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LAST CHANCE FOR TEXAS TO COLLECT \$555 MILLION TO REDUCE EMPLOYER UI TAXES

Texas has until August 2011 to collect \$555 million in federal funds to reduce employer UI taxes. To draw down the money, the state need only make three common-sense policy changes that would save jobs, increase economic activity, and stabilize employer tax rates in 2012 and 2013. To date, 39 states have been approved for \$3.4 billion in U.S. Department of Labor incentive payments. This policy page outlines the modest steps Texas must take to help both employers and employees.

UI Modernization Is Right for Texas:

Employers

- Minimizes employer tax increases
- UI training activities improve overall productivity of the workforce

Employees

- Addresses the needs of today's workforce to balance family and work
- Benefits low-wage workers and recent entrants to the labor force
- Benefits women who are more likely to work part-time
- Provides additional protections for survivors of domestic violence

Economy

- Keeps workers out of poverty and limits additional demand on social services (CHIP, Medicaid, TANF)
- Every \$1 invested in UI, generates \$2 in consumer spending

Texas's Unemployment Insurance Covers Only a Fraction of Unemployed Texans

During the Great Recession, the Texas unemployment rate doubled, now exceeding 8 percent for the past 17 consecutive months.¹ Currently, about 1 million Texans are unemployed. However, only a fraction of jobless Texans currently get state UI benefits, as many outdated barriers prevent wage-earning Texans from qualifying for benefits even though state businesses paid for UI coverage. As the table below demonstrates, Texas ranks near the bottom for the rate of UI coverage for unemployed workers compared to other states.

Texas Unemployment Insurance Coverage Low Compared to Other States						
	TX	AK	OK	NM	LA	U.S.
Unemployment Rate	8.2%	7.6%	6.9%	8.3%	7.2%	9.7%
UI Reciprocity Rate (% of jobless getting benefits)	24%	46%	31%	34%	39%	32%
UI Reciprocity Rate (Rank)	46 th	7 th	29 th	24 th	17 th	N/A

Source: Texas Workforce Commission, Labor Market and Career Information Tracer, Local Area Unemployment Statistics; and U.S. Department of Labor UI Data Summary, 3rd Quarter 2010

How Can Texas Qualify For Modernization Funding?

Texas policymakers need only:

- **Adopt the Alternative Base Period (ABP) to collect the first one-third of funding, \$185 million.** The ABP allows a worker to use their most recent earnings to determine eligibility.

Plus: adopt any two of the following provisions to draw down the remaining two-thirds of funding, \$370 million.

- **Provide flexibility in the full-time work search rule** to allow those working part-time to qualify for part-time UI benefits;
- **Broaden compelling reasons for leaving work (e.g. domestic violence victims)** to ensure that workers have some income protection upon family crises or disruptions;
- **Extend additional weeks of benefits for approved training in high demand occupations;** or
- **Allow a \$15 additional weekly dependent allowance for UI claimants.**

Unemployment Insurance as an Economic Stabilizer

The Texas Unemployment Insurance (UI) system is a critical public structure built by Texans to stimulate the economy and to provide a financial cushion to families and communities during tough economic times. UI is an employer-paid insurance program that gives Texans a temporary financial bridge – if they lose their jobs through no fault of their own – while they look for a new job.

UI keeps the Texas economy moving by allowing families to continue to pay their bills. For every dollar spent on UI, approximately \$2.00 is generated in consumer spending.² This spending supports Texas businesses, averting additional job losses and creating more jobs. As the table below demonstrates, UI payments generated \$11.8 billion in economic activity in the state during 2009 and \$13.2 billion in 2010.³

Economic Impact of Unemployment Insurance Payments in Texas				
	2009		2010	
	UI Benefit Outlays	Economic Impact	UI Benefit Outlays	Economic Impact
Regular UI	\$3.9B	\$7.8B	\$2.9B	\$5.8B
Emergency Unemployment Compensation	\$1.8B	\$3.5B	\$3.1B	\$6.3B
Extended Benefits	\$269.3M	\$538.6M	\$572.2M	\$1.1M
Total	\$5.9B	\$11.8B	\$6.6B	\$13.2B

Source: CPPP Analysis, Texas Workforce Commission, Unemployment Compensation Trust Fund Projection for October 1, 2011, February 10, 2011 and TWC Records Request, February 22, 2011. Economic multiplier is estimated at \$2 for this analysis.

