

Top Unemployment Compensation Reforms for Pennsylvania

OVERVIEW

- Pennsylvania should reform its unemployment compensation system to pay down state debt, incentivize hiring, increase labor participation, and minimize fraudulent claims. Reforms should protect unemployment compensation for the individuals and families that truly need it while promoting a prosperous labor and business climate.

BACKGROUND

- Since a high of 16.2% in April 2020, Pennsylvania's unemployment rate has consistently exceeded the national average.¹ In September 2021, Pennsylvania's unemployment rate was 6.2%, still 1.4% above the national rate.
- Federal cash bonuses and easing certain [verification requirements](#) made Pandemic Unemployment Assistance (PUA) a target for criminals—even those behind bars.² In Pennsylvania, at least [10,000 prison inmates](#) illegally tried to receive unemployment benefits during the pandemic.³ In another case, a wide-scale unemployment compensation scam impacted approximately [58,000 individuals](#) in Pennsylvania.⁴
- While unemployment benefits can be a lifeline, benefits can distort incentives to not work or find work. During the \$300 federal unemployment boost, the [American Action Forum](#) estimated that 40% of Pennsylvanians could make more money off unemployment than working their job.⁵ The [Independent Fiscal Office](#) estimated in July 2021 that unemployment compensation was, on average, equal to almost \$25 per hour for an individual that works 30 hours/week or \$50 per hour for an individual that usually worked 15 hours/week.⁶ The federal unemployment boosts expired in September 2021.

PAY OFF UNEMPLOYMENT DEBT

- Pennsylvania has over [\\$880 million](#) in unemployment debt and is now [paying interest](#) on it.⁷ Lawmakers should pay off state unemployment debt with available American Rescue Plan (ARP) funds to reduce the deficit and prevent payroll tax hikes.

INDEX UNEMPLOYMENT BENEFITS TO ECONOMIC CONDITIONS

- Pennsylvanians can currently qualify for up to 26 weeks of unemployment, but the duration of unemployment benefits should fluctuate with the unemployment rate. When economic conditions are favorable and many jobs are available, individuals can and should find new work sooner. When there is an economic crisis, unemployed individuals should qualify for longer coverage.
- [In Florida](#), if the state's average unemployment rate is at or below 5%, individuals are eligible for up to 12 weeks of unemployment benefits. For each 0.5 percentage point that the unemployment rate

rises above 5%, individuals receive an additional week of benefits. If the unemployment rate hits 10.5% or above, Floridians can receive a maximum of 23 weeks of benefits.⁸

- Research from the Foundation for Government Accountability (FGA) found [indexing unemployment benefits](#) helps people get back to work sooner, improves solvency for state unemployment trust funds, and allows businesses to hire more workers because of lower unemployment taxes.⁹

INCENTIVIZE HIRING RATHER THAN SUBSIDIZING UNEMPLOYMENT

- Pennsylvania should reject the [Biden administration's](#) call for states to use ARP funds to extend pandemic unemployment bonuses.¹⁰ Bolstering unemployment benefits can give Pennsylvanians an incentive [to not work](#) and makes the system an attractive target for fraud.¹¹
- Instead of boosting unemployment, the state should [offer counterincentives](#) that motivate employers to hire and workers to work (e.g. work and hiring bonuses).¹²

NET OTHER BENEFITS FROM UNEMPLOYMENT CLAIMS PAYABLE

- To offer worker protection without distorting incentives, the state should deduct other benefits, such as severance pay, Social Security, and vacation pay from unemployment benefit rates.

ENSURE THE CROSSMATCH OF UNEMPLOYMENT ENROLLMENT DATA WITH OTHER RECORDS

- The Pennsylvania Department of Labor & Industry [says](#) that it currently crossmatches unemployment benefits records with State and National Directory of New Hire reports, wage record files, and [Social Security Administration](#) data.¹³ The [state should](#) also crossmatch unemployment enrollment data with death records; local, state, and federal prison records; and the [Integrity Data Hub](#), an inter-state tool that checks for multi-state unemployment claims.¹⁴

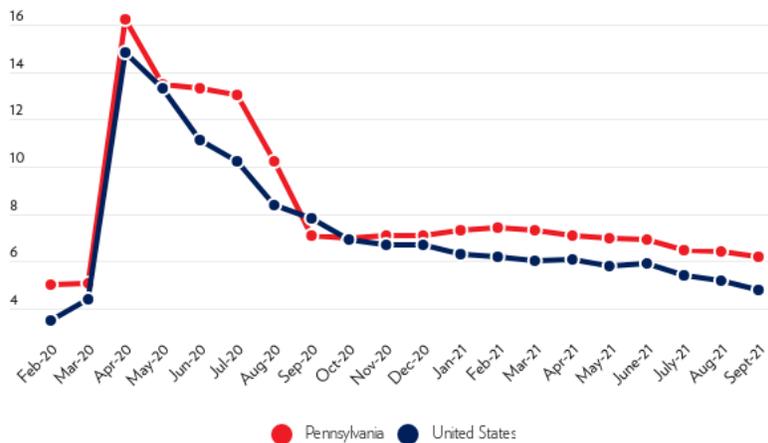
REBALANCE UNEMPLOYMENT COMPENSATION TAX RATES AND BENEFITS

- Pennsylvania ranked 40 out of 50 for the unemployment insurance tax component of the Tax Foundation's [State Business Tax Climate Index](#).¹⁵ This low ranking signifies high minimum rates, maximum rates, and taxable wage bases. Pennsylvania should lower its unemployment compensation tax rates to make it more competitive and attractive for businesses, who [struggle](#) to not lay off employees when faced with higher rates.¹⁶

