UNEMPLOYMENT COMPENSATION

Federal-State Partnership

U.S. DEPARTMENT OF LABOR

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INTRODUCTION

The federal-state unemployment compensation (UC) program, created by the Social Security Act (SSA) of 1935, offers economic line of defense against the ripple effects of unemployment. Through payments made directly to eligible unemployed workers, it ensures that a significant proportion of the necessities of life, most notably food, shelter, and clothing, can be met on a week-to-week basis while a search for work takes place. Unemployment compensation provides a temporary partial wage replacement for the unemployed, and is vital in maintaining their purchasing power as well as stabilizing the economy.

Unemployment compensation is a social insurance program. It is designed to provide benefits to most individuals out of work, generally through no fault of their own, for periods between jobs. To be eligible for benefits, jobless workers must demonstrate workforce attachment, usually measured by amount of wages and/or weeks of work, must be able and available for work, and must be actively seeking work.

The UC program is a federal-state partnership based upon federal law, but administered by state employees under state law. This structure makes the program unique among the country’s social insurance programs. The UC program is also unique in that it is almost totally funded by employer taxes; only three states collect taxes from workers.

Federal law defines certain requirements for the program. The SSA and the Federal Unemployment Tax Act (FUTA) set forth broad coverage provisions, some benefit provisions, the federal tax base and rate, and administrative requirements. The major functions of the federal government are to:

- ensure conformity and substantial compliance of state law, regulations, rules, and operations with federal law;

- determine administrative fund requirements and provide money to states for proper and efficient administration;

- set broad overall policy for administration of the program, monitor state performance, and provide technical assistance as necessary; and

- hold and invest all money in the unemployment trust fund until drawn down by states for the payment of compensation.

Each state (defined as the 50 states, Washington, DC, Puerto Rico, and the US Virgin Islands) designs its own UC program within the framework of the federal requirements. The state statutes set forth the benefit structure (e.g., eligibility/disqualification provisions, benefit amount) and the state tax structure (e.g., state taxable wage base and tax rates). The primary functions of the state are to:

- determine operation methods and directly administer the program;
• take claims from individuals, determine eligibility, and insure timely payment of benefits to workers; and

• determine employer liability, and assess and collect contributions.

Originally, most states paid benefits for a maximum duration of between 13 and 16 weeks. Most states currently pay a maximum of 26 weeks, although Massachusetts pays 30 weeks. In periods of very high and rising unemployment, in individual states, benefits are payable for up to 13 additional weeks (20 in some cases), up to a maximum of 39 weeks (or 46). These “extended benefits” are funded on a shared basis – approximately half from state funds and half from federal sources.

In periods of national recession, when all states are impacted by high and sustained unemployment, federally-funded programs of supplemental benefits have been adopted occasionally. There were two such programs during the 1970s, one during the early 1980s, one during the 1990s, and one during the early 2000s. The Emergency Unemployment Compensation program of 2008 (EUC08) was effective from July 2008, through January 1, 2014.

The UC program operates counter-cyclically to economic trends, paying out benefits during recessionary times and building solvency during recovery periods. Provided below are estimates of program activity for fiscal year 2017.

- Number of workers covered 140.6 million
- Number of 1st payments (State UI+UCFE+UCX) 6.4 million
- Benefits paid (all programs) $33.0 billion
- Number of subject employers 8.1 million
- Administrative costs (total) $3.9 billion
  State UC only $2.74 billion
- Payroll taxes – FUTA $6.1 billion
- Payroll taxes – State $41.4 billion

THE BASIC SYSTEM

Almost all wage and salary workers are now covered by the federal-state UC program. Railroad workers are covered by a separate federal program. Ex-servicemembers with recent service in the Armed Forces and civilian federal employees are covered by a federal program, with the states paying benefits from federal funds as agents of the federal government.

