

## **The Administration's Fiscal 2007 Budget Request for Unemployment Compensation**

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Testimony before Committee on House Ways and Means,  
Subcommittee on Human Resources

May 4, 2006

Unemployment Insurance (UI) is the centerpiece of our efforts to assist workers who lose their jobs at no fault of their own.<sup>1</sup>

In addition to providing income support to workers facing significant financial burden, recent research finds that the existence of an adequate unemployment insurance program can reduce worker anxiety and encourage more labor-market flexibility, both of which are required in order to meet the challenges of technological change and globalization.

The administration's budget request focuses on recovering UI payments to workers made in error. Although it is important to address waste, fraud and abuse in the program, the administration's proposals may actually make it harder for eligible workers to receive the assistance they so desperately need. At the same time, the administration's proposal to eliminate funding for employment services and create a new block grant, results in a decline of resources, thereby making it more difficult for states to monitor compliance with UI eligibility requirements.

The administration's budget request ignores the program's serious long-term problems. Our nation's UI program is seriously out of date with recent developments in the US labor market.

There have been no major changes in the basic structure of UI since it was established 70 years ago, despite significant changes in US labor-market conditions. Currently, only a small percentage of unemployed workers receive assistance under the program and the assistance is modest at best. There are vast differences in eligibility, benefit levels, and tax rates between state UI programs. The program no longer meets its initial goal of providing countercyclical stimulus during periods of economic slowdowns.

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<sup>1</sup> This testimony is based on Lori Kletzer and Howard Rosen, "Extreme Makeover: Reforming Unemployment Insurance to Better Meet the Needs of a 21 Century Workforce," draft, 2006. Howard Rosen also serves as executive director of the Trade Adjustment Assistance Coalition, a nonprofit organization that advocates on behalf of workers, farmers, fishermen, firms, and communities that face dislocations as a result of increased imports and international shifts in production.

## **Changes in the US Labor Market**

The US labor market has undergone a significant transformation since UI was established 70 years ago. Although the unemployment rate has recently been low and falling, the duration of unemployment has been rising, suggesting that unemployment tends to be more permanent than temporary. Unemployment is increasing due to structural rather than cyclical factors. With the exception of the early 1980s, recessions have become shorter, but the length of time it takes for employment to recover from economic downturns has significantly increased.

State unemployment rates are converging, suggesting that unemployment is due to national rather than state or regional factors. During the late 1970s and the 1980s a disproportionate share of the nation's unemployment was concentrated in the Northeast and Midwest—regions with a high concentration of traditional industries, like autos, textiles and apparel, and steel. One consequence of globalization is that no region or industry is now immune from increased domestic and foreign competition. Although there clearly remain differences in local labor-market conditions, current pressures on the US labor market are becoming more national in character. Local labor-market conditions primarily affect the costs associated with job loss and the prospects for re-employment, they do not necessarily protect workers from job loss.

There is considerable turnover in US employment.<sup>2</sup> Between 1994 and 2004, 30 percent, or approximately 30 million workers either lost their job or took a new job, or both, each year. Contrary to conventional wisdom, a disproportionate amount of this turnover occurred in the service sector, as opposed to the manufacturing sector.

Between 1995 and 2004, approximately 18.3 million new jobs were created and 16.6 million jobs were terminated on average each year.<sup>3</sup> Job losses exceeded job gains by 20 percent in the manufacturing sector. The average annual number of job losses in the five service industries—transportation, communication and utilities, wholesale and retail trade, finance, insurance and real estate—was 12½ million, almost seven times the number of manufacturing job losses.

## **The Current Unemployment Insurance Program**

The original UI program was designed to offset involuntary income losses during cyclical periods of temporary unemployment. By contrast, current labor-market conditions suggest that workers face short-term transitional unemployment—as they move from job to job—and long-term structural unemployment. The existing UI system provides inadequate assistance in both cases. Those workers who voluntarily leave one job in order to take another job are ineligible for UI and assistance is inadequate for those workers who experience long-term unemployment.

