chart B8). Since the mid-1990s, Ohio has more than matched the national trend.

Ohio taxes its employers for unemployment insurance less than most other states, including every neighboring state except Indiana. Last year, the state ranked 33rd in taxes as a proportion of wages (Ibid, Chart B7. Included among those ranked above Ohio are Puerto Rico and the District of Columbia).

Figure 6



Source: U.S. Department of Labor, Employment & Training Administration

The other major reason for the decline in taxes is the structure of Ohio's system. Tax rates for all employers move up or down, depending on the level of reserves in the trust fund and a "minimum safe level" of reserves. That level was redefined in legislation passed in 1990 so that effectively it amounts to enough money to pay benefits through a recession as bad as any but one in recent memory (Ohio Revised Code, Sect. 4141.25(B)(4)(b)). The minimum safe level is based on a formula covering all of the benefits paid out each year from 1970 through the last year. The worst recession, of 1982, was thrown out. The current minimum safe level is $2.18 billion.

Employers not paying in

When reserves dip to 15 percent below the minimum safe level, taxes go up; when they rise to 15 percent above it, taxes go down. Under the law, all employers see their tax rates go down 0.1 percentage points if the reserves are 15 percent above the minimum safe level, which has been true in each of the last three years. For the thousands of employers that are usually taxed at the lowest rate, 0.1 percent, that means paying no taxes at all.

Though employers do pay more or less in unemployment taxes depending on how many of their employees wind up collecting unemployment, that experience rating system doesn't always cover all the costs of unemployment benefits. Some employers go out of business owing unemployment taxes, while others lay off so many employees that their contributions even at maximum rates don't fully cover the cost of paying benefits. The state also will write off part of an employer's negative balance if they suddenly have big layoffs.

Those costs lately have been covered by interest the state receives on its reserve account maintained in the U.S. Treasury. However, until 1997, employers across the board also paid to fund a mutualized account covering them. An improvement in that account also contributed to the tax reductions in the mid- to late '90s.

Altogether, had Ohio employers continued paying unemployment taxes at the same rate that they did in 1994, they would have paid nearly $2.5 billion more than they have since then (Emsellem calculations). Some of that amount covers reductions in rates that many employers saw as their own experience improved.

Future for the fund

Ohio ended last year with $2.3 billion in its reserve fund for unemployment insurance benefits, quadruple its recent low of $564 million after the 1992 recession (ODJFS, Form RS 199). As of March 31 it could pay 30.8 months of benefits, more than the national average of 27. 3 months (U.S. DOL, Pavosevich).

Ohio made it through the last recession of 1991-92 without a problem. Though the state for a time was paying out more in benefits than it was collecting in taxes and the reserve fund declined to well under a year's worth of benefits, it never came close to requiring federal aid.

Backers of the current system argue that even a severe recession isn't likely to strain the fund as badly as did the 1982 recession, because Ohio is not as dependent on old-line manufacturing as it was then. However, if the state were to face another recession as bad as that one, when more than 600,000 or 12.5 percent of the labor force was unemployed, its reserves might not be big enough. Ohio fares poorly according to the U.S. Department of Labor's measure of fund sufficiency, which tracks how long a fund would be solvent in the face of benefit payouts as high as what they averaged during the three highest payout years in the last 20. The U.S. standard is 1.0, meaning that a state meeting that standard could pay benefits for a full year from current reserves. At the end of the first quarter of this year, Ohio's multiple stood at 0.62, higher than only six other states and lower than the U.S. average of 0.89.[*] That illustrates how an increase in benefit payouts from high, prolonged unemployment levels can weaken a fund that may seem stronger than others when joblessness is low.

[*] Illinois, Pennsylvania and West Virginia were among those with lower multiples.

