



Unemployment Insurance during a Recession

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State unemployment insurance programs provide weekly unemployment benefits to eligible workers who lose their jobs through no fault of their own. This safety net program is especially important during recessions, when the unemployment rate increases, since it also bolsters consumer spending.

The unemployment rate in November 2008 reached 6.7 percent, which is not unusually high during recessionary periods. However, in the two most recent recessions (1990–91 and 2001), monthly unemployment peaked at just under 8 percent and just over 6 percent, respectively. Most predict that the current recession will peak at over 8 percent.¹

While over 90 percent of jobs in the United States are covered by unemployment insurance, not all unemployed workers receive benefits. In fact, only 36.3 percent of the unemployed in 2007 received benefits. Some choose not to claim benefits, and others who do apply are found ineligible because they did not earn enough or work long enough before losing their jobs.

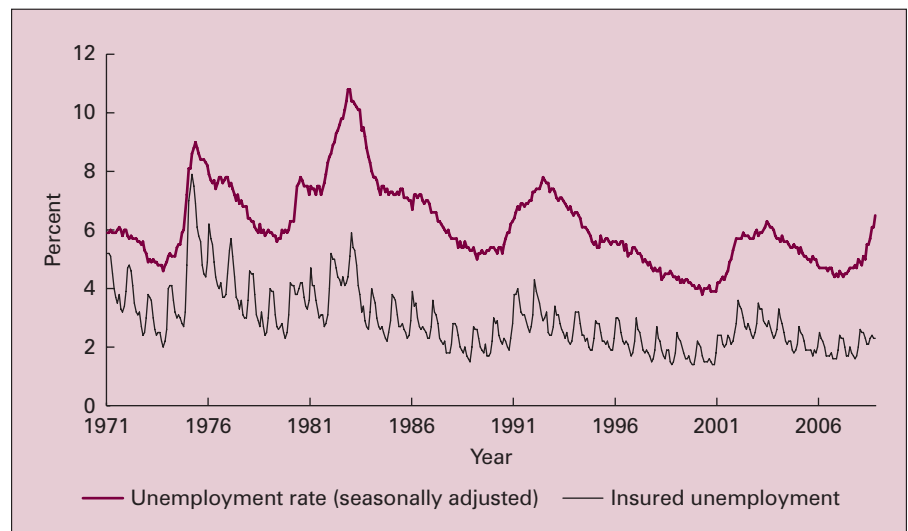
States determine a worker's eligibility based on his or her covered earnings for a 12-month period before being unemployed. Traditionally, this period excluded the three months immediately before unemployment. Many states are trying to increase these workers' reciprocity rate by changing the eligibility, or base, period. Nineteen states have adopted an alternative base period that allows consideration of higher earnings in the most recent three months to determine benefit eligibility.

Figure 1 shows the unemployment rate and the percentage of the labor force receiving benefits (the insured unemployment rate). The share of unemployed workers receiving benefits was regularly as high as 60 percent in the early 1970s, but it has hovered at

approximately 40 percent for the past two decades. Many factors explain why: a larger share of the unemployed has been laid off permanently rather than temporarily, so they are more likely to have exhausted any benefits they were eligible for; a smaller portion of the labor force is represented by unions, which have actively helped members understand and claim their benefits; unemployment benefits have been subject to income taxes since 1979; and states have tightened eligibility. Another driver is the geographic distribution of unemployed workers, which has shifted toward states with more restrictive eligibility requirements.

Most states limit the maximum length of unemployment insurance to 26 weeks.² As the recession deepens, the share of recipients who exhaust their benefits is expected to increase. The share of unemployed workers who are jobless for 27 weeks or longer has climbed over the past 25 years, peaking in recessions. Benefit exhaustion has mirrored the trend, falling to around 30 percent when the economy is strong and rising to 40 percent during recessions.

FIGURE 1. *The Unemployment Rate and the Insured Unemployment Rate, 1971–2008*



Source: Weekly claims data; U.S. Department of Labor, and Bureau of Labor Statistics.

