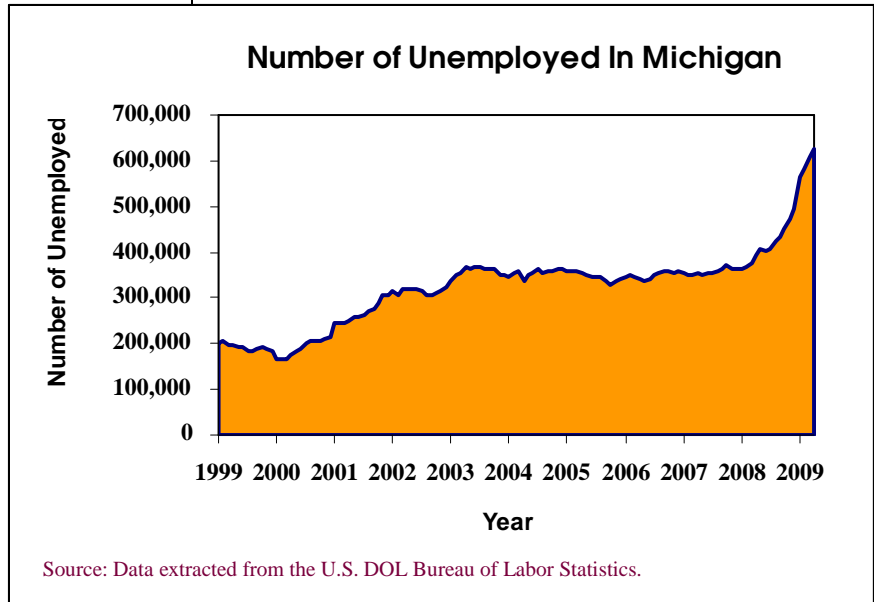




## Michigan Needs to Modernize Its Unemployment Insurance System

The goal of the federal government’s Unemployment Insurance Modernization Act (UIMA), part of the American Recovery and Reinvestment Act of 2009 (ARRA), is to simultaneously stimulate the economy and help unemployed workers survive our nation’s economic downturn. Currently, one-third of Michigan’s unemployed workers are not collecting unemployment insurance (UI) benefits<sup>1</sup>. This is a telling result of Michigan’s outdated unemployment insurance system, operating under rules that were designed for a 1930s workforce. The UIMA is structured to provide federal incentive funding to states that are willing to change their outdated UI laws so that more jobless workers are eligible to receive benefits. With the highest unemployment rate in the nation, 14.1 percent in May 2009, Michigan needs new safety net policies that are in the best interest of citizens hardest hit by the nation’s current economic decline.

entitlement program with an eligibility rule that an individual must have become unemployed through no fault of his or her own, meaning that employees who leave a job or are discharged for work-related misconduct are automatically disqualified from receiving any UI benefits. An individual must be able to show a previous attachment to the workforce,



### Overview of UI System

The unemployment insurance system was part of the Second New Deal’s Social Security Act in 1935-36. The idea was proposed by President Roosevelt in response to widespread national unemployment caused by the Great Depression. UI is a federal

