

## V. IMPACT OF EUC ON STATE UI TRUST FUNDS

Although, traditionally, emergency extended benefits programs have been financed solely with federal funds, they can affect the financial operations of state Unemployment Insurance (UI) programs. Extended Unemployment Compensation (EUC) contained two important elements that acted to reduce the strains on states' UI trust funds during the recession of the early 1990s. Perhaps the most direct effect arose from the optional claims feature during Phases 3 and 4 of EUC. Because EUC benefits paid under that option substituted for regular UI benefits that would otherwise have been financed out of state trust funds, savings accrued to trust funds approximately on a dollar-for-dollar basis. EUC legislation also permitted states to substitute EUC benefits for benefits that might otherwise have been payable under the regular Extended Benefits (EB) program. In this case, since the state share of EB is 50 percent, trust fund savings amount to approximately 50 cents on the dollar. Because an assessment of these savings is important for determining the true net cost of the EUC program, there is considerable interest in obtaining estimates of them. In this chapter, we use simulation methods to develop such estimates.

Before describing our simulations, two brief caveats are warranted. First, because of the complex structure of the actual EUC program, our estimates are necessarily very rough; our simulation methods can capture only the most general features of the EUC program. Second, our estimates do not consider possible behavioral effects of EUC on the labor market activities of workers. Because these effects generally involve extra trust fund costs (from the possibly longer UI durations encouraged by EUC), our estimates of the trust fund savings from the legislated features of the program should be regarded as upper bounds.

## A. NATIONAL SUMMARY

Overall, the optional claims feature of EUC and the substitution of EUC for EB each produced modest but significant savings to state UI trust funds. Table V.1 presents the simulation estimates of the impact of EUC on states' UI trust funds. It shows three alternative estimates of total dollar savings over the 11 EUC quarters and of the "tax rate relief" implied by these savings.<sup>1</sup> Each of the three optional claims feature estimates is based on somewhat different data and on a different estimation methodology. Specifically, the three estimation procedures are:

- *Estimate 1.* Uses EUC benefits paid in each state, together with individual-level data from our sample states, to estimate the fraction of those benefits paid under the optional component of EUC.
- *Estimate 2.* Uses state-reported EUC optional claims data. Optional claims are multiplied by the estimated average benefits paid per optional EUC first payment in each state to arrive at the total optional benefits figure.<sup>2</sup>
- *Estimate 3.* Uses the number of state-reported EUC optional claims, together with our estimate from individual-level data that the average worker filing an optional claim collected \$1,869 in total benefits.<sup>3</sup>

Each approach potentially has shortcomings. Inaccuracies may arise in the first, either because the estimates we made with our administrative data do not reflect the complete experiences in our survey states or because of errors introduced by the necessity of using national averages of the

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<sup>1</sup>"Tax rate relief" is defined as average annual trust fund savings provided by EUC, divided by the state's average taxable payroll over the period. The figures therefore represent the effective increase in UI tax rates that would have been necessary during the EUC period to keep trust fund balances constant if EUC had not been in effect. If the estimated tax increases made necessary by the absence of EUC were spread over more years, these percentage changes would be smaller.

<sup>2</sup>We assumed that all optional claims actually resulted in a first payment under the optional claims component of EUC.

<sup>3</sup>No attempt is made here to adjust this \$1,869 figure for possible differences in weekly benefit amounts across the states.

TABLE V.1

## ESTIMATED TOTAL STATE TRUST FUND RELIEF FROM THE EUC PROGRAM

Source of Trust Fund Relief	Benefits Saved (\$ Million)	Tax Rate Relief (Percentage Point) <sup>a</sup>
Optional Claims (Estimate 1)	3,477	0.211
Optional Claims (Estimate 2)	4,631	0.281
Optional Claims (Estimate 3)	3,433	0.209
EB Savings (Estimate 1)	4,339	0.322 <sup>b</sup>
EB Savings (Estimate 2)	3,013	0.224 <sup>b</sup>
EB Savings (Estimate 3)	3,266	0.243 <sup>b</sup>

<sup>a</sup>Tax rate relief is defined as average annual trust fund savings, divided by a state's average taxable payroll over the period.

<sup>b</sup>Average only for states with estimated EB payments.

prevalence of optional claims for the states not included in our sample. Methods two and three may incorporate errors--because optional claims reported by the states may be incomplete, the claims may not actually have resulted in first payments being made, or our assumed dollars per claim figures are inaccurate. Hence, the figures we report for the total dollar amounts involved in the optional claims component of EUC should be treated with caution.

Overall, the estimates suggest that the optional claims feature of the EUC program may have resulted in a saving of \$3.4 to \$4.6 billion to states' UI trust funds. Tax relief estimates range from 0.21 to 0.28 percent. These figures constitute 5.5 to 7.5 percent of total regular UI benefits paid during the quarters EUC was in effect (\$61.4 billion). Hence, the offset to states' UI trust funds provided by the optional feature of EUC was of modest, but still significant, proportions. In addition, the trust fund offset varied significantly among the states, as we show in the next section.