Underlining these macroeconomic changes to the US labor market has been a shift from traditional employer-based full-time employment to contingent, part-time employment and/or self-employment. The shift to nontraditional forms of employment raises additional

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<sup>2</sup> The Bureau of Labor Statistics and the Census Bureau have recently begun publishing establishment data on employment creation and termination.

<sup>3</sup> By contrast, analyses based on changes in net employment would suggest that the economy created 17 million jobs over the 10-year period.

problems for UI. The current system is not able to cover contingent employment, self-employment, and part-time and low-wage employment.

As a form of social insurance, UI has some important insurance principles built into it. Premiums are paid in advance through employer taxes of wages earned. Individual eligibility requires earnings (employment) above a state-specified minimum, and entry into unemployment must be through involuntary job loss (no voluntary quits or firings). With the covered earnings requirement, eligible workers are those with some labor force attachment, and continued receipt of benefits requires being able, available and actively seeking work.

## **Coverage**

Coverage is the only part of UI that has been meaningfully reformed since the program was established. Over the years, various changes have widened the net of coverage to include almost all wage and salary workers, with the exception of agricultural and household workers. Self-employed workers are still not covered under the program.

Under current law, workers must have worked 20 weeks in a calendar year, earning at least \$1,500 in two quarters, in order to qualify for the minimum level of assistance under the program. Workers must also have had just cause for losing their jobs. Most state programs provide assistance only to those workers who lost their jobs through no fault of their own. Almost all states disqualify workers from receiving UI benefits due to voluntary job loss and refusal to take suitable work and discharge due to misconduct.

The percent of the total civilian workforce covered by UI has been trending upward and currently stands at 74 percent of the total workforce. Recent problems with coverage may be due to an increase in the number of self-employed workers.

The percent of total unemployed workers receiving assistance, the reciprocity rate, has also declined in recent years. Only a little more than a third of unemployed workers actually receive UI.<sup>4</sup>

## **Duration of Benefits**

Individual states set their own minimum and maximum benefits amounts, as well as the number of weeks workers can receive assistance. Initially, the range of UI duration was 12 to 20 weeks. Currently, all states except two have a maximum duration of 26 weeks.<sup>5</sup>

Over the last 30 years, the average duration for receiving UI has ranged from a low of 13.2 weeks in 1989 to a high of 17.5 weeks in 1983 and has hovered around 15 weeks for most of the period.

The percent of beneficiaries who have exhausted their benefits, e.g. have remained unemployed beyond the period for which they received UI, has ranged from a low of 26.7 percent in 1978 and 1979 to a high of 43.4 percent in 2003. On average, approximately one-third of UI recipients exhaust their benefits before finding new jobs.

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<sup>4</sup> Research funded by the Department of Labor suggests that the recent decline in the reciprocity rate is likely due to changes in the industrial composition of employment and the way unemployment is measured. Others argue that the low level of assistance may discourage workers from participating in the program.

<sup>5</sup> Washington and Massachusetts have a maximum duration of 30 weeks.

## **Benefit Levels**

Almost all states set their maximum weekly benefits somewhere between \$200 and \$500, with the largest concentration of states falling between \$300 and \$400 (table 1). Puerto Rico has the lowest maximum weekly benefit (\$133). States with the highest maximum weekly benefits include Massachusetts (\$528 to \$778), Minnesota (\$515), New Jersey (\$503), Rhode Island (\$477 to \$596), and Washington (\$496). The average weekly benefit in 2004 ranged from \$106.50 in Puerto Rico to \$351.35 in Massachusetts. The average weekly benefit for the entire country was \$262.50.

