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NEW CBO REPORT DEMONSTRATES VALUE OF THE INCOME SUPPORT PROVIDED BY UNEMPLOYMENT INSURANCE, AND CONFIRMS HIGH LEVEL OF UI EXHAUSTIONS

By Isaac Shapiro

A just-released Congressional Budget Office report examines what the most recent available data indicate about the incomes of long-term recipients of regular, state unemployment insurance (UI) benefits, and the degree to which UI benefits are of use to them.[1] The study examines income data just prior to the enactment of the temporary federal benefits program in March 2002. The study also reviews the level of unemployment insurance exhaustions in the past two years. Due to data limitations, CBO cautioned that the focus should be on the "qualitative findings of the analysis rather than on the precise estimates," but CBO also tested the "robustness" of its study by comparing it with some older studies, and concluded that the results generally were consistent.

The findings of the new CBO report include the following.

Regular UI benefits offset a considerable degree of the income lost due to a long-term unemployment spell, but the unemployed are still worse off than when they were employed.

> "When UI recipients lost their job, their income – excluding UI benefits – dropped by almost 60 percent. With UI benefits included, the income loss was about 40 percent." (page 2 of the study)

UI helps prevent the middle class from falling into poverty. Half of UI recipients had monthly incomes below the poverty line, if their UI benefits are not considered. Their UI benefits reduce their poverty rate dramatically. Few of the unemployed were poor before they lost their jobs.

> "Three months before their long-term UI spell began, only about 7 percent had family income below the monthly poverty threshold…. During their long-term spell, by contrast, nearly one-quarter of the UI recipients had monthly family income below the poverty threshold. That figure rises to one-half when UI benefits are excluded." (p. 13)

[1] Congressional Budget Office, *Family Income of Unemployment Insurance Recipients*, March 2004. The study focused on long-term UI recipients: "defined as unemployed workers who received unemployment insurance (UI) benefits for a spell of at least four consecutive months in 2001 or early 2002."

The likelihood that UI recipients exhaust their benefits before they are able to find a job hit exceptionally high levels in 2002 and 2003.

> "For the past two years, that exhaustion rate has been higher than at any time in recent history." (p. 14)

The high exhaustion rate for state benefits was primarily a reflection of the weak labor market, not the existence of temporary federal benefits (TEUC aid). As evidence for this conclusion, the length of unemployment spells also rose for those not receiving UI benefits.

> "Some of the rise in the exhaustion rate since March 2002, when the TEUC program was enacted, is most likely associated with the availability of those additional weeks of benefits. However, that effect is probably small compared with the impact of a weaker labor market. As with unemployed workers who lost their job, the average duration of unemployment has also increased for groups that are generally ineligible for UI benefits (new entrants and reentrants to the labor force), which suggests that the overall state of the labor market, rather than the availability of benefits, has been the key factor." (p. 15)

Individuals who exhaust their regular UI benefits and are not able to find jobs are more than twice as likely to be poor and to lack health insurance as they were when they were employed.

> "…more than one-third of the former long-term UI recipients who had not returned to work had an income below the poverty line (measured on a monthly basis), and about 40 percent lacked health insurance—more than double the numbers before they became unemployed." (p. 2)