

good cause determination. In the event that good cause is *not* found and the caretaker relative still refuses to cooperate, the caretaker becomes ineligible for benefits, and assistance is provided to the eligible child in the form of protective payments, without regard to the needs of the caretaker relative. Therefore, if eligibility is determined and/or payments are made *prior* to the rejection of a good cause claim, it may become necessary to recompute the benefit and reassign the payee. Of the good cause claims submitted by new applicants for the period studied, 468 were actually denied after eligibility for AFDC payments had been established and may therefore require corrective action.⁵

⁵ A comparable figure regarding claims denied to those already receiving benefits at the time the good cause claim is initiated cannot be computed for all jurisdictions from the available data.

1981 and 1982 Changes in the Unemployment Insurance Program*

In the past several months, various features of the Federal-State unemployment insurance program and of the Federal unemployment compensation program for ex-military personnel have been modified by provisions contained in four pieces of Federal legislation.

- The Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35, signed August 13, 1981) reduced the scope of the extended benefits provisions, trade readjustment allowances, and benefit entitlement for ex-military personnel. The law also required coordination of information for individuals involved in both the unemployment insurance and the child support programs, and modified requirements under which State unemployment insurance agencies repay loans made to them by the Federal Government.
- The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248, signed September 3, 1982) increased the Federal contribution rate and taxable wage base provisions, and established Federal Supplemental Compensation, which temporarily added benefits for long-term unemployed workers. The law also increased the taxable portion of unemployment benefits for Federal income tax purposes.
- The Miscellaneous Revenue Act of 1982 (Public Law 97-362, signed October 25, 1982) changes entitlement provisions for benefits paid to ex-military personnel.

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- The Surface Transportation Assistance Act of 1982 (Public Law 97-424, signed January 6, 1983) added 2-6 weeks of Federal Supplemental Compensation to the potential maximums.¹

The Unemployment Insurance System

Unemployment insurance was initiated on a national basis in the United States as title III of the Social Security Act of 1935. Each State operates its own program under its own law, within national guidelines promulgated under Federal law. Covered workers who are involuntarily unemployed receive partial wage replacement benefits for specified periods, generally up to 26 weeks. These benefits are financed from State taxes paid by employers on workers' earnings up to a set maximum.

Funding for administration is provided through a corresponding Federal tax. The law requires that employers pay a 3.5-percent Federal tax on covered earnings. However, employers may credit toward the Federal payroll tax the State contributions made under an approved law. They may also credit any savings on the State tax under an approved experience rating plan. The maximum credit is 2.7 percent of earnings. Hence, the net Federal tax rate paid by employers is 0.8 percent.

Since 1958, a number of Federal programs have been created to supplement the State-operated programs during economic downturns. In 1970, a permanent extended benefits (EB) program was enacted, financed half by the Federal unemployment payroll tax and half by State taxes. Congress has made various changes based on experience with the program during the 1970's, including the creation of temporary supplements to the extended benefits provided under the 1970 Act.

Under the permanent program for extended benefits, workers exhausting their regular benefits are eligible for extended benefits at a weekly rate equal to that of their regular program benefit amount. The EB is payable for a maximum duration of the lesser of 13 weeks or half the regular benefit duration. Thus, regular program benefits of up to 26 weeks are payable plus up to 13 weeks of EB, with a 39-week overall maximum of regular and extended benefits. Once triggered, EB provisions remain in effect for at least 13 weeks. Further, once a benefit period ends, another State-wide period cannot begin for at least 13 weeks.

Before enactment of the 1981 legislation, workers became eligible for EB if they met the conditions required for receipt of regular benefits under their State program, including the State's qualifying wage or employment requirement. The EB program was put into effect

¹ Additional changes in potential duration for Federal Supplemental Compensation and an extension of eligibility for these benefits to September 30, 1983, were enacted in Public Law 98-13, signed March 29, 1983. These and other changes included in 1983 legislation will be reported at a later date.

for workers in a State meeting certain criteria during economic downturns:

