

SECTION 5. UNEMPLOYMENT COMPENSATION

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OVERVIEW

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

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

loans. The individual States finance their own programs, as well as their half of the Federal-State Extended Benefits Program.

In 1976, Congress passed a temporary 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 temporary surtax rate of 0.2 percent. The temporary surtax has been extended four times, most recently by the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) through December 31, 1998.

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 5-1 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 111 million individuals are covered by UC, representing 97 percent of all wage and salary workers and 84 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; in addition, section 3306(c)(1) of FUTA exempted certain alien farmworkers until January 1995; and (3) FUTA covers domestic service employers who paid cash wages of \$1,000 or more for domestic service during any calendar quarter in the current or prior year.

TABLE 5-1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS, SELECTED YEARS 1983-97

Statistic	Fiscal years											1997 (pro- jected) ¹
	1983	1985	1987	1989	1990	1991	1992	1993	1994	1995	1996 (es- timated)	
Total civilian unemployment rate (%)	10.1	7.2	6.4	5.3	5.4	6.5	7.3	7.0	6.3	5.6	5.7	5.7
Insured unemployment rate (%) ²	4.3	2.9	2.5	2.1	2.3	3.1	3.1	2.7	2.6	2.3	2.4	2.4
Coverage (millions)	86.3	93.5	98.0	104.3	106.1	105.1	104.9	106.6	109.7	112.6	113.6	115.0
Average weekly benefit amount:												
Current dollars	120	123	134	145	154	163	167	172	175	179	184	192
In 1996 dollars ³	179	170	186	184	186	189	188	188	186	185	184	186
State unemployment com- pensation:												
Beneficiaries (millions)	9.9	8.4	7.5	7.0	8.1	10.2	9.6	7.8	8.2	7.9	8.7	9.1
Regular benefit exhaus- tions (millions)	4.6	2.5	2.5	1.9	2.2	3.2	3.9	3.3	3.1	2.7	2.7	2.8
Regular benefits paid (billions of dollars)	20.8	14.3	15.0	13.5	16.8	24.4	25.6	21.9	21.7	20.9	23.1	24.2
Extended benefits (State share: billions of dol- lars)	1.21	0.03	0.04	(⁶)	0.03	0.01	0.02	0.00	0.15	0.04	0.05	0.07
State tax collections (bil- lions)	14.4	20.0	19.1	17.3	16.0	15.3	17.6	21.0	22.5	23.2	24.0	25.0
State trust fund impact (income-outlays: bil- lions) ⁴	-7.62	+5.65	+4.11	+3.80	-0.88	-9.13	-8.03	-0.93	+0.66	+2.24	+0.89	+0.79

TABLE 5-1.—UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS, SELECTED YEARS 1983-97—Continued

Statistic	Fiscal years											
	1983	1985	1987	1989	1990	1991	1992	1993	1994	1995	1996 (es- timated)	1997 (pro- jected) ¹
Federal unemployment com- pensation accounts:												
Federal tax collections (billions of dollars) ⁵ ...	3.58	4.44	5.08	4.45	5.36	5.33	5.41	7 4.23	5.46	5.70	5.74	5.81
Outlays: Federal extended benefits share plus Federal supplemental benefits (billions of dollars)	6.80	1.27	0.04	(⁶)	0.03	0.01	11.15	13.17	4.37	0.05	0.05	0.07
State administrative costs (billions):												
Unemployment Insurance Service	1.70	1.58	1.56	1.71	1.74	1.95	2.49	2.52	2.43	2.38	2.31	2.50
Employment Service	0.72	0.92	0.90	1.00	1.01	1.05	1.02	0.90	0.90	1.05	1.06	1.02
Total administrative costs	2.42	2.50	2.46	2.71	2.75	3.00	3.51	3.42	3.33	3.43	3.37	3.51

¹ Based on President Clinton's 1997 budget.

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

³ Adjusted using CPI-U.

⁴ Excludes interest earned.

⁵ Net of reduced credits.

⁶ Less than \$5 million.

⁷ Reflects a book adjustment of minus \$96.7 million.

Source: Office of Research, U.S. Department of Labor.

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

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

NUMBER OF COVERED WORKERS

Although the UC system covers 97 percent of all wage and salary workers, table 5-2 shows that on average only 36 percent of unemployed persons were receiving UC benefits in 1995. This compares with a peak of 81 percent of the unemployed receiving UC benefits in April 1975 and a low point of 26 percent in June 1968 and in October 1987. Despite high unemployment during the early 1980s, there was a downward trend in the proportion of unemployed persons receiving regular State benefits until the mid-1980s. The proportion receiving UC rose sharply in December 1991 due to the temporary Emergency Unemployment Compensation (EUC) Program.

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

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

TABLE 5-2.—INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT, BY MONTH, 1967-95

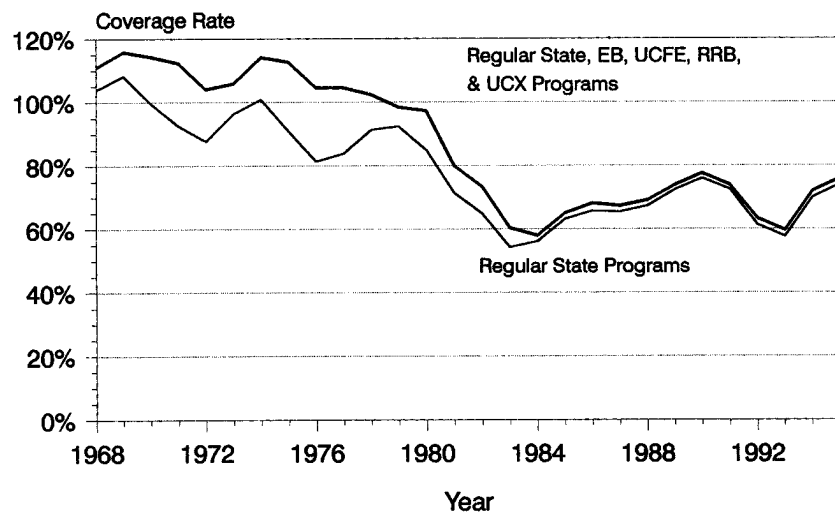
Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Avg.
1967	52	52	54	54	50	30	39	41	33	33	35	47	43
1968	57	50	52	50	45	26	34	38	33	34	38	48	42
1969	54	54	52	48	43	27	35	36	31	33	40	51	41
1970	57	54	52	53	53	36	42	45	42	44	48	53	48
1971	58	58	61	59	56	42	45	48	44	46	47	55	52
1972	56	58	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	55	40	43	44	40	42	48	60	50
1975	66	73	77	81	79	72	77	79	73	74	76	80	76
1976	78	75	76	73	72	58	66	66	60	59	60	63	67
1977	67	66	66	66	59	46	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	37	38	40	49	42
1980	52	51	53	52	49	45	49	49	55	49	50	54	50
1981	54	50	48	46	40	35	37	37	36	34	38	41	41
1982	47	44	48	49	45	40	42	42	43	48	49	47	45
1983	50	53	51	53	53	40	39	36	34	33	39	41	44
1984	40	38	38	36	34	30	31	31	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

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

The group of unemployed most likely to be insured are job losers. Chart 5-1 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.

