

**NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES (NASWA)
STATEMENT ON THE UNEMPLOYMENT INSURANCE MODERNIZATION ACT
AND THE WORKER EMPOWERMENT ACT**

**SUBMITTED BY ROOSEVELT (TED) HALLEY
NASWA PRESIDENT AND EXECUTIVE DIRECTOR OF THE SOUTH CAROLINA
EMPLOYMENT SECURITY COMMISSION**

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**TO THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON INCOME SECURITY AND FAMILY SUPPORT**

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to comment on the Unemployment Insurance Modernization Act (UIMA) and the Worker Empowerment Act (WEA). The National Association of State Workforce Agencies (NASWA) respectfully submits this testimony for the record.

The mission of NASWA is to serve as an advocate for state workforce programs and policies, a liaison to federal workforce system partners, and a forum for the exchange of information and practices. Our organization was founded in 1937. Since 1973, it has been a private, non-profit corporation financed by annual dues from member state agencies. NASWA members are the administrators of the Unemployment Insurance (UI) and Employment Service (ES) programs, labor market information, and other workforce investment programs.

**SUMMARY OF THE UNEMPLOYMENT INSURANCE MODERNIZATION ACT
(UIMA) AND WORKER EMPOWERMENT ACT (WEA)**

To facilitate our comments on the Unemployment Insurance Modernization Act (UIMA) and Worker Empowerment Act (WEA), we summarize their key provisions below:

Unemployment Insurance Modernization Act

The Unemployment Insurance Modernization Act (UIMA) would:

- Extend the 0.2 percentage point FUTA surtax for five years through 2012.
- Provide up to \$7 billion in special Reed Act distributions from the Federal Unemployment Account for UI Modernization Incentives to be distributed between 2008 and 2012 to states meeting specific criteria related to their UI programs and proportionate to FUTA taxes paid in each state.

- One-third of the \$7 billion or about \$2.33 billion would be available for distribution to states that include wages in the last completed calendar quarter when determining eligibility or after an initial determination of ineligibility.
- Two-thirds of the \$7 billion or \$4.67 billion would be available for distribution to states that include wages in the last completed calendar quarter when determining eligibility or after an initial determination of ineligibility and state law meets at least two of the following three conditions:
 - The state does not deny UI eligibility because the claimant is seeking part-time work (State law may limit the application of this provision to former part-time workers.).
 - The state includes in the definition of good cause for voluntary leaving employment for compelling family reasons to include at least: (1) avoiding domestic violence; (2) caring for a sick disabled family member and (3) following a spouse whose employment was relocated to a different locality.
 - The state provides training assistance to claimants' at the regular weekly benefit amounts for at least 26 weeks who: (1) have been dislocated from a declining occupation; (2) have exhausted regular UI benefits; (3) are in a state-approved training program related to a high-demand occupation; and (4) are making satisfactory progress in such program.
- Provide \$100 billion per year in special Reed Act distributions to states for 2008 through 2012 for covering the additional administrative costs of UI modernization and other improvements in administration of UI and employment services.

Worker Empowerment Act (WEA)

The Worker Empowerment Act (WEA) would establish a national wage insurance program to supplement the earnings of dislocated workers who become reemployed in lower-paying jobs. It has the following features:

- Workers would be eligible for wage insurance if they worked for at least two years in their previous job and lost employment through no fault of their own.
- Workers may not go to work with their former employers, must work a similar number of hours to that in their previous jobs, and must not earn more than \$100,000.
- Replace half of a worker's lost wages compared to prior employment for two years up to a total of \$10,000 per year.
- The program would be financed by a 0.1 percent tax on each employee's wages up to the taxable wage base in the Social Security program, which is currently just over \$94,000.

CURRENT NASWA POLICY

Before commenting on the bills Chairman McDermott has drafted, we would like to set the stage by summarizing relevant current NASWA policy. These policies were developed before Chairman McDermott drafted his bills, but they have bearing on our comments. The following policies influence NASWA's reaction to these draft bills.

