MODERNIZING UNEMPLOYMENT INSURANCE

The Policy

Before Missouri can accomplish any substantive policy reforms to its unemployment insurance system, it must modernize its IT and accounting systems to ensure that technical capability is not the limiting factor. Policymakers can modernize Missouri's outdated unemployment insurance system by implementing key reforms.

Key Reforms

- Prohibit benefits from exceeding paychecks.
- Shorten benefit duration and improve the link with economic conditions.
- Reduce fraud from improper payments through data sharing.
- Broaden the taxable wage base to allow for lower tax rates.
- Streamline short-time compensation.
- Reduce the penalty for part-time work.

Unemployment Insurance Program Checklist

- Front-loaded Payments
- Reemployment Taxes and Bonuses
- Countercyclical Benefit Duration and Generosity
- Robust Monitoring and Job Search Assistance
- Unemployment Insurance Accounts
- Prohibiting the Replacement Rate from Ever Exceeding 100 Percent
- Forward-looking Assessment of Future Program Use

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Talk to a Policy Expert

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Tie Benefits to Wages and Prevent Them from Exceeding Paychecks

Adjust the maximum benefit amount from a fixed dollar amount to be a percentage of the average Missouri annual wage and ban the total benefit amount regardless of funding source from ever exceeding the worker's prior paycheck. These adjustments can be achieved by modifying the existing law as follows. *Note:* Text to be added to existing statute is in **bold type,** and text to be removed from existing statute is **[**~~struck through and enclosed in brackets~~**]**.

288.038. Maximum weekly benefit amount defined. **—** With respect to initial claims filed during calendar years 2004 and 2005, the "maximum weekly benefit amount" means four percent of the total wages paid to an eligible insured worker during that quarter of the worker's base period in which the worker's wages were the highest, but the maximum weekly benefit amount shall not exceed two hundred fifty dollars in the calendar years 2004 and 2005. With respect to initial claims filed during calendar years 2006 and 2007 the "maximum weekly benefit amount" means four percent of the total wages paid to an eligible insured worker during that quarter of the worker's base period in which the worker's wages were the highest, but the maximum weekly benefit amount shall not exceed two hundred seventy dollars in calendar year 2006 and the maximum weekly benefit amount shall not exceed two hundred eighty dollars in calendar year 2007. With respect to initial claims filed during calendar year 2008 and each calendar year **[**~~thereafter~~**] through 2023**, the "maximum weekly benefit amount" means four percent of the total wages paid to an eligible insured worker during the average of the two highest quarters of the worker's base period, but the maximum weekly benefit amount shall not exceed three hundred twenty dollars. **With respect to initial claims filed during calendar year 2024 and each calendar year thereafter, the "maximum weekly benefit amount" means four percent of the total wages paid to an eligible worker during the average of the two highest quarters of the worker's base period, but the maximum weekly benefit amount shall not exceed one percent of the Missouri average annual wage. Under no circumstance shall claimants receive weekly benefits—inclusive of any supplemental unemployment benefit payments paid by the federal government that are in any way facilitated by the state of Missouri—in excess of seven- and one-half percent of the total wages paid to an eligible insured worker during that quarter of the worker's base period in which the worker's wages were highest. If the federal government institutes supplemental benefit payments that cause the total payment to a claimant to exceed this threshold, the state shall reduce its contribution to the total payment as much as possible to bring the total payment back under this threshold.** If such **state** benefit amount is not a multiple of one dollar, such amount shall be reduced to the nearest lower full dollar amount.

Shorten Benefit Duration and Improve the Link with Economic Conditions

Reduce the number of weeks claimants can receive benefits and adjust the criteria for benefit duration to be based on the ratio of unemployed to job openings instead of the unemployment rate. These adjustments can be achieved by modifying the existing law as follows:

288.060. Benefits, how paid — wage credits — limitation on duration of benefits — benefits due decedent — benefit warrants cancelled, when — electronic funds transfer system, allowed — remote claims filing procedures required, contents, duties.

