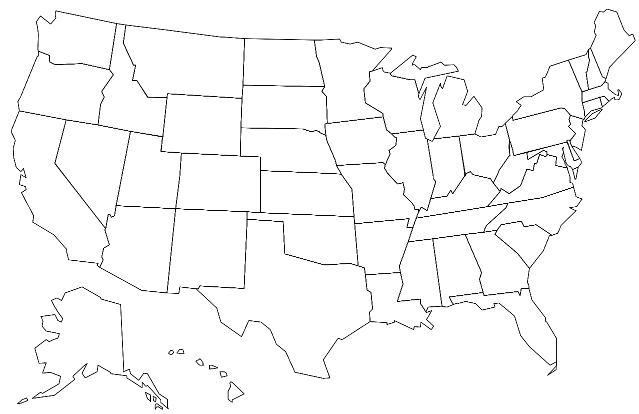
UNEMPLOYMENT COMPENSATION



Federal-State Partnership

U.S. DEPARTMENT OF LABOR

Office of Workforce Security
Division of Legislation
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INTRODUCTION

The federal-state unemployment compensation (UC) program, created by the Social Security Act (SSA) of 1935, offers the first economic line of defense against the ripple effects of unemployment. Through payments made directly to eligible, unemployed workers, it ensures that at least a significant proportion of the necessities of life, most notably food, shelter, and clothing, can be met on a week-to-week basis while a search for work takes place. As temporary, partial wage replacement to the unemployed, UC is of vital importance in maintaining purchasing power and in stabilizing the economy.

Unemployment compensation is a social insurance program. It is designed to provide benefits to most individuals out of work, generally through no fault of their own, for periods between jobs. In order to be eligible for benefits, jobless workers must demonstrate workforce attachment, usually measured by amount of wages and/or weeks of work, and must be able and available for work.

The UC program is a federal-state partnership based upon federal law, but administered by state employees under state law. Because of this structure, the program is unique among the country's social insurance programs. The UC program is also unique in that it is almost totally funded by employer taxes, either federal or state – only three states collect taxes from employees.

Federal law defines certain requirements for the program. The SSA and the Federal Unemployment Tax Act (FUTA) set forth broad coverage provisions, some benefit provisions, the federal tax base and rate, and administrative requirements. The major functions of the federal government are to:

- ensure conformity and substantial compliance of state law, regulations, rules, and operations with federal law;

- determine administrative fund requirements and provide money to states for proper and efficient administration;

- set broad overall policy for administration of the program, monitor state performance, and provide technical assistance as necessary; and

- hold and invest all money in the unemployment trust fund until drawn down by states for the payment of compensation.

Each state designs its own UC program within the framework of the federal requirements. The state statute sets forth the benefit structure (e.g., eligibility/disqualification provisions, benefit amount) and the state tax structure (e.g., state taxable wage base and rate). The primary functions of the state are to:

- determine operation methods and directly administer the program;

- take claims from individuals, determine eligibility, and insure timely payment of benefits to workers; and

- determine employer liability, and assess and collect contributions.

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Originally, most states paid benefits for a maximum duration of 13 to 16 weeks. Most states currently pay a maximum of 26 weeks, although Massachusetts and under certain conditions Washington pay 30 weeks. In periods of very high and rising unemployment in individual states, benefits are payable for up to 13 additional weeks (20 in some cases), up to a maximum of 39 weeks (or 46). These "extended benefits" are funded on a shared basis – approximately half from state funds and half from federal sources.

In periods of national recession, when all states are impacted by high and sustained unemployment, federally-funded programs of supplemental benefits have been adopted occasionally. There were two such programs during the 1970s, one during the early 1980s, one during the 1990s, and the most recent, the Temporary Extended Unemployment Compensation (TEUC) program, effective from March 2002 through December 2003.

The UC program operates countercyclical, paying out benefits during recessionary times and collecting revenue during recovery periods. Provided below are estimates of program activity for fiscal year 2007.

