

GAO

Testimony

Before the Subcommittee on Income Security and Family Support, Committee on Ways and Means, House of Representatives

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# UNEMPLOYMENT INSURANCE

## Receipt of Benefits Has Declined, with Continued Disparities for Low-Wage and Part-Time Workers

Statement of Cynthia M. Fagnoni, Managing Director  
Education, Workforce, and Income Security Issues





Highlights of [GAO-07-1243T](#), a testimony before the Subcommittee on Income Security and Family Support, Committee on Ways and Means, House of Representatives

### Why GAO Did This Study

The Unemployment Insurance (UI) program has been a key component in ensuring the financial security of America’s workforce. In the 72 years since the UI program began, the nature of work has changed in fundamental ways. In recent decades the number of low-wage jobs, the average duration of unemployment, and the number of women in the workforce have all increased. This testimony addresses: (1) the overall trend in the usage of UI; (2) the likelihood that low-wage workers will be unemployed and receive UI benefits, especially when compared to higher-wage workers; and (3) the likelihood that part-time workers receive UI benefits.

This testimony is based primarily on GAO’s September 2007 report (GAO-07-1147) on the same topic as well additional analyses. In that report, GAO made no recommendations and the Department of Labor generally agreed with the findings. For that report, GAO analyzed data on UI regular program recipiency rates provided by Labor, and GAO examined data from the Survey of Income and Program Participation (SIPP), a national database maintained by the Bureau of the Census. For GAO’s purposes, SIPP data were available for the periods 1992 through 1995, 1998 and 2003.

## UNEMPLOYMENT INSURANCE

### Receipt of Benefits Has Declined, with Continued Disparities for Low-Wage and Part-Time Workers

#### What GAO Found

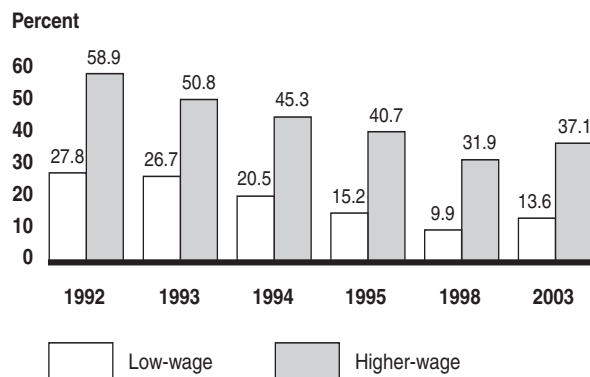
The overall rate of UI receipt has increased modestly from the mid-1980s to 2005, but still remains below the near-50 percent rate of the 1950s.

A comparison of UI receipt by earning levels shows that low-wage workers were less likely to receive UI benefits than higher-wage workers. Moreover, the gap between the two groups has not narrowed over time. Between 1992 and 1995—the period covered in GAO’s previous analysis—low-wage workers were about half as likely to receive UI benefits as higher-wage workers. For the years 1998 and 2003—the years added for this analysis—they were about one-third as likely.

Low levels of UI receipt among low-wage workers may be explained by the circumstances of low-wage workers in relation to UI eligibility rules, particularly rules in many states that do not count workers’ most recent earnings toward their minimum earnings required for eligibility. Low levels of receipt may also be explained by low-wage workers’ reasons for separating from work, because eligibility rules in many states do not recognize illness or disability of a family member as good cause for leaving employment.

Another group facing low rates of UI receipt is part-time workers. Unemployed part-time workers were significantly less likely to collect UI than those who were full-time. This was true regardless of whether the part-time workers were low-wage or higher-wage. About two-thirds of states do not consider workers eligible for UI if they are only available for part-time work. In addition, like low-wage workers, some part-time workers may have difficulty meeting the minimum earnings requirement in states that do not count workers’ most recent earnings.

**UI Rate of Receipt among the Unemployed**



Source: GAO analysis of SIPP data.

Notes: Data for 1996, 1997, and 1999 to 2002 were not available. Differences between low- and higher-wage workers in every year were significant at the 99 percent confidence level. We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

To view the full product, including the scope and methodology, click on [GAO-07-1243T](#). For more information, contact Cindy Fagnoni at (202) 512-7215 or [fagnonic@gao.gov](mailto:fagnonic@gao.gov).

