

## UNEMPLOYMENT INSURANCE PROGRAM

The Unemployment Insurance Program, commonly referred to as UI, provides weekly unemployment insurance payments for workers who lose their job through no fault of their own. Eligibility for benefits requires that the claimant be able to work, be seeking work, and be willing to accept a suitable job.

### Background

Unemployment Insurance is a unique federal-state program, based on federal law but executed in its relationship to the employer and the unemployed worker through state law and by state employees. It is financed by unemployment program tax contributions from employers.

When it was established more than 65 years ago as a part of the Social Security Act of 1935, UI offered, for the first time, an economic line of defense against the effects of unemployment, assisting not only the individual but also the local community.

Through a system of payments made directly to unemployed workers, UI ensures that at least some of life's necessities, most notably food, shelter, and clothing, can be met while an active search for new work takes place. For the most part, UI benefits are spent in the claimant's local community, thereby helping sustain the economic well-being of local businesses.

### Tax Provisions

The UI program is financed by employers who pay unemployment taxes on up to \$7,000 in wages paid to each worker. The actual tax rate varies for each employer, depending in part on the amount of UI benefits paid to former employees. Thus, the UI tax works much like any other insurance premium. An employer may earn a lower tax rate when fewer claims are made on the employer's account by former employees.

In all states, employers contribute to similar federal-state UI programs, and the tax rate and other provisions vary from state to state.

Part of the employer's tax goes directly to the federal government to pay for the administration of the system. The greater portion goes into a special UI Trust Fund from which benefit payments are made to the workers who are unemployed.

### Claimant Benefits

The amount for benefits available is based on the claimant's earnings in the base period. To qualify for benefits in California, a claimant must have (1) earned at least \$1,300 in the highest quarter of the base period, or (2) have earned at least \$900 in the highest quarter and earned total base period earnings of at least 1.25 times the high quarter earnings. For example, if the claimant has \$900 earnings in the highest quarter, he/she is also required to have earned a total of \$1,125 in the base period ( $\$900 \times 1.25 = \$1,125$ ).

The maximum amount of a regular UI claim is either 26 times the claimant's weekly benefit amount or one-half of the claimant's base period wages, whichever is less.

### Claimant Eligibility Requirement

Since the law's intent is partly to compensate a worker for loss of wages while unemployed, a claimant's eligibility for benefits depends on having a substantial attachment to the labor force. One of the methods used to measure this attachment is a minimum earnings test.

This requirement denies benefits to claimants whose earnings in a 12-month "base period" are below the minimum noted above on the assumption that low earnings indicate a short or temporary attachment to the labor force. The "base period" is 12 months long, but it is important to think of it as 4 quarters of 3 months each. The quarter in which the highest wages were received determines the weekly benefit amount.

When an individual's base period begins depends on when the UI claim is filed. The most recent 3-5 months before the claim is filed are omitted; therefore, the base period is the 12 months beginning some 15 to 17 months before the claim was filed. For example, all claims filed in April, May, or June would have a base period of 12 months beginning January 1 of the previous year and running through December 31. All claims filed in July, August, or September would have a base period beginning in April of the previous year and ending March 31 of the current year.

## Claimant Taxes

Unemployment insurance is considered taxable income and must be reported as such on federal income tax forms. It is not considered taxable income for California state income tax purposes. Each January, the Employment Development Department (EDD) provides an annual statement to each individual setting forth total benefits paid during the prior year.

## Employees Covered by Unemployment Insurance (UI)

Most employment is considered covered employment for UI purposes.

The UI statute originally covered only employees working for employers with eight or more employees. In 1946, coverage was extended to cover employees working for employers with one or more employees who pay in excess of \$100 in a calendar quarter.

Since 1946, additional coverage was added to the statute to include, but not limited to, employees working for the following types of employers:

- Nonprofit agencies
- School Districts and other nonprofit elementary, secondary, and vocational schools
- State and local governments
- Agricultural employers
- Domestic employers who pay \$1,000 or more in cash wages for domestic services in any calendar quarter in a calendar year.
- Indian Tribes recognized by the Federal Government

Other special coverage includes:

- Federal Employers - Coverage for federal civilian employees. Although financed by the federal government, each state pays UI benefits according to the laws covering regular workers.
- Federal Military Services - Coverage for individuals separated from military service under honorable conditions and completion of a first full term of active duty service.

## Federal-State Extended Benefits Program

The Extended Benefits program becomes effective only when unemployment is very high. This program pays additional benefits to those who qualify and have collected all of the benefits on their regular claims and who are not eligible for any other UI claims. The EDD will notify individuals by mail and/or through the media when they become potentially eligible for these benefits.

## Federal Extended Duration (Fed-ED)

The Federal-State Extended Unemployment Compensation Act of 1970 (Public Law 91-373)

established the extended benefits program known as Fed-ED, which is funded 50 percent from state funds and 50 percent from federal funds.

Under Fed-ED, claimants who have exhausted their regular UI claim may be eligible to collect up to 13 additional weeks of compensation if a Fed-ED period is in effect. Once activated, the Fed-ED period must continue in effect for at least 13 weeks. When the program is deactivated, it must remain inactive for at least 13 weeks.

Fed-ED was changed substantially in 1981 by the passage of the Omnibus Budget Reconciliation Act. Now, Fed-ED is activated when the state's Insured Unemployment Rate (IUR) equals or exceeds 5 percent and is at least 20 percent higher than the average IUR for the same period in the two previous years. Fed-ED is also activated when the state's IUR is 6 percent or more. The IUR is the unemployment rate among that portion of the labor force which is covered by unemployment insurance. It is computed on a 13-week moving average.

Eligibility for benefits is more difficult under Fed-ED. To be eligible, a claimant must have earnings during the base period of his/her regular UI claims that exceed 40 times the weekly benefit amount. For example, if the amount of the regular UI claim was \$90 a week, then the claimant would need at least \$3,601 in his/her base period to qualify for a Fed-ED claim.

## California Extended Duration (Cal-ED)

California has its own state-financed extended benefits program. The benefits paid under this program are from the state UI fund. The trigger mechanism for the Cal-ED program is similar to Fed-ED. Under either Cal-ED or Fed-ED, an individual receives up to one-half of the regular UI base claim. Therefore, any claimant who has received the full amount of extended benefits on a Fed-ED claim cannot qualify for a Cal-ED claim based on the same base claim.

## Trigger Priorities

Since the source of funding for the two programs is different, the question of which trigger provision has precedence over the other becomes important. The Fed-ED program is the basic permanent extended benefits program for the nation, so that if there is a Fed-ED trigger in effect, Fed-ED becomes the primary source of benefits.

## For More Information

For further information, call EDD at:

- English ..... 1-800-300-5616
- Spanish ..... 1-800-326-8937
- Cantonese ..... 1-800-547-3506
- Mandarin ..... 1-866-303-0706
- Vietnamese ..... 1-800-547-2058
- TTY (non-voice)..... 1-800-815-9387

or visit EDD's Internet site at [www.edd.ca.gov](http://www.edd.ca.gov).

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