Unemployment claims in Ohio are soaring; initial claims were up 61.5 percent in the first seven months of this year. Continued claims also are rising sharply (ODJFS, UI Claims Trends). During the first seven months of 2001, benefits paid were up 66.9 percent from a year earlier, and it's certain that the fund will pay out more than it takes in for the full calendar year (ODJFS, Form RS 199). Even if benefit levels were to stay at last year's levels for the remainder of 2001, more than $1 billion would be paid in benefits this year for the first time in a decade.

Quiz Answers

1. No.
2. No.
3. No.
4. No.
5. No.
6. No.
7. 35,000.

Next year's contribution rates are based on experience through the first half of this year. They aren't officially due until December, but one knowledgeable official at the Ohio Department of Job & Family Services projected in August that the fund would fall below the threshold of 15 percent above the minimum safe level. If so, the 0.1 percent cut in taxes will be rescinded and tens of thousands of employers will have to begin paying state taxes again in 2002.

The state is a long ways from a crisis, though. Even with the end of the tax cut, taxes probably will revert just to the normal schedule, because the fund likely was still within the15 percent of the minimum safe level as of July 1.

III. Making the System Work: Suggestions for Reform

As we have seen, the Ohio unemployment-insurance system screens out many low-wage workers, and provides a meager level of benefits to those of them who do qualify. It also excludes others who leave their jobs for family-related reasons, and has not changed with the times to include those who had worked part-time jobs and are seeking part-time work. Even as the system has these gaps in coverage and real average benefits are below their late 1970s levels, thousands of employers have been getting tax reductions, and the amounts being paid into the system compared to overall wages have plummeted.

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, the state 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 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, as many other states do.

Determine eligibility based on hours of work, not earnings, as a couple of states already do. Six years ago, the Advisory Council on Unemployment Compensation, established under federal law in 1991, recommended that states set their monetary eligibility standards so that minimum-wage workers with a substantial labor force attachment would be eligible for unemployment insurance (Advisory Council, 1995, p.18).

The council proposed 800 hours a year. It found that if all states set their minimum earnings requirements on that basis, about 5.3 percent more individuals would qualify for unemployment insurance, "and the amount of benefits paid would increase by approximately 3.6 percent."

Such a system is already in place in Washington state, which requires 680 hours of work during the base period, and in Oregon, where one can work 500 hours as one of two different ways to become eligible. Unemployed Oregonians also may qualify for benefits by making at least $1,000 during a year, and earning at least half their pay outside the quarter in which they made the most (that ensures they worked substantially more than one quarter of the year).

As a starting point, Ohio could overhaul its earnings standard so that those earning the minimum wage and working at least 20 hours a week for 20 weeks are able to qualify. Or for simplicity – and so that employers could avoid reporting how many hours their employees worked – the state could make the minimum $100 a week. In real terms, that would still be more than double the earnings requirement in the early 1980s.

A 1994 study by Jim L. Hemmerly of the Ohio Bureau of Employment Services found that it would have cost an additional $12.1 million a year in benefits had the state permitted workers making the minimum wage and employed 20 hours or more each week to receive benefits (Hemmerly, 1994). Hemmerly based that calculation on wage records from 1991, when unemployment was considerably higher than it is now. Using records from the deep recession year 1982, when more than three times as many jobless workers were receiving benefits as were last year, it would have cost $35.9 million. Compared to the nearly $1.5 billion paid in benefits paid that year, that would have amounted to just a 2.4 percent increase.

The minimum wage has increased from $4.25 to $5.15 an hour since that study, and rising wage levels mean it would cost more in benefits now for each worker. But bringing low-wage workers into the system is comparatively inexpensive, since by definition they don't make very much and benefit levels are tied to earnings.

For instance, we estimate that it would cost less than $14 million a year to cover those workers employed 20 hours a week and making the either minimum wage of $5.15 an hour or less.[*] That doesn't include the extra expense of covering those who make more than that hourly amount and might qualify with such a change in the rules. Policy Matters Ohio will be studying these costs further, with the help of ODJFS.

