How Ohio Has Underfunded Unemployment Compensation

Zach Schiller

Key findings

- Ohio's unemployment compensation trust fund is $1.38 billion in debt
- Underfunding was the primary reason the fund went broke
- Ohio UC taxes are below average, and only the first $9,000 in employee earnings a year is taxed
- Benefit levels are relatively average, but fewer Ohio unemployed receive benefits than those in other states
- The General Assembly needs to broaden the tax base

Ohio's unemployment trust fund – the money that pays benefits to unemployed Ohioans – has been broke for almost six years. The system owes $1.38 billion to the federal government, money it borrowed in order to keep paying benefits during and after the recession. Now, an Ohio House committee is reviewing the debt issue and what to do about it. This report provides background on why Ohio came to borrow as it did, and offers recommendations on how to address it.

How the UC system is financed

The UC system is a federal-state partnership, in which the U.S. establishes certain rules but states have considerable flexibility in how they set benefits and taxes. Begun in the Great Depression in the 1930s, unemployment compensation is an "automatic stabilizer" that pumps money into the economy when more workers are laid off. This helps unemployed workers and their families and also stimulates the economy. The most effective approach is to build up the unemployment trust fund in good times to ensure that there is money in the fund to pay higher benefits that naturally ensue when the economy weakens. This is known as "forward financing."

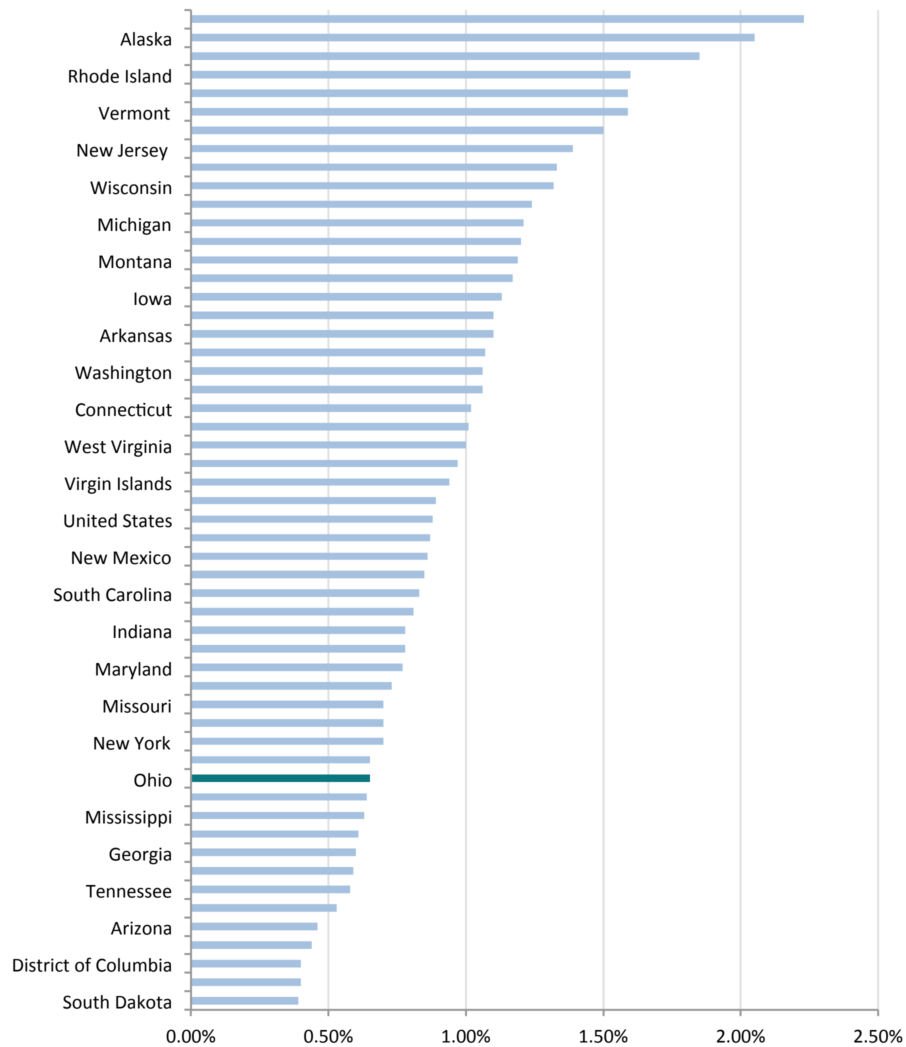
Unemployment compensation is funded by a dedicated payroll tax on employers, separate from the state budget. Ohio employers pay tax on the first $9,000 in each employee's wages each year.[1] Rates vary, depending on how much an employer has paid in tax and how much in benefits its laid-off workers have received. Part of the tax also is based on how solvent the system is. A third component of the tax rate is based on benefit costs that are not picked up by all employers, such as when a company goes out of business and its employees receive benefits. That is called the "mutualized rate."

[1] Employees of government and nonprofit employers are covered differently. These employers reimburse the state

Figure 1

Average State Tax Rate as a Share of Total Wages

12 Months Ended June 2014



Source: US Department of Labor

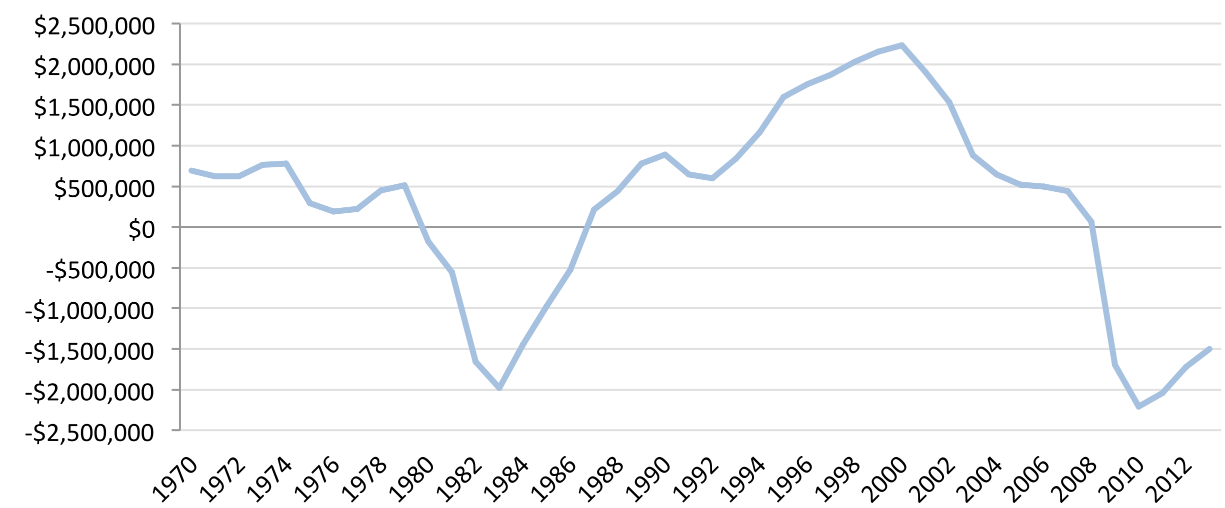
Ohio's unemployment trust fund went broke in January 2009, and accumulated debt that peaked at $2.6 billion in April 2011. Since then, the state has paid off nearly half of that amount, leaving a current debt of $1.38 billion.[2] Overall, 35 states became insolvent during or soon after the last

