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# CHAPTER 12

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## Intersection of Unemployment Insurance with Other Programs and Policies

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A primary objective of the unemployment insurance (UI) system is to insure experienced workers against the risk of unemployment by providing limited replacement of lost wages to those who become unemployed through no fault of their own. Earlier chapters have addressed the question of whether the UI system achieves this objective adequately, and these chapters have identified some deficiencies in the degree to which UI provides income support to the unemployed. Chapter 2, which focuses on the coverage of jobs and the unemployed, points to the recent decrease in the proportion of the unemployed receiving UI, despite increased coverage of jobs, as evidence of a decline in the insurance value of the system. The chapter also points out that low-wage workers are least likely to qualify for UI despite the fact that they work in jobs that are included in the system. Chapter 5, which looks at the adequacy of the weekly benefit amount, concludes that, while weekly benefits satisfy the short-term needs of most claimants, benefit levels may be less adequate for low-wage workers and those with dependents. Finally, chapter 6, which examines the duration of benefits, concludes that short spells of unemployment may be over-compensated and that an optimal system would have longer benefit durations.

These conclusions about the adequacy of the income support provided by the UI system are reexamined in this chapter in light of the

fact that this system, while the primary source of income support for unemployed workers, is not their only source. UI is one piece of a larger public and private social insurance and welfare system that also provides some income support to unemployed workers. For example, jobless individuals may, depending on their age, disability status, or family income, receive income from public programs, such as social security, workers' compensation, and the welfare system. Similarly, they may receive termination pay from their employers or other types of payments from private sources as a result of their job loss.

More specifically, this chapter analyzes whether the gaps in UI coverage identified in earlier chapters are addressed by other social insurance and welfare programs. That is, does the existing social insurance and welfare system as a whole provide adequate income support to unemployed workers, or are there gaps in coverage that the UI system or other programs should address? In particular, are the gaps in coverage of long-term unemployed and low-wage unemployed workers addressed by other programs? This question raises the issue of whether there is adequate coordination between UI and other public and private social insurance and welfare programs. Are there, in fact, extensive overlaps in recipient populations among income support programs? Should UI benefits or benefits from other programs be adjusted to consider such overlaps or other sources of income support?

UI's focus on income support also gives rise to questions about whether reemployment services for UI claimants should receive more emphasis. Historically, the UI system has relied on the labor exchange function of the Employment Service (ES) to help claimants become reemployed. Evidence that increasing numbers of claimants suffer permanent job separations and long spells of unemployment, however, suggests that it might be useful to provide more reemployment services, particularly to dislocated workers. Furthermore, findings from recent demonstrations suggest that providing reemployment services or other assistance to these claimants can lead to more rapid reemployment, and the UI system has moved in this direction. The Unemployment Compensation Amendments of 1993 require state UI programs to profile claimants as they enter the system, to identify dislocated workers and refer them to reemployment services. States have recently completed implementing programs to support this requirement.

Two other relatively recent changes in the UI system that restructure benefits or provide additional services to claimants are also designed to promote their employment. First, beginning in 1978, a number of states introduced short-time compensation schemes that restructure the UI benefit calculation to permit payment of UI to groups of workers for partial weeks of unemployment. The idea is to encourage firms to respond to business fluctuations by shortening the work week for a larger group of workers than would otherwise have been laid off, thus promoting the continued employment of workers. Second, based on the results of two demonstrations, states are now permitted to provide UI claimants with self-employment allowances and services as a way of promoting self-employment as a reemployment option.

This chapter addresses these issues. It reviews the way in which the UI system intersects with other income support programs, to identify gaps in the social safety net and to examine how these programs are coordinated. It then discusses recent changes in the UI system to promote reemployment services to claimants and the rationale behind these changes. Finally, it reviews two recent initiatives—short-time compensation and self-employment assistance—that also attempt to promote claimant employment.

## **Unemployment Insurance and Income Support Programs**

### *Benefit Trends*

Social insurance and public assistance programs have grown tremendously in the last forty years. As shown in table 12.1, social insurance programs—that is, programs designed to maintain incomes for individuals who can no longer work because they are elderly, disabled, or unemployed—grew fivefold between 1950 and 1990 as a percentage of GDP (from 1.85 percent to over 9 percent). Public programs that provide assistance to low-income individuals and families also grew during this period although not by as large an amount. In 1950, expenditures for these programs equaled .94 percent of GDP, and, in 1990, they equaled 2.67 percent.

**Table 12.1 Social Welfare Expenditures, Selected Fiscal Years 1950-1990 (\$ millions)**

	Fiscal year						
	1950	1960	1970	1975	1980	1985	1990
<b>Social insurance<sup>a</sup></b>	\$4,946	\$19,307	\$54,691	\$123,013	\$229,754	\$369,595	\$510,616
OASDI	784	11,032	29,686	63,649	117,119	186,151	245,556
Medicare	0	0	7,149	14,781	34,992	71,384	106,806
UI/ES <sup>b</sup>	2,310	3,045	3,858	13,878	18,482	18,482	20,036
Disability/workers' compensation	697	1,656	3,669	7,469	14,835	24,207	41,583
Cash benefits	502	1,196	2,621	4,926	10,960	17,072	26,191
Medical benefits	195	460	1,048	2,543	3,875	7,135	14,392
<b>Public aid<sup>c</sup></b>	2,496	4,101	16,488	41,447	72,703	98,356	145,642
Cash and in-kind benefits	2,445	3,608	11,275	27,896	45,133	54,497	70,275
Medical benefits	51	493	5,213	13,551	27,570	43,860	75,367
<b>As percentage of GDP</b>							
<b>Social insurance</b>	1.85	3.81	5.55	8.14	8.69	9.31	9.35
OASDI	0.29	2.18	3.01	4.21	4.43	4.69	4.50
Medicare	0.00	0.00	0.73	0.98	1.32	1.80	1.96
UI/ES	0.87	0.60	0.39	0.92	0.70	0.47	0.37
Disability/workers' compensation	0.26	0.33	0.38	0.50	0.56	0.61	0.74
Cash benefits	0.19	0.24	0.27	0.33	0.41	0.43	0.48
Medical benefits	0.07	0.09	0.11	0.17	0.15	0.18	0.26

<b>Public aid</b>	0.94	0.81	1.67	2.74	2.75	2.48	2.67
Cash and in-kind benefits	0.92	0.71	1.14	1.85	1.71	1.37	1.29
Medical benefits	0.02	0.10	0.53	0.90	1.04	1.11	1.38

SOURCE: Bixby (1993, pp 70-76).

NOTE: Numbers include expenditures from federal, state, and local revenues and trust funds under public law and include capital outlays and administrative expenditures.

a. Includes railroad and public employee retirement funds in addition to the listed programs.

b. Includes unemployment compensation under state programs, programs for federal employees, and railroad unemployment insurance, trade adjustment assistance, payments under extended, emergency, disaster, and special unemployment insurance programs, and employment services.

c. Includes cash payments and medical assistance under the Aid to Families with Dependent Children, Medicaid, emergency assistance, Supplemental Security Income, Food Stamps, WIC, and General Assistance programs. Also includes social services, work relief, work-incentive and work experience activities, surplus food, repatriate and refugee assistance, and low-income home energy assistance.

This overall growth in social insurance and public assistance expenditures has, however, not been uniform among programs or over time. For example, programs that provide medical benefits grew the fastest, while the growth in public assistance expenditures for nonmedical benefits leveled off in the last fifteen years. Most important for our purposes, expenditures for unemployment insurance and employment services did not grow over this period as a percentage of GDP. The data in table 12.1 suggest, in fact, that there has been a decline in expenditures relative to GDP in recent years, but comparisons among individual years can be misleading since UI benefits fluctuate widely with the unemployment rate. To address this analytic problem, UI benefits as a percentage of GDP were regressed on the unemployment rate and a time variable for the 1950-1993 period to control for the state of the economy. The results of this regression suggest that there has been a small but statistically significant long-run decline in UI benefits as a percentage of GDP, of about .077 percent every ten years.

