



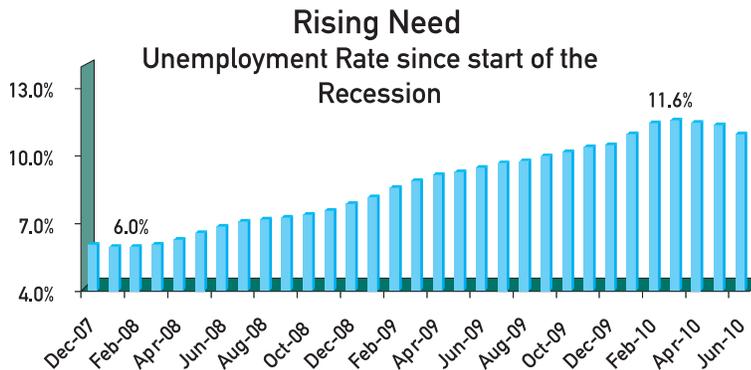
BEYOND MODERNIZATION: Unemployment Insurance in Mississippi



Mississippi
Economic Policy
Center
A HOPE Initiative

Beyond Modernization: Unemployment Insurance in Mississippi

While the recession of 2007 is technically over, its effects remain in Mississippi. In June of 2010, over 145,000 Mississippians were unemployed.¹ While the unemployment rate has declined moderately in recent months, it has steadily risen since the start of the recession.



Source: Bureau of Labor Statistics; Economic Policy Institute Analysis

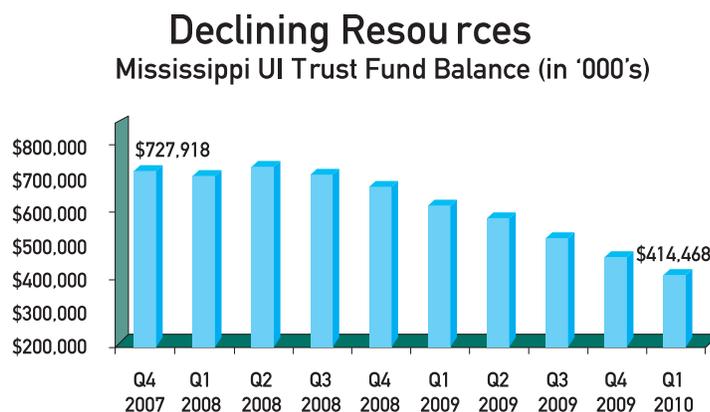
Responding to the recession and the associated challenges of losing one's job, the U.S. Congress passed and the U.S. President signed into law the American Recovery and Reinvestment Act (ARRA). As a result, Mississippians who lost their job through no fault of their own saw increases in the weekly unemployment insurance (UI) amount and received additional weeks for which they could receive UI payments.

ARRA also included provisions to expand the base of people who could qualify for UI through "Unemployment Modernization." ARRA created a pool of one-time incentive funding for states that adopted a series of policy changes through modernization. Debated heavily during the 2010 Legislative Session, Mississippi did not adopt any of the Unemployment Modernization policy changes provisioned for under ARRA.

Looking beyond the next debate, this briefing paper provides a snapshot and background on the current state of the UI system in Mississippi. It looks at both sides of UI compensation – how money is raised to make UI payments and the policies that affect how compensation is provided within the context of Mississippi's economy. The paper concludes with a series of policy recommendations.

Trust Fund Solvency

Critical to the maintenance of UI payments and tax rates includes the solvency of Mississippi's UI Trust Fund. When the recession started, there was over \$725 million in the UI Trust Fund. As of the end of the first quarter in 2010, the balance had declined to \$414 million.



Source: U.S. Department of Labor Unemployment Insurance Data

Two factors affect the solvency of the UI Trust Fund. First, during an economic downturn more people file eligible claims for unemployment insurance which ultimately increases the amount of money that is paid from the UI Trust Fund. Second, employers pay UI taxes on covered employees. As employers cut jobs in response to decreased demand for products and services, there are fewer employees on which UI taxes are paid which ultimately decreases the amount of money that is paid into the Trust Fund.