[2] U.S. Department of Labor, Employment and Training Administration, Trust Fund Loans, at http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans. Data are as of Nov. 12, 2014.

recession. As of Nov. 12, nine states including Indiana, Kentucky and Ohio owed a total of nearly $13 billion.[3] Another eight states, including Michigan and Pennsylvania, have paid off their federal debt, but have debt they issued to private investors in order to pay the federal government. Among Ohio and its neighbors, only West Virginia is not currently in debt to either the federal government or private lenders.[4] The recent history of Ohio's trust fund reserves, including its federal debt, are shown in Figure 2.[5]

Figure 2

Year End Net Trust Fund Reserves 1970-2013



Source: US Department of Labor

Since 2011, Ohio and other states have had to pay interest on their federal debt. States cannot use money from their regular UC taxes to pay interest. Nearly half of all states have a mechanism such as a surtax under which such interest is paid by employers. During discussions in 2008 about how to maintain the solvency of the Ohio fund, both employee and employer representatives on the Unemployment Compensation Advisory Council (UCAC), the body officially charged with making recommendations to the General Assembly on UC matters, proposed a surtax on existing taxes to help pay the interest. However, the UCAC did not agree

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[3] U.S. Department of Labor, Employment and Training Administration, Trust Fund Loans, at http://workforcesecurity.doleta.gov/unemploy/budget.asp#tfloans

[4] U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Data Summary, 2nd Quarter 2014, at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum14/DataSum_2014_2.pdf.
The private debt can be considerable. As of the second quarter of this year, Michigan owed $3.3 billion and Pennsylvania, $2.8 billion. This course of action is not as easily available in Ohio, because the Ohio Supreme Court ruled in 1987 that issuing bonds to supplement the trust fund would violate the state constitution.

[5] Much of unemployment tax is paid in the spring, so trust fund reserves vary significantly during the course of any year.

on an overall solution and legislation was never introduced or enacted.[6] As a result, all Ohioans, rather than Ohio employers are paying the state's federal interest cost.

The state has paid $218.2 million in interest on the federal debt so far, and the Ohio Department of Job and Family Services (ODJFS) estimates the state will pay another $54.5 million by Sept. 30, 2017.[7] Though nearly half of the peak debt has been paid off, the state tax system alone won't eliminate the debt any time soon. Table 1 shows ODJFS estimates of taxes and benefits over the next three years. ODJFS noted in August testimony to the House committee reviewing the debt issue that the UC tax system is near capacity.[8] Regular state taxes are expected to produce enough to pay projected benefits over the next few years, but they aren't nearly enough to pay off our debt any time soon, much less build a new reserve.

Table 1

ODJFS Estimates of Taxes and Benefits

Calendar Year	Projected Contributions	Projected Benefit Payments
2014	$1,165,900,000	$1,028,900,000
2015	$1,142,600,000	$986,200,000
2016	$1,098,600,000	$996,000,000
2017	$1,109,600,000	$1,006,000,000

Source: Ohio Department of Job and Family Services

Instead, Ohio's debt is being repaid mostly in another way, through a federal tax on Ohio employers. Since the creation of the unemployment compensation system in the 1930s, employers have paid a federal tax that helps support administration of state UC systems, loans to states, extended benefits and other items. As long as states keep their UC system in compliance with federal rules, their employers receive a credit for most of this tax. However, after a state has borrowed from the federal government for two years without repayment, the U.S. Department of Labor begins to reduce this credit.[9] Taxes covering 2013 due this year amount to 0.9 percent of the first $7,000 earned by each covered worker in the state, or $63 per worker. That totals about $282 million in 2014; altogether, $555 million in such funds have gone toward the debt. ODJFS

[6] For more information on previous attempts to deal with Ohio's UC solvency, see Zach Schiller, "Courting Crisis: Ohio Policy Has Undermined Unemployment Compensation Fund," Policy Matters Ohio, Oct. 31, 2011, pp. 9-11, at http://www.policymattersohio.org/courting-crisis-ohio-policy-has-undermined-unemployment-compensation-fund-3
[7] From information provided by ODJFS, Oct. 8, 2014
[8] ODJFS testified that, "During non-recessionary periods, Ohio's UI tax structure generates approximately $1.0 billion in revenue annually. However, it is considered to be near capacity, unable to generate additional revenue without statutory changes to the structure." Ohio Department of Job & Family Services, Follow-Up Responses, House Study Committee on Unemployment Compensation Debt, Aug. 19, 2014, p. 2, at http://www.ohiohouse.gov/committee/unemployment-compensation-debt-study-committee
[9] This federal tax is called the FUTA tax, for the Federal Unemployment Tax Act.

has estimated that the debt will be paid off in 2017 if the state maintains current claims levels and tax collections.[10]

The amount of those taxes grows each year that the debt goes unpaid, by the same amount – 0.3 percent of the first $7,000 in wages, or $21 per employee.[11] Unlike the usual unemployment tax, which is based in large measure on previous layoffs by each employer and how much their former employees have drawn in unemployment benefits compared to their previous tax payments, the federal tax credit reduction is a flat, across-the-board amount. This means that employers that have laid off the fewest workers are seeing much greater relative increases in the federal unemployment tax they pay, although they still pay a much lower combined federal and state amount.

Ohio has underfunded its UC system

Ohio has underfunded its UC system. As Figure 3 below depicts, after previous recessions in the 1970s, 1980s and 1990s, taxes rose to replenish the trust fund. By contrast, taxes rose only modestly after the 2001 and 2007-2009 recessions. Even before the 2001 recession, in the late 1990s, the growth of the fund was restrained as taxes were cut; for three years, more than 30,000 Ohio employers paid no unemployment tax at all.[12] Benefits spiked with the recent recession, and though they were well below early 1980s levels as a share of wages, they exposed how Ohio had underfinanced its system. It's not unreasonable that Ohio had to borrow during this period of high and long-term unemployment, but the state did not adequately prepare for a deep recession and has not faced up to the reality of the need for a stronger tax system.

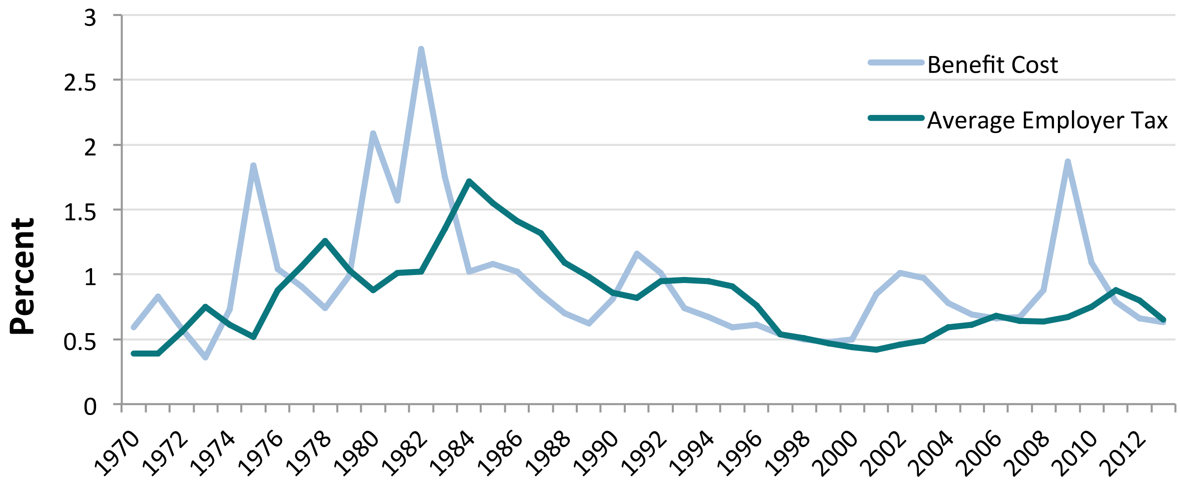
[10] Madson, Bruce, Assistant Director of Employment Services, Ohio Department of Job and Family Services, PowerPoint to Testimony to the Ohio House of Representatives Study Committee on Unemployment Compensation Debt, Aug. 5, 2014, p. 32, at http://www.ohiohouse.gov/committee/unemployment-compensation-debt-study-committee Gay Gilbert, administrator for unemployment insurance at the U.S. Department of Labor, likewise forecast recently that such state borrowing from the federal government would end in federal fiscal year 2017. See Gay Gilbert, Administrator, Unemployment Insurance, USDOL ETA, "National Unemployment insurance Program Update," Oct. 21, 2014, p. 14, at http://www.naswa.org/assets/utilities/serve.cfm?gid=A85ACD58-DD19-43EE-BC9A-207C9F8D753F&dsp_meta=0

