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Effects of Welfare Reform on Unemployment Insurance

Wayne Vroman

One goal of welfare reform is to move larger numbers of welfare recipients into work. If the aims of the 1996 federal welfare reform legislation are achieved, by 1998 more than a quarter of the roughly 4 million adults who received Aid to Families with Dependent Children (AFDC) will be active labor market participants, and half are slated to join the workforce by 2002. Many, if not most, will no longer be receiving welfare benefits at that time.[1]

Low education and lack of work skills and experience put current and former welfare recipients at special risk of unemployment. The national unemployment rate for persons 16 and older in the labor force averaged only 4.9 percent in 1997, but former welfare recipients can be expected to have jobless rates that are twice the national average.[2]

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Nonetheless, the anticipated increase in the unemployment pool resulting from welfare reform is modest. Because of low earnings and other factors, only a small fraction of adult welfare recipients who enter the labor market will become eligible for unemployment insurance (UI) benefits under current rules. Moreover, neither federal nor state laws governing eligibility are likely to change in ways that will enhance access to unemployment benefits for unemployed former welfare recipients. Thus, these new workers' impact on the UI system, in terms of added beneficiaries and costs, will be hardly noticeable.

How Unemployment Insurance Works

State UI programs are designed to pay cash benefit payments to individuals who lose jobs through no fault of their own. These payments provide temporary, partial replacement for the loss of labor market earnings occasioned by unemployment. In 1996, the number of active claimants averaged 2.6 million per week or 35 percent of all unemployed persons aged 16 and older. Benefits typically equal 50 to 70 percent of previous after-tax wages for weeks when benefits are received. Average benefit duration ranges between 13 and 16 weeks, with a limit of 26 weeks.

Unemployment insurance programs are administered by the states and exhibit considerable variation. In 1996 the weekly wage of covered workers averaged $548 nationwide, but ranged from more than $700 in three states to less than $400 in two states (table 1). The nationwide ratio of insured unemployment

(active claimants or IU) to total unemployment (TU) among all persons 16 and older averaged 0.351 in 1996. But state-level IU:TU ratios fell below 0.250 in eleven states and exceeded 0.500 in five states. Low IU:TU ratios were more common in the southern and Rocky Mountain states, while high ratios were more characteristic of states in the Northeast and along the Pacific coast.

Interstate diversity in benefit recipiency rates reflects both monetary and nonmonetary UI eligibility requirements. Monetary eligibility criteria vary among states, but typically the claimant must have earnings that exceed specified amounts during an earlier 12-month base period. In nearly all states, the base period is the earliest four of the past five fully completed calendar quarters. To be monetarily eligible, the claimant must have earned more than a specified amount for the full base period and a second (lower) amount for the quarter of highest earnings during the base period.[3]

Small Impacts on the System

Knowing how many unemployed workers in the general population apply for and receive UI benefits helps us understand why former welfare recipients who are unemployed will have only a modest effect on the UI system.

About half of all persons who experience unemployment apply for unemployment benefits. The combined effects of monetary and nonmonetary disqualifications preclude about 30 percent of applicants from receiving benefits. Others who satisfy all eligibility criteria do not actually collect benefits mainly because they return to work quickly following their job separations. In the aggregate, the number of actual recipients ranges from 60 percent to 70 percent of applicants. Between 1990 and 1996, the national recipiency rate averaged 0.34 of all unemployed individuals. Recipiency rates are highest during the early stages of recessions when an increased share of the unemployed are job losers. Within the pool of unemployed persons, UI recipients are disproportionately job losers, disproportionately older, and disproportionately male.

Relative to the current pool of jobless workers, unemployed welfare recipients would be less likely to receive UI benefits for four reasons. First, a measurable share who experience unemployment will find it difficult to satisfy UI's monetary eligibility criteria, which most adversely affect workers paid low hourly wages. Although monetary eligibility requirements are not particularly stringent for full-time workers and those with hourly earnings close to the statewide average,[4] they are more stringent for those who work short weekly hours and/or are paid low hourly wages. Former welfare recipients are not likely to earn the average weekly wage due both to short hours and low wage rates. If a single mother formerly on AFDC in Kentucky makes, say, only $103 working 20 hours a week at the minimum wage ($5.15), she would have to have worked 14.6 weeks to qualify for UI, in contrast to the 3.1 weeks for the worker receiving the average weekly wage (table 1).

