

Federal Sequestration of Unemployment Insurance Funds



NC DEPARTMENT
of COMMERCE
EMPLOYMENT SECURITY

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N.C. Division of Employment Security

Federal Sequestration and Unemployment Insurance

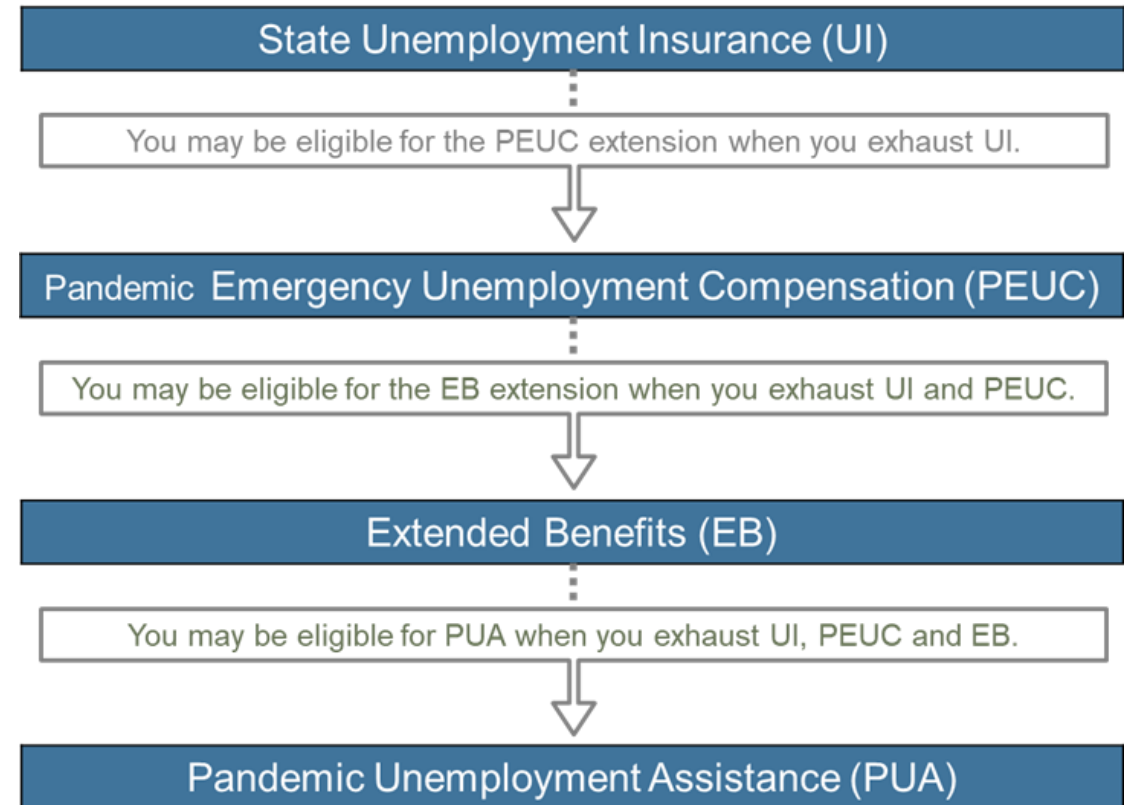


States have received two federal sequestration orders related to Extended Benefits, creating an unprecedented situation in North Carolina.

- The federal Budget Control Act of 2011 requires reductions in budgetary authority (sequestration) if specified federal deficit reductions are not met.
- As a result, sequestration rules have been in effect since Fiscal Year 2013.
- Sequestration rules apply to some mandatory unemployment insurance programs, most notably the Extended Benefits (EB) program.
- States are ultimately responsible for covering the amount of sequestration from claimants' EB weekly benefit amounts or from their own state funds.
- No previous sequestration orders have applied to North Carolina. Before the COVID-19 pandemic drastically increased unemployment last year, the last time North Carolina was on Extended Benefits was in 2012.

Reminder: What is the Extended Benefits Program?

- Extended Benefits (EB) is a federal extension to state unemployment insurance benefits that is available during periods of high unemployment in a state.
- Due to changes in the state's total unemployment rate, North Carolina triggered on to an Extended Benefits period in May 2020 and will trigger off on February 20, 2021.
- During the COVID-19 pandemic, claimants became eligible for Extended Benefits after exhausting state unemployment insurance benefits and the federal Pandemic Emergency Unemployment Compensation (PEUC) extension.



Two Sequestration Orders



States have received two federal sequestration orders for Extended Benefits. Both are retroactive to cover weeks of benefits already paid.

- **Federal Fiscal Year 2021**
 - Order issued January 19, 2021.
 - For weeks ending September 26, 2020 – September 25, 2021.
 - Reduction of 5.7% of the 50% federal share of the claimant's weekly benefit amount.

- **Federal Fiscal Year 2020**
 - Order issued September 16, 2019.
 - For weeks ending October 5, 2019 – October 3, 2020.
 - Reduction of 5.9% of the 50% federal share of the claimant's weekly benefit amount.

- **Estimated Impact to North Carolina: Approximately \$7 million**

Potential Ways to Address Cost of Sequestration



- **Reduce claimants' weekly benefit amounts for Extended Benefits.**
 - N.C. Gen. Stat. § 96-14.14(e) and (f) require DES to reduce claimants' weekly benefit amounts to cover sequestration.
 - In this case, overpayments would be created for roughly 200,000 claimants to recover benefits already paid. This would be due to no fault of the claimants or DES.
 - A high administrative burden to recover small dollar amounts per claimant would result.

- **Revise statute to designate another funding source for sequestration.**
 - Federal law does not require states to reduce weekly benefit amounts for sequestration.
 - Permanent change. Designate a funding source to pay for sequestration orders, such as the UI Reserve Fund.
 - One-time change. Designate funds to cover approximately \$7 million for the two current orders.

- **States may raise concerns and request federal relief from sequestration.**
 - States are discussing retroactive nature of orders and other concerns.
 - No guarantees that any federal relief will be granted.