

# An Introduction to Unemployment and Unemployment Insurance

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Many families experience reductions in income and well-being each year because of temporary and/or long-term interruptions to earnings. The precipitating events can include workforce reductions, illness, childbirth, work injury, and natural disasters, with unemployment a frequent consequence. Since earnings provide the largest source of income for most families, the onset of unemployment occasions an immediate and unanticipated reduction in income. The adverse consequences of unemployment are particularly serious for families with a single earner and/or those experiencing long spells of unemployment. Cash benefits from state unemployment insurance (UI) programs help to maintain income and living standards for many families with unemployed workers.

This brief gives an overview of unemployment and UI benefits in the U.S. economy. It provides brief descriptions, relying heavily upon charts and tables to summarize important points.

## Key Aspects of Unemployment

Unemployment varies widely across time periods, and at a single point in time, it varies across workers with differing characteristics. Figure 1 traces the history of the overall unemployment rate (unemployment as a percentage of those age 16 and older working or looking for work) from 1948 to 2004. Recessions appear as peaks in the series and nine of ten recessions are obvious (all but 1980, the first of two back-to-back recessions of the early 1980s). From a historical perspective, note that the recent recession was mild, with the highest unemployment rate (6.0 percent in 2003) lower than that of all other recessions except 1949 and 1954. Note the especially high peaks of 1975 and 1982–83.

Figures 2–5 summarize developments by gender, race and ethnicity, age, and educational attainment. Wide variation is depicted within

each figure. For those at risk of high unemployment, unemployment rates are even higher than depicted in the charts when two or more characteristics are present, e.g., young black and Hispanic workers with low schooling. Since the groups with highest risk of unemployment also generally experience below-average hourly earnings, their likelihood of falling into poverty following the onset of unemployment is higher than for workers in general.

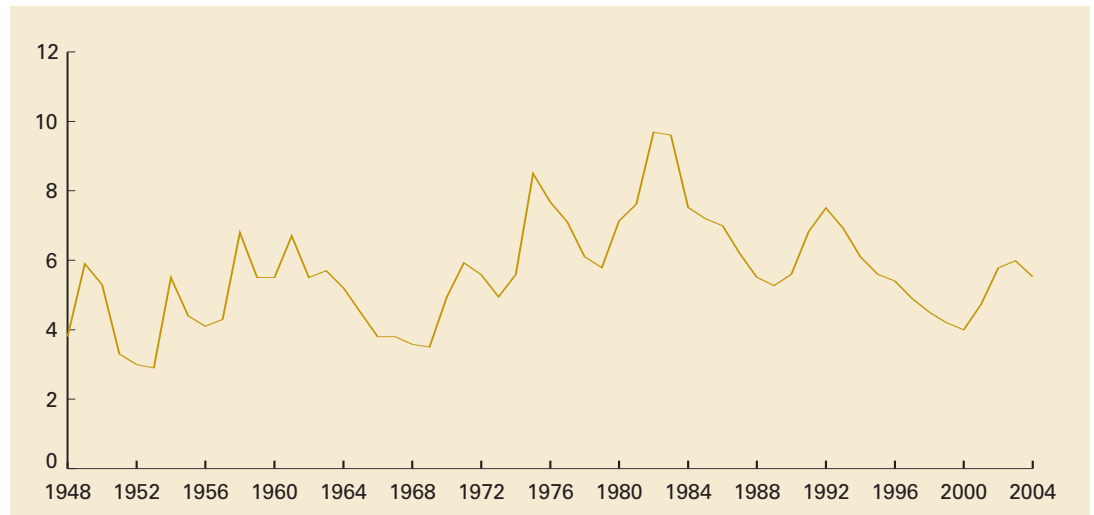
Note in figure 2 how women's unemployment, which used to be systematically higher than men's, has been roughly the same as men's unemployment since 1980. Men still experience larger cyclical swings, but the average levels by gender have been remarkably similar for the past 25 years. Disparities in unemployment by race and ethnicity are obvious in figure 3. The rate for black workers is roughly twice that for whites, with Hispanic unemployment roughly midway between the two. Figure 4 makes the obvious point that unemployment rates are much higher for young workers than for others and that unemployment rates decline sharply across age groups up to age 45–54.

Figure 5 displays unemployment rates for persons at four levels of education. For those with less than a high school education, the unemployment rate averages more than three times the rate for persons who graduate from four-year institutions of higher learning.

