

STIMULUS FOR OHIO:
U.S. UNEMPLOYMENT
COMPENSATION AID

A REPORT FROM
POLICY MATTERS OHIO

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Executive Summary

The federal stimulus act is paying extended or extra unemployment compensation benefits to hundreds of thousands of Ohioans and adding \$30 million to the state economy each week. At the same time, it also is saving money for the state and Ohio's employers.

Jobless Ohioans will receive more than \$1 billion in additional unemployment benefits because of the American Recovery and Reinvestment Act, most of it this year. Since April 1, more than 77,000 Ohioans who otherwise would have run out of unemployment compensation have started to receive additional payments under the extensions included in the law. They are also among the 336,000 jobless Ohioans getting an extra \$25 added to their checks each week.

This has bolstered families and communities across Ohio. Maintaining benefits allows jobless workers and their families to continue essential spending and at the same time helps local businesses and communities. Simulations by Moody's Economy.com indicate that each dollar spent on UC benefits generates \$1.63 in near-term Gross Domestic Product. If unemployed workers had no income coming in, they would further reduce their spending, leading to additional job loss and economic decline.

By waiving interest charges on Ohio's borrowings from the U.S. for its unemployment compensation trust fund, the act also helped Ohio employers avoid what likely would have been tens of millions of dollars in additional taxes. Meanwhile, the state trust fund is saving more than \$4 million a week because the federal government is picking up the full cost of another extended benefit program. An estimated 27,000 Ohioans are participating in this program. The act provided administrative funding for Ohio's UC system and for jobless Ohioans to avoid paying income taxes on the first \$2,400 of unemployment benefits.

However, Ohio has not fully taken advantage of the act. The state unemployment trust fund has received \$88.2 million because Ohio counts workers' most recent earnings if they are laid off and apply for UC, a positive reform approved years ago. But if the state enacts additional policies that will provide benefits to some of those who are currently excluded, such as part-time workers, it can obtain another \$176 million for its trust fund. Twenty-two other states already have taken such steps, which are needed to modernize a system that has not been updated to reflect the realities of today's workplace.

As much as the unemployment compensation benefits under the ARRA have helped hundreds of thousands of Ohioans, the payment of these and other benefits has only blunted the impact of the recession and can't be expected to turn the economy around. The duration and severity of the downturn also mean that many Ohioans will begin running out of UC benefits soon, even with the extended benefits provided by the ARRA. Congress will need to act to provide more help to those who are out of work and also to extend the act's benefits beyond 2009.

Stimulus for Ohio: U.S. unemployment compensation aid

Much recent debate about the federal stimulus act has centered around how quickly stimulus funds are moving to the states and bolstering the economy.¹ One element of the act that is particularly strong in this regard is unemployment compensation aid.

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Jobless Ohioans will receive more than \$1 billion in additional unemployment benefits because of the federal stimulus act. Since April 1, more than 77,000 Ohioans who otherwise would have run out of unemployment compensation have started to receive additional payments under the extensions included in the law. They are also among the 336,000 jobless Ohioans getting an extra \$25 added to their checks each week.

This has bolstered families and communities across Ohio. A study of extended unemployment benefits during the 1990s recession found that because of extended UC benefits, far fewer workers were plunged into poverty. It found that without regular and extended UC benefits, 70 percent of UC recipients would have fallen into poverty, compared to the 40 percent who did after exhausting their regular UC benefits.² Maintaining benefits allows jobless workers and their families to continue essential spending and at the same time helps local businesses and communities. Simulations by Moody's Economy.com indicate that each dollar spent on UC benefits generates \$1.63 in near-term Gross Domestic Product.³ If unemployed workers had no income coming in, they would further reduce their spending, leading to additional job loss and economic decline.

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However, Ohio has not fully taken advantage of the act. If the state enacts policies that provide benefits to some of those who are currently excluded, such as part-time workers, it can obtain another \$176 million for its unemployment trust fund.

¹ See for instance Doug Caruso, "Most local stimulus projects still pending," *The Columbus Dispatch*, July 12, 2009

² Corson, Walter et. al., "Emergency Unemployment Compensation: The 1990s Experience," Mathematica Policy Research Paper, (U.S. Department of Labor, Unemployment Compensation Occasional Paper, 99-4), (1999).

