SECTION 4 - UNEMPLOYMENT COMPENSATION

CONTENTS

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 (EB) 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 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 surtax rate of 0.2 percent. The surtax has been extended five times, most recently by the Taxpayer Relief Act of 1997 (Public Law 105-34) through December 31, 2007.

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 4-1 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 128 million individuals were covered by all UC Programs in 2001, representing 99.7 percent of all wage and salary workers and 89 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; 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.

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

TABLE 4-1--UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1990-2003

Statistic	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (est)[1]
Total Civilian Unemployment Rate (Percent)	5.4	6.5	7.3	7.0	6.3	5.6	5.5	5.1	4.6	4.3	4.2	4.2	5.8	5.8
Insured Unemployment Rate[2] (Percent)	2.3	3.1	3.1	2.7	2.6	2.3	2.3	2.1	1.9	1.8	1.8	1.9	3.0	2.8
Average Weekly Benefit Amount:														
Current Dollars	154	163	167	172	175	179	182	185	190	202	213	222	246	260
In 2003 Dollars[3]	216	220	218	218	217	216	213	212	214	222	227	230	251	260
State Unemployment Compensation														
Beneficiaries (Millions)	8.1	10.2	9.6	7.8	8.2	7.9	8.1	7.5	7.3	7.1	7.2	8.2	11.7	10.3
Regular Benefit Exhaustions (Millions)	2.2	3.2	3.9	3.3	3.1	2.7	2.7	2.6	2.3	2.3	2.3	2.5	4.0	4.1
Regular Benefits Paid (Billions of Dollars)	16.8	24.4	25.6	21.9	21.7	20.9	22.0	20.3	19.4	20.7	21.3	24.8	43.3	42.6
Extended Benefits (State share: Billions of Dollars)	0.03	0.01	0.02	0.00	0.15	0.04	0.01	[6]	[6]	0.01	0.01	0.02	0.30	0.30
State Tax Collections (Billions of Dollars)	16.0	15.3	17.6	21.0	22.5	23.2	22.7	22.1	21.0	20.0	21.5	22.4	23.3	27.3
State Trust Fund Impact[4] (Income-Outlays: Billions of Dollars)	-0.88	-9.13	-8.03	-0.93	0.66	2.24	0.75	1.80	1.60	-0.71	0.19	-2.38	-20.00	-15.60
Federal Unemployment Accounts														
Federal Tax Collections[5] (Billions of Dollars)	5.36	5.33	5.41	4.23[7]	5.57	5.80	5.96	6.21	6.48	6.65	6.67	7.11	6.93	6.69
Outlays: Federal EB Share Plus Federal Supplemental Benefits (Billions of Dollars)	0.03	0.01	11.15	13.17	4.37	0.05	-0.01	-0.01	[6]	[6]	0.01	0.02	8.00	11.21
Federal Fund Transfers to States (Reed Act Distributions; Billions of Dollars)	0	0	0	0	0	0	0	0	0	0.02	0.10	0.10	8.10	0

TABLE 4-1--UNEMPLOYMENT COMPENSATION PROGRAM DATA, FISCAL YEARS 1990-2003-continued

Statistic	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003 (est)[1]
State Administrative Costs (Billions of Dollars)														
Unemployment Insurance Service	1.74	1.95	2.49	2.52	2.43	2.38	2.31	2.34	2.55	2.41	2.48	2.36	2.79	2.87
Employment Service	1.01	1.05	1.02	0.90	0.90	1.05	1.06	1.02	1.01	1.07	0.99	1.01	1.05	1.06
Total Administrative Costs	2.75	3.00	3.51	3.42	3.33	3.43	3.36	3.36	3.56	3.48	3.46	3.37	3.85	3.92

[1] Based on the President's fiscal year 2004 Budget.

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

[3] Adjusted using the Consumer Price Index for All Urban Consumers.

[4] Excludes interest earned.

[5] Net of reduced credits.

[6] Less than $5 million.

[7] Reflects a book adjustment of minus $967 million.

Source: U.S. Department of Labor, UI Outlook, 2003.

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 99.7 percent of all wage and salary workers, Table 4-2 shows that on average only 44 percent of unemployed persons were receiving UC benefits in 2002. 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., 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 non-monetary eligibility requirements (3-11 percent);
4. Changes in Federal policy such as partial taxation of UC benefits (11-16 percent); and
5. Changes in unemployment as measured by the Current Population Survey (CPS) (1-12 percent).

The group of unemployed most likely to be insured are job losers. Chart 4-1 shows the number of unemployment compensation claimants measured as a percentage of the number of job losers. This coverage ratio remained fairly

TABLE 4-2--INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT, BY MONTH, 1967-2002

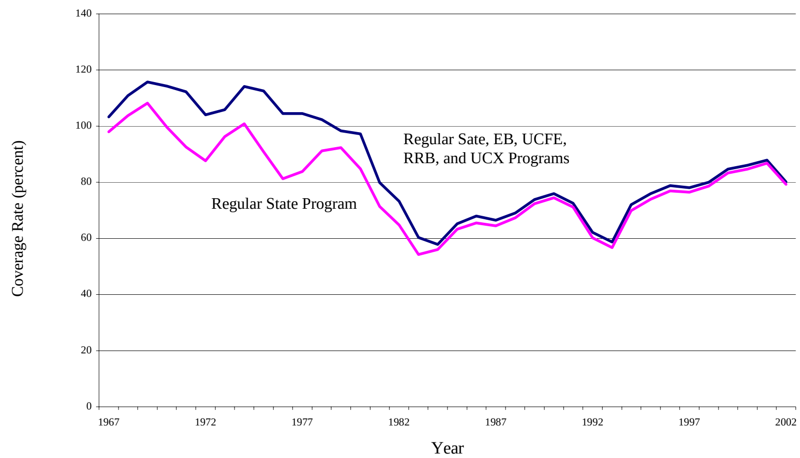
Year	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	Avg
1967	52	52	54	54	50	30	39	41	33	33	35	47	43
1968	57	50	52	50	45	26	34	38	33	34	38	48	42
1969	54	54	52	48	43	27	35	36	31	33	40	51	41
1970	57	54	52	53	53	36	42	45	42	44	48	53	48
1971	58	58	61	59	56	42	45	48	44	46	47	55	52
1972	56	58	56	52	49	36	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	54	40	43	44	39	42	48	60	50
1975	66	73	77	81	79	72	77	79	73	74	76	80	75
1976	78	75	76	73	72	58	66	66	60	59	60	63	67
1977	67	66	66	66	59	45	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	36	38	40	49	42
1980	51	51	53	52	49	45	49	49	54	49	49	54	50
1981	54	50	49	46	40	35	37	37	36	34	37	41	41
1982	47	44	48	49	45	40	42	42	43	48	49	47	45
1983	50	52	50	53	52	40	39	36	34	33	39	41	44
1984	40	38	38	36	34	30	31	30	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
1996	41	43	42	40	34	33	34	34	32	31	33	39	36
1997	39	39	38	38	33	30	34	33	30	32	35	37	35
1998	40	41	40	41	35	31	36	34	31	32	36	39	36
1999	44	43	44	41	38	33	36	35	32	33	35	41	38
2000	42	43	39	39	34	32	36	35	34	36	35	46	38
2001	44	47	47	48	45	40	46	42	41	42	42	49	45
2002	49	49	48	47	43	39	42	41	40	39	41	46	44

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

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.

