SECTION 4. UNEMPLOYMENT COMPENSATION

CONTENTS

OVERVIEW

The Social Security Act of 1935 (Public Law 74–271) created the Federal-State Unemployment Compensation (UC) Program. The program has two main objectives: (1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and (2) to help stabilize the economy during recessions. The U.S. Department of Labor oversees the system, but each State administers its own program. Because Federal law defines the District of Columbia, Puerto Rico, and the Virgin Islands as States for the purposes of UC, there are 53 State programs.

The Federal Unemployment Tax Act of 1939 (Public Law 76–379) and titles III, IX, and XII of the Social Security Act form the framework of the system. The Federal Unemployment Tax Act (FUTA) imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. Employers in States with programs approved by the Federal Government and with no delinquent Federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum net Federal unemployment tax rate 0.8 percent. Since all States have approved programs, 0.8 percent is the effective Federal tax rate. This Federal revenue finances administration of the system, half of the Federal-State Extended Benefits Program, and a Federal account for State loans. The individual States finance their own programs, as well as their half of the Federal-State Extended Benefits Program.

In 1976, Congress passed a surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate (Public Law 94–566). Thus, the current effective 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent, and a surtax rate of 0.2 percent. The surtax has been extended five times, most recently by the Taxpayer Relief Act of 1997 (Public Law 105–34) through December 31, 2007.

FUTA generally determines covered employment. FUTA also imposes certain requirements on the State programs, but the States generally determine individual qualification requirements, disqualification provisions, eligibility, weekly benefit amounts, potential weeks of benefits, and the State tax structure used to finance all of the regular State benefits and half of the extended benefits.

The Social Security Act provides for the administrative framework: title III authorizes Federal grants to the States for administration of the State UC laws; title IX authorizes the various components of the Federal unemployment trust fund; title XII authorizes advances or loans to insolvent State UC Programs.

Table 4–1 provides a statistical overview of the UC Program.

BENEFITS

Coverage

In order to qualify for benefits, an unemployed person usually must have worked recently for a covered employer for a specified period of time and earned a certain amount of wages. About 118 million individuals were covered by all UC Programs in 1995, representing 97 percent of all wage and salary workers and 89 percent of the civilian labor force.

FUTA covers certain employers that State laws also must cover for employers in the States to qualify for the 5.4 percent Federal credit. Since employers in the States would lose this credit and their employees would not be covered if the States did not have this coverage, all States cover the required groups: (1) except for nonprofit organizations, State-local governments, certain agricultural labor, and certain domestic service, FUTA covers employers who paid wages of at least $1,500 during any calendar quarter or who employed at least one worker in at least 1 day of each of 20 weeks in the current or prior year; (2) FUTA covers agricultural labor for employers who paid cash wages of at least $20,000 for agricultural labor in any calendar quarter or who employed 10 or more workers in at least 1 day in each of 20 different weeks in the current or prior year; and (3) FUTA covers domestic service employers who paid cash wages of $1,000 or more for domestic service during any calendar quarter in the current or prior year.

TABLE 4–1.—UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1987–98

Statistic	Fiscal years											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 (estimated)	1998 (projected) [1]
Total civilian unemployment rate (percent)	6.4	5.6	5.3	5.4	6.5	7.3	7.0	6.3	5.6	5.5	5.3	5.5
Insured unemployment rate (percent) [2]	2.5	2.2	2.1	2.3	3.1	3.1	2.7	2.6	2.3	2.3	2.3	2.3
Coverage (millions)	98.0	101.2	104.3	106.1	105.1	104.9	106.6	109.7	112.9	114.9	116.6	117.7
Average weekly benefit amount:												
Current dollars	134	140	145	154	163	167	172	175	179	182	187	195
In 1997 dollars [3]	191	192	189	192	193	192	192	190	189	187	187	189
State unemployment compensation:												
Beneficiaries (millions)	7.5	6.8	7.0	8.1	10.2	9.6	7.8	8.2	7.9	8.1	8.2	8.6
Regular benefit exhaustions (millions)	2.5	1.9	1.9	2.2	3.2	3.9	3.3	3.1	2.7	2.7	2.6	2.6
Regular benefits paid (billions of dollars)	15.0	13.2	13.5	16.8	24.4	25.6	21.9	21.7	20.9	22.0	22.4	24.2
Extended benefits (State share: billions of dollars)	0.04	0.04	([6])	0.03	0.01	0.02	0.00	0.15	0.04	0.01	0.02	0.03
State tax collections (billions of dollars)	19.1	18.3	17.3	16.0	15.3	17.6	21.0	22.5	23.2	22.7	23.5	24.5
State trust fund impact (income-outlays: billions of dollars) [4]	+4.11	+5.12	+3.80	−0.88	−9.13	−8.03	−0.93	+0.66	+2.24	+0.75	+1.15	+0.29

TABLE 4–1.—UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1987–98—Continued

Statistic	Fiscal years											
	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997 (estimated)	1998 (projected) [1]
Federal unemployment compensation accounts:												
Federal tax collections (billions of dollars) [5]	5.08	5.50	4.45	5.36	5.33	5.41	[7] 4.23	5.46	5.70	5.85	5.92	5.98
Outlays: Federal EB share plus Federal supplemental benefits (billions of dollars)	0.04	0.04	([6])	0.03	0.01	11.15	13.17	4.37	0.05	[8] −0.01	0.02	0.03
State administrative costs (billions of dollars):												
Unemployment Insurance Service	1.56	1.61	1.71	1.74	1.95	2.49	2.52	2.43	2.38	2.31	2.34	2.55
Employment Service	0.90	0.95	1.00	1.01	1.05	1.02	0.90	0.90	1.05	1.06	1.02	1.01
Total administrative costs	2.46	2.56	2.71	2.75	3.00	3.51	3.42	3.33	3.43	3.36	3.36	3.56

[1] Based on the President's fiscal year 1998 budget.
[2] The average number of workers claiming State unemployment compensation benefits as a percent of all workers covered.
[3] Adjusted using CPI–U.
[4] Excludes interest earned.
[5] Net of reduced credits.
[6] Less than $5 million.
[7] Reflects a book adjustment of minus $967 million.
[8] Reflects reclaimed benefits in excess of benefits paid.

Source: U.S. Department of Labor. (1997d, February). UI Outlook: Fiscal Year 1998 President's Budget. Washington, DC.

FUTA requires coverage of nonprofit organization employers of at least four workers for 1 day in each of 20 different weeks in the current or prior year and State-local governments without regard to the number of employees. Nonprofit and State-local government organizations are not required to pay Federal unemployment taxes; they may choose instead to reimburse the system for benefits paid to their laid-off employees.

States may cover certain employment not covered by FUTA, but most States have chosen not to expand FUTA coverage significantly. The following employment is therefore generally not covered: (1) self-employment; (2) certain agricultural labor and domestic service; (3) service for relatives; (4) service of patients in hospitals; (5) certain student interns; (6) certain alien farmworkers; (7) certain seasonal camp workers; and (8) railroad workers (who have their own unemployment program).

Number of Covered Workers

Although the UC system covers 97 percent of all wage and salary workers, table 4–2 shows that on average only 36 percent of unemployed persons were receiving UC benefits in 1996. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of 26 percent in June 1968 and in October 1987. Despite high unemployment during the early 1980s, there was a downward trend in the proportion of unemployed persons receiving regular State benefits until the mid-1980s. The proportion receiving UC rose sharply in December 1991 due to the temporary Emergency Unemployment Compensation (EUC) Program.

In May 1988, Mathematica Policy Research, Inc. (MPR), under contract to the U.S. Department of Labor, released a study on the decline in the proportion of the unemployed receiving benefits during the 1980s. This analysis did not find a single predominant cause for the decline but instead found statistical evidence that several factors contributed to the decline (the figures in parentheses show the share of the decline attributed to each factor):

1. The decline in the proportion of the unemployed from manufacturing industries (4–18 percent);
2. Geographic shifts in composition of the unemployed among regions of the country (16 percent);
3. Changes in State program characteristics (22–39 percent):
   —Increase in the base period earnings requirements (8–15 percent);
   —Increase in income denials for UC receipt (10 percent); and
   —Tightening up other nonmonetary eligibility requirements (3–11 percent);
4. Changes in Federal policy such as partial taxation of UC benefits (11–16 percent); and
5. Changes in unemployment as measured by the Current Population Survey (CPS) (1–12 percent).

