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## **Unemployment Insurance**

# Unemployment Insurance

## Introduction

Unemployment insurance (UI) is a shared federal-state system that provides partial wage replacement to workers who lose their jobs through no fault of their own and who are able to work, available to work, and actively seeking work. It also connects workers with reemployment services.

Virtually all workers face the risk of becoming laid off at some point during their careers. In 2014, 10.9 percent of those who worked or looked for work were unemployed at some point during the year.<sup>1</sup> When unemployment occurs, most workers find it difficult to make ends meet. Unemployment insurance is intended to help these workers stay afloat during the search for new employment.

*Between 2008 and 2013, which included the years of the Great Recession, 24 million workers received extended and emergency benefits.*

The number of workers meeting eligibility requirements and receiving UI benefits varies depending on how the economy is doing, as well as due to state differences in eligibility rules, benefit levels, and benefit durations. In 2015, when the unemployment rate was roughly half of what it was early in the economic recovery in 2010, 6.6 million workers applied for and received benefits. In comparison, 14.4 million workers applied for and received benefits in 2009 and joined millions more already receiving benefits. Between 2008 and 2013, which included the years of the Great Recession, 24 million workers received extended and emergency benefits.<sup>2</sup> The total system cost of UI benefits varies with changes in the number of recipients. In 2015, total benefits paid from the regular UI program were \$32.5 billion. In 2010, this figure, including all state and federal benefits, was five times as large at \$156 billion.<sup>3</sup> These differences are partially the result of increased numbers of unemployed people and in part the result of temporary changes in the UI system during the recession.

The following sections of this *Report* describe and take stock of the UI system's benefits, administration, financing, and reemployment services. Within each section, a set of current policy challenges and reform options is presented.

<sup>1</sup> U.S. Department of Labor, 2015, "Work Experience Summary," Bureau of Labor Statistics, December 9, 2015, <http://www.bls.gov/news.release/work.nr0.htm>.

<sup>2</sup> These benefits are described in the following section. Council of Economic Advisers and the Department of Labor, 2013, "The Economic Benefits of Extending Unemployment Insurance," <https://www.whitehouse.gov/sites/default/files/docs/uiereport-2013-12-4.pdf>.

<sup>3</sup> U.S. Department of Labor, 2016, "Unemployment Insurance Outlook: FY 2017 Midsession Review," Division of Fiscal and Actuarial Services, Office of Unemployment Insurance.

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## **Unemployment Insurance Benefits**

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## Background

### Coverage of Employment

Almost all wage and salary employees work in employment covered by UI. Their employers are required to contribute to the state's account in the Unemployment Trust Fund (UTF) or, in the case of certain employers like non-profits or government agencies, reimburse the state's account in the UTF for benefits paid under the applicable state law. Nationwide, 140 million jobs are insured by the UI system.<sup>4</sup> This means nearly all full-time and some part-time workers who meet basic criteria are potentially eligible for UI.

### Benefit Eligibility

When workers become involuntarily unemployed, they can collect UI benefits if they meet two sets of requirements. First, they must have earned enough money while they were employed to demonstrate strong attachment to the labor force, as defined by the laws of the state in which they are seeking benefits. Second, they must show that the job separation was due to a lack of work (and not, for example, because they voluntarily quit for personal reasons not permitted by state law) and that they are able to work, available to work, and actively seeking employment.

### Benefit Amounts and Durations

*Nationwide, the average weekly benefit is about \$300, which replaces on average about half of a worker's prior wage up to a maximum benefit amount.*

#### *Regular benefits*

The amount of weekly benefits individuals may be paid is primarily based on their past wages, up to a maximum weekly benefit set by the states. Nationwide, the average weekly benefit is about \$300, which replaces on average about half of a worker's prior wage up to a maximum benefit amount.<sup>5</sup>

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<sup>4</sup> Ibid.

<sup>5</sup> Ibid.

Benefits under state UI law typically can be paid for up to 26 weeks, with a few states providing more than 26 weeks and a few providing maximum durations of fewer than 26 weeks.<sup>6</sup> State unemployment compensation is paid out of a state's unemployment trust fund.

### *Benefits in economic downturns*

During recessions, layoffs increase economy-wide and job opportunities decrease. Durations of unemployment spells increase as more unemployed workers compete for fewer jobs. Additional weeks of benefits are sometimes provided to workers during economic downturns when the unemployment rate is high. These additional benefits are provided in two ways.