CHART 4-1--RATIO OF INSURED UNEMPLOYMENT TO JOB LOSERS, 1967-2002



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 before rising throughout the remainder of the 1990s. The current ratio is higher than it has been since the late 1970s.

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 4-3 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 define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits. On average, workers must have worked in two quarters and earned $1,770 to qualify for a minimum monthly benefit. Qualifying annual wages for the minimum weekly benefit amount vary from $130 in Hawaii to $3,586 in North Carolina. For the maximum weekly benefit amount, the range is $5,320 in Puerto Rico to $30,888 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 $44,408 in Minnesota.

TABLE 4-3--MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 2003[1]

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	$2,136	$9,096	$14,818	2Q
Alaska	1,000	26,750	26,750	2Q
Arizona	1,500	7,000	15,990	2Q
Arkansas	1,539	15,667	25,038	2Q
California	1,125	9,487	11,958	
Colorado	2,500	30,888	10,560	
Connecticut	600	19,864	15,880	2Q
Delaware	720	13,800	14,490	
District of Columbia	1,950	12,051	16,068	2Q
Florida	3,400	10,725	28,598	2Q
Georgia	1,404	9,864	28,496	2Q
Hawaii	130	9,646	9,646	2Q
Idaho	1,657	10,238	26,618	2Q
Illinois	1,600	17,069	15,431	2Q
Indiana	2,750	29,200	29,200	2Q
Iowa	1,230	7,956	21,294	2Q
Kansas	2,490	9,990	25,974	2Q
Kentucky	1,500	21,561	26,600	2Q
Louisiana	1,200	8,062	24,843	2Q
Maine	3,120	17,082	20,670	2Q
Maryland	864	10,080	10,444	2Q
Massachusetts	2,700	15,360	42,667	
Michigan	2,997	10,977	19,500	2Q
Minnesota	1,250	10,757	44,408	2Q
Mississippi	1,200	7,600	14,820	2Q
Missouri	1,500	9,375	18,330	2Q
Montana	1,597	23,700	26,300	2Q
Nebraska	1,600	7,612	20,436	2Q
Nevada	600	11,287	23,478	2Q
New Hampshire	2,800	28,500	29,500	2Q
New Jersey	2,060	15,833	20,583	2Q

TABLE 4-3--MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS, 2003[1]- continued

State	Required Total Earnings in Base Year: For Minimum Weekly Benefit	For Maximum Weekly Benefit	For Maximum Potential Benefits[2]	Minimum Work In Base Year (Quarters)[3]
New Mexico	1,716	8,255	11,570	2Q
New York	2,400	14,235	15,795	2Q
North Carolina	3,586	14,625	25,116	2Q
North Dakota	2,795	28,275	29,545	2Q
Ohio	2,640	10,680	13,884	2Q
Oklahoma	1,500	10,039	17,128	2Q
Oregon	1,000	26,320	29,328	2Q
Pennsylvania	1,320	14,920	17,120	2Q
Puerto Rico	280	5,320	5,320	2Q
Rhode Island	2,060	12,900	28,672	2Q
South Carolina	900	10,101	20,202	2Q
South Dakota	1,288	10,764	18,252	2Q
Tennessee	1,560	11,440	26,520	2Q
Texas	1,887	11,803	30,715	2Q
Utah	2,300	13,845	34,185	2Q
Vermont	1,723	12,375	13,410	2Q
Virginia	2,950	13,400	27,872	2Q
Virgin Islands	1,287	12,909	25,818	2Q
Washington	2,200	22,050	39,690	
West Virginia	2,200	31,900	31,900	2Q
Wisconsin	1,380	9,390	19,305	2Q
Wyoming	2,100	9,905	24,700	2Q

[1] Based on benefits for total unemployment. Amounts payable can be stretched out over a longer period in the case of partial unemployment.
[2] Based 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.
[3] Number 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 two 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.

In February 1996, a Federal court in *Pennington v. Doherty* overturned the base year definition in use by most States. The court agreed with the plaintiff's contention that Illinois could have used an alternative base period (the last four completed quarters) and that this alternative would better carry out Federal law, which requires States to use administrative methods that ensure full payment of UC “when due.” This alternative method would impose greater costs on the States affected. The Balanced Budget Act of 1997 (Public Law 105-33) revised the Federal law that was central to the court's decision so that States have full authority to set base periods for determining eligibility. In 2003, 24 States used an alternative or extended base period to determine benefit eligibility.

From 1999 to 2003, 12 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount, and 7 States decreased it. Thirty States increased, 16 remained the same, and 7decreased the qualification requirement for the maximum weekly benefit amount. Forty-two States increased and one 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 Benefits Program (see below) to any individual who fails to accept 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 unemployment 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.

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 their 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 20.5 million "monetarily eligible" initial UC claims in 2002, 24.1 percent were disqualified. This figure subdivides into 4.0 percent not being able to work or available for work, 6.4 percent voluntarily leaving a job without good cause, 4.8 percent being fired for misconduct on the job, 0.2 percent refusing suitable work, and 8.7 percent committing other disqualifying acts. The total disqualification rate ranged from a low of 12.0 percent in Tennessee to a high of 102.0 percent in Nebraska, with Colorado the next highest at 94.1 percent. (Note - that a claimant can be disqualified for any 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 extended benefits, however, if the disqualification were lifted because he became reemployed and met the work or wage requirement of State law. Public Law 102-318 suspended the restrictions on extended benefits under Federal law, 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. However, Congress has taken no action on this recommendation.