[11] Ohio could have been liable for an additional credit reduction because it has gone so long without repaying its debt, but like a number of other states, it recently asked for and received a waiver from the U.S. Department of Labor.

[12] Schiller, Zach, "Unemployment Isn't Working: A Proposal to Better Insure Ohio's Workers," Policy Matters Ohio, September 2001, p. 18, see http://www.policymattersohio.org/uiintro.html

Figure 3

Taxes and Benefit Costs as a Share of Wages



Source: US Department of Labor

It was not inevitable that Ohio accumulate $2.6 billion in debt. Some other states with similarly high unemployment levels, such as Oregon, got through the recession without borrowing at all. Historically low contribution rates led to the solvency crisis in many states. While some states would have needed to borrow even if they met the federal solvency standard, the number would have been greatly reduced – and the total borrowing would have been far less – if they had.[13] Altogether, the states went into the latest recession with just $38 billion in reserves, compared to $54 billion at the end of 2000, prior to the 2001 recession.[14]

Ohio was underfunded more than most. Ohio's trust fund has not met generally accepted solvency standards since 1974. Just prior to the 2001 recession, Ohio had less than two-thirds of the needed reserves to meet the benchmark recommended by the Advisory Council on Unemployment Compensation, a nonpartisan federal commission. This commission called for states to have enough money in their trust funds to pay for one year of benefits at the average of the three highest payout years in the last 20 years or the last three recessions, whichever is longer. That year, 28 other states met the benchmark, while only six states had a poorer solvency position than Ohio. After the 2001 recession, we did not increase taxes and replenish the fund to

[13] See Mike Evangelist, "Lessons Left Unlearned: Unemployment Insurance Financing after the Great Recesssion," Briefing Paper, National Employment Law Project, July 2012, p. 19. Evangelist concludes: "Had all states gone into the recession with adequate reserves, the number of states and amount borrowed would have been reduced dramatically, as would have associated federal interest payments and repayment penalties." Accessible at http://www.nelp.org/page/-/UI/2012/Report_UI_Solvency.pdf?nocdn=1

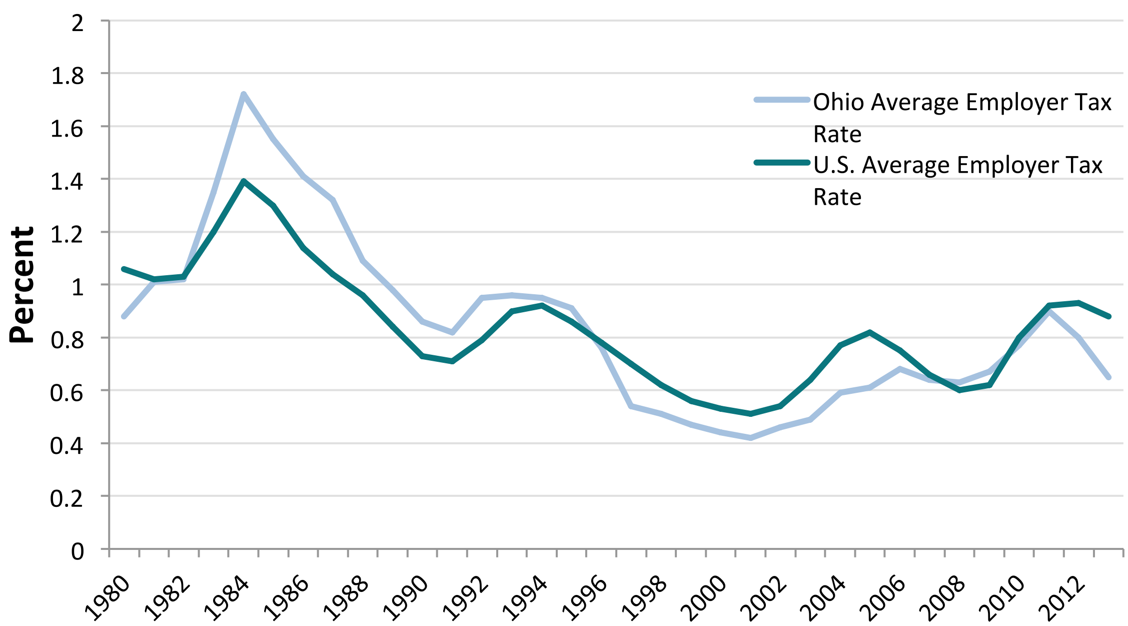
[14] U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 Report, at http://workforcesecurity.doleta.gov/unemploy/hb394/hndbkrpt.asp

the degree we had in previous post-recessionary periods. As the recession officially began in late 2007, we were tied with Missouri for the third-lowest solvency in the country, after Michigan and New York.

Over more than a decade, the state's average tax as a share of wages was less than that of the nation as a whole. Figure 4 shows how much Ohio and U.S. employers paid in UC taxes as a share of wages. Altogether, if Ohio employers had paid the average tax paid by employers across the country between 1996 and 2006, the state trust fund would have received an additional $1.7 billion.[15] During 2008-2009, the average state tax rate slightly exceeded the national average, but rates once again fell below those of the nation as a whole after the recession and have remained there. The U.S. Department of Labor estimated that to adequately finance the Ohio UC system, employers would need to pay twice the average tax rate that they did last year.[16] The labor department calculates this based on states getting to solvency over a five-year period, including paying off federal borrowings and reaching a level of reserves that would pay recession-level benefits for a year.

