

## **SECTION 4. UNEMPLOYMENT COMPENSATION**

### **CONTENTS**

#### **Overview**

#### **Benefits**

##### **Coverage**

##### **Number of Covered Workers**

##### **Eligibility**

##### **Amount and Duration of Weekly Benefits**

#### **Extended Benefits**

#### **Benefit Exhaustion**

#### **Supplemental Benefits**

#### **Hypothetical Weekly Benefit Amounts for Various Workers in the Regular State Programs**

#### **The Unemployment Trust Fund**

##### **Financial Condition of the Unemployment Trust Fund**

##### **The Federal Unemployment Tax**

##### **State Unemployment Taxes**

#### **Administrative Financing and Allocation**

#### **Legislative History**

#### **References**

### **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 (EB) 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 125 million individuals were covered by all UC Programs in 2000, 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.

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.

TABLE 4-1.—UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1989–2000

Statistic	Fiscal years											2000 (esti- mated) <sup>1</sup>
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	
Total civilian unemployment rate (per- cent) .....	5.3	5.4	6.5	7.3	7.0	6.3	5.6	5.5	5.1	4.6	4.3	4.2
Insured unemployment rate (percent) <sup>2</sup> ...	2.1	2.3	3.1	3.1	2.7	2.6	2.3	2.3	2.1	1.9	1.8	1.8
Coverage (millions) .....	104.3	106.1	105.1	104.9	106.6	109.7	112.9	115.4	118.2	121.6	124.2	125.1
Average weekly benefit amount:												
Current dollars .....	145	154	163	167	172	175	179	182	185	190	202	213
In 1999 dollars <sup>3</sup> .....	196	198	200	198	198	197	196	193	192	194	202	208
State unemployment compensation:												
Beneficiaries (millions) .....	7.0	8.1	10.2	9.6	7.8	8.2	7.9	8.1	7.5	7.3	7.1	7.2
Regular benefit exhaustions (mil- lions) .....	1.9	2.2	3.2	3.9	3.3	3.1	2.7	2.7	2.6	2.3	2.3	2.3
Regular benefits paid (billions of dollars) .....	13.5	16.8	24.4	25.6	21.9	21.7	20.9	22.0	20.3	19.4	20.7	21.3
Extended benefits (State share: billions of dollars) .....	( <sup>6</sup> )	0.03	0.01	0.02	0.00	0.15	0.04	0.01	( <sup>6</sup> )	( <sup>6</sup> )	0.01	0.01
State tax collections (billions of dollars) .....	17.3	16.0	15.3	17.6	21.0	22.5	23.2	22.7	22.1	21.0	20.0	21.5
State trust fund impact (income- outlays: billions of dollars) <sup>4</sup> .....	+3.80	-0.88	-9.13	-8.03	-0.93	+0.66	+2.24	+0.75	+1.80	+1.6	-0.71	+0.19
Federal Unemployment Accounts:												
Federal tax collections (billions of dollars) <sup>5</sup> .....	4.45	5.36	5.33	5.41	<sup>7</sup> 4.23	5.46	5.70	5.85	6.10	6.37	6.48	6.67
Outlays: Federal EB share plus Federal supplemental benefits (billions of dollars) .....	( <sup>6</sup> )	0.03	0.01	11.15	13.17	4.37	0.05	<sup>8</sup> -0.01	( <sup>6</sup> )	0.01	0.01	0.01

TABLE 4-1.—UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1989–2000—Continued

Statistic	Fiscal years											2000 (esti- mated) <sup>1</sup>
	1989	1990	1991	1992	1993	1994	1995	1996	1997	1988	1999	
State administrative costs (billions of dollars):												
Unemployment Insurance Service	1.71	1.74	1.95	2.49	2.52	2.43	2.38	2.31	2.34	2.55	2.50	2.50
Employment Service .....	1.00	1.01	1.05	1.02	0.90	0.90	1.05	1.06	1.02	1.01	1.05	1.11
Total administrative costs ...	2.71	2.75	3.00	3.51	3.42	3.33	3.43	3.36	3.36	3.56	3.55	3.61

<sup>1</sup> Based on the President's fiscal year 2001 budget.

<sup>2</sup> The average number of workers claiming State unemployment compensation benefits as a percent of all workers covered.

<sup>3</sup> Adjusted using the Consumer Price Index for All Urban Consumers.

<sup>4</sup> Excludes interest earned.

<sup>5</sup> Net of reduced credits.

<sup>6</sup> Less than \$5 million.

<sup>7</sup> Reflects a book adjustment of minus \$967 million.

<sup>8</sup> Reflects reclaimed benefits in excess of benefits paid.

Source: U.S. Department of Labor, 2000.

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 38 percent of unemployed persons were receiving UC benefits in 1999. 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., 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).

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.

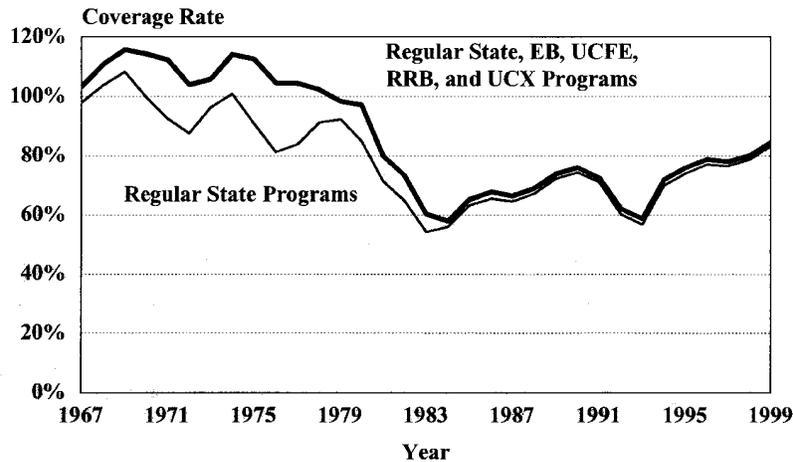
TABLE 4-2.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT, BY MONTH, SELECTED YEARS 1967–99

