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Updated January 12, 2026

The Fundamentals of Unemployment Compensation

A Joint Federal-State Program

The joint federal-state Unemployment Compensation (UC) program provides income support through UC benefit payments. Although there are broad requirements under federal law regarding UC benefits and financing, the specifics are set out under each state's laws. States administer UC benefits with U.S. Department of Labor (DOL) oversight, resulting in 53 different UC programs operated in the states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

Total UC expenditures include benefits and administrative costs. During economic expansions, states fund approximately 85%-90% of all UC expenditures—as almost all of the benefits are state-financed by state unemployment taxes. In comparison, federal expenditures are relatively small during these expansions (approximately 10%-15%) in which federal expenditures are primarily administrative grants to the states financed by federal unemployment taxes.

Objectives

The UC program's two main objectives are to

- provide temporary partial wage replacement to involuntarily unemployed workers, and
- stabilize the economy during recessions.

These objectives are reflected in the current UC program's funding and benefit structure. During economic expansions, UC program revenue rises through increased tax revenue whereas UC program spending falls as fewer workers are unemployed and receive benefits. The effect of collecting more taxes than are spent on benefits dampens demand for goods and services in the economy. This also creates a surplus of funds, or a cushion of available funds, for the UC program to draw upon during a recession. In a recession, UC tax revenue falls and UC program spending rises as more workers lose their jobs and receive UC benefits. The increased amount of UC payments to unemployed workers dampens the economic effect of lost earnings by injecting additional funds into the economy.

Authorization

The underlying framework of the UC system is contained in the Social Security Act. Title III of the act authorizes state grants for administering state UC laws; Title IX authorizes the various components of the federal Unemployment Trust Fund (UTF); and Title XII authorizes advances or loans to insolvent state programs. UC is financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA).

UC in a Snapshot, FY2025

1.9 M	**$464**	**15.4 weeks**	**5.4 M**
Average Weekly Claims	Average Weekly Benefit	Average Duration of Claim	New UC Beneficiaries

Revenues (estimated): $50.9B
Federal Unemployment Tax (FUTA): $7.2B
State Unemployment Tax (SUTA): $43.7B

Regular Outlays (estimated): $42.9B
Administration (FUTA financed): $5.0B
Regular UC Benefit (SUTA financed): $37.7B
UC Federal Employees (UCFE, Agency pays): $0.2B
UC Ex-Servicemembers (UCX, Service pays): $0.2B

Temporary COVID-19 UI Benefit Outlays (General Fund financed): $0.8B
PUA: $0.4B
PEUC: $0.1B
FPUC ($300/week): $0.3B
MEUC ($100/week): $0.0B

Source: U.S. Department of Labor (DOL), Employment and Training Administration, Office of Unemployment Insurance.
Notes: Totals may not sum due to rounding. DOL released FY2025 estimates for UI administration prior to the enactment of, which appropriated $3.9 billion for UI administration. "UCFE" is UC for federal employees; "UCX" is UC for former servicemembers. "PUA" is Pandemic Unemployment Assistance. "PEUC" is Pandemic Emergency Unemployment Compensation. "FPUC" is Federal Pandemic Unemployment Compensation. "MEUC" is Mixed Earner Unemployment Compensation. PUA, PEUC, FPUC, and MEUC expired in September 2021; however, states continue to process and adjudicate benefit claims for weeks of unemployment that occurred while these programs were authorized.

Benefits

The UC program pays benefits to workers who become involuntarily unemployed for economic reasons and meet state-established eligibility rules. The UC program generally does not provide UC benefits to the self-employed, those who are unable to work, or those who do not have a recent earnings history.

States usually disqualify claimants who lost their jobs because of inability to work, voluntarily quit without good cause, were discharged for job-related misconduct, or refused suitable work without good cause.

To receive UC benefits, claimants must have enough recent earnings (distributed over a specified period) to meet their state's earnings requirements; and be able, available, and actively searching for work.

Most states provide up to a maximum of 26 weeks of UC benefits. Under current state laws, the maximum duration of UC benefits ranges from up to 12 weeks (under certain economic conditions in Florida, Kentucky, and North Carolina) to up to 30 weeks (Massachusetts). For more information on UC eligibility and benefit duration in states, see CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*.

