

# CRS Report for Congress

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## Unemployment Benefits: Temporary Extended Unemployment Compensation (TEUC) Program

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### Summary

The Temporary Extended Unemployment Compensation Act of 2002 (TEUC), was signed into law March 9, 2002, as a part of P.L. 107-147. TEUC provides up to 13 weeks of additional federally funded unemployment compensation (UC) to individuals in all states who exhaust their regular UC benefits. TEUC also provides a second tier of 13 weeks of benefits to individuals who exhaust their benefits in a high-unemployment state (TEUC-X). On January 8, 2003, Congress passed S. 23 (P.L. 108-1) extending the TEUC program through May 31, 2003, and phasing-out benefits through August 30, 2003. On April 16, 2003, P.L. 108-11 was signed into law, creating a parallel TEUC program called TEUC-A. TEUC-A provides up to 39 weeks of benefits for displaced airline workers, and provides a second tier (TEUC-AX) of benefits to individuals exhausting their TEUC-A benefits in a high-unemployment state. The Congress passed H.R. 2185, extending the TEUC program through December 31, 2003, and the President signed the bill into law on May 28, 2003 (P.L. 108-26). This report will be updated as events warrant.

### Background

The federal/state unemployment compensation (UC) system is designed to provide temporary and partial wage replacement to workers who have become involuntarily unemployed for economic reasons. UC pays weekly cash benefits on the basis of past work. The Department of Labor (DoL) oversees the UC system, but each state designs and administers its own program. Each state establishes the laws that levy taxes to support regular benefit payments and pays half of the permanent extended benefit (EB) payments; sets eligibility rules; determines weekly benefit amounts (WBAs); and limits the duration of regular benefits. Federal law establishes the requirements for the approval of state programs, authorizes grants to states for UC administration, and establishes the

Unemployment Trust Fund (UTF), a federal fund that accounts for both federal and state program revenues and spending.<sup>1</sup>

The UC system generally provides a sufficient duration of benefits during periods of economic prosperity, as most UC beneficiaries experience fewer weeks of unemployment than their maximum entitlement and return to work before their benefit rights are exhausted.<sup>2</sup> However, during periods of economic decline, people tend to remain unemployed longer because of greater difficulty finding new jobs, and a rising proportion of jobless workers exhaust their UC benefits without finding work. Thus, programs have been established to increase temporarily the duration of UC benefits during periods of high unemployment. Since 1958, Congress has passed eight separate programs to buttress the UC system during periods of economic decline.<sup>3</sup>

In November 2001, the National Bureau of Economic Research (NBER) determined that a recession began in March 2001. One unique feature of this economic decline was the added impact of the September 11, 2001 terrorist attacks. NBER maintained that the attacks may have been a significant factor in altering the nature of the economic decline from a contraction to a recession. The recession and the economic impacts of the attacks placed added pressure on the 107<sup>th</sup> Congress to legislate some form of emergency or supplemental extended benefits. A number of bills were introduced, containing varying degrees of economic stimulus elements, including proposals to enact a federal extension of unemployment benefits.

## Temporary Extended Unemployment Compensation (TEUC)

The *Job Creation and Worker Assistance Act of 2002* was signed into law March 9, 2002 (P.L. 107-147). Title II of P.L. 107-147 is the Temporary Extended Unemployment Compensation (TEUC) Act of 2002.<sup>4</sup> The TEUC program is fully federally financed by FUTA taxes that are credited to the Extended Unemployment Compensation Account in the UTF. TEUC provides benefits equal to the amount of regular UC weekly benefits.

**Eligibility.** An individual is eligible for TEUC benefits if he or she (1) has filed an initial (new or additional) claim that was effective during or after the week of March 15, 2002; and (2) has exhausted regular UC benefits or had no benefit rights due to expiration of a benefit year ending during or after the week of March 15, 2001; (3) has no rights to

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<sup>1</sup> The Federal Unemployment Tax Act (FUTA) levies a tax on private employers. These taxes are paid into several accounts in the UTF. One of these accounts is the Extended Unemployment Compensation Account (EUCA), which provides financing authority for the federal half of EB and federally financed temporary UC benefits.

<sup>2</sup> During 1993 (when the effects of the 1991 recession were reflected in the unemployment data), the national average exhaustion rate for regular UC benefits was 38.4%, compared to 31.3% in 1999; 32.6% in 2001; and 38.8% in the 2<sup>nd</sup> quarter of 2002.