5. The duration of benefits payable to any insured worker during any benefit year shall be limited to:

[~~(1) Twenty weeks if the Missouri average unemployment rate is nine percent or higher;~~

~~(2) Nineteen weeks if the Missouri average unemployment rate is between eight and one-half percent and nine percent;~~

~~(3) Eighteen weeks if the Missouri average unemployment rate is eight percent up to and including eight and one-half percent;~~

~~(4) Seventeen weeks if the Missouri average unemployment rate is between seven and one-half percent and eight percent;~~

~~(5) Sixteen weeks if the Missouri average unemployment rate is seven percent up to and including seven and one-half percent;~~

~~(6) Fifteen weeks if the Missouri average unemployment rate is between six and one-half percent and seven percent;~~

~~(7) Fourteen weeks if the Missouri average unemployment rate is six percent up to and including six and one-half percent;~~

~~(8) Thirteen weeks if the Missouri average unemployment rate is below six percent.~~**]**

(1) Eighteen weeks if the Missouri average unemployed persons per job opening ratio is higher than five;

(2) Seventeen weeks if the Missouri average unemployed persons per job opening ratio is four and one-half up to and including five;

(3) Sixteen weeks if the Missouri average unemployed persons per job opening ratio is four up to and including four and one-half;

(4) Fifteen weeks if the Missouri average unemployed persons per job opening ratio is three and one-half up to and including four;

(5) Fourteen weeks if the Missouri average unemployed persons per job opening ratio is three up to and including three and one-half;

(6) Thirteen weeks if the Missouri average unemployed persons per job opening ratio is two and one-half up to and including three;

(7) Twelve weeks if the Missouri average unemployed persons per job opening ratio is below two and one-half.

As used in this subsection, the phrase **[**~~"Missouri average unemployment rate"~~**]"Missouri average unemployed persons per job opening ratio"** means the average of the seasonally adjusted statewide **[**~~unemployment rates~~**] unemployed persons per job opening ratio** as published by the United States Department of Labor, Bureau of Labor Statistics **as part of its Job Openings and Labor Turnover Survey**, for the time periods of January first through March thirty-first and July first through September thirtieth. The average of the seasonally adjusted statewide **[**~~unemployment rates~~**] unemployed persons per job opening ratio** for the time period of January first through March thirty-first shall be effective on and after July first of each year and shall be effective through December thirty-first. The average of the seasonally adjusted statewide **[**~~unemployment rates~~**] unemployed persons per job opening ratio** for the time period of July first through September thirtieth shall be effective on and after January first of each year and shall be effective through June thirtieth;

Reducing Fraud from Improper Payments

Pursue participation in the National Association of Workforce Agencies' State Information Data Exchange System and Integrity Data Hub to reduce multi-state claimant fraudulent activity. In addition, expand new hire reporting requirements to include independent contractors getting paid more than $600 in a calendar year. These adjustments can be achieved by modifying the existing law as follows:

285.300. Withholding form, completion required — forwarding to state agencies — state directory of new hires, cross-check of unemployment compensation recipients — compliance by employers with employees in two or more states.

1. A service recipient is a person or entity engaged in a trade or business who pays an individual for services rendered in the course of such trade or business.

[~~1.~~**]2.** Every employer doing business in the state shall require each newly hired employee to fill out a federal W-4 withholding form. A copy of each withholding form or an equivalent form containing data required by section 285.304 which may be provided in an electronic or magnetic format shall be sent to the department of revenue by the employer or service recipient within twenty days after the date the employer hires the employee**—or the service recipient hires an independent contractor that it expects to pay more than $600 over the calendar year—**or in the case of an employer transmitting a report magnetically or electronically, by two monthly transmissions, if necessary, not less than twelve days nor more than sixteen days apart. For purposes of this section, the date the employer hires the employee **or service recipient hires the independent contractor** shall be the earlier of the date the employee signs the W-4 form or its equivalent, or the first date the employee **or independent contractor** reports to work, or performs labor or services.

Broaden and Index the Taxable Wage Base

Tie the taxable wage base to the Missouri average annual wage, allowing for a broader base and a lower rate. The adjustment to the taxable wage base can be achieved by modifying the existing language as follows. The unemployment tax rates will need to be adjusted downward to offset the direct effects of the broader tax base.

