



## The Recovery Act and Unemployment Insurance

*Assistance to Those Most Affected by the Recession*

**By Andrew Cannon, David Swenson and Peter S. Fisher**

When signing the American Recovery and Reinvestment Act (ARRA) on February 17, 2009, President Barack Obama stated that the primary goal of the stimulus bill was to “create jobs for Americans scrambling in the wake of layoffs; to provide relief for families worried that they won’t be able to pay next month’s bills, and to set our economy on a firmer foundation, paving the way to long-term growth and prosperity.”<sup>1</sup> The stimulus bill aimed to do that via several avenues. This paper examines the unemployment insurance (UI) provision of ARRA, and the way it provides relief to families.

ARRA extended and increased UI payments. This report examines the effect of the ARRA unemployment insurance provisions on Iowans and the Iowa economy. We find that an average of 52,917 Iowans per week benefited from the UI provisions of ARRA, each receiving \$25 more per week and a federal extension of UI benefits.<sup>2</sup> In addition, more than 3,700 jobs were saved or created within Iowa in 2009 thanks to the federal injection of more than \$359 million for unemployed Iowans.

### **Background**

Unemployment insurance was created in 1935 under the Social Security Act as a joint state-federal program. Though the Department of Labor oversees the program, states provide most of its funding, while the federal government covers administrative costs.<sup>3</sup> Employers meeting certain thresholds pay into the state’s unemployment insurance fund through a payroll tax. Workers who lose their job through no fault of their own and who meet the eligibility requirements are entitled to receive benefits, which replace on average 38 percent of previous wages for up to 26 weeks.<sup>4</sup>

ARRA increased the size of each weekly UI payment by \$25 (the federal additional unemployment compensation — FAC). In addition to the usual 26 weeks of state-based unemployment insurance benefits, ARRA also extended the Emergency Unemployment Compensation (EUC) Act of 2008, to allow unemployed workers in states with high levels of unemployment to claim an additional 47 weeks of UI through the end of 2009.<sup>5</sup> Iowa’s unemployment rate remained consistently high enough to trigger additional federal UI funds, meaning that qualifying unemployed Iowans received up to 73 weeks of UI benefits, if they filed their claim after July 2008.<sup>6</sup> Barring another extension by Congress and President Obama, EUC will end at the end of February

- 110,800 Iowans (or 6.6 percent of the workforce) were officially out of work in December 2009.
- ARRA granted Iowa \$82,566,000 to pay each UI recipient an additional \$25/week.
- Iowa qualified for \$232,241,700 to continue paying UI benefits beyond the normal 26 weeks.

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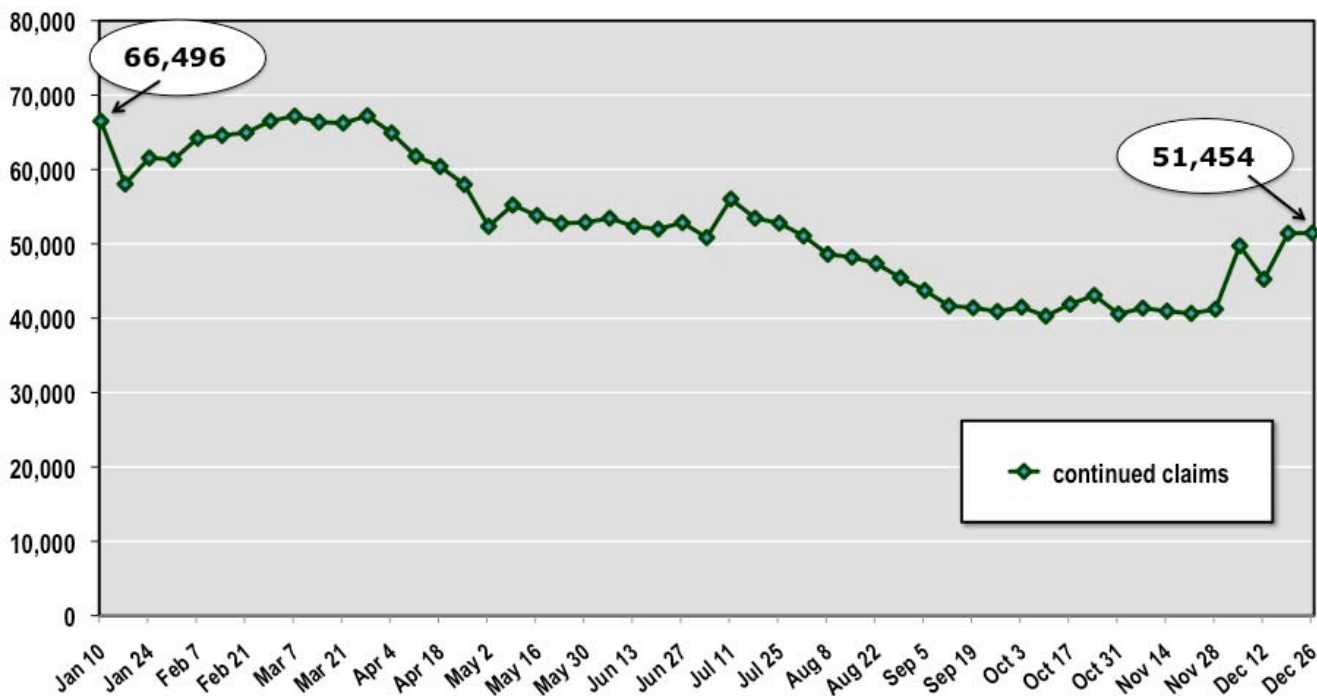
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2010.<sup>7</sup> ARRA provided further relief to unemployed citizens by exempting the first \$2,400 of unemployment benefits from federal income tax.