U.S. Department of Labor Proposal to Use Unemployment Compensation Benefits for Family Leave

On December 3, 1999, the U.S. Department of Labor (DOL) issued a Notice of Proposed Rulemaking to create, by regulation, a voluntary experimental program that would give States the option of extending UC eligibility to parents who take time off from employment after the birth or placement for adoption of a child under the Family Medical Leave Act of 1993 (Public Law 103-3). The program is referred to as the birth and adoption UC experiment, also known colloquially as “baby UI.” The proposal immediately drew criticism from opponents who argued that the proposal creates a benefit that the Congress did not intend when it created the Family and Medical Leave Act and such benefits would be contrary to the purpose of UC benefits as stated in the law. Some opponents argued that the proposal could not be implemented without a new law being enacted by the Congress. DOL disagreed with this assessment and cited the fact that much of the basic structure of the UC system, including the requirement that individuals be able and available for work, was established by regulatory guidance, rather than statute. DOL also suggested the change was needed to allow the UC system to keep pace with the changing nature of the work force, particularly the dramatic increase in the number of working mothers. The final rule was published in the *Federal Register* on June 13, 2000.

On December 4, 2002, the Bush Administration reviewed the rule. As a result of the review, DOL concluded that the BAA-UC experiment was “poor policy and a misapplication of federal UC law relating to” the requirements that beneficiaries be able and available for work. Since no State had enacted a BAA-UC program, DOL determined that terminating the experiment would not result in any State withdrawing benefits it had previously granted. According to DOL, the only effect of the removal of the regulations would be that would reduce State flexibility since a State could no longer elect to use its unemployment fund to pay BAA-UC. A final decision by DOL repealing this rule was issued on October 9, 2003, and goes into effect November 10, 2003.

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, so that 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). In addition to a number of restrictive eligibility requirements, ex-service members had to wait 4 weeks from the date of their separation from the service before they could receive benefits.

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, enacted in 1980, 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 Compensation 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 4-4 illustrates the projected effect of taxing all UC benefits for the 2003 tax law using 2000 population and incomes. This table understates the impact of taxation because this analysis uses data collected from a sample of households for the Current Population Survey (CPS), which is known to have a problem with respondents underestimating their annual income from various sources. In particular, total UC benefits reported in the CPS are equal to about two-thirds of benefits actually paid out. Because of this underreporting of UC benefits in the CPS and, consequently, underestimates of benefits paid in 2003, taxes collected on benefits probably will be about twice as high as the $2.0 billion shown in Table 4-4.

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 seven weeks is available under a new optional trigger enacted in 1992, but only nine States have adopted this trigger as of July 31, 1997. The Temporary Emergency Unemployment Compensation (EUC) Program, which operated from November 1991 through April 1994, initially provided 26 to 33 weeks of Federal extended benefits and then provided 7 to 13 additional weeks of benefits during its final months of operation. A State offering this temporary program could not have offered the extended benefits simultaneously, however.

TABLE 4-4--ESTIMATED EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS BY INCOME CLASS, 2003 LAW (2000 POPULATION AND INCOMES)

Level of Individual or Couple Income[1]	Number (In Thousands) of recipients of Unemployment Compensation	Number (In Thousands) Affected by Taxation of Benefits	Percent Affected by Taxation	Total Amount of Unemployment Compensation Benefits, In Millions of Dollars	Total Amount of Taxes on Benefits, In Millions of Dollars	Taxes as a Percent of Total Benefits
Less than $10,000	758	109	14	1,513	10	1
$10,000 - $15,000	760	332	44	1,750	67	4
$15,000 - $20,000	741	409	55	1,867	118	6
$20,000 - $25,000	679	450	66	1,759	145	8
$25,000 - $30,000	566	384	68	1,444	134	9
$30,000 - $40,000	874	717	82	2,424	291	12
$40,000 - $50,000	671	600	90	1,985	297	15
$50,000 - $100,000	1,369	1,345	98	3,787	688	18
At Least $100,000	293	293	100	1,040	292	28
All	6,710	4,639	69	17,569	2,039	12

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

Source: Congressional Budget Office (CBO) tax simulation model.

The Temporary Extended Unemployment Compensation Act of 2002 (TEUC) was signed into law March 9, 2003, as a part of P.L. 107-147. TEUC provides up to 13 weeks of additional federally funded UC benefits to individuals in all states who exhaust their regular UC benefits. TEUC also provides a second tier of up to an additional 13 weeks of benefits to individuals who exhaust their benefits in a high-unemployment State (TEUC-X). The TEUC program has been extended through March 31, 2004, by P.L. 108-1 and P.L. 108-26, with a phasing-out of benefits after December 31, 2003. On April 16, 2003, P.L. 108-11 was signed into law, creating a parallel TEUC program called TEUC-A, which provides up to 39 weeks of benefits for displaced airline workers, and provides a second tier (TEUC-AX) of benefits to individuals exhausting their TEUC-A benefits in a high-unemployment State.

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 37.5 percent in the quarter ending December 31, 2002.

Table 4-5 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In 2002, the national average weekly benefit amount was $257 and the average duration was 17 weeks, making the average total benefits $4,369. The minimum weekly benefit amounts for 2003 vary from $1 in Vermont to $107 in Washington. The maximum weekly benefit amounts range from $133 in Puerto Rico to $760 in Massachusetts.

Most States vary the duration of benefits with the amount of earnings the claimant has in the base year. Nine States provide the same duration for all claimants. The minimum durations range from 3 weeks in Oregon to 26 weeks in 9 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.

TABLE 4-5--AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

State	2002 Average Weekly Benefit	2003 Weekly Benefit Amount		2002 Average Duration (Weeks)	2003 Potential Duration (Weeks)	
		Minimum	Maximum		Minimum	Maximum
Alabama	$167	$45	$210	13	15	26
Alaska	193	44-68	248-320	14	16	26
Arizona	176	40	205	17	12	26
Arkansas	223	62	345	14	9	26
California	217	40	370	18	14	26
Colorado	313	25	398	15	13	26
Connecticut	287	15-30	411-486	16	26	26
Delaware	228	20	320	15	24	26
District of Columbia	290	50	309	26	20	26
Florida	225	32	275	15	9	26
Georgia	239	40	295	13	9	26
Hawaii	297	5	395	19	26	26
Idaho	232	51	316	14	10	26
Illinois	280	51-56	326-438	19	26	26
Indiana	255	50	336	14	8	26
Iowa	255	43-52	292-358	13	9	26
Kansas	276	86	395	16	10	26
Kentucky	246	39	329	15	15	26
Louisiana	197	10	258	16	21	26