Former federal workers may be eligible for unemployment benefits through the Unemployment Compensation for Federal Employees (UCFE) program. Former U.S. military servicemembers may be eligible for unemployment benefits through the Unemployment Compensation for Ex-Servicemembers (UCX) program. For more information on the UCFE and UCX programs, see CRS In Focus IF12901, *Unemployment Compensation for Former Federal Employees and Military Servicemembers*.

In FY2025 (estimated), states paid $37.7 billion in UC benefits and federal agencies paid $0.16 billion in UCFE and $0.16 billion in UCX benefits, all of which are considered on-budget, mandatory expenditures. The UC program's administrative costs, which go through the federal appropriations process, were estimated to total $5 billion. (DOL released FY2025 estimates for UI administration prior to the enactment of, which appropriated $3.9 billion for UI administration.) For background on UC administration, see CRS In Focus IF10838, *Funding the State Administration of Unemployment Compensation (UC) Benefits*.

Unemployment Benefits for the Long-Term Unemployed

Federal law augments the regular UC benefit with the Extended Benefit (EB) program if certain state economic conditions are met. In response to economic recessions, Congress has often created additional weeks of temporary unemployment benefits (including the now-expired unemployment benefits enacted in response to the COVID-19 pandemic).

Extended Benefits

The EB program was established by the Federal-State Extended Unemployment Compensation Act of 1970 (EUCA; P.L. 91-373) (26 U.S.C. §3304, note) to provide additional weeks of unemployment benefits if high unemployment exists within the state. After UC benefits are exhausted, the EB program may provide up to an additional 13 or 20 weeks of benefits, depending on worker eligibility, state law, and economic conditions in the state. The EB program is funded 50% by the federal government and 50% by the states. In FY2025, EB was not payable in any state. For additional information on EB, see CRS Report R48447, *Unemployment Insurance: Legislative Issues in the 119th Congress*.

Temporary Programs

Congress has acted nine times—1958, 1961, 1971, 1974, 1982, 1991, 2002, 2008, and 2020—to create temporary, additional UI benefits in response to recessions. Most recently, in response to the COVID-19 recession, Congress created Pandemic Unemployment Assistance (PUA), Pandemic Emergency Unemployment Compensation (PEUC), and Federal Pandemic Unemployment Compensation (FPUC) under the CARES Act; and Mixed Earner Unemployment Compensation (MEUC) under, the Consolidated Appropriations Act, 2021. All of these temporary COVID-19 unemployment benefits expired in September 2021—although states continued to adjudicate claims and pay benefits owed for weeks of unemployment. For FY2025, these benefits totaled an estimated $0.8 billion and were financed by General Fund transfers from the U.S. Treasury. For information on PUA, PEUC, MEUC, FPUC, and MEUC, see CRS Report R46687, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*. For more details on prior temporary UI programs, see CRS Report RL34340, *Extending Unemployment Compensation Benefits During Recessions*.

Financing

The UC program is financed by federal payroll taxes under the FUTA and by state payroll taxes under SUTA. The 0.6% effective net FUTA tax paid by employers on the first $7,000 of each employee's earnings (no more than $42 per worker per year) funds federal and state administrative costs, loans to insolvent state UC accounts, the federal share (50%) of EB payments under permanent law, and state employment services. For FY2025, an estimated $7.2 billion was collected in federal FUTA taxes, whereas an estimated $43.7 billion was collected in SUTA taxes to finance UC benefits. For more details on UC financing, see CRS Report RS22077, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*.

Program Integrity

Program integrity issues have long been of concern for the UC program. The improper payment estimate for UC has been above 10% for 17 of the past 20 years. The temporary COVID-19 UI benefits created in response to the pandemic exacerbated program integrity concerns related to improper payments and fraud. For an overview, see CRS In Focus IF12243, *Unemployment Insurance Program Integrity: Recent Developments*.

Additional Resources

For background on UI oversight work conducted by the DOL Office of Inspector General, see *OIG Oversight of the Unemployment Insurance Program*.

For information on legislative proposals to address UI program integrity, see CRS Report R48447, *Unemployment Insurance: Legislative Issues in the 119th Congress*.

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