Figure 4

Employer Taxes as a Share of Total Wages



Source: US Department of Labor

[15] Schiller, Zach, "Why Ohio's Unemployment Compensation Trust Fund Going Broke and What We Should Do About It," Policy Matters Ohio, June 2008, available at http://www.policymattersohio.org/OhioUCFund2008_0612.htm

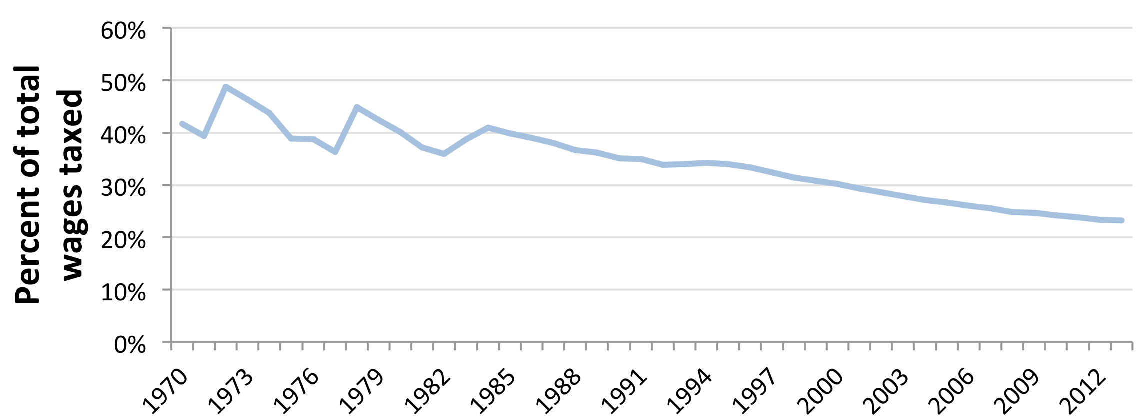
[16] U.S. Department of Labor, Office of Unemployment Insurance, Division of Fiscal & Actuarial Services, "Significant Measures of State Unemployment Insurance Tax Systems," September 2014, p. 44, available at http://workforcesecurity.doleta.gov/unemploy/pdf/sigmeasuitaxsys13.pdf.

These numbers include state taxes Ohio employers are paying. As noted, employers here also have been paying an added federal tax in order to pay our debt. According to the U.S. Department of Labor, employer contributions in Ohio last year averaged $280 per employee for all of the employees covered under the system. Employers paid another $63 per worker in extra federal tax, over and above the regular U.S. tax.[17] Across the country, the average state tax was $446 per employee. That does not include amounts that employers in a number of states are paying in extra tax either because, like Ohio, they are being assessed to pay off the debt, or because they are paying off other debt their system has issued in order to make good on their obligations to the federal government.

A key weakness in this system is the small share of employee earnings that is taxed. The unemployment compensation system was set up through the Social Security Act of 1935, and employers pay tax for Social Security on each employee's earnings up to $117,000. Ohio's $9,000 taxable wage base has not been raised since 1995; if it had risen with inflation since then, it would be $14,070. It covers less than a quarter of wages paid. Figure 5 shows how the share of Ohio wages that is taxed has declined, from 40 percent or more for most of the 1970s to 23 percent in 2013.

Figure 5

Share of Ohio Wages that is Taxed



Source: US Department of Labor

The average taxable wage base across the country is $13,259.[18] Some states tax a far greater share of wages than Ohio does, and Ohio is an outlier in this area. Wayne Vroman, a long-time

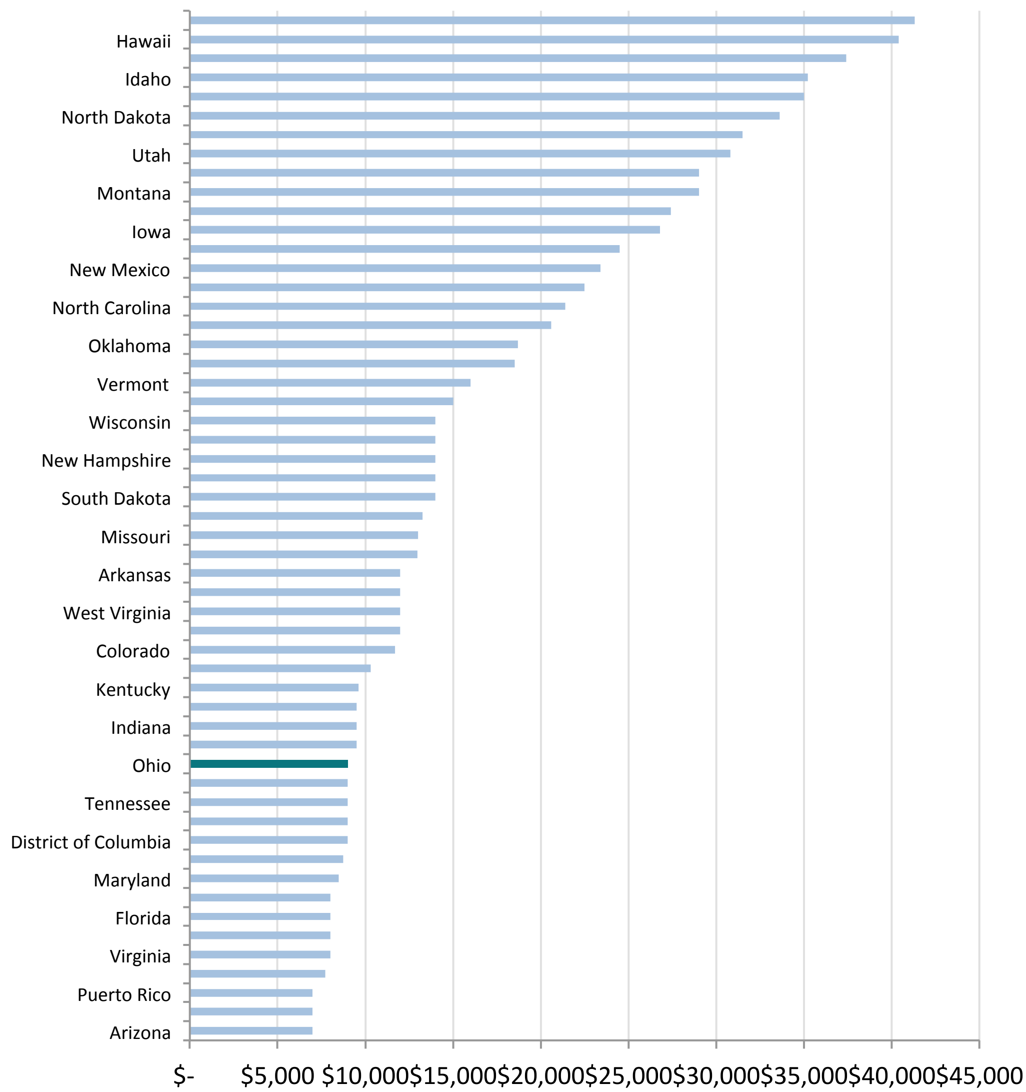
[17] That $63, or 0.9 percent of the first $7,000 in wages, represents the tax due for 2013, actually paid in January 2014.

[18] U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Data Summary, 2nd Quarter 2014, p. 66, at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum14/DataSum_2014_2.pdf

UC expert at the Urban Institute hired by the state to analyze the solvency issue concluded in 2008 – before the fund went broke – that the low taxable wage base was a key factor in the Ohio system's weak financing.[19] Figure 6 shows how Ohio's taxable wage base compares with that of other states.

