



# Unemployment Insurance Extensions and Reforms in the American Jobs Act

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The United States is recovering from the deepest recession since the Great Depression, but there are still more than 13 million Americans unemployed and almost 6 million of them have been unemployed for more than 26 weeks. There remains a critical need for policies that will create faster economic and job growth and support those struggling to find a job. To meet this challenge and put Americans back to work, in September President Obama proposed the American Jobs Act to Congress.

Importantly, the American Jobs Act includes a one-year extension of Federal unemployment benefits and reforms to our unemployment compensation system that will increase flexibility for states and speed reemployment for the unemployed.

As this report details, two Federally-funded unemployment benefit programs—Emergency Unemployment Compensation (EUC) and Extended Benefits (EB)—have been essential for millions of Americans. If Congress fails to extend them, the current programs will expire in January and millions will lose access to benefits. Combined with the Unemployment Insurance reform proposals in the American Jobs Act, the extension of EUC and EB provisions will provide important support for those who are suffering due to economic conditions, help them return to work sooner, and increase economic growth and job creation.



# Unemployment Insurance Extensions and Reforms in the American Jobs Act

## Background

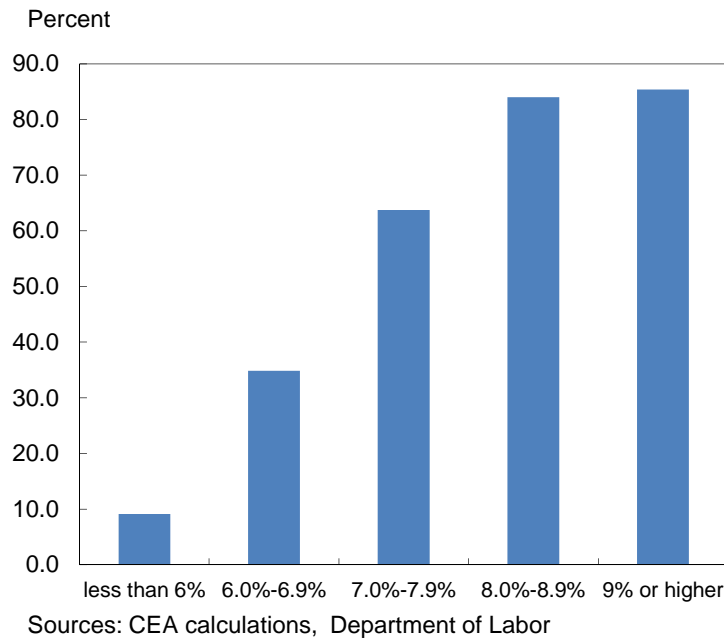
Unemployment Insurance (UI) is a joint Federal-State program that provides income support to workers who have lost a job. Nearly all full-time and some part-time workers who meet basic criteria are eligible for UI. Weekly UI payments for eligible unemployed workers are determined by their past wages, up to a maximum weekly benefit. Program parameters vary across states, but weekly benefits in 2011 average about \$300, replacing about half of UI recipients' lost earnings. Unemployed workers typically qualify for up to 26 weeks of benefits, as long as they continue to search for work. In an economy with normal labor demand, one would expect most unemployed workers to find a job within this time frame; in periods of high unemployment, however, finding a job may take longer.

Since 1970, unemployment benefits have been extended in states experiencing high unemployment through the Extended Benefits (EB) program, a joint Federal-State program. When state unemployment rates reach specific thresholds, the EB program allows states to provide 13 or 20 weeks of additional benefits with the Federal government paying one-half of the cost. EB is a standing program; in addition, in every recession since 1957, the Federal government has stepped in to provide additional support for unemployed workers.<sup>1</sup> Appendix Table 1 details all special extended benefits programs since the Temporary Unemployment Compensation program of 1958. Since 1948, when official monthly unemployment rates first became available, special extended benefits have been provided to long-term unemployed workers in 85 percent of the months in which the national unemployment rate was 8 percent or higher (see Figure 1).

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<sup>1</sup> The only exception is the short recession during 1980, which was followed by a deeper recession beginning in July 1981. Congress passed an unemployment insurance extension in September 1982 that can be viewed as a response to the combined effects of the two recessions.

**Figure 1: Share of Months Since 1948 in which Special Extended Benefits Paid, by Unemployment Rate**



The years since the start of the 2007-2009 recession arguably have been the most difficult period for the U.S. labor market in the postwar era. Throughout the first 11 months of 2007, the unemployment rate was between 4.4 percent and 4.7 percent. But soon after the United States fell into a recession in December 2007, the unemployment rate increased sharply. By March 2009, when the first Recovery Act programs were beginning to be implemented, the unemployment rate stood at 8.6 percent. By October 2009, the unemployment rate had climbed to 10.1 percent and the ratio of job seekers to job openings had increased to 6.8, compared with an average of 1.5 in the year prior to the start of the recession. Between January 2008 and February 2010, the economy lost 8.8 million payroll jobs, a decline of 6.3 percent. Four years after the beginning of the recession, there are still 6.3 million fewer payroll jobs in the United States than there were at the start of the recession, and more than 13 million workers are unemployed, with almost 6 million of them having been out of work for more than 26 weeks.

In June 2008, recognizing that unemployed workers would have a significantly harder time finding jobs during the downturn, Congress created the Emergency Unemployment Compensation (EUC) program. At its start, EUC provided an additional 13 weeks of Federally-financed compensation in all states to eligible individuals who had exhausted their UI benefits. As the labor market weakened, in February 2009 Congress extended and expanded the program. Currently, the program offers four “tiers” of EUC through which unemployed workers can move sequentially as long as they remain jobless and continue searching for a job. The first two tiers, providing a combined 34 weeks of additional coverage, are available in every state. The next two tiers, adding a total of 19 weeks, are available based on state unemployment rates. Congress also provided for 100 percent Federal funding of EB to pay individuals who had exhausted their regular UI and EUC benefits and, in the extension of benefits passed into law at

the end of 2010, loosened the triggers governing state eligibility for EB.<sup>2</sup> Given their budget situations, states had been reluctant to adopt EB programs that would pay benefits under less-stringent optional triggers if they had to pay half the cost, but they began to offer such benefits contingent on the availability of 100 percent Federal EB funding as provided in the Recovery Act. Appendix Table 2 shows the different tiers of benefits for which workers may be eligible under the regular UI program, EUC and EB, depending on state law and the unemployment rate in the state. All told, in those states with the highest rates of unemployment, an unemployed worker could receive up to 99 weeks of benefits.

At the time EUC was initiated in June 2008, there were 1.6 million workers who had been unemployed for longer than 26 weeks. Congress responded more quickly than in previous recessions due to the speed with which the economy was weakening. By the time tiers 3 and 4 of EUC were added in November 2009, the number of long-term unemployed had risen to 5.9 million.

Although improved from a year ago, the job market continues to be difficult for workers seeking employment. As of November 2011, the unemployment rate stood at 8.6 percent and 5.7 million workers had been out of work for more than 26 weeks; the average duration of unemployment was 40.9 weeks. In October, the latest month for which job vacancy data are available, there were more than four job seekers per job opening (versus 1.5 pre-recession). Estimates based on flow data from the Bureau of Labor Statistics monthly Current Population Survey (CPS) show that the probability that an unemployed worker finds a job in any given month is roughly 17 percent. For those who have been unemployed for more than 26 weeks, the monthly job-finding rate is closer to ten percent. In no prior case has Congress allowed special extended benefits to expire when the unemployment rate was as high as it is today. For example, during the recovery from the 1981-82 recession, the most severe postwar recession before 2007, the extensions passed under President Reagan lasted until March 1985, by which time the economy had made a sizeable recovery from its trough. Table 1 reports the eight times since 1956 that special extended benefits have been offered. For each, it shows the month the recession ended, the month the special extended benefits program expired, and the unemployment rate in that month.