³Zandi, Mark, "The Economic Impact of the American Recovery and Reinvestment Act," January 21, 2009, p. 9 "The virtue of extending UI benefits goes beyond simply providing aid for the jobless to more broadly shoring up household confidence," Zandi stated. "Nothing is more psychologically debilitating, even to those still employed, than watching unemployed friends and relatives lose their sources of support." See http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf

The duration and severity of the recession also mean that many Ohioans will begin running out of UC benefits soon, even with the extended benefits provided by the ARRA. The National Employment Law Project (NELP) has estimated that 74,000 Ohioans will run out of benefits before the end of this year.⁴ Congress will need to act to provide more help to those who are out of work and also to extend the act's benefits beyond 2009. UC is not the only benefit which has been broadened or temporarily increased under the American Recovery and Reinvestment Act. For instance, the ARRA also boosted food-stamp benefits, expanded the earned income tax credit and provided subsidies to laid-off workers for health insurance.⁵ As much as the unemployment compensation benefits under the ARRA have helped hundreds of thousands of Ohioans, the payment of these and other benefits has only blunted the impact of the recession. These program have made up for some of the purchasing power lost because of job cuts and reductions in hours, but can't be expected to turn the economy around (unemployment compensation in Ohio replaces less than two-fifths of the average wage in the state,⁶ and many workers are not eligible for benefits. See below).

The unemployment caused by the recession has brought a tremendous increase in the number of Ohioans receiving UC. In the first five months of 2009, an average 217,419 collected benefits each week, up from 125,866 in the same period a year earlier and 97,022 in the first five months of 2007. The amount of benefits paid doubled over the first five months of 2008, to \$1.4 billion.⁷ All this helped Ohio families from experiencing more dire circumstances and injected cash into the economy.

The ARRA contained a number of provisions to increase and extend unemployment compensation benefits, as well as to aid with administration and help states like Ohio with insolvent trust funds. These included:

- An increase of \$25 a week in unemployment compensation checks for everyone receiving them during 2009. Currently, 336,000 Ohioans are getting this extra \$25 each week. This represents an 8 percent increase per week for the average recipient, who received \$308.87 a week in the first quarter of this year.⁸ For the week ended July 10, this added up to \$8.4 million for unemployed Ohioans.⁹

⁴ National Employment Law Project, "Over Half a Million to Exhaust Benefits by End of September; 1.5 Million by End of '09," July 17, 2009. See http://nelp.3cdn.net/7596e98e3946de9711_19m6b5dr6.pdf

⁵ For instance, see Roger Thurow and Timothy W. Martin, "Boost in Food-Stamp Funding Percolates Through Economy," *The Wall Street Journal*, July 7, 2009, p. A11.

⁶ U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Data Summary, covers 12 months ended March 31, 2009, see http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_1.pdf.

⁷ Ohio Department of Job & Family Services, Summary of Activities under Regular Ohio Unemployment Compensation Law, May 2008, see <http://ohiolmi.com/uc/UCReports.htm>

⁸ U.S. Department of Labor, Employment and Training Administration, *Unemployment Insurance Data Summary*, First Quarter 2009, available at

http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_1.pdf The number of

- A continuation in high unemployment states, including Ohio, of the 33 weeks of additional benefits first approved by Congress last year. Nationally in June, 29 percent of the unemployed were out of work for 27 weeks or longer, a record since 1948, when that statistic was first collected. Under Ohio's regular UC system, a maximum 26 weeks of benefits are available.¹⁰ About 81,000 Ohioans are receiving these additional benefits, termed Emergency Unemployment Compensation (EUC). This pumped \$25.1 million into the state during the week ended July 10.¹¹
- Federal payment of the full cost of another 20 weeks of extended benefits, or EB. These benefits become available under a long-standing federal-state program, but the cost traditionally was split 50-50 by the U.S. and the states.¹² Recently, an estimated 27,000 Ohioans have been receiving these payments, which added up to \$8.5 million¹³ during the week ended July 10. Since the federal government is picking up half the cost it would not usually shoulder, Ohio is currently saving more than \$4 million a week for what would have been its share of this program. The National Employment Law Project has estimated that more than 96,000 Ohioans will receive these benefits sometime during 2009.
- An exemption from federal income tax during 2009 for the first \$2,400 of unemployment compensation. Conservatively, this will save unemployed Ohioans \$176 million on their

recipients is based on the amount of benefits paid for the week ended July 10 and an average weekly benefit in Ohio during the first quarter of 2009 of \$308.87

⁹ Figures on weekly dollar amounts of benefits received from Robert Welsh, Bureau of Program Services, Ohio Department of Job & Family Services, July 10, 2009. The number of recipients is based on this amount divided by \$25.

