

Analysis of UI Benefits in Ohio

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Background

Benefit payments in Ohio's UI program are strongly influenced by the performance of the state's economy. Most obviously, increases in the unemployment rate cause increases in UI claims and benefits. Before examining benefits directly, however, it is appropriate to offer comments on the state's overall economic performance.

The Ohio economy in 2008 is likely to operate with an unemployment rate (TUR or total unemployment rate) that is some 0.8-1.0 percentage points higher than the national average. The Ohio/U.S. ratio has increased in recent years, reaching 1.22 in 2007, e.g., 5.6 percent versus a nationwide average of 4.6 percent.

To help place recent economic performance into a broader perspective, Table 1 summarizes developments in three important indicators over the past 40 years: the overall unemployment rate (TUR), total employment of UI taxable covered employers and the average weekly wage in covered employment. For each indicator Table 1 shows the 40 year average from 1967 to 2006 and averages for the four ten year periods between 1967-1976 and 1997-2006. Over the full 40 year period, Ohio's unemployment rate averaged 6.32 percent compared to the national average of 5.97 percent for a ratio of 1.06. For the full period, taxable employment averaged 4.6 percent of the national average and the weekly wage was 0.979 of the national average.

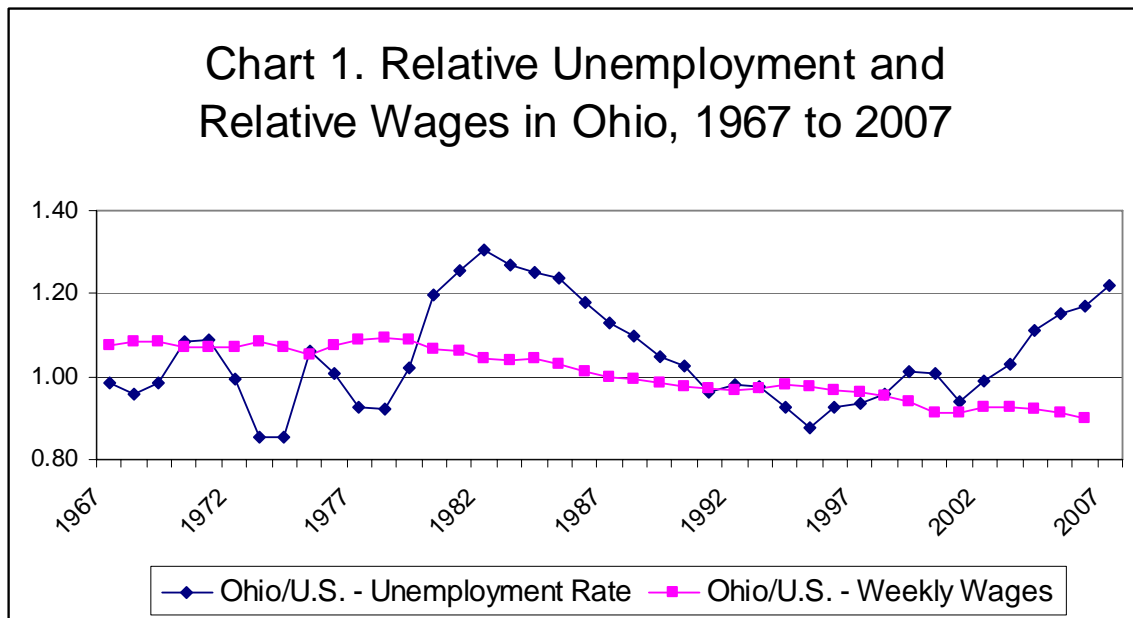
Table 1. Comparisons of Ohio with the United States, 1967 to 2006

	Unemployment Rate			UI Taxable Employment			Average Weekly Wage		
	Ohio	U.S.	Ohio/ U.S.	Ohio	U.S.	Ohio/ U.S.	Ohio	U.S.	Ohio/ U.S.
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
1967-2006	6.32	5.97	1.058	3.6	78.8	0.046	399	408	0.979
1967-1976	5.38	5.41	0.995	3.0	55.0	0.055	168	156	1.073
1977-1986	8.74	7.46	1.172	3.3	71.5	0.046	320	304	1.053
1987-1996	6.05	6.09	0.993	3.8	86.6	0.044	463	474	0.978
1997-2006	5.10	4.94	1.032	4.3	102.0	0.042	647	699	0.926

Source: Data assembled at the Urban Institute. All data originally from the U.S. Department of Labor.

When the ten-year averages are examined, however, it is clear that Ohio's economic performance has lagged behind national performance. Note that the Ohio share of covered employment decreased from 0.055 during 1967-1976 to 0.042 during 1997-2006. Average weekly wages have also grown more slowly with the result that the Ohio/U.S. ratio decreased from 1.073 during 1967-1976 to 0.926 during 1997-2006. In both employment and average wages, Ohio's growth has lagged the national pattern.¹

Ohio has also experienced wider fluctuations in unemployment than the national average over these years. Note in Table 1 that the Ohio/U.S. ratio was especially high during 1977-1986. Chart 1 provides additional detail on state performance during 1967-1977. It plots the Ohio/U.S. unemployment rate ratio and the average weekly wage ratio in annual data from 1967. Two periods of relative high unemployment are the years between 1980 and 1988 and again during 2004-2007. During each of these 13 years the Ohio/U.S. unemployment rate ratio equaled or exceeded 1.10. While there were also 16 years when the state TUR fell below the national average only three years had an Ohio/U.S. ratio below 0.90 (1973, 1974 and 1995). State unemployment is clearly more volatile than national unemployment. The volatility of employment in manufacturing undoubtedly contributes to volatility in the statewide economy.