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
1997 .....	39	39	38	38	33	30	34	33	30	32	35	37	35
1998 .....	40	41	40	41	35	31	36	34	31	32	36	39	36
1999 .....	44	43	44	41	38	33	36	35	32	33	35	41	38

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

CHART 4-1. RATIO OF INSURED UNEMPLOYMENT TO JOB LOSERS (YEARLY AVERAGES), 1967-99



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 Office 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. On average, workers must have worked in two quarters and earned \$1,734 to qualify for a minimum monthly benefit. 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, 1999<sup>1</sup>

State	Required total earnings in base year			Minimum work in base year (quarters) <sup>3</sup>
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits <sup>2</sup>	
Alabama .....	\$2,136	\$9,096	\$14,819	2Q
Alaska .....	1,000	26,750	26,750	2Q
Arizona .....	1,500	7,293	15,209	2Q
Arkansas .....	1,350	14,612	21,918	2Q
California .....	1,125	9,542	11,958	
Colorado .....	1,000	30,888	30,888	
Connecticut .....	600	14,480	14,480	2Q
Delaware .....	966	13,800	13,800	
District of Columbia .....	1,950	12,051	16,068	2Q
Florida .....	3,400	10,725	28,598	2Q
Georgia .....	1,872	10,752	23,294	2Q
Hawaii .....	130	9,256	9,256	2Q
Idaho .....	1,657	8,613	23,039	2Q
Illinois .....	1,600	14,079	14,079	2Q
Indiana .....	2,750	6,750	21,914	2Q
Iowa .....	1,230	6,871	18,642	2Q
Kansas .....	2,100	8,430	22,039	2Q
Kentucky .....	1,500	20,561	21,561	2Q
Louisiana .....	1,200	8,063	20,704	2Q
Maine .....	3,120	17,082	17,082	2Q
Maryland .....	900	9,000	9,000	2Q
Massachusetts .....	2,000	11,460	31,833	
Michigan .....	3,084	11,840	20,720	2Q
Minnesota .....	1,250	10,758	25,818	2Q
Mississippi .....	1,200	7,600	14,820	2Q
Missouri .....	1,500	8,250	17,160	2Q
Montana .....	1,440	23,700	23,700	2Q
Nebraska .....	1,600	5,850	16,068	2Q
Nevada .....	600	9,675	19,350	2Q
New Hampshire .....	2,800	28,500	28,500	2Q
New Jersey .....	2,020	12,067	21,117	2Q
New Mexico .....	1,430	7,085	9,707	2Q
New York .....	1,600	14,580	14,580	2Q
North Carolina .....	2,904	12,090	25,116	2Q
North Dakota .....	2,795	16,900	21,632	2Q
Ohio .....	2,640	10,680	13,884	2Q
Oklahoma .....	4,280	9,450	16,575	2Q
Oregon .....	1,000	26,320	26,320	2Q
Pennsylvania .....	1,320	14,920	14,920	2Q
Puerto Rico .....	280	5,320	5,320	2Q

TABLE 4-3.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 1999<sup>1</sup>—Continued

State	Required total earnings in base year			Minimum work in base year (quarters) <sup>3</sup>
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits <sup>2</sup>	
Rhode Island .....	2,060	11,266	25,061	2Q
South Carolina .....	900	8,931	17,862	2Q
South Dakota .....	1,288	8,924	15,132	2Q
Tennessee .....	1,560	11,440	22,880	2Q
Texas .....	1,702	10,360	26,959	2Q
Utah .....	1,800	11,076	27,348	2Q
Vermont .....	1,723	12,375	12,375	
Virginia .....	3,000	11,300	22,600	2Q
Virgin Islands .....	1,287	8,931	17,862	2Q
Washington .....	2,200	10,250	36,900	
West Virginia .....	2,200	28,600	28,600	2Q
Wisconsin .....	1,590	8,460	18,330	2Q
Wyoming .....	1,750	7,563	20,082	2Q

<sup>1</sup>Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.

<sup>2</sup>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.

<sup>3</sup>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 two 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.

In February 1996, 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 four 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 1999, 16 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount, and 1 State decreased it. Thirty-nine States increased and six decreased the qualification requirement for the maximum weekly benefit amount. Forty-two States increased (and five 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 Benefits Program (see below) to any individual who fails to accept 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 de-

nied 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 14.8 million "monetarily eligible" initial UC claims in 1999, 27.4 percent were disqualified. This figure subdivides into 4.9 percent not being able to work or available for work, 7.3 percent voluntarily leaving a job without good cause, 4.9 percent being fired for misconduct on the job, 0.3 percent refusing suitable work, and 10.1 percent committing other disqualifying acts. The total disqualification rate ranged from a low of 11.0 percent in Kentucky to a high of 94.9 percent in Nebraska, with Colorado the next highest at 86.8 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.

#### *U.S. Department of Labor proposal to use unemployment compensation benefits for family leave*

On December 3, 1999, the U.S. Department of Labor (DOL) issued a Notice of Proposed Rulemaking to create, by regulation, a voluntary experimental program that would give States the option of extending UC eligibility to parents who take time off from employment after the birth or placement for adoption of a child under the Family Medical Leave Act of 1993 (Public Law 103-3). The program is referred to as the birth and adoption UC experiment, also known colloquially as "baby UI." The proposal immediately drew criticism from opponents who argued that the proposal creates a

benefit that the Congress did not intend when it created the Family and Medical Leave Act and such benefits would be contrary to the purpose of UC benefits as stated in the law. Some opponents argued that the proposal could not be implemented without a new law being enacted by the Congress. DOL disagreed with this assessment and cited the fact that much of the basic structure of the UC system, including the requirement that individuals be able and available for work, was established by regulatory guidance, rather than statute. DOL also suggested the change was needed to allow the UC system to keep pace with the changing nature of the work force, particularly the dramatic increase in the number of working mothers. The final rule was published in the *Federal Register* on June 13, 2000.