Workers who become unemployed or who are otherwise unable to work may receive private as well as public support, with most private assistance provided through employee benefit plans. Data on the prevalence of these plans for medium and large private firms (table 12.2) suggest that many workers in these firms participate in income continuation, retirement, or disability plans.<sup>1</sup> For example, in 1993, 42 percent of workers had severance pay provisions, 78 percent participated in retirement income plans, 87 percent had short-term disability protection via sick pay or sickness and accident insurance, and 41 percent had long-term disability insurance. Based on the data in table 12.2, participation in these plans appears to have declined slightly in the past ten years, although some of this measured decrease may have been due to changes in the sample frame used for the survey.

Overall, these data suggest that workers who become unemployed currently are likely to receive slightly less in terms of UI benefits than they would have twenty or more years ago and that any gaps in UI coverage of unemployed workers are likely to have grown rather than to have been closed. However, the growth in other social insurance and to a lesser extent in public assistance programs could potentially fill these gaps or overlap with UI if unemployed workers qualify for these benefits. Similarly, data on employee benefits show that substantial numbers of workers in private employment participate in income

continuation, retirement, and disability plans. These plans could also provide benefits to UI claimants or other unemployed workers.

**Table 12.2 Selected Employee Benefits, Medium and Large Private Firms, Percentage of Full-Time Employees Participating**

	1983	1988	1993
Income continuation plans			
Severance pay	50	42	42
Supplemental unemployment benefits	NA	6	4
Retirement income plans	82	80	78
Disability benefits			
Short-term protection	94	89	87
Paid sick leave	68	69	65
Sickness and accident insurance	49	46	44
Long-term disability insurance	45	42	41
Medical insurance	96	90	82

SOURCE U.S. Department of Labor, "Employee Benefits in Medium and Large Firms," Bulletin 2213 (August 1984); Bulletin 2336 (August 1989), Bulletin 2456 (November 1994)

NOTE: Comparisons between years may be misleading because of major changes in the sample frame used for the survey

NA = not available.

### *Supplemental Unemployment Benefits and Termination Pay*

Some workers who lose their jobs receive income support while unemployed through Supplemental Unemployment Benefit (SUB) plans. These plans provide a supplemental weekly payment to laid-off workers that, in conjunction with the UI weekly benefit, equals a specified percentage of the pre-layoff weekly wage. The plans are supported through employer-financed trust funds that have been established in some labor-management contracts, particularly in the automobile, steel, and rubber industries. All states except New Mexico, Puerto Rico, South Carolina, and South Dakota have ruled that these payments do not affect UI benefit payments.<sup>2</sup>

Workers who lose their jobs may also receive various kinds of severance or termination payments from their employers. Generally, these termination payments fall into two categories: (1) wages in lieu of notice; and (2) severance payments, which are generally based on years of service. As of 1994, thirty-three states counted wages in lieu



of notice as disqualifying income for UI purposes. In twelve of these states, claimants receiving wages in lieu of notice were disqualified from UI for the weeks in which they received payments. In the remaining twenty-one states, the UI benefit was reduced by the amount of the wage payment. Since weekly wages will in most cases exceed the UI weekly benefit amount, few claimants would receive payments under the latter provision. Twenty-two states had the same disqualifying income provisions for all types of severance payments.

The availability of severance pay and SUB payments to some workers will not, however, fill gaps in UI coverage for the long-term unemployed or for low-wage workers. While a significant fraction of UI claimants may receive severance pay (in 1993, 42 percent of full-time employees in medium and large firms were eligible for severance pay), these payments generally amount to a limited number of weeks of wages, and they are primarily available to individuals with higher wages, generally professional and technical workers. While SUB payments are more available to production than to professional and technical workers, they are primarily available to relatively high-wage production workers (union workers in manufacturing). Moreover, only a few UI claimants are likely to receive SUB payments (in 1993, only 4 percent of employees in medium and large firms were eligible for SUB if they were laid off).<sup>3</sup>

Additionally, the treatment by some states of wages in lieu of notice and severance payments as disqualifying income for UI seems inconsistent. There does not appear to be a rationale to handle income from these sources any differently than income from other private sources, such as SUB or prior savings, which provide support to individuals who have lost their jobs. Instead, just as in these other cases, the UI work test could be used to determine if individuals who are receiving wages in lieu of notice or severance payments are looking for work and hence are eligible for UI.

### *Pensions and Social Security Retirement Income*

Some workers who are laid off from a job may already be receiving social security old age assistance or a private or government pension, or they become eligible for and begin receiving retirement income from these sources. If these workers are interested in finding a new job

and they have sufficient prior earnings, they are also potentially eligible for UI. The question then arises as to whether or not UI should be paid. One could argue that receipt of social security or other retirement income should be viewed as evidence that the individual is not in the labor force and hence is not eligible for UI, even though he or she expresses a desire to become reemployed. Under this argument, no UI benefits would be paid to claimants who receive retirement income. Alternatively, one could contend that social security old age assistance and UI are part of a unified public social insurance system and that individuals should not receive duplicate benefits from this system. Under this argument, the UI benefit would be reduced by the amount of the social security benefit (or vice versa), so that the individual would receive only the maximum amount available from either system. A similar rationale could apply to private or other government pensions. In this case, one could argue that employer contributions to retirement funds and the UI Trust Fund are part of a unified insurance system and that the payment of duplicate benefits is inappropriate. Finally, one could maintain that there is no connection between receipt of retirement income and UI. An individual who is looking for work and meets UI work test requirements should be eligible for UI.

Currently, UI policy regarding retirement income is generally consistent with the second of these three approaches. Under a federal law that went into effect in 1980, benefits from social security and Railroad Retirement benefits are to be deducted dollar for dollar from the UI benefit amount, as are private or other government pension payments if they are made under plans contributed to by a base-period employer. However, states can reduce UI benefits at less than a dollar-for-dollar rate to account for employee contributions to social security, Railroad Retirement, or a pension. States can also disregard pensions if base period employment did not affect eligibility for or the amount of the pension, but this provision does not apply to social security or Railroad Retirement. As of 1994, fifty states deducted pension payments for base-period employers only, while three states deducted all pension payments. The majority of states (thirty-eight), however, adjust the deduction for social security, Railroad Retirement, and pension income for employee contributions; fewer states (twenty-four) exclude pensions not affected by base-period work.

Before the passage of the federal requirement, states could treat pension and social security income as they wished. During the 1960s and 1970s, many states deducted pension income for base-period employers from the UI benefit, but many fewer deducted social security. For example, in 1973, thirty-five states deducted pension income, and twelve deducted social security. Early in the history of the UI program, however, the majority of states denied UI to individuals receiving social security. These changes over time in the treatment of pension income, particularly social security, reflect some ambivalence about whether individuals receiving social security can be considered to be attached to the labor market and a concern that the UI work test cannot be applied well enough to make this determination.

The federal requirement to deduct pension income has affected the composition of the UI claimant population and the likelihood that individuals are receiving both UI and social security, Railroad Retirement, or pension income. In 1988, about 1.5 percent of the UI population was age 65 or over (Corson and Dynarski 1990), while in 1978, before passage of the requirement, 4.4 percent of claimants were age 65 or over (U.S. Department of Labor 1979). The data for 1988 also show that 6.2 percent of UI recipients received payments from social security or Railroad Retirement, and that 5.7 percent received other pension income (9.4 percent received income from one or both of these sources). Data for the general UI population are unavailable for the 1970s, but data for claimants who received extended UI benefits under the Federal Supplemental Benefits (FSB) program in the mid-1970s show that the rate of social security or pension benefit receipt was very high among this population. Among FSB recipients, 18.2 percent received funds from social security or Railroad Retirement and 10.8 percent received pensions (Corson et al. 1977). Since a higher proportion of FSB recipients were age 65 or older than was true for regular UI recipients, these reciprocity rates for social security and pensions should be viewed as upper bounds for the rates for the general UI population. Nevertheless, it appears that there has been a decline in the rate of receipt of retirement income among UI claimants.

