Research

Options for Extending the Federal Unemployment Supplement

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Executive Summary

- On July 31 the Federal Pandemic Unemployment Compensation (FPUC) included in the Coronavirus Aid, Relief, and Economic Security (CARES) Act will fully expire, meaning that unemployed individuals will no longer receive the additional $600 a week in federal unemployment insurance (UI) support.
- While both parties have put forward proposals to continue FPUC in some form, the amount and length of additional UI support varies significantly between the plans, and both face a feasibility challenge in the short term.
- A plan introduced by Democratic Senators Wyden and Schumer could cost upward of $960 billion over the next 4 years or longer, given that there is no clear expiration date attached to their proposed benefits, and would likely cause significant problem in implementation if it were passed.
- Republicans' plan for unemployment assistance contained in the Health, Economic Assistance, Liability Protection, and Schools (HEALS) Act would reduce the FPUC in two stages—$200 until the end of September and then at 70 percent wage replacement—and would cost $110.7 billion.

Introduction

With the Coronavirus Aid, Relief, and Economic Security (CARES) Act came a dramatic expansion of unemployment benefits, including an additional $600 a week under the Federal Pandemic Unemployment Compensation (FPUC). Because of this federal supplement, many unemployed individuals began making more on unemployment than they normally would at work. During the early stages of the pandemic, this policy was precisely what was needed: It provided support for the rapidly increasing number of unemployed people at such an amount that encouraged them to remain at home and reduce the spread of the virus.

The efficacy and utility of FPUC gets more complicated as focus shifts from complete lockdown to the reopening phases. The FPUC fully expires on July 31, leaving policymakers debating the best course for replacing it. Democrats and Republicans both have proposed replacements. Democrats would extend the FPUC at its current $600 level with automatic trigger phase-outs. On July 27, Republicans introduced their own plan for supplemental unemployment, which would lower the FPUC to $200 a week and later lower the FPUC so that, when added to regular state benefits, it would cover 70 percent of previous wages. These plans both address support for the unemployed, but do so from two different perspectives and lead to different problems in the immediate and long-term. Democrats' plans for unemployment stems from an emphasis on stabilization, while Republicans seem to be operating under the assumption that it is time to move forward into active economic recovery. Nevertheless, both face a basic feasibility problem.

Democrats' Plans: HEROES and the American Workforce Rescue Act

Two proposals from Democrats, the HEROES Act and the American Workforce Rescue Act, would extend the full $600 FPUC past the expiration deadline. The HEROES Act would have unemployed individuals continue to receive an additional $600 a week until the soft cut-off on January 31, 2021. To aid in processing high volumes of unemployment claims, states would receive $925 million from the Department of Labor. The HEROES extension would proceed without any real controls or room for recalibrations should the public health or economic situation change and does not lower the added benefit amount.

On the other hand, the American Workforce Rescue Act, introduced by Senators Wyden and Schumer, operates less like a blunt instrument and allows for state-to-state variations, although it gives no clear end date for expanded benefits. Both plans are built on the idea that above all else, individuals need significantly more income support during this time. The focus on this legislation is stabilization during the immediate term.

The Wyden-Schumer proposal takes a small step back from simply extending the $600 by implementing automatic triggers that would tie benefit amount and additional weeks of unemployment to the state unemployment rate. The plan would essentially phase itself out once certain unemployment rates are reached in each state. The proposal outlines 6 tiers tied to FPUC that go as follows.

- A state with unemployment rate above 11 percent would be in tier 6, meaning that individuals will continue to receive the full additional $600 a week in FPUC.
- A state with unemployment rate between 10 and 11 percent (tier 5) will receive $500 a week in FPUC.
- A state with unemployment between 9 and 10 percent (tier 4) will receive $400 a week in FPUC, and so on until reaching tier 1 where unemployment falls between 6 and 7 percent and the FPUC benefit is $100.

In addition to FPUC tiers, the proposal includes 4 tiers tied to state unemployment rates that would increase the number of weeks that are part of the CARES Act's Pandemic Emergency Unemployment Compensation Program (PEUC) which provided those who have exhausted federal or state unemployment benefits with 13 additional weeks.

- A state with unemployment above 8.5 percent would be eligible for 52 weeks of PEUC.
- With every 1 percent decrease in unemployment rate, PEUC weeks go down by 13 weeks leaving tier one states with 13 weeks of PEUC at an unemployment rate of 5.5 to 6.5 percent.

Republicans' Plan: American Workers, Families, and Employers Assistance Act

Since the passage of the CARES Act, Republicans have criticized the FPUC of $600 a week for being too high and potentially causing a work disincentive as the economy and public health situation improve. Previous analysis from the American Action Forum (AAF) has found that over 63 percent of workers could be making more on maximum unemployment benefits under the $600 bonus. On July 27, Republicans released their plan, the American Workers, Families, and Employers Assistance Act, as part of their stimulus plan, the Health, Economic Assistance, Liability Protection, and Schools (HEALS) Act. The proposal is built on the idea that a reduced and more targeted FPUC would still be able to provide income support without disincentivizing work and would control for the medium- and long-term costs that a more generous proposal could bring. The act would reduce the bonus in two stages.

