Statement of
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NOTICE

This statement is not available for public release until it is delivered at 10:00 a.m. (EST), on Thursday, February 22, 1990.

Mr. Chairman, I am pleased to be here today to discuss the family incomes of long-term recipients of Unemployment Insurance (UI). This statement summarizes the results of the Congressional Budget Office's (CBO's) study, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits,* which is being released today at this hearing. This statement examines three topics:

- The incomes of long-term UI recipients and their families;
- What happens to those incomes after the UI benefits stop; and
- The implications of these results for extending the duration of UI benefits.

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 the 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 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. Bureau of the Census, 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, 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 end.

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 Table 1). UI benefits, which replaced nearly one-half of the recipients' lost pre-tax earnings, were an important contribution,

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

		In a Month Within a Long-Term Spell of UI Receipt		
	In Base Month[a]	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.

NOTE: A long-term recipient had Unemployment Insurance (UI) benefits in four or more consecutive months during the 1984-1986 period. The period of receipt is termed a spell.

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.

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); their 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; for example, 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 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?

Two-thirds of long-term UI recipients whose experiences were examined in this study were back at work three months after their UI benefits stopped. Their average family incomes were similar to the levels in the months preceding their receipt of UI benefits (see Table 2).

The remaining one-third of long-term recipients were still 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 recipients who returned to work, however, would probably have continued to be unemployed had 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 they began receiving UI (see Figure 1). About one in three of those not working was poor on a monthly basis, whereas only one in

TABLE 2. FAMILY INCOME THREE MONTHS AFTER A LONG-TERM SPELL OF UNEMPLOYMENT INSURANCE ENDED, AS A PERCENTAGE OF PREVIOUS FAMILY INCOME

	Percentage Distribution of Recipients	Average Income, As a Percentage of Previous Income[a]
All Long-Term UI Recipients	100	88
Working[b]	67	98
Other earners[c]	40	102
No other earners	27	88
Not working[b]	33	67
Other earners[c]	21	78
No other earners	13	33

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

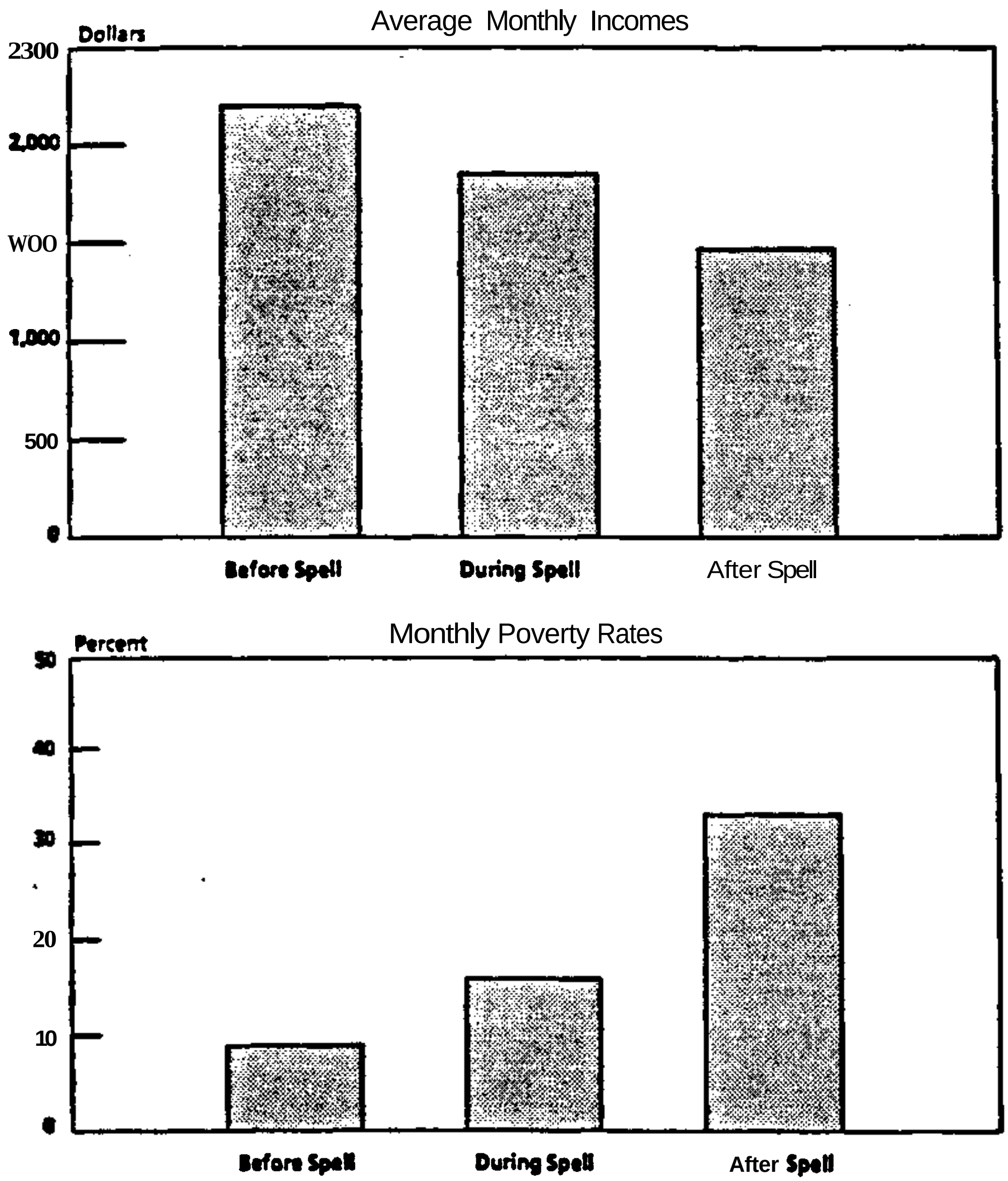
NOTE: A long-term recipient had Unemployment Insurance (UI) benefits in four or more consecutive months during the 1984-1986 period. The period of receipt is termed a spell.

a. Calculated by comparing the total cash income of a UI recipient's family three months after a long-term UI spell ended with that family's total cash income in the third month before the UI spell began.

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

Figure 1.
Family Income 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.

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 benefits began. Their average monthly family income was nearly $2,100--about 80 percent of its earlier level--and about 10 percent of these families 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 were 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 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.