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<sup>2</sup> A state is required to offer EB if its insured unemployment rate (IUR) exceeds 5 percent and is at least 20 percent higher than in each of the last three years, but this condition is currently not satisfied in any state. The same is true of the alternative optional trigger that the state IUR exceeds 6 percent. In most cases, for a state to qualify for EB, its total unemployment rate (TUR) must exceed the trigger value shown in Appendix Table 2 and this state TUR must be higher than it was either one year or two years earlier. Under the most recent benefits extension, the "look back" period for EB was extended temporarily to three years rather than two years, making more states eligible to offer EB benefits.

**Table 1: Unemployment Rates in Months in Which Special Extended Benefits Program Have Expired**

<b>Official End of Recession</b>	<b>Month in Which Special Extended Benefits Program Expired</b>	<b>Unemployment Rate at Expiration of Special Benefits Program</b>
April 1958	April 1959	5.2%
February 1961	April 1962	5.6%
November 1970	March 1973	4.9%
March 1975	November 1977	6.8%
November 1982	March 1985	7.2%
March 1991	February 1994	6.6%
November 2001	December 2003	5.7%
June 2009	January 2012	8.6% (Nov. 2011)

In September 2011, President Obama asked Congress to extend the EUC program and 100 percent Federal financing of the EB program. The President also called for reforms to the Unemployment Insurance system that will provide the long-term unemployed with more reemployment services, help to prevent job losses through worksharing programs, and give states flexibility to help the unemployed start their own businesses, create Bridge to Work programs that will provide the unemployed valuable work experience and training, or adopt other measures to help unemployed people find jobs.

Without an extension of the EUC program and continued 100 percent Federal financing of EB, both programs will undergo changes in early January that will limit their availability to millions of workers. Under current law for EUC, no new claimants would be able to qualify for EUC for weeks of regular unemployment ending after January 3, 2012. Since in most states weeks of unemployment end on Saturdays, the week ending December 31<sup>st</sup> is the last for which most regular UI claimants will be able to establish EUC eligibility. With regard to the EB program, states would not be able to qualify for full Federal funding of EB for new claimants for weeks of unemployment beginning on or after January 4, 2012. In most states this would mean an immediate return to tighter unemployment rate triggers that would end all EB eligibility.

Workers who currently receive regular UI and those who become unemployed in the future will not receive additional benefits if they exhaust their first 26 weeks of coverage (or, in certain states that have reduced the maximum duration of regular UI benefits, their first 20 or 25 weeks of coverage). Further, the total number of people exhausting their benefits will ramp up, as more recipients reach the end date of their given tier. The last time most workers were eligible for only 26 weeks of benefits the unemployment rate was 5.4 percent. Under the President's proposal the maximum duration of weeks will decrease but far less sharply. If the EUC program and 100 percent Federal financing of EB are extended, the maximum allowable duration of benefits is expected to fall from 99 weeks to 79 weeks over the course of the year as all states eventually trigger off of EB; the Department of Labor projects that the *average* maximum

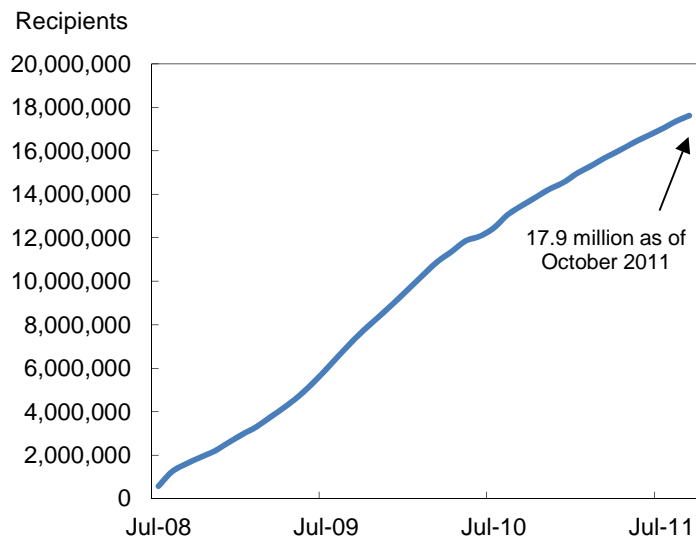
duration of unemployment benefits across all states will decrease from 93 weeks at the present time to 75 weeks at the end of 2012.

The remainder of this report examines the current EUC/EB program and the impact it has had on individuals, the labor market, and the larger economy. The report then details projections for benefit receipts and jobs if benefits are not extended. Finally, the report reviews President Obama's proposals to revamp the Unemployment Insurance system to help those looking for work.

## People Who Have Been Helped

The current EUC and EB programs have benefited millions of American workers. Figure 2 shows the total number of beneficiaries over time, since the start of the programs. By the end of 2008, approximately two million unemployed workers had received EUC or EB. As the recession deepened, more and more unemployed workers who were unable to find jobs in the first 26 weeks of unemployment moved into these programs. As of October 2011, 17.9 million job seekers had received EUC/EB benefits. Table 2 provides a breakdown of the number of EUC/EB recipients by state.

**Figure 2: Number of People Receiving EUC/EB Benefits (Cumulative)**



Source: Department of Labor



Table 2: Number of People Receiving EUC/EB Benefits (Cumulative), by State

State	Number of People Who Have Received EUC/EB Benefits from January 2008 through October 2011	State	Number of People Who Have Received EUC/EB Benefits from January 2008 through October 2011
Alabama	210,304	Nebraska	79,204
Alaska	45,097	Nevada	232,183
Arizona	304,093	New Hampshire	45,538
Arkansas	133,591	New Jersey	781,491
California	2,309,245	New Mexico	74,683
Colorado	264,347	New York	1,201,680
Connecticut	235,233	North Carolina	802,486
Delaware	49,254	North Dakota	17,428
District of Columbia	42,450	Ohio	641,732
Florida	1,214,116	Oklahoma	127,386
Georgia	641,781	Oregon	284,565
Hawaii	51,159	Pennsylvania	1,157,481
Idaho	78,454	Puerto Rico	100,402
Illinois	800,494	Rhode Island	74,582
Indiana	468,540	South Carolina	307,021
Iowa	170,934	South Dakota	8,624
Kansas	164,735	Tennessee	339,611
Kentucky	138,252	Texas	846,740
Louisiana	130,808	Utah	101,484
Maine	58,309	Vermont	26,329
Maryland	134,250	Virgin Islands	5,444
Massachusetts	509,783	Virginia	261,427
Michigan	757,657	Washington	269,756
Minnesota	331,616	West Virginia	67,732
Mississippi	135,228	Wisconsin	315,285
Missouri	288,560	Wyoming	23,294
Montana	62,310	<b>US Total</b>	<b>17,924,188</b>

