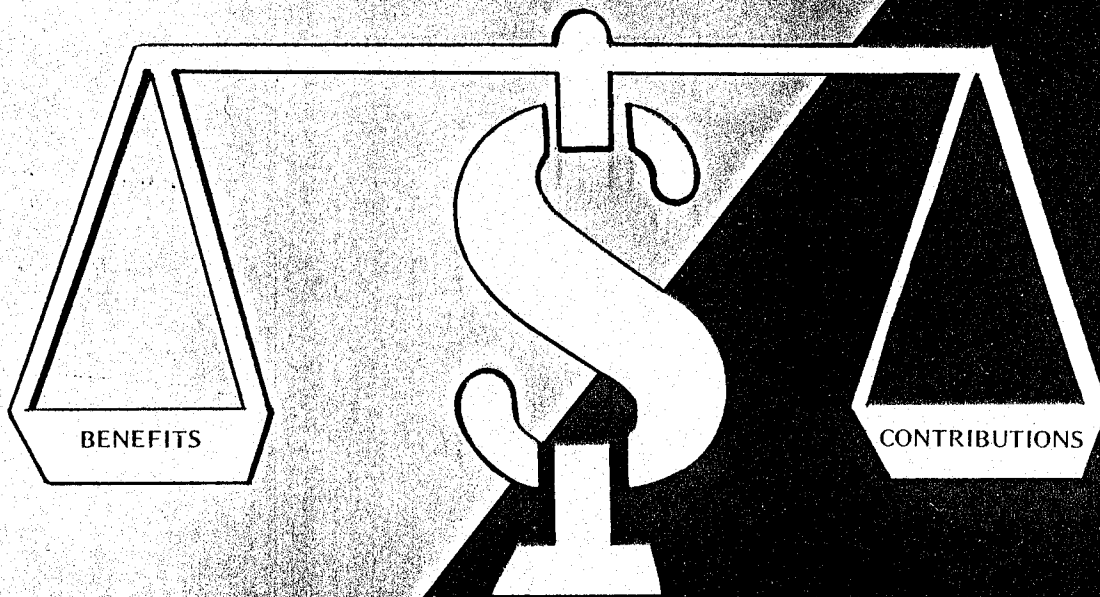


RESTRUCTURING VIRGINIA'S UNEMPLOYMENT COMPENSATION SYSTEM:



(Thousands)

	Reserves as of December 31	Federal loans to assist reserve funds, balance as of end of year	Net balance end of year
	16,911	217,497	217,497
	23,507	215,564	215,564
	16,819	227,745	227,745
	17,032	245,739	245,739
	14,465	32,570	246,214
	9,666	138,187	122,021
	6,025	88,724	91,461

A PROGRAM FOR SOLVENCY

This report was originally done in 1981 before reports were created with word processing programs on computers. This is a scanned version of the original, so the quality is not always the best. However, the information is worth publishing.

RESTRUCTURING VIRGINIA'S
UNEMPLOYMENT COMPENSATION
SYSTEM:

A PROGRAM
FOR SOLVENCY



COMMONWEALTH of VIRGINIA

Virginia Employment Commission

703 East Main Street
P. O. Box 1358
Richmond, Virginia 23211

1981

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COMMONWEALTH of VIRGINIA

Virginia Employment Commission

703 East Main Street

Arthur L. Lane, Jr., DPA
Commissioner

P. O. Box 1358
Richmond, Virginia 23211

P R E F A C E

This is the final report of a study of the Virginia Unemployment Insurance Trust Fund. It includes the collected working papers of the Study Director, Dr. James T. Lindley, the recommendations of the Legislative Sub-Committee which conducted the study, and the resultant legislation.

This project resulted in the most radical alterations of Virginia's Unemployment Insurance Laws since 1936. Based on this and the informative nature of the material, it was decided to make the results available to the General Public.

I am pleased to have been Commissioner of the Virginia Employment Commission during a period when so many important changes were undertaken. I wish to thank Governor John Dalton, Secretary of Administration and Finance Charles Walker, and Secretary of Human Resources, Dr. Jean Harris for their support and guidance during this period of change.

I also wish to acknowledge the responsible leadership shown by the various key interest groups during this study. I am particularly grateful to the Virginia Manufacturers Association, Virginia Retail Merchants Association, and the Virginia AFL-CIO for their cooperation and support.

I hope that as a reader you will find this document helpful.

A handwritten signature in cursive script that reads "Arthur L. Lane, Jr.".

Arthur L. Lane, Jr., DPA
Commissioner

A C K N O W L E D G E M E N T S

I wish to thank the Virginia Employment Commission for the support in the development and compilation of this report. Dr. Arthur Lane, Commissioner, and Jerry Lawson, Deputy Commissioner, made resources available to conduct the research and complete this indepth report. Pat Arthur provided valuable editing help and Debbie Dunn provided artwork for the cover. Ron Montgomery was invaluable in his legislative liaison role and in helping keep track of the many meetings and details. A special thanks must go to Alma Burke and Kathy Earley for their patient editing and typing of the many drafts and final copy. Without their help, this document could not have been completed. Kathy Earley performed double duty in organizing the report and keeping the process orderly. Any remaining errors are my sole responsibility.

James T. Lindley
Study Director

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INTRODUCTION

Development Of The Study

Virginia's Unemployment Trust Fund, like those in many other states, was severely impacted by the 1975 recession. In 1974 Virginia had over \$245 million in its Fund. This exceeded 2% of the total wages paid in 1974, a healthy condition by almost any standard. In both actual and comparative terms, benefits paid out increased immensely from \$17 million in 1973 to \$32 million in 1974 to \$147 million in 1975. In addition, benefit payments continued at nearly \$100 million per year from 1976 to 1979 and have risen since to nearly \$170 million.

Contributions have not kept pace with this activity, the Fund balance has not been returned to its previous sound position of the early seventies, and insolvency has been perceived as a real possibility. In December, 1979, the Governor enlisted the help of his Advisory Board of Economists, while the Virginia Employment Commission hired its own Economist to assist in solving the problem. The combined findings of the Advisory Board and the Commission were presented to the Joint Subcommittee of the Senate Commerce and Labor Committee and the House Labor and Commerce Committee, interim legislation was requested to protect the fund, and it was proposed the Unemployment Compensation System be studied. Interim legislation was passed adopting provisions for a 100% surtax if the Fund dropped below \$75 million, increasing the maximum tax rate from 3.2% to 4.5%, increasing the new employer rate from 1.0% to 2.0%, and Senate Joint Resolution No. 47 authorizing a study.

The study was conducted by the Joint Subcommittee of the Senate Commerce and Labor Committee and the House Labor and Commerce Committee under the auspices of the Secretary of Administration and Finance with a Study Director to provide for analysis and coordination. The study had the benefit of input from various interest groups representing employers and labor and the full support and cooperation of the Virginia Employment Commission. The Joint Subcommittee met monthly from May through December, 1980 to receive input from interest groups and to review position papers prepared by the Study Director and research team.

The Joint Subcommittee made recommendations based on input received and submitted these to the Governor and The General Assembly of Virginia in the form of Senate Document 18. The recommendations are also contained on pages 7 through 9 of this report.

Chapter II contains an Executive Summary of issues with alternatives considered and recommendations of the Study Director. The legislation emanating from the Joint Subcommittee is contained in Chapter III of this report in the form in which it was passed and signed by the Governor.

Part II contains position papers on Unemployment Compensation with emphasis on the Virginia system. The material is separated into 7 Chapters, Unemployment In General, Unemployment Compensation As An Insurance System, Experience Rating, Trust Funds: Their Importance And Level Of Adequacy, Contributions, Benefits, and Good Cause and Suitable Work.

Part III addresses the problem of the increasing relative level of Unemployment Compensation activity in Virginia.

Because this work was completed before the release of the study papers of the National Commission on Unemployment Compensation, there is not reference to that report. However, the reader is urged to consult that work as it contains many excellent presentations on the subject.

SENATE JOINT RESOLUTION NO. 47

Continuing the Joint Subcommittee of the Senate Commerce and Labor Committee and the House of Delegates Labor and Commerce Committee Studying the Funding Requirements and the Administrative Needs of the Virginia Unemployment Compensation Act.

Agreed to by the Senate, March 4, 1980

Agreed to by the House of Delegates, February 29, 1980

WHEREAS, financial and administrative problems have developed from the high and extended rate of unemployment in the Commonwealth resulting from several years of economic recession; and

WHEREAS, this has resulted in the rapid depletion of the Unemployment Trust Fund and increased administrative burdens for the system; and

WHEREAS, Senate Joint Resolution No. 133 of the nineteen hundred seventy-seven General Assembly requested the joint subcommittee of the Senate Commerce and Labor Committee and the House of Delegates Labor and Commerce Committee Studying the Funding Requirements and the Administrative Needs of the Virginia Unemployment Compensation Act to study and present its findings and conclusions regarding the Trust Fund; and

WHEREAS, Senate Joint Resolution No. 20 and House Joint Resolution No. 104 of the nineteen hundred seventy-eight General Assembly continued the work of the joint subcommittee; and

WHEREAS, Senate Joint Resolution No. 117 of the nineteen hundred seventy-nine General Assembly also continued the work of the joint subcommittee; and

WHEREAS, although the joint subcommittee has worked diligently and made significant progress in its study, additional work remains to be done; and

WHEREAS, the balance in the Unemployment Trust Fund continues to be significantly less than the legal minimum solvency amount; and

WHEREAS, additional changes may need to be made to the Virginia Employment Commission's tax table; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the Joint Subcommittee of the Senate Commerce and Labor Committee and the House of Delegates Labor and Commerce Committee Studying the Funding Requirements and the Administrative Needs of the Virginia Unemployment Compensation Act is hereby continued. The joint subcommittee is requested to continue studying any aspects of the funding requirements and the administrative needs of the Virginia Unemployment Compensation Act which the joint subcommittee determines are in need of being addressed. Additionally, if the joint subcommittee determines that it would be beneficial to utilize the services of appropriate experts and consultants in its study, the joint subcommittee is requested to so utilize the services of those experts and consultants.

The joint subcommittee shall consist of eight members, three of whom shall be members of the Senate Commerce and Labor Committee and five of whom shall be members of the House of Delegates Labor and Commerce Committee. Those members of the Senate Commerce and Labor Committee and the House Labor and Commerce Committee who served on the joint subcommittee during nineteen hundred seventy-nine shall continue to so serve. If a vacancy on the joint subcommittee occurs for any reason, a successor shall be appointed by the appropriate person pursuant to the method of appointment specified in Senate Joint Resolution No. 133 of the nineteen hundred seventy-seven General Assembly.

The joint subcommittee is requested to complete its study by November one, nineteen hundred eighty, and to introduce any legislation it deems appropriate. All agencies of the Commonwealth shall assist in this study under the direction of the Secretary of Administration and Finance.¹

¹Acts of the General Assembly of the Commonwealth of Virginia,
Vol. II (1980), pp. 1566-1567.

PART I

JOINT SUBCOMMITTEE RECOMMENDATIONS,
ALTERNATIVES, AND EXECUTIVE SUMMARY

CHAPTER I

RECOMMENDATIONS

Recommendations Of The Joint Subcommittee Of The Virginia Senate Commerce And Labor Committee And The Virginia House Labor And Commerce Committee

Trust Fund And System

Type of Experience Rating System

Recommendation: To change from the present benefit wage ratio system to a benefit ratio system.

Trust Fund Requirements

Recommendation: To require a Fund adequacy standard of 1.5 times the highest three year average of a ratio of benefits to total wages as a percentage of the total wages of the year in question.

Period to Achieve Fund Adequacy

Recommendation: To develop a tax system that can achieve adequacy in five years.

Contributions

Pool Costs

Recommendation: To calculate pool costs on an annual basis, divide them by the taxable wages for that year and add that percentage to the experience rating rate. After the Trust Fund is fifty percent adequate, interest earned will be deducted from pool costs.

Experience Rating

Recommendation: To utilize a benefit ratio tax table with a fund adequacy factor incorporated to respond to an inadequate fund balance. (See 20 through 27.)

Experience Rating Period

Recommendation: To extend the present 36 month period for experience rating to 48 months.

Trust Fund Building

Recommendation: To utilize a multiplicative fund adequacy factor from 0 to 50% for employers with unemployment experience, plus an additive fund building charge for all employers of .3% until the fund is 50% adequate.¹

Minimum Tax Rate

Recommendation: To impose a minimum tax rate of .1 percent to which would be added pool costs and fund building charges.

Maximum Tax Rate

Recommendation: To impose a maximum tax rate of 6.2 percent to which would be added pool costs and fund building charges.

New Employer Rates

Recommendation: To impose a tax rate of 2.5 percent for a three year period to which would be added pool costs and fund building charges with the rate to be experience rated upwards after one year if experience warrants it.

Tax Base

Recommendation: To retain the present tax base of \$6,000.

Rates By Industry

Recommendation: To continue the present practice of experience rating employers and not set rates by industry.

Employee Contributions

Recommendation: To continue the present practice of employers paying 100 percent of the tax.

Extended Benefits

Recommendation: To continue the present practice of experience rating extended benefits.

¹Legislation which passed imposed a .2% charge rather than the .3% recommended.

Benefits

Benefit Eligibility Requirements

Recommendation: To utilize a benefit table that bases benefits on an average weekly wage calculated by dividing the two highest quarter's wages by 25.²

Wage Replacement Ratios

Recommendation: To replace 52% of the gross average weekly wage up to the maximum benefit amount.

Minimum Benefits

Recommendation: To pay a minimum benefit to \$44 per week.

Maximum Benefits

Recommendation: To pay a maximum benefit of \$138 per week.

Waiting Week

Recommendation: To not pay the waiting week.³

Miscellaneous

Good Cause and Suitable Work

Recommendation: No concensus was reached on this issue.

Information Capabilities

Recommendation: Require the Virginia Employment Commission to report on a yearly basis to employers, the dollar amounts of benefits charged to them and the contributions paid from 1981 forward.

²Legislation which passed based benefits on an average weekly wage calculated by dividing the two highest quarter's wages by 26 instead of 25 as recommended.

³Legislation which passed pays the waiting week immediately.

CHAPTER II

EXECUTIVE SUMMARY OF ISSUES
INCLUDING ALTERNATIVES AND
STUDY RECOMMENDATIONS

Issues, Alternatives, and
Study Recommendations

The following summary provides a brief explanation of the concepts behind each issue along with the alternatives that were considered. The study recommendations which vary from those adopted by the Joint Subcommittee recommendations have an asterisk (*).

Trust Fund and System

Type of Experience Rating System

Experience rating systems are designed to recover from employers the unemployment claims charged against them. The two types of systems under consideration, benefit ratio and reserve ratio, both have disadvantages, some of which can be ameliorated by tailoring tax schedules to the experience rating system.

Study has shown that a benefit ratio or benefit wage ratio system (the systems are very similar and will be considered as the same for analysis here) more closely relates the employer's unemployment experience and his tax rate than a reserve ratio system. This means more employer response to his unemployment charges. Moreover, fund building and replacement under a benefit ratio system is usually the responsibility of those who use the system; while in a reserve ratio system, it is the responsibility of those employers who do not use the system.

On the other hand, reserve ratio systems can recover over a longer period of time charges for claims from individual employers, and the system collects money in advance, at least from some employers. Unfortunately, the precollection is usually from the best employers. Benefit ratio systems traditionally have short periods of accounting for charges and this factor combined with low maximum rates can lead to undercollection of total charges over the business cycle. During the period of 1974 to 1979 in Virginia, the low rates of 2.7 and 3.2 percent allowed some nonseasonal employers to repay only half of the total benefits charged. After 1979 these employers

were returned to the minimum rate and the difference was taken from the Trust Fund. Although an extended period of accounting for charges would have helped, a maximum rate such as the 1981 9.0 percent (4.5 maximum with a 100% surtax) would have recovered most of the money in three years.

Changing to a reserve ratio system in Virginia would involve considerable time and a change in data collection and processing. Changing from Virginia's present benefit wage ratio system to a benefit ratio system would not require nearly the effort and could be done immediately.

Objective: To have an equitable system in collecting contributions and paying benefits with the major responsibility for the fiscal soundness of the system placed on the users of the system.

- Alternatives:
1. Remain with present system with no modifications.
 2. Keep the present system, but modify it so that it is efficient in collecting and equitable in its taxing.
 3. Change to a reserve ratio system at a designated point in time in the future, and require the Virginia Employment Commission to begin implementing the required internal changes as soon as possible.
 4. Change to a Benefit Ratio System.

Study Recommendation: To change from the present benefit wage ratio system to a benefit ratio system.

Trust Fund Requirements

Various Fund Adequacy standards have been suggested as a measure for determining the size of the Trust Fund. Dollar amounts are often suggested, but most reject these in an inflationary world as unrealistic. The best standard is considered to be a relative standard where the size of the potential liability and the wages are the factors used for calculation. There is general agreement to accept the Federal concept of the 1.5 rule. The 1.5 rule is based on the premise that a system should be able to pay 18 months (1.5 of 1 year) of benefits based on the payment of

benefits in the worst recession or recessions of the past 25 years. Some support the higher standard of the worst continuous 12 month period, while others push for a lower standard of the average of the three worst continuous 12 month periods. The adequacy standard adopted would be used to trigger a surcharge or a movement to different tax tables when the Fund became too low. It should be pointed out that none of the Fund Adequacy standards guarantee solvency unless the Fund is so large so as to keep excessive amounts of capital idle. What a Fund Adequacy standard does is to provide a target which has a high probability of being sufficient. There must be a balance between adequacy and the lost interest on employer's funds held in the Trust Fund.

Objective: To build and maintain a Trust Fund which will prevent borrowing from the Federal Government during economic downturns.

Alternatives:

1. A dollar amount for Fund Adequacy.
2. A 1.5 times a three year average of the worst experience rule tied to a trigger to raise taxes; for 1980, \$300 million.
3. A 1.5 times the worst 12 month period tied to a trigger to raise taxes; for 1980, \$400 million.

Study Recommendation*: To require a Fund Adequacy standard of 1.5 times the highest ratio of benefits to total wages as a percentage of the total wages of the year in question. (*Differs from Joint Subcommittee Recommendation.)

Period To Achieve Fund Adequacy

With the prospect of starting from a very low balance in the Trust Fund by the end of 1980, the time frame in which to return the Trust Fund to solvency becomes important. The recovery must be over a reasonable time period in order to avoid burdensome rates. Yet at the same time, a recovery period that is too long would result in an inadequate Fund balance

when the economy was undergoing another recession. It would require approximately \$100 million per year, over and above benefits, for a period of five years to achieve Fund adequacy under a 1.5 rule with the single worst 12 months and \$85 million per year with the average of the worst three 12 months. This would mean roughly a doubling of the present average tax rate. Extending the period beyond five years would greatly increase the risk of facing an economic downturn without an adequate Fund. Shortening the period would increase the contributions required per year by about 30 percent indicating an increase in revenue of \$130 million rather than \$100 million.

Objective: To extend the period for return to adequacy as far as possible consistent with preparing for the next business cycle.

- Alternatives:
1. Three year recovery period with 1.5 rule for average of three worst 12 months experience. Increased cost per year, \$120 million.
 2. Three year recovery period with 1.5 rule for single worst 12 months experience. Increased cost per year, \$155 million.
 3. Five year recovery period with 1.5 rule for average of three worst 12 months experience. Increased cost per year, \$85 million.
 4. Five year recovery period with 1.5 rule for single worst 12 months experience. Increased cost per year, \$110 million.
 5. Eight year recovery period with 1.5 rule for average of three worst 12 months experience. Increased cost per year, \$65 million.

Study Recommendation: To develop a tax system that can achieve adequacy in five years.

Contributions

Pool Costs

In all systems some of the costs cannot be charged to a particular employer and, thus, cannot be experience rated. As a result, these costs are distributed across the employer community in some manner. These costs range from 15 percent to over 50 percent of the total costs depending on the state. Pool costs occur in three ways:

1. Noncharges - noncharges occur when the last thirty day employer criteria is not met, but the claimant is eligible to draw. Other miscellaneous noncharges can also occur. (\$6 million, 6% in 1979)
2. Employers who go out of business and whose employees are eligible to draw benefits. (\$7 million, 7% in 1979)
3. Employers who exceed the maximum tax rate and whose charges are greater than the taxes they pay. (\$6 million, 6% in 1979)

Various methods exist for charging pool costs. One school of thought is that pool costs should be a percentage of experience rating charges because it is these employers who cause the unemployment. However, that is only the case in number 1, not in 2 or 3. Experience is somewhat dependent upon the type of business and there is no indication that there is any relationship between experience and the propensity to go out of business. In the third case, the maximum tax rate is a social, political decision to subsidize a particular group and there is no reason for subsidies not to be borne by the community as a whole.

Therefore, only one of the three parts of pool costs should be a percentage; the remainder would be a general charge to all employers. Ideally, pool costs would be charged by percentage of experience rating taxes for noncharges and a percentage of taxable wages for the costs of going out of business and the costs of those exceeding the maximum tax

rate, but this would involve a more complicated calculation. Since noncharges are not a large percentage of total pool costs, charging all pool costs by a percentage of taxable wages does not distort greatly the impact of pool charges.

Objective: To spread those costs of the system which cannot be charged to a particular employer over all employers.

- Alternatives:
1. Allow the present system to remain where experience rated employers between rates of 1.55 percent and 6.43 percent pay most of the pool costs.
 2. Separate out pool costs and charge them as a percentage of experience rating charges. This will not change the charging from what it is now.
 3. Separate out pool costs and allocate them on the basis of taxable wages calculated yearly.
 4. Separate out pool costs for noncharges and allocate them by percentage of experience rating charges and separate out the remaining pool costs and charge them on the basis of taxable wages.

Study Recommendation: To calculate pool costs on an annual basis, divide them by the taxable wages for that year and add that percentage to the experience rating rate. After the Trust Fund is fifty percent adequate, interest earned will be deducted from pool costs.

Experience Rating

The justification for experience rating is to encourage employers to be conservative in their lay-off activities. It forces employers to be other than neutral regarding the system. For instance, a flat rate results in employers not considering the impact of their lay-offs because the lay-offs do not affect the tax rate. With a flat rate, there is no incentive for an individual employer to challenge any claims because it does not affect his rate. Persons who are fired for cause or quit could draw claims with an impact on the system but with little impact on the individual employer. In essence, experience rating gives a market type feedback to employers which results in an incentive for an employer to

minimize use of the system and, thus, to minimize the dollars needed to operate the system. The more employers that are experience rated, therefore, the lower the average tax rate. Employers who would not be truly experience rated are new employers and employers exceeding the maximum tax rate. Since new employers can expect to be experience rated, the experience rating incentives are still applicable. The incentives would be of even greater impact if new employers were experience rated upward as soon as possible, such as after one year. A low maximum tax rate results in many employers being no longer affected by the experience rating incentives because no matter what the experience, they will pay no higher rate. The social decision to subsidize these employers by effectively removing them from experience rating results in more claims being chargeable to these employers than if the maximum rate were higher. Obviously, if you subsidize it, you get more of it. The higher the maximum tax rate, the more effective experience rating system that you have.

Objective: To provide the greatest possible incentive for individual employers to keep charges low and to make the Trust Fund building and maintenance the responsibility of those who use the system.

- Alternatives:**
1. Utilize an experience rating system which has a small range of rates with a low maximum and low minimum, a low flat tax system without recovery ability.
 2. Utilize an experience rating system which has a small range of rates with a high maximum and a high minimum, a high flat tax system with high recovery ability but little incentive.
 3. Utilize an experience rating system with a wide range of rates with low minimum and high maximum, a variable tax which allows recovery and provides incentives.

Study Recommendation: To utilize a benefit ratio tax table with a Fund Adequacy factor incorporated to respond to an inadequate Fund Balance. (See Pages 52 through 59 for the Table adopted.)

Experience Rating Period

The period over which to spread the benefit charges impacts the Fund and the individual employer. The shorter the time period, the more quickly the employer is impacted by the tax increase and the payback for a recession would be immediate. A long period, such as the present three years or a four year period, spreads the impact on an employer and allows him to recover from the effects of a recession before he is required to completely repay.

The impact on the Fund is the opposite. If the impact on employers is spread over a longer period, the Fund is not rebuilt as quickly. This would imply a larger Fund when the period is extended.

For any maximum tax rate, however, the longer the period, the more likely the system is to eventually recover charges.

Objective: To spread costs to employers over as long a period as possible to reduce impact of cycles and to collect from employers those amounts paid out in claims.

- Alternatives:
1. Leave the period at three years.
 2. Extend the period to more than three years, such as four or five years.
 3. Reduce the period to less than three years.

Study Recommendation: That the present 36 month period for experience rating be extended to 48 months.

Trust Fund Building

Trust Funds can be built and maintained either by incorporating a building factor into the experience rating system or applying an additive or multiplicative factor on top of experience rating. The system is more complete, however, if the fund building is incorporated into the experience rating table. Additional taxes can be applied if the Trust Fund falls below an adequate amount.

- Objective: To promote the rapid building and constant maintenance of the Trust Fund.
- Alternatives:
1. Multiplicative charges against experience rated employers based on the Fund adequacy (for example, a 60% adequate fund would result in a 40% increase in tax rates for employers with unemployment experience).
 2. An additive Fund Building Tax placed on all employers triggered by Fund adequacy.
 3. Combinations of alternative 1 and alternative 2.
- Study Recommendation: Utilize a multiplicative Fund Adequacy factor from 0 to 50% for employers with unemployment experience, plus an additive Fund Building charge for all employers of .3% until the Fund is 50% adequate.

Minimum Tax Rate

Minimum tax rates vary immensely from state to state. Few states have as low a rate as Virginia. Minimum rates can be thought of in two ways: (1) the minimum experience rating rate, and (2) the minimum rate overall.

If pool costs are calculated and charged separately, it is logical that the minimum experience rating rate should be zero, or slightly above zero, if Fund Building is included in the experience rating tax formulas. If Fund Building is separate, then the experience rating rate for no claims would be zero and the minimum overall rate for an employer would be the pool costs rate plus the Fund Building rate. Pool costs rates would depend on the percentage pool costs were of total costs and the manner in which it is decided to distribute them. Fund Building rates would depend upon the condition of the Fund, the time period to build it, and the distribution criteria used.

Objective: To have a minimum rate low enough to encourage few lay-offs, but which collects sufficient amounts to cover an employer's share of the common costs of the system.

- Alternatives:
1. Leave the minimum rate below $\frac{\text{pool costs}}{\text{taxable wages}}$ as is Virginia's present case and leave 25 percent of the taxable wages paying a fraction of the systems costs.
 2. Set the minimum rate to cover pool costs and if desired, fund building costs.
 3. Set the minimum rate much higher than pool costs as a pure revenue gathering measure and to provide for the subsidy of those at a low top rate.
 4. Set the minimum rate between zero and .1% plus pool costs and fund building costs.

Study Recommendation*: A minimum tax rate of zero to which would be added pool costs and fund building charges. (*Differs from Joint Subcommittee Recommendation.)

Maximum Tax Rate

All systems have established maximum tax rates on employers. The rationale behind this is the recognition that the nature of some industries is seasonal and some are more affected by cyclical declines than others. The broad industry categories of Construction and Agricultural and Forestry and Fishing are charged with more in claims than they pay in contributions in Virginia and most other states. The fact that benefits exceed contributions is caused almost entirely by the provision of a maximum rate. If there were no maximum rate, these industries would pay their own way. In every industry, however, there exists employers whose benefit charges exceed their contributions because of the imposition of a maximum tax rate. This explicit subsidy must be paid by the employer community.

As long as there is a maximum rate, this problem exists and the only considerations are how large is the subsidy to be and how do we distribute the cost of the subsidy. The size of the subsidy varies from state to state, but 10 to 20 percent of the total costs of benefits is often suggested as a reasonable figure. That is, the excess of charges over

contributions for employers at the top rate should be no more than 10 to 20 percent of the total benefits paid. Virginia, with its low top rates during 1974-1978, had a much higher percentage of total charges in that category.

Objective: To collect from each employer their cyclical impact on the system while recovering from seasonal employers an amount such that benefits charged to maximum rate employers minus contributions of maximum rate employers do not exceed 15 percent to 20 percent of total benefits.

- Alternatives:
1. Charge a low maximum rate which will result in a large subsidy to top rate employers.
 2. Set a maximum rate which will capture over the accounting period a percentage of charges for benefits (80% to 85%) and subsidizes the top rate for the remaining 15 percent to 20 percent (6.0% to 6.5%).
 3. Set a flexible maximum which calculates the rate based on the criteria in 2.

Study Recommendation*: A maximum tax rate of 6.5 percent to which would be added pool costs and fund building charges.
 (*Differs from Joint Subcommittee Recommendation.)

New Employer Rates

One of the major problems for all UI systems is the entry and exit of employers. Employers that leave the system leave a legacy of claims and usually have not paid in sufficient amounts to cover that cost. Indeed, unless the system were a reserve ratio system, it is likely that those in charge of the UI program would not know if the employer had paid in sufficient amounts or not. Because new employers have a greater propensity to fail than established employers, the probability of a new employer covering his costs is less than that of an established employer. The claims chargeable to new employers have the same seasonal and cyclical nature of those for established employers while having an additional characteristic, the nature of the propensity to fail. For instance, Retail and Wholesale Trade has relatively low experience due to seasonal and cyclical changes but has much higher experience when looking at the

incidence of business failure. As in the existing employer situation, there can exist cross industry subsidies, with the additional possible subsidy of new employers by existing employers.

The first inclination in solving the problem is to charge new employer rates that cover all the costs for new employers. A political and social hurdle exists, however, in that a rate sufficient to do this could well conflict with a goal of industrial development. Since taxes are a concern for prospective Virginia employers, high new employer rates could put Virginia at a competitive disadvantage. It is again tempting to charge new employers the average industry rate in an attempt to recover those charges. For Construction, this could come close to recovering new employer charges since Construction does not have an above average business failure rate. Retail and Wholesale Trade does have a higher than average failure rate and the industry average tax rate would be too low.

Moreover, it is inconsistent to attempt to eliminate cross industry subsidy for new employers when no attempt is made to eliminate it for existing employers. Setting new employer rates by industry average rate attempts to eliminate cross industry subsidies, but it does not address the uniqueness of new employers.

Another way of looking at new employers, at least under a reserve ratio system, is to attempt to precollect a reasonable amount from them in anticipation of an individual employer going out of business. For a reserve ratio system, a 3 percent tax rate would collect in three years 75 percent of the amount necessary to have a minimum rate, if the percentage required were 12 percent. In addition, if new employers were rated at a higher rate after one year if experience warranted, it would provide

for a greater leveling of the difference between new employers and others. Since 60% of the employers that do go out of business do so in the first three years, a period of three years to apply the new employer rate is not unreasonable.

Objective: To recover benefits charged to new employers who have gone out of business, plus collect the experience rating charges as quickly as possible.

- Alternatives:
1. Charge new employers by an industry average - from .27 percent to 2.57 percent.
 2. Charge a rate which will bring a percentage of the taxable base per year into the employer's account so that by the end of three years a high percentage of the necessary reserve or of the pre-collection is made.
 3. Charge the maximum rate for new employers.
 4. Charge a rate comparable to surrounding states - 2 percent to 3 percent.
 5. Charge any of the above rates for 1 year.
 6. Charge any of the above rates for 3 years with experience rating upwards after 1 year if experience warrants it.

Study Recommendation: A tax rate of 2.5 percent for a three year period to which would be added pool costs and fund building charges with the rate to be experience rated upwards after one year if experience warrants it.

Tax Base

One of the least understood aspects of a UI system is the role of the tax base. In the implementation of the system, all wages of covered employees were taxed. On the Federal level, a tax base of \$3,000 was established in 1940, which was raised to \$4,200 in 1974 and \$6,000 in 1978. Most states followed the Federal lead and set their tax base at the Federal level. Since FUTA tax rates are flat taxes applied against the base, an increase in the base results in an increase in the FUTA tax payments.

In state systems with experience rating, increases in the tax base do not necessarily have to lead to increased tax payments for the average employer.

For those employers who are experience rated, the issue is to recover the charges for claims that are the employers responsibility. To collect that amount per year, a higher tax base would mean a lower tax rate in the Virginia system. It is important to distinguish between the rationale behind setting the FUTA tax base and the base for a state with experience rating. Although the tax base increase can have little or no effect on experience rated employers, it impacts those that are up against the top rate, minimum rates, and new employers. For new employers and those up against the top rate, potential liability is an important consideration. Benefits drawn by a claimant are based on wages earned up to a maximum, and in Virginia that maximum exceeds the tax base. The wages to draw maximum benefits for maximum duration are \$9,516, while the tax base is \$6,000. This results in a top rated employer who pays wages of \$6,000 per year paying the same tax as a top rated employer who pays wages of \$10,000 per year. The wages of \$10,000, however, generate almost one-third more in the way of benefits. It is for that reason that a tax base equal to the highest qualifying wages for benefits results in a system more likely to be able to adjust to cyclical and seasonal drains than a tax system with a tax base below the highest qualifying wages.

Objective: To have a tax base which corresponds to the potential liability of the system so that taxes are paid on all wages that are part of the wage base for benefits.

Alternatives:

1. Adjust tax base only when it is adjusted by the Federal Government; Virginia's present situation.
2. Set up a flexible wage base which changes based on the condition of the Fund.

3. Make the wage base the same amount as the highest qualifying wages for benefits adjusting tax rates to maintain equity.

Study Recommendation*: Set the wage base the same amount as the highest qualifying wages for benefits adjusting tax rates to maintain equity. (*Differs from Joint Subcommittee Recommendation.)

Rates By Industry

One of the most politically attractive proposals, but with the least economic basis, is tax rates by industry whether for new or existing employers. Although Construction, Agriculture, Forestry and Fishing are industries with benefits exceeding contributions, 40 percent of employers in Construction and 60 percent in Agriculture, Forestry, and Fishing are at the minimum rate. Only 25 percent of Construction and 11 percent of Agriculture, Forestry, and Fishing are at the top rate and these are the employers causing the industry groups to be negative in terms of contributions to benefits. This negative situation is caused by the desire to have a socially acceptable maximum rate. Charging rates by industry forces a construction company with good experience to pay a disproportionate amount of the subsidy for a construction company that is up against the top rate. Deficit industries in terms of benefits exceeding contributions are caused by a desire to have subsidies to employers whose claims lead to rates that would exceed the maximum. If there is a general desire to have subsidies, they should be financed by the general population, in this case the total employer community, and not by others within the industry.

Objective: To prevent inter-industry subsidies and collect from each industry the industry cost.

Alternatives: 1. Set some rates by industry and put subsidy costs on the good experience employers in the industry. This would result in an increase in rates from minimum rate employers in all but one industry over what a general subsidy of maximum rate employers would cost.

2. Continue to set rates on individual experience rating.

Study Recommendation: To continue the present practice of experience rating employers and not set rates by industry.

Employee Contributions

Currently, three states, Alabama, Alaska, and New Jersey, levy a tax on covered workers, and during the 1940's several other states also taxed workers.¹ The argument for imposing taxes directly on covered workers relates to the fact that the workers are the primary beneficiaries of this payment system, and it seems reasonable that the workers as primary beneficiaries also have some direct contribution into the program. The arguments for excluding workers from any financing of unemployment compensation are as follows:

1. Worker contributions could lead to a stronger labor voice in influencing legislative decisions, especially benefit amounts.
2. If workers contributed to the program, there could be a tendency to relax disqualification rulings, considering the fact that each employee being reviewed for disqualification has directly contributed to the program.
3. Many argue that the incidence of the tax is largely shifted forward to employees already, through lower wages, and/or reduced employment, thus, employees are already bearing at least part of the tax.
4. Explicitly taxing the employees could undermine the concept of employer responsibility for stabilizing the work force, thus undercutting the intent of experience rating.

Worker taxes can be used as a short term emergency measure to help rebuild the Unemployment Reserve Fund. In 1976, for example, Alaska raised \$12 million through a .7 percent employee tax; Alabama raised \$20 million through a .5 percent tax; New Jersey raised \$68 million through a .5 percent tax. It is estimated that if Virginia had had a .5 percent employee tax in 1979, it would have raised an additional \$45 million. Thus, during

¹California, Indiana, Kentucky, Louisiana, Massachusetts, New Hampshire, and Rhode Island.

times of Fund inadequacy, the employee tax serves as a means to rebuild the Fund, with the chief beneficiaries of the program, the employees, sharing in the responsibility.

Objective: To collect a portion of costs of the system from the persons who draw benefits.

- Alternatives:
1. Retain present system of having 100 percent of the tax paid by employers.
 2. Impose a permanent employee tax.
 3. Consider an employee tax of .5 percent as a short term fund building measure. A tax could be imposed on all covered workers and be removed when the Fund achieved some percent of adequacy as measured by the Fund Adequacy Standard adopted.

Study Recommendation: To continue the present practice of employers paying 100 percent of the tax.

Extended Benefits

Because unemployment in a recession can exceed the maximum weeks allowed in most state systems, the Federal government devised an extended benefit program which extends benefits for one-half of the State determined duration up to an additional 13 weeks. One-half of the expense is paid by the Federal Government and one-half by the State. There is both a State and National trigger level of unemployment which brings extended benefits into effect, but Virginia's trigger is high relative to the National trigger and extended benefits in Virginia have always occurred because of the National trigger. The concept behind extended benefits is national economic stabilization and not temporary replacement of lost wages. It is for this reason that the Federal Government finances one-half of the cost, and there is reason to believe that it should be totally financed by the Federal Government.

Because the concept behind extended benefits is national stabilization and not temporary replacement of wages, consideration should be

given to the financing of these benefits at the state level. Two options exist: (1) make extended benefits part of pool costs, or (2) charge the employer who was responsible for the original benefits. It is handled both ways in various states. Three conditions support making extended benefits pool costs. First, the nature of extended benefits, economic stabilization, suggest a general or common cost concept. Second, the employer charged with the benefit wages in Virginia need only employ that person for 31 days. In many instances, employers with employees for short periods of time would end up being charged for far more time in benefits than the person worked. Third, if individual employers are charged, the chances increase of that employer exceeding the top rate, and, thus, much of it would be passed back into pool charges by default.

Objective: To charge extended benefits in a manner most consistent with objectives of having extended benefits.

- Alternatives:
1. Charge employers for extended benefits in the same manner as regular benefits, Virginia's present position.
 2. Charge extended benefits to pool costs.

Study Recommendation*: To charge extended benefits to pool costs.
 (*Differs from Joint Subcommittee Recommendation.)

Benefits

Benefit Eligibility Requirements

Unemployment Insurance programs were developed to assist persons temporarily unemployed through no fault of their own. As such, the implication was that persons assisted should have a strong attachment to the labor force. Original benefit tables were in dollar terms and given the prevailing wages required considerable labor force attachment. With expanded coverage and inflationary trends, dollar values are not as

accurate a measure of attachment to the work force as in the past. Thus, the system has unintentionally been expanded to include persons receiving payments who would not have been paid in the past. Concurrently, maximum benefits have been raised without increasing the minimum, resulting in more persons becoming eligible to draw benefits. Benefit eligibility requirements must be either adjusted automatically or through legislation to keep pace with inflation and increased wages. Failure to do so erodes eligibility standards over time. Two methods of increasing attachment to the work force would be an hours measurement and utilizing more than one quarter's earnings in calculating weekly wage. Both methods would require claimants to display greater amounts of work effort than the present Virginia system.

Objective: To set eligibility requirements so that the original concept of attachment to the work force is met equally by all claimants.

- Alternatives:
1. Increase dollar amounts required for high quarter and base earnings.
 2. Require weeks worked measurement as a minimum requirement.
 3. Require hours worked measurement as a minimum requirement.
 4. Require duration to be a function of weeks worked or hours worked.
 5. Retain the benefit table as it now exists and allow increasingly expanded coverage.
 6. Require benefits to be determined on the basis of two or more high quarter earnings.

Study Recommendation*: Require hours worked (800) as a minimum requirement. (*Differs from Joint Subcommittee Recommendation.)

Wage Replacement Ratios

Most benefit tables replace a constant proportion of gross weekly

wages up to a maximum benefit amount. In Virginia, this has traditionally been 52 percent of the gross weekly wage. The National Commission on Unemployment Compensation recommends a replacement ratio of 50 percent. Concern has been expressed that increasing State and Federal taxes due to progressive taxation has increased the net wage replacement ratio to levels inconsistent with employment incentive. Several studies, including one by the General Accounting Office, have concluded the solution is to tax unemployment benefits as wages. The same thing could be accomplished by creating a benefit table which replaced a fixed percentage of net wages for a typical claimant.

Objective: To replace a sufficient portion of lost wages, but maintain work incentive.

Alternatives:

1. Maintain 52 percent of gross wage replacement.
2. Lower or raise the gross wage replacement ratio.
3. Make the replacement ratio a percentage of net wages for a single person.
4. Make the wage replacement ratio a percentage of net wages for a married person.
5. Make the wage replacement ratio a percentage of net wages for a married person with children.

Study Recommendation*: Make the replacement ratio a percentage of net wages for a single person. (*Differs from Joint Subcommittee Recommendation.)

Minimum Benefits

Minimum benefits are high in Virginia relative to other states. This has the effect of raising Virginia's rate of average benefit to average weekly wage above that of most states. What is not readily apparent is that minimum benefits are automatically tied to the minimum eligibility requirements and wage requirement ratio. In most states benefits are a constant percentage of gross weekly wages up to a maximum, and the stiffer the eligibility requirements the higher the minimum benefit payments.

Given any particular benefit table, the system with the highest minimum benefits pays out the least amount of total benefits. If Virginia required 800 hours of work to qualify, even at minimum wage, the minimum benefit would be \$55.00. It is important that a system does not allow the minimum benefit to remain low even when maximum benefits are increased. To do so expands greatly the number of persons eligible and increases total benefit payments. Thus whenever maximum benefits are increased, minimum benefits should also be increased.

Objective: To set the minimum level of replacement consistent with the general wage level in the state.

Alternatives:

1. Leave minimum benefits at a permanent low dollar amount and thus expand coverage.
2. Raise the minimum whenever the maximum is raised and in the same proportion.

Study Recommendation*: Pay a minimum benefit of 20% of state average weekly wage per week indexed yearly; \$50 in 1981. (*Differs from Joint Subcommittee Recommendation.)

Maximum Benefits

Maximum benefits in Virginia since 1974 have averaged 55 percent of the state average weekly wage. The National Commission on Unemployment Compensation has recommended that the Federal Government require that maximum benefits be not less than two-thirds of the average total weekly wages in covered employment in the preceding year. The schedule is: 1982 - 55 percent; 1984 - 60 percent; and 1986 - 66 2/3 percent. Although an emotional issue, maximum benefits have much less impact on the system than many other issues. For instance, changing the benefit table in Virginia so that to qualify for benefits one would earn enough to draw \$50 minimum, would have allowed maximum benefits of over \$145 per week and still spent the same amount in 1979. A maximum benefit amount of .55 of the state's average weekly wage for 1981 would be approximately \$140. Many states

automatically raise the maximum benefit amount as average weekly wages increase. This tends to maintain the same relationships in the system. With the hourly requirement in effect for eligibility, the bottom of the table will adjust concurrently particularly as minimum wage levels increase.

Objective: To keep benefit amounts in a constant position relative to the general wage level in the state.

- Alternatives:
1. Leave maximum benefits as they are.
 2. Raise maximum benefits to the relative level of the previous years - 52-55 percent of the state average weekly wage.
 3. Follow the recommendation of the National Commission on Unemployment Compensation of 1982 - 55 percent; 1984 - 60 percent; and 1986 - 66 2/3 percent of the average weekly wage.

Study Recommendation: Pay a maximum benefit of 55 percent of state average weekly wage per week indexed yearly; \$138 in 1981.

Waiting Week

There appears at present a national trend to require an uncompensated waiting week in every state. Currently 41 states require a waiting week, including Virginia. Nine of those states, including Virginia, eventually pay the waiting week if unemployment continues long enough; in Virginia, this occurs on the fifth week. From a work incentive position, Virginia has the worse position. If payment of the waiting week is to be made, it should be made immediately to avoid the incentive to remain unemployed for the fifth week and draw double benefits.

Not paying the waiting week reduces the amount of compensation drawn if unemployment does not exceed the maximum weeks available to draw. It does not affect the amount drawn for those exhausting benefits. Not paying the waiting week would have reduced total benefits by approximately \$4 million in 1979. Paying the waiting week immediately would have added something less than one week to the average weekly duration and approximately

\$5 million more in total benefits in 1979.

Objective: To replace lost wages consistent with maintaining work incentives.

Alternatives:

1. Leave the existing system in place.
2. Do not pay a waiting week at all.
3. Eliminate the waiting week provision.

Study Recommendation*: Eliminate the waiting week provision. (*Differs from Joint Subcommittee Recommendation.)

Miscellaneous

Good Cause and Suitable Work

Two issues which have concerned employers are claimants who have quit or left jobs and the unemployment is not directly attributable to the employer, and the refusal of claimants to accept jobs that are not in keeping with the claimants' previous experience. Provisions to safeguard employees' rights to draw benefits dictate an enforceable standard which defines the conditions under which an employee may leave a job and still draw benefits and the kinds of jobs he can be forced to accept. Reference has been made to amending Virginia's law to include the words "good cause attributable to the employer". Investigation of other states, particularly North Carolina which has the above phrase in its law, shows that there is little, if any, differences in the outcome of decisions on the same cases. Those decided in favor of the claimant in Virginia would have been decided the same in North Carolina. National organizations which have had experience with many states indicate that Virginia is rather conservative in its decisions and interpretations. It does not appear that adding language to the present law would affect benefit payouts. Changing the statutory provisions would be merely window dressing.

Objective: To have statutes which provide for efficient equitable procedures for determining eligibility for claimants.

Alternatives: 1. Leave statutes as they are.
2. Change wording to include attributable to the employer.

Study Recommendation: Leave statutes as they are.

Information Capabilities

The present system in Virginia is not capable of easily producing employer information regarding benefits paid and taxes contributed. In order for employers to properly evaluate their use of the Unemployment Insurance system, it is important that they have this information.

Objective: To provide adequate information to employers so that they are aware of their fiscal relationship to the system.

Alternatives: 1. Leave the system as it presently exists.
2. Increase amounts of information available to employers regarding benefits charged and contributions paid in.

Study Recommendation: Require the Virginia Employment Commission to report on a yearly basis to employers the dollar amount of benefits charged to them and the contributions paid from 1981 forward.

CHAPTER III

LEGISLATION

An Act to amend and reenact §§ 60.1-47, 60.1-52, 60.1-75, 60.1-79, 60.1-80, 60.1-81, 60.1-82 and 60.1-91 of the Code of Virginia, to amend the Code of Virginia by adding sections numbered 60.1-40.1, 60.1-84.1, 60.1-84.2 and 60.1-85.1, and to repeal §§ 60.1-83, 60.1-84, 60.1-85, and 60.1-86 of the Code of Virginia, all of which provide for employer's contributions to the Unemployment Compensation System.

[S 679]

Approved APR 1 1981

Be it enacted by the General Assembly of Virginia:

1. That §§ 60.1-47, 60.1-52, 60.1-75, 60.1-79, 60.1-80, 60.1-81, 60.1-82, and 60.1-91 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding sections numbered 60.1-40.1, 60.1-84.1, 60.1-84.2, and 60.1-85.1 as follows:

§ 60.1-40.1. *Statement of employer's benefit charges and contributions.*—Effective January one, nineteen hundred eighty-two, the Commission, by the first day of July of every year, shall provide every covered employer with a statement of the employer's benefit charges and contributions for the preceding calendar year. For any period in which benefit charges are not available, benefit charges shall be calculated as provided in § 60.1-82.

§ 60.1-47. *Weekly benefit amount.*—With respect to all claims filed on or after July first fifth, nineteen hundred seventy-nine eighty-one, an eligible individual's weekly "benefit amount" shall be the amount appearing in Column B in the "Benefit Table" in this section on the line on which in Column A of such table, there appears the total wages for insured work earned by such individual in that quarter the two quarters of his base period in which such total wages were highest.

With respect to all claims filed prior to July first fifth, nineteen hundred seventy-nine eighty-one, an eligible individual's weekly "benefit amount" shall be computed under the provisions of this section in force on the date such claim was filed.

Pages 2 through 8 have been removed from the reenrolled copy of the legislation. These pages contain the lined out Benefit Table replaced by pages 9 through 16.

The old Benefit Table appears on pages 241 through 247 of this report.

BENEFIT TABLE DIVISION C DURATION OF BENEFITS

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT															
2200.00	44	2200.00	2357.01	2514.01	2671.01	2829.01	2986.01	3143.01	3300.01	3457.01	3614.01	3771.01	3929.01	4086.01	4243.01	4400.01
2250.00		2357.00	2514.00	2671.00	2829.00	2986.00	3143.00	3300.00	3457.00	3614.00	3771.00	3929.00	4086.00	4243.00	4400.00	& OVER
2250.01	45	2250.01	2411.01	2571.01	2732.01	2893.01	3054.01	3214.01	3375.01	3536.01	3696.01	3857.01	4018.01	4179.01	4339.01	4500.01
2300.00		2411.00	2571.00	2732.00	2893.00	3054.00	3214.00	3375.00	3536.00	3696.00	3857.00	4018.00	4179.00	4339.00	4500.00	& OVER
2300.01	46	2300.01	2464.01	2629.01	2793.01	2957.01	3121.01	3286.01	3450.01	3614.01	3779.01	3943.01	4107.01	4271.01	4436.01	4600.01
2350.00		2464.00	2629.00	2793.00	2957.00	3121.00	3286.00	3450.00	3614.00	3779.00	3943.00	4107.00	4271.00	4436.00	4600.00	& OVER
2350.01	47	2350.01	2518.01	2686.01	2854.01	3021.01	3189.01	3357.01	3525.01	3693.01	3861.01	4029.01	4196.01	4364.01	4532.01	4700.01
2400.00		2518.00	2686.00	2854.00	3021.00	3189.00	3357.00	3525.00	3693.00	3861.00	4029.00	4196.00	4364.00	4532.00	4700.00	& OVER
2400.01	48	2400.01	2571.01	2743.01	2914.01	3086.01	3257.01	3429.01	3600.01	3771.01	3943.01	4114.01	4286.01	4457.01	4629.01	4800.01
2450.00		2571.00	2743.00	2914.00	3086.00	3257.00	3429.00	3600.00	3771.00	3943.00	4114.00	4286.00	4457.00	4629.00	4800.00	& OVER
2450.01	49	2450.01	2625.01	2800.01	2975.01	3150.01	3325.01	3500.01	3675.01	3850.01	4025.01	4200.01	4375.01	4550.01	4725.01	4900.01
2500.00		2625.00	2800.00	2975.00	3150.00	3325.00	3500.00	3675.00	3850.00	4025.00	4200.00	4375.00	4550.00	4725.00	4900.00	& OVER
2500.01	50	2500.01	2679.01	2857.01	3036.01	3214.01	3393.01	3571.01	3750.01	3929.01	4107.01	4286.01	4464.01	4643.01	4821.01	5000.01
2550.00		2679.00	2857.00	3036.00	3214.00	3393.00	3571.00	3750.00	3929.00	4107.00	4286.00	4464.00	4643.00	4821.00	5000.00	& OVER
2550.01	51	2550.01	2732.01	2914.01	3096.01	3279.01	3461.01	3643.01	3825.01	4007.01	4189.01	4371.01	4554.01	4736.01	4918.01	5100.01
2600.00		2732.00	2914.00	3096.00	3279.00	3461.00	3643.00	3825.00	4007.00	4189.00	4371.00	4554.00	4736.00	4918.00	5100.00	& OVER
2600.01	52	2600.01	2786.01	2971.01	3157.01	3343.01	3529.01	3714.01	3900.01	4086.01	4271.01	4457.01	4643.01	4829.01	5014.01	5200.01
2650.00		2786.00	2971.00	3157.00	3343.00	3529.00	3714.00	3900.00	4086.00	4271.00	4457.00	4643.00	4829.00	5014.00	5200.00	& OVER
2650.01	53	2650.01	2839.01	3029.01	3218.01	3407.01	3596.01	3786.01	3975.01	4164.01	4354.01	4543.01	4732.01	4921.01	5111.01	5300.01
2700.00		2839.00	3029.00	3218.00	3407.00	3596.00	3786.00	3975.00	4164.00	4354.00	4543.00	4732.00	4921.00	5111.00	5300.00	& OVER
2700.01	54	2700.01	2893.01	3086.01	3279.01	3471.01	3664.01	3857.01	4050.01	4243.01	4436.01	4629.01	4821.01	5014.01	5207.01	5400.01
2750.00		2893.00	3086.00	3279.00	3471.00	3664.00	3857.00	4050.00	4243.00	4436.00	4629.00	4821.00	5014.00	5207.00	5400.00	& OVER
2750.01	55	2750.01	2946.01	3143.01	3339.01	3536.01	3732.01	3929.01	4125.01	4321.01	4518.01	4714.01	4911.01	5107.01	5304.01	5500.01
2800.00		2946.00	3143.00	3339.00	3536.00	3732.00	3929.00	4125.00	4321.00	4518.00	4714.00	4911.00	5107.00	5304.00	5500.00	& OVER

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT															
2800.01	56	2800.01	3000.01	3200.01	3400.01	3600.01	3800.01	4000.01	4200.01	4400.01	4600.01	4800.01	5000.01	5200.01	5400.01	5600.01
2850.00		3000.00	3200.00	3400.00	3600.00	3800.00	4000.00	4200.00	4400.00	4600.00	4800.00	5000.00	5200.00	5400.00	5600.00	& OVER
2650.01	57	2850.01	3054.01	3257.01	3461.01	3664.01	3868.01	4071.01	4275.01	4479.01	4682.01	4886.01	5089.01	5293.01	5496.01	5700.01
2900.00		3054.00	3257.00	3461.00	3664.00	3868.00	4071.00	4275.00	4479.00	4682.00	4886.00	5089.00	5293.00	5496.00	5700.00	& OVER
2900.01	58	2900.01	3107.01	3314.01	3521.01	3729.01	3936.01	4143.01	4350.01	4557.01	4764.01	4971.01	5179.01	5386.01	5593.01	5800.01
2950.00		3107.00	3314.00	3521.00	3729.00	3936.00	4143.00	4350.00	4557.00	4764.00	4971.00	5179.00	5386.00	5593.00	5800.00	& OVER
2950.01	59	2950.01	3161.01	3371.01	3582.01	3793.01	4004.01	4214.01	4425.01	4636.01	4846.01	5057.01	5268.01	5479.01	5689.01	5900.01
3000.00		3161.00	3371.00	3582.00	3793.00	4004.00	4214.00	4425.00	4636.00	4846.00	5057.00	5268.00	5479.00	5689.00	5900.00	& OVER
3000.01	60	3000.01	3214.01	3429.01	3643.01	3857.01	4071.01	4286.01	4500.01	4714.01	4929.01	5143.01	5357.01	5571.01	5786.01	6000.01
3050.00		3214.00	3429.00	3643.00	3857.00	4071.00	4286.00	4500.00	4714.00	4929.00	5143.00	5357.00	5571.00	5786.00	6000.00	& OVER
3050.01	61	3050.01	3268.01	3486.01	3704.01	3921.01	4139.01	4357.01	4575.01	4793.01	5011.01	5229.01	5446.01	5664.01	5882.01	6100.01
3100.00		3268.00	3486.00	3704.00	3921.00	4139.00	4357.00	4575.00	4793.00	5011.00	5229.00	5446.00	5664.00	5882.00	6100.00	& OVER
3100.01	62	3100.01	3321.01	3543.01	3764.01	3986.01	4207.01	4429.01	4650.01	4871.01	5093.01	5314.01	5536.01	5757.01	5979.01	6200.01
3150.00		3321.00	3543.00	3764.00	3986.00	4207.00	4429.00	4650.00	4871.00	5093.00	5314.00	5536.00	5757.00	5979.00	6200.00	& OVER
3150.01	63	3150.01	3375.01	3600.01	3825.01	4050.01	4275.01	4500.01	4725.01	4950.01	5175.01	5400.01	5625.01	5850.01	6075.01	6300.01
3200.00		3375.00	3600.00	3825.00	4050.00	4275.00	4500.00	4725.00	4950.00	5175.00	5400.00	5625.00	5850.00	6075.00	6300.00	& OVER
3200.01	64	3200.01	3429.01	3657.01	3886.01	4114.01	4343.01	4571.01	4800.01	5029.01	5257.01	5486.01	5714.01	5943.01	6171.01	6400.01
3250.00		3429.00	3657.00	3886.00	4114.00	4343.00	4571.00	4800.00	5029.00	5257.00	5486.00	5714.00	5943.00	6171.00	6400.00	& OVER
3250.01	65	3250.01	3482.01	3714.01	3946.01	4179.01	4411.01	4643.01	4875.01	5107.01	5339.01	5571.01	5804.01	6036.01	6268.01	6500.01
3300.00		3482.00	3714.00	3946.00	4179.00	4411.00	4643.00	4875.00	5107.00	5339.00	5571.00	5804.00	6036.00	6268.00	6500.00	& OVER
3300.01	66	3300.01	3536.01	3771.01	4007.01	4243.01	4479.01	4714.01	4950.01	5186.01	5421.01	5657.01	5893.01	6129.01	6364.01	6600.01
3350.00		3536.00	3771.00	4007.00	4243.00	4479.00	4714.00	4950.00	5186.00	5421.00	5657.00	5893.00	6129.00	6364.00	6600.00	& OVER
3350.01	67	3350.01	3589.01	3829.01	4068.01	4307.01	4546.01	4786.01	5025.01	5264.01	5504.01	5743.01	5982.01	6221.01	6461.01	6700.01
3400.00		3589.00	3829.00	4068.00	4307.00	4546.00	4786.00	5025.00	5264.00	5504.00	5743.00	5982.00	6221.00	6461.00	6700.00	& OVER

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT															
3400.01	68	3400.01	3643.01	3886.01	4129.01	4371.01	4614.01	4857.01	5100.01	5343.01	5586.01	5829.01	6071.01	6314.01	6557.01	6800.01
3450.00		3643.00	3886.00	4129.00	4371.00	4614.00	4857.00	5100.00	5343.00	5586.00	5829.00	6071.00	6314.00	6557.00	6800.00	& OVER
3450.01	69	3450.01	3696.01	3943.01	4189.01	4436.01	4682.01	4929.01	5175.01	5421.01	5668.01	5914.01	6161.01	6407.01	6654.01	6900.01
3500.00		3696.00	3943.00	4189.00	4436.00	4682.00	4929.00	5175.00	5421.00	5668.00	5914.00	6161.00	6407.00	6654.00	6900.00	& OVER
3500.01	70	3500.01	3750.01	4000.01	4250.01	4500.01	4750.01	5000.01	5250.01	5500.01	5750.01	6000.01	6250.01	6500.01	6750.01	7000.01
3550.00		3750.00	4000.00	4250.00	4500.00	4750.00	5000.00	5250.00	5500.00	5750.00	6000.00	6250.00	6500.00	6750.00	7000.00	& OVER
3550.01	71	3550.01	3804.01	4057.01	4311.01	4564.01	4818.01	5071.01	5325.01	5579.01	5832.01	6086.01	6339.01	6593.01	6846.01	7100.01
3600.00		3804.00	4057.00	4311.00	4564.00	4818.00	5071.00	5325.00	5579.00	5832.00	6086.00	6339.00	6593.00	6846.00	7100.00	& OVER
3600.01	72	3600.01	3857.01	4114.01	4371.01	4629.01	4886.01	5143.01	5400.01	5657.01	5914.01	6171.01	6429.01	6686.01	6943.01	7200.01
3650.00		3857.00	4114.00	4371.00	4629.00	4886.00	5143.00	5400.00	5657.00	5914.00	6171.00	6429.00	6686.00	6943.00	7200.00	& OVER
3650.01	73	3650.01	3911.01	4171.01	4432.01	4693.01	4954.01	5214.01	5475.01	5736.01	5996.01	6257.01	6518.01	6779.01	7039.01	7300.01
3700.00		3911.00	4171.00	4432.00	4693.00	4954.00	5214.00	5475.00	5736.00	5996.00	6257.00	6518.00	6779.00	7039.00	7300.00	& OVER
3700.01	74	3700.01	3964.01	4229.01	4493.01	4757.01	5021.01	5286.01	5550.01	5814.01	6079.01	6343.01	6607.01	6871.01	7136.01	7400.01
3750.00		3964.00	4229.00	4493.00	4757.00	5021.00	5286.00	5550.00	5814.00	6079.00	6343.00	6607.00	6871.00	7136.00	7400.00	& OVER
3750.01	75	3750.01	4018.01	4286.01	4554.01	4821.01	5089.01	5357.01	5625.01	5893.01	6161.01	6429.01	6696.01	6964.01	7232.01	7500.01
3800.00		4018.00	4286.00	4554.00	4821.00	5089.00	5357.00	5625.00	5893.00	6161.00	6429.00	6696.00	6964.00	7232.00	7500.00	& OVER
3800.01	76	3800.01	4071.01	4341.01	4614.01	4886.01	5157.01	5429.01	5700.01	5971.01	6243.01	6514.01	6786.01	7057.01	7329.01	7600.01
3850.00		4071.00	4343.00	4614.00	4886.00	5157.00	5429.00	5700.00	5971.00	6243.00	6514.00	6786.00	7057.00	7329.00	7600.00	& OVER
3850.01	77	3850.01	4125.01	4400.01	4675.01	4950.01	5225.01	5500.01	5775.01	6050.01	6325.01	6600.01	6875.01	7150.01	7425.01	7700.01
3900.00		4125.00	4400.00	4675.00	4950.00	5225.00	5500.00	5775.00	6050.00	6325.00	6600.00	6875.00	7150.00	7425.00	7700.00	& OVER
3900.01	78	3900.01	4179.01	4457.01	4736.01	5014.01	5293.01	5571.01	5850.01	6129.01	6407.01	6686.01	6964.01	7243.01	7521.01	7800.01
3950.00		4179.00	4457.00	4736.00	5014.00	5293.00	5571.00	5850.00	6129.00	6407.00	6686.00	6964.00	7243.00	7521.00	7800.00	& OVER
3950.01	79	3950.01	4232.01	4514.01	4796.01	5079.01	5361.01	5643.01	5925.01	6207.01	6489.01	6771.01	7054.01	7336.01	7618.01	7900.01
4000.00		4232.00	4514.00	4796.00	5079.00	5361.00	5643.00	5925.00	6207.00	6489.00	6771.00	7054.00	7336.00	7618.00	7900.00	& OVER

