Committee on Ways and Means Democrats

Representative Charles B. Rangel - Ranking Democratic Member

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Republican Claim that States Can Pay for Extended Unemployment Benefits is Just Plain Wrong

During a recent debate in the House of Representatives on extending unemployment benefits, several Republican Members of Congress suggested that the states should pay for an extension using funds sent to them by the federal government in 2002 under a so-called "special Reed Act transfer." Under this provision, $8 billion was sent to the states to help improve the solvency of their unemployment trust funds, and to provide additional benefits and/or coverage under certain conditions. This transfer was included in the same legislation that created the Temporary Extended Unemployment Compensation (TEUC) Program (P.L. 107-147).

However, there are a number of major problems with the Republican contention that the states can provide extended unemployment benefits with the Reed Act funds. First, **the law does not permit states to directly use the Reed Act funds for extended benefits**, except for those individuals who have exhausted benefits under the now expired TEUC program.

This means a state could not use Reed Act funds to provide extended unemployment compensation for the estimated 375,000 jobless workers who exhausted regular unemployment compensation in January. These individuals are not eligible for TEUC because that program prohibited any new enrollees after 12/20/03. Therefore, a state cannot use Reed Act funds to provide them with extended unemployment benefits.

A Department of Labor guidance letter sent to the states on April 22, 2002 makes this point clear in the following question and answer section:

> *There are workers in my state who exhausted regular compensation, but who are not eligible for TEUC. May I pay additional compensation to these workers from this Reed Act distribution? Does this additional compensation fall under the "categories of individuals not otherwise eligible for regular compensation?"*

The answer to both questions is "no." Since *__the use of the Reed Act moneys for additional compensation is explicitly restricted to TEUC exhaustees,__* *additional compensation does not fall under the "categories of individuals not otherwise eligible for regular compensation." Since the examples of these categories pertain only to payments of regular compensation, they do not authorize the payment of additional compensation to individuals ineligible for TEUC.*

Even if states attempted to engage in creative accounting to free up Reed Act funds for extending unemployment benefits, **this would not help the seven states (IL, MN, MO, NY, NC, TX, and WY) that already have spent every dime of their Reed Act moneys.** One out of every four workers expected to exhaust their unemployment benefits in the first half of this year live in these states. Many other states have only very modest amounts of Reed Act funds available to them. In fact, California is reportedly set to join a half dozen other states in borrowing money from the Federal government to pay *regular* unemployment compensation.

Finally, a General Accounting Office (GAO) report suggests that **states may have been reluctant to spend all of their Reed Act transfers because such an expenditure could trigger an automatic tax increase on employers**. Many States automatically increase unemployment taxes on employers when the state's unemployment trust funds dip below certain solvency levels. A March 2003 GAO report points out that "State officials from 30 of the 49 states that have automatic employer tax increases reported that Reed Act dollars help them avoid automatically triggering these increases, as UI trust fund balances declined."

All of these facts clearly indicate the need for the federal government to provide extended unemployment benefits to America's jobless workers. The states do not have the authority to use Reed Act funds for this purpose, even if they have any of those funds left to use. Without Congressional action, an estimated two million Americans will exhaust their unemployment benefits over the first half of this year. They will be without work and without benefits in an economy that has 2.4 million *fewer* jobs that it had nearly three years ago.