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Triggers that Work

Redesigning an Effective Unemployment Insurance Extended Benefits Program

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Introduction and summary

With the unemployment rate at 9.7 percent, the U.S. labor market situation is certainly grim. The share of the unemployed who have been out of work and searching for a new job for at least six months remains at record highs—at or above 27 percent for months now and hitting a record 41 percent in January. High unemployment creates hardships for individual families, but it also threatens to hinder the nascent economic recovery. Consumers spend $7 out of every $10 in our economy, but when large numbers of workers are unemployed and must reduce spending this puts a serious drag on the entire economy.

The unemployment insurance, or UI system, is designed for times like this. Workers who lose their jobs through no fault of their own can typically receive 26 weeks of unemployment benefits. This helps families just when they need it while providing much-needed economic stimulus to local economies.

There are obviously times when the economy is so bad that 26 weeks of unemployment benefits is not enough. To deal with this, under current law, when a state's unemployment rate rises especially sharply or to a very high level and jobs become harder to find, there is an "automatic trigger" system that is supposed to provide extended weeks of UI benefits to those still without work after six months. These "long-term unemployed" are able to tap these extended benefits because money to pay for this program is set aside during good times so states have the money at hand when tough times come.[1]

The logic of these extended benefits is that in normal times, six months of regular unemployment compensation should be enough to help workers get back on their feet and get new jobs. But in especially tough times such as we face today, when there are six unemployed workers vying for each job available, unemployed workers will need UI benefits for a longer period of time.

One problem is that the unemployment insurance program triggers are set too high, preventing many states from activating the program for extra weeks of benefits above and beyond the standard 26 weeks. Additionally, states cycled off the program too early in the current economic recovery and after previous recessions because the trigger requires ever increasing unemployment rates in order to remain on. Consequently, the extended benefits program does not trigger "on" and "off" in a timely fashion, which leaves states without the ability to provide benefits to their long-term unemployed.

States are required by federal law to extend unemployment benefits beyond 26 weeks when their trigger goes on or when Congress acts to extend the duration of unemployment benefits. Because the trigger system is broken, Congress had to act repeatedly over the course of the Great Recession to extend the duration of unemployment benefits.

Before proceeding, a quick note on terminology. The extended benefits, or EB program, extends weeks of UI benefits in states with high unemployment rates based on state-level triggers. The extended unemployment compensation, or EUC program allows Congress to extend the duration of UI benefits temporarily, typically for the long-term unemployed, in every state. The EUC program typically expires within a year or six months of implementation, while the EB program is based on the trigger system in place at the state level.

Congress has extended the EUC program four times already in this economic downturn. Each time, the program is temporary and expires within a relatively short time frame. The first extension was in June 2008, the second in November 2008, the third as part of the American Recovery and Reinvestment Act in February 2009, and finally, the fourth in December 2009, which expires in February 2010.[2] These unemployment insurance extensions each provided an additional 20 weeks of unemployment benefits to the long-term unemployed in every state, and an additional 13 weeks of unemployment benefits for unemployed workers in states with unemployment rates above 6.5 percent for the duration of the temporary program.

Relying on Congress to extend benefits episodically to the long-term unemployed is not a good policy solution.

With these UI extensions, some unemployed workers may receive up to 99 weeks of benefits.[3] Since the EUC program expires in February 2010, it will certainly need to be extended as the rate of long-term unemployment remains at record highs.[4]

Relying on Congress to extend benefits episodically to the long-term unemployed is not a good policy solution.[5] The United States is a large nation with a variety of different local labor markets, and Congress may not have the political will to act when only a few states are in dire straits. In future recessions, there may not be the votes in Congress to help the few trailing states.

In contrast, an automatic system that works would help states over multiple ups and downs over time—and really help the country by not having lagging states dragging down the national economy. After the recession of 2001, for example, Congress turned off the EUC program on May 31, 2003, when the national unemployment rate hit 6.1 percent. But some states were still dealing with far higher unemployment rates. California and Michigan, for example, still had unemployment rates of 6.9 percent and 7.2 percent, respectively.

