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FOR RELEASE 10 A.M. CST, TUESDAY, MARCH 12, 2002 — NOTE EMBARGO

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Out of Work, Out of Luck

National Report Card on Unemployment Insurance Gives Iowa Dismal Grades

MOUNT VERNON, Iowa (March 12, 2002) – In Iowa, and in the nation, the recent economic downturn has thrown new light on the unevenness and inadequacy of the unemployment insurance system, according to a report released today.

A new joint report from the Economic Policy Institute, the Center on Budget and Policy Priorities, and the National Employment Law Project highlights the key weaknesses of state unemployment insurance systems, and grades the states for their willingness and ability to support workers and their families through periods of unemployment or underemployment.

Unemployment insurance systems are run by the states, and their characteristics vary considerably across the country. In turn, as workers (and their employers) can attest, state unemployment insurance systems are complex — involving arcane and often seemingly arbitrary means of calculating “base period” employment, covered wages, benefit levels, benefit periods and payroll tax rates, according to the report. The report card addresses two key questions:

- How does Iowa’s unemployment insurance system accomplish its basic goals (protecting workers and their families from temporary gaps in employment or economic downturns)?
- How does Iowa’s unemployment insurance system rank against “the rest of the class,” or other state unemployment insurance systems?

In “Failing the Unemployed: A State-by-State Evaluation of Unemployment Insurance Systems,” the researchers found that Iowa was one of 28 states that squeaked out a passing grade. Among the five areas reviewed, Iowa was found deficient in eligibility and recession preparedness, and received passing grades in benefit levels, tax funding and trust fund solvency (*see Iowa report card, attached*).

“We received an overall passing grade on the national rankings, but this is not a report card I would take home to my mother,” said Colin Gordon of the Iowa Policy Project. “Laid-off Iowans and their families count on the state to cushion the shock of an economic downturn, but find instead that — given narrow eligibility guidelines and meager benefits — it can be a pretty rough landing.”

The report card judges the Iowa unemployment insurance system in five core areas. Even in the most generous states, as “Failing the Unemployed” stresses:

- Many workers are unable to qualify for benefits.
- The average benefit amount rarely keeps a family from falling into poverty.
- Benefits often run out long before firms begin to re-hire workers.
- Many states have not adopted provisions necessary to weather an economic downturn.

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“We present this report card, in other words, with the unhappy admission that none of the states did very well on this test,” Gordon said. “In those areas where Iowa earns a failing grade, it invariably has lots of company. In those areas where Iowa passes, it invariably scrapes by with a marginal grade.”

A co-author of the new report, Jeffrey Wenger of the Economic Policy Institute, said that unemployment insurance in most states “isn’t a true safety net, but a series of gaping holes loosely strung together.”

“For most people, the help they get from unemployment insurance benefits is not nearly enough to get them through the crisis – and many people are slipping through the holes entirely, with nothing to break their fall,” Wenger said.

The rising number of unemployed and the growing duration of their unemployment mean that even more people are on the verge of having to go it alone, without even the minimal help provided by most unemployment insurance systems. The report notes that the number of people who have exhausted their unemployment insurance benefits has risen sharply and will continue to rise during the coming months, underscoring the need for legislative action to extend those benefits.

“As paltry as unemployment insurance benefits are, they can still spell the crucial difference between hardship and disaster for many unemployed workers,” said Wendell Primus, from the Center on Budget and Policy Priorities. “Action is needed by the states and by the federal government to help see unemployed workers through these hard times.”

The report notes that unless the states or Congress extend benefits, about 2 million unemployed workers will exhaust their benefits by the middle of this year. So far this year, 81,000 unemployed workers on average have exhausted their benefits per week. Between September 11 and the end of last year, 6,500 Iowans exhausted their benefits, and another 14,550 are projected to join them in the first half of 2002. Meanwhile, unemployment has continued to climb.

“States are not doing enough to provide enough help to the unemployed,” said Maurice Emsellem of the National Employment Law Project, “but the good news is they have the resources to do much better. It should now be a priority to get real help to more of the people who need it.”

The report recommends several policy changes to address the most urgent needs:

- States should modify their programs to extend benefits automatically in periods of rising unemployment or other unusual circumstances.
- Benefit amounts should be restructured progressively in order to provide a stronger safety net, especially for low-wage and part-time workers.
- Eligibility rules should be modified to make unemployment insurance more broadly available to groups that tend to be excluded under the current rules, e.g., part-time workers and low-wage workers.
- Congress should immediately pass an extension to provide continued benefits to those whose benefits have or are near to running out.

The Iowa Policy Project is a nonprofit, nonpartisan organization that was founded in the summer of 2000 to produce and disseminate research on a broad set of issues of importance to Iowans. The IPP engages scholars at Iowa’s public and private colleges and universities to produce sound, independent research.

All Iowa Policy Project reports are available on the web at www.iowapolicyproject.org.

Iowa's Unemployment Insurance Report Card

Eligibility: Iowa Grade “Fail”

Comments: There are three key elements in determining eligibility: the definition of a “base period” of covered employment, the wages earned during that base period, and the availability for work. Iowa ranks relatively well on the last two of these: It is one of 20 states which classifies those seeking part-time work as “available for work” and it is in the majority of states (43) in which a minimum wage worker, working 20 hours/week for a full year, meets the wage threshold for eligibility. But, like most states (39), Iowa does not allow workers to count their most recent employment history in determining eligibility or benefits.

Benefits: Iowa Grade “Pass”

Comments: Nationally, unemployment insurance replaces about 47 percent of an unemployed worker’s wages. Iowa, one of 34 states to index benefits to average state earnings, replaces about 53 percent of wages. Iowa is one of 41 states in which weekly benefits are sufficient to keep a single parent with two dependents out of poverty, but just barely: the *maximum* weekly benefit is only \$9.00 above the poverty level.

Taxation: Iowa Grade “Pass”

Comments: Among its peers, the tax basis for Iowa’s unemployment system is fairly progressive and equitable. The taxable wage base of \$18,600 is quite high (many states use the minimum wage base of \$7,000 mandated by the federal government, and the national average is just over \$10,000) and it is indexed to actual wages (a practice followed by 19 states). What all of this means, in practical terms, is that the burden of paying for unemployment insurance in Iowa does not fall as heavily on low-wage workers or small firms as it does in other states.

Funding: Iowa Grade “Pass”

Comments: Iowa has not been quite as aggressive as some other states in cutting payroll taxes in recent years and, despite our recent budgetary woes, Iowa’s unemployment insurance trust fund is in good shape — boasting reserves sufficient to pay benefits for a little over a year without any new revenues. It is important to note, however, that most of the states in this position have maintained solvency not by adequate taxation or prudent management, but by restricting benefits. As a rule, the most solvent states are also the least generous.

Recession Preparedness: Iowa Grade “Fail”

Comments: Solvency is one thing, recession preparedness is quite another. While there are some federal provisions for extended benefits during recessions, they are (as in the current climate) undependable and slow to kick in. States can fill in the gap by adopting a “trigger” which taps the federal extended benefit program when the state unemployment rate exceeds a certain threshold, by funding their own extended benefits, or by eliminating the “waiting week” for new claims. Iowa is one of 34 states failing on this score, having only put in place the “waiting week” waiver.
