

Issue Brief

Unemployment Compensation in Florida

Executive Summary

Unemployment compensation was created in 1935 by the Social Security Act and serves two main purposes: 1) providing benefits to workers out of work through no fault of their own, and 2) maintaining purchasing power and stabilizing the economy.

Florida has one of the strictest systems in the country based on its rankings among other states on eligibility criteria, benefit amounts, and reciprocity rates, and robust scrutiny of claims. Therefore it is unlikely that many people are receiving unemployment compensation who are not entitled to it, while certain groups of workers who should be entitled to compensation are excluded under the law.

2010 Florida UC Facts			Ranking
Standard reciprocity rate	22.6%		49 th
All program rate	55%		44 th
Minimum earnings requirement	\$3,400		4 th
Maximum weekly benefit	\$275		46 th
Average weekly benefit (Q3)	\$228.45		44 th
Replacement Rate (2009)	38.7%		46 th
Weeks compensated/Weeks claimed (Q3)	84%		35 th
Unionization rate	6.9%		40 th

Source: Department of Labor

Unemployment compensation has provided a net benefit to Florida's economy of over \$9.8 billion since the beginning of the recession, combining both the state program and federal extension programs. UC has been shown in previous studies to be one of the most effective stabilizers of the economy and a more effective stimulus than other methods such as tax cuts.

Net Benefit of Unemployment Compensation in Florida, 2008-2010

	State	Federal (EB & EUC)	Total
Unemployment compensation paid	\$7,111,848,003	\$7,428,990,711	\$14,540,838,714
Employer contributions	\$2,933,021,000	\$1,819,859,712	\$4,752,880,712
UC net benefit to Florida	\$4,178,827,003	\$5,609,130,999	\$9,787,958,002

Florida's system currently does not function as well for particular groups of workers which are important to the state's economy, specifically low-wage workers and temporary or seasonal workers. These groups have lower reciprocity rates than higher wage workers due in part to an outdated method of determining eligibility for benefits. In addition, workers who have to leave work for compelling family reasons including domestic violence, taking care of a sick family member, and moving with a relocating spouse are excluded from receiving benefits which impacts women workers in particular. Current proposals to "modernize" Florida's UC system to include these groups of workers would improve the fairness of the system and increase the stimulus effect of UC which would benefit the state's economy. Adopting these changes would also make the state eligible to receive \$444 million in additional funding for its unemployment compensation program.

Florida's economic recovery remains uncertain. The state's unemployment rate in December 2010 was 12%, significantly higher than the national rate of 9.4%.

During the previous 12 months Florida's economy added only 43,500 jobs, while an average of more than 1 million people were unemployed. This means that for every job created, there was no job for 25 more people. Florida is also experiencing the highest rates of long-term unemployment on record. In 2010 one-third of the unemployed, meaning those who



have looked for work in the previous week, have been out of work longer than one year. Nearly one-half, 49.4%, have been out of work longer than 6 months.

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As state lawmakers consider changes to Florida's unemployment compensation system, it is important to understand key facts about the current system. This brief examines how well the system performs its two-fold purpose of 1) supporting workers who are out of work through no fault of their own and 2) stimulating Florida's economy.

Background

Unemployment Compensation was created by the Social Security Act of 1935 in order to provide benefits to individuals who are out of work through no fault of their own, and to keep money circulating in the economy particularly during recessionary periods. "As temporary, partial wage replacement to the unemployed, UC is of vital importance in maintaining purchasing power and in stabilizing the economy."¹ The UC program is a federal-state partnership that is based on federal law but administered by states which set their own laws for eligibility within the federal guidelines.

Unemployment compensation was created in 1935 by the Social Security Act and serves two main purposes: 1) providing benefits to workers out of work through no fault of their own, and 2) maintaining purchasing power and stabilizing the economy.