Table 2 presents the distribution of 2004 replacement ratios, the ratio of the average weekly benefit to average wages. The District of Columbia has the lowest replacement rate, less than a quarter of its average wage. Hawaii's UI program comes the closest to replacing almost half of the state's average weekly wage. Thirty-eight states have an average replacement rate of between one-third and one-half of their average weekly wages. The states with the lowest replacement ratios include Puerto Rico, Arizona, Alaska, Alabama, New York, Connecticut, Delaware, California, Missouri, Tennessee, Virginia, Mississippi, Maryland, and Louisiana. The average replacement rate for the United States as a whole between 1975 and 2004 was 0.36 percent, far from the initial goal of 0.5 percent.

A recent Congressional Budget Office report found that UI constituted an important source of income for unemployment workers and their families (box 1).

## **Extended Benefits Program**

From the outset, UI has not been flexible enough to respond to the cyclical nature of unemployment. More than 40 percent of unemployed workers exhaust their benefits before finding new jobs during recessions. To address this shortcoming, Congress enacted a temporary extension of UI during the 1958 recession. In 1970, Congress enacted a permanent extended benefits program with automatic triggers to provide assistance in a more orderly fashion. High rates of regular UI exhaustion, problems with the automatic triggers and political pressures have resulted in the need for subsequent Congressional action to respond to heightened levels and prolonged duration of unemployment associated with periods of economic slowdown.

Increases in the duration of unemployment during recessions have been the primary impetus for extending traditional UI beyond its base period. In each economic slowdown since the 1950s, the average duration of unemployment has continued to rise after the economy has begun rebounding.

Extended benefits programs were designed to provide a countercyclical stimulus to the economy. In order to achieve this goal, one would have expected the amount of spending on UI to be inversely related to the economy's well being, i.e. outlays on UI would be higher during economic slowdowns and lower during economic recoveries. This does not seem to have been the case.

Most extended benefits were paid during the 1970s, when the extended benefits program was established, and during the 1980s, when the economy experienced a deep recession (table 3). There was a dramatic falloff in the amount of extended benefits paid during the subsequent 15 years. One explanation for this fall may be that the nature of recent economic slowdowns has changed, making the mechanisms that were initially designed to trigger extended benefits work less automatically.

Inflexibility in the “automatic” triggers has made the program obsolete. As a result, Congress has occasionally extended UI (table 4). Far more benefits have been paid under these temporary programs than under the standard extended benefits program, reflecting a major weakness in the standard extended benefits program.

The standard extended benefits program has accounted for a smaller share of assistance provided unemployed workers, while emergency extensions of UI enacted by Congress have become more important. The nation’s UI program has become less automatic and more dependent on congressional action in response to prolonged periods of economic slowdown.

The degree to which extended benefits actually stimulate the economy during periods of slowdown is also questionable. The amount of extended benefits paid during the Temporary Extended Unemployment program between 2002 and 2004 was approximately \$23 billion, less than 3 percent of the change in personal consumption over that period. It is difficult to imagine how the existing UI program, with its current benefit levels and duration, could provide serious stimulus to a \$10+ trillion economy.

## **Financing Unemployment Insurance**

UI is financed by payroll taxes administered by federal and state governments. Revenue from the federal payroll tax is used to finance the costs incurred by both federal and state governments in administering the program. States are required to raise the necessary revenue to finance benefits paid to its unemployed. Federal and state governments share the costs of financing benefits under the automatic extended benefits program. Temporary extended UI programs enacted by Congress have typically been financed by federal budgetary expenditures without any specific revenue offset.

The federal tax to finance UI, established by the Federal Unemployment Tax Act (FUTA) is currently 6.2 percent on the first \$7,000 of annual salary by covered employers on behalf of covered employees. Employers must pay the tax on behalf of employees who are paid at least \$1,500 during a calendar quarter. Employers in states with approved UI programs—which currently include all 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands—receive a 5.4 percent credit, making the effective tax rate 0.8 percent. In 1976, Congress passed a temporary 0.2 percent surtax to replenish the UI trust fund. The surtax remains in place and is scheduled to expire on December 31, 2007.