In summary, the availability of income from social security, Railroad Retirement, or pensions provides a source of long-term support to some UI recipients. Since relatively few UI recipients receive income

from these sources, however, they do not, in general, fill any gaps in UI coverage of the long-term unemployed.

### *Workers' Compensation and Disability Insurance*

Workers in the United States are insured through workers' compensation and, in some cases, through disability insurance against the risk of job loss resulting from injury or illness. Specifically, separate workers' compensation programs in each state and for federal employees provide income maintenance payments and medical and hospital care to workers with job-related disabilities. The income maintenance payments, like UI, offer partial replacement of lost wages, but the replacement rate is generally higher than for UI benefits. Payments can also be made to the dependents of deceased workers whose deaths result from job-related accidents or occupational diseases. The majority of workers' compensation claims involve a temporary total disability—that is, the claimant cannot work while recovering from an injury but is expected to recover. A small number of claims (less than 1 percent) become permanent total disabilities, but most of the rest are for partial disabilities. In most cases, benefit payments continue for the duration of the disability. As of 1991, about 87 percent of wage and salary workers were covered by workers' compensation (Nelson 1993). Workers' compensation payments, particularly medical payments, have grown rapidly in the past ten to fifteen years.

Those who can no longer work because of an injury or illness that is not job-related are often provided financial assistance, in the short run, by temporary disability programs and, in the long run, by the Social Security Disability Insurance program.<sup>4</sup> Temporary disability programs, which are the relevant ones for the UI system, are mandated in five states—California, Hawaii, New Jersey, New York, and Rhode Island—and in Puerto Rico. Most workers in these states are covered by Temporary Disability Insurance (TDI) plans that are administered directly by the state or by private insurance carriers. TDI eligibility requirements and benefit payments are similar, although not always identical, to UI eligibility requirements and benefit payments. In states in which TDI programs are not mandated, many employers provide temporary disability coverage through private programs or through sick leave provisions. In 1993, most full-time workers (87 percent) in

medium and large establishments were covered by TDI plans and/or paid sick leave, although only about half of these workers had sickness and accident insurance plans (see table 12.2). Coverage for state and local employees is similar, although paid sick leave is relatively more important as a benefit for this group.

Those who are out of work because of an injury or illness, whether temporary or permanent, that results in total disability are not likely to be eligible for UI because they will not be “able and available to work,” as UI eligibility rules require in most instances. When the disability is partial, however, the individual may be able to work in some type of job and could qualify for both UI and workers’ compensation.

Conceptually, one might argue that UI and workers’ compensation, and potentially TDI, should operate in concert to replace lost income for a worker who loses a job involuntarily. If an individual qualifies for both UI and workers’ compensation or TDI, it makes sense to offset the benefits from one program with the benefits from the other. An alternative view is that an individual who receives disability benefits to compensate for the loss of one job, but qualifies for UI because he or she is able and available to work at some other job, should be paid UI benefits. According to this view, anyone who is involuntarily unemployed and seeking work is entitled to UI if he or she has had sufficient base-period earnings to qualify for benefits.

In practice, state UI programs reflect a mix of these views. Twenty-eight states have no explicit offset requirements for workers’ compensation and presumably permit payment of UI to a worker who meets the able and available requirements. The remaining twenty-five states have provisions to offset UI benefits if an individual is eligible for workers’ compensation. In seventeen of these states, UI benefits are reduced by the amount of the Workers’ Compensation benefit; in the other seven, no UI is paid at all. This latter approach seems to carry the concept of benefit coordination to an inappropriate extreme. The policy may have no practical consequences, however, because the replacement rates for the weekly benefit and the maximum benefit under workers’ compensation exceed those under UI.

The six existing TDI programs appear to be well coordinated with UI, since TDI benefits are paid when an individual is unable to work and hence not eligible for UI.<sup>5</sup> In these programs, TDI benefits are paid when an individual becomes ill or injured, both while employed and

while unemployed. Ten additional states have provisions that permit continued payment of UI to claimants who become ill or injured while collecting UI. These provisions appear to be a way of covering such workers in states that do not have mandated TDI programs. This coverage is unavailable in other states, however. In these states, a UI claimant who becomes ill or injured is not eligible for UI while he or she is unable to work.

As the discussion here suggests, the number of UI claimants who also receive workers' compensation or disability benefits is quite small. Although no recent statistics are available, data from the mid-1970s collected for a study of extended UI benefit recipients showed that only about 1 percent of this population collected workers' compensation (Corson et al. 1977). Given the growth in workers' compensation in recent years, this number is likely to have grown, but it is probably still the case that there is very little overlap between workers' compensation, disability, and UI.

### *Health Insurance*

The UI system provides income support to workers, but it does not provide for the continuation of any fringe benefits, including health insurance. Hence, coordination of UI benefits with health insurance coverage is not an issue. Instead, the likelihood that UI recipients are covered by health insurance and whether coverage should be made available to this population become important.

Although direct evidence on the degree of health insurance coverage for the UI population is not available, we can examine various ways in which claimants could be covered. Specifically, workers who lose their jobs could be covered by employer-provided health insurance that continues for some period after layoff. They could also be covered through insurance provided by another family member or by a public program such as Medicare or Medicaid, and they could purchase coverage on their own.

Health insurance coverage from a pre-UI job will probably continue after layoff, but the duration is likely to be short. Information on group health plans collected for the National Commission on Unemployment Compensation and published in 1980 indicates that, at the time, about 80 percent of unemployed workers covered by these plans could retain

coverage for a time, but the average period was only a month (Malhotra and Wills 1980). Very few health insurance plans extend coverage for four or more months after a job loss. This pattern suggests that few long-term UI recipients are likely to have this type of health insurance coverage.

UI recipients can also obtain health insurance coverage through other family members or through public programs, such as medicare or medicaid. Data on the characteristics of recipients, however, suggest that these sources do not provide coverage for most claimants (Corson and Dynarski 1990). About 40 percent of claimants have working spouses, who might have health insurance coverage through their jobs, but not all spouses have coverage nor would all spouses have elected family coverage. In addition, few UI recipients are likely to be covered by public programs. Medicare is not an option for most recipients: less than 2 percent are age 65 or older, and 6 percent receive social security or Railroad Retirement. Medicaid is probably also not an option for most recipients because only 3 percent receive Aid to Families with Dependent Children (AFDC), Supplemental Security Income (SSI), or other welfare benefits.

The final way in which UI recipients can obtain health insurance is by purchasing coverage on their own. Workers who leave a job with health insurance coverage are allowed, through the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA), to pay for extending their existing coverage for up to 18 months. However, many UI recipients are not likely to have the financial resources needed to purchase insurance when they are unemployed. Many had low-paying jobs and low family incomes prior to receiving UI. Even for other recipients, the cost, which equals 102 percent of the combined employer-employee premium, may be prohibitive. For example, in 1992, the average annual cost of employer-provided health insurance in mid-sized companies was \$3,865 (Johnson & Higgins 1992); in weekly terms this is equivalent to about 40 percent of the average weekly UI benefit amount.

In summary, the evidence reported here suggests that substantial numbers of UI recipients, particularly long-term ones, are likely to lack health insurance coverage. Coverage under most employer-sponsored health plans does not extend long enough to provide for the long-term unemployed. Less than half of UI recipients have working spouses

who might have health insurance. Few recipients are likely to be eligible for medicare or medicaid. Many recipients do not have the financial resources needed to purchase insurance under the COBRA provisions.

Providing health insurance to the UI population would probably best be accomplished through general reforms in the health insurance system leading to more universal coverage. However, an alternative, more targeted approach was proposed in the 1997 administration budget. Under this plan, unemployed workers would receive premium subsidies to purchase private insurance for up to six months with funds provided from general revenues. Individual states would design and administer the programs, but the details of who would be eligible and how the programs would work were unspecified.

