PAGE ONE Economics®

Middle School Version

Focus on **FINANCE**

Unemployment Insurance: A Tried and True Safety Net

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GLOSSARY

Depression: A severe and long-lasting economic downturn that is worse and deeper than a recession; a severe reduction in gross domestic product (GDP).

Employee: A person who works for an employer in exchange for a monetary payment.

Employer: A person or business providing a job or work to others and giving a monetary payment in exchange for the work.

Extended unemployment benefits: Additional weeks of benefits available to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment.

Labor force: The total number of workers, including both the employed and the unemployed.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.

Taxes: Fees charged on business and individual income, activities, property, or products by governments. People are required to pay taxes.

Unemployed: People 16 years of age and older who are without jobs and actively seeking work.

Unemployment: A condition where people at least 16 years old are without jobs and actively seeking work.

Unemployment rate: The percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.

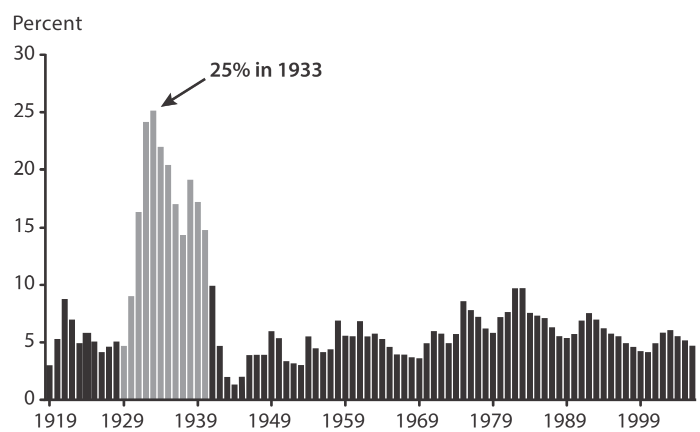
"Of all the aspects of social misery nothing is so heartbreaking as unemployment."
—Jane Addams

What happens when workers lose their jobs through no fault of their own? How do they manage with the loss of income? Today, every state has an unemployment insurance (UI) program that provides some income to these **unemployed** workers. But how did UI begin and how does it work?

Going back to the 1920s, most workers had jobs and an income to support a good lifestyle. Electricity, radios, refrigerators, and even cars were becoming affordable. People enjoyed these good times of the "Roaring Twenties" and thought they would last forever.

But in 1929, things changed. The Great Depression brought an economic catastrophe. Between 1929 and 1933, the **unemployment rate** soared to 25 percent of the **labor force** (Figure 1). The effects were alarming and in stark contrast to the 1920s. Without a safety net, a lost job meant no income. Many became homeless with no means to support their families. And the struggles began.

Figure 1
Civilian Unemployment Rate, 1919-2006



SOURCE: Federal Reserve Bank of St. Louis; https://www.stlouisfed.org/education/great-depression-curriculum-unit.

Federal-State Partnership

Struggles and crises often bring reform. And that's exactly what happened during the Great Depression. The ugly picture of the severe **depression** showed despair and poverty. And this brought a renewed interest in providing some type of program to assist workers who had lost their jobs.

Programs were tried at the state level. Wisconsin led the way and in 1932 became the first state to enact a UI law. A few other states followed with similar programs, which were funded by a **tax** on **employers**.[1] But most states did not. They feared the tax on employers could cause a loss of business and jobs to states that did not tax employers. This created an interstate problem and became a concern of the federal government.

In 1935, as part of the Social Security Act, the Federal Unemployment Tax Act (FUTA) created the federal-state unemployment insurance program.[2] This act mirrored the earlier state plans. The purpose of FUTA was to replace some of the lost income, for a period of time, to laid-off workers who were looking and available for work.

The act allowed for some federal control but gave states the freedom to design their own programs. The U.S. Department of Labor (DOL) was in charge, but states determined who would qualify for benefits, how much payments would be, and for how long payments would be given. States set up offices to take care of payments to workers who qualified.