If a state law meets minimum federal requirements under FUTA and Title III of the SSA:

• employers receive up to a 5.4 percent basic and additional tax credit against the 6.0 percent federal unemployment tax, and

• the state is entitled to federal grants to cover all the necessary costs of administering the program.
Approval for Tax Credit

Sections 3303 and 3304 of the Internal Revenue Code of 1986 (created by the law known as FUTA) represent some of the minimum federal requirements and provide that the Secretary of Labor shall approve a state law for basic and additional tax credit if under the state law:

- Compensation is paid through public employment offices or other approved agencies;

- All of the funds collected under the state program are deposited in the federal Unemployment Trust Fund (UTF) (Title IX of the SSA prescribes the distribution of the tax revenue among the various accounts of the trust fund);

- All of the money withdrawn from the state trust fund account is used to pay compensation, to refund amounts erroneously paid into the fund, or for other specified activities;

- Compensation is not denied to anyone who refuses to accept work because the job is vacant as the direct result of a labor dispute, or because the wages, hours, or conditions of work are substandard, or if, as a condition of employment, the individual would have to join a company union or resign from or refrain from joining any bona fide labor organization;

- Compensation is paid to employees of state and local governments and Indian tribes;

- Compensation is paid to employees of FUTA tax exempt nonprofit organizations, including schools and colleges, who employ 4 or more workers in each of 20 weeks in the calendar year;

- Payment of compensation to certain employees of educational institutions operated by state and local governments, nonprofit organizations, and Indian tribes is limited during periods between and within academic terms;

- State and local governments, nonprofit organizations, and Indian tribes are permitted to elect to pay regular employer contributions or finance benefit costs by the reimbursement method;

- Compensation is not payable in two successive benefit years to an individual who has not worked after the beginning of the first benefit year;

- Compensation is not denied to anyone solely because the individual is taking part in an approved training program;

- Compensation is not denied or reduced because an individual’s claim for benefits was filed in another state or Canada and the state participates in arrangements for combining wages earned in more than one state for eligibility and benefit purposes;
• Compensation is not denied by reason of cancellation of wage credits or total benefit rights for any cause other than discharge for work-connected misconduct, fraud, or receipt of disqualifying income;

• Extended compensation is payable under the provisions of the Federal-State Extended Unemployment Compensation Act of 1970 (federal-state extended benefits program);

• Compensation is not denied solely on the basis of pregnancy or termination of pregnancy;

• Compensation is not payable to a professional athlete, between seasons, who has a reasonable assurance of resuming employment when the new season begins;

• Compensation is not payable to an alien unless the alien was in a specified state – such as legally authorized to work – at the time services were performed;

• The benefit amount of an individual is reduced, under certain conditions, by that portion of a pension or other retirement income (including Social Security and Railroad Retirement income) which is funded by a base period employer;

• Wage information in the agency files is made available, upon request and on a reimbursable basis, to the state agency administering Temporary Assistance to Needy Families; and wage and UC information to the Secretary of Health and Human Services for the purposes of the National Directory of New Hires;

• Any interest required to be paid on advances is paid in a timely manner and is not paid, directly or indirectly (by an equivalent tax reduction in such state), from amounts in such state’s trust fund account (See also FINANCING THE PROGRAM, Interest on Loans);

• Federal individual income tax is deducted and withheld if a claimant so requests; and

• Reduced tax rates for employers are permitted only on the basis of their experience with respect to unemployment.

Approval for Grants for Costs of Administration

Title III of the SSA provides for payments from the federal UTF to the states to meet the necessary costs of administering the UC programs in the states. (The major proportion of the cost (97%) of operating their public employment offices is provided for by the Wagner-Peyser Act.) Under Title III, the grants are restricted to those states that have a UC law approved under FUTA and have been certified by the Secretary of Labor as providing (some of these provisions are also included in FUTA):

• Methods of administration (including a state merit system) which will insure full payment of UC when due;

• Payment of UC through public employment offices or through other approved agencies;
• For fair, impartial hearings to individuals whose claims for UC have been denied;

• All of the funds collected under the state program are deposited in the federal UTF (Title IX of the SSA prescribes the distribution of the tax revenue among the various accounts of the trust fund);