- (1) Extended benefits were payable in all States whenever the seasonally adjusted rate of insured unemployment for the United States averaged 4.5 percent for 13 consecutive weeks. Payments continued until the average rate for a subsequent 13 consecutive-week period fell below that level.
- (2) Even if economic conditions did not trigger implementation of the national program, extended benefits were payable to workers in any State in which the rate of insured unemployment averaged 4.0 percent or more for the most recent 13 consecutive weeks and was at least 120 percent of the averaged rate for the corresponding 13-week period in the 2 preceding years. An EB period ended when the State did not meet both requirements.
- (3) At the option of States choosing to establish such a provision, extended benefits were payable to workers in any State in which the insured unemployment rate averaged at least 5.0 percent for the most recent 13-week period, even though that rate was not at least 120 percent of the average rate for corresponding periods of the 2 preceding years.

Besides the regular and extended benefits in the unemployment insurance system, Federal unemployment benefits have been established for several categories of workers. Some of these special programs are those for Federal military and civilian personnel and for workers adversely affected by international trade. Military personnel are eligible for unemployment compensation if they are unemployed following separation from the service. This program of unemployment compensation for ex-service personnel (UCX) pays benefits subject to the same eligibility and disqualification provisions of State laws. Similarly, civilian employees are protected under the Unemployment Compensation for Federal Employees (UCFE) program.

Workers whose jobs are adversely affected by international competition are eligible for a variety of benefits under the Trade Act of 1974. Besides training, relocation, transportation, and other allowances, eligible employees are entitled to unemployment benefits called trade readjustment allowances (TRA). TRA payments are subject to reduction by the full amount of any unemployment insurance benefits to which the worker is entitled.

1981 Amendments

A number of features of the unemployment insurance program were modified under the Omnibus Budget Reconciliation Act of 1981.

Extended Benefits

The new law changed the requirements for initiating periods of extended benefits in the following ways:

- (1) Effective August 13, 1981, the national trigger for EB was rescinded. Thus, EB became payable only in individual States with insured unemployment rates meeting the State trigger requirement.
- (2) Effective September 25, 1982, the State trigger was changed so that EB became payable in those States in which the insured unemployment rate was at least 5 percent (rather than 4 percent) and at least 120 percent of the corresponding rate 2 years earlier.
- (3) Effective September 25, 1982, States that had established the optional provision for EB could initiate an EB period when the insured unemployment rate reached 6 percent (rather than 5 percent) even though that rate was not at least 120 percent of the average rate for the corresponding period of the 2 previous years.

The method of computing the insured unemployment was changed for purposes of determining the EB trigger. Only claimants filing for regular program benefits were to be counted in the compilation of the trigger rate, eliminating the previously included claimants filing for extended benefits.

The 1981 amendments instituted a national eligibility standard for EB. Previously, a claimant was eligible for extended benefits if he or she had been eligible for a State's regular benefits by virtue of meeting that State's requirements for recent attachment to the labor force. Under the amendments, claimants must have had 20 weeks in full-time insured employment in a recent period (in most cases, the first 4 of the last 5 quarters) to be eligible for EB, effective for weeks beginning after September 25, 1982. Equivalent alternatives to the weeks-of-work test were also specified in terms of amounts of earnings.

Workers eligible for EB may already have received trade readjustment allowances. To prevent duplication of benefits, the 1981 amendments provided that the number of EB weeks (in which the Federal Government shares 50 percent of the cost) would be reduced by the number of weeks of trade adjustment allowance benefits paid to the claimant, effective for weeks beginning after September 30, 1981.

Unemployment Compensation for Ex-servicemembers

Effective for all honorable separations from the military beginning July 1, 1981, and with respect to weeks of unemployment on or after August 19, 1981, persons who left the military at the end of an enlistment and who were eligible to reenlist were no longer eligible for unemployment benefits under UCX. The previous qualifying requirement that the ex-servicemember had to have served for at least 365 continuous days remained effective. In essence, the amendment eliminated most claims under the UCX program. This policy was reversed in part by the 1982 amendments (see page 14).