<sup>3</sup> For more information regarding the history and structure of temporary extended unemployment compensation programs see CRS Report RL31277, *Temporary Programs to Extend Unemployment Compensation*, by Jennifer E. Lake.

<sup>4</sup> In 1961 Congress passed a program called Temporary Extended Unemployment Compensation. This program has no relationship with the TEUC program of 2002.

regular or extended benefits under any state or federal law; and (4) is not receiving benefits under Canadian law.<sup>5</sup> Individuals must also accumulate 20 weeks of work, or the equivalent in wages, in their base periods in order to qualify for TEUC.

**Benefit Tiers.** Under the TEUC program, an individual's benefit entitlement is based upon the regular UC entitlement. TEUC law is written so that an individual receives a total benefit over the life of the program that is equal to the lesser of 50% of the regular UC entitlement or 13 times the state's average weekly benefit amount.<sup>6</sup>

The TEUC program has two separate benefit tiers. The first tier, TEUC, provides up to 13 weeks of extended benefits in every state, thus, it does not contain a trigger mechanism or threshold requirement. This means that an eligible individual in any state can receive up to a maximum of 13 weeks of extended benefits. The key point is that individuals who are not eligible to receive the full 26 weeks (30 weeks in Massachusetts and Washington)<sup>7</sup> of regular UC will receive a TEUC allotment equal to half of their regular UC benefit. For example, an individual who received 14 weeks of regular UC and exhausts those benefits, would be eligible for 7 weeks of TEUC.

The second tier of benefits, TEUC-X, provides up to yet an additional 13 weeks of extended UC benefits.<sup>8</sup> This second extension is available only to those individuals who exhaust their initial 13-week TEUC extension in a state classified as a "high-unemployment" state at the time the individual exhausts the initial TEUC entitlement. TEUC-X employs a trigger mechanism to determine whether or not a state is considered a high-unemployment state.

A state is classified as a high-unemployment state if the state's insured unemployment rate (IUR) is at least 4%, and at least 120% of the average of the 13-week IUR in the prior 2 years for the same 13-week calendar period. DoL provides updated weekly trigger notices indicating when states have triggered on to the TEUC-X program.<sup>9</sup> Once a state has triggered on to TEUC-X, that state remains classified as high-unemployment for 13 weeks, regardless of whether or not the state's IUR drops below the 4% criterion during that 13-week period. At the end of that 13 weeks, the state will

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<sup>5</sup> U.S. Department of Labor. Employment and Training Administration. *Unemployment Insurance Program Letter No. 17-02*.

<sup>6</sup> P.L. 107-147, Section 203(b)(1).

<sup>7</sup> The "lesser of" segment of this provision also ensures that eligible individuals in Massachusetts and Washington do not receive a larger TEUC entitlement than comparably eligible individuals in other states. An individual who received a full 30 weeks of regular UC in Washington or Massachusetts would (without the lesser of provision) be eligible for 15 weeks.

<sup>8</sup> The TEUC-X benefit amount is equal to the first tier of TEUC benefits. For example, an individual who exhausted an initial TEUC allotment of 7 weeks in a state classified as a high-unemployment state would receive an additional 7 weeks of TEUC-X benefits. This would mean that the individual in our example (above) would have received a total of 28 weeks of benefits (14 weeks of regular UC, 7 weeks of TEUC, and 7 weeks of TEUC-X). The maximum entitlement in a typical state would be up to 26 weeks of regular UC benefits, 13 weeks of TEUC, and 13 additional weeks of TEUC-X (in high unemployment states).

<sup>9</sup> [<http://www.workforcesecurity.doleta.gov/unemploy/teuc.asp>].

trigger off TEUC-X if that state's IUR has fallen below 4%. If the state's IUR remains above 4% and continues to meet the 120% criterion, the state will continue to be classified as a high-unemployment state for an additional 13 weeks. This classification process proceeds in 13-week increments for the life of the TEUC program (currently slated to cease accepting new TEUC claims on May 31, 2003).