A trigger system that is more sensitive to state labor markets, turning on when unemployment rises and off when it returns to normal, would be far more effective at allocating scarce government resources to the places that continue to need extended benefits. During the Great Recession, Congress was able to act fairly quickly, but as we will demonstrate in this paper, a well-functioning trigger system would have done more to help the states that entered their own recessions early on (See box).

This report outlines three simple steps that would fix the trigger system for the long term—steps that require an act of Congress to change the thresholds of the automatic triggers and the way we finance the EB program. Specifically, we recommend:

- Turning the trigger for EB benefits on when a state's unemployment rate rises to an average of 6.5 percent or more over a three-month period or when the number of people claiming unemployment insurance rises by 20 percent or more. When a trigger is on, states are to provide unemployed workers with an additional 20 weeks of unemployment benefits, on top of the 26 weeks typically allowed—fully funded by the federal government.[6] The trigger should turn off when a state's unemployment rate falls below an average of 6.5 percent over a three-month period and when the number of people claiming UI falls back to it prerecession level.

- Establishing a second tier of triggers to address extremely high unemployment. This new trigger will turn on an additional 13 weeks of unemployment benefits—on top of the typical 26 weeks and the additional 20 weeks from the first tier—in states with an unemployment rate above an average of 8.5 percent or more over a three-month period. This will turn off when unemployment falls below an average of 8.5 percent over a three-month period.

The current unemployment trigger system doesn't work

The automatic provisions of the EB program don't work for three simple reasons. First, the levels established by the program are too high. In order to turn the program on, the percentage of the labor force receiving unemployment insurance benefits must exceed 5 percent. Second, and more importantly, in order for the EB program to remain on, the program requires that the percentage of people receiving these benefits be increasing. As soon as the level peaks, the program turns off. In short, the program does not turn on very easily and once on, it turns off when the labor market is at its worst.

The final reason that the EB program doesn't work is because states do not want to pay for it. State legislators have the option of adopting other triggering mechanisms, but very few choose them. Why? Most would rather wait for the federal government to act since it typically pays for the UI extensions under the separate EUC program. By contrast, when state-level rules trigger EB on, the states are required to pay half of the benefits.

- Returning to the states the EUC account holdings to pay for the expenses of administering the UI system.[7] Currently, the states must pay half of the EB program benefits, but with most states' trust funds for this program in deficit, this system of financing is broken.

This month, Congress is expected to extend the long-term unemployment benefits once again. But if they do it as they have before, they will set a cutoff date for the nation as a whole. This means that states that emerge from the recession faster will continue to get benefits before the cutoff date, while states with high unemployment have their benefits expire too early.

Therefore, our final recommendation is that the off-triggers be put in place in the reauthorization of the EUC program so that states trigger off extended benefits in ways that work for their individual economies. Implementing a logical off-trigger like we propose here would mean that states would go off the EB program in a way that makes sense for their state economy.

If our proposal had been in place prior to the beginning of the Great Recession in December 2007, then a total of 18 states with high unemployment would have had an additional 20 weeks of benefits available to their long-term unemployed prior to Congress acting in June 2008. This would have boosted local economies and helped families in need. Eleven of these 18 states would have had their EB program triggered on prior to the first act of Congress in June 2008.

If our proposal had been in place prior to the beginning of the Great Recession, then a total of 18 states with high unemployment would have had an additional 20 weeks of benefits.

Further, seven states that would have triggered on during the recession of 2001 would have never triggered off because their economies never recovered to their pre-recession unemployment levels. This means, for example, that unemployed workers in Michigan who took more than six months to find a new job would have been able to collect additional weeks of unemployment benefits through the EB program.

Importantly, our proposal is cost effective. The automatic triggers we propose would be well targeted, not applying to all states. Consequently, had our program been implemented prior to the Great Recession, the total cost would have been slightly less than the UI extensions put in place by Congress since 2008.[8] Further, triggering benefits on quickly would have dampened the Great Recession's depth in states hit early on.

