RESEARCH FOR
EQUITY IN RECOVERY

Unemployment Insurance During the COVID Crisis: Lessons for Improving the UI Program

Federal Reserve Bank of Philadelphia

September 10, 2020

12:00 noon–1:15 p.m. ET

Thank You to Our Cohosts:

RESEARCH FOR
EQUITY IN RECOVERY

W.E. UPJOHN INSTITUTE FOR EMPLOYMENT RESEARCH

PennIUR
PENN INSTITUTE for URBAN RESEARCH

FEDERAL RESERVE BANK OF PHILADELPHIA

Legal Notices and Disclaimer

RESEARCH FOR EQUITY IN RECOVERY

The information, analyses, and conclusions set forth are those of the presenters and do not necessarily reflect the views of the Federal Reserve Bank of Philadelphia or the Federal Reserve System.

Housekeeping

RESEARCH FOR EQUITY IN RECOVERY

- The webinar is being recorded.
- Recording and presentations will be posted online afterward.
- All participants are muted.
- Type your questions into the Q&A box at any time.

Today's Panelists

RESEARCH FOR EQUITY IN RECOVERY

Christopher J. O'Leary, Senior Economist, Upjohn Institute

Suzanne Simonetta, Director, Division of Policy, Legislation, and Regulations, U.S. Department of Labor, Employment and Training Administration

Patricia M. Anderson, Professor, Dartmouth College

Moderator: **Michael Horrigan**, President, Upjohn Institute

RESEARCH FOR
EQUITY IN RECOVERY

Unemployment Insurance in the Pandemic: Lessons for UI Program Reform

Christopher J. O'Leary
W.E. Upjohn Institute for Employment Research
September 10, 2020

UI Before the Pandemic

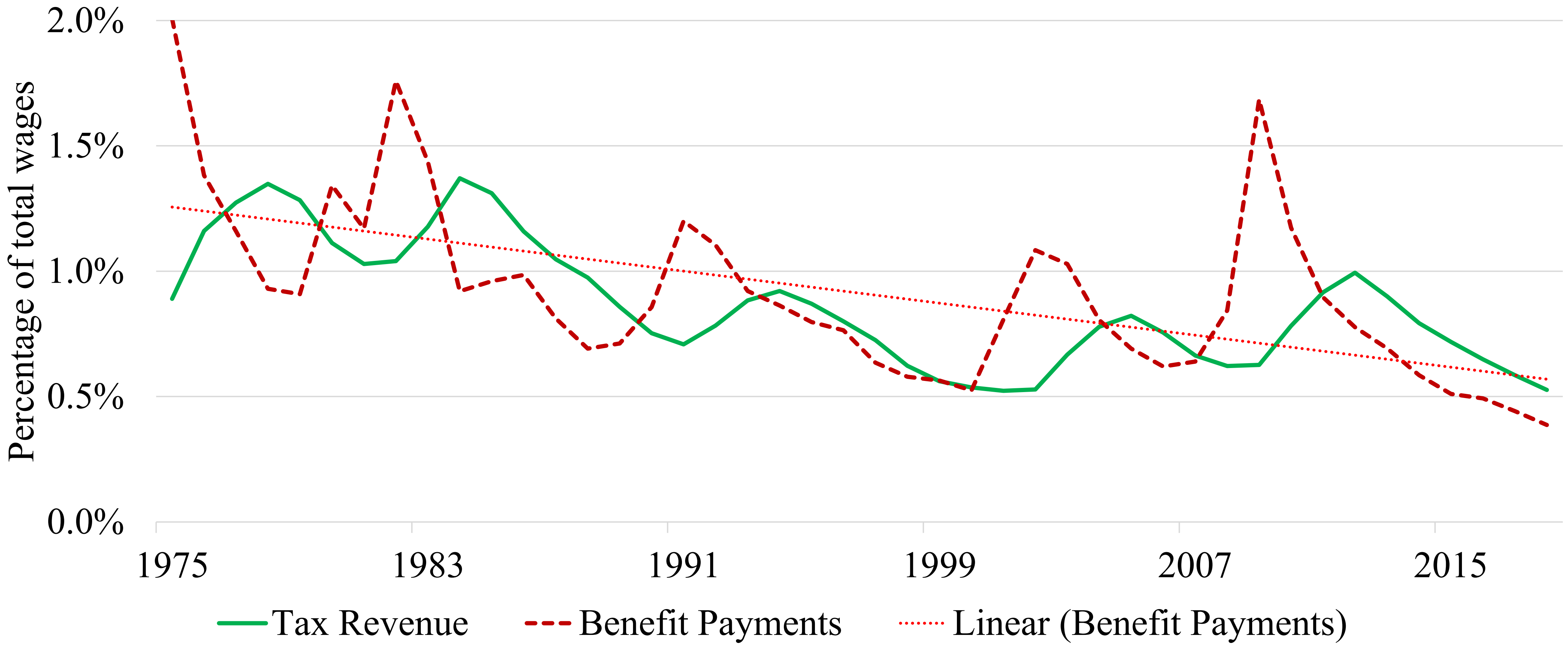
The federal-state UI system had been declining in:

- Tax revenues
- Benefit amounts
- Benefit durations
- Recipiency rates

The system was not prepared for a pandemic.

