

UNEMPLOYMENT IN SOUTH CAROLINA

An Overview of Issues and Recommendations

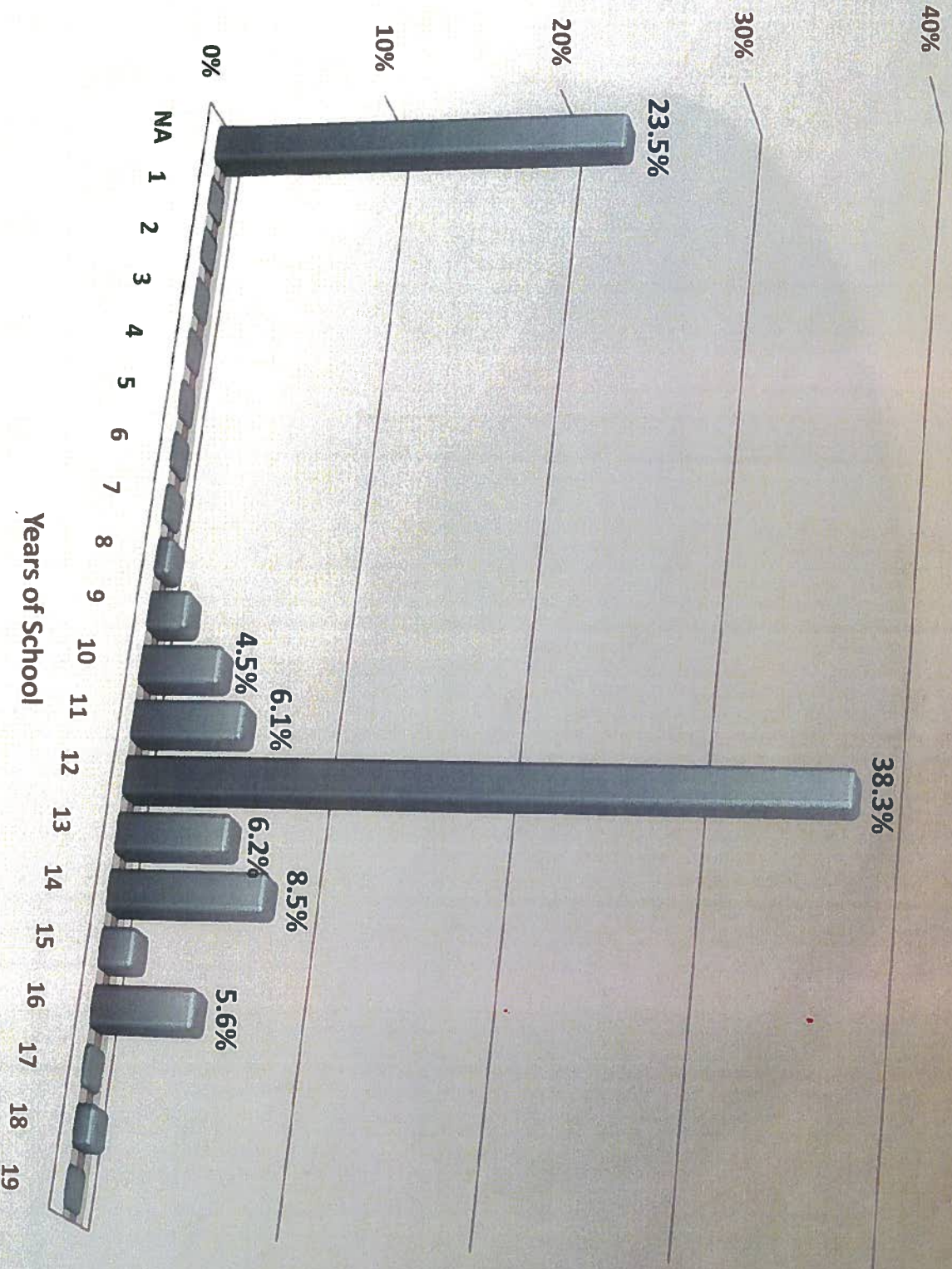
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A NEW LOOK AT THE UNEMPLOYED IN SOUTH CAROLINA

