August 2000 ***00-1***

Lagging the Nation

California's Jobless Benefits

Executive Summary

California's jobless benefits, set at a maximum of $230 per week, lag behind benefits paid in most states in the nation. They have trailed both the increased costs of living in California and the rise in salaries and wages paid to working Californians.

Jobless workers receive unemployment insurance (UI) amounts based on their work histories and previous salaries, up to the $230 maximum. The average paid in California is $150 per week.

The state's UI benefits haven't been raised since 1992, although under a voter-approved initiative the state's minimum wage, now $5.75 per hour, has gone up twice since then.[1]

As Chart 1 shows, South Dakota, Nebraska, Arizona, Alabama and Mississippi have lower maximum UI benefits than California, while 44 states and the District of Columbia pay higher amounts.

This paper looks at the structure of UI benefits in California, compares payments in three hypothetical cases with those of another state, Texas, and explores options for raising the maximum amount here.

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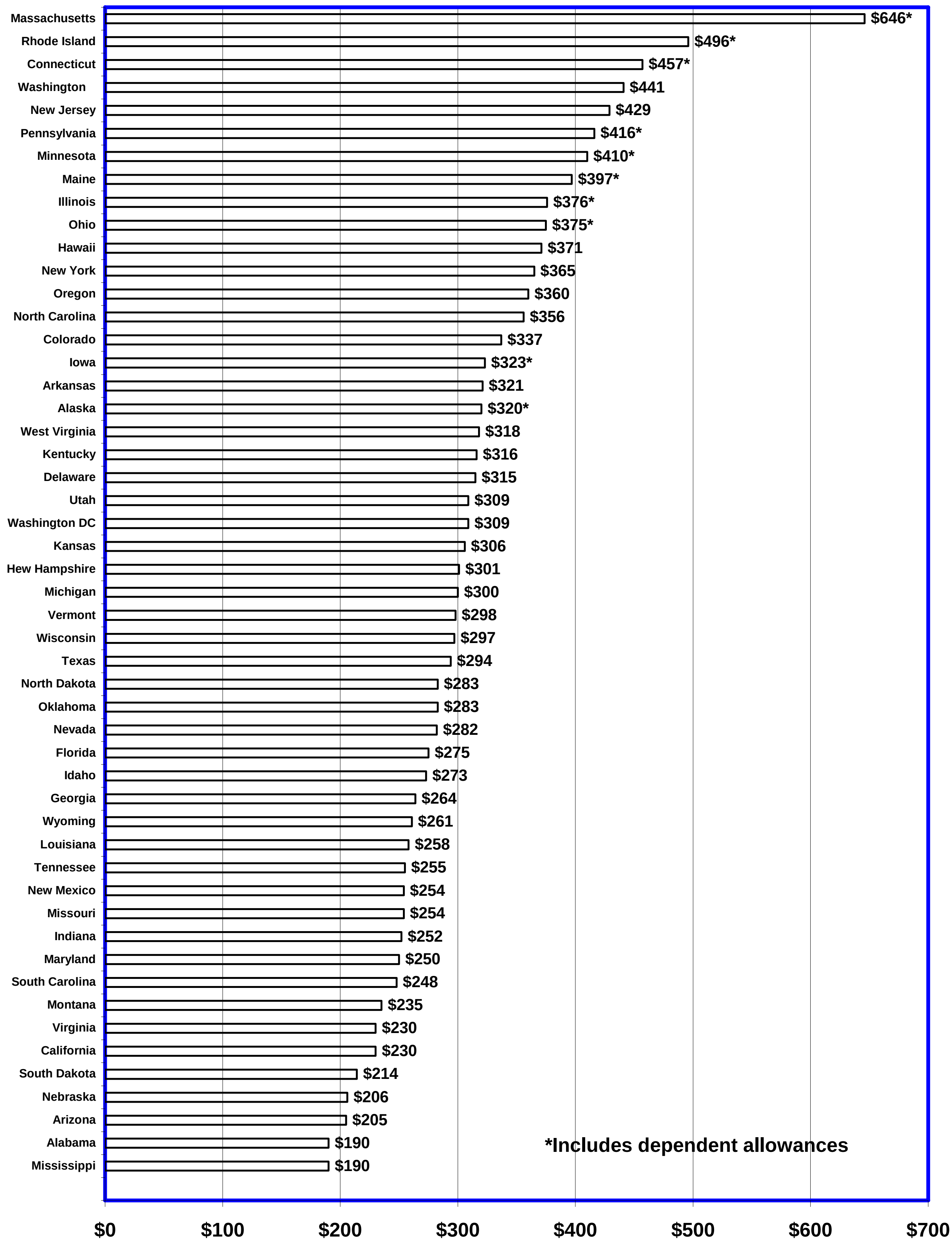
[1] Proposition 210, a citizens' initiative approved in November 1996, raised California's minimum wage in two stages in 1997 and 1998 by a total of 35 percent from $4.25 per hour.

