Focus on **FINANCE**

Treasury Offset Program to the Rescue

Barbara Flowers, Economic Education Coordinator

GLOSSARY

Budget deficit: Government spending (expenditures) exceeds government revenue (from taxes and fees) for a given period, usually a fiscal year.

Budget surplus: Government revenue (from taxes and fees) exceeds government spending (expenditures) for a given period, usually a fiscal year.

Defined-benefit retirement funds: Money for retirement maintained by the government for government employees.

Gross income: The total amount earned before any adjustments are subtracted.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.

Supplemental Nutrition Assistance Program (SNAP): A government program that helps low-income individuals and households purchase food. Formerly known as food stamps, the program now uses electronic swipe cards.

Unemployment compensation: A program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own. Also known as unemployment insurance.

> "The simple premise of the offset program is that as Treasury we should not pay those individuals or businesses that have failed to meet their government obligations without first applying that money to the delinquent obligation."[1]
>
> —Sheryl Morrow, Commissioner of the Bureau of the Fiscal Service of the U.S. Department of the Treasury

What happens when your expenses are greater than your income? If you don't have savings to make up the difference and it happens for a sustained period of time, you could end up with quite a bit of debt. This can happen to individuals, families, businesses, communities, or even large governments (such as the United States).

The U.S. government's debt has been increasing over the years (see the boxed insert "U.S. Government Debt to the Penny"). You can think of the U.S. debt as being an accumulation of years of **budget deficits**. With only a blip of **budget surpluses** between 1998 and 2001 and the relatively small surpluses in 1960 and 1969, the United States has run budget deficits each year since 1958. Budget deficits occur when the government's expenses are greater than its income. In 2016, the U.S. budget deficit was $584 billion.[2] There are reasons why a country might have a budget deficit. For example, if the country's economy is in **recession**, many people who would ordinarily pay income tax may have lost their jobs—and their incomes. The loss of income tax revenue reduces the government's income. At the same time, people who have lost their jobs during a recession will request aid from the government, such as **unemployment compensation** or food stamps (through the **Supplemental Nutrition Assistance Program [SNAP]**). Such help becomes added expenses for the government.

If the economy of the country is strong, but the country still maintains a budget deficit, then the country is either spending too much or taxing too little. In the United States, spending and taxing decisions are made by our representatives in Congress. Decisions to raise taxes are difficult because it means that after paying their taxes, people will have less of their money available to buy the goods and services they want. However, decisions to cut spending are also difficult because it means that people will have fewer

U.S. Government Debt to the Penny

Data date	Total public debt outstanding	Debt held by the public	Intragovernmental holding
9/6/2017	$19,844,332,397,358.53	$14,411,300,801,153.53	$5,433,031,596,205.00

SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/debt-to-the-penny/table-view, accessed, September 8, 2017.

As of September 6, 2017, the U.S. total public debt outstanding was over $19 trillion. About $14.4 trillion is debt held by the public, which consists of federal debt held by individuals, local governments, corporations, and other entities, and about $5.4 trillion is debt held within the government, such as money for federal government employee **defined-benefit retirement funds.**

SOURCE: Cagetti, M.; Hoops, M.; McIntosh, S. and Ogden, R. "Federal Debt in the Financial Accounts of the United States." Board of Governors of the Federal Reserve System *FEDS Notes*, October 8, 2015;
https://www.federalreserve.gov/econresdata/notes/feds-notes/2015/federal-debt-in-the-financial-accounts-of-the-united-states-20151008.html.

government-provided programs they want or enjoy, such as national parks, museums, unemployment compensation, or health care.

While Congress grapples with issues of spending and taxing, it is up to those who work in government to be watchful stewards of government spending and revenue. The U.S. Department of the Treasury plays the largest role in managing the finances of the federal government. Among its many financial functions, the Treasury collects taxes, duties, and monies paid to and due to the United States; pays all bills of the United States; and raises money to finance government operations through the sale of Treasury securities.[3] One way it collects money owed to the federal government is through the Treasury Offset Program (TOP), which is operated by the Bureau of the Fiscal Service. While TOP benefits the federal government, it also benefits state governments and individuals.

How an Offset Works

An offset is the reduction or withholding of a payment.[4] An offset may be used to help an individual pay off money they owe to the government or an individual. There are several circumstances when TOP may initiate an offset, and most offsets are from federal tax refunds.

When workers are paid, part of their wages are withheld to pay federal income tax. Each year, workers send a tax return to the federal government reporting their **gross income** and the amount of their income that was withheld that year and sent to the government to pay their taxes. A tax return includes information about the worker's number of dependents, child-care payments, and/or savings in a retirement plan. This and other financial information as well as the worker's income determine how much income tax the worker owes. If the total amount withheld from the worker's paycheck is less than what the worker owes, the worker will have to pay the government more. If the total amount withheld is enough, the worker will not owe additional taxes. If the worker paid more than necessary, the worker is eligible for a refund. If the worker owes taxes to the federal government or a state or money for child support, an offset could occur.

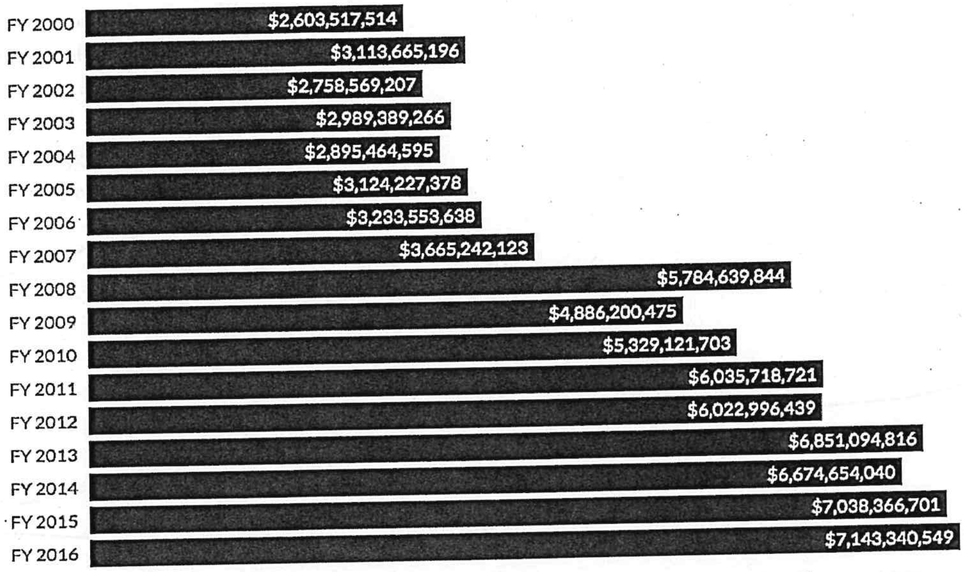
Child Support and TOP

For example, suppose someone is owed a tax refund but that person is also a parent who has been ordered to pay child support and has not been faithful in making those payments. TOP, through the U.S. Department of the Treasury, Bureau of the Fiscal Service, can collect the child support from the delinquent parent by withholding all or part of the parent's income tax refund. The Treasury office sends the money to the Office of Child Support Enforcement, which forwards the money to the child support agency in the state where the child lives. That office then sends the money to the custodial parent.[5]

The Supplemental Nutrition Assistance Program (SNAP) and TOP

This cooperation between states and the federal government extends to other programs. For example, people who have received SNAP benefits greater than the amount they were eligible to receive will either have future benefits reduced or, if they are no longer receiving

Figure 1
TOP Collections: State and Federal Agencies



SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/treasury-offset-program/offset-collections, accessed August 25, 2017.

SNAP benefits, have to pay the money back.[6] TOP will intercept all or part of any tax refunds due to people who owe money to SNAP and redirect it to the states that issued the SNAP benefits.

Unemployment Compensation and TOP

Individuals who have lost their job through no fault of their own are usually eligible to receive unemployment compensation. There are rules that these individuals must follow. One rule is that people who are receiving unemployment compensation must report any earnings they receive from any kind of work. The amount someone can earn while still receiving benefits varies by state.[7] When someone receives earnings but does not report them, that person is breaking his or her agreement with the state's unemployment office. If such activity is discovered, the state will ask that the excess money received be returned. If the state cannot collect this money from individuals who understated their earnings, the federal tax refunds (if any) of those individuals will be redirected to the state's unemployment office.