Figure 6

State Taxable Wage Bases, 2nd Quarter, 2014



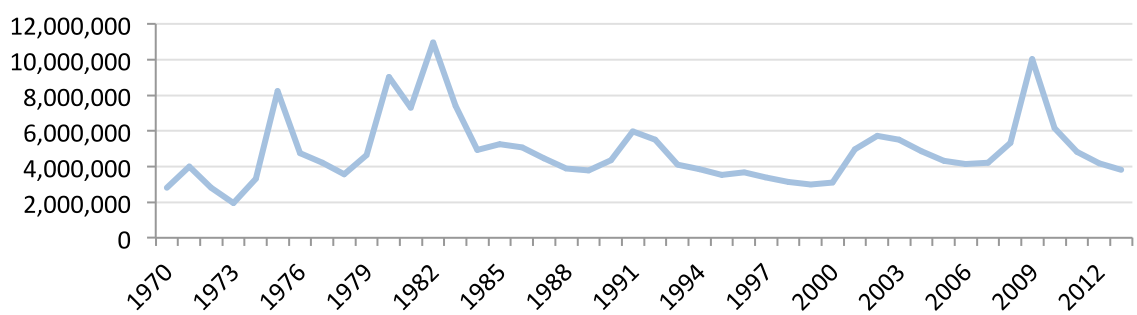
Source: US Department of Labor

[19] Vroman, Wayne, The Urban Institute, "Solvency Recommendations for Ohio," July 10, 2008, available at http://www.taxpolicycenter.org/UploadedPDF/411743_ohio_solvency.pdf

Another key reason why the fund went broke was a huge increase in the benefit payout. An enormous increase in unemployment came with the recession, combined with an increase in the average length of time claimants received benefits, longer than at any time since the UC system was begun in the late 1930s. The share of unemployed Ohioans receiving benefits also rose temporarily, as it often does in recessions (see Figure 12 below on recipiency). The average number of Ohioans receiving weekly benefits grew by 29 percent in 2008, and then by another 80 percent, or 101,000 claimants, in 2009. Altogether, more than half a million Ohioans received unemployment compensation at some point during that year.[20] On average, Ohio UC recipients received state benefits for 19.9 weeks in 2009 and 2010, up from 14.9 weeks in 2008. The huge rise in unemployment and its duration made the overall number of weeks compensated spike, though it has since fallen dramatically.

Figure 7

Weeks Compensated, 1970-2013



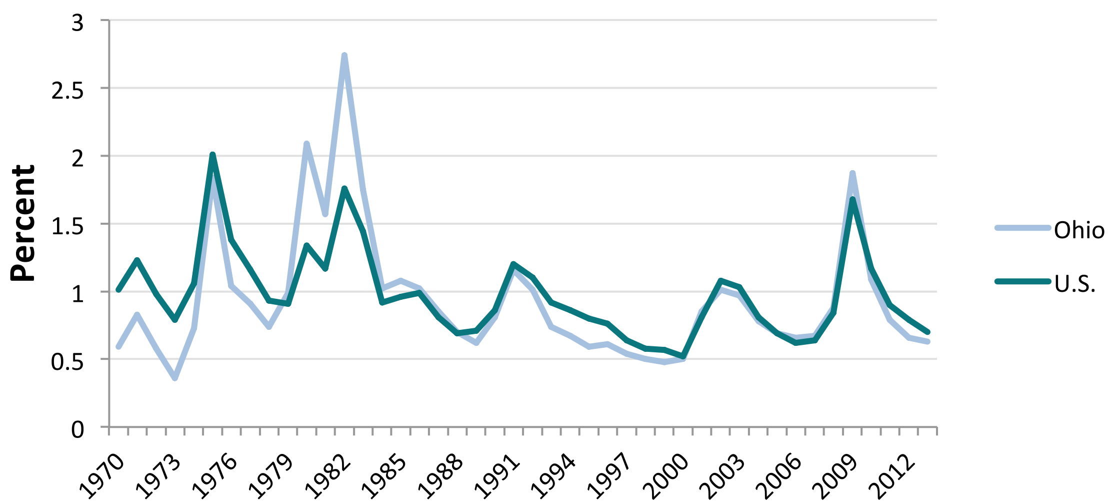
Source: US Department of Labor

For years prior to when the state UC fund became insolvent in 2009, Ohio's benefit payouts as a share of total wages covered under the program were close to the U.S. average. That recession year, our benefits exceeded the national average by 11 percent; during the last four years, they have been lower than average. Figure 8 shows how Ohio and U.S. benefit costs have tracked since 1970.

[20] U.S. Department of Labor, Employment and Training Administration, ET Financial Data Handbook 394 Report, at http://workforcesecurity.doleta.gov/unemploy/hb394/hndbkrpt.asp

Figure 8

Ohio and U.S. Benefits as a Share of Total Wages



Source: US Department of Labor

Several factors contributed to the underfunding of the Ohio system. First and foremost, the tax base is simply too narrow. As Rick McHugh of the National Employment Law Project testified regarding the $9,000 tax base to the House unemployment debt study committee in Toledo on Oct. 14, "When you put your foot on the accelerator, it doesn't go." Sixteen states index the wage base they tax so that it increases with wage levels, and only six of these states borrowed between 2009 and 2012. By contrast, of the 35 that, like Ohio, leave their taxable wage base unchanged except through specific action, 29 had to borrow.

While a constricted tax base is the biggest reason for the Ohio trust fund insolvency, the structure of the tax system also contributed. Bruce Madson, ODJFS's assistant director of employment services, noted to the House committee that, "Even though the trust fund is insolvent, employers' state taxes are falling."[21] Partly, this is the way the tax system in Ohio and all the states works: When unemployment falls after a recession, employer tax rates eventually fall, too. That's because tax rates are based in part on how much in benefits was paid out to each employer's former employers in the previous three years.

But other elements of Ohio's tax system are not so logical. As Madson pointed out, despite our $1.38 billion in debt, "state law requires that employer taxes decrease. This is one primary reason the trust fund is out of balance."

[21] Madson, Bruce, Assistant Director of Employment Services, Ohio Department of Job and Family Services, Testimony to the Ohio House of Representatives Study Committee on Unemployment Compensation Debt, Aug. 5, 2014, p. 3, at http://www.ohiohouse.gov/committee/unemployment-compensation-debt-study-committee

The Ohio Revised Code calls for federal monies Ohio receives to be paid into the mutualized account, which covers benefit costs that cannot be assigned to a specific employer. In 2010, despite Ohio's large debt, the mutualized rate was reduced because Ohio received a federal payment for having previously taken a step to modernize its tax benefit system.[22] In addition, the additional federal taxes that Ohio employers are paying to eliminate our debt also are credited to the mutualized account. As a result, Madson said, the mutualized rate will be at zero for years to come.[23] This is one reason that, apart from employers' individual record for layoffs, employer rates are lower now than they were in 2011 or 2012. Rates this year range from 0.3 percent to 8.5 percent on the first $9,000 in annual wages, compared to 0.7 percent to 9.6 percent in 2011.[24]

But that's not the only feature of the tax system that has caused rate reductions despite a billion-dollar debt. As noted above, besides employers' own experience and the mutualized rate, Ohio also bases tax rates on the solvency of the system. If reserve funds fall below a set "minimum safe level," which currently stands at $2.6 billion, tax rates will rise.[25]

The trigger actually has two parts. Since 2006, employers have been paying the maximum amount under one part of the trigger.[26] A second, additional rate increase is also figured. Under Ohio law, this second part of the solvency rate is calculated in part based on the average employer tax rate. But oddly, as the average employer tax rate goes up, this additional solvency tax goes down. As a result, after employer tax rates increased with the recession because of higher layoffs, this additional solvency tax declined. This contributed substantially to a decline in rates in 2012 and 2013. In 2014, this finally began to reverse, but only very modestly.