#### *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 compensation 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 2000. 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 2000, taxes collected on benefits probably will be about twice as high as the \$2.9 billion shown in table 4-4.

TABLE 4-4.—PROJECTED EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS BY INCOME LEVEL, CALENDAR YEAR 2000

Level of individual or couple income <sup>1</sup>	Number (in thousands) of recipients of unemployment compensation	Number (in thousands) affected by taxation of benefits	Percent affected by taxation	Total amount of unemployment compensation benefits, in millions of dollars	Total amount of taxes on benefits, in millions of dollars	Taxes as a percent of total benefits
Less than \$10,000 .....	687	210	30.6	\$1,553	\$36	2.3
\$10,000–\$15,000 .....	634	441	69.6	1,884	161	8.6
\$15,000–\$20,000 .....	494	432	87.5	1,607	182	11.3
\$20,000–\$25,000 .....	382	343	89.8	1,195	183	15.3
\$25,000–\$30,000 .....	363	340	93.5	1,153	198	17.2
\$30,000–\$40,000 .....	600	597	99.5	1,823	317	17.4
\$40,000–\$50,000 .....	534	534	100.0	1,778	315	17.7
\$50,000–\$100,000 .....	1,291	1,291	100.0	4,290	927	21.6
At least \$100,000 .....	281	281	100.0	1,999	621	31.1
Total .....	5,265	4,468	84.9	17,282	2,941	17.0

<sup>1</sup> Cash income (based on income tax filing unit) plus capital gains realizations.

Source: Congressional Budget Office (CBO) 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, 1999.

Table 4-5 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In 1999, the national average weekly benefit amount was \$215 and the average duration was 14.5 weeks, making the average total benefits \$3,118. The minimum weekly benefit amounts for 2000 vary from \$0 in New Jersey to \$102 in Rhode Island. The maximum weekly benefit amounts range from \$133 in Puerto Rico to \$646 in Massachusetts.

TABLE 4-5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1999 AND 2000

State	1999 average weekly benefit	2000 weekly benefit amount <sup>1</sup>		1999 average duration (weeks)	2000 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
Alabama .....	\$158	\$45	\$190	10	15	26
Alaska .....	194	44-68	248-320	15	16	26
Arizona .....	164	40	205	14	12	26
Arkansas .....	206	55	309	13	9	26
California .....	158	40	230	16	14	26
Colorado .....	252	25	337	12	13	26
Connecticut .....	233	15-30	382-457	15	26	26
Delaware .....	233	20	315	13	24	26
District of Columbia .....	239	50	309	20	20	26
Florida .....	214	32	275	14	26	26
Georgia .....	206	39	264	9	9	26
Hawaii .....	280	5	371	16	26	26
Idaho .....	201	51	273	12	10	26
Illinois .....	242	51	284-376	16	26	26
Indiana .....	214	50	252	11	8	26
Iowa .....	234	39-47	263-323	11	7	26
Kansas .....	247	76	306	13	10	26
Kentucky .....	214	39	316	12	15	26
Louisiana .....	161	10	258	15	26	26
Maine .....	198	41-60	254-381	13	26	26
Maryland .....	206	25-33	250	14	26	26
Massachusetts .....	288	27-40	431-646	17	10	30
Michigan .....	237	87	300	12	15	26
Minnesota .....	279	38	331-410	14	10	26
Mississippi .....	156	30	190	14	13	26
Missouri .....	180	45	220	13	11	26

TABLE 4-5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1999 AND 2000—Continued

State	1999 average weekly benefit	2000 weekly benefit amount <sup>1</sup>		1999 average duration (weeks)	2000 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
Montana .....	180	63	254	14	8	26
Nebraska .....	183	36	206	12	20	26
Nevada .....	221	16	282	14	12	26
New Hampshire .....	221	32	301	10	26	26
New Jersey .....	285	0	429	17	15	26
New Mexico .....	184	48	254	16	19	26
New York .....	245	40	365	18	26	26
North Carolina .....	225	30	356	10	13	26
North Dakota .....	202	43	283	15	12	26
Ohio .....	228	77	279-375	13	20	26
Oklahoma .....	211	16	283	14	20	26
Oregon .....	230	84	360	15	4	26
Pennsylvania .....	258	35-40	408-416	16	16	26
Puerto Rico .....	104	7	133	19	26	26
Rhode Island .....	253	52-102	383-478	13	15	26
South Carolina .....	188	20	248	11	15	26
South Dakota .....	172	28	214	11	15	26
Tennessee .....	188	30	255	12	12	26
Texas .....	225	48	294	16	9	26
Utah .....	205	20	309	12	10	26
Vermont .....	208	40	287	13	26	26
Virginia .....	192	50	230	10	12	26
Virgin Islands .....	168	32	233	15	13	26
Washington .....	279	94	441	18	16	30
West Virginia .....	194	24	318	14	26	26
Wisconsin .....	228	44	297	12	12	26
Wyoming .....	200	19	261	13	12	26
U.S. average .....	215	NA	NA	15	NA	NA

<sup>1</sup> 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 1999 to 2000, 16 States increased and 3 decreased their minimum weekly benefit amounts. Thirty-six States raised their maximum weekly benefit amounts, while no State decreased them.

Five States lowered their minimum potential durations, and 13 States raised their minimum duration.

### **EXTENDED BENEFITS**

The Federal-State Extended Benefits Program is available in every State and 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 four of the last five 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 May 2000, EB is not active in any State.

