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A DESCRIPTION OF THE UNEMPLOYMENT PROVISIONS IN THE ECONOMIC STIMULUS PACKAGE

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The economic stimulus bill that became law on March 9 contains two main types of provisions affecting the unemployment insurance (UI) program. The first and more widely publicized area of reform was to provide additional unemployment benefits to those who have exhausted their regular benefits. The policy changes in this area, which would cost $11.6 billion over the next two years, have been widely interpreted as providing 13 additional weeks of benefits to workers who exhaust their regular UI benefits. In reality, as this short analysis explains, the bill is more complex. Some workers will receive 13 additional weeks of benefits, and some will receive more, but many others will receive less.

The legislation also provides for an immediate distribution of $8 billion from federal UI trust funds to state accounts. These funds would have eventually been distributed to the state accounts even without the new law, but the legislation accelerates this process. States have the option of using these funds to increase the benefits provided by their UI program. This analysis includes the amount of funds each state account will receive, and observes that states could use these funds to address the widespread weaknesses in their UI programs.

The New Tiers of Benefits

The legislation provides two tiers of federally funded additional benefits, which will go to some 4.5 million workers:

- All workers who exhaust their regular benefits are eligible for the first tier of additional benefits, which last for half as many weeks as the worker received in regular state unemployment benefits. Workers who qualify for fewer than the maximum 26 weeks of state benefits will be eligible for fewer than 13 weeks of additional federal benefits.

- Workers in high-unemployment states will receive an additional period of benefits — a second tier — if they are still unemployed and unemployment remains high in their state when their first period of additional benefits expires.

In addition, those workers in states that meet existing trigger requirements for the regular Extended Benefits program may also qualify for up to 13 more weeks of benefits under that program, if it they remain unemployed after receiving all of the weeks of temporary federal benefits for which they are eligible.

The First Tier of Additional Benefits

The unemployment provisions of the legislation apply to workers who filed initial UI claims on or after March 15, 2001. Workers who exhausted their regular benefits before the program began will not receive their additional benefits in a lump sum, but rather one week at a time beginning the week of March 10, 2002. (Working quickly, the Department of Labor executed the necessary paperwork with each state immediately after the President signed the bill on March 9.) The legislation expires on December 31, 2002. No additional weeks of benefits will be paid after this date, even for workers who exhaust their regular benefits late in the year and do not receive the total number of weeks of additional benefits for which they otherwise would be eligible.

Under the legislation, all workers who exhaust their regular state UI benefits may receive half as many weeks of *additional* UI benefits as they received in *regular* UI benefits, up to a maximum of 13 weeks of extended benefits. This first tier of additional weeks of benefits is completely federally financed and is available to workers in every state.

The number of weeks of regular state UI benefits a worker may receive varies by state. Only nine states guarantee 26 weeks of benefits to all unemployed workers who qualify for UI; in other states, the number of weeks of benefits a worker may receive depends on how the worker's earnings are distributed through the "base period" (the 12-month period of work history evaluated to determine a worker's UI eligibility). Since many workers do not qualify for 26 weeks of regular state UI benefits, they will not be eligible for the full 13 weeks of additional, federally funded benefits. Department of Labor data show that 42 percent of the workers who exhausted their regular benefits in 2001 — 1.4 million workers — received fewer than 26 weeks of benefits. In addition, 22 percent of affected workers received fewer than 20 weeks of benefits. If those patterns hold for 2002, under the "first tier" less than 60 percent of affected workers would be eligible for 13 weeks of additional benefits.

Another limitation in the legislation is that workers must have earnings in at least 20 weeks of the base period to qualify for additional benefits. This requirement will deny extended benefits to about 3.5 percent of workers who will exhaust their regular UI benefits during the period covered by the legislation.