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Mr. Chairman and Members of the Committee:

I am pleased to be here to discuss the extent to which low-wage and part-time workers receive Unemployment Insurance (UI) benefits. The UI program—a federal-state partnership designed to partially replace lost earnings of individuals who become unemployed through no fault of their own, and to stabilize the economy during economic downturns—has been a key component in ensuring the financial security of America’s workforce for more than 70 years. In fiscal year 2006, the UI program covered about 130 million workers and paid about \$30 billion in benefits to about 7 million workers who lost their jobs.

When the UI program was established in 1935, most of the labor force consisted of men who were employed full-time in the manufacturing or trade sectors. Since then, the nature of both work and unemployment has changed in fundamental ways. In recent decades the share of low-wage jobs, the incidence of temporary and contingent work, the number of women in the workforce and the number of two-earner families, and the average duration of unemployment have all increased. Given these changes in the labor force, questions have been raised about the types of workers who are most likely to receive benefits.

My remarks today will focus on (1) the overall trend in the usage of UI; (2) the likelihood that low-wage workers will be unemployed and receive UI benefits, especially when compared to higher-wage workers; and (3) the likelihood that unemployed part-time workers will receive UI benefits. My testimony today is based on our September 2007 report on UI and low-wage workers.<sup>1</sup> For that report, we analyzed data on UI regular program reciprocity rates provided by Labor, and we examined data from the Survey of Income and Program Participation (SIPP), a national database maintained by the Bureau of the Census.<sup>2</sup> For this testimony we conducted one additional test of the difference between low- and higher-wage workers with regard to receipt of UI.<sup>3</sup> We conducted this work

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<sup>1</sup>GAO, *Unemployment Insurance: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt*, [GAO-07-1147](#) (Washington, D.C.: Sept. 7, 2007).

<sup>2</sup>We defined low-wage as an hourly wage which is less than that required for a full-time worker (40 hours per week/52 weeks per year) to earn the Census poverty threshold for a family of four (less than \$8.97 per hour in 2003.)

<sup>3</sup>We tested whether the relative likelihood of receiving UI for low-wage workers compared to higher-wage workers – that is, the ratio of UI rates of receipt – changed over time.

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between June and September 2007 in accordance with generally accepted government auditing standards.

In summary, we found that the overall rate of UI receipt amongst workers has shown modest increase from the mid-1980s to 2005, but still remains below the near-50 percent rate of the 1950s. A comparison of UI receipt by earnings levels shows that low-wage workers were less likely to receive UI benefits than higher-wage workers. Moreover, the gap between the two groups has not narrowed over time. Between 1992 and 1995—the period covered in our previous analysis—low-wage workers were about half as likely to receive UI benefits as higher-wage workers. For the years 1998 and 2003—the years added for this analysis—they were about one-third as likely. Low levels of UI receipt among low-wage workers may be explained by the circumstances of low-wage workers in relation to UI eligibility rules, particularly the time frame during which workers earnings are counted toward UI eligibility, which excludes workers’ most recent earnings in many states. The low levels of receipt may also be explained by low-wage workers’ reasons for separating from work in relation to eligibility rules, which in many states do not recognize illness or disability of a family member as “good cause” for leaving employment. Another group facing low rates of UI receipt is part-time workers. Unemployed part-time workers were significantly less likely to collect UI than those who were full-time. This is true regardless of whether they were low-wage or higher-wage. About two-thirds of states do not consider workers eligible for UI if they are only available for part-time work. In addition, like low-wage workers, some part-time workers may have difficulty meeting the minimum earnings requirement in states that do not count workers’ most recent earnings.

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## Background

Established by Title III of the Social Security Act in 1935, UI is a key component in ensuring the financial security of America’s workforce. The UI program’s primary objective is to temporarily replace a portion of earnings for workers who become unemployed through no fault of their own. Another key function is to stabilize the economy during economic downturns.

To receive UI benefits, an unemployed worker generally must meet the state minimum earnings requirements (a minimum amount of earnings and/or employment) over a defined base period. In addition, workers must have become unemployed for good cause as determined under state law and be able and available to work. Federal law provides minimum guidelines for state programs and authorizes grants to states for program

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administration. States design their own programs, within the guidelines of federal law, and determine key elements of these programs, including who is eligible to receive state UI benefits, how much they receive, and the amount of taxes that employers must pay to help provide these benefits.<sup>4</sup> State unemployment tax revenues are held in trust by the Secretary of the Treasury and are used by the states to pay for regular weekly UI benefits. Benefits typically can be received for up to 26 weeks, although in most states some workers qualify for less than the full 26 weeks due to uneven earnings or brief work histories.