¹⁰ See U.S. Bureau of Labor Statistics, Employment Situation Summary, Table A-9, Unemployed Persons by Duration of Employment, available at <http://www.bls.gov/news.release/empsit.t09.htm>. The 33 weeks actually includes 20 weeks in all states and an additional 13 weeks in those states including Ohio that have averaged an unemployment rate of 6 percent or more for three months.

¹¹ The number of recipients is based on the \$25.1 million paid and an average weekly benefit in Ohio during the first quarter of 2009 of \$308.87. This probably understates the number of recipients, since federal data on earlier EUC recipients show their average weekly benefit was less than that. See

<http://workforcesecurity.doleta.gov/unemploy/euc.asp>. Some of these 81,000 were participating in the program prior to its extension under the ARRA. While exact numbers are not available, by early July, this number had dwindled to no more than a third of the total. Those who start receiving these benefits in 2009 also will continue doing so into 2010 regardless of whether the program is extended for others.

¹² The General Assembly included in the transportation budget language allowing Ohioans whose unemployment compensation benefits would otherwise have run out to receive an extra 20 weeks of benefits paid out of the federal unemployment trust fund. The bill, approved in April, allowed Ohio to trigger these benefits based on its unemployment rate -- and ours, unfortunately, was high enough that it triggered the benefits immediately. By adopting this trigger, the state ensured that unemployed workers would get the benefits immediately, and that they would last longer than if no action had been taken. Under the existing federal-state program, additional benefits would have become available, but they would only have lasted 13 weeks instead of the 20 weeks now possible. They also would have first become available several weeks later.

¹³ A small share of these benefits are paid by Ohio government employers, which instead of paying UC taxes reimburse the trust fund when laid-off employees collect benefits. Altogether, benefits to laid-off government employees accounted for 1.9 percent of the Ohio total during 2008. ~~These governments pay half of such benefits, while the federal government pays the other half. Thus, roughly 1 percent of the total likely is paid by local governments.~~ *Correction:* These governments pay the full amount of the extended benefits, so their share likely is about 1.9 percent of the total.

2009 federal taxes.¹⁴ According to the Ohio Office of Budget & Management, Ohioans will save an additional \$21.5 million on their state personal income taxes because of the provision, which the General Assembly included in the budget bill.¹⁵

- Waiving the interest on loans that the federal government has made to state trust funds. Ohio's trust fund went broke in January 2009. When state trust funds go under water, they borrow from the federal fund to continue paying benefits. However, they must pay interest on these loans. Ohio currently has \$969.5 million in such debt.¹⁶ Wayne Vroman, a long-time UC expert hired by the State of Ohio to analyze the solvency issue, has estimated that Ohio will save \$40 million during calendar 2009 and \$108 million in 2010 because of this interest waiver.¹⁷ Without this waiver, the state would have to come up with these funds, either using general revenue or additional taxes. Thus, the recovery act has likely saved Ohio employers tens of millions of dollars.
- Funds to support administration of the UC system. Ohio's share of the \$500 million allotted to states in the stimulus act was \$18.89 million.¹⁸ The state trust fund also has received \$88.2 million because Ohio counts workers' most recent earnings if they are laid off and apply for UC (see more on this below). This approach to calculating earnings, called an "alternate base period", has helped more workers qualify for benefits. It is part of a set of reforms that the federal government is encouraging and that in this case Ohio had previously enacted. These funds are being split between benefits and administration of the program.

Table 1 below shows the number of unemployed Ohioans who are continuing to receive benefits, or are getting additional benefits, because of the ARRA. It also includes those continuing to receive benefits under the Extended Benefits program. This would have existed without the ARRA, but it would have provided 13 weeks of benefits instead of 20 weeks and half of it would have been paid by the state. In the week ended July 10, unemployed Ohioans received \$63.2 million in regular UC benefits. Altogether, the recovery act is boosting cash benefits going to workers by \$30 million a week.¹⁹ That is nearly half as much as regular UC benefits.

¹⁴ McHugh, Rick, National Employment Law Project, "Recession and Recovery: Unemployment Insurance and ARRA," Atlanta, Ga., April 30, 2009. The \$176 million figure is conservative, since it estimates Ohioans will receive 4 percent of that total. Ohio accounted for 4.49 percent of the nation's unemployed in June.