The Second Tier of Additional Benefits

A second tier of additional weeks of benefits is available to workers in states with high unemployment at the time that workers exhaust their first tier of additional benefits. A state qualifies as a high-unemployment state if its insured unemployment rate (IUR) is at least 4.0 percent. (The IUR is calculated by dividing the number of jobless workers currently collecting unemployment insurance by the total number of workers covered by the UI system and thus potentially eligible for benefits if they become unemployed.) A state also qualifies as a high-unemployment state if its unemployment problem has grown sufficiently high to activate the state's extended benefits program, described below. Once a state qualifies as a high-unemployment state, it retains that classification for at least 13 weeks, even if unemployment falls below the trigger levels.

This second tier of additional benefits is equal in duration to the first tier — for example, a worker who received five weeks of additional benefits under the first tier would be eligible for another five weeks under the second tier. As a result, workers in high-unemployment states may receive as many weeks of additional benefits as they received in regular UI benefits, up to a maximum of 26 weeks of additional benefits. Like the first tier of additional benefits, the second tier is completely federally financed and ends on December 31, 2002.

States that Qualify or Come Close to Qualifying for the Second Tier of Benefits as of March 24

	IUR	Status of Benefits
Alaska	6.38	on
Oregon	5.37	on
Washington	5.24	on
Idaho	5.03	on
Pennsylvania	4.48	on
Wisconsin	4.38	on
Massachusetts	4.36	on
Michigan	4.36	on
Rhode Island	4.06	close to qualifying[1]
Arkansas	4.00	on
Nevada	3.99	on[2]
California	3.92	close to qualifying
New Jersey	3.92	close to qualifying
Illinois	3.77	close to qualifying
Montana	3.73	close to qualifying
New York	3.61	close to qualifying

[1]Rhode Island does not meet the 120 percent requirement; its IUR of 4.06 is currently 113 percent higher than the IUR for the same period in either of the past two years.

[2]Nevada's IUR exceeded 4 percent in the previous week. Once a state triggers on to the program, it remains on for at least 13 weeks even if the IUR subsequently drops below the trigger level.

The Regular State Extended Benefits Program

Workers who remain unemployed at the end of their second period of additional benefits could qualify for up to 13 more weeks of benefits under the regular Extended Benefits (EB) program. Created in 1970, this federal-state partnership provides extended benefits to workers who exhaust their regular state UI benefits in high unemployment states. The cost of these benefits are shared equally between the federal government and the states.

A state may activate its EB program by meeting one of several sets of "trigger" requirements. Two of these triggers are optional for states. One optional trigger activates extended benefits when the state's total unemployment rate (TUR) reaches 6.5 percent.[3] The other optional trigger activates extended benefits when the state's IUR reaches 6.0 percent. A third trigger, which is mandatory for all states, activates extended benefits if the state's insured unemployment rate averages 5 percent over a 13-week period *and* is 120 percent higher than the IUR over the same period in either of the previous two years.

As of March 24, four states qualify to provide regular Extended Benefits based on their unemployment rates and the triggers they have adopted. These states are Alaska, Idaho, Oregon, and Washington.[4]

The IUR requirement for qualifying for the second tier of additional federal benefits is less stringent than the IUR trigger for the regular Extended Benefits program. Additionally, second tier benefits are available to states that have adopted and met either of the optional triggers for the regular EB program. Therefore, some states will qualify for the second tier of benefits but not for the third tier, and some states will not qualify for either tier but could qualify for both by adopting the optional triggers. In states that do qualify for all three tiers, the combination of these three elements — the two tiers of new federal assistance and the existing state EB program — means that a worker who receives the maximum number of weeks of assistance under all three elements would receive *39 weeks of extended UI benefits* after exhausting his or her regular UI benefits. Only a modest minority of unemployed workers, however, are likely to qualify for this number of additional weeks of aid.[5]

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[3]The TUR is the commonly used measure of the labor market that reflects the overall share of the labor market that is unemployed. The IUR measures the ratio of people currently receiving UI benefits to the number of people for whom UI taxes are paid.

[4]In states where some workers were already receiving extended benefits before the stimulus package was passed, those extended benefits are suspended and the workers collect the federally financed additional benefits first. If they exhaust those additional benefits and the states still qualify for the EB program, then workers may receive remaining weeks of benefits through the EB program.