UC functions like an insurance program. In order to qualify for benefits a worker has to have earned a minimum amount of wages during the Base Period, which is the first four of the last five completed calendar quarters, in order to demonstrate significant attachment to the workforce. Taxes are paid by employers for each of their employees into a state trust fund (and a small amount goes into a federal trust fund as well), and workers can apply to receive benefits if they are laid off. The maximum number of weeks of benefits allowed is 26 weeks, and during that time an unemployed worker cannot receive benefits totaling more than 25% of his/her annual earnings.

When unemployment is particularly high, extensions are typically enacted in order to allow unemployed workers to receive additional weeks of benefits beyond the regular 26 weeks while they look for work. Currently, two extension programs created by the federal government are in effect, the Extended Benefits Program and the Emergency Unemployment Compensation Program.² The Extended Benefits program automatically kicks in when a state's unemployment rate goes above 6.5% or 8%. Each state must authorize the additional benefits in order to allow unemployed workers to get an additional 13 or 20 weeks of benefits. These are normally paid half by the federal government and half by the state, however under the ARRA the federal government is paying for 100%. During nationwide recessions the federal government often

¹ U.S. Department of Labor. 2010. Unemployment Compensation: Federal-State Partnership. Washington, D.C.: Office of Unemployment Insurance, Division of Legislation.

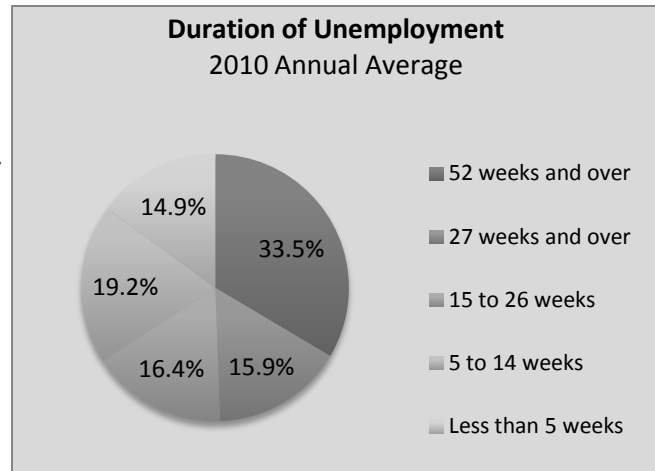
² Department of Labor.

The State of the Economy

Florida has not yet recovered from the deepest recession since the Great Depression, which means that unprecedented numbers of workers remain unemployed. In December 2010, the most recent month for which data is available, the state's unemployment rate was 12%, significantly higher than the national rate of 9.4%. During the previous 12 months Florida's economy added only 43,500 jobs, while an average of more than 1 million people were unemployed.¹ This means that for every job created, there was no job for 25 more people.

Florida is also experiencing the highest rates of long-term unemployment on record. In 2010 one-third of the unemployed, meaning those who have looked for work in the previous week, have been out of work longer than one year. Nearly one-half, 49.4%, have been out of work longer than 6 months.¹

Key industries in the state, those with higher average wages such as construction, information and finance, and professional and business services have yet to begin recovery. 2010 saw job growth in lower paying industries such as leisure and hospitality, other services, and trade, transportation, and utilities for the first time since the recession began. Education and health services continued to grow steadily, the only industry that did not lose jobs during the recession.



Employment Change Dec 09-Dec 10

Leisure & Hospitality	3.8%
Education & Health Services	3.2%
Other Services	3.0%
Mining and Logging	1.9%
Trade, Transportation, and Utilities	0.7%
Total Nonfarm	0.6%
Professional & Business Services	-0.2%
Government	-0.3%
Manufacturing	-1.6%
Financial Activities	-1.6%
Information	-3.8%
Construction	-5.6%

Source: Bureau of Labor Statistics

authorizes additional benefits, such as the Emergency Unemployment Compensation program (EUC08) which was passed in 2008. This allows workers to get up to an additional 53 weeks of benefits, depending on their state's unemployment level, and benefits are paid 100% by the federal government. Between the regular state program and the two extension programs in effect, an unemployed worker in Florida is eligible for up to 99 weeks of benefits total, provided he/she continues to maintain eligibility by searching for work.

