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Putting Federal Stimulus Dollars to Work: Iowa Stands to Gain from Unemployment Insurance Modernization

The federal stimulus bill signed by the President on February 17, 2009, included \$7.1 billion in state funding for several provisions related to unemployment insurance (UI). Federal funding will provide over 212,000 Iowans searching for work with an additional \$25 a week in unemployment benefits.¹ In addition, the bill immediately sends \$5.1 million in increased administrative funding to Iowa's unemployment insurance system.²

These funds provide an important boost to Iowans searching for work and to the agencies that support them. However, more money is on the table for Iowa to draw down if it makes two reforms to its current unemployment insurance system that would make it easier for Iowa workers to access important benefits. Iowa can receive an additional \$71 million in funding from the federal stimulus bill if it, 1) adopts what is called an "alternative base period" for determining eligibility for unemployment insurance and 2) allows unemployed Iowans to continue receiving benefits while completing training for high-demand jobs.³

Unemployment insurance: the basics

Unemployment insurance provides cash assistance to Iowans who have lost their jobs while they look for new work. Though this is of obvious importance to the financial security of individual families, in a shaky economy, these benefits are also crucial to their communities, which depend on local consumers to keep businesses open.

The maximum weekly unemployment insurance benefit is between \$361 and \$443, depending on the wages that a recipient earned while he or she was employed and the number of dependents he or she is supporting. An unemployed Iowan may only receive benefits for a total of 26 weeks out of the year. In order to qualify for unemployment insurance, a recipient must have a qualifying period of work (about six months) at an employer paying unemployment insurance taxes, and he or she must also have earned above a qualifying amount in wages during that period.⁴

¹ National Employment Law Project, "American Recovery and Reinvestment Act of 2009 Estimates of Jobless Workers Benefiting from Selected Unemployment Insurance Provisions," February 14, 2009.

² National Employment Law Project, *Implementing the Model Provisions of the Unemployment Insurance Modernization Act in the States*, February 18, 2009.

³ National Employment Law Project, *Implementing the Model Provisions of the Unemployment Insurance Modernization Act in the States*, February 18, 2009.

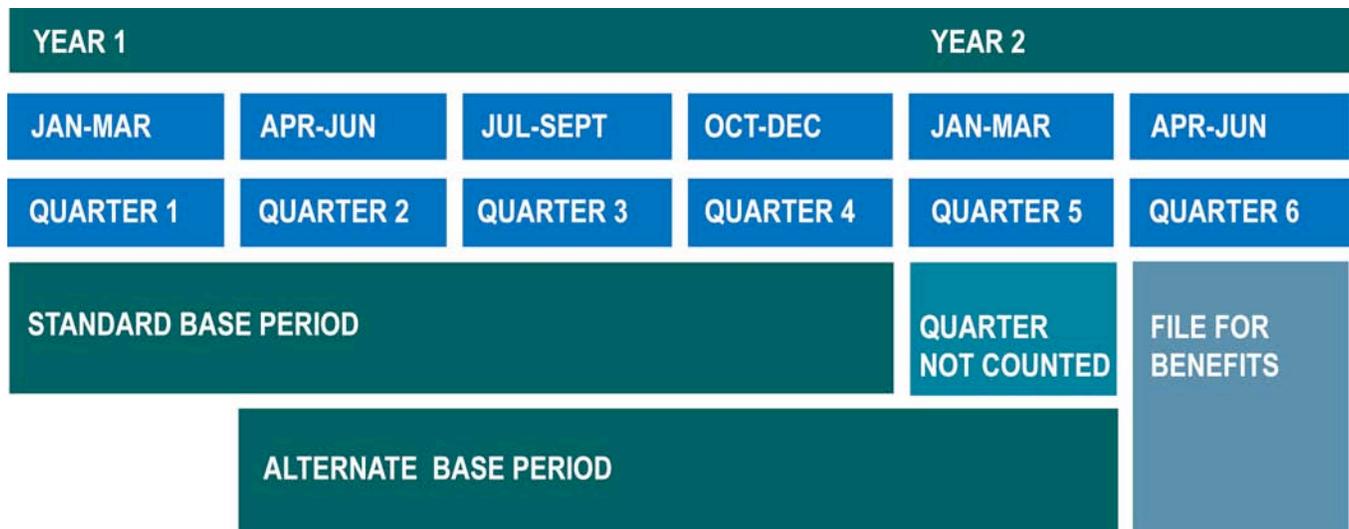
⁴ Information in this paragraph is drawn from the Iowa Workforce Development guide, *Facts About Unemployment Insurance, 2008-2009*.

Modernizing eligibility for unemployment insurance

The federal stimulus bill provides Iowa with \$23.6 million in federal funding (one-third of its total \$71 million allotment) if it agrees to modernize its unemployment insurance program by adopting what is called an “alternative base period” for determining benefit eligibility. Currently, Iowa determines whether someone is eligible for UI benefits by looking at his or her employment during the first four calendar year quarters (January-March, April-June, July-September and October-December) of the five quarters preceding their application for benefits. The effect of this is to exclude recent work history from consideration in determining eligibility.