Now reasonable minds may differ over how quickly states should trigger on and how long we want states to remain on extended benefits.[9] Policymakers can adjust the generosity by lowering or raising the threshold unemployment rate or changing the required percent increase in UI claims. Further, for states with long-term high unemployment problems, Congress should consider boosting employment service expenditures and allow state workforce agencies to provide relocation assistance, retraining, temporary job creation, and other active labor market policies for states with persistent high unemployment.[10]

But this report is unequivocal about the need to put automatic triggers in place. In the pages that follow, we describe the proposed triggers in detail, using what we believe are reasonable trigger rates and weeks of benefits to show what would have happened if the proposed triggers had been in place since the end of the 2001 recession. We then estimate the costs of this program. In the end, we believe Congress will grasp the importance of enacting these reforms quickly and permanently.

Automatic extensions: Turning the system "on"

Additional weeks of benefits should automatically become available as states enter a recession. Historically, we have looked at the state's unemployment rate to assess the state of the labor market. When unemployment is high, policymakers should be less concerned that providing workers with a longer duration of benefits will result in them voluntarily staying unemployed since it's clear that states with high unemployment rates make it more difficult for workers to seek jobs.[11] Our trigger uses the unemployment rate since it is the best overall measure of labor market difficulties.

Establishing a baseline unemployment rate for extended benefits is a logical way to measure labor market conditions, but it fails to recognize that because state labor markets differ dramatically there needs to be a back-up method to capture states in bad economies not picked up by the unemployment rate. A state with a low unemployment rate that begins to rise rapidly due to mass lay-offs in a particular industry may have an overall unemployment rate below the 6.5 percent trigger but show massive job losses. Moreover, a state's unemployment rate is a good indicator of only some aspects of the labor market, but sometimes it does not give us a full picture of the labor market conditions that prevail in a state during a recession.[12]

Establishing a baseline unemployment rate for extended benefits is a logical way to measure labor market conditions.

Since the unemployment rate does not provide us with a complete picture of the labor market, we include a second indicator to determine when the labor market has entered a recession—the percentage of the labor force that is receiving UI benefits, which is known as the insured unemployment rate, or IUR. This indicator is a good second measure because it adjusts more quickly to changes in the labor market and it is less sensitive to workers leaving the labor market as a result of becoming discouraged about their job prospects.

Since the percentage of the unemployed receiving benefits varies dramatically across the states, we recommend using the percentage increase in the share of unemployed workers within the state who are receiving benefits. The U.S. Department of Labor already calculates IUR each week for each state.

To determine whether a state would extend UI benefits, we recommend comparing the average insured unemployment rates during the same week in the previous two years to see if the current IUR is 20 percent or more than that average. Whenever either of the two conditions below hold within a state, then its workers will be eligible to receive 20 additional weeks of unemployment benefits:

- States with three-month average unemployment at or above 6.5 percent

or

- States with a 20 percent or greater annual increase in IUR—the percentage of the labor force receiving UI benefits

During the recent Great Recession, for example, the total unemployment rate in Iowa and Utah did not trigger extended benefits on until September 20, 2009, and January 24, 2010, respectively. That is, neither state experienced an increase in the unemployment rate above 6.5 percent. Consequently, these were the last two states to trigger on extended UI benefits as a result of satisfying condition one above.

The second condition that we recommend is likely to trigger benefits on much more expeditiously than other triggering mechanisms such as the unemployment rate trigger. If our second condition had been in place during the Great Recession then Iowa and Utah would have triggered on in August and February of 2008, respectively, nearly a full year prior to the unemployment rate trigger. In previous recessions, many states have failed to turn on extended benefits with the unemployment rate trigger, while the 20 percent trigger provided much greater coverage.

Finally, it is important to note that we are not recommending that the EB program make up new eligibility rules for UI, but rather that the program continues to use the state rules for eligibility. This will alleviate the administrative burden on the states, raise efficiency, and speed up the payment of benefits.

Back to baseline: Turning the system "off"

When the labor market returns to normal or near normal conditions, the extended unemployment benefits provisions should be turned off. Policymakers should not prolong extended benefits when jobs become plentiful, yet limiting benefits when jobs are not available reduces the potency of the economic stimulus inherent in our UI programs. Extended benefits not only help unemployed workers who have been searching for work for 26 weeks receive an additional 20 weeks of benefits while they search for a new job, but also help boost local economies that have high unemployment, which is good for the entire community as well.[13]

As with the "on" trigger, we use the change in the unemployment rate as our first measure to turn the trigger "off." The program should trigger off once the unemployment rate falls back below 6.5 percent for at least three months. Again, however, we note that setting the level based only on the state's unemployment rate is not adequate for all states and an additional mechanism for turning states off is necessary.