• Number of workers covered	133.1 million
• Number of beneficiaries (all programs)	7.5 million
• Benefits paid (all programs)	$32.2 billion
• Subject employers	7.4 million
• Administrative costs (total)	$3.9 billion
State UC only	$2.64 billion
• Payroll taxes – FUTA	$7.3 billion
• Payroll taxes – State	$37.6 billion

THE BASIC SYSTEM

Almost all wage and salary workers are now covered by the federal-state program. Railroad workers are covered by a separate federal program. Ex-service members with recent service in the Armed Forces and civilian federal employees are covered by a federal program, with the states paying benefits from federal funds as agents of the federal government.

If a state law meets minimum federal requirements under FUTA and Title III of the SSA:

- employers receive up to a 5.4 percent basic and additional tax credit against the 6.2 percent federal unemployment tax, and

- the state is entitled to federal grants to cover all the necessary costs of administering the program.

Approval for Tax Credit

Sections 3303 and 3304 of the Internal Revenue Code of 1986 (created by the law known as FUTA) represent some of the minimum federal requirements and provide that the Secretary of Labor shall approve a state law for basic and additional tax credit if under the state law:

- Compensation is paid through public employment offices or other approved agencies;
- All of the funds collected under the state program are deposited in the federal UTF (Title IX of the SSA prescribes the distribution of the tax revenue among the various accounts of the trust fund);
- All of the money withdrawn from the state trust fund account is used to pay compensation, to refund amounts erroneously paid into the fund, or for other specified activities;
- Compensation is not denied to anyone who refuses to accept work because the job is vacant as the direct result of a labor dispute, or because the wages, hours, or conditions of work are substandard, or if, as a condition of employment, the individual would have to join a company union or resign from or refrain from joining any bona fide labor organization;
- Compensation is paid to employees of state and local governments and Indian tribes;
- Compensation is paid to employees of FUTA tax exempt nonprofit organizations, including schools and colleges, who employ 4 or more workers in each of 20 weeks in the calendar year;
- Payment of compensation to certain employees of educational institutions operated by state and local governments, nonprofit organizations, and Indian tribes is limited during periods between and within academic terms;
- State and local governments, nonprofit organizations, and Indian tribes are permitted to elect to pay regular employer contributions or finance benefit costs by the reimbursement method;
- Compensation is not payable in two successive benefit years to an individual who has not worked after the beginning of the first benefit year;
- Compensation is not denied to anyone solely because the individual is taking part in an approved training program;
- Compensation is not denied or reduced because an individual's claim for benefits was filed in another state or Canada and the state participates in arrangements for combining wages earned in more than one state for eligibility and benefit purposes;
- Compensation is not denied by reason of cancellation of wage credits or total benefit rights for any cause other than discharge for work-connected misconduct, fraud, or receipt of disqualifying income;

- Extended compensation is payable under the provisions of the Federal-State Extended Unemployment Compensation Act of 1970 (federal-state extended benefits program);

- Compensation is not denied solely on the basis of pregnancy or termination of pregnancy;

- Compensation is not payable to a professional athlete, between seasons, who has a reasonable assurance of resuming employment when the new season begins;

- Compensation is not payable to an alien unless the alien was in a specified state – such as legally authorized to work – at the time services were performed;

- The benefit amount of an individual is reduced, under certain conditions, by that portion of a pension or other retirement income (including Social Security and Railroad Retirement income) which is funded by a base period employer;

- Wage information in the agency files is made available, upon request and on a reimbursable basis, to the state agency administering Temporary Assistance to Needy Families; and wage and UC information to the Secretary of Health and Human Services for the purposes of the National Directory of New Hires;

- Any interest required to be paid on advances is paid in a timely manner and is not paid, directly or indirectly (by an equivalent tax reduction in such state) from amounts in such state's trust fund account (See also FINANCING THE PROGRAM, Interest on Loans);

- Federal individual income tax is deducted and withheld if a claimant so requests; and

- Reduced tax rates for employers are permitted only on the basis of their experience with respect to unemployment.

