Congressional Budget Office
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OPTIONS TO EXTEND THE DURATION OF UNEMPLOYMENT INSURANCE BENEFITS

The unemployment insurance (UI) program provides temporary income support to workers who lose their jobs. In most states, eligible unemployed workers can receive up to 26 weeks of benefits, funded by the states through payroll taxes on employers. A second level of benefits is available in states with especially high unemployment. UI recipients in those states can receive up to 13 additional weeks of benefits under the federal/state extended benefit (EB) program, financed equally by federal and state payroll taxes.

Earlier this year, the Congress enacted the Temporary Extended Unemployment Compensation Act of 2002, as part of the Job Creation and Worker Assistance Act (Public Law 107-147). This legislation provides up to 13 weeks of federally funded unemployment insurance benefits to workers in all states who exhaust their entitlement to regular state unemployment benefits (TEUC), and up to 13 additional weeks of federally funded benefits to workers in states with especially high unemployment rates (TEUC-X). The last week for which benefits may be paid under this program is the week ending December 28, 2002.

This memorandum provides information about the UI program and about options for extending benefits relevant to decisions the Congress will need to make if it considers whether to renew the temporary program, as well as whether to make changes in the permanent EB program.

Other approaches could complement, or substitute for, the basic approaches examined in this memo. Their costs could be higher or lower than the illustrative options presented in this memo, depending on the specific option. For example, costs could be higher if benefits were made available to eligible unemployed workers for longer periods than provided in the illustrative options or if new benefits, such as health insurance subsidies, were offered as well. Costs could be lower if the federal government transferred funds from federal unemployment insurance accounts to state accounts programs for states to use as they determine, instead of specifically funding additional benefits.[1]

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1. For example, the Temporary Extended Unemployment Compensation Act of 2002 transferred $8 billion from the federal unemployment accounts to the state accounts in the unemployment trust fund. CBO estimated that this was an acceleration of transfers that would have occurred in future years under prior law.

Key Provisions of Current Law

Both federal and state laws affect the provision of UI benefits to jobless workers. The federal government finances administration of the UI program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on the operation of state UI programs. Within the constraints of federal law, states develop benefit and tax structures to meet the needs of workers and employers in their boundaries. The states establish eligibility requirements for UI benefits, determine the duration and amount of regular UI benefits, and specify state payroll taxes.

Two levels of UI benefits are permanently available under current law. The first level of UI consists of regular state benefits, which provide up to 26 weeks of assistance in nearly all states. The maximum duration and the weekly amount of benefits for each worker are generally determined by the amounts of employment and earnings during a recent one-year base period.

The second level of UI is available when the unemployment rate in a state is high. UI recipients in that state can receive up to 13 additional weeks of benefits under the federal-state Extended Benefit (EB) program. This additional assistance, financed equally with state and federal UI tax receipts, becomes available or "triggers on" when the insured unemployment rate (IUR) in a state exceeds certain thresholds. In particular, benefits are available when the 13-week average of the IUR equals or exceeds 5.0 percent and is at least 120 percent of the average of that state's IUR during the same 13-week period of the last two years or, at state option, when the average IUR exceeds 6 percent, without the 120 percent factor. Most states now have this optional trigger.

States also have the option of enacting a trigger based on the total unemployment rate (TUR) in the state, but few states—currently eight—have done so. Under that option, 13 weeks of additional benefits would be triggered for a state if the three-month average of the total unemployment rate in that state equals or exceeds 6.5 percent and is at least 110 percent of that state's average unemployment rate during the same three-month period in either of the previous two years; 20 weeks of additional benefits would be available if the total unemployment rate equals or exceeds 8.0 percent and is at least 110 percent of the average in either of the corresponding period in the previous two years.

This year, under the Temporary Extended Unemployment Compensation Act, eligible workers in all states who exhaust regular state benefits can receive up to 13 weeks of benefits through the TEUC program. In addition, eligible workers who exhaust TEUC benefits and who work in states that trigger on for TEUC-X can receive up to 13 additional weeks of benefits. The same triggering criteria are used for TEUC-X as for the EB program, except that the IUR threshold is 4.0 percent instead of 5.0 percent. (Because TEUC and TEUC-X benefits are financed entirely by the federal government, states are making payments under the temporary program in lieu of EB payments.)[2] Currently, only two states (Oregon and Washington) qualify for TEUC-X.