## Unemployment Has Been Evolving

The unemployment rate is the product of the rate of occurrences and average unemployment duration. Figures 6 and 7 trace the evolution of rates of occurrences and average duration since 1950. The lowest rates of occurrences and longest durations over the full period have taken place in the most recent years. The aging of the labor force and

FIGURE 1. Unemployment Rate, 1948–2004



Source: Bureau of Labor Statistics.  
 Note: Data refer to all persons 16 and older.

reduced reliance on temporary layoffs by employers have contributed to these changes. While the likelihood of experiencing unemployment has been trending downward, average time unemployed has increased among those who experience unemployment. With longer unemployment duration, the risk of a major reduction of family income and the onset of income poverty is increased. These consequences are especially likely in families with only one adult worker.

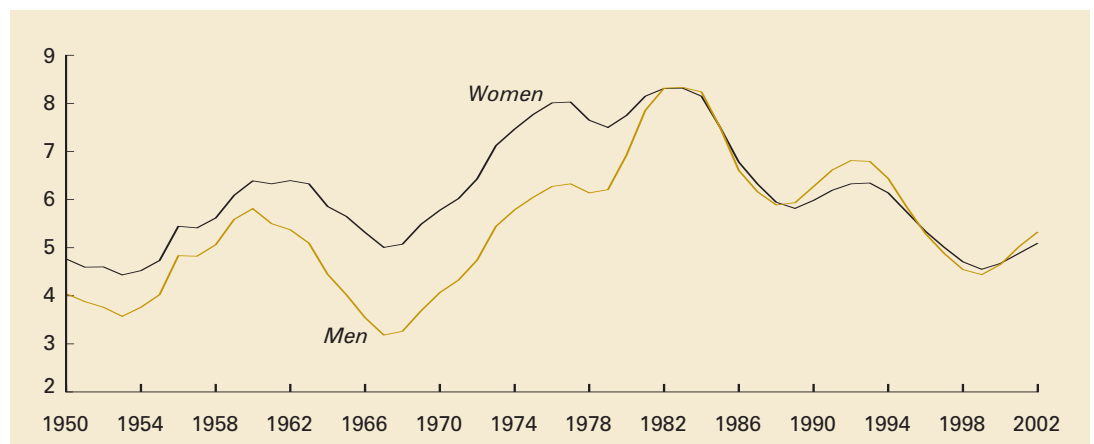
### Unemployment Insurance Assists Workers with Unemployment

State unemployment insurance (UI) is intended to provide temporary, partial replacement for the loss

of earnings due to unemployment. Each year millions of workers apply for and receive UI cash benefits. Eligibility depends on having a sufficient level of past earnings, an acceptable reason for unemployment (usually a non-prejudicial job separation, or layoff, from the employer), and satisfying ongoing eligibility criteria (generally described as able and available for work and actively seeking work).

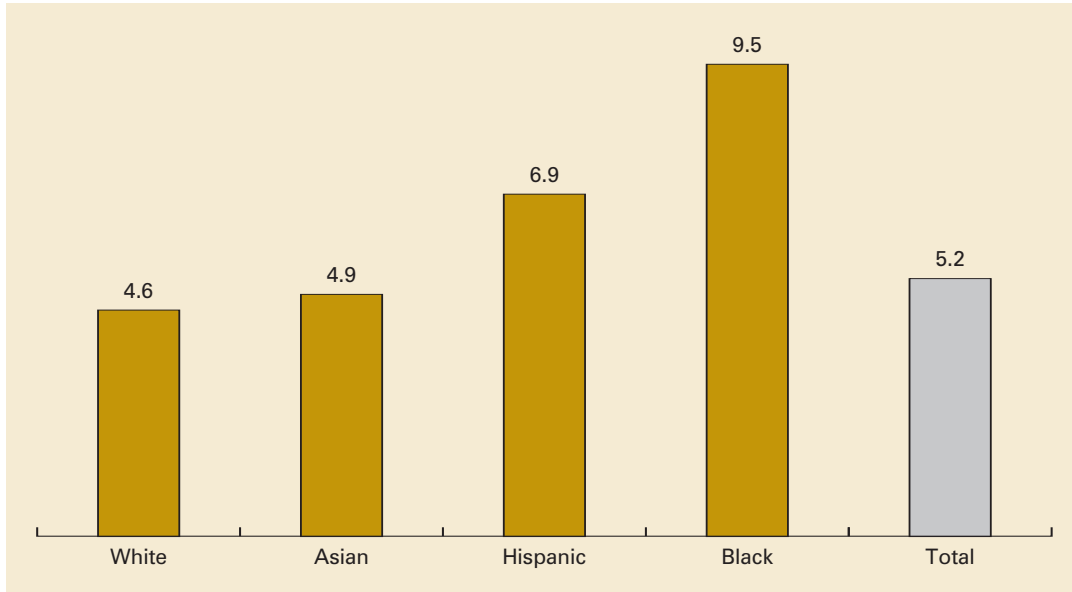
Table 1 summarizes details of UI operations in 2004. Weekly averages of unemployment, UI claimants, and UI beneficiaries were 8.15 million, 2.91 million, and 2.56 million, respectively. During a typical week in 2004, 31 percent of the unemployed were receiving UI benefits. Benefit payments totaled \$35.6 billion in 2004, including \$1.4 billion of Temporary Extended Unemploy-

