

# Unemployment Insurance Program Overview



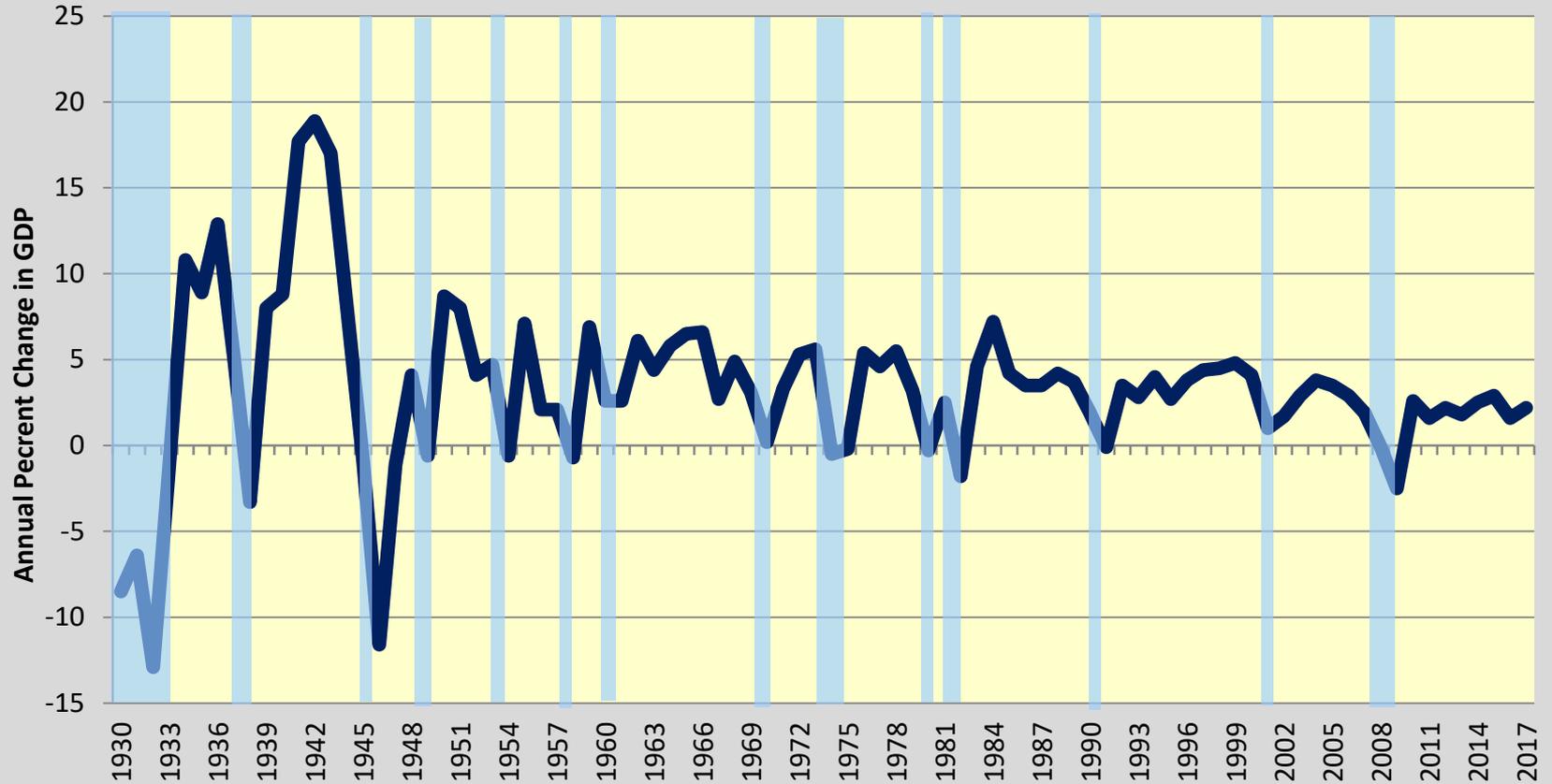
UI Benefit Financing Seminar  
Division of Fiscal and Actuarial Services  
U.S. DOL/ETA/OUI  
October 23-26, 2018

# UI Program Goals

- The UI Program has 4 goals:
  - Provide temporary wage replacement for individuals who lose a job through no fault of their own
  - Protect employers against dispersal of trained workforce while temporary shutdowns are necessary
  - Facilitate reemployment
  - Help Stabilize the economy
    - On average, each \$1 spent on UI benefits generates about \$2.00 in Gross Domestic Product (GDP) through the multiplier.
    - Without the UI program, GDP would decline an additional 15 percent, on average during recessions.

# Change in Real GDP

(Based on 2012 Dollars)



