CONGRESS OF THE UNITED STATES
CONGRESSIONAL BUDGET OFFICE

FEBRUARY 1990

Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits

A CBO STUDY

CBO Publication
#510

S U M M A R Y

February 1990

CBO STUDY ON UNEMPLOYMENT INSURANCE RECIPIENTS

As background for Congressional consideration of proposals to make Unemployment Insurance (UI) benefits more widely available in periods and places of high unemployment, the Congressional Budget Office (CBO) has published a new study, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits*. Many families who would probably gain from an extension of UI remain needy after UI ends, according to the study. Nonetheless, wide variation in economic well-being exists among the families that would be affected, with many having incomes close to the level when the UI recipients were employed. Prepared at the request of the Subcommittee on Human Resources of the House Committee on Ways and Means, this study examines the family incomes of long-term UI recipients during and after their UI receipt.

The federal/state UI system has provided cash benefits for over half a century to workers who are involuntarily unemployed. Under the regular UI program, up to 26 weeks of benefits are usually available to unemployed workers who meet the eligibility requirements. Under the Extended Benefit program, additional assistance has been available since 1970 in states where the insured unemployment rate is sufficiently high.

Based on data about the family incomes of workers who received UI benefits for four or more consecutive months during the 1984-1986 period, the study found:

- Within these long-term periods of UI receipt, the combination of UI benefits and earnings of other family members kept the average unemployed worker's monthly family income at 78 percent of its level three months before UI began. At least one other person was working in 60 percent of the UI recipients' families. About 20 percent of long-term recipients had monthly family incomes below the poverty line; without UI, up to 45 percent might have been poor.

- Three months after UI benefits stopped, two-thirds of long-term recipients were back at work, with average family incomes similar to their levels three months before UI began.

- The remaining one-third of long-term recipients was not working three months after UI ended; their average family income was only two-thirds of its level before UI began. One in three of these recipients was poor on a monthly basis. Worst off among UI recipients still not working were those with no other earners in their families; two in three were poor.

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BUDGET OFFICE
Second and D Streets, S.W.
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FAMILY INCOMES OF UNEMPLOYMENT INSURANCE RECIPIENTS AND THE IMPLICATIONS FOR EXTENDING BENEFITS

The Congress of the United States
Congressional Budget Office

NOTES

Details in the text and tables of this study may not add to totals because of rounding.

The cover photograph was taken by Gordon Parks for the Office of War Information in 1943. It is from the Library of Congress Prints and Photographs Collection.

PREFACE

The federal/state Unemployment Insurance (UI) program currently provides two levels of benefits to eligible unemployed workers. Regular benefits are available for up to 26 weeks in most states; extended benefits are available for up to 13 additional weeks to those who exhaust regular benefits in states with sufficiently high unemployment. Proposals have been put forward to replace the latter program with a more comprehensive one. At the request of the Subcommittee on Human Resources of the House Committee on Ways and Means, this study examines the economic condition of long-term UI recipients and their families. In accordance with the Congressional Budget Office's (CBO's) mandate to provide objective and impartial analysis, this study contains no recommendations.

Ralph E. Smith and Bruce Vavrichek of the CBO's Human Resources and Community Development Division prepared the study under the supervision of Nancy M. Gordon. Many persons provided valuable contributions, including Walter Corson, Robert W. Hartman, Richard Hobbie, George Iden, Michael Miller, Paul Ryscavage, Wayne Vroman, Stephen Wandner, and Roberton C. Williams. Jodi Korb and Karen Smith provided extensive computer assistance. Sheila Harty edited the manuscript. Sharon Corbin-Jallow prepared drafts of the manuscript, and Robert T. Whitney prepared the paper for publication.

Robert D. Reischauer
Director

February 1990

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SUMMARY

The federal/state Unemployment Insurance (UI) system has provided cash benefits for over half a century to workers who are involuntarily unemployed. Under the regular UI program, up to 26 weeks of benefits are usually available to unemployed workers who meet the eligibility requirements. Under the Extended Benefit (EB) program, additional assistance has been available since 1970 in states where the insured unemployment rate is sufficiently high. Through ad hoc extensions in response to major recent recessions, supplemental assistance was also temporarily available. The bulk of spending on UI is through the regular program--with outlays of nearly $14 billion in fiscal year 1989. Spending on EB has been low in recent years as a result of relatively low unemployment, a general decline in the share of unemployed workers receiving UI benefits, and changes in the EB program made in the early 1980s.

Some Members of Congress have proposed to establish a more comprehensive program for extending UI benefits in periods and places of high unemployment. As background for Congressional consideration of these proposals, this study examines the economic condition of long-term UI recipients and their families. Analyses of the UI program often focus on its traditional role of temporarily replacing the earnings of unemployed workers. But understanding the role of UI in enabling recipients to maintain their incomes during long periods of unemployment requires an examination of other sources of income as well, especially the earnings of other family members. Unlike the circumstances when the regular UI program was first enacted, the majority of workers today are in families in which at least one other family member has a job. Within this broader context, the role of UI is somewhat diminished, but UI continues to be a major part of the public support system that helps millions of unemployed workers and their families.

Newly available longitudinal data from the Survey of Income and Program Participation (SIPP), conducted by the U.S. Census Bureau, make it possible to examine the contribution of UI benefits to the family incomes of unemployed workers who received benefits between

1984 and 1986 and to trace any subsequent changes in their incomes after the benefits stopped. Based on the SIPP data, the Congressional Budget Office's (CBO's) study provides detailed information on two main topics: the sources and amounts of family income of long-term UI recipients (defined in this study as individuals who received UI benefits for at least four consecutive months) while collecting UI benefits; and the incomes of these recipients and their families after their receipt of UI benefits ended, especially of those who did not return to work.

Although the results of this analysis must be treated with caution because they are based on the experiences of a limited number of UI recipients and because the characteristics and experiences of future UI recipients might differ from those observed in the mid-1980s, the results do provide information relevant to the policy debate on extending UI benefits. In particular, these results help to assess the economic condition of long-term unemployed workers, both while receiving benefits and after the benefits ended.

THE INCOMES OF LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE AND THEIR FAMILIES

In the midst of long-term spells of UI receipt, the average unemployed worker's monthly family income was just under 80 percent of the level before the UI spell began (see Summary Table 1). UI benefits, which replaced nearly one-half of the recipients' lost pre-tax earnings, were an important contribution, raising average incomes from less than 60 percent of their previous total. The earnings of other family members were even more important for many long-term UI recipients. Sixty percent of the long-term recipients were in families where at least one other person was working (usually the recipient's spouse); these earnings were often critical in maintaining family incomes.

Although UI is not a means-tested program, it apparently has prevented a significant fraction of long-term recipients from temporarily having their family income fall below their monthly poverty threshold (defined as one-twelfth of the relevant annual poverty threshold, or about $900 per month in 1985 for a family of four). Few long-term UI recipients had monthly family incomes below these thresholds before they became unemployed, and about 20 percent were poor in the midst of their spell of UI receipt. Yet, about 45 percent of them would have been poor in the absence of UI benefits--if other things, such as the earnings and receipt of welfare payments by the recipients and their families, remained the same. Thus, UI benefits may have prevented up to one-fourth of long-term recipients from having their monthly family incomes fall below the poverty line.

The likelihood of being poor while receiving UI was also closely related to the presence of other earners in the family. The monthly

SUMMARY TABLE 1. EFFECTS OF UNEMPLOYMENT INSURANCE ON THE MONTHLY INCOMES OF LONG-TERM UI RECIPIENTS AND THEIR FAMILIES

	In Base Month[a]	In a Month Within a Long-Term Spell of UI Receipt: Total	Total Excluding UI Benefits[b]	Effect of UI Benefits[b]
Average Monthly Income (Dollars)	2,270	1,770	1,270	500
Average Monthly Income As a Percentage of Income in Base Month	100	78	56	22
Monthly Poverty Rate (Percent)	9[c]	19[c]	46[d]	-27

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation, based on about 1,000 spells of Unemployment Insurance (UI) receipt that lasted for at least four consecutive months in 1984, 1985, and 1986.

a. The third month before the spell of UI began.

b. Based on the assumption that the absence of UI benefits would not have affected other sources of income.

c. The percentage of long-term recipients whose total monthly cash income was less than one-twelfth of the relevant annual poverty threshold.

d. The percentage of long-term recipients who would have been poor if their UI benefits were not counted in total income and if the absence of UI benefits would not have affected their other sources of income.

poverty rate was only 5 percent among long-term recipients in families where someone else was working. Among UI recipients who were the sole earners in their families, however, the poverty rate was over 40 percent. Without UI, these poverty rates would have been about 20 percent and 85 percent, respectively.

WHAT HAPPENED AFTER THE UNEMPLOYMENT INSURANCE BENEFITS STOPPED?

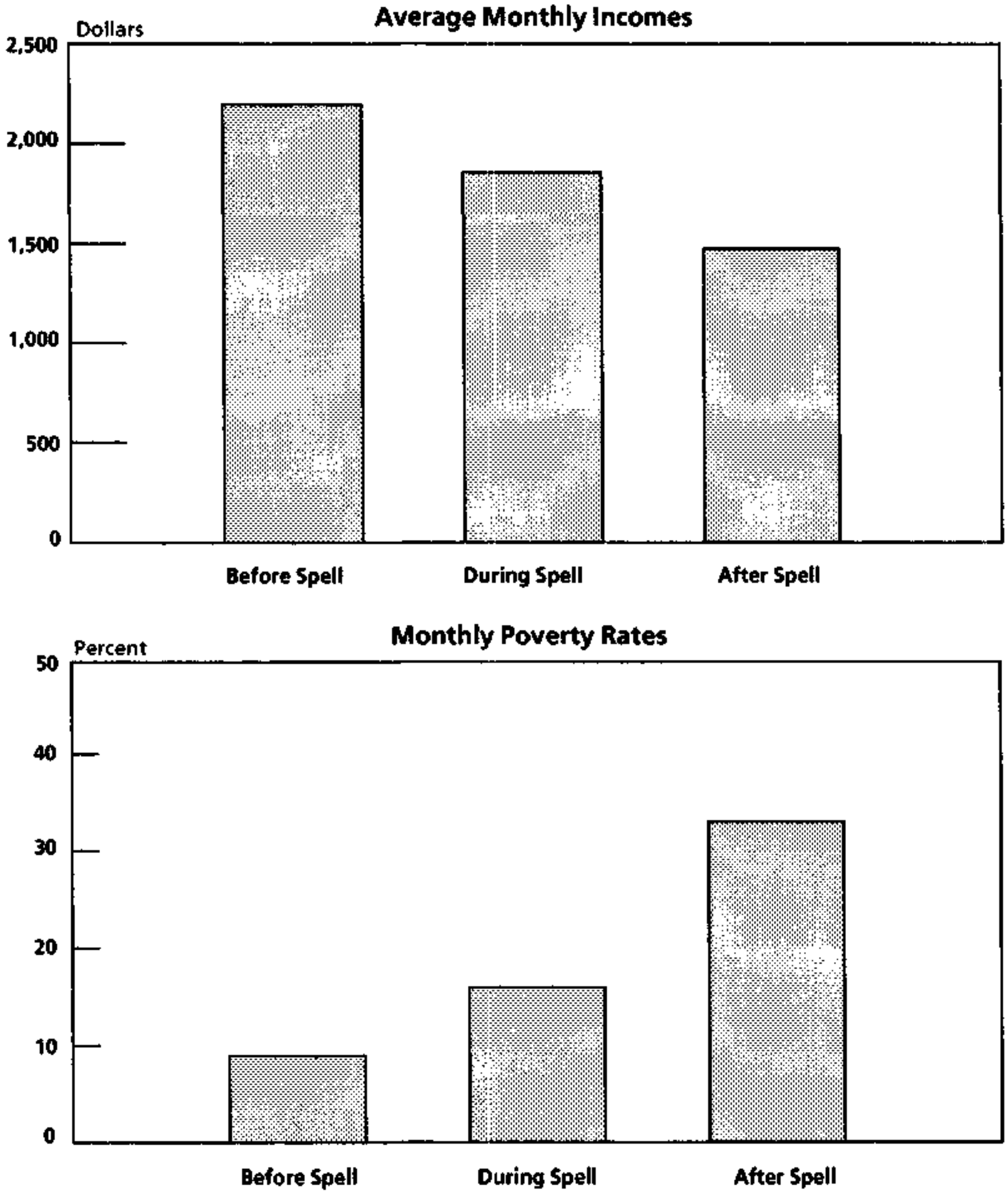
One-third of the long-term UI recipients whose experiences were examined in this study were not working three months after their benefits ended. Their circumstances are particularly relevant to the debate over extending the duration of UI benefits because the bulk of any additional UI payments probably would have gone to them. Some of the other UI recipients who returned to work, however, would probably have continued to be unemployed had UI benefits been extended. They, too, would have received additional UI benefits.

The majority of those not working incurred a substantial reduction in income. Their average family income was only about two-thirds of its level three months before their UI spell began (see Summary Figure 1). About one in three of those not working was poor on a monthly basis, whereas only one in six had been poor while receiving UI benefits. Married women and workers age 55 and older were disproportionately represented among those who had not returned to work, although this outcome might be different in a future recession.

The worst off among the UI recipients who had not returned to work were the approximately 40 percent who had no other earners in their families. Two of every three such families were poor. Overall, this group had an average family income of about $500 per month--only about one-third of its previous level. Social Security benefits and pensions accounted for one-half of this group's average income.

The unemployed living in families with other earners--most often the spouse--fared better, but nonetheless were worse off than before their UI spells had begun. Their average monthly family income was

Summary Figure 1.
Family Incomes and Poverty Rates of Long-Term Unemployment Insurance Recipients Not Working Three Months After Their UI Spells Ended



SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation. See text for description of these data and their limitations.