Chart 1
Comparison of Maximum Weekly Unemployment Insurance Benefit



Source: U.S. Department of Labor
Significant Provisions of State Unemployment Laws, July 10, 2000

UI benefits are provided for up to 26 weeks[2] to qualifying individuals who have lost their jobs through no fault of their own. Jobless workers receive these wage-replacement checks while looking for other employment. Jobless benefits, under the 65-year-old federal program,[3] are financed primarily by state payroll taxes paid by employers. States are permitted to determine the kinds of work and circumstances of unemployment that qualify jobless workers for the program, thus determining the percentage of the work force that will be eligible. As Chart 2 shows, California's eligibility standards are slightly broader than the national average, but more restrictive than those of 14 other states.

California's economy has rebounded vigorously from the prolonged recession of the early 1990s, when more than 850,000 jobs were lost and the unemployment rate spiked at 10.3 percent.[4] By February 2000, statewide unemployment had dipped to just 4.6 percent, the lowest in 30 years.

At the same time, the cost of living has begun to rise, propelled by sometimes-staggering jumps in housing costs and a steady climb in personal income. Average weekly wages in a state composite of several industries, including construction and manufacturing, rose 21 percent between 1992 and 1999 – from $571 to $690.[5]

Not all Californians are sharing in the good times. High unemployment rates continue to dog rural counties. The experiences of Californians in losing and regaining employment can vary greatly depending upon where they live – from agriculturally rich Imperial County in the south with 21.2 percent unemployment to booming Santa Clara County in the heart of the Silicon Valley with its jobless rate of just 1.9 percent.

Against a backdrop of generally fast-paced economic growth and rising income, this paper explores issues related to these static benefits.

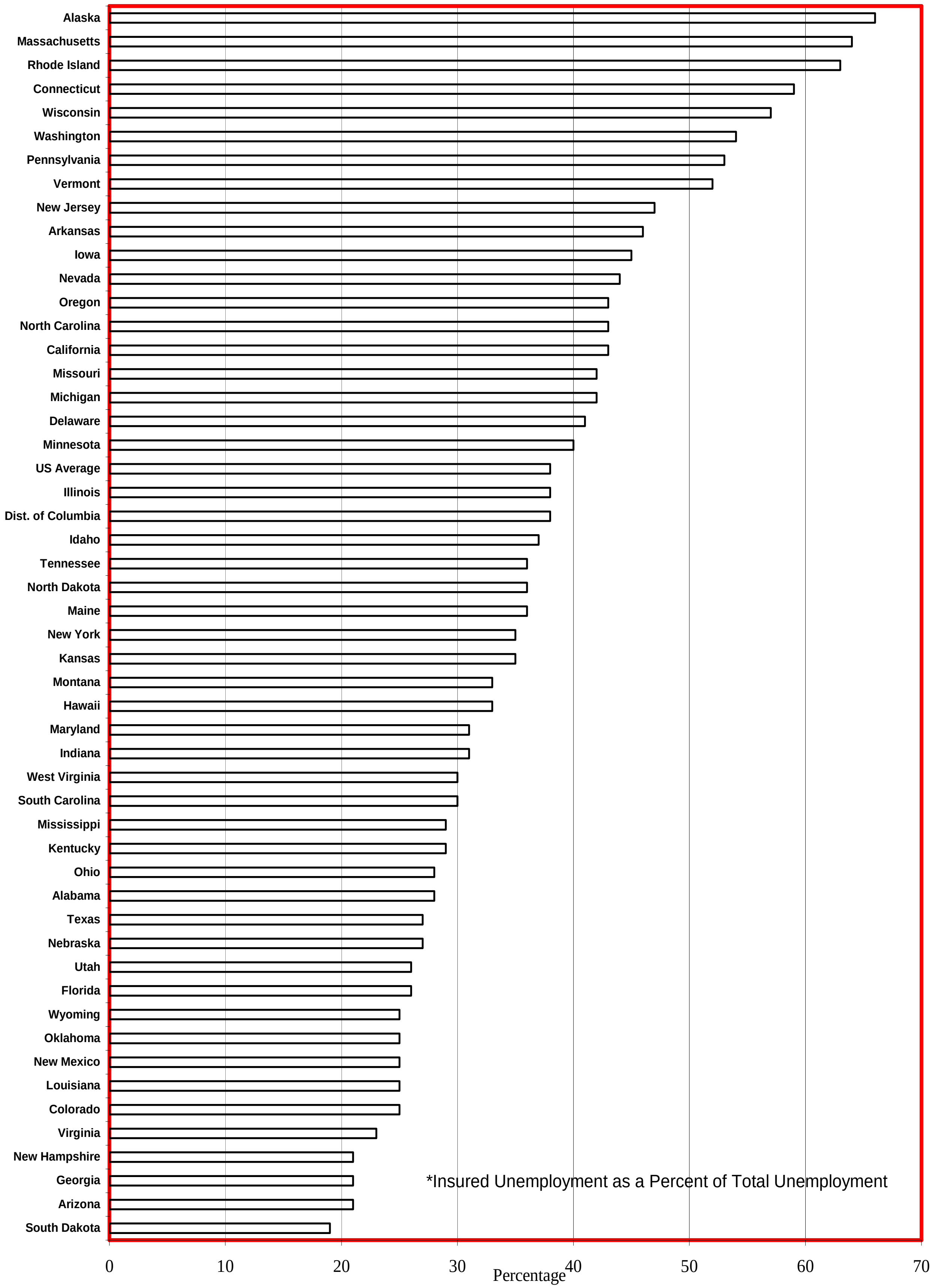
[2] Washington state permits a maximum of 30 weeks of UI payments.

