Section 7. Unemployment Compensation

OVERVIEW

The Social Security Act of 1935 (Public Law 74-271) created the Federal-State unemployment compensation (UC) system. It 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 unemployment compensation, 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 Federal tax rate that generally applies. This Federal revenue

finances
administration of the system, half of the Federal-State extended benefits program, and a Federal account for State loans. The States are supposed to use the revenue turned back
to them by the 5.4 percent credit to finance their regular State programs and half of the Federal-State extended benefits
program.

In 1976, Congress passed a temporary surtax of 0.2 percent
of taxable wages to be added to the permanent FUTA tax rate (Public Law 94-566). Thus, the current 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent,
and a temporary surtax rate of 0.2 percent. Under the Omnibus
Budget Reconciliation Act of 1987 (Public Law 100-203), the 0.2
percent surtax was extended for 3 years through 1990. The Omnibus Budget Reconciliation Act of 1990 (Public Law 101-508)
extended it again through 1995. The Emergency Unemployment Compensation Act of 1991 (Public Law 102-164) extended the temporary surtax through 1996. Most recently, the Omnibus Budget Reconciliation Act of 1993 (Public Law 103-66) extended
the surtax through 1998.

TABLE 7-1.--UNEMPLOYMENT COMPENSATION PROGRAM STATISTICS

Fiscal years

	1983	1984	1985	1987	1988	1989	1990	1991	1992	1993	1994 (estimated)	1995 (projected) \1\
Total civilian unemployment rate (percent).......	10.1	7.8	7.2	6.4	5.6	5.3	5.4	6.5	7.3	7.0	7.0	6.7
Insured unemployment rate (percent)\2\...........	4.3	2.9	2.9	2.5	2.2	2.1	2.3	3.1	3.1	2.7	2.7	2.5
Coverage (millions of individuals)...............	86.3	89.9	93.5	98.0	101.2	104.3	106.1	105.1	104.9	106.3	108.1	110.0
Average weekly benefit amount (current dollars)..	120	119	123	134	140	145	154	163	167	172	177	182
In 1994 dollars\3\...........................	179	171	170	176	176	174	176	178	177	177	177	177
State unemployment compensation:												
Beneficiaries (millions of individuals)........	9.9	7.6	8.4	7.5	6.8	7.0	8.1	10.2	9.6	7.8	8.5	8.5
Regular benefit exhaustions (millions of individuals)..................................	4.6	2.8	2.5	2.5	1.9	1.9	2.2	3.2	3.9	3.3	2.7	2.5
Regular benefits paid (billions of dollars)....												

20.8 13.3 14.3 15.0 13.2 13.5
16.8 24.4 25.6 22.1 22.7
22.6
Extended benefits (State share: billions of
dollars)......................................
1.21 .03 .03 .04 .04
(\6\) .03 .01 .02 .
00 .05 .07
State tax collections (billions of dollars)....
14.4 19.0 20.0 19.1 18.3 17.3
16.0 15.3 17.6 21.0 21.6
22.0
State trust fund impact (income-outlays:
billions of dollars)\4\.......................
-7.62 +5.70 +5.65 +4.11 +5.12
+3.80 -.88 -9.13 -8.03 -1.11
-1.22 -.61
Federal unemployment compensation accounts:
Federal tax collections (billions of
dollars)\5\...................................
3.58 5.02 4.44 5.08 5.50 4.45
5.36 5.33 5.41 \7\4.23 5.44
5.54
Outlays: Federal extended benefits share plus
Federal supplemental benefits (billions of
dollars)......................................
6.80 3.01 1.27 .04 .04
(\6\) .03 .01 11.15 13.17
3.73 .74

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State administrative costs (billions of dollars):
Unemployment Insurance Service.................
1.70 1.58 1.58 1.56 1.61 1.71
1.74 1.95 2.49 2.54 2.47
2.40
Employment Service............................. .
72 .76 .92 .90 .95 1.00
1.01 1.05 1.02 1.08 1.09

1.10

Total administrative costs....................	2.42	2.31	2.50	2.46	2.56	2.71	2.75	3.00	3.51	3.62	3.56	3.50

\1\Based on President Clinton's 1995 budget. \2\The average number of workers claiming State unemployment compensation benefits as a percent of all workers covered. \3\Adjusted using CPI-U. \4\Excludes interest earned. \5\Net of reduced credits. \6\Less than $5 million. \7\Reflects a book adjustment of minus $967 million.

Source: Office of Research, Legislation and Program Policies/ETA/UIS/DOL, Division of Actuarial Services.

The Federal Unemployment Tax Act (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.

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 for a certain amount of wages. About 109 million individuals are covered by UC. This is 98 percent of all wage and salary workers or 90 percent of all employed persons.

The Federal Unemployment Tax Act (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 following 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. In addition, section 3306(c)(1) of FUTA exempts certain alien farmworkers until January 1995; 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 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.

TABLE 7-2.--INSURED UNEMPLOYMENT AS A PERCENT OF TOTAL UNEMPLOYMENT

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	55	40	43	44	40	42	48	60	50
1975.................	66	73	77	81	79	72	77	79	73	74	76	80	76
1976.................	78	75	76	73	72	58	66	66	60	59	60	63	67
1977.................	67	66	66	66	59	46	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	37	38	40	49	42
1980.................	52	51	53	52	49	45	49	49	55	49	50	54	50
1981.................	54	50	48	46	40	35	37	37	36	34	38	41	41
1982.................	47	44	48	49	45	40	42	42	43	48	49	47	45
1983.................	50	53	51	53	53	40	39	36	34	33	39	41	44
1984.................	40	38	38	36	34	30	31	31	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

Source: USDOL/ETA/UIS, Division of Actuarial Services.

States may cover certain employment not covered by FUTA, but most States have not expanded FUTA coverage significantly. The excluded coverage involves: (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.

The number of covered workers receiving unemployment compensation

Although the UC system covers 90 percent of all employed persons, table 7-2 shows that on average only 48 percent of unemployed persons were receiving UC benefits in 1993. 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 October 1987. Despite high unemployment during the early 1980's, there was a downward trend in the proportion of unemployed persons receiving regular State benefits until the mid-1980's. The proportion receiving UC rose sharply in December 1991 due to the temporary EUC program. The yearly average exceeded 50 percent in 1992 for the first time since 1980.

In May 1988, Mathematica Policy Research (MPR), under contract to the U.S. Department of Labor, released a study on the decline in the proportion of unemployed receiving benefits during the 1980's. This analysis did not find a single cause for the decline but instead found statistical evidence that the following factors contributed to the decline in UC claims (the figures in parentheses show the share of the decline attributed to each factor):

- --the decline in the proportion of unemployed from manufacturing industries (4-18 percent);
- --geographic shifts in composition of the unemployed among regions of the country (16 percent);
- --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 nonmonetary eligibility requirements (3-11 percent);
- --changes in Federal policy such as partial taxation of UC benefits (11-16 percent);
- --changes in unemployment as measured by the CPS (1-12 percent).

The group of unemployed most likely to be insured are job losers. Chart 7-1 shows the number of unemployment compensation claimants measured as a percentage of the number of job losers. This coverage ratio remained fairly 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.

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 has 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.

CHART 7-1. RATIO OF INSURED UNEMPLOYMENT TO JOB LOSERS (YEARLY AVERAGES), 1968-93

<CHART 7-1>

Note.-Insured unemployment data includes the Virgin Islands and Puerto Rico, but the data for job losers do not include these territories.

Source: Chart prepared by CRS based on data from the Economic Report of the President, 1994, and U.S. Department of Labor.

Eligibility

States have developed diverse and complex methods for determining UC eligibility. In general there are three major factors: (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 7-3 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 (48) define as the first 4 of the last 5 completed calendar quarters before the unemployed person claims benefits.

Most States require employment in at least 2 calendar quarters of the base year. Qualifying wages for the minimum weekly benefit amount vary from $130 in Hawaii to $5,400 in Montana.

For the maximum weekly benefit amount, the range is $4,650 in Nebraska to $27,144 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 $30,600 in Washington.

