

Failure to Address Arizona's Inadequate Unemployment Insurance System has Cost the State \$1 to \$2 Billion in Lost Economic Activity

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July 22, 2020

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Unemployment Insurance Overview

- **Person must lose job through no fault of your own**
 - Can't quit or be fired
 - Those who refuse to report back to work will lose unemployment benefits
 - Rules ambiguous for workers whose health is endangered — can they refuse work and keep benefits?
- **Federal financial assistance ends July 25th** — The \$600 weekly supplement was time limited and Congress has yet to pass follow-on legislation.
- **Inexpensive to fix:** Moving Arizona to a UI policy in line with most states would cost an estimated additional \$100 per covered employee p/yr (on top of a very small existing employer tax).

Key Facts: Arizona's UI System

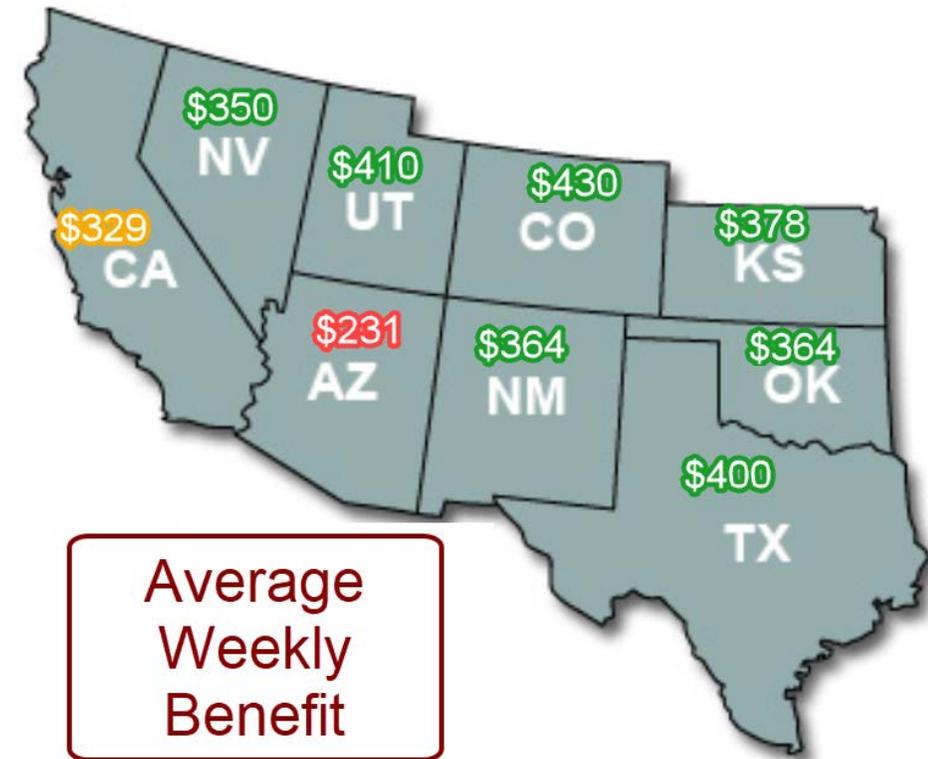
Arizona's low benefit cap and low income disregard are disqualifying tens of thousands

- Benefit cap — The \$240 a week benefit cap is 49th in the nation, only \$5 above Mississippi.
- Income disregard — The flat \$30 a week income disregard is the lowest in the nation, reducing benefits when a person earns more than \$30. ***What's worse, if your earnings equal or exceed benefits, in Arizona you simply lose benefits—there is no income disregard.***

