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Report to Congressional Requesters

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UNEMPLOYMENT INSURANCE

Role as Safety Net for Low-Wage Workers Is Limited

GAO-01-181

Contents

Letter 3

Appendixes

Appendix I: Scope and Methodology 36

Appendix II: State Responses to GAO Questionnaire on UI Eligibility 50

Appendix III: Comments From the Department of Labor 53

Appendix IV: GAO Contacts and Staff Acknowledgments 55

Related GAO Products 56

Tables

Table 1: Unemployment Rates for Low-Wage and Higher-Wage Workers, March 1992-March 1995 14

Table 2: UI Rate of Receipt for Low-Wage and Higher-Wage Unemployed Workers Aged 18-64, March 1992-March 1995 15

Table 3: UI Rate of Receipt for Low-Wage and Higher-Wage Workers, by Number of Weeks Worked, Combining SIPP Data for Years 1992-95 15

Table 4: UI Rate of Receipt for Low-Wage and Higher-Wage Full-Time and Part-Time Workers With at Least 35 Weeks of Employment Prior to Unemployment, Combining SIPP Data for Years 1992-95 16

Table 5: UI Rate of Receipt by State Recipiency Rate, Combining SIPP Data for Years 1992-95 17

Table 6: UI Rate of Receipt for Low-Wage and Higher-Wage Workers Unemployed in March 1995, by Industry 19

Table 7: Comparison of States' Employment History Requirements for UI Benefits for Two Unemployed Workers in 2000 26

Table 8: Eligibility for UI After Quitting Job for Compelling Personal Circumstances 27

Table 9: Eligibility for UI Benefits for Unemployed Workers Seeking Part-Time Work or Limited Shifts 28

Table 10: UI Benefits in 2000 for Unemployed Worker Who Had Worked Part-Time for 26 Weeks at $5.15 per Hour 31

Table 11: Classification of Jobs Held by Unemployed Workers in the 27-Month Period 40

Table 12: Data From CPS, BAM, and SIPP for Low-Wage Workers in the Employed Labor Force and Workers Paid UI, 1992-99 45

Figures

Figure 1: Average Recipiency Rate for the Past 5 Decades 10
Figure 2: Industry Sector of Workers Unemployed in March 1995 18
Figure 3: Average UI Rate of Receipt by Industry, March 1995 20
Figure 4: Industry Sector Employment of Low-Wage and Higher-Wage Workers, 1997 23
Figure 5: Union Membership of Low-Wage and Higher-Wage Workers, 1997 24
Figure 6: Comparison of Data Elements Available Among Sources With Nationwide Information on UI Participation 37
Figure 7: Formulation Demonstrating the Use of CPS and BAM Data to Infer How the Rate of UI Receipt and the Unemployment Rate Relate Across Wage Groups for 1996 Through 1999 47

Abbreviations

AFDC	Aid to Families With Dependent Children
BAM	Benefit Accuracy Measurement
CPS	Current Population Survey
FUTA	Federal Unemployment Tax Act
SIPP	Survey of Income and Program Participation
TANF	Temporary Assistance for Needy Families
UI	unemployment insurance

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United States General Accounting Office
Washington, D.C. 20548

December 29, 2000

The Honorable Daniel Patrick Moynihan
The Honorable John D. Rockefeller IV
The Honorable Bob Graham
United States Senate

The Honorable Benjamin L. Cardin
The Honorable Sander M. Levin
House of Representatives

Since 1935, the welfare and unemployment insurance (UI) programs have operated side-by-side as major parts of the nation's social safety net. The welfare program provides cash assistance to needy families without means of support, while UI provides cash assistance to people temporarily unemployed. In 1996, federal legislation fundamentally changed the welfare program, putting time limits on how long most people can receive cash assistance and generally requiring recipients to engage in work activities to qualify for income support. Since that time, the welfare rolls have dropped dramatically, and large numbers of welfare recipients have started working, many in low-wage jobs. With this radical shift, the UI program is left as a more significant element of the social safety net, particularly for low-income families formerly assisted by the welfare program.

In contrast to the welfare program, which focuses on assistance to needy families with children, UI is a social insurance program intended to partially replace lost earnings for people with prior work experience who become involuntarily unemployed and who are able, available, and actively seeking work. Premiums are paid in advance by employers as a payroll tax on wages earned by their employees. Although state law varies, this payroll tax is applied to, at a minimum, the first $7,000 of most employees' annual earnings. State law specifies the factors (for example, minimum earnings or employment period) that qualify a person to collect UI benefits.

You expressed concerns about the ability of low-wage workers to qualify for UI benefits and asked us to examine the adequacy of the UI system as a safety net for low-wage workers and, in particular, former welfare recipients who lose employment through no fault of their own. In response to your concerns, we addressed four questions: (1) what is the overall trend in usage of the UI program among the unemployed and what are the reasons for this trend; (2) how likely are low-wage workers to receive UI benefits, compared with other workers; (3) what factors might reduce the

likelihood that low-wage workers receive UI benefits; and (4) are states restructuring their policies and practices to better ensure that low-wage workers, and former welfare recipients, are included in the safety net of the UI program?

To conduct our study, we used a combination of methods. To determine the long-term trends in the usage of the UI program, we analyzed data from the Department of Labor. To compare the likelihood that low-wage workers receive UI benefits with that of other workers, we examined data from the Survey of Income and Program Participation (SIPP), a national database maintained by the Bureau of the Census. For our purposes, SIPP data were available only for the 4-year period 1992 through 1995; to extend our analysis through the rest of the decade, we supplemented SIPP data with UI administrative data from the Department of Labor and with data from a national database jointly maintained by the Bureau of Labor Statistics and the Bureau of the Census—the Current Population Survey (CPS). To determine factors that may affect the likelihood a person will receive UI benefits, we reviewed the available literature. We also surveyed UI program directors for the 50 states on eligibility criteria that may affect low-wage workers in general and former welfare recipients in particular. To obtain detailed information on state policies and practices, we talked with officials in the four most populous states—California, Florida, New York, and Texas—as well as collected data on other states nationwide. A fuller description of our methodology is included in appendix I.

Results in Brief

Since 1950, the percentage of unemployed people who apply for benefits under the UI program has gradually declined. According to the Department of Labor's data, about one-half of the unemployed filed claims for UI in the 1950s, while only about one-third filed for UI in the 1990s. Various factors have been cited as contributing to this decline, with several factors persisting over the entire 50-year period. Because labor practices encouraged by manufacturing industries and unions (such as providing information about UI benefit requirements) tend to increase the likelihood that unemployed workers will apply for UI benefits, the reduction in both manufacturing and union membership over this time is seen as a major factor in the decline in the use of UI. Another commonly cited reason for the decline is tighter state eligibility criteria that prevent workers with certain characteristics—for example, those who have worked for a relatively short period of time—from collecting UI benefits.

In the last decade, unemployed low-wage workers[1] appeared far less likely to receive UI benefits than other unemployed workers, even though low-wage workers were twice as likely to be unemployed. In March 1995, for example, only about 18 percent of unemployed low-wage workers were collecting UI benefits, while about 40 percent of the higher-wage unemployed collected benefits. The relative difference in UI receipt remained even among workers who worked for similar periods during recent employment or who lived in states where more unemployed apply for UI benefits. The prior jobs of the low-wage unemployed were twice as likely as the jobs of other workers to be in the retail trade and services industries—industries where workers are much less likely to receive UI benefits than are workers from other industries such as manufacturing, mining, or construction. Although this data analysis was limited to the 4-year period 1992 through 1995, other data suggest that these patterns persisted throughout the rest of the decade.

Many factors may explain why low-wage workers receive UI benefits less frequently than other workers. These factors include tendencies to voluntarily quit work, for example, to look for a better paying job. Fewer low-wage workers are in manufacturing jobs and they are less apt to be union members—two factors that may explain some differences in UI receipt. Moreover, compliance with some state eligibility requirements can be particularly difficult under certain circumstances for low-wage workers—especially former welfare recipients, who are often single mothers with intermittent employment histories. Such circumstances include:

- State earnings requirements are more difficult to meet for low-wage workers than for higher-wage workers, even when the low- and higher-wage workers were employed for the same period of time. For example, a worker who was laid off from a job in 2000 after 20 weeks of work for 20 hours each week at the federal minimum wage of $5.15 per hour would not be eligible for UI in 13 states, while another worker with the

[1]Throughout this report, we refer to unemployed people as low-wage or higher-wage workers. To classify an unemployed person as such, we first determined whether the unemployed person had had a job within a 27-month period before the time of unemployment. If so, we divided these people into two groups—those who had earned $8.00 per hour or less (low-wage) and those who made over $8.00 per hour (higher-wage) in the last month of their most recent job. The $8.00 hourly rate is approximately the amount necessary to support a family of four at the poverty level in a full-time job for one year; it is based on 1999 dollars and is adjusted for inflation.

same work history earning $10.00 per hour would be eligible in all but one state.