TABLE 7-3.--MONETARY QUALIFICATION REQUIREMENTS FOR MINIMUM AND MAXIMUM WEEKLY BENEFIT AMOUNTS AND MAXIMUM TOTAL POTENTIAL BENEFITS IN 1994\1\

State	Required total earnings in base year			
	For minimum	For maximum	For maximum potential	Minimum work in base year

	weekly benefit	weekly benefit	benefits\2\	(quarters)\3\
Alabama	$1,032	$7,896	$12,869	2Q
Alaska	1,000	22,250	22,250	2Q
Arizona	1,500	6,919	14,429	2Q
Arkansas	1,215	13,462	19,812	2Q
California	1,125	9,542	11,958	....
Colorado	1,000	27,144	27,144	....
Connecticut	600	12,680	12,680	2Q
Delaware	966	12,190	12,190	....
District of Columbia	1,950	13,065	17,420	2Q
Florida	400	10,000	26,000	2Q
Georgia	1,350	9,250	19,238	2Q
Hawaii	130	8,762	8,762	2Q
Idaho	1,430	7,638	19,858	2Q
Illinois	1,600	12,285	12,285	2Q
Indiana	2,500	5,000	15,786	2Q
Iowa	1,090	6,066	16,458	2Q

Kansas..
1,860 7,500 19,500 2Q
Kentucky..
1,500 19,283 19,283 2Q
Louisiana...
1,200 6,788 17,428 2Q
Maine...
2,287 6,643 15,444 2Q

Maryland..
900 8,028 8,028 2Q
Massachusetts...
2,400 9,750 27,083 ....
Michigan..
1,340 11,320 19,810 2Q
Minnesota...
1,250 9,912 23,790 2Q
Mississippi...
1,200 6,600 12,870 2Q

Missouri..
1,500 5,833 13,650 2Q
Montana...
5,400 21,700 21,700 2Q
Nebraska..
1,200 4,650 12,009 2Q
Nevada..
600 8,625 17,940 2Q
New Hampshire...
2,800 24,500 24,500 2Q

New Jersey..
2,460 11,567 20,242 2Q
New Mexico..
1,285 6,402 8,537 2Q
New York..
1,600 11,980 11,980 2Q
North Carolina..
2,324 14,664 21,996 2Q
North Dakota..
2,795 15,080 19,302 2Q

Ohio	1,702	9,520	12,376	2Q
Oklahoma	4,160	8,888	15,405	2Q
Oregon	1,000	22,720	22,720	2Q
Pennsylvania	1,320	13,080	13,080	2Q
Puerto Rico	280	5,320	5,320	2Q
Rhode Island	1,780	10,065	22,389	2Q
South Carolina	900	7,917	15,834	2Q
South Dakota	1,288	7,728	13,104	2Q
Tennessee	1,560	9,620	19,240	2Q
Texas	1,480	9,065	23,589	2Q
Utah	1,900	9,672	23,881	2Q
Vermont	1,628	9,405	9,405	....
Virginia	3,250	10,400	20,800	2Q
Virgin Islands	1,287	8,229	16,458	2Q
Washington	1,825	8,500	30,600	....
West Virginia	2,200	26,500	26,500	2Q
Wisconsin	1,380	7,290	15,795	2Q
Wyoming	1,650	8,700	18,333	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 2 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.

Since the beginning of 1993, 12 States increased the required earnings in the base year to qualify for the minimum weekly benefit amount. Thirty-four States increased and one decreased the qualification requirement for the maximum weekly benefit amount. Thirty-six States increased their qualification requirements for maximum potential benefits.

Ability to work and availability for work

All State laws provide that a claimant must be: (1) able to work; and (2) 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 often 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.

``Suitable work'' is generally work in a claimant's customary occupation which meets certain health, safety, moral, and labor standards. 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 benefit program to any individual who fails to accept any 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 or she is referred by the State agency, if the work is within the person's capabilities, pays wages equal to the highest of the Federal or any State or local minimum wage, 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 is consistent with the State definition of ``suitable'' work in other respects. Public Law 102-318 suspended these provisions, however, from March 7, 1993, until January 1, 1995. In addition, the Advisory Council on Unemployment Compensation recommended the repeal of these provisions in its interim report of February 1994.

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 his or her 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 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; (3) if, as a condition of being employed, the individual would be required to join a company union or to resign from or refrain from joining any bona fide labor organization. Further, 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 legally admitted 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 16.1 million ``monetarily eligible'' initial UC claims in 1993, 23.7 percent were disqualified. This figure subdivides into 4.7 percent not being able to work or available for work, 6.5 percent voluntarily leaving a job without good cause, 4.2 percent being fired for misconduct on the job, 0.2 percent refusing suitable work, and 8.0 percent committing other disqualifying acts. The total disqualification rate ranged from a low of 8.8 percent in Tennessee to a high of 117.9 percent in Nebraska, with Colorado the next highest at 68.9 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 will be denied to an individual for the entire spell of his or her unemployment if he or she 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 these benefits, however, if the disqualification were lifted because he or she became reemployed and met the work or wage requirement of State law. Public Law 102-318 suspended these provisions, however, from March 7, 1993, until January 1, 1995. The Advisory Council on Unemployment Compensation is required to study these provisions and make recommendations by February 1, 1995.

Ex-service members

The Emergency Unemployment Compensation Act of 1991 (Public Law 102-164) provided that ex-members of the military are

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.

The Omnibus Budget Reconciliation Act of 1981 (Public Law
97-35) limited unemployment benefits to individuals who: (1)
had 365 or more days of military service; (2) were discharged
or released under honorable conditions; (3) did not resign or
voluntarily leave the service (i.e., they were not eligible for
reenlistment); and (4) were not released or discharged ``for
cause'' as defined by the Department of Defense. The
requirements applied to individuals who left Federal military
service on or after July 1, 1981, but only for weeks of
unemployment that began on or after August 13, 1981, the date
of enactment of Public Law 97-35.

The Miscellaneous Revenue Act of 1982 (Public Law 97-362)
modified the above eligibility requirements for ex-service
members. Federal unemployment benefits became payable to
unemployed ex-service members who: (1) were separated under
honorable conditions (and, in the case of officers, did not
resign for the good of the service); and (2) had completed the
first full term of active service they agreed to serve. Ex-
service members who were separated prior to completing their
first full term of active service could qualify for
unemployment compensation benefits if they separated under
honorable conditions: (1) for the convenience of the Government

under an early release program; (2) because of medical disqualification, pregnancy, parenthood, or any service-incurred injury or disability; (3) because of hardship; or (4) if they had served for 365 continuous days, because of personality disorder or inaptitude. In addition to these eligibility requirements, ex-service members had to wait 4 weeks from the date of their separation from the service before they could receive benefits. The maximum number of weeks of benefits an ex-service member could receive based on employment in the military was 13.

Pension offset

The Unemployment Compensation Amendments of 1976 (Public Law 94-566) required all States to reduce an individual's unemployment compensation benefits by the amount of any governmental or private pension or retirement pay received by the individual. Public Law 96-364 modified this offset requirement.

Under current law, 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 unemployment compensation received by the individual. However, the offset must be applied to Social Security benefits without regard to whether base period employment contributed to that entitlement.

States are allowed to reduce the amount of the offset by an amount consistent with any contribution the employee made toward the pension. For example, this allows States to limit the offset to one-half of the amount of a social security pension received by an individual who qualifies for unemployment benefits.

Taxation of unemployment insurance benefits

The Tax Reform Act of 1986 (Public Law 99-514) made all unemployment compensation taxable after December 31, 1986. The Revenue Act of 1978 first made a portion of unemployment compensation benefits taxable beginning January 1, 1979. Generally, the unemployment insurance benefits subject to Federal tax under the 1978 law were equal to the lower of: (1) the amount of unemployment compensation, or (2) one-half the excess of adjusted gross income, unemployment insurance payments, and excludable disability income over $20,000 for single taxpayers and over $25,000 for married taxpayers filing jointly. Beginning January 1, 1983, these amounts were changed to $12,000 for single taxpayers and $18,000 for married taxpayers filing jointly.

Table 7-4 illustrates the effect of taxing all unemployment compensation benefits for calendar year 1995. This table understates the impact of taxation because total unemployment compensation benefits reported on the current population survey (CPS) are equal to only about two-thirds of benefits actually paid out. Because of underreporting of unemployment compensation benefits in the CPS and underestimates of benefits paid in 1995, taxes collected on benefits probably will be about twice as high as the $3.1 billion in table 7-4.