TABLE 4-5--AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS-continued

State	2002 Average Weekly Benefit	2003 Weekly Benefit Amount		2002 Average Duration (Weeks)	2003 Potential Duration (Weeks)	
		Minimum	Maximum		Minimum	Maximum
Maine	224	49-73	283-424	17	14	26
Maryland	241	25-65	310	16	26	26
Massachusetts	360	29-43	507-760	19	10	30
Michigan	276	81-111	362	15	14	26
Minnesota	318	38	467	17	10	26
Mississippi	168	30	210	15	13	26
Missouri	205	40	250	16	12.5	26
Montana	187	70	297	15	8	26
Nebraska	212	36	262	14	15	26
Nevada	232	16	309	17	12	26
New Hampshire	260	32	372	18	26	26
New Jersey	331	61-70	475	19	15	26
New Mexico	207	52	277	17	19	26
New York	275	40	405	19	26	26
North Carolina	259	34	408	13	13	26
North Dakota	219	43	290	12	12	26
Ohio	251	88	315-424	16	20	26
Oklahoma	234	16	303	16	20	26
Oregon	277	93	405	18	3	26
Pennsylvania	291	43	451-459	17	16	26
Puerto Rico	107	7	133	20	26	26
Rhode Island	304	56-106	427-533	16	8	26
South Carolina	208	20	278	14	15	26
South Dakota	198	28	241	12	15	26
Tennessee	210	30	275	14	13	26
Texas	259	53	328	17	9	26
Utah	275	23	365	15	10	26
Vermont	250	1	351	14	26	26
Virginia	311	59	318	14	12	26
Virgin Islands	289	32	375	19	13	26
Washington	329	107	496	20	16	30
West Virginia	215	24	351	14	26	26
Wisconsin	247	49	329	13	12	26
Wyoming	232	21	296	10	12	26
U.S. Average	257	NA	NA	17	NA	NA

[1] A range of amounts is shown for those States the provide dependents' allowances.

NA – Not applicable.

Source: U.S. Department of Labor.

From 2000 to 2003, 23 States increased and 2 decreased their minimum weekly benefit amounts. Forty-seven States raised their maximum weekly benefit amounts, while no State decreased them. Seven States lowered their minimum potential durations, and 3 States raised their minimum duration.

EXTENDED BENEFITS

The Federal-State Extended Benefits Program is available in every State and 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 four of the last five completed calendar quarters.

In addition to the two automatic triggers, States have the option of electing an alternative trigger authorized by the Unemployment Compensation Amendments of 1992 (Public Law 102-318). This 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 July 5, 2003, the TUR trigger had been authorized by nine States (Alaska, Connecticut, Kansas, New Hampshire, North Carolina, Oregon, Rhode Island, Vermont, and Washington). As of July 2003, EB is active in three States.

BENEFIT EXHAUSTION

Due to the limited duration of UC benefits, some individuals exhaust their benefits. For the regular State programs, 4.4 million individuals exhausted their benefits during 12 months ending June 30, 2003, or 43.6 percent of claimants who began receiving UC during the 12 months ending December 2002.

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 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 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 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.

In the 1990s, 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 EB 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, depending on the level of unemployment in the respective States. 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 revenues 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 4-6 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, the Office of Management and Budget (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.

Most recently, Congress enacted the Temporary Extended Unemployment Compensation Act of 2002 (TEUC), signed into law March 9, 2002, as part of P.L. 107-147. TEUC provides up to 13 weeks of additional federally funded benefits to individuals in all States who exhaust their regular UC benefits. TEUC also provides a second tier of 13 weeks of benefits to individuals who exhaust their benefits in a high-unemployment state (TEUC-X). On January 8, 2003, Congress passed S. 23 (P.L. 108-1) extending the TEUC program through August 30, 2003, and phasing-out benefits after May 31, 2003. On April 16, 2003, P.L. 108-11 was signed into law, creating a parallel TEUC program called TEUC-A. TEUC-A provides up to 39 weeks of benefits for displaced airline and related workers, and provides a second tier (TEUC-AX) of benefits to individuals exhausting their TEUC-A benefits in a high-unemployment state. The Congress passed H.R. 2185, extending the TEUC program through March 31, 2004, and the President signed the bill into law on May 28, 2003 (P.L. 108-26).

TABLE 4-6--CHANGES IN EMERGENCY UNEMPLOYMENT COMPENSATION OUTLAY ESTIMATES, FISCAL YEARS, 1992-1994

[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 fisal 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 and Congressional Budget Office.

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

Table 4-7 illustrates benefit amounts for various full-year workers in regular State programs for January 2003. 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 of $5.15 per hour; 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. All four cases are assumed to have a nonworking spouse and column C assumes the worker has two children. The weekly benefit amount for the full-time minimum wage worker (column A) varies from $82 in North Dakota to $140 in Kentucky. The maximum amount a worker earning $9 per hour (column C) can receive varies considerably, from $133 per week in Puerto Rico to $256 in Alaska.

TABLE 4-7--WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 2003

State	Hypothetical Worker[1]			
	A	B	C	D
Alabama	$112	$130	$195	$56
Alaska	144	158	256	102
Arizona	107	125	187	54
Arkansas	103	120	180	62
California	92	108	161	46
Colorado	124	144	216	62
Connecticut	113	130	210	62
Delaware	116	136	203	58
District of Columbia	103	120	180	52
Florida	103	120	180	52
Georgia	116	136	203	58
Hawaii	128	149	223	64
Idaho	103	120	180	52
Illinois	102	119	178	56
Indiana	125	142	205	71
Iowa	116	136	203	58
Kansas	114	133	199	86
Kentucky	140	163	245	70
Louisiana	107	125	187	54
Maine	132	152	243	73
Maryland	120	138	219	65
Massachusetts	128	145	255	77
Michigan	NA	NA	NA	NA
Minnesota	103	120	180	52
Mississippi	103	120	180	52
Missouri	107	125	187	54
Montana	107	125	187	70
Nebraska	103	120	180	52
Nevada	107	125	187	54
New Hampshire	118	137	206	59
New Jersey	124	144	216	70
New Mexico	103	120	180	52
New York	103	120	180	52
North Carolina	103	120	180	52
North Dakota	82	96	144	43
Ohio	103	120	180	0
Oklahoma	116	136	203	58
Oregon	134	156	234	93
Pennsylvania	112	130	202	59
Puerto Rico	103	120	133	52
Rhode Island	124	144	216	62
South Carolina	103	120	180	52
South Dakota	103	120	180	52
Tennessee	103	120	180	52
Texas	107	125	187	54
Utah	103	120	180	52

TABLE 4-7--WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS, JANUARY 2003-continued

State	Hypothetical Worker[1]			
	A	B	C	D
Vermont	119	139	208	60
Virginia	107	125	187	59
Virgin Islands	103	120	180	52
Washington	107	125	187	107
West Virginia	107	125	187	54
Wisconsin	107	125	187	54
Wyoming	107	125	187	54

[1] Hypothetical worker:
A. $5.15/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. $5.15/hr. wage; 20 hrs./wk; 52 wks./yr.; nonworking spouse; no children.
NA - Not available. Michigan computes benefits based on after-tax wages.
Source: U.S. Department of Labor.