Educational Attainment

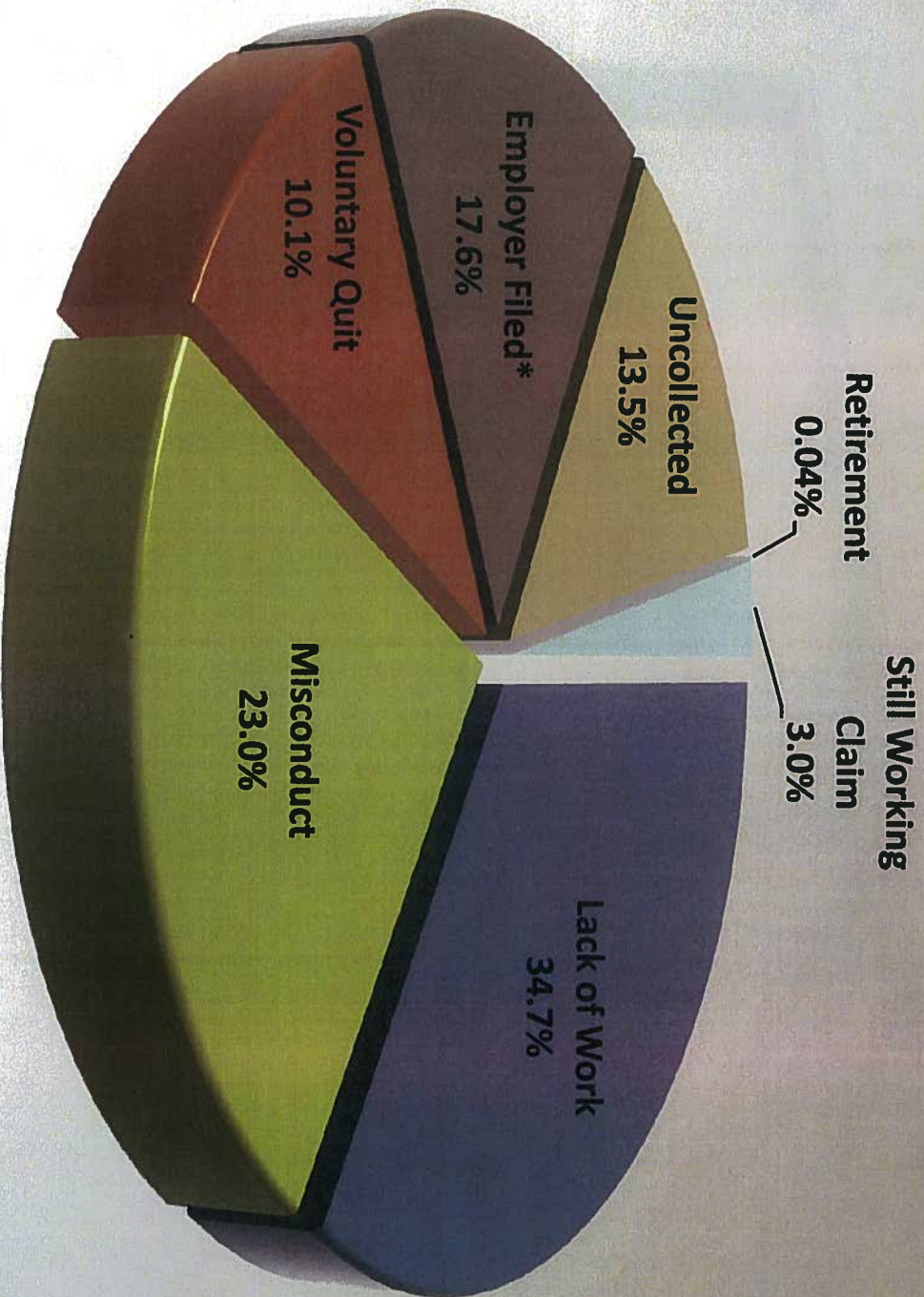
January 2006 - October 2009



Compiled from data provided by the SC Employment Security Commission on 11/6/2009.