NOTE: The Unemployment Insurance (UI) recipients in this figure are those who had no earnings three months after the end of their long-term spells of UI (about one-third of the group depicted in Summary Table 1).

nearly $2,100--about 80 percent of its earlier level--and about 10 percent of them were poor. Most of their incomes were the earnings of other family members.

POLICY IMPLICATIONS

Whether to extend the duration of UI benefits and, if so, in what form depends on a range of issues, only some of which can be informed by the data examined here. This study shows that UI generally functions well as a program for temporarily replacing the earnings of experienced workers who lose their jobs. Whether or not additional benefits are needed depends on how one weighs two main findings of this study. On the one hand, many families remain needy after regular UI benefits end. On the other hand, wide variation in economic well-being exists among the workers who would probably be affected by an extension, with many of them (mostly those with other earners in their families) having incomes close to the level when they were employed.

Whether UI would be the appropriate vehicle to deliver additional benefits depends, in large part, on the perceived importance of possible goals of the program. Under current law, UI benefits are provided to unemployed workers based on their previous employment and not on their economic circumstances. Extending the duration of benefits in periods of high unemployment could be consistent with this view of UI as a form of social insurance because UI would then provide the same degree of protection in good times as in bad. In this view, the "same degree" of protection is interpreted as the same likelihood of finding another job before UI benefits end. Another approach consistent with this perspective of UI as social insurance would allow all unemployed workers exhausting their regular UI benefits to receive extended benefits, but would link receipt of extended benefits to the willingness of recipients to participate in work-related programs, such as job clubs and training.

Alternatively, if one views that portion of the UI program beyond regular benefits primarily as redistributive, then increased assistance would be justified only for unemployed workers who are by some measure in greatest need. If an extension is judged by the measure of need that is often applied to welfare programs, such as Food Stamps, the data analyzed in this study suggest that simply extending the duration of UI benefits for all UI recipients would not efficiently target benefits to those in families with the lowest incomes. Thus, under a redistributive approach, restricting extended benefits to those with the lowest family incomes (or the lowest incomes and few assets) might be appropriate.

Another consideration is the priority of this assistance relative to other uses of the funds. Extending the potential duration of UI benefits would help some long-term unemployed workers and their families. It would also be costly, however, if large numbers of workers were assisted. Moreover, the extension itself would encourage some UI recipients to remain unemployed longer.

CHAPTER I

INTRODUCTION

With each major cyclical rise in unemployment, the Congress focuses its attention on ways to help long-term unemployed workers. Prominent among these proposals are some to extend the duration of benefits for unemployed workers who have exhausted the assistance available to them under the federal/state Unemployment Insurance (UI) program. Two levels of UI benefits are available under current law and, in response to recent recessions, a third level of benefits was provided temporarily. The primary purpose of the second and third levels of benefits is to provide workers who remain unemployed with sufficient income to span periods of high unemployment when jobs are especially hard to find.

The first level of UI consists of regular state benefits, which provide up to 26 weeks of assistance in nearly all states. The maximum duration and the weekly benefit amount for each worker is determined by his or her employment and earnings during a recent period. In fiscal year 1989, more than seven million unemployed workers received a total of nearly $14 billion in regular benefits under state UI programs.

The second level of UI is available when unemployment in a state is high. UI recipients in that state can receive up to 13 additional weeks of benefits under the federal-state Extended Benefit (EB) program. This additional assistance, financed equally with state and federal UI tax receipts, becomes available or "triggers on" when the insured unemployment rate (IUR) in a state exceeds certain thresholds. (The IUR is the number of regular UI recipients relative to the number of workers in jobs covered by the UI program.) Expenditures on EB have been low in recent years--generally less than $100 million--as a result of low overall unemployment rates, a general decline in the share of unemployed workers receiving UI benefits, and changes in the EB program made in the early 1980s.

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Finally, the Congress provided a third level of UI in response to major recessions in the 1970s and 1980s. These benefits provided temporary, federally financed assistance for those exhausting all other UI benefits. Spending for these benefits--most recently termed Federal Supplemental Compensation (FSC)--was considerable, reaching a total of more than $12 billion during the 1975-1978 period and more than $11 billion in the 1982-1985 period, both in 1989 dollars.

LEGISLATIVE INTEREST IN EXTENDING UNEMPLOYMENT INSURANCE BENEFITS

Some policymakers have expressed an interest in being prepared for another recession by replacing the EB program with a more comprehensive UI benefit program. Such a program might have a variable duration of assistance, related to state or labor-market-area unemployment rates, and might increasingly use federal funds to pay for longer durations of assistance.

These features, proponents argue, would address several shortcomings of the current EB program. First, the current program may require too high an unemployment rate before benefits are available. For example, only 5 states have had an IUR high enough to qualify for EB at any time since 1984, even though 23 states have had quarterly total unemployment rates above 9 percent at some time during that period. Second, because EB benefits are activated on the state level rather than in counties or labor-market areas, the benefits are not necessarily targeted at geographic areas in greatest need. Third, in the depths of recessions, the EB program provides what some think is an insufficient period of additional assistance. In the high-unemployment periods of the 1970s and 1980s, the Congress enacted major temporary benefit extensions beyond EB. Finally, some proponents also think that ad hoc benefit extensions took too long to enact during recent recessions. In the early 1980s, for instance, the national unemployment rate rose from 7.2 percent to 9.8 percent--within one percentage point of the cyclical high--before an extension was enacted.

THE SCOPE OF THIS ANALYSIS

This study examines long-term UI recipients and their families--the group that would be most affected by modifications to the EB program. The study focuses on recipients' sources and amounts of income while they are collecting UI benefits and after those benefits stop. The policy implications of this new information are also explored.

Chapter II of this study provides a brief overview of the UI program today. Chapter III describes the data used in this analysis and examines some of the characteristics of long-term UI recipients. Chapter IV provides empirical information on the family incomes and post-program experiences of these UI recipients. The final chapter addresses the relevance of this information for proposed extensions of UI assistance.

CHAPTER II

THE UNEMPLOYMENT INSURANCE PROGRAM TODAY

The federal/state Unemployment Insurance program provides weekly cash benefits primarily to involuntarily unemployed workers. Benefits are financed predominantly through federal and state payroll taxes on employers.

Both federal and state laws affect the provision of UI benefits to unemployed workers. The federal government finances administration of the entire UI program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on the operation of state UI programs. Within the constraints of federal law, states develop benefit and tax structures to meet the needs of workers and employers within their boundaries. The states establish eligibility requirements for UI benefits, determine the duration and amount of regular UI benefits, and specify state payroll taxes. As a result, considerable variation exists among state UI programs.

To ensure compliance of state UI programs with federal rules, the federal government grants reductions in the federal UI payroll tax only to employers in states with federally approved programs. All 50 states, the District of Columbia, Puerto Rico, and the Virgin Islands operate UI programs that meet federal guidelines. (Puerto Rico and the Virgin Islands are not included in this study, however, because they are not in the surveys analyzed later.)

ELIGIBILITY AND BENEFIT PROVISIONS OF THE REGULAR UNEMPLOYMENT INSURANCE PROGRAM

About 85 percent of all workers, including nearly all wage and salary workers, are in jobs currently covered by the UI program. Jobs not covered by the program include self employment, certain agricultural and domestic jobs, and work for close relatives.

TABLE 1. SELECTED ELIGIBILITY AND BENEFIT INFORMATION FOR REGULAR UNEMPLOYMENT INSURANCE PROGRAMS, BY STATE, SEPTEMBER 1989

	Earnings Required (Dollars)[a]		Amount of Weekly Benefit (Dollars)[b]			Duration of Benefits (Weeks)			
						Potential			
	Minimum Benefit	Maximum Benefit	Minimum	Maximum	Average Actual[c]	Minimum	Maximum	Average Actual[d]	Exhaustion Rate[e]
Alabama	1,032	11,309	22	145	109	15	26	9.8	19.1
Alaska	1,000	19,750	62	260	152	16	26	16.4	43.6
Arizona	1,500	12,089	40	155	128	12	26	14.3	28.9
Arkansas	1,140	16,302	38	215	129	10	26	12.4	24.6
California	1,200	8,630	30	166	123	12	26	14.2	30.4
Colorado	1,000	23,296	25	224	159	13	26	12.8	30.8
Connecticut	600	9,360	22	284	192	26	26	11.5	18.6
Delaware	966	9,430	20	205	155	24	26	11.0	13.6
D.C.	900	14,716	13	283	201	26	26	19.2	47.1
Florida	400	20,800	10	200	149	10	26	12.7	37.2
Georgia	1,350	18,198	37	175	137	9	26	9.7	20.5
Hawaii	150	7,170	5	239	178	26	26	12.5	18.7
Idaho	1,430	16,900	44	200	143	10	26	11.8	28.5
Illinois	1,600	9,893	51	244	159	26	26	16.3	33.6
Indiana	2,500	9,984	40	161	104	9	26	10.7	20.9
Iowa	900	14,118	32	222	154	11	26	12.3	23.6
Kansas	1,620	16,848	54	216	165	10	26	14.3	29.4
Kentucky	1,500	15,654	22	186	123	15	26	13.0	20.2
Louisiana	1,200	17,428	10	181	105	8	26	16.0	34.6
Maine	2,081	14,040	46	270	148	15	26	10.9	21.4
Maryland	900	7,344	33	205	167	26	26	13.8	21.4
Massachusetts	1,200	21,250	21	382	211	10	30	14.9	29.9
Michigan	2,010	18,200	59	263	186	15	26	16.1	23.4
Minnesota	1,250	19,890	38	255	179	10	26	14.4	28.9
Mississippi	1,200	11,310	30	145	109	13	26	12.5	25.1
Missouri	1,125	11,700	33	150	128	11	26	12.7	29.0
Montana	1,098	16,382	47	190	132	8	26	13.8	33.7
Nebraska	1,200	10,449	20	134	118	20	26	11.6	24.0
Nevada	600	15,132	16	194	151	12	26	12.3	22.1
New Hampshire	2,800	23,500	35	162	124	26	26	5.6	1.8
New Jersey	1,720	15,015	51	258	193	15	26	14.9	34.0
New Mexico	1,079	7,193	33	166	126	19	26	15.7	32.6
New York	1,600	9,780	40	245	164	26	26	17.1	33.0

(Continued)

TABLE 1. (Continued)

	Earnings Required (Dollars)[a]		Amount of Weekly Benefit (Dollars)[b]			Duration of Benefits (Weeks)			
						Potential			
	Minimum Benefit	Maximum Benefit	Minimum	Maximum	Average Actual[c]	Minimum	Maximum	Average Actual[d]	Exhaustion Rate[e]
North Carolina	2,132	18,408	20	236	146	13	26	7.7	12.6
North Dakota	2,795	15,558	43	187	133	12	26	12.8	40.0
Ohio	1,702	8,788	42	268	128	20	26	12.2	22.0
Oklahoma	3,640	9,100	16	197	145	20	26	13.9	29.3
Oregon	1,000	19,040	55	238	151	6	26	13.3	22.2
Pennsylvania	1,320	10,560	40	274	184	16	26	14.5	22.0
Rhode Island	1,600	16,800	58	300	183	12	26	13.0	25.5
South Carolina	900	12,870	20	165	120	15	26	9.6	18.5
South Dakota	1,568	10,917	28	140	118	18	26	10.7	10.7
Tennessee	1,560	16,120	30	155	109	12	26	11.7	25.7
Texas	1,258	20,222	34	210	162	13	26	14.6	38.9
Utah	1,500	20,030	14	208	160	10	26	12.2	27.7
Vermont	1,400	8,010	25	178	137	26	26	11.9	12.5
Virginia	2,800	17,600	56	176	141	12	26	8.1	15.6
Washington	1,500	21,330	59	237	142	16	30	15.0	26.9
West Virginia	2,200	23,200	24	245	139	26	26	14.2	22.4
Wisconsin	1,520	13,000	38	200	155	16	26	12.3	21.9
Wyoming	1,500	16,667	36	200	160	12	26	14.6	28.8

SOURCE: Department of Labor, Unemployment Insurance Service, *Comparison of State Unemployment Insurance Laws* (September 1989); and *UI Data Summary, 2nd quarter of calendar year 1989* (August 1989).

a. Earnings required in the base period, which is usually four consecutive quarters.

b. Benefit amounts for people with no earnings during the week. These amounts include dependents' allowances where available.

c. For the three-month period ending in June 1989.

d. For the one-year period ending in June 1989.

e. Average monthly number of regular UI recipients exhausting benefits between July 1988 and June 1989, divided by the average monthly number of first UI payments made between January 1988 and December 1988.

Eligibility Conditions

Although the UI program covers most jobs, only about one-third of unemployed workers now receive regular UI benefits, primarily because of state restrictions on eligibility. To be eligible for benefits, unemployed workers must have formerly worked in jobs covered by UI, be able to work, be seeking work, and be free from disqualification for reasons such as quitting their last job without good cause or being discharged for misconduct. Recipients also must not refuse an offer of "suitable" work, with the definition of that work varying considerably among states.

Under each state's UI laws, eligibility for UI benefits depends on a worker's experience in covered employment in a preceding "base period," which usually consists of four consecutive calendar quarters. To qualify for benefits, claimants must have earned a specified amount of wages, worked a certain number of weeks, or met some combination of earnings and employment requirements during the base period. These qualifications are intended to measure a worker's prior attachment to the work force.

In terms of base period earnings alone, the amount required to obtain the minimum UI benefit ranges from $150 in Hawaii to $3,640 in Oklahoma, as of September 1989 (see Table 1); the amount required to obtain the largest benefit ranges from $7,170 in Hawaii to $23,500 in New Hampshire. Most states also require that employment be spread over at least two quarters of the base period and that claimants serve a one-week waiting period before benefits are available.