FIGURE 2. Unemployment Rates by Gender, 1950–2002



Source: Bureau of Labor Statistics.  
 Note: Data are centered five-year moving averages.

FIGURE 3. Unemployment Rates by Race and Ethnicity, 2000–2004



Source: Bureau of Labor Statistics.  
 Note: Data are five-year averages.

ment Compensation, the emergency program active mainly from March 2002 to December 2003. The 2004 UI recipiency rate of 31 percent falls midway in the 26 to 38 percent range of rates experienced in all years but two since 1966.

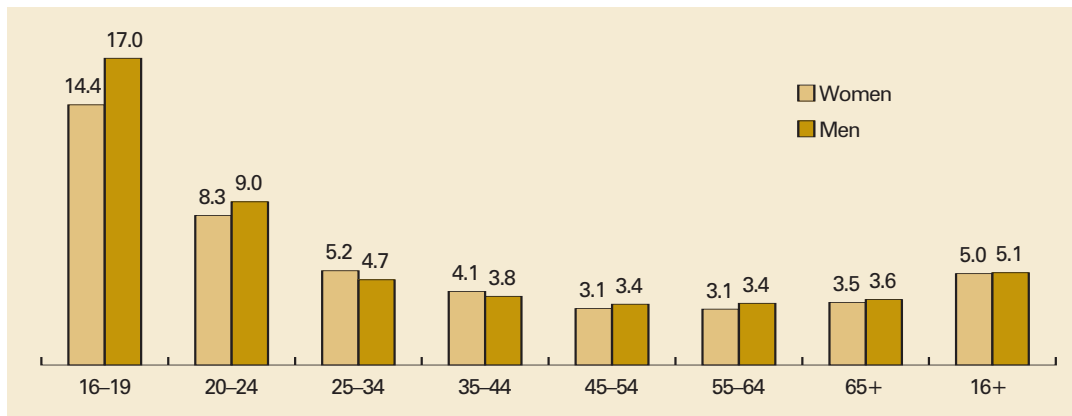
UI programs pay benefits to individuals based on specific eligibility criteria. An unemployed person's family situation does not influence eligibility decisions and payments are not tied to family income. The only explicit family-related element of benefit payments is the payment of dependents' benefits in 12 states. Payments offset part of the loss of earnings without regard to family income or the earnings of other family members. Families do

not have any special preference in accessing UI benefits. Two papers that document how UI payments helped to stabilize family income during the most recent recession are Smith (2004) and Acs, Holzer, and Nichols (2005).

### Unemployment Insurance Supports Only Some of the Unemployed

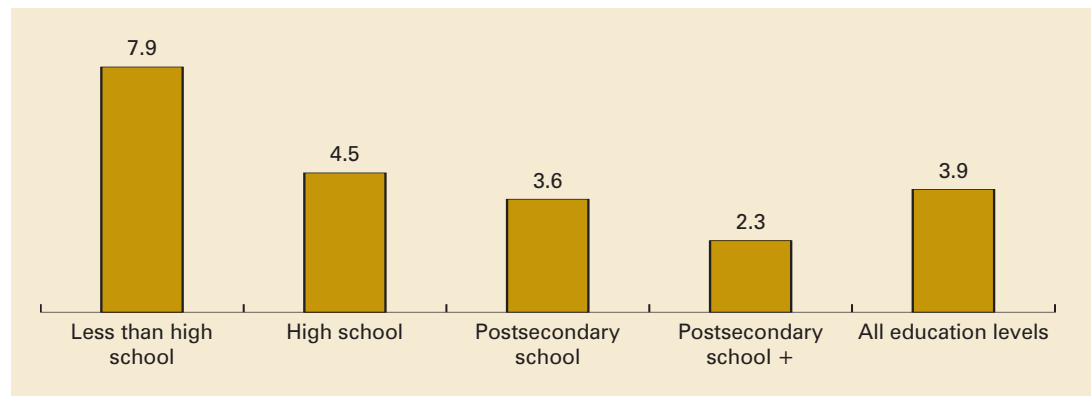
The low recipiency of 2004 is typical of the UI program. The middle and bottom sections of table 1 display summary data that help in under-

FIGURE 4. Unemployment Rates by Age and Gender, 1995–2004



Source: Bureau of Labor Statistics.  
 Note: Data are 10-year averages.

