

Fixing Unemployment Compensation: Reward work for 90,000 and gain \$500 million in economic growth

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Key Findings

- Arizona has among the worst state unemployment insurance (UI) in the country.
- Since \$300 weekly federal unemployment supplements ended in September, Arizona's unemployment rate has jumped from 6.5% in September to 7.9% in October and 7.8% in November, suggesting that Arizona's economic performance is being dragged down by its poor state unemployment compensation system.
- 60,000 Arizonans who have seen their weekly hours reduced by about 12 hours are NOT receiving partial unemployment assistance but would in other states. This is critical as Congress has reauthorized supplements for 11 weeks through mid-March 2021.
 - Increasing Arizona's weekly allowed income before losing benefits from zero (for these workers currently) to \$160 would have a significant economic impact.
 - Using a fiscal multiplier of 1.7, Arizona's economy could gain \$360 million in economic growth through newly qualifying individuals receiving \$300 weekly supplements under the latest COVID relief bill soon to be voted on in Congress.
- Another 30,000 Arizonans currently receiving unemployment insurance while working limited part-time hours would see on average a \$67 weekly boost in assistance received
- Total Economic Gains from boosting benefits through March 2021 is \$500 million.
- Added Cost to the Unemployment Insurance Trust Fund is no more than \$5 million a week

Summary

After the \$300 per week Lost Wage Assistance federal unemployment supplement ended in mid-September, Arizona's unemployment rate, has jumped significantly from 6.5% to 7.9% and 7.8% in October and November, respectively. Arizona has moved from having an unemployment rate more than one percentage point less than the national average to one exceeding it by more than a full percentage point.¹

While other factors influence unemployment, the lost economic stimulus combined with Arizona's poor unemployment compensation are likely contributing factors.

Arizona's weekly unemployment assistance is capped at \$240 per week, about half the cap of most states. Arizona also provides little flexibility for people when their earnings are reduced. This combination of a low benefit cap and low-to no-earned income allowance² has led to the complete exclusion from assistance for 60,000 Arizonans each week, which would not be the case if they lived in any other state in the southwest. Working Arizonans who have either returned to work at reduced hours or remained employed but had their hours cut, but who earn more from work than their state unemployment benefit do not qualify for any state unemployment or pandemic unemployment insurance.³ Consequently, they also will not receive the more meaningful \$300 federal weekly supplement that will on December 27 through mid-March of next year.⁴

These working Arizonans have typically had their weekly hours dramatically reduced from 31 hours to 19 hours. Take a person who earns minimum wage and was working 31 hours per week. That person normally made \$372 weekly. If her hours are cut to 19 hours, her pay falls 40% to only \$228 weekly. But since a person earning \$372 only qualifies for an unemployment insurance level of \$186, she loses all unemployment benefits. Whereas, if she was allowed to keep the first \$160 of earnings, she would still receive \$68 in weekly assistance or \$254 total.

Another 30,000 Arizonans estimated to be currently working limited hours while on unemployment would see a boost in their weekly checks by about \$67.

¹ U.S. Dept. of Labor, Bureau of Labor Statistics, [Arizona Economy at a Glance \(bls.gov\)](https://www.bls.gov/economy-at-a-glance).

² Technically called an **Income Disregard**. It is akin to an earnings allowance. It represents the amount of money a person can earn before having their unemployment assistance reduced. This is relevant for people who return to work at a reduced number of hours than their prior employment or for those who have had their hours reduced to the point that they qualify for unemployment assistance.

³ Technically Arizona has a \$30 income disregard, where the first \$30 of earnings does not diminish a person's benefits. However, anytime an individual's earnings equal or exceeds their benefit amount, for example if the benefit amount is \$240 and earnings are \$240 or higher—then by statute the individual is defined as not unemployed and the income disregard does not apply. See A.R.S. 23-621 (A).

⁴ Current Congressional negotiations are for 10 weeks of a federal unemployment supplement.

GCI urges lawmakers to make it a top priority to adopt a \$160 weekly earnings allowance to ensure those experiencing unemployment or working reduced hours are covered by unemployment insurance when they return in January and to make benefits retroactive to December 27, 2020.

At stake is not only assistance to 90,000 Arizonans struggling to get by, but up to \$500 million in economic activity to be realized from payments through March 2021.