How to calculate unemployment benefits in Florida¹

The amount of benefits an individual is eligible for is calculated by taking the highest earning quarter of wages and dividing by 26. For example a full-time worker earning minimum wage (\$7.25 per hour) would have earned \$3,770 in one quarter. Dividing by 26, this person would be eligible for a payment of \$145 per week. If the individual had worked during the entire base period, his/her annual wages would have been \$15,080. To get the number of weeks the worker is eligible for, we multiply by 25% since the total amount of benefits cannot exceed 25% of annual earnings, and then divide by the weekly benefit amount. So this person would be eligible for \$3,770 total in benefits, divided by the weekly benefit amount of \$145 means he/she could draw benefits for up to 26 weeks. However not all workers are eligible for the maximum 26 weeks. For example if this individual had only worked 40 weeks during the year, she would have total earnings of \$11,600, meaning he/she could not draw more than \$2,900 in UI. This would mean she could collect only 20 weeks of benefits at \$145 per week.

How many people receive unemployment compensation?

The standard measure of the share of unemployed workers who receive unemployment compensation is called the reciprocity rate. For most of the 2000's Florida's reciprocity rate was between 27% and 29%, consistently below the national average of 35% to 40%. In 2006 just before the recession began Florida's reciprocity rate was 35th out of the 50 states. Low reciprocity rates are attributable to several factors.³ Florida has tighter eligibility requirements than many other states, meaning that the law excludes more people from receiving benefits than in other states. Florida also has lower unionization rates, and union members are more likely to receive UC because they tend to be more aware of their rights and have the support of the union in filing a claim and in case of a denial. Finally, Florida has a low maximum weekly benefit and low replacement rate, which means there is less of an incentive to apply for benefits.

There are a few problems with the standard reciprocity rate measure, however. First, the rate counts only individuals who *claim* benefits, not the number who actually *receive* them. After an initial claim for unemployment compensation has been approved, a worker must submit a request for payment each week along with supporting documentation that he/she is still

³ Wittenburg et al. 1999. Literature Review and Empirical Analysis of Unemployment Insurance Reciprocity Ratios. Falls Church, VA: The Lewin Group.

unemployed through no fault of his/her own, that he/she is able and available for work and that he/she looked for work and can prove it by providing contact info for employers he/she spoke to. If the claimant does not provide complete or correct information, or if the state has information that indicates that the claimant might have been employed while claiming, the claim is not paid. Studies have shown that this typically reduces the true reciprocity rate by 10-15% (McMurrer and Chasanov 1995). In Florida in the third quarter of 2010, the most recent quarter for which data is available, the ratio of weeks claimed to weeks compensated was 83.92%, which is below the national average of 85.52%⁴.

2010 Florida UC Facts		Ranking
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Source: Department of Labor

An additional problem is that during a recession the standard reciprocity rate becomes less useful, as more people who are unemployed for a long period exhaust their regular benefits. This is certainly the case in Florida, where nearly half of the unemployed have been out of work longer than 6 months. Since 2008 over 1.7 million workers in Florida have exhausted their regular unemployment benefits. This means that many of the unemployed are now receiving benefits through the extension programs, which are not captured in the standard reciprocity rate, but in the all programs rate. In 2010 the all programs rate for Florida was 55%, well below the national average of 60% and ranking Florida 44th out of the 50 states.

Determinations and Denials

In addition to reciprocity rates, another important question for gauging the reach of unemployment benefits is the rate of denial of claims. When a claim is received by the state it first goes through a “monetary determination”⁵ to certify that the person claiming unemployment benefits has met the minimum earnings requirement. After passing this stage certain claims are flagged for “non-monetary determination” in order to verify additional requirements including that the worker was indeed laid off or fired without good cause, and that the worker is able and available to work, among others. In many cases the state will send a questionnaire to the employer that asks what the reason for the separation was. The person

⁴ Department of Labor.

