Are State Unemployment Systems Still Able to Counter Recessions?

Every Thursday, the U.S. Labor Department releases data on initial claims for unemployment insurance (UI). In tandem with the overall unemployment figures published the first Friday of every month, these data have long been considered key indicators of the nation's economic health.

Recent research, however, has identified a disturbing trend: workers are both applying for and receiving UI benefits at much lower rates than they have in the past, even compared to comparable points in previous economic cycles.

To the extent that these lower rates are the product of legislative and administrative hurdles—policies intended to discourage application for and receipt of benefits—it is time to consider whether states are prepared to withstand future recessions.

Introduction

The share of eligible jobless workers who actually apply for and receive unemployment insurance—referred to as the **"take up" rate**—is important in three ways. First, and most obviously, it is important that people have access to needed benefits so that they can make ends meet when they find themselves involuntarily unemployed. Second, these benefits are important to the broader economy, serving both as stabilizer and stimulus when there is a financial downturn. Finally, a stable take-up rate is important for understanding and interpreting economic trends. When policy decisions drive the take-up rate downward, it can rob analysts of an important tool in understanding the economy.

This paper seeks to examine the declining take-up-rate trend; the intersection of take-up rates and recipiency; and the need for policy changes that would increase UI take-up and recipiency for workers who have earned these benefits. These are necessary in order to maintain the reliability of UI as a counter-recessionary tool and also the validity of initial claims data as an economic indicator.

Understanding Recipiency and Replacement Rates

An important metric that intersects with take-up is the **recipiency rate**—the overall percentage of jobless workers who are receiving UI benefits. Workers may take-up benefits but lose them later because of continuing eligibility requirements, affecting overall recipiency. Another important metric to understand is the **replacement rate**—that is, how much income unemployment insurance replaces.

In December 2017, we published *Closing Doors on the Unemployed,* an extensive examination of the dramatic decline in UI recipiency since the Great Recession. We found that states, faced with the challenge of replenishing diminished UI trust funds, chose cutting benefits over replenishing those funds as the means to restore solvency. This approach ignores the reality that entering a recession with an underfunded UI trust fund is a highly unwise and substantial risk for any state; cutting benefits to get to solvency is certainly the wrong avenue to take when preparing for a recession.

Entering a recession with recipiency and replacement rates that are too low to provide economic stimulus is also a significant risk. A major policy goal of the UI system is to maintain economic activity levels during downturns by giving involuntarily unemployed workers enough spending power to keep their families and communities afloat. Reducing both the recipiency and the purchasing power of these benefits discourages people from applying at all, and these factors combined erode more than the quality of individual lives; it is dangerous for the entire community.

How States Are Limiting Access to Unemployment Insurance

It is important to understand how workers apply and qualify for UI in order to identify where states have constructed barriers throughout the process to thwart claimants' access to benefits.

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When a worker leaves a job, state UI agencies look at two main sets of factors to decide if that person is entitled to compensation: monetary and non-monetary factors. Standards for both vary by state. Monetary qualifications are generally based on how much money workers have earned in the "base period," which typically consists of the four calendar quarters preceding the most recent quarter.[1] Non-monetary factors include issues related to separation from the job or issues of continuing eligibility.

Involuntary separations such as layoffs and firings are generally qualifying unless the claimant was discharged for some form of willful misconduct. Conversely, employees who voluntarily quit jobs are generally disqualified unless they can demonstrate they had good cause to do so. These "good cause" definitions vary widely from state to state. Eligibility for continuing benefits after initial qualification generally involve issues relating to availability for work, willingness to accept suitable employment, and compliance with varying work search requirements.

State legislatures looking to reduce the number of people eligible for unemployment insurance have turned to a variety of benefit restrictions, including: (a) increasing the amount of wages earned needed to qualify; (b) shifting the definition of qualifying separation events; (c) reducing duration of benefits; and (d) imposing stricter work search requirements. In addition, many states have narrowed workers' access to UI benefits by implementing technologies that may limit accessibility of the application processes.

What Is Behind the Take-Up Rate?