The Amount and Duration of Regular Benefits

The weekly UI benefits received by eligible workers vary widely both within states and among them, depending on prior employment and wages and on state UI laws. The smallest minimum benefit available to an eligible person is $5 a week in Hawaii; the largest maximum benefit (including allowances, where available, for dependents) is $382 a week in Massachusetts.[1] More than one-half of the states tie their maximum weekly benefit to average weekly wages in the state, setting the upper limit between one-half and two-thirds of that amount. In mid-1989, the average weekly UI benefit was about $150 nationwide, ranging from a low of $104 in Indiana to a high of $211 in Massachusetts.

The number of weeks that regular benefits are available also depends on the recipient's previous work experience and on state laws. The shortest benefit period for workers who are eligible is 6 weeks in Oregon; the longest benefit period is 30 weeks in Massachusetts and Washington, although nearly all states have a potential maximum of 26 weeks. Nine states provide the same maximum duration of benefits to all qualified workers, although the amount of their weekly benefit varies by their work experience.

The average actual duration of regular UI benefits for the 1-year period ending in June 1989 was 13.6 weeks nationwide, ranging from fewer than 6 weeks in New Hampshire to more than 17 weeks in New York and more than 19 weeks in the District of Columbia. The share of recipients exhausting regular benefits was 27 percent overall, ranging from a low of under 2 percent in New Hampshire to a high of more than 43 percent in Alaska and slightly more than 47 percent in the District of Columbia.

Combining the maximum weekly benefit with the maximum duration, the maximum potential regular benefit (including dependents' allowances) ranges from a low of $3,484 in Nebraska to a high of $11,460 in Massachusetts. The average actual total benefit was roughly $2,000.

Since 1987, UI benefits have been fully taxable under federal income tax laws.[2] In addition, many states also subject UI benefits to taxation under state income tax laws.

1. Fourteen states supplement regular UI benefits with an allowance for dependents, usually children under the age of 18 and nonworking spouses wholly or mainly supported by the recipient. The allowance is usually a fixed dollar amount of less than $25 a week for each dependent up to certain overall limits.

2. UI benefits first became subject to federal income tax in 1979 for single filers with adjusted gross incomes (including UI) above $20,000 and for married filers with incomes above $25,000. Beginning in 1982, limits were reduced to $12,000 and $18,000, respectively. Under the Tax Reform Act of 1986, UI benefits became fully taxable for tax years beginning after 1986.

EXTENSIONS OF UNEMPLOYMENT INSURANCE BENEFITS

Assistance to workers without jobs is extended if the insured unemployment rate in a given state is sufficiently high and if the potential recipients meet certain criteria. This assistance is available under the permanent Extended Benefit program, and similar benefits were also provided during recent periods of high unemployment under various temporary federal extensions.

Extended Benefits

The federal/state EB program extends the potential duration of UI benefits by one-half of a worker's regular entitlement, but the combined duration cannot exceed 39 weeks. Extended benefits are financed equally with state and federal UI tax receipts--unlike regular benefits, which are paid with state UI funds.

Extended benefits become available in a state when its IUR--the share of workers covered by the state's UI program who are receiving regular benefits--reaches certain levels. In particular, extended benefits are payable when a 13-week average of the state's IUR reaches 5 percent and is at least 20 percent higher than its level during the same 13-week period in the past 2 years. At a state's option, extended benefits are also available when a 13-week average of its IUR is at least 6 percent, without the 20 percent condition being met.

To qualify for extended benefits, unemployed workers must have exhausted their regular UI benefits and, generally, must also have worked at least 20 weeks in the base period that determines eligibility for regular UI. EB recipients who do not have a reasonable probability of returning shortly to their customary work are also required to accept, if available, other lower-paying jobs--as long as those jobs pay at least the minimum wage and at least as much as their UI benefit plus any private unemployment benefits.

The Omnibus Budget Reconciliation Act of 1981 made program changes that significantly reduced the availability of extended benefits. Particular changes included:

- o Raising the EB trigger rates from IURs of 4 percent and 5 percent to 5 percent and 6 percent, respectively;
- o Eliminating the then-existing national trigger mechanism by which extended benefits were available in all states when the national IUR exceeded 4.5 percent;
- o Changing the calculation of the states' IURs by not including EB recipients in the number of UI recipients; and
- o Requiring recipients to have worked the equivalent of 20 weeks in the base period to be eligible for EB.

Other Temporary Extensions

Unlike regular and extended UI benefits that are permanently authorized by federal and state laws, the federal government has also enacted temporary supplemental UI programs by special legislation. Since 1970, three such programs have existed: Temporary Compensation, which provided a third level of UI assistance in 1972; Federal Supplemental Benefits (FSB) of 1975 to 1978; and Federal Supplemental Compensation of 1982 to 1985.

Each of these programs provided additional assistance to long-term unemployed workers who had exhausted all other UI benefits. The Temporary Compensation program provided up to 13 weeks of UI benefits that were financed with federal UI funds. FSB benefits were available for a maximum of 26 weeks--for a combined maximum duration of 65 weeks in all three UI programs--and were also financed primarily with federal UI funds. The maximum duration of FSC benefits ranged from 14 to 24 weeks, depending on the state's unemployment rate and on the worker's regular benefit entitlement. These benefits were financed with federal general funds.

TRENDS IN UNEMPLOYMENT INSURANCE BENEFITS AND PARTICIPATION

Spending on UI benefits has largely followed the cyclical path of unemployment, but other factors have also influenced real (that is, inflation-adjusted) spending and program participation.

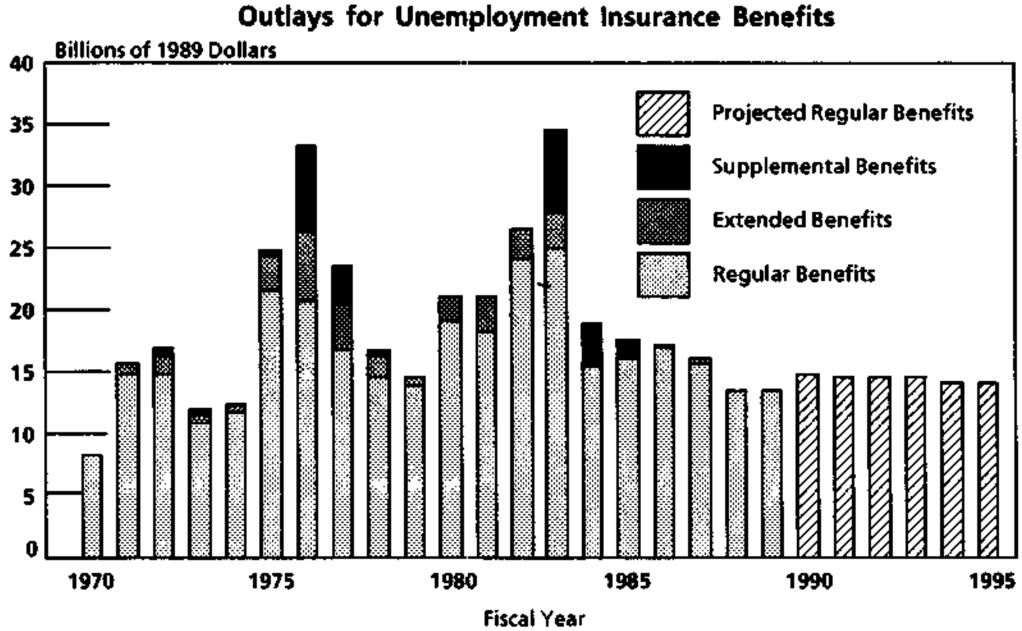
Factors Affecting Real Spending on Benefits

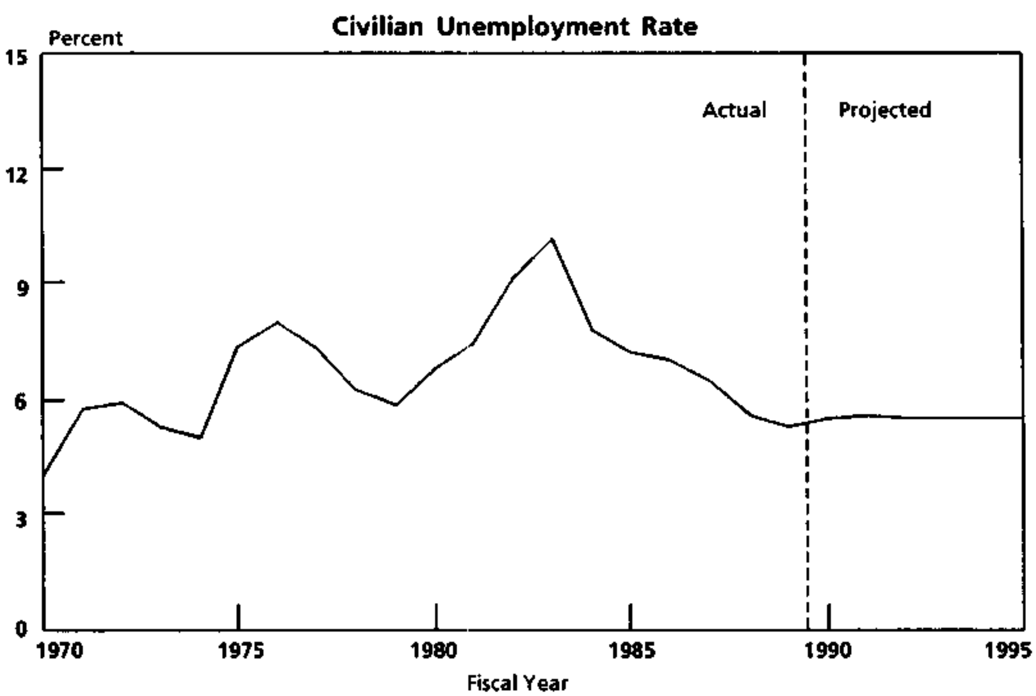
Combined outlays for regular, extended, and supplemental UI benefits reached cyclical peaks in fiscal years 1972, 1976, and 1983, the same years in which unemployment rates hit cyclical highs (see Figure 1). Total UI benefits in those years reached $17 billion, $34 billion, and $35 billion, respectively, in 1989 dollars. By far the largest component of UI spending has been the regular benefit program, which has represented over 80 percent of total UI spending in most years since 1970.

Real spending on regular UI benefits has also been affected by noncyclical factors. The primary ones have been the increase over time in the size of the workforce and expansions in program coverage. Between 1970 and 1989, the size of the civilian workforce increased by nearly 50 percent, rising from 83 million to almost 124 million workers. Program coverage also increased as a share of the workforce in the 1970s, when a variety of previously uncovered groups of workers was brought under the UI program. These two factors resulted in a growing number of workers who were at least potentially eligible for UI benefits if they became unemployed.

Average real weekly UI benefits were nearly the same in 1987 as in 1970, however, as were average real wages in covered employment. Moreover, the average duration of benefits showed primarily cyclical variation during the 1970-1987 period.

Figure 1.
Unemployment Insurance Benefits and Unemployment Rates, 1970-1995





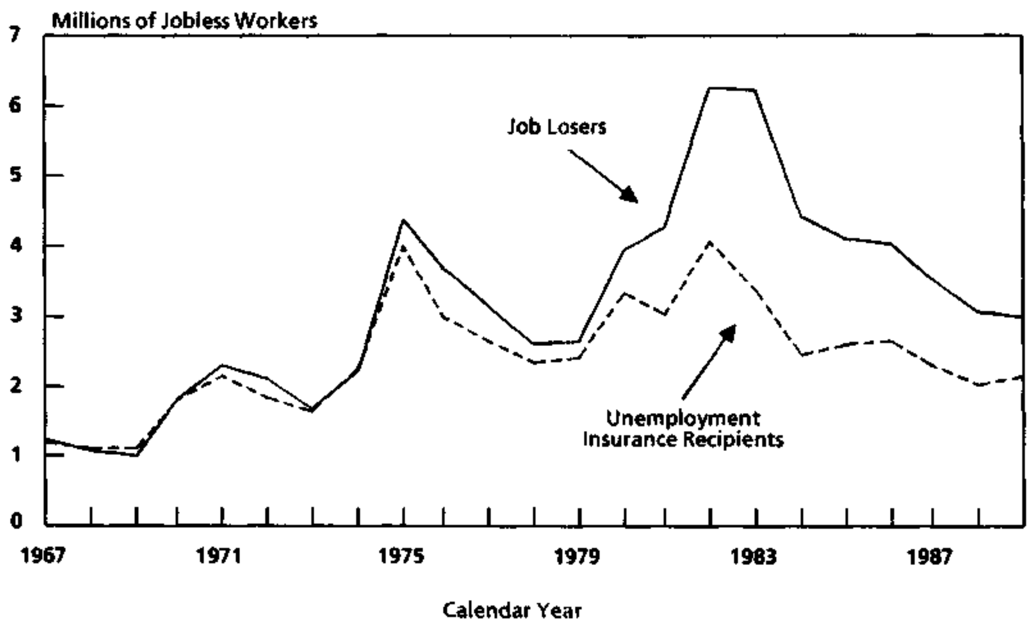
SOURCE: Congressional Budget Office calculations for 1970 through 1989 based, in part, on data from the Department of Labor, and CBO projections for 1990 through 1995.

Recent Declines in the Share of Unemployed Workers Receiving Benefits

An important factor that has held down UI outlays since about 1980 has been a significant decline in the share of unemployed workers receiving benefits. This share, which averaged over 40 percent in the 1970s, fell considerably in the 1980s and stood at about 33 percent in 1989.

