MEMORANDUM

TO: Interested Parties
FROM: Keith Kelly, Commissioner, Montana Department of Labor and Industry
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DATE: September 22, 2009 (UPDATED November 9, 2009)
SUBJECT: Information on Unemployment Insurance Benefits

Different Unemployment Rates are used by the Unemployment Insurance (UI) Program

Most individuals are familiar with the Montana unemployment rate that is released by the Montana Department of Labor and Industry and the Bureau of Labor Statistics each month. However, the UI program uses two additional measures of unemployment in their program administration. Understanding these rates is important to understand the triggers allowing extended benefits for Montana's unemployed workers. The three unemployment rates used are as follows:

Total Unemployment Rate (TUR) – The Total Unemployment Rate (TUR) is the familiar unemployment rate for the full Montana economy that is released monthly. It is a measure of the total level of unemployed individuals in the economy, including an estimate of the number of self-employed and agricultural workers in the state. The TUR is equal to the estimated number of unemployed workers divided by the estimated labor force (or those who are working or actively seeking work). In September, the TUR for Montana was 6.7%.

Insured Unemployment Rate (IUR) – The Insured Unemployment Rate (IUR) is a rate calculated for UI program administration purposes that essentially measures UI fund utilization. It is a measure of the number of workers receiving UI claims divided by the total number of workers (both unemployed and working) who would be eligible to receive UI benefits if unemployed. In other words, it is the percentage of those eligible to receive UI that are actually receiving benefits and can be used by program administrators to estimate fund utilization and solvency.

Current Unemployment Rate (CUR) – The Current Employment Rate (CUR) is a measure of the use of the UI fund compared to the prior two years. The CUR is calculated from the IUR, and is equal to the IUR in the current week divided by the average IUR for the same week in the prior two years. For example, the trigger for extended benefits is a CUR of 120%, which would be met if the use of the UI benefit fund was 20% greater than the last two years.

Explanation of Unemployment Insurance Benefit Extensions

During normal economic times, an unemployed worker who qualifies for Unemployment Insurance (UI) benefits is eligible to receive benefits for 28 weeks. These 28 weeks of UI benefits are paid out of the state UI fund. If the IUR (fund utilization) reaches 5% and if the CUR (increase in utilization from prior two years) is greater than 120%, unemployed workers can receive up to 13 additional weeks that are paid jointly from state and federal funds. The UI

benefits duration in normal periods is illustrated at the top of the attached sheet titled "Montana UI Benefits Summary" and is compared to current law in Chart 1 below.

Chart 1: Unemployment Benefit Duration under Existing Law and Temporary Changes (as of Nov. 9, 2009)

Cumulative Weeks (Prior Law)	Underlying Existing Law (will revert to this law on Jan. 1, 2010)	Temporary Law Change 1: Passage of EUC-2008 and ARRA	Temporary Law Change 2: Current Law after Passage of EUC-2009 through Dec. 31, 2009	Cumulative Weeks Current Law
Up to 28	28 weeks State-funded Benefits	28 weeks State-funded Benefits	28 weeks State-funded Benefits	Up to 28
Up to 41 weeks	Extended Benefits: 13 weeks in states with IUR >= 5% and CUR >= 120% (joint state and federal funds)	Tier 1: 20 weeks (federally funded)	Tier 1: 20 weeks (federally funded)	
Up to 48 weeks				Up to 48 weeks
Up to 61 weeks		Tier 2: 13 weeks in states with TUR >= 6.0% or IUR >= 4.5% (federally funded)	Tier 2: 14 weeks in all states (federally funded)	Up to 62 weeks
Up to 74 weeks		Extended Benefits: 13 weeks in states with IUR >= 5% and CUR >= 120% (federally funded through ARRA)	Tier 3: 13 weeks in states with TUR >= 6.0% or IUR >= 4.5% (federally funded)	Up to 75 weeks
			Tier 4: 6 weeks in states with TUR >= 8.5% and IUR >= 6.0% (federally funded)	Up to 81 weeks

The Emergency Unemployment Compensation Act of 2008 (EUC-2008), the Emergency Unemployment Compensation Act of 2009 (EUC-2009), and the American Recovery and Reinvestment Act of 2009 (ARRA) all changed the duration of benefits an unemployed worker can receive, as illustrated in Chart 1 and in the attached sheet. First, the EUC-2008 allowed every state, regardless of unemployment levels, to offer an additional 20 weeks of benefits to unemployed workers. These 20 weeks are 100% federally funded and referred to as 'Tier 1 Emergency Unemployment Compensation,' or Tier 1 EUC. The EUC-2009 recently reauthorized the Tier 1 EUC through the end of this year.

