

Congress of the United States
U.S. House of Representatives
COMMITTEE ON WAYS AND MEANS

WASHINGTON, DC 20515

SUBCOMMITTEE ON HUMAN RESOURCES

March 12, 2004

Accuracy Alert #2 on Extending Unemployment Benefits:
The States Cannot Extend Unemployment Benefits
Using So-Called Reed Act Distributions

Dear Democratic Colleague:

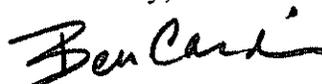
Opponents of extending unemployment benefits have said the states can address the problem with funds, known as Reed Act distributions, sent to them in 2002 to improve the solvency of their unemployment insurance (UI) trust funds and to improve UI benefits and coverage. However, this assertion overlooks several important facts.

First, according to the law, and according to guidance issued by the Department of Labor on April 22, 2002, states are not allowed to directly spend their Reed Act funds on extending unemployment benefits (unless the individual has exhausted benefits under the recently terminated federal extended benefits program – meaning it cannot help those now running out of regular benefits).

Second, even if states used their Reed Act funds to somehow free up other monies to extend benefits, at least seven states already have spent every dime of their Reed Act allotment (Illinois, Minnesota, Missouri, New York, North Carolina, Texas, and Wyoming). Many other states have only modest amounts of Reed Act funds available to them. For example, California is now set to join a half dozen other states in requesting a loan from the federal government to pay *regular* unemployment compensation.

And third, a General Accounting Office (GAO) report suggests that as many as 30 states may have to raise taxes on employers if they spend their Reed Act funds (because tax increases are automatically triggered when their unemployment trust funds dip below certain solvency levels). Rather than blaming the states, we should extend benefits with the money already saved just for that purpose in the Federal Unemployment Trust Funds.

Sincerely,



Benjamin L. Cardin
Ranking Member