

Why GAO Did This Study

As part of the nation's UI system, overseen by DOL, states provide benefits to eligible unemployed workers, with additional weeks of benefits sometimes provided by the federal government in times of economic stress. Since the 1960s, states have had maximum UI benefit durations of 26 weeks or longer. However, since 2011, nine states have reduced their maximum benefit durations: Arkansas, Florida, Georgia, Illinois, Kansas, Michigan, Missouri, North Carolina, and South Carolina. GAO was asked to review the states' reductions.

GAO examined (1) the circumstances in which states reduced the maximum duration of UI benefits, (2) the implications of these reductions for individuals, (3) the effects on federal UI costs, and (4) their broader economic effects. GAO reviewed relevant federal and state laws; visited Georgia and Michigan, which had different approaches to reducing durations; analyzed UI program data from 2006 (before the recession) to 2014; and reviewed relevant economic research.

What GAO Recommends

GAO recommends that the Secretary of Labor examine the implications of state duration reductions for federal UI program costs and develop recommendations, if warranted. DOL agreed with GAO's recommendation and indicated it will begin to assess an approach for studying the implications of reductions in maximum duration on federal costs.

View [GAO-15-281](#). For more information, contact Andrew Sherrill at (202) 512-7215 or sherrilla@gao.gov.

UNEMPLOYMENT INSURANCE

States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs

What GAO Found

The unemployment insurance (UI) system, a federal and state partnership that provides benefits to eligible workers who have lost their jobs, was under financial pressures during the recent recession and recovery. Since 2011, nine states reduced the maximum length of time (duration) individuals could receive state benefits. These states reduced duration from 26 weeks to as few as 12 weeks, with 20 weeks being the most common new maximum. Compared to states that did not reduce duration, those that did generally had higher unemployment rates and weaker UI trust fund balances and were more likely to have federal loans as their UI reserves became depleted. Officials in five of the nine states said that replenishing their trust fund balance was a key rationale for reducing benefit duration. GAO found that most of the nine states, like other states, also increased employer taxes for their UI program and made other benefit reductions such as by changing UI eligibility rules.

Reductions in state benefit durations resulted in some individuals receiving substantially less in total UI benefits. During the period from 2009 through 2013, individuals who exhausted their state benefits could receive additional weeks of benefits from the federal government. The duration of federal benefits was based on the duration of state benefits; shorter maximum state benefit periods resulted in shorter maximum federal benefit periods. As a result, some individuals received substantially less in total UI benefits because the durations of both their state and federal benefits were reduced. For example, in 2013, an individual in a state that had shortened its maximum benefit duration to 20 weeks could have received up to 52.4 additional weeks of federal benefits, for a total of 72.4 weeks. However, had the state maximum duration remained at 26 weeks, that individual could have received up to 67 weeks of federal benefits, for a total of 93 weeks. In contrast, individuals eligible for UI benefits for relatively short periods of time were unaffected by the reduced durations.

The effects of these reductions on federal UI program costs are unclear. Although GAO's prior work on past recessions found it can be useful for federal agencies to assess the unintended consequences of state policy responses, the Department of Labor (DOL) has not assessed the extent of any cost shift to the federal government. The net impact on federal UI costs would depend on how reductions in the duration of state benefits affect the number of people receiving federal benefits and for how long. On the one hand, federal costs are increased to the extent that state duration reductions shift individuals to federal benefits earlier. On the other hand, federal costs are decreased to the extent that fewer weeks of federal UI benefits are available. However, because DOL has not analyzed state data on individuals' weekly benefits, it remains unclear whether the federal government incurred a net cost due to the states' duration reductions.

Relevant research suggests that reductions in benefit duration may reduce the positive effects of UI on the economy. The economic literature that GAO reviewed, including analysis by the Congressional Budget Office, generally indicates positive macroeconomic effects from the UI program, based on the likelihood that benefits are spent, thus providing a stimulus to the economy.