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS
4000.01	80	4000.01	4286.01	4571.01	4857.01	5143.01	5429.01	5714.01	6000.01	6286.01	6571.01	6857.01	7143.01	7429.01	7714.01	8000.01 & OVER
4050.00		4286.00	4571.00	4857.00	5143.00	5429.00	5714.00	6000.00	6286.00	6571.00	6857.00	7143.00	7429.00	7714.00	8000.00	
4050.01	81	4050.01	4339.01	4629.01	4918.01	5207.01	5496.01	5786.01	6075.01	6364.01	6654.01	6943.01	7232.01	7521.01	7811.01	8100.01 & OVER
4100.00		4339.00	4629.00	4918.00	5207.00	5496.00	5786.00	6075.00	6364.00	6654.00	6943.00	7232.00	7521.00	7811.00	8100.00	
4100.01	82	4100.01	4393.01	4686.01	4979.01	5271.01	5564.01	5857.01	6150.01	6443.01	6736.01	7029.01	7321.01	7614.01	7907.01	8200.01 & OVER
4150.00		4393.00	4686.00	4979.00	5271.00	5564.00	5857.00	6150.00	6443.00	6736.00	7029.00	7321.00	7614.00	7907.00	8200.00	
4150.01	83	4150.01	4446.01	4743.01	5039.01	5336.01	5632.01	5929.01	6225.01	6521.01	6818.01	7114.01	7411.01	7707.01	8004.01	8300.01 & OVER
4200.00		4446.00	4743.00	5039.00	5336.00	5632.00	5929.00	6225.00	6521.00	6818.00	7114.00	7411.00	7707.00	8004.00	8300.00	
4200.01	84	4200.01	4500.01	4800.01	5100.01	5400.01	5700.01	6000.01	6300.01	6600.01	6900.01	7200.01	7500.01	7800.01	8100.01	8400.01 & OVER
4250.00		4500.00	4800.00	5100.00	5400.00	5700.00	6000.00	6300.00	6600.00	6900.00	7200.00	7500.00	7800.00	8100.00	8400.00	
4250.01	85	4250.01	4554.01	4857.01	5161.01	5464.01	5768.01	6071.01	6375.01	6679.01	6982.01	7286.01	7589.01	7893.01	8196.01	8500.01 & OVER
4300.00		4554.00	4857.00	5161.00	5464.00	5768.00	6071.00	6375.00	6679.00	6982.00	7286.00	7589.00	7893.00	8196.00	8500.00	
4300.01	86	4300.01	4607.01	4914.01	5221.01	5529.01	5836.01	6143.01	6450.01	6757.01	7064.01	7371.01	7679.01	7986.01	8293.01	8600.01 & OVER
4350.00		4607.00	4914.00	5221.00	5529.00	5836.00	6143.00	6450.00	6757.00	7064.00	7371.00	7679.00	7986.00	8293.00	8600.00	
4350.01	87	4350.01	4661.01	4971.01	5282.01	5593.01	5904.01	6214.01	6525.01	6836.01	7146.01	7457.01	7768.01	8079.01	8389.01	8700.01 & OVER
4400.00		4661.00	4971.00	5282.00	5593.00	5904.00	6214.00	6525.00	6836.00	7146.00	7457.00	7768.00	8079.00	8389.00	8700.00	
4400.01	88	4400.01	4714.01	5029.01	5343.01	5657.01	5971.01	6286.01	6600.01	6914.01	7229.01	7543.01	7857.01	8171.01	8486.01	8800.01 & OVER
4450.00		4714.00	5029.00	5343.00	5657.00	5971.00	6286.00	6600.00	6914.00	7229.00	7543.00	7857.00	8171.00	8486.00	8800.00	
4450.01	89	4450.01	4768.01	5086.01	5404.01	5721.01	6039.01	6357.01	6675.01	6993.01	7311.01	7629.01	7946.01	8264.01	8582.01	8900.01 & OVER
4500.00		4768.00	5086.00	5404.00	5721.00	6039.00	6357.00	6675.00	6993.00	7311.00	7629.00	7946.00	8264.00	8582.00	8900.00	
4500.01	90	4500.01	4821.01	5143.01	5464.01	5786.01	6107.01	6429.01	6750.01	7071.01	7393.01	7714.01	8036.01	8357.01	8679.01	9000.01 & OVER
4550.00		4821.00	5143.00	5464.00	5786.00	6107.00	6429.00	6750.00	7071.00	7393.00	7714.00	8036.00	8357.00	8679.00	9000.00	
4550.01	91	4550.01	4875.01	5200.01	5525.01	5850.01	6175.01	6500.01	6825.01	7150.01	7475.01	7800.01	8125.01	8450.01	8775.01	9100.01 & OVER
4600.00		4875.00	5200.00	5525.00	5850.00	6175.00	6500.00	6825.00	7150.00	7475.00	7800.00	8125.00	8450.00	8775.00	9100.00	

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT															
4600.01	92	4600.01	4929.01	5257.01	5586.01	5914.01	6243.01	6571.01	6900.01	7229.01	7557.01	7886.01	8214.01	8543.01	8871.01	9200.01
4650.00		4929.00	5257.00	5586.00	5914.00	6243.00	6571.00	6900.00	7229.00	7557.00	7886.00	8214.00	8543.00	8871.00	9200.00	& OVER
4650.01	93	4650.01	4982.01	5314.01	5646.01	5979.01	6311.01	6643.01	6975.01	7307.01	7639.01	7971.01	8304.01	8636.01	8968.01	9300.01
4700.00		4982.00	5314.00	5646.00	5979.00	6311.00	6643.00	6975.00	7307.00	7639.00	7971.00	8304.00	8636.00	8968.00	9300.00	& OVER
4700.01	94	4700.01	5036.01	5371.01	5707.01	6043.01	6379.01	6714.01	7050.01	7386.01	7721.01	8057.01	8393.01	8729.01	9064.01	9400.01
4750.00		5036.00	5371.00	5707.00	6043.00	6379.00	6714.00	7050.00	7386.00	7721.00	8057.00	8393.00	8729.00	9064.00	9400.00	& OVER
4750.01	95	4750.01	5089.01	5429.01	5768.01	6107.01	6446.01	6786.01	7125.01	7464.01	7804.01	8143.01	8482.01	8821.01	9161.01	9500.01
4800.00		5089.00	5429.00	5768.00	6107.00	6446.00	6786.00	7125.00	7464.00	7804.00	8143.00	8482.00	8821.00	9161.00	9500.00	& OVER
4800.01	96	4800.01	5143.01	5486.01	5829.01	6171.01	6514.01	6857.01	7200.01	7543.01	7886.01	8229.01	8571.01	8914.01	9257.01	9600.01
4850.00		5143.00	5486.00	5829.00	6171.00	6514.00	6857.00	7200.00	7543.00	7886.00	8229.00	8571.00	8914.00	9257.00	9600.00	& OVER
4850.01	97	4850.01	5196.01	5543.01	5889.01	6236.01	6582.01	6929.01	7275.01	7621.01	7968.01	8314.01	8661.01	9007.01	9354.01	9700.01
4900.00		5196.00	5543.00	5889.00	6236.00	6582.00	6929.00	7275.00	7621.00	7968.00	8314.00	8661.00	9007.00	9354.00	9700.00	& OVER
4900.01	98	4900.01	5250.01	5600.01	5950.01	6300.01	6650.01	7000.01	7350.01	7700.01	8050.01	8400.01	8750.01	9100.01	9450.01	9800.01
4950.00		5250.00	5600.00	5950.00	6300.00	6650.00	7000.00	7350.00	7700.00	8050.00	8400.00	8750.00	9100.00	9450.00	9800.00	& OVER
4950.01	99	4950.01	5304.01	5657.01	6011.01	6364.01	6718.01	7071.01	7425.01	7779.01	8132.01	8486.01	8839.01	9193.01	9546.01	9900.01
5000.00		5304.00	5657.00	6011.00	6364.00	6718.00	7071.00	7425.00	7779.00	8132.00	8486.00	8839.00	9193.00	9546.00	9900.00	& OVER
5000.01	100	5000.01	5357.01	5714.01	6071.01	6429.01	6786.01	7143.01	7500.01	7857.01	8214.01	8571.01	8929.01	9286.01	9643.01	10000.01
5050.00		5357.00	5714.00	6071.00	6429.00	6786.00	7143.00	7500.00	7857.00	8214.00	8571.00	8929.00	9286.00	9643.00	10000.00	& OVER
5050.01	101	5050.01	5411.01	5771.01	6132.01	6493.01	6854.01	7214.01	7575.01	7936.01	8296.01	8657.01	9018.01	9379.01	9739.01	10100.01
5100.00		5411.00	5771.00	6132.00	6493.00	6854.00	7214.00	7575.00	7936.00	8296.00	8657.00	9018.00	9379.00	9739.00	10100.00	& OVER
5100.01	102	5100.01	5464.01	5829.01	6193.01	6557.01	6921.01	7286.01	7650.01	8014.01	8379.01	8743.01	9107.01	9471.01	9836.01	10200.01
5150.00		5464.00	5829.00	6193.00	6557.00	6921.00	7286.00	7650.00	8014.00	8379.00	8743.00	9107.00	9471.00	9836.00	10200.00	& OVER
5150.01	103	5150.01	5518.01	5886.01	6254.01	6621.01	6989.01	7357.01	7725.01	8093.01	8461.01	8829.01	9196.01	9564.01	9932.01	10300.01
5200.00		5518.00	5886.00	6254.00	6621.00	6989.00	7357.00	7725.00	8093.00	8461.00	8829.00	9196.00	9564.00	9932.00	10300.00	& OVER

HIGHEST TWO QUARTER EARNINGS	Col. B															
	WEEKLY BENEFIT AMOUNT	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
5200.01	104	5200.01	5571.01	5943.01	6314.01	6686.01	7057.01	7429.01	7800.01	8171.01	8543.01	8914.01	9286.01	9657.01	10029.01	10400.01
5250.00	105	5571.00	5943.00	6314.00	6686.00	7057.00	7429.00	7800.00	8171.00	8543.00	8914.00	9286.00	9657.00	10029.00	10400.00	& OVER
5250.01	106	5250.01	5625.01	6000.01	6375.01	6750.01	7125.01	7500.01	7875.01	8250.01	8625.01	9000.01	9375.01	9750.01	10125.01	10500.01
5300.00	107	5625.00	6000.00	6375.00	6750.00	7125.00	7500.00	7875.00	8250.00	8625.00	9000.00	9375.00	9750.00	10125.00	10500.00	& OVER
5300.01	108	5300.01	5679.01	6057.01	6436.01	6814.01	7193.01	7571.01	7950.01	8329.01	8707.01	9086.01	9464.01	9843.01	10221.01	10600.01
5350.00	109	6057.00	6436.00	6814.00	7193.00	7571.00	7950.00	8329.00	8707.00	9086.00	9464.00	9843.00	10221.00	10600.00	11000.00	& OVER
5350.01	110	5350.01	5732.01	6114.01	6496.01	6879.01	7261.01	7643.01	8025.01	8407.01	8789.01	9171.01	9554.01	9936.01	10318.01	10700.01
5400.00	111	6114.00	6496.00	6879.00	7261.00	7643.00	8025.00	8407.00	8789.00	9171.00	9554.00	9936.00	10318.00	10700.00	11100.00	& OVER
5400.01	112	5400.01	5786.01	6171.01	6557.01	6943.01	7329.01	7714.01	8100.01	8486.01	8871.01	9257.01	9643.01	10029.01	10414.01	10800.01
5450.00	113	6171.00	6557.00	6943.00	7329.00	7714.00	8100.00	8486.00	8871.00	9257.00	9643.00	10029.00	10414.00	10800.00	11200.00	& OVER
5450.01	114	5450.01	5839.01	6229.01	6618.01	7007.01	7396.01	7786.01	8175.01	8564.01	8954.01	9343.01	9732.01	10121.01	10511.01	10900.01
5500.00	115	6229.00	6618.00	7007.00	7396.00	7786.00	8175.00	8564.00	8954.00	9343.00	9732.00	10121.00	10511.00	10900.00	11300.00	& OVER
5500.01	116	5500.01	5893.01	6286.01	6679.01	7071.01	7464.01	7857.01	8250.01	8643.01	9036.01	9429.01	9821.01	10214.01	10607.01	11000.01
5550.00	117	6286.00	6679.00	7071.00	7464.00	7857.00	8250.00	8643.00	9036.00	9429.00	9821.00	10214.00	10607.00	11000.00	11400.00	& OVER
5550.01	118	5550.01	5946.01	6343.01	6739.01	7136.01	7532.01	7929.01	8325.01	8721.01	9118.01	9514.01	9911.01	10307.01	10704.01	11100.01
5600.00	119	6343.00	6739.00	7136.00	7532.00	7929.00	8325.00	8721.00	9118.00	9514.00	9911.00	10307.00	10704.00	11100.00	11500.00	& OVER
5600.01	120	5600.01	6000.01	6400.01	6800.01	7200.01	7600.01	8000.01	8400.01	8800.01	9200.01	9600.01	10000.01	10400.01	10800.01	11200.01
5650.00	121	6400.00	6800.00	7200.00	7600.00	8000.00	8400.00	8800.00	9200.00	9600.00	10000.00	10400.00	10800.00	11200.00	11600.00	& OVER
5650.01	122	5650.01	6054.01	6457.01	6861.01	7264.01	7668.01	8071.01	8475.01	8879.01	9282.01	9686.01	10089.01	10493.01	10896.01	11300.01
5700.00	123	6457.00	6861.00	7264.00	7668.00	8071.00	8475.00	8879.00	9282.00	9686.00	10089.00	10493.00	10896.00	11300.00	11700.00	& OVER
5700.01	124	5700.01	6107.01	6514.01	6921.01	7329.01	7736.01	8143.01	8550.01	8957.01	9364.01	9771.01	10179.01	10586.01	10993.01	11400.01
5750.00	125	6514.00	6921.00	7329.00	7736.00	8143.00	8550.00	8957.00	9364.00	9771.00	10179.00	10586.00	10993.00	11400.00	11800.00	& OVER
5750.01	126	5750.01	6161.01	6571.01	6982.01	7393.01	7804.01	8214.01	8625.01	9036.01	9446.01	9857.01	10268.01	10679.01	11089.01	11500.01
5800.00	127	6982.00	7393.00	7804.00	8214.00	8625.00	9036.00	9446.00	9857.00	10268.00	10679.00	11089.00	11500.00	11900.00	12300.00	& OVER

Col. A	Col. B	WEEKLY BENEFIT AMOUNT	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS																	
5800.01	116	5800.01	6214.01	6214.01	6629.01	7043.01	7457.01	7871.01	8286.01	8700.01	9114.01	9529.01	9943.01	10357.01	10771.01	11186.01	11600.01
5850.00		6214.00	6629.00	7043.00	7457.00	7871.00	8286.00	8700.00	9114.00	9529.00	9943.00	10357.00	10771.00	11186.00	11600.00		& OVER
5850.01	117	5850.01	6268.01	6268.01	6686.01	7104.01	7521.01	7939.01	8357.01	8775.01	9193.01	9611.01	10029.01	10446.01	10864.01	11282.01	11700.01
5900.00		6268.00	6686.00	7104.00	7521.00	7939.00	8357.00	8775.00	9193.00	9611.00	10029.00	10446.00	10864.00	11282.00	11700.00		& OVER
5900.01	118	5900.01	6321.01	6321.01	6743.01	7164.01	7586.01	8007.01	8429.01	8850.01	9271.01	9693.01	10114.01	10536.01	10957.01	11379.01	11800.01
5950.00		6321.00	6743.00	7164.00	7586.00	8007.00	8429.00	8850.00	9271.00	9693.00	10114.00	10536.00	10957.00	11379.00	11800.00		& OVER
5950.01	119	5950.01	6375.01	6375.01	6800.01	7225.01	7650.01	8075.01	8500.01	8925.01	9350.01	9775.01	10200.01	10625.01	11050.01	11475.01	11900.01
6000.00		6375.00	6800.00	7225.00	7650.00	8075.00	8500.00	8925.00	9350.00	9775.00	10200.00	10625.00	11050.00	11475.00	11900.00		& OVER
6000.01	120	6000.01	6429.01	6429.01	6857.01	7286.01	7714.01	8143.01	8571.01	9000.01	9429.01	9857.01	10286.01	10714.01	11143.01	11571.01	12000.01
6050.00		6429.00	6857.00	7286.00	7714.00	8143.00	8571.00	9000.00	9429.00	9857.00	10286.00	10714.00	11143.00	11571.00	12000.00		& OVER
6050.01	121	6050.01	6482.01	6482.01	6914.01	7346.01	7779.01	8211.01	8643.01	9075.01	9507.01	9939.01	10371.01	10804.01	11236.01	11668.01	12100.01
6100.00		6482.00	6914.00	7346.00	7779.00	8211.00	8643.00	9075.00	9507.00	9939.00	10371.00	10804.00	11236.00	11668.00	12100.00		& OVER
6100.01	122	6100.01	6536.01	6536.01	6971.01	7407.01	7843.01	8279.01	8714.01	9150.01	9586.01	10021.01	10457.01	10893.01	11329.01	11764.01	12200.01
6150.00		6536.00	6971.00	7407.00	7843.00	8279.00	8714.00	9150.00	9586.00	10021.00	10457.00	10893.00	11329.00	11764.00	12200.00		& OVER
6150.01	123	6150.01	6589.01	6589.01	7029.01	7468.01	7907.01	8346.01	8786.01	9225.01	9664.01	10104.01	10543.01	10982.01	11421.01	11861.01	12300.01
6200.00		6589.00	7029.00	7468.00	7907.00	8346.00	8786.00	9225.00	9664.00	10104.00	10543.00	10982.00	11421.00	11861.00	12300.00		& OVER
6200.01	124	6200.01	6643.01	6643.01	7086.01	7529.01	7971.01	8414.01	8857.01	9300.01	9743.01	10186.01	10629.01	11071.01	11514.01	11957.01	12400.01
6250.00		6643.00	7086.00	7529.00	7971.00	8414.00	8857.00	9300.00	9743.00	10186.00	10629.00	11071.00	11514.00	11957.00	12400.00		& OVER
6250.01	125	6250.01	6696.01	6696.01	7143.01	7589.01	8036.01	8482.01	8929.01	9375.01	9821.01	10268.01	10714.01	11161.01	11607.01	12054.01	12500.01
6300.00		6696.00	7143.00	7589.00	8036.00	8482.00	8929.00	9375.00	9821.00	10268.00	10714.00	11161.00	11607.00	12054.00	12500.00		& OVER
6300.01	126	6300.01	6750.01	6750.01	7200.01	7650.01	8100.01	8550.01	9000.01	9450.01	9900.01	10350.01	10800.01	11250.01	11700.01	12150.01	12600.01
6350.00		6750.00	7200.00	7650.00	8100.00	8550.00	9000.00	9450.00	9900.00	10350.00	10800.00	11250.00	11700.00	12150.00	12600.00		& OVER
6350.01	127	6350.01	6804.01	6804.01	7257.01	7711.01	8164.01	8618.01	9071.01	9525.01	9979.01	10432.01	10886.01	11339.01	11793.01	12246.01	12700.01
6400.00		6804.00	7257.00	7711.00	8164.00	8618.00	9071.00	9525.00	9979.00	10432.00	10886.00	11339.00	11793.00	12246.00	12700.00		& OVER

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS	WEEKS
6400.01	128	6400.01	6857.01	7314.01	7771.01	8229.01	8686.01	9143.01	9600.01	10057.01	10514.01	10971.01	11429.01	11886.01	12343.01	12800.01
6450.00		6857.00	7314.00	7771.00	8229.00	8686.00	9143.00	9600.00	10057.00	10514.00	10971.00	11429.00	11886.00	12343.00	12800.00	& OVER
6450.01	129	6450.01	6911.01	7371.01	7832.01	8293.01	8754.01	9214.01	9675.01	10136.01	10596.01	11057.01	11518.01	11979.01	12439.01	12900.01
6500.00		6911.00	7371.00	7832.00	8293.00	8754.00	9214.00	9675.00	10136.00	10596.00	11057.00	11518.00	11979.00	12439.00	12900.00	& OVER
6500.01	130	6500.01	6964.01	7429.01	7893.01	8357.01	8821.01	9286.01	9750.01	10214.01	10679.01	11143.01	11607.01	12071.01	12536.01	13000.01
6550.00		6964.00	7429.00	7893.00	8357.00	8821.00	9286.00	9750.00	10214.00	10679.00	11143.00	11607.00	12071.00	12536.00	13000.00	& OVER
6550.01	131	6550.01	7018.01	7486.01	7954.01	8421.01	8889.01	9357.01	9825.01	10293.01	10761.01	11229.01	11696.01	12164.01	12632.01	13100.01
6600.00		7018.00	7486.00	7954.00	8421.00	8889.00	9357.00	9825.00	10293.00	10761.00	11229.00	11696.00	12164.00	12632.00	13100.00	& OVER
6600.01	132	6600.01	7071.01	7543.01	8014.01	8486.01	8957.01	9429.01	9900.01	10371.01	10843.01	11314.01	11786.01	12257.01	12729.01	13200.01
6650.00		7071.00	7543.00	8014.00	8486.00	8957.00	9429.00	9900.00	10371.00	10843.00	11314.00	11786.00	12257.00	12729.00	13200.00	& OVER
6650.01	133	6650.01	7125.01	7600.01	8075.01	8550.01	9025.01	9500.01	9975.01	10450.01	10925.01	11400.01	11875.01	12350.01	12825.01	13300.01
6700.00		7125.00	7600.00	8075.00	8550.00	9025.00	9500.00	9975.00	10450.00	10925.00	11400.00	11875.00	12350.00	12825.00	13300.00	& OVER
6700.01	134	6700.01	7179.01	7657.01	8136.01	8614.01	9093.01	9571.01	10050.01	10529.01	11007.01	11486.01	11964.01	12443.01	12921.01	13400.01
6750.00		7179.00	7657.00	8136.00	8614.00	9093.00	9571.00	10050.00	10529.00	11007.00	11486.00	11964.00	12443.00	12921.00	13400.00	& OVER
6750.01	135	6750.01	7232.01	7714.01	8196.01	8679.01	9161.01	9643.01	10125.01	10607.01	11089.01	11571.01	12054.01	12536.01	13018.01	13500.01
6800.00		7232.00	7714.00	8196.00	8679.00	9161.00	9643.00	10125.00	10607.00	11089.00	11571.00	12054.00	12536.00	13018.00	13500.00	& OVER
6800.01	136	6800.01	7286.01	7771.01	8257.01	8743.01	9229.01	9714.01	10200.01	10686.01	11171.01	11657.01	12143.01	12629.01	13114.01	13600.01
6850.00		7286.00	7771.00	8257.00	8743.00	9229.00	9714.00	10200.00	10686.00	11171.00	11657.00	12143.00	12629.00	13114.00	13600.00	& OVER
6850.01	137	6850.01	7339.01	7829.01	8318.01	8807.01	9296.01	9786.01	10275.01	10764.01	11254.01	11743.01	12232.01	12721.01	13211.01	13700.01
6900.00		7339.00	7829.00	8318.00	8807.00	9296.00	9786.00	10275.00	10764.00	11254.00	11743.00	12232.00	12721.00	13211.00	13700.00	& OVER
6900.01	138	6900.01	7393.01	7886.01	8379.01	8871.01	9364.01	9857.01	10350.01	10843.01	11336.01	11829.01	12321.01	12814.01	13307.01	13800.01
& OVER		7393.00	7886.00	8379.00	8871.00	9364.00	9857.00	10350.00	10843.00	11336.00	11829.00	12321.00	12814.00	13307.00	13800.00	& OVER

§ 60.1-52. Benefit eligibility conditions.—An unemployed individual shall be eligible to receive benefits with respect to any week only if the Commission finds that:

(a) He has in the highest two quarters of earnings within his base period earned wages in employment for employers equal to not less than the lowest amount appearing in Column G A of the "Benefit Table" appearing in § 60.1-47 on the line which extends through Division D C on which in Column B of the "Benefit Table" appears his weekly benefit amount, such wages to be earned in not less than two quarters.

(b) His total or partial unemployment is not due to a labor dispute in active progress or to shutdown or start-up operations caused by such dispute which exists (1) at the factory, establishment, or other premises (including a vessel) at which he is or was last employed, or (2) at a factory, establishment or other premises (including a vessel) either within or without this State, which (a) is owned or operated by the same employing unit which owns or operates the premises at which he is or was last employed and (b) supplies materials or services necessary to the continued and usual operation of the premises at which he is or was last employed, provided that this subsection shall not apply if it is shown to the satisfaction of the Commission that:

(1) He is not participating in or financing or directly interested in the labor dispute; and

(2) He does not belong to a grade or class of workers of which, immediately before the commencement of the labor dispute, there were members employed at the premises (including a vessel) at which the labor dispute occurs, any of whom are participating in or financing or directly interested in the dispute.

Provided, that if in any case separate branches of work which are commonly conducted as separate businesses in separate premises are conducted in separate departments of the same premises, each such department shall, for the purposes of this subsection, be deemed to be a separate factory, establishment or other premises. Provided further, that mere membership in a union, or the payment of regular dues to a bona fide labor organization, shall not alone constitute financing a labor dispute.

(c) He is not receiving, has not received or is not seeking unemployment benefits under an unemployment compensation law of any other state or of the United States, provided, however, that if the appropriate agency of such other state or of the United States finally determines that he is not entitled to such unemployment benefits, this subsection shall not apply.

(d) He is not on a bona fide paid vacation, provided, that if an individual is paid vacation pay for any week in an amount less than the individual's weekly benefit amount his eligibility for benefits shall be computed under the provisions of § 60.1-48.

(e) He has registered for work and thereafter has continued to report at an employment office in accordance with such regulations as the Commission may prescribe, except that the Commission may, by regulation, waive or alter either or both of the requirements of this subsection as to such types of cases or situations with respect to which it finds that compliance with such requirements would be oppressive, or would be inconsistent with the purposes of this title.

(f) He has made a claim for benefits in accordance with such regulations as the Commission may prescribe.

(g) He is able to work, and is available for work.

(h) He does not have payable to him remuneration equal to or in excess of his weekly benefit amount in the form of a retirement pension, annuity, or other retirement payment under any plan contributed to by the most recent employer for whom he performed services during thirty days, whether or not such days are consecutive; provided, if such remuneration is less than his weekly benefit amount, such remuneration shall be treated as if it were wages in accordance with § 60.1-48; provided further, that this section shall not apply to the receipt of any amount under Title II of the Social Security Act.

(i) He has served a waiting period of one week during which he was eligible for benefits under this section in all other respects; and has not received benefits; except that only one waiting period week shall be required of such individual within any benefit year; provided, that when an individual has served a waiting period week subsequent to July one, nineteen hundred seventy-four, and has been paid benefits equal to four times his weekly benefit amount, he shall be eligible to receive benefits for his waiting period week in accordance with the terms of this chapter.

§ 60.1-75. Amount of taxes; increase of rate.—Each employer shall pay taxes equal to the following percentages of wages payable by him with respect to employment:

(1) [Repealed.]

(2) Except as otherwise provided in Article 2 of this chapter, four and five-tenths six and two-tenths per centum with respect to employment during the calendar year. Wages

payable beyond the last pay period in December shall be considered as wages earned and payable in the first pay period of the succeeding year, and included in reports required for the first reporting period of such year.

(3) If the Federal Unemployment Tax Act is at any time amended to permit a higher maximum rate of credit against the federal tax now levied under § 3301 of the Internal Revenue Code, or that may hereafter be levied under any subsequent amendment, or amendments thereto, than is now permitted under § 3302 of the Internal Revenue Code, to an employer with respect to any State unemployment compensation law whose standard contribution rate on payroll under such law is more than two and seven-tenths per centum, in that event the standard contribution rate as to all employers under this title shall, by Commission rule promulgated under § 60.1-35, be increased from two and seven-tenths per centum on wages to that percentage on wages which corresponds to the higher maximum rate of credit thus permitted against the federal unemployment tax; and such increase shall become effective on the same date as such higher maximum rate of credit becomes permissible under such federal amendment.

(4) If the Federal Unemployment Tax Act is at any time amended so as to increase the rate of excise tax each employer shall pay with respect to having individuals in his employ, the Commission may by rules promulgated under § 60.1-35, increase the rate of contributions under this title to the rate which corresponds to the highest maximum rate of credit permitted against such higher federal unemployment excise tax; and such increase shall become effective on the same date as such higher rate of federal unemployment excise tax becomes effective.

§ 60.1-79. General provisions.—For each calendar year commencing after December thirty-first, nineteen hundred ~~sixty~~ *eighty-one*, the contribution rate of each employer, whose experience rating account has been chargeable with ~~benefit wages~~ *benefits* throughout the most recent twelve completed calendar month period ending on the thirtieth day of June of the calendar year immediately preceding the calendar year for which a contribution rate is being determined, shall be computed as hereinafter provided; except that the contribution rate of each employer newly subject to this act after July one, nineteen hundred ~~eighty~~ *eighty-one*, including any nonprofit organization which has elected to become liable for payments in lieu of contributions under the provisions of § 60.1-89 (1) and thereafter terminates such election, shall be two *and five-tenths* percent *until for three years except that at such time as it is eligible for computation as hereinabove hereinafter provided, the contribution rate shall become the computed rate if the computed rate exceeds two and five-tenths percent.* The Commission shall notify each such employer of his contribution rate for such calendar year not later than the thirty-first day of December immediately preceding such year, but the failure of any such employer to receive such notice shall not relieve him from liability for such contribution.

§ 60.1-80. Individual benefit charges.—(a) Effective with claims filed on or after July first, nineteen hundred ~~seventy-nine~~ *eighty-one*, an individual's "benefit ~~wages~~ *charges*" shall be computed in the following manner:

(1) For each week benefits are received a claimant's "benefit ~~wages~~ *charges*" shall be equal to his ~~qualifying earnings multiplied by the fraction equal to one divided by the number of weeks of the claimant's potential duration of benefits~~ *received for such week.*

(2) For each week extended benefits, pursuant to § 60.1-51.1, are received, a claimant's "benefit ~~wages~~ *charges*" shall be equal to one half the amount his "~~benefit wages~~" would have been if computed pursuant to subparagraph (1) above *his benefits received for such week*; provided, that effective with claims filed for weeks of unemployment beginning after December thirty-one, nineteen hundred seventy-eight, a claimant's "benefit ~~wages~~ *charges*" for extended benefits attributable to service in the employ of a governmental entity referred to in § 60.1-14 (b) [1] shall be computed pursuant to subparagraph (1) above.

(3) For each week partial benefits are received the claimant's "benefit ~~wages~~ *charges*" shall be computed, in the case of regular benefits as in subparagraph (1) above, or in the case of extended benefits as in subparagraph (2) above; ~~provided, however, that the numerator in the fraction used to multiply the qualifying earnings shall be the ratio of partial benefits over the claimant's weekly benefit amount rounded to the nearest one hundredth.~~

(4) For the purposes of benefit wage computations, qualifying earnings shall be the claimant's wages during his base period paid by employers covered by this act, but in no event shall his qualifying earning for computation purposes exceed the total amount of wages used to compute the maximum benefit entitlement as shown in the benefit table.

(b) The employing unit from whom such individual was separated, resulting in the current period of unemployment, shall be the most recent employing unit for whom such

individual has performed services for remuneration during thirty days, whether or not such days are consecutive. If such individual's unemployment is caused by separation from an employer, such individual's "benefit wages charges" for such period of unemployment shall be treated for the purposes of this article as though they have been paid by *deemed the responsibility of the last thirty-day employer prior to such period of unemployment.*

(c) No "benefit wages charges" shall be deemed to have been paid by *the responsibility of an employer of an individual whose separation from the work of such employer arose as a result of a violation of the law by such individual, which violation led to confinement in any jail or prison, or by any employer of an individual who voluntarily left employment in order to accept other employment, genuinely believing such employment to be permanent.*

No "benefit wages charges" shall be deemed to have been paid by *the responsibility of an employer of an individual with respect to any weeks in which benefits are claimed and received after such date as that individual refused to accept an offer of rehire by the employer because such individual was in training with approval of the Commission pursuant to § 60.1-52.1.*

§ 60.1-81. Employer's benefit charges.—Any employer's benefit wages charges for a given calendar year shall be the total of the "benefit wages charges" which, pursuant to the provisions of § 60.1-80, are wages deemed to have been paid by *be the responsibility of such employer.*

§ 60.1-82. Benefit ratio.— A. The "benefit wage ratio" of each employer for a given calendar year shall be the percentage, *rounded to the nearest one-tenth of a per centum,* equal to the employer's benefit wages charges for the twelve consecutive calendar month period ending on the thirtieth day of June immediately preceding that calendar year, divided by the total of his payroll for the same period except that for an employer whose account has been chargeable with benefit wages charges for ~~thirty-six~~ *forty-eight* or more consecutive completed calendar months, the "benefit wage ratio" shall be the percentage, *rounded to the nearest one-tenth of a per centum,* equal to the employer's benefit wages charges for the most recent ~~thirty-six~~ *forty-eight* consecutive completed calendar month period ending on the thirtieth day of June immediately preceding that calendar year, divided by the total of his payrolls for the same period, and for an employer whose account has been chargeable with benefit wages charges for ~~twenty-four~~ *thirty-six* but less than ~~thirty-six~~ *forty-eight* consecutive completed calendar months the "benefit wage ratio" shall be the percentage equal to the employer's benefit wages for the most recent ~~twenty-four~~ *thirty-six* consecutive completed calendar month period ending on the thirtieth day of June immediately preceding that calendar year divided by his payroll for the same period, *and for an employer whose account has been chargeable with benefit charges for twenty-four but less than thirty-six consecutive completed calendar months the "benefit ratio" shall be the percentage, rounded to the nearest one-tenth of a per centum, equal to the employer's benefit charges for the most recent twenty-four consecutive completed calendar month period ending on the thirtieth day of June immediately preceding that calendar year divided by his payroll for the same period. The term "payroll(s)" as used herein means the taxable payroll on which contributions have been paid on or before July thirty-first September thirtieth immediately following such June thirtieth.*

B. *For the period commencing July one, nineteen hundred eighty-one, where benefit charges are not available for any or all of the periods used to determine an employer's benefit ratio, benefit wages divided by three shall be used in lieu of benefit charges for those periods benefit charges are not available, in combination with benefit charges, where available to determine an employer's benefit ratio.*

§ 60.1-84.1. Experience rating contribution; table.—Subject to the provisions of § 60.1-85.1, the experience rating contribution rate for each employer for the calendar year *nineteen hundred eighty-two and subsequent years shall be the per centum in the column corresponding to the employer's benefit ratio except that if the employer's benefit ratio exceeds six and two-tenths per centum, the column under six and two-tenths per centum shall be the appropriate column, and in the line corresponding to the fund balance factor for the year pursuant to § 60.1-85.1.*

BENEFIT RATIOS										
IN PERCENTUM										
	.00	.10	.20	.30	.40	.50	.60	.70		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	0.10	0.10	0.20	0.30	0.40	0.50	0.60	0.70		
95	0.10	0.10	0.21	0.31	0.42	0.52	0.63	0.73		
90	0.10	0.11	0.22	0.33	0.44	0.55	0.66	0.77		
85	0.10	0.11	0.23	0.34	0.46	0.57	0.69	0.80		
80	0.10	0.12	0.24	0.36	0.48	0.60	0.72	0.84		
75	0.10	0.12	0.25	0.37	0.50	0.62	0.75	0.87		
70	0.10	0.13	0.26	0.39	0.52	0.65	0.78	0.91		
65	0.10	0.13	0.27	0.40	0.54	0.67	0.81	0.94		
60	0.10	0.14	0.28	0.42	0.56	0.70	0.84	0.98		
55	0.10	0.14	0.29	0.43	0.58	0.72	0.87	1.01		
50	0.10	0.15	0.30	0.45	0.60	0.75	0.90	1.05		

BENEFIT RATIOS										
IN PERCENTUM										
	.80	.90	1.00	1.10	1.20	1.30	1.40	1.50		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	0.80	0.90	1.00	1.10	1.20	1.30	1.40	1.50		
95	0.84	0.94	1.05	1.15	1.26	1.36	1.47	1.57		
90	0.88	0.99	1.10	1.21	1.32	1.43	1.54	1.65		
85	0.92	1.03	1.15	1.26	1.38	1.49	1.61	1.72		
80	0.96	1.08	1.20	1.32	1.44	1.56	1.68	1.80		
75	1.00	1.12	1.25	1.37	1.50	1.62	1.75	1.87		
70	1.04	1.17	1.30	1.43	1.56	1.69	1.82	1.95		
65	1.08	1.21	1.35	1.48	1.62	1.75	1.89	2.02		
60	1.12	1.26	1.40	1.54	1.68	1.82	1.96	2.10		
55	1.16	1.30	1.45	1.59	1.74	1.88	2.03	2.17		
50	1.20	1.35	1.50	1.65	1.80	1.95	2.10	2.25		

BENEFIT RATIOS										
IN PERCENTUM										
	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.30		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	1.60	1.70	1.80	1.90	2.00	2.10	2.20	2.30		
95	1.68	1.78	1.89	1.99	2.10	2.20	2.31	2.41		
90	1.76	1.87	1.98	2.09	2.20	2.31	2.42	2.53		
85	1.84	1.95	2.07	2.18	2.30	2.41	2.53	2.64		
80	1.92	2.04	2.16	2.28	2.40	2.52	2.64	2.76		
75	2.00	2.12	2.25	2.37	2.50	2.62	2.75	2.87		
70	2.08	2.21	2.34	2.47	2.60	2.73	2.86	2.99		
65	2.16	2.29	2.43	2.56	2.70	2.83	2.97	3.10		
60	2.24	2.38	2.52	2.66	2.80	2.94	3.08	3.22		
55	2.32	2.46	2.61	2.75	2.90	3.04	3.19	3.33		
50	2.40	2.55	2.70	2.85	3.00	3.15	3.30	3.45		

BENEFIT RATIOS										
IN PERCENTUM										
	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	2.40	2.50	2.60	2.70	2.80	2.90	3.00	3.10		
95	2.52	2.62	2.73	2.83	2.94	3.04	3.15	3.25		
90	2.64	2.75	2.86	2.97	3.08	3.19	3.30	3.41		
85	2.76	2.87	2.99	3.10	3.22	3.33	3.45	3.56		
80	2.88	3.00	3.12	3.24	3.36	3.48	3.60	3.72		
75	3.00	3.12	3.25	3.37	3.50	3.62	3.75	3.87		
70	3.12	3.25	3.38	3.51	3.64	3.77	3.90	4.03		
65	3.24	3.37	3.51	3.64	3.78	3.91	4.05	4.18		
60	3.36	3.50	3.64	3.78	3.92	4.06	4.20	4.34		
55	3.48	3.62	3.77	3.91	4.06	4.20	4.35	4.49		
50	3.60	3.75	3.90	4.05	4.20	4.35	4.50	4.65		

BENEFIT RATIOS										
IN PERCENTUM										
	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	3.20	3.30	3.40	3.50	3.60	3.70	3.80	3.90		
95	3.36	3.46	3.57	3.67	3.78	3.88	3.99	4.09		
90	3.52	3.63	3.74	3.85	3.96	4.07	4.18	4.29		
85	3.68	3.79	3.91	4.02	4.14	4.25	4.37	4.48		
80	3.84	3.96	4.08	4.20	4.32	4.44	4.56	4.68		
75	4.00	4.12	4.25	4.37	4.50	4.62	4.75	4.87		
70	4.16	4.29	4.42	4.55	4.68	4.81	4.94	5.07		
65	4.32	4.45	4.59	4.72	4.86	4.99	5.13	5.26		
60	4.48	4.62	4.76	4.90	5.04	5.18	5.32	5.46		
55	4.64	4.78	4.93	5.07	5.22	5.36	5.51	5.65		
50	4.80	4.95	5.10	5.25	5.40	5.55	5.70	5.85		

BENEFIT RATIOS										
IN PERCENTUM										
	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.70		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	4.00	4.10	4.20	4.30	4.40	4.50	4.60	4.70		
95	4.20	4.30	4.41	4.51	4.62	4.72	4.83	4.93		
90	4.40	4.51	4.62	4.73	4.84	4.95	5.06	5.17		
85	4.60	4.71	4.83	4.94	5.06	5.17	5.29	5.40		
80	4.80	4.92	5.04	5.16	5.28	5.40	5.52	5.64		
75	5.00	5.12	5.25	5.37	5.50	5.62	5.75	5.87		
70	5.20	5.33	5.46	5.59	5.72	5.85	5.98	6.11		
65	5.40	5.53	5.67	5.80	5.94	6.07	6.20	6.20		
60	5.60	5.74	5.88	6.02	6.16	6.20	6.20	6.20		
55	5.80	5.94	6.09	6.20	6.20	6.20	6.20	6.20		
50	6.00	6.15	6.20	6.20	6.20	6.20	6.20	6.20		

BENEFIT RATIOS										
IN PERCENTUM										
	4.80	4.90	5.00	5.10	5.20	5.30	5.40	5.50		
FUND BALANCE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
FACTOR	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %	IN %
IN %										
100	4.80	4.90	5.00	5.10	5.20	5.30	5.40	5.50		
95	5.04	5.14	5.25	5.35	5.46	5.56	5.67	5.77		
90	5.28	5.39	5.50	5.61	5.72	5.83	5.94	6.05		
85	5.52	5.63	5.75	5.86	5.98	6.09	6.20	6.20		
80	5.76	5.88	6.00	6.12	6.20	6.20	6.20	6.20		
75	6.00	6.12	6.20	6.20	6.20	6.20	6.20	6.20		
70	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20		
65	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20		
60	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20		
55	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20		
50	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20		

BENEFIT RATIOS		5.60	5.70	5.80	5.90	6.00	6.10	6.20
IN PERCENTUM								
FUND BALANCE FACTOR	IN %	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE	TAX RATE
		IN %	IN %	IN %	IN %	IN %	IN %	IN %
100	5.60	5.70	5.80	5.90	6.00	6.10	6.20	6.20
95	5.88	5.98	6.09	6.19	6.20	6.20	6.20	6.20
90	6.16	6.20	6.20	6.20	6.20	6.20	6.20	6.20
85	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
80	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
75	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
70	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
65	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
60	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
55	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20
50	6.20	6.20	6.20	6.20	6.20	6.20	6.20	6.20

§ 60.1-84.2. Pool cost charges.—A. Effective January one, nineteen hundred eighty-two, and as of the first day of January of each succeeding calendar year, to all experience rating contribution rates established pursuant to § 60.1-84.1 and to all new employer rates established pursuant to § 60.1-79, shall be added the pool cost charges as determined in subsection B. of this section.

B. The pool cost charge rate shall be determined as follows:

1. Pool costs for a given calendar year shall be those costs defined in paragraph 2. of this subsection for the twelve consecutive calendar months period ending on the thirtieth day of June immediately preceding that calendar year. The pool cost charge rate shall be pool costs divided by payrolls for the hereinabove defined period.

2. Pool costs shall consist of benefit charges which cannot be assigned to an individual employer pursuant to §§ 60.1-12, 60.1-14, or subsection (c) of § 60.1-80, and cannot be charged to an individual employer due to his becoming an inactive account pursuant to §§ 60.1-12 or 60.1-99, and the difference between the benefit charges of all employers with a maximum experience rating contribution rate and the amount of the contributions resulting from applying the maximum experience rating contribution rate against the payrolls of the same employers. The term "payrolls" as used in this section shall mean the taxable payroll on which contributions have been paid on or before September thirtieth immediately following such June thirty.

3. When the fund balance factor for the year in question is greater than fifty per centum, interest earned on the balance which shall stand to the credit of the account of the Commonwealth of Virginia in the unemployment trust fund in the treasury of the United States shall be subtracted from pool costs, except that in no instance shall pool costs be less than zero.

§ 60.1-85.1. Fund balance factor.—A. As of July one, nineteen hundred eighty-one, and as of the first day of July of each succeeding calendar year, a fund balance factor shall be determined as follows:

1. The balance which shall stand to the credit of the account of the Commonwealth of Virginia in the unemployment trust fund in the treasury of the United States, including amounts withdrawn therefrom but not expended, shall be compared with the "adequate balance" as determined in subsection B. of this section, and the resulting per centum shall be termed the "fund balance factor," except that if the per centum determined is less than fifty per centum, the fund balance factor shall be fifty per centum.

B. As of July one, nineteen hundred eighty-one, and as of the first day of July of each succeeding calendar year, the Commission shall determine the "adequate balance" for the trust fund as follows:

1. For the twenty-five year period ending the first day of July of the year of determination, the highest ratios of benefits divided by total wages of three separate consecutive four-quarter periods shall be averaged and multiplied by 1.5 to determine the fund adequacy multiplier. The fund adequacy multiplier shall be multiplied by the total wages for the year in question to determine the "adequate fund balance" for that year.

C. As of December thirty-one, nineteen hundred eighty-one, a fund building rate of two tenths per centum will be added to all experience rating rates established pursuant to § 60.1-84.1 and to all new employer rates established pursuant to § 60.1-79, except that such rate shall not be applied if the fund balance factor determined pursuant to subsection B. of this act exceeds fifty per centum.

§ 60.1-91. Where employer's contributions are delinquent.—Notwithstanding any other provisions of this chapter, if on July thirty-first of any year the contributions or any portion thereof and/or the interest and/or penalty due thereon for any previous quarter is delinquent and unpaid and has been delinquent and unpaid for a period of ninety days or more, the Commission may thereafter issue a notice of delinquency demanding payment, and if the amount due is not paid within thirty days after such notice is mailed to the delinquent employer at his last known address, such delinquent employer's rate for the calendar year immediately following the calendar year in which such notice is sent shall not be computed under the provisions of this article, and such employer's contribution rate for such calendar year shall be four and five-tenths six and two-tenths per centum.

2. That §§ 60.1-83, 60.1-84, and 60.1-86 of the Code of Virginia are repealed, and that effective January one, nineteen hundred eighty-two, § 60.1-85 of the Code of Virginia is repealed.

3. That whenever in the Acts of Assembly of Virginia or in the Code of Virginia reference is made to § 60.1-84 it shall be taken to mean § 60.1-84.1, and that effective January one, nineteen hundred eighty-two, whenever in the Acts of Assembly of Virginia or the Code of Virginia reference is made to § 60.1-85 it shall be taken to mean § 60.1-85.1.

The Benefit Table, Division D Duration of Benefits, is not on tape. Please refer to

pages 69 through 75 of the Code of Virginia, 1980 Cumulative Supplement to Volume 9 for information contained in this table.

President of the Senate

Speaker of the House of Delegates

Approved:

Governor

PART II

UNEMPLOYMENT COMPENSATION
IN GENERAL AND
STATE UNEMPLOYMENT COMPENSATION
WITH EMPHASIS ON VIRGINIA

CHAPTER IV

UNEMPLOYMENT COMPENSATION IN GENERAL

History Of The System

Benefits

Although presently an integral part of American life, "neither organized labor nor organized employers were supporters of UI prior to the Great Depression of the 1930's."¹ The advent of the Great Depression changed much of the thinking about social structures and economics. For instance, the severe unemployment of the 1930's convinced Americans that unemployment was not synonymous with laziness or lack of ambition. Americans became convinced that it would be acceptable to have a program ". . . to protect the 'regular' worker against wage loss when unemployed."² Although the concept of what constitutes a "regular" worker has changed over the years,³ once the concept of replacing lost wages was accepted, the definition of who was eligible could change over time to reflect changing social values. In essence, there would be agreement that some unemployed workers should be protected, and disagreement only as to who

¹Leonard P. Adams, Public Attitudes Toward Unemployment Insurance (Kalamazoo, Michigan: W. E. Upjohn Institute for Employment Research, 1979), p. 1.

²George S. Roche, Entitlement to Unemployment Insurance Benefits (Kalamazoo, Michigan: W. E. Upjohn Institute for Employment Research, 1973), p. 10. See also, Clinch Calkins, Some Folks Won't Work (New York: Harcourt and Brace and Co., 1930), pp. 20-21.

³Roche, Entitlement, p. 10.

and the amount of protection. Current research, and indeed this work, accepts the concept of a program to replace lost wages and concentrates on the issues of who, how much, and how to pay for it.

The primary objective of unemployment compensation is well summarized by a statement of the United States Department of Labor:

Unemployment Insurance is a program—established under Federal and State law—for income maintenance during period of involuntary unemployment due to lack of work, which provides partial compensation for wage loss as a matter of right, with dignity and dispatch, to eligible individuals. It helps to maintain purchasing power and to stabilize the economy. It helps to prevent the dispersal of the employers' trained work force, the sacrifice of skills, and the breakdown of labor standards during temporary unemployment.⁴

Established as a joint national/state program on August 14, 1935, subsequent court decisions even more clearly established the purpose of the Act [42 USCA §1101]:

Its purpose was intended to provide temporary financial assistance to workmen who became unemployed without fault on their part [63 S.C.2d 28, 33-34 (VA 1951)].

The U. S. Supreme Court interpreted the Act as follows:

The purpose of the Act was to give prompt if only partial replacement of wages to the unemployed, to enable workers "to tide themselves over, until they get back to their old work or find other employment, without having to resort to relief" [401 U.S. 131-32].

Three objectives other than lost wages were, and still are, put forth for having an Unemployment Compensation program: ". . . (1) establishing economic incentives that will get employers to stabilize their employment, (2) stabilizing the general economy by maintaining consumer purchasing

⁴United States Department of Labor, Bureau of Employment Security, Major Objectives of Federal Policy with Respect to the Federal-State Employment Security Program, General Administration Letter No. 305, April 25, 1955. As found in William Haber and Merrill G. Murray, Unemployment Insurance in the American Economy (Homewood, Ill: Richard D. Irwin, Inc.), p. 26.

power at the onset of an economic downturn in spite of heavy layoffs of workers, and (3) providing unemployed workers with services that will assist them to shorten the duration of their unemployment."⁵ The conventional wisdom supporting these issues is quoted below by issue:

Employment Stabilization. Creating an economic incentive that will impel employers to stabilize their employment is an objective which has a deep appeal to Americans. It not only seeks to reduce the hazards of unemployment; it goes about doing this by using the profit motive which we see as the mainspring of our free enterprise system. The "Wisconsin plan," which was enacted by that state some years before the Social Security Act of 1935, had as its preeminent goal the creation of just such incentives. Wage loss replacement was merely the secondary defense against unemployment, to be called into play only in case the employer did not respond to the incentives to stabilize his employment. The cost of paying for benefits provided the incentives: if the employer had to pay the cost of any benefits to those whom he had laid off, as he did under this statute, then avoidance of this cost was his incentive to keep his workers on the payroll.⁶

This is the original basis for experience rating unemployment systems. While experience rating is a very important ingredient for a sound system as we shall discuss later, it likely contributes little to employment stabilization. Indeed, forcing an employer to keep workers on his payroll is in contrast to the distinction between fixed and variable costs to an employer. If labor ceases to become a variable cost, the employer may stabilize employment, but at a lower level in order to insure a profitable operation. At the minimum, there would be an increase in the demand by some employers for capital to replace some labor, thus, changes in the numbers of persons hired and length of employment.⁷

⁵Roche, Entitlement, p. 2.

⁶Roche, Entitlement, pp. 2-3.

⁷Charles A. Meyers, "Experience Rating in Unemployment Compensation," American Economic Review (June, 1945), pp. 349-50.

Stabilizing the General Economy. The expectation that unemployment insurance benefits would help sustain consumer purchasing in the face of an economic downturn seems to have been the reason why the National Retail Dry Goods Association strongly supported the Social Security Act in 1935. Such pragmatic support was complemented by the theoretical support of the Keynesian economic model, which was to be reflected in the federal Employment Act of 1946. (It is worth noting that for many years the federal unemployment insurance agency used the logo of a gyroscope, symbolizing stabilization, on the cover of its publications.) Consumer purchasing levels can be sustained at the onset of an economic downturn only if wage earners are confident that adequate benefits will quickly replace any wage losses; otherwise, workers will defer many outlays and, thus, exacerbate the weakness of the economy.⁸

To the extent that U.I. benefits are primarily received by workers unemployed due to cyclical downturns, U.I. is a savings account for workers upon which they draw during the downturn of the cycle. There are criticisms of Unemployment Compensation systems that they are not countercyclical or not countercyclical enough. They also blame experience rating for the lack of countercyclical action.⁹ To a great extent, however, critics are possibly expecting more from the system than it could produce. To be fully countercyclical for a downturn of, say, two years, an Unemployment Compensation Trust Fund would have to have a balance to pay two years of benefits without increasing contributions of employers until the two year period ended. Few, if any, systems have this amount of countercyclical activity.

By examining Virginia's system, it can be demonstrated that there is a high degree of countercyclical activity. Assume that a downturn as measured by increases in claims occurs in July of year 1. As claims increase,

⁸Roche, Entitlement, p. 4.

⁹Harvey M. Wagner, "A Reappraisal of Experience Rating," Southern Economic Journal (April, 1959), pp. 464-65; and Meyers, "Experience Rating," pp. 337-346; and Haber and Murray, Unemployment Insurance, pp. 350-51.

payouts from the fund will be made. By July of year 2, the impact of this increase will be imputed into the tax rate. On January 1 of year 3, the increased tax rate will be in effect, payable in quarterly installments. Employers' checks will be written in April for the first quarters' payment. In addition, the tax payments for the year will represent one-third of the benefits paid by each employer; and if the calculation period is extended to four years as proposed, it would represent one-fourth of the benefits paid in the period. While this may not be an ideal countercyclical system, its nature is overwhelmingly countercyclical. Some efforts have been made to improve the countercyclical nature of the systems, but these have not proved popular.¹⁰ There is every reason to believe that U.I. benefits do provide this countercyclical measure and that coupled with countercyclical financing by employers unemployment compensation is a strong link of a fiscal countercyclical program.

Reemployment Assistance. Providing workers with assistance that would help them to shorten the period of unemployment was originally recognized as an objective of the program by associating it with the system of public employment offices already operating under the Wagner-Peyser Act of 1933. Claimants were required to register for work with these offices as a condition for receiving benefits. It was also intended that the public employment offices would test the ability, availability, and willingness of claimants to work. These are matters significantly affected by day-to-day administrative practices: not only did the expertise of the employment office staffs come to bear on whether a claimant would receive benefits, but so did their employer orientation stemming from a preoccupation with placement statistics.¹¹

The relationship between the public employment activity under the Wagner-Peyser Act and the U.I. activity under the Social Security Act has

¹⁰Haber and Murray, Unemployment Insurance, pp. 350-51.

¹¹Roche, Entitlement, p. 5.

varied from state to state and over time within states. Whatever the relationship, it is important to a sound U.I. program to have job placement activities. The act of paying for not working obviously lessens the propensity to seek employment, and whether job placement provides information and an employment prospect to a claimant earnestly seeking work, or detects a malingerer who is avoiding searching for employment, unemployment duration from a U.I. standpoint is reduced by reemployment assistance. As shown in a following section on suitable work, cases of a claimant rejecting suitable work are most often the result of coordination between the employment service program and the unemployment compensation program.

One final aspect of unemployment compensation benefits is that it is not, and was not, initiated as a welfare system. The experiences of providing for the large number of unemployed during the Great Depression led to a distinction between relief and replacement of wages. Examples of the situations faced by those seeking respite from unemployment are given in the following quotes:

With quiet desperation they will bear hunger and mental anguish until every resource is exhausted. Then comes the ultimate struggle when, with heartache and an overwhelming sense of disgrace, they have to make the shame-faced journey to the door of public charity. This is the last straw. Their self-respect is destroyed; they undergo an insidious metamorphosis, and sink down to spiritless despondency.

This descent from respectability, frequent enough in the best of times, has been hastened immeasurably by 2 years of business paralysis, and the people who have been affected in this manner must be numbered in millions. This is what we have accomplished with our breadlines and soup kitchens. I know, because I have seen thousands of these defeated, discouraged, hopeless men and women, cringing and fawning as they come to ask for public aid.¹²

¹²Joseph L. Hefferman, "The Hungry City, A Mayor's Experience with Unemployment," Atlantic Monthly (May, 1932), as quoted in Haber and Murray, Unemployment Insurance, p. 29.

One of the most deplorable situations was found in one of our medium-sized cities where each applicant for relief was compelled to appear before the monthly meeting of the poor committee composed of the mayor and aldermen and be cross-examined by these 8 or 9 city officials. This winter when so many were needing help, the meetings sometimes lasted until 2 or 3 o'clock in the morning. One can imagine how much sympathetic consideration an applicant, after waiting for 8 hours to be heard, would get at 2:30 A.M.¹³

While persuasive examples can be given to support almost any issue, the issue of relief with a "means" test versus a replacement of wages was not taken lightly. It was felt that,

. . . relief programs based on a test of individual need entailed a sacrifice of self-respect on the part of the worker that was not acceptable. . . . The UI program seeks to afford the individual worker a measure of economic security and peace of mind with respect to potential unemployment, as well as material assistance during actual unemployment. The insurance approach aims to preserve the individual worker's dignity by substituting an automatic right to benefits in place of an investigation of his means and his need for financial assistance.¹⁴

The end result is that unemployment compensation consists of a set of rights for covered workers whereby benefits can be obtained based on work history, past earnings, and present desire to be employed. A claimant does not have to pass a "means" test to draw. On the other hand, some vestiges of a "means" test have appeared in some programs and at the national level. Extra payments for dependents is from any aspect a "means" test. Extra benefits are given based on "need" as defined by number of children. This has been pushed strongly by organized labor. Another example of a "means" test is the pension offset provision currently

¹³Don D. Lescohier and Florence Peterson, The Alleviation of Unemployment in Wisconsin (Madison: Industrial Commission of Wisconsin, July, 1931), p. 35, as quoted in Haber and Murray, Unemployment Insurance, p. 27.

¹⁴Saul J. Blaustein, Unemployment Insurance Objectives and Issues, (Washington, D.C.: W. E. Upjohn Institute, 1968), p. 6.

enforced for social security at the Federal level and various state plans on other pensions. This provision is vigorously pushed by employers to cut cost. Thus both sides want a "means" test, but only on the aspect they consider to be in their favor. Any move to provide for a "means" test, whether it be pension offset or dependency allowances, is a move toward welfare or relief and away from the concept of wage replacement sought by the original designers of the program. Benefits, however, are merely one aspect of the system, and attention is now turned to the financing aspects as the system was created and as it developed.

Financing

Upon its initiation, financing of U.I. was a joint federal state relationship. The states set their rates at 90 percent of the federal tax, which was the maximum credit employers could offset against the federal tax. The federal tax was 1 percent of the total wages in 1936, 2 percent in 1937, and 3 percent in 1938, with corresponding state rates of .9 percent in 1936, 1.8 percent in 1937, and 2.7 percent in 1938. This was generally retained for states until experience rating began in 1940.¹⁵

Thus, an employer paid in 1938 a combined tax of 3 percent of all wages. The 2.7 percent credit offset of the federal tax was the financial incentive for states to develop their unemployment compensation systems. In essence, options were that the employer could either pay the 3 percent tax to the federal government with no benefits being paid in the state or pay the state portion (2.7 percent) and the federal portion (.3 percent) with benefits being paid in the state. Given the choice, all states had programs in place by 1938, although only 23 states paid benefits for the

¹⁵U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data (1938-1978), p. 3.

full year of 1938 and eight states paid benefits part of the year.¹⁶ By 1939, only two states did not pay benefits and by 1940, all states were not only collecting taxes, but paying benefits. Also in 1940, the taxable wage base was reduced from total wages to the first \$3,000 to conform with the OASI wage base. After 1940, a state could apply either higher or lower taxes than 2.7 percent on employers through experience rating or use a higher base than \$3,000, but if its base were lower, they would lose their offset credit.¹⁷

The rationale behind the 3.0 percent tax was as follows:

The relationship between the total tax of 3.0 percent, the net Federal (FUTA) levy of 3.0 percent, and the "standard" State U.I. share of 2.7 percent was rooted in consideration of what the economy would support in the way of wage loss replacement.¹⁸

It is interesting that the program was set up with the provision that taxes would approximate 3 percent of total wages and that for 1978 the tax for the United States was 1.37 percent. No single state had an average rate of 3 percent and only four were 2 percent or above.¹⁹

Actual experience has shown that benefits as a percentage of total wages on average in the nation have been roughly 1 percent (1.09 percent for the years 1938-1978).²⁰ The expectations of taxation at a level when the system was started did not materialize. The experience of the people who were designing the system had been one of a long and deep

¹⁶Department of Labor, Handbook, p. 2.

¹⁷Utah Department of Employment Security, The Taxable Wage Base in Employment Security (Salt Lake City: October 1974), p. 2.

¹⁸Utah, The Taxable Wage Base, pp. 2-3.

¹⁹Department of Labor, Handbook.

²⁰Department of Labor, Handbook.

depression, and it was from that base that they were making these predictions. The World War II boom and the Post-War recoveries resulted in employment that was quite high relative to labor force demands. Ironically, recent experience more closely resembles what the initiators of the program envisioned. A large number of states have developed deficit Trust Funds, and a 3 percent average tax rate would be in order for those states to cover benefit payments.

From the period of 1940 to 1945, the slow development of the systems in paying benefits and the increase in employment resulting from the war effort found the U.I. Trust Funds at 10.77 percent of total covered payrolls for the United States.²¹ This relative level has never been approached since then and the percent in 1978 for the United States was .55 percent.²² For the period 1946 through 1953,, the fund balances maintained their relatively high level since the anticipated unemployment due to the cessation of World War II did not develop and the Korean War occurred with increased aggregate demand. As a result of high Trust Fund balances, pressure developed to cut tax rates. By 1953, contributions as a percentage of total wages were .97 percent. This was the turning point, however, for there was an upward trend in benefits and, thus, employer contributions until 1965. From 1965 until 1976, contributions were less than 1 percent of total wages.²³

Summary

There has been much written regarding Unemployment Compensation and much of that material has been reviewed for this study. A bibliography

²¹Haber and Murray, Unemployment Insurance, p. 321.

²²Department of Labor, Handbook.

²³Department of Labor, Handbook.

attached contains the literature utilized for this study. Nevertheless, there are many issues that have not received sufficient attention. In addition, changing economic conditions, particularly inflation, impact on a U.I. system in a manner that most have not anticipated. The concepts that are portrayed in this report are likely not original since few ideas are ever the domain of one person. To the extent that there is some original thought in the report, it is hoped that others will be able to utilize it. The major contributions of this report are hopefully those of: (1) bringing together into one place the collected wisdom of those who have studied unemployment compensation, and (2) analyzing a U.I. system, and in particular Virginia's U.I. system, from the standpoint of how to make it solvent, adequate, and responsive for the decade of the 1980's.

CHAPTER V

UNEMPLOYMENT COMPENSATION AS AN INSURANCE SYSTEM*

Introduction

Employment Security Agency is the title given to the agency responsible for administering unemployment compensation. The Federal legislation creating the program is the Federal Unemployment Tax Act and references are made to "unemployment compensation" not unemployment insurance [42 USCA §1101]. Neither does Title 60 of the Code of Virginia refer to unemployment insurance. Even the most preliminary investigation of the unemployment compensation literature, however, uncovers the term unemployment insurance. For example, the Department of Labor's statistics on the state systems is titled Handbook of Unemployment Insurance Financial Data.¹ Another example is a comprehensive book titled Unemployment Insurance In The American Economy.² The book considered by many to be one of the best works written on the subject is titled Experience Rating in Unemployment Insurance: An Experiment in Competitive Socialism.³ The

¹U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data (1938-1978).

