



## THE UNEMPLOYMENT INSURANCE CLIFF:

### A Steep Fall for Families, the Economy

BY ALEXANDRA FORTER SIROTA, DIRECTOR

On June 30, as a result of legislation that passed in the first two weeks of the legislative session, the federal emergency unemployment compensation (EUC) program will end in North Carolina and with it an estimated 70,000 North Carolinians who are out of work through no fault of their own will lose access to this modest support. An estimated additional 100,000 North Carolinians would not be able to access the federal program that will be available in every other state through the end of the year. In total, an estimated \$600 million in federal benefits will be lost to North Carolina's economy with an estimated economic impact of \$1.2 billion.<sup>1</sup>

### Emergency Federal Unemployment Benefits Needed in Periods of Persistent, High Unemployment

Because the recent, historic recession has left unemployment high across much of the country, Congress has authorized through the end of 2013 an emergency program that allows jobless workers exhausting their state-funded unemployment benefits to receive additional weeks of benefits — paid for entirely by the federal government. This

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**FIGURE 1: Current NC benefit rates**

	January 1 to June 29, 2013	June 30 to December 31, 2013
<b>Regular State Benefits</b>	26	12 to 20
<b>Emergency Unemployment Compensation</b> (Required unemployment rate in parentheses)		
<b>Tier 1</b>	14	0
<b>Tier 2 (6%)</b>	14	0
<b>Tier 3 (7%)</b>	9	0
<b>TIER 4 (9%)</b>	10	0
<b>Maximum Total Number of Weeks</b>	73	12 to 20
<b>Total As of May 2013*</b>	63	19

\*Due to the current NC unemployment rate, the duration of weeks available in July will be different than that available under other unemployment conditions.

program, called Emergency Unemployment Compensation (EUC), provides anywhere from 14 to 47 weeks of emergency, federally funded benefits. The number of weeks available varies depending on the state's unemployment rate.<sup>2</sup> Workers in states with the highest unemployment rates can receive these emergency benefits the longest, since in general they will have the hardest time finding a new job.

In North Carolina, as of May 2013, the unemployment rate stood at 8.8 percent so jobless workers can receive up to 37 weeks of federal EUC benefits if they exhaust their eligibility for regular state benefits without finding work.<sup>3</sup> Currently, jobless workers in North Carolina — as in the vast majority of states — can receive a maximum of 26 weeks of regular state-funded unemployment benefits. Together, regular state benefits and the emergency federal benefits currently provide a maximum of 63 weeks of unemployment insurance benefits to jobless workers in North Carolina.

That makes sense at a time when it remains very difficult for jobless workers to find employment. Despite some recent improvement in North Carolina's unemployment rate, the labor market has not improved sufficiently to ensure that there are enough jobs available for workers. The recent improvement in the unemployment rate has been largely driven by declining labor force participation rather than significant increases in the number of employed persons. This frustration with the lack of jobs is consistent with regional data that shows that for every job opening there are three unemployed workers.<sup>4</sup>

Nearly half of those who are unemployed in North Carolina have been out of work for 26 weeks or more. In the first quarter of 2013, more than half (52.9 percent) of claimants exhausted benefits without finding a job.<sup>5</sup> In the past year, 152,695 North Carolinians receiving unemployment insurance have exhausted those supports while looking for work.

### **On June 30, North Carolina will become the only state where workers can't get emergency federal benefits**

Earlier this year, North Carolina's legislature passed, and the Governor signed, massive and unprecedented cuts to the regular state-funded unemployment benefits available to jobless workers in the state. Those cuts are scheduled to take effect on June 30.

These huge cuts in benefits run afoul of federal rules, which require that states maintain their existing benefit levels as long as the emergency federal benefits are available. (The reasoning is that states should not be able to use the federal funding as a replacement for state funding, with no benefit to jobless workers.) Specifically, the non-reduction rule requires that no changes be made to the formula by which the weekly benefit amount is calculated. Other changes to eligibility including for specific populations or duration of weeks are not subject to the non-reduction rule.<sup>6</sup>

States that flout the rules and cut their benefit levels are no longer eligible to receive the emergency federal benefits. So on June 30, some 70,000 jobless workers in North Carolina will lose immediately the emergency federal benefits upon which they are depending. Another 100,000 or so will not receive emergency benefits they otherwise would have received over the next year. The loss of federal benefits will reduce the number of weeks available to jobless workers in North Carolina by 70 percent to just 19 weeks.

No other state has done this. In every other state, jobless workers will continue to receive emergency federal unemployment benefits until the end of 2013, and perhaps longer if Congress extends the program.

