



Strengthening Unemployment Protections in America

Modernizing Unemployment Insurance and Establishing a Jobseeker's Allowance

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Introduction and summary

Unemployment insurance, or UI, has been a pillar of our nation's social insurance system for 80 years. It is an essential ingredient for economic security, shared prosperity, and a stable economy. Designed as a partnership between the federal government and the states,¹ it is a critical support for unemployed jobseekers: UI temporarily replaces a share of lost wages for unemployed workers while they search for a new job. To be eligible for UI benefits, workers must have sufficient earnings history, have paid into unemployment insurance via their employer's payroll taxes,² have lost a job through no fault of their own, and be actively seeking work.

UI protects families from hardship. But it also helps to stabilize the economy during downturns by boosting the spending power of struggling families and creating demand in the economy. In part because of significant, temporary improvements, the UI system once again proved to be essential during the Great Recession, both to family economic security and to our nation's economic health. In 2009 alone, UI kept more than 5 million Americans out of poverty³ and saved more than 2 million jobs by boosting demand in a sagging economy.⁴ Between 2008 and 2012, UI prevented an estimated 1.4 million foreclosures,⁵ and from 2008 to 2010, it closed more than 18 percent of the shortfall in gross domestic product, or GDP.⁶

However, our nation has dramatically underinvested in UI and has failed to update this vital system for the 21st century. In 2015, only about one in four jobless workers received UI benefits at all—a historic low.⁷ This erosion of one of our nation's most important social insurance programs is not only problematic for workers, it also leaves the U.S. economy severely underprepared for the next recession. Only twice since 1860 has the United States gone more than eight years without a downturn—and 2016 marks the seventh year of economic expansion.⁸ The next recession—while unpredictable—is inevitable, and experts are already pressing policymakers to prepare.⁹

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To protect more working families from the risk and hardships of unemployment, policymakers should act now to fortify the nation against the next recession. America must ensure a robust employment, training, and income-security system for involuntarily unemployed workers by substantially strengthening UI. Further, our nation must also help the many jobseekers who will not qualify for traditional UI—even under a modernized UI system—to actively seek employment, connect to job opportunities, and improve their work-related skills.

To this end, the Center for American Progress, or CAP; the Georgetown Center on Poverty and Inequality, or GCPI; and the National Employment Law Project, or NELP, came together on a proposal to modernize the nation's system for assisting unemployed jobseekers. This report proceeds in two distinct sections.

Section 1 proposes ambitious, but strongly needed, reforms to UI. This includes bolstering UI's effective re-employment services to connect more jobseekers with workforce development opportunities and strengthening tools such as work sharing that help workers stay in the jobs that they already have. It includes detailed reforms to expand UI eligibility to reach more unemployed workers, improve the adequacy of UI benefits, and increase participation in the program. In addition, this section recommends reforms to UI's financing that would improve the program's solvency, as well as steps that would improve UI's ability to respond to future recessions, including repairing the Extended Benefits program.

In Section 2, the report recommends the establishment of a new Jobseeker's Allowance, or JSA, for workers who would remain ineligible for UI. This section describes the need for a modest, short-term benefit that would assist jobseekers such as unemployed independent contractors and those with limited work history. The report lays out eligibility criteria for the JSA, characterizes the moderate but important benefits and services the JSA would provide, and outlines the administration and financing of the proposed program. Finally, the report briefly describes the anticipated costs of the proposal, including both reforms to UI and the new JSA.

