Policy Matters Ohio

TESTIMONY
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Unemployment Compensation

Testimony on Senate Bill 116 before the Senate Insurance Committee

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Chair Hackett, Ranking Member Craig, members of the Senate Insurance Committee: My name is Zach Schiller and I am research director of Policy Matters Ohio, a nonpartisan, nonprofit research institute with the mission of creating a more prosperous, equitable, sustainable and inclusive Ohio. Thank you for the opportunity to testify on Senate Bill 116. This bill would hurt Ohio workers and the economy. It would not bring more Ohioans into the labor force. Middle-class families experiencing economic dislocation would be less likely to be able to pay their mortgages and Ohio businesses would see valuable training squandered as experienced Ohioans were forced to take jobs that didn't match their skills. Most of the benefit cuts would go not toward improving the solvency of our unemployment compensation (UC) system, but for business tax cuts. That does not make sense. We urge that you shelve the bill.

The main provision in SB 116 would reduce the number of weeks of benefits available to unemployed Ohioans. The long-time national standard for maximum benefits, in place in 37 states, is at least 26 weeks. Reducing the number of weeks of benefits is nothing less than an assault on unemployed Ohioans who most need aid. Under the sliding scale in the bill, maximum benefits will be limited to between 12 weeks and 20 weeks, depending on previous unemployment rates. Claimants applying now would be eligible for just 12 weeks. That would be the case for the rest of this year, even if the economy should plunge into recession. There would have been only 12 weeks of benefits available all during the pandemic year of 2020, including four months when the unemployment rate was in or near double digits.

The bill also will especially hurt those communities and populations that experience higher unemployment than the state average, including more than a dozen counties in Southeast Ohio. Take 2016, a year when — under the bill — 12 weeks of benefits would have been available all year. According to the Ohio Department of Job & Family Services (ODJFS), the average unemployment rate that year in Monroe County was 11.0%. In Noble County, it was 8.7%; in Meigs County, 8.5%.[1] Overall, 15 Southeast Ohio counties had rates of 7% or above for the year. Yet they would be eligible for the same 12 weeks as those in counties with 4% unemployment. Or take February 2020, just before the pandemic. That month, despite a statewide unemployment rate of 4.7%, seven counties had rates over 8%, including Monroe, at 11.1%.

[1] Ohio Department of Job & Family Services, Ohio Unemployment Rates, 2016 Annual Average (Not Seasonally Adjusted), at https://ohiolmi.com/_docs/LAUS/archive/Annual_Average/2016CLFE.pdf. These county rates cited here are not seasonally adjusted, as the rates used in the bill are, but that would not change the data dramatically.

That discrepancy extends to Black Ohioans, too. During 2022, the average unemployment rate for white Ohioans was 3.9%. For Black Ohioans, it was 7.1%.[2] Though this disparity has narrowed nationally in recent months, it remains, and has persisted for decades. Moreover, when they become unemployed, Black workers on average are unemployed for longer than white workers.[3]

Another provision of the bill would eliminate dependency benefits, capping maximum weekly benefits at 50% of the state average weekly wage. Under the bill, a worker making $70,000 with two children who is laid off would see their weekly benefit shrink by about $100 from the current $673. Meanwhile, they would get benefits for no more than 20 weeks — and, they would likely get no more than half as many weeks of benefits as they would now. Since 2000, the maximum would have been 13 or fewer weeks more than half the time, had the bill been in effect.

Unemployed Ohioans are less likely to exhaust their benefits than jobless workers in all but a few other states; during 2022, just 17.2% of those who received benefits in Ohio exhausted the full amount for which they were eligible, compared to a national average of 31.2%.[4] If the bill's sponsors believe that most or even a large share of UC claimants receive the full amount of benefits allowed under state law, they are badly mistaken — which underlines how there is no need for this draconian cut. While that may sound extreme, it isn't: Even under the conservative assumptions ODJFS used to come up with its estimates on the impact of the bill, the share of unemployed Ohio workers exhausting their benefits would double. More than half of those getting benefits would exhaust them.