⁵ U.S. Department of Labor. Comparison of State Unemployment Insurance Laws 2010. Available on-line at: <http://www.oui.doleta.gov/unemploy/statelaws.asp#Statelaw>.

claiming will then receive notice of the approval or denial of the claim, and may appeal if denied. Likewise an employer may also appeal a claim that was approved if the employer feels the claim is not warranted. Three levels of appeal are available to employers and claimants.

Because the the UC system is financed through employer taxes that depend in part on how many workers an employer has laid off in the past, there is an incentive for employers to try to reduce the number of claims counted against them. The more workers who claim benefits because of being laid off by a particular employer, the higher that employer’s tax rate and the larger the tax. This is supposed to be a disincentive to laying off workers unless absolutely necessary, but unfortunately contributes to fraud by employers who either appeal legitimate claims or indicate on the questionnaire that the worker falls into a category that is ineligible for benefits such as termination for violating work policies or voluntarily quit without good cause.

It is extremely difficult to infer from administrative records what share of initial claims are fraudulent and what share are fraudulently challenged by employers. Appeals are a partial but not complete reflection of the efficacy of the system because many workers or employers may not choose to contest a claim they feel is in error due to avoid the trouble of going through the appeal process or lack of knowledge about the right to appeal. What little data indicate that improper denials are a problem. A US DOL audit found that approximately 10% of denials are made in error.⁶ Moreover the Department of Labor does not publish data on denials or appeals of claims and so no comparisons between states are possible. However data from Florida’s Agency for Workforce Innovation shows that Florida does robustly deny claims, although only a small share are appealed. In short, the process is by no means a “rubber stamp” and filing an unemployment claim is no guarantee of receiving a benefit.

Data requested from the Agency for Workforce Innovation for the period from January 2009 through the first quarter of 2010 show that of 1,339,529 regular claims, 102,560 were monetarily eligible (82.3%) and 236,969 were monetarily ineligible (17.7%). Of those deemed monetarily eligible, 784,473 were flagged for non-monetary determination, resulting in 437,409 determined eligible (56%) and 347,067 ineligible (44%). This means that out of the total claims filed, 49.7% were allowed benefits and 50.3% were denied benefits.

Unemployment Compensation Determinations January 2009 – March 2010

	Total	Allowed	Denied
Step 1: Monetary eligibility determination	1,339,529	1,102,560	236,969
		82.3%	17.7%
Step 2: Non-monetary determination	784,473	347,067	437,409
		44.2%	55.8%
Total	1,339,529	665,154	674,378
		49.7%	50.3%

Source: Agency for Workforce Innovation

⁶ U.S. Department of Labor. 2009. Benefit Accuracy Management, Denied Claims Accuracy report, 2009. <http://workforcesecurity.doleta.gov/unemploy/bqc.asp>

From the total regular claims, 147,065 appeals filed by both claimants and employers had decisions made. The decisions in favor of the claimant totaled 79,881 (54.3%), and decisions for the employer totaled 67,184 (45.7%). Of the appeals filed, the majority were filed by claimants, totaling 104,086 (71%). Appeals filed by employers amounted to 42,979 (29%). We cannot tell the rate of successful appeal by claimants or employers because the data do not allow this, but we can say that an appeal is no guarantee of a successful outcome, at least for claimants.

Appeals Decisions January 2009 – March 2010

Appeals filed by claimant	104,086	70.8%
Appeals filed by employer	42,979	29.2%
Appeals decisions	147,065	100.0%
Decision to allow benefits	79,881	54.3%
Decision to deny benefits	67,184	45.7%

Source: Agency for Workforce Innovation

What is clear is that Florida has one of the strictest systems in the country based on its rankings among other states on eligibility criteria, benefit amounts, and reciprocity rates, and robust scrutiny of claims. In short, it is unlikely that many people are receiving unemployment compensation who are not entitled to it, and in fact certain groups of workers who should be entitled to compensation are excluded.

