

Vermont Legislative Joint Fiscal Office

One Baldwin Street • Montpelier, VT 05633-5701 • (802) 828-2295 • Fax: (802) 828-2483

ISSUE BRIEF

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Prepared by Joyce Manchester

Unemployment in Vermont and the Covid-19 Pandemic: Conflicting Statistics Result in Loss of Federal Benefits

Summary

Vermont is losing federal unemployment benefit dollars in part because official unemployment statistics no longer include many workers who lost a job and are receiving unemployment benefits. The reason is that the official unemployment count looks only at people who have lost a job and are actively looking for work. Yet in response to the Covid-19 pandemic, the U.S. Department of Labor offered states the ability to pay unemployment benefits without imposing the job search requirement. Many states including Vermont no longer require active job search. As a result, many Vermont recipients of unemployment benefits are not counted as unemployed in official unemployment statistics.

For September 2020, the official unemployment rate in Vermont was 4.2 percent; JFO estimates that if all recipients of unemployment benefits were included, the adjusted unemployment rate after adding those who are no longer looking for work would be closer to 10.6 percent. In part because the official unemployment rate is so low, unemployed Vermonters who have received unemployment benefits for long periods of time are no longer eligible for an additional 20 weeks of benefits under the federal High Extended Benefits program, but they can receive an additional 13 weeks of Extended Benefits, at least for now. The federal government fully funds those Extended Benefits through the end of 2020.

When several CARES Act unemployment programs wind down at the end of December, JFO estimates that Vermonters will lose about \$5 million per week in federally funded unemployment benefits. That rough estimate is based on numbers of recipients in October and could increase as Vermont moves into the winter season when layoffs tend to rise.

The Official Unemployment Rate and Federal Unemployment Policies

The Covid-19 recession has hit Vermont's labor force and economy with unprecedented impact, and the effects are likely to have long-lasting implications for the state and its budget. The labor force today differs greatly from the labor force of one year ago, as does the landscape of Vermont's business community. Common statistics such as the official unemployment rate, however, do not reflect the number of Vermonters who have lost jobs and will want to work once the pandemic is under control. Comparing the number of Vermonters receiving unemployment benefits to the official count of unemployed people suggests that job losses are much more widespread than the official statistics show.

To understand why federal unemployment statistics undercount the number of Vermonters who have lost jobs and want to work again and why that undercount has affected the unemployment benefits available to Vermonters, three concepts are critical: how unemployment is measured, how traditional unemployment benefits work, and how changes in federal unemployment policies have affected Vermont’s eligibility for federal funding.

How Is Unemployment Measured?

The Bureau of Labor Statistics, a division of the U.S. Department of Labor, measures the unemployment rate based on a monthly survey of households known as the Current Population Survey. The survey first asks how many people in the household are actually in the labor force, meaning how many people have jobs or are actively looking for jobs. Only people who are in the labor force are counted in the unemployment rate. Someone who does not have a job but says she has not looked for one in the last four weeks is considered out of the labor force and is not counted in the unemployment rate.

To summarize:

- People with jobs are *employed*.
- People who are jobless, looking for a job, and available for work are *unemployed*.
- The *labor force* is made up of the employed and the unemployed.
- People who are neither employed nor unemployed—including people who lost a job but are not looking for work—are *not in the labor force*.

The key point is that a person who is not actively looking for a job does not count as unemployed in the official government statistics, even though he or she might have been laid off or cannot look for a job because of Covid-19.

How Does Traditional Unemployment Insurance Work?

In general, the federal-state Unemployment Insurance Program “provides unemployment benefits to eligible workers who are unemployed through no fault of their own (as determined under state law) and meet other eligibility requirements of state law.”¹ Each state administers a separate unemployment insurance program within guidelines established by federal law. In Vermont in 2020, employers fund the state’s unemployment program through a payroll tax on earnings up to \$16,100 per employee per year. The tax rate varies with the employer’s experience with unemployment in the past and with the funding position of Vermont’s Unemployment Insurance Trust Fund.

Under the traditional Unemployment Insurance program, Vermont provides up to 26 weeks of unemployment benefits to qualified people who become unemployed and have worked in Vermont anytime in the past 18 months (see Table 1).² During periods of high unemployment, the federal government looks at monthly unemployment rates in each state to determine their eligibility for the Extended Benefits program. That program offers an additional 13 weeks or 20 weeks of benefits after a person has exhausted the first 26 weeks of benefits. The federal government determines whether Extended Benefits (13 weeks) or High Extended Benefits (20

¹ U.S. Department of Labor, Employment and Training Administration; <https://oui.doleta.gov/unemploy/uifactsheet.asp>.

² See information about eligibility for Vermont’s Unemployment Insurance program at <https://labor.vermont.gov/unemployment-insurance/ui-claimants/establishing-unemployment-claim>.

weeks) applies to each state based on the state's average unemployment rate over the last three months. Usually, the federal government provides 50 percent of the funds needed for Extended Benefits or High Extended Benefits.