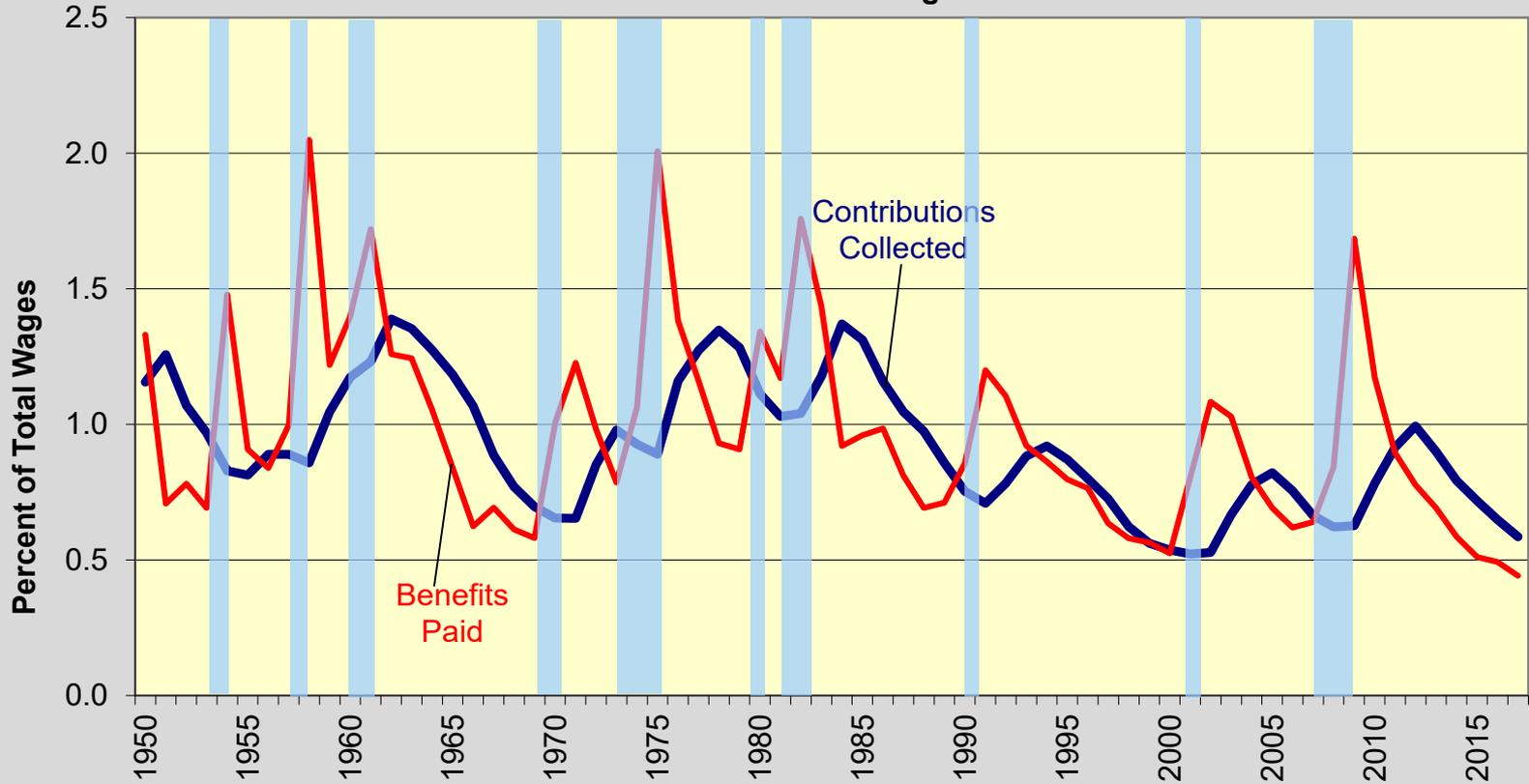
Source Bureau of Economic Analysis, US Dept of Commerce

Recessions noted by shaded bands

Last Data Point for CY 2017

# Revenues Collected & Benefits Paid

as a Percent of Total Wages



Recessions noted by shaded bands

Last data point for CY2017

# Unemployment Insurance Program

- Background
  - Born 1935 as part of the Social Security Act
    - Titles III, IX and XII apply
    - Designed as Federal/State partnership

# Unemployment Insurance Program

## – Origins

- Several states had UI programs -- employers paying taxes at competitive disadvantage
- Call for national legislation
- FDR established Committee on Economic Security
- Report issued in 1935 – basic objectives for UI:
  1. Provide benefits for involuntary unemployment
  2. Stabilize employment

# Unemployment Insurance Program

## – Committee Recommendations

- States free to determine type of UI program
- Federal standards needed to ensure states implement UI programs
- Federal-State system

# Unemployment Insurance Program

- Why Federal-State system?
  - State-only system not working
  - Entirely Federal system would be cumbersome and difficult
  - Hybrid system removes disadvantages in interstate competition and allowed wide latitude for experimentation

# Unemployment Insurance Program

- Federal Level

- Statute

- Sets forth broad coverage provisions, some benefit provisions, establishes the Federal tax base and rate, and provides for administrative funding.
    - Motivates through incentives.

# Unemployment Insurance Program

## – Federal Level

- Federal government functions:

- Ensures conformity and compliance of State laws and operations with Federal law
- Determines and collects the Federal unemployment tax
- Manages the Unemployment Trust Fund.
- Responsible for administrative fund requirements and allocates funds.
- Sets broad overall policy for administration of the program and monitors State performance

# Unemployment Insurance Program

- State Level

- State Statute:

- Sets forth benefit structure for benefit payment:

- Qualification requirements, eligibility (disqualification) provisions, benefit amount, and duration of benefits

- Establishes financing system:

- Responsible for tax rate and tax base



# Employer Financing

## – State Tax

- Tax rate is variable: depends on status of State account and employer's experience.
- On average, the estimated tax per job in CY 2017 was about \$317.
- For 2018, tax rates vary between 0.0% (possible in a number of States) to 12.76% (Arizona) and are applied to wage bases from \$7,000 to \$47,300 (Washington).
- 5 States have a wage base of \$7,000 (Arizona, California, Florida, Puerto Rico, and Tennessee) .
- 3 States have employee tax (Alaska, New Jersey, and Pennsylvania)
- State tax funds State benefits and State share of EB.

# Employer Financing

## - Federal

- Uniform
- 6.0% of first \$7,000 of each covered employee's wages (5.4% FUTA tax credit results in a net tax of 0.6%)
- \$42 maximum per covered employee
- Pays for State and National/Regional Office Administration for UI and the Employment Service, Federal share of Extended Benefits (EB), loans to States, Veterans Employment and Training Services, and Certain Labor Market Information activities.