Declining Tax Revenue and Benefits

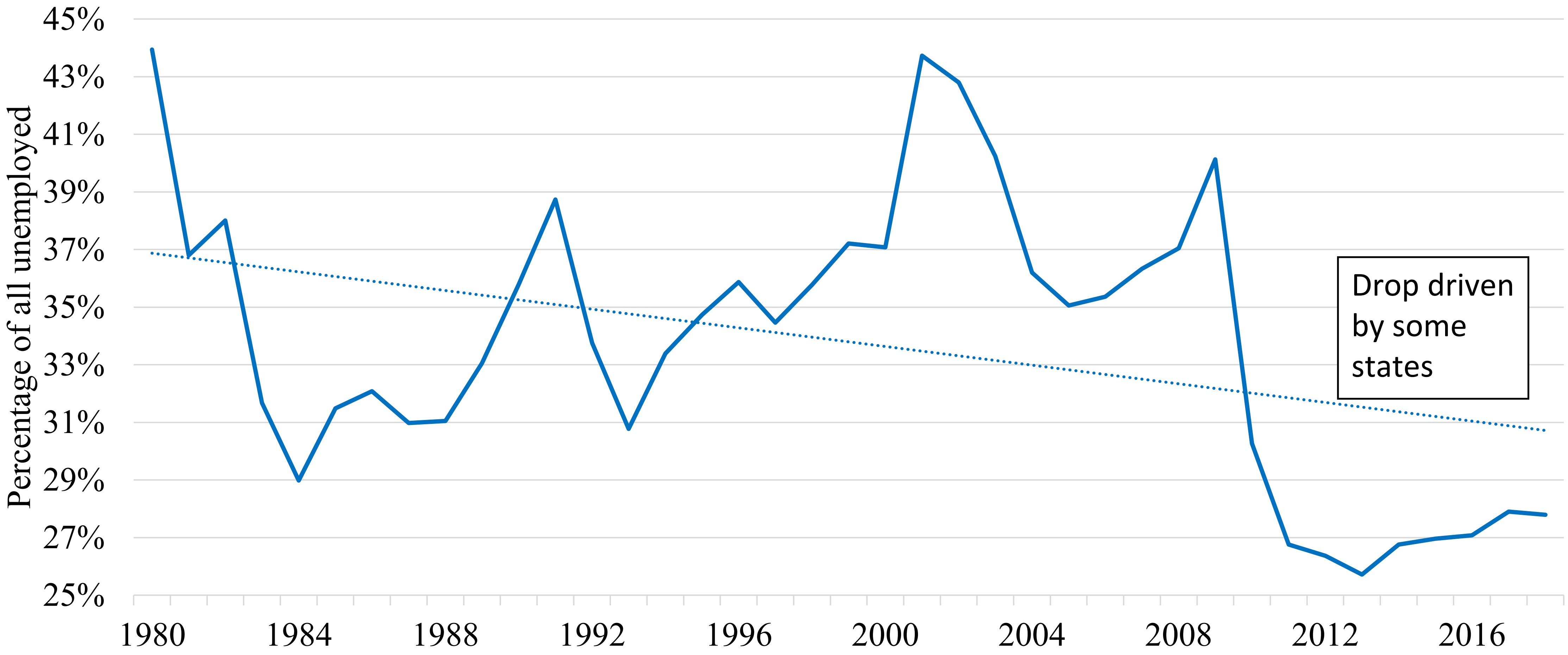
RESEARCH FOR EQUITY IN RECOVERY



Source: (O'Leary and Wandner 2019) https://doi.org/10.17848/wp19-317

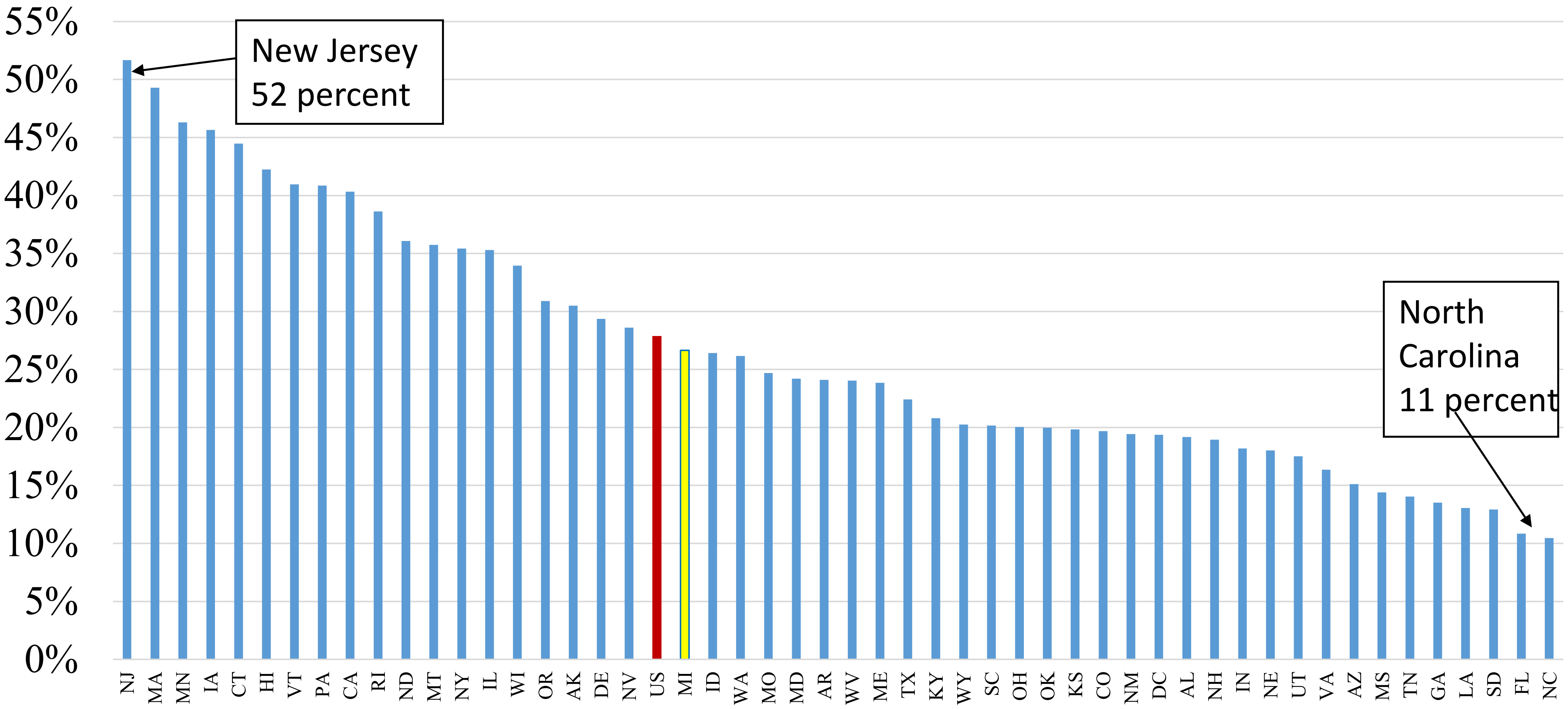
UI Recipiency (Beneficiaries/Unemployed)