²William Haber and Merrill G. Murray, Unemployment Insurance In The American Economy (Homewood, Ill.: Richard D. Irwin, Inc.).

³Joseph M. Becker, Experience Rating in Unemployment Insurance: An Experiment in Competitive Socialism (Baltimore: The John Hopkins University Press, 1972).

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W. E. Upjohn Institute For Employment Insurance, which has published many monographs on unemployment since 1945, titles its series "Unemployment Insurance" and the term insurance is in many of the monographs.⁴ Many of the Employment Security Agencies, including Virginia's, call the division in charge of unemployment compensation the Unemployment Insurance Division.

A long and impressive list could be developed of all the instances in which the term unemployment insurance is used, but it would serve little purpose beyond the diverse sample already given. The fact that the legislation does not refer to insurance, at least in title, and yet so much of the literature does use that term, presents a curious contrast that begs for additional investigation. Since it is so often termed insurance, it is apparent that most consider the system to be an insurance system. In this chapter, the issue is examined to determine (1) if it is truly a full insurance system, (2) if it is a partial insurance system, or (3) if it is not an insurance system at all. This will be accomplished by analyzing the attributes of a pure insurance system and comparing them with unemployment compensation. The attributes will be viewed from the standpoint of the three participants, the Employment Security Agency, the employer, and the employee, and conclusions will be drawn from each viewpoint.

Insurance in General

An insurance system is basically a means for transferring the risk and cost of a loss from the few in a group who experience it to the larger group who is exposed to it. In essence, the fortunate many in effect pay

⁴W. E. Upjohn Institute For Employment Research, 300 South Westnedge Ave., Kalamazoo, Michigan 49007.

for the unfortunate few who actually experience loss. Thus, insurance is a mechanism for reducing individual risk by combining a sufficient number of exposed units so as to make their individual losses collectively predictable. This predictable loss is then shared by the total group in some proportion as set by the premium payment. The law of large numbers is an important concept in insurance because it demonstrates that based on regularity of events and a sufficiently large population, what appears to be a random occurrence to an individual element is predictable for some portion of the group. For example, the prediction of the number of persons who will die during the year in some specific college class would be speculative, but the prediction of the number of deaths that will occur in all colleges and universities will have a high degree of accuracy. A prediction of the number of heads or tails that will occur when a coin is flipped a few times will be speculative, but if the coin is flipped a large number of times, the predicted outcomes will become very accurate. Insurance is a means of grouping exposure units so that an individual may take advantage of the law of large numbers.

Of great importance to private insurance is the requirement that the insured events be predominantly independent or mutually exclusive of each other. If so, then the probabilities of their occurrence in a large number grouping can be determined statistically, the risk measured, and a premium that is actuarially sound established. If the events under consideration are not independent of each other (mutually exclusive) then the conventional insurance techniques for measuring risk based on large numbers becomes impossible, or at best, much more inaccurate. This is why fire insurance underwriters seek to avoid insuring too many buildings in the same block, for a fire in one can set off fires in nearby buildings,

making the events interdependent; or why life insurance policies have clauses relieving them of specific catastrophic losses, such as death by war.

To the extent that subgroups of the total group have higher probabilities of an occurrence than the total group, insurance principles would advocate differentiating the costs of insuring those with higher probabilities. This is the process of rate making. The concept of rate making is one of using a price to place the burden of cost accurately where it arises. If an insurance company finds that all individuals in the covered population have exactly the same experience with a certain event that gives rise to a loss, then it would be most efficient to charge all the same rate. If, at the other extreme, the events being insured against varied in a completely random pattern, then there would be no way of differentiating one from another in terms of degree of risk, and a uniform rate would again be appropriate. The closer the actuarial experience comes to either of these two extremes, the weaker is the case for differentiated rates.

The situation that makes the most sense for differentiating rates is when the risks of the insured differ significantly and regularly so that the premium charged can be adjusted to the risk. The insurer must be able to differentiate and calculate the risk, and to do this he must find significant and regular differences in experience of the insured so that they can be actuarially grouped accordingly. In group insurance, it is a common practice to require an insured to pay a lower or higher premium as the insured represents a lower or higher risk to the insurance fund. To do otherwise would create the potential for some groups to subsidize others in a systematic and predictable manner, thus violating pure insurance principles.

Insurance Principles and Unemployment Compensation

Although unemployment compensation embodies some insurance concepts, it deviates from a pure insurance in two basic ways. First, whereas pure insurance is a contractual relationship between the parties, unemployment insurance is a legislative arrangement with benefit amounts and other obligations subject to the political process. Second, because payment of premiums is not made by the same group that receives benefits, the effects of the transfer are not clear cut. In a pure insurance system, all exposed to a potential loss (the work force in this case) would pay an actuarially determined premium that would cover the cost of the unfortunate few who experienced loss (the unemployed). In the unemployment insurance system, the employer pays the cost of the program, but the effect may be transferred to the employee through reduced job creation or lower wages, to the consumer through higher retail prices, or to the employer through reduced profit margins. Thus, because of the break in the link between the group that is paying for the risk coverage and the group that is receiving the benefits if loss occurs, there is an element of subsidy injected into the system that may make the term unemployment compensation more appropriate than unemployment insurance. Because of the subsidy in payment, we would expect a pattern of coverage of employees that would be quite different from what would exist if the employees paid for insuring themselves against unemployment in a private insurance market.

On the other hand, the unemployment compensation program does have some aspects of an insurance program. First, payments for potential losses may be financed, as in private insurance, through use of a reserve fund. The problem is that because unemployment can come about through so many different avenues (business cycles, technological changes, seasonal work,

new products replacing old, the worker's own desires to work, etc.,) it is not possible to fully fund the program in advance because the probability of loss cannot be actuarially determined. This results in falling back on such rules of thumb as maintaining a reserve of one and one-half times the previous twelve month high benefit payout in order to attempt to create an adequate reserve fund. But because business cycles differ in terms of their length and severity, and because the structure of the labor force itself changes over time in terms of such variables as age composition, skill level, occupational location, sex composition, etc., the fund adequacy standard is a long term average estimate that may be too large during some periods, and too small at other times.

Second, like private insurance, the payments under unemployment compensation are a matter of right and not based on need. Like private insurance, unemployment compensation systems spell out eligibility and disqualification requirements such as exist in private group insurance programs. These are basic to avoiding adverse selection, an insurance term used to describe the situation where applicants for insurance are more likely to experience loss than the average group of insureds. One purpose of insurance underwriting is to select the potential insureds carefully so as to charge each insured at a rate that fairly reflects the cost of the risk transfer. Although unemployment compensation does deal with some adverse selection problems with its rules for qualification which attempt to require evidence of work force attachment, and disqualification provisions which attempt to rule out unemployment not based on "good cause," it still has elements of adverse selection in such areas as seasonal work, for example, that create an excessive selection bias on the system in ways not necessarily accounted for or desired.

Third, the experience rating concept found in all unemployment compensation plans is a device that has a counterpart in private group and health insurance, and in some areas of property insurance. In private insurance this device means that the insurer looks backwards over time in order to determine if the insured has paid more premium than is actually justified based on the insured's records. If so, it can result in a premium refund, or increase if the record is poor. In unemployment compensation the state may set limits on experience rating that will not allow the rates to reflect the actual costs imposed on the system by an employer or employer classification.

Thus, a basic problem in attempting to use the insurance concept in dealing with unemployment is that unemployment is not solely a random independent event, but is associated with broader economic events that more resemble the catastrophe hazards private insurance attempts to avoid. The economy moves cyclically and irregularly, thus, making predictability of unemployment difficult and imprecise. Attempts to set actuarially sound premiums and establish an insurance pool that will be financially sound becomes problematical over time. It becomes difficult to avoid having the insurance fund move from positive to negative balances because of this cyclical nature of the interdependent relationship between unemployment and broader economic activity. It is this cyclical feature of economic risk that gives rise to fund solvency standards; but because each recession is different, in length, depth, time since previous recession, and changes in benefits established by law, there is not scientific method to set prepaid actuarial rates that will guarantee fund solvency. This is why the issue of fund adequacy is so important in a social insurance like unemployment compensation. The nature of the

phenomena being insured against does not have clearly identifiable, mutually independent probabilities of occurrence, so that the fund or reserve that is prepaid is subject to much more unaccounted fluctuation than a private insurance company would experience or tolerate.

The Nature of Rate Making

This does not mean that it is impossible to construct a fund adequacy mechanism in a social insurance program such as unemployment compensation, but rather that the mechanism cannot rely on the law of large numbers and actuarial rates based on such a concept to establish a prepaid fund adequate to cover the risk of loss. For example, one person flipping a coin one time may produce a head or a tail. But we can say with a very high degree of probability that there will be 500 heads and 500 tails if 1,000 people flip a coin at a moment in time. This is the type of large number regularity that allows for actuarial rate making and prepaying a reserve fund to cover insured losses. But if we select a person or one thousand persons and ask if they are employed or unemployed, the outcome depends significantly upon the state of the economy. There is no large number outcome that we can depend on that is independent of economic activity at a moment in time. Thus, rate making based on insurance principles is not possible and a prepaid fund will not be established on such principles.

But over time, economic activity, although cyclical, does establish average tendencies both in terms of totals and deviations from the trend. For example, it may be found that over a thirty year period the average unemployment rate is 4.5 percent plus or minus .5 percent. Using this information it would be possible to establish a solvent reserve fund if

it were possible to legally require people to be in the system so that they could be charged over time. This would allow taking advantage of what might be called the law of large time, i.e., tracking individuals through the cycles of economic activity so collections can be made on the average that cover unemployment benefits on the average. This means that the nature of the fund is different in pure insurance and social insurance systems; the former being a prepaid fund based on a large number of independent events, and the latter a payment over time that collects on the average experience. This demonstrates that: (1) What is called "social insurance" does not use, and cannot use, pure insurance rate making concepts. (2) It must have the power to compel people into the system to offset the lack of regularity exhibited by the cyclical events it proposes to cover. (3) The reserve fund can be structured to meet solvency in social insurance areas, using these principles and keeping a relationship between rates charged and benefits paid. Because of these significant differences, what is called social insurance is not really insurance at all in terms of principles of pure insurance, but rather is redistribution over time from a system standpoint. The employer is compelled to be in the system, and to pay an amount into the reserve fund over time that reflects his cost experience. As has been shown, this is not the method of establishing a reserve fund in an insurance system.

Therefore, because of the nature of the social phenomenon (unemployment) with its cyclical and uncertain nature, unemployment compensation cannot follow private insurance rate making concepts, but instead must depend on flexible tax rates that follow changes in demands placed on reserves as quickly as possible.

The Nature of Reserve Pooling

In addition to the problems involved in determining the level of reserve funds, there is also a difference in the pooling of funds between a pure insurance and social insurance program. In pure insurance, the insured gains the right of compensation in the event of loss through an actuarially determined premium paid in advance. In this manner, the insurance company gains a pool of funds adequate to compensate the unfortunate few who experience loss. In insurance pooling of reserves, it is statistically known in advance that there will be some redistribution of the pooled resources, that is, some of the insured will draw out more from the fund than they themselves pay into the fund. But it is not known what the pattern of redistribution will be, and no particular pattern of redistribution is intended. Thus, in fire insurance for example, it may be statistically known that ten percent of the houses will burn, but it is not known which homes will burn. This is another feature of the random and independent nature of the events being insured in private insurance.

To be contrasted with this purely insurance pooling, is a non random method called subsidy pooling. In subsidy pooling, a pattern of redistribution of funds between participants takes place that may be either intended by policy, or unintended, but is a result of the program's structure. For example, it may be found that the risk of unemployment for most firms in the construction industry is greater than for most firms in the banking industry. If all the firms are charged the same rate, or a rate procedure is designed that consistently results in the construction industry drawing out more than it puts into the fund while the banking industry consistently pays into the fund more than it takes out in benefits,

then there is a pattern of redistribution of funds in the reserve pool in favor of the construction industry. Such pooling is, strictly speaking, not insurance pooling, for it does not have the random element necessary for the insurance pooling concept.

In the most complete study of this issue, Joseph Becker concludes that both subsidy and insurance pooling exist side by side in unemployment compensation. He notes that:

One can predict with a high degree of probability, for example, that in state after state, and year after year, the firms in the construction industry will draw much more out of the fund per covered worker than will the firms in the industry of finance-insurance-real estate. That within construction, the special trades group will draw out less than will other groups. That within the special trades, electrical work and plumbing will be much less costly than painting and plastering. One can predict that the service industries will be relatively more costly than finance-insurance-real estate, but less costly than manufacturing. One can predict that within manufacturing, heavy durables, like steel and autos, and seasonal activities, like canning and apparel, will draw out more per covered worker than printing or chemicals or instruments.⁵

Based on an eleven year study he found that by major industrial divisions, agriculture, forestry, and fisheries; and mining and construction, have a consistent deficit in the fund while wholesale and retail trade, finance, insurance and real estate, and services have a consistent positive balance. He concludes by estimating that:

. . . perhaps one-fifth of all firms covered by the program as regularly and predictably subsidized, while another fifth are regularly and predictably subsidizing. The remaining firms have somewhat less stable cost-tax relationships and their experience comes closer to that covered by "insurance."⁶

⁵Becker, Experience Rating: Competitive Socialism, p. 81.

⁶Becker, Experience Rating: Competitive Socialism, p. 123.

Social Insurance

Thus, because unemployment compensation includes both insurance and subsidy pooling aspects in the reserve fund, it is expressing a form of social insurance designed to achieve broader goals than would a private insurance system. The degree to which each state chooses the subsidy aspect of pooling depends upon its economic and social goals and its political climate. Social insurance is a concept that utilizes compulsory governmental action to carry out some states social transfers based upon some elements of insurance principles. Thus, the social insurance concept implies that the governmental system will be involved in collections and disbursements that would not be attractive to a for-profit, private insurance firm using strictly actuarially based risk spreading concepts. An understanding of social insurance can be facilitated by reviewing the basic differences between it and a privately sponsored insurance program.

Compulsion

Because social insurance plans are designated to attack social problems, it is deemed necessary to force all affected parties to be part of the plan. In private insurance, compulsion is not required, for the main goal of the system is not some broad societal transfer of risk and income, but rather the transfer of risk by contract from one person or group to the insurance company based on an actuarially sound fee.

Benefits

In social insurance, little, if any individual choice is given in the selection of benefits that can be attained by the insured. Thus, an employee under unemployment compensation cannot purchase more or less benefits than are offered under the plan. All persons covered under such

plans are subject to the same benefit schedules, varying according to the amount of the wage earned in the qualifying period, the length of service, and job status. In private insurance, one may buy the level of coverage desired.

Floor of Protection

A basic principle of social insurance is that of providing a minimum level or floor of protection against the interruption of income. The concept calls for giving all qualified persons a certain minimum level of protection, such as one-half of the person's normal income, as a means to cushion short term economic catastrophe such as unemployment. More adequate protection must be provided for by the person's own individual initiative.

Subsidy

All insurance concepts involve an element of subsidy - that of the fortunate many paying for the unfortunate few who experience loss. In social insurance, it is anticipated that some groups in the program will not pay their own way consistently, and therefore will be generally subsidized by the larger group. This is one reason for compulsory membership. It is necessary to force membership on the eligible group in order to have enough funds to pay for the group or groups that are to be covered on a basis that is not actuarially paying its way. Such devices in unemployment compensation as imposing maximum tax rates on firms after some level of unemployment experience, and not letting the rate go higher even if unemployment worsens, is an aspect of this concept. A social purpose of income transfer is being carried out in a manner not in keeping with the principle that would be practiced by private insurance groups.

Required Contributions

A social insurance is not a form of public charity or welfare. The concept requires that the benefits paid under the concept are financed by the insured, their employer, or both. Thus, social insurance does not include public assistance programs where a person receives outright cash gifts on the basis of some means test.

Attachment to the Labor Force

Most social insurance systems cover groups that display some level of labor force attachment. This is unlike private insurance contracts which are issued independent of employment status. The basic reason for the requirement is that governmental insurance plans are usually directed at those events which lead to income interruption, such as unemployment, based on no clear fault of the individual.

Conclusion

Because the unemployment compensation system includes subsidy pooling, limited experience rating, compulsory payment, and protection against interdependent, non-random events, it violates the basic requirements of a private insurance mechanism. In addition, it has goals that are societal by design and thus would not be the intended structure of private insurance. For example: it is designed to be part of a counter-cyclical economic program that injects funds into the economic system during a downturn, provides more income protection to the average worker than he would choose to purchase voluntarily, provides subsidies both from the standpoint of compelling the employer to pay for benefits received by the employee, and to the extent that subsidy pooling takes place, causes some employers to subsidize other employers.

Thus, from the viewpoint of the Employment Security system, the compensation structure that has been established is not insurance, but rather a mechanism designed to achieve societal goals that are beyond the profitable interest of a true private insurance market.

From the perspective of the employer, the system does not operate as insurance because the rates that must be paid do not reflect prepaid actuarial levels and, over time, the employer must pay into the reserve fund an amount equal to what he has cost the fund - if there is no internal fund subsidy present. Thus a system of intentional linkage of benefit payments and cost payments is established, in violation of true insurance principles. In addition, if there is subsidy pooling, the employer may pay in either more or less than his actual cost experience, and the system takes on transfer or welfare attributes from his standpoint.

The employee, when faced with a covered unemployment episode, may call the payment received insurance, but because he has neither chosen to enter the system, chosen a level of benefits that he would deem desirable, nor paid directly a premium that reflects his own unemployment risk classification, the payment does not reflect what would have been received if a voluntary insurance system was in place. It would be expected, based on insurance principles, that people who face a small probability of unemployment and a low magnitude of expected loss due to unemployment would not choose to voluntarily purchase insurance. Also, people with a high probability of unemployment would not likely insure because the insurance premium would have to reflect their true risk to the fund, and thus be very high. Therefore, the unemployment compensation system provides a level and breadth of coverage that is quite different than would be selected under truly private choice.

Thus, from all vantage points, it is concluded that unemployment compensation is a social mechanism that, although using some insurance terms, is really a social transfer financial mechanism designed to pursue a social purpose.

CHAPTER VI

EXPERIENCE RATING

Importance In The System

Experience rating became a part of all unemployment compensation systems after 1940. Three justifications are traditionally given for experience rating: (1) national stabilization of employment, (2) equitable allocation of costs, and (3) incentive for employer participation. There are varying views as to how well experience rating accomplishes these three goals as well as criticism that experience rating can lead to insolvency.¹ While evaluation of the three goals is germane, the criticism of experience rating and solvency is misguided in the following sense: the critics should be criticizing tax tables and not experience rating. Inappropriate tax tables can lead to insolvency regardless of experience rating while a less efficient experience rating system with adequate tax tables can maintain solvency. Thus, the majority of the discussion will center around the attainment of the three above mentioned goals and the various types of experience rating systems.

National Stabilization of Employment

This goal assumes that employers have rather great discretion over labor force use. Traditionally, labor has been considered the "variable

¹William Haber and Merrill G. Murray, Unemployment Insurance In The American Economy (Homewood, Ill.: Richard D. Irwin, Inc., 1966), p. 331; and Harvey M. Wagner, "A Reappraisal of Experience Rating," The Southern Economic Journal (April 1959), p. 469.

input" into the productive process. As such, it is viewed as the one input that can be increased or decreased at will. Obviously, there are economic constraints on any employer and an employer balances, for example, the risk of permanently losing skilled workers against the cost of hoarding labor. Theory has also shown that employment of an uncertain or seasonal nature results in higher pay to compensate for the risk. Adam Smith in 1776 and John Stuart Mill in 1848 were cognizant of this phenomenon:

A mason or bricklayer, on the contrary, can work neither in hard frost nor in foul weather, and his employment at all other times depends upon the occasional calls of his customers. He is liable, in consequence, to be frequently without any. What he earns, therefore, while he is employed, must not only maintain him while he is idle, but make him some compensation for those anxious and desponding moments which the thought of so precarious a situation must sometimes occasion.²

Thus, employees would be expected to spread themselves across the employment scene in conjunction with their tastes for wages and permanent employment. If the market system works efficiently, the presumable employees are satisfied with their self-selection and would elect to be insured only against unemployment of a catastrophic nature.

Referring to the section on insurance reveals that if insurance against unemployment were sought by individuals, it would not be issued against very predictable or known unemployment. What must occur, if an employer is forced to stabilize his employment by other than market forces, is likely an averaging of wages over the period in question. To the extent that (1) the costs of Unemployment Compensation are passed on to employees, and (2) there is no redistribution between employers, employees receive

²Adam Smith, The Wealth of Nations (New York: Modern Library, 1937), p. 103; and John Stuart Mill, Principles of Political Economy, (New York: Augustus M. Kelley, 1969), p. 387.

lower wages than they would otherwise, and unemployment compensation is part of the wage package.

In this context, what is termed employment stabilization means spreading income payments over a longer period and working a longer period for the same income. This is true whether the unemployment is seasonal or cyclical.³ From an economic standpoint, employment stabilization is somewhat meaningless in terms of total amounts spent for labor. Employment stabilization is, however, an important political consideration since almost all policymakers view unemployment undesirable. The general populace as a whole would also subscribe to the political view because of the uncertainty embodied in unstable employment.

Important to the question is, does experience rating accomplish stabilization, and if so, to what degree. Charles Meyers, investigating this in the early years of the system, ". . . found that about 10 percent of the firms he interviewed had stabilized employment to an appreciable degree."⁴ In a later writing he stated that:

Although experience rating can serve as an inducement to employers to reduce intermittent and seasonal employment irregularities, which are more within their control, the gains from such stabilization, once they are realized, may be sufficient in themselves to encourage continued efforts. After an initial period of several years, therefore, the novelty of the incentive may wear off.⁵

Another observation by Marion B. Foley of Eastman Kodak Company was that, "Although it is difficult to obtain facts, the impression in industry is that employers are doing a better job in planning production,

³Charles A. Meyers, "Experience Rating in Unemployment Compensation," *American Economic Review* (June 1945), pp. 349-50.

⁴Haber and Murray, Unemployment Insurance, p. 339.

⁵Meyers, "Experience Rating," p. 353.

preventing seasonal layoffs and stabilizing employment and experience rating has been an important factor in this development."⁶ For an employer the difficulty of stabilizing is indicated by the following:

The variables influencing whether an employer is to retain or fire an individual certainly include the value product of the individual's labor, an uncertain future demand schedule, and inventory holding costs (these variables are not meant to be necessarily independent). Given the inherent nature of these factors, in all but trivial cases, working out an optimum employment schedule over future periods is a very difficult if not virtually impossible problem. Methods of Operations Research that deal with a firm's production plans can, under certain circumstances, prescribe fluctuating levels of production, and insofar as unemployment insurance rates influence the optimal schedule, the effect will be to stabilize employment. But factors such as inventory carrying charges may completely dominate the differential costs from tax rate changes. Furthermore, the very complexity of working out a theoretically optimal pattern is such as to lead one to believe that present-day employers do the best they can by relying to a large part on intuition, which probably balances the costs of varying employment with alleged savings in payroll reductions and lower inventory costs.⁷

One unfortunate term in this passage unintentionally makes it a non-issue. The fired employee referred to in the first line would not be eligible to draw benefits in Virginia nor in most other states. It is assumed the author meant layoff.

One major point not covered by these authors is that unemployment compensation with or without experience rating could lead to destabilization of the work force. This could occur because with unemployment compensation an employer can retain his work force, pay unemployment compensation taxes on one-half of what wages would have been and pay no fringe benefits. The employee can have one-half or less of his pay without social security or income taxes.

⁶Haber and Murray, Unemployment Insurance, p. 340.

⁷Wagner, "A Reappraisal," p. 460.

In any event, stabilization of the work force is really an argument for or against the program and was never the most important reason for experience rating. Allocation of costs and employer participation are far more important reasons to experience rate and make the argument concerning employment stabilization relatively unimportant.

Equitable Allocation of Costs

Once a social program such as Unemployment Compensation has been implemented, there always exists concern over allocation of costs. Allocation of costs is directly related to the degree of "socialness" of the program. A strict pay as you go program has much less socialness involved than that of a flat tax system with massive redistribution. Inherent in this determination is the feedback effect of incentives for claimants and employers discussed in the next section.

If there is a desire to have the program devised so that the social cost of unemployment is borne to a large degree by the employing unit, then experience rating is of vital importance. If the social cost is to be spread across the population, then experience rating has no place. The degree to which the system is to be one of cross industry-cross employer subsidization is not an economic issue, but a political issue. Once the political decision of unemployment experience and taxes is established as a social standard, then an experience rating system can be implemented to bring this about.

Incentive for Employer Participation

With the exception of Alabama, Alaska, and New Jersey, Unemployment Insurance is totally financed through employer contributions. Even in

the three states that are exceptions, employer contributions constitute the bulk of the payments into the system. All systems require information from the employer regarding separation. Decisions are then made as to the legitimacy of the claim. Various types of follow-up procedures exist if there are disputes regarding legitimacy, and these procedures require additional time and effort on the part of the employer.

Although employers in the majority of cases (85% in Virginia, See Table 1) report that the claimant is separated for lack of work, the employer's propensity to layoff workers depends partly on the closeness of the relationship between unemployment and Unemployment Compensation taxes, and partly on the alternatives to layoff available to the employer.⁸ It is axiomatic that an employer would be more influenced by a system in which he pays for his cost than one in which he does not.

The importance of influencing employer behavior on an unemployment insurance system can be seen by the following: In the United States, benefits paid in 1978 were less than 1% of the total wages (.93%), with Alaska the highest at 3.31% and Texas the lowest at .27%;⁹ on the other hand, a firm which unemploys 5% of its workforce will see benefits paid out which exceed 1% of the total wages. Another perspective is that under the present prevailing tax base of \$6,000 per employee, a maximum tax rate of 6% (higher than the maximum in 38 states) would generate a tax payment of \$360.00 per employee. One person drawing a weekly benefit of \$100.00

⁸Virginia has a permanent disqualification provision which precludes drawing unemployment compensation if an employee quits except for a stringently enforced good cause provision. This means that a claimant is going to have to be separated by an employer in the overwhelming majority of the cases. This is in contrast to some states which allow a claimant to draw after a period of time even if he or she quits.

⁹U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data.

TABLE I
SEPARATION STATISTICS FOR VIRGINIA, 1970-1979

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
1. Individuals filing claims for new periods of unemployment	120,922	119,262	92,084	85,590	163,905	318,083	245,800	260,143	246,231	267,650
2. Individuals who had qualifying earnings from covered employers	104,477	100,993	74,688	72,689	142,993	270,816	204,660	218,771	210,983	237,436
3. Number of those qualifying who had no issue of separation	94,251	89,915	64,016	61,372	127,945	236,706	170,781	184,569	176,928	200,561
% of line 2	90.5	89.0	85.7	84.4	89.5	87.4	83.4	84.4	83.9	84.5
4. Number who had an issue of separation	9,956	11,078	10,672	11,317	15,048	34,110	33,897	34,202	34,055	36,875
% of line 2	9.5	11.0	14.3	15.6	10.5	12.6	16.6	15.6	16.1	15.5
5. Number of those with an issue of separation disqualified	5,597	6,453	6,092	6,548	8,351	20,569	18,510	17,443	15,404	19,517
% of line 2	5.4	6.4	8.2	9.0	5.8	7.6	9.0	8.0	7.3	8.2
6. Number of those with an issue of separation not disqualified	4,359	4,625	4,580	4,769	6,697	13,541	15,369	16,759	18,651	17,358
% of line 2	4.2	4.6	6.1	6.6	4.7	5.0	7.5	7.7	8.8	7.3

All data includes intrastate claimants who filed for benefits under the State program only.

for a maximum of 26 weeks will draw \$2,600.00. It requires seven (7) employees on the payroll to generate \$2,600.00 in contributions. It should be apparent that small shifts in the average employer's propensity to layoff can have rather large impacts on the benefit to total payroll ratio in a state.

An employer's alternatives to layoff usually consist of inventory buildup or the payment of idle labor. The fact that unemployment insurance is an alternative to other actions can be seen from the fact that many employers have incorporated unemployment into their wage packages. For many industries, such as the automobile industry, unemployment insurance is part of the union contract in that supplemental payments are made over and above the state unemployment benefits and with the state benefits figured into the formula. Candid admissions by employers and observations of their layoff patterns make it apparent that employers view a short term layoff or an alternating work one week - draw unemployment one week situation as alternatives which allow them to retain their work force, reduce labor costs (unemployment payments are usually 50% or less of the weekly wage), reduce fringe benefit payments (especially social security), and at the same time reduce inventories. For these employers, unemployment insurance taxes are an integral part of their costs.¹⁰ Both industrial and craft labor unions have encouraged the incorporation of unemployment compensation into the wage package. The fact that labor has been consistently opposed to experience rating, because it does lead to employer participation, is testimony to its effectiveness.¹¹

¹⁰Martin Feldstein, "Temporary Layoffs In The Theory Of Unemployment," Journal of Political Economy (October, 1976), p. 955.

¹¹Haber and Murray, Unemployment Insurance, p. 135.

There are, thus, two strong reasons for experience rating that are important to an efficient unemployment compensation system: (1) equitable allocation of costs, and (2) incentives for employer participation. The two are inextricably entwined and cannot be separated in terms of their effects. Increasing experience rating for equitable allocation automatically increases employer participation. In the following section the major types of experience rating systems are examined as to their strengths and weaknesses.

Alternative Experience Rating Systems

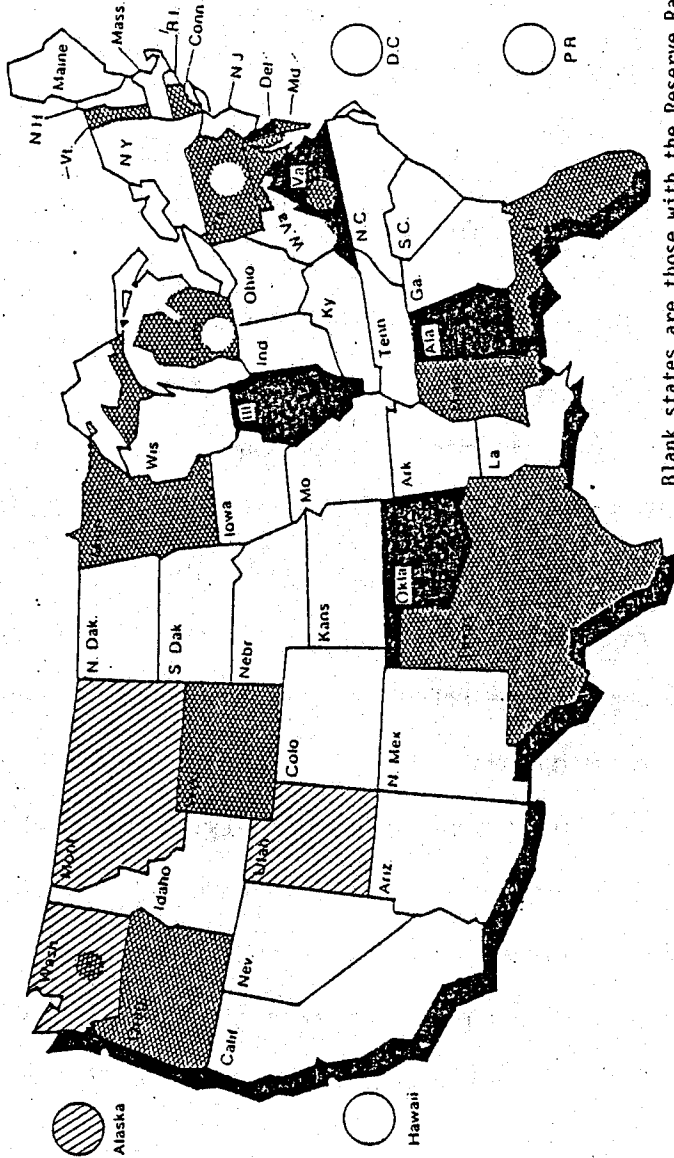
Three basic experience rating charging systems exist and are used by various states: Benefit ratio, benefit wage ratio, and reserve ratio. A fourth, payroll decline, is used in three (3) states. All three of the major experience rating systems can recover from employers the benefits charged to them. All three can be ineffective if they are accompanied by inappropriate tax tables. All can be constructed to include pool costs in the experience rate, or pool costs can be charged separately. Likewise, a fund growth provision can be incorporated into the experience rating system or can be charged separately. How to charge for pool costs and fund growth are decisions to be made when determining tax tables and need not be a basis for choosing an experience rating system. The three systems are analyzed from the point of view of strengths and weaknesses in order. Page 102 consists of a map of the United States with the systems used in each state.

Benefit Ratio

The benefit ratio system is designed to require the employer to pay back the benefits charged to him. If benefits for the year are .5

MAP I

DISTRIBUTION OF STATES BY EXPERIENCE RATING SYSTEM



Blank states are those with the Reserve Ratio System



are those with the Benefit Ratio System



are those with the Benefit Wage Ratio System



are those with the Payroll Variation System

Those four (4) states with encircled areas, have some features of systems other than the primary system. The secondary type of system is as the shading in the circle indicates.

percent of taxable wages, his rate is .5 percent. If benefits are 7 percent of taxable wages, his rate would be 7 percent, given such a rate is allowed. The length of time to pay back benefits can vary, but as shown below three years is used by the states using a Benefit Ratio System.

<u>State</u>	<u>Years for Calculation of Rate</u>
Conn.	Last 3 years.
Fla.	Last 3 years.
Md.	Last 3 years.
Minn.	Last 3 years.
Miss.	Last 3 years.
Oreg.	Last 3 years.
Pa.	Average 3 years.
Tex.	Last 3 years.
Vt.	Last 3 years.
Wyo.	Last 3 years.

Unless the wage base changes dramatically, the benefit ratio system will recover in taxes over time what has been paid in benefits. The tax rate can be larger than the benefit to taxable wage ratio if items such as Trust Fund building or pool costs are incorporated into the tax table. In the simple case of no additional charges, if the benefits for the period under consideration (usually three years) divided by the taxable wages for the same period are .5 percent, then the tax rate is .5 percent. If fund building charges or pool costs were included, the tax rate would be higher. Some benefit ratio tax tables, for example, include a fund building multiplicative factor which is tied to the condition of the Trust Fund. If the Trust Fund were 80 percent of what was considered adequate by the state, the tax rate would be 20 percent larger than the benefit ratio. In the above case, instead of .5 percent, the rate would be .6 percent. A benefit ratio of 1.2 percent would lead to a tax rate of 1.34 percent. Likewise, pool costs could be additive or multiplicative. The benefit ratio system

is a short-term experience rating system, in that if benefits paid are not recovered from the individual employer in the experience rating period (usually three years), they cannot be collected from that employer and either the fund will be depleted or the difference will be paid by other employers through a pool charge. The 1975 recession found many states with maximum rates which, given the existing tax base, would not recover benefits charged in the period used for experience rating. To the extent that there were no provisions in their tax procedures to collect the amounts back through pool cost charges, the state Trust Funds became dangerously low or insolvent. Thus, it is important in a benefit ratio system to have rates and tax bases high enough to recover from a business cycle in the time period used for experience rating.

Benefit Wage Ratio

The benefit wage ratio system is very close in its operation to the benefit ratio system. Five states have a benefit wage ratio system.

<u>State</u>	<u>Years for Calculation of Rate</u>
Ala.	Last 3 years.
Del.	Last 3 years.
Ill.	Last 3 years.
Okla.	Last 3 years.
Va.	Last 3 years.

This system computes a tax rate based on the qualifying earnings of the claimant. In Virginia, benefit wages equal qualifying earnings divided by weeks of duration. For instance, qualifying earnings are \$8,000 for someone drawing \$103 per week for 26 weeks and benefit wages are \$308 per week. The total of these benefit wages for an employer are totaled and divided by taxable wages of the employer. The following example will demonstrate how the procedure works:

Assume that over a three year period 10 workers draw benefits of \$103 per week for 26 weeks with base earnings of \$8,000. The computation is as follows:

<u>Benefits</u>	<u>Benefit Wages</u>
$\begin{array}{r} \$103 \times 10 = \$ 1,030 \text{ per week} \\ \quad \times 26 \text{ weeks} \\ \hline \$26,780 \end{array}$	$\begin{array}{r} \$308 \times 10 = \$ 3,080 \text{ benefit wages per week} \\ \quad \times 26 \text{ weeks} \\ \hline \$80,080 \end{array}$

Assume that there are 67 workers on the payroll of the employer and that all have earned \$6,000 or greater. This is a taxable payroll of \$40,000 per year and \$1,200,000 for three years. The benefit wage ratio for the employer is \$80,080/\$1,200,000 or 6.67%. The table used in Virginia has a state experience factor which reflects overall claims activity and automatically adjusts rates accordingly. With the present state factor of 35, a benefit wage ratio of 6.67% would mean a rate of 2.7% plus a 40% surcharge or a 3.78% rate. This would be paid for three years against wages of \$40,000 per year which equals \$15,120 per year. In three years the employer would have paid in Virginia \$45,120 in taxes for \$26,780 in benefits. The difference between benefits and taxes reflects that Virginia's table is structured to collect from employers who have had unemployment experience not only the amount of benefits paid, but considerably more to pay pool costs and to build the fund. Virginia's existing table has not been effective because of Virginia's unreasonably low minimum rate of .07 percent which does not come close to covering pool costs of .2 percent, let alone increase the fund.

Increasing the Fund or a fund building provision most separates the benefit ratio and benefit wage ratio systems from the reserve ratio system discussed next. The benefit ratio and benefit wage ratio systems traditionally build their funds and pay pool costs by higher taxes on those

with experience. Reserve ratio systems generally build their Trust Fund with contributions of employers with little experience. Pool costs can be a percentage of experience, which places a disproportionate amount of the burden on experience rated employers, or it can be a flat percentage on all taxable wages.

Reserve Ratio Systems

The reserve ratio system is the most popular of the experience rating systems, with 30 states, the District of Columbia, and Puerto Rico utilizing this system. A list of those states and years used in calculation is provided:

<u>States</u>	<u>Years Used to Calculate Taxes</u>	<u>States</u>	<u>Years Used to Calculate Taxes</u>
Ariz.	All past years.	Mont.	All years since July 1, 1976.
Ark.	All past years.	Nebr.	All past years.
Calif.	All past years.	Nev.	All past years.
Colo.	All past years.	N.H.	All past years.
D.C.	All years since July 1, 1939.	N.J.	All past years.
Ga.	All past years.	N.Mex.	All past years.
Hawaii	All past years.	N.Y.	All past years.
Idaho	All years since Jan. 1, 1940.	N.C.	All past years.
Ind.	All past years.	N.Dak.	All past years.
Iowa	All past years.	Ohio	All past years.
Kans.	All past years.	R.I.	All years since Oct. 1, 1958.
Ky.	All past years.	S.C.	All past years.
La.	All years since Oct. 1, 1941.	S.Dak.	All past years.
Maine	All past years.	Tenn.	All past years.
Mass.	All past years.	W.Va.	All past years.
Mo.	All past years.	Wis.	All past years.

It is considered by many to be the better system of experience rating.

Under a reserve ratio system, each employer has an account which reflects benefits charged and taxes paid. Thus, the individual account will have either a negative or positive balance. As a practical measure, most states use the benefits and taxes paid for all past years to determine the balance.

Whether positive, negative, or zero, the balance is divided by taxable (it could be total) wages to determine the reserve ratio. A tax table is used to convert the ratio into the appropriate tax rate. Most reserve ratio systems have a rate of between 2.5 and 3.0 percent for those employers with zero balance accounts. A typical reserve ratio schedule would resemble that in Figure I. In this schedule a zero balance results in a rate of 3 percent while a positive balance of 9 (9% of taxable wages) results in a zero rate. The zero rate could also be some minimum rate such as .1 percent below which no employer is taxed. The maximum rate is 7 percent for any balance greater than 10 percent of taxable wages. Not all schedules have the discontinuous break in the schedule at the zero balance. While a zero balance would give a 3 percent rate, a slight negative balance in this case would give a 4 percent rate. The slope of the line, which is the relationship between balances and rates, can be varied to reflect different fund balance requirements or other considerations. In reserve ratio systems, as in benefit ratio systems, pool costs can be additive or multiplicative.

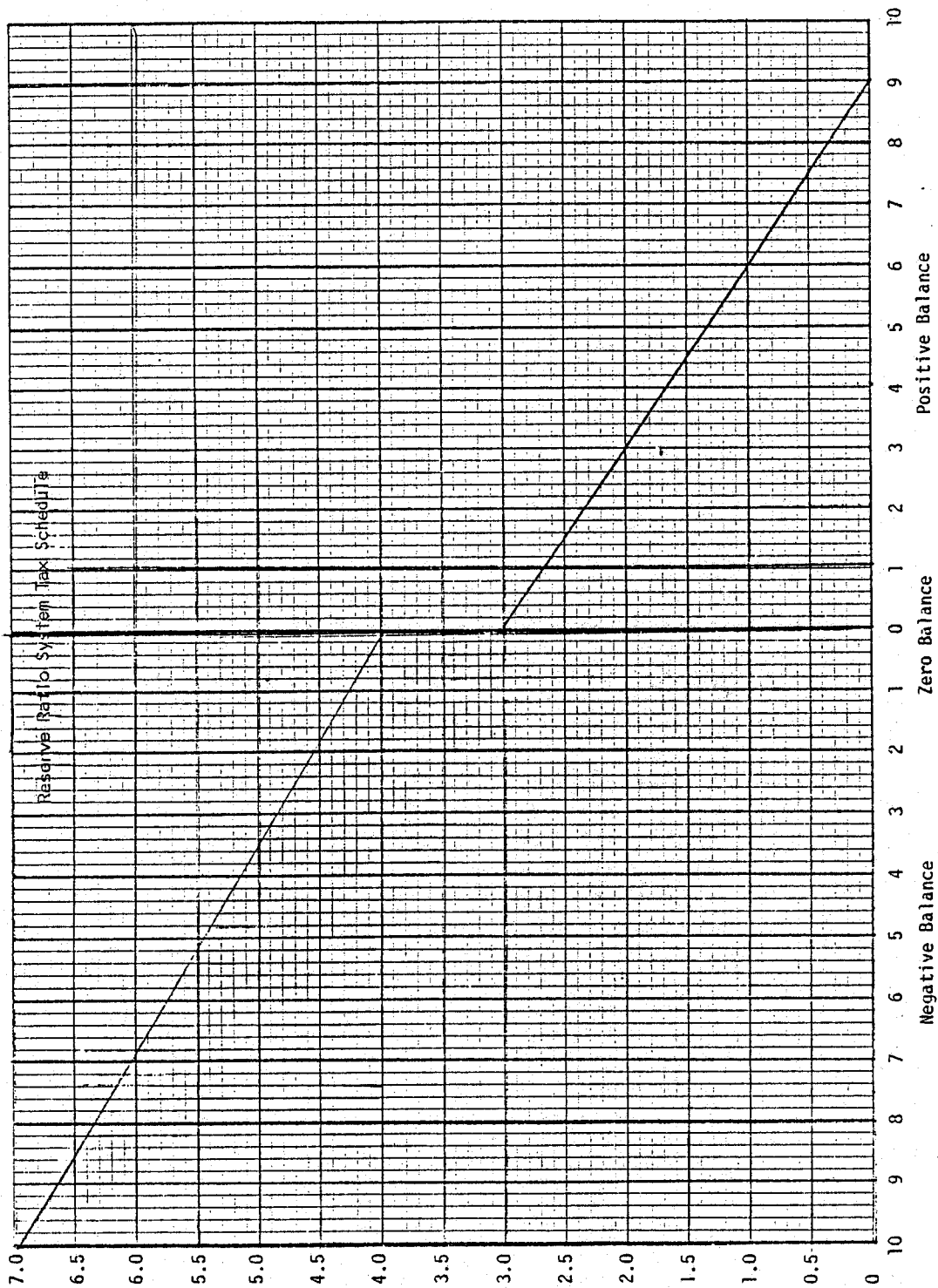
Payroll Variation Plan

A few states determine tax rates on the basis of variations in payrolls, without any reference to whether benefits were paid to the employer's former workers. The theory is that payroll declines indicate an employer's "experience with unemployment," which is the measure specified in the federal act. Payroll declines are determined on a quarterly or annual basis. The quarterly basis indicates the amount of seasonal unemployment; the annual basis only general business declines. Each state uses a different method of determining rates on the basis of the amount of any decline in each employer's payroll over the specified period.¹²

Payroll Variation is the least desirable experience rating system in that it does not directly measure unemployment claims charged against an employer. In addition, it does not account for the fact that an employer

¹²Haber and Murray, Unemployment Insurance, p. 336.

FIGURE I



could increase payrolls, particularly during inflationary periods and still layoff workers. Lastly, it does not reflect that a payroll could decline because an employee was discharged and was not eligible to draw unemployment compensation.

Pros and Cons of Various Systems

All of the experience rating systems, if accompanied by appropriate tax rate schedules and fund balance adjustment provisions, will recover benefits systemwide and can remain solvent in the face of a recession. It is important to realize that the experience rating system is not by itself the taxing system. It is the mechanism through which information is gained to apply taxes. For instance, pool costs and trust fund building can be incorporated into **the tax** schedule based on experience rating or figured separately. The costs can be a percentage of experience rating costs or spread across taxable wages, regardless of the experience rating system. Criticism of experience rating systems, based on how a state used it, is misdirected. The criticisms should be aimed at the tax schedules, not the experience rating system. The conclusion that a "good employer" would pay less in a benefit ratio or benefit wage ratio system depends to some extent on the tax procedure used.

There are differences in the system however: (1) there is a temporal difference in terms of pre- or post-collections, (2) there are differences in the ability to recover totally the amount from employers they have cost the system, and (3) there are differences in the information that the system automatically supplies.

The temporal difference lies in the fact that a benefit ratio or benefit wage ratio system is set up to tax after the incidence of unemployment.

Reserve ratio systems are set up to both pre-collect taxes in anticipation of unemployment claims and collect after the fact. Once sufficient money is collected under a reserve ratio system, based on past liability experience, the employer need not pay any more into the fund other than pool costs. For a benefit ratio or benefit wage ratio system, only pool costs would need to be paid until unemployment occurs. Yet in both systems the fund must be sufficient to pay claims until the money is repaid. A priori one does not know which employer is a "good" or "bad" employer until after a sufficient period has passed. In addition, even "good" companies go out of business, leave the state, or suffer from market declines. A company paying low rates for ten years may not pay in nearly the amount required to pay benefits if it should go out of business. In this instance, pre-collection is not the type of pre-collection prevalent in private insurance. In fact, as we shall see later, the pre-collection is usually from those in the lowest risk category.

One positive aspect of a reserve ratio system, which forwards balances each year, is the ability to recover funds expended for benefits even when the company is temporarily up against the top rate. By keeping a historical account, the system can recover the benefits paid out when a company is able to reduce its claims while its tax remains high. Eventually its rate will be reduced from the maximum as its negative balance ratio becomes smaller. In a benefit ratio system with a typical shorter period in which benefits are accounted for, such a company could have its record forgiven after three or five, or so, years.

An example of this would be a national company which does not leave Virginia but which reduces its work force. For a period, it will have a large amount of benefits charged against it. Even though his rate may

reach the maximum, the reduced taxable payroll will reduce the amount of tax collected. In many states, including Virginia, in three years the record is clear. The company could return to the minimum rate even though it did not replace the benefits drawn. In a reserve ratio system, the amount of those benefits would be collected.

Thus, reserve ratio systems perform better than most benefit ratio systems in terms of recovering the benefits paid by an employer that result from cyclical unemployment given any specific maximum rate. Neither system is able to recover benefit charges from highly seasonal employers because of the setting of maximum tax rates.

The third difference between systems is the information feedback that is given. Under a benefit wage ratio system, there is little incentive to keep track of benefits paid out to employees of an employer. In neither a benefit wage ratio nor a benefit ratio system is there a need to keep records for periods exceeding three to four years. A reserve ratio system, however, provides each employer with a historical record of benefits and taxes. There is a clear connection between costs to the system over time, and taxes. Three years, which is standard for other systems for records needed for operations, is a relatively short period of time compared to the time from one economic downturn to another. At the minimum, a U.I. system should be examined from business cycle to business cycle. While it is true that information can be retained in any system, it is usually not if it is not operationally necessary.

Tax schedules can ameliorate weaknesses in experience rating systems. For instance, the experience rating period of the benefit ratio system can be lengthened to insure that existing rates recover cyclical unemployment charges. Maximum rates can be set high enough in both systems to keep

redistribution at an acceptable level. If maximum rates are not sufficiently high in either system, benefit charges over and above the contributions for employers at the top rate will be borne by the general employer community in the form of pool charges. Indeed, in a reserve ratio system, it can be collected twice. If an employer's benefit charges exceed his contribution in a reserve ratio system, the difference can be charged to pool costs. If, however, conditions develop such that the employer contributes a sufficient amount to become a positive balance employer, the system will have recovered the benefit charges from pool charges and later from the employer. Under a benefit ratio system, if the benefit charges were not recovered during the experience rating period, the charges would be incorporated in the pool costs charges and it is recognized that it is a once and for all redistribution.

While explicit redistribution can occur in all systems, a reserve ratio system has subtle unintended redistribution. In all systems a trust fund, adequate to survive a severe recession, must be built up and maintained. Herein lies the major difference between a reserve ratio and a benefit ratio system due to the temporal differences in temporal collections.

Under the reserve ratio system, employers with little or no unemployment experience eventually have some percentage of their taxable wages in a fund in anticipation of unemployment. The Trust Fund under the reserve ratio system is composed of the monies of those employers who have had little or no unemployment. Those who do not use the system are forced to provide the funds used to pay benefits during the period which it takes for the experience rating system to recover the funds. Employers with relatively high levels of unemployment, however, do not have money tied up in the Trust Fund. For example, an employer with benefits charged in one

year equal to the taxes paid in for that year could be a moderate user of the system year after year and not contribute to the Trust Fund. The employer is termed a moderate user since he does not have a negative balance in his account. The money in the Trust Fund does earn interest from the Federal Government, but it is far less than the market rate which is the opportunity cost for the employer. The implicit tax rate for an employer with no unemployment experience could be 1 percent in many reserve ratio systems while an employer with unemployment experience that keeps him at a zero balance may only pay 2.7 percent.

Since the tax in a benefit ratio system is based on unemployment experience, the distribution of taxes among employers or taxable wages would be expected to be very similar to that of the distribution of unemployment by employers or taxable wages. One would expect to see less than a one to one distribution of taxes to unemployment, but only less due to the redistribution that exists due to a top tax rate. For instance, if the distribution of unemployment for employers is as in Figure II, then one would expect the distribution of taxes in a benefit ratio system to follow the same general pattern, such as in Figure III.

Table 2 shows the distribution of tax rates for Virginia (a Benefit Wage Ratio State) manufacturing for 1979. The shape of the distribution is as in Figures II and III. The bulge in the middle reflects the new employer rate which is not experience rated. Table 3 shows the distribution of tax rates for North Carolina (a Reserve Ratio State) manufacturing. Assuming that experience of North Carolina manufacturing is similar to Virginia, it is evident that a benefit ratio/benefit wage ratio system more closely matches unemployment experience and tax rates than a reserve ratio system. The contention is further supported by the fact that Virginia

FIGURE II

DISTRIBUTION OF UNEMPLOYMENT EXPERIENCE

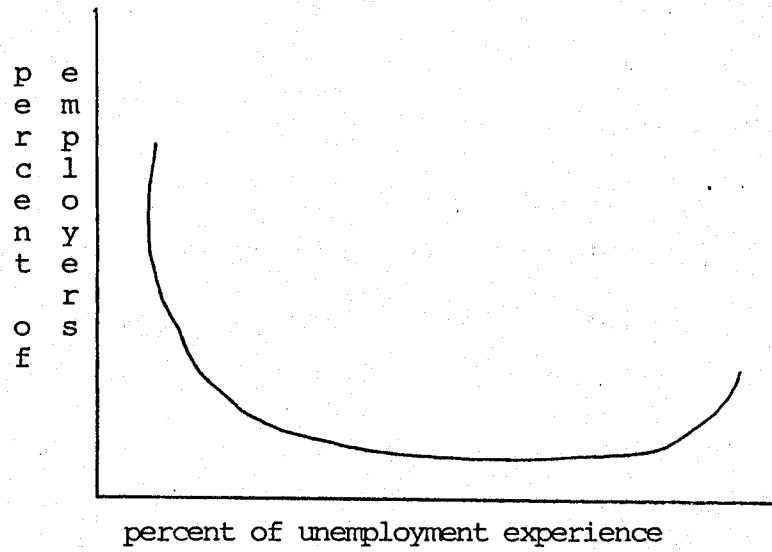


FIGURE III

DISTRIBUTION OF UNEMPLOYMENT COMPENSATION TAXES

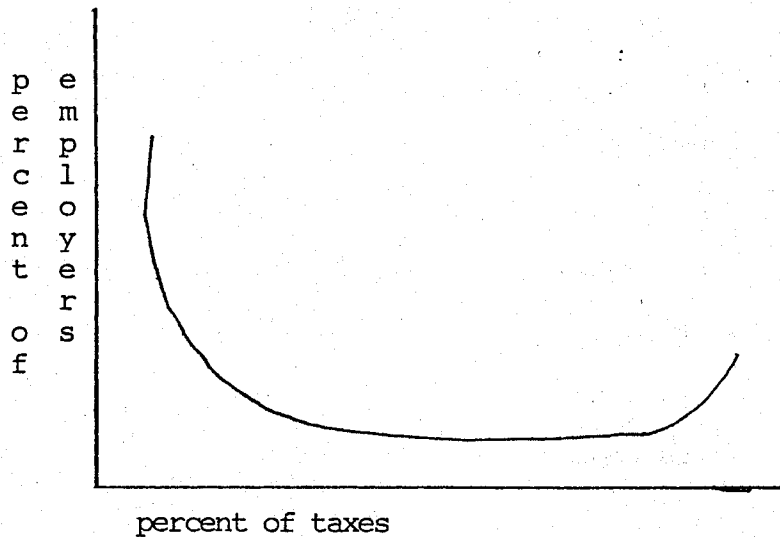


TABLE 2

DISTRIBUTION OF TAX RATES FOR VIRGINIA MANUFACTURERS FOR 1979

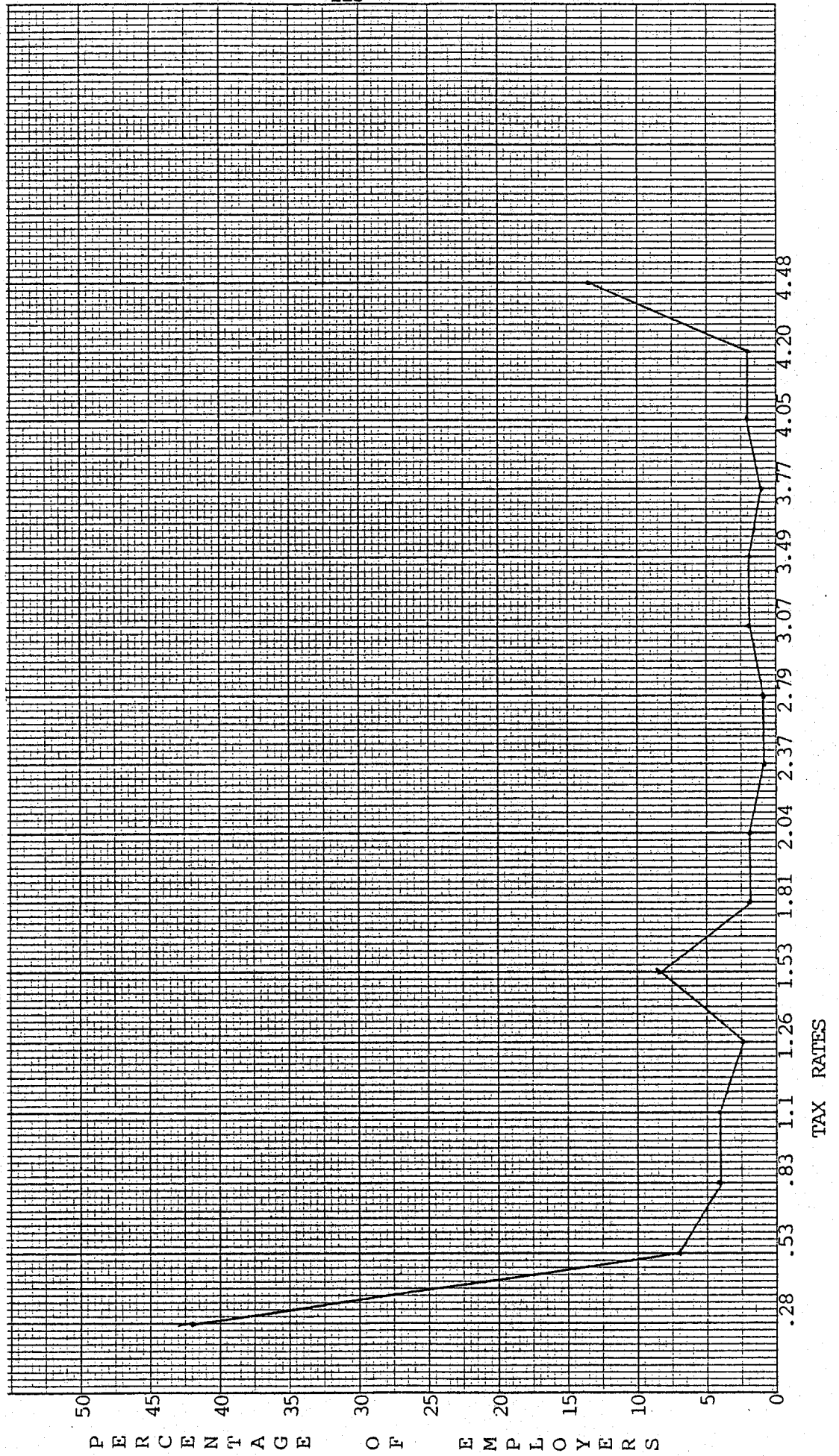
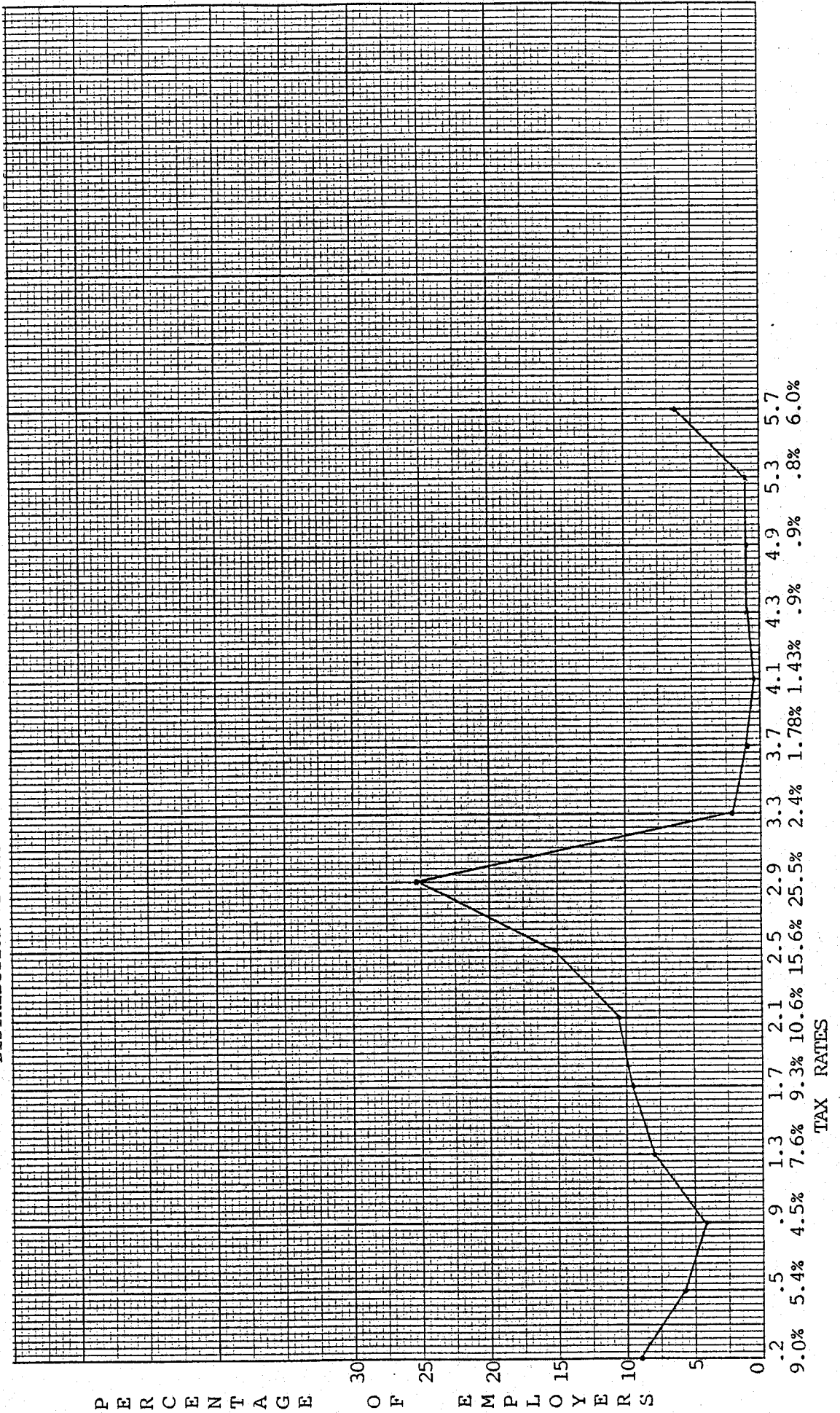


TABLE 3
 DISTRIBUTION OF TAX RATES FOR NORTH CAROLINA MANUFACTURERS FOR 1979



experience rates 82% of its benefits, while North Carolina experience rates 45% of its benefits.¹³ (See Table 8, page 156 for information on all states.)

This is not a particularly new discovery. Discussions of the propensity of reserve ratio systems to tax low experience employers is covered by Meyers, Retailers Task Force, and Haber and Murray.¹⁴ Additional work is being done to more formally test the differences between the systems in terms of their effectiveness in relating taxes to unemployment experience.

Experience Rating Period

The period over which to spread the benefit charges impacts the Fund and the individual employer. The shorter the time period, the more quickly the employer is impacted by the tax increase and the payback for a recession would be immediate. A long period, such as the present three years or a four year period, spreads the impact on an employer and allows him to recover from the effects of a recession before he is required to completely repay.