Reason for Separation

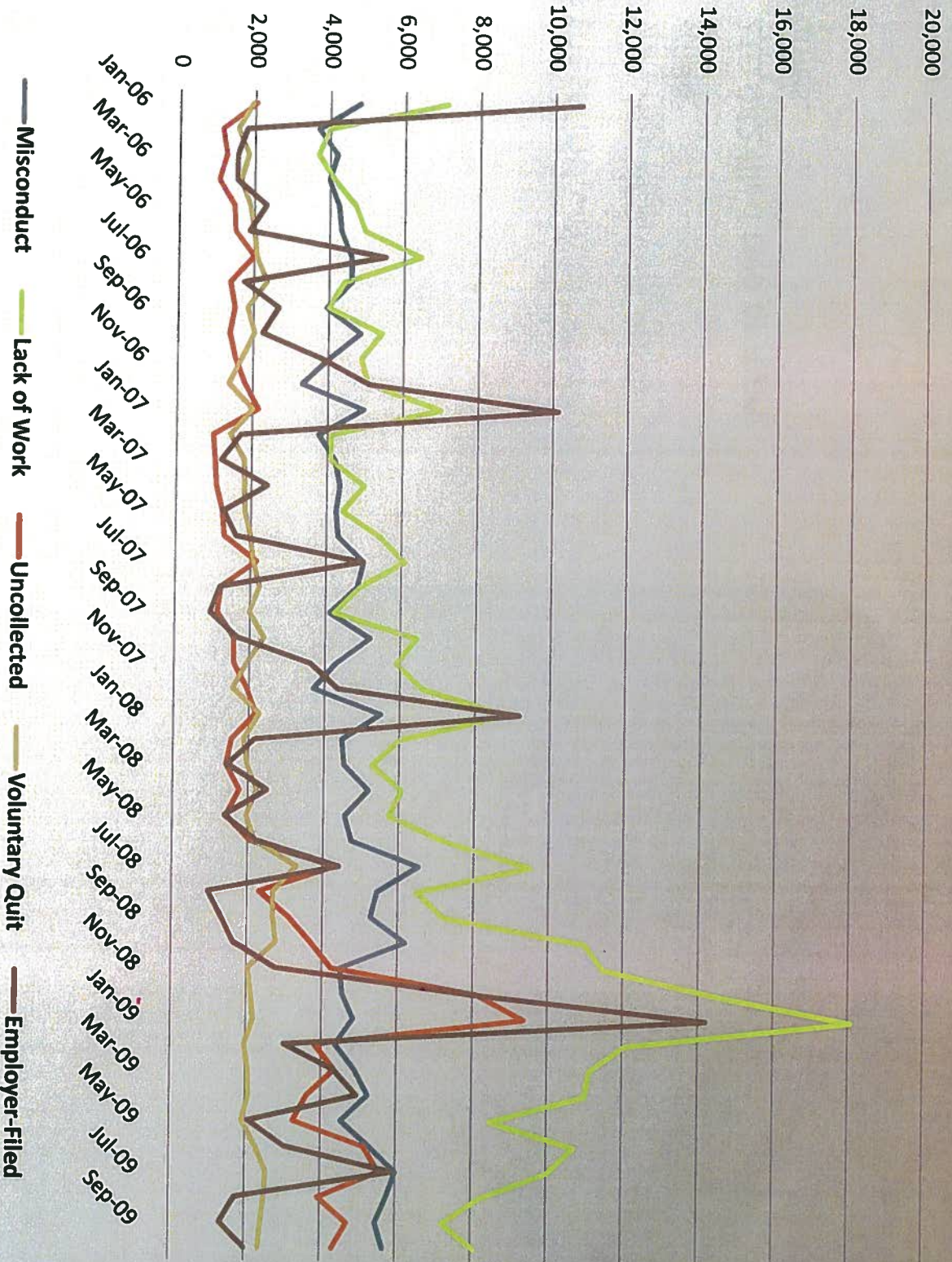
January 2006 - October 2009



*Reason for Separation is "Uncollected" for 94.6% of Employer Filed claims.

Seasonal Trends

January 2006 – October 2009



Repeat Claimants

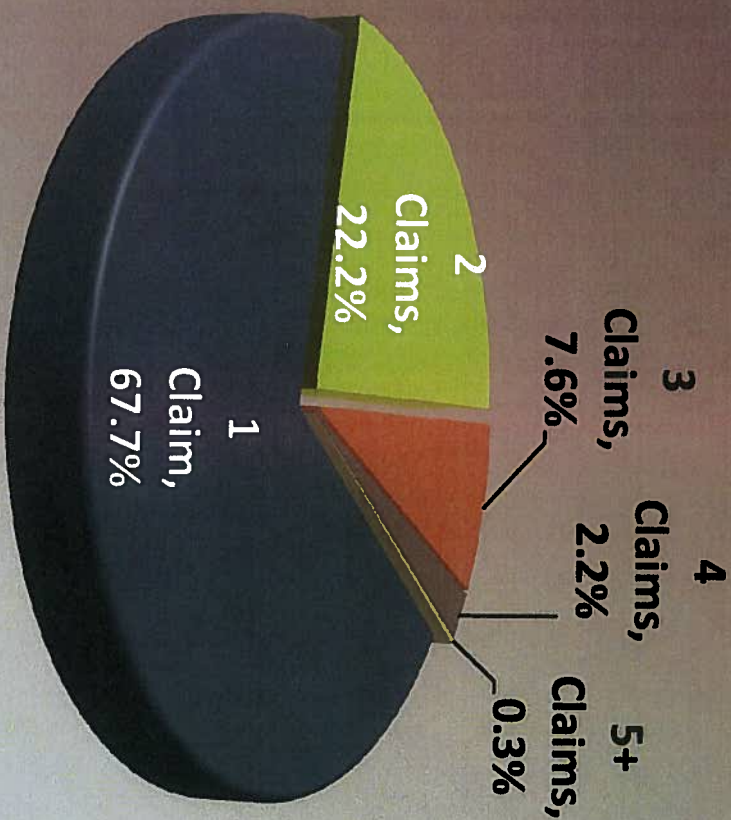
January 2006 - October 2009

Between January 2006 and October 2009,

- 944,976 claims were filed by
- 651,128 individuals.

Of these individual claimants,

- 441,086 filed only once, while
- 210,042 filed two or more times.



FACTORS DRIVING UNEMPLOYMENT STATEWIDE

Policy-Based Factors

1. High number of seasonal jobs
2. Extensive use of employer-filed UI claims
3. Ineffective UI tax rate structure
4. Lack of targeted effective interventions

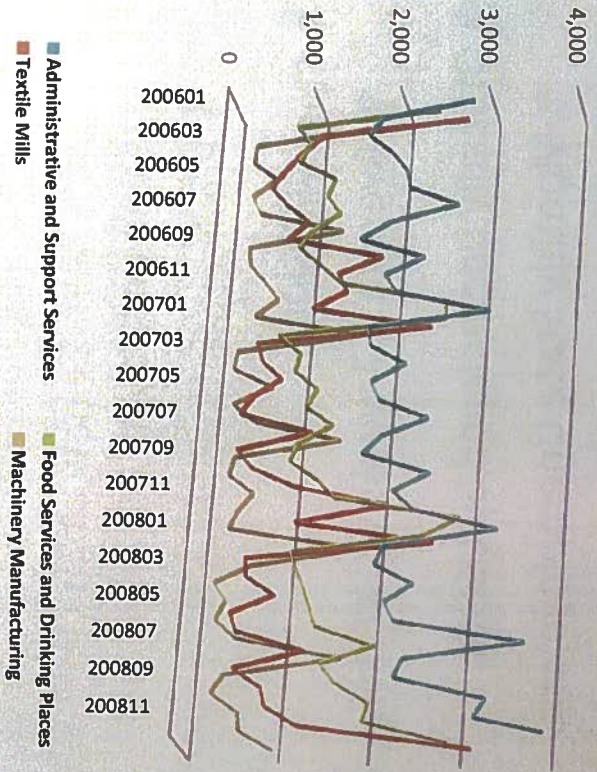
Economy-Driven Factors

1. Rapid labor force growth
2. Increasing use of temporary workers
3. Transition of manufacturing industry
4. Shift of occupational mix toward high-skilled workers

Unemployment is a global issue, not just a South Carolina issue.