TABLE 7-4.--ESTIMATED EFFECT OF TAXING UNEMPLOYMENT COMPENSATION BENEFITS, BY INCOME CLASS, 1995

Level of individual or couple income\1\	Number of recipients of unemployment compensation (in thousands)	Number affected by taxation of benefits (in thousands)	Percentage 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	1,335	667	50.0	2,056	142	6.9
$10,000 to $15,000	978	809	82.7	1,761	211	12.0
$15,000 to $20,000	1,182	1,122	94.9	2,075	347	16.7
$20,000 to $25,000	948	925	97.6	1,939	374	19.3
$25,000 to $30,000	863	848	98.3	1,804	344	19.1
$30,000 to $40,000	1,324	1,307	98.7	2,654	456	17.2
$40,000 to $50,000	1,041	1,041	100.0	1,919	329	17.1
$50,000 to $100,000	1,559					

	1,559	100.0	3,344	760	22.7
At least $100,000	168				
	163	97.1	546	159	29.1
All	9,399				
	8,438	89.8	18,052	3,122	17.3

\1\Cash income (based on income of tax filing unit) plus capital gains realizations.

Note.--Aggregate unemployment compensation benefits on the CPS are equal to only about two-thirds of total benefits paid out. The number of recipients is also understated on the CPS.

Source: Congressional Budget Office, based on data from the Current Population Survey (CPS).

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 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 7 weeks is available under a new optional trigger enacted in 1992, but only 8 States have adopted this trigger as of June 30, 1994. The temporary emergency unemployment compensation program, which operated through April 30, 1994, provided either 7 or 13 additional weeks of benefits. A State offering this program could not have offered the permanent extended benefit program simultaneously, however.

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. The State-determined maximum weekly benefit amounts generally vary between 50 and 70 percent of the average weekly covered wage in each State. 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 percent in the quarter ending September 30, 1993.

Table 7-5 shows the minimum and maximum weekly benefit amounts and potential duration for each State program. In fiscal year 1993, the national average weekly benefit amount was $173 and the average duration was 15.6 weeks, making the average total benefits $2,699. The minimum weekly benefit amounts for 1994 vary from $5 in Hawaii to $73 in Washington. The maximum weekly benefit amounts range from $133 in Puerto Rico to $487 in Massachusetts.

TABLE 7-5.--AMOUNT AND DURATION OF WEEKLY BENEFITS FOR TOTAL UNEMPLOYMENT UNDER THE REGULAR STATE PROGRAMS

1994

weekly benefit 1993 1994 potential

amount\1\ average duration (weeks) 1993
State
---------------------- weekly ------------------- average

benefit Maximum duration

Minimum Maximum Minimum (weeks)

Alabama	$22	$165	$126	15	26	9
Alaska	44-68	212-284	161	16	26	17
Arizona	40	185	147	12	26	16
Arkansas	45	254	148	9	26	13
California	40	230	152	14	26	18
Colorado	25	261	183	13	26	13
Connecticut	15-22	317-367	210	26	26	16
Delaware	20	265	173	24	26	14
District of Columbia	50	335	215	20	26	22
Florida	10	250	165	10	26	15
Georgia	37	185	144	9	26	10
Hawaii	5	337	247	26	26	18
Idaho	44	235	151	10	26	12
Illinois	51	235-311	194	26	26	18
Indiana						

	50	170-192	138	14	26	13
Iowa	31-38	211-259	168	11	26	12
Kansas	62	250	184	10	26	16
Kentucky	22	229	147	15	26	12
Louisiana	10	181	118	8	26	17
Maine	35-52	198-297	153	21	26	14
Maryland	25-33	223	181	26	26	16
Massachusetts	14-21	325-487	229	10	30	16
Michigan	42	293	210	15	26	12
Minnesota	38	305	203	10	26	15
Mississippi	30	165	123	13	26	14
Missouri	45	175	142	11	26	14
Montana	54	217	135	8	26	13
Nebraska	20	154	131	20	26	12
Nevada	16	230	172	12	26	15
New Hampshire	32	196	137	26	26	11
New Jersey	69	347	228	15	26	18
New Mexico	39	197	143	19	26	18
New York	40	300	188	26	26	20

North Carolina	22	282	158	13	26	11
North Dakota	43	232	148	12	26	13
Ohio	42	238-319	180	20	26	15
Oklahoma	16	237	161	20	26	14
Oregon	66	285	169	5	26	16
Pennsylvania	35-40	329-337	197	16	26	17
Puerto Rico	7	133	88	26	26	17
Rhode Island	41-51	310-387	204	15	26	16
South Carolina	20	203	141	15	26	11
South Dakota	28	168	128	18	26	11
Tennessee	30	185	129	12	26	12
Texas	41	245	177	9	26	16
Utah	17	248	175	10	26	13
Vermont	36	209	156	26	26	16
Virginia	65	208	162	12	26	14
Virgin Islands	32	211	162	13	26	18
Washington	73	340	180	16	30	17
West Virginia	24	280	161	26	26	14
Wisconsin						

	46	243	161	12	26	12
Wyoming	40	220	159	12	26	15

\1\A range of amounts is shown for those States that provide dependents' allowances.

Source: U.S. Department of Labor.

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 5 weeks in Oregon to 26 weeks in 9 States. The maximum duration is 26 weeks in 51 States. Two States have maximum durations longer than 26 weeks, up to 30 weeks in Massachusetts and Washington.

Since the beginning of 1993, nine States increased their minimum weekly benefit amounts. Thirty-three States raised their maximum weekly benefit amounts. One State lowered its minimum potential duration.

EXTENDED BENEFITS

The Federal-State extended benefits program 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 two conditions: (1) if the State's 13-week average insured unemployment rate (IUR) in the most recent 13 weeks is at least 120 percent of the average of its 13-week IUR's in the last 2 years for the same 13-week calendar period and its current 13-week average IUR is at least 5.0 percent; 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 4 of the last 6 completed calendar quarters.

States have the option of electing an alternative trigger authorized by the Unemployment Compensation Amendments of 1992 (P.L. 102-318). This new 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 than did the IUR trigger. As of June 30, 1994, the TUR trigger has been authorized by 8 States (Alaska, Connecticut, Kansas, Maine, Oregon, Rhode Island, Vermont, and Washington). Extended benefits were activated using the TUR trigger in October 1993 in Oregon (for 13 weeks) and Washington (for 20 weeks), and in

March 1994 in Maine (20 weeks).

BENEFIT EXHAUSTION

Due to the limited duration of UC benefits, some individuals exhaust their benefits. For the regular State programs, 3.3 million individuals exhausted their benefits in fiscal year 1993, or 39 percent of claimants who began receiving UC during the 12 months ending March 31, 1993. These exhaustions raise the question of whether new policies are needed to reduce the exhaustion rate or ameliorate financial hardships caused by the cessation of benefits.

A study of exhaustees was completed in September 1990 by Mathematica Policy Research, Inc., under contract to the U.S. Department of Labor.\1\ 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 UC exhaustees study was designed to provide nationally representative estimates of the characteristics of exhaustees and nonexhaustees. 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.

\1\Corson, Walter and Dynarski, Mark. A Study of Unemployment Insurance Recipients and Exhaustees: Findings from a National Survey. U.S. Department of Labor, Unemployment Insurance Service. Occasional Paper 90-3. September 1990.

The study's authors reached three general conclusions:

--A large proportion of UI 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 UI benefits. The practice of exempting job-attached workers from administrative work-search requirements is sensible under these circumstances. 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 UI benefits. For this group, administrative work-search requirements are sensible. Targeting reemployment services to this group may also be a reasonable strategy for reducing periods of joblessness.

--The work disincentive effect was not a dominant factor in explaining the exhaustion of UI benefits. Most workers who exhausted their benefits were still unemployed more than a month after receiving their final payment, and a majority were still unemployed two months after receiving their final payment. Moreover, workers who found jobs after exhausting their UI benefits were generally receiving lower wages than on their prior jobs. Under these circumstances, extending the potential duration of UI benefits may reduce the financial hardships of exhaustion considerably, while creating only mild disincentive effects for some workers.

--State exhaustion rate trigger mechanisms would not be clearly superior to the State Insured Unemployed Rate (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 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. First, a voluntary program was authorized by the Temporary Unemployment Compensation (TUC) Act of 1958 (P.L. 85-441). TUC was signed into law on June 4, 1958; it expired on April 10, 1959 (June 30, 1959, for Federal employees and veterans). TUC was established in response to the 1957-58 recession. It offered States interest-free loans if they increased the duration of benefits to UI recipients by 50 percent (up to a maximum of 13 weeks) after they had exhausted their regular benefits. A total of 17 States participated, while 5 other States enacted their own EB programs. Between

June 1958 and July 1959 slightly over 2 million claimants received benefits totalling $600 million under TUC.

