



The “Jobless Recovery” & the Gaps in the Federal Unemployment Insurance Safety Net

State-by-State Analysis
Of the Long-Term Unemployed Collecting Extended
Benefits Reveals Necessary
Reforms to the Federal UI Programs
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Overview



- ◆ Since January 2002, many more workers are unemployed long-term as a result of the “jobless recovery” and many more workers are exhausting their unemployment benefits.
- ◆ Workers in most “high unemployment” states are not qualifying for available extended benefits beyond 13 weeks due to the gaps in the federal extended benefits program.
- ◆ While qualifying for the temporary extension of unemployment benefits, enacted in March 2002, gaps in the federal program often deny workers the maximum 13 weeks available.
- ◆ Given the urgent situation, the Bush Administration and Congress should immediately take steps to fix the gaps in the temporary and the permanent extended benefits programs.

The “Jobless Recovery”- Long-Term Unemployment on the Rise

- ◆ The U.S. is in the midst of another “jobless recovery,” similar to what happened in the early 1990s, with the unemployment rate rising steadily and showing few signs of falling in the coming months.
- ◆ In May 2002, the jobless rate reached 5.8%, close to the 8-year high of 6% established the previous month. 8.4 million people are officially counted as unemployed.
- ◆ In addition, the number of long-term unemployed (those still seeking work after 27 weeks) has increased significantly in recent months, now totaling almost 1.64 million workers.
- ◆ From January 2002 to May 2002, the proportion of all unemployed workers who were still looking for work after 27 weeks increased by 41%, from 13.9% (1.13 million workers) to 19.6% (1.64 million workers).



With More Workers Out of Work Longer, More Workers Are Also Running Out of Unemployment Benefits

- ◆ While more workers are unemployed for longer periods of time, the proportion of the unemployed who are exhausting their regular state unemployment benefits has also increased significantly.
- ◆ In April 2002, over 50% of the unemployed ran out of regular state unemployment benefits, totaling over 440,000 workers for the month.
- ◆ The rate has also increased in recent months. In January 2002, the exhaustion rate was 43%, totaling over 373,000 workers for the month.
- ◆ By comparison, from January to March 2001, the national exhaustion rate for regular state UI was 32%.



Extended Unemployment Benefits Help Alleviate Severe Economic Hardship

- ◆ A national study of the federal extended benefits program enacted during the recession of the early 1990's found that the program "kept a substantial portion of families from experiencing poverty-level incomes."
- ◆ Mathematica Policy Research found that, before collecting unemployment benefits, only 11-12% of families that applied for UI had incomes below the poverty level and 41% had incomes below poverty after collecting both regular state and extended federal UI.
- ◆ However, without federal extended benefits, the study found that 70% of the unemployed families would have ended up with incomes below the federal poverty level.
- ◆ A New York State study of workers who exhausted their unemployment benefits after the last recession found that 50% reported difficulty meeting health care costs, 39% had a difficult time meeting food costs, 47% had a difficult time meeting housing costs, and 26% were receiving public assistance.

The Basics of the Federal Temporary Extension of Unemployment Benefits

- ◆ In March 2002, after a prolonged debate, the President signed the Temporary Extended Unemployment Compensation (TEUC) program into law, taking effect March 10th and expiring December 31st.
- ◆ The extension provides a maximum of 13 weeks of federally-funded extended benefits for workers who exhausted their regular state UI benefits.
- ◆ To qualify for TEUC, workers must have also been employed for at least 20 weeks (or the “equivalent”). Some workers fail to receive TEUC because this rule exceeds the minimum amount of work required in many states to qualify for regular UI.
- ◆ Workers in states with “high unemployment” are entitled to another 13 weeks of TEUC, totaling 26 weeks. This extension covers those states that have an “insured unemployment rate” (IUR) of 4% or higher. The IUR measures the percentage of those collecting regular UI in a state relative to all workers covered by the UI program.

How Does the TEUC Program Enacted in March 2002 Compare with the Permanent Extended Benefits Program?

- ◆ In addition to the latest temporary extension of benefits, there is a permanent federal extension program called Extended Benefits (EB), which has been part of the federal law since the 1970's. In contrast to TEUC, the state UI trust funds share half of the costs of the EB program.
- ◆ During the two most recent recessions, the EB program failed to help the vast majority of states because of the high level of unemployment required for states to “trigger on” to the program.
- ◆ Like the TEUC program, the formula is based on the “insured unemployment rate.” The state’s IUR must exceed 5% to “trigger on” EB, higher than the 4% required under the TEUC program. In addition, the latest 3-month average IUR must have increased by at least 20% compared to the previous year’s rate for the same period.
- ◆ During good economic times, the IUR is usually 2-3 percentage points below the TUR. However, during recessions, the difference increases to 4-6 percentage points. This may be due, in part, to the fact that the IUR only counts workers receiving regular UI, not have exhausted their regular benefits. The TUR, in contrast, counts all those who are unemployed and seeking work, including those unemployed for more than 26 weeks.