### **BENEFIT EXHAUSTION**

Due to the limited duration of UC benefits, some individuals exhaust their benefits. For the regular State programs, 2.3 million individuals exhausted their benefits in fiscal year 1999, or 32 percent of claimants who began receiving UC during the 12 months ending March 1999.

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 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 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 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, depending on the level of unemployment in the respective States. 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 revenues 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

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	( <sup>1</sup> )	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

<sup>1</sup> Less than \$50,000,000.

Source: Office of Management and Budget and Congressional Budget Office.

EUC were choosing EUC. As a result, for the periods fiscal year 1992 and fiscal year 1993 alone, the Office of Management and Budget (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.

#### 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 1999. 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 \$82 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 \$390 in Connecticut.

TABLE 4-7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 1999

State	Hypothetical workers <sup>1</sup>			
	A	B	C	D
Alabama .....	\$112	\$130	\$190	\$56
Alaska .....	144	158	256	102
Arizona .....	107	125	187	54
Arkansas .....	103	120	180	55
California .....	81	95	142	41
Colorado .....	124	144	216	62
Connecticut .....	216	250	390	113
Delaware .....	116	136	203	58
District of Columbia .....	103	120	180	52
Florida .....	103	120	180	52
Georgia .....	112	130	195	56
Hawaii .....	128	149	223	64
Idaho .....	103	120	180	52
Illinois .....	102	119	178	51
Indiana .....	125	142	205	71
Iowa .....	116	136	203	58
Kansas .....	114	133	199	73
Kentucky .....	132	154	231	66

TABLE 4-7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS,  
JANUARY 1999—Continued

State	Hypothetical workers <sup>1</sup>			
	A	B	C	D
Louisiana .....	107	125	187	54
Maine .....	132	152	243	71
Maryland .....	120	138	219	64
Massachusetts .....	128	145	255	77
Michigan .....	NA	NA	NA	NA
Minnesota .....	103	120	180	52
Mississippi .....	103	120	180	52
Missouri .....	107	125	187	54
Montana .....	107	125	187	63
Nebraska .....	112	130	195	56
Nevada .....	107	125	187	54
New Hampshire .....	118	137	206	59
New Jersey .....	124	144	216	62
New Mexico .....	103	120	180	52
New York .....	107	125	180	54
North Carolina .....	103	120	180	52
North Dakota .....	82	96	144	43
Ohio .....	103	120	180	0
Oklahoma .....	116	136	203	58
Oregon .....	134	156	234	84
Pennsylvania .....	112	130	202	59
Puerto Rico .....	103	120	173	52
Rhode Island .....	124	144	216	62
South Carolina .....	103	120	180	52
South Dakota .....	103	120	180	52
Tennessee .....	103	120	180	52
Texas .....	107	125	187	54
Utah .....	103	120	180	52
Vermont .....	119	139	208	60
Virginia .....	107	125	187	54
Virgin Islands .....	103	120	180	52
Washington .....	107	125	187	94
West Virginia .....	107	125	187	54
Wisconsin .....	107	125	187	54
Wyoming .....	107	125	187	54

<sup>1</sup> Hypothetical workers:

- A. \$5.15/hour wage; 40 hours/week; 52 weeks/year; nonworking spouse; no children.  
 B. \$6.00/hour wage; 40 hours/week; 52 weeks/year; nonworking spouse; no children.  
 C. \$9.00/hour wage; 40 hours/week; 52 weeks/year; nonworking spouse; two children.  
 D. \$5.15/hour wage; 20 hours/week; 52 weeks/year; 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 volume.) 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 Employees' 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 1999, the Employment Security Administration Account (ESAA) exceeded its fiscal year 1999 ceiling of \$1.4 billion. The 1997 budget bill provided for the distribution of up to \$100 million of excess funds at the end of each of the 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 will occur if trust fund surpluses continue to mount in future years.

The Extended Unemployment Compensation Account (EUCA) balance was below its ceiling of \$15.9 billion by \$0.3 billion at the end of fiscal year 1999; the FUA balance was slightly below its \$8.0 billion ceiling. Under the administration's fiscal year 2000 budget assumptions, the EUCA balance will fall short of its ceiling in fiscal year 2000, then begin to have end-of-year balances which slightly exceed its ceiling. 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 limit Reed Act transfers to State accounts in coming years. The reason Congress has taken these actions to increase ceilings and limit outflows from the Federal funds is that excess funds in the Unemployment Trust Fund are included in the unified Federal budget and offset deficits or increase surpluses.

##### *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 2000 held \$50.3 billion, which represents a marked improvement over the balances of \$28.8 billion in 1992 and \$38.6 billion in 1997.

TABLE 4-8.—FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS, SELECTED YEARS 1970-2000