- Voluntarily quitting a job for personal financial problems often disqualifies claimants from UI benefits, but some limitations can be especially hard for low-income single parents. For example, if a worker currently available for work had quit his or her job because child care was temporarily unavailable, the worker would not qualify for UI benefits in 32 states. If the same worker had quit his or her last job to care for a sick child, 26 states would disqualify the worker from benefits.
- An otherwise qualified claimant may be disqualified if the claimant is looking only for part-time work, even if the person's job history (like many former welfare recipients) includes only part-time employment. An unemployed retail worker, previously in a part-time job, looking for a job with the same 30-hour work week, would be ineligible for UI in 30 states.
- A claimant's most recent earnings will not count toward UI eligibility in most states because of the time lag allowed to process wage records. As a result, a claimant who is otherwise eligible for benefits may need to wait 3 to 6 months, a significant delay for someone with little savings or other financial support. Currently, only 11 states allow accelerated determination of a person's most recent earnings if needed for the person to qualify for benefits.

While in the 4 years since welfare reform many former welfare recipients have joined the labor force, often in low-wage jobs, nationwide few states have adjusted their UI programs to eliminate practices that may present difficulties to low-wage workers, particularly these new workers. For example, during this time only one state lowered its minimum earnings requirements, while 29 states kept the same requirements and 19 states raised theirs. Further, only two states added provisions to shorten the time lag for processing wage records for UI claimants whose most recent earnings are needed to qualify for UI benefits; according to our survey of UI directors, only one state is likely to adopt such provisions in the near future. Because the UI program appears to provide only limited protection for low-wage workers, the role of UI as a safety net for all workers warrants attention, particularly in light of the recent sweeping changes to the national welfare policy. Although the Advisory Council on Unemployment Compensation[2] in 1995 and, more recently, a workgroup that includes state UI directors and the Department of Labor have made proposals that would expand the availability of the UI program for low-wage workers, consensus has been difficult to achieve, in part, because of concerns about increased benefit costs and effects on state autonomy in managing the UI program.

Background

In 1935, as part of the Social Security Act, Congress established two programs—Aid to Dependent Children and the federal-state system of unemployment insurance—to provide income support to two different groups of unemployed people. Aid to Dependent Children added federal support to state systems of pensions for widows with children. The UI program, on the other hand, aimed to provide workers with partial replacement of wages lost during temporary periods of unemployment due to economic causes. Historically, the majority of people who file for UI benefits have been men.

[2]The advisory council was established under the Emergency Unemployment Compensation Act of 1991. It consisted of 11 members—5 appointed by the President and 3 each by the Senate and the House of Representatives.

As administered in subsequent years (when it became known as Aid to Families With Dependent Children or AFDC), the welfare program evolved into an open-ended entitlement program, providing cash assistance to people with children, usually single parents, who earned little income. Over time, as more women with children joined the labor force, AFDC recipients with older children were expected to look for work. More recently, several states experimented with stricter work requirements (the so-called "work first" philosophy) and time limits on the receipt of aid. In 1996, federal legislation known as the Personal Responsibility and Work Opportunity Reconciliation Act ended AFDC, alternatively providing block grants to the states as part of a new program called Temporary Assistance for Needy Families (TANF). The legislation put a maximum 5-year limit on the availability of federal cash assistance under TANF[3] and required adults to work or participate in work-related activities after receiving assistance for 24 months as a condition for continuing to receive benefits. Between August 1996 and December 1999, the number of TANF families declined by approximately 2.1 million, and many new workers entered the labor force.

Unlike the Aid to Dependent Children program, the UI program has always operated as a social insurance program. It is administered as a federal-state partnership. To finance the program, the states levy and collect payroll taxes from employers. The funds collected are managed in a trust fund administered by the federal government. In almost all industries, federal standards require coverage on all work for employers who pay wages of $1,500 or more in any calendar quarter. Today UI coverage is nearly universal, extending to almost all wage and salaried workers.[4]

Employers pay the premiums for the UI program through federal and state payroll taxes that are assessed on employers but based on employees' earnings. Employers pay taxes on wages earned by even the lowest-paid worker. Additionally, if a worker held jobs with two different employers during the year, the wages from each job are taxed separately.

The federal payroll tax, established by the Federal Unemployment Tax Act (FUTA), is currently set at 6.2 percent of the first $7,000 of an employee's salary. In states with UI programs that meet specified federal guidelines,

[3]In 1999, 21 states had shorter time limits on the receipt of cash assistance.

[4]Self-employed individuals and agricultural workers on small farms are generally not covered under UI.

employers receive a 5.4 percent credit toward their FUTA tax payment, resulting in a net federal tax of 0.8 percent. These federal taxes finance the state and federal administrative costs of the UI program, as well as the federal portion of the Extended Benefit program, advances to states with insolvent trust funds, and other related federal costs.

The actual rate of the state tax paid by individual employers depends upon the employer's "experience rating"—a measure related to the amount of UI benefits collected by a firm's employees. Depending upon the employer and the state, the state payroll tax may range from 0 to 10 percent. By federal law, state taxes are assessed against at least the first $7,000 of an employee's salary. However, among the states, the wage base against which state taxes are assessed varies widely, from $7,000 (in 9 states) to $27,500 in Hawaii. The wage base is less than $11,000 in 32 states, thereby requiring the same tax whether, for example, employees earn $11,000 per year or $110,000 per year. Revenues from state UI taxes finance the payment of regular UI benefits and the state portion of the Extended Benefit program.

Benefit coverage under the UI program is related to an individual's work history. Generally, state law provides that unemployed workers must fulfill three general conditions: (1) they must have been "substantially attached" to the labor market; (2) they must have left their prior job involuntarily (such as by employer layoff) or have quit their job for "good cause" only; and (3) they must be currently "able and available" for work, and, in most states, actively seeking work. State law provides specific requirements for claimants to meet these general conditions.

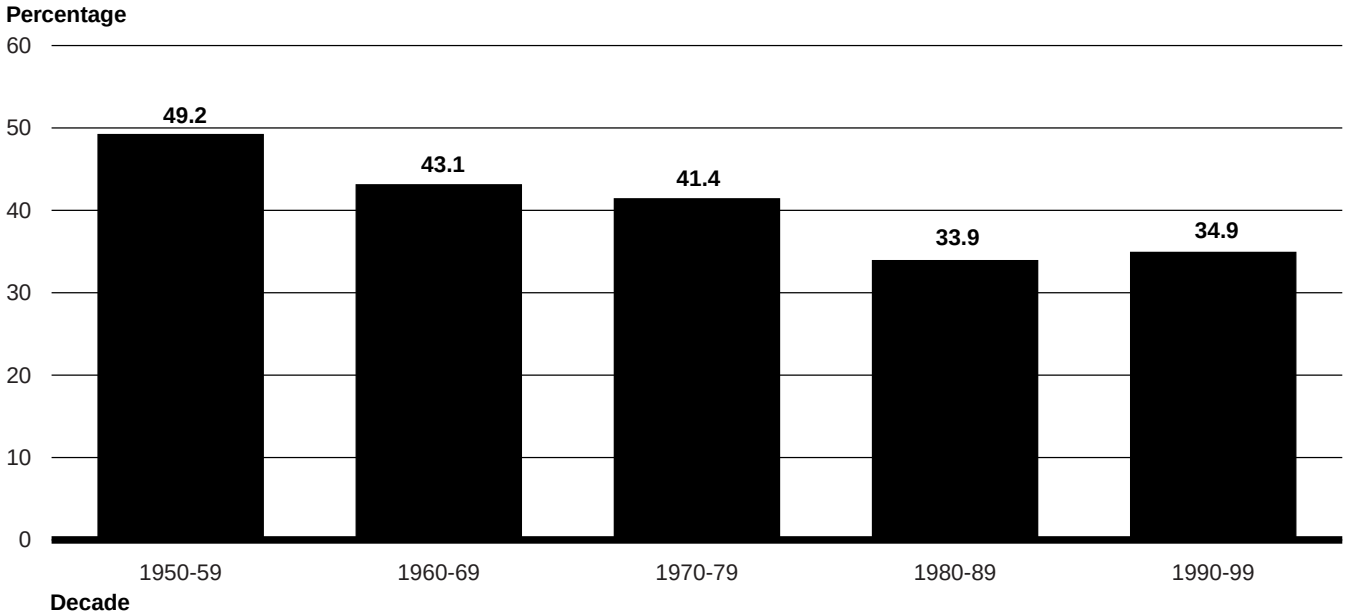
50-Year Decline in Application for UI Benefits Attributed to Economic and Policy Factors