In addition to extending and increasing unemployment compensation payments, ARRA included the Unemployment Insurance Modernization Act, which encouraged states to modernize their unemployment insurance eligibility standards to include low-wage workers, part-time workers and workers who are in job training programs — those most likely to be hurt by the recession.<sup>8</sup> States that updated their unemployment insurance laws to these new federal guidelines were eligible for additional federal funds. The General Assembly and Governor Chet Culver made Iowa the first state to fully comply with the new federal guidelines for updating its unemployment insurance laws on March 25, 2009, when the Governor signed the legislation.<sup>9</sup>

Through 2009, 389,195 Iowans filed for UI benefits over the course of the year.<sup>10</sup> Each week of 2009, an average of 7,631 newly unemployed workers filed UI claims. An average of 52,708 Iowans received UI payments every week.<sup>11</sup> As of December 26, 2009, 51,454 Iowans continued to receive UI compensation.<sup>12</sup> Figure 1 shows the variation in continued claims throughout 2009.

**Figure 1. Iowa Unemployment Insurance Claims Throughout 2009**



Source: U.S. Department of Labor, [workforcesecurity.doleta.gov/unemploy/wkclaims/report.asp](http://workforcesecurity.doleta.gov/unemploy/wkclaims/report.asp)

### **Impact on Iowa's Economy**

Because UI benefits are paid out as a percentage of wages during a worker's highest-earning quarter, it is impossible to know how much each recipient received. However, we do know the total amount of federal dollars that Iowa has passed along to unemployed workers through both Emergency Unemployment Compensation (EUC) and the extra \$25 per week payment or the Federal Additional Unemployment Compensation (FAC) for the year. ARRA provided states with additional funds for extended EUC based on demand. As any given state's unemployment exceeded certain thresholds, the state qualified for more federal funds for EUC. ARRA provided Iowa with up to \$232 million for the extension of EUC.<sup>13</sup> Iowa was also granted up to \$82 million for the FAC.<sup>14</sup>

Table 1 illustrates the amount in both EUC and FAC that Iowa paid out in the second half of the 2009 fiscal year and in the first half of the 2010 fiscal year. These funds are in addition to the normal 26 weeks of UI the state provides.<sup>15</sup>

**Table 1. Emergency and Additional Unemployment Compensation, Iowa, April-December 2009**

	<b>Emergency Unemployment Compensation</b>	<b>Federal Additional Unemployment Compensation</b>
<b>April - June 2009</b>	\$71,383,845.63	\$31,783,838.95
<b>July - December 2009</b>	\$154,397,336.28	\$48,627,645.63
<b>TOTAL</b>	<b>\$225,781,181.91</b>	<b>\$80,411,484.58</b>

*Source: Iowa Workforce Development*

Iowa also received an additional \$70.8 million (\$47.2 million in fiscal year 2009 and \$23.6 million in fiscal year 2010) from the federal government for modernizing its UI system. ARRA designates that these funds can be used for UI benefits or UI administration costs.

