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Triggers that Work

Redesigning an Effective Unemployment Insurance Extended Benefits Program

Jeffrey B. Wenger and Heather Boushey February 2010

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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.

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.

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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.

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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.

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.

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