

## The Sequester's Devastating Impact on Families of Unemployed Workers and the Struggling Unemployment Insurance System

Unless Congress averts the automatic spending cuts known as the “sequester” by March 1<sup>st</sup>, which looks unlikely, unemployed workers, particularly the long-term unemployed, will be among those feeling the most immediate sting of those cuts. The economy, too, will take a hit, with massive job losses. All around, it is not a pretty picture.

Already struggling to get by on modest benefits, the long-term unemployed will feel the cuts directly with a reduction in federal unemployment insurance (UI) benefits and indirectly through reductions in reemployment and job training services offered by state workforce agencies. In addition, the state agencies that are already struggling to process unemployment claims face the prospects of further reductions in funding and critical services.

### Basics of the Sequester

The President and Congress agreed to the sequester as part of the Budget Control Act of 2011, which requires the federal government to trim \$85 billion from its \$3.6 trillion budget during the 2013 fiscal year, running from October 1, 2012 to September 31, 2013.

Certain federally funded programs, including the unemployment system, are subject to an automatic across-the-board spending cut of about five percent over the course of the entire fiscal year, which began last October. Cumulatively, these massive budget cuts are expected to produce even more layoffs—estimated at over 700,000 by the [Congressional Budget Office](#), and at over two million by [other researchers](#).

### Nearly Four Million Face Cuts to Federal Jobless Aid

It is important to emphasize that the sequester will not affect regular state UI payments (26 weeks in most states) that 3.7 million workers are now receiving. And UI benefits provided to about 60,000 former federal workers and former service members are exempt from the sequester, so these workers will not see any reduction either.

But the impact of the cuts will be felt in no uncertain terms by the nearly two million workers who are currently receiving Emergency Unemployment Compensation (EUC) and Extended Benefits (EB), the federally funded programs providing additional weeks of assistance to workers who have reached the end of their state benefits. Indeed, the U.S. Department of Labor estimates that by the end of the fiscal year, as many as 3.8 million unemployed workers could see a reduction in their federal UI benefits.

Because the fiscal year has been underway since October 2012, the five percent cut to the EUC program for the entire fiscal year will be shifted into the months that remain once the cuts actually take effect. Due to heavy demand and outdated information technology and computer systems, the state UI agencies will face significant operational challenges in implementing the cuts. But assuming the states can implement the cuts by April, long-term unemployed workers will experience an approximately 11 percent reduction in their unemployment checks. The longer it takes the state agencies to implement the new benefit rates, the greater the cuts will be in the individual's weekly unemployment checks.

Were the sequester to run its full course during this budget year, the U.S. Department of Labor estimates that families could lose an average of more than \$400 in EUC benefits, or a total of over \$2.3 billion. And were Congress to be unable to stop the automatic sequester for the next fiscal year, there would be additional cuts to EUC, in the range of a 5 percent reduction.

## **Automatic Budget Cuts Also Compromise Overburdened State Agencies**

Federal dollars, generated by federal payroll taxes (FUTA), fund the administration of the state UI programs, including claims processing, appeals and tax collection systems. In fiscal year 2012, federal funding for state administration of the UI programs totaled nearly \$4 billion.

Thus, recipients of all types of UI program benefits and services should also brace themselves for potential service issues from their state UI agencies. States will lose approximately \$161 million for administering their state UI programs, and another \$27 million for their administration of EUC and EB. In addition, states will lose a total of \$15 million in funds designed to help EUC recipients find new work. The exact amount of the cut from each state's FY2013 UI administration grants will depend on the state's UI caseload and other factors that are taken into account over the course of the year under the federal funding formula.

The states and the U.S. Department of Labor predict a variety of potential negative consequences stemming from layoffs or furloughs of state employees who work in these programs, including longer appeals backlogs, slower processing of claims, and even possible increased overpayments. Since the recession hit, the states have experienced unprecedented administrative and information-technology challenges that have seriously compromised the delivery of UI services. The cuts resulting from the sequester will only exacerbate these problems.

## **Additional Cuts to Reemployment Services**

Finally, sequestration will not only enact budget cuts on UI benefits, but it will also mean a significant reduction in funds for the various programs that assist the unemployed in finding jobs and acquiring the skills they need to find new jobs. Already vastly underfunded, reemployment and job matching services as well as job training programs have no room to absorb such drastic budget cuts, and the U.S. Department of Labor estimates that likely one million fewer unemployed workers will be provided these important services as they look to get new work and train for jobs in the current economy.

### **About NELP**

*The National Employment Law Project is a non-partisan, not-for-profit organization that conducts research and advocates on issues affecting low-wage and unemployed workers. In partnership with grassroots and national allies, NELP promotes policies to create good jobs, enforce hard-won workplace rights, and help unemployed workers regain their economic footing. For more about NELP, please visit [www.nelp.org](http://www.nelp.org).*