¹ While Table 1 show employment covered by the UI program, LAUS data show the pattern.

Chart 1 also illustrates the long-run downtrend in statewide weekly wages vis-a-vis the national average. The downtrend dates from 1980, the same year as the sharp increase in the state's relative unemployment rate. By 2006 weekly wages in Ohio were 90 percent of the national average, i.e., \$735 versus \$816.

To summarize, three aspects of economic performance in Ohio over the past four decades are noteworthy. 1) Unemployment has been marginally higher than the national average but has shown much more volatility than the national unemployment rate. 2) Employment has grown noticeably more slowly than the national average. The state share of UI taxable covered employment has decreased from 5.7 percent in 1967 to 3.9 percent in 2006. 3) Average weekly wages have grown more slowly than the national average. By 2006 the weekly wage in Ohio was only 90 percent of the national average. Of these three developments, the evolution of the unemployment rate has the most immediate relevance for UI program costs.

UI program costs in Ohio

Three factors combine to determine the cost of UI benefit payments: the unemployment rate, the reciprocity rate (the share of the unemployed in benefit status) and the replacement rate (weekly benefits divided by weekly wages). Of the three factors, the unemployment rate has already been introduced and its evolution has been discussed in the preceding paragraphs. Ohio has had a volatile unemployment history since 1967 but the long run average unemployment rate (TUR) has been only slightly higher than the national average TUR.

Table 2 summarizes the evolution of UI benefit costs in Ohio and nationwide since 1967. Like the previous table, data averages are shown for the full 40 years 1967 to 2006 and for the four ten-year periods from 1967-1976 to 1997-2006. Three series are summarized: the reciprocity rate, the replacement rate and the overall benefit cost rate. These data refer just to the regular UI program and do not include the state share of the EB program.

Regular UI in Ohio typically compensates a below-average share of the unemployed. The statewide average between 1967 and 2006 was 0.258 compared to a national average of 0.316 for the same period. The lowest relative reciprocity rate

(column [3]) occurred during the decade 1967-1976. During the most recent three decades, the relative reciprocity rate varied between 0.833 and 0.889. Below-average reciprocity obtained during 39 of the 40 years included in Table 2.

The replacement rate in Ohio has been consistently above-average during most recent years. In fact, since 1974 the replacement rate has above-average in every year except 1990. Thus the decade averages shown in columns [4]-[6] of Table 2 reflect the pattern for the individual years that underlie each average. Weekly benefits increased substantially in 1974, and have remained relatively high in subsequent years. Having the maximum indexed to the average weekly wage has contributed strongly to this consistently high replacement rate.

Table 2. Comparisons of Ohio with the United States, UI Benefit Cost Components

	UI Reciprocity Rate			Replacement Rate			Benefit Cost Rate		
	Ohio	U.S.	Ohio/ U.S.	Ohio	U.S.	Ohio/ U.S.	Ohio	U.S.	Ohio/ U.S.
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]
1967-2006	0.258	0.316	0.816	0.377	0.356	1.062	0.806	0.892	0.904
1967-1976	0.240	0.343	0.699	0.345	0.359	0.958	0.550	0.847	0.649
1977-1986	0.269	0.303	0.889	0.411	0.363	1.133	1.213	1.210	1.002
1987-1996	0.251	0.292	0.860	0.379	0.356	1.065	0.946	0.859	1.101
1997-2006	0.272	0.326	0.833	0.377	0.346	1.091	0.516	0.653	0.790

Source: Data assembled at the Urban Institute. All data originally from the U.S. Department of Labor.

Note in Table 2 that the downward deviation of the reciprocity rate from the national average (column [3]) exceeds the size of the upward deviation of the replacement rate (column [6]). Coupled with the small upward deviation of the state's unemployment rate from the national average (recall Table 1), the combined effect of the three separate cost factors has yielded a below-average cost of UI benefits for the period 1967 to 2006. Table 2 shows that the Ohio/ U.S. benefit cost ratio average 0.904. Note also that the state's average benefit cost rate has varied across these four decades. Ohio's

cost rate was above-average during 1987-1996 but below-average during the earliest and the most recent decades.

A final point to note in Table 2 is the low level of UI benefit costs between 1997 and 2006. Benefit costs in Ohio were only 0.516 percent of payroll during these ten years. Despite this low cost rate, Ohio ended the period with total net reserves of roughly \$500 million. The loss of reserves since the start of the present decade has taken place despite generally low annual benefit cost rates.

Reflecting upon the aggregate measures of UI reciprocity and benefit costs summarized in Tables 1 and 2, it is clear that Ohio's program compensates a lower share of the unemployed than UI programs generally and that the payment level is generally higher than the national average. If one were to consider reforms in program benefits, the most obvious area would be to enact reforms that increased the share of the unemployed who collect UI benefits.

Detailed aspects of benefit reciprocity

Applications, eligibility and the actual receipt of UI benefits are influenced by statutes, administrative determinations and personal considerations which vary widely across individuals who experience a spell of unemployment. The following paragraphs review several aspects of benefit reciprocity in Ohio. Frequent comparisons of Ohio with U.S. averages will be made to help place Ohio into a comparative framework.