Projected Outlays Under Current Law

For Congressional scoring purposes, bills considered during the remainder of this session of the Congress are generally scored using CBO's March 2002 baseline, which forecasts a substantial decline in outlays for unemployment insurance benefits in fiscal year 2004 (see Table 1). That decline is based on falling unemployment, as well as the expiration of the TEUC program. The March baseline assumes that the nation's unemployment rate, which has been in the 5.5 percent to 6.0 percent range throughout the current calendar year, will average 6.0 percent in fiscal year 2003, 5.4 percent in 2004, and 5.2 percent in 2005, 2006, and 2007.

Under current law, total outlays for benefits under the March baseline are projected to fall from over $50 billion in each of fiscal years 2002 and 2003 to about $40 billion in 2004. Spending for the TEUC program (included in those outlays) is expected to total about $10 billion over the 2002-2003 period, with about 70 percent of that spending occurring in 2002 and the rest in 2003.

With the expiration of the temporary program, outlays for the permanent extended benefits program will increase in 2003. But CBO estimates that outlays for EB will sharply decline thereafter, as few states are projected to meet the triggering criteria once the national unemployment rate declines to about 5.2 percent.

Policy Options

The permanent EB program provides an automatic mechanism for extending the maximum duration of benefits in states with high unemployment. One option would be for the Congress to let the temporary program expire at the end of this year, as scheduled, and to rely on the permanent EB program. CBO's baseline provides our forecast of UI spending if no legislative changes are made. If, however, the Congress decides to provide additional weeks of benefits to workers who exhaust their entitlement to regular UI benefits, it could take several approaches, including:

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2. Unemployed workers who exhaust eligibility for temporary benefits may then receive EB, if their state is triggered on and if they meet the EB eligibility requirements in their state.

- Extending the life of the entire temporary program (that is, continuing to provide up to 13 weeks of federal TEUC benefits in all states and up to 13 weeks of federal TEUC-X benefits in states that meet the triggering criteria);

- Extending just the basic TEUC, but not TEUC-X, or vice versa; or

- Broadening eligibility rules for the permanent EB program—for example, by lowering the insured unemployment rate threshold required for a state to trigger on to the program or by requiring all states to adopt a total unemployment rate trigger.

The remainder of this memorandum presents estimates of the costs of options that follow those approaches. Each of the illustrative options for the temporary program would postpone the expiration date for one year—to the end of December 2003. Each of the options for changing the eligibility rules for the EB program would take effect in January 2003.

Table 2 provides estimates of the additional unemployment insurance benefits that would be paid under each of the illustrative options relative to CBO's March 2002 baseline. The estimates include increases in regular benefits that would result from some recipients remaining on the regular program for longer periods because of the availability of temporary benefits, as well as reductions in EB benefits that would result from the substitution of temporary benefits for EB benefits. Administrative costs are not included.[3]

Extending the Temporary Program. CBO estimates that a one-year extension of the entire temporary program (TEUC and TEUC-X) would result in the payment of an additional $14.5 billion in benefits, three-quarters of which would be paid in fiscal year 2003. Nearly all of that amount ($13.5 billion of the $14.5 billion) would be paid if just the TEUC part of the temporary program were extended because few potential recipients are expected to be in states that would be eligible for TEUC-X. Alternatively, if only the TEUC-X program were extended, about $2 billion in additional benefits would be paid.[4]

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3. Options that would increase federal or state spending for benefits could lead to increases in state unemployment insurance payroll taxes as well. Higher federal spending for temporary benefits or EB could ultimately result in smaller transfers to state unemployment insurance accounts. Higher state spending for EB would directly reduce the amount of money states would have in their accounts. Subsequently, states might raise taxes in order to replenish those accounts.

4. The estimated cost of extending the TEUC-X program is about $1 billion higher if it is done as a stand-alone measure than if it is part of a proposal to extend the TEUC program as well. The reason for this difference is that, in the latter case, unemployed workers would need to exhaust their eligibility for TEUC, as well as for regular benefits, before they would qualify for TEUC-X benefits.

Broadening the Eligibility Rules for EB. More unemployed workers who exhaust their regular benefits would qualify for EB if the IUR threshold for states to trigger on were lowered or if more states adopted the now-optional TUR trigger.

In his 2003 budget submission, President Bush proposed to make the permanent EB program more responsive to future economic downturns by lowering the insured unemployment rate trigger used for that program. The President recommended lowering the trigger from 5.0 percent to 4.0 percent, with the federal government continuing to pay for half of the cost, as part of a broader proposal for restructuring federal and state responsibilities involving unemployment insurance.