Challenges facing our nation's social assistance system for jobseekers

As important as UI has been in the past, the system has not kept pace with changes in the labor force and the economy over the past several decades. Absent efforts to modernize the system and bring it into the 21st century, UI's effectiveness in protecting workers and the economy will continue to decline, with enormous conse-

quences for both middle-class security and economic growth. Even if the country is fortunate to continue its current economic expansion for an unprecedented period, UI is still underperforming as a tool for improving job placements, maintaining labor force attachment, promoting skills and training, and, of course, ensuring economic security for those who lose a job through no fault of their own. Among the challenges facing our nation's assistance system for jobseekers:

- **Too few unemployed workers have access to tools for successful re-employment, first employment, and/or training:** UI was designed for an economy in which workers had greater job security and, upon job loss, often returned to the same field or position. Today, technology and globalization mean that many jobs lost in recent years are not returning to the U.S. economy, and those workers need to retrain for employment in a different sector. However, at the same time as the need for them has grown, UI's effective re-employment services are significantly underfunded, and overall U.S. spending on workforce development as a percentage of GDP is one-seventh of its 1979 peak.¹⁰
- **American workers are more vulnerable than ever to involuntary unemployment, yet fewer are protected by UI:** In the 80 years since UI was enacted, the American workforce has undergone dramatic changes. Low-wage jobs that often lack basic labor protections comprise a larger share of employment. Women are now primary breadwinners in 40 percent of households—yet far fewer are protected by UI, in part because women are more likely to work part-time or need to leave a job due to caregiving responsibilities. Antiquated rules in many states exclude from UI the growing number of workers who face erratic and unpredictable schedules, low wages, lengthy job searches, and unpredictable pay. Many people who are willing and able to work—such as young adults beginning their careers, individuals returning to the formal labor force after completing primary caregiving responsibilities, and older discouraged workers—remain on the sidelines of the labor force, but they often lack the recent earnings history to obtain support for their job search through UI. Independent contractors—who often have recent and long-established work histories—also currently have no such UI protection should they lose their job.
- **The unemployment insurance system is unprepared for the next recession:** Since UI was first enacted, recoveries from recessions have become lengthier and increasingly jobless, meaning that unemployment remains high long after economic growth resumes. At the same time, UI's capacity as an automatic

macroeconomic stabilizer has been steadily undermined by policy decisions, including states making deep cuts to the duration and adequacy of UI benefits, as well as tightening eligibility criteria for workers. Today, two involuntarily unemployed people from different states—with otherwise similar work histories and levels of need—have access to vastly different levels of UI income support. Given that the next recession is inevitable, it is critical that policymakers strengthen assistance for jobseekers in ways that protect more workers and ensure the economic stability of the entire nation.

Reforming unemployment insurance

To adapt the system to 21st century realities, CAP, GCPI, and NELP joined together on this comprehensive proposal to reform unemployment insurance and create a Jobseeker's Allowance. In Section 1 of this report, we explain in detail how our proposal would address the challenges facing the UI system with recommendations organized into the following three categories:

- 1. Ensure that more unemployed workers have access to the tools they need for successful re-employment and training, and reduce layoffs by implementing effective job-retention measures:** To this end, CAP, GCPI, and NELP's proposal introduces new ideas to support worker training and upskilling, encourage entrepreneurship, and increase geographic mobility. It would reinvigorate and expand UI's effective re-employment programs and services; connect workers with a greater variety of job opportunities such as apprenticeships, subsidized employment, and national service positions; and provide an overdue makeover for outdated technological systems—making UI into the pillar of the workforce development system that it should be. In addition, under this proposal, all states would bolster tools such as work sharing programs that help keep workers in the jobs they already have, reducing the human and economic costs of unemployment in the first place.
- 2. Provide more Americans with more adequate protection against the shock of unemployment:** A modern insurance system for jobseekers must reflect the changed composition of America's labor force. By reforming states' disparate eligibility rules, CAP, GCPI, and NELP's proposal would make UI's earned insurance available to a much larger share of American workers—notably, many women and low-paid workers—who are currently ill-served by a system whose

rules have not kept pace with the realities of 21st century workers and families. By expanding the UI system's reach and improving benefit adequacy, this proposal offers a way not only to increase working families' economic security, but also to boost labor force participation. Furthermore, the more workers who are adequately protected by UI, the more powerful UI's countercyclical response will be when unemployment rises.