The important point in turning off the EB program is to set a baseline and measure the recovery against that baseline. If the labor market recession is protracted, as it was in the early 1990s and early 2000s, then we run the risk of turning off extended benefits too early. This is because with previous triggers the baseline for comparison of the recovery moved forward to include months or years of recessionary labor markets. In these cases, the EB program turned off not because the labor market had returned to normal but because it had reached a plateau and was not getting worse.

In order to prevent including recessionary periods in our determination of when the market has recovered, we need to fix a point in time for purposes of comparison. The condition of the labor market immediately preceding turning on the extended benefit program is the ideal way to do this. We recommend fixing a point in time and making comparisons to that period—regardless of how long the recession has lasted.

If extended benefits were made available in February 2008, for example, then the point of comparison would be labor market conditions in 2006-07. Even if the labor market recession were to last until 2010 we would still make comparisons to 2006-07.[14] Thus our recommendation is this; Whenever both of two conditions below hold in a state, workers will no longer be eligible to receive 20 additional weeks of unemployment benefits:

- States with three-month average unemployment falls below 6.5 percent

and

- States where the percentage of labor force receiving UI benefits—calculated as the so-called Insured Unemployment Rate—has returned to the prerecession level.

When a state experiences a 20 percent increase in the state's Insured Unemployment Rate—the share of people receiving unemployment benefits—extended benefits trigger on. If a state's IUR increased from 4 percent to 4.8 percent, for example, then 20 additional weeks of benefits would be made available. To keep extended benefits on until a recovery has occurred we recommend that they remain on until this rate in this state falls below 4.8 percent. Another state may start at a 3 percent rate and would consequently have to increase to 3.6 percent to trigger benefits on.

The EB program would remain on until they fell below that level. Finally, both of the provisions must be satisfied—an unemployment rate below 6.5 percent and the recipiency rate returns to its initial level—for extended benefits to be turned off.

Extremely high unemployment conditions

We also recommend that states with very high unemployment rates—above 8.5 percent—be eligible for an additional 13 weeks of benefits on top of the 20 weeks of extended benefits. Again, we emphasize that the criteria for this second tier of benefits be flexible and that Congress be given the flexibility to choose different levels of unemployment.

Because a high unemployment rate is so clearly a sign of a weak labor market, we do not provide a separate analysis of this tier of benefits. In general, though, this tier of benefits would be available after the state's first tier of benefits was already in place. This recommendation is consistent with the policies implemented as a part of the American Recovery and Reinvestment Act in early 2009.

States with very high unemployment rates would be able to provide 33 weeks of automatic extended benefits available on top of the 26 weeks of regular benefits—for a total 59 weeks of benefits. Of course, Congress can always use its discretion to increase the number of weeks available by adding temporary extensions. It is important to note that the program we are recommending would serve as an automatic system that provides a much-needed minimum of unemployment insurance protection.

Funding

When state labor markets begin to deteriorate, claims for unemployment insurance tend to increase dramatically. This often places a considerable burden on state UI trust funds and may result in states with low trust fund balances to raise taxes.

A recent survey from December 2009 by the National Association of State Workforce Agencies asked how states planned to deal with loans for their UI trust funds.[15] Of the eight states that had already passed legislation to address the issue, all planned to increase the taxable wage base and three were reducing benefits. A total of 35 states reported that they will increase taxes on employers from 2009-10 to address UI trust fund solvency.

Raising taxes on employers during a recession or before the labor market has recovered undoes a portion of the stimulative effect of the extensions of unemployment benefits.

Raising taxes on employers during a recession or before the labor market has recovered undoes a portion of the stimulative effect of the extensions of unemployment benefits. This obviously should be avoided for the good of unemployed workers and the broader economy.

