

Gary Burtless Unemployment Insurance Summary:

The three main parts of the national policy to help displaced workers are (A) programs to help match job-seeking workers to employers who are looking for new workers; (B) earnings replacement for the wages lost as a result of unemployment; and (C) worker retraining programs. By far the most costly part of this package is item B, earnings replacement provided through unemployment insurance (UI). In 2007, the government spent almost \$33 billion for UI benefit payments. In normal times workers in most states are eligible to draw up to 26 weeks of UI. Since July 2008 workers who exhaust their regular UI benefits have been eligible to receive up to 13 extra weeks of Emergency Unemployment Compensation, giving them eligibility for a total of 39 weeks of UI benefits. However, emergency benefits will almost certainly be eliminated when the unemployment rate returns to a lower level. UI benefits replace part of the wages workers lose when they are laid off. By international standards, U.S. benefits are neither very generous nor very long lasting. Many rich countries replace a larger percentage of the wages lost as a result of unemployment, and they replace them for a longer span of time – up to a year or longer.

In spite of the relatively meager and constant replacement rate provided by UI benefits, the average duration of American unemployment has been increasing over time. In addition, the percentage of workers drawing UI benefits who eventually exhaust their benefits has also been increasing. One reason is that a declining percentage of the unemployed is on temporary layoff; a rising percentage is on permanent layoff. Most workers on temporary layoff do not look for new jobs, because they expect to be recalled to their old jobs. For these workers, the UI program functions fairly effectively. In the late 1960s, a third or more of the unemployed expected to be recalled to their old jobs. In recent years, that percentage has often fallen below 25% of the unemployed. UI also works pretty well for workers who have skills in high demand and who can find new jobs relatively quickly. The program is less helpful for workers in areas with high unemployment or who have skills for which there is less demand. Many of these workers use up all their UI benefits before finding a job.

Even if the UI program does a good job of replacing workers' lost earnings while they are jobless, it does nothing to offset the earnings loss some workers experience when they are re-employed. In order to get a new job, some workers have to change their occupation. In many cases the new occupation has lower pay than the old one. Workers who must accept a wage cut of \$5 or \$10 an hour to get re-employed may delay taking a job until immediately before or after they are about to exhaust their UI benefits.

UI was established in the United States in the 1930s. At that time, most worker compensation consisted of money wages. UI was designed to replace the money wages workers lose when they are laid off. Since the 1930s more and more worker compensation consists of fringe benefits, such as health insurance

and employer pension contributions. UI does not replace the health insurance and pension contributions that workers lose when they are laid off. The loss of health insurance protection is the more serious problem, because many families depend on the health insurance obtained as a result of the breadwinner's job. When breadwinners lose their jobs, their families frequently lose their health coverage, too. To be sure, the U.S. now has a law that allows laid off workers to continue their health coverage if they pay the full premium for continued coverage. However, for many unemployed workers the required premium payments are unaffordable. A typical health insurance policy covering a breadwinner and two dependents costs \$12,000 or more a year. Employers typically pay about 80% of this premium, and their employees pay the other 20%. For most American families, the burden of paying 100% of a \$12,000 premium is too much, especially if the main family breadwinner has been laid off. Either the UI system or the nation's health care system must be reformed so that displaced workers can afford to obtain good health insurance.