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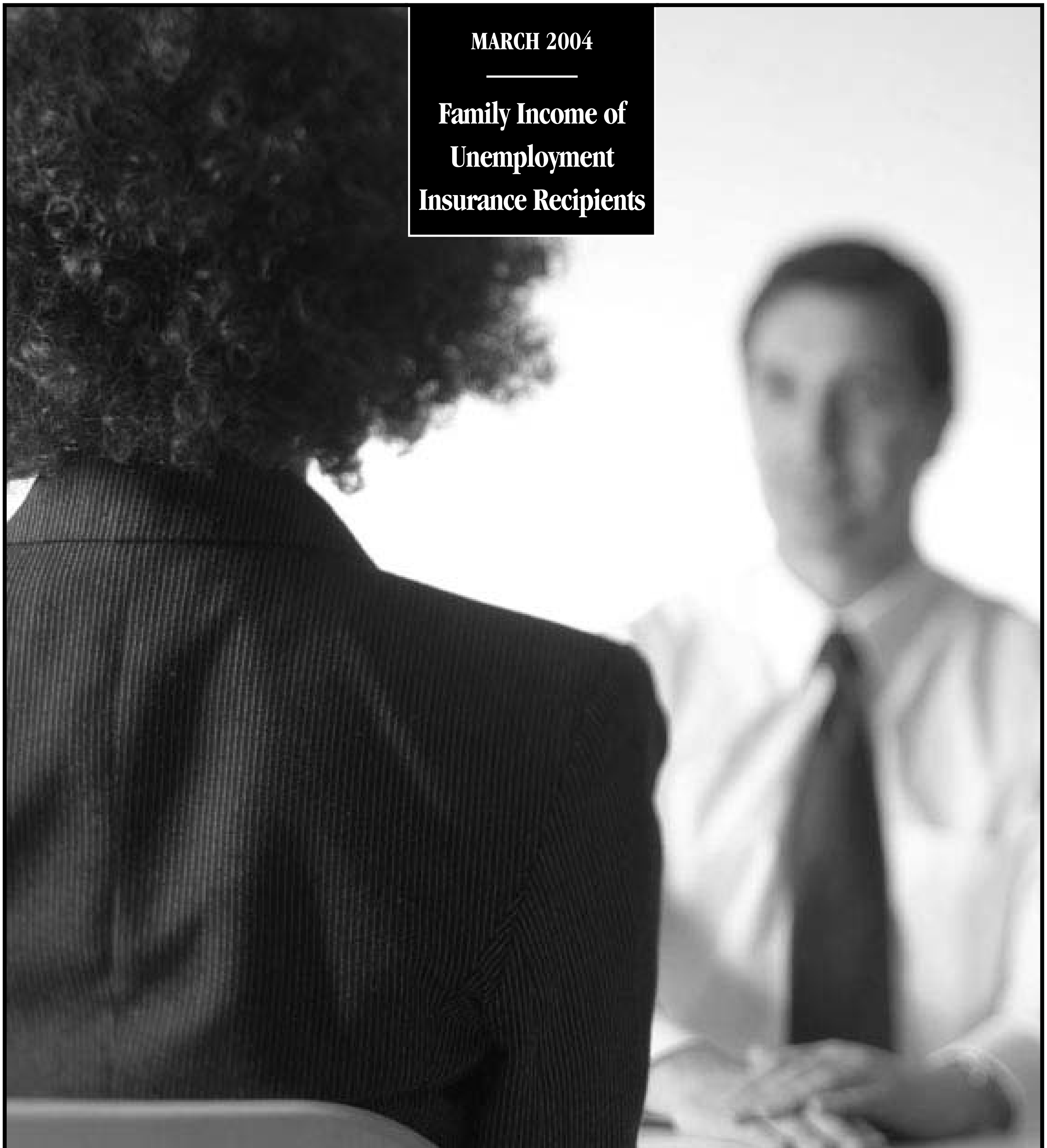
Family Income of Unemployment Insurance Recipients



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Preface

The federal/state unemployment insurance (UI) program provides temporary income support to people who lose their job and are actively searching for work. A central issue for policymakers is how long unemployed workers should be able to receive UI benefits, especially in times of high unemployment. One consideration is the role that UI benefits play in helping unemployed workers maintain their family income during periods without earnings. A related consideration is what happens to those workers and their families after the entitlement to UI benefits ends, especially if the workers have not yet found another job.

This Congressional Budget Office (CBO) paper—prepared at the request of the Ranking Democrat of the House Committee on Ways and Means—uses data from a national survey to provide information about the income of UI recipients who lost their job during the 2001 recession but prior to the enactment of the Temporary Extended Unemployment Compensation program. It compares recipients' income before their spell of unemployment began, while they were receiving benefits, and after their benefits ended. In keeping with CBO's mandate to provide objective, impartial analysis, the paper makes no recommendations.

Ralph E. Smith of CBO's Health and Human Resources Division wrote the paper. Carol Frost and Susan Labovich assisted with data and tabulations, and Samuel Kina provided research assistance. The paper benefited from comments by David Brauer, Paul Cullinan, Bruce Vavrichek, and Roberton Williams.

Christine Bogusz and Christian Spoor edited the paper, and Juyne Linger proofread it. Ronald Moore produced drafts of the manuscript, Maureen Costantino prepared the paper for publication and designed the cover, and Annette Kalicki produced the electronic versions for CBO's Web site (www.cbo.gov).

Douglas Holtz-Eakin
Director

March 2004

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Family Income of Unemployment Insurance Recipients

Introduction and Summary

The rise in unemployment during the recent recession and its persistence during the current recovery have focused attention on the federal/state unemployment insurance (UI) program. Under that program, eligible workers who lose their job and are looking for work can generally receive up to 26 weeks of state-funded benefits, which currently average about $260 per week. If the unemployment rate in their state exceeds specified thresholds, they can also receive up to 13 weeks of extended UI benefits, which are funded equally with federal and state funds. Since the beginning of 2001, six states have qualified for the added benefits through that Extended Benefit (EB) program.

In fiscal year 2003, more than 10 million jobless workers received a total of $42 billion in regular UI benefits under state programs—compared with just over $20 billion in the prerecession year of 2000. In addition, about 100,000 workers received $300 million in benefits from the EB program in 2003. Spending for those programs in 2004 will remain at nearly the 2003 level, the Congressional Budget Office (CBO) estimates.

In response to the recent high rate of joblessness, the Congress enacted the Temporary Extended Unemployment Compensation (TEUC) program in March 2002, as it has done in past recessions. That program—which is funded in full by the federal government—provides up to 13 additional weeks of UI benefits in all states and up to 26 additional weeks of benefits in states with high unemployment rates. After twice being extended in 2003, TEUC is now being phased out. Unemployed workers who started receiving TEUC benefits before January 2004 may continue to collect them through March, but no additional unemployed workers are eligible for the program. In 2003, about 4 million workers received a total of $11 billion in TEUC benefits.

Policy Considerations

Policymakers have been proposing changes to portions of the UI program since before the 2001 recession. One central concern—heightened by the recession but predating it—has been the extent to which UI recipients exhaust their benefits. More than 40 percent of recipients collected all of the regular UI benefits to which they were entitled in 2002 and 2003—nearly the highest exhaustion rate since the program's inception in the late 1930s. Some proposals have focused on identifying UI recipients who were likely to exhaust their benefits and providing them with additional help in finding a job before those benefits ran out. Other proposals would make it easier for states with high unemployment rates to qualify for the EB program, thus enabling them to offer more benefits to their jobless workers.

Policymakers face trade-offs as they grapple with issues about the maximum length of time in which to provide unemployed workers with benefits and the conditions under which those benefits should be offered. On the one hand, workers who lose a job may need temporary income support until they find a new source of earnings. Particularly when the labor market is weak, securing a new job can take time—especially for workers displaced from longtime jobs, older workers, and workers with the least education.

On the other hand, the availability of UI benefits may discourage recipients from searching for work and from accepting less-desirable jobs. Thus, at least some recipients may remain unemployed longer than they would have without that aid. Extending the duration of benefits is likely to have the same effect: a reasonable rule of thumb is that making benefits available to all regular UI recipients for an additional 13 weeks increases their average duration of unemployment by about two weeks.[1] The effect is probably most pronounced when jobless rates are relatively low; when joblessness is high and work is especially hard to find, extensions of UI benefits appear to lengthen spells of unemployment by a smaller amount.

Determining the appropriate duration of UI benefits involves several considerations. One is the role that those benefits play in helping unemployed workers maintain family income during periods without earnings. Specifically, how important are UI benefits to a family's income, and to what extent do other family members respond to the loss of a worker's earnings by finding additional employment? A related consideration is what happens to workers and their families after the entitlement to UI benefits ends, especially if the workers have not yet found another job.

Results of CBO's Analysis

To provide information relevant to the debate on whether—and if so, how—to extend UI benefits, this paper examines the family income of long-term UI recipients before their spell of unemployment began, while they were receiving benefits, and after their benefits ended. The findings are based largely on the experiences of unemployed workers who received benefits during the 2001 recession but before lawmakers enacted the TEUC program. For the purposes of this analysis, "long-term UI recipients" are defined as people who received UI benefits for at least four consecutive months in 2001 or early 2002.

The data underlying CBO's analysis come from recent interviews conducted by the Census Bureau in its Survey of Income and Program Participation (SIPP). In that survey, the same nationally representative sample of households is interviewed every four months about its income during the previous four months. CBO's analysis is based on data from the 2001 SIPP panel. Although the sample size for that period is relatively small, it provides the first detailed information about the income of recipients who lost their job during the recent recession. However, the data and the analysis have several limitations (described later in this report), so attention should be focused on the qualitative findings of the analysis rather than on the precise estimates.