Meet Brittany

Brittney earned \$18 an hour working 40 hours a week earning \$720 weekly. When COVID struck, her hours were cut in half. She received no unemployment assistance from Arizona’s UI system because she still earned \$360 a week.



Brittney’s usual pay is \$720 per week.



Brittney’s hours are reduced, resulting in her only making \$360 per week.



Brittney’s usual pay enabled her to be eligible for \$240 per week in unemployment assistance.



Because \$360 is greater \$240, she does not receive any unemployment assistance from the state.



Since she does not receive unemployment assistance from the state, Brittany is not eligible for the \$300 per week supplement currently being negotiated in Congress.

Table 1—Brittney’s Unemployment Compensation Under Two Formulas

	Arizona Current	Arizona (\$160)
(1) Brittany’s usual weekly pay (\$18 x 40 hours)	\$720	\$720
(2) Brittany’s reduced pay (\$18 x 20)	\$360	\$360

(3) Unemployment weekly benefit amount (half usual pay up to \$240 cap)	\$240	\$240
(4) Amount of earnings allowed before benefits reduced	\$0 (\$30 only applies if earnings < benefits)	\$160
Calculated benefit (3) – ((2) - (4))	\$240-(\$360-\$0) =<\$0	\$240-(\$360-\$160) =\$40
Received under Possible Extension of FPUC* (max. 10 to 12 weeks)	\$0	\$300
Total Earnings	\$360	\$700

* Federal Pandemic Unemployment Compensation (FPUC) is an emergency program established by the CARES Act to increase unemployment benefits for Americans who are out of work because of the COVID-19 pandemic.

Three Programs for the Unemployed and Underemployed

Workers in Arizona who are unemployed or underemployed can receive help under three programs as a result of the COVID-19 pandemic.

State Unemployment Compensation

For those whose prior income met or exceeded \$4,680 in a calendar quarter⁵ and \$7,020 over four calendar quarters qualify for state unemployment insurance (UI). State UI benefits are paid from the state UI Trust Fund, which is funded based on an assessment on employers, which have ranged from \$116 to \$168 a year on the first \$7,000 of an employee’s earnings. The maximum assistance is \$240 a week and the minimum is \$180 a week due to the high calendar quarter threshold. For those with reduced hours or returning to work at reduced hours relative to prior employment, Arizona’s state UI allows \$30 in earnings before benefits are reduced dollar for dollar, but the \$30 does not apply if your earnings equal or exceed an individual’s weekly assistance amount (see Brittney illustration above).

Note that after 26 weeks on state UI, a person moves to federally-funded programs. For 13 weeks (and possibly longer depending on Congressional action) workers are covered by Pandemic Emergency Unemployment Compensation (PEUC) at the amount provided by the state. If state unemployment triggers are met, as will likely be the case through the first four to six months of 2021, workers in Arizona can also receive up to 13 weeks of Extended Benefits (EB). However, EB ended on December 12th when the state’s 13 week insured unemployment rate (which includes only UI, PEUC and EB—but not PUA)

⁵ A **calendar quarter** is Jan-March, April-June, July-September, and October-December.

fell below 5%.⁶ If the state had adopted the optional trigger of a statewide unemployment rate of at least 6.5% then EB would still be in place. EB cannot start again for at least 13 weeks and will need to have a 13 week insured unemployment rate of 5% again—which is possible, but will depend on economic circumstances, since the current average is 4.16%, even though the total unemployment rate over 13 weeks is 7.4%.⁷

Pandemic Unemployment Assistance

Pandemic Unemployment Assistance (PUA) is available for people who worked but did not meet state UI eligibility thresholds as well as people who are self-employed. The CARES Act provides PUA through the week ending Dec. 26, 2020 and is completely funded by the federal government. It uses the same benefit formula as state UI, but the minimum benefit is \$117 a week (based on half the average benefit in 2018) instead of \$180 a week. Congressional action this month extends PUA for 11 weeks. Because the federal amount provided to an individual is determined based on state law, an unemployed person in all but one other state is receiving more PUA assistance than PUA claimants in Arizona. For example, the minimum PUA assistance provided to a person in Utah is \$210 because Utah's UI assistance amounts are higher than Arizona's.