1. Seasonal Employment

Claims by Industry, 2006 - 2008



- Tourism and Hospitality* industry:
 - ◆ 4.2% of GDP
 - ◆ 11.6% of Employment
 - ◆ 12.1% of UI claims

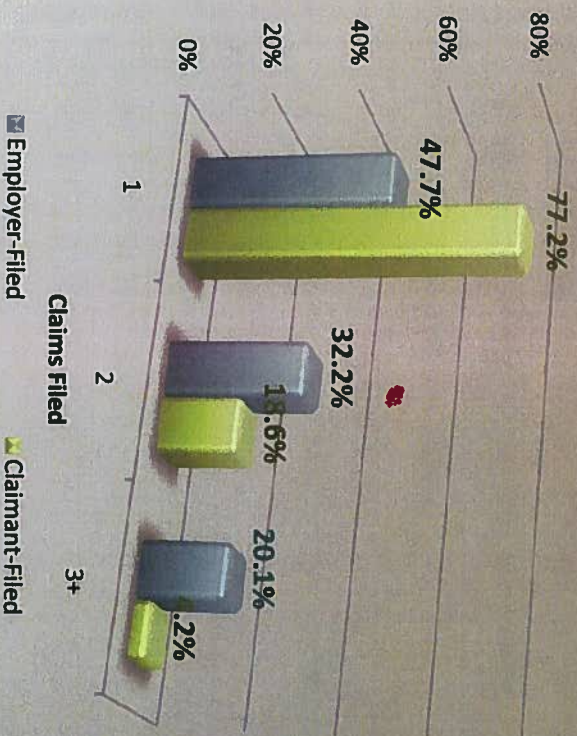
Source: BEA, BLS, and Commerce analysis of ESC UI claimant data (2006 - June 2009)
*Note: Includes NAICS 71 and 72

South Carolina does not currently have any such seasonal requirements.

- Most states require seasonal employment be designated by:
 - ◆ Industry
 - ◆ Occupation
 - ◆ Employer
 - ◆ Worker
- ◆ Start/end dates of season
- 15 states impose benefit restrictions to seasonal workers (AR, AZ, CO, DE, IN, ME, MA, MI, MS, NC, OH, PA, SD, WV, WI)
 - ◆ Wage credits earned *during* season available for UI benefits paid *during* season
 - ◆ Wage credits earned *outside* season available at *any time*

2. Employer-Filed Claims

- Employers file claims (113 vs. 114)
 - Vestige of original textile industry
 - 9 states still allow (AL, GA, IA, KY, MI, MS, NC, SC, TN)
 - 17.6% of UI Claims
- Typically temporary (low seasonal volume or regular factory retooling)
 - 30% have 2+ new claim years with same employer
 - Predictable: 61% are 1 year apart
- Short duration
 - Average 4.7 weeks vs. 21.0 weeks
- Officially *unemployed* by USDOL
 - Monthly State Unemployment
 - Weekly Initial Claims
- More likely to be repeat



Source: Commerce analysis of ESC UI claimant data, 2006 - 2008

Employer-filed claims
—often called “UI Holidays”—
are typically
temporary shutdowns
in which the worker
remains attached to the
employer.

3. Ineffective UI Tax Structure

- SC is one of 6 states still using federal minimum Wage Base of \$7,000 (AZ, FL, IN, LA, MS, SC)
- US Taxable Wage Base Statistics
 - ◆ Range: \$7,000 to \$35,700
 - ◆ Average: \$14,302
 - ◆ Flexible WB indexed to average annual state wage in 16 states
- Greater tax burden for low-wage workers
 - ◆ De facto lump sum tax per worker
 - ◆ Tax paid for a \$15,000/year employee identical to a \$75,000/year employee

