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Funding the State Administration of Unemployment Compensation (UC) Benefits

Background: A Joint Federal-State Program

The Unemployment Compensation (UC) program is constructed as a joint federal-state partnership providing temporary and partial wage replacement to involuntarily unemployed workers. Federal law sets broad guidelines regarding UC benefits and financing. State laws establish specific requirements, resulting in 53 different UC programs operating in the states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The U.S. Department of Labor (DOL) provides oversight for state UC programs. DOL also administers the federal portion of the UC system, including grants to the states for UC administration.

For a brief overview of the UC program, see CRS In Focus IF10336, *The Fundamentals of Unemployment Compensation*. For additional details on UC, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*.

Dedicated Federal Tax Revenue Finances UC Administration

The UC system is financed through payroll taxes paid by employers. State unemployment taxes (SUTA) may only fund UC benefits and the state share of the Extended Benefit (EB) program. Federal unemployment taxes (FUTA) on employers pay for the administration of the program (as well as other expenditures, including the federal share of EB and loans to insolvent states).

The net FUTA tax rate on employers in states with UC programs that are in compliance with all federal rules is 0.6% on the first $7,000 of each worker's earnings per year. (The FUTA tax rate for employers is 6.0% on the first $7,000 of each worker's earnings, but a 5.4% credit against the federal FUTA tax is available to employers in states with complying UC programs, bringing the net FUTA tax down to 0.6%.) DOL projects that $6.4 billion in FUTA taxes will be collected in FY2019.

FUTA revenues are deposited into an account, the Employment Security Administration Account (ESAA), in the federal Unemployment Trust Fund (UTF) and then 20% of the deposits are immediately transferred to the Extended Unemployment Compensation Account (EUCA), which funds the federal share of EB. These funds are made available through the annual federal appropriations process, designating ESAA funds to be used by DOL for the costs of administering the state UC programs.

Underlying Rationale for Federal Funding of UC Administration

This atypical arrangement of state-funded benefits and federally funded administration has its roots within the development of the Social Security program. In its 1935 report, the President's Committee on Economic Security (CES) provided an outline of the UC program. It recommended that federal grants be provided to the states for the administration of UC benefits. The committee asserted that the federal unemployment tax would be an adequate source of funds for federal and state administration and provide a level playing field for all states. By structuring the funding for administration to be paid from FUTA revenue, the federal government could require proper standards of administration at the state level. States today must comply with federal tax laws regarding the administration of their UC programs or face increased FUTA taxes.

For a discussion of the interaction of proper state administration of the UC program and federal unemployment tax law, see CRS Report R44527, *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)*.

The full 1935 report from the CES can be accessed at https://www.ssa.gov/history/reports/ces5.html. (See the chapter titled "Unemployment Compensation: Outline of Federal Act.")

Annual Appropriations for UC Administration

As discussed above, each fiscal year, funds are made available through the appropriations process to make distributions of FUTA revenue for state UC administration, and for the federal costs of administration. Annual appropriations to DOL for administrative expenses are based upon DOL's assessment of state budgetary requirements, not the size of FUTA collections. These appropriations customarily include a base level of funding as well as an additional contingent appropriation. The appropriations language customarily provides a baseline estimate of national unemployment, as measured by the volume of unemployment compensation claims expected to be filed per week (the average weekly insured unemployment [AWIU]). Additionally, the contingent funding includes a trigger based upon the average volume of weekly UC claims exceeding the AWIU baseline. For example, under the President's FY2020 budget proposal, for every 100,000 increase in the total AWIU above the 1,758,000 baseline, an additional $28.6 million in funding would be available. (The proposal may be accessed at https://www.dol.gov/sites/dolgov/files/general/budget/2020/CBJ-2020-V1-07.pdf.)