State Income Tax and TOP

After collections for child support, the next-highest collections by TOP are for state income taxes. TOPS cross-checks to see whether individuals or businesses who are delinquent in paying their state income taxes are due a federal tax refund. If they are, the refund is diverted in whole or in part to the state. In fiscal year (FY) 2016, New York was the largest beneficiary of this program, with nearly $82 million returned to the state, followed by Maryland with nearly $60 million.[8]

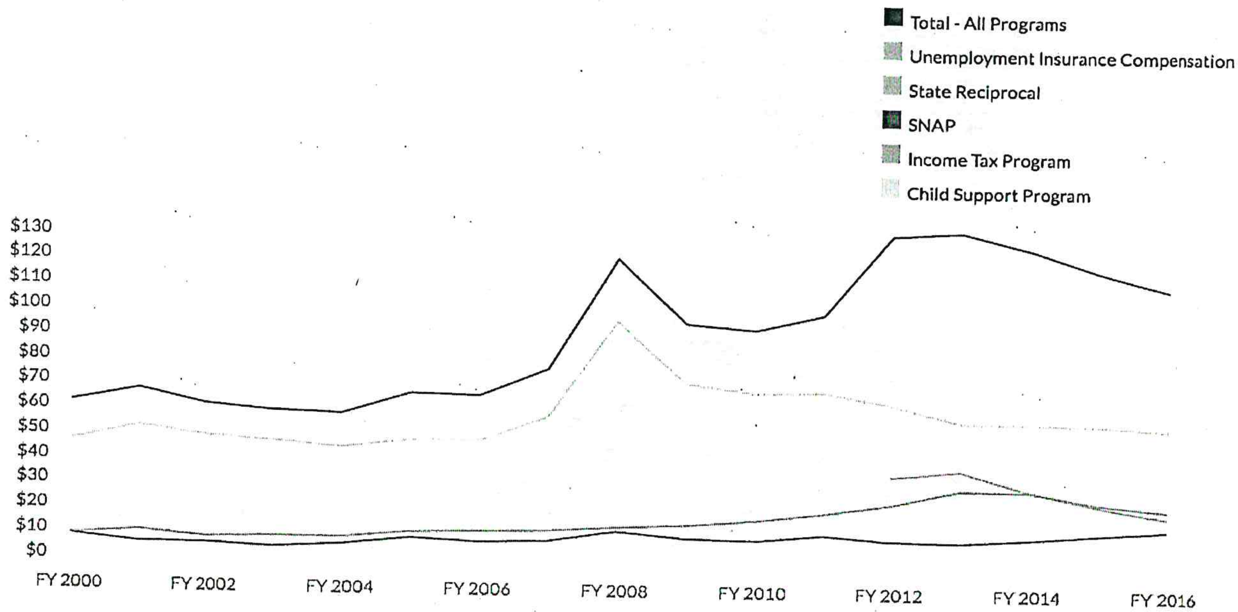
In just 16 years, TOP has grown from collecting a little over $2.6 billion in FY 2000 to more than $7 billion in FY 2016 (see Figure 1).

The states receive enormous benefits from TOP. For example, in FY 2016, $33.4 million was returned to Arkansas, with more than half ($18.3 million) in recovered child support.[9] In FY 2015, California was refunded a whopping $441.6 million, with $197.5 million in collections for fraudulent unemployment compensation claims.[10]

Illinois augmented its revenue by $110.5 million in FY 2016 by participating in TOP (see Figure 2).

Each state, Washington D.C., and the territories of Puerto Rico, Guam, and the U.S. Virgin Islands participate in the program. Of the $7 billion collected in FY 2016, the total collections directed to the states were over $3 billion.[11]

Figure 2
TOP Collections for Illinois (amounts in millions)



NOTE: State Reciprocal refers to a program where states collect debts due to the federal government. For example, the state might offset an individual's state income tax refund to pay all or part of that individual's federal income tax debt. The Income Tax Program recovers state income tax.

SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/treasury-offset-program/collection-locations, accessed August 25, 2017.

Nine states participate in all five of the TOP state programs: the Child Support Program; the State Income Tax Program; SNAP; the Unemployment Insurance Program; and the State Reciprocal Program, which is a program that sends the money in the opposite direction—from a state to the federal government (see Figure 3 and the table). States participating in the reciprocal program essentially support taxpayers by diverting refunds that would go to individuals and corporations that owe money to the federal government.

Conclusion

The federal government and some state governments run budget deficits. Persistent budget deficits can become burdensome debt. The Treasury Offset Program provides revenue for the federal government and state governments that can augment their budgets. In addition, the program helps taxpayers by forcing individuals and corporations with delinquent taxes to pay their fair share, and it helps custodial parents and guardians receive support to help raise the children in their charge. ■

Notes

[1] U.S. Department of the Treasury, Bureau of the Fiscal Service. "U.S. Treasury Collects More Than $3 Billion in Delinquent Debts for States Including $1.9 Billion in Delinquent Child Support." News release, April 20, 2016; https://fiscal.treasury.gov/fsnews/2016/debts_states.htm.

[2] White House, Office of Management and Budget. "Historical Tables: Table 1.1-Summary of Receipts, Outlays, and Surpluses or Deficits (-): 1789-2022." https://www.whitehouse.gov/omb/budget/Historicals, accessed August 25, 2017.

[3] U.S. Department of the Treasury. "Duties and Functions of the U.S. Department of the Treasury." April 22, 2016, 2:03 PM update; https://www.treasury.gov/about/role-of-treasury/Pages/default.aspx.

[4] U.S. Department of the Treasury, Bureau of the Fiscal Service. "Treasury Offset Program (TOP) Child-Support Enforcement." https://fiscal.treasury.gov/fsservices/gov/debtColl/dms/top/chldSprtEnforcmnt/debt_top_childsupport.htm, accessed August 25, 2017.

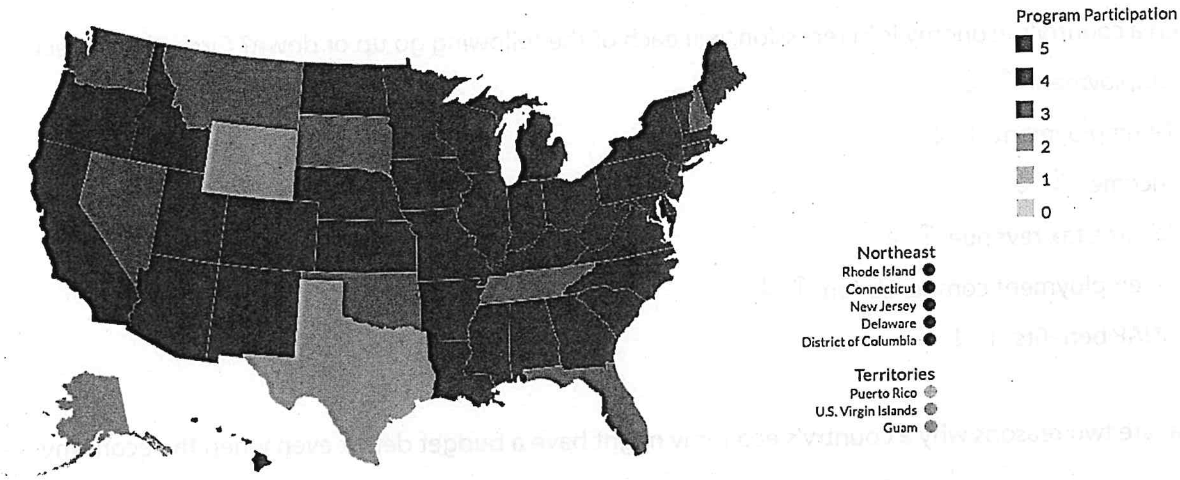
[5] U.S. Department of Health and Human Services, Office of Child Support Enforcement, Administration for Children and Families. "How Does the Federal Tax Refund Offset Program Work?" April 26, 2017, version; https://www.acf.hhs.gov/css/faq/how-does-the-federal-tax-refund-offset-program-work.

[6] Illinois Legal Aid Online. "Overpayment of SNAP Benefits." https://www.illinoislegalaid.org/legal-information/overpayment-snap-benefits, accessed August 25, 2017.

[7] Petersen, Lainie. "How Much Can You Earn & Still Collect Unemployment?" Chron; http://work.chron.com/much-can-earn-still-collect-unemployment-14877.html, accessed August 25, 2017.

Figure 3
Total of All TOP Programs: Fiscal Year 2016 (dollar amounts in millions)

	Child Support Program	Income Tax Program	SNAP	State Reciprocal	Unemployment Insurance Compensation	Total - All Programs
Participation	54	42	53	12	44	
Amount	$1,879.7	$582.2	$162.1	$61.5	$403.2	$3,088.6



NOTE: Participation refers to the number of states and territories in the given program. State Reciprocal refers to a program where states collect debts due to the federal government. For example, the state might offset an individual's state income tax refund to pay all or part of that individual's federal income tax debt. The Income Tax Program recovers state income tax.

SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/treasury-offset-program/state-programs-participation, accessed August 25, 2017.

States participating in all 5 TOP state programs, 2016	Total offsets (millions)
Kentucky	$69.6
Louisiana	$72.8
Maryland	$106.8
Minnesota	$45.8
New Jersey	$102.9
New York	$185.6
Oregon	$41.1
West Virginia	$28.4
Wisconsin	$65.1

SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/treasury-offset-program/state-programs-participation, accessed August 25, 2017.