Excluded Groups

Several studies have found that certain groups tend to have lower reciprocity rates than others. A recent GAO study found that low-wage workers were one-third as likely to receive unemployment benefits as higher wage workers.⁷ In 2003 the reciprocity rate for low-wage workers was 13.6%, compared with 37.1% for high-wage workers. A study of reciprocity rates in Florida found that African American and Latino workers in Florida had lower reciprocity rates than White workers.⁸ One factor that affects reciprocity among these groups is the time period used to determine eligibility for UC. The Standard Base Period used to determine eligibility is the first four of the last five completed calendar quarters, which essentially omits from 3 to 6 months of a worker’s most recent earnings. Some workers who have met the minimum earnings requirement are denied compensation because their earnings do not fall within the Standard Base Period. This particularly impacts low-wage workers who have to work longer in order to meet the minimum earnings requirement than

In 2003 the reciprocity rate for low-wage workers was 13.6%, compared with 37.1% for high-wage workers.

⁷ Government Accountability Office. 2007. Unemployment Insurance: Receipt of Benefits Has Declined, with Continued Disparities for Low-Wage and Part-Time Workers. GA07-1243T.

⁸ Lovell, Vicky and Maurice Emsellem. 2004. Florida’s Unemployment Insurance System: Barriers to Program Adequacy for Women, Low-Wage and Part-Time Workers, and Workers of Color. National Employment Law Project. Available on-line at <http://www.caseyfoundation.org/upload/publicationfiles/fe3679k546.pdf>.

higher wage workers, and temporary or seasonal workers whose earnings do not go back far enough.

Many of these workers would qualify if Florida used an Alternative Base Period to determine monetary eligibility, as thirty-nine other states do. The Alternative Base Period (ABP) would include the most recent completed quarter in determining eligibility, significantly reducing the lag time between when these workers are laid off and can apply for compensation.

Traditional Base Period				Alternative Base Period	
First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Completed Lag Quarter	Filing Quarter

As an example, if a worker started a job in March 1st, 2010 earning \$7.25 (minimum wage) and worked 20 hours per week, then on October 1st was laid off, he/she would have worked 31 weeks and earned \$4,495, enough to qualify for unemployment compensation. However, a claim for unemployment compensation that he/she filed would be denied in Florida because only \$2,610 was earned during the Standard Base Period, while the rest was earned during the most recent quarter. The claimant will have to wait 3 months to file before the claim is approved, which is a long time to survive without income.

The large share of low-wage jobs in Florida, along with the large share of jobs in leisure and hospitality and construction which have a high percentage of temporary or seasonal jobs, means that Florida has a substantial number of claimants who could benefit from an ABP. Based on research conducted by the Florida Department of Labor in 1997 on the impact of using an alternative base period in Florida, the State of Florida estimates that 14,030 additional individuals would have had access to benefits in 2008.⁹ That number is likely somewhat higher today given continuing high unemployment in the state.

Another reason that accounts for a low reciprocity rate for certain groups of workers, particularly low-wage workers and women workers, is that certain “compelling family reasons” for leaving work are not considered “just cause” in Florida and therefore disqualify workers from being able to receive unemployment compensation. These reasons include leaving work to care for a sick family member, domestic violence, and to follow a spouse who was relocated to another state for work. Thirty-two other states allow at least some of these “compelling family reasons” to be included in the “just cause” provisions for leaving a job that allow receipt

⁹ “Bill Analysis and Fiscal Impact Statement: CS/SB 516 Unemployment Compensation.” April 17, 2009. Professional Staff of the Policy and Steering Committee on Ways and Means, The Florida Senate.

of unemployment compensation. In particular allowing these reasons would benefit women, who are the most likely to have to leave a job for these reasons.¹⁰

How much has unemployment compensation contributed to Florida's economy?

