UNEMPLOYED WORKERS AND BENEFIT "REPLACEMENT RATE": AN EXPANDED ANALYSIS

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SUMMARY

Recent research may be overstating the extent to which enhanced unemployment benefits are replacing workers' full compensation in unemployment. We investigate average unemployment insurance (UI) replacement rates across industries using estimates of wage- and non-wage compensation and find that 60 percent of unemployment insurance claimants work in industries where the average total compensation exceeds the average weekly UI benefit.

INTRODUCTION

As Congress considers whether to renew the $600 per week increase in unemployment insurance benefits they passed in the CARES Act in March, and despite workers and advocates across the country speaking to how this lifeline benefit is good for workers and the economy, the policy debate has centered on whether the enhanced benefits are replacing too much of unemployed workers' former wages, potentially disincentivizing unemployed Americans from returning to work. However, more recent research (Altonji et al., 2020[1]; Barrtik et al., 2020[2]; Marinescu, 2020[3]; Marinescu, Skandalis, Zhao, 2020[4]; and Tedeschi, 2020[5]) has found no relationship between job finding and enhanced unemployment assistance.[6] Individuals who believe that income replacement rates are too high under the new Federal Pandemic Unemployment Compensation (FPUC) scheme typically support their argument by citing a study from the University of Chicago's Becker Friedman Institute ("Chicago study") which found that sixty-eight percent of unemployed Americans are receiving more in weekly benefits than they were in wages. However, this study may be overstating how high replacement rates are for the unemployed population by excluding forms of non-wage compensation from their analysis.

In this paper, we build on previous research which looks at replacement rates under FPUC by including wage-and non-wage compensation in our analysis. Our inclusion of non-wage compensation is driven by our concern that measures of wage compensation do not paint a complete picture of all that workers lose when they are laid off. Many workers lose more than just wages in unemployment—they lose employer contributions to health insurance, paid leave, and retirement benefits as well.

After accounting for non-wage compensation, we estimate that a majority (60 percent) of unemployment insurance claimants work in industries where the average total compensation exceeds the average weekly UI benefit. These individuals are likely receiving less, not more, in unemployment than they were in their former jobs, even after accounting for the $600 per week benefits boost. Our analysis suggests previous studies that do not account for non-wage compensation may be overestimating the share of unemployed Americans with replacement rates above 100 percent.

1 Altonji, Joseph, Zara Contractor, Lucas Finamor, Ryan Haygood, Ilse Lindenlaub, Costas Meghir, Cormac O'Dea, Dana Scott, Liana Wang, and Ebonya Washington. "Employment Effects of Unemployment Insurance Generosity During the Pandemic." Tobin Center for Economic Policy, Yale University. July, 2020.https://tobin.yale.edu/sites/default/files/files/C-19%20Articles/CARES-UI_identification_vF(1).pdf.

2 Bartik, Alexander W., Marianne Bertrand, Feng Lin, Jesse Rothstein, and Matthew Unrath. "Measuring the labor market at the onset of the COVID-19 crisis." Brookings Papers on Economic Activity, Brooking Institution. June, 2020. https://www.brookings.edu/wp-content/uploads/2020/06/Bartik-et-al-conference-draft.pdf.

3 Marinescu, Ioana. "Moving from Federal Pandemic Unemployment Compensation to a job losers' stimulus program amid the coronavirus recession." Washington Center for Equitable Growth. June, 2020. https://equitablegrowth.org/moving-from-federal-pandemic-unemployment-compensation-to-a-job-losers-stimulus-program-amid-the-coronavirus-recession/.

4 Marinescu, Ioana, Daphne Skandalis, and Daniel Zhao. "Job search, job posting and unemployment insurance during the COVID-19 crisis." July, 2020. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3664265

5 Tedeschi, Ernie. "Emergency UI: Cuts Would Be a Drag on 2020 H2 Growth, No Evidence Yet that UI Generosity Has Held Back Job Finding." July 2020.

6 In a July 2020 research note that uses the weekly Census Household Pulse Survey to examine the impact of the Federal Pandemic Unemployment Compensation (FPUC) on workers without a college degree, Arindrajit Dube similarly finds that higher UI benefits under FPUC did not depress employment levels.

