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Tax Intelligence

Unemployment Insurance Modernization Provisions American Recovery and Reinvestment Act of 2009

Situation

One of the major unemployment insurance (UI) provisions in the recently enacted American Recovery and Reinvestment Act of 2009 encourages states to enact "UI Modernization" and expand benefit eligibility to cover more workers. States will receive a portion of a special one-time \$7 billion distribution, if they permanently pass laws implementing an "alternative base period" and two benefit expansions covering part-time workers, persons in approved training programs, dependents' allowances or separations due to compelling family reasons.

Solution

The \$7 billion distribution will come from the Federal Unemployment Account (FUA). How much a state receives will be based on its proportionate share of total Federal Unemployment (FUTA) taxes paid and which benefit expansion the state chooses to enact. States will receive a one-third payment for enacting an **alternative base period**, which will enable more claimants to monetarily qualify for unemployment. The remaining two-thirds of the payment are contingent upon the states' permanent passing of at least two of the following:

Part-time Work Search – UI benefits may not be denied with regard to work availability, work search or work refusal solely because a person is seeking only part-time work. A state may hold a person ineligible, if the majority of work weeks in his or her base period do not include part-time work.

Approved Training – Persons who have exhausted regular weekly UI payments may continue to receive up to 26 weeks of benefits, if they are enrolled and making progress in a state-approved training program or an authorized Workforce Investment Act (WIA) job training program. The training must prepare persons for entry into a "high-demand" occupation. States may not allow continued UI benefits if an individual is receiving other training allowances or stipends.

Dependents' Allowances – Persons with dependents may receive an allowance of at least \$15 per dependent per week, with an aggregate limit of the lesser of \$50 or 50% of an individual's weekly unemployment benefit amount.

Compelling Family Reasons – UI benefits may not be denied if the separation is due to compelling family reasons, which must include: 1) domestic violence; 2) illness or disability of an immediate family member; and 3) the need to relocate with a spouse to a place from which it would be impractical to commute and due to a change in the spouse's employment location.

States must certify with the federal government that such laws will take effect within 12 months of certification. However, no state may qualify for the two-thirds payment without first enacting an alternative base period.

Value

The UI Modernization elements open the door for increased costs, because more benefits will be paid for which employers could be charged. Even if an employer was not directly charged, benefit payments would be socialized among all employers by charging them to the state UI trust fund. Increases in benefit payments are likely to exacerbate current UI trust fund insolvency issues, all of which points to higher taxes.

For more information about ARRA or the UI modernization provisions it contains, please contact Pete Krieshok at (314) 214-7325 or by e-mail at pkrieshok@talx.com.