BEA BRIEFING

# Analyzing Federal Programs Using BEA Statistics

## A Look at Unemployment Insurance Benefits Payments

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THE NATIONAL income and product accounts (NIPAs) provide a consistent and comprehensive picture of the nation's economy; as a result, they provide a useful tool for analyzing the economic effects of recent federal legislation designed to stabilize and stimulate the economy.[1] The effects of this legislation are apparent in many components of the federal sector of the NIPAs.[2] For example, reduced income tax rates and expanded tax credits lowered personal current tax receipts, a reduction in the social security tax rate lowered contributions for government social insurance, assistance to states increased grants-in-aid to state and local governments, and funding for some Recovery Act programs boosted federal consumption expenditures and gross investment.[3]

As a result of the recent economic downturn, government social benefits paid to persons increased significantly (table 1). Social benefit payments are current transfers to persons to provide for needs that arise from circumstances such as sickness, unemployment, retirement, and poverty. The majority of total government social benefit payments consists of social security, Medicare, and Medicaid benefits. In the NIPAs, government social benefit payments are classified as current expenditures in the government sector and as personal current transfer receipts in the household sector. As a result, all else being equal, an increase in these payments reduces net government saving and raises personal income.[4]

Total government social benefits as a share of personal income increased from 14.2 percent in the first quarter of 2008 to 18.3 percent in the fourth quarter of 2010 (chart 1). During this period, personal income increased $162 billion. Government social benefits increased $540 billion while personal income excluding government social benefits decreased $378 billion (primarily because of decreases in personal interest income

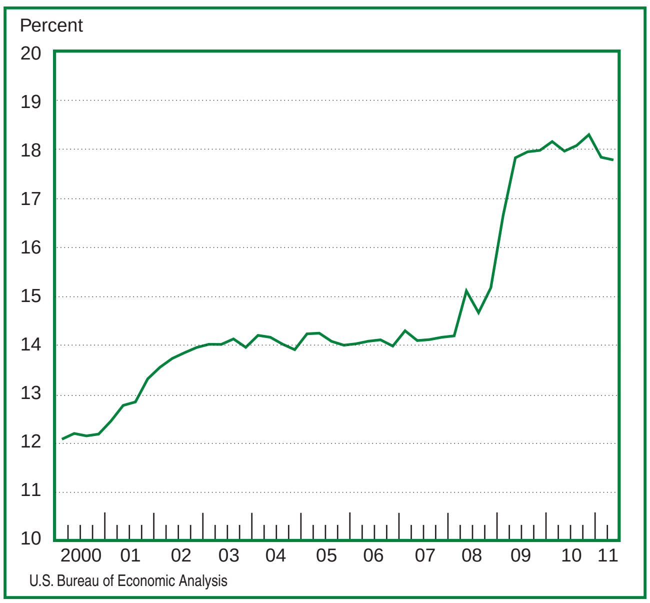
1. A few of the more notable laws enacted are the Economic Stimulus Act of 2008, the Housing and Economic Recovery Act of 2008, the American Recovery and Reinvestment Act of 2009 (ARRA), the Consumer Assistance to Recycle and Save Act of 2009 ("cash for clunkers"), and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.
2. Federal sector estimates are presented in NIPA table 3.2.
3. For more information about the government sector in the NIPAs, see Bruce E. Baker and Pamela A. Kelly, "A Primer on BEA's Government Accounts," Survey of Current Business 88 (March 2008): 29–38.
4. Government social benefits to persons displayed as government current expenditures are presented on line 19 of NIPA table 3.1. Government social benefits to persons displayed as personal current transfer receipts are presented on line 17 of NIPA table 2.1 and NIPA table 2.6. Annual and quarterly estimates of personal income and its disposition are presented in NIPA table 2.1, and monthly estimates are presented in NIPA table 2.6.

**Table 1. Government Social Benefits**

[Billions of dollars]

| | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Personal Income | 11,912 | 12,460 | 11,930 | 12,374 |
| *Of which:* | | | | |
| Government social benefits to persons | 1,688 | 1,842 | 2,100 | 2,243 |
| Social security | 576 | 606 | 664 | 690 |
| Medicare | 428 | 462 | 494 | 518 |
| Medicaid | 324 | 338 | 374 | 405 |
| Unemployment insurance | 33 | 51 | 131 | 139 |
| State | 32 | 43 | 85 | 67 |
| Railroad employees | 0 | 0 | 0 | 0 |
| Federal employees | 1 | 1 | 1 | 2 |
| Emergency unemployment compensation | 0 | 8 | 44 | 70 |
| Veterans benefits | 42 | 45 | 51 | 58 |
| Other | 286 | 341 | 385 | 432 |