• That all of the money withdrawn from the state trust fund account will be used either to pay UC, exclusive of administrative expenses, to refund amounts erroneously paid into the fund, or for other specified activities;

• Reports required by the Secretary of Labor;

• Information to federal agencies administering public works programs or assistance through public employment;

• For limitation of expenditures to the purpose and amounts found necessary by the Secretary of Labor for proper and efficient administration of the state UC law;

• For repayment of any funds the Secretary of Labor determines were not spent for UC purposes or exceeded the amounts necessary for proper administration of the state UC law;

• That as a condition of eligibility, any claimant referred to reemployment services pursuant to the profiling system, participate in such services;

• Information to the Railroad Retirement Board as the Board deems necessary;

• Reasonable cooperation with every agency of the United States charged with the administration of any UC law;

• That any interest on advances be paid by the date on which it is required to be paid or is not paid, directly or indirectly (by an equivalent reduction in state unemployment taxes or otherwise), by such state from amounts in the state’s trust fund account;

• Information to the Department of Agriculture and state food stamp agencies with respect to employee wages, UC benefits, home address, and job offers;

• Information to any state or local child support enforcement agency with respect to employee wages;

• That a claimant disclose whether or not the claimant owes child support obligations; deductions from benefits shall be made for any such child support obligations, and the amount of such deduction paid by the state UC agency to the appropriate child support agency;
• Information be requested and exchanged for purposes of income and eligibility verification in accordance with a state system meeting the requirements of Title XI of the SSA; the UC wage record system may, but need not, be the required state system;

• Information to the Secretary of Health and Human Services on a reimbursable basis, with respect to employee wages, UC benefits, and home address for the purpose of establishing a National Directory of New Hires;

• Information to officers and employees of the Department of Housing and Urban Development and to representatives of public housing agency with respect to employee wages and UC benefits;

• For establishment and use of a system of profiling new claimants of regular compensation to identify those likely to exhaust such compensation and need reemployment services;

• Requirement that, as a condition of eligibility for regular UC, claimants participate (unless exempt) in reemployment services if referred under the profiling system;

• Mandatory transfer of unemployment experience whenever there is substantially common ownership, management, or control of two employers, and one of these employers transfers its trade or business (including its workforce), or portion thereof, to the other employer (applies to total and partial transfers); and, under certain conditions, prohibition of transfer when a person who is not an employer acquires the trade or business of an existing employer;

• Work search requirements for claimants collecting state and federal UC benefits;

• Reduction of current state and federal UC benefits to recover prior overpayments of state and federal UC benefits (including Federal Additional Compensation) and use of rules for recovering federal overpayment that are just as aggressive as those states use to recover state UC overpayments; and

• Reemployment eligibility assessments for the long-term unemployed who begin collecting federal UC benefits to determine what services and activities they need to return to work.

FINANCING THE PROGRAM

Initially, the federal tax under FUTA was 1.0 percent (0.1 percent effective tax) of the total wages of a worker. By 1940 it had increased to 3.0 percent (0.3 percent effective tax) on wages up to $3,000. Since then, the rate has increased a number of times, occasionally on a temporary basis. In 1985, the federal tax reached 6.2 percent (0.8 percent effective tax) on taxable wages. On July 1, 2011, the Federal tax was reduced to 6.0 percent. The taxable wage base increased to $4,200 in 1972, $6,000 in 1978, and $7,000 in 1983.
Under current FUTA provisions, a federal tax is levied on covered employers at a rate of 6.0 percent on wages up to $7,000 a year paid to an employee. The law, however, provides a credit against federal tax liability of up to 5.4 percent to employers who pay state taxes timely under an approved state UC program. This credit is allowed regardless of the amount of the tax paid to the state by the employer. Accordingly, in states meeting the specified requirements, employers pay an effective federal tax rate of 0.6 percent, or a maximum $42 per covered employee, per year.

This federal tax is used to fund a number of different UC related expenditures:

- All federal and state administrative costs associated with UC programs;
- The federal share of benefits paid under the federal-state Extended Unemployment Compensation Act of 1970;
- The loan fund from which an individual state may borrow (Title XII of the SSA) whenever it lacks funds to pay UC due for any month; and
- Benefits under some of the federal supplemental and emergency programs.

