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## A Proposal for a New Job Security System with Three Tiers of Unemployment Insurance

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# A Proposal for a New Job Security System With Three Tiers of Unemployment Insurance

Saul J. Blaustein

**T**his report outlines a proposal to restructure the current unemployment insurance (UI) program by placing it within a broader Job Security System (JSS).<sup>1</sup> This JSS would further include both a program of unemployment assistance (UA) and employment and training services; it would deal with income support and job search needs in a comprehensive and consistent manner.

The prime objective of the JSS is to help the unemployed individual obtain or regain suitable employment. To that end, the JSS works with the recipient to assist job search, to analyze employment problems, and to recommend approaches for overcoming them. As the duration of unemployment increases, the services for overcoming it intensify.

The UI scheme within JSS consists of three successive tiers, each providing compensation for up to 13 weeks of unemployment. Each tier has its own qualifying requirements and eligibility conditions. State and Federal UI payroll taxes continue to finance all UI payments, but the State-Federal mix varies for each tier.

The job search services provided to UI claimants are adapted to the type of unemployment involved, the needs of the individual, the circumstances of the labor market, and the duration of the individual's unemployment. The latter is taken into account formally as the claimant moves from one tier to the next.

Unemployed persons ineligible for UI or UI exhaustees may receive weekly UA payments provided they can meet the required income test. UA is financed entirely by Federal general revenues. Appropriate job search and related vocational adjustment services also apply to UA recipients. Persons who now receive benefits from the Aid to Families with Dependent Children (AFDC) program and who are required to be available for work or training would be placed on UA instead in the JSS scheme. In this way, they are dealt with as labor force participants and their income support is channeled through a system that considers their eligibility on a week-to-week basis with respect to their labor force status and job search activity.

## The Potential Clientele of the JSS

The potential clientele of the JSS consists of all unemployed and underemployed persons. Figure 1 breaks down this population for 1977 by reason for unemployment or underemployment.<sup>2</sup>

Most persons eligible for UI are workers who are on temporary or indefinite layoff or who have lost their jobs (job losers). Workers who voluntarily leave jobs without good cause (job leavers) and job losers who are discharged for misconduct are normally disqualified for UI, at least for a waiting period. Compulsorily retired workers who continue to seek other work are also counted as job losers. Most workers on layoffs are scheduled for recall to their jobs within a specified, usually limited, period; long-term or indefinite layoffs are not uncommon during recessions.<sup>3</sup>

In 1977, over half of the unemployed counted by the monthly Current Population Survey (CPS) were ineligible for UI because they were job leavers, new entrants, or reentrants to the labor force. Consistent with this, less than half of all unemployment that year was insured unemployment. In recession year 1975, workers who had lost their jobs, including those on layoff, accounted for over half of the unemployed; insured unemployment that year also exceeded half of all unemployment.

About 60 percent of all job losers in 1977 were adult men (age 20 and over), and over 30 percent were adult women. Women outnumbered men among adult job leavers, and youths (age 16 to 19) accounted for nearly 20 percent of this group. Almost half the reentrant unemployed were adult women, and about one-fourth were youths. Youths made up over three-fourths of all new entrant unemployed.

## The Three-Tiered UI Program

The structure of the proposed three tiers of the UI

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FIGURE 1. Potential clientele of Job Security System and percentage distribution of the unemployed by categories: 1977 annual averages

| Unemployed <sup>1</sup> (6.9 million—100 pct) |                              |                         |                                     |                          | Underemployed workers <sup>2</sup>            |                            |
|---|------------------------------|-------------------------|-------------------------------------|--------------------------|---|----------------------------|
| Previously employed<br>(58 pct)               |                              |                         | Not previously employed<br>(42 pct) |                          | Workers on temporarily reduced work schedules | Workers seeking other jobs |
| Jobholders on layoff<br>(12 pct)              | Other job losers<br>(33 pct) | Job leavers<br>(13 pct) | Reentrants<br>(28 pct)              | New entrants<br>(14 pct) |   |                            |

<sup>1</sup> Based on *Employment and Earnings*, January 1978, Household Data, Annual Averages, Table 13, p. 147. Percentages are rounded to whole percent.

<sup>2</sup> These include workers employed part time (less than 35 hours a week) for economic reasons (about 3.5 million in 1977) who presumably would have worked full time if enough work had been available. About 30 percent of them usually worked full time but were temporarily on reduced schedules; others reported they could find only part-time work or had jobs in which work was slack most of the time (*ibid.*, Table 33, p. 163).