Overall, the percentage of the total unemployed population applying for UI benefits has gradually declined in the past 50 years. Several factors generally are cited as contributing to the decline in UI participation, although the significance of each is disputed. Three major factors have persisted over most of this period—reduction in manufacturing jobs, decline in union membership, and increasingly strict state UI eligibility requirements.

Long-Term Decline in UI Claims

Over the past 50 years, the percentage of unemployed filing for UI benefits has generally, but gradually, declined. The measure most commonly used by the Department of Labor to assess the effect of the UI program—the standard recipiency rate[5]—shows that while about 50 percent of the unemployed filed for UI in the 1950s, only about 35 percent of the unemployed filed for UI in the 1990s. Although this rate has fluctuated considerably—for example, in 1980 the rate was 44 percent, then dipped to 29 percent in 1984, but by 1991 had increased to 39 percent—it indicates a general decline over the past 5 decades. In 1999, the recipiency rate was 37 percent. Figure 1 presents the average recipiency rate, by decade, since 1950.

Figure 1: Average Recipiency Rate for the Past 5 Decades



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

[5]This rate actually measures the percentage of unemployed who apply for UI benefits under state UI programs. It is calculated using the number of claims filed weekly with the state programs divided by the total number of unemployed as counted in the Bureau of the Census' CPS. By using the total number of claims for UI benefits, the rate includes those claims that eventually resulted in benefits as well as those claims that were denied. For a further discussion of this rate, see app. I.

Of the past 5 decades, the last decade—1990 through 1999—had the most stable rate of UI claims, showing the least annual variation. Over this decade, an average of 35 percent of the unemployed filed for UI benefits—varying from a high of 39 percent in 1991 to a low of 31 percent in 1993, then increasing to 37 percent in 1999. Overall, the average recipiency rate in the 1990s was 1 percentage point higher than that of the 1980s.

Certain Economic and Policy Factors Parallel Long-Term UI Decline

Although there is no agreement about the causes of the general decline in the rate of UI filing,[6] certain factors are commonly considered significant, including (1) the decrease in the number of workers employed in manufacturing jobs; (2) the decline of union membership in the workforce; (3) increasingly tighter state requirements for UI eligibility; (4) federal taxation of UI benefits beginning in 1979; (5) population shifts, starting in the 1970s, of workers from northeastern states to southern states, where unemployed workers are less likely to apply for UI benefits; and (6) changes in the survey methodology of the CPS during the 1980s that increased the number of unemployed who were counted (changing the denominator used in calculating the recipiency rate).[7] Of these factors, the first three affect the entire period of decline.

Over the past 50 years, the number of workers in manufacturing jobs has declined in the United States, as has the number of workers who are union members. Studies suggest that the steady decline in workers in manufacturing jobs and in union membership has adversely affected the overall participation in the UI program.[8] According to these studies, both the manufacturing industry and unions traditionally have encouraged labor practices that are treated favorably in UI programs. For example, union members are more likely to be laid off than fired—a practice that makes workers eligible for UI benefits. Manufacturing firms tend to have layoffs of large numbers of employees who are handled as a group by UI program

[6]For a general discussion of various factors involved in the decline during the past 30 years, see Department of Labor Unemployment Insurance Occasional Paper 99-7, *Analysis of Unemployment Insurance Recipiency Rates* (Washington, D.C.: Employment and Training Administration, June 1999).

[7]In its comments, the Department of Labor noted that the increasing number of part-time and multiple job holders is another possible factor in the general decline in the rate of UI filing.

[8]Department of Labor, *Analysis of Unemployment Insurance Recipiency Rates*.

officials. Further, both manufacturing workers and union members are more apt to be better informed about UI benefits.

In the past 5 decades, many states have tightened their UI regulations, increasing limitations on eligibility for UI benefits and thereby decreasing the participation in the UI program. In general, in order to demonstrate that a person is an active member of the labor force, states have a series of tests dealing with a claimant's recent work history, his or her reasons for termination from the last job, and evidence that the claimant is still available for work. For example, most states require that in order to establish that a person worked a sufficient amount of time to qualify for UI benefits, he or she must have earned a minimum amount of wages over a year's time (a so-called "base period"). Over the years, many states have increased these earnings amounts, thereby limiting who can be eligible for UI benefits.[9]

Other limitations affect program participation as well. For instance, when the UI program was first established, people who quit their jobs for compelling personal reasons, such as pressing family obligations like lack of child care, were not disqualified from receiving UI benefits. Increasingly, however, states have enacted laws that specifically limit the generally acceptable reasons ("good cause") for quitting a job to those related to work or to the employer.[10] The number of states with such statutory restrictions grew from 16 in 1948 to 28 in 1979, and by 1995, 38 states restricted "good cause" for quitting to work-related circumstances. Under these restrictions, states generally allow a worker to collect UI benefits if a worker quit because of actions taken by an employer—if, for example, an employer requires the employee to work a night shift even though the employee had been hired specifically to work only during daytime hours. On the other hand, most states disqualify a claimant for UI if he or she quit a job because of a temporary lack of child care.

[9]A number of studies have presented evidence on state trends to increase minimum earnings requirements, such as *Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized* (GAO/HRD-93-107, Sept. 28, 1993).

[10]Although most states have this general restriction, states also have created statutory exceptions to it. For example, Texas will not disqualify someone who had to leave work to care for a seriously ill child, provided a doctor certifies that the child is seriously ill.

Unemployed Low-Wage Workers Were Less Likely to Receive UI Than Other Unemployed Workers in the 1990s

Unemployed low-wage workers were less likely to collect UI benefits than other unemployed workers in the early 1990s, and the most recent evidence suggests that this trend continued throughout the decade. Unemployed workers were more apt to receive UI benefits if they worked longer than 35 weeks, worked full-time rather than part-time, or lived in a state that tended to have less strict eligibility criteria. However, even when low-wage workers and other workers shared characteristics that favored UI receipt—for example, when they worked more than 35 weeks—low-wage workers were less likely to collect UI. In March 1995, almost two-thirds of unemployed low-wage workers worked immediately before becoming unemployed in jobs in the retail trade or services industries,[11] industries whose workers were the least likely to participate in the UI program. In contrast, only one-third of unemployed higher-wage workers held their last job in these industries. Although SIPP data were limited to the 4-year period between 1992 and 1995,[12] other evidence suggests that these patterns remained throughout the entire decade.

Significantly Lower UI Rate of Receipt Among Low-Wage Unemployed Workers

From 1992 to 1995, low-wage workers were twice as likely to be out of work as higher-wage workers but only half as likely to receive UI benefits. Table 1 compares the unemployment rates of low-wage workers with those of other workers in the early 1990s. During this period, low-wage workers made up about 50 percent of the unemployed former workers,[13] even though they were only about 30 percent of the total labor force. Table 2

[11]"Services industries," as used in this report, refers to business services, personal and entertainment services, medical services, educational and social services, and professional services.

[12]The SIPP is administered in person to participants every 4 months over a 3-year period. The participants who are surveyed for this period are referred to in total as a "panel." For example, 1993 SIPP panel participants first reported data in October 1992 and concluded in December 1995. Our analysis required that we use data covering an extended period of time. At the time we conducted our research, the only completed SIPP panels from the 1990s were those beginning in 1990, 1991, 1992, and 1993. The latest data available from these panels were for December 1995 from the 1993 SIPP panel. As a result, our research with SIPP data was limited to the period January 1990 through March 1995.