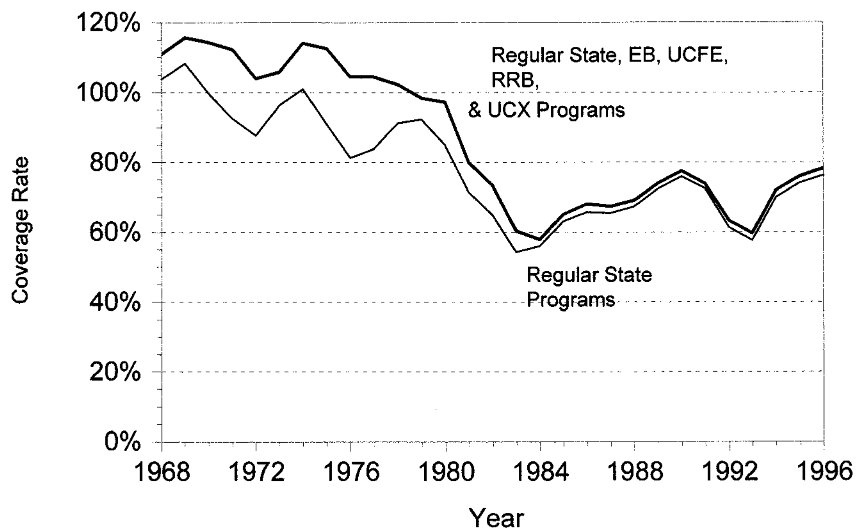
TABLE 4–2.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT, BY MONTH, 1967–96

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1967	52	52	54	54	50	30	39	41	33	33	35	47	43
1968	57	50	52	50	45	26	34	38	33	34	38	48	42
1969	54	54	52	48	43	27	35	36	31	33	40	51	41
1970	57	54	52	53	53	36	42	45	42	44	48	53	48
1971	58	58	61	59	56	42	45	48	44	46	47	55	52
1972	56	58	56	52	49	36	41	38	33	34	38	47	45
1973	51	46	46	44	43	31	36	37	34	38	38	48	41
1974	53	54	57	60	54	40	43	44	39	42	48	60	50
1975	66	73	77	81	79	72	77	79	73	74	76	80	75
1976	78	75	76	73	72	58	66	66	60	59	60	63	67
1977	67	66	66	66	59	45	52	49	47	48	49	57	56
1978	54	54	50	47	44	36	39	42	35	37	34	43	43
1979	48	48	47	47	42	33	39	38	36	38	40	49	42
1980	51	51	53	52	49	45	49	49	54	49	49	54	50
1981	54	50	49	46	40	35	37	37	36	34	37	41	41
1982	47	44	48	49	45	40	42	42	43	48	49	47	45
1983	50	52	50	53	52	40	39	36	34	33	39	41	44
1984	40	38	38	36	34	30	31	30	30	31	31	38	34
1985	40	41	41	39	32	28	30	30	28	27	32	37	34
1986	38	36	37	35	32	29	32	32	29	30	32	37	33
1987	37	37	38	35	31	28	30	29	28	26	29	34	32
1988	37	37	37	35	31	28	30	29	27	27	30	34	32
1989	35	35	40	37	30	29	33	33	29	31	29	38	33
1990	40	42	44	41	37	33	36	34	32	34	34	40	37
1991	47	46	48	49	41	37	39	37	35	34	38	51	42
1992	56	54	59	59	54	46	48	48	49	50	50	51	52
1993	50	48	51	52	48	43	47	48	47	44	46	49	48
1994	43	48	43	38	36	31	33	33	30	32	34	39	37
1995	39	41	40	37	35	32	35	34	32	34	31	40	36
1996	41	43	42	40	34	33	34	34	32	31	33	39	36

Source: U.S. Department of Labor, Division of Actuarial Services.

The group of unemployed most likely to be insured are job losers. Chart 4–1 shows the number of unemployment compensation claimants measured as a percentage of the number of job losers. This coverage ratio remained fairly stable from 1968 through 1979. Over that 12-year span, there were from 90 to 110 recipients of regular State UC for every 100 job losers. This ratio fluctuated somewhat over the business cycle, but it was otherwise quite stable.

CHART 4–1. RATIO OF INSURED UNEMPLOYMENT TO JOB LOSERS (YEARLY AVERAGES), 1968–96



Note.—Insured unemployment data include the Virgin Islands and Puerto Rico, but the data for job losers do not include these territories.

Source: Chart prepared by the Congressional Research Service based on data from Economic Report of the President, various years.

Beginning in 1980, the ratio of UC recipients to job losers fell sharply, reaching an all-time low in 1983 when there were fewer than 60 regular UC recipients for every 100 job losers. After 1983, the coverage ratio increased somewhat, so that there were about 75 regular UC claimants for every 100 job losers in 1990. However, the ratio declined again with the 1990–91 recession. It has since returned to the prerecession level.

ELIGIBILITY

States have developed diverse and complex methods for determining UC eligibility. In general there are three major factors used by States: (1) the amount of recent employment and earnings; (2) demonstrated ability and willingness to seek and accept suitable employment; and (3) certain disqualifications related to a claimant's most recent job separation or job offer refusal.

Monetary qualifications

Table 4–3 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (48) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying annual wages for the minimum weekly benefit amount vary from $130 in Hawaii to $3,400 in Florida. For the maximum weekly benefit amount, the range is $5,450 in Nebraska to $29,432 in Colorado. The range of qualifying wages for the maximum total potential benefit, which is the product of the maximum weekly benefit amount and the maximum potential weeks of benefits, is from $6,080 in Puerto Rico to $32,850 in Washington.

TABLE 4–3.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 1997 [1]

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
Alabama	$1,032	$8,616	$14,039	2Q
Alaska	1,000	26,750	26,750	2Q
Arizona	1,500	6,919	14,429	2Q
Arkansas	1,323	14,196	21,294	2Q
California	1,125	9,542	11,958	
Colorado	1,000	29,432	29,432	
Connecticut	600	14,120	14,120	2Q
Delaware	966	13,800	13,800	
District of Columbia	1,950	14,001	18,668	2Q
Florida	3,400	9,750	25,998	2Q
Georgia	1,350	10,750	22,358	2Q
Hawaii	130	9,126	9,126	2Q
Idaho	1,430	8,417	21,885	2Q
Illinois	1,600	13,481	13,481	2Q
Indiana	2,750	6,468	20,150	2Q
Iowa	1,173	6,641	18,018	2Q
Kansas	1,950	8,100	21,060	2Q
Kentucky	1,500	20,717	20,717	2Q
Louisiana	1,200	7,237	18,583	2Q
Maine	3,042	16,614	16,614	2Q
Maryland	900	9,000	9,000	2Q
Massachusetts	2,000	10,860	30,167	
Michigan	2,020	12,060	21,105	2Q
Minnesota	1,250	10,205	24,492	2Q
Mississippi	1,200	7,200	14,040	2Q
Missouri	1,500	5,833	13,650	2Q
Montana	1,356	23,000	23,000	2Q
Nebraska	1,200	5,450	14,352	2Q
Nevada	600	9,262	19,266	2Q
New Hampshire	2,800	27,500	27,500	2Q

TABLE 4–3.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 1997 [1]—Continued

State	Required total earnings in base year			Minimum work in base year (quarters) [3]
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits [2]	
New Jersey	2,020	12,467	21,817	2Q
New Mexico	1,421	7,085	9,447	2Q
New York	1,600	11,980	11,980	2Q
North Carolina	2,603	12,090	24,180	2Q
North Dakota	2,795	16,315	20,883	2Q
Ohio	2,640	10,280	13,364	2Q
Oklahoma	1,500	9,412	16,315	2Q
Oregon	1,000	25,120	25,120	2Q
Pennsylvania	1,320	14,400	14,400	2Q
Puerto Rico	280	6,080	6,080	2Q
Rhode Island	1,780	10,909	24,267	2Q
South Carolina	900	8,619	17,238	2Q
South Dakota	1,288	8,602	14,586	2Q
Tennessee	1,560	11,440	22,880	2Q
Texas	1,628	9,842	26,611	2Q
Utah	1,800	10,608	26,000	2Q
Vermont	1,723	9,765	9,765	
Virginia	3,250	11,200	22,400	2Q
Virgin Islands	1,287	9,009	18,018	2Q
Washington	1,950	9,125	32,850	
West Virginia	2,200	28,000	28,000	2Q
Wisconsin	1,590	8,460	18,330	2Q
Wyoming	1,750	7,375	19,666	2Q

[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

[2] Based on maximum weekly benefit amount paid for maximum number of weeks. Total potential benefits equal a worker's weekly benefit amount times this potential duration.

[3] Number of quarters of work in base year required to qualify for minimum benefits. "2Q" denotes that State directly or indirectly requires work in at least 2 quarters of the base year. States without an entry have the minimum work requirement specified as a wage amount.

Source: U.S. Department of Labor.

A Federal court in *Pennington* v. *Doherty* overturned the base year definition in use by most States. The court agreed with the plaintiff's contention that Illinois could have used an alternative base period (the last 4 completed quarters) and that this alternative would better carry out Federal law, which requires States to use administrative methods that ensure full payment of UC "when due." This alternative method would impose greater costs on the States affected. The Balanced Budget Act of 1997 (Public Law 105–33) revised the Federal law that was central to the court's decision so that States have full authority to set base periods for determining eligibility.

From 1996 to 1997, 11 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount, and 1 State decreased it. Forty States increased and one decreased the qualification requirement for the maximum weekly benefit amount. Thirty-nine States increased (and two decreased) their qualification requirements for maximum potential benefits.

Ability to work and availability for work

All State laws provide that a claimant must be both able to work and available for work. A claimant must meet these conditions continually to receive benefits.

Only minor variations exist in State laws setting forth the requirements concerning "ability to work." A few States specify that a claimant must be mentally and physically able to work.

"Available for work" is translated to mean being ready, willing, and able to work. In addition to registration for work at a local employment office, most State laws require that a claimant seek work actively or make a reasonable effort to obtain work. Generally, a person may not refuse an offer of, or referral to, "suitable work" without good cause.