During the years we examined between 1992 and 2003,<sup>5</sup> low-wage workers made up about 50 percent of the unemployed former workers in our sample of the experienced labor force, even though they were only about 30 percent of the total experienced labor force.<sup>6</sup> Previous GAO work has shown that the likelihood of receiving UI benefits among UI-eligible workers is lower for those with lower annual earnings, controlling for a range of economic and demographic factors.<sup>7</sup>

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## Since the Mid-1980s, the Reciprocity Rate Has Shown Modest Increase, But Still Remains below the Near-50 Percent Rate of the 1950s

From 1950 through the mid-1980s, the UI regular program reciprocity rate gradually declined, dropping to its lowest point in the early 1980s. Since the mid-1980s, the UI reciprocity rate has shown modest increase.

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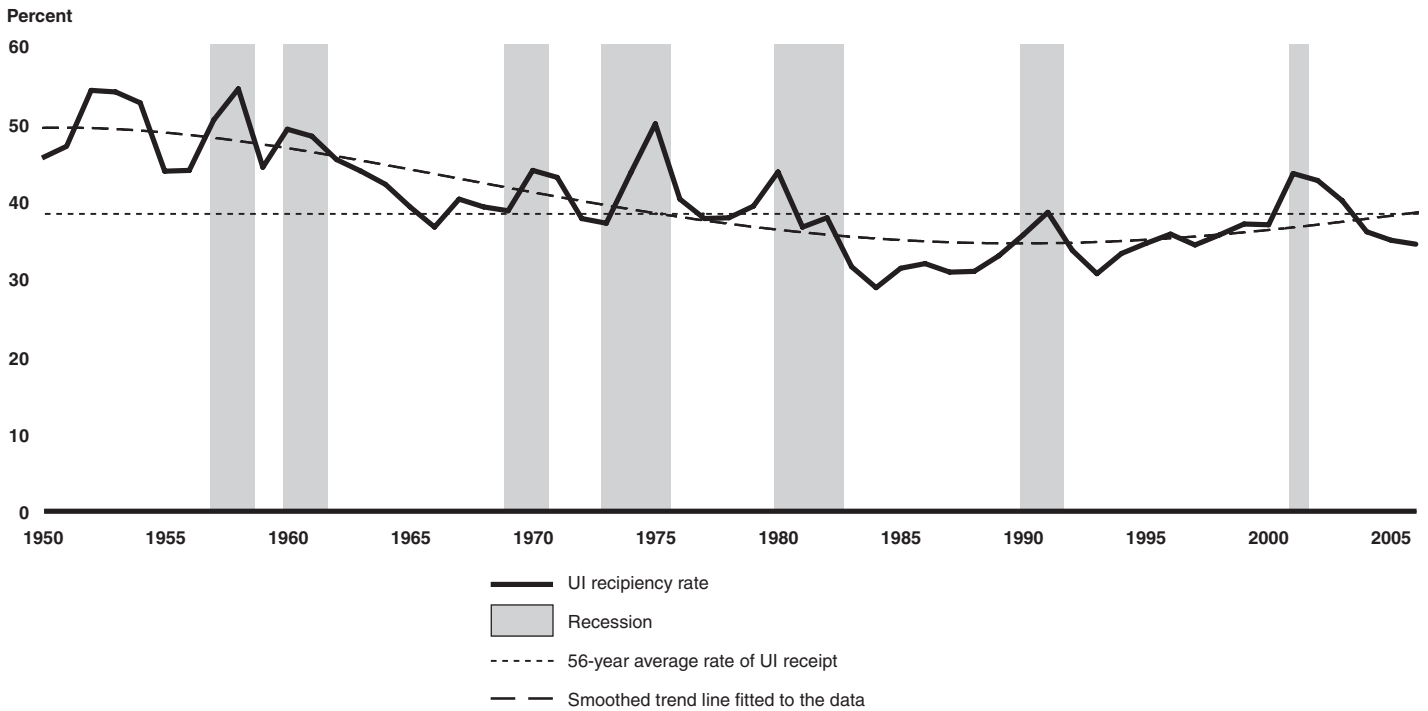
<sup>4</sup>UI benefits are funded through payroll taxes levied on employers. All state UI systems are experience-rated so that employers' contributions vary according to how much or how little their workers received unemployment benefits.