The taxable wage base has not been adjusted on a regular basis, thereby seriously eroding its real value (figure 1). The last time the federal taxable wage base was increased was in 1983, when it was set at \$7,000. Had the taxable wage base been adjusted for inflation over the last 65 years, it would currently be approximately \$45,000. At that level, the net federal tax rate, i.e., the tax rate minus the credit, would only have to be 0.125 percent in order to generate the same amount of revenue that is currently being collected. Although it is unrealistic to expect an adjustment of the taxable wage base of this magnitude anytime soon, any increase in the wage base to make up for the erosion in its real value over the last 2 decades could provide additional funding for providing assistance to workers in need as well as enable the federal government to reduce the FUTA tax rate.

Currently, federal taxes only finance 17 percent of the UI program. The remaining 83 percent is financed through state taxes. Thirty-one states set their taxable wage base below \$10,000, of which 11 states set their taxable wage base at \$7,000, the same as the federal

taxable wage base. Ten states set their taxable wage base above \$20,000, approximately 3 times greater than the taxable wage base set by the federal government.

There is substantial variance in tax rates set by states (table 5). Forty-one states have an average UI tax rate between 1 and 3 percent of payroll. Average UI tax rates in the Virgin Islands, South Dakota, and New Mexico are below 1 percent. By contrast, the Virgin Islands and New Mexico have relatively high taxable wage bases. Nine programs —California, Pennsylvania, New York, Illinois, Michigan, Massachusetts, Puerto Rico, Rhode Island, and Connecticut—have the highest UI tax rates. The weighted average tax rate for the 53 states and territories is 2.8 percent.

The average tax rate for the nation was a little less than 2 percent in 1975, before it rose and finally peaked at 3.25 percent in 1984. The average tax rate declined over the next 17 years, dropping to 1.7 percent in 2001, before rebounding slightly between 2002 and 2004.<sup>6</sup>

### **Critique of Existing Unemployment Insurance Program**

Although the vast majority of American workers are currently covered by UI, those groups of workers still not covered by the program, including self-employed workers, some agricultural and domestic workers, people who provide services for relatives, many health care providers, student interns, immigrant farm workers and all kinds of seasonal workers, are gaining prominence in the US labor market.

The percent of unemployed workers actually receiving assistance under UI has been falling, at that the same time that coverage has been expanding.

Employers are required to pay federal and state UI tax on behalf of workers employed for at least 20 calendar weeks or who receive at least \$1,500 or more during any calendar quarter. Coverage is determined by a worker's relationship with a single employer, not by the employee's own work experience. For example, a worker who changes jobs during a calendar year may not be covered by UI, even though he or she may have worked more than 20 weeks during the year. This may not have been a problem 40 or 50 years ago, when worker turnover was low. Currently workers change jobs more frequently. In addition, workers are more likely to have multiple employers due to company reorganizations.

UI does not cover workers who voluntarily quit their jobs, regardless of the reason or those workers entering or re-entering the labor market. As a result, workers who voluntarily leave their jobs in anticipation of a plant closing, women who decided to postpone returning to work after childbirth, and workers who leave their jobs in order to relocate with a spouse are all currently ineligible for UI program.

As a result, the current UI program provides assistance to only a small share of the unemployed.

Program eligibility is only one hurdle for the unemployed; in most states, the level of assistance is extremely low. The current average weekly assistance under each of the state

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<sup>6</sup> In general, movements in the average total UI tax rates tend to reflect the business cycle, i.e., the rate tends to reach a trough during economic slowdowns and reach a peak during economic recoveries. This is most likely due to changes in the amount of taxable wages, which tends to be cyclical, rather than to actual changes in the tax rate legislated by each state.

programs is \$262.50—almost 10 percent less than the weekly equivalent of the poverty rate for a family of three set by the US government.<sup>7</sup>

There is no evidence that higher benefit levels result in higher unemployment rates.

Assistance under the program is limited to 26 weeks in almost all states. With the recent increase in the duration of unemployment, the maximum period workers can receive UI has declined from twice to a little more than 1½ times the average duration of unemployment.