**Chart 1. Government Social Benefits as a Share of Personal Income**



and in private wages and salaries). The increase in government social benefits resulted from increased rates of participation in, and expanded benefits paid for, existing social benefits programs as well as the creation of new social benefits programs.[5]

The growth in government social benefits from the first quarter of 2008 to the fourth quarter of 2010 partly resulted from notable increases in unemployment insurance benefits.[6] During this period, unemployment insurance benefits more than tripled, accounting for 17 percent of the increase in government social benefits (chart 2). The increase in unemployment benefits primarily reflected an increase in the number of people receiving unemployment benefits, from 3.4 million in January 2008 to 11.1 million in March 2010.[7]

The structure of today's unemployment insurance programs was first defined by the Social Security Act of 1935. This act established a uniform national tax on payrolls of industrial and commercial employers that met certain employment criteria. Over time, several pieces of legislation have greatly expanded the types of workers covered under the state unemployment programs and established coverage for federal civilian employees and ex-service members that is paid for by the federal government but administered by the states.[8] Taxes collected to fund unemployment insurance programs are held in the Unemployment Trust Fund of the United States Treasury, and in the NIPAs, these taxes are treated as contributions for government social insurance.

In addition to the regular state unemployment insurance programs, an Extended Benefits program was created for people who exhaust their regular state benefits during periods of high unemployment. The costs of this program are usually funded equally by the federal government and by state governments. However, the American Recovery and Reinvestment Act of 2009 (ARRA) temporarily increased federal funding to cover 100 percent of Extended Benefits and the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 extended 100 percent federal funding of these benefits to January 4, 2012. Separate from the permanent Extended Benefits program, at times the federal government has funded extensions of unemployment compensation benefits, the most recent of which will be discussed in detail later in this article. In the NIPAs, unemployment insurance benefits paid to individuals are classified as social benefit payments regardless of whether they are financed by the

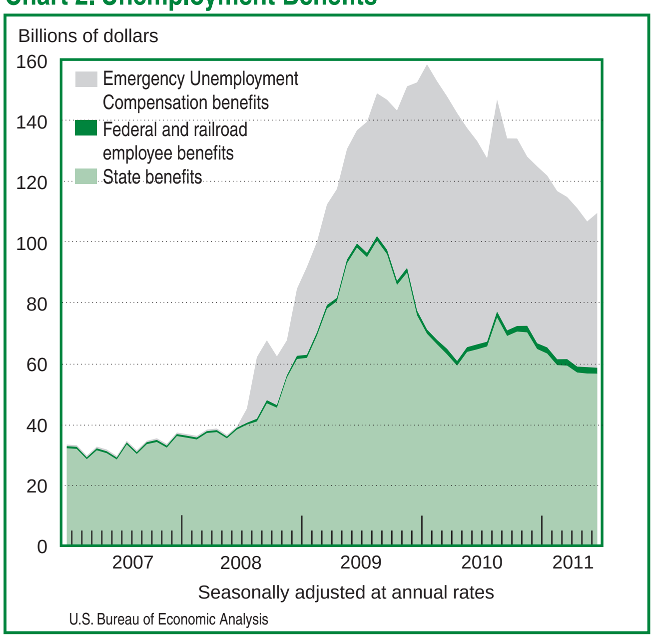
5. Annual estimates of specific types of federal and state and local government social benefits are presented in NIPA table 3.12, and quarterly estimates are presented in underlying table 3.12U.

6. The NIPA estimates of unemployment benefits include regular or extended unemployment benefits, emergency unemployment benefits, unemployment benefits for former federal government employees, and additional benefits offered by some states. They exclude benefits for Short Time Compensation, Trade Readjustment Allowance, or Disaster Unemployment Assistance. They also exclude Additional Unemployment Benefits established by the ARRA that temporarily increased benefits $25 per week because these payments were not made from the unemployment trust fund; these payments are classified as "other" social benefits rather than as unemployment insurance.

7. The estimates of the number of people receiving unemployment benefits are based on data from the Department of Labor's Unemployment Insurance Weekly Claims Reports. See www.ows.doleta.gov/unemploy.

8. For more information, see "Unemployment Insurance Program Description and Legislative History," in *Annual Statistical Supplement, 2010* (Washington, DC: Social Security Administration); www.ssa.gov.