Consider increasing benefits for low-wage workers to 60 percent of their previous weekly wages and revising the system for dependents' allowances. In 1978, the Ohio General Assembly passed a bill that would have raised benefits to 60 percent of each beneficiary's previous average wage (The Plain Dealer, Nov. 22 and Dec. 12, 1978). The measure, vetoed by Gov. James Rhodes, wouldn't have changed the maximum amounts that recipients could get. If such a plan were in effect now, a worker who had made under $505 a week would see an increase in her weekly benefits; she would get $303 instead of the $252 she receives now. In effect, that would boost benefits 20 percent for all those making under $26,260 a year. It would also increase benefits by that amount for many

[*] Nationally, about 35 percent of workers making the minimum wage or less worked between 20 and 34 hours a week last year, according to the Bureau of Labor Statistics. Assuming about the same proportion do so in Ohio, that would amount to about 54,100 workers in the state (Last year, a minimum-wage worker would have had to work 31.26 hours a week for 20 weeks to qualify for Ohio unemployment benefits. Including those who worked a bit more allows a generous estimate of those who might qualify). For a rough idea of what it might cost to cover these workers under the unemployment insurance system when they become unemployed, assume that 15.8 percent of these workers become unemployed during the given year (that was the recent high, in 1992). Assume also that they were unemployed for an average of 15.5 weeks, the average for jobless Ohioans in 1993, the recent high. If they each received $100 a week--more than the benefit most would get--that would add up to $13.2 million.
(Jobless percentage from BLS news release, Oct. 20, 1993, Work Experience of the Population in 1992; duration of unemployment from U.S. Labor Dept. ET Handbook No. 394.)

higher-paid workers with dependents, while providing smaller increases for everyone else not now at the maximum.

About a quarter of all benefit checks paid in the state already are at the maximum level, so such a measure would increase the overall cost of benefits by less than 15 percent (ODJFS, Bureau of Labor Market Information, Table RS 215).

A number of states, including Indiana, provide for graded benefit levels. Lower-income workers receive a higher percentage of their previous earnings than those who make more money. That concept could be investigated for possible use in Ohio.

Instead of keeping anyone earning below $606 a week from receiving additional benefits for dependents, it seems far more logical to grant such benefits --whatever they might be -- to any recipient with dependents. That's how most of the other 11 states with such benefits do it. The state advisory council, which has looked into an overhaul of dependent allowances, should study that further.

Allow workers to collect UI benefits for compelling family reasons such as caring for a sick parent or child, or being victimized by domestic violence. Originally, workers who left their jobs for good personal causes were allowed to receive unemployment benefits (Blaustein, p.166). The GAO report noted that "…when the UI program was first established, people who quit their jobs for compelling personal reasons, such as pressing family obligations like lack of child care, were not disqualified from receiving UI benefits" (GAO, p.12).

Ohio certainly might consider changes that other states have been making to liberalize their rules for leaving work for domestic circumstances. North Carolina now provides that an "undue family hardship" is "good cause" for leaving work. That includes someone who refuses a work shift change that would interfere with his or her ability to care for a minor child or to care for a disabled or aged parent. In Oklahoma, illness or illness of a minor child is now considered "good cause" for leaving work, as is leaving a job to follow one's spouse to another location (Emsellem, "Expanding Unemployment…", p. 4)

Seventeen states, including four that just passed new laws this year, now allow unemployed workers who leave their jobs because they are victims of domestic violence to collect benefits (NOW Legal Defense and Education Fund, 2001). In most states with such laws, individual employers are not charged for such benefits, meaning they aren't taxed more just because they have workers who collect them.

At least among those Ohioans who now apply for benefits, not many are disqualified for family reasons. Last year, only 1,169 applicants for unemployment benefits in Ohio were disqualified because they were separated from work because of domestic obligations (ODJFS, Form RS 207). That accounted for just 1.6 percent of the 72,975 disqualifications that were imposed. If these claimants had received average benefits for those with dependents, they would have received just over $4 million in benefits last year.