**TEUC-A and TEUC-AX.** P.L. 108-11 was signed into law April 16, 2003, creating a parallel TEUC program for displaced airline and airline related workers. This program is based on the TEUC program and also has two tiers of benefits: TEUC-A and TEUC-AX. TEUC-A provides up to 39 weeks of benefits to qualified individuals whose regular UC claim was based in whole, or in part, on qualifying employment: for a certified air carrier; at a facility at an airport; or with producer or supplier of products or services provided directly to an air carrier.<sup>10</sup> TEUC-AX provides up to an additional 13 weeks of benefits to individuals who exhaust their TEUC-A benefits during a period when their state is classified as a high unemployment state, as defined under the TEUC-X program (see above). The TEUC-A program is currently slated to accept new claims through the week ending December 29, 2003. TEUC-A benefits will then be phased out through the week ending December 26, 2004. During the phase out period those individuals who had existing TEUC-A claims as of the week of December 29, 2003 will be able to finish out their TEUC-A or TEUC-AX entitlements. Individuals exhausting their TEUC-A benefits in a high-unemployment state during the phase out period will not receive TEUC-AX benefits.

## Legislative Developments in the 108<sup>th</sup> Congress

Several bills have been introduced in the 108<sup>th</sup> Congress that would modify the TEUC program. These proposed modifications can be classified into two general categories: (1) proposals to *extend* the program; and (2) proposals to *expand* the program. Proposals that would extend the program include: (1) extending the entire program by changing the end date; (2) implementing/extending the phaseout period; or (3) extending only the TEUC-X portion of the TEUC program in high-unemployment states. Proposals to expand the program include: (1) providing additional weeks of benefits; (2) implementing alternative trigger mechanisms designed to potentially qualify more states classified as high-unemployment states; or (3) creating new or additional groups of eligible individuals. In addition, to extending or expanding benefits some bills provide benefits retroactively to workers who continue to be unemployed. All bills listed below have been referred to either the House Committee on Ways and Means, Human Resources Subcommittee; or the Senate Committee on Finance. No further action has been taken unless noted in the discussion below.

On January 8, 2003, **S. 23** (P.L. 108-1) was signed into law, extending the TEUC program through the week ending May 31, 2003, and including a gradual phaseout period through August 30, 2003. Those with existing TEUC or TEUC-X claims as of May 31, 2003, will be able to receive the remainder of their entitlement through the week ending August 30, 2003. No new TEUC claims will be accepted after May 31, 2003. P.L. 108-1

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<sup>10</sup> U.S. Department of Labor, *Special Temporary Extended Unemployment Compensation for Displaced Airline Related Workers*. Accessed April 23, 2003 at [[http://www.workforcesecurity.doleta.gov/unemploy/factsheetteuc\\_a.asp](http://www.workforcesecurity.doleta.gov/unemploy/factsheetteuc_a.asp)].

does not provide additional weeks of benefits to individuals once they have exhausted their initial TEUC entitlement.

Several other bills containing provisions to extend or expand the TEUC program were introduced on January 7, 2003 (**H.R. 17**, **S. 35**, **H.R. 162**, **H.R. 209**, **H.R. 228**). **H.R. 17** would: extend the program through the week ending June 28, 2003, with a phaseout period through December 31, 2003; augment the first tier of TEUC benefits by providing 26 weeks of benefits to all individuals eligible for TEUC; and reduce the amount of TEUC-X benefits in high-unemployment states from 13 weeks to 7 weeks. **H.R. 17** also proposes two additional triggers: an adjusted insured unemployment rate (AIUR) trigger; and a total unemployment rate (TUR) trigger that would apply to all states (including states that do not currently have the TUR trigger included in state law).<sup>11</sup>

**S. 35** would: extend the TEUC program to May 31, 2003, with a phaseout period through December 31, 2003; and provide 26 weeks of benefits to all individuals eligible for TEUC. **H.R. 162** would provide all TEUC recipients who exhaust either (or both) their TEUC or TEUC-X benefits with another allotment of benefits equal to their original TEUC entitlement, and would extend the program to January 1, 2004. **H.R. 209** would extend the TEUC program through April 1, 2003. **H.R. 228** would extend the program to April 1, 2003, and proposes a new TUR trigger that would allow states to trigger on to TEUC-X if the state's seasonally adjusted average TUR for fiscal year 2002 exceeds the seasonally adjusted average TUR in all states for the same period. **S. 106** would extend the TEUC program to July 1, 2003 and proposes a phaseout period through the week ending September 27, 2003.

On January 22, 2003, **Senate Amendment Number 40** to House Joint Resolution 2 was proposed and ruled out of order on a motion to waive provisions of the Congressional Budget Act. **S.Amdt. 40** would have: provided 26 weeks of benefits to all TEUC beneficiaries; reduced the TEUC-X entitlement from 13 weeks to 7 weeks; extended the program through the week ending August 30, 2003; and implemented a phaseout period through the week ending December 31, 2003. Also, **S. Amdt. 40** would have allowed individuals who exhausted their initial TEUC claim during the phaseout period, in a high-unemployment state to receive TEUC-X benefits.

