

Part 3 of 6

THE SAFETY NET FOR UNEMPLOYED AMERICANS IS INADEQUATE

LAUREN DAMME, NEXT SOCIAL CONTRACT INITIATIVE

VALUABLE RESEARCH ASSISTANCE FOR THIS SERIES PROVIDED BY BENJAMIN KOLANSKY

OCTOBER 2010

The Great Recession has exposed numerous flaws in our social contract – weaknesses that existed prior to the economic downturn – highlighting the need for changes in our system. This series of policy briefs explores the stresses on our social contract, and the policy changes that must be made to mend it. The six-part series includes:

- Overview: The Great Recession exposes weaknesses in the American social contract
- Economic security policies are too closely tied to employment
- The safety net for unemployed Americans is inadequate
- Problems with a state-based social welfare system
- The regressive delivery of social welfare benefits in the U.S.
- The ownership society is vulnerable during downturns: Pensions and home ownership



Introduction

Last week, we showed how the close links between employment and many social support mechanisms reduce Americans' security when they need it most: during periods of unemployment. This week, we examine the adequacy of the basic American safety net for the unemployed – Unemployment Insurance.

Low-income, Part-time Workers Left Behind

Unemployment Insurance (UI) has huge holes through which low-income and part-time workers are most likely to fall. Thresholds for minimum earnings and minimum prior work periods exclude low-income workers, many of whom have irregular hours or work on an ad-hoc basis. Prior to the American Recovery and Reinvestment Act (ARRA), 31 states only considered wages earned from the first four of the last five calendar quarters in calculating UI eligibility, which does not include a worker's most recent work history.¹ In addition, 30 states outright denied part-time workers UI coverage. The wage floor and full-time work requirements effectively excluded almost all part-time and low-income earners with irregular or seasonal hours. As a result, in 2007 the GAO found that, of unemployed workers who had worked for at least 35 weeks in the past year, less than a third of part-time workers received UI benefits versus a receipt rate of 50 percent for full-time workers.²

The situation of low-income and part-time workers has changed somewhat with the passage of the Unemployment Insurance Modernization Act (UIMA) in ARRA last year. The Act has provided \$7 billion in financial incentives for states to broaden their UI qualifications to include more low income and part-time workers.

To qualify for one third of the funding, states must qualify the unemployed based upon an “alternative base period,” which includes a worker's most recent earnings in their UI calculation. Fully 39 states have enacted alternative base period reforms. The National Employment Law Project estimates that this will extend coverage to over 40 percent of workers earning an average of \$9.00/hour who had previously been ineligible based upon earnings.

In order to qualify for the other two-thirds of UIMA funding, states must provide UI to workers in at least two of the following four situations:

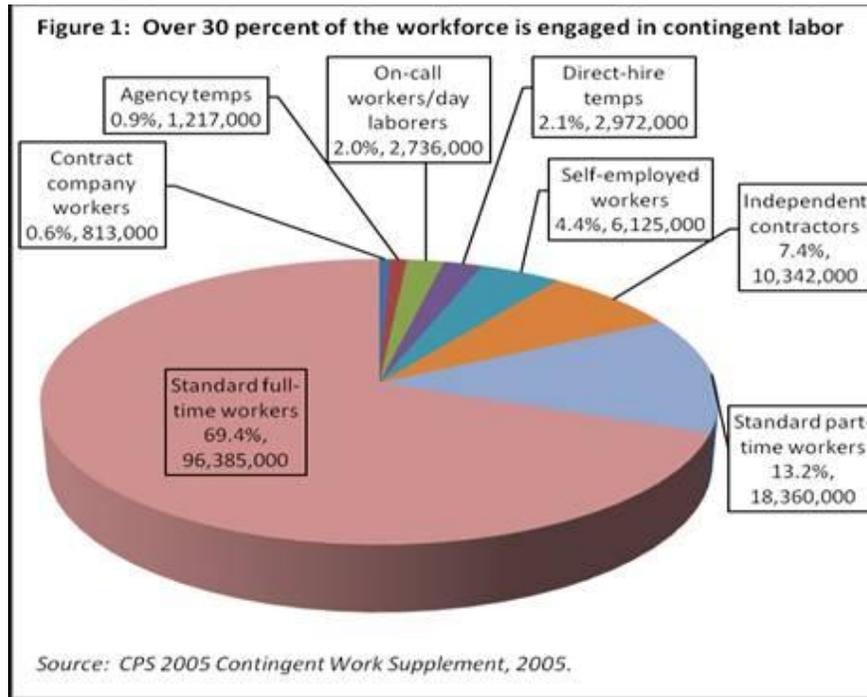
- 1) Part-time workers who are not seeking full-time work (28 states have enacted);
- 2) Individuals who have left work for family reasons, including domestic violence (32 states have enacted), spousal relocation (26 states have enacted), and illness and disability (24 states have enacted);
- 3) Workers with dependent family members who need assistance to help care for dependents (8 states have enacted);
- 4) Laid-off workers who need extended UI benefits to participate in training, up to an additional 26 weeks (16 states have enacted).³