Under the current extended benefits structure, when extended benefits are made available states are responsible for paying 50 percent of the benefit extension amount. Many states can ill afford to pay for these benefits during a recession. Consequently, states have resisted automatic extensions—fearing that state budgets would be stretched too thin, resulting in unwanted tax increases during the recession.

To eliminate this perverse economic incentive, we recommend that Congress refund the existing funds held in the extended unemployment compensation account. These accounts were set up for states to deposit money into them during low unemployment years so that in high unemployment years there were funds available to pay for EUC without raising taxes. The problem is, because the states fund these accounts they are reluctant to make use of them, even in tough economic times, as this implies they will have to reinvest in them in future years. Having the federal government pay for this program will fully help fund the administration of the UI system and help reduce the likelihood that states will have to raise taxes to pay for additional unemployment benefits as UI claims rise during the recession.

Finally, extended benefits should be fully federally funded. In any insurance plan, the idea is for the "winners" to help the "losers." In the case of the UI system, states that experience high rates of unemployment and dramatic increases in unemployment insurance claims would receive the money to pay for these benefits from general revenues or from a federal fund dedicated to UI extended benefits. This effectively makes the EB program adhere more closely to insurance principles. One way to fund this program would be to levy a small increase in the federal UI tax to be phased in once the recovery takes hold.

State-by-state evaluation of the proposed triggers

One important facet of designing a good UI triggering mechanism is that it should be well timed. Therefore, a critical question for our trigger is how well would have the proposed triggers been timed during the most recent recession? According to the National Bureau of Economic Research, the current national recession began in December 2007. NBER officials made this announcement in the beginning of December 2008. Table 1 shows what month the triggers would have turned extended unemployment benefits on, going back to 2000 to fully capture states triggering on prior to the 2001 recession. To demonstrate how changing the policy parameters alters the timing of when a state is on or off the program, the table shows when states would have triggered on to extended unemployment benefits using two different thresholds for the increase in IUR, 20 percent or 25 percent.

Only one state, Alaska, would have never triggered on to extended benefits over this entire time period, but a handful of states—Colorado, Georgia, Michigan, Minnesota, New Hampshire, and Ohio—would have triggered on in 2001 and not triggered off again through 2009 because their unemployment rates remained high during economic recovery in the 2000s. This means that unemployed workers in these states would be eligible for their standard 26 weeks of unemployment benefits, then an additional 20 weeks of extended benefits. In the 1990s, however, all states triggered off the EB program at some point after the national recession ended as a result of the overall strength of the economic recovery in that decade.

We provide more detailed evidence of the effectiveness of our proposed triggers for four states—California, Michigan, New York, and Virginia—in the figures below. All four states would have triggered extended benefits on prior to the December 2008 NBER announcement of the beginning of the Great Recession a year earlier, indicating that they would have been effective at extending benefits during the recession's early months.

In California, extended benefits would have triggered on March 8, 2008, while in Virginia and New York, extended benefits would have triggered on June 7 and November 15, 2008, respectively. Michigan's extended benefits would have triggered on in the 2001 recession, but would not yet have triggered off since the state economy has been in recession throughout this century.

TABLE 1

How our extended unemployment benefits proposal would work

A state-by-state analysis

Trigger is either state unemployment less than or equal to 6.5 percent or a 20 percent or 25 percent increase in the insured unemployment rate