Today, all states have UI programs, but they vary in design. For example, some states give benefits for a longer time than others, and the amount of payments are not the same. Some states provide benefits to workers who have worked only part time, while other states do not. (See boxed insert, "Sample of Normal State Unemployment Benefits, August 2020.")[3,4]

Sample of Normal State Unemployment Benefits, August 2020

State	Normal maximum weeks of benefits	Normal maximum weekly benefits
Arkansas	26	$451
California	26	$450
Florida	12	$275
Georgia	14	$365
Indiana	26	$390
Kentucky	26	$552
Louisiana	26	$247
Massachusetts	30	$823
Mississippi	26	$235
Missouri	20	$320
Nevada	26	$469
North Dakota	26	$640
Oklahoma	26	$539
Tennessee	26	$275
Texas	26	$521
Washington	26	$844

Eligibility for Unemployment Insurance

All states require that workers be able to work, available for work, and actively seeking work to qualify for UI. Most states require a work history that shows a minimum time worked and an amount of earnings based on a 12-month period.[5]

Eligibility is determined weekly, and workers must file claims weekly. Any earnings for the period, job offers accepted, or job offers declined must be reported. This can affect eligibility for receiving benefits and the amount received. And workers must continue to meet state requirements.[6]

Workers can be denied unemployment benefits. Making false statements to obtain benefits is one reason. Others include quitting a job without good cause or being fired. And even after being qualified, workers can lose benefits if they're unable to or unavailable for work, not actively seeking work, or refusing an offer of suitable work.[7] UI does not cover people who leave their jobs voluntarily or people looking for their first job. Self-employed people are normally not entitled to regular unemployment benefits. Also, certain types of employment, such as charity work, are excluded from UI coverage.[8]

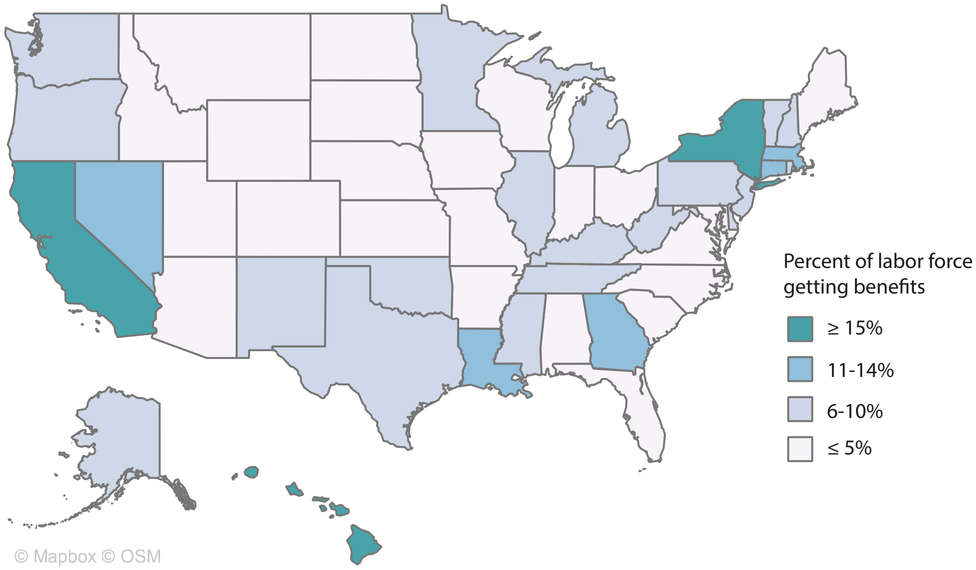
Benefits

Each state sets how unemployment benefits are determined. Today, in a regular UI program, most states provide up to 26 weeks of benefits to workers who qualify. However, this does not mean all workers receive benefits for the entire time—only for the time they qualify.

In most cases, benefits are based on a percentage of a worker's income over the past year—up to a limit. Some

Figure 2

Percent of Labor Force Getting Unemployment Benefits, August 27, 2020



SOURCE: *Stateline* analysis of U.S. Department of Labor and U.S. Bureau of Labor Statistics.

states pay reduced benefits for part-time work, which provides only a small amount of income. Since payments are capped, UI may replace a smaller share of previous earnings for higher-income workers than for lower-income workers.