[3] The UI program in the United States is the product of federal law and state law. Federal law establishes a broad framework for the system. States must operate within this system to qualify for federal grants to administer their UI programs.

[4] This was the unemployment rate in January 1993.

[5] The U.S. Department of Labor, Bureau of Labor Statistics, provides this composite industrial wage standard.

Chart 2
Recipiency Rates*



Source: U.S. Department of Labor

California's UI Program:
Does It Still Function As a Safety Net?

The unemployment insurance program, established in 1935 as part of the Social Security Act, was designed to reduce the financial hardships that individuals experience during periods of temporary unemployment. The program was designed to provide unemployed workers with transitional benefits to help stabilize both families and communities. Workers continue to provide food, clothing and shelter for their families and communities continue to reap the economic benefits from the purchase of products and services.

Debate has continued since the inception of the unemployment insurance program concerning the necessary level of benefits for an adequate safety net without sustaining a level of benefits that would discourage a worker from returning to work.

From the beginning many, including Presidents Eisenhower and Nixon, have supported a goal of replacing 50 percent of lost earnings. The Advisory Council on Unemployment Compensation (ACUC) in its 1995 report to President Clinton also endorsed the long-standing goal of 50 percent wage replacement as a basic element in determining benefit adequacy. Additionally it noted that to achieve this goal, the state maximum weekly benefit amount should be equal to two-thirds of the state average weekly wage.[6]

Benefit and wage-replacement levels are established by each state. The last increase in unemployment insurance benefits in California was enacted by legislation signed by Governor George Deukmejian in 1989, which provided for a three-step benefit increase. The final step of this increase was to $230 per week effective January 1, 1992.

Inflation has eroded the value of the benefit from $230 in 1992 to $192 in today's dollars.[7] The $230 figure is a maximum, using a formula based on an employee's work history and previous earnings, and the average awarded in California is $150 per week.

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[6] Advisory Council on Unemployment Compensation, *Unemployment Insurance in the United States: Benefits, Financing, Coverage* (Washington, DC: 1995), p. 20.
[7] Based upon the California Consumer Price Index.

