High-income earners have sturdier safety net after job loss

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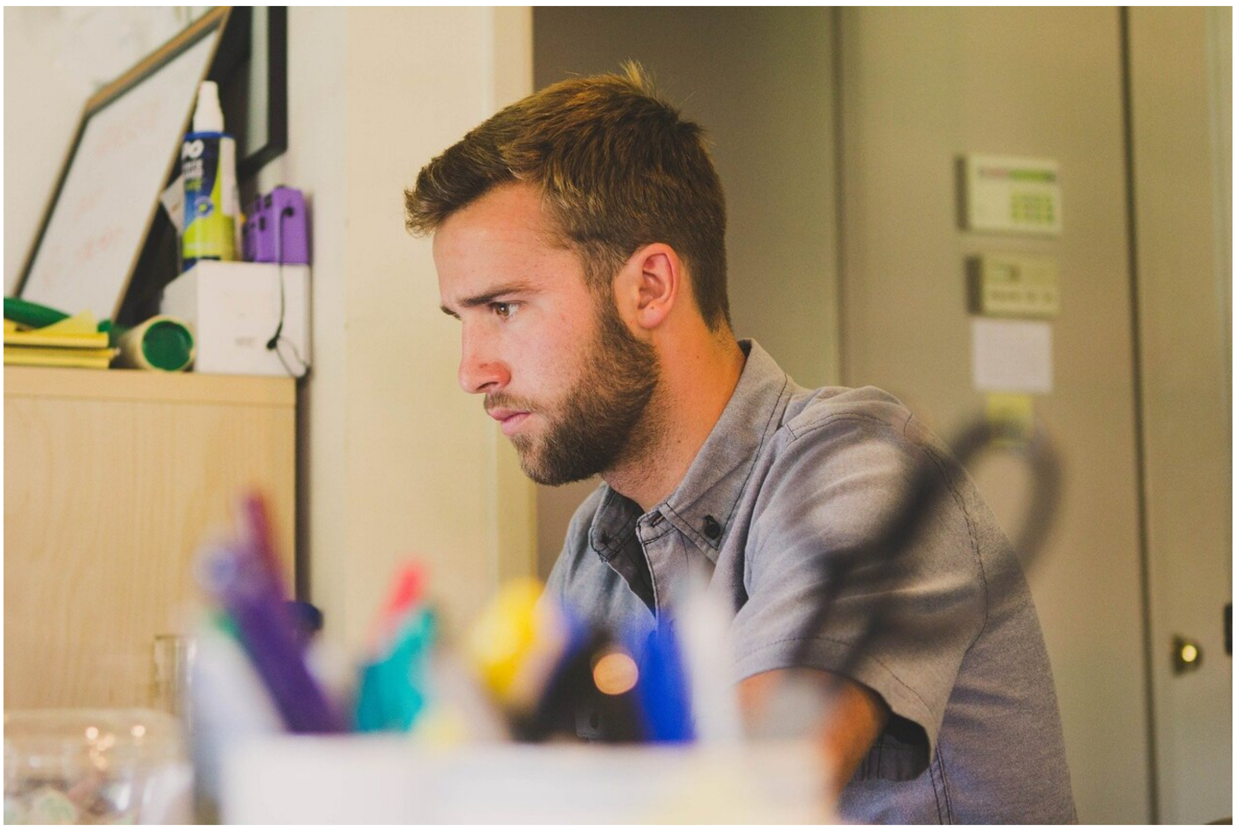

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In the spring of 2020, COVID-19 caused an estimated 22 million job losses (13% of the total workforce). Congress' new $900 billion pandemic relief package is the second largest in U.S. history, but it only extends federal unemployment benefits until March and eight million people fell into poverty during the delay in funding. So how well is the public safety net holding up?

A working paper from the University of Colorado Denver and the University of Connecticut looked into the public safety net's response to pre-COVID-era job loss. They found that of all federal programs, unemployment insurance (UI) provides the largest buffer against lost income. They also found that the program's structure underinsures the low-earning workers compared to middle and higher income job losers.

"Unemployment insurance is clearly the most important program, but it's concerning that benefits run out relatively quickly and will run out again soon," says Chloe East, Ph.D., assistant professor of economics at CU Denver. "And, overall, there doesn't seem to be a lot of buffering effect from these programs."

The working paper was published in the *National Bureau of Economic Research* last week.

Unemployment insurance is our biggest safety net

East and David Simon, Ph.D., associate professor of economics at University of Connecticut, tracked the income of displaced workers, with at least one year of job tenure, between 1996–2013 with at least one year of job tenure for two years following their job loss using the Survey of Income and Program Participation.

The first year after job loss, workers' earnings typically fall by 16–66% and stay significantly below pre-job-loss earnings for many years after displacement. Before COVID-19, more than half of U.S. workers didn't have savings to cover at least three months of living expenses, so the public safety net is very important.

Of all the federal programs, the researchers found UI is most generous and the biggest safety net for the unemployed. According to East, the average UI benefit is about $1500 per month compared to SNAP's $400 per month.

But what the UI program gives, it takes away in short order due to time limits on benefit receipt. From 1996–2013, the researchers found workers received $623 from UI in the months immediately following job loss, making up 20% of lost earnings. However, one year after the job loss, workers only received $197 per month, even though monthly earnings still remain $1900 below pre-job-loss earnings after one year.

High earners receive bigger percentage of lost earnings

Higher earners are also better off. Workers who lost their jobs in the 4th quintile of pre-job loss earnings received an average of $754 (29% of their lost earnings) for the two years following job loss, compared to only $260 a month (22% of their lost earnings) for those in the bottom quintile.

"That finding was surprising," said East. "In some sense, you expect the UI program would mechanically give a higher amount to people who lost higher paying jobs, but I wasn't expecting that the percentage of replaced earnings would be lower for low-earning people."

This makes East think about how we distribute aid.

"Imagine if we put an equal number of job losers into each of those bins—the top quintile and the lowest quintile," said East. "If you think about the dollar value being transferred to each, there would be many, many more dollars going to the richest. That's something we should all keep in mind."

Though a partial fix came with the CARES Act, a progressive move that leveled the unemployment payment field, giving the same amount ($600 per week) to lower and higher-income displaced workers, while also bringing in individuals like gig workers not traditional covered by UI through Pandemic Unemployment Assistance (PUA).

Benefits did not reduce incentive to find work

Researchers found that the more generous benefits did not lead to a reduction in a worker's incentive to find a new job. During periods of high unemployment, when job openings are scarce, laid off workers face greater pressure to seek out new employment. Past evidence shows that by allowing workers and their families maintain level of consumption of food and other necessities is larger during recessions, helping stabilize spending and sustaining overall demand in the economy.

Going forward, East is interests in studying the gaps in coverage which are most meaningful to the people who need the most help. She and Simon hypothesize that eligibility requirements of UI like work history, could lead to certain gaps in coverage for lower earning workers. They want to know how much of a gap in coverage there is because filling in those gaps more permanently would be important.

We have very few support programs that provide long-term, meaningful support automatically, like SNAP," said East. "Now we're in a situation where we're subject to the debates in Congress to get meaningful support. This pandemic has revealed the seriousness of that."

More information: Chloe East et al. How Well Insured are Job Losers? Efficacy of the Public Safety Net., (2020). DOI: 10.3386/w28218

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