Background Brief on …

Unemployment Insurance

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Inside this Brief

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Background

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 a worker becomes 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, unemployment insurance 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 July 2006, the minimum benefit is $104 per week and the maximum weekly benefit is $445. Under the Regular Program, claimants are usually eligible for 26 weeks of benefits. If qualifying wages are less than $8,112, benefits are limited to one-third of those wages. Unemployment insurance claims and benefits are based on the recipient's work record for a 12-month period known as the base year.

Oregon law (ORS 657.321-657.329) provides up to 13 additional weeks of benefits during periods of high unemployment. Benefit payments for this extension are shared 50/50 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 UI Trust Fund is financed by employer payroll taxes that are set according to a self-adjusting rate schedule (see discussion about employer rates, below). The UI Trust Fund maintains a balance based on statutory requirements tied to the solvency of the fund. No contributions for unemployment insurance 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 2005, $709,684,000 in employer taxes were collected, $562,253,001 in UI benefits were paid, and the UI Trust Fund balance ended the year at $1,658,845,510.

Employment Department

The Employment Department, through 37 statewide offices, helps workers find suitable employment, connects employers to qualified job applicants, supplies statewide and local labor market information, and provides unemployment insurance 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. 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

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 unemployment insurance 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" tax rate (usually after about three years). In 2006, the base tax rate is 3.1 percent of taxable payroll, calculated on each employee's first $ 28,000 of wages. "Experience" rates vary from 0.9 percent to 5.4 percent. In addition to state unemployment taxes, employers also pay a federal tax according to the Federal Unemployment Tax Act **(FUTA)** of 0.8 percent on the first $7,000 for each employee. These funds pay for some of the Employment Department administrative costs.

Recent Legislation

House Bill 3305 (2005) extended emergency unemployment benefits for up to six and a half weeks from May to August 2005. The measure applied to unemployed Oregonians who had exhausted regular benefits.

House Bill 2127 (2005) reduced UI business taxes by 12 percent by adjusting the formula that sets the required balance for the UI Trust Fund, reducing the new employer base rate, adjusting the rounding of the taxable wage base to the nearest $100 instead of $1000, and allowing spending down the Benefit Reserve Fund (while building up the Trust Fund).

House Bill 2124 (2005) strengthened statutes that prohibit certain business activities such as transferring or acquiring a business primarily for the purpose of obtaining a lower UI tax rate and prohibited advising another person to engage in such activity. The measure increased penalties and provided a limited amnesty under specified conditions.

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