Most State laws list certain criteria by which the "suitability" of a work offer is to be tested. The usual criteria include the degree of risk to a claimant's health, safety, and morals; the physical fitness and prior training, experience, and earnings of the person; the length of unemployment and prospects for securing local work in a customary occupation; and the distance of the available work from the claimant's residence. Generally, as the length of unemployment increases, the claimant is required to accept a wider range of jobs.

In addition, Federal law requires States to deny benefits provided under the Extended Benefit (see below) Program to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or who fails to apply for any work to which he is referred by the State agency, if the work: (1) is within the person's capabilities; (2) pays wages equal to the highest of the Federal or any State or local minimum wage; (3) pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental unemployment compensation (usually private) payable to the individual; and (4) is consistent with the State definition of "suitable" work in other respects. Public Law 102–318 suspended these provisions from March 7, 1993, until January 1, 1995.

States must refer extended benefits claimants to any job meeting these requirements. If the State, based on information provided by the individual, determines that the individual's prospects for obtaining work in her customary occupation within a reasonably short period are good, the determination of whether any work is "suitable work" is made in accordance with State law rather than the criteria outlined above.

There are certain circumstances under which Federal law provides that State and extended benefits may not be denied. A State may not deny benefits to an otherwise eligible individual for refusing to accept new work under any of the following conditions: (1) if the position offered is vacant directly due to a strike, lockout, or other labor dispute; (2) if the wages, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work in the locality; or (3) if, as a condition of being employed, the individual would be required to join a union or to resign from or refrain from joining any bona fide labor organization. Benefits may not be denied solely on the grounds of pregnancy. The State is prohibited from canceling wage credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

There are also certain conditions under which Federal law requires that benefits be denied. For example, benefits must be denied to professional and administrative employees of educational institutions during summer (and other vacation periods) if they have a reasonable assurance of reemployment; to professional athletes between sport seasons; and to aliens not permitted to work in the United States.

Disqualifications

The major causes for disqualification from benefits are not being able to work or available for work, voluntary separation from work without good cause, discharge for misconduct connected with the work, refusal of suitable work without good cause, and unemployment resulting from a labor dispute. Disqualification for one of these reasons may result in a postponement of benefits for some prescribed period, a cancellation of benefit rights, or a reduction of benefits otherwise payable.

Of the 17.3 million "monetarily eligible" initial UC claims in 1996, 23.7 percent were disqualified. This figure subdivides into 4.4 percent not being able to work or available for work, 6.3 percent voluntarily leaving a job without good cause, 4.1 percent being fired for misconduct on the job, 0.3 percent refusing suitable work, and 8.7 percent committing other disqualifying acts. The total disqualification rate ranged from a low of 7.5 percent in Tennessee to a high of 114.8 percent in Nebraska, with Colorado the next highest at 68.7 percent. (Note that a claimant can be disqualified for any week claimed, so it is possible for a claimant to be disqualified more times than the total number of that claimant's initial claims in the benefit year.)

Federal law requires that benefits provided under the Extended Benefits Program be denied to an individual for the entire spell of his unemployment if he was disqualified from receiving State benefits because of voluntarily leaving employment, discharge for misconduct, or refusal of suitable work. These benefits will be denied even if the disqualification were subsequently lifted with respect to the State benefits prior to reemployment. The person could receive extended benefits, however, if the disqualification were lifted because he became reemployed and met the work or wage requirement of State law. Public Law 102–318 suspended the restrictions on extended benefits under Federal law, however, from March 7, 1993, until January 1, 1995. The Advisory Council on Unemployment Compensation was required to study these provisions, and it recommended that the Federal rules be eliminated. However, Congress has taken no action on this recommendation.

Ex-service members

The Emergency Unemployment Compensation Act of 1991 (Public Law 102–164) provided that ex-members of the military be treated the same as other unemployed workers with respect to the waiting period for benefits and benefit duration. Before this 1991 action, Congress had placed restrictions on benefits for ex-service members, so that the maximum number of weeks of benefits an ex-service member could receive based on employment in the military was 13 (as compared with 26 weeks under the regular UC Program for civilian workers). In addition to a number of restrictive eligibility requirements, ex-service members had to wait 4 weeks from the date of their separation from the service before they could receive benefits.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94–566) required all States to reduce an individual's UC by the amount of any government or private pension or retirement pay received by the individual.

Public Law 96–364, enacted in 1980, modified this offset requirement. Under the modified provision, States are required to make the offset only in those cases in which the work-related pension was maintained or contributed to by a "base period" or "chargeable" employer. Entitlement to and the amount and duration of unemployment benefits are based on work performed during this State-specified base period. A "chargeable" employer is one whose account will be charged for UC received by the individual. However, the offset must be applied for Social Security benefits without regard to whether base period employment contributed to the Social Security entitlement.

States are allowed to reduce the amount of these offsets by amounts consistent with any contributions the employee made toward the pension. This policy allows States to limit the offset to one-half of the amount of a Social Security benefit received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The Tax Reform Act of 1986 (Public Law 99–514) made all UC taxable after December 31, 1986. The Revenue Act of 1978 first made a portion of UC benefits taxable beginning January 1, 1979.

Table 4–4 illustrates the projected effect of taxing all UC benefits for calendar year 1998. This table understates the impact of taxation because this analysis uses data collected from a sample of households for the Current Population Survey (CPS), which is known to have a problem with respondents underestimating their annual income from various sources. In particular, total UC benefits reported in the CPS are equal to about two-thirds of benefits actually paid out. Because of this underreporting of UC benefits in the CPS and, consequently, underestimates of benefits paid in 1998, taxes collected on benefits probably will be about twice as high as the $4.0 billion shown in table 4–4.

TABLE 4–4.—PROJECTED EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS BY INCOME LEVEL, CALENDAR YEAR 1998

Level of individual or couple income[1]	In thousands: Number of recipients of unemployment compensation	In thousands: Number affected by taxation of benefits	Percent affected by taxation	In millions: Total amount of unemployment compensation benefits	In millions: Total amount of taxes on benefits	Taxes as a percent of total benefits
Less than $10,000	1,118	477	42.7	$2,090	$117	5.6
$10,000–$15,000	820	648	79.0	2,071	202	9.8
$15,000–$20,000	658	610	92.8	1,890	284	15.0
$20,000–$25,000	649	636	98.0	1,926	383	19.9
$25,000–$30,000	552	540	97.7	1,389	294	21.1
$30,000–$40,000	955	948	99.3	3,141	560	17.8
$40,000–$50,000	697	695	99.8	2,277	392	17.2
$50,000–$100,000	1,417	1,415	99.9	4,867	1,058	21.7
At least $100,000	250	250	100.0	2,447	751	30.7
All	7,115	6,220	87.4	22,097	4,041	18.3

[1] Cash income (based on income tax filing unit) plus capital gains realizations.

Source: Congressional Budget Office tax simulation model.

AMOUNT AND DURATION OF WEEKLY BENEFITS

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. The total maximum duration available nationwide under permanent law is 39 weeks. The regular State programs usually provide up to 26 weeks. The permanent Federal-State Extended Benefits Program provides up to 13 additional weeks in States where unemployment rates are relatively high. An additional 7 weeks is available under a new optional trigger enacted in 1992, but only 7 States have adopted this trigger as of July 31, 1997. The temporary Emergency Unemployment Compensation (EUC) Program, which operated from November 1991 through April 1994, provided either 7 or 13 additional weeks of benefits during its final months of operation. A State offering this temporary program could not have offered the extended benefits simultaneously, however.

The State-determined weekly benefit amounts generally replace between 50 and 70 percent of the individual's average weekly pretax wage up to some State-determined maximum. The average weekly wage is often calculated only from the calendar quarter in the base year in which the claimant's wages were highest. Individual wage replacement rates tend to vary inversely with the claimant's average weekly pretax wage, with high wage earners receiving lower wage replacement rates. Thus, the national average weekly benefit amount as a percent of the average weekly covered wage was only 35 percent in the quarter ending December 31, 1996.

Table 4–5 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In 1996, the national average weekly benefit amount was $189 and the average duration was 14.9 weeks, making the average total benefits $2,820. The minimum weekly benefit amounts for 1997 vary from $5 in Hawaii to $87 in Indiana. The maximum weekly benefit amounts range from $152 in Puerto Rico to $543 in Massachusetts.