Table 1
Looking Back:
Increases In Weekly Unemployment Insurance Benefits

YEAR LEGISLATION SIGNED	GOVERNOR	MAXIMUM WEEKLY BENEFIT AMOUNT (MWBA)
1989	George Deukmejian	$230[8]
1982	Jerry Brown	$166
1979	Jerry Brown	$136[9]
1975	Jerry Brown	$104
1973	Ronald Reagan	$ 90
1971	Ronald Reagan	$ 75
1965	Pat Brown	$ 65

At the same time, average state wages have increased in California, as illustrated by the table below. The wages shown are a composite of weekly wages paid in the mining, construction, manufacturing, communications, public utilities and wholesale and retail trade industries, as reported by the U.S. Bureau of Labor Statistics.

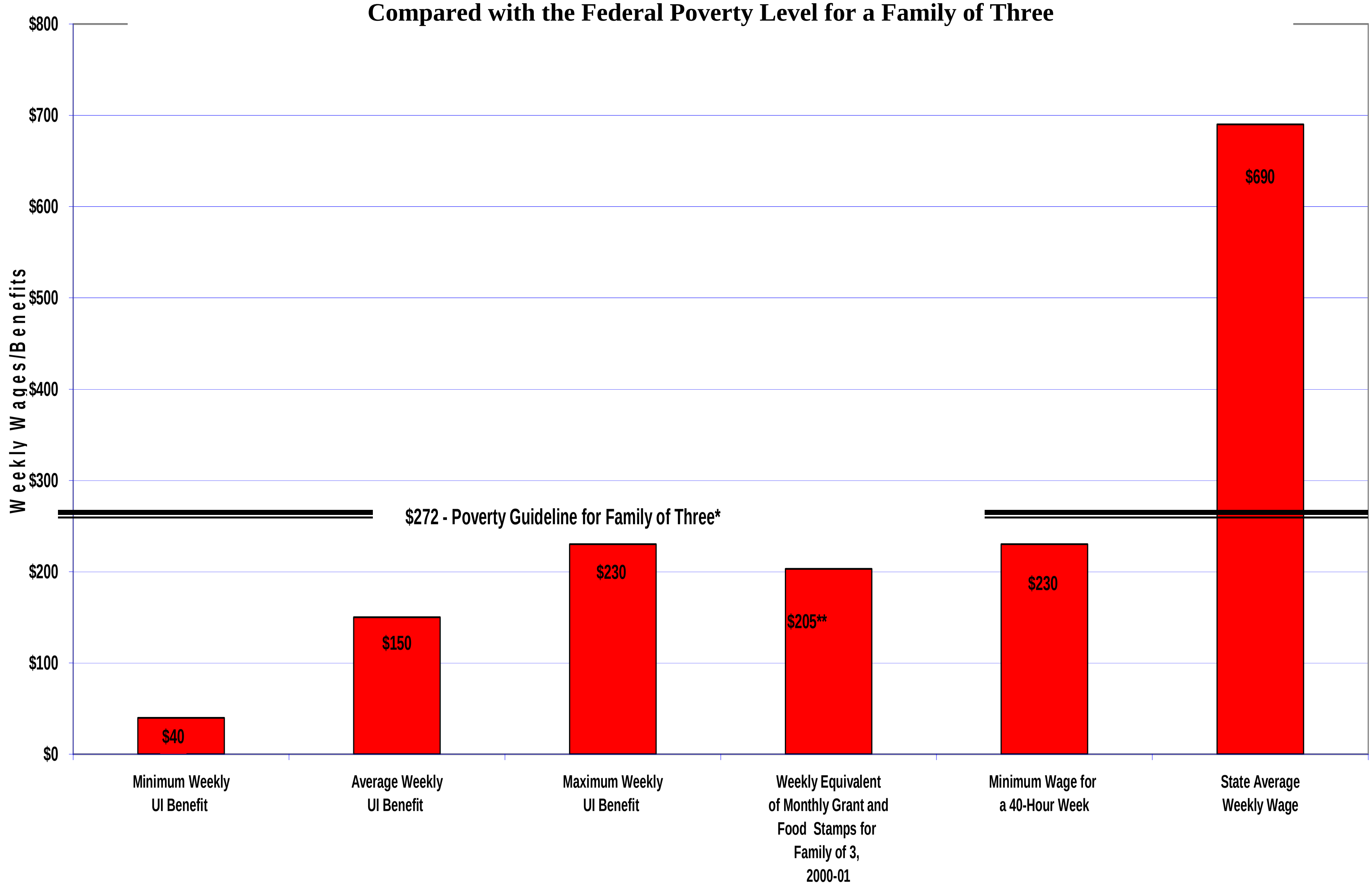
Table 2
Average Weekly Wage for a Composite of Industries in California