We also developed three simulation estimates of the trust fund savings provided by substitution of EUC benefits for those that might have been paid under the EB program if it had operated using both an IUR and a TUR trigger during the recession of the early 1990s. All these simulations were based on the triggering simulation procedures described in Chapter II in connection with our efforts to predict whether a state would have been "on" EB in a given quarter. All three estimates assumed that the states' shares on hypothetical EB benefits would have been 50 percent. For each quarter in which EB was estimated to have an "on" trigger status, we made three different assumptions about the benefits that would have been payable under EB had EUC not been available:

- *Estimate 1.* Assumed that benefits paid under EB would have been precisely equal to those paid under EUC after adjusting EUC benefits by deleting our estimate of benefits paid under the optional claims component
- *Estimate 2.* Used the same approach as Estimate 1, but adjusted the resulting benefits figure by the ratio of estimated maximum potential duration under EB to maximum

potential duration under EUC, on the assumption that recipients of EB would have collected the same fraction of their entitlements that EUC recipients actually did

- *Estimate 3.* Used our individual-level data to impute estimated benefits to hypothetical EB recipients. The number of EB first payments was assumed equal to the number of EUC first payments during periods in which EB was simulated to be "on." Dollar amounts of EB were estimated to be \$1,806 in states with 13 weeks of EB eligibility and \$2,438 in states with 20 weeks of eligibility.<sup>4</sup>

As for the optional claims simulations, these estimates may be subject to a variety of errors, both because of inaccuracies in the methodology that we developed to simulate the EB triggering mechanism and because the assumed relationship between actual EUC benefits and hypothetical EB payments may not reflect what would actually have happened had EB been available.

Overall, our three methods provided relatively similar estimates of the EB savings provided by EUC--between \$3.0 and \$4.3 billion over 11 quarters.<sup>5</sup> In all, 33 UI jurisdictions would have made some EB benefits available under this hypothetical simulation. The implied tax rate savings in those states is relatively high--between 0.22 and 0.32 percent of taxable payroll. In some states, therefore, the ability to substitute EUC for EB had a substantial impact on UI trust fund balances and on the tax rates necessary to finance their UI systems.

## **B. STATES' EXPERIENCES**

Our estimates of the trust fund savings experienced by individual states from implementation of the EUC program are reported in Tables V.2 and V.3. These estimates used the various methodologies already described in connection with the national estimates, and the caveats about

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<sup>4</sup>These figures represent actual EUC collections for weeks not exceeding the 13th or 20th week of collection, respectively.

<sup>5</sup>The level of real EB benefits implied by these figures approximated the real value of EB benefits paid during the highest 11 quarters of the recession of the early 1980s, but was less than half the real value of EB benefits paid during a similar period in the 1970s.

their reliability apply even more strongly here. That is, although it is possible that some of the biases inherent in our estimation procedures cancel out at the national level, differences in the UI programs in individual states may result in substantial state-specific biases. Nevertheless, because the data tend to be relatively consistent across the states, they may be indicative of the general magnitude of EUC's trust fund impacts.

The overall figures on trust fund savings (Table V.2) show considerable state-to-state variation, primarily because of differences in the sizes of states' labor markets. At one extreme, our estimates suggest that the EUC optional claims and EB provisions together may have saved the California UI trust fund at least \$1 billion and possibly as much as \$1.7 billion. New York State also may have experienced savings of more than \$1 billion. The dollar size of savings was much less in the smaller states, probably amounting to only about \$1 million in Montana and South Dakota. The variation in potential EB costs was especially large, with the majority of these savings occurring in three states (California, New Jersey, and New York).

A somewhat clearer picture of the extent of trust fund savings among the states is provided by the tax relief estimates in Table V.3. Overall, as a result of EUC, the average state received the equivalent of a 0.4 percentage point reduction in potential UI tax rates. Tax rate relief from the optional claims feature of EUC alone appears to have been especially large in Alaska, Kansas, Maine, Michigan, and Rhode Island, although these rankings were not consistent across our estimation procedures. The states that experienced relatively little in the way of trust fund benefits from the optional claims component of EUC are Colorado, Delaware, Indiana, Iowa, Minnesota, Montana, Nebraska, North Carolina, Oklahoma, South Dakota, Texas, Utah, and Virginia.