The EUC- 2008 also provided a Tier 2 extension of an additional 13 weeks of federally funded benefits to states with high unemployment levels, which were defined as states that had an IUR

of 4% or higher. Montana triggered onto the Tier 2 benefits on February 15, 2009 when our IUR moved to 4.21%. Initially, there was a concern that Montana would have had to stop offering Tier 2 benefits after the IUR dropped to 3.93% for the week of September 6, 2009. However, the federal UI program clarified that Montana was still eligible for Tier 2 benefits because our Total Unemployment Rate (TUR) was above the 6% minimum. This clarification was provided in the Unemployment Insurance Program Letter No. 23-08, Change 2, Page 2, Item 2 Second Tier Benefits, Bullet Point #3. Congress specifically clarified the trigger issue legislatively with last week's passage of the EUC-2009.

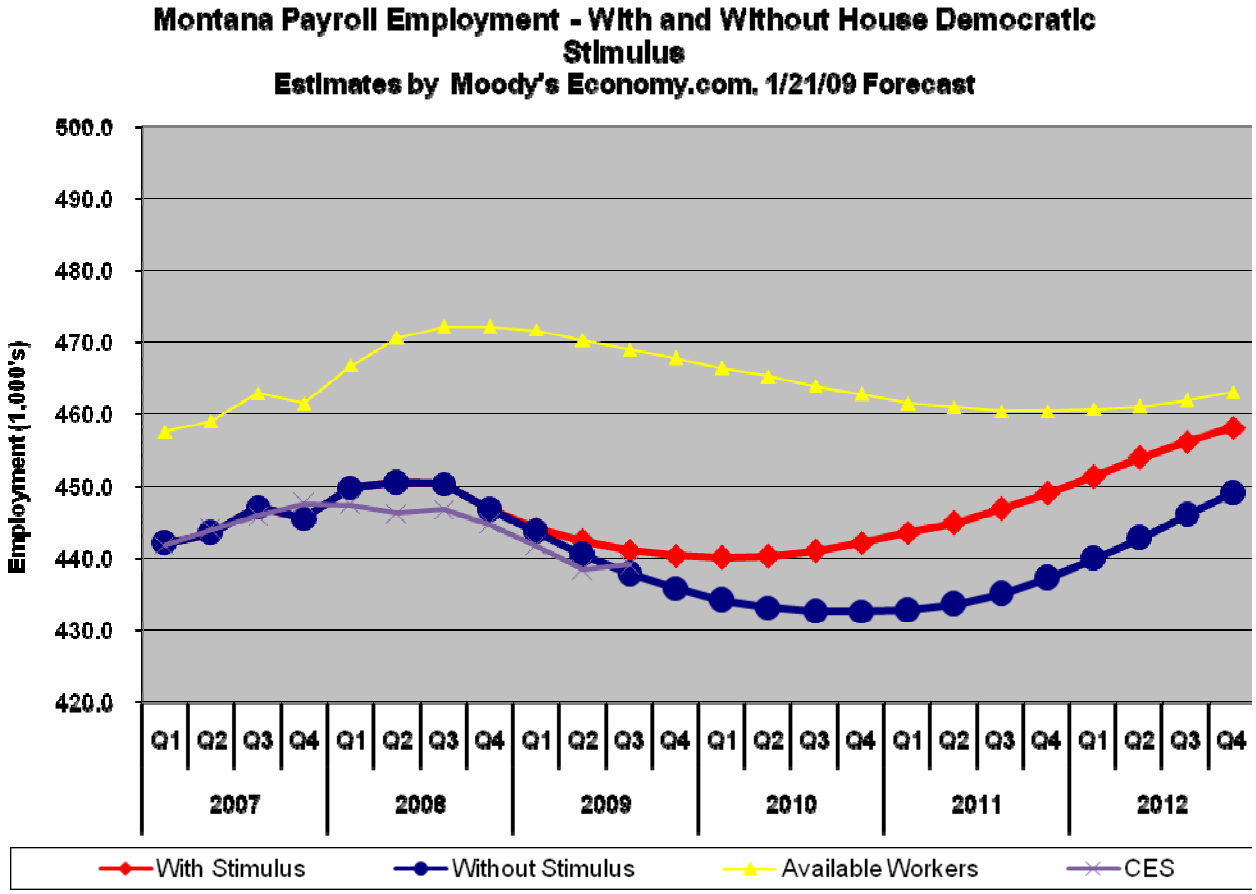
In addition, the EUC-2009 allowed all states to receive Tier 2 benefits for 14 weeks (an increase from 13 weeks in the previous legislation). Further, the EUC-2009 added two additional tiers of unemployment benefits. States with a TUR of 6.0% or higher or a IUR of 4% or higher can provide benefits for an additional 13 weeks under Tier 3 benefits (note that this trigger is similar to the old trigger for Tier 2). Finally, the EUC-2009 established a fourth tier of benefits of up to six weeks in states that have a TUR of 8.5% or higher or a IUR of 6.0% or higher. Montana does not qualify to distribute Tier 4 benefits.

