Insight

Assessing the Executive Order Creating a Federal Unemployment Insurance Supplement

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Executive Summary

- President Trump's executive order creates a $400 per week unemployment compensation supplement, for which the federal government would pay 75 percent and states 25 percent.
- The money allocated from the Department of Homeland Security for the unemployment insurance supplement ($44 billion) would cover 5 weeks of the supplement before more funds are needed.
- The executive order would create a new stream of funding via the Federal Emergency Management Agency, which could cause delays in implementation and put added burdens on states already struggling to meet unemployment compensation needs.

Introduction

On August 8, President Trump signed an executive order creating an unemployment compensation supplement of $400 a week. This measure would replace the now–expired Federal Pandemic Unemployment Compensation (FPUC) of $600 a week. Democrats' plans could have extended the $600 supplement through the first quarter of 2021, which left many concerned about the potential for medium- or long-term work disincentive. Republicans through their HEALS Act proposal would have reduced the federal supplement to $200 a week, leaving many to speculate whether that was enough to support individuals during this uncertain time. The executive order would continue the income supplement, albeit for a short time, as Congress considers more avenues of support. While the executive order is a compromise between full extension or a larger reduction in supplement amount, as proposed in the Republicans' HEALS Act, it may place additional burdens on states with high unemployment and limited resources.

The President's Plan for Unemployment Insurance

The new unemployment supplement, as explained in the executive order, would provide unemployed individuals with an additional $400 a week. While this sum is less than the original FPUC of $600 a week, it is double what Republicans had proposed in the HEALS Act. The executive order, however, is more complex than the $200 flat rate or a $600 flat rate extension due to its funding stream. The previous supplement was paid for entirely with federal dollars that went directly into the unemployment program. The executive order, in contrast, would have states cover 25 percent of the supplement ($100 per unemployed person) with money that was allocated in previous legislation.

State contribution

Under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, states received a total $150 billion through the Coronavirus Relief Fund (CRF) to provide support to state and local governments in the face of dropping revenues. According to the latest report by the Treasury Inspector General, over $80 billion from the CRF remains unspent. These remaining funds would be put toward paying the states' portion of the unemployment supplement. It's important to note that the Inspector General's report accounts for the money that has been spent and not the money that has been earmarked for specific purposes, so it's unlikely that the entirety of the $80 billion outlined by the Treasury will actually be available for the unemployment insurance (UI) supplement.

Federal contribution

The federal government covers the remaining $300 of the UI supplement under the executive order. Rather than put additional money directly into the UI system, President Trump's executive order would use $44 billion from the Department of Homeland Security's Disaster Relief Fund (DRF) under Stafford Act emergency authorities to cover the 75 percent of the UI supplement. The Stafford Act allows for the replacement of destroyed facilities or property, so the executive order is essentially creating a "lost wages" benefit as outlined in a recent American Action Forum analysis. Those eligible for UI would be able to claim the $400 supplement from August 1 to December 6, 2020, or until Homeland Security's DRF drops to $25 billion.

Assuming there are 30 million individuals claiming UI benefits and are eligible for the supplement, that $44 billion from the DRF would only allow the federal contribution of $300 per individual to last 5 weeks.

State–by–State Variation

The challenge of providing adequate support to all states persists in this executive order as it did when the federal supplement was created. Looking at the percent spent of the total $150 billion allocated to states and localities in the CARES Act doesn't obscures state-by-state variation. For example, as of June 30, California, Colorado, and New York had spent over 50 percent of their CARES funding. On the other side of the spectrum there are states such as Alabama, Kansas, Minnesota, and Mississippi that have spent less than 2 percent of their respective CARES funds. Moreover, some of states are likely to spend more covering 25 percent of the UI supplement than others, given their current unemployment rate. Michigan, California, Nevada, New York, New Jersey, and Massachusetts have some the highest unemployment rates in the country, with all of them reporting over 14 percent unemployment in June.

The funds allocated through the CARES Act provided support for states struggling with the consequences of COVID-19. Even with these funds, the UI supplement does add a cost that states didn't previously have and almost certainly did not anticipate. Furthermore, given the added complexity of the funding mechanism, some states' UI systems may not be well equipped to quickly implement this plan, leaving millions without any additional income support. States such as Nevada , Oklahoma, Florida, and Wisconsin are still struggling to implement legislation passed in March. Any kind of added complexity to unemployment compensation could further delay the supplement for several months.

Conclusion

President Trump's executive order provides a shared federal and state unemployment supplement totaling $400 a week, striking a compromise between the Republicans' proposed $200 a week and the Democrats' proposed continuation of $600 a week. A key difference between the legislative proposals and the supplement outlined by the executive order is that states are responsible for 25 percent of the supplement (or $100 of the $400 a week). This added cost could prove challenging for states that are already experiencing high unemployment and limited funds even with the funding provided through the CARES Act. The executive order appropriates $44 billion in DRF funds to cover the remaining 75 percent of the supplement ($300 a week). While the federal contribution utilizing DRF would likely only last 5 weeks, it does provide additional income support to unemployed individuals in the interim as Congress works to reach agreement on different kinds of support for those affected by the pandemic. The challenge with this executive order is ensuring that the total $400 weekly supplement is implemented in a timely fashion. Due to the added complexity of different funding streams, it could leave several unemployed individuals without additional income support and put added strain on states' unemployment offices.