OVERVIEW OF THE UNEMPLOYMENT INSURANCE LANDSCAPE

The current pandemic provides us with a historically unprecedented UI landscape. The highest number of new claims in history prior to 2020 was 695,000 new claims in a week in October of 1982.[7] By contrast, 3.3 million people filed for UI the third week in March followed by back to back weeks of 6.6 million new claims.[8] Nineteen weeks later, initial claims, including claims for pandemic unemployment assistance (or PUA), continue to be in excess of 2 million.[9]

Workers of color represent a disproportionate share of the insured population at 46 percent of beneficiaries, according to data produced for the House Committee on Ways and Means by the Congressional Budget Office. In particular, 16 percent of African Americans in the labor force received unemployment benefits compared to 10 percent of whites in the labor force.[10] Prior to the pandemic, the recipiency rate for all unemployed workers was only 27 percent.[11] While recipiency historically tends to increase in recessionary periods, this unprecedented rate appears to be the result of the addition of the Pandemic Unemployment Assistance program, which allowed new categories of workers to qualify for the benefits for new reasons, including workers who are self-employed or misclassified as self-employed, workers who did not meet monetary eligibility requirements for regular UI, and those with a COVID-19 specific reason to discontinue work.

Prior to the pandemic, many states systemically limited access to unemployment insurance benefits by reducing the duration of benefits and adding administrative hurdles to benefit access. As a result, recipiency and take-up were at record lows, and non-filer rates were at historic highs. Because many of these cuts occurred in states with the highest populations of Black, Latinx, and Indigenous populations, pre-pandemic UI data represent a different cross-section of the population than the cross-section of workers able to receive a benefit since the CARES Act expanded the program.

RECENT RESEARCH

In May, researchers at the Becker Friedman Institute at the University of Chicago[12] published a widely cited study examining FPUC replacement rates. The Chicago study used earnings data from the most recent vintage of the Consumer Population Survey since administrative earnings data from claimants was not yet available. They calculated a replacement rate defined as the ratio of unemployment insurance benefits to average weekly earnings over the prior year (a measure of solely wage compensation). There were three topline findings from the study:

1. **Sixty-eight percent of unemployed individuals were receiving more in unemployment than in former wages.**
2. **The bottom two deciles of wage earners were receiving more than double their former wages in unemployment.**
3. **The median replacement rate under the FPUC in the CARES Act was 134 percent.**

The authors conclude the paper by proposing and then simulating the impacts of new models of unemployment insurance benefits (including their preferred proportional “Supplemental Replacement Rate”) that would decrease the replacement rate for many workers, and especially the lowest-wage workers, to “balance the trade-offs between consumption smoothing and moral hazard.”[13]

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7 Department of Labor. Unemployment Insurance Weekly Claims news release. March 26, 2020.

8 Department of Labor. Unemployment Insurance Weekly Claims news release. April 9, 2020.

9 Department of Labor. Unemployment Insurance Weekly Claims news release. July 30, 2020.

10 Congressional Budget Office. “Characteristics of People Receiving Regular Unemployment Benefits in July 2020.” Letter to the Committee on Ways and Means. July 1, 2020.These figures mirror the racial differences in unemployment rates as reported in the latest BLS Employment Situation release.

11 U.S. Employment and Training Administration. Unemployment Insurance Recipiency Rates, By State. https://oui.doleta.gov/unemploy/Chartbook/a13.asp. The recipiency rate represents the percentage of the employed who receive unemployment benefits.

12 Ganong, Peter, Pascal Noel, and Joseph Vavra. “US Unemployment Insurance Replacement Rates During the Pandemic.” Becker Friedman Institute, University of Chicago. May, 2020. https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_202062-1.pdf

13 Ganong et al., p.9.

This study was quickly picked up in the media and was deployed by critics of the FPUC as evidence that it was disincentivizing work (despite the fact that the authors of the Chicago study did not investigate, or claim to investigate, the relationship between high replacement rates and job finding).

Because this study did not include non-wage forms of compensation, we believe that the share of unemployment insurance recipients receiving a replacement rate above 100 percent is likely less than 68 percent.