TABLE 4–5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1996 AND 1997

State	1996 average weekly benefit	1997 weekly benefit amount [1]		1996 average duration (weeks)	1997 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
Alabama	$142	$22	$180	10	15	26
Alaska	172	44–68	248–320	15	16	26
Arizona	151	40	185	14	12	26
Arkansas	170	49	273	12	9	26
California	152	40	230	17	14	26
Colorado	208	25	283	12	13	26
Connecticut	222	15–25	353–403	16	26	26
Delaware	224	20	300	17	24	26
District of Columbia	236	50	309	19	20	26
Florida	178	32	250	14	26	26
Georgia	166	37	215	10	9	26
Hawaii	270	5	351	18	26	26
Idaho	182	44	259	12	10	26
Illinois	213	51	257–341	17	26	26
Indiana	187	87	217	11	8	26
Iowa	200	34–41	231–283	12	11	26
Kansas	202	67	270	14	10	26
Kentucky	171	22	246	12	15	26
Louisiana	128	10	193	15	26	26
Maine	171	36–54	210–315	14	26	26
Maryland	195	25–33	250	16	26	26
Massachusetts	254	14–21	362–543	16	10	30
Michigan	205	60	300	11	15	26
Minnesota	234	38	314	14	10	26
Mississippi	141	30	180	14	13	26
Missouri	154	45	175	13	11	26
Montana	165	57	230	14	8	26
Nebraska	161	20	184	12	20	26
Nevada	194	16	247	14	12	26
New Hampshire	153	32	228	10	26	26
New Jersey	255	60	374	17	15	26
New Mexico	157	43	218	16	19	26
New York	206	40	300	19	26	26
North Carolina	193	25	310	10	13	26
North Dakota	175	43	251	12	12	26
Ohio	202	66	257–345	14	20	26
Oklahoma	175	16	251	13	20	26
Oregon	191	73	314	15	4	26
Pennsylvania	219	35–40	362–370	17	16	26
Puerto Rico	94	7	152	18	26	26
Rhode Island	228	41–51	336–420	16	15	26
South Carolina	165	20	221	11	15	26

TABLE 4–5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1996 AND 1997—Continued

State	1996 average weekly benefit	1997 weekly benefit amount [1]		1996 average duration (weeks)	1997 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
South Dakota	150	28	187	11	15	26
Tennessee	155	30	220	12	12	26
Texas	189	44	266	16	9	26
Utah	198	17	272	11	10	26
Vermont	168	31	217	14	26	26
Virginia	173	65	224	10	12	26
Virgin Islands	150	32	231	27	13	26
Washington	209	78	365	19	16	30
West Virginia	176	24	296	15	26	26
Wisconsin	202	53	282	12	12	26
Wyoming	181	17	236	14	12	26
U.S. average	189	NA	NA	15	NA	NA

[1] A range of amounts is shown for those States that provide dependents' allowances.

NA—Not applicable.

Source: U.S. Department of Labor.

Most States vary the duration of benefits with the amount of earnings the claimant has in the base year. Twelve States provide the same duration for all claimants. The minimum durations range from 4 weeks in Oregon to 26 weeks in 12 States. The maximum duration is 26 weeks in 51 States (including the District of Columbia, Puerto Rico, and the Virgin Islands). Two States have longer maximum durations. Massachusetts and Washington both provide up to 30 weeks.

From 1996 to 1997, 13 States increased (and none decreased) their minimum weekly benefit amounts. Forty-one States raised their maximum weekly benefit amounts, while one State decreased them. No States lowered their minimum potential durations, but two States raised their minimum duration.

EXTENDED BENEFITS

The Federal-State Extended Benefits Program available in every State provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program, for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the regular State UC benefits for each claimant, and Federal funds pay half the cost. The program activates in a State under one of two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent 13 weeks is at least 5.0 percent and at least 120 percent of the average of its 13-week IURs in the last 2 years for the same 13-week calendar period; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. All but 12 State programs have adopted the second, optional condition. The 13-week average IUR is calculated from the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 5 completed calendar quarters.

In addition to the two automatic triggers, States have the option of electing an alternative trigger authorized by the Unemployment Compensation Amendments of 1992 (Public Law 102–318). This trigger is based on a 3-month average total unemployment rate (TUR) using seasonally adjusted data. If this TUR average exceeds 6.5 percent and is at least 110 percent of the same measure in either of the prior 2 years, a State can offer 13 weeks of EB. If the average TUR exceeds 8 percent and meets the same 110-percent test, 20 weeks of EB can be offered. Analysis of historical data shows that this TUR trigger would have made EB more widely available in the past than did the IUR trigger. As of July 31, 1997, the TUR trigger had been authorized by seven States (Alaska, Connecticut, Kansas, Oregon, Rhode Island, Vermont, and Washington). As of September 1997, EB was active only in Puerto Rico using the 6.0 percent IUR trigger.

BENEFIT EXHAUSTION

Due to the limited duration of UC benefits, some individuals exhaust their benefits. For the regular State programs, 2.7 million individuals exhausted their benefits in fiscal year 1996, or 33 percent of claimants who began receiving UC during the 12 months ending March 31, 1996.

A study of exhaustees was completed in September 1990 by Corson and Dynarski, under contract to the U.S. Department of Labor. The purpose of this study was to examine the characteristics and behavior of exhaustees and nonexhaustees and to explore the implications of this information. The samples were chosen from individuals who began collecting benefits during the period October 1987 through September 1988. Overall, 1,920 exhaustees and 1,009 nonexhaustees were interviewed.

The study's authors reached three general conclusions:

1. A large proportion of UC recipients expected to be recalled to their previous jobs. The unemployment spells of these job-attached workers were considerably shorter than those of workers who suffered permanent job losses, and few job-attached workers exhausted their UC benefits. Workers who were not job-attached—in particular, workers who were dislocated from their previous jobs or who had low skill levels—were likely to experience long unemployment spells, and a significant proportion of these workers exhausted their UC benefits.
2. Most workers who exhausted their benefits were still unemployed more than a month after receiving their final payment, and a majority were still unemployed 2 months after receiving their final payment. Moreover, workers who found jobs after exhausting their UC benefits were generally receiving lower wages than on their prior jobs.
3. State exhaustion rate trigger mechanisms would not be clearly superior to the State insured unemployment rate (IUR) triggers in targeting extended benefits to areas with high cyclical

unemployment. Substate trigger mechanisms for extended benefits would do a poor job of targeting extended benefits to local areas with high structural unemployment.

SUPPLEMENTAL BENEFITS

The Extended Benefits (EB) Program was enacted to provide unemployment compensation benefits to workers who had exhausted their regular benefits during periods of high unemployment. Before enactment of a permanent EB Program, Congress authorized two temporary programs, during 1958 and 1959 and again in 1961 and 1962. The Federal-State Extended Unemployment Compensation Act of 1970 authorized a permanent mechanism for providing extended benefits. Extended benefits rules were amended by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) and the Unemployment Compensation Amendments of 1992 (Public Law 102–318).

During the 1970s and 1980s, temporary programs provided supplemental benefits to UC recipients who had exhausted both their regular and extended benefits during three periods of high unemployment: (1) the Emergency Unemployment Compensation Act of 1971, which provided benefits until March 31, 1973; (2) the Federal Supplemental Benefits (FSB) Program, first authorized by the Emergency Unemployment Compensation Act of 1974, and subsequently extended in 1975 (twice) and in 1977; and (3) the Federal Supplemental Compensation (FSC) Program, created by the Tax Equity and Fiscal Responsibility Act of 1982, which was subsequently extended and modified six times and finally expired on June 30, 1985.

More recently, Congress passed the Emergency Unemployment Compensation Act of 1991 (Public Law 102–164) authorizing a temporary Emergency Unemployment Compensation (EUC) Program. The EUC Program, which was extended four times, effectively superseded the EB Program and entitled individuals whose regular unemployment compensation benefits had run out to additional weeks of assistance. At its peak in 1992, the EUC Program provided benefits for 26 or 33 weeks. The EUC Program ended on April 30, 1994.

Benefits under the EUC Program were originally financed from spending authority in the extended unemployment compensation account (EUCA) of the unemployment trust fund. However, depletion of EUCA led Congress to fund EUC from general revenue from July 1992 to October 1993. States that qualified for extended benefits while EUC was in effect could elect to trigger off extended benefits. This reduced the State funding burden because 50 percent of extended benefit costs are financed from State UC accounts while EUC was entirely federally funded.

Table 4–6 shows several estimates of the cost of the EUC Program at different points in time. A comparison of cost estimates at the time of enactment with later reviews shows that actual costs far exceeded anticipated costs due to three factors: exhaustions from the regular State program were unexpectedly near record levels; claimants were staying on EUC longer than expected; and large numbers of claimants eligible for both regular benefits and EUC were choosing EUC. As a result, for the periods fiscal year

1992 and fiscal year 1993 alone, OMB cost estimates rose from $11.4 billion on the dates of enactment to $12.8 billion in July 1992, $18.2 billion in January 1993, $23.4 billion in April 1993, $23.8 billion in July 1993, and finally $24.3 billion in January 1994—113 percent higher than originally estimated. Including fiscal year 1994 costs, the Clinton administration's budget released in July 1994 estimated the final 3-year cost of EUC benefits to be $28.5 billion, $13.7 billion more than OMB and $9.9 billion more than CBO had estimated on the date of enactment.

TABLE 4–6.—CHANGES IN EMERGENCY UNEMPLOYMENT COMPENSATION OUTLAY ESTIMATES, FISCAL YEARS 1992–94

[In billions of dollars]

Source and time of estimate	Fiscal years			Total
	1992	1993	1994	
Estimates at time of enactment				
By OMB:				
Public Law 102–164, Public Law 102–182	$3.0	($0.1)	0	$2.9
Public Law 102–244	2.5	0.3	0	2.8
Public Law 102–318	0.6	2.0	0	2.6
Public Law 103–6	0	3.1	$2.3	5.4
Public Law 103–152	0	0	1.1	1.1
Total	6.1	5.3	3.4	14.8
By CBO:				
Public Law 102–164, Public Law 102–182	4.3	([1])	0	4.3
Public Law 102–244	2.7	0.6	0	3.3
Public Law 102–318	1.0	3.4	0	4.4
Public Law 103–6	0	3.2	2.3	5.5
Public Law 103–152	0	0	1.1	1.1
Total	8.0	7.2	3.4	18.6
OMB fiscal year 1993 Midsession review, July 1992	9.7	3.1	0	12.8
OMB fiscal year 1994 baseline, January 1993	11.1	7.1	0	18.2
OMB fiscal year 1994 Clinton budget, April 1993	11.1	12.3	2.1	25.5
OMB fiscal year 1994 Midsession review, July 1993	11.1	12.7	1.8	25.6
OMB fiscal year 1995 baseline, January 1994	11.1	13.2	3.7	28.0
OMB fiscal year 1995 Midsession review, July 1994	11.1	13.2	4.2	28.5

[1] Less than $50,000,000.

