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## **TWO MILLION WORKERS WILL LIKELY EXHAUST THEIR REGULAR UNEMPLOYMENT INSURANCE BENEFITS IN THE FIRST HALF OF 2002**

by Wendell Primus and Jessica Goldberg

Two million unemployed workers are likely to exhaust their regular weeks of unemployment insurance (UI) benefits in the first six months of 2002, with about one million exhaustions occurring in each of the first and second quarters. This estimate, which is comparable to estimates by the Congressional Budget Office, represents a sharp increase over the number of workers who exhausted benefits in the first and second quarters of 2000.

In each of the last five recessions, federally funded weeks of additional benefits have been made available to workers who are facing the end of their benefit eligibility for regular UI benefits, which typically are provided for 26 weeks, and are unable to find new jobs or return to their former employment. But because the federal government has not provided additional weeks in this recession and only two states have triggered on to extended benefits, most of these two million exhaustees will receive no unemployment benefits to replace their lost wages.<sup>1</sup>

The large anticipated number of expected exhaustions in the first six months of 2002 is due primarily to the very large number of people who began receiving unemployment benefits during the last six months of 2001. Since the number of people who began receiving benefits in the second half of 2001 is known, it is possible to project the level of exhaustions during the first half of 2002 with a fair degree of certainty. The attached appendix explains the methodology for doing so.

A small percentage of exhaustees will receive additional weeks of benefits through extended unemployment benefit programs. Oregon and Washington qualified to begin providing additional weeks of benefits in mid January under the extended benefits program, which is partially state funded. But these states account for only four percent of the number of workers exhausting their benefits. No other state is likely to qualify for extended benefits in the first quarter of 2002. Wisconsin is poised to adopt legislation to make additional weeks of benefits available entirely from state funds, and Hawaii has just enacted such legislation. Once both of these states provide these benefits, that will bring to six percent the proportion of the two million workers projected to exhaust their regular unemployment benefits in the first two quarters of 2002 who reside in states in which additional weeks of benefits are provided.

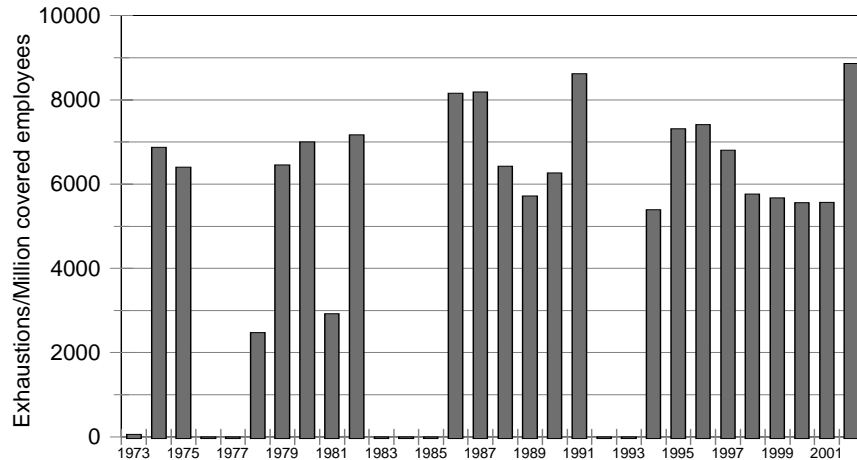
The other 94 percent of the two million anticipated exhaustees will not receive additional assistance. Even adjusting for growth in the labor force since 1973, the number of exhaustees who do not receive any additional weeks of benefits is expected to be larger in the first quarter of 2002 than in any other first quarter since at least the early 1970s.

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<sup>1</sup> Exhaustees in other states will remain ineligible for extended benefits unless the unemployment rate in their state rises to substantially higher levels or their state legislature acts to liberalize state law regarding the level of unemployment that must be reached for extended benefits to be paid.