Federal Pandemic Unemployment Compensation

Federal Pandemic Unemployment Compensation (FPUC) was implemented by Congress through the CARES Act and provides a federally-funded supplement of \$600 a week to anyone receiving UI or PUA. It expired on July 25th in Arizona. President Trump introduced Lost Wage Assistance which lasted for six weeks over August and September at \$300. Congressional action this month reinstates FPUC for 11 weeks starting in December 27 at \$300 per week.

⁶ U.S. Dept. of Labor, Trigger Notice No. 2020-47, effective Dec. 6, 2020, [Trigger Notice Report \(doleta.gov\)](https://www.dolaleta.gov).

⁷ U.S. Dept. of Labor, Trigger Notice No. 2020-49, effective Dec. 20, 2020, [Trigger Notice Report \(doleta.gov\)](https://www.dolaleta.gov).

Table 1: Unemployment Insurance Programs Available to Unemployed Workers in Arizona

<u>AZ State Unemployment Insurance (State UI)</u>	<u>Pandemic Emergency Unemployment Compensation (PEUC)</u>	<u>Extended Benefits (EB)</u>	<u>Pandemic Unemployment Insurance (PUA)</u>
Funding Source: Arizona UI trust fund	Funding source: CARES Act (Federal)-extended 11 weeks to March14	Funding source: Federal UI funds (ENDED 12/12 -trigger no longer met, if state adopts optional trigger would still exist)	Funding source: CARES Act (Federal)-extended 11 weeks to March14
Eligibility: Must be covered by state UI program	Eligibility: Must have exhausted 26 weeks of state UI benefits	Eligibility: Must have exhausted 13 weeks of PEUC benefits. People losing EB will be able to apply for 11 more weeks of PEUC.	Eligibility: For workers who do not qualify for state UI, including contract workers/self-employed
Benefit Amount: Based on AZ state UI law. \$240 maximum weekly benefit.	Benefit Amount: Fixed at rate received from state UI before transferring to PEUC.	Benefit Amount: Fixed at rate received from state UI before transferring to PEUC.	Benefit Amount: Mirrors state UI rate, will increase with state benefit increase.
Duration: 26 weeks	Duration: 24 weeks with extension due to Congressional action	Duration: 13 weeks (ends when trigger(s) no longer met)	Duration: 50 weeks with possible extension due to Congressional action

Methodology

GCI analyzed microdata (i.e., individual responses) to the Census Bureau’s Current Population Survey (CPS) which is used to measure state and national unemployment rates. Specifically, GCI focused on the Outgoing Rotation Group where additional questions on earnings are asked to identify people whose actual hours the week prior to the survey were less than their usual hours. GCI uses national data but then adjusts the

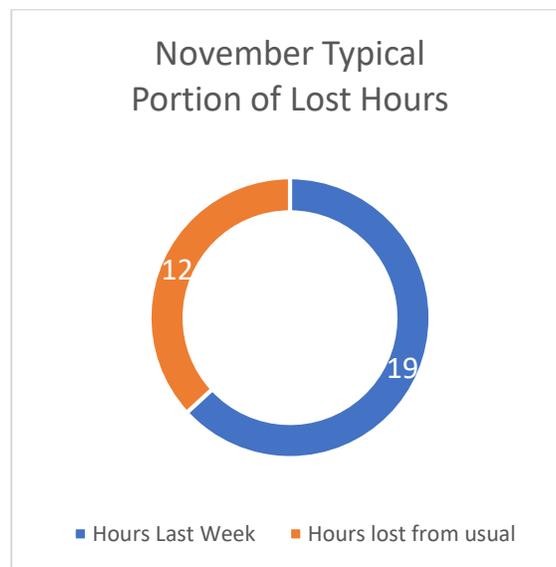
wage distribution to be more reflective of Arizona. GCI analyzed each reported or calculated hourly wage, including tips or commissions, to identify the portion of employed people who, like Brittney, did not qualify for benefits in Arizona but would have qualified if she was allowed to keep \$160 in earnings.⁸ Since Arizona’s current unemployment rates have been equal to or higher than the national average, no adjustment has been made to adjust for differences at the state level. Arizona’s unemployment rate has been rather erratic—which also suggests national data may be more reliable.

