Insight

# Enhanced Unemployment Benefits in the Coronavirus Aid, Relief, and Economic Security (CARES) Act– FINAL VERSION

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**Executive Summary**

Included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act—the third emergency response package to deal with the economic fallout of the COVID-19 pandemic—are a series of provisions to strengthen and extend unemployment benefits.

The three most significant provisions are:

- Section 2104, which provides most individuals an emergency increase in traditional unemployment insurance (UI) benefits of $600 per week through July 31, 2020, likely increasing benefits beyond what many workers were earning before becoming unemployed;
- Section 2102, the Pandemic Unemployment Assistance program, which provides up to 39 weeks of UI to people not otherwise eligible for regular unemployment compensation (including the self-employed and those who have exhausted their regular and extended benefits); and
- Section 2107, which creates the Pandemic Emergency Unemployment Compensation program to provide 13 weeks of emergency UI for people who remain unemployed after they have exhausted their benefits or are not otherwise eligible for benefits.

It is estimated that the total cost of all the unemployment provisions included in this third package could cost between $187.6 billion and $319.9 billion, depending on the severity and length of the pandemic and its toll on the economy, as well as the success of the numerous other provisions in the CARES Act to stymie the economic impact.

**Introduction**

Congress is considering a third emergency response package, the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to address the impacts of the ongoing COVID-19 pandemic. The CARES Act is by far the largest of the three legislative packages to date and includes enhanced unemployment benefits, direct payments to individuals, loans to small businesses, delays and modifications of taxes owed, provisions to address medical-supply shortages and increase support for health care providers, extended funding and authorization for various health care programs, and targeted assistance to specific sectors of the economy. Analyses of the many actions taken to date in response to COVID-19 can be found here. This paper focuses on the Act's enhanced unemployment benefits in the CARES Act.

**Existing Unemployment Benefits**

The foundation of unemployment insurance (UI) benefits in the United States is a jointly funded federal-state program known as Unemployment Compensation (UC). This program provides a baseline of benefits for up to 26 weeks (with a few exceptions). Each state determines its own eligibility levels, benefit payments, and duration of benefits. UI benefits generally provide about half of what an individual was earning before losing their job.[1] Most employers are required to pay federal and state taxes to help finance UC benefits.[2] Typically, UC is not available to individuals who are self-employed, unable to work, voluntarily quit, were fired for misconduct, or refused to accept a job without good reason. UC is also not available to individuals working for state and local governments or non-profit entities since these employers do not pay unemployment taxes. Beneficiaries are typically required to be able, available, and actively looking for work. Further, beneficiaries are generally required to have previously worked prior to becoming unemployed. UC is primarily funded through employer payroll taxes. Prior to the pandemic, it was estimated that $45.7 billion in unemployment taxes would be collected in FY2020 and that outlays would be just $27.1 billion.[3]

If unemployment reaches a high enough level in a given state, UC benefits may be extended under the permanent Extended Benefit (EB) program by up to 13 to 20 additional weeks, depending on the circumstances. Benefits under the EB program are also jointly funded by the federal and state governments. If a state's insured unemployment rate (IUR) for the previous 13 weeks is at least 5 percent and is 20 percent higher than the average IUR for the same 13-week period in the two previous years, the state must provide 13 weeks of EB in addition to the 26 weeks of UC.[4] A state may also choose to provide EB under two other options: 1) 13 additional weeks if the state's IUR is at least 6 percent, regardless of the state's history; and 2) 13 additional weeks if the state's total unemployment rate (TUR) is at least 6.5 percent and is at least 10 percent higher than the state's average TUR for the same 13-week period in either of the two years prior or an additional 20 weeks if the TUR is at least 8 percent and at least 10 percent higher than the state's average TUR for the same 13-week period in either of the two years prior.[5] Federal rules require that all recipients of EB make a "systematic and sustained" search for work and not refuse any offer of suitable employment.

Following the president's declaration of a major disaster or national emergency, individuals directly impacted by the disaster may be eligible for unemployment benefits under the Stafford Act if they are not otherwise eligible for UC. Workers who receive disaster unemployment assistance (DUA) are not eligible for EB since they are not eligible for UC. DUA, which is federally funded through the Federal Emergency Management Agency (FEMA), is available to individuals who are self-employed, unable to reach their place of employment because of the disaster, individuals only temporarily unemployed because of a disaster, individuals who were scheduled to begin work but are now unable because of the disaster, individuals who become the breadwinner because the head of household has died as a result of the disaster, and individuals who cannot work because of injuries caused by the disaster. Benefits are available for the duration of the disaster, up to 26 weeks. The maximum benefit provided is equal to the maximum amount in the state for UC and the minimum is equal to half of the average UC benefit in the state. Over the past 20 years, most DUA benefits have been paid to people affected by hurricanes.[6]

There are also benefits provided through Short-Time Compensation (STC) and the Self-Employment Assistance programs. STC provides pro-rated benefits for employees whose hours have been reduced in lieu of a layoff. Roughly half of the states have STC programs, but participation is low, at a peak in 2010 of only 3 percent of UC beneficiaries.[7]

The recently enacted Families First Act is now providing full federal funding for EB through December 31, 2020, plus an additional $1 billion to states for UC, so long as they meet certain conditions.