RESEARCH FOR EQUITY IN RECOVERY



Source: (O'Leary and Wandner 2019) https://doi.org/10.17848/wp19-317

UI Recipiency by State, 2018



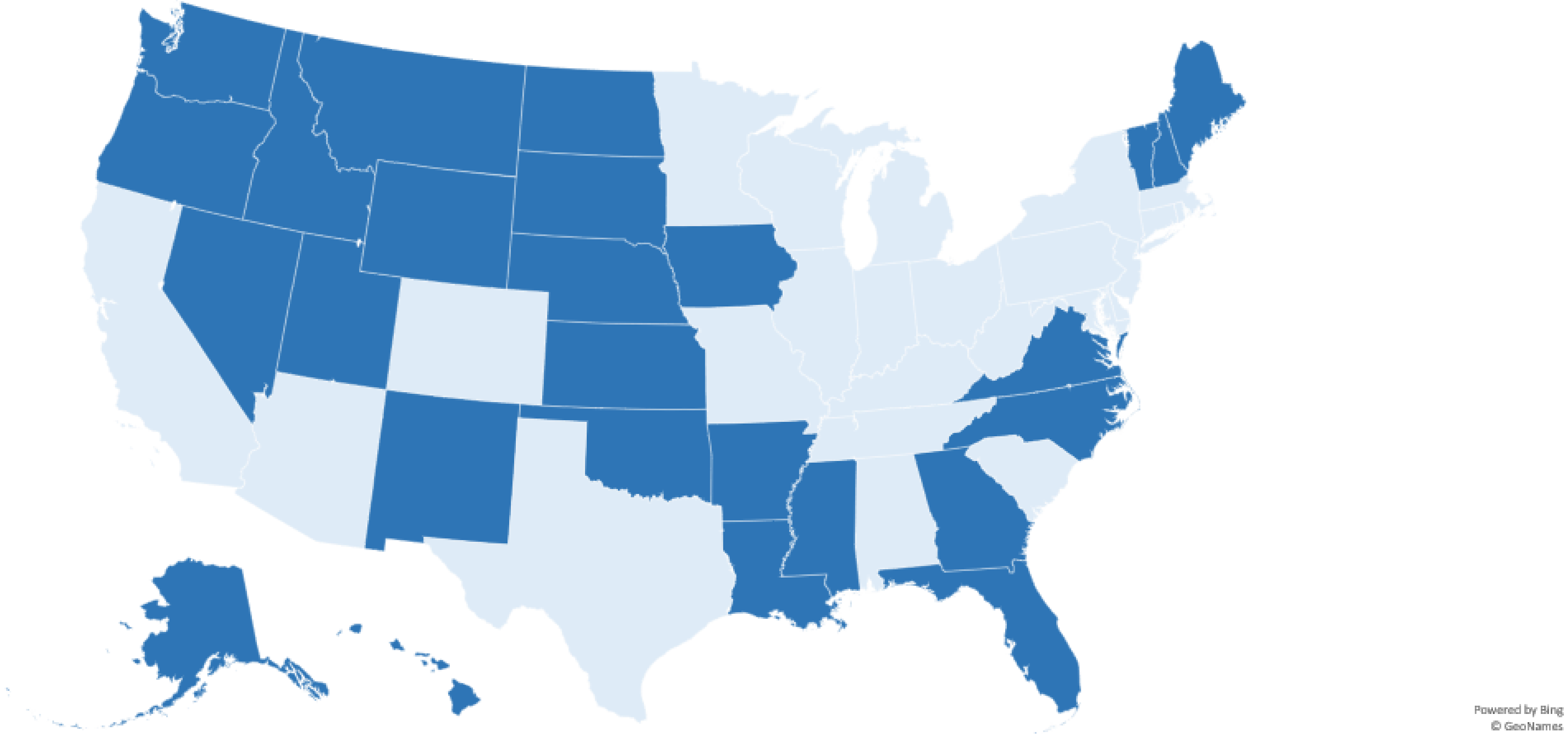
Source: (O'Leary and Wandner 2019) https://doi.org/10.17848/wp19-317

Some States Drive the Decline

RESEARCH FOR
EQUITY IN RECOVERY

- Inadequate financing
  - Some states have cut taxes or allowed UI tax systems to decline
  - States with inadequate financing usually pay lower benefits
- No federal requirements for benefit amounts or durations
- Why has UI deteriorated?
  - Recessions are infrequent
  - Occupational segmentation in the risk of unemployment
  - Is UI a labor market support or a business cost to minimize?

At Least One Year Reserves (AHCR) January 1, 2020



Source: State UI Trust Fund Solvency Report 2020 (USDOL 2020).