# Federal Unemployment Tax Act

## FUTA

- FUTA establishes the financing framework
- Section 3301 establishes the payroll tax rate at 6.0%
- Section 3302(c)(1) & Section 3302(d)(1) provide for a credit of up to 5.4%
- Section 3302(a)(1) and Section 3302(b)(1) split the credit into two parts: “normal” credit & “additional” credit

# Federal Unemployment Tax Act

## FUTA

- Normal credit
  - Amount of money paid in state UI taxes
  - Allowable if conditions in 3304 are met for the 12 month period ending on October 31
  - Conditions in 3304 primarily deal with deposit and withdrawal standards and when compensation is payable
  - One way Federal law provides for incentives

# Federal Unemployment Tax Act

## FUTA

- Additional credit
  - Amount of money determined by taking the highest tax rate any employer could receive during the taxable year or 5.4%, which ever is lower, applying that rate to the federal taxable wage base, and subtracting from the result the amount of an employer's normal credit

# Federal Unemployment Tax Act

## FUTA

- Additional credit
  - Allowable if conditions in 3303(a) are met for the 12 month period ending on October 31
  - A key condition: employer tax rates are determined by “experience with respect to unemployment or other factors bearing a direct relation to unemployment risk”

# Federal Unemployment Tax Act FUTA

- Section 3306(b)(1) establishes the Federal taxable wage base
- Federal wage base is currently \$7,000

# FUTA Credit Mechanics

## Example:

State taxable wage base: \$10,000  
Maximum tax rate in schedule: 7.0%

Employer assigned tax rate: 2.0%

FUTA Payroll Tax (Section 3301)  
 $6.0\% \times \$7,000 = \$420$

Limit on Tax Credit  
 $90\% \times 6.0\% = 5.4\%$  (Section 3302 (c)(1))

Minimum FUTA Tax  
 $0.6\% \times \$7,000 = \$42$

Maximum Tax Credit  
 $5.4\% \times \$7,000 = \$378$

Normal Tax Credit (Section 3302(a)(1))  
State Tax (on an employer)  
FUTA Tax if no Additional Credit

$2.0\% \times \$10,000 = \$200$   
\$200

# FUTA Credit Mechanics

## Additional Tax Credit (Section 3302(b))

Multiply the lower of the state maximum tax rate or 5.4% times the federal taxable wage base.

$$5.4\% \times \$7,000 = \$378$$

Normal Credit

(Actual State Contribution)

$$\underline{2.0\% \times \$10,000 = \$200}$$

Additional Credit

\$178

Total Credit

$$\$200 + \$178 = \$378$$

Maximum credit = \$378

Total Tax

$$\$420 - \$378 = \$42$$

# FUTA Credit Mechanics with 5% Max State Tax

## Additional Tax Credit (Section 3302(b))

Multiply the lower of the state maximum tax rate or 5.4% times the federal taxable wage base.

$$5.0\% \times \$7,000 = \$350$$

Normal Credit

(Actual State Contribution)

$$\underline{2.0\% \times \$10,000 = \$200}$$

Additional Credit

\$150

Total Credit

$$\$200 + \$150 = \$350$$

Maximum credit = \$378

Total Tax

$$\$420 - \$350 = \$70$$



# Unemployment Trust Fund



# Unemployment Trust Fund

**Pays 1/2 cost of extended benefits**

**Ceiling = .5% of total wages  
In covered employment  
prior CY**



**Makes loans to insolvent state accounts when needed**

**Ceiling = .50% of total wages  
In covered employment  
prior CY**

**Excess flows to ESAA Sept. 30**

**Excess flows to ESAA Sept. 30**



**Pays for state administrative costs**

**Ceiling = 40% of current  
year's appropriation**

**53 State Accounts**



***When all 3 Federal accounts reach/exceed their ceilings on Sept. 30, the amount in excess of the ceiling is distributed to state accounts on Oct. 1.***

# Unemployment Trust Fund

- Title IX of the SSA establishes the **Unemployment Trust Fund (UTF)** which contains the accounts relevant to the UI Program:
  - **Accounts for each of the 53 UI jurisdictions** from which UI benefits are paid.
  - **Employment Security Administration Account (ESAA)** from which administrative funds are appropriated for UI, the Employment Service, Labor Market Information, and the Veterans Employment and Training Services. Receives 80 percent of FUTA tax