In total, as of September 2010, 32 states have qualified for full UIMA funds by fulfilling the requirements above, and in total, 39 states are eligible for \$4.3 billion in funds. Eighteen states have until August 22, 2011 to qualify for the remaining \$2.7 billion available UIMA funds. The UIMA is estimated to have broadened eligibility to 200,000 workers each year, although states may repeal this legislation after the incentive program ends in August 2011.⁴

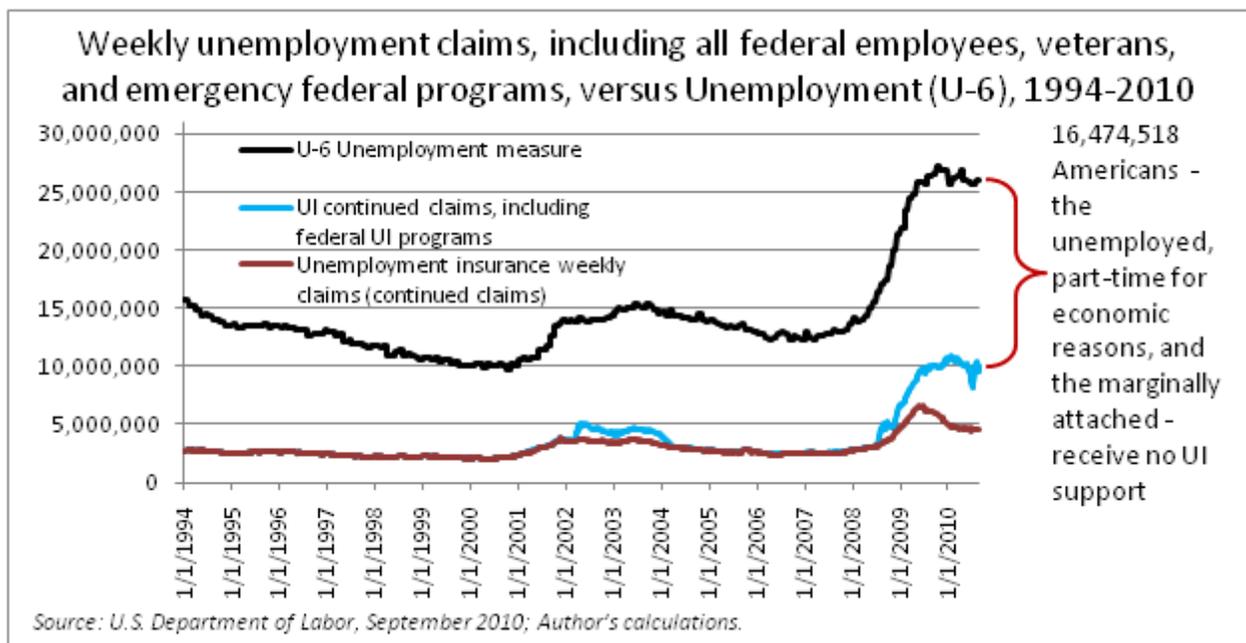
“Contingent” Workers

For the most part, only workers classified as ‘employees’ are covered by the Federal Unemployment Tax Act, and as of 2005, 31 percent of the American workforce was classified as “contingent.”⁵ In addition to standard part-time workers, the term “contingent worker” includes agency temporary workers (temps), direct-hire temps, on-call workers, day laborers, contract company workers, independent contractors, and self-employed workers. If the percentage of the workforce classified as

contingent has remained the same in the wake of the Great Recession, there may be 47.7 million contingent workers in 2010, including some full-time workers, many of whom are ineligible for UI as well as a host of other employer-sponsored benefits.⁶



As a result of this exclusion, there is a massive gap between the number of unemployed receiving UI benefits and the total number of Americans who are under- or unemployed, including those marginally attached to the workforce and those employed part-time because they cannot find full-time work. As shown below, only 17.5 percent of the under- and unemployed are receiving Unemployment Insurance payments through regular state UI programs, although the number rises to 36.9 percent when emergency unemployment compensation (EUCo8) and federal-state extended benefits are included.⁷