The impact on the Fund is the opposite. If the impact on employers is spread over a longer period, the Fund is not rebuilt as quickly. This would imply a larger fund when the period is extended. For any maximum tax rate, however, the longer the period, the more likely the system is to recover charges.

There are two sets of alternatives and recommendations that are part of experience rating; the type of system and tax schedule, and the period of time used to calculate tax rates.

¹³Charles Little, "Socialized Costs and Fund Adequacy," The Bulletin, (Washington, D.C.: UBA, February 3, 1981), p. 1.

¹⁴Meyers, "Experience Rating," pp. 341-43, Haber and Murray, Unemployment Insurance, p. 350; and Retailers Task Force on State Unemployment Compensation, Unemployment Compensation State Objectives Technical Material (American Retail Federation, 1980), pp. E5-E8.

Experience Rating System

Objective: To provide the greatest possible incentive for individual employers to keep charges low and to make the Trust Fund building and maintenance the responsibility of those who use the system.

- Alternatives:**
1. Utilize an experience rating system which has a small range of rates with a low maximum and low minimum, a low flat tax system without recovery ability.
 2. Utilize an experience rating system which has a small range of rates with a high maximum and a high minimum, a high flat tax system with high recovery ability but little incentive.
 3. Utilize an experience rating system with a wide range of rates with low minimum and high maximum, a variable tax which allows recovery and provides incentives.

Study Recommendation: To utilize a benefit ratio tax table with a Fund Adequacy factor incorporated to respond to an inadequate Fund Balance. (See Pages 20 through 27.)

Experience Rating Period

Objective: To spread costs to employers over as long a period as possible to reduce impact of cycles and to collect from employers those amounts paid out in claims.

- Alternatives:**
1. Leave the period at three years.
 2. Extend the period to more than three years, such as four or five years.
 3. Reduce the period to less than three years.

Study Recommendation: That the present 36 month period for experience rating be extended to 48 months.

CHAPTER VII

TRUST FUNDS: THEIR IMPORTANCE AND LEVEL OF ADEQUACY

Introduction

In the previous chapter, discussions of insurance principles indicate the necessity for a trust fund or reserve pool for either a private insurance system or for a so called social insurance system, although for different reasons. For private insurance, a fund consists of the pre-collected premiums to pay the predictable risk for the group for the time period in question. A Trust Fund is needed for an unemployment compensation system because of the lack of synchronization in and the cyclical nature of contributions and benefits where contributions are a repayment after the fact.

The lack of synchronization of contributions and benefit payments give the Trust Fund a cyclic nature which has both a short term weekly and monthly aspect and a longer period yearly or business cycle aspect. Over a long enough period of time we would expect the contributions and benefits to approach equality.

In its short term aspect, the Trust Fund can be viewed as a business or personal checking account. In this context, the amount in the Fund would be just enough to avoid the embarrassment of insolvency from month to month. Since funds held in such a manner have opportunity costs, we would expect short term funds to be at a minimum.

The long term aspect of the Trust Fund is similar to that of a savings account that an individual would develop as protection against

uncertainty and future loss of income. A fund is built in "good" times to provide for payments during "bad" times. The period of time over which this aspect of the Fund is influenced is multiple year periods.

Just as there are opportunity costs to holding short term funds, there are costs to holding long term funds. An analogy is that in business or personal life, the question of how much to keep in a checking and savings account has to be answered. With the event of interest checking the division between the two is no longer valid and the question is simply, how much does one keep in an account. Essentially the same question must be answered for the Unemployment Compensation Trust Fund. Whatever money is kept in the Fund means that those paying into the Fund bear the implicit cost of foregone interest. Balanced against this cost is the embarrassment (political cost) and other administrative costs of insolvency.

The problem of balancing the costs of the Fund against the benefits of solvency (the avoided costs of insolvency) is complicated by the uncertainty of contributions and benefit payments. These uncertainties manifest themselves in the practical problem of estimating future contributions and benefit payments. These issues, and others basic to the Trust Fund, will be discussed in the following order:

- (1) Cost of becoming insolvent
- (2) Cost of the Fund to the employer contributor
- (3) Interest on the Fund account
- (4) Contributions and benefits - a statistical history
- (5) Fund adequacy - rules and standards

Cost of Becoming Insolvent

Pragmatically speaking, a state trust fund can technically be insolvent while the system is still paying benefits because the Federal

Government provides interest free loans to states whose trust funds are exhausted. This means that from a fiscal point of view insolvency is virtually costless, at least for a short period of time. After three years, employers in the borrowing state lose three-tenths of one percent of their FUTA tax credit at the Federal level. This means that each employer's Federal Unemployment Tax increases at three-tenths percentage points per year until the loan is repaid or the 2.7 percent credit is exhausted. From a broader perspective even short run insolvency is not costless as all of those involved bear "psychic" non-monetized costs. Both the Employment Commission and the Legislature would lose credibility with the citizen-taxpayer due to his perceptions (perhaps incorrect) of mismanagement by the Commission and negligence in guidance and legislation of tax laws by the Legislature. Employers, employees, and taxpayers would become concerned over loss of anticipated (and paid for) benefits. A rational citizen-taxpayer would also have to question the worthiness of bearing the administrative costs of the unemployment insurance system.

Long-term insolvency includes all the costs of short-term insolvency, but entails additional costs and problems. Over twenty states have borrowed from the Federal Government short-term or long-term to one degree or another. The State of Pennsylvania has been a large and continuous borrower. The costs and problems of long-term insolvency are well illustrated by the following excerpt from a report on the Pennsylvania situation:

Pennsylvania currently owes the Federal Unemployment Trust Fund \$1,222,300,000 (as of December 31, 1979). That staggering debt has accumulated since 1975 as the Commonwealth borrowed each year to meet the costs of high unemployment for its citizens under the state's unemployment compensation system.

The debt, however, reflects a more basic and long-term fiscal problem. Since 1970, the state's Unemployment Compensation Fund has had only one positive

cash-flow year, that occurred in 1973, but even then the extra income exceeded total benefit costs by less than \$4 million.

The system's financial structure is such that it threatens to deteriorate further, despite the fact that the debt repayment procedures required by the federal government started to burden the state's economy with additional federal taxes in January of 1980.

The crisis in the Commonwealth's Unemployment Compensation Fund started in 1970 when a persistent pattern of imbalance began. The shortfall between annual contribution and obligation levels was \$54.1 million that year. In each year since, the disparity has continued, resulting in a depletion of reserves built up in the 1960's and eventually in borrowing from the federal government to finance fund obligations.

Considering insolvency as the point at which the fund's contributions and reserves were no longer sufficient to meet obligations, the fund became insolvent in 1975, a year of record demand for unemployment benefits. A federal advance of \$173.8 million was necessary in 1975 to meet the Commonwealth's share of obligations, which were \$1.03 billion. Additional borrowing has been necessary each year since. Federal advances were not necessary earlier only because the fund reserve had reached its high point of \$853.8 million by the end of 1969.

Despite the critical nature of the fund imbalance, adequate measures were not taken during the 1970's to insure that legislated contribution and benefit levels would match, or that sufficient reserves were provided to meet unexpected demands upon the fund.¹

To place Pennsylvania's situation in perspective, consider the following: Pennsylvania's debt was a little over 2.5 percent of their total wages in 1978. Using the 1.5 adequacy rule, their reserve balance should have been roughly 4.5 percent of their total wages. The spread from debt to adequacy was over 7 percent of their total wages. In dollars, this converts to \$3,250,000,000 needed to return their fund to adequacy. If one assumes a ten year period to reach adequacy and repay the debt,

¹Pennsylvania Department of Labor and Industry, Background: Pennsylvania's Unemployment Compensation Crisis (March 27, 1985). pp. 1-2.

and that benefits remain at the 1978 level, it would require a tax rate of 5 percent on average to pay benefits and reach adequacy. This compares with Virginia with a 100 percent surtax having an average rate of 1.9 percent, the national rate of 2.77 percent and the highest state average rate of Alaska of 4.77 percent.²

For Virginia, insolvency short run or long run could involve costs that other states have not heretofore had to face. Because of the indebtedness of many states, and their seeming reluctance to restore their systems to solvency, there is discussion at the Federal level of requiring interest on the loans and requiring a system that generates taxes in sufficient amounts to maintain long run solvency. Furthermore, borrowing cannot lower costs to employers. If benefits are paid out, employers will ultimately be taxed unless funds were to come from general taxes. The ability of the Federal Government to reduce FUTA tax credits guarantees ultimate payment. Borrowing with lower taxes tends to distort short run decisions by employers in terms of lay-offs, etc., since the payback is so long in the future. It can also tend to create a cavalier attitude toward unemployment insurance legislation on benefits and fund administration. In summary, there is little to recommend insolvency and borrowing and much to be said against it, especially in the long run.

Although the borrowing issue is not germane to Virginia at the moment, and there is every reason to be optimistic that Virginia will not have to resort to borrowing, there are some aspects of the borrowing activity that are of concern to Virginia. The existence of a Federal-State system where the states control most aspects of benefits and contributions is being threatened by the activity of borrowing states. "Currently 16 states owe

²Numbers to generate these figures can be found in the U.S. Department of Labor, Handbook of Unemployment Insurance Financial Data (1938-1978).

\$5.3 billion."³ In discussions with the three participating parties in some heavily borrowing states, the Employment Security Administrators, employer groups, and unions, there is no indication that any of these feel that there are incentives to really change their systems. In states heavily in debt, union officials are pushing for higher benefits, relaxed eligibility requirements and other cost increasing provisions. Employers are vigorously protesting tax increases and rightly have calculated that even losing all of their FUTA credit is far less costly than imposing taxes such as Virginias' with its present 9 percent maximum. The attitude is that the systems will be Federalized and that will solve their problem. For Virginia and many other states who have taken a conservative approach to the system, this will mean a large flow of funds from employers to pay benefits in states with a relatively cavalier attitude toward the whole matter. It is not in the interest of Virginia or many other solvent states to allow the system to become a large redistribution system from prudent states to imprudent states.

There is a relatively simple solution to this problem. Since the propensity of states is to go into debt and not only stay in debt, but to continue to increase the debt, consider the following. First, forgive all existing debt and wipe the slate clean. Any further borrowing, however, would be done under the following rules: (1) the credit offset of FUTA would be lowered by .5 percentage points per year effective the first year, (2) benefit payments could not be increased in any manner so long as the system was in debt, and (3) the FUTA credit offset would not go to repay the debt after the third year of debt. The state would have to repay the debt from its own collections. While this may seem unduly harsh, it is apparent that

³Charles Little, "Socialized Costs and Fund Solvency," The Bulletin (Washington, D.C.: February 3, 1981), p. 1.

many states have taken advantage of the present system which was set up to tide them over short periods of insolvency. Only a system with strong incentives will push states into keeping their own systems in fiscal order.

Cost of the Trust Fund

Trust Fund costs have many aspects and can be looked at from the point of view of employers, employees, and society as a whole.

The employer is the actual payer of the contributions. What portion of the unemployment compensation tax is borne by employers and the portion borne by employees has long been debated.⁴ This question aside, the cost of the fund remains the same. From a pure political aspect, employers write the checks and the fact that the working of the market may result in wages lower than what would have been is not likely to be grasped by employers or employees. Costs that are borne in the form of what a person would have had are relatively insignificant politically when compared with costs that reduce the balance in one's checking account. Thus, employers argue that a large trust fund represents a high opportunity cost to them. Employers pay market rates of interest for their borrowed funds. They see an alternative use for these funds such as a reduction in net indebtedness or the ability to expand capital expenditures.

⁴Richard Lester states that, ". . . only a fraction of the unemployment compensation tax would seem to be potentially shiftable." [Richard A. Lester, The Economics of Unemployment Compensation (Princeton: Industrial Relations Section, Princeton University, 1962), p. 65.] For other discussions of the shifting argument see, Alvin H. Hansen, Merrill G. Murray, Russell A. Stevenson, and Bryce M. Stewart, A Program for Unemployment Insurance and Relief (Minneapolis: University of Minnesota Press, 1934), pp. 46-51.

When market rates are above the interest rate paid by the Federal Government on the Trust Fund (See pages 127 through 129), contributors to the Trust Fund, employer and/or employee, bear a cost equal to the difference between the market borrowing rate and the Federal interest rate times the Fund. In the unlikely event that the Federal rate is above the market rate, employers and/or employees gain.

Yet there may be costs to small trust fund balances. Without an adequate Trust Fund balance, it may become necessary to raise tax rates quickly when a recession hits. Employers experience tax increases at a most unfavorable time and tax increases greater than at favorable times. Since employers collectively pay on a smaller base during a recession, tax rates have to be even higher than in non-recession times to generate the same amount of money, thus, aggravating the situation. Society bears the costs of low trust fund balances in that tax increases are procyclical and increase the severity of the recession. Conversely, tax rate decreases during an expansionary or boom period increase the boom. A further cost to society is the cost of cross subsidization that occurs when tax rates are increased in recession due to low fund balances and decreased in the boom. Many employers go out of business as recessions begin and deepen. Businesses open as the economy expands and booms. With procyclical tax rate patterns, the successful surviving firm pays the cost of any unemployment it generates plus some portion (perhaps nearly all) of the cost of the unemployment of the unsuccessful. The successful are punished and the unsuccessful subsidized, distorting entrepreneurial incentives.

Interest on the Trust Fund

Since idle Trust Fund monies represent a cost to employers and/or employees, these funds have been invested in interest earning assets since the inception of Federal legislation. A particularly disturbing problem exists, however, in that the interest rate paid by the United States Treasury is far less than could be earned by the state. For example, the rate paid to Virginia for the three quarter period June 1979 - March 1980 was 7.36%. For the same period, the State of Virginia earned 11.53% on its funds. The spread is 4.17% for the period. If one applies that rate difference against the present average trust fund balance, roughly \$100 million, it results in \$4,170,000 foregone revenue. The loss increases as Trust Fund balances increase. If Virginia had a fund balance of \$500 million the difference would be \$21 million. This represents approximately 15% of the unemployment insurance taxes that will be collected in 1980.

The problem of the unreasonably low interest rate on the Trust Fund has not gone unnoticed. In a report to Congress, Need For A Uniform Method For Paying Interest On Government Trust Funds, by the U. S. General Accounting Office, the Treasury was criticized for its handling of Unemployment Insurance and other Trust Funds. Some of the report's conclusions are:

In recent years the existing system for paying interest on trust fund investments has not been equitable to the trust funds and the appropriation for interest on the public debt. GAO's review showed that:

--Treasury borrowed from the trust funds at June 30, 1970, 1971, 1972, 1973, and 1974 by issuing special issues which, in nearly all instances, bore lower interest rates than the estimated rates which Treasury would have had to pay if it had issued marketable securities with comparable maturities on the same dates.

- There were differences in the interest earnings of various trust funds because the special issues acquired by some trust funds bore higher interest rates than the special issues with the same maturity acquired on the same date by other trust funds.
- The maturities assigned by Treasury do not affect the interest rates assigned to the special issues. However, the maturities can substantially affect trust fund earnings because maturities often determine how long trust funds' investments are "locked into" the interest rates originally assigned to those issues.
- Special issues are redeemed at par when redeemed before maturity. This practice distorts the interest earnings of trust funds compared with the amounts trust funds would have earned if redemptions had been made in the open market.
- There are wide variations in the percentages of the various trust funds invested in open-market Government obligations and agency obligations which earn higher interest rates than special issues.
- Some trust funds are charged a fee for a guaranteed minimum rate of return on special issues whereas the special issues sold to other trust funds are guaranteed a minimum rate of return without any fee.

A more equitable system would be to pay interest to each fund at stated intervals on average balances at rates determined by the Secretary of the Treasury, considering the market yields of Treasury securities.⁵

The GAO report and the differences in earnings in 1979 demonstrate the desirability of receiving higher earnings on the Trust Fund. One solution is to pressure Congress into creating an investment mechanism which would serve the Fund and not the Treasury, thus increasing yields. Another is to allow each state to invest its own money. Again Congress could be pressured to do this. An alternative would be to attempt to create a separate fund for unemployment at the state level and leave only small amounts in the traditional trust fund. Preliminary investigations

⁵General Accounting Office, Need For A Uniform Method For Paying Interest On Government Trust Funds (Washington, D.C.: 1975), pp. i-ii.

indicate that this is not feasible in that such a diversion would not go unnoticed by the Federal Government and would likely be blocked.

Since interest can be a significant percentage of contributions in any one year, the potential amount to be earned is of great importance to a system. Likewise is the importance of how to account for the interest. It can be merely added to the fund balance as Virginia presently does, credited to individual reserve accounts as in North Carolina, or credited against specific costs such as pool costs.

Contributions and Recipient Benefits: A Statistical History

It is appropriate generally and is absolutely necessary for the remaining issues addressed to examine the historical past statistically. While it is helpful to have a statistical or numerical overview of systems under study, too deep a statistical view creates information overload. Keeping with a desire to be brief, only gross payments and contributions will be examined on a yearly basis for the history of the system. Because there has been substantial inflation since 1938 (particularly recently) it is not useful to look at absolute dollar amounts of payments and contributions. We can adjust for inflation by dividing benefits and contributions by total wages. Multiplying the resultant benefit or contribution ratio by 100 gives a percentage index for both sides of the unemployment insurance system. For use in future reference, the resulting numbers appear in Table 4. No single number or pairs of numbers are in or of themselves useful. However, time trends in the percentage ratio are important and trends can be more easily seen graphically. Figure 4 presents a plot of the benefit and contribution ratios to total wages. Figure 4 also includes historical information of a legal, institutional,

TABLE 4

RATIOS OF CONTRIBUTIONS AND BENEFITS TO
TOTAL WAGES FOR TAXABLE EMPLOYERS

<u>Year</u>	<u>Contributions</u>	<u>Benefits</u>	<u>Total Wages</u>	<u>Contributions/ Wages</u>	<u>Benefits/ Wages</u>
1938	\$ 8,294	\$ 5,636	\$ 296,477	2.80	1.9 %
1939	10,099	4,488	345,040	2.93	1.3 %
1940	9,965	5,863	397,430	2.51	1.5 %
1941	9,998	2,964	590,875	1.69	.5 %
1942	11,585	2,732	796,737	1.45	.3 %
1943	11,061	864	802,127	1.38	.1 %
1944	9,314	323	787,431	1.18	.04%
1945	8,585	1,127	794,412	1.08	.1 %
1946	8,882	5,610	904,821	.98	.62%
1947	11,345	4,160	1,083,824	1.05	.4 %
1948	8,255	5,029	1,212,759	.68	.4 %
1949	7,783	14,025	1,202,232	.65	1.16%
1950	10,201	10,573	1,318,004	.77	.8 %
1951	12,700	5,901	1,525,813	.83	.4 %
1952	8,994	7,041	1,670,866	.54	.4 %
1953	8,570	8,203	1,773,060	.48	.5 %
1954	6,171	16,697	1,756,868	.35	.95%
1955	7,407	9,824	1,910,938	.39	.51%
1956	10,215	8,678	2,205,650	.46	.44%
1957	10,215	12,038	2,388,003	.43	.50%
1958	7,815	23,491	2,418,929	.32	.97%
1959	19,843	16,167	2,659,931	.75	.61%
1960	18,548	16,716	2,794,417	.66	.60%
1961	21,695	21,463	2,912,644	.74	.74%
1962	26,806	14,486	3,189,213	.84	.45%
1963	27,341	14,337	3,430,035	.80	.42%
1964	22,224	13,208	3,756,595	.59	.35%
1965	19,864	10,102	4,105,481	.48	.24%
1966	18,891	7,402	4,462,888	.42	.17%
1967	16,659	9,814	4,754,179	.35	.21%
1968	15,501	8,424	5,336,549	.29	.16%
1969	14,207	9,077	5,903,893	.24	.15%
1970	11,743	16,911	6,372,081	.18	.26%
1971	12,052	23,587	6,953,231	.17	.34%
1972	18,686	16,819	8,238,784	.23	.20%
1973	22,728	17,032	9,632,077	.24	.18%
1974	18,364	32,570	10,704,009	.17	.30%
1975	15,202	138,187	11,246,834	.14	1.23%
1976	59,137	88,724	12,623,347	.47	.70%
1977	91,813	91,480	14,093,632	.65	.65%
1978	92,870	90,998	16,412,456	.57	.55%
1979	95,825	97,299	18,539,705	.52	.52%
1980	116,989	166,162	20,333,564*	.57	.82%

*Estimate

FIGURE 4

PLOT OF RATIOS OF CONTRIBUTIONS AND BENEFITS TO TOTAL WAGES, 1938 - 1979

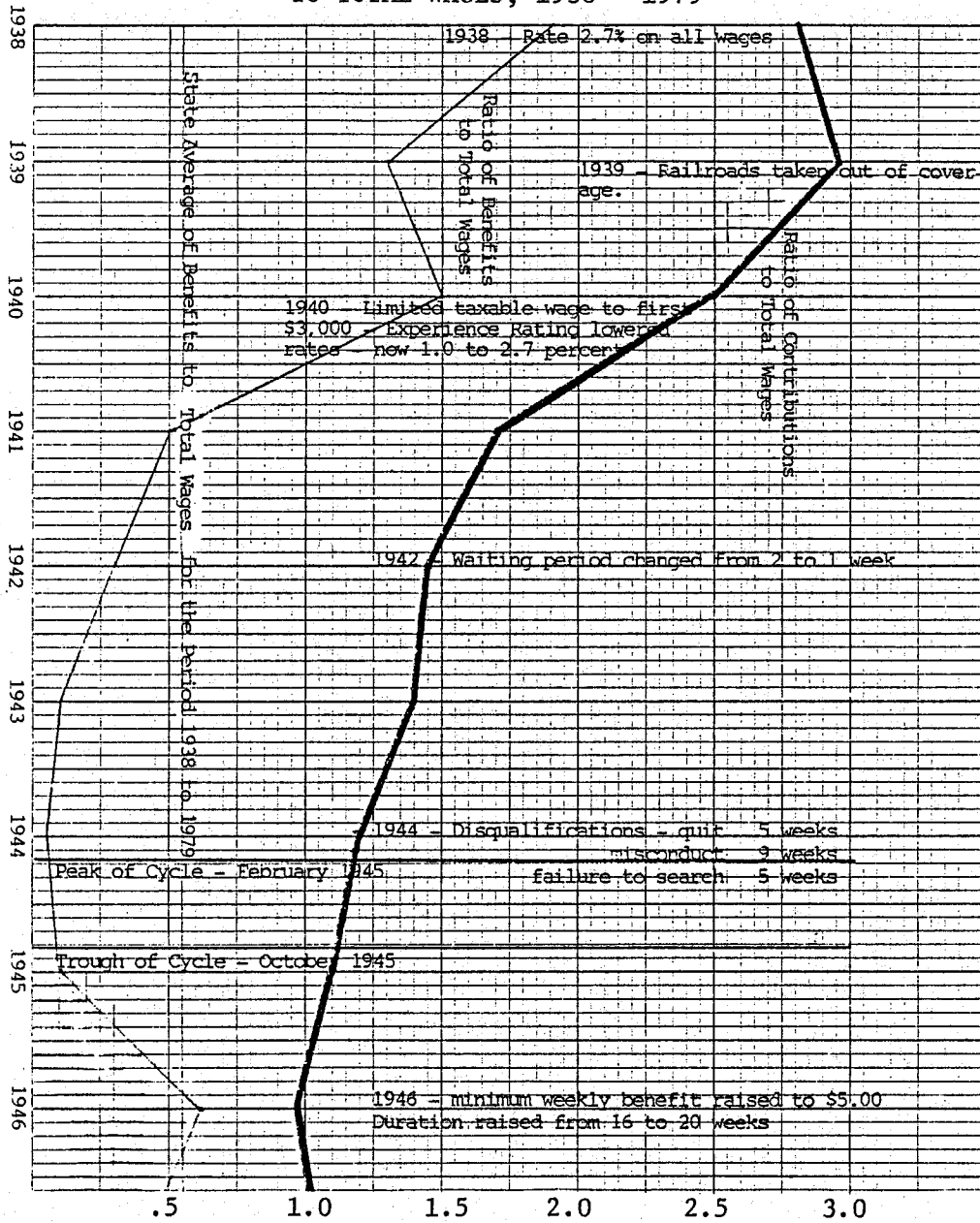


FIGURE 4 - Continued

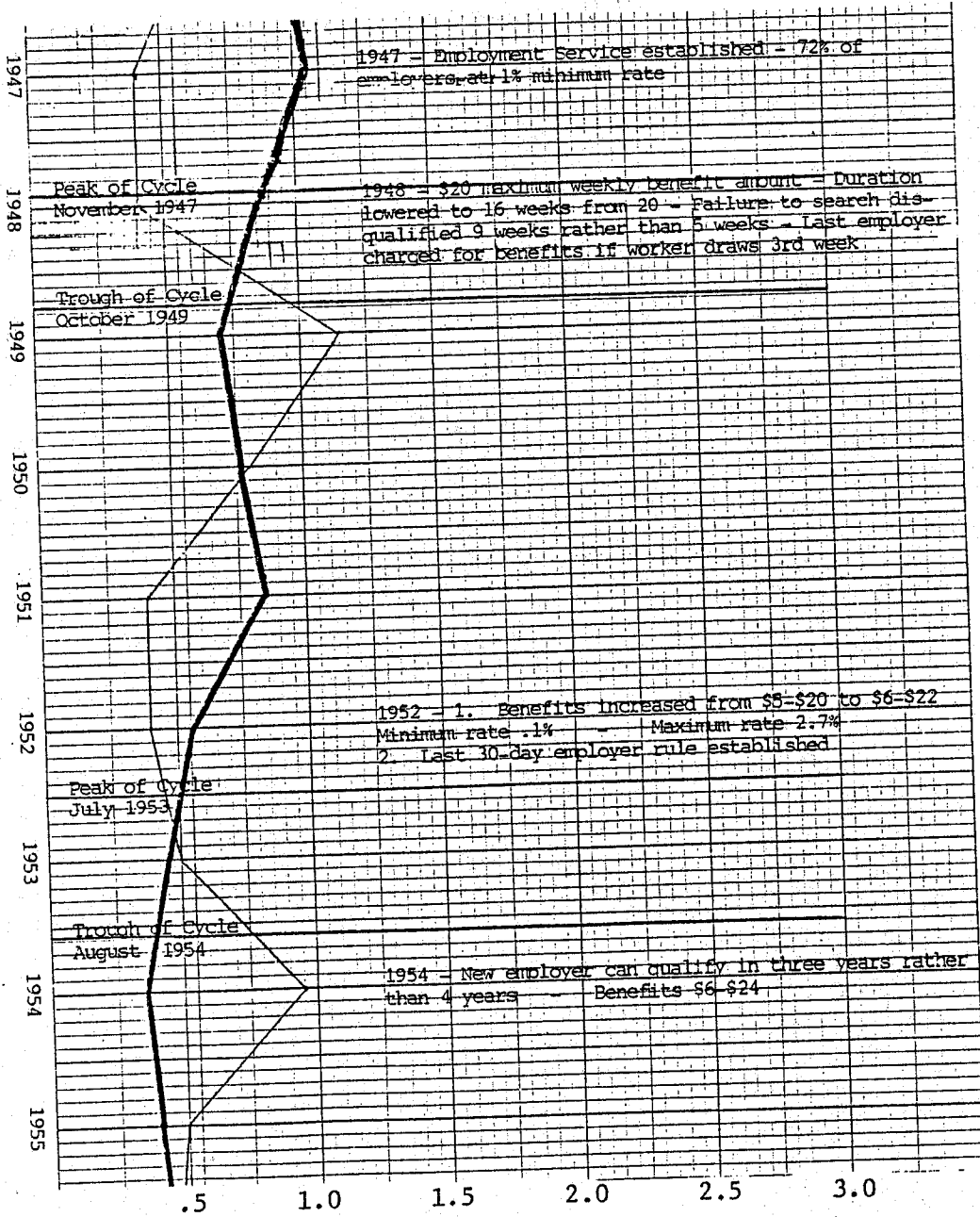


FIGURE 4 - Continued

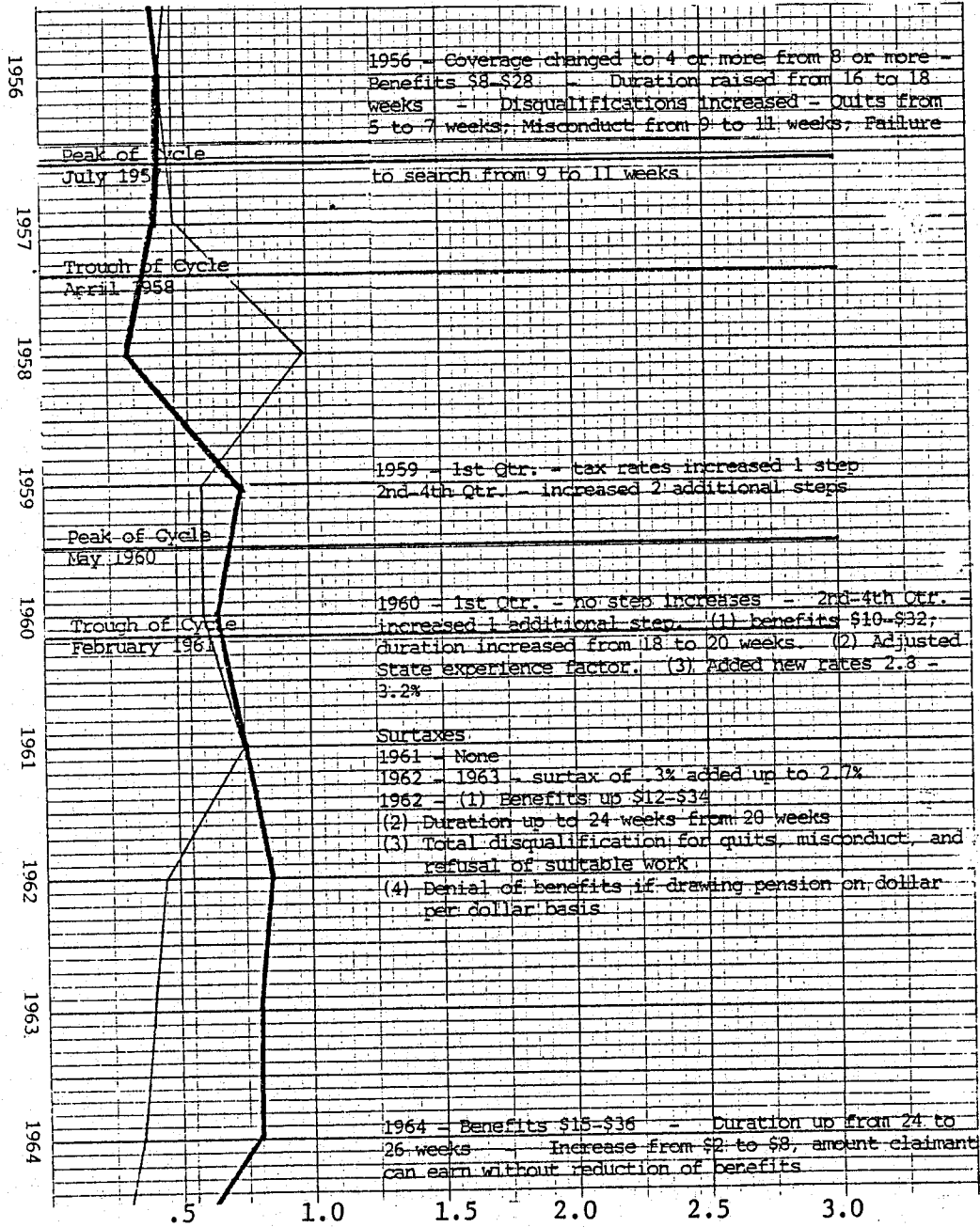
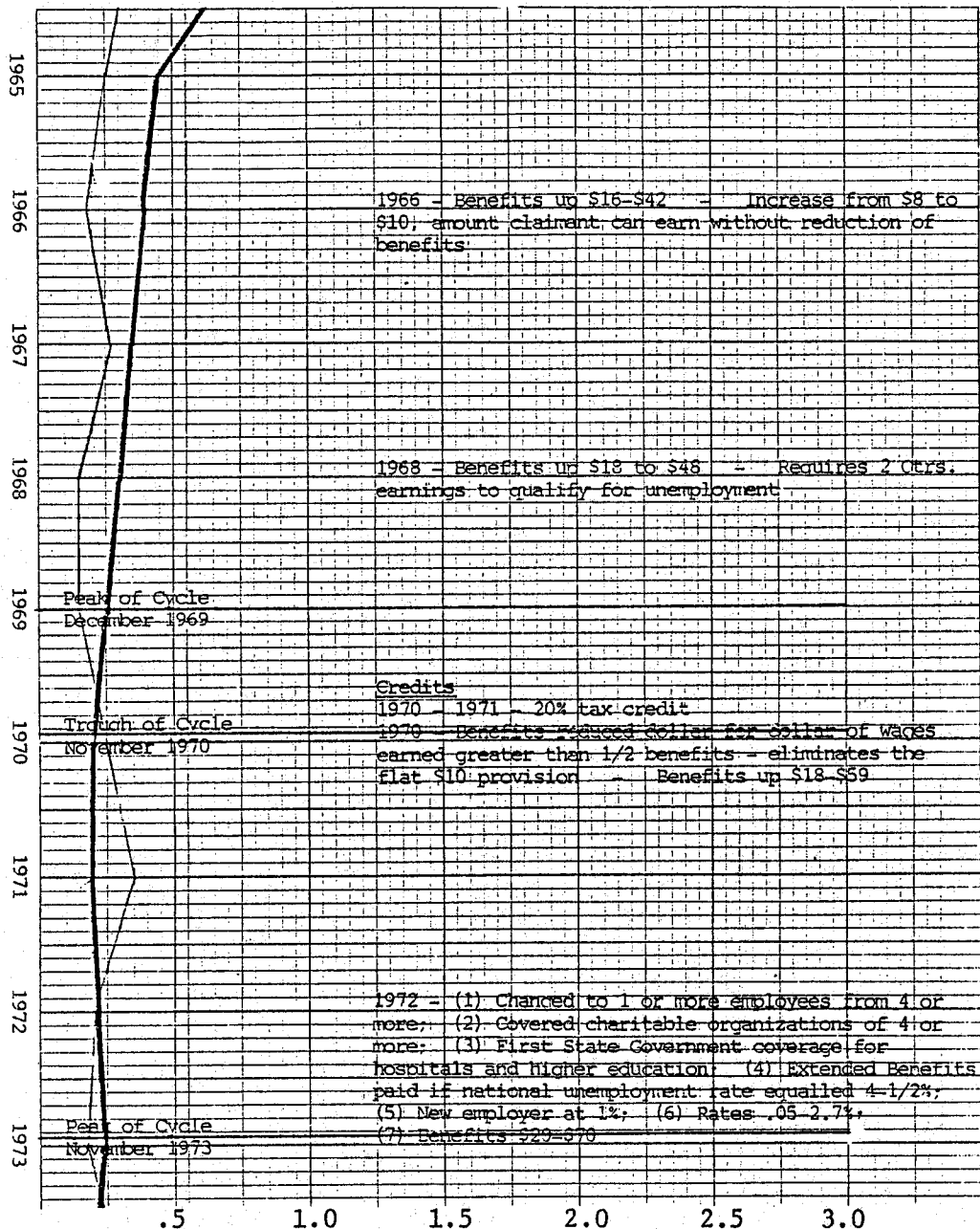


FIGURE 4 - Continued



and economic nature that provides further perspective.

A few simple trends are apparent in Figure 4. Generally, in a very long run time frame the benefit ratio and contribution ratio have moved together and towards the average benefit ratio (the average benefit ratio is the straight line at .55). A general trend is the dominance of the benefit ratio over the contribution ratio during or subsequent to recessions. Note, however, the degree of the dominance is not uniform and there are some anomalies in the graph. First, there exists a large dominance of the contribution ratio over the benefit ratio in the period to 1946. This is most likely attributable to inexperience and insecurity in starting the system, coupled with the full employment of World War II. Note also the Vietnam War period where both ratio's were below the long term average percentage of benefits.

Figure 4 along with Table 4 also provides a vehicle for discussing the currently popular concept of under collection. Under collection is defined as a situation where contributions are less than benefits during the recovery period after a recession. No trust fund can historically survive continual under collection. The answer to the question, "Has Virginia been guilty of under collection?" would have to be yes. Virginia had benefits that exceeded contributions from 1974 through 1977 and only broke even in 1978. Between 1977 and 1979, a period of recovery, benefits were \$280,508,000 while collections were \$279,777,000. During a period of recovery Virginia's Trust Fund declined if one ignores interest. Nineteen eighty shows an even larger negative difference between contributions and revenues (\$166,162,000.00 benefits vs. \$116,989,000.00 contributions).

Finally, it should be pointed out that Virginia's ratios are much better than the national average. Nationally, the benefit ratio for 1978

was .93 while Virginia's was .56. The national average from 1938 to 1976 was 1.10⁶ while Virginia's average was .55.⁷ Whether Virginia will perform better than the national average in the future is in doubt. Since 1975, Virginia's benefit ratio has remained above Virginia's historical level and has not reacted as it has after previous recessions or as it has nationally or in most other southeast states.

In Part III of this report, Drs. Ann Schwarz-Miller and Gary Durden summarized their investigation of this increase as follows:

The main finding of this study is that the marked rise in Virginia's ratio of benefits to payrolls is primarily a result of slowing growth in economic activity and employment levels over the past half decade which manifests itself in higher numbers of claimants, long unemployment periods, and slower real payroll growth. To some extent the problem may have been exacerbated by certain features of the system such as the higher de facto replacement rate and longer potential payment period. This worsening in Virginia is not merely a reflection of overall national trends, however. There is strong evidence that a good part of the rise in the ratio may be attributed to Virginia's failure to maintain its outstanding growth record of the past. While Virginia continues to rank above the national average in growth, its performance has worsened decidedly relative to the rest of the United States. If steps are not taken to reestablish the previous pattern, we can expect the long-run benefit-payroll ratio to remain above past levels. One other method of reducing this ratio would be to restructure the benefit table so as to require more work attachment in order to draw benefits.

⁶Donald Diefenbach, Financing America's Unemployment Compensation Program (Washington, D.C.: U. S. Department of Labor), p. 23.

⁷Department of Labor, Handbook.

Fund Adequacy: Rules and Standards

Since a trust fund is necessary for an unemployment compensation system in order to meet the timing problems of benefits and contributions, the size of that trust fund becomes an important question. It must be adequate, but not excessive.

Virginia currently has a fund adequacy standard. The adequacy standard in Virginia is a rule which is meant to deal with what is viewed as an emergency situation. Failure to meet the standard initiates a surcharge. Section 60.1-85 of the Code of Virginia states that the fund balance must be at three and one-half percent of taxable payrolls. Otherwise a 40 percent across the board tax surcharge must be applied. For the tax period 1981 an amendment was added which provided for a 100 percent surcharge to replace the 40 percent surcharge if the fund balance fell below \$75 million. The balance did fall below that amount and the effective tax rate for Virginia employers in 1981 is twice the stated rate in the tax table under §60.1-84 of the Code of Virginia.

For 1979, Virginia should have had a fund balance of \$258 million under its current rule of adequacy. Virginia's adequacy rule is somewhat lacking due to its reliance on taxable wages. Potential liability to the fund is more directly related to total wages rather than taxable wages. The spread between taxable and total wages increases each year unless taxable wages are adjusted yearly.

Rules other than Virginia's type of adequacy standard have been suggested and tried in other states.⁸ The most widely accepted rule for determining adequate fund balances stems from a ratio of benefits to

⁸Harvey M. Wagner, "A Reappraisal of Experience Rating," The Southern Economic Journal (April, 1959), p. 466.

total wages. This rule is known as the high cost multiple. While it has not been officially adopted as policy by the Federal Government, its use has been informally promoted as a guideline.⁹

This guideline was originally derived from the observation that post World War II recessions approximated 18 months. If states were able to accumulate 18 months of recessionary level reserves prior to an economic downturn, the funds on hand would be able to cover most of the cost of a similar future recession; incoming funds during the recessionary period could be utilized as the base upon which to rebuild an adequate fund for the future.¹⁰

An interpretation of this rule is that a state should hold trust reserves equal to 1.5 times its worst twelve month benefit payout experience, a fund sufficient to pay 18 months of the worst experience. The worst twelve month experience for most states occurred in 1975-1976. In its interpretation, the high cost multiple is known as the 1.5 rule.

It is interesting to look at the 1.5 rule relative to Virginia in recent years. In Virginia the 1975 high cost multiple was 1.31 percent of total wages.¹¹ Following the 1.5 rule, Virginia should currently have a reserve of 1.5×1.31 percent or 1.97 percent of total wages. For 1980 total wages were \$20 billion and the 1.5 rule would indicate a reserve level of \$400,000,000. For 1979 reserves should have been 1.97 percent of \$18.5 billion or \$365,000,000. These figures point out one positive aspect of the 1.5 rule. Once a state experiences a higher high cost multiple, use of the 1.5 rule provides increased protection against insolvency, at the cost of high reserve levels of course. Given the above calculations based on the 1.31 high cost multiple it would take extremely unusual unemployment, on the order of 8 percent for Virginia

⁹This ratio is commonly known as the "benefit cost ratio." For this study, however, it will be termed, "benefits to total wages."

¹⁰Diefenbach, Financing America's Unemployment, p. 48.

¹¹Department of Labor, Handbook, Column 22.

and 12 percent nationally, to generate insolvency in Virginia once its fund was adequate.

Baskin and Hite, in a study for the U.S. Department of Labor, found that the 1.5 rule was adequate in all but 8-10 percent of the cases they studied from 1940 through 1975.¹² These cases were limited to a few states which have historically shown higher cyclical swings than the national average.

Though this finding of Baskin and Hite is favorable to the 1.5 rule, the rule has some problems. These problems stem from the fact that the worst payout ratio in the last 25 years does not necessarily change continuously. This can cause radical differences in the reserves and thus, the degree of solvency resulting under the rule at a point in time and across time.

The latter mentioned problem with the 1.5 rule can be better understood through application to Virginia's history. Consider Virginia in 1975. Interpreting the 1.5 rule literally and using the worst high cost multiple in the last 25 years, the .97 high cost multiple of 1958, would have dictated reserves of \$155,743,000. Reserves plus contributions would have been \$230,082,000. Benefits paid in 1975-76 were \$244,752,000. Thus the system would have been \$14,000,000 short under the 1.5 rule. But if the 1949 high cost multiple of 1.16 were used, reserves plus contributions would have been \$160,589,000 (reserves of \$186,250,000) and the system would have had a surplus above benefits of \$16,000,000. These calculations point out that the 1.5 rule depends on the worst high cost multiple in the last twenty-five years and this entity can and has changed

¹²Elha F. Baskin and Gailen L. Hite, Development of Theoretical and Empirical Measures of Unemployment Insurance Adequacy (Stillwater, Oklahoma: College of Business Administration, funded by the Department of Labor, contract no. 99-6-788-04-24, 1977).

values in a non-smooth way. The required reserves under the rule can change dramatically from year to year. Notice also that the insolvency under the rule can vary radically.

Very seldom is any absolute numerical rule without fault. However, the strengths of the 1.5 rule, especially in Virginia's current situation, merit consideration. It is especially more applicable to Virginia since the 1975 recession increased the benefit ratio dramatically and because Virginia has less cyclical swing in unemployment than the nation. The 1.5 rule uses total wages in the calculation and thus adjusts for inflation and growth. Its only drawback is that it is based on an historically relative high (low) point in the system and if there are structural or system changes it will not adjust. On the other hand, any other rule would encounter the same problem. Thus, although not perfect, the 1.5 adequacy rule is optimal.

Employer groups support a three year average calculation of the worst experience to be used in conjunction with the 1.5 rule. The argument is that a three year average is a better indicator of system activity and the fund adequacy standard is less volatile and results in less dramatic tax swings. Most important to employers is that it lowers the required amount to be in the fund and thus there is less implicit interest loss to employers.¹³

The significant factor in Trust Fund adequacy is how to achieve it and maintain it. It is of extreme importance that tax rates adjust to reflect adequacy. If the fund is not adequate, then tax rates should increase. It is a political question as to how the cost of building and maintaining a fund should be allocated.

¹³Retailers Task Force on State Unemployment Compensation, Unemployment Compensation State Objectives Technical Material (Washington, D.C.: American Retail Federation, 1980).

If one accepts experience rating as a goal to be achieved, then the burden should be placed on those employers who utilize the fund and in proportion to the extent they utilize it. Only in defined emergency situations should all employers be called upon to participate in fund building if a system is dedicated to truly experience rating employers. Based on a commitment to experience rating the following recommendation is made.

Objective: To build and maintain a Trust Fund which will prevent borrowing from the Federal Government during economic downturns.

- Alternatives:**
1. A dollar amount for Fund Adequacy which will not change with inflation.
 2. A 1.5 times a three year average of the worst experience rule tied to a trigger to raise taxes; for 1980, \$300 million.
 3. A 1.5 times the worst 12 month period tied to a trigger to raise taxes; for 1980, \$400 million.

Study

Recommendation: To require a Fund Adequacy standard of 1.5 times the highest one year ratio of benefits to total wages as a percentage of the total wages of the year in question; \$400,500,000.00 in 1981.

Objective: To promote the rapid building and constant maintenance of the Trust Fund.

- Alternatives:**
1. Multiplicative charges against experience rated employers based on the Fund adequacy (for example, a 60% adequate fund would result in a 40% increase in tax rates for employers with unemployment experience).
 2. An additive Fund Building Tax placed on all employers triggered by Fund adequacy.
 3. Combinations of alternatives 1 and 2.

Study

Recommendation: Utilize a multiplicative Fund Adequacy factor from 0 to 50% for employers with unemployment experience, plus an emergency additive Fund Building charge for all employers of .3% until the Fund is 50% adequate. (See chapter on Contributions.)

CHAPTER VIII

CONTRIBUTIONS

Introduction

In an unemployment compensation system, the ultimate tax burden will be determined by the system of benefit payments. If long term benefit payments average 2 percent of total wages, then contributions by necessity have to be 2 percent or more of total wages. Benefits will be discussed in Chapter IX, but it is important to realize that all the analysis of tax systems, proposals for distribution of the tax, etc., are all residual decisions to be made after the amount of benefits are determined. Indeed the very nature of an unemployment compensation system, as opposed to an insurance system, is collection after the fact. Whether the collection is from the responsible employer or is from the employer community, it is only after benefits are determined that tax contributions and tax rates are determined.

For this reason, tax systems must be designed to recover a range of benefit payments to reflect the incidence of cyclical economic activity. As noted in Figure 4, the average ratio of benefits to total wages has been .55 percent over time with a high of 1.23 percent in 1975 and a low of .04 percent in 1944. A taxing system in Virginia must therefore be capable of recovering benefits within this range and, for safety's sake, an even larger range. Table 5 shows a comparison of average tax rates in all states for the year 1978 based on total wages.

TABLE 5

AVERAGE TAX RATES FOR 1978
 BASED ON TOTAL WAGES

<u>State</u>	<u>Average Tax Rate</u>	<u>State</u>	<u>Average Tax Rate</u>
United States	1.37	Montana	1.68
Alabama	1.71	Nebraska	.75
Alaska	2.63	Nevada	1.90
Arizona	1.29	New Hampshire	1.17
Arkansas	1.30	New Jersey	1.76
California	1.68	New Mexico	1.03
Colorado	.78	New York	1.52
Connecticut	1.37	North Carolina	1.21
Delaware	1.27	North Dakota	1.17
Dist. of Col.	1.19	Ohio	1.26
Florida	1.54	Oklahoma	1.17
Georgia	1.09	Oregon	2.00
Hawaii	2.43	Pennsylvania	1.51
Idaho	1.63	Puerto Rico	2.96
Illinois	1.41	Rhode Island	1.55
Indiana	.82	South Carolina	1.18
Iowa	1.48	South Dakota	.66
Kansas	1.08	Tennessee	1.13
Kentucky	1.22	Texas	.43
Louisiana	.87	Utah	1.17
Maine	1.87	Vermont	1.82
Maryland	1.58	Virginia	.57
Massachusetts	1.71	Virgin Islands	1.76
Michigan	1.68	Washington	1.94
Minnesota	1.37	West Virginia	1.05
Mississippi	1.54	Wisconsin	1.64
Missouri	1.19	Wyoming	1.02

SOURCE: U. S. Department of Labor, Handbook of Unemployment Insurance Financial Data (1978).

The ingredients of taxing will be covered at length in this Chapter with discussions of (1) pool costs, (2) tax rates, (3) tax base, (4) employee contributions, (5) charging of extended benefits, and (6) Trust Fund building.

In Chapter VI, the concept of experience rating was explored at length. It was shown that many of the ills attributed to experience rating were really the result of inadequate or inappropriate tax schedules. In this Chapter, an attempt will be made to discuss how tax schedules and tax rates may be lacking.

Before exploring the various aspects of contributions, one final point must be made. If there is no attempt to experience rate employers or to distribute the tax based on some social criteria such as size of employer or profitability, etc., then all that need be discussed is a flat tax. That is, discussion is reduced to the question, what should be the average tax rate which shall apply equally to all employers? The answer is relatively simple, equal to or slightly greater than the ratio of benefits to total wages. The negative incentives involved in a flat tax system are sufficient to reject such a proposal and we assume that some degree of experience rating is desired. If there is some experience rating, the issues that follow are important considerations for policy decisions.

Pool Costs

In all unemployment compensation systems some claims cannot, under the law, be charged to a particular employer and, thus, cannot be experience rated. Sometimes referred to as socialized costs, the dollar amount of these claims can exceed 50 percent of all benefits in some states. In the past, many states, including Virginia, have not explicitly

incorporated these costs into their tax schedules. Nationally, concern is being raised over this oversight as indicated by the following.

"Available data indicates that inadequate financing of socialized costs is a major reason for the current financing problems among the states. Unless this is corrected, financial difficulties will continue."¹

Pool costs consist of the following three categories of benefit charges:

- (1) Noncharges - Noncharges occur when the last thirty-day employer criterion is not met, but the claimant is eligible to draw. Other miscellaneous noncharges can also occur.
- (2) Inactives - Employers who go out of business and whose employees are eligible to draw benefits.
- (3) Overdrafts - Employers whose benefit charges exceed the amount of the taxes they pay.

Noncharges

Where it is impossible to legally determine which employer is responsible for a claimant's drawing benefits, there is no equitable way to assign that charge to any employer. In Virginia, the last thirty-day employer is responsible for reimbursing the fund for the cost of the claimant who is drawing benefits. Let us examine a situation where a claim can become part of pool costs. Assume an individual was employed by an employer and left that employer voluntarily to take a job with a second employer. Also assume that the employee left in good faith to take this job because of higher wages, better future, or a similar condition. The second employer found that he/she could no longer keep this employee, and lays this employee off for a legitimate reason

¹Charles Little, "Socialized Costs and Fund Solvency," The Bulletin (Washington, D.C.: UBA, February 3, 1981), p. 1.

(i.e., lack of work or some other acceptable determination) in less than thirty working days. That employee is eligible to draw benefits, but the employer who had previously employed this person would argue that he should not be charged because the employee left him voluntarily. Indeed, that employer has had no hand in the fact that this person is now drawing benefits. The second employer, under law, would not be charged because he had not employed the person for thirty working days.

Since Virginia has a permanent disqualification provision, it does not have the noncharge payment for voluntary quits who are eligible to draw after a few weeks of disqualification. Also, the last thirty-day charge provision, while occasionally working a hardship on individual employers, is more likely to avoid a total or partial noncharge than those systems using base period employer provisions. Virginia, therefore, enjoys a low noncharge incidence with \$5,950,000 in noncharge benefits out of \$100,000,000 of benefits in 1979. While some states have noncharge percentages of 30 to 40 percent,² Virginia had 5.9 percent in 1979.

Inactives

A second cause of pool costs is the employer who goes out of business and would be the chargeable employer for the subsequent claims that are filed. In Virginia's system it is highly unlikely that such a firm would have paid in sufficient funds to offset the charges. In a Reserve Ratio System, it is possible to have in an employer's reserve account an amount sufficient to cover claims after the employer goes out of business. However, in either system a significant amount of claims are charged to the Fund when an employer goes out of business. This

²Little, "Socialized Costs," p. 1.

can be affected by new employer rates and accompanying new employer provisions. If an existing business in Virginia is acquired, the new owner can either keep the existing rate or receive a new employer rate. If the new employer rate is low, it will encourage new employers to take the new employer rate, leaving the system to pick up charges of the previous owner. For 1979, Virginia had a new employer rate of 1 percent and paid benefits chargeable to inactive employers of \$6,739,000 or 6.7 percent of total benefits. This compares with a range of 2 percent to 8 percent nationally.³

Overdrafts

The third cause of pool costs occurs when a system establishes maximum tax rates, and all systems in the U.S. have maximum rates. Maximum rates are discussed in more detail in this Chapter. The rationale behind maximum rates is the recognition that the nature of some industries is seasonal and some employers are more affected by cyclical declines than others. The broad industry categories of Construction and Agriculture, Forestry and Fishing are charged with more in claims than they pay in contributions in Virginia and most other states, as shown in Table 6.

For Virginia, overdrafts were \$6,174,000 in 1979 or 6.1 percent of total benefits. This is with a maximum tax rate in effect of 4.48 percent. For 1980 the maximum rate was 6.3 percent and for 1981 it will be 9 percent. The higher maximum tax rates will lower the percentage of benefits that become overdrafts.

That benefits exceed contributions is caused entirely by the provision of a maximum tax rate. Although, by industry, there is cross-

³Little, "Socialized Costs," p. 3.

TABLE 6

VIRGINIA BENEFIT PAYMENTS AND CONTRIBUTIONS
BY INDUSTRY - FIVE YEAR TOTALS
BENEFITS JAN. 1, 1974 THRU DEC. 31, 1978;
CONTRIBUTIONS JULY 1, 1973 THRU JUNE 30, 1978

Industry	Benefits	Contributions	Fund Loss/Gain	Fund Loss/Gain As A % Of Contributions
Total	\$444,524,109	\$262,620,331	-\$181,903,778	- 69.3
Agri., For., Fish.	5,208,872	1,221,727	- 3,987,145	-326.4
Min., Quar.	15,641,762	4,947,486	- 10,694,276	-216.2
Construction	116,038,241	41,902,828	- 74,135,413	-176.9
Manufacturing	190,393,554	102,886,133	- 87,507,420	- 85.1
Trans., Comm., Util.	18,809,346	13,677,837	- 5,131,509	- 37.5
Trade	48,393,747	50,975,557	+ 2,581,810	+ 5.1
Fin., Ins., Real Estate	8,017,927	10,867,149	+ 2,849,222	+ 26.2
Services	42,020,660	36,115,528	- 5,905,132	- 16.4

industry subsidization, it is not that any single construction employer has worse experience than a retailer, only in aggregate. As Table 7 shows, a large percentage of employers in all industries are at the lowest tax rate, meaning no unemployment experience, and most industries have employers at the top rate. The explicit subsidy comes from having employers with actual rates that exceed the maximum which must be paid by other employers. Once the policy is made that subsidies will be given, the next policy question is how to distribute the cost of the subsidy through taxes.

Pool costs thus are a residual. They are the total of all the benefit charges during the year that cannot be assigned to an employer due to the three reasons discussed above. From that standpoint, pool costs would equal total benefits minus charges against active employers. Operationally, pool costs would equal overdrafts plus noncharges plus inactive accounts. For Virginia, in 1979, pool costs were \$18,868,000 or 18.8 percent of total benefits. This is less than all but two states as can be seen in Table 8.

The most important aspect of pool costs from a fund solvency viewpoint is that they be explicitly calculated each year and collected from employers as a tax over and above experience rating. Only in this manner will the system be guaranteed of recovering from employers the benefits that have been paid. This precludes using a fixed percentage of contributions as an offset to pool costs. A fixed percentage will either over or under charge in most years, as it will not reflect that the base is a declining portion of total wages and that the maximum tax rate is declining in effectiveness. Neither will it reflect that institutional or administrative changes may have increased or decreased

TABLE 7
RANGES OF TAX RATES BY INDUSTRY FOR VIRGINIA, 1979

Range of Rates	Agriculture of Forestry Fisheries	Mining and Construction	Manufacturing	Transportation	Retail and Wholesale Trade	Finance, Insurance, and Real Estate	Service	Government	Total
Lowest to .07	60%	40%	41%	46%	60%	68%	65%	25%	57%
.07 to .56	3%	3%	11%	5%	4%	3%	3%	7%	4%
.56 to 1.12	0%	2%	6%	2%	4%	2%	3%	2%	3%
1.12 to 1.54	22%	21%	19%	22%	16%	15%	18%	61%	18%
1.54 to 2.10	1%	3%	3%	4%	3%	2%	1%	0%	2%
2.10 to 2.52	0%	1%	1%	1%	1%	1%	1%	0%	1%
2.52 to 3.08	1%	2%	2%	3%	1%	1%	1%	0%	1%
3.08 to 3.50	1%	1%	1%	2%	1%	1%	1%	5%	1%
3.50 to 4.34	0%	2%	3%	2%	2%	1%	1%	0%	2%

*Includes new employer rate of 1.4 percent - many government entities came in as new employers during this period.

TABLE 8

PERCENTAGE OF BENEFITS THAT
ARE SOCIALIZED BY STATE

State	Percentage of Benefits	State	Percentage of Benefits
Alabama	19.9%	Missouri	65.9%
Arizona	31.4	Nebraska	62.3
Arkansas	73.3	Nevada	41.0
California	57.3	New Hampshire	65.0
Colorado	61.4%	New Jersey	74.9%
Connecticut	23.2	New Mexico	57.2
Delaware	16.1	New York	73.1
Dist. of Col.	77.3	North Carolina	55.0
Florida	24.4	North Dakota	91.0
Georgia	37.5%	Ohio	63.8%
Hawaii	47.7	Oklahoma	23.7
Idaho	62.3	Oregon	36.3
Illinois	1.0	Pennsylvania	21.1
Indiana	52.6	Rhode Island	30.4
Iowa	64.6%	South Carolina	27.3%
Kansas	40.8	South Dakota	19.2
Kentucky	65.4	Tennessee	36.4
Louisiana	67.3	Texas	47.9
Maine	36.5	Vermont	19.8
Maryland	17.4%	Virginia	18.8%
Massachusetts	71.3	West Virginia	76.6
Michigan	70.3	Wisconsin	52.7
Minnesota	11.3	Wyoming	29.2
Mississippi	40.0		

SOURCE: UBA, Socialized Costs and Fund Solvency, Bulletin
No. 124 V.C.

noncharges. Only a yearly calculation gives all involved a clear picture of how the system is operating and spotlights deficiencies in other parts of the system. This cannot be emphasized too strongly. If this were done in every state, the author is convinced that most other ills would be cured over time, because most inequities and/or inefficiencies cannot stand the spotlight of information over a long period.

Once pool costs are calculated, however, allocating them can take two different forms. One way is to spread them equally over the tax base on the grounds that they are social costs which are to be borne equally by the employer community. Another method is to assign pool costs to experience rates as a percentage increase determined by the percentage pool costs are of total costs. The distributional impact on an employer is significantly different in the two methods. In the first, each employer bears the portion of the tax that his taxable wages are of all taxable wages. In the second, each employer bears the burden of pool costs in relation to his experience rating. The greater the experience rating, the greater relative portion of pool costs that the employer bears, while those with no experience would bear little or no portion of pool costs.

The justification for distributing pool costs as a percentage of experience rating rates is based on the concept that the greater the experience, the greater the impact on pool funds. This situation is true only in the case of noncharges, which in Virginia, constitute about one-third of pool costs. The remaining two-thirds of pool costs, over-drafts and inactives, are much less closely related to employer experience, if at all. Top rates are set as social policy and by the act of setting them, it is explicit that some employers receive subsidies. There

seems little justification for requiring that employers with experience subsidize those over the top while employers with no experience bear no share of the social subsidy. Likewise, an employer with some unemployment experience is not any more likely to become inactive than an employer with no experience.

Virginia does not separate out pool costs to charge either as a percentage of taxable wages or as an explicit percentage of experience rating. However, Virginia's experience rating tax table presently incorporates a factor of 1.3 over a three year period of the amount of benefits charged against the employer. Under present conditions, those at a rate less than 1.5 percent do not pay a sufficient amount to cover experience rating and their share of pool costs, while those above 1.5 percent and under 4.48 percent pay more than experience and pool costs. Only roughly 25 percent of taxable wages fall into this range and Virginia has attempted to fund its system with rates of between 1.5 percent and 3.2 percent against 25 percent of the wages. With applicable taxable wages amounting to \$8 billion, 25 percent would be \$2 billion. Even a 3.1 percent rate against \$2 billion would collect approximately \$60 million, and since the distribution is quite scattered, it would be closer to \$40 million. The top rate would collect approximately another \$30 million and the minimum rate would collect only about \$1 million. New employers would pay \$2 million and those with rates between .07 percent and 1.5 percent would pay in approximately \$25 million. Thus, Virginia's existing tax structure was capable of collecting approximately \$100 million, an insufficient amount to pay benefits and build the Trust Fund. The fact that pool costs were not calculated separately and the bulk of the pool costs were charged to only one-fourth of the wages made for a system which

could not generate sufficient money to recover.

The most equitable manner by which to charge pool costs is to allocate noncharges as a percentage of experience rating and to allocate the remainder as a percentage of taxable wages. The complications that this would make would likely exceed the value of the equity difference between allocating all pool costs across taxable wages and allocating only overdrafts and inactives. In Virginia, allocating pool costs across all employers as an addition to their experience rating rate would mean adding .2 percentage points to their experience rating rate. If the range of experience rating rates were from 0 to 6.5 percent, the effective rates would be from .2 percent to 6.7 percent. Pool cost charges should also be added to new employer rates.

One additional provision could be imposed which would decrease pool cost burdens. Interest collected on the Trust Fund Balance could be applied to pool costs and thus reduce pool costs by that amount. For Virginia, with pool costs of \$18 million in 1979, it would have required an average Trust Fund balance of \$240 million at an 8 percent rate of interest to completely offset pool costs. In order not to jeopardize the Trust Fund when the balance is low, the provision to offset pool costs could be effective only when the Trust Fund exceeded some predetermined level of adequacy such as 50 percent or greater.

Objective: To spread those costs of the system which cannot be charged to a particular employer over all employers.

- Alternatives:
1. Allow the present system to remain where experience rated employers between rates of 1.55 percent and 6.43 percent pay most of the pool costs.
 2. Separate out pool costs and charge them as a percentage of experience rating charges. This will not change the charging from what it is now.

3. Separate out pool costs and allocate them on the basis of taxable wages calculated yearly.
4. Separate out pool costs for noncharges and allocate them by percentage of experience rating charges and separate out the remaining pool costs and charge them on the basis of taxable wages.