<sup>5</sup>Analysis based on SIPP data from 1992 to 1995, 1998, and 2003. Data for 1996, 1997, and 1999 to 2002 were not available. New SIPP panels were initiated each year from 1990 to 1993, in 1996, and in 2001. These panels provided us with 27-month employment histories for sample members in 1992 through 1995, 1998, and 2003. Sufficient data for 1996, 1997, and 1999 to 2002 were not available because no new SIPP panels were initiated in the years 1994, 1995, 1997, 1998, or 1999. A 3-year panel was started in 2000 but cancelled after 8 months for budgetary reasons, and thus could not be used for our analysis.

<sup>6</sup>Our calculations of unemployed former workers excluded people who did not have a job in the 27-month period before the month that they were unemployed. Thus, all new entrants and some reentrants into the labor force were excluded.

<sup>7</sup>GAO, *Unemployment Insurance: Factors Associated with Benefit Receipt*, [GAO-06-342](#) (Washington, D.C.: Mar. 7, 2006).

**Figure 1: Average UI Reciprocity Rate Since 1950**



Source: GAO analysis of Department of Labor data for state UI programs.

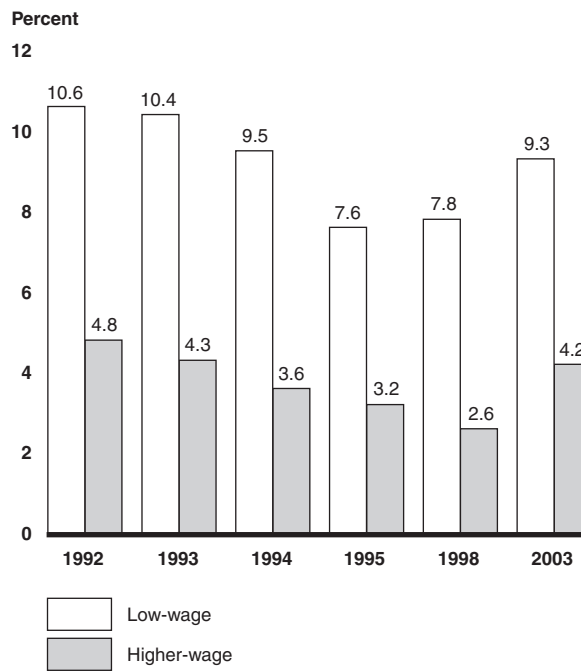
Note: Recession years are shaded. Any year with at least one quarter in a business cycle contraction (as defined by the National Bureau of Economic Research) is defined as a recession year.

As we noted in our 2000 report, two factors are considered significant to the decline of UI receipt: the decrease in the number of workers employed in manufacturing jobs and the decline of union membership in the workforce. In the past, manufacturing layoffs produced large numbers of employees who were unemployed through no fault of their own, and thus were eligible for benefits. For their part, unions played a role in making workers aware of benefits. Others have suggested that the migration of manufacturing to the South, Midwest, and West may have also played a role in the decline, given that in some of these states workers are less likely to be unionized and benefits are less generous.

## Low-Wage Unemployed Workers Were Less Likely to Receive UI Benefits Than Were Their Higher-Wage Counterparts

Low-wage workers were more likely to be unemployed but less likely to receive UI benefits than higher-wage workers.<sup>8,9</sup> Compared with higher-wage workers, low-wage workers were at least twice as likely to be unemployed between 1992 and 2003.

**Figure 2: Unemployment Rate, 1992 to 2003**



Source: GAO analysis of SIPP data.

Notes: Data for 1996, 1997, and 1999 to 2002 were not available.

Differences between low- and higher-wage workers in every year were significant at the 99 percent confidence level.

