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CONFERENCE AGREEMENT FAR BETTER FOR UNEMPLOYED WORKERS AND UI SYSTEM THAN ORIGINAL HOUSE BILL

By Hannah Shaw and Chad Stone

The conference agreement on legislation that continues federal emergency unemployment insurance (UI) gives unemployed workers a far better deal than UI legislation that the House passed last December. It also rejects extreme proposals in the House bill that would have changed the essential character of the UI system, which policymakers created in 1935 to provide financial assistance to workers who have lost their jobs through no fault of their own.

The agreement provides fewer weeks of UI benefits to the long-term unemployed than they received between late 2009 and the end of 2011. It also provides less support to the economy than it would have received if Congress had continued the program in its current form. However, such a reduction evidently was necessary in order to reach agreement on extending UI, and policymakers made the right choice in targeting the UI system more toward high-unemployment states. Moreover, the continued UI benefits will provide very important support to workers and the economy during 2012; failure to reach a deal would have had serious, adverse effects on both workers and the economy.

Under the agreement, federal benefits will phase down over the course of the year. Workers in a state whose unemployment rate is 9 percent or more all year long will continue to receive up to 99 weeks of benefits in the months ahead if the state qualifies for the Extended Benefits program — a figure that will drop to 73 weeks in the September-through-December period. In another example, workers in a state whose unemployment rate is 7 percent throughout the year will receive up to 73 or 86 weeks of benefits in the months ahead, depending on whether the state qualifies for EB — a figure that will drop to 63 weeks in the September-through-December period.

Reduction in Weeks of Benefits

Background

Between November 2009 and December 2011, federally funded emergency unemployment insurance benefits were available for up to 34 weeks in all states and up to 73 weeks in states with high unemployment. Combined with 26 weeks of regular state UI,[1] long-term unemployed workers

[1] Recently, several states have reduced the number of weeks of regular state UI benefits they offer below the 26 weeks that had been the norm in all states but Montana (28 weeks) and Massachusetts (30 weeks). Those who filed for UI after the reductions in state benefits took affect are eligible for proportionally fewer federal benefits as well.

could receive a maximum of 60 weeks of benefits in all states and 99 weeks in high-unemployment states while they searched for work. In high-unemployment states, a maximum of 20 of those weeks of federally funded benefits were provided through the Extended Benefits (EB) program and the rest through the Emergency Unemployment Compensation (EUC) program (see tableS).

Congress failed to agree on a full-year extension of emergency federal UI when these provisions expired at the end of 2011, instead enacting a two-month extension of the existing provisions while negotiations continued. The legislation included an extension of a temporary "lookback" provision of the EB program, enacted in 2010, that enabled a number of states to remain eligible for EB during 2011 but will not do the same in 2012.[2]

A full-year extension bill that the House passed in December (but the Senate rejected) would have cut back federal benefits provided through EUC to a maximum of 20 weeks in all states and up to 33 weeks in high-unemployment states. Together with 26 weeks of regular benefits, long-term unemployed workers would have received a maximum of 46 weeks in all states and 59 weeks in high-unemployment states.

The Conference Agreement

The conference agreement extends the temporary EUC program and full federal financing of the permanent EB program (half of which is normally financed by the states) through December 31, 2012.

The agreement contains a formula for reducing the maximum number of weeks of additional benefits available through EUC program in two ways. First, it reduces the number of weeks of benefits available in all states by the end of the year; second, beginning in June, it raises the unemployment rate thresholds for receiving benefits in the three "tiers" of EUC available in states with unemployment rates above 6 percent over the course of the year. Also, while it extends the existing EB lookback provision, it does not make the changes needed in that provision to prevent most (if not all) states from losing access to EB over the course of 2012.[3]

The number of weeks of UI available in most states will be lower in 2012 than it was in 2011, under the agreement, as a result both of the phasing out of EUC and EB and of lower unemployment rates. However, the duration of UI benefits offered in this agreement is much higher than either of the alternatives: the maximum of 59 weeks available in the House proposal,[4] or

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[2] Under the permanent law governing it, EB is "on" if a state has an unemployment rate of at least 6.5 percent, has adopted optional unemployment rate triggers, and if the state's unemployment rate is at least 10 percent higher than it was at a comparable time in one or both of the past two years. Unemployed workers in states with EB triggered "on" can receive up to 20 weeks of benefits if the state's unemployment rate is at least 8 percent and up to 13 weeks otherwise. States were given the option of adopting a *three*-year lookback in 2010. Many states chose to adopt the three-year lookback to remain eligible for EB. .

[3] As footnote 2 explains, a state's eligibility for EB currently depends in part on having an unemployment rate that is at least 10 percent higher than in one of the previous three years. More and more states will fail to satisfy the lookback condition over the course of 2012, even if their unemployment rate remains high, because it will not be higher than it was in any of the past three years.