CBO's comparison of income suggests the following conclusions:

- UI benefits played a substantial role in maintaining the family income of recipients who experienced a long-term spell of unemployment in 2001 or early 2002—particularly those who did not have other wage earners in their family (see Table 1). Before becoming unemployed, recipients' average family income was about $4,800 per month.[2] When recipients lost their job, that income—excluding UI benefits—dropped by almost 60 percent. With UI benefits included, the income loss was about 40 percent.

- For sole earners in a family, the income loss was greater: almost 90 percent excluding UI benefits, or 65 percent including them. For such one-earner families, UI benefits represented two-thirds of their total income, compared with an average of about 20 percent for families with more than one worker.

- Former UI recipients who did not find work soon after their benefits ended—people for whom federal extensions of UI benefits are intended—continued to incur substantial income losses. For the 40 percent of long-term UI recipients who were not working three months after their benefits ended, average family income was about half of what it had been before they began receiving unemployment insurance (see Figure 1). By comparison, for long-term UI recipients who were working three months after their benefits ended, income loss was less than 10 percent.

  In addition, more than one-third of the former long-term UI recipients who had not returned to work had an income below the poverty line (measured on a monthly basis), and about 40 percent lacked health insurance—more than double the numbers before they became unemployed.

1. That estimate is based on surveys of the relevant literature, reported in Stephen A. Woodbury and Murray A. Rubin, "The Duration of Benefits," and Paul T. Decker, "Work Incentives and Disincentives," in Christopher J. O'Leary and Stephen A. Wandner, eds., *Unemployment Insurance in the United States: Analysis of Policy Issues* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1997), pp. 211-320.

2. By comparison, the average annual income of all households with at least one worker in 2001 was about $68,000, or $5,700 per month. All income statistics reported in this paper reflect cash income before taxes. Unemployment insurance benefits are subject to income tax but not to payroll taxes.

Table 1.

Average Monthly Family Income of Long-Term UI Recipients Before and During Their Spell of UI Receipt

	In Base Month (Three months before UI spell)	During Second Month of Long-Term Spell of UI Receipt		
		Total Income	UI Benefits	Other Income
All Long-Term UI Recipients				
Average Monthly Income in Dollars	4,760	2,860	840	2,020
Average Monthly Income as a Percentage of Income in Base Month	100	60	18	42
Long-Term Recipients with Other Earners in Family				
Average Monthly Income in Dollars	6,090	4,530	870	3,660
Average Monthly Income as a Percentage of Income in Base Month	100	74	14	60
Long-Term Recipients with No Other Earners in Family				
Average Monthly Income in Dollars	3,470	1,220	810	410
Average Monthly Income as a Percentage of Income in Base Month	100	35	23	12

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. "Other earners in family" signifies the presence of earnings by any relative living with the recipient in the second month of the spell. About half of the recipients were in such families.

Those patterns were similar to the experiences of long-term UI recipients in the mid- to late-1990s (a nonrecessionary period). The main difference, besides a larger number of people receiving benefits during the 2001-2002 period, was that the later UI recipients were less likely than the earlier group to be back at work three months after they stopped receiving benefits.

Possible Implications of the Analysis

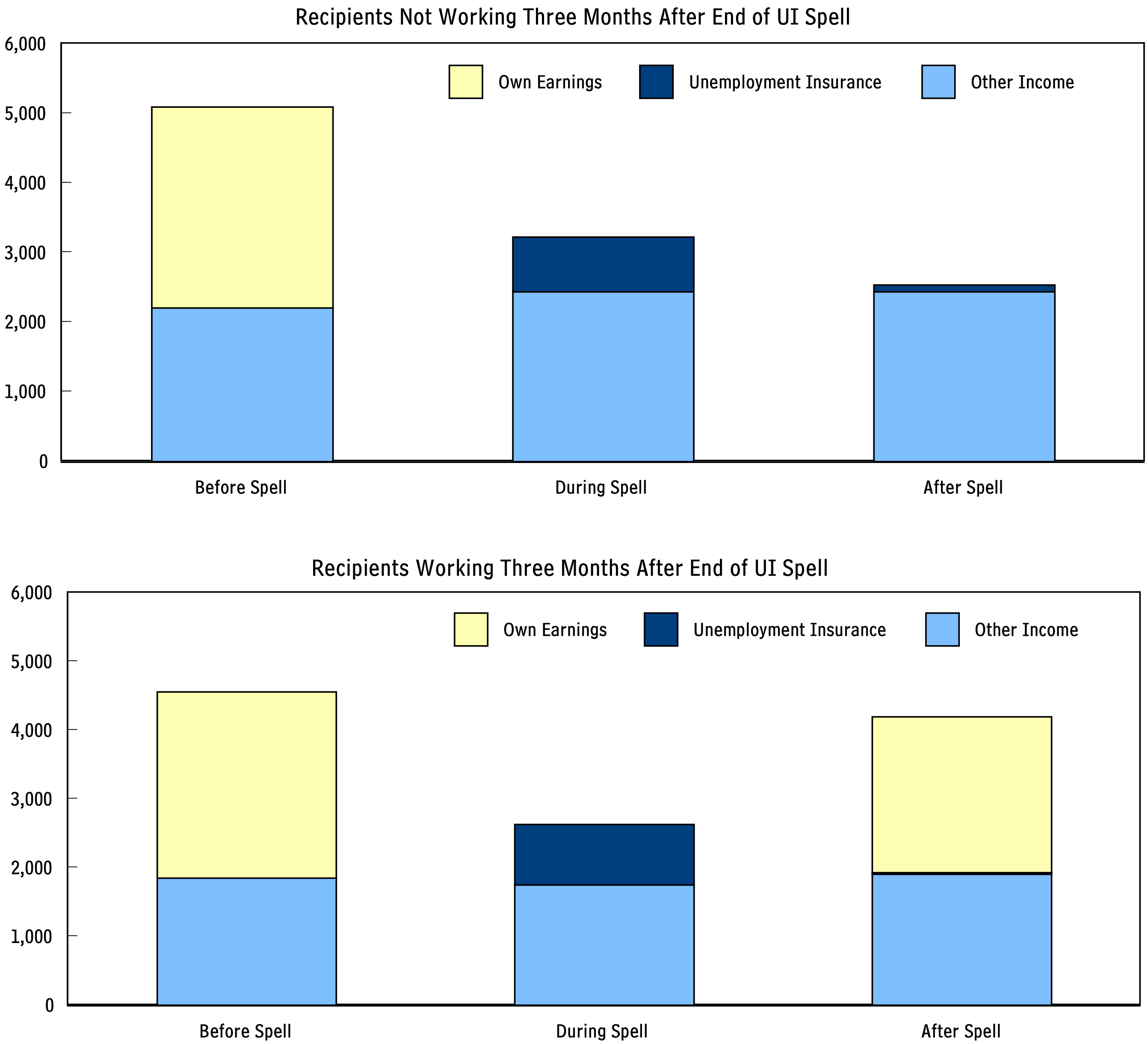
Whether additional weeks of UI benefits beyond some basic period are warranted depends partly on one's views of the appropriate role of the UI program. One viewpoint is that the duration of benefits should be linked to the degree of difficulty that recipients face in finding another job. That notion, at least implicitly, has been the basis for temporarily providing federal benefits during or shortly after past recessions. The continuing high rate at which recipients exhaust their regular benefits, and the significant number of long-term UI recipients who do not return to work within three months after their benefits end, provide support for that approach.

Another viewpoint is that the duration of unemployment payments should depend, at least in part, on the total income of recipients and their families. In that case, it would be appropriate to examine other sources of income for the recipients who would become eligible for additional benefits. The income of former long-term UI recipients in the 2001 SIPP data is especially relevant because their benefits ended before the TEUC program began. Presumably, many of those who had not returned

Figure 1.

Average Monthly Family Income of Long-Term UI Recipients, by Subsequent Employment Status

(Dollars)



Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. "Before spell" refers to three months before the spell began, "during spell" refers to the second month of the spell, and "after spell" refers to three months after the spell ended. A small number of recipients reported that they were back in the UI program three months after their spell had ended.

to work within three months of the end of their benefits would have received temporary federal benefits had they been available.[3] Many of those former recipients had substantial family income, usually because someone else in the family was working. But many others had family income below the poverty line, as measured on a monthly basis. Whether unemployment insurance is the appropriate program for raising their income—and, if so, whether additional conditions (such as participation in retraining programs or other activities) should be attached to the receipt of benefits—are important issues that policymakers would need to address.

The Unemployment Insurance Program Today

When the unemployment insurance program was created almost 70 years ago, it was intended to provide temporary income support for people who lost their job and were looking for work and thus to ease labor-market transitions. The federal government pays for administration of the UI program, funds benefits for certain groups of unemployed workers, and provides general guidelines and some restrictions on the operation of state UI programs. The states set eligibility requirements for UI benefits, determine the duration and amount of regular benefits, and specify the state payroll taxes that fund those benefits. The outlays and revenues of the state programs are recorded in the federal budget.

Permanent Regular and Extended Benefit Programs

Two levels of UI benefits are permanently available under current law. The first is regular state benefits, which provide up to 26 weeks of assistance in nearly all states. The maximum potential length and the weekly amount of benefits for each worker are generally determined by his or her employment and earnings during a recent one-year base period, subject to state-specific limits (see Table 2).