Understanding the Temporary and Permanent Extended Benefits Programs (Continued)

- ◆ Like the EB program, TEUC triggers “off” for 13 weeks if a state’s IUR falls below the required rate (5% IUR for EB and 4% IUR for TEUC).
- ◆ More specifically, if the IUR falls below 5% after 13 weeks into the program, EB is not available for another 13 weeks even if the IUR later increases during this period above the required rate. If the rate is above 5% IUR after 13 weeks into the program, then it will continue to qualify on a weekly basis as long as the IUR remains above the required rate.
- ◆ Under EB (not TEUC), states at their option can provide EB benefits when the state’s standard unemployment rate (TUR) reaches 6.5%. Only seven states have adopted the optional 6.5% trigger formula.
- ◆ Like the EB program, TEUC provides the lesser of 13 weeks of benefits or half the worker’s state unemployment benefits, meaning that workers in many states collect far less than 13 weeks of EB.
- ◆ Like the EB program, to qualify for TEUC a worker must have been employed at least 20 weeks, which exceeds the amount of work required in a number of states to qualify for UI.

With Over One Million Workers Now Collecting TEUC, Hundreds of Thousands Will Also Exhaust the Federal Extension

- ◆ As of May 4th, about 1.35 million workers (Table 1) were collecting TEUC based on weekly state figures reported to the U.S. Department of Labor.
- ◆ Based on NELP estimates, over 600,000 of these workers now collecting TEUC will exhaust their benefits (Table 1). At least half of them are likely to run out of benefits by the week ending June 9th, which is 13 weeks after TEUC first became available.
- ◆ NELP's estimates are based on the percent of the unemployed who exhaust regular UI in each state (as of the end of 2001), increased by 30% to reflect the higher proportion of workers who exhaust extended benefits as documented by studies of previous recessions.

Most Workers Fail to Qualify for Additional TEUC Beyond 13 Weeks Available to High Unemployment States

- ◆ Two-thirds of the 600,000 workers projected to exhaust their first 13 weeks of TEUC will not have access to any additional federal extended benefits, including the second round of 13 weeks available to “high unemployment” states (Table 1).
- ◆ About 200,000 workers in seven states (California, Idaho, Massachusetts, New Jersey, Oregon, Pennsylvania, Washington) may qualify for the additional 13 weeks of TEUC available to “high unemployment” states (that is, those with an IUR of over 4%).
- ◆ Four states (Arkansas, Michigan, Nevada, Wisconsin) that had qualified early on for the extra 13 weeks of TEUC have already fallen below the required 4% IUR. As a result, the program has ended or it will terminate for at least 13 weeks by the week of ending June 8th, thus serving few, if any, of the states’ workers. While Alaska’s IUR is above 4%, it no longer qualifies for the program because of the TEUC/EB rule requiring the rate to have increased by at least 20% over the previous year.
- ◆ Two of the largest states now qualifying for the program (California and New Jersey) have also fallen below the 4% IUR. Unless their rates increase by mid-July (that is, by 13 weeks from the date that the program triggered on), then the program will terminate for at least 13 weeks as well.
- ◆ Two more large states that now qualify for the program, Massachusetts, Pennsylvania, have IUR’s that are at 4.0% and 4.01% respectively. Thus, they too may fail to qualify for the program in the coming weeks.

Most “High Unemployment” States Also Fail to Qualify for Additional TEUC Beyond 13 Weeks

- ◆ Of the ten states with the highest jobless rates in April, only three (California, Oregon, Washington) qualify for the second round of TEUC as of June 8th.
- ◆ Those states with the highest unemployment that do not qualify for the program (Alaska, D.C., Illinois, Mississippi, New York, North Carolina, Texas) account for over 200,000 of the workers who NELP estimates will exhaust their first 13 weeks of TEUC.
- ◆ The standard unemployment rate of these states exceeds 6%, while their IUR’s generally fall well below the 4% required to qualify for TEUC beyond 13 weeks and the 5% required to qualify for EB. With the exception of Alaska and Illinois, all the states have IUR’s well below 3.5% (Mississippi, North Carolina and Texas are below 3% IUR).
- ◆ Three of these jurisdictions (North Carolina, Mississippi, D.C.) are among the top five unemployment states in the nation, with April unemployment rates of 6.9%, 7% and 6.4% respectively.
- ◆ Three jurisdictions (D.C., Mississippi, North Carolina) would qualify for 13 weeks of EB in addition to their TEUC if they had adopted the optional 6.5% TUR trigger formula available under the EB program.