The alternative base period would allow more recent work history to be counted in determining an applicant’s eligibility for unemployment benefits. Figure 1 shows how this standard base period calculation compares to the alternative base period proposal. For example, under the current system, if someone applies for unemployment insurance benefits in January 2009, he or she must have a qualifying history of work from January 2008 through September 2008. Any work done in the quarter when the application is filed (the “filing quarter”) or in the three-month “lag quarter” immediately preceding the application — from October to December 2008, in this example — does not count toward determining eligibility for UI benefits. If the applicant is unlucky enough to file for unemployment at the end of a quarter, almost six months of employment could be disregarded in determining eligibility (an almost-complete “filing quarter” plus the entire “lag quarter”). If the alternative base period were allowed in Iowa, someone filing for unemployment in January 2009 could count his or her work experience all the way through December 2008 in determining eligibility.

Figure 1. Explanation of the Alternative Base Period



Source: Stettner, Andrew, Heather Boushey, and Jeffrey Wagner. *Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation*. Center for Economic Policy Research and National Employment Law Project, 2005.

This requirement is a relic of a time when employment information was stored in paper records and could not be quickly communicated between employers and workforce development offices. With the advent of computerized employment records, it is no longer necessary to build in a “lag quarter”

between the time of filing and the period of qualifying work history. Nineteen states have already adopted the alternative base period as a way of determining eligibility for UI benefits, including Iowa's neighbors Wisconsin and Illinois.

Allowing recent work to help qualify a worker for unemployment benefits is especially important for low-wage Iowans, who may not have a long-term or consistent work history. According to the National Employment Law Project, over 4,500 workers in Iowa would become eligible for benefits under an updated system. The cost of providing benefits to these newly eligible workers is far below the additional funds that Iowa would receive from the federal government. Iowa workers would receive about \$7.7 million in benefits, but the unemployment insurance program would gain three times as much in federal financing for making these reforms.⁵

Encouraging training for high-demand jobs

In addition to encouraging states to adopt the alternative base period, the federal stimulus bill provides even more "incentive" funding for states to make other reforms to their unemployment insurance programs. For Iowa, this funding totals an additional \$47.2 million (the remaining two-thirds of our \$71 million allotment). Qualifying reforms that have been proposed in Iowa would allow unemployed workers to continue receiving unemployment benefits if they are in the process of completing job training.⁶

Under the current system, jobless workers can only receive 26 weeks of unemployment benefits, even if they are enrolled in a training program that may take longer to complete. Proposed changes to Iowa's law would allow workers to receive an additional 26 weeks of benefits as long as they are enrolled in a training program for a job in a "high demand" sector. High demand sectors are defined in the proposed legislation to include the fields of "life sciences, advanced manufacturing, biotechnology, alternative fuels, insurance, and environmental technology."⁷

Five states already provide extended benefits to jobless workers in training. Providing these benefits strengthens the state economy by ensuring that unemployed Iowans get back to work in growth sectors where their jobs will be more secure. In the long run, this emphasis on training helps to reduce unemployment insurance costs by directing jobless workers toward sectors with good wages and high demand for jobs.

Unemployment insurance reforms make 'cents'

Unemployment insurance modernization funding is a crucial part of the federal stimulus package because it targets federal funds in ways that are highly effective at jump-starting the economy. The

⁵ National Employment Law Project, *Implementing the Model Provisions of the Unemployment Insurance Modernization Act in the States*, February 18, 2009.

⁶ States can receive this portion of their incentive funding by adopting two of four reform options that extend unemployment benefits to workers in the following situations: 1) part-time workers who are seeking part-time rather than full-time employment; 2) workers who leave a job because of compelling family reasons, including domestic violence; 3) workers with dependent family members who need increases in their benefits in order to care for their dependents; and, 4) permanently laid-off workers who require extended benefits to participate in training. Iowa already allows part-time workers who have lost their job to receive unemployment benefits if they are seeking part-time work, so the state only needs to make one additional reform in order to qualify for incentive funding. Proposed state legislation chooses to pursue incentive funding by extending benefits to unemployed workers in training programs.

⁷ Senate File 197.

Congressional Budget Office has noted that unemployment benefits are important “automatic fiscal stabilizers” during all phases of the business cycle, meaning that they mitigate the shock to the economy that occurs when layoffs happen and people suddenly lose their income. UI benefits provide a temporary source of cash assistance that helps keep food on the table and the economy moving.⁸

Likewise, unemployment insurance reforms are essential components in helping the economy get back on its feet in a time of crisis. Mark Zandi of Moody’s Economy.com has estimated the effects of various federal stimulus provisions, and he finds that every dollar of federal funds invested in unemployment insurance benefits provides \$1.63 in economic benefits as it is cycled through the economy.⁹ This is because unemployment insurance benefits go directly to the individuals who need assistance; rather than saving their UI benefits, jobless workers will spend them quickly to pay their bills and buy their groceries. Spending benefits rather than going without an income or saving money stimulates the economy and helps everyone get back on their feet.

⁸ Congressional Budget Office. *Options for Responding to Short Term Economic Weakness*. January 2008, p. 2.

⁹ Zandi, Mark. *The Economic Impact of the American Recovery and Reinvestment Act*, January 21, 2009, p. 9. Available from: http://www.economy.com/mark-zandi/documents/Economic_Stimulus_House_Plan_012109.pdf.