Disadvantaged Workers and the
Unemployment Insurance Program

María E. Enchautegui

The Great Recession officially ended in June 2009. But 21 months later, almost 13 million workers still find themselves without work, the unemployment rate remains above 8 percent, and over 40 percent of the unemployed have been jobless for more than six months. These lingering effects highlight the role of unemployment insurance in ameliorating the economic distress of unemployed workers.

Many unemployed workers apply for unemployment insurance (UI) benefits. Initially, those who are found eligible for benefits receive unemployment compensation through state-administered, state-funded programs. Although the federal government sets broad parameters for these programs, states define the eligibility rules, the taxes paid by employers, and the wages on which these taxes are calculated. With prolonged unemployment, many workers exhaust their state-funded benefits, and the federal government steps in with emergency unemployment compensation (EUC) and extended benefits (EB) programs. As a result of the recession, the federal role in assisting the unemployed has been increasing over the past two years.

In addition to providing financial support to the unemployed, unemployment insurance benefits the economy. It helps stabilize the economy during recessions by providing income support to people who are likely to quickly spend that money on goods and services (Executive Office of the President 2011). For example, the CBO estimates that every dollar spent on EUC generates 1.9 dollars in economic activity (Elmendorf 2011).

Unemployment insurance also reduces poverty (Gabe and Whitaker 2011). Although some argue that UI extends unemployment spells, others have found that it keeps workers in the labor force, produces better employee-employer matches, reduces the likelihood that older workers receive Social Security Disability Insurance, helps avert mortgage foreclosures, and can reduce mental health problems among the unemployed.

The limitations of the UI system have also surfaced during this period of high unemployment. Although researchers and policymakers usually refer to the “unemployment insurance funds continue to face solvency problems and the federal government continues to cover UI recipients, there may be opportunities to promote changes that improve vulnerable workers’ access to the program.
compensation system,” in reality there are systems of unemployment compensation guided by broad federal principles but financed and governed by individual states. States vary significantly in their eligibility rules and, hence, in their protection of unemployed workers. Most unemployed workers do not collect state unemployment insurance (Vroman 2005), and eligibility rules do not reflect the changing labor market. The large numbers of claimants have drained state UI funds, leading some states to adopt more exclusionary rules for applicants.

This brief documents how workers with labor market disadvantages fare in this system. Previous research has shown that certain characteristics—such as being black or Latino, young (age 16–24), or a single mother; lacking a high school diploma; having limited English language ability; or having been born abroad—render workers more likely to end up on the unemployment rolls. These workers will be doubly hurt if upon becoming unemployed they cannot take advantage of UI benefits. This is not a minority of workers. Quite the contrary: in the nationally representative data analyzed in this brief, 65 percent of all workers who experienced unemployment in 2010 have at least one characteristic usually associated with labor market disadvantage. This brief examines state eligibility rules, employers’ roles, and the principle of “for no fault of their own” as a preamble for understanding the ability of some workers to collect UI benefits. It also suggests approaches for strengthening the position of disadvantaged workers in the UI system.

Data presented here indicate that black and Latino workers are more likely to live in low-recipiency states and that single mothers, young workers, and black workers represent a higher share of job leavers for health, family, or temporary job reasons than of job losers. In the end, the UI receipt rate of workers with labor market disadvantages is at least 33 percentage points below the rate of workers with no such disadvantages.

Complex and Varying State Rules for UI Eligibility

The Unemployment Insurance program is jointly financed through state and federal payroll taxes. The Federal Unemployment Tax Act (FUTA) authorizes the Internal Revenue Service to collect a tax from employers to fund state workforce agencies. The federal tax rate is currently 6 percent, but it is only levied on the first $7,000 of wages paid to each of an employer’s workers during a year (the wage base). Employers receive a credit of up to 5.4 percent if they pay their state unemployment insurance taxes in a timely manner. This makes the effective federal tax 0.6 percentage or up to $42 dollars per employee.4

Program uniformity ends there because states establish their own rules governing eligibility and benefit levels.

To determine monetary eligibility, some states consider earnings during the first four of the last five completed quarters (the base period), while other states include the most recently completed quarter in the base period. States also differ in the minimum wages required to collect UI and how they are calculated. For instance, to receive UI in Arkansas in 2010, a worker had to earn at least $2,500 during the base period, with earnings in at least two quarters. A worker in Illinois had to earn at least $1,600, $440 of it outside the highest-earning quarter. An Indiana worker had to earn at least $4,200, $2,800 of it in the highest quarter; a Californian needed to earn $1,225 in the base period and $900 in the highest quarter. In Washington State, qualification is based on the number of hours worked, not on earnings.