The real problem with Ohio's UC program is not that unemployed workers stay too long, but that it covers far too few jobless Ohioans. Last year, just 16.2% of unemployed Ohio workers received UC benefits, ranking 37th in the country. Instead of trying to boot Ohioans off the program, as the bill would do, the General Assembly should reduce the state's stringent earnings requirement to qualify for benefits. [5]

Senate Bill 116 is based on a misunderstanding of the facts about Ohio's labor force and the unemployment compensation system. The most recent data indicate that 61.8% of Ohioans are participating in the labor force. By definition, jobless workers who are receiving unemployment benefits are counted in the labor force. So reducing benefits in an effort to force them into the labor force is simply misguided; they're already in it. Moreover, to suggest that there are "…vast segments of Ohio's population who are not using the unemployment system for its intended purpose," as was stated in sponsor testimony, is wildly uninformed. In the week ended May 20, there were 47,150 claims for unemployment compensation (not all claimants

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[2] U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics, Preliminary 2022 data on employment status by state and demographic group, p. 38, at https://www.bls.gov/lau/ptable14full2022.pdf

[3] An analysis of the long-term unemployment rate in the United States by race and ethnicity during the economic peak prior to the pandemic showed that 25% of unemployed Black workers had been jobless for 27 weeks or longer, compared to 20% of unemployed white workers. See U.S. Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey, 2019 Household Data Annual Averages, Table 31, Unemployment persons by age, sex, race , Hispanic or Latino ethnicity, marital status, and duration of unemployment," at https://www.bls.gov/cps/aa2019/cpsaat31.htm

[4] U.S. Department of Labor, Employment & Training Administration, UI Data Summary, 4th Quarter 2022, at https://oui.doleta.gov/unemploy/data_summary/DataSum.asp

[5] See Michael Shields, "A ray of hope for low-paid workers," Policy Matters Ohio, Oct. 27,2022, at https://www.policymattersohio.org/research-policy/shared-prosperity-thriving-ohioans/basic-needs-unemployment-insurance/unemployment-insurance/a-ray-of-hope-for-low-paid-workers

receive benefits).[6] That compares with an Ohio civilian labor force in April of 5,778,000 and a working age population of 9,356,000. [7] As you can see, describing the number receiving benefits as “vast segments of Ohio’s population” is inaccurate.

Cutting benefits as SB 116 would do will not noticeably affect the number of Ohioans in the labor force. Objective experience bears this out: In North Carolina, a state cited by proponents because of its sliding scale, the labor force participation rate of 60.5% is lower than it is in Ohio.[8] That’s true also in Florida and Alabama, among the other states that adopted a sliding scale. Moreover, the U.S. Government Accountability Office conducted an extensive literature review on pandemic unemployment insurance, which included extensions of benefits up to 53 weeks in addition to the standard 26. It concluded that pandemic UC benefits had limited to no effect on workers’ incentives to return to work.[9]

There are real ways to expand the workforce: Make child care accessible and affordable; boost support for public transit; raise the minimum wage and the amount care workers are paid; and reduce collateral sanctions that keep so many returning citizens from making a livelihood.

Besides its obvious negative effects on workers and their families, slashing benefits is directly contrary to one of the key purposes of unemployment compensation: Boosting purchasing power and thereby bolstering businesses and local economies that otherwise would be negatively affected by layoffs. As ODJFS put it in a 2014 filing: “When the unemployed cut back on spending, business owners that serve them lose. By cushioning the fall in these families’ incomes, unemployment insurance not only helps the families that receive it, but also prevent further production cuts and layoffs.”[10] Studies have confirmed the key role that unemployment insurance plays in lessening the severity of economic downturns. For instance, former Federal Reserve Board vice chair Alan Blinder and economist Mark Zandi of Moody’s Analytics found that during the Great Recession, every dollar of unemployment insurance resulted in a $1.61 increase in economic output.[11]

More than anything, this bill is a transfer of money from Ohio’s unemployed to Ohio employers. According to the ODJFS analysis of the bill, over a 13-year period, it would result in a 30.97% reduction in employer taxes, or nearly $4.9 billion. [12] Overall benefits paid to unemployed Ohioans would decrease by 38.95%, or more than $7 billion. Thus, the bulk of the benefit cuts would go not toward improving the solvency of the UC trust fund, but to employers in lower taxes.