State Title XII Borrowing—August 27, 2020

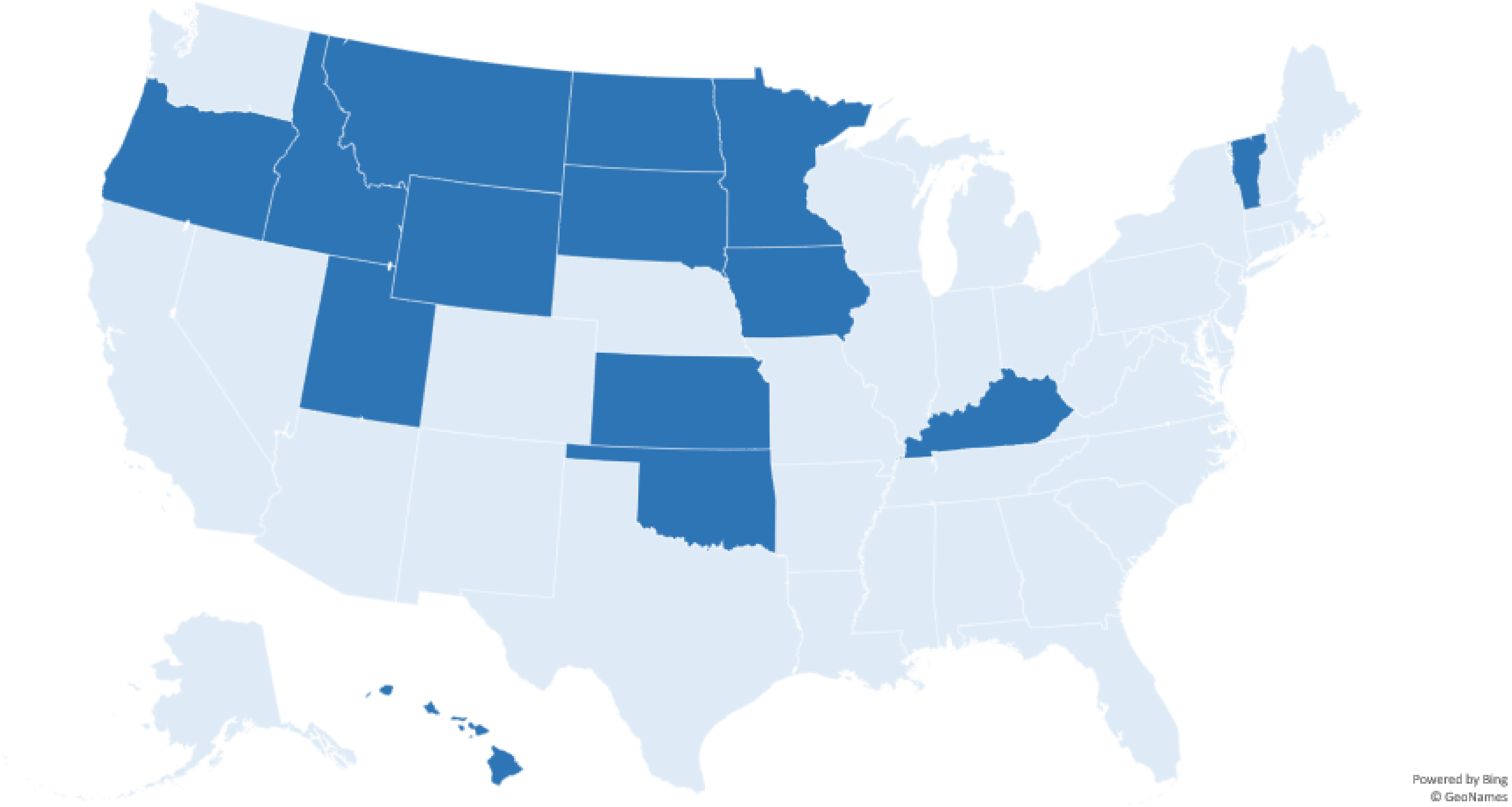
RESEARCH FOR EQUITY IN RECOVERY

State	Outstanding Advance Balance	Advance Authorization Current Month	Gross Advance Draws Current Month	Interest Accrued for FY2020*
California	10,000,034,279.83	3,500,000,000.00	2,746,000,000.00	0.00
Colorado	78,557,613.08	500,000,000.00	78,557,613.08	0.00
Connecticut	0.00	220,000,000.00	0.00	0.00
Delaware	0.00	74,000,000.00	0.00	0.00
Georgia	0.00	85,000,000.00	0.00	0.00
Hawaii	275,990,172.13	435,000,000.00	177,974,567.86	0.00
Illinois	1,483,968,121.99	1,100,000,000.00	456,167,872.39	0.00
Kentucky	266,121,714.54	325,000,000.00	92,923,504.87	0.00
Massachusetts	1,154,488,411.36	700,000,000.00	402,873,225.71	0.00
Minnesota	323,488,677.52	400,000,000.00	292,940,451.62	0.00
New Jersey	30,588,000.00	600,000,000.00	30,588,000.00	0.00
New Mexico	0.00	35,000,000.00	0.00	0.00
New York	6,480,349,071.78	2,300,000,000.00	1,419,996,169.83	0.00
Ohio	741,682,473.34	600,000,000.00	189,016,000.00	0.00
Pennsylvania	0.00	800,000,000.00	0.00	0.00
Texas	3,638,670,059.18	1,900,000,000.00	1,001,808,547.41	0.00
Virginia	0.00	80,000,000.00	0.00	0.00
Virgin Islands	60,339,765.51	5,000,000.00	1,856,551.00	0.00
West Virginia	49,937,854.39	125,000,000.00	14,450,929.58	0.00
Totals	**24,584,216,214.65**	**13,784,000,000.00**	**6,905,153,433.35**	**0.00**

Source: https://www.treasurydirect.gov/govt/reports/tfmp/tfmp_advactivitiessched.htm

Average Wage Replacement At Least 40 percent, 2019Q4

RESEARCH FOR EQUITY IN RECOVERY



Source: Quarterly UI Data Summary (USDOL 2020).

UI During the Pandemic Crisis

RESEARCH FOR EQUITY IN RECOVERY

- Families First Coronavirus Response Act
  - Added $1 billion for state administration of UI benefits
- Coronavirus Aid, Relief, and Economic Security (CARES) Act
  - Pandemic Unemployment Assistance (PUA) — self-employed
  - Federal Pandemic Unemployment Compensation (FPUC) $600/wk
  - Extended benefits — by up to 33 additional weeks (PEUC+EB)
  - Work-sharing benefits reimbursed in full (50% for new programs)
  - Non-profit and government employee benefits reimbursed 50%

CARES — Unemployment Compensation

RESEARCH FOR EQUITY IN RECOVERY

2102 – **Pandemic Unemployment Assistance (PUA)** – contract, gig, self-employed.

2103 – Pays 50 percent of benefits for government and non-profit workers.

2104 – **FPUC (Federal Pandemic Unemployment Compensation)** +$600 per week.

2105 – Waiting week is paid by the federal government.

2106 – Non-merit rated staff can deliver services during the crisis.

2107 – **PEUC** adds 13 weeks after regular state benefits are exhausted.

2108 – 26 states with **STC** programs get 100 percent STC reimbursement.

2109 – States without STC get reimbursed 50% for new or temporary programs.

2110 – Money ($100 m) for STC set-up and marketing STC to employers.

2111 – Model legislative language for states without STC (work sharing).

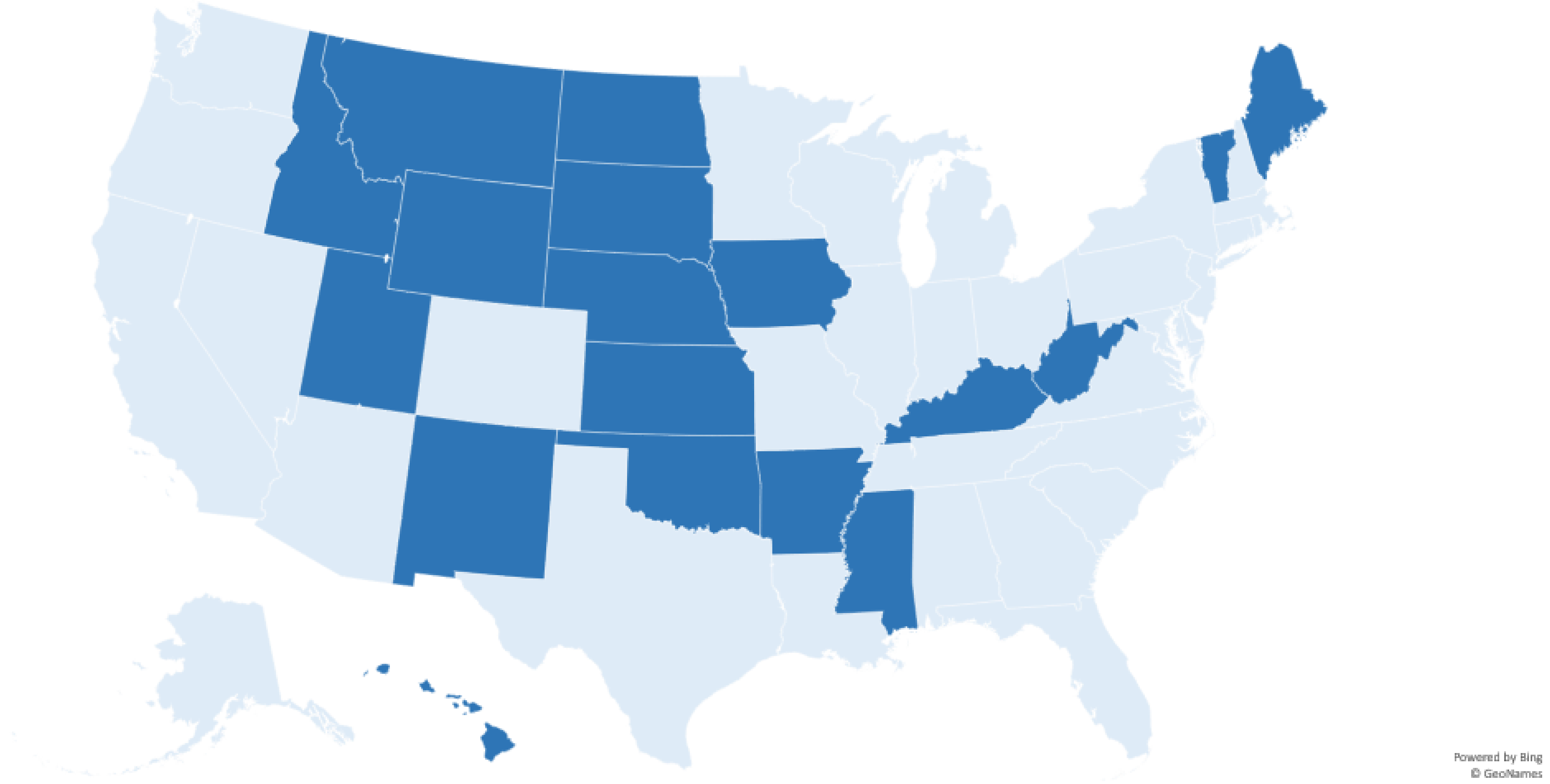
Comments on UI in CARES Act

RESEARCH FOR EQUITY IN RECOVERY

- Administration
  - Volume of claims triple max ever, states overwhelmed
  - Sequencing: State, PEUC, EB, PUA—12/31/2020
- Increases in wage replacement rate and duration
  - Social distancing and income security, but work disincentives
- Return to work
  - Renewing FPUC ($600/week), a role for STC (work sharing)
- Federal reimbursement (EB, STC, Non-Profits & Government)
  - Reserve standards insufficient, federal infusion beyond ACHM=1.0

(AWBA+$600 FPUC)/AWW >= 1

RESEARCH FOR EQUITY IN RECOVERY



Source: Quarterly UI Data Summary (USDOL 2020).