Of the four types of unemployed workers identified in labor-market surveys--those who lost their jobs, those who voluntarily left their jobs, and new entrants and reentrants to the labor market--job losers are the primary recipients of UI benefits. As shown in Figure 2, the number of UI recipients was nearly equal to the number of job losers throughout the 1970s. Since about 1980, however, a gap has developed between the sizes of these two groups, with the number of regular UI recipients falling roughly one-third short of the number of job losers.

Figure 2.
Job Losers and Regular Unemployment Insurance Recipients, 1967-1989



SOURCE: Congressional Budget Office based on data from the *Economic Report of the President* (February 1990).

While the reduction in the share of unemployed workers receiving benefits is still not fully understood, a recent study by Mathematica Policy Research (MPR) indicates that rather than having one simple explanation this decline may be attributable to a number of factors.[3] These factors include certain changes in the economy and changes in federal and state UI policies.

MPR found that two major economic changes are likely to have reduced the share of unemployed workers receiving UI benefits. First, workers formerly employed in manufacturing industries are more likely than former workers from many other industries to receive UI benefits. Thus, recent declines in the share of the unemployed whose previous jobs were in manufacturing lowered the share of unemployed receiving UI benefits. Second, shifts in the geographical distribution of unemployment away from the northeastern region of the United States--where a higher share of former workers typically receive benefits--also lowered that share. In addition, improvements in the measurement of unemployment may have increased somewhat the measured level of unemployment relative to the number of UI recipients.[4]

Changes in federal UI policies may also have accounted for some of the reduction in the share of unemployed who receive UI benefits. The newly imposed taxation of UI benefits decreased somewhat the incentive for unemployed workers to collect UI benefits by lowering their after-tax value. As a result, fewer workers may have applied for benefits. Likewise, reductions in the availability of EB beginning in the early 1980s increased the incentive for workers to find jobs more quickly before their regular UI benefits ran out. Thus, the duration of unemployment for some UI recipients was reduced, and the share of unemployed workers receiving benefits was lowered.

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3. Mathematica Policy Research, Inc., *An Examination of Declining UI Claims During the 1980s* (Princeton, New Jersey: MPR, September 1988), Unemployment Insurance Occasional Paper 88-3 (U.S. Department of Labor, 1988).

4. Design and estimation methods used for the Current Population Survey--the government survey that measures the numbers of employed and unemployed people--are continually undergoing change in order to produce better estimates. Particular changes that increased the estimated number of unemployed include rebenchmarking the survey to population counts from the 1980 census and upward adjustments in the counts of Hispanics and undocumented immigrants. See Mathematica Policy Research, Inc., *An Examination of Declining UI Claims During the 1980s.*

Finally, several changes in state UI laws and administrative practices tightened the operations of state UI programs, thereby reducing the share of unemployed workers receiving UI benefits. These changes included:

- An increase in the earnings necessary for the unemployed to qualify in many states for regular UI benefits;

- A greater tendency to disqualify completely workers who voluntarily quit their last job, rather than apply a temporary penalty to them;

- A rise in the rate at which many states deny benefits to workers who lost their last job as a result of misconduct; and

- An increase in the rate at which states deny benefits to applicants who had certain other sources of income, such as pensions.[5]

Some of these changes in state practices may have been partially in response to federal UI policies that provided financial incentives for states to reduce both borrowing from the federal government and program outlays. These policies included interest charges on federal loans to state UI programs (which began in 1982) and the associated provisions under which interest charges could be reduced or deferred. A significant reduction occurred, however, in the rate at which workers were denied benefits because of a failure to be "able and available" for work or because of a refusal to accept a suitable offer of employment. This reduction should have increased somewhat the share of the unemployed receiving UI benefits.

5. One reason for this could be that, beginning in the late 1970s, federal law required that states under certain conditions reduce recipients' UI benefits by part of the amounts they received in public or private pension benefits.

CHAPTER III

CHARACTERISTICS OF UNEMPLOYMENT INSURANCE RECIPIENTS FROM SURVEY DATA

Beginning in late 1983, members of about 20,000 American households were selected to be interviewed by the U.S. Census Bureau every four months for two and one-half years about their incomes and their participation in government benefit programs. Beginning in early 1985, members of a new group of more than 10,000 households were selected to be interviewed over a similar two and one-half year period. This longitudinal database--called the 1984 and 1985 panels of the Survey of Income and Program Participation (SIPP)--provides an opportunity to examine the contribution of Unemployment Insurance to the total income of program recipients and their families and to examine their incomes after UI benefits ended.

THE DATA AND THEIR LIMITATIONS

The estimates presented in this report are largely based on about 3,200 "spells" of UI receipt in 1984, 1985, and 1986. A spell is defined as one or more consecutive months in which an individual reported receiving any UI benefits, preceded and followed by at least three months for which data are available about the recipients and their families. The data available from SIPP are about the incomes of UI recipients and other members of their families for each month before, during, and after the UI spell, as well as about their participation in government benefit programs.[1] The period before the spell of UI receipt is referred to in this study as the "base" month and is the month that occurred three months before the beginning of the UI spell. The period during the spell refers to a month within the spell (two months before the end). The period after the spell refers to the month three months after the spell ended. (For further information about the SIPP data used in this study, see the Appendix.)

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1. SIPP can be used to analyze spells of unemployment, as well as spells of UI receipt. See Paul Ryscavage, "Spells of Job Search and Layoff . . . and Their Outcomes," U.S. Bureau of the Census, *Current Population Reports*, Series P-70, No. 16-RD-2 (1989).

The analysis presented in Chapter IV focuses on spells of UI receipt that lasted for at least four months, which is about one-third of all spells. These "long-term" spells (whose length averaged almost six months) are the most relevant to analyze when considering the possibility of extending the duration of UI benefits. The behavior and economic condition of UI recipients with long-term spells are more likely to typify the unemployed worker who would be assisted by UI extensions than would UI recipients with shorter spells. Moreover, the income data for a month within the spell are more likely to typify those months in which the unemployed workers were receiving UI benefits and had no earnings. Thus, the data on long-term recipients provide a better opportunity to observe the role of UI in replacing lost earnings.

The data about UI recipients in the SIPP survey are broadly consistent with other data about UI recipients in 1984, 1985, and 1986. For example, the demographic characteristics of the recipients in the SIPP sample closely resemble those of the UI recipients in the Current Population Survey (CPS) during these years.

The most important way in which SIPP fails to reflect the actual experience of UI recipients during this period is in substantially undercounting total UI benefits. Compared with administrative records, estimates from SIPP are about one-fourth too low.[2] The majority of this undercount appears to stem from too few respondents reporting UI benefits; the remainder is related to respondents, on average, underreporting the amounts they received.

Several other limitations of the SIPP data affect the findings in this analysis and their applicability for examining current UI policy. The UI spells analyzed here occurred in 1984, 1985, and 1986; therefore, the characteristics of UI recipients who might be affected by future extensions of UI benefits may be quite different. During the 1984-1986 period, the labor market was generally recovering from the unusually high unemployment rates of 1982 and 1983. The civilian unemployment rate (seasonally adjusted) steadily declined during this period from about 8 percent of the labor force in January 1984 to about

2. The underestimate of UI and of other income sources in SIPP--based on the 1984 panel only--is analyzed by Denton R. Vaughan, "Reflections on the Income Estimates from the Initial Panel of the Survey of Income and Program Participation (SIPP)," SIPP Working Paper No. 8906 (1989).

7 percent throughout most of 1986. Recovery in the manufacturing sector was moderate, however, with virtually no growth in employment between late 1984 and late 1986. Also, almost 10 percent of the UI benefits paid in 1984 and 1985 was for Federal Supplemental Compensation, which is no longer available. Long-term UI recipients in a future period of rising or higher unemployment rates could have different characteristics and encounter different problems in the job market.

To explore the possible sensitivity of the findings to the state of the labor market, UI recipients in the 1984 SIPP panel were divided into two groups based on whether or not they resided in a state with a total unemployment rate of at least 9 percent in 1984. A slightly larger share of the UI spells lasted at least four months in the high-unemployment states than in the low-unemployment states. The long-term UI recipients in the two groups of states were similar in other respects, however, including their likelihood of being back at work three months after their UI benefits stopped and their average income losses. Nonetheless, the experiences of UI recipients in a recession may differ from those of UI recipients in nonrecessionary times.

Another limitation of the data is that SIPP was not designed for addressing detailed issues on the structure of UI benefits. In particular, SIPP identifies months in which unemployed workers reported receiving UI benefits, but not specific weeks or whether the benefits were exhausted, thus ending the UI spell. As a result, this analysis overstates the actual duration of some UI spells because the beginning and ending months are not necessarily full months of receipt and because two shorter UI spells could appear to be one longer spell if the worker were employed for a short time. Moreover, SIPP provides data about UI benefits actually received each month, as reported by the survey respondents, but not about the benefits to which recipients might be entitled. For example, no data are directly provided about the maximum potential duration of recipients' benefits or their weekly benefit amount.

Finally, SIPP is limited as a database because the validity of many of the findings cannot be independently verified with estimates from other sources. Thus, the findings presented here must be viewed as indicative of general patterns only, especially those estimates that are based on a small number of observations.

CHARACTERISTICS OF LONG-TERM UNEMPLOYMENT INSURANCE RECIPIENTS

The long-term recipients of UI benefits in 1984, 1985, and 1986 analyzed in this study received about 70 percent of the UI benefits paid to individuals in the SIPP sample (see Table 2).[3] The average recipient was paid $2,600 in UI benefits during a long-term spell of at least four months, but averaging almost six months.

The demographic characteristics of these long-term UI recipients are similar to those of recipients with shorter spells and, except for being somewhat older and having fewer years of schooling, are similar to the characteristics of workers in general. For example, regardless of the length of the spell, most UI recipients were at least age 25 (about 85 percent), and the majority were male. About 85 percent of them were white; about 25 percent had more than 12 years of education. By comparison, about 80 percent of all U.S. workers who were employed in 1985 (the middle year of the 3-year SIPP database) were age 25 or older; 55 percent were male, 85 percent were white, and 40 percent had more than 12 years of education.

About 80 percent of the UI recipients were living with their spouses or other adult relatives while they were receiving benefits (about 65 percent were married, and the remainder were living with their parents or other adult relatives); but nearly 15 percent were either living by themselves or were unrelated to anyone in their households (classified in this study as "living alone"). The remaining 5 percent of the UI recipients were living with children under age 18 but with no other relatives. By comparison, among people who worked

3. The statistics presented throughout this study are based on weighted observations, using weights provided by the Bureau of the Census that reflect differences among population groups in the proportions interviewed. The weights used are the ones applicable to the respondents three months after the end of their spells of UI receipt. Approximately two-thirds of the weighted observations are from the 1984 panel and one-third from the 1985 panel of SIPP, reflecting the relative sizes of the two samples used for this study.

TABLE 2. SELECTED CHARACTERISTICS OF UNEMPLOYMENT INSURANCE RECIPIENTS, BY DURATION OF THEIR UI SPELLS

	All Spells	One or Two Months	Three Months	Four or More Months
Percentage Distribution of Recipients	100	53	13	34
Percentage Distribution of Total UI Benefits	100	18	12	70
Average UI Benefit Received Per Spell (Dollars)	1,240	410	1,130	2,610
All UI Recipients, by Duration (Percent)	100	100	100	100
Age				
Under 25	16	15	17	15
25 to 54	72	73	72	72
55 and over[a]	12	12	11	13
Sex				
Male	59	60	56	58
Female	41	40	44	42
Race				
White	87	87	87	86
Black and other	13	13	13	14
Years of education				
Less than 12	26	28	21	25
12	47	47	53	46
More than 12	26	25	26	29
Family status at beginning of spell[b]				
Married man	40	42	39	38
Married woman	25	25	24	25
Living with adult relatives	16	15	17	19
Living alone	13	13	13	13
Living with children only	5	5	7	5

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

a. Only 5 percent of this group were age 65 and over.

b. Includes recipients who were in a different family status in the months used to represent the incomes before, during, and after the Unemployment Insurance spells; subsequent tables, except Table 3, exclude recipients whose family status changed.

during 1985: about 60 percent were married, 20 percent lived with their parents or other adult relatives, 15 percent lived alone, and 5 percent lived with children only.

These statistics are based on the family status of the UI recipients at the beginning of their spells of UI receipt. Most subsequent tables are based on family status during and after the UI spells ended and exclude almost 9 percent of the SIPP sample because their family status changed. The sample that had not changed family status contained a slightly higher percentage of married recipients.

The family status of the UI recipients is important in determining their economic status because it is closely linked to the presence or absence of other earners in the family, as will be examined in the next chapter. For example, 65 percent of the married men and 85 percent of the married women in the SIPP sample who were long-term UI recipients were in families in which someone else was working. The earnings of relatives, rather than the UI benefits, were often the major source of income for the families of UI recipients in a long-term spell, particularly among married female recipients. Recipients who lived alone did not have this additional source of income available.

CHAPTER IV

FAMILY INCOMES BEFORE, DURING, AND AFTER RECEIPT OF UNEMPLOYMENT INSURANCE BENEFITS

This chapter focuses on the effectiveness of Unemployment Insurance benefits in replacing the lost earnings of long-term UI recipients and in maintaining family incomes. In addition, it considers the economic condition of these families after their receipt of UI benefits had ended. These findings are based on data from the Survey of Income and Program Participation and thus are subject to the limitations described in Chapter III.

UNEMPLOYMENT INSURANCE IN RELATION TO EARNINGS, FAMILY INCOMES, AND POVERTY

Within a long-term (four months or more) spell of UI receipt, the average unemployed worker's monthly family income was 22 percent below its level three months before the spell began--$1,770 versus $2,270; about one-fifth of the families had monthly incomes below the monthly poverty line. Had it not been for the UI benefits, the average loss in income might have been twice as large and almost one-half of the families might have been poor.