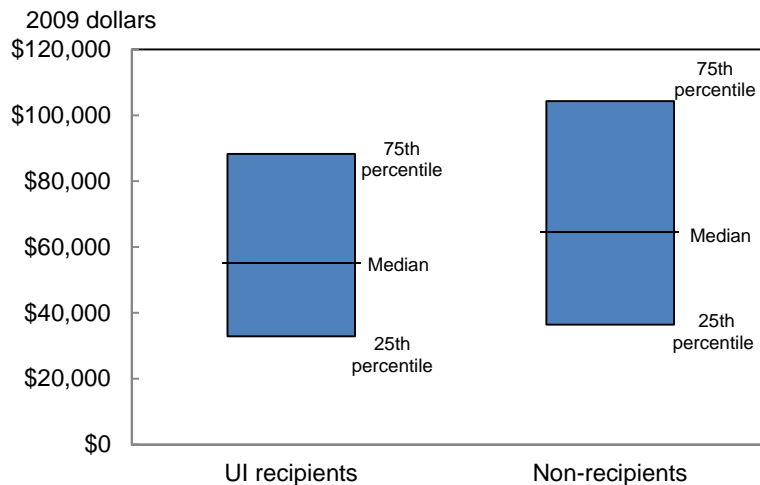
Source: Department of Labor

Unemployment benefits provide income support for all members of the households in which recipients live. Since July 2008, there have been more than 50 million individuals – roughly one in six Americans – who either have been, or have shared a household with, an EUC or EB recipient. Some 12.8 million of these household members were children, 6.4 million of whom were living in households with only one potential wage-earner.

To qualify for UI, recipients must have established a record of attachment to the labor market, as demonstrated by having sufficient earnings in prior quarters, and experienced the misfortune of being laid off by their employer through no fault of their own. Figure 3, reporting CEA estimates based on matched CPS data, compares the 2009 income of households that received unemployment compensation in 2010 to the income of non-recipient households that had at least one member with workforce experience in 2009. These box plots show the median incomes of these two groups as well as the interquartile range of income (i.e., the 25<sup>th</sup> percentile and 75<sup>th</sup> percentile income levels for each group). The households of unemployment compensation recipients have prior year incomes slightly below those of non-recipient

households, and they are largely middle class families.<sup>3</sup> The median income for UI recipient households in the year prior to receiving benefits was \$55,000, compared to \$64,000 for non-recipient working households. Nearly half of all UI recipients had household incomes between \$25,000 and \$80,000 in the year before they lost their jobs. In many cases, the receipt of UI benefits is what keeps households in which a member has lost a job from falling into poverty. According to the Census Bureau, in 2010 unemployment insurance kept 3.2 million people out of poverty (Census Bureau 2011).

**Figure 3: 2009 Incomes of Households Receiving and Not Receiving Unemployment Benefits in 2010**



Note: Non-recipient households include only households with at least one member who had labor market experience in 2009.

Sources: CEA Calculations, Current Population Survey

In each of the first ten months of this year, an average of 341,000 people exhausted their UI benefits and became EUC recipients. This represents a 25 percent decrease from 2010 when 454,000 people were entering EUC every month. Currently, 3.3 million long-term unemployed workers receive EUC or EB. This represent a significant decrease compared to the 4.6 million people who were receiving benefits when the program was last extended in December 2010. Total EUC and EB benefit payments thus far in 2011 are averaging \$5.0 billion per month, and in October 2011, the last month for which data are available, total spending on EUC and EB benefits was \$4.2 billion. This compares to the average of \$6.6 billion in total benefits paid monthly in 2010. Over the last year, the total number of weeks of eligibility for a recipient through UI, EUC, and EB has decreased in 11 states and increased in only two. While the economy clearly is healing, the need for substantial assistance to unemployed workers also clearly remains large.

<sup>3</sup> Feldstein (1974) and Hutchens (1981) disagree over the extent to which UI is redistributive but both agree that a significant portion of UI payouts go to middle class families.

## Effect on the Labor Market

Economic policies often involve tradeoffs. Unemployment compensation is no exception. Unemployment compensation can potentially be a disincentive for some workers to search intensively or to accept an offer if they receive one; however, unemployment compensation also provides crucial income support for a vulnerable group of people after they have lost a job through no fault of their own. These benefits enable the unemployed to search for jobs that utilize their skills and help to stabilize the aggregate economy by providing income support to a population with a high marginal propensity to consume during times when the economy is weak. The extent of these tradeoffs can vary with the business cycle. The optimal policy takes into account the nature of the tradeoffs involved.

The Congressional Budget Office (CBO) recently assessed the various effects of extended unemployment benefits and came to the following conclusion:

[T]he various effects of extending additional unemployment benefits *apart from* the effects on the overall demand for goods and services would, on balance, increase the measured unemployment rate (primarily by keeping workers in the labor force) but have little effect on the number of people employed. Accordingly, CBO's estimates of the impact of this policy option on output and employment include only the effects of boosting demand for goods and services. (CBO 2011)

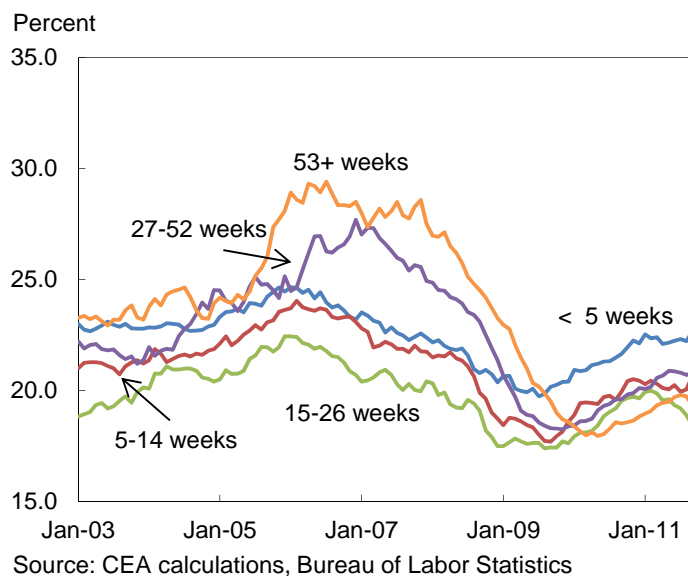
As explained below, this conclusion is consistent with available empirical research.

Economists long have studied the incentive effects of UI programs on job search behavior (Meyer 1990). On the one hand, offering a cash benefit to unemployed workers may make them less likely to search aggressively for employment or accept a job that is available—the so-called “moral hazard” effect. On the other hand, providing UI to unemployed workers gives them funds that can help them meet their basic needs as they search for work. In the parlance of economics, workers who lack adequate savings are liquidity constrained, and UI benefits can help to overcome those liquidity constraints that may force these workers to accept a job that is a poor match for their talents. Chetty (2008) shows that the beneficial impact of helping liquidity constrained unemployed workers more than outweighs the moral hazard effect. Indeed, he finds hardly any evidence of a moral hazard effect once the liquidity effect is recognized. Moreover, while economists have not estimated large impacts of UI on search behavior even in strong labor markets (Card and Levine 2000), recent research shows that the effect of UI on job search behavior is likely even smaller in recessions—when jobs are scarce, strategic considerations often give way to the urgent need to find a job (Kroft and Notowidigdo 2011, Schmieder, von Wachter, and Bender forthcoming).