[4] Chad Stone, "House Republican Unemployment Insurance Proposal Acts As If Economic Slump is Over," Center on Budget and Policy Priorities *Off the Charts* blog, December 9, 2011: http://www.offthechartsblog.org/republican-unemployment-insurance-proposal-acts-as-if-economic-slump-is-over/

the maximum of 26 weeks or fewer that most states would face if *no* federal benefits were continued.[5]

Table 1 below shows how the number of weeks available under EUC would change under the agreement; Table 2 shows the maximum number of weeks available when 26 weeks of regular state UI and EB are included. As shown in the tables:

- *From March through May* — The agreement maintains at least the current level of federal emergency UI benefits for all states. In states with an unemployment rate above 8.5 percent that continue to get EB, 99 weeks would be available, just as they are now. In states with unemployment above 8.5 percent that *lose* EB, the number of weeks would fall to 79, though workers who had not already received EB would qualify for an additional ten weeks of EUC Tier 4 benefits (for a total of 89 weeks). The long-term unemployed in states with unemployment rates below 8.5 percent would be in the same situation they are in now.

- *From June through August* — New, higher unemployment rate triggers come into play for Tiers 2 through 4 of EUC. The new trigger for Tier 2 (which has no trigger under current law) will cause unemployed workers in states with unemployment rates below 6 percent to lose 14 weeks of benefits. Workers in states with unemployment rates below 7 percent and 9 percent would lose Tier 3 or Tier 4 benefits, respectively. The table shows differences between states with EB and without it, but EB benefits are unlikely to be available in most states after May 2012.[6]

- *From September through December* — The maximum number of weeks of EUC benefits will fall by at least six weeks in all states as Tier 1 of EUC shrinks from 20 weeks to 14. The 19 weeks in Tiers 3 and 4 are rearranged: four weeks are shifted from Tier 3 to Tier 4. Current projections suggest that very few, if any, states will meet the criteria for offering EB after September 2012.

Table 1

Changes to the Emergency Unemployment Compensation Program During 2012

	Current Law		*March — May*		*June — Aug.*		*Sept. — Dec.*	
	Trigger	**Weeks**	**Trigger**	**Weeks**	**Trigger**	**Weeks**	**Trigger**	**Weeks**
Tier 1	none	20	none	20	none	20	none	14 wks
Tier 2	none	14	none	14	6%	14	6%	14 wks
Tier 3	6%	13	6%	13	7%	13	7%	9 wks
Tier 4	8.5%	6	8.5%	6*	9%	6	9%	10 wks

* An additional ten weeks of EUC Tier 4 benefits will be available for workers who have not yet received EB in states with unemployment rates above 8.5 percent that lose 20 weeks of EB because of the "lookback."

Note: Individuals who receive fewer than 26 weeks of regular state benefits are eligible for proportionally fewer federal benefits as well.

[5] Chad Stone, "What Happens if Congress Doesn't Continue Emergency Unemployment Benefits?" Center on Budget and Policy Priorities *Off the Charts* blog, February 14, 2012: http://www.offthechartsblog.org/what-happens-if-congress-doesn%E2%80%99t-continue-emergency-unemployment-benefits/

[6] That could change if economic conditions change for the worse in a state already experiencing high unemployment.

Table 2 Total UI Weeks Available Under Conference Agreement				
Unemployment Rate	Weeks			
	Current Law	*March — May*	*June — Aug.*	*Sept. — Dec.*
At least 9 percent (with EB)	99	99	99**	**
At least 9 percent (no EB available)	79	89*	79	73
8 percent (with EB)	93	93	93**	**
8 percent (no EB available)	73	73	73	63
7 percent (with EB)	86	86	86**	**
7 percent (no EB available)	73	73	73	63
Less than 6 percent (no EB available)	60	60	46	40

* An additional ten weeks of EUC Tier 4 benefits will be available for workers who have not yet received EB in states with unemployment rates above 8.5 percent that lose 20 weeks of EB because of the "lookback."

** Very few states will be eligible for EB after May, and even fewer (if any) will be eligible after September. If EB is "on" in September for a state with an unemployment rate of at least 9 percent, a total of 93 weeks would be available; for a state with unemployment of 8 percent, a total of 83 weeks would be available; for a state with unemployment of 7 percent, 76 weeks would be available.

Note: Individuals who receive fewer than 26 weeks of regular state benefits are eligible for proportionally fewer federal benefits as well.

No Major Changes to Underlying UI System

The December House bill included a number of provisions that would have *permanently* damaged the UI system by changing its fundamental nature and making it much harder for otherwise-qualified workers to receive benefits when they are laid off through no fault of their own.[7] One provision would have made laid-off workers ineligible for UI unless they had a high school diploma or a certificate of General Educational Development (GED) or were "enrolled and making satisfactory progress in classes" leading to one. This onerous proposal would have denied UI benefits to hundreds of thousands of workers — many of them middle-aged — who have worked hard, played by the rules, and effectively paid UI taxes for years before being laid off.[8]

The conference agreement largely rejects the changes in the House bill, preserving UI's fundamental purpose since its creation in the 1930s: providing "temporary, partial wage replacement as a matter of right to involuntarily unemployed individuals who have demonstrated a prior attachment to the labor force," as a bipartisan, blue-ribbon commission put it more than a decade ago.