Other underemployed workers include those who are employed below their capabilities. No data are available for this category as such. Data from the May 1976 Current Population Survey reported by Carl Rosenfeld in "The Extent of Job Search by Employed Workers" (*Monthly Labor Review*, March 1977, Table 4, p. 60) indicate there were 3.3 million employed workers seeking other jobs mainly for the following reasons (percentages rounded to whole percent): higher wages or salaries, 34 pct; better hours or working conditions, 11 pct; better advancement opportunities, 10 pct; current job ending, including temporary or seasonal job, 11 pct; use skills, 9 pct; other reasons, 25 pct.

program within JSS is based on the assumption that after 3 months, or 13 weeks, of UI benefits it is appropriate to reevaluate a claimant's reemployment prospects. Each evaluation considers existing labor market conditions and the claimant's employment attributes, job search experience, and prospects. Evaluations may be repeated within a 13-week period if necessary.

At the end of each tier, the claimant's eligibility for another tier of UI benefits is measured on the basis of past employment. Within each tier the duration of benefits allowed is a uniform 13 weeks, but the number of tiers allowed varies with prior employment. The maximum extent of UI protection for the most qualified claimants is 39 weeks; beyond this, any further income support is supplied as UA.

### Qualifying requirements for the three tiers

**Tier 1.** Under this proposal, State laws set the requirements for Tier 1 benefits covering short-term unemployment, but Federal law specifies that they may not require less than 15 or more than 20 weeks of employment. Although a direct weeks-of-work measure seems preferable, a test based on a multiple of high-quarter earnings is an acceptable equivalent, provided the multiple is between 1.2 and 1.5 times high-quarter earnings.<sup>4</sup>

For the week to be credited toward the qualifying test for any tier, wages earned in that week must be no less than 20 percent of the average weekly wage earned in covered employment in the State. In the high-quarter multiple test, high-quarter wages must be at least 13 times that weekly minimum wage. The base period used to measure qualifying employment or earnings should be the 52 weeks immediately preceding the first claim. When the base period lags behind the start of the benefit year and a claimant fails to meet the requirement, the base period is adjusted so as to include the claimant's most recent employment.<sup>5</sup>

**Tier 2.** When claimants exhaust Tier 1 benefits and

are still unemployed, they must file for Tier 2 to establish eligibility for additional UI. Filing for Tier 2 involves a review of the claimant's job search efforts and their scope. This review is required because the claimant's unemployment has become a more serious problem and because the definition of "suitable" work may need some modification.

To qualify for Tier 2 benefits, claimants must have worked at least 26 weeks in the base period or earned at least twice their high-quarter wages in that time. Workers unable to qualify for Tier 2 may be able to qualify for UA if they are from low-income households; they would also be subject to a more intensive review and modification of their job search plans and efforts.

**Tier 3.** If unemployment continues beyond the end of Tier 2, the claimant must file for Tier 3 to establish further UI entitlement. The formal filing process emphasizes increased concern about the claimant's now long-term unemployment and assists the proper adjustment of the claimant's job search.

To qualify for Tier 3 benefits, the claimant must have worked for at least 39 weeks in the base period, or at least 52 weeks in all during the base period and the year preceding it. High-quarter multiple equivalents are also allowed: total base-period earnings equal to at least three times high-quarter earnings or total earnings for the 2 years preceding the first claim equal to 4 times high-quarter earnings.

### Disqualifications

Under JSS, claimants are subject to benefit denials or suspensions for voluntarily leaving work without good cause or for a misconduct discharge. This type of job separation disqualifies the claimant for 13 weeks; at the end of this time the claimant may file for benefits but must meet Tier 2 qualifying requirements. If a disqualifying job separation occurs during the benefit year, that is, after the claimant has already drawn some UI benefits, the suspension still applies for 13 weeks,

and any remaining Tier 1 benefits are lost. Refusal of a suitable job also leads to benefit suspension, but this lasts no more than 6 weeks if the refusal occurs in Tier 1. Refusals after Tier 1 result in 13-week suspensions but no loss of benefit entitlement.

As under current provisions, claimants must be able to work and be available for work each week they claim benefits. Failure without good cause to follow the job search plans developed in consultation with JSS staff results in disqualifications on the same basis as for refusal of suitable work.