Even in normal times, any possible disincentive effect is muted because the average state benefit is not large, only about \$300 per week. *Over a full year, this amounts to less than one third of the average annual expenditures (\$48,109 in 2010) for all households in the Consumer Expenditure Survey. Even at the average state maximum benefit of \$450 a week, a UI recipient could cover only half of average expenditures.* (See Appendix Table 3 for benefit levels by state.)

One often overlooked benefit of extended unemployment compensation programs such as EUC and EB is that these programs tend to prevent the long-term unemployed from exiting the labor market. As can be seen in Figure 4, transitions out of the labor force generally occur at a higher rate for those unemployed 27 weeks or more than for those unemployed for shorter periods. After extended benefits legislation was enacted in 2008, however, the rate of transition out of the labor force among those who were unemployed for 27 to 52 weeks and those unemployed over a year actually fell below that of groups with shorter durations of unemployment. In a recent econometric analysis, Rothstein (2011) finds that the modest increase in unemployment caused by the availability of extended benefits is attributable primarily to lowering the number of people who leave the labor force rather than to lowering the number who become employed. Though the job-finding rate is low for the long-term unemployed (currently about ten percent per month for those unemployed 27 weeks or more), keeping them in the labor market increases the number who eventually do find jobs.

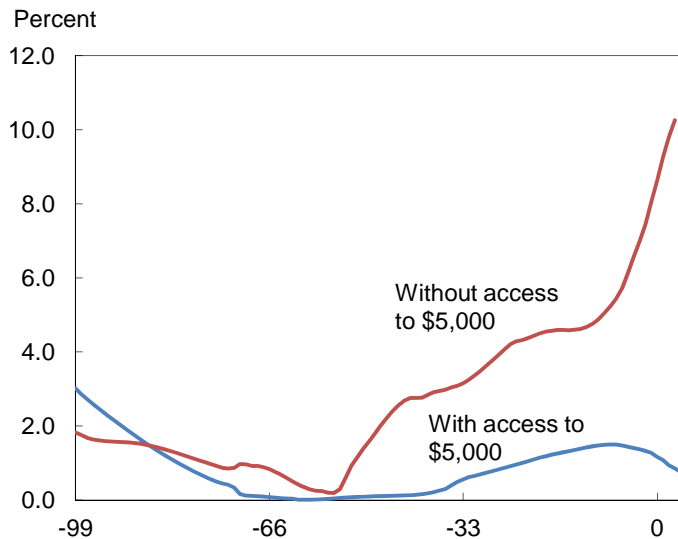
**Figure 4: Monthly Transitions from Unemployment to Not in the Labor Force by Duration of Unemployment, January 2003 to October 2011**



An important potential avenue for leaving the labor force, especially for older job seekers, is to apply for disability benefits through the Social Security Disability Insurance (SSDI) program. SSDI applications generally rise when unemployment is high. Unemployed workers with significant and persistent illnesses or injuries can qualify for SSDI despite the fact that some applicants would continue to work if they still had a job. According to recent research, the average SSDI enrollee stays in the program for many years and ultimately receives benefits of over \$240,000 (Autor and Duggan 2006). Workers on SSDI rarely return to the labor force, resulting in a loss to society of the economic contribution those workers could have made. Thus, keeping the long-term unemployed in the labor force should be a priority. Krueger and

Mueller (in progress) find that applications for SSDI by unemployed workers older than age 50 increase as these workers get close to exhausting their unemployment benefits. As can be seen in Figure 5, this increase is driven by applications from individuals with limited assets, defined here as those who reported that they would be unable to come up with \$5,000 if needed to cover unexpected expenses in the event of an emergency; application rates change very little for individuals with greater access to resources. By providing workers who might otherwise apply for SSDI more time to find a job, EUC and EB apparently keep more of the long term unemployed actively in the labor force and thus increase the potential length of their productive work life.

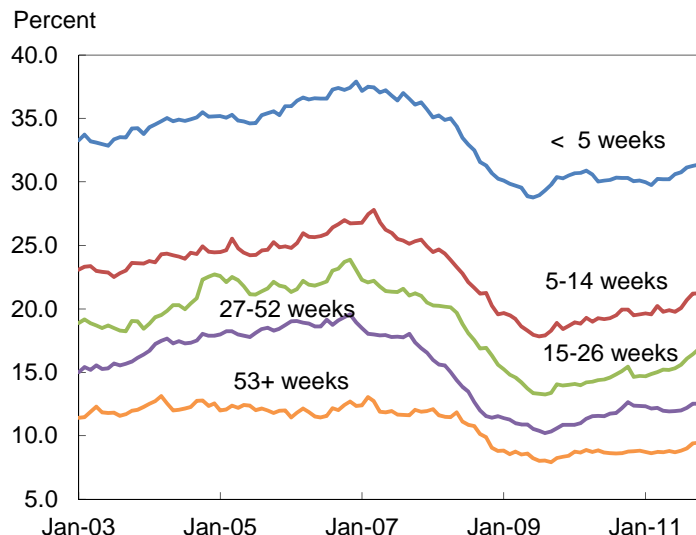
**Figure 5: Percent of Unemployed Workers Age 50 to 65 Years Applying for SSDI Benefits, by Weeks Before and After Unemployment Benefits Expire and Access to \$5,000**



Source: Krueger and Mueller, in progress

The extended benefits programs do not appear to have had a differential impact on the relative job-finding rates of unemployed persons who have been out of work for different lengths of time. As shown in Figure 6, job-finding rates are consistently lower for those who have been unemployed longer, but the rates for the different cohorts delineated by unemployment duration have stayed roughly parallel since 2003.

**Figure 6: Monthly Transitions from Unemployment to Employment by Duration of Unemployment, January 2003 to October 2011**



Source: CEA calculations, Bureau of Labor Statistics

## Effect on the Aggregate Economy

In addition to providing income insurance for families, unemployment compensation also helps the economy as a whole (Auerbach and Feenberg 2000). Job loss results in a significant decline in income and therefore consumption for workers and their families. This drop in consumption means a loss of demand for businesses, amplifying the original drop in aggregate demand. Unemployment compensation is an automatic stabilizer; it mitigates the impact of a recession on the broader economy because unemployed workers—whose income has been severely reduced due to the job loss—tend to spend their benefits rather than save them. Economic research examining UI suggests that, in the absence of the UI system, a typical family whose head of household becomes unemployed would spend 22 percent less on food—as compared to the 7 percent drop that is actually observed because of the help of the UI system (Gruber 1997).

In recent years, unemployment compensation has had a significant role in maintaining household income levels. Council of Economic Advisers (CEA) calculations based on data from the Current Population Survey show that, from 2007 to 2010, the share of households receiving income from unemployment compensation rose from 4.1 percent to 9.6 percent and the average amount received by these households increased from \$4,400 to \$8,343. During this period, average household income declined by \$3,600. Total unemployment compensation payments, however, increased by an amount equal to 17 percent of this net decline, partially offsetting the overall loss of household income. Previous research suggests that recipients tend to understate their unemployment compensation by up to one-third (Meyer, Mok, and Sullivan 2009), so these are likely to be lower bound estimates of the effect of unemployment insurance on household income.

Moreover, the CBO notes that extensions of unemployment benefit programs are “both timely and cost-effective in spurring ... economic activity and employment” (CBO 2011). The evidence suggests that the additional spending from unemployment compensation happens very soon after the outlay of Federal dollars. In contrast, many other job creation measures have significantly longer lags between the Federal cost and the economic benefit. The CBO also finds that increasing aid to the unemployed is among the policies that would have “the largest effects on output and employment per dollar of budgetary cost” (CBO 2011).