¹⁵ Ohio Office of Budget and Management, Executive Budget for Fiscal Years 2010 and 2011, Special Analysis, Federal Stimulus Fund Use, P. 3, see <http://obm.ohio.gov/SectionPages/Budget/FY1011/Default.aspx>

¹⁶ That was the balance as of July 17, 2009, according to the U.S. Department of Labor. See <http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans>

¹⁷ Unemployment Trust Fund Forecast, Annual Data: Ohio, Urban Institute, May 29, 2009

¹⁸ U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Program Letter No. 14-09, Attachment VII, February 26, 2009,

¹⁹ This excludes what the federal government would have paid for EB without the ARRA and an estimate of the amount of EUC going to recipients who qualified before the stimulus act was approved.

Table 1.

UC Benefits to unemployed Ohioans supported by the recovery act, week ending July 10	
	No. of beneficiaries
Emergency Unemployment Compensation (up to 33 weeks)	81,000
Extended Benefits (up to 20 weeks)	27,000
\$25/week in additional benefits for all UC recipients	336,000

Sources: Ohio Department of Job & Family Services, Policy Matters Ohio estimates. Numbers of beneficiaries estimated based on average weekly benefits paid to regular Ohio UC recipients in the first quarter of 2009. A portion of the 81,000 began receiving benefits under earlier Congressional action.

Table 2 below estimates the additional funds related to unemployment compensation that will be received in Ohio, most of it during 2009. This includes not only benefits for unemployed Ohioans but other funds noted above:

Table 2.

Estimated value of federal UC stimulus in Ohio (in millions)	
Up to 33 weeks of Emergency Unemployment Compensation (EUC)	\$814.0
Up to 20 weeks of Extended Benefits (EB)	\$143.0
Waiver of interest on Ohio borrowings from U.S.	\$148.0
Ohio share of grants for UC administration	\$18.9
Incentive funds for counting recent earnings in determining eligibility	\$88.2
Additional \$25/week in benefits for all UC recipients	\$369.6
Exemption from federal and state income taxes of \$2,400 in UC benefits	\$197.5
Total	\$1,779

Sources: Ohio Department of Job & Family Services, U.S. Department of Labor, Dr. Wayne Vroman, Policy Matters Ohio estimates²⁰

Ohio hasn't taken steps to fully access U.S. stimulus funds

The recovery act included \$7 billion in funds for state trust funds if they took steps to modernize their unemployment compensation systems. 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 positive reform Ohio enacted many years ago. Unlike Ohio, many states never changed their requirement excluding the most recent quarter of

²⁰ Value of EUC and EB based on amounts paid through June. The value of the benefits paid from the additional \$25 a week is based on the amount paid the week ended July 10. The estimate of \$814 million for EUC counts payments since April 1, 2009, to some recipients who qualified prior to the approval of the stimulus act. However, it does not include amounts to be received in 2010; under the act, those who qualify this year continue to receive benefits though new enrollment in the program ceases at the end of the year. Because unemployment has been rising, it's likely the amounts paid the second group will exceed those paid to the former.

earnings, which may have been necessary at one time but is no longer necessary with faster communications.

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 additional funds. These options reflect the realities of today's workplace and the need to adapt the unemployment compensation system to it. The workplace has changed from the world of 1935, when the unemployment compensation system was designed around families that depended on one male breadwinner. Most women work, and part-time work is the norm in some industries. Workers move more often from one job and industry to another, requiring new training as they do.

The four options, two of which must be adopted by September 2011, include:

- 1) Allow unemployed workers seeking part-time work to qualify
- 2) Allow workers who leave work because of compelling family circumstances to qualify (these include victims of domestic violence, those caring for an immediate family member who is sick, and those following a spouse to a place not within commuting distance from their job due to a change in the location of the spouse's employment)
- 3) Pay \$15 a week in unemployment benefits for each dependent of a claimant who is receiving benefits, up to \$50 a week, and
- 4) Extend benefits for 26 weeks to those who participate in approved training programs.

Since the approval of the recovery act in February, 22 states have approved measures to implement at least two of these options and qualify for full federal funding. As of mid-June, the National Employment Law Project counted seven states that had enacted measures allowing those seeking part-time work to qualify for benefits, so that 27 states have now adopted this reform.²¹ Thirteen states have adopted legislation allowing workers who leave their jobs for compelling family circumstances to receive benefits, so that 17 states in all now comply with this provision of the stimulus act. And eight states approved laws providing workers with 26 weeks of additional UC benefits if they are in approved training programs, bringing the total number of such states to 12.