Name____________________________________ **Period**________

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"Treasury Offset Program to the Rescue"

After reading the article, complete the following:

1. When a country's economy is in recession, will each of the following go up or down? Circle the correct answers.
   a. Employment ↑ ↓
   b. Unemployment ↑ ↓
   c. Incomes ↑ ↓
   d. Income tax revenue ↑ ↓
   e. Unemployment compensation ↑ ↓
   f. SNAP benefits ↑ ↓

2. What are two reasons why a country's economy might have a budget deficit even when the economy is strong?

3. What are some of the financial functions of the U.S. Department of the Treasury?

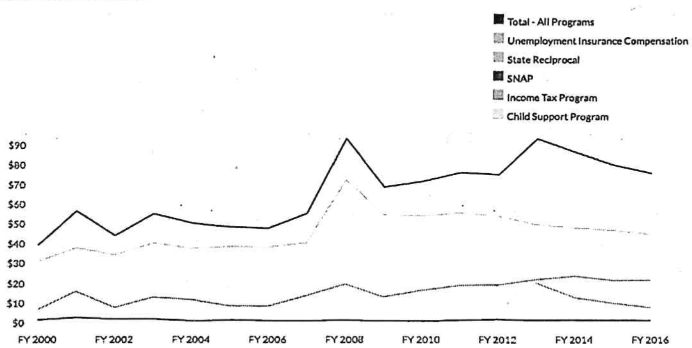
4. How does the Treasury Offset Program (TOP) correct delinquent child support?

5. How does TOP recover overpayments in unemployment compensation? How might overpayments occur?

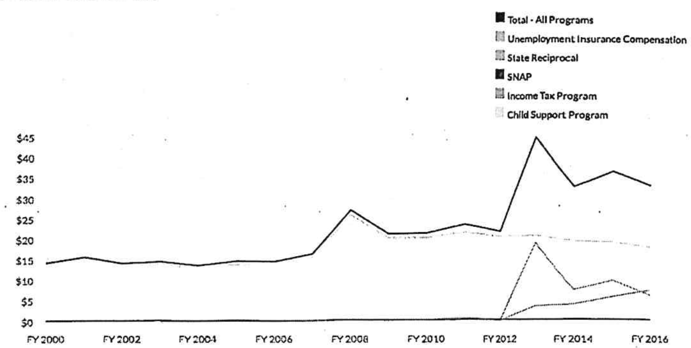
6. By how many dollars and what percentage has TOP grown since FY 2000?

7. Use the graphs of TOP collections for Missouri, Arkansas, Kentucky, and Tennessee to answer the questions below.

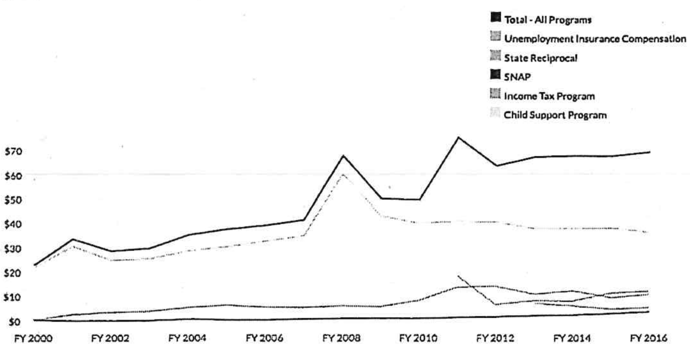
Missouri *amounts in millions*



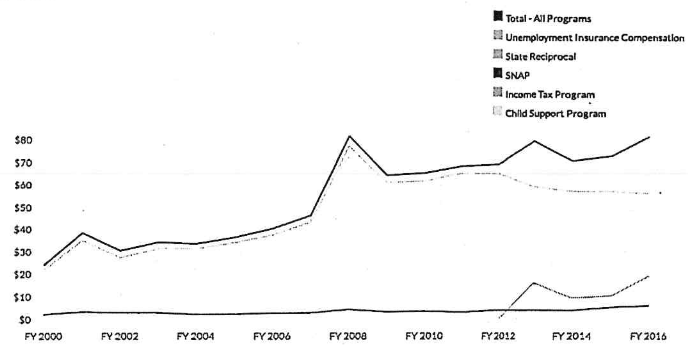
Arkansas *amounts in millions*



Kentucky *amounts in millions*



Tennessee *amounts in millions*



NOTE: State Reciprocal refers to a program where states collect debts due to the federal government. For example, the state might offset an individual's state income tax refund to pay all or part of that individual's federal income tax debt. The Income Tax Program recovers state income tax. FY is fiscal year.

SOURCE: U.S. Department of the Treasury. Transparency.Treasury.gov; https://www.transparency.treasury.gov/dataset/treasury-offset-program/collection-locations, accessed August 25, 2017.

To see exact dollar amounts, go to Transparency.Treasury.gov/dataset/treasury-offset-program/collection-locations and use the menu to choose each state noted above. Drag your cursor over the graphs to get the exact dollar amounts.

a. For which state was the largest amount of unemployment insurance compensation recovered in FY 2016?

b. For which state was the largest amount of SNAP funds recovered in FY 2016?

c. For which state was the largest amount of state income tax recovered in FY 2016?

d. What might explain why Tennessee recovered no money through the Income Tax Program?

e. Which state recovered the most money through TOP in FY 2016?

PAGE ONE Economics®

Why Is It So Difficult To Buy a High-Quality Used Car?

Scott A. Wolla, Ph.D., Senior Economic Education Specialist

GLOSSARY

Adverse selection: The tendency of insurance to be purchased by those most likely to make claims.

Asymmetric information: A situation where one party to a market transaction has more information about a product or service than the other. The result may be an over- or under-allocation of resources.

Moral hazard: The risk that one party to a transaction will engage in behavior that is undesirable from the other party's view.

Premium: The fee paid for insurance protection.

"I discovered that the informational problems that exist in the used car market were potentially present to some degree in all markets."

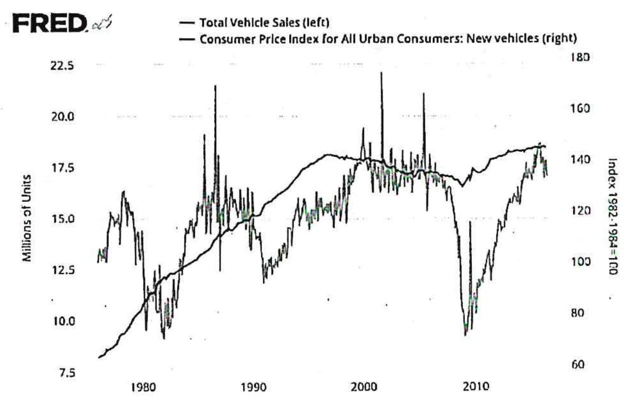
—George A. Akerlof, Nobel Prize winner, 2001

Are you in the market for a vehicle? During the 2007-09 recession, new-vehicle sales plunged to their lowest levels in nearly 30 years. They have since fully recovered as people replace their aging vehicles with shiny new cars, trucks, vans, and sport utility vehicles. Prices of new vehicles, however, are at all-time highs, leading many buyers to look for used vehicles. It can be a challenge, though, for buyers to figure out whether they are getting a good deal. The seller generally knows far more about the vehicle. Even with careful examination, the buyer still likely won't know everything the seller knows. When one party knows more about the product than the other party, there is "**asymmetric information**." In the case of a used car, the seller has more information—and the advantage. The opposite can also be true in a transaction—the buyer can have more information and the advantage.

The Market for Lemons

The used-car market is often used to discuss the implications of asymmetric information. In this market, sellers have greater knowledge about the condition and quality of their cars than buyers. For example, a seller is likely to know about engine or transmission problems, the maintenance history, and any defective equipment. In other words, the seller is likely to know whether the car is a "lemon" (a car with defects). The buyer, however, is at a disadvantage. Even with a careful visual inspection or a test drive, defects can be missed or hidden. The seller is in the driver's seat (so to speak) in this market.

To better understand asymmetric information, consider a buyer looking for a particular car make and model. Let's call it the 2012 Econocar Utility Maximizer. The buyer is willing to pay up to $14,000 for a high-quality used car (a "cherry") but only $10,000 for a low-quality used car (a lemon). Imagine she visits two sellers advertising 2012 Utility Maximizers. One



NOTE: New-vehicle sales peaked at a post-recession high of 18.6 million vehicles in November 2015 (blue line). Although prices of new vehicles fell during the recession, they are now at all-time highs (red line).

SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/graph/?g=5qkM, August 8, 2015.

seller is selling a cherry; the other is selling a lemon. Each seller knows the history of the car for sale—they have good information and know whether it is a cherry or a lemon. The buyer, however, doesn't see much difference between the two cars. She can't tell whether either car is a cherry or a lemon. In other words, there is asymmetric information. As such, because she can't know for sure, the buyer assumes that neither car is of high quality. So, she is willing to only offer a price *below* that of a high-quality car: $12,000.