OUR STUDY

To paint a more complete picture of how well the FPUC is doing as an income replacement program for the unemployed, we analyzed both wage- and non-wage compensation. Previous studies, which rely on a narrow definition of compensation, exclude many forms of non-wage compensation, such as health benefits, that have a substantial monetary value. When laid-off workers lose their jobs, they lose their employer-sponsored health benefits too. Continuing health insurance coverage through programs like COBRA is expensive, with individual premiums running an average of nearly $600 a month. By failing to account for the fact that unemployed individuals must now cover these non-wage forms of compensation on their own, or lose them altogether, earlier studies may overstate the extent to which unemployment insurance benefits are fully replacing former compensation packages.

METHODOLOGY

Our main goal is to estimate how UI benefits for continued claimants compare against the total compensation claimants earned in their pre-pandemic engagement with the labor market. In the absence of microdata on UI claimants' total compensation, we estimate an industry-specific measure of both wage and non-wage losses endured by UI benefit recipients. The BLS's Employment and Training Administration (ETA) tracks and releases demographic data on continued UI claimants through the Characteristics of Unemployment Insurance Claimants, from which we obtained information on the distribution of claimants across previous industry of work. The BLS calculates on a quarterly basis a measure called the Employer Costs for Employee Compensation (ECEC), which measures the total cost of hiring labor for employers from both wage earnings and employee benefits. We estimate the industry-level average weekly total value of compensation in March 2020 by multiplying industry-specific average weekly hours of employment from the BLS Employment Situation release by the weekly ECEC for each industry.

Because our goal is to capture how the pre-pandemic total compensation of workers on UI compares to the benefits they currently receive, we used March as a reference period for both the average weekly hours of employment and the ECEC. To better capture the type of workers on UI as the pandemic deepened, we used the latest available Characteristics of Unemployment Insurance Claimants, which at the time of writing was for May 2020. We used the latest national average UI weekly benefits to calculate replacement rates due to unavailability of an industry-level breakdown of benefits.[14] Given the unavailability of microdata on UI claimants, our calculations of replacement rates represent the share of claimants who work in industries where the average total compensation is above or below the average weekly UI benefit. For our results, we calculate weighted averages which take the number of claimants within a given industry as weights.

A more detailed methodology, including tables, can be found in our online appendix.

14 The national average weekly benefits for weeks of total unemployment in May of $320.68 was also obtained from the ETA. We added $600 to this amount to reflect the Federal Pandemic Unemployment Compensation (FPUC) received by all claimants.

FINDINGS

Our analysis of unemployment insurance claimants found that they received, on average, 28 percent of their pre-pandemic compensation in non-wage benefits.[15] This is a sizable share of compensation and its exclusion from the Chicago study is likely leading to an overestimate of the true replacement rate. Importantly, this level of non-wage compensation is slightly lower than the national average of 30 percent since individuals laid off during the pandemic tend to be lower wage, and therefore have lower levels of benefits, than the total working population.

After we calculate a replacement rate using total compensation (including non-wage compensation), we find that about 60 percent of claimants actually worked in industries where the average total compensation exceeds what they are currently making in unemployment.

Finally, we look at the composition of the 40 percent of claimants who worked in industries where the average total compensation is below what they make in UI benefits on average. Among these claimants, we find that the national weekly UI benefit average for weeks of total unemployment of $921 per week is approximately 161 percent of their weighted average pre-pandemic compensation. These workers worked a weighted average of 28 hours per week prior to the pandemic and earned a weighted average of $15 an hour. The increase in their replacement rate is partly driven by the fact that they were formerly part-time workers. Because the weekly FPUC benefit is the same regardless of whether you formerly worked a 40-hour week or a 20-hour week, former part-time workers are more likely to have higher replacement rates than their full-time laid-off colleagues.

CONCLUSION

The University of Chicago study has been repeatedly cited by critics of the FPUC as evidence that high replacement rates in unemployment are disincentivizing laid-off workers frm returning to work. To date, there has been no empirical research suggesting that this is the case and several studies suggesting that the opposite may be true. Regardless of where one lands in that debate, it is not clear that the FPUC is the windfall that many analysts have suggested. In fact, our analysis of replacement rates, which accounts for both wage and non-wage compensation, estimates that 60 percent of unemployment insurance claimants work in industries where the average total compensation exceeds the average weekly UI benefit. In short, the majority of unemployed Americans could be doing worse, not better, financially in unemployment.

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15 This is a weighted average that takes the number of claimants within a given industry as weights.