Replacing Lost Earnings

The UI program appears to function well for temporarily replacing a portion of the earnings of experienced workers who lost their jobs. This effect is in accordance with the objectives of those who drafted the original legislation in 1935. According to the SIPP survey, the typical (median) recipient received a monthly benefit within a long-term spell of UI that replaced 46 percent of his or her previous earnings (see Table 3). One-fourth of the long-term recipients collected UI benefits that exceeded 60 percent of their monthly earnings in the base month (three months before the long-term UI spell); one-third of the recipients had UI benefits that were less than 40 percent of their previous earnings.

TABLE 3. UNEMPLOYMENT INSURANCE BENEFITS OF LONG-TERM RECIPIENTS, AS A PERCENTAGE OF PREVIOUS EARNINGS

	Median Replacement Rate (Percent)	Percentage Distribution of Recipients by Replacement Rate: Total	Less than 40 Percent	40 to 59 Percent	60 Percent or More
All Long-Term UI Recipients	46	100	35	42	23
Earnings in Base Month					
$1 to $749	63	100	14	34	52
$750 to $1,499	50	100	23	54	23
$1,500 or more	35	100	66	33	1
Family Status					
Married man	45	100	37	45	18
Married woman	50	100	24	46	30
Living with adult relatives	46	100	34	39	26
Living alone	41	100	48	31	21
Living with children only	54	100	a	a	a

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

NOTES: The replacement rates are calculated by dividing the amount of Unemployment Insurance (UI) an individual receives in a month within a long-term spell by the earnings that person received in the base month. A long-term spell lasts at least four months. The base month is the third month before the UI spell began.

The statistics presented in this table are for long-term recipients who reported no earnings during the month of UI receipt used in the calculation and at least $1 of earnings in the base month.

a. Distribution not reported because of small sample size.

These replacement rates of UI to earnings are likely to be higher than what would be calculated using the base-period earnings in administrative records because the latter often reflect what recipients earn in their best recent calendar quarter, rather than in a typical period.[1] Moreover, the month used in this study may be a below-average period.

1. The replacement rates described are for recipients who did not have any earnings during a month within the UI spell and who received at least $1 of earnings in the base month. The median replacement rate for all long-term recipients who had any earnings in the base month, including the 15 percent of recipients who had earnings while receiving UI benefits, was 45 percent--one percentage point lower than the median for the restricted group. All earnings and other sources of income in this report are pre-tax incomes.

Replacement rates for earnings tended to be highest among UI recipients with the lowest previous earnings. The median replacement rate of recipients whose previous monthly earnings were below $750 was 63 percent, compared with only 35 percent for those with previous earnings of $1,500 or more. The replacement rates of married women were generally higher than those of recipients in other categories of family status because, on average, they have lower earnings.

These replacement patterns reflect, in part, the progressive structure of the UI benefit system described in Chapter II. In particular, states generally set their maximum weekly benefit amounts at between one-half and two-thirds of the average earnings in the state. As a result, workers with relatively high wages commonly have lower replacement rates.

Maintaining Family Incomes

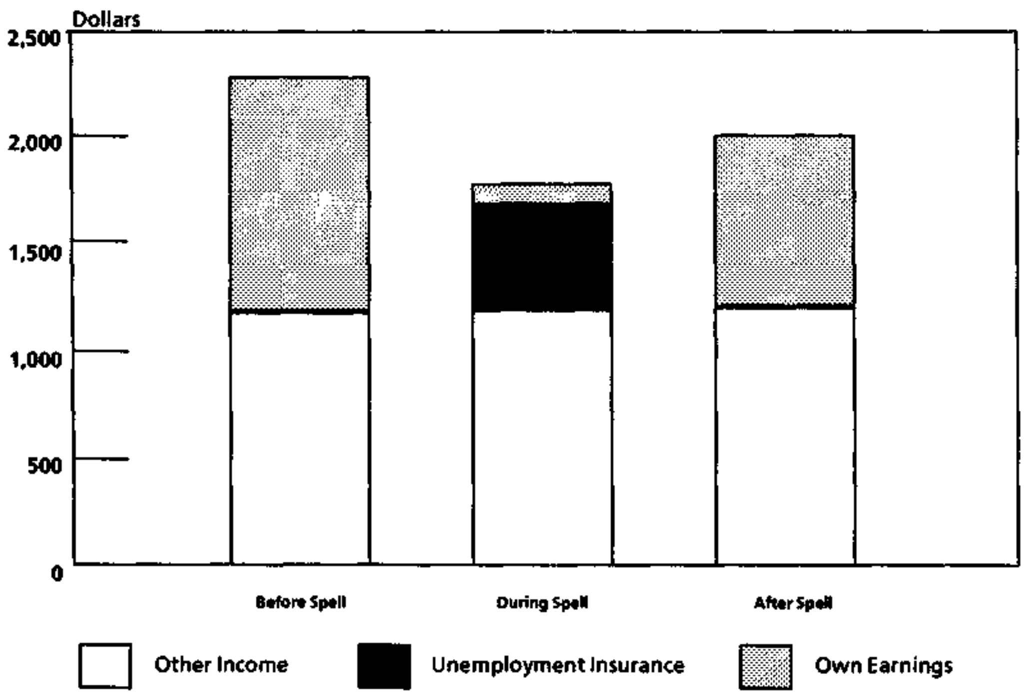
Understanding the role of UI in enabling recipients to maintain their incomes during long periods of unemployment requires an examination of sources of family income in addition to the recipients' own earnings and UI benefits. For families in which the only source of income is the earnings of one member, the replacement rate of UI to earnings would suffice as the full measure of income replacement for the family. In contemporary American society, however, the majority of workers are in families in which at least one other family member works. Furthermore, some workers are in families that receive additional income: from financial assets, such as savings accounts; from public income transfer programs, such as Social Security; and from other sources, such as pensions.

UI benefits during a month within a long-term spell helped keep the average family income at 78 percent of its previous level, measured three months before the spell began. The average contribution of UI benefits toward maintaining the incomes of families of long-term recipients is shown in Figure 3. The average benefit during that month of UI receipt (depicted by the solid portion of the bar) was about $500 per month.

About 7 percent of long-term UI recipients also received a small amount of benefits in the base month from earlier spells of UI still in progress. Likewise, 5 percent of long-term recipients were receiving UI benefits again three months after the long-term spells had ended. Also, about 15 percent of long-term recipients had some earnings while receiving UI benefits, accounting for the small amount of earnings ($80) shown in the month within the spell.

In the absence of UI benefits and assuming no offsetting changes in other sources of income, average family income would have fallen to only 56 percent of its previous level. If the earnings of the recipients or members of their families would have been higher or more of them would have participated in other benefit programs in the absence of UI, the net effect of UI on family incomes would have been smaller.

Figure 3.
Average Monthly Family Incomes of Long-Term Unemployment Insurance Recipients



SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

The average family income of long-term UI recipients, excluding the recipients' own earnings and UI benefits, was about $1,200 per month--before, during, and after their receipt of UI benefits, as shown in the bottom portions of the bars in Figure 3. On average, the earnings of other family members accounted for about 75 percent of this income (about $900) in each of the three months.

The employment status of other family members was not noticeably affected by the job losses of the UI recipients. In each of the months depicted here, about three-fifths of the UI recipients were in families in which one or more of the other members had earnings. Among the families with other workers, the average earnings of other family members was about $1,500 each month. In one-fourth of the families with other earnings, the earnings were from jobs held by two or more members of the family.

Much of the remaining income of the long-term UI recipients and their families was from property, Social Security, pensions, and other non-means-tested benefits received by other members of the recipients' families. The majority of the UI recipients and their families received property income, such as interest and dividends. About 10 percent of the UI recipients was in families in which relatives received income from Social Security or pensions. Few UI recipients (about 5 percent) received their own Social Security benefits or pensions while they were receiving UI benefits. The UI benefits of long-term recipients who reported concurrently receiving their own Social Security or pension income were, on average, below those of all recipients (about $400, compared with $500). This estimate, although based on a small sample, may reflect the effect of the federal law (noted in Chapter II) that requires states to reduce recipients' UI benefits by part of the amount they receive in pension benefits under certain conditions.

Few long-term UI recipients participated in means-tested cash transfer programs, such as Aid to Families with Dependent Children (AFDC), or in the Food Stamp program while they were receiving UI benefits. Fewer than 5 percent reported receiving cash assistance from AFDC, Supplemental Security Income (SSI), or General Assistance. Food stamps--the means-tested program that is available with the fewest restrictions--were received by about 9 percent of the UI recipients' families. Because food stamps are not cash income, they are not included in the family incomes reported in this study; their inclusion would have added only about $10 to the average family monthly income of all long-term UI recipients.

More detailed tabulations suggest that about one out of seven long-term UI recipients had monthly family incomes more than 60 percent below their levels three months before their spells of UI receipt began (see Table 4). In contrast, one in three had a reduction in family income of 20 percent or less.[2] Among the family status groups, UI recipients living alone had the largest percentage loss in family incomes; married women incurred the smallest percentage loss.

In general, UI recipients whose previous earnings had accounted for most or all of their families' earnings or who lived alone incurred the largest percentage losses in family incomes. About two-fifths of long-term UI recipients had earned most (at least 75 percent) or all of their families' total earnings in the base month or had lived alone. Of those recipients, one-fourth lost more than 60 percent; one-half lost more than 40 percent.

Preventing Poverty

Although UI is not a means-tested program, previous research indicates that more unemployed people would have been poor without the UI benefits they received.[3] To gauge the anti-poverty impact of UI benefits, this analysis employs the concepts of a monthly poverty "rate" and a monthly poverty "gap." A recipient's family is counted as poor if the family's cash income on a monthly basis is less than one-twelfth of the relevant annual poverty threshold. The monthly poverty rate of a group is defined as the percentage of the group whose monthly incomes are below their monthly poverty thresholds (about $900 per month in 1985 for a family of four).[4] The monthly poverty gap for a poor family is the amount of income needed to bring its monthly

2. The median loss of long-term UI recipients, as shown in Table 4, was 30 percent. This differs from the average loss depicted in Figure 3 (22 percent) both because they are different measures and because the estimates in Table 4 are based only on recipients who reported earnings in the base month. The average loss for this group was 27 percent.

3. See Wayne Vroman, "Unemployment Insurance Cutbacks in the 1980s," Statement before the Subcommittee on Public Assistance and Unemployment Compensation, Committee on Ways and Means, U.S. House of Representatives, December 14, 1987.

4. The poverty rate on a monthly basis tends to be higher than on an annual basis for the general population. See Roberton Williams, "Poverty Rates and Program Participation in the SIPP and the CPS," *Proceedings of the American Statistical Association* (1986).

income up to its monthly poverty threshold. This approach overstates the anti-poverty effects of UI to the extent that, without UI benefits, the UI recipients or other members of their families would have had higher earnings or received more income from other sources.

Few of the UI recipients included in the SIPP sample had incomes below their monthly poverty thresholds before their long-term UI spells began. Three months before the UI spell, about 9 percent of those who would become long-term UI recipients were poor on a

TABLE 4. LOSSES IN FAMILY INCOME DURING A LONG-TERM SPELL OF UNEMPLOYMENT INSURANCE, AS A PERCENTAGE OF PREVIOUS FAMILY INCOME

	Median Income Loss (Percent)	Percentage Distribution of Recipients by Income Loss				
		Total	20 Percent or Less	21 to 40 Percent	41 to 60 Percent	More than 60 Percent
All Long-Term UI Recipients	30	100	37	27	22	15
Family Status						
Married man	37	100	28	27	29	15
Married woman	14	100	57	25	12	6
Living with adult relatives	21	100	49	32	13	6
Living alone	57	100	7	18	31	44
Living with children only	33	100	a	a	a	a

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

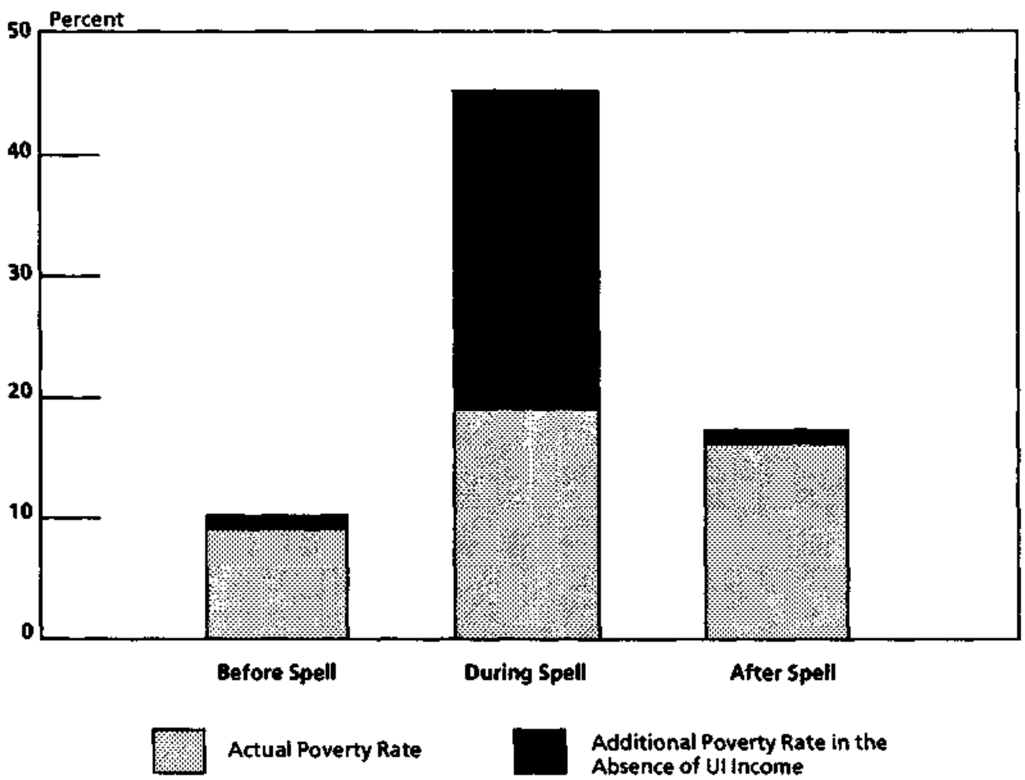
NOTE: Losses were calculated by comparing the total cash income of a recipient's family in a month within a long-term spell of Unemployment Insurance (UI) with that family's total cash income in the base month. A long-term spell lasts at least four months. These statistics are for the long-term UI recipients who had any earnings in the base month (the third month before the UI spell began).

a. Distribution not reported because of small sample size.

monthly basis (see Figure 4); one-half of those who were poor did not work in that month. By comparison, about 5 percent of all workers and 35 percent of all unemployed people were poor on a monthly basis in 1985.