Now consider the larger used-car market. Other buyers behave in similar ways. Because they cannot distinguish between lemons and cherries, they offer prices somewhere in the middle. Some sellers who really do have high-quality used cars aren't willing to sell them below their true value, so they keep the cars instead. Sellers of low-quality cars, however, gladly sell their lemons. Low prices, then, reduce the overall quality of used cars on the market, leading to a market dominated by lemons. With fewer cherries on the market, buyers offer even less, further reducing the quantity of high-quality cars on the market. This cycle leads to market inefficiency because transactions that would have benefited both buyers and sellers fail to take place. That is, although sellers are willing to sell high-quality used cars to buyers at a fair price, the transactions do not occur because the buyers are unsure about the condition of the cars.

Closing the Asymmetric Information Gap

Regulation has helped buyers receive better information. The 1975 Magnuson-Moss Warranty Act (also known as the Lemon Law) regulates warranties on vehicles (and other consumer goods), and a variety of state laws (also referred to as lemon laws) protect consumers from defective products, including vehicles.

To reassure used-car buyers—and to get them to pay a higher price—some sellers provide warranties or "certify" their highest-quality used cars. Generally, a car labeled certified has been inspected and repaired (if necessary) to meet high quality standards and may include a warranty. Buyers can also take several steps to help reduce the asymmetric Information gap. First, research can help steer them to a generally more-reliable car. Third-party sources, such as *Consumer Reports* and J.D. Power, collect and analyze data to estimate the average reliability and quality of certain car models.

Once a seller finds a car, various sources can provide additional information about that car. For example, auto mechanics can look for defects hidden or overlooked. For a fee, they will look "under the hood" and run diagnostic tests. Additional information (such as maintenance, odometer, and accident history) is available by researching the car's VIN (vehicle identification number). Various companies will provide a VIN report for a fee.

In the future, buyers may be able to easily obtain even more information about a car's history from the car's event data recorder (EDR), which is similar to the "black box" on an airplane. Today, nearly all new cars have an EDR. These microcomputers collect data related to safety and accidents, including speed, braking, seatbelt use, and airbag deployment.[1] EDRs are likely to become more powerful and collect more data over time.

Consider the Cost

In the rush to close the asymmetric information gap, it is important to realize that obtaining information can be costly. Some information may have explicit costs (fees or subscriptions), while others have implicit, or opportunity, costs. Any time you spend researching a product is time you could have spent doing something else. Therefore, the more expensive a transaction is, the more beneficial your research may be. So it's wise to seek out information before buying a house or car or choosing a college but less important for choosing a frying pan or a stapler.

Other Markets with Asymmetric Information

Other markets also have the challenge of asymmetric information. In the insurance market, for example, buyers usually have more information than sellers (insurance companies). The person wanting health insurance has more information about his or her current health than the insurance company. This imbalance can lead to two potential problems in the health insurance market. The first is **adverse selection**: People with health problems are more likely to buy health insurance than healthy people, who might decide they don't need health insurance. This imbalance can create a pool of insured people with more health problems than the general population. If this is the case, health insurance companies will likely pay more claims and charge higher premiums. The Patient Protection and Affordable Care Act has attempted to reduce adverse selection by creating financial incentives to encourage all people (even the young and healthy) to buy insurance.

The second potential pitfall is **moral hazard**: People with insurance tend to take on more risk (knowing insurance will pay some of the cost if anything bad happens) than they would otherwise. This increase in risky behavior could increase the number of claims insurance companies must pay and result in higher premiums. Insurance companies attempt to learn about a potential customer's health and other habits before granting medical or life insurance to reduce the risk to the company and ensure an appropriate monthly **premium** is charged.

Credit markets also notably feature asymmetric information problems. A potential borrower has better information about his or her own ability and willingness to repay a loan than the lender. Lenders attempt to learn about potential borrowers' credit and financial history from credit reports. This information improves the ability of lenders to choose whom they should lend to and what interest rate they should charge.

Finally, asymmetric information problems also plague labor markets. Job seekers know more about their own job skills and work ethic than potential employers. Employers generally conduct interviews and check references but may also give assessments and seek additional information online, including on social media. In addition, some employers review credit reports,[2] require drug testing, and/or perform a criminal background check.

Conclusion

When one party to a transaction has more information than the other, the party with more information has the advantage. This circumstance is a problem not only for the party with less information, but also for the market itself as transactions that would have benefited both buyers and sellers fail to occur. For example, even though some people are willing to sell high-quality cars for a suitable price, buyers won't pay top dollar because they are unable to assess a car's true condition. So, the car owners won't sell, and the beneficial transactions never occur. However, the growing availability of information—if you seek it out—may help close the asymmetric information gap. ■

Notes

[1] Rafter, Michelle V. "Decoding What's In Your Car's Black Box." Edmunds.com, July 22, 2014; http://www.edmunds.com/car-technology/car-black-box-recorders-capture-crash-data.html.

[2] Eleven states have banned the use of credit checks in employment decisions (Traub, Amy and McElwee, Sean. "Bad Credit Shouldn't Block Employment: How to Make State Bans On Employment Credit Checks More Effective." Dēmos, February 25, 2016; http://www.demos.org/publication/bad-credit-shouldnt-block-employment-how-make-state-bans-employment-credit-checks-more-e).

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Name______________________________________ **Period**________

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"Why Is It So Difficult To Buy a High-Quality Used Car?"

After reading the article, complete the following:

1. Explain how the seller has an advantage in the used-car market.

2. How does asymmetric information in the used-car market influence the price and quality of used cars available for purchase?

3. How can asymmetric information lead to inefficient markets?

4. How can buyers in the used-car market try to reduce the asymmetric information gap?

5. For each of the following, circle which market participant (buyer or seller) has the information disadvantage and then identify strategies the disadvantaged participant uses to close the asymmetric information gap.

   a. Health insurance market

      - Information disadvantage: Buyer / Seller (circle one)
      - Method(s) used to fill the information gap:

   b. Credit market

      - Information disadvantage: Buyer / Seller (circle one)
      - Method(s) used to fill the information gap:

   c. Labor market

      - Information disadvantage: Buyer (potential employer) / Seller (job seeker) (circle one)
      - Method(s) used to fill the information gap

Focus on **FINANCE**

Your Social Security Number: The 9-Digit Evolution

Jeannette N. Bennett, Senior Economic Education Specialist

"There are downsides to everything; there are unintended consequences to everything."
—Steve Jobs

Introduction

Imagine living in our country 100 years ago: no televisions, microwaves, iPhones, laptops, credit cards, or ATMs—and no Social Security numbers (SSNs). Definitely, major changes have evolved with inventions and advancing technology. And there's a story to go with each change.

Among the many changes over the years, the evolution of the SSN's usage ranks near the top. But what's the story on how the SSN became an almost universal identifier in the United States? Is there a downside to this?

The Beginning

The story of the SSN starts during the Great Depression. Millions of people were struggling without jobs or **income.** The elderly were hit especially hard. This triggered a concern for the future of the elderly.

In 1935, President Franklin D. Roosevelt signed the Social Security Act. Although the Act was passed during the Great Depression, it was designed to ensure the future economic security of individuals and did not address the immediate economic problems of the Great Depression.

Social Security's primary original purpose was to provide financial benefits to people over age 65. Upon retirement, people who were no longer working would receive monthly retirement benefits or **Social Security income.** Benefit amounts would be based on a person's earnings in covered employments.[1] Monthly benefits were scheduled to begin in 1942.[2]

The Social Security Act required a payroll **tax** for both employees and employers based on earnings. As a result, the **Federal Insurance Contributions Act (FICA)** was enacted in 1935. It gave the responsibility of collecting payroll taxes to the **Internal Revenue Service (IRS).**[3] Named for the Act, these taxes are commonly called "FICA taxes." Employers began deducting payroll taxes from workers' wages in January 1937.[4]

GLOSSARY

Credit report: A loan and bill payment history kept by a credit bureau and used by financial institutions and other potential creditors to determine the likelihood that a future debt will be repaid.

Federal Insurance Contributions Act (FICA) tax: A tax or required contribution that most workers and employers pay. FICA is a payroll tax used to fund Social Security and Medicare.

Income: The payment people receive for providing resources in the marketplace. When people work, they provide human resources (labor) and in exchange receive income in the form of wages or salaries. People also earn income in the form of rent, profit, and interest.

Income tax: Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

Internal Revenue Service (IRS): The federal agency that collects income taxes in the United States.

Phishing: When someone attempts to get your personal information by pretending to work for a legitimate or legitimate-sounding organization, such as a bank or the government.

Social Security: A federal system of old-age, survivors', disability, and hospital care insurance that requires employers to withhold (or transfer) wages from employees' paychecks and deposit that money in designated accounts.

Social Security income: The monthly monetary amount received by retired workers who paid into the Social Security system while they worked.

Taxes: Fees charged on business and individual income, activities, property, or products by governments. People are required to pay taxes.

