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Extending Unemployment Insurance to Cover Excluded Workers

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State Administration
Hon. Wendy Carrillo, Chair



LEGISLATIVE ANALYST'S OFFICE

California's Unemployment Insurance Program

Overview. California's Unemployment Insurance (UI) program is a state-federal partnership that provides temporary wage replacement to unemployed workers. The program helps alleviate economic challenges for workers and their families when job losses occur and helps bolster the state economy during downturns.

Benefit Amounts and Duration. The program is intended to replace half of workers' wages for up to 26 weeks. State law sets the maximum benefit at \$450 per week. Due to the cap, workers who make more than \$46,000 per year—about 40 percent of UI recipients—get payments that are less than half their usual earnings. Overall, the average benefit is about \$330 per week.

Businesses Pay Payroll Taxes to Cover UI Payments and Overhead Costs. Businesses pay state and federal UI payroll taxes. Revenue from the state tax, which averages 3.6 percent on the first \$7,000 in wages (\$252 per worker each year), goes into the UI trust fund to pay out future benefits. Federal law requires states to tax the first \$7,000 in wages at a minimum. Most states tax a higher amount. Revenue from the federal tax is distributed back to states to cover a portion of administrative costs.



Who Is Eligible for Unemployment Insurance?

Most, but Not All, Workers Are Covered by State's UI Program. More than 80 percent of California workers are covered by UI. All payroll employees are covered by UI. Other kinds of workers, such as independent contractors, self-employed individuals, informal workers, and the state's 1.6 million undocumented workers are not covered.

Federal Law Sets Basic UI Program Rules, Including Standards That Dictate Eligibility. States must operate their UI programs within broad federal guidelines that set out who is eligible for benefits. To be eligible under federal guidelines, an unemployed worker must be "able and available" to work. Undocumented workers without federal work authorization are not legally able to work and therefore do not meet this requirement.



Federal Government Expanded Eligibility During Pandemic

Federal Pandemic Unemployment Assistance (PUA) for Self-Employed Workers. To assist workers during the pandemic, the federal government enacted a one-time, temporary expansion of UI for workers who would typically not qualify. Self-employed workers were the largest group of PUA recipients. The PUA program provided weekly payments of either \$300 or \$600 regardless of prior income. The temporary federal program ended in 2021.

Undocumented Workers Were Not Eligible for Federal PUA Benefits. For the same reason that undocumented workers are not eligible for normal UI benefits under federal law (the able and available requirement), these workers were not eligible for the temporary, expanded benefits.



California and Other States Provided Further One-Time Relief

Twelve States Temporarily Expanded UI Benefits Further Than Federal PUA Program. Beginning in 2020, several states enacted one-time cash assistance programs specifically for undocumented workers. These programs tended to resemble the simpler federal PUA benefit scheme rather than traditional UI. States that took these one-time steps included California, New York, Colorado, Illinois, Massachusetts, New Jersey, Oregon, and Washington. New York's program was the largest by far (\$2.1 billion overall), followed by Washington (\$340 million) and California (\$125 million).

California's One-Time Relief Program. California's program, the Disaster Relief Assistance for Immigrants (DRAI), provided one-time, pre-paid \$500 debit cards to undocumented workers who were ineligible for federal assistance. The state's Department of Social Services administered the program and distributed 150,000 cards.

California Also Provided Additional Relief to Some Undocumented Workers. Under two rounds of the Golden State Stimulus, the state provided cash assistance to low- and middle-income taxpayers during the pandemic. Undocumented workers who file their taxes using an Individual Taxpayer Identification Number (ITIN) and have a dependent were eligible to receive Golden State Stimulus funds. About half (800,000) of all undocumented workers in the state file taxes using an ITIN. The administration reports that the state distributed \$955 million in total to undocumented taxpayers via state stimulus payments.



Colorado Enacted Small, Permanent UI Program for Undocumented Workers

Program Redirected Surcharge on Payroll Tax to Cover Expanded Benefits. In 2022, Colorado enacted the Benefit Recovery Fund, a UI benefit program for undocumented workers with an ongoing funding source. Under Colorado law, the fund is limited to \$30 million. State officials estimate that, under this limit, roughly 2,500 workers could receive state benefits each year. The fund is supported by a small surcharge on the employer UI payroll tax that had previously been used to fund state workforce development programs.

Colorado Paid Down Federal UI Loan at the Same Time. Colorado's expanded program was enacted as part of a broader package of state UI action. At the same time that Colorado expanded UI to undocumented workers, the state also agreed to pay down \$600 million in federal UI debt (out of a total of \$1 billion) that the state had accumulated during the pandemic. Under existing federal law, Colorado employers would have instead repaid that amount over time through higher federal UI payroll tax rates.