1. Monetary eligibility

To be monetarily eligible for benefits, a claimant must have 20 or more weeks of employment in the base period and be paid a weekly wages that averages at least 27.5 percent of the statewide average weekly wage. The statewide average is measured for the twelve months ending on June 30th of the previous calendar year. In 2008 the necessary average is \$206 per week or \$4,120 for someone with 20 weeks of employment.

This monetary earnings requirement which has been utilized since 1992 is updated annually as the statewide average wage changes. Between 1983 and 1991, the minimum requirement was set at a fixed dollar threshold of \$85 per week (37 times the minimum hourly wage of \$2.30) for 20 weeks or \$1700. A base period earnings threshold of just \$400 had been operative in the years between 1964 and 1982.

Individual states set their minimum earnings thresholds in several different ways, most typically using minimum thresholds for total base period earnings and earnings in the highest quarter of the base period.² While the states impose varied requirements, all states set a minimum dollar threshold for base period earnings analogous to Ohio's 2008 threshold of \$4,120.

Because wage levels in the states vary widely, a logical metric for making comparisons across states is to divide the minimum base period requirement by the statewide average weekly wage. Since 1992 this ratio in Ohio has varied between 5.1 and 5.3. Under this measure, Ohio's minimum requirement is one of the highest in the U.S.

Comparisons of base period requirements across 51 programs (the 50 states plus the District of Columbia) have been made back to the late 1960s. When Ohio increased its requirement from \$400 to \$1,700 in 1983, the state's rank changed from 48th in 1982 to 10th in 1983. The 1983 requirement represented 4.9 weeks of earnings at the statewide average weekly wage. Since 1983, Ohio's requirement has been higher than the overall U.S. average. When the present base period requirement was instituted, the state's rank rose from 19th in 1991 to 10th in 1992.

Since 1992, Ohio's minimum earnings requirement as a ratio to average earnings has been unchanged, but several other states have eased their minimum requirements. As a result, Ohio's requirement has gradually increased relative to several programs. The requirement was the fourth highest across the 51 programs in 2005, 2006 and 2007. Only Maine, North Carolina and Washington had higher minimum requirements in 2007.

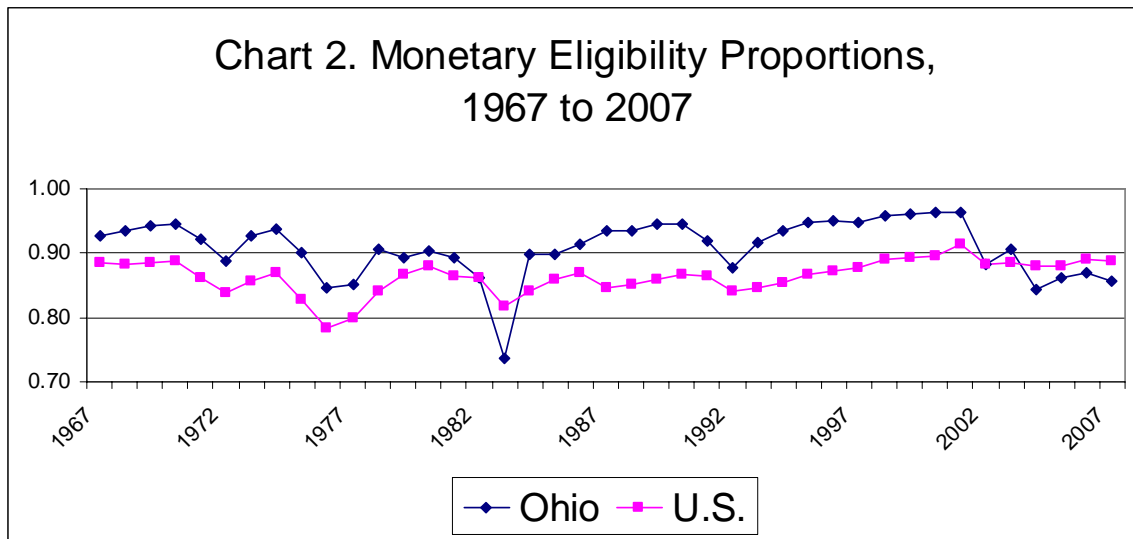
Ohio employers report quarterly wages on a report form that also shows how many weeks each employee worked during the quarter. One part of the monetary requirement is that the base period must have at least 20 weeks of employment. If the number is 20 or higher, the average weekly wage (AWW) across all base period weeks must be at least 27.5 percent of the statewide average. This minimum AWW threshold in 2008 is \$206. Thus a person could have worked more than 20 weeks but still be ineligible if the AWW was below \$206. This AWW requirement adds to the minimum earnings threshold for eligibility. The requirement works to the disadvantage of persons earning a

² The base period is a twelve month period that end prior to the time of filing a claim. Most typically it is the earliest four of the five completed calendar quarters that precede the claim.

low hourly wage and persons who work less than full-time schedules. Such persons could fail to satisfy monetary eligibility despite substantial attachment to the labor force. A part-time worker with base period earnings of \$10,000 earned over 50 weeks would not be monetarily eligible in 2008.

Despite the high earnings requirement, most applicants in Ohio have sufficient earnings to be monetarily eligible. The proportion monetarily eligible averaged 0.942 between 1992 and 2001. Apparently knowledge of the minimum requirement has been widespread and comparatively few with insufficient earnings have filed for benefits.

The monetary eligibility proportion has decreased in the most recent years. It averaged 0.900 in 2002-2003 and 0.857 during 2004-2007. The average proportion during 2004-2007 fell below the national average in each of these four years. Chart 2 traces the monetary eligibility proportion from 1967 to 2007.