Approval for Grants for Costs of Administration

Title III of the SSA provides for payments from the federal UTF to the states to meet the necessary costs of administering the UC programs in the states. (The major proportion of the cost (97%) of operating their public employment offices is provided for by the Wagner-Peyser Act.) Under Title III, the grants are restricted to those states that have a UC law approved under FUTA and have been certified by the Secretary of Labor as providing (some of these provisions are also included in FUTA):

- Methods of administration (including a state merit system) which will insure full payment of UC when due;

- Payment of UC through public employment offices or through other approved agencies;

- For fair, impartial hearings to individuals whose claims for UC have been denied;

- All of the funds collected under the state program are deposited in the federal UTF (Title IX of the SSA prescribes the distribution of the tax revenue among the various accounts of the trust fund);

- That all of the money withdrawn from the state trust fund account will be used either to pay UC, exclusive of administrative expenses, to refund amounts erroneously paid into the fund, or for other specified activities;

- Reports required by the Secretary of Labor;

- Information to federal agencies administering public works programs or assistance through public employment;

- For limitation of expenditures to the purpose and amounts found necessary by the Secretary of Labor for proper and efficient administration of the state UC law;

- For repayment of any funds the Secretary of Labor determines were not spent for UC purposes or exceeded the amounts necessary for proper administration of the state UC law;

- That as a condition of eligibility, any claimant referred to reemployment services pursuant to the profiling system, participate in such services;

- Information to the Railroad Retirement Board as the Board deems necessary;

- Reasonable cooperation with every agency of the United States charged with the administration of any UC law;

- That any interest on advances be paid by the date on which it is required to be paid or is not paid directly or indirectly (by an equivalent reduction in state unemployment taxes or otherwise) by such state from amounts in the state's trust fund account;

- Information to the Department of Agriculture and state food stamp agencies with respect to employee wages, UC benefits, home address, and job offers;

- Information to any state or local child support enforcement agency with respect to employee wages;

- That a claimant disclose whether or not he/she owes child support obligations; deductions from benefits shall be made for any such child support obligations, and the amount of such deduction paid by the state UC agency to the appropriate child support agency;

- Information be requested and exchanged for purposes of income and eligibility verification in accordance with a state system meeting the requirements of Title XI of the SSA; the UC wage record system may, but need not, be the required state system;

- Information to the Secretary of Health and Human Services on a reimbursable basis, with respect to employee wages, UC benefits, and home address for the purpose of establishing a National Directory of New Hires;

- Information to officers and employees of the Department of Housing and Urban Development and to representatives of public housing agency with respect to employee wages and UC benefits;

- For establishment and use of a system of profiling new claimants of regular compensation to identify those likely to exhaust such compensation and need reemployment services;

- Requirement that, as a condition of eligibility for regular UC, claimants participate (unless exempt) in reemployment services if referred under the profiling system; and

- Mandatory transfer of unemployment experience whenever there is substantially common ownership, management, or control of two employers, and one of these employers transfers its trade or business (including its workforce), or portion thereof, to the other employer (applies to total and partial transfers); and, under certain conditions, prohibition of transfer when a person who is not an employer acquires the trade or business of an existing employer.

FINANCING THE PROGRAM

Pursuant to the provisions of the FUTA, a federal tax is levied on covered employers at a current rate of 6.2 percent on wages up to $7,000 a year paid to an employee. The law, however, provides a credit against federal tax liability of up to 5.4 percent to employers who pay state taxes timely under an approved state UC program. This credit is allowed regardless of the amount of the tax paid to the state by the employer. Accordingly, in states meeting the specified requirements, employers pay an effective federal tax of 0.8 percent, or a maximum $56 per covered employee, per year. Under current law, the 6.2 percent federal tax is scheduled to drop to 6.0 percent beginning with calendar year 2008, and the effective tax to 0.6 percent.

This federal tax is used to fund a number of different UC related expenditures:

- All federal and state administrative costs associated with UC programs;

- The federal share of benefits paid under the federal-state Extended Unemployment Compensation Act of 1970;

- The loan fund from which an individual state may borrow (Title XII of the SSA) whenever it lacks funds to pay UC due for any month; and

- Benefits under some of the federal supplemental and emergency programs.

In addition, the FUTA tax is used to fund labor exchange services, employment and training services for veterans and disabled veterans, and some labor market information program activities. See chart on page 15.