288.036. Wages defined — state taxable wage base.

2. The increases or decreases to the state taxable wage base for the remainder of calendar year 2004 shall be eight thousand dollars, and the state taxable wage base in calendar year 2005, and each calendar year thereafter, shall be determined by the provisions within this subsection. On January 1, 2005, the state taxable wage base for calendar year 2005, 2006, and 2007 shall be eleven thousand dollars. The taxable wage base for calendar year 2008 shall be twelve thousand dollars. The state taxable wage base for [~~each calendar year thereafter~~] 2009 through 2023 shall be determined by the average balance of the unemployment compensation trust fund of the four preceding calendar quarters (September thirtieth, June thirtieth, March thirty-first, and December thirty-first of the preceding calendar year), less any outstanding federal Title XII advances received pursuant to section 288.330, less the principal, interest, and administrative expenses related to any credit instrument issued under section 288.030, and less the principal, interest, and administrative expenses related to any financial agreements under subdivision (17) of subsection 2 of section 288.330. When the average balance of the unemployment compensation trust fund of the four preceding quarters (September thirtieth, June thirtieth, March thirty-first, and December thirty-first of the preceding calendar year), as so determined is:

(1) Less than, or equal to, three hundred fifty million dollars, then the wage base shall increase by one thousand dollars; or

(2) Six hundred fifty million or more, then the state taxable wage base for the subsequent calendar year shall be decreased by five hundred dollars. In no event, however, shall the state taxable wage base increase beyond twelve thousand five hundred dollars, or decrease to less than seven thousand dollars. For calendar year 2009, the tax wage base shall be twelve thousand five hundred dollars. For calendar year 2010 and each calendar year thereafter, in no event shall the state taxable wage base increase beyond thirteen thousand dollars, or decrease to less than seven thousand dollars.

The state taxable wage base for each calendar year beginning in 2024 shall be equal to the most recent Missouri average annual wage.

Streamline Short-Time Compensation

Enhance the flexibility of short-time compensation and expedite the approval process for shared work plans. These adjustments can be achieved by modifying the existing law as follows:

288.500. Shared work program created — definitions — plan, requirements — plan denied, submission of new plan, when — contribution by employer, how computed — benefits — severability clause.

4. The division may approve a shared work plan if:

4) The shared work plan reduces the normal weekly hours of work for an employee in the affected unit by not less than **[**~~twenty~~**] ten** percent and not more than **[**~~forty~~**] sixty** percent;

[~~(5) The shared work plan applies to at least ten percent of the employees in the affected unit;~~**]**

7. The division shall approve or deny a shared work plan not later than the **[**~~thirtieth~~**] tenth** day after the day on which the shared work plan is received by the division. The division shall approve or deny a plan in writing. If the division denies a plan, the division shall notify the employer of the reasons for the denial. Approval or denial of a plan by the division shall be final and such determination shall be subject to review in the manner otherwise provided by law. If approval of a plan is denied by the division, the employer may submit a new plan to the division for consideration. **[**~~no sooner than forty-five calendar days following the date on which the division disapproved the employer's previously submitted plan~~ **]**

8. The division may revoke approval of a shared work plan and terminate the plan if it determines that the shared work plan is not being executed according to the terms **[**~~and intent~~**]** of the shared work unemployment compensation program, or if it is determined by

the division that the approval of the shared work plan was based, in whole or in part, upon information contained in the plan which was either false or substantially misleading.

10. An employer may modify a shared work plan created under this section to meet changed conditions if the modification conforms to the basic provisions of the shared work plan as originally approved by the division. The employer shall report the changes made to the plan in writing to the division **[**~~at least seven days~~**]** before implementing such changes. The division shall reevaluate the shared work plan and may approve the modified shared work plan if it meets the requirements for approval under subsection 4 of this section. **The division shall notify the employer of its decision within three days of receipt.** The approval of a modified shared work plan shall not, under any circumstances, affect the expiration date originally set for the shared work plan. If modifications cause the shared work plan to fail to meet the requirements for approval, the division shall deny approval of the modifications as provided in subsection 7 of this section.

12. An individual who is otherwise entitled to receive regular unemployment insurance benefits under this chapter shall be eligible to receive shared work benefits with respect to any week in which the division finds that:

(3) The individual's normal weekly hours of work have been reduced by at least **[**~~twenty~~**] ten** percent but not more than **[**~~forty~~**] sixty** percent, with a corresponding reduction in wages.

