NELP NATIONAL EMPLOYMENT LAW PROJECT

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National Employment Law Project

Testimony Against Senate Bill 123: Reducing Unemployment Insurance Benefits Harms Indiana's Workers and Economy

Hearing before Indiana Senate Pensions and Labor Committee

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Reducing Unemployment Benefits Harms Indiana

Good morning, Senator Rogers, Senator Doriot, Senator Niezgodski, and the distinguished members of the Committee. My name is Alexa Tapia, and I am the Unemployment Insurance Campaign Coordinator at the National Employment Law Project (NELP).

NELP is a nonprofit research, policy, and capacity building organization that for more than 55 years has sought to strengthen protections and build power for workers in the U.S., including workers who are unemployed. For decades, NELP has researched and advocated for policies that create good jobs, expand access to work, and strengthen protections and support for underpaid and jobless workers.

I am writing today in opposition to Senate Bill 123, which would significantly reduce the maximum duration of workers' unemployment insurance (UI) benefits from the national standard of 26 weeks to as little as 14 weeks. This legislation poses significant harm to Indiana's workers, their families, and state and local economies.

Slashing Benefits Harms Workers, Their Families, and Securing Good Jobs

Unemployment benefits provide critical support to workers and their families during times of crisis. They provide workers with the resources necessary to secure good jobs and keep their families afloat during their unemployment. They bolster local communities by providing an influx of income that prevents or limits recessions. For these reasons, the national standard is to maintain at least 26 weeks of UI benefits. A benefit reduction would move Indiana out of step nationally, joining just 15 other states providing fewer than 26 weeks, in a race to the bottom.[1] By cutting UI benefits almost in half, Indiana jeopardizes the health of its workers, their families, and state and local economies.

Reducing benefit duration harms workers in a myriad of ways. It removes what little economic security workers have during job loss, potentially pushing them further into poverty.[2] Because discrimination in hiring and other structural barriers make it more difficult for workers of color to find jobs, cutting benefit weeks has the worst impacts on Black, Latinx, and Native American workers.[3] Cutting benefit duration also harms the economy, fails to help workers find jobs quickly, and results in a smaller proportion of unemployed workers receiving benefits.[4]

Currently, many Hoosiers are unsupported by Indiana's UI benefit system. As of the third quarter of 2024, only 13.8% of unemployed workers in Indiana receive UI benefits, ranking 44th in the nation for recipiency rate.[5,6] This means more than 86% of unemployed workers in Indiana are not getting any support from the system designed to support unemployed workers. This is particularly worrisome at a time when Indiana's unemployment rate is climbing amidst looming recession threats, leaving workers, businesses, and the state unprotected and unprepared.[7]

During this same quarter, the state's total unemployment rate was 4.2%; however, for Black workers it was 7.4%, more than double the average quarterly unemployment rate of 3.3% for white workers.[8] The unemployment rate for Latinx workers was similarly high at 5.8% and for Asian American and Pacific Islander workers unemployment fell to 3.7%.[9] Slashing benefits is particularly harmful for workers of color who, because of structural racism in our economy, typically experience higher unemployment rates and longer periods of unemployment (last hired, first fired).[10]

Of all the workers who received UI, as of the most recently available quarter from 2024, 18.8% of workers were unable to find new employment before their benefits ended.[11] Comparatively, for the same quarter, Alabama, which currently has a maximum of 14 weeks available (the same proposed for Indiana), 38% of workers exhausted benefits.[12] Similarly, in neighboring Kentucky with a recently passed 16 weeks, 38.1% of workers exhausted benefits.[13] If Indiana passed the proposed bill, it would likely lower Indiana's already-low recipiency rate (as less otherwise eligible workers would be receiving UI benefits) and increase its exhaustion rate, putting it on par with lower performing states. As a result, more Indiana workers would lose their benefits before finding new jobs, undercutting the purpose of unemployment insurance and weakening the ability of the system to mitigate recessions.

The idea that unemployed workers do not want to find work and must therefore be threatened with a loss of benefits comes from a long history of thoroughly debunked racist stereotypes that portray unemployed workers as lazy and undeserving of support.[14] In reality, studies indicate that additional weeks of UI benefits have little to no effect on job search activities or aggregate unemployment rates.[15] For example, the Government Accountability Office recently reviewed 30 empirical studies and found that extended UI benefits during recent recessions had limited to no effect on workers' incentives to return to work.[16] Research shows that available UI benefit duration has little impact on workers with the resources to keep looking for better job opportunities, but longer benefit duration does enable households with fewer liquid assets—disproportionately Black and Latinx households—to spend more time searching for suitable work that matches their skills and needs.[17] Research also shows that when workers are forced out of the UI program, they aren't able to immediately find work and instead are likely to end up dropping out of the workforce.[18] One of the key benefits of the UI program is it keeps workers attached to the workforce during periods of unemployment as existing laws already require workers to be able, available for, and searching for work.