Findings

Current Disqualified Persons from Unemployment Assistance

The typical person who is currently not receiving unemployment compensation but would be if the earnings allowance was increased to \$160 was working 31 hours previously — but only 19 hours weekly in November.

Figure 1—Typical Portion of Lost Compared to Usual Hours



In mid-November, among Arizona’s unemployed not receiving PUA, 60% were on state UI and 40% were on either PEUC or EB. Due to variant and episodic work hours, many of the people who would benefit from the \$160 income allowance have received state UI at some points during the pandemic. GCI assumes they are one-half as likely to be on some form of extended benefits. Among those with modest earnings and still receiving

⁸ Note due to a limited Arizona sample in the CPS that fit these parameters, the full national sample was used with adjustments to calculated hourly earnings due to Arizona’s minimum wage. Part-time for economic reasons also strongly correlates with the overall unemployment rate, so the ratio of Arizona to national unemployment rates were also applied. Full details are in the technical appendix.

UI, GCI assumes they are three-quarters as likely to be on some form of extended benefits. For simplification, GCI has presumed none are on PUA. In actuality some are likely on PUA which would also limit the number on state UI receiving assistance from the state’s UI Trust Fund.

Table 2 —People Who Would Benefit From Enhanced Work Incentive

	November 2020	On State UI	On PEUC or EB
ACTUAL TOTAL	125,860	60%	40%
		Projected Portion who would be on State UI	Projected Portion who would be on PEUC or EB
Total People Disqualified Compared to \$160 allowance (each week)	64,000	80%	20%
Total People Receiving UI with partial work (each week)	30,000	70%	30%

Table 3 illustrates how their weekly assistance changes.

Table 3—Average Assistance Gains

	Current Assistance	Assistance with \$160 allowance	Net Weekly Gain
People Disqualified Compared to \$160 allowance (each week)	\$0	\$76	\$76
People Receiving UI with partial work (each week)	\$134	\$201	\$67

Initial Weekly Cost to Arizona’s UI Trust Fund

GCI estimates that increasing the weekly earnings allowance to \$160 would initially cost the state’s UI Trust Fund \$5.3 million per week. GCI estimates that the UI Trust Fund will have a balance of between \$40 and \$50 million at the end of 2021 based on continued

slowing of the economic recovery through March with movement toward a more robust recovery thereafter. Any temporary deficit caused by the earnings allowance should be fully paid for by December 2022. These initial costs to the trust fund should lessen over the course of 2021 as either people move to extended benefits or resume normal hours of employment.

Table 4—Initial Weekly UI Trust Fund Impact

UI Trust Fund Impact Initially (weekly)	
People Disqualified Compared to \$160 allowance (each week)	\$3.9 million
People Receiving UI with partial work (each week)	\$1.4 million

Total Potential Economic Gains

Table 5 summarizes the economic gains that would result from increasing the earnings allowance to \$160 per week. One should keep in mind that though the state will have full control to adjust the benefits for people currently receiving state unemployment insurance, the exact language of the action by Congress on a supplement has not been fully assessed. However, if it parallels the CAREs Act, which would seem likely (see appendix for CARES Act bill language), then the state legislature would be able to structure what it passes in a manner that could bring people under all benefit programs into the enhanced work incentive.

These dollar amounts multiply in the economy. When someone working reduced hours receives supplemental income, it is spent on various nondurables, primarily in the state economy. Reviewing studies and various multiplier analyses, the most likely multiplier is about 1.7, given that these households are generally cash-constrained—they need the income to make ends meet—and are less likely to deposit large chunks of it into savings (see more details on multiplier studies in the technical appendix). That means each dollar in supplemental income leads to a total state economic impact of \$1.70

Table 5—Potential Economic Gains from Expanding Work Incentive

	Direct Payments	FPUC (not otherwise received)	TOTAL	Multiplier	Total Economic Infusion
People Currently Disqualified Compared to \$160 Allowance (each week)	\$54,000,000	\$211,000,000	\$265,000,000	1.7	\$451,000,000
People Receiving UI with Partial Work (each week)	\$22,000,000	\$0	\$22,000,000	1.7	\$37,000,000
Total	\$76,000,000	\$211,000,000	\$287,000,000		\$488,000,000

Conclusion

Gov. Ducey made it a priority to adopt a required high school Civics Education class during the first year of his administration and it happened in less than 10 days. Likewise, the state legislature should be encouraging work to both limit the duration of unemployment as well as assist families financially during this time of economic distress. By adopting a \$160 work allowance in the first 10 days of session and backdating it the start of the year, the legislature could put in place an economic impact of \$500 million at minimal cost to the UI Trust Fund.