If UI take-up is to be an indicator of economic health, we must acknowledge that policies that discourage filing for benefits reduce the reliability of that measure. Take-up rates decline when workers are disqualified for monetary and non-monetary reasons but also when jobless workers do not apply at all.

Sources of Data

There are a few main sources of data on people who do not file claims. One key survey is the Current Population Survey non-filer supplement. The most recent supplement was compiled back in 2005, so it would not reflect trends arising from legislative reactions to the 2008-2009 recession. However, the pattern of reasoning is worth examination.

Policies that discourage filing for unemployment insurance reduce the reliability of UI take-up as an indicator of economic health.

Leading UI economist Wayne Vroman analyzed this data in 2009 and found that the biggest reason workers do not file is because they believe they are not eligible.[2] In a later paper, Alix Gould-Werth and Luke Shaefer probe those numbers further.[3] These studies support the notion that, as states engage in attacks on their UI programs, workers rightly question their eligibility and the value of the benefit. Both the Government Accountability Office[4] and a recent paper by Auray, Fuller, and Lepage-Saucier[5] use another useful dataset, the Census Bureau's Survey of Income and Program Participation (SIPP), which is a longitudinal survey of demographic variables over time. Finally, the Moody's Analytics paper we examine uses the Employment and Training Administration's timely data on initial UI claims.

Erroneous Denials

The decline in take-up also includes denials. According to Employment and Training Administration data on erroneous denials, the denial error rate for separation reasons in 2017 was 17.44 percent, while that error rate in 2007 was just 8 percent.[6] Similarly, in 2017, 17.54 percent of benefits were erroneously denied for nonseparation issues, while in 2007, the improper nonseparation denial rate was only 9.9 percent.[7] It would be helpful for the Department of Labor to examine the reasons for this dramatic increase in agencies erroneously denying benefits.

Why People Don't Apply for UI

The main reason people do not file for UI is because they do not believe they will receive it. Vroman's analysis of the 2005 non-filer survey found that that belief accounts for 51 percent of non-filers. Further, while people who lost their job are far more likely to file than people who leave their jobs, temporary workers who lost their jobs were dramatically less likely to file for UI than other workers who lose their jobs—22.8 percent compared to 44.2 percent, respectively. One explanation is that temporary workers are more likely to experience confusion regarding whether they qualify for benefits. This is especially unfortunate, because the end of a temporary work arrangement is generally a qualifying involuntary separation for UI purposes.[8]

Limited information is not the only explanation for people to avoid filing. While Gould-Werth and Shaefer found a higher application rate for both workers with higher education and who are white, it may be the case that workers who experience structural racism have correctly identified their disproportionate chance of denial: "It is, however, possible that the lower rates of application reflect correct perceptions by minority workers and low-educated workers that they are ineligible for benefits."[9]

Both the GAO report and the Auray, Fuller, Lepage-Saucier paper looked at SIPP data and found that low-income workers are more likely to have periods of unemployment but less likely to apply for UI benefits. Auray, Fuller, and Lepage-Saucier found that primary earners in a household have a surprisingly low take-up rate: while one might assume that primary earners would be more likely to apply for UI, they are actually 36 percent less likely than earners with another source of income to collect benefits. However, looking at the fact that they are also more likely to get a new job more quickly, this is in line with other findings that show workers who leave the workforce for shorter durations have a lower take-up rate.[10]

Auray, Fuller, and Lepage-Saucier's data also support the idea that over-policing fraud may be counterproductive, as "the value of unclaimed benefits among those eligible for them dwarfs the value of benefits paid fraudulently to those not eligible"[11] Also, given the fact that workers with the least amount of liquidity are also those least likely to apply, there is less hazard—that is, likelihood that people will avoid accepting work to receive benefits— than some analysts assume.