Continuing UI Beneficiaries by Program

RESEARCH FOR EQUITY IN RECOVERY

PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)

WEEK ENDING	August 8	August 1	Change	Prior Year[1]
Regular State	14,098,403	15,112,240	-1,013,837	1,616,985
Federal Employees	13,968	14,614	-646	6,923
Newly Discharged Veterans	13,566	13,912	-346	5,757
Pandemic Unemployment Assistance[3]	10,972,770	11,224,774	-252,004	NA
Pandemic Emergency UC[4]	1,407,802	1,289,125	+118,677	NA
Extended Benefits[5]	203,188	92,883	+110,305	0
State Additional Benefits[6]	2,674	2,610	+64	4,823
STC / Workshare [7]	304,861	309,397	-4,536	9,827
TOTAL[8]	27,017,232	28,059,555	-1,042,323	1,644,315

Source: News Release: Unemployment Insurance Weekly Claims Report for the U.S. Department of Labor, August 27, 2020.

UI After the Pandemic Crisis

RESEARCH FOR EQUITY IN RECOVERY

- Reforming the federal-state system
  - Improve application and benefit payment systems
  - Simplify eligibility rules and add benefit standards
  - Improve financing and forward funding of benefits
  - Adequately fund reemployment services
  - Make work-sharing and self-employment assistance required programs
  - Evaluate coverage to contract, self-employed, and gig workers
- Consider the case for a federalized system
  - Uniform eligibility, financing, benefits, and administration
  - Employee contributions to help restore UI as social insurance

UI During the COVID Crisis

Suzanne Simonetta
USDOL/ETA

September 10, 2020

Key Elements of Permanent UI Framework

RESEARCH FOR EQUITY IN RECOVERY

1. Unemployment Insurance (UI) is a federal-state partnership based on federal law but administered by states under state law.

- Unless federal law explicitly requires or prohibits something, states have authority to establish their own program parameters.
- Federal law does not establish requirements for weekly benefit amounts, number of weeks of benefits, and other key aspects of the UI program.
- Results in high variation among the states.
- Enactment of federal statutes or changes to federal policy do not automatically result in conforming changes to state law or policy.
- States may need to amend their UI laws, which takes time.

Key Elements of Permanent UI Framework

RESEARCH FOR EQUITY IN RECOVERY

2. The risk that's being insured by this program is not compatible with a health-based unemployment crisis.

- This social insurance program is designed to help involuntarily unemployed individuals who have been recently attached to the labor market and who continue to be attached to the labor market.
- This is why individuals must have earned sufficient recent wages and generally must be able to work, available for work, and actively seeking work to be eligible for UI benefits.
- Thus, individuals who are sick, caring for children, or who must self-quarantine would not be eligible for UI benefits.
- Also a reason why self-employed are typically excluded from coverage.

Necessity of New Federal Programs to Achieve Policy Objectives During Pandemic

RESEARCH FOR EQUITY IN RECOVERY

- Expand access to benefits: Pandemic Unemployment Assistance (PUA) provides benefits to self-employed, recent entrants to the labor market, certain long-term unemployed, and other individuals who are not eligible for "regular" UI.
- Increase generosity of benefits: Federal Pandemic Unemployment Compensation (FPUC) significantly increases weekly benefit amounts, which provides for greater macroeconomic stabilization in addition to helping jobless workers.
- Increase duration of benefits: Pandemic Emergency Unemployment Compensation (PEUC) provides more weeks of benefits to individuals who exhaust entitlement to regular state benefits.
    - NOTE: During typical recessions, the permanent Extended Benefits program (which provides up to 20 weeks of benefits) does not trigger on soon enough in most states. This is why temporary, emergency, federal extension programs are created.

Administrative Challenges of Emergency Temporary Interventions During Pandemic

1. Unprecedented claims levels.

- For regular UI program, nationwide initial claims increased by more than an order of magnitude in one week.
- States were not (and should not) have been prepared for this volume of claims.
- Administrative funding is workload based. It would have been a waste of public resources to have built-in capacity for a level of claims that had never even been close to being experienced in the UI program.

2. UI eligibility determination process is complex.

- There are many requirements.
- It takes time to hire and train staff to make eligibility determinations based on the unique circumstances of each individual who applies.

Administrative Challenges of Emergency Temporary Interventions During Pandemic

RESEARCH FOR EQUITY IN RECOVERY

3. It takes a lot of time to implement three new federal programs.

- Federal guidance must be issued, and states must program their systems and train their staff about requirements before they can begin to process claims.

4. PUA is a complex, novel program.

- Although there are similarities with the permanent Disaster Unemployment Assistance program, there never has been a health-based UI program.
- Establishing eligibility for self-employed isn't easy, especially given the number of gig workers who applied.

Administrative Challenges of Emergency Temporary Interventions During Pandemic

5. Many states have archaic IT infrastructure.

- Without dedicated federal funding for modernization efforts, states generally need to commit a substantial amount of resources to update their systems.

6. Program integrity matters.

- It is essential to establish reasonable procedures to reduce the likelihood of fraud and to ensure benefit payments are being made properly.
- This results in an inherent trade-off with operational simplicity/ease.

Administrative Challenges of Emergency Temporary Interventions During Pandemic

RESEARCH FOR EQUITY IN RECOVERY

7. The pandemic affects federal and state agencies too.

- Changed how business is conducted by shifting to just about 100% remote operations without time to prepare.
- Had to find a way to build capacity to respond to the economic effects of this health crisis when the crisis affects all employees:
  - Illness of workers or family members
  - Balancing work with parental obligations
  - Stress of pandemic life
  - Pressure to serve the public when most needed

What Have We Learned So Far?