Note in Chart 2 that prior to 2002 the monetary eligibility proportion in Ohio exceeded the national average in all years but one (1983). The sharp decreases in the proportion in 1983 and 1992 coincide with the imposition of new base period earnings requirements discussed previously. It appears there was an initial period of learning about the new requirements and ineligibility rates were initially higher following the changes. The eligibility proportions then increase after both 1983 and 1992. The chart also shows that monetary eligibility decreases during and after recession years like 1975 and 2002.

Chart 2 also shows vividly the decreases in the proportions in both 2002 and again in 2004. Part of the explanation for the decrease during 2002-2003 is that persons applying for the temporary federal extended benefits (TEUC) first had to apply and be found ineligible for regular UI before establishing TEUC eligibility. This temporary situation should have reversed after 2003, but instead the eligibility proportion decreased further. The decrease after 2003 coincides with the establishment of a new automated IT reporting system which may have affected the report on monetary eligibility. Discussions with staff at ODJFS have not established a good explanation for the decrease in the monetary eligibility proportion since 2003. One possible contributor is the deterioration in the Ohio economy of the past 5-7 years. Whatever the explanation (or explanations), the eligibility proportion has been lower by nearly 0.10 during the most recent four years when compared to the mid-to-late 1990s.

2. Other factors related to UI claims

In each year between 1988 and 2007 there were between 1.2 and 1.6 million new spells of unemployment in Ohio. During the same period, new and additional initial claims for regular UI benefits totaled between 0.5 and 1.0 million. UI applications were slightly less than half of new occurrences over these 20 years, but the annual application rate ranged between a low of 0.391 (1988) and a high of 0.628 (1991). The application rate in Ohio averaged 0.476 during 1988-2007 compared to a national average of 0.529, or about 90 percent of the national average.

Several factors enter the decision to apply for benefits. The preceding paragraphs focused on the question of monetary eligibility. When a job separation leads to unemployment, the circumstances of the separation play an important role in the decision to apply for benefits. In Ohio as in other states, job losers are likely to file for benefits whereas job leavers and labor force reentrants usually do not apply. However, some job leavers may be eligible while some job losers may be ineligible depending upon the circumstances of the job separation. In cases where eligibility is not clearcut, the UI agency often adjudicates the claim which involves fact finding about the separation and application of law and administrative precedents related to eligibility. Combined, adjudication over the separation issues of quits and misconduct now occurs in about one application in five in Ohio. Adjudication over misconduct issues has grown rapidly and

was nearly twice as prevalent during 2004-2007 compared to 1994-1997.

Claimant/employer disagreements over eligibility are a common occurrence in Ohio as in many other UI programs.

Monetary ineligibility and disqualifications over separation issues are two key determinants of applications and awards of benefits. More than 10 percent of applications result in denials for quit or misconduct. Monetary ineligibility now affects at least 10 percent of applicants. A third factor that affects the receipt of benefits is return to work before receiving a first payment.

Two other considerations also affect applications and benefit awards: the treatment of part-time workers and offering an alternative base period (ABP). Unemployed part-time workers are usually not eligible for UI benefits in Ohio. The requirement to be searching for full-time work as a condition for eligibility has been established by administrative directive and is not a statutory requirement. Allowing part-time workers to be eligible would be expected to increase applications for UI benefits.

Ohio has an ABP program which confers monetary eligibility to more than six percent of claimants in recent years. Those ineligible under the regular base period (the earliest four of the past five completed calendar quarters) have their eligibility redetermined based on earnings during the past four fully completed calendar quarters. The ABP increases the share of new applicants who satisfy the monetary eligibility requirement. Those eligible under the ABP are disproportionately low wage workers.

Table 3 provides data that summarize the situation of ABP beneficiaries in Ohio. ODJFS provided micro data (without personal identifiers) on all ABP recipients who received first payments in 2006 and 2007. In both years ABP recipients accounted for more than 6 percent of annual first payments (18,127 and 17,345 in the two years respectively). Weekly benefits are consistently below-average with the ratio of the two falling into the 0.85-0.86 range.³

During 2006 and 2007 ABP recipients had longer average duration than all recipients. Since they also have shorter potential duration than regular recipients, ABP recipients had higher exhaustion rates in both years. Their exhaustion rates as shown in Table 3 were some 45-55 percent higher than for all recipients.

³ The weekly benefit data from 1990 are from an earlier analysis of the ABP by the author.

Table 3. Comparison of ABP Recipients with All UI Recipients

	All Recipients	ABP Recipients	ABP/ All Recip.
First Payments			
2006	275,431	18,127	0.066
2007	278,006	17,345	0.062
Average Weekly Benefits			
1990	161	137	0.850
2006	284	243	0.855
2007	286	246	0.862
Average Benefit Duration (weeks)			
2006	15.0	17.5	1.168
2007	15.2	16.3	1.070
Exhaustion Rate			
2006	0.288	0.419	1.457
2007	0.282	0.437	1.546

Source: ABP micro data from ODJFS. Data for all recipients from standard ETA-5159 reports. ABP exhaustion rate data for 2007 based on first nine months.