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 section 5 of this volume.) The Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal Unemployment Trust Fund.

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 Employees' 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 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.

FINANCIAL CONDITION OF THE UNEMPLOYMENT TRUST FUND

Federal Accounts

At the end of fiscal year 2003, the Employment Security Administration Account (ESAA) exceeded its fiscal year 2003 ceiling of $1.6 billion. The Extended Unemployment Compensation Account (EUCA) balance was below its ceiling of $19.2 billion by $11.0 billion at the end of fiscal year 2003; the FUA balance was slightly below its $19.2 billion ceiling by $7.8 billion. Under the administration's fiscal year 2004 budget assumptions, the EUCA balance will not exceed its ceiling until fiscal year 2007, then begin to have end-of-year balances which slightly exceed its ceiling. The Balanced Budget Act (BBA) of 1997 (P.L. 105-33) raised the ceiling on FUA assets from 0.25 to 0.5 percent of wages in covered employment for fiscal year 2002 and subsequent years. Like the capping of annual distributions at $100 million in the same law, that change was designed to limit Reed Act transfers to State accounts in coming years. The reason Congress took these actions to increase ceilings and limit outflows from the Federal funds is that excess funds in the Unemployment Trust Fund are included in the unified Federal budget and offset deficits or increase surpluses. However, in an effort to provide States additional resources to assist unemployed workers, P.L. 107-147 included a record $8 billion Reed Act transfer of funds from the Federal trust fund accounts into the State accounts. In March 2003 the General Accounting Office reported that this flexible funding source prevented State unemployment taxes from rising in 30 States. The FUA balance is not projected to exceed its statutorily set ceiling through fiscal year 2008.

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 1990-91and 2001 recessions reversed that trend. Table 4-8 shows that the State accounts at the end of 2002 held $36.0 billion, which represents a modest decrease from the balances of $38.6 billion at the end of 1996.

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 4-8 shows that these State ratios in 2002 are only 32 percent of their levels in 1970.

The second-to-last column of Table 4-8 shows for each State the 2002 average “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 average 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 average high-cost multiples below 1.0 may face greater risk of insolvency during recessions.

Thirty-one States had average high-cost multiples below 1.0; 26 had average high-cost multiples below 0.8; and 11 had average high-cost multiples at or below 0.5. Based on this measure, States with the highest risk factor were Alabama, Arkansas, Illinois, Massachusetts, Minnesota, Missouri, New York, North Carolina, North Dakota, Oregon and Texas.

Table 4-9 summarizes the beginning balances in the various Unemployment Trust Fund accounts for selected fiscal years. At the start of fiscal year 2003,the 4 Federal accounts and the 53 State benefit accounts had a total balance of $69.3 billion. In real terms this represents a level 20 percent higher than that of 1971. This increase in real dollars does not allow for the erosion implied by the large increase in the labor force over this time period. Overall, a better measure of readiness for a recession is the ratio of the 2002:1970 reserve ratios in Table 4-8, which shows that aggregate reserves in 2002 relative to wages were a significantly less than one third 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. In short, States have strong incentives to keep adequate funds in their trust fund accounts.

THE FEDERAL UNEMPLOYMENT TAX

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. Since most employees earn more than the $7,000 taxable wage ceiling, the FUTA tax typically is $56 per worker ($7,000 x 0.8 percent), or three cents per hour for a full-time worker. The 1997 budget bill extended the 0.2 percent surtax through 2007.

The wage base for the Federal tax was held constant at $3,000 until 1971, and then was increased on three occasions, most recently in 1983.

Chart 4-2 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.

TABLE 4-8--FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS, SELECTED YEARS 1970-2002

State	Net Reserves in Millions of Dollars at the end of the Calendar Year					Reserve Ratios by Year					2002 Reserves as Percentage of 1970 Reserves	Average high-cost multiple	
	1970	1979	1982	1996	2002	1970	1979	1982	1996	2002		2002	Rank
Alabama	130	118	9	483	321	2.96	0.98	0.06	1.42	0.73	25	0.49	42
Alaska	35	65	134	194	233	5.51	2.78	2.94	3.42	3.12	57	1.00	22
Arizona	119	226	215	627	926	4.25	2.36	1.66	1.64	1.53	36	1.53	8
Arkansas	49	24	-77	203	124	2.26	0.37	-1.00	1.11	0.50	22	0.30	47
California	1,219	2,738	2,708	2,877	3,703	2.91	2.51	1.83	0.90	0.78	27	0.52	41
Colorado	910	137	-4	511	472	2.54	1.11	-0.02	1.24	0.72	28	0.65	35
Connecticut	252	-267	-252	278	548	0.08	-1.70	-1.21	0.62	0.90	1125	0.64	36
Delaware	22	-30	-35	258	294	1.72	-1.06	-0.96	2.96	2.23	130	1.70	7
District of Columbia	74	-44	-57	99	290	3.22	-1.05	-1.03	0.80	1.48	46	1.11	20
Florida	268	665	865	1,948	1,713	2.60	2.13	1.89	1.59	0.92	35	1.12	19
Georgia	340	447	397	1,634	1,245	4.74	2.28	1.49	2.19	1.13	24	1.17	16
Hawaii	44	79	108	22	305	2.90	2.24	2.43	2.04	2.45	84	1.45	11
Idaho	46	93	29	266	195	5.16	3.20	0.85	3.06	1.60	31	0.67	34
Illinois	401	-460	-2,069	1,639	448	1.55	-0.80	-3.18	1.19	0.24	16	0.10	51
Indiana	326	418	63	1,273	1,125	3.13	1.69	0.23	2.19	1.53	49	1.13	17
Iowa	125	155	-63	719	759	3.19	1.45	-0.55	3.00	2.36	74	1.12	18
Kansas	84	238	142	651	416	3.00	2.75	1.29	2.58	1.15	38	0.75	31
Kentucky	175	159	-121	501	488	4.21	1.36	-0.90	1.67	1.19	28	0.53	40
Louisiana	146	238	-102	1,131	1,545	2.91	1.51	-0.47	3.45	3.59	123	1.32	11
Maine	39	0	-4	112	455	2.86	0.00	-0.09	1.22	3.56	124	1.84	5
Maryland	213	273	220	691	781	3.26	1.83	1.11	1.52	1.14	35	0.78	28
Massachusetts	378	132	436	915	920	3.04	0.51	1.23	1.17	0.80	26	0.44	44
Michigan	491	112	-2,186	1,831	2,076	2.49	0.25	-4.64	1.47	1.58	63	0.53	39
Minnesota.	119	70	-288	513	131	1.76	0.41	-1.36	0.99	0.18	10	0.11	50
Mississippi	85	231	257	553	684	3.87	3.47	3.12	3.13	3.02	78	1.92	4

