APPENDIXES

APPENDIX A. RECENT LEGISLATIVE CHANGES IN UNEMPLOYMENT INSURANCE

Recent changes in the Unemployment Insurance system have not followed a consistent pattern, partly because of conflict between budget austerity and the desire to aid unemployed workers during a time of record-high joblessness. Since 1981, federal legislative changes have been made to:

- o Restrict extended benefits;
- o Authorize and extend Federal Supplemental Compensation;
- o Increase the federal UI payroll tax; and
- o Ease repayment and interest provisions of state UI loans.

For the most part, these changes were included in multipurpose federal laws: the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), the Tax Equity and Fiscal Responsibility Act (TEFRA) of 1982 (P.L. 97-248), and the Social Security Amendments of 1983 (P.L. 98-21).

This appendix reviews major provisions of the changes that occurred between 1981 and the first half of 1983.

RESTRICTIONS ON EXTENDED BENEFITS

Several restrictions on the availability of extended benefits were made by the Omnibus Budget Reconciliation Act of 1981. Changes included:

- o Eliminating the national trigger for EB, under which benefits were available in all states when the national insured unemployment rate (IUR)--the fraction of workers covered by state UI programs that collect benefits--exceeded 4.5 percent;
- o Changing the calculation of state IURs by not including EB recipients in the number of UI recipients;
- o Changing state EB trigger rates from an IUR of 4 percent (and a rate that is at least 20 percent larger than during the same period of the previous two years) or, at state option, 5 percent, to 5 and 6 percent, respectively; and

- o Requiring recipients to have worked at least 20 weeks in the one-year base period (or to have an equivalent amount of earnings during that period) to be eligible for EB.

FEDERAL SUPPLEMENTAL COMPENSATION

The temporary Federal Supplemental Compensation program was authorized by TEFRA for the period September 12, 1982, through March 31, 1983. FSC benefits were provided to persons who exhausted regular--and, if available, extended--benefits for a maximum of six to ten weeks in different states, depending on the state insured unemployment rate. In particular, benefits were available for up to ten weeks in states where EB had been available at any time since June 1, 1982; eight weeks in states with IURs of at least 3.5 percent; and six weeks in the remaining states.

The Surface Transportation Assistance Act of 1982 (P.L. 97-424) increased the maximum number of weeks of FSC for each recipient beginning January 9, 1983, to the following levels:

- o 16 weeks in states with IURs exceeding 6 percent;
- o 14 weeks in states that provided extended benefits at some time between June 1, 1982, and January 6, 1983;
- o 12 weeks in states with IURs of at least 4.5 percent that did not pay EB during that period;
- o 10 weeks in states with IURs between 3.5 and 4.5 percent that did not pay EB during that period; and
- o 8 weeks in the remaining states.

Finally, the FSC program was modified and extended through September 1983 by the Social Security Amendments of 1983. For persons first receiving benefits after March 31, 1983, compensation was provided for a maximum of between 8 and 14 weeks; in addition, persons exhausting benefits before that time were allowed an additional 6-10 weeks of compensation. The particular length of benefits and the eligibility requirements were as follows:

For basic FSC benefits:

- o 14 weeks in states with IURs in excess of 6 percent;
- o 12 weeks in states with IURs between 5 and 6 percent;

- o 10 weeks in states with IURs between 4 and 5 percent; and
- o 8 weeks in the remaining states.

For additional FSC benefits:

- o 10 weeks in states with IURs of 6 percent or more;
- o 8 weeks in states with IURs between 4 and 6 percent; and
- o 6 weeks in the remaining states.

INCREASES IN THE FEDERAL UI PAYROLL TAX

Increases in the federal tax base and tax rate beginning in 1983 were also enacted by TEFRA. The federal taxable wage base was increased from $6,000 to $7,000, and the gross federal tax rate was increased from 3.4 percent to 3.5 percent. The net federal tax was also increased from 0.7 percent to 0.8 percent, while the federal tax credit for employers in states with federally approved state UI programs was left unchanged at 2.7 percent.

Effective in 1985, TEFRA also increased the gross federal tax rate to 6.2 percent and the tax credit to 5.4 percent, leaving the net federal tax at 0.8 percent. This change will require states to include in their state UI tax systems a maximum tax rate on employers of 5.4 percent of taxable wages.

EASING OF STATE LOAN REPAYMENT AND INTEREST PROVISIONS

Effective from 1981 through 1987, the Omnibus Budget Reconciliation Act of 1981 limited the maximum increase in the federal tax penalty on states with delinquent loans to the higher of 0.6 percent or the state's current rate, so long as the state met certain solvency criteria. These conditions--the last two of which apply only in 1983-1987--were that the state:

- o Must not act in any way to decrease the solvency of its UI program;
- o Must not reduce its UI tax;
- o Must have a UI tax that, as a fraction of total wages in the state, is at least as large as the ratio of UI benefits to total wages during the last five years; and

- Must reduce its outstanding UI loan in each year to no more than the amount of that loan three years earlier.

Effective in 1983, however, these conditions were modified by TEFRA to allow states to avoid further increases in their federal tax penalty by promptly repaying new loans and enacting changes in their state UI laws to increase the solvency of their UI programs.