From Table 3 it is clear that the ABP is an important element of the benefit structure in Ohio. Earnings from the lag quarter are important mainly for increasing base period weeks of employment. In 2006, for example, base period weeks of employment for ABP recipients averaged 26.44. Of this total, weeks of employment from the lag quarter averaged 11.56 or 44 percent of all weeks. Lag quarter earnings represented 47 percent of total base period earnings. The corresponding percentages in 2007 were 44 percent of weeks and 48 percent of earnings. For workers with irregular patterns of earnings, the ABP helps in achieving monetary eligibility.

Having an ABP also helps some to achieve eligibility because employment in the lag quarter has an above-average weekly wage. In the micro data for both 2006 and 2007, about 7 percent of the ABP eligibles already had 20 or more weeks of employment, but the inclusion of lag quarter earnings raised their average weekly wage by enough to reach the 27.5 percent of statewide weekly wages eligibility threshold. For the other 93 percent, the ABP enabled them to reach the 20 weeks of base period employment threshold.

The primary importance of the ABP in improving access to benefits pertains to persons with irregular patterns of employment. Those with steady employment throughout the year but at low wage rates and/or low weekly hours, derive much smaller advantages from the ABP as currently structured. Many part-time workers who become unemployed fall beyond the scope of Ohio's ABP provision.

One summary measure of access to benefits among applicants is the ratio of first payments to new initial claims. During the 20 years from 1988 to 2007 this ratio averaged 0.742 in Ohio, ranging between 0.674 (2002) and 0.829 (1988). The national average for these 20 years was 0.753. The averages for Ohio and the U.S are similar: about three of every four new claimants in the regular UI program receive a first payment.

In considering all factors that affect the inflow into benefit status (the application rate, repeat applications within established benefit years and first payments to new applicants), Ohio is below average in the share of new unemployment spells that lead to a first payment of regular UI benefits. The average proportion in Ohio during 1988-2007 was 0.212 or 10.5 percent below the national average of 0.237 for the same period.

Two changes that could increase this inflow rate in Ohio would be to lower the base period earnings requirement and permit payment of benefits to part-time workers. A fuller discussion of these options is given below (part 5). Each change would increase benefits among a group with below-average earnings. Thus if eligibility was expanded among these two groups of potential new beneficiaries, the percentage increase in reciprocity would be larger than the percentage increase in total benefit payments.

3. Duration of UI benefits

Program provisions that affect regular UI potential benefit duration in Ohio are quite generous relative to the average of all state programs. Despite generous statutory provisions, actual benefit duration has been similar to the national average for most years spanning the past four decades.

Two generous statutory features that affect potential duration are especially noteworthy. First, minimum potential duration for eligible claimants is 20 weeks, a provision that has been in effect since 1963. Among the 43 state programs that have a variable potential duration,⁴ only one (Maine) has a higher minimum and only New

⁴ Eight of the 51 "state" programs have a uniform potential duration of 26 weeks for all eligible claimants.

Jersey has the same 20 week minimum. As a result, mean potential benefit duration among those who establish a new benefit year in Ohio is measurably higher than the national average. Second, the ratio of the maximum potential benefit amount (TBP, or total benefits payable) to total base period earnings (BPE) of 0.50 in Ohio is much higher than in most states. States more typically limit total potential benefits to 0.33-0.36 of base period earnings. Only nine states have a higher TBP/BPE ratio while three others also have a ratio of 0.50 (California, the District of Columbia and Illinois). As a consequence of the high TBP/BPE ratio, it is comparatively easy in Ohio to meet the earnings requirement needed to obtain eligibility for 26 weeks of benefits.⁵

Despite these two generous benefit features, average duration in benefit status has typically been similar to the national average. Over the 40 years 1967 to 2006 the average duration was 13.8 weeks in Ohio and 14.4 weeks nationwide. Since 1975 mean duration in Ohio has deviated from the national average by more than 1.5 weeks in just a single year, 1997 when the Ohio and national averages were respectively 11.9 and 13.8 weeks.

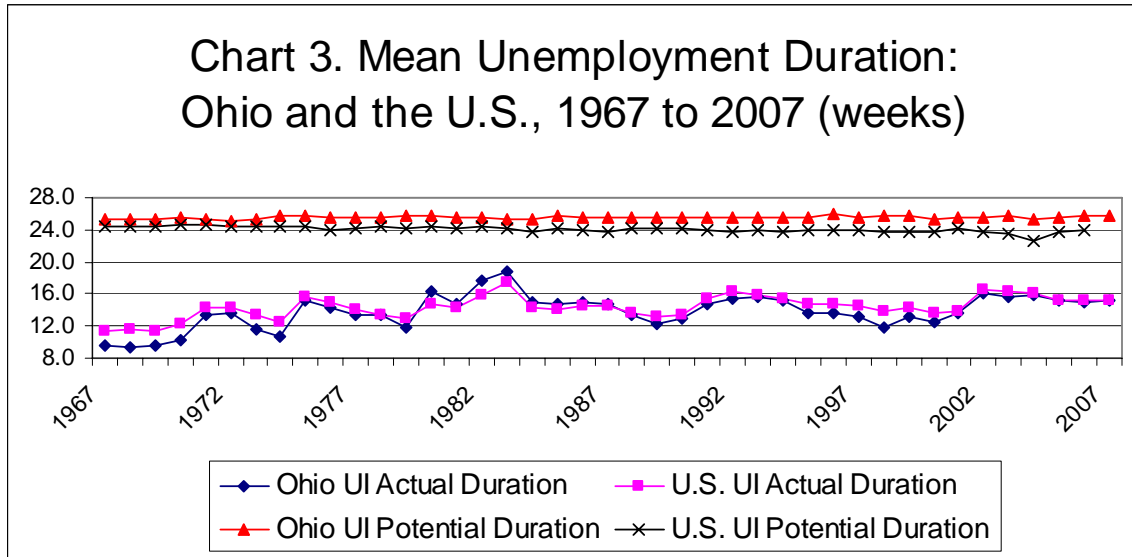
Because potential duration is quite high in Ohio while actual duration is roughly average, there are relatively fewer benefit exhaustions in Ohio than nationwide. The exhaustion rate in Ohio between 1967 and 2006 averaged 26.4 percent of first payments compared to 33.0 percent for the U.S, or roughly one in four in Ohio compared to one in three nationwide.