First, the federal-state UI program has a built-in system enacted in 1970 called the extended benefits (EB) program that provides permanent authorization for additional weeks of benefit eligibility. Under the EB program, the number of potential weeks of benefits for which workers may be eligible in states meeting statutory unemployment-rate thresholds is automatically increased by up to 13 or 20 weeks above the usual number of weeks (typically 26). The federal government and the states each pay half of the cost out of their respective UTF accounts. These additional weeks of benefits are triggered state-by-state depending on the unemployment rate in a state. Extended benefits are offered in states in which the unemployment rate exceeds an overall threshold and exceeds the rate in the immediately preceding period.<sup>7</sup>

The second way the duration of UI benefits has been extended is through legislative action that authorizes additional weeks of benefits for workers who exhaust their regular state unemployment compensation eligibility. These benefits are typically paid from general

***Emergency benefits are sometimes enacted much too late to be most effective in supporting workers and sometimes remain in effect too long in an untargeted fashion.***

federal revenues appropriated by Congress. This policy mechanism, most recently known as Extended Unemployment Compensation (EUC), is generally reserved for nationwide economic downturns, such as the Great Recession, and their aftermath. Whereas the EB program is a permanent

<sup>6</sup> These maximum durations apply to full unemployment benefits. In some states, beneficiaries can receive partial UI benefits for longer than 26 weeks: U.S. Department of Labor, 2016, "Comparison of State UI Laws," State Law Information, <https://www.unemploymentinsurance.doleta.gov/unemploy/statelaws.asp>.

<sup>7</sup> States have two options for EB thresholds: one based on the insured unemployment rate (IUR) and the other based on the total unemployment rate (TUR). Under the first option using the IUR, states are eligible for federal cost sharing of EB when the number of UI recipients as a percentage of the total number of people working in jobs in which they would potentially be eligible for UI reaches 5 percent and this percent is at least 20 percent higher than it was during the same period in each of the previous two years. Under the second option using the TUR, EB triggers on when the number of all unemployed people as a percentage of the total labor force (both employed and unemployed) reaches at least 6.5 percent and is at least 10 percent higher than in the same period in either of the two preceding years. For a summary of the EB triggers, see Chad Stone and William Chen, 2014, "Introduction to Unemployment Insurance," Center on Budget and Policy Priorities, <http://www.cbpp.org/research/introduction-to-unemployment-insurance>.

fixture of the UI system and can trigger at any time in states in response to heightened need, EUC-type programs depend on laws passed by Congress and signed by the President for authorization. As a result, emergency benefits are sometimes enacted much too late to be most effective in supporting workers and sometimes remain in effect too long in an untargeted fashion.



Each of these two UI policy options that have been used to provide additional support to workers and the economy in a recession entail tradeoffs. In reforming our UI system, policymakers should keep in mind the advantages and disadvantages of EB and EUC.

#### Permanent Law Extended Benefits (EB) Program

- Advantages
  - may turn on sooner when the benefits can have a positive impact;
  - is better targeted to the workers and local economies in which wage replacement and economic stabilization are more appropriate;
  - is funded through federal and state trust fund reserves, so the benefits do not add to the federal deficit;<sup>8</sup>
  - is more predictable in its cost by relying on historical estimates to determine forward funding amounts.
- Disadvantages
  - as a forward-financed system, requires advanced taxation of employers to achieve solvency, resulting in money that is not circulating in the state and local economy;
  - does not provide federal lawmakers the political opportunity to take credit for helping the country in an ad-hoc fashion in a time of need;
  - because the amount of additional benefits and the triggers are set in federal statute and designed to meet the needs of a typical economic downturn, the benefit duration may not be optimal for the actual economic situation in a given state.

<sup>8</sup> UI benefits do not add to the deficit when the budget is calculated as a non-unified budget.

Temporary Emergency Extended Unemployment Compensation (named EUC during the Great Recession)

- Advantages
  - does not require higher state contributions or federal UI taxes from employers before a recession;
  - may be designed to better target high-unemployment communities in states without high unemployment overall, which is important insofar as labor markets are somewhat local and vary significantly even within states;
  - allows Congress to present itself as acting in a time of need, in contrast to the EB program, which is permanently authorized without the need for new Congressional action.
- Disadvantages
  - because EUC is typically not forward-funded, the benefits provided may require spending offsets elsewhere or tax increases after the fact or greater reliance on federal debt to fund them;
  - emergency benefits have historically been enacted months—and even years—after the start of a recession, and may not be authorized when needed by Congress and the White House during future downturns.