In addition, the FUTA tax is used to fund labor exchange services, employment and training services for veterans and disabled veterans, and some labor market information program activities. See chart on page 16.

**Provisions Relating to Loans**

If it is anticipated that the balance in a state’s unemployment fund will become insufficient to pay expected benefit claims during a specified period of time, the state’s Governor may request a loan from the Secretary of Labor. Such loans are made from the Federal Unemployment Account (FUA) in the UTF, and must meet the requirements of Title XII of the SSA.

To assure that a state will repay any loans it secures from the fund, the law provides that when a state has an outstanding loan balance on January 1 for two consecutive years, the full amount of the loan must be repaid before November 10 of the second year, or the federal tax on employers in that state will be increased for that year and further increased for each subsequent year that the loan has not been repaid.

As previously discussed States may take a 5.4 percent tax credit against the 6.0 percent FUTA rate. The 5.4 percent tax credit is reduced in successive increments of a minimum 0.3 percent for each year in which a loan or loans remain unpaid (reducing the overall tax credit from at a minimum of 5.4 to 5.1 percent the first year, to 4.8 percent the second year, to 4.5 percent the third year, etc.). Additional offset credit reductions may apply to a state beginning with the third and fifth taxable years if a loan balance is still outstanding and certain criteria are not met.

**Cap on Loan Repayment Requirements**

States with outstanding loans may seek relief from the automatic loan repayment provisions. If specific requirements are met, a cap (or limit) is provided on the reduction in offset credit at the
higher of 0.6 percent or the federal tax rate in effect in the state for the previous year. These requirements are:

- The state did not take any action (in the prior year) that would diminish the solvency of the state fund;
- The state did not take any action (in the prior year) that would decrease the state's unemployment tax effort;
- The average tax rate for the taxable year exceeds the 5-year average benefit cost rate; and
- The state’s outstanding loan balance as of September 30 of the tax year is not greater than that for the third preceding September 30.

States with outstanding loans may also avoid the automatic increase in the federal tax by transferring, on or before November 9, money from their unemployment accounts to the FUA. The following criteria must be met to avoid the offset credit reduction:

- Repay all loans for the 1-year period ending November 9, plus any additional tax due by reason of the reduced credit amount;
- Have sufficient funds remaining after the transfer to pay benefits for at least 3 months after November 1 of the same year without receiving another loan under Title XII, SSA; and
- Have taken action to increase the solvency of its UC system so that the increase at least equals the potential additional taxes that would otherwise be payable.

**Interest on Loans**

Except for cash flow loans (loans obtained and repaid January through September) interest is charged on all loans made on or after April 1, 1982. The rate is the lesser of 10 percent or the rate at which interest was paid on the state reserve balance in the federal UTF for the last quarter of the preceding calendar year. Interest paid by states is credited to the FUA in the UTF.

Interest is due and payable on the last day (September 30) of the fiscal year in which the loans were made. If a state borrows after September 30 in a calendar year in which any cash flow loans had been repaid earlier in the year without interest, then interest will be charged retroactively for the period that the state had held any earlier loans.

Interest may be deferred, to December 31 of the following calendar year, for loans made in the last 5 months of the federal fiscal year (May-September). Interest accrues on the delayed interest payment.

States with an average total unemployment rate of 13.5 percent or greater for the most recent 12-month period for which data are available may delay payment of interest for a grace period not to exceed 9 months. Interest does not accrue on the delayed interest payment.
States with an average insured unemployment rate of 7.5 percent or greater during the first 6 months of the preceding calendar year may pay interest in four annual installments of 25 percent per year. Interest does not accrue on the deferred interest payments.

**Penalty for Failure to Pay Interest**

A state will lose all offset credit (5.4 percent) for any year in which all interest due under law is not paid by the date on which such interest is required to be paid. The state would also lose all grants for costs of administration until interest due has been paid.

