



70 East Lake Street, Suite 1700
Chicago, IL • 60601
www.ctbaonline.org

Illinois Should Enact a Wage Sharing Program

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WAGE SHARING

“Wage sharing” is an innovative way to use unemployment compensation to prevent layoffs. Under wage sharing, unemployment benefits are paid to employees who, while still on the job, nonetheless have had their hours reduced, so long as their employer certifies that: (i) it has implemented a reduction in the usual weekly hours of work in lieu of layoffs; and (ii) the reduction impacts at least 10 percent and not more than 50 percent of its eligible employees. Through wage sharing, businesses can cut costs without laying off workers, and workers can keep working and spending.

BACKGROUND

Wage sharing is not a new concept in the United States. It was first implemented in California during the late 1970s. This was followed by a temporary, national program enacted in 1982. Finally, a decade later in 1992, permanent changes to federal law allowed states to adopt wage sharing in the form of “short-time compensation” (STC) programs within the federal-state unemployment compensation system.¹ Under short-term compensation programs, workers whose hours are reduced receive unemployment benefits from unemployment insurance funds, which are pro-rated for the partial work reduction. The “American Job Act of 2011” further facilitated wage sharing at the state level by providing \$700 million in temporary funding to states that enact new wage sharing short-term compensation programs.²

In June 2012, the U.S. Department of Labor issued implementation regulations for the STC provisions in the “Middle Class Tax Relief and Job Creation Act” of 2012 that provide 100% federal Reimbursement for up to 156 weeks for state STC programs that conform to federal regulations.³

The 21 states that currently operate short-term compensation programs are: Arizona, Arkansas, California, Colorado, Connecticut, Florida, Iowa, Kansas, Maine, Maryland, Massachusetts, Minnesota, Missouri, New Hampshire, New York, Oklahoma, Oregon, Rhode Island, Texas, Vermont, and Washington.⁴

In May 2011, the State of Maine enacted a bill, LD 269, authorizing a “Maine Unemployment Insurance Work-Sharing Program” with unanimous support from both legislative chambers.⁵ The bill authorizes businesses (which can be public employers) to submit voluntary “work sharing” plans to the Commissioner of Labor (in Illinois this could be either the Director of the Department of Labor or the Illinois Department of Employment Security which administers the state’s unemployment insurance system), who certifies that reductions in hours of 10 percent to 50 percent are in lieu of layoffs and are spread equally among employees in the effected unit. Unemployment insurance payments are then used to subsidize the loss of wages for the affected employees who get to keep their jobs and their income. This keeps needed spending in the consumer economy while eliminating the costs of training and hiring for businesses when the economy turns around.

Since 1924, Germany has had a successful program that allows companies to shorten working hours temporarily during periods of weak demand, pay only for the hours worked, and use government subsidies to pay up to 67 percent of the remaining wage. The program reportedly supported up to 1.5 million workers and saved 478,251 jobs in Germany during the downturn in 2009.⁶

The current Illinois unemployment insurance program is a state-operated insurance program designed to partially replace lost wages for workers who are laid off or have to work part-time because of lack of employment opportunity. The Illinois unemployment insurance program ensures that workers who have earned a minimal income during the previous four quarters will receive a portion of their average weekly wage up to a maximum of \$13,806 for a period of 26 weeks -- typically less than half, depending on dependents. The unemployment insurance program is self-financing from federal and state unemployment insurance payroll taxes

on “covered” employers.⁷ During periods of high unemployment, extended unemployment benefits may become available, subject to additional federal support. Workers in Illinois are currently eligible for a maximum of 99 weeks of basic and extended unemployment insurance benefits.⁸ Employers can contest unemployment claims based on existing state statutes, but otherwise play no role in determining or administering unemployment insurance benefits. The Illinois Department of Employment Security (IDES) determines coverage, sets state unemployment insurance tax rates, and generally administers the unemployment insurance system.

ADVANTAGES

Wage sharing is an alternative program that could replace unemployment insurance in some circumstances. The benefits of a wage sharing program would flow to all of those in the labor market who have been hard hit by the recession:

- Employees who would have faced unemployment and their dependents would be spared the hardships of joblessness.
- Workers would maintain their benefits and continue to build their skills while the labor market is weak.
- Employees retained during the downturn would be able to resume high production levels more quickly when business conditions improve.
- New and less-experienced workers, who are especially vulnerable if a layoff occurs, would have more protection.
- Employers could keep the workforce intact and make needed workforce changes in a more efficient and equitable way.
- Employers would avoid the expense of recruiting, hiring, and training new workers.
- Employers faced with permanently reducing their work force could use the program as a transition to layoff.
- Affected employees could continue to work at reduced levels with an opportunity to find other employment before an expected layoff.
- The state would benefit financially by keeping more people employed and productive.
- The Illinois unemployment insurance system would receive 100% reimbursement from the federal government for up to three years for a work sharing program that conformed to federal regulations reducing the overall cost of unemployment insurance for Illinois businesses.

CONCLUSION

There are no downsides and many advantages to using unemployment insurance funds to maintain employment and wages through a wage sharing program – an initiative that benefits businesses, workers and the economy more than the current state policy of simply making relatively low unemployment insurance payments to laid off workers.

FOR MORE INFORMATION:

Ralph M. Martire
Executive Director
(312) 332-1049
rmartire@ctbaonline.org

Ron P. Baiman, Ph.D.
Director of Budget and Policy Analysis
(312) 332-1480
rbaiman@ctbaonline.org

Kathy Miller
Director of Communications
and Development
(312) 332-1481
kmiller@ctbaonline.org

Zach Lipschutz
Research Intern



ENDNOTES

¹ The “Unemployment Compensation Amendments of 1992,” see: Alison M. Shelton, “Compensated Work Sharing Arrangements (Short-Term Compensation) as an Alternative to Layoffs,” p. 12, Congressional Research Service, Feb. 15, 2011, at: http://assets.opencrs.com/rpts/R40689_20110215.pdf .

² <http://www.nelp.org/page/-/UI/2011/NELP.AmericanJobsAct.Analysis.pdf?nocdn=1>

³ U.S. Department of Labor, “Unemployment Insurance Program Letter No. 22-12,” June 18, 2012:

http://wdr.doleta.gov/directives/corr_doc.cfm?DOCN=9382 .

⁴ Shelton, Congressional Research Service, Feb. 15, 2011.

⁵ <http://www.mainelegislature.org/legis/bills/getPDF.asp?paper=HP0222&item=1&snum=125>

⁶ <http://www.bloomberg.com/news/2010-07-27/germany-s-labor-market-miracle-comes-at-a-price-for-recovering-economy.html>

⁷ U.S Department of Labor, Comparison of State Unemployment Laws as of 1/1/2011:

<http://workforcesecurity.doleta.gov/unemploy/comparison2011.asp> .

⁸ Illinois Department of Employment Security, “Unemployment Insurance Benefits will Continue (Revised 5/2/12),”

<http://www.ides.illinois.gov/page.aspx?item=2494> .