- Consistent with the National Governors Association (NGA) policy, NASWA opposes the extension of the Federal Unemployment Tax Act 0.2 percentage point surtax beyond 2007 as unnecessary to fund the current "employment security" system. The term "employment security system" is effectively defined by the Social Security Act and the Federal Unemployment Tax Act as UI, ES, and labor market information. A more general term used today is the "workforce development system," which includes the employment security system and other programs, such as those operating within the one-stop career centers.
- Consistent with NGA policy, NASWA supports reducing the ceiling on the Federal Unemployment Account (FUA) to 0.125 percent of covered wages paid in the last year, the ceiling that existed before 1988. This would fund fully the Extended Unemployment Compensation Account (EUCA) and cause an estimated \$8 billion Reed Act distribution to the States if effective on October 1, 2007.
- NASWA supports current Reed Act provisions, which allow states to spend Reed Act funds on UI benefits, UI administration, employment services, and labor market information.
- NASWA supports Reed Act distributions of \$800 million in each of the next two fiscal years to fund the proper and efficient administration and services of the "employment security system."
- NASWA supports a strong linkage between the unemployment insurance program and the Employment Service, both of which are funded by employer-paid FUTA taxes. These resources must continue to be made available to ensure UI claimants are provided with essential reemployment services and to provide for basic labor exchange activities within the states' workforce development systems. Further, the manner and extent to which these resources are integrated within a state's workforce development system and one-stop structure should be decided at the state level to ensure that they are effectively used in addressing the UI and employment service program needs on a statewide basis.
- NASWA supports appropriation of sufficient funds from the federal unemployment tax revenue to ensure every state will receive a minimum of 50 percent of the Federal Unemployment taxes paid each year by its employers. States currently granted more than 50 percent of federal unemployment taxes paid annually by their employers under current federal grant allocation methods should be held harmless.

COMMENTS ON THE UNEMPLOYMENT INSURANCE MODERNIZATION ACT (UIMA)

NASWA has long opposed another extension of the FUTA 0.2 percentage point surtax. This additional revenue is not needed to fund the “employment security system” fully. We understand the Administration and many Members of Congress propose to extend this tax to help make the federal budget deficit appear smaller and/or to meet pay-as-you-go requirements for funding new spending. Because it is one of the “easy” tax extenders Congress can pass, Congress often has included it in deficit reduction packages or in packages to finance new spending. NASWA believes other taxes should be used for these purposes.

Some have suggested Congress will pass the extension of the 0.2 percentage point FUTA surtax regardless of whether Congress also passes Reed Act distributions for state programs. This has happened in the past and could happen again this year. Recognizing this might even be probable, NASWA must consider the other provisions of the bill that could benefit and cost some workers, employers, states and society.

Without conducting a survey of the states, NASWA has no information on how states might react to the proposed modernization incentives. Such reactions might break down by whether a state has some or all of the provisions that would qualify for incentives. The following is a list of this breakdown:

First, only five states (HI, MA, NJ, NY, and NC) have state UI laws that meet the alternative base period and two of the three non-monetary eligibility provisions.

Second, seven states (AK, AR, CA, IA, KS, MI, and PA) have two of the three non-monetary eligibility provisions, but no alternative base period provision.

Third, fourteen state programs (CT, DC, GA, ME, MI, NH, NM, OH, OK, RI, VT, VA, WA, and WI) have state UI laws that meet the alternative base period provision, but do not have two of the three non-monetary qualification provisions dealing with part-time work, family reasons for leaving employment, and worker dislocation and training.

Fourth, twenty-seven state programs (AL, AZ, CO, DE, FL, ID, IL, IN, KY, LA, MD, MS, MO, MT, NE, NV, ND, OR, PR, SC, SD, TN, TX, UT, VI, WV, and WY) do not have an alternative base period, nor do they have two of the three non-monetary eligibility provisions dealing with part-time work, family reasons for leaving employment, or worker dislocation and training.

