CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 22, 2003

S. 1708
Unemployment Compensation Extension Act

As introduced in the Senate on October 2, 2003

SUMMARY

S. 1708 would extend and expand temporary emergency unemployment compensation (TEUC) through July 1, 2004. The bill would allow states to provide up to 33 weeks of additional benefits to unemployed individuals who remain out of work after exhausting their regular state benefits (usually 26 weeks); the costs of the additional benefits would be paid by the federal government. In addition, the bill would authorize federal reimbursement to states for the regular benefits they provide to individuals that result from the states' use of certain alternative eligibility criteria. Finally, S. 1708 would provide additional benefits to unemployed railroad workers. CBO estimates this legislation would increase direct spending by $16.6 billion in 2004 and by $0.8 billion in 2005; it would reduce revenues by $42 million from 2004-2008 and by $117 million over the 10-year period.

S. 1708 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of S. 1708 is displayed in the following table. If this bill is enacted, outlays for unemployment compensation will total $68.9 billion in 2004. (Outlays in 2003 were $54.5 billion.) The costs of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Millions of Dollars									
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
DIRECT SPENDING										
Spending for Unemployment Compensation Under Current Law										
Estimated Budget Authority	52,186	44,621	43,774	43,963	45,428	46,701	48,447	50,192	51,997	53,897
Estimated Outlays	52,186	44,621	43,774	43,963	45,428	46,701	48,447	50,192	51,997	53,897
Proposed Changes										
Estimated Budget Authority	16,748	672	0	0	0	0	0	0	0	0
Estimated Outlays	16,648	772	0	0	0	0	0	0	0	0
Spending for Unemployment Compensation Under S. 1708										
Estimated Budget Authority	68,934	45,293	43,774	43,963	45,428	46,701	48,447	50,192	51,997	53,897
Estimated Outlays	68,834	45,393	43,774	43,963	45,428	46,701	48,447	50,192	51,997	53,897
CHANGES IN REVENUES										
State Unemployment Taxes	0	20	-8	-25	-29	-23	-17	-26	-5	-5

BASIS OF ESTIMATE

Assuming enactment by November 1, 2003, S. 1708 would increase outlays and reduce revenues, increasing federal deficits by $17.5 billion over the 2004-2013 period, with the bulk of the budgetary effect occurring in 2004.

Direct Spending

The bill would extend and enhance benefits currently provided under the Temporary Emergency Unemployment Compensation Act, authorize reimbursement to states that provide certain regular benefits, and provide additional benefits to unemployed railroad workers.

Title I would extend the TEUC program through July 1, 2004. Under current law, no new beneficiaries can collect TEUC after December 31, 2003. In addition, the bill would provide 26 weeks of benefits in all states, and an additional 7 weeks in states experiencing high unemployment, for a maximum of 33 weeks of extended unemployment benefits. Currently, most states provide up to 13 weeks of benefits under TEUC, although five states (Alaska, Michigan, North Carolina, Oregon, and Washington) are now eligible to supply up to 26 weeks because they meet the definition of "high employment" in the law. About 4.9 million unemployed workers would be affected and would receive benefits averaging about $265 per week. CBO estimates that these additional benefits would cost $15.4 billion, $14.8 billion of which would be spent in 2004. Nearly 45 percent of the funds, or $6.7 billion, would go to increasing benefits for individuals who are already receiving TEUC, or who have already received their maximum benefit under provisions of current law, but remain unemployed.

CBO also expects that providing these emergency benefits would result in individuals collecting regular unemployment benefits for a slightly longer period of time than if the additional benefits were not available. CBO estimates these additional outlays for regular benefits would total about $1.5 billion in 2004. CBO assumes these outlays would eventually be paid for by increases in state unemployment taxes, which are included as revenues in the federal budget. (See revenue section below.)

Title II of the bill would provide incentives for states to provide regular unemployment compensation to more people by authorizing reimbursement to states that use more-current wage data (the alternative base period) and that cover unemployed individuals seeking part-time employment. This authority would be in effect through December 31, 2004. CBO does not expect that states would change their laws for the limited period of time during which the reimbursement would be available. Instead, the states that already employ these measures would receive reimbursements estimated to total about $1.3 billion. Because outlays from state unemployment funds are recorded on the federal budget, the reimbursement would not affect federal outlays. However, because the federal reimbursement would replace state tax dollars, states could reduce their payroll taxes as a result of this provision. (See revenue section below.) Thirty states, the District of Columbia, and Puerto Rico have provisions that employ alternative base periods or provide benefits to those seeking part-time work, and would thus be eligible for some reimbursement.

Title II also would make a direct appropriation of $500 million for administrative expenses. About $400 million of these funds would be spent in 2004, CBO estimates, with the balance expended in 2005.

Finally, title III of S. 1708 would provide enhanced benefits to unemployed railroad workers through July 1, 2004. Based on information provided by the Railroad Retirement Board, CBO estimates that this title would increase outlays by $13 million in fiscal year 2004.

Revenues

States' unemployment tax revenues are recorded as income to the federal government's Unemployment Trust Fund. Because states attempt to maintain sufficient balances in their unemployment insurance accounts while keeping tax rates as low as possible, changes in outlays for benefits translate into changes in revenues. This bill would affect state revenues in three ways. First, revenues would drop by about $0.3 billion as TEUC benefits displace extended unemployment benefits, half of which are paid by the states. Second, in order to finance the increase in regular benefits attributable to the extension in emergency benefits, state revenues would have to increase by $1.5 billion over 10 years. Finally, the reimbursement of state spending for benefits received under provisions involving the alternative base period and claimants seeking part-time work would allow states to reduce taxes by $1.3 billion over 10 years. Thus, enactment of this bill would result in a net decrease in revenues of about $0.1 billion over the 2004-2013 period.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

S.1708 contains no intergovernmental or private-sector mandates as defined in UMRA and would impose no costs on state, local, or tribal governments. The bill would allow states to provide temporary emergency unemployment benefits for a longer period of time. The costs of those additional benefits, however, would be paid by the federal government. In addition, states would receive an estimated $1.3 billion in reimbursement for providing benefits to individuals who are seeking part-time work or who qualify using an alternative base period.

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