	Increase in IUR			Increase in IUR	
	20% increase	25% increase		20% increase	25% increase
Alabama	May 17, 2008	Sep. 13, 2008	Montana	May 31, 2008	Jun. 21, 2008
Alaska	meets neither criteria		Nebraska	Dec. 6, 2008	Dec. 20, 2008
Arizona	Jan. 5, 2008	Feb. 2, 2008	Nevada	Sep. 1, 2007	Sep. 29, 2007
Arkansas	Oct. 18, 2008	Nov. 15, 2008	New Hampshire*	Jun. 9, 2001	Jun. 16, 2001
California	Jan. 19, 2008	Mar. 8, 2008	New Jersey	Oct. 18, 2008	Nov. 8, 2008
Colorado*	May 19, 2001	May 26, 2001	New Mexico	Oct. 4, 2008	Nov. 1, 2008
Connecticut	Sep. 20, 2008	Oct. 11, 2008	New York	Oct. 25, 2008	Nov. 15, 2008
Delaware	Jul. 26, 2008	Sep. 27, 2008	North Carolina	Jan. 27, 2001	Aug. 16, 2008
District of Columbia	Nov. 1, 2008	Dec. 13, 2008	North Dakota	Oct. 4, 2008	Jan. 17, 2009
Florida	Jun. 30, 2007	Aug. 25, 2007	Ohio*	Dec. 23, 2000	Jan. 13, 2001
Georgia*	Jan. 27, 2001	Feb. 10, 2001	Oklahoma	Oct. 18, 2008	Nov. 8, 2008
Hawaii	Dec. 22, 2007	Apr. 19, 2008	Oregon	Apr. 19, 2008	May 17, 2008
Idaho	Mar. 1, 2008	Mar. 29, 2008	Pennsylvania	Oct. 11, 2008	Nov. 8, 2008
Illinois	Sep. 6, 2008	Oct. 11, 2008	Rhode Island	May 24, 2008	Oct. 11, 2008
Indiana*	Dec. 9, 2000	Dec. 16, 2000	South Carolina*	Jan. 13, 2001	Jul. 26, 2008
Iowa	Aug. 23, 2008	Oct. 11, 2008	South Dakota	Nov. 22, 2008	Nov. 29, 2008
Kansas	Sep. 27, 2008	Oct. 11, 2008	Tennessee	Aug. 30, 2008	Sep. 27, 2008
Kentucky	Jul. 12, 2008	Aug. 30, 2008	Texas	Oct. 11, 2008	Oct. 25, 2008
Louisiana	Sep. 20, 2008	Sep. 27, 2008	Utah	Feb. 9, 2008	Feb. 23, 2008
Maine	Aug. 9, 2008	Sep. 13, 2008	Vermont	Aug. 16, 2008	Sep. 20, 2008
Maryland	Apr. 12, 2008	May 10, 2008	Virginia	May 3, 2008	Jun. 7, 2008
Massachusetts	Aug. 30, 2008	Oct. 25, 2008	Washington	Jul. 5, 2008	Aug. 16, 2008
Michigan*	Jan. 6, 2001	Feb. 10, 2001	West Virginia	Dec. 27, 2008	Jan. 10, 2009
Minnesota*	Apr. 21, 2001	May 5, 2001	Wisconsin	Sep. 27, 2008	Oct. 18, 2008
Mississippi	Sep. 6, 2008	Sep. 20, 2008	Wyoming	Nov. 1, 2008	Nov. 15, 2008
Missouri	Oct. 11, 2008	Oct. 25, 2008			

Source: Author's estimates of proposed triggers using data from the Department of Labor.

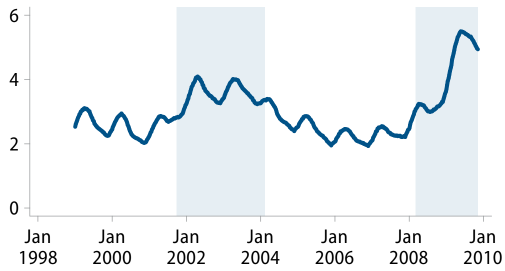
* Indicates that the state would have triggered on during the 2001 recession, but not triggered off because it had not returned back to normal labor market conditions.

Our simulations indicate that our proposed rules for determining when the extended benefit program turns on and off would provide timely extensions to unemployment benefits. Yet, as we have seen, some states may trigger on extended benefits and remain on for long periods of time. This is especially true when the labor market is undergoing a structural change, as was the case this past decade in Michigan.

Turning off the benefit extension when the labor market has not recovered is not good for the state. Unemployment benefits add economic stimulus to local labor markets when they have high long-term unemployment—just when they need stimulus the most. To address the labor market problems that experience prolonged high unemployment levels, federal policymakers could provide additional resources to the Employment Services system to provide additional job search help, relocation aid, retraining accounts, and other active labor market programs to aid with the restructuring. This would help to address high unemployment while also pumping money into a down economy, providing stimulus just when that economy needs it most.