Nonmonetary eligibility rules also differ across states. For example, states vary in how they define “actively seeking work.” Some states require a reasonable effort, others require a specific number of contacts, and still others add job search–related activities, not necessarily job contacts. Some states limit UI eligibility when quitting a job to factors strictly related to work, while others do not. In determining good cause for voluntary separations, some states have administrative or statutory rules, while others leave it to interpretation. Take, for example, illness (not related to work). This is not a good cause for separation in Louisiana, Vermont, South Carolina, and Tennessee; in 14 states, it is left to interpretation instead of set by law or regulation. Other criteria that vary by state include definitions of suitable employment, income disregards, waiting periods, dependent allowances, provisions for temporary and seasonal workers, availability for part-time work, and maximum number of weeks of UI receipt.5

State-determined eligibility rules may leave some disadvantaged workers behind. To encourage states to expand UI access in a period of high unemployment, the American Recovery and Reinvestment Act of 2009 created unemployment insurance modernization incentive payments. This program made over $7 billion available to states willing to modify their UI eligibility requirements by adopting earnings periods for benefit calculations that consider more recent work histories and by allowing payments to workers seeking only part-time work, those in training programs, and those who quit their jobs for compelling family reasons if they are otherwise eligible. The incentive payments also encouraged states to provide higher benefits to unemployed workers with dependents. A total of 39 states and the District of Columbia made at least one change necessary to receive modernization incentive payments; 27 will include workers looking for part-time jobs, and 20 will cover workers who left their jobs for compelling family reasons.

Even while these extensions are taking place, some states have made changes that may reduce access to unemployment benefits (Isaacs 2011; Lancaster 2011, 2012). For example, six states recently passed legislation to
reduce the number of weeks an unemployed worker can receive state-funded UI. South Carolina increased the number of weeks a worker needs to have worked to be classified as seasonal. Pennsylvania, which imposed stricter job search rules, required applicants to be eligible for at least $70 in weekly benefits before they could receive any payments and changed the minimum earnings in a credit week from $50 to $100 starting 2013. Nebraska raised the minimum earnings needed to qualify from $2,761 to $3,770. South Carolina also raised its minimum earnings requirements, from $900 to $4,455. Hawaii reduced the maximum benefits from 75 to 70 percent of the average weekly wage. New Jersey, Oklahoma, and Arkansas all reduced weekly benefits. Arkansas further restricted access to UI by declaring that workers terminated for misconduct could not receive benefits until they had held a job for at least 30 days (instead of the prior three-month disqualification period) and that workers fired for absenteeism could no longer show attendance records covering the last 12 months. Florida expanded its definition of employee misconduct to include activities outside the workplace.

**Receipt of UI Varies among States**

Figure 1 shows the percentage of unemployed workers receiving state-funded UI by state. To obtain this figure, the average number of unemployed workers by state was calculated from the basic monthly Current Population Survey of 2010. The number receiving UI refers to the average monthly claimants in state UI programs reported by the Employment and Training Administration in 2010.

State UI programs cover a relatively small number of unemployed workers. On average, only 33 percent of all unemployed workers received state-funded UI each month in 2010. Rates of receipt varied widely across states from 68 percent in Alaska and 54 percent in Pennsylvania to 22 and 23 percent, respectively, in South Dakota and Virginia.
These differences in state recipiency rates have prevailed for a long time. They cannot be explained by the characteristics of workers and the local economies, and studies of particular states show that minorities, single mothers, and young workers commonly fail to meet the monetary and separation eligibility criteria (Latimer 2003; Vroman 2008). These findings and the variation in recipiency rates across states give credence to the idea that place (and with it state-based eligibility rules) matters when it comes to receiving UI benefits.

Implications for state variation in UI receipt for racial and ethnic minorities.

State rules producing low recipiency disproportionately affect black and Latino workers. The 10 states with the lowest rates of UI receipt are home to 36 percent of the black and Latino population but only 27 percent of nonblack/non-Latinos (table 1). At the other end of the spectrum, 12 percent of nonblack/non-Latinos live in the 10 states with the highest rates of UI receipt, compared with 4 and 6 percent, respectively, of the Latino and black population.

Additional Aspects of the UI System That May Adversely Affect Workers with Labor Market Disadvantages

Along with the different monetary and non-monetary eligibility rules that may have disparate impacts on disadvantaged workers, the Unemployment Insurance program has two additional characteristics that may affect receipt of benefits. Employers play a role in determining the eligibility of workers, and the system is mainly designed for workers who lose their jobs for no fault of their own.