The second temporary EB program was authorized by the Temporary Extended Unemployment Compensation (TEUC) Act of 1961 (P.L. 87-6). TEUC was enacted on March 24, 1961; it expired on June 30, 1962. The program was financed through the Unemployment Trust Fund by a temporary increase in the net Federal unemployment tax. All States were required to participate. UI recipients who had exhausted their regular benefits could receive up to 50 percent of their regular benefits for up to 13 weeks, provided that the combined total duration of regular and extended benefits did not exceed 39 weeks. A total of 2.8 million claimants received benefits totaling $817 million during the 15 months of this program.

The Federal-State Extended Unemployment Compensation Act of 1970 (P.L. 91-373) authorized a permanent mechanism for providing extended benefits. Under the original program, UI recipients who had exhausted their regular benefits could receive EB if: (1) the national seasonally adjusted insured unemployment rate reached at least 4.5 percent for 3 consecutive months; or (2) their State's insured unemployment averaged at least 4 percent for 13 consecutive weeks and was at least 120 percent higher than the average insured unemployment rate for the corresponding 13 weeks during the preceding 2 years. As with TEUC, UI recipients who exhausted their regular benefits receive 50 percent of their regular benefits for up to 13 weeks of EB, provided that the total duration did not exceed 39 weeks. EB rules were amended by the Omnibus Budget Reconciliation Act (OBRA) of 1981 (P.L. 97-35) and the Unemployment Compensation Amendments of 1992 (P.L. 102-318).

On three occasions temporary programs have provided supplemental benefits to UI recipients who had exhausted both their regular and extended benefits during periods of severe unemployment.

The Emergency Unemployment Compensation Act of 1971 (P.L. 92-224) was enacted on December 29, 1971, and was originally scheduled to expire on September 30, 1972. This program was financed by the Federal Government through the Extended Unemployment Compensation Account (EUCA), from which non-interest-bearing repayable advances were made available to the States. A State became eligible when its insured unemployment rate was at least 6.5 percent, unless it failed to meet a requirement that the average of the current 13-week insured unemployment rate be at least 120 percent of the average of the rates for the same 13-week periods for the last 2 years. UI recipients who exhausted their regular and extended benefits were eligible to receive benefits for up to half of the duration of their regular benefits or 13 weeks, whichever was less. P.L. 92-329 extended this act for 6 months, until it expired on March 31, 1973.

The Emergency Unemployment Compensation Act of 1974 (P.L. 93-572) was enacted on December 31, 1974, and created the Federal Supplemental Benefits (FSB) program. FSB was authorized in response to the 1974-75 recession. Initially, funds for the program came from non-interest-bearing repayable advances from the general fund, which Congress expected the Unemployment Trust Fund to repay from EUCA after the recession. UI recipients who exhausted their regular and extended benefits could receive up to 13 weeks of FSB. States became eligible if they met either the national or State insured unemployment rates specified in the Federal-State Unemployment Compensation Act of 1970 for EB eligibility. FSB was extended 3 times.

The Tax Reduction Act of 1975 (P.L. 94-12) doubled the potential duration of FSB to 26 weeks, allowing a UI recipient to receive benefits under the regular, extended, and FSB programs for up to 65 weeks. These additional benefits were financed by the Federal Government and were to expire on January 1, 1976. The Emergency Compensation and Special Unemployment Assistance Extension Act of 1975 (P.L. 94-45) extended FSB to March 31, 1977. Among other provisions, this law abolished the national trigger for State FSB eligibility. The Emergency Unemployment Compensation Extension Act of 1977 (P.L. 95-19) reduced FSB to a potential duration of 13 weeks. The Act provided that, after April 1, 1977, FSB would be financed through non-repayable advances from Federal general revenue. It also extended FSB to October 31, 1977, when the program finally expired.

The Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 (P.L. 97-248) established the Federal Supplemental Compensation (FSC) program in response to the 1982 recession. TEFRA was enacted on September 3, 1982, and FSC was scheduled to expire on March 31, 1983. The program provided benefits to UI recipients who had exhausted their regular and extended benefits on or after June 1, 1982, for up to 6, 8, or 10 weeks of benefits. FSC claimants received the same weekly sums as under the regular Federal-State UI program. The FSC program was extended and modified six times.

The Surface Transportation Assistance Act of 1982 (P.L. 97-424) was enacted on January 6, 1983. The act provided that the duration of FSC benefits would be 16, 14, 12, 10, or 8 weeks, depending on conditions within a State. The expiration date of March 31, 1983, was left unchanged. P.L. 98-13, which was enacted on March 29, 1983, continued the program past the expiration date pending completion of the Social Security Amendments of 1983, which contained a 6-month extension. That measure (P.L. 98-21), enacted on April 20, 1983, extended FSC retroactively from April 1, 1983, to September 30, 1983. This act provided for basic FSC benefits for 14, 12, 10, or 8 weeks, depending on the unemployment conditions within a State. It also provided additional FSC benefits of 10, 8, or 6 weeks to individuals who exhausted their basic FSC benefits on or before April 1, 1983. Additional FSC benefits were equal to three-fourths of the basic FSC benefits payable in a State.

FSC was extended three more times. P.L. 98-118, enacted on October 11, 1983, extended FSC to October 18, 1983. The Federal Supplemental Compensation Amendments of 1983 (P.L. 98-135), enacted on October 24, 1983, extended FSC until March 31, 1985. This legislation provided basic FSC benefits for up to 14, 12, 10, or 8 weeks and provided additional FSC benefits for up to 5, 4, or 2 weeks, depending on the unemployment conditions within a State. P.L. 99-15, enacted on April 4, 1985, extended the FSC program until June 30, 1985, when it finally expired.

The Emergency Unemployment Compensation Act of 1991 (P.L. 102-164) enacted on November 15, 1991, and amended by P.L. 102-182 on December 4, 1991, authorized a temporary emergency unemployment compensation (EUC) program to provide additional weeks of assistance through June 13, 1992. The EUC program effectively superseded EB.

The EUC program entitled people whose regular UC benefit years expired on or after March 1, 1991, to extra weeks of assistance. The program as amended provided 20 weeks of benefits in States with an adjusted insured unemployment rate (AIUR) of at least 5 percent or a 6-month average total unemployment rate (TUR) of at least 9 percent. Beneficiaries in other States received 13 weeks of benefits. (The AIUR is the IUR used to trigger EB, adjusted to include regular benefit exhaustees in a State for the most recent 3 months for which data are available.)

Congress authorized EUC with an additional 13 weeks of benefits for eligibles in all States by enacting Public Law 102-244 on February 7, 1992. Thus, EUC could pay benefits for up to 26 or 33 weeks, depending on the State. The program was set to expire on July 4, 1992. Benefit durations were to return to the original 13 or 20 weeks after June 13, 1992.

Another extension of EUC was enacted on July 3, 1992 (P.L. 102-318). It reduced the available benefits to 20 or 26 weeks and extended the program through March 6, 1993. A third extension, enacted on March 4, 1993 (P.L. 103-6), extended EUC for new claims filed through October 2, 1993. Finally, EUC was extended by P.L. 103-152 on November 25, 1993, retroactive to October 3, 1993, for new claims filed on or before February 5, 1994. Benefit payments to claimants were made through April 30, 1994. Benefits were reduced to 7 or 13 weeks, depending on a State's unemployment rate.

Benefits under EUC 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 Federal general revenue from July 1992 until October 1993. States that qualified for EB while EUC was in effect could elect to trigger off EB. This reduced the State funding burden, since 50 percent of EB costs are financed from State UC accounts while EUC was entirely federally funded.

As of the week beginning January 9, 1994, 13 weeks of benefits were available from EUC in 4 States (Alaska, California, Puerto Rico, and West Virginia). (Washington and Oregon were offering EB based on the optional TUR trigger.) All other States had 7 weeks available from EUC.

Table 7-6 shows for each State the number of EUC claims during the week ending December 18, 1993, and average weekly benefits during December 1993. Nationally, claims totaled 1.0 million, with three States (California, New York and Pennsylvania) accounting for more than one-third of them. The average weekly EUC benefit nationwide was $173, the same as the U.S. average for the regular UC program.

