

## EXECUTIVE SUMMARY

The federal-state Unemployment Insurance (UI) program offers assistance to workers who have lost their jobs through no fault of their own. In all states, the level of cash benefits paid is based on previous wages earned, and the duration of benefits is limited, typically to a maximum of 26 weeks. However, the federal government has extended the duration of benefits during every recession since the 1950s. Most recently, the Emergency Unemployment Compensation Act of 1991 created the Emergency Unemployment Compensation (EUC) program. The program, which subsequent amendments to the act extended, paid federally financed extended benefits from November 1991 through April 1994. More than \$28 billion in benefits was paid under the program.

The EUC program, as implemented, contained two different components. The largest consisted of a program that extended individual workers' potential durations of unemployment compensation. This component, targeted at workers suffering long-term unemployment, was similar to earlier emergency extended benefits programs: Federal Supplemental Benefits (FSB), in the 1970s, and Federal Supplemental Compensation (FSC), in the 1980s. Its most important difference from these "third-tier" programs lay in the precise way in which EUC interacted with the regular, permanent Extended Benefits (EB) program. Specifically, EUC legislation permitted states to substitute EUC for EB in situations where EB otherwise might have been available. Most states availed themselves of this option throughout the period in which EUC was available. This had the practical effect of turning EUC into a "second-tier" program as well. That is, for most workers suffering long-term unemployment, EUC was the only source of extended benefits during the recession of the early 1990s.

The second component of EUC was unique to that program. During Phases 3 and 4 of its five phases, some workers who normally would have collected benefits under the regular Unemployment Insurance (UI) program had the option of collecting EUC benefits instead. Because the only claimants eligible for this option were those beginning a new benefit year, such claims acted as a substitute for regular UI and served a different category of worker (specifically, workers who expected recall and who had much shorter periods of unemployment than those who usually collect benefits under extended benefits programs). Although benefits paid under this component probably totaled less than 15 percent of all benefits paid under EUC, the novelty of its structure suggests that considerable attention be devoted to it in our overall evaluation.

## CONCLUSIONS

Our review of the EUC program suggests 11 conclusions about its overall impact and effectiveness:

1. ***The extended benefits component of the EUC program performed an important countercyclical role during the recession of the early 1990s.*** The relatively long duration of the program and its widespread implementation by the states were appropriate, given the extended weakness of the labor market exhibited in that recession. EUC appears

to have avoided both the overly generous and the poorly targeted benefits that characterized the extended benefits programs (EB and FSB) in the 1970s and the overly long duration of the FSC program of the early 1980s. Although no one measure of the performance of the EUC program captures all its countercyclical features, the exhaustion rate is perhaps the best single measure. We estimated that availability of its extended benefits component permitted the overall system of unemployment compensation to provide a slightly lower exhaustion rate (our estimates ranged from 17 to 24 percent) than the rate that characterizes the system during nonrecessionary periods. These benefits replaced about 2.4 percent of the shortfall in real disposable income attributable to high unemployment throughout the recessionary period.

2. ***The size and scope of the EUC program significantly exceeded what would have been provided under the regular EB program.*** Our simulations suggested that, in the absence of EUC, only about 3 million exhaustees would have been covered under the regular EB program during the period 1991.4 to 1994.2, even if all states had adopted the total unemployment rate as a trigger for EB. On the other hand, EUC (which effectively replaced EB during this period) paid benefits to about 7.7 million regular UI exhaustees under its extended benefits component. Even with modestly relaxed trigger thresholds, EB would have been a substantially smaller program than EUC. In actuality, of course, EB itself played virtually no role in the recession of the early 1990s. In addition, the federal financing of EUC resulted in \$3 to \$4 billion in trust fund savings for the states. These savings were concentrated in a small number of states, resulting in an average Unemployment Compensation (UC) tax rate saving of approximately 0.25 percentage point in those states where EB would have been payable.
3. ***Implementation of the extended benefits component of EUC presented a number of administrative complexities arising from its multiple-phase structure and its integration with the regular UI program.*** Most of these difficulties arose from the time pressure state officials were under to incorporate EUC into their operations. Because some of EUC's provisions (for example, maximum durations) were changed frequently, and because the program incorporated some provisions that differed from those of the regular UI program (for example, more stringent work search requirements), it was often impossible to devote the necessary care to establishing systems and procedures for paying benefits. Hence, although the phase structure of EUC did permit a flexible response to recessionary conditions as they became apparent, more attention might have been paid to easing the states' implementation of the programs and to streamlining transitions among its phases.
4. ***The characteristics of individuals receiving EUC under its extended benefits component resembled those of recipients of previous programs, although a few significant differences reflecting the changing composition of the labor market were apparent.*** Recipients who received both UI and EUC were more likely to be older, female, and part of a minority group than were shorter-term recipients who received only UI. Compared to previous emergency programs, they were less likely to be from manufacturing industries than were recipients of FSB and FSC (for example, 30 percent under EUC, as

opposed to 44 percent under FSB). Females also constituted a larger fraction of recipients under the extended benefits component of EUC, than had been the case under the previous emergency programs (44 percent in EUC, versus 37 percent in FSC). Still, it seems clear that the extended benefits portion of the EUC program served workers suffering long-term unemployment who shared many similarities with workers who collected under earlier emergency programs.

