Unemployment Insurance Fact Sheet

What is Unemployment Insurance?
Unemployment Insurance (UI) provides prompt wage replacement for laid off workers. It is the first line of defense for workers and their families during economic hard times. The system is meant to partially replace lost wages, allowing families to make ends meet while at the same time stimulating the economy. The UI system is funded by state and federal payroll taxes.

How well does the system work?
When workers become unemployed, they should be able to turn to a system that provides adequate benefits based on real work experience and that automatically extends benefits in tough times. They also need a system for filing claims that is easily accessible for all workers. Instead, workers find a UI system that is need of significant repair. Large numbers of workers are unable to qualify for benefits, average state benefit levels barely reach above poverty levels, and benefits run out long before all workers are re-hired in recessions.

What workers are eligible?
Because of outdated eligibility rules, many of the workers most in need and hardest to employ do not qualify for UI benefits. In fact, only 43 percent of unemployed workers received UI benefits in 2001. Most eligibility rules are set at the state level and create severe disadvantages for low-income, part-time, and women workers who lose their jobs. For example, about one-fifth of workers are part-time, but in 30 states workers can't collect unemployment insurance if they can't accept full-time work.

What are the benefits?
State UI benefits average about $231 per week. At that level, benefits replace only one-third of lost wages for most workers. Several states' maximum benefit amounts provide only a poverty-level standard of living regardless of previous earnings.

How long do the benefits last?
In most states, regular UI benefits can last up to 26 weeks, but more than 40 percent of workers overall never qualify for the full 26 weeks. Only nine states pay a uniform duration of 26 weeks to all workers that meet eligibility requirements. Washington and Massachusetts pay up to 30 weeks of regular UI benefits.

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Benefit Extensions in Recessions
Benefit extensions are often provided when unemployment levels rise in recessions. "Triggers" that start benefit extensions were set in the early 1980s and are too high to function properly in today's economy. During the current recession, only three states—Alaska, Washington, and Oregon—automatically extended benefits.

Because the permanent Extended Benefits triggers are too low, Congress passes temporary extensions in most recessions, as they did in March 2002, extending UI benefits nationally. The current 13-week extension expires at the end of 2002 unless a new bill to address long-term unemployment is passed.

Where does the money for UI come from?
The UI system in the United States is funded by state and federal payroll taxes. The federal tax is paid by employers on the first $7,000 in wages for each worker. This taxable wage base hasn't been adjusted for inflation since 1983. The federal tax pays for administration of state UI programs, federal extensions of UI benefits, federal agency oversight, and for loans for insolvent state trust funds. State payroll taxes cover the cost of benefits provided to workers. State taxable wage bases and tax rates vary considerably. Rising claims during downturns are paid from trust funds that accumulate payroll taxes during economic good times, stimulating the economy and avoiding tax increases or benefit restrictions during a recession.

While formally paid by the employer, a portion of payroll taxes are effectively passed on to workers, especially low-wage workers.

Is UI a good investment?
The money invested in UI benefits during recessions significantly stabilizes the economy. A recent study by the US Department of Labor concluded that each dollar of unemployment insurance benefits paid to jobless workers boosts the nation's GDP by $2.15.

Forecasters say the recession is over. Congress extended benefits. Isn't our work done?
Just as with the early 90s recession, the UI system has failed to meet the needs of unemployed workers and their families. Congress postured for months on a stimulus bill that, in the end, extended UI benefits for only some jobless workers. Forecasts continue to suggest that unemployment will remain high well into 2003. As in the early 90s recession, new jobs will lag behind a growing economy. Now is time to fix UI.

What should change?

- States should expand UI eligibility for low-wage and part time workers, taking advantage of over $8 billion in federal Reed Act funding provided to the states as part of the stimulus bill.
- UI benefit levels should be increased to better replace lost wages.
- Extended benefits reform should make extensions automatically available in the next recession.
- States should make sure that their unemployment trust fund balances rise enough revenue during good economic times to ensure adequate benefits and eligibility levels during the next downturn, rather than emphasizing tax relief or adopting "pay-as-you-go" financing.