### **Weekly benefit amount**

The weekly benefit amount (WBA) under the three-tier UI scheme is set by State law subject to Federal requirements.<sup>6</sup> The WBA paid to each claimant, excluding dependents' allowances, must be between one-half and two-thirds of the claimant's average weekly wage up to a maximum that must be no less than two-thirds of the statewide average weekly covered wage. The claimant's average weekly wage is based on those base-period weeks with sufficient earnings to count toward the qualifying requirement (i.e., 20 percent of the statewide average weekly covered wage). States that use an earnings equivalent to measure base-period employment may calculate the claimant's average weekly wage as high-quarter wages divided by 13. States may supplement a claimant's basic WBA with allowances for dependents' but the total weekly benefit may not exceed 75 percent of the claimant's average weekly wage.

### **Partial benefits**

Workers who earn less than 75 percent of their usual full-time wage may receive a partial benefit. These include workers placed on a temporarily reduced work schedule, workers on layoff who take temporary part-time work, and workers who accept new full-time employment at substantially lower pay. The partial benefit is available only in Tier 1 for part-time workers and only in Tier 3 for full-time workers.

The partial benefit payable is equal to the WBA for total unemployment less a fraction (no greater than two-thirds) of the claimant's current earnings. Partial benefits paid reduce a claimant's benefit entitlement proportionately. Thus, if the partial benefit is half the full WBA, 1 week of partial benefits counts as half a week against the claimant's benefit entitlement.

### **Financing of UI**

The costs of all UI benefits paid under the three-tier system are financed out of State and Federal UI payroll taxes, as is now the case.<sup>7</sup> The Federal tax continues to finance the program's administrative costs and a

loan fund. The administrative costs include the costs of job search services provided to UI claimants.

*Tier 1.* Tier 1 benefits, including partial benefits, are financed entirely by State UI taxes. It is presumed that nearly all States will experience-rate the financing of these short-term benefits. To a large extent these benefits will be paid to cover temporary layoff unemployment, thus serving to preserve the employer's work force. Through partial benefits, employers may also be encouraged to use worksharing to spread the effects of temporary business slumps among larger groups of workers rather than concentrate total layoffs among a smaller number. It appears to be appropriate to finance Tier 1 benefits through experience-rated taxes, because much of the short-term unemployment that is covered under Tier 1 is attributable to employers' actions and decisions.

*Tier 2.* The financing of Tier 2 benefits is split evenly between State and Federal UI taxes. As unemployment persists for individual claimants, individual employer responsibility for benefit costs becomes increasingly remote. The problem of many claimants in this tier is likely to be more than a temporary layoff, although some layoffs may run longer than 3 months, especially during recessions. Tier 2 unemployment is also more likely to reflect regional or national economic factors beyond the control of individual employers and States. For these reasons, States are relieved of a portion of the cost burden of Tier 2 benefits. They have the option of experience-rating the State share of Tier 2 benefit financing or pooling these costs evenly among all employers. National pooling of the Federal share of Tier 2 benefit costs also serves to relieve States of some of the burden of recession UI costs. All States gain some relief, though some more than others.

*Tier 3.* All benefit costs in Tier 3 are financed out of the Federal UI tax. The long-term unemployment that places a claimant in this tier is well beyond the responsibility of an individual employer. It is also likely to be beyond the individual State's ability to control or eliminate such unemployment, especially in recessions. For these reasons, total national pooling of such costs appears to be a reasonable approach. Moreover, national pooling of Tier 3 benefit costs and half of Tier 2 benefit costs may overcome many if not all of the financing problems that cost equalization-reinsurance grant proposals are designed to deal with.

### **Unemployment Assistance**

Unemployed members of the labor force who are not eligible for UI and who need income support may apply for UA. UA would replace the welfare payments now

provided through AFDC or through general State or local relief to unemployed workers. Others not presently on welfare, such as job seekers who have no children, might also be eligible for UA. UA recipients are given close job search assistance, but the definition of a "suitable" job is broader for UA recipients than for UI recipients; suitable jobs would here include public service employment financed through the Comprehensive Employment and Training Act (CETA).

### **Eligibility**

UA recipients must meet the following requirements.

1. The applicant's household income must be below a certain level. (No attempt is made here to specify this level.)
2. The applicant must be currently available for work, able to work, seeking work, and registered for jobs or training at the public employment service.
3. The applicant must give evidence of recent labor force attachment in any one or more of the following ways:
  - a. at least 15 weeks of employment during the past year with earnings in each week equal to at least 15 percent of the statewide average weekly covered wage;<sup>h</sup>
  - b. at least 15 weeks of registration for work at the public employment service during the last year;
  - c. at least 30 weeks of attendance at a senior high school or institution of higher education, or in technical or vocational training during the past year, provided the education or training was completed satisfactorily.