[5]Since the UI provisions end after December 31, 2002, only workers who exhaust their regular benefits before

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Some States May Qualify for Additional Weeks if They Adopt the Optional TUR Trigger

The total unemployment rate is sufficiently high in Washington, D.C. such that if the District were to adopt the TUR trigger mentioned earlier, that trigger would immediately activate the regular EB program and qualify residents for additional weeks of federally financed benefits. In Louisiana, Mississippi, North Carolina, and California, total unemployment is high enough that the 6.5 percent trigger level may be reached soon. Even though IURs remain below the 4 percent trigger level in each of those states, adopting the TUR trigger option and reaching a TUR of 6.5 percent would classify these states as high-unemployment states under the new federal legislation. Being designated a high unemployment state would double the number of additional weeks of federally funded benefits these states would receive.[1]

	3-Month Seasonally Adjusted TUR, as of 3/24/02
District of Columbia	6.6
Nevada	6.6
Louisiana	6.4
Mississippi	6.4
North Carolina	6.4
California	6.1

[1] Nevada, which like DC has a TUR of greater than 6.5 percent but has not adopted the optional TUR trigger, qualifies as a high unemployment state because its IUR is greater than 4 percent. However, the optional TUR trigger is permanent, while the high unemployment designation for states with IURs over 4 percent ends at the end of the year.

Transfer of $8 Billion of Federal UI Funds to the States

A final unemployment provision of the legislation would distribute $8 billion from the federal UI trust fund to the states. The $8 billion distribution is in addition to the $11.6 billion the federal government will spend on additional weeks of benefits for workers who have exhausted regular state benefits. Under existing federal law (the Reed Act), funds must be returned to state UI trust funds when the federal UI trust fund rises to a certain level. While that level has not been reached — and will not soon be reached because of the cost of the extended

[5](...continued)
April 1 (or those who exhaust before June 1 and live in the small number of states that will trigger on to the regular EB program under the permanent 5.0 percent IUR trigger or one of the optional triggers) could receive up to 39 weeks of additional benefits. In states that are no longer classified as high-unemployment states after the provisions expire, no extra weeks of benefits will be paid after December 31.

benefits the legislation provides — the legislation calls for these funds to be distributed to the states.

States will receive lump-sum payments of between $12 million and $940 million. (See Table 1.) States should consider using these funds to make their UI systems more effective safety nets. For example, in 38 states, wages in a worker's most recent complete quarter of work are *not* part of the worker's base period and thus are not counted in determining his or her UI eligibility. This means that many workers who are relatively new to the labor force, such as former welfare recipients, are ineligible for UI benefits altogether. These states could adopt alternate base periods that count recent wages. States could also make part-time workers eligible for UI benefits.

More information on the shortcomings of state UI systems can be found in the recent report *Failing the Unemployed,* by the Economic Policy Institute, the Center on Budget and Policy Priorities, and the National Employment Law Project. For these and other recession-related options on UI and other programs, also see the recent Center on Budget and Policy Priorities report, *Relieving the Recession*.

Table 1
Amount Transferred to Each State's UI Account from Federal Unemployment Accounts (dollars in millions)

Alaska	$ 15
Alabama	111
Arkansas	64
Arizona	144
California	940
Colorado	142
Connecticut	101
DC	26
Delaware	26
Florida	447
Georgia	249
Hawaii	31
Iowa	82
Idaho	32
Illinois	376
Indiana	174
Kansas	78
Kentucky	104
Louisiana	105
Massachusetts	194
Maryland	143
Maine	33
Michigan	292
Minnesota	163
Missouri	161
Mississippi	65
Montana	19
North Carolina	240
North Dakota	15
Nebraska	48
New Hampshire	38
New Jersey	244
New Mexico	39
Nevada	68
New York	492
Ohio	343
Oklahoma	81
Oregon	98
Pennsylvania	339
Puerto Rico	49
Rhode Island	27
South Carolina	108
South Dakota	19
Tennessee	162
Texas	594
Utah	62
Virginia	214
Virgin Islands	2
Vermont	16
Washington	168
Wisconsin	166
West Virginia	36
Wyoming	12
Total	**$8,000**