



## Focus on **FINANCE**

# Unemployment Insurance: A Tried and True Safety Net

[Jeannette N. Bennett](#), Senior Economic Education Specialist

### 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 compensation:** A program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own. Also known as unemployment insurance.

**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.

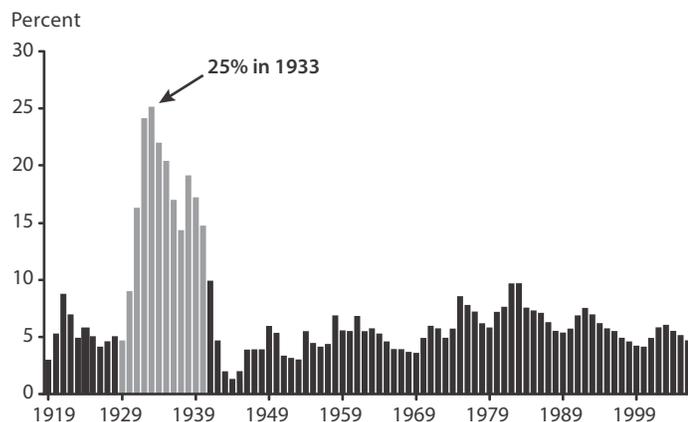
“Of all the aspects of social misery nothing is so heartbreaking as unemployment.”  
—Jane Addams

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?

The prosperous times of the 1920s set an expectation of having employment and money to spend. Electricity, radios, refrigerators, and even cars became more affordable. And with employment opportunities, people grew accustomed to the good times of the “Roaring Twenties” and thought they would last forever.

But beginning in 1929, things changed. The Great Depression brought an economic catastrophe with a challenging crisis. 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 can bring innovative ideas and reform. And that’s exactly what happened during the Great Depression. The ugly picture of severe **depression** with despair and poverty brought a renewed interest in and attention to providing **unemployment compensation** (UC).

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**.<sup>1</sup> But most states did not. They feared a loss of business and jobs to states that did not tax employers. This created an interstate problem and was, therefore, a direct 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.<sup>2</sup> This act mirrored the earlier state plans, with the purpose of temporarily replacing a portion of wages for workers who had been laid off and who were looking and available for work.

The act gave oversight responsibility to the U.S. Department of Labor (DOL). Within federal guidelines, states were given the freedom and flexibility to set criteria and design their programs. State unemployment offices were created to implement their UI programs and make payments to workers who qualified.

Today, all states have UI programs, but they vary in design. For example, eligibility requirements for receiving benefits vary based on duration of prior employment and whether full-time or part-time status. Also, the normal maximum amount of benefits, the duration of benefits, and claim procedures often differ. And UI program guidelines within each state are periodically subject to change according to economic conditions; this can be done by state governments or by the federal government in times of **recession** or special conditions. (See boxed insert, “Sample of Normal State Unemployment Benefits, August 2020.”)<sup>3,4</sup>

### Eligibility for Unemployment Insurance

All states require that workers be able to work, available for work, and actively seeking work for UI eligibility. Most states require a work history listing a minimum time

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

worked and a minimum amount of earnings based on a 12-month period.<sup>5</sup>

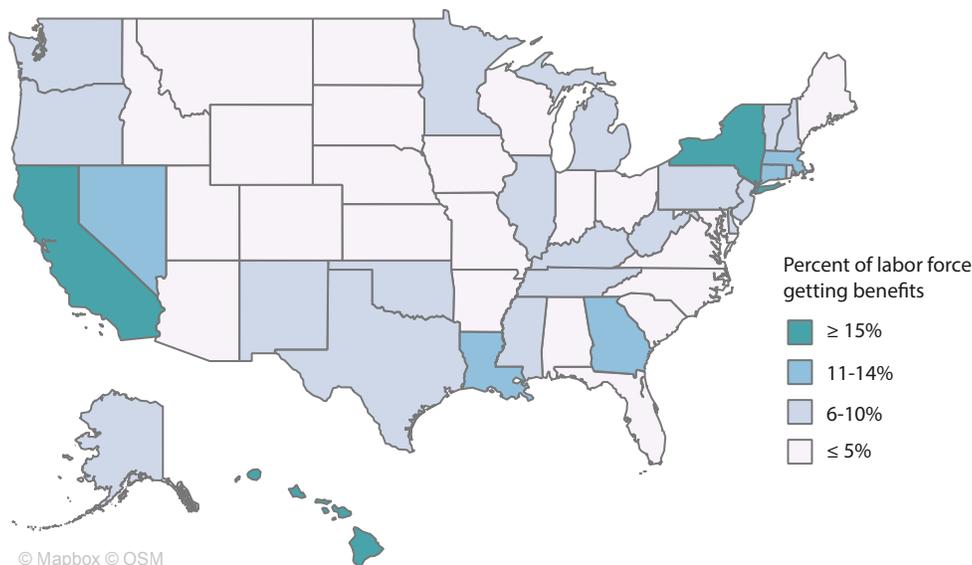
Workers must file claims weekly to maintain eligibility. Any earnings for the period, including job offers accepted or declined, must be reported. This can affect eligibility for receiving benefits and the amount received. Additionally, workers must continue to meet state requirements.<sup>6</sup>