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.

CHART 5-1. RATIO OF INSURED UNEMPLOYMENT TO JOB LOSERS (YEARLY AVERAGES), 1968-95



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 Executive Office of the President (1994) and U.S. Department of Labor.

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 5-3 shows the State monetary qualification requirements in the base year for the minimum and maximum weekly benefit amounts, and for the maximum total potential benefits. The base year is a recent 1-year period that most States (48) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from \$130 in Hawaii to \$4,280 in Oklahoma. For the maximum weekly benefit amount, the range is \$5,320 in Puerto Rico to \$28,288 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 \$5,320 in Puerto Rico to \$31,500 in Washington.

Since the beginning of 1994, 13 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount, and 4 States decreased it. Thirty-nine States increased and five decreased the qualification requirement for the maximum weekly benefit amount. Forty-two States increased (and two decreased) their qualification requirements for maximum potential benefits.

Ability to work and availability for work

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

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

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

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

In addition, Federal law requires States to deny benefits provided under the Extended Benefit (see below) Program to any individual who fails to accept any work that is offered in writing or is listed with the State employment service, or who fails to apply for any work to which he is referred by the State agency, if the work: (1) is within the person's capabilities; (2) pays wages equal to the highest of the Federal or any State or local minimum wage; (3) pays a gross weekly wage that exceeds the person's average weekly unemployment compensation benefits plus any supplemental un-

employment 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.

TABLE 5-3.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 1996¹

State	Required total earnings in base year			Minimum work in base year (quarters) ³
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits ²	
Alabama	\$1,032	\$8,616	\$14,039	20
Alaska	1,000	22,250	22,250	20
Arizona	1,500	6,919	14,429	20
Arkansas	1,269	13,992	20,592	20
California	1,125	9,542	11,958
Colorado	1,000	28,288	28,288
Connecticut	600	14,000	14,000	20
Delaware	966	13,800	13,800
District of Columbia	1,950	14,001	18,668	20
Florida	400	10,000	26,000	20
Georgia	1,350	10,250	23,318	20
Hawaii	130	9,022	9,022	20
Idaho	1,430	8,060	20,956	20
Illinois	1,600	13,117	13,117	20
Indiana	2,750	6,468	20,150	20
Iowa	1,155	6,440	17,472	20
Kansas	1,950	7,800	20,280	20
Kentucky	1,500	20,042	20,042	20
Louisiana	1,200	6,788	17,428	20
Maine	2,964	15,756	15,756	20
Maryland	900	9,000	9,000	20
Massachusetts	2,000	10,410	28,917
Michigan	1,340	8,944	15,651	20
Minnesota	1,250	9,848	23,634	20
Mississippi	1,200	7,200	14,040	20
Missouri	1,500	5,833	13,650	20
Montana	1,356	22,800	22,800	20
Nebraska	1,200	5,450	14,352	20
Nevada	600	8,888	18,486	20
New Hampshire	2,800	27,500	27,500	20
New Jersey	2,020	12,080	21,140	20
New Mexico	1,379	6,890	9,187	20
New York	1,600	11,980	11,980	20
North Carolina	2,603	11,583	23,166	20
North Dakota	2,795	15,995	20,218	20
Ohio	2,640	10,120	13,156	20
Oklahoma	4,280	9,263	16,055	20

TABLE 5-3.—MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 1996¹—Continued

State	Required total earnings in base year			Minimum work in base year (quarters) ³
	For minimum weekly benefit	For maximum weekly benefit	For maximum potential benefits ²	
Oregon	1,000	24,080	24,080	2Q
Pennsylvania	1,320	14,000	14,000	2Q
Puerto Rico	280	5,320	5,320	2Q
Rhode Island	1,780	10,519	23,400	2Q
South Carolina	900	8,307	16,614	2Q
South Dakota	1,288	8,280	14,040	2Q
Tennessee	1,560	10,400	20,800	2Q
Texas	1,517	9,324	24,263	2Q
Utah	1,800	10,257	25,326	2Q
Vermont	1,628	9,540	9,540
Virginia	3,250	10,400	20,800	2Q
Virgin Islands	1,287	8,346	16,692	2Q
Washington	1,875	8,750	31,500
West Virginia	2,200	24,400	27,400	2Q
Wisconsin	1,560	8,220	17,810	2Q
Wyoming	1,700	7,281	19,417	2Q

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

²Based 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.

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

Source: U.S. Department of Labor.

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

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

credits or totally denying benefits except in cases of misconduct, fraud, or receipt of disqualifying income.

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

Disqualifications

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

Of the 17.2 million "monetarily eligible" initial UC claims in 1995, 22.9 percent were disqualified. This figure subdivides into 4.5 percent not being able to work or available for work, 6.2 percent voluntarily leaving a job without good cause, 3.9 percent being fired for misconduct on the job, 0.3 percent refusing suitable work, and 8.1 percent committing other disqualifying acts. The total disqualification rate ranged from a low of 7.8 percent in Tennessee to a high of 125.4 percent in Nebraska, with Colorado the next highest at 61.4 percent. (Note that a claimant can be disqualified for one 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 these benefits, however, if the disqualification were lifted because she became reemployed and met the work or wage requirement of State law. Public Law 102-318 suspended these provisions, 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.

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. What follows is a brief historical overview of these pre-1991 provisions.

