Notes and Brief Reports

Report of the National Commission on Unemployment Compensation*

Unemployment insurance is one of the Nation's basic Social Security programs. When Congress established the Old-Age and Survivors Insurance program in 1935, it also created the Unemployment Insurance (UI) program in titles III and IX of the Social Security Act. Although it has been subject to review and study over the years, the UI system received its first comprehensive examination through congressional mandate in the Unemployment Compensation Amendments of 1976 (Public Law 94-566). The law established a National Commission on Unemployment Compensation, whose members were appointed by the President, the President pro tempore of the Senate, and the Speaker of the House. The Commission was headed by Wilbur J. Cohen, former Secretary of Health, Education, and Welfare. Other members were chosen to create a balance of interested groups, including labor, industry, small business, and Federal, State, and local governments. The Commission held its first meeting in March 1978 and released its final report of findings and recommendations in early 1981.[1]

Program Changes

Some of the major program changes recommended by the Commission would:

—Establish Federal minimum benefit standards. The Commission believed that the maximum weekly benefit should be 55 percent of the State average weekly wage by 1982, and that it should rise to 66.7 percent by 1986. (As of 1980 the maximum was at least 66.7 percent of the average wage in just three States.)

—Change benefit formulas. The Commission concluded that States should increase benefit levels and provide for automatic periodic adjustments of the maximum weekly benefit to ensure that 75–80 percent of all claimants have a wage replacement rate of at least 50 percent. (No States met this goal in 1979.) The Commission recommended the establishment of a partial benefit to provide incentives for claimants to accept part-time work. The report concluded that disqualification provisions should eliminate penalties for leaving work with good cause and for misconduct (except in connection with work), and to eliminate reemployment and earnings requirements for any disqualifying act.

—Cover more lower-paid workers. The Commission recommended that coverage should be extended under UI to farm workers on the same basis as other workers and to household workers with at least $50 earnings from one employer during a quarter. (At present workers on farms with less than $20,000 quarterly payroll or 10 employees during the year are not covered, nor are private household employees of employers whose quarterly payroll for domestics is less than $1,000.) The Commission also stated that proposals defining many presently covered workers as independent contractors should be opposed, and current Federal provisions should be changed to allow State discretion concerning eligibility of school employees for benefits during school breaks.

—Extend benefits during periods of high unemployment. The Commission recommended several changes that would make the requirements for triggering benefits[2] under State Extended Benefit programs less stringent. For example, it recommended deletion of the rule that the insured unemployment rate must be at least 120 percent of the corresponding rate for the previous 2 years. The Commission also recommended creation of a permanent triggered Federal program extending total benefits to 52 weeks (65 weeks during periods of high unemployment). Currently, regular and extended benefits are limited to 39 weeks. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) imposed restrictions on extended benefits and eliminated the national trigger.

—Establish a lifetime reserve benefit program. Under the recommendations, a maximum of 52 weeks of benefits would be established for workers aged 60 and over who have contributed to Social Security for at least 40 quarters and have current UI eligibility.

* By Daniel N. Price, Division of Retirement and Survivors Studies, Office of Research and Statistics, Office of Policy, Social Security Administration.

[1] **Unemployment Compensation: Final Report**, National Commission on Unemployment Compensation, Washington, D.C., July 1980.

[2] "Triggering benefits" refers to a procedure for automatically starting or ending the payment of benefits when specified levels of unemployment are reached.

—Improve administration. The Commission stated that more funds should be provided to improve techniques to detect fraud and error; increased grants should be given to the States to more effectively operate the unemployment compensation program and employment service activities; quarterly wage reporting should be required; and procedures for appeals cases and interstate claims should be improved.

—Repeal certain provisions of the 1976 Unemployment Compensation Amendment. The Commission recommended repealing the sections of the amendment that require States to reduce an individual's UI benefits by the amount of any pension received and establish Federal income taxation of UI benefits.

—Remove unemployment compensation accounts from the unified Federal budget.

The Commission estimated that if all of its recommendations were fully implemented by fiscal year 1989, the cost of the unemployment insurance system would be increased by $18.7 billion, or 76 percent, in that year (in 1980 dollars). This estimate, which includes amounts to be provided from general revenues as well as from payroll taxes, is based on the most extensive interpretation of the Commission's recommendations and, is based on an 8.5-percent assumed unemployment rate.

Financing Changes

In its comprehensive examination of the UI program, the Commission also recommended major financing changes to:

—Reduce employer payroll taxes for past debts by $12.4 billion. Part of this amount is the debt incurred from collections of the Federal Unemployment Tax Act (FUTA) for Federal Supplemental Benefits and for the Federal share of Extended Benefits when the national trigger was on during 1975-78. Another part of the $12.4 billion would be from rebating to the States their share of Extended Benefits paid during that same period. In effect, these recommendations would provide for financing past benefits from general revenues.

—Increase the FUTA taxable wage base. The Commission recommended that the FUTA taxable wage base be gradually raised to 65 percent of the national average total wage in UI-covered employment by 1989, and that this base be maintained automatically at that percentage thereafter. The current $6,000 base represented about half of the average wage in 1980.

—Strengthen requirements for States borrowing from the loan fund. To assure prudent financial policies, the Commission recommended that moneys borrowed in the future should bear interest and a reinsurance program should be established to provide protection to the States against unusually heavy benefit costs.

—Establish a Board of Trustees for UI trust funds. The board would determine investment policy, recommend changes in financing, and report to the Congress on estimated amounts needed to finance sound administration.