### *Welfare Programs*

Some UI recipients with low family incomes are eligible for benefits from welfare programs—AFDC, SSI, General Assistance (GA), and food stamps—or for assistance through the Earned Income Tax Credit (EITC), a refundable tax credit. These benefits are coordinated with UI by requiring applicants for welfare benefits to apply for and collect any UI for which they are eligible. Income from UI is considered in the welfare benefit calculation. UI income is also counted as part of taxable income used in the EITC calculation.

UI recipients may be eligible to obtain benefits from welfare programs, but relatively few do so. For example, data for 1988 indicate that under 3 percent of UI recipients received cash welfare benefits (AFDC, SSI, or other welfare), and only 4 percent received food stamps (Corson and Dynarski 1990).<sup>6</sup> Rates of welfare benefit receipt rose following UI benefit exhaustion (to 4 percent for cash benefits and 7.5 percent for food stamps), but not by substantial amounts.

In contrast, a greater proportion of UI recipients receive income from the EITC. For example, 1993 data from the Internal Revenue Service indicate that about 22 percent of the tax returns that had income from unemployment compensation programs also had tax credits or payments under the EITC. However, these same data show that the average annual EITC benefit was relatively small (\$1,024).<sup>7</sup>

The low rates of welfare benefit payments among UI recipients and exhaustees occur for several reasons. First, some UI recipients have



sources of family income other than UI—for example, their spouse's earnings—that make them ineligible for welfare. Second, welfare programs have asset as well as income eligibility requirements that may disqualify UI recipients. For example, families with liquid assets that exceed \$2,000 are not eligible for food stamps. Third, AFDC and SSI benefits are available only to specific categories of families or individuals—families with children, in the case of AFDC, and individuals who are age 65 or older, blind, or disabled, in the case of SSI. Finally, UI recipients may be reluctant to apply for welfare benefits, because they are likely to be newly eligible and unlikely to view themselves as long-term welfare recipients. They do, however, appear to apply for the EITC.

Although few UI recipients or exhaustees actually collect welfare program benefits, a number have family incomes that are below the poverty line or likely to be below the poverty line if UI were not available. For example, a Congressional Budget Office study found that 20 percent of long-term UI recipients had family incomes below the poverty line, and another 27 percent would have had family incomes below the poverty line if they were not receiving UI benefits (Congressional Budget Office 1990).<sup>8</sup> This study found further that 16 percent of long-term UI recipients continued to have family incomes below the poverty line three months after UI benefit exhaustion. Similar results were found in a study of extended benefit recipients in the mid-1970s (Corson and Nicholson 1982).

While not the main objective of the UI program, the importance of UI as an antipoverty mechanism has played a role in debates about extended UI benefits. The current welfare system does not provide much support to UI recipients or exhaustees, so some policy makers have argued that UI should be extended because of its antipoverty effects, particularly during recessionary times. Extending UI benefits, however, is an inefficient way to meet an antipoverty objective, because benefits are paid not only to poor but also to nonpoor families. In fact, the same tabulations that illustrate the antipoverty effects of UI show that a substantial share of benefits is paid to individuals with family incomes well above the poverty line. Targeting UI extensions better to poor families could be achieved by means-testing extended UI benefits, but this process would imply a major departure from the fundamental design of the UI program, which is based on an individual

concept of eligibility. Means-testing extended UI would require that eligibility be recomputed based on family income. An alternative approach, which is used in several other countries (see chapter 14), is to provide UI exhaustees with means-tested unemployment assistance through a separate program. However, unless a separate assistance program is developed, the current welfare system is expanded, or the duration of UI benefits is extended, the present gap in income support to the long-term unemployed, including low-income individuals, is likely to remain.

### **Unemployment Insurance and Programs for Dislocated Workers**

Since the 1980s, attention has focused on the reemployment problems of workers who are laid off from their jobs permanently and who must find a new job. The number of these workers, who have been called “dislocated” or “displaced,” has been sizable. For many, labor market experiences following layoff have included long spells of unemployment and a reduction in wages after reemployment.

Since 1984, the Bureau of Labor Statistics of the U.S. Department of Labor has identified and tracked dislocated workers through biannual supplements to the Current Population Survey. In this survey, workers who report “having lost or left a job because of a plant closing, an employer going out of business, a layoff from which they were not recalled, or other similar reason” are classified as dislocated. The 1994 survey found that about 5.5 million workers were dislocated in the 1991-1992 period. Nearly half of this group had been employed in their jobs for three or more years (Gardner 1995).

An earlier analysis of data on these dislocated workers by the Congressional Budget Office (CBO) found that about two million individuals were dislocated each year during the 1980s (Congressional Budget Office 1993). Although the numbers were higher than average during the early 1980s recession,<sup>9</sup> substantial numbers were dislocated in all years, including those in which the unemployment rate was relatively low. The CBO study also found that workers in goods-producing industries—agriculture, mining, construction, and manufacturing—

and in blue-collar occupations were at greater risk of dislocation than workers in service-producing industries and in white-collar occupations. Substantial fractions of the dislocated worker population were from service-producing industries and white-collar occupations, however. Moreover, differences in the risk of dislocation for these groups narrowed during the 1980s, a trend that continued in the early 1990s (Gardner 1995).

The CBO study also showed that many dislocated workers have long spells of unemployment and reductions in wages after reemployment. One to three years after losing their jobs, half of the individuals were not working or had new jobs with weekly earnings of less than 80 percent of their prelayoff earnings. The workers with the largest losses had the least education, were the oldest, and had the longest tenure with the previous employer. Furthermore, dislocated workers who held a job at the time of the survey had endured relatively long jobless spells: the average duration was just under 20 weeks.

Additional studies of dislocated workers based on individual-level data sets have also demonstrated that worker dislocation is costly. Topel (1993) cites three studies that, depending on the point of observation, estimated wage losses of 10 to 30 percent as a result of dislocation—that is, dislocated workers who became reemployed earned about 10 to 30 percent less than they earned in their predislocation job.<sup>10</sup> Even five years after their job loss, the wages of dislocated workers in these studies were still about 15 percent lower than their predislocation levels. The large loss in wages, together with the relatively long jobless spells experienced by dislocated workers, implies that the total cost of dislocation is high. This is confirmed by estimates based on a sample of dislocated workers in Pennsylvania (Jacobson, LaLonde, and Sullivan 1993). Total discounted earnings losses for these workers over the six years after their job loss were equal to an average of \$41,000 per worker.

Many dislocated workers enter the UI system. Furthermore, many UI recipients can be classified as dislocated workers. The CBO study found that 70 percent of dislocated workers who were jobless for at least five weeks reported receiving UI benefits. In addition, more than half of the dislocated workers who received UI reported exhausting their benefits. Data from a study of UI recipients in 1988 show that more than half of the UI recipient population had no recall expecta-

tions at the time they entered the UI system, and about 36 percent could be characterized as dislocated, under a definition similar to that used in the CBO survey (Corson and Dynarski 1990). Not surprisingly, these figures were higher among UI exhaustees: 67 percent had no recall expectations and 52 percent could be classified as dislocated.

Dislocated workers who enter the UI system, like dislocated workers in general, have longer-than-average spells of unemployment and a greater likelihood of wage reductions than other claimants. Corson and Dynarski (1990) used their sample of UI claimants from 1988 to compare employment and UI benefit outcomes of dislocated and nondislocated workers.<sup>11</sup> They found that dislocated workers, particularly those with substantial job tenure, had lower reemployment rates, longer spells of unemployment, higher UI exhaustion rates, and a lower ratio of post-UI to pre-UI weekly wages than other claimants. For example, only 81 percent of the dislocated workers with three or more years of job tenure had become reemployed during the first twenty months after their initial claim, compared with 92 percent of the nondislocated workers.

Data from a demonstration program in New Jersey, in which claimants were followed for six years, showed that individuals targeted for demonstration services—permanently separated claimants with three or more years of job tenure—experienced large reductions in annual earnings relative to their UI base-period earnings throughout the six-year period (Corson and Haimson 1996). This drop in earnings was considerably larger than that experienced by other claimants. Even claimants who became reemployed had substantial earnings losses; average earnings for employed individuals did not reach pre-UI levels until the fourth year after the initial claim. By the sixth year, annual average earnings for employed individuals exceeded the base-period average by \$1,889, but this 10.5 percent increase in nominal earnings did not keep pace with inflation (the Consumer Price Index for the Northeast rose approximately 34 percent in this period) or with the average weekly earnings of manufacturing workers in New Jersey (average weekly earnings rose by approximately 25 percent in this period).