The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35) limited unemployment benefits to individuals who: (1) had 365 or more days of military service; (2) were discharged or released under honorable conditions; (3) did not resign or voluntarily leave military service (i.e., they were not eligible for reenlistment); and (4) were not released or discharged “for cause” as defined by the Department of Defense. These requirements applied to individuals who left Federal military service on or after July 1, 1981, but only for weeks of unemployment that began on or after August 13, 1981, the date of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362) modified the above eligibility requirements for ex-service members. Federal unemployment benefits became payable to unemployed ex-service members who: (1) were separated under honorable conditions (and, in the case of officers, did not resign for the good of the service); and (2) had completed the first full term of active service they agreed to serve. Ex-service members who were separated prior to completing their first full term of active service could qualify for UC benefits if they separated under honorable conditions: (1) for the convenience of the Government under an early release program; (2) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (3) because of hardship; or (4) because of personality disorder or inaptitude, if they had served for 365 continuous days. In addition to these eligibility requirements, ex-service members had to wait 4 weeks from the date of their separation from the service before they could receive benefits. 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).

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

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

Taxation of unemployment insurance benefits

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

Table 5-4 illustrates the effect of taxing all UC benefits for calendar year 1996. This table understates the impact of taxation because total UC benefits reported on the CPS are equal to only about two-thirds of benefits actually paid out. Because of under-reporting of UC benefits in the CPS and underestimates of benefits paid in 1996, taxes collected on benefits probably will be about twice as high as the \$3.1 billion in table 5-4.

TABLE 5-4.—ESTIMATED EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS BY INCOME CLASS, PROJECTED 1997

Level of individual or couple income ¹	In thousands		Percent affected by taxation	In millions		Taxes as a percent of total benefits
	Number of recipients of unemployment compensation	Number affected by taxation of benefits		Total amount of unemployment compensation benefits	Total amount of taxes on benefits	
Less than \$10,000	1,768	699	39.5	\$4,317	\$165	3.8
\$10,000–\$15,000	1,200	936	78.0	3,324	298	9.0
\$15,000–\$20,000	834	758	90.9	2,642	372	14.1
\$20,000–\$25,000	758	731	96.4	2,285	438	19.2
\$25,000–\$30,000	795	785	98.2	1,948	416	21.4
\$30,000–\$40,000	1,122	1,111	99.0	3,021	538	17.8
\$40,000–\$50,000	896	896	100.0	2,788	482	17.3
\$50,000–\$100,000	1,444	1,444	100.0	4,704	1,056	22.4
At least \$100,000	209	205	98.1	790	243	28.6
All	9,025	7,564	83.8	25,820	4,008	15.5

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

Source: Congressional Budget Office tax simulation model.

AMOUNT AND DURATION OF WEEKLY BENEFITS

In general, the States set weekly benefit amounts as a fraction of the individual's average weekly wage up to some State-determined maximum. The total maximum duration available nationwide under permanent law is 39 weeks. The regular State programs usually provide up to 26 weeks. The permanent Federal-State Extended Benefits Program provides up to 13 additional weeks in States where unemployment rates are relatively high. An additional 7 weeks is available under a new optional trigger enacted in 1992, but only 7 States have adopted this trigger as of March 31, 1996. The temporary 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 permanent Extended Benefits Program 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 36 percent in the quarter ending September 30, 1995.

Table 5-5 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1995, the national average weekly benefit amount was \$186 and the average duration was 14.9 weeks, making the average total benefits \$2,771. The minimum weekly benefit amounts for 1996 vary from \$5 in Hawaii to \$87 in Indiana. The maximum weekly benefit amounts range from \$133 in Puerto Rico to \$521 in Massachusetts.

TABLE 5-5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1995 AND 1996

State	1995 average weekly benefit	1996 weekly benefit amount ¹		1995 average duration (weeks)	1996 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
Alabama	\$135	\$22	\$180	11	15	26
Alaska	167	44-68	212-284	15	16	26
Arizona	146	40	185	14	12	26
Arkansas	158	47	264	12	9	26
California	148	40	230	17	14	26
Colorado	196	25	272	13	13	26
Connecticut	202	15-25	350-400	17	26	26
Delaware	186	20	300	15	24	26
District of Columbia	223	50	359	20	20	26
Florida	170	10	250	14	10	26
Georgia	155	37	205	10	9	26
Hawaii	262	5	347	17	26	26
Idaho	161	44	248	13	10	26
Illinois	206	51	251-332	18	26	26
Indiana	176	87	217	11	8	26
Iowa	184	33-40	224-274	12	11	26
Kansas	191	65	260	14	10	26
Kentucky	158	22	238	14	15	26
Louisiana	119	10	181	14	26	26
Maine	155	35-52	202-303	14	21	26
Maryland	186	25-33	250	17	26	26
Massachusetts	239	14-21	347-521	17	10	30
Michigan	215	42	293	13	15	26
Minnesota	217	38	303	16	10	26
Mississippi	130	30	180	12	13	26
Missouri	146	45	175	13	11	26

TABLE 5-5.—AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS, 1995 AND 1996—Continued

State	1995 average weekly benefit	1996 weekly benefit amount ¹		1995 average duration (weeks)	1996 potential duration (weeks)	
		Minimum	Maximum		Minimum	Maximum
Montana	139	57	228	15	8	26
Nebraska	149	20	184	12	20	26
Nevada	185	16	237	14	12	26
New Hampshire	146	32	216	12	26	26
New Jersey	245	60	362	18	15	26
New Mexico	151	42	212	17	19	26
New York	193	40	300	20	26	26
North Carolina	174	25	297	9	13	26
North Dakota	162	43	243	13	12	26
Ohio	192	66	253-339	15	20	26
Oklahoma	168	16	247	14	20	26
Oregon	169	70	301	16	4	26
Pennsylvania	202	35-40	352-360	17	16	26
Puerto Rico	90	7	133	19	26	26
Rhode Island	217	41-51	324-404	17	15	26
South Carolina	155	20	213	11	15	26
South Dakota	140	28	180	11	15	26
Tennessee	147	30	200	12	12	26
Texas	177	42	252	16	9	26
Utah	185	17	263	12	10	26
Vermont	157	25	212	15	26	26
Virginia	162	65	208	11	12	26
Virgin Islands	170	32	214	20	13	26
Washington	190	75	350	19	16	30
West Virginia	166	24	290	15	26	26
Wisconsin	174	52	274	13	12	26
Wyoming	174	16	233	15	12	26
U.S. average	186	NA	NA	15	NA	NA

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

NA—Not applicable.

Source: U.S. Department of Labor.

Most States vary the duration of benefits with the amount of earnings the claimant has in the base year. Ten States provide the same duration for all claimants. The minimum durations range from 4 weeks in Oregon to 26 weeks in ten 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.

