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STATE REED ACT FUNDS ARE NOT A VIABLE OR DESIRABLE SUBSTITUTE FOR FEDERAL UNEMPLOYMENT BENEFITS

By Isaac Shapiro¹

A main argument being used against reviving the federal Temporary Extended Unemployment Compensation (TEUC) program is that states could fund additional benefits using the money federal legislation transferred into their unemployment trust funds in March 2002. Of the \$8 billion that was then transferred to states (under a mechanism known as the Reed Act), according to the Labor Department \$4.2 billion (some have been mistakenly using a higher figure)² remained in state accounts at the end of February, with this figure expected to drop to \$3.7 billion or less by the end of March.

This analysis finds that the use of Reed Act funds as a substitute for resuming the TEUC program is neither a viable nor a desirable alternative. Using Reed Act funds in that way would:

- **Violate federal law.** The purpose of the Reed Act distribution was largely to shore up and improve regular, state unemployment benefit programs. Indeed, the March 2002 law explicitly forbids Reed Act funds from being used in lieu of TEUC benefits;
- **Provide insufficient resources.** Some might suggest that the Reed Act funds could be used to free up other state funds that could be devoted to extending benefits. But the large majority of individuals expected to exhaust their regular unemployment benefits during the first half of 2004 live in states where this is not possible. Their states have either already used up all their Reed Act funds or have levels of Reed Act funds that are insufficient to fully substitute for a resumption of the TEUC program;
- **Lead to tax increases and divert the funds from their intended purpose.** The use of Reed Act funds for this purpose would automatically lead to tax increases on employers in a large number of states and would prevent these funds from being used for the intended purpose of improving state benefit programs; and
- **Be unnecessary given size of federal trust funds.** The traditional source of funding for additional unemployment benefits — the federal unemployment

¹ Thanks to Martha Coven and Jessica Goldberg for their contributions to this analysis.

² For example in a March 12, 2004 story in *The Washington Post*, Representative John A. Boehner, chairman of the House Committee on Education and the Workforce, said that \$5.4 billion in Reed Act funds were still available. “Stocks Plummet After Attacks: Greenspan Backs an Extension of Jobless Benefits,” Nell Henderson, page E1.

insurance trust fund — has far more than adequate resources to extend and strengthen the TEUC program, and four times as much in reserve as remains in Reed Act funds.

Insufficient Levels of Reed Act Funds Are Available

Many states do not have enough remaining Reed Act funds to cover the costs of the type of assistance that would be provided to jobless workers by reviving the TEUC program. All told, *more than seven out of every 10 workers — 72 percent — who are likely to exhaust their regular state benefits in the first half of 2004 live in states where Reed Act funds are insufficient to fully replace benefits that would be provided by a resumption of the current TEUC program.* This conclusion is based on Department of Labor data on the amount of Reed Act funds available in each state at the end of January 2004, and the author’s estimates for the number of individuals expected to exhaust their regular benefits in the first half of 2004.

- Nine states have already spent *all* of their Reed Act distributions and thus have no Reed Act funds that could ease the provision of TEUC-like benefits. These states are Delaware, Illinois, Massachusetts, Minnesota, Missouri, New York, North Carolina, Texas, and Wyoming. Two more states — Arkansas and California — are expected to use up all their Reed Act funds in March. Altogether, nearly one half — 46 percent — of individuals expected to exhaust their regular benefits in the first half of 2004 live in these 11 states.
- Fourteen other states have insufficient Reed Act funds to provide 13 additional weeks of benefits to workers who will exhaust their regular state benefits in the first half of 2004. Another quarter — 27 percent — of expected exhaustees live in these states. (See Table 1 at the back of this analysis for a list of these states.)

Using Reed Act Funds To Replace Federal Benefits Would Prompt Tax Increases In Many States And Diminish Opportunities To Improve State Programs

If Reed Act funds are used to facilitate the expenditure of other state funds to replace federal financing of additional weeks of unemployment insurance, many states would be forced to raise taxes on employers to maintain trust fund solvency. Forty-nine states have triggers that automatically increase the unemployment tax levied on employers if state unemployment insurance trust funds fall below certain levels. A General Accounting Office (GAO) report found that for 30 of the states with automatic tax-increase provisions, “Reed Act dollars helped them avoid automatically triggering these increases [in 2002], as UI trust fund balances declined.”³ GAO also projected that five additional states would have had higher employer taxes in 2003, absent the Reed Act funds.

³ “Unemployment Insurance: States’ Use of the 2002 Reed Act Distribution,” United States General Accounting Office, March 2003. GAO-03-496.

A few states have used Reed Act funds to improve state unemployment insurance coverage, one of the intended uses of these funds. Vermont used some of its Reed Act funds to increase weekly benefit amounts, and Connecticut, Georgia, and the District of Columbia intend to implement “alternate base periods” — which include a worker’s most recent employment history in determining eligibility for unemployment insurance — using their Reed Act distributions. In Indiana, and perhaps in other states as well, Reed Act funds permitted the state to use other state trust fund money to strengthen their regular benefits (by increasing the maximum benefit); the Reed Act funds were kept in the overall state UI trust fund so that it would not become too depleted.

These are appropriate uses of Reed Act funds; indeed, the main purpose of the Reed Act distribution was to improve state UI systems, through paying for state benefits, expanding state benefits, shoring up state trust funds, or funding program administration. There is only one circumstance under which these funds can be used to provide additional benefits to those who have exhausted their regular, state benefits, and that is to provide additional benefits to individuals who have *already* received TEUC benefits.⁴ It is not permissible for the Reed Act funds to be used *instead of* TEUC benefits.

Additional Benefits Have Typically Been Provided By Federal Trust Fund, Which Can Easily Cover Their Costs

During every period of labor market weakness since the end of World War II, it has been the federal government that has provided additional weeks of benefits to those workers who have exhausted their regular benefits. This approach reflects the belief that it is appropriate for national policies to respond to weakness in the national economy.

The federal unemployment trust fund can easily handle the expense of resuming the TEUC program. The federal trust fund now holds \$15 billion — nearly triple the cost of resuming the TEUC program for six months. The level of the federal trust fund is also four times the amount of Reed Act funds remaining in state accounts. A primary purpose of the federal trust fund is to pay for additional benefits during periods of national labor market weakness; that is, this trust fund has accumulated over the years with the explicit design that it be used to provide additional benefits during periods such as the current one. Congress should act to continue this appropriate policy.

⁴ Note that on April 22, 2002 the Department of Labor issued guidance to state UI systems on the use of Reed Act funds. In part that guidance reads: “the use of Reed Act moneys for additional compensation [to those who have exhausted their regular compensation] is explicitly restricted to TEUC exhaustees.”

Table 1
States With No Or Insufficient Reed Act Funds
To Pay For Extended Benefits

States that have used up all their Reed Act funds

Arkansas (expected to use up in March)
California (expected to use up in March)
Delaware
Illinois
Massachusetts
Minnesota
Missouri
New York
North Carolina
Texas
Wyoming

States with insufficient Reed Act funds left

Alaska
Colorado
Connecticut
Idaho
Indiana
Michigan
Montana
New Jersey
New Mexico
Oregon
Pennsylvania
Rhode Island
Vermont
Washington