UI claimants who exhaust their benefits also have especially high earnings losses. These losses, at least for manufacturing workers, are illustrated by findings based on a sample of UI exhaustees from manu-

facturing drawn from 10 states for an evaluation of the Trade Adjustment Assistance program (Corson et al. 1993). The findings show that the costs of dislocation among UI exhaustees from manufacturing, as measured by earnings losses, were about \$35,000 (undiscounted) over the first three years after the initial UI claim. Furthermore, since average earnings were still relatively low among the sample three years after the initial claim, we can conclude that the full earnings losses would be significantly larger if we were able to expand the post-layoff period of observation.

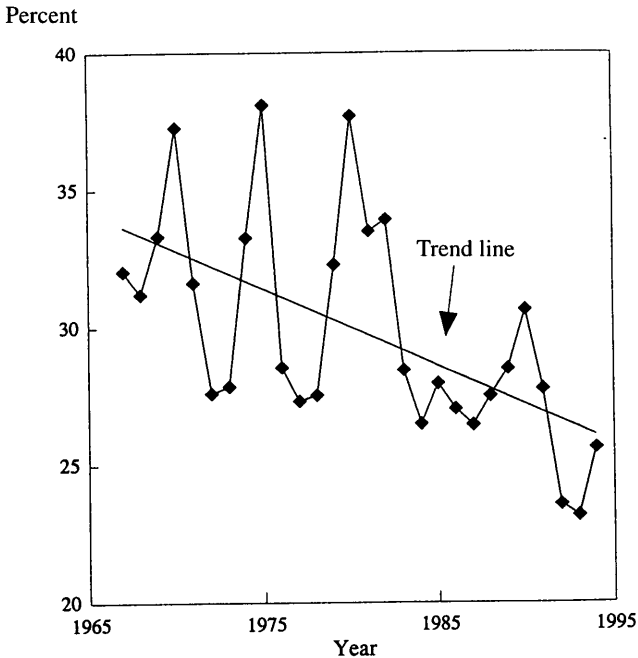
### *Trends in Unemployment and Dislocation*

Trends in three unemployment measures suggest that an increasing proportion of the unemployed population is made up of dislocated workers. These measures include the proportion of unemployed workers on temporary layoff, the proportion of unemployed workers with long unemployment spells, and the proportion of UI claimants who exhaust their benefits. The trend in the proportion of job losers from the Current Population Survey (CPS) who report that they are on temporary layoff is shown in figure 12.1. Although the series has been relatively volatile between 1967 and 1994, the long-run trend is clearly a decrease in the proportion of job losers on temporary layoff and, hence, a corresponding increase in the proportion on permanent layoff. The trend line in figure 12.1 implies that the proportion of job losers on temporary layoff declined by nearly three-tenths of a percentage point per year over the observation period. This downward trend is statistically significant at the 99 percent confidence level. Further evidence on the relative decline in temporary layoffs is provided by comparing the average proportion of temporary layoffs early in the observation period with the proportion later in the observation period. The average annual proportion over the first ten years of the series is 32 percent, compared with about 27 percent over the last ten years of the series.

At the same time that the share of temporary layoffs has declined, the proportion of unemployed workers who are jobless for 15 or more weeks has increased. Figure 12.2 shows the data on unemployment, which are drawn from the CPS, between 1950 and 1994 and the estimated trend in the unemployment data over this period. The trend line indicates that an increasing percentage of unemployed workers have

remained so for at least 15 weeks. The highest rate of long-term unemployment shown in figure 12.2 occurred not in recent years but during the recession of the early 1980s, when the proportion of long-term to total unemployed reached 39 percent in 1983. Nevertheless, the general trend since 1950 has been for long-term unemployment to become more prevalent. The estimated trend suggests that the proportion of unemployed workers who were unemployed for at least 15 weeks increased annually by a quarter of a percentage point over the observation period; this estimated trend is statistically significant at the 99 percent confidence level.

**Figure 12.1 Percent of Job Losers on Temporary Layoff, 1967-1994**

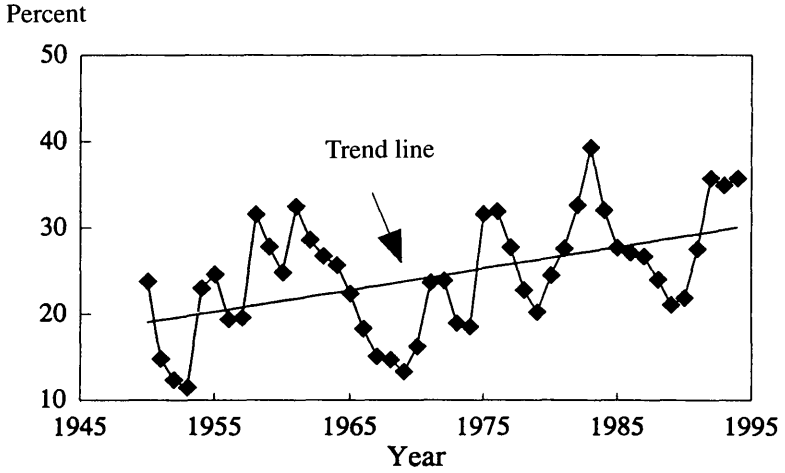


SOURCE. Economic Report of the President, February 1995, p 322

NOTE Job losers on temporary layoffs are individuals who were laid off and are expecting to be recalled.

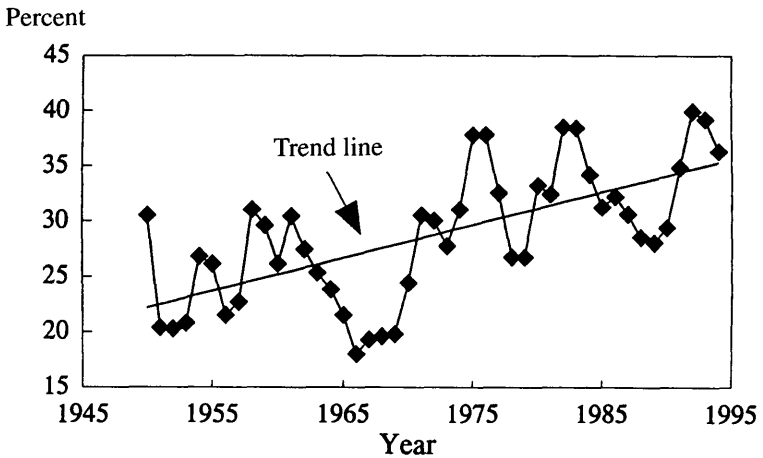
The findings on UI benefit exhaustion parallel those on long-term unemployment. The benefit exhaustion rate, which is shown in figure 12.3, applies only to unemployed workers who file for and begin to

**Figure 12.2 Percent of Unemployed Who Are Unemployed 15 Weeks or More, 1950-1994**



SOURCE Economic Report of the President, February 1995, p. 322.

**Figure 12.3 UI Exhaustion Rate, 1950-1994**



SOURCE: U.S. Department of Labor, *Unemployment Insurance Financial Data*, ET Handbook 394, Employment and Training Administration

collect UI benefits. Although the trend in benefit exhaustion may respond to changes in the type of workers filing for UI, it is still a useful indicator of the reemployment difficulties of unemployed workers who are receiving UI benefits. As expected, the pattern over time of the exhaustion rate is similar to that of the long-term unemployed measure. Estimates of the long-term trend in benefit exhaustion suggest that the exhaustion rate increased annually by an average of three-tenths of a percentage point between 1950 and 1994.

