Unemployment benefits not sought by jobless

January 10 2013

Employment insurance is a vital safety net for the unemployed across North America, yet some take advantage of the system. Recent headlines have made much of a recent report from the U.S. Department of Labor that 11 per cent of all unemployment benefits were overpaid between 2009-11. But new research from Concordia University proves that uncollected benefits represent a much larger dollar figure than overpayments.

In a study commissioned by the St. Louis [Federal Reserve Bank](), Concordia economics professor David Fuller examines the U.S. unemployment insurance system's expenditures from 1989 through 2011. With the help of Concordia colleague Damba Lkhagvasuren, Fuller and his co-authors crunched the numbers and proved that overpayments represent a far smaller amount than uncollected benefits. These benefits may be unclaimed due to any number of reasons; from employees being unaware that they're eligible to individuals believing their unemployment will be too short-lived to justify making a claim.

"Some of the unemployment benefit payments were indeed overpayments, as was widely reported by the media," says Fuller. "These overpayments could stem from simple typographical mistakes on one extreme to out-right fraud on the other. For example, an individual's benefit may be accidentally set too high because the wrong formula was used. Deliberate acts of fraud, on the other hand, represented roughly a fourth of the total overpayments during 2007-2011."

When the data is examined over a longer time period, the figures seem

less alarming, with overpayments representing less than one-tenth of the benefits paid and overpayments due to fraud less than three per cent of the benefits paid. Compare that to unclaimed benefits in the same time period, which are nearly seven times the overpayments.

Although cracking down on overpayments would clearly help reduce expenditures for unemployment insurance programs, a higher fraction of eligible people choosing to collect unemployment benefits would significantly increase those expenditures.

"On average," says Fuller, "only 63 per cent of the unemployed eligible for benefits in the U.S. have been collecting them over the past 22 years. If all of those who are eligible for unemployment benefits were to start collecting those benefits, as could easily happen if the U.S. continues to have high unemployment, the additional expenditures could be massive."

Fuller believes the financing structure in the U.S. contributes to the fact that not all those who are eligible actually collect benefits. "In the U.S., benefits are financed by taxes levied on firms," explains Fuller. "So the firm you work for essentially pays for your benefits."

Compare that to Canada, where workers finance unemployment benefits via a payroll deduction. "That means that Canadians might be inherently more inclined to take advantage of a system that they are directly helping to maintain," says Fuller, who plans to undertake a similar analysis of unemployment benefits in Canada. "I expect that more unemployed Canadians collect just due to the differences in financing. In addition, benefits tend to be more generous in Canada, which would also tend to increase the number of those eligible who collect."

With the entire planet in the grips of economic uncertainty, Fuller's research should sound the warning bells for governments and corporations that need to prepare for the possibility of a significant

increase in those cashing in their unemployment benefits.

More information: [www.stlouisfed.org/publication … re/articles/?id=2285](http://www.stlouisfed.org/publication)

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