Workers Collecting TEUC Receive Far Less than the Maximum 13 Weeks Due to Narrow Federal Rules

- ◆ Workers qualifying for TEUC are not automatically entitled to a maximum 13 weeks. Instead, based on the federal EB law, TEUC was limited to the lesser of 13 weeks or half the worker's regular state benefits.
- ◆ This narrow federal rule perpetuates a significant inequity in the states, penalizing workers in those states that provide fewer than 26 weeks of benefits to most of their workers due to the state's restrictive benefit formulas.
- ◆ In 2001, more than 50% of the workers in 19 states ran out of benefits before 26 weeks. Thus, because of the federal law, NELP estimates that these same workers will qualify for less than 13 weeks of TEUC (Table 2).
- ◆ Nationally, 38% of workers will qualify for less than 13 weeks of TEUC. In 12 states, over 70% of workers will collect less than 13 weeks of TEUC (Table 2).
- ◆ For example, about 50% of workers in Utah, Florida, Indiana, run out of regular state UI after just 19 weeks, meaning that they will only qualify for a maximum of 9.5 weeks of TEUC.

Many Low-Wage Workers Receiving State UI Benefits are Denied TEUC Due to the Narrow Federal Rules

- ◆ The TEUC legislation adopted another strict EB rule -- the 20 weeks of work requirement -- that denies TEUC to many low-wage workers who qualified for regular state UI benefits.
- ◆ In at least 13 states, including a number of large states (California, Massachusetts, Pennsylvania, New Jersey, Texas, Wisconsin), workers may qualify for regular UI despite working less than 20 weeks (or the “equivalent,” which is defined to include wages totaling at least 40 times the worker’s weekly state benefits, or wages totaling at least 1.5 times the amount earned in their highest earnings quarter of the year).
- ◆ These workers tend to be more low-wage and more recent entrants to the labor market. In most of these states, including California and Pennsylvania, these workers may actually have 20 weeks of work but they are denied both regular state and federal extended benefits because their latest 3-6 months of work are not counted by the state when their UI eligibility was determined.
- ◆ Two states (Minnesota and Vermont) enacted legislation this year filling this gap in coverage by providing extended benefits to these workers using state UI funds.



Policy Reforms

Fixing the TEUC Program

- ◆ As the experience with the TEUC program makes clear, there are major gaps in both the TEUC and EB programs that need fixing to help workers who are now unemployed and to help those who will need extended benefits when the TEUC program expires in December.
- ◆ First, to cover workers in high unemployment states who do not now qualify for TEUC beyond 13 weeks, the TEUC program should incorporate a mandatory TUR of 6%. If adopted, this provision would now cover 12 high unemployment states.
- ◆ Second, given the short duration of the TEUC program, states that qualified for the second tier of TEUC (over 4% IUR) should continue to qualify as “high unemployment” states until December. For example, the four states that recently were terminated from the program because the IUR fell below 4% would be entitled to pay TEUC for up to 26 weeks.

Policy Reforms

Fixing the Permanent EB Program

- ◆ The permanent EB program is the only available safety net for long-term unemployed workers who run out of UI after December when the TEUC program expires.
- ◆ In addition, any long-term unemployed workers who have not filed for TEUC by October (that is, 13 weeks before the program expires), will have to rely exclusively on EB.
- ◆ However, as the experience with TEUC has made clear, there are major gaps in the permanent EB program that will prevent all but a handful of workers from collecting these benefits.
- ◆ To fix the EB program, the 5% IUR required to qualify should be permanently reduced to 4% as under the TEUC program. Currently, there is no state (other than Puerto Rico) that has an IUR above 5%.
- ◆ Second, states with a TUR of 6% or over should also qualify for the EB program. Currently, there are 12 states that would meet this requirement. This proposal is consistent with the 6.5% optional TUR available to the states, taking into account that the jobless rate is now lower relative to what it was in past recessions.

Policy Reforms

Fixing the EB Program (Continued)

- ◆ In addition to the EB limitations on the states that qualify for the program, the TEUC experience has documented the significant inequities of the onerous EB eligibility and benefit rules.
- ◆ First, all workers collecting EB should be entitled to 13 weeks of UI, not the lesser of 13 weeks or half the worker's regular state UI benefits. Otherwise, long-term unemployed workers in selected states will continue to be penalized unfairly.
- ◆ Second, the 20-weeks of work requirement should be repealed, thus leveling the playing field for low-wage workers and newer entrants to the labor market who qualify for UI in the states and deferring to the states' UI eligibility rules.
- ◆ Third, the EB program contains a number of work-search requirements that are often more onerous than state eligibility rules that apply once a worker starts collecting an unemployment check. As proposed by the Advisory Council on Unemployment Compensation, these additional EB rules should be repealed, thus providing more consistent treatment for workers collecting regular state UI and EB.

Conclusion

- ◆ The experience with the TEUC program has called attention to the gaps in the nation's safety net serving long-term unemployment workers.
- ◆ In its budget proposal, the Bush Administration has called for selected reforms of the EB program, not including several of the reforms discussed above and not including any measures to fix the TEUC program.
- ◆ The Bush Administration's proposal is linked with its UI "devolution" initiative, which is far more controversial than extended benefits reform faces significant obstacles to enactment by the Congress.
- ◆ Given the urgency of the situation, including the sustained level of unemployment and the increase in the number of long-term unemployed, the Bush Administration and Congress should take immediate steps to enact legislation fixing the TEUC and EB programs.