3. Ineffective UI Tax Structure

Part 2: Experience Ratings

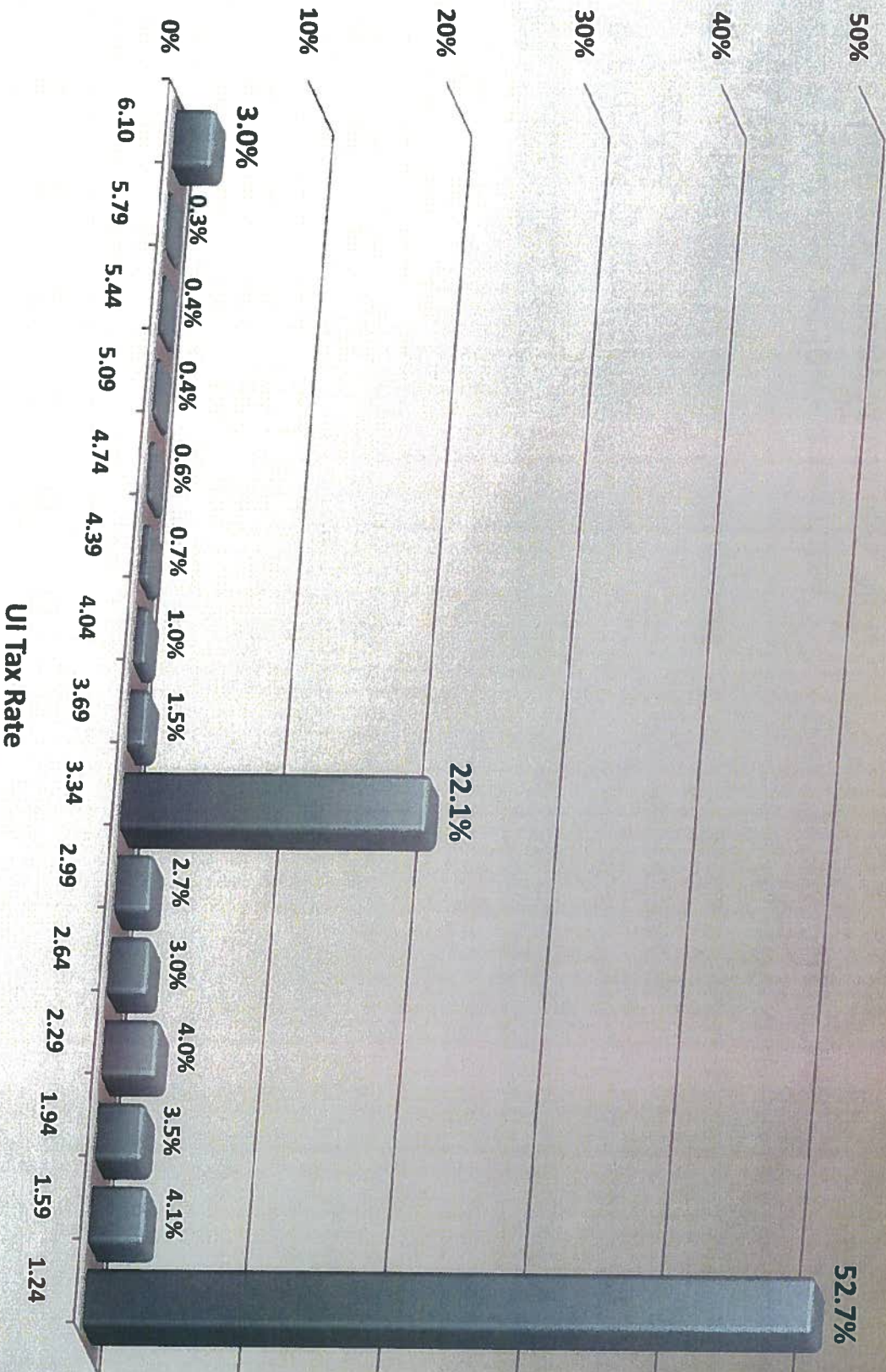
- State UI tax rates based on firms' "experience" with unemployment
 - ◆ Employers who utilize UI system more face higher UI tax rates
- UI Tax Schedule in South Carolina:

South Carolina UI Tax Schedule	Tax Rate	Annual Cost Per Employee
Highest	6.1%	\$427
Lowest	1.24%	\$86.80
New Employers	3.34%	\$233.80
Average Effective	2.09%	\$146.30

3. Ineffective UI Tax Structure

Part 2: Experience Ratings

Employer Distribution by UI Tax Rate, 2008



*Source: USDOL

3. Ineffective UI Tax Structure

Part 2: Experience Ratings

- Imperfect experience ratings:
 - ◆ Do not effectively use the full range of tax rates available.
 1. Floor and/or ceiling tax rates
 2. Infrequent movement between rating categories
 - ◆ Provide incentive for employers to layoff workers.

If minimum tax rate is too high...

- Employers accumulate excess reserves
- Have incentive to draw down excess via layoffs
 - ◆ 34 states set lowest tax rates below SC, many at 0% (GA, NC).