Child Support Coordination

Under the 1981 amendments, State unemployment insurance agencies and State child support enforcement agencies are required to coordinate information about individuals involved under both programs and to take specified actions to assure that child support payments are made. Child support agencies are required to periodically ascertain from the appropriate unemployment insurance organization if persons who owe child support payments are getting unemployment insurance. If so, the child support enforcement agency is to obtain an agreement with the individual and collect the child support obligation. Or, if necessary, the agency is to collect such obligation by having the unemployment insurance office withhold a portion of the unemployment insurance benefit, following appropriate State legal procedures.

Likewise, unemployment insurance agencies are required to help collect child support payments as a condition for receiving Federal grants to administer their program (under title III of the Social Security Act). The agencies are required to ascertain from unemployment insurance claimants if they owe money for child support, notify the child support agency in applicable cases, and withhold an appropriate amount of the unemployment insurance benefit for transmittal to the child support agency, unless other arrangements are agreed upon.

Financing Changes

Under title XII of the Social Security Act, States were eligible for interest-free loans from the Federal Unemployment Account when their benefits reserve fund could not meet the estimated benefit payments for the following 3 months. If the loan was not entirely repaid by the second January 1 after its issuance, the Federal Unemployment Tax Act (FUTA) tax credit on employers in that State was reduced by 0.3 percentage points for that year, thereby raising the employer tax by that figure. Additional 0.3 percent credit reductions were to be made for each year that the loan remained unpaid, as well as still other credit reductions in the third and following years of the unpaid loan, based on specified conditions.

The 1981 amendments made some major changes in the loan provisions to give States incentives to make expeditious repayment of loans, and also to ease the States' burdens during continuing periods of high unemployment. First, loans made from April 1, 1982, and before January 1, 1988, are to be charged interest at the lesser of 10 percent per year or the rate paid in the last quarter of the preceding calendar year to State balances in the Federal Unemployment Trust Fund. However, loans made in a calendar year and repaid by September 30 of the same year, designated as cash flow loans, are

exempt from such interest charges (unless a second loan is taken out subsequent to September 30 of that year). Interest cannot be paid directly or indirectly by a State from amounts already in its unemployment trust fund but must come from new tax revenue.

Second, the amendments placed a cap on the annual reductions in allowable FUTA tax credits on employers. For any taxable year beginning with 1981, a cap was provided at the higher of 0.6 percent or the State's rate for the previous year. This cap applies if the State meets several conditions primarily aimed at assuring that it is not reducing its effort to raise needed taxes and that there is no decrease in the solvency of its system.

Trade Adjustment Assistance

A number of changes were made in trade readjustment allowances (TRA's), subsistence and transportation allowances, relocation allowances, and job search allowances. These allowances are payments to workers who become unemployed or underemployed due to increased imports resulting from trade arrangements permitted under the Trade Act of 1974. The maximum duration of TRA is 52 weeks (including any regular or extended unemployment insurance benefit payments). Among the major changes in TRA were:

Qualification requirements. The definition of a qualifying period of employment was liberalized by including the week in which job separation occurred, weeks of employer-authorized leave (3 weeks maximum), and weeks of disability covered by workers' compensation (7 weeks maximum). Other requirements were added: Unemployment insurance must have been exhausted before TRA could be paid, EB "suitable work" requirements must have been met, and the worker must not have collected TRA previously under the same certification and subsequently exhausted another unemployment insurance benefit period. Further, TRA could not be paid after the 52nd week following exhaustion of unemployment insurance. After 8 weeks of TRA eligibility, workers could be required to accept training for the remainder of the benefit period and be required to extend their job search beyond their immediate market area.

Benefits provided. The weekly benefit amount was reduced from 70 percent of the average weekly wage to an amount equal to the previous unemployment insurance benefit. The TRA was also reduced by any training allowance and any income that disqualified or reduced benefits under unemployment insurance provisions. Special benefits for older workers (those aged 60 or older) were deleted.

1982 Amendments

Public Laws 97-248 and 97-424

In the Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248), Congress enacted a tempo-

rary addition to the benefits payable to long-term unemployed workers. Offsetting the cost of these extra benefits was another amendment that increased the portion of unemployment insurance benefits subject to the Federal income tax. These amendments also strengthened the financing provisions of the system and made some changes in worker coverage and program administration. In the Surface Transportation Assistance Act of 1982, 2-6 weeks of additional Federal supplemental compensation were added to the maximum weeks of benefits payable to long-term unemployed workers under Public Law 97-248.