In addition to these large sums of money, Iowa was also granted nearly \$10.4 million for investing in existing programs designed to help dislocated workers and youth workers.

This means that in unemployment benefits alone, ARRA pumped \$359,442,843.63 into Iowa’s economy. As we showed in our November 12, 2009, policy brief, “Just What the Doctor Ordered: How Medicaid Stimulus Funding is Helping Iowa’s Economic Recovery,” federal dollars allocated to Iowa “prompt[ed] successive rounds of spending.”<sup>16</sup> Rather than drawing upon savings or relying on credit, UI recipients are able to use UI funds for their basic needs — housing, food, clothing and child care. Additional federal spending in Iowa increases the state’s total output — the total dollar value of goods and services produced in the state — but is not limited to the direct effects of providing unemployed workers with extra cash. Because UI recipients spend their UI money on a host of goods and services, the providers of these goods and services benefit indirectly, paying the wages of their workers at local businesses. The federal unemployment benefits continue to cycle through the local economy as these indirect beneficiaries spend their wages at local businesses.<sup>17</sup>

Both direct and indirect effects can be measured in the increased value of output, increased worker and proprietor income, and increased employment. Table 2 illustrates the economic impact — both direct and indirect — of ARRA unemployment funding in Iowa.

**Table 2. ARRA Unemployment Insurance Funding Produces Direct, Indirect Effects**

<b>2009</b>	<b>Direct Effects</b>	<b>Indirect Effects</b>	<b>Total</b>
<b>Total output</b>	\$372,405,572.00	\$129,286,898.00	\$501,692,470.00
<b>Income</b>	\$71,750,150.00	\$40,330,906.00	\$112,081,057.00
<b>Jobs</b>	2,549	1,177	3,727
<b>2010</b>	<b>Direct Effects</b>	<b>Indirect Effects</b>	<b>Total</b>
<b>Total output</b>	\$235,285,015.00	\$79,360,623.00	\$314,645,638.00
<b>Income</b>	\$43,990,541.00	\$24,584,942.00	\$68,575,483.00
<b>Jobs</b>	1,539	719	2,258

*Source: Estimates provided by author David Swenson through the state input-output model.*

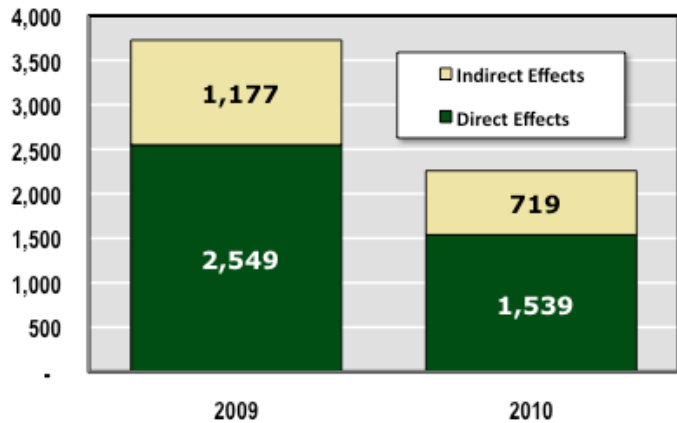
Thanks to ARRA's injection of federal funds into Iowa's unemployment insurance system, the Iowa economy increased by over \$372 million in 2009. Over \$71 million of that money went to wages for 2,549 new jobs. By the end of 2010, ARRA will have added \$235 million to Iowa's economy in, with \$43 million of that going to 1,539 new workers.

Every federal UI dollar that is spent by UI recipients returns to the Iowa economy when the recipient buys groceries, gas, or pays for dry cleaning, or other goods and services. Every \$100 million in federal dollars invested in Iowa's UI system sustains 1,001 jobs earning \$30.1 million in labor incomes in Iowa's economy.

Federal investment in Iowa's unemployment system also creates jobs in Iowa. As Figure 2 illustrates, ARRA funding for unemployment insurance created or saved over 2,500 jobs in 2009 and will save over 1,500 jobs in 2010. Successive rounds of spending from businesses trying to keep up with the increased demand for goods and services as a result of the federal unemployment dollars in the Iowa economy created an additional 1,100 jobs in 2009, and will create or save an additional 719 jobs in 2010.