Proponents claim that North Carolina *must* cut benefits on June 30 — rather than delay the cuts six months so that jobless workers could continue receiving emergency federal benefits — to avoid the possibility that businesses *might* have to pay more in federal unemployment insurance taxes in three years or so. Arcane federal rules require that businesses pay modestly more in federal taxes when a state's unemployment insurance

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program is in debt to the federal government, as North Carolina's program is now. Cutting benefits earlier could mean that the state will pay off its debt sooner, saving businesses some additional federal taxes in the future. That argument makes little economic sense. Immediately eliminating emergency unemployment benefits for tens of thousands of jobless workers at a time when the economy is still weak will slow the state's recovery. By contrast, if businesses end up paying somewhat more in unemployment taxes three years from now, when the economy is stronger, the impact on the economy would be relatively small. And if in the next three years the economy grows even a little more quickly than currently expected, businesses could avoid the future higher federal taxes altogether. In a stronger economy, North Carolina would pay out less in unemployment benefits, allowing the state to pay off its debt to the federal government more quickly, avoiding the need for higher business taxes.

### Loss of Federal Benefits will Harm Families, Local Economies

For the 70,000 who will abruptly lose unemployment benefits, there is likely to be significant economic challenges. Unemployment benefits provide a modest yet vital support to families who are affected by job loss that is no fault of their own. Research by the National Employment Law Project found that average unemployment benefits nationwide cover just 50 percent of a family's basic necessities—housing, food and transportation.<sup>7</sup> For North Carolina and a family of three, the average weekly benefit amounts cover just 32 percent of a family's most basic needs.<sup>8</sup> Joblessness has been associated with increased poverty, poor health outcomes, and homelessness.<sup>9</sup> It is also has been driving credit card debt as households deplete savings and turn to credit to meet their most basic needs.<sup>10</sup>

Families are not the only ones who will be impacted by the loss of federal benefits. With the decline in their consumption, there are ripple effects for businesses and the broader economy. The loss of the estimated \$600 million in federal funds coming into North Carolina through the emergency program could translate into a loss of as much as \$1.2 billion in economic activity. Economists have estimated that in the current recession and recovery period, unemployment benefits have had an increased multiplier effect on economies such that roughly \$1 in unemployment benefits translates into \$2 in economic activity.<sup>11</sup>

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- 1 Special Data Request to NC Division of Employment Security Commission, June 1, 2013. Estimates provided by the US Department of Labor for the total projected number of workers impacted and dollar value of federal Emergency Unemployment Compensation in North Carolina and revised downward based on the 22 percent reduction required by sequestration.
  - 2 Evangelist, Mike, February 2013. One-Two Punch: As States Cuts Unemployment Benefit Weeks, Jobless Also Lose Federal Aid, Even as Jobs Remain Scarce. National Employment Law Project: Washington, DC.
  - 3 The unemployment rate in North Carolina dropped below 9 percent for the first time in April 2013
  - 4 JOLTS data
  - 5 US Department of Labor, Data Summary of Program Statistics, 1st Quarter of 2013.
  - 6 US Department of Labor, NonReduction Rule Frequently Asked Questions, accessed at: <http://wdr.doleta.gov/directives/attach/UIPL/UIPL24-10a1.pdf>
  - 7 Riordan, Christine, Maurice Emsellem, Michael Evangelist and Rebecca Dixon, October 27, 2010. Out in the Cold for the Holidays: Federal Jobless Benefits will be cut for Two Million Workers in December—800,000 Immediately—if Congress Fails to Renew the Emergency Program. NELP: Washington, DC.
  - 8 The Living Income Standard includes elements of a basic budget—housing, food, child care, transportation, and health care—necessary to make ends meet in North Carolina. The Living Income Standard was last published in 2008 by the N.C. Justice Center.
  - 9 Irons, John, September 2009. "Economic scarring: the long-term impacts of the recession." Economic Policy Institute; Washington, DC.
  - 10 National Employment Law Project and Demos, December 2012. Renewing Federal Unemployment Insurance is Critical to Stem Rising Household Debt. Accessed at: <http://www.demos.org/sites/default/files/publications/Fact-Sheet-Unemployment-Insurance-Stems-Rising-Household-Debt.pdf>
  - 11 Vroman, Wayne, November 2010. The Role of Unemployment Insurance As an Automatic Stabilizer During a Recession. IMPAQ International LLC for US Department of Labor.