**Limitation on Source of Interest Payments**

Federal law requires as a condition of certification of the state’s laws for credit against the federal tax and receipt of federal grants that, interest payments may not be made from the state UC fund (directly or indirectly, by diverting some part of UC taxes).

**Liable Employers**

Employer are subject to the federal unemployment tax if, during the current or preceding calendar year, they employed one or more individuals in each of at least 20 calendar weeks, or if they paid wages of $1,500 or more during any calendar quarter of either the current or preceding calendar year. Variations on these requirements relate to employers in agriculture and domestic service:

- In agriculture, employers who have at least 10 or more workers in each of at least 20 calendar weeks in the current or preceding calendar year or a cash payroll of at least $20,000 during any calendar quarter in either the current or preceding calendar year are subject to the tax.

- In domestic service, employers who have a cash payroll of at least $1,000 in any calendar quarter in the current or preceding calendar year are subject to the tax.

Taxable wages are defined as all remuneration from employment in cash or in kind with certain exceptions. The exceptions include earnings in excess of $7,000 in a year, and payments related to retirement, disability, hospital insurance, or similar fringe benefits.

**State Taxes**

All states finance UC primarily through contributions from subject employers on the wages of their covered workers. In addition, three states (Alaska, New Jersey, and Pennsylvania) collect contributions from employees. These taxes are deposited by the state to its account in the UTF in the Federal Treasury, and are withdrawn as needed to pay benefits. As of December 2016, aggregate state trust fund accounts had reserves of approximately $46.9 billion.
Experience Rating and the Federal Requirements

The system under which employers are assigned tax rates in accordance with their individual experience with unemployment (and subject to the needs of the state program) is referred to as experience rating. Within the confines of the general federal requirements, the experience rating provisions of state laws vary greatly. Though provisions have changed over the years, present federal law permits:

- reduced rates (rates below the 5.4 standard or basic rate) for employers with at least 1 year of experience with respect to unemployment or other factors bearing a direct relation to unemployment risk, and

- reduced rates (but not less than 1.0 percent) for newly subject employers on a reasonable basis.

Additional credit is allowed only with respect to a year in which the rate of the taxpayers in the state with the least favorable experience is at least 5.4 percent.

State Requirements for Experience Rating

All state laws provide for a system of experience rating under which individual employers’ contribution rates vary from the standard rate. The variation in employers’ contribution rates is based on the amount of unemployment encountered by their employees. In most states, 3 years of experience with unemployment means more than 3 years of coverage and contribution experience.

As noted earlier, the experience-rating provisions of state laws vary considerably, and the number of variations often changes with each legislative year. The most significant variations arise from differences in the formulas used for rate determination. The factor used to measure experience with unemployment is the basic variable which makes it possible to establish the relative incidence of unemployment among the workers of different employers. Differences in such experience represent the major justification for differences in tax rates, either to provide incentives for stabilization of employment or to allocate the cost of unemployment. At present there are four distinct systems, usually identified as reserve-ratio, benefit-ratio, benefit-wage-ratio, and payroll-decline formulas. A few states have combinations of the systems.

In spite of significant differences, all systems have certain common characteristics. All formulas are devised to establish the relative experience of individual employers with unemployment or with benefit costs. To this end, all have factors for measuring each employer’s experience with unemployment or benefit expenditures, and all compare this experience with a measure of exposure – i.e., payrolls – to establish the relative experience of large and small employers.

State Taxable Wage Base and Rates

Forty-nine (49) states have adopted a higher taxable wage base than the $7,000 now provided in FUTA. For 2017, Washington’s taxable wage base is the highest at $45,000. In all states, an employer pays a tax on wages paid to each worker within a calendar year, up to the amount specified in state law. In addition, most of the states provide an automatic adjustment of the
wage base if federal law is amended to apply to a higher wage base than that specified under state law.

As a result of the many variables in states taxable wage bases and rates, benefit formulas, and economic conditions, actual tax rates vary greatly among the states and among individual employers within a state. For the latest year available (2016), the preliminary estimated U.S. average tax rate is 0.66 percent of total wages, ranging from a high of 1.48 percent in Vermont (taxable wage base of $16,800) to a low of 0.26 percent in Tennessee (taxable wage base of $8,000).

