Center on Budget and Policy Priorities

POLICY BASICS

Unemployment Insurance

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The federal-state unemployment insurance (UI) system helps people who have lost their jobs and are eligible for benefits by temporarily replacing part of their wages. Created in 1935, it is a form of social insurance, with contributions being paid into the system on behalf of working people so that they have income support if they lose their jobs. The system also helps sustain consumer demand during economic downturns by providing a continuing stream of dollars for families to spend.

The basic unemployment insurance program is run by the states, although the U.S. Department of Labor oversees the system. The basic program typically provides up to 26 weeks of benefits to unemployed workers, replacing about half of their previous wages, up to a maximum benefit amount. States provide most of the funding and pay for the actual benefits provided to workers; the federal government pays only the administrative costs. Although states are subject to a few federal requirements, they are generally able to set their own eligibility criteria and benefit levels.

Extra Weeks Available When Unemployment Is High

The permanent Extended Benefits (EB) program provides an additional 13 or 20 weeks of compensation to jobless workers who have exhausted their regular benefits in states where the unemployment situation has worsened dramatically (regardless of whether the national economy is in recession). The total number of weeks available depends on a state's unemployment rate and its unemployment insurance laws. Normally the federal government and the states split the cost of EB, but currently the federal government is fully funding the program under the 2009 Recovery Act.

During recessions and while unemployment remains high during recoveries, the federal government has historically created temporary, wholly federally funded programs providing further weeks of benefits. Congress created the most recent such program, Emergency Unemployment Compensation (EUC), in June 2008. Workers who exhaust their regular state UI benefits before they can find a job can receive up to 20 weeks of EUC benefits regardless of their state's unemployment rate; workers in states with high unemployment rates can receive up to 53 weeks of EUC benefits, as well as EB benefits if their state's unemployment insurance laws allow it.

Extra Benefits Are Effective Economic Stimulus

Temporary increases in unemployment insurance benefits score high in "bang-for-the-buck" calculations of their economic impact as stimulus. The money gets spent fast and its effects spread through the economy. As a result of such policies, local businesses are less apt to lay off workers and cut back on orders from their suppliers during a downturn; and in the early stages of a recovery, they are more apt to hire additional workers and step up their orders. Policymakers have always ended these emergency UI benefits once a strong and sustainable economic recovery is underway.

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Policy Basics is a series of brief background reports on issues related to budgets, taxes, and government assistance programs.

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