

# Down But Not Out: Virginia needs to modernize its UI system, and federal funds are there to do it



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The American Recovery and Reinvestment Act (ARRA) makes substantial new federal resources available to states that modernize their unemployment insurance (UI) systems to better meet the needs of a 21st century economy. Virginia already enacted one key reform in 2003 (an alternative base period) but would need to enact at least two other policies to access all the new federal resources available. Enacting those changes makes sense for a variety of reasons.

## New UI benefits would be fully paid for with Federal incentive funds for an estimated 18.3 years.

For example, if Virginia were to implement UI coverage of part-time workers and permit leaving work for compelling family reasons, the state could fund these new benefits entirely with ARRA incentive funds for more than 18 years. In other words, the expanded UI benefits will effectively cost the state nothing until 2026.

## Expanding benefits with the federal incentive funding can provide tax cuts for Virginia's employers.

States that adopt the necessary UI reforms will receive all of their incentive funds in a block and up front: providing a substantial infusion of dollars to states' unemployment trust funds at a time when rising claims mean they are more strapped than ever.

Trust fund solvency is a measure of the sufficiency of a state's unemployment insurance funding reserves -- in Virginia it is calculated by dividing the balance in the fund by the statutorily determined adequate balance. Low and declining levels of solvency are signs of trouble- when solvency dips below 50 percent, a 0.2

percent "fund builder" tax increase is levied on employers.

This past January, the Virginia Employment Commission reported that it expects the solvency of the state's trust fund to dive as low as 38.5 percent by June of 2009. An inflow of an additional \$188 million to Virginia's trust fund will help the state prevent the mandatory tax increase on employers that kicks in when the trust fund's balance falls too low.

## Accepting the federal incentive funds does not mean Virginia loses flexibility to make necessary changes to its UI system when the funds expire.

While states are not permitted to include a sunset clause on the reforms required for incentive funding, there is no provision in the Recovery Act that requires states to keep the reforms in place forever. Once the federal funds expire, Virginia will be able to make whatever changes it feels are necessary, given the state's economic climate and the solvency of the trust fund.

The purpose of the UI expansion funded in the Recovery Act is to help states assist those families hardest hit by the economic downturn, while in turn, stabilizing the economy to expedite its recovery. If further help is needed down the road, it is very possible that more federal relief will follow,

and when the economy finally does improve, the need for these benefits will decline.

## Expanding the UI system in Virginia provides effective economic stimulus at a time when it is needed most.

Research shows that, behind an expansion of food stamps, the extension of unemployment insurance benefits is the second most effective economic stimulus tool. More specifically, it is estimated that every dollar invested in extending unemployment benefits creates \$1.64 in new economic activity. This means that if Virginia chooses to leave the additional \$125 million in incentive funds on the table, it forgoes an additional \$205 million in bolstered economic activity within the Commonwealth at a time when it is needed most.

Solvency of Virginia's UI Trust Fund	
June 2007 and 2008 Actual, 2009-2011 Projected	
June 2007	70.4%
June 2008	64.4%
June 2009	38.5%
June 2010	20.0%
June 2011	24.0%

--- indicates where fund builder tax is triggered

Source: VEC, January 2009.

## About The Commonwealth Institute

The Commonwealth Institute for Fiscal Analysis provides credible, independent and accessible information and analyses of state fiscal issues with particular attention to the impacts on low- and moderate-income persons. Our products inform state fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. For more information, go to [www.thecommonwealthinstitute.org](http://www.thecommonwealthinstitute.org)

# Background: What the Unemployment Insurance Modernization Act Means for Virginia

The American Recovery and Reinvestment Act provides \$7 billion in incentive funding for states who have already enacted or choose to enact targeted expansions of their unemployment insurance (UI) systems. These federal resources help ensure that states' unemployment systems can meet the new challenges of the shifting economy, and that hard-working families are not left behind in the midst of one of the most severe economic downturns the country has experienced yet. However, many misconceptions surround the Unemployment Insurance Modernization Act (UIMA), which provides for this funding in the Recovery Act. As a result, many states are choosing to leave millions in federal assistance on the table, amidst continually declining state revenues and growing numbers of workers finding themselves suddenly jobless and unable to make ends meet.

## Virginia should take full advantage of the \$188 million in federal money available in incentive funds.

Because Virginia adopted an alternative base period for calculating UI eligibility in 2003, the Commonwealth is already on track to receive one-third (\$62.5) of its allotted UIMA incentive funding. Yet in order to receive the entire \$188 million available to Virginia under the Recovery Act, the state must implement 2 of the following 4 unemployment insurance modernization provisions:

1. Permitting former part-time workers to receive UI while seeking part-time work
2. Permit voluntary separations from employment for compelling family reasons
3. Provide extended compensation to UI recipients in training programs for high-demand occupations
4. Provide dependants allowances to UI recipients with children

## Adopting these reforms will help Virginia's UI system better fit the needs of the state's unemployed.

Virginia's UI system is already in need of an update. In 2008, just 26 percent of unemployed Virginians received unemployment insurance benefits. This is the lowest reciprocity rate of any state in the South Atlantic region, and 30 percent below the national average. Only four other states extended benefits to fewer unemployed workers than Virginia.

In addition, Virginia does not cover part-time workers or unemployed individuals seeking part-time work. Studies show that part-time workers work an average of 23 hours per week and 36 weeks per year. Family obligations often prevent a parent from being able to work full-time -- yet the family relies on the earnings from that parent's part-time work to help make ends meet. Over one in five Virginia workers was classified as a part-time employee in 2007. By modernizing the Commonwealth's eligibility rules to incorporate these part-time workers, Virginia can make great progress toward achieving the goals of the unemployment system, addressing the needs of a significant portion of the workforce, and stimulating the state's economy.