[13]Our calculations of "unemployed former workers" specifically excluded people who did not have a job in the 27-month period before the month that they were unemployed. These people would include all new entrants into the labor force, as well as some reentrants. Low-wage workers made up about 40 percent of the total unemployed population.

shows the rates at which low-wage workers received UI benefits while unemployed, as compared with the rates of higher-wage workers.[14]

Table 1: Unemployment Rates for Low-Wage and Higher-Wage Workers, March 1992–March 1995

	Unemployment rate[a] (percent)		
	Low-wage workers	Higher-wage workers	Overall[b]
March 1992	10.3	4.6	6.8
March 1993	10.2	4.1	6.9
March 1994	9.2	3.9	6.7
March 1995	7.8	3.2	5.7

Note: Differences between low-wage workers and higher-wage workers are statistically significant at the .01 level.

[a]We calculated the unemployment rate by dividing the number of unemployed workers by the number of workers in the labor force. For example, the low-wage unemployment rate was calculated by dividing the number of low-wage workers unemployed by the total number of low-wage workers in the labor force.

[b]The overall unemployment rates we calculated differ from the standard unemployment rates provided by the Bureau of Labor Statistics. For these 4 years, standard rates were 7.5 percent for 1992, 6.9 percent for 1993, 6.1 percent for 1994, and 5.6 percent for 1995. These rates differ because our calculations excluded workers who were younger than 18 or older than 64, and because there were technical differences between the database we used for our calculation (SIPP) and that used for the standard unemployment rates (CPS).

Source: GAO analysis of the 1990, 1991, 1992, and 1993 SIPP panels.

[14]The UI rate of receipt we have constructed is not comparable to the Department of Labor's standard recipiency rate. Our rate of receipt measures the number of people who have actually received a UI payment as a percentage of the unemployed in the labor force. The standard recipiency rate, on the other hand, effectively measures the percentage of unemployed who apply for UI benefits.

Table 2: UI Rate of Receipt for Low-Wage and Higher-Wage Unemployed Workers Aged 18-64, March 1992–March 1995

	UI rate of receipt[a] (percent)		
	Low-wage workers	Higher-wage workers	Overall
March 1992	30.8	62.9	43.0
March 1993	32.0	52.1	34.6
March 1994	21.4	44.2	26.6
March 1995	17.8	40.0	22.4

Note: Differences between low-wage workers and higher-wage workers are statistically significant at the .01 level.

[a]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.

Source: GAO analysis of the 1990, 1991, 1992, and 1993 SIPP panels.

Among unemployed workers who had worked for similar periods of time, low-wage workers were still less likely to receive UI benefits than higher-wage workers. As shown in table 3, nearly 35 percent of unemployed low-wage workers who had worked at least 35 weeks during the year collected UI. In contrast, about 62 percent of unemployed higher-wage workers who had worked at least the same number of weeks collected UI.

Table 3: UI Rate of Receipt for Low-Wage and Higher-Wage Workers, by Number of Weeks Worked, Combining SIPP Data for Years 1992–95

	UI rate of receipt[a] (percent)		
Weeks worked prior to unemployment[b]	Low-wage workers	Higher-wage workers	Overall
35 weeks or more	34.7	61.9	51.1
20 to 35 weeks	27.0	65.6	41.0
Less than 20 weeks	13.3	27.7	17.7

Note: Differences between low-wage workers and higher-wage workers who worked 20 to 35 weeks and more than 35 weeks are statistically significant at the .01 level. Differences between low-wage workers and higher-wage workers who worked fewer than 20 weeks are statistically significant at the .05 level.

[a]We calculated the 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.

[b]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.

Source: GAO analysis of the 1990, 1991, 1992, and 1993 SIPP panels.

Even when comparing full-time workers with substantial work histories, differences remained. Table 4 looks at unemployed people who had worked at least 35 weeks, grouped into those who had worked full-time and those who had worked part-time. As can be seen, among the people who had worked full-time for at least 35 weeks, a considerable difference continues between the percentages of low-wage and higher-wage unemployed workers who collected UI benefits.

Table 4: UI Rate of Receipt for Low-Wage and Higher-Wage Full-Time and Part-Time Workers With at Least 35 Weeks of Employment Prior to Unemployment, Combining SIPP Data for Years 1992-95

	UI rate of receipt (percent)	
Employment status	**Low-wage workers**	**Higher-wage workers**
Full-time[a]	41.0	63.3
Part-time	23.3	53.9

Note: Differences between low-wage workers and higher-wage workers are statistically significant at the .01 level.

[a]Full-time employment is defined as 35 hours per week or more.

Source: GAO analysis of the 1990, 1991, 1992, and 1993 SIPP panels.

Although some states had greater participation among the unemployed in their UI programs—most of these tending to use less strict eligibility criteria that allow a greater percentage of unemployed to collect benefits—low-wage unemployed workers continued to be less likely to collect UI benefits than other unemployed workers, regardless of the states in which they lived. To group states, we used the Department of Labor standard recipiency rate as a rough gauge of the relative rates at which the unemployed used the state UI programs. As can be seen in table 5, even though states with high recipiency rates were more likely to pay UI benefits, low-wage workers in those states were still only about half as likely as higher-wage unemployed workers to collect UI benefits.

Table 5: UI Rate of Receipt by State Recipiency Rate, Combining SIPP Data for Years 1992–95

	UI rate of receipt (percent)		
State recipiency rate[a]	Low-wage workers	Higher-wage workers	Overall
Low	18.5	38.5	21.8
High	27.4	59.9	40.0

Note: Differences between low-wage workers and higher-wage workers are statistically significant at the .01 level.

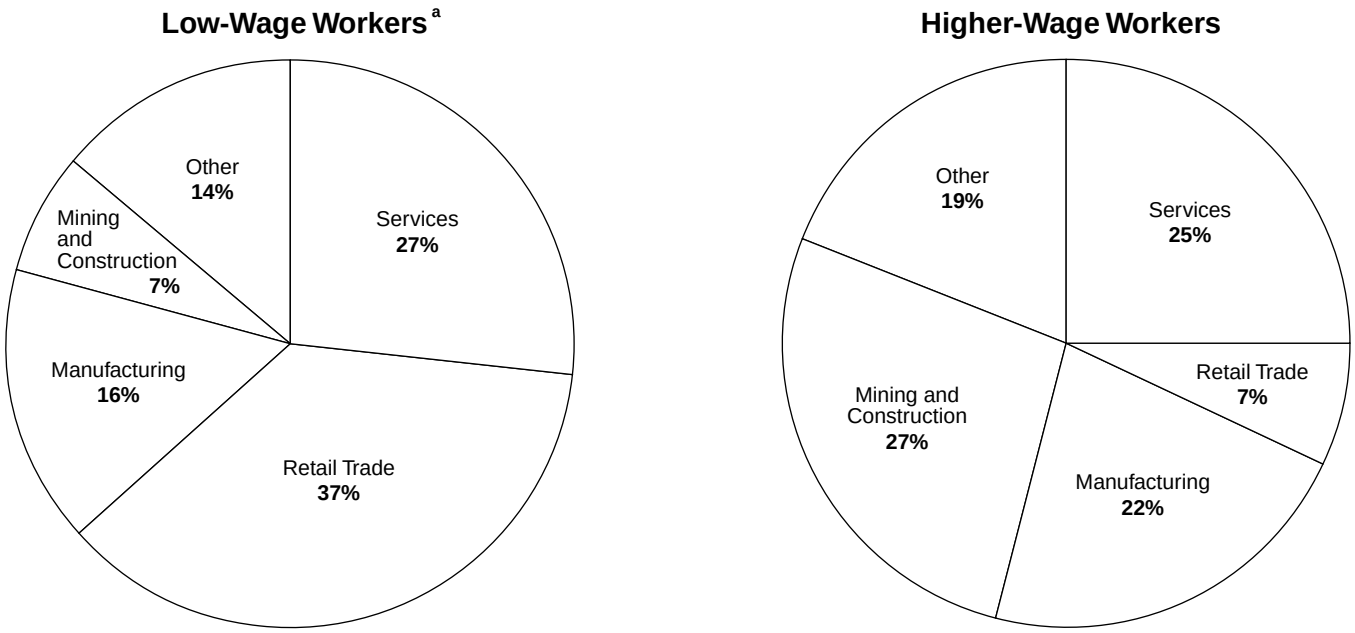
[a]States were grouped on the basis of our analysis of the Department of Labor standard recipiency rates for 1992 through 1995. States with the lowest recipiency rates in all 4 years included Alabama, Arizona, Georgia, Indiana, Louisiana, New Hampshire, New Mexico, Oklahoma, Texas, and Virginia. States with the highest recipiency rates included Connecticut, Hawaii, Oregon, Pennsylvania, Rhode Island, Washington, and Wisconsin.