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
$542	$554	$571	$593	$601	$613	$633	$662	$673	$690

As Chart 3 indicates, an unemployed worker who is the sole economic provider for a family of three will fall beneath the federal poverty guidelines if he or she receives the average benefit of $150 or even the maximum benefit of $230. The average benefit amount of $150 is 25 percent less than the maximum weekly

[8] MWBA raised to $190 effective 1-1-90, to $210 effective 1-1-91, and to $230 effective 1-1-92.
[9] MWBA raised to $130 effective 5-1-81, to $136 effective 1-1-82.

Chart 3
UI Benefits, Welfare Benefits and Average Weekly Wages in California Compared with the Federal Poverty Level for a Family of Three



* Based upon the Department of Health and Human Services update of national poverty guidelines

** $203 in low-cost counties, $205 in high-cost counties grant a family of three receives under Temporary Assistance for Needy Families (TANF) and food stamps.[10]

Comparison with Other States

As noted previously, California's unemployment benefits ranked below those of 44 states and Washington D.C. One of the most revealing measures of a state's UI program is the level of wage replacement it provides. California, which replaces 22.9 percent of average lost wages in a composite of industries, had the lowest wage-replacement rate in the nation in 1999. (See Chart 4.)

Taking a Closer Look at California and Texas

It may be illustrative to compare California's UI benefits with those of another state, such as Texas. Like California, Texas lies along the Mexican border, has a diverse population and strong agricultural and high-technology sectors.

A look at unemployment benefits for minimum-wage, average-wage and high-wage workers shows that benefits provided to unemployed workers in California fall behind benefits paid to comparable unemployed workers in Texas. When comparing wages and benefits in California and Texas, it is also important to keep in mind that each dollar in California buys less in the way of food, clothing and shelter than a dollar spent in Texas. [11]

The following illustrations demonstrate the contrasting experiences of jobless workers in California and Texas. All examples assume full-time employment at the same salary level throughout the period of time used by the state to compute benefit eligibility.

Example 1: Minimum-Wage Earner

> *Stan was a cashier working in a retail store making $5.75 per hour or $230 per week. Stan is out of work because the store has closed and he has filed for unemployment insurance.*

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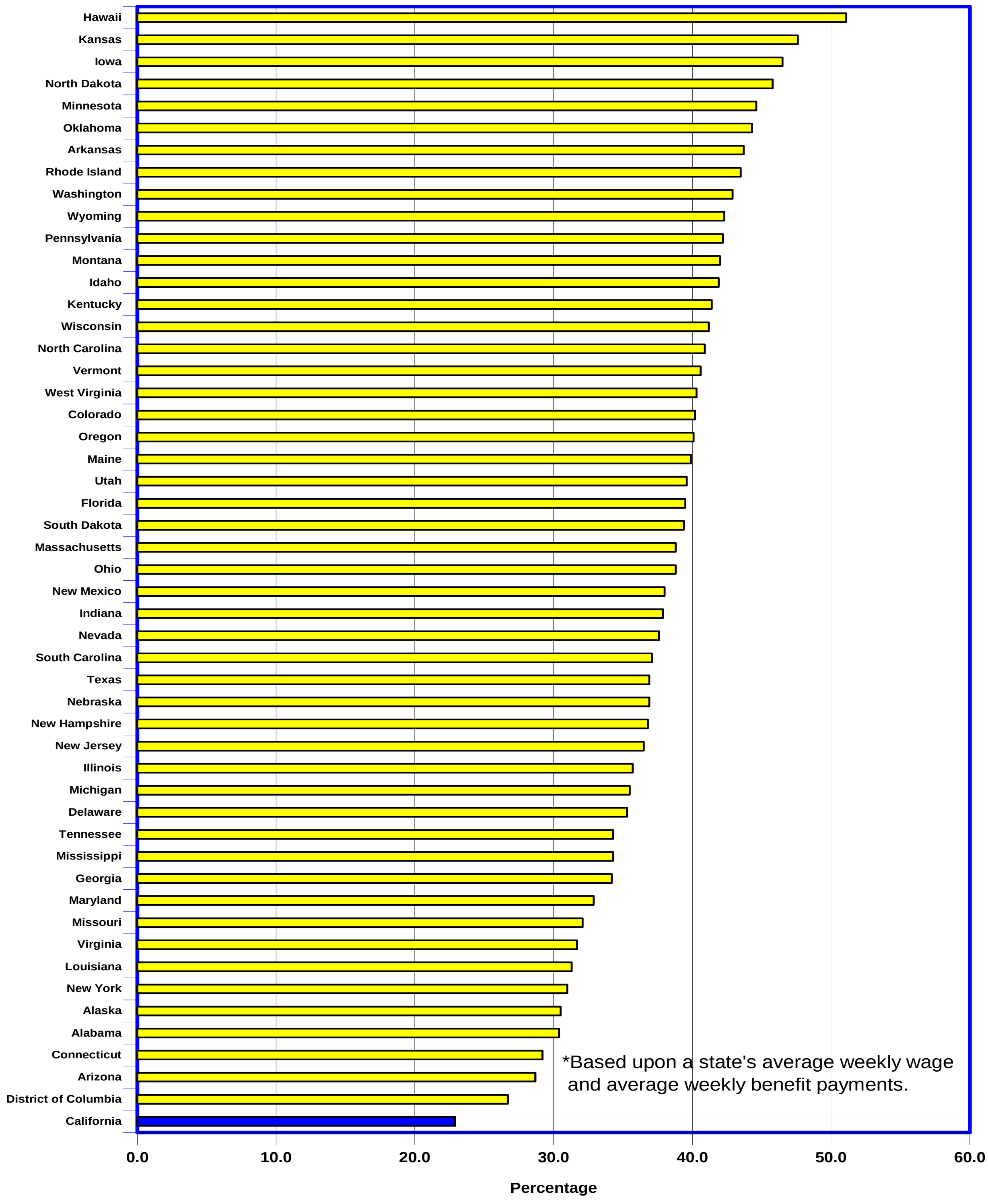
[10] Based upon dividing the monthly amount for TANF by 4.29 weeks.
[11] Based upon the City-by-City Index, produced by the American Chamber of Commerce Researchers Association.