The current UI system is extremely regulated and rigid. Changes in coverage, eligibility and benefits must be legislated by individual states and must be consistent with federally mandated standards. This makes it extremely difficult for individual state programs to easily respond to changes in local labor-market conditions and crisis situations.

The extended benefit triggers are no longer automatic, as they were initially intended to be, thus undermining the overall effectiveness of the program, and making it virtually obsolete.

Inadequacies in the extended benefits program have resulted in a need for Congress to periodically enact legislation to temporarily extend UI benefits, thereby politicizing UI. These temporary programs have proven to be clumsy, typically being enacted after millions have already exhausted their UI. In addition, the sunset provisions are arbitrarily set and usually fall before employment has picked up.

The current UI system has only a limited relationship with re-employment. Workers receiving UI are required to show that they are seeking employment by documenting job inquiries and interviews. There is no requirement on workers to undertake training. Even if workers wanted to enroll in training, limitation in federal funding would prevent them in doing so.<sup>8</sup>

The current federal-state structure undermines the program's ability to pool risk, protecting any one state from incurring more than its share of costs associated with unemployment. The current program produces the exact opposite outcome, i.e. those states with less unemployed workers have lower costs and those states with more unemployed workers face higher costs.

Individual states have been forced to revise their tax rates and minimum taxable wage bases in order to finance their UI programs. By contrast, the federal government has not revised its tax rate or taxable wage base in more than 20 years. Adjusting for inflation alone, as many states have done, would have resulted in increasing the federal taxable wage base five-fold.

## **Extreme Makeover for Unemployment Insurance**

Recent calls for special UI programs to assist the victims of hurricanes Katrina and Rita are the latest evidence that the current program is not flexible or adequate enough to our

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<sup>7</sup> Bureau of the Census, US Department of Commerce, August 2005, "Incomes, Earnings and Poverty from the 2004 American Community Survey," Government Printing Office, Washington. According to the report, the poverty rate in 2004 for a family of three, with one child under the age of 18 was \$14,974.

<sup>8</sup> States are required to maintain an unemployment insurance system that meets federal standards in order to receive the offsetting FUTA tax credit. The provision of training and other employment services, like job search assistance, is left almost entirely up to the states, for which they receive some federal funding. As a result, the availability and quality of employment services varies by state.

workers' needs in a timely fashion. Strict eligibility requirements and limited resources have restricted the ability of existing programs to provide meaningful assistance to people in need.

In general, US labor-market programs have been designed to fight “the last battle,” thereby limiting their ability to respond to new and changing labor-market conditions. For example, UI was established in 1935 in response to prolonged and large-scale unemployment that was associated with the Great Depression, labor-market conditions that have not occurred since then. Instead, over the last few decades, the labor market has been characterized by more limited periods of unemployment, experienced more widely throughout the economy. Fewer people may be experiencing unemployment, but for those who are, it is quite costly.

In recent years the US labor market has come under increased pressure from intensified domestic and international competition. This pressure has changed the nature of job turnover in the United States. Workers no longer just change jobs but often also change occupations throughout their working lives.

The following are some recommendations for reforming the current UI program:

1. **Increase the federal role in UI.** The federal-state structure of UI is a relic of its 1935 establishment, and a Depression-era concern over the constitutionality of plans for the federal government to levy taxes for unemployment assistance. Although referred to as a partnership, states currently bear the overwhelming responsibility of financing and administering the UI system. Changes in the labor market suggest that, at least substantively, UI would better meet its stated objectives if the federal government played a more prominent role in this partnership.

At one extreme, transforming UI into a federal program would significantly reduce the current administrative burden being placed the states. There would be a single tax rate and maximum taxable wage base for the entire country. Like Social Security, the federal government would collect all UI taxes. All workers, regardless of where they lived and worked, would be treated equally under this new federal program, thereby removing all the bureaucratic discrimination that currently exists. Workers would continue to apply for assistance at local offices and local officials would monitor eligibility requirements. The federal government would make payments directly to workers, removing the middle step of transferring funds to state agencies. These changes would result in substantial cost savings.