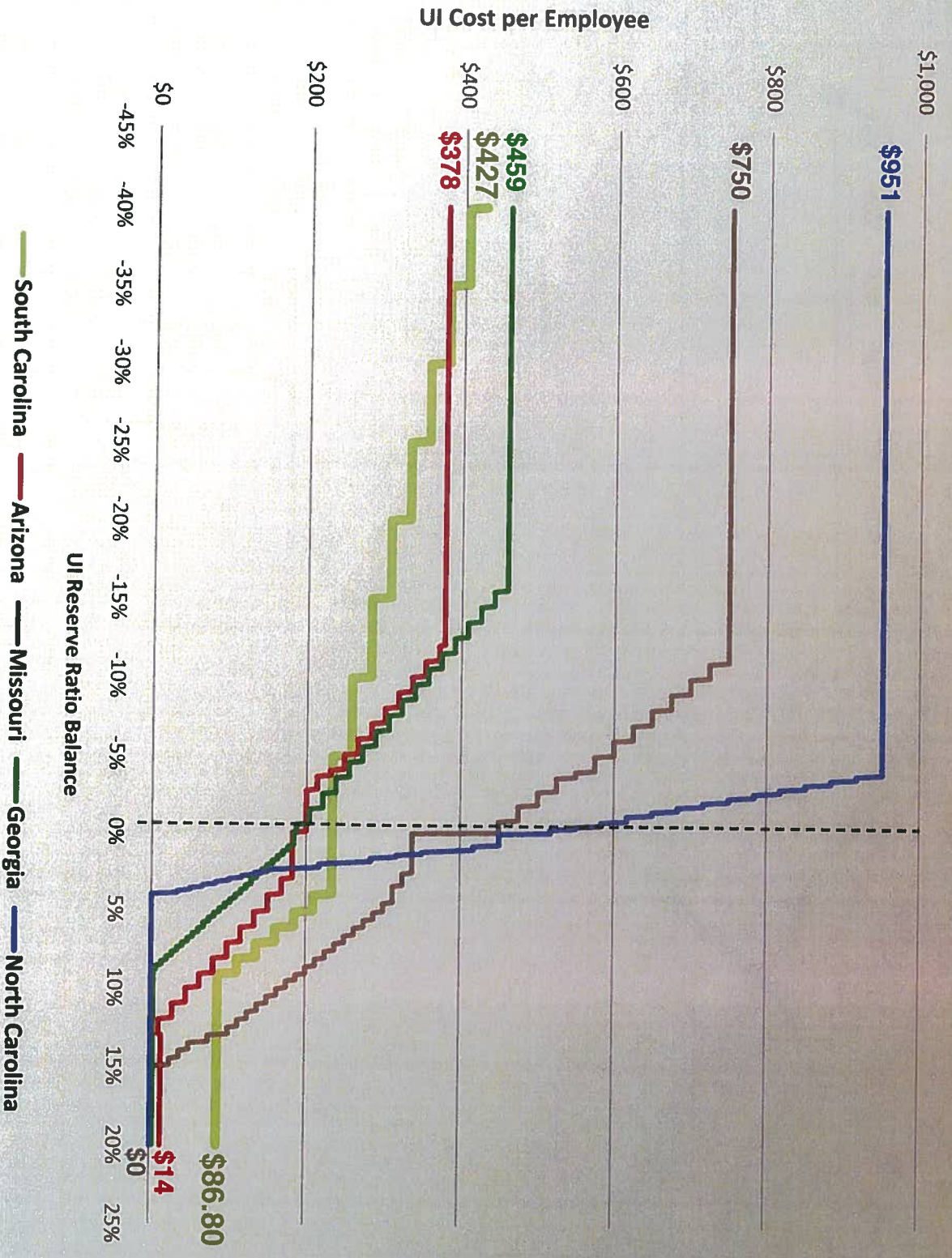
If maximum tax rate is too low...

- No additional cost is associated with extra layoffs
 - ◆ 3% of firms account for 30% of benefits charged yet pay 8% of contributions. *

*Source: USDOL 2008 "Significant Measures of State UI Tax Systems."