**Unemployment Provisions in the CARES Act**

The legislation includes numerous provisions to enhance the unemployment benefits available to people under various circumstances while the country deals with the devastating effects of the COVID-19 pandemic.

Under this bill, nearly all individuals receiving unemployment benefits would temporarily receive an emergency increase in their weekly benefit of $600 under Section 2104. This increased benefit would be fully funded by the federal government and available from the date that the state enters into an agreement until July 31, 2020; the state must agree not to decrease the generosity of their existing unemployment benefits. Given that the average benefit is $364, the average recipient will therefore receive a benefit equal to nearly three times what they would otherwise receive for up to 18 weeks, and potentially more than they were earning while employed. Further, these increased payments will not be considered in determining an individual's eligibility for Medicaid of the Children's Health Insurance Program (CHIP).

Section 2102 applies to individuals who have exhausted their UI benefits (whether UC or EB or the additional weeks provided under Sec 2107), are not eligible for emergency UC under Sec. 2107, and those not traditionally eligible for UC, (such as the self-employed, independent contractors, and individuals who were scheduled to begin work but are now unable), including individuals in the District of Columbia, Puerto Rico, and other territories. These individuals would be provided broad categories of eligibility such that nearly any individual whose employment is adversely impacted by COVID-19 (including individuals who quit their job), other than those able to telework or receiving paid leave, would be eligible for up to 39 weeks of benefits, fully funded by the federal government. These benefits will cover weeks of unemployment from January 27, 2020, to December 31, 2020, that are directly attributable to COVID-19. The weekly benefit amount is equal to the amount that would normally be provided under state law (with a minimum equal to 50 percent of the average weekly payment of regular compensation in the state) plus, through July 31, 2020, $600 (as provided by Sec. 2104) and any additional increase that may be provided after enactment of this law. For the self-employed, residents of territories besides Puerto Rico or the District of Columbia, and others who would not normally be eligible, the weekly benefit amount is the weekly minimum (50 percent of the average regular compensation in the state) plus $600.

Section 2107 creates the Pandemic Emergency Unemployment Compensation program, which would provide 13 additional weeks of benefits for individuals who have exhausted all rights to regular UC for a benefit year or have no rights to regular compensation, are not receiving compensation from Canada, and are able, available, and actively seeking work. The weekly benefit amount would be equal to the amount that would otherwise be payable under UC, including dependents' allowances, plus the $600 in additional payments provided by Sec. 2104 through July 31, 2020. The terms and conditions that apply to UC, including active search for work and refusal to accept work, would still apply, although states will be given flexibilities to adjust these requirements as appropriate given the circumstances of the current situation. The federal government would fully fund these benefits. If an individual is eligible for EB, payment of extended compensation must be deferred until after payment of the pandemic emergency compensation; this deferral eases the burden on state finances, though states must maintain existing benefit levels.

Under this bill, the federal government would also fully finance the first week of benefits through December 31, 2020, for states that lift the one-week waiting period. Many states currently impose a one-week waiting period because federal funds are not available for the first week after a claim is filed, although the Families First Act, enacted on March 18, 2020, now allows states to receive federal matching for the first week.

The federal government would fully fund STC payments after enactment until December 31, 2020. Payments would be limited to no more than 26 weeks of regular compensation and would not be available for individuals employed on a seasonal, temporary, or intermittent basis. For states that do not have an STC program, employers may pay half of the benefit amount and the federal government pays the other half. Up to $100 million would be available for grants to states for STC program implementation, administration, promotion, and enrollment. States accepting a grant must maintain the program for five years or repay funds.

Federal funding would also be provided to governmental entities and non-profit organizations for an amount equal to half of the benefits paid to workers of these organizations from March 13 to December 31, 2020.

Finally, benefits for railroad workers would be enhanced. Qualified workers covered by the Railroad Unemployment Insurance Act would be eligible to receive $1,200 from April 1, 2020, to July 31, 2020, until the $425 million appropriated for these payments is exhausted. Benefits from the Railroad UI account would not be subject to sequestration, and the seven-day waiting period for benefits would be waived. Individuals who received normal days of unemployment between July 1, 2019, and June 30, 2020, would be able to receive extended railroad unemployment benefits (though, no extended benefit period may begin after Dec 31, 2020).

The Department of Labor’s Office of Inspector General will be provided $25 million to provide oversight of these provisions.