Finally, in the interim law (shown in purple in Chart 1), the ARRA provided for an additional 13 weeks of extended benefits that were fully federally funded after exhaustion of the Tier 2 benefits for states that have an IUR of 5% and a CUR of 120%. Montana did not meet these requirements and did not offer the ARRA extension.

In total, Montana unemployed workers exhausting their unemployment by December 31, 2009 can qualify for 75 weeks of unemployment benefits, with 47 of these weeks paid for with federal funds. The current extension of the unemployment benefits (EUC-2009) expires on December 31, 2009, so any worker that exhausted benefits after that date would receive benefits based on the underlying law, which would only allow extended benefits of 13 weeks that are paid for with joint state and federal funds. The underlying law is illustrated in green above.

Impact of ARRA stimulus in Montana

Moody's Economy.com, a well-known U.S. economic consulting firm specializing in forecasting for business, estimated in January that the total impact of the House-passed stimulus plan would be to save 11,000 Montana jobs by 2011. The graph below illustrates Moody's estimates of Montana payroll employment with and without the stimulus funds. As you can see, payroll employment in Montana was expected to continue to decline even with the stimulus, meaning that the best characterization of the ARRA bill would be that it would 'save' Montana jobs, not 'create' new jobs.



The estimate of available workers was constructed by the Montana Department of Labor by adding the historical LAUS unemployment estimates to the payroll job, then utilizing the Moody's Economy.com estimates for future job losses. This methodology intrinsically accounts for self-employed workers through the LAUS data series.

Also included on the chart are an estimate of the number of available Montana workers (the gap between the job projection and the number of workers is equal to the number of unemployed workers) and the actual payroll employment figures updated through August 2009 from the Current Employment Statistics (CES) published by the Bureau of Labor Statistics and the Montana Department of Labor and Industry. As you can see, the 2009 Q2 actual employment was slightly below the 'without stimulus' level, but the 2009 Q3 has shown signs of recovery, with employment slightly below the 'with stimulus' level.

The Moody's estimates used preliminary numbers for 2008 payroll; these estimates were revised downward when finalized, which accounts for the differences between the Moody's estimates and the actual figures during 2008. When the difference between the 2008 preliminary and finalized numbers is removed, Montana is actually performing slightly above the 'with stimulus' level. Moody's predicted a 2.1% employment decline from the 2008 Q3 peak with the stimulus funding; Montana's employment has only declined by 1.7% from the 2008 Q3 peak.

<u>Economic Impact of UI Benefits</u>

The American Recovery and Reinvestment Act of 2009 included an estimated $207.1 million for unemployed workers in Montana to be distributed through the unemployment insurance system.

Using input-output analysis completed with IMPLAN software, this $207.1 million is estimated to save 1,312 Montana jobs in 2009, 718 Montana jobs in 2010, and 57 jobs in 2011. The total number of jobs saved is 2,087 jobs. These jobs are expressed as full-time equalivents, so the actual job counts are much higher after consideration of part-time work. The average labor income per job saved is $30,071, for total labor income saved of $62.7 million over three years.

Perhaps more impressive is the total economic impact of the $207.1 million in unemployment benefits. Moody's Economy.com estimates that unemployment insurance benefits have a multiplier effect of 1.63, meaning that every dollar of UI benefits results in $1.63 in economic benefits. Using this multiplier, the $207.1 million spent in Montana will result in $337.6 million in economic activity over the 2009 to 2011 time frame. In comparison, the national impact of the non-refundable lump sum tax rebate of $600 per taxpayer received in 2008 under the Bush Administration was estimated to have a multiplier of 1.01, while the payroll tax reduction passed under the Obama Administration had an estimated multiplier of 1.28. Chart 3 below shows Moody's multipliers for the various proposals discussed as a part of the stimulus package.

Chart 3: Fiscal Stimulus Bang for the Buck

Source: Moody's Economy.com

Tax Cuts	
Non-refundable Lump-Sum Tax Rebate	1.01
Refundable Lump-Sum Tax Rebate	1.22
Temporary Tax Cuts	
Payroll Tax Holiday	1.28
Across the Board Tax Cut	1.03
Accelerated Depreciation	0.25
Permanent Tax Cuts	
Extend Alternative Minimum Tax Patch	0.49
Make Bush Income Tax Cuts Permanent	0.31
Make Dividend and Capital Gains Tax Cuts Permanent	0.38
Cut in Corporate Tax Rate	0.30
Spending Increases	
Unemployment Insurance Benefits Extension	1.63
Temporary Increase in Food Stamps	1.73
General Aid to State Governments	1.38
Increased Infrastructure Spending	1.59

The American Recovery and Reinvestment Act of 2009 included the spending increases listed above, along with a payroll tax holiday, accelerated depreciation, and the alternative minimum tax patch. In general, the spending increases and the payroll tax holiday have greater stimulus effects because they are spent immediately and are targeted towards lower-income consumers that have a greater propensity to consume, rather than save, the stimulus funds.