Key Facts: Arizona's UI System

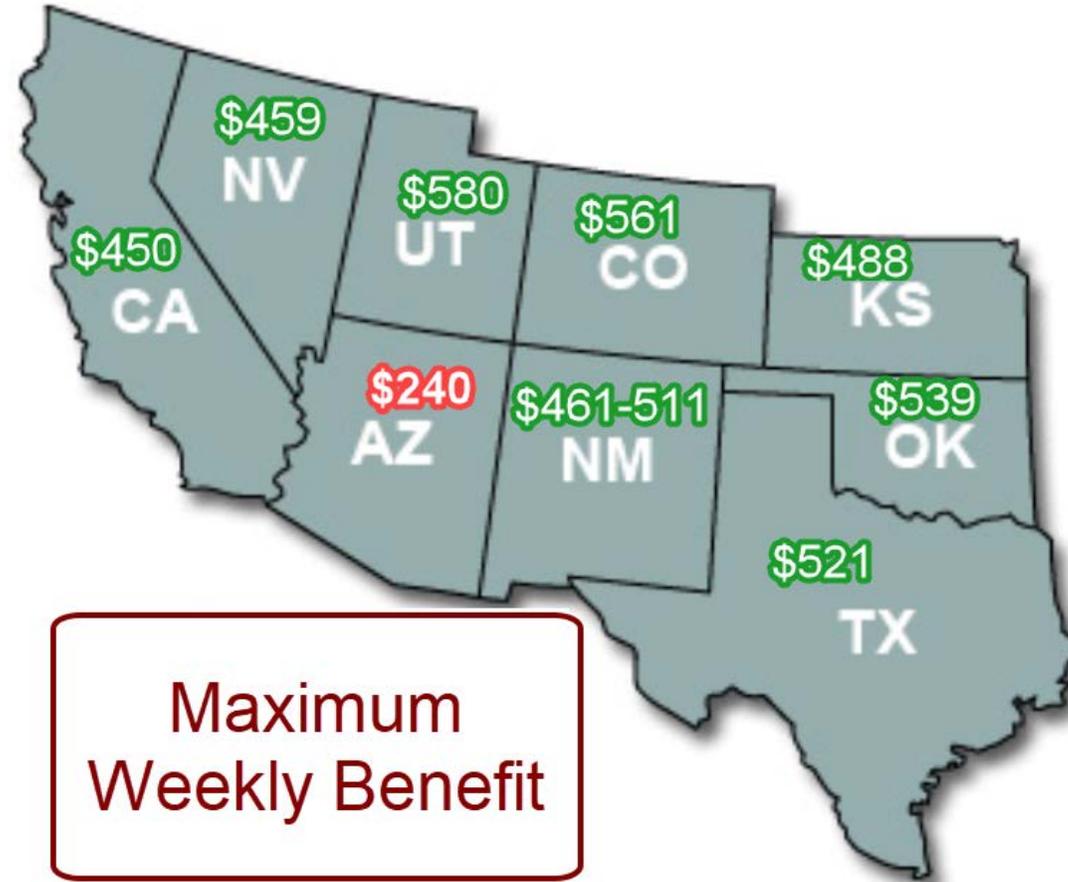
Unemployment formula is supposed to replace half of prior earnings up to a cap

- Arizona's average benefit amount is about $\frac{1}{4}$ the average weekly wage due to Arizona's low cap
- Anyone who previously worked full-time for more than minimum wage quickly reaches the unemployment benefit cap and receives a lot less than half their prior weekly wage.
- Arizona's current benefits have been mitigated by the \$600 federal weekly supplement



This is Not a Red-Blue State Issue

It is an Arizona Issue (2018 figures)





Research Overview

Compared UI outcomes in Arizona if it applied the:

- Texas formula with a benefit cap set at half the avg. weekly wage — \$490 in AZ.
- Georgia formula with an income disregard of \$300 per week.

Used data from the US Census Bureau's Current Population Survey (CPS) which measures state and national unemployment rates.



Meet Ashley



- Ashley earned \$17.50 an hour working five days a week or \$700 a week.
- When COVID struck, her hours were reduced to three days, leading to a 40% drop in pay.
- She received no unemployment assistance from Arizona's UI system because she still earned \$420 a week-which exceeded her max. UI benefit of \$240.

Meet Ashley



Ashley's usual pay is \$700 per week



Ashley's hours are reduced, resulting in her only making \$420 per week



Ashley's usual pay enabled her to be eligible for \$240 per week in unemployment benefits

$\$420 > \240



Because she earns \$420, she does not receive any unemployment benefits from the state



Since she does not receive unemployment benefits from the state, Ashley is not eligible for the \$600 per week from the CARES Act

Research Findings

Disqualified Person Weeks of unemployment assistance:

Between 900,000 and 1.5 million person weeks of unemployment assistance were disqualified in Arizona from April to July, 2020.

