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
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W.E. Upjohn Institute for Employment Research

Penn IUR

Federal Reserve Bank of Philadelphia

Unemployment Insurance During the COVID Crisis
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Unemployment Insurance in the Pandemic: Lessons for UI Program Reform

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

UI Recipiency (Beneficiaries/Unemployed)


Unemployment Insurance During the COVID Crisis
UI Recipiency by State, 2018

Some States Drive the Decline

- 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


Unemployment Insurance During the COVID Crisis
## State Title XII Borrowing—August 27, 2020

<table>
<thead>
<tr>
<th>State</th>
<th>Outstanding Advance Balance</th>
<th>Advance Authorization Current Month</th>
<th>Gross Advance Draws Current Month</th>
<th>Interest Accrued for FY2020*</th>
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</thead>
<tbody>
<tr>
<td>California</td>
<td>10,000,034,279.83</td>
<td>3,500,000,000.00</td>
<td>2,746,000,000.00</td>
<td>0.00</td>
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<tr>
<td>Colorado</td>
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<td>500,000,000.00</td>
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<td>Connecticut</td>
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<td>Delaware</td>
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<td>Hawaii</td>
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<td>435,000,000.00</td>
<td>177,974,567.86</td>
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<td>Illinois</td>
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<tr>
<td>Kentucky</td>
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<td>325,000,000.00</td>
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<tr>
<td>Massachusetts</td>
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<td>Minnesota</td>
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<td>New Jersey</td>
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<td>New York</td>
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<td>2,300,000,000.00</td>
<td>1,419,996,169.83</td>
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<td>Ohio</td>
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<td>Pennsylvania</td>
<td>0.00</td>
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<td>Texas</td>
<td>3,638,670,059.18</td>
<td>1,900,000,000.00</td>
<td>1,001,808,547.41</td>
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<td>Virginia</td>
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<td>Virgin Islands</td>
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<td>1,856,551.00</td>
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<td>West Virginia</td>
<td>49,937,854.39</td>
<td>125,000,000.00</td>
<td>14,450,929.58</td>
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<tr>
<td>Totals</td>
<td>24,584,216,214.65</td>
<td>13,784,000,000.00</td>
<td>6,905,153,433.35</td>
<td>0.00</td>
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</tbody>
</table>

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

Unemployment Insurance During the COVID Crisis
Average Wage Replacement
At Least 40 percent, 2019Q4

Source: Quarterly UI Data Summary (USDOL 2020).

Unemployment Insurance During the COVID Crisis
UI During the Pandemic Crisis

• 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%
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).
• 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
Unemployment Insurance During the COVID Crisis

\[(\text{AWBA} + \$600 \text{ FPUC})/\text{AWW} \geq 1\]

Source: Quarterly UI Data Summary (USDOL 2020).
## Continuing UI Beneficiaries by Program

**PERSONS CLAIMING UI BENEFITS IN ALL PROGRAMS (UNADJUSTED)**

<table>
<thead>
<tr>
<th>WEEK ENDING</th>
<th>August 8</th>
<th>August 1</th>
<th>Change</th>
<th>Prior Year¹</th>
</tr>
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<tbody>
<tr>
<td>Regular State</td>
<td>14,098,403</td>
<td>15,112,240</td>
<td>-1,013,837</td>
<td>1,616,985</td>
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<tr>
<td>Federal Employees</td>
<td>13,968</td>
<td>14,614</td>
<td>-646</td>
<td>6,923</td>
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<tr>
<td>Newly Discharged Veterans</td>
<td>13,566</td>
<td>13,912</td>
<td>-346</td>
<td>5,757</td>
</tr>
<tr>
<td>Pandemic Unemployment Assistance²</td>
<td>10,972,770</td>
<td>11,224,774</td>
<td>-252,004</td>
<td>NA</td>
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<tr>
<td>Pandemic Emergency UC³</td>
<td>1,407,802</td>
<td>1,289,125</td>
<td>+118,677</td>
<td>NA</td>
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<tr>
<td>Extended Benefits⁵</td>
<td>203,188</td>
<td>92,883</td>
<td>+110,305</td>
<td>0</td>
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<tr>
<td>State Additional Benefits⁶</td>
<td>2,674</td>
<td>2,610</td>
<td>+64</td>
<td>4,823</td>
</tr>
<tr>
<td>STC / Workshare ⁷</td>
<td>304,861</td>
<td>309,397</td>
<td>-4,536</td>
<td>9,827</td>
</tr>
<tr>
<td>TOTAL⁸</td>
<td>27,017,232</td>
<td>28,059,555</td>
<td>-1,042,323</td>
<td>1,644,315</td>
</tr>
</tbody>
</table>

• 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

Unemployment Insurance During the COVID Crisis
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.
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.
• **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.
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.