**Chart 2. Unemployment Benefits**




### Change in Methodology

BEA's estimates of Emergency Unemployment Compensation (EUC) benefits are based on monthly data for EUC benefit payments that are published by the Employment and Training Administration, which is part of the Department of Labor. Before this year's annual revision of the NIPAs, these cash-basis data were incorporated without adjustment to derive BEA's estimates of monthly benefit payments. However, an analysis of the EUC data by BEA indicated that some of the volatility in the monthly pattern of payments reflected calendar effects on the timing and distribution of payments.

As part of the 2011 annual NIPA revision, BEA introduced payment-day and length-of-month adjustments to the monthly EUC data. As a result, the estimates more accurately reflect the number of unemployment insurance recipients and the timing of legislative extensions of the EUC program.

unemployment trust fund or by federal appropriations.

Regular unemployment benefits are distributed by each state, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands to workers who have become unemployed and are eligible to receive benefits.[9] These benefits are usually available for a maximum of 26 weeks. During periods of high unemployment, workers who exhaust regular unemployment insurance benefits may be eligible for the Extended Benefits program that provides up to 20 additional weeks of benefits in most states. Both regular and extended unemployment benefits are included in state unemployment benefits (line 8) in NIPA tables 3.12 and 3.12U.

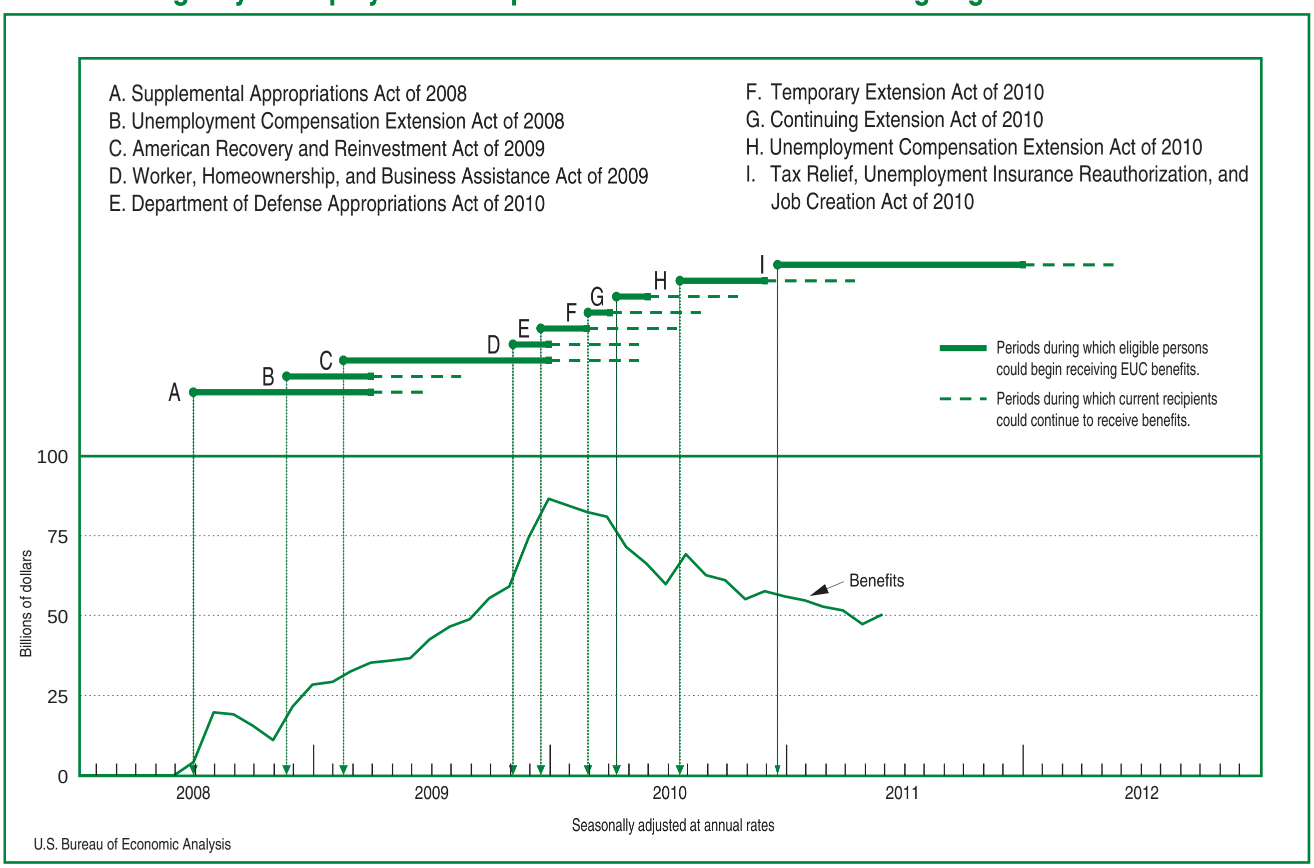
During the recent recession, the federal government established a temporary program to provide additional weeks of unemployment benefits to those who were persistently unemployed. The Emergency Unemployment Compensation (EUC) program was established on June 30, 2008, as part of the Supplemental Appropriations Act of 2008. Under this program, the federal government authorized an additional 13 weeks of unemployment benefit payments to eligible individuals who had exhausted their 26 weeks of regular unemployment benefits. Benefits under the EUC program are included in emergency unemployment compensation (line 11) in NIPA tables 3.12 and 3.12U.