Reducing UI Shortchanges Indiana's State and Local Economies

A foundational purpose of the UI system is to provide economic security to jobless workers, their families, and their communities. It does so by providing partial wage replacement until an unemployed worker finds a good job. UI stabilizes jobless workers and their families, as well as the communities where they live. Fewer weeks of benefits means less wage replacement, which can increase hardship, force workers into less stable jobs that are misaligned with their skills or financial needs and push them to leave their communities for locations with better employment opportunities. This outward migration would be particularly harmful for Indiana's rural communities, which need more investment, not less, as they already struggle with the availability of good jobs.[19] This is one of the reasons Republican lawmakers neighboring Kentucky cited when they passed legislation to repeal a 2022 law that cut duration from 26 weeks to 12 weeks.[20] In 2023, they passed a law to increase it to 16 weeks, citing the harm to rural communities.[21]

Not only does reducing UI benefits risk more households unable to meet basic needs, it also doesn't allow for purchasing goods and services from their local businesses. This leads to less money flowing through communities, slowing businesses and economies while increasing more layoffs and economic harm. A key benefit of UI is that it buoys state and local economies, particularly during economic downturns. UI is an automatic stabilizer: by temporarily replacing some of the lost wages of unemployed workers, it automatically fuels overall economic demand when private spending declines during a national recession or local downturn.[22] Cutting benefit duration reduces this stabilizing function, making layoffs more harmful to the economy.[23] A recent study of real-time, anonymous banking data in states that cut off expanded federal unemployment benefits early in 2021 found that for every dollar of reduced benefits, household spending fell by

52 cents, depriving local businesses of needed revenue.[24] Conversely, maintaining benefits can have a powerful, positive economic effect: studies found that during the Great Recession, every dollar spent on UI, generated $1.92 in economic activity.[25] Meaning that every dollar cut from Hoosiers' unemployment benefits today, robs the state of economic activity, which would be especially devasting during recessionary periods. Reducing UI benefits shortchanges workers and state and local economies.

When workers have adequate unemployment insurance protection to find appropriate jobs, businesses benefit from hiring workers with the right skills and workers are able to find a better match for their financial needs. Improved job matching enhances the functioning of the labor market overall, contributing to economic growth and vitality.

Conclusion: Vote 'NO' on S.B. 123

The National Employment Law Project urges legislators to vote NO on S.B. 123. Cutting UI harms Indiana's workers and its economy. Unemployment benefits with durations that match the national standard help workers, businesses and communities. They provide workers with the time needed to find good jobs, improve families' household well-being and economic security during times of hardship, and contribute to state and local economic growth and vitality.

Endnotes

[1] See "Significant Provisions of State Unemployment Insurance Laws Effective July 2023," US Department of Labor, 2023, https://oui.doleta.gov/unemploy/content/sigpros/2020-2029/July2023.pdf.

[2] Amy Traub, "7 Things We Learned About Unemployment Insurance During the Pandemic", National Employment Law Project, November 16, 2021, https://www.nelp.org/insights-research/7-things-we-learned-about-unemployment-insurance-during-the-pandemic/ .

[3] "Policy and Data Brief: Benefit Duration", National Employment Law Project, November 8, 2023, https://www.nelp.org/insights-research/benefit-duration/.

[4] *Id.*

[5] USDOL UI Data Summary Report, 2024 Q3, Indiana, Recipiency Rates, Regular Programs, https://oui.doleta.gov/unemploy/data_summary/DataSummTable.asp.

[6] Passing this law would further impact Indiana's recipiency rate.

[7] Timoria Cunningham, "Indiana Unemployment Rate Worsens to National average", IPB News, September 20, 2024, https://www.wfyi.org/news/articles/indiana-unemployment-rate-worsens-to-national-average.

[8]See Kyle K. Moore, “State unemployment by race and ethnicity,” Economic Policy Institute, November 2024, https://www.epi.org/indicators/state-unemployment-race-ethnicity/.

[9] *Id.*

[10] See Alexa Tapia and Nzingha Hooker, “Slashing Unemployment Benefit Weeks on Jobless Rates Hurts Workers of Color,” National Employment Law Project, May 14, 2021, https://www.nelp.org/publication/slashing-unemployment-benefit-weeks-on-jobless-rates-hurts-workers-of-color/; See “Last Hired, First Fired: Black, Latinx Workers and the Fight for Jobs,” New America, September 2020, https://www.newamerica.org/pit/reports/unpacking-inequities-unemployment-insurance/last-hired-first-fired-black-latinx-workers-and-the-fight-for-jobs/.

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[12] USDOL UI Data Summary Report, 2024 Q3, Alabama, Exhaustions Rate Past 12 Months, https://oui.doleta.gov/unemploy/data_summary/DataSummTable.asp.

[13] USDOL UI Data Summary Report, 2024 Q3, Kentucky, Exhaustions Rate Past 12 Months, https://oui.doleta.gov/unemploy/data_summary/DataSummTable.asp.

[14] Maurice BP-Weeks, “Canceling Unemployment Expansion Deepens America’s Commitment to Racist Labor Practices,” Colorlines, July 17, 2020, https://www.colorlines.com/articles/canceling-unemployment-expansion-deepens-americas-commitment-racist-labor-practices-op-ed.

[15] Christopher Boone, Arindrajit Dube, Lucas Goodman, and Ethan Kaplan, “Unemployment Insurance Generosity and Aggregate Employment,” *American Economic Journal: Economic Policy*, 2021, 13, no. 2 (May 2021): 58–99, https://econpapers.repec.org/article/aeaaejpol/v_3a13_3ay_3a2021_3ai_3a2_3ap_3a58-99.htm; Peter Ganong et al., “Spending and Job Search Impacts of Expanded Unemployment Benefits: Evidence from Administrative Micro Data,” Becker Friedman Institute, July 19, 2022, https://bfi.uchicago.edu/working-paper/spending-and-job-search-impacts-of-expanded-ui/.

[16] “Unemployment Insurance,” United States Government Accountability Office, June 2022, https://www.gao.gov/assets/gao-22-104251.pdf

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[18] Nick Gwyn, “Historic Unemployment Programs Provided Vital Support to Workers and the Economy During Pandemic, Offer Roadmap for Future Reform,” Center on Budget and Policy Priorities, March 24, 2022, https://www.cbpp.org/research/economy/historic-unemployment-programs-provided-vital-support-to-workers-and-the-economy .

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