Ohio has more than one million part-time workers, who make up a fifth of the workforce.²² Most of these workers are women and many earn relatively low wages. Employers of these workers still pay unemployment taxes on part-time workers' wages, even while these workers would not be eligible for UC if they sought similar work when they were laid off. Part-time workers and those who leave work to care for a sick relative, because they are a victim of domestic violence

²¹ National Employment Law Project, "Federal Stimulus Funding Produces Unprecedented Wave of State Unemployment Insurance Reforms," June 16, 2009, see <http://nelp.org/page/-/UI/UIMA.Roundup.June.09.pdf?nocdn=1>

²² Bureau of Labor Statistics, Current Population Survey, "States: Employed and unemployed persons by full- and part-time status, 2008 annual averages."

or to follow a spouse to another job still would have to have worked at least 20 weeks and met the earnings test as others qualifying for UC. Allowing workers to receive unemployment compensation so they prepare for new jobs is eminently sensible both for individual workers and for Ohio's economy.

Implementing any of these three alternatives would help remedy one of the Ohio system's serious flaws. For most of the last generation, a smaller share of the unemployed in Ohio has qualified for unemployment compensation than in other states.²³ Various factors account for this, including Ohio's stiff earnings test for unemployed workers. Though that issue requires a separate solution, approving these measures would increase the share of workers eligible to receive UC.

Vroman of the Urban Institute has made a very preliminary estimate that the annual cost of adopting part-time eligibility would be \$21 million; the National Employment Law Project puts the cost at \$26.7 million a year. The training option likely would be less expensive, especially now, if the General Assembly were to include language ensuring that any added state benefits paid this way were paid after all available federal benefits. Most workers would complete such training before needing the additional state benefits, limiting the cost to the state fund. In very preliminary figuring, Vroman thought this reform might cost \$17.7 million a year, while the adoption of compelling family reasons for quits might cost \$31 million a year.²⁴

Ohio could also use the ARRA to restructure its unique system of dependency allowances. Ohio's current system pays higher benefits to claimants with dependents, but only if they make more than about half the average wage in the state.²⁵ This helps many workers, but leaves out lower-wage workers with dependents. Vroman has estimated that by setting a single maximum benefit at half the average wage and ensuring that everyone with dependents gets \$15 weekly for each of up to four dependents, overall benefit costs would fall. However, as Vroman noted in an analysis for the Ohio Department of Job & Family Services, "Since the intent of ARRA was to increase access to benefits and benefit payment levels, it seemed that paying \$15 per dependent in Ohio would operate against this legislative intent." Vroman estimated that keeping the current system and adding a \$15-a-week dependent benefit for those currently excluded would cost an average of \$37.9 million a year over the first four years. If this option is adopted and Ohio's method for paying dependency benefits is overhauled, the total amount of benefits paid out should not be reduced, in keeping with the intent of the ARRA.

²³ See for instance Zach Schiller, Policy Matters Ohio, "Why Ohio's Unemployment Compensation Fund is Going Broke and What We Should Do About It," June, 2008, pp. 10-11, available at http://www.policymattersohio.org/OhioUCFund2008_0612.htm.

²⁴ Vroman, Dr. Wayne, Urban Institute, Unemployment Insurance Modernization Act (UIMA) Cost Estimate, Executive Summary, 4-21-2009, submitted to ODJFS Office of Unemployment Compensation.

²⁵ In Ohio, as in many states, claimants receive half of their previous wage up to a maximum. However, unlike others, Ohio has three different maximum benefit levels: One for claimants with no dependents, another for claimants with one or two dependents, and a third for claimants with three or more dependents. This year, those maximums are set at \$372, \$452 and \$503, respectively.

The \$176 million Ohio would receive from the federal government for approving two of these options thus would pay their cost for several years. That would also reduce Ohio's borrowings, and thus the interest that would have to be paid after 2010, saving money for employers.

The main objection voiced by opponents of taking advantage of this feature of the act has been that it would increase long-term costs to the unemployment fund and thus require higher taxes in the future. As is evident, for the next several years – and possibly five or six years – the opposite would be true. The state fund and employers would benefit during that time period from the additional U.S. funding.

The ARRA does not allow states to limit the effective dates for implementing these options. Otherwise, states could enact amendments just long enough to get the incentive payments, and not extend benefits to many of the workers who Congress intended to benefit from these improvements. However, Ohio would be free to repeal the changes when the modernization incentive period ends in 2012. If legislators are concerned about long-term costs of these improvements, they could also establish a reporting system to keep track of them.

However, these are needed improvements. In particular, unemployed part-timers who meet all the other requirements for UC should be able to receive it and benefit from the taxes their employers have paid. Ohio should adopt two of these options to modernize its unemployment compensation system and take advantage of the \$176 million that it so far has left on the table.

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