As discussion of UI reform evolves, UI Trust Fund solvency should remain the top priority. If the solvency of the fund continues to decline, UI tax rates will automatically adjust upward putting pressure on employers. Likewise, resistance to UI benefit enhancements will increase out of solvency concerns and associated tax increases.

By at least one measure, the Average High Cost Multiple (AHCM), Mississippi currently has the second most solvent Trust Fund in the country and the most solvent fund in the Southeast.² At the same time, the overall level of solvency has dropped markedly since the start of the 2007 recession as unemployment has risen and remained high. The table compares UI Trust Fund solvency levels among the states in the Southeast.



UI SOLVENCY LEVELS - SOUTHEAST	
	AHCM
Alabama	-
Arkansas	-
Florida	-
Georgia	-
Louisiana	0.71
Mississippi	1.11
North Carolina	-
Tennessee	0.15
South Carolina	-

Source: Unemployment Insurance Data Summary Q1 2010. U. S. DOL

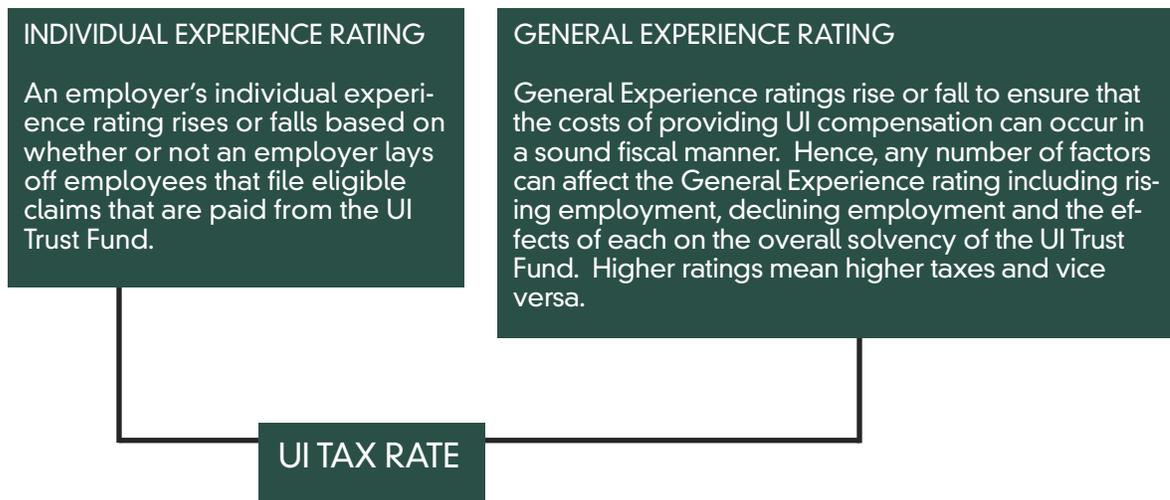
WHAT IS THE AVERAGE HIGH COST MULTIPLE (AHCM)?

The AHCM is basically a measure of UI Trust Fund Reserves. For example, an AHCM of 1.0 means that a Trust Fund has the resources to pay benefits for 1 year during a recession in the absence of any additional contributions. A state without an AHCM means that the state is borrowing from the U.S. Government to pay benefits. The Advisory Council on Unemployment Compensation recommends a pre-recession AHCM of 1.0.

Of nine Southeastern states examined for this report, only three, including Mississippi had UI Trust Funds with any net reserves. The other six were borrowing from the U.S. Department of Labor to pay benefits and the outstanding loan balances were higher than the amount of money in the respective Trust Funds. Employers in states that are borrowing from the U.S. Government could potentially see an increase in federal unemployment taxes resulting from the reduction of tax credits for unemployment taxes paid. Additionally, the stress of the economic downturn has actually led to a reduction in benefits in some states to address UI Trust Fund solvency concerns.