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Technical Appendix

CPS and Multiplier Methodology

This section contains the step-by-step data analysis process used by this research team. Data for this project was collected from the Economic Policy Institute’s (EPI) microdata extracts.⁹ CPS outgoing rotation groups (ORGs), of which EPI’s data is based, only comprise of around 22,000 observations, with Arizona only accounting for about 350 of those observations. Because of this, our analysis uses national data to estimate employment trends in Arizona. Steps were taken to adjust national data to more closely resemble Arizona.

I. Analysis of wage distribution in AZ vs. US

The first step was to determine the wage distribution in AZ compared to the United States in order to find the adjustment needed for the national data. To do this, hourly wages for the CPS ORGs from September 2019 to February 2020 were analyzed at the decile level.

Table 1A—AZ vs. US Decile Comparison

Decile	AZ Hourly Wage	US Hourly Wage
10	11	10
20	12	11.59
30	13	13
40	14.5	14.5
50	16	15.91
60	17.77	18
70	20	20
80	24	24.5
90	32	32

Because the wages crossed over between the 20 and 30 deciles, we looked at the 20–25th percentiles to see where the crossover occurred.

Table 2A—AZ vs. US Percentile Comparison, 20-25

Percentile	AZ Hourly Wage	US Hourly Wage
20	12	11.59

⁹ <https://microdata.epi.org/>

21	12	12
22	12	12
23	12	12
24	12.5	12
25	12.5	12.5

The wages converge at the 21st percentile at \$12, and cross over at the 24th percentile. The wage variable of analysis used in the EPI data was wageotc¹⁰, which includes an adjustment for overtime, tips, and commissions. To adjust this variable to more closely resemble Arizona’s wage distribution, wages that were less than \$11 were increased by one dollar, which at low percentiles was the approximate difference (note the min. wage for tipped workers in Arizona is \$3 less than the current min. wage of \$12), while any wages between \$11–\$12 were increased to \$12 to match Arizona’s minimum wage.

II. Calculate expected UI benefits

The next step was to create two new variables for weekly earnings. One for the actual earnings for “last week” prior to the survey, found by multiplying the AZ hourly wage estimate by the actual hours worked last week. The second variable is “usual wages earned last week”, found by doing the same but for usual hours. Next, expected UI benefits were calculated for Arizona and for a \$160 earnings allowance.

III. Calculate working allowances

The working allowances were calculated as follows:

- AZ UI working allowance: expected AZ UI benefits with either a zero or \$30 earnings allowance depending on how their expected benefits compared to earnings.
- \$160 UI working allowance: expected AZ UI benefits adjusted for higher allowance.

IV. Determine whether hours were reduced

It was necessary to determine whether each person faced a loss in hours, as this would allow them to become eligible for unemployment insurance. A 85% threshold was used to capture those who are working around one less day per week, or working a few fewer hours each day. So, in order to fall into this group, a person’s actual hours would have to be 85% or less of their usual hours. e.g., 34 hours instead of 40. This avoid including people with modes variations of hours who would likely not qualify for or apply for UI.

V. Calculate the actual UI received

To determine the actual UI received, the actual weekly wages were subtracted from the working allowance. This was only done for those who fell into the hour reduction group.

¹⁰ “wageotc” refers to Hourly wage (adjusted) -OTC consistent where OTC stands for adjustments to include overtime, tips and commissions. <https://microdata.epi.org/variables/income/wageotc/>.

VI. Determining if benefits are greater than AZ and estimating populations

New variables were created to flag those who would receive a benefit from the \$160 allowance.. A population estimate for this group was derived by summing the p-weight, orgwgt.¹¹ The population estimate for the amount of UI dollars received by this group for \$160 allowance group was determined by multiplying the dollars received by the p-weight.