Source: Office of Management and Budget (OMB) and Congressional Budget Office (CBO).

HYPOTHETICAL WEEKLY BENEFIT AMOUNTS FOR VARIOUS WORKERS IN THE REGULAR STATE PROGRAMS

Table 4–7 illustrates benefit amounts for various full-year workers in regular State programs for January 1997. These benefit amounts are set by the legislatures of the respective States. Column A of the table is for a full-time worker earning the minimum wage of $5.15 per hour; column B is for a worker earning $6 per hour; column C shows benefit amounts for a worker earning $9 per hour; and column D shows a part-time worker earning the minimum wage and working 20 hours per week. All four cases are assumed to have a nonworking spouse and column C assumes the worker has two children. The weekly benefit amount for the full-time minimum wage worker (column A) varies from $65 in North Dakota to $216 in Connecticut. The maximum amount a worker earning $9 per hour can receive (column C) varies considerably, from $142 per week in California to $383 in Connecticut.

TABLE 4–7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 1997

State	Hypothetical worker [1]			
	A	B	C	D
Alabama	$180	$180	$180	$112
Alaska	120	134	232	78
Arizona	107	125	185	54
Arkansas	206	240	240	103
California	94	105	142	55
Colorado	123	144	216	61
Connecticut	216	250	383	113
Delaware	117	135	203	58
District of Columbia	108	125	195	56
Florida	103	120	180	51
Georgia	107	124	187	53
Hawaii	128	149	223	64
Idaho	103	120	180	51
Illinois	118	141	237	60
Indiana	120	142	204	60
Iowa	122	142	234	60
Kansas	113	132	198	67
Kentucky	127	148	222	63
Louisiana	100	117	176	50
Maine	128	138	229	67
Maryland	112	130	203	56
Massachusetts	103	120	230	51
Michigan	NA	NA	NA	NA
Minnesota	103	120	180	51
Mississippi	103	120	180	51
Missouri	120	140	175	60
Montana	107	124	187	53
Nebraska	110	128	184	56
Nevada	107	124	187	53
New Hampshire	115	130	173	59
New Jersey	131	154	248	66
New Mexico	103	120	180	51
New York	103	120	180	52
North Carolina	103	120	180	51
North Dakota	65	120	180	0
Ohio	123	144	238	0
Oklahoma	107	124	187	53

TABLE 4–7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 1997—Continued

State	Hypothetical worker [1]			
	A	B	C	D
Oregon	133	156	234	73
Pennsylvania	114	132	197	61
Puerto Rico	104	120	152	52
Rhode Island	123	144	236	61
South Carolina	103	120	180	51
South Dakota	103	120	180	51
Tennessee	205	220	220	102
Texas	108	125	188	54
Utah	104	120	180	52
Vermont	119	138	208	59
Virginia	107	123	186	0
Virgin Islands	108	120	180	54
Washington	214	249	365	107
West Virginia	112	131	198	57
Wisconsin	107	124	187	53
Wyoming	107	124	187	53

[1] Hypothetical workers:
A. $5.15/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
B. $6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
C. $9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; two children.
D. $5.15/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

NA—Not available. Michigan computes benefits based on aftertax wages.

Source: U.S. Department of Labor.

THE UNEMPLOYMENT TRUST FUND

The unemployment trust fund has 59 accounts. The accounts consist of 53 State UC benefit accounts, the railroad unemployment insurance account, the railroad administration account, and four Federal accounts. (The railroad accounts are discussed in section 5 of this document.) The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal unemployment trust fund.

The four Federal accounts in the trust fund are: (1) the employment security administration account (ESAA), which funds administration; (2) the extended unemployment compensation account (EUCA), which funds the Federal half of the Federal-State Extended Benefits Program; (3) the Federal unemployment account (FUA), which funds loans to insolvent State UC Programs; and (4) the Federal employee compensation account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. The 0.8 percent Federal share of the unemployment tax finances the ESAA, EUCA, and FUA, but general revenues finance the FECA. Present law authorizes interest-bearing loans to ESAA, EUCA, and FUA from the general fund. The three accounts may receive noninterest-bearing advances from one another to avoid insufficiencies.

FINANCIAL CONDITION OF THE UNEMPLOYMENT TRUST FUND

Federal accounts

At the end of fiscal year 1996, the employment security administration account (ESAA) exceeded its fiscal year 1997 ceiling of $1.4 billion. The 1997 budget bill provides for the distribution of up to $100 million of excess funds at the end of fiscal years 1999–2001. The funds will be made available to each State in the same proportion as the State's share of funds appropriated for administration for that fiscal year. This action effectively limits transfers (known as "Reed Act" transfers) to State accounts that would occur if trust fund surpluses continued to mount in future years.

The extended unemployment compensation account (EUCA) balance was below its ceiling of $13.4 billion by $3.9 billion at the end of fiscal year 1997; the Federal unemployment account (FUA) balance was slightly above its $6.7 billion ceiling. Under the administration's fiscal year 1998 budget assumptions, the EUCA balance will continue to fall short of its ceiling until fiscal year 1999. The 1997 legislation raised the ceiling on FUA assets from 0.25 to 0.5 percent of wages in covered employment for fiscal year 2002 and subsequent years. Like the capping of annual distributions at $100 million as described above, that change is designed to prevent Reed Act transfers to State accounts in coming years.

State accounts

The State accounts had recovered substantially from the financial problems that began in the 1970s and continued through the early 1980s, but the 1990–91 recession reversed that trend. Table 4–8 shows that the State accounts at the beginning of 1997 held $38.6 billion, which represents a marked improvement over the balance of $28.8 billion in 1992.

The balances in the State accounts are well below the balances in the early 1970s after adjusting for inflation, before serious financial problems began for most States. State reserve ratios (trust fund balances divided by total wages paid in the respective States during the year) show that a number of State accounts are at risk of financial problems in major recessions. The third column from the right margin of table 4–8 shows that these State ratios are only 48 percent of their levels in 1970. However, no State presently has outstanding Federal loans to its account.

The second-to-last column of table 4–8 shows for each State the 1996 "high-cost multiple," the ratio of the State's reserve ratio to its highest cost rate. The highest cost rate is determined by choosing the highest ratio of costs to total covered wages paid in a prior year. States with high-cost multiples of at least 1.0 have reserves that could withstand a recession as bad as the worst one they have experienced previously. States with high-cost multiples below 1.0 may face greater risk of insolvency during recessions.

Thirty-eight States had high-cost multiples below 1.0; 29 had high-cost multiples below 0.8; and 13 had high-cost multiples below 0.5. Based on this most stringent measure, States with the highest risk factor were Arkansas, California, Connecticut, the District of Columbia, Illinois, Maine, Massachusetts, Michigan, Missouri, New York, Rhode Island, Texas, and West Virginia.

TABLE 4–8.—FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS, SELECTED YEARS 1970–96

States	Net reserves (end of calendar year) [In millions of dollars]					Reserve ratios [Percent]					1996/1970	High-cost multiple	
	1970	1975	1979	1982	1996	1970	1975	1979	1982	1996		1996	Rank
Alabama	$130	$(2)	$118	$9	$483	2.96	(0.03)	0.98	0.06	1.42	48	0.65	34
Alaska	35	75	65	134	194	5.51	3.07	2.78	2.94	3.42	62	0.79	25
Arizona	119	67	226	215	627	4.25	1.35	2.36	1.66	1.64	39	0.66	33
Arkansas	49	2	24	(77)	203	2.26	0.04	0.37	(1.00)	1.11	49	0.41	45
California	1,219	546	2,738	2,708	2,877	2.91	0.88	2.51	1.83	0.90	31	0.40	46
Colorado	91	47	137	(4)	511	2.54	0.70	1.11	(0.02)	1.24	49	0.99	18
Connecticut	252	(232)	(267)	(252)	278	0.08	(2.27)	(1.70)	(1.21)	0.62	775	0.19	52
Delaware	22	0	(30)	(35)	258	1.72	0	(1.06)	(0.96)	2.96	172	1.15	11
District of Columbia	74	(3)	(44)	(57)	99	3.22	(0.09)	(1.05)	(1.03)	0.80	25	0.43	43
Florida	268	80	665	865	1,948	2.60	0.42	2.13	1.89	1.59	61	0.85	24
Georgia	340	268	447	397	1,634	4.74	2.28	2.28	1.49	2.19	46	1.03	15
Hawaii	44	5	79	108	211	2.90	0.23	2.24	2.43	2.04	70	0.96	20
Idaho	46	54	93	29	266	5.16	3.21	3.20	0.85	3.06	59	0.96	19
Illinois	401	(31)	(460)	(2,069)	1,639	1.55	(0.08)	(0.80)	(3.18)	1.19	77	0.45	42
Indiana	326	198	418	63	1,273	3.13	1.31	1.69	0.23	2.19	70	1.22	10
Iowa	125	63	155	(63)	719	3.19	0.96	1.45	(0.55)	3.00	94	1.14	12
Kansas	84	135	238	142	651	3.00	2.65	2.75	1.29	2.58	86	1.31	9
Kentucky	175	137	159	(121)	501	4.21	1.95	1.36	(0.90)	1.67	40	0.60	36
Louisiana	146	141	238	(102)	1,131	2.91	1.58	1.51	(0.47)	3.45	119	1.12	13
Maine	39	1	0	(4)	112	2.86	0.07	0	(0.09)	1.22	43	0.43	44
Maryland	213	29	273	220	691	3.26	0.29	1.83	1.11	1.52	47	0.69	29
Massachusetts	378	(99)	132	436	915	3.04	(0.61)	0.51	1.23	1.17	38	0.37	47
Michigan	491	(286)	112	(2,186)	1,831	2.49	(1.05)	0.25	(4.64)	1.74	70	0.47	41
Minnesota	119	(35)	70	(288)	513	1.76	(0.33)	0.41	(1.36)	0.99	56	0.51	39
Mississippi	85	90	231	257	553	3.87	2.25	3.47	3.12	3.13	81	1.59	4
Missouri	264	95	296	(64)	308	3.03	0.75	1.47	(0.27)	0.61	20	0.31	51
Montana	26	8	16	9	126	3.33	0.57	0.65	0.27	2.10	63	0.69	30
Nebraska	55	29	81	72	195	2.87	0.84	1.58	1.14	1.40	49	0.90	23