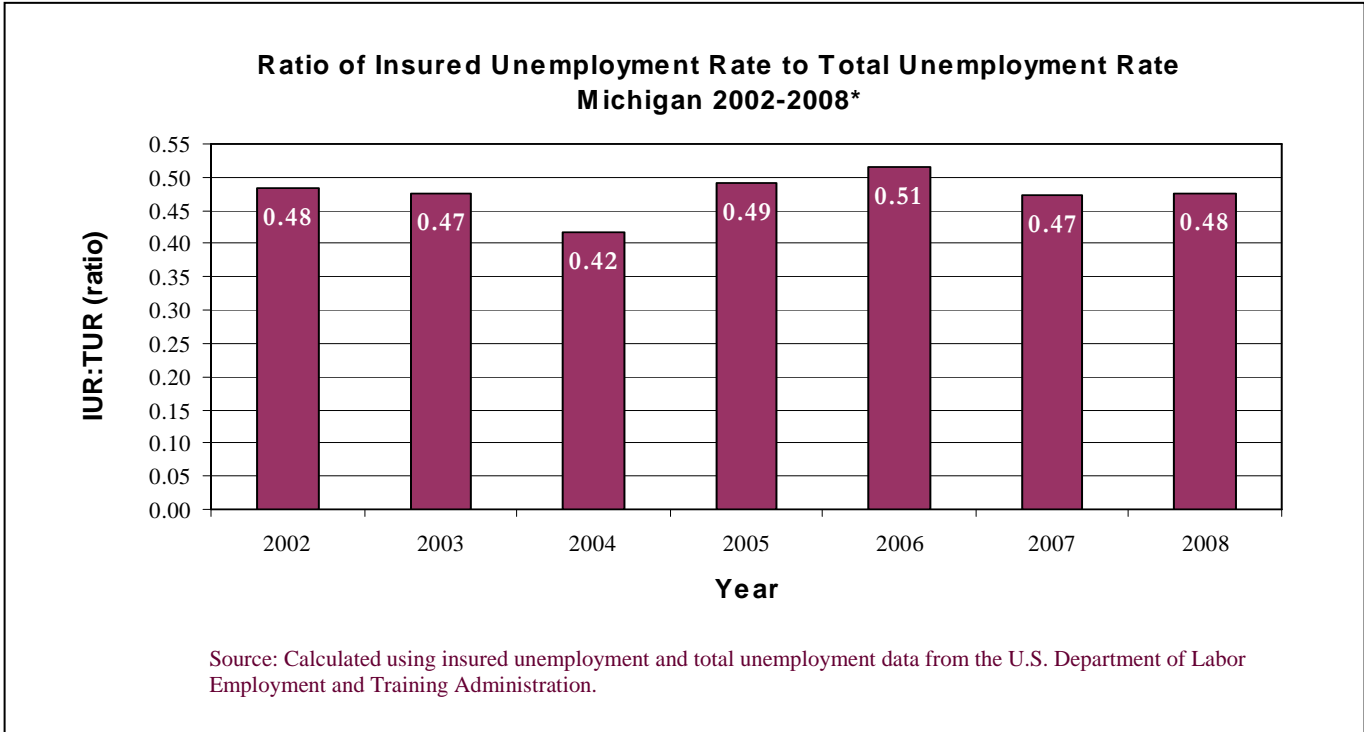
assessed on an individual’s duration of employment and hours worked. Operating within these federal guidelines, each state has developed varying requirements for eligibility, benefit amounts, and time length of benefits.

The UI program is designed to use accumulated payroll taxes held in state trust fund reserves to pay benefits to unemployed workers and their families. While these benefits help cushion the economic blow that unemployed workers experience, they also help to maintain economic activity in communities affected by layoffs.

<sup>1</sup> U.S. Department of Labor Employment and Training Administration (DOLETA). *Unemployment Insurance Data Summary*. 2009 1<sup>st</sup> Quarter. [http://workforcesecurity.doleta.gov/unemploy/content/data\\_stats/datasum09/DataSum\\_2009\\_1.pdf](http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum09/DataSum_2009_1.pdf)  
Report released in early June cited DOLETA 2008 4<sup>th</sup> Quarter, which was the most recent data at that time. [http://workforcesecurity.doleta.gov/unemploy/content/data\\_stats/datasum08/DataSum\\_2008\\_4.pdf](http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum08/DataSum_2008_4.pdf)

The effectiveness of UI requires that it serve its dual role as both an economic stabilizer and a source of income support. Its ability to reach these goals is determined by the extent of both UI reciprocity and UI benefit adequacy. If too few unemployed workers are paid UI benefits, or if those getting UI are

In Michigan, the UI system is no longer doing the job it was designed to do. It is out of date and unable to respond adequately to the needs of Michigan's unemployed working families. The UIMA has the potential to help Michigan update its UI system, and reach these vital goals for the state.



paid inadequate benefit amounts, then UI will not serve its social insurance goals.