Sample SSN Area Numbers and Locations (for SSNs issued before 2011)

SSN area number	Location
001-003	New Hampshire
159-211	Pennsylvania
252-260	Georgia
400-407	Kentucky
408-415	Tennessee
425-428	Mississippi
429-432	Arkansas
486-500	Missouri
501-502	North Dakota
545-573	California
574	Alaska
575-576	Hawaii

SOURCE: Social Security Administration. "Social Security Number Allocations." Business Services Online (BSO); https://www.ssa.gov/employer/stateweb.htm.

Recordkeeping

To carry out the Social Security Act, the Social Security Board was created. (This was later renamed the Social Security Administration.[5]) One of its first tasks was setting up a recordkeeping system. The earnings of each individual had to be tracked beginning in 1937. It was obvious that using a person's name wouldn't work. Can you imagine the difficulty in keeping accurate earnings records for those with common names such as John Smith or Jane Jones? Several tracking plans were considered, such as using a combination of letters and numbers or using fingerprints.

The chosen solution was to use a 9-digit number divided into three parts: area number, group number, and serial number. The first three digits, the area number, represented the state in which the SSN was issued. (See boxed insert, "Sample SSN Area Numbers and Locations.") Generally, lowest area numbers were given to people on the East Coast, with increasingly higher numbers given going westward. However, there were exceptions. For example, a worker could apply in person for an SSN in any Social Security office, and the area number would reflect that office's location, regardless of the worker's residence.[6] The next two digits, the group number, were determined by issuing numbers in groups to issuing offices. The last four digits, the serial number, represented the order within each group.

But issuing SSNs was a work in progress. While the details of the Social Security Act were being worked out, the U.S. Postal Service accepted the responsibility of issuing SSNs. At this time, there were approximately 45,000 post offices across the nation. From these, 1,074 post offices were called on to be "typing centers" to issue Social Security cards and SSNs. In November 1936, the first SSNs were issued by these typing centers and thousands of people were given their 9-digit number. The post office did not keep the records. They were sent to the main Social Security Office in Baltimore, Maryland.[7] Within about six months, approximately 35 million SSNs had been issued.[8]

By mid-1937, Social Security field offices were able to take over. In 1972, after computer-based systems became available, all SSNs were issued exclusively from the central Social Security Administration (SSA) office in Baltimore, Maryland. With this change, the area number was assigned based on the ZIP code of the mailing address provided on the application.[9]

And it all changed again in 2011 when the SSA began randomly assigning SSNs. This "randomization" shares the pool of available SSNs nationwide.[10] There is no geographical significance to the first three digits of SSNs issued after this date. Randomization extends the quantity of SSNs available for the future. For example, a state with an increasing population will need more SSNs in the future. A state with a decreasing population won't need all that it was allotted. By sharing the available SSNs nationwide, the pool of numbers will last longer. The new system does not affect previously issued SSNs and only applies to new applications for SSNs.[11]

SSN Usage

The use of SSNs has increased over the years. The trend began in 1943 when federal agencies were required to use SSNs for identifying individuals in any new record system.[12] As computer technology evolved in the 1960s, the expansion soared. Today, a SSN is required for opening a checking or savings account, securing a loan, finding employment, filing taxes, renting an apartment, receiving medical services, completing credit and insurance applications, and the list goes on.

Laws have increased the use of SSNs. (See boxed insert, "SSN Timeline.") For example, the IRS began using SSNs

SSN Timeline

Year	Changes made by laws
1943	Federal agencies required to use SSNs to identify individuals in any new record systems
1962	IRS begins using SSNs for federal income tax reporting
1970	Banks required to obtain the SSNs of all customers
1975	SSNs required to receive federal benefits
1976	States could require SSNs for taxes, eligibility for state programs, driver's licenses, and motor vehicle registrations
1977	SSNs required for members of households that use food stamps
1982	SSNs required for federal loan programs
1983	SSNs required for all interest-bearing accounts
1987	SSA begins process for parents to apply for SSNs for newborns by giving information to hospitals
1989	SSNs required for school lunch programs
1989	National Student Loan Data system required to include SSNs of borrowers
1996	SSNs required to be recorded on numerous official documents including professional licenses, driver's licenses, death certificates, birth records, divorce decrees, and marriage licenses
1999	SSNs no longer required to be shown on driver's licenses and birth records
2004	States prohibited from displaying SSNs on driver's licenses or motor vehicle registrations
2008	The 1943 requirement for all federal agencies to use the SSN as an identifier rescinded

SOURCE: Puckett, Carolyn. "The Story of the Social Security Number." *Social Security Bulletin*, 2009, *69*(2); https://www.ssa.gov/policy/docs/ssb/v69n2/v69n2p55.html.

for federal **income tax** reporting in 1962. And the IRS requires banks, insurance companies, and employers to collect SSNs for income and tax-related purposes. Legislation also requires low-income families to provide SSNs of all adult household members to apply for school lunch programs. These and many other laws have supported the use of SSNs as an identifier.

The Social Security Card and SSN

To get an SSN, a person must fill out the Form SS-5 application for a Social Security card. The application asks for date of birth, place of birth, and full name given at birth. The form also asks for the mother's maiden name and parents' SSNs, among other things.[13]

Identity Theft Prevention Tips

- Check your credit reports. (www.annualcreditreport.com)
- Review bank, credit card, and medical statements.
- Shred all documents containing personal information.
- Delete emails, text messages, and voicemails that ask for personal information.
- Create strong passwords for accounts.
- Use only secure websites beginning with "https" when shopping or banking online.
- Do not carry your Social Security card in your wallet.

From the beginning, people were concerned about how the personal information collected for an SSN would be kept confidential. The SSA has continued to protect the information and safeguard the integrity of the SSN.

The Social Security card has had over 50 designs to date and all versions remain valid. As the use of SSNs has expanded, changes have been made in the card's design to prevent counterfeiting. Today, a counterfeit-resistant version is now used for both original and replacement cards.[14]

Identity Theft

Your SSN is required frequently, and that means it's stored in many places. But can you count on everyone who collects your SSN for business purposes to protect it properly? Probably not.

The SSN is a key piece of information used to commit identity theft. SSNs have become increasingly available to identity thieves, at least in part because they are so widely used as identifiers. Criminals can steal SSNs from workplace records, mail, wallets, or public records. And high-tech ways such as **phishing** or hacking into a computer database are increasingly a concern.

When criminals steal an SSN and the victim's identity, they can do a lot of damage. They can use an SSN to file an income tax return in your name to steal your refund. They can use it to facilitate opening new accounts, gain access to existing accounts, commit medical identity theft, seek employment, secure a payday loan, or obtain government benefits.[15] A stolen SSN can open ways for criminals to access other personal information and cause a lot of problems that may show up on your **credit report**. (See boxed insert, "Identity Theft Prevention Tips.")

Creation of New Markets

In recent years, high-profile data breaches have increased the concern for protecting personal data—with the SSN rating near the top in priority. Community organizations and businesses conduct "shred days" for safely destroying documents containing personal data. Office supply stores have responded by stocking shelves with crisscross shredders.

The demand for greater protection has created new markets as millions of U.S. consumers spend billions of dollars buying products and services that claim to protect personal data. Personal data-protection businesses that offer online subscription services, advertise free trials, and provide automatic direct billing of monthly fees for different coverage plans have sprung up. The choices continue to increase. There are plans designed to monitor credit card, debit card, and bank accounts. Some plans specifically advertise "Identity and Social Security Number Alerts."

In response to the concern for protecting personal data, both government and business SSN usage has decreased in recent times. For example, laws have changed to prohibit using SSNs on driver's licenses or requiring them on birth records. These actions are a response to the identity theft concern—and change will continue.

Conclusion

In the beginning, when President Roosevelt signed the Social Security Act, the purpose of the SSN was identification for accurate recordkeeping. Accurate records of workers' earnings were necessary for administering benefits under the Social Security program. That is still the primary purpose for the SSN.[16]

But it has evolved into so much more. Because an SSN is convenient, reliable, unique to each individual, and in many cases required by law, it has become an important 9-digit number that follows a person throughout a lifetime. The age of technology has increased the benefits of its usage while increasing the need for security. Identity theft is a downside to the increased use of SSNs, and new markets have opened a new industry for identity protection. Speculation can be made that this evolution is an unintended consequence of the original Social Security Act that President Roosevelt could never have envisioned.

Notes

[1] Covered employment initially covered only about half the jobs in the country, which were in commerce or industry. See Martin, Patricia and Weaver, David A. "Social Security: A Program and Policy History." *Social Security Bulletin*, 2005, *66*(1); https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html.

[2] Martin, Patricia and Weaver, David A. "Social Security: A Program and Policy History." *Social Security Bulletin*, 2005, *66*(1); https://www.ssa.gov/policy/docs/ssb/v66n1/v66n1p1.html.

[3] Disability Benefits Center. Federal Insurance Contributions Act; https://www.disabilitybenefitscenter.org/glossary/federal-insurance-contributions-act.