Study Recommendation: To calculate pool costs on an annual basis, divide them by the taxable wages for that year and add that percentage to the experience rating rate. After the Trust Fund is fifty percent adequate, interest earned will be deducted from pool costs.

Tax Rates

Some of the most controversial issues in making legislative changes are maximum benefit amounts and tax rates. It is noted in the introduction that tax payments are ultimately determined by benefit payments. The level of payments is some percentage of total wages and that will approximate the average tax rate relative to total wages. Establishing this fact, however, does not answer the sensitive questions of (1) how low should the minimum rate be, (2) how high should the maximum rate be, (3) what should the rate for new employers be, and (4) should there be a Trust Fund building tax? The spread between the maximum and minimum rates is indicative of the degree of experience rating. The more compact the rates, the more cross-employer/cross-industry subsidization that occurs. Tax rates are a function of (a) the degree of subsidy desired, (b) the tax base used, and (c) the amount of unemployment a system experiences. The issue of the tax base is examined in the following section. In this section, the discussion of taxes will concern (1) minimum tax rates, (2) maximum tax rates, (3) new employer tax rates, and (4) Trust Fund building tax rates, predicated on Virginia's existing \$6,000 tax base.

Minimum Tax Rates

Minimum tax rates vary from state to state with a low of zero for some states to 4.3 percent for New York (Table 9). These rates vary with the condition of Trust Funds and of course are subject to legislative change. Table 7 in the Pool Costs section shows that 57 percent of employers were at the minimum rate in Virginia in 1979. These employers represent approximately 25 percent of the taxable wages. High minimum tax rates are an indicator of large cross employer subsidies and a reduced level of experience rating. Low minimum rates indicate the opposite, with some exception.

Zero or very low rates in Reserve Ratio states are achieved by an employer having some percentage of his taxable or total wages in his reserve ratio account. For example, an employer with taxable wages of \$100,000 per year in North Carolina must have a reserve ratio of 5.0 percent or greater in order to achieve the minimum rate of .1 percent for 1979. The formula for determining this ratio is Ratio = balance in account/taxable wages for three fiscal years ending June 31, 1978.

For the employer with \$100,000 yearly taxable wages:

$$5.0\% = \frac{\text{Balance}}{\$300,000}$$

$$\text{Balance} = \$15,000$$

Assuming an interest rate of 7 percent for Trust Fund earnings and a market rate of 12 percent for loans, and that the employer receives credit for the interest earned by the Trust Fund, the implicit tax bill is \$750 (\$15,000 x .05 interest differential) plus \$100 in paid taxes (\$100,000 x .1%) for a real tax bill of \$850. This computes to a minimum rate of .85 percent. If the employer should not get credit for the

TABLE 9

MINIMUM TAX RATES BY STATE RANKED
FROM HIGHEST TO LOWEST*

Rank	State	Rate	Rank	State	Rate
1	New York	4.300	27	Minnesota	1.000
2	South Dakota	4.100	28	Iowa	0.800
3	Maryland	3.100	29	Tennessee	0.750
4	Alaska	3.000	30	Colorado	0.700
5	Utah	3.000	31	Ohio	0.600
6	Washington	3.000	32	Alabama	0.500
7	New Hampshire	2.800	33	Delaware	0.500
8	Rhode Island	2.800	34	Oklahoma	0.500
9	Idaho	2.700	35	California	0.400
10	Indiana	2.700	36	Michigan	0.300
11	Kentucky	2.700	37	Pennsylvania	0.300
12	New Mexico	2.700	38	Arizona	0.100
13	North Dakota	2.700	39	Arkansas	0.100
14	West Virginia	2.700	40	Dist. of Col.	0.100
15	Wyoming	2.700	41	Florida	0.100
16	Hawaii	2.600	42	Illinois	0.100
17	Oregon	2.600	43	Mississippi	0.100
18	Maine	2.400	44	North Carolina	0.100
19	Massachusetts	2.200	45	Texas	0.100
20	Louisiana	1.900	46	Virginia	0.100
21	Montana	1.900	47	Georgia	0.070
22	Connecticut	1.500	48	Kansas	0.025
23	South Carolina	1.300	49	Missouri	0.000
24	New Jersey	1.200	50	Nebraska	0.000
25	Vermont	1.200	51	Wisconsin	0.000
26	Nevada	1.100			

*These rates are based on taxable wages and the taxable wage bases vary among states.

SOURCE: U. S. Department of Labor, Comparison of State Unemployment Insurance Laws (October, 1980), Table 206, pp. 2-39 and 2-40.

interest due to legal provisions, or has no charges to be offset, the real tax rate is 1.9 percent.⁴

Thus minimum rates that are low in nominal terms may be relatively high in terms of real costs to individual employers. Conceptually, however, minimum rates under a pure experience rating system should be based on costs that are common to the system since minimum rates are reserved for those employers with no benefit charges for the rating period. Common costs would be pool costs and, if desired, a general fund building tax.

A commitment to a strong experience rating system and equitable allocation of costs leads to recommending a zero tax rate for experience rating, but adding pool costs and any desired general fund building charges.

Objective: To have a minimum rate low enough to encourage few lay-offs, but which collects sufficient amounts to cover an employer's share of the common costs of the system.

- Alternatives:
1. Leave minimum rates below pool costs as is Virginia's present case and leave 25 percent of the taxable wages paying a fraction of the systems costs.
 2. Set minimum rate to cover pool costs and if desired, fund building costs.
 3. Set minimum rate much higher than pool costs as a pure revenue gathering measure and to provide for the subsidy of those at a low top rate.
 4. A minimum amount plus pool costs and fund building costs.

Study Recommendation*: A minimum tax rate of zero to which would be added pool costs and fund building charges. (*Differs from Joint Subcommittee Recommendation.)

⁴Tax information is taken from North Carolina Employment Security Commission, 1979 Experience Rating, p. 3.

Maximum Tax Rates

All states have maximum tax rates and Table 10 shows the range of maximum rates in effect in 1981. Virginia, with its current 100 percent surcharge, ranks the highest in the nation. As in the case of minimum rates, maximum rates should be compared only when the taxable wage bases are identical. Low maximum tax rates, like high minimum tax rates, reduce experience rating and lead to cross-employer subsidization.

All systems have established maximum rates, and as long as there is a maximum rate, the only considerations are how large is the subsidy to be and how do we distribute the cost of the subsidy. The size of the subsidy varies from state to state, but it is not uncommon to have over fifty percent of the benefits subsidized due to maximum rates insufficient to recover benefit charges from employers.⁵ There is no one to one correlation between the ranking of maximum tax rates by state and the percentage of benefits subsidized. States vary immensely in benefit qualification standards, economic conditions, and actual application of tax rates.

What is important in concept is the percentage of benefits subsidized and how to distribute the cost of this subsidy. Twenty percent of the total costs of benefits is often suggested as a reasonable figure. That is, the excess of charges over contributions for employers at the top rate should be no more than 20 percent of the total benefits paid. Virginia presently has roughly 7 percent of total charges in that category.

As indicated in the recommendations on pool costs, subsidies are a political and social decision and as such are usually paid for by the total community.

⁵Little, "Socialized Costs," Table II.

TABLE 10

MAXIMUM TAX RATES BY STATE RANKED
FROM HIGHEST TO LOWEST*

Rank	State	Rate	Rank	State	Rate
1	Virginia	9.00	27	Florida	4.50
2	Minnesota	7.50	28	Hawaii	4.50
3	South Dakota	7.00	29	Louisiana	4.50
4	Michigan	6.90	30	Idaho	4.40
5	New Hampshire	6.50	31	Montana	4.40
6	New Jersey	6.20	32	Ohio	4.30
7	Connecticut	6.00	33	Kentucky	4.20
8	Iowa	6.00	34	South Carolina	4.10
9	Massachusetts	6.00	35	Alabama	4.00
10	Missouri	6.00	36	Arkansas	4.00
11	North Dakota	6.00	37	Mississippi	4.00
12	Rhode Island	6.00	38	Oregon	4.00
13	Georgia	5.71	39	Pennsylvania	4.00
14	North Carolina	5.70	40	Tennessee	4.00
15	Alaska	5.50	41	Texas	4.00
16	Vermont	5.50	42	California	3.90
17	New York	5.20	43	Nebraska	3.70
18	Oklahoma	5.20	44	Kansas	3.60
19	New Mexico	5.10	45	Nevada	3.50
20	Illinois	5.00	46	Indiana	3.30
21	Maine	5.00	47	West Virginia	3.30
22	Wisconsin	5.00	48	Utah	3.00
23	Maryland	4.60	49	Washington	3.00
24	Colorado	4.50	50	Arizona	2.90
25	Delaware	4.50	51	Wyoming	2.70
26	Dist. of Col.	4.50			

*These rates are based on taxable wages and taxable wage bases vary among states.

SOURCE: U. S. Department of Labor, Comparison of State Unemployment Insurance Laws (October, 1980), Table 205, pp. 2-39 and 2-40.

Explicit arguments for a maximum tax rate include the following:

- (1) Certain seasonal employers are marginal employers and could not remain in business if they had to pay the full cost of doing business.
- (2) Those employers in number (1) are important to the economy and it is in the state's interest to subsidize them.
- (3) Declining industries would have very high rates and if there were no maximum, the tax would compound the decline of these industries.
- (4) New businesses would be reluctant to locate in Virginia if maximum rates exceeded some level.

Of the four, only the declining industry consideration has economic merit. It is not the intent of the system to increase economic decline. There is no economic argument that seasonal employers could not exist if there were not subsidies, i.e., most of them would exist. Besides, if subsidized businesses are beneficial, why not increase their number so that many more marginal operations exist? The obvious answer is that subsidies to businesses paid for by other businesses help no one but the subsidized businesses. The new industry argument is also spurious. It is doubtful that the state would want to attract businesses which would anticipate high enough unemployment to be at a prohibitive rate. In addition, it is not clear what benefits existing employers receive from having high unemployment experience employers move into the state.

A maximum tax rate also results in employers paying that rate to no longer be affected by experience rating incentives because regardless of additional experience, they will pay no higher rate. The social decision to subsidize these employers by effectively removing them from experience rating results in more claims being paid chargeable to these employers than if the maximum rate were higher. Obviously, if you subsidize it, you get more of it. The higher the maximum tax rate, the more effective experience

rating system that you have.

If, given the lack of economic argument for setting a maximum rate, a state still wishes to establish a maximum, it should consider the following. First, the decision is almost entirely a political decision based on the political clout of individual industries or businesses. Economic arguments are weak at best for a maximum rate. Seasonal industries which benefit from a maximum rate have sufficient political leverage to gain subsidies from non-seasonal employers.

Often this subsidy is subtle in nature and is not made explicit. More blatant occurrences are in existence as indicated by the following quote.

New York's law favors employers in construction, apparel, and the canning and freezing industries with maximum tax rates lower than the maximum payable by all other employers in the state. For example, the current maximum tax rate in New York is 4.2% (excluding a 1.0% subsidiary tax payable by all employers), but the apparel industry pays at a special rate of 3.0%. The result is that other employers pick up any extra costs of the apparel industry. In 1979, these three special rated industries in New York paid taxes of \$71 million while their former employees received benefits totaling \$213 million -- an overdraft of \$142 million. These employers financed about 30¢ of each dollar of their former employees' U.C. benefit costs.⁶

Second, it should be made an explicit policy goal as to what percentage of benefits are to be subsidized and to set the maximum rate based on that goal. If 20 percent is the goal, it may require a 6 percent maximum rate in some states and an 8 percent rate in others.

Third, the maximum rate loses its effectiveness if the tax base erodes as total wages increase but taxable wages do not. Since benefits are paid on the basis of total wages, benefit payments will increase in

⁶Little, "Socialized Costs," p. 5.

dollar terms and a maximum rate sufficient to allow for a 20 percent subsidy may allow for 25 percent the following year, 30 percent the next, etc.

Objective: To collect from each employer their cyclical impact on the system while recovering from seasonal employers an amount such that benefits charged to maximum rate employers minus contributions of maximum rate employers do not exceed 15 percent to 20 percent of total benefits.

- Alternatives:
1. Charge a low maximum rate which will result in a large subsidy to top rate employers.
 2. Set a maximum rate which will capture over the accounting period a percentage of charges for benefits (80% to 85%) and subsidize the top rate for the remaining 15 percent to 20 percent (6.0% to 6.5%).
 3. Set a flexible maximum which calculates the rate based on the criteria in 2.

Study Recommendation*: A maximum tax rate of 6.5 percent to which would be added pool costs and fund building charges.
 (*Differs from Joint Subcommittee Recommendation.)

New Employer Rate

New employers present special problems for any Unemployment Insurance System. Whether the system uses the reserve ratio experience rating, a benefit wage ratio experience rating, or a benefit ratio experience rating, new employers as a group will contain a certain percentage who will not stay in business and will not be able to repay the Fund. Of Virginia employers no longer active since 1960, 33 percent lasted one year, 19 percent two years, and 12 percent three years; of those that do go out of business, 64 percent go out of business in the first three years. Of those employers who came into business in 1976, 41 percent are no longer in business as of the end of 1979. Of those entering business in 1977, 36 percent were out of business as of the end of 1979. It can be seen

that approximately 40 percent of all new employers last less than three years and that of all those that will go out of business, two-thirds will do so in the first three years of their existence.

Employers who go out of business leave behind charges which must be recovered from other employers. For the three year period ending June 30, 1979, the amount of money charged to inactive employers was \$22 million or roughly \$7.3 million per year. It is important to keep in mind that this pertains to all employers that become inactive, not just what we term new employers. Given the statistics from our sample, however, it is likely that two-thirds of those employers had durations of less than four years. This would amount to roughly \$4.9 million per year of charges accounted for by new employers who have gone out of business. Under the 1979 rate of 1.4 percent for new employers, Virginia collected approximately \$2.5 million in revenue. With a 1980 rate of 2.8 percent, the amount will be approximately \$5 million.

One of the ways for accounting for new employers in many systems is to charge the new employer the highest tax rate for two to three years and then experience rate them. Some states, like Virginia, allow new employers a lower rate for one year. North Carolina charges a 2.7 percent rate for new employers for a three year period before the new employer is eligible for the reduced rate. However, North Carolina experience rates the employer after the first year and if that employer has experience which exceeds the 2.7 percent rate, the tax rate is increased. Thus, the new employer can have a higher than new employer rate after the first year but can never have lower. Since North Carolina is on a reserve ratio system, North Carolina takes the taxes paid in by new employers and applies them to the employers' reserve account. The employer receives

credit for the taxes that in essence may be above the level which its actual experience rating would indicate. Table 11 shows the new employer tax rate of states and with the number of years it takes the new employer to become experience rated.

Definition of "New Employer"

New employers are not a homogeneous group. When we speak of new employers we are by definition speaking of those employers who receive a new identification number from the unemployment insurance system and qualify under Virginia Law for a new employer rate. One example of a new employer is a new manufacturing plant which employed people under a fairly stable basis of employment and is a solid contributor to the system once its three year period is up. Another is a construction firm which comes into the state to do a major construction project, and during the period that it is in the state pays taxes and most likely leaves the state when the project is completed, leaving claims to be paid out of the Fund. A further example is a small business (such as a restaurant) which comes into existence with a fairly short life expectancy, has a high turnover of personnel, and if it becomes one of the casualties of the business world, undoubtedly leaves employees who will draw claims.

Still another example of a new employer is a business which actually continues to operate, but which has changed ownership. That change in ownership could be from one single proprietor to another, or it could be one single proprietor which has sold out to a larger operation. It could also be a single proprietor who chooses to incorporate, officially changing its ownership. Because of the way the law in Virginia and many states is written, change in ownership, whether it be a paper change or a

TABLE 11
NEW EMPLOYER RATES BY STATE

State	Period of Time Needed to Qualify for Experience Rating.	Rate for New Employer
Alabama	1 year	1.5%
Alaska	1 year	1.0% or states 5 year average benefits to total wages not to exceed 2.7%
Arizona	1 year	2.7%
Arkansas	1 year	2.7%
California	12 months	2.7%
Colorado	12 months	2.7%
Connecticut	1 year	Average industry tax rate
Delaware	4 years	2.7%
Dist. of Col.	3 years	2.7%
Florida	3 years	2.7%
Georgia	1 year	2.7%
Hawaii	1 year	2.7%
Idaho	1 year	2.7%
Illinois	3 years	2.7%
Indiana	3 years	2.7%
Iowa	2 years	1.8%
Kansas	2 years	1.0%
Kentucky	3 years	3.0%
Louisiana	3 years	2.7%
Maine	2 years	1.0 to 3.0%
Maryland	1 year	2.5%
Massachusetts	1 year	2.0%
Michigan	2 years	2.7 to 3.5%
Minnesota	1 year	1.0 to 2.4%
Mississippi	1 year	1.0%
Missouri	1 year	1.0 to 2.7%
Montana	3 years	2.7%
Nebraska	1 year	2.7%
Nevada	2½ years	2.7%
New Hampshire	1 year	2.7%
New Jersey	3 years	2.7%
New Mexico	3 years	2.7%

TABLE 11--Continued

State	Period of Time Needed to Qualify for Experience Rating	Rate for New Employer
New York	1 year	2.0 to 2.7%
North Carolina	3 years	2.7%
North Dakota	1 year	2.7%
Ohio	1 year	2.7%
Oklahoma	1 year	2.7%
Oregon	1 year	2.7 to 3.5%
Pennsylvania	18 months	3.5%
Rhode Island	1 year	1.0 to 4.2%
South Carolina	2 years	2.7%
South Dakota	2 years	2.7%
Tennessee	3 years	2.7%
Texas	1 year	1.0%
Utah	3 years	2.7%
Vermont	1 year	3.0 to 2.7%
Virginia	1 year	2.0% to 4.0% with 100% surtax
Washington	2 years	2.7%
West Virginia	3 years	1.5%
Wisconsin	18 months	2.7%
Wyoming	3 years	2.7%

SOURCE: U. S. Department of Labor, Comparison of State Unemployment Insurance Laws (Washington, DC: October, 1980), Table 202.

legitimate transfer from one owner to another, allows the new owner to determine whether to take the experience rating of the existing operation or to receive a new employer tax rate. With a 1 percent new employer tax rate, most businesses do not take the old rating as they prefer to receive a new employer rating, thus leaving existing charges the responsibility of the Fund. The ability to do this, of course, does lie within the law and there is a possibility of changing this law to require any business which changes ownership and still exists as a business to accept the existing rate.

Solutions Regarding New Employers

Several options other than raising new employer average rates are possible solutions to the problems caused by new employers. Often the solution is directly dependent on the specific nature of the business involved. In the case of interstate employers which come into Virginia and expect a relatively short term in-state status, the coming and going in the state is inherent in the nature of the business and is in no way a strategy used to avoid paying unemployment taxes. This is especially true of construction firms which come into the state with a limited number of personnel and increase their payroll over time with in-state new hires. Although there may be some seasonal turnover, this firm will likely have few unemployment claims during most of the period it conducts business within the state. Thus, at the end of three years (if the project lasts that long), the firm may well qualify for a reasonably low tax rate, bothered only by its seasonal claims. However, as the project ends and employees begin to be laid off, the charges against this particular firm will begin to increase, while at the same time its payroll will begin to decrease. When the project is finally ended, the firm may

well have the highest rate that Virginia can charge, but this rate will be against a relatively small payroll. Thus, the system cannot recover from this employer the cost of final lay-off claims. Again, it is important to note that this firm is not deliberately setting out to avoid the tax, so that the inability to sufficiently tax such a company lies in the nature of the system and not in the company. Solutions to this problem are at least three in number:

- (1) Try to identify industries which have these particular kinds of situations and charge a differentially high rate for a particular industry.
- (2) Require a new employer coming in on a construction job, or coming in in a manner which is "known to be temporary", to post a rather large bond with the VEC to offset the possible claims that may be charged against them.
- (3) Have interstate corporate agreements with other states, particularly surrounding states, where the charges against this particular company can be levied on this company, even though at present they are not doing business in Virginia.

It may be possible to do a combination of the bonding and interstate agreement together. That is, if the company is from a state which has an interstate agreement with the State of Virginia to pay claims against that company, the company would not be required to put up the necessary bond.

Although the obvious type of industry or company involved is a construction company, it may not be warranted to jump to the conclusion that setting new rates by industry is an instant solution to part of the problem. Some states do set industry average rates for new employers. But it is hard to distinguish between construction companies that are in business in other geographic areas and come to Virginia for only a three or four year period and small retailers going into business and failing in a short period of time. Both the retail stores and the

construction companies leave a legacy of claims behind which have to be charged to the Fund. In fact, if one were to charge a rate to the new employers by industry, whether they come to do a specific project or whether they were a state business which plans to stay in existence, it is likely that retail industries will have fairly high rates. Retail stores have the third highest percentage of inactive employers at 28 percent behind mining and construction at 31 percent and transportation at 29 percent. Thus, charging new retail operations higher new employer rates could result in large retail outlets, such as large chain grocery stores, large chain retail stores, and so forth, paying high rates as new employers, when in reality there is no reason to believe they will have bad experience ratings or that indeed they will go out of business in the very near future. On the other hand, the very kind of new business which draws the sympathy of those who believe that there should be subsidy of new business are those undercapitalized small businesses which are struggling to survive and whose ranks are disproportionately filled with retail operations. So there is a dilemma in terms of trying to set new rates by industry. In addition to the economic problems we can see above, there exist the problems of identifying which industry many of these operations would fit into. For example, if an employer finds that there is a large differential between construction contracting and retail sales operations, it is obvious that the employer will want to call his operation retail sales, will attempt to get a retail sales license in order to sell material at retail, and will continue to call himself a retailer even though his basic operation may be construction.

With the coming and going of between 6,000 and 12,000 new employers a year in the system, it would require a fairly large force of people to

investigate this activity. In addition to those new employers who would be coming in yearly, there would be those employers who are in business for a year or so and then apply for a reduced rate on the basis that the nature of their business has changed. Another example would be a construction company which builds houses acquiring a realtor's license or perhaps a broker's license, and calling itself a real estate company. By doing so it would enjoy the lower rate that would come with the real estate industry rather than the construction industry.

Industrial Development

There is some reason to believe that new industry rates that are above a certain level deter new industries from coming into the state because those individual new industries recognize they have very low unemployment rates and thus are paying into the system for a period an amount far greater than they perceive necessary for their particular case. In addition, the overall tax climate of any state must be taken into consideration and although investigation of the high numbers may, in terms of tax rates, lead one to conclude that the tax burden is not that high, it nevertheless causes some consternation in terms of attempting to explain this, and a high rate by itself quite often can discourage some employers.

To what extent Virginia wishes to trade off these various aspects, that is, to trade off some subsidy of new employers in order to provide an environment that is attractive to new employers, is a political question. It is not clear what benefits existing employers, who will be asked to pay this subsidy, get from having new employers come into the state. In fact, quite often new employers coming into the state compete for the same labor, many of the same resources, the same sites, etc., as

existing industry, and existing industry is in essence in a worse situation because of new industry.

When the term new industry is used, it most often refers to those industries which come into the state and have some ability to decide in which particular state they wish to put their facilities. For example, retail trade outlets are not likely to be deterred by state-wide tax, in the sense that the business of providing retail trade must be conducted in the area in which the people live who will provide the market. There are new industries which can decide to go to North Carolina or Maryland or Kentucky or Tennessee to build their plant and provide jobs. We are basically talking about manufacturing and corporate headquarters who do have wide discretion about where they put their facilities. Employers who have this ability to decide where to put their facilities are more likely to be sophisticated in terms of their ability to compute real tax rates and usually have access to capital markets to average out taxes over a period of time. For example, an employer asked to pay a high rate for three years, when assured that if there is no unemployment attributable to him his rate would fall close to zero and over a 10 year period his rate for unemployment tax would in fact be quite low, may find Virginia more attractive than states with higher flat taxes. To the extent that employers do not look at the issue in the long run, a new employer tax which is relatively high may well discourage those industries. It is more likely, however, that new employers would be looking at (1) the average tax rate or the average benefit to total wage rate of a state, (2) how actuarially sound the system was, (3) how liberal benefits were relative to other states, and (4) how well certain aspects of the law were administered. Because if he could be assured of

fairly low pool cost charges and relatively low fund building taxes, each employer would realize that he determines his own experience rating rate.

Summary

New employers can add more to the cost of a system than they contribute. Certain remedies exist to alleviate the problem if their application is consistent with the philosophy of those constructing the system.

One obvious solution is a relatively high tax rate for new employers. While this would develop the necessary revenue, it would make Virginia less competitive in terms of attracting new business, particularly businesses which have options to locate elsewhere. Another aid to the Virginia system would be to experience rate new employers upward after four quarters if it is determined their rate should be increased due to charges in excess of the new employer rate.

Since one of the big risks associated with new employers is the propensity to go out of business, the major problem for a system is how to cover the risk of the business failure prior to the collection of taxes. If private companies were selling insurance for this particular problem, they would attack it in two ways:

- (1) They would attempt to collect as much as possible ahead of the fact. That is, they would charge premiums payable in advance in order to have as much of the money as possible prior to the company going out of business. In an unemployment compensation system, this would correspond more closely to a reserve ratio system than a benefit wage ratio system. The reserve ratio system would have, in this case, individual accounts for the employers and would attempt to build those individual accounts as large as possible prior to a certain percentage of the businesses going out. In essence, however, all experience rating systems would be doing the same thing since all usually charge a flat rate for new employers.

- (2) A private insurance company would pool the risk of new employers across all new employers. That is, in the absence of any ability to distinguish between any particular new employer going out of business, the private insurance company would simply try to charge a rate on new employers high enough to cover the total costs that new employers would bring to the system.

To the extent there is an ability to distinguish between particular new employers, an ideal new employer rate would be tailored to the individual new employer. If a private insurance company were to attempt to do this for the state, it would try to determine how long the business would be expected to remain in the state. That is, it would develop a means of predicting whether the business is temporary or whether the business plans to be a permanent member of the Virginia economy. Another criterion to look at would be the capitalization of the operation in terms of its ability to survive in a hostile market. Undercapitalized businesses tend to be subject to failure at a much greater rate than those with adequate capital. In the world of finance there are methods of determining if capital ratios relative to the operation of the business are sufficient and those criteria could be applied. Another criterion would be the nature of the business to determine if there are any seasonal aspects about the business which would increase the amount of claims activity while the new employer was in the new employer category. What is the probability that this new employer, once he survives and becomes experience rated, would be at the top rate, or a rate which would exceed the top rate if that were possible?

Still another aspect that would be looked upon would be the extent to which this business is affected by cyclical downturns. That is, is this a business which is highly susceptible to unemployment during

recessions or is this a business which traditionally has had stable employment throughout recessionary periods. It becomes obvious that to do this kind of analysis on an individual basis and to require the paperwork from a company or a new business that would be necessary to evaluate that business at some of the levels suggested above, would be disagreeable to the new business and would require a great deal of work.

In total, only two issues on new employers are of major importance: First, is the rate recovering a relatively large portion of the benefit charges, and second, is the rate comparable to that of other states?

Objective: To recover benefits charged to new employers who have gone out of business, plus collect the experience rating charge as quickly as possible.

- Alternatives:
1. Charge new employers by an industry average - from .27 percent to 2.57 percent.
 2. Charge a rate which will bring a percentage of the taxable base per year into the employer's account so that by the end of three years a high percentage of the necessary reserve or of the pre-collection is made.
 3. Charge the maximum rate for new employers.
 4. Charge a rate comparable to surrounding states - 2 percent to 3 percent.
 5. Charge any of the above rates for 1 year.
 6. Charge any of the above rates for 3 years with experience rating upwards after 1 year if experience warrants it.

Study Recommendation: A tax rate of 2.5 percent for a three year period to which would be added pool costs and fund building charges with the rate to be experience rated upwards after one year if experience warrants it.

Taxable Wage Base

Introduction

One of the least understood aspects of a U.I. system is the role that the tax base plays. In the beginning, all wages of covered employees

were taxed. On the Federal level, a tax base of \$3,000 was established in 1940 which was raised to \$4,200 in 1972 and \$6,000 in 1978.⁷ Most states followed the Federal lead and set their tax base at the Federal level. At present, 33 states use the Federal tax base of \$6,000 while the remaining either have higher tax bases or flexible taxable wage bases. Table 12 shows the states using \$6,000 and the states and the amount of the tax bases exceeding \$6,000. Eleven states have a flexible wage base that is a percentage of the average annual wage in the state with varying percentages of annual wage used.

For the Federal government, increasing the tax base increases the revenue collected from the FUTA tax by almost the same percentage the base increases. For a state system with experience rating, an increase in the tax base will provide much less of an increase over time. The FUTA tax is a flat tax and, thus, produces a set amount of revenue from an employer regardless of the employer's experience. When the tax rate is determined by the employer's experience, as in Virginia, the tax rate will fall over time as the base increases if the employer's unemployment experience remains the same. The mechanics of experience rating predetermine that this will occur, but it comes as somewhat of a surprise to many.⁸ The tax rate adjusts because the experience rating system is designed to recover from employers what has been charged against them. In Virginia, the gain in revenue from an increase in the tax base would result in additional revenue from pure experience rated employers only for the three year period the system uses to determine taxes. The first

⁷Donald L. Diefenbach, Financing America's Unemployment Compensation Program (Washington, DC: U. S. Department of Labor, 1979), p. 76.

⁸Arkansas Employment Security Division, Effects of a Taxable Wage Base Change on Individual Employers (Little Rock: September, 1972), p. 1.

TABLE 12

TAXABLE WAGE BASES FOR STATES

(1)

STATES WITH GREATER THAN \$6,000 TAX BASE
PERMANENTLY OR UNDER CERTAIN CONDITIONS

<u>State</u>	<u>Tax Base</u>
Alaska	10,000
California	7,000 if benefits exceed contributions
Hawaii	11,200
Idaho	10,800
Iowa	7,400
Minnesota	8,000
Montana	7,600
Nevada	7,900
New Jersey	6,900 (28 x state average weekly wage)
New Mexico	7,200
North Dakota	7,600
Oregon	10,000
Rhode Island	7,200
Utah	11,000
Washington	9,600

TABLE 12--Continued

(2)

STATES WITH FLEXIBLE TAX BASES

<u>State</u>	<u>Percent of Average Annual Wage</u>
Alaska	60%
Hawaii	100
Idaho	100
Iowa	66 2/3
Montana	75
Nevada	66
New Mexico	65
North Dakota	70
Oregon	80
Rhode Island	70
Utah	100
Washington	80

TABLE 12--Continued

(3)

STATES WITH \$6,000 TAX BASES

<u>State</u>	<u>Base</u>
Alabama	\$6,000
Arizona	6,000
Arkansas	6,000
Colorado	6,000
Connecticut	6,000
Delaware	6,000
Dist. of Col.	6,000
Florida	6,000
Georgia	6,000
Illinois	6,000
Indiana	6,000
Kansas	6,000
Kentucky	6,000
Louisiana	6,000
Maine	6,000
Maryland	6,000
Massachusetts	6,000
Michigan	6,000
Mississippi	6,000
Missouri	6,000
Nebraska	6,000
New Hampshire	6,000
New York	6,000
North Carolina	6,000
Ohio	6,000
Oklahoma	6,000
Pennsylvania	6,000
South Carolina	6,000
South Dakota	6,000
Tennessee	6,000
Texas	6,000
Vermont	6,000
Virginia	6,000
West Virginia	6,000
Wisconsin	6,000
Wyoming	6,000

SOURCE: U. S. Department of Labor, Comparison of State Unemployment Insurance Laws (Washington, DC: October, 1980), Table 201.

year will produce the most, the second and third years less, and then the amount collected will become what would have been collected under the old tax base, given the same levels of experience and same tax schedule.

The term pure experience rated employer is used because for two groups of employers, the above is not true. New employers and those employers who are "up against the maximum rate" are permanently affected by a tax base increase. New employers are charged a flat tax rate because there is no experience on which to rate them. Those employers whose experience results in a calculated tax rate above the mandated ceiling would pay more in taxes every year when the tax base is increased.

Adjustment of Rate When Base is Changed

Thus, tax base increases could provide a short run increase in revenue from pure experience rated employers and a permanent increase in revenues from new employers and those employers with calculated rates that would exceed the maximum. For those states like Virginia, which have adjusted the tax base concurrently with the Federal government, there have been no systematic criteria for adjusting or establishing the tax base. There has been no attempt to link it to benefit tables or to the potential liability of particular employers.

Those states with flexible tax bases have attempted to link liability with taxes by adjusting the base when wages increase. Because benefits increase when wages increase, the revenues adjust automatically. There are some equity problems involved, however, if tax rates are not adjusted when the base is increased. The tax base increase becomes a means of collecting increased revenues from all employers without regard to their experience rating or to the potential liability. Since these

states use longer than a one year period to calculate tax rates, they are calculating rates partially determined by the old tax base, to apply against a higher tax base. The effect is a hidden real tax increase on pure experience rated employers.

The flexible base on the other hand does collect greater revenue from new employers and those up against the maximum rate and, thus, lowers the overall pool costs on all employers. Therefore, the effect of a flexible tax base could be to reduce the long run overall tax rate even though there may be some short run inequities for some individual employers.

Potential Liability

On the other hand, if the benefit table does not change, i.e., there is not an increase in the maximum benefit amount with concurrent increases in wages required to draw, increasing the base is not necessary from a potential liability standpoint. Increases in total benefits because of increases in average weekly wages will be accounted for in higher tax rates. This is true, of course, only for those employers who are purely experience rated.

Theoretically, the tax base should reflect the potential liability of an employer and, thus, should correspond to the benefit table. That is, if the maximum amount required in wages to draw the maximum benefits for the maximum duration is \$9,516 (Virginia's case), the tax base should be \$9,516 to reflect that (1) an employer can have an employee draw maximum benefits, and (2) it is possible in all industries to have employers up against the top rate.

If tax rates on experience rated employers were adjusted relatively to account for the 58.3 percent increase in the base, \$6,000 to \$9,500, the experience rated employer would not be affected. An even better

solution would be to adjust the taxable wages of the previous two years by the percentage increase in the taxable wages of the year the tax base increase went into effect. An example of this is given in Table 13. The purpose of the table is to demonstrate that increasing the taxable base need not have any effect on an employer who is experience rated and who is not up against the maximum rate.⁹

In the table four employers are considered, (1) a pure experience rated employer whose experience puts him beneath the maximum rate, (2) an employer who is at the maximum rate but whose actual benefit wage ratio is only slightly above that which is the maximum, (3) an employer who is at the maximum and whose benefit wage ratio far exceeds that necessary for the maximum rate, and (4) a new employer.

For each employer except the new employer, the benefit wages are given for three years, the taxable wages are given for three years, and the calculations necessary to determine tax payments made. Virginia's formula for determining taxes is benefit wages/taxable wages = benefit wage ratio in percent terms. For example, the tax table (Table 14) with a state experience factor of 35,¹⁰ a benefit wage ratio of 8.33 gives the tax rate at the bottom of column 37. The tax rate is 3.6 percent of the taxable wage for the employer in question.

⁹For another discussion of these issues see, Utah Department of Employment Security, The Taxable Wage Base In Employment Security (Salt Lake City: December, 1976), pp. 85-99.

¹⁰State experience factor. -- For any calendar year the "State experience factor" shall be the total benefits paid from the fund during the most recent thirty-six consecutive completed calendar month period ending June thirtieth of the immediately preceding calendar year, less all amounts credited to the fund in such period other than employer's contributions, divided by the total of the "benefit wages" deemed to have been paid by all employers pursuant to §§ 60.1-80 and 60.1-81 during the same period. In such computation any fraction shall be adjusted to the nearest multiple of one per centum. (Code 1950, § 60-71; 1954, c. 203; 1960, c. 136; 1968, c. 738; 1977, c. 330.)

TABLE 13

CALCULATIONS TO ADJUST TAX RATES
FOR TAX BASE CHANGES

(1)

Normal Experience Rated
Employer - 100 Employees

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	51,000	50,000	49,000
Taxable Wages	600,000	600,000	600,000

Three Years of Benefit Wages = 150,000
 Three Years of Taxable Wages = 1,800,000
 Benefit Wage Ratio = 8.333%
 State Experience Factor = 35
 Tax Rate = 3.6% (4.9 if 40% surcharge)
 Tax Bill = .036 x 600,000 = 21,600

Assume an increase in the tax base to \$9,500 in 1979.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	51,000	50,000	49,000
Taxable Wages	600,000	600,000	950,000

Three Years Benefit Wages = 150,000
 Three Years of Taxable Wages = 2,150,000
 State Experience Factor = 35
 Benefit Wage Ratio = 6.97%
 Tax Rate = 3.0%
 Tax Bill = .030 x 950,000 = 28,500

With adjustment, increase old taxable wages, years 1 and 2,
by the increase in year three taxable wages. 1.58333

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	51,000	50,000	49,000
Taxable Adjusted Wages	950,000	950,000	950,000

Three Year Benefit Wages = 150,000
 Three Years Taxable Wages = 2,850,000
 Benefit Wage Ratio = 5.26%
 Tax Rate = 2.3%
 Tax Bill = .023 x 950,000 = 21,850

TABLE 13--Continued

(2)

Employer Up Against The
Top - 100 Employees

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	85,000	86,000	84,000
Taxable Wages	600,000	600,000	600,000

Three Years of Benefit Wages = 255,000
 Three Years of Taxable Wages = 1,800,000
 Benefit Wage Ratio = 14.17%
 State Experience Factor = 35
 Tax Rate = 4.5% (6.3 if 40% surcharge)
 Tax Bill = .045 x 600,000 = 27,000

Assume an increase in the tax base to \$9,500 in 1979.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	85,000	86,000	84,000
Taxable Wages	600,000	600,000	950,000

Three Years Benefit Wages = 255,000
 Three Years of Taxable Wages = 2,150,000
 State Experience Factor = 35
 Benefit Wage Ratio = 11.9%
 Tax Rate = 4.5%
 Tax Bill = .045 x 950,000 = 42,750

With adjustment, increase old taxable wages, years 1 and 2,
 by the increase in year three taxable wages. 1.58333

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	85,000	86,000	84,000
Taxable Adjusted Wages	950,000	950,000	950,000

Three Years Benefit Wages = 255,000
 Three Years Taxable Wages = 2,850,000
 Benefit Wage Ratio = 8.95%
 Tax Rate = 3.8%
 Tax Bill = .038 x 950,000 = 36,100

TABLE 13--Continued

(3)

Employer Wage - Over the Maximum

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	120,000	120,000	120,000
Taxable Wages	600,000	600,000	600,000

Three Years Benefit Wages = 360,000
 Three Years Taxable Wages = 1,800,000
 Benefit Wage Ratio = 20.0%
 State Experience Factor = 35
 Tax Rate = 4.5%
 Tax Bill = .045 x 600,000 = 27,000

Assume an increase in the tax base to \$9,500 in 1979.

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	120,000	120,000	120,000
Taxable Wages	600,000	600,000	950,000

Three Years Benefit Wages = 360,000
 Three Years of Taxable Wages = 2,150,000
 State Experience Factor = 35
 Benefit Wage Ratio = 16.7%
 Tax Rate = 4.5%
 Tax Bill = .045 x 950,000 = 42,750

With adjustment, increase old taxable wages, years 1 and 2,
 by the increase in year three taxable wages. 1.5833

	<u>1977</u>	<u>1978</u>	<u>1979</u>
Benefit Wages	120,000	120,000	120,000
Taxable Adjusted Wages	950,000	950,000	950,000

Three Years Benefit Wages = 360,000
 Three Years Taxable Wages = 2,850,000
 Benefit Wage Ratio = 12.6%
 Tax Rate = 4.5%
 Tax Bill = .045 x 950,000 = 42,750

TABLE 13--Continued

(4)

New Employer

Taxable Wages = 600,000
 New Employer Tax = 2.0%
 Tax Bill = 12,000

Taxable Wages = 950,000
 New Employer Tax = 2.0%
 Tax Bill = 19,000

Adjusted New Employer

Taxable Wages = 600,000
 New Employer Tax = 2.0%
 Tax Bill = 12,000

Taxable Wages = 950,000
 New Employer Tax = 1.265%
 (9500/6000 = 1.58)
 (2.0%/1.58 = 1.265%)
 Tax Bill = .01265 x 950,000 = 12,018

TABLE 14

A PORTION OF VIRGINIA'S TAX TABLE 1980

§ 60.1-84

UNEMPLOYMENT COMPENSATION

§ 60.1-84

When the State								
Experience	Col.	Col.	Col.	Col.	Col.	Col.	Col.	Col.
Factor Is:	34	35	36	37	38	39	40	41
If the employer's benefit wage ratio does not exceed:								
1% or less	41.3	42.5	43.8	45.0	46.3	47.5	48.8	50.0
2	36.7	37.8	38.9	40.0	41.1	42.2	43.3	44.4
3	33.0	34.0	35.0	36.0	37.0	38.0	39.0	40.0
4	30.0	30.9	31.8	32.7	33.6	34.5	35.5	36.4
5	27.5	28.3	29.2	30.0	30.8	31.7	32.5	33.3
6	25.4	26.2	26.9	27.7	28.5	29.2	30.0	30.8
7	23.6	24.3	25.0	25.7	26.4	27.1	27.9	28.6
8	22.0	22.7	23.3	24.0	24.7	25.3	26.0	26.7
9	20.6	21.3	21.9	22.5	23.1	23.8	24.4	25.0
10	19.4	20.0	20.6	21.2	21.8	22.4	22.9	23.5
11	18.3	18.9	19.4	20.0	20.6	21.1	21.7	22.2
12	17.4	17.9	18.4	18.9	19.5	20.0	20.5	21.1
13	16.5	17.0	17.5	18.0	18.5	19.0	19.5	20.0
14	15.7	16.2	16.7	17.1	17.6	18.1	18.6	19.0
15	15.0	15.5	15.9	16.4	16.8	17.3	17.7	18.2
16	14.3	14.8	15.2	15.7	16.1	16.5	17.0	17.4
17	13.8	14.2	14.6	15.0	15.4	15.8	16.3	16.7
18	13.2	13.6	14.0	14.4	14.8	15.2	15.6	16.0
19	12.7	13.1	13.5	13.8	14.2	14.6	15.0	15.4
20	12.2	12.6	13.0	13.3	13.7	14.1	14.4	14.8
21	11.8	12.1	12.5	12.9	13.2	13.6	13.9	14.3
22	11.4	11.7	12.1	12.4	12.8	13.1	13.4	13.8
23	11.0	11.3	11.7	12.0	12.3	12.7	13.0	13.3
24	10.6	11.0	11.3	11.6	11.9	12.3	12.6	12.9
25	10.3	10.6	10.9	11.3	11.6	11.9	12.2	12.5
26	10.0	10.3	10.6	10.9	11.2	11.5	11.8	12.1
27	9.7	10.0	10.3	10.6	10.9	11.2	11.5	11.8
28	9.4	9.7	10.0	10.3	10.6	10.9	11.1	11.4
29	9.2	9.4	9.7	10.0	10.3	10.6	10.8	11.1
30	8.9	9.2	9.5	9.7	10.0	10.3	10.5	10.8
31	8.7	8.9	9.2	9.5	9.7	10.0	10.3	10.5
32	8.5	8.7	9.0	9.2	9.5	9.7	10.0	10.3
33	8.3	8.5	8.8	9.0	9.3	9.5	9.8	10.0
34	8.0	8.3	8.5	8.8	9.0	9.3	9.5	9.8
35	7.9	8.1	8.3	8.6	8.8	9.0	9.3	9.5
36	7.7	7.9	8.1	8.4	8.6	8.8	9.1	9.3
37	7.5	7.7	8.0	8.2	8.4	8.6	8.9	9.1
38	7.3	7.6	7.8	8.0	8.2	8.4	8.7	8.9
39	7.2	7.4	7.6	7.8	8.0	8.3	8.5	8.7
40	7.0	7.2	7.4	7.7	7.9	8.1	8.3	8.5
The employer's contribution rate shall be:								
	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%

In Table 13 each employer's tax rate and tax bill is calculated on a taxable wage base of \$6,000 per employee, on \$9,500 taxable wages for each employee, and on \$9,500 for each employee with an adjustment made to the employer's taxable wages for the three year period used for calculation.

For the employer who is an experience rated employer (employer 1) and is at less than the maximum rate, the tax bill is \$21,600 with taxable wages of \$600,000. When taxable wages are raised to \$9,500 and no adjustment is made, the tax bill increases to \$28,500, although the tax rate is lower. When adjustment is made to the taxable wages for the three year period (years 1977 and 1978 taxable wages are increased by the same percentage as 1979) the tax bill drops to \$21,850 or virtually the same amount as with a \$6,000 tax base. The \$250 difference is due to the unevenness of the tax table in applying rates. Theoretically the amounts should be the same.

For the employer at the maximum, but whose benefit wage ratio does not greatly exceed the maximum, the tax bill is \$27,000 when the tax base is \$6,000. When the base is raised to \$9,500 with no adjustments, the tax bill increases to \$42,750. With the adjustment to the three years of taxable wages, the tax bill decreases to \$36,100. In this case \$36,100 is the amount that will reimburse the system for the costs imposed by this employer. He has dropped from the maximum rate of 4.5 percent to 3.8 percent. He is no longer at the maximum rate and has become a pure experience rated employer.

Contrast this with an employer at the maximum rate and whose experience puts his benefit wage ratio considerably above that necessary for the maximum rate. His tax bill with a \$6,000 base is \$27,000. With

an increase of the taxable base to \$9,500 his tax bill increases to \$42,750. With adjustment to the three year taxable wages, his benefit wage ratio falls, but not enough to get him below the maximum rate. His tax bill is still \$42,750.

For the new employer with a tax rate of 2 percent, his tax bill would be \$12,000 with a tax base of \$6,000 and \$19,000 with a tax base of \$9,500. Either a legislative change in the tax rate may be necessary for the new employer, or an automatic adjustment to keep the tax bill constant. The adjustment would be to divide the new employer tax rate by the ratio that the old base is of the new base. In Table 13 the change results in the same tax payment by changing the new employer tax rate from 2 percent to 1.265 percent.

It is important to keep in mind that the examples assume that the employees of these employers earn at least \$9,500 per year. To the extent employees earn less, the tendencies exhibited in the example would still exist whenever the wages of employees exceeded \$6,000; the system would only collect more revenue from new employers and those employers at the maximum rate.

A benefit ratio system such as Virginia is adopting works the same way as the examples given above. In order for the tax base change to be neutral, an adjustment would have to be made in the benefit ratio calculation. For a benefit ratio system, benefit charges would be substituted for benefit wages and the corresponding tax table used.

For a reserve ratio system, a tax base increase has similar effects and the adjustment in this case would be a corresponding shift in the tax table. For example, if the reserve ratio necessary for the minimum rate was 5 percent, and an employer had 10 employees paying on

a base of \$6,000 the result would be:

$$\frac{9,000 \text{ Balance}}{180,000 \text{ wages for 3 yrs.}} = 5 \text{ percent}$$

If the base were increased from \$6,000 to \$9,000, the calculation for the first year would be:

$$\frac{\$9,000 \text{ Balance}}{\$210,000 \text{ wages for three years}} = 4.3 \text{ percent}$$

In North Carolina this would result in a tax rate increase from .1 percent to .4 percent and instead of .1 percent x \$6,000 or a \$60 tax payment, it would be .4 percent x \$90,000 or a \$360 tax payment. Thus, in a reserve ratio system a tax base increase gives a double impact.

One solution would be to inflate the first two years of taxable wages by the percentage increase of the base, in this case to \$270,000 for three years taxable wages, plus reduce the reserve ratio from 5 percent to 3.3 percent necessary for the minimum rate. Only then will the employer pay the same tax.

Confusion concerning tax base increases and how to implement them is heightened by a lack of clarity as to why the base is being raised. Reasons for raising the base can be (1) a desire to increase revenue from all employers regardless of experience rating, or (2) to increase the effectiveness of experience rating by maintaining a constant real maximum tax rate, or (3) to increase the effectiveness of experience rating by linking potential liability of employers to the taxable base.

Employers oppose tax base increases because they perceive it is to accomplish number (1). Unfortunately, they are so often victims of increases based on number (1) that there is good reason for them to oppose tax base increases or flexible tax bases. If the base change is only to increase revenue, no adjustments to the tax calculations would

be made and there would be less experience rating than before.

If either numbers (2) or (3) are the motives for increasing the tax base, then the employer who is not at the maximum rate (and this is most of the employers) has no reason to oppose a tax base increase. In fact, most employers are benefited by tax base increases because of the increased effectiveness of experience rating if the following three conditions are met: (1) increases in the tax base are compensated for so that an experience rated employer under the maximum rate pays no more in taxes than before; (2) the minimum experience rating rate is zero; and (3) pool costs are calculated separately and divided by taxable wages to generate a tax rate that only recovers pool cost amounts. For pool costs, higher wage employers would bear somewhat higher costs than lower wage employers, the higher the tax base became. This disadvantage could be of concern to high wage employers. It should be kept in mind, however, that an eroding taxable wage base will increase pool costs as the maximum rate loses its effectiveness. One additional advantage of a higher taxable wage base is the spreading of tax collections over longer periods. Collections now tend to be concentrated in the first two quarters.¹¹

States can choose to raise tax bases when forced by Federal Law to do so or initiate their own increases. They can choose to adjust rates or receive the windfall gain. To have a well administered system, however, the base should reflect increases in benefit payout and, thus, increased employer liability. The most desirable way to accomplish this is to set the base equal to the amount of wages necessary to draw the maximum benefit for the maximum period and adjust tax rates when the base is changed.

¹¹Utah, Taxable Wage Base, p. 32.

Objective: To have a tax base which corresponds to the potential liability of the system so that taxes are paid on all wages that are part of the wage base for benefits.

- Alternatives:
1. Adjust tax base only when it is adjusted by the Federal Government; Virginia's present situation.
 2. Set up a flexible wage base which changes based on the condition of the Fund.
 3. Make the wage base the same amount as the highest qualifying wages for benefits adjusting tax rates to maintain equity.

Study Recommendation*: Set the wage base the same amount as the highest qualifying wages for benefits adjusting tax rates to maintain equity. (~~*Differs from Joint Subcommittee Recommendation.~~)

Industry Rates

Because employers tend to organize politically along industry lines, comparisons of the impact of individual industries on the Trust Fund are certain to occur. Industries which pay into the Fund greater amounts than charges against the industry, pressure to change that fact. In Table 6 it is apparent that the Retail and Wholesale Trade Industry pay in more than is drawn out. Construction and Mining pay in fewer dollars than are drawn out. It is natural for representatives of Retail and Wholesale Trade to want the Construction and Mining Industries to "pay their own way".¹² Although such is a politically attractive proposal, it is one with little economic basis. Calculating tax rates by industry is a step backwards over the present system. It is important to understand why there are industry differences and how Retail and Wholesale Trade comes to help subsidize Construction. Industries are composed of individual employers and for a particular industry, as a whole, to show benefits exceeding contributions, many individual employers within that particular industry must have benefits exceeding contributions. The

¹²See Page 87 for Becker's discussion of this problem.

same pattern holds for those industries which have contributions exceeding benefits. The question to answer is, why do individual employers end up with benefits exceeding contributions? The answer is obvious. Contributions are limited by the application of a ceiling on the maximum rate while benefits are not subject to this artificial limit. All industries have employers who are "up against the maximum rate" and whose benefits exceed contributions. Table 15 shows the percentage of employers at the minimum and maximum rates by industry. Construction and Agriculture, Forestry and Fishing have a greater percentage at maximum rates (high rates) and, therefore, a larger percentage with benefits exceeding contributions.

Thus, the problem stems from the decision to set a maximum rate and not from the fact that seasonal industries have higher incidences of unemployment. The maximum rate is set with full knowledge that seasonal industries would benefit more from such action than nonseasonal industries. It should come as no surprise that what one sets out to do is what occurs.

Since the inter-industry problem is caused by a desire to have subsidies, there is a sequence of decisions to be made. The first is whether to continue with the subsidy. If it is eliminated, the inter-industry differential of benefits to contributions will disappear. If the subsidy is to continue, the decision reduces to a question of how to finance it. Subsidies are usually paid for by the general public on the grounds that the general public benefits from the subsidy. In that vein, the employer community would share in the subsidy with the costs generally being passed on as a cost of business. By making this subsidy part of pool costs, the general tax on the employer community would be approximately .2 percent of taxable wages.

TABLE 15

PERCENTAGE OF EMPLOYERS AT MINIMUM AND
MAXIMUM TAX RATES BY INDUSTRY

1979

<u>Category</u>	<u>Percent of Employers at Minimum Rate 1979</u>	<u>Percent of Employers at Maximum Rate 1979</u>
Agriculture, Forestry, Fisheries	60%	11%
Mining and Construction	40%	25%
Manufacturing	41%	13%
Transportation, Communication and Public Utilities	46%	13%
Retail and Wholesale Trade	60%	8%
Finance, Insurance, and Real Estate	68%	6%
Services	63%	6%

Another alternative would be to charge businesses an industry average. As shown in Table 16 a construction business would pay 2.57 percent regardless of experience. Forty percent of the employers in that industry are at the minimum rates, and thus, pay .07 percent. The increase on those companies would be immense. Even more important, what benefit does a construction company, which has no unemployment experience, get from subsidizing a construction company with high unemployment experience. Realistically, the subsidy benefit to a good experience construction company is no more than to the population in general, but industry rates would require him to pay a large share of the subsidy.

While the above is obvious to all, there is a more subtle reason to avoid industry rates; Retail and Wholesale Trade would have low industry rates - .44 percent. Under the present system, 60 percent of employers in that industry pay a .07 percent rate. If they were to pay the .07 percent rate plus the amount of a general subsidy, .20 percent, their rate would be .27 percent, which is less than if they paid their low industry rate period. Thus, 60 percent of Retailers would find a general subsidy cheaper than an industry rate. Only employers in Finance, Insurance, and Real Estate would find it advantageous to have industry rates. Deficit industries in terms of benefits exceeding contributions are caused by a desire to have subsidies to employers whose claims lead to rates that would exceed the maximum. If there is a general desire to have subsidies, they should be financed by the general population (in this case, the total employer community) and not by others within the industry.

Objective: To prevent inter-industry subsidies and collect from each industry the industry cost.

TABLE 16
 BENEFITS AND CONTRIBUTIONS BY INDUSTRY FOR 1979

Industry	<u>Benefits</u>			Ratio Benefits Total	Taxable Ratio Benefits
	Total Wages	Taxable Wages	Benefits		
Agriculture	75,940	52,770	1,224,419	1.62%	2.32%
Mining and Construction	1,886,779	1,001,232	27,299,807	1.45%	2.57%
Manufacturing	4,945,212	2,537,647	33,421,464	.68%	1.32%
Transportation	1,429,268	586,533	4,395,354	.31%	.75%
Retail and Wholesale Trade	3,752,601	2,166,538	9,509,925	.25%	.44%
Finance - Insurance - Real Estate	1,047,059	565,280	1,499,001	.14%	.27%
Service	3,079,247	1,569,016	10,262,752	.33%	.65%

Industry	<u>Contributions</u>			Ratio Contributions Total	Ratio Contributions Taxable
	Total Wages	Taxable Wages	Contributions		
Agriculture	75,940	52,770	603,231	.79%	1.14%
Mining and Construction	1,886,779	1,001,232	19,006,080	1.00%	1.79%
Manufacturing	4,945,212	2,537,647	39,838,905	.80%	1.57%
Transportation	1,429,268	586,533	3,936,519	.28%	.67%
Retail and Wholesale Trade	3,752,601	2,166,538	14,429,038	.38%	.67%
Finance - Insurance - Real Estate	1,047,059	565,280	2,763,246	.26%	.49%
Service	3,079,247	1,569,016	10,667,166	.35%	.68%

- Alternatives:
1. Set some rates by industry and put subsidy costs on the good experience employers in the industry. This would result in an increase in rates from minimum rate employers in all but one industry over what a general subsidy of maximum rate employers would cost.
 2. Continue to set rates on individual experience rating.

Study Recommendation: To continue the present practice of experience rating employers and not set rates by industry.

Employee Contributions

Currently, three states, Alabama, Alaska, and New Jersey, levy a tax on covered workers, and during the 1940's several other states also taxed workers.¹³ The argument for imposing taxes directly on covered workers relates to the fact that the workers are the primary beneficiaries of this payment system, and it seems reasonable that the workers, as primary beneficiaries, also have some direct contribution into the program.

The arguments for excluding workers from any financing of unemployment compensation are as follows:

- (1) Worker contributions could lead to a stronger labor voice in influencing legislative decision, especially benefit amounts.
- (2) If workers contributed to the program, there could be a tendency to relax disqualification rulings, considering the fact that each employee being reviewed for disqualification has directly contributed to the program.
- (3) Many argue that the incidence of the tax is largely shifted forward to employees already, through lower wages, and/or reduced employment; thus, employees are already bearing at least part of the tax.
- (4) Explicitly taxing the employees could undermine the concept of employer responsibility for stabilizing the work force, thus, undercutting the intent of experience rating.

Worker taxes can be used as a short term emergency measure to help rebuild the Unemployment Reserve Fund. In 1976, for example, Alaska raised

¹³ California, Indiana, Kentucky, Louisiana, Massachusetts, New Hampshire, and Rhode Island. Diefenbach, Financing America's, pp. 64-65.

\$12 million through a 0.7 percent employee tax; Alabama raised \$20 million through a 0.5 percent tax; New Jersey raised \$68 million through a 0.5 percent tax.¹⁴ It is estimated that had Virginia had a 0.5 percent employee tax in 1979, it would have raised an additional \$45 million. Thus, during times of Fund inadequacy, the employee tax serves as a means to rebuild the Fund, with the chief beneficiaries of the program, the employees, sharing in the responsibility.

Although relatively uncommon in unemployment compensation, employee contributions are an integral part of social security. The lack of employee contributions likely stems from the fact that the system is based on the concept that the employer is responsible for the unemployment. As such he can be experience rated. Employees, on the other hand, would be difficult to experience rate. In addition, paying one-half of social security payments is based on each individual's expectation that they will eventually draw payments. Many do not ever expect to draw unemployment. It is not likely that many states will ever have employee contributions.

Objective: To collect a portion of costs of the system from the persons who draw benefits.

Alternatives: 1. Retain present system of having 100 percent of the tax paid by employers.

2. Impose a permanent employee tax.

3. Consider an employee tax of .5 percent as a short term fund building measure. A tax could be imposed on all covered workers, and be removed when the Fund achieved some percent of adequacy as measured by the Fund Adequacy Standard adopted.

Study Recommendation: To continue the present practice of employers paying 100 percent of the tax.

¹⁴Diefenbach, Financing America's, p. 65.

Extended Benefits

Because unemployment in a recession can exceed the maximum weeks allowed in most state systems, the Federal government devised an extended benefit program which extends benefits for one-half of the State duration up to 39 weeks. One-half of the expense is paid by the Federal government and one-half by the State. There is both a State and National trigger level of unemployment which brings extended benefits into effect, but Virginia's trigger is high relative to the National trigger and extended benefits in Virginia occur because of the National trigger. The concept behind extended benefits is national economic stabilization and not temporary replacement of lost wages. It is for this reason that the Federal government finances one-half of the cost and there is reason to believe that it should be totally financed by the Federal government.

Eighteen systems charge extended benefits to the Fund instead of employers:¹⁵

Arkansas	Montana
California	Nevada
Dist. of Columbia	New Mexico
Hawaii	Oregon
Idaho	Rhode Island
Kansas	South Carolina
Michigan	South Dakota
Minnesota	Wisconsin
Mississippi	Wyoming

Because the concept behind extended benefits is national stabilization and not temporary replacement of wages, consideration should be given to the financing of these benefits at the state level. Two options exist: (1) make extended benefits part of pool costs, or (2) charge the employer who was responsible for the original benefits. It is handled both ways in various states. Three conditions support making extended

¹⁵ U. S. Department of Labor, Comparison of State Unemployment Insurance Laws (Washington, DC: October, 1980), Table 205.

benefits part of pool costs. First, the nature of extended benefits, economic stabilization, suggests a general or common cost concept. Second, the employer charged with the benefit wages in Virginia need only employ that person for 31 days; in many instances, employers with employees for short periods of time would end up being charged for far more time in benefits than the person worked. Third, if individual employers are charged, the chances increase of that employer exceeding the top rate and, thus, much of it would be passed back into pool charges by default.

Objective: To charge extended benefits in a manner most consistent with objectives of having extended benefits.

Alternatives: 1. Charge employers for extended benefits in the same manner as regular benefits, Virginia's present position.

2. Charge extended benefits to pool costs.

Study Recommendation*: To charge extended benefits to pool costs.
(*Differs from Joint Subcommittee Recommendation.)

Trust Fund Building Taxes

With the event of wholesale insolvency that has occurred since the 1975 recession, the fact that roughly one-third of the state systems are in debt to the Federal Fund, Trust Fund building taxes have become a topic of discussion.¹⁶ Trust Funds can be built and maintained either by adding a building factor on top of experience rating or incorporating the fund building into the experience rating table. Additional taxes can be applied if the Trust Fund falls below an adequate amount.

That the fund falls and remains below an adequate amount is an indication of an inadequate tax structure given the benefit payment

¹⁶Little, "Socialized Costs," p. 1.

structure. Including fund building in the experience rating system so that users of the system build and maintain the fund is preferable. As noted in the Chapter on Experience Rating, benefit ratio systems do this much better than reserve ratio systems. Adding an additional across the board fund building tax is a reasonable short-term solution until the tax schedule can be restructured. A permanent Trust Fund building tax is indicative of a constant subsidy across employers.

Objective: To promote the rapid building and constant maintenance of the Trust Fund.

- Alternatives:**
1. Multiplicative charges against experience rated employers based on the Fund adequacy (for example, a 60% adequate fund would result in a 40% increase in tax rates for employers with unemployment experience).
 2. An additive Fund Building Tax placed on all employers triggered by Fund adequacy.
 3. Combinations of alternative 1 and alternative 2.

Study Recommendation: Utilize a multiplicative Fund Adequacy factor from 0 to 50% for employers with unemployment experience, plus an additive Fund Building charge for all employers of .3% until the Fund is 50% adequate.

CHAPTER IX

BENEFITS

Introduction

In Chapter IV it was pointed out that Unemployment Compensation was developed to provide for replacement of wages lost due to unemployment not of the individual's own making. Also given as reasons for its existence were general economic stabilization goals. As pointed out by Joseph Becker, however, the first reason is the overriding one:

The effect of unemployment benefits in meeting the needs of the unemployed individual is much clearer and usually is more influential in determining legislative action. If unemployment insurance were not needed for the individual, it is not likely that it would be established solely for its effect on the general economy. On the other hand, if unemployment insurance had no effect on the level of employment, and probably even if it had a minor negative effect, we should still want the program for the help it brings to unemployed individuals. In this sense, it may be said that the primary objective of the program is to help the unemployed individual.¹

The desire to aid unemployed persons was an outgrowth of the conditions of the Great Depression. Descriptions of those conditions are in Chapter IV, as are legal interpretations of the Act. In essence, the severe unemployment of the 1930's convinced sufficient numbers of persons that unemployment was not synonymous with laziness or lack of ambition. At the time there was an implicit recognition that a means test to be eligible was not consistent with the intent to replace lost wages. It was

¹Joseph M. Becker, "The Adequacy of Benefits in Unemployment Insurance," In Aid Of The Unemployed (Baltimore: The John Hopkins Press, 1965), p. 80.

evident that the persons to which the program would be targeted were able and willing to work.