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In periods of high unemployment, the federal government typically provides additional weeks of unemployment insurance coverage. Congress and the president have already extended the maximum number of weeks the unemployed can receive benefits twice in 2008: a 13-week extension enacted on June 30 followed by a 7-week extension (with 13 more weeks for workers in high-unemployment states) on November 21. With both extensions, unemployed workers can now collect up to 46 weeks of benefits (26 weeks in the standard state program and 20 weeks of extended benefits), or 59 weeks of benefits for workers in high-unemployment states. These extensions were in place as the unemployment rate began to increase sharply toward the end of 2008, positioning the program to support the long-term unemployed in this recession.

The average weekly benefit amount has risen faster than weekly earnings for covered jobs, so benefits now replace somewhat more of earnings than they have in the past. But the average national replacement rate is still under half of average earnings.

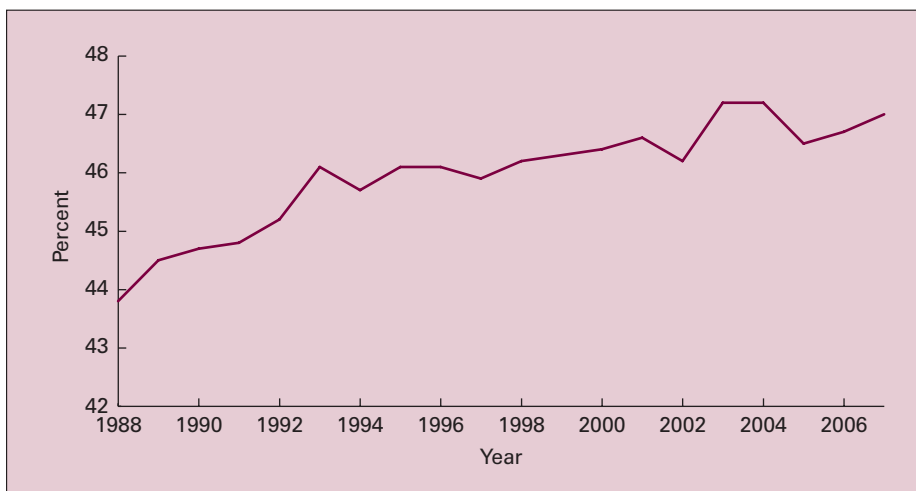
Of course, the weekly earnings used to calculate these moderately increasing replacement rates do not include the value of such employer-provided benefits as

health insurance and retirement contributions, which are usually lost with the job. The unemployment insurance program was not designed to compensate for these losses, even though such benefits make up an important part of workers' compensation packages.

Benefits are paid out of state unemployment insurance trust funds, which are supported primarily through payroll taxes paid by employers. These funds, for the most part, are poorly prepared for the current recession. Thus, many of the largest state programs are expected to have to borrow from the federal government to continue paying benefits. While benefits payment should not be interrupted, state trust funds sapped by heavy borrowing may not be in a position to expand eligibility in the near future.

By extending benefits, the federal government has already taken important steps to help many unemployed workers in this recession. Looking forward, however, important gaps in the unemployment insurance program clearly need to be filled. Legislation like the Unemployment Insurance Modernization Act³—which provides incentive payments to states for adopting alternative base periods; compensation to otherwise eligible workers who are seeking part-time work and to those who leave jobs due to domestic violence, disability, or illness of a family member; and compensation to workers enrolled in approved training programs—could help fill these gaps.

FIGURE 2. Average Benefit Replacement Rate, 1988–2007



Source: Unemployment Insurance chartbook; U.S. Department of Labor.

Notes

1. Kristina Cooke, December 9, 2008, "U.S. Recession Not Close to 1930's: NBER," <http://www.reuters.com/article/vcCandidateFeed2/idUSTRE4B77GG20081209>.
2. Not all unemployment insurance recipients receive benefits for the full 26 weeks. Weekly benefit amounts and the number of weeks that a worker can collect benefits are set based on their earnings in a base period.
3. This bill was passed by the House during the 110th Congress but was not taken up by the Senate.

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