Applicants may combine weeks of employment and employment service registration to satisfy the 15-week requirement. They may substitute education and training time for employment or employment service registration time at the rate of 2 weeks of education and training for 1 week of employment or registration. No more than 8 weeks of employment or registration may be replaced in this way, however. UI exhautees are automatically able to meet the employment test because it is less stringent than the Tier 1 test.

Disqualifications for UA are similar to those for UI. UA payments are suspended for 13 weeks for a claimant's voluntarily leaving work without good cause or discharge for misconduct. They are suspended for 6 weeks for the first refusal of a suitable job or training opportunity and for 13 weeks for subsequent refusals.

Mothers of children presently supported by AFDC who are required under the Work Incentive (WIN) program to register with the public employment service will be able to qualify for UA after 15 weeks of such registration. Government-assisted child care while

mothers are working, training, or seeking work is an important factor in sustaining their active labor force participation.

Unemployed new entrants and reentrants to the labor force could also qualify for UA through the education and/or registration routes.

### **Weekly UA amount**

For the UA recipient who has exhausted UI benefits, the weekly UA amount is 90 percent of the former UI WBA, including any dependents' allowances. UA recipients who could not qualify for UI but had 15 or more weeks of prior employment receive 90 percent of what the UI WBA would have been, taking that as base-period employment. For others, the weekly UA amount is equal to the basic minimum UI WBA payable in the State, plus dependents' allowances.

There will be problems in adjusting UA levels when current AFDC payments are higher than proposed UA payments; the intent of the program is that UA should pay less than UI and more than AFDC. A transition period may be required, in which the higher of UA or AFDC would be payable.

### **Partial UA**

A UA recipient who takes employment providing weekly earnings of less than 1.5 times the basic weekly UA amount may still draw a partial UA payment. The full UA amount is reduced by two-thirds of the amount earned.

### **Duration of UA**

As long as the recipient is in the labor force, actively seeking work, and meeting all other requirements, the recipient continues to receive UA. It should be stressed, however, that continued failure to find work even after substantial reduction of job and wage expectations, and failure to find placement in a public service job or to benefit from training or some other remedial assistance, must be construed as evidence that the UA recipient is not employable. At that point, the recipient may be judged no longer eligible for UA. As a general rule, except during recessions, a person's unemployment for much more than 1 year should make necessary a strong, specific justification for the continued assumption of employability.

### **Financing and administration**

The costs of UA, including administrative costs, are financed by appropriations from Federal general revenues. UA is administered by State JSS agencies as agents of the Federal Government.

## Treatment of JSS Clientele Categories

It is useful to review the proposed treatment of particular groups under JSS in order to show how UI, UA, and the job search services would work together. This review proceeds with the categories shown in Table 1 but goes on to further subdivisions.

### Unemployed but previously employed

**Jobholders on layoff.** These workers may file for and draw Tier 1 UI benefits if they meet the minimum qualifying requirements. Those who do not may qualify for unemployment assistance (UA); their registration and job search requirements are the same as for the UI claimants.

1. If recall is scheduled to take place within 30 days of the layoff, the worker need not register for work or actively seek other employment during this period to maintain UI eligibility. The worker decides whether or not to use the job search service.

2. If recall is expected after 30 days but within 90 days, the same conditions apply, but the worker's recall status is reconfirmed with the employer after 30 days and again after 60 days.

TABLE 1. National estimates of benefit costs and claimants under existing UI programs and the proposed three-tier program: 1980 (dollar estimates in millions; others in thousands)

|                                  | Unemployment rate assumed |             |
|----------------------------------|---------------------------|-------------|
|                                  | 6.6 percent               | 7.5 percent |
| Persons with unemployment—total  | 20,943                    | 22,384      |
| Eligible for regular UI benefits | 9,086                     | 9,913       |
| Eligible for Tier 1 benefits     | 8,877                     | 9,690       |
| First payments                   |                           |             |
| Regular UI program               | 7,629                     | 8,548       |
| Extended benefits                | 1,640                     | 2,059       |
| First payments                   |                           |             |
| Tier 1 benefits                  | 7,354                     | 8,268       |
| Tier 2 benefits                  | 3,066                     | 3,700       |
| Tier 3 benefits                  | 1,372                     | 1,700       |
| Exhaustions                      |                           |             |
| Regular UI program               | 1,643                     | 2,062       |
| Extended benefits                | 954                       | 1,252       |
| Exhaustions                      |                           |             |
| Tier 1 benefits                  | 3,253                     | 3,901       |
| Tier 2 benefits                  | 1,492                     | 1,875       |
| Tier 3 benefits                  | 705                       | 924         |
| Benefits paid                    |                           |             |
| Regular UI program               | \$11,256                  | \$13,139    |
| Extended benefits                | 1,587                     | 2,039       |
| Total                            | \$12,843                  | \$15,178    |
| Benefits paid                    |                           |             |
| Tier 1 benefits                  | \$7,580                   | \$8,668     |
| Tier 2 benefits                  | 3,387                     | 4,140       |
| Tier 3 benefits                  | 1,578                     | 1,986       |
| Total                            | \$12,545                  | \$14,794    |