The intent was to provide stability in a "regular worker's" income. As noted earlier, if Unemployment Compensation taxes fall ultimately on employees, the end result is a smoothing of income payments but no greater total income for workers in general. Viewed in this manner, the system does replace lost wages, there need not be a means test, and previous work history is the qualifying activity.

In the remainder of this Chapter the issues of (1) welfare vs. wage replacement, (2) benefit adequacy vs. work incentives and attachment to the work force, and (3) benefit amounts and duration are discussed.

Welfare Vs. Wage Replacement

The distinction between welfare and unemployment compensation is that rights to welfare payments come from showing "need", i.e., low income and some lack of self-sufficiency. It is for these reasons that most welfare is paid to support children and elderly, both obviously fitting the above categories. Rights to unemployment compensation on the other hand come from previous work effort as reflected by wages earned. Both welfare and unemployment compensation have their place in a modern industrial society. Confusing the two, however, helps no one.

The Unemployment Compensation Act provides a set of rights to unemployment benefits for covered workers. These rights are based on work history, past earnings, and desire to be employed, without regard to individual need. The goals of the Act for providing benefits are:

1. To provide replacement of wages to persons who become unemployed through no fault of their own.
2. To provide this replacement without a means test, but based on previous work history.

Goal One: To achieve Goal One, benefits should be targeted to those persons who are unemployed due to economic conditions and not through their own activities. Since there are economic incentives to draw benefits rather than work, it is crucial that the ability to draw benefits is contingent upon involuntary, rather than voluntary, unemployment. That is, unemployment which is compensated results from exogenous economic activity and is not the result of the worker's action. There are exceptions to this general provision called good cause quits which will be discussed later.

If compensation is paid when a worker quits without good cause, or is fired for good cause, the work disincentive is increased. Although disincentive is discussed in the next section, it is important to note now that disincentives can be divided into two forms, (1) the incentive to become unemployed, and (2) the incentive to remain unemployed. It is to the first that Goal One is oriented and which helps separate Unemployment Compensation from welfare. The employee is responsible for his actions, and if the employee becomes unemployed when a job was available, he or she does not have the "right" to Unemployment Compensation.

For this reason systems have disqualification provisions which disqualify a claimant if he or she quits without good cause or was fired for good cause. For a discussion of good cause, see Chapter X. Arguments have been made that if a person quits a job without good cause, his unemployment after some period is the fault of the economy. However, allowing a person to draw benefits for other than layoff or good cause quit creates a fiscal strain on the system because it creates an incentive to become unemployed.

This incentive to voluntarily become unemployed can be counteracted by having a permanent disqualification rather than a time disqualification.

Under a permanent disqualification an employee who voluntarily quits cannot draw unless he or she becomes employed again and is separated from the job for legitimate reasons. Under a time disqualification an employee can voluntarily quit and after a period of time collect benefits on the theory that his or her unemployment is now the result of economic conditions. Since Virginia has a permanent disqualification provision, there is no incentive to voluntarily quit to draw benefits.

Goal Two: Given that unemployment compensation is limited to those who are unemployed through no fault of their own, it is consistent that beneficiaries not have to pass a means test to draw benefits.

When the unemployment insurance program was first established, it was agreed that workers generally were unable to maintain themselves when jobless and that without some income support they would soon lapse into poverty. It was further agreed that to render that support through relief programs based on a test of individual need entailed a sacrifice of self-respect on the part of the worker that was not acceptable.²

Joseph Becker finds, "The absence of the individual needs test from unemployment compensation constitutes one of the most satisfying characteristics of the program."³ Becker points out that while there is a presumption of need based on a general class of persons (based on previously earned wages), the individual claimant's need is not an issue. "The decision to use the norm of presumed rather than proven need is crucial and affects every aspect of the problem of benefit adequacy."⁴

²Saul J. Blaustein, Unemployment Insurance Objectives and Issues (Kalamazoo, Michigan: The W. E. Upjohn Institute For Employment Research, 1968), p. 6.

³Becker, "Adequacy of Benefits," p. 81: Blaustein, Unemployment Insurance, p. 49.

⁴Becker, "Adequacy of Benefits," p. 81.

A means test consists of ascertaining information about a claimant's economic condition other than willingness and ability to work, past work history and earnings, and a legitimate separation from an employer. Economic conditions such as outside income, maintenance of dependents, and geographic cost of living differentials would be examples of economic conditions consistent with a means test.

Dependent allowances are a prime example of a means test provision. Thirteen states provide additional payment for dependents in differing forms.⁵ Some pay dependent payments over and above maximum benefit amounts, while others pay dependent benefits up to maximum benefit amounts. However they are paid, dependent benefit payments go beyond the basic conditions for drawing benefits based on class need and involve one aspect of an individual means test.

Curiously, Becker, while clearly delineating the difference, lapses into a recommendation to pay claimants dependent allowances:

A strong case exists for improving the position of primary beneficiaries relative to the single and secondary beneficiaries The objective can also be achieved by some system of dependents' benefits, a method more in accord with the "social" character of the program.⁶

Becker points out that this can be partly accomplished by raising maximum benefit amounts since primary wage earners (heads of households) tend to have higher than average wages.

Becker is not alone in his recommendation for paying dependent allowances. "There should not, then, be any objective to dependents'

⁵Alaska, Connecticut, District of Columbia, Illinois, Indiana, Iowa, Maine, Maryland, Massachusetts, Michigan, Ohio, Pennsylvania, Rhode Island, U. S. Department of Labor, Comparison Of State Unemployment Insurance Laws, October, 1980, Table 307.

⁶Becker, "Adequacy of Benefits," p. 94.

benefits on the basis of principle," is how it is viewed by Haber and Murray.⁷

The addition of dependents allowances to assure more adequate benefits for those with dependents should be accepted as an approach compatible with unemployment insurance, but dependents allowances should supplement a basic benefit amount that accords with the recommended benefit-wage ratio.⁸

However it is discussed, paying dependent allowances is a consideration of an individual's economic condition and not a general class needs test. Wages or salaries are not paid on the basis of dependents, although income tax policies make net income a function of dependents. While this may seem somewhat discriminatory, many other discrepancies exist which are equally discriminatory to claimants. In Virginia, for example, the maximum benefit amount will not purchase in real terms the same amounts in northern Virginia as in rural Southside. Indeed, this may be much more of a problem than dependents for persons in high cost of living areas. However, there are no provisions for alleviating differences, even though the average wage differential between a large metropolitan area and a rural area within the same state may be greater than the average wage differential between states.

There is an argument that income tax policies distinguish between those with dependents and those without dependents but not real income differences. A progressive income tax structure differentially hits higher wage earners without regard to real standards of living. To make a case

⁷William Haber and Merrill G. Murray, Unemployment Insurance In The American Economy (Homewood, Ill.: Richard D. Irwin, Inc., 1966), p. 194.

⁸W. E. Upjohn Institute's Unemployment Insurance Research Advisory Committee, Strengthening Unemployment Insurance (Kalamazoo, Michigan: W. E. Upjohn Institute For Employment Research, 1975), p. 30.

for dependent allowances without considering other equally "inequitable" aspects in the system merely shows a bias for one part of the total economic condition of the claimant. A progressive income tax is not sufficient justification for dependent allowances or other means tests; to provide dependent allowances is one step toward changing the program from objective wage replacement based on general class need to a welfare orientation of assessing individual need.

Just as organized labor pushes for dependency allowances, organized management pushes for pension offset provisions. Many states have had these provisions for years and federal law currently requires some pension offsets. The term offset means that benefits are reduced dollar for dollar by the amount of a pension. The implication is that the pensioner is earning other income in the same manner as if he were working another job. If a claimant is working two jobs and is separated from one job, his wages from the remaining job will be offset against benefits. Put in this context, pension offsets seem reasonable.

If, however, a claimant had built his own pension fund in the form of acquiring income producing rental property over the years, he would be treated differently. Theoretically, one could be earning thousands of dollars in dividends, interest, or return on investments, and if separated from a wage or salary job, draw benefits. Other income would not be offset since it is not wages or salary. Put in this context, pension offset seems unreasonable.

Most of the arguments against pensioners drawing benefits, however, are based on the concept that there is not a "need" for the benefits. If that argument is used, all other income should be considered and determination made individually. This would be a means test pure and simple. The only internally consistent argument for pension offset would be that

pensions as defined are considered wages. If a pension could be so legally defined, it would be treated as wages earned. Pension offsets cannot be justified on a need basis.

Calling a pension "wages" is likely stretching the interpretation of wages, since a pension payment is a vested right which cannot usually be revoked, requires no work or commitment, and is not included in the Gross National Income as wages or salaries. It could only be construed as delayed payment of past wages.

Pension offset or even denial of claims seems appropriate when the pensioning employer is the base period employer and would be charged for the claim. However, once a retired person found other employment, met the work requirements of attachment, wages, etc., and was appropriately separated from a job, pension offsets become much harder to justify.

Merrill Murray makes the following observation regarding pension offsets:

It is the author's conclusion that it is inequitable to reduce a UC payment, to which the otherwise eligible claimant is entitled, by any type of pension payment. Unemployment compensation is paid for another purpose than a pension—namely, to compensate for involuntary unemployment. If a pensioner wants to keep working and cannot find work, and is unemployed through no fault of his own, equity suggests that he be entitled to receive an unemployment benefit.⁹

In summary, an unemployment compensation system is on firmer ground if it objectively replaces wages on the basis of general need of classes of workers based on wages earned, ability and willingness to work, and unemployment due to no fault of the claimant; individual needs tests based on dependents or income should be avoided.

⁹Merrill G. Murray, Should Pensioners Receive Unemployment Compensation (Kalamazoo, Michigan: W. E. Upjohn Institute For Employment Research, 1972), p. 38.

Benefit Adequacy Vs. Work Incentives

Once it is determined to provide unemployment compensation to workers unemployed through no fault of their own, two questions must be answered: (1) What constitutes an adequate benefit amount, and (2) What work disincentives occur when money is paid for not working?

Adequate Benefits

There is no absolute standard for determining adequacy of benefits, and since there is an inverse relationship between benefits and work incentive, it is difficult to discuss adequacy separately. One of the leading works on adequacy is by Joseph Becker and as he states,

Adequacy is a normative concept rooted in a value system, and in any large society there will be many different value systems. . . . Many a disagreement about the "adequacy" of a given benefit provision is really a disagreement about the definition of adequacy and stems fundamentally from different value systems.¹⁰

Becker accurately points out that the normative concept of need is implicit in every operational program. Maximum benefit amounts are clearly designed by persons with an implicit concept of general need. Also important is the fact that the program operates in terms of averages. Some claimants will be "overpaid" while others will be "underpaid."¹¹

The payment of benefits is made in proportion to wages earned. What this proportion is to be and what wage figures to use are important questions. The majority of systems replace wages in the proportion of 50 percent of gross wages. Workers with wages above those required to

¹⁰Becker, "Adequacy of Benefits," p. 79.

¹¹Becker, "Adequacy of Benefits," p. 81.

receive maximum benefits receive less than 50 percent of gross wages. Virginia replaces 52 percent of gross wages up to the maximum benefit.

Becker discusses three distinct wage definitions: average wages, gross wages, and base period wages.¹² These distinctions are not mutually exclusive and do not cover all possibilities. For instance average gross wages differ from average net wages and base period wages can be gross, net or average. To clarify this issue, it is necessary to define the time period under consideration and whether the emphasis is on gross wages or net wages.

The period under consideration is quantitative in terms of base period wages, which are usually wages earned in one year. These are usually utilized in gross to qualify for payment and/or duration of payment. A concept of weekly wage is necessary, however, if one is to discuss wage replacement by the week. An almost infinite variety of formulas can be used to determine weekly wage. For instance, base period wages divided by 52, 9 months of wages by 39, 6 months of wages by 26, or 3 months of wages by 13. Another method would be to divide wages by only the number of weeks during which wages were earned.

If one accepts a version of the permanent income hypothesis, it would suggest that income expectations and resulting spending patterns are based on longer time horizons than 2 or 3 months. Indeed many states use 26 months to calculate average weekly wage. Averaging wage income over a period of 26 to 52 weeks reflects income flows over a long enough period of time to have operational accuracy.

Whether to consider gross or net of taxable wages presents another problem. Since the Federal income tax system and most state income tax

¹²Becker, "Adequacy of Benefits," p. 83.

systems are progressive, up to the maximum benefit the higher the income, the greater percentage of net wage a benefit replaces, even though gross replacement ratios remain the same. Not only does this present problems for determining adequacy, but as shown later it has a detrimental effect on work incentive.

In Tables 17 through 20 various combinations of benefits to wages are shown in terms of gross and net replacement values. Average weekly wage is determined by dividing the highest quarter earnings by 13 weeks.

Table 17 shows the replacement ratio for a single or married person with no children with maximum benefits of \$158.00 per week, while Table 18 shows the replacement ratio for couples with one or two children with maximum benefits of \$158.00 per week.

In 1980 Virginia replaced gross wages at the rate of 52% up to a weekly wage of \$235.00 per week. Weekly compensation in most states is comparable to Virginia in that the benefit tables provide for replacement of 50% up to the maximum benefit.

Net replacement ratios are often used as criteria for measurement, but which net income to use - that of a single person, a married person, or those with children - presents a choice. Tables 19 and 20 show replacement ratios when the net income ratio of a single person is held constant up to the maximum benefits.

As can be seen, the ratio of benefits to gross wages declines. It is also impossible, given the progressive tax structure, to replace the same ratio of wages for single, married, and those with children. Those states with dependent clauses give more money to those with dependents and, thus, raise the net ratio. The net replacement ratio concept is helpful in

TABLE 17

WAGE REPLACEMENT RATIOS FOR SINGLE AND MARRIED PERSONS WITH NO CHILDREN - MAXIMUM BENEFITS DE. 1958

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR SINGLE	RATIO OF BENEFITS TO NET SINGLE WAGES	NET WAGES FOR MARRIED	RATIO OF BENEFITS TO NET MARRIED WAGES
3.10	73	1368	950	38	52%	63.54	60%	67.77	56%
3.10	75	1404	975	39	52%	65.07	60%	69.60	56%
3.10	77	1440	1000	40	52%	66.61	60%	71.44	56%
3.10	79	1476	1025	41	52%	68.15	60%	73.28	56%
3.10	81	1512	1050	42	52%	69.68	60%	75.11	56%
3.10	83	1548	1075	43	52%	71.21	60%	76.95	56%
3.10	85	1584	1100	44	52%	72.74	60%	78.69	56%
3.10	87	1620	1125	45	52%	74.15	61%	80.23	56%
3.10	88	1656	1150	46	52%	74.63	62%	80.83	57%
3.10	90	1692	1175	47	52%	76.14	62%	82.36	57%
3.10	92	1728	1200	48	52%	77.56	62%	83.90	57%
3.10	94	1764	1225	49	52%	79.08	62%	85.42	57%
3.10	96	1800	1250	50	52%	80.50	62%	86.94	58%
3.10	98	1836	1275	51	52%	81.91	62%	88.45	58%
3.10	100	1872	1300	52	52%	83.06	63%	89.71	58%
3.10	102	1908	1325	53	52%	84.94	62%	91.59	58%
3.10	104	1944	1350	54	52%	86.81	62%	93.46	58%
3.10	106	1980	1375	55	52%	87.64	63%	94.49	58%
3.10	108	2016	1400	56	52%	89.52	63%	96.37	58%
3.10	110	2052	1425	57	52%	91.40	62%	98.25	58%
3.10	112	2088	1450	58	52%	92.22	63%	99.17	58%
3.10	113	2124	1475	59	52%	93.16	63%	100.11	59%
3.10	115	2160	1500	60	52%	93.99	64%	101.14	59%
3.10	117	2196	1525	61	52%	95.87	64%	103.02	59%
3.10	119	2232	1550	62	52%	97.75	63%	104.90	59%
3.10	121	2268	1575	63	52%	98.49	64%	105.82	60%
3.10	123	2304	1600	64	52%	100.37	64%	107.70	59%

TABLE 17 - Continued

WAGE REPLACEMENT RATIOS FOR SINGLE AND MARRIED PERSONS WITH NO CHILDREN: MAXIMUM BENEFITS OF \$158

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR SINGLE	RATIO OF BENEFITS TO NET SINGLE WAGES	NET WAGES FOR MARRIED	RATIO OF BENEFITS TO NET MARRIED WAGES
3.13	125	6500	1625	65	52%	102.25	64%	109.58	59%
3.25	130	6760	1690	68	52%	105.79	64%	113.42	60%
3.38	135	7020	1755	71	53%	109.33	65%	117.11	61%
3.50	140	7280	1820	73	52%	112.88	65%	120.86	60%
3.63	145	7540	1885	76	52%	116.42	65%	124.50	61%
3.75	150	7800	1950	78	52%	119.97	65%	128.25	61%
4.00	160	8320	2080	84	52%	127.35	66%	135.93	62%
4.25	170	8840	2210	89	52%	134.14	66%	143.32	62%
4.50	180	9360	2340	94	52%	140.93	67%	150.51	62%
4.75	190	9880	2470	99	52%	147.71	67%	157.59	63%
5.00	200	10400	2600	105	52%	154.50	69%	164.68	64%
5.25	210	10920	2730	110	52%	161.35	68%	171.83	64%
5.50	220	11440	2860	115	52%	168.13	68%	178.91	64%
5.75	230	11960	2990	120	52%	174.42	69%	186.00	65%
6.00	240	12480	3120	126	52%	180.71	70%	193.09	65%
6.25	250	13000	3250	131	52%	187.00	70%	200.18	65%
6.50	260	13520	3380	136	52%	193.27	70%	206.96	66%
6.75	270	14040	3510	142	53%	199.48	71%	213.74	66%
7.00	280	14560	3640	147	52%	205.70	71%	220.46	67%
7.25	290	15080	3770	150	52%	211.90	71%	227.16	66%
7.50	300	15600	3900	155	52%	218.02	71%	233.88	66%
7.75	310	16120	4030	158	51%	223.83	71%	240.59	66%
8.00	320	16640	4160	158	49%	229.64	69%	247.30	64%
8.25	330	17160	4290	158	48%	235.45	67%	254.01	62%
8.50	340	17680	4420	158	46%	241.30	65%	260.53	61%
8.75	350	18200	4550	158	45%	247.08	64%	266.94	59%
9.00	360	18720	4680	158	44%	252.69	63%	273.35	58%

TABLE 18

WAGE REPLACEMENT RATIOS FOR MARRIED PERSONS WITH ONE AND TWO CHILDREN: MAXIMUM BENEFITS OF \$150

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR 1 CHILD COUPLE	RATIO OF BENEFITS TO NET 1 CHILD COUPLE WAGES	NET WAGES FOR 2 CHILD COUPLE	RATIO OF BENEFITS TO NET 2 CHILD COUPLE WAGES
3.10	73	1368	950	38	52%	68.00	56%	68.23	56%
3.10	75	1404	975	39	52%	69.83	56%	70.06	56%
3.10	77	1440	1000	40	52%	71.67	56%	71.90	56%
3.10	79	1476	1025	41	52%	73.51	56%	73.74	56%
3.10	81	1512	1050	42	52%	75.34	56%	75.57	56%
3.10	83	1548	1075	43	52%	77.18	56%	77.41	56%
3.10	85	1584	1100	44	52%	79.02	56%	79.25	56%
3.10	87	1620	1125	45	52%	80.86	56%	81.09	56%
3.10	88	1656	1150	46	52%	81.76	56%	81.99	56%
3.10	90	1692	1175	47	52%	83.59	56%	83.82	56%
3.10	92	1728	1200	48	52%	85.43	56%	85.66	56%
3.10	94	1764	1225	49	52%	87.27	56%	87.50	56%
3.10	96	1800	1250	50	52%	89.11	56%	89.34	56%
3.10	98	1836	1275	51	52%	90.94	56%	91.17	56%
3.10	100	1872	1300	52	52%	92.74	56%	92.97	56%
3.10	102	1908	1325	53	52%	94.62	56%	94.85	56%
3.10	104	1944	1350	54	52%	96.49	56%	96.72	56%
3.10	106	1980	1375	55	52%	97.73	56%	98.50	56%
3.10	108	2016	1400	56	52%	99.61	56%	100.38	56%
3.10	110	2052	1425	57	52%	101.49	56%	102.26	56%
3.10	112	2088	1450	58	52%	102.41	57%	104.03	56%
3.10	113	2124	1475	59	52%	103.35	57%	104.97	56%
3.10	115	2160	1500	60	52%	104.38	57%	106.73	56%
3.10	117	2196	1525	61	52%	106.26	57%	108.61	56%
3.10	119	2232	1550	62	52%	108.14	57%	110.49	56%
3.10	121	2268	1575	63	52%	109.06	58%	112.21	56%

TABLE 18 - Continued

WAGE REPLACEMENT RATES FOR MARRIED PERSONS WITH ONE AND TWO CHILDREN: MAXIMUM BENEFITS OF \$158

MONTHLY WAGE	NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.									
	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR 1 CHILD COUPLE	RATIO OF BENEFITS TO NET 1 CHILD COUPLE WAGES	NET WAGES FOR 2 CHILD COUPLE	RATIO OF BENEFITS TO NET 2 CHILD COUPLE WAGES	
3.10	123	2304	1600	64	52%	110.94	58%	114.09	56%	
3.13	125	6500	1625	65	52%	112.82	58%	115.97	56%	
3.25	130	6760	1690	68	52%	116.66	58%	119.81	57%	
3.38	135	7020	1755	71	53%	120.40	59%	123.65	57%	
3.50	140	7280	1820	73	52%	124.25	59%	127.40	57%	
3.63	145	7540	1885	76	52%	127.98	59%	131.24	58%	
3.75	150	7800	1950	78	52%	131.73	59%	134.99	58%	
4.00	160	8320	2080	84	52%	139.41	60%	142.88	59%	
4.25	170	8840	2210	89	52%	146.80	61%	150.27	59%	
4.50	180	9360	2340	94	52%	154.19	61%	157.66	60%	
4.75	190	9880	2470	99	52%	161.57	61%	165.04	60%	
5.00	200	10400	2600	105	52%	168.66	62%	172.43	61%	
5.25	210	10920	2730	110	52%	175.81	63%	179.89	61%	
5.50	220	11440	2860	115	52%	182.89	63%	186.97	62%	
5.75	230	11960	2990	120	52%	189.98	63%	194.06	62%	
6.00	240	12480	3120	126	52%	197.07	64%	201.15	63%	
6.25	250	13000	3250	131	52%	204.16	64%	208.24	63%	
6.50	260	13520	3380	136	52%	211.24	64%	215.32	63%	
6.75	270	14040	3510	142	53%	218.33	65%	222.41	64%	
7.00	280	14560	3640	147	52%	225.22	65%	229.50	64%	
7.25	290	15080	3770	150	52%	231.93	65%	236.58	63%	
7.50	300	15600	3900	155	52%	238.64	65%	243.31	64%	
7.75	310	16120	4030	158	51%	245.36	64%	250.02	63%	
8.00	320	16640	4160	158	49%	252.06	63%	256.73	62%	
8.25	330	17160	4290	158	48%	258.78	61%	263.44	60%	
8.50	340	17680	4420	158	46%	265.49	60%	270.16	58%	

TABLE 19

WAGE REPLACEMENT RATIOS FOR SINGLE AND MARRIED PERSONS WITH NO CHILDREN WHEN BENEFITS ARE A CONSTANT 25% PERCENT OF THE NET WAGES OF A SINGLE PERSON: MAXIMUM BENEFITS OF \$128

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

WEEKLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR SINGLE	RATIO OF BENEFITS TO SINGLE WAGES	NET WAGES FOR MARRIED	RATIO OF BENEFITS TO MARRIED WAGES
3.10	73	1368	950	38	52%	63.54	60%	67.77	56%
3.10	75	1404	975	39	52%	65.07	60%	69.60	56%
3.10	77	1440	1000	40	52%	66.61	60%	71.44	56%
3.10	79	1476	1025	41	52%	68.15	60%	73.28	56%
3.10	81	1512	1050	42	52%	69.68	60%	75.11	56%
3.10	83	1548	1075	43	52%	71.21	60%	76.95	56%
3.10	85	1584	1100	44	52%	72.74	60%	78.69	56%
3.10	88	1656	1150	45	51%	74.63	60%	80.83	56%
3.10	90	1692	1175	46	51%	76.14	60%	82.36	56%
3.10	92	1728	1200	47	51%	77.56	61%	83.90	56%
3.10	96	1800	1250	48	50%	80.50	60%	86.94	55%
3.10	98	1836	1275	49	50%	81.91	60%	88.45	55%
3.10	100	1872	1300	50	50%	83.06	60%	89.71	56%
3.10	102	1908	1325	51	50%	84.94	60%	91.59	56%
3.10	104	1944	1350	52	50%	86.81	60%	93.46	56%
3.10	106	1980	1375	53	50%	87.64	60%	94.49	56%
3.10	108	2016	1400	54	50%	89.52	60%	96.37	56%
3.10	110	2052	1425	55	50%	91.40	60%	98.25	56%
3.10	113	2124	1475	56	50%	93.16	60%	100.11	56%
3.10	117	2196	1525	56	50%	95.87	60%	103.02	56%
3.10	119	2232	1550	59	50%	97.75	60%	104.90	56%
3.10	123	2304	1600	60	49%	100.37	60%	107.70	56%
3.13	125	6500	1625	61	49%	102.25	60%	109.50	56%
3.25	130	6760	1690	63	48%	105.79	60%	113.42	56%
3.38	135	7020	1755	66	49%	109.33	60%	117.11	56%
3.50	140	7280	1820	68	49%	112.88	60%	120.86	56%
3.63	145	7540	1885	70	48%	116.42	60%	124.50	56%
3.75	150	7800	1950	72	48%	119.97	60%	128.25	56%
4.00	160	8320	2000	76	47%	127.35	60%	135.93	56%

TABLE 19 - Continued

WAGE-REPLACEMENT RATIOS FOR SINGLE AND MARRIED PERSONS WITH NO CHILDREN WHEN BENEFITS ARE A CONSISTENTLY PERCENT OF THE NET WAGES OF A SINGLE PERSON; MAXIMUM BENEFITS OF \$128

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR SINGLE	RATIO OF BENEFITS TO NET SINGLE WAGES	NET WAGES FOR MARRIED	RATIO OF BENEFITS TO NET MARRIED WAGES
4.25	170	8840	2210	80	47%	134.14	60%	143.32	56%
4.50	180	9360	2340	85	47%	140.93	60%	150.51	56%
4.75	190	9880	2470	89	47%	147.71	60%	157.59	56%
5.00	200	10400	2600	93	46%	154.50	60%	164.68	56%
5.25	210	10920	2730	97	46%	161.35	60%	171.83	56%
5.50	220	11440	2860	101	46%	168.13	60%	178.91	56%
5.75	230	11960	2990	105	46%	174.42	60%	186.00	56%
6.00	240	12480	3120	109	45%	180.71	60%	193.09	56%
6.25	250	13000	3250	112	45%	187.00	60%	200.18	56%
6.50	260	13520	3380	116	45%	193.27	60%	206.96	56%
6.75	270	14040	3510	120	44%	199.48	60%	213.74	56%
7.00	280	14560	3640	123	44%	205.70	60%	220.46	56%
7.25	290	15080	3770	127	44%	211.90	60%	227.16	56%
7.50	300	15600	3900	131	44%	218.02	60%	233.88	56%
7.75	310	16120	4030	134	43%	223.83	60%	240.59	56%
8.00	320	16640	4160	138	43%	229.64	60%	247.30	56%
8.25	330	17160	4290	141	43%	235.45	60%	254.01	56%
8.50	340	17680	4420	145	43%	241.30	60%	260.53	56%
8.75	350	18200	4550	148	42%	247.08	60%	266.94	55%
9.00	360	18720	4680	152	42%	252.69	60%	273.35	56%
9.25	370	19240	4810	155	42%	258.10	60%	279.76	55%
9.50	380	19760	4940	158	42%	263.52	60%	286.18	55%
9.75	390	20280	5070	158	41%	268.92	59%	292.58	54%
10.00	400	20800	5200	158	39%	274.34	58%	299.00	53%
10.25	410	21320	5330	158	39%	279.75	56%	305.41	52%
10.50	420	21840	5460	158	38%	285.16	55%	311.52	51%

TABLE 20

WAGE REPLACEMENT RATIOS FOR MARRIED PERSONS WITH ONE AND TWO CHILDREN WHEN BENEFITS ARE A CONSTANT DAILY PERCENT OF THE NET WAGES OF A SINGLE PERSON: MAXIMUM BENEFITS OF \$138

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR 1 CHILD COUPLE	RATIO OF BENEFITS TO NET 1 CHILD COUPLE WAGES	NET WAGES FOR 2 CHILD COUPLE	RATIO OF BENEFITS TO NET 2 CHILD COUPLE WAGES
3.10	73	1368	950	38	52%	68.00	56%	68.23	56%
3.10	75	1404	975	39	52%	69.83	56%	70.06	56%
3.10	77	1440	1000	40	52%	71.67	56%	71.90	56%
3.10	79	1476	1025	41	52%	73.51	56%	73.74	56%
3.10	81	1512	1050	42	52%	75.34	56%	75.57	56%
3.10	83	1548	1075	43	52%	77.18	56%	77.41	56%
3.10	85	1584	1100	44	52%	79.02	56%	79.25	56%
3.10	88	1656	1150	45	51%	81.76	55%	81.99	55%
3.10	90	1692	1175	46	51%	83.59	55%	83.82	55%
3.10	92	1728	1200	47	51%	85.43	55%	85.66	55%
3.10	96	1800	1250	48	50%	89.11	54%	89.34	54%
3.10	98	1836	1275	49	50%	90.94	54%	91.17	54%
3.10	100	1872	1300	50	50%	92.74	54%	92.97	54%
3.10	102	1908	1325	51	50%	94.62	54%	94.85	54%
3.10	104	1944	1350	52	50%	96.49	54%	96.72	54%
3.10	106	1980	1375	53	50%	97.73	54%	98.50	54%
3.10	108	2016	1400	54	50%	99.61	54%	98.50	54%
3.10	110	2052	1425	55	50%	101.49	54%	100.38	54%
3.10	113	2124	1475	56	50%	103.35	54%	102.26	54%
3.10	117	2208	1525	58	50%	106.20	54%	104.97	53%
3.10	119	2232	1550	59	50%	108.14	55%	108.01	53%
3.10	121	2268	1575	59	49%	109.06	54%	110.49	53%
3.10	123	2304	1600	60	49%	110.94	54%	112.21	53%
3.10	125	2340	1625	61	49%	112.82	54%	114.09	53%
3.10	130	2460	1690	63	48%	116.66	54%	115.97	53%
3.10	135	2520	1755	66	49%	120.40	55%	119.81	53%
3.10	140	2600	1820	68	49%	124.25	55%	123.65	53%
3.10	145	2670	1885	70	48%	127.98	55%	127.40	53%
3.10	150	2760	1950	72	48%	131.73	55%	131.24	53%
3.10	150	2760	1950	72	48%	131.73	55%	134.99	53%

TABLE 20 - Continued

WAGE REPLACEMENT RATIOS FOR MARRIED PERSONS WITH ONE AND TWO CHILDREN WHEN BENEFITS ARE A CONSTANT 54% PERCENT OF THE NET WAGES OF A SINGLE PERSON: MAXIMUM BENEFITS OF \$158

NET WEEKLY WAGES = GROSS WAGES - SOCIAL SECURITY, FEDERAL TAXES, AND STATE TAXES.

HOURLY WAGE	GROSS WEEKLY WAGE	YEARLY WAGE	HIGH QUARTER EARNINGS	WEEKLY BENEFITS	RATIO OF BENEFITS TO GROSS WAGES	NET WAGES FOR 1 CHILD COUPLE	RATIO OF BENEFITS TO NET 1 CHILD COUPLE WAGES	NET WAGES FOR 2 CHILD COUPLE	RATIO OF BENEFITS TO NET 2 CHILD COUPLE WAGES
4.00	160	8320	2080	76	47%	139.41	55%	142.88	53%
4.25	170	8840	2210	80	47%	140.80	54%	150.27	53%
4.50	180	9360	2340	85	47%	154.19	55%	157.66	54%
4.75	190	9880	2470	89	47%	161.57	55%	165.04	54%
5.00	200	10400	2600	93	46%	168.66	55%	172.43	54%
5.25	210	10920	2730	97	46%	175.81	55%	179.89	54%
5.50	220	11440	2860	101	46%	182.89	55%	186.97	54%
5.75	230	11960	2990	105	46%	189.98	55%	194.06	54%
6.00	240	12480	3120	108	45%	197.07	55%	201.15	54%
6.25	250	13000	3250	112	45%	204.16	55%	208.24	54%
6.50	260	13520	3380	116	45%	211.24	55%	215.32	54%
6.75	270	14040	3510	120	44%	218.33	55%	222.41	54%
7.00	280	14560	3640	123	44%	225.22	55%	229.50	54%
7.25	290	15080	3770	127	44%	231.93	55%	236.58	54%
7.50	300	15600	3900	131	44%	238.64	55%	243.31	54%
7.75	310	16120	4030	134	43%	245.36	55%	250.02	54%
8.00	320	16640	4160	138	43%	252.06	55%	256.73	54%
8.25	330	17160	4290	141	43%	258.78	54%	263.44	54%
8.50	340	17680	4420	145	43%	265.49	55%	270.16	54%
8.75	350	18200	4550	148	42%	272.21	54%	276.87	53%
9.00	360	18720	4680	152	42%	278.61	55%	283.58	54%
9.25	370	19240	4810	155	42%	285.03	54%	290.29	53%
9.50	380	19760	4940	158	42%	291.44	54%	296.71	53%
9.75	390	20280	5070	158	41%	297.85	53%	303.11	52%
10.00	400	20800	5200	158	39%	304.26	52%	309.53	51%

constructing the benefit table to vary the schedule of benefits overall. It does not imply ascertaining the net wage of each individual claimant and paying benefits based on his or her net wages.

Since adequacy is a normative decision, it is doubtful whether any consensus will be reached as to adequate replacement. It is clear that a net replacement technique makes replacement much more a function of disposable income.

Work Incentives

It was obvious to the framers of the Act and is presently to those familiar with the system, that work disincentives are created whenever money is paid for not working. Whether unemployment compensation is viewed as a straightforward incentive to not seek work or as "imposing a very high rate of tax on the income that the individual would earn if he were not unemployed,"¹³ the disincentive exists. While work disincentive cannot be completely eliminated even when the act of becoming unemployed is confined to conditions outside the control of the claimant, the disincentive should be limited to occur only after a person loses a job for exogenous reasons. Thus, the work disincentive should not be present in the act of becoming unemployed, only in remaining unemployed. The difference between the two conditions is significant and is strong reason for the permanent disqualification provision.

While studies do not distinguish between these two disincentives, in states such as Virginia most of the disincentives would be to remain unemployed. A combination of permanent disqualification and a strong

¹³Martin Feldstein, "Unemployment Compensation: Adverse Incentives and Distributional Anomalies," National Tax Journal (1974): 232.

experience rating system reduces the incentive for a voluntary quit and for the employer to allow the claim to go unchallenged.

Nevertheless, the propensity for work disincentive can be seen when one considers the benefit table in relation to what one could earn at a minimum wage job. Minimum wage is used as a criterion because it is the floor for employment earnings and because of the availability of such jobs in the economy, particularly a relatively healthy economy as exists in Virginia. Virginia's benefit table is not greatly different from most other states' in that it allows small amounts of benefits to be drawn based on very low earnings.

A worker who takes a minimum wage job (\$3.35 per hour) for 30 hours a week would earn \$100.50 per week for 15 weeks in Virginia and then could draw 12 weeks at \$41.00 per week. If this worker worked 9 hours per week at minimum wage, his earnings would be \$30.15 per week. His high quarter earnings would be \$392.00. By working 46 weeks, the claimant could draw \$38.00 per week for 12 weeks. A person who worked a minimum wage job (\$3.35) 40 hours a week for 41 weeks could draw \$70.00 per week for 26 weeks.

Focusing on the minimum wage addresses only one aspect of unemployment compensation. The bulk of payments are to persons earning above the minimum wage. What impact does unemployment compensation have on work disincentives in general?

Martin Feldstein presents a strong case that unemployment compensation has severe negative incentives:

The current system of unemployment compensation entails very strong adverse incentives. For a wide variety of "representative" unemployed workers, unemployment benefits replace more than 60 per cent of lost net income. In the more generous states, the replacement rate is over 80 per cent for men and over 100 per cent for women. Most of the \$5 billion in benefits

go to middle and upper income families. This anomaly in the distribution of benefits is exacerbated by the fact that unemployment compensation benefits are not subject to tax.¹⁴

Feldstein makes his case based on examples of what the incentives are in terms of monetary remuneration for unemployment relative to working. In some instances, such as a working wife, 95 percent of the net income of the wife would be replaced with unemployment compensation.¹⁵ The examples are based on the State of Massachusetts and may overstate or understate the situation existing in other states. While Feldstein clearly shows the incentives, he does not investigate the impact. That is, given the incentives, to what extent do benefits increase unemployment?

Other researchers have looked at this problem and results vary. Hamermesh summarizes twelve studies from the 1960's and concludes that a gross replacement ratio of 50% increases unemployment by 2.5 weeks.¹⁶ As he points out, however, this changes over the cycle and is somewhat inverse in the impact over the cycle. In an economic downturn unemployment compensation has less overall impact on duration than in an economic boom.¹⁷

Barron and Mellow in a recent article allege that unemployment compensation results in 8 weeks longer duration. However, their methodology was suspect and their sample period was early 1976, during an ongoing recession.¹⁸

¹⁴Feldstein, "Unemployment Compensation: Adverse Incentives," p. 231.

¹⁵Feldstein, "Unemployment Compensation: Adverse Incentives," p. 236.

¹⁶Daniel S. Hamermesh, Jobless Pay And The Economy (Baltimore: John Hopkins Press, 1977), p. 49.

¹⁷Hamermesh, Jobless Pay, pp. 32, 34, and 38.

¹⁸John Barron and Wesley Mellow, "Unemployment Insurance: The Recipients and Its Impact," Southern Economic Journal (1981): 606.

Another study by Munts and Garfinkel approaches the problem by looking at work disincentives of other programs, as well as unemployment compensation:

All the studies reported so far suggest the following: (1) that workers respond to work incentives and disincentives, and (2) that certain demographic groups are more likely to respond to these economic influences than certain other groups (for example, wives more than husbands). While the New Jersey experiment indicates that transfer programs lead to reductions in work effort, the magnitude of the reductions in the experiment did not vary consistently with reductions in the reward for work. Moreover, results from the experiment suggest that the work disincentives inherent in the unemployment insurance system may have beneficial aspects. That is, by encouraging workers to be more selective in the jobs they are willing to accept, the UI system may create incentives for increased individual and societal productivity.¹⁹

Looking directly at Unemployment Compensation led them to conclude that aggregate analysis does not yield satisfactory results. They suggest future studies address the matter differently:

Any future study, however, should examine the relationship of the earnings-replacement ratio to duration of unemployment for different demographic groups separately rather than lump all the unemployed together. As discussed above, other research on work incentives and disincentives indicates that primary workers are much less likely than secondary workers to be affected by work disincentives. Similarly, it would be useful to know if there are differences in the effects on high- and low-income workers. Finally, it would be desirable in future studies to use adjusted earnings-replacement ratios²⁰

The General Accounting Office in a report found the following:

LIMITED FINANCIAL INCENTIVE TO WORK

GAO's interviews with 3,000 persons receiving unemployment compensation showed that compensation, either alone or combined with other income, replaced an average of 64 per-

¹⁹Raymond Munts and Irwin Garfinkel, The Work Disincentives Effects of Unemployment Insurance (Kalamazoo, Michigan: W. E. Upjohn Institute, 1974), p. 29.

²⁰Munts and Garfinkel, Work Disincentives Effects, p. 35.

cent of a recipients's net income before unemployment. About 25 percent of these persons replaced over 75 percent of their net income, and about 7 percent replaced over 100 percent.

Persons who replaced over 75 percent of their net income before unemployment

--collected compensation over 2 weeks longer than those who replaced 75 percent or less,

--were more apt to exhaust compensation,

--were nearly twice as likely to have quit their most recent jobs, and

--generally had held jobs similar to ones listed by the Employment Service and local newspapers.

Further, nearly 30 percent of those who replaced over 75 percent of their net income told GAO they had only a limited financial need to work. These factors indicate that some persons receiving compensation are not financially motivated to work.

FACTORS LIMITING FINANCIAL INCENTIVE TO WORK

Social and economic changes occurring since the program began have reduced recipients' financial incentive to work.

1. Increased taxes on workers' income

Increases in Federal, State, and local income taxes and social security taxes since the 1930's have reduced the amount of take-home pay and resulted in a significant gap between gross and net income. The Federal income tax was primarily limited to high income families in the 1930's, but today most workers pay income taxes. State and local personal income taxes have increased by over 500 percent in the past 25 years. Social security taxes have increased by over 600 percent since the early years of the program. Because unemployment compensation is based on gross income, the increased taxes have resulted in unemployment compensation replacing a higher percentage of take-home pay. Unemployment compensation was not taxed until 1979 and is now taxed only at high income levels.²¹

The GAO recommended that Congress act to improve work incentives by (1) taxing unemployment compensation, and (2) reducing unemployment

²¹The General Accounting Office, Unemployment Insurance - Inequities and Work Disincentives In The Current System, Washington, D.C.: August 28, 1979, pp. 1-3.

compensation by retirement income. It is ironic that the solution to past increases in government taxation of wages, which has lead to an increase in the ratio of benefits to net wages, is to tax benefits. Thus, states would tax employers to pay benefits to claimants so that the Federal Government can tax benefits so that claimants will more diligently seek work. Rather than taxing benefits, it would seem more prudent to create a benefit payment table that replaces net wages as in Tables 19 and 20 and thereby reduces payroll taxes on employers.

While there is agreement that work disincentives exist due to the payment of unemployment compensation, there is not a concensus on the impact or whether it is truly a problem.

As noted, most studies have failed to separate incentives into the two component parts, incentive to become unemployed and incentive to remain unemployed, or to adequately address why increased unemployment duration presents a major problem. The incentive to become unemployed due to potential benefits can be severely limited if a state has a permanent disqualification provision. In essence, this means that the employer, not the employee, determines if an individual will be unemployed. Combined with rigorous requirements of labor force attachment in the form of previous earnings, there will not be, on average, many persons drawing unemployment compensation who voluntarily leave their job. If there is a strong experience rating system, an employer will be diligent in certifying the ability of a claimant to draw.

Once unemployed through no fault of his own, however, there exists an incentive to stay unemployed. In order to provide insight into this problem, it is helpful to separate claimants into the following categories.

- (1) Temporarily unemployed, but with a job - Claimants in this category are those laid off by an employer, but the employer has given a return to work date.

- (2) Permanently separated from an employer and seeking employment with another employer - These claimants have little or no probability of returning to their old employer.
- (3) Disasters or catastrophic events which are unplanned and result in unemployment in a specific area - These claimants will likely be reemployed as soon as there is recovery from the disaster or will be reabsorbed into the work force with other employers.
- (4) Claimants separated from an employer for various reasons, but the claimant views benefits as a consistent integral part of his income

The first category is a large segment of claimant activity. Martin Feldstein examines this group at length. Layoffs are considered temporary in some sense and persons in this category are economically and emotionally attached to their "job". These layoffs are defined as "suspensions without pay lasting or expected to last more than 7 consecutive calendar days, initiated by the employer without prejudice to the worker."²² Utilizing a national longitudinal survey, information on unemployment and job change were collected for the same men for a 5 year period, 1966 to 1971.

. . . 21.1 percent of those with no job change had at least one spell of unemployment and 61 percent of those experiencing unemployment did not change jobs. . . . 40 percent of the weeks of unemployment were experienced by those with no job change.²³

In addition:

Only 10 percent of those on layoff said they were looking for work when asked what they had been doing during the previous week; . . . In contrast, among job losers with no job, 63 percent were looking for work; the proportion for men aged 25 to 64 was 82 percent.²⁴

²²Martin Feldstein, "The Importance of Temporary Layoffs: An Empirical Analysis," Brookings Papers on Economic Activity (Washington, D.C.: Brookings Institution, 1975), Issue 3, p. 727, as quoted from Employment and Earnings, Vol 22 (November, 1975), p. 135.

²³Feldstein, "The Importance of Temporary Layoffs," p. 729.

²⁴Feldstein, "The Importance of Temporary Layoffs," p. 732.

Thus, many of these claimants rationally expect to be recalled, and they do not generally look for work. If through experience rating employers are paying the full amount for these layoffs, it is difficult to see any net loss to society. The employer views unemployment compensation as part of the wage package and, thus, makes the economic adjustments necessary for social economic efficiency.

In the second case claimants do not expect to be recalled and, as indicated above, seek work more diligently. They may well search longer than if they did not have benefits, but there are advantages to this if it results in employment that is more permanent. It is assumed that persons in the second case are not chronically unemployed, but have infrequent occurrences which are not predictable. Thus, instances of any single individual in this case extending unemployment duration would be limited to the impact of being selective in regard to new employment or to a brief period of leisure provided by benefits. Since this is not a recurring event with individual claimants, the impact is likely minimal.

The third case of disaster or catastrophic events is very similar to the second case and the impact is mostly limited to longer search periods reinforced by reluctance to move and resettle. Since this is an unpredictable, non-recurring event, the impact is not severe.

In the fourth case drawing benefits is predictable and is incorporated into the income expectations of the claimant. Whether this is because of the seasonal aspects of the employment or the ability of a claimant to "work the system," the result is the same. It is this group of claimants for which rules and restrictions are constructed and for which work disincentives have the most effect.

Chronic spells of unemployment are a sign of either seasonal occupations or lack of work attachment on the part of the claimant. In

the case of seasonal employment, forcing employers to bear the cost of this unemployment results in a spreading of income over a longer period as indicated in an earlier chapter. There is little economic disallocation.

Unfortunately, the practical aspect is that systems have maximum tax rates which prevent charging seasonal employers the full cost and subsidies occur. Likewise, choosing seasonal employment knowing that it provides long periods of paid leisure cannot be prevented with job search requirements no matter how much an agency attempts to enforce them.

There is one practical answer to the work disincentive problem, and it requires looking at averages in terms of incentives. No system can prevent all persons determined to take advantage of it from doing so. On average one can change incentives, both negative and positive, to lower the average negative impact of unemployment compensation on unemployment duration.

One single way to accomplish this is through increased labor force attachment requirements. The more work that is required before drawing benefits, the more difficult it is for those in category four to partake of leisure and draw benefits. Work force attachment requirements affect those in categories one, two, and three very little, if at all.

Attachment can be measured in terms of dollars or in terms of work effort measured in hours, days, or weeks of work. States use dollar values to determine benefit levels since weekly wage replacement is the goal. However, the ability to draw at all, and if so for how long, are more correctly assessed using non-dollar measures.

To promote attachment to the work force, 12 states require employers to report weeks in which the claimant worked.²⁵ One State, Washington,

²⁵Florida, Hawaii, Michigan, Minnesota, New Jersey, New York, Ohio, Oregon, Rhode Island, Utah, Vermont, and Wisconsin.

requires hours worked to be reported. By requiring a time commitment to the work force, abuse of the system by individual claimants is reduced. Washington State put its hours reporting form into use two years ago and feels that it is working well. There was reportedly little or no resistance to its use by employers.

Washington requires 680 hours worked to qualify for unemployment insurance. This is equivalent to 17 weeks of 40 hours per week and 23 weeks of 30 hours per week. At minimum wage, a claimant would have to earn \$2,278 in the base period to qualify compared to \$1,368 for Virginia in 1980. For 1981 Virginia required \$2,200 in two quarters to draw benefits.

In Table 21, a benefit Table is presented that requires 800 hours of work to qualify for benefits. Under this table no one would receive benefits that were less than \$55, but it would require much more attachment to the labor force to qualify than at present. Eight hundred hours at \$3.10 per hour results in gross wages of \$2,480, entitling a claimant to \$55 per week for 12 weeks. To qualify for additional weeks, the claimant would be required to have worked additional hours. Duration is dependent upon hours worked. A claimant receives 60% of his hours worked, divided by a 40 hour work weeks, as weeks of duration. For example, 800 hours worked divided by 40 is 20 weeks of full-time work. Sixty percent of 20 is 12 weeks, hence the minimum qualifying amount. If a person worked 1,000 hours in the base year, duration would be 15 weeks. In order to earn 26 weeks of benefits, a person would have to work 44 weeks or 1,733 hours. Thus, a claimant would have to had worked 80% of the base period to draw 26 weeks of benefits, assuming a 40 hour week. Many persons could qualify in less time by working overtime hours, however, under this table it would be difficult to draw 26 weeks of benefits in successive years.

TABLE 21

BENEFIT DURATION BASED ON HOURS WORKED

Hourly Wage	Weekly Benefit	Highest Two Quarters Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
3.35	52	2613	2680	2901	3126	3350	3571	3796	4020	4241	4466	4690	4911	5136	5360	5581	5806
3.45	54	2691	2760	2988	3219	3450	3678	3909	4140	4368	4599	4830	5058	5289	5520	5748	5979
3.55	55	2769	2840	3074	3312	3550	3784	4022	4260	4494	4732	4970	5204	5442	5680	5914	6152
3.65	57	2847	2920	3161	3405	3650	3891	4135	4380	4621	4865	5110	5351	5595	5840	6081	6325
3.75	58	2925	3000	3247	3499	3750	3997	4249	4500	4747	4999	5250	5497	5749	6000	6247	6499
3.85	60	3003	3080	3334	3592	3850	4104	4362	4620	4874	5132	5390	5644	5902	6160	6414	6672
3.95	62	3081	3160	3421	3685	3950	4211	4475	4740	5001	5265	5530	5791	6055	6320	6581	6845
4.05	63	3159	3240	3507	3779	4050	4317	4589	4860	5127	5399	5670	5937	6209	6480	6747	7019
4.15	65	3237	3320	3594	3872	4150	4424	4702	4980	5254	5532	5810	6084	6362	6640	6914	7192
4.25	66	3315	3400	3680	3965	4250	4530	4815	5100	5380	5665	5950	6230	6515	6800	7080	7365
4.35	68	3393	3480	3767	4059	4350	4637	4929	5220	5507	5799	6090	6377	6669	6960	7247	7539
4.45	69	3471	3560	3854	4152	4450	4744	5042	5340	5634	5932	6230	6524	6822	7120	7414	7712
4.55	71	3549	3640	3940	4245	4550	4850	5155	5460	5760	6065	6370	6670	6975	7280	7580	7885
4.65	73	3627	3720	4027	4338	4650	4957	5268	5580	5887	6198	6510	6817	7128	7440	7747	8058
4.75	74	3705	3800	4113	4432	4750	5063	5382	5700	6013	6332	6650	6963	7282	7600	7913	8232
4.85	76	3783	3880	4200	4525	4850	5170	5495	5820	6140	6465	6790	7110	7435	7760	8080	8405
4.95	77	3861	3960	4287	4618	4950	5277	5608	5940	6267	6598	6930	7257	7588	7920	8247	8578
5.05	79	3939	4040	4373	4712	5050	5383	5722	6060	6393	6732	7070	7403	7742	8080	8413	8752
5.15	80	4017	4120	4460	4805	5150	5490	5835	6180	6520	6865	7210	7550	7895	8240	8580	8925
5.25	82	4095	4200	4546	4898	5250	5596	5948	6300	6646	6998	7350	7696	8048	8400	8746	9098
5.35	83	4173	4280	4633	4992	5350	5703	6062	6420	6773	7132	7490	7843	8202	8560	8913	9272
5.45	85	4251	4360	4720	5085	5450	5810	6175	6540	6900	7265	7630	7990	8355	8720	9080	9445
5.55	87	4329	4440	4806	5178	5550	5916	6288	6660	7026	7398	7770	8136	8508	8880	9246	9618
5.65	88	4407	4520	4893	5271	5650	6023	6401	6780	7153	7531	7910	8283	8661	9040	9413	9791
5.75	90	4485	4600	4979	5365	5750	6129	6515	6900	7279	7665	8050	8429	8815	9200	9579	9965
5.85	91	4563	4680	5066	5458	5850	6236	6628	7020	7406	7798	8190	8576	8968	9360	9746	10138
5.95	93	4641	4760	5153	5551	5950	6343	6741	7140	7533	7931	8330	8723	9121	9520	9913	10311
6.05	94	4719	4840	5239	5645	6050	6449	6855	7260	7659	8065	8470	8869	9275	9680	10079	10485

TABLE 21--Continued

Hourly Wage	Weekly Benefit	Highest Two Quarter Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
6.15	96	4797	4920	5326	5738	6150	6556	6968	7380	7786	8198	8610	9016	9428	9840	10246	10658
6.25	97	4875	5000	5412	5831	6250	6662	7081	7500	7912	8331	8750	9162	9581	10000	10412	10831
6.35	99	4953	5080	5499	5925	6350	6769	7195	7620	8039	8465	8890	9309	9735	10160	10579	11005
6.45	101	5031	5160	5586	6018	6450	6876	7308	7740	8166	8598	9030	9456	9888	10320	10746	11178
6.55	102	5109	5240	5672	6111	6550	6982	7421	7860	8292	8731	9170	9602	10041	10480	10912	11351
6.65	104	5187	5320	5759	6204	6650	7099	7534	7980	8419	8864	9310	9749	10194	10640	11079	11524
6.75	105	5265	5400	5845	6298	6750	7195	7648	8100	8545	8998	9450	9895	10348	10800	11245	11698
6.85	107	5343	5480	5932	6391	6850	7302	7761	8220	8672	9131	9590	10042	10501	10960	11412	11871
6.95	108	5421	5560	6019	6484	6950	7409	7874	8340	8799	9264	9730	10189	10654	11120	11579	12044
7.05	110	5499	5640	6105	6578	7050	7515	7988	8460	8925	9398	9870	10335	10808	11280	11745	12218
7.15	112	5577	5720	6192	6671	7150	7622	8101	8580	9052	9531	10010	10482	10961	11440	11912	12391
7.25	113	5655	5800	6278	6764	7250	7728	8214	8700	9178	9664	10150	10628	11114	11600	12078	12564
7.35	115	5733	5880	6365	6858	7350	7835	8328	8820	9305	9798	10290	10775	11268	11760	12245	12738
7.45	116	5811	5960	6452	6951	7450	7942	8441	8940	9432	9931	10430	10922	11421	11920	12412	12911
7.55	118	5889	6040	6538	7044	7550	8048	8554	9060	9558	10054	10570	11068	11574	12080	12578	13084
7.65	119	5967	6120	6625	7137	7650	8155	8667	9180	9685	10197	10710	11215	11727	12240	12745	13257
7.75	121	6045	6200	6711	7231	7750	8261	8781	9300	9811	10331	10850	11361	11881	12400	12911	13431
7.85	122	6123	6280	6798	7324	7850	8368	8894	9420	9938	10464	10990	11508	12034	12560	13078	13604
7.95	124	6201	6360	6885	7417	7950	8475	9007	9540	10065	10597	11130	11655	12187	12720	13245	13777
8.05	126	6279	6440	6971	7511	8050	8581	9121	9660	10191	10731	11270	11801	12341	12880	13411	13951
8.15	127	6357	6520	7058	7604	8150	8688	9234	9780	10318	10864	11410	11948	12494	13040	13578	14124
8.25	129	6435	6600	7144	7697	8250	8794	9347	9900	10444	10997	11550	12094	12647	13200	13744	14297
8.35	130	6513	6680	7231	7791	8350	8901	9461	10020	10571	11131	11690	12241	12801	13360	13911	14471
8.45	132	6591	6760	7318	7884	8450	9008	9574	10140	10698	11264	11830	12388	12954	13520	14078	14644
8.55	133	6669	6840	7404	7977	8550	9114	9687	10260	10824	11397	11970	12534	13107	13680	14244	14817
8.65	135	6747	6920	7491	8070	8650	9221	9800	10380	10951	11530	12110	12681	13260	13840	14411	14990
8.75	136	6825	7000	7577	8164	8750	9327	9914	10500	11077	11664	12250	12827	13414	14000	14577	15164
8.85	138	6903	7080	7664	8257	8850	9434	10027	10620	11204	11797	12390	12974	13567	14160	14744	15337

Benefits are calculated by dividing the highest two quarter earnings by 26 and replacing 52 percent of that amount.

Highest two quarter earnings is based on 780 hours for the two quarters. A greater number of hours would increase earnings.

Duration is based on a formula of 60 percent of hours worked divided by 40.

The use of hours in a benefit formula would require the reporting of hours by employers. For many employers it would be little additional work, while for others it could be considerable trouble. On the other hand, it would allow the system to pay benefits on a basis that would require attachment to the work force, a factor of importance to employers.

Another approach to increasing work attachment is to change the calculation of average weekly wage. For instance, using the highest quarter wages divided by 13 is less stringent than using the highest two quarter wages and dividing by 26. The most stringent would be four quarters of wages divided by 52.

The impact of a change from using the highest quarter to using the two highest quarters can be vividly seen by comparing a portion of the Benefit Table presently used by Virginia with the Table to go into effect July, 1981.

The new Benefit Table (Table 22) has a minimum benefit amount of \$44. To draw \$44 for 12 weeks under the old Benefit Table (Table 23) required high quarter earnings of \$1,050 and earnings for the year of \$1,584. For 26 weeks of benefits, it required \$3,432.

The new Table requires \$2,200 of earnings in two quarters and no additional earnings during the remainder of the year to draw \$44 for 12 weeks. To draw 26 weeks requires \$4,400 or \$968 more dollars than before. The difference is more dramatic when the old maximum benefit of \$122 is compared between the old and new Benefit Tables. Under the old Benefit Table (Table 23) \$3,025 in one quarter and \$4,392 for the year qualified for \$122 for 12 weeks. Under the new Benefit Table (Table 22) it requires \$6,100 in two quarters with no additional earnings to qualify for \$122 for 12 weeks. To draw \$122 for 26 weeks, \$9,516 for the year is required under the old Benefit Table, but \$12,200 is required under the new.

TABLE 22
 VIRGINIA'S BENEFIT TABLE EFFECTIVE JULY, 1981
 BENEFIT TABLE DIVISION C DURATION OF BENEFITS

Col. A	Col. B	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT															
2200.00	44	2200.00	2357.01	2514.01	2671.01	2829.01	2986.01	3143.01	3300.01	3457.01	3614.01	3771.01	3929.01	4086.01	4243.01	4400.01 & OVER
2250.00		2357.00	2514.00	2671.00	2829.00	2986.00	3143.00	3300.00	3457.00	3614.00	3771.00	3929.00	4086.00	4243.00	4400.00	
2250.01	45	2250.01	2411.01	2571.01	2732.01	2893.01	3054.01	3214.01	3375.01	3536.01	3696.01	3857.01	4018.01	4179.01	4339.01	4500.01 & OVER
2300.00		2411.00	2571.00	2732.00	2893.00	3054.00	3214.00	3375.00	3536.00	3696.00	3857.00	4018.00	4179.00	4339.00	4500.00	
2300.01	46	2300.01	2464.01	2629.01	2793.01	2957.01	3121.01	3286.01	3450.01	3614.01	3779.01	3943.01	4107.01	4271.01	4436.01	4600.01 & OVER
2350.00		2464.00	2629.00	2793.00	2957.00	3121.00	3286.00	3450.00	3614.00	3779.00	3943.00	4107.00	4271.00	4436.00	4600.00	
2350.01	47	2350.01	2518.01	2686.01	2854.01	3021.01	3189.01	3357.01	3525.01	3693.01	3861.01	4029.01	4196.01	4364.01	4532.01	4700.01 & OVER
2400.00		2518.00	2686.00	2854.00	3021.00	3189.00	3357.00	3525.00	3693.00	3861.00	4029.00	4196.00	4364.00	4532.00	4700.00	
2400.01	48	2400.01	2571.01	2743.01	2914.01	3086.01	3257.01	3429.01	3600.01	3771.01	3943.01	4114.01	4286.01	4457.01	4629.01	4800.01 & OVER
2450.00		2571.00	2743.00	2914.00	3086.00	3257.00	3429.00	3600.00	3771.00	3943.00	4114.00	4286.00	4457.00	4629.00	4800.00	
2450.01	49	2450.01	2625.01	2800.01	2975.01	3150.01	3325.01	3500.01	3675.01	3850.01	4025.01	4200.01	4375.01	4550.01	4725.01	4900.01 & OVER
2500.00		2625.00	2800.00	2975.00	3150.00	3325.00	3500.00	3675.00	3850.00	4025.00	4200.00	4375.00	4550.00	4725.00	4900.00	
2500.01	50	2500.01	2679.01	2857.01	3036.01	3214.01	3393.01	3571.01	3750.01	3929.01	4107.01	4286.01	4464.01	4643.01	4821.01	5000.01 & OVER
2550.00		2679.00	2857.00	3036.00	3214.00	3393.00	3571.00	3750.00	3929.00	4107.00	4286.00	4464.00	4643.00	4821.00	5000.00	
2550.01	51	2550.01	2732.01	2914.01	3096.01	3279.01	3461.01	3643.01	3825.01	4007.01	4189.01	4371.01	4554.01	4736.01	4918.01	5100.01 & OVER
2600.00		2732.00	2914.00	3096.00	3279.00	3461.00	3643.00	3825.00	4007.00	4189.00	4371.00	4554.00	4736.00	4918.00	5100.00	
2600.01	52	2600.01	2786.01	2971.01	3157.01	3343.01	3529.01	3714.01	3900.01	4086.01	4271.01	4457.01	4643.01	4829.01	5014.01	5200.01 & OVER
2650.00		2786.00	2971.00	3157.00	3343.00	3529.00	3714.00	3900.00	4086.00	4271.00	4457.00	4643.00	4829.00	5014.00	5200.00	
2650.01	53	2650.01	2839.01	3029.01	3218.01	3407.01	3596.01	3786.01	3975.01	4164.01	4354.01	4543.01	4732.01	4921.01	5111.01	5300.01 & OVER
2700.00		2839.00	3029.00	3218.00	3407.00	3596.00	3786.00	3975.00	4164.00	4354.00	4543.00	4732.00	4921.00	5111.00	5300.00	
2700.01	54	2700.01	2893.01	3086.01	3279.01	3471.01	3664.01	3857.01	4050.01	4243.01	4436.01	4629.01	4821.01	5014.01	5207.01	5400.01 & OVER
2750.00		2893.00	3086.00	3279.00	3471.00	3664.00	3857.00	4050.00	4243.00	4436.00	4629.00	4821.00	5014.00	5207.00	5400.00	
2750.01	55	2750.01	2946.01	3143.01	3339.01	3536.01	3732.01	3929.01	4125.01	4321.01	4518.01	4714.01	4911.01	5107.01	5304.01	5500.01 & OVER
2800.00		2946.00	3143.00	3339.00	3536.00	3732.00	3929.00	4125.00	4321.00	4518.00	4714.00	4911.00	5107.00	5304.00	5500.00	

For the complete Table, see pages 41 to 48 of this report.