Federal Supplemental Compensation. Public Law 97-248 established a special subtitle called the "Federal Supplemental Compensation Act of 1982," which authorized a temporary program of extra benefits for unemployed workers who exhaust their entitlement for regular and extended benefits under the permanent program. Effective September 12, 1982, through March 31, 1983, additional weeks of unemployment compensation are provided under agreements with each State. Workers are eligible for payments if their entitlement to State benefits or extended benefits ended on or after June 1, 1982. Unemployed workers qualify if they have no rights to regular or other State benefits or extended benefits, they have worked 20 or more weeks in their base period (or earned an equivalent amount, measured as 40 times the weekly benefit or 1 1/2 times their high quarter wages), and they continue to meet all the other State and extended benefit requirements for benefit eligibility. Unlike unemployment insurance benefits generally, these benefits are financed entirely from general revenues. The maximum duration of Federal Supplemental Compensation (FSC) available as originally established by Public Law 97-248 was one-half the length of the worker's regular entitlement, but was further subject to a variable maximum determined by the unemployment conditions in the State.

- (1) Workers could receive FSC for a maximum of 10 weeks in any State in which extended benefits were payable since June 1, 1982.
- (2) The maximum duration of FSC was 8 weeks in States in which the insured unemployment rate (as measured for EB) was at least 3.5 percent.
- (3) The maximum duration of FSC was 6 weeks in all other States.

The maximum duration as increased by Public Law 97-424 has been changed to 65 percent of the worker's regular entitlement, subject to a variable maximum determined by unemployment conditions in the worker's State.

- (1) Workers could be paid a maximum of 16 weeks of FSC in States with an insured unemployment rate of 6 percent or more.
- (2) The maximum is 14 weeks in States with the insured unemployment rate below 6 percent if

extended benefits were payable at any time between June 1, 1982, and enactment of Public Law 97-424 (January 6, 1983).

- (3) The maximum is 12 weeks in States with the insured unemployment rate below 6 percent but at least 4.5 percent or in which extended benefits are payable after January 6, 1983.
- (4) The maximum is 10 weeks in States with an insured unemployment rate of less than 4.5 percent but at least 3.5 percent.
- (5) The maximum is 8 weeks in all other States.

The measurement of the insured rate is as under the permanent EB provisions: For a given week, the rate is the average for the 13-week period ended 3 weeks earlier. As of January 1983, 12 States were paying up to 16 weeks of FSC: 26 States, 14 weeks; 1 State, 12 weeks; 4 States, 10 weeks; and 10 States, 8 weeks. (The word "States" includes the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands.)

Financing changes. Effective January 1, 1983, the wage base for Federal unemployment tax purposes increased from \$6,000 to \$7,000. The gross Federal tax rate (before the allowable tax credit to the States) rose from 3.4 percent to 3.5 percent. Since the offset credit to States with approved programs continues to be 2.7 percent, the net Federal tax payable has gone up to 0.8 percent. Further, effective January 1, 1985, the gross Federal rate will climb to 6.2 percent, consisting of a permanent tax of 6.0 percent and a temporary component of 0.2 percent. The offset credit will increase to 5.4 percent, thus keeping the net Federal tax at 0.8 percent. The temporary levy will stay in effect until all general revenue loans to the Federal Extended Unemployment Compensation Account have been paid. After the 0.2 percent temporary increment is discontinued, the new rate will fall to 0.6 percent.

The 1982 law also changed the allocation of the net Federal unemployment tax revenues to 60 percent for the Employment Security Administration Account and 40 percent for the extended unemployment compensation account to accelerate repayment of general revenue advances to the extended unemployment compensation account. When all advances have been repaid, the allocation will revert to 90 percent and 10 percent, respectively, as under previous law.

The loan provisions were also amended so that: (1) States can make debt repayments out of their State trust fund accounts in lieu of further FUTA credit reductions under specified conditions; (2) States are no longer subject to the additional credit reduction in the fifth year of an unpaid loan, beyond the extra 0.3 percent reduction imposed each year that the loan continues; and (3) States can reduce payments of interest on loans to 25 percent of the amount due for a year if insured unemployment is at least 7.5 percent during the first 6 months

of the previous year. The remainder of the interest is due to be paid in subsequent years.