An important function of unemployment compensation that is often overlooked is propping up demand during a recession. A large increase in unemployment during a recession, particularly the deep recession the country has recently experienced, causes hardship not only for workers who lose income but for businesses which lose customers. The loss of business contributes to further job loss, and a downward spiral ensues that can be difficult to break out of.

Unemployment compensation was created during the Great Depression to counter just this effect, by making sure that money kept circulating in the economy. This effect has been confirmed by studies such as a 1999 study by the Department of Labor which found that during the previous five recessions of the 1970's, 80's and 90's the drop in GDP was less severe by about 15% and fewer jobs were lost than would have been the case without unemployment compensation's contribution toward consumer spending.¹¹

In fact unemployment benefits have been found to be one of the best methods of stimulus there is. In a comparison of several different stimulus methods including reducing payroll taxes, providing a one-time social security benefit, and extending income tax cuts, the Congressional Budget Office found that extending unemployment benefits would have the largest impact on the economy, much larger than any kind of tax cut. Extending unemployment benefits would generate up to \$1.90 in increased economic activity for every budget dollar spent, compared with \$1.20 for reducing employers' payroll taxes or investing in infrastructure, and only \$0.40 for reducing income taxes. The reason why the stimulus effect of unemployment compensation is so much greater than other stimulus methods, particularly tax cuts that benefit wealthier individuals, is because the money goes to "those whose consumption is restricted by their current disposable income."

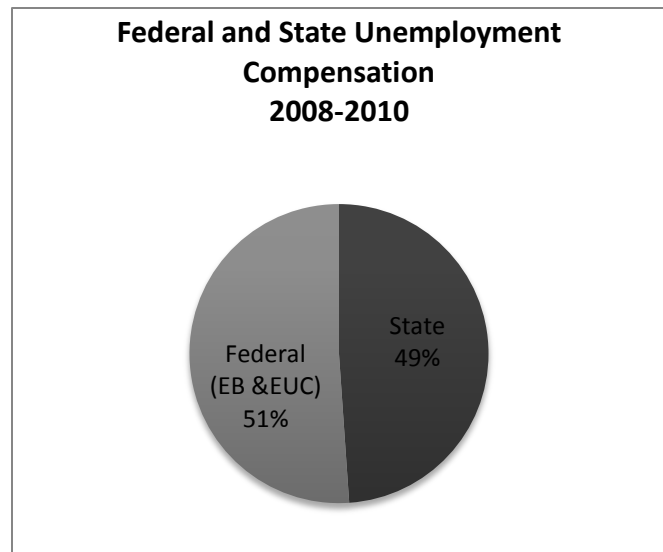
Unemployment compensation in effect offsets the loss of demand from households which have had their income severely diminished by job loss. Replacing some of the lost demand from these households reduces the hit to the economy and keeps money flowing to businesses. On the national level, an independent analysis authored by Wayne Vroman at the Urban Institute

¹⁰ Lovell, Vicky and Maurice Emsellem. 2004. Florida's Unemployment Insurance System: Barriers to Program Adequacy for Women, Low-Wage and Part-Time Workers, and Workers of Color. National Employment Law Project. Available on-line at <http://www.caseyfoundation.org/upload/publicationfiles/fe3679k546.pdf>.