Lowering the IUR trigger to 4 percent in January 2003 would provide the same amount of benefits through December 2003 as would extending the TEUC-X program because the two options have the same eligibility criteria. The difference would come after December 2003 because the change in the EB rules assumed in this illustrative option would be permanent. Relative to CBO's March 2002 baseline, however, only about $100 million to $200 million per year would be paid in additional benefits in 2005, 2006, and 2007 because few unemployed workers are projected to be in states that would have insured unemployment rates between 4.0 percent and 5.0 percent in those years. (Eligible unemployed workers in states with IURs of at least 5.0 percent could already qualify for EB under current law if the IUR was sufficiently above the base-period IUR.) Additional costs over the 2003-2007 period would total about $2.7 billion.

Requiring all states to adopt the now-optional TUR trigger, in addition to lowering the IUR trigger to 4.0 percent, could have a much larger effect than would lowering the IUR trigger alone. Only eight states now use that trigger, and several of those that do not would be projected to qualify. CBO estimates that enactment of that option would result in the payment of an additional $5.8 billion in benefits during the 2003-2007 period.

Implications of Alternative Economic Scenarios

In August, CBO updated its budget and economic projections to reflect more recent information about the economy and other factors. The August assumptions are not generally used as a basis for scoring legislation, and in any event, the changes in the unemployment rate were minor. Under CBO's August 2002 baseline assumptions, the estimated cost of the illustrative options would be similar to the projected cost under the March assumptions. The cost of unemployment insurance provided under current law and under various policy options could be higher or lower than the amounts estimated here if the economic forecast underlying those estimates turns out to be too optimistic or pessimistic.

TABLE 1. CBO OUTLAY PROJECTIONS FOR UNEMPLOYMENT INSURANCE—MARCH 2002 BASELINE

	By Fiscal Year, in Billions of Dollars					
	2002	2003	2004	2005	2006	2007
Regular Benefits	47.2	48.3	40.0	36.7	38.3	40.0
Extended Benefits	0.1	1.1	0.6	0.3	0.3	0.1
Temporary Benefits	7.0	3.1	0.0	0.0	0.0	0.0
Total	54.3	52.5	40.6	37.0	38.6	40.1
Memorandum:						
Projected unemployment rate (%)	6.0	6.0	5.4	5.2	5.2	5.2

SOURCE: Congressional Budget Office.

NOTE: Funding for regular benefits and one-half of extended benefits is provided by the states. Funding for temporary benefits is provided by the federal government. All funds are included in the federal Unemployment Trust Fund, however, and are a part of the unified federal budget. The estimates in this memo do not include outlays for administration.

TABLE 2. ESTIMATED ADDITIONAL BENEFITS PROVIDED BY ILLUSTRATIVE OPTIONS, RELATIVE TO CBO'S MARCH 2002 BASELINE

Option	By Fiscal Year, in Billions of Dollars 2003	2004	2005	2006	2007	Total 2003-2007
Extend the entire temporary program (TEUC and TEUC-X) for one year	11.2	3.3	0.0	0.0	0.0	14.5
Extend only the TEUC program for one year	10.4	3.1	0.0	0.0	0.0	13.5
Extend only the TEUC-X program for one year	1.7	0.4	0.0	0.0	0.0	2.1
Lower the IUR trigger in the Extended Benefits program from 5.0% to 4.0%	1.7	0.6	0.1	0.1	0.2	2.7
Lower the IUR trigger in the Extended Benefits program from 5.0% to 4.0% and require all states to adopt the 6.5% TUR trigger	2.1	1.4	0.9	0.9	0.5	5.8
Memorandum:						
Projected unemployment rate (%)	6.0	5.4	5.2	5.2	5.2	
Current-law outlays under CBO's March 2002 baseline	52.4	40.6	37.0	38.6	40.1	

SOURCE: Congressional Budget Office.

NOTES: TEUC = Temporary Extended Unemployment Compensation; TEUC-X = Temporary Extended Unemployment Compensation Extended Benefit; IUR = insured unemployment rate; TUR = total unemployment rate.

Funding for regular benefits and one-half of extended benefits is provided by the states. Funding for temporary benefits is provided by the federal government. All funds are included in the federal Unemployment Trust Fund, however, and are a part of the unified federal budget. The estimates in this memo do not include outlays for administrative costs or revenues to the Unemployment Trust Fund.