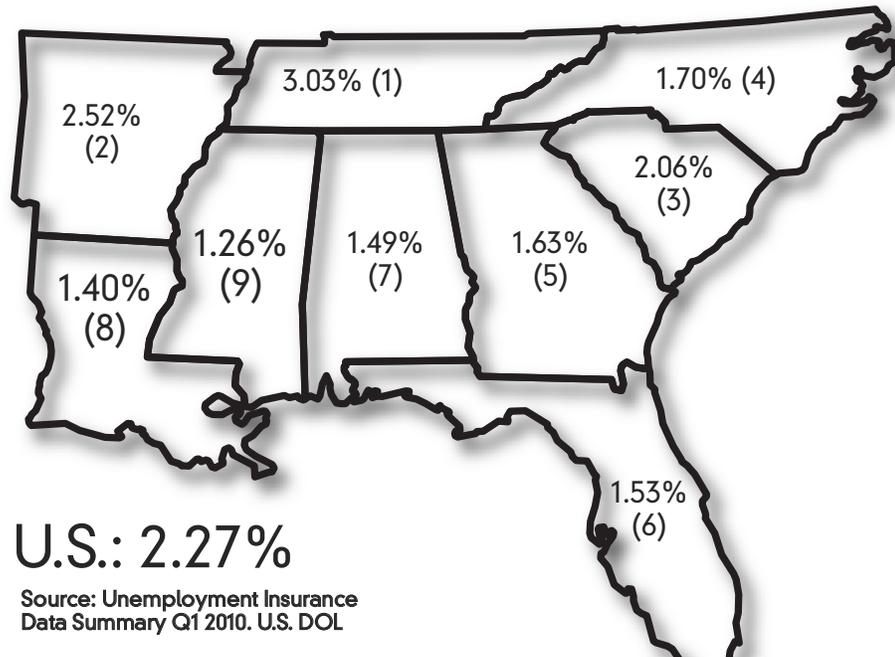
Unemployment Insurance Taxes

A number of factors affect how UI taxes are calculated for employers. The minimum UI tax rate for employers is .2% on the first \$14,000 of wages earned per employee or \$28. The \$14,000 cap is also known as the taxable wage base. The maximum UI tax rate for employers is 5.4% on a taxable wage base of \$14,000 or \$756. Tax rates are determined by an employer's individual use of the UI Trust Fund (the individual experience rating) and the overall use of the UI Trust Fund by all employees (the general experience rating). Combined, the two rates make up the UI tax rate. The diagram below provides a graphic description of how taxes are calculated in Mississippi.



Currently, Mississippi has some of the lowest UI taxes in the country. The average tax rate on taxable wages in Mississippi was 1.26% compared to 2.27% nationally. Thirty-nine states have tax rates that are higher than Mississippi. The Map illustrates the tax rates and rankings across the Southeast.

Average UI Tax Rate on Taxable Wages (SE Rank)



HOW WILL CHANGES MADE DURING THE 2010 LEGISLATIVE SESSION AFFECT THE UNEMPLOYMENT INSURANCE PROGRAM IN MISSISSIPPI?

Two changes were made during the 2010 Legislative Session: 1) Changes to the funding of the Workforce Enhancement Training (WET) fund; and 2) The enactment of the Equity and Solvency Bill.

WET FUND CHANGES

Prior to the changes made during the last session, the Mississippi Department of Employment Security collected an additional 0.3% on the first \$7,000 of wages of each employee and diverted approximately \$20 million annually for training administered by the community and junior colleges. To protect the ability of the UI Trust Fund to pay benefits, the diversion was to be stopped in the event of certain solvency measures being passed.

The changes disconnected the WET Fund collections from the solvency of the UI Trust Fund and allowed the money to continue to flow to the community colleges. It also put into place tax provisions to ensure that sufficient money flowed into the fund during economic downturns.

As a result, the training money will stay in place for the foreseeable future and UI tax rates will increase in 2011. For more information on the WET Fund changes see http://www.mepconline.org/images/admin/spotedit/attach/0/UI_Trust_Fund_and_Workforce_Enhancement_Training_Fund_Overview.pdf.