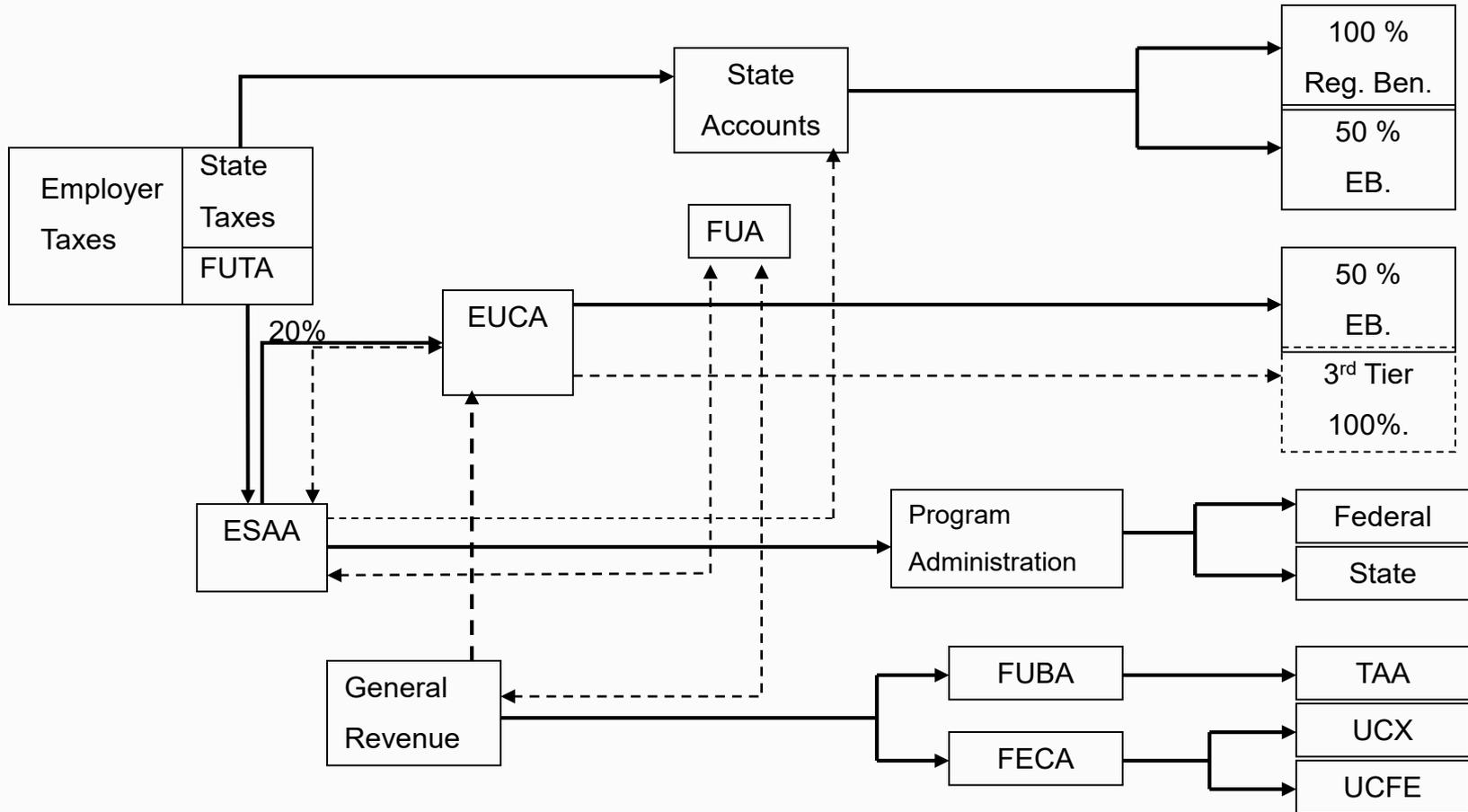
# Unemployment Trust Fund

- **Extended Unemployment Compensation Account (EUCA)** from which the Federal share of Extended Benefits (EB) is paid. Receives 20 percent of FUTA tax.
- **Federal Unemployment Account (FUA)** provides advances to States whose State UI account becomes insolvent. Receives overflow from ESAA & EUCA.

# Unemployment Trust Fund

- **Federal Employee Compensation Account (FECA)** acts as a revolving fund from which benefits to ex-service persons and former Federal employees are paid benefits. The appropriate agency is then charged the amount of the benefits to replenish the account. Initially funded from general revenue.