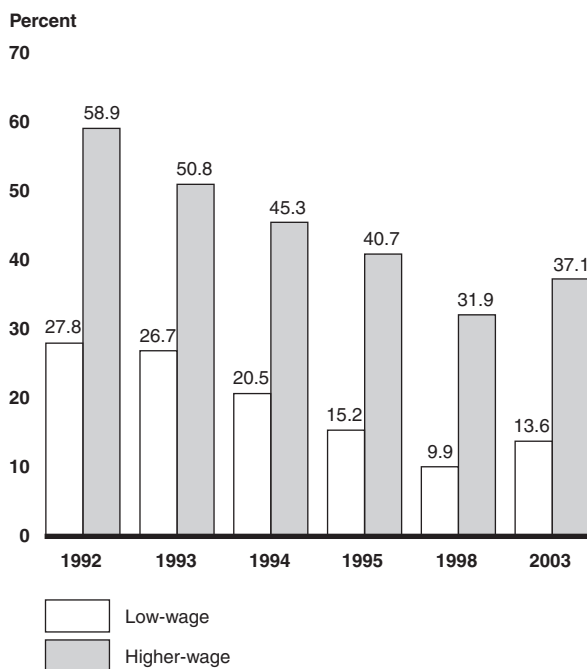
The overall unemployment rates we calculated differ from the standard unemployment rates provided by the Bureau of Labor Statistics. For the 6 years presented, standard rates were 7.5 percent for 1992, 6.9 percent for 1993, 6.1 percent for 1994, 5.6 percent for 1995, 4.5 percent for 1998, and 6.0 percent for 2003. These rates differ because our calculations excluded workers who were new entrants to the labor force, those who had a history of self-employment, and those who were younger than 18 or older than 64 in March of the survey year, and because there were technical differences between the database we used for our calculations (SIPP) and that used for the standard unemployment rates (Current Population Survey).

<sup>8</sup>Data for 1996, 1997, and 1999 to 2002 were not available.

<sup>9</sup>In addition to the results presented here, we also ran all analyses using the SIPP for a sample of “prime-age workers” (age 22 to 54), for comparison purposes. Results were similar, although the difference in UI receipt rates between low-wage and other workers was somewhat smaller than among workers aged 16 to 64, as was the difference between part-time and full-time workers.

At the same time, unemployed low-wage workers received UI benefits at less than half the rate of higher-wage workers in almost every year.

**Figure 3: UI Rate of Receipt among the Unemployed**



Source: GAO analysis of SIPP data.

Notes: Data for 1996, 1997, and 1999 to 2002 were not available.

Differences between low- and higher-wage workers in every year were significant at the 99 percent confidence level.

We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

Even with similar work tenures, unemployed low-wage workers were still less likely to receive UI benefits than unemployed higher-wage workers. Some fifty-five percent of unemployed higher-wage workers who had worked at least 35 weeks during the year collected UI. In comparison, only some 30 percent of unemployed low-wage workers with similar work tenures collected UI.



**Table 1: UI Rate of Receipt for Low-Wage and Higher-Wage Workers, by Number of Weeks Worked, Combining SIPP Data for Years 1992 to 2003**

Weeks worked prior to unemployment <sup>b</sup>	UI rate of receipt <sup>a</sup>			Relative likelihood of receiving UI (UI rate of receipt for low-wage workers divided by rate for higher-wage workers) <sup>c</sup>
	Low-wage workers (percent)	Higher-wage workers (percent)	All (percent)	
35 weeks or more	29.6	55.0	45.1	.538
20-34 weeks	24.4	46.1	33.8	.529
Less than 20 weeks	12.0	25.4	16.5	.470
All	21.8	47.9	34.9	.455

Source: GAO analysis of SIPP data.

Notes: SIPP data from 1992 to 1995, 1998 and 2003. Data for 1996, 1997, and 1999 to 2002 were not available.

Differences between low- and higher-wage workers in each work tenure group were significant at the 99 percent confidence level.

<sup>a</sup>We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

<sup>b</sup>Weeks worked prior to unemployment is the sum of the number of weeks that the person worked in the 12-month period immediately before his or her unemployment. Data are restricted to a subsample of unemployed persons who had a job during the 15 months prior to unemployment.

<sup>c</sup>For example, among those who had worked 35 weeks or more in the year prior to their unemployment, low-wage workers were 54 percent as likely to receive UI as higher-wage workers.