3. Ineffective UI Tax Structure

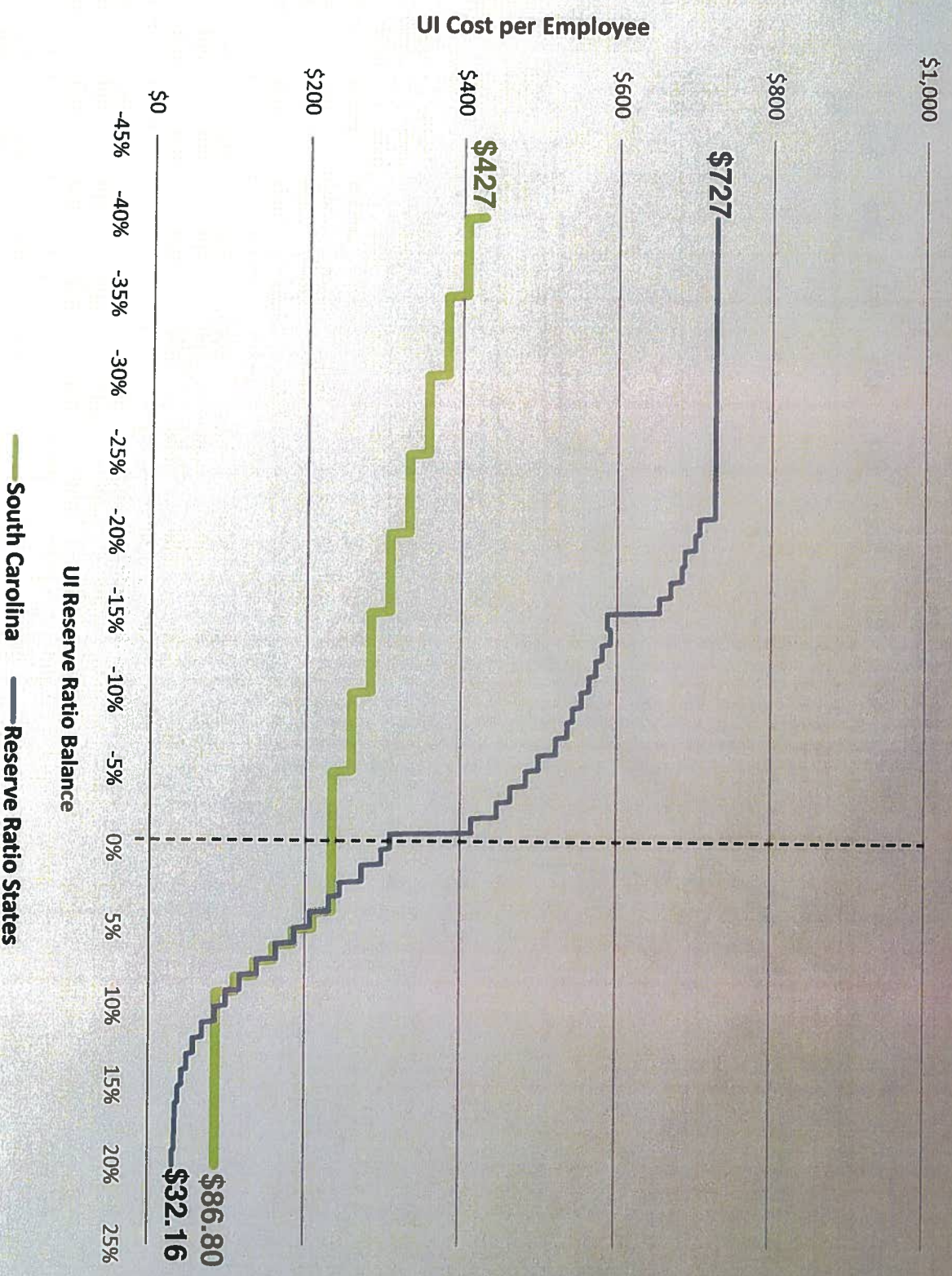
Part 2: Experience Ratings



SC experience rating schedule does not comparatively reward good firms or discourage UI overuse.

3. Ineffective UI Tax Structure

Part 2: Experience Ratings



Source: USDOL
 *Represents the average of the 19 of 24 states who use the Reserve Ratio method and had annual average wages within +/- 18% of South Carolina.

4. Targeted Interventions

Part 1: Develop Data-Driven Targeted Programs

- UI claimants are treated the same regardless of their characteristics
 - ◆ One-size fits all approach
- Use data to identify specific needs and develop suitable training and interventions
 - ◆ Geographic locations
 - ◆ Educational, occupation, industry, skills history
 - ◆ Long duration claimants
 - ◆ Repeat claimants
- Use data to measure performance
 - ◆ Track individual progress
 - ◆ Measure state performance
 - ◆ Use feedback to improve programs

USDOL "encourages states to assess claimants through the use of statistical profiling models using claimants' characteristics, as known from their initial UI claim."

—USDOL guidance for use of ARRA funds

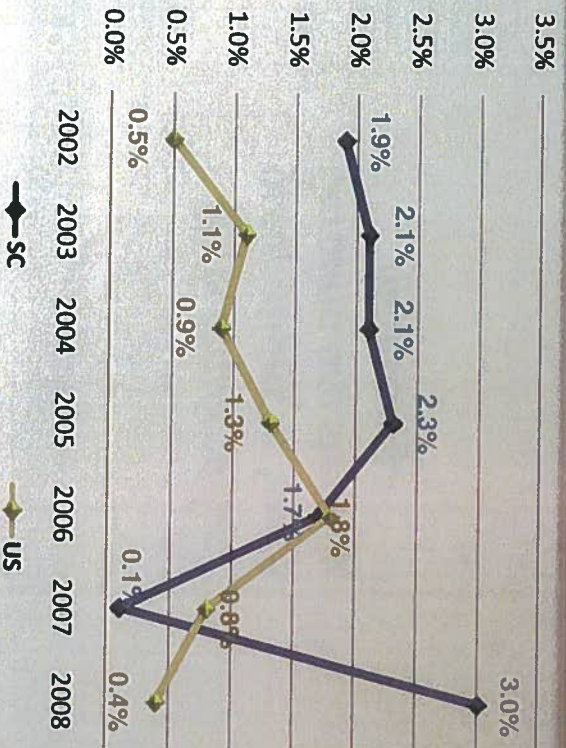
Use data to create targeted interventions to address specific, identified problems:

4. Targeted Interventions

Part 2: Integrate Multiple Programs

- Assistance programs for unemployed administered by different agencies:
 - ◆ Unemployment Insurance (SCESC)
 - ◆ Wagner-Peyser (SCESC)
 - ◆ Workforce Investment Act (SCDOC)
 - ◆ Adult Education (SCDOE)
 - ◆ TANF (SCDSS)
- Mandate comprehensive, integrated effort among programs to assist those in need by sharing electronic records
 - ◆ Streamline process
 - ◆ Eliminate duplicative efforts
 - ◆ Quick response
 - ◆ Efficiently use state & federal resources
- Successful outcomes for individuals across all programs more easily tracked if information is shared among agencies
 - ◆ Comprehensive follow-up of individual activities and needs across all programs
 - ◆ Effective, regular, reliable performance metrics