Since the beginning of 1994, thirteen States increased (and three decreased) their minimum weekly benefit amounts. Forty-two States raised their maximum weekly benefit amounts, while two States decreased them. Three States lowered their minimum potential durations, and one State raised its minimum duration.

EXTENDED BENEFITS

The Federal-State Extended Benefits Program provides one-half of a claimant's total State benefits up to 13 weeks in States with an activated program, for a combined maximum of 39 weeks of regular and extended benefits. Weekly benefit amounts are identical to the regular State UC benefits for each claimant, and Federal funds pay half the cost. The program activates in a State under one of two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent 13 weeks is at least 5.0 percent and at least 120 percent of the average of its 13-week IURs in the last 2 years for the same 13-week calendar period; or (2) at State option, if its current 13-week average IUR is at least 6.0 percent. All but 12 State programs have adopted the second, optional condition. The 13-week average IUR is calculated from the ratio of the average number of insured unemployed persons under the regular State programs in the last 13 weeks to the average covered employment in the first 4 of the last 6 completed calendar quarters.

States have the option of electing an alternative trigger authorized by the Unemployment Compensation amendments of 1992 (Public Law 102-318). This new 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 March 31, 1996, the TUR trigger has been authorized by 7 States (Alaska, Connecticut, Kansas, Oregon, Rhode Island, Vermont, and Washington).

In March 1996, EB was activated using the 6.0 percent IUR trigger in Alaska. EB was not available in any other jurisdiction.

BENEFIT EXHAUSTION

Due to the limited duration of UC benefits, some individuals exhaust their benefits. For the regular State programs, 2.7 million individuals exhausted their benefits in fiscal year 1995, or 35 percent of claimants who began receiving UC during the 12 months ending March 31, 1995.

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

The study's authors reached three general conclusions:

1. A large proportion of UC recipients expected to be recalled to their previous jobs. The unemployment spells of these job-attached workers were considerably shorter than those of workers who suffered permanent job losses, and few job-attached workers exhausted their UC benefits. Workers who

were not job-attached—in particular, workers who were dislocated from their previous jobs or who had low skill levels—were likely to experience long unemployment spells, and a significant proportion of these workers exhausted their UC benefits.

2. Most workers who exhausted their benefits were still unemployed more than a month after receiving their final payment, and a majority were still unemployed 2 months after receiving their final payment. Moreover, workers who found jobs after exhausting their UC benefits were generally receiving lower wages than on their prior jobs.
3. State exhaustion rate trigger mechanisms would not be clearly superior to the State Insured Unemployed Rate (IUR) triggers in targeting extended benefits to areas with high cyclical unemployment. Substate trigger mechanisms for extended benefits would do a poor job of targeting extended benefits to local areas with high structural unemployment.

SUPPLEMENTAL BENEFITS

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

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

More recently, Congress passed the Emergency Unemployment Compensation Act of 1991 (Public Law 102-164) authorizing a temporary Emergency Unemployment Compensation (EUC) Program. The EUC Program, which was extended four times, effectively superseded the Extended Benefits 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 after an individual's regular unemployment benefits had expired. The EUC Program ended on April 30, 1994.

Benefits under the EUC Program were originally financed from spending authority in the Extended Unemployment Compensation

Account (EUCA) of the Unemployment Trust Fund. However, depletion of EUCA led Congress to fund EUC from general revenue from July 1992 to October 1993. States that qualified for extended benefits while EUC was in effect could elect to trigger off extended benefits. This reduced the State funding burden because 50 percent of extended benefit costs are financed from State UC accounts while EUC was entirely federally funded.

Table 5-6 shows several estimates of the cost of the EUC Program at different points in time. A comparison of cost estimates at the time of enactment with later reviews shows that actual costs far exceeded anticipated costs due to three factors: exhaustions from the regular State program were unexpectedly near record levels; claimants were staying on EUC longer than expected; and large numbers of claimants eligible for both regular benefits and EUC were choosing EUC. As a result, for the periods fiscal year 1992 and fiscal year 1993 alone, OMB cost estimates rose from \$11.4 billion on the dates of enactment to \$12.8 billion in July 1992, \$18.2 billion in January 1993, \$23.4 billion in April 1993, \$23.8 billion in July 1993, and finally \$24.3 billion in January 1994—113 percent higher than originally estimated. Including fiscal year 1994 costs, the Clinton administration's budget released in July 1994 estimated the final 3-year cost of EUC benefits to be \$28.5 billion, \$13.7 billion more than OMB and \$9.9 billion more than CBO had estimated on the date of enactment.

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

Table 5-7 illustrates benefit amounts for various full-year workers in regular State programs for January 1996. 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; 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. The weekly benefit amount for the full-time minimum wage worker varies from \$77 in Louisiana to \$180 in Alabama and Connecticut. The maximum amount a worker earning \$9 per hour can receive (column C) varies considerably, from \$133 per week in Puerto Rico to \$380 in Connecticut.

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 sections 2 and 6 of this document.) The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund.

TABLE 5-6.—CHANGES IN EMERGENCY UNEMPLOYMENT COMPENSATION OUTLAY ESTIMATES, FISCAL YEARS 1992-94

[In billions of dollars]

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

¹ Less than \$50,000,000.

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

The four Federal accounts in the trust fund are: (1) the Employment Security Administration Account (ESAA), which funds administration; (2) the Extended Unemployment Compensation Account (EUCA), which funds the Federal half of the Federal-State Extended Benefits Program; (3) the Federal Unemployment Account (FUA), which funds loans to insolvent State UC programs; and (4) the Federal Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. The 0.8 percent Federal share of the Federal 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.