The UIMA recognizes that unemployment insurance serves as an automatic stabilizer of the nation's economy, with accumulated payroll taxes flowing into the economy immediately as layoffs take place. It is estimated that for every \$1 of UI benefits spent by workers and families, there is \$2.15 in economic growth<sup>2</sup>. During the 2001 recession, state and federal UI benefits generated \$140 billion in economic stimulus nationwide<sup>3</sup>. Undeniably, UI benefits help businesses during recessions by helping laid-off workers to pay their bills and to continue essential household spending. As a result, recessions with widespread use of UI are less severe in depth and duration than recessions without UI.

<sup>2</sup> National Employment Law Project (NELP). November, 2008. *The Unemployment Insurance Modernization Act: Filling the Gaps in the Unemployment Safety Net While Stimulating the Economy*.

<sup>3</sup> Rick McHugh, National Employment Law Project (NELP). May 6, 2009. *Unemployment Insurance Modernizations in Michigan: Support Testimony for HB 4785 and HB 4786*.

## Who is Still Not Eligible in Michigan?

### **Low-wage Workers**

Monetary eligibility is the first hurdle to the receipt of UI benefits. Monetary eligibility is intended to ensure that some minimum labor market attachment is required for UI eligibility. An overwhelming majority of states have adopted earnings requirements expressed as a dollar amount as their means of judging labor market attachment. The 12-month time period over which states apply those earnings requirements is called the base period. Current monetary eligibility requirements range from \$130 in Hawaii to \$4,455 in North Carolina<sup>4</sup>.

Michigan's monetary eligibility standard for a base period year is \$4,307, making it the second-highest in the nation. In addition, Michigan requires that claimants earn \$2,871 in one calendar quarter in

<sup>4</sup> U.S. DOLETA. 2009 *Comparison of State Unemployment Laws*. <http://workforcesecurity.doleta.gov/unemploy/uilawcompar/2009/money.pdf>

order to qualify for UI benefits<sup>5</sup>. This is equivalent to 30 hours of work at the minimum wage of \$7.40 an hour for each of the 13 weeks of a quarter.

Monetary earnings requirements like those used in Michigan inherently disadvantage low-wage workers, since higher-paid workers can satisfy the labor market attachment test with fewer hours of work. For instance, a worker earning \$30 an hour can satisfy Michigan's high quarter monetary eligibility standard with 96 hours of work, while a minimum wage worker needs at least 388 hours to do so. This means that a minimum wage worker in Michigan must work nearly four times as many hours to gain monetary eligibility as a \$30 an hour worker. In addition, Michigan is one of only three states in which a minimum-wage worker working 29 hours each week year round would not meet the monetary eligibility standards for UI.

### Part-time Workers

Part-time workers make up one-sixth of the nation's workforce, but are restricted from collecting UI benefits in states such as Michigan<sup>6</sup>. In addition to federal UI guidelines, Michigan requires that an unemployed worker must be available for and seeking full-time work. This full-time worker rule is the leading disqualifier for part-time workers applying for UI benefits. Now, more than ever, the earnings of every family member are vital to a family's well-being. The loss of the part-time earnings of a family member is a substantial blow to the finances of most working families.

The Michigan UI system's full-time working requirements disproportionately burden female workers in the state. Women represent 68 percent of part-time workers nationwide, so policies excluding part-time workers directly affect Michigan's female workers and their families<sup>7</sup>. In single-parent households where child care is not available, workers must balance career and caretaker responsibilities. These workers are often unable to seek full-time work. In other cases, workers simply cannot find full-time jobs and must accept one or more part-time positions. In today's workforce, being a part-time worker does not mean that an individual is less

“attached” to the workforce. Michigan's employers create the part-time jobs and pay into the state UI trust fund for their part-time workers, but the state does not allow these workers to collect those UI funds when they are laid off.

### Leaving Work for Compelling Family Reasons

Michigan workers who must leave their jobs due to compelling family reasons such as spousal relocation, family member illness or disability, or domestic violence, are also not eligible for unemployment insurance in Michigan. With the increased prevalence of two-income households, many workers must leave their jobs on short notice in order to relocate for their spouse's new job. Workers who are the sole caretakers of loved ones are often forced to leave work if the family member becomes severely ill or disabled. Individuals facing issues of domestic violence may find it necessary to leave work if their safety is threatened, or if they are receiving medical treatment or counseling.

