The U.S. Federal-State Unemployment Insurance System

Presentation to European Union Representatives
June 20, 2014
U.S. Department of Labor
Employment and Training Administration, Office of Unemployment Insurance
UI Program History

• Unemployment Insurance Program part of Social Security Act enacted in 1935 – response to Great Depression
  -- Income maintenance/economic stabilization
  -- Has been evolving since
  -- Regular, Extended Benefits, and Discretionary Programs

• Features
  – Federal/state partnership (conformity/compliance)
  – Strong use of incentives
  – Broad federal guidelines (laws, regulations, guidance)
  – Federal-state financing through employer taxes (limited employee tax)
  – Counter cyclical financing
  – Started with non-interest loans- now interest bearing loans
1) Federal Tax: 6% with 5.4% credit available applied to $7,000 wage base

Effective Rate:
0.6% on first $7,000 of wages
($42 per covered employee.)

Pays for:
- Administration- UI / ES/VETS/LMI
- Federal share Extended Benefits
- Third tier programs

2) State Tax

Experience Rated Tax:
Taxable Wage Base
Tax Schedule

Pays for:
- State benefits
- State share Extended Benefits
Flow of Funds – Unemployment Trust Fund

State UI Taxes

Federal UI Taxes

Administration Fund
- Pays for state administrative costs

Extended Benefit Fund
- Pays 1/2 cost of extended benefits

State Loan Fund
- Makes loans to insolvent state accounts when needed

53 State Accounts

AL AK FL IL KY NV PA TX WA WY ...
State Benefit Program

• No Federal requirements on the level of benefits paid or the level of taxes.

• Each state maintains its own Fund reserve which has made the system counter-cyclical in its impact.

![Contributions & Benefits Paid as Percent of Covered Wages](image_url)

The last data point is for 2012.
Total Average Cost Per Employee for UI Program (1981-2012)

Source: U.S. DOL 394 Report, ETA/OUI
Evolution of U.S. UI Federal Transfers

- **1935**: Interest Free Loans
- **1970**: Discretionary Benefit Extensions Provided
- **1982**: Payment of 50% Of Extended Benefits (13 weeks)
- **1991**: Interest Charged on Loans and Repayment Provisions Added
- **2014**: Administrative Funds to High Claims States
Percentage of Total UI Benefits Congressionally Allocated During Recession Years

Source: U.S. DOL ETA/OUI/DFAS 394 Report Benefit Data
Extended Benefit Triggers

• Payments to states are currently based on level of Insured Unemployment Rate (with an optional measure of Total Unemployment) – for a period of 13 additional weeks or a “High” level of 20 weeks:

  **EB Trigger:** A state must pay up to 13 weeks of EB if the average insured unemployment rate (IUR) for the previous 13 weeks is at least 5% and is 120% of the rates for the previous 2 years.

  **Optional:** A state may pay up to 13 weeks if the IUR is at least 6% or the three month average seasonally adjusted Total Unemployment rate (TUR) is at least 6.5% and is 110% of the corresponding period in either or both of the 2 previous years. In addition, if the TUR is at least 8.0% and is 110% of the rate for the corresponding period in either or both of the 2 previous years, the duration increases from 13 to 20.

• Historical Contention over:
  Type of measure – Program measure / Economic conditions
  Geographic location – National / State / Sub-state
  Period of Activation – Above a Level / Increasing Unemployment
  Requirement – Mandatory / Optional
State Loan Fund

- **Federal Unemployment Account (FUA)** provides advances to States whose State UI account becomes insolvent. Receives overflow from the Administration and Extended Benefits accounts.

- States have access to unlimited loans at government interest rates, (loans were interest-free until 1982), with required repayment features added on the Federal tax.

![Number of States Borrowing Federal Funds Following Recessions](chart)

Source: U.S. DOL ETA/OUI/DFAS 394 Report Loan Data
Federal Emergency UI Benefits

- Emergency benefits are based on Congressional discretion and are paid primarily from General Revenues.

- No repayment from the Federal UI accounts of emergency benefits using General Revenues.

- Each Emergency Extension varies in program features: The number of weeks of benefits beyond the state regular benefits, the level of unemployment triggers, the amount of benefits paid, and the eligibility requirements.
Automatic Stabilization

Discretionary - General Fund Spending on UI

American Recovery and Reinvestment Act of 2009
Unemployment Insurance Provisions

- Extending Emergency Benefit Duration
- Increase of $25 to each Weekly UI Benefit payment
- Incentive Funds to Each State for Increasing UI Eligibility
- Temporary Waiver of Interest on Outstanding Loans
- Temporary Suspension of Federal Income Tax on UI Benefits
- Special Administrative Funding Distribution to States
Minimizing Moral Hazard In UI Benefit Payments

State level (with Federal Taxation Authority):
- Required Reporting system, which allows evaluation of performance
- Yearly loan repayment requirements, with interest

Individual Moral Hazard:
- Emergency Benefits contingent on job search and in-person visits