The employer’s role in the UI system.

Employers play an active role in determining UI eligibility. For a worker to collect UI, his or her employer must certify that the separation occurred through no fault of the worker. But the way the UI system is funded may create incentives for employers to reduce their number of claimants. UI is funded mainly through a tax rate on employers that is determined by the number of claimants in what is referred to as “experience rating”: employers with more separations pay a higher tax. This system is “designed to encourage employers to stabilize employment, equitably allocate the costs of unemployment, and encourage employers to participate in the system by providing eligibility information.” In between the worker and the employer is the state agency, which has to apply complex eligibility rules and decide in favor of or against eligibility.

This system produces a good deal of contentiousness, administrative hearings, and confrontations at which some workers may be better skilled and others may prefer to avoid altogether. It also produces incorrect denials and errors in the adjudication of benefits. In 2011, workers and employers filed 1.8 million appeals in UI offices. A 2010 report from the Benefit Accuracy Measure Program of the Employment and Training Administration reveals that 9 percent of cases denied based on monetary ineligibility and separation issues, and 19 percent of those denied based on non-separation issues, were incorrect. Employers had total or contributory responsibility in 35 percent of incorrect separation denials and in 44 percent of monetary denials. Employers also play a role in overpayments and underpayments of benefits. Employer failure to act in a timely manner or provide appropriate documentation was responsible for 19 percent of the $6.8 billion in overpayments to workers in 2010 and for 39 percent of the underpayments.

The underlying principle of job separation for “no fault of their own.”

The UI program is primarily designed for workers who lose their jobs through no fault of their own. Although there is some room for interpretation, most workers who leave their jobs voluntarily are ineligible to receive UI benefits.

Data from the Survey of Income and Program Participation (SIPP) 2008 Panel for 2010 are used to examine UI receipt by job losers and different categories of job leavers. All UI programs (state and federal) are included in the SIPP. The recipiency rate is defined as the ratio of the number of people who received unemployment insurance at some point during 2010 to the number of people without work and looking for work for at least one week during 2010.

In 2010, the overall recipiency rate was 44 percent (figure 2). It is much higher for job losers, 62 percent of whom received UI benefits. The recipiency rate is 23 percent for part-time job leavers, 4 percent for self-employment, and 0.7 percent for those not classified as job leavers. These differences in state recipiency rates for job leavers reflect the different states’ experience rating systems and the fact that claims in some states are subject to additional administrative actions.

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Table 1. Share of the Population Age 16 and Older in Low— and High—Unemployment Insurance Receipt States, 2010

<table>
<thead>
<tr>
<th>% black</th>
<th>10 LOWEST RECIPIENCY STATES</th>
<th>10 HIGHEST RECIPIENCY STATES</th>
</tr>
</thead>
<tbody>
<tr>
<td>36</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>% Hispanic</td>
<td>36</td>
<td>4</td>
</tr>
<tr>
<td>% nonblack / non-Hispanic</td>
<td>27</td>
<td>12</td>
</tr>
</tbody>
</table>

Source: Author tabulations based on American Community Survey 2010. Recipiency rates are from ETA's number of state monthly claimants and unemployed persons from the basic monthly Current Population Survey 2010.
compensation, than for job leavers, whose receipt rate is 28 percent. Illness, child care problems, or family considerations do not do much to boost the likelihood of receiving UI. Among those who quit their job because of illness, family, or child care reasons, only 26 percent were collecting unemployment benefits. Another category of job leavers to highlight are those whose job ended because it was temporary. Temporary workers may find it difficult to meet UI eligibility requirements related to work and earnings histories; they also may fail to report back to the temporary agency, or the temporary employer may decide that either suitable (and not taken) work is available or that the termination is related to performance. Among those who became unemployed because their temporary job ended, 31 percent received UI in 2010.

Exclusion of a large share of job leavers from UI means that many workers with labor market disadvantages end up not receiving benefits. As shown in figure 3, single mothers make up 8 percent of people who lost their jobs in 2010 but 15 percent of those who lost temporary work or left jobs for health/family reasons. Similarly, young workers are 20 percent of all job losers but 31 percent of people losing temporary jobs or leaving jobs for illness, family reasons, or child care. Black workers are also a larger share of job leavers for family, health, and temporary reasons than of job losers. This pattern reverses in the case of other workers (nonblack, non-Latino, not single mothers, with high school diplomas, age 25 or older, U.S.-born). Consequently, workers in vulnerable groups are less likely to collect UI than other workers when they are unemployed.