The second level of UI benefits, funded jointly by the federal and state governments, is available when the insured unemployment rate (IUR) in a state exceeds certain thresholds.[4] UI recipients in that state can then receive up to 13 additional weeks of benefits under the federal/state Extended Benefit program. That additional assistance becomes available, or "triggers on," in two circumstances: when the 13-week average of the IUR equals or exceeds 5 percent and is at least 20 percent greater than the average of that state's IUR during the same 13-week period in the past two years, or (at state option) when the average IUR exceeds 6 percent, without the 20 percent factor. Most states now have that second option.

States can enact an additional way of triggering on for EB, based on their total unemployment rate (TUR), but few states have done so.[5] Under that option, 13 weeks of jointly funded benefits are triggered on for a state if the three-month average of its TUR equals or exceeds 6.5 percent and is at least 10 percent above the state's average unemployment rate during the same three-month period in either of the previous two years. Twenty weeks of additional benefits are available if the TUR equals or exceeds 8 percent and is at least 10 percent higher than the average unemployment rate in the corresponding period in either of the previous two years.

Temporary Programs to Extend Benefits

The Temporary Extended Unemployment Compensation Act, enacted in March 2002, gave eligible workers in all states who exhausted their regular state benefits up to 13 weeks of benefits through the TEUC program—fully funded by the federal government. In addition, eligible workers who exhausted those TEUC benefits and who worked in states that triggered on for additional benefits (known as TEUC-X) could receive up to 13 additional weeks of benefits.[6] The same criteria that determined eligibility for the EB program were used for TEUC-X, except that the IUR threshold was 4 percent instead of 5 percent. Between March 2002 and December 2003, 14 states triggered on for the TEUC-X benefits at one time or another.

3. Unemployed workers who had exhausted their entitlement to regular benefits in 2001 or early 2002 and still met the eligibility criteria for the TEUC program when it was implemented in March 2002 could enroll in that program.

4. The IUR is the ratio of the number of unemployment insurance claimants to the number of workers covered by the unemployment insurance system.

5. The TUR is the percentage of the labor force that is unemployed. A job seeker need not be receiving unemployment benefits to be counted as unemployed.

6. Unemployed workers who exhausted their regular UI benefits in a state in which the Extended Benefit program was available could first receive TEUC and TEUC-X benefits and then, if still eligible, begin receiving EB payments.

Table 2.

Selected Benefit Information for Regular Unemployment Insurance Programs, by State, 2003

	Weekly Benefit (Dollars)[a]		Duration of Benefits (Weeks)		
	Maximum	Average Actual[b]	Maximum	Average Actual[c]	Exhaustion Rate[d] (Percent)
Alabama	210	177	26	12.3	32.4
Alaska	320	190	26	14.6	43.6
Arizona	205	172	26	17.2	46.4
Arkansas	345	231	26	13.4	40.9
California	370	248	26	17.8	50.1
Colorado	398	308	26	14.8	54.4
Connecticut	486	286	26	17.3	35.8
Delaware	320	229	26	15.2	30.6
District of Columbia	309	261	26	20.3	73.2
Florida	275	227	26	15.2	47.3
Georgia	300	244	26	12.1	44.6
Hawaii	407	312	26	15.6	31.5
Idaho	316	235	26	13.4	35.0
Illinois	438	281	26	18.9	44.4
Indiana	348	263	26	13.3	43.4
Iowa	368	259	26	13.5	29.4
Kansas	351	277	26	15.3	42.5
Kentucky	365	249	26	14.5	30.1
Louisiana	258	196	26	15.9	40.6
Maine	424	232	26	17.6	37.5
Maryland	310	254	26	15.8	36.5
Massachusetts	760	358	30	18.2	47.3
Michigan	362	292	26	14.4	37.4
Minnesota	478	318	26	16.5	39.9
Mississippi	210	173	26	14.8	37.4
Missouri	250	206	26	15.8	40.5
Montana	323	215	28	14.9	36.4
Nebraska	272	214	26	13.8	46.5
Nevada	317	230	26	15.2	40.7
New Hampshire	372	258	26	17.1	33.8
New Jersey	475	339	26	18.3	57.7
New Mexico	277	208	26	17.5	44.3
New York	405	273	26	18.2	59.2
North Carolina	408	259	26	13.0	38.1
North Dakota	312	215	26	12.0	34.2

Continued

Table 2.

Continued

	Weekly Benefit (Dollars)[a]		Duration of Benefits (Weeks)		
	Maximum	Average Actual[b]	Maximum	Average Actual[c]	Exhaustion Rate[d] (Percent)
Ohio	424	251	26	15.4	35.3
Oklahoma	303	233	26	15.3	45.0
Oregon	410	259	26	17.2	46.9
Pennsylvania	459	294	26	17.1	36.3
Rhode Island	551	307	26	15.8	42.1
South Carolina	278	212	26	13.7	40.8
South Dakota	248	199	26	12.1	17.0
Tennessee	275	211	26	14.2	38.4
Texas	328	263	26	16.5	52.1
Utah	373	272	26	14.3	43.0
Vermont	359	250	26	15.4	26.4
Virginia	316	279	26	13.9	41.0
Washington	510	327	30	18.8	38.8
West Virginia	358	221	26	14.8	25.8
Wisconsin	329	250	26	13.6	26.2
Wyoming	306	240	26	10.8	26.9
United States	n.a.	260	n.a.	16.1	43.6

Sources: Department of Labor, Employment and Training Administration, "Significant Provisions of State Unemployment Insurance Laws" (July 2003), available at http://atlas.doleta.gov/unemploy/sigprojul2003.asp (for data on maximum benefit amount and maximum duration), and Department of Labor, Employment and Training Administration, Unemployment Insurance Service, "UI Data Summary, 2nd Quarter 2003" (July 2003), available at http://atlas.doleta.gov/unemploy/content/data_stats/datasum03/2ndqtr/home.asp.

Note: n.a. = not applicable; UI = unemployment insurance.

a. Benefit amounts for people with no earnings during the week. These amounts include dependents' allowances, when available. The provisions of state laws are as of July 2003.

b. For the three-month period ending in June 2003.

c. For the one-year period ending in June 2003.

d. The average monthly number of regular UI recipients exhausting benefits between July 2002 and June 2003 divided by the average monthly number of first UI payments made between January 2002 and December 2002.

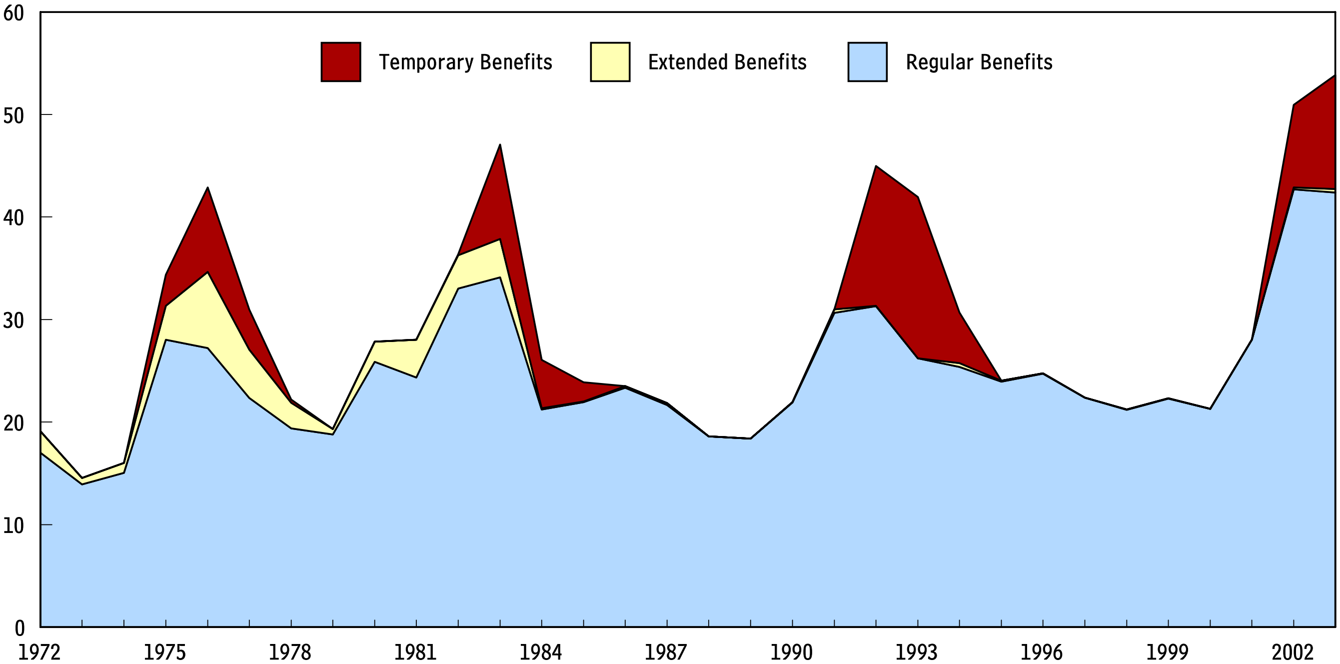
Although the TEUC program was originally scheduled to end in December 2002, lawmakers extended it twice—in January 2003 and May 2003. It is now being phased out: no new TEUC claims are being accepted, though people already receiving TEUC benefits can continue to collect their remaining balance through the last week in March 2004. In late December 2003, nearly 800,000 people were receiving benefits through that program (compared with about 3.3 million recipients in the regular UI program and 25,000 in the EB program). Since TEUC was created, more than 7 million people have received those benefits.