If the need for contingency funds exceeds the base appropriation but the national AWUI is less than the contingent appropriation threshold, then either Congress must enact a supplemental appropriation or states have to reduce administrative expenses or provide additional state funding from a different revenue stream or state general funds (as SUTA funds may only pay for UC and EB). Once the AWUI is above the contingent appropriation threshold, DOL notifies the Office of Management and Budget, which then releases funds from the contingent appropriation.

Table 1 provides information on various annual appropriations proposals and enacted funding for UC state administration for FY2017-FY2019.

Table 1. Funding for State Administration of Unemployment Compensation, FY2017-FY2019
(in thousands of dollars)

	FY2017	FY2018	FY2019
Request	$2,592,019	$2,635,775	$2,492,816
House	$2,660,019	$2,665,775	$2,515,816
Senate	$2,697,019	$2,637,600	$2,515,816
Enacted	$2,687,600	$2,639,600	$2,515,816

Source: Compiled by CRS from congressional laws, bills, and reports and DOL budget justifications.

Notes: The House and Senate columns include amounts from the most recent Chamber or Committee action, as compiled from the CRS Appropriations Status Table at http://crs.gov/AppropriationsStatusTable/Index.

Authority for DOL Grants to States for UC Administration

Federal payments from DOL to the states for the administration of UC are authorized under Title III of the Social Security Act (42 U.S.C. §502). The U.S. Labor Secretary determines the funds that each state receives for the program's administrative costs. These grants to the states are based on (1) the population of the state; (2) an estimate of the number of persons covered by the state UC law and the cost of proper and efficient administration of such law; and (3) such factors as the U.S. Labor Secretary finds relevant.

How DOL Determines Administrative Grants to States

Currently, DOL determines the size of each state's administrative grant through the Resource Justification Model (RJM). The RJM is designed to reflect the states' current methods of administering the UC program, including their adoption of new technologies. The RJM collects data from state cost accounting records and allows states to justify additional resources above the levels in the cost accounting data for the budget year.

The RJM forms and instructions that state agencies use to request funds are available at https://workforcesecurity.doleta.gov/rjm/.

State-Level Base and Above-Base Allotments

DOL funds grants to states for the administration of their UC programs. These grants are allocated by DOL at the beginning of the fiscal year and apportioned to the states quarterly—as long as the economic situation of the state has not dramatically changed. DOL typically withholds a portion of the total state administrative appropriation to have additional funds available for states experiencing higher workloads. These "above-base" funds are allocated at the state's request once it has been determined that its workload has increased. For FY2019 base allotments, see https://ows.doleta.gov/unemploy/content/futa/fy2019suia.asp.

State-Level Supplemental Funds

If a portion of the above-base funds remains unallocated to the states, DOL may make supplemental funding available to states for various uses. In recent years, such supplemental grants from DOL have supported states' efforts related to UC program integrity and performance improvements as well as reemployment assessments.

See, for example, a September 2017, DOL Unemployment Insurance Program Letter 22-17, "Unemployment Insurance (UI) Supplemental Funding Opportunity for State Consortia to Modernize Tax and Benefit Systems," September 8, 2017, available at https://oui.doleta.gov/dmstree/uipl/uipl2k17/uipl_2217.pdf.

UC Appropriations and Sequestration

The sequester order required by the Budget Control Act of 2011 (BCA; P.L. 112-25) and implemented on March 1, 2013 (after being delayed by P.L. 112-240), affected some but not all types of UC expenditures. Most UC benefits payments are not subject to the sequester reductions. But EBs and most forms of administrative funding are subject to the sequester reductions.

The FY2019 sequestration order requires a 6.2% reduction in all nonexempt nondefense mandatory expenditures, but no sequestration reductions are applicable to discretionary programs, projects, and activities. Thus, FY2019 UC administrative grants to the states are not subject to a reduction.

For additional details on this issue, see the section "Unemployment Insurance Benefits and the Sequester" in CRS Report R45478, *Unemployment Insurance: Legislative Issues in the 116th Congress*.

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