Chapter 32

Unemployment Insurance

Introduction

The Social Security Act of 1935 created the Federal-State Unemployment Compensation Program. The program has two main objectives: 1) to provide temporary and partial wage replacement to involuntarily unemployed workers who were recently employed; and 2) to help stabilize the economy during recessions (U.S. Congress, 2004). The Federal Unemployment Tax Act of 1939 (FUTA) and titles III, IX, and XII of the Social Security Act form the framework of the system.

Funding

FUTA currently imposes a 6.2 percent gross tax rate on the first $7,000 paid annually by covered employers to each employee. States may have a higher taxable wage base than the federal requirement of $7,000. As of January 2008, 43 states had a taxable wage base higher than the federal level, ranging up to $32,200 in Idaho (Department of Labor, 2008). Employers in states with programs approved by the federal government and with no delinquent federal loans may credit 5.4 percentage points against the 6.2 percent tax rate, making the minimum net federal unemployment tax rate 0.8 percent. Since all states have approved programs, 0.8 percent is the effective federal tax rate (U.S. Congress, 2004).

In 1976, Congress passed a surtax of 0.2 percent of taxable wages to be added to the permanent FUTA tax rate. Thus, the current effective 0.8 percent FUTA tax rate has two components: a permanent tax rate of 0.6 percent, and a surtax rate of 0.2 percent. The surtax has been extended five times, most recently by the Taxpayer Relief Act of 1997, which extended it through Dec. 31, 2007 (U.S. Congress, 2004).

States may also *experience rate* employers' tax rate. This allows states to assess a higher tax rate to employers with a high turnover rate. This experience rate assessment ranges from a minimum of 0.0 percent in 14 states (Colorado, Florida, Hawaii, Iowa, Michigan, Missouri, Montana, North Carolina, South Dakota, Tennessee, Texas, Virginia, West Virginia, and Wyoming) to three states with higher than 10 percent (Georgia, Pennsylvania, and South Dakota) (U.S. Congress, 2004).

Covered Work Force

When FUTA was first created in 1939, it imposed a uniform federal tax on the payrolls of industrial and commercial employers that employed eight or more employees for at least 20 weeks per year. The Employment Security Amendments of 1970 and the Unemployment Compensation Amendments of 1976 broadened this coverage to include all private employers in industry and commerce that employ one or more individuals for at least 20 weeks during the current year or pay $1,500 or more in wages and salaries during any calendar quarter. Agricultural and domestic employees face slightly modified eligibility standards. Eligibility for benefits is generally determined by an unemployed worker's previous attachment to the labor force as evidenced by a specified amount of work or earnings in covered employment and by the unemployed worker's ability and willingness to work.

Eligibility for Benefits—In order for a worker to receive unemployment compensation, he or she must have earned a certain amount of qualifying wages. In most states this is defined as earnings in the first four of the last five completed calendar quarters. The purpose of this requirement is to limit unemployment compensation to individuals with a current attachment to the labor force. Most states require a worker to meet a one-week waiting period before his or her first benefit payment. The worker must be able to and available for work, actively seeking work, and free of any disqualifying event. A disqualifying event is defined as quitting employment voluntarily, discharge for misconduct, refusal of suitable work, or being part of a labor dispute.

In general, benefits are based on a percentage of an individual's earnings over a recent 52-week period—up to a state maximum amount. Benefits can be paid for a maximum of 26 weeks in most states. Additional weeks of benefits may be available during times of high unemployment. Some states provide additional benefits for specific purposes. Benefits are subject to federal income taxes and must be reported on an individual's federal income tax return. A benefit recipient may elect to have the tax withheld by the state unemployment insurance agency (U.S. Department of Labor, Unemployment Insurance Fact Sheet).

The Tax Reform Act of 1986 made all unemployment compensation benefits taxable after Dec. 31, 1986.

Extended Benefits

Extended benefits are available to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment. The basic extended benefits program provides up to 13 additional weeks of benefits when a state is experiencing high unemployment. Some states have also enacted a voluntary program to pay up to seven additional weeks (20 weeks maximum) of extended benefits during periods of extremely high unemployment. Extended benefits may start after an individual exhausts other unemployment insurance benefits. Not everyone who qualifies for regular benefits qualifies for extended benefits. The state agency advises individuals of their eligibility for extended benefits (U.S. Department of Labor, Extended Benefits Fact Sheet).

Disaster Benefits

Disaster Unemployment Assistance provides financial assistance to individuals whose employment or self-employment has been lost or interrupted as a direct result of a major disaster declared by the president of the United States. Before an individual can be determined eligible for Disaster Unemployment Assistance, it must be established that the individual is *not* eligible for regular unemployment insurance benefits (either state or federal benefits). The program is administered by states as agents of the federal government.

Disaster Unemployment Assistance is available to unemployed U.S. nationals and qualified aliens who have worked or have been self-employed if they:

- Worked or were self-employed in an area declared to be a federal disaster area, or were scheduled to begin work or self-employment in an area declared to be a federal disaster area.
- Can no longer work or perform services as a direct result of a disaster.
- Establish that the work or self-employment they can no longer perform was their primary source of income.
- Do not qualify for regular unemployment insurance benefits from any state.
- Cannot perform work or self-employment because of an injury or because they were incapacitated as a direct result of the disaster.
- Became the breadwinner or major support of a household because of the death of the head of the household.

Suffering a monetary loss due to damage of property or crops does not automatically entitle an individual to Disaster Unemployment Assistance.

Disaster Unemployment Assistance is available to individuals for weeks of unemployment beginning after the date the major disaster began and for up to 26 weeks after the major disaster was declared by the president, as long as their unemployment continues to be a result of the major disaster. The maximum weekly benefit amount is determined under the provisions of the state law for unemployment insurance in the state where the disaster occurred (U.S. Department of Labor, Disaster Unemployment Assistance Fact Sheet).

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Additional Information

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