Trends in the three measures illustrated in the figures show that a growing number of job losers do not expect to return to work with their previous employer, that unemployed individuals are increasingly likely to remain unemployed for at least 15 weeks, and that UI claimants are increasingly likely to exhaust their benefits. These developments suggest that unemployed workers are more likely now than in the past to face long unemployment spells with uncertain reemployment prospects, and, accordingly, that more of them could be characterized as dislocated workers.

### *Programs to Aid Dislocated Workers*

The federal/state system of unemployment compensation is the primary source of cash benefits for dislocated workers. Most dislocated workers who receive UI are also registered with the ES, but relatively few receive substantive reemployment services. For example, a recent study of long-term recipients found that just 6 percent were receiving job search assistance that was more intensive than simple ES work registration (Richardson et al. 1989). Rates of service receipt reported in a 1988 survey of UI recipients were considerably higher (64 percent said they received some services), but a substantial number (36 percent) still received no services, and few received intensive services, such as assessment, counseling, or job search workshops (Corson and Dynarski 1990).

Dislocated workers may receive reemployment services and training through several other programs explicitly targeted to them. The largest of these, the Economic Dislocation and Worker Adjustment Assistance (EDWAA) program, which operates as Title III of the Job Training Partnership Act (JTPA), provides funding to states and through states to substate grantees to provide training (occupational classroom and



on-the-job training) to dislocated workers.<sup>12</sup> In addition, grantees may provide related services—orientation and assessment, job search assistance (generally provided through group workshops), counseling, and relocation assistance. As part of EDWAA, states also conduct rapid response activities, to inform dislocated workers of available services as soon as a plant closing or mass layoff is announced. Funding under this program has grown in recent years, from under a half billion dollars in 1990 to more than one billion dollars in 1995. Nevertheless the total number of dislocated workers served under EDWAA is a relatively small proportion of the total number of dislocated workers. For example, approximately 300,000 individuals per year received assistance under EDWAA between 1990 and 1993 as compared to the over 2 million dislocated workers per year identified in the Bureau of Labor Statistics dislocated worker survey.

Other programs provide services to specific groups of dislocated workers. The Trade Adjustment Assistance (TAA) program seeks to aid individuals who lose their jobs because of trade liberalization. In the 1970s this program emphasized compensating workers for lost income by adding a supplement to the weekly UI benefit and by extending weekly benefits from the 26 provided by UI to 52 or to 78 weeks for individuals in training or age 60 or older. In 1981, the supplement to the UI weekly benefit amount was dropped, as was the extension for individuals age 60 or older. Separate funds for training were also made available in 1982. These funds were expanded substantially in 1988, and training was made mandatory unless the requirement is waived. As a result, the focus of the program has shifted toward providing adjustment services, and the likelihood that recipients receive reemployment services, especially training, has increased (Corson et al. 1993). This program is, however, quite small, with approximately 20,000-50,000 recipients per year. Various amendments to JTPA have also authorized new programs for special categories of workers, including special reemployment assistance for workers who lost their jobs after the Clean Air Act was implemented and for workers dislocated because of reductions in defense expenditures. Services under these special initiatives are provided through the EDWAA program. A number of earlier programs to aid workers dislocated by federal policy initiatives (such as the enlargement of Redwoods National Park, railroad reorganiza-

tions, and airline deregulation) were also targeted on specific groups of workers.

Despite the large number of special programs, the overall number of workers served by EDWAA and other dislocated worker programs is relatively small. The 1988 UI study data suggest that under 5 percent of UI recipients and under 10 percent of exhaustees receive any services from these programs (Corson and Dynarski 1990).

### *Evidence from Program Evaluations*

Formal evaluations of four major demonstration projects during the 1980s assessed the extent to which reemployment services helped enhance the reemployment prospects of dislocated workers. Three of these demonstrations addressed layoffs at specific industrial plants in Detroit (Kulik, Smith, and Stromsdorfer 1984), Buffalo (Corson, Long, and Maynard 1985), and Houston and El Paso (Bloom and Kulik 1986). Although these demonstrations had relatively small samples and used different research methodologies,<sup>13</sup> one general finding emerged: the reemployment outcomes for workers who received special assistance in looking for work tended to be more favorable than those for workers in the comparison/control groups, but additional benefits from participating in a training program were either ambiguous or small, relative to program costs. For example, the evaluation of the Buffalo project found that job search assistance had significant effects on reemployment rates and on average weekly earnings, but classroom and on-the-job training had statistically insignificant effects (Corson, Long, and Maynard 1985). Because the per-participant costs of training were approximately four times the cost of job search assistance alone, the report concluded that only the job search assistance treatment was cost-effective.

A fourth major evaluation—the New Jersey UI Reemployment Demonstration Project—had a somewhat broader focus than the plant-based projects described earlier. The goal of the New Jersey demonstration was “to examine whether the Unemployment Insurance system could be used to identify workers early in their unemployment spells and to provide them with alternative, early intervention services to accelerate their return to work” (Corson et al. 1989). Overall, 8,675 UI claimants were assigned randomly to one of three treatments (job

search assistance only, job search assistance combined with training or relocation assistance, and job search assistance combined with a cash bonus for early reemployment) and then compared with a randomly selected control group of 2,385 claimants who received only regular services. Demonstration services were targeted to dislocated workers through a series of eligibility screens that excluded workers who (1) did not receive a UI first payment within five weeks after their initial claim, (2) were collecting partial UI benefits, (3) were younger than twenty-five years of age, (4) had fewer than three years of employment experience on their last job, (5) had a specific recall date from their employer, or (6) were usually hired through union hiring-hall arrangements. As a whole, these screens excluded approximately 73 percent of all workers who received a first payment from UI during the sample period.

Each treatment in the New Jersey demonstration had a statistically significant effect on reducing the collection of UI benefits and on raising subsequent employment and earnings (Corson et al. 1989; Corson and Haimson 1996). UI benefits were reduced in both the initial benefit year and in subsequent years. The total benefits of the treatments also exceeded their total costs from the perspectives of both society and the individuals involved. From the viewpoint of government alone, however, only the job search and reemployment bonus treatments were unambiguously beneficial. No clear evidence emerged that providing training or relocation help in addition to job search assistance led to cost-effective gains. Evaluations of demonstration programs similar to the New Jersey one in Minnesota, Nevada, South Carolina, and Washington support the notion that stronger links between UI recipients and the reemployment service system are a cost-effective way to promote rapid reemployment among UI recipients (see Meyer 1995 and U.S. Department of Labor 1995 for reviews).

#### *Current Policy Initiatives: Profiling and Reemployment Services*

The UI system is a logical avenue for identifying workers who might be helped by reemployment services, because the majority of dislocated workers collect UI benefits, and they usually begin to receive these payments early in their unemployment spells. Other targeting mechanisms (such as the rapid response program outreach

efforts under EDWAA) are important but more limited than a UI-based approach, because they tend to focus on specific groups of dislocated workers (such as those from plant closings or mass layoffs, in the case of EDWAA). Identifying workers early in their unemployment spells has several advantages. By beginning the adjustment process more quickly, claimants can use UI benefits as income support during training, if training is necessary. For workers who do not need training, the risk of exhausting UI benefits can be lessened, and income can be increased through more rapid reemployment. Because many dislocated workers collect UI benefits for a substantial period of time, potential program savings from more rapid reemployment can also be achieved.

This reasoning, combined with evidence from the New Jersey demonstration that long-term UI recipients can be identified early in their unemployment spells, resulted in the Unemployment Compensation Amendments of 1993, which require state UI programs to *profile* claimants as they enter the UI system so that dislocated workers can be identified. Subsequent interpretations of this requirement by the U.S. Department of Labor provide guidance on how states should implement a profiling mechanism.<sup>14</sup> Specifically, states are encouraged to adopt and adapt an approach developed by the Labor Department (U.S. Department of Labor 1994). This method uses a two-step process to identify dislocated workers. In the first step, non-job-attached claimants are identified; in the second, a probability of exhaustion is estimated for each claimant, on the basis of education, job tenure, industry, occupation, and other variables. Those with the highest probabilities of exhaustion are considered the target group. States that do not have sufficient data to estimate such models are expected to use a fixed set of screens to identify dislocated workers (as was done in the New Jersey demonstration), but they are encouraged and provided with technical assistance to develop statistical profiling models as more data become available.