In addition, unemployment is a leading cause of mortgage defaults, and the income provided by unemployment insurance helps avert foreclosures—giving much needed support to our housing market (Foote et al. 2009).

Because the EUC and EB programs support hundreds of thousands of jobs and increase economic activity significantly, they also generate partially offsetting tax revenue for the Federal government (through income and payroll taxes) and help state and local budgets by increasing sales tax revenues. Additionally, without the income support from extended unemployment compensation, many families would need to draw on other programs such as the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps), Temporary Assistance to Needy Families (TANF) and SSDI.<sup>4</sup>

In short, as a form of insurance, the Federal unemployment compensation programs provide important income support for workers and their families during periods of job loss, but they have substantial benefits to the broader economy as well. As a result, the net cost to the Federal government is less than the official cost that is scored for these programs when they are considered in isolation.<sup>5</sup>

## The Cost of Not Extending the EUC and EB Programs

Without Congressional action, the EUC program and full Federal funding of the EB program will begin to phase out the first week of January 2012. Those currently in the EUC program will continue to receive benefits until they exhaust their current EUC tier. Millions of long-term unemployed workers will lose all their unemployment benefits by the end of January, and millions more will have no benefits after their initial 26 weeks of UI payments are exhausted, despite the fact that the unemployment rate still stands at 8.6 percent and the average currently on-going spell of unemployment has lasted more than 40 weeks.

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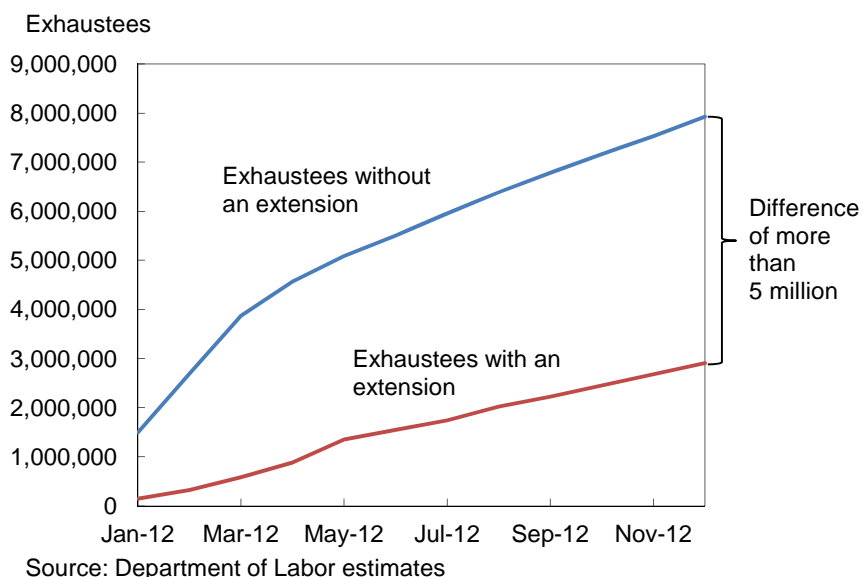
<sup>4</sup> Unemployment benefits are included in the income calculation used to determine SNAP eligibility. Therefore, without unemployment benefits, more families would be eligible to receive SNAP. Further, Autor and Duggan (2003) document the relationship between disability insurance enrollment and the economy: When unemployment increases so does the number of individuals who receive disability insurance. Thus, by providing a substitute for disability insurance, unemployment insurance may reduce enrollment in the DI program.

<sup>5</sup> For example, the Congressional Budget Office (2008) noted this effect in its cost analysis of the Emergency Extended Unemployment Compensation Act of 2008.

As part of the American Jobs Act, President Obama has proposed extending unemployment compensation benefits for another year. The provisions of the proposed Act call for a full extension of the EUC program and of this year's EB program parameters.<sup>6</sup> Under current projections, EB largely would be phased out, as there will be few states in which the current unemployment rate exceeds the rate one, two or three years earlier – the current requirement for states to be eligible to offer EB benefits. Full Federal funding for EB benefits would remain available, however, in the event the unemployment rate in any state were to rise.

Figure 7 illustrates the number of exhaustees under current law (blue line) and under the extension proposed by the Obama Administration as part of the American Jobs Act (red line). Even with the extension, some unemployed workers will lose coverage as they exhaust their benefits under the current program. A far greater number of people will exhaust their benefits if there is no extension, however, so the blue line increases much more steeply.

**Figure 7: Projected Number of EUC/EB Exhaustees With and Without an Extension in 2012 (Cumulative)**



As can be seen in Figure 7, the impact of failing to extend EUC and EB will be both quick and substantial:

- Without an extension, an additional 5.0 million job seekers will exhaust their benefits by the end of 2012.
- Many of these people will exhaust their benefits very soon; 1.3 million of the additional 5.0 million job seekers who will be affected if EUC and EB are not extended will exhaust their benefits by the end of January 2012.

<sup>6</sup> The EB extension provides for 100 percent Federal funding of EB through December 2012 with a three year “look back” for the optional total unemployment rate trigger – requiring that the unemployment rate exceed that in at least one of the prior three years for states to be eligible (the “look back” otherwise would be two years).



Without an extension, an additional 1.2 million African Americans and an additional 900,000 Hispanics, two groups particularly affected by high incidence of unemployment and poverty, will be among those exhausting their benefits by the end of 2012.

These benefit losses will have devastating consequences for many of the long-term unemployed and their families. While the weekly benefit amount is not large, it is enough to keep many families out of poverty. *Almost 3.6 million children will be directly affected by the loss of benefits by someone in their household.*

These effects will not be limited geographically. Every state currently offers some form of extended benefits so there will be people in every state who lose their eligibility. State-by-state projections of the number of additional people who can be expected to exhaust their UI benefits if EUC and EB are not extended are shown in Table 3.