[4] Martin and Weaver, 2005. See footnote 2.

[5] In 1946, the Social Security Board became the Social Security Administration (SSA); https://www.ssa.gov/history/orghist.html.

[6] Puckett, Carolyn. "The Story of the Social Security Number." *Social Security Bulletin*, 2009, *69*(2); https://www.ssa.gov/policy/docs/ssb/v69n2/v69n2p55.html.

[7] Social Security Administration. "Social Security Numbers: The First Social Security Number and the Lowest Number"; https://www.ssa.gov/history/ssn/firstcard.html.

[8] Puckett, 2009. See footnote 6.

[9] For earlier-issued numbers, the area number represents the state of birth. The following link will tell what area numbers go with each state: Social Security Administration. "Social Security Number Allocations." Business Services Online (BSO); https://www.ssa.gov/employer/stateweb.htm.

[10] Social Security Administration. "Social Security Number Randomization." Business Services Online (BSO); https://www.ssa.gov/employer/randomization.html.

[11] Social Security Administration. "Social Security Number Randomization Frequently Asked Questions." Business Services Online (BSO); https://www.ssa.gov/employer/randomizationfaqs.html.

[12] Puckett, 2009. See footnote 6.

[13] Form SS-5 can be found at http://www.socialsecurity.gov/online/ss-5.pdf.

[14] Puckett, 2009. See footnote 6.

[15] Federal Trade Commission. "Security in Numbers: SSNs and ID Theft." Federal Trade Commission Report, December 2008; https://www.ftc.gov/sites/default/files/documents/reports/security-numbers-social-security-numbers-and-identity-theft-federal-trade-commission-report/p075414ssnreport.pdf.

[16] Puckett, 2009. See footnote 6.

Name____________________________________ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics*®:

"Your Social Security Number: The 9-Digit Evolution"

After reading the article, select the best answer to each question.

1. The SSA began randomly assigning SSNs in 2011, and it
   a. assigns SSNs according to the state of birth of individuals.
   b. assigns SSNs according to the zip code of individuals.
   c. removes the geographical significance of the area number.
   d. increases the geographical significance of the serial number.

2. The first SSNs were issued
   a. only in person at the Social Security Headquarters.
   b. in the same year the Social Security Act was signed.
   c. by the Internal Revenue Service.
   d. by the United States Postal Service.

3. The responsibility for collecting payroll taxes is given to
   a. the Social Security Administration.
   b. the Internal Revenue Service.
   c. each of the Social Security field offices.
   d. the United States Postal Service.

4. Today, an SSN is required
   a. to be displayed on a driver's license.
   b. to file federal income taxes.
   c. to be displayed on birth certificates.
   d. for exactly the same things as in 1936.

5. Identity theft of your SSN can be very damaging. One effective way to prevent the theft is to
   a. always carry your Social Security card with you.
   b. monitor your credit report.
   c. never share your SSN for any reason.
   d. close all credit card accounts.

6. The ______________ demand for greater protection of personal data has created new markets that claim to ______________ protection of personal data.
   a. decreasing; decrease
   b. increasing; decrease
   c. decreasing; increase
   d. increasing; increase

7. The original purpose of the SSN was to
   a. identify taxpayers filing income tax forms.
   b. maintain accurate records of workers' earnings.
   c. maintain accurate birth and death records.
   d. help prevent identify theft when using advanced technology.

8. The age of technology has ______________ SSN usage while ______________ the need for security.
   a. increased; increasing
   b. decreased; increasing
   c. decreased; decreasing
   d. increased; decreasing

9. The Social Security Act of 1935 was
   a. signed after the Social Security Administration had the system organized, complete, and ready to go.
   b. written to avoid any unintended consequences in the future for people over age 65.
   c. designed primarily to provide financial benefits in the future for people over age 65.
   d. designed primarily to provide immediate financial benefits to people during the worst years of the Great Depression.

10. Payroll taxes are commonly called "FICA" taxes because
    a. this is an abbreviation for the Federal Insurance Contributions Act of 1935.
    b. this is an abbreviation for the Federal Income Tax Act of 1936.
    c. they are named for John Fica, who wrote the details of payroll tax collecting.
    d. they are designed according to the Federal Insurance Check Act.

11. FICA taxes are
    a. paid voluntarily.
    b. paid because of law.
    c. only paid by employees.
    d. only paid by employers.

12. Juanita and Frederick were both issued an SSN in 1960. Juanita lives in Tennessee and Frederick lives in California.
    a. The area numbers for both Juanita's and Frederick's SSN will probably be the same since they were issued in the same year.
    b. Juanita's SSN will probably have higher area numbers, while Frederick's SSN will probably have lower area numbers.
    c. Juanita's SSN will probably have lower area numbers, while Frederick's SSN will probably have higher area numbers.
    d. Juanita's SSN will probably have only two digits for the area numbers, while Frederick's SSN will probably have three digits for the area numbers.

Focus on **FINANCE**

Unemployment Insurance: A Tried and True Safety Net

Jeannette N. Bennett, Senior Economic Education Specialist

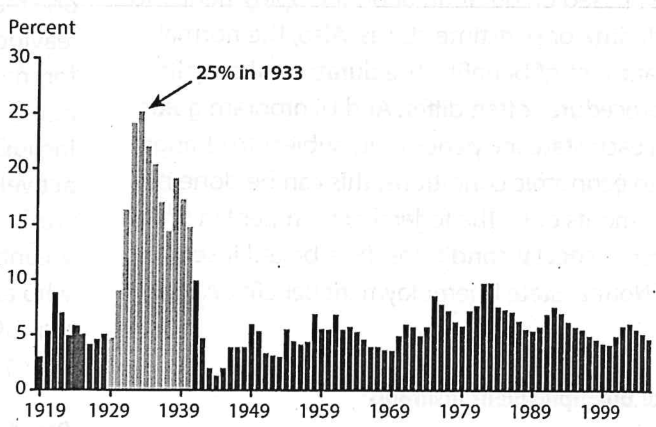
"Of all the aspects of social misery nothing is so heartbreaking as unemployment."
—Jane Addams

What happens when workers lose their jobs through no fault of their own? How do they manage with the loss of income? Today, every state has an unemployment insurance (UI) program that provides some income to these **unemployed** workers. But how did UI begin and how does it work?

The prosperous times of the 1920s set an expectation of having employment and money to spend. Electricity, radios, refrigerators, and even cars became more affordable. And with employment opportunities, people grew accustomed to the good times of the "Roaring Twenties" and thought they would last forever.

But beginning in 1929, things changed. The Great Depression brought an economic catastrophe with a challenging crisis. Between 1929 and 1933, the **unemployment rate** soared to 25 percent of the **labor force** (Figure 1). The effects were alarming and in stark contrast to the 1920s. Without a safety net, a lost job meant no income. Many became homeless with no means to support their families. And the struggles began.

Figure 1
Civilian Unemployment Rate, 1919-2006



SOURCE: Federal Reserve Bank of St. Louis; https://www.stlouisfed.org/education/great-depression-curriculum-unit.

GLOSSARY

Depression: A severe and long-lasting economic downturn that is worse and deeper than a recession; a severe reduction in gross domestic product (GDP).

Employee: A person who works for an employer in exchange for a monetary payment.

Employer: A person or business providing a job or work to others and giving a monetary payment in exchange for the work.

Extended unemployment benefits: Additional weeks of benefits available to workers who have exhausted regular unemployment insurance benefits during periods of high unemployment.

Labor force: The total number of workers, including both the employed and the unemployed.

Recession: A period of declining real income and rising unemployment; significant decline in general economic activity extending over a period of time.

Taxes: Fees charged on business and individual income, activities, property, or products by governments. People are required to pay taxes.

Unemployed: People 16 years of age and older who are without jobs and actively seeking work.

Unemployment compensation: A program providing cash benefits for a specified period of time to workers who lose a job through no fault of their own. Also known as unemployment insurance.

Unemployment rate: The percentage of the labor force that is willing and able to work, does not currently have a job, and is actively looking for employment.

Federal-State Partnership

Struggles and crises can bring innovative ideas and reform. And that's exactly what happened during the Great Depression. The ugly picture of severe **depression** with despair and poverty brought a renewed interest in and attention to providing **unemployment compensation** (UC).

Programs were tried at the state level. Wisconsin led the way and in 1932 became the first state to enact a UI law. A few other states followed with similar programs, which were funded by a **tax** on **employers**.[1] But most states did not. They feared a loss of business and jobs to states that did not tax employers. This created an interstate problem and was, therefore, a direct concern of the federal government.

In 1935, as part of the Social Security Act, the Federal Unemployment Tax Act (FUTA) created the federal-state unemployment insurance program.[2] This act mirrored the earlier state plans, with the purpose of temporarily replacing a portion of wages for workers who had been laid off and who were looking and available for work.

The act gave oversight responsibility to the U.S. Department of Labor (DOL). Within federal guidelines, states were given the freedom and flexibility to set criteria and design their programs. State unemployment offices were created to implement their UI programs and make payments to workers who qualified.