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*(over for Appendix)*

## APPENDIX

### County Level Impact of Loss of Federal Emergency Unemployment Compensation

*Jobless workers in every county will lose emergency federal benefits immediately on June 30.  
One in five of the state's unemployed workers will be affected.*

County	April Unemployment Rate (%)	Estimated Number of Jobless Workers who would lose Emergency Unemployment Compensation (EUC)	Jobless Workers who would lose EUC as percent of total unemployed
Alamance	8.6	1013	16.1%
Alexander	8.6	195	12.8%
Alleghany	9.4	43	10.6%
Anson	10.2	221	19.9%
Ashe	11	233	18.0%
Avery	11.1	83	10.1%
Beaufort	10.3	401	19.0%
Bertie	11.6	194	20.6%
Bladen	11.6	312	18.0%
Brunswick	8.9	612	13.4%
Buncombe	6.4	1267	15.4%
Burke	9.6	504	13.4%
Cabarrus	7.9	1124	15.4%
Caldwell	10	650	17.2%
Camden	7.1	42	13.3%
Carteret	7.8	337	13.2%
Caswell	8.6	130	14.1%
Catawba	9.7	1161	16.5%
Chatham	5.7	305	15.6%
Cherokee	11.4	160	14.1%
Chowan	9.8	112	18.8%
Clay	8.4	49	12.9%
Cleveland	9.5	790	16.6%
Columbus	11.1	414	15.8%
Craven	9.4	640	16.0%
Cumberland	9.3	2706	20.5%
Currituck	5.8	97	12.9%
Dare	10.4	158	6.6%
Davidson	9.1	1160	16.5%
Davie	8	217	13.2%
Duplin	9	361	16.2%
Durham	6.6	1698	17.5%
Edgecombe	13.5	770	23.6%
Forsyth	8	2480	17.3%
Franklin	7.9	394	17.4%
Gaston	9.1	1692	18.4%
Gates	6.8	32	9.7%
Graham	15.9	100	16.4%
Granville	8.9	373	15.6%
Greene	9.8	122	12.6%
Guilford	8.6	3930	18.0%
Halifax	12.4	471	17.3%
Harnett	9.5	790	16.7%
Haywood	8.2	340	14.3%
Henderson	6.1	404	12.7%
Hertford	9.7	175	18.9%
Hoke	8.6	383	19.6%
Hyde	10.3	19	7.0%
Iredell	8.5	1140	16.2%
Jackson	8	161	9.6%
Johnston	7.5	921	15.1%

County	April Unemployment Rate (%)	Estimated Number of Jobless Workers who would lose Emergency Unemployment Compensation (EUC)	Jobless Workers who would lose EUC as percent of total unemployed
Jones	8.9	53	13.8%
Lee	10.6	546	19.3%
Lenoir	9.2	462	17.5%
Lincoln	8.7	570	16.4%
Macon	10.2	187	11.9%
Madison	6.9	102	14.6%
Martin	10.2	259	22.9%
McDowell	9.8	318	16.0%
Mecklenburg	8.5	7196	16.9%
Mitchell	12.3	119	14.2%
Montgomery	9.6	142	13.3%
Moore	8.2	468	15.0%
Nash	11.7	909	17.3%
New Hanover	8.4	1374	15.1%
Northampton	9.5	145	17.9%
Onslow	7.8	793	14.7%
Orange	5.3	414	10.5%
Pamlico	9	67	14.0%
Pasquotank	10.1	321	18.5%
Pender	9.4	349	15.2%
Perquimans	9.4	74	14.7%
Person	9.2	316	17.0%
Pitt	8.4	1293	17.2%
Polk	6.6	62	10.2%
Randolph	9.1	1016	15.2%
Richmond	11.5	404	18.1%
Robeson	11.8	1230	18.9%
Rockingham	10	769	17.7%
Rowan	8.8	899	14.4%
Rutherford	11.9	508	16.1%
Sampson	7.8	430	17.3%
Scotland	15.5	380	19.1%
Stanly	8.4	417	16.3%
Stokes	7.5	255	14.3%
Surry	9.3	470	15.6%
Swain	14.6	120	12.1%
Transylvania	8.7	117	10.8%
Tyrrell	10.3	41	16.7%
Union	7.1	1032	14.2%
Vance	11.7	438	19.7%
Wake	6.6	4713	14.7%
Warren	11.1	122	13.9%
Washington	11.5	147	21.1%
Watauga	7.9	182	9.6%
Wayne	8.5	824	17.7%
Wilkes	9.8	434	15.1%
Wilson	12.3	855	16.9%
Yadkin	8	258	17.1%
Yancey	10.4	113	13.7%
<b>North Carolina</b>	<b>8.5</b>	<b>70,454</b>	<b>17.7%</b>