GAO's analysis of this dataset speculates that base-period rules, strict good-cause rules, and high monetary eligibility are major factors in workers' decisions not to file. They also found that the steady decline in application rates since the 1950s could be a result of a decline in union density that results in fewer workers getting information from their union about benefits available to them, as well as workers moving to states that historically had less manufacturing and that tend to be lower-benefit states, which would make applying for benefits that replace less income less attractive to workers.[12] Auray, Fuller, and Lepage-Saucier's finding that non-union workers are 30 percent less likely to apply for benefits supports GAO's assertion on this matter.[13]

Most recently, Moody's Analytics' findings on take-up rates show a 20 percent decline since the recession. They posit that ease of finding a job is unlikely to explain this drop, since the current rate does not compare favorably with prior periods with similar employment numbers. However, we would note that if people are applying for UI benefits less often in response to increasing program restrictions, then it is possible that attempts to compare current take-up data with data from similar past economic periods may be inapposite. Moody's specifically looks at nine states that have reduced benefits duration and a sharp drop in filings in those states, implying a possible causation.[14] We would note that both the shorter duration of benefits and decline in filing may be symptoms of the same systemic problem—legislative and administrative efforts to chill claims filing and recipiency.

Record-Low Recipiency

NELP's 2017 paper, *Closing Doors on the Unemployed,*[15] examined some of the issues driving record-low UI recipiency. Among the major findings were the following:

- The percentage of jobless workers receiving unemployment insurance (the recipiency rate) declined by one-fourth since immediately before the Great Recession. In 2016, only 27 percent of unemployed workers received UI, compared with 36 percent in 2007. In 2007, only two states paid benefits to less than 20 percent of unemployed workers. By 2016, that number had grown to 12 states.

- States are disqualifying more workers for reasons unrelated to the cause of their unemployment, especially through stricter work search documentation rules, reaching a denial rate of nearly one in every four claims filed.

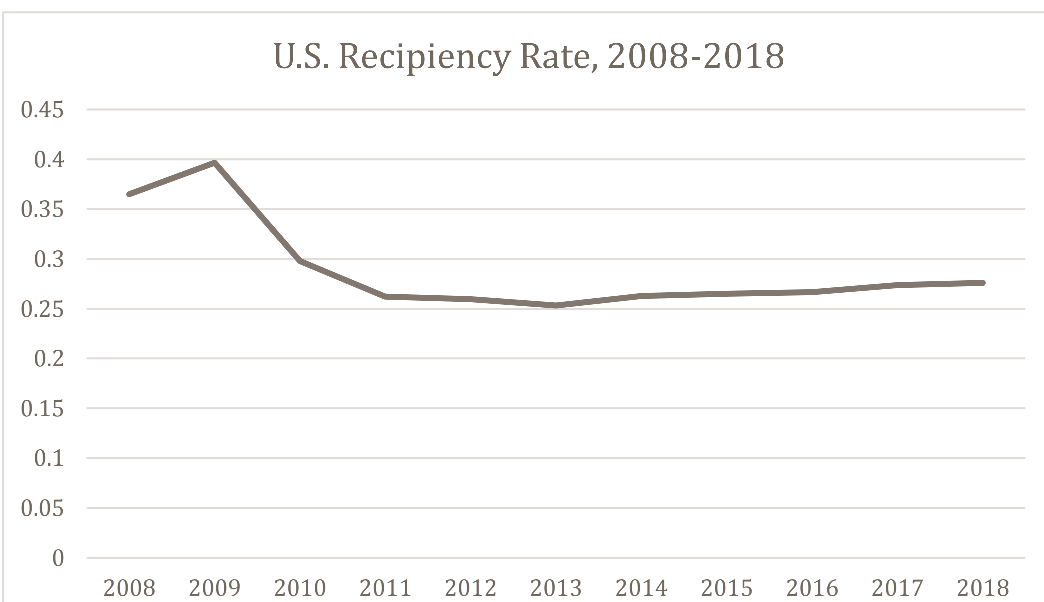
- The percentage of unemployed workers applying for UI dropped by nearly one-fifth during the five years from 2012 to 2016, compared to the prior five-year period. While some of the decline may be related to improved economic conditions, stricter state eligibility policies that discourage workers from applying for UI and greater difficulty in online claim-filing processes are also major contributing causes.

- As states move primarily or exclusively to online claim filing, disqualifications for procedural reasons nearly doubled during the five years from 2012 to 2016, compared to the prior five-year period, with 14 states denying more than 1 in every 10 claims for a reason that is essentially procedural.