3. If recall is not expected within 90 days, or if the layoff is or becomes indefinite, workers who are to receive UI must register for work and have their job prospects analyzed. A claimant must be available for temporary part-time work or alternative full-time employment if the job is suitable. If the layoff continues beyond 60 days and remains indefinite, a job search plan is prepared and carried out. If local labor market conditions are unfavorable, however, that step may be postponed until Tier 1 benefits are exhausted. Workers in this category who exhaust their Tier 1 benefits and continue to be unemployed are subsequently treated as job losers (as are UA recipients after 13 weeks).

**Job losers.** Workers who are involuntarily separated from their jobs, were not discharged for misconduct, and can satisfy the minimum qualifying requirement are eligible for Tier 1 UI benefits. They must meet all the usual conditions: availability for work, registration with the employment service, regular reporting to file claims, and active seeking of work. Within the first few weeks of filing, reemployment capacity and prospects are analyzed, and these workers are sorted into two groups, the "prepared" and the "unprepared."

**The "prepared jobseeker."** These are workers with skills and experience that are in demand in the local job market. They could reasonably expect to find suitable jobs in the next 8 to 10 weeks. They are directed to job search services that can be helpful—both the public employment office and outside services. Some may have already located jobs that will start during this period; they are treated in the same manner as Tier 1 claimants on temporary layoffs.

If unemployment continues for more than 8 to 10 weeks, the worker's job prospects are again reviewed and reevaluated. The worker may need more help with the job search, particularly with search method. Those who appear to have personal problems impeding job search may need supportive counseling. The worker may be urged to reconsider job and wage expectations in the light of current labor market conditions. It may be too early to press a "prepared" worker to lower expectations, but the possibility should be discussed.

Refusal, without good cause, to accept a suitable job offer or to follow up on a referral to a suitable job is grounds for disqualification from UI benefits. Evidence of unreasonable restriction on availability for work or of inadequate job search is also grounds for benefit suspension.

A job loser who exhausts Tier 1 benefits may qualify for Tier 2. A more intensive review of job prospects and employment service needs takes place. A new or revised job search plan is prepared and carried out. The employment service may urge the worker to lower job expectations and may press harder than in Tier 1. The

approach, however, must be positive and reasonable, and there must be no harassment of the claimant.

If the job market outlook is temporarily bleak, the claimant is encouraged to consider taking temporary, including part-time, work until prospects improve. The claimant is not *required* to take such employment while still drawing Tier 2 benefits but may be increasingly pressed to do so as time goes on.

A "prepared" claimant whose unemployment continues beyond Tier 2 may qualify for Tier 3 benefits. The job search conditions become more demanding.

The claimant's job readiness is reappraised when Tier 2 benefits are exhausted or Tier 3 benefits begin. If the claimant's skills and experience are still considered marketable, the unemployment is probably due to a prolonged recession. The claimant may be referred to temporary, including part-time, jobs. These jobs may not conform to the claimant's prior type of work or earnings, but they must be suitable in all other respects. They may include temporary public service jobs established during recessions. Failure to accept such jobs without good cause disqualifies a claimant from further benefits in Tier 3.

Claimants not appraised as still "prepared" to work are then potential candidates for vocational adjustment services (training, etc.). Such claimants thereafter are treated as "unprepared" jobseekers.

Before reaching Tier 3, any "prepared" unemployed workers who wish to explore possibilities for retraining or other adjustments through public programs are to be given every consideration possible. It may be reasonable for such workers to use a period of unfavorable reemployment prospects to improve their job prospects through training. Such efforts are to be encouraged and supported. If appropriate training and resources are available, claimants may have access to them as long as reemployment remains unlikely during the training period and the training is likely to improve their future employment prospects. While in training, claimants may be eligible to receive training allowances to supplement UI benefits.