Identifying dislocated workers is the first step in helping these individuals become reemployed; strengthening linkages to reemployment services is the second step. For this reason, the worker profiling legislation requires state UI systems to refer profiled claimants to reemployment services. Referred claimants are expected to participate in reemployment services as a condition of eligibility for UI unless they

have already done so or have a justifiable cause for failure to participate.

To make these requirements operational, states are expected to establish agreements between the UI system and service providers (the ES or EDWAA programs), so that profiled claimants can be referred to a provider and receive services. Service providers in each locality generally hold initial orientation sessions with claimants, followed by assessment sessions in which individual assistance plans are developed for each claimant. Participation in reemployment services identified in the plans is a condition for continued UI eligibility. In addition to orientation and assessment, reemployment services can include counseling, job search assistance (such as workshops), referrals to jobs and job placement, and other similar types of help, but they do not include training or education. Claimants can be referred to training or educational services; if they participate, they do not have to take part in other reemployment services. However, engaging in training or education is not a mandatory component of the service plans. So that UI can monitor and evaluate the reemployment services participation requirement and continuing eligibility, states are expected to develop feedback mechanisms to provide UI with information about whether referred claimants participate in and complete mandated services.

All states have now put these Worker Profiling and Reemployment Services (WPRS) systems into effect. In late 1994, Delaware, Florida, Kentucky, Maryland, New Jersey, and Oregon began implementing WPRS systems, while other states began implementation in 1995 and early 1996. Each of the initial six states successfully developed partnerships among the UI, ES, and EDWAA systems, a method to profile and refer long-duration claimants to reemployment services, and a way to provide feedback to the UI system from the service providers (Hawkins et al. 1996). In most localities, the ES is the primary provider for mandatory reemployment services, with short duration services being emphasized on individual service plans. Lengthier, more extensive assistance is given less frequently and generally on a voluntary basis. Such help is often provided through referrals to EDWAA.

## Unemployment Insurance Benefit Restructuring Initiatives

Two other relatively recent UI system initiatives are, like the WPRS systems, designed to promote employment of claimants.<sup>15</sup> These initiatives—short-time compensation and self-employment assistance—restructure the UI benefit system to increase employment and, in the second case, to provide additional services to claimants.

### *Short-Time Compensation*

Short-time compensation (STC) allows firms to adjust their workforce in response to business fluctuations without resorting to layoffs.<sup>16</sup> Under STC, firms reduce use of their workforce simply by requiring a group of employees—typically more than would otherwise be laid off—to work shorter weeks. These workers are compensated for their lost work time with partial UI benefits. STC may neutralize what some have viewed as a pro-layoff bias in regular state UI programs, which tend to be relatively restrictive in the payment of partial benefits (Feldstein 1976).<sup>17</sup> Under STC, UI benefits can be paid under a much broader set of conditions than in the normal program. As implemented in the United States, STC is viewed as a workforce stabilization plan, used during periods of economic downturn that are expected to have only short-term effects on the labor needs of employers.

STC programs were introduced in the United States in 1978, when California implemented its Work Sharing Unemployment Insurance program as an experimental effort to mitigate the public-sector employment problems that were expected to accompany declines in state revenue resulting from tax reductions. The California plan has been the prototype for other STC initiatives in this country. The 1981-1982 recession acted as a catalyst for expansion of STC programs, which were established by states throughout the 1980s. As of 1994, STC programs had been implemented in seventeen states, although many of these programs have modest activity.

Because state STC programs were grafted onto the existing UI system, and because many followed model legislation prepared by the U.S. Department of Labor, the programs have many similarities. All are implemented by a work-sharing plan for a given employer that, once approved, remains in effect for a set period. These plans specify

the hours reduction and the handling of fringe benefits during the period. State laws limit the number of weeks STC can be collected and indicate how benefits are to be calculated, usually as a proportion of the weekly UI benefit for which the worker is eligible. State plans also specify how STC benefits are charged to an employer. In many states, they are charged in exactly the same way as regular UI benefits. Early concern about the budgetary impact of STC on state trust funds, however, caused some states to adopt special charging provisions and even surtaxes for firms using the program. However, because of the modest use of STC, only a few states retain these provisions.

Participation in STC is low in states with a program. Kerachsky, Nicholson, and Hershey (1986) showed that firm participation in STC was less than 0.5 percent of all employers in the three states (Arizona, California, and Oregon) studied. Work by Vroman (1992) indicated that STC use continued to be low, generally accounting for no more than 0.3 percent of UI claimants.

Findings from the Kerachsky, Nicholson, and Hershey (1986) study also suggest that STC has a clear but limited impact on layoffs. As expected, participation in STC did reduce layoffs: approximately 13 percent fewer hours were spent on layoffs by workers in STC firms than by workers in comparison firms. Even firms using STC continued to use layoffs as their primary method of work force reduction, however. Nearly 80 percent of all the compensated hours of unemployment among workers in these firms were spent on layoff rather than on STC-compensated hours reduction. In addition, total compensated unemployment was nearly 11 percent higher among STC users than among otherwise similar employers. These findings tend to refute the notion that STC hours simply substitute for hours spent on regular UI. Instead, the effect of STC on the trade-off between layoffs and hour reductions appears to be more complex. An ongoing study is currently evaluating this effect and related issues associated with STC.

### *Self-Employment Assistance*

Another policy option that expands services to UI claimants and encourages reemployment is self-employment assistance. Under the traditional UI system, claimants must be able and available for work and must conduct an active job search for wage and salary employ-

ment, so those who work full-time on starting their own business are generally ineligible for UI. Clearly, this policy creates a disincentive to self-employment. However, recent legislation has offered states the option of changing this situation. Title V of the North American Free Trade Agreement (NAFTA) Implementation Act (Public Law [P.L.] 103-181) allows states to offer self-employment assistance as an additional tool to help speed the transition of dislocated workers into new employment.<sup>18</sup> Under this option, eligible claimants who want to establish their own business are paid a self-employment allowance equivalent to their UI benefit. These claimants are expected to work full-time on starting their own business and are exempted from UI work search requirements. In addition, they are allowed to retain any earnings from self-employment, without losing their self-employment allowance. The effect of the new law is to remove the barrier that disallowed payment of UI benefits to claimants pursuing full-time self-employment. States are also required to provide self-employment assistance activities to claimants receiving self-employment allowances.<sup>19</sup> Participation in these services is mandatory for recipients of the allowance, and total participation cannot exceed 5 percent of regular UI claimants. To date, ten states have enacted self-employment programs for UI claimants, and programs are operational in Maine, New York, Oregon, Delaware, Maryland, New Jersey, and California.

The legislation allowing self-employment was a response to the relatively positive findings on impacts from two random assignment demonstrations conducted in Washington and Massachusetts. These results indicated that self-employment is a viable reemployment option for a small proportion of UI claimants. Both demonstrations provided self-employment allowances and additional assistance activities to claimants who completed a set of initial intake activities. In Washington, the self-employment allowance was offered as a lump-sum payment equal to the amount of the claimant's remaining UI entitlement; in Massachusetts, claimants were offered weekly allowances equal to their UI benefit amount.<sup>20</sup> Four percent of targeted claimants in Washington and 2 percent in Massachusetts completed the initial intake activities and were determined eligible for participation in the program. In terms of impacts on economic outcomes, the availability of self-employment assistance generated an increase in self-employment and an increase in time employed among claimants in both demonstrations. Impacts on



total earnings (from self-employment and wages and salaries) and on total benefits paid (regular UI payments plus self-employment allowances) were mixed. In the Washington program, total earnings did not rise—the increase in self-employment income was offset by a reduction in wage and salary income—while in Massachusetts both self-employment and wage and salary income rose. The Washington program, which paid lump-sum allowances, also increased total benefits paid by about \$1,000 per eligible claimant while the Massachusetts self-employment program reduced total benefits paid during the benefit year by about \$900 per eligible claimant. Both programs were cost effective from the participant and societal perspectives, but only the Massachusetts program was cost effective from the governmental perspective. The Massachusetts model of paying weekly allowances equal to the UI weekly benefit amount has been adopted in the national legislation.