Missouri	264	296	-64	308	137	3.03	1.47	-0.27	0.61	0.20	7	0.15	48
Montana	26	16	9	126	207	3.33	0.65	0.27	2.10	2.60	78	1.53	9
Nebraska	55	81	72	195	153	2.87	1.58	1.14	1.40	0.79	28	0.82	26
Nevada	39	95	122	348	463	3.20	2.31	2.02	1.87	1.57	49	0.93	23
New Hampshire	55	82	75	268	289	4.62	2.42	1.60	2.32	1.68	36	1.79	6
New Jersey	448	-507	-423	2,029	2,306	2.76	-1.50	-0.97	2.06	1.63	59	0.84	25
New Mexico	40	80	101	386	600	3.45	2.14	1.98	3.46	3.88	112	2.77	1
New York	1,693	403	819	470	1,279	3.76	0.51	0.78	0.23	0.00	0	-0.05	53
North Carolina	414	564	400	1,336	189	5.22	2.71	1.52	1.92	0.19	4	0.14	49
North Dakota	13	21	11	50	46	2.53	1.13	0.46	1.20	0.80	32	0.38	46
Ohio	693	513	-1,658	1,751	1,537	3.01	1.02	-3.04	1.56	1.09	36	0.45	43
Oklahoma	55	177	108	564	451	1.69	1.56	0.62	2.43	1.39	82	1.10	21
Oregon	122	320	161	941	1,283	3.39	3.00	1.37	3.19	3.22	95	1.28	13
Pennsylvania	852	-1,091	-2,145	2,032	1,710	3.53	-2.18	-3.75	1.85	1.14	32	0.40	45
Puerto Rico	85	-33	-47	596	527	4.90	-0.88	-1.11	5.91	3.96	81	1.23	14
Rhode Island	75	-96	-76	116	254	4.34	-2.75	-1.81	1.38	2.20	51	0.75	30
South Carolina	166	195	50	603	529	4.61	1.96	0.40	1.95	1.28	28	0.87	24
South Dakota	8	16	9	50	52	3.81	0.95	0.43	1.01	0.74	19	0.82	27
Tennessee	212	264	15	827	592	3.57	1.63	0.08	1.63	0.87	24	0.60	37
Texas	337	396	142	642	153	1.90	0.65	-0.16	0.36	0.00	0	-0.04	52
Utah	51	67	10	524	482	3.55	1.43	0.16	3.12	1.97	55	1.22	15
Vermont	26	-21	-27	218	290	3.72	-1.30	-1.29	4.63	4.42	119	2.34	3
Virginia	218	103	14	897	580	3.41	0.56	0.06	1.40	0.59	17	0.69	33
Virgin Islands	NA	-7	-3	42	53	NA	-2.96	-0.55	7.42	6.26	NA	2.49	2
Washington	226	297	150	1,333	1,320	3.73	1.66	0.70	2.66	1.74	47	0.73	32
West Virginia	108	39	-145	157	257	4.07	0.56	-1.85	1.36	1.81	44	0.57	38
Wisconsin	322	465	-413	1,557	1,328	4.29	2.37	-1.53	3.10	1.96	46	0.77	29
Wyoming	19	69	46	147	198	4.29	3.15	1.51	4.32	3.87	90	1.52	10
Total	11,903	8,583	-2,645	38,632	36,031	3.11	0.91	-0.24	1.48	0.98	32	0.61	--

NA - Not available.

Source: U.S. Department of Labor (April 2003). Fourth Quarter CY 2002 UI Data Summary. Washington, D.C.

TABLE 4-9--BEGINNING-OF-YEAR BALANCES IN UNEMPLOYMENT TRUST FUND ACCOUNTS, SELECTED FISCAL YEARS 1971-2003

[In Millions of Dollars]

Account	1971	1976	1980	1983	1997	2000	2003
Employment Security Administration	$65	$365	$572	$545	$2,899	$3,066	$3,518
Extended Unemployment Compensation	0	116	764	483	9,466	13,147	12,865
Federal Unemployment (Reserve for State loans)	575	9	567	599	6,747	7,216	11,442
Federal Employees' Compensation	[1]	[1]	[1]	24	262	297	90
State Unemployment Compensation [2]	12,409	6,145	8,272	720	43,657	48,290	41,366
Total: Nominal Dollars	13,049	6,635	10,175	2,371	63,031	72,013	69,281
Total: Real Dollars [3]	57,970	20,978	20,150	4,283	70,650	75,230	69,281

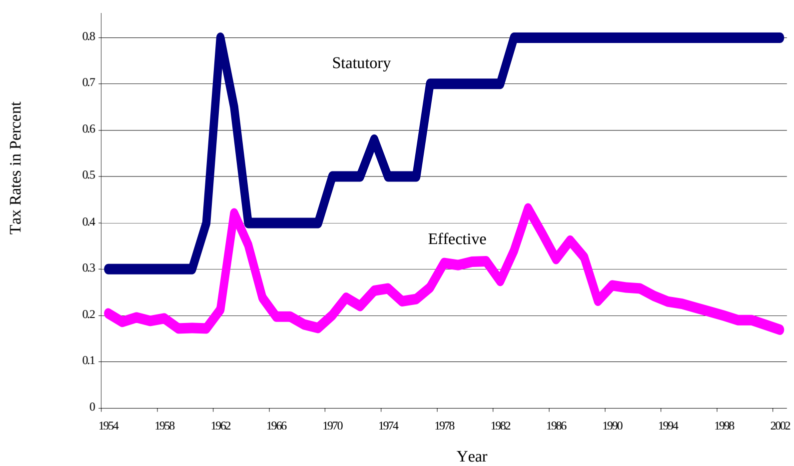
[1] There was no separate account for Federal Employees' Compensation for this year.

[2] Figures are net of loans from Federal funds. $8 Billion in Reed Act distributions authorized in March 2002 under P.L. 107-147 are included.

[3] Real dollars are obtained using the Consumer Price Index for All Urban Consumers for the preceding fiscal years.

Source: U.S. Department of Treasury, Bureau of Public Debt.

