



Montanans value strong, secure families and communities. Unfortunately, during periods of unemployment, maintaining that security and protecting our quality of life can become a challenge.

**Unemployment Insurance (UI)** is a state and federal partnership designed to strengthen the economy and protect families when these difficult situations arise. Like home or health insurance, UI is a collective investment to protect workers who encounter difficult times. As such, UI helps to protect one of Montana's greatest assets, our workers, by maintaining the stability of families and the economy during periods of unemployment.

In 1932, Wisconsin became the first state to enact an unemployment insurance program. Three years later, Franklin D. Roosevelt signed the Social Security Act into law, which created a federal Unemployment Insurance Program, enabling unemployed workers across the country to access assistance during difficult times. Since those first years, the federal unemployment program has experienced numerous changes in

### Terms to Know

**Base Period** – The first four quarters of the past last five completed quarters at the time an unemployment insurance claim is filed.

**Emergency Unemployment Compensation (EUC)** – A federal program that extends UI benefits during periods of high unemployment.

**Experience Rating** – An employer's history of unemployment which determines their class and therefore tax rate.

**Extended Benefits (EB)** – A federal and state program that extends benefits in states experiencing high unemployment.

**Federal Unemployment Tax Act (FUTA)** – Taxes employers pay to the federal government on employees' earnings.

**Rate Class** – Based on an employer's experience rating, the class determines the tax rate within the schedule that employers pay.

**Reciprocity Rate** – The rate of unemployed people who receive UI benefits.

**Reimbursable Employer** – Non-profit, government, and tribal entities that do not pay unemployment taxes and instead reimburse the UI fund for benefits paid.

**Schedule** – Based on the strength of the UI trust fund, the schedule determines the tax rate different classes of employers pay.

**State Unemployment Tax Act (SUTA)** – Taxes employers pay to the state on employee's earnings.

**Taxable Wage Base** – The amount of an employee's salary an employer pays taxes on.

**Unemployment Insurance (UI)** – Paid for by employers and operated through a federal/state joint program, UI is the benefits paid to unemployed workers

**Weekly Benefit Amount (WBA)** – Amount of UI benefits received a week, ranging from \$127 to \$446.

the length, eligibility, and level of benefits.<sup>1,2</sup> However, the premise remains the same. Protecting workers through UI is vital to successful families, communities, and the economy.

The UI program is financed through employer-funded state and federal taxes on employee payroll. The state provides UI benefits to people who become unemployed through no fault of their own, and the federal government pays the administrative costs. In fiscal year 2011, out-of-work Montanans received more than \$278 million in unemployment benefits from the state and federal governments.<sup>3</sup> UI benefits, which typically last for approximately six months, help to maintain economic security and strengthen our communities.