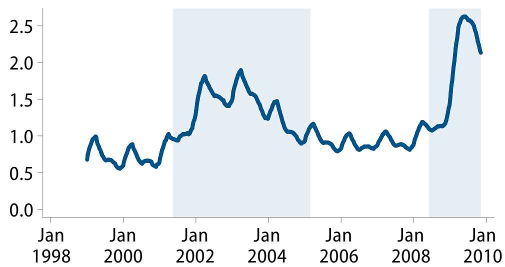
California : Insured Unemployment Rate

1999 to 2009



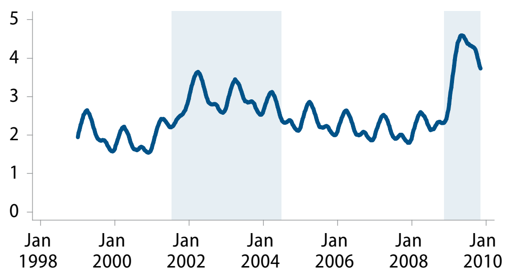
Virginia: Insured Unemployment Rate

1999 to 2009



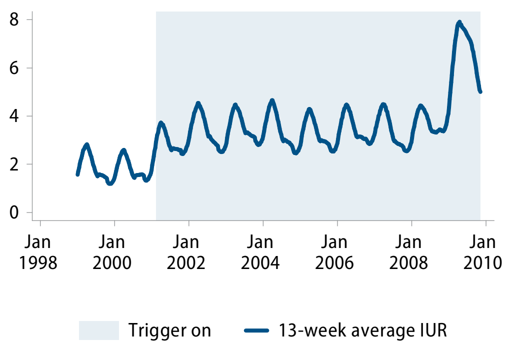
New York : Insured Unemployment Rate

1999 to 2009



Michigan : Insured Unemployment Rate

1999 to 2009



Costs

To cost out the trigger system that we propose in this paper, we use the number of workers who exhausted their regular unemployment compensation times the average weekly benefit amount times the number of weeks of eligibility for extended benefits. We benchmarked this model against the actual expenditures for the current system and they came within 3 percent. The upshot: This "back of the envelope" calculation compares well to actual costs.

Using a 20 percent increase in IUR trigger as the threshold for turning the system on, the extended benefit system would have paid out $7.619 billion in 2008. This is virtually identical to the program Congress implemented: The EUC program that extended unemployment benefits to the long-term unemployed in every state paid out $7.888 billion in benefits in 2008, $270 million more than with our proposed triggers.

Conclusion

It is worth noting that independent analysis has found the triggers proposed here to be more effective than current policy. Recently, Jeremy Schwartz of George Washington University evaluated the triggers discussed above, and compared them to an alternate "switching" trigger he designed. In general, Schwartz finds that the proposals we make in this paper "are fairly evenly distributed across the four decades." [16]

Schwartz also finds that our triggers "perform fairly well, given their simplicity" and generally cover more unemployed workers who have exhausted their unemployment insurance benefits than do his switching triggers.

Fixing the UI automatic triggers is an important step to ensuring that the UI system can provide an effective economic stimulus in troubled economic times. States that enter a recession earlier than others should not have to wait to alleviate the burden of higher unemployment and more people in need. The UI system should automatically extend benefits to high unemployment states rather than waiting for an act of Congress.

Endnotes

1 The Extended Unemployment Compensation Account currently holds $21 billion for fiscal year 2008. See http://workforcesecurity.doleta.gov/unemploy/content/midfy2008/MSR08.pdf (last accessed April 12, 2008). Use of the monies in this account are restricted to paying benefits for the extended benefits program.

2 "The Emergency Unemployment Compensation (EUC08) program is a temporary, 100 percent federally financed program that provides additional weeks of unemployment benefits at the state level. The 1st tier of EUC08 provides up to 20 additional weeks of unemployment compensation to all qualified workers who have exhausted regular unemployment compensation. The 2nd tier of EUC08 provides up to an additional 13 weeks of benefits in states with high unemployment. DOL [Department of Labor] tracks unemployment rates in the states, and a state is said to trigger 'on' to the EUC 2nd tier of benefits if unemployment conditions in the state reach certain thresholds." Alison Shelton, Kathleen Romig, and Julie Whittaker, "Unemployment Insurance Provisions in the American Recovery and Reinvestment Act of 2009," (Congressional Research Service, February 27, 2009), p. 2.