**COVERAGE**

As indicated previously, FUTA applies to employers who employ one or more employees in covered employment in at least 20 weeks in the current or preceding calendar year, or who pay wages of $1,500 or more during any calendar quarter of the current or preceding calendar year. Also included are large employers of agricultural labor and some employment in domestic service. State legislatures tend to cover employers or employment subject to the federal tax because, while there is no compulsion to do so, failure to do so is of no advantage to the state and a disadvantage to the employers involved in terms of FUTA taxes due. While states generally cover all employment which is subject to the federal tax, they also may cover some employment which is exempt from the tax, such as smaller employers of agricultural labor and domestic service. Employers who do not meet the specific monetary or number of employee requirements are excluded from liability for unemployment taxes.

Although the extent of state coverage is greatly influenced by the federal statute, each state is, with a single exception, free to determine the employers who are liable for contributions and the workers who accrue rights under the laws. The exception is the federal requirement that states provide coverage for employees of nonprofit organizations, services performed for Indian tribes, and employees of state and local governments, even though such employment is exempt from FUTA.

**BENEFIT RIGHTS**

There are no federal standards for benefits in terms of qualifying requirements, benefit amounts, or duration of regular benefits. Hence, there is no common pattern of benefit provisions comparable to that in coverage and financing. The states have developed diverse and complex formulas for determining workers’ benefit rights.

Under all state UC laws, a worker’s benefit rights depend on the worker’s experience in covered employment in a past period of time, called the base period. The state determines a benefit year for each worker; this is a time period during which the weekly rate and the duration of benefits apply to worker.

The qualifying wage or employment provisions attempt to measure the worker’s attachment to the labor force. An insured worker must also be free from disqualification for causes which vary among the states. All but a few states require claimants to serve a waiting period before their unemployment may be compensable.
All states determine an amount payable for a week of total unemployment as defined in the state law. Usually a week of total unemployment is a week in which the claimant performs no work and receives no pay. In most states workers are partially unemployed in a week of less than full-time work when they earn less than their weekly benefit amount. The benefit payment for such a week is the difference between the weekly benefit amount and the part-time earnings, usually with a small disregard as a financial inducement to take part-time work.

**Qualifying Wages and Employment**

All states require that a claimant must have earned a specified amount of wages or must have worked a certain number of weeks or calendar quarters in covered employment, or must have met some combination of the wage and employment requirements within his/her base period, to qualify for benefits. The purpose of such qualifying requirements is to restrict benefits to covered workers who are genuinely attached to the labor force.

**Benefit Eligibility and Disqualification**

All state laws provide that, to receive benefits, a claimant must be able to work, available for work, and actively seeking work. Also, a claimant must be free from disqualification for such acts as voluntary leaving without good cause, discharge for misconduct connected with the work, and refusal of suitable work. The purpose of these provisions is to limit payments to workers unemployed through no fault of their own.

In all states, claimants who are held ineligible for benefits because of inability to work, unavailability for work, refusal of suitable work, or any other disqualification are entitled to a notice of determination and an appeal of the determination.

**Benefit Computation**

Most states measure unemployment in terms of calendar weeks. Under all state laws a weekly benefit amount, that is, the amount payable for a week of total unemployment, varies with the worker’s past wages within certain minimum and maximum limits. The period of past wages used and the formulas for computing benefits from these past wages vary greatly among the states.

**OTHER BENEFIT PROGRAMS**

**Federal-State Extended Benefits (EB)**

Since 1970, federal law has provided for the extension of the duration of benefits in periods of high and rising unemployment. When the insured unemployment rate in a state reaches certain specified levels, that state must extend by 50 percent the benefit duration normally allowed under that state’s law. States may extend benefit duration up to a combined overall maximum of 39 weeks. There are also optional provisions for payment of EB. The federal government finances, from federal revenue, approximately half of the cost of EB paid during an EB period; this includes any state benefits paid in excess of 26 weeks.
EB Triggers

Mandatory – State must pay EB (13 week duration) if the insured unemployment rate (IUR) for the previous 13 weeks is at least 5 percent and is 120 percent of the rate for the same 13-week period in the 2 previous years.