Second, the definition of the base period for determining earnings eligibility is also likely to reduce this population's access to unemployment benefits. Most states do not recognize recent earnings—from the quarter when the UI claim is filed and from the full preceding calendar quarter—in determining monetary eligibility. This often makes it difficult for low-wage workers who are paid on an hourly basis and who work intermittently—both categories that apply to former AFDC recipients—to meet the earnings required for UI eligibility.[5]

The third factor inhibiting former welfare recipients' receipt of UI benefits is related to the reasons for leaving work. Quits and discharges for misconduct typically disqualify applicants for unemployment benefits. The disqualification penalty usually lasts for the entire spell of unemployment, plus a short time interval at the subsequent job while the person "requalifies."[6] The majority of former AFDC recipients are single mothers who have family responsibilities that are likely to cause above-average rates of separation from work for reasons that will be deemed disqualifying. Fewer than half of states recognize personal reasons for leaving employment such as to take care of illness in the family, nor do they allow benefit payments when the person later seeks reemployment. In short, disqualifying job separations will probably occur more frequently among former welfare recipients than among the overall unemployed population.

Finally, all states require that the UI applicant be able to work and be available for work. Since availability in most states is interpreted to mean availability for full-time work, this would cause many eligibility disqualifications among former welfare recipients. Other reasons for disqualifications could include failure to provide evidence of active work search and failure to report for required periodic reassessments of continuing eligibility.

Low Added Costs

Due to the inability to satisfy monetary or other UI eligibility criteria, no more than 20 percent of former welfare recipients who experience unemployment would be expected to be eligible for unemployment benefits. Moreover, the per case cost for these eligibles is likely to be 40 to 50 percent lower than the costs for current UI recipients. Below-average base period earnings would limit former welfare recipients' weekly benefits and weeks of potential benefit duration.[7]

Assuming that welfare reform added 1 million persons to the labor force in 1998 and that former welfare recipients had an unemployment rate of 10 percent, the total number of unemployed individuals nationwide would increase by 100,000.[8] If 20 percent of former welfare recipients receive UI benefits and have a per case cost that is half the national average, the number of UI beneficiaries would increase by about 20,000 in 1998 and costs by about $100 million (in 1996 dollars). This would represent a 0.8 percent increase over the current UI caseload and a 0.5 percent addition to total benefit costs. In the year 2002 both percentages would be doubled, assuming that, by then, 50 percent of former AFDC recipients had joined the labor force and that the unemployment rate for adult welfare recipients was about 10 percent, or twice the national average. These added costs are modest, and would be