FIGURE 5. Adult Unemployment Rates by Educational Attainment, 1995–2004



Source: Bureau of Labor Statistics.  
 Note: Data are 10-year averages for persons 25 and older.

standing low reciprocity rates. Three major factors that contribute to low rates of receipt are low applications, large numbers of denials and disqualifications, and benefit exhaustions.

Among people 16 and older with new spells of unemployment, about half file for benefits, 17.8 million of 32.4 million in 2004. Many who do not file believe they are ineligible, but others are deterred by monetary and other specific eligibility requirements. Understanding of the behavior of so-called nonfilers is limited, and new information on nonfilers is being gathered during 2005.

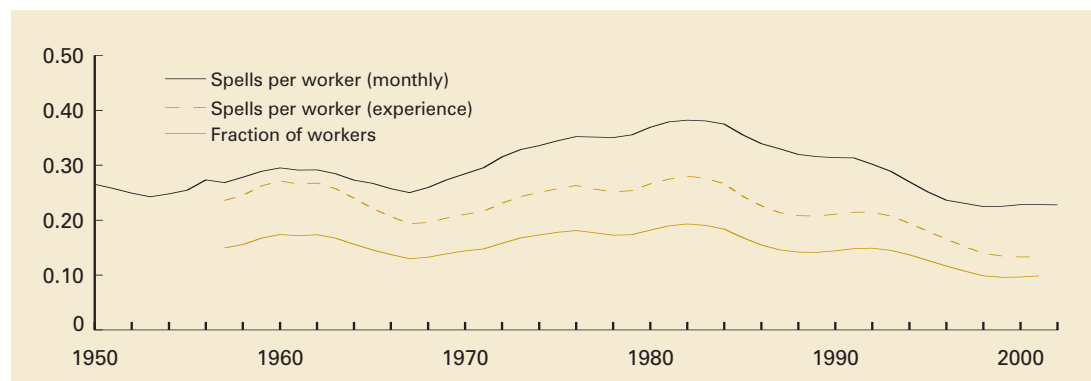
Of those who file a claim to establish a new period of eligibility (a so-called benefit year), only about three-quarters receive a payment, 8.3 million of 11.0 million in 2004. Denials and disqualifications arise from insufficient previous earnings (monetary decisions), disqualifications related to the job separation reasons, and failure

to maintain eligibility while in benefit status. Table 1 shows that disqualifications in 2004 totaled 6.0 million, with only about one-quarter due to monetary reasons. Most disqualifications arise from quits, misconduct, unavailability for work, and failure to actively search for work.

Many who collect UI use up (exhaust) their entire entitlement to benefits. With increased unemployment duration, exhaustion rates have been high, averaging about 40 percent during the three years 2002 to 2004.