TABLE V.2  
UI TRUST FUND RELIEF  
(Dollars)

State	Optional Claims Costs			EB Costs Avoided		
	Estimate 1	Estimate 2	Estimate 3	Estimate 1	Estimate 2	Estimate 3
Alabama	22,698,285	41,600,956	58,316,538	0	0	0
Alaska	17,383,418	50,554,454	43,818,705	43,042,841	32,101,715	31,516,457
Arizona	26,372,835	33,209,062	40,404,042	30,835,879	17,901,305	29,950,852
Arkansas	23,118,241	39,676,178	39,863,901	0	0	0
California	576,182,548	922,218,725	399,906,192	826,647,642	599,135,350	687,481,760
Colorado	24,894,277	32,825,900	27,182,736	0	0	0
Connecticut	55,591,684	43,279,955	21,687,876	122,276,669	62,778,498	73,876,861
Delaware	6,294,670	4,740,409	3,513,720	0	0	0
DC	4,980,755	9,705,096	5,440,659	16,500,127	15,435,668	16,318,753
Florida	89,448,345	195,140,384	213,531,381	230,118,261	194,333,456	237,550,252
Georgia	41,990,090	93,172,174	79,425,024	95,152,893	52,620,120	57,725,163
Hawaii	16,192,418	21,181,829	14,817,432	0	0	0
Idaho	10,806,506	21,792,320	26,134,227	5,883,492	3,824,270	5,409,662
Illinois	106,684,212	171,714,833	114,123,009	174,280,219	148,731,992	229,175,871
Indiana	24,835,572	30,382,623	46,861,437	19,075,818	10,708,251	15,458,414
Iowa	19,847,403	10,042,983	9,492,651	0	0	0
Kansas	23,260,509	137,215,304	100,754,052	0	0	0
Kentucky	40,148,119	53,562,099	43,091,664	430,625	430,625	12,060,468
Louisiana	46,951,117	31,585,609	30,733,836	23,966,502	17,225,468	31,295,753
Maine	45,601,314	72,857,806	63,222,663	45,187,207	66,489,646	43,515,067
Maryland	61,656,195	105,714,398	78,884,883	83,597,165	44,892,518	35,774,481
Massachusetts	161,654,365	142,864,593	73,259,193	125,488,434	67,544,002	47,409,235
Michigan	186,491,812	510,682,444	334,136,082	126,253,995	63,321,771	126,725,297
Minnesota	32,439,718	36,687,788	31,718,799	0	0	0
Mississippi	18,810,638	27,772,676	41,684,307	0	0	0
Missouri	53,469,911	111,295,892	126,024,801	39,706,496	51,618,444	36,321,156
Montana	5,727,837	564,483	663,495	666,498	666,498	2,345,994
Nebraska	3,851,146	6,353,258	9,464,616	0	0	0

TABLE V.2 (continued)

State	Optional Claims Costs			EB Costs Avoided		
	Estimate 1	Estimate 2	Estimate 3	Estimate 1	Estimate 2	Estimate 3
Nevada	18,193,290	21,058,595	19,822,614	32,429,070	27,946,308	23,235,796
New Hampshire	6,942,867	12,568,705	19,987,086	841,779	841,779	3,304,077
New Jersey	146,545,958	83,159,370	43,117,830	580,540,751	360,331,243	285,016,863
New Mexico	8,400,003	28,615,096	10,933,650	6,014,546	7,818,910	1,325,118
New York	494,696,981	368,061,100	243,538,176	823,239,485	600,283,140	517,486,783
North Carolina	97,840,034	2,995,462	10,025,316	0	0	0
North Dakota	3,314,703	6,381,198	8,270,325	0	0	0
Ohio	126,063,201	155,172,749	142,814,028	138,131,514	81,516,430	72,223,703
Oklahoma	7,228,046	3,748,888	5,205,165	0	0	0
Oregon	59,985,812	92,340,664	74,799,249	70,959,590	36,537,889	53,632,863
Pennsylvania	258,346,403	328,433,811	236,075,259	135,574,773	69,017,319	122,907,330
Rhode Island	38,241,360	77,570,377	51,363,858	61,213,947	51,941,326	44,440,844
South Carolina	26,505,221	65,134,320	77,875,623	42,922,959	54,145,136	44,914,346
South Dakota	569,118	592,927	1,067,199	0	0	0
Tennessee	40,381,169	45,623,909	67,624,158	7,466,367	7,466,367	26,847,996
Texas	150,155,826	125,379,020	100,755,921	247,514,515	139,928,165	203,561,069
Utah	8,983,021	2,966,475	3,037,125	0	0	0
Vermont	7,415,630	13,185,193	11,585,931	2,973,821	1,171,505	2,080,512
Virginia	42,357,462	38,645,681	70,010,871	38,336,177	19,168,089	28,499,148
Washington	85,219,305	80,954,732	62,875,029	129,273,774	96,699,498	100,115,335
West Virginia	29,136,536	61,032,551	39,222,834	12,017,008	8,420,109	16,603,999
Wisconsin	70,373,203	49,751,870	45,007,389	0	0	0
Wyoming	3,179,441	8,917,017	9,666,468	0	0	0

