

# Provide Low-wage Workers with a Greater Share of Former Wages



## What is it?

Unemployment insurance benefits should be sufficient to cover the basic necessities for workers who lose their jobs. The general concept that UI should replace half of former earnings may not provide adequately for low-wage jobless workers. Low-wage workers spend a greater proportion of their earnings on basic necessities and their UI benefit checks need to represent a more generous share of their prior wages. States can address this issue in several ways, each of which adjusts the formula used to calculate the weekly UI benefit amount. Some approaches adjust the benefit amount for all jobless workers qualifying for less than the maximum weekly UI benefit and other approaches specifically adjust the benefits based on the low past earnings of the worker.



## Key arguments in favor

**Low-income workers need relatively more help covering basic expenses.** When workers become unemployed, they can defer certain expenses (like clothing, retirement savings or personal services), but they must continue to meet on-going expenses like housing and food. Low-wage workers face a particular challenge in meeting basic needs when they are laid off because they are less likely to have savings and spend a greater proportion of their earnings on basic needs. Giving low-wage workers a relatively larger share of their prior wages in UI benefits is a reasonable way of addressing their greater need.

## How changing the weekly benefit formula benefits low-wage workers

The general approach to setting weekly benefit amounts that most states use (commonly expressed as 1/26th of total high-quarter earnings) is intended to replace half of prior weekly wages. (One calendar quarter represents 13 weeks and thus one week of earnings is 1/13 of the quarter's earnings. Half of the value of one week's earnings – the replacement goal of UI benefits – would be 1/26 of the quarter's earnings. Most states look to the highest quarter of earnings in applying this type of formula.) Using a larger share of high-quarter wages (for example, by increasing the overall benefit formula from 1/26th to 1/24th of high-quarter wages), augments the benefits of all low and moderate-wage workers.

Here is how varying the benefit formula can make a difference for a low-wage jobless worker. In Arkansas, weekly benefit amounts are set at 1/26th of high-quarter wages up to a maximum of \$345 in 2003. A low-wage worker earning \$3,900 in his or her highest quarter (\$300/week) would qualify for a check of \$150 per week. If the proportion of earnings used in the benefit formula were increased to 1/24th of high-quarter wages, the worker's UI benefits would go up by \$12.50 per week to \$162.50.

Contrast this to a moderate-wage worker earning \$9,750 in his or her high quarter (\$750/week). For this moderate-wage worker, 1/26th of his or her prior wage is \$375, but the UI benefits would be capped at \$345 due to the benefit maximum. Even if the state changes the benefit formula for all workers to 1/24th of high-quarter earnings, the weekly benefits of this worker would not increase because of the cap. Thus, below-average earners are uniquely benefited by changing the benefit calculation formula in this manner.

## Examples of what states do

### Flexible formulas

California  
Indiana  
Massachusetts  
New Hampshire  
New York  
Pennsylvania

### 1/24th formula

Hawaii  
Kansas  
Maine  
Maryland  
Oklahoma  
Rhode Island

**Workers earning below-average wages are uniquely helped by increasing the state's benefit calculation formulas.** Weekly UI benefit amounts are capped at modest levels in most states. Depending on the state law, all workers earning average or above-average wages receive the maximum. Workers earning below-average wages are those directly benefited by calculation formulas that set weekly UI amounts differently for those who qualify for less than the maximum.

While there are several different approaches a state can take, changing the weekly benefit formula to one based on 1/24th (or more) of high-quarter wages is the most comprehensive way to augment the benefits for all low-wage workers. (See explanation of this particular approach in the box.) While many states have addressed the issue of the maximum weekly benefits for average and above-average earners, relatively few have changed their benefit calculation formula to assist jobless workers earning below-average wages.

**Modestly upgrading the checks of low-wage workers provides additional help without turning UI into a welfare program.** All states establish each claimant's weekly benefit amount on the individual's prior wages. One way for states to provide additional assistance is to use an incrementally more favorable formula when calculating benefits for low-wage workers. For example, New Hampshire provides low-wage workers with unemployment compensation up to 59 percent of prior weekly wages, as compared to modest-wage workers (qualifying for less than the maximum) who receive 52 percent of prior wages. Such models insure that unemployment insurance remains an earned benefit while also achieving its social purpose of maintaining living standards.



## Which states do it?

A number of states use some type of formula that assists jobless low-wage workers to receive more adequate UI benefits. Some states use flexible benefit formulas that give the lowest-wage workers a greater share of their prior wages. Some states provide 1/24th (4.25 percent) or more of high-quarter wages in UI benefits to all workers qualifying for less than the maximum.



## Model legislation

A claimant's weekly benefit amount shall be one twenty-sixth of the remuneration paid during the highest calendar quarter of the base period by employers. However, for claimants whose high calendar quarter remuneration during the base period is three-thousand six hundred dollars or less, the benefit amount shall be one twenty-fourth of the remuneration paid during the highest calendar quarter.

Model language revising N.Y. LAB. LAW § 590.5



## Watch Out For: Changes to the Duration of UI Benefits

It is commonly assumed that all jobless workers can receive 26 weeks of state jobless benefits if they remain unemployed. In fact, only 8 states provide a “uniform” duration of UI, meaning all workers who are monetarily eligible and remain unemployed can draw the full 26 weeks of benefits. The rest of the states use variable duration periods with a formula to determine the number of weeks of UI benefits a jobless individual can draw. These state laws set a cap or total benefit

amount based on a share (commonly one-third) of each worker’s base period wages. The duration period is set by dividing a worker’s total benefit amount by his or her weekly benefit amount. In many instances, the result is that the worker receives less than 26 weeks of UI even if still unemployed. In 2002, one-third of the workers who exhausted all of their unemployment benefits, without finding new work, had received less than 26 weeks of benefits.

### How a variable duration formula penalizes some workers

Consider the example of a worker who worked part of the year, earning \$12,500 in 25 weeks (\$500 a week). Under a standard formula, this worker would receive a weekly benefit amount of \$250. In a state with a uniform duration period, he or she would be able to draw \$250 a week for a maximum of 26 weeks of documented unemployment for a total of \$6,500 in UI. In a state using a variable duration period that sets a cap based on one-third of base period wages, the total benefit amount for this same worker would be \$4,167. (One-third of the worker’s \$12,500 in base period wages equals \$4,167.) This total benefit amount divided by the weekly benefit amount of \$250 equals 16.7 weeks of UI. So, under the variable duration formula, this same worker would be able to draw benefits only for 16 weeks. In other words, solely due to the variable duration formula, this worker would lose 10 weeks of benefits, or \$2,333.

State variable duration formulas vary considerably in the portion of base year wages that is considered in setting the cap. States that provide for longer duration (although still less than 26 weeks) look at half or sixty percent of base period wages; examples are New Mexico, Virginia, District of Columbia and Delaware. States that provide the shortest duration consider about one-quarter of base period wages; examples are Florida, Tennessee, Texas, and Utah. (Variable duration states also typically set a floor of a minimum number of weeks provided for a valid claim ranging from 24 weeks in Delaware to three in Oregon.)

States should avoid proposals to change duration formulas which can result in a substantial loss for jobless workers. Some proposals might be to shift from a uniform 26-week approach to a variable duration formula. Other proposals might be to change the way the variable duration period is calculated by

considering a smaller share of base year earnings as the total benefit amount. With the length of unemployment increasing, workers need jobless benefits for as long as they are out of work, or at least 26 weeks.