UI Modernization Package Benefits Texas Employers through 2020 . . . and Beyond

Recent data from other states with the new eligibility system indicates that cost estimates for Texas UI Modernization may be overstated. Current cost-benefit data for two states—Idaho and Nevada—show that increased costs for adopting the alternate base period are nominal. Initial claims under the alternate base period (ABP) increased by 1.53 percent in Idaho, and by 1.4 percent in Nevada.⁴ Total benefit outlays in these two states increased marginally by 0.67 percent for Idaho, and 0.68 percent for Nevada.⁵

An analysis of UI filers in Texas during 2009, demonstrates that the incentive payment for adopting the ABP (\$185 million) would have fully covered the estimated impact of the ABP on UI filers in Texas.

Impact of the Alternate Base Period on Texas's UI Outlays for 2009	
Number of UI Filers	1,035,666
Number of UI Claimants	817,584
Number of UI Denials	4,194
Number of Newly Eligible Filers Under ABP	4,782*
Percent of all Denials Newly Eligible	2.19%
Percent Increase in Total Number of Claimants	0.58%
Estimated First Year Cost and Percent of Increased Outlays	\$22.4 million, 0.64%**
Amount of Incentive Payment for Adopting ABP	\$185 million (1 st one-third of funds)
Estimated First Year Cost and Percent of Increased Outlays due to ABP (LBB)	\$43.8 million, 1.26%**
<p>Source: CPPP Analysis, Ray Marshall Center for the Study of Human Resources Analysis of Texas Workforce Commission, Microwage Data; and Legislative Budget Board, Fiscal Note, 81st Legislative Session, "In Re: SB1569 By Eltife (relating to unemployment compensation modernization), Committee Report 2nd House, Substituted.</p> <p>* This analysis includes only the population of unemployed workers who filed UI claims in 2009 and does not estimate the number of new filers that may be brought into the system.</p> <p>**The percent increase in outlays is based on regular UI payouts for the 12 month period ending in September 2009 per the Department of Labor's UI Data Summary for the third quarter of 2009 (\$3,482,457,000).</p>	

Based upon this analysis, as well as the recent experience of other states, the Texas Workforce Commission and the Legislative Budget Board should revisit ABP and part-time cost estimates from the 81st Legislature (SB 1569), which may be twice as high.

UI Modernization Could Provide Rate Relief for Employers

A sensible UI modernization package would strengthen Texas businesses by covering the cost of increased benefits through 2020 and beyond. This infusion of funds will keep tax rates lower during a time when the economy still struggles to create enough good jobs, and employers are facing higher rates due to fund insolvency and debt financing.

UI Modernization Sweeps the Country

To date, 32 states, including Oklahoma, New Mexico, and Arkansas have made the necessary eligibility changes to collect their full share of federal incentive payments.⁶ Seven states currently qualify for a third of their incentive

payment through adoption of the alternate base period.⁷ Texas is among 9 states that have introduced UI modernization legislation this legislative cycle.⁸

During the 81st legislative session, the Texas Senate passed CSSB 1569 (Eltife – R, Tyler) by a 19-11 margin with key UI modernization reforms necessary to bring federal funds to the state, including provisions advocated and embraced by the business community. Unfortunately, the bill never received a final floor vote in the House.

For Additional Analysis on Modernizing Texas’s Unemployment Insurance Eligibility Rules, see:

http://www.cppp.org/files/3/Senate%20Finance%20Testimony_UI_Feb09

http://www.cppp.org/files/2/419r_Labor_Day.pdf

¹ Based on unemployment data, the Texas unemployment rate reached 8 percent in August 2009 and has remained above 8 percent through December 2010, the most recent data available on the state unemployment rate.

² U.S. Department of Labor, “U.S. Labor Department study underscores positive impact of unemployment insurance,” Press Release, November 16, 2010. Note: The estimated economic activity generated by each dollar invested in unemployment insurance benefits varies by source, with Mark Zandi’s estimate at \$1.61, the CBO at \$1.90 and \$2.66 by M. Ray Perryman. The most recent estimate of the impact of UI comes from a study by the U.S. Labor Department at \$2.00 for every \$1 invested. We use the DOL estimate for our calculation of the effects on GDP in Texas.

³ CPPP calculations, Texas Workforce Commission, CPPP Analysis, Texas Workforce Commission, Unemployment Compensation Trust Fund Projection for October 1, 2011, February 10, 2011 and TWC Records Request, February 22, 2011. Economic multiplier is estimated at \$2 for this analysis.

⁴ U.S. Department of Labor (DOL), Office of Unemployment Insurance, “Taking Advantage of the Last Chance to Modernize Unemployment Insurance with Recovery Act Incentive Funds,” Presentation for the National Employment Law Center Webinar, February 11, 2011.

⁵ Ibid.

⁶ Ibid.

⁷ Ibid.

⁸ Ibid. Note: Legislative sessions will begin later this year in three other states— Alabama, Florida, and Louisiana.