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The Fundamentals of Unemployment Compensation

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Abstract

[Excerpt] The joint federal-state Unemployment Compensation (UC) program provides income support through UC benefit payments. Although there are broad requirements under federal law regarding UC benefits and financing, the specifics are set out under each state's laws. States administer UC benefits with U.S. Department of Labor (DOL) oversight, resulting in 53 different UC programs operated in the states, the District of Columbia, Puerto Rico, and the Virgin Islands.

Total UC expenditures include benefits and administrative costs. During economic expansions, states fund approximately 85%-90% of all UC expenditures—as almost all of the benefits are state-financed by state unemployment taxes. In comparison, federal expenditures are relatively small during these expansions (approximately 10%-15%) in which federal expenditures are primarily administrative grants to the states financed by federal unemployment taxes.

Keywords

Unemployment Compensation, UC, federal aid, income support

Comments

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A Joint Federal-State Program

The joint federal-state Unemployment Compensation (UC) program provides income support through UC benefit payments. Although there are broad requirements under federal law regarding UC benefits and financing, the specifics are set out under each state's laws. States administer UC benefits with U.S. Department of Labor (DOL) oversight, resulting in 53 different UC programs operated in the states, the District of Columbia, Puerto Rico, and the Virgin Islands.

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Objectives

The UC program's two main objectives are

1. to provide temporary partial wage replacement to involuntarily unemployed workers and
2. to stabilize the economy during recessions.

These objectives are reflected in the current UC program's funding and benefit structure. During economic expansions, UC program revenue rises through increased tax revenue whereas UC program spending falls as fewer workers are unemployed and receive benefits. The effect of collecting more taxes than are spent on benefits dampens demand in the economy. This also creates a surplus of funds or a "cushion" of available funds for the UC program to draw upon during a recession. In a recession, UC tax revenue falls and UC program spending rises as more workers lose their jobs and receive UC benefits. The increased amount of UC payments to unemployed workers dampens the economic effect of lost earnings by injecting additional funds into the economy.

Authorization

The underlying framework of the UC system is contained in the Social Security Act. Title III of the act authorizes state grants for administering state UC laws; Title IX authorizes the various components of the federal Unemployment Trust Fund (UTF); and Title XII authorizes advances or loans to insolvent state programs. UC is financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA).

UC in a Snapshot, FY2018

1.8M	$354	15.4 weeks	5.3M
Average Weekly Claims	Average Weekly Benefit	Average Duration of Claim	New UC Beneficiaries

Revenues (estimated): $43.4B
Federal Unemployment Tax (FUTA): $6.3B
State Unemployment Tax (SUTA): $37.1B

Outlays (estimated): $32.5B
Administration (FUTA financed): $3.8B
Regular UC Benefit (SUTA financed): $28.2B
UC Federal Employees (UCFE, Agency pays): $0.2B
UC Ex-Servicemembers (UCX, Service pays): $0.3B

Source: U.S. Department of Labor (DOL), Employment and Training Administration, Office of Unemployment Insurance. Totals may not add up due to rounding.

Benefits

The UC program pays benefits to workers who become involuntarily unemployed for economic reasons and meet state-established eligibility rules. The UC program generally does not provide UC benefits to

- the self-employed, those who are unable to work, or those who do not have a recent earnings history.

States usually disqualify claimants who

- lost their jobs because of inability to work, voluntarily quit without good cause, were discharged for job-related misconduct, or refused suitable work without good cause.

To receive UC benefits, claimants must

- have enough recent earnings (distributed over a specified period) to meet their state's earnings requirements; and
- be able, available, and actively searching for work.

For more details on UC eligibility and benefits, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*.

Most states provide up to a maximum of 26 weeks of UC benefits. Under current state laws, the maximum duration of UC benefits range from up to 12 weeks (under certain economic conditions in Florida and North Carolina) to up to 30 weeks (Massachusetts). For information on UC benefit duration in states, see CRS Report R41859, *Unemployment Insurance: Consequences of Changes in State Unemployment Compensation Laws*.