EQUITY AND SOLVENCY BILL

Prior to the implementation of the Equity and Solvency Bill, the taxable wage base in Mississippi stood at the federal minimum of \$7,000 with tax rates ranging from 0.4% - 5.4%. Additionally, taxes were due in one lump sum annually.

With the passage of the Bill, the taxable wage base increased and the minimum tax rate decreased to 0.2%. Additionally, employers were given the option to pay UI taxes in installments throughout the year. For employers with the lowest tax rates, the tax burden remained unchanged. However, for employers with significant charges against the UI Trust Fund, taxes, in some instances would double per employee. Over time, the expansion of the wage base will serve as a critical policy change to maintain solvency in the UI Trust Fund.

Unemployment Insurance Compensation



When unemployment occurs, unemployment compensation provides support for families and the state's economy – especially during a downturn. In 2009, for example, the UI program in Mississippi put over \$335 million back into Mississippi's economy.³ Mississippi's UI compensation levels (average and maximum) remain the lowest in the country. Mississippi's wages are also the lowest in the country offering another lens – wage replacement – for evaluating the overall system.

How does Mississippi's UI compensation compare to other Southern States?

In absolute terms, Mississippi's UI compensation levels are the lowest in the South. However, because wages in Mississippi are lower than in any other state, Mississippi falls in the middle of the pack when examining wage replacement rates. The table below provides a snapshot of wages, average weekly benefit amounts and rates of wage replacement.

UI COMPENSATION THROUGHOUT THE SOUTHEAST				
	Average Weekly Benefit Amount	Average Weekly Wage	Wage Replacement Rate	SE Rank
AL	\$208.48	\$734.04	28.4%	9
AR	\$283.18	\$672.02	42.1%	1
FL	\$236.22	\$772.34	30.6%	6
GA	\$282.30	\$807.64	35.0%	4
LA	\$231.28	\$772.22	30.0%	7
MS	\$194.96	\$634.18	30.7%	5
NC	\$306.73	\$754.29	40.7%	2
SC	\$247.79	\$691.67	35.8%	3
TN	\$225.27	\$759.72	29.7%	8
U.S.	\$309.82	\$858.56	36.1%	-

Source: Unemployment Insurance Data Summary Q1 2010. U. S. DOL

Mississippi trails the national wage replacement rate by 5.4 percentage points. Over time, building up the UI Trust Fund to support UI compensation levels that replace wages at the national average represents an important goal.

Who receives UI Compensation?

Thirty-three out of 100 unemployed Mississippians received UI compensation over the last 12 months. This rate trailed the national reciprocity average of 38%. Compared to Southern states, Mississippi was again in the middle of the pack with four Southeastern states having a higher reciprocity rate and 4 Southeastern states having lower rates.

Unemployment Insurance Modernization⁴

With the passage of the American Reinvestment and Recovery Act (ARRA), states were provided with incentive funding to update state UI systems to meet the needs of an evolving workforce in today's global economy. To receive the funding, states need to adopt, or already have in place, an Alternative Base Period for eligibility determination and two of the following four changes: 1) loss of work for compelling family reasons, such as domestic violence; 2) coverage of workers who could only work part time; 3) coverage of workers who enter a retraining program or 4) an additional benefit for dependents. If Mississippi were to make all of the changes, it would receive \$56.1 million in incentive funding. If Mississippi only adopted the base period change, it would receive \$18.7 million. All changes must be made by August of 2011 to receive incentive funding.

Alternative Base Period

To determine whether or not a worker has earned the required wages to qualify for UI compensation, states look at the worker's earnings during a four quarter "base period." Currently, Mississippi looks at the first four of the last five completed quarters to determine if an individual has earned enough to qualify for unemployment insurance compensation. This manner of determining eligibility potentially omits the wages earned up to six months prior to filing a claim. With the implementation of an Alternative Base Period, Mississippi would look at the four most recent completed quarters. The change would ensure that workers were given credit for the most recent work for eligibility determination.⁴

Most of the states in the country (38) use the Alternative Base Period to determine eligibility for UI. Among the Southern states, AR, GA, NC, SC and TN have enacted reforms that include the use of the Alternative Base Period. Alabama, FL, LA and Mississippi have not enacted the reforms.