3. **Prepare the unemployment insurance system for the next recession:** The insurance system for jobseekers is our economy's first line of defense against economic downturns. UI—partially through a number of temporarily enacted provisions—closed more than 18 percent of the shortfall in GDP caused by the last recession.¹¹ But its countercyclical effectiveness has been undermined by state policy choices that starve the program of revenue and severely restrict the number of unemployed workers it reaches. Knowing that the next recession is likely to occur within a few years, it is essential policymakers strengthen insurance for jobseekers in ways that protect more workers and, in doing so, protect the economy. This proposal ensures that UI lives up to its macroeconomic potential by widening the payroll tax base and lowering rates, as well as by introducing solvency requirements for states' trust funds. In addition, the proposal offers parameters for an improved, fully federally financed Extended Benefits program that would kick in automatically during recessions, limiting the need for Congress to enact emergency extensions.

The reforms that CAP, GCPI, and NELP propose in this report would significantly bolster family economic security, enhance labor-market participation, and better protect our economy during recessions. State decisions to weaken UI in recent years have underscored the need for a strong federal role in mandating, encouraging, and implementing these reforms.

Updated, independent analysis from the Urban Institute, commissioned by CAP, GCPI, and NELP and released concurrently with this report, shows that just three of the proposed reforms would significantly increase the share of newly unemployed workers who are protected by UI. They would increase the share of workers who are able to rely on UI when they become newly unemployed by nearly 9 percentage points (from 64.7 percent to 73.6 percent)—an increase of more than 13 percent.¹²

Creating a Jobseeker's Allowance

Even with a modernized UI system, there will be workers who do not qualify for traditional UI, either because their work histories are too limited or because they are independent contractors and have, thus far, not paid into the UI system. To help these jobseekers who are not eligible for UI actively search for work and improve their employment-related knowledge and skills, in Section 2, we propose a Jobseeker's Allowance, or JSA—a small, short-term weekly allowance to support work search and preparation. The JSA would offer a stipend of about \$170 per week to jobseekers for up to 13 weeks, replacing approximately 50 percent of the wages of a typical low-paid worker.¹³ While JSA's weekly benefit would be quite modest relative to UI—and its job-search requirements at least as stringent as UI—the JSA would encourage workforce participation, support geographic labor mobility, and promote family stability and social cohesion. The JSA would provide an incentive and support for individuals with limited or no recent work history to reconnect with or newly attach to the labor force, as well as connect them with counseling, employer referrals, and training and education opportunities. These features of the JSA could help improve labor-market participation and employment outcomes for low-income workers, as well as for previously self-employed discouraged workers—individuals who want to work and are available for work but have given up actively looking for a job.

The JSA would complement the modernized UI system this report envisions: Together they would form a significantly more robust system of assistance for American jobseekers. Table 1 below compares the proposed UI system to the proposed JSA.

TABLE 1

Comparison of reformed unemployment insurance program to proposed Jobseeker's Allowance

	Unemployment insurance	Jobseeker's Allowance
Target population	Workers involuntarily separated from recent employment	New labor market entrants, re-entrants, UI exhaustees, legitimately self-employed workers, and intermittent workers with limited resources
Eligibility	Involuntary separation from employment and voluntary separation for good cause; minimum recent earnings history	At least age 19 or GED/high school degree holder; ineligible for UI; annual household income below the Social Security maximum taxable wage (\$118,500 in 2015)
Benefit duration	At least 26 weeks with tiers of Extended Benefits during economic contractions	At least 13 weeks with tiers of Extended Benefits during economic contractions
Weekly benefit level	Weekly benefit varies with base-period earnings; maximum weekly benefit of at least 50 percent of state average weekly wage	Uniform weekly benefit of \$170 (about half of a typical low-wage worker's wages) indexed to the 10th percentile of wages
Administration	Federal funding for state administration for benefits and service delivery; federal government maintains state financial accounts	Federal funding for state administration for benefits and service delivery; federal government splits state administrative and outreach costs evenly
Financing	State payroll taxes fund regular benefits; federal payroll tax funds Extended Benefits; federal appropriations fund state administration	Federal funding from general revenues with options for partial offsets
Services	Re-employment services (required for long-term unemployed)	Employment services, skills and training options, subsidized employment option