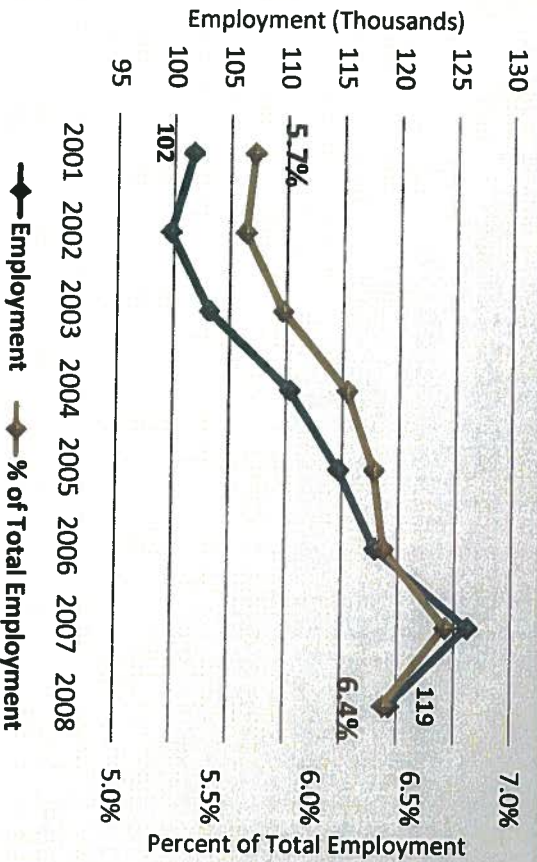
1. Rapid Labor Force Growth



- Labor force (2002 to May 2009) in SC
 - ◆ Increased 244,294 people
 - ◆ Expanded 12.5%, compared to 6.9% nationally (6th fastest)
- Population (2002 and 2008) in SC
 - ◆ Increased 377,589 people
 - ◆ Expanded 9.2%, versus 5.7% nationally (10th fastest)

Source: Bureau of Labor Statistics
 Note: Rates represent annual growth, December over December.

2. Increasing Use of Temporary Workers

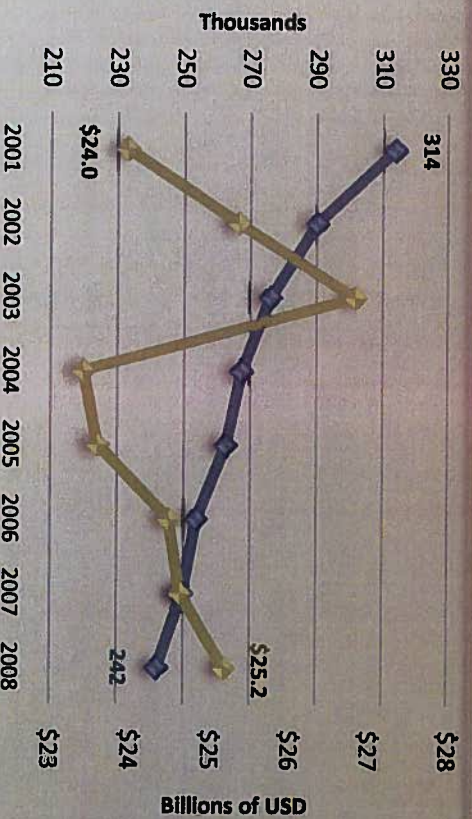


- Temporary Workers (2002 to 2008)
 - ◆ Comprises 119,292 people
 - ◆ Expanded 19.6%, compared to 5.1% nationally
 - ◆ Makes up 6.4% of the workforce, versus 5.7% nationally

Source: Bureau of Labor Statistics
 Note: NAICS 561: Administrative Support (includes temporary staffing firms).

3. Transition of the Manufacturing Industry

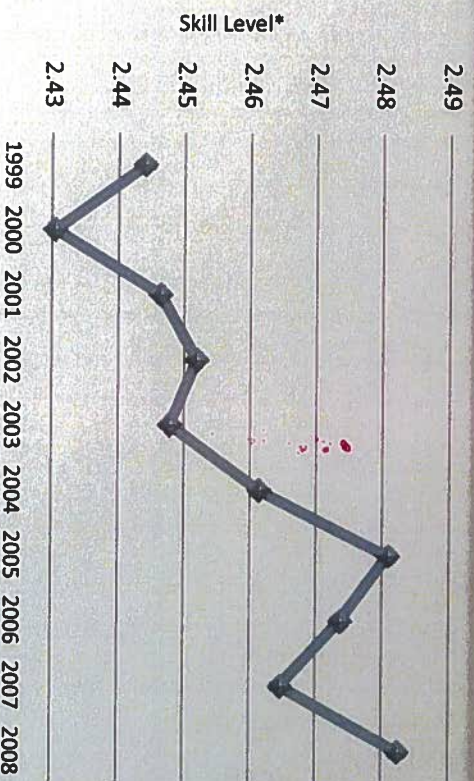
Rapid advancement in engineering, technology, and processes has caused manufacturing to evolve from an industry requiring intensive labor inputs to one that is more capital-intensive.



Sources: Bureau of Labor Statistics; Bureau of Economic Analysis

4. Occupational Mix Shift Toward High Skills

Skills required for occupations in South Carolina are steadily increasing.



Source: SCDOC Labor Market Information

*Note: Represents average skill levels for all jobs recorded in South Carolina on a scale of 1 to 5. 1 indicates little to no preparation required. 5 indicates extensive preparation (in terms of advanced degrees, experience, and specialized training) necessary.

To reduce unemployment and strengthen statewide economic growth, stakeholders need to

work together,

share data,

align programs, and

define a tax structure

that encourages economic productivity and serves the unemployed.