TABLE 7-6.--NUMBER OF CLAIMS, AVERAGE WEEKLY BENEFITS AND BENEFITS PAID IN THE EUC PROGRAM BY STATE

State	No. of continued claims, week ending Dec. 18, 1993	Average weekly benefit, December 1993	Total benefits paid Nov. 15, 1991 through Feb. 5, 1994 (millions)\1\
U.S. total	971,639	173	$26,210
Alabama	8,821	120	158
Alaska	5,452	166	110
Arizona	7,031	141	168
Arkansas	7,992	\2\153	145
California	241,394	158	4,127
Colorado	6,781	\3\182	159
Connecticut	17,745	204	752

Delaware......................	1,649	173	41
District of Columbia..........	5,105	212	127
Florida.......................	53,991	161	1,038
Georgia.......................	11,919	146	330
Hawaii........................	3,046	259	97
Idaho.........................	3,455	151	68
Illinois......................	42,627	188	1,134
Indiana.......................	5,763	129	164
Iowa..........................	6,974	161	130
Kansas........................	5,363	181	146
Kentucky......................	10,900	147	188
Louisiana.....................	9,787	123	160
Maine.........................	6,518	155	184
Maryland......................	18,361	173	444
Massachuesetts................	25,055	234	1,200
Michigan......................	29,775	201	1,303
Minnesota.....................	10,044	196	278
Mississippi...................	5,952	120	124
Missouri......................	17,063	142	

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Montana	2,456	138	36
Nebraska	1,843	127	25
Nevada	2,807	167	126
New Hampshire	1,594	138	70
New Jersey	42,866	220	2,036
New Mexico	2,257	142	55
New York	92,292	192	3,543
North Carolina	14,408	146	368
North Dakota	1,496	148	23
Ohio	29,599	179	867
Oklahoma	4,666	169	133
Oregon	6,482	165	350
Pennsylvania	64,550	193	2,009
Puerto Rico	18,250	89	188
Rhode Island	10,037	200	264
South Carolina	8,503	138	185
South Dakota	289	122	4
Tennessee	11,443	125	273
Texas	42,978	170	

1,209

Utah.........................	2,392	172	56
Vermont......................	2,103	154	50
Virginia.....................	10,761	156	278
Virgin Islands...............	\4\112	NA	(\5\)
Washington...................	10,753	166	490
West Virginia................	7,450	167	158
Wisconsin....................	9,920	166	260
Wyoming......................	769	161	19

\1\Data are incomplete for some States.
\2\Data for October 1993.
\3\Data for November 1993.
\4\Data for week ending Nov. 27, 1993.
\5\Less than $500,000.

NA--Not available.

Source: U.S. Dept of Labor.

Table 7-7 shows the monthly trend in EUC continuing claims and first payments. The number entering the program remained fairly steady from February 1992 through November 1992 at about 300,000 a month, but entrants exceeded that total for all but one of the next 9 months. The total number of active claims varied between 1.4 and 1.7 million from January 1992

through
April 1993 but fell below 1.0 million in December 1993.

TABLE 7-7.--EMERGENCY UNEMPLOYMENT COMPENSATION CLAIMS

[In thousands]

Month	First payments\1\	Continuing claims (end of month)\1\
1991:		
November	114	635
December	1,051	1,196
1992:		
January	447	1,505
February	320	1,651
March	310	1,655
April	308	1,675
May	264	1,683
June	271	1,483
July	282	1,411
August	302	1,416
September	309	1,467
October	321	

		1,501
November..................................	294	1,660
December..................................	386	1,466
1993:		
January...................................	471	1,486
February..................................	321	1,479
March.....................................	378	1,374
April.....................................	347	1,437
May.......................................	297	1,286
June......................................	328	1,329
July......................................	389	1,447
August....................................	388	1,353
September.................................	293	1,300
October...................................	137	1,032
November..................................	65	1,283
December..................................	383	922

\1\Reports were not received from all States for every month.
Nonreporting was highest in November 1991.

Source: U.S. Department of Labor.

Table 7-8 shows outlay estimates for EUC at different points in time. The January 1993 budget baseline estimate of

$18.2 billion for fiscal years 1992 and 1993, prepared before the March 1993 extension of EUC, greatly exceeded the earlier estimates: $12.8 billion in OMB's July 1992 Midsession Review; $8.3 billion by OMB when the laws were enacted; $12.0 billion by CBO when the laws were enacted. The growth in the estimate of $5.4 billion from July 1992 to January 1993 was attributed by the Department of Labor 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.

After the issuance of the January 1993 baseline estimate, the further extension of EUC into fiscal year 1994 occurred. The estimated cost raised the total estimated cost at time of enactment to $18.6 billion (CBO) and $14.8 billion (OMB). The Clinton administration's budget released in February 1994 estimated the total cost of EUC benefits to be $28.0 billion for the 3 years.

TABLE 7-8.--EUC OUTLAYS FOR FISCAL YEARS 1992-94

[In billions of dollars]

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	.3	0	2.8
Public Law 102-318	.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	.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 fiscal year 1995 baseline, January 1994.......................	11.1	13.2	3.7	28.0

\1\Less than $50,000,000.

Source: Office of Management and Budget, Congressional Budget Office.

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

Table 7-9 illustrates benefit amounts for various full-year workers in regular State programs for January 1994. Column A of the table is for a full-time worker earning the minimum wage; column B is for a worker earning $6 per hour, while column C shows benefit amounts for a worker earning $9 per hour. Column D is for a part-time worker earning the minimum wage and working 20 hours per week. The weekly benefit amount for the full-time minimum wage worker varies from $77 to $176. The maximum amount a worker can receive in these examples (column C) in each State varies considerably, from $120 to $340 per week.

TABLE 7-9.--WEEKLY STATE BENEFIT AMOUNTS FOR VARIOUS FULL-YEAR WORKERS IN JANUARY 1994

	Hypothetical worker\1\			
	A	B	C	D
Alabama	165	165	165	92
Alaska	106	134	232	70
Arizona	88	125	185	44
Arkansas	85	120	180	45
California	82	105	142	46
Colorado	101	144	216	50
Connecticut	95	130	210	52
Delaware	96	135	203	48
District of Columbia	90	125	195	0
Florida	85	120	180	42
Georgia	88	124	185	44
Hawaii	106	149	223	53
Idaho				

	85	120	180	0
Illinois	101	141	237	59
Indiana	98	134	192	54
Iowa	100	141	234	50
Kansas	93	132	198	59
Kentucky	105	148	222	52
Louisiana	77	109	164	38
Maine	110	151	228	60
Maryland	93	130	211	47
Massachusetts	85	120	230	43
Michigan	NA	NA	NA	NA
Minnesota	85	120	180	42
Mississippi	85	120	165	42
Missouri	99	140	175	49
Montana	88	124	187	44
Nebraska	92	128	154	48
Nevada	88	124	187	44
New Hampshire	98	123	164	0
New Jersey	109	154	248	0

New Mexico	85	120	180	42
New York	85	120	180	43
North Carolina	85	120	180	42
North Dakota	85	120	180	0
Ohio	85	120	180	0
Oklahoma	88	124	187	44
Oregon	110	156	234	60
Pennsylvania	95	132	197	52
Puerto Rico	85	120	133	43
Rhode Island	102	144	236	51
South Carolina	85	120	180	42
South Dakota	85	120	168	42
Tennessee	169	185	185	84
Texas	89	125	188	45
Utah	86	120	180	43
Vermont	98	138	208	0
Virginia	88	124	187	0
Virgin Islands	85	120	180	42
Washington	176	249	340	88

West Virginia	93	131	198	46
Wisconsin	88	124	187	0
Wyoming	88	124	187	44

\1\Hypothetical workers:
A. $4.25/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; 2 children.
D. $4.25/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 Federal unified budget accounts for all Federal-State UC outlays and taxes in the Federal 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 8 of this document.)

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 Employee Compensation Account (FECA), which funds benefits for Federal civilian and military personnel authorized under 5 U.S.C. 85. Federal unemployment taxes finance 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 1993, the Employment Security Administration Account (ESAA) had reached its fiscal year 1993 ceiling of $1.4 billion; the Extended Unemployment Compensation Account (EUCA) balance was below its ceiling of $8.4 billion by $7.5 billion; the Federal Unemployment Account (FUA) fell short of its $13.9 billion ceiling by $9.0 billion.

Under the administration's fiscal year 1995 budget assumptions, the EUCA balance will continue to fall well short of its ceiling throughout the 5-year projection period. By the end of fiscal year 1999, FUA would be short by only $0.6 billion, however.

State Accounts.--The State accounts had recovered substantially from the financial problems that began in the 1970's and continued through the early 1980's, but the 1990-91 recession reversed that trend. Table 7-10 shows that the State accounts at the beginning of 1994 held $28.8 billion, which still represents a marked improvement over the negative balance of nearly $3 billion in 1982.