Michigan workers who leave their jobs for these reasons are not able to receive unemployment support in their time of need and transition. Thirty-four states already have existing UI provisions for workers who leave work for at least one of the previously listed compelling family reasons<sup>8</sup>. Michigan is one of the few states left that have failed to provide UI allowances for these workers.

### Who Is Not Receiving Adequate UI Benefits in Michigan?

#### All UI Beneficiaries

Standard UI benefits in Michigan allow unemployed workers to collect a maximum of \$362 per week of unemployment for up to 26 weeks<sup>9</sup>. The calculations used to determine basic UI benefits in Michigan are shown below<sup>10</sup>:

- 1) Multiply high-quarter wages by 4.1 percent<sup>11</sup>
- 2) Add \$6 per dependent, up to 5 dependents
- 3) Round down the resulting number to the nearest whole number

<sup>5</sup> U.S. DOLETA. 2009 *Comparison of State Unemployment Laws*.

<sup>6</sup> Emsellem, M. February, 2009. *Implementing the Unemployment Insurance modernization reforms of the American Recovery and Reinvestment Act of 2009*. National Employment Law Project (NELP).

<sup>7</sup> Ibid.

<sup>8</sup> National Employment Law Project (NELP) 2009. *UIMA: Needed Reforms for Full Incentive Funding*, by State

<sup>9</sup> State Fiscal Analysis – Senate

<sup>10</sup> Michigan Unemployment Insurance Agency (UIA)

<sup>11</sup> High-quarter wage must be at least \$2,697

More than half of states adjust their UI maximum weekly benefits annually according to growth in the states' wages. Michigan does not. Michigan's maximum weekly benefit has been stagnant since 2002<sup>12</sup>. Governor Granholm did accept the Federal Additional Compensation included in the American Recovery and Reinvestment Act of 2009, which raises weekly benefits by \$25. However, these increased benefits will be discontinued in July of 2010. The maximum weekly benefit must be permanently raised or adjusted on a yearly basis to ensure that basic needs are being met for unemployed people in Michigan.

### Workers with Dependent Family Members

UI benefits are given to individual workers during periods of unemployment. However, the benefit amount is only a partial wage replacement, so the amount unemployed workers receive is often much lower than their previous paychecks. Under Michigan's UI system, workers are provided only an additional \$6 per dependent. This low amount results in a failure to adequately serve Michigan's families.

### Permanently Laid-off Workers

In Michigan, workers who are permanently laid off need to acquire new skills to help them gain employment. UI does not provide benefits for unemployed workers who have exhausted their benefits and are participating in training. This is a hindrance to the large population of auto and other workers who are being permanently laid off due to full company closures.

Recognizing the importance of skills training and education for workers who are laid off from declining professions, Governor Granholm supported the creation of the 2007 No Worker Left Behind (NWLB) program. Unfortunately for Michigan workers, over half of state funding was cut to the NWLB program in the governor's most recent Executive Order. The state has been left with fewer resources to train the thousands of permanently laid off workers in Michigan, or to support workers who are pursuing training or schooling.

<sup>12</sup> Rick McHugh 2009. National Employment Law Project (NELP).

## Long-term Unemployed Workers

The ARRA provides UI extensions for unemployed workers during the nation's current economic recession. However, these extensions will be eliminated once ARRA has expired or when Michigan's unemployment numbers improve. In the absence of UI extensions, Michigan's UI system only offers an unemployed worker up to 26 weeks of benefits.

### Michigan UI Statistics – Quarter 4, 2008

Total Unemployment Rate	9.4%
Insured Unemployment Rate	4.4%
Insured Unemployed as Percent of Total Unemployment	47.0%
Maximum Benefit	\$362
Maximum Benefit with ARRA	\$387
Average Weekly Wage	\$836
Average Weekly Benefit	\$299
Average Weekly Benefit as Percent of Average Weekly Wage	36.0%
<i>Data Source: U.S. Department of Labor (DOLETA)</i>	

## Recent Changes in UI Eligibility in Michigan

### Adoption of the Alternative Base Period

Originally, UI benefit eligibility was determined by a Standard Base Period (SBP)<sup>13</sup>. Filing wages were taken from the first four of the last five completed calendar quarters prior to the filing of a claim. Unfortunately, this measurement system excluded unemployed workers whose top wages were earned during their most recent quarter of work.