TABLE 5-7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS,
JANUARY 1996

State	Hypothetical worker ¹			
	A	B	C	D
Alabama	180	180	180	92
Alaska	106	134	232	70
Arizona	88	125	185	44
Arkansas	85	120	180	47
California	82	105	142	46
Colorado	102	144	216	50
Connecticut	180	250	380	95
Delaware	96	135	203	48
District of Columbia	90	125	195	0
Florida	85	120	180	42
Georgia	88	124	187	44
Hawaii	106	149	223	53
Idaho	85	120	180	0
Illinois	101	141	237	59
Indiana	98	134	197	0
Iowa	100	141	234	50
Kansas	93	132	198	65
Kentucky	105	148	222	52
Louisiana	77	109	164	38
Maine	97	138	222	47
Maryland	93	130	211	47
Massachusetts	85	120	230	43
Michigan	NA	NA	NA	NA
Minnesota	85	120	180	42
Mississippi	85	120	180	42
Missouri	99	140	175	49
Montana	88	124	187	44
Nebraska	92	128	184	48
Nevada	88	124	187	44
New Hampshire	98	123	166	0
New Jersey	109	154	248	0
New Mexico	85	120	180	42
New York	85	120	180	43
North Carolina	85	120	180	42
North Dakota	85	120	180	0
Ohio	102	144	238	0
Oklahoma	88	124	187	44
Oregon	110	156	234	70
Pennsylvania	95	132	197	52
Puerto Rico	85	120	133	43
Rhode Island	102	144	236	51

TABLE 5-7.—WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 1996—Continued

State	Hypothetical worker ¹			
	A	B	C	D
South Carolina	85	120	180	42
South Dakota	85	120	180	42
Tennessee	169	200	200	84
Texas	89	125	188	45
Utah	86	120	180	43
Vermont	98	138	208	49
Virginia	88	124	187	0
Virgin Islands	85	120	180	42
Washington	176	249	350	88
West Virginia	93	131	198	46
Wisconsin	88	124	187	0
Wyoming	88	124	187	44

¹ Hypothetical workers:

- A. \$4.25/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
- B. \$6.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.
- C. \$9.00/hr. wage; 40 hrs./wk.; 52 wks./yr.; nonworking spouse; two children.
- D. \$4.25/hr. wage; 20 hrs./wk.; 52 wks./yr.; nonworking spouse; no children.

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

Source: U.S. Department of Labor.

FINANCIAL CONDITION OF THE UNEMPLOYMENT TRUST FUND

Federal accounts

At the end of fiscal year 1995, the Employment Security Administration Account (ESAA) exceeded its fiscal year 1995 ceiling of \$1.4 billion; the Extended Unemployment Compensation Account (EUCA) balance was below its ceiling of \$11.8 billion by \$9.6 billion; the Federal Unemployment Account (FUA) balance was in excess of its \$5.9 billion ceiling by \$1.6 billion.

Under the Administration's fiscal year 1997 budget assumptions, the EUCA balance will continue to fall short of its ceiling until fiscal year 1999.

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 5-8 shows that the State accounts at the beginning of 1996 held \$35.4 billion, which represents a marked improvement over the balance of \$28.8 billion in 1992.

TABLE 5-8.—FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS, SELECTED YEARS 1970-95

States	Net reserves (end of calendar year)					Reserve ratios					1995/ 1970	High- cost mul- tiple	Rank
	[In millions of dollars]					[Percent]							
	1970	1975	1979	1982	1985	1970	1975	1979	1982	1985			
Alabama	\$130	\$(2)	\$118	\$9	\$534	2.96	(0.03)	0.98	0.06	1.64	55	0.76	29
Alaska	35	75	65	134	201	5.51	3.07	2.78	2.94	3.56	65	0.82	26
Arizona	119	67	226	215	535	4.25	1.35	2.36	1.66	1.55	36	0.63	35
Arkansas	49	2	24	(77)	201	2.26	0.04	0.37	(1.00)	1.15	51	0.43	42
California	1,219	546	2,738	2,708	2,104	2.91	0.88	2.51	1.83	0.70	24	0.31	47
Colorado	91	47	137	(4)	481	2.54	0.70	1.11	(0.02)	1.27	50	1.01	16
Connecticut	252	(232)	(267)	(252)	117	0.08	(2.27)	(1.70)	(1.21)	0.27	338	0.08	52
Delaware	22	0	(30)	(35)	272	1.72	0	(1.06)	(0.96)	3.34	194	1.30	10
District of Columbia	74	(3)	(44)	(57)	69	3.22	(0.09)	(1.05)	(1.03)	0.57	18	0.31	46
Florida	268	80	665	865	1,806	2.60	0.42	2.13	1.89	1.57	60	0.84	25
Georgia	340	268	447	397	1,453	4.74	2.28	2.28	1.49	2.11	45	0.99	19
Hawaii	44	5	79	108	213	2.90	0.23	2.24	2.43	2.05	71	0.97	20
Idaho	46	54	93	29	243	5.16	3.21	3.20	0.85	2.98	58	0.94	23
Illinois	401	(31)	(460)	(2,069)	1,629	1.55	(0.08)	(0.80)	(3.18)	1.24	80	0.47	41
Indiana	326	198	418	63	1,228	3.13	1.31	1.69	0.23	2.19	70	1.22	11
Iowa	125	63	155	(63)	725	3.19	0.96	1.45	(0.55)	3.17	99	1.21	12
Kansas	84	135	238	142	704	3.00	2.65	2.75	1.29	2.95	98	1.50	7
Kentucky	175	137	159	(121)	471	4.21	1.95	1.36	(0.90)	1.64	39	0.59	37
Louisiana	146	141	238	(102)	1,003	2.91	1.58	1.51	(0.47)	3.24	111	1.05	14
Maine	39	1	0	(4)	95	2.86	0.07	0	(0.09)	1.07	37	0.38	44
Maryland	213	29	273	220	605	3.26	0.29	1.83	1.11	1.38	42	0.63	33
Massachusetts	378	(99)	132	436	527	3.04	(0.61)	0.51	1.23	0.72	24	0.23	50
Michigan	491	(286)	112	(2,186)	1,498	2.49	(1.05)	0.25	(4.64)	1.48	59	0.40	43
Minnesota	119	(35)	70	(288)	460	1.76	(0.33)	0.41	(1.36)	0.95	54	0.49	39
Mississippi	85	90	231	257	551	3.87	2.25	3.47	3.12	3.24	84	1.64	4
Missouri	264	95	296	(64)	197	3.03	0.75	1.47	(0.27)	0.41	14	0.21	51