Duration in benefit status also depends strongly upon the balance of supply and demand in the labor market. During recessions and periods of weak labor demand unemployment duration lengthens and it lengthens among UI recipients. Chart 3 vividly illustrates the cyclical pattern of average duration among claimants. Each recessionary period is clearly identified by the increase in average benefit duration in both Ohio and national data.

Chart 3 also helps to illustrate the effects of very high unemployment in Ohio during the early to mid 1980s. Note how the Ohio average duration exceeded the national average in every year between 1980 and 1987. Since 1988 the Ohio average has fallen below the national average, although the differential was very small during 2005-2007.

⁵ This situation presents a bit of a paradox. Many with steady employment are ineligible but among those monetarily eligible a small increase in weeks of employment confers eligibility for the maximum potential benefit duration of 26 weeks.

Chart 3 also shows the contrast between potential benefit duration in Ohio and the overall U.S. average. The Ohio average exceeds the national average by at least 1.4 weeks in all years since 1984.



One influence on benefit duration is administrative activities related to continuing eligibility, termed nonseparation nonmonetary determinations. Ohio does not have a high rate of making nonseparation determinations. Between 1988 and 2007 its determination rate per week claimed was 0.0194. In a typical week, a beneficiary would have less than a two percent probability of experiencing a nonseparation determination. The comparable national average for the same 20 years was 0.0235. For these determinations that affect continuing eligibility among claimants, the average denial rate in Ohio over these 20 years was nearly identical to the national average, i.e., 0.640 compared to 0.633 for the U.S.. Low benefit duration in Ohio does not seem to reflect an unusually high rate of making nonseparation determinations.

One important recent change in these administrative activities is the institution of the Reemployment and Eligibility Assessment (REA) pilot project. Ohio is one of 19 states participating in this project whose purpose is to speed reemployment by having more active contact between the UI agencies and claimants. Starting in 2005, Ohio has been contacting roughly 10,000 persons per year with active claims to receive enhanced

reemployment services. Job search assistance and development of individualized reemployment plans are the two principal enhancements. Typically claimants are contacted after receiving their first UI benefit payment.

Coincident with the REA initiative, the UI agency's annual rate of making nonseparation determinations has increased noticeably from 0.013 per week claimed during 2002-2004 to 0.038 during 2005-2007. The number of denials from these determinations has more than doubled from an annual average of 59,000 during 2002-2004 to an average of 135,000 during 2005-2007. If this enhanced level of oversight is maintained, it will be an ongoing force tending to reduce average benefit duration in future years.

It is interesting to note that the size of the annual REA sample (10,000) is much smaller than the increase in the number of nonseparation determinations made annually since 2005. Perhaps the REA initiative has influenced program administration more broadly than just among those selected to receive REA services.

4. Weekly UI benefits

It was previously noted in Table 2 and the related discussion that weekly benefits in Ohio and the associated replacement rate (weekly benefits/weekly wages) have been quite consistently above-average since 1974. Between 1974 and 2006, Ohio's replacement rate exceeded the national average in every year except 1990. While the replacement rate during these 33 years was above-average, it was not among the highest. Ohio's ranking (out of 51 programs) was generally between 19th and 26th.

Four factors potentially influence overall replacement rates and the distribution of replacement rates across workers with differing levels of earnings: 1) use of a weighted benefit calculation, 2) the statutory replacement rate, 3) indexation of the maximum weekly benefit amount (MaxWBA) and 4) the payment of dependents' benefits.

Weighted benefit schedules provide a higher replacement rate for low-wage workers than for high-wage workers. The differential in wage loss replacement reflects a judgement that low-wage workers have relatively greater needs while unemployed in comparison to other workers. Weighted benefit formulas have been declining in

prevalence, and just six of 51 programs have weighted formulas in 2008.⁶ This number is down from 15 programs in 1968 and 8 programs in 1988.

Ohio had a weighted benefit formula during the early years of its program, but stopped using a weighted formula in 1963. The statutory replacement rate since 1963 has been 50 percent for eligible workers at all wage levels. Weekly benefits are half of average weekly wages up to the MaxWBA for credited weeks of employment in the base period. This replacement rate is one of the two most prevalent statutory replacements across the 51 state programs. Ohio is one of 19 states with a statutory replacement rate of 0.50 while 14 states have statutory replacement rates of 0.52. Most of the other programs (16 of 18) have statutory replacement rates that exceed 0.52 with the highest being 0.68 in Kentucky and 0.65 in Oregon.

Ohio has operated with an indexed weekly benefit maximum since 1975. The maximum for a single claimant is effectively 48 percent of the statewide average weekly wage. Except for several years in the mid-to-late 1980s when MaxWBA was frozen at \$147, the ratio of the maximum to the lagged average weekly wage has remained close to 0.48. The presence of indexation has been a key factor in keeping the overall replacement above-average in Ohio.