In 2001, Michigan joined the ranks of 20 other states when it adopted the Alternative Base Period (ABP). An individual can use ABP guidelines if he or she does not qualify for UI using the SBP criteria. The ABP allows an unemployed worker to file for UI benefits based on earnings from a worker's four most recent wage-earning quarters. In 2003, there were more than 26,000 ABP recipients in Michigan<sup>14</sup>.

<sup>13</sup> First 4 of the last 5 completed calendar quarters prior to file of claim. Calendar quarters: Jan-March, April-June, July-Sept, Oct-Dec.

<sup>14</sup> Emsellem, M. February 19, 2009. *Implementing the Unemployment Insurance Modernization Reforms of the American Recovery and Reinvestment Act of 2009*. National Employment Law Project (NELP).



## Extended Unemployment Compensation

In June, 2008, Congress passed an extended benefits program called Extended Unemployment Compensation (EUC08). This legislation was originally designed to expire at the end of March 2009, but has now been extended through the end of 2009. EUC08 is a two-tiered UI program that provides up to 33 additional weeks of unemployment compensation for workers who have exhausted their regular UI benefits. EUC08 is fully federally funded, and helps long-term unemployed workers survive during times of severe economic and employment hardships, such as Michigan is experiencing now.

The EUC08 first tier grants up to 20 additional weeks of benefits to all qualified workers who have exhausted their standard UI benefits. The EUC second tier provides up to 13 additional weeks of benefits, on top of the original EUC08 20 weeks, to states with high levels of unemployment. Michigan currently qualifies for its unemployed workers to receive the full 33 weeks of federal EUC08 benefits.

## Extended Unemployment Insurance Benefits

In 1970, the federal government established a law that provides an additional 13 weeks of extended benefits (EB) beyond the original 26 weeks of state UI. The cost of EB is normally shared 50/50 by the federal and state government, but under ARRA extended benefits will be fully federally funded through the end of 2009. In order for a state to qualify for EB, its insured unemployment rate (IUR) must rise above 5 percent for a 13-week period, and must be 20 percent higher than the same 13-week period in the two previous years. Michigan triggered the EB in January 2009, with its IUR above 5 percent and 42 percent higher than the past two years<sup>15</sup>.

## Federal Additional Compensation

The ARRA includes a Federal Additional Compensation that increases the UI weekly benefits by \$25. Governor Granholm signed a contract with the U.S. Department of Labor on March 23, 2009 to allow Michigan workers to collect the UI increase provided by the federal stimulus. The Federal

<sup>15</sup> National Employment Law Project (NELP). March 8, 2009. *Extended Benefits Fact Sheet*.

Additional Compensation is not part of the UIMA, and will sunset in July of 2010.

## ARRA Extended Benefits Amendment

The ARRA provides an option for qualifying states to increase their 13 weeks of EB by an additional seven weeks, fully funded by the federal government. States become eligible for this EB extension through a total unemployment rate trigger of 8 percent. Michigan has surpassed 8 percent since May of 2008<sup>16</sup>. Governor Granholm signed legislation authorizing this EB extension on April 13, 2009.

## How Many Weeks of UI Can Michigan Workers Now Receive?

Michigan's unemployed workers can now receive 79 weeks of unemployment insurance based upon the following federal and state provisions:

**26** (basic UI) + **20** (EUC08 Tier-1 EB) + **13** (EUC08 Tier-2 EB) + **13** (IUR triggered EB) + **7** (TUR triggered EB)

## How the UIMA Proposes to Help

The UIMA has proposed five incentives that states may choose from that will help modernize their UI systems through eligibility expansion and benefit adequacy. A state must first adopt an ABP, which expands UI benefits to a large population of low-wage unemployed workers, in order to receive any UIMA funding. Michigan's UI system currently operates according to an ABP and will automatically qualify for the first-third, \$69.4 million, of incentive funding.