Chart 4
Percentage of Wages Replaced by Unemployment Insurance Benefits



Source: U.S. Department of Labor
State UI Benefits Data. December 1999

In California, Stan would be entitled to unemployment insurance benefits at the rate of $101 per week for up to 26 weeks. Unemployment benefits would replace 44 percent of his lost wages.

In Texas, Stan would be entitled to unemployment insurance benefits at the rate of $120 per week for up to 26 weeks. Unemployment benefits would replace 52 percent of his lost wages.

Example 2: Average-Wage Earner

Lily was a landscape designer working for a large contracting firm making $583 per week. Lily is out of work because of downsizing and has filed for unemployment insurance.

In California, Lily would be entitled to unemployment insurance benefits at the rate of $230 per week. Unemployment benefits would replace 39.5 percent of her lost wages.

In Texas, Lily would be entitled to unemployment insurance benefits at the rate of $294 per week. Unemployment benefits would replace 50 percent of her lost wages.

Example 3: High-Wage Earner

Susan is a computer technician working for a small manufacturing company making $60,000 per year, or $1,154 per week. The company goes out of business and Susan files for unemployment insurance.

In California, Susan would be entitled to unemployment insurance benefits at the rate of $230 per week. Unemployment benefits would replace 20 percent of her lost wages.

In Texas, Susan would be entitled to unemployment insurance benefits at the rate of $294 per week. Unemployment benefits would replace 25.5 percent of her lost wages.

Policy Considerations

- **What are adequate benefits?**

  Is a maximum of $230 per week adequate?

  A worker who made the average industrial-composite wage of $690 per week in California in 1999 would replace 33 percent of his or her lost wages when receiving jobless benefits. In addition to failing to keep pace with the rest of the nation, this level of benefits falls far below the recommendations of the ACUC to set the maximum weekly benefit amount at two-thirds the average weekly wage and to replace 50 percent of lost worker wages. Two-thirds of the average weekly wage of $690 for 1999 would equal $460.

  Would the maximum of $294 per week paid in Texas be adequate in California?

  Texas pays a maximum UI weekly benefit amount of $294. If California had this maximum, it would pay a lower maximum weekly benefit than 24 other states and Washington, D.C. A worker who made the average composite weekly wage of $690 in 1999 would replace 43 percent of his or her wages.

  Is a maximum of $345 per week adequate?