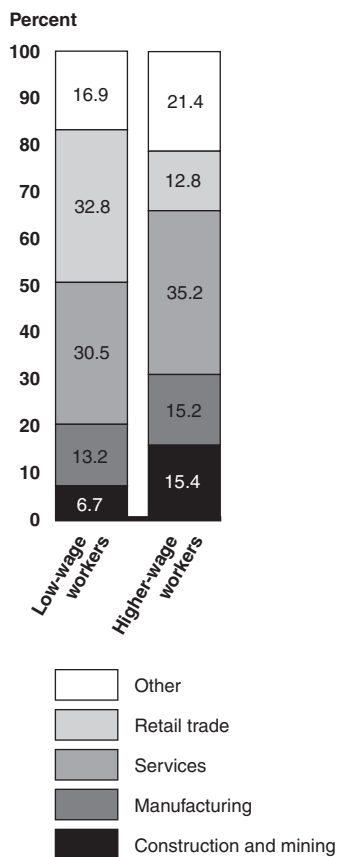
The relative likelihood of receiving UI for low-wage workers compared to higher-wage workers declined significantly from the earlier period (1992 to 1995) to the later period (1998 and 2003). Specifically, low-wage workers were about half as likely to receive UI as higher-wage workers in the earlier period, and about one-third as likely to receive UI as higher-wage workers in the later period.<sup>10</sup> While this ratio declined, the absolute difference between the two groups did not change. In the earlier period, the difference between the two groups averaged 27 percentage points; in the later period, it averaged 23 percentage points—a difference that is not statistically significant.<sup>11</sup>

<sup>10</sup>We divided the percentage of low-wage workers who received UI by the percentage of higher-wage workers who received UI in 1992 to 1995 and compared this to a similarly derived quotient for 1998 and 2003.

<sup>11</sup>We subtracted the percentage of low-wage workers who received UI from the percentage of higher-wage workers who received UI in 1992 to 1995 and compared the result to the similarly derived difference for 1998 and 2003.

One of the reasons low-wage workers may be less likely to receive UI benefits is that they are more likely to have worked in industries that had low rates of UI receipt overall.<sup>12</sup> In 2003, 63 percent of the low-wage unemployed workers had been employed in jobs from retail trade and services, as opposed to about one-half (48 percent) of higher-wage workers.

**Figure 4: Industry Sector of Last Job for Unemployed Low-Wage and Higher-Wage Workers**



Source: GAO analysis of SIPP data, March 2003.

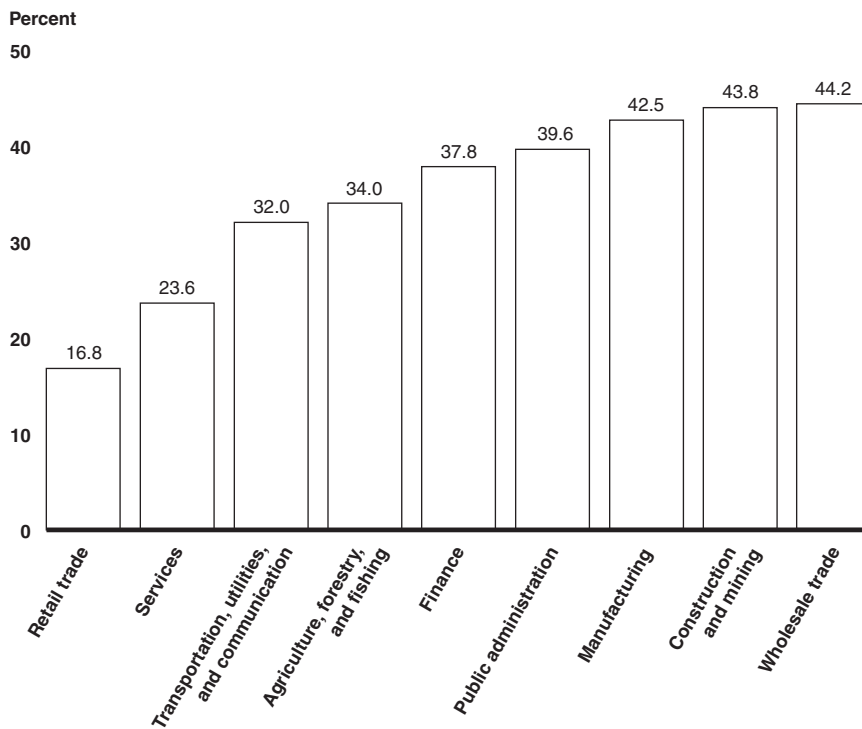
Note: “Services” includes private household services, business services, personal services, entertainment/recreational services, hospitals, medical services, educational services, social services, and other professional services.

<sup>12</sup>This analysis does not control for average wages within industries.

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Compared with all other industry sectors, the retail trade and services industries had the lowest UI rates of receipt.

**Figure 5: Average UI Rate of Receipt by Industry, March 2003.**



Source: GAO analysis of 2003 SIPP data.

