CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

April 17, 2008

H.R. 5749
Emergency Extended Unemployment Compensation Act of 2008

As ordered reported by the House Committee on Ways and Means on April 16, 2008

SUMMARY

H.R. 5749 would make individuals who exhaust their regular benefits eligible for unemployment compensation for an additional period of time. The Congressional Budget Office estimates that enacting the bill would:

- Increase direct spending by $6.2 billion in 2008 and $11.7 billion over the 2008-2018 period; and

- Increase revenues by a net amount of $3.2 billion over the 2008-2018 period.

In total, these changes would increase budget deficits (or reduce future surpluses) by $6.2 billion in 2008 and by a net of $8.5 billion over the 2008-2018 period.

The bill contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA).

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 5749 is shown in the following table. The spending effects of this legislation fall within budget function 600 (income security).

	By Fiscal Year, in Billions of Dollars												
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2008-2013	2008-2018
Changes in Direct Spending (Outlays)[a]	6.2	6.7	0	0	0	0	0	-0.2	-0.3	-0.3	-0.4	12.8	11.7
Changes in Revenues	0	*	0.1	0.2	0.2	0.1	0.3	0.4	0.5	0.7	0.8	0.6	3.2
Net Change in Deficits or Surpluses[b]	6.2	6.6	-0.1	-0.2	-0.2	-0.1	-0.3	-0.6	-0.7	-1.0	-1.2	12.2	8.5

Note: * = gain of less than $50 million; components may not add to totals because of rounding.

a. For direct spending changes, budget authority equals outlays.

b. Positive numbers indicate an increase in deficits or decrease in surpluses.

BASIS OF ESTIMATE

For this estimate, CBO assumes that the bill will be enacted by June 1, 2008, and that spending will follow historical patterns for similar activities.

Direct Spending

Most states' regular unemployment compensation programs provide up to 26 weeks of benefits to qualified individuals. The bill would authorize a program for emergency extended unemployment compensation (EEUC), which would provide federal funding for additional benefits—up to 13 weeks in all states—to beneficiaries who exhaust their regular benefits. (Certain individuals who exhausted their regular benefits prior to the bill's enactment also would be eligible for EEUC). An additional 13 weeks of benefits would be provided in states that meet certain thresholds or triggers with respect to unemployment. States would be eligible to provide the additional 13 weeks of benefits if unemployment levels reach an insured unemployment rate of 4 percent or higher, or a total unemployment rate of 6 percent or higher. (CBO estimates that around one quarter of beneficiaries would be in states that would qualify to provide that additional 13 weeks.) Benefits would be available from the date of enactment through April 30, 2009, but no new beneficiaries could be added to the program after February 1, 2009.

Based on the number of people who previously exhausted regular benefits, as well as those anticipated to exhaust benefits in the coming months, CBO estimates that over the 2008-2009 period:

- About 3.2 million people would collect EEUC and that benefits paid over that time period would total $11.7 billion;

- Administrative costs related to the EEUC program would total $0.6 billion; and

- Outlays for regular unemployment benefits would increase by $0.9 billion because the availability of the EEUC benefits would affect some recipients' employment decisions. (Most of those costs would be offset by increases in state revenues over fiscal years 2009 through 2013, as discussed below under "Revenues.")

Those costs would be slightly offset by reduced payments from other federal programs that provide extended unemployment benefits—the extended benefits program and trade adjustment assistance for workers. CBO estimates those offsets would amount to $0.3 billion in 2008 and 2009.

Under the financing provisions of the bill, funds in the Extended Unemployment Compensation Account would be transferred to the state accounts for the benefit and administrative expenses incurred for the EEUC program. Because the state unemployment funds are included in the federal budget, those transfers would have no immediate budgetary effect. However, they would interact with provisions of the federal unemployment law known as the "Reed Act." Under those provisions, when funds in the federal accounts of the unemployment trust fund exceed certain statutory limits, excess revenues from the federal unemployment tax are transferred to the state accounts. In CBO's current baseline, we project that the federal government will transfer $8.6 billion to the states over the 2013-2018 period. CBO's baseline includes outlays from the Reed Act transfers totaling $1.1 billion from 2014 to 2018. Under the bill, outlays for EEUC would reduce the federal trust fund balances to levels that would preclude such Reed Act transfers. Thus, relative to CBO's baseline projections, outlays under the bill would be $1.1 billion lower.

CBO estimates that the net effect of unemployment-related provisions on direct spending would total $12.8 billion over the 2008-2013 period and $11.7 billion over the 2008-2018 period.

Revenues

The availability of EEUC benefits may discourage recipients from searching for work and accepting less-desirable jobs as quickly as they would in the absence of this act. Thus, some recipients may remain unemployed for slightly longer than they would have otherwise, and direct spending for regular benefits would increase during 2008 and 2009. CBO expects that some states would respond to the lower balances in their unemployment trust funds by increasing their unemployment taxes, resulting in an increase of $0.6 billion in revenues over the 2009-2013 period.

The interaction between EEUC and Reed Act transfers also would affect revenues. Under the baseline, CBO estimates that, as a result of the estimated $8.6 billion in Reed Act transfers, states would reduce unemployment taxes by about $2.5 billion over the 2014-2018 period, with additional revenue losses occurring after 2018. CBO estimates that transfers to the states under the EEUC program would reduce the federal trust fund balances to levels that would preclude such Reed Act transfers, resulting in revenues that would be $2.5 billion higher than our baseline projections of revenues over the five-year period beginning in 2014.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 5749 contains no intergovernmental or private-sector mandates as defined in UMRA. CBO estimates that the changes to the unemployment compensation system would result in decreased federal transfers to states and also would lead to increased unemployment taxes in some states. These effects, however, would result from states' participation in the federal unemployment insurance program, which is voluntary, and would not result from intergovernmental mandates as defined in UMRA.

PREVIOUS CBO ESTIMATE

On February 6, 2008, CBO transmitted an estimate of the budgetary effects of the Economic Stimulus Act of 2008, as ordered reported by the Senate Committee on Finance on January 30, 2008. That bill contained provisions for the extension of unemployment compensation that are similar to provisions in H.R. 5749. Differences between the estimated costs reflect small economic and technical adjustments to CBO's baseline and differences in the legislation.

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