

**Background Paper on Extended Benefits:  
Restoring Our Unemployment Insurance Safety Net for  
Workers and Communities Impacted by Long Term Unemployment**

By National Employment Law Project

**Background.** Extended Benefits (EB) were adopted in 1970 to replace temporary unemployment insurance (UI) extensions that Congress had passed during economic recessions beginning in the 1950s. The intent of EB was to establish a permanent UI program to provide UI extensions automatically during recessions without the delays and disputes that had accompanied ad hoc UI benefit extensions under temporary programs. EB was financed as an equally shared federal-state program, with the federal share paid from Federal Unemployment Tax Act revenues and the states' share financed by state UI payroll taxes. The EB program has not kept pace with changes in the economy and program restrictions limit its impact. To meet its basic mission of assisting the long-term unemployed in future economic downturns, EB reforms are essential.

**Current EB Program.** Currently, EB provides up to 13 weeks of additional UI benefits to workers who exhaust their regular UI benefits (usually 26 weeks). States are required to have an automatic EB trigger that is an Insured Unemployment Rate (IUR) of at least 5%, with its IUR exceeding a threshold of 120 percent of its IUR for the corresponding period in each of the prior 2 calendar years. Put more simply, the threshold requirement means that a state's unemployment rate has to keep rising to keep EB triggered on indefinitely. In addition, all but 12 states have elected to have an optional 6% IUR trigger without the 120 percent threshold.

States have another trigger option under federal law. In addition to the two IUR triggers, states are free to adopt EB triggers using a total unemployment rate (TUR) figure that offers benefit extensions of two durations. (TURs are what most of us think of as the "unemployment rate." IURs count only those that are unemployed and file a valid UI claim, serve a waiting week, or receive UI benefits.) Federal law authorizes a TUR trigger option requiring two trigger levels that pay two lengths of UI benefit extensions. First, with a TUR trigger of 6.5% and a threshold requirement of 110 percent of either or both of the previous two years, states pay 13 weeks of EB. The second part of the TUR trigger option provides that under a TUR exceeding 8% and meeting the 110 percent threshold requirement, states pay 20 weeks of EB benefits. Only 7 states (Alaska, Connecticut, Kansas, Oregon, Rhode Island, Vermont, and Washington) have exercised the TUR trigger option since it was made available to states in 1993.

**History of EB Triggers.** Prior to 1981, EB had both national and state triggers. The "national trigger" was set at an IUR of 4.5%. If unemployment rose and the national IUR reached this level, EB triggered on in all states. "State triggers" that would turn on EB in hard-hit states regardless of the national unemployment rate had two levels. First, there was a designated level of unemployment, set at a 5% state IUR. Second, states with a 4% IUR that also exceeded a threshold requirement would trigger on EB. As with current IUR triggers, this pre-1981 threshold required that the state's IUR exceed 120 percent of the 13-week average

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IUR for the corresponding period in each of the previous two calendar years. Federal law also stopped counting those on extended benefits when calculating IURs.

In 1981, Congress eliminated the national EB trigger and raised the target IUR levels a full percentage point for the remaining state EB triggers. As a result, EB triggers were set at a 5% IUR with a threshold of 120% prior unemployment and 6% without the threshold.

**Current EB Triggers Too High for Today's Economy.** Many economists and public officials now recognize that unemployment levels have fallen well below previously accepted concepts of "full employment" since the recession of the early 1990s. EB trigger levels should be adjusted downward to reflect the fact that future recessions will begin from these lower levels of unemployment. At current levels of unemployment, a recession would have to grow quite serious over many months before unemployment would approach levels required under either of our existing IUR or TUR triggers.

In 1993, the national TUR was 7.0% and the IUR was 2.7%. Both levels have steadily declined, with the TUR reaching 4.0% in calendar year 2000, and the IUR falling to 1.8%. The TUR was 4.2 % in January 2001, and President Bush's budget proposal projects annual average unemployment rates (that is, TURs) of 4.5% for every year through FY 2006. The IUR is projected by USDOL to remain below 2.2% through FY 2005. At current and projected levels of unemployment, insured unemployment would have to more than double and total unemployment would have to increase by more than half to reach levels sufficient to trigger EB. Before the next recession, Congress should enact realistic EB triggers to restore EB as an effective safety net program and assist families and communities impacted by unemployment.