- First the FPUC amount would drop from the current $600 to $200 a week through the end of September. Previous AAF analysis found that reducing the benefit to $200 could mean that 36 percent of workers make more on unemployment.
- Once the $200 deadline arrive, the FPUC benefit would be reduced so that the base state unemployed

amount plus the federal benefit would be equal to 70 percent of an individual's average weekly wage (capped at $500).

There is a possibility that some unemployment offices would struggle to implement the second reduction, so the plan would allow states to implement an alternative plan contingent on approval by the Labor Secretary. Any state unable to implement unemployment compensation tied to lost wages could apply for a waiver from the Department of Labor to continue paying a fixed dollar amount for up to two months. This second reduction would last util December 31, 2020.

Costs and implications

AAF analysis found that the Wyden-Schumer proposal could cost around $960 billion. The cost analysis used the Congressional Budget Office (CBO) baseline estimates by quarter for the next several years. According to CBO estimates and the formulas laid out by the Wyden-Schumer plan, FPUC payments could continue into Q3 of 2024, which is when the national unemployment rate is expected to drop below 6 percent. Without a set end date for the proposal, it is entirely unclear when the federal government would be released from having to supplement state UI programs.

This extension could create a very serious problem in the future as more businesses reopen. As previous AAF analysis showed, over 63 percent of workers could be making more on maximum unemployment benefits under the $600 bonus. When reduced to an additional $100, that number drops to 25 percent, still a significant portion of the workforce. The incentive problem will become more serious as the public health situation improves, and because there is no set end date for this legislation it's likely that payments could continue long after they are needed, making it more difficult to allocate additional funds to other recovery efforts.

Assuming that Republicans' FPUC of $200 could be implemented the first week of August, it would continue for 9 weeks and would cost up to $55.8 billion. The second reduction, assuming states are able to implement the 70 percent wage replacement provision, could supplement the average unemployed worker with an additional $182 a week, totaling $54.9 billion.[i] This would put the estimated total cost of the Republican FPUC plan at $110.7 billion. Cost estimates were done using CBO quarterly projections starting with an estimated level of 30 million unemployed. The Republican plan is far more fiscally conservative, costing 11 percent of what the Schumer-Wyden plan would cost, but there are concerns surrounding whether or not $200 in FPUC is enough to support unemployed individuals during this time or whether it is safe to have individuals return to full employment

Republicans have expressed concern over the potential work disincentive, and while their proposal addresses that concern, there are concerns that a reduction in FPUC will ultimately hurt workers. Last Friday the federal eviction moratorium from the CARES Act expired. This new risk coupled with the reduction in FPUC and the constantly fluctuating public health situation may hurt workers who could experience long-term unemployment because of the economic instability. On the other hand, if the economic situation improves, a lower benefit such as the one Republicans propose could aid in a speedier recovery by encouraging people to return to work.

Feasibility

Both plans face a basic feasibility problem. Unemployment offices are struggling with the increased number of claims; they are understaffed and using outdated systems. Unemployment expansions such as PEUC and Pandemic Unemployment Assistance have understandably put additional strain on a program that was, in most states, not equipped to handle an economic downturn of this magnitude. The $600 FPUC came about largely because it would be far too complicated and take too much time for unemployment offices to handle a more complicated bonus outside of just a single flat rate. There are still individuals who have yet to receive any benefits due to difficulties with accuracy and efficiency in the unemployment system. Claimants in Nevada are bringing forth a class action lawsuit wherein several thousand workers have not seen benefits due to glitches and mistakes in the unemployment office.

Attempting to implement the system outlined by the Wyden-Schumer proposal may further delay individuals from receiving timely and accurate unemployment compensation. The Republican plan faces a similar challenge. The first phase of the Republican plan is a flat unchanging rate, but the problem comes with the second reduction to meet 70 percent wage replacement. Both plans face a challenge in the implementation stage, meaning that all those on unemployment are likely to see their FPUC benefit disappear for a time until their state unemployment system is updated to accommodate whatever the new plan is.

Conclusion

Serious disagreements exist between Republicans and Democrats over the best course for extending FPUC. Republicans look to move toward a plan that encourages a return to work and speedy economic recovery, running the risk that if the public health situation gets worse individuals may not have adequate income support. Meanwhile, Democrats look to extend the $600 federal supplement through either the end of this year or in some form of UI expansion for a yet-undetermined amount of time, which could hamper economic recovery and further harm long-term fiscal stability. With so much uncertainty surrounding the public health situation, it may be best to proceed with caution and craft policy that is simple and allows for calibration as the economic and public health situation changes rather than sweeping, long-lasting legislation.

[i] Estimates based on June employment, CBO projections, and median wage