The Council of State Governments

UPDATE:

Impact of Ending Expanded Unemployment Benefits

The COVID-19 pandemic has had a significant impact on unemployment rates in every state.

The national unemployment rate peaked at 14.8% in April 2020, the highest unemployment in the U.S. since the Great Depression. Unemployment rates have since decreased, but the rate remains higher than it was pre-pandemic. **In June, 2021 the national unemployment rate was 5.9% compared to 3.5% in February 2020 before the pandemic.**

Federal legislation enacted in 2020 in response to the pandemic included extra monetary benefits of $600 per week in expanded unemployment benefits. **The American Rescue Plan Act (ARP) includes a $300 boost to weekly unemployment benefits that is set to expire nationally Sept. 6, 2021.** Several states (26 as of July 14, 2021) are ending these expanded federal unemployment benefits before the program ends nationally on Sept. 6, in hopes to increase employment rates and address labor shortages. While several of those states are continuing some federal programs, all 26 are ending the $300-per-week bonus from the Federal Pandemic Unemployment Compensation (FPUC) provided through ARP federal funding. **Analysts with The Council of State Government (CSG) estimate the 26 states ending the FPUC program early will impact roughly 3.63 million unemployed Americans by cutting the total benefits paid to them by around $11.45 billion, and could reduce state tax revenues by up to $118.5 million dollars** (for full details see the table below). Some **Americans do report staying out of the labor force in part due to generous unemployment benefits** (about one-third of unemployment recipients), but far more report childcare and worries about COVID safety as more pressing reasons to remain out of the labor force.

Last month, CSG researchers produced a resource for understanding the implications of this policy decision. This is a supplemental brief, **providing more information on state economic and revenue implications of ending the FPUC program early**, further detail on the other possible economic consequences of this decision and other important context for policymakers.

Note that CSG is a nonpartisan, nonprofit organization. CSG does not take a stance, for or against, on whether states should end unemployment benefits early. This resource is only meant to help policymakers understand the implications of the decision.

What States are Ending Benefits Early, and When?

The 26 states ending FPUC before the national Sept. 6 deadline are included in the table below. The table also includes information on the one-time financial incentives that four states will put in place to encourage residents of the state to return to work.

States	End Date	# Weeks Affected	Programs Ending	Additional Incentives
ALABAMA	6/19	11	All	
ALASKA	6/12	12	FPUC	
ARIZONA	7/10	8	FPUC	One-time $2,000 bonus to return to work
ARKANSAS	6/26	10	All	
FLORIDA	6/26	10	FPUC	
GEORGIA	6/26	10	All	
IDAHO	6/19	11	All	
INDIANA*	6/19	11	All	
IOWA	6/12	12	All	
LOUISIANA	8/3	5	All	
MARYLAND**	7/3	9	All	
MISSISSIPPI	6/12	12	All	
MISSOURI	6/12	12	All	
MONTANA	6/27	10	All	One-time $1,200 bonus to return to work
NEBRASKA	6/19	11	All	
NEW HAMPSHIRE	6/19	11	All	One-time $1,000 bonus to return to work
NORTH DAKOTA	6/19	11	All	
OHIO	6/26	10	FPUC	
OKLAHOMA	6/26	10	All	One-time $1,200 bonus to return to work
SOUTH CAROLINA	6/30	10	All	
SOUTH DAKOTA	6/26	10	All	
TENNESSEE	7/3	9	All	
TEXAS	6/26	10	All	
UTAH	6/26	10	All	
WEST VIRGINIA	6/19	11	All	
WYOMING	6/19	11	All	

*On June 25, a county judge ordered Indiana officials to **continue federal pandemic assistance** due to a lawsuit challenging Governor Eric Holcomb's decision to end the program. The state is appealing the ruling.**On July 23, a judge blocked Maryland from **ending enhanced federal unemployment benefits** early. The preliminary injunction comes from a pair of lawsuits filed by unemployed state residents. The governor is not challenging the decision at this time.

Sources: National Law Review, USA Today, Saving to Invest.