[6] Last year, an average of 27,487 Ohioans received UC a week.

[7] Ohio Department of Job & Family Services, Employment Situation Indicators for Ohio, April 2023 (seasonally adjusted), at https://ohiolmi.com/_docs/LAUS/Ohio-US_EmploymentSituation.pdf

[8] U.S. Bureau of Labor Statistics, “States and selected Areas: Employment status of the civilian noninstitutional population, January 1976 to date, seasonally adjusted,” at https://www.bls.gov/web/laus/ststdsadata.txt

[9] U.S. Government Accountability Office, “Unemployment Insurance: Pandemic programs posed challenges, and DOL could better address customer service and emergency planning,” June 2022, at https://www.gao.gov/assets/gao-22-104251.pdf

[10] Ohio Department of Job & Family Services, Business Impact Analysis under the Common Sense Initiative, Regulation/Package Title 41421-15 Contribution Rates, Rule Numbers 4141-15-01, 4141-15-07, April 29, 2014. ODJFS also noted that, “Generally, the rules in Chapter 4141 of the Ohio Administrative Code help to support an Unemployment Insurance (UI) system that has been found to have a net positive impact on the economy, with substantial benefits to the business community as a whole.”

[11] Blinder, Alan and Mark Zandi, The Financial Crisis: Lessons for the Next One (Oct. 15, 2015), https://bit.ly/3s3NL8g

[12] ODJFS, Review of Senator Lang’s Proposal, available at https://www.policymattersohio.org/files/assets/sb116jfssolvencyscenario.pdf

Business representatives have testified that the bill would put Ohio "on a path toward solvency." But while there would be some improvement in the solvency of the trust fund, it would remain far short of the minimum safe level established by the state. The minimum safe level represents a level in the fund to pay for benefits through a moderate recession. Yet the ODJFS analysis does not include a recession any time in the 13-year period; it includes a top unemployment rate of 5.47% for one year. This is an exceedingly optimistic forecast—**and means that this is not a real solvency bill**. The fund will go broke in a modest recession. If the committee wants to better understand the implications of the bill, it should ask ODJFS to go back and model it for at least one or more recessions, and see how that affects taxes, benefits and solvency.

The bill proposes a $500 increase in the taxable wage base, to $9,500. As evidenced in the ODJFS analysis, employers would see a significant tax cut; that's because tax rates are based on benefit payout, so if benefits go down substantially, as they would under the bill, taxes will follow. Currently, the average tax base in the country is $15,236. If Ohio's tax base had gone up with inflation since it was last increased in 1995, it would now be close to $18,000. In 2008, business representatives led by the Ohio Chamber of Commerce proposed a $10,000 taxable wage base, which adjusted for inflation would be worth more than $14,000 today.[13] Clearly, $9,500 is a completely inadequate amount—and while it may appear as if business is paying more, in fact it is paying substantially less.

Nor are businesses severely burdened with UC taxes now. They amount to about half a penny on each dollar in wages. A national survey found that in December, state unemployment taxes accounted for just 15 cents of total average compensation, including benefits, of $40 an hour for private sector employers. [14]

In fact, benefits in Ohio are not out of line. They have been below the national average for the last 12 years. Slashing benefits and pairing that with what even business proponents call a "modest" increase in the taxable wage base — a proposal that will mostly just transfer funds from unemployed workers to employers — should not be acceptable to the General Assembly. Rather, instead of simply adopting measures business interests have backed for years to slash benefits of unemployed workers, it should include worker representatives in a real conversation if it is going to overhaul this crucial system of support.

Thank you for the opportunity to testify. I would be happy to answer any questions.

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[13] See Appendix of Zach Schiller, "Courting Crisis: Ohio Policy Has Undermined Unemployment Compensation Fund," Policy Matters Ohio, October, 2011, at https://www.policymattersohio.org/wp-content/uploads/2011/10/CourtingCrisisOhioUCF2011.pdf
[14] U.S. Department of Labor, Bureau of Labor Statistics, "Employer Costs for Employee Compensation – December 2022," Table 1, at https://www.bls.gov/news.release/pdf/ecec.pdf