Source: GAO analysis of 1990, 1991, 1992, and 1993 SIPP panels.

Industry Sector of Previous Job Affected UI Rate of Receipt

Overall, low-wage unemployed workers were far more apt to have worked in retail trade and services and less apt to have worked in manufacturing, mining, or construction than higher-wage unemployed workers. Figure 2 shows the industry sector (based on the worker's last job) for workers who were unemployed in March 1995. As shown, 64 percent of the low-wage unemployed workers had been previously engaged in jobs from retail trade and services, as opposed to 32 percent of higher-wage workers (primarily in the services industry). On the other hand, while 49 percent of the higher-wage unemployed workers had been employed in manufacturing, construction, or mining, only 23 percent of the low-wage workers had been employed in these industries.

Figure 2: Industry Sector of Workers Unemployed in March 1995



Note: Although only the 1995 data are presented here, the distributions are similar for March 1992, 1993, and 1994. The "other" industry category includes finance, agriculture, forestry, fishing, transportation, utilities, wholesale trade, and public administration.

[a]The total for low-wage workers does not equal 100 percent because of rounding.

Source: GAO analysis of 1993 SIPP panel.

Wide variation exists among industry sectors in the rates at which unemployed workers collected UI benefits. In general, workers formerly associated with the retail trade or services industries were far less likely to receive UI benefits than were workers most recently employed in manufacturing, construction, or mining. Table 6 compares the rates among industries for workers unemployed in March 1995. As shown, 16 percent of former retail employees and 13 percent of former services employees collected UI benefits, while 39 percent of unemployed manufacturing workers and 58 percent of unemployed construction and mining workers collected benefits. Even with these variations among sectors, differences remained in the rates of UI receipt for unemployed low-wage workers and other workers in individual industry sectors. Among former services workers, though, both low-wage and higher-wage workers were far less likely to collect UI than were higher-wage workers in the other industry sectors.

Table 6: UI Rate of Receipt for Low-Wage and Higher-Wage Workers Unemployed in March 1995, by Industry

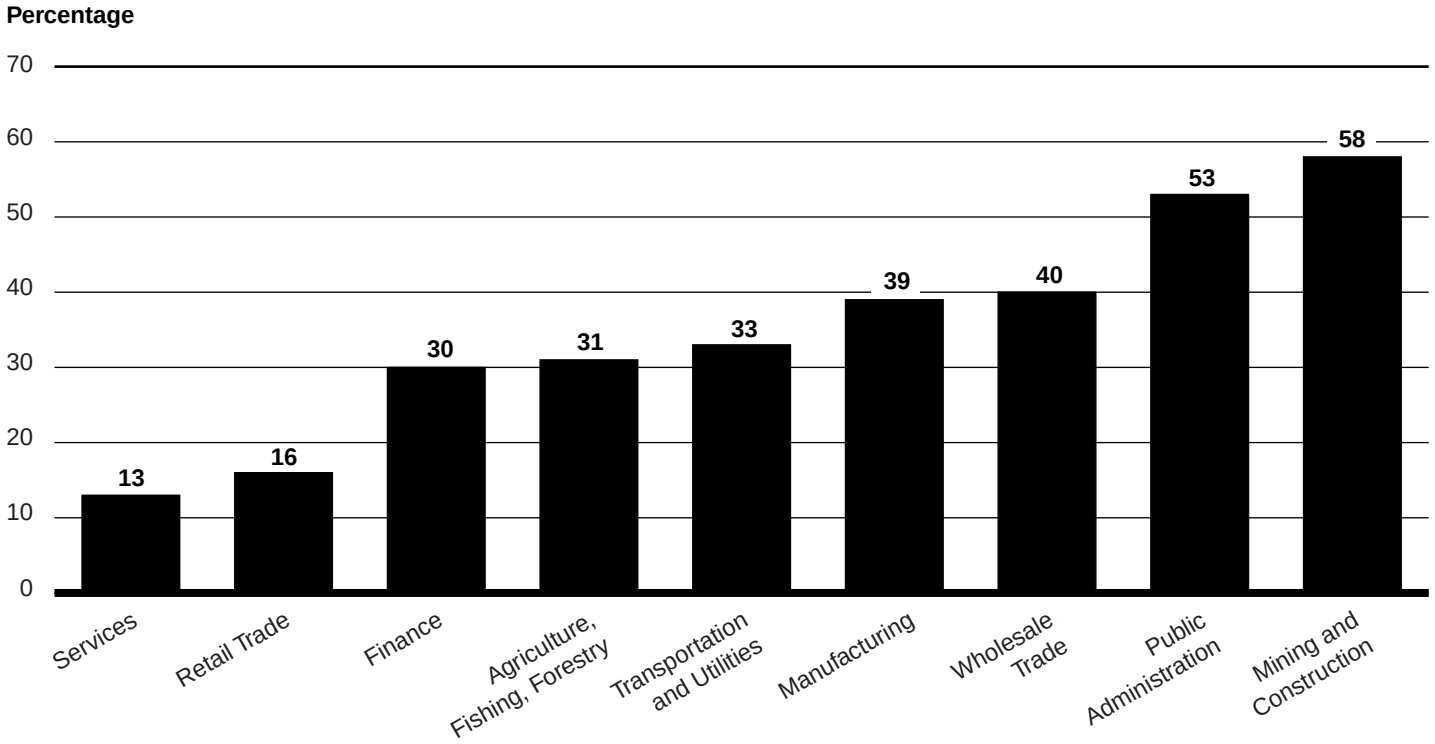
	UI rate of receipt (percent)		
Industry	**Low-wage workers**	**Higher-wage workers**	**Overall**
Retail trade	12.0	42.6	16.2
Services	8.8	16.2	13.2
Manufacturing	24.9	51.1	39.4
Construction and mining	27.4	66.3	57.9

Note: Differences between low-wage workers and higher-wage workers in retail trade and the mining and construction industries are statistically significant at the .05 level. Differences between low-wage workers and higher-wage workers in the manufacturing industry are statistically significant at the .1 level. Differences between low-wage workers and higher-wage workers in the services industry are not statistically significant.

Source: GAO analysis of 1993 SIPP panel.

Compared with all other industry sectors, the retail trade and services industries—where most unemployed low-wage workers had held their last job—had the lowest UI rate of receipt. (See fig. 3.)

Figure 3: Average UI Rate of Receipt by Industry, March 1995



Source: GAO analysis of the 1993 SIPP panel.

Differences Likely Continued Throughout the Decade

Although the available SIPP data for our purposes extended only to 1995, we concluded on the basis of our analysis of other data that the rate of UI receipt for low-wage unemployed workers most likely remained lower than that for other unemployed workers through the last half of the decade. This analysis combined two sets of data that were available for the entire decade: (1) CPS data showing the percentage of low-wage workers in the employed labor force and (2) Department of Labor data showing the percentage of all those collecting UI benefits who were low-wage workers. These two percentages were stable over the entire time period. From these factors, together with the likelihood of a higher rate of unemployment for low-wage workers, we inferred that the UI rate of receipt of low-wage workers remained lower than that of other workers. Between 1992 and 1995, SIPP data showed that the unemployment rate of low-wage workers was twice that of higher-wage workers. Our analysis of these other data showed that as long as the unemployment rate for low-wage workers

continued to be substantially higher than that for other workers,[15] the rate of UI receipt for low-wage unemployed workers would still have been lower than that for other unemployed workers in the last half of the 1990s. (See app. I for our analysis.)