Provisions Relating to Loans

If it is anticipated that the balance in a state's unemployment fund is insufficient to pay expected benefit claims during a specified period of time, the state's Governor may request a loan from the Secretary of Labor. Such loans are made from the Federal Unemployment Account (FUA) in the UTF, in accordance with Title XII of the SSA.

In order to assure that a state will repay any loans it secures from the fund, the law provides that when a state has an outstanding loan balance on January 1 for two consecutive years, the full amount of the loan must be repaid before November 10 of the second year, or the federal tax on employers in that state will be increased for that year and further increased for each subsequent year that the loan has not been repaid.

Specifically, the 5.4 percent credit is reduced in successive increments of a minimum 0.3 percent for each year in which a loan or loans remain unpaid (reducing the overall credit from 5.4 to 5.1, to 4.8, to 4.5 percent, etc.). Additional offset credit reductions may apply to a state beginning with the third and fifth taxable years if a loan balance is still outstanding and certain criteria are not met.

Cap on Loan Repayment Requirements

States with outstanding loans may seek relief from the automatic loan repayment provisions. If specific requirements are met, a cap (or limit) is provided on the reduction in offset credit at the higher of 0.6 percent or the federal tax rate in effect in the state for the previous year. These requirements are:

- The state did not take any action (in the prior year) that would diminish the solvency of the state fund;
- The state did not take any action (in the prior year) that would decrease the state's unemployment tax effort;
- The average tax rate for the taxable year exceeds the 5-year average benefit cost rate; and
- The state's outstanding loan balance as of September 30 of the tax year is not greater than that for the third preceding September 30.

States with outstanding loans may also avoid the automatic increase in the federal tax by transferring, on or before November 9, money from their unemployment accounts to the FUA. The following criteria must be met in order to avoid the offset credit reduction:

- Repay all loans for the 1-year period ending November 9, plus any additional tax due by reason of the reduced credit amount;

- Have sufficient funds remaining after the transfer to pay benefits for at least 3 months after November 1 of the same year without receiving another loan under Title XII, SSA; and

- Have taken action to increase the solvency of its UC system so that the increase at least equals the potential additional taxes that would otherwise be payable.

Interest on Loans

Except for cash flow loans (loans obtained and repaid January through September) interest is charged on all loans made on or after April 1, 1982. The rate is the lesser of 10 percent or the rate at which interest was paid on the state reserve balance in the federal UTF for the last quarter of the preceding calendar year. Interest paid by states is credited to the FUA in the UTF.

Interest is due and payable on the last day (September 30) of the fiscal year in which the loans were made. If a state borrows after September 30 in a calendar year in which any cash flow loans had been repaid earlier in the year without interest, then interest will be charged retroactively for the period that the state had held any earlier loans.

Interest may be deferred, to December 31 of the following calendar year, for loans made in the last 5 months of the federal fiscal year (May-September). Interest accrues on the delayed interest payment.

States with an average total unemployment rate of 13.5 percent or greater for the most recent 12-month period for which data are available may delay payment of interest for a grace period not to exceed 9 months. Interest does not accrue on the delayed interest payment.

States with an average insured unemployment rate of 7.5 percent or greater during the first 6 months of the preceding calendar year may pay interest in four annual installments of 25 percent per year. Interest does not accrue on the deferred interest payments.

Penalty for Failure to Pay Interest

A state will lose all offset credit (5.4 percent) for any year in which all interest due under law is not paid by the date on which such interest is required to be paid. The state would also lose all grants for costs of administration until interest due has been paid.

Limitation on Source of Interest Payments

Interest payments may not be made from the state UC fund (directly or indirectly, by diverting some part of UC taxes). Violations of this requirement will lead to decertification of the state law and loss of all employer tax credits and of grants for costs of administration.

Liable Employers

An employer is subject to the federal unemployment tax if, during the current or preceding calendar year, he/she employed one or more individuals in each of at least 20 calendar weeks, or if he/she paid wages of $1,500 or more during any calendar quarter of either such year. Variations on these requirements relate to employers in agriculture and domestic service:

- In agriculture, employers who have at least 10 or more workers in each of at least 20 calendar weeks in the current or preceding calendar year or a cash payroll of at least $20,000 during any calendar quarter in either such year are subject to the tax.