**Cost Estimate**

UC covered more than 145 million jobs at the end of February, and the IUR was 1.4 percent.[8] Nearly 3.3 million people claimed UI benefits for the week ending March 21, 2020.[9] As of August 2019, the average weekly benefit amount was $364. Goldman Sachs projects that unemployment could reach as high as 9 percent over the next few quarters.[10]

Providing $600 in additional weekly benefits, as allowed under Sec. 2104, for 18 weeks (beginning next week and lasting through July 31) would cost $10,800 per person. For the 2 million people currently receiving UC, this would cost $21.3 billion in addition to the base UC payments they are owed. If unemployment among jobs traditionally covered by UC reaches 9 percent (13 million) and individuals received the extra $600 for the full 18 weeks it is available, the additional cost would be $141.2 billion; at 12 percent unemployment, the cost would be $188.2 billion. If unemployment increases gradually, such that it increases to 7 percent for the next 6 weeks and 9 percent for the following 12 weeks, additional costs would total $130.7 billion.

There are 15.6 million independent contractors, self-employed individuals, and other alternative workers who would not likely be eligible for UC under current law.[11] Extending 39 weeks of Pandemic Unemployment Assistance to 20 percent of these individuals, under Sec. 2102, would cost $26.9 billion, using the average weekly benefit of $364 from August 2019 along with the $600 increase in weekly benefits for 18 weeks. If just 10 percent of these workers need this assistance (or 20 percent need it but for only half of the 39 weeks), the cost is reduced to $13.4 billion. An estimated 1.6 million workers across the U.S. territories and District of Columbia may also become eligible for up to 39 weeks of benefits.[12] Assuming 10 percent of these workers become unable to work and newly eligible for UC under Sec. 2102, an average weekly benefit of $360 plus the $600 extra weekly payment for the first 18 weeks would yield a cost of $4 billion over the course of 39 weeks.

Providing 13 additional weeks of benefits to anyone who remains unemployed after their initial benefits have been exhausted along with an extra $600 per week through July 31, as permitted under Sec. 2107, would cost an average of $12,500 per person based on the average weekly benefit of $364. If 5 percent of the workforce (7.3 million workers) uses all 13 weeks, it would cost $91 billion. If just 2 percent of the workforce needs the additional 13 weeks, the cost would be $36.4 billion.

There are an estimated 19.5 million state and local government workers.[13] Sec. 2103 would provide funds for half of the costs of UC provided to any of these workers between March 13 and December 31, 2020. If 10 percent must be laid off and they, too, receive an average weekly benefit of $364, the cost of covering half their benefits for 26 weeks would be $9.2 billion.

Between July and September 2019, nearly 8,800 individuals received Railroad unemployment benefits with an average weekly benefit of $363.[14] Assuming the same number of monthly beneficiaries through June 2020, an additional 27,000 individuals would receive Railroad UI benefits, making 35,800 individuals eligible for 13 weeks of extended Railroad UI benefits under Sec. 2114. This would cost $168.8 million based on the average weekly benefit amount from last year, in addition to the $425 million made available for $1,200 payments to qualified workers.

Based on these estimates, the cost of these provisions could easily surpass $187.6 billion and may reach $319.9 billion, depending on the severity and length of the crisis and its toll on the economy, as well as the success of the many other provisions included in the CARES Act to keep businesses afloat.

**Conclusion**

The world is facing an unprecedented public health and economic crisis. The United States government is seeking to provide unprecedented support to attempt to keep the economy from collapsing. Expanded and enhanced unemployment benefits are just one component of the response. It is estimated that the UI benefits in the CARES Act will cost between $187.6 billion and $319.9 billion, depending on how many people use these expanded benefits and for how long. Of course, it is hard to know what the impact of this crisis on the economy will ultimately be and thus the extent to which these benefits will be needed and used. It is also possible that the generosity of these benefits encourages many individuals to seek and remain on unemployment insurance longer than they otherwise would.

[1] https://fas.org/sgp/crs/misc/R40689.pdf

[2] https://oui.doleta.gov/unemploy/uitaxtopic.asp

[3] https://fas.org/sgp/crs/misc/RL33362.pdf

[4] The IUR is the ratio of UC claimants divided by the number of individuals in UC-covered jobs.

[5] The TUR is the ratio of unemployed workers to all workers (employed and unemployed) in the labor market.

[6] https://fas.org/sgp/crs/misc/RS22022.pdf

[7] https://fas.org/sgp/crs/misc/R40689.pdf

[8] https://oui.doleta.gov/unemploy/wkclaims/report.asp

[9] https://www.dol.gov/ui/data.pdf

[10] https://markets.businessinsider.com/news/stocks/us-jobless-claims-record-forecast-layoffs-unemployment-coronavirus-economy-gs-2020-3-1029016767, https://www.barrons.com/articles/u-s-economy-could-contract-by-24-next-quarter-goldman-sachs-says-51584713292

[11] https://www.bls.gov/news.release/conemp.nr0.htm

[12] https://www.bls.gov/regions/economic-summaries.htm#MS

[13] https://www.governing.com/gov-data/public-workforce-salaries/monthly-government-employment-changes-totals.html

[14] https://www.rrb.gov/sites/default/files/2020-01/stat_qbs0919.pdf