The enactment and subsequent extensions of TEUC continued a long-standing pattern of providing temporary, federally funded unemployment benefits in response to cyclical downturns. For example, such temporary programs were enacted in 1975, 1982, and 1991, in each

Figure 2.

Total Spending for Unemployment Insurance Benefits, Fiscal Years 1972 to 2003

(Billions of 2003 dollars)



Source: Congressional Budget Office based on data from the Department of Labor.

case during or shortly after a recession.[7] All of those programs were extended at least once.[8]

Unemployment and the Receipt of UI Benefits

Spending for regular UI benefits follows a distinct cyclical pattern, as the number of unemployed workers receiving benefits rises and falls with the condition of the labor market (see Figure 2). During or after several previous downturns, spending on temporary programs to extend the duration of benefits accounted for a substantial share of total spending for UI benefits. Spending on the Extended Benefit program, in contrast, largely ended by the early 1980s, after the eligibility criteria for states were narrowed.

Workers who lose their job constitute about half of all unemployed people (see Figure 3). The remainder are job seekers entering or reentering the labor force and job seekers who left their previous job voluntarily. Because the unemployment insurance program is designed to help job losers, it normally excludes entrants, reentrants, and job leavers. Also, because the UI program usually provides benefits for no more than 26 weeks, job losers with very long spells of unemployment eventually become ineligible for benefits.

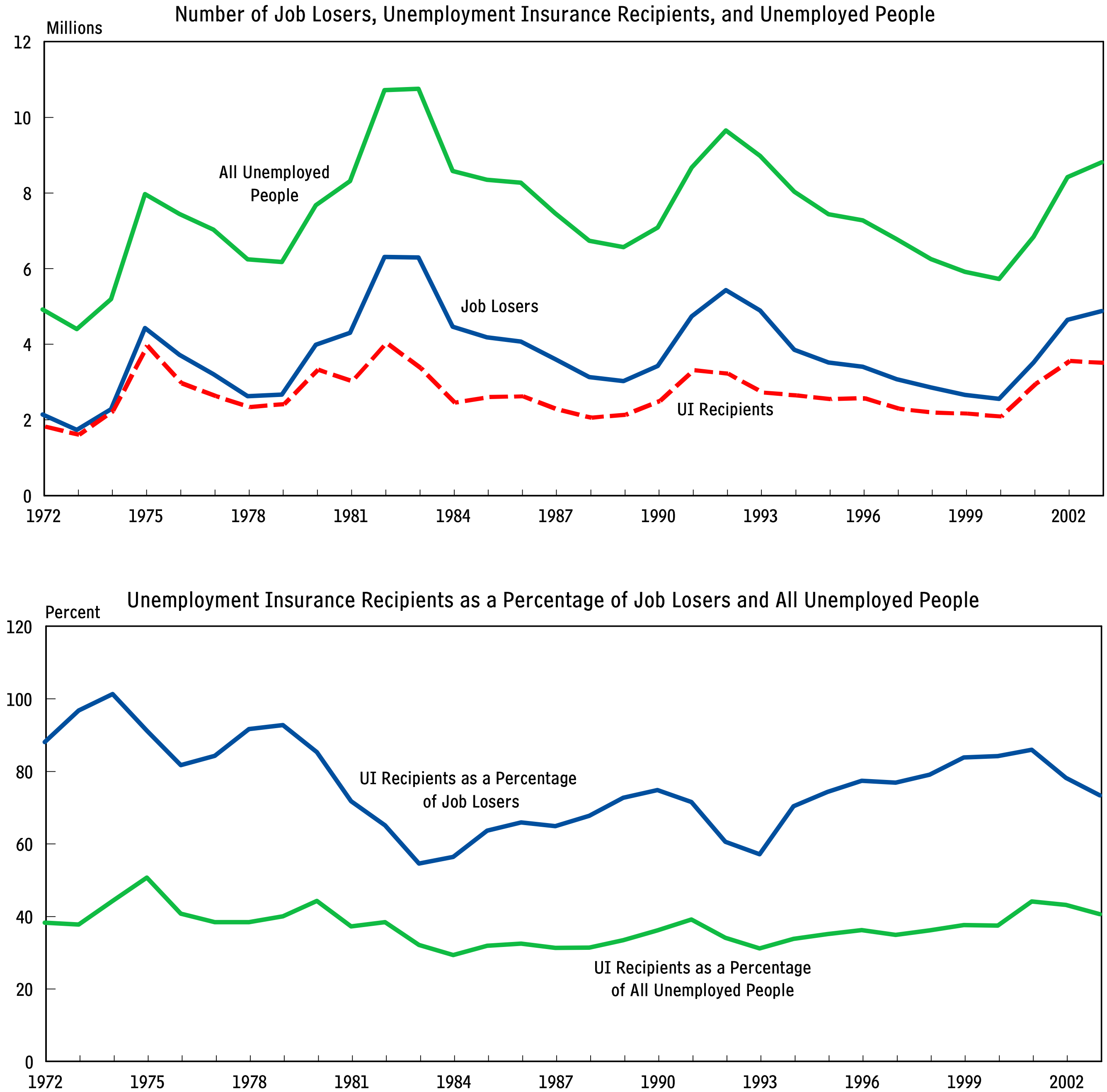
In recent years, the number of UI recipients has equaled about 40 percent of the total number of unemployed people and about 80 percent of the unemployed who lost their last job (see Figure 3). In the 1970s, a much higher percentage of unemployed workers received benefits. The reasons why that percentage declined in the early 1980s are not fully understood. Research indicates that some of the decline is associated with changes in the industrial and regional composition of unemployment, changes in eligibility criteria (such as the circumstances under which

7. According to the National Bureau of Economic Research, the dates of the corresponding recessions were November 1973 to March 1975, January 1980 to July 1980, July 1981 to November 1982, and July 1990 to March 1991. (The back-to-back recessions of the early 1980s are sometimes considered one recession.)

8. For an analysis of the temporary program enacted in 1991 and further discussion of its antecedents, see Walter Corson, Karen Needels, and Walter Nicholson, *Emergency Unemployment Compensation: The 1990's Experience,* revised ed. (report submitted by Mathematica Policy Research to the Department of Labor, 1999).

Figure 3.

Distribution of Unemployed People, Calendar Years 1972 to 2003



Source: Congressional Budget Office calculations based on data from *Economic Report of the President* (February 2004), Tables B-44 and B-45.

Note: Job losers are people who report that they are unemployed because they lost their most recent job.

unemployed workers who quit their job can receive benefits), and changes in the value of benefits (such as their taxation).[9]

Family Income of People Receiving Unemployment Insurance Benefits

The unemployment insurance program was created to enable recipients to maintain a portion of their income during periods of unemployment. Although most administrative data from the program do not provide sufficient details to assess whether that goal is achieved, information is available from survey sources.[10]

Data and Limitations of CBO's Analysis

The Survey of Income and Program Participation provides the most relevant data for answering questions about the income of people before, during, and after their receipt of UI benefits. SIPP is a large, nationally representative longitudinal survey conducted by the Census Bureau. Every four months for several years, respondents are asked detailed questions about the activities and sources of income of members of their household, including participation in government programs, such as unemployment insurance.

The most recent SIPP panel, which was begun in 2001, just ended. CBO's analysis is based on data for respondents who started receiving UI benefits in 2001 and ended a spell of UI receipt no later than February 2002. The analysis focuses mainly on respondents who reported that they received UI benefits for at least four consecutive months and for whom sufficient information was provided about their income for at least three months before that long-term spell of UI receipt began and three months after it ended.

The data and CBO's analysis of it have three limitations. However, none of them are likely to alter the qualitative findings of the analysis.

- Compared with data from administrative records, SIPP data substantially undercount total UI benefits paid. In 2001, the total amount of UI benefits that SIPP respondents reported they received, as weighted by the Census Bureau, was less than two-thirds of the amount actually paid in that year. That undercount appears to stem mainly from too few respondents reporting UI benefits rather than from respondents underreporting the amount they receive.

- SIPP was not designed to address detailed issues about the structure of the UI program. In particular, it identifies months in which unemployed workers report receiving UI benefits but not specific weeks or whether the benefits were exhausted. As a result, this analysis overstates the actual duration of some spells because the beginning and ending months are not necessarily full months of receipt and because two shorter spells could appear to be one longer spell if the worker was employed for a short time in between. Moreover, SIPP provides data about UI benefits received each month, as reported by the survey respondents, but not about the benefits to which recipients might be entitled. For example, no data are directly provided about the maximum potential duration of recipients' benefits or their weekly benefit amount.

- SIPP is limited as a database because the validity of many of the findings cannot be verified independently with estimates from other sources.

Because of those limitations, the findings presented here must be viewed as indicative only of general patterns—especially those estimates that are based on a small number of observations. The fact that CBO found much the same patterns using data from the 1996 SIPP panel (as described in the appendix) reduces the likelihood that any of the qualitative findings from the 2001 panel result from either small sample size or circumstances unique to the period.[11]

9. See Mathematica Policy Research, *An Examination of Declining UI Claims During the 1980s* (Princeton, N.J.: MPR, September 1988).

10. The data that the Department of Labor and state agencies obtain in the course of operating the UI program provide information about the amount of UI benefits paid to workers, the number of weeks they receive benefits, and the earnings on which those benefits are based. However, the agencies generally do not collect information about each recipient's family or other sources of income because that information is not necessary to administer the program.