¹¹ Chimerine, Lawrence, Theodore S. Black, and Lester Coffey. 1999. Unemployment Insurance as an Economic Stabilizer: Evidence of Effectiveness over Three Decades. U.S. Department of Labor, Employment and Training Administration, UI Occasional Paper 99-8.

found that UI benefits kept the unemployment rate 1.6 percentage points lower than it would it have been otherwise—keeping more than a million people in their jobs each month.¹²

Since the beginning of the recession, over \$14 billion has been paid out in unemployment compensation in Florida. Just under half this funding came from the state unemployment trust fund into which employers pay UC taxes. During normal times the fund has a large balance, and during recessions that balance decreases as more claims are paid out due to high unemployment levels. In this way the fund functions as a stabilizer to the economy, providing an influx of money to replace part of the wages that workers would otherwise have earned and then spent in the economy. A significant portion of the unemployment compensation benefits paid out in Florida have come from the federal government. Just over half of the benefits paid out in Florida, about \$7.4 billion, has been paid by the federal government through the extension programs. These funds come from the federal treasury.



The table below shows the total net amount that unemployment compensation has pumped into the Florida economy since the beginning of the recession. From January 2008 just after the recession officially began through December 2010, just over \$7 billion in unemployment compensation has been paid out from the state trust fund. This includes the amount that has been borrowed from the federal government and which will eventually have to be paid back. During this same period, employers’ contributions to the trust fund have amounted to over \$2.9 billion. Subtracting employer contributions from total benefits paid leaves us with the net benefit of unemployment compensation in Florida which amounts to \$4.2 billion from the state fund and \$5.6 billion from the federal fund for a total of more than \$9.8 billion.

Net Benefit of Unemployment Compensation in Florida, 2008-2010

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Unemployment compensation paid	\$7,111,848,003	\$7,428,990,711	\$14,540,838,714
Employer contributions ¹³	\$2,933,021,000	\$1,819,859,712	\$4,752,880,712
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¹² Vroman, Wayne. 2010. “The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession.” Impaq Institute. Available on-line at <http://www.dol.gov/opa/media/press/eta/eta20101615fs.htm>

¹³ Full year data on employer contributions for 2010 was not yet available, so these figures contain estimates for 2010 based on the first three quarters of the year in the case of state contributions and the first quarter in the case of federal contributions.

Recommendations

State and federal government should continue providing unemployment compensation for out of work Floridians until unemployment levels improve significantly.

With Florida's unemployment rate still extremely high and job creation slow, at the current moment there are few options for those who are out of work to find jobs. Making sure that unemployment benefits continue to be available will be an important support for families who have lost income as well as maintaining demand for goods and services to support economic recovery. The state and federal unemployment compensation programs should continue to provide benefits as long as there is significant need based on unemployment rates and the rate of job growth in the state. With the Florida economy barely adding jobs at this point, it does not seem economically wise to alter the safety net at this juncture as it will only slow the economic recovery.

Ensure that all who are out of work through no fault of their own are eligible for benefits.

Currently Florida's unemployment compensation system does not work as well for certain groups of workers including low-wage workers, temporary and seasonal workers, and those who have compelling family reasons for leaving work. A fair system should make sure these workers are eligible for the benefits they have earned. In addition, making sure that all who should be eligible for benefits are able to receive them increases the stimulus effect of UC which benefits the state's economy. The federal government through the American Recovery and Reinvestment Act has provided incentive funding for states to modernizing their UC systems by: using an Alternative Base Period for determining eligibility, including compelling family reasons specifically domestic violence, taking care of a sick family member, and moving with a relocating spouse as "just cause" for leaving a job, and allowing those who are only available for part-time work to collect benefits. These changes to the law would reduce the gap in reciprocity for low-wage workers, temporary or seasonal workers, and women workers. Adopting these changes would also make the state eligible to receive \$444 million in additional funding for its unemployment compensation program, which would more than cover the cost of the additional benefits.¹⁴

¹⁴ National Employment Law Project. 2009. The American Reinvestment and Recovery Act's Modernization Provisions: Benefit Funding and Workers to Benefit in States that Adopt ARRA Incentive Reforms. Available on-line at <http://www.nelp.org/page/-/UI/UIMA.cost.chart.nov.09.pdf?nocdn=1>.