Subsequent legislation expanded and extended provisions of the EUC program. On November 21, 2008, the Unemployment Compensation Extension Act of 2008 expanded the program to cover 20 weeks of benefits and established a second tier of benefits for eligible individuals in states experiencing especially high rates of unemployment. On November 6, 2009, the Worker, Homeownership, and Business Assistance Act of 2009 expanded the period of unemployment benefits in the second tier of emergency benefits from 13 weeks to 14 weeks and broadened it to cover eligible individuals in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands. The 2009 act also established two additional tiers of benefits: a third tier of 13 weeks, and a fourth tier of 6 weeks for individuals in states experiencing especially high rates of unemployment.[10] As a result, the amounts of unemployment benefits paid accelerated in the months following each expansion of the EUC program (chart 3).

9. The determination of eligibility for benefits is made by the state under its laws and applicable federal laws.

10. An individual who is eligible for all four tiers could receive up to 53 weeks of EUC benefits. Combined with regular and extended benefits, this individual could receive a total of up to 99 weeks of unemployment benefits.

## Chart 3. Emergency Unemployment Compensation Timeline of Authorizing Legislation and Benefits Paid



The EUC program was initially scheduled to expire on March 31, 2009, but the program has been extended six times.[11] When funding for EUC benefits expires, an individual receiving benefits continues to receive those benefits until he or she has reached the total number of weeks allowed for their current tier (unless that person becomes ineligible).[12] However, that individual can no longer apply to move on to the next tier of benefits unless funding is restored.

In 2010, on four occasions, legislation to extend funding for EUC benefits was not passed until after the previous funding had already expired. During these unfunded periods, eligible individuals could not begin receiving emergency benefits or move from one tier of benefits to the next. These gaps in funding lasted from February 28 to March 2, from April 5 to April 15, from June 2 to July 22, and from November 30 to December 20. The 7-week gap during June and July led to a temporary drop in EUC benefits in July 2010 followed by a spike in benefits in August 2010 as states retroactively distributed benefits that their unemployed citizens had not received in July. This pattern of benefits can be seen in the monthly estimates of government social benefits to persons in NIPA table 2.6 (line 17).

The various tiers and the frequent extensions of funding for unemployment benefits has created different "cohorts" of individuals who receive EUC benefits that were authorized by different pieces of legislation. In general, the available source data do not allow BEA to estimate the total amount of EUC benefits that are attributable to specific pieces of legislation. However, because of the extraordinary financial reporting requirements of ARRA, BEA is able to estimate the portion of EUC benefits funded by the act; ARRA EUC funding was greatest in the third and fourth quarters of 2009 (chart 4). Total funding for unemployment benefits through ARRA is also shown in BEA's ARRA impact table.[13]

11. Additional funding was made available to allow new entrants into the program through December 31, 2009, by the American Recovery and Reinvestment Act of 2009; through February 28, 2010, by the Department of Defense Appropriations Act of 2010; through April 5, 2010, by the Temporary Extension Act of 2010; through June 2, 2010, by the Continuing Extension Act of 2010; through November 30, 2010, by the Unemployment Compensation Extension Act of 2010; and through January 3, 2012, by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010.

12. Individuals can become ineligible for EUC benefits if, for example, they obtain a job or if a state's unemployment situation improves. The EUC program has state unemployment rate criteria for each tier of EUC benefits. For example, to be eligible for the fourth tier of benefits, the unemployment rate must be at least 8.5 percent in that state, and if the rate drops below 8.5 percent, individuals in that state cannot receive benefits.

13. See "Effect of the ARRA on Selected Federal Government Sector Transactions" at www.bea.gov/recovery. Spending associated with unemployment—extended benefits, EUC benefits, and a $25 per week increase in regular unemployment benefits that was paid through December 11, 2010— is displayed on line 14 of this table. For additional information, see "American Recovery and Reinvestment Act of 2009," SURVEY 89 (December 2009): 14.

**Chart 4. Quarterly Emergency Unemployment Compensation: Sources of Funding**