States may also require a certain amount of steady earnings over the previous year to qualify for benefits. This may affect low-wage workers. They may not qualify for benefits, because many have not worked enough or earned enough to qualify.[9]

Today, workers can receive unemployment benefits in different ways, based on economic conditions (Figure 2).[10] Benefits can be received on a state-issued prepaid debit card. Or benefits can be directly deposited into a personal bank or credit union account, or onto an existing prepaid card. Some states will send payments by paper check.[11] UI payments are taxable income and must be reported on federal income tax returns.[12] Also, in states that have a state income tax, UC may be subject to this tax.

Extended Benefits

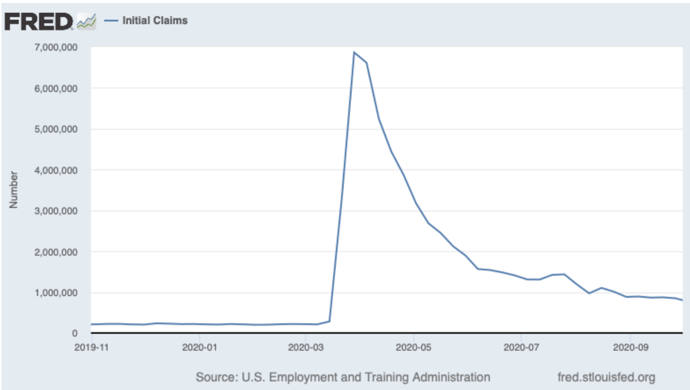
UI programs often change. In times of **recession** or special economic conditions, workers may receive **extended unemployment benefits**. For example, a state may pay benefits for a longer period of time when the state's **unemployment rate** increases. Benefits can also be extended by the federal government during times of high unemployment. It can approve additional payment amounts, extend the amount of time people can receive benefits, and expand programs to include part-time workers.[13] For example, as a response to the COVID-19 pandemic, extended benefits started in March 2020. Workers who were receiving benefits were given an additional $600 weekly payment. These extra payments were fully federally funded and lasted for about four months.[14]

Who Pays for Unemployment Insurance?

The regular UI program is generally funded by employers. Most employers pay both federal and state unemployment taxes.[15] These taxes are based on the amount of wages paid to **employees** and are figured as a percentage of an employee's wages. The FUTA tax rate is the same for all employers in all states. However, the state tax varies from one state to another.

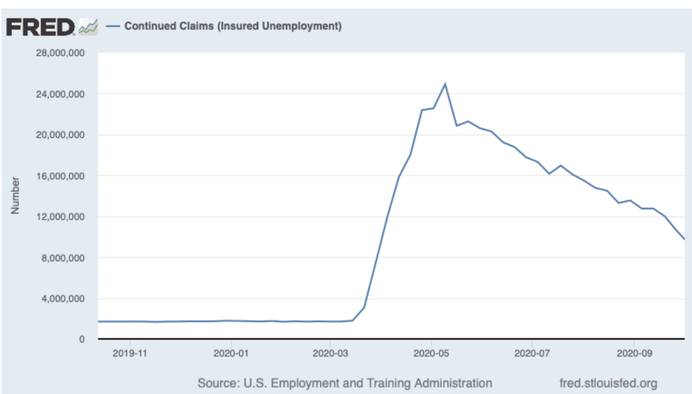
Employers must pay FUTA tax on a regular basis. And at the end of a year, employers must file a FUTA tax return. This tax return requires filers to record FUTA tax payments made for the year and submit any payment due. FUTA taxes are sent to the Internal Revenue Service (IRS) and are credited to state accounts. States make the rules for

Figure 3
Initial Claims



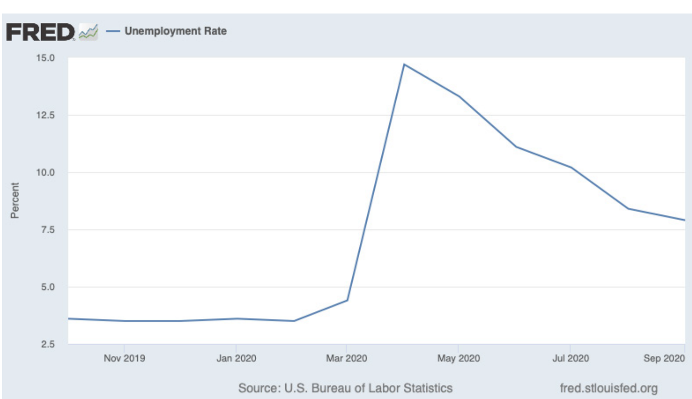
SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ICSA#0.