11. The appendix to this paper compares estimates from the 1996 and 2001 SIPP panels. It also discusses the results of an earlier study by CBO that used data from the mid-1980s and a study conducted by Mathematica Policy Research for the Department of Labor that used data from a special survey of people who received UI benefits in 1998.

Table 3.

Unemployment Insurance Benefits of Long-Term Recipients, as a Percentage of Earnings in Base Month

	Median Replacement Rate (Percent)	Percentage Distribution of Recipients, by Replacement Rate			
		Total	Less Than 40 Percent	40 to 59 Percent	60 Percent or More
All Long-Term UI Recipients	40	100	50	28	22
Earnings in Base Month[a]					
$1 to $1,000	64	100	21	23	56
$1,001 to $2,000	50	100	26	49	25
$2,001 or more	28	100	77	16	7

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002.

a. The month three months before the spell of UI receipt began.

Replacement of Lost Earnings

The UI program is designed to temporarily replace a portion of an unemployed worker's lost earnings. The percentage replaced is generally highest for recipients who lose a relatively low-paying job.

CBO's analysis found that the monthly benefit received by the typical long-term UI recipient replaced about 40 percent of what his or her monthly earnings had been three months before the spell of UI receipt began. That replacement rate was higher for workers who had earned no more than $1,000 in that base month and substantially lower for workers who had earned more than $2,000 in that month (see Table 3).[12]

Maintenance of Family Income

The extent to which unemployment insurance enables recipients to maintain their income during long periods of unemployment depends on their families' other sources of income. For families in which the earnings of one member are the only source of income, the replacement rate for those earnings represents the full measure of income replacement. Today, however, many workers are in families in which at least one other member works, and some are in families that receive income from financial assets and other sources, such as Social Security and pensions.

UI benefits helped keep the average monthly income of families of long-term recipients at about 60 percent of its previous level (see Table 1 on page 3 and Figure 4). The average benefit in the second month of recipients' long-term spell (depicted by the dark portion of the middle bar in Figure 4) was about $840.

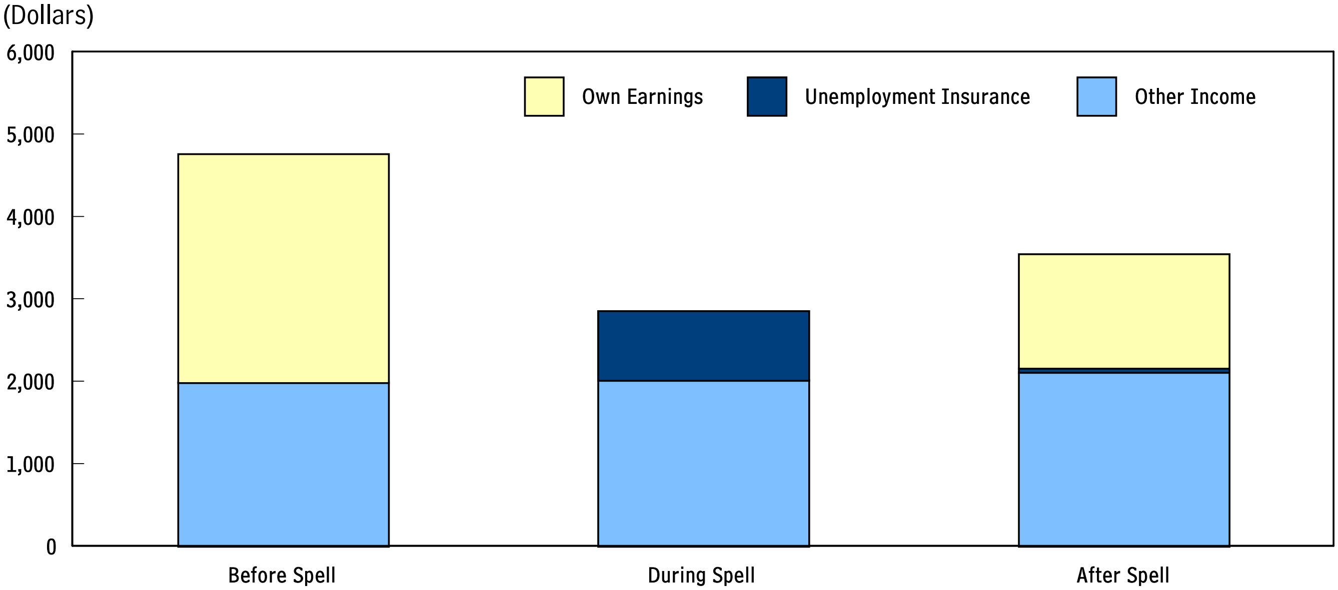
Without UI benefits, average family income for those unemployed workers would have been one-third lower, or only 40 percent of its previous level (assuming no offsetting changes in other sources of income). However, that figure probably represents an upper bound on the average impact of UI benefits on family income because, had the benefits not been available, recipients or their families might have obtained additional income from other earnings and would have been more likely to seek other benefits, such as welfare.

Overall, the largest source of income for families of long-term UI recipients was the earnings of other family members (accounting for $1,590 of the $2,020 in non-UI income, as shown in Table 4). Thus, UI recipients who lived alone or with nonworking relatives generally had far

12. Those results are consistent with administrative data compiled by the Department of Labor, which show that, on average, weekly UI benefits replaced about 46 percent of workers' recent wages in 2002, with substantial variation among states. Each state's program rules include a maximum weekly benefit, which would account for the replacement rates being lower for workers with relatively high earnings.

Figure 4.

Average Monthly Family Income of All Long-Term UI Recipients



Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. "Before spell" refers to three months before the spell began, "during spell" refers to the second month of the spell, and "after spell" refers to three months after the spell ended. A small number of recipients reported that they were back in the UI program three months after their spell had ended.

lower income and relied much more heavily on UI benefits than other recipients did. About half of the workers who collected UI benefits in 2001 had no other earners living with them. Their monthly income (including those benefits) averaged about $1,200, compared with $4,500 for recipients who had at least one employed family member. Moreover, there is no indication (at least for the period covered by this analysis) that the loss of a job caused other members of an unemployed worker's family to increase their own earnings.[13]

More-detailed calculations suggest that about one-quarter of long-term UI recipients in 2001 saw their monthly family income fall by more than 60 percent from its level three months before they began receiving benefits (see Table 5). Among categories of recipients, those living alone experienced the largest percentage loss in family income, and married women incurred the smallest loss.

Prevention of Short-Term Poverty

Although the UI program was not chiefly designed to prevent poverty—and does not require recipients to document their need on the basis of income or assets—its creators clearly intended it to be a short-term means of preventing workers who lost their job from becoming destitute.[14] The creators of the program intended that workers who exhausted their UI benefits be offered some kind of public job, not welfare.[15]

13. One reason for the lack of an observed response could be that the relatives of workers who are at risk of losing their job might seek jobs or longer hours in anticipation of that loss rather than afterward. Another reason could be that those relatives are in the same labor market and may also have lost their job or had a reduction in earnings at the same time as the UI recipient.

14. The Committee on Economic Security, which President Franklin Roosevelt created to develop what became the Social Security Act of 1935, stated that "Most of the hazards against which safeguards must be provided are similar in that they involve loss of earnings. When earnings cease, dependency is not far off for a large percentage of our people." Reprinted in Project on the Federal Social Role, *The Report of the Committee on Economic Security of 1935, 50th Anniversary Edition* (Washington, D.C.: National Conference on Social Welfare, 1985), p. 22.

15. Ibid., pp. 29-30.

Table 4.

Sources of Income During a Long-Term Spell of UI Receipt, by Presence of Other Workers in the Family

	Average Monthly Amount (Dollars)		
Source of Income	All Long-Term UI Recipients	Long-Term Recipients with Other Earners in Family	Long-Term Recipients with No Other Earners in Family
Earnings of Relatives	1,590	3,220	0
UI Benefits	840	870	810
Social Security and Pensions			
Own	70	30	110
Relatives'	140	150	120
Property	30	50	10
Other Sources	190	210	170
All Sources	2,860	4,530	1,220

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. About half of the UI recipients were in families with other earners.

Nonetheless, the program has succeeded in preventing temporary poverty for a significant fraction of long-term UI recipients. It is not possible to accurately estimate the number of recipients who would have been poor in the absence of UI benefits, however, because the earnings of some of those recipients and their families might have been higher had UI benefits not been available.

Most of the UI recipients in the 2001 sample had family income well above the poverty line before they lost their job. Three months before their long-term UI spell began, only about 7 percent had family income below the monthly poverty threshold (defined as one-twelfth of the relevant annual poverty threshold, or about $1,500 per month for a married couple with two minor children in 2001).

During their long-term spell, by contrast, nearly one-quarter of the UI recipients had monthly family income below the poverty threshold (see Table 6). That figure rises to one-half when UI benefits are excluded. The key determinant of whether a recipient's family income fell below the poverty threshold was the presence of other earners in the family. With UI payments included, virtually no recipient with another worker in the family was poor, whereas more than 40 percent of those without other workers in the family were poor. Likewise, not counting their UI benefits, about 15 percent of recipients with working relatives were poor, compared with about 85 percent of those with no employed family members.

What Happens After the Benefits Stop?

In the debate about how long to provide UI benefits to unemployed workers, three questions are especially relevant:

- Is the program giving workers enough time to find a job before their benefits run out?
- How significant an effect does the availability of benefits have on discouraging recipients from seeking or accepting a new job?
- What happens to former recipients who have not returned to work?

Administrative data and numerous studies, which are briefly summarized below, address the first two questions. New analysis by CBO, based on the 2001 SIPP data, addresses the third question.