Ohio is one of fourteen states paying dependents' benefits in 2008. The form and generosity of these benefits vary widely across the 14 states. In both Maine and Massachusetts, the maximum including the dependents' benefit is 50 percent above the maximum for a single person. At the opposite extreme, the maximum for the single claimant is the same as for a family in Maryland, Michigan and New Jersey. Dependent's benefit in these latter states raises payments only among those whose benefit would be less than the maximum absent dependent family members.

The maximum family benefit in Ohio has been 35 percent above the maximum for a single person since 1992. Among states that pay dependents' benefits, potential dependents' payments in Illinois and Ohio follow Maine and Massachusetts in being high. In Illinois and Ohio, the family maxima are respectively 38 and 35 percent higher than the maxima for a single person. In Alaska, Iowa, New Mexico and Rhode Island, the family maxima are from 23 to 28 percent higher than the maxima for single claimants.

⁶ Alaska, California, Indiana, New Hampshire, New York and Pennsylvania.

To receive the maximum family benefit in Ohio in 2008, the claimant needs to have average weekly wages in the base period of at least \$986 such that 50 percent of the weekly wage qualifies the family for the highest family maximum of \$493. Thus while the family maximum is relatively high, the replacement rate (weekly benefits/weekly wages) never exceeds 0.50. For many Ohio claimants, the higher family benefit has helped to ensure more adequate replacement of lost earnings while unemployed.

From a review of the preceding four factors important in determining weekly benefit payments, the weighted benefit schedule and the statutory replacement rate do not contribute to the above-average replacement rate in Ohio. However, both the indexation of the maximum benefit and the presence of dependents' benefits make important contributions in causing the replacement rate to be significantly above-average in Ohio.

While the replacement rate has been consistently above-average since 1974, the size of the Ohio/U.S. deviation should not be exaggerated. From 1974 to 2006, the average replacement rate in Ohio was 0.391, or 9.8 percent higher than the corresponding national average of 0.356.

5. Some potential modifications in UI benefits

When the various components of UI benefits in Ohio are considered within a comparative framework, it is apparent that the low reciprocity rate makes a large contribution in causing the benefit cost rate to be less than the national average. The reciprocity rate has consistently fallen below the national average in recent decades. In Table 2 the Ohio/U.S ratio was 0.860 during 1987-1996 and 0.833 during 1997-2006.

Given the present low level of the state's UI trust fund balance, one can question the advisability of increasing any aspect of benefit payments in 2008 or 2009. In the longer run, however, it could be appropriate to raise benefit payouts and make changes that emphasize increasing the reciprocity rate among the unemployed. The following discussion examines several possible options for raising benefits over the longer term.

i) Entry eligibility

It has been noted that Ohio's monetary eligibility requirement is high when compared to other states. Base period (regular or ABP) earnings must have at least 20 weeks of employment with an average weekly wage (AWW) of at least 27.5 percent of the statewide average weekly wage.

Using the existing monetary determination framework, this requirement could be eased either by reducing the minimum number of weeks below 20 or the weekly wage percentage below 27.5. Of the two, I would prefer that the minimum AWW be reduced. This would work to the advantage of persons with low hourly earnings. If, for example, the minimum AWW were set at 20 times the minimum hourly wage, the minimum AWW threshold in January 2008 would have been \$117, increasing to \$131 on July 24, 2008 and to \$145 on July 24, 2009. These three minimum AWW thresholds would be \$146, \$164 and \$181 if a 25 hours per week multiplier were applied. Since the minimum AWW requirement is \$206 in 2008, the 25 hour multiplier would imply a reduction of 43 percent below the present requirement in January 2008 and a reduction of 20 percent in July when the minimum wage increases to \$6.55 per hour. Persons who work at steady jobs but at low hourly wages would be major beneficiaries of such a change.

Besides utilizing a primary monetary eligibility requirement, 12 states make a second monetary determination based on an alternative monetary requirement.⁷ The alternative requirement utilizes the same base period as the primary requirement but emphasizes a different aspect of base period earnings. The alternative requirements include: a high absolute earnings threshold regardless of weeks or quarters of employment (Montana), earnings in 20 or more weeks (Utah) or earnings in three or more quarters (Nevada). The purpose of these alternative requirements is to provide a more flexible interpretation of substantial labor force attachment.

Ohio might consider an alternative earnings requirement of say 15 percent of statewide average annual earnings. For the year ending on June 30, 2007 (the basis for the maximum and minimum benefit for 2008), the statewide AWW was \$750 which implies annual earnings of \$39,000. Fifteen percent would be \$5,850. The type of person ineligible under Ohio's regular base period in 2008 but with \$5850 of annual earnings would have worked at least 28 weeks in the base period or more than half the year but with an AWW below \$206. If such a person became unemployed, it would seem reasonable to consider them eligible for UI benefits. Since their AWW would be less than \$206, these claimants could be paid a minimum benefit below the current \$103. If the

⁷ Arizona, California, Georgia, Michigan, Missouri, Montana, Nevada, New Jersey, New York, Oklahoma, Oregon and Utah.

\$5,850 were earned over 52 weeks the AWW would be \$112 and the implied weekly benefit would be \$56.

A change in monetary eligibility requirements would entail more resources to administer, but it would extend eligibility within the low-wage working population. Under current monetary eligibility requirements, many of these persons are excluded from access to UI benefits.

ii) Eligibility for part-time workers

Ohio interprets claimant availability as being available for full-time employment. Full-time is interpreted as working 35 or more hours per week. This availability requirement excludes many who worked part-time previously and are currently seeking part-time employment. This requirement is based on an ODJFS administrative determination, not on the state's UI statute.

