



The Iowa Policy Project

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Not broken, no fix needed *Iowa's unemployment system at a glance*

Iowa policymakers have recently introduced several proposals to reduce unemployment insurance benefits for Iowa workers. (See box.) Yet Iowa's unemployment insurance system is on sound financial footing, pays benefits that are about average, and gets people back to work at the second-highest rate in the nation. Iowa's low unemployment rate of 2.4 percent for three straight months means that there is no urgency to pushing through new — and severely punitive — burdens for Iowa working families at their most vulnerable time, with proposals that could have myriad unintended consequences. Reducing benefits erodes the safety net and reduces the system's ability to soften the impact of future recessions, with harmful effects on our communities and the state economy.

Threats to jobless workers

Proposals at the State Capitol would make it more difficult for unemployed workers in various ways, including:

- a one-week waiting period for benefits;
- reducing benefits for workers losing jobs in a factory closing;
- allowing workers to claim fewer dependents;
- adding a new list of items that could disqualify someone from benefits, including a negative comment about a company or manager.

Iowa is on sound financial footing

According to the most recent data available from the U.S. Department of Labor's Employment and Training Administration, Iowa's trust fund is worth over \$1.1 billion, and earned more than \$23 million in interest in 2017. **The trust fund far exceeds those of most states in two key solvency measures.** Iowa's reserve ratio is 2 — that means that it has two percent of the state's annual payroll in reserve. The solvency ratio is 1.37. That means the trust fund has 1.37 times the amount of benefits paid out in the average of the highest three historical years of benefit payouts.¹

Iowa's unemployment system gets people back to work

One key goal of unemployment insurance is to keep workers attached to the workforce when they involuntarily find themselves unemployed. One mark of a successful system is the reemployment rate. **Iowa's reemployment rate of 76.8 percent for the most recent quarter available is the second highest in the nation.** This undermines any possible claim that benefit levels are too generous — workers are finding new jobs. As of December 2018, the national average benefit duration — how long workers stay on unemployment insurance before finding a new job — was 21 weeks.² In Iowa, the average duration at the end of 2018 was just 12 weeks.³

Benefits are average

Unemployment benefits in Iowa replace about half of workers' weekly wages, with an average weekly benefit amount for the most recent year available of \$348.72. States range from a low of

\$207 in Mississippi to a high of \$496 in Hawaii. The average weekly benefit amount for 2017 in the United States was \$351.83.⁴

Bucking trend, Iowa reliably pays benefits to qualified recipients

While many states are disqualifying jobless workers from unemployment insurance at a record pace, Iowa has resisted that pernicious trend. Many states that have not been responsible stewards of the unemployment insurance trust fund began adopting legal and administrative changes that have decimated reciprocity rates over the past decade.⁵ Nationally, only 25 percent of jobless workers now receive unemployment insurance. Iowa has done better, its reciprocity rate falling just slightly, from 41 percent in 2007 to 39 percent more recently. Iowa continues to reliably pay benefits to qualified applicants when they are due.

Unemployment insurance supports workers and the economy

Unemployment insurance serves important purposes. We should be careful not to upend the balance. While most people understand that one of the main purposes of the unemployment insurance system is to provide some level of income protection to workers who lose their jobs involuntarily, there are other important features. "A second objective of the system is the accumulation of adequate funds during periods of economic health, thereby promoting economic stability by maintaining consumer purchasing power during economic downturns."⁶

Sufficient benefit levels are not just critical for workers who have lost a job and their families; they are important for their communities and the economy as a whole. Mark Zandi, economist for Moody's Analytics, estimated that during the Great Recession, investment in unemployment compensation was one of the best investments governments could make to stimulate the economy, with every dollar going to the program generating \$1.55 in economic activity.⁷

Finally, unemployment insurance keeps workers engaged in the labor market. State workforce agencies provide job search assistance, counselling, and links to job training resources. The state provides extended benefits for workers participating in job training programs. **Currently, Iowa's low average duration of benefit receipt combined with a high reemployment rate show that the program is doing what it is supposed to do.** Anything that might undermine this system could also jeopardize the good work that the state currently does to get workers back to suitable employment.

Iowa has done its job of making sure that the system grew sufficiently during the economic expansion in recent years to ensure that it will be able to provide counter-recessionary benefits in the future. It provides reasonable benefits relatively fairly. The system is working. To cut benefits ahead of the next economic downturn is not just anti-worker. It is shortsighted and dangerous for the economic stability of our communities.

¹ <https://oui.doleta.gov/unemploy/docs/trustFundSolvReport2018.pdf>

² <https://www.bls.gov/web/empsit/cpseea12.htm>

³ <https://data.iowa.gov/Economy/Iowa-Unemployment-Insurance-Average-Benefit-Durati/j24u-74an>

⁴ https://oui.doleta.gov/unemploy/repl_ratio/repl_ratio_rpt.asp

⁵ <https://www.nelp.org/publication/closing-doors-on-the-unemployed/>

⁶ Advisory Council on Unemployment Compensation, ACUC Report to the President (January 1996)

⁷ <https://www.economy.com/mark-zandi/documents/2012-02-07-JEC-Payroll-Tax.pdf>