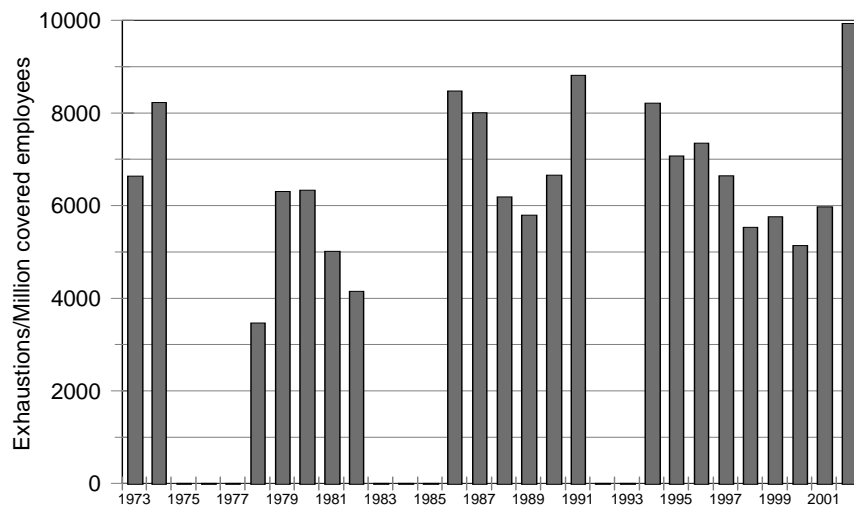
The first graph shows that the number of exhaustees who do not receive additional weeks of benefits is projected to be higher in the first quarter of 2002 than in any other first quarter in recent decades, even after adjusting for the size of the labor force. (Exhaustions are expressed per million employees covered by the unemployment insurance system, to adjust for growth in the labor force.) There were more *total* exhaustions in several previous years, but in each of those years, a large fraction or all of the exhaustees received additional weeks of benefits. The second graph shows that this same pattern is expected to hold for the second quarter of 2002, as well. (The years for which there is no bar are years in which all workers exhausting regular unemployment benefits were eligible for additional weeks of benefits.)

### Exhaustions in the First Quarter Not eligible for additional weeks



The number of workers who exhaust their regular unemployment benefits has climbed sharply over the past year. The number of workers who exhaust their benefits is expected to be more than 750,000 higher during the first half of 2002 than it was during the first half of 2001. The increases between the corresponding periods in 2001 and 2002 in the number of workers who exhaust their regular unemployment benefits are expected to be larger than the increases experienced during the recession of the early 1990s, even though the unemployment rate was 50 percent higher then.

### Exhaustions in the Second Quarter Not eligible for additional weeks



## Appendix

### Methodology for Estimating the Number of Exhaustees

The projected number of “exhaustees” in a given quarter is equal to the number of people who first received benefits two quarters ago times an estimated exhaustion rate. The data illustrating this relationship for the last four quarters are shown below. The number of individuals who exhausted benefits in each of the past few quarters, as well as the number who began receiving benefits in each of these quarters, are known from administrative data. The exhaustion rate is derived by dividing the number of exhaustees by the number who first received payments.

	Number of people who began receiving benefits 26 weeks prior to this quarter	Exhaustion rate	Number of exhaustees
Q1 2001	1,633,000	36.4%	595,000
Q2 2001	1,800,000	35.5%	638,000
Q3 2001	2,815,000	26.1%	735,000
Q4 2001	2,047,000	41.9%	858,000

Future exhaustion levels are estimated by multiplying a known number of workers who began receiving benefits by a projected exhaustion rate. Exhaustion rates tend to increase between the fourth quarter of one year and the first quarter of the next year, and since 1980, exhaustion rates for December of one year and the first quarter of the next year have been comparable. If the exhaustion rate for the first quarter of 2002 remains at the exhaustion rate in December 2001 (44 percent), the number of exhaustees in the first quarter of 2002 will be just under one million. (0.443 times 2.24 million, the number of people who first received benefits during the third quarter 2001 equals 992,000. Note: The average exhaustion rate in the first quarters of the last recession was higher than 44.3 percent). Second quarter exhaustion rates are typically a bit lower than first quarter rates. A reasonable assumption about the exhaustion rate for the second quarter of 2002 is that it will equal the fourth quarter 2001 exhaustion rate of about 42 percent, a rate somewhat lower than the assumed first quarter exhaustion rate of 44 percent. The 42 percent rate also is equal to the average exhaustion rate for the second quarters of the last economic downturn, from 1991 to 1993. Given a 42 percent exhaustion rate and the known number of individuals who first received benefits in the fourth quarter of 2001, slightly more than one million additional unemployed workers are projected to exhaust their regular benefits in the second quarter of 2002. The estimates of the number of exhaustees used in this paper are comparable to the estimates made by the Congressional Budget office in estimating the budgetary impacts of a 13-week extension of unemployment benefits.

A small percentage of exhaustees will qualify for additional weeks of benefits. Beginning in the second week of January, exhaustees in Oregon and Washington, representing about four percent of total exhaustees, became eligible for such additional weeks of benefits under the federal-state extended benefits program. These exhaustees are not included in the graphs in this paper showing the projected number of exhaustees who will be unable to receive additional weeks of benefits. Wisconsin is expected to, and Hawaii will, provide additional weeks of benefits entirely from state accounts, covering about two percent of the total projected exhaustees. It is possible a few more states could qualify to provide extended benefits during the second quarter of 2002. For more than a few states to qualify for extended benefits, unemployment rates would have to rise much more rapidly than anticipated.