The UI program appears to have prevented a large fraction of long-term recipients from temporarily having their families' incomes fall below their monthly poverty thresholds. Within their long-term spells of UI receipt, 19 percent of the recipients were poor. Without UI,

Figure 4.
Monthly Poverty Rates of Long-Term Unemployment Insurance Recipients



SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

NOTE: The height of each column depicts the percentage of families in the group whose monthly cash incomes would have been below their monthly poverty thresholds if they had not received Unemployment Insurance (UI) and if the absence of UI did not affect their other sources of income. The actual poverty rate is the percentage of families in the group whose total monthly cash incomes, including UI, were below their monthly poverty thresholds.

TABLE 5. MONTHLY POVERTY AMONG LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE

	Poverty Rate of Group (Percent)		Impact on All UI Recipients (Percentage points)[c]	Composition of Group (Percent)		
	Actual[a]	Excluding UI Benefits[b]		Long-Term Recipients	Actual Poor	Poor Excluding UI Benefits
All Long-Term UI Recipients	19	46	-27	100	100	100
Presence of Other Earners in Family						
Other earners[d]	5	21	-16	62	16	28
No other earners	42	85	-43	38	84	72
Family Status						
Married man	21	51	-30	40	44	44
Married woman	8	20	-12	26	11	12
Living with adult relatives	10	27	-17	17	9	10
Living alone	38	94	-55	12	24	25
Living with children only	45	90	-45	5	11	9

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

a. The percentage of the group whose total monthly cash incomes, including Unemployment Insurance (UI), were below their monthly poverty thresholds in a month within the spell. This rate corresponds to the official poverty rate published by the Bureau of the Census, except the official rate is calculated on an annual basis.

b. The percentage of the group whose monthly cash incomes would have been below their monthly poverty thresholds if they had not received UI and if the absence of UI did not affect their other sources of income.

c. The reduction in the poverty rate associated with the income from UI.

d. Other earners were identified from the receipt of earnings by anyone else in the UI recipients' families in a month within the spell.

and other factors remaining as they were, 46 percent of the long-term recipients would have been poor. Thus, for about one-fourth of long-term recipients, UI benefits made the difference between a monthly income above or below the poverty line. A study of the anti-poverty effectiveness of the Federal Supplemental Benefits program in 15 states in the mid-1970s obtained similar results, finding that 39 percent of FSB households would have had weekly incomes below the poverty threshold without FSB; with FSB, 17 percent were poor.[5]

5. Walter Corson and Walter Nicholson, *The Federal Supplemental Benefits Program: An Appraisal of Emergency Extended Unemployment Insurance Benefits* (Kalamazoo: W.E. Upjohn Institute for Employment Research, 1982). Differences in methodology preclude exact comparisons of their results with the estimates in this study. For example, they imputed the value of means-tested benefits, including food stamps, for which FSB families would have been eligible in the absence of UI. The present study did not do so, nor were food stamps or other in-kind benefits counted as income.

A major factor determining whether a UI recipient would have been poor without benefits is whether anyone else in the recipient's family worked (see Table 5). About 85 percent of the UI recipients in families in which no one else worked had monthly cash incomes, exclusive of their UI benefits, that were below the poverty line, compared with only about 20 percent of UI recipients in families with other workers. This pattern is also reflected in the poverty rates of various family status groups based on income exclusive of UI benefits. For example, recipients living alone or only with children had the highest percentages of those who would have been poor in the absence of UI; married women had the lowest percentage.

TABLE 6. EFFECT OF UNEMPLOYMENT INSURANCE ON NARROWING THE AVERAGE MONTHLY POVERTY GAP OF LONG-TERM RECIPIENTS WHO WOULD HAVE BEEN POOR WITHOUT UI (In dollars)

	Actual[a]	Excluding UI Benefits[b]	Impact[c]
All Long-Term UI Recipients	100	470	-370
Presence of Other Earners in Family			
Other earners[d]	70	370	-310
No other earners	110	500	-390
Family Status			
Married man	120	520	-400
Married woman	130	390	-260
Living with adult relatives	110	360	-260
Living alone	50	420	-370
Living with children only	90	510	-420

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

a. The average amount by which the total monthly cash incomes, including Unemployment Insurance (UI), fell below the monthly poverty thresholds for recipients who would have been poor in the absence of UI benefits.

b. The average amount by which the total monthly cash incomes, excluding UI benefits, would have fallen below the monthly poverty thresholds if the absence of UI did not affect other sources of income.

c. The impact is the reduction in the average poverty gap associated with the income from UI.

d. Other earners were identified from the receipt of earnings by anyone else in the UI recipients' families in a month within the spell.

The effect of UI in reducing poverty was larger than that indicated by the number of recipients whose incomes were brought above the poverty line because the incomes of recipients who remained poor were raised as well. These further effects of UI in reducing poverty can be understood by examining the program's impact on the monthly poverty gap. Among the 46 percent of UI recipients who would have been poor in the absence of UI benefits, the average monthly poverty gap was about $470 (see Table 6); the UI benefits reduced this group's average poverty gap by $370 to $100. The group whose benefits were enough to raise its members' monthly incomes at least up to their poverty thresholds had their poverty gap reduced to zero. The average poverty gap of those who remained poor was about $240. Poor UI recipients with no earners in their families tended to be further below their poverty thresholds than were recipients in families with other earners; UI reduced the difference in average poverty gaps between these two groups.

FAMILY INCOMES AFTER THE UNEMPLOYMENT INSURANCE BENEFITS STOPPED

Two-thirds of long-term UI recipients were back at work three months after the end of their UI spells. Their average earnings and family income levels were similar to their levels in the months preceding their receipt of UI benefits. About the same percentage of recipients were working a year after their UI spells ended.[6] The majority of former long-term recipients who were not working three months after their UI spells ended, however, incurred substantial income losses. The members of this group were more diverse in terms of their characteristics and experiences, as illustrated in this section.[7]

6. This observation is based on the smaller group of long-term recipients in the 1984 SIPP panel for whom data were available to track their earnings 12 months after their UI spells ended. Although the employment rate for this group as a whole was stable, some early jobholders (almost one-fifth) lost or left their jobs within the 12-month period; some of those who were not working soon after their UI spell had ended (about one-third) found jobs later on.

7. The percentage distribution of the former recipients by family status and by their subsequent employment status and that of other family members is reported in the Appendix.

Income Losses

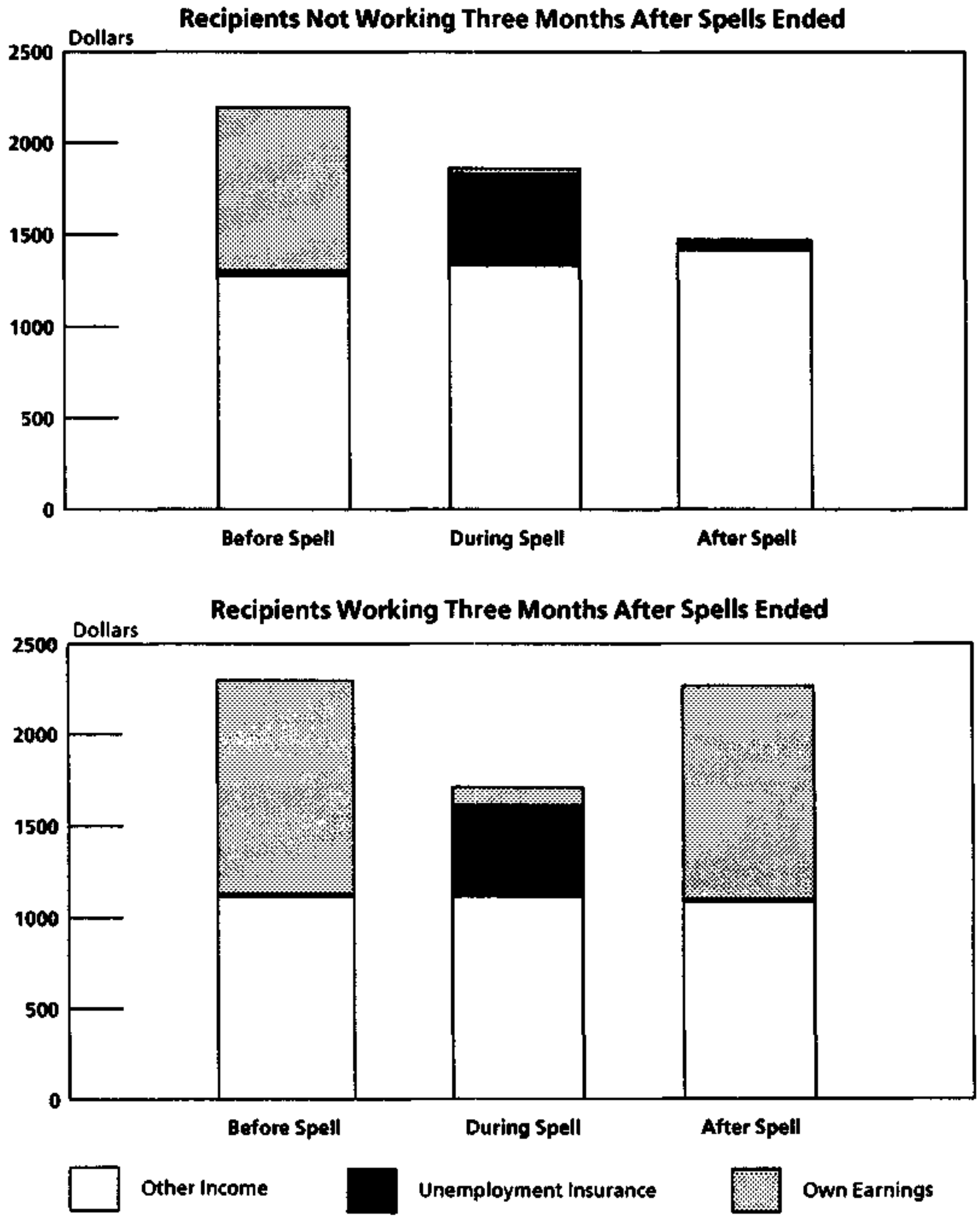
The average monthly family income of all long-term recipients three months after their spell of UI receipt ended was $2,000. This amount was 88 percent of this group's average income three months before the start of its members' UI spells. This average masks substantial disparity, however, as shown in Figure 5. The average family income of former UI recipients who were working again was almost $2,300, essentially the same as its level three months before the UI spells began. The average income of recipients who were not working was about $1,500, or two-thirds of its earlier level.

The median former UI recipient who was working again had a family income essentially as high as in the base month--a loss of only 3 percent (see Table 7). In other words, nearly one-half of the group who returned to work had higher incomes than before their spells of UI began. A small proportion, however, did experience noticeable income losses--one in eight lost more than 40 percent. Large reductions in income were least likely to occur among families where there were other earners in addition to the former UI recipients.

The families of recipients who had not returned to work generally fared worse, especially the nearly 40 percent of the members of this group who had no other workers in their families. The average monthly income of the families with no workers was $500, about one-third of the income level in the base period; the median income loss of this group was 85 percent. In contrast, the median income loss of the families in which other members had earnings was about 30 percent.

Recipients whose previous earnings had accounted for most or all of their families' earnings generally incurred large losses in family incomes if they had not returned to work. About one-third of the UI recipients who had not returned to work were in families in which their previous earnings had accounted for at least 75 percent of total family earnings, or they lived alone. The median loss in family income for this group was 70 percent.

Figure 5.
Average Monthly Family Incomes of Long-Term Unemployment Insurance Recipients, By Subsequent Employment Status



SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

Poverty Rates

Three months after their long-term UI spells ended, about one in six of former UI recipients had a monthly income below the poverty threshold. This group was concentrated among those who were not working and who had no other family members with jobs. One in three of the former UI recipients without jobs had monthly incomes below the poverty line, whereas less than one in ten of those who were back at work was poor (see Figure 6). Almost 70 percent of the group who was poor was not working in that month, and 80 percent reported no earnings from other members of their families.