—Modify State Laws. States should make necessary changes in their experience ratings, solvency, and other financing provisions to ensure a sound revenue financing capacity. Specifically, the Commission said that the zero minimum tax rates should be eliminated, maximum rates should be fixed in relation to anticipated benefit costs, and new employer rates equal to their industry's average rates should be established by the States.

Implications for Older Workers

A few of these recommendations deal specifically with older workers. Unemployment among older workers has special relevance for the Old-Age, Survivors, and Disability Insurance (OASDI) program. Unemployed older workers may seek OASDI benefits. Such early retirement adds to the costs of the OASDI program, and raises the issue of whether and under what conditions individuals should receive OASDI and UI benefits simultaneously. Therefore, it is useful to focus on two Commission recommendations that have special relevance for older workers.

The Commission recommended that the Congress repeal the current provision (enacted in 1976 and amended in 1980) that reduces UI benefits dollar for dollar by any pension based on the claimant's previous employment. This provision applies to public pensions, including Social Security retirement benefits, and to private pensions as well. The 1976 Unemployment Compensation Amendments were enacted because of the concern about paying duplicate benefits from more than one program for the same risk—loss of wages because of unemployment. The law reduced unemployment benefits by any such payments based on the claimant's previous employment. Critics of this provision pointed out that the reductions applied to any pension plan even if the base period employment upon which the UI entitlement derived had nothing to do with the pension being paid. It also did not matter that the annuity or pension might have been financed either in total or in part by the claimant.

A 1980 amendment to the FUTA changed the provision so that effective September 1980 the unemployment benefit reduction applies only to pensions paid under a plan maintained or contributed to by a base period employer and a plan in which the services performed during the base period either made the individual eligible for the pension or increased the amount payable. However, Social Security payments serve to reduce unemployment compensation amounts even if the employment during the base period did not affect Social

Security eligibility of the benefit amount to be paid.

The National Commission on Unemployment Compensation noted that there has been considerable disagreement among the States as to whether retirement income should reduce the UI benefit, and it further noted that the current offset provision is a more sweeping and severe disqualifying income penalty than any State had enacted throughout the history of the UI program. Consequently, the Commission recommended that this provision be repealed.

The other Commission recommendation bearing directly on older workers is that an Unemployment Benefit Lifetime Reserve Program should be established for persons aged 60 and over. The Commission argued that this program would strengthen the labor-force attachment of workers as they approach age 65. The Commission suggested that special UI protection for older workers could help workers who are experiencing labor-force dislocations as they grow older; could reduce the amount of Social Security payments for early retirement (although the Commission did not recommend prohibiting simultaneous receipt of Social Security and the special unemployment benefit); and could foster reemployment of older workers and hence give the Nation continued use of their skills. The program includes several features. First, a worker must have at least 40 quarters of coverage under Social Security, of which 20 quarters are within the 40 immediately preceding age 60. Second, an unemployed claimant aged 60–64 would be eligible for these lifetime reserve benefits after having established eligibility for UI in his or her current unemployment and having exhausted all regular and extended benefits. Third, the Unemployment Benefit Lifetime Reserve payments would be payable for up to 52 weeks total (beyond regular program benefits) during the period the claimant is aged 60–64. And fourth, these benefits would be financed through contributions to a special pooled fund in the UI system. The Commission estimated that implementation of this recommendation would cost $35 million in fiscal year 1989.

In connection with this proposal the Commission's Report cited the experience of other industrial nations. A number of other western countries provide special programs to encourage gainful employment of older workers. These programs have certain features in common: Both duration of employment required for qualification and the duration of benefits provided increase with age; governments contribute substantially (from general revenues) to the cost of these programs; special training, relocation and placement programs are provided to help older workers become re-employed; and subsidies are given to employers who hire older workers. At the same time, workers in these countries generally receive unemployment or retirement benefits, but not both simultaneously.

Social Security Abroad

Promotion of Subsidized Savings in the Federal Republic of Germany*

In the Federal Republic of Germany, the Government encourages personal savings as a "third pillar" to supplement retirement income from social insurance and private pensions. Over the past few decades, as an incentive to such savings, a series of national programs have been established to provide supplements that, in effect, greatly increase the return available to long-term savers who leave their money in special accounts, invest in housing, or keep shares in their employer's firm. Programs that are currently in effect now cover two-thirds of the labor force. A large part of the savings generated are generally assumed by analysts to be earmarked as a "nest egg" for retirement.

Subsidized savings, when they were originally introduced after World War II, were designed to promote the reconstruction of the economy, particularly in the area of private housing. Early support for these measures was also based on a desire to lessen inflationary pressures by curbing consumption, at least in the short run. The emphasis subsequently shifted to the encouragement of private savings as an end in itself. Under the three-pillar theory, it had been expected that workers would save for their old age. In practice, it was found that lower income families did not save or could not save enough money to put aside for retirement. Government policy then focused on stimulating the savings of those who otherwise would have to depend entirely on social security.

The main incentive used to encourage the accrual of personal assets is a Federal bonus, which the Government adds to the account of any participant. Eligible accounts usually take the form of savings deposits held by individuals in banks, savings and loan institutions, or building societies. They can also be in the form of life insurance policies, shares in an employer's firm, or guaranteed loans to employers.

There are two ways of opening an account—through an employer plan or a plan for the general public. Both plans are voluntary and subject to income ceilings.

Under plans for the general public, individuals open their own accounts and are the sole contributors. The Federal Government then pays them an annual bonus on savings held for 7 years. The standard bonus, 20

* Prepared by the Comparative Studies Staff, Office of International Policy, Office of Policy, Social Security Administration.