# Sources of Funds



## Abbreviations:

EB – Extended Benefits

ESAA- Employment Security Administration Account

EUCA- Emergency Unemployment Compensation Account

FECA- Federal Employees Compensation Account

FUA- Federal Unemployment Account

FUBA- Federal Unemployment Benefits and Allowances

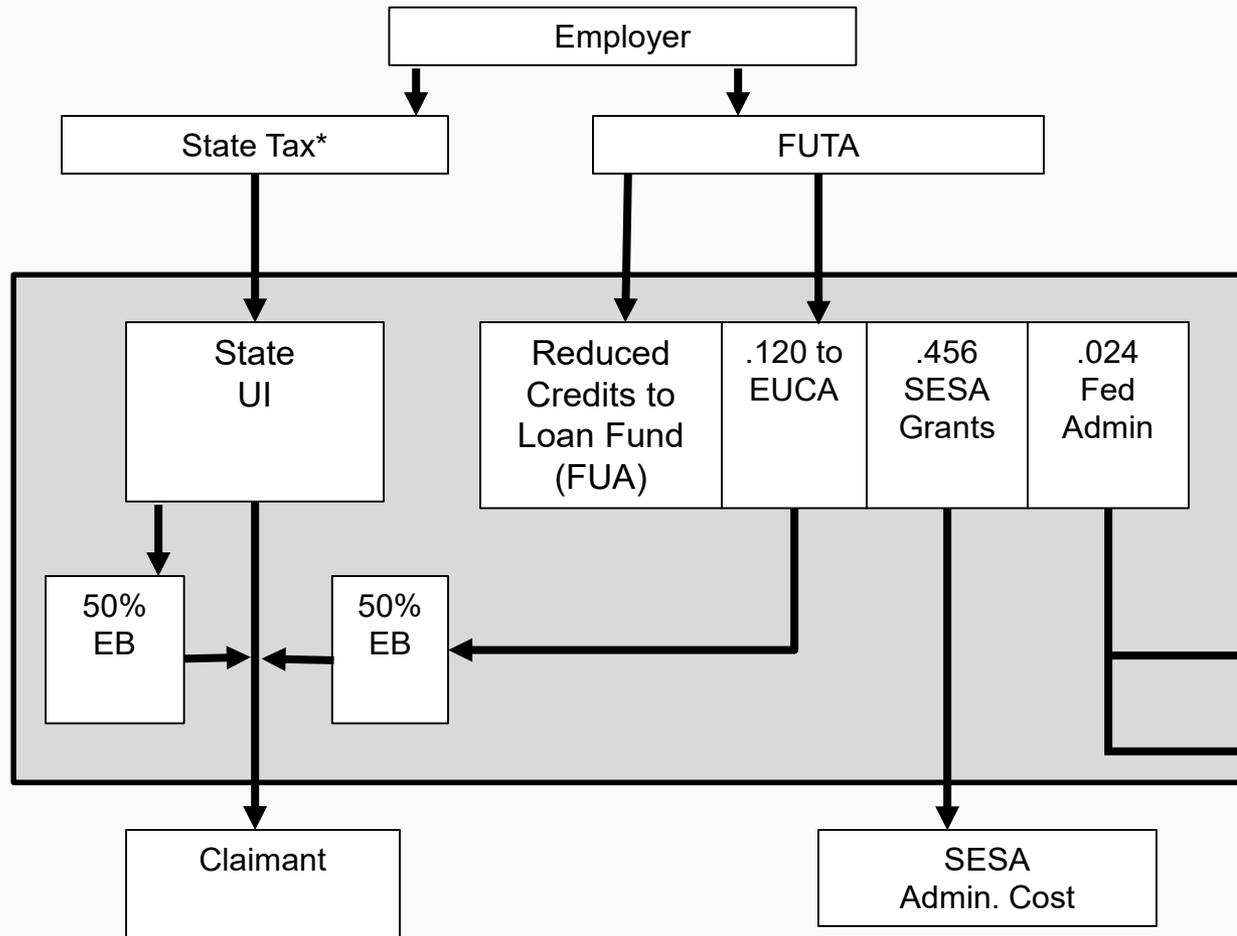
FUTA- Federal Unemployment Tax Act

TAA- Trade Adjustment Assistance

UCFE- Unemployment Compensation for ex- Federal Employees

UCX – Unemployment Compensation for ex - service members

# Federal/State UI System Resources and Distribution



Employer FUTA 6.0%  
Credit for State 5.4%  
Net FUTA tax 0.6%

Tax = 0.6% of \$7000 on each employee

1. Additional Tax credit reduction to loan

0.6 % Tax to ESAA  
.120 to EUCA  
.456 to SWA  
.024 to Fed

Unemployment Trust Fund

\* Deposited in State agency bank account for transfer directly State Trust Fund account. Access only by State to pay benefits.