Exhaustion of UI Benefits

Analysts commonly assess the ability of the UI program to help workers span periods without earnings by looking at administrative data on the percentage of recipients

Table 5.

Losses in Family Income During a Long-Term Spell of UI Receipt, as a Percentage of Family Income in Base Month

	Median Income Loss (Percent)	Percentage Distribution of Recipients, by Income Loss			
		Total	Less Than 40 Percent	40 to 59 Percent	60 Percent or More
All Long-Term UI Recipients	37	100	51	22	27
Family Status[a]					
Married woman	30	100	63	23	14
Married man	39	100	53	19	28
Living alone	53	100	26	27	47

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. "Base month" refers to the month three months before the spell began.

a. Losses are not reported for recipients in other family categories because of the small sample size.

who collect all of the benefits to which they are entitled.[16] For the past two years, that exhaustion rate has been higher than at any time in recent history (see Figure 5). During calendar year 2003, 43 percent of UI recipients exhausted their entitlement to regular benefits—11 percentage points higher than the rate before the 2001 recession began and several percentage points higher than the rate shortly after the previous recession ended.

Although it is not surprising that the exhaustion rate would climb as job opportunities declined, the rate's gradual long-term rise is hard to explain.[17] The average duration of UI receipt is increasing, and one study concluded that "most of the increase . . . is coming from the labor market itself (most notably from the increased average length of workers' unemployment spells), not from changes in UI policy."[18]

The labor-market causes of the gradual rise in the length of unemployment spells are not fully understood, however. That study pointed to changes in the industrial composition of employment away from manufacturing, growth in the fraction of unemployed people who are older workers, and increases in the rate of worker displacement as contributors to that rise.[19] Another study highlighted women's increased attachment to the labor force as a major factor: women who lose their job and do not immediately find another one are less likely than they used to be to drop out of the labor force.[20] That study

16. The Department of Labor calculates the exhaustion rate by dividing the number of recipients who exhaust their entitlement from the regular state UI programs over a 12-month period by the number of new recipients over a 12-month period lagged by six months. (The lag is intended to reflect the length of time that new recipients could claim benefits.)

17. Using annual data for the 1972-2002 period, CBO staff ran a regression in which the exhaustion rate was a linear function of the total unemployment rate and a time trend. Each percentage-point higher unemployment rate is associated with a 2.3 percentage-point higher exhaustion rate. The estimated upward trend in the exhaustion rate has been about one-quarter of a percentage point per year.

18. Karen E. Needels and Walter Nicholson, *An Analysis of Unemployment Insurance Durations Since the 1990-1992 Recession* (final report submitted by Mathematica Policy Research to the Department of Labor, March 1999), p. ix.

19. Ibid. See also Erica L. Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?" *Current Issues in Economics and Finance*, vol. 9, no. 8 (Federal Reserve Bank of New York, August 2003). Groshen and Potter argue that in the 2001 recession, a higher fraction of job losses were permanent, which could result in a lengthening of unemployment spells.

20. Katharine G. Abraham and Robert Shimer, "Changes in Unemployment Duration and Labor-Force Attachment," in Alan B. Krueger and Robert M. Solow, eds., *The Roaring Nineties: Can Full Employment Be Sustained?* (New York, N.Y.: Russell Sage Foundation and The Century Foundation, 2001), Chapter 8.

Table 6.

Monthly Poverty Rate of Long-Term UI Recipients During Their Spell of UI Receipt

	Poverty Rate (Percent)		Difference (Percentage Points)
	Actual	Excluding UI Benefits	
All Long-Term UI Recipients	23	50	-27
Long-Term UI Recipients with Other Earners in Family	1	14	-13
Long-Term UI Recipients with No Other Earners in Family	44	86	-42

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Notes: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. These measurements were made during the second month of the spell.

The poverty rate measures the percentage of recipients with family income at or below the federal poverty threshold, measured on a monthly basis.

also pointed to changes in the household survey on which the estimates of unemployment length are based. However, changes in that survey could not account for the rise in the duration of UI spells and in UI exhaustion rates, both of which are measured from administrative data rather than from household surveys.

Effects on Recipients' Incentive to Work

One problem with using exhaustion rates to measure the difficulty of finding a job is that the availability of UI benefits reduces unemployed workers' incentive to search for and accept a new job. Many studies have found that a longer potential duration of benefits results in some workers' taking longer to return to work, even though recipients are supposed to be actively seeking a job in order to qualify for UI benefits.[21] (Whether the additional time taken to find a job results in better matches between recipients and jobs is less clear; see Box 1.)

In addition, state unemployment insurance agencies are now required to identify recipients who are at greatest risk of exhausting their benefits and give them extra assistance early in their spell of joblessness. Initial studies suggest that such an approach does result in shorter durations of UI receipt—either because some unemployed workers become more effective in searching for a new job or because the requirement that they participate in the activities deters them from continuing to claim UI benefits.[22] Nonetheless, it is doubtful that much, if any, of the rise in the exhaustion rate during the past three decades can be attributed to any increase in the work disincentives associated with the UI program, because the program has not become more generous in terms of eligibility or benefit amounts relative to wages over that period.[23]

Some of the rise in the exhaustion rate since March 2002, when the TEUC program was enacted, is most likely associated with the availability of those additional weeks of benefits. However, that effect is probably small compared with the impact of a weaker labor market. As with unemployed workers who lost their job, the average duration of unemployment has also increased for groups that are generally ineligible for UI benefits (new entrants and reentrants to the labor force), which suggests that the overall state of the labor market, rather than the availability of benefits, has been the key factor.

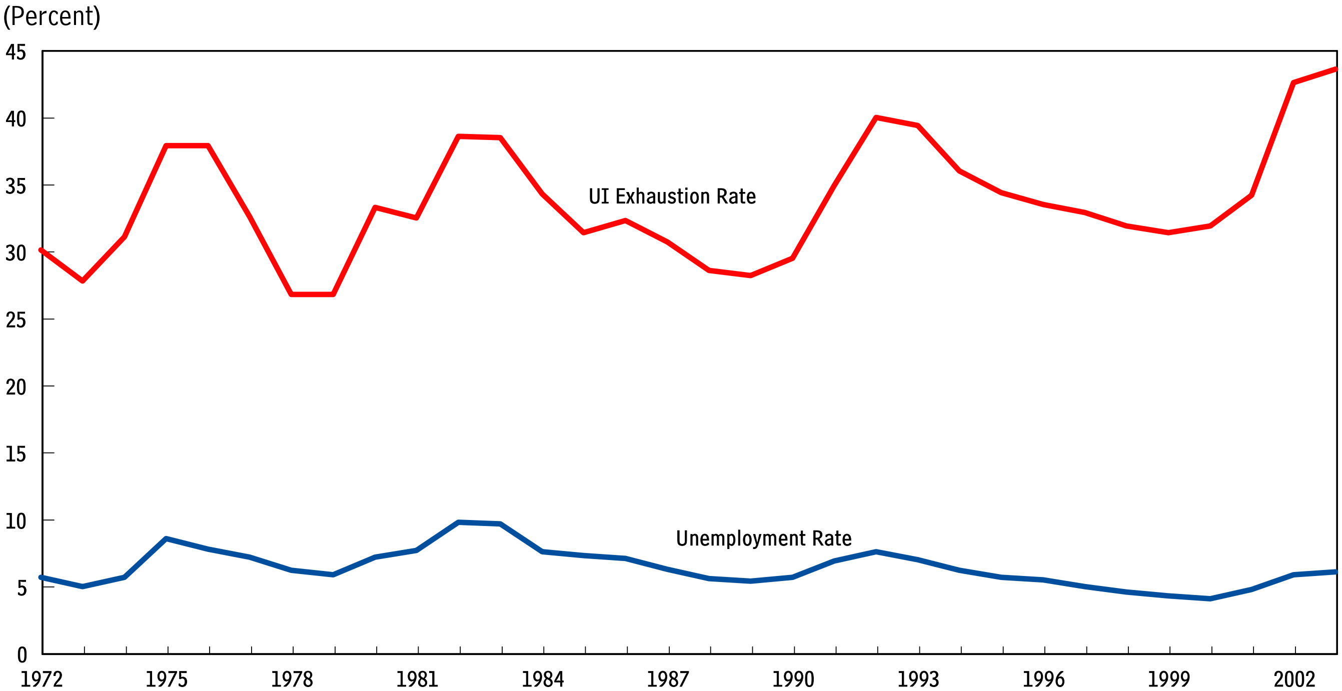
21. See Stephen A. Woodbury and Murray A. Rubin, "The Duration of Benefits," and Paul T. Decker, "Work Incentives and Disincentives," in Christopher J. O'Leary and Stephen A. Wandner, eds., *Unemployment Insurance in the United States: Analysis of Policy Issues* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1997), pp. 211-320. See also David Card and Phillip B. Levine, "Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program," *Journal of Public Economics*, vol. 78, no. 1-2 (October 2000), pp. 107-138.

22. See Katherine P. Dickinson, Paul T. Decker, and Suzanne D. Kreutzer, "Evaluation of WPRS Systems," in Randall W. Eberts, Christopher J. O'Leary, and Stephen A. Wandner, eds., *Targeting Employment Services* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2002), Chapter 3; and Dan A. Black and others, "Is the Threat of Reemployment Services More Effective Than the Services Themselves? Evidence from Random Assignment in the UI System," *American Economic Review*, vol. 93, no. 4 (September 2003), pp. 1313-1327.

23. Needels and Nicholson, *An Analysis of Unemployment Insurance Durations*.

Figure 5.