Montana	26	8	16	9	122	3.33	0.57	0.65	0.27	2.12	64	0.70	30
Nebraska	55	29	81	72	194	2.87	0.84	1.58	1.14	1.49	52	0.95	21
Nevada	39	5	95	122	298	3.20	0.22	2.31	2.02	1.76	55	0.64	32
New Hampshire	55	29	82	75	251	4.62	1.56	2.42	1.60	2.33	50	0.93	24
New Jersey	448	(348)	(507)	(423)	1,988	2.76	(1.54)	(1.50)	(0.97)	2.10	76	0.63	34
New Mexico	40	33	80	101	355	3.45	1.61	2.14	1.98	3.33	97	2.05	2
New York	1,693	574	403	819	249	3.76	1.02	0.51	0.78	0.13	3	0.05	53
North Carolina	414	342	564	400	1,531	5.22	2.71	2.71	1.52	2.34	45	0.95	22
North Dakota	13	22	21	11	57	2.53	1.94	1.13	0.46	1.44	57	0.62	36
Ohio	693	294	513	(1,658)	1,601	3.01	0.91	1.02	(3.04)	1.49	50	0.48	40
Oklahoma	55	27	177	108	522	1.69	0.46	1.56	0.62	2.35	139	1.72	3
Oregon	122	24	320	161	906	3.39	0.40	3.00	1.37	3.35	99	1.04	15
Pennsylvania	852	(86)	(1,091)	(2,145)	1,915	3.53	(0.25)	(2.18)	(3.75)	1.80	51	0.54	38
Puerto Rico	85	(26)	(33)	(47)	634	4.90	(0.95)	(0.88)	(1.11)	6.89	141	1.56	5
Rhode Island	75	(41)	(96)	(76)	110	4.34	(1.76)	(2.75)	(1.81)	1.35	31	0.31	48
South Carolina	166	95	195	50	557	4.61	1.61	1.96	0.40	1.90	41	0.66	31
South Dakota	8	20	16	9	52	3.81	1.96	0.95	0.43	1.12	29	1.05	13
Tennessee	212	200	264	15	823	3.57	1.95	1.63	0.08	1.70	48	0.78	28
Texas	337	231	396	142	585	1.90	0.71	0.65	(0.16)	0.35	18	0.31	49
Utah	51	32	67	10	468	3.55	1.22	1.43	0.16	3.08	87	1.52	6
Vermont	26	(25)	(21)	(27)	207	3.72	(2.53)	(1.30)	(1.29)	4.59	123	1.44	8
Virginia	218	122	103	14	789	3.41	1.08	0.56	0.06	1.30	38	1.00	18
Virgin Islands	NA	NA	(7)	(3)	40	NA	NA	(2.96)	(0.55)	6.45	NA	2.83	1
Washington	226	(67)	297	150	1,418	3.73	(0.71)	1.66	0.70	3.01	81	0.79	27
West Virginia	108	78	39	(145)	164	4.07	1.70	0.56	(1.85)	1.45	36	0.36	45
Wisconsin	322	121	465	(413)	1,504	4.29	0.99	2.37	(1.53)	3.12	73	1.00	17
Wyoming	19	31	69	46	142	4.29	3.02	3.15	1.51	4.23	99	1.40	9
Total	11,903	3,070	8,583	(2,645)	35,403	3.11	0.53	0.91	(0.24)	1.44	46	0.65

NA—Not available.

Source: U.S. Department of Labor (1995b).

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 5-8 shows that these State ratios are only 46 percent of their levels in 1970. However, no State presently has outstanding Federal loans to its account.

The second-to-last column of table 5-8 shows for each State the 1995 "High-Cost Multiple," the ratio of the State's reserve ratio to its highest cost rate. The highest cost rate is determined by choosing the highest ratio of costs to total covered wages paid in a prior year. States with high-cost multiples of at least 1.0 have reserves that could withstand a recession as bad as the worst one they have experienced previously. States with high-cost multiples below 1.0 are at significant risk of insolvency during recessions.

Thirty-five States had high-cost multiples below 1.0; 27 had high-cost multiples below 0.8; and 15 had high-cost multiples below 0.5. Based on this measure, States in the worst financial shape were Arkansas, California, Connecticut, the District of Columbia, Illinois, Maine, Massachusetts, Michigan, Minnesota, Missouri, New York, Ohio, Rhode Island, Texas, and West Virginia.

Table 5-9 summarizes the beginning balances in the various unemployment trust fund accounts for selected fiscal years. At the start of fiscal year 1996, the four Federal accounts and the 53 State benefit accounts had a total balance of \$48.0 billion. In real terms this represents a level 8 percent lower than that of 1971. This decline in real dollars does not allow for the further erosion implied by the large increase in the labor force over this time period. A better measure is the ratio of the 1995 to 1970 reserve ratios in table 5-8, which shows that aggregate reserves in 1995 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 and that often causes problems for the State's leading political figures. In short, States have strong incentives to keep adequate funds in their trust fund accounts.

TABLE 5-9.—BEGINNING-OF-YEAR BALANCES IN UNEMPLOYMENT TRUST FUND
ACCOUNTS, SELECTED FISCAL YEARS 1971-96

[In millions of dollars]

Account	1971	1976	1980	1983	1996
Employment security administration	65	365	572	545	3,752
Extended unemployment compensation	0	116	764	483	2,201
Federal unemployment (reserve for State loans)	575	9	567	599	5,921
Federal employee compensation	(¹)	(¹)	(¹)	24	237
State unemployment compensation ²	12,409	6,145	8,272	720	35,987
Total: Nominal dollars	13,049	6,635	10,175	2,371	48,048
Total: Real dollars ³	52,265	19,393	21,882	3,763	48,048

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

Source: U.S. Department of Labor, Unemployment Insurance Service.

THE FEDERAL UNEMPLOYMENT TAX

Total unemployment taxes on employers for a full-time, full-year worker earning the average wage in covered employment in 1995 is estimated to have averaged \$301, or 15 cents per hour. The Federal portion was \$56, or 3 cents per hour, and the average State portion was \$245, or 12 cents per hour. Employer taxes vary substantially, however, depending on the State taxable wage base, State tax schedules, and Federal credits.

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. After December 31, 1998, the minimum Federal tax rate will fall to 0.6 percent, as the 0.2 percent surtax expires.

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

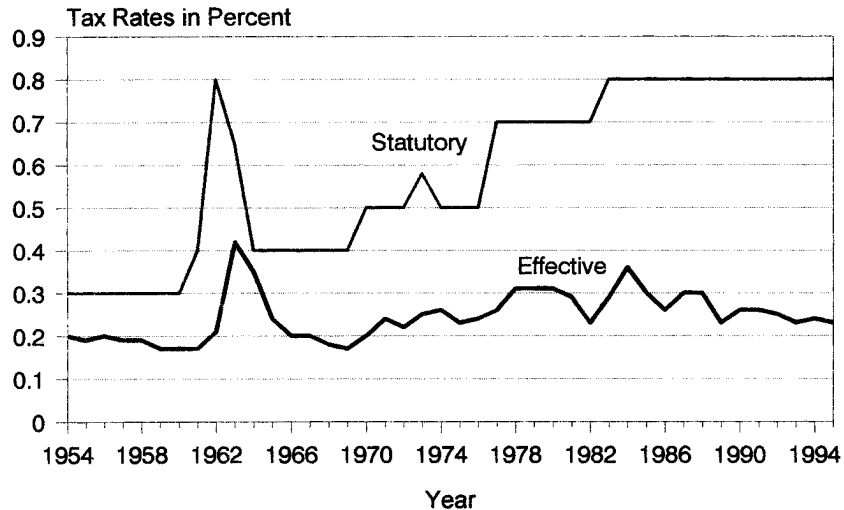
Chart 5-2 depicts the historical trends in the statutory and effective Federal unemployment tax rates. The effective tax rate equals FUTA revenue as a percent of total covered wages. Although the statutory tax rate doubled from 0.4 percent in the late 1960s to 0.8 percent in the late 1980s, the effective tax rate has fluctuated between 0.2 and 0.3 percent in most of those years.