From other economic factors, it appears likely that the unemployment rate of low-wage workers remained higher than the unemployment rate (calculated for all workers) throughout the decade (even though the unemployment rate declined from 5.6 percent in 1995 to 4.2 percent in 1999) and that, therefore, the rate of UI receipt for low-wage workers remained lower than that for other workers. For example, low-wage workers were clustered in the same industries in the later 1990s that they were in during the early 1990s—about the same percentage (nearly 70 percent) of low-wage workers were employed in services and retail industries in 1997 as in 1992. In addition, while many welfare recipients joined the labor force and became employed during the latter half of the 1990s, many in low-wage jobs, it appears that they experienced higher than average unemployment rates. According to Department of Health and Human Services data, about 30 percent of those with jobs during the late summer 1998 were no longer employed by January 1999.[16] Unemployment rates for former welfare recipients entering the labor force in 1996 and 1997 have been estimated as 35 percent and 33 percent, respectively.[17] Given these data, we believe that low-wage workers continued to experience higher than average unemployment rates in the last 5 years of the decade.

[15]Our calculations using CPS and Department of Labor data for the 4-year period 1996 through 1999 indicated that, as long as low-wage workers' unemployment rate exceeded that for other workers by at least 18 percent, the low-wage workers' UI rate of receipt would be lower than that for other workers throughout the rest of the decade.

[16]This calculation is based on data collected from states for the purpose of determining TANF High Performance Bonuses. States may report data from UI wage records, surveys, or administrative records.

[17]Unemployment rates are based on *Displacement and Wage Effects of Welfare Reform*, Timothy J. Bartik, W.E. Upjohn Institute for Employment Research (Jan. 1999). These rates were calculated with March CPS data for female household heads aged 16 through 44 who had collected welfare benefits in the previous year.

Economic and Policy Factors Influencing General UI Decline Have Significant Impact on Low-Wage Workers

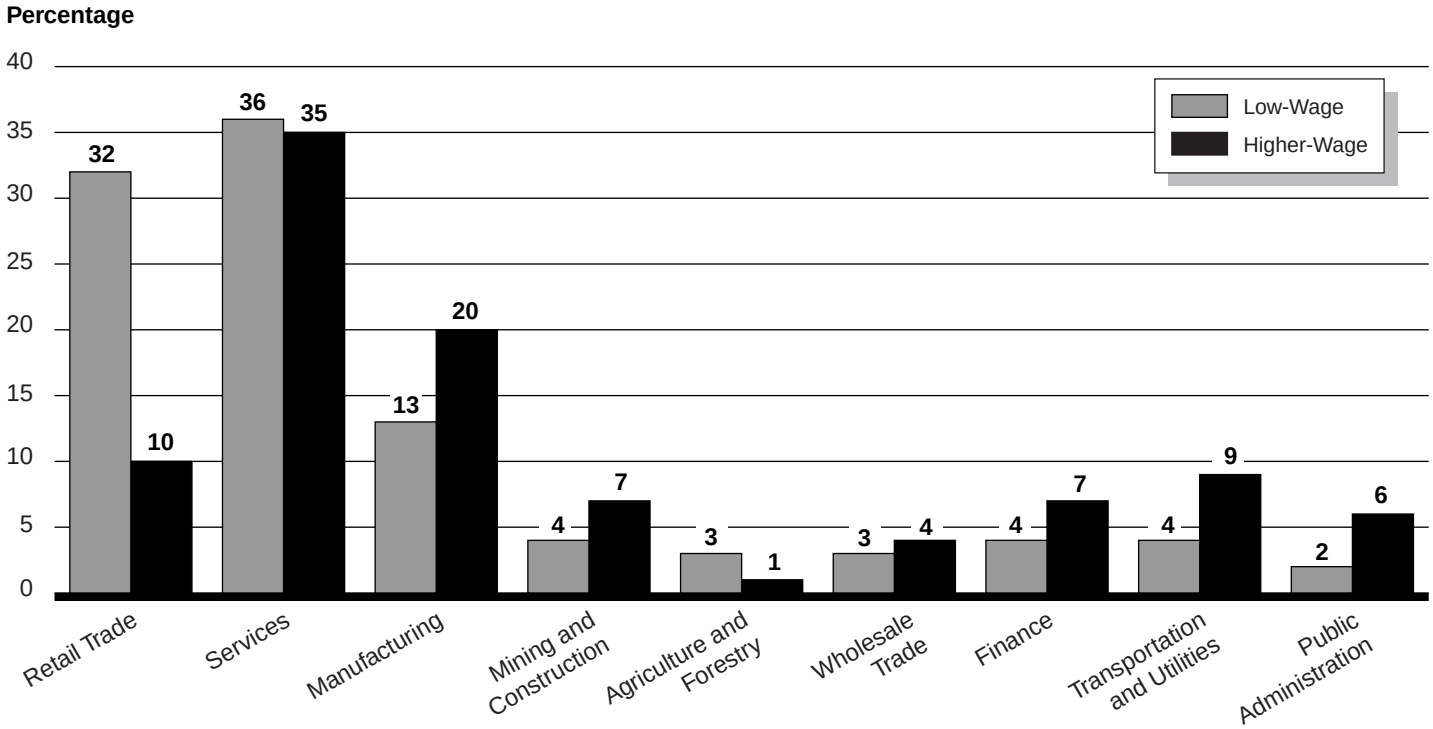
Many factors may explain the relatively lower rate of UI receipt among low-wage workers. These factors could include the possibility that low-wage workers are more likely to quit work to look for another (perhaps better-paying) job or to be fired for cause than other workers. Both of these circumstances would generally make claimants ineligible for UI benefits. However, certain major factors commonly cited by experts as contributing to the general decline in use of the UI program—fewer workers in manufacturing jobs or with union membership, and tighter state eligibility requirements—have particular significance for low-wage workers.

Low-Wage Workers Less Likely to Work in Manufacturing Jobs or to Be Union Members

As a group, low-wage workers are much less likely than other workers either to be employed in manufacturing or to be union members. They are also less likely to be employed in other industries such as construction and mining that, like the manufacturing industry, tend to use layoffs to terminate employees. Rather, they are likely to work in retail trade or services, industries that historically have handled job separations differently (generally, there are fewer employee layoffs) and had less union membership than industries such as manufacturing. In 1997, about 70 percent of low-wage workers were employed in retail trade and services, while 18 percent worked in manufacturing, mining, or construction.

Figure 4 compares the employment of low-wage workers with that of other workers by major industry sectors in 1997. For example, 32 percent of the low-wage workers held jobs in retail trade during 1997, but only 9.5 percent of other workers were employed in retail trade jobs. Figure 5 compares the union membership of these two groups.

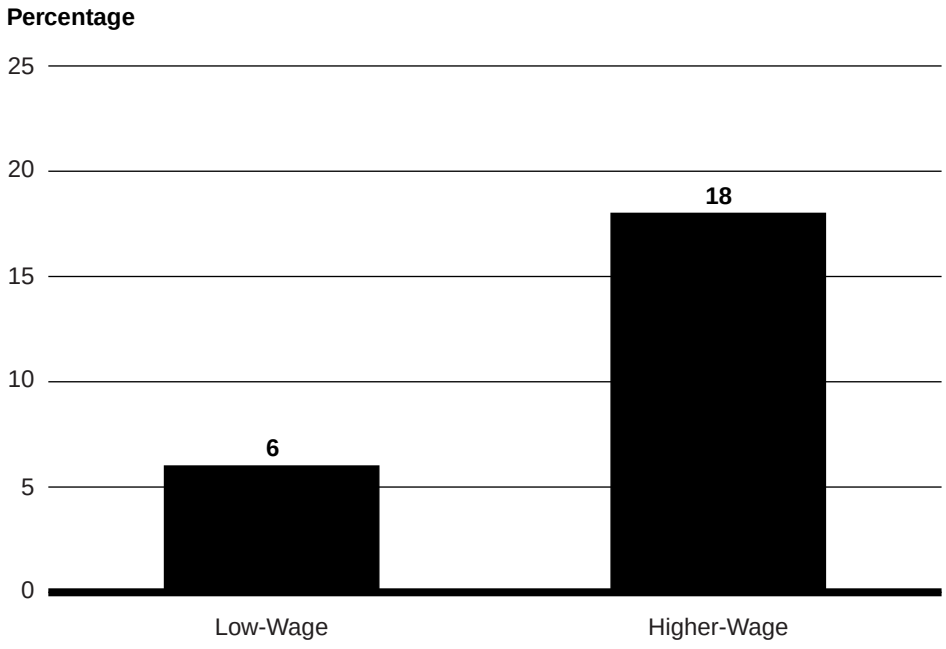
Figure 4: Industry Sector Employment of Low-Wage and Higher-Wage Workers, 1997



Note: The services industry combines the following industries: business services, personal and entertainment services, medical services, educational and social services, and professional services.