The convergence of state unemployment rates suggests that unemployment is becoming a more national phenomenon, rather than a state or regional phenomenon. This provides another reason for moving toward a single national UI system.

As a federal program, it would much easier for the government to extend assistance during periods of prolonged economic slowdown, as well as provide assistance during periods of national emergency, like natural disasters and economic disruptions resulting from terrorist attacks.

Most importantly, making UI a single federal program would create a national risk pool, and thereby bring the program closer to achieving its original objective of being an insurance program.

Reinventing UI as a federal program would have the following benefits:

- bringing UI closer to serving as a true insurance program;
- removing the implicit discrimination by state in the amount of assistance;

- reducing administrative burden of tax collection and program administration;
- enabling the program to be more flexible in responding to changes in national labor-market conditions; and
- making more resources available to workers undergoing a costly transition.

Opponents of this option argue that strengthening the federal role in UI it will further increase the size of the federal government. The current system may help reduce the size of the federal government, but it is contributing to increasing the size of state governments.

Regional variation in earnings/assistance could be maintained, with the federal role establishing a minimum percentage of wages replaced.

2. **Increase the maximum taxable wage base and reduce the FUTA tax rate.** Increasing the taxable wage base would make the UI payroll tax more progressive. By increasing the taxable wage base to \$50,000, which is closer to the taxable wage base currently in place under Social Security, the tax rate could be significantly reduced yet still generate the same amount of revenue that is currently collected. A large reduction in the tax rate could result in significant job growth.
3. **Improve the linkage to re-employment by expanding assistance to include recent innovations in labor-market policies, i.e. “wage insurance” and a health care tax credit.** In 2002 the trade adjustment assistance (TAA) program was expanded to include “wage insurance” and a health care tax credit (HCTC). Under wage insurance, unemployed workers who find a job that pays less than their previous job are eligible to receive half of the difference between their new and old wages for up to two years, subject to a cap of \$10,000. Wage insurance is specifically designed to encourage people to return to work sooner than they might have otherwise. In addition, it is hoped that the new employer will provide on-the-job training, which has proven to be the most effective form of training. Wage insurance is also a less expensive form of assistance than UI. Under the refundable HCTC, eligible workers can receive 65 percent of the cost of their health insurance premium for up to two years. According to recipients, both programs have already proven to meet pressing needs of workers and their families.
4. **Enable individuals, and employers on behalf of individuals, to voluntarily contribute to UI and receive coverage.** One of the difficulties in achieving universal coverage is that many of those workers who are currently not covered do not have traditional relationships with employers. In order to address this problem, individuals would be able to voluntarily contribute to the UI program, as is currently the case under Social Security. With voluntary contributions, more workers would be eligible for assistance. Workers who leave their jobs voluntarily could receive assistance, as could the self-employed.

It is easier to collect taxes and cover these workers than it is to provide them with assistance. Most importantly, there are problems with measuring “job loss” for many of these workers. It would also be difficult to determine the amount of

assistance they should receive. One way to address these problems would be to encourage individuals to establish saving programs to help offset income losses.