TABLE 22 - Continued

Col. A		Col. B																							
HIGHEST TWO QUARTER EARNINGS	WEEKLY BENEFIT AMOUNT	12 WEEKS	13 WEEKS	14 WEEKS	15 WEEKS	16 WEEKS	17 WEEKS	18 WEEKS	19 WEEKS	20 WEEKS	21 WEEKS	22 WEEKS	23 WEEKS	24 WEEKS	25 WEEKS	26 WEEKS									
5200.01	104	5200.01	5571.01	5943.01	6314.01	6686.01	7057.01	7429.01	7800.01	8171.01	8543.01	8914.01	9286.01	9657.01	10029.01	10400.01									
5250.00		5571.00	5943.00	6314.00	6686.00	7057.00	7429.00	7800.00	8171.00	8543.00	8914.00	9286.00	9657.00	10029.00	10400.00	& OVER									
5250.01	105	5250.01	5625.01	6000.01	6375.01	6750.01	7125.01	7500.01	7875.01	8250.01	8625.01	9000.01	9375.01	9750.01	10125.01	10500.01									
5300.00		5625.00	6000.00	6375.00	6750.00	7125.00	7500.00	7875.00	8250.00	8625.00	9000.00	9375.00	9750.00	10125.00	10500.00	& OVER									
5300.01	106	5300.01	5679.01	6057.01	6436.01	6814.01	7193.01	7571.01	7950.01	8329.01	8707.01	9086.01	9464.01	9843.01	10221.01	10600.01									
5350.00		5679.00	6057.00	6436.00	6814.00	7193.00	7571.00	7950.00	8329.00	8707.00	9086.00	9464.00	9843.00	10221.00	10600.00	& OVER									
5350.01	107	5350.01	5732.01	6114.01	6496.01	6879.01	7261.01	7643.01	8025.01	8407.01	8789.01	9171.01	9554.01	9936.01	10318.01	10700.01									
5400.00		5732.00	6114.00	6496.00	6879.00	7261.00	7643.00	8025.00	8407.00	8789.00	9171.00	9554.00	9936.00	10318.00	10700.00	& OVER									
5400.01	108	5400.01	5786.01	6171.01	6557.01	6943.01	7329.01	7714.01	8100.01	8486.01	8871.01	9257.01	9643.01	10029.01	10414.01	10800.01									
5450.00		5786.00	6171.00	6557.00	6943.00	7329.00	7714.00	8100.00	8486.00	8871.00	9257.00	9643.00	10029.00	10414.00	10800.00	& OVER									
5450.01	109	5450.01	5839.01	6229.01	6618.01	7007.01	7396.01	7786.01	8175.01	8564.01	8954.01	9343.01	9732.01	10121.01	10511.01	10900.01									
5500.00		5839.00	6229.00	6618.00	7007.00	7396.00	7786.00	8175.00	8564.00	8954.00	9343.00	9732.00	10121.00	10511.00	10900.00	& OVER									
5500.01	110	5500.01	5893.01	6286.01	6679.01	7071.01	7464.01	7857.01	8250.01	8643.01	9036.01	9429.01	9821.01	10214.01	10607.01	11000.01									
5550.00		5893.00	6286.00	6679.00	7071.00	7464.00	7857.00	8250.00	8643.00	9036.00	9429.00	9821.00	10214.00	10607.00	11000.00	& OVER									
5550.01	111	5550.01	5946.01	6343.01	6739.01	7136.01	7532.01	7929.01	8325.01	8721.01	9118.01	9514.01	9911.01	10307.01	10704.01	11100.01									
5600.00		5946.00	6343.00	6739.00	7136.00	7532.00	7929.00	8325.00	8721.00	9118.00	9514.00	9911.00	10307.00	10704.00	11100.00	& OVER									
5600.01	112	5600.01	6000.01	6400.01	6800.01	7200.01	7600.01	8000.01	8400.01	8800.01	9200.01	9600.01	10000.01	10400.01	10800.01	11200.01									
5650.00		6000.00	6400.00	6800.00	7200.00	7600.00	8000.00	8400.00	8800.00	9200.00	9600.00	10000.00	10400.00	10800.00	11200.00	& OVER									
5650.01	113	5650.01	6054.01	6457.01	6861.01	7264.01	7668.01	8071.01	8475.01	8879.01	9282.01	9686.01	10089.01	10493.01	10896.01	11300.01									
5700.00		6054.00	6457.00	6861.00	7264.00	7668.00	8071.00	8475.00	8879.00	9282.00	9686.00	10089.00	10493.00	10896.00	11300.00	& OVER									
5700.01	114	5700.01	6107.01	6514.01	6921.01	7329.01	7736.01	8143.01	8550.01	8957.01	9364.01	9771.01	10179.01	10586.01	10993.01	11400.01									
5750.00		6107.00	6514.00	6921.00	7329.00	7736.00	8143.00	8550.00	8957.00	9364.00	9771.00	10179.00	10586.00	10993.00	11400.00	& OVER									
5750.01	115	5750.01	6161.01	6571.01	6982.01	7393.01	7804.01	8214.01	8625.01	9036.01	9446.01	9857.01	10268.01	10679.01	11089.01	11500.01									
5800.00		6161.00	6571.00	6982.00	7393.00	7804.00	8214.00	8625.00	9036.00	9446.00	9857.00	10268.00	10679.00	11089.00	11500.00	& OVER									

TABLE 23

VIRGINIA'S BENEFIT TABLE IN EFFECT UNTIL JULY, 1981
BENEFIT TABLE DIVISION D DURATION OF BENEFITS

Cal. A Highest Quarter Earnings	Cal. B Weekly Benefit Amount	Cal. C Qualifying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
342.00	38.00	1,368.00	1,482.00	1,596.00	1,710.00	1,824.00	1,938.00	2,052.00	2,166.00	2,280.00	2,394.00	2,508.00	2,622.00	2,736.00	2,850.00	2,964.00	3,078.00
350.00	39.00	1,404.00	1,521.00	1,638.00	1,755.00	1,872.00	1,989.00	2,106.00	2,223.00	2,340.00	2,457.00	2,574.00	2,691.00	2,808.00	2,925.00	3,042.00	3,159.00
375.00	40.00	1,500.00	1,650.00	1,800.00	1,950.00	2,100.00	2,250.00	2,400.00	2,550.00	2,700.00	2,850.00	3,000.00	3,150.00	3,300.00	3,450.00	3,600.00	3,750.00
1,000.01	41.00	1,476.00	1,644.00	1,812.00	1,980.00	2,148.00	2,316.00	2,484.00	2,652.00	2,820.00	2,988.00	3,156.00	3,324.00	3,492.00	3,660.00	3,828.00	3,996.00
1,025.01	42.00	1,512.00	1,692.00	1,872.00	2,052.00	2,232.00	2,412.00	2,592.00	2,772.00	2,952.00	3,132.00	3,312.00	3,492.00	3,672.00	3,852.00	4,032.00	4,212.00
1,050.01	43.00	1,548.00	1,738.00	1,928.00	2,118.00	2,308.00	2,498.00	2,688.00	2,878.00	3,068.00	3,258.00	3,448.00	3,638.00	3,828.00	4,018.00	4,208.00	4,398.00
1,075.01	44.00	1,584.00	1,784.00	1,974.00	2,164.00	2,354.00	2,544.00	2,734.00	2,924.00	3,114.00	3,304.00	3,494.00	3,684.00	3,874.00	4,064.00	4,254.00	4,444.00
1,100.01	45.00	1,620.00	1,830.00	2,040.00	2,250.00	2,460.00	2,670.00	2,880.00	3,090.00	3,300.00	3,510.00	3,720.00	3,930.00	4,140.00	4,350.00	4,560.00	4,770.00
1,125.01	46.00	1,656.00	1,876.00	2,086.00	2,296.00	2,506.00	2,716.00	2,926.00	3,136.00	3,346.00	3,556.00	3,766.00	3,976.00	4,186.00	4,396.00	4,606.00	4,816.00
1,150.01	47.00	1,692.00	1,916.00	2,136.00	2,356.00	2,576.00	2,796.00	3,016.00	3,236.00	3,456.00	3,676.00	3,896.00	4,116.00	4,336.00	4,556.00	4,776.00	4,996.00
1,175.01	48.00	1,728.00	1,952.00	2,172.00	2,392.00	2,612.00	2,832.00	3,052.00	3,272.00	3,492.00	3,712.00	3,932.00	4,152.00	4,372.00	4,592.00	4,812.00	5,032.00
1,200.01	49.00	1,764.00	1,988.00	2,208.00	2,428.00	2,648.00	2,868.00	3,088.00	3,308.00	3,528.00	3,748.00	3,968.00	4,188.00	4,408.00	4,628.00	4,848.00	5,068.00
1,225.01	50.00	1,800.00	2,024.00	2,244.00	2,464.00	2,684.00	2,904.00	3,124.00	3,344.00	3,564.00	3,784.00	4,004.00	4,224.00	4,444.00	4,664.00	4,884.00	5,104.00

TABLE 23 - Continued

Cal. A Highest Quarter Earnings	Cal. B Weekly Benefit Amount	Cal. C Qualifying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
1,225.01			1,800.00	1,950.01	2,100.01	2,250.01	2,400.01	2,550.01	2,700.01	2,850.01	3,000.01	3,150.01	3,300.01	3,450.01	3,600.01	3,750.01	3,900.01
1,250.00	50.00	1,800.00	1,950.00	2,100.00	2,250.00	2,400.00	2,550.00	2,700.00	2,850.00	3,000.00	3,150.00	3,300.00	3,450.00	3,600.00	3,750.00	3,900.00	& OVER
1,250.01		1,835.00	1,989.01	2,142.01	2,295.01	2,448.01	2,601.01	2,754.01	2,907.01	3,060.01	3,213.01	3,366.01	3,519.01	3,672.01	3,825.01	3,978.01	& OVER
1,275.00	51.00	1,835.00	1,989.00	2,142.00	2,295.00	2,448.00	2,601.00	2,754.00	2,907.00	3,060.00	3,213.00	3,366.00	3,519.00	3,672.00	3,825.00	3,978.00	& OVER
1,275.01		1,872.00	2,028.01	2,184.01	2,340.01	2,496.01	2,652.01	2,808.01	2,964.01	3,120.01	3,276.01	3,432.01	3,588.01	3,744.01	3,900.01	4,056.01	& OVER
1,300.00	52.00	1,872.00	2,028.00	2,184.00	2,340.00	2,496.00	2,652.00	2,808.00	2,964.00	3,120.00	3,276.00	3,432.00	3,588.00	3,744.00	3,900.00	4,056.00	& OVER
1,300.01		1,908.00	2,067.01	2,226.01	2,385.01	2,544.01	2,703.01	2,862.01	3,021.01	3,180.01	3,339.01	3,498.01	3,657.01	3,816.01	3,975.01	4,134.01	& OVER
1,325.00	53.00	1,908.00	2,067.00	2,226.00	2,385.00	2,544.00	2,703.00	2,862.00	3,021.00	3,180.00	3,339.00	3,498.00	3,657.00	3,816.00	3,975.00	4,134.00	& OVER
1,325.01		1,944.00	2,106.01	2,268.01	2,430.01	2,592.01	2,754.01	2,916.01	3,078.01	3,240.01	3,402.01	3,564.01	3,726.01	3,888.01	4,050.01	4,212.01	& OVER
1,350.00	54.00	1,944.00	2,106.00	2,268.00	2,430.00	2,592.00	2,754.00	2,916.00	3,078.00	3,240.00	3,402.00	3,564.00	3,726.00	3,888.00	4,050.00	4,212.00	& OVER
1,350.01		1,980.00	2,145.01	2,310.01	2,475.01	2,640.01	2,805.01	2,970.01	3,135.01	3,300.01	3,465.01	3,630.01	3,795.01	3,960.01	4,125.01	4,290.01	& OVER
1,375.00	55.00	1,980.00	2,145.00	2,310.00	2,475.00	2,640.00	2,805.00	2,970.00	3,135.00	3,300.00	3,465.00	3,630.00	3,795.00	3,960.00	4,125.00	4,290.00	& OVER
1,375.01		2,016.00	2,184.01	2,352.01	2,520.01	2,688.01	2,856.01	3,024.01	3,192.01	3,360.01	3,528.01	3,696.01	3,864.01	4,032.01	4,200.01	4,368.01	& OVER
1,400.00	56.00	2,016.00	2,184.00	2,352.00	2,520.00	2,688.00	2,856.00	3,024.00	3,192.00	3,360.00	3,528.00	3,696.00	3,864.00	4,032.00	4,200.00	4,368.00	& OVER
1,400.01		2,052.00	2,223.01	2,394.01	2,565.01	2,736.01	2,907.01	3,078.01	3,249.01	3,420.01	3,591.01	3,762.01	3,933.01	4,104.01	4,275.01	4,446.01	& OVER
1,425.00	57.00	2,052.00	2,223.00	2,394.00	2,565.00	2,736.00	2,907.00	3,078.00	3,249.00	3,420.00	3,591.00	3,762.00	3,933.00	4,104.00	4,275.00	4,446.00	& OVER
1,425.01		2,088.00	2,262.01	2,436.01	2,610.01	2,784.01	2,958.01	3,132.01	3,306.01	3,480.01	3,654.01	3,828.01	4,002.01	4,176.01	4,350.01	4,524.01	& OVER
1,450.00	58.00	2,088.00	2,262.00	2,436.00	2,610.00	2,784.00	2,958.00	3,132.00	3,306.00	3,480.00	3,654.00	3,828.00	4,002.00	4,176.00	4,350.00	4,524.00	& OVER
1,450.01		2,124.00	2,301.01	2,478.01	2,655.01	2,832.01	3,009.01	3,186.01	3,363.01	3,540.01	3,717.01	3,894.01	4,071.01	4,248.01	4,425.01	4,602.01	& OVER
1,475.00	59.00	2,124.00	2,301.00	2,478.00	2,655.00	2,832.00	3,009.00	3,186.00	3,363.00	3,540.00	3,717.00	3,894.00	4,071.00	4,248.00	4,425.00	4,602.00	& OVER
1,475.01		2,160.00	2,340.01	2,520.01	2,700.01	2,880.01	3,060.01	3,240.01	3,420.01	3,600.01	3,780.01	3,960.01	4,140.01	4,320.01	4,500.01	4,680.01	& OVER
1,500.00	60.00	2,160.00	2,340.00	2,520.00	2,700.00	2,880.00	3,060.00	3,240.00	3,420.00	3,600.00	3,780.00	3,960.00	4,140.00	4,320.00	4,500.00	4,680.00	& OVER
1,500.01		2,196.00	2,379.01	2,562.01	2,748.01	2,934.01	3,120.01	3,306.01	3,492.01	3,678.01	3,864.01	4,050.01	4,236.01	4,422.01	4,608.01	4,794.01	& OVER
1,525.00	61.00	2,196.00	2,379.00	2,562.00	2,748.00	2,934.00	3,120.00	3,306.00	3,492.00	3,678.00	3,864.00	4,050.00	4,236.00	4,422.00	4,608.00	4,794.00	& OVER

TABLE 23 - Continued

Col. A Highest Quarter Earnings	Col. B Weekly Benefit Amount	Col. C Qual- ifying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
1,825.01			2,664.00	2,885.01	3,108.01	3,330.01	3,552.01	3,774.01	3,996.01	4,218.01	4,440.01	4,662.01	4,884.01	5,106.01	5,328.01	5,550.01	5,772.01
1,850.00	74.00	2,664.00	2,886.00	3,109.00	3,330.00	3,552.00	3,774.00	3,996.00	4,218.00	4,440.00	4,662.00	4,884.00	5,106.00	5,328.00	5,550.00	5,772.00	& OVER
1,850.01			2,700.00	2,925.01	3,150.01	3,375.01	3,600.01	3,825.01	4,050.01	4,275.01	4,500.01	4,725.01	4,950.01	5,175.01	5,400.01	5,625.01	5,850.01
1,875.00	75.00	2,700.00	2,925.00	3,150.00	3,375.00	3,600.00	3,825.00	4,050.00	4,275.00	4,500.00	4,725.00	4,950.00	5,175.00	5,400.00	5,625.00	5,850.00	& OVER
1,875.01			2,736.00	2,964.01	3,192.01	3,420.01	3,648.01	3,876.01	4,104.01	4,332.01	4,560.01	4,788.01	5,016.01	5,244.01	5,472.01	5,700.01	5,928.01
1,900.00	76.00	2,736.00	2,964.00	3,192.00	3,420.00	3,648.00	3,876.00	4,104.00	4,332.00	4,560.00	4,788.00	5,016.00	5,244.00	5,472.00	5,700.00	5,928.00	& OVER
1,900.01			2,772.00	3,003.01	3,234.01	3,465.01	3,696.01	3,927.01	4,158.01	4,389.01	4,620.01	4,851.01	5,082.01	5,313.01	5,544.01	5,775.01	6,006.01
1,925.00	77.00	2,772.00	3,003.00	3,234.00	3,465.00	3,696.00	3,927.00	4,158.00	4,389.00	4,620.00	4,851.00	5,082.00	5,313.00	5,544.00	5,775.00	6,006.00	& OVER
1,925.01			2,808.00	3,042.01	3,276.01	3,510.01	3,744.01	3,978.01	4,212.01	4,446.01	4,680.01	4,914.01	5,148.01	5,382.01	5,616.01	5,850.01	6,084.01
1,950.00	78.00	2,808.00	3,042.00	3,276.00	3,510.00	3,744.00	3,978.00	4,212.00	4,446.00	4,680.00	4,914.00	5,148.00	5,382.00	5,616.00	5,850.00	6,084.00	& OVER
1,950.01			2,844.00	3,081.01	3,318.01	3,555.01	3,792.01	4,029.01	4,266.01	4,503.01	4,740.01	4,977.01	5,214.01	5,451.01	5,688.01	5,925.01	6,162.01
1,975.00	79.00	2,844.00	3,081.00	3,318.00	3,555.00	3,792.00	4,029.00	4,266.00	4,503.00	4,740.00	4,977.00	5,214.00	5,451.00	5,688.00	5,925.00	6,162.00	& OVER
1,975.01			2,880.00	3,120.01	3,360.01	3,600.01	3,840.01	4,080.01	4,320.01	4,560.01	4,800.01	5,040.01	5,280.01	5,520.01	5,760.01	6,000.01	6,240.01
2,000.00	80.00	2,880.00	3,120.00	3,360.00	3,600.00	3,840.00	4,080.00	4,320.00	4,560.00	4,800.00	5,040.00	5,280.00	5,520.00	5,760.00	6,000.00	6,240.00	& OVER
2,000.01			2,916.00	3,159.01	3,402.01	3,645.01	3,888.01	4,131.01	4,374.01	4,617.01	4,860.01	5,103.01	5,346.01	5,589.01	5,832.01	6,075.01	6,318.01
2,025.00	81.00	2,916.00	3,159.00	3,402.00	3,645.00	3,888.00	4,131.00	4,374.00	4,617.00	4,860.00	5,103.00	5,346.00	5,589.00	5,832.00	6,075.00	6,318.00	& OVER
2,025.01			2,952.00	3,198.01	3,444.01	3,690.01	3,936.01	4,182.01	4,428.01	4,674.01	4,920.01	5,166.01	5,412.01	5,658.01	5,904.01	6,150.01	6,396.01
2,050.00	82.00	2,952.00	3,198.00	3,444.00	3,690.00	3,936.00	4,182.00	4,428.00	4,674.00	4,920.00	5,166.00	5,412.00	5,658.00	5,904.00	6,150.00	6,396.00	& OVER
2,050.01			2,988.00	3,237.01	3,486.01	3,735.01	3,984.01	4,233.01	4,482.01	4,731.01	4,980.01	5,229.01	5,478.01	5,727.01	5,976.01	6,225.01	6,474.01
2,075.00	83.00	2,988.00	3,237.00	3,486.00	3,735.00	3,984.00	4,233.00	4,482.00	4,731.00	4,980.00	5,229.00	5,478.00	5,727.00	5,976.00	6,225.00	6,474.00	& OVER
2,075.01			3,024.00	3,276.01	3,528.01	3,780.01	4,032.01	4,284.01	4,536.01	4,788.01	5,040.01	5,292.01	5,544.01	5,796.01	6,048.01	6,300.01	6,552.01
2,100.00	84.00	3,024.00	3,276.00	3,528.00	3,780.00	4,032.00	4,284.00	4,536.00	4,788.00	5,040.00	5,292.00	5,544.00	5,796.00	6,048.00	6,300.00	6,552.00	& OVER
2,100.01			3,060.00	3,315.01	3,570.01	3,825.01	4,080.01	4,335.01	4,590.01	4,845.01	5,100.01	5,355.01	5,610.01	5,865.01	6,120.01	6,375.01	6,630.01
2,125.00	85.00	3,060.00	3,315.00	3,570.00	3,825.00	4,080.00	4,335.00	4,590.00	4,845.00	5,100.00	5,355.00	5,610.00	5,865.00	6,120.00	6,375.00	6,630.00	& OVER

TABLE 23 - Continued

Col. A Highest Quarter Earnings	Col. B Weekly Benefit Amount	Col. C Quali- fying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
2,125.01			3,096.00	3,354.01	3,612.01	3,870.01	4,128.01	4,386.01	4,644.01	4,902.01	5,160.01	5,418.01	5,676.01	5,934.01	6,192.01	6,450.01	6,708.01
2,150.00	86.00	3,096.00	3,354.00	3,612.00	3,870.00	4,128.00	4,386.00	4,644.00	4,902.00	5,160.00	5,418.00	5,676.00	5,934.00	6,192.00	6,450.00	6,708.00	6,966.00
2,150.01			3,132.00	3,393.01	3,654.01	3,915.01	4,176.01	4,437.01	4,698.01	4,959.01	5,220.01	5,481.01	5,742.01	6,003.01	6,264.01	6,525.01	6,786.01
2,175.00	87.00	3,132.00	3,393.00	3,654.00	3,915.00	4,176.00	4,437.00	4,698.00	4,959.00	5,220.00	5,481.00	5,742.00	6,003.00	6,264.00	6,525.00	6,786.00	7,047.00
2,175.01			3,168.00	3,432.01	3,696.01	3,960.01	4,224.01	4,488.01	4,752.01	5,016.01	5,280.01	5,544.01	5,808.01	6,072.01	6,336.01	6,600.01	6,864.01
2,200.00	88.00	3,168.00	3,432.00	3,696.00	3,960.00	4,224.00	4,488.00	4,752.00	5,016.00	5,280.00	5,544.00	5,808.00	6,072.00	6,336.00	6,600.00	6,864.00	7,128.00
2,200.01			3,204.00	3,471.01	3,738.01	4,005.01	4,272.01	4,539.01	4,806.01	5,073.01	5,340.01	5,607.01	5,874.01	6,141.01	6,408.01	6,675.01	6,942.01
2,225.00	89.00	3,204.00	3,471.00	3,738.00	4,005.00	4,272.00	4,539.00	4,806.00	5,073.00	5,340.00	5,607.00	5,874.00	6,141.00	6,408.00	6,675.00	6,942.00	7,209.00
2,225.01			3,240.00	3,510.01	3,780.01	4,050.01	4,320.01	4,590.01	4,860.01	5,130.01	5,400.01	5,670.01	5,940.01	6,210.01	6,480.01	6,750.01	7,020.01
2,250.00	90.00	3,240.00	3,510.00	3,780.00	4,050.00	4,320.00	4,590.00	4,860.00	5,130.00	5,400.00	5,670.00	5,940.00	6,210.00	6,480.00	6,750.00	7,020.00	7,290.00
2,250.01			3,276.00	3,549.01	3,822.01	4,095.01	4,368.01	4,641.01	4,914.01	5,187.01	5,460.01	5,733.01	6,006.01	6,279.01	6,552.01	6,825.01	7,098.01
2,275.00	91.00	3,276.00	3,549.00	3,822.00	4,095.00	4,368.00	4,641.00	4,914.00	5,187.00	5,460.00	5,733.00	6,006.00	6,279.00	6,552.00	6,825.00	7,098.00	7,371.00
2,275.01			3,312.00	3,588.01	3,864.01	4,140.01	4,416.01	4,692.01	4,968.01	5,244.01	5,520.01	5,796.01	6,072.01	6,348.01	6,624.01	6,900.01	7,176.01
2,300.00	92.00	3,312.00	3,588.00	3,864.00	4,140.00	4,416.00	4,692.00	4,968.00	5,244.00	5,520.00	5,796.00	6,072.00	6,348.00	6,624.00	6,900.00	7,176.00	7,452.00
2,300.01			3,348.00	3,627.01	3,906.01	4,185.01	4,464.01	4,743.01	5,022.01	5,301.01	5,580.01	5,859.01	6,138.01	6,417.01	6,696.01	6,975.01	7,254.01
2,325.00	93.00	3,348.00	3,627.00	3,906.00	4,185.00	4,464.00	4,743.00	5,022.00	5,301.00	5,580.00	5,859.00	6,138.00	6,417.00	6,696.00	6,975.00	7,254.00	7,533.00
2,325.01			3,384.00	3,666.01	3,948.01	4,230.01	4,512.01	4,794.01	5,076.01	5,358.01	5,640.01	5,922.01	6,204.01	6,486.01	6,768.01	7,050.01	7,332.01
2,350.00	94.00	3,384.00	3,666.00	3,948.00	4,230.00	4,512.00	4,794.00	5,076.00	5,358.00	5,640.00	5,922.00	6,204.00	6,486.00	6,768.00	7,050.00	7,332.00	7,614.00
2,350.01			3,420.00	3,705.01	3,990.01	4,275.01	4,560.01	4,845.01	5,130.01	5,415.01	5,700.01	5,985.01	6,270.01	6,555.01	6,840.01	7,125.01	7,410.01
2,375.00	95.00	3,420.00	3,705.00	3,990.00	4,275.00	4,560.00	4,845.00	5,130.00	5,415.00	5,700.00	5,985.00	6,270.00	6,555.00	6,840.00	7,125.00	7,410.00	7,695.00
2,375.01			3,456.00	3,744.01	4,032.01	4,320.01	4,608.01	4,896.01	5,184.01	5,472.01	5,760.01	6,048.01	6,336.01	6,624.01	6,912.01	7,200.01	7,488.01
2,400.00	96.00	3,456.00	3,744.00	4,032.00	4,320.00	4,608.00	4,896.00	5,184.00	5,472.00	5,760.00	6,048.00	6,336.00	6,624.00	6,912.00	7,200.00	7,488.00	7,776.00
2,400.01			3,492.00	3,783.01	4,074.01	4,365.01	4,656.01	4,947.01	5,238.01	5,529.01	5,820.01	6,111.01	6,402.01	6,693.01	6,984.01	7,275.01	7,566.01
2,425.00	97.00	3,492.00	3,783.00	4,074.00	4,365.00	4,656.00	4,947.00	5,238.00	5,529.00	5,820.00	6,111.00	6,402.00	6,693.00	6,984.00	7,275.00	7,566.00	7,857.00
2,425.01			3,528.00	3,819.01	4,110.01	4,401.01	4,692.01	4,983.01	5,274.01	5,565.01	5,856.01	6,147.01	6,438.01	6,729.01	7,020.01	7,311.01	7,602.01

TABLE 23 - Continued

Col. A Highest Quarter Earnings	Col. B Weekly Benefit Amount	Col. C Quali- fying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
2,425.01	98.00	3,528.00	3,528.00	4,116.01	4,116.01	4,410.01	4,704.01	4,998.01	5,292.01	5,586.01	5,880.01	6,174.01	6,468.01	6,762.01	7,056.01	7,350.01	7,644.01
2,450.00	98.00	3,528.00	3,528.00	4,116.00	4,116.00	4,704.00	4,998.00	5,292.00	5,586.00	5,880.00	6,174.00	6,468.00	6,762.00	7,056.00	7,350.00	7,644.00	7,938.00
2,450.01	99.00	3,584.00	3,584.00	4,158.01	4,158.01	4,455.01	4,752.01	5,049.01	5,346.01	5,643.01	5,940.01	6,237.01	6,534.01	6,831.01	7,128.01	7,425.01	7,722.01
2,475.00	99.00	3,584.00	3,584.00	4,158.00	4,158.00	4,455.00	4,752.00	5,049.00	5,346.00	5,643.00	5,940.00	6,237.00	6,534.00	6,831.00	7,128.00	7,425.00	7,722.00
2,475.01	100.00	3,640.00	3,640.00	4,200.01	4,200.01	4,500.01	4,800.01	5,100.01	5,400.01	5,700.01	6,000.01	6,300.01	6,600.01	6,900.01	7,200.01	7,500.01	7,800.01
2,500.00	100.00	3,640.00	3,640.00	4,200.00	4,200.00	4,500.00	4,800.00	5,100.00	5,400.00	5,700.00	6,000.00	6,300.00	6,600.00	6,900.00	7,200.00	7,500.00	7,800.00
2,500.01	101.00	3,696.00	3,696.00	4,242.01	4,242.01	4,545.01	4,848.01	5,151.01	5,454.01	5,757.01	6,060.01	6,363.01	6,666.01	6,969.01	7,272.01	7,575.01	7,878.01
2,525.00	101.00	3,696.00	3,696.00	4,242.00	4,242.00	4,545.00	4,848.00	5,151.00	5,454.00	5,757.00	6,060.00	6,363.00	6,666.00	6,969.00	7,272.00	7,575.00	7,878.00
2,525.01	102.00	3,752.00	3,752.00	4,284.01	4,284.01	4,590.01	4,896.01	5,202.01	5,508.01	5,814.01	6,120.01	6,426.01	6,732.01	7,038.01	7,344.01	7,650.01	7,956.01
2,550.00	102.00	3,752.00	3,752.00	4,284.00	4,284.00	4,590.00	4,896.00	5,202.00	5,508.00	5,814.00	6,120.00	6,426.00	6,732.00	7,038.00	7,344.00	7,650.00	7,956.00
2,550.01	103.00	3,708.00	3,708.00	4,326.01	4,326.01	4,635.01	4,944.01	5,253.01	5,562.01	5,871.01	6,180.01	6,489.01	6,798.01	7,107.01	7,416.01	7,725.01	8,034.01
2,575.00	103.00	3,708.00	3,708.00	4,326.00	4,326.00	4,635.00	4,944.00	5,253.00	5,562.00	5,871.00	6,180.00	6,489.00	6,798.00	7,107.00	7,416.00	7,725.00	8,034.00
2,575.01	104.00	3,764.00	3,764.00	4,368.01	4,368.01	4,680.01	4,992.01	5,304.01	5,616.01	5,928.01	6,240.01	6,552.01	6,864.01	7,176.01	7,488.01	7,800.01	8,112.01
2,600.00	104.00	3,764.00	3,764.00	4,368.00	4,368.00	4,680.00	4,992.00	5,304.00	5,616.00	5,928.00	6,240.00	6,552.00	6,864.00	7,176.00	7,488.00	7,800.00	8,112.00
2,600.01	105.00	3,720.00	3,720.00	4,408.01	4,408.01	4,725.01	5,040.01	5,355.01	5,670.01	5,985.01	6,300.01	6,615.01	6,930.01	7,245.01	7,560.01	7,875.01	8,190.01
2,625.00	105.00	3,720.00	3,720.00	4,408.00	4,408.00	4,725.00	5,040.00	5,355.00	5,670.00	5,985.00	6,300.00	6,615.00	6,930.00	7,245.00	7,560.00	7,875.00	8,190.00
2,625.01	106.00	3,816.00	3,816.00	4,452.01	4,452.01	4,770.01	5,088.01	5,406.01	5,724.01	6,042.01	6,360.01	6,678.01	6,996.01	7,314.01	7,632.01	7,950.01	8,268.01
2,650.00	106.00	3,816.00	3,816.00	4,452.00	4,452.00	4,770.00	5,088.00	5,406.00	5,724.00	6,042.00	6,360.00	6,678.00	6,996.00	7,314.00	7,632.00	7,950.00	8,268.00
2,650.01	107.00	3,872.00	3,872.00	4,494.01	4,494.01	4,815.01	5,136.01	5,457.01	5,778.01	6,099.01	6,420.01	6,741.01	7,062.01	7,383.01	7,704.01	8,025.01	8,346.01
2,675.00	107.00	3,872.00	3,872.00	4,494.00	4,494.00	4,815.00	5,136.00	5,457.00	5,778.00	6,099.00	6,420.00	6,741.00	7,062.00	7,383.00	7,704.00	8,025.00	8,346.00
2,675.01	108.00	3,968.00	3,968.00	4,536.01	4,536.01	4,860.01	5,184.01	5,508.01	5,832.01	6,156.01	6,480.01	6,804.01	7,128.01	7,452.01	7,776.01	8,100.01	8,424.01
2,700.00	108.00	3,968.00	3,968.00	4,536.00	4,536.00	4,860.00	5,184.00	5,508.00	5,832.00	6,156.00	6,480.00	6,804.00	7,128.00	7,452.00	7,776.00	8,100.00	8,424.00
2,700.01	109.00	4,024.00	4,024.00	4,578.01	4,578.01	4,905.01	5,232.01	5,559.01	5,886.01	6,213.01	6,540.01	6,867.01	7,194.01	7,521.01	7,848.01	8,175.01	8,502.01
2,725.00	109.00	4,024.00	4,024.00	4,578.00	4,578.00	4,905.00	5,232.00	5,559.00	5,886.00	6,213.00	6,540.00	6,867.00	7,194.00	7,521.00	7,848.00	8,175.00	8,502.00

TABLE 23 - Continued

Col. A Highest Quarter Earnings	Col. B Weekly Benefit Amount	Col. C Quali- fying Earnings	12 Weeks	13 Weeks	14 Weeks	15 Weeks	16 Weeks	17 Weeks	18 Weeks	19 Weeks	20 Weeks	21 Weeks	22 Weeks	23 Weeks	24 Weeks	25 Weeks	26 Weeks
2,725.01	3,960.00	4,290.01	4,290.01	4,320.01	4,350.00	4,380.01	4,410.01	4,440.01	4,470.01	4,500.01	4,530.01	4,560.01	4,590.01	4,620.01	4,650.01	4,680.01	4,710.01
2,750.00	3,960.00	4,290.00	4,290.00	4,320.00	4,350.00	4,380.00	4,410.00	4,440.00	4,470.00	4,500.00	4,530.00	4,560.00	4,590.00	4,620.00	4,650.00	4,680.00	4,710.00
2,750.01	3,996.00	4,329.01	4,329.01	4,359.01	4,389.00	4,419.01	4,449.01	4,479.01	4,509.01	4,539.01	4,569.01	4,599.01	4,629.01	4,659.01	4,689.01	4,719.01	4,749.01
2,775.00	3,996.00	4,329.00	4,329.00	4,359.00	4,389.00	4,419.00	4,449.00	4,479.00	4,509.00	4,539.00	4,569.00	4,599.00	4,629.00	4,659.00	4,689.00	4,719.00	4,749.00
2,775.01	4,032.00	4,368.01	4,368.01	4,398.01	4,428.00	4,458.01	4,488.01	4,518.01	4,548.01	4,578.01	4,608.01	4,638.01	4,668.01	4,698.01	4,728.01	4,758.01	4,788.01
2,800.00	4,032.00	4,368.00	4,368.00	4,398.00	4,428.00	4,458.00	4,488.00	4,518.00	4,548.00	4,578.00	4,608.00	4,638.00	4,668.00	4,698.00	4,728.00	4,758.00	4,788.00
2,800.01	4,068.00	4,407.01	4,407.01	4,437.01	4,467.01	4,497.01	4,527.01	4,557.01	4,587.01	4,617.01	4,647.01	4,677.01	4,707.01	4,737.01	4,767.01	4,797.01	4,827.01
2,825.00	4,068.00	4,407.00	4,407.00	4,437.00	4,467.00	4,497.00	4,527.00	4,557.00	4,587.00	4,617.00	4,647.00	4,677.00	4,707.00	4,737.00	4,767.00	4,797.00	4,827.00
2,825.01	4,104.00	4,446.01	4,446.01	4,476.01	4,506.01	4,536.01	4,566.01	4,596.01	4,626.01	4,656.01	4,686.01	4,716.01	4,746.01	4,776.01	4,806.01	4,836.01	4,866.01
2,850.00	4,104.00	4,446.00	4,446.00	4,476.00	4,506.00	4,536.00	4,566.00	4,596.00	4,626.00	4,656.00	4,686.00	4,716.00	4,746.00	4,776.00	4,806.00	4,836.00	4,866.00
2,850.01	4,140.00	4,485.01	4,485.01	4,515.01	4,545.01	4,575.01	4,605.01	4,635.01	4,665.01	4,695.01	4,725.01	4,755.01	4,785.01	4,815.01	4,845.01	4,875.01	4,905.01
2,875.00	4,140.00	4,485.00	4,485.00	4,515.00	4,545.00	4,575.00	4,605.00	4,635.00	4,665.00	4,695.00	4,725.00	4,755.00	4,785.00	4,815.00	4,845.00	4,875.00	4,905.00
2,875.01	4,176.00	4,524.01	4,524.01	4,554.01	4,584.01	4,614.01	4,644.01	4,674.01	4,704.01	4,734.01	4,764.01	4,794.01	4,824.01	4,854.01	4,884.01	4,914.01	4,944.01
2,900.00	4,176.00	4,524.00	4,524.00	4,554.00	4,584.00	4,614.00	4,644.00	4,674.00	4,704.00	4,734.00	4,764.00	4,794.00	4,824.00	4,854.00	4,884.00	4,914.00	4,944.00
2,900.01	4,212.00	4,563.01	4,563.01	4,593.01	4,623.01	4,653.01	4,683.01	4,713.01	4,743.01	4,773.01	4,803.01	4,833.01	4,863.01	4,893.01	4,923.01	4,953.01	4,983.01
2,925.00	4,212.00	4,563.00	4,563.00	4,593.00	4,623.00	4,653.00	4,683.00	4,713.00	4,743.00	4,773.00	4,803.00	4,833.00	4,863.00	4,893.00	4,923.00	4,953.00	4,983.00
2,925.01	4,248.00	4,602.01	4,602.01	4,632.01	4,662.01	4,692.01	4,722.01	4,752.01	4,782.01	4,812.01	4,842.01	4,872.01	4,902.01	4,932.01	4,962.01	4,992.01	5,022.01
2,950.00	4,248.00	4,602.00	4,602.00	4,632.00	4,662.00	4,692.00	4,722.00	4,752.00	4,782.00	4,812.00	4,842.00	4,872.00	4,902.00	4,932.00	4,962.00	4,992.00	5,022.00
2,950.01	4,284.00	4,641.01	4,641.01	4,671.01	4,701.01	4,731.01	4,761.01	4,791.01	4,821.01	4,851.01	4,881.01	4,911.01	4,941.01	4,971.01	5,001.01	5,031.01	5,061.01
2,975.00	4,284.00	4,641.00	4,641.00	4,671.00	4,701.00	4,731.00	4,761.00	4,791.00	4,821.00	4,851.00	4,881.00	4,911.00	4,941.00	4,971.00	5,001.00	5,031.00	5,061.00
2,975.01	4,320.00	4,680.01	4,680.01	4,710.01	4,740.01	4,770.01	4,800.01	4,830.01	4,860.01	4,890.01	4,920.01	4,950.01	4,980.01	5,010.01	5,040.01	5,070.01	5,100.01
3,000.00	4,320.00	4,680.00	4,680.00	4,710.00	4,740.00	4,770.00	4,800.00	4,830.00	4,860.00	4,890.00	4,920.00	4,950.00	4,980.00	5,010.00	5,040.00	5,070.00	5,100.00
3,000.01	4,356.00	4,719.01	4,719.01	4,749.01	4,779.01	4,809.01	4,839.01	4,869.01	4,899.01	4,929.01	4,959.01	4,989.01	5,019.01	5,049.01	5,079.01	5,109.01	5,139.01
3,025.00	4,356.00	4,719.00	4,719.00	4,749.00	4,779.00	4,809.00	4,839.00	4,869.00	4,899.00	4,929.00	4,959.00	4,989.00	5,019.00	5,049.00	5,079.00	5,109.00	5,139.00
3,025.01	4,392.00	4,758.01	4,758.01	4,788.01	4,818.01	4,848.01	4,878.01	4,908.01	4,938.01	4,968.01	4,998.01	5,028.01	5,058.01	5,088.01	5,118.01	5,148.01	5,178.01
3,050.00	4,392.00	4,758.00	4,758.00	4,788.00	4,818.00	4,848.00	4,878.00	4,908.00	4,938.00	4,968.00	4,998.00	5,028.00	5,058.00	5,088.00	5,118.00	5,148.00	5,178.00

While many persons may find either proposal too restrictive, neither works a hardship on those (1) temporarily unemployed but with a job, (2) permanently separated and seeking employment with another employer, or (3) separated due to disasters or catastrophic events, except relatively new entrants into the work force. It would require much more work effort from claimants who view benefits as an integral part of their income. Whether these be seasonal workers or workers marginally attached to the work force for other reasons, the impact would be the same. To draw benefits would require significant work force attachment.

Benefit Amounts and Duration

The areas of concern for benefits, after determining the wage replacement ratio, are maximum benefits amounts, minimum benefit amounts, and duration of benefits.

Maximum Benefits

Maximum benefits vary from state to state in terms of percentage of the state average weekly wage. States also vary in how and how often the maximum benefits amount is changed. Some states index the maximum benefit to the state average weekly wage, while others require legislative action to change the maximum benefits.

One recommended criteria for the maximum benefit is suggested below:

Each state should set a weekly benefit maximum high enough to entitle 80 percent or more of all insured workers (those who could meet the qualifying requirements) to a benefit equal to at least half of their own weekly wage should they become unemployed.

Ideally, one should know how insured workers are distributed by average weekly wage levels in order to

determine the effects of alternative ceilings. Some analyses made in the U.S. Department of Labor about 10 years ago, based upon quarterly earnings data, by state, as recorded for social security purposes, indicated that 80 percent of all insured workers, if unemployed, could receive a benefit equal to at least half their weekly wages if the maximum WBA's in their state were set at two-thirds of the statewide weekly wage averages (assuming that the basic benefit-wage ratios below the maximum were at least half).²⁶

Thus, two-thirds of the statewide average weekly wage has been adopted by many states and was a recommendation of the National Commission on Unemployment Compensation. The Commission proposed the establishment of a Federal standard of a maximum equal to 55% of the state average weekly wage beginning in 1982, 60% in 1984, and 66 2/3% in 1986.²⁷ The percentage of state average weekly wage is not sufficient in and of itself without the criterion of a replacement ratio for some fixed percentage of the population.

The imposition of a Federal requirement to entitle 80% or more of insured workers to be due one-half of their weekly wage is an extremely binding provision if weekly wage is defined as wages earned for weeks worked and not for a calendar period. If the state is able to define weekly wage as average wage per fixed time period, the criterion is less binding.

Regardless of the definition, the implication of a Federal criterion would be to dictate not only maximum benefit amounts, but the replacement ratio and, thus, eliminate flexibility in both. Coupled with an automatic adjustment, the proposed Federal requirement would lock states into providing a set replacement ratio and set maximum benefit amounts. For Virginia the impact would be rather large since Virginia presently has a maximum

²⁶W. E. Upjohn Institute, Strengthening Unemployment Insurance, p. 27.

²⁷National Commission on Unemployment Compensation, Fact Sheet (Arlington, VA: August 26, 1980), p. 4.

benefit less than 66 2/3% of state average weekly wage. The ratios for the years 1967 through 1980 are as follows.

TABLE 24
COMPARISON OF VIRGINIA'S MAXIMUM BENEFIT AMOUNT
TO THE STATE AVERAGE WEEKLY WAGE
1967-1980

<u>Year</u>	<u>State Average Weekly Wage</u>	<u>Maximum Benefit</u>	<u>Ratio</u>
1967	99.98	42	.42
1968	107.55	48	.45
1969	114.07	48	.42
1970	120.91	59	.49
1971	128.45	59	.46
1972	133.98	70	.52
1973	143.43	70	.49
1974	155.78	87	.56
1975	168.88	87	.52
1976	181.28	103	.57
1977	193.18	110	.57
1978	204.86	115	.56
1979	222.00	122	.55
1980	240.00	122	.51

Average for
this period
was 54.5%

The 1980 ratio of .51 is the lowest Virginia has had since 1973. To maintain the approximate .55 ratio of maximum benefits to average weekly wage will require a maximum benefit of approximately \$140.00 in 1981.

Table 25 shows the current maximum amount in each state with the rankings by state from highest to lowest. Virginia is in the middle of the range in terms of dollar benefits. Table 26 shows the ranking by ratio of

TABLE 25

RANKED STATE COMPARISONS OF MAXIMUM WEEKLY BENEFIT AMOUNTS

<u>State Ranking</u>	<u>State</u>	<u>Maximum Weekly Benefit Amount*</u>	<u>Dependent Allowance</u>
1	West Virginia	\$184	
2	D.C.	172	X
3	Minnesota	162	
4	Wisconsin	160	
5	Oklahoma	156	
6	Pennsylvania	152	X
7	Colorado	150	
7	Delaware	150	
7	Utah	150	
7	Washington	150	
11	Louisiana	149	
12	Wyoming	146	
13	North Dakota	143	
14	North Carolina	139	
15	Oregon	138	
16	Arkansas	136	
16	Kansas	136	
18	Illinois	135	X
19	Connecticut	134	X
19	Hawaii	134	
19	Iowa	134	X
22	Idaho	132	
23	Massachusetts	131	X
23	Montana	131	
25	Rhode Island	130	X
26	New York	125	
26	Vermont	125	
28	Nevada	123	
29	Virginia	122	
30	Kentucky	120	
30	Maryland	120	X
30	Ohio	120	X
33	South Dakota	119	
34	New Jersey	117	
35	New Hampshire	114	
35	South Carolina	114	
37	Tennessee	110	
38	Nebraska	106	
39	Florida	105	
40	California	104	
40	Maine	104	X
42	New Mexico	98	
43	Michigan	97	X
44	Arizona	95	
45	Texas	91	
46	Alabama	90	
46	Alaska	90	X
46	Georgia	90	
49	Missouri	85	
50	Indiana	84	X
50	Puerto Rico	84	
52	Virgin Islands	82	
53	Mississippi	80	

*7/1/80 Department of Labor statistics.

TABLE 26

RANKED STATE COMPARISONS OF RATIOS OF MAXIMUM
BENEFIT AMOUNTS TO STATE AVERAGED WEEKLY WAGE

<u>State Ranking</u>	<u>State</u>	<u>Avg. Wkly. Covered Wage*</u>	<u>Ratio</u>
1	West Virginia	\$243.84	.755
2	Arkansas	186.53	.729
3	North Carolina	192.30	.723
4	Minnesota	226.97	.714
5	North Dakota	200.70	.713
6	Oklahoma	219.25	.712
7	Utah	211.85	.708
8	Wisconsin	228.46	.700
9	South Dakota	175.99	.676
10	Rhode Island	194.55	.668
11	Colorado	226.99	.661
12	Vermont	191.88	.651
13	Pennsylvania	233.96	.650
14	Montana	201.87	.649
14	D.C.	264.82	.649
16	Louisiana	229.81	.648
17	Hawaii	208.00	.644
17	Kansas	211.27	.644
19	Idaho	206.25	.640
20	Iowa	215.94	.621
21	Wyoming	241.26	.605
22	Puerto Rico	139.89	.600
23	Washington	251.49	.596
24	Oregon	232.45	.594
24	South Carolina	192.01	.594
26	Virginia	205.76	.593
27	Massachusetts	224.21	.584
28	Delaware	257.87	.582
29	New Hampshire	196.14	.581
30	Maine	185.11	.562
31	Connecticut	243.61	.550
32	Tennessee	201.23	.547
33	Kentucky	219.60	.546
34	Nevada	227.34	.541
35	Maryland	224.14	.535
36	Nebraska	199.78	.531
37	Florida	199.41	.527
38	Illinois	259.54	.520
39	New Mexico	202.37	.484
40	New York	259.47	.482
41	Virgin Islands	174.01	.471
42	Ohio	255.64	.469
43	New Jersey	250.31	.467
44	Mississippi	182.91	.437
45	Arizona	218.43	.435
46	Alabama	208.10	.432
47	Georgia	209.22	.430
48	California	243.15	.428
49	Texas	230.93	.394
50	Missouri	226.20	.376
51	Indiana	242.65	.346
52	Michigan	288.96	.336
53	Alaska	394.53	.228

*1978 Wage Data.

maximum benefits to average weekly wage. The table uses 1980 benefits to 1978 wages, the latest figures available, which overstates the ratio. The rankings, however, would still be reasonably valid. Again, Virginia is in the middle.

Before concluding that Virginia is at the right or wrong place in the rankings, it is important to recognize how the maximum benefit amount fits into the system. For example, a state could have a maximum benefit of \$250 per week, but have a low replacement ratio requiring such a large earning capacity that few persons could draw it. Other states could have a low maximum benefit of \$100, but allow almost everyone to draw it because of a high replacement ratio. For example, Michigan and California pay maximum benefit amounts of \$97 and \$104 respectively, 85% of what Virginia pays. Yet the burden on the employer in terms of statewide total benefits relative to total wages is much larger than that of Virginia; .94 for Michigan, 1.03 for California, and .55 for Virginia (See Table 27, Column 5). Thus, it is not necessarily how high the maximum benefit is, but the number of persons paid and the criteria for paying it. In fact, as shown later, the minimum benefit amount is as much or more important than the maximum benefit amount.

Before considering minimum benefits, it is useful to look at average benefits relative to average wages. Table 28 shows the ranking by ratio of average benefits to average weekly wages. Virginia is eleventh highest in the nation. Yet 16 of the bottom 20 have ratios of benefits to total wages much higher than Virginia, indicating a significantly higher tax burden on employers. Thus, Virginia has relatively high ratios of maximum benefits to average wages and average benefits to average wages, but with the 9th lowest tax burden in the nation for 1978 (See Table 29). Of the 15 lowest tax burden states for 1978, 5 states, South Dakota, North Carolina, Colorado, Oklahoma, and Wyoming, had higher weekly benefit amounts and/or higher

TABLE 27

RANKING OF STATES BY THE RATIO OF TOTAL BENEFITS TO TOTAL WAGES - 1978

COL 1 STATE	COL 2 RATIO	COL 3 AVERAGE WEEKLY BENEFIT	COL 4 AVERAGE WEEKLY WAGE	COL 5 TOTAL BENEFITS TO TOTAL WAGES
ALASKA	.22	85.01	394.53	3.31
RHODE ISLAND	.39	76.79	194.55	2.02
NEW JERSEY	.35	87.68	250.31	1.70
PENNSYLVANIA	.42	97.83	233.96	1.62
MAINE	.39	73.33	185.77	1.40
MONTANA	.42	84.14	201.87	1.34
DISTRICT OF COLUMBIA	.40	106.66	264.82	1.28
NORTH DAKOTA	.44	87.40	200.70	1.27
NEW YORK	.32	83.74	259.47	1.24
HAWAII	.45	93.29	208.00	1.21
DELAWARE	.36	93.56	257.87	1.18
VERMONT	.40	76.10	191.88	1.18
WEST VIRGINIA	.31	75.22	243.84	1.15
ILLINOIS	.38	97.68	259.54	1.14
MASSACHUSETTS	.37	84.00	224.21	1.14
IOWA	.48	103.96	215.94	1.11
CALIFORNIA	.31	75.84	243.15	1.03
CONNECTICUT	.37	89.43	243.61	1.00
UTAH	.41	84.30	206.25	0.97
KENTUCKY	.36	79.30	219.60	0.97
WISCONSIN	.41	94.36	228.46	0.96
ARKANSAS	.39	72.00	186.53	0.95
MICHIGAN	.32	92.85	288.96	0.94
ALABAMA	.34	70.18	208.10	0.93
OREGON	.35	81.18	232.45	0.93
LOUISIANA	.40	91.62	229.81	0.90
WASHINGTON	.35	86.80	251.49	0.90
NEVADA	.37	83.54	227.34	0.85
UTAH	.42	88.70	211.85	0.78
MINNESOTA	.43	96.66	226.97	0.77
MARYLAND	.34	76.40	224.14	0.74
OHIO	.39	100.32	255.64	0.74
MISSOURI	.33	75.62	226.20	0.70
SOUTH CAROLINA	.38	73.31	192.01	0.67
TENNESSEE	.33	66.16	201.23	0.67
KANSAS	.40	84.47	211.27	0.63
MISSISSIPPI	.33	60.37	182.91	0.63
GEORGIA	.35	73.39	209.22	0.60
NEW MEXICO	.34	68.71	202.37	0.59
SOUTH DAKOTA	.45	78.35	175.99	0.58
VIRGINIA	.41	83.51	205.76	0.55
NEBRASKA	.40	79.54	199.78	0.54
NORTH CAROLINA	.37	71.65	192.30	0.54
NEW HAMPSHIRE	.38	74.35	196.14	0.50
COLORADO	.41	92.59	226.99	0.46
FLORIDA	.32	63.68	199.41	0.42
INDIANA	.31	75.75	242.65	0.42
ARIZONA	.34	73.82	218.43	0.41
WYOMING	.36	88.03	241.26	0.41
OKLAHOMA	.35	75.91	219.25	0.35
TEXAS	.30	68.18	230.93	0.27

TABLE 28

RANKING OF STATES BY THE RATIO OF AVERAGE BENEFITS TO AVERAGE WAGES - 1978

COL 1 STATE	COL 2 RATIO	COL 3 AVERAGE WEEKLY BENEFIT	COL 4 AVERAGE WEEKLY WAGE	COL 5 TOTAL BENEFITS TO TOTAL WAGES
IOWA	.48	103.96	215.94	1.11
HAWAII	.45	93.29	208.00	1.21
SOUTH DAKOTA	.45	78.35	175.99	0.58
NORTH DAKOTA	.44	87.40	200.70	1.27
MINNESOTA	.43	96.66	226.97	0.77
MONTANA	.42	84.14	201.87	1.34
PENNSYLVANIA	.42	97.83	233.96	1.62
UTAH	.42	88.70	211.85	0.78
COLORADO	.41	92.59	226.99	0.46
IDAHO	.41	84.30	206.25	0.97
VIRGINIA	.41	83.51	205.76	0.55
WISCONSIN	.41	94.36	228.46	0.96
DISTRICT OF COLUMBIA	.40	106.66	264.82	1.28
KANSAS	.40	84.47	211.27	0.63
LOUISIANA	.40	91.62	229.81	0.90
NEBRASKA	.40	79.54	199.78	0.54
VERMONT	.40	76.10	191.88	1.18
ARKANSAS	.39	72.00	186.53	0.95
MAINE	.39	73.33	185.77	1.40
OHIO	.39	100.32	255.64	0.74
RHODE ISLAND	.39	76.79	194.55	2.02
ILLINOIS	.38	97.68	259.54	1.14
NEW HAMPSHIRE	.38	74.35	196.14	0.50
SOUTH CAROLINA	.38	73.31	192.01	0.67
CONNECTICUT	.37	89.43	243.61	1.00
MASSACHUSETTS	.37	84.00	224.21	1.14
NEVADA	.37	83.54	227.34	0.85
NORTH CAROLINA	.37	71.65	192.30	0.54
DELAWARE	.36	93.56	257.87	1.18
KENTUCKY	.36	79.30	219.60	0.97
WYOMING	.36	88.03	241.26	0.41
GEORGIA	.35	73.39	209.22	0.60
NEW JERSEY	.35	87.68	250.31	1.70
OKLAHOMA	.35	75.91	219.25	0.35
OREGON	.35	81.18	232.45	0.93
WASHINGTON	.35	86.80	251.49	0.90
ALABAMA	.34	70.18	208.10	0.93
ARIZONA	.34	73.82	218.43	0.41
MARYLAND	.34	76.40	224.14	0.74
NEW MEXICO	.34	68.71	202.37	0.59
MISSISSIPPI	.33	60.37	182.91	0.63
MISSOURI	.33	75.62	226.20	0.70
TENNESSEE	.33	66.16	201.23	0.67
FLORIDA	.32	63.68	199.41	0.42
MICHIGAN	.32	92.85	288.96	0.94
NEW YORK	.32	83.74	259.47	1.24
CALIFORNIA	.31	75.84	243.15	1.03
INDIANA	.31	75.75	242.65	0.42
WEST VIRGINIA	.31	75.22	243.84	1.15
TEXAS	.30	68.18	230.93	0.27
ALASKA	.22	85.01	394.53	3.31

ratios of maximum benefits to average weekly wages than Virginia. Of the same 15, 6 states, South Dakota, Virginia, North Carolina, New Hampshire, Colorado, and Nebraska, had ratios of average weekly benefits to average weekly wage ratios that placed them above the rank of 26th.

Using the average weekly benefits to average weekly wages ratio to evaluate a system gives misleading results. Average weekly benefits are calculated by totaling benefits and dividing by the number of claimants. A low average weekly benefit amount can be acquired by having a low maximum benefit amount or by having large numbers of claimants drawing small amounts of benefits. For example, assume that there are presently 1,300 claimants drawing total benefits of \$100,000.00. The average weekly benefit is \$77.00. Next add \$20,000 of benefits by having 200 persons draw \$100.00 weekly. This results in \$120,000.00 of benefits and 1,500 claimants, for an average weekly benefit of \$80.00 per week. Add the same \$20,000 of benefits by having 1,000 persons draw \$20.00 per week. This results in total benefits of \$120,000.00 and 2,300 claimants, for an average weekly claim of \$52.00 per week. The average weekly benefit amount is more reflective of the total distribution of benefits than of high maximums. It is easily possible to have a high weekly benefit amount which few qualify for and high minimum payments which require significant attachment to the work force and still reduce your total benefit costs. Conversely, it is possible to have a low maximum for which many qualify and low minimums which require little attachment to the work force and have a total outlay which places a high tax burden on employers.

Since both maximum benefits to average weekly wages and average weekly wages can give varying results, a gross measure of total benefits to total wages is an alternative available measure. It also has some disadvantages in that it is hard to distinguish between the economic activity

differences and differences in benefit tables. A state with more seasonal industries may have a higher total benefit to total wage ratio than a state without seasonal industries, even though they handle claims the same and use the same table. What it does do, however, is provide information about the tax burden on employers. It is this factor which is of importance to employers in general, since it dictates the average tax in the state. In this regard Virginia has been in an enviable position. Virginia has ranked as the lowest state in this ratio from 1963 to 1973. See the following for Virginia's ranking from 1963 to 1979.

TABLE 29

VIRGINIA'S NATIONAL RANKING OF TAX BURDEN

<u>Year</u>	<u>Ratio</u>	<u>Ranking</u>
1963	.42	1
1964	.35	1
1965	.25	1
1966	.17	1
1967	.21	1
1968	.16	1
1969	.15	1
1970	.27	1
1971	.34	1
1972	.20	1
1973	.18	1
1974	.30	2
1975	1.23	10
1976	.70	4
1977	.65	6
1978	.55	9
estimate 1979	.54	9 to 10 estimate

Virginia has moved up in the rankings since 1973 and there is a significant gap between Virginia and the bottom state, Texas, .55 vs. .27 in 1978 (See Table 27). North Carolina, which for 1978 ranked 8th, had been 17th and 20th in the previous two years. Overall, Virginia has low benefits in terms of burden on the average employer.

Virginia enjoys a greater level of economic stability than other southeastern states and shows much less variation from the average level of benefits than other states. Over a forty year period, Virginia has a .40 standard deviation from the average, as opposed to .55 for North Carolina and .45 for the Nation. For the past nine year period Virginia had a standard deviation of .34 from the average, while North Carolina had .65.

Minimum Benefits

Minimum benefit amounts are the most neglected, yet one of the most important, aspects of benefit payments. Much emphasis is put on maximum benefits by legislators, organized labor, and industry. Federal criteria are suggested, labor urges higher maximums, and industry urges lower maximums. Ignored, however, minimum benefits can contribute to the insolvency of a system. States which automatically adjust maximum benefits, tend to ignore minimum benefits, yet the greatest reduction of total benefits paid in a system can be gotten by increasing the minimum benefits.

In an inflationary world, not increasing the minimum benefit with general wage increases expands the coverage of the system to include persons who, everything else constant, can now draw benefits but could not have drawn in the past. With no more work effort or changing jobs, persons begin to draw because higher hourly wages make them eligible.

Under Virginia's 1980 benefit table minimum benefits were \$38 per week. This assumes \$73 a week average wage and \$950 earnings in the highest quarter. Unfortunately, Virginia also paid \$38 per week for high quarter wages of \$342 with yearly earnings of \$1,368. Assuming the former, however, it requires 23.5 hours of work per week at \$3.10 per hour to earn \$950 in one quarter and additional earnings of \$418 during the remainder of the year. With an increase in minimum wage to \$3.35, hours of work required in the high quarter are 21.8 per week or 7% less.

The dollars to pay one claimant drawing minimum benefits for a week due to inadvertent expansion of the system would pay for maximum benefit increases for 2.3 persons (assuming maximum benefits were raised from \$122 to \$138 per week). Viewed differently, given a constant amount of total benefits in a system, expanding the system by one additional minimum benefit claimant costs the same as increasing maximum benefits for more than two persons.

It is easy to see that the same minimum benefit amount year after year, or a minimum benefit which does not increase proportionately with increases in the maximum, allows for expanded coverage each year. Thus, minimum benefits should be adjusted upward in the same proportion as maximum benefits.

The simplest way to accomplish this is to set minimum benefits at a percentage of state average weekly wage. If the state average weekly wage were \$250 per week, the maximum benefit at 55% would be \$138. If minimum benefits were set say at 17%, the minimum benefit would be \$43. Assume an increase in state average weekly wage to \$275, the maximum benefit would be \$151 and the minimum benefit would be \$47. Thus, whether changes in the benefit table are automatic adjustments or legislative changes,

maximum and minimum benefits should increase together and in the same proportion.