Table 1
Selected Data on State Unemployment Insurance Programs by State

State	Average Weekly Wage 1996	Ratio of UI Claimants to Unemployment 1996	Base Period Earnings 1997[a]	Base Period Earnings Requirement Expressed as Weeks of Work: State Avg. Weekly 1997	Base Period Earnings Requirement Expressed as Weeks of Work: 40 Hours at Min. Wage 1997	Base Period Earnings Requirement Expressed as Weeks of Work: 20 Hours at Min. Wage 1997
Alabama	471	0.314	1032	2.1	5.0	10.0
Alaska	587	0.532	1000	1.6	4.9	9.7
Arizona	499	0.204	1500	2.9	7.3	14.6
Arkansas	418	0.444	1323	3.0	6.4	12.8
California	601	0.393	1125	1.8	5.5	10.9
Colorado	541	0.253	1000	1.8	4.9	9.7
Connecticut	707	0.417	600	0.8	2.9	5.8
Delaware	594	0.403	720	1.2	3.5	7.0
District of Columbia	773	0.344	1950	2.4	9.5	18.9
Florida	481	0.248	3400	6.8	16.5	33.0
Georgia	530	0.226	1350	2.4	6.6	13.1
Hawaii	501	0.395	130	0.2	0.6	1.3
Idaho	441	0.435	1430	3.1	6.9	13.9
Illinois	602	0.402	1600	2.6	7.8	15.5
Indiana	510	0.270	2750	5.2	13.3	26.7
Iowa	448	0.354	1190	2.6	5.8	11.6
Kansas	464	0.263	2010	4.2	9.8	19.5
Kentucky	464	0.286	1500	3.1	7.3	14.6
Louisiana	475	0.199	1200	2.4	5.8	11.7
Maine	444	0.434	2620	5.7	12.7	25.4
Maryland	557	0.321	900	1.6	4.4	8.7
Massachusetts	656	0.511	2000	2.9	9.7	19.4
Michigan	608	0.423	2010	3.2	9.8	19.5
Minnesota	549	0.347	1250	2.2	6.1	12.1
Mississippi	409	0.305	1200	2.8	5.8	11.7
Missouri	509	0.338	1500	2.8	7.3	14.6
Montana	390	0.416	1398	3.4	6.8	13.6
Nebraska	438	0.288	1200	2.6	5.8	11.7
Nevada	518	0.359	400	0.7	1.9	3.9
New Hampshire	535	0.209	2800	5.0	13.6	27.2
New Jersey	684	0.433	2020	2.8	9.8	19.6
New Mexico	433	0.182	1421	3.2	6.9	13.8
New York	723	0.389	1600	2.1	7.8	15.5
North Carolina	482	0.327	2791	5.6	13.6	27.1
North Dakota	401	0.368	2795	6.7	13.6	27.1
Ohio	531	0.303	2860	5.2	13.9	27.8
Oklahoma	437	0.225	1500	3.3	7.3	14.6
Oregon	511	0.451	1000	1.9	4.9	9.7
Pennsylvania	547	0.535	1320	2.3	6.4	12.8
Rhode Island	496	0.725	1900	3.7	9.2	18.4
South Carolina	454	0.268	900	1.9	4.4	8.7
South Dakota	382	0.207	1288	3.2	6.3	12.5
Tennessee	493	0.334	1560	3.0	7.6	15.1
Texas	547	0.222	1628	2.9	7.9	15.8
Utah	461	0.243	1900	4.0	9.2	18.4
Vermont	459	0.488	1723	3.6	8.4	16.7
Virginia	525	0.187	3250	6.0	15.8	31.6
Washington	543	0.449	3502	6.2	17.0	34.0
West Virginia	449	0.317	2200	4.7	10.7	21.4
Wisconsin	491	0.552	1696	3.3	8.2	16.5
Wyoming	430	0.321	1750	3.9	8.5	17.0

Source: U.S. Department of Labor, Unemployment Insurance Service, and the Urban Institute. State average weekly wages in 1997 assumed to be 4 percent higher than in 1996.
a. Earnings in the 12-month base period (typically the earliest four of the past five completed calendar quarters) required for monetary eligibility.

even lower if the McMurrer, Sawhill, and Lerman (1997) estimates of added labor force growth are correct.

Laws Unlikely to Expand Eligibility

Existing factors that limit low-paid, hourly workers' access to UI are set by laws that are unlikely to relax in the current economic and political climate. The states determine most legislation governing UI benefits and taxes but must satisfy federal requirements pertaining to timely eligibility determinations, a minimum UI tax base per covered worker, and a maximum employer tax rate. Faced with prospective new UI claimants due to welfare reform, one might expect state-level legislation to ease the transition into the labor market for AFDC recipients. But UI legislation to assist such persons has not emerged in 1997–1998, nor is it on the horizon. Moreover, current state and federal laws that severely curtail the number of low-wage workers (and thus former welfare recipients) eligible to receive unemployment are not likely to change soon in ways that will broaden this population's access to UI benefits.

This seems to be the case despite suggestions at the national level to liberalize eligibility criteria. Among its 1996 recommendations, the Advisory Council on Unemployment Compensation (ACUC)—appointed by Congress and the president to suggest ways to improve the UI system—stipulated methods of increasing access to benefits.[9] The recommended changes, if implemented, would be favorable to low-wage workers, including former welfare recipients. Among the ACUC suggestions: base UI eligibility on hours of work rather than total earnings; offer an alternative base period that would include some or all recent earnings; and allow those seeking part-time work to be eligible for UI if they previously worked part-time. It is unlikely, however, that more than a few states will voluntarily adopt many of the ACUC recommendations relating to expanded benefit access—because of possible increases in UI taxes that could follow.