In all states, workers can be denied benefits. Knowingly making false statements to obtain benefit payments is one reason for a denial. Other reasons include voluntarily leaving work without good cause and being discharged for misconduct connected with work. And even after being determined eligible for UI, workers can become ineligible if they’re unable to or unavailable for work, not actively seeking work, or refusing an offer of suitable work.<sup>7</sup> UI does not cover people who leave their jobs voluntarily or people looking for their first job. Individuals who are self-employed are normally not entitled to regular UC. Also, certain types of employment, such as charitable work, are excluded from UI coverage.<sup>8</sup>

### Benefits

Each state has its own formula for determining unemployment benefits. And the number of unemployed workers

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.

receiving UC changes according to economic conditions (Figure 2).<sup>9</sup> Generally, benefits are calculated as a percentage of a worker's income over the past year, up to a certain maximum. And some 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. The earnings and work history requirements can especially affect low-wage workers. They may not qualify for unemployment benefits, because many may not have had previous steady employment. States' eligibility rules may require a certain amount of steady earnings from a worker over the previous year.<sup>10</sup>

Today, in most states the regular program provides up to 26 weeks of benefits to workers who qualify. However, this does not mean all workers receive the benefits for the entire time—only for the time they qualify.

Benefits can be received on a state-issued, prepaid debit card. Or UC 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.<sup>11</sup> UC payments are taxable income and must be reported on federal income tax returns.<sup>12</sup> Also, in states that have a state income tax, UC may be subject to this tax.

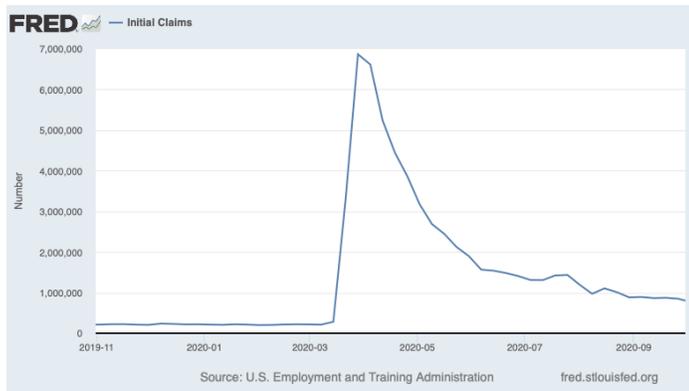
### Extended Benefits

UI programs often change. In times of recession or special economic conditions, workers may receive **extended unemployment benefits**. For example, a state may pay UC for a longer period of time when the state's unemployment rate increases. Also, Congress can approve additional payment amounts, extend the amount of time people can receive benefits, and expand eligibility to include part-time workers during times of high unemployment.<sup>13</sup> For example, in response to the COVID-19 pandemic, Federal Pandemic Unemployment Compensation (FPUC) was enacted in March 2020. The DOL gave instructions to administer an additional \$600 weekly payment to individuals who were collecting regular UC. The additional FPUC benefit payments were fully federally funded. The temporary boost to regular UC was scheduled to end after a person's last week of unemployment before July 31, 2020.<sup>14</sup>

### Who Pays for Unemployment Insurance?

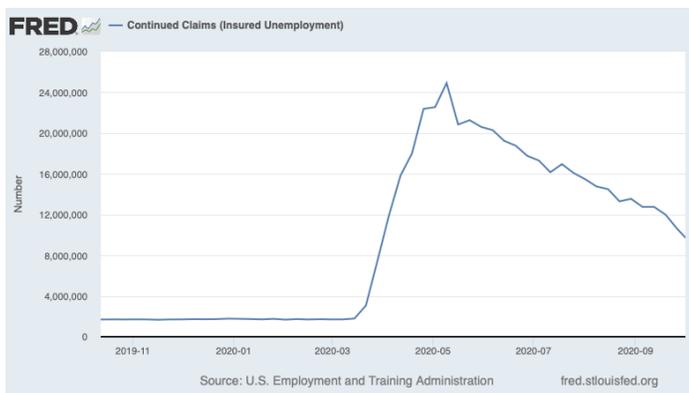
The regular UI program is generally funded by employers. Most employers pay both federal and state unemployment taxes.<sup>15</sup> The unemployment taxes are based on the amount of wages paid to **employees** and are determined as a percentage of an employee's wages. The FUTA tax