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[7] For more see Chad Stone and Hannah Shaw, "House Unemployment Insurance Proposal Would Harm Jobless Workers, Weaken Economy, and Undermine UI System," Center on Budget and Policy Priorities, December 14, 2011: http://www.cbpp.org/files/12-14-11ui.pdf

[8] For more see Robert Greenstein, Hannah Shaw and Chad Stone, "Hundreds of Thousands of Lower-Wage Workers, Many of Whom Worked for Decades, Would Be Denied Unemployment Insurance Under Provision Now Under Consideration," Center on Budget and Policy Priorities, January 6, 2012: http://www.cbpp.org/files/1-6-12ui.pdf

The conference agreement does include some changes, however:

- *Drug testing* — The conference agreement allows states to conduct drug tests on applicants for UI if they were terminated from their most recent job because of a drug-related offense. It also allows states to conduct drug tests on UI recipients applying for occupations that typically require new employees to pass a drug test. Both of these instances are consistent with existing law.

- *State demonstration projects* — The House bill weakened the basic federal protection of the UI system — that states use the money paid into their UI trust funds solely to provide benefits to unemployed workers — by allowing up to ten states per year for the next three years to use those funds for broadly defined "demonstration projects" designed to "expedite the reemployment" of UI recipients and "improve the effectiveness" of state UI systems. Among other things, this broad language would have allowed states to *replace* state or local funds now used for job training or other such purposes with diverted UI funds and then shift the withdrawn funds to other uses, including tax cuts.[9] The net result could have been a reduction in unemployment benefits with little or no offsetting increase in employment services.[10]

  The conference agreement instead allows only ten states in total to participate in such demonstration projects over the next three years, and specifies that the demonstration projects be voluntary programs that connect unemployed workers with employers willing to offer them a temporary, suitable job at a market wage with all the normal labor market protections. These programs would offer workers the opportunity to learn new skills while maintaining their eligibility for UI benefits.[11]

  It would have been better to avoid any provision that weakened one of the foundations of the UI system. The demonstration programs authorized by the conference agreement were probably a necessary compromise to achieve agreement on the overall bill, but policymakers should draw a line at further erosion of that foundation.

- *Federal job search requirements* — The conference agreement introduces a *federal* requirement that all UI recipients must be "able to work, available to work, and actively seeking work." Expecting UI recipients to look for work is eminently reasonable, which is why the vast majority of state programs already have such requirements.

Other Reemployment Initiatives

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[9] For more see Hannah Shaw and Chad Stone, "House Republican Proposal Would Undermine Foundation of Unemployment Insurance System," Center on Budget and Policy Priorities, January 17, 2012: http://www.cbpp.org/files/1-17-12ui.pdf

[10] For more see Hannah Shaw, "Want to Promote Job Training and Adult Education? Then Fund Them Adequately," Center on Budget and Policy Priorities *Off the Charts* blog, February 10, 2012: http://www.offthechartsblog.org/want-to-promote-job-training-and-adult-education-then-fund-them-adequately/

[11] Allowable programs would be similar to the "Bridge to Work" programs described in the President's proposed *American Jobs Act*. For more details see http://www.whitehouse.gov/the-press-office/2011/09/08/fact-sheet-american-jobs-act

The conference agreement also provides over $1 billion of additional funding for states to provide services for the unemployed.

Nearly half a billion dollars will be appropriated to states for reemployment services and reemployment and eligibility assessments. As proposed in both the President's American Jobs Act and the December House bill, these services will not only help the long-term unemployed who are receiving UI to get back to work more quickly, but will also help states to prevent UI overpayments and ensure that UI recipients receive the benefits they have earned.

The agreement also provides nearly half a billion dollars to temporarily finance state short-term compensation programs, also known as "work-share," which give employers an alternative to laying off workers. And it provides $30 million in grants to states that offer self-employment assistance programs to support long-term unemployed individuals who establish businesses.

Agreement Will Give Economy Needed Support

The reductions in the number of weeks of benefits provided lower the total cost of the UI portion of the agreement to $30 billion, or roughly $5 billion less than it probably would have cost to extend the provisions of the program in effect from 2009 through 2011.[12] Since UI is one of the most cost-effective measures we have for supporting a weak economy and boosting a sluggish recovery, any paring back of UI reduces that boost. However, the number of weeks of benefits needed will shrink as the job market improves and the unemployment rate falls. Moreover, to the extent that cutting the number of weeks was necessary to get an agreement to extend the payroll tax cut and UI, the economy is certainly better off than it would have been if they had been allowed to expire.

[12] The $30 billion is the Congressional Budget Office (CBO) estimate for the 10 months covered by the conference agreement. There is no comparable current estimate of the cost of extending all the provisions in effect at the end of 2011, including fixing the EB lookback, but earlier estimates of the costs of extending them for a full year and the cost of the two-year extension suggest that the cost would have been around $36 billion, but recent declines in the unemployment rate suggest a slightly lower number.