**Table 3: Projected Increase in Number of EUC/EB Exhaustees if Programs Not Extended in 2012 (Cumulative), by State**

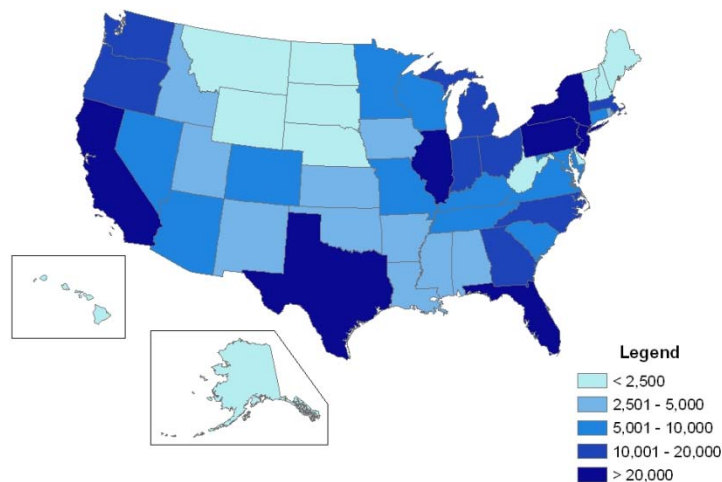
State	Estimated Increase in Number of People Who Will Exhaust Benefits During Calendar Year 2012 without an Extension	State	Estimated Increase in Number of People Who Will Exhaust Benefits During Calendar Year 2012 without an Extension
Alabama	64,380	Nebraska	20,310
Alaska	14,860	Nevada	71,630
Arizona	74,900	New Hampshire	10,790
Arkansas	46,290	New Jersey	228,890
California	714,830	New Mexico	24,920
Colorado	81,560	New York	323,850
Connecticut	87,610	North Carolina	214,530
Delaware	12,120	North Dakota	5,430
District of Columbia	14,200	Ohio	137,070
Florida	277,640	Oklahoma	29,970
Georgia	162,110	Oregon	101,300
Hawaii	17,600	Pennsylvania	189,950
Idaho	31,980	Puerto Rico	51,760
Illinois	234,080	Rhode Island	25,270
Indiana	124,390	South Carolina	77,030
Iowa	36,170	South Dakota	2,600
Kansas	44,170	Tennessee	102,270
Kentucky	51,720	Texas	258,780
Louisiana	56,880	Utah	38,310
Maine	20,090	Vermont	7,820
Maryland	71,690	Virgin Islands	720
Massachusetts	123,960	Virginia	61,320
Michigan	207,250	Washington	101,070
Minnesota	87,550	West Virginia	23,330
Mississippi	45,050	Wisconsin	110,020
Missouri	71,660	Wyoming	6,580
Montana	14,920	<b>US Total</b>	<b>5,015,200</b>

Source: Department of Labor

The resulting decline in benefit payments will force millions of households to reduce consumption in the short term, causing significant adverse effects on aggregate demand and thus on employment. The CBO projection is that, compared to allowing extended benefits to expire, an extension could have the cumulative effect in 2012 and 2013 of raising output by up to \$1.9 billion and employment by up to 19,000 full-time equivalent job-years for every billion dollars of budgetary spending – the largest impact of any policy they examined. Using the same method as in an earlier report (CEA 2010), CEA has estimated the effect of extending benefits as the President has proposed on the number of job-years, compared to what would happen if benefits were allowed to expire. Like CBO, CEA uses a standard fiscal multiplier applied to the total amount of anticipated benefit payments and considers only the effects of EUC and EB on employment that operate through their effects on aggregate demand. While there is unavoidable uncertainty about the precise effects, CEA’s best estimate is that the President’s proposal for extended benefits would save 478,000 additional job-years cumulatively by the end of 2014. The CBO, which only provides estimates for the next two years, projects that extending benefits would generate between 176,000 and 836,000 additional job-years by the end of 2013 compared to a scenario in which benefits were not extended; the CEA estimate of 441,000 job-years for the same time period lies squarely within the CBO range (CBO 2011).

To estimate the state-by-state employment impacts of extending EUC and full Federal EB financing for another year, the estimated national employment effect was allocated across states based on each state’s share of total extended benefit payments. As illustrated in Figure 8, this translates into hundreds or, in most cases, thousands of job-years in every state in the country, compared to what would be expected if benefits were not extended.

**Figure 8: Estimated Number of Jobs Saved by EUC/EB Extension through the Fourth Quarter of 2014, by State**



Sources: Department of Labor, CEA calculations

State-by-state estimates of job-years saved through the end of 2014 are reported in Table 4. The estimates show, for example, that EUC and EB would save more than 20,000 jobs in Florida and Pennsylvania; more than 30,000 jobs in New York; and more than 70,000 jobs in California.

**Table 4: Impact on Employment of a Failure to Extend EUC and EB, by State**

State	Estimated Number of Jobs Saved by EUC/EB Extension Through End of 2014	State	Estimated Number of Jobs Saved by EUC/EB Extension Through End of 2014
Alabama	4,220	Nebraska	1,560
Alaska	1,080	Nevada	7,250
Arizona	5,210	New Hampshire	1,020
Arkansas	4,190	New Jersey	27,890
California	73,210	New Mexico	2,510
Colorado	8,880	New York	31,680
Connecticut	9,470	North Carolina	19,790
Delaware	1,040	North Dakota	490
District of Columbia	1,320	Ohio	12,950
Florida	20,340	Oklahoma	2,800
Georgia	12,160	Oregon	10,050
Hawaii	2,430	Pennsylvania	20,330
Idaho	2,700	Puerto Rico	1,910
Illinois	24,510	Rhode Island	3,010
Indiana	11,970	South Carolina	5,810
Iowa	3,410	South Dakota	200
Kansas	4,590	Tennessee	7,450
Kentucky	5,140	Texas	23,050
Louisiana	4,660	Utah	3,810
Maine	1,740	Vermont	760
Maryland	7,180	Virgin Islands	80
Massachusetts	15,780	Virginia	5,410
Michigan	19,140	Washington	12,440
Minnesota	9,580	West Virginia	1,940
Mississippi	2,720	Wisconsin	9,230
Missouri	5,540	Wyoming	650
Montana	1,270	<b>US Total</b>	<b>477,550</b>

Source: Department of Labor, CEA calculations

## Reforming the Unemployment Insurance System

The case for extending the current EUC and EB programs is clear. At the same time, the Administration recognizes that more can and should be done to help the recipients of these benefits find new jobs. As part of the American Jobs Act, the President has proposed an important set of UI reforms that will increase flexibility for states and help Americans get back to work faster. The UI system would be more economically efficient if Congress were to pass these reforms into law.

The UI system was established in 1935 and remains essentially as it was 70 years ago, despite major changes in the economy and workforce. Research from the 1980s suggested that 60 percent of UI spells ended with the worker being recalled to his or her original job (Corson and Nicholson 1983; Katz and Meyer 1990). Today, a smaller percentage of the unemployed who lose a job are on temporary layoff than was the case in previous decades. In December 1983, the peak month of unemployment in the 1980s, 34 percent of job losers expected to return to their previous employer; in October 2009, the peak month of unemployment in the recent recession, just half that percentage of job losers expected to be recalled. With fewer people returning to their prior employers, it is increasingly important to have a UI system that helps the unemployed explore their options and gain new skills.

The Administration has proposed a series of reforms to the unemployment compensation system as a part of the American Jobs Act. Under the President's proposals, most long-term unemployed claimants would meet with UI staff and participate in Reemployment and Eligibility Assessments (REA) and Reemployment Services (RES). Certain types of RES have been found to be effective for a wide range of participants (Jacobson 2009). Calling claimants into the UI office would provide an opportunity to help them develop a work search plan and refer them to One-Stop Career Services, as well as make sure that they are eligible for unemployment benefits and reduce improper payments. Rigorous evidence has shown that eligibility assessments can lower program costs by reducing the length of spells of benefit receipt and eliminating payments to ineligible individuals (Black et al. 2003; Meyer 1995). A demonstration project in Nevada that combined eligibility assessment and reemployment services paid for itself by moving the unemployed into jobs more quickly and eliminating excess payments (Hanna and Turney 1990). A recent evaluation of the Reemployment and Eligibility Assessment Initiative found that eligibility assessments reduced unemployment compensation payments and the one state that combined these assessments with reemployment services had the largest reductions in weeks of payments, suggesting the combination may be the most effective model (Poe-Yamagata et al. 2011).