Figure 3  
Initial Claims



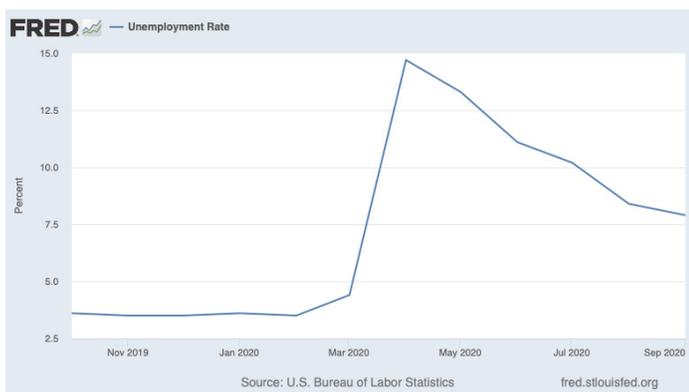
SOURCE: FRED®, Federal Reserve Bank of St. Louis;  
<https://fred.stlouisfed.org/series/ICSA#0>.

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>.

rate is the same for all employers in all states. However, the state employment 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 submitted to the Internal Revenue Service (IRS) and are credited to individual state accounts.

As part of the federal-state partnership, the federal government pays for administrative costs and for setting up employment offices that attempt to match workers with new jobs.<sup>16</sup> Determining benefits and issuing payments are state responsibilities.

### 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 UC 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 are subject to ongoing change. 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, workers could become eligible for UI after being fired from their job or quitting work. Over the years this became disallowed in all states.<sup>17</sup> Technology has also changed the UI process. In earlier

times, workers had to physically go to an unemployment office to file for unemployment benefits. Today, workers can file most everything via cell phone and/or the internet.

## Conclusion

The innovative plan for UI in the United States was first tried individually by a few states. FUTA made it a federal-state partnership. And UI programs have changed according to economic conditions, individual states, unemployment rates, and federal intervention. But some things have remained constant: The UI system helps eligible workers who have lost their jobs by temporarily replacing part of their wages. The benefits are especially important during economic downturns and recessions. For example, during the 2020 COVID-19 pandemic, the unemployment rate spiked sharply, but workers could apply for unemployment benefits. Unlike the days of the Great Depression, workers today have some protection from unemployment. The federal-state unemployment insurance program continues to serve its intended purpose with reasonable results. UI has been tried and has remained true to the hopes and ideas of the founders of FUTA. ■

## Notes

- <sup>1</sup> 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>.
- <sup>2</sup> Price, 1985. See footnote 1.
- <sup>3</sup> 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>.
- <sup>4</sup> 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.
- <sup>5</sup> Justia, 2020. See footnote 3.
- <sup>6</sup> U.S. Department of Labor. "Unemployment Insurance: Fact Sheet"; [https://oui.doleta.gov/unemploy/docs/factsheet/UI\\_Program\\_FactSheet.pdf](https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf).
- <sup>7</sup> U.S. Department of Labor. See footnote 6.
- <sup>8</sup> *West's Encyclopedia of American Law, Edition 2*, s.v. "Unemployment benefit." Retrieved October 28, 2020, from <https://legal-dictionary.thefreedictionary.com/Unemployment+benefit>.
- <sup>9</sup> 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](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).
- <sup>10</sup> 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/>.
- <sup>11</sup> 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/>.
- <sup>12</sup> U.S. Department of Labor. See footnote 6.
- <sup>13</sup> U.S. Department of Labor. See footnote 6.
- <sup>14</sup> U.S. Department of Labor. "U.S. Department of Labor Publishes Guidance on Federal Pandemic Unemployment Compensation"; <https://www.dol.gov/news-room/releases/eta/eta20200404>, accessed September 11, 2020.
- <sup>15</sup> Internal Revenue Service. "Federal Unemployment Tax"; <https://www.irs.gov/individuals/international-taxpayers/federal-unemployment-tax>.
- <sup>16</sup> *West's Encyclopedia of American Law, Edition 2*. See footnote 8.
- <sup>17</sup> 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. Federal unemployment taxes are sent to
  - a. the Bureau of Labor Statistics.
  - b. the Internal Revenue Service.
  - c. the Department of Labor.
  - d. state unemployment offices.
3. 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.
4. 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.
5. 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.
6. 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.

7. 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
8. 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.
9. 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.
10. 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.
11. 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.
12. 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.
13. 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.

14. 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.
  
15. 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.
  
16. The number of unemployment insurance claims is used to determine the unemployment rate.
  - a. True
  - b. False
  
17. The number of initial unemployment insurance claims is different from the number of continued claims.
  - a. True
  - b. False
  
18. The number of initial unemployment insurance claims decreased sharply in March 2020.
  - a. True
  - b. False