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# POLICY MATTERS OHIO

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FOR IMMEDIATE RELEASE  
Monday, July 11, 2011  
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## **Less than two months left until Ohio loses \$176 million for unemployment compensation**

Ohio now has less than two months to take steps to modernize its unemployment compensation system, or it will forfeit \$176.3 million in federal funds.

The American Recovery and Reinvestment Act set aside \$7 billion for states that take steps to bring their unemployment compensation systems into the 21<sup>st</sup> century. Ohio's full share of these funds is \$265.5 million. So far, we have received \$88.2 million – a third of the total – because Ohio counts workers' most recent earnings when they apply for benefits, a reform we enacted many years ago. Many states never did so before ARRA.

However, Ohio has not taken the steps necessary to qualify for the remaining \$176.3 million. The act provides that states must approve two of four additional steps to qualify for the funds. The steps include:

1. Benefits to those seeking part-time work;
2. Extended benefits to individuals in approved training;
3. Benefits to individuals who leave work for compelling family reasons (domestic violence, transfer of a spouse, illness of an immediate relative); or
4. A minimum \$15/week allowance for each dependent, up to \$50 a week in total

Ohio's unemployment trust fund currently is \$2.6 billion in debt to the federal government.<sup>1</sup> While \$176 million will only put a dent in that amount, it represents money that otherwise will have to be paid back. "The Ohio General Assembly needs to move ahead and approve legislation that will benefit employers and employees," said Zach Schiller, research director of Policy Matters Ohio. "Leaving this money on the table would be tragic in the face of our debt and the benefits that modernizing the system will provide."

Thirty-three states and the District of Columbia now have adopted at least two of these four policies. The proposals have won bipartisan backing in states all over the country – from South

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<sup>1</sup> U.S. Department of Labor, Employment and Training Administration, Trust Fund Loans as of July 5, 2011, available at <http://workforcesecurity.doleta.gov/unemploy/budget.asp#tflows>



Carolina, Georgia and Idaho, where they were approved by a Republican legislature and governor, to Maryland and the District of Columbia, where Democrats were in control. Other states with split control, such as Nevada and Vermont, also have approved unemployment modernization.

All of the options would be beneficial for Ohio workers. The cost would be modest and the \$176 million would cover it for years. Dr. Wayne Vroman of the Urban Institute, one of the nation's leading experts on unemployment compensation, has made preliminary estimates for the Ohio Department of Job & Family Services.<sup>2</sup> Vroman estimated roughly that extending benefits to trainees would cost \$18.7 million a year.<sup>3</sup> Though a broader expansion of the dependency benefit would help more workers, the dependency option could be accomplished on a cost-neutral basis. Benefits for some new claimants with dependents would decrease, but a greater number of new claimants with dependents would benefit – and the current system, which leaves lower-income claimants without dependency benefits, would be eliminated.<sup>4</sup>

Thus, Ohio could qualify for the \$176.3 million with added benefits costing less than \$20 million a year on an ongoing basis. Even if it turned out that costs of the training option were somewhat higher, the funds are there to pay these benefits for years. These two options were considered as a part of the recently approved state budget, but were not included.

Alternatively, legislators could choose other options instead, such as allowing those seeking part-time work to qualify for benefits. As it is now, a worker employed for a lifetime of work at 25 hours a week, whose employer has paid unemployment taxes for years, is not eligible for UC if she seeks the same part-time job that she had had previously. Some 28 states have allowed eligibility of part-time workers, an option that Vroman preliminarily estimated to cost between \$15 million and \$38 million a year.

Finally, legislators could decide to adopt the option allowing unemployment benefits for workers who quit their jobs due to compelling family reasons – because they are victims of domestic violence, to take care of an immediate relative who is sick, or to follow a spouse to a job outside of the area. Vroman pegged the cost of this alternative at \$33 million a year. Senate Bill 13 provides for this option, along with the training option.<sup>5</sup>

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<sup>2</sup> Vroman, Wayne, “Cost Estimates of “UI Modernization” – 2011 Update,” Revised April 14, 2011. Vroman emphasized that the estimates for the three options besides dependency may contain a sizeable margin of error, and said it would probably best to regard them as “preliminary.” However, when the state agency reviewed the issue last year, it concluded that the benefit costs of these three options were within the same range, or less costly than Vroman had estimated. Email from Laura Abu-Absi, Ohio Department of Job & Family Services, Dec. 9, 2010

<sup>3</sup> ODJFS also cited \$3 million in one-time implementation costs for this option in a document describing the issue. See “Unemployment Insurance Modernization,” ODJFS, 5/23/11, p. 1

<sup>4</sup> Ohio already pays additional benefits for some claimants with dependents, but its unique system for doing so discriminates against lower-income workers. Under state law, maximum benefits are set at three different levels – those for claimants with no dependents; one or two dependents; and three dependents. Maximum benefits are higher for those individuals with dependents, but only if they earn at least \$774 a week. Since unemployment benefits are set at half the worker's previous wage up to a maximum, lower- and even many middle-income workers do not receive additional benefits if they have dependents.

<sup>5</sup> See [http://www.legislature.state.oh.us/bills.cfm?ID=129\\_SB\\_13](http://www.legislature.state.oh.us/bills.cfm?ID=129_SB_13)

Whichever options they choose, legislators must pick two and move ahead to secure the federal funds. The U.S. Department of Labor, which oversees the program, will not consider applications received after August 22, 2011.<sup>6</sup> Thus, Ohio now has less than two months to act. However, as long as the state approves the necessary provisions and applies by that date, they could take effect as late as September 2012.

The federal law does not allow the states to write a sunset on the benefits into the law providing them. However, there is no requirement that the benefits be offered in perpetuity. If the General Assembly approves the two options in good faith, legislators conceivably could change their minds and make changes in the benefits as early as 2012.<sup>7</sup>

The Department of Job and Family Services recommended the adoption of the Unemployment Insurance Modernization Act (UIMA), as the recovery act section is known. “UIMA offers an extraordinary opportunity to draw down a significant sum of money for comparably little program eligibility change,” the agency said in a May 23, 2011, memo.<sup>8</sup>

“Ohio needs to update its unemployment compensation system for today’s workplace,” Schiller said. The state has persistently paid unemployment compensation to a smaller share of jobless workers than other states. In the year ended March 31, just 24 percent of unemployed Ohioans received regular state benefits, ranking the state 38<sup>th</sup> lowest in the country.<sup>9</sup> “Ohio should include more of its workers who meet all the other qualifying criteria and whose employers have paid taxes to insure them,” Schiller said. “We should aid jobless workers to get the training they need, and not exclude workers from dependency benefits because they earn too little. And we should not forfeit \$176 million in federal funds that will disappear less than two months from now.”

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<sup>6</sup> U.S. Department of Labor, Employment & Training Administration, Unemployment Insurance Program Letter No. 14-09, Feb. 26, 2009, available at <http://wdr.doleta.gov/directives/attach/UIPL/UIPL14-09a.pdf>

<sup>7</sup> See U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Program Letter No. 14-09, Change 1, March 19, 2009, available at <http://wdr.doleta.gov/directives/attach/UIPL/UIPL14-09c1a1.pdf>

<sup>8</sup> “Unemployment Insurance Modernization,” ODJFS, 5/23/11, p. 3

<sup>9</sup> See U.S. Department of Labor, Employment and Training Administration, UI Data Summary, 1<sup>st</sup> Quarter 2011, available at [http://workforcesecurity.doleta.gov/unemploy/content/data\\_stats/datasum11/DataSum\\_2011\\_1.pdf](http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum11/DataSum_2011_1.pdf)

