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The Fundamentals of Unemployment Compensation

A Joint Federal-State Program

The joint federal-state Unemployment Compensation (UC) program provides income support through UC benefit payments. Although there are broad requirements under federal law regarding UC benefits and financing, the specifics are set out under each state's laws. States administer UC benefits with U.S. Department of Labor (DOL) oversight, resulting in 53 different UC programs operated in the states, the District of Columbia, Puerto Rico, and the Virgin Islands.

Total UC expenditures include benefits and administrative costs. During economic expansions, states fund approximately 85%-90% of all UC expenditures—as almost all of the benefits are state-financed by state unemployment taxes. In comparison, federal expenditures are relatively small during these expansions (approximately 10%-15%) in which federal expenditures are primarily administrative grants to the states financed by federal unemployment taxes. During FY2021, federal expenditures were 27% of total permanent-law, regular UC program outlays. Almost 88% of all FY2021 Unemployment Insurance (UI) benefit expenditures were federally financed once the temporary COVID-19 UI benefits outlays are included in the calculation.

Objectives

The UC program's two main objectives are to provide temporary partial wage replacement to involuntarily unemployed workers and to stabilize the economy during recessions. These objectives are reflected in the current UC program's funding and benefit structure.

During economic expansions, UC program revenue rises through increased tax revenue whereas UC program spending falls as fewer workers are unemployed and receive benefits. The effect of collecting more taxes than are spent on benefits dampens demand in the economy. This also creates a surplus of funds or a "cushion" of available funds for the UC program to draw upon during a recession. In a recession, UC tax revenue falls and UC program spending rises as more workers lose their jobs and receive UC benefits. The increased amount of UC payments to unemployed workers dampens the economic effect of lost earnings by injecting additional funds into the economy.

Authorization

The underlying framework of the UC system is contained in the Social Security Act. Title III of the act authorizes state grants for administering state UC laws; Title IX authorizes the various components of the federal Unemployment Trust Fund (UTF); and Title XII authorizes advances or loans to insolvent state programs. UC is financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA).

UC in a Snapshot, FY2021

4.4M	$340	21.0 weeks	8.9 M
Average Weekly Claims	Average Weekly Benefit	Average Duration of Claim	New UC Beneficiaries

Revenues: $52.7B
Federal Unemployment Tax (FUTA): $6.3B
State Unemployment Tax (SUTA): $46.4B

Regular Outlays: $63.8B
Administration (FUTA financed): $6.1B
Regular UC Benefit (SUTA financed): $46.5B
UC Federal Employees (UCFE, Agency pays): $330M
UC Ex-Servicemembers (UCX, Service pays): $240M
Extended Benefits (temporarily 100% FUTA financed): $10.6B

Temporary COVID-19 UI Benefit Outlays (General Fund financed): $317.9B
PUA: $74.7B
PEUC: $78.9B
FPUC ($300/week): $164.2B
MEUC ($100/week): $62.9M

Source: U.S. Department of Labor (DOL), Employment and Training Administration, Office of Unemployment Insurance.

Benefits

The UC program pays benefits to workers who become involuntarily unemployed for economic reasons and meet state-established eligibility rules. The permanent-law UC program generally does not provide UC benefits to the self-employed, those who are unable to work, or those who do not have a recent earnings history.

States usually disqualify claimants who lost their jobs because of inability to work, voluntarily quit without good cause, were discharged for job-related misconduct, or refused suitable work without good cause. To receive UC benefits, claimants must (1) have enough recent earnings (distributed over a specified period) to meet their state's earnings requirements; and (2) be able, available, and actively searching for work.

Most states provide up to a maximum of 26 weeks of UC benefits. Under current state laws, the maximum duration of UC benefits ranges from up to 12 weeks (under certain economic conditions in Florida and North Carolina) to up to 30 weeks (Massachusetts). For more information on UC eligibility and benefit duration in states, see CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*.

Former federal workers may be eligible for unemployment benefits through the Unemployment Compensation for Federal Employees (UCFE) program. Former U.S. military servicemembers may be eligible for unemployment benefits through the Unemployment Compensation for Ex-Servicemembers (UCX) program. For more information on the UCX program, see CRS Report RS22440, *Unemployment Compensation (Insurance) and Military Service*.