- Optional – At its option, a state may pay EB (13 weeks) if the IUR for the previous 13 weeks is at least 6 percent, regardless of the experience in the previous years.

- Optional – At its option, a state may pay EB (13 weeks) if the average total unemployment rate (TUR), seasonally adjusted, for the most recent 3 months is at least 6.5 percent and is 110 percent of the rate for the same 3-month period in either of the 2 previous years. If such rate is at least 8.0 percent and is 110 percent of the rate for the same 3-month period in either of the 2 previous years, the duration increases from 13 to 20 weeks.

Unemployment Compensation for Federal Civilian Employees (UCFE)

The UCFE program provides unemployment benefits to federal civilian workers in the same amount and under the same general conditions as relate to UC for other workers. The program is administered on behalf of the federal government by the state UC agencies. Costs of UCFE benefits are charged to the federal agencies where the workers earned their base period wages.

Unemployment Compensation for Ex-Servicemembers (UCX)

The UCX program provides unemployment benefits to recently discharged members of the Armed Forces in the same amount and under the same general conditions as apply to UC for other workers. States administer the UCX program on behalf of the Federal government under agreements with the U.S. Department of Labor (Department). States must follow the Department’s guidance in operating the program, including the use of the Federal Schedule of Remuneration to determine UCX benefit eligibility. The Department issues an updated schedule yearly.

In general, ex-servicemembers must be honorably discharged and complete their first full term of service to qualify for UCX. However, ex-servicemembers who did not complete their first full term of service and were separated under honorable conditions and were separated for certain “acceptable narrative reasons” may qualify for UCX. Some “acceptable narrative reasons” for separation require 365 days of service to be applicable. Narrative reasons are found in Block 28 of the DD Form 214 (Certificate of Release or Discharge from Active Duty). A consolidated list of acceptable narrative reasons for separation from the military for UCX claim purposes is attached to Unemployment Insurance Program Letter No. 9-10 which is issued by the Department.

Members of the National Guard and Reserves must have 180 days of continuous active service and be separated under honorable conditions to qualify for UCX benefits.
**Disaster Unemployment Assistance (DUA)**

The Disaster Relief Act of 1974 authorizes the President to provide to any individual unemployed as a result of a major natural disaster such assistance as deemed appropriate while the individual is unemployed. In general, individuals living or working in those areas affected by a major natural disaster, who are unemployed because of the disaster, are eligible for DUA if they are not eligible for UC or other wage replacement payments and meet certain requirements. Assistance is available for a maximum of 26 weeks after the major natural disaster is declared.

**Trade Readjustment Allowances (TRA)**

The Trade Act of 1974, as amended, provides for adjustment assistance to individuals who are unemployed or underemployed because of the adverse effect of increased imports, as a result of trade arrangements permitted under the Act, or because of shifts in production outside the United States. Trade adjustment assistance (TAA) provided by the Act consists of trade readjustment allowances (TRA), relocation and job search allowances, and subsistence and transportation allowances during periods of approved training.

The Secretary of Labor has entered into agreements with state agencies whereby the agencies will act as agents for the Federal government in paying TRA and other allowances to eligible individuals. Payments and administrative costs are paid for with Federal funds.

**Certification Process** - Individuals are certified as eligible to apply for TAA if a group of 3 or more workers, an employer, a certified or recognized union or other duly authorized representative, or a state Workforce official petitions the Secretary of Labor for a determination of eligibility to apply for TAA and the Secretary determines that the importation of competitive foreign products or shifts in production outside the United States contributed importantly to the loss of employment at the firm mentioned in the petition.

**Qualifying Requirements** - To qualify for TRA, the individual must have had at least 26 weeks of employment with wages of at least $30 a week within the 52-week period ending with the week of the individual’s total or partial separation from adversely affected employment. Along with other requirements to receive TRA payments, the individual must be participating in an approved training program unless it is determined that training is not feasible or appropriate.

