Expanding Unemployment Insurance Coverage

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Abstract

The Pandemic Unemployment Assistance (PUA) program extended unemployment insurance (UI) benefits in 2020 and 2021 to workers normally ineligible. I document that PUA recipients stayed unemployed for longer in comparison to normally eligible workers during the pandemic and to similar ineligible workers during past recessions. I combine these findings with facts about how ineligible workers differ from eligible workers in their labor force attachment, job duration, and ability to insure against income loss through other means to inform a study on how to better provide income insurance to workers not covered by UI. Successful program components would include extending eligibility during recessions and incorporating more detailed employment information into payment formulas.

1 Introduction

Unemployment insurance programs in the United States do not offer coverage to all workers earning income in the labor market. Workers are instead generally eligible only if the following three criteria are met. First, the worker has had a sufficient amount of earnings in the last few quarters subject to an employer tax paid into the unemployment system. Second, the worker has been laid off by their employer at no fault of their own. Third, the worker is actively seeking employment. The specific parameters of these criteria are set by states but commonly ineligible groups include self-employed workers, contract or gig workers, workers with low earnings, and new entrants to the labor market.

Unemployment insurance eligibility was extended to many groups historically ineligible for most state unemployment programs through the Federal Pandemic Unemployment Assistance Program or PUA. Newly covered workers included those not meeting the typical earnings criteria: the self employed, contract or gig workers, new labor force entrants, and low earners. It also extended benefits for individuals not meeting other criteria including workers who quit or were not looking for work due to pandemic related factors such as illness or child care needs. PUA recipients ended up comprising a significant amount of continued claims, over 40% by the end of the summer of 2021. This response has suggested an unmet need for income insurance for many American workers. The impact of the PUA program has both highlighted the question of how public insurance for these workers should be designed and provided a clear experiment of what happens when one type of insurance program is provided.

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I use aggregated data to provide early estimates showing that PUA claimants remained on the unemployment rolls for longer durations than workers covered through eligibility for regular state unemployment programs.[1] I then use both direct classification and machine learning techniques to compare PUA claimants to a pool of similar UI ineligible workers in the 2009 recession. I find that PUA claimants remain on the unemployment rolls longer than would be predicted during the pandemic for a similar group of workers based on their behavior compared to regular state claimants in the previous recession. I conclude that the presence of the PUA program likely decreased PUA claimants likelihood of returning to employment each week by over 50%.

While the PUA program provides evidence that the work disincentives of unemployment insurance are larger for those not meeting typical state UI eligibility, it does not mean that insurance should not be provided. I examine data from the Panel Study of Income Dynamics to provide evidence that ineligible workers vary greatly in their attachment to the labor force. Some have consistently higher rates of exit from employment that others. Economic theory would predict that the work disincentives are largest for these marginally attached workers. Economic theory also suggests that work disincentives caused by insurance are lower when jobs are scarce such as during recessions. Therefore a first characteristic of good insurance program would be to design a scheme that would provide more insurance to more attached workers and to more workers during times when jobs are scarce.

Concerns with work disincentives provided by insurance need to be balanced with the economic needs of UI ineligible workers. I document that many UI ineligible workers are some of the most economically vulnerable in our society. XXXXX Stats Others are not. Teen workers and secondary earners are also present in the ineligible group. Therefore a secondary characteristic of a good insurance program would be to offer different levels of benefits depending on economic need.

I coalesce how the magnitudes and mechanics of the opposing concerns about economic need versus work disincentives of unemployment insurance differ for historically UI eligible and non-eligible workers in a simple quantitative model. I use the model to illustrate the impacts of different program designs in order to present an array of policy options. I consider two type of program designs. One is constrained to a PUA-like extension and the other allows for the inclusion of earnings and benefit history in the design of a new program.

A PUA-like option that extends eligibility uniformly to all non-eligible workers should have a replacement rate that is around 50% of that of regular UI and should trigger off with a duration of about 80% of that of regular UI extensions. Interestingly, a flat one time payment that is sometimes recommended to mitigate work-disincentives in regular UI programs is not recommended for the ineligible group because it would likely lead to massive quits and claims. This is because the quit versus layoff distinction is not clear for many of the ineligible because

[1] This includes those workers entering through regular state unemployment and staying on through federal extensions either through the Extended Benefit (EB) or Pandemic Emergency Unemployment Compensation (PEUC). Including extensions implies an apples to apples comparison where total length of potential benefits was similar across both groups.

they work for themselves. Additionally, for those that work for themselves and many of those that don't it is much easier to go back to work from unemployment than for those working in standard employee-employer relationships. If a lump-sum were offered to the ineligible group we would likely see many individuals quit, collect, and then go immediately back to work.

A new program that includes earnings and benefit history takes elements from mechanism design. A dynamic benefits system can be used to separate workers with low labor force attachment (strong work disincentives) from others. A key element of this design is to reduce benefits for frequent claimants. I discuss how this can be partially implemented using earnings history alone or through unemployment insurance accounts that grow with new earnings and shrink with claims.

2 Lessons from the Pandemic Unemployment Assistance Program

Data Cleaning. The Pandemic Unemployment Assistance Program (PUA) was a new and temporary measure. As such, data collection about PUA recipients is sparse and good microeconomic data typically take several months to be collected and prepared for release. For these reasons, I perform a stock flow analysis of aggregated claims data to deduce how the claim duration of PUA recipients differed from those whose initial claims met regular state unemployment insurance eligibility. The newness of the program and the decentralization of its administration across states still present several hurdles to cross in this task which are detailed in the following paragraphs.