VII. Multiplier

From a multiplier perspective, federal dollars are new dollars into Arizona's economy that would not have otherwise impacted it. During recessions, multiplier impacts are larger. The Congressional Budget Office suggests fiscal multipliers for transfer payments like UI as high as 2.1 during a recession and as low as 0.4 during an expansion. National multipliers can sometimes be less than local multipliers since models at the national level need to take into account financing mechanisms. From Arizona's perspective, those financing impacts would be spread throughout the economy regardless of whether a particular infusion reaches Arizona. So the infusions are only positive.

The following studies support a multiplier of 1.7 or possibly higher. Because UI benefits are higher than usual, lower-end estimates are used.

1. Whalen and Reichling, Congressional Budget Office (2015) Transfer Payments to Individuals During Recession Multiplier 2.1¹²
2. Vromus and Bemus (2010) National and State UI Multipliers 1.9 to 2.0 based on Great Recession¹³
3. DiMaggio and Kermani (2015) Local Fiscal Multiplier of UI 1.9¹⁴
4. Arizona Public University Enterprise (U of A, ASU and NAU) for FY2017 Payroll Multiplier 1.7¹⁵

¹¹ "Orgwgt" refers to Earnings weight. It is how much individual people in a survey of weighted so that you can total them relative to the total population. In GCI's analysis this weight leads to a national total—and that total was then adjusted relative to the size of Arizona's labor force. <https://microdata.epi.org/variables/weights/orgwgt/>.

¹² Whalen, Charles J. and Felix Reichling (2015), "The Fiscal Multiplier and Economic Policy Analysis in the United States," Congressional Budget Office, February, Working Paper 2015-02, https://www.cbo.gov/sites/default/files/114th-congress-2015-2016/workingpaper/49925-FiscalMultiplier_1.pdf.

¹³ Vroman, Wayne and Jacob M. Bemus (2010), "The Role of Unemployment Insurance as an Automatic Stabilizer," Urban Institute and IMPAQ International, July, https://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf.

¹⁴ DiMaggio, Marco and Amir Kermani (2016), "The Importance of Unemployment Insurance as an Automatic Stabilizer," National Bureau of Economic Research Working Paper 22625, September, <https://www.nber.org/papers/w22625.pdf>.

¹⁵ Elliot D. Pollack and Company (2019), "Economic and Fiscal Impact of Arizona Public University Enterprise," Prepared for Arizona Board of Regents, <https://www.azregents.edu/sites/default/files/reports/Economic-Impact-Report-FY17.pdf>. Calculation based on Ratio of Economic Output to Labor Income for University Payroll & Employment on p. iii for fiscal year 2017.

Impact on PUA Benefit if State Increases UI Benefit Amount

Pandemic Unemployment Assistance:

(d) Amount of Assistance,

1) IN GENERAL.—The assistance authorized under subsection (b) for a week of unemployment, partial unemployment, or inability to work shall be—

(A) (i) the weekly benefit amount authorized under the unemployment compensation law of the State where the covered individual was employed, except that the amount may not be less than the minimum weekly benefit amount described in section 625.6 of title 20, Code of Federal Regulations, or any successor thereto; and

(ii) the amount of Federal Pandemic Unemployment Compensation under section 2104; and

(B) in the case of an increase of the weekly benefit amount after the date of enactment of this Act, increased in an amount equal to such increase.¹⁶

Impact on PEUC and EB Benefit if State Adjusts Work allowance

Based on information conveyed by Senator Kyrsten Sinema's office after consulting with the U.S. Department of Labor (DOL) and the Congressional Research Service (CRS):

First the PEUC amount is defined in Section 2107(4)(A)(i) of the CARES Act — and it is dependent on state law. There is no language on not changing the amount or being dependent on what it was on a certain date. DOL indicates guidance to states was written as broadly as possible.

(i) the amount of the regular compensation (including dependents' allowances) payable to such individual during such individual's benefit year under the State law for a week of total unemployment;

It is not known for sure that PEUC recipients and EB recipients would necessarily qualify for the higher work allowance because they have transitioned to federal payments. If they don't qualify, their assistance would not change and there would be no added economic stimulus for that portion of recipients.

¹⁶ CARES Act <https://www.congress.gov/bill/116th-congress/house-bill/748/text>.