5. **Tailor benefits to work experience and local labor-market conditions.** Benefit levels would be set according to a formula based on work experience, i.e., number of contributions to the trust fund, wage history, local labor-market conditions, and reason for separation. In order to cover low-wage, part-time and part-year workers, eligibility would be based on hours worked and earnings levels, rather than exclusively on earnings levels. Workers losing their jobs in regions with poor labor-market conditions might receive a higher level of assistance, and/or get assistance for longer periods of time. Workers leaving their jobs voluntarily might be eligible for less assistance than those workers who lose their jobs because of downsizing or plant closings.
6. **Explore consolidating tax collection and benefit payment with Social Security in order to seriously reduce administrative costs.** Federal and state governments currently maintain duplicate payment systems to administer Social Security and UI. Both the federal and state governments collect taxes for UI. Federal and state revenues are placed in a trust fund and the federal government transfers the funds back to the states. This cumbersome process could be replaced by having the federal government collect the tax and make payments, as is currently the practice under Social Security. The FUTA tax could be withheld from wages together with the Social Security tax.<sup>9</sup> Employers and employees could both pay the FUTA tax, as is currently the practice with Social Security. The current practice of “experience rating,” which serves as a factor in calculating the employer’s tax rate, would continue.
7. **Create a 401(k)-like saving program for workers, which they could use to supplement UI.** Employers and the government could match individual contributions. Encourage workers to establish a fund to help offset costs associated with unemployment and job change. Workers could make contributions to a fund, matched dollar-for-dollar by their employers and the federal government. Contributions would be tax deductible and any interest generated by the fund would be exempt from tax. Individuals would manage their own funds. Distributions from the fund to pay cover the costs for worker training, job search, job relocation and other expenses associated with unemployment and job change would be tax free. Self-employed, part-time, and temporary workers could withdraw funds to offset drops in income. All other distributions would be taxed as income. All funds remaining at age 57 would automatically become part of the worker’s retirement savings.<sup>10</sup>

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<sup>9</sup> Despite concern over future liquidity of its trust fund, the Social Security program has served millions of Americans extremely well since its creation.

<sup>10</sup> For a more detailed description of this proposal, see Martin Feldstein, 2005, Rethinking Social Insurance, 2005, *American Economic Review* 95, no. 1 (March), American Economic Association.

## **Conclusion**

UI provides needed assistance to workers and their families during times of great financial hardship associated with job loss.

The administration's budget request for FY 2007 focuses on recouping payments considered to be made in error. While addressing waste, fraud and abuse in the program, the administration's proposals may actually increase the administrative burden placed on states, as well as on workers, thereby making it more difficult for them to receive the assistance they so desperately need in a timely fashion.

The administration's budget request ignores the program's serious long-term problems. Our nation's UI program is seriously out of date with recent developments in the US labor market.

American workers are currently facing considerable pressure due to continued technological change and intensified competition resulting from globalization. Despite significant changes in US labor-market conditions, there have been no major changes in the basic structure of UI since it was established 70 years ago. Reform of the nation's UI programs is necessary in order to make it relevant to the labor market of the 21st century.

### **Box 1 Family income of UI recipients**

- UI benefits played a significant role in maintaining the family income of recipients who experienced a long-term spell of unemployment in 2001 or early 2002—particularly those who did not have other wage earners in their family. Before becoming unemployed, recipients’ average family income was about \$4,800 per month. When recipients lost their job, that income—excluding UI benefits—dropped by almost 60 percent. With UI benefits included, the income loss was about 40 percent.
- For sole earners in a family, the income loss was greater: almost 90 percent excluding UI benefits, or 65 percent including them. For such one-earner families, UI benefits represented two-thirds of their total income, compared with an average of about 20 percent for families with more than one worker.
- Former UI recipients who did not find work soon after their benefits ended—people for whom federal extensions of UI benefits are intended—continued to incur substantial income losses. For the 40 percent of long-term UI recipients who were not working three months after their benefits ended, average family income was about half of what it had been before they began receiving unemployment insurance. By comparison, for long-term UI recipients who were working three months after their benefits ended, income loss was less than 10 percent.

*Source:* US Congress, Congressional Budget Office, 2005, “Family Income of Unemployment Insurance Recipients,” Washington.

**Table 1 State maximum weekly benefits**

<b>Maximum weekly benefit</b>	<b>Number of states</b>
Below \$200	1
\$200 to \$300	12
\$300 to \$400	26
\$400 to \$500	10
Above \$500	4

Source: Employment and Training Administration, US Department of Labor, Financial Handbook.