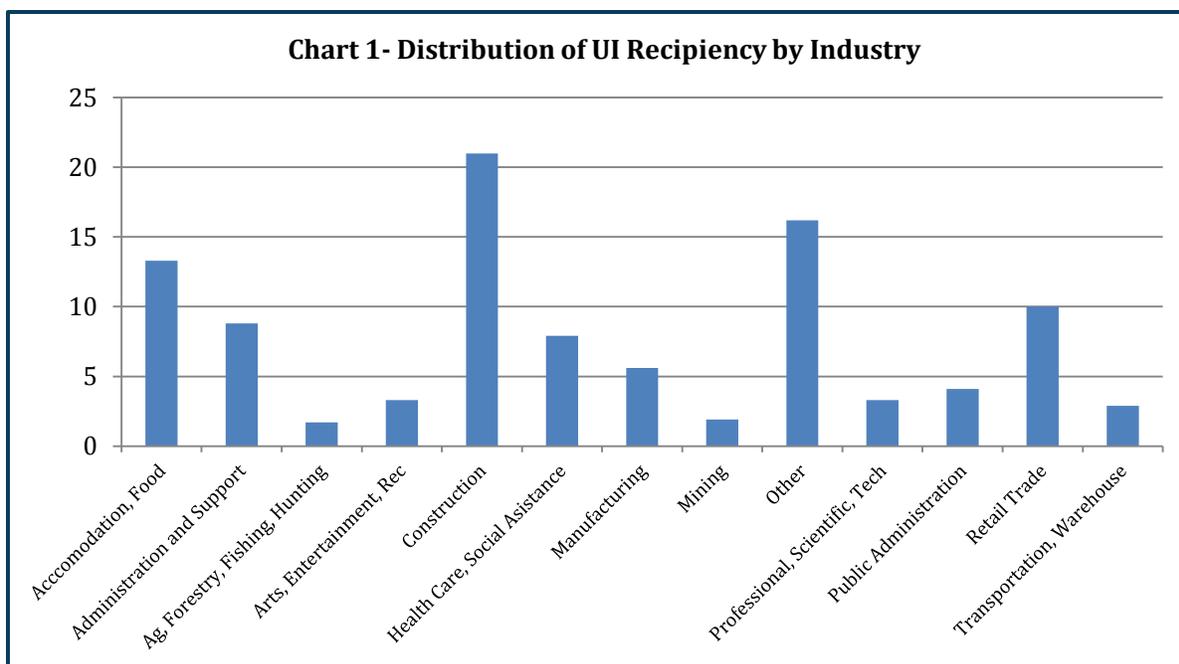
## Unemployment in Montana

The recent recession created an increased need for UI in Montana, as unemployment increased dramatically in the state, from 3.2% in 2006 to 6.0% in 2013.<sup>4</sup> However, as the economy improves, so does the job market. Montana's current unemployment rate stands at 5.5%, which is significantly lower than the national rate (7.5%) and the 12<sup>th</sup> lowest in the country.<sup>5,6</sup>

Montana's actual unemployment rate varies widely in different areas across the state, ranging from 1.9% in Fallon County, where oil production is booming, to a troubling 15% in Big Horn County.<sup>7</sup> Six counties have unemployment rates higher than 10%.<sup>8</sup> The northwest region of Montana suffers the most, as those counties experience the highest unemployment rates in the state.<sup>9</sup>

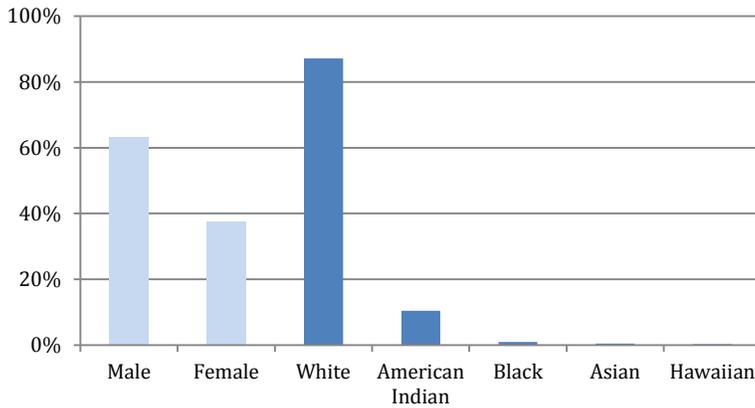
Nevertheless, not all Montana's 28,000 unemployed workers receive UI.<sup>10</sup> Over the past 25 years, less than half of those who are out of work received UI. Because of UI's strict eligibility limits, the **recipiency rate** - the percentage of unemployed workers receiving benefits - is higher during recessions, when those who have lost their job due to a lack of work comprise a higher percentage of the unemployed.<sup>11</sup> Montana's recipiency rate is second highest in the nation.<sup>12</sup> Many of the workers receiving UI benefits are employed in Montana's key industries, most notably in construction. (See Chart 1.)

Though the state's recipiency rate is high, exactly who receives UI benefits in Montana highlights a discrepancy in gender and ethnicity of beneficiaries. American Indians are more likely to be unemployed in our state, but they are much less likely to receive UI. In fact, the recipiency rate for unemployed Whites is over 50%, while for American Indians it is less than 30%.<sup>13</sup> There are also disparities by gender; the vast majority of those receiving UI are male.<sup>14</sup> (See Chart 2.)