STATE UNEMPLOYMENT TAXES

The States finance their programs and half of the permanent Extended Benefits Program with employer payroll taxes imposed on

at least the first \$7,000 paid annually to each employee.¹ States have adopted taxable wage bases at least as high as the Federal level because they otherwise would lose the 5.4 percent credit to employers on the difference between the Federal and State taxable wage bases. Table 5-10 shows that, as of January 1996, 41 States had taxable wage bases higher than the Federal taxable wage base, ranging up to \$25,800 in Hawaii.

CHART 5-2. HISTORY OF FEDERAL UNEMPLOYMENT TAX RATE, 1954-95



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

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 3 States.

Estimated national average State tax rates on taxable wages and total wages for 1995 were 2.2 and 0.8 percent, respectively. Estimated average State tax rates on taxable wages ranged from 0.6 percent in North Carolina and South Dakota to 4.9 percent in Pennsylvania. Estimated average State tax rates on total wages varied from 0.2 percent in North Carolina to 2.1 percent in Rhode Island.

Table 5-11 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 0.18 in New York to 0.64 in Montana.

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

TABLE 5-10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1996

State	1996 tax base	1996 experience rates ¹		Estimated 1995 average tax rates as a percent of—	
		Minimum	Maximum	Taxable wages	All wages
Alabama	\$8,000	0.14	6.74	1.1	0.4
Alaska	24,400	1.0	6.5	2.0	1.4
Arizona	(²)	0.1	5.4	1.9	0.5
Arkansas	9,000	0	6.0	2.2	1.0
California	(²)	0.1	5.4	3.6	0.9
Colorado	10,000	0	5.4	1.2	0.5
Connecticut	11,000	0.5	6.4	4.4	1.2
Delaware	8,500	0.1	8.0	2.9	0.9
District of Columbia	10,000	0.1	7.4	3.6	0.9
Florida	(²)	0.1	5.4	1.8	0.6
Georgia	8,500	0.01	8.64	1.4	0.5
Hawaii	25,800	0	5.4	1.9	1.3
Idaho	21,600	0.1	6.8	1.4	0.9
Illinois	9,000	0.2	6.4	3.4	1.0
Indiana	(²)	0.2	5.7	1.4	0.4
Iowa	14,700	0	9.0	1.0	0.5
Kansas	8,000	0.025	5.4	0.7	0.3
Kentucky	8,000	0.3	10.0	2.1	0.8
Louisiana	8,500	0.3	6.0	1.8	0.7
Maine	(²)	0.5	7.5	3.6	1.1
Maryland	8,500	0.1	8.9	3.2	1.0
Massachusetts	10,800	0.6	9.3	3.8	1.5
Michigan	9,500	0	10.0	4.4	1.4
Minnesota	15,800	0.1	9.0	1.6	0.8
Mississippi	(²)	0.1	5.4	2.2	0.9
Missouri	8,500	0	8.7	2.0	0.5
Montana	15,800	0	6.4	1.3	0.9
Nebraska	(²)	0	5.4	0.8	0.3
Nevada	16,600	0.3	5.4	1.5	0.9
New Hampshire	8,000	0.01	6.5	1.8	0.5
New Jersey	18,000	0.4	6.47	1.6	0.7
New Mexico	13,900	0.1	5.4	1.6	0.8
New York	(²)	0	6.4	4.5	1.0
North Carolina	11,600	0	5.7	0.6	0.2
North Dakota	13,900	0.1	5.4	1.1	0.6
Ohio	9,000	0.1	6.5	2.8	1.0
Oklahoma	10,900	0.1	6.2	1.1	0.4
Oregon	20,000	0.5	5.4	1.4	0.8
Pennsylvania	8,000	0.3	9.2	4.9	1.5
Puerto Rico	(²)	1.0	5.4	2.9	0.9

TABLE 5-10.—STATE UNEMPLOYMENT TAX BASES AND RATES, 1996—Continued

State	1996 tax base	1996 experience rates ¹		Estimated 1995 average tax rates as a percent of—	
		Minimum	Maximum	Taxable wages	All wages
Rhode Island	17,000	0.8	8.4	3.6	2.1
South Carolina	(²)	0.19	5.4	1.9	0.6
South Dakota	(²)	0	9.5	0.6	0.3
Tennessee	(²)	0.1	10.0	1.9	0.6
Texas	9,000	0	6.0	1.3	0.5
Utah	17,200	0.1	8.0	0.9	0.5
Vermont	8,000	0.4	8.4	2.5	0.9
Virginia	8,000	0	6.2	1.4	0.5
Virgin Islands	13,400	0.1	9.5	1.5	1.2
Washington	20,300	0.36	5.4	2.0	1.2
West Virginia	8,000	0	7.5	3.1	1.2
Wisconsin	10,500	0	8.9	2.2	0.9
Wyoming	12,100	0	8.5	1.5	0.7
U.S. average	NA	NA	NA	2.2	0.8

¹Actual rates could be higher if State has an additional tax.

²The 1996 tax base is \$7,000 except as otherwise shown in this column.

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.

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 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 5-3). Funds for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the FUTA tax. Funds for administration may be augmented by three-eighths of the amount in ESAA at the beginning of the fiscal year, or \$150 million, whichever is less, if the rate of insured unemployment is at least 15 percent higher than it was over the corresponding calendar quarter in the immediately preceding year.