3 The American Reinvestment and Recovery Act of 2009 made provisions for 20 weeks of EUC-Tier 1, 13 weeks of EUC-Tier 2, 20 weeks of extended benefits, 14 weeks of EUC—13 weeks Tier 3 and 1 week Tier 2—and 6 weeks of EUC-Tier 4 in addition to the 26 weeks of regular benefits. This results in a maximum benefit duration of 99 weeks.

4 Typically states pay half the cost of extended benefits, but the recovery package had the federal government fully pay for the benefits.

5 President Obama's FY 2010 budget called for the UI system's automatic triggers to be fixed—including $21 billion over 10 years to fix the trigger system. The administration did not, however, lay out a specific plan and this funding stream appears to not be in the 2011 budget.

6 Benefits are always extended for 13 weeks. The program is "open-ended" in that as long as the trigger is on, an unemployed worker can collect up to 13 additional weeks of benefits. Once you have collected 26 weeks of regular benefits and 13 weeks of extended benefits, then the workers is cut off the program.

7 We note that any federal legislation should return regulation of the work-search test requirements to the states. This will improve administrative efficiency and eliminate re-adjudication of cases.

8 Workers who move from the state they lost their job in remain eligible for benefits in the first state.

9 Our simulations of the performance of these extended benefits triggers indicate that they were very effective at triggering on during a labor market recession. In some cases because of the extraordinarily good labor market in the late 1990s, the extended benefits turned on and failed to return to the benchmark. In these cases we added an additional provision that increased the requirements for keeping the EB program on. An alternative mechanism is to give a role to the state legislature requiring them to approve extensions each year once the EB program has been "on" for more than 52 weeks.

10 Louis Soares, "Working Learners: Educating Our Entire Workforce for Success in the 21st Century" (Washington: Center for American Progress, 2009), available at http://www.americanprogress.org/issues/2009/06/working_learners.html.

11 See, for example, Paul Decker, "Work Incentives and Disincentives." In Christopher J. OLeary and Stephen A. Wandner, eds. *Unemployment Insurance in the United States: Analysis of Policy Issues* (Kalamazoo: W.E. Upjohn Institute, 1997).

12 For example, the state unemployment rate in Michigan was 7.2 percent in February 2008, while the unemployment rates in Ohio and Indiana are 5.3 percent and 4.6 percent, respectively. Eighteen states have unemployment rates that are below 4 percent. However, the percentage of 25- to 54-year-olds without jobs is very high (27.4 percent of women and 13.1 percent of men compared to 25.1 in April 2000 and 10.3 in January 1999).

13 Current EB rules require that once a state EB program is "on" it must remain on for at least 13 weeks, and once off it must remain off for 13 weeks regardless of the extension indicator. This prevents week-to-week variations in extensions. We recommend that this rule remain in force.

14 If, for example, a state were to trigger on during the second week of February 2008, then the relevant time period would be 2006-07. Note that comparisons must be made to the same week due to seasonal variation. So when making the determination as to whether the program would remain on in the second week of June 2008, we would average the rates during the second week of June of 2006 and 2007 and make sure that the level in 2008 was still 25 percent greater than this average.

15 National Association of State Workforce Agencies, "UI Trust Fund Solvency Survey: Summary Document of State Responses" (December 2009), available at http://www.workforceatm.org/sections/pdf/2009/NASWA%20Solvency%20Survey%20Summary%20of%20State%20Responses.pdf.

16 See page 23 of Jeremy Schwartz's 2008 working paper, "A New Approach to Triggering Extended Unemployment Insurance: Identifying Poor Labor Market Conditions with Markov Switching Models," for a general discussion of the performance of our triggers relative to his alternative. Schwartz's paper is available at http://home.gwu.edu/~schwarjf/JSchwartz%20-%20MS%20Models%20and%20Extended%20Benefits.pdf.

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