State	Net reserves in millions of dollars at end of calendar year					Reserve ratios by year					2000 re- serves as percent- age of 1970 re- serves	Average high- cost multiple	
	1970	1979	1982	1996	2000	1970	1979	1982	1996	2000		2000	Rank
Alabama .....	\$130	\$118	\$9	\$483	\$444	2.96	0.98	0.06	1.42	1.09	37	0.73	43
Alaska .....	35	65	134	194	205	5.51	2.78	2.94	3.42	3.23	59	1.03	32
Arizona .....	119	226	215	627	927	4.25	2.36	1.66	1.64	1.73	41	1.73	9
Arkansas .....	49	24	-77	203	242	2.26	0.37	-1.00	1.11	1.08	48	0.66	45
California .....	1,219	2,738	2,708	2,877	4,930	2.91	2.51	1.83	0.90	1.14	39	0.77	41
Colorado .....	91	137	-4	511	719	2.54	1.11	-0.02	1.24	1.22	48	1.11	23
Connecticut .....	252	-267	-252	278	850	0.08	-1.70	-1.21	0.62	1.47	838	1.04	30
Delaware .....	22	-30	-35	258	320	1.72	-1.06	-0.96	2.96	2.76	160	2.09	5
District of Columbia .....	74	-44	-57	99	213	3.22	-1.05	-1.03	0.80	1.36	42	1.02	33
Florida .....	268	665	865	1,948	2,114	2.60	2.13	1.89	1.59	1.32	51	1.61	12
Georgia .....	340	447	397	1,634	1,964	4.74	2.28	1.49	2.19	1.90	40	1.98	6
Hawaii .....	44	79	108	211	251	2.90	2.24	2.43	2.04	2.27	78	1.34	18
Idaho .....	46	93	29	266	267	5.16	3.20	0.85	3.06	2.46	48	1.03	32
Illinois .....	401	-460	-2,069	1,639	2,042	1.55	-0.80	-3.18	1.19	1.17	75	0.50	49
Indiana .....	326	418	63	1,273	1,519	3.13	1.69	0.23	2.19	2.12	68	1.56	13
Iowa .....	125	155	-63	719	775	3.19	1.45	-0.55	3.00	2.57	81	1.22	21
Kansas .....	84	238	142	651	468	3.00	2.75	1.29	2.58	1.45	48	0.95	37
Kentucky .....	175	159	-121	501	678	4.21	1.36	-0.90	1.67	1.79	43	0.79	40
Louisiana .....	146	238	-102	1,131	1,479	2.91	1.51	-0.47	3.45	3.77	130	1.38	17
Maine .....	39	0	-4	112	252	2.86	0	-0.09	1.22	2.20	77	1.13	22
Maryland .....	213	273	220	691	815	3.26	1.83	1.11	1.52	1.38	42	0.95	37
Massachusetts .....	378	132	436	915	1,921	3.04	0.51	1.23	1.17	1.85	61	1.06	29
Michigan .....	491	112	-2,186	1,831	2,742	2.49	0.25	-4.64	1.74	2.14	86	0.73	43
Minnesota .....	119	70	-288	513	701	1.76	0.41	-1.36	0.99	1.03	59	0.62	48

TABLE 4-8.—FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS, SELECTED YEARS 1970-2000—Continued

State	Net reserves in millions of dollars at end of calendar year					Reserve ratios by year					2000 re- serves as percent- age of 1970 re- serves	Average high- cost multiple	
	1970	1979	1982	1996	2000	1970	1979	1982	1996	2000		2000	Rank
Mississippi .....	85	231	257	553	653	3.87	3.47	3.12	3.13	3.00	78	1.91	7
Missouri .....	264	296	- 64	308	525	3.03	1.47	- 0.27	0.61	0.83	27	0.64	47
Montana .....	26	16	9	126	169	3.33	0.65	0.27	2.10	2.40	72	1.41	15
Nebraska .....	55	81	72	195	185	2.87	1.58	1.14	1.40	1.04	36	1.08	26
Nevada .....	39	95	122	348	472	3.20	2.31	2.02	1.87	1.80	56	1.07	27
New Hampshire .....	55	82	75	268	307	4.62	2.42	1.60	2.32	1.98	43	2.11	4
New Jersey .....	448	- 507	- 423	2,029	2,709	2.76	- 1.50	- 0.97	2.06	2.10	76	1.09	25
New Mexico .....	40	80	101	386	511	3.45	2.14	1.98	3.46	3.88	112	2.77	2
New York .....	1,693	403	819	470	863	3.76	0.51	0.78	0.23	0.33	9	0.25	53
North Carolina .....	414	564	400	1,336	1,276	5.22	2.71	1.52	1.92	1.40	27	1.06	29
North Dakota .....	13	21	11	50	31	2.53	1.13	0.46	1.20	0.61	24	0.29	51
Ohio .....	693	513	- 1,658	1,751	2,152	3.01	1.02	- 3.04	1.56	1.57	52	0.65	46
Oklahoma .....	55	177	108	564	586	1.69	1.56	0.62	2.43	2.04	121	1.62	11
Oregon .....	122	320	161	941	1,364	3.39	3.00	1.37	3.19	3.62	107	1.44	14
Pennsylvania .....	852	- 1,091	- 2,145	2,032	2,663	3.53	- 2.18	- 3.75	1.85	1.94	55	0.68	44
Puerto Rico .....	85	- 33	- 47	596	532	4.90	- 0.88	- 1.11	5.91	4.24	87	1.32	19
Rhode Island .....	75	- 96	- 76	116	264	4.34	- 2.75	- 1.81	1.38	2.56	59	0.87	39
South Carolina .....	166	195	50	603	754	4.61	1.96	0.40	1.95	1.92	42	1.31	20
South Dakota .....	8	16	9	50	50	3.81	0.95	0.43	1.01	0.79	21	0.88	38
Tennessee .....	212	264	15	827	888	3.57	1.63	0.08	1.63	1.40	39	0.96	35
Texas .....	337	396	142	642	652	1.90	0.65	- 0.16	0.36	0.27	14	0.26	52
Utah .....	51	67	10	524	626	3.55	1.43	0.16	3.12	2.82	79	1.75	8
Vermont .....	26	- 21	- 27	218	278	3.72	- 1.30	- 1.29	4.63	4.82	130	2.55	3
Virginia .....	218	103	14	897	1,038	3.41	0.56	0.06	1.40	1.18	35	0.90	16

Virgin Islands .....	NA	-7	-3	42	52	NA	-2.96	-0.55	7.42	7.96	NA	3.25	1
Washington .....	226	297	150	1,333	1,753	3.73	1.66	0.70	2.66	2.38	64	1.00	34
West Virginia .....	108	39	-145	157	188	4.07	0.56	-1.85	1.36	1.47	36	0.46	50
Wisconsin .....	322	465	-413	1,557	1,764	4.29	2.37	-1.53	3.10	2.80	65	1.10	24
Wyoming .....	19	69	46	147	176	4.29	3.15	1.51	4.32	4.25	99	1.67	10
<b>Total .....</b>	<b>11,903</b>	<b>8,583</b>	<b>-2,645</b>	<b>38,632</b>	<b>50,320</b>	<b>3.11</b>	<b>0.91</b>	<b>-0.24</b>	<b>1.48</b>	<b>1.49</b>	<b>48</b>	<b>0.93</b>	<b>.....</b>

NA—Not available.