### Policy Challenges

#### *Eligibility for unemployment compensation among today's workforce*

Over the 80-year history of the UI program, there have been significant changes in the composition of the labor force and the types of work performed by American workers. These changes include: 1) the increase in the number of multiple wage earner households, 2) the increase in part-time work; 3) the continuing increase in older-worker participation in the U.S. labor force; 4) increased employment by women; 5) the growth of low-wage service industries; 6) the increase in the use of foreign and alien labor; and 7) the increase in workers not engaged in traditional employer-employee relationships (for more on this, see Section 6 of this *Report*).

***Over the 80-year history of the UI program, there have been significant changes in the composition of the labor force and the types of work performed by American workers.***



These changes in the workforce and the nature of work have raised questions about how UI eligibility rules should be specified. In most states, the percent of individuals receiving unemployment compensation in a particular week, compared to the total number of workers in that week who indicate in employment surveys that they have been seeking employment, is well below 50 percent.<sup>9</sup> This could mean that unemployed individuals are choosing not to file for unemployment compensation, that they are not covered by the system, that they are not eligible for benefits based on existing rules, or that they are not receiving benefits for a number of other reasons.

### *Ineffective EB thresholds*

A state's eligibility for federal cost-sharing of extended benefits depends on whether the state meets a set of criteria, or thresholds. Specifically, a state must have a high rate of unemployment overall as well as a high rate of unemployment compared to the immediately preceding ("lookback") period. As a result of this second criterion, states with sustained high unemployment rates are sometimes not eligible for EB because the current rate, while high, is not significantly higher than the immediately preceding period.

## Policy Options

### Ensure Appropriate Coverage of Workers in Today's Workforce

Below are some ways in which UI eligibility criteria could be changed by states in response to changes in the workforce. At a minimum, DOL could continue researching the challenging topic of UI eligibility for today's diverse workforce.



<sup>9</sup> Claire McKenna and Rick McHugh, 2016, "Share of Unemployed Receiving Jobless Aid Remained at Record Low in 2015," National Employment Law Project, [http://www.nelp.org/blog/presidents-budget-proposes-unemployment-insurance-reforms-as-share-of-unemployed-receiving-jobless-aid-remained-at-record-low-in-2015/#\\_edn4](http://www.nelp.org/blog/presidents-budget-proposes-unemployment-insurance-reforms-as-share-of-unemployed-receiving-jobless-aid-remained-at-record-low-in-2015/#_edn4).



### *Alternative base periods*

Normal monetary eligibility provisions look at earnings over a four-quarter base period, with a lag of up to six months. Alternative base periods look at earnings in the most recent four calendar quarters of earnings. These provisions tend to enable relatively new entrants and reentrants into the labor market, especially young and old workers and women, to qualify for unemployment compensation. In 2016, 40 states have alternative base period provisions in their state UI laws.

### *Eligibility for benefits by part-time workers searching for part-time work*

Under current law, there is no difference in the threshold used for determining the amount of earnings needed to qualify for UI for part time workers or full-time workers. However, some part-time workers may not have sufficient work and earnings histories to be eligible for unemployment compensation.

***Thirty states have adopted alternative provisions that allow former part-time workers not to be denied unemployment compensation while they search for part-time work.***

Also, when these part-time workers become unemployed, some of them may not be able to work, be available to work, and actively seeking full-time (as opposed to part-time) work – and hence be ineligible for unemployment compensation. Thirty states have adopted alternative provisions that allow former part-time workers not to be denied unemployment compensation while they search for part-time work. States could evaluate alternative work-search and job-acceptance requirements for part-time workers.

### **Improve Design of EB Thresholds**

If EB triggers were revised, there might be less of a need for EUC because extended benefits would be more appropriately triggered during recessions. In its FY 2017 budget, the Department of Labor proposed an EB program with different thresholds for different tiers of benefits to account for differences in the severity of unemployment across states.<sup>10</sup> States with higher rates of unemployment would be eligible for longer durations of UI benefits.

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<sup>10</sup> Employment and Training Administration, Department of Labor, 2016, FY 2017 Congressional Budget Justification: State Unemployment Insurance and Employment Service Operations, <https://www.dol.gov/sites/default/files/documents/general/budget/CBJ-2017-V1-08.pdf>.