- In domestic service, employers who have a cash payroll of at least $1,000 in any calendar quarter in the current or preceding calendar year are subject to the tax.

Taxable wages are defined as all remuneration from employment in cash or in kind with certain exceptions. The exceptions include earnings in excess of $7,000 in a year, and payments related to retirement, disability, hospital insurance, or similar fringe benefits.

State Taxes

All states finance UC primarily through contributions from subject employers on the wages of their covered workers. In addition, three states (Alaska, New Jersey, and Pennsylvania) collect contributions from employees. These taxes are deposited by the state to its account in the UTF in the Federal Treasury, and are withdrawn as needed to pay benefits. As of March 2007, aggregate state trust fund accounts had reserves of approximately $35.9 billion.

Experience Rating and the Federal Requirements

The system under which employers are assigned tax rates in accordance with their individual experience with unemployment (and subject to the needs of the state program) is referred to as experience rating. Within the confines of the general federal requirements, the experience rating provisions of state laws vary greatly. Though provisions have changed over the years, present federal law permits:

- reduced rates (rates below the 5.4 standard or basic rate) for employers with at least 1 year of experience with respect to unemployment or other factors bearing a direct relation to unemployment risk, and

- reduced rates (but not less than 1 percent) for newly subject employers on a reasonable basis.

Additional credit is allowed only with respect to a year in which the rate of the taxpayers in the state with the least favorable experience is at least 5.4 percent.

State Requirements for Experience Rating

All state laws provide for a system of experience rating under which individual employers' contribution rates vary from the standard rate on the basis of their experience with the amount of unemployment encountered by their employees. In most states, 3 years of experience with unemployment means more than 3 years of coverage and contribution experience.

As noted earlier, the experience-rating provisions of state laws vary considerably, and the number of variations increases with each legislative year. The most significant variations arise from differences in the formulas used for rate determination. The factor used to measure experience with unemployment is the basic variable which makes it possible to establish the relative incidence of unemployment among the workers of different employers. Differences in such experience represent the major justification for differences in tax rates, either to provide incentives for stabilization of employment or to allocate the cost of unemployment. At present there are four distinct systems, usually identified as reserve-ratio, benefit-ratio, benefit-wage-ratio, and payroll-decline formulas. A few states have combinations of the systems.

In spite of significant differences, all systems have certain common characteristics. All formulas are devised to establish the relative experience of individual employers with unemployment or with benefit costs. To this end, all have factors for measuring each employer's experience with unemployment or benefit expenditures, and all compare this experience with a measure of exposure – i.e., payrolls – to establish the relative experience of large and small employers.

State Taxable Wage Base and Rate

Many states (44) have adopted a higher taxable wage base than the $7,000 now provided in FUTA. For 2007, Hawaii's taxable wage base is the highest at $35,300. In all states, an employer pays a tax on wages paid to each worker within a calendar year up to the amount specified in state law. In addition, most of the states provide an automatic adjustment of the wage base if federal law is amended to apply to a higher wage base than that specified under state law.

As a result of the many variables in states taxable wage bases and rates, benefit formulas, and economic conditions, actual tax rates vary greatly among the states and among individual employers within a state. For the latest year available (2006), the preliminary estimated U.S. average tax rate is 0.8 percent of total wages, ranging from a high of 1.9 percent in Alaska (taxable wage base of $30,100) to a low of 0.2 percent in South Dakota (taxable wage base of $8,500) and the Virgin Islands (taxable wage base of $20,500).

COVERAGE

As indicated previously, FUTA applies to employers who employ one or more employees in covered employment in at least 20 weeks in the current or preceding calendar year or who pay wages of $1,500 or more during any calendar quarter of the current or preceding calendar year. Also included are large employers of agricultural labor and some employment in domestic service. State legislatures tend to cover employers or employment subject to the federal tax because, while there is no compulsion to do so, failure to do so is of no advantage to the state and a disadvantage to the employers involved in terms of FUTA taxes due. While states generally cover all employment which is subject to the federal tax, they also may cover some employment which is exempt from the tax, such as smaller employers of agricultural labor and domestic service. Employers who do not meet the specific monetary or number of employee requirements are excluded from liability.