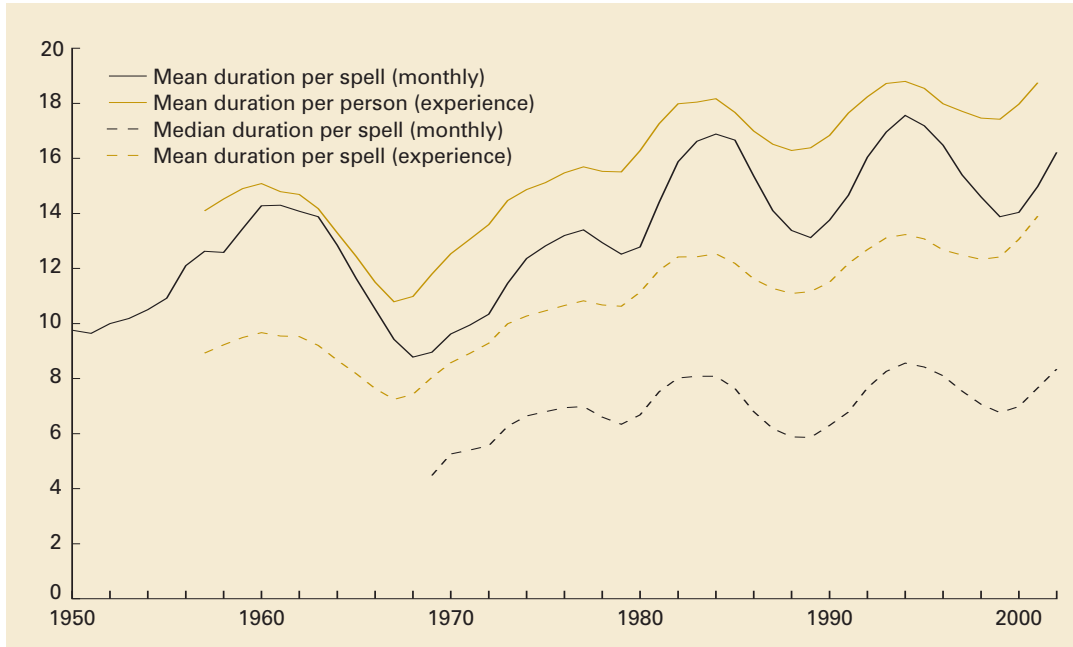
Table 1 gives a sense for the number of administrative decisions made by UI agencies each year. Decisions are made under time pressure and one or more interested party may be dissatisfied with agency rulings. During 2004 there were more than 1.6 million appeals of agency decisions. UI programs provide services and make decisions affecting a fluid client population. Average duration in benefit status was only 16 weeks.

FIGURE 6. Frequency of Unemployment Occurrences, 1950–2002



Source: Bureau of Labor Statistics.  
 Notes: All data are centered five-year averages. The top line shows unemployment spells per worker using monthly Current Population Survey (CPS) data. The middle line shows unemployment spells per worker using annual March CPS work experience data. The bottom line shows the fraction of workers unemployed using annual March CPS work experience data.

FIGURE 7. Average Unemployment Duration in Weeks, 1950–2002



Source: Bureau of Labor Statistics.

Notes: All data are centered five-year moving averages. The two black lines show mean and median duration of unemployment spells using monthly Current Population Survey (CPS) data. The two gold lines show mean duration per person and per spell using annual March CPS work experience data.

As shown in table 1, UI programs provide services to millions each year but only in a minority of all situations involving unemployment. Benefits are more likely to be received by workers laid off by employers and by experienced workers. Those who voluntarily leave work usually are not eligible even when an important personal reason contributes to leaving the job.

### UI Receipt Varies Widely across States

Table 2 displays data on UI receipt by state and related program data for recent years. The first column of data shows average rates of receipt (weekly beneficiaries as a proportion of the unemployed) during 1994–2003. During these 10 years, recipiency averaged less than 25 percent in 13 states and

TABLE 1. Labor Market and Unemployment Insurance (UI), 2004

Weekly unemployment	8.15 million		
Weekly UI claims	2.91 million		
Weekly UI beneficiaries	2.56 million		
Total UI benefits	\$35.60 billion		
Civilian labor force	147.40 million		
New spells of unemployment	32.40 million		
All initial claims for UI benefits	17.80 million		
New initial claims for UI benefits	11.00 million		
First payments	8.30 million		
Benefit exhaustions	3.50 million		
Eligibility decisions (millions)	Total	Eligible	Not eligible
Monetary reasons	12.2	10.8	1.4
Separation issues	4.3	2.1	2.2
Continuing eligibility	3.5	1.0	2.4
Appeals	1.6		