The balances in the State accounts are about the same as the balances in the early 1970's after adjusting for inflation, before serious financial problems began for most States. However, 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 7-10 shows that these State ratios are only 43 percent of their levels in 1970. Two States (Massachusetts and Missouri) presently have outstanding Federal loans to their accounts.

For the third quarter of calendar year 1993, the second-to-last column of table 7-10 shows for each State the ``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 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 high-cost multiples below 1.0 have been at significant risk of insolvency during recessions.

Thirty-two States had high-cost multiples below 1.0. Twenty-six States had high-cost multiples below 0.8, and 17 States had high-cost multiples below 0.5. Based on this measure, those States in the worst financial shape were Arkansas, California, Connecticut, the District of Columbia, Illinois, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, New York, Ohio, Pennsylvania, Rhode Island, Texas, and West Virginia.

TABLE 7-10.--FINANCIAL CONDITION OF STATE UNEMPLOYMENT COMPENSATION PROGRAMS

States	Net reserves (end of calendar year) [In millions of dollars]					Reserve ratios [Percent]					1993/ 1970	High-cost multiple\1\	Rank
	1970	1975	1979	1982	1993\1\	1970	1975	1979	1982	1993\1\			
Total..	11,903	3,070	8,583	(2,645)	28,821	3.11	0.53	0.91	-0.24	1.33	43	0.57	.....

Alabama..
130 (2) 118 9 577 2.96
0 .98 .06 2.04 69 .94
23
Alaska...
35 75 65 134 227 5.51
3.07 2.78 2.94 4.47 81 1.03
19
Arizona..
119 67 226 215 376 4.25
1.35 2.36 1.66 1.36 32 .55
36
Arkansas...
49 2 24 (77) 133
2.26 .04 .37 0 .89
39 .33 41
California...
1,219 546 2,738 2,708 2,700
2.91 .88 2.51 1.83 .96
33 .41 37

Colorado...
91 47 137 (4) 387
2.54 .70 1.11 0 1.24
49 .98 22
Connecticut..
252 (232) (267) (252) 1 0.08
0 0 0 0 0 0
52
Delaware...
22 0 (30) (35) 228 1.72
0 0 0 3.18 185 1.18
15
District of Columbia.................................
74 (3) (44) (57) 8 3.22
0 0 0 .08 2 .04
51
Florida..

268 80 665 865 1,562
2.60 .42 2.13 1.89 1.58
61 .86 25

Georgia..
340 268 447 397 1,087 4.74
2.28 2.28 1.49 1.88 40 .88
24
Hawaii...
44 5 79 108 323
2.90 .23 2.24 2.43 3.18 110
1.20 13
Idaho..
46 54 93 29 241 5.16
3.21 3.20 .85 3.64 71 1.15
17
Illinois...
401 (31) (460) (2,069) 936 1.55
0 0 0 .81 52 .30
43
Indiana..
326 198 418 63 1,020 3.13
1.31 1.69 .23 2.12 68 1.19
14

Iowa...
125 63 155 (63) 641
3.19 .96 1.45 0 3.29 103
1.25 11
Kansas...
84 135 238 142 659 3.00
2.65 2.75 1.29 3.13 104 1.59
5
Kentucky...
175 137 159 (121) 404 4.21
1.95 1.36 0 1.65 39 .59
35
Louisiana..
146 141 238 (102) 681 2.91
1.58 1.51 0 2.51 86 .81
26

Maine...
39 2 0 (4) 50 2.86
0 0 0 .63 22 .22
47

Maryland..
213 29 273 220 235
3.26 .29 1.83 1.11 .60
18 .27 46
Massachusetts.....................................
378 (99) 132 436 (154) 3.04
0 0 1.23 0 0 0
52
Michigan..
491 (286) 112 (2,186) 421 2.49
0 .25 0 .50 20 .14
49
Minnesota...
119 (35) 70 (288) 241 1.76
0 .41 0 .57 32 .29
45
Mississippi.......................................
85 90 231 257 402 3.87
2.25 3.47 3.12 2.86 74 1.45
7

Missouri..
264 95 296 (64) 7
3.03 .75 1.47 0 .02
1 .09 50
Montana...
26 8 16 9 101
3.33 .57 0 .27 1.94
58 .64 34
Nebraska..
55 29 81 72 170
2.87 .84 1.58 1.14 1.53 53
1.02 20
Nevada..
39 5 95 122 237
3.20 .22 2.31 2.02 1.79

56 .65 32

New Hampshire...

55 29 82 75 166 4.62

1.56 2.42 1.60 1.79 39 .71

29

New Jersey..

448 (348) (507) (423) 2,049 2.76

0 0 0 2.38 86 .71

29

New Mexico..

40 33 80 101 263 3.45

1.61 2.14 1.98 3.02 88 1.84

3

New York..

1,693 574 403 819 327 3.76

1.02 .51 .78 .18 5 .18

48

North Carolina..

414 342 564 400 1,490 5.22

2.71 2.71 1.52 2.69 52 1.04

18

North Dakota..

13 22 21 11 53 2.53

1.94 1.13 .46 1.58 62 .67

31

Ohio..

693 294 513 (1,658) 852

3.01 .91 1.02 0 .92

31 .30 43

Oklahoma..

55 27 177 108 438

1.69 .46 1.56 .62 2.19 130

1.60 4

Oregon..

122 24 320 161 1,068

3.39 .40 3.00 1.37 4.73 140

1.47 6

Pennsylvania..

852 (86) (1,091) (2,145) 1,153 3.53

0 0 0 1.20 34 .36
38
Puerto Rico..
85 (26) (33) (47) 747 4.90
0 0 0 8.91 182 2.12
2

Rhode Island.......................................
75 (41) (96) (76) 115 4.34
0 0 0 1.54 35 .35
40
South Carolina.....................................
166 95 195 50 476 4.61
1.61 1.96 .40 1.89 41 .65
32
South Dakota.......................................
8 20 16 9 49 3.81
1.96 .95 .43 1.29 34 1.24
12
Tennessee..
212 200 264 15 676 3.57
1.95 1.63 .08 1.67 47 .77
28
Texas..
337 231 396 142 543
1.90 .71 .65 0 .37
19 .33 41

Utah...
51 32 67 10 356 3.55
1.22 1.43 .16 2.92 82 1.44
8
Vermont..
26 (25) (21) (27) 181 3.72
0 0 0 4.43 119 1.36
9
Virginia...
218 122 103 14 555 3.41
1.08 .56 .06 1.05 31 .80
27
Virgin Islands.....................................

	NA	NA	(7)	46	52	NA	NA	0	0	7.60	NA	3.33	1
Washington	226	(67)	297	(3)	1,782	3.73	0	1.66	.70	4.23	113	1.00	21
West Virginia	108	78	39	150	156	4.07	1.70	.56	0	1.53	38	.38	39
Wisconsin	322	121	465	(144)	1,251	4.29	.99	2.37	0	3.02	70	1.17	16
Wyoming	19	31	69	(413)	122	4.29	3.02	3.15	1.44	4.11	96	1.36	9

\1\Data are for the third quarter of calendar year 1993.

Source: U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Service, Division of Actuarial Services, UI Data Summary, 3d quarter, calendar year 1993, Dec. 1993. U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Financial Handbook Data.

Table 7-11 summarizes the beginning balances in the unemployment trust fund accounts for selected fiscal years. At the start of fiscal year 1994, the four Federal accounts and the 53 State benefit accounts had a total balance of $37.0 billion. In real terms this represents a decline of 25 percent compared to 1971. This decline in real dollars in the State accounts from 1971 does not allow for the further erosion implied by the 53-percent increase in the labor force over this time period. A better measure is the ratio of the 1993 to 1970 reserve ratios in table 7-10, which shows that aggregate reserves in 1993 were only a little more than two-fifths of their level in 1970.

TABLE 7-11.--BEGINNING-OF-YEAR BALANCES IN UNEMPLOYMENT TRUST FUND ACCOUNTS FOR SELECTED FISCAL YEARS

[In millions of dollars]

Account	1971	1976	1980	1983	1994
Employment security administration	65	365	572	545	2,123
Extended unemployment compensation	0	116	764	483	877
Federal unemployment (reserve for State loans)	575	9	567	599	4,948
Federal employee compensation	(\1\)	(\1\)	(\1\)	24	206
State unemployment compensation\2\	12,409	6,145	8,272	720	28,821
Total: Nominal dollars	13,049	6,635	10,175	2,371	36,975

Total: Real dollars\3\..... 49,572 18,394 20,755 3,569 36,975

\1\There was no separate account for Federal employee compensation for this year.
\2\Figures are net of loans from Federal funds.
\3\Real dollars are obtained using CPI-U for the preceding fiscal years.