Most states appear motivated to operate UI programs at their current level or at a reduced scale, not to expand eligibility. The trend among state legislatures is to lower taxes to favorably affect the business climate and to tighten UI administration to ensure that eligibility provisions are clearly defined and strictly enforced. States' desire to hold down unemployment insurance costs was reflected in their response to the most important federal UI legislation of the 1990s—the Emergency Unemployment Compensation (EUC) Act of 1991. Under this legislation, states were given the option of establishing an alternative mechanism for triggering federal-state Extended Benefits (EB), which are financed on a 50-50 basis by the states and the federal government. Only seven states elected to implement the alternative trigger, even though it was generally recognized as more likely to activate EB than the preexisting trigger.

The EUC program also provided federally funded emergency UI benefits to state-identified long-term unemployed persons who exhausted regular UI benefits. All states, to one extent or another, gamed the EUC program by making it easier for claimants eligible for benefits from the state-financed regular UI program to secure "alternative" EUC benefits. Workers with remaining EUC eligibility were given a choice between state-financed regular UI and federally financed EUC benefits. Of the two, EUC typically provided for higher weekly payments. A worker electing to receive EUC payments retained full eligibility for regular UI benefits after EUC eligibility was exhausted. Not surprisingly, when presented with the option, most claimants elected EUC. Both responses to EUC were largely motivated by state desires to economize on state-financed costs of UI benefits.

Legislative changes at the state level underscore states' reluctance to expand UI eligibility or to increase employer UI taxes. Between 1992 and 1997, 14 states added provisions to disqualify from eligibility persons discharged from employment for refusing to take a drug test. During the same period, 13 states enacted provisions that disqualify employees of temporary help agencies whose temporary assignments ended but who did not report back to their agency prior to filing for benefits. Thus, while some individual states may modify eligibility provisions to enhance the eligibility of low-wage workers for UI benefits, this practice seems unlikely to be widespread.

In addition, over the last few years states such as Kansas and North Carolina, which traditionally have maintained large UI trust fund balances, have enacted major UI tax reductions. (In 1997 alone, 16 states enacted UI tax reductions.) The consequences of these reductions are not immediately apparent because the economy is operating close to full employment. These UI tax cuts are slowing the pace of trust fund accumulations that typically occur during periods of economic expansion.[10] At the end of 1997, reserves as a percentage of covered wages had only been restored to about 80 percent of their levels at the end of 1989, just prior to the last recession. It is clear that state UI programs will enter the next recession with fewer reserves than at the start of the last recession in 1990. This overall financing situation may also militate against UI eligibility expansions that could benefit welfare recipients moving into the workforce.

Looking Forward

Under a 1998 congressional proposal, added monies for the administrative costs of implementing UI would be made available to states that enact an alternative base period. Given congressional action during 1997 on the so-called Pennington case, however, it seems unlikely that the proposal will be enacted.[11] In the near term, it is not likely that we will see widespread adoption among the states of an alternative base period that would increase access to UI benefits among unemployed low-wage workers.

If instituted by states, an alternative base period would have direct implications for welfare reform. Adult welfare recipients who work are disproportionately low-wage workers who would benefit from easier monetary eligibility requirements. However, an unemployed welfare recipient must also satisfy nonmonetary eligibility criteria. Quits and discharges will still disqualify individuals from UI eligibility in most cases, and many

states require that UI claimants be available for full-time employment. Thus, it is not obvious that the receipt of benefits by unemployed former AFDC recipients—most of whom are mothers and many of whom desire part-time jobs—would be significantly enhanced by the alternative base period.[12] Nonetheless, the adoption of an alternative base period would extend eligibility to more low-wage workers than at present.

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Former welfare recipients will increasingly enter the labor market, possibly swelling the total labor force by an additional 2 million persons by 2002. These individuals will have below-average skills and will experience above-average unemployment. During their spells of unemployment, a low fraction, perhaps one in five, will collect UI benefits. This low rate of recipiency will be attributable to low levels of earnings and failure to meet other UI eligibility criteria related to the circumstances of leaving work and to availability for work.