Source: Data are based on Jared Bernstein, Economic Policy Institute, and Heidi Hartman, Institute for Women's Policy Research, "Defining and Characterizing the Low-Wage Labor Market," *The Low-Wage Labor Market,* Department of Health and Human Services (Dec. 1999), which analyzed data from the 1997 CPS Outgoing Rotations.

Figure 5: Union Membership of Low-Wage and Higher-Wage Workers, 1997



Source: Data are based on Jared Bernstein, Economic Policy Institute, and Heidi Hartman, Institute for Women's Policy Research, "Defining and Characterizing the Low-Wage Labor Market," *The Low-Wage Labor Market*, Department of Health and Human Services (Dec. 1999), which analyzed data from the 1997 CPS Outgoing Rotations.

Certain Eligibility Criteria and Time Lags in Processing Wage Records Present Hurdles for Low-Wage Workers

Certain state eligibility criteria are particularly challenging to low-wage workers, especially to those who have not held jobs for steady periods of time, such as many former welfare recipients. Unemployed people with economic and financial characteristics commonly associated with former welfare recipients—single parents with dependent children who most often have an intermittent work history of low-wage (and frequently part-time) work—can be particularly vulnerable to these state requirements. These state criteria include requirements for minimum amounts of earnings as well as disqualification for benefits if workers leave jobs because of personal financial circumstances. In addition, the time allotted in many states for processing wage records may require that a claimant wait between 3 and 6 months before receiving benefits to which he or she is entitled.

Initially, to apply for UI benefits an unemployed person must have had "substantial attachment to the labor force" in prior work. Most states[18] use previous earnings—recorded on a quarterly basis in state wage records—to measure whether a claimant has had sufficient employment history. For the most part, states require that a claimant have earned a certain minimum amount over a specified four calendar quarters (the "base period"). The minimum amount for the base period ranges from $130 in Hawaii to $3,400 in Florida.

As a practice, the use of earnings to measure employment history treats low-wage workers differently from higher-paid workers, even if their participation in the workforce is similar. For example, a worker in Florida earning the minimum wage of $5.15 per hour must work 660 hours to qualify for UI, while a worker earning $10.00 per hour would need to work a little over one-half as long to qualify for benefits. Although the current state earnings requirements appear fairly minimal (a full-time worker earning minimum wage for 40 hours per week would need to work 16.5 weeks to qualify for UI in Florida), they can have a negative impact on workers with a less stable job history.

In table 7, we compare the effect of state earnings and employment requirements on two unemployed part-time workers who both lost their jobs in 2000—one earned minimum wage and the other earned $10.00 per hour. The comparison demonstrates that a part-time, low-wage worker is less likely to qualify for UI benefits. In fact, in eight states, working 20 hours a week for 6 months at the minimum wage would be insufficient to qualify an unemployed worker for benefits.

[18]Three states—Michigan, New Jersey, and Ohio—count the number of weeks worked, requiring a minimum of 20 weeks of work for UI benefits. Washington requires an unemployed person to have worked for 680 hours during the base period to apply for UI.

Table 7: Comparison of States' Employment History Requirements for UI Benefits for Two Unemployed Workers in 2000

Work history	Worker 1: prior job paid minimum wage ($5.15 per hour)	Worker 2: prior job paid $10.00 per hour
Worked for 20 weeks, 20 hours per week	Ineligible for UI in 13 states: AL, CO, FL, IN, KS, ME, NC, NH, ND, OH, VA, WA, WV	Ineligible for UI in 1 state: WA[a]
Worked for 26 weeks, 20 hours per week	Ineligible for UI in 8 states: FL, IN, ME, NC, ND, NH, VA, WA	Ineligible for UI in 1 state: WA[a]
Worked for 40 weeks, 20 hours per week	Eligible for UI in all states	Eligible for UI in all states

[a]Washington requires claimants to have worked 680 hours to receive benefits.

Source: GAO analysis of Department of Labor summary of state UI laws.

Next, to be eligible for UI benefits in most states, a person must have become unemployed involuntarily—that is, the person was either laid off or quit a job for "good cause." Generally, if a person leaves a job for reasons other than good cause, he or she is disqualified from UI benefits. However, much variation exists among the states about the factual circumstances that may constitute "good cause." Even though many states have laws that restrict good cause to work-related circumstances, administrative decisions and specific statutory exceptions lead to different interpretations of "work-related circumstances."

Certain temporary family crises—such as the sudden loss of child care or the serious illness of a dependent child—may cause workers in marginal financial circumstances to quit their jobs. We surveyed the UI directors of the 50 states[19] about three hypothetical situations involving retail workers who quit their jobs for compelling personal reasons. In all cases, it was assumed that the workers were otherwise eligible for UI and that they were able to work when they applied for benefits.

Table 8 shows that most states would deny benefits to those currently available for work who had to quit their jobs because child care was

[19]Individual state responses to the survey questions discussed in this report are included in appendix II.

temporarily unavailable. However, if a worker originally hired to work a day shift was suddenly required to work a night shift and had to quit the job because child care was not available, only eight states would deny UI benefits. If an employee had quit to take care of a seriously ill child, about half of the states would deny benefits.

Table 8: Eligibility for UI After Quitting Job for Compelling Personal Circumstances

Circumstances	Eligible for UI	Ineligible for UI
Retail worker currently able to work originally quit job because child care was temporarily unavailable.[a]	17 states	32 states
Retail worker hired to work a day shift originally quit job because was suddenly required to work the night shift and child care was not available during the night shift.	41 states	9 states
Retail worker currently able to work originally quit job to care for a seriously ill child.	24 states	26 states

[a]One state did not respond to this example.

Source: GAO survey of state UI directors.

In general, under state laws the unemployed person must also be available and able to work and, in most states, actively seeking work. Again, states have different definitions as to who is currently available and seeking work, often requiring that a claimant search for full-time work. In addition, some states require that the claimant be available to take a job for any shift that might be offered. Because many former welfare recipients work part-time and may be limited in the hours they work because of lack of child care and limited access to transportation, we surveyed the states on their requirements related to these issues.

Table 9 shows that three-fifths of the states would not allow benefits to be paid to an unemployed part-time worker continuing to look only for part-time work, even though the worker is otherwise eligible for UI. However, if a person looking for work in retail trade could not work during a night shift because child care or transportation was not available, most states would continue to pay UI benefits.

Table 9: Eligibility for UI Benefits for Unemployed Workers Seeking Part-Time Work or Limited Shifts

Circumstances	Eligible for UI	Ineligible for UI
Unemployed retail worker previously in part-time job is looking for job with same 30-hour work week.	20 states	30 states
Unemployed retail worker is not available to work evenings or weekends because of lack of child care.[a]	38 states	10 states
Unemployed retail worker is not available to work nights because public transportation is generally not available at night.[b]	41 states	6 states

[a]Two states did not respond to this example.

[b]Three states did not respond to this example.

Source: GAO survey of state UI directors.

Finally, even if the unemployed worker is eligible to receive benefits, the time it takes to process wage records may cause serious delays before the worker can collect UI benefits. In most states, a claimant for UI must have worked in two calendar quarters and have state wage records that show earnings in each of the quarters. However, the time it takes to add quarterly employee wage information to the state wage records generally means that the complete wage records will not be available until the next quarter after the information is received.

Two factors cause delays in processing state wage records, which are compiled from quarterly employee wage reports. First, the wage report is not due to most states until a month after the end of the quarter in which the wages are earned. For example, the wage report for the last calendar quarter of the year (ending on December 31) is due to the state January 31. Second, after the state receives the wage report, it needs time to process it. While many states require that employers with more than 250 employees file wage reports on magnetic media, smaller companies often file on paper documents, which may take 3 to 6 weeks longer to process. Therefore, although some wage data may be available after the first month of the next quarter (February 1 in the example), all wage data may not be available until the beginning of the next quarter (April 1).