APPENDIX

Unemployment rate: Pennsylvania vs. nation

Since the outbreak of the pandemic in 2020, Pennsylvania's unemployment rate has consistently exceeded the national average. In September 2021, the state's unemployment rate was 6.2%, significantly higher than the national rate of 4.8%.



Source: Bureau of Labor Statistics, Seasonally Adjusted, Pennsylvania Unemployment Rate
Bureau of Labor Statistics, Labor Force Statistics from the Current Population Survey, Seasonally adjusted, unemployment rate, 16 years or older

¹ See chart in Appendix

² Amy Simon, "Unemployment Insurance at a Crossroads: Tracing Program Design During and Beyond COVID-19", American Enterprise Institute, (October 2021), <https://www.aei.org/wp-content/uploads/2021/10/Unemployment-Insurance-at-a-Crossroads-Tracing-Program-Design-During-and-Beyond-COVID-19.pdf?x91208>.

³ Mark Scoloro, "Probe: Pandemic jobless pay went to Pennsylvania inmates," Associated Press, (August 2020), <https://apnews.com/article/virus-outbreak-us-news-pa-state-wire-e144440159e3268c6821b7c0ff245325>.

⁴ Jordan Wolman, "Massive unemployment scam strikes up to 58,000 people in Pa., far more than previously known," PennLive, (May 2020), <https://www.pennlive.com/news/2020/05/massive-unemployment-scam-strikes-up-to-58000-people-in-pa-far-more-than-previously-known.html>.

⁵ Isabel Soto, "Revisiting Federal Pandemic Unemployment Compensation Under the Biden Administration," (February 2021), <https://www.americanactionforum.org/research/revisiting-federal-pandemic-unemployment-compensation-under-the-biden-administration/>.

⁶ Independent Fiscal Office, Labor Market Update July 2021,

http://www.ifo.state.pa.us/download.cfm?file=Resources/Documents/Labor_Market_Update_July_2021.pdf; Note that estimate excludes federal income tax.

⁷ Treasury Direct, "Title XII Advance Activities Schedule," (Updated October 21, 2021),

https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiesched.htm; Pennsylvania News Today, "States, including Pennsylvania, borrowed from the federal government to cover unemployment checks are now bearing interest," (September 2021), <https://pennsylvanianewstoday.com/states-including-pennsylvania-borrowed-from-the-federal-government-to-cover-unemployment-checks-are-now-bearing-interest/220260/>.

⁸ Josh Waters and Jonathan Ingram, "How indexing unemployment benefits can help states weather economic downturns," Foundation for Government Accountability, (May 2020), <https://thefga.org/paper/indexing-unemployment-benefits/>.

⁹ Waters and Ingram, "How indexing."

¹⁰ Reuters, "U.S. lets states use federal pandemic funds to extend jobless aid," (August 2021),

<https://www.reuters.com/legal/government/states-can-use-us-covid-funds-extend-unemployment-aid-yellen-2021-08-19/>

¹¹ Isabel Soto, "Revisiting Federal Pandemic Unemployment Compensation Under the Biden Administration," (February 2021),

<https://www.americanactionforum.org/research/revisiting-federal-pandemic-unemployment-compensation-under-the-biden-administration/>.

¹² See Pennsylvania Senate Bill 669 (2021-2022),

<https://www.legis.state.pa.us/cfdocs/billinfo/billinfo.cfm?year=2021&ind=0&body=S&type=B&bn=699>.

¹³ Pennsylvania Department of Labor & Industry, “Employer’s Reference Guide to Unemployment Compensation,” (July 2021), <https://www.uc.pa.gov/Documents/UCP%20Forms/ucp-36.pdf>; and Pennsylvania Office of Unemployment Compensation, “Fraud & Identity Theft FAQs,” <https://www.uc.pa.gov/Fraud/Pages/Fraud-FAQs.aspx>.

¹⁴ Alli Fick and Jonathan Ingram, “Top Five: Unemployment Insurance Fraud Schemes—And How To Stop Them,” Foundation for Government Accountability, (September 2021), <https://thefga.org/wp-content/uploads/2021/08/Top-Five-Unemployment-Insurance-Fraud-Schemes-9-1-21.pdf>.

¹⁵ Jared Walczak and Janelle Cammenga, “2021 State Business Tax Climate Index,” Tax Foundation, (October 2020), <https://taxfoundation.org/2021-state-business-tax-climate-index/#UI>.

¹⁶ Jared Walczak, Nicole Kaeding, and Scott Drenkard, “Pennsylvania: A 21st Century Tax Code for the Commonwealth,” Tax Foundation, (2018), https://files.taxfoundation.org/20180904165153/PA_RB_final.pdf.