## **Conclusion**

The UI system is intended to provide income support to experienced workers who become unemployed involuntarily and, through referrals to the ES, assistance in becoming reemployed; however, other public and private programs also provide income support and reemployment assistance to jobless workers. The presence of this wider set of social insurance, public assistance, and reemployment programs must be considered in an assessment of the adequacy of the income support and reemployment assistance provided to unemployed workers. The existence of these other programs also raises the question of whether they are well coordinated with UI. These issues have been examined in this chapter.

### *Income Support*

The examination of social insurance, public assistance, and private programs that may provide income support to unemployed workers showed that, in general, overlaps in coverage are small. Few UI claimants appear to be eligible for or to receive income from social insur-

ance, public assistance, or private programs designed to provide income to older, disabled, or low-income individuals or families. However, a substantial percentage of unemployed workers appear to be eligible for severance or termination pay (in 1993, 42 percent of full time employees in medium and small firms were eligible for severance pay). In addition, a significant share receives income from the EITC (in 1993, 22 percent of the tax returns reporting unemployment compensation income also reported tax credits or payments under the EITC).

These findings indicate that the gaps in the income support provided by the UI system to low-wage workers and the long-term unemployed identified in earlier chapters, are not filled by other income support programs. Severance pay is more often available to workers with higher than with lower wages, and it tends to have a short duration; further, the amount of income provided by the EITC is modest (the annual average payment or tax credit in 1993 was about \$1,000). Other than UI, sources of income support are generally not available to the UI population.

The analysis in this chapter also suggests that another important gap in support to the unemployed is for health insurance. Relatively few unemployed individuals, particularly among the long-term unemployed, are likely to have health insurance coverage. While current legislation requires employers to permit laid-off workers to purchase health insurance coverage for up to eighteen months at a cost equal to 102 percent of the employer-employee premium, few UI claimants are likely to be able to afford this increasingly costly benefit.

Finally, rules providing for the coordination of benefits from UI and other programs have been established for state UI programs. For public programs, these regulations often offset the benefits from one program by those from another so that an individual will not receive multiple benefits, although certain states permit the payment of some multiple benefits if the individual meets UI able and available requirements. Rules for the coordination of private sources of income with UI have also been established. These criteria vary by state as well and are similar to the stipulations governing income from public programs. However, in some states, the treatment of different kinds of private income seems inconsistent. For example, certain states treat wages in lieu of notice and severance payments as disqualifying income for UI while income from SUB payments is ignored in the UI benefit calculation.

Instead, it seems more reasonable to ignore all private sources of income in the benefit calculation and to use the UI work test to ensure that claimants are available and looking for work and are hence eligible for UI.

### *Reemployment Assistance*

Historically, the UI system has provided reemployment assistance to UI claimants through the ES and through referrals from the ES to programs like EDWAA for dislocated workers. However, in the past, few claimants received intensive reemployment assistance from the ES or from other sources, despite the fact that increasing numbers of claimants are permanently separated from their pre-UI employers and might benefit from services. Growth over the years in other indicators of worker dislocation, such as the proportion of the jobless who are long-term unemployed and the UI exhaustion rate, also points to a greater need for reemployment assistance for UI claimants.

There has also been evidence from recent demonstrations that an increased level of reemployment services coupled with a participation requirement could lead to more rapid reemployment of UI claimants and to lower UI benefit payments. The combination of factors that have been described has led to legislation requiring states to implement WPRS systems. Under these systems, states are expected to identify permanently separated claimants who are likely to experience long spells of unemployment and to refer them to reemployment services from the ES or another service provider. Referred claimants are supposed to participate in reemployment services such as job search assistance as a condition of continued UI eligibility, unless they have already done so or have a justifiable cause for failure to participate. States are also expected to develop feedback mechanisms to provide UI with information about whether referred claimants participate in required services.

Early indications suggest that these WPRS systems can be implemented successfully. If sufficient resources are available to provide reemployment services, these systems should lead to an increase in the level of reemployment services provided to UI claimants and to increased coordination between UI and reemployment service providers. Other recent UI initiatives—short-time compensation and self-

employment allowances—are also aimed at promoting the employment of claimants. Short-time compensation is intended to strengthen ties with existing employers by providing an alternative to temporary layoffs, and self-employment assistance is designed to help claimants develop an alternative to wage and salary work.

## NOTES

I am grateful to Sheldon Danziger, Walter Nicholson, and the editors for their comments on this paper and to Cindy Castro for her help in producing the paper

1 These firms account for approximately one-quarter of all employment

2 For convenience, the fifty-three UI jurisdictions—the fifty states, the District of Columbia, Puerto Rico, and the Virgin Islands, are called “states.”

3 The decline in employment in automobile and other manufacturing industries has also led to a decline in the number of workers covered under SUB plans. Haber and Murray (1966) report that over 2.5 million workers were covered by SUB plans in 1962, while the 1993 survey of benefits in medium and large firms reports that 1.2 million workers are covered.

4. The Social Security Disability Insurance program provides monthly cash benefits to workers under age 65 who become disabled and can no longer work because of the disability. Benefits become available after a five-month waiting period.

5. In four states, the same agency administers TDI and UI

6. Conversely, few Food Stamp and AFDC program recipients receive UI. In 1988, 2.3 percent of Food Stamp households (U.S. Department of Agriculture 1990) and 4.3 percent of AFDC families (U.S. Department of Health and Human Services 1990) had income from UI.

7 These numbers were computed from data reported by the Internal Revenue Service (1995, table 2) and from data reported in testimony on the earned income tax credit by the Commissioner of Internal Revenue (Richardson 1995, table 1)

8. This latter estimate assumed that individuals would not respond to a loss of UI benefits by increasing job search activities or by lowering the wage at which they would accept a job. Thus, this estimate provides an upper-bound poverty rate in the absence of UI

9 As indicated in the previous paragraph, the annual number of dislocated workers was also higher during the recession of the early 1990s than in the 1980s.

10. The three studies are Topel (1990, 1991) and Ruhm (1991)

11. Corson and Dynarski use the BLS definition of dislocated workers, which includes workers who lose their jobs because their plants close, their employer went out of business, or they were laid off and not recalled

12 EDWAA uses a relatively broad definition of dislocated workers. Workers are eligible for EDWAA if they have been laid off or have received a notice of termination, are UI eligible, and are unlikely to return to their previous industry or occupation, they have been laid off or received a notice of termination as a result of a plant closing or substantial layoff, or they are long-term unemployed individuals with limited opportunities for reemployment in their occupation.

13. The Detroit evaluation used a comparison plant methodology, whereas the Buffalo and Texas evaluations used random assignment methods that differed according to how nonparticipants were treated

14 Unemployment Insurance Program Letter No. 45-93, Field Memorandum No. 35-94, and other documents in U.S. Department of Labor 1994.

15 A third initiative to promote reemployment—reemployment bonuses—has been tested experimentally, but legislation permitting states to incorporate reemployment bonuses in their UI programs has not been enacted. For a discussion of reemployment bonuses, see chapter 7.

16 Short-time compensation is also referred to as work sharing or shared-work compensation.

17. Most states have partial benefit schedules that specify a dollar-for-dollar reduction in benefits for wages in excess of a modest weekly earnings disregard. For a typical worker, these schedules usually mean that no benefits are paid if the employee works two or more days per week.

18. This legislation has a five-year time limit, but pending legislation would make permanent the provisions permitting states to provide self-employment allowances and assistance.

19 Self-employment activities that must be offered include entrepreneurial training, business counseling, and technical assistance. This assistance is most often provided through state economic development agencies.

20 For a description of the Washington and Massachusetts demonstrations and a discussion of the results, see Benus et al. (1995). See also Wilson (1995) for comparisons to programs in other countries.

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