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Unemployment Insurance Modernization Act: The Heritage Foundation 2009 Labor Boot Camp

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What Does Unemployment Insurance Modernization Act (UIMA) Do?

- It extends the 0.2 percentage point FUTA payroll tax until 2012.
- It provides $7 billion in federal incentive payments over five years to states that make certain changes to their unemployment insurance (UI) systems.
- One-third of the incentive payments would go to states that modify the base period used to calculate eligibility for UI benefits to include the most recently finished calendar quarter.
- Two-thirds of the incentive payments would go to states that permitted at least two of the following three types of workers to collect UI benefits:
  1. Part-time workers;
  2. Workers who leave their jobs for compelling family reasons, defined as:
     - Illness or disability of a family member;
     - Moving to accompany a spouse who moved after a job change;
     - Domestic violence.
  3. Workers in a "declining" occupation who have exhausted their regular UI benefits but are in an approved job-training program for a "high-demand" occupation.

Policy Concerns

- Current law provides unemployment insurance to protect workers against the risk of unexpectedly losing their jobs and stabilizes their income for several months while they look for new work.
- Unemployment insurance is not an unemployment benefit paid for not working but insures workers against an unexpected event outside their control, much like home insurance protects against a fire.
- Workers who voluntarily leave their job do not qualify for unemployment insurance because the decision to leave employment was theirs. The government does not want to subsidize unemployment, just as an insurance company would not pay a claim for a home deliberately burned down.
- UIMA shifts UI toward a more general unemployment benefit. Workers have the choice of seeking part-time or full-time employment. Families decide together whether a spouse will move to take a new job. UIMA shifts the UI system from one that protects workers from the risk of unemployment toward one that pays workers who are unemployed.
- UIMA encourages states to generously expand their UI systems but provides funding for only a portion of the added costs. $7 billion over five

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years covers only a fraction of the added costs of the expanded UI benefits necessary to receive the incentive payments.

- Many state UI systems are underfunded as unemployment claims have risen during the downturn. The Department of Labor recommends that states maintain a balance of at least one year's worth of benefits in recessions. Nineteen states currently have reserves of less than one year. Indiana, Michigan, and South Carolina have already exhausted their trust funds and are borrowing from the federal government.
- States should not be encouraged to take actions that would further drain their UI trust funds when many of those funds are currently underfunded.
- The legislation provides incentive payments to states that provide UI benefits to workers who leave work to care for ill family members.
- Any illness, no matter how trivial, would qualify for UI payments under this legislation. A worker could get UI payments for leaving his job to care for a spouse who has the flu.
- Lax qualifying provisions would encourage abuse.

Economic Effects

- Additional UI benefits are frequently claimed to provide significant economic stimulus.
- The studies that come to this conclusion ignore the effect of UI benefits in raising unemployment and incorrectly assume that unemployed households spend every dollar of UI benefits they receive. Empirical studies contradict both of these assumptions.
- Heritage Foundation macroeconomic modeling accounting for both these factors show that for each dollar spent extending UI benefits to 46 weeks, GDP expands in the first year by just $0.17. Almost any other use of resources would provide a greater short term boost to the economy.[1]
- The consequences of extended unemployment benefits are some of the most conclusively established results in labor economic research. Extending either the amount or the duration of UI benefits increases the length of time that workers remain unemployed.[2]

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1. James Sherk and Karen Campbell, Ph.D., "Extended Unemployment Insurance—No Economic Stimulus," Heritage Foundation *Center for Data Analysis Report* No. 08-13, November 18, 2008, at *http://www.heritage.org/Research/Economy/cda08-13.cfm.*
2. *Ibid.*; James Sherk and Patrick Tyrrell, "Unemployment Insurance Does Not Stimulate the Economy," Heritage Foundation *WebMemo* No. 1777, January 18, 2008, at *http://www.heritage.org/Research/Economy/wm1777.cfm.*