**H.R. 396** would provide up to 26 weeks of TEUC, and would extend the program through the week of November 29, 2003. **S. 225** would: provide up to 26 weeks of TEUC benefits; reduce TEUC-X benefits to 7 weeks; extend the phaseout period through the week ending December 31, 2003; and allow those eligible individuals in a high unemployment state exhausting their TEUC benefits during the phaseout period to receive TEUC-X. **S. 225** was placed on the Senate Legislative Calendar, under general orders,

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<sup>11</sup> The AIUR is calculated by adding the 13-week average number of insured unemployed, plus the number of exhaustees for the 3 most recent completed months, divided by the number of individuals in covered employment. The AIUR, because it includes exhaustees in the numerator, would thus be higher than the IUR, and could potentially allow more states to trigger on to TEUC-X. The TUR is calculated by dividing the number of unemployed by the civilian labor force. For additional discussion on various "triggers" used in temporary extended unemployment programs, see CRS Report RL31277, *Temporary Programs to Extend Unemployment Compensation*, by Jennifer E. Lake.

January 29, 2003. **S. 270** would: provide up to 26 weeks of TEUC benefits; allow individuals who exhaust their TEUC entitlement during the phaseout period to receive TEUC-X; and extend the phaseout period to the week ending December 31, 2003. **H.R. 682** would provide an additional six weeks of TEUC benefits to individuals who had exhausted their TEUC benefits before December 29, 2002. **H.R. 682** proposes an AIUR trigger for TEUC-X benefits (see footnote 10), and would extend the program through the week ending December 28, 2003, with a phaseout through the week ending March 27, 2004. **S. 414** would provide up to 26 weeks of TEUC benefits; extend the phaseout period through the week ending December 31, 2003; reduce TEUC-X benefits to 7 weeks; and allow individuals in a high unemployment state who exhaust their TEUC entitlement during the phaseout period to receive TEUC-X. **S. 414** was placed on the Senate Legislative Calendar, under general orders, February 24, 2003. **H.R. 1239** would: provide up to 26 weeks of TEUC benefits; reduce TEUC-X benefits to 7 weeks; extend the phaseout period from the week ending August 31, 2003, to the week of December 27, 2003; and allow individuals who exhaust their initial TEUC claim in a high-unemployment state during the phaseout period to receive TEUC-X benefits.

**H.R. 1559**, the Supplemental Appropriations Act to Support Department of Defense Operations in Iraq, for FY2003, contained provisions for additional weeks of benefits to certain qualified individuals in the airline or airline related industries. **H.R. 1559** was signed into law April 16, 2003 (**P.L. 108-11**). **P.L. 108-11** creates a parallel program to the TEUC program called TEUC-A (see above for details). **S. 762** and **H.R. 1553** contained identical provisions regarding TEUC benefits for airline workers.

**H.R. 1652** would: extend the TEUC program through the week ending December 1, 2003 with a phaseout period through the week ending July 31, 2004; provide 26 weeks of benefits to all TEUC recipients, reduce TEUC-X benefits to 7 weeks; implement an AIUR trigger for TEUC-X benefits; implement a new TUR trigger for TEUC-X benefits where a state could be classified a high-unemployment state if their seasonally adjusted TUR for the most recent 3 months is 6% or greater and if the current 3 month seasonally adjusted TUR is 110% of the same period in either or both of the last two years. **S. 923** would: provide up to 26 weeks of TEUC benefits; reduce TEUC-X benefits to 7 weeks; extend the program through the week ending November 31, 2003, with a phaseout period through the week ending February 28, 2004; and allow individuals who exhaust their TEUC benefits during the phaseout period to receive TEUC-X. **H.R. 2046** includes provisions similar to H.R. 1652 for extending and expanding the TEUC and TEUC-X programs. **H.R. 2111** would extend the TEUC program through September 27, 2003, with a phaseout period through December 27, 2003, and provide an alternative trigger that used a seasonally adjusted TUR for fiscal year 2002. **H.R. 2185** would extend the TEUC program through December 31, 2003, with a phaseout period through March 31, 2004. **S. 1079** would extend the TEUC program through November 30, 2003, with a phaseout period through February 28, 2004.

On May 22, 2003, the House passed H.R. 2185. The Senate unanimously passed the bill on May 23. The President signed the bill into law on May 28, 2003 (P.L. 108-26).