Although the extent of state coverage is greatly influenced by the federal statute, each state is, with a single exception, free to determine the employers who are liable for contributions and the workers who accrue rights under the laws. The exception is the federal requirement that states provide coverage for employees of nonprofit organizations, services performed for Indian tribes, and employees of state and local governments, even though such employment is exempt from FUTA.

BENEFIT RIGHTS

There are no federal standards for benefits in terms of qualifying requirements, benefit amounts, or duration of regular benefits. Hence, there is no common pattern of benefit provisions comparable to that in coverage and financing. The states have developed diverse and complex formulas for determining workers' benefit rights.

Under all state UC laws, a worker's benefit rights depend on his/her experience in covered employment in a past period of time, called the base period. The time period during which the weekly rate and the duration of benefits determined for a given worker apply to such worker is called the benefit year.

The qualifying wage or employment provisions attempt to measure the worker's attachment to the labor force. An insured worker must also be free from disqualification for causes which vary among the states. All but a few states require a claimant to serve a waiting period before his/her unemployment may be compensable.

All states determine an amount payable for a week of total unemployment as defined in the state law. Usually a week of total unemployment is a week in which the claimant performs no work and receives no pay. In most states a worker is partially unemployed in a week of less than full-time work when he/she earns less than his/her weekly benefit amount. The benefit payment for such a week is the difference between the weekly benefit amount and the part-time earnings, usually with a small disregard as a financial inducement to take part-time work.

Qualifying Wages and Employment

All states require that a claimant must have earned a specified amount of wages or must have worked a certain number of weeks or calendar quarters in covered employment, or must have met some combination of the wage and employment requirements within his/her base period, to qualify for benefits. The purpose of such qualifying requirements is to restrict benefits to covered workers who are genuinely attached to the labor force.

Benefit Eligibility and Disqualification

All state laws provide that, to receive benefits, a claimant must be able to work and available for work. Also, he/she must be free from disqualification for such acts as voluntary leaving without good cause, discharge for misconduct connected with the work, and refusal of suitable work. The purpose of these provisions is to limit payments to workers unemployed primarily as a result of economic causes.

In all states, claimants who are held ineligible for benefits because of inability to work, unavailability for work, refusal of suitable work, or any other disqualification are entitled to a notice of determination and an appeal of the determination.

Benefit Computation

Most states measure unemployment in terms of calendar weeks. Under all state laws a weekly benefit amount, that is, the amount payable for a week of total unemployment, varies with the worker's past wages within certain minimum and maximum limits. The period of past wages used and the formulas for computing benefits from these past wages vary greatly among the states.

OTHER BENEFIT PROGRAMS

Federal-State Extended Benefits (EB)

Since 1970, federal law has provided for the extension of the duration of benefits in periods of high and rising unemployment. When the insured unemployment rate in a state reaches certain specified levels, states must extend by 50 percent the benefit duration normally allowed up to a combined overall maximum of 39 weeks. There are also optional provisions for payment of EB. The federal government finances from federal revenue approximately half of the cost of EB paid during EB periods, including any state benefits paid in excess of 26 weeks.

EB Triggers

Mandatory – State must pay EB (13 week duration) if the insured unemployment rate (IUR) for the previous 13 weeks is at least 5 percent and is 120 percent of the rate for the same 13-week period in the 2 previous years.

Optional – At its option, a state may pay EB (13 weeks) if the IUR for the previous 13 weeks is at least 6 percent, regardless of the experience in the previous years.

Optional – At its option, a state may pay EB (13 weeks) if the average total unemployment rate (TUR), seasonally adjusted, for the most recent 3 months is at least 6.5 percent and is 110 percent of the rate for the same 3-month period in either of the 2 previous years. If such rate is at least 8.0 percent and is 110 percent of the rate for the same 3-month period in either of the 2 previous years, the duration increases from 13 to 20 weeks.