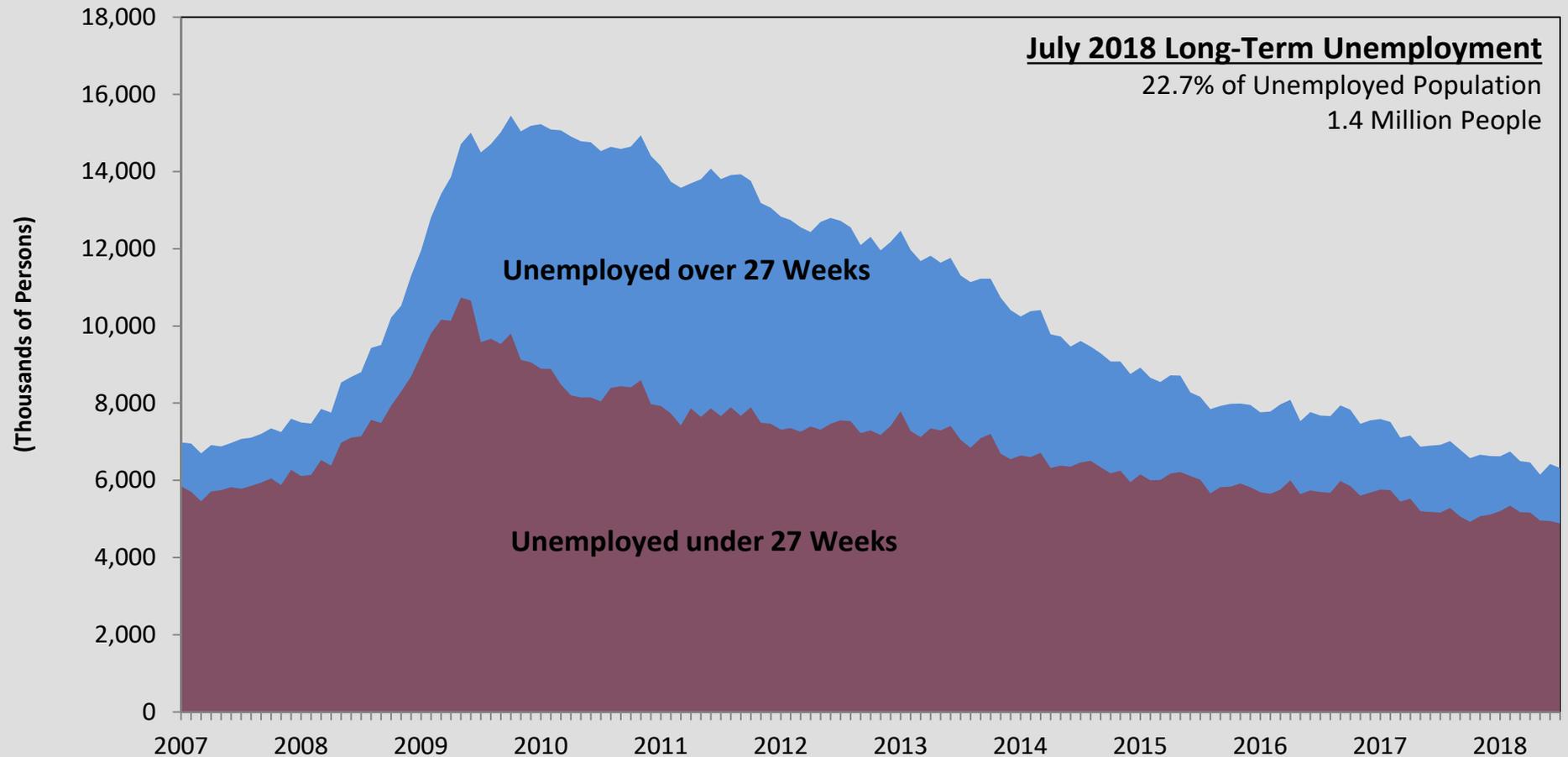


# Program Environment



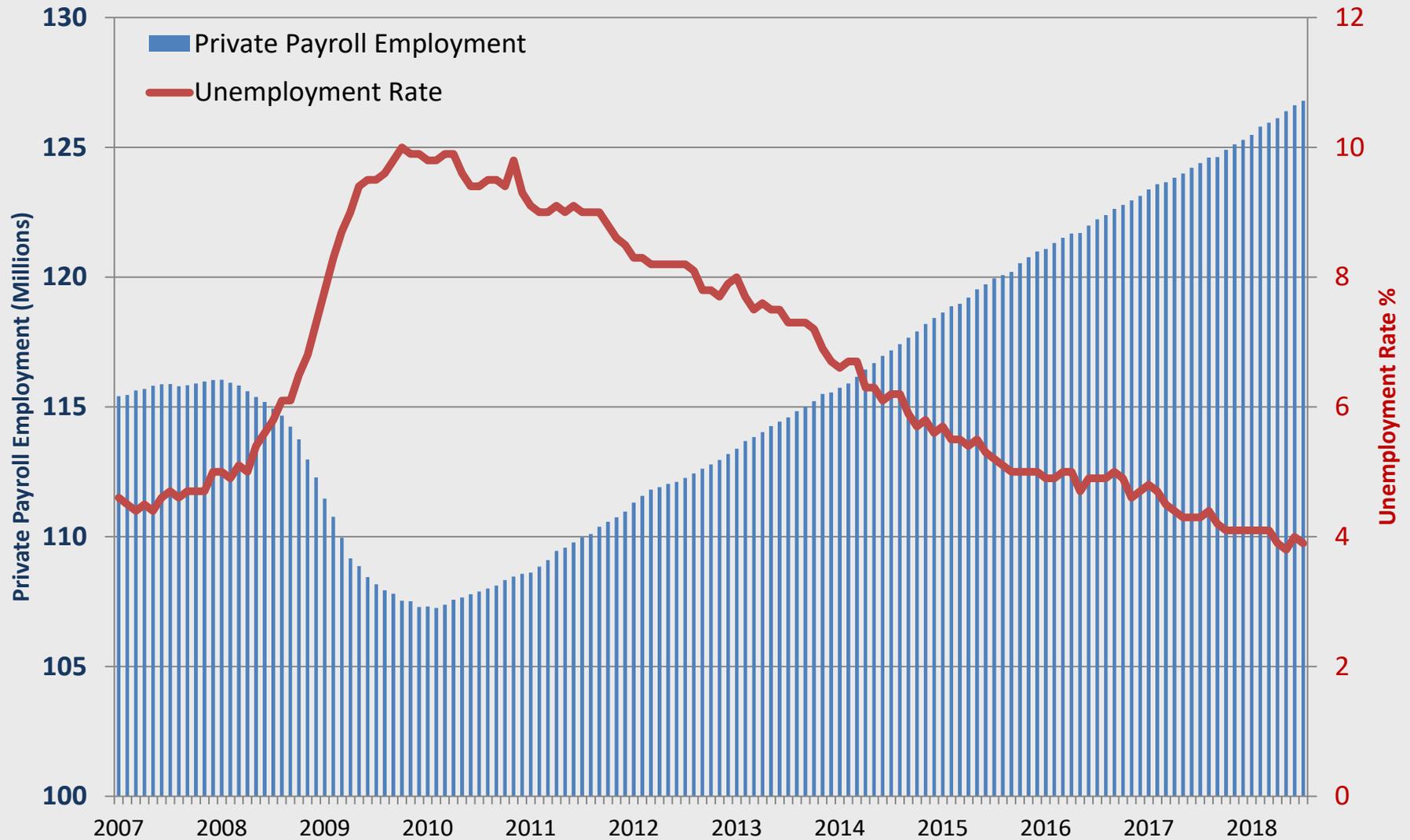
# The Long-Term Unemployed still need assistance