Taxation of unemployment insurance benefits. The 1982 amendments reduce the annual income threshold used to determine the extent to which unemployment benefits may be subject to the Federal income tax. With respect to unemployment insurance benefits paid starting January 1, 1982, the income threshold is reduced from \$25,000 to \$18,000 for married taxpayers filing jointly and from \$20,000 to \$12,000 for single taxpayers. Thus, under the new law, a taxpayer must include in gross income for income tax purposes the lesser of the amount of unemployment benefits paid, or half the excess of adjusted gross income plus unemployment benefits plus excludable disability income over \$12,000 (for single taxpayers) or \$18,000 (for married taxpayers filing jointly).

Coverage and administrative provisions. Under previous law, States were required to deny unemployment insurance benefits to some categories of employees of schools and institutions of higher learning during school recess periods between terms or years. States could also withhold benefits from additional categories of employees of elementary and secondary schools. Public Law 97-248 extends the optional denial to the comparable groups of employees in institutions of higher learning. The new amendments also delay from January 1982 to January 1984 the effective date of the 1981 provision to exclude from unemployment insurance coverage the wages for certain farm work performed by aliens.

Under the new law, the Department of Labor is directed to develop model legislation for the use of States desiring to establish short-term compensation ("work-sharing") programs. This model legislation is to be aimed at alleviating the present inflexibility of unemployment insurance laws with respect to partial unemployment. Benefits are generally payable to laid-off workers and to those whose work schedules have been reduced so that they receive less than half their recent wage. If the workers earn more than half their regular wages, however, unemployment benefits are cut off completely in most cases. Among the administrative changes made was the requirement that States amend their benefit structure so that benefit amounts are rounded to the next lower dollar.

Financial effects of the Tax Equity and Fiscal Responsibility Act. A preliminary congressional estimate of the financial impact of the unemployment insurance provisions in Public Law 97-248 and Public Law 97-424 indicates that the Federal Supplemental Compensation program will pay a total of about \$2.8 billion during fiscal years 1982 and 1983. The net effect of the Federal Supplemental Compensation program and the lowered income threshold for taxing unemployment benefits under the personal income tax is expected to result in a

\$1.7-billion increase in the Federal deficit in fiscal year 1983 but a decrease in the deficit in the following two years (\$0.8 billion in fiscal year 1984 and \$0.7 billion in fiscal year 1985). Revenues under the Federal Unemployment Tax Act will be increased in each of the next few years as a result of the wage base, tax rate, and other provisions affecting trust fund revenues. The increases are expected to amount to \$1.3 billion in fiscal year 1983, \$2.4 billion in fiscal year 1984, and \$2.8 billion in fiscal year 1985.

Public Law 97-362

Among other things, the Miscellaneous Revenue Act of 1982 (Public Law 97-362) changes some parts of the unemployment insurance program, most notably the benefits for ex-servicemembers. The UCX provisions of the 1981 law were partially reversed by this act, making more ex-servicemembers eligible for benefits.

The new law authorized UCX benefits, starting with the fifth week after separation, to individuals with honorable discharges who have served at least 180 days. The discharge must have been at the completion of a first full term of active duty, or, if before completion, it must have been for the convenience of the Government; due to sickness, injury, or parenthood; because of hardship; or due to a personality disorder, but only after the completion of 365 days of continuous service.

Under the 1982 law, Congress set the maximum duration of UCX benefits at 13 weeks, including any extended benefits that might be payable. (Other workers generally are eligible for up to 26 weeks of regular benefits plus any applicable extended benefits.) These new provisions apply to military separations after July 1, 1981, and cover weeks of unemployment beginning after October 25, 1982. UCX payments made after October 1, 1983, are to be charged to the Defense Department in the same manner that Federal benefits paid to former civilian Federal employees are charged to the appropriate agency. Previously, UCX payments were part of the budget of the Labor Department, which administers the UCX program.

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Data compiled by the Social Security Administration's Office of Research and Statistics indicate that

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