Unemployment Compensation for Federal Civilian Employees (UCFE)

The UCFE program provides unemployment benefits to federal civilian workers in the same amount and under the same general conditions as relate to UC for other workers. The program is administered on behalf of the federal government by the state UC agencies. Costs of UCFE benefits are charged to the federal agencies where the workers earned their base period wages.

Unemployment Compensation for Ex-Servicemembers (UCX)

UCX is a subsidiary program to UCFE. To qualify for UCX, an ex-servicemember separated from military service on or after July 1, 1981, must have completed a full term of active service in the armed forces or the commissioned corps of the National Oceanic and Atmospheric Administration and must have been discharged or released under honorable conditions; and, if an officer, the individual must not have resigned for the good of the service. In addition, ex-service members discharged or released before completing their first full term of active service will nevertheless have a period of federal service if separated for:

- the convenience of the government under an early release program,
- medical disqualifications, pregnancy, parenthood, or service-incurred injury or disability,
- hardship, or
- personality disorders or inaptitude, but only if the service was continuous for 365 days or more.

Continuous active duty in reserve status may be counted in determining if an individual has federal service, but only if such active duty is continuous for 90 days or longer.

Disaster Unemployment Assistance (DUA)

The Disaster Relief Act of 1974 authorizes the President to provide to any individual unemployed as a result of a major natural disaster such assistance as deemed appropriate while the individual is unemployed. In general, individuals living or working in those areas affected by a major natural disaster, who are unemployed because of the disaster, are eligible for DUA if they are not eligible for UC or other wage replacement payments and meet certain requirements. Assistance is available for a maximum of 26 weeks after the major natural disaster is declared. In some cases, this maximum has been increased to 39 weeks.

Trade Adjustment Assistance (TAA)

The Trade Act of 1974 was reformed in 2002 to consolidate two separate programs, expand eligibility to more worker groups, increase timeliness for benefit receipt, training and rapid response assistance, legislate specific waiver provisions, and establish other TAA. TAA includes a variety of reemployment services and benefits to workers who have lost their jobs or suffered a reduction of hours and wages as a result of increased imports or shifts in production outside the United States. Overall, the TAA program aims to help program participants obtain new jobs, ensuring they retain employment and earn wages comparable to their prior jobs.

To obtain TAA benefits and services, a group of workers must first file a petition with the Department of Labor requesting certification as workers adversely affected by foreign trade. A petition may be filed by a group of three or more workers, by a company official, by One-Stop operators or partners (including state workforce agencies and dislocated worker units), or by a union or other duly authorized representative of such workers. The workers on whose behalf a petition is filed must be, or have been, employed at the firm or subdivision identified in the petition. Workers' employment must be, or have been, related to the production of articles (products) described in the petition.

If certified, each worker in the group must apply for individual services and benefits through his/her local One-Stop Center to determine individual eligibility. Such services and benefits include reemployment services, job search allowances, relocation allowances, trade readjustment allowances, health insurance coverage assistance and training services.

Self-Employment Assistance (SEA)

States are given the option to establish SEA programs to help unemployed workers to create their own jobs by starting small businesses. To be eligible for the program an individual must be eligible for unemployment compensation, have been permanently laid off from his/her previous job and identified through the profiling system as likely to exhaust his/her benefits, and must participate in self-employment activities including entrepreneurial training and business counseling. Weekly SEA allowances are funded out of each state's account in the UTF at no additional cost to the UC program. No more than 5 percent of claimants may be part of a SEA program.

Currently there are eight (8) states that have adopted SEA programs.

Short-Time Compensation (STC)