Ohio also could begin to discuss whether the unemployment insurance system should cover family leave. Last year, the Clinton Administration Labor Department changed regulations to allow states to provide unemployment benefits to individuals with new-born or newly adopted children. The federal rule is being challenged in court by employers.

Further study is needed of the costs of implementing the rule in Ohio. The idea is getting a hearing elsewhere. A bill passed one house in Indiana before dying in the state Senate (The Wall Street Journal, June 20, 2001, p. B1).

Permit unemployed part-time employees working at least 20 hours a week who are seeking similar part-time work to qualify. The national Advisory Council appointed by the first President Bush proposed that states ensure that workers who meet monetary eligibility standards not be precluded from receiving benefits merely because they are seeking part-time – not full-time – employment (Advisory Council, 1995, p. 18). Some other states make it easier for those seeking part-time work to receive benefits. Under a new law passed in Minnesota this year, workers must be available for suitable employment, and that can mean part-time work if the applicant previously had worked part-time. The agency already had been granting benefits to such jobless workers, but the new law underlines the legality of the practice.

There is little reason why Ohio, which has a similar "suitable work" clause, should not to take the same position. Part-timers would still have to meet the same criteria as other workers to receive benefits.

To finance these changes, index the taxable wage base to wage levels, as many other states do. Ohio may be able to finance broader eligibility in part through funds from the federal government. When the three federally controlled accounts in the unemployment trust fund reach a ceiling, balances are to be transferred to the states under the Reed Act. The Labor Department projects that they will be over-funded by $4.3 billion by October 2002 (U.S. DOL, UI Outlook).

Congress likely will determine what becomes of these funds, and it's uncertain what the result will be. Conceivably, though, Ohio could receive about $150 million, which could be used for benefits, administration or other activities of the state employment service (Holmes, 2001). More monies from these funds could also be forwarded to the states later.

That could help finance broader eligibility. In any event, it's hardly sensible to maintain as is a system that brought steady employer tax cuts while not providing for the low-wage unemployed or absolutely assuring the solvency of the state fund.

Ohio 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 broadening in eligibility, taxes should be indexed -- as benefits are -- for financial stability. That way, as average earnings in the state rose, so would the tax base.

In 1990, when the last major changes in taxation and eligibility formulas were made, indexing the tax base was discussed, but employers nixed the idea. Instead, the base moved up by $250 a year for four years, to reach the current $9,000. The new tax formula also called for rate increases if reserves fall below specific percentages of the minimum safe level.

Seventeen states, including New Jersey, North Carolina, Minnesota and Iowa, set their taxable wage bases according to their average wages (U.S. DOL, "Comparison…"). Nearly all have much higher tax bases than Ohio does. And though that is not a sure-fire recipe for solvency, those states have been more successful than others in maintaining their reserve funds during recessions (Vroman, "Topics in Unemployment…", pp. 96-7). Indexing taxes as well as benefits to wages is a well-established procedure that could benefit Ohioans.

This study has reviewed the operation of Ohio's unemployment insurance system, and found that in a number of ways, it doesn't fit the needs of today's workforce. The state poses tough eligibility requirements for low-wage workers while it has favored employers with tax cuts. At the same time, the system's solvency is not absolutely assured. Ohio should reconsider its stiff earnings test and its exclusion of some part-time workers and others who leave their jobs for compelling family reasons. At the same time, the state should link tax rates with average wages to better support the system.

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Policy Matters Ohio is a non-profit research institute dedicated to bridging the gap between research and policy in Ohio. Policy Matters seeks to broaden the debate about economic policy by providing quantitative and qualitative analysis of important issues facing working people in the state. Other areas of inquiry for Policy Matters have included women and work, tax policy, family budgets, unemployment compensation and privatization of public services. Generous funding has been provided by the George Gund Foundation.

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