Tax Revenue Implications of Ending FPUC Early

Unemployment benefits are taxable income for states, including the FPUC benefit, though not all states collect tax on unemployment income. As the state is forgoing the applicable taxes on that benefit, ending the FPUC program early will have revenue implications. In this section, CSG analysts have created an estimation of how much revenue states are forgoing based on the following variables:

- **Whether that state collects income tax from unemployment benefits or not**
- **The tax rate on unemployment benefits for a given state**
- **How many unemployed residents there are in a given state** *(using May's preliminary numbers from the U.S. Bureau of Labor Statistics)* [1]

States have very different rules for whether unemployment income is taxable, how it will be taxed, income tax brackets, and other factors that will influence the accuracy of the estimates presented here. The estimates we have created are not the final number of tax dollars states will either receive or miss out on due to this policy choice. They are simply an estimate to help understand the tax implications of the decision to end FPUC benefits early. The amounts generated are likely to be underestimates in most cases, as we used the minimum tax bracket for which there was data, but some taxpayers will ultimately owe more of their unemployment income to their state (due to having a higher overall income, etc). The final impact of ending FPUC benefits early will likely vary considerably from our estimates and will not be known until much later.

From the table, we learn many useful facts.

- The **states ending FPUC benefits early already have a lower unemployment rate** than the national average (4.6% vs 5.9%), as of May, 2021.
- The average number of benefit weeks that will be affected is 10.5, totaling roughly $3,150 in benefits for each unemployed resident.
- **Ending FPUC early is predicted to cost those states approximately $88.9 million total in tax revenue from the affected weeks.**

However, this impact is not even across states.

Alabama, Alaska, Arkansas, Montana, New Hampshire, South Dakota, Tennessee, Texas and Wyoming do not tax unemployment benefits, and thus will not be facing revenue losses.

Ohio is likely to miss out on the most revenue of any state, from $6.11 million, if 75% of the currently unemployed residents find work immediately, up to $24.43 million if the unemployment rate remains unchanged until September.

Arizona, Indiana, Maryland, South Carolina, Mississippi, Missouri, Utah, Georgia and West Virginia (in that order) **show the second- to ninth-highest amounts of potential revenue impact,** ranging from a maximum of $15.53 million in lost revenue for Arizona to a maximum of $4.43 million in West Virginia

Ending FPUC early will cut approximately $1.09 billion dollars in benefits per week for those states. For all affected weeks, that will mean roughly $11.45 billion fewer dollars in unemployment benefits going to those states from now until Sept. 6.

Note that our estimate is slightly lower than the estimates produced by the Joint Economic Committee (JEC) in Congress (they estimate just over $12.3 billion in impact). Our estimate differs for several reasons: more states have decided to end FPUC early since the JEC performed its analysis; we do not assume a multiplier effect for unemployment dollars, making our estimates more conservative; unemployment numbers have changed since May; and various other factors.

Again, the impact will be uneven across states.

Texas will be the most affected given the current unemployment rate, seeing around $276.12 million fewer dollars per week in benefits to unemployed Texans.

Ohio, Arizona, Georgia, Maryland, Tennessee, Louisiana, Indiana, and Missouri rank second to ninth (in that order) in terms of likely economic impact. Ohio is predicted to see $83.33 million fewer dollars in benefits to residents per week, while Missouri will see about $38.63 million dollars in impact per week.

Our table of estimates follows. All dollar amounts are reported in millions (e.g. $2.5 = $2.5 million dollars).

1 Note that May and June have nearly the same national unemployment rate, and the national rate has been remarkably stable, only varying only within +/- 0.03% of 6% since January of 2021, so the estimates would not vary significantly depending on the month used.

FPUC Amount per State per Week (Column 5) = ***FPUC Benefit*** ($300) X ***Number of Unemployed Residents per State*** (Column 3)