Clearly, the trigger mechanism is inadequate. Most Ohioans would be surprised to know that, even while the unemployment trust fund had a billion-dollar debt, tax rates were being cut because of this very mechanism. And the odd requirement that additional taxes paid to the federal government would help bring about a lower mutualized rate further indicates that the Ohio Revised Code needs a revision. Our tax system is not properly aligned with solvency needs.

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[22] The mutualized rate was cut in 2010 by $18 per covered employee, leading employers in most tax brackets to see overall rate reductions for the year even though the state's unemployment compensation trust fund was broke. Because of state statute, funds the state received from the federal government were placed in the mutualized account, causing the rate to go down that year. The following year, the rate was raised back to where it had been in 2009, but employers paid tens of millions of dollars less into the fund in 2010. See Zach Schiller, "Ohio Cuts Unemployment Compensation Tax Rates while Its Fund Is Broke," Policy Matters Ohio, May 13, 2010, at http://www.policymattersohio.org/unemployment-tax-rate-cut-fund-is-broke

[23] Madson, op. cit., p. 3

[24] The average employer tax rate fell in 2012 from the year before, leading to a very small increase in the rate schedule in 2014 from a year earlier. The rates range from 0.3 percent to 8.5 percent this year. However, this still means rates are below 2011 and 2012 levels. See rate schedules provided by the Ohio Department of Job and Family Services.

[25] This also works the other way: If reserves are enough above the minimum safe level, tax rates are cut. This is why, as noted above, more than 30,000 Ohio employers paid no state tax at all between 1999 and 2001.

[26] Since then, rates have been 0.2 percent higher across the board, because the trust fund has been more than 60 percent below the minimum safe level. The trigger works this way: If the fund is above or below the minimum safe level by certain percentages, rates are adjusted by set amounts.

Unemployment compensation and the economy

Unemployment compensation is a crucial backstop to workers and families during times of economic distress. But in addition to its role in supporting individuals and families, UC also helps stabilize the economy, creating additional demand for goods and services. Both of these have been crucial features of the program since its earliest days, though the second one is too often downplayed or ignored.

In fact, as various studies have found, unemployment compensation is one of the most effective countercyclical policies. As the Congressional Budget Office noted in a 2010 report, "Households receiving unemployment benefits tend to spend the additional benefits quickly, making this option both timely and cost-effective in spurring economic activity and employment."[27] In a study for the U.S. Department of Labor, Vroman, the Urban Institute UC expert, found that altogether, state and federal unemployment compensation programs made up for 18 percent of the gap in real Gross Domestic Product caused by the recession.[28]

ODJFS cited this report earlier this year in a business impact analysis of some unemployment compensation (also known as unemployment insurance, or UI) rules to the Common Sense Initiative, the state's attempt to create a regulatory framework that is more friendly to business. "UI benefits allow the unemployed to maintain more of their previous consumption than they otherwise would be able to," the agency noted. "When the unemployed cut back on spending, the business owners that serve them lose. By cushioning the fall in these families' incomes, unemployment insurance not only helps the families that receive it, but also prevents further production cuts and layoffs."[29]

Ohio's modest unemployment benefits

Claimants who qualify for unemployment compensation receive half of their previous wages, up to one of three maximums, which are adjusted every year based on the average wage: $418 a week if they have no dependents, $507 if they have one or two dependents, and $564 if they have three or more dependents. This dependency system is unique. It also discriminates against low- and middle-income claimants with dependents; if you earn less than $836 a week, you do not qualify for any additional benefits if you have dependents. While the top maximum benefit is $564 a week, less than 3 percent of claimants received the top amount last year.[30] During calendar year 2013, 32.6 percent of all recipients received $250 a week or less, while a total of five out of six received less than $413 a week, the maximum weekly benefit amount that year for

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[27] Congressional Budget Office, "Policies for Increasing Economic Growth and Employment in 2010 and 2011," January 2010p. 19, at http://www.cbo.gov/sites/default/files/01-14-employment.pdf

[28] Vroman, Wayne, Urban Institute, "The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession," IMPAQ International, July 2010, p. 70. The report was a subcontract between the Urban Institute and IMPAQ International that is part of a multi-year project supported by the U.S. Department of Labor, Employment and Training Administration. See http://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf

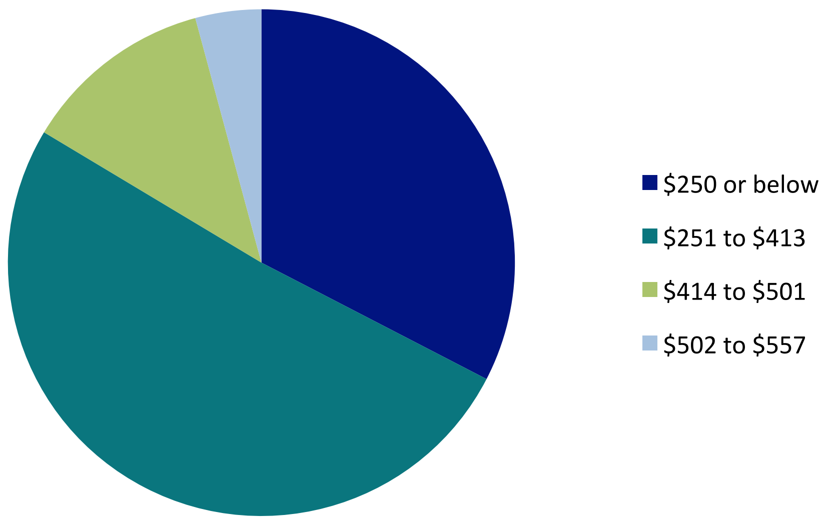
[29] Ohio Department of Job and Family Services, Business Impact Analysis under The Common Sense Initiative, Regulation/Package Title 4141-15 Contribution Rates, Rule Numbers 4141-15-01, 4141-15-07, April 29, 2014. ODJFS also noted that, "Generally, the rules in Chapter 4141 of the Ohio Administrative code help to support an Unemployment Insurance (UI) system that has been found to have a net positive impact on the economy, with substantial benefits to the business community as a whole."

[30] Calculated from information provided by the Ohio Department of Job and Family Services, Oct. 8, 2014

those without dependents. So while the top benefit is $564, the vast majority of recipients don't receive anywhere near that amount. Figure 9 shows the breakdown of benefit amounts during 2013.

Figure 9

Weekly Benefits in Ohio, 2013



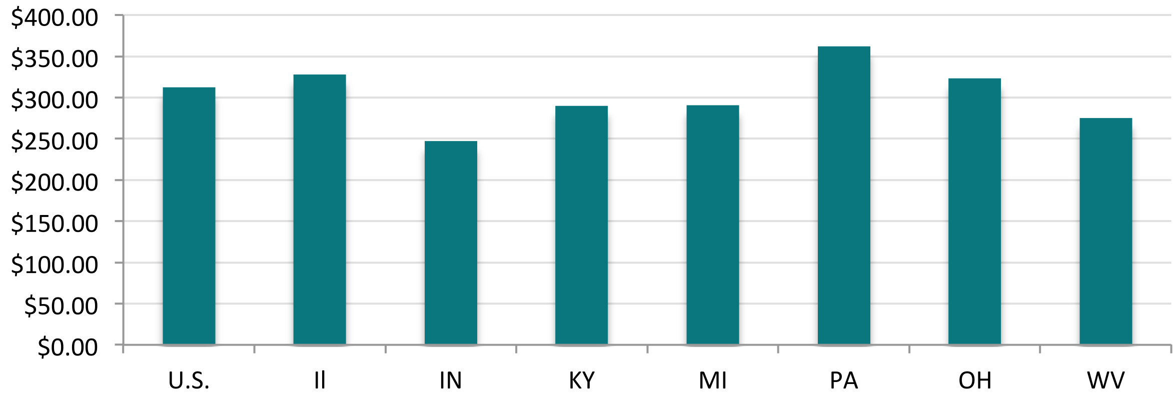
Source: US Department of Labor

Ohio's UC benefits, as in most states, rise with wages. This means simply that benefits are staying level in relation to the economy. Ohio's average weekly benefit amounted to $322.97 in the 12 months ended June 30. This compared with the national average of $313.99. Ohio's benefits are not out of line with those of neighboring states, as shown in Figure 10.[31]