Reduce the Penalty for Part-Time Work

Instead of reducing the weekly benefit amount by $1 for each $1 of wages that a worker earns in a part-time job while looking for full-time work, change the offset amount from $1 to $0.50. This can be achieved by modifying the existing law as follows:

288.060. Benefits, how paid — wage credits — limitation on duration of benefits — benefits due decedent — benefit warrants cancelled, when — electronic funds transfer system, allowed — remote claims filing procedures required, contents, duties.

3. Each eligible insured worker who is partially unemployed in any week shall be paid for such week a partial benefit. Such partial benefit shall be an amount equal to the difference between his or her weekly benefit amount and **one half of** that part of his or her wages for such week in excess of twenty dollars, and, if such partial benefit amount is not a multiple of one dollar, such amount shall be reduced to the nearest lower full dollar amount. For calendar year 2007 and each year thereafter, such partial benefit shall be an amount equal to the difference between his or her weekly benefit amount and **one half of** that part of his or her wages for such week in excess of twenty dollars or twenty percent of his or her weekly benefit amount, whichever is greater, and, if such partial benefit amount is

not a multiple of one dollar, such amount shall be reduced to the nearest lower full dollar amount. Pay received by an eligible insured worker who is a member of the organized militia for training or duty authorized by Section 502(a)(1) of Title 32, United States Code, shall not be considered wages for the purpose of this subsection.

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POLICY BRIEF

APRIL 2024

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MODERNIZING UNEMPLOYMENT INSURANCE

By Aaron Hedlund

KEY TAKEAWAYS

- America's antiquated unemployment insurance system is in need of modernization. Missouri is partially constrained by federal laws but still has some latitude to make positive reforms.
- Prohibiting benefits from exceeding paychecks, tying benefit duration to better measures of labor market slackness, streamlining short-time compensation programs that enable job attachment, reducing the penalty for part-time work, and broadening the unemployment insurance tax base to enable lower tax rates would promote job creation and faster recoveries.
- Missouri can tackle unemployment insurance fraud by participating in multistate data-sharing platforms and by expanding new-hire reporting requirements.

ADVANCING LIBERTY WITH RESPONSIBILITY BY PROMOTING MARKET SOLUTIONS FOR MISSOURI PUBLIC POLICY

BACKGROUND

In early 2021, the federal government passed the multi-trillion-dollar American Rescue Plan Act (ARPA) with the supposed aim of resuscitating the economy. The problem: the patient—the U.S. economy—was alive, recovering well, and in no need of bad fiscal medicine. By early 2021, gross domestic product was back on track to its pre-COVID trajectory, and the unemployment rate had already fallen from its peak of 14.7% in April 2020 to 6.3% and was still declining. Another measure of labor market tightness—the ratio of unemployed persons to job openings—registered at 1.3 before the implementation of the ARPA. For perspective, since these data started being collected in 2000, the *only* pre-COVID years in which this ratio averaged a value lower than 1.3 were the boom years of 2017, 2018, and 2019.

Given the tightness of the labor market in early 2021, it was a baffling decision for the federal government to inject trillions of dollars of borrowed money, particularly when much of that money went to providing excessively generous unemployment benefits that were paying workers more to remain on the sidelines than they would earn by returning to work, thus kneecapping producers' ability to hire. Since this policy debacle, Americans have paid the price—literally. Inflation reached 40-year highs in summer 2022 and remains troublingly high. The cumulative effect of this persistent inflation has been a decline in purchasing power for the typical family of about $4,000. At the same time, businesses have faced extreme difficulties finding workers when forced to compete against government benefits. Even though the benefit extensions have since run out, they continue to cast a long shadow because of the amount of savings that people were able to accrue from the benefit payments, thus allowing them to delay their return to work.

The twin crises of debilitating inflation and crippling labor shortages are connected—and unemployment insurance is the critical link. Although the ARPA turned on several spigots of money to artificially stimulate demand, unemployment benefits were unique in that they also undermined supply by discouraging work. Earlier in 2023, the Show-Me Institute released a comprehensive report on the structural problems with the existing unemployment insurance system, proposed some bold long-term reforms, and also identified initial steps that Missouri can take at the state level to reform its own unemployment insurance system without running afoul of federal rules.[1] This brief explains the logic of these state reforms.