## Incidence of Long Term Unemployed



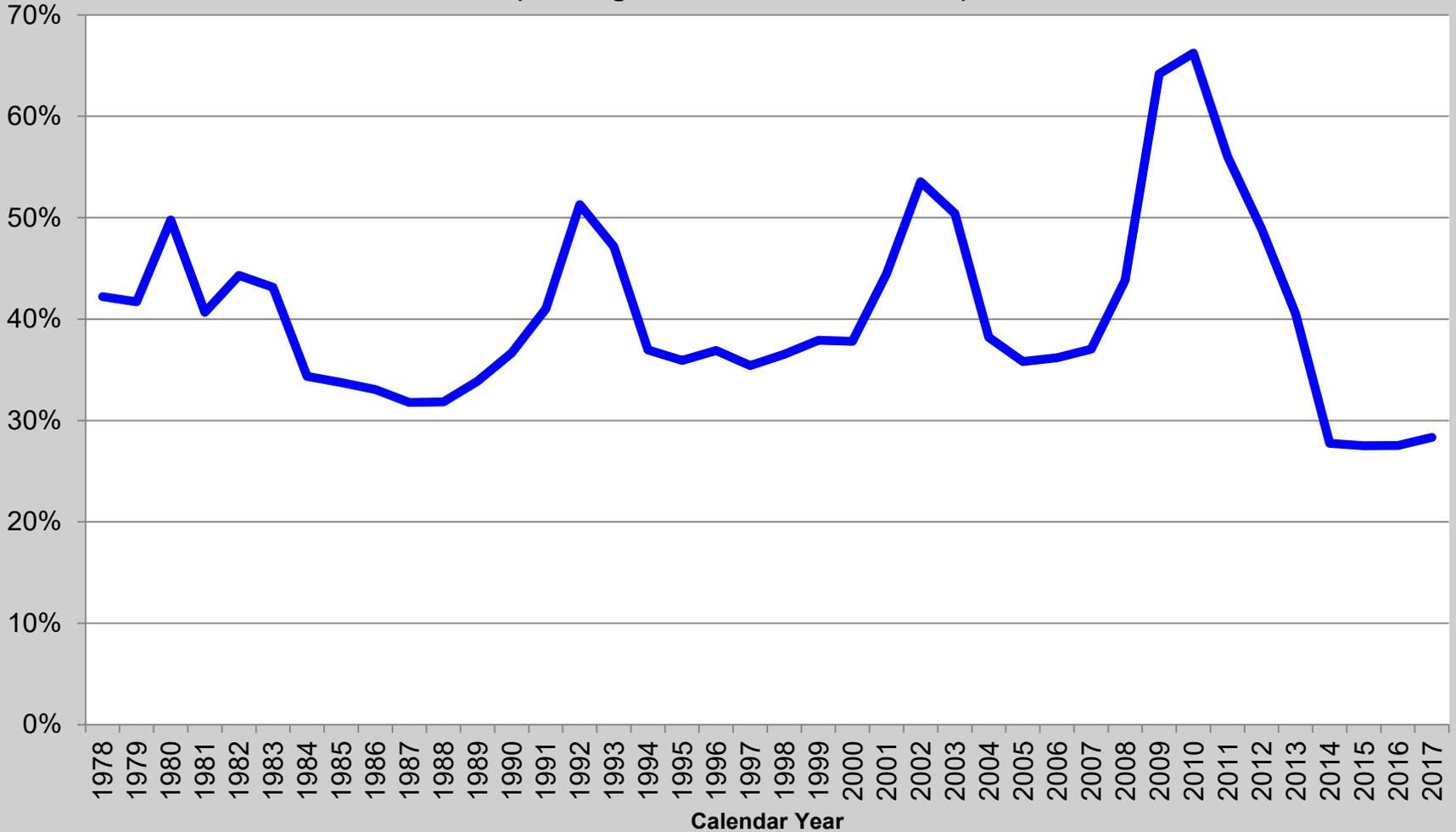


# Job Growth and Unemployment Rate

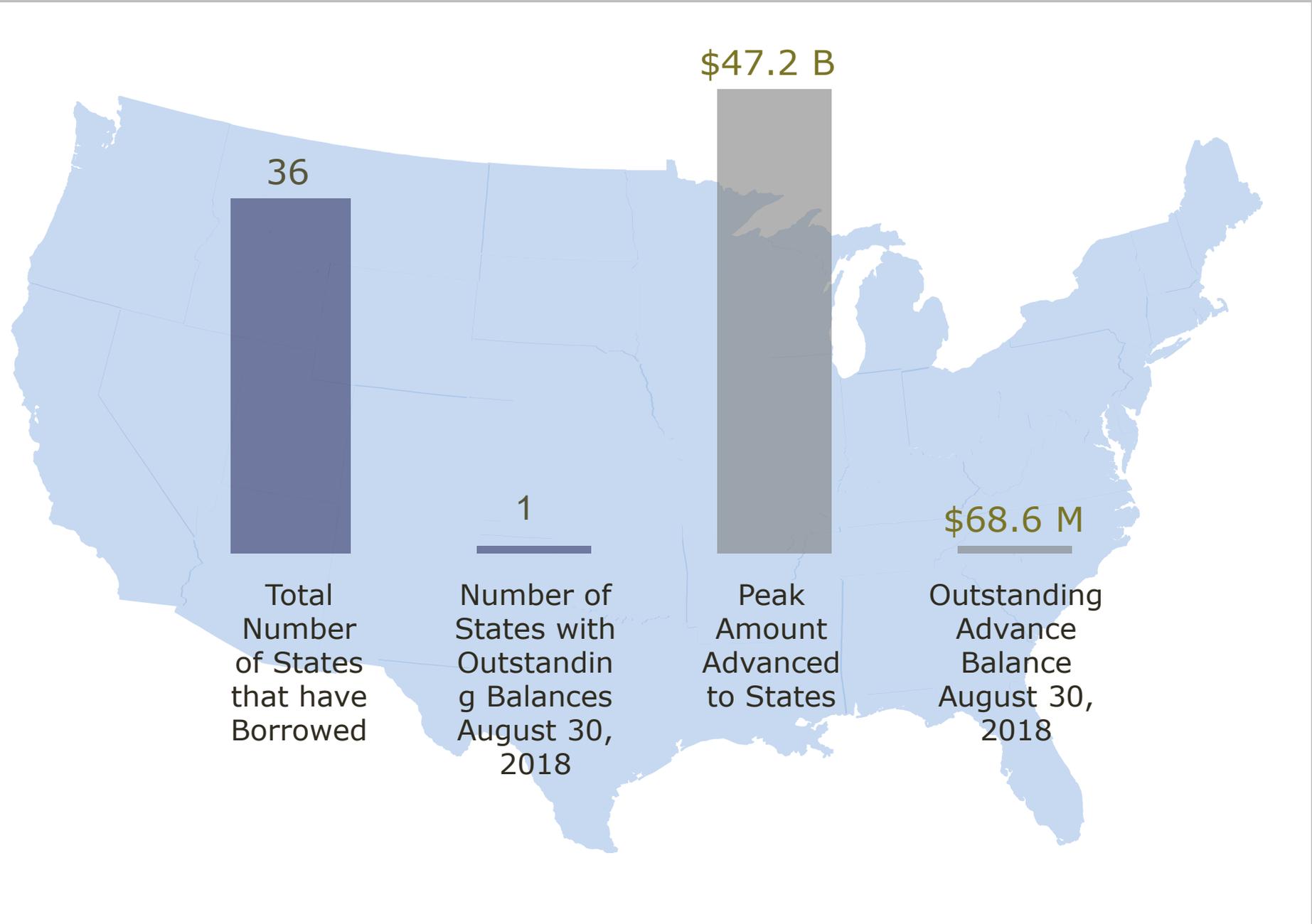


# U.S. Recipiency Rates

(All Programs, Annual, 1978 - 2017)