**Receipt Rates among Workers with Labor Market Disadvantages**

The difference in UI receipt between unemployed workers with labor market disadvantages and other workers is strikingly large. Here, workers who are not Latino, black, single mothers, high school dropouts, foreign-born,
of limited English language abilities, or young are considered less disadvantaged. Almost 7 in 10 more-advantaged workers collect UI when they are unemployed (figure 4). In contrast, only 1 in 10 unemployed workers age 16 to 24 receive UI. Single mothers and workers with less than a high school education have recipiency rates of 24 percent. Workers who do not speak English well have a recipiency rate of 33 percent. Black, Hispanic, and foreign-born workers have recipiency rates of 35 and 36 percent.

**Looking Forward**

The Unemployment Insurance program leaves behind the most vulnerable unemployed workers. During the last few years, and in the wake of the Great Recession, the federal government has made efforts to provide a stronger safety net for unemployed workers. However, it is challenging to effect such changes because unemployment insurance benefits are largely determined by state rules. Even with federal extensions of benefits through an extended benefit program or emergency unemployment compensation, the fact remains that a worker enters the system at the state level.

The modernization incentive payments could have increased the number of beneficiaries with labor market disadvantages, but not all states requested those funds. Even among those who applied, not all agreed to cover workers looking for part-time work and workers leaving their jobs for compelling family reasons. Many workers in low-recipiency states were left without the expanded provisions of the modernization payments. The states that did not apply for modernization payments or only applied for a third of their share (because they adopted the alternative base period but did not expand coverage for part-time workers and those who left jobs for compelling family reasons), tended to be states with low recipiency rates. For instance, Kentucky, Alabama, Indiana, Arizona, Texas, and Florida did not apply for modernization funds and are among the 10 states with lowest UI recipiency rates. Virginia has the second-lowest recipiency rate and applied for one-third of the payments.

As state unemployment insurance funds continue to face solvency problems and the federal government continues to cover UI recipients, there may be opportunities to promote changes that improve vulnerable workers’ access to the program. For example, the federal government could provide additional incentives for states to modernize their programs. Alternatively, the federal government could provide financial support more directly to vulnerable workers who do not have access to their states’ UI programs.

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**Figure 4. Recipiency Rate of Unemployment Insurance, All and Selected Demographic Groups (percent)**

<table>
<thead>
<tr>
<th>Group</th>
<th>Recipiency Rate (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>44</td>
</tr>
<tr>
<td>Young workers 16 – 24</td>
<td>10</td>
</tr>
<tr>
<td>No high school diploma</td>
<td>24</td>
</tr>
<tr>
<td>Single mother</td>
<td>24</td>
</tr>
<tr>
<td>English not well</td>
<td>33</td>
</tr>
<tr>
<td>Black</td>
<td>35</td>
</tr>
<tr>
<td>Foreign-born</td>
<td>36</td>
</tr>
<tr>
<td>Hispanic</td>
<td>36</td>
</tr>
<tr>
<td>Other workers</td>
<td>69</td>
</tr>
</tbody>
</table>

Source: Tabulations by the author based on 2008 SIPP Panel, 2010 data.
Notes: Recipiency rate refers to the number of persons who received UI during 2010 divided by the number of persons who experienced unemployment during 2010.
Other workers are workers who are not black, Latino, without a high school diploma, young (age 16 to 24), single mothers, foreign-born, or of limited English language abilities.
Notes
1. The research assistance of Thomas Callan and Janice Park is greatly appreciated.
2. See Lindner and Nichols (2011); references in Executive Office of the President (2011); Artazcoz et al. (2004); and Rodríguez, Lasch, and Mead (1997).
3. The terms Latino and Hispanic are used interchangeably in this brief.
6. Ibid.
8. Data on appeals pending (aging) and decided (time lapse) can be found in the Benefits Timeliness and Quality Reports of U.S. Department of Labor, Employment and Training Administration. See http://ows.doleta.gov/unemploy/btq.asp (pending appeals found under “aging,” decided appeals under “time lapse”).
10. This definition differs from an average monthly recipiency rate calculated based on the ratio of the average number of UI claimants in a month to the average number of unemployed persons in that month.

References


About the Author
Maria E. Enchautegui is a senior research associate with the Income and Benefits Policy Center at the Urban Institute.

Unemployment and Recovery Project

This brief is part of the Unemployment and Recovery project, an Urban Institute initiative to assess unemployment’s effect on individuals, families, and communities; gauge government policies’ effectiveness; and recommend policy changes to boost job creation, improve workers’ job prospects, and support out-of-work Americans.

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