The provisions of ARRA that granted Iowa more and longer unemployment benefits have helped Iowans most affected by the recession meet their basic living needs while they search for new jobs. It also has saved jobs for Iowans who, but for the stimulus, might have also found themselves without work.

**Figure 2. ARRA Funding for Unemployment Insurance Saves, Creates Jobs in Iowa**



Source: Estimates provided by author David Swenson through the state input-output model.

<sup>1</sup> "Obama's Remarks at Stimulus Bill Signing," *New York Times* (February 17, 2009). <http://www.nytimes.com/2009/02/17/us/politics/17text-obama.html?pagewanted=all>

<sup>2</sup> U.S. Department of Labor, Unemployment Weekly Claims, January 5, 2010.

<sup>3</sup> Martha Coven, "Introduction to Unemployment Insurance," *Center on Budget and Policy Priorities* (November 10, 2003). <http://www.cbpp.org/files/12-19-02ui.pdf>

<sup>4</sup> Ibid.

<sup>5</sup> Heather Boushey, Maurice Emsellem, Chirstine Riordan, and Andrew Stettner, "Keeping a First Line of Defense for the Jobless: Swift Congressional reauthorization of American Recovery and Reinvestment Act unemployment programs is critical," National Employment Law Project (December 7, 2009). [http://nelp.3cdn.net/83db1e0ad0574237c7\\_dzm6i6dl0.pdf](http://nelp.3cdn.net/83db1e0ad0574237c7_dzm6i6dl0.pdf) (Accessed December 18, 2009).

<sup>6</sup> U.S. Department of Labor, "Unemployment Compensation: Federal-State Partnership." October 2009. <http://www.workforcesecurity.doleta.gov/unemploy/pdf/partnership.pdf>.

<sup>7</sup> Office of the Governor, Press Release: Governor Culver Announces Deadline Extension for Emergency Unemployment Insurance Benefits (December 22, 2009). [http://www.governor.iowa.gov/index.php/press\\_releases/single/247/](http://www.governor.iowa.gov/index.php/press_releases/single/247/).

<sup>8</sup> National Employment Law Project, "Modernizing Unemployment Insurance – The American Recovery and Reinvestment Act," [http://www.nelp.org/index.php/site/issues/category/modernizing\\_unemployment\\_insurance](http://www.nelp.org/index.php/site/issues/category/modernizing_unemployment_insurance). Accessed December 18, 2009.

<sup>9</sup> Office of the Governor, Press Release: Governor Culver to Sign Bill Modernizing Iowa's Unemployment Insurance System Today: Iowa Will be the First State to Take Action Helping Job Seekers (March 25, 2009). [http://www.governor.iowa.gov/news/2009/03/25\\_1.php](http://www.governor.iowa.gov/news/2009/03/25_1.php) (Accessed December 16, 2009).

<sup>10</sup> U.S. Department of Labor, Unemployment Insurance Weekly Claims Data – Report r539cy. <http://workforcesecurity.doleta.gov/unemploy/wkclaims/report.asp> (Accessed December 18, 2009).

<sup>11</sup> Ibid.

<sup>12</sup> Ibid.

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<sup>13</sup> Iowa.gov/recoveryimpact.

<sup>14</sup> Ibid.

<sup>15</sup> Iowa Workforce Development, personal communication with Kerry Koonce, December 18, 2009.

<sup>16</sup> Molly Fleming, David Swenson and Peter Fisher, "Just What the Doctor Ordered: How Medicaid Stimulus Funding is Helping Iowa's Economic Recovery," Iowa Fiscal Partnership (November 12, 2009). <

<http://www.iowapolicyproject.org/2009docs/091112-ARRA-Medicaid.pdf>> (Accessed December 22, 2009).

<sup>17</sup> Ibid.

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# Iowa Fiscal Partnership

The Iowa Fiscal Partnership is a joint initiative of the Iowa Policy Project and the Child & Family Policy Center, two nonprofit, nonpartisan Iowa-based organizations that cooperate in analysis of tax policy and budget issues facing Iowans. IFP reports are available at <http://www.iowafiscal.org>.

The Iowa Fiscal Partnership is part of the State Fiscal Analysis Initiative, a network of state-level organizations and the Center on Budget and Policy Priorities to promote sound fiscal policy analysis. IFP work is supported by the Stoneman Family Foundation and the Annie E. Casey Foundation.