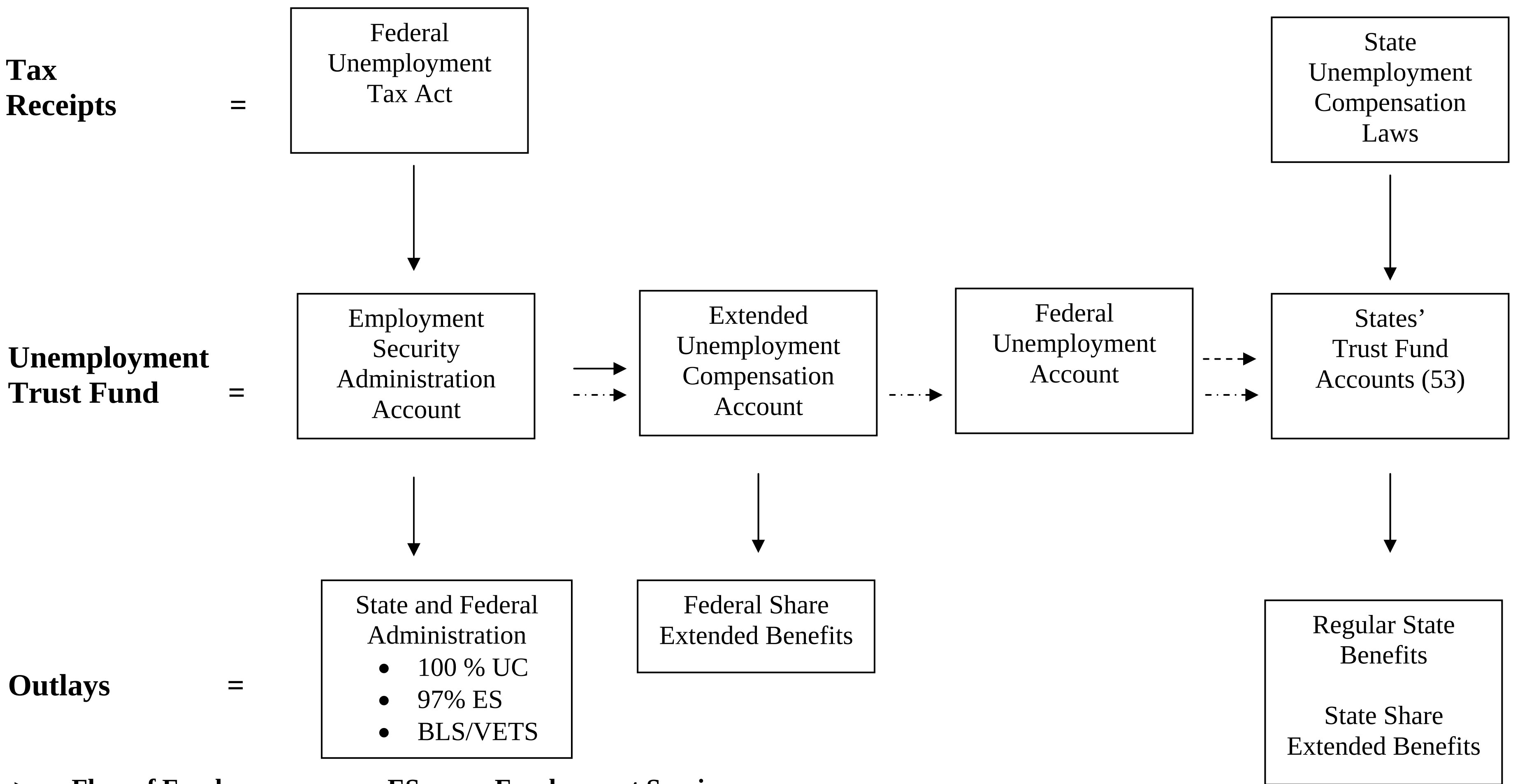
The STC program – commonly known as work-sharing – provides partial UC benefits to individuals whose work hours are reduced from full-time to part-time on the same job.

STC is a program that allows an employer, faced with the need for layoffs because of reduced workload, to reduce the number of regularly scheduled hours of work for all employees rather than incur layoffs. Benefits are payable to workers for the hours of work lost, as a proportion of the benefit amount for a full week of unemployment.

The STC program currently has eighteen (18) states participating.

NOTE: This document was prepared for informational purposes only. Explanations should not be considered as official interpretation of law.

FEDERAL/STATE UNEMPLOYMENT COMPENSATION (UC) PROGRAM
FEDERAL UNEMPLOYMENT TRUST FUND
FLOW OF FUNDS



Flow of Funds
Flow of Excess Funds
Repayable Advances

ES = Employment Service
BLS = Bureau of Labor Statistics
VETS = Veterans Employment and Training Service