**IUR vs. TUR Triggers.** For over a decade, there has been an ongoing debate about whether or not EB triggers should involve IUR or TUR figures. In our view, setting a realistic level of unemployment in whatever type of EB trigger is used is more important than whether IUR or TUR figures are involved.

The Advisory Council on Unemployment Compensation recommended the use of TUR triggers. The basic argument for TUR triggers is that the IUR has lost its effectiveness as the percentage of unemployed workers getting a UI benefit (i.e., the insured unemployed) has declined. Since about a dozen states pay UI benefits to less than a quarter of their unemployed workers, these states have very low insured unemployment rates. As a result, observers have questioned whether IUR triggers will provide EB when needed in many states, especially those with more restrictive UI programs.

For example, in the third quarter of FY 2000, New Hampshire had an IUR of .5% and South Dakota had an IUR of .4%. In both of these states, their TUR was five times their IUR (2.5% and 2.0%, respectively). To reach a 5% IUR (assuming the relationship between the two figures didn't change much), New Hampshire and South Dakota would have to reach TUR levels close to 25% to trigger EB on, an unprecedented level of unemployment not seen since the 1930s.

**Percentage Thresholds in EB Triggers.** The percentage thresholds in EB triggers perversely turn off EB when a state's unemployment rate remains higher than the trigger level, but does not exceed the even higher levels required for the thresholds because of persistently high unemployment levels. As a result, states with long-term high unemployment levels have had EB trigger off under circumstances in which unemployed workers had virtually no chance of finding jobs. For example, in June 1983, Michigan triggered off EB due to the threshold, despite having a 14.6 percent unemployment rate. Ohio preceded Michigan in

May 1983, triggering off EB while experiencing 12.9 percent unemployment. During the oil recession of 1987, Louisiana triggered off EB with an unemployment rate of 12.7 percent.

The percentage thresholds in EB serve a federal budgetary function that undercuts the income support and countercyclical goals of UI. Thresholds turn EB off in states where long-term jobless benefits are economically justified, depriving working families of critical safety net support. Threshold requirements can also delay payment of EB if a state's unemployment levels rise gradually. The Advisory Council termed thresholds "problematic" and found that they "do not significantly affect the number of states in which Extended Benefits trigger on . . . [but] have the effect of delaying the point at which Extended Benefits trigger on in some states with the highest unemployment, as well as hastening the point at which such states trigger off [EB]." As a result, the Advisory Council noted that "those states suffering the most economic hardship are triggered on for the shortest period of time."

Any meaningful reform of EB should include elimination of the threshold requirements from EB triggers.

**What are the expected costs of EB reform?** The federal extended benefits account currently contains \$17 billion of FUTA revenues legally dedicated to the payment of the federal share of EB. State UI trust fund accounts exceed \$50 billion and are used solely for the payment of UI benefits. Any increased payment of EB under current economic assumptions would be modest and within levels that the federal and state trust funds can sustain.

The costs of inaction on EB reform must also be considered. A 1999 study commissioned by the U.S. Department of Labor concluded that each \$1 of UI benefits boosts GDP by \$2.15. According to the Congressional Budget Office, "UI benefits may have prevented up to one-fourth of long-term recipients from having their monthly income family incomes fall below the poverty line." EB reform now can be expected to ensure that EB works as a countercyclical tool in any future recession by providing timely assistance to jobless workers and their communities. In addition, because EB triggers failed to provide EB during the early 1990s recession, Congress enacted the Emergency Unemployment Compensation (EUC) program, which was 100%, federally-funded. The Advisory Council's estimates of the costs of EB with a variety of EB triggers with and without threshold requirements show that the \$28 billion cost of EUC exceeded those of an EB program with more effective triggers by as much as 50% during the early 90s recession.

**For more information about EB reform contact:** Rick McHugh at (734) 426-6773 or [rmchugh@nelp.org](mailto:rmchugh@nelp.org). Visit NELP's website at [www.nelp.org](http://www.nelp.org) for more information about the Unemployment Insurance Safety Net Project, providing technical assistance in support of reforms benefiting low-wage, part-time and women workers.