Effects of these proposals on unemployment assistance coverage for jobseekers

Today, our nation's social insurance system provides assistance to only a fraction of jobseekers—those who have sufficient earnings history under a traditional employer-employee relationship to qualify them for UI. As shown in the table below, our proposal to expand UI and create a new JSA would extend protection to the many categories of workers who are currently left without assistance during their job search.

TABLE 2

Proposed reforms would extend jobseeker protection to all types of workers

Worker coverage under current and proposed social assistance programs for jobseekers

	Type of jobseeker	Current coverage	Proposed coverage
Employee	Sufficient work history to qualify for current UI program	UI	UI
	Insufficient work history to qualify for current UI program	None	UI for those with more work history; JSA for those with very little work history
	Currently misclassified as an independent contractor	None	UI
	Long-term unemployed, including UI exhaustees	None	JSA
Other jobseekers	Self-employed, including independent contractors	None	JSA
	No recent work history	None	JSA

Note: The proposed system includes the reforms to UI and the new Jobseeker's Allowance proposed in this report, as well as full enforcement of labor laws.

Taken together, the measureable UI reforms and the new JSA would roughly double the number of workers who are served each year by our nation's social assistance system for unemployed jobseekers.¹⁴ The proposal would also increase the share of unemployed workers who would be protected by this assistance—meaning they would have access to either UI or JSA if they became unemployed—to more than three in four workers, compared to only one in four unemployed workers who receives UI today. And for the first time through JSA, it would also extend protection for jobseekers to independent contractors.

Costs of the proposal

The total cost of the combined UI and JSA proposal is about \$18.9 billion per year. Of this amount, our newly proposed JSA accounts for \$10.9 billion per year, or about 58 percent of the total cost, and would serve about 5.4 million jobseekers annually. This translates into a daily cost per American worker of less than 19 cents per day. Given that two-thirds of Americans will experience at least a year of unemployment for themselves or their household head during their working

years, this is cost-effective protection for a risk that many families face.¹⁵ The JSA would be fully federally funded through general revenues, although lawmakers could choose to offset its cost with revenues from a number of possible sources, as described in Section 2.

The remaining 42 percent of the cost outlined in the proposal is what is required to improve the UI system. The large majority of funds for improving UI would come from changes to the existing federal and state unemployment taxes that employers already pay on behalf of their employees. Specifically, the CAP, GCPI, and NELP proposal would expand the wage bases and lower the rates of these taxes, making UI's financing significantly less regressive.

Updating our nation's protection against unemployment to reflect 21st century realities is an essential step in stabilizing our nation's economy and in providing working families with economic security and mobility-enhancing opportunities. The United States needs a social insurance system that is responsive to today's economy, families, and workforce and puts unemployed workers back on a path to prosperity.

Our Mission

The Center for American Progress is an independent, nonpartisan policy institute that is dedicated to improving the lives of all Americans, through bold, progressive ideas, as well as strong leadership and concerted action. Our aim is not just to change the conversation, but to change the country.

Our Values

As progressives, we believe America should be a land of boundless opportunity, where people can climb the ladder of economic mobility. We believe we owe it to future generations to protect the planet and promote peace and shared global prosperity.

And we believe an effective government can earn the trust of the American people, champion the common good over narrow self-interest, and harness the strength of our diversity.

Our Approach

We develop new policy ideas, challenge the media to cover the issues that truly matter, and shape the national debate. With policy teams in major issue areas, American Progress can think creatively at the cross-section of traditional boundaries to develop ideas for policymakers that lead to real change. By employing an extensive communications and outreach effort that we adapt to a rapidly changing media landscape, we move our ideas aggressively in the national policy debate.