Source: United States Department of Labor Employment and Training Administration

**Chart 2- Distribution of UI Reciprocity by Sex, Ethnicity**



Source: United States Department of Labor Employment and Training Administration

## How Unemployment Insurance Works

### Who Receives Benefits

Unemployment Insurance is not designed to cover all unemployed workers. For example, UI does not cover individuals who left a job voluntarily, those searching for their first job, those fired for misconduct, and those looking to reenter the labor force after having left voluntarily. Montana's UI program does cover workers who: 1) were laid off or had hours reduced due to a lack of work, 2) left for a work-related reason, 3) left

due to an on-the-job injury, 4) were fired for a reason other than misconduct,<sup>15</sup> 5) left job because of a domestic or sexual violence or stalking situation, 6) left due to a spouse's military assignment, or 7) were laid off at the end of a temporary job.<sup>16</sup>

In order to receive UI, a claimant must qualify monetarily, i.e. have earned a certain amount of wages during their **base period**.<sup>17</sup> More specifically, a claimant's total wages earned during the base period must be equal to or greater than 1.5 times the wages earned in the highest earning quarter, and be greater or equal to seven percent of the state annual average wage.<sup>18</sup> Alternatively, base period wages may be greater or equal to 50% of average annual wage.<sup>19</sup> (See Box 1 on the previous page.) Montana's requirement of \$2,445 in yearly earnings ranks near the middle of states' monetary qualifications.<sup>20</sup>

### Benefits Received

Montana's **weekly benefit amount (WBA)** is approximately one-half of prior weekly earnings, calculated as 1% of base period wages, or 1.9% of wages in two high quarters. The minimum WBA is \$127, and the maximum is \$446.<sup>21</sup> In 2012, Montana's average weekly benefit was \$270, the 15<sup>th</sup> lowest in the nation. This sum replaced 39% of the average weekly wage for workers.<sup>22</sup>

While most states offer only 26 weeks of UI, Montana allows up to 28 weeks. Claimants' length of eligibility ranges from 8-28 weeks, and is calculated by a weighted schedule of base period wages to high quarter wages.<sup>23</sup> Most Montanans do not need all 28 weeks of benefits. In fact, the average Montana worker receives UI for 18 weeks, the 12<sup>th</sup> highest in the nation. In 2012, 14,000 Montanans who had been receiving UI exhausted their benefits, a rate of 49%.<sup>24</sup>

### Box 1 - Monetary Qualifications

Said another way, claimants may not have earned more than two-thirds of their base period wages in a single quarter. Additionally, total earnings in the base period must be at least \$2,445, seven percent of the current average annual wage, \$34,933. This equals \$612 a quarter. ([http://www.ourfactsyourfuture.org/cgi/databrowsing/?PAGEID=4&SUBID=229#\\*](http://www.ourfactsyourfuture.org/cgi/databrowsing/?PAGEID=4&SUBID=229#*))

If an individual does not meet these qualifications, they can use an alternative assessment. If a claimant has earned at least half of the average annual wage, \$17,466, in the base period, they can qualify monetarily. This would benefit claimants who were not employed for the entirety of the base period, or who earned more than two-thirds of their total wages in a single quarter.

Montana, like other states, places certain requirements on unemployment recipients. Recipients are expected to search for work, must register for work through a Workforce Service Center, make at least one work search contact a week, and accept reasonable work.<sup>25</sup> Those who are temporarily laid off are considered “job-attached” and are not required to search for work, as are those who are “union-attached.” After half of a recipient’s total benefits have been paid, the worker must be willing to accept a job which pays 75% of previous wage.<sup>26</sup>

In Montana, UI recipients are permitted to work part time and continue to receive benefits. If a recipient earns twice the amount of their weekly benefit, or works their customary hours (the average number of hours a week worked during the base period), no benefits will be paid for that week. If the amount earned during the part-time work is less than twice the WBA, then the wages up to one quarter of the WBA are disregarded and benefits will not be reduced. For every dollar earned over one-quarter of the WBA, the benefit is reduced by \$0.50. Partial benefits give an incentive to recipients to accept part time work while searching for full time employment without being penalized.<sup>27</sup>

### Who Pays UI Taxes

Employers pay unemployment insurance taxes for their employees if payroll for a calendar year equals or exceeds \$1,000. This requirement also includes individuals who hire domestic workers such as nannies.<sup>28,29</sup> There are three different UI taxes which employers pay: State Unemployment Tax Act (SUTA) insurance contributions, the Administrative Fund Tax, and the Federal Unemployment Tax Act (FUTA) tax.

### Example - Reduced Benefits

Let’s look at the example of someone who receives \$200 for their WBA. They find a part-time job that pays \$40 a week. Because \$40 is less than one quarter of their WBA, they continue to receive the full WBA of \$200.