The United States Department of Labor provides data on initial and continued claims for the Pandemic Unemployment Assistance (PUA) and regular state unemployment systems, as well as continued claims for the Pandemic Emergency Unemployment Compensation (PEUC) and the Extended Benefits (EB) programs. An initial claim is a request for determination of UI eligibility from an unemployed individual who recently was separated from his or her employer. A continued claim is a claim for an additional week of unemployment from an individual who has already filed an initial claim. The former approximates a flow onto an unemployment program and the latter is the stock of individuals continuing prior claims.[2]

The PEUC and EB programs are federally funded and extend the duration of benefits for claimants in the regular state programs.[3] Moving from a regular state program to PEUC or EB constitutes a continued claim. We will define total continued claims in regular state programs as the sum of continued claims across the regular program, PEUC, and EB. This is because we are interested in the stocks of claimants by eligibility type and not the state versus federal

[2]These are approximate measurements. For example, some initial claims are rejected and never result payment. The results presented assume that this rejection rate is the same across program type.

[3]PEUC provided up to an additional 13 weeks of federally funded insurance due to special actions dealing with the pandemic. The EB program is automatic and provides up to 13 additional weeks if a state is experiencing high unemployment. The EB program may extend duration in eligible states after a claimant's PEUC weeks run out.

funding distinction.

The PUA program provides up to 79 weeks of federally funded payments to workers with reduced income not covered by total regular state programs. The program initially provided payments through December 31, 2020 but was extended by President Trump on December 28, 2020 to last until March 14, 2021. In January 2021, it was extended again by President Biden through September 6, 2021. Additionally, the program provides retrospective payments for reduced income events beginning on or after January 27, 2020. Administration of the PUA program began in different times across different states in April-June 2020.

The retrospective payments, staggered start dates, and the requirement of some states that PUA claimants first file a regular unemployment claim all present hurdles for our stock-flow analysis. We deal with the first two issues by simply starting our analysis on July 15, 2020. We end our analysis on May 1, 2021 to avoid states withdrawing from federal programs. To deal with the second issue, we first categorize states into three groups: those that require an applicant to apply for PUA through being rejected from the regular state program; those that accept PUA applications directly, and those that either changed protocol at some point or whose protocol cannot be determined.[4] The states in the third category are dropped. For the states that take PUA applications indirectly through regular state programs, we must adjust both the initial PUA and regular state claims data. We do this by assuming the mean rejection rate of claims intended for the regular state program is the same in each set of states. That means we make the adjustment by first calculating the mean rejection rate of initial claims to state programs in states that take PUA claims directly. We then apply this mean rejection rate to regular initial claims in the states that don't take PUA claims directly and assign any excess rejections as initial applications to the PUA programs.

Let $\{a_t^{pj}, c_t^{pj}, r_t^j\}$ be the true initial claims, continued claims, and rejections to program p in state type j at time t. Let $\{\hat{a}_t^{pj}, \hat{c}_t^{pj}, \hat{r}_t^j\}$ be the same objects reported in the DOLETA data. For states that take PUA claims directly, the observed objects reported by DOLETA should be the actual ones, subject perhaps to measurement error. For the states that do not take PUA claims directly, the approximation of the true values are:

$$\begin{aligned}
\tilde{r}_t^j &= mean_{j\in\{direct\}}(\hat{r}_t^j) \\
\tilde{a}_t^{regularj} &= \hat{a}_t^{regularj} * (1 - (\hat{r}_t^j - mean_{j\in\{direct\}}(\hat{r}_t^j)) \\
\tilde{a}_t^{PUAj} &= \hat{a}_t^{regularj} * (\hat{r}_t^j - mean_{j\in\{direct\}}(\hat{r}_t^j) \\
\tilde{c}_t^{pj} &= hatc_t^{pj}
\end{aligned}$$

The data are cleaned in a third and final way by removing states with swings in PUA continued claims data that exceed 200% starting in July 2020.

[4] We find that roughly half of the sample, 25 states plus the District of Columbia, require PUA applicants to first file for regular benefits and be denied. We check this categorization by comparing rejection rates to regular state programs in each group. Indeed, the group that requires PUA applicants to file for regular benefits and be rejected has a 12.6 percentage point higher rejection rate of initial claims to state programs (44.3% versus 31.7%) based on insufficient work credits than those that take PUA applications directly and separately.

Results The stock-flow estimates show that PUA claimants had lower exit rates from unemployment insurance than those entering through regular state program eligibility. In other words, the typical PUA claimant claimed 9.5 to 11.5 more weeks of benefit payments than the typical claimant claimed through regular state UI programs. This is 57 to 82 percent additional weeks of claims per claimant.

The end impact of this longer duration for PUA claimants on total claims paid can be thought of as follows. Total unemployment claims would have been 9.8 to 17.6 percent lower from May 2020 to May 2021 if PUA claimants had the same average exit rate as claimants on combined regular state and extended UI benefit programs. This difference amounts to approximately 120 to 220 million additional claim weeks. The increase in claims caused by the lower PUA exit rates is larger in 2021 because PUA exit rates have fallen further behind those of regular claimants as the recovery has progressed.