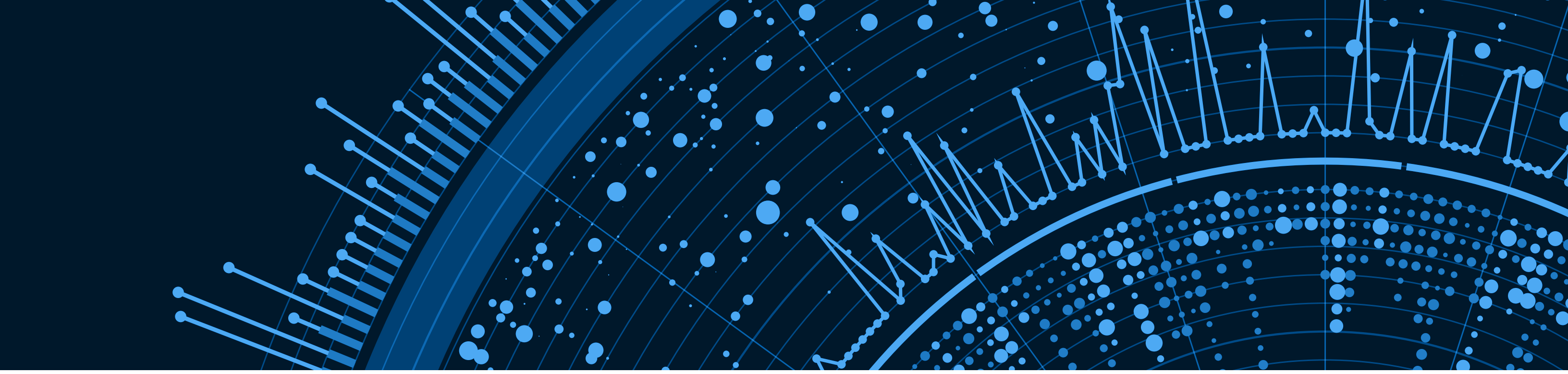
Revenue Impact per Week (Column 7) = ***FPUC Amount per State per Week*** (Column 5) X ***Income Tax on Unemployment per State*** (Column 6)

FPUC Revenue from Impacted Weeks (Column 8) = ***FPUC Revenue per Week*** (Column 7) X ***# Benefit Weeks Affected*** (Column 2)

Revenue Lost over Remaining Weeks (Columns 9,10 and 11) = ***FPUC Revenue from Impacted Weeks*** (Column 8) X ***0.25/0.5/0.75*** (respectively)

Estimated Revenue Impact of Ending FPUC Early | *(in Millions, USD)*

	2	3	4	5	6	7	8	9	10	11
	# Benefit Weeks Affected	Unemployed # (May)	Unemployed % (May)	FPUC Dollars Per State Per Week	State Tax Rate on Unemployment Benefits	FPUC State Revenue Per Week	FPUC State Revenue from Affected Weeks	Revenue lost over remaining weeks (75% reemployed)	Revenue lost (50%)	Revenue lost (25%)
ALABAMA	11	75,458	3.4	$22.64	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
ALASKA	12	23,378	6.7	$7.01	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
ARIZONA	8	242,763	6.7	$72.83	2.59%	$1.89	$15.63	$3.91	$7.81	$11.72
ARKANSAS	10	59,078	4.4	$17.72	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
FLORIDA	10	502,684	4.9	$150.81	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
GEORGIA	10	211,717	4.1	$63.52	1.00%	$0.64	$6.53	$1.63	$3.27	$4.90
IDAHO	11	27,351	3	$8.21	1.00%	$0.08	$0.93	$0.23	$0.46	$0.69
INDIANA	11	134,593	4	$40.38	3.23%	$1.30	$14.72	$3.68	$7.36	$11.04
IOWA	12	63,492	3.9	$19.05	0.33%	$0.06	$0.77	$0.19	$0.39	$0.58
LOUISIANA	5	146,333	7.1	$43.90	2.00%	$0.88	$4.26	$1.07	$2.13	$3.20
MARYLAND	9	190,323	6.1	$57.10	2.00%	$1.14	$10.60	$2.65	$5.30	$7.95
MISSISSIPPI	12	78,491	6.1	$23.55	3.00%	$0.71	$8.68	$2.17	$4.34	$6.51
MISSOURI	12	128,770	4.2	$38.63	1.50%	$0.58	$7.12	$1.78	$3.56	$5.34
MONTANA	10	19,359	3.6	$5.81	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
NEBRASKA	11	26,761	2.6	$8.03	2.46%	$0.20	$2.23	$0.56	$1.11	$1.67
NEW HAMPSHIRE	11	18,613	2.5	$5.58	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
NORTH DAKOTA	11	15,964	4	$4.79	1.10%	$0.05	$0.59	$0.15	$0.30	$0.45
OHIO	10	277,777	5	$83.33	2.85%	$2.37	$24.43	$6.11	$12.21	$18.32
OKLAHOMA	10	73,855	4	$22.16	0.50%	$0.11	$1.14	$0.28	$0.57	$0.85
SOUTH CAROLINA	10	110,339	4.6	$33.10	3.00%	$0.99	$9.65	$2.41	$4.82	$7.24
SOUTH DAKOTA	10	12,949	2.8	$3.88	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
TENNESSEE	9	166,164	5	$49.85	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
TEXAS	10	920,389	6.5	$276.12	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
UTAH	10	44,352	2.7	$13.31	4.95%	$0.66	$6.77	$1.69	$3.39	$5.08
WEST VIRGINIA	11	43,636	5.5	$13.09	3.00%	$0.39	$4.43	$1.11	$2.22	$3.32
WYOMING	11	16,042	5.4	$4.81	0.00%	$0.00	$0.00	$0.00	$0.00	$0.00
STATES ENDING EARLY	**10.51** *(average)*	**3,630,631** *(total)*	**4.6** *(average %)*	**$1,089.19** *(total)*	**1.33%** *(average)*	**$12.06** *(total)*	**$118.49** *(total)*	**$29.62** *(total)*	**$59.25** *(total)*	**$88.87** *(total)*



