Effects of the Trend Toward Tightening Eligibility Conditions for Entitlement to Unemployment Compensation

Walter N. Adams
Georgia Department of Labor

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Beginning in 1984, the Commissioner of the Georgia Department of Labor, the administrator of the unemployment compensation law in Georgia, announced a new policy that has been followed consistently in Georgia thereafter: Any increases in the maximum weekly benefit amount (MBA) for unemployment compensation must be funded or offset by tightening eligibility conditions. The intent of this policy was for each increase in the MBA to be self-funding, thus requiring no increases in unemployment tax. The State of Georgia carefully adhered to this policy until the 1994 session of the state legislature, when a two step increase in the MBA was granted without a concomitant source of funding in the same bill. Other states have followed this identical policy for several years. Although it has had a positive effect on the perception of the unemployment insurance system as a "no fault" program, this unwritten and often unspoken policy has had minimal effect upon trust fund balances. In Georgia, the policy contributed very little to the goal of increasing trust fund reserves. Net overall increases in trust fund balances over the last twenty years were caused primarily by economic conditions and not by changes in eligibility conditions. It may even have had an adverse effect on public welfare programs.

In legislative bodies the different changes in unemployment compensation eligibility conditions were well-received, with little opposition. Tightening of eligibility conditions was perceived by legislators and many public interest groups as a justifiable taking from those not deserving of receipt of unemployment benefits. For example, in Georgia the 1987 change from a range of weeks' penalty to a total loss of benefits for those determined to have been fired for cause was applauded by most legislators. A typical response was that those people never were intended to be protected by the safety net because they contributed to their own unemployment.

A review of disqualification and eligibility conditions over the past two decades reveals a gradual tightening of eligibility conditions. This trend is reflected in most states' unemployment
compensation laws over this same period of time. It is not merely coincidental that major changes in federal unemployment law occurred during this time. For example, the 1970 comprehensive changes in Pub. L. No. 91-373, known as the Employment Security Amendments of 1970, and in Pub. L. No. 94-566, known as the Unemployment Compensation Amendments of 1976, dictated substantial changes in state law and created large new classes of eligible claimants who could receive unemployment compensation. Both of those federal laws significantly raised the taxable wage base, but that tax increase mainly was designed to refurbish state trust funds which suffered during recessions in the late 1960s and early 1970s and did not cover fully the anticipated cost of benefits for the new classes of workers to whom coverage was extended under the federal law. Those recessions were so close together that many state trust funds had difficulty overcoming large payouts that had forced many states to borrow from the federal government to pay benefits.

Most states have replaced the range of weeks forfeiture which predominated many years ago with a more severe complete disqualification which can be purged only by securing other employment, working a specified duration, and then losing that job through no fault on the part of the individual. States first began to apply this concept to disqualifying quits, then extended it to disqualifying discharges. These are simply the primary examples of the types of changes which have occurred. Other categories of changes in eligibility conditions which were tightened by states will be discussed in greater detail in the full Article.

In the zealouslyness to tighten eligibility, little or no consideration was given to the plight of the category of claimants who were no longer eligible to receive unemployment benefits. Previously that group only served a brief forfeiture period, e.g., five to twelve weeks in many states, before receiving benefits. Frustration related to the effect of those changes caused a noticeable increase in claimants appealing disqualifying determinations. Georgia experienced an increase in unemployment benefit appeals after its changes in 1987, just as other states had earlier when similar changes in their own state's eligibility conditions were made. Although it is difficult to calculate how many of the increased appeals were borne out of frustration or desperation and how many were caused by downturns in the economy, nonetheless an increase in the
appeals workload was definite and did not subside proportionately when the economy improved.

Unfortunately for purposes of this study, the demographics of those who presumably suffered from the changes in eligibility conditions were not captured separately as a defined group within the unemployment insurance system. The effect of changes in eligibility conditions on certain groups of workers could not be examined for that reason. Certain assumptions can nonetheless be made safely. One assumption is that those in the lower economic strata were affected the most, mostly minorities and women. This assumption is attributable primarily to the level of personal savings typically accumulated by different income groups. It is also attributable to the phenomenon known as “last hired, first fired”. Another assumption is that higher paying jobs frequently provide more lucrative termination packages than do lower paying jobs. Disqualifications for those who previously would have been eligible for benefits obviously caused a depletion of personal savings and increased reliance on public welfare systems.

A careful comparison of states’ unemployment trust fund balances in relation to changes in eligibility conditions shows the overall effect of tightening state law eligibility conditions has not achieved its purpose of having a significant effect on trust fund reserves, despite overall, gradual increases in trust fund balances. While most states’ trust funds are in relatively good condition at present, the solvency of those funds is attributable mostly to the overall strength of the economy over the past two decades. The projected savings attributable to these new policies represent only a small portion of trust fund balances. Likewise, payouts are determined primarily through the function of the number of claims filed rather than the number or percentage of disqualifications. Perhaps the most positive impact of the changes is the perception that unemployment compensation should be paid only to the most deserving and is not intended as a type of welfare system for individuals who contributed directly to their own unemployment by their own voluntary actions.

Can we continue to fund increases in the maximum weekly benefit amount through changes in eligibility conditions? In most states the answer is a simple no. The progressive tightening of eligibility conditions has left few areas to tighten. Those remaining areas cannot be expected to produce significant savings in terms of payouts without risking defeat of the major
premise behind the unemployment compensation program: To pay benefits to individuals who are unemployed through no fault of their own. Future increases in weekly benefit amounts must necessarily be a direct drain on trust fund reserves. Most states' trust funds can handle this pressure, despite suggestions to the contrary from the federal government. Some states with legitimate concerns about the effect on future trust fund reserves will be forced to discover other creative ways to offset the inflation caused by increased weekly benefit amounts or otherwise risk widening the delicate gap between replacement benefits and previous earnings.