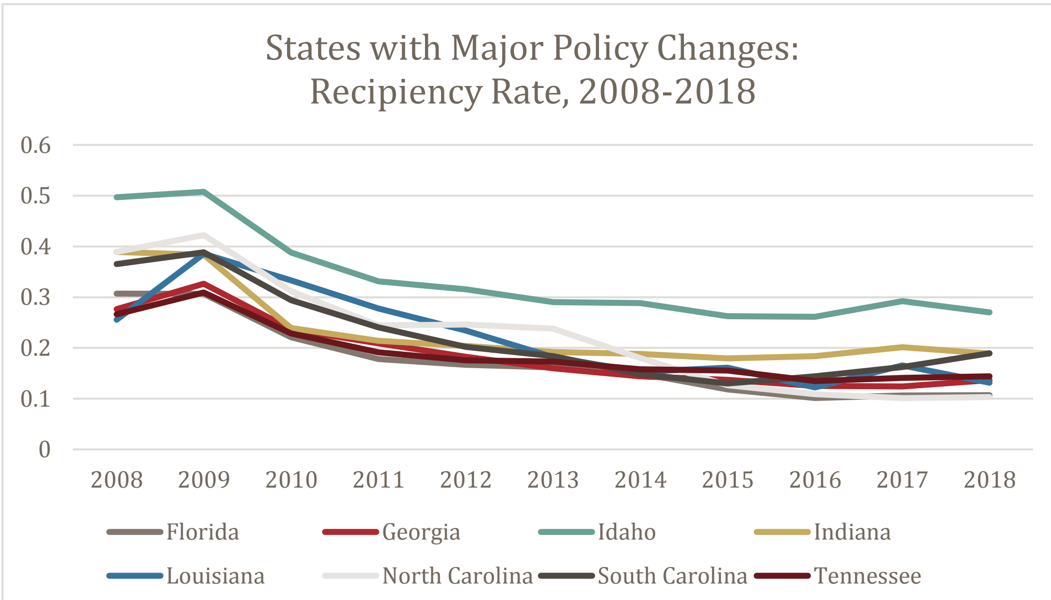
Update on Recipiency from the *Closing Doors* report

Since NELP reported on declining recipiency and some of the policy changes that led to that decline, we looked at updated data from the U.S. Department of Labor's Employment and Training Administration to see if those trend lines are holding. We found that while overall recipiency levels have remained stable, thanks to traditionally high recipiency states, recipiency in states that have passed negative policy changes continues to decline. If these trends continue, the disparities between states will continue to grow, threatening the program's ability to fairly distribute benefits and keep communities afloat in economic downturns.

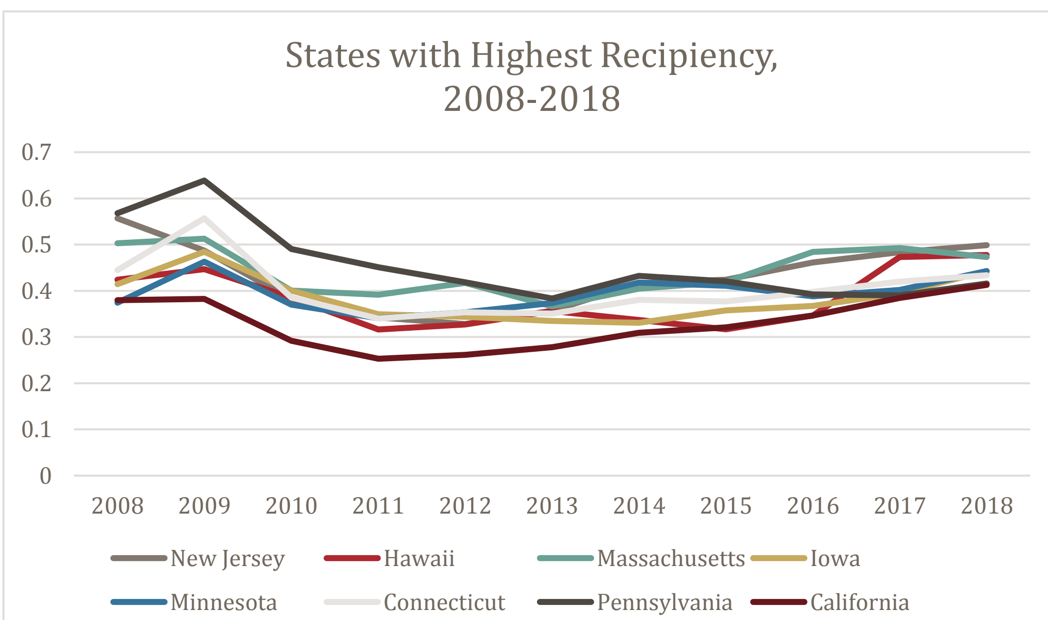
Here we see that overall recipiency rates have increased slightly in the past couple of years:



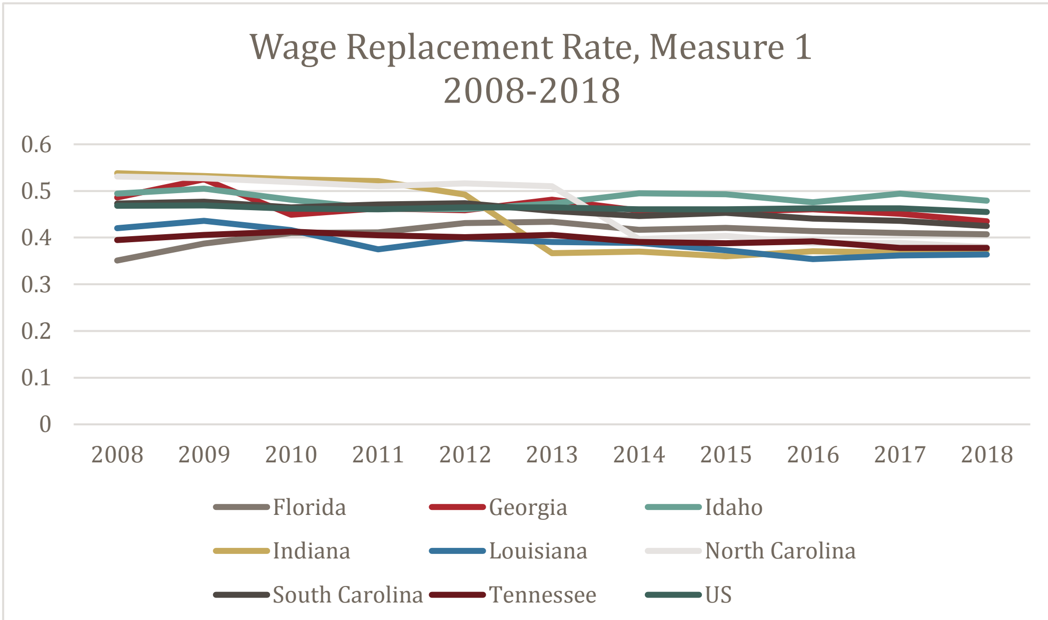
However, that does not tell the story of the effect of shifting policy on recipiency. In order to do that, we looked at the states identified in the earlier paper as having changed the laws the most since the great recession. One state which appears to be an outlier here is Idaho. While it has an overall downward trajectory, its recipiency rate is near the median for all states. However, we note that prior to policy changes, it started out the period with one of the highest recipiency rates in the United States. This chart shows that while overall recipiency may have stabilized, there still appears to be a downward trend in many states that have implemented significant policy changes.

