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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.

In FY2022, there was still a significant share of federal expenditures in the UC system as a result of the COVID-19 response. Out of $28.7 billion in total expenditures on permanent-law unemployment benefits and administrative costs, 22.8% ($6.54 billion) was federally financed. Additionally, DOL reported $8.1 billion in federal expenditures related to the expired COVID-19 UI benefits (discussed below) as states continued to process and adjudicate benefit claims for weeks of unemployment that occurred while those programs were authorized. In FY2022, federal expenditures amounted to almost 40% of the $36.8 billion in total UC system expenditures, which includes both permanent-law and COVID-19 program outlays.

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 for goods and services 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, FY2022

4.4M	**$401**	**14.2 weeks**	**4.4 M**
Average Weekly Claims	Average Weekly Benefit	Average Duration of Claim	New UC Beneficiaries

Revenues: $66.2B
Federal Unemployment Tax (FUTA): $6.9B
State Unemployment Tax (SUTA): $59.3B

Regular Outlays: $28.7B
Administration (FUTA financed): $5.1B
Regular UC Benefit (SUTA financed): $22.2B
1st Week of Regular UC (temporarily General Fund): $710M
UCFE (Agency pays) and UCX (Service pays): $300M
EB (temporarily 100% FUTA financed): $440M

Temporary COVID-19 UI Benefit Outlays (General Fund financed): $8.1B
PUA: $2.8B
PEUC: $110M
FPUC ($300/week): $5.2B
MEUC ($100/week): $0

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

Notes: "UCFE" is UC for federal employees; "UCX" is UC for former servicemembers. EB was temporarily 100% federally financed during FY2020 and FY2021. Most EB payments in FY2022 were delayed payments based upon weeks of unemployment that occurred before FY2022. Alaska was the only state in an EB payable period in FY2022 (ended December 11, 2021).

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 selfemployed, 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, Kentucky, 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 FY2022, states paid $22.2 billion in regular UC benefits and federal agencies paid $0.3 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 $5.1 billion. Additionally, based upon Section 2105 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), an additional $0.71 billion for the first week of regular, state UC benefits were paid by the General Fund of the U.S. Treasury.

Unemployment Benefits for the Long-Term Unemployed

Federal law augments the regular UC benefit with the Extended Benefit (EB) program if certain 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

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) to provide additional weeks of unemployment benefits if high unemployment exists within the state. After UC 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, immediately prior to FY2022, the EB program was temporarily 100% federally funded. EB benefits paid in FY2022 totaled $0.44 billion and were primarily based upon delayed payments subject to the 100% federal financing provisions in the CARES Act. 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 the CARES Act; and Mixed Earner Unemployment Compensation (MEUC) under P.L. 116-260, the Consolidated Appropriations Act, 2021. All of these temporary COVID-19 unemployment benefits expired in September 2021—although states continued to adjudicate claims and pay benefits owed for weeks of unemployment. For FY2022, these benefits totaled $8.1 billion and were financed by General Fund transfers from the U.S. Treasury. 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 EB payments under permanent law, and state employment services. For FY2022, an estimated $6.9 billion was collected in federal FUTA taxes, whereas an estimated $59.3 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*.

Program Integrity

Program integrity issues have long been of concern for the UC program. The improper payment estimate for UC has been above 10% for 15 of the past 19 years. The temporary COVID-19 UI benefits created in response to the pandemic exacerbated program integrity concerns related to improper payments and fraud. For an overview, see CRS In Focus IF12243, *Unemployment Insurance Program Integrity: Recent Developments*. For information on the procedures states may use to recover UC overpayments through various means, see CRS Insight IN12127, *Unemployment Insurance Overpayment and Fraud Recovery*.

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