Note: "Services" includes private household services, business services, personal services, entertainment/recreational services, hospitals, medical services, educational services, social services, and other professional services.

We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

Furthermore, within many industry sectors low-wage workers had lower rates of UI receipt than higher-wage workers.

**Table 2: UI Rate of Receipt by Industry of Last Job and Low-Wage/Higher-Wage Status, March 2003**

Industry	UI rate of receipt <sup>a</sup>			Relative likelihood of receiving UI low-wage/higher-wage (ratio of percents)
	Low-wage workers (percent)	Higher-wage workers (percent)	Total (percent)	
Construction and mining <sup>b</sup>	16.5	52.3	43.8	.316
Manufacturing <sup>b</sup>	26.6	52.6	42.5	.506
Services <sup>b</sup>	10.5	31.8	23.6	.329
Retail trade <sup>b</sup>	8.4	32.6	16.8	.257
Transportation and utilities <sup>b</sup>	7.9	41.4	32.0	.191
Public administration <sup>c</sup>	13.2	48.7	39.6	.272
Wholesale trade <sup>c</sup>	24.1	51.9	44.2	.465
Agriculture <sup>c</sup>	38.2	27.1	34.0	1.41
Finance <sup>c</sup>	28.5	43.0	37.8	.664
<b>Total</b>	<b>14.8</b>	<b>40.5</b>	<b>29.7</b>	<b>.365</b>

Source: GAO analysis of SIPP data, March 2003.

<sup>a</sup>We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

<sup>b</sup>Differences between low- and higher-wage workers are significant at the 99 percent confidence level.

<sup>c</sup>Differences between low- and higher-wage workers are not statistically significant.

In addition to the industries in which they work, low levels of UI receipt among low-wage workers may be explained by the circumstances of low-wage workers coupled with state UI eligibility rules, particularly the base period for meeting the minimum earnings requirement. To determine eligibility for UI, 31 states<sup>13</sup> only consider wages earned and/or time worked in the first 4 of the prior 5 completed calendar quarters preceding the claim, according to the National Employment Law Project (NELP).<sup>14</sup> Because the base period in many states excludes the latest calendar quarter, a worker's most recent work history is not used in making the eligibility determination. For low-wage workers with sporadic work

<sup>13</sup>Out of 51, the remainder, including the District of Columbia, have an alternative base period.

<sup>14</sup>National Employment Law Project, Testimony of Maurice Emsellem before the U.S. House of Representatives, Ways and Means Committee, Subcommittee on Income Security and Family Support, March 15, 2007. NELP provided GAO with a summary updating the information provided at the March 2007 testimony.

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histories this exclusion of recent earnings may make it more difficult to achieve the minimum earning level necessary for eligibility.

Low-wage workers' reasons for separating from work in relation to UI eligibility rules may be another factor relevant to their lower levels of UI receipt. A person who voluntarily leaves work must have good cause, as determined under state law, in order to be eligible for UI. For low-wage workers, particularly those without paid sick leave, however, issues such as caring for children or sick family members may make keeping a job more challenging or result in their needing or wanting certain types of work. According to the National Employment Law Project, 35 states<sup>15</sup> do not recognize serious illness or disability of a family member as good cause for leaving employment.<sup>14</sup>

There are other factors that contribute to the higher rates of receipt among higher-wage workers. In general, UI receipt is associated with higher earnings before unemployment, longer job tenure, and more education. First, workers with a history of higher earnings and longer job tenure generally face longer job searches and this may encourage them to utilize UI benefits during that search. Also, greater levels of education may be associated with greater awareness of UI and success in navigating the system.

Prior receipt of UI may also play a role. Receipt of UI benefits in one period of unemployment increases the likelihood of using UI again. Because higher-wage workers are more likely to receive UI in any given unemployment spell, it is possible that they better understand the safety net it affords them and may be more likely to utilize it in future spells. In contrast, the extent to which low-wage workers have been unsuccessful in establishing eligibility for UI during any given unemployment spell may discourage future efforts to do so.

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<sup>15</sup>Including the District of Columbia.

