
Executive Summary

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OUT OF DATE AND OUT OF REACH:

Michigan's Unemployment Insurance System Needs Repair

A study of Michigan's UI system prepared by the Michigan League for Human Services and the National Employment Law Project

The Michigan economy has changed but the unemployment insurance system has not kept pace.

- In today's economy there are more low and moderate wage service and retail sector jobs and fewer high wage manufacturing jobs in Michigan.
- Today's economy includes more part-time and temporary jobs.
- Today's economy requires more job changes over the life of a worker.
- Today's economy includes more single mothers in the workforce and more two-parent families with a part-time worker whose earnings are essential to the family's well-being.
- Michigan's unemployment insurance program excludes part-time workers from eligibility and sets stern barriers for low-wage workers.

The unemployment insurance system as it is currently structured does not meet the needs of low-wage, part-time, and temporary workers and their families.

- In the summer of 2001, almost half of Michigan's unemployed workers were not receiving UI benefits.
- With full employment during the latter part of the decade, welfare caseloads declined by nearly 70 percent. The largest reason for case closure was earned income. The average wage earned by a mother leaving the welfare system for the workforce, however, is only \$7 per hour in a part-time job.

- The method of determining eligibility for UI in Michigan (claimants must earn \$1,998 in one calendar quarter) is among the nation's sternest. For example, a worker earning \$25 an hour can satisfy Michigan's monetary eligibility standard with 80 hours of work, while a minimum wage worker needs to work nearly five times as many hours to qualify.
- A single mother earning the minimum wage and working 29 hours per week would not be eligible for unemployment insurance benefits, nor would a mother earning \$7.50 per hour and working 24 hours per week.
- Michigan's unemployment insurance rules require that workers must be available for and seek full-time work, regardless of their work history or the validity of their reasons for desiring part-time work. Lower-wage and female workers caring for children disproportionately fall into the ranks of part-time workers.
- Approximately 20 percent of all employment in Michigan is part-time. During periods of economic decline the percentage of part-time work tends to increase and hours of work decline as employers seek ways to cut wage and salary costs.

Michigan's unemployment insurance system does not provide adequate safety net protection for laid off workers.

- Since 1995 when Michigan last changed its unemployment insurance system, workers and their families have lost a total of \$786 million in benefits, while employers have received over \$1

billion through tax cuts – all during a time of unprecedented economic growth and prosperity.

- The maximum unemployment benefit in Michigan has been frozen at \$300 since January 1996.
- The maximum unemployment benefit ranks Michigan the lowest among Midwest states. (Illinois, \$417; Indiana, \$312; Minnesota, \$427; Ohio, \$407; Wisconsin, \$313).
- If the maximum unemployment benefit had been indexed to inflation it would now be \$415.
- The maximum unemployment benefit in Michigan, as a percent of the poverty level for a family of four, has fallen from 100 percent of the poverty level in 1996 to 12 percent below the poverty level in 2001.
- In the second quarter of 2001, the average weekly UI benefit was only \$262, This amount replaced only 37 percent of Michigan's average weekly wage of \$710, ranking Michigan 31 out of the 53 U.S. jurisdictions with UI programs (all states, plus Washington, D.C., Puerto Rico, and Virgin Islands) in terms of wage replacement.
- The average weekly unemployment benefit is 23 percent below the poverty level for a family of four.

Michigan can afford to repair its unemployment insurance system.

- Michigan's average unemployment taxes have fallen from \$446 per employee in 1994 to \$237 in 2001.
- The taxable wage base for UI has been frozen at \$9,500 since 1986, a period during which the average weekly wage in Michigan almost doubled (from \$434 to \$714)
- Employer contributions declined from more than 1.3% of total wages in covered private employment in the early 1990s to less than .75% in 2000.

Repairing Michigan's unemployment insurance system is sound fiscal policy

- A 1999 study of the six most recent recessions commissioned by the U.S. Department of Labor found that UI had reduced the depth of recessions by an estimated 15 percent and that every \$1 of

UI benefits increased gross domestic product by \$2.15.

- The Federal Reserve Board research recognizes that unemployment insurance serves as an automatic stabilizer for the nation's economy, with accumulated payroll taxes flowing into the economy immediately as layoffs take place.
- Unemployed workers who cannot qualify for unemployment insurance benefits are forced to turn to the welfare system in order to meet the basic needs of their families. This shifts the costs of unemployment from the counter-cyclical UI fund (accumulated during good economic times) to general revenues that have to be acquired when the economy is weak, often forcing hard choices between tax increases or cuts to other government services.
- Michigan's unemployment trust fund balance exceeds \$2.8 billion, an amount that is far smaller than it would be if employer contribution levels had been maintained throughout the economically prosperous 1990s.

Michigan's unemployment insurance system can become more responsive to the needs of workers and their families in today's economy.

- Restructure benefit levels so unemployment insurance benefits are a more substantial replacement of wages, thereby protecting vulnerable families and children from significant hardship during times of unemployment.
- Expand eligibility to cover part-time workers with both child-raising and income earning responsibilities (single parents and low/moderate income two-parent families in which one or both parents work part-time).
- Expand eligibility to cover workers who experience frequent periods of unemployment due to employment in industries that are seasonal and/or employ large numbers of temporary workers.

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