Low Benefit Recipiency in State Unemployment Insurance Programs

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Executive Summary

When workers become unemployed they often apply for and receive Unemployment Insurance (UI) benefits. Across the United States, there is wide variation from state to state in UI application rates, the rate of first payments to applicants and duration in UI benefit status. The project studied the explanation for the wide interstate variation in the receipt of UI benefits. In addressing this question, particular interest centered on states where recipiency is significantly lower than the national average.

Several factors operative in the states could explain why recipiency is so varied. The project focused on two broad sets of factors: 1) differences in state labor markets and 2) differences in aspects of UI programs such as their statutes, administrative activities and methods filing for benefits. The analysis found both sets of factors contributed to differences in the receipt of UI benefits across states.

Considering the findings from all parts of the project, three main conclusions are drawn. 1) Variation in UI benefit recipiency can be productively studied, and the analysis indicated that low recipiency is systematically linked to variables that reflect UI statutes and administrative operations as well as differences in features of state labor markets, e.g., unionization. 2) Varying rates of inflow into benefit status generally have larger effects on overall benefit recipiency than variation in duration of benefit receipt. The application rate (applications as a share of new onsets of unemployment) and the first payment rate (first payments as a share of new initial claims), two of the three inflows studied, are most closely linked to overall recipiency as measured by the WBTU ratio (weekly UI beneficiaries as a proportion of weekly unemployment). 3) The misconduct determination rate has an especially large effect on all three ratios linked to inflows into UI benefit status. Developing a more detailed understanding of why misconduct determination rates are so varied across states would seem to be especially important.

The research documents variation in UI recipiency rates examining two state-level measures, IUTU ratios (weekly UI claimants as a proportion of weekly unemployment) and WBTU ratios (weekly UI beneficiaries as a proportion of weekly unemployment). Focusing primarily on WBTU ratios, it summarizes state-level data for the years since 1967. Long run averages of WBTU ratios exceed 0.40 in some states while in others WBTU ratios have averaged less than 0.20. The patterns of low (or high) recipiency are shown to persist in individual states for multiyear periods. Low (or high) recipiency is also shown to have a clear regional pattern.

Among the states with low recipiency, three distinct patterns were identified. 1) In five widely dispersed states, low recipiency is associated with both a low inflow rate into benefits and short benefit duration. 2) In nine states, mainly in the southwest, the inflow into benefits is very low but duration is long, higher than the national average. Because the inflow rate is so low, the result is low recipiency. 3) In five southeastern states, the inflow into benefits is average but benefit duration is very short, partly because recipients are still job-attached. Employer filing is common in these states, and it has a large effect on the pattern of UI recipiency. It is associated

with high application rates, low first payment rates, short benefit duration and low determination rates for voluntary quits and misconduct. These consequences all follow from a situation where many claimants are still job-attached. In states with a significant volume of employer filing, the UI program experiences an especially fast flow-through of claimants compared to other states.

The project followed two approaches in studying the explanation for low recipiency. Inferences are drawn from multiple regressions and related analyses and from information gathered during site visits conducted in nine states. Because the methodologies used in the two approaches are so different, exact comparisons of their findings are somewhat difficult to make. However, the two approaches did yield some common findings. The regressions and the site visits identified aspects of UI statutes, program administration and methods of claims filing that significantly affect recipiency.

While a wide array of factors related to UI programs cause interstate differences in recipiency, two are most important. 1) The inflow into benefit status is particularly sensitive to the rate at which UI agencies make determinations on the issue of misconduct. High misconduct determination rates are systematically associated with low inflows into UI benefits. 2) Duration in benefit status is sensitive to agency activities that reflect the frequency of nonseparation determinations and the frequency of eligibility reviews. In states where these activities occur with high frequency, benefit duration is significantly shorter than in other states. In summary, data reflecting aspects of UI administrative activities are systematically linked to the likelihood of receiving UI benefits and to the duration of benefits.