Nevada	39	5	95	122	348	3.20	0.22	2.31	2.02	1.87	58	0.68	31
New Hampshire	55	29	82	75	268	4.62	1.56	2.42	1.60	2.32	50	0.92	22
New Jersey	448	(348)	(507)	(423)	2,029	2.76	(1.54)	(1.50)	(0.97)	2.06	75	0.62	35
New Mexico	40	33	80	101	386	3.45	1.61	2.14	1.98	3.46	100	2.11	2
New York	1,693	574	403	819	470	3.76	1.02	0.51	0.78	0.23	6	0.09	53
North Carolina	414	342	564	400	1,336	5.22	2.71	2.71	1.52	1.92	37	0.78	26
North Dakota	13	22	21	11	50	2.53	1.94	1.13	0.46	1.20	47	0.51	38
Ohio	693	294	513	(1,658)	1,751	3.01	0.91	1.02	(3.04)	1.56	52	0.51	40
Oklahoma	55	27	177	108	564	1.69	0.46	1.56	0.62	2.43	144	1.77	3
Oregon	122	24	320	161	941	3.39	0.40	3.00	1.37	3.19	94	0.99	17
Pennsylvania	852	(86)	(1,091)	(2,145)	2,032	3.53	(0.25)	(2.18)	(3.75)	1.85	52	0.55	37
Puerto Rico	85	(26)	(33)	(47)	596	4.90	(0.95)	(0.88)	(1.11)	5.91	121	1.34	8
Rhode Island	75	(41)	(96)	(76)	116	4.34	(1.76)	(2.75)	(1.81)	1.38	32	0.32	49
South Carolina	166	95	195	50	603	4.61	1.61	1.96	0.40	1.95	42	0.67	32
South Dakota	8	20	16	9	50	3.81	1.96	0.95	0.43	1.01	27	0.95	21
Tennessee	212	200	264	15	827	3.57	1.95	1.63	0.08	1.63	46	0.75	27
Texas	337	231	396	142	642	1.90	0.71	0.65	(0.16)	0.36	19	0.31	50
Utah	51	32	67	10	524	3.55	1.22	1.43	0.16	3.12	88	1.55	5
Vermont	26	(25)	(21)	(27)	218	3.72	(2.53)	(1.30)	(1.29)	4.63	124	1.46	6
Virginia	218	122	103	14	897	3.41	1.08	0.56	0.06	1.40	41	1.07	14
Virgin Islands	NA	NA	(7)	(3)	42	NA	NA	(2.96)	(0.55)	7.42	NA	2.57	1
Washington	226	(67)	297	150	1,333	3.73	(0.71)	1.66	0.70	2.66	71	0.69	28
West Virginia	108	78	39	(145)	157	4.07	1.70	0.56	(1.85)	1.36	33	0.34	48
Wisconsin	322	121	465	(413)	1,557	4.29	0.99	2.37	(1.53)	3.10	72	0.99	16
Wyoming	19	31	69	46	147	4.29	3.02	3.15	1.51	4.32	101	1.43	7
Total	11,903	3,070	8,583	(2,645)	38,632	3.11	0.53	0.91	(0.24)	1.48	48	0.67	......

NA—Not available.

Source: U.S. Department of Labor. (1997b, March). 4th quarter CY96 UI data summary. Washington, DC.

Table 4–9 summarizes the beginning balances in the various unemployment trust fund accounts for selected fiscal years. At the start of fiscal year 1998, the 4 Federal accounts and the 53 State benefit accounts had a total balance of $63.0 billion. In real terms this represents a level 14 percent higher than that of 1971. This increase in real dollars does not allow for the erosion implied by the large increase in the labor force over this time period (although table 4–2 shows that an average of 36 percent of unemployed workers was covered, compared with 48 percent in 1970). Overall, a better measure is the ratio of the 1996–70 reserve ratios in table 4–8, which shows that aggregate reserves in 1996 relative to wages were a little less than half the 1970 level.

TABLE 4–9.—BEGINNING-OF-YEAR BALANCES IN UNEMPLOYMENT TRUST FUND ACCOUNTS, SELECTED FISCAL YEARS 1971–98

[In millions of dollars]

Account	1971	1976	1980	1983	1997
Employment security administration	$65	$365	$572	$545	$2,899
Extended unemployment compensation	0	116	764	483	9,466
Federal unemployment (reserve for State loans)	575	9	567	599	6,747
Federal employee compensation	(1)	(1)	(1)	24	262
State unemployment compensation [2]	12,409	6,145	8,272	720	43,657
Total: Nominal dollars	13,049	6,635	10,175	2,371	63,031
Total: Real dollars [3]	55,305	20,510	23,126	3,977	63,031

[1] There was no separate account for Federal employee compensation for this year.
[2] Figures are net of loans from Federal funds.
[3] Real dollars are obtained using CPI–U for the preceding fiscal years.

Source: U.S. Department of the Treasury, Bureau of Public Debt.

Whether the State trust fund balances are adequate is ultimately a matter about which each State must decide. States have a great deal of autonomy in how they establish and run their unemployment system. However, the framework established by the Federal Government requires States to actually pay the level of benefits they determine to be appropriate; in budget terms, unemployment benefits are an entitlement (although the program is financed by a dedicated tax imposed on employers and employees and not by general revenues). Thus, if a recession hits a given State and results in a depletion of that State's trust account, the State is legally required to continue paying benefits. To do so, the State will be forced to borrow money from the Federal unemployment account. As a result, not only will the State be required to continue paying benefits, it will also be required to repay the funds plus interest it has borrowed from the Federal loan account. Such States will probably be forced to raise taxes on their employers, an action that dampens economic growth and job creation. In short, States have strong incentives to keep adequate funds in their trust fund accounts.

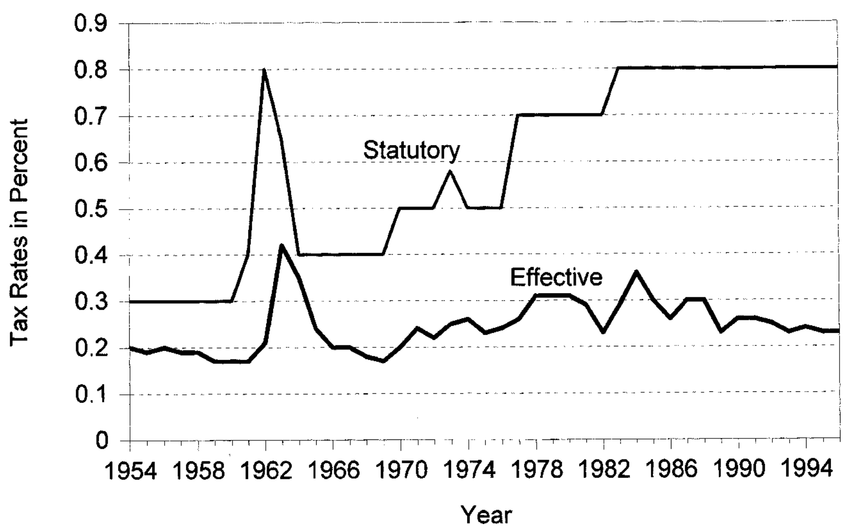
THE FEDERAL UNEMPLOYMENT TAX

FUTA imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The current gross FUTA tax rate is 6.2 percent, but employers in States meeting certain Federal requirements and having no delinquent Federal loans are eligible for a 5.4 percent credit, making the current minimum, net Federal tax rate 0.8 percent. Since most employees earn more than the $7,000 taxable wage ceiling, the FUTA tax typically is $56 per worker ($7,000 × 0.8 percent), or 3 cents per hour for a full-time worker. The 1997 budget bill extended the 0.2 percent surtax through 2007.