CHART 4-2--HISTORY OF FEDERAL UNEMPLOYMENT TAX RATE, 1954-2002



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 4-10 shows that, as of January 2003, 42 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $30,200 in Hawaii.

In most States the standard tax rate for employers is 5.4 percent. However, State employer taxes are based on employers experience with the unemployment compensation system. This experience rated State tax can range from zero on some employers in 13 States up to a maximum as high as 10 percent in 4 States and over 10 percent in 3 States.

Estimated national average State tax rates on taxable wages and total wages for 2003 were 2.1 and 0.6 percent, respectively. Estimated average State tax rates on taxable wages ranged from 0.3 percent in Virginia to 4.2 percent in New York and Pennsylvania. Estimated average State tax rates on total wages varied from 0.1 percent in Virginia to 1.5 percent in Washington.

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

TABLE 4-10--STATE UNEMPLOYMENT TAX BASES AND RATES, 2003

State	Estimated 2003 Average Tax Rate as a Percent of		2003 Tax Base	2003 Experience Rates [1]	
	Taxable wages	All wages		Minimum	Maximum
Alabama	1.4	0.5	$8,000	0.20	6.80
Alaska	1.9	1.2	26,700	1.00	5.40
Arizona	0.8	0.2	7,000	0.50	5.40
Arkansas	2.5	0.9	9,000	0.10	6.80
California	3.1	0.6	7,000	0.10	5.40
Colorado	1.1	0.3	10,000	0.00	5.40
Connecticut	2.4	0.7	15,000	0.50	6.90
Delaware	2.3	0.6	8,500	0.10	9.50
District of Columbia	2.1	0.4	9,000	0.10	7.40
Florida	1.4	0.4	7,000	0.00	6.40
Georgia	0.5	0.2	8,500	0.13	10.80
Hawaii	1.7	1.2	30,200	0.00	5.40
Idaho	1.2	0.8	27,600	0.10	6.80
Illinois	2.8	0.7	9,000	0.20	9.00
Indiana	1.8	0.5	7,000	0.10	5.60
Iowa	1.5	0.8	18,600	0.00	9.00
Kansas	2.5	0.7	8,000	0.01	7.40
Kentucky	2.4	0.7	8,000	0.30	10.00
Louisiana	1.7	0.5	7,000	0.90	6.00
Maine	1.4	0.6	12,000	0.50	7.50
Maryland	1.6	0.4	8,500	0.10	9.50
Massachusetts	2.6	0.8	10,800	0.60	9.30
Michigan	3.5	0.9	9,000	0.00	10.00

TABLE 4-10--STATE UNEMPLOYMENT TAX BASES AND RATES, 2003-continued

State	Estimated 2003 Average Tax Rate as a Percent of		2003 Tax Base	2003 Experience Rates [1]	
	Taxable wages	All wages		Minimum	Maximum
Minnesota	1.4	0.7	22,000	0.10	9.50
Mississippi	1.8	0.6	7,000	0.10	5.40
Missouri	1.9	0.2	7,500	0.00	8.70
Montana	1.1	0.7	19,700	0.00	6.37
Nebraska	2.0	0.4	7,000	NA	5.40
Nevada	1.3	0.8	21,500	0.25	5.40
New Hampshire	0.8	0.2	8,000	0.05	6.50
New Jersey	1.7	0.7	23,900	0.30	7.00
New Mexico	0.9	0.5	16,000	0.05	5.40
New York	4.2	0.9	8,500	2.40	8.90
North Carolina	1.7	0.8	15,900	0.00	5.40
North Dakota	1.6	0.9	18,000	0.10	5.4
Ohio	1.6	0.5	9,000	0.10	6.70
Oklahoma	1.1	0.4	11,700	0.10	5.50
Oregon	2.3	1.4	26,000	0.50	5.40
Pennsylvania	4.2	1.0	8,000	0.30	10.59
Puerto Rico	3.4	1.3	7,000	1.00	5.40
Rhode Island	2.8	1.1	12,000	0.60	10.00
South Carolina	1.9	0.5	7,000	0.54	6.10
South Dakota	0.6	0.2	7,000	0.00	10.50
Tennessee	2.4	0.6	7,000	0.00	10.00
Texas	1.3	0.4	9,000	0.00	6.00
Utah	0.5	0.3	22,000	0.10	8.10
Vermont	2.0	0.6	8,000	0.40	8.40
Virginia	0.2	0.1	8,000	0.00	6.40
Virgin Islands	1.0	0.3	18,000	0.10	9.50
Washington	2.5	1.5	28,500	0.47	5.40
West Virginia	2.8	0.9	8,000	0.00	8.50
Wisconsin	1.9	0.6	10,500	0.00	8.90
Wyoming	0.8	0.4	14,700	0.00	8.50
U.S. Average	2.1	0.6	NA	NA	NA

[1] Actual rates could be higher if State has an additional tax.
[2] Rate not specified.
NA - Not applicable.
Source: U.S. Department of Labor.

Table 4-11 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 0.16 in New York and the District of Columbia to 0.57 in Montana.

TABLE 4-11--TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE UNEMPLOYMENT TAXATION FOR PERIOD ENDING SEPTEMBER 30, 2002

State	Covered Employment (Thousands)	Total Wages (Millions)	Taxable Wages (Millions)	Ratio of Taxable Wages to Total Wages	Average Weekly Total Wages
Alabama	1,782	$53,871	$13,119	0.24	$581
Alaska	270	9,660	4,700	0.49	688
Arizona	2,187	73,266	15,624	0.21	644
Arkansas	1,099	30,231	8,915	0.30	529
California	14,598	600,068	99,732	0.17	791
Colorado	2,108	79,154	20,686	0.26	722
Connecticut	1,633	76,384	19,483	0.26	899
Delaware	397	15,726	3,095	0.20	762
District of Columbia	456	24,270	3,831	0.16	1,023
Florida	7,033	223,911	49,672	0.22	612
Georgia	3,733	131,504	30,647	0.23	677
Hawaii	524	16,397	8,557	0.52	602
Idaho	556	15,383	8,410	0.55	532
Illinois	5,696	244,143	46,015	0.21	757
Indiana	2,796	89,850	18,551	0.21	618
Iowa	1,394	40,825	17,346	0.43	563
Kansas	1,282	38,928	13,187	0.34	584
Kentucky	1,682	51,078	12,214	0.24	584
Louisiana	1,817	53,689	11,596	0.22	568
Maine	577	16,756	5,353	0.32	559
Maryland	2,299	86,782	17,706	0.20	726
Massachusetts	3,160	141,559	33,822	0.24	862
Michigan	4,352	164,264	36,087	0.22	726
Minnesota.	2,550	94,533	36,608	0.39	713
Mississippi	1,079	28,068	7,037	0.25	500
Missouri	2,573	84,272	16,593	0.20	630
Montana	373	9,371	5,326	0.57	484
Nebraska	860	24,867	5,305	0.21	556
Nevada	1,024	34,199	17,197	0.50	643
New Hampshire	595	21,330	4,356	0.21	689
New Jersey	3,795	170,565	64,728	0.38	864
New Mexico	705	20,054	7,990	0.40	547
New York	8,146	375,843	58,081	0.16	887
North Carolina	3,693	119,515	44,109	0.37	622
North Dakota	302	7,816	3,193	0.41	499
Ohio	5,268	177,515	40,812	0.23	648
Oklahoma	1,400	39,050	12,583	0.32	536
Oregon	1,544	51,267	24,646	0.48	639
Pennsylvania	5,403	190,665	37,685	0.20	679
Puerto Rico	979	19,558	5,205	0.27	384
Rhode Island	458	15,547	4,380	0.28	653
South Carolina	1,736	51,319	11,458	0.22	569
South Dakota	352	9,041	2,153	0.24	494