	Apr 2020	May 2020	June 2020	July 2020	Total Disqualified Person Weeks
Total People Disqualified Compared to Texas Formula (each week)	71,000	47,000	48,000	48,000	903,000
Total People Disqualified Compared to Georgia Formula (each week)	109,000	75,000	87,000	87,000	1,507,000

Research Findings

Benefits lost due to disqualified underemployed workers:

The average lost benefit was \$690 and \$760 relative to the Texas and Georgia formulas respectively, from April through July 2020.

	Apr 2020	May 2020	June 2020	July 2020	Overall Avg. Lost Benefit
Average Benefit if not denied (Texas formula)	\$103+\$600	\$88+\$600	\$85+\$600	\$85+\$600	\$690
Average Benefit if not denied (Georgia formula)	\$162+\$600	\$162+\$600	\$155+\$600	\$155+\$600	\$760

Research Findings

Total benefits lost in Arizona due to disqualified underemployed workers

The direct losses in state UI/PUA are between **\$80 million and \$230 million** from April through July, 2020.

Total Federal Pandemic Unemployment Compensation lost in Arizona due to disqualified underemployed workers

Arizona lost an additional **\$540 million to \$900 million** in \$600-a-week supplemental income from April through July by not adopting the Texas or Georgia formulas.

See next slide for data.

Research Findings

Total Federal Pandemic Unemployment Compensation lost in Arizona due to disqualified underemployed workers (\$600-a-week supplement)

	Apr 2020	May 2020	June 2020	July 2020	Total Lost Economic Infusion
Lost UI/PUA (Texas formula)	\$29,200,000	\$16,600,000	\$16,400,000	\$16,400,000	\$78,600,000
Lost FPUC (Texas formula)	\$170,400,000	\$141,000,000	\$115,200,000	\$115,200,000	\$541,800,000
TOTAL					\$620,400,000
Lost UI/PUA (Georgia formula)	\$70,600,000	\$48,700,000	\$54,600,000	\$54,600,000	\$228,500,000
Lost FPUC (Georgia formula)	\$261,600,000	\$225,000,000	\$208,800,000	\$208,800,000	\$904,200,000
TOTAL					\$1,132,700,000

Research Findings

Total lost economic activity applying a 1.7 multiplier

Arizona has foregone between \$1 billion and \$1.9 billion which will generally play itself out in the state's economy over the next year.

Multiplier 1.7	Apr 2020	May 2020	June 2020	July 2020	Total Lost Economic Activity
Total Lost Economic Activity (Texas Formula)	\$339,300,000	\$267,900,000	\$223,700,000	\$223,700,000	\$1,054,600,000
Total Lost Economic Activity (Georgia Formula)	\$564,700,000	\$465,300,000	\$447,800,000	\$447,800,000	\$1,925,600,000

Step-by-Step Data Analysis Process

- I. Analyze wage distribution in AZ vs. US
- II. Calculate expected UI benefits
- III. Calculate working allowances
- IV. Determine whether hours were reduced
- V. Calculate the actual UI received
- VI. Determine if benefits are greater than AZ and estimating populations
- VII. Project July statistics
- VIII. Calculate the adjustment ratio
- IX. Determine lost UI for the Texas and Georgia models
- X. Multiplier

GCI's Recommendations for UI Reform

Benefit cap. Increase maximum benefit cap to \$490 per week, and adjust it annually based on half the average weekly wage of covered workers.

Income Disregard. Fix the income disregard should be set to $\frac{1}{4}$ of the weekly benefit amount if the benefit cap is set at one half the average weekly wage, the amount most commonly used by other states.

Eligibility Threshold. Lower income threshold to \$2,400 in the highest earnings quarter and \$3,600 over the four-calendar quarter base period. (This issue has been waived by PUA.)

Fixing AZ's UI System is Inexpensive

An additional **\$100 p/yr p/worker** will cover the cost of increased benefits by increasing the unemployment insurance taxable wage base.

Comparison: Arizona v. Texas

	Arizona	Texas
Avg weekly UI benefit 2018	\$231	\$400
Avg duration of UI benefits 2018	15 weeks	15 weeks
Avg tax per covered employee 2010-2019	\$116 - \$168	\$180-\$288

Note—Unemployment Insurance Trust Funds in all states are being depleted due to record unemployment. Either the federal government will bail out states OR states will borrow from the federal government and federal unemployment taxes (FUTA) will rise from current \$42 per worker to pay it back.

Questions?

For follow-up interviews, contact:

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