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

The Federal unemployment tax

Total unemployment taxes on employers for a full-time, full-year worker earning the average wage in covered employment in 1992 is estimated to have averaged $260, or 13 cents per hour. The Federal portion is $56, or 3 cents per hour, and the average State portion is $204, or 10 cents per hour. Employer taxes vary substantially, however, depending on the State taxable wage base, State tax schedules, and Federal credits.

The Federal Unemployment Tax Act (FUTA) currently imposes a minimum, net Federal payroll tax on employers of 0.8 percent on the first $7,000 paid annually to each employee. The 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 minimum, net Federal tax rate 0.8 percent.

Chart 7-2 shows the historical trend in the Federal taxable wage base from 1940 to 1992. The wage base was held constant at $3,000 until 1971, but has been increased three times since then. The chart also shows the erosion of the taxable wage base during the 1950's and 1960's relative to wage growth. If the taxable wage base had been indexed for wage growth since 1940, the wage base would have been over $50,000 in 1992 instead of only $7,000.

Chart 7-3 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 1960's to 0.8 percent in the late 1980's, the effective tax rate has fluctuated between 0.2 and 0.3 percent in most of those years.

CHART 7-2. FEDERAL UC TAXABLE ANNUAL WAGE BASE IN CURRENT AND WAGE-ADJUSTED DOLLARS, 1940-92

<CHART 7-2>

Source: Chart prepared by the Congressional Research Service (CRS) based on data from the U.S. Department of Labor (DoL).

CHART 7-3. HISTORY OF FEDERAL UNEMPLOYMENT TAX RATE, 1954-93

<CHART 7-3>

Source: Chart prepared by the Congressional Research Service (CRS) based on data from the U.S. Department of Labor (DoL).

CHART 7-4. FLOW OF FUTA FUNDS UNDER EXISTING FEDERAL STATUTES

<CHART 7-4>

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.\2\ 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 7-12 shows that, as of January 1994, 41 States had taxable wage bases higher than the Federal taxable wage base, ranging up to $25,000 in Hawaii.

\2\Alaska, New Jersey, and Pennsylvania also tax employees directly.

Although the standard State tax rate is 5.4 percent, State tax rates based on unemployment experience can range from zero on some employers in 15 States up to a maximum as high as 10 percent in 3 States.

Estimated national average State tax rates on taxable wages and total wages for 1993 were 2.3 and 0.9 percent, respectively. Estimated average State tax rates on taxable wages ranged from 0.5 percent in South Dakota to 4.8 percent in New York and Pennsylvania. Estimated average State tax rates on total wages varied from 0.2 percent in South Dakota to 2.1 percent in Rhode Island.

TABLE 7-12.--STATE UNEMPLOYMENT TAX BASES AND RATES

State	1994 tax base	1994 experience rates\1\ Minimum	1994 experience rates\1\ Maximum	Estimated 1993 average tax rates as a percent of-- Taxable wages	Estimated 1993 average tax rates as a percent of-- All wages
U.S. average	NA	NA	NA	2.3	0.9
Alabama	$8,000	0.14	6.74	1.6	.6
Alaska					

	23,800	1.0	6.5	2.0	1.3
Arizona	(\2\)	.1	5.4	1.5	.4
Arkansas	9,000	0	6.0	3.0	1.3
California	(\2\)	.1	5.4	3.6	.9
Colorado	10,000	0	5.4	1.3	.5
Connecticut	9,000	.5	6.4	3.4	.9
Delaware	8,500	.1	8.0	2.6	.8
District of Columbia	9,500	.1	7.4	4.0	1.0
Florida	(\2\)	.1	5.4	1.8	.6
Georgia	8,500	.01	8.64	1.6	.6
Hawaii	25,000	0	5.4	1.0	.7
Idaho	20,400	.1	6.8	1.8	1.2
Illinois	9,000	.2	6.4	2.9	1.0
Indiana	(\2\)	.2	5.7	1.2	.4
Iowa	13,900	0	9.0	1.6	.8
Kansas	8,000	.025	5.4	2.4	.9
Kentucky	8,000	.3	10.0	2.1	.8
Louisiana	8,500	.3	6.0	1.9	.6
Maine	(\2\)	.5	7.5	3.8	1.3

Maryland	8,500	.1	8.3	2.9	1.0
Massachusetts	10,800	.6	9.3	3.9	1.6
Michigan	9,500	0	10.0	4.1	1.4
Minnesota	15,100	.1	9.0	1.8	.9
Mississippi	(\2\)	.1	6.4	2.1	1.0
Missouri	8,500	0	8.7	2.3	.8
Montana	15,100	0	6.4	1.4	.9
Nebraska	(\2\)	0	5.4	1.2	.4
Nevada	15,900	.3	5.4	1.5	.8
New Hampshire	8,000	.01	6.5	2.2	.7
New Jersey	17,200	.4	6.47	1.2	.5
New Mexico	13,100	.1	5.4	1.5	.7
New York	(\2\)	0	6.4	4.8	1.1
North Carolina	13,200	.01	5.7	1.0	.5
North Dakota	13,000	.1	5.4	1.4	.8
Ohio	8,750	.1	6.5	2.9	1.0
Oklahoma	10,700	.1	6.2	1.2	.4
Oregon	19,000	.9	5.4	2.6	1.6
Pennsylvania	8,000	.3	9.2	4.8	1.5

Puerto Rico	(\2\)	1.0	5.4	2.9	1.0
Rhode Island	16,400	.8	8.4	3.7	2.1
South Carolina	(\2\)	.19	5.4	1.8	.6
South Dakota	(\2\)	0	9.5	.5	.2
Tennessee	(\2\)	.1	10.0	2.0	.7
Texas	9,000	0	6.0	1.3	.5
Utah	16,200	.1	8.0	1.0	.6
Vermont	8,000	.4	8.4	2.7	1.0
Virginia	8,000	0	6.2	1.2	.4
Virgin Islands	22,000	.1	9.5	1.5	1.2
Washington	19,900	.36	5.4	2.3	1.4
West Virginia	8,000	0	7.5	3.0	1.1
Wisconsin	10,500	0	8.9	2.2	1.0
Wyoming	11,400	0	8.5	2.1	1.0

\1\Actual rates could be higher if State has an additional tax.

\2\The 1994 tax base is $7,000 except as otherwise shown in this column.

NA--Not applicable.

Note.--This table shows State unemployment tax levels. It does not include the Federal unemployment tax.

Source: Department of Labor.

Table 7-13 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 0.19 in the District of Columbia to 0.64 in Montana.

TABLE 7-13.--12-MONTH AVERAGE EMPLOYMENT AND WAGES COVERED BY UNEMPLOYMENT COMPENSATION (UC) FOR PERIOD ENDING DECEMBER 1992

State	Covered employment (thousands)	Total wages (millions)	Taxable wages (millions)	Ratio of taxable wages to total wages	Average weekly total wages
United States	105,168	$2,684,987	$776,547	0.29	$491
Alabama	1,576	34,368	10,709	.31	419
Alaska	222	6,983	3,265	.47	605
Arizona	1,487	34,003	9,214	.27	440
Arkansas					

	915	18,130	6,181	.34	381
California..	12,174	350,578	79,343	.23	554
Colorado..	1,521	37,574	12,601	.34	475
Connecticut.......................................	1,479	48,207	9,478	.20	627
Delaware..	331	8,762	2,328	.27	509
District of Columbia..............................	426	14,825	2,864	.19	670
Florida...	5,241	119,920	33,723	.28	440
Georgia...	2,836	68,335	20,581	.30	463
Hawaii..	511	12,885	7,042	.55	484
Idaho...	404	8,207	4,356	.53	390
Illinois..	5,015	139,200	37,826	.27	534
Indiana...	2,442	57,369	14,884	.26	452
Iowa..	1,194	24,764	10,236	.41	399
Kansas..	1,060	23,001	9,182	.40	417
Kentucky..	1,403	30,343	9,149	.30	416
Louisiana...	1,546	34,163	10,415	.30	425
Maine...	486	10,396	2,814	.27	411
Maryland..	1,907	50,372	11,533	.23	508
Massachusetts.....................................	2,672	78,990	25,668	.32	568

Michigan......................................				
3,790	103,635	28,254	.27	526
Minnesota.....................................				
2,083	52,381	19,808	.38	484
Mississippi...................................				
909	17,159	5,501	.32	363
Missouri......................................				
2,196	51,140	12,947	.25	448
Montana.......................................				
292	5,496	3,542	.64	362
Nebraska......................................				
712	14,313	3,920	.27	387
Nevada..				
624	15,299	7,387	.48	471
New Hampshire.................................				
465	11,406	2,803	.25	471
New Jersey....................................				
3,292	105,631	37,999	.36	617
New Mexico....................................				
551	11,216	4,534	.40	392
New York......................................				
7,465	241,143	42,898	.18	621
North Carolina................................				
3,047	67,127	27,834	.41	424
North Dakota..................................				
247	4,597	1,777	.39	357
Ohio..				
4,613	112,559	31,706	.28	469
Oklahoma......................................				
1,147	24,316	8,883	.37	408
Oregon..				
1,224	28,422	13,557	.48	446
Pennsylvania..................................				
4,819	123,170	31,288	.25	492
Puerto Rico...................................				
858	12,068	4,088	.34	271
Rhode Island..................................				