TABLE V.3  
ESTIMATED TAX RATE RELIEF  
(Percent)

State	Optional Claims			EB Costs Avoided		
	Estimate 1	Estimate 2	Estimate 3	Estimate 1	Estimate 2	Estimate 3
Alabama	0.1	0.2	0.2	0.0	0.0	0.0
Alaska	0.5	1.5	1.3	1.3	1.0	0.9
Arizona	0.1	0.1	0.2	0.1	0.1	0.1
Arkansas	0.2	0.3	0.3	0.0	0.0	0.0
California	0.3	0.5	0.2	0.4	0.3	0.4
Colorado	0.1	0.1	0.1	0.0	0.0	0.0
Connecticut	0.2	0.2	0.1	0.5	0.3	0.3
Delaware	0.1	0.1	0.1	0.0	0.0	0.0
DC	0.1	0.2	0.1	0.3	0.3	0.3
Florida	0.1	0.2	0.2	0.3	0.2	0.3
Georgia	0.1	0.2	0.2	0.2	0.1	0.1
Hawaii	0.2	0.3	0.2	0.0	0.0	0.0
Idaho	0.2	0.3	0.4	0.1	0.1	0.1
Illinois	0.1	0.2	0.1	0.2	0.2	0.3
Indiana	0.1	0.1	0.1	0.0	0.0	0.0
Iowa	0.1	0.1	0.1	0.0	0.0	0.0
Kansas	0.1	0.7	0.5	0.0	0.0	0.0
Kentucky	0.2	0.2	0.2	0.0	0.0	0.1
Louisiana	0.2	0.1	0.1	0.1	0.1	0.1
Maine	0.6	1.0	0.9	0.6	0.9	0.6
Maryland	0.2	0.4	0.3	0.3	0.2	0.1
Massachusetts	0.4	0.3	0.2	0.3	0.2	0.1
Michigan	0.3	0.9	0.6	0.2	0.1	0.2
Minnesota	0.1	0.1	0.1	0.0	0.0	0.0
Mississippi	0.1	0.2	0.3	0.0	0.0	0.0
Missouri	0.2	0.3	0.4	0.1	0.1	0.1
Montana	0.1	0.0	0.0	0.0	0.0	0.0
Nebraska	0.0	0.1	0.1	0.0	0.0	0.0
Nevada	0.2	0.2	0.2	0.3	0.3	0.2
New Hampshire	0.1	0.2	0.3	0.0	0.0	0.0
New Jersey	0.3	0.2	0.1	1.1	0.7	0.5

TABLE V.3 (continued)

State	Optional Claims			EB Costs Avoided		
	Estimate 1	Estimate 2	Estimate 3	Estimate 1	Estimate 2	Estimate 3
New Mexico	0.1	0.3	0.1	0.1	0.1	0.0
New York	0.5	0.3	0.2	0.8	0.6	0.5
North Carolina	0.2	0.0	0.0	0.0	0.0	0.0
North Dakota	0.1	0.2	0.2	0.0	0.0	0.0
Ohio	0.2	0.2	0.2	0.2	0.1	0.1
Oklahoma	0.0	0.0	0.0	0.0	0.0	0.0
Oregon	0.3	0.5	0.4	0.4	0.2	0.3
Pennsylvania	0.4	0.4	0.3	0.2	0.1	0.2
Rhode Island	0.6	1.3	0.8	1.0	0.8	0.7
South Carolina	0.1	0.3	0.3	0.2	0.2	0.2
South Dakota	0.0	0.0	0.0	0.0	0.0	0.0
Tennessee	0.1	0.1	0.2	0.0	0.0	0.1
Texas	0.1	0.1	0.1	0.2	0.1	0.2
Utah	0.1	0.0	0.0	0.0	0.0	0.0
Vermont	0.2	0.4	0.3	0.1	0.0	0.1
Virginia	0.1	0.1	0.2	0.1	0.0	0.1
Washington	0.3	0.2	0.2	0.4	0.3	0.3
West Virginia	0.3	0.7	0.4	0.1	0.1	0.2
Wisconsin	0.2	0.1	0.1	0.0	0.0	0.0
Wyoming	0.1	0.3	0.3	0.0	0.0	0.0
Mean	0.2	0.3	0.2	0.2	0.2	0.2
Standard Deviation	0.14	0.31	0.24	0.29	0.24	0.20

As expected, because of the EB trigger procedure, our estimates of the implied tax rate relief from substitution of EUC for EB were even more variable among the states than were our estimates of the relief provided by the optional claims component. Estimated relief in excess of 0.5 percentage point was obtained by Alaska, Maine, New Jersey, New York, and Rhode Island. On the other hand, more than half the states had tax rate relief of less than 0.1 percentage point.