TABLE 5-11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION FOR PERIOD ENDING DECEMBER 1994

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Alabama	1,657	\$38,164	\$11,542	0.30	\$443
Alaska	234	7,530	3,593	0.48	620
Arizona	1,662	39,852	10,833	0.27	461
Arkansas	988	20,339	7,425	0.37	396
California	12,149	360,717	80,314	0.22	571
Colorado	1,679	43,284	14,586	0.34	496
Connecticut	1,502	50,660	11,635	0.23	649
Delaware	342	9,527	2,434	0.26	536
District of Colum- bia	425	15,644	3,315	0.21	708
Florida	5,695	135,051	37,191	0.28	456
Georgia	3,121	78,022	23,064	0.30	481
Hawaii	508	13,342	7,394	0.55	505
Idaho	449	9,687	5,278	0.54	415
Illinois	5,250	151,737	40,399	0.27	556
Indiana	2,602	64,202	16,560	0.26	475
Iowa	1,260	27,713	11,685	0.42	423
Kansas	1,111	25,108	10,010	0.40	435
Kentucky	1,505	33,842	10,078	0.30	432
Louisiana	1,637	37,495	11,265	0.30	440
Maine	508	11,154	2,966	0.27	423
Maryland	1,976	54,359	14,084	0.26	529
Massachusetts	2,786	86,008	27,197	0.32	594
Michigan	4,017	117,983	31,497	0.27	565
Minnesota	2,213	58,136	22,840	0.39	505
Mississippi	1,007	20,148	6,373	0.32	385
Missouri	2,328	56,643	16,276	0.29	468
Montana	315	6,175	3,949	0.64	377
Nebraska	755	16,063	4,331	0.27	409
Nevada	724	18,436	9,389	0.51	490
New Hampshire	502	12,725	3,391	0.27	488
New Jersey	3,391	113,045	43,212	0.38	641
New Mexico	604	13,067	5,436	0.42	416
New York	7,550	251,523	44,346	0.18	641
North Carolina	3,269	76,031	32,391	0.43	447
North Dakota	265	5,165	2,064	0.40	375
Ohio	4,891	126,789	35,250	0.28	499
Oklahoma	1,205	26,258	9,903	0.38	419
Oregon	1,327	32,452	16,075	0.50	470

TABLE 5-11.—TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION FOR PERIOD ENDING DECEMBER 1994—Continued

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
Pennsylvania	4,924	131,502	32,329	0.25	514
Puerto Rico	890	13,332	4,319	0.32	288
Rhode Island	417	10,515	4,515	0.43	485
South Carolina	1,540	34,219	9,580	0.28	427
South Dakota	305	5,725	1,711	0.30	361
Tennessee	2,311	54,804	14,903	0.27	456
Texas	7,438	191,080	56,939	0.30	494
Utah	795	17,721	8,222	0.46	429
Vermont	253	5,756	1,602	0.28	438
Virginia	2,769	69,764	19,435	0.28	485
Virgin Islands	44	966	477	0.49	426
Washington	2,232	58,068	28,120	0.48	500
West Virginia	626	14,138	4,053	0.29	434
Wisconsin	2,385	57,701	18,993	0.33	465
Wyoming	202	4,375	1,571	0.36	416
United States	110,538	\$2,933,745	\$856,342	0.29	\$510

Source: U.S. Department of Labor (1995a).

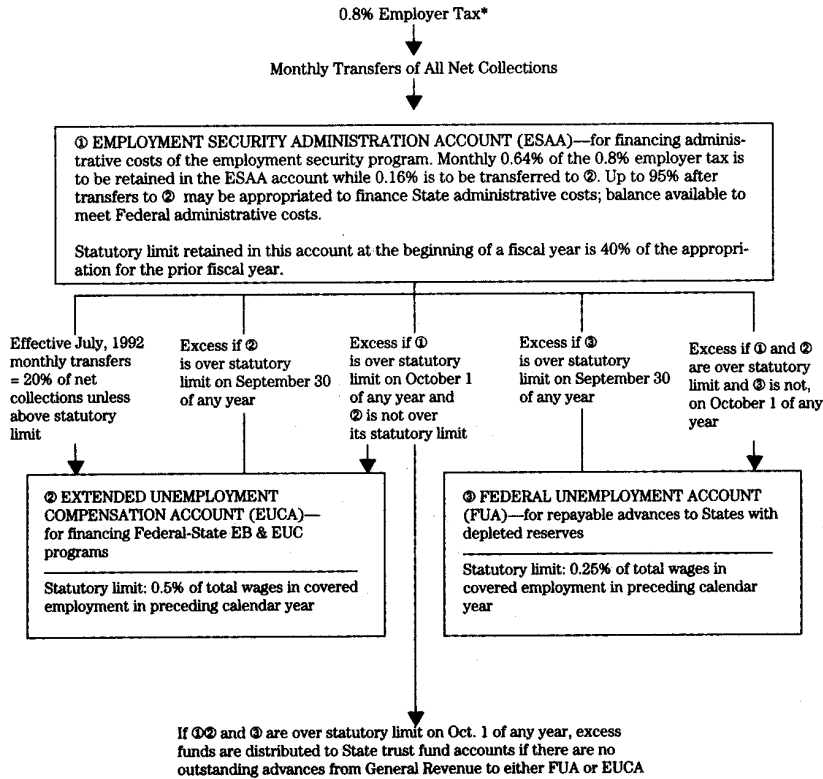
Title III of the Social Security Act authorizes payment to each State with an approved unemployment compensation law of such amounts as are deemed necessary for the proper and efficient administration of the UC Program during the fiscal year. Allocations are based on: (1) the population of the State;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

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

Each year, as part of the development of the President's Budget, the Department of Labor, in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount to be available for administration. The estimate of FUTA revenues is based on several factors: (1) a wage base of \$7,000 per employee; (2) a tax rate of 0.8 percent (0.64 percentage point for administration and 0.16 percentage point for extended benefits); (3) the Administration's projection of the level of unemployment and the growth in wages; and (4) the level of covered em-

ployment 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.

CHART 5-3. FLOW OF FUTA FUNDS UNDER EXISTING FEDERAL STATUTES



*Effective tax, after 5.4 is offset against 6.2% Federal unemployment tax. Effective rate will drop to 0.6% on January 1, 1999.

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

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 receives contingency funds determined by the extent of the resources required to process the additional workload.

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

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

Each Department of Labor regional office may redistribute resources among the States in its area with national office approval.

In Public Law 102–164, Congress required the Department of Labor to study the allocation process and recommend improvements. Public Law 102–318 extended the study deadline to December 31, 1994. The Department notified Congress that it expects completion by the end of 1996.

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 extended 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 system to identify UI claimants most likely to need job search assistance to avoid long-term unemployment.

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

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