Figure 4
Continued Claims (Insured Unemployment)



SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CCSA#0.

Figure 5
Unemployment Rate



SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE#0.

receiving benefits and issue payments to workers. The federal government pays for operating costs and for setting up employment offices that try to match workers with new jobs.[16]

Data Collection

Data collected by the DOL from state unemployment agencies for the number of UI claims filed weekly are helpful. These data can tell something about the job market. For example, when the number of initial claims is steep, it's an indication of an abrupt loss of jobs (Figure 3). Continued claims (Figure 4) indicate the number of unemployed people who have already filed an initial claim and are filing again so that they keep receiving weekly benefits.

However, many workers who lose their job may not file for unemployment benefits for a while. And many people remain unemployed after benefits expire. So, UI claims data do not precisely show the number of unemployed persons and are not a measure of the unemployment rate. The unemployment rate is measured quite differently by another agency, the Bureau of Labor Statistics (BLS). The BLS does not use the unemployment claims data to figure the unemployment rate. It uses a system of household surveys to collect information from a representative sample of the U.S. population to calculate the unemployment rate (Figure 5).

Unemployment Insurance Changes

UI programs often change over time. For example, over the years the duration of regular UI benefits has increased from 16 weeks to 26 weeks in most states. Also, in some previous UI programs, after a certain period of time workers could qualify for UI after being fired from their job or quitting work. Today this is no longer allowed in any state.[17] Also, the UI process has changed. It was just a few years ago that workers had to visit an office to file for unemployment. Today, because of technology, most everything can be done by cell phone and/or the internet.

Conclusion

UI in the United States was first tried by a few states. FUTA made it a federal-state partnership. These programs vary among states and also change with time and economic conditions. But some things have remained the same: UI helps workers who have lost their jobs by replacing part of their wages for a period of time. The benefits are very important during hard times. For example, during the 2020 COVID-19 pandemic, the unemployment rate spiked sharply. But unlike the days of the Great Depression, workers could apply for UI. There was help when jobs were lost. This is one example of how UI continues to serve its intended purpose. UI has been tried and has remained true to the hopes and ideas of the founders of the program. ■

Notes

[1] Price, Daniel. "Unemployment Insurance, Then and Now, 1935-85." *Social Security Bulletin*, October 1985, *48*(10); https://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf.

[2] Price, 1985. See footnote 1.

[3] Justia. "Coronavirus and Unemployment Benefits: 50-State Resources." August 2020 update; https://www.justia.com/covid-19/50-state-covid-19-resources/coronavirus-and-unemployment-benefits-50-state-resources.

[4] States periodically update their maximum weeks of UI available based on changes in a state's unemployment rate and when a state's unemployment rate triggers a high unemployment period.

[5] Justia, 2020. See footnote 3.

[6] U.S. Department of Labor. "Unemployment Insurance: Fact Sheet"; https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

[7] U.S. Department of Labor. See footnote 6.

[8] *West's Encyclopedia of American Law, Edition 2*, s.v. "Unemployment benefit." Retrieved October 28, 2020, from https://legal-dictionary.thefreedictionary.com/Unemployment+benefit.

[9] Kovalski, Manuel Alcalá and Sheiner, Louise. "How Does Unemployment Insurance Work? And How Is it Changing During the Coronavirus Pandemic?" *Brookings Institution*, July 20, 2020, update; https://www.brookings.edu/blog/up-front/2020/07/20/how-does-unemployment-insurance-work-and-how-is-it-changing-during-the-coronavirus-pandemic/.

[10] Henderson, Tim. "Unemployment Likely Rising in 11 States." *Stateline*, an initiative of The Pew Charitable Trusts, August 28, 2020, update; https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2020/08/28/unemployment-likely-rising-in-11-states?utm_campaign=2020-09-02+Rundown&utm_medium=email&utm_source=Pew.

[11] Malaiyandi, Sangeetha. "You Have Options for How To Receive Your Unemployment Benefits." *Consumer Financial Protection Bureau*, June 23, 2020; https://www.consumerfinance.gov/about-us/blog/receive-your-unemployment-benefits-options/.