In FY2021, states paid $46.5 billion in regular UC benefits and federal agencies paid $0.6 billion in UCFE/UCX benefits, which are considered on-budget, mandatory expenditures. The UC program's administrative costs, which go through the federal appropriations process, were estimated to total $6.1 billion.

Unemployment Benefits for the Long-Term Unemployed

Federal law augments the regular UC benefit with the Extended Benefit (EB) program if state economic conditions are met. In response to economic recessions, Congress has often created additional weeks of temporary unemployment benefits (including the now-expired unemployment benefits enacted in response to the COVID-19 pandemic).

Extended Benefits

UC benefits may be extended at the state level by the permanent-law EB program if high unemployment exists within the state. After regular unemployment benefits are exhausted, the EB program may provide up to an additional 13 or 20 weeks of benefits, depending on worker eligibility, state law, and economic conditions in the state. The EB program is funded 50% by the federal government and 50% by the states. However, for almost all of FY2021, the EB program was temporarily 100% federally funded, totaling $10.6 billion. The EB program was established by the Federal-State Extended Unemployment Compensation Act of 1970 (EUCA; P.L. 91-373) (26 U.S.C. §3304, note). For more details on the EB program, see CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*.

Temporary Programs

Congress has acted nine times—1958, 1961, 1971, 1974, 1982, 1991, 2002, 2008, and 2020—to create temporary, additional UI benefits in response to recessions. Most recently, in response to the COVID-19 recession, Congress created Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation (FPUC) under P.L. 116-136, the Coronavirus Aid, Relief, and Economic Security (CARES) Act; and Mixed Earner Unemployment Compensation (MEUC) under P.L. 116-260, the Consolidated Appropriations Act, 2021. For FY2021, these benefits totaled $317.9 billion and were financed by General Fund transfers from the U.S. Treasury. All of these temporary COVID-19 unemployment benefits expired in September 2021. For information on PUA, PEUC, MEUC, FPUC, and MEUC, see CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*. For more details on earlier temporary UI programs, see CRS Report RL34340, *Extending Unemployment Compensation Benefits During Recessions*.

Financing

The UC program is financed by federal payroll taxes under the FUTA and by state payroll taxes under SUTA. The 0.6% effective net FUTA tax paid by employers on the first $7,000 of each employee's earnings (no more than $42 per worker per year) funds federal and state administrative costs, loans to insolvent state UC accounts, the federal share (50%) of Extended Benefit (EB) payments (100% temporarily for most of FY2022), and state employment services. For FY2021, an estimated $6.3 billion was collected in federal FUTA taxes, whereas an estimated $46.4 billion was collected in SUTA taxes to finance UC benefits. For more details on UC financing, see CRS Report RS22077, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*.

Job Search and Return to Work

The job search behavior of the unemployed can be influenced by changing the timing, generosity, and duration of UC benefits. The availability of benefits may create a disincentive to search for and accept reemployment, increasing unemployment and unemployment duration.

Although most economists would agree that UC benefits create some disincentives to find work quickly, these disincentives are somewhat balanced by a relatively low replacement rate of wages by UC benefits and a recognition that proper allocation of human resources and human capital requires adequate job search time. For more analysis of the interaction between job search and UC receipt, including policy proposals to return UC claimants to work, see CRS Report R43044, *Expediting the Return to Work: Approaches in the Unemployment Compensation Program*.

Program Integrity

Program integrity continues to be of concern to the UC program. The Office of Management and Budget (OMB) has designated UC as a "high-priority" program (i.e., a program with estimated improper payments of more than $100 million a year). In the fourth quarter of FY2021, the UC improper payment rate was reported to be 8.7%, with a total of $7.6 billion in improper payments. Although states currently have authority to recover UC overpayments through a variety of means, there are legislative proposals in the 117th Congress to further address this issue. For more information on program integrity proposals, see CRS Report R46789, *Unemployment Insurance: Legislative Issues in the 117th Congress, First Session*.

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