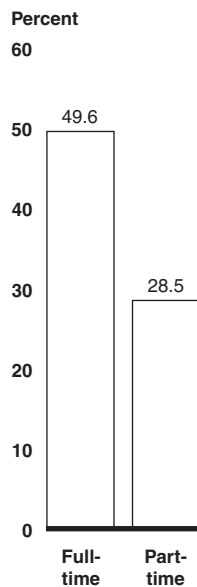
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## Unemployed Part-Time Workers Were Significantly Less Likely to Collect UI than Unemployed Full-Time Workers, Regardless of Whether They Were Low-Wage or Higher-Wage

Unemployed workers who were part-time at their last job were significantly less likely to collect UI than unemployed workers who were full-time at their last job. According to the National Employment Law Project, 32 states<sup>16</sup> do not consider workers eligible for UI if they are only available for part-time work.<sup>14</sup> In addition, like low-wage workers, some part-time workers may have difficulty meeting the minimum earnings requirement in states that do not count workers' most recent earnings. Even when workers had similar job tenures, full-time workers were more likely to receive UI than part-time workers.

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**Figure 6: UI Rate of Receipt by Part/Full-Time Status, Unemployed Workers with at Least 35 Weeks of Employment in Past Year**



Source: GAO analysis of SIPP data.

Notes: SIPP data from 1992 to 1995, 1998, and 2003. Data for 1996, 1997, and 1999 to 2002 were not available.

The difference between full-time and part-time workers was significant at the 99 percent confidence level.

We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

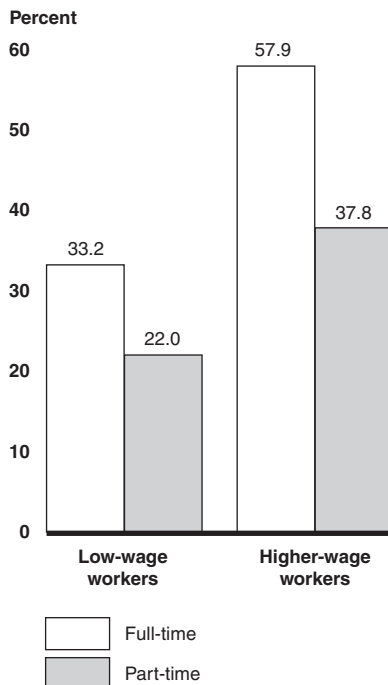
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<sup>16</sup>Out of 51, the remainder, including the District of Columbia, have some coverage for workers seeking part-time employment.

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Part-time, low-wage unemployed workers were the least likely to receive UI.

**Figure 7: UI Rate of Receipt by Wage and Part/Full-Time Status, Unemployed Workers with at Least 35 Weeks of Employment in Past Year**



Source: GAO analysis of SIPP data.

Notes: SIPP data from 1992 to 1995, 1998, and 2003. Data for 1996, 1997, and 1999 to 2002 were not available.

Differences between full-time and part-time workers and differences between low-wage and higher-wage workers were all significant at the 99 percent confidence level.

Full-time employment is defined as 35 hours per week or more. Data are restricted to a subsample of unemployed persons who had a job during the 15 months prior to unemployment.

We calculated the UI rate of receipt by dividing the number of unemployed workers who reported UI as a source of income by the number of workers who were unemployed.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions that you or other members of the subcommittee may have.

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## Contact and Acknowledgments

For further information regarding this testimony please contact Cindy Fagnoni at (202) 512-7215. Also contributing to this statement were Patrick di Battista, Rhiannon Patterson, Gretta Goodwin, and Charlie Willson.

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# Related GAO Products

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*Unemployment Insurance: Low-Wage and Part-Time Workers Continue to Experience Low Rates of Receipt.* [GAO-07-1147](#). Washington, D.C.: September 7, 2007.

*Unemployment Insurance: Factors Associated with Benefit Receipt and Linkages with Reemployment Services for Claimants.* [GAO-06-484T](#). Washington, D.C.: March 15, 2006.

*Unemployment Insurance: Factors Associated with Benefit Receipt.* [GAO-06-341](#). Washington, D.C.: March 7, 2006.

*Unemployment Insurance: Information on Benefit Receipt.* [GAO-05-291](#). Washington, D.C.: March 17, 2005.

*Highlights of a GAO Forum: Workforce Challenges and Opportunities for the 21st Century: Changing Labor Force Dynamics and the Role of Government Policies.* [GAO-04-845SP](#). Washington, D.C.: June 2004.

*Unemployment Insurance: Role as Safety Net for Low-Wage Workers is Limited.* [GAO-01-181](#). Washington, D.C.: December 29, 2000.



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