[12] U.S. Department of Labor. See footnote 6.

[13] U.S. Department of Labor. See footnote 6.

[14] U.S. Department of Labor. "U.S. Department of Labor Publishes Guidance on Federal Pandemic Unemployment Compensation"; https://www.dol.gov/newsroom/releases/eta/eta20200404, accessed September 11, 2020.

[15] Internal Revenue Service. "Federal Unemployment Tax"; https://www.irs.gov/individuals/international-taxpayers/federal-unemployment-tax.

[16] *West's Encyclopedia of American Law, Edition 2*. See footnote 8.

[17] Augustinho, David. "Happy 75th Birthday, Unemployment Insurance." *Barnstable Patriot*, August 27, 2010; https://www.barnstablepatriot.com/article/20100827/BUSINESS/308279957.

Name____ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics*®:

"Unemployment Insurance: A Tried and True Safety Net"

After reading the article, select the best answer to each question.

1. The first unemployment insurance program
   a. began at the federal level.
   b. was funded by a tax on employees.
   c. was designed by the Internal Revenue Service.
   d. began at the state level.

2. Data collected by the DOL for weekly UI claims
   a. come from the Bureau of Labor Statistics.
   b. are based on data from state agencies.
   c. will always show the unemployment rate.
   d. are the same for each week.

3. UI is generally funded by
   a. a tax on employees.
   b. a tax on employers.
   c. employers and unemployed workers.
   d. a policy that employees can buy.

4. Although amounts often change, the normal maximum weekly benefits a worker could receive from UI in August 2020 was
   a. the same in Tennessee and Washington.
   b. the same in Tennessee and Florida.
   c. more in Mississippi than in Texas.
   d. the same in every state.

5. To qualify for UI benefits, a worker
   a. can refuse to work.
   b. can be sick and in the hospital.
   c. must be able and available to work.
   d. must file for benefits each day.

6. An unemployed worker received a weekly benefit of $500 in early March 2020. If the worker remained eligible, how much was the weekly benefit at the beginning of April 2020?
   a. $1,100
   b. $750
   c. $800
   d. $600

7. Data collected by the DOL from state agencies for both initial and continued unemployment insurance claims
   a. are helpful in learning about the job market.
   b. show exactly the same things.
   c. are used for arriving at the unemployment rate.
   d. remain unchanged from week to week.

8. Federal unemployment taxes are called "FUTA" taxes and are
    a. determined by the state in which a worker works.
    b. paid only by an employee to the IRS.
    c. paid by employers to the DOL.
    d. based on the amount of wages paid to employees.

9. The unemployment rate increased sharply
    a. during the Great Depression and decreased when COVID-19 hit in 2020.
    b. during the Great Depression and when COVID-19 hit in 2020.
    c. during the 1940s and 1950s.
    d. during the 1970s and 1980s.

10. Extended unemployment benefits
    a. can only be given by individual states.
    b. can be given by both individual states and the federal government.
    c. are only available with federal approval.
    d. were not given when COVID-19 hit in 2020.

11. The FUTA was passed in 1935 and gave
    a. full control of all UI programs to the DOL.
    b. full control of the design of individual state UI programs to the BLS.
    c. all states the freedom to design their own UI programs.
    d. full control of the design of individual state UI programs to the IRS.

12. Most states have
    a. 26 weeks as the normal maximum number of weeks of benefits.
    b. more than $800 for the normal maximum benefits.
    c. less than 12 weeks as the normal maximum number of weeks of benefits.
    d. more than 26 weeks as the normal maximum number of weeks of benefits.

13. Juan is unemployed and has filed an unemployment claim for the first time. His claim will be counted
    a. as part of the initial claim data for the week he filed.
    b. as part of the initial claim and continued claims data for the week he filed.
    c. in the total number of continued claims for the week.
    d. in the data collected by BLS to calculate the unemployment rate.

14. The UI programs in each state
    a. all require that claims be filed the day after a worker becomes unemployed.
    b. provide a safety net for workers who lose jobs through no fault of their own.
    c. are designed at the federal level and are basically all the same.
    d. cannot deny benefits to unemployed workers for any reason.