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STATE "REED ACT" FUNDS ARE NO SUBSTITUTE FOR THE TEMPORARY FEDERAL UNEMPLOYMENT BENEFITS PROGRAM

By Jessica Goldberg and Isaac Shapiro

Recently, House Republican leaders have implied that the federal Temporary Extended Unemployment Compensation (TEUC) program may not need to be extended this month, because states can fund additional benefits using the money transferred into their unemployment trust funds in March 2002. They have observed that $6 billion of the $8 billion that was transferred to states (under a mechanism known as the Reed Act) remains in state accounts, suggesting that states can use these funds to provide additional weeks of unemployment benefits to those who have exhausted their regular benefits.

This analysis finds:

- The Reed Act funds are insufficient to replace TEUC benefits for the large majority of those expected to exhaust their regular benefits over the next six months;

- That 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 purpose of shoring up state benefit programs; and

- That the traditional source of funding for additional unemployment benefits — the federal unemployment insurance trust fund — has more than adequate resources to extend and strengthen the TEUC program, and more than three times as much in reserve as remains in Reed Act funds.

In Many States, And For Most Exhaustees, Not Enough Reed Act Funds Are Available

Many states do not have enough remaining Reed Act funds to cover the costs of continuing the assistance provided to jobless workers by the TEUC program. All told, *nearly seven out of every 10 workers — 68 percent — who are likely to exhaust their regular state benefits in the next six months live in states where Reed Act funds are insufficient* to replace benefits that would be provided by an extension of the current TEUC program.

- Seven states have already spent *all* of their Reed Act distributions. Four of the states — Illinois, New York, North Carolina, and Texas — have unemployment rates above six percent. The other states with no remaining Reed Act funds are Minnesota, Missouri, and West Virginia.

- Twelve 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 next six months. Those states are Alaska, Arkansas,[1] California, Connecticut, Massachusetts, Michigan, New Jersey, Oregon, Pennsylvania, Rhode Island, Vermont, and Washington. While the large majority of states now qualify for 13 weeks of TEUC benefits, six states — Alaska, Connecticut, Massachusetts, Oregon, Pennsylvania, and Washington — qualify for 26 weeks. None of these states can afford to replace even half of the 26 weeks of benefits their workers currently qualify for under the federally funded TEUC program.

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

If Reed Act funds are spent 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 recent 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." [2] GAO also projected that five additional states would have had higher employer taxes in 2003, absent the Reed Act funds.

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. Diverting Reed Act funds to providing additional weeks of benefits (which, as noted just below, has typically been the role of the federal government) would make it less likely that additional states will use these funds to shore up state protection that fails to cover many unemployed workers — and especially workers who were employed in low wage jobs.

In light of significant weaknesses in state unemployment insurance protection, it is particularly important that Reed Act funds be used more aggressively to shore up state programs, even if that may result in some tax increases. (As noted below, the federal trust fund should

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[1] Arkansas comes close to being able to do so. While Arkansas' remaining Reed Act funds are not sufficient to pay for 13 weeks of additional benefits for all workers expected to exhaust regular benefits in the state in the six months after TEUC expires, the funds would be sufficient to cover those workers for 12 weeks.

[2] "Unemployment Insurance: States' Use of the 2002 Reed Act Distribution," United States General Accounting Office, March 2003. GAO-03-496.

continue to be used for providing additional benefits to those who exhaust their state benefits.) Nonetheless, the political reality — as evidenced by state actions documented in the GAO report — is that many states will hesitate to use Reed Act funds for this purpose, or for the purpose of providing additional benefits, because of their desire not to raise taxes.

Additional Benefits Have Typically Been Provided By The Federal Government, And The Trust Fund To Be Used For This Purpose Remains Flush

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 not only continuing, but also strengthening, the TEUC program. The federal trust fund holds over $20 billion — more than double the cost of extending the TEUC program for six more months and providing additional assistance to workers who have run out of all state and federal benefits and are still unemployed. The level of the federal trust fund is also *more than three 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.