	409	9,833	4,136	.42	462
South Carolina	1,455	30,738	8,812	.29	406
South Dakota	281	4,936	1,513	.31	337
Tennessee	2,131	47,849	13,368	.28	432
Texas	6,945	172,414	52,620	.31	477
Utah	701	15,039	6,668	.44	413
Vermont	241	5,367	1,518	.28	429
Virginia	2,609	62,976	17,929	.28	464
Virgin Islands	44	984	482	.49	428
Washington	2,127	53,837	24,658	.46	487
West Virginia	594	12,986	3,789	.29	420
Wisconsin	2,255	51,607	17,531	.34	440
Wyoming	191	3,967	1,403	.35	400

Source: UI data summary, 2d quarter calendar year 1993, Sept. 1993.

ADMINISTRATIVE FINANCING AND ALLOCATION

State unemployment compensation administrative expenses are Federally financed. A portion of revenue raised by the Federal Unemployment Tax Act (FUTA) is designated for administration and to maintain a system of public employment offices.

FUTA revenue flows into three Federal accounts in the Unemployment Trust Fund: (1) the Employment Security Administration Account (ESAA), (2) the Extended Unemployment Compensation Account (EUCA), and (3) the Federal Unemployment Account (FUA). Authorized by title IX of the Social Security Act, 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 EUCA. FUA receives funds indirectly if they overflow from ESAA and EUCA. Funds for administration are limited to 95 percent of the estimated annual revenue that is expected to flow to ESAA from the FUTA tax. 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 such amounts as are deemed necessary for the proper and efficient administration of such law 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 Labor finds relevant.

Subject to the limit of available resources, the allocation of State grants for administration is the summation of resources derived in two major areas, the 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 Department of Labor, in conjunction with the Department of Treasury, estimates revenue expected from FUTA and the appropriate amount to be available for administration (and the Federal share of extended benefits). 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 point for administration and 0.16 percentage point 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. Additionally, 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 unemployment compensation 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 UI grant funds to each State is made by:

(1) Projecting the workloads that each State is expected to process.

These projections are then adjusted so that the sum across States for each workload item is equal to the budgeted base workload.

(2) Determining the staff required to process each State's projected workload.

The staff requirements are computed by multiplying the projected workloads by minutes per unit (MPU) and dividing the result by the number of work minutes per staff year for each State. The MPUs were derived from work measurement studies conducted in each State that establish the number of minutes required to perform specific tasks. The MPUs developed from the studies are necessarily reduced so that the total of computed staff years for each workload item across States equals the staff years available in the appropriation. The MPUs are reduced according to a complex mathematical formula that takes into account workload volume and the range of MPUs.

(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.

(4) Allocating overhead resources (administrative and management staff and nonpersonal services) using a methodology driven by the program staff years developed in the UI base allocation.

Each Department of Labor regional office may redistribute resources among the States in its area with national office approval.

In Public Law 102-164, Congress required the Department of Labor to study the allocation process and recommend improvements. Public Law 102-318 extended the time the Department has to complete this study until December 31, 1994.

RECENT MAJOR LEGISLATION

Major Federal laws passed by Congress since 1981 and their key provisions are as follows:

The Omnibus Budget Reconciliation Act of 1981 (Public Law

97-35) imposed interest charges up to 10 percent per annum under certain conditions on loans obtained by State UC programs after April 1, 1982. It also reduced the extended benefits program by an estimated $3 to $4 billion in fiscal year 1983. The primary changes that resulted in this reduction were: (A) elimination of the national trigger under the extended benefits program; (B) raising the State trigger to 5 percent, and 120 percent, or 6 percent; and (C) excluding claims for extended benefits from the calculation of the insured unemployment rate used for the extended benefit trigger.

The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) increased the taxable wage base from $6,000 to $7,000 and raised the minimum, net Federal unemployment tax rate to 0.8 percent in 1983. It also raised the gross tax and credit rates in 1985 to 6.2 and 5.4 percent, respectively. This left the minimum, net Federal rate unaffected but raised the maximum, potential, net tax rate in States with delinquent loans from 3.4 to 6.2 percent. The Act also created the temporary Federal supplemental compensation program, which authorized 6 to 10 additional weeks of benefits through March 31, 1983. This act also rounded UC benefits to the lowest dollar, extended the Reed Act, modified the treatment of school employees, and reduced the thresholds for taxation of unemployment compensation to $12,000 for single filers and $18,000 for married couples filing jointly.

The Social Security Amendments of 1983 (Public Law 98-21) extended the Federal supplemental compensation program through September 30, 1983, providing a maximum of 8 to 14 weeks of benefits. It also established conditions under which States could defer the payment of interest on loans from the Federal Unemployment Account and qualify for reduced FUTA credit reductions.

The Tax Reform Act of 1986 (Public Law 99-514) made all unemployment compensation subject to taxation under the Federal personal income tax.

The Omnibus Budget Reconciliation Act of 1987 (Public Law 100-203) extended the 0.2 percent FUTA surtax for 3 years through 1990.

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 extended 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 (TUR) 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 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 system to identify UI claimants most likely to need job search assistance to avoid long-term unemployment.

INTERIM RECOMMENDATIONS OF THE ADVISORY COUNCIL ON UNEMPLOYMENT COMPENSATION--FEBRUARY 1994

Purpose of the Extended Benefits program

The scope of the Extended Benefits program should be expanded to enhance the capacity of the Unemployment Insurance system to provide assistance for long-term unemployed workers as well as short-term unemployed workers. Those individuals who are long-term unemployed should be eligible for extended Unemployment Insurance benefits, provided they are participating in job search activities or in education and training activities, where available and suitable, that

enhance
their re-employment prospects. To maintain the integrity of the
Unemployment Insurance income support system, a separate funding source should be used to finance job search and education and training activities for long-term unemployed workers.

The trigger for extended benefits

The Council is unanimous in the view that there is a pressing need to reform the Extended Benefits program.

The majority of the Council recommends that the Extended
Benefits program should trigger on when a state's seasonally
adjusted total unemployment rate (STUR) exceeds 6.5 percent as
measured before the Current Population Survey redesign. Two members of the Council recommend that each state should have
the choice of using either the STUR trigger of 6.5 percent with
a threshold requirement of 110 percent above either of the 2
previous years, or an IUR or AIUR trigger set at 4 percent with
a threshold requirement of 120 percent over the previous 2 year
period.

The Council hopes Congress can implement these reforms promptly. Although the Council has reservations about the inefficient targeting of emergency benefits, Congress should
extend the existing Emergency Unemployment Compensation for a 6
month period to provide a bridge program until these Extended
Benefits reforms can be implemented.

Neither substate nor regional data should be used for the purpose of determining whether or not Extended Benefits are available within a given area.

Financing extended benefits reform

If additional revenue is required to implement the Council's recommendations, such revenue should be generated by a modest increase in the FUTA taxable wage base, to $8,500.

Work search test under extended benefits

The Federal requirement that individuals who are receiving Extended Benefits must accept a minimum wage job if one is offered, or become ineligible for benefits, should be eliminated. Each State should be allowed to determine an appropriate work search test, based on the conditions of its labor market.

FUTA taxation of alien agricultural workers

As of January 1, 1995, the wages of alien agricultural workers (h3-A workers) should be subject to FUTA taxes.