The Reemployment NOW program would provide funds to states to create innovative programs to help the long-term unemployed get back to work. First, states would have the option of setting up Bridge to Work programs that would allow EUC recipients to obtain short-term work-based experience, giving them the opportunity to maintain or enhance their skills. This proposal builds and improves on programs in a number of states, including Georgia, New Hampshire, Missouri, Pennsylvania, Texas and Utah. EUC recipients would be allowed to work for a private employer for up to eight weeks, as much as 38 hours per week, while continuing to collect EUC benefits. Under this program, important worker protections would apply. For example, no worker would receive less than the applicable minimum wage for the hours they worked and all participants would be covered by Workers' Compensation Insurance. At the end of the trial period, employers would be in a better position to assess the worker's suitability for their organization after having observed the individual's work habits and productivity, and the worker would be in a better position to assess whether the job is a good match.

Second, through Self-Employment Assistance (SEA) programs, states could allow continued EUC benefit payments to EUC claimants who choose to work full-time to establish a new

business and use Reemployment NOW funds to implement the program. Currently, there are Self-Employment Assistance programs in seven states that permit a similar use of regular unemployment insurance benefits. Importantly, under this program, entrepreneurship training would be facilitated through One-Stop Centers in collaboration with the Small Business Administration. Recent evidence from an evaluation of Project GATE found that this type of training increased by more than 50 percent the likelihood of starting a business that was still in operation five years later, as well as increasing participants' employment rates and earnings (Michaelides and Benus, 2010). Moreover, if the business fails, individuals would be allowed to go back to claim benefits where they left off.

Third, Reemployment NOW funds could be used to support older workers to make a transition into new industries and occupations. Many people who lose long-term jobs will have difficulty finding jobs that pay as much because they have skill sets that are not easily transferrable to other occupations or industries. Wage insurance would provide a fraction of the lost earnings to workers who go back to work in a lower-paying job and would be targeted to older workers who are more likely to suffer large salary reductions – and who might otherwise leave the workforce early,

Fourth, the states would have the option to use their share of the Reemployment NOW funding to provide a program of more intensive reemployment services to help long-term unemployed workers successfully return to work in good jobs. Finally, to support state creativity and flexibility, upon approval of the Secretary of Labor, states would be permitted to use Reemployment NOW funds to implement their own innovative strategies for connecting the long-term unemployed to employment opportunities.

In addition to the Reemployment Now reforms that build on the existing Federally-financed unemployment compensation programs, the President also has proposed a new Pathways Back to Work fund that would support training initiatives that have proved successful at helping youth and low-income adults to become employed.

It is important to note that a number of these reforms would benefit not just current unemployment compensation recipients but also those who have exhausted their unemployment compensation benefits. In particular, the more intensive reemployment services and innovative strategies to connect the long-term unemployed with work could be used by states to benefit both of these populations.

The American Jobs Act proposes in addition a change to the UI system that would help to prevent workers from losing their jobs in the first place. Short-Time Compensation (STC) programs, also known as worksharing, provide unemployment compensation for workers whose hours are reduced in lieu of a layoff. These programs allow employers to adjust payrolls and reduce labor costs in response to temporary declines in demand. For example, an employer could reduce the work hours of the entire workforce by 20 percent, essentially shortening the workweek from five days to four days, rather than temporarily reducing the workforce by 20 percent. Participating workers then would receive pro-rated UI benefits for the days they are not working. STC programs are on the books in 24 states (though not currently active in all of these states) and could be expanded under this proposal. The American Jobs Act would provide

administrative funds for these programs and also subsidize the benefits paid under the STC programs.

Many of these initiatives are designed specifically to help recipients of unemployment compensation move into new jobs. But while these initiatives are important – indeed, while they hold the potential for transforming our decades-old unemployment insurance system – they cannot be fully successful unless there are jobs for these workers to take. In addition to its UI-related provisions, the American Jobs Act includes other key provisions designed to create jobs. The Act would reduce payroll taxes, putting more money into the hands of American workers and employers; create tax incentives for employers to hire new workers or raise the wages of their existing workforce; and provide funding to rebuild our transportation infrastructure and modernize our schools. Because they would add jobs and help to ensure that qualified unemployment compensation recipients can find work, these measures are key complements to the EUC and EB extensions and unemployment insurance reforms considered in this report.

## Conclusion

Currently, some 13 million Americans are unemployed; almost 6 million of them have been unemployed for more than 26 weeks. Since Congress enacted the EUC program and offered 100 percent Federal funding of EB in June 2008, almost 18 million workers have been direct beneficiaries. These beneficiaries live in households that include more than 50 million people. In September 2011, President Obama asked Congress to extend the EUC program and provide 100 percent Federal financing of EB to continue to support the unemployed through the coming year. Historically, Congress has never failed to extend an extended benefits program when the unemployment rate was as high as it is today.

If Congress fails to act, the current programs will expire in the first week of January 2012. More than a million long-term unemployed workers will lose their unemployment benefits by the end of January, and millions more will have no benefits after their initial 26 weeks of UI payments are exhausted. Without an extension, five million additional workers will exhaust their benefits by the end of 2012.

Unemployment insurance provides income support for a vulnerable group after they have lost their jobs through no fault of their own, enables the unemployed to search for jobs that utilize their skills, encourages the long-term unemployed to remain in the workforce continuing to search for work, and helps to stabilize the aggregate economy by providing income support to a group with a high marginal propensity to consume. Extended benefits keep the long-term unemployed in the labor market and out of other government programs such as SNAP, TANF, and SSDI. Keeping unemployed workers engaged in the labor force will have long-term benefits to the economy when the labor market strengthens and the demand for labor increases.

Extending benefits also will provide needed support for the fragile economy. The CBO estimates that, because extending UI would put money in the hands of those who will spend it quickly, it is among the policies that would have the largest effects on output and employment.

CBO projects that extending unemployment benefits could, cumulatively in 2012 and 2013, raise output by up to \$84 billion and employment by as much as 836,000 jobs, compared to the levels of output and employment without an extension. Consistent with the CBO estimates, CEA projects that almost 500,000 jobs will be lost before the end of 2014 if the benefit programs are not extended.

Extending benefits is but one part of President Obama's American Jobs Act. Other provisions seek to reform our unemployment compensation system, making it more flexible and responsive to the needs of today's labor market. The Administration has proposed a series of unemployment compensation reforms as a part of its Reemployment NOW program in the American Jobs Act. These would ensure that all job seekers receive real job search assistance and support innovative programs that seek to keep workers out of unemployment or get them back into employment as quickly as possible.