Former federal workers may be eligible for unemployment benefits through the Unemployment Compensation for Federal Employees (UCFE) program. Former U.S. military servicemembers may be eligible for unemployment benefits through the Unemployment Compensation for Ex-Servicemembers (UCX) program. For more information on the UCX program, see CRS Report RS22440, *Unemployment Compensation (Insurance) and Military Service*.

In FY2018, states paid $28.6 billion in UC benefits and federal agencies paid $0.55 billion in UCFE/UCX benefits, which are considered on-budget, mandatory expenditures. The UC program's administrative costs, which go through the federal appropriations process, were estimated to total $4 billion.

Financing

The UC program is financed by federal payroll taxes under the FUTA and by state payroll taxes under SUTA. The 0.6% effective net FUTA tax paid by employers on the first $7,000 of each employee's earnings (no more than $42 per worker per year) funds federal and state administrative costs, loans to insolvent state UC accounts, the federal share (50%) of Extended Benefit (EB) payments, and state employment services. For FY2018, an estimated $6.3 billion was collected in federal FUTA taxes, whereas an estimated $39.1 billion was collected in SUTA taxes to finance UC benefits.

For more details on UC financing, see CRS Report R44527, *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)* and CRS Report RS22077, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*.

Unemployment Benefits for the Long-Term Unemployed

In response to economic recessions, the federal government sometimes has augmented the regular UC benefit with both permanent (the EB program) and temporary unemployment benefits (including the Emergency Unemployment Compensation of 2008 [EUC08] program).

Extended Benefits

UC benefits may be extended at the state level by the permanent law EB program if high unemployment exists within the state. After regular unemployment benefits are exhausted, the EB program may provide up to an additional 13 or 20 weeks of benefits, depending on worker eligibility, state law, and economic conditions in the state. The EB program is funded 50% by the federal government and 50% by the states. The EB program was established by the Federal-State Extended Unemployment Compensation Act of 1970 (EUCA; P.L. 91-373) (26 U.S.C. §3304, note). For more details on the EB program, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*.

Temporary Programs

Congress has created federal temporary programs that extended unemployment benefits eight different times. Most recently, the EUC08 program was created by the Supplemental Appropriations Act of 2008 (P.L. 110-252). State UC agencies administered the EUC08 benefit along with regular UC and EB benefits. Amended 11 times, at the program's peak, four tiers of EUC08 benefits were available to unemployed workers in states with high unemployment rates; in states in which all four tiers of EUC08 benefits were available, eligible unemployed workers could receive up to 99 weeks of benefits combined from the regular UC, EB, and EUC08 programs. The program ended the last week of December 2013.

For more details on the EUC08 program, see CRS Report R42444, *Emergency Unemployment Compensation (EUC08): Status of Benefits Prior to Expiration*. For more details on all temporary UC programs, see CRS Report RL34340, *Extending Unemployment Compensation Benefits During Recessions*.

Job Search and Return to Work

The job search behavior of the unemployed can be influenced by changing the timing, generosity, and duration of UC benefits. The availability of benefits may create a disincentive to search for and accept reemployment, increasing unemployment and unemployment duration.

Although most economists would agree that UC benefits create some disincentives to find work quickly, these disincentives are somewhat balanced by a relatively low replacement rate of wages by UC benefits and a recognition that proper allocation of human resources and human capital requires adequate job search time.

For more analysis of the interaction between job search and UC receipt, including policy proposals to return UC claimants to work, see CRS Report R43044, *Expediting the Return to Work: Approaches in the Unemployment Compensation Program*.

Program Integrity

Program integrity continues to be of concern to the UC program. The Office of Management and Budget (OMB) has designated UC as one of 19 "high-error" programs. In FY2017, the UC improper payment rate was 12.5%, with a total of $4.1 billion in improper payments. Although states currently have authority to recover UC overpayments through a variety of means, there may be legislative proposals in the 116th Congress to further address this issue. For more information on program integrity proposals, see CRS Report R45478, *Unemployment Insurance: Legislative Issues in the 116th Congress* .

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