**Table 2 Distribution of the replacement ratio**

<b>Ratio</b>	<b>Number of states</b>
Less than 0.25	1
0.25 to 0.35	20
0.35 to 0.40	18
0.40 to 0.50	14

Source: Employment and Training Administration, US Department of Labor, Financial Handbook.

**Table 3 Federal-states extended benefits program**

<b>Period</b>	<b>Total benefits paid (in billions)</b>	<b>Number of first payments (in millions)</b>	<b>Average weekly benefit amount</b>
1972-79	\$8.6	13.0	\$69
1980s	\$7.5	7.0	\$115
1990s	\$0.8	0.7	\$120
2000-2004	\$0.7	0.2	\$262

Source: Employment and Training Administration, US Department of Labor, Financial Handbook.

**Table 4 Temporary extended benefits programs**

<b>Period</b>	<b>Program</b>	<b>Total benefits paid (in billions)</b>	<b>Number of first payments (in millions)</b>
1982–85	Federal Supplemental Compensation	\$9.6	7.7
1991–94	Emergency Unemployment Compensation	\$27.7	9.1
2002–04	Temporary Extended Unemployment Compensation	\$23.2	7.8

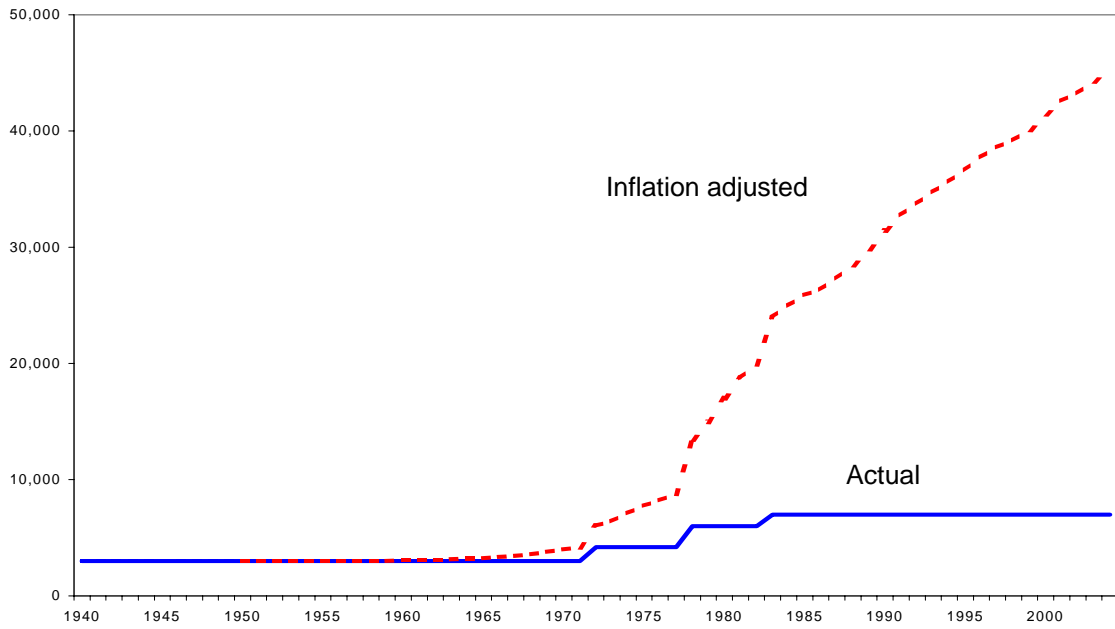
Source: Employment and Training Administration, US Department of Labor, Financial Handbook.

**Table 5 Average state UI tax rates**

<b>Average tax rate as a percent of taxable wages</b>	<b>Number of states</b>
Less than 1.00	3
1.00 to 1.99	22
2.00 to 2.99	19
Above 3.00	9

Source: Employment and Training Administration, US Department of Labor, Financial Handbook.

**Figure 1 Federal taxable wage base (dollars)**



*Source:* Employment and Training Administration, US Department of Labor, Financial Handbook, and author's estimates.