Source: U.S. Department of Labor (2000, March). Fourth quarter CY1999 UI Data Summary. Washington, DC.

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 1999 average "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 average 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 average high-cost multiples below 1.0 may face greater risk of insolvency during recessions.

Twenty States had average high-cost multiples below 1.0; 13 had average high-cost multiples below 0.8; and 5 had average high-cost multiples at or below 0.5. Based on this stringent measure, States with the highest risk factor were Illinois, New York, North Dakota, Texas, and West Virginia.

Table 4-9 summarizes the beginning balances in the various Unemployment Trust Fund accounts for selected fiscal years. At the start of fiscal year 2000, the 4 Federal accounts and the 53 State benefit accounts had a total balance of \$72.0 billion. In real terms this represents a level 28 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 38 percent of unemployed workers was covered, compared with 48 percent in 1970). Overall, a better measure of readiness for a recession is the ratio of the 2000:1970 reserve ratios in table 4-8, which shows that aggregate reserves in 2000 relative to wages were a little less than half the 1970 level.

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.

TABLE 4-9.—BEGINNING-OF-YEAR BALANCES IN UNEMPLOYMENT TRUST FUND ACCOUNTS, SELECTED FISCAL YEARS 1971-2000

[In millions of dollars]

Account	Year					
	1971	1976	1980	1983	1997	2000
Employment Security Administration .....	\$65	\$365	\$572	\$545	\$2,899	\$3,066
Extended Unemployment Compensation .....	0	116	764	483	9,466	13,147
Federal Unemployment (reserve for State loans) .....	575	9	567	599	6,747	7,216
Federal Employees' Compensation .....	( <sup>1</sup> )	( <sup>1</sup> )	( <sup>1</sup> )	24	262	297
State Unemployment Compensation <sup>2</sup> .....	12,409	6,145	8,272	720	43,657	48,290
Total: Nominal dollars .....	13,049	6,635	10,175	2,371	63,031	72,013
Total: Real dollars <sup>3</sup> .....	56,278	20,591	22,758	4,061	66,973	72,013

<sup>1</sup> There was no separate account for Federal Employees' Compensation for this year.

<sup>2</sup> Figures are net of loans from Federal funds.

<sup>3</sup> Real dollars are obtained using the Consumer Price Index for All Urban Consumers for the preceding fiscal years.

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

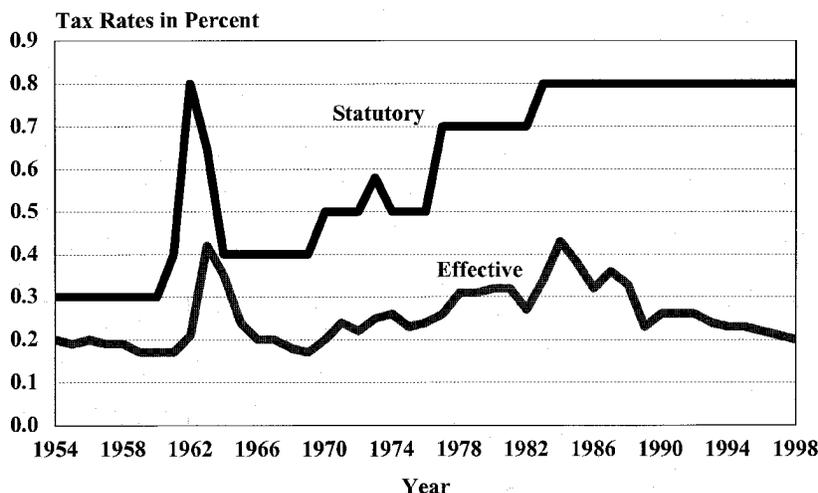
#### THE FEDERAL UNEMPLOYMENT TAX

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 for the Federal tax was held constant at \$3,000 until 1971, and then was increased on three occasions, most recently in 1983.

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, 1954-98



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.<sup>1</sup> 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 2000, 42 States had taxable wage bases higher than the Federal taxable wage base, ranging up to \$27,500 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 16 States up to a maximum as high as 10 percent in 2 States.

Estimated national average State tax rates on taxable wages and total wages for 1999 were 1.8 and 0.6 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 0.59 in Montana.

<sup>1</sup>Alaska, New Jersey, and Pennsylvania also tax employees directly.