[31] U.S. Department of Labor, Employment & Training Administration, Unemployment Insurance Data Summary, 2nd Quarter 2014, available at http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum14/DataSum_2014_2.pdf

Figure 10

Average Weekly Benefit, Year Ending June 2014

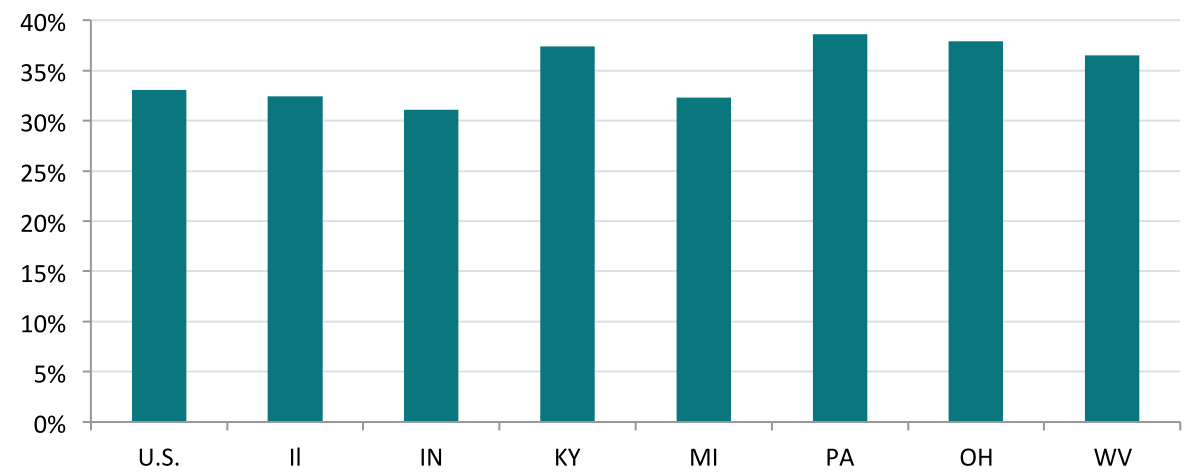


Source: US Department of Labor

The share of average wages that UC represents was little different in 2013 than it was in 2003 or 1993. Benefit levels in Ohio have merely kept up with wages, they have not grown. The average benefit in Ohio replaces a somewhat higher share of the average wage than in the country as a whole. Figure 11 shows the share of average weekly wages replaced by unemployment benefits in Ohio compared to the nation as a whole and nearby states. These "replacement rates," as they are called, measure the average weekly benefit as a share of the average wage in the state, not in relation to the previous wages received by UC claimants when they were working. One reason Ohio's replacement rate is higher than the national average is that the state excludes many low-wage workers from receiving unemployment compensation. In particular, we have a high standard for how much workers must earn to be eligible (see below). If we allowed more workers at lower wage levels to qualify, that would bring the replacement rate down, since they would receive lower weekly benefits in line with their wages. Oddly, our system looks relatively more generous than it is because of these exclusions.

Figure 11

Average Weekly Benefit as a Share of Average Weekly Wage, Year Ending June 2014



Source: Ohio Department of Job and Family Services

The average benefit on an annual basis would produce $16,794, well below the $19,790 that the federal government considers the poverty threshold for a family of three.[32] Ohio's maximum UC benefit for those with one or two dependents would come nowhere near covering the weekly costs of a family of one parent and one preschooler living in Franklin County, according to an analysis by the University of Washington on behalf of the Ohio Association of Community Action Agencies. Tallying up the costs of housing, food, transportation and other necessities to meet basic needs, it found the costs for such a two-person family to be $39,614 in 2013, or more than $761 a week.[33] That compares with a $501 maximum weekly UC benefit for such a family that year.

Poor coverage

Ohio's unemployment compensation system covers fewer of the state's jobless workers than UC does across the U.S. This has been consistently true for many years. During the year ended in June, just 22 percent of Ohio unemployed received regular state benefits. Figure 12 shows the share of Ohio unemployed receiving regular state benefits compared to unemployed for the nation as a whole. The chart understates the recent plunge in the number of unemployed receiving benefits, as it excludes those Ohioans who had relied on federal extended unemployment benefits. That program ended last December when Congress did not renew it.

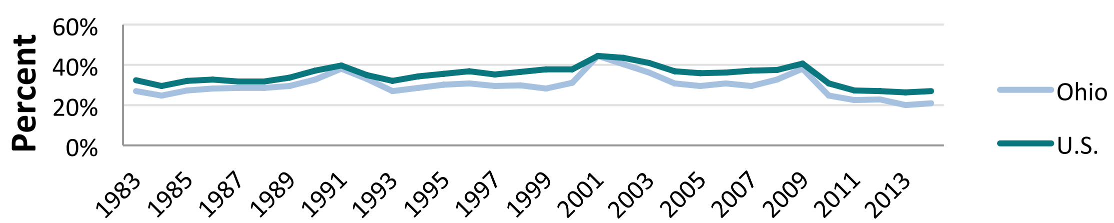
[32] U.S. Department of Health and Human Services, "2014 Poverty Guidelines," available at http://aspe.hhs.gov/poverty/14poverty.cfm

[33] Pearce, Diana M., University of Washington School of Social Work, Center for Women's Welfare, The Self Sufficiency Standard for Ohio 2013, Table 25, p. 71, at http://www.selfsufficiencystandard.org/docs/OH13SSS_web.pdf

Some 36,000 Ohioans lost federally paid UC benefits, and thousands more were unable to begin receiving them as 2014 began.

Figure 12

Share of Unemployed Receiving State Benefits, 1983-2014



Source: US Department of Labor

One reason so few unemployed Ohioans receive UC is that our earnings requirement – what you have to make to qualify for benefits – is among the highest of any state. It goes up every year, and while the amount may not seem that great – an average of $233 a week over at least 20 weeks – this means that someone could earn as much as $12,000 a year and not qualify. It means you don't qualify if you make the minimum wage and work as much as 29 hours a week. As of last year, this was true of only one other state, Michigan.[34]

Anita Myerson, a senior attorney at the Legal Aid Society of Cleveland who has specialized in unemployment compensation law for nearly 30 years, noted in testimony to the House committee that, "We at Legal Aid Society of Cleveland have seen many clients who have been denied benefits because their average weekly wage was below the qualifying monetary eligibility amount." Some clients, she said, "are ineligible because they have minimum wage jobs which are for fewer than 29 hours per week while others have jobs with fluctuating hours, so that while they earn more than $233 some weeks, their average weekly wage is below the qualifying amount. We see many individuals who have worked all available hours from their employer, but still do not qualify for unemployment benefits." Myerson cited examples of home health aides, day care workers, retail workers and others who have been excluded from receiving UC for an insufficient average weekly wage.[35]

In most states, if you are laid off from a part-time job and meet all of the other requirements, you can seek a job like the one you had and qualify for UC. In Ohio, you can't; claimants must be seeking full-time work to receive benefits. Yet businesses rely on part-time workers. More than a

[34] Schiller, Zach, "Ohioans Face Tough Test to Receive Unemployment Benefits," Policy Matters Ohio, Jan. 24, 2013, at http://www.policymattersohio.org/unemployment-jan2013

[35] Myerson, Anita, Senior Attorney, Legal Aid Society of Cleveland, Testimony to the House Unemployment Compensation Debt Study Committee, Toledo, Ohio, Oct. 14, 2014, at http://www.ohiohouse.gov/committee/unemployment-compensation-debt-study-committee

million Ohioans work part-time. Employers pay UC tax on the wages of part-time workers, yet our UC system excludes them. This is an outdated practice.