The regression analysis, one of the two research approaches, was conducted using an accounting framework developed within the project. The regressions used pooled state-year data and examined three ratios related to the inflow into benefit status and a fourth ratio linked to unemployment duration. The regressions included both macro-labor market variables and variables reflecting UI statutes, administrative activities and methods of filing for benefits. The labor market variables and the UI variables both made important contributions to the explanation of interstate variation in recipiency.

The regressions explaining the application rate, the inflow variable with the widest range of interstate variation, found it depends heavily on the misconduct determination rate. Methods of filing initial claims other than in-person filing were found to increase application rates with the biggest effect caused by employer filing. The base period earnings requirement and the partial benefits share also made significant contributions to explained variation. The repeat application rate was found to depend on the misconduct determination rate as was the first payment rate (first payments as a proportion of new initial claims). Also important in explaining interstate variation in the first payment rate were the net liable-agent claims differential, the monetary eligibility proportion and the misconduct denial rate.

For explaining inflows into benefit status, the largest effect was found for the misconduct determination rate. High misconduct determination rates were associated with low application rates, low repeat application rates and low first payment rates. In short, all three facets of claimant inflows into benefits were reduced by a high misconduct determination rate.

Relative unemployment duration, i.e., duration of UI benefits relative to overall unemployment duration, was strongly linked to potential UI benefit duration, the partial benefits

share, the nonseparation determination rate, the nonseparation denial rate, the rate of eligibility reviews and the proportion of continued claims filed by employers. The negative effects of the nonseparation determination rate and the eligibility review rate on relative duration show that active administration of continuing claims significantly shortens average duration.

The preceding findings were all drawn from multiple regressions that also included large and significant effects of macro and labor market variables, e.g., capacity utilization, the job loser share of new unemployment spells and the unionization rate. Even controlling for obvious factors in the macro-labor markets of the states, UI program variables had important effects on all aspects of UI recipiency.

While the findings of the site visits were more qualitative than quantitative, several patterns were identified that differentiated four high recipiency states from five low recipiency states. Seven specific findings were the following. 1) High recipiency states have made much more accommodation to non-English speakers in filing for UI benefits. 2) Requirements for monetary eligibility are generally easier to satisfy in high recipiency states. This encompasses lower monetary thresholds (measured relative to the average weekly wage), the absence of added monetary requirements, having alternative earnings requirements, offering an alternative base period (monetary eligibility based on more recent earnings than used in standard eligibility determinations) and offering short-time compensation (or worksharing which allows some work and receipt of benefits in the same week). Monetary eligibility proportions averaged 0.90 in the four high recipiency states but only 0.81 in the five low recipiency states while the national average proportion was 0.86. 3) Rates of adjudication on separation issues, both quits and misconduct, are generally lower in states with high recipiency. 4) Quits are more likely to be compensated in high recipiency states. 5) Disqualifying and deductible income denials are less frequent in high recipiency states. 6) Eligibility reviews generally occur less frequently in high recipiency states while penalties for failure to meet reporting requirements have more “teeth” in low recipiency states. 7) Rates of employer appeals of nonmonetary determinations are much lower in high recipiency states, less than half the rate of appeals in low recipiency states. While the separate contributions of these individual factors are difficult to estimate, all operate to reduce recipiency in the states with low recipiency.

The research also addressed the issue of UI administrative stringency using three administrative measures important in determining the inflow of claimants into benefit status: the monetary eligibility proportion, the voluntary quit determination rate and the misconduct determination rate. These were examined with a series of multiple regressions. The patterns of average residuals from the regressions were then compared. Probably the most important finding of this analysis was that low benefit recipiency, as signaled by the WBTU ratio, was negatively associated both with the voluntary quit determination rate residuals and with the misconduct determination rate residuals. In other words, low benefit recipiency was systematically associated with higher than expected determination rates for both voluntary quit and misconduct issues.

In conducting the research for the project, several questions were encountered that seemed fruitful areas for further research. The final chapter identifies and briefly discusses some suggested topics for further research.