Unemployment Insurance Recipients Who Have Exhausted Their Benefits, Calendar Years 1972 to 2003



Source: Congressional Budget Office based on data from Department of Labor, Employment and Training Administration (for exhaustion rate) and Bureau of Labor Statistics (for unemployment rate).

Note: The exhaustion rate is the percentage of unemployment insurance (UI) recipients who collect all of the benefits to which they are entitled. The unemployment rate is the number of jobless people who are available for work and are actively seeking jobs, expressed as a percentage of the labor force.

The Income of Former UI Recipients

To examine the activities and income of people after they stopped receiving UI benefits, CBO analyzed information from the 2001 SIPP survey. Those data allowed CBO to track individuals who began receiving UI benefits during the recent recession, collected them for at least four consecutive months, and stopped receiving benefits between July 2001 and February 2002. The survey data are especially timely for examining what happened to people who ran out of regular benefits in a period when the labor market had weakened but additional benefits were not yet available.[24] (In 2001, few states provided extended benefits to recipients who exhausted their regular benefits, and the TEUC program had not yet been created.) As a result, it is unlikely that the behavior of many of the respondents in that survey was affected by the availability of benefits beyond the customary 26 weeks.[25] Survey respondents were not asked to specify whether they stopped receiving UI benefits because they had exhausted their entitlement or for another reason. In all

24. Temporary reductions in income need not cause reductions in consumption if the unemployed workers and their families have sufficient assets to draw down. A study by Jonathan Gruber, using data from an earlier SIPP panel, found considerable diversity in the amount of financial assets available to unemployed workers. He estimated that the median worker had enough wealth to finance about two-thirds of his or her income loss, but almost one-third of workers did not have enough wealth to finance even one-tenth of their loss. See Jonathan Gruber, *The Wealth of the Unemployed: Adequacy and Implications for Unemployment Insurance,* Working Paper 7348 (Cambridge, Mass.: National Bureau of Economic Research, September 1999).

25. Alaska, Oregon, and Washington were the only states in which benefits were available through the EB program in any month of the period covered in the survey.

Box 1.

The Effects of Unemployment Insurance on Job Matches

The U.S. economy is dynamic: new businesses start up, existing businesses expand, and others decline or fail. Resources are continuously being allocated to more productive uses. For workers who lose their job in the process, unemployment insurance (UI) reduces the transition costs.

The availability of UI benefits can affect how resources are allocated in a number of ways. For example, employers may be more likely to use temporary layoffs as a way of adjusting to short-term reductions in demand because the temporary income support that workers receive from unemployment insurance increases the chances that the workers will return once demand grows. Otherwise, those employers would need to hire and train new workers, incurring higher costs as a result. Likewise, workers may be more willing to take jobs in volatile industries because they know that if they lose their job, they will have some financial support while they search for another one.

The availability of UI benefits induces some recipients to take longer to find a new job than they would have taken otherwise. Of particular relevance to this paper is whether that additional time results in a better allocation of resources by leading to better job matches. In principle, temporary benefits enable workers who lose their job to take the time to search more thoroughly for a new job and to hold out for a better job than they could get if they did not have the financial cushion provided by the UI benefits.

The evidence to date, however, suggests that the longer duration of unemployment induced by the availability of UI benefits may not result in recipients' finding higher-paying jobs, on average. A review of the empirical literature analyzing the impact of higher UI benefits on subsequent wages concluded that "empirical studies of this issue have thus far provided only mixed evidence that such an effect exists."[1]

Further evidence comes from analyses of several experiments in which UI recipients were given bonuses if they found a new job within a certain number of weeks. Those experiments were designed to overcome recipients' disincentive to work by giving successful job seekers a portion of the UI benefits they would have received had they remained unemployed. Although the estimates varied from one experiment to the next, the general conclusion was that offering the bonuses appeared to succeed in shortening the average duration of UI receipt by the participants in the experiments without reducing their subsequent earnings.[2]

1. Paul T. Decker, "Work Incentives and Disincentives," in Christopher J. O'Leary and Stephen A. Wandner, eds., *Unemployment Insurance in the United States: Analysis of Policy Issues* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1997), p. 313.
2. For a summary of the experiments and their results, see Bruce D. Meyer, "Lessons from the U.S. Unemployment Insurance Experiments," *Journal of Economic Literature*, vol. 33, no. 1 (March 1995), pp. 91-131.

likelihood, however, the majority of the people who had received benefits for at least four months and then stopped would have run out of benefits. Administrative data indicate that the average duration of unemployment for recipients who exhausted their UI benefits in 2001 or 2002 was about 23 weeks, whereas the duration for workers who stopped receiving benefits before exhausting their entitlement was only about 10 weeks.

Income Losses. The income of the long-term UI recipients who had not returned to work three months after their benefits ended was generally much lower than the income they had been receiving three months before they lost their job (see Figure 1 on page 4). On average, their earnings had accounted for just over half of their family's income while they were working. Once they were no longer receiving UI benefits, their average family income fell to about half of its pre-UI level.[26]

26. About 10 percent of the long-term UI recipients who were not employed three months after their spell of benefits had ended were receiving UI benefits again, but those benefits accounted for a very small part of the income of the entire group.

Table 7.

Distribution of Former Long-Term UI Recipients, by Selected Characteristics and Subsequent Employment Status

(Percent)

Characteristic	All Long-Term UI Recipients	Employment Status Three Months After End of UI Spell: Working	Not Working
Age			
Under 45	62	65	58
45 and over	38	35	42
Sex			
Male	46	51	39
Female	54	49	61
Race			
White	66	67	64
Black or other	34	33	36
Years of Education			
Less than 12	13	10	17
12	38	39	37
More than 12	49	51	46
Family Status			
Married woman	30	24	39
Married man	27	32	19
Living alone	23	24	20
Living with children under 18	8	8	8
Living with other adult relatives	13	12	14

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002.

The average family income of the UI recipients who were back at work within three months after their benefits ended also did not return to its previous level, although it was well above what it had been while those recipients were collecting UI benefits. Three months after their benefits ended, those recipients were earning about 85 percent of what they had earned before they lost their job. In addition, the amounts they received from relatives' earnings and other sources of family income were similar to previous levels.

The former long-term UI recipients who had not returned to work were more likely than those who were working again to be age 45 or older, to lack a high school diploma, and to be married women (see Table 7). Their main source of income was the earnings of other family members (see Table 8). More than three-quarters of the average monthly income of the nonworking former recipients, as a group, came from the earnings of relatives ($1,970 out of $2,530).

Those averages, however, conceal a huge difference in family income between the half of former recipients who lived with someone employed and the half who did not. Jobless former recipients living alone or with only minor children had especially low income. But two-thirds of the married men and three-quarters of the married women had a working spouse or other member of the family

Table 8.

Sources of Income for Former Long-Term UI Recipients, by Subsequent Employment Status

Source of Income	Percentage Receiving Income from Source	Average Monthly Amount (Dollars): For Recipients of Income from Source	Average Monthly Amount (Dollars): For All Recipients
Working Three Months After End of UI Spell			
Earnings			
Own	100	2,260	2,260
Relatives'	51	2,970	1,520
UI Benefits	6	420	30
Social Security and Pensions			
Own	8	1,070	90
Relatives'	9	970	90
Property	50	70	30
Other Sources	20	860	170
All Sources	100	4,190	4,190
Not Working Three Months After End of UI Spell			
Earnings			
Own	0	0	0
Relatives'	52	3,750	1,970
UI Benefits	11	810	90
Social Security and Pensions			
Own	7	1,420	100
Relatives'	14	950	130
Property	50	90	40
Other Sources	27	750	200
All Sources	83[a]	3,050	2,530

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002.

a. Seventeen percent reported no income during the month.

earning money, and their family income was much higher.

UI benefits are intended to be a source of income not for workers who have retired but only for those who are actively seeking work or awaiting recall from a temporary layoff. Unemployment insurance rules generally limit the extent to which someone can concurrently receive UI benefits and Social Security or a pension. Nonetheless, anecdotal evidence suggests that some workers use UI benefits either as a temporary supplement to their retirement income or as a bridge to retirement. The data examined here, however, indicate that the practice is not widespread. Only about 7 percent of the former recipients who had not returned to work reported that they were receiving Social Security or pension income three months after their UI benefits had ended.

Table 9.

Monthly Poverty Rate of Former Long-Term UI Recipients, by Subsequent Employment Status and Presence of Other Earners

	Poverty Rate (Percent)
All Former Long-Term UI Recipients	21
Former Recipients Working Three Months After End of UI Spell	11
With other earners in family	3
With no other earners in family	20
Former Recipients Not Working Three Months After End of UI Spell	36
With other earners in family	2
With no other earners in family	73

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Notes: The employment status of former recipients and their relatives is based on whether they had any earnings three months after their long-term spell of unemployment insurance (UI) receipt ended. Those long-term recipients received UI benefits for at least four consecutive months in 2001 or early 2002.

The poverty rate measures the percentage of recipients with family income at or below the federal poverty threshold, measured on a monthly basis.

Poverty and Receipt of Food Stamps. Three months after their UI spell ended, more than one-third of the former recipients who were not back at work had monthly family income below the poverty threshold (see Table 9). Again, the former recipients most likely to be poor were the ones who were not in families in which someone else was working.[27]

Another indicator of the financial well-being of former UI recipients is whether they are receiving food stamps. Eligibility for food stamps is based on having few assets as well as low income.[28] In 2001, a household with one adult and one minor child could have no more than $2,000 in counted liquid assets and a monthly income of no more than about $1,200 to qualify for the program. For able-bodied adults without dependents, eligibility is generally limited to no more than three months in any three-year period unless they work at least half-time or participate in a training program. The maximum food stamp allotment in 2001 was about $240 per month for a two-person household with no income.