To allow for these processing delays, most states specify that wages that count for UI must have been earned within the first four quarters of the last five completed quarters. These four quarters are called the "standard base period." In many states unemployed workers whose only work was in the most recent 6 months may have to wait between 3 and 6 more months to have their earnings counted toward UI eligibility. For example, if a worker starts a job in a retail store in October but gets laid off February 1, 39 states would not apply the worker's total earnings toward UI eligibility until after July 1.[20]

Currently, only 11 states will count the worker's earnings immediately toward UI eligibility. If a worker does not have sufficient earnings in the standard base period, most of these states will allow what is known as an "alternative base period" and count the earnings in the last four completed quarters (so that the worker's January earnings would be counted in the second calendar quarter starting in April). In these states, if the wage records have not yet been processed, state officials most commonly make a "wage request" of an employer to verify a claimant's most recent earnings.

Little Change to UI Since Welfare Reform

Since welfare reform in 1996, the welfare rolls have dropped and large numbers of people have joined the labor force, many in low-wage jobs. Yet, most states have made little change to their UI benefit coverage provisions that would assist low-wage workers. Specifically, states have made few alterations to eligibility criteria, such as minimum earnings requirements, and other practices that in their current form may make it more difficult for low-wage workers to qualify for UI. Recently, however, a group representing the Department of Labor, state UI directors, and others has offered proposals to expand benefit coverage for UI claimants that address some of the issues related to low-wage workers.

[20]In California, the worker's complete wage records might not be available until August 1, 6 months after he or she was first unemployed. However, in California the worker also would be eligible to receive benefits as of April 1 based solely on one quarter's earnings.

UI Benefit Coverage Provisions and Processing Lags Remain Largely Unchanged

For the low-wage worker with an unstable job history, little has changed in state laws in recent years to increase the likelihood of UI coverage.[21] In fact, in some states UI benefits for such workers became less accessible. For example, a former welfare recipient started her first job October 1 as a retail clerk paid at $5.15 per hour. After working 26 weeks for 20 hours each week, she was laid off because of slow sales. During that period, she earned $2,678 and worked 520 hours. In 1996, she would have been ineligible for benefits in five states—Indiana, Maine, New Hampshire, North Dakota, and Virginia—because these states require a claimant to have earned more than this worker's total wages, and also in Washington because she had not worked a sufficient number of hours. In 2000, she would be ineligible in eight states—those listed above plus Florida and North Carolina—because these states raised their minimum earnings requirements. During the period 1996 through 2000, 19 states increased the total earnings required for UI eligibility, 1 state lowered its requirement, and the remaining 29 kept the same minimum earnings level.

If the worker in the previous example resided in a state where she was eligible for UI, the benefits available to her would most likely be about the same in 2000 as in 1996. In 12 states, she would receive additional benefits if she had dependents. The states vary as to both weekly benefit amounts and how long a claimant may receive the weekly amount. Table 10 illustrates the benefit coverage of UI if this worker filed in 2000 in the four most populous states.

[21]In its comments, the Department of Labor pointed out that although the states have not made many changes, the national minimum wage increased twice between 1996 and 2000, rising from $4.25 to $4.75 on October 1, 1996, and increasing to $5.15 on September 1, 1997. Labor notes that these increases made it more likely that low-wage workers met state eligibility requirements.

Table 10: UI Benefits in 2000 for Unemployed Worker Who Had Worked Part-Time for 26 Weeks at $5.15 per Hour

State	Weekly amount	Duration of benefits	Total benefits available
California	$58	23 weeks	$1,339
Florida	0	0	0
New York	$54	26 weeks	$1,393
Texas	$54	13.5 weeks	$723

Note: By comparison, the monthly cash benefit under the TANF welfare program available to a family of three in these four states in January 2000 amounted to $626 in California, $303 in Florida, $577 in New York, and $201 in Texas.

Source: GAO analysis of Department of Labor summary of state UI laws for 2000.

Since 1996, there also has been very little movement among the states to adjust for the time lag in reporting wages if it affects when an unemployed low-wage worker can be eligible for benefits. Thus, even if the unemployed worker in our example was eligible to receive benefits, the time it would take to have her wages count would most likely cause delay before she could apply for, and collect, UI benefits. In 1996, nine states had provisions[22] to allow recent wages to count, even if the wages were earned outside the normal base period, if a claimant needed the earnings to qualify for UI. In 2000, two more states (North Carolina and Wisconsin) had similar provisions.[23] Among the remaining states, however, our survey of UI state directors indicated that it is unlikely much change will occur in the near future. Of the 39 states without provisions to count recent earnings, only one state director said that his state (Alaska) was likely to adopt such a provision, and state directors from 29 states said that their states were either very unlikely or unlikely to adopt this change.

[22]Seven states (Maine, Massachusetts, New Jersey, Ohio, Rhode Island, Vermont, and Washington) had an alternative base period, allowing a claimant to use wages from the last four completed calendar quarters. Two states (New York and Michigan) used the preceding 52 weeks as a standard base period and had no lag period.

[23]New York also altered its base period. As of April 1, 1999, its standard base period changed from the preceding 52 weeks to the first 4 of the last 5 completed quarters, with an alternative base period of the last four completed quarters ending with the week preceding the filing of a valid original claim.

Proposals for UI Reform

In the past 5 years, the Advisory Council on Unemployment Compensation and a stakeholder workgroup that includes state UI directors, union representatives, business representatives, and Department of Labor officials have made proposals that would expand the availability of the UI program for low-wage workers, among other reforms. According to Labor, the changing U.S. economy and its labor force have led to the current movement for reform. The UI program was designed over 60 years ago and worked well for a certain type of worker within the U.S. economy at that time. Since then, the U.S. economy and the composition of its labor force have changed, while the UI program has been slow to adapt to these changes. Labor noted that this has resulted in a larger portion of the labor force more closely resembling a category of worker that UI was not designed to assist. More recently, the reform of the welfare system has further increased the number of workers in this category.

In 1995, the advisory council made a series of proposals regarding low-wage workers as part of a larger set of recommendations about the needs of today's labor market. Subsequently, the Department of Labor organized a dialogue with state, employer, and union representatives to continue the debate on possible UI reform. As a result of this dialogue, a stakeholder workgroup of federal, state, and private sector officials recently proposed reforms for the UI program. Reform proposals applicable to low-wage workers from these two groups include the following:

- *Shorten the lag time in qualifying earnings for UI eligibility.* The advisory council recommended that all states use a "moveable" base period to consider earnings necessary to qualify a claimant for benefits. Under this proposal, the minimum earnings requirement could be met by earnings from the last four completed quarters, rather than from the first four of the last five completed quarters. Although initially the stakeholder workgroup considered a proposal to provide incentive funding to the states for "alternative" base periods similar to the advisory council's moveable base period, ultimately it suggested that states try to use technology advances to process the UI reports faster and, where at all possible, to use the latest wage earnings available for all claimants.
- *Set minimum standards for UI earnings requirements.* The advisory council recommended that all states set their laws so that required base period earnings do not exceed 800 times the state's minimum wage. In its dialogue, the Department of Labor asked for comments on a proposal that would set the minimum earnings requirements to 400 times the minimum wage (this figure was selected so that someone who had

worked for 20 weeks for 20 hours at minimum wage would be eligible for benefits in every state). However, the final proposals from the stakeholder workgroup did not include any recommendation on this issue.

- *Do not disqualify claimants seeking part-time work.* Both the advisory council and the stakeholder workgroup proposed that states should not reject claimants simply because they are looking for part-time, rather than full-time, work.
- *Do not disqualify claimants who quit a job to care for a dependent.* Although neither group ultimately recommended this proposal, the Department of Labor originally offered it for comment. The proposal would have provided financial incentives to states to pay UI benefits to claimants who had to quit their jobs to care temporarily for a child or other family member.

State objections to these proposals focus on the expansion of benefits, and the states argue that (1) the costs of the proposals are burdensome and (2) the proposals violate the traditional roles of the federal and state governments in the operation of the UI program. Regarding the first issue, the states point to, for example, the extra costs of obtaining the most recent earnings records for UI claimants. In response to proposed state legislation, Texas estimated the extra administrative costs at $153,000 annually for making special requests to employers for recent wage information. The proposal from the stakeholder workgroup would eliminate the requirement that states make these special requests, instead calling for federal funding of improved technology to accelerate state processing of UI