Estimates conducted by the Mississippi Department of Employment Security in March found that a change to the Alternative Base Period would reach an additional 6,596 Mississippians at a cost of \$15.5 million. Incentive funding of \$18.7 million would cover 1.2 years of benefits based on March unemployment levels.

Additional Provisions

To qualify for the remaining 2/3 of UI Modernization funding (\$37.4 million) Mississippi would need to enact changes that provided UI compensation to eligible workers in two of the following four situations:

- Loss of work for compelling family reasons, such as domestic violence;
- Coverage of workers who could only work part time;
- Coverage of workers who enter a retraining program; or
- An additional benefit for dependents.

To date, 32 states have enacted both sets of reforms and qualified for the full package of incentive funding offered through ARRA. Among the Southern states examined in this report, AR, GA, NC, SC and TN have enacted the full set of reforms. The remainder have not enacted any reforms.⁵

Policy Recommendations



Two policy recommendations that would both allow Mississippi's UI program to grow with the economy and to modernize include indexing UI compensation to grow concurrently with increases in Mississippi wages and the enactment of the Alternative Base Period.

Indexing Maximum UI Compensation

Currently, 36 states index maximum UI compensation amounts including AR, LA, SC and NC. Indexing offers a couple of advantages. First, by indexing maximum UI payments, the payments grow automatically to reflect growth in wages. Hence, the system provides a consistent level of wage replacement for workers who lose a job through no fault of their own. Second, indexing de-politicizes the payment of UI benefits. Currently, the legislature must pass changes in Mississippi UI compensation law to increase UI benefit payments. As a result, UI benefits may, over time, not keep pace with growth in wages. Costs of indexing UI benefits in Mississippi could be covered by indexing eligibility criteria and minimum payment amounts or by allowing the UI tax system to adjust to increased UI payment amounts.

Alternative Base Period

Mississippi should also enact the changes needed to implement the Alternative Base Period. As mentioned above, the vast majority of states, including Southern states, utilize the ABP. The change would benefit nearly 6,600 workers and bring in an additional \$18.7 million to the state. Concerns about long term costs requiring tax increases could be mitigated through a revenue neutral approach that identifies offsets in other parts of the UI payment system.

Unemployment insurance provides critical supports to families with workers who lost their job through no fault of their own. During economic downturns, it also provides an important boost to the state's economy. Recognizing that the current system has been stressed from the lingering effects of the recession, any changes pursued must take into account the long term solvency of the UI Trust Fund and the subsequent effects on UI taxes and benefits. With the long view in mind, Mississippi can position itself to capitalize on the short term incentive funding offered through ARRA and to build on the current system to support families in the future.

- 1 Labor Market Data for June 2010. Mississippi Department of Employment Security. June 2010. <http://mdes.ms.gov/Home/docs/LMI/Publications/Labor%20Market%20Data/labormarketdata.pdf>
- 2 Unemployment Insurance Data Summary "Financial Information by State for CYQ 2010.1." U.S. Department of Labor. Quarter 1 2010. http://workforcesecurity.doleta.gov/unemploy/content/data_stats/datasum10/DataSum_2010_1.pdf
- 3 Fact Sheet on Mississippi Unemployment Insurance Program Prepared by National Employment Law Project. June 2010.
- 4 For more information, see "The Unemployment Insurance Modernization Act: Opportunities for Mississippi." Mississippi Economic Policy Center. March 2009. http://www.mepconline.org/images/admin/spotedit/attach/4/UIMA_Updated_3-7-09.pdf
- 5 Recovery Act's Unemployment Insurance Modernization Incentives Produce Bipartisan State Reforms in Seven States in 2010. National Employment Law Project. June 18, 2010. http://nelp.3cdn.net/c7135659bb84727c57_zem6bqp31.pdf

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