5. ***Workers receiving benefits under the extended benefits component of EUC experienced considerable difficulty in finding reemployment.*** Despite extensive job search, it took many recipients a long time to find a job. Moreover, approximately 23 percent of workers who received benefits under the extended benefits component of EUC never (during an average follow-up period of three and one-half years) found a new job. Many of those extended benefits recipients who found new jobs reported subsequent job separations, suggesting that much of the reemployment was in relatively unstable jobs. Two-thirds of those who became reemployed found jobs in industries different from those of their prior jobs. About 4 out of 10 workers experienced wage losses of at least 25 percent.
6. ***Substantial numbers of individuals receiving benefits under the extended benefit component of EUC received reemployment services from the Job Service or education or training. However, not all recipients received reemployment services, and those receiving education or training were not always the individuals who appeared to be most in need of further education or training.*** Approximately 75 percent of long-term recipients received services from the Job Service; however, 25 percent did not. Seventeen percent began education or training programs while collecting benefits or before the start of a job. This seems like a substantial number, since not all recipients need or could benefit from education or training. However, those who did enter education or training tended to be better educated and to have greater earnings possibilities than those who did not. Relatively few individuals who were high school dropouts or who had low wages on their pre-benefits jobs participated in education or training.
7. ***The extended benefits portion of the EUC program kept a considerable number of families from falling below the poverty line.*** Nevertheless, EUC benefits alone often were insufficient to keep families out of poverty when there was no working spouse or partner. Another factor exacerbating the low incomes of EUC recipients' families was that they had very low rates of receipt of benefits from retirement and transfer programs.
8. ***Approximately 5 percent of all EUC first payments (and 30 percent of first payments during Phase 1 of the program) were made to "reachback" eligibles.*** Mean weeks of EUC collected, average total benefits received, and exhaustion rates for this group were very similar to those of other EUC recipients during Phase 1.

9. ***The optional claims component of EUC permitted states to achieve savings to their UI trust funds when workers chose to substitute EUC benefits for regular UI benefits that would otherwise have been payable to them.*** Inaccuracies and shortcomings in the reporting of optional claims made it difficult to obtain precise figures for the dollar value of benefits payable under them. Overall, however, we estimate that these benefits may have amounted to between \$3.4 and \$4.6 billion. This represented 12 to 16 percent of all EUC benefit dollars and 5 to 7 percent of regular UI benefits during the period. Our data also suggested that the actual trust fund savings from the optional claims component of EUC were unevenly distributed among the states, with some states receiving the equivalent of a full percentage point in UI tax rate relief, while others received less than a tenth that amount.
  
10. ***This optional claims component of EUC added major complexities to the administration of EUC during Phases 3 and 4.*** Presenting information to claimants about the EUC optional claims provision was time-consuming and difficult, since both staff and claimants found the options hard to understand. Integrating the payment of optional claims into state UI systems also required overriding many existing computer safeguards. The rapid implementation of Phase 3 of EUC meant that there was little time to validate new computer code. This meant that officials often were forced to override their systems manually. Further complicating the situation were issues in the proper interpretation of some optional claims procedures.
  
11. ***The overwhelming majority of workers who collected benefits under the EUC optional claims component were not long-term unemployed.*** These workers were much more likely to expect recall to their prior employers, to do less job search, and to have significantly higher reemployment rates than workers who collected under the extended benefits component. Indeed, average total unemployment compensation benefits collected by workers choosing the optional claims portion of EUC amounted to only about 25 percent of the average total amount of UC benefits collected by workers collecting under the extended benefits component of EUC.

## **POLICY IMPLICATIONS**

These conclusions suggest four broad implications for future unemployment compensation policy toward extended benefits:

1. ***In the absence of major changes to the EB trigger mechanism, it seems likely that future emergency programs will have to function as both “second-tier” and “third-tier” extended benefits programs.*** Trigger rates under EB are simply too high and too constrained by the trigger rates’ threshold requirements to permit EB to provide the level of benefits that EUC did during the recession of the 1990s. Because the goals of future programs are likely to be similar to those of EUC (although the specifics will be tailored to

particular recessionary circumstances), these too will likely be used as substitutes for EB if the UI system is to continue to provide adequate support to long-term unemployed workers.

2. ***Operations of future EUC-type programs would be significantly improved if implementation could be streamlined.*** In particular, although the phase structure incorporated in EUC provided flexibility in meeting recessionary needs as they arose, these phases were often too short and contained administrative procedures that were changed too frequently for states to adapt to them. Operation of the program would be much smoother if state administrators had more time to adapt their systems to the program's requirements and if basic provisions (such as job search requirements) were more carefully integrated with existing UI procedures.
3. ***Experiences of recipients of extended benefits under EUC suggest the need for enhanced labor market services.*** Clearly, many of these recipients experienced significant difficulties in finding reemployment as a result of the 1990s recession. While many recipients received some reemployment services, there appears to have been a need for additional services directed toward workers who are likely to collect extended benefits and who probably will have difficulty finding jobs comparable to their pre-benefits jobs. However, the Worker Profiling and Reemployment Services systems that have been introduced since the end of the EUC program now provide a mechanism to direct reemployment services toward workers who are likely to collect extended benefits.
4. ***The optional claims component of EUC should not be a component of future extended benefits programs.*** The optional claims component may have helped some claimants avoid reductions in weekly benefit amounts as the result of entering a new benefit year, as was intended, but the vast majority of benefits paid under this option went to the short-term, rather than long-term, unemployed. It was also extremely difficult to administer. Overall, such a component plays no useful role in a policy intended for the long-term unemployed.