TABLE 7. LOSSES IN FAMILY INCOME THREE MONTHS AFTER A LONG-TERM SPELL OF UNEMPLOYMENT INSURANCE ENDED, AS A PERCENTAGE OF PREVIOUS FAMILY INCOME

	Median Income Loss (Percent)	Percentage Distribution of Recipients by Income Loss				
		Total	20 Percent or Less	21 to 40 Percent	41 to 60 Percent	More than 60 Percent
All Long-Term UI Recipients	15	100	55	19	11	14
Other earners[a]	8	100	63	21	11	5
No other earners	28	100	43	17	11	29
Working[b]	3	100	69	18	7	6
Other earners	-3[c]	100	75	17	6	2
No other earners	12	100	58	20	9	13
Not working[b]	43	100	24	23	20	34
Other earners	29	100	35	31	23	12
No other earners	85	100	6	10	15	69

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

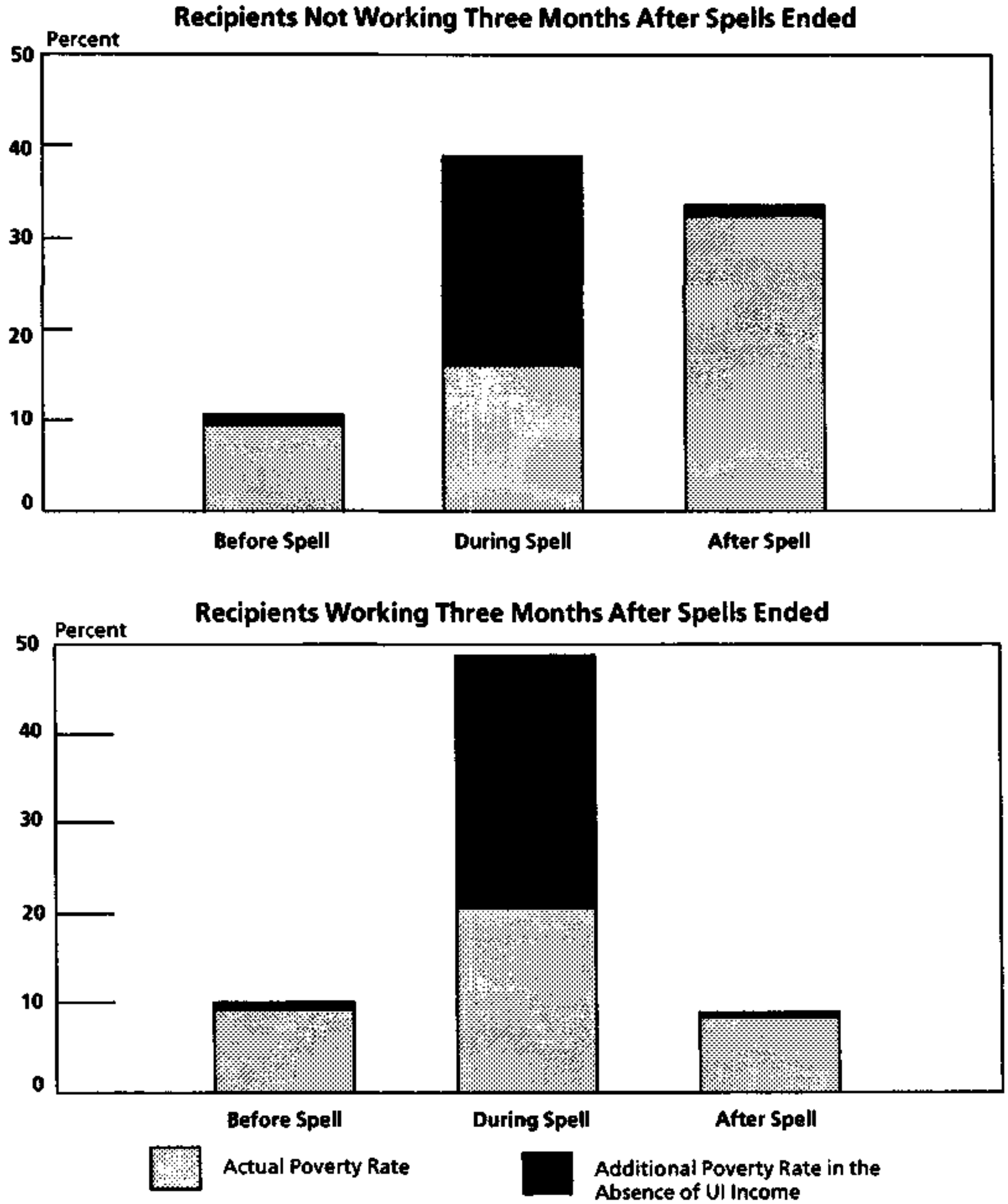
NOTE: Losses were calculated by comparing the total cash income of a Unemployment Insurance (UI) recipient's family three months after a long-term UI spell with that family's total cash income in the base month. These statistics are for the long-term UI recipients who had any earnings in the base month (the third month before the UI spell began).

a. "Other earners" were identified from the receipt of earnings by any other member in the UI recipient's family three months after the UI spell ended.

b. "Working" and "not working" refer to whether or not the long-term UI recipient had any earnings three months after the UI spell ended.

c. The median family in this group had a slightly higher income three months after the UI spell ended.

Figure 6.
Monthly Poverty Rates of Long-Term Unemployment Insurance Recipients, By Subsequent Employment Status



SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

NOTE: The height of each column depicts the percentage of families in the group whose monthly cash incomes would have been below their monthly poverty thresholds if they had not received Unemployment Insurance (UI) and if the absence of UI did not affect their other sources of income. The actual poverty rate is the percentage of families in the group whose total monthly cash incomes, including UI, were below their monthly poverty thresholds.

Compared with those who returned to work, a smaller percentage of the recipients who did not return to work were in families that were poor during their spells of UI receipt (16 percent versus 21 percent). This difference in poverty rates would have been larger without the UI benefits (39 percent versus 49 percent). These differences probably reflect the higher earnings of other family members in the group who did not return to work.

TABLE 8. DISTRIBUTION OF FORMER LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE, BY SELECTED CHARACTERISTICS AND SUBSEQUENT EMPLOYMENT STATUS (In percent)

Characteristics	All Long-Term Recipients of UI Benefits	Working[a]	Not Working[a]
All Long-Term UI Recipients, By Employment Status	100	100	100
Age			
Under 25	15	16	12
25 to 54	72	74	68
55 and over	13	10	20
Sex			
Male	58	61	53
Female	42	39	47
Race			
White	86	89	79
Black and other	14	11	21
Years of Education			
Less than 12	25	22	32
12	46	47	43
More than 12	29	31	25
Family Status			
Married man	40	43	34
Married woman	26	23	34
Living with adult relatives	17	17	17
Living alone	12	12	11
Living with children only	5	5	3

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

a. "Working" and "not working" refer to whether or not the long-term recipient of Unemployment Insurance (UI) had any earnings three months after the UI spell ended.

Characteristics and Sources of Income

Long-term UI recipients who had not returned to work were similar in several ways to other long-term UI recipients. For example, most of the long-term recipients were age 25 or older, the majority were male, and two-thirds were married. They also differed from those who were back at work in several ways. They were much more likely than the jobholders to be over age 54, to be a minority, and to have less than 12 years of education (see Table 8). In addition, those without jobs were considerably more likely to be married women and less likely to be married men.

Most of the average family income of the recipients who had returned to work came from their jobs and those of their spouses and other relatives (see Table 9). Income from property, Social Security, and pensions accounted for the majority of the remaining 9 percent.

The major source of income for former UI recipients not working was the earnings from jobs held by other members of their families, accounting for over two-thirds of the average family income of these former UI recipients. The average earnings of other family members were higher than those of family members of recipients who were working again ($1,030 versus $900).

The average monthly income in the families in which one or more relatives was working, but the former long-term recipient was not, was almost $2,100; 80 percent of this income (almost $1,700) was from the relatives' earnings. In three-fourths of these families, exactly one relative (most often the spouse) was working; their average earnings were almost $1,400. In one-fifth of the families, two relatives were working, with average combined earnings of about $2,200. The number of families in which three or more relatives were working was too small to provide a reliable estimate of their average earnings.

Income from non-means-tested programs and pensions was much more important, on average, for the former UI recipients who had not returned to work--both absolutely and as a percentage of total family income. About 30 percent of their average family income ($440 out of $1,470) came from sources other than earnings, compared with less

TABLE 9. MAJOR SOURCES OF INCOME FOR FORMER LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE, BY SUBSEQUENT EMPLOYMENT STATUS

Source of Income	Percentage Receiving Income from Source	Average Amount (Dollars) For Recipients of Income from Source	For All Recipients
	Working		
All Sources	100	2,270	2,270
Earnings			
Own	100	1,170	1,170
Relatives	60	1,510	900
Social Security and Pensions	13	540	70
Property	56	90	50
	Not Working		
All Sources	90[a]	1,630	1,470
Earnings			
Own	0	n.a.	n.a.
Relatives	62	1,660	1,030
Social Security and Pensions	23	700	160
Property	51	150	80

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

NOTES: "Working" and "not working" refer to whether or not the long-term recipient of Unemployment Insurance (UI) had any earnings three months after the UI spell ended.

n.a. = not applicable.

a. Ten percent of recipients who were not working reported that they had not received any cash income three months after the UI spell ended.

than 10 percent ($200 out of $2,270) for those UI recipients who had returned to work. Not surprisingly, the recipients who were not working and other members of their families were much more likely to be receiving Social Security or pensions.

The incomes of the families in which no one was working three months after the UI spell ended were generally quite low, with the majority of their income coming from Social Security, pensions, and property. Their average monthly income was about $500. (About one-fourth of this group did not report receipt of any income in that month.) The former UI recipients in families with no workers were much less likely than others to be living with spouses or other adult relatives. About 40 percent of the former recipients with no family earnings lived alone or with children only; 15 percent were married women.

Social Security benefits and pensions accounted for one-half of the average income of former recipients in families with no workers. Means-tested cash benefits did not appear to be a major source of income. About one in eight of the families with no earnings reported receiving AFDC, SSI, General Assistance, or other means-tested cash benefits; one in four were receiving food stamps.[8]

Net Worth

Throughout this study, the economic well-being of long-term UI recipients and their families has been measured by their monthly incomes. A more complete picture would also take into account homeownership, other assets such as savings accounts, and liabilities. All else being equal, workers in families that own their own homes and have other assets are in a better position to withstand temporary job losses than are renters and those without financial assets. A more complete picture would also include noncash sources of income, such as health insurance, and in-kind government benefits, such as Medicaid.

Asset and liability data from the SIPP survey can be used to explore the extent to which long-term UI recipients lived in owner-occupied homes or had substantial assets other than their homes. The tabulations presented here are based on responses in late 1985, which

8. The Family Support Act has a requirement--which might increase participation in AFDC--that, by October 1990, all states have a program that provides AFDC benefits to eligible two-parent families for at least 6 months in any 12-month period; currently, about half of the states do not have such an "Unemployed Parent" program.

TABLE 10. NET WORTH IN HOUSEHOLDS OF LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE, BY SUBSEQUENT EMPLOYMENT STATUS

	Home-ownership Rate (Percent)	Median Net Worth (Dollars) Including Home Equity	Median Net Worth (Dollars) Excluding Home Equity
All Long-Term UI Recipients	61	19,000	4,000
Working[a]	62	17,000	4,000
Not working[a]	59	24,000	3,000

SOURCE: Congressional Budget Office calculations from the 1984 panel of the Survey of Income and Program Participation.

NOTE: This table is based on information on net worth collected in late 1985, after most of the spells of long-term receipt of Unemployment Insurance (UI) included in the analysis had ended. Home-ownership rates and net worth are based on assets owned by anyone living in the household, not only members of the UI recipient's family.

a. "Working" and "not working" refer to whether or not the long-term UI recipient had any earnings three months after the UI spell ended.

was after most of the respondents in the 1984 SIPP panel had ended their long-term spells of receiving UI benefits. Net worth is based on the sum of the market value of assets owned by every member of the household minus the liabilities owed by household members. Assets include one's home, other real estate, cars, businesses, and financial assets; although Individual Retirement Accounts are included, the present value of future Social Security and pension benefits is not. Liabilities include secured liabilities, such as mortgages, and unsecured liabilities, such as credit card and store bills.[9]

Overall, these data indicate that the majority of long-term UI recipients were living in owner-occupied homes (61 percent) and had a modest amount of other net assets as well (see Table 10). Owner-occupied homes accounted for most of the value of their assets, with a median home equity for the owners of about $30,000. Excluding home equity, the median long-term UI recipient had a net worth of about

9. Unlike other SIPP data presented in this study, these tabulations of assets and liabilities include members of a household who are not related to the UI recipient. For example, some of the UI recipients who lived in owner-occupied homes could have been renting part of someone else's home.

$4,000. About one in six of long-term UI recipients in the SIPP sample did not have a positive net worth; about one in four did not have a positive net worth, excluding home equity. About the same percentage of all American households represented in the SIPP survey were in owner-occupied housing (64 percent); the median net worth of American households, excluding home equity, was about $8,000. (Median net worth, including home equity, was about $33,000 for all households and $26,000 for households headed by someone under age 65.)[10]

Little difference was apparent in homeownership rates or net worth excluding home equity between UI recipients who had not returned to work three months after their UI spells ended and those who had returned to work (although the recipients who had not returned to work had more equity in their homes). The factor much more closely related to asset ownership was the recipients' age. Older UI recipients were more likely than others to be homeowners and, on average, had more other assets as well, reflecting the basic patterns for all households.

10. The asset information for all households is from U.S. Bureau of the Census, *Household Wealth and Asset Ownership: 1984* (1986), pp. 1-4 and 22.

CHAPTER V

POLICY IMPLICATIONS

The architects of the Unemployment Insurance program had well-defined views about the role of their proposed program in assisting unemployed workers. The Report of the Committee on Economic Security, submitted to President Roosevelt in 1935, recommended:

> While unemployment compensation is far from being a complete protection, it is a valuable first line of defense for the largest group in our population, the industrial workers ordinarily steadily employed. Unemployment compensation should permit such a worker, who becomes unemployed, to draw a cash benefit for a limited period during which there is expectation that he will soon be reemployed.[1]

The committee urged that UI benefits be available as a matter of right, that they not be means-tested, and that recipients who exhaust their benefits be eligible for a public service employment program, not for additional UI benefits.

