Background Brief on …

Unemployment Insurance

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Inside this Brief

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Congress enacted the unemployment insurance **(UI)** program as part of the Social Security Act **(SSA)** in 1935, as a response to the Great Depression. The program is a federal-state partnership with oversight from the U.S. Department of Labor. The SSA provides grants to states with UI laws that adhere to federal requirements for the purpose of administering the UI program and overseeing the payment of benefits. UI benefits replace part of the income lost when workers become unemployed through no fault of their own. Because UI provides a means for unemployed workers to maintain some level of consumer demand in hard times, UI has been credited as one reason the nation has avoided deep depressions since the 1930s.

Current Benefits

Total benefits for a worker are set by state law. As of March 2008, the minimum benefit is $108 per week and the maximum weekly benefit is $463. Under the regular program, claimants are usually eligible for 26 weeks of benefits. If qualifying wages are less than $8,424, benefits are limited to one-third of those wages paid at $108 per week. UI claims and benefits are based on the recipient's work record for a 12-month period known as the base year.

Oregon law (ORS 657.321 to 657.329) provides up to 13 additional weeks of benefits during periods of high unemployment. Benefit payments for this extension are shared equally by federal and state governments. Also in periods of high unemployment, the federal government has historically enacted legislation providing benefit extensions in addition to the federal/state extension.

Source of Benefit Payments

Unemployment benefits are paid out of the Unemployment Insurance Trust Fund. The fund is financed by employer payroll taxes that are set according to a self-adjusting rate schedule (see *Employer Responsibilities* section). The UI Trust Fund maintains a balance based on statutory requirements tied to the solvency of the fund. No contributions for UI come from employee wages.

The UI Trust Fund is the resulting balance between benefits flowing out and unemployment taxes flowing in. In general, benefit increases are financed by increased unemployment taxes paid by businesses. During the calendar year 2006, $673,468,000 in employer taxes were collected, and $507,447,000 in UI benefits were paid. The UI Trust Fund has a projected balance of approximately $1.5 billion.

Employment Department

The Employment Department, through 40 statewide field offices, helps workers find suitable employment, connects employers to qualified job applicants, supplies statewide and local labor market information, and provides UI benefits to unemployed workers through three regional call centers. Job listings, updated every two hours, are available on the agency website.

Unemployment Claims

To obtain unemployment benefits, an unemployed worker must file a claim with the Employment Department through one of the three UI call centers or online. Claimants must show that they are unemployed through no fault of their own and are able to work, available for work, and actively seeking work. Claimants must also provide information on past employment for all employers within the previous two years. Benefits start after one week, called the "waiting week," and are thereafter claimed one calendar week at a time. Unemployed workers who are attending school, working part-time, self-employed, or wish to start a new business may also be eligible to receive unemployment benefits. UI benefits are fully taxable income.

Claimants may not receive unemployment benefits if they: voluntarily left work without good cause, were discharged or suspended from work for misconduct connected with work, fail to accept suitable work when offered, or fail to apply for suitable work when referred to a job by the Employment Department. Claimants may also be denied benefits on a week-to-week basis if they fail to be able to work, fail to be available for work, are not actively seeking work, or do not claim benefits.

Any time the Employment Department reduces or denies benefits, the claimant is notified in writing. These written notices are called Administrative Decisions. If the claimant does not agree with the department's decision, the claimant has the right to have the decision reviewed through a hearing. Employers have the same right if a written decision allows benefits.

Employer Responsibilities

The Employment Department defines an employer as an employing unit that pays wages of $1,000 (as of January 1, 2008) or employs 1 or more individuals in any part of 18 separate weeks during any calendar year. Agricultural and domestic employers have different guidelines. An employee is any individual who is employed for any compensation or under any contract of hire by an employer. This includes contract, casual temporary labor, and cottage industry homeworkers. Corporate officers are considered employees of the corporation, even if they own the corporation.

Employers must register with the Employment Department by completing and sending to the Oregon Department of Revenue a Combined Employer's Registration (Form 150-211-055). Employers must also post a notice about UI where employees can read it, keep adequate payroll records, pay taxes or reimbursements when due, file the required quarterly or annual tax forms on time with complete information, and inform the Employment Department and the Department of Revenue of any changes to the organization or its status.

Employers pay unemployment taxes at a rate set by statute (ORS 657.462). Employer payroll taxes are set according to a self-adjusting rate schedule that is tied to the solvency of the UI Trust Fund. New employers are assigned a "base rate" until they qualify for an "experience rate" based tax rate, which is usually after about three years. In 2008, the base tax rate is 2.1 percent of taxable payroll, calculated on each employee's first $30,200 of wages. Amounts paid above the taxable wage base are called "excess wages," in which the employer reports but does not pay the unemployment tax. All wages paid to each employee must be reported, and wages include all cash and non-cash remuneration for employment, except for agricultural and domestic wages that include only cash.
In addition to state unemployment taxes, employers also pay a federal tax according to the Federal Unemployment Tax Act **(FUTA).** The FUTA tax rate is 6.2 percent on the first $7,000

of an employee's wages. The maximum allowable credit is 5.4 percent, resulting in a net payable FUTA tax rate of 0.8 percent on the first $7,000 for each employee. These funds are collected by the Internal Revenue Service **(IRS)** to fund some of the administrative costs of the Employment Department and UI programs throughout the country.

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