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.
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.
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.
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
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.
Unemployment Insurance in the Pandemic: Lessons for UI Program Reform

Patricia M. Anderson
Dartmouth College
September 10, 2020
Unprecedented Increase in UI Claimants

Initial Claims (NSA)

Unemployment Insurance During the COVID Crisis
Surge in Both Old & New Program Claimants

Weekly Claimants in 2020, by UI Program

Week (Week 1 ends January 4, Week 31 ends August 1)

Unemployment Insurance During the COVID Crisis
Unprecedented Increase in Recipiency Rate

Continuing Claims/# Unemployed in CPS Reference Week (NSA)
Could This Increase Have Been Predicted?

- 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

• 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
• 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

<table>
<thead>
<tr>
<th>Country / States</th>
<th>Study</th>
<th>Design</th>
<th>Source of Variation</th>
<th>$\frac{d\mu}{d\tau}$</th>
<th>$\frac{d\tau}{d\tau}$</th>
<th>Behavioral cost per 1 USD increase in transfer - $r = 0.03$</th>
<th>Behavioral cost per 1 USD increase in transfer - tax wedge</th>
</tr>
</thead>
<tbody>
<tr>
<td>CWBH - 13 states</td>
<td>Moffitt, 1985</td>
<td>Cross-Sectional</td>
<td>Tax policy change (non-taxable to taxable benefits)</td>
<td>0.36</td>
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<tr>
<td>US - Georgia</td>
<td>Solon, 1985</td>
<td>DiD</td>
<td>Increase in maximum weekly benefit level from 180 to 245</td>
<td>0.10</td>
<td>0.07</td>
<td>0.08</td>
<td>0.14</td>
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<tr>
<td>CWBH - all states</td>
<td>Katz and Meyer, 1990</td>
<td>State-by-year Pre-post</td>
<td>Increase in maximum weekly benefit level from 180 to 245</td>
<td>0.80</td>
<td>0.29</td>
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<td>1.74</td>
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<td>US - New York</td>
<td>Meyer and Mok, 2007</td>
<td>Pre-post</td>
<td>Increase in maximum weekly benefit level from 180 to 245</td>
<td>0.60</td>
<td>0.30</td>
<td>0.41</td>
<td>0.81</td>
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<tr>
<td>US</td>
<td>Chetty, 2008</td>
<td>DiD</td>
<td>cross-state maximum benefit level</td>
<td>0.53</td>
<td>0.30</td>
<td>0.16</td>
<td>0.71</td>
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<tr>
<td>US - ID, LA, MO, NM, WA</td>
<td>Landaus, 2015</td>
<td>RKD</td>
<td>Kink at maximum UI benefit level</td>
<td>0.29</td>
<td>0.73</td>
<td>0.14</td>
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<tr>
<td>US</td>
<td>Kroft and Notowidigdo, 2015</td>
<td>DiD</td>
<td>cross-state maximum benefit level</td>
<td>0.63</td>
<td>0.23</td>
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<tr>
<td>US - Missouri</td>
<td>Card, Johnston, Leung, Mas, Pei, 2015</td>
<td>RKD</td>
<td>Missouri, kink at maximum level of UI benefits - during-recession - Recession</td>
<td>1.21</td>
<td>0.78</td>
<td>0.95</td>
<td>1.68</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>Missouri, kink at maximum level of UI benefits - pre recession / Boom</td>
<td>0.38</td>
<td>0.35</td>
<td>0.38</td>
<td>0.59</td>
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</tbody>
</table>
Schmeider and Von Wachter (2016) review the literature on estimated benefit elasticities. The median benefit elasticity of duration in the US is 0.38, with a range of 0.1 to 1.2, and most estimates below 0.7. Taking this median estimate, and a 160% increase in average WBA, the predicted increase in duration is 61%.

However, all of these past estimates come from “normal” economic times. Several recent studies directly investigate the impact of FPUC, with no evidence of FPUC leading people to avoid becoming re-employed.
Research on (Dis)incentive Effects of UI

• 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.”
Typically, experience rating provides several incentives at the firm level:
- \(\downarrow\) layoffs, but \(\uparrow\) 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

- 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

• 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