RESEARCH FOR EQUITY IN RECOVERY

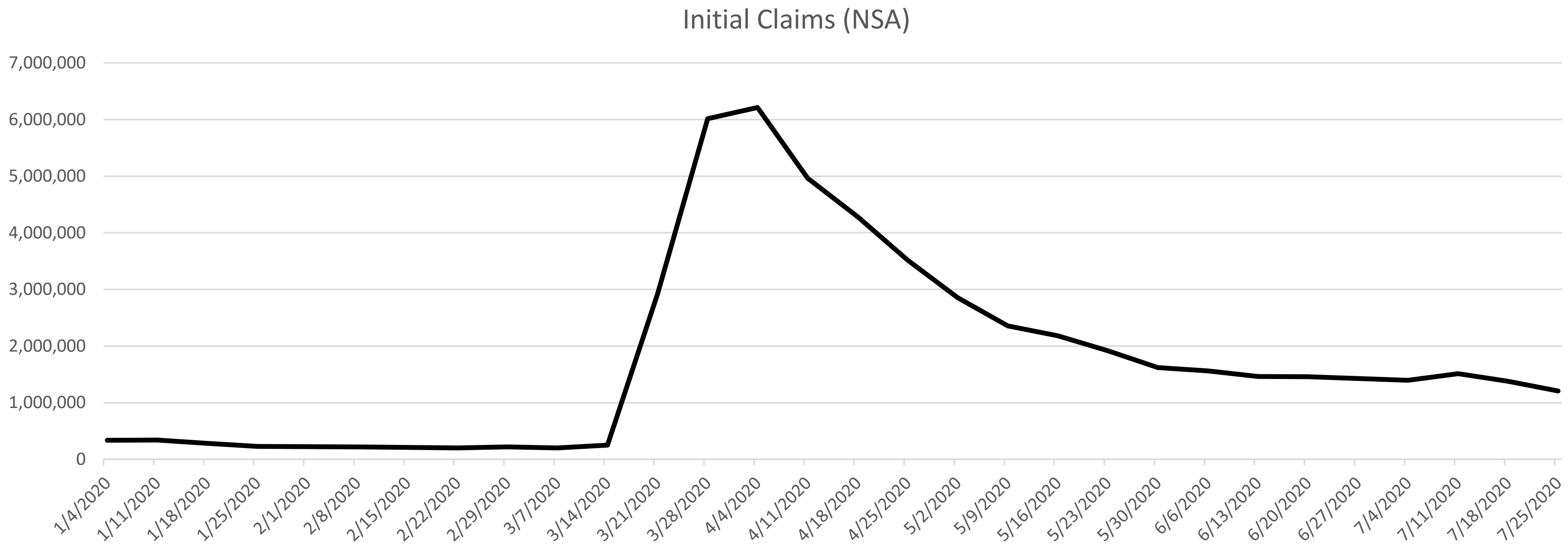
1. This is not a "normal" recession.
   - Previous program reform efforts focused on some of the policy areas addressed by the UI provisions in the CARES Act.
   - However, an unemployment crisis like the current one hadn't really been contemplated before.
2. Automatically activated interventions would be much easier to implement than new emergency programs.
   - This would greatly reduce preparation time.
3. Investment in administrative infrastructure is critical.
   - It's incredibly difficult to address these matters during a crisis.

RESEARCH FOR EQUITY IN RECOVERY

Unemployment Insurance in the Pandemic: Lessons for UI Program Reform

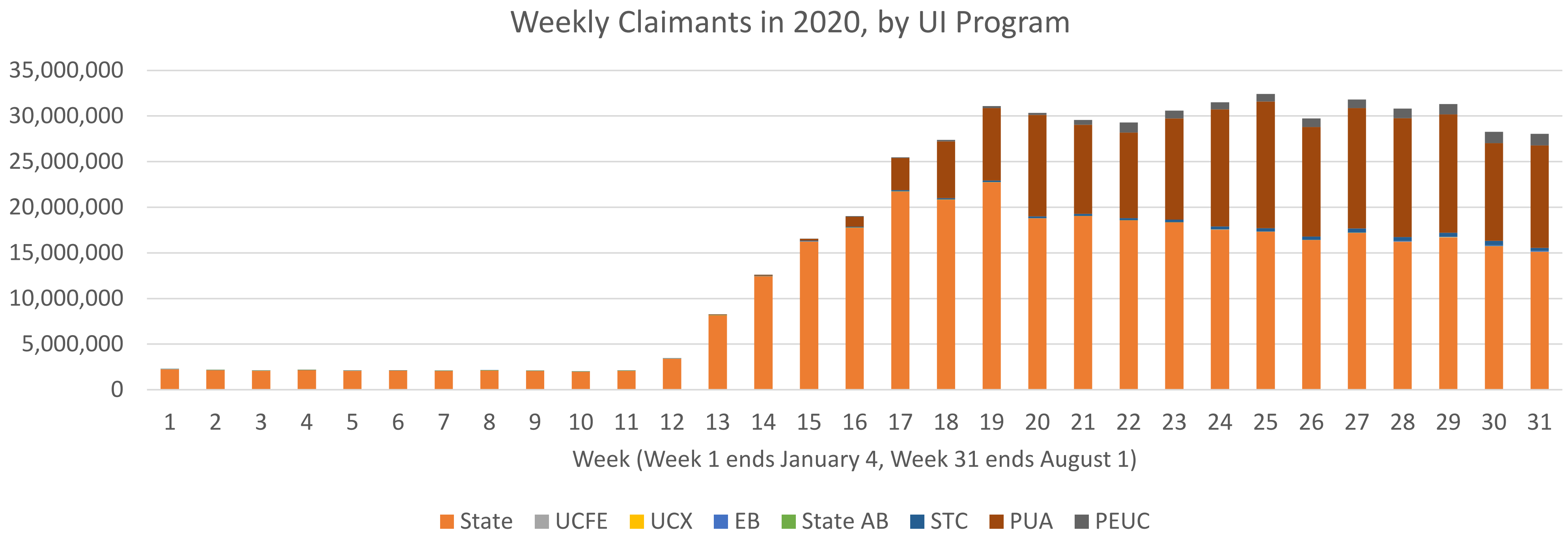
Patricia M. Anderson
Dartmouth College
September 10, 2020

Unprecedented Increase in UI Claimants



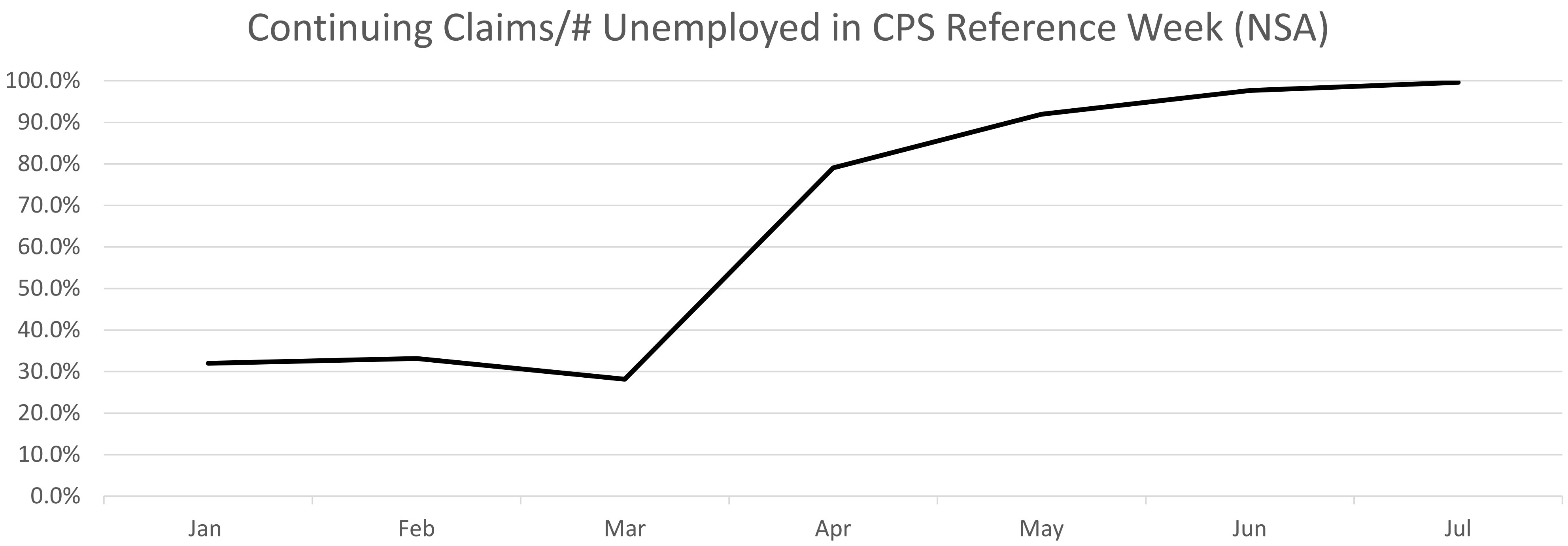
Surge in Both Old & New Program Claimants