36

Total Number of States that have Borrowed

1

Number of States with Outstanding Balances August 30, 2018

\$47.2 B

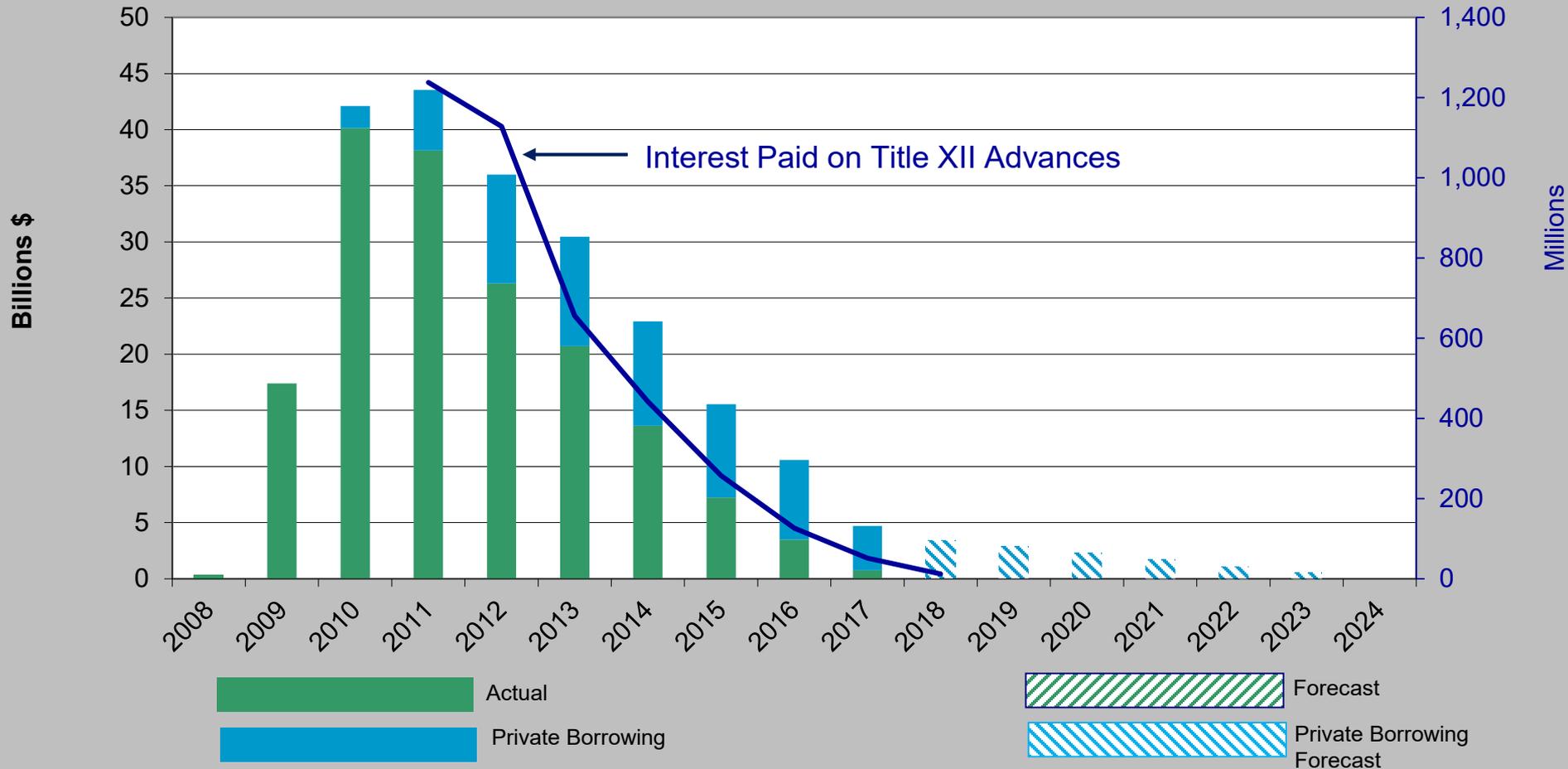
Peak Amount Advanced to States

\$68.6 M

Outstanding Advance Balance August 30, 2018

# Total borrowing over time and projected borrowing through 2024

## End of FY Borrowing



# Middle Class Tax Relief and Jobs Creation Act P.L. 112-96

- Short Time Compensation
- Self Employment Assistance

# Short Time Compensation

- Federal law gives states authority to provide a reduced UI weekly benefit amount to individuals whose work weeks have been reduced.
- 27 states have an enacted law
- P.L. 112-96 modified STC and added 3306(v) FUTA

# Self-Employment Assistance

- Federal law gives states authority to establish an SEA program under 3306(t) FUTA.
- 5 states have enacted programs
- P.L. 112-96 permits states to establish programs for EB and EUC claimants.

# Reemployment Services and Eligibility Assessments

- The Bipartisan Budget Act of 2018, Public Law 115-123 established permanent authorization for the RESEA program by adding Section 306 to Title III of the Social Security Act.
- Federal Register Notice forthcoming to request suggestions on how to allocate administrative funds.

# Glossary

- **Benefit Payment Account** – An account with a bank into which a State transfers funds from its UTF account in order to pay benefits.
- **Clearing Account** - An account with a bank into which a State deposits UI tax collections.
- **ESAA** - Employment Security Administration Account. Provides administrative grants to States for UI, ES, some Veterans Employment and Training Programs, and Labor Market Information. Also pays for Federal administrative costs.
- **EUCA** - Extended Unemployment Compensation Account. Pays for Federal share of Extended Benefits (EB).
- **FECA** - Federal Employees Compensation Account. Pays benefits to ex-Federal workers and ex-service persons.
- **FUA** - Federal Unemployment Account. Makes repayable advances to insolvent State trust funds.
- **FUBA** - Federal Unemployment Benefit Allowances. Appropriation which provides for Trade Adjustment Assistance.

# Glossary

- **FUTA** - Federal Unemployment Tax Act. Authorizes Federal government to impose a payroll tax on employers for each employee.
- **NASWA** - National Association of State Workforce Agencies.
- **RJM** - Resource Justification Model. A data collection instrument used in the budget process.
- **RESEA** – Reemployment Services and Eligibility Assessments
- **UCFE** - Unemployment Compensation for former Federal Employees
- **UCX** - Unemployment Compensation for ex-servicemen
- **UTF** - Unemployment Trust Fund. Includes State and Federal Accounts.
- **UWC, Inc.** - Unemployment and Workers' Compensation, Inc. An organization representing employers on unemployment and workers' compensation matters.E