The wage base was held constant at $3,000 until 1971, and then was increased on three occasions.

Chart 4–2 depicts the historical trends in the statutory and effective Federal unemployment tax rates. The effective tax rate equals FUTA revenue as a percent of total covered wages. Although the statutory tax rate doubled from 0.4 percent in the late 1960s to 0.8 percent in the late 1980s, the effective tax rate has fluctuated between 0.2 and 0.3 percent in most of those years.

CHART 4–2. HISTORY OF FEDERAL UNEMPLOYMENT TAX RATE, 1954–96



Source: Chart prepared by the Congressional Research Service based on data from the U.S. Department of Labor.

State Unemployment Taxes

The States finance their programs and half of the permanent Extended Benefits Program with employer payroll taxes imposed on at least the first $7,000 paid annually to each employee.[1] States have adopted taxable wage bases at least as high as the Federal level because they otherwise would lose the 5.4 percent credit to employers on the difference between the Federal and State taxable wage bases. Table 4–10 shows that, as of January 1997, 41 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $26,000 in Hawaii.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in 17 States up to a maximum as high as 10 percent in 3 States.

TABLE 4–10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1996–97

State	Estimated 1996 average tax rates as a percent of—		1997 tax base	1997 experience rates [1]	
	Taxable wages	All wages		Minimum	Maximum
Alabama	1.0	0.4	$8,000	0.14	6.74
Alaska	2.2	1.5	24,200	1.00	6.50
Arizona	1.7	0.4	7,000	0.10	5.40
Arkansas	2.0	1.0	9,000	0.00	6.00
California	3.8	1.0	7,000	0.10	5.40
Colorado	1.1	0.4	10,000	0.00	5.40
Connecticut	4.0	1.2	12,000	0.50	6.40
Delaware	2.6	0.8	8,500	0.10	8.00
District of Columbia	3.4	0.9	9,000	0.10	7.40
Florida	1.6	0.5	7,000	0.10	5.40
Georgia	1.4	0.5	8,500	0.01	8.64
Hawaii	2.2	1.6	26,000	0.00	5.40
Idaho	1.8	1.2	22,800	0.10	6.80
Illinois	2.7	0.8	9,000	0.20	6.40
Indiana	1.4	0.4	7,000	0.20	5.70
Iowa	0.9	0.5	15,200	0.00	9.00
Kansas	0.9	0.3	8,000	0.02	5.40
Kentucky	2.0	0.7	8,000	0.30	10.00
Louisiana	1.7	0.7	7,700	0.30	6.00
Maine	3.7	1.2	7,000	0.50	7.50
Maryland	2.3	0.8	8,500	0.10	9.20
Massachusetts	3.7	1.3	10,800	0.60	9.30
Michigan	4.4	1.4	9,500	0.00	10.00
Minnesota	1.4	0.7	16,300	0.10	9.00
Mississippi	1.3	0.5	7,000	0.10	5.40
Missouri	2.0	0.5	8,000	0.00	8.70
Montana	1.2	0.8	16,000	0.00	6.40
Nebraska	0.6	0.2	7,000	0.00	5.40
Nevada	1.5	0.9	17,200	0.30	5.40

[1] Alaska, New Jersey, and Pennsylvania also tax employees directly.

TABLE 4–10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1996–97—Continued

State	Estimated 1996 average tax rates as a percent of—		1997 tax base	1997 experience rates [1]	
	Taxable wages	All wages		Minimum	Maximum
New Hampshire	1.0	0.3	8,000	0.01	6.50
New Jersey	2.6	1.2	18,600	0.40	6.47
New Mexico	1.4	0.6	14,200	0.10	5.40
New York	4.4	1.0	7,000	0.00	5.40
North Carolina	0.3	0.1	12,100	0.00	5.70
North Dakota	1.0	0.5	14,200	0.10	5.40
Ohio	2.6	0.9	9,000	0.10	6.50
Oklahoma	1.1	0.4	11,100	0.10	6.20
Oregon	2.1	1.3	20,000	0.50	5.40
Pennsylvania	4.1	1.2	8,000	0.30	9.20
Puerto Rico	2.9	0.9	7,000	1.00	5.40
Rhode Island	3.7	2.1	17,600	0.80	8.40
South Carolina	2.0	0.7	7,000	0.19	5.40
South Dakota	0.5	0.2	7,000	0.00	9.50
Tennessee	1.8	0.6	7,000	0.00	10.00
Texas	1.5	0.5	9,000	0.00	6.00
Utah	0.8	0.5	17,800	([2])	8.00
Vermont	2.6	0.9	8,000	0.40	8.40
Virginia	1.2	0.4	8,000	0.00	6.20
Virgin Islands	1.8	1.2	14,400	0.10	9.50
Washington	2.0	1.2	21,300	0.36	5.40
West Virginia	3.0	1.1	8,000	0.00	7.50
Wisconsin	2.2	0.9	10,500	0.00	8.90
Wyoming	1.4	0.7	12,200	0.00	8.50
U.S. average	2.4	0.8	NA	NA	NA

[1] Actual rates could be higher if State has an additional tax.
[2] Not specified.

NA—Not applicable.

Note.—This table shows State unemployment tax levels. It does not include the Federal unemployment tax.

Source: U.S. Department of Labor.

Estimated national average State tax rates on taxable wages and total wages for 1996 were 2.4 and 0.8 percent, respectively. Estimated average State tax rates on taxable wages ranged from 0.3 percent in North Carolina to 4.4 percent in Michigan and New York. Estimated average State tax rates on total wages varied from 0.1 percent in North Carolina to 2.1 percent in Rhode Island.

Table 4–11 shows recent State data on unemployment compensation covered employment, wages, taxable wages, the ratio of taxable to total wages, and average weekly wages. The ratio of taxable wages to total wages varied from 0.17 in New York to 0.62 in Montana.

TABLE 4–11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE UNEMPLOYMENT TAXATION FOR PERIOD ENDING SEPTEMBER 1996

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Alabama	1,723	$41,953	$12,278	0.29	$468
Alaska	239	7,767	3,731	0.48	625
Arizona	1,829	47,254	12,575	0.27	497
Arkansas	1,036	22,546	7,993	0.35	419
California	12,747	397,619	82,400	0.21	600
Colorado	1,803	49,963	16,440	0.33	533
Connecticut	1,532	55,240	13,807	0.25	693
Delaware	360	10,817	2,698	0.25	579
District of Columbia	413	16,209	3,468	0.21	754
Florida	6,016	151,072	40,331	0.27	483
Georgia	3,354	90,174	25,658	0.28	517
Hawaii	502	13,462	7,422	0.55	516
Idaho	476	10,934	5,933	0.54	442
Illinois	5,448	167,370	42,701	0.26	591
Indiana	2,700	70,086	17,480	0.25	499
Iowa	1,319	30,637	13,036	0.43	447
Kansas	1,166	28,078	10,808	0.38	463
Kentucky	1,569	37,473	10,800	0.29	459
Louisiana	1,714	41,180	11,511	0.28	462
Maine	518	12,002	3,086	0.26	446
Maryland	2,035	58,885	14,707	0.25	557
Massachusetts	2,900	96,530	28,913	0.30	640
Michigan	4,200	130,584	33,198	0.25	598
Minnesota	2,321	65,608	25,467	0.39	544
Mississippi	1,039	22,112	6,603	0.30	409
Missouri	2,418	62,892	17,376	0.28	500
Montana	334	6,805	4,193	0.62	391
Nebraska	793	18,070	4,678	0.26	438
Nevada	812	22,104	11,269	0.51	523
New Hampshire	530	14,381	3,670	0.26	521
New Jersey	3,455	122,120	46,075	0.38	680
New Mexico	638	14,587	6,133	0.42	440
New York	7,625	276,803	45,594	0.16	698
North Carolina	3,432	85,359	32,364	0.38	478
North Dakota	279	5,752	2,373	0.41	397
Ohio	5,089	138,829	38,315	0.28	525
Oklahoma	1,267	28,578	10,869	0.38	434
Oregon	1,423	37,577	18,561	0.49	508
Pennsylvania	5,024	142,653	33,427	0.23	546
Puerto Rico	946	14,837	4,680	0.32	302
Rhode Island	423	11,268	4,724	0.42	512
South Carolina	1,614	38,071	10,368	0.27	454
South Dakota	321	6,439	1,857	0.29	386
Tennessee	2,411	60,943	15,891	0.26	486
Texas	7,866	216,516	62,489	0.29	529

TABLE 4–11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE UNEMPLOYMENT TAXATION FOR PERIOD ENDING SEPTEMBER 1996—Continued

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Utah	881	21,054	10,002	0.48	460
Vermont	264	6,326	1,708	0.27	461
Virginia	2,888	77,734	20,808	0.27	518
Virgin Islands	40	971	341	0.35	472
Washington	2,305	64,995	30,375	0.47	542
West Virginia	641	15,037	4,187	0.28	451
Wisconsin	2,480	63,452	20,248	0.32	492
Wyoming	206	4,571	1,677	0.37	427
United States	115,362	3,254,281	917,298	0.28	542

Source: U.S. Department of Labor. (1997c, May). 1st quarter CY97 UI data summary. Washington, DC.