Today, all states have UI programs, but they vary in design. For example, eligibility requirements for receiving benefits vary based on duration of prior employment and whether full-time or part-time status. Also, the normal maximum amount of benefits, the duration of benefits, and claim procedures often differ. And UI program guidelines within each state are periodically subject to change according to economic conditions; this can be done by state governments or by the federal government in times of **recession** or special conditions. (See boxed insert, "Sample of Normal State Unemployment Benefits, August 2020.")[3,4]

Sample of Normal State Unemployment Benefits, August 2020

State	Normal maximum weeks of benefits	Normal maximum weekly benefits
Arkansas	26	$451
California	26	$450
Florida	12	$275
Georgia	14	$365
Indiana	26	$390
Kentucky	26	$552
Louisiana	26	$247
Massachusetts	30	$823
Mississippi	26	$235
Missouri	20	$320
Nevada	26	$469
North Dakota	26	$640
Oklahoma	26	$539
Tennessee	26	$275
Texas	26	$521
Washington	26	$844

Eligibility for Unemployment Insurance

All states require that workers be able to work, available for work, and actively seeking work for UI eligibility. Most states require a work history listing a minimum time worked and a minimum amount of earnings based on a 12-month period.[5]

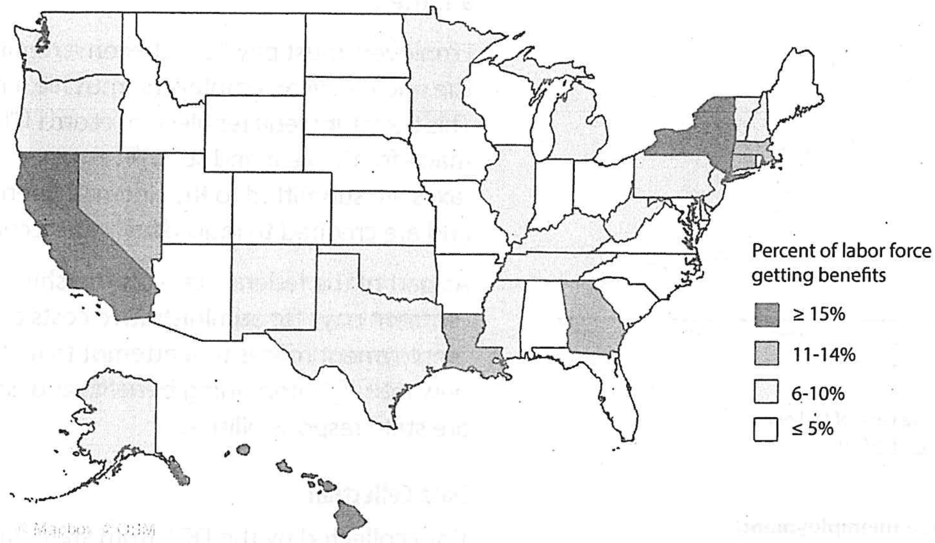
Workers must file claims weekly to maintain eligibility. Any earnings for the period, including job offers accepted or declined, must be reported. This can affect eligibility for receiving benefits and the amount received. Additionally, workers must continue to meet state requirements.[6]

In all states, workers can be denied benefits. Knowingly making false statements to obtain benefit payments is one reason for a denial. Other reasons include voluntarily leaving work without good cause and being discharged for misconduct connected with work. And even after being determined eligible for UI, workers can become ineligible if they're unable to or unavailable for work, not actively seeking work, or refusing an offer of suitable work.[7] UI does not cover people who leave their jobs voluntarily or people looking for their first job. Individuals who are self-employed are normally not entitled to regular UC. Also, certain types of employment, such as charitable work, are excluded from UI coverage.[8]

Benefits

Each state has its own formula for determining unemployment benefits. And the number of unemployed workers

Figure 2
Percent of Labor Force Getting Unemployment Benefits, August 27, 2020



SOURCE: *Stateline* analysis of U.S. Department of Labor and U.S. Bureau of Labor Statistics.

receiving UC changes according to economic conditions (Figure 2).[9] Generally, benefits are calculated as a percentage of a worker's income over the past year, up to a certain maximum. And some states pay reduced benefits for part-time work, which provides only a small amount of income. Since payments are capped, UI may replace a smaller share of previous earnings for higher-income workers than for lower-income workers. The earnings and work history requirements can especially affect low-wage workers. They may not qualify for unemployment benefits, because many may not have had previous steady employment. States' eligibility rules may require a certain amount of steady earnings from a worker over the previous year.[10]

Today, in most states the regular program provides up to 26 weeks of benefits to workers who qualify. However, this does not mean all workers receive the benefits for the entire time—only for the time they qualify.

Benefits can be received on a state-issued, prepaid debit card. Or UC can be directly deposited into a personal bank or credit union account, or onto an existing prepaid card. Some states will send payments by paper check.[11] UC payments are taxable income and must be reported on federal income tax returns.[12] Also, in states that have a state income tax, UC may be subject to this tax.

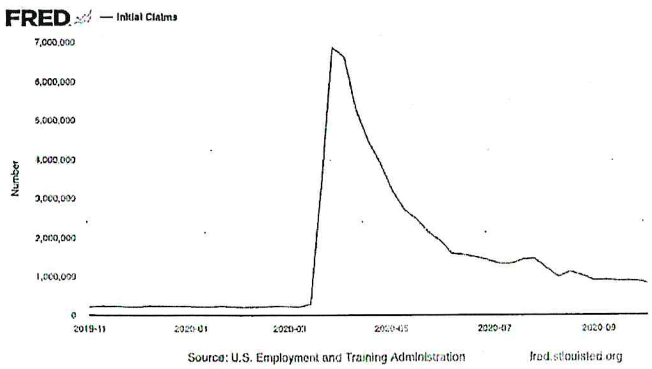
Extended Benefits

UI programs often change. In times of recession or special economic conditions, workers may receive **extended unemployment benefits**. For example, a state may pay UC for a longer period of time when the state's unemployment rate increases. Also, Congress can approve additional payment amounts, extend the amount of time people can receive benefits, and expand eligibility to include part-time workers during times of high unemployment.[13] For example, in response to the COVID-19 pandemic, Federal Pandemic Unemployment Compensation (FPUC) was enacted in March 2020. The DOL gave instructions to administer an additional $600 weekly payment to individuals who were collecting regular UC. The additional FPUC benefit payments were fully federally funded. The temporary boost to regular UC was scheduled to end after a person's last week of unemployment before July 31, 2020.[14]

Who Pays for Unemployment Insurance?

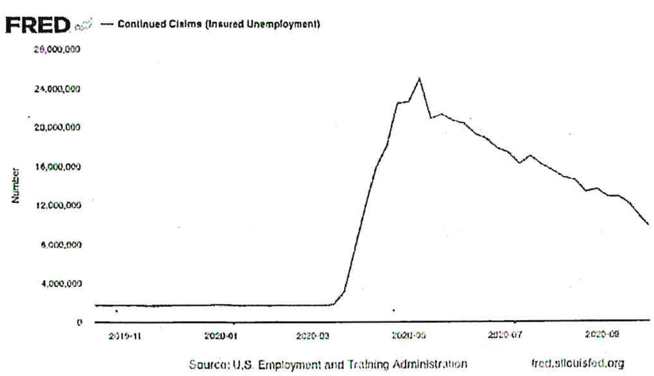
The regular UI program is generally funded by employers. Most employers pay both federal and state unemployment taxes.[15] The unemployment taxes are based on the amount of wages paid to **employees** and are determined as a percentage of an employee's wages. The FUTA tax

Figure 3
Initial Claims



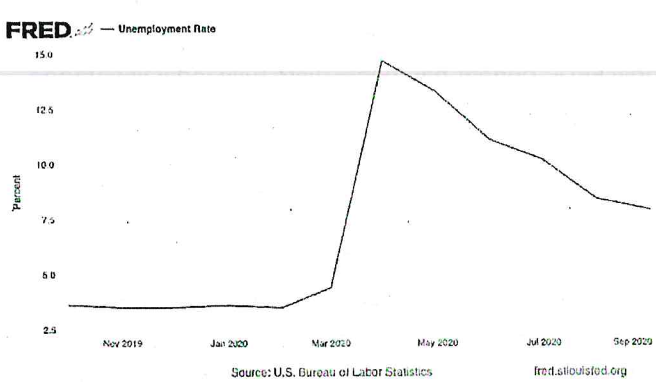
SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/ICSA#0.

Figure 4
Continued Claims (Insured Unemployment)



SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/CCSA#0.

Figure 5
Unemployment Rate



SOURCE: FRED®, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/UNRATE#0.

rate is the same for all employers in all states. However, the state employment tax varies from one state to another.

Employers must pay FUTA tax on a regular basis. And at the end of a year, employers must file a FUTA tax return. This tax return requires filers to record FUTA tax payments made for the year and submit any payment due. FUTA taxes are submitted to the Internal Revenue Service (IRS) and are credited to individual state accounts.