"Prepared" job losers who do not qualify for UI or who exhaust their UI entitlements may qualify for UA. Benefit conditions and job services are similar to those for UI recipients. UA recipients, however, are expected to adjust their job expectations sooner and to a greater degree. They would be under greater obligation to accept temporary, part-time, and public service jobs.

*The "unprepared" jobseeker.* These job losers are either structurally unemployed workers whose skills or experience are no longer in much or any demand in the local labor market, or marginal workers with no skills or with other employability impediments. If eligible, they can receive UI.

In the first 3 weeks of their unemployment, their job prospects and vocational improvement needs are diagnosed and evaluated. Appropriate plans are made for their job search and vocational training. The counselor's views of the worker's job prospects and needs are discussed thoroughly and frankly with the worker. The latter is encouraged to consider seeking jobs that may be quite different from past employment and to accept initially lower wages, if necessary, to start on a new line of work.

The worker is informed about available courses of training and encouraged to consider them. If some other type of rehabilitative measure seems appropriate, such as relocation or even medical therapy to reduce a handicap, that too may be suggested; assistance may be made available to enable the worker to take that step.

It is important that the worker's job prospects and available courses of action be clearly brought out and explained.

Claimants receiving Tier 1 benefits need not follow the counselor's suggestions with regard to broadened job search or undertake suggested training or other adjustment, because it is recognized that the counselor's judgment is not infallible, especially in the earlier stages of unemployment. Counselors must be particularly careful not to harass experienced workers suffering structural unemployment but still hoping to find jobs needing their skills and experience. If job search results continue to confirm the counselor's negative outlook, workers may then be pressed harder to accept the steps recommended. There should be close monitoring of job search activity and frequent counseling during the first 3 months of a claimant's unemployment.

The unemployed worker who has exhausted Tier 1 benefits and who continues, without good cause, to resist the suggested adjustments may jeopardize eligibility for continued UI protection. While drawing Tier 3 benefits, an unprepared jobseeker may be disqualified for refusal to accept referrals to employment in a new field or at lower wages. Within Tier 3, refusal of appropriate training or other rehabilitation is treated in the same way as refusal of a suitable job.

#### *Misconduct discharges and retirees*

*Discharged for misconduct.* A worker fired for misconduct is disqualified from receiving Tier 1 UI benefits and may not file for Tier 2 until 13 weeks after the discharge. A claimant who had at least 8 weeks of employment following the misconduct discharge may file for Tier 2 without further delay; one who worked at least 15 weeks following the misconduct discharge may file for Tier 1. Once qualified for UI (or UA), such a claimant is treated as any other job loser.

*Involuntary retirees.* Workers who were retired involuntarily from their jobs but remain in the labor force

by seeking new work and are available for and able to work may file for UI.<sup>9</sup> They must meet the usual conditions of registration for work and regular reporting.

Because of their age, retired workers tend to have extra difficulty in finding employment, especially employment that is equivalent or similar to their prior jobs. This factor is taken into account in the analysis of reemployment prospects and the development of the job search plan, which are to be prepared during the first 3 weeks after filing. The worker is urged at this early stage to look for a wider range of "suitable" jobs. Because of age and receipt of a retirement pension, the worker's genuine attachment to the labor force receives special scrutiny. Inadequate job search and unreasonable restrictions on availability for work and on the type of employment to be considered are grounds for disqualification from UI.

The job search conditions applicable in Tiers 2 and 3 are similar to those for job losers. Generally, however, retired claimants are required to lower their job expectations sooner than other job losers are.

*Job leavers.* Workers who voluntarily quit their jobs without good cause are treated in the same manner as those who lose their jobs because of misconduct. If the reason for quitting was a compelling personal problem that could not be avoided or overcome, then the worker is not disqualified from drawing Tier 1 benefits and is treated as a job loser who is eligible for UI. A worker who leaves one job to take another and is then laid off should not be disqualified on the basis of the previous voluntary quit.<sup>10</sup>

### **Unemployed and not previously employed**

*Reentrants.* All persons in this group will have been out of the labor force for some significant period of time, perhaps for more than 6 months. Some will be eligible for UI and some will not.

*Reentrants eligible for UI.* A reentrant with some base-period employment may qualify for Tier 1 UI benefits if the last job separation did not occur under disqualifying circumstances. The circumstances of temporary labor force separation should be examined carefully. The reasons for leaving and for returning may have a bearing on availability for work and on the type of job services needed. Apart from these considerations, the claimant should be treated the same as any job loser on Tier 1.<sup>11</sup>

*Reentrants ineligible for UI.* By registering for work at the public employment office, this individual announces a return to the labor force. The type of job search services provided depend on vocational skills and experience and on such considerations as how far

back the last employment was; whether it was permanent, temporary, or intermittent; and whether it was full time or part time. The extent of job services provided depends partly on need and partly on the degree to which the reentrant seems to desire permanent full-time employment.<sup>12</sup>

*New entrants.* Job applicants with no prior work experience are not eligible for UI (they may become eligible for UA), but they are entitled to job services. The extent of job services provided is determined in the same way as for reentrants who are not eligible for UI benefits.