TABLE 4-10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1999–2000

State	Estimated 1999 average tax rates as a percent of—		2000 tax base	1999 experience rates <sup>1</sup>	
	Taxable wages	All wages		Minimum	Maximum
Alabama .....	1.0	0.4	\$8,000	0.20	5.40
Alaska .....	2.1	1.3	24,800	1.00	5.40
Arizona .....	1.1	0.3	7,000	0.50	5.40
Arkansas .....	2.0	0.8	9,000	0.10	6.40
California .....	2.7	0.7	7,000	0.10	5.40
Colorado .....	1.1	0.4	10,000	0.00	5.40
Connecticut .....	1.8	0.6	15,000	0.50	5.40
Delaware .....	2.2	0.6	8,500	0.10	8.30
District of Columbia .....	2.2	0.5	9,000	0.10	7.00
Florida .....	1.3	0.2	7,000	0.00	5.40
Georgia .....	0.3	0.1	8,500	0.02	5.40
Hawaii .....	1.7	1.2	27,500	0.00	5.40
Idaho .....	1.2	0.8	24,500	0.10	5.40
Illinois .....	2.5	0.7	9,000	0.20	6.40
Indiana .....	1.3	0.4	7,000	0.20	5.50
Iowa .....	0.9	0.5	17,300	0.00	7.50
Kansas .....	1.6	0.5	8,000	0.02	7.40
Kentucky .....	2.1	0.7	8,000	0.16	9.0
Louisiana .....	1.5	0.5	7,000	0.20	5.40
Maine .....	3.6	1.1	12,000	1.00	5.81
Maryland .....	1.8	0.5	8,500	0.30	7.50
Massachusetts .....	2.4	0.8	10,800	0.60	7.23
Michigan .....	2.7	0.8	9,500	0.10	8.10
Minnesota .....	1.1	0.5	19,000	0.10	9.10
Mississippi .....	1.7	0.6	7,000	0.40	5.40
Missouri .....	1.4	0.3	7,500	0.00	5.58
Montana .....	1.3	0.9	17,700	0.00	6.50
Nebraska .....	0.6	0.2	7,000	0.00	5.40
Nevada .....	1.4	0.8	18,600	0.25	5.40
New Hampshire .....	0.7	0.2	8,000	0.01	6.50
New Jersey .....	1.7	0.8	20,200	0.30	5.40
New Mexico .....	1.3	0.7	14,800	0.10	5.40
New York .....	2.7	0.6	8,500	0.00	7.70
North Carolina .....	0.8	0.4	13,900	0.00	5.40
North Dakota .....	1.1	0.6	16,100	0.10	10.09
Ohio .....	1.6	0.5	9,000	0.10	6.40
Oklahoma .....	0.5	0.2	9,800	0.00	5.50
Oregon .....	2.1	1.2	23,000	0.50	5.40
Pennsylvania .....	3.7	1.0	8,000	0.30	9.20
Puerto Rico .....	3.0	0.7	7,000	1.00	5.40
Rhode Island .....	3.4	1.4	12,000	0.60	9.81
South Carolina .....	1.4	0.4	7,000	0.54	5.40
South Dakota .....	0.6	0.2	7,000	0.00	7.00
Tennessee .....	1.5	0.4	7,000	0.00	10.00
Texas .....	1.3	0.4	9,000	0.00	6.30
Utah .....	0.6	0.4	20,200	0.10	8.10

TABLE 4-10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1999-2000—Continued

State	Estimated 1999 average tax rates as a percent of—		2000 tax base	1999 experience rates <sup>1</sup>	
	Taxable wages	All wages		Minimum	Maximum
Vermont .....	2.5	0.8	8,000	0.40	5.90
Virginia .....	0.5	0.2	8,000	0.00	5.58
Virgin Islands .....	2.0	1.1	14,600	0.10	5.40
Washington .....	2.1	1.2	26,500	0.47	5.40
West Virginia .....	2.8	1.0	8,000	0.00	7.50
Wisconsin .....	1.9	0.7	10,500	0.02	9.75
Wyoming .....	1.4	0.7	13,600	0.00	8.78
U.S. average .....	1.8	0.6	NA	NA	NA

<sup>1</sup> Actual rates could be higher if State has an additional tax.

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.

TABLE 4-11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE UNEMPLOYMENT TAXATION FOR PERIOD ENDING DECEMBER 1999

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Alabama .....	1,808	\$48,746	\$13,349	0.27	\$518
Alaska .....	251	8,297	4,039	0.49	636
Arizona .....	2,067	61,195	15,086	0.25	569
Arkansas .....	1,082	26,533	8,748	0.33	472
California .....	13,926	501,849	90,965	0.18	693
Colorado .....	2,015	65,816	19,825	0.30	628
Connecticut .....	1,618	67,279	18,792	0.28	800
Delaware .....	391	13,425	3,087	0.23	660
District of Colum- bia .....	413	19,187	3,492	0.18	893
Florida .....	6,628	186,411	46,847	0.25	541
Georgia .....	3,656	114,540	30,562	0.27	602
Hawaii .....	503	14,326	7,626	0.53	547
Idaho .....	521	13,003	7,108	0.55	480
Illinois .....	5,725	202,070	46,728	0.23	679
Indiana .....	2,839	83,335	19,121	0.23	565
Iowa .....	1,402	36,704	15,658	0.43	504
Kansas .....	1,266	34,094	12,406	0.36	518
Kentucky .....	1,675	45,148	12,280	0.27	518
Louisiana .....	1,808	48,335	11,694	0.24	514
Maine .....	552	14,258	3,477	0.24	496
Maryland .....	2,199	71,590	16,742	0.23	626

TABLE 4-11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE  
UNEMPLOYMENT TAXATION FOR PERIOD ENDING DECEMBER 1999—Continued

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Massachusetts ....	3,093	119,554	32,406	0.27	743
Michigan .....	4,357	151,481	35,832	0.24	669
Minnesota .....	2,487	80,904	31,530	0.39	626
Mississippi .....	1,103	26,096	7,366	0.28	455
Missouri .....	2,567	74,813	18,723	0.25	561
Montana .....	356	7,937	4,660	0.59	492
Nebraska .....	842	21,647	5,295	0.24	494
Nevada .....	936	28,629	14,640	0.51	588
New Hampshire ...	576	18,025	4,238	0.24	602
New Jersey .....	3,651	148,206	55,511	0.37	781
New Mexico .....	666	16,792	6,911	0.41	485
New York .....	8,056	331,197	56,720	0.17	791
North Carolina ....	3,705	105,751	39,559	0.37	549
North Dakota .....	294	6,749	2,800	0.41	441
Ohio .....	5,328	163,063	42,221	0.26	589
Oklahoma .....	1,370	33,963	13,120	0.39	477
Oregon .....	1,530	45,638	22,282	0.49	573
Pennsylvania .....	5,296	168,503	37,077	0.22	612
Puerto Rico .....	973	17,530	5,356	0.31	347
Rhode Island .....	441	13,345	5,030	0.38	582
South Carolina ....	1,744	46,059	11,828	0.26	508
South Dakota .....	340	7,717	2,077	0.27	437
Tennessee .....	2,548	72,735	17,767	0.24	549
Texas .....	8,742	278,003	73,613	0.26	612
Utah .....	975	26,177	12,504	0.48	516
Vermont .....	278	7,427	1,880	0.25	513
Virginia .....	3,131	98,617	23,947	0.24	606
Virgin Islands .....	41	1,059	370	0.35	500
Washington .....	2,550	86,200	39,044	0.45	650
West Virginia .....	658	16,470	4,449	0.27	481
Wisconsin .....	2,634	75,865	22,518	0.30	554
Wyoming .....	215	5,293	1,964	0.37	473
Total .....	123,830	3,977,587	1,060,871	0.27	618

Source: U.S. Department of Labor (2000, March). Fourth quarter CY1999 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. However, 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 the U.S. Department of Labor (DOL) finds relevant.