The next week they work for an additional few hours and earn \$60. The first \$50 (one quarter of their WBA) is disregarded. The WBA is reduced by \$0.50 for every dollar earned over \$50. Because they earned \$10 more than \$50, the WBA is reduced by \$5. Now the WBA is \$195 instead of \$200.

**State Unemployment Tax Act** taxes are deposited into the state UI trust fund and used to pay benefits to workers.<sup>30</sup> Employers do not pay taxes on their entire payroll, but instead only pay taxes on the **taxable wage base**. In Montana, the taxable wage base is the first \$27,900 paid to each employee.<sup>31</sup> Non-profit and government employers are **reimbursable employers**, meaning they are not required to pay SUTA taxes, but instead reimburse the UI fund for unemployment compensation to employees who have left for any reason.<sup>32</sup>

The percentage of SUTA taxes that employers pay on the taxable wage base varies depending on two factors: the current **schedule** and **employer rate class**. The **schedule** for all employers in the state is determined by the ratio of fund balance to wages paid for the year, which adjusts to ensure an adequate balance to pay future UI claims.<sup>33</sup> A higher balance in the UI trust fund means a schedule with lower SUTA taxes.<sup>34</sup>

**Rate class** is assigned based on employer’s experience rating. Experience rating is determined by the employer’s experience with the risk of unemployment, calculated by their ratio of contributions to the fund minus UI benefits charged, divided by payroll. Employers with a history of low unemployment are assigned a lower rate class, and thus pay a lower SUTA tax.<sup>35</sup> New employers with no history on which to base a class pay an amount based on the industrial average.<sup>36</sup> For example, a new construction company would pay the average of what other construction companies pay.<sup>37</sup> In 2013, Schedule VI is in effect, meaning the SUTA tax rate ranges from 0.62% to 6.12%.<sup>38</sup> (See Table 1.) In 2011, the state collected \$147 million in SUTA.<sup>39</sup>

**Table 1**

Schedule	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
Average Tax Rate	1.12	1.32	1.52	1.72	1.92	<b>2.12</b>	2.32	2.52	2.72	2.92	3.12
Rate Class	<b>Contributions for Eligible Employers<sup>40</sup></b>										
<b>1</b>	0.00%	0.00%	0.02%	0.22%	0.42%	<b>0.62%</b>	0.82%	1.02%	1.22%	1.42%	1.62%
<b>2</b>	0.00	0.02	0.22	0.42	0.62	<b>0.82</b>	1.02	1.22	1.42	1.62	1.82
<b>3</b>	0.02	0.22	0.42	0.62	0.82	<b>1.02</b>	1.22	1.42	1.62	1.82	2.02
<b>4</b>	0.22	0.42	0.62	0.82	1.02	<b>1.22</b>	1.42	1.62	1.82	2.02	2.22
<b>5</b>	0.42	0.62	0.82	1.02	1.22	<b>1.42</b>	1.62	1.82	2.02	2.22	2.42
<b>6</b>	0.62	0.82	1.02	1.22	1.42	<b>1.62</b>	1.82	2.02	2.22	2.42	2.62
<b>7</b>	0.82	1.02	1.22	1.42	1.62	<b>1.82</b>	2.02	2.22	2.42	2.62	2.82
<b>8</b>	1.02	1.22	1.42	1.62	1.82	<b>2.02</b>	2.22	2.42	2.62	2.82	3.02
<b>9</b>	1.22	1.42	1.62	1.82	2.02	<b>2.22</b>	2.42	2.62	2.82	3.02	3.22
<b>10</b>	1.42	1.62	1.82	2.02	2.22	<b>2.42</b>	2.62	2.82	3.02	3.22	3.42

Source: Department of Labor and Industry<sup>41</sup>

The Administrative Fund Tax is a 0.18% state tax used to help fund Department of Labor and Industry operations, such as the Job Service.<sup>42</sup> The Federal Unemployment Tax Act tax is used to fund administrative costs for the UI program, as well as the federal share of Extended Unemployment Compensation. Additionally, it also finances the loan fund from which states may borrow when they lack funds to pay UI. Lastly, it funds labor exchange services, employment training for veterans, and some labor market information program activities. The FUTA tax is a 0.6% tax on the first \$7,000 paid to employees, equaling a maximum of \$42 per employee per year.<sup>43</sup>