Unemployment insurance programs in the states will hardly notice the presence of these added adults in the labor force. Nor is it likely that UI programs will evolve in ways to enhance the eligibility of these persons. UI will play a very limited support role for former welfare recipients—a fact that will have particularly serious consequences for those who reach the lifetime limit for receipt of TANF benefits.

Notes

1. AFDC was eliminated by the 1996 Personal Responsibility and Work Opportunity Reconciliation Act. When referring to welfare benefits in 1997 and beyond, we mean assistance provided by AFDC's successor program—Temporary Assistance for Needy Families (TANF).

The initial work requirement in 1997 for most welfare families was 20 or more hours per week. The number of weekly hours is higher in later years, except for families headed by a single woman with a child under age six. Welfare recipients face time limits on the potential duration of payments. These limits are likely to increase labor market activity among welfare recipients.

2. Assumptions made about the future work patterns of former welfare recipients are based on studies of the employment patterns of low-wage workers and women who received welfare in the past. See Gustafson and Levine (1997), Kaye (1997), and Vroman (1995).

3. The dollar thresholds for base period earnings and high quarter earnings vary considerably. Also, there may be requirements that specify minimum weeks of employment, minimum hours worked, or other patterns for earnings beyond the base period and the high quarter. About one-third of UI programs have one of these additional monetary eligibility requirements.

4. Table 1 expresses states' base period earnings requirements in terms of base period weeks of employment needed for eligibility. The base period earnings requirements are generally low, with only nine states requiring amounts above $2,500. Since former welfare recipients would be expected to earn below-average weekly amounts, the table also shows weeks of employment needed to satisfy base period earnings for those paid the federal minimum wage of $5.15 per hour. For persons working a 40-hour week at the minimum wage, the base period requirement exceeds 13 weeks in just eight states. For persons working 20-hour weeks at minimum wage, it exceeds 13 weeks in 32 states. Even for those working 20 hours at the minimum wage, however, in only eight states would the base period requirement translate into more than 26 weeks of employment. In general, monetary eligibility criteria alone, though varied, are not that difficult to satisfy.

5. Gustafson and Levine (1997), for example, found that roughly half of former welfare recipients in the National Longitudinal Survey of Youth would satisfy simulated UI monetary eligibility in data spanning from 1979 to 1994. Kaye (1997) found the monetary eligibility proportion to be even lower, roughly one-third of former welfare recipients.

6. Requalification periods effectively preclude eligibility during an initial interval at the subsequent job, even if the person is laid off from that job.

7. UI benefit formulas in most states operate to limit potential benefit duration for low-wage workers to fewer than 26 weeks—often fewer than 20 weeks.

8. Estimates of annual additions to the labor force caused by welfare reform made by McMurrer, Sawhill, and Lerman (1997) are considerably lower, about 140,000 per year. Their estimates imply an increased labor force of about 300,000 in 1998 and somewhat less than 1,000,000 in 2002 due to welfare reform.

9. See Advisory Council on Unemployment Compensation, 1996, *Collected Findings and Recommendations, 1994–1996*, Washington, D.C. The council suggested 52 changes in the unemployment insurance system.

10. For the six years 1984 through 1989, aggregate trust fund reserves in state accounts increased by an average of $7 billion a year. For the five years 1993 through 1997, the increase in these accounts averaged $3.5 billion per year.

11. A court case in Illinois decided in favor of Lovella Pennington, a UI applicant ineligible under the Illinois base period who would have been eligible if the state had offered an alternative base period that recognized more recent earnings. Congress then overrode this decision in the U.S. Department of Labor's appropriation bill for the current fiscal year, by stipulating that only states could set the base period used to determine monetary eligibility.

12. Simulations by Gustafson and Levine (1997) suggest that monetary eligibility would be raised by 6.5 percent under an alternative base period. This estimate closely matches estimates made by Vroman (1995). However, nonmonetary disqualifications still would prevent many of these persons from receiving UI benefits. Gustafson and Levine estimate that 10 percent or fewer of applicants previously ineligible for UI benefits would collect benefits under the alternative base period.

Related Reading

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