**Appendix Table 1: Temporary Extended Benefit Programs**

<b>Name</b>	<b>Effective Dates</b>	<b>Weeks Payable</b>	<b>Financing</b>
Temporary Unemployment Compensation (TUC) PL 85-441	Reachback to 06/57 06/58 – 06/59	Up to 13	Interest free loans to 17 participating states
Temporary Extended Unemployment Compensation (TEUC) PL 87-6	Reachback to 06/60 04/61 – 06/62	Up to 13	FUTA increase: 0.4% in 1962 0.25% in 1963
Temporary Compensation (TC) PL 92-224 PL 92-329	No reachback 01/72 – 09/72 10/72 – 03/73	Up to 13 Up to 13	EUCA EUCA – FUTA increase 0.08% in 1973
Federal Supplemental Benefits (FSB) PL 93-572 PL 94-12 PL 94-45 PL 95-19	No reachback 01/75 – 03/75 03/75 – 09/75 10/75 – 12/75 01/76 – 03/77 04/77 – 01/78	EB effective in all states through 12/77 Up to 13 Up to 26 Up to 26 Up to 13 or 26 Up to 13, beginning 05/77	EUCA EUCA EUCA EUCA General Revenue
Federal Supplemental Compensation (FSC) PL 97-248 PL 97-424 PL 98-21 PL 98-118 PL 98-135 PL 99-15	Reachback to 06/82 09/82 – 12/82 01/83 – 03/83 04/83 – 09/83 09/83 – 10/83 10/83 – 03/85 04/85 – 06/85	Up to 6, 8, or 10 Up to 8, 10, 12, 14, or 16 Up to 8, 10, 12, or 14 Up to 8, 10, 12, or 14 Up to 8, 10, 12, or 14 Phaseout	General Revenue General Revenue General Revenue General Revenue General Revenue General Revenue
Emergency Unemployment Compensation (EUC) PL 102-164 PL 102-244 PL 102-318 PL 103-6 PL 103-152	Reachback to 02/91 11/91 – 02/92 02/92 – 06/92 06/92 – 09/93 09/93 – 10/93 10/93 – 02/94 02/94 – 04/94	Up to 13 or 20 Up to 26 or 33 Up to 20 or 26 Up to 10 or 15 Up to 7 or 13 Phaseout	EUCA EUCA General Revenue General Revenue EUCA EUCA
Temporary Extended Unemployment Compensation (TEUC) PL 107-147 PL 108-1 <sup>1</sup> PL 108-26	Reachback to 03/01 03/02 – 12/02 12/02 – 05/03 05/03 – 12/03 01/04 – 03/04	Up to 13 or 26 Up to 13 or 26 Up to 13 or 26 Phaseout	EUCA EUCA EUCA EUCA
Emergency Unemployment Compensation (EUC 08) PL 110-252 PL 110-449 PL 111-5 PL 111-92 PL 111-118 PL 111-144 PL 111-157 PL 111-205 PL 111-312	Reachback to 05/07 07/08 – 03/09 <sup>2</sup> 03/09 – 12/09 <sup>2</sup> 12/09 – 02/10 02/10 – 04/10 04/10 – 06/10 06/10 – 11/10 11/10 – 01/12	Up to 13 Up to 20 or 33 Up to 20 or 33 Up to 20, 34, 47, or 53 Up to 20, 34, 47, or 53 Up to 20, 34, 47, or 53 Up to 20, 34, 47, or 53 Up to 20, 34, 47, or 53 Up to 20, 34, 47, or 53	EUCA EUCA General Revenue General Revenue General Revenue General Revenue General Revenue General Revenue General Revenue

**FUTA** = Federal Unemployment Tax Act **EUCA** = Extended Unemployment Compensation Account

<sup>1</sup> PL 108-11, which provided additional benefits (up to 39 or 52 weeks) to displaced airline and related workers under the TEUC-A program, is not included as it did not change the basic TEUC program.

<sup>2</sup> Expanded the number of weeks payable, but did not change effective dates

Source: Department of Labor



**Appendix Table 2: Maximum Weeks and State Eligibility for Regular UI, EUC, and EB**

Coverage	Program Length (weeks)	States Eligible
UI	20 to 26 <sup>1</sup>	all
EUC Tier 1	20	all
EUC Tier 2	14	all
EUC Tier 3 <sup>2</sup>	13	state unemployment rate > 6%
EUC Tier 4 <sup>3</sup>	6	state unemployment rate > 8.5%
EB <sup>4</sup> Option 1	13	state unemployment rate > 6.5% and higher than in at least one of the last three years
EB <sup>4</sup> Option 2	20	state unemployment rate > 8% and higher than in at least one of the last three years
<p>1. Missouri and South Carolina offer 20 weeks of UI benefits, Arkansas offers 25 and all other states offer 26.</p> <p>2. As of November 2011, tier 3 is triggered on in 43 states, the District of Columbia, Puerto Rico, and the Virgin Islands.</p> <p>3. As of November 2011, tier 4 is triggered on in 22 states, the District of Columbia, and Puerto Rico, and the Virgin Islands.</p> <p>4. The EB triggers reported are the current optional total unemployment rate (TUR) thresholds; the standard insured unemployment rate (IUR) triggers are not currently relevant insofar as they would not qualify any state for EB. States are either in option 1 or option 2 (or neither); recipients do not move sequentially through these options. States also must have in place a law that triggers EB on under the specified conditions. As of November 2011, EB is triggered on in 33 states plus the District of Columbia, and Puerto Rico.</p>		

Source: Department of Labor

**Appendix Table 3: Average Weekly UI Benefits, Maximum Weekly UI Benefits and Average UI Replacement Rate as of September 2010, by State**

<b>State</b>	<b>Avg. Wkly Benefit</b>	<b>Maximum Benefit</b>	<b>Replacement rate (CY 2010)</b>
Alabama	\$201	\$265	40.8%
Alaska	\$224	\$442	33.0%
Arizona	\$214	\$240	40.5%
Arkansas	\$278	\$451	51.3%
California	\$315	\$450	44.8%
Colorado	\$335	\$489	50.4%
Connecticut	\$332	\$630	44.2%
Delaware	\$263	\$330	42.0%
District of Columbia	\$285	\$359	40.9%
Florida	\$225	\$275	41.0%
Georgia	\$231	\$330	45.7%
Hawaii	\$425	\$549	56.5%
Idaho	\$260	\$336	48.1%
Illinois	\$322	\$531	38.6%
Indiana	\$296	\$390	52.5%
Iowa	\$290	\$461	53.3%
Kansas	\$320	\$435	52.7%
Kentucky	\$306	\$415	49.5%
Louisiana	\$252	\$247	41.6%
Maine	\$266	\$533	50.1%
Maryland	\$308	\$430	47.3%
Massachusetts	\$392	\$937	46.0%
Michigan	\$284	\$362	49.3%
Minnesota	\$337	\$578	47.2%
Mississippi	\$186	\$235	41.9%
Missouri	\$238	\$320	41.3%
Montana	\$261	\$421	47.1%
Nebraska	\$236	\$348	44.6%
Nevada	\$311	\$398	46.3%
New Hampshire	\$291	\$427	41.8%
New Jersey	\$375	\$598	51.4%
New Mexico	\$309	\$486	55.8%
New York	\$301	\$405	41.7%
North Carolina	\$284	\$506	51.9%
North Dakota	\$278	\$442	47.8%
Ohio	\$291	\$524	44.3%
Oklahoma	\$287	\$358	50.6%
Oregon	\$305	\$496	45.4%
Pennsylvania	\$329	\$581	53.3%
Puerto Rico	\$114	\$133	36.2%
Rhode Island	\$366	\$688	56.2%
South Carolina	\$232	\$326	46.5%
South Dakota	\$239	\$314	47.4%
Tennessee	\$224	\$325	41.3%
Texas	\$274	\$415	50.4%
Utah	\$306	\$452	46.2%
Vermont	\$299	\$425	50.2%
Virgin Islands	\$334	\$470	N/A
Virginia	\$272	\$378	50.2%
Washington	\$379	\$570	51.3%
West Virginia	\$256	\$424	40.7%
Wisconsin	\$258	\$363	46.5%
Wyoming	\$305	\$430	51.4%
<b>US Average</b>	<b>\$293</b>	<b>\$445</b>	<b>46.17%</b>

Source: Department of Labor

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