As described earlier in this study, most states now provide a maximum potential duration of 26 weeks for UI benefits. In states with high insured unemployment rates, the federal-state Extended Benefit program provides up to 13 more weeks of benefits. Various proposals have been put forward to change the conditions under which benefit extensions are available in order to provide additional benefits in periods and places with high unemployment rates.

The desirability of extending the duration of UI benefits when unemployment is high and jobs are hard to find depends, in part, on an

1. Report reprinted in Project on the Federal Social Role, *50th Anniversary Edition, The Report of the Committee on Economic Security of 1935* (Washington, D.C.: National Conference on Social Welfare, 1985), pp. 33-34.

assessment of both the need of unemployed workers for additional assistance and the role of UI in assisting them. This chapter examines these recurring issues in light of new empirical evidence on the family incomes and post-program experiences of long-term UI recipients from the 1984 and 1985 panels of the Survey of Income and Program Participation presented in this study.

Two points need to be made, however, about the relevance of this new empirical evidence to future extensions of UI benefits. First, these results relate to a nonrecessionary period. Both the types of long-term unemployed workers and their economic condition could be quite different in future periods of high and rising unemployment. In a recession, for example, a larger percentage of UI recipients might be the sole earners in their families; moreover, UI recipients might remain unemployed longer because of the greater difficulty of finding a job during a recession.

Second, if the potential duration of UI benefits were extended in the future, the extension itself would, to some degree, discourage UI recipients from searching for work and thus remain unemployed and collect benefits longer.[2] (This disincentive exists for the regular UI program as well, with the availability of those benefits tending to increase unemployment.) The basic reason for this disincentive to search for a job is that UI benefits reduce the cost of being unemployed. In terms of the evidence presented in Chapter IV, some UI recipients who went back to work might have remained unemployed longer had UI benefits been available for a longer period.

THE NEED FOR ADDITIONAL ASSISTANCE

Those who contend that regular UI benefits alone are not adequate point out that periods of high unemployment correspond to increased durations of unemployment. Workers who become unemployed when the economy is weak and when large numbers of other workers are seeking employment often take considerably longer to find jobs than when their services are in greater demand. During the cyclically high

2. For a recent analysis of this issue, see Lawrence F. Katz and Bruce D. Meyer, "The Impact of the Potential Duration of Unemployment Benefits on the Duration of Unemployment" (Cambridge, Mass.: National Bureau of Economic Research, Working Paper Number 2741, October 1988).

unemployment periods from 1975 to 1976 and from 1982 to 1983, for example, not only did the number of regular UI recipients rise dramatically but the number who used all available regular benefits also increased. In both 1975 and 1982, more than 4 million workers exhausted regular UI benefits, more than double the number in the low-unemployment years of 1973 and 1979. Such increases have been a major justification for past extensions of UI benefits.

The data presented in this study address another aspect of need--the economic status of long-term UI recipients and their families. The average income of the recipients' families remained at about 80 percent of its previous level (three months before the spell began), largely because the majority of these recipients were in families with other workers. This development was probably not foreseen by the UI program's founders. Without UI benefits (and assuming no other changes in income), average income would have been only 60 percent of its previous level. Moreover, without UI benefits, 45 percent of these families would have had incomes below their monthly poverty thresholds, compared with about 20 percent when UI benefits were counted.

The family incomes of the UI recipients who did not return to work soon after they stopped receiving benefits are the most relevant to the debate over extending the duration of UI benefits. The bulk of the added benefits would probably have gone to persons in this group. About one-third of the long-term recipients in the SIPP sample were not working three months after their spell of UI receipt ended, although a somewhat larger fraction of UI recipients might have remained unemployed longer if added benefits were available. While the preceding analysis of the UI recipients who did not return to work is based on a small sample (about 300 people), and thus must be interpreted with care, some general patterns emerge.

Significant income losses were absorbed by the families of many of these UI recipients as a consequence of their continued unemployment. The average family income of former UI recipients who did not return to work was about $1,500 per month, or 70 percent of its level before the beginning of their UI spells; almost one-third of these UI recipients had monthly incomes below the poverty line. Family assets, in general, could not relieve cash-flow difficulties over an extended time period because the median net worth (excluding home equity) was only about $3,000. Almost two-fifths of the UI recipients remaining out of work (or one-eighth of all long-term UI recipients) were in families with no workers. These UI recipients in families with no workers were in particularly bad financial shape, with a median income loss of about 85 percent and a monthly poverty rate of almost 70 percent.

Nonetheless, many of the former UI recipients who had not returned to work incurred smaller losses, as a percentage of total family incomes. Earnings of other workers in the family and the availability of retirement benefits for older persons provided a substantial cushion to some UI recipients who were not reemployed. The median income loss of UI recipients in families with other earners was about 30 percent; their poverty rate was 11 percent. Married women and workers age 55 and older accounted for nearly one-half of the UI recipients who had not returned to work. Most of the married women under age 55 were in families in which someone else worked; about one-half of former UI recipients age 55 and over were in families in which they or other family members received income from Social Security, private pensions, or both.

THE ROLE OF UNEMPLOYMENT INSURANCE IN ASSISTING UNEMPLOYED WORKERS

If additional assistance were considered necessary for UI recipients whose regular benefits are exhausted, the question arises as to whether the UI program is an appropriate vehicle to deliver it. Under current law, UI benefits are provided to unemployed workers based on their previous employment and not on their economic circumstances. Extending the duration of benefits in periods of high unemployment could be consistent with this view of UI as a form of social insurance because UI would then provide the same degree of protection in good times as in bad. In this view, the "same degree" of protection is interpreted as the same likelihood of finding another job before UI benefits end. The more that the extension of UI benefits is viewed as a continuation of insurance protection, the fewer restrictions would be placed on regular UI recipients who have exhausted their benefits because they all are covered by the UI program.

More insurance protection could be provided, however, in ways that limit the cost of extension. One approach would allow all recipients who exhaust regular benefits to receive extended benefits but would link receipt of benefits to the willingness of recipients to participate in work-related programs, such as job clubs and training. Imposing such a requirement on recipients of extended benefits might help them prepare for and find new jobs. Such a requirement might also deter individuals who no longer have a serious attachment to the labor force from continuing to receive UI benefits. If jobs are not available, however, requiring recipients of extended benefits to participate in work-related programs could result in extra costs for ineffective activities. Moreover, this requirement could be viewed as unfairly imposing penalties on recipients who were not able to find work.

Alternatively, if that portion of the UI program beyond regular benefits is viewed primarily as redistributive, then increased assistance would be justified only for those workers exhausting regular UI benefits who are by some measure in greatest need. If an extension were judged by the measure of need that is often applied to welfare programs, such as Food Stamps, the findings presented in Chapter IV suggest that simply extending the duration of benefits for all workers exhausting regular UI would not efficiently target benefits to those workers in families with the lowest incomes. In the sample of former long-term UI recipients who were not reemployed, more than two-thirds had monthly incomes above the poverty threshold, for example, although that percentage might well be lower in a recession. Moreover, only about 13 percent received food stamps, the most widely available means-tested benefit, although others might have met the income and asset eligibility criteria as well.[3] Even fewer received Aid to Families with Dependent Children, although the recent expansion of the Unemployed Parent provision should increase the participation of married parents in AFDC.

If the extension of UI benefits were considered primarily redistributive, it would be logical to restrict extended benefits to those with the lowest family incomes (or lowest incomes and few assets). Doing so would more efficiently target UI benefits by the standards of

3. A recent study, also based on the Survey of Income and Program Participation, estimated that many people eligible for food stamps in mid-1984 did not participate, especially if the value of the food stamps for which they were eligible was small. See CBO, "The Food Stamp Program: Eligibility and Participation," Staff Working Paper, November 1988.

traditional welfare programs than would extending the duration of UI benefits for all recipients. This approach would be a fundamental departure, however, from the original design of the UI program.

The question of whether to extend the duration of UI benefits and, if so, in what form can be answered only partially by the data examined in this study.[4] Another consideration is the priority that this UI assistance should receive relative to other uses of the funds. Extending the potential duration of UI benefits would help some unemployed workers and their families, but could also be costly. The budgetary costs would be significant if large numbers of workers were assisted. Moreover, the extension of benefits itself would encourage some UI recipients to remain unemployed longer, resulting in lost output and further increases in program costs. The wide variation found in this study in the economic well-being of persons who would probably be affected by an extension of UI benefits reinforces the difficulty of making the policy choices.

4. For a more complete discussion of issues and options for changing the UI program, see CBO, *Promoting Employment and Maintaining Incomes with Unemployment Insurance* (March 1985).

APPENDIX

SURVEY OF INCOME AND PROGRAM PARTICIPATION

The analysis of spells of Unemployment Insurance (UI) receipt reported in Chapters III and IV is based on data from the Survey of Income and Program Participation (SIPP), conducted by the U.S. Bureau of the Census. The SIPP provides a valuable database for obtaining longitudinal information about the incomes of the U.S. population and its participation in a wide range of benefit programs.[1] This Appendix provides further information about the methods used by the Congressional Budget Office to compile the data on spells of UI receipt for this study.

The data used were from the 1984 and 1985 panels of SIPP. The first SIPP panel contained observations between September 1983 and March 1986 for over 14,000 UI "recipient-months," each representing one person in the SIPP sample reporting receipt of UI benefits in one month. The people surveyed reported receiving UI benefits in this period representing about $32 billion, based on weights provided by the Bureau of the Census. Of this total, about $23 billion was reported in calendar years 1984 and 1985, compared with nearly $32 billion in UI benefits actually paid according to administrative records. This difference (about one-fourth of the UI benefits paid in 1984 and 1985) is noted in Chapter III.

The second SIPP panel contained observations for almost 9,000 UI recipient-months between January 1985 and April 1987. The people surveyed reported receiving UI benefits that represented about $30 billion, including $25 billion in 1985 and 1986--compared with almost $32 billion in 1985 and 1986 recorded in administrative records (a difference of about one-fifth of the UI benefits paid in 1985 and 1986).

1. For a detailed discussion of the SIPP, see Dawn Nelson, David McMillen, and Daniel Kaspryzk, "An Overview of the Survey of Income and Program Participation," Bureau of the Census SIPP Working Paper, No. 8401, June 1984.

For the analysis of UI spells described in Chapters III and IV, fewer than one-half of these recipient-months in the SIPP sample were used. The major reason for excluding observations from the analysis was the need to have sufficient information about incomes for at least three months before and three months after the UI spells--which reduced the total number of recipient-months available in the two SIPP panels from about 23,000 to 12,000. The majority of these exclusions was because the spells of UI receipt had started too early or ended too late in the observation period to be able to track the recipients; others were excluded because of missing information on incomes within the observation period. This restriction may have resulted in a sample that is less representative of individuals with very long spells of UI receipt than of UI recipients in general.

The SIPP sample was further reduced by excluding observations in which the amount of UI benefits had not been reported by the survey respondent and, instead, had been imputed by the Bureau of the Census. This restriction was imposed mainly because the method of imputation did not take into account the amount of earnings of the UI recipients. The restriction decreased the number of observations of recipient-months from about 12,000 to 9,500.

These 9,500 recipient-months were taken from about 3,200 spells of UI receipt, where a spell is preceded and followed by at least one month in which the individual received no UI benefits. About 1,100 of these UI spells lasted for at least four consecutive months (referred to in the study as long-term spells) and accounted for over 60 percent of the recipient-months. Because the average monthly benefit of long-term recipients exceeded that of short-term recipients, this 60 percent of recipient months accounted for about 70 percent of the UI benefits represented by the SIPP sample.

Finally, in most of the analyses reported in Chapter IV, almost 9 percent of the long-term UI spells was excluded because the UI recipient had a different family status in the month used to represent the income before, during, or after the UI spells. Recipients were excluded if they were married in one of these three months and not married in another; if they were living with adult relatives in one month and not in another; or if they were living alone or only with

TABLE A-1. DISTRIBUTION OF FORMER LONG-TERM RECIPIENTS OF UNEMPLOYMENT INSURANCE BY FAMILY STATUS AND BY SUBSEQUENT EMPLOYMENT STATUS OF RECIPIENTS AND OTHER FAMILY MEMBERS (In Percent)

	All	Married Man	Married Woman	Living With Adult Relatives	Living Alone	Living With Children Only
All	100	40	26	17	12	5
Other earners[a]	61	26	22	12	0	0
No other earners	39	14	4	5	12	5
Working[b]	67	28	15	11	8	4
Other earners	40	18	13	8	0	0
No other earners	27	10	2	3	8	4
Not working[b]	33	11	11	6	4	1
Other earners	21	7	9	4	0	0
No other earners	13	4	2	2	4	1

SOURCE: Congressional Budget Office calculations from the 1984 and 1985 panels of the Survey of Income and Program Participation.

a. "Other earners" were identified from the receipt of earnings by any other members in the Unemployment Insurance (UI) recipients' families three months after the UI spell ended.

b. "Working" and "not working" refer to whether or not the long-term UI recipient had any earnings three months after the UI spell ended.

children in one month and not in another.[2] This restriction on the spells included in the analysis was intended to reduce the degree to which changes in the economic status of a UI recipient would reflect changes in the number of potential workers in the recipient's family.

The resulting distribution of recipients by family status and by their employment status and that of other family members three months after their spells of UI receipt ended is shown in Table A-1. The distribution is based on the long-term spells of almost 1,000 UI recipients in the sample, using weights provided by the Bureau of the Census. Unless otherwise indicated, all estimates reported in this study are for groups that contained at least 5 percent of long-.term recipients (corresponding to roughly 50 cases in the SIPP sample).

2. Recipients whose family status changed were not excluded in the estimation of earnings replacement rates (see Table 3).