Interest was first assessed on state loans by the Omnibus Budget Reconciliation Act of 1981. This charge was made on new loans after April 1, 1982, at a rate equal to the average interest rate paid on federal securities--but not to exceed 10 percent. Interest due in any year after 1982, however, could be paid by a state in four annual installments, according to provisions of TEFRA, if the state's IUR was at least 7.5 percent during the first six months of the preceding year.

The Social Security Amendments of 1983 further amended these loan provisions by allowing interest to be paid in five annual installments if a state meets certain conditions. The amendments also allowed states to delay for up to nine months the payment of interest in any year in which the average total unemployment rate was at least 13.5 percent.

APPENDIX B. SENSITIVITY OF UI OUTLAYS AND REVENUES TO ECONOMIC CONDITIONS

This appendix presents details of the analysis of the sensitivity of Unemployment Insurance (UI) outlays and revenues to future economic conditions given in Chapter III.

ECONOMIC ASSUMPTIONS

Three sets of economic assumptions are considered in Chapter III, including the CBO baseline projection and high- and low-growth alternatives as formulated in February 1983 (see Table B-1). The CBO baseline projection assumed a modest recovery from the recent recession, with inflation of less than 5 percent annually and joblessness declining from 9.8 percent in calendar year 1984 to 7.5 percent in 1988. 1/ Of the two alternative economic paths, one assumed higher real growth and a more rapid decline in unemployment, but somewhat greater inflation. The other path showed a very weak recovery with extremely high unemployment, but with more rapidly declining inflation.

UI OUTLAY AND REVENUE ESTIMATES

Table B-2 presents state and federal UI outlay and revenue estimates based on the CBO high- and low-growth economic assumptions. (Table 9 in Chapter III details these estimates for the CBO baseline case.) Both state and federal outlay estimates are lower in the high-growth case than in the low-growth one, primarily because lower joblessness in the high-growth alternative results in fewer UI beneficiaries. While state tax revenues are generally larger the higher is employment, estimated revenues for the 1986-1988 period are larger in the low-growth case than in the high-growth one. This occurs because the deteriorating financial condition of state UI programs in the low-growth scenario results in shifts to higher state tax-rate schedules, which increase estimated tax collections. Finally, federal revenues are larger in the high-growth case than in the low-growth one because of the (simpler) relation between higher employment and inflation and larger payroll tax collections.

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1. The longer-run economic assumptions for the 1985-1988 period are not an attempt to forecast probable economic conditions for those years, but are noncyclical projections based on what appeared in February to be an attainable average rate of growth.

TABLE B-1. CBO BASELINE AND ALTERNATIVE ECONOMIC ASSUMPTIONS (By calendar year)

	1983	1984	1985	1986	1987	1988
Gross National Product (GNP) in constant (1972) dollars (percent change, year to year)						
High-growth alternative	4.0	6.0	4.2	4.0	4.0	4.0
CBO baseline projection	2.1	4.7	4.1	3.7	3.5	3.5
Low-growth alternative	0.8	3.3	3.3	3.2	3.0	3.0
GNP Price Deflator (percent change, year to year)						
High-growth alternative	4.8	4.9	5.1	4.9	4.8	4.9
CBO baseline projection	4.6	4.7	4.7	4.3	3.9	3.8
Low-growth alternative	4.5	4.4	4.4	3.9	3.5	3.2
Unemployment Rate (percent, annual average)						
High-growth alternative	9.9	8.5	7.7	7.0	6.4	6.0
CBO baseline projection	10.6	9.8	9.0	8.4	8.0	7.5
Low-growth alternative	11.2	10.9	10.3	9.8	9.4	9.0

SOURCE: Congressional Budget Office, The Outlook for Economic Recovery (February 1983).

TABLE B-2. **ESTIMATED STATE AND FEDERAL UI OUTLAYS AND REVENUE UNDER ALTERNATIVE ECONOMIC ASSUMPTIONS (In billions of dollars)**

	State Programs			Federal Program		
Fiscal Year	Outlays	Payroll Tax Revenue	Revenue Less Outlays	Outlays	Payroll Tax Revenue	Revenue Less Outlays
High-Growth Alternative						
1983	22.5	15.2	-7.3	3.9	4.5	0.6
1984	18.8	19.1	0.3	3.6	5.3	1.7
1985	18.2	22.7	4.5	3.0	6.1	3.1
1986	17.6	24.5	6.9	3.0	7.9	4.9
1987	17.0	25.1	8.1	3.1	7.4	4.3
1988	16.3	25.3	9.0	3.2	8.1	4.9
Low-Growth Alternative						
1983	25.8	14.9	-10.9	4.5	4.4	-0.1
1984	24.8	18.4	-6.4	4.5	5.1	0.6
1985	24.5	22.5	-2.0	3.6	5.8	2.2
1986	24.4	25.9	1.5	3.5	7.6	4.1
1987	24.3	28.0	3.7	3.5	7.0	3.5
1988	24.0	29.4	5.4	3.6	7.7	4.1

SOURCE: Congressional Budget Office (February 1983).