### Additional Programs

The high unemployment that followed the 2008 recession prompted the federal government to fund additional weeks of **Extended Unemployment Compensation (EUC)** benefits for workers who had exhausted their standard benefits. Because Montana’s unemployment rate is currently below 6%, workers may apply for 14 additional weeks of EUC.<sup>44</sup> While these additional weeks of compensation have been critical to families struggling to make ends meet, sequestration cuts will result in a 20% reduction in EUC benefits.<sup>45</sup>

In states experiencing extremely high unemployment, **Extended Benefits (EB)**, are also available for those who have exhausted both their regular benefits and EUC. Extended Benefits were available in Montana for a period during 2010.<sup>46</sup> Costs for this extension are typically split between the federal government and the state. However, during the recession, the federal government has covered 100% of the costs.<sup>47</sup>

## UI’s Impacts

### UI and the Economy

UI is an important program for protecting the quality of life for our families and communities. During an economic downturn, capacity typically exceeds the demand for services and products. UI helps maintain demand by sustaining consumers’ purchasing power even while they are out of work.<sup>48</sup> People whose main stream of income

has been disrupted are likely to quickly spend the assistance they receive, stimulating demand and preventing further economic slowdown.<sup>49</sup> UI dollars are essential to our economy; without the program, retailers would have potentially lost an estimated \$280 billion since the recession began in 2008.<sup>50</sup> Mark Zandi estimates that for every dollar spent on UI, \$1.55 is generated in the economy.<sup>51</sup>

### UI and Families

Joblessness creates significant hardships for individuals and families; however, UI benefits reduce the negative impacts of being without work. Although UI covers less than half of a family’s basic housing, food, and transportation expenses, it prevents many families from slipping below the poverty level.<sup>52</sup> In 2011, UI kept 2.3 million people nationwide out of poverty and reduced the poverty rate for recipient families by 40%.<sup>53</sup> Additionally, UI kept more than 600,000 children from living in poverty in 2011.<sup>54</sup> Though UI is important to families near the poverty line, the middle class are actually the largest beneficiaries of UI. Almost 70% of families who received UI in 2010 are in the middle 60% of incomes.<sup>55</sup>

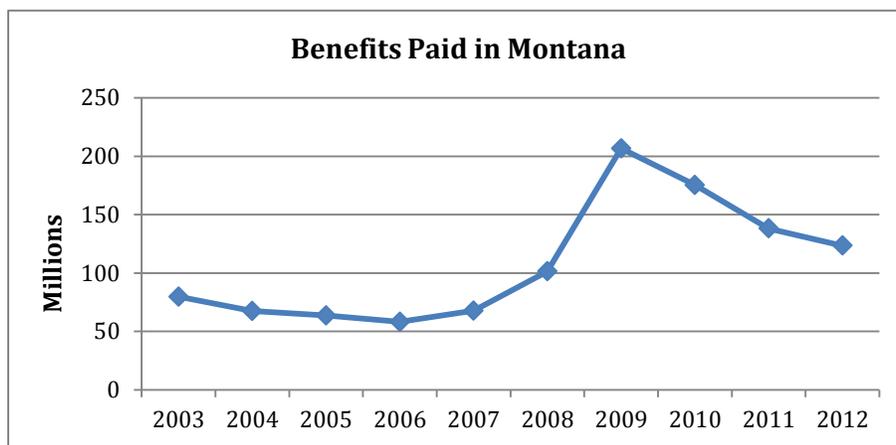
## Unemployment Insurance in Montana: Strengths and Weaknesses

### Strengths

Montana’s UI program has many strengths. Many states have struggled with solvency issues because of the recession and have been forced to borrow from the Federal Unemployment Account. Fortunately, Montana has not been among these states.<sup>56</sup> Despite the fact that benefits paid increased dramatically after the Great Recession and have remained higher than pre-2008 levels, the fund has remained solvent, with a balance of \$171 million in 2012.<sup>57,58</sup> (See Chart 3.)

During the recession, however, delinquency in Montana UI taxes from employers has increased by a considerable 15%, with over \$3.8 million going unpaid.<sup>59</sup>

### Chart 3



Source: United States Department of Labor<sup>60</sup>

The strength of Montana’s UI Trust Fund also comes from the relatively progressive nature of the tax structure that funds it. Although the SUTA tax is a regressive, meaning it comprises a larger percentage of income for low-wage earners than high-wage earners, Montana has a much higher taxable wage base than the national median. The large taxable wage base helps to equalize this tax.<sup>61</sup> In addition, Montana also has the 14<sup>th</sup> highest SUTA tax rate on total wages.<sup>62</sup> These facts help to contribute to a reliable source of revenue that allows the trust fund to remain solvent, even in difficult times.