MISSOURI UNEMPLOYMENT INSURANCE REFORMS

Before Missouri can accomplish any substantive policy reforms to its unemployment insurance system, it must modernize its information technology (IT) and accounting systems to ensure that technical capability is not a limiting factor. During the COVID-19 pandemic, when federal policymakers were looking at ways to temporarily increase the generosity of weekly unemployment benefits to help workers remain current on their bills while they were living under lockdown orders, the National Association of State Workforce Agencies cited antiquated state IT systems as a reason not to simply raise the replacement rate. Lifting this rate from, say, 50% to 80% would have still meant that workers would earn more money by returning to their jobs once able to do so. Instead, because of antiquated IT, the federal government added a flat $600 supplement to weekly benefit payments, causing many claimants to receive more from benefits than their previous paychecks. To prevent anything like this episode from ever happening again, and to facilitate reforms, Missouri needs a comprehensive examination of its computer and accounting systems to ensure they are capable of executing a wide range of potential policy reforms.

In no particular order, below is an initial slate of worthwhile reforms.

Reform: Prohibit Benefits from Exceeding Paychecks

Current policy stipulates a maximum weekly benefit that is a percentage of a worker's previous earnings, subject to a fixed nominal cap of $320. This cap does not adjust for inflation, and the law makes no explicit mention of the possibility of federal supplemental payments pushing a worker's total benefit amount well above the prescribed maximum. To simultaneously address the ill effects of inflation and preempt future misguided federal interventions, the state can tie the weekly benefit cap to the average annual wage in Missouri and specify that, in the event the federal government institutes supplemental unemployment benefit payments, the state will offset its own weekly payments as needed to ensure that the total benefit a claimant receives does not result in a replacement rate above 100%.

Reform: Shorten Benefit Duration and Strengthen the Link with Economic Conditions

The duration of regular state-provided unemployment benefits currently ranges from 13 to 20 weeks, depending on Missouri's unemployment rate. Unfortunately, recent economics research finds that extending benefits repeatedly based on the unemployment rate can perpetuate high joblessness and slow the pace of recovery.[2] Although the primary purpose of unemployment insurance is to cushion the blow from job loss, it also tends to delay the job search process and, worse still, it discourages job creation by forcing employers to compete with government-provided benefits. Thus, tying the duration of benefits to the unemployment rate can create a partially self-fulfilling phenomenon where a high unemployment rate causes benefits to be extended, which curtails job search and job creation, thereby perpetuating high unemployment.

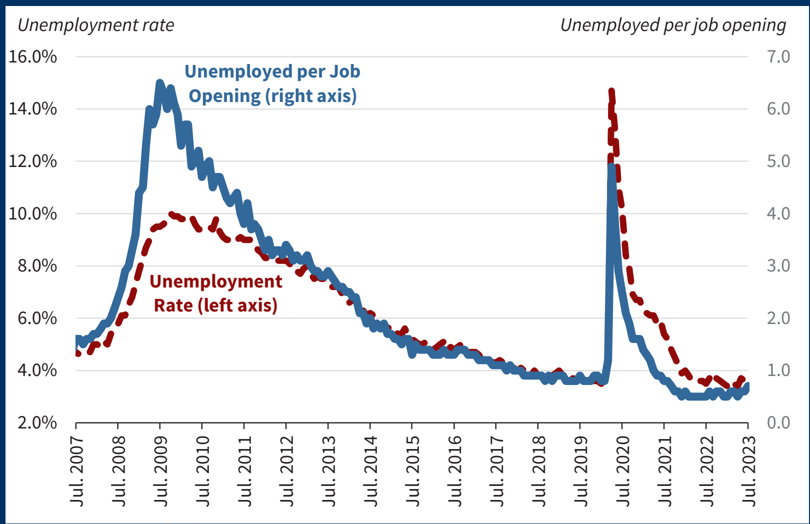
Missouri can make two improvements to mitigate this problem. First, it can follow the research and tie the duration of benefits to the ratio of unemployed persons to job openings instead of the unemployment rate.[3] Second, the state can modestly but meaningfully reduce the duration of benefits—especially during good economic times—to enhance job creation. A growing body of economics research has found positive labor market effects from previous reductions in benefit duration.[4]

Figure 1 below provides an instructive comparison of the Great Financial Crisis (GFC) that began in 2007 and the COVID-19 recession. During the GFC, the unemployment rate peaked at around 10%, and the ratio of unemployed persons to job openings exceeded six at its worst. Both of these measures of labor market slackness took several years to recover to robust levels, in no small part because of bad federal policy—including excessive unemployment benefit extensions. Research

Figure 1

Labor Market Slackness: Great Financial Crisis vs. COVID-19

Multi-year unemployment benefit extensions slowed the labor market recovery following the 2007–2009 crisis.