Duration

The length of time that a claimant is eligible to draw benefits has varied over time. Average maximum duration for all states has shown an upward trend since 1937, but has leveled off at about 26 weeks. Additional duration is provided when extended benefits are paid. As noted by Becker, from 1937 to 1962 "... the average duration rose, without any reverses, from 15.6 to 26.9 weeks, an increase of 72 percent."²⁸ Becker attributes this increase to four factors:

Among the many factors which accounted for the continued extension of duration, four were dominant. Of these, two were continuous (the need of the unemployed and the ability of the fund to meet that need) and two were occasional (increases in unemployment rates and federal pressures).²⁹

Presently ten systems have uniform potential duration for all eligible claimants of 26 weeks, while 43 have varying duration based on wages or weeks of employment. Seven of the 43 have maximum duration greater than 26 weeks.³⁰

There is a plethora of literature regarding duration in terms of "need". (See for example Becker and Murray).³¹ The issue of duration, however, as in benefit amounts, must be viewed in terms of incentives, as

²⁸Becker, "In Aid of the Unemployed", p. 97.

²⁹Becker, "In Aid of the Unemployed", pp. 100-101.

³⁰Those with uniform potential duration, Connecticut, Hawaii, Illinois, Maryland, New Hampshire, New York, Puerto Rico, Vermont, Virgin Islands, West Virginia, U. S. Department of Labor, Comparison of State Unemployment Insurance Laws, October, 1980, Table 309.

³¹Becker, "In Aid of the Unemployed", and Merrill G. Murray, The Duration of Unemployment Benefits, (Kalamazoo, Mich.: W. E. Upjohn Institute For Employment Research, 1974).

well as "need". Since Unemployment Compensation is not, and has never been, a welfare system, it can only be discussed in terms of earned right to benefits.

As in weekly benefit amounts, the only persons for whom duration becomes an enforcement problem are those who view benefits as an integral part of their income stream. Thus, duration that is tied to length of previous employment provides much more in the way of work incentives. To pay benefits for periods longer than previous employment is a strong disincentive to work.

Virginia's 12 weeks minimum and 26 weeks maximum duration is not necessarily better or worse than Florida's 10 to 26 or Alaska's 16 to 26. What is important, however, is that higher minimum duration thresholds requiring higher corresponding weeks of employment increase work incentives and reduce fiscal strain on the system. Concurrently, a period of duration greater than 26 weeks is consistent with work incentives if it requires increased weeks of employment. Higher minimums and higher maximums are consistent with the replacement of wages due to cyclical unemployment and reduce the impact of seasonal unemployment on the system.

Two additional aspects of duration are the waiting week and extended benefits. The waiting week in the beginning of the program was really three to four weeks instead of the traditional one week required in many states. Arguments against the waiting week are usually based on a concept of lack of "need", i.e. a claimant should be able to go one week without wage replacement. While it is likely true that a claimant can endure one week of unemployment, the waiting week(s) changes the wage replacement ratio. A person drawing three weeks of benefits for four weeks of unemployment has a smaller percentage of wages replaced than a person drawing six

weeks for seven weeks unemployment; 38% for the former and 43% for the latter (using a 50% replacement ratio).

There appears at present a national trend to require an uncompensated waiting week in every state. Currently, 41 states require a waiting week, including Virginia. Nine of those states, including Virginia, eventually pay the waiting week if unemployment continues long enough; in Virginia this occurs on the fifth week. From a work incentive position, Virginia has the worse position. If payment of the waiting week is to be made, it should be made immediately to avoid the incentive to remain unemployed for the fifth week and draw double benefits. While it may be in contrast to a national trend, paying the waiting week is consistent with the approach of replacement of lost wages.

Federally mandated extended benefits are a recent addition to unemployment compensation systems, having been legislated in the early 1970's. Because unemployment in a recession can exceed the maximum weeks allowed in most State systems, the Federal Government devised a program which extends benefits for one-half of the State duration up to 39 weeks. One-half of the expense is paid by the Federal government and one-half by the State. There is both a State and National trigger level of unemployment which brings extended benefits into effect, but Virginia's trigger is high relative to the National trigger and, historically, extended benefits in Virginia occur because of the National trigger rather than the State trigger.

Since the Federal trigger for extended benefits occurs infrequently, and theoretically only in periods of severe downturns, extended benefits can be analyzed differently than regular benefits. The concept behind extended benefits is primarily national economic stabilization and not temporary replacement of lost wages. It is for this reason that the Federal

government finances one-half of the cost, and there is reason to believe that it should be totally financed by the Federal government.

The concept of counter cyclical activity is economically sound and benefit extension is across the board in a proportional manner. If proper incentives are incorporated into the benefit system, extended benefits, while impacting the Fund and tax rates, will not distort the basic nature of a state system. Extended benefits could, however, magnify already existing inadequacies of a benefit system.

Summary

Since Unemployment Compensation is not welfare, rights to benefits in both amount and duration are based on previous employment history. However, paying money for not working obviously creates disincentives for work. The conflict between the goals of replacing lost wages and maintaining work incentives is inherent and must be addressed.

Because an unemployment compensation system is quite sensitive to changes in unemployment activity, it is important that claims are paid only to those targeted by the system to receive them. Fraud, misrepresentation, and attempts to "beat the system" will abound in any system which gives money for nothing in return. In addition to these more clear cut violations, a relatively large gray area can exist where there is not fraud, etc., but merely a lack of effort.

There is a tendency to try to prevent this negative activity through an administrative bureaucracy. While fraud and other clearly illegal activities can be kept to a minimum by the bureaucracy, the gray area is virtually impossible to police adequately unless very large amounts of money are spent doing so.

For example, not searching for work, seasonal exploitation of the system, and "malingering" can be more economically and effectively attacked through incentives in the benefit provision than by the bureaucracy. Requiring long attachment to the work force to draw benefits, for example, will impact seasonality problems. A charging system which places the impact for the unemployment on a particular employer, particularly with permanent disqualification provisions, will also reduce seasonal draw. It will also impact the malingering aspect in that most claimants will be separated for lack of work. Having incentives does not take away the need for administrative policing. It does, however, significantly reinforce it.

Because work incentives are so crucial for both effective administration and ultimate solvency, a benefit system should be constructed so as to target benefits to those with strong attachment to the work force. The most efficient way to do this is through a system that uses hours worked for eligibility and for duration. The second most effective way is through the use of benefit tables which calculate a claimants average weekly wage for a period of at least two quarters and perhaps more.

There were various alternatives considered and the study recommendations for Virginia follow:

Benefit Eligibility Requirements

- Objective: To set eligibility requirements so that the original concept of attachment to the work force is met equally by all claimants.
- Alternatives:
1. Increase dollar amounts required for high quarter and base earnings.
 2. Require weeks worked measurement as a minimum requirement.
 3. Require hours worked measurement as a minimum requirement.

4. Require duration to be a function of weeks worked or hours worked.
5. Retain the benefit table as it now exists and allow increasingly expanded coverage.
6. Require benefits to be determined on the basis of two high quarter earnings.

Study Recommendation*: Require hours worked (800) as a minimum requirement. (*Differs from Joint Subcommittee Recommendation.)

Wage Replacement Ratios

Objective: To replace a sufficient portion of lost wages, but maintain work incentive.

- Alternatives:
1. Maintain 52 percent of gross wage replacement.
 2. Lower or raise the gross wage replacement ratio.
 3. Make the replacement ratio a percentage of net wages for a single person.
 4. Make the wage replacement ratio a percentage of net wages for a married person.
 5. Make the wage replacement ratio a percentage of net wages for a married person with children.

Study Recommendation*: Make the replacement ratio a percentage of net wages for a single person. (*Differs from Joint Subcommittee Recommendation.)

Minimum Benefits

Objective: To set the minimum level of replacement consistent with the general wage level in the state.

- Alternatives:
1. Leave minimum benefits at a permanent low dollar amount and thus expand coverage.
 2. Raise the minimum whenever the maximum is raised and in the same proportion.

Study Recommendation*: Pay a minimum benefit of \$55 per week indexed to be 22 percent of the state average weekly wage. (*Differs from Joint Subcommittee Recommendation.)

Maximum Benefits

Objective: To keep benefit amounts in a constant position relative to the general wage level in the state.

- Alternatives:
1. Leave maximum benefits as they are.
 2. Raise maximum benefits to the relative level of the previous years - 52-55 percent of the state average weekly wage.
 3. Follow the recommendation of the National Commission on Unemployment Compensation of 1982 - 55 percent; 1984 - 60 percent; and 1986 - 66 2/3 percent of the average weekly wage.

Study Recommendation*: Pay a maximum benefit of \$138 per week indexed at 55 percent of the state average weekly wage. (*Differs from Joint Subcommittee Recommendation.)

Waiting Week

Objective: To replace lost wages consistent with maintaining work incentives.

- Alternatives:
1. Leave the existing system in place.
 2. Do not pay a waiting week at all.
 3. Eliminate the waiting week provision.

Study Recommendation*: Eliminate the waiting week provision. (*Differs from Joint Subcommittee Recommendation.)

Duration

Objective: To replace lost wages for a sufficient period but consistent with maintaining work incentives.

- Alternatives:
1. Continue with 12 to 26 week duration based on wage history.
 2. Change to 12 to 26 week duration based on hours worked.
 3. Change to non-varying duration, all claimants eligible for 26 weeks.

Study Recommendation*: Change to 12 to 26 week duration based on hours worked. (*Differs from Joint Subcommittee Recommendation.)

CHAPTER X

GOOD CAUSE AND SUITABLE WORK

Introduction

The philosophy behind the development of an Unemployment Insurance System consists of a concern for those persons permanently attached to the labor force who through no fault of their own become unemployed. Business cycles, changes in demand for products, and the exit of firms from business all lead to unemployment. Unemployment payments exist to provide a transitional income for job seekers. However, any program which dispenses money for no service rendered is susceptible to abuse.

In most of these cases the employee is not the decision maker, as it is the employer who separates the employee. In the majority of cases in Virginia (85%), the separation is for reasons of lack of work (See Table 1). In other instances it is for disciplinary reasons or for violation of work rules. These latter discharges are often disputed and require disproportionate amounts of administrative time. Roughly half of these disputed claims are settled in favor of the claimant and half in favor of the employer. In addition to conflicts regarding separation, there is a tendency on the part of some to treat unemployment payments as a way to provide for leisure time, such as vacation, etc. While the claimant may not initially seek the unemployment, once drawing funds, there may not be sufficient incentive to seek work or to expand the search to areas which provide a reasonable probability of success.

These two issues, good cause and suitable work, are often issues of concern to employer groups. Concern may be too weak a term however, as many times these are emotional issues for employers. The emotion is usually the result of "close dealings" with an individual problem with which the employer has first hand knowledge. For example, an ex-employee who quit and who should not be drawing benefits in the opinion of the employer. Another would be a claimant who does not take a job that has been offered. Although good cause and suitable work are important, the disproportionate interest by employers is due to the impact of the one or two "bad" situations they are personally aware of. In Virginia, as in many other states, the dollar impact is not that great. While it is important that employers and employer groups take an active interest in unemployment compensation systems, the energy spent on these two issues could likely be better spent on other system aspects.

Good Cause Attributable
to the Employer

As indicated in the introduction, the majority of separations are initiated by the employer for lack of work. In other cases the employee initiates the separation and voluntarily quits even though a job is technically available. In instances of verbal or physical abuse, some forms of discrimination, etc., the separation is attributable to the employer, because the employer could have avoided the situation by altering his business practices. Less clear is an example of an employee who becomes physically incapable of doing a job which involves carrying material from one point to another. If the incapacitation does not stem from job related activities, the employer did not cause the problem and still has employment to offer. The employee wants to

work but is not physically capable of performing that specific job. The employee feels justified in applying for benefits, and the employer feels justified in not wanting to be charged for the claim.

Determination of each issue on ability to draw and responsibility for benefit charges involves the law and interpretation of the law. Balanced against providing for lost wages for an employee leaving for a justifiable reason is the hesitation to charge an individual employer for an event not of his making.

Although there are differences in the Codes of various states, the interpretation of the law as it applies to claimants and employers is often more important than the wording of the law.

The problem of implementation of good cause legislation is very similar to the problem of suitable work. In order to evaluate good cause, the Virginia legal framework will be explored and compared to North Carolina's, some Virginia decisions will be summarized and each example compared to how the decision would have been made in North Carolina, and the costs of implementation or nonimplementation of good cause provisions. Costs include administrative costs, which do not come out of the fund, and costs to the Trust Fund.

Virginia

Section 60.1-58 of the Code of Virginia provides that an individual is disqualified for benefits if he leaves an employer without good cause to become self-employed or to follow a spouse to a new location, if he is discharged for misconduct, or has failed without good cause to apply for available work or to accept suitable work when it is offered (see section on Suitable Work). Good cause is a subject of varying interpre-

tations, but there are a sufficient number of legal cases to determine what is good cause.

While the cases involving good cause are a frequent source of irritation to employers, the dollar magnitude is not large. Nevertheless, a relaxation of the provision would increase costs. Good cause is more important to establish on the part of a claimant in Virginia than in some states, since the claimant is permanently disqualified if he is found to have quit without good cause. The importance of permanent disqualification is that not only does it provide for not charging the employer, it also keeps the Fund from being charged.

North Carolina

It has been pointed out that North Carolina's law reads:

(1) For the duration of his unemployment beginning with the first day of the first week after the disqualifying act occurs with respect to which week an individual files a claim for benefits if it is determined by the Commission that such individual is, at the time such claim is filed, unemployed because he left work voluntarily without good cause attributable to the employer. N. C. Gen. Stat. § 64-14(1) (1965 REPL. Vol.).

The difference between North Carolina and Virginia law is in the wording "good cause attributable to the employer." As noted in the following statement from the Attorney General's Office of Virginia, the difference is in form and not substance.

On first inspection, the law in North Carolina seems to be more restricted in regard to the subject of voluntary leaving than the provisions of § 60.1-58 of the Virginia Unemployment Compensation Act, which provides for disqualification from benefits for voluntarily leaving work without good cause. The North Carolina statute provides for disqualifi-

cation of a claimant who has left work voluntarily without good cause attributable to the employer. Such a provision, on its face, would seem to limit the definition of good cause to work-related reasons. It would eliminate personal reasons such as health or compelling family responsibilities, reasons for leaving that could constitute good cause under Virginia law, from the definition of good cause.

On closer inspection, however, the actual state of affairs in North Carolina appears to be little different from that of Virginia. The North Carolina Commission, charged with the administration of that states unemployment compensation law, has interpreted that law in a rather expansive manner. They have found many situations that would seemingly not fall within the definition of good cause attributable to the employer as not being a voluntary leaving of employment. If the reviewing body finds that an individual did not leave work voluntarily, then the question of good cause never arises.

A North Carolina Attorney General's opinion, defining the term "voluntary" as it is used in that state's unemployment compensation law, states that it is "justifiable to consider the mental processes, constraining or compulsive forces or objective influences, or the freedom or lack of freedom from external compulsion or necessity which led up to the claimant's leaving work." The opinion also states that the reasons for leaving work, in order for such leaving to be considered involuntary, should be of "an impelling character" and that the reasons for leaving should be such that continuing employment was impossible or unreasonably burdensome. As can be seen, this opinion sets out a general guideline for the determination of voluntariness without setting hard and fast rules. A certain amount of latitude is present depending on the facts of individual

cases. In addition, it would seem that by using this approach, many if not most situations that might be considered good cause in a state where the good cause need not be attributable to the employer (such as Virginia), could be considered involuntary leaving in a state such as North Carolina, where good cause must be attributable to the acts of the employer.

An example of this can be seen in a North Carolina case where a woman left work to care for her child. It was held that the necessity of leaving work made her resignation involuntary. She was not disqualified from benefits, even though her employer was in no way to blame for her leaving. Cases involving persons leaving work for health reasons reach the same result, both in cases where the physical condition of the employee was job related and where it was of outside origin. The same result is reached of pregnant female employees that were terminated under company policy, or who resigned rather than accept compulsory pregnancy leave. It should be pointed out that in some cases, pregnant women were disqualified on able and available for work grounds.

Another point worth noting about North Carolina decisions is that they seem to take a rather broad view of what constitutes good cause attributable to the employer. In one case the disregard by a supervisor of a complaint by the claimant about the profane and obnoxious language used by co-workers was held to be good cause attributable to the employer for the claimant to leave his job. In other cases the failure to (1) provide sufficient work for the claimant to meet his expenses, (2) pay a promised wage, and (3) provide a promised salary increase, were held to constitute leaving for good cause attributable to the employer.

In short, while the North Carolina law may appear to be more stringent than the law in Virginia, in actual practice the two seem to have very similar effects. The law in North Carolina, as applied, provides for disqualification in virtually the same circumstances as that of Virginia. What this seems to demonstrate is a large amount of potential overlap between the terms "voluntary" and "without good cause." Either term can be used to achieve the same effect.

Since the results of Virginia and North Carolina statutes are very similar, it would appear that the concern over "good cause" in terms of its impact on the Trust Fund is minimal.

Suitable Work

All state systems have some built-in safeguards against "malingering" and one such safeguard is the provision for "suitable work." Suitable work provisions recognize that claimants have some right to pursue careers or jobs in their present fields, or closely related fields, if there is a reasonable probability of employment. One criterion of "reasonable" is the length of time of unemployment. The longer the period of unemployment, the less reason to expect that the claimant will be successful in his or her job search. At some point, the length of unemployment dictates that the claimant must accept work other than in his or her chosen field.

While there is little disagreement with this position in theory, it is difficult to implement a system that accomplishes this feat. Implementation requires interpretation of law, legal precedent, and administrative decree. While the Virginia Employment Commission implements the law, all their decisions are subject to appeal to a court.

In order to evaluate the suitable work provision, the Virginia legal framework will be explored and compared to North Carolina's, Virginia decisions will be summarized and each example compared to how the decision would have been made in North Carolina, and the costs of implementation or nonimplementation of suitable work provisions. Costs include administrative costs, which do not come out of the fund, and costs to the Trust Fund.

Virginia

The Virginia legal framework is summarized by the Attorney General's Office in the following:

Under Section 60.1-58(c) and under the statutes of other states, the refusal of an offer of suitable work is a disqualification for unemployment benefits unless the claimant can show that the refusal is based on good cause. While the words "suitable work" as used in statutory provisions disqualifying individuals from claiming unemployment benefits have been variously defined and distinguished, what constitutes suitable work within the meaning of the statutory provision is a question of fact to be determined in the light of all circumstances. This requires a balancing of the enumerated factors as they apply to the individual claimant. Once a determination is made that suitable work has been offered, the focus of the inquiry shifts to whether the claimant had good cause to refuse. Section 60.1-58(c) sets forth a number of factors which are to be considered in determining whether any work is suitable for the particular claimant. Such a statutory list is not all inclusive and does not necessarily preclude consideration of other matters. Usually considered are the degree of risk involved to the claimant's

health, safety, and morals; the claimant's mental and physical fitness; his prior training and experience; his prior earnings; and the distance of the available work from his residence. Additionally, the employment offered must not be for wages, hours, or conditions substantially less favorable than those prevailing for similar work in that locality.

A most difficult element in the calculus is the length of unemployment, yet it is an important criterion in ascertaining whether the offered work is suitable. The above enumerated factors involved in determining suitability of offered work must be balanced against the length of unemployment and the prospect of securing similar work to that previously done.

The claimant is entitled to a reasonable time in which to look for work commensurate with his skill, competence, and the salary level which he has achieved. Reasonableness of time is not governed by a rigid and inflexible rule in Virginia, or in most other states, but is determined as a question of fact under the peculiar circumstances of each case.

Work at a substantially lower wage may not be deemed suitable unless a claimant has been given a reasonable period to compete in the labor market for available jobs for which he has the skill and at a rate of pay commensurate with his prior earnings. The shorter the period of unemployment, the less variance there can be between the prevailing wage and the offered wage. However, work which may be deemed unsuitable at the inception of the unemployment, and for a reasonable time thereafter, may become suitable work when consideration is given to the claimant's length of unemployment. Good cause for refusal is not a defined term and is commonly based on whether a reasonable person,

desirous of being employed, would have found the circumstances so compelling that no alternative existed to refusing the work.

North Carolina

The provisions of North Carolina's unemployment compensation law are similar, if not identical in most respects, to those of Virginia on the question of the refusal of suitable work. Under Section 96-14(3) of the North Carolina Employment Security Law, a person is disqualified for benefits for refusal of suitable work in circumstances virtually the same as those under which he would be disqualified in Virginia. In addition, the North Carolina statute defines suitable work in such a manner as to be fundamentally the same, if not more liberal, than the law in Virginia.

In listing the criteria that shall be taken into account in determining whether any particular offer of employment shall constitute suitable work, the North Carolina statute names the same factors that are listed in Section 60.1-58(c) of the Virginia Unemployment Compensation Act. In addition, the North Carolina statute adds the phrase as part of the factor listed as "length of unemployment," specifically: "(the) prospects for securing local work in his customary employment." The North Carolina law also lists the same three factors as the Virginia statute which would specifically render work unsuitable. These are the requirements of joining or resigning from a union, the existence of a labor dispute at the offered employment, or the wages, hours or working conditions being less than favorable than those prevailing in the area.

The North Carolina cases indicate that the interpretation of the law is in conformity with the interpretation given the Virginia law by

the Virginia Employment Commission and the Virginia courts. The determination is indeed subjective. In determining whether particular work is suitable under North Carolina statute, the facts of a particular situation must be taken into account. It can be determined from the cases, however, that a claimant is allowed a period of time, the length of which depends upon the circumstances, to find work, similar in terms of wage and condition to that which he left, before being required to lower his expectations.

Virginia Cases

In Virginia the issue of disqualification for refusal of suitable work does not confront the Commission nearly as often as issues involving misconduct and voluntary leaving of employment. However, the Commission has treated the matter in consistent fashion over the years. A sampling of Commission cases on the subject is attached. The cases indicate a close scrutiny of whether suitable work has been offered and whether good cause existed for a refusal. In most cases the work considered was either held suitable or became suitable due to the passage of time, and good cause could not be shown for refusal--resulting in a disqualification. Circuit Courts in Virginia have routinely affirmed nearly all Commission decisions involving suitable work, holding that the Commission is interpreting and applying the Law correctly.

Some examples of decisions of suitable work are given below:

Lack of Transportation

In the first case, the claimant did not object to any aspects of the job offered except that there was a lack of transportation to work. The decision of the Appeals Examiner is as follows:

The record reflects that the employer would provide transportation from Heathsville to his place of business. Testimony before the Commission further shows that Heathsville was approximately six miles from the claimant's residence. Since transportation was furnished by the employer from Heathsville to his place of business it is obvious that the claimant needed only to find transportation from Callao to Heathsville, a distance of approximately six miles, in order to be able to get to work. The Commission is of the opinion that in any rural area, such a six mile distance that the claimant would have had to travel was a reasonable distance and would not have rendered the work inaccessible. Accordingly the Commission is of the opinion that the work was not unsuitable when one considered its accessibility from the claimant's residence. The claimant's failure to apply for such work solely because of lack of transportation is therefore, without good cause. *Beatrice Plummer v. R. A. Chatham and Sons*, Decision No. 10652-C (August 18, 1978).

In the second case involving Transportation the claimant, a single parent, could not leave the work place and arrive home in time to pick up her child from a day care center before it closed. The Commission contended that this was a common place problem which most employees in the labor market must face and resolve. The woman was denied benefits by the local office Claims Deputy and by the Appeals Examiner.

The Special Examiner in the subsequent appeal give the following opinion:

The employer in this case afforded the claimant the opportunity to end her work day at 5:00 p.m. rather than the 5:30 p.m. hour originally included in the offer of employment. The claimant felt that even this additional half hour would not have afforded her sufficient time to return to the child care center in Northern Virginia by 6:15 p.m. It appears that the claimant could have accepted this job under the latter conditions at least on a trial basis to see if she had sufficient time to commute within the required time frame or until she could make alternative child care arrangements to comport with the employer's preferable hours of work. The claimant's arbitrary refusal of this suitable job offer therefore, falls short of the standards necessary for a finding of "good cause" within the meaning of that term as used in the Virginia Act. *Alison Mushett v. Tesdata Systems Corp.*, Decision No. 12249-C (August 24, 1979).

Subsequently, the Circuit Court of the County of Fairfax overturned the decision of the Commission stating the following:

The Court is of the opinion that in judicial review of VEC proceedings, the facts if supported by the evidence are conclusive and the Court's jurisdiction is confined to questions of law. In this matter, the Commission's findings of fact were not supported by the evidence because there was not sufficient evidence in the record to support a finding that had the Petitioner left work at 5 p.m., she could have consistently returned to her daughter's day care center by 6:15 p.m.

The Court is further of the opinion that this unsupported finding was crucial to the Commission's decision that the Petitioner had not taken every precaution and explored every possibility that a reasonable person, desirous of obtaining employment would pursue. Based on this weakness, the Commission's finding that the Petitioner did not have good cause to refuse suitable work is in error. Alison Mushett v. Tesdata Systems Corp., Decision No. 12249-C (August 24, 1979).

Length of Unemployment

Two cases involving length of unemployment and its importance in determining suitable work are outlined below.

In the first case, the claimant refused work because it was not commensurate with his prior experience, that of radio advertising sales.

The Commission's decision on the matter follows:

In view of the foregoing, it is apparent that the claimant's primary objection to the work offered was that it was not commensurate to his prior experience. The statute requires the Commission to consider not only the claimant's prior experience, but also the length of his period of unemployment in determining suitability of the work. The fact that the claimant had been unable to secure employment in radio advertising sales after seeking such work for over five months indicated a lack of attachment to the labor market with respect to that type of employment. The Commission has consistently held that where such a circumstance exists, a claimant should broaden his search for work and be willing to accept employment which he can realistically expect to obtain. Since the work the claimant was offered was in sales, it was suitable employment after so long a period of unemployment and it did pay the prevailing rate for similar work in the locality. Robert W. Steinhilber v. U. S. Train Dynamics, Decision No. 9784-C (October 11, 1977).

The second case involving length of unemployment involved not only actual length of unemployment, but length of time the claimant had had to look for employment. The decision is self-explanatory.

In the present case, it is the opinion of the Appeals Examiner that had the Deputy realized that the claimant had been given 45 days notice of the closing of the district office, perhaps the ruling on her refusal of continued employment at Sears and her refusal of referral to Virginia Tech may have been different. While the issues in those cases are not before the Appeals Examiner at this time, the fact that the claimant had already turned down employment on two occasions can be considered to have established a pattern culminating in her refusal to accept the job at the Electro-TEC Company. It is apparent that the job was in line with her previous training and experience and did not pay substantially below the prevailing wage rate for similar work in the locality. It is further apparent that the job was within the labor market in which the claimant resided, and did offer terms and conditions not substantially less favorable than those prevailing for similar work in the locality. While it is true that the claimant had only been unemployed for about a month at the time she refused this job, that month plus the 45 days' notice that the district office was closing down had already given her ample time to explore the labor market area to seek other employment more in line with her salary desires. It is therefore concluded that the job which the claimant turned down did represent suitable employment for her and she has failed to demonstrate good cause for refusing it, so as to be relieved of the disqualifying provisions of the aforementioned Section of the Virginia Act. Janice L. Taylor v. Sears Roebuck and Company, Decision No. 12655-C (October 11, 1979).

The decision was appealed to the Circuit Court of the County of Pulaski and the Commission was upheld in its decision.

Type of Job

This case involved refusal to accept work because it was not what was desired by the claimant, although it was in line with previous experience of the claimant. The claimant was interested in office or clerical work and not that of a saleslady or a cashier. She was not dissatisfied with wages or other aspects of the offered employment. The decision to deny benefits is based on the following:

In the case before the Appeals Examiner, the claimant was employed with the understanding that she would work in the office when the job opened on or about June 25, 1973. In the meantime she was offered part-time employment for two and one-half days a week as a cashier. The rate of pay in both jobs was the same. The claimant quit her employment following her last day of work, on July 16th, because the job in the office had not materialized and she did not feel that it would. The wages, hours, and conditions of employment of the work which the employer was offering to the claimant was prevailing for similar work in the area, and the Appeals Examiner is of the opinion that the claimant's refusal to continue this employment because of the duties assigned her would not be good cause for the refusing of suitable employment.

The Commission has consistently held that it is the duty and responsibility of every employed person to retain her employment for as long as possible. If the claimant was dissatisfied with the work assignments given to her by this employment she should nevertheless, have continued with this employment until such time as a job more to her liking might have become available. Barbara C. Owen v. Top Dollar Stores, Decision No. UI-73-1479 (September, 1973).

Suitable Part-time Work

One of the issues involved in accepting or rejecting work is part-time vs. full-time employment. The Commission in this case ruled that it was not legitimate to reject part-time work if it was suitable in terms of wages and nature. The decision is as follows.

In Decision No. 4360-C dated October 6, 1965, Nancy R. Dunkley v. Virginia Telephone and Telegraph Company, an individual refused an offer of two days work after having applied to the employer for work:

"The Virginia Unemployment Compensation Act does not distinguish between temporary, part-time or full-time employment. The only requirement is that the work which is offered to an individual must be suitable."

In the instant case, inasmuch as the work offered the claimant was otherwise suitable and paid the prevailing wage rate, her reason for refusing because it was only a temporary job and that it would interfere with her securing permanent full-time work is without merit. She could have accepted the employer's two days work and continued to seek full-time work. It had not been determined that the two days she would have had to work conflicted with appoint-

ments she had set up. In fact, the two days of work with this employer may have been a great asset in her attempts to secure a full-time job with them.

In view of the above, it is the opinion of the Appeals Examiner that the claimant failed without good cause to accept an offer of available, suitable work.

In summary, Virginia, as most states, uses the Suitable Work Provision to prevent use of the Unemployment Insurance System for other than an income supplement during periods of legitimate job search. Virginia and North Carolina have almost identical provisions for determining suitable work, and the administration and enforcement is very similar. It is obvious that the significant difference in fund balance between North Carolina (\$600 million) and Virginia (\$100 million) is not related to the Suitable Work Provision of the Law.

PART III

THE INCREASE IN U.I. BENEFIT ACTIVITY IN
VIRGINIA: ITS CAUSES AND IMPLICATIONS

Principle Investigator
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CHAPTER XI

THE INCREASE IN U.I. BENEFIT ACTIVITY IN VIRGINIA: ITS CAUSES AND IMPLICATIONS

Introduction

The sustained higher level of unemployment activity initiated by the 1975 recession and the concurrent decline in the state Unemployment Insurance (U.I.) Trust Fund have been perplexing problems for Virginia. One of the phenomena which best reflect this change in activity has been a marked rise in the ratio of benefits paid to the total payroll of firms whose employees are covered by unemployment insurance.¹ The following table, which gives this ratio for the 1964-79 period, indicates the extent of the changes which have occurred:

TABLE 30

VIRGINIA BENEFIT-PAYROLL RATIO 1964-79

1964	.00368
1965	.00256
1966	.00171
1967	.00216
1968	.00165
1969	.00161
1970	.00275
1971	.00352
1972	.00195
1973	.00172
1974	.00301
1975	.01184
1976	.00684
1977	.00617
1978	.00501
1979	.00369

¹Benefits are calculated as the number of claimants receiving benefits times the average weekly benefit amount times the average duration in weeks of compensated unemployment. The payroll amount equals number of covered employees times average weekly wage times 52.

After rising substantially between 1973 and 1974, the benefit-payroll ratio jumped abruptly in 1975 to a new high of over three times the previous high for the years shown. Equally as significantly, it has remained above the previous high in the ensuing four years, averaging .00835 in the 1975-79 period as compared with .00259 for 1970-74, rather than declining rapidly toward the long run mean, as it had in the past.

The level and movement of the benefit-payroll ratio is important, not solely as an indicator of the strains being placed on the current U.I. system, but as a measure of the long-run burden of unemployment insurance taxes to Virginia firms relative to other labor costs. As such, it is one indicator of the business environment facing existing firms and potential investors. Until the 1975 recession this ratio was remarkably low. Indeed, in 1974 only one state (Texas) ranked more favorably. However, by 1977 the state's position had deteriorated to sixth, indicating a decline along one measure in the business attractiveness of the Virginia economy relative to other states.

While Virginia's benefit-payroll position is clearly still excellent, it is important to seek the causes for the changes which have occurred thus far, because they may signal a new direction in the state economy and slippage in the competitive edge. It is in the state's interest to delineate the roots of this trend and take appropriate steps to stem it.

In this report we attempt to assess the reasons for the apparently permanent rise in the Virginia benefit-payroll ratio. As a preliminary step, the relationship between changes in this ratio and the economic measures from which it is calculated is examined (Section II). The results indicate that the changes in the benefit-payroll ratio are linked most strongly to changes in the number of claimants and the average claims

duration and to the ratio of claimants to covered employees. In the following sections, the two most plausible economic explanations for the changes in these variables and the resulting rise in the benefit-payroll ratio are considered: (1) changes in unemployment insurance rules for individuals and firms which encourage joblessness, and (2) a deterioration in economic conditions in Virginia. The basic conclusion of this analysis, and of the study as a whole, is that the primary cause of increase in the Virginia benefit-payroll ratio is not the structure of the U.I. system, but a slowing of the expansion in state economic activity and employment relative to the rest of the United States; a trend which has left the benefit-payroll ratio (and the tax burden) at more than double the level it would have been if Virginia had maintained its previous advantage over other states.

The Relationship Between The Changing Benefit-Payroll Ratio And Its Components

The purpose of this section is to gain a feel for the changes directly contributing to the rise in the benefit-payroll ratio by looking at year to year changes in the ratio and in the factors which comprise it: (1) the number of claimants, (2) average weekly benefit amount, (3) average weeks of unemployment duration, and (4) covered payroll (number of covered employees x average weekly wage). To simplify the presentation and discussion we introduce the following symbols:

r = benefit payroll ratio

n = number of claimants receiving benefits

b = average weekly benefit amount

d = average weeks of unemployment duration

p = total payroll

w = average weekly earnings of covered employees

e = number of covered employees

By definition, $r = \frac{nbw}{p}$, where $p = 52 ew$. The multiplicative form of the relationship allows the percentage change in r from year to year to approximately equal the sum of the percent changes in n , b , and d minus the percent change in payroll. Table 31 presents such a breakdown and reveals considerable fluctuation in the benefit-ratios. It fell by more than 20% in 7 of the fifteen years and rose by at least this percentage amount in 5 different years. Closer examination shows that these changes are primarily associated with instability in the number of claimants (n) and in weeks of unemployment duration (d). This can be demonstrated superficially by examining the signs of the changes in both n and b which are the same as for the benefit-payroll ratio (r) 12 of 15 times.

A more precise indication of the importance of changes in n and d for the instability of the benefit-payroll ratio is provided by the ratio of the joint change in n and d (as a %) to the percentage change in r (Table 32). This ratio exceeded .60 in 12 of 15 periods and was .85 or greater in four of the five periods in which the ratio rose.

Another interesting way of evaluating the impact of changes in these factors is to estimate what the benefit-payroll ratio would have been in their absence. We want specifically to isolate the effects of the variables d (duration) and n (number of claimants). However, rather than use n as an independent measure, we utilize the ratio $\frac{n}{e}$, (number of claimants + number of covered employees), which is economically more meaningful since it captures variations in the numbers of unemployed relative to the covered labor force (see Table 33).

TABLE 31

PERCENTAGE CHANGES IN THE COMPONENTS OF THE
BENEFIT-PAYROLL RATIO 1964-79

Year	% Change in n* (number of benefit recipients)	% Change in b* (avg. weekly benefit = pay- ments ÷ weeks compensated)	% Change in d* (avg. weeks compensated unemployment)	% Change in p* (gross payrolls of covered employees)	% Change in r (est.**) (benefits ÷ payrolls)	% Change in r (actual***) (benefits ÷ payrolls)
1964-65	-28.5%	6.4	-5.2	8.8	-36.1	-35.9
1965-66	-19.9	3.4	-15.0	8.4	-39.9	-39.7
1966-67	14.1	6.7	8.4	6.3	22.9	23.2
1967-68	-17.3	3.0	-1.1	11.5	-26.9	-26.2
1968-69	3.2	7.3	-2.4	10.1	-2.0	-2.5
1969-70	46.0	11.7	2.4	7.6	52.5	52.3
1970-71	2.0	12.4	18.9	8.7	24.6	24.5
1971-72	-39.3	1.0	2.8	22.7	-58.2	-57.3
1972-73	-6.3	9.6	-1.9	14.2	-12.8	-12.5
1973-74	68.0	13.4	-17.6	10.7	53.1	54.4
1974-75	94.9	12.0	20.3	8.3	118.9	118.8
1975-76	-53.0	6.8	4.1	11.5	-53.6	-53.5
1976-77	.9	5.0	-3.3	11.0	-8.4	-10.3
1977-78	-5.4	10.3	-2.5	23.2	-20.8	-20.8
1978-79	7.7	4.5	-29.4	13.0	-30.2	-30.3

*Calculated from data provided by the VEC (UI Data and ES Data, October, 1980.)

**Calculated as $\left(\frac{\Delta n}{n} + \frac{\Delta b}{b} + \frac{\Delta d}{d} - \frac{\Delta p}{p}\right) \times 100$

***Calculated as $\left(\frac{\Delta r}{r}\right) \times 100$, $r = \frac{nb d}{p}$

Because the formula in ** is derived for very small changes in the variables, the estimated changes deviate somewhat from the actual changes.

TABLE 32

RATIO OF THE PERCENTAGE CHANGES IN NUMBER OF CLAIMANTS
AND AVERAGE WEEKS DURATION TO THE PERCENTAGE
CHANGE IN THE BENEFITS-PAYROLL RATIO

1964-65	.939
1965-66	.879
1966-67	.970*
1967-68	.618
1968-69	**
1969-70	.925*
1970-71	.853*
1971-72	.637
1972-73	.656
1973-74	.743*
1974-75	.970*
1975-76	.914
1976-77	.233
1977-78	.380
1978-79	.716

*years in which benefit-payroll ratio increased

**r changed a small amount in the opposite direction

TABLE 33

RATIO OF CLAIMANTS TO COVERED EMPLOYEES

Year	n number of claimants (benefit recipients) in thousands	e number of covered employees in thousands	$\frac{n}{e}$ number of claimants + number of covered employees
1964	50.4	808	.062
1965	37.8	853	.044
1966	30.9	897	.034
1967	35.6	914	.039
1968	30.0	954	.031
1969	30.9	996	.031
1970	49.4	1014	.049
1971	50.4	1041	.048
1972	33.8	1254	.027
1973	31.8	1350	.023
1974	64.5	1384	.047
1975	181.0	1387	.130
1976	105.2	1450	.072
1977	104.2	1519	.068
1978	98.8	1813	.054
1979	106.6	1899	.056

The results of these calculations are shown in Table 34. In columns (1), (2), and (3) the actual benefit-payroll ratios for 1975-79 are presented, along with the ratios which would have occurred if d and $\frac{n}{e}$ had retained their 1974 values. The calculations are repeated in columns (4) and (5) under the assumption that the 1970-74 averages had been maintained.

TABLE 34
BENEFIT-PAYROLL RATIOS FOR 1974, ACTUAL AND ESTIMATED

	(1)	(2)	(3)	(4)	(5)
Year	actual benefit-payroll ratio	benefit-payroll ratio using 1974 d value	benefit-payroll ratio using 1974 n/e value	benefit-payroll ratio using 1970-74 avg. d value	benefit-payroll ratio using 1970-74 avg. n/e ratio
1975	.01184	.00876	.00428	.01084	.00355
1976	.00684	.00485	.00446	.00601	.00370
1977	.00617	.00452	.00426	.00560	.00354
1978	.00501	.00377	.00436	.00376	.00362
1979	.00369	.00373	.00310	.00462	.00257

The results in Table 34 again underline the importance of changes in the major unemployment measures for the benefit-payroll ratio. This value would have been lower in each year from 1975 to 1978 had either of the 1974 values been maintained and in 1979 if the 1974 $\frac{n}{e}$ ratio were used, the importance of the increase in the ratio of claimants to covered employees for the rising benefit-payroll ratio is especially evident. Maintaining the 1974 average $\frac{n}{e}$ lowered the hypothetical ratio the most in four of the years. Had the 1974 average duration period been maintained, the ratio also would have been substantially lower. In columns (4) and (5) we see that had any of the averages from the 1970-74 period been realized in the last 4 years, the benefit-payroll ratio would have been more favorable (again with the exception of the d value in 1979). When the

five-year averages are utilized, it is once more the claimant-employee ratio which effects the greatest discrepancies between hypothetical and actual ratios.

We have now established firmly the technical relationship between changes in the benefit-payroll ratio and changes in the duration and claimant-employee ratio variables. However, we have done relatively little to determine the causes of these changes. In Sections III and IV we, therefore, discuss the Virginia U.I. system and trends in the Virginia economy to assess the extent to which they are responsible for the recent worsening.

Virginia U.I. Regulations And The Rising Benefit-Payroll Ratio

A substantial number of economic studies in recent years have indicated that there is a relationship between the liberality of a state's unemployment laws and the frequency and duration of unemployment spells. It has been found that (1) changes in rules concerning U.I. eligibility, the amount of payments, and their potential duration have created inducement for workers to remain unemployed longer, and (2) flatter (i.e. less experience-rated) U.I. tax schedules for firms have contributed to rising unemployment. In this section we, therefore, examine eligibility requirements and other features of the Virginia U.I. system to determine if there have been any changes which may have provided incentives leading to greater unemployment.

For the most part, our examination reveals a considerable amount of stability in the parameters of the system, and indicates that the system itself is not primarily responsible for the changes. The benefit tables display little structure change in the past decade. As in all

states, weekly benefit amounts (WBA) in Virginia are based on high quarter earnings in the base year, increasing proportionately to income up to a maximum amount, while the number of weeks during which benefits can be collected (potential duration) rises as the ratio of total yearly earnings (YE) to high quarter earnings (HQE) increases. For the period in question potential duration (in weeks) has always equaled $8.33 \times \frac{YE}{HQE}$, with a minimum of 12 weeks of coverage ($\frac{YE}{HQE} = 1.44$) to a maximum of 26 weeks ($\frac{YE}{HQE} = 3.12$), except during extended benefit periods. The replacement ratio (the proportion of weekly earnings before taxes replaced by unemployment benefits, applicable to all claimants except those in the minimum and maximum benefit categories) has also remained stable at .52 since 1972, when it rose slightly from the prior ratio of .50. This means that the potential monetary costs imposed by unemployment have not changed for persons covered by U.I.

However, there have been some de facto changes in the replacement ratio and in potential duration. Not all claimants experience the .52 replacement ratio. Those who earn more than the amount needed to qualify for the highest benefit have a smaller proportion replaced, with the proportion falling as income rises. Although qualifying earnings for the highest benefit amount have been altered over time in line with changes in the state average wage, the proportion of claimants in the highest group has fallen steadily over most of the 1970's (Table 35). Thus, proportionately fewer people are subject to a less than 52% replacement ratio and the average replacement ratio has risen. For those with relatively high earnings, this means that the disincentive effect on unemployment has weakened somewhat, i.e., they now have less to lose through not working.

Both the shift in the unemployment structure toward a higher proportion of better paid workers, as evidenced by the rise in the ratio of the average weekly wage of claimants to the average weekly wage of all covered employees (Table 35), and the increase in average unemployment duration which we have already discussed are certainly in part reflections of the change in this disincentive.

TABLE 35

AVERAGE REPLACEMENT RATIO

Year	% of claimants with maximum benefit	average replacement ratio (average weekly benefit ÷ average weekly wage of all claimants)	average weekly wage of claimants ÷ average weekly wage of all covered employees
1970	44.7%	.411	.829
1971	37.7	.424	.858
1972	37.8	.390	.902
1973	32.5	.410	.884
1974	32.0	.435	.875
1975	30.7	.447	.887
1976	30.3	.444	.890
1977	28.2	.436	.895
1978	29.9	.483	1.020

SOURCE: Data provided by the VEC (See Table 33) and from VEC Annual Reports.

The shift in the compensated unemployment structure toward a higher fraction of better paid workers and high benefit recipients could also conceivably have come about through rules changes excluding very low paid workers from compensation, a step which would also have reduced total benefit payments. In reality just the opposite occurred in the form of a de facto liberalization of the minimum high quarter earnings requirement. To maintain the same degree of stringency in eligibility requirements over time, the minimum should be adjusted constantly to reflect changes in earnings capacity. However, for a good portion of

the period in question that was not done. Although average quarterly earnings in Virginia rose 49.9% between 1970 and 1976 from \$1,572 to \$2,357, the minimum requirement remained at \$180 throughout. This amounts to making it easier for low earners or, in particular, those who do not work steadily or full-time to qualify for benefits. (The 1979 minimum of \$342 is somewhat more in line with earnings increases, representing a 90% hike over the 1970 amount as compared with an average quarterly earnings increase of 108%.) However, since the proportion of those in the lowest benefit group does not appear to have changed much, the slow adjustment in the minimum earnings amount appears to have exerted only a minor influence.

A final channel through which the U.I. system in Virginia may have had the effect of increasing the incentives to individuals to remain unemployed is through the increase in average weeks of potential benefit duration which took place from the early to later 1970's (Table 36):

TABLE 36

AVERAGE WEEKS OF POTENTIAL BENEFIT
DURATION PER NEW CLAIM ALLOWED

1970	22.0	1975	23.0
1971	21.6	1976	22.5
1972	21.7	1977	22.7
1973	22.5	1978	22.8
1974	23.2	1979	22.8

SOURCE: VEC U.I. Data.

We must be careful in interpreting these figures since the changes which have occurred are not a result of changes in regulations, but reflect a shift in the structure of the unemployed from less stable to more stable workers and are, thus, probably signs of a weakened economy.

Nonetheless, other studies have indicated a positive relationship between potential and actual duration, so that the shift represents somewhat of a reduction in the average costs of being unemployed, and thus, a small inducement to extend the unemployment spell.

There are other ways in which facets of the Virginia U.I. system could potentially have contributed to the rise in the benefit-payroll ratio. The enforcement of eligibility requirements is one important area which comes to mind - whether firms report discharged workers or voluntary quits or allow them to collect benefits for being laid off and whether administrators enforce job search requirements. Information at hand does not, however, indicate any significant increase in laxity, so that we assume these factors to be relatively unimportant.

Another channel of influence pertains to the unemployment insurance tax rate structure. Whether or not a firm lays off workers (as opposed to hoarding labor and building up inventories) during a downturn will depend upon the costs relative to benefits of doing so. One potential cost is an increase in the U.I. tax rate which the firm pays. The more this rate rises in response to an increase in layoffs and the longer the period over which the increase is effective, the less likely a firm is to lay off a worker. Because rate structures differ from state to state, we expect layoff rates and, hence, both benefit payments and the benefit-payroll ratio to be affected differently. Specifically we expect a state's tax rate structure to be a stronger deterrent the greater (1) the proportion of firms who are likely to experience a rate increase (the greater the proportion who are not at the maximum rate), (2) the span between the minimum and maximum rate, and (3) the number of years over which the rate will be affected.

We do not have the information to allow us to compare Virginia to other states, but there are at least two reasons to suspect that Virginia's rate structure could be less of a deterrent to unemployment than others. First, until recently the Virginia U.I. tax structure has had a comparatively small span between the lowest and the highest rate, probably as a result of the state's favorable past unemployment experience. Further, the structure was such that firms could generate the highest rate by a fairly low claims level, so even small downturns in activity left many Virginia firms at the maximum rate. Secondly, under the Virginia system the rate can be affected for a maximum of only three years, in contrast with states whose tax rates are calculated on a reserve ratio basis, where some impact can be felt indefinitely. Consequently, the tax costs of additional layoffs, particularly to the many firms paying the highest rate, may be low in Virginia compared to other states. Final judgment on the impact of rate structure must be reserved until the appropriate data are available.

In sum, we do not find that the structure of the Virginia U.I. system has varied enough over the last decade, either absolutely or relative to other states, to cause the changes which have been observed. There has been some liberalization for high and low benefit groups and changes in the types of persons receiving benefits. These changes will have had some adverse effect on the benefit-payroll ratio both directly, through an increase in the benefit-wage ratio, and indirectly, through a lengthening of the average unemployment spell. Nonetheless, based on the quantitative findings of others regarding the extent of the relationship between unemployment and U.I. eligibility rules and tax structures, it is our feeling that the net effect on Virginia's benefit-payroll ratio and the state's ranking will have been relatively modest.

The Virginia Economy And The
Benefit-Payroll Ratio

Although economists have found that for the U.S. as a whole elements of the U.I. system have exacerbated the unemployment problem, it is clear that the substantial rise in unemployment rates in the U.S. experienced over the past years has at its root a deterioration of economic conditions. That Virginia shares in these problems and that they are reflected in the benefit-payroll ratio in the form of longer and more frequent employment spells and a retardation in payroll growth goes without saying. The unemployment rate of workers covered by unemployment insurance in Virginia, which quintupled from .7% in 1973 to 3.5% in 1975 and is still more than double the low of .7% (Table 37), attests convincingly to this.

If the nation as a whole continues to experience higher levels of unemployment than in the past, it will mean that the individual state U.I. systems will see long-run increases in the benefit-payroll ratio and will have to make upward adjustments in their tax rates, as Virginia has been doing. However, the size of these adjustments depends upon the individual state's performance relative to the nation. Therefore, in this section we examine the Virginia economy's performance compared to the national average and assess the extent to which the unfavorable trends in the Virginia benefit-payroll ratio simply reflect the national experience and the extent to which they are indicative of adverse developments in the state.

A closer look at the data on the state economy leads to two conclusions: (1) the state has continued to outperform the nation along many economic indicators, but (2) its relative position has slipped in the

more recent period. A second glance at Table 37 shows that unemployment rates are still substantially lower in Virginia than in the rest of the nation, but that Virginia's relative advantage has diminished. From 1970 through 1974 the unemployment rate in Virginia was less than one-third the national rate. Since then, the figure is closer to one-half.

TABLE 37

UNEMPLOYMENT RATES OF INSURED WORKERS

	Virginia	U.S.
1970	1.1%	3.5%
1971	1.3	4.1
1972	.8	3.5
1973	.7	2.8
1974	1.1	3.5
1975	3.5	6.1
1976	2.1	4.5
1977	2.0	4.0
1978	1.7	3.3

SOURCE: VEC U.I. Data.

The rise in unemployment is reflected in state rankings as well. Virginia's insured unemployment rate, which was the lowest of any state in the years from 1964 to 1973 and second lowest in 1974, fell to fifth by 1978, and, even more dramatically, Virginia dropped from fifth to twenty-third in average unemployment duration between 1974 and 1978.

Data on covered employment tell a similar story. Superficially it would seem that Virginia has experienced strong, steadily upward changes in covered employment, except in 1974-75, even when we standardize for the large jump resulting in the extension of coverage to state and local government workers in 1971. However, relative to the past this growth is not as impressive. In the decade 1960-70, the Virginia economy was one of the fastest growing economies in the U.S. During this decade, non-

agricultural employment increased at an annual rate of 4.1%. Only six states had a more rapid growth in employment and 4 of these (Arizona, Nevada, Alaska, and Hawaii) began with very low bases. However, this rate dropped to 3.7 percent per annum in 1970-78 (and to 3.1% in 1974-78). Roughly three times as many states grew faster in terms of employment from 1970 to 1978.

A study in 1979 by Edwin Holmes for the Virginia Division of Industrial Development describes in detail the slowing of the state growth rate toward the national average, especially in the 1974-78 period. Structural changes at the state and national level display more similarities than differences.² However, in Virginia, growth in the manufacturing sector, a keystone of earlier expansion, lagged the country as a whole during this period. Had it not been for the rapid expansion of local and state government employment, overall employment growth in Virginia would also have been lower than for the country as a whole.

What are the sources of this retardation? To some degree the slow-down has been the result of external factors. Stagnation in military employment and slow growth in federal government employment, on which Virginia is more dependent than any state except Hawaii and Alaska, have contributed significantly to the slower rate of expansion. The slowing of manufacturing growth partially reflects a maturing of the Virginia economy. Per capita income in Virginia is now the highest of any southern state and Virginia's attractiveness has probably declined relative to less developed Sunbelt states (which are also more centrally located in the growing regional market).

²Data on the structural breakdown of employment in Virginia and the U.S. over the last two decades show Virginia to be less industrialized and more dependent on the public sector, but employment trends to be similar. Over the period both areas experienced relative gains in service, government, and trade, primarily at the expense of manufacturing and transportation. See Appendix A.

The implications of the slowdown in employment growth for the benefit-payroll ratio are clear. The figure has been higher than in the past not only because of the slower rate of growth in payrolls, but because the retardation in the expansion of the employed workforce implies a weakening of the market's capacity to absorb unemployed workers quickly. A fall in the market's absorption capacity means that more workers will apply for benefits rather than take jobs immediately. It may also mean that employers may lay off workers temporarily without fearing that they will be hired away. As a consequence, total claimants will rise as well. At the same time, this employment growth slowdown will cause the average unemployment spell to increase in duration. All of these changes reinforce the direct payroll impact of slowing employment growth on the benefit-payroll ratio.

We have already discussed the rise in numbers of unemployed persons and the lengthening of their unemployment spells in Virginia. To see how Virginia fared relative to the rest of the country, we have calculated the ratios of claimants to covered employees in Virginia + claimants to covered employees in the U.S., $\frac{n}{e}$ in Va., and average unemployment duration in Virginia to average duration in the U.S., $\frac{d}{d}$ in Va. . Since a rise in the benefit-wage ratio $\frac{b}{w}$ may also be the outcome of a deepening economic recession (when more high-tenure, high wage workers become unemployed), we also present $\frac{b}{w}$ in Va. .

Table 38 shows clearly that the Virginia position has deteriorated substantially relative to the U.S. since the late 1960's on all measures. Although the claimant covered employee ratio has remained lower in Virginia than in the U.S., it rose from only .37 of the U.S. value in 1974 to .68 during the 1975 recession and has since remained at a level higher than

TABLE 38

VIRGINIA TO U.S. RATIOS: $\frac{n}{e}$, d AND $\frac{b}{w}$ 1964-1978

Year	<u>Va. claimant-employee ratio</u> U.S. claimant-employee ratio	<u>avg. duration Va.</u> avg. duration U.S.	<u>Va. benefit-wage ratio</u> U.S. benefit-wage ratio
1964	.488	.754	.926
1965	.411	.762	.953
1966	.391	.714	.931
1967	.410	.763	.951
1968	.373	.741	.924
1969	.388	.737	.933
1970	.398	.699	.955
1971	.378	.722	.994
1972	.265	.764	.975
1973	.258	.784	1.003
1974	.370	.693	1.044
1975	.684	.758	1.067
1976	.514	.832	1.065
1977	.540	.845	1.071
1978	.491	.880	1.121

in any year since 1964. Virginia's advantage in having a shorter average claims period also decreased during the recession and continued to narrow during the years which followed. Finally, the ratio of the average benefit amount to the average weekly wage in Virginia has climbed consistently relative to the U.S. as a whole since the late 1960's, and has exceeded the U.S. ratio since 1973. This change in part reflects the incentive effect of the adjustment in the benefit structure causing a smaller percentage of claimants to receive benefits less than 52% of earnings. However, the fact that the average benefit - average wage ratio is now higher in Virginia than in the U.S. means that Virginia has relatively more high earners out of work than other states, a condition indicative of a generally weaker labor market.

To quantify the impact of this relative worsening, we perform the final experiment of calculating the benefit-payroll ratio which would have arisen if the ratios of Virginia $\frac{b}{w}$, $\frac{n}{e}$, and d to U.S. $\frac{b}{w}$, $\frac{n}{e}$, and d had remained the same as (1) they were in 1974, and (2) they were in the 1970-74 period (Table 39).³

TABLE 39

BENEFIT-PAYROLL RATIO ESTIMATES BASED ON CONSTANT 1974 CONDITIONS

Year	Actual Va. benefit- payroll ratio	Va. benefit- payroll ratio if 1974 Va.: U.S. relationships maintained	Va. benefit- payroll ratio if avg. 1970-74 Va.: U.S. relationships maintained
1975	.01184	.00427	.00389
1976	.00684	.00333	.00304
1977	.00617	.00285	.00242
1978	.00501	.00242	.00209

³The data on which these calculations are based are contained in Appendix B.

These results show clearly that much of the overall rise in r is a consequence of the relative worsening of conditions in Virginia compared with the U.S. as a whole. In each year of the 1975-1978 period, the benefit-payroll ratio would have been significantly lower using 1974 or 1970-74 values than it actually was. For the most part, the estimated r values are still higher than in the 1970-74 period when r averaged .00259, and then in 1974, when r equaled .00301, due to the general weakening of the U.S. economy. On the other hand, had Virginia maintained its very favorable position relative to the rest of the nation, the benefit-payroll ratio would have been less than one-half the actual amount in each year since 1974. This would have constituted an enormous savings to the Virginia Unemployment Trust Fund and subsequently to Virginia employers.

Conclusion

The main finding of this study is that the marked rise in Virginia's ratio of benefits to payrolls is primarily a result of slowing growth in economic activity and employment levels over the past half decade which manifests itself in higher numbers of claimants, long unemployment periods, and slower real payroll growth. To some extent the problem may have been exacerbated by certain features of the system such as the higher de facto replacement rate and longer potential payment period. This worsening in Virginia is not merely a reflection of overall national trends, however. There is strong evidence that a good part of the rise in the ratio may be attributed to Virginia's failure to maintain its outstanding growth record of the past. While Virginia continues to rank above the national average in growth, its performance has worsened

decidely relative to the rest of the U.S. If steps are not taken to reestablish the previous pattern, we can expect the long-run benefit-payroll ratio to remain above past levels.

Appendix A

EMPLOYMENT STRUCTURE BY INDUSTRY PERCENT
OF NON-AGRICULTURAL EMPLOYMENT

Virginia				
	1960	1970	1974	1978
Manufacturing	26.0%	24.1%	22.3%	20.0%
Mining	1.6	1.0	1.0	1.0
Construction	6.3	6.3	7.4	6.4
Transportation, Communication	7.9	6.4	5.9	5.2
Trade	20.6	20.0	20.4	21.1
Finance, Insurance	4.1	4.3	4.7	4.8
Services	11.7	14.5	15.9	17.6
Government	21.8	23.4	22.5	23.8
U.S.				
	1960	1970	1974	1977*
Manufacturing	30.9%	27.3%	25.6%	23.8%
Mining	1.3	.9	.9	1.0
Construction	5.3	5.0	5.0	4.7
Transportation, Communication	7.3	6.4	6.0	5.4
Trade	22.0	21.2	21.7	22.3
Finance, Insurance	4.7	5.2	5.4	5.5
Services	12.6	16.4	17.4	18.7
Government	16.0	17.7	18.1	18.5

*1978 not available.

Appendix B

I. DATA USED FOR CALCULATING TABLE 31

	number of benefit recipients (= received first check)	average weekly benefit amount total unemployment	avg. weeks compensated duration of recipients of first checks	gross payrolls of covered employees in \$ millions
1964	50,363	\$28.02	9.8	\$ 3,756
1965	37,783	29.88	9.3	4,104
1966	30,937	30.91	8.0	4,463
1967	35,643	33.05	8.7	4,754
1968	29,959	34.07	8.6	5,336
1969	30,919	36.65	8.4	5,904
1970	49,376	41.22	8.6	6,372
1971	50,392	46.67	10.4	6,953
1972	33,826	47.16	10.7	8,736
1973	31,752	51.93	10.5	10,072
1974	64,500	59.38	8.8	11,211
1975	180,987	66.94	11.9	12,180
1976	105,208	71.69	12.4	13,664
1977	104,239	75.33	12.0	15,262
1978	98,760	83.51	11.7	19,272
1979	106,668	87.32	8.7	21,957

SOURCE: VEC U.I. Data.

Appendix B

II. DATA USED FOR CALCULATING TABLE 33

	e	w
	Covered Employment (in 1000's)	Average Weekly Wage all covered employees
1964	808	\$ 89.44
1965	853	92.53
1966	897	95.71
1967	914	99.98
1968	954	107.55
1969	996	114.07
1970	1014	120.91
1971	1041	128.48
1972	1254	133.98
1973	1350	143.43
1974	1384	155.78
1975	1387	168.88
1976	1450	181.28
1977	1519	193.18
1978	1813	204.86
1979	1899	222.33

SOURCE: VEC U.I. Data.

Appendix B

III. U.S. UNEMPLOYMENT DATA USED IN
CALCULATING VIRGINIA-U.S. RATIOS

	n	b	d	p
	number of benefit recipients (thousands)	average weekly benefit amount	average weeks compensated duration	gross payrolls covered employees \$ billions
1964	5,498	\$35.96	13.0	\$239.2
1965	4,813	37.19	12.2	257.9
1966	4,139	39.76	11.2	283.9
1967	4,619	41.25	11.4	302.0
1968	4,196	43.43	11.6	331.3
1969	4,212	46.17	11.4	365.7
1970	6,397	50.31	12.3	382.7
1971	6,627	54.35	14.4	403.4
1972	5,779	55.82	14.0	457.4
1973	5,328	59.00	13.4	510.0
1974	7,715	64.25	12.7	558.2
1975	11,160	70.23	15.7	579.5
1976	8,560	75.16	14.9	647.5
1977	7,985	78.71	14.2	719.4
1978	7,564	83.67	14.3	830.0

SOURCE: Handbook of U.I. Financial Data.

Appendix B

IV. DATA USED IN CALCULATING HYPOTHETICAL VIRGINIA
BENEFIT-PAYROLL RATIOS ASSUMING MAINTENANCE
OF VIRGINIA'S POSITION RELATIVE TO THE U.S.

	U.S. n/e	Va. n/e	Va. n/e if 1974 Va.: U.S. ratio of .379 maintained	Va. n/e if 1970-1974 average Virginia: U.S. ratio of .334 maintained
1974	.127	.047	.047	.042
1975	.190	.130	.070	.063
1976	.140	.072	.052	.047
1977	.126	.068	.047	.042
1978	.110	.054	.041	.037

	U.S. b/w	Va. b/w	Va. b/w if 1974 Va.: U.S. ratio of 1.044 maintained	Va. b/w if 1970-1974 average Virginia: U.S. ratio of .994 maintained
1974	.365	.381	.381	.363
1975	.371	.396	.387	.369
1976	.371	.395	.387	.369
1977	.364	.390	.380	.362
1978	.364	.408	.380	.362

	U.S. d	Va. d	Va. d if 1974 Va.: U.S. ratio of .693 maintained	Va. d if 1970-1974 average Virginia: U.S. ratio of .732 maintained
1974	12.7	8.8	8.8	6.1
1975	15.7	11.9	8.2	8.7
1976	14.9	12.4	8.6	9.1
1977	14.2	12.0	8.3	8.3
1978	13.3	11.7	8.1	8.1

	Va. r = $\frac{n}{e} \cdot \frac{b}{w} \cdot \frac{d}{52}$	Va. r if 1974 Va.: U.S. ratio for n/e, b/w, and d maintained	Va. r if 1970-avg. Va.: U.S. ratios for n/e, b/w, and d maintained
1974	.00301	.00301	.00179
1975	.01184	.00427	.00389
1976	.00684	.00333	.00304
1977	.00617	.00285	.00242
1978	.00501	.00242	.00209

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