



STATE and LOCAL OPPORTUNITY NOTE



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Prime Sponsor: Sen. Lois Tochtrop, D-Thornton
Rep. Sal Pace, D-Pueblo

Bill Status: Senate Business Labor and Tech.
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Title: Concerning the expansion of benefits for unemployed workers in Colorado

This bill represents a net opportunity gain for Colorado. It will expand the number of Colorado workers who qualify for unemployment benefits, many of whom are low-income. By making these changes, Colorado will receive \$127 million in federal funds to bolster the UI Trust Fund.

This bill allows the use of an alternative base period, which is projected to result in 1,800 workers being immediately eligible for unemployment benefits in FY 09-10; otherwise, they have to wait 13 to 25 weeks to claim them. Nationally, the average wage of workers who benefit from the alternative base period is about \$9.00 per hour.¹

It would also expand the list of compelling family reasons for leaving a job for workers who qualify for unemployment insurance benefits. This is projected to result in an additional 465 workers qualifying for unemployment benefits in FY 09-10.

Summary of legislation

This bill makes several changes to modernize Colorado's unemployment insurance laws, comply with federal guidelines and qualify for \$127 million in federal funds. It would allow workers to use an alternative base period to qualify for benefits if they do not have enough earnings to qualify using the standard base period. It also makes minor changes to Colorado's laws relating to workers who are forced to leave a job due to illness or disability of themselves or a family member or because of domestic violence. It expands benefits currently available to workers who leave a job to follow a spouse in the military to any worker whose spouse changes employment location and commuting is unreasonable. Finally, it

provides additional unemployment benefits to workers involved in approved training programs to prepare them for work in high-demand occupations and employment in the renewable energy sector.

This Opportunity Note will focus on the bill's provisions allowing use of an alternative base period.

Background

Under current Colorado law, to be eligible for unemployment benefits, a worker must have received at least \$2,500 in earnings in the first four of the five most recently completed quarters. This is called the standard base period. The most recently completed quarter is the lag quarter. Wages earned in that quarter are not counted until the next quarter.

Standard base period: If a worker filed for unemployment benefits on Jan. 2, 2009, they must have received at least \$2,500 in earnings between Oct. 1, 2007, and Sept. 30, 2008, to be eligible for benefits. Any earnings they received between Oct. 1 and Dec. 31 would not count toward their eligibility until April 1, 2009. The period between Oct. 1 and Dec. 31 is considered the lag quarter.

It is possible that a worker would have to wait 25 weeks before the earnings he received in the first week of October 2008 would be counted toward eligibility for unemployment benefits.

Alternative base period: This system would allow workers who do not qualify for benefits using the standard base period, because earnings didn't reach \$2,500, to count earnings from the most recently completed quarter to determine eligibility.

Using the same example above, a worker could count earnings received between Oct. 1, 2008, and

The Bell Policy Center believes a top priority of the General Assembly should be to expand opportunities for Coloradans to achieve the American Dream. In that spirit, we offer Opportunity Notes on selected bills. Similar to Fiscal Notes, Opportunity Notes reflect our best analysis of whether a bill, if implemented, will expand opportunities for Coloradans.

A POSITIVE analysis means our research suggests a bill will expand opportunity in a cost effective manner.

A NEGATIVE analysis means our research suggests the measure will restrict opportunities or will not cost-effectively achieve its goals.

Dec. 31, 2008, when applying for unemployment benefits on Jan. 2, 2009.

This would allow the worker to qualify for unemployment benefits immediately and get the benefits sooner – when they become unemployed and need the money.

The lag quarter was enacted to allow time for employers to report earnings to the state Department of Labor and Employment. With the advent of computers and electronic transmission of data, earnings information can be reported more quickly.

Research and evidence of effectiveness

Currently 19 states and the District of Columbia have adopted the alternative base period. A national study of six states that use an alternative base period shows that about 40 percent of workers who fail to qualify for unemployment benefits because earnings do not reach their state's earnings requirements under the standard base period end up qualifying under an alternative base period.²

However, in the six study states, workers using the alternative base period to become eligible for benefits represented from 2.1 to 6.5 percent of all workers claiming unemployment benefits.³

Nationally, in 2003, low-wage workers were almost two-and-a-half times as likely to be out of work as higher-wage workers but were about half as likely to receive unemployment insurance. About 14 percent of unemployed low-wage workers received benefits, while 37 percent of higher-wage workers did so. This held true even when job tenure for both groups was similar. The base period for meeting minimum earnings requirements and good-cause requirements for leaving jobs were cited as reasons why low-wage workers were less likely to receive benefits. Because the standard base period excludes the more recent earnings, low-wage workers with sporadic work histories find it difficult to meet the earning levels under the standard base period.⁴

Many of those who qualify for unemployment benefits using an alternative base period recently entered or re-entered the workforce, such as young workers or those leaving welfare. Many work in hotels, restaurants, amusement parks, for temporary help agencies or in construction.⁵

Estimate of impact and benefits

The Legislative Council Fiscal Note prepared for SB 09-247 estimates that 1,800 workers in Colorado will qualify for unemployment benefits using the

alternative base period in FY 09-10.

For these workers, the unemployment benefits would help when they are first unemployed. Most are low-wage workers who are living paycheck to paycheck. Quickly receiving unemployment benefits may mean the difference between economic self-sufficiency and poverty.

This will also help Colorado's economy as workers and their families spend the unemployment benefits on housing, groceries and other basic necessities. According to Mark Zanidi, chief economist for Moody's Economy.com, every \$1 in unemployment benefits generates \$1.64 in local economic activity.⁶ The low-wage workers who benefit from the alternative base period are most likely to spend their benefits on basic necessities.

Colorado must adopt the alternative base period in order to qualify for any federal funding under the American Recovery and Reinvestment Act of 2009 and will receive one-third of the available funding, or \$42.5 million, when it does so. If Colorado adopts all of the measures contained in SB 09-247, the Legislative Council estimates the UI Trust Fund will increase by \$134.8 million in FY 2010-11 and \$7.9 million in FY 2011-12.

By enacting the alternative base period, the fiscal note estimates that \$6.5 million in benefits will be paid in FY 09-10 and \$5.7 million in benefits in FY 10-11. The other provisions will result in \$7.3 million in benefits paid in both FY 09-10 and FY 10-11.⁷

End notes

¹ *Question & Answer, The Unemployment Insurance Modernization Act: Filling the Gaps in the Unemployment Safety Net While Stimulating the Economy*, National Employment Law Project, Updated February 17, 2009.

² *Clearing the Path to Unemployment Insurance for Low Wage Workers: An Analysis of Alternative Base Period Implementation*, National Employment Law Project, Center for Economic and Policy Research, August 2005.

³ *Clearing the Path*, NELP.

⁴ *Unemployment Insurance: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt*, U.S. General Accountability Office, September 2007.

⁵ *Clearing the Path*, NELP.

⁶ *The Economic Outlook and Stimulus Options*, written testimony of Mark Zandi, chief economist and Cofounder Moody's Economy.com, U.S. Senate Budget Committee, Nov. 19, 2008.

⁷ *State and Local Fiscal Impact on SB09-247*, Colorado Legislative Council Staff, March 23, 2009.