Source: Bureau of Labor Statistics

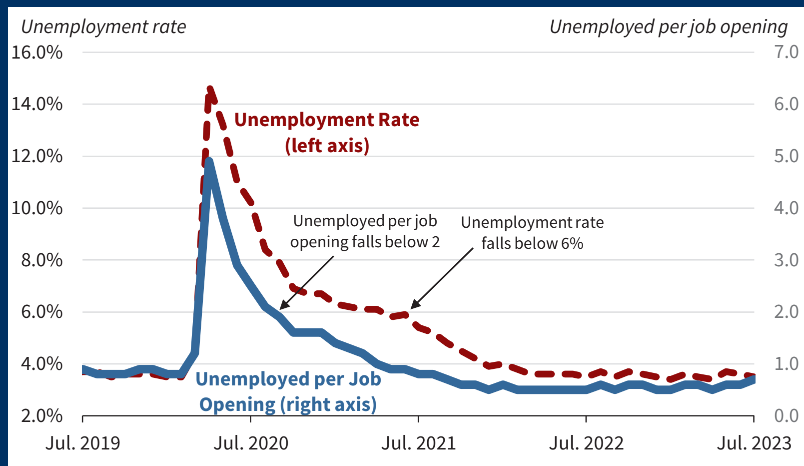
suggests that the recovery could have proceeded at a noticeably quicker pace had there been a faster normalization of benefit duration.

Switching attention to the COVID-19 recession, both measures of labor market slackness exhibit dramatic spikes. Perhaps the most immediate contrast between COVID-19 and the GFC is the speed with which the labor market slackness measures recover—owing in part to the different nature of the economic shocks as well as the early federal interventions (e.g., through the Paycheck Protection Program and the Employee Retention Tax Credit) to promote stronger labor market attachment. Less obvious, but importantly for the purposes of this discussion, the figure shows that the ratio of unemployed per job opening has fallen much more quickly than the unemployment rate.

Figure 2

Comparison of Benefit Triggers

Unemployed per job opening—a better measure of slackness—had returned to healthy levels by fall 2020, arguing against any further "stimulus" or benefit extensions.



Source: Bureau of Labor Statistics

Figure 2 zooms in on the COVID-19 recession and makes the divergence even more clear. Even though the unemployment rate did not fall below 6% until May 2021—not so coincidentally, right around the time several states announced that they would soon be terminating extended unemployment benefits—the unemployed to job openings ratio fell below 2 (the same degree of tightness experienced by the U.S. economy in 2014) in September *2020*. In other words, for all practical purposes, the labor market was no longer slack by early fall 2020, and the economic case for further unemployment benefit extensions could no longer be made. Unfortunately, another year would pass before unemployment benefits returned to their pre-COVID generosity and duration. By that time, the seeds of the labor shortage had been sown. Going forward, Missouri can do its part to avoid a repeat by tying benefit duration to the ratio of unemployed to job openings instead of the unemployment rate.

Reform: Reduce Fraud from Improper Payments through Data Sharing

Unemployment insurance fraud occurs in several ways. For example, workers may misrepresent their job search activities or refuse to accept a suitable job offer. However, research finds that concealed earnings represent the lion's share of fraud at over 60%.[5] This fraud occurs when an unemployed worker does not inform the unemployment office after receiving a new job—thus collecting benefits and a paycheck simultaneously. This type of fraud is especially easy to execute if a worker lives near a state border such that it is feasible for them to live and work in different states. This scenario is salient for Missouri considering that its two largest cities are both on state borders.