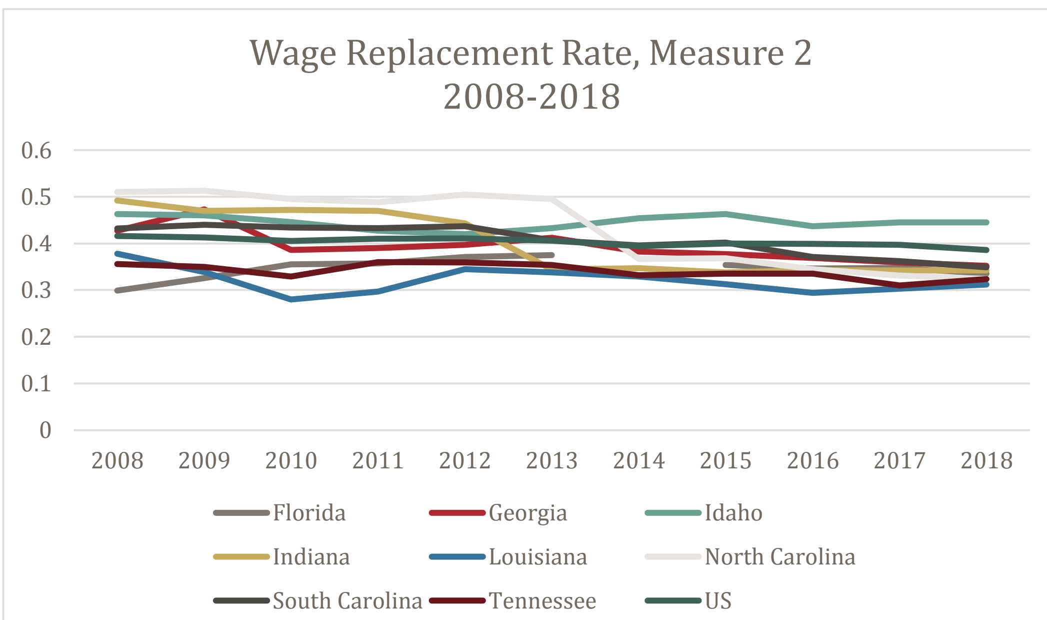


By way of comparison, we examined recipiency rates over time in states that have relatively high recipiency and have not enacted major policy changes. These trend lines are ticking back upward after an initial decline following the recession.



Finally, we see disturbing trends in states with major policy changes in terms of percentage of wages replaced. Using two standard measures of wage replacement, we have found significant declines for many states that have enacted regressive policies, with most of them falling far below the national average (with Idaho again standing as an outlier).





Conclusion

The intersection between declining take-up, declining recipiency, and declining wage replacement sufficiency threaten unemployment insurance's ability to help protect against future recessions. Several states have put their systems in a place that jeopardizes an important tool to recover from economic downturns—a caution to states considering implementing such policies. With the currently low unemployment rates, it is understandable if the average worker and the casual observer did not notice these changes as they were enacted, but come the next recession, these changes will have devastating effects when robust benefits are needed the most.

Furthermore, if we enter a recession without 26 weeks of benefits as a uniform policy, it is unclear how Extended Unemployment Compensation should apply. In past recessions, Congress has authorized federally funded additional weeks of eligibility as the unemployment rate remains high. In a state that provides 20 weeks of benefits, would the federal extension apply as of the 21st week of benefits? Is that fair to states that never reduced benefits and that would be using state unemployment dollars to fund weeks 21 to 26?

Declines in unemployment insurance take-up, recipiency, and wage replacement sufficiency threaten UI's ability to help protect against future recessions.

None of these UI issues—non-filer rates, take-up rates, and recipiency—exist in a vacuum. Similarly, neither do the systemic issues behind those rates, such as systemic bias against people of color, people without a high school diploma, and low-income workers. People who believe that the system is not there to benefit them will not participate, or will face barriers as they attempt to participate.

Systemic flaws in state administration of unemployment insurance distort the very numbers that we use to measure how well the economy is performing from a historical perspective. More importantly, the system is failing people and communities whom it ought to serve. States should reverse the administrative barriers that have been erected since the Great Recession and ensure fair eligibility rules for people who have left employment for good cause or been discharged for reasons that do not amount to willful misconduct, while improving monetary and nonmonetary eligibility requirements to provide equal coverage for any worker who has become involuntarily unemployed.

Recommendations

Given that there is a link between the decline of organized labor and associated widespread education about unemployment insurance, that information void must be filled. Legal aid groups and worker centers have a proven track record in advocating for adequate unemployment insurance coverage. Additional resources for groups like these would be a good starting point. State UI agencies should also provide worker education about UI filing rights and agency assistance. States should require employers to provide a formal notice to separating employees about the state's UI system and how to apply for benefits. States should encourage employer-assisted filing in cases of temporary layoffs and other large-scale work shutdowns.