TABLE 2. State UI Reciprocity and Selected Program Eligibility Details

	Reciprocity rate, 1994–2003	Weeks of earnings at AWW, 1994–2003	Alternative base period?	Allows quits for good personal reasons?	Misconduct determination rate, 1994–2003
Alabama	26	3.2	No	No	8
Alaska	57	1.6	No	Yes	5
Arizona	20	2.7	No	No	20
Arkansas	34	3.0	No	No	11
California	37	1.6	No	Yes	11
Colorado	20	2.4	No	No	25
Connecticut	53	0.7	Yes	No	15
Delaware	43	1.1	No	No	10
District of Columbia	36	2.2	Yes	No	17
Florida	20	4.5	No	No	16
Georgia	22	2.2	Yes	No	15
Hawaii	35	0.2	Yes	Yes	9
Idaho	35	3.2	No	No	8
Illinois	35	2.4	No	No	13
Indiana	26	4.8	No	No	16
Iowa	38	2.6	No	No	11
Kansas	28	4.2	No	No	17
Kentucky	29	2.9	No	No	8
Louisiana	19	2.3	No	No	24
Maine	36	5.6	Yes	No	9
Maryland	27	1.4	No	No	24
Massachusetts	50	3.2	Yes	No	7
Michigan	38	3.9	Yes	No	8
Minnesota	36	2.0	No	No	11
Mississippi	23	2.7	No	Yes	16
Missouri	31	2.7	No	No	21
Montana	31	3.4	No	No	7
Nebraska	26	2.9	No	No	26
Nevada	38	1.1	No	Yes	20
New Hampshire	18	4.6	Yes	No	14
New Jersey	45	2.8	Yes	No	10
New Mexico	20	3.2	Yes	No	12
New York	35	2.4	Yes	Yes	8
North Carolina	29	5.5	Yes	No	3
North Dakota	31	6.4	No	No	9
Ohio	27	5.2	Yes	No	10
Oklahoma	20	4.5	Yes	No	21
Oregon	43	1.8	No	No	12
Pennsylvania	47	2.2	No	No	7
Rhode Island	48	3.7	Yes	Yes	7
South Carolina	27	1.8	No	No	10
South Dakota	16	3.0	No	No	17
Tennessee	32	2.9	No	No	8
Texas	21	2.8	No	No	25
Utah	22	4.1	No	No	20

TABLE 2. State UI Reciprocity and Selected Program Eligibility Details (Continued)

	Reciprocity rate, 1994–2003	Weeks of earnings at AWW, 1994–2003	Alternative base period?	Allows quits for good personal reasons?	Misconduct determination rate, 1994–2003
Vermont	47	3.7	Yes	No	8
Virginia	21	4.9	Yes	Yes	13
Washington	44	6.9	Yes	No	8
West Virginia	28	4.6	No	No	11
Wisconsin	49	2.7	Yes	No	11
Wyoming	25	3.9	No	No	10
United States	32	2.9	19	8	12

Source: Information from the Office of Workforce Security, U.S. Department of Labor.

AWW = average weekly wage.

Notes: Reciprocity measured as percentage ratio of weekly beneficiaries to weekly unemployment. Monetary eligibility shows weeks of earnings at the statewide weekly wage needed to meet base period eligibility. Other requirements not reflected in this summary. Presence of alternative base period and allowing quits for good personal reasons indicated by Yes. Misconduct determination rate measures determinations as a percentage of new claims for benefits.

exceeded 45 percent in seven. UI receipt is generally high in states located along both coasts and in the upper Midwest. Low rates of receipt are found in many Southern and Rocky Mountain states.

The right-hand columns in table 2 provide details on four factors that are linked to interstate variation in reciprocity.

Monetary eligibility requirements vary across states. The table shows one aspect of this variation, base period earnings requirements for minimum eligibility (expressed as the number of weeks of work at the statewide average weekly wage). Low earnings owing to short hours and/or low wage rates contribute to ineligibility. Allowing a second monetary eligibility determination under an alternative base period allows more recent earnings to be considered for those initially deemed ineligible. In 2005, 19 states allow such determinations.

Most states (all but eight) will compensate a quit only if it has a work-related cause. Quits for personal reasons, such as to care for a sick relative or to follow a spouse who is transferred, are generally not compensable. Table 2 identifies the eight states that recognize quits for good personal reasons as potentially compensable.

Finally, the table shows misconduct (broadly meaning worker actions taken deliberately against the employers' economic interests) determination rates are highly varied across states. While the national average during 1994–2003 was 12 percent, the rate exceeded 20 percent in seven states while it was less than 8 percent in six states. High rates of these administrative determinations have been shown to reduce UI applications and to

reduce payment rates among those who apply for UI benefits.<sup>1</sup>

The key point about the data in table 2 is that low rates of receipt are linked both to state UI statutes and UI program administrative activities. Encouraging states to enact laws that allow an alternative base period determination of eligibility, good personal reasons for quitting, easier monetary eligibility requirements, and program administration with fewer misconduct determinations could enhance UI receipt in the United States.

### Note

1. See chapter 5 in Wayne Vroman, "Low Benefit Reciprocity in State Unemployment Insurance Programs," ETA Occasional Paper 2002-02 (Washington, DC: U.S. Department of Labor, 2002).

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### About the Author

**Wayne Vroman** is an economist who has worked at the Urban Institute since 1977. He has conducted extensive research on unemployment insurance programs in the United States and many other countries.



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