ADMINISTRATIVE FINANCING AND ALLOCATION

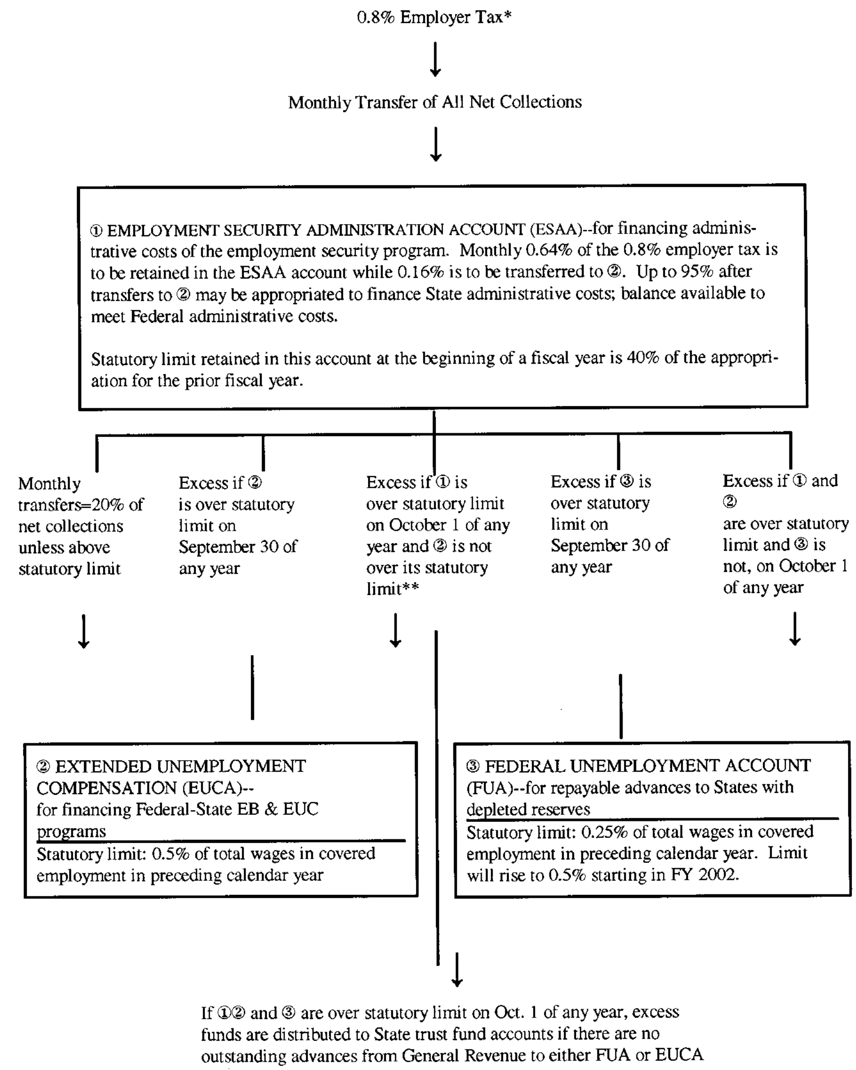
State unemployment compensation administrative expenses are federally financed. A portion of revenue raised by FUTA is designated for administration and for maintaining a system of public employment offices.

As explained above, FUTA revenue flows into three Federal accounts in the unemployment trust fund. One of these accounts, the employment security administration account (ESAA), finances administrative costs associated with Federal and State unemployment compensation and employment services.

Under current law, 80 percent of FUTA revenue is allocated to ESAA and 20 percent to another Federal account (chart 4–3). Funds for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the FUTA tax. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or $150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over the corresponding calendar quarter in the immediately preceding year.

Title III of the Social Security Act authorizes payment to each State with an approved unemployment compensation law of such amounts as are deemed necessary for the proper and efficient administration of the UC Program during the fiscal year. Allocations are based on: (1) the population of the State; (2) an estimate of the number of persons covered by the State unemployment insurance law; (3) an estimate of the cost of proper and efficient administration of such law; and (4) such other factors as the Secretary of Labor finds relevant.

CHART 4–3. FLOW OF FUTA FUNDS UNDER EXISTING FEDERAL STATUTES



*Effective tax, after 5.4 is offset against 6.2% Federal unemployment tax. Effective rate will drop to 0.6% on January 1, 2008.
**$100 million of funds that would otherwise be transferred from ① to ② or distributed to the States in the same proportion as each State's share of current appropriation for administration.

Source: Chart prepared by the National Foundation for Unemployment Compensation & Workers' Compensation.

Subject to the limit of available resources, the allocation of State grants for administration is the sum of resources made available for two major areas, the Unemployment Insurance Service (UI) and the Employment Service (ES). Each area has its own allocation methodology subject to general constraints set forth in the Social Security Act and the Wagner-Peyser Act.

Each year, as part of the development of the President's budget, the Department of Labor, in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount to be available for administration. The estimate of FUTA revenues is based on several factors: (1) a wage base of $7,000 per employee; (2) a tax rate of 0.8 percent (0.64 percentage points for administration and 0.16 percentage points for extended benefits); (3) the administration's projection of the level of unemployment and the growth in wages; and (4) the level of covered employment subject to FUTA. In addition, a determination is made based on the administration's forecast for unemployment as to whether the rate will increase by at least 15 percent.

Each year the President's budget sets forth an estimate of national unemployment in terms of the volume of unemployment claims per week. This is characterized as average weekly insured unemployment (AWIU). A portion of AWIU is expressed as "base" and the remainder as "contingency." At the present time, the base is set at the level of resources required to process an average weekly volume of 2.8 million weeks of unemployment.

Resources available to each State to administer its UC Program (i.e., process claims and pay benefits) are provided from either "base" funds or "contingency" funds. At the beginning of the fiscal year, only the base funds are allocated, while contingency funds are allocated on a needs basis as workload materializes. Base funds are distributed to the State for use throughout the fiscal year and are available regardless of the level of unemployment (workload) realized. If a State processes workloads in excess of the base level, it receives contingency funds determined by the extent of the resources required to process the additional workload.

The allocation of the base UC grant funds to each State is made by:

1. Projecting the workloads that each State is expected to process;
2. Determining the staff required to process each State's projected workload;
3. Multiplying the final staff-year allocations for each State by the cost per staff year (i.e., State salary and benefit level) to determine dollar funding levels; and
4. Allocating overhead resources (administrative and management staff and nonpersonal services).

Each Department of Labor regional office may redistribute resources among the States in its area with national office approval. The 1997 budget bill authorized funds over 5 years specifically for program integrity activities such as claims review and employer tax audits to assist the States in strengthening their efforts to reduce administrative error and fraud.

In Public Law 102–164, Congress required the Department of Labor to study the allocation process and recommend improvements. Public Law 102–318 extended the study deadline to December 31, 1994. The Department has not yet submitted the report to Congress.

LEGISLATIVE HISTORY

Major Federal laws passed by Congress since 1990 and their key provisions are as follows:

The Omnibus Budget Reconciliation Act of 1990 (Public Law 101–508) extended the 0.2 percent FUTA surtax for 5 years through 1995.

The Emergency Unemployment Compensation Act of 1991 (Public Law 102–164) established temporary emergency unemployment compensation (EUC) benefits through July 4, 1992. It returned to States the option of covering nonprofessional school employees between school terms and restored benefits for ex-military members to the same duration and waiting period applicable to other unemployed workers. It extended the 0.2 percent FUTA surtax for 1 year through 1996.

The Unemployment Compensation Amendments of 1992 (Public Law 102–318) extended EUC for claims filed through March 6, 1993, and reduced the benefit periods to 20 and 26 weeks. The law also gave claimants eligible for both EUC and regular benefits the right to choose the more favorable of the two. States were authorized, effective March 7, 1993, to adopt an alternative trigger for the Federal-State EB Program. This trigger is based on a 3-month average total unemployment rate and can activate either a 13- or a 20-week benefit period depending on the rate.

The Emergency Unemployment Compensation Amendments of 1993 (Public Law 103–6) extended EUC for claims filed through October 2, 1993. The law also authorized funds for automated State systems to identify permanently displaced workers for early intervention with reemployment services.

The Omnibus Budget Reconciliation Act of 1993 (Public Law 103–66) extended the 0.2 percent FUTA surtax for 2 years through 1998.

The Unemployment Compensation Amendments of 1993 (Public Law 103–152) extended EUC for claims filed through February 5, 1994, and set the benefit periods at 7 and 13 weeks. It repealed a provision passed in 1992 that allowed claimants to choose between EUC and regular State benefits. It required States to implement a "profiling" system to identify UI claimants most likely to need job search assistance to avoid long-term unemployment.

The North American Free Trade Agreement Implementation Act (Public Law 103–182) gave States the option of continuing UC benefits for claimants who elect to start their own businesses. Authorization expires in December 1998.

The Balanced Budget Act of 1997 (Public Law 105–33) gave States complete authority in setting base periods for determining eligibility for benefits, authorized appropriations for program integrity activities, limited trust fund distributions to States in fiscal years 1999–2001, and raised the ceiling on FUA assets from 0.25 percent to 0.5 percent of wages in covered employment starting in fiscal year 2002. The Taxpayer Relief Act of 1997 (Public Law 105–34) extended the 0.2 percent FUTA surtax through 2007.

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