**Duration** - Basic TRA is payable at the state UI rate over a 104-week eligibility period beginning with the first week after the individual’s most recent TRA qualifying separation from employment. Basic TRA provides 52 weeks of income support less the UI entitlement in the trade-qualifying UI benefit period (generally 26 weeks of UI). Individuals may be eligible for an additional 65-78 weeks for a total of 130 weeks of income support, if they are participating in approved training.

**Subsistence and Transportation Allowances** – An adversely affected individual may receive TRA while participating in approved training. Individuals may also receive subsistence and transportation allowances while attending training at a facility that is not within commuting distance of their residence.

**Relocation Allowances** - Relocation allowances are payable to totally separated individuals who
have no reasonable expectation of securing suitable work in the area in which they live, and who have a bona fide offer of suitable work in the area to which they wish to relocate. Relocation allowances consist of a lump sum payment of up to 90 percent (not to exceed $1,250) of the allowable expenses incurred in moving the individuals, their families, and their household effects to the location of their new jobs.

**Job Search Allowances** - Job search allowances are payable to totally separated individuals who have no reasonable expectation of securing suitable work in the area in which they live, and who have a reasonable expectation of securing suitable employment in the area of the proposed job search. Job search allowances consist of up to 90 percent of the cost of the necessary expenses incurred in the job search, not to exceed $1,250, under a single certification.

**Self-Employment Assistance (SEA)**

States have the option to establish SEA programs to help unemployed workers to create their own jobs by starting small businesses. To be eligible for the program an individual must be eligible for unemployment compensation, must have been permanently laid off from previous employment, must be identified through the profiling system as likely to exhaust benefits, and must participate in self-employment activities including entrepreneurial training and business counseling. Weekly SEA allowances are funded out of each state’s account in the UTF at no additional cost to the UC program. No more than 5 percent of claimants may be part of an SEA program.

In 2012, federal law amended the EB program, allowing states to establish an SEA program for individuals receiving EB. However, the requirement that participants must have been found by the state agency, through profiling, to be likely to exhaust regular benefits does not apply. The percentage of EB participants in SEA may not exceed 1.0 percent of the number of individuals receiving unemployment compensation. The requirement that SEA programs not result in increased costs to the state’s account in the UTF is not applicable to SEA programs for EB recipients.

Currently there are ten (10) states that have adopted SEA programs.

**Short-Time Compensation (STC)**

The STC program – commonly known as work-sharing – provides partial UC benefits to individuals whose work hours are reduced from full-time to part-time on the same job. STC is a program that allows an employer, faced with the need for layoffs because of reduced workload, to reduce the number of regularly scheduled hours of work for all employees rather than incur layoffs. Benefits are payable to workers for the hours of work lost, as a proportion of the benefit amount for a full week of unemployment.

Federal law in 2012 modified the definition of STC. Under the 2012 law, states choosing to operate an STC program must operate their STC program consistent with the new definition of STC and the new requirements. The law also provides for 100 percent reimbursement of certain STC benefit costs paid by states for up to 3 years.

Currently there are twenty-eight (28) states that have adopted STC programs.
NOTE: This document was prepared for informational purposes only. Explanations should not be considered as official interpretation of law.
FEDERAL/STATE UNEMPLOYMENT COMPENSATION (UC) PROGRAM
FEDERAL UNEMPLOYMENT TRUST FUND
FLOW OF FUNDS

Tax Receipts = Federal Unemployment Tax Act

Unemployment Trust Fund = Employment Security Administration Account

Outlays = Federal Share Extended Benefits

State Unemployment Compensation Laws

Federal Unemployment Account

States’ Trust Fund Accounts (53)

Extended Unemployment Compensation Account

Regular State Benefits

Flow of Funds

ES = Employment Service

Flow of Excess Funds

BLS = Bureau of Labor Statistics

Repayable Advances

VETS = Veterans Employment and Training Service