Table 1.	
Prior to the CARES Act:	
Traditional Unemployment Insurance Only	
<i>Program</i>	<i>Duration of Benefits</i>
Unemployment Insurance	↔ 26 weeks
During times of high unemployment: Extended Benefits or High Extended Benefits	↔ 13 or 20 weeks depending on state's economy

How Has Federal Policy on Unemployment Benefits Changed?

In response to the sudden reduction in economic activity in March in the face of Covid-19, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. It was signed into law on March 27, 2020.

The CARES Act established several temporary federal unemployment benefit programs that expand the duration of unemployment benefits and the eligible set of workers who can qualify.

- Pandemic Emergency Unemployment Compensation (PEUC) is a temporary federal program that provides an additional 13 weeks of unemployment benefits to qualified individuals who have exhausted their traditional unemployment benefits (see Table 2). PEUC is funded by the federal government and will no longer be available for weeks ending after December 26, 2020.
- Pandemic Unemployment Assistance (PUA) provides up to 39 weeks of unemployment benefits to self-employed workers, independent contractors, individuals with limited work history, and other types of workers who previously had been ineligible for unemployment benefits and are unable to work as a direct result of the coronavirus public health emergency. PUA is funded by the federal government and will no longer be available for weeks ending after December 26, 2020.
- Extended Benefits or High Extended Benefits are fully funded by the federal government for states such as Vermont that receive emergency administrative grants; full funding applies through the end of 2020 and will then fall back to the usual 50 percent.
- Through the end of 2020, the federal government is fully funding the first week of traditional unemployment benefits as well as 50 percent of unemployment benefits for employees at some nonprofits. It also provides funding for fraud prevention and some administrative costs of unemployment programs.

Importantly, the U.S. Department of Labor offered states the flexibility to waive the job search requirement during the pandemic. All states had eased their work-search requirements by late April and early May, according to the National Conference of State Legislatures.³ As a result, thousands of Vermonters who lost a job but cannot work as a result of Covid-19 are receiving unemployment benefits but are not counted as unemployed in the official unemployment rate.

³ See NCSL, <https://www.ncsl.org/research/labor-and-employment/covid-19-unemployment-benefits.aspx>.

Table 2.	
Following the CARES Act:	
Traditional Unemployment Insurance Plus New Unemployment Benefits	
Established by the CARES Act on March 27, 2020	
a) Traditional Unemployment Insurance	
<i>Program</i>	<i>Duration of Benefits</i>
Unemployment Insurance	26 weeks
Pandemic Emergency Unemployment Compensation (PEUC)	13 weeks payable after exhausting 26 weeks of traditional UI; payable for weeks from March 29, 2020 through December 26, 2020
During times of high unemployment: Extended Benefits or High Extended Benefits	13 or 20 weeks depending on state's economy after exhausting 13 weeks of PEUC
b) Pandemic Unemployment Assistance	
for the Self-Employed, Sole Proprietors, and Others Not Previously Eligible	
<i>Program</i>	<i>Duration of Benefits</i>
Pandemic Unemployment Assistance	39 weeks starting with weeks of unemployment beginning on or after January 27, 2020 through the week ending December 26

The Estimated Unemployment Rate and the Loss of Unemployment Benefits in Vermont

Vermont and other states are losing substantial amounts of federal unemployment assistance partly as a result of the disconnect between the official statistics and the actual number of individuals who have lost a job. A closer look at the labor force and unemployment numbers reveals why this has happened.

In September 2020, the official number of unemployed Vermonters was about 13,500. That number corresponds to the official unemployment rate of 4.2 percent (see Table 3). At the same time, about 36,500 Vermonters claimed unemployment benefits per week, roughly corresponding to a “Covid-19 adjusted unemployment rate” of 10.6 percent.⁴ The Covid-19 adjusted unemployment rate could be even higher after accounting for those who lost a job but did not file a claim for unemployment benefits.⁵ On the other hand, the Covid-19 adjusted unemployment rate could be a bit lower if some of the unemployment benefit recipients continue to work in second or third jobs.

⁴ JFO divided the number of Vermonters receiving unemployment benefits by the official labor force plus the difference between total unemployment claims and the number officially unemployed. JFO’s estimate is not far from the rate suggested by the Vermont Commissioner of Labor Michael Harrington in a letter to the legislature on September 28, 2020: “Based on the number of individuals currently filing weekly claims for unemployment benefits, Vermont’s actual unemployment rate is likely somewhere closer to 8%-10%.”

⁵ In September 2019, only about 25% of the unemployed as counted by the government filed claims for unemployment benefits (see Table 3).