About one in 10 former UI recipients who had not returned to work three months after their benefits ended were in households that received food stamps—roughly the same fraction as received food stamps before and during their spell of unemployment. Half of those recipients were people who lived only with minor children; few of them were married.[29]

Health Insurance

Besides causing cash income to decline, the loss of a job may put at risk a worker's employer-sponsored health insurance. Most adults under age 65 who have health insurance obtain it through their own or their spouse's employer. Such insurance is an important fringe benefit for workers because employers typically pay the majority of the premium, and that benefit is not counted as taxable income to the worker. Moreover, the cost of insurance obtained through an employer-sponsored plan is generally much lower than the cost of insurance that a worker can obtain in the individual market.

Among the long-term UI recipients represented in the 2001 SIPP data, 82 percent were covered by a health insurance policy three months before their spell of UI receipt began (see Table 10).[30] That percentage is about the

27. Unlike the estimates of the poverty rates of long-term recipients during their spell of UI receipt (shown in Table 6), these estimates are not directly affected by behavioral changes induced by the availability of UI benefits.

28. Previous studies indicate that many people who are eligible for the program do not participate.

29. In addition, 7 percent of the former recipients who had returned to work received food stamps. Most of them reported monthly earnings of less than $1,000.

30. That coverage need not have been from their own employer.

Table 10.

Percentage of Long-Term UI Recipients with Health Insurance

	Three Months Before UI Spell Began	During Final Month of UI Spell	Three Months After End of UI Spell
All Long-Term UI Recipients	82	58	65
Recipients Working Three Months After End of UI Spell	82	57	69
Recipients Not Working Three Months After End of UI Spell	82	59	60

Source: Congressional Budget Office calculations based on the 2001 panel of the Survey of Income and Program Participation.

Note: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002. Individuals are counted here as having health insurance if they reported that they were covered by any health insurance plan; the plan need not have been provided by their current or former employer.

same as other studies have estimated for all workers in recent years.[31]

By the final month of recipients' UI spells, however, the percentage with health insurance had declined to 58 percent.[32] When workers lose their job, their employer may or may not continue to subsidize their health insurance premiums. Federal legislation (the Consolidated Omnibus Budget Reconciliation Act of 1985, or COBRA) requires firms with 20 or more employees to continue offering health coverage to workers who lose their job. However, firms may charge former employees the full group premium for that coverage. Thus, unemployed workers may face a large increase in their out-of-pocket premiums if they lose their job. The reduction in coverage estimated among the long-term UI recipients in 2001 probably results, at least in part, from some of those recipients opting not to pay the higher costs.[33]

Three months after they stopped receiving UI benefits, about 70 percent of former recipients who had returned to work were covered by health insurance—less than the share of recipients covered before they lost their job. Among recipients who had not returned to work three months later, about 60 percent had health insurance.

31. Using data collected in the 2002 and 2003 social and economic supplements of the Current Population Survey, Census Bureau staff estimate that 17 percent of people ages 18 to 64 who worked during the year lacked health insurance in 2001, and 18 percent lacked health insurance in 2002; see Robert J. Mills and Shailesh Bhandari, *Health Insurance Coverage in the United States: 2002*, Current Population Reports, Series P60-223 (Bureau of the Census, September 2003). Using data from the 1996 SIPP panel, a recent CBO paper reports that about 15 percent of nonelderly people in families in which at least one member worked full-time throughout 1998 lacked health insurance at some time during that year, and 6 percent lacked insurance all year. In families in which the adults worked part-time or only part of the year, 46 percent lacked insurance at some time during the year, and 16 percent lacked insurance all year. See Congressional Budget Office, *How Many People Lack Health Insurance and for How Long?* (May 2003).

32. That estimated decline in health insurance coverage is a net reduction resulting from two factors: some respondents who had not been insured before their UI spell began said they had gained insurance during the spell, and other respondents who had had coverage while they were working said they had lost that coverage.

33. The Trade Act of 2002 created a 65 percent refundable tax credit for the purchase of health insurance by certain people certified as eligible for Trade Adjustment Assistance and for some retired workers whose pensions are paid by the Pension Benefit Guaranty Corporation. For further discussion of issues in designing health insurance subsidies for unemployed workers, see Congressional Budget Office, *Proposals to Subsidize Health Insurance for the Unemployed* (January 1998).

APPENDIX

Comparison of the 2001 Findings with Estimates Based on Earlier Periods

Most of the findings about the income of unemployment insurance (UI) recipients reported in this paper are based on the Congressional Budget Office's (CBO's) analysis of data from the 2001 panel of the Survey of Income and Program Participation (SIPP). The main results of that analysis are based on the small number of respondents—about 180—who received UI benefits for at least four consecutive months in 2001 or early 2002 and who provided information about their income for at least three months before and after their spells of UI receipt. That small sample size is one reason why the specific estimates in this paper should be treated with caution.

To examine the robustness of those estimates, CBO compared the key findings with a similar analysis of data from the previous SIPP panel, which tracked respondents' income for four years, beginning in 1996. The number of long-term UI recipients in that sample who provided sufficient information was much larger—about 750—and conditions in the labor market were quite different. In particular, during the period when most of the 1996 SIPP respondents were ending their spell of UI receipt, the unemployment rate was declining—from about 5.2 percent in early 1997 to 4.3 percent in early 1999. (Half of the spells ended by December 1997; the rest ended by April 1999.) By comparison, the respondents in the 2001 panel were ending their spell of UI receipt during a period of higher and rising unemployment.

Nonetheless, the qualitative results based on the two samples are similar (see Table A-1). Estimates from both samples indicate that UI benefits played an important role in maintaining recipients' income and that other sources of income—especially the earnings of family members—kept the typical loss in family income to about 40 percent.

The major difference between the two sets of estimates is that a higher percentage of long-term UI recipients in the earlier panel were back at work three months after their spell ended (about 70 percent versus roughly 60 percent). Nonetheless, in both periods, the average income of all former recipients was about three-quarters of what it had been three months before their spell began. Among recipients who had not returned to work, a large percentage had monthly income below the poverty line in both periods.

Further indication of the robustness of the key findings of this analysis comes from comparing them with the results of a much earlier CBO study that was based on SIPP data from the mid-1980s.[1] That study also found that unemployment benefits averaged about 20 percent of long-term UI recipients' previous family income and that many of the recipients who did not return to work had income below the poverty line. In that study, one-third of the long-term recipients were not back at work three months after their spell ended.

A study of people who began receiving UI benefits in 1998 provides additional information about the income of individuals and their families before, during, and after receipt of UI benefits.[2] That study, conducted by Mathematica Policy Research for the Department of Labor, also

1. Congressional Budget Office, *Family Incomes of Unemployment Insurance Recipients and the Implications for Extending Benefits* (February 1990). The estimates in that study included some people who had no earnings in the month three months before their long-term UI spell began and some people who had earnings while they were receiving UI benefits; the current analysis excludes those individuals. Therefore, the 1990 study found smaller reductions in family income during recipients' UI spell.

2. Karen Needles, Walter Corson, and Walter Nicholson, *Left Out of the Boom Economy: UI Recipients in the Late 1990s* (report prepared by Mathematica Policy Research for the Department of Labor, May 2002).

Table A-1.

Comparison of Estimates Based on the 1996 and 2001 Panels of the Survey of Income and Program Participation

(Percent)

	1996 Panel	2001 Panel
Average Monthly Family Income of Long-Term UI Recipients During Spell as a Percentage of Income in Base Month		
Total income	57	60
UI benefits	20	18
Other income	37	42
Median Loss in Family Income During a Long-Term Spell of UI Receipt	38	37
Monthly Poverty Rate of Long-Term UI Recipients During Spell		
Actual	29	23
Excluding UI benefits	57	50
Percentage of Long-Term UI Recipients Working Three Months After End of Spell	69	61
Average Monthly Income of Former Long-Term UI Recipients as a Percentage of Income in Base Month		
Working three months after end of UI spell	86	92
Not working three months after end of UI spell	52	50
All recipients	76	74
Monthly Poverty Rate of Former Long-Term UI Recipients		
Working three months after end of UI spell	11	11
Not working three months after end of UI spell	46	36
All recipients	22	21

Source: Congressional Budget Office calculations based on the 1996 and 2001 panels of the Survey of Income and Program Participation.

Notes: Long-term recipients are defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months.

"Base month" refers to the month three months before the UI spell began, and "during spell" refers to the second month of the spell.

found that UI benefits played an important role in maintaining the family income of recipients and that many recipients who did not return to work after their benefits ended had low family income. The study was based on interviews with about 4,000 former recipients, half of whom had exhausted their UI benefits and half of whom had stopped receiving benefits before exhausting their entitlement.

The authors found that only about 40 percent of UI recipients lived with relatives who were working, smaller than the 50 percent share estimated in CBO's analysis of 2001 SIPP data. That difference might account for the larger income losses and higher poverty rates that Mathematica's authors estimated. Discrepancies between the findings of the two analyses may also result from methodological differences.[3]

3. For example, in estimating family income, Mathematica had to impute the earnings of spouses on the basis of the sex and age of the UI recipients. It did not have any information about the earnings of other members of recipients' families or about interest, dividends, and other income from property. Also, Mathematica measured poverty on a weekly basis rather than a monthly basis. Those omissions and the difference in accounting periods could have caused Mathematica to estimate lower family income and higher poverty rates.