RESEARCH FOR EQUITY IN RECOVERY



Unprecedented Increase in Recipiency Rate

RESEARCH FOR EQUITY IN RECOVERY



Could This Increase Have Been Predicted?

RESEARCH FOR EQUITY IN RECOVERY

- Anderson and Meyer (1997) estimate 10% ↑ in WBA → 2 – 2.5 ppt ↑ in take up rate
- Anderson and Meyer (1997) estimate 10% ↑ in PD → 0.5 – 1 ppt ↑ in take up rate
- $600 from FPUC set based on 1st quarter 2020 avg wage = $973 & avg WBA = $373
  - FPUC is 160% increase for average recipient (more on distributional effects later)
  - 160% ↑ in WBA → 32 – 40 ppt ↑ in take up rate
- 13 additional weeks from PEUC is 50% increase for typical 26-week duration state
  - 50% ↑ in PD → 2.5 – 5 ppt ↑ in take up rate
- FPUC and PEUC together predict 34.5 – 45 ppt ↑ in take up rate
  - Feb recipiency rate = 33.2, so predict ↑ to about 68 – 78
  - April recipiency rate = 79.1, but by July recipiency rate = 99.6

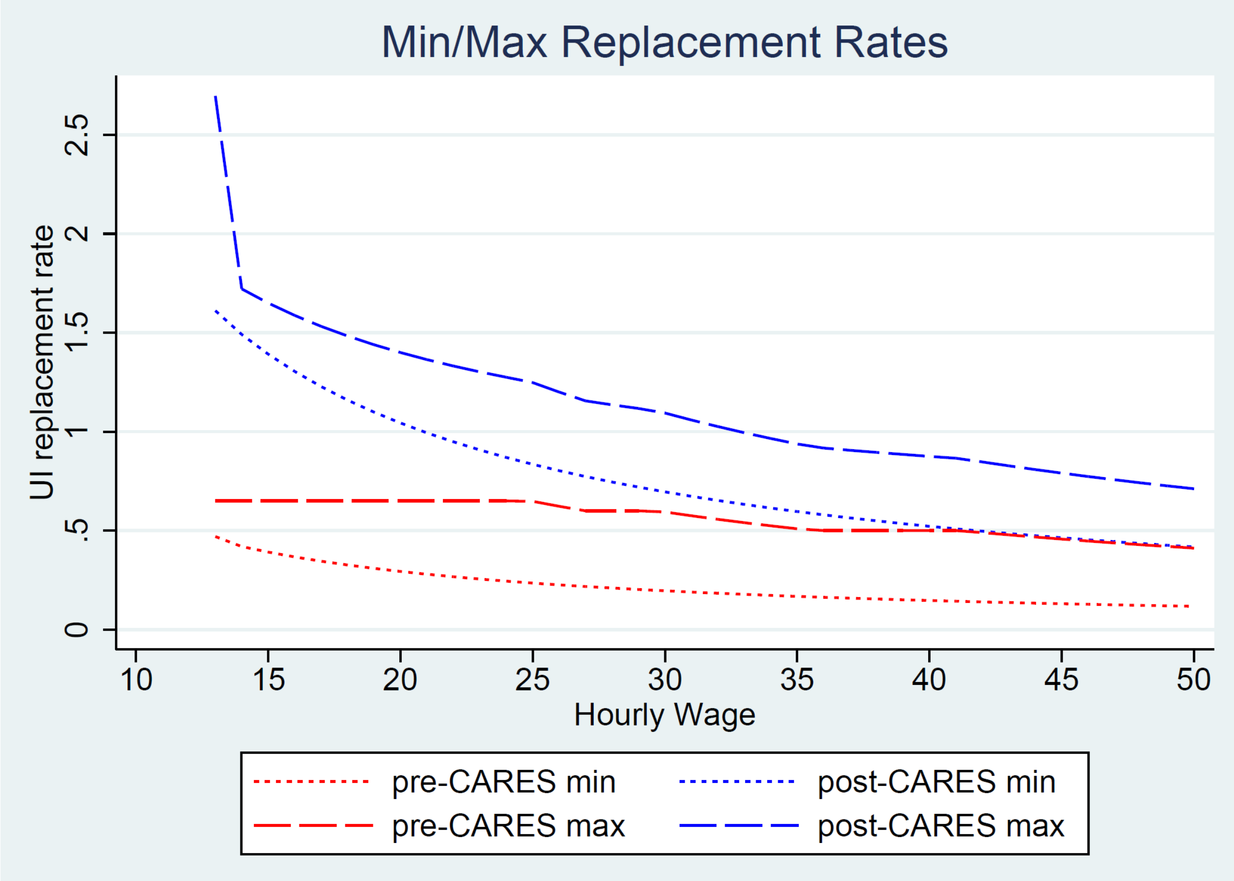
Other Contributors to ↑ in Recipiency Rate

RESEARCH FOR EQUITY IN RECOVERY

- Costs of applying for UI down slightly
  - Waiting weeks waived
  - Continuing eligibility conditions loosened
- By May, many states are starting to trigger EB (additional 13 – 20 weeks)
- CPS undercount of unemployed, due to simple misclassification of temporary layoffs
- Expanded eligibility via PUA (receipt starts to pick up in May)
  - Self-employed unlikely to be recorded as unemployed
  - Contractors may or may not be recorded as unemployed

Increase in Replacement Rate from FPUC

RESEARCH FOR
EQUITY IN RECOVERY



Increase in Replacement Rate from FPUC

RESEARCH FOR EQUITY IN RECOVERY

- Even in the least generous state, FT-FY workers making up to $20/hr are better off on UI than they are working at their job
  - FT-FY minimum wage worker in least generous state makes 160% of salary on UI
  - Without FPUC, this worker would only replace 47% of salary with UI
- In the most generous state, FT-FY workers making up to $32/hr are better off on UI than they are working at their job
  - FT-FY minimum wage worker in most generous state makes 270% of salary on UI
  - Without FPUC, this worker would only replace 65% of salary with UI
- Concerns about incentive effects of such high replacement rates