	Labor Force	Official Unemployment Rate	Number Officially Unemployed	Total Unemployment Claims	Claims/ # Unemployed
September 2019	335,727	2.40%	8,238	2,069	0.25
April 2020	350,944	16.50%	57,905	85,948	1.48
September 2020	321,693	4.20%	13,553	36,500	2.69

Sources: U.S. Department of Labor, Bureau of Labor Statistics, Local Area Unemployment Statistics. VT Department of Labor, Unemployment Insurance Weekly Update, October 6, 2020.

To determine eligibility for Extended Benefits or High Extended Benefits, the U.S. Department of Labor looks at a state's official unemployment rate over the three most recent months.⁶ Vermont's relatively low official unemployment rates in July, August, and September led to the loss of High Extended Benefits following the week of October 10, 2020. Those unemployment rates were 8.3 percent in July, 4.8 percent in August, and 4.2 percent in September. The loss of High Extended Benefits means that qualified Vermonters miss out on up to seven weeks of Extended Benefits, funded entirely by the federal government through the end of 2020. The regular weekly benefit amount equals wages in the two highest paid quarters of the base period divided by 45.⁷ The current maximum benefit in Vermont is \$531 per week, and the average benefit is about \$325 per week.

Vermont likely would have retained High Extended Benefits had the unemployment rate reflected those who lost a job and are not looking for work or have turned down returning to work because of Covid-19. As of the week ending October 10, 2020 when High Extended Benefits ended, more than 650 Vermonters were receiving High Extended Benefits for up to 20 weeks.⁸ Some of those 650 Vermonters lost some weeks of unemployment benefits when the High Extended Benefits program was suspended. In mid-October 2020, about 740 Vermonters received benefits through the Extended Benefits program. If all the Extended Benefits recipients lost a week of unemployment benefits, the loss to Vermonters would be about \$240,000 per week. If the Extended Benefits recipients lost seven weeks of unemployment benefits, the loss to each of those Vermonters would be about \$2,275 on average over seven weeks.

⁶ Extended Benefits began in Vermont on May 3, 2020, and then moved to High Extended Benefits on July 5, 2020; however, with recent declines in the reported unemployment rate, Vermont and many other states, no longer qualify for High Extended Benefits, shortening Vermont's unemployment benefits period by seven weeks. A recent paper from the Center on Budget and Policy Priorities shows the 3-month average unemployment rate and the availability of High Extended Benefits or Extended Benefits for the 50 states as of October 2020. <https://www.cbpp.org/research/economy/policy-basics-how-many-weeks-of-unemployment-compensation-are-available>

⁷ The base period is four successive calendar quarters that fall within the 18-month period prior to establishing a new benefit year. <https://labor.vermont.gov/unemployment-insurance/ui-claimants/calculating-your-ui-benefits>

⁸ Commissioner Harrington's letter to the legislature, October 20, 2020. <https://labor.vermont.gov/document/weekly-ui-report-legislature-october-20-2020>

The number of Vermonters who qualify for Extended Benefits is expected to climb as more people exhaust the 26 weeks of traditional unemployment benefits and the 13 weeks of federal PEUC benefits. If most recipients of unemployment benefits began receiving those benefits in late March, they exhausted their 26 weeks of regular benefits towards the end of September. As of the week ending November 7, 2020, about 9,450 Vermonters were receiving PEUC benefits. Once those 13 weeks are exhausted in late December, many of that large block of workers without jobs will become eligible for Extended Benefits. However, it is unlikely that Vermont will still qualify for Extended Benefits at that time (and perhaps sooner) if the state's official unemployment rate continues to be in the range of 4 percent or so.

Looking Forward

The expiration of the PEUC and PUA programs together with an expected end to the Extended Benefits program at the end of December could have strong negative effects on many Vermont households and its economy. Based on numbers seen at the end of October and early November, without a strong upturn in economic activity by the first of the year and in the absence of further federal stimulus programs, the shutdown of PEUC benefits and Extended Benefits together with the simultaneous expiration of the PUA program could mean that roughly 18,000 Vermonters would lose unemployment benefits just as the winter was settling in. To make matters worse, those numbers are likely to grow given seasonal layoffs. In dollar terms, JFO estimates that Vermonters would see a drop in federal funds coming into the state through unemployment benefits of roughly \$5 million per week, based on current numbers, as all three programs are currently funded entirely by federal dollars. In addition, federal funding for 50 percent of unemployment benefits for employees of some nonprofits will expire at the end of December, meaning that those reimbursable employers will have to pick up the full cost.

In addition, Vermont's Unemployment Insurance Trust Fund will be negatively impacted when federal funding ceases at the end of the year in two areas: funding the first week of traditional unemployment benefits and, if Vermont remains eligible, funding the full cost of Extended Benefits rather than 50 percent. The Department of Labor itself will also lose federal funds when the federal government stops paying some costs of administering the unemployment programs and fraud prevention.