NASWA supports special Reed Act distributions for administration of the “employment security system.” The bill’s \$100 million per year for five years totaling \$500 million is well short of the NASWA proposal of \$800 million over each of the next two years for \$1.6 billion. NASWA believes states need these larger sums soon to modernize and improve out-dated administrative systems and to upgrade labor exchange services for UI claimants.

Finally, members of NASWA are frustrated and disappointed that the Federal government is collecting far more than it needs to fund the “employment security system” and returns a very low percentage of annual FUTA taxes to many states. In a given year, some states don’t even receive one-third of what employers in their states are estimated to pay in FUTA taxes. This makes it very hard for states to administer their state UI programs in a proper and efficient manner as required by the Social Security Act and it erodes support from employers who pay excessive taxes in return for severely constrained services. As a result of this frustration, NASWA passed a resolution last year, which we mentioned earlier as part of current NASWA policy:

- NASWA supports appropriation of sufficient funds from the federal unemployment tax revenue to ensure every state will receive a minimum of 50 percent of the Federal Unemployment taxes paid each year by its employers. States currently granted more than 50 percent of federal unemployment taxes paid annually by their employers under current federal grant allocation methods should be held harmless.

COMMENTS ON THE WORKER EMPOWERMENT ACT

The stated goal of WEA is to “help respond to growing wage volatility and diminishing job security in the American workforce.” NASWA members wonder if the evidence on wage subsidies supports the WEA program achieving this goal. Other approaches that have been effective in pilot demonstrations are assisting and providing incentives for workers to go back to work sooner, and providing training for workers who have enough years of work remaining to reap enough benefits to justify the costs.

Economists argue uniform payroll taxes, such as the 0.1 percent of the social security taxable wage base, are borne by workers even if paid by employers. Economic theory suggests the uniform payroll tax would be shifted to workers in the form of possibly less employment and lower wages. Lesser effects on employment and wages in the labor market might occur if the program were financed from federal general revenues instead. Of course, we recognize other programs, such as social security and medicare, are financed by uniform payroll taxes on the assumption the benefits outweigh the costs.

Based on limited evidence, it is not clear this type of wage subsidy induces workers to go back to work sooner than they would or that they would sustain employment longer than without the wage subsidy. A more cost-effective approach to achieve this end might be reemployment bonuses or reemployment services. States could provide such bonuses or services if more funds were appropriated from FUTA revenue for employment services to UI claimants.

Investments in training also might yield more net benefit than this type of wage subsidy. Investments in human capital in general, and in particular education and training for young persons and young workers, can yield substantial net benefit and stimulate economic and employment growth.

To control costs of such a program, a longer work history could be required for eligibility. However, the UI system currently does not retain wages back more than two years, so some provision for acquiring the data beyond two years would be needed.

The cap on earnings at \$100,000 seems to create a “notch effect” in which a worker earning \$100,000 gets the full wage subsidy, but a worker earning more than \$100,000 loses the entire wage subsidy. Consequently, some attention to creating a phase-out range for the subsidy is needed.

The WEA program could carry a significantly greater administrative burden than UI because the maximum duration of claimants on the regular UI program is a half year compared to as much as two years on wage insurance. Paying wage subsidies for two years is four times longer than for only about a half year. During this two year period the WEA program might have to recalculate the wage subsidy many times as workers change jobs and as their wages change. This could cost states significantly more to administer depending on the ultimate size of the program.

Mr. Chairman, thank you for the opportunity to testify. NASWA greatly appreciates your interest in improving the UI system and empowering workers. Although this testimony has brought to bear current NASWA policy, basic facts, and some speculation on these draft bills, it does not provide specific answers to how individual states or groups of states would react to their provisions. For this, one needs the reaction of specific states at a minimum. NASWA stands ready to assist you in this process as you refine these draft bills and prepare them for introduction.