NATIONAL CONFERENCE *of* STATE LEGISLATURES

The Forum for America's Ideas

STANDING COMMITTEE ON LABOR AND ECONOMIC DEVELOPMENT

LEGISLATOR'S "PRIMER" ON UNEMPLOYMENT INSURANCE

by Diana Hinton Noel

Since its inception during the Great Depression, the unemployment compensation system has provided a temporary income support to workers who lose their jobs. The unique partnership between states and the federal government was initiated in 1935 by the ***Social Security Act*** and subsequently transferred to the IRS under the ***Federal Unemployment Tax Act of 1939***. It was intended to be counter-cyclical, i.e. to accumulate and hold significant funds during good economic times, pay out benefits during bad economic times and simultaneously stimulate a stagnant economy.

Financing

States finance regular unemployment benefits through taxes levied on employers. These taxes are ***experience-rated*** so employers with a higher percentage of former employees receiving unemployment benefits pay a higher tax rate. These taxes, with limited exceptions are paid quarterly based on an amount of wages paid per calendar year ranging from $7,000 to $34,000.

The federal unemployment tax, known as ***FUTA***, is 6.2 percent on the first $7,000 of wages, but is offset for state unemployment taxes for a net of 0.8 percent in states with programs that conform to federal standards. FUTA funds are deposited into three federal accounts. The first, the ***Employment Security Administration Account (ESAA)***, supports state program administration. The second, the ***Extended Unemployment Compensation Account (EUCA)***, provides the funds for the 50 percent share of the extended benefits program. The third, the ***Federal Unemployment Account (FUA)*** provides a loan fund for state unemployment programs in distress to ensure a continued flow of benefits.

Unemployment insurance programs are operated by the states. A portion of the federal unemployment tax is reserved in the ESAA trust fund. Some of those funds are appropriated – on the basis of a workload-based calculation – to support state administration efforts. There is also a contingency reserve, which allows states to receive additional appropriated funding when unemployment claims rise substantially.

The ***Reed Act*** requires that funds exceeding a statutory ceiling in the three federal accounts be transferred back to state unemployment trust funds proportional to the state's contribution. ***The Congressional Budget Office (CBO) most recent baseline for the budget resolution projects that the federal government would transfer about $9 billion to the states over the 2013 – 2018 period.***

Benefits

States determine unemployment benefit levels. Typically, they are set to replace 50 percent of the recipient's former wages, up to a certain limit, generally a percentage of the statewide average weekly wage. Those with higher earnings as workers generally receive higher benefits up to maximums set by state law.

Denver
7700 East First Place
Denver, Colorado 80230
Phone 303.364.7700 Fax 303.364.7800

Washington
444 North Capitol Street, N.W. Suite 515
Washington, D.C. 20001
Phone 202.624.5400 Fax 202.737.1069

Website www.ncsl.org

Part-time Workers

In general, states set the rules to determine whether an unemployment applicant is "available for work" and willing to "accept suitable employment." Typically, individuals are permitted to collect partial benefits to the extent that earnings from continued part-time employment do not exceed the weekly benefits amount, as well as meet specified continuing weekly claims requirements. Federal law currently prohibit states from denying benefits to any otherwise eligible individual for refusing to accept new work if the wage, hours, or other conditions of the work offered are substantially less favorable to the individual than those prevailing for similar work.

Eligibility Base Period

Eligibility for unemployment benefits is generally determined on earnings over a year, known as the "***base period***" which is typically four calendar quarters (January – March, April – June, July – September, and October – December). States have a variety of tests, such as minimum earnings levels and/or quarters worked, to decide whether an applicant has sufficient work history to qualify. Most states use the first four of the most recently completed five quarters as the year to consider. A few states have moved to an ***alternative base period (ABP)***, to be used when applicants have insufficient earning in their regular base period. The ABP typically counts all earnings for the most recently completed four calendar quarters. This allows claimants to use more recent wages to meet earning requirements. Example: After a layoff effective June 20, 2007, John applies for unemployment benefits the following day. A state that uses the traditional base period would determine eligibility for benefits based on his wages during the first four of the last five completed quarters or April 2006 – December 2006. Using this method, nearly 6 months of his employment history is not considered in determining whether he qualifies. An alternative base period state would determine eligibility based on his most recent completed quarter : April 2006 – March 2007.

Extended Benefits

States set unemployment benefit rules within a broad federal framework. The maximum length of benefits is 26 weeks in all but two states, Massachusetts and Montana, where the maximum is 30 and 28 weeks respectively. Extended benefits of an additional 13 weeks are available in states suffering severe economic distress. These benefits become available when a state's ***insured unemployment rate*** is 5 percent and 120 percent of the average over the last two years, or, at state option, if the "insured" rate is 6 percent. The insured unemployment rate is computed by comparing the number of claimants compensated with respect to a week with the number of individuals who are covered by the state as potentially eligible for benefits. The ***total unemployment rate*** which is reported monthly by the Bureau of Labor Statistics is based on surveys and compares the number of individuals who are not working in comparison to the number in the workforce. A handful of states have adopted a third option, a total unemployment rate of 6.5 percent and 110 percent of the average over the past two years. ***Extended benefits are paid by state unemployment insurance agencies from state unemployment accounts but reimbursed at 50 percent from federal funds.*** Congress has occasionally provided extended benefits on a federally funded basis. Since 1970, Congress has acted five times – in 1971, 1974, 1982, 1991 and 2002 – to establish temporary programs of supplemental assistance.

For more information, please contact Diana Hinton Noel (diana.hinton@ncsl.org), Jeannie Mejeur (jeanne.mejeur@ncsl.org) or Robert Strange (robert.strange@ncsl.org).