Under-employed Workers

Although the impacts of the Great Recession upon the contingent workforce are not known, as the Bureau of Labor Statistics Current Population Survey stopped tracking them in 2005, we do know that the number of workers who are unwillingly part-time instead of full-time, known as ‘part-time for economic reasons,’ has risen dramatically during the Great Recession, hitting a high of 9.24 million in October 2009, and remaining at 8.86 million as of August 2010.⁸ This means that more Americans than ever are vulnerable to exclusion from UI.



Conclusion

Unemployment insurance is a vital lifeline for unemployed Americans. In the context of decades of wage stagnation, unacceptably high long-term unemployment, a housing price collapse and an ever-more-indebted middle class, insufficient benefits coverage from a weak unemployment insurance safety net can only compound the economic and psychological impacts of unemployment on American families.⁹

Part-time and low-income workers are among the most likely to experience unemployment but have the least savings to get them through difficult times. These workers should not be excluded from participation in our most basic social safety net: Unemployment Insurance. Although UIMA has incentivized many states to broaden eligibility for UI, it has not gone far enough. Many contingent workers are still excluded, and the changes may be temporary in any case, as states are not required to maintain the reforms after federal assistance expires in August 2011. In order to avoid the negative, long-term impacts of unemployment on the American workforce¹⁰, eligibility for UI should be further and permanently broadened to smooth workers' transitions to re-employment.

¹ National Employment Law Project. Question and Answer: The Unemployment Insurance Modernization Act: Filling the gaps in the unemployment safety net while stimulating the economy. February 17, 2009, *and* National Employment Law Project. Recovery Act's Unemployment Insurance modernization incentives produce bipartisan state reforms in eight states in 2010. September 3, 2010.

² Government Accountability Office. Unemployment Insurance: low-wage and part-time workers continue to experience low rates of receipt. September 2007. GAO-07-1147.

³ National Employment Law Project. Recovery Act's Unemployment Insurance modernization incentives produce bipartisan state reforms in eight states in 2010. September 3, 2010.

⁴ Ibid.

⁵ Government Accountability Office. Employment Arrangements: improved outreach could help ensure proper work classification. July 2006. GAO-06-656. In May 2010 there were about 154 million people in the workforce.

Bureau of Labor Statistics. Labor Force Statistics from the Current Population Survey. Series No.: LNS11000000. June 2010.

⁶ This may be an underestimation based upon the increase in part-time workers since the Great Recession began. Government Accountability Office. Employment Arrangements: improved outreach could help ensure proper work classification. July 2006. GAO-06-656.

In May 2010 there were about 154 million people in the workforce. Bureau of Labor Statistics. Labor Force Statistics from the Current Population Survey. Series No.: LNS11000000. June 2010.

⁷ U.S. Department of Labor. Emergency Unemployment Compensation 2008 (EUC08) and Federal-State Extended Benefit (EB) Summary data for State Programs. October 2010.

⁸ Bureau of Labor Statistics. (Seas) Employment Level - Part-Time for Economic Reasons, All Industries. Series No.: LNS12032194. September 2010.

⁹ For a compilation of research on the topic of unemployment and mental health, see: Institute for Work and Health. Issue Briefing. August 2009.

¹⁰ Arulampalam, W., Gregg, P. & M. Gregory. Unemployment Scarring. The Economic Journal. 111. November 2001. F577-F584.



© 2009 New America Foundation

This report carries a Creative Commons license, which permits re-use of New America content when proper attribution is provided. This means you are free to copy, display and distribute New America's work, or include our content in derivative works, under the following conditions:

Attribution. You must clearly attribute the work to the New America Foundation, and provide a link back to www.Newamerica.net.

Noncommercial. You may not use this work for commercial purposes without explicit prior permission from New America.

Share Alike. If you alter, transform, or build upon this work, you may distribute the resulting work only under a license identical to this one.

For the full legal code of this Creative commons license, please visit www.creativecommons.org. If you have any questions about citing or reusing New America content, please contact us.

MAIN OFFICE
1899 L Street, NW
Suite 400
Washington, DC 20036
Phone 202 986 2700
Fax 202 986 3696

CALIFORNIA OFFICE
921 11th Street
Suite 901
Sacramento, CA 95814
Phone 916 448 5189



WWW.NEWAMERICA.NET