- As states are moving to online application systems, they should make sure that these systems are easily accessible for all workers. They should test their systems regularly to ensure accessibility for people with limited computer proficiency, limited English proficiency, and disabilities. Alternative methods of access to application should be available and publicized. When these systems reject a claim, workers should be notified about the reason for the rejection and what opportunities they have to appeal this decision.

- Appeals in general should be more transparent, and states should provide proper notification of benefit denials to all claimants about their due process rights.

- States that have increased monetary requirements for eligibility should reexamine those increases to ensure that low-wage workers, who need the benefit the most, are not unnecessarily excluded from benefits.

- States should employ a broad definition of “good cause” for leaving employment. Such circumstances can include, but are not limited to, harassment, domestic violence/stalking, following a military spouse, excessive commute, erratic scheduling, significant changes to terms and conditions of employment, and caretaking responsibilities for a family member that are incompatible with the expectations of the current employer but which do not render the worker unavailable for other employment.

- With increases in improper denial rates, the U.S. Department of Labor should engage in an in-depth study of improper denials in order to identify ways in which agencies can more accurately determine benefit eligibility.

- States that have explicitly cut benefits or reduced benefit durations should immediately reverse those direct cuts to benefits. Gary Burtless lays out an excellent case in a Brookings publication the dramatic effect reduction in number of weeks that benefits are payable will have on recession readiness.[16]

- States should adopt work sharing policies to allow employers to reduce overall hours and subsidize workers with unemployment benefits rather than lay workers off entirely during recessions.

- In order to address all of these issues, it is critical that both state and federal funding for administration of UI benefits be increased to make sure the agency is empowered to do all that it can to ensure that people who are entitled to unemployment insurance have the knowledge and access necessary to secure benefits.

Endnotes

[1] Many states have adopted alternative base periods to establish eligibility for workers who do not meet eligibility under the normal base period.
[2] Wayne Vroman, *Unemployment insurance recipients and nonrecipients in the CPS*, in *Monthly Labor Review* (Washington, DC.: Bureau of Labor Statistics,, 2009)
[3] Alix Gould-Werth and H. Luke Shaefer, *Unemployment Insurance participation by education and by race and ethnicity*, in *Monthly Labor Review* (Washington, D.C.: Bureau of Labor Statistics, 2012)
[4] United States Government Accountability Office, *UNEMPLOYMENT INSURANCE: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt*, (Washington, D.C.: Government Accountability Office, 2007)
[5] Stephane Auray, David L. Fuller, and Nicolas Lepage-Saucier, *Why Do Half of Unemployment Benefits Go Unclaimed?*, (2018)
[6] https://oui.doleta.gov/unemploy/bqc.asp Table IPIA 2017 Improper Denials by Cause
[7] https://oui.doleta.gov/unemploy/bam/2007/bam-cy2007.pdf pp. 15-17
[8] Vroman, *Unemployment insurance recipients and nonrecipients in the CPS*
[9] Gould-Werth and Schaefer, *Unemployment Insurance participation by education and by race and ethnicity*, p. 32
[10] Auray, Fuller, and Lepage-Saucier, *Why Do Half of Unemployment Benefits Go Unclaimed?*
[11] Auray, Fuller, and Lepage-Saucier, *Why Do Half of Unemployment Benefits Go Unclaimed?*, p. 2
[12] United States Government Accountability Office, *UNEMPLOYMENT INSURANCE: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt*
[13] Auray, Fuller, and Lepage-Saucier, *Why Do Half of Unemployment Benefits Go Unclaimed?*
[14] Dante Deantonio, *Why Are Unemployment Insurance Claims So Low*?, (New York: Moody's Analytics, 2018)
[15] George Wentworth, *Closing Doors on the Unemployed,* (New York: National Employment Law Project, 2017)
[16] Gary Burtless, *When the next recession hits, will unemployment benefits be generous enough?*, (Washington, D.C. Brookings Institution, 2018)