Research on (Dis)incentive Effects of UI

- Schmeider and Von Wachter (2016) review the literature on estimated benefit elasticities

Table 2: Estimates of the Effects of Benefit Increases on Unemployment Durations

Country / States	Study	Design	Source of Variation	$\frac{dD}{db}\frac{b}{D}$	$\frac{dB}{db}\frac{b}{B}$	Behavioral cost per 1 USD increase in transfer - $\tau = 0.03$	Behavioral cost per 1 USD increase in transfer - tax wedge
Panel B: Studies from the United States							
CWBH - 13 states	Moffitt, 1985	Cross-Sectional		0.36			
US – Georgia	Solon, 1985	DiD	Tax policy change (non-taxable to taxable benefits)	0.10	0.07	0.08	0.14
CWBH - all states	Katz and Meyer, 1990	State-by-year		0.80		0.29	1.74
US - New York	Meyer and Mok, 2007	Pre-post	Increase in maximum weekly benefit level from 180to245	0.60	0.30	0.41	0.81
				0.12	0.30	0.08	0.16
				0.23	0.30	0.16	0.31
US	Chetty, 2008	DiD	cross-state maximum benefit level	0.53		0.36	0.71
US - ID, LA, MO, NM, WA	Landais, 2015	RKD	Kink at maximum UI benefit level	0.29	0.73	0.14	0.40
US	Kroft and Notowidigdo, 2015	DiD	cross-state maximum benefit level	0.63		0.23	1.43
US - Missouri	Card, Johnston, Leung, Mas, Pei, 2015	RKD	Missouri,kink at maximum level of UI benefits - during-recession - Recession	1.21	0.78	0.95	1.68
			Missouri,kink at maximum level of UI benefits - pre recession / Boom	0.38	0.35	0.38	0.59

Research on (Dis)incentive Effects of UI

RESEARCH FOR EQUITY IN RECOVERY

- Schmeider and Von Wachter (2016) review the literature on estimated benefit elasticities
- Median benefit elasticity of duration in US is 0.38, range is 0.1 to 1.2, most below 0.7
- Taking this median estimate, and 160% increase in average WBA → 61% duration

- However, all of these past estimates come from “normal” economic times
- Several recent studies directly investigate impact of FPUC
  - No evidence of FPUC leading people to avoid becoming re-employed

Research on (Dis)incentive Effects of UI

RESEARCH FOR EQUITY IN RECOVERY

- Altonji, Contractor, Finamor, Haygood, Lindenlaub, Meghir, O'Dea, Scott, Wang and Washington (July 2020) "find no evidence that more generous benefits disincentivized work either at the onset of the expansion or as firms looked to return to business over time."
- Dube (July 2020) "find that while the replacement rates varied sizably across states (because of very different wage levels of workers without a college degree across states), there is no clear indication that this had an impact on the employment in the data through late July."
- Marinescu, Skandalis, Zhou (August 2020) find "employers did not experience greater difficulty finding applicants for their vacancies after the CARES Act, despite the large increase in unemployment benefits."

Firm-Level Incentives

RESEARCH FOR EQUITY IN RECOVERY

- Typically, experience rating provides several incentives at the firm level
    - ↓ layoffs, but ↑ layoffs if at the maximum tax rate already
    - "police" worker claims to avoid having to pay for improperly claimed benefits
- PUA, FPUC, PEUC all paid by federal government, so not experience rated
- Many states are choosing not to charge benefits to employers for COVID-related layoffs
- Thus, many of the typical firm incentives are not currently in play

Considerations Moving Forward

RESEARCH FOR EQUITY IN RECOVERY

- While no evidence high replacement rates are restricting reemployment, anecdotal evidence of impacts on low-wage essential workers' morale
  - These workers see friends and neighbors making more money staying safe at home than they are making, all while potentially risking their health and undertaking new duties
  - Could consider providing "hazard" pay wage supplements for low-wage essential workers
- Failure to pass additional UI extensions after FPUC expired, and delays in EB triggering, make clear that UI fails as an automatic stabilizer
  - Could build in more obvious triggers to automatically ↑ not just duration but also benefits

Other Things to Consider

RESEARCH FOR EQUITY IN RECOVERY

- UI Financing Issues
  - Very low tax base makes nominal tax rates high → employer resistance to raising funds
  - Very low tax base combined with economic incidence → very regressive tax
    - Workers tend to not consider themselves as stakeholders in financing, issues, though
- Eligibility Issues
  - Continued blurring of employee vs. independent contractor
    - PUA expansion makes sense in a pandemic, less clear if can/should include contractors normally

Data Sources

- *Initial claims figure*: Unemployment Insurance Weekly Claims Data, downloaded as r539cy.xls from https://oui.doleta.gov/unemploy/claims.asp
- *Weekly claimants by program figure*: Weeks Claimed in All Programs, downloaded as persons.xls from https://oui.doleta.gov/unemploy/DataDashboard.asp
- *Recipiency rate figure*: NSA continued claims from Unemployment Insurance Weekly Claims Data, downloaded as r539cy.xls from https://oui.doleta.gov/unemploy/claims.asp; NSA number unemployed from Table A1 of The Employment Situation for the corresponding month, downloaded from https://www.bls.gov/bls/news-release/empsit.htm#2020
- *Replacement rate figure*: earnings calculated for 40 hours per week for 52 weeks at each hourly wage and UI benefits then calculated using the UI calculator created for Ganong, Peter, Pascal Noel, and Joseph Vavra. (May 2020) "US Unemployment Insurance Replacement Rates During the Pandemic," *Becker-Friedman Institute Working Paper No. 2020-62*, downloaded from https://github.com/PSLmodels/ui_calculator

Paper References

RESEARCH FOR EQUITY IN RECOVERY

- Altonji, Joseph, Zara Contractor, Lucas Finamor, Ryan Haygood, Ilse Lindenlaub, Costas Meghir, Cormac O'Dea, Dana Scott, Liana Wang, and Ebonya Washington. July 2020. "Employment Effects of Unemployment Insurance Generosity During the Pandemic," PDF downloaded at https://tobin.yale.edu/sites/default/files/files/C-19%20Articles/CARES-UI_identification_vF(1).pdf
- Anderson, P. M., and B. D. Meyer. 1997. "Unemployment Insurance Takeup Rates and the After-Tax Value of Benefits." *The Quarterly Journal of Economics* 112 (3): 913–37. https://doi.org/10.1162/003355397555389.
- Dube, Arindrajit. July 2020. "The Impact of the Federal Pandemic Unemployment Compensation on Employment: Evidence from the Household Pulse Survey (Preliminary)," PDF downloaded from https://arindube.com/working-papers/
- Marinescu, Ioana Elena, Daphné Skandalis, and Daniel Zhao. August 2020. "Job Search, Job Posting and Unemployment Insurance During the COVID-19 Crisis." *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.3664265.
- Schmieder, Johannes F. and Till Von Wachter. 2016. "The Effects of Unemployment Insurance Benefits: New Evidence and Interpretation," *Annual Review of Economics* 8 (1): 547–581. https://doi.org/10.1146/annurev-economics-080614-115758