TABLE 4-11--TWELVE-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY STATE UNEMPLOYMENT TAXATION FOR PERIOD ENDING SEPTEMBER 30, 2002-continued

State	Covered Employment (Thousands)	Total Wages (Millions)	Taxable Wages (Millions)	Ratio of Taxable Wages to Total Wages	Average Weekly Total Wages
Tennessee	2,548	81,445	17,426	0.21	615
Texas	9,090	326,430	76,338	0.23	691
Utah	1,007	30,213	14,392	0.48	577
Vermont	290	8,828	1,955	0.22	586
Virginia	3,261	117,953	24,881	0.21	696
Virgin Islands	42	1,257	485	0.39	570
Washington	2,578	97,081	44,935	0.46	724
West Virginia	662	18,448	4,525	0.25	536
Wisconsin	2,660	85,445	22,533	0.26	618
Wyoming	232	6,579	2,452	0.37	546
Total	126,633	4,575,723	1,117,233	0.24	695

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 Employment Security Administration Account (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 4-3). Funds for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the FUTA tax. However, 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.

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 the U.S. Department of Labor (DOL) finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the sum of resources made available for two major areas, the

CHART 4-3--FLOW OF FUTA FUNDS UNDER EXISTING FEDERAL STATUTES

0.8% Employer Tax[1]

↓

Monthly Transfer of All Net Collections

↓

(1) EMPLOYMENT SECURITY ADMINISTRATION ACCOUNT (ESAA) – for financing administrative costs of the employment security program. Monthly 0.64% of the 0.8% employer tax is to be retained in the ESAA account while 0.16% is to be transferred to (2). Up to 95% after transfers to (2) may be appropriated to finance State administrative costs; balance available to meet Federal administrative costs.

Statutory limit retained in this account at the beginning of a fiscal year is 40% of the appropriation for the prior fiscal year.

Monthly transfers = 20% of net collections unless statutory limit is reached ↓

Excess if (2) is over statutory limit on September 30 of any year

Excess if (1) is over statutory limit on October 1 of any year and (2) is not over its statutory limit ↓

Excess if (3) is over statutory limit on September 30 of any year

Excess if (1) and (2) are over statutory limit on October 1 of any year and (3) is not ↓

(2) EXTENDED UNEMPLOYMENT COMPENSATION ACCOUNT (EUCA) – for financing Federal-State EB Programs

Statutory limit: 0.5% of total wages in covered employment in preceding calendar year.

(3) FEDERAL UNEMPLOYMENT ACCOUNT (FUA) – for repayable advances to States with depleted reserves

Statutory limit: 0.5% of total wages in covered employment in preceding calendar year.

If (1), (2), and (3) are over statutory limit on October 1 of any year, excess funds are distributed to State trust fund accounts if there are no outstanding advances from General Revenue to either FUA or EUCA.

[1] Effective tax, after 5.4 is offset against 6.2 percent Federal unemployment tax. Effective rate is scheduled to drop to 0.6 percent on January 1, 2008.

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

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 DOL, 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 points for administration and 0.16 percentage points for extended benefits); (3) the administration's projection of the level of unemployment and the growth in wages; and (4) the level of covered employment 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.

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 DOL regional office may redistribute resources among the States in its area with national office approval. The 1997 budget bill authorized funds over 5 years specifically for program integrity activities such as claims review and employer tax audits to assist the States in strengthening their efforts to reduce administrative error and fraud.

In Public Law 102-164, Congress required the DOL to study the allocation process and recommend improvements. Public Law 102-318 extended the study deadline to December 31, 1994. The Department has not yet submitted the report to Congress.

Total grants to States for administrative costs represent about 53 percent of total FUTA tax collections in fiscal year 2002. In addition, the Reed Act transfer of $8 billion provided to states under P.L. 107-147 could be used by states for administrative purposes. There continues to be considerable interest among State Employment Security Agencies in recent years in having more of the FUTA revenue returned to the States for administrative expenses. In the 108th Congress, legislation has been introduced which would change the administrative financing of the UC Program.

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 emergency unemployment compensation (EUC) 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 “profiling” 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.

The Balanced Budget Act of 1997 (Public Law 105-33) gave States complete authority in setting base periods for determining eligibility for benefits, authorized appropriations for program integrity activities, limited trust fund distributions to States in fiscal years 1999-2001, and raised the ceiling on FUA assets from 0.25 percent to 0.5 percent of wages in covered employment starting in fiscal year 2002. The Taxpayer Relief Act of 1997 (Public Law 105-34) extended the 0.2 percent FUTA surtax through 2007.

The Temporary Extended Unemployment Compensation Act of 2002 (P.L. 107-147) established a program to provide temporary extended unemployment compensation (TEUC) benefits of up to 13 weeks to individuals in all States who exhaust their regular UC benefits. TEUC benefits are fully federally funded and available in all States. TEUC also provides a second tier of up to 13 weeks of additional benefits to individuals in high-unemployment States (TEUC-X). The program has been extended twice (P.L. 108-1, P.L. 108-26) and is authorized through March 31, 2004, with benefits phasing-out after December 31, 2003. In addition, P.L. 108-11 created a parallel program for displaced airline workers called TEUC-A. TEUC-A provides up to 39 weeks of benefits and provides a second tier (TEUC-AX) of benefits to individuals exhausting their TEUC-A benefits in a high-unemployment State.

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