### **Estimated Costs of the Three-Tier Program**

Estimates of how much the various elements of the proposed Job Security System might cost, compared to existing programs, are not available for the three-tier UI program.

A model has been constructed using information obtained from the 1976 National Survey of Income and Education and from other studies to estimate benefit costs generated by alternative State UI provisions for given years at specified rates of unemployment.<sup>13</sup> Through this model, the U.S. Department of Labor staff has developed estimates of benefit costs and some other dimensions of the three-tier UI program and those of the existing programs. The estimates must be regarded as tentative. There is some question about the model's capacity to make accurate estimates of the number of unemployed workers eligible for the three tiers in a given State. Perhaps national estimates are more reliable than individual State estimates.

With that reservation in mind, the national estimates for the three-tier program and the existing programs are presented (see Table 1) with the following conditions:

1. State provisions used for existing programs are those used in January 1980.
2. State WBA provisions, rather than the WBA provisions proposed, apply for the three-tier estimates.
3. The qualifying requirements for Tier 1 eligibility are 14 weeks of base-period employment for each State and total base-period earnings equal to 14 times 20 percent of the statewide average weekly covered wage estimated for 1979.
4. The qualifying requirement for Tier 3 was 39 weeks of work in the base period. The proposed alternative of 52 weeks in the base period and preceding year was not applied since the longer record was not available. The result is an understatement of the number of Tier 3 claimants and benefit costs.
5. Three-tier estimates do not reflect proposed disqualification provisions.



6. The estimates are for a year with the average (total) unemployment rate assumed at two levels: (a) 6.6 percent and (b) 7.5 percent.

7. Estimates of extended benefits under programs assume that such benefits are payable in all States throughout the year. At the unemployment rates assumed, these costs are clearly overstated. The national trigger requirement is unlikely to extend benefits nationally at the 6.6 percent total unemployment level, nor is it likely to do so at the 7.5 percent level, at least not for the entire year. A few States may be paying extended benefits at the 6.6 percent level, and more at the 7.5 percent level.

Under the 6.6 percent unemployment rate, an estimated \$12.5 billion would be paid through the three-tier program. The total compares with an estimated \$11.3 billion in payments under the existing UI programs. The extended benefits total outlay estimated is \$1.6 billion, but a small fraction of this total, about 10 percent, is a more realistic estimate. Assuming the latter is correct, total outlays under existing UI programs and extended benefits would equal \$11.4 billion. The three-tier program is thus estimated to be about 11 percent more costly at the 6.6 percent unemployment level. Tier 3 benefits would be greater if the alternative qualifying requirement were applied, further enlarging the difference between the three-tier and existing program costs.

At the 7.5 percent unemployment level, the three-tier outlay total is estimated at \$14.8 billion, about 18 percent more than at the 6.6 percent level. Tier 3 outlays are over 25 percent higher at the 7.5 percent level, and Tier 1 outlays are only 14 percent higher. Regular UI program outlays total \$13.1 billion, about 17 percent higher at the 7.5 percent unemployment level. If a more reasonable expectation is about half of the national extended benefit outlays estimated at this level, then the outlays estimate for existing programs would total \$14.2 billion, compared with the \$14.8 billion estimate for the three tiers, or 4 percent more. Again, a correction for understated Tier 3 costs would enlarge the difference.

The pattern indicated by these estimates seems clear. At lower levels of unemployment, the three-tier program will pay out more in benefits than the present system. As unemployment rises and extended benefits become increasingly widespread, the difference narrows, and at some point outlays under the present UI system may exceed three-tier outlays. It is interesting also to note that regular UI benefits exceed benefits paid in the first two tiers at both unemployment levels by over a quarter billion dollars. The overall difference clearly is in the comparative effects of Tier 3 and extended benefits.