As part of the federal-state partnership, the federal government pays for administrative costs and for setting up employment offices that attempt to match workers with new jobs.[16] Determining benefits and issuing payments are state responsibilities.

Data Collection

Data collected by the DOL from state unemployment agencies for the number of UI claims filed weekly are helpful. These data can tell something about the job market. For example, when the number of initial claims is steep, it's an indication of an abrupt loss of jobs (Figure 3). Continued claims (Figure 4) indicate the number of unemployed people who have already filed an initial claim and are filing again so that they keep receiving weekly benefits.

However, many workers who lose their job may not file for UC for a while. And many people remain unemployed after benefits expire. So, UI claims data do not precisely show the number of unemployed persons and are not a measure of the unemployment rate. The unemployment rate is measured quite differently by another agency, the Bureau of Labor Statistics (BLS). The BLS does not use the unemployment claims data to figure the unemployment rate. It uses a system of household surveys to collect information from a representative sample of the U.S. population to calculate the unemployment rate (Figure 5).

Unemployment Insurance Changes

UI programs are subject to ongoing change. For example, over the years the duration of regular UI benefits has increased from 16 weeks to 26 weeks in most states. Also, in some previous UI programs, workers could become eligible for UI after being fired from their job or quitting work. Over the years this became disallowed in all states.[17] Technology has also changed the UI process. In earlier times, workers had to physically go to an unemployment office to file for unemployment benefits. Today, workers can file most everything via cell phone and/or the internet.

Conclusion

The innovative plan for UI in the United States was first tried individually by a few states. FUTA made it a federal-state partnership. And UI programs have changed according to economic conditions, individual states, unemployment rates, and federal intervention. But some things have remained constant: The UI system helps eligible workers who have lost their jobs by temporarily replacing part of their wages. The benefits are especially important during economic downturns and recessions. For example, during the 2020 COVID-19 pandemic, the unemployment rate spiked sharply, but workers could apply for unemployment benefits. Unlike the days of the Great Depression, workers today have some protection from unemployment. The federal-state unemployment insurance program continues to serve its intended purpose with reasonable results. UI has been tried and has remained true to the hopes and ideas of the founders of FUTA.

Notes

1 Price, Daniel. "Unemployment Insurance, Then and Now, 1935-85." *Social Security Bulletin*, October 1985, *48*(10); https://www.ssa.gov/policy/docs/ssb/v48n10/v48n10p22.pdf.

2 Price, 1985. See footnote 1.

3 Justia. "Coronavirus and Unemployment Benefits: 50-State Resources." August 2020 update; https://www.justia.com/covid-19/50-state-covid-19-resources/coronavirus-and-unemployment-benefits-50-state-resources.

4 States periodically update their maximum weeks of UI available based on changes in a state's unemployment rate and when a state's unemployment rate triggers a high unemployment period.

5 Justia, 2020. See footnote 3.

6 U.S. Department of Labor. "Unemployment Insurance: Fact Sheet"; https://oui.doleta.gov/unemploy/docs/factsheet/UI_Program_FactSheet.pdf.

7 U.S. Department of Labor. See footnote 6.

8 *West's Encyclopedia of American Law, Edition 2*, s.v. "Unemployment benefit." Retrieved October 28, 2020, from https://legal-dictionary.thefreedictionary.com/Unemployment+benefit.

9 Henderson, Tim. "Unemployment Likely Rising in 11 States." *Stateline*, an initiative of The Pew Charitable Trusts, August 28, 2020, update; https://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2020/08/28/unemployment-likely-rising-in-11-states?utm_campaign=2020-09-02+Rundown&utm_medium=email&utm_source=Pew.

10 Kovalski, Manuel Alcalá and Sheiner, Louise. "How Does Unemployment Insurance Work? And How Is it Changing During the Coronavirus Pandemic?" *Brookings Institution*, July 20, 2020, update; https://www.brookings.edu/blog/up-front/2020/07/20/how-does-unemployment-insurance-work-and-how-is-it-changing-during-the-coronavirus-pandemic/.

11 Malaiyandi, Sangeetha. "You Have Options for How To Receive Your Unemployment Benefits." *Consumer Financial Protection Bureau*, June 23, 2020; https://www.consumerfinance.gov/about-us/blog/receive-your-unemployment-benefits-options/.

12 U.S. Department of Labor. See footnote 6.

13 U.S. Department of Labor. See footnote 6.

14 U.S. Department of Labor. "U.S. Department of Labor Publishes Guidance on Federal Pandemic Unemployment Compensation"; https://www.dol.gov/newsroom/releases/eta/eta20200404, accessed September 11, 2020.

15 Internal Revenue Service. "Federal Unemployment Tax"; https://www.irs.gov/individuals/international-taxpayers/federal-unemployment-tax.

16 *West's Encyclopedia of American Law, Edition 2*. See footnote 8.

17 Augustinho, David. "Happy 75th Birthday, Unemployment Insurance." *Barnstable Patriot*, August 27, 2010; https://www.barnstablepatriot.com/article/20100827/BUSINESS/308279957.

Name____________________________________ **Period**________

Federal Reserve Bank of St. Louis *Page One Economics*®:

"Unemployment Insurance: A Tried and True Safety Net"

After reading the article, select the best answer to each question.

1. The first unemployment insurance program
   a. began at the federal level.
   b. was funded by a tax on employees.
   c. was designed by the Internal Revenue Service.
   d. began at the state level.

2. Federal unemployment taxes are sent to
   a. the Bureau of Labor Statistics.
   b. the Internal Revenue Service.
   c. the Department of Labor.
   d. state unemployment offices.

3. Data collected by the DOL for weekly UI claims
   a. come from the Bureau of Labor Statistics.
   b. are based on data from state agencies.
   c. will always show the unemployment rate.
   d. are the same for each week.

4. UI is generally funded by
   a. a tax on employees.
   b. a tax on employers.
   c. employers and unemployed workers.
   d. a policy that employees can buy.

5. Although amounts often change, the normal maximum weekly benefits a worker could receive from UI in August 2020 was
   a. the same in Tennessee and Washington.
   b. the same in Tennessee and Florida.
   c. more in Mississippi than in Texas.
   d. the same in every state.

6. To qualify for UI benefits, a worker
   a. can refuse to work.
   b. can be sick and in the hospital.
   c. must be able and available to work.
   d. must file for benefits each day.

7. An unemployed worker received a weekly benefit of $500 in early March 2020. If the worker remained eligible, how much was the weekly benefit at the beginning of April 2020?
   a. $1,100
   b. $750
   c. $800
   d. $600

8. Data collected by the DOL from state agencies for both initial and continued unemployment insurance claims
   a. are helpful in learning about the job market.
   b. show exactly the same things.
   c. are used for arriving at the unemployment rate.
   d. remain unchanged from week to week.

9. Federal unemployment taxes are called "FUTA" taxes and are
   a. determined by the state in which a worker works.
   b. paid only by an employee to the IRS.
   c. paid by employers to the DOL.
   d. based on the amount of wages paid to employees.

10. The unemployment rate increased sharply
    a. during the Great Depression and decreased when COVID-19 hit in 2020.
    b. during the Great Depression and when COVID-19 hit in 2020.
    c. during the 1940s and 1950s.
    d. during the 1970s and 1980s.

11. Extended unemployment benefits
    a. can only be given by individual states.
    b. can be given by both individual states and the federal government.
    c. are only available with federal approval.
    d. were not given when COVID-19 hit in 2020.

12. The FUTA was passed in 1935 and gave
    a. full control of all UI programs to the DOL.
    b. full control of the design of individual state UI programs to the BLS.
    c. all states the freedom to design their own UI programs.
    d. full control of the design of individual state UI programs to the IRS.

13. Most states have
    a. 26 weeks as the normal maximum number of weeks of benefits.
    b. more than $800 for the normal maximum benefits.
    c. less than 12 weeks as the normal maximum number of weeks of benefits.
    d. more than 26 weeks as the normal maximum number of weeks of benefits.

14. Juan is unemployed and has filed an unemployment claim for the first time. His claim will be counted
    a. as part of the initial claim data for the week he filed.
    b. as part of the initial claim and continued claims data for the week he filed.
    c. in the total number of continued claims for the week.
    d. in the data collected by BLS to calculate the unemployment rate.

15. The UI programs in each state
    a. all require that claims be filed the day after a worker becomes unemployed.
    b. provide a safety net for workers who lose jobs through no fault of their own.
    c. are designed at the federal level and are basically all the same.
    d. cannot deny benefits to unemployed workers for any reason.

16. The number of unemployment insurance claims is used to determine the unemployment rate.
    a. True
    b. False

17. The number of initial unemployment insurance claims is different from the number of continued claims.
    a. True
    b. False

18. The number of initial unemployment insurance claims decreased sharply in March 2020.
    a. True
    b. False