One immediate step Missouri can take to reduce unemployment insurance fraud is to pursue participation in the National Association of State Workforce Agencies' State Information Data Exchange System (SIDES) and its Integrity Data Hub (IDH). SIDES facilitates electronic information transmission between agencies and employers regarding unemployment insurance claims, and the IDH is specifically designed to facilitate the detection of unemployment insurance fraud and improper payments.

Missouri can also follow Florida's lead by expanding new hire reporting requirements. In order to comply with federal law—specifically, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996—Missouri has written into state statute that employers have 20 days to report new *employee* hires to the department of revenue. Recently, Florida has gone further by extending this requirement to the hiring of independent contractors that a "service recipient" (not technically an employer) expects to pay more than $600 over the course of the calendar year. This way independent contractors are not able to collect payments for their work while also receiving unemployment benefits. An ancillary benefit is that such an expanded reporting requirement would make it easier for Missouri to detect child support negligence.

Reform: Broaden the Taxable Wage Base to Allow for Lower Tax Rates

It is a well-established fact that tax codes with a broad base and a low rate are less economically damaging than tax codes with a narrow base and a high rate. Unfortunately, Missouri's unemployment insurance tax falls into the second camp. Currently, only the first $10,500 of a worker's wages are subject to the tax, which means that the state must charge higher rates to raise sufficient revenue to fund the program than it would if a greater share of wages were subject to the tax. An easy fix to this problem is for policymakers to set the top end of the taxable wage base equal to the average Missouri annual wage—which is over four times the amount of the current wage base—and then to recalibrate the rates to yield revenue neutrality, leading to dramatic rate reductions.

Reform: Streamline Short-time Compensation

Job loss during recessions has well-known short-term consequences—anxiety, loss of income, and thus lower consumer spending—but it also creates medium-term and long-term economic scars owing to labor market detachment. The longer that a worker is without a job, the greater the difficulty in generating job offers through labor market search. For this reason, the federal government implemented the Paycheck Protection Program during COVID-19 to help employers keep workers on the payrolls and to accelerate the re-hiring process for employees who were laid off. While COVID-19 was a unique event, the federal government has for years enabled states to implement short-time compensation (STC) programs that enable and encourage employers to reduce employee hours instead of headcount during temporary downturns. Germany's *Kurzarbeit* program follows a similar model and has been very successful at limiting unemployment spikes during recessions. Unfortunately, employer uptake of STC in the United States has consistently fallen below expectations, both because of narrow participation criteria in many states and because of red tape involved with the application and approval process.

Broadly speaking, federal law requires that employers submit a work-sharing plan to the state that explains how they will cut employee hours instead of engaging in layoffs, and then those workers can receive pro-rated unemployed insurance for the temporary loss in pay while continuing to show up to work. As with regular unemployment insurance, employers that participate can expect to face a higher unemployment insurance tax rate in the future—just as auto or home insurance premiums increase after a claim—but the tradeoff may still be beneficial to allow the business to make it through a rough patch.

As a condition for participation in Missouri's STC program, employers must cut hours by no less than 20% and no more than 40%, even though federal law allows these bounds to be 10% and 60%, respectively. In other words, Missouri's STC program is unnecessarily restrictive, thus pushing employers more in the direction of engaging in overt layoffs. A sensible reform is for Missouri to conform to the looser federal requirements.

In addition, Missouri state government gives itself up to 30 days to render a decision on an employer's STC application and up to seven days to approve subsequent changes requested by an employer to its worksharing plan. These delays disincentivize employer participation. Reducing these periods to ten days for initial approval and three days for approval of changes would increase the appeal of STC participation.

Reform: Reduce the Penalty for Part-time Work

Under current law, if a laid-off worker obtains a part-time job while continuing to search for full-time work, each dollar the worker earns (above $20 per week) is offset by a one-dollar reduction in unemployment benefits, thereby eliminating any incentive for laid-off workers to accept part-time work while maintaining their search for a full-time job. Missouri can partially mitigate this work penalty by reducing the offset from 100% to 50%. Under this reform, each dollar a part-time laid-off worker earns would lead to a 50-cent reduction in unemployment benefits.

Aaron Hedlund is chief economist for the Show-Me Institute.

NOTES

1. Hedlund, Aaron. "The Case for Modernizing Unemployment Insurance," 2023, Show-Me Institute Report.

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