These factors and others contribute to what the Department of Job & Family Services said to the House committee: "Simply put, it is already more difficult to qualify for unemployment benefits in Ohio than in most states…"[36] Given this reality it is not sensible to further ratchet up the amount Ohioans have to earn in order to qualify for benefits—and ODJFS has noted, this option is "unlikely to prove viable."[37]

In recent years, ten states have cut the maximum amount of weeks that jobless workers can receive UC benefits.[38] Despite this, the vast majority of states adhere to the long-time standard, as Ohio does, of offering up to 26 weeks of regular benefits. A recent Policy Matters Ohio study found that for the bottom 70 percent of the earnings spectrum, inflation-adjusted wages are actually lower than they were for their counterparts on the earnings spectrum in 1979.[39] One key feature of the recent recession and ensuing period has been the stubborn continuation of high, long-term unemployment. Last year, 34.6 percent of Ohio's unemployed had been jobless for 27 weeks or longer. While that was down from the peak of 44.2 percent in 2011, it still was higher than in any year between 1983 and 2008.[40] In short, there are fewer good-paying jobs and it is taking unemployed workers longer to find them. Cutting the maximum duration for benefits would harm unemployed workers who need UC the most, and Ohio's recent experience does not suggest it would significantly spur employment. As noted, last January, tens of thousands of Ohioans lost federally paid UC benefits. Yet employment growth has been sluggish since then; just 35,000 jobs were added state-wide between December 2013 and September.[41]

Summary and recommendations

Ohio's unemployment trust fund ran out of money primarily because we underfunded it. The recession and accompanying high unemployment helped drive the fund deep into debt, but benefit levels are about average; the key problem is a stagnant, narrow tax base. Or as Wayne Vroman concluded in his 2008 study of the state after reviewing the history of tax and benefit levels, "…it would seem that most of the adjustments should involve enhancements to revenue since the benefit side of Ohio's program has not undergone important changes in recent years. Benefit payments have grown as the economy has grown, but taxes have lagged economic growth."[42]

[36] Ohio Department of Job & Family Services, Follow-Up Responses, House Study Committee on Unemployment Compensation Debt, Aug. 19, 2014, p. 3, at http://www.ohiohouse.gov/committee/unemployment-compensation-debt-study-committee
[37] Ibid. This concluded the sentence cited in the previous footnote.
[38] Gay Gilbert presentation, op. cit., p. 14
[39] Hanauer, Amy and Michael Shields, "The State of Working Ohio 2014 ," Aug. 31, 2014, p. 16, at http://www.policymattersohio.org/wp-content/uploads/2014/08/Working-Ohio-2014-Final-8-28-2.pdf.
[40] Ibid, p. 11
[41] Labor Market Review, op. cit., p. 5. Josh Bivens, Joshua Smith and Valerie Wilson review this issue more broadly in "State Cuts to Jobless Benefits Did Not Help Workers or Taxpayers," Economic Policy Institute, July 28, 2014, at http://www.epi.org/publication/state-unemployment-insurance-cuts/

[42] Vroman, "Solvency Recommendations for Ohio," p. 3

The key solution to Ohio's unemployment compensation funding is to raise and index the taxable wage base. A dozen states have raised their taxable wage bases since 2009,[43] in addition to the sixteen that already indexed them annually. Raising and indexing the taxable wage base were two of Vroman's recommendations, which deserve serious study.[44] Both employer and employee representatives to the Unemployment Compensation Advisory Council proposed an increase in the taxable wage base, along with a temporary freeze in maximum benefit levels and a surcharge to pay interest charges during 2008 solvency discussions, though a compromise was not reached.[45]

In addition to broadening the tax base, Ohio's unemployment tax system should be purged of its peculiar requirements that have led to tax cuts when it is broke. Changes are needed in Ohio law that currently calls for such misguided policy.

Over a period of time, Ohio needs to build up a reserve; just repaying the debt will still leave the system vulnerable to another round of borrowing in the next recession. We also need to find a way to boost the share of unemployed who are able to receive benefits.

One thing we should not do is use money from the state's General Revenue Fund to pay off the debt. As ODJFS has testified, no state has ever used its general fund to pay debt principal or to pay claims.[46] Such a move would make unemployment compensation a state-funded program, now and in the future. All Ohio taxpayers then would be funding UC, instead of employers.

While it's not unreasonable that Ohio had to borrow during a period of high and long-term unemployment, it's clear that Ohio's UC solvency problem was a product of poor policy, not just a poor economy. That policy needs an overhaul.

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[43] Gilbert, op. cit., p. 16. The dozen includes those that further indexed their wage base, or approved phase-in or delayed increases. A total of 17 states now index their taxable wage bases annually, along with the Virgin Islands. See U.S. Department of Labor, Employment and Training Administration, Comparison of State UI Laws, 2014, at http://workforcesecurity.doleta.gov/unemploy/comparison2014.asp

[44] See Vroman, "Solvency Recommendations for Ohio." Vroman also recommended freezing the maximum weekly benefit from 2009 to 2011 and redirecting the flow of revenue from the mutualized and solvency taxes. In addition, he made some recommendations regarding benefits that together wouldn't add to the total payout. These included easing the monetary requirement to qualify for benefits, eliminating dependency benefits, and establishing a self-employment assistance program. The General Assembly subsequently has created a work-sharing program, as he also recommended. See http://www.legislature.state.oh.us/bills.cfm?ID=130_HB_37.

[45] Schiller, "Courting Crisis," Appendix contains the proposals.

[46] Madson, op. cit., p. 5

Author

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Acknowledgements

Policy Matters Ohio interns Robert McCarthy and Brant Duda contributed significantly in providing data for this report. The author would also like to thank Rick McHugh of the National Employment Law Project for his input. Any errors and omissions in the report are the sole responsibility of the author.

Policy Matters Ohio creates a more vibrant, equitable, sustainable and inclusive Ohio through research, media work, and coalition building. As a non-profit, non-partisan research institute, we are dedicated to researching an economy that works for all in Ohio. We are grateful for generous funding from the Ford, Saint Luke's, Joyce, Gund, Cleveland, Public Welfare, Sisters of Charity, R.J. Wean, Stoneman, Doll Family, EMA and AHS Foundations; from individuals and community partners; and from the Center on Budget and Policy Priorities, the Working Poor Families Project, United Way of Greater Cincinnati and Greater Cleveland Community Shares.

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