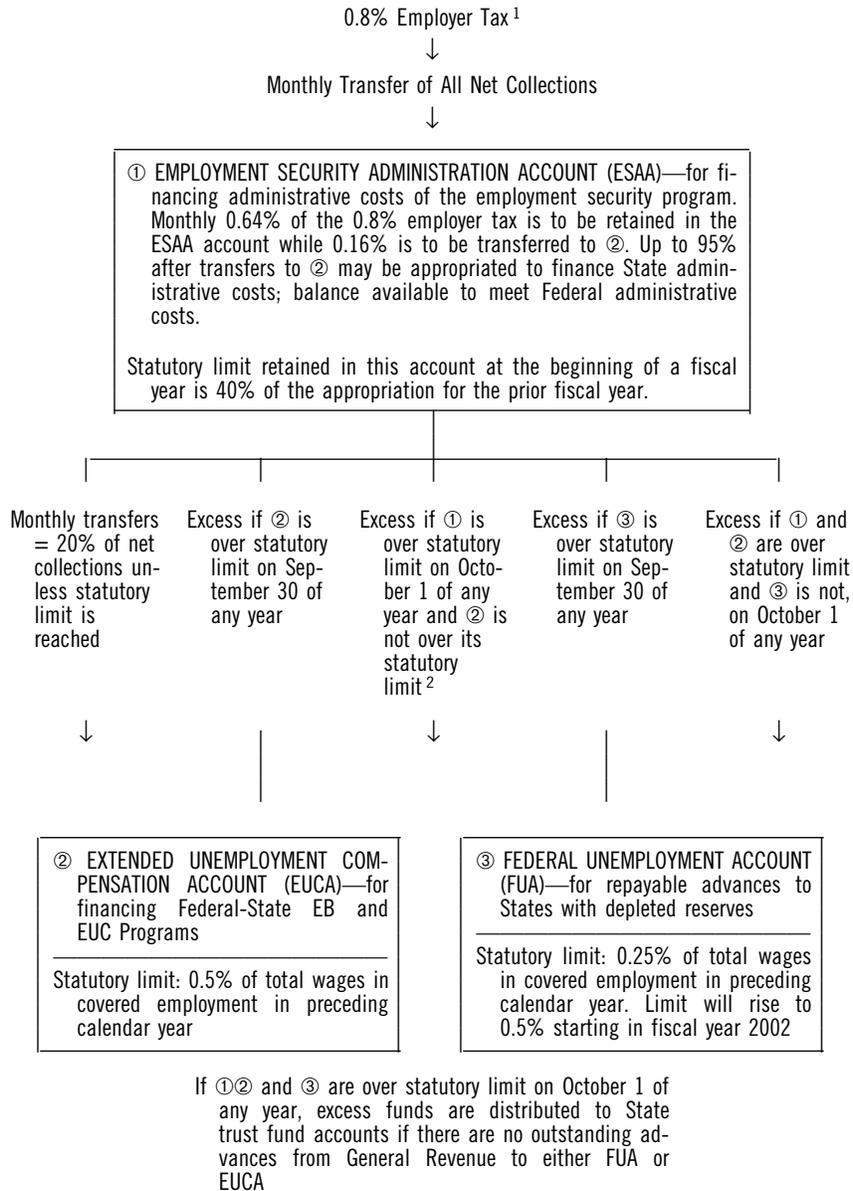
Subject to the limit of available resources, the allocation of State grants for administration is the sum of resources made available for two major areas, the Unemployment Insurance Service (UI) and the Employment Service (ES). Each area has its own allocation methodology subject to general constraints 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 DOL, 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 2.0 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

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



<sup>1</sup> Effective tax, after 5.4 is offset against 6.2 percent Federal unemployment tax. Effective rate will drop to 0.6 percent on January 1, 2008.

<sup>2</sup> \$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; this distribution rule applies only to fiscal years 2000–2002.

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

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 DOL 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 DOL 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.

Total grants to States for administrative costs represent about 55 percent of total FUTA tax collections in fiscal year 1999. There has been considerable interest among State Employment Security Agencies in recent years in having more of the FUTA revenue returned to the States for administrative expenses. In the 106th Congress, legislation has been introduced which would change the administrative financing of the UC Program.

### **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.

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.

#### REFERENCES

- Corson, W. & Dynarski, M. (1990, September). A study of unemployment insurance recipients and exhaustees: Findings from a national survey. (Occasional Paper 90-3). Washington, DC: U.S. Department of Labor.
- Office of the President. (1997, February). *Economic Report of the President*. Washington, DC: U.S. Government Printing Office.
- Pennington v. Doherty*. *Unemployment Insurance Reporter* (¶22,184). Chicago, IL: Commerce Clearing House.
- U.S. Department of Labor. (2000, February). UI Outlook: Fiscal Year 2001 President's Budget. Washington, DC: Author.
- U.S. Department of Labor, Employment and Training Administration. (2000, March). UI Data Summary (Fourth quarter, calendar year 1999). Washington, DC: Author.