In addition to a solid trust fund, unemployed Montanans benefit from a strong program. Montana's 41% reciprocity rate is the 2<sup>nd</sup> highest in the nation for regular programs (UI only) and 10<sup>th</sup> highest for all programs (UI plus EUC plus EB).<sup>63</sup> Despite Montana's average WBA being lower than the national median, our minimum WBA is the second highest in the country, and our maximum WBA is the 12<sup>th</sup> highest.<sup>64,65</sup> Additionally, Montana benefits last longer than most other states. We currently allow for benefits to be provided up to 28 weeks, while the vast majority of states allow for only 26.<sup>66</sup> Montanans also access these benefits correctly and legally. The state has a UI fraud rate of less than one percent, less than one-third of the national average.<sup>67</sup>

Montana's partial benefits provision is significantly stronger than other states, many of which greatly reduce the WBA for people who work.<sup>68</sup> Partial benefits give employers the option of reducing an employee's hours rather than laying them off, while still enabling the employee to receive UI to help compensate for the lost time. Another important strength of Montana's UI program is its payment of UI to those who leave jobs due to domestic or sexual violence. Additionally, the employer's account and experience rating is not penalized if an employee left due to these reasons. However, the victim is limited to only ten weeks of unemployment benefits in this scenario.<sup>69</sup> Unlike most states, Montana also does not disqualify workers who leave employment to attend school.<sup>70</sup>

### Opportunities for Improvement

Despite the many strengths of Montana's UI program, there are areas where our state could improve, especially as it pertains to the needs of families. For example, sixteen states allow for higher minimum or maximum UI payments to recipients with dependents, further strengthening families in times of need.<sup>71</sup> Currently, Montana does not have such a provision.

Additionally, federal law requires that UI recipients have left jobs due to a "good cause," and be "able, ready, and willing" to accept work. However, states determine the exact parameters of these terms.<sup>72</sup> Oftentimes barriers to work such as a lack of adequate childcare or transportation, illness, or family issues can cause workers to unwillingly leave employment. Twenty-six states provide UI benefits to those who leave work for family obligations such as caring for sick family members.<sup>73</sup> Unfortunately, Montana is not among these states, so employees facing these issues are denied benefits. These issues disproportionately affect women, partially contributing to the gender gap in UI reciprocity.<sup>74</sup>

Montana also does not provide UI benefits to workers who are unable to accept full time work. This stipulation can create undue burdens on unemployed individuals who are only able to work part-time, such as individuals with familial obligations.<sup>75</sup> The state also disqualifies workers from receiving UI benefits during weeks in which they receive workers' compensation.<sup>76</sup>

A final area of potential improvement for the state's UI program involves the speed of processing claims. In Montana, the average time for a claim to be processed is 54 days. That's nearly two months during which a worker would have had to pay for groceries and housing without receiving a paycheck.<sup>77</sup> Approximately half of Montana's claims did not meet federal guidelines for timeliness.<sup>78</sup> This failure to process claims in a timely manner adds undue stress to individuals already struggling with joblessness.

### Conclusion

For more than 75 years, the Unemployment Insurance Program has helped to protect our common interests by aiding workers through periods of unemployment. For workers who have been contributing to our communities, temporary UI benefits shore up families and individuals while they look for new jobs. Although there are areas in which Montana can and should improve its UI program, our trust fund is strong and the program recognizes many of the reasons Montanans find themselves unemployed. By investing in Unemployment Insurance, Montanans help to protect the economic security of our communities and the stability of our families.

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- <sup>5</sup> Montana Department of Labor and Industry, Research and Analysis Bureau, “April 2013 U.S. and MT Labor Force Statistics,” April 2013. <http://www.ourfactsyourfuture.org/cgi/databrowsing/?PAGEID=4&SUBID=206>.
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- <sup>12</sup> Department of Labor Employment Training Administration. “Unemployment Insurance Data Summary,” 2012. [http://ows.doleta.gov/unemploy/content/data\\_stats/datasum12/DataSum\\_2012\\_4.pdf](http://ows.doleta.gov/unemploy/content/data_stats/datasum12/DataSum_2012_4.pdf)
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