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Inside this Brief

Legislative Committee Services
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Background Brief on …

Unemployment Insurance

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 2010, the minimum weekly benefit is $115 and the maximum weekly benefit is $493. Under the regular program, claimants are usually eligible for 26 weeks of benefits. Claims and benefits are based on the recipient's work record for a 12-month period known as the Base Year, which is comprised of the first four of five calendar quarters completed at the time an initial claim is filed. In order to qualify for a valid claim, an individual's total base period wages must be at least one and one half times of wages earned during the highest quarter in the base period and at least $1000 of wages earned in subject employment, or must have worked 500 hours of subject employment. Claimants who do not have enough wages and hours to qualify for UI benefits under the regular base year may qualify by using an Alternative Base Year, in which wages and hours during the most recent four completed calendar quarters are used.

Oregon statute (ORS 657.321 to 657.329) provides up to 13 additional weeks of benefits during periods of high unemployment.

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

UI 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, and no contributions are from employee wages.

The UI Trust Fund is the resulting balance between benefits flowing out and unemployment taxes flowing in. As of January 2010, the Fund has a projected balance of approximately $676 million, with a projected low balance point of $482 million in December 2010.

Employment Department

The Employment Department, through its 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 four regional call centers.

Unemployment Claims Process

To obtain unemployment benefits, an unemployed worker must file a claim with the Employment Department through one of the regional 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 are also expected to register and use iMatchSkills, an online system that matches employers and potential employees based on skill sets and qualifications. Job listings are updated every two hours and are available at both iMatchSkills and the agency website.

Benefits may not be received if a claimant voluntarily left work without good cause, was discharged or suspended from work for misconduct connected with work, fails to accept suitable work when offered, or fails to apply for suitable work when referred to a job by the Employment Department. Benefits may also be denied on a week-to-week basis if a claimant fails to be able to work, fails to be available for work, is not actively seeking work, or does not claim benefits.

Claimants can earn up to the greater of ten times of Oregon's minimum wage or one-third of the weekly benefit amount before benefits are deducted dollar for dollar from the weekly benefit amount. When a claimant is working full-time or earning more than the weekly benefit amount, they are no longer eligible for benefits.

When 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, they have the right to have the decision reviewed through a hearing. Employers have the same right if a written decision allows benefits to be issued.

Employer Responsibilities

The Employment Department defines an employer as an employing unit that pays wages of at least $1,000 or employs one or more individuals in each 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.

Employers must register with the Employment Department by completing and sending a Combined Employer's Registration Form to the Oregon Department of Revenue. Employers must also post a notice about UI benefits 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, which is determined by a 1.5 reserve multiple or enough reserves to pay 18 months in benefits. Taxable payroll and the amount of paid UI benefits affect the tax rate. The rate is reviewed and adjusted every September and notices are mailed to employers in November on the upcoming year’s tax schedule.

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 2010, the base tax rate is 3.1 percent of taxable payroll, calculated on each employee's first $32,100 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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