The Economic Context of Unemployment

The COVID-19 pandemic led to an economic downturn in every state. However, as restrictions ease and vaccination rates climb, the U.S. economy is now seeing a surplus of job openings. The Bureau of Labor Statistics estimated that **May saw 9.2 million job postings**. Anecdotally, many businesses are **reporting difficult finding enough workers**. As businesses compete for workers, potential employees may be **more selective about where they want to work**, holding out for higher wages and better benefits. Despite difficulties, businesses are **hiring** at an impressive pace. Nearly 1.5 million jobs have been added to the labor force since January, and the May 2021 unemployment rate of 5.8% is at its lowest point since March 2020.

Many state officials and business leaders cite increased unemployment benefits as an incentive for individuals not to work, arguing that the benefits provide a higher income than jobs that offer minimum wage. Research on pandemic-era unemployment benefits found the **weekly supplements did not significantly decrease employment as expected.** However, survey evidence shows that some Americans did **refuse work** in part due to unemployment benefits. **About a third of the overall unemployed population cited expanded unemployment benefits as the reason they remained out of the labor market.** Just 20% of unemployment recipients who had worked full time indicated that the money they receive from unemployment was higher than their previous earnings. While it's too early to tell, preliminary numbers show people leaving unemployment rolls **faster in some states cutting benefits**, though the **overall impact is mixed**.

Concerns about childcare and worries about contracting or spreading COVID-19 were named by more people as reasons to stay home than unemployment benefits. Efforts to ensure access to childcare and increase confidence in pandemic safety may be more important for the economic reopening than unemployment benefits. Other common concerns among unemployment recipients were low wages, industry mismatch, health/medical limitations, lack of remote work or flexibility of schedule, too few or too many hours, education/training and family obligations. Cutting the expanded benefits may not be enough to address labor shortages.

Economic research suggests that we think of unemployment benefits as a balancing act between **competing economic concerns**:

- Stabilizing aggregate demand and spending by providing money for those out of work to use to buy the goods and services they require (i.e. consumption insurance). By replacing some of the lost income during an unemployment spell, unemployment benefits help workers avoid dramatic reductions in their consumption and quality of life.
- Disincentivizing work temporarily. Unemployment benefits can prolong unemployment spells by making benefit receipt contingent on continued unemployment.
- Prolonging unemployment spells by discouraging search efforts or raising reservation wages, which could impair post-unemployment income or make someone less hirable due to a prolonged unemployment spell.
- Enhancing post-unemployment income by allowing a longer and more ambitious job search. Rather than accepting the first job that presents itself, a recipient might conduct a lengthier search that yields a higher-wage position.

Policymakers should keep all these concerns in mind as they design unemployment systems, both during the pandemic and moving forward.

For More Information

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