Because Ohio has both a high monetary eligibility requirement and it requires availability for full-time work, receipt of partial weeks of benefits is low. Between 1998 and 2007 partial weeks of benefits represented 8.2 percent of all weeks compensated nationwide. In Ohio over the same ten years, the partial weeks average was 4.4 percent. When 51 programs are ranked according to the partial weeks of benefits during these years, Ohio consistently ranked near the very bottom, i.e., between 45 and 47 out of 51. Alabama, Arizona and Florida are the other states with consistently low rankings.

Ohio could improve access to benefits among part-time workers if it changed its interpretation of availability. One potential change would be to allow eligibility for persons who are searching for work with weekly hours the same or greater than the weekly hours worked on their previous job. As noted, this change could be made by administrative ruling without the need for new legislation. While the amount of increased eligibility arising from such a change is not clear, the direction of the effect is clear. Those made eligible by the change would be mainly persons with low to moderate levels of weekly earnings. Thus the proportional increase in reciprocity would be larger than the proportional increase in benefit payments.

iii) Worksharing

Currently 19 states have authorized the payment of partial benefits to workers placed on short working schedules. The most common form of worksharing (also termed

short time compensation or STC) is to place workers in a plant, a shift or a production line on a four-day schedule and pay UI benefits for the fifth day. Reliance on worksharing allows employers to reduce hours without resort to layoffs. Worksharing spreads the reduction in work hours more widely (and some think more equitably) than under layoffs.

Worksharing programs have existed for several years, but they typically account for only a small share of the UI beneficiary caseload. In 2007, for example, equivalent weeks compensated⁸ under worksharing averaged 0.25 percent of total weeks in the 19 states with STC programs. Across the 19 UI programs, equivalent weeks accounted for less than 0.20 percent of total weeks in 12, and the highest percentage of equivalent weeks was 1.0 percent in Rhode Island.

Based on experiences in other states, worksharing in Ohio would be expected to serve a small client base. However, the program would provide some employers with an alternative to layoffs for making workforce adjustments in periods of weak demand.

iv) Self-employment assistance

During the past decade seven states have operated programs to encourage self-employment among UI recipients.⁹ The self-employment assistance (SEA) programs in these states allow unemployed claimants to utilize their UI entitlements to establish new companies. Claimants are required to submit written business plans to the state SEA coordinator. If approved, the claimant can register their company and start to sell its products or services.

SEA programs have been uniformly small. The annual number of entrants in individual states typically number less than 1,000 and often less than 100. Annual weeks compensated typically account for only 0.10-0.30 percent of total weeks compensated under the regular UI program. Maine during 2004-2006 has been the only state where SEA weeks compensated exceeded 1.0 percent of total weeks compensated.

While the SEA programs have been small they have been viable with seven states operating programs continuously for the past ten years. They can be described as serving

⁸ An equivalent week is a five-days of STC compensation.

⁹ Delaware, Maine, Maryland, New Jersey, New York, Oregon and Pennsylvania. Minnesota also had a program between 2003 and 2006.

a niche market. Typical participants are experienced workers who want to establish their own companies. Separation from a job provides an impetus to start their own company.

SEA programs designate an SEA coordinator within the UI agency, establish application procedures and develop forms for submitting business plans. The programs also typically have cooperative arrangements with local offices of the Small Business Administration and sometimes with local community colleges that offer entrepreneurship programs.

Ohio could consider establishing SEA. It would be expected to serve a small client base, but it would provide an opportunity for some claimants to pursue an interest in starting their own company. The fact that states with SEA programs have operated them continuously for more than a decade suggests they have found the programs to be useful in providing enhanced support to a small number of the unemployed claimants.

v) Summary

The four areas discussed above all focus upon the reciprocity rate in Ohio's UI program. Compared to programs in other states, the share of the unemployed in Ohio who receive benefits is below-average. The program's monetary eligibility requirements currently exclude many low-wage and part-time workers with substantial labor market experience. Their eligibility would be enhanced if the threshold percentage of the statewide average weekly wage needed for eligibility were lowered from its present 27.5 percent. One possible alternative to the present minimum AWW would be 25 times the federal minimum wage. This would be \$146 prior to July 24, 2008 and \$164 after July 24. Some who currently do not qualify would then qualify if this lower minimum AWW requirement were put in place.

Additionally, establishing an alternative earnings requirement for persons who work most of the year but at low weekly wages should also be considered. The suggestion here was to confer monetary eligibility on persons whose base period earnings were at least 15 percent of statewide average annual wage, e.g., \$5,850 in 2008.

A third potential change would be to modify the current interpretation of availability to allow persons to be searching for work with weekly hours the same as (or greater than) hours worked on their previous job. The effect would be to enhance the eligibility among persons who have demonstrated a substantial labor force attachment.

Finally, Ohio could also consider establishing worksharing and SEA programs. These would be small but provide a more diverse set of alternatives that could be utilized by selected employers and claimants. Based upon experiences in other states, the number of participants in both initiatives would be expected to be small. However, they would increase options to selected participants in Ohio's UI program.

The preceding suggestions all would increase participation by the unemployed in Ohio's UI program. Given the present status of the state's UI trust fund, implementation of these suggestions should be delayed until the trust fund has a much larger balance than it has in 2008.