Somewhat fewer unemployed workers would qualify for Tier 1 benefits than for regular benefits under

January 1980 provisions. For States with flat annual earnings requirements, such as California, the 14-week test for Tier 1 would qualify fewer persons. In others, the 14-week requirement would qualify more than would current tests. The base-period total earnings test for Tier 1 may be stiffer and could offset some of this difference. On the whole, the Tier 1 test appears to be a little more demanding. Under the proposal, States would be free to set the Tier 1 requirement at anywhere from 14 to 20 weeks. To the extent that they set it closer to 20 weeks, fewer workers would qualify for Tier 1.

Exhaustion rates (exhaustions as a percentage of first payments) are somewhat lower under the three-tier system than existing programs at either assumed level of unemployment. The pertinent comparisons are exhaustion of Tier 2 benefits and of regular program benefits. The Tier 2 exhaustion rates, at 20 and 23 percent, run about 2 percentage points lower than regular program exhaustion rates.

The estimates, by and large, do not indicate a very wide difference between the current UI program and the three-tier program in benefit costs. The three-tier system is more costly at lower unemployment levels even though somewhat fewer workers would qualify. Longer duration of benefit protection under the three tiers makes the difference. To the extent that States increase their regular durations, that difference would be reduced.

#### **Other Job Security System costs**

Although estimates are not available for other costs of the proposed new system, some observations can be offered. There is little doubt that the costs of UA and of the more intensive and personalized job search assistance provided will be substantially higher than current programs and services. UA would replace much of the present AFDC program and State and local general assistance, but its scope would go well beyond these programs. The income test to be applied should be less restrictive than the means tests now used for AFDC and general assistance. UA would be available to unemployed persons with low income, including those without dependent children, who are categorically excluded from AFDC. UA benefit payments, depending on the State, may be more or less than AFDC payments. At some point, UA estimates should be made and compared within the context of recent welfare reform proposals.

The employment and training services called for under the proposed JSS would outstrip the costs of the very limited services presently available. Employment and training staff levels among State agencies have been frozen for about 15 years, while covered employment and claims loads have steadily risen. A substantial expansion of staff and services in the existing

system would correct the current deficiency. JSS services would go beyond these levels. The costs of servicing UA recipients would be offset in part by replacement of some of the services currently provided under the WIN and CETA programs. But expanded training opportunities would expand JSS costs further.

UI administrative costs would be higher because periodic reviews of claimant eligibility and job search status would be required, particularly as a claimant moved from one tier to another. The current eligibility review program required in all States covers some of the same ground, but the three-tier program goes further. Administration of UA on a weekly basis would, of course, add costs beyond current AFDC administrative costs.

In all, JSS would require substantially greater outlays. The question is whether, in the long run, the new system would reduce the level, frequency, and duration of unemployment and yield more productive use of our human resources. A full benefit-cost analysis would have to balance broader economic gains and lower income support costs against higher JSS costs.

## Notes

1. In 1977, the Michigan Department of Labor requested recommendations for alternatives to the current UI system. A comprehensive Job Security System, outlined in this report, was developed by the author under contract with the W. E. Upjohn Institute of Employment Research. The original system was tailored to State initiatives; this summary contains significant modifications to adapt it to a national perspective.

2. The total number of persons who experience unemployment at any time during a year is a much larger figure: in 1978, this number was 17.7 million, compared with an average unemployment level of 6

million that year. Classifications by reason for unemployment are available only for those unemployed as of the midweek of each month.

3. Based on CPS responses, the Bureau of Labor Statistics classifies unemployed workers who have jobs from which they are on layoff as being on "temporary layoff" if they are expected to be recalled within 30 days, and others are considered to be on "indefinite layoff."

4. Other currently used qualifying tests that are based on a multiple of the weekly benefit amount or flat annual earnings requirements are not allowed, as they are comparatively weak equivalents.

5. In most States, base periods are the first four of the last five completed calendar quarters prior to the start of the benefit year. Taking account of lag period employment will remove the barrier to UI eligibility for many new entrants or reentrants to the labor force.

6. Besides the usual arguments made for a Federal WBA standard, the three-tier scheme assumes Federal financing for UI benefits after Tier 1.

7. Federal Supplemental Benefits paid during the 1975-77 period were financed in part out of Federal general revenues.

8. Under new Federal law, compulsory retirement will not be allowed before age 70. Voluntary retirees are treated as job leavers for UI purposes.

9. UI benefits paid to job leavers are not charged to the employers they left.

10. The reentrant who was out of the labor force for over 6 months probably will be unable to qualify for Tier 2 but may become eligible for UA.

11. A reentrant who is not eligible for UI may still be able to qualify for UA.

12. The model was prepared by the Urban Institute for the National Commission on Unemployment Compensation and the U.S. Department of Labor.

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