  If California were to replace 50 percent of wages for the average composite weekly wage earner, the maximum benefit amount would be increased to $345. At $345, California would pay a lower maximum weekly benefit than 14 other states.

- **How do states keep maximum weekly unemployment benefits in pace with costs of living in their states?**

  Each state has the responsibility for setting its own benefit schedule. Maximum weekly benefit amounts range from $190 per week in Mississippi to $646 per week in Massachusetts. Indexing the maximum weekly benefit amount to the state's average weekly wage can ensure that unemployment benefits keep pace with the increase in earnings and the cost of living within a state. All of the 14 states that meet the 50 percent wage-replacement standard are indexing benefits to the state average weekly wage. Conversely, the vast majority of states that pay the lowest benefits do not index benefits.

- **When is the best time to increase worker benefits?**

  Employers may feel that there is no good time to increase unemployment benefits because the costs, beyond any reserves or surpluses in the UI Fund, are borne by employer payroll taxes. Appropriate timing of benefit increases, however, can mitigate adverse effects on employers.

  California's unemployment system is financed through a pay-as-you-go method. The annual schedule of payments is based upon the balance in the UI Fund. As the fund balance decreases, the rate increases. This means that when the economy is strong and unemployment is low, employer costs remain low. When the economy spirals downward and unemployment levels increase, the fund balance decreases and drives a rate increase.

  The pay-as-you-go system of financing results in increased employer payments when the economy is stressed rather then when the economy is strong. Yet the best time to adjust benefits to an adequate level would be when the economy is strong. When the economy is strong, benefit costs are low because fewer people are claiming them, employer profits are more robust, and most employers are better positioned to withstand any rate increase that might result from increased benefit levels.

- **Can the UI Fund absorb a benefit increase?**

  As mentioned, California's UI benefits are financed by a state tax paid by employers on worker earnings. Each year the level of employer payments is established based upon the balance in the UI Fund. The estimated fund balance for the current year is $5.6 billion.

  The UI Fund's year-end balance has grown substantially in recent years. The year-end fund balance in 1998 was $4.4 billion. The estimated year-end fund balance for 2001 will be $6.5 billion and in 2002, $7.4 billion.[12]

  Legislation to increase maximum weekly unemployment benefits is pending in the Legislature. SB 546 (Solis) would raise the maximum weekly benefits over a three-year period. Benefits would increase in 2001 to $300 per week or 45 percent of the state's average weekly wage, whichever is higher; in 2002 to $340 per week or 50 percent of the state's average weekly wage, whichever is higher, and in 2003 to $380 per week or 50 percent of the state's average weekly wage.

  Earlier this year, the Employment Development Department estimated that under likely economic conditions the three-step increase proposed by SB 546 would result in a fund balance for the year 2004 of $5.6 billion. During the

[12] Based upon the Employment Development Department May 2000 Unemployment Insurance Fund Forecast.

first two years after implementation of SB 546, the department estimated that the employer tax schedule would remain unchanged. The department estimated increased benefit payments would begin to exceed employer contributions in the year 2002. This would increase the employer tax schedule beginning in 2003.

Since that time, the department has revised its fund estimates to reflect greater fund growth than previously forecast due to more job and wage growth than earlier anticipated. The forecast also anticipated decreased fund expenditures from further drops in the unemployment rate, from 5.2 percent in 1999 to 4.5 percent in 2001 and 4.4 percent in 2002.

In Conclusion

This paper shows California benefit levels and wage-replacement rates failed to keep pace with wage growth and the increased cost of living in the state during the 1990s. In most other states, especially those that index benefits to average weekly wages, jobless benefits have kept pace with the growing economy. By contrast, in California unemployment benefit levels fall below national poverty standards for most single-earner families and often are less than welfare benefits.

California's jobless benefit program will continue to fall behind the cost-of-living needs of workers without some intervention. With no major recession on the horizon, this could be an optimal time to increase UI benefits.

The UI Fund balance has grown substantially in recent years, amassing revenues that could fund a significant benefit increase. Unemployment has dropped to levels that were at one time unimaginable. These low levels of unemployment could help mitigate the effect on employers of increased benefit payments because the UI Fund will be paying out fewer jobless checks, permitting reserves to build and cushioning against the next increase. In the meantime, workers who do lose their jobs would find it easier to pay the rent or mortgage and put food on the table as living costs continue to rise.

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