The state can then adopt two out of the four additional incentives, making it eligible to receive the remaining two-thirds of UIMA funds from the federal government. These provisions are listed below:

- 1) Permit former part-time workers to be eligible for UI benefits if they agree to seek and accept part-time work while unemployed;
- 2) Provide UI benefits to workers who voluntarily leave for "compelling family reasons;"

<sup>16</sup> Michigan DELEG – Labor Market Information

- 3) Provide unemployed workers with additional dependent allowances of \$15/dependent (up to 3 dependents);
- 4) Provide extended benefits to permanently laid-off workers who have exhausted UI benefits and are enrolled in a state-approved job training program.

These UIMA incentives must be enacted into law by the Michigan Legislature if the state is to receive an additional \$139 million in federal funding. The laws cannot include sunset provisions, and must be adopted prior to August 2011. If Michigan chooses to implement at least two of the four UIMA incentives in addition to the already adopted ABP, it will receive over \$208 million in ARRA stimulus money.

### **How is the Michigan Legislature Addressing UI Modernization?**

#### **HB 4641 – Domestic Violence**

House Bill 4641 was introduced by Rep. Bert Johnson (D-Highland Park) on March 19, 2009. This bill seeks to amend the 1936 Michigan Employment Security Act by allowing individuals who voluntarily leave work for domestic violence issues to receive unemployment benefits. Examples of valid reasons for leaving work due to domestic violence are as follows:

- Fear of future domestic violence at or en route to an individual’s place of employment.
- Need to relocate to another geographic area to avoid future domestic violence.
- Must address the physical, psychological, or legal effects of domestic violence.
- Must leave employment as a condition of receiving services or shelter from a domestic violence agency.
- Individual’s reasonable belief that employment termination is necessary for his/her/family future safety.

#### **HB 4786 – Part-time Workers**

House Bill 4786 was introduced by Rep. Johnson on April 2, 2009. This bill seeks to amend the 1936 Michigan Employment Security Act by making UI available to part-time workers. The bill would expand UI eligibility to workers whose base period consists of a majority of part-time<sup>17</sup> work. If an

<b>UIMA Incentive Funding</b>			
	<b>Initial One-Third UIMA Incentive Funding for ABP</b>	<b>Remaining Two-Thirds UIMA Incentive Funding</b>	<b>Total Share of the \$7 Billion Federal UIMA Funding</b>
<b>Michigan</b>	<b>\$69,428,000</b>	<b>\$138,855,000</b>	<b>\$208,283,000</b>

individual falls into this category of workers, he or she would not be denied benefits for any of the following reasons:

- 1) Individual is only available for part-time work;
- 2) Individual is seeking part-time work;
- 3) Individual refuses an offer for full-time work;

HB 4786 was quickly passed in the Democrat-controlled House. The bill was then sent to the Senate, where it awaits action. On June 24, 2009, there was a motion to discharge this bill from the Senate committee for immediate action by the full Senate, but it failed on a party line vote.

#### **HB 4785 – Worker Training**

House Bill 4785 was introduced by Rep. Richard Hammel (D-Mount Morris Twp.) on April 2, 2009. This bill seeks to amend the 1936 Michigan Employment Security Act by providing additional UI benefits to permanently laid-off workers who are involved in job or skill training. Under HB 4785, a permanently laid-off worker who is pursuing vocational training in preparation for a high-demand job and has exhausted his or her standard UI benefits would be paid additional benefits for each week of training participation.

<sup>17</sup> Less than 40 hours per week, with limits on a minimum amount of hours

HB 4785 was quickly passed in the Democrat-controlled House. The bill was then sent to the Senate, where it awaits action. On June 24, 2009, there was a motion to discharge this bill from the Senate committee for immediate action by the full Senate, but it failed on a party line vote.

### **Capacity of Michigan's UI Trust Fund**

The theory behind the unemployment insurance program is that each state's trust fund should operate in a cyclical fashion. Employers pay into their state's UI trust fund, and the workers they lay off draw from the fund. This theory has not worked in Michigan, because during prosperous economic times employers were allowed to cut a percentage of their tax that was supposed to be deposited into the state's UI trust fund. With over half a million Michigan citizens unemployed as of February 2009, there is now not enough money in the state trust fund to support these workers<sup>18</sup>.

Michigan's UI trust fund is a combination of state and federal taxes on employers. As of March 2009, Michigan was one out of eleven states whose UI trust fund was insolvent<sup>19</sup>. Despite the changes in the nation's economy, the UI system has not been updated to maintain adequate levels of protection. Changes in the mid-90s weakened the system because payments into the trust fund were reduced and benefits were curtailed precisely when good economic times provided an opportunity to build a solvent trust fund and adjust benefits to meet the changing needs of Michigan's unemployed families. Lowering the business tax rate cost Michigan's UI trust fund over \$1 billion<sup>20</sup>.

The UI system includes state trust funds and a federal trust fund. If a state does not have enough money to provide UI benefits to all its eligible unemployed workers, it can borrow money from the federal trust fund with interest. Michigan has been borrowing UI money from the federal government since 2006. As of April 14, 2009, Michigan owes

\$1.96 billion in federal UI loans<sup>21</sup>. A solvency tax was to go into effect for Michigan employers because the balance in the state's trust fund was less than the total amount of un-repaid federal loans. In Michigan, employers have not paid as much into the state UI system as their laid-off employees are collecting. Twenty percent, or 45,000 Michigan employers, will be responsible for paying back the state's solvency tax.

### **Conclusion**

Michigan's outdated UI system is unable to adequately meet the needs of unemployed working families in the state. The current economic recession is emphasizing inherent weaknesses in this crucial part of the state's safety net. There are several ways in which Michigan could modernize its unemployment insurance system:

1. Michigan's monetary eligibility standards should be lowered in order to expand UI eligibility to more low-wage, laid-off workers.
2. Michigan should allow unemployed workers to look for and accept part-time jobs if they are unable to work full-time jobs.
3. Michigan should provide UI benefits for workers who leave their jobs due to compelling family reasons such as spousal relocation, family member illness or disability, or domestic violence.
4. Michigan should increase UI benefit levels for individuals with dependents.
5. Michigan should increase UI maximum weekly benefits, and annually adjust the maximum benefit according to state wages thereafter.
6. UI benefits should be provided for laid-off workers in Michigan who are seeking skills training or college educations.
7. Michigan's 26-week UI duration should be expanded for those long-term unemployed workers who have increased difficulty in finding adequate jobs.

<sup>18</sup> U.S. Bureau of Labor Statistics

<sup>19</sup> TALX. *Unemployment Trust Fund Solvency Update*. [http://www.talx.com/News/TaxIntelligence/TI\\_March2009\\_TRUST\\_FUND\\_SOLVENCY\\_ETS.pdf](http://www.talx.com/News/TaxIntelligence/TI_March2009_TRUST_FUND_SOLVENCY_ETS.pdf)

<sup>20</sup> Luhby, T. November 7, 2008. [http://money.cnn.com/2008/11/07/news/economy/unemployment\\_insurance/index.htm](http://money.cnn.com/2008/11/07/news/economy/unemployment_insurance/index.htm)

<sup>21</sup> U.S. Department of Labor - Employment and Training Administration. <http://www.ows.doleta.gov/unemploy/budget.asp#tflows>

The UIMA has provided incentive funds to help Michigan modernize its unemployment insurance system for the 21<sup>st</sup> century. Two UI modernization bills have passed the Michigan House, but still need support in the Senate. With a 14.1 percent unemployment rate, Michigan cannot afford to leave almost \$140 million of federal money on the table.

In addition to the UIMA incentives, Michigan must continue to pursue other updates to its UI system as suggested above. The state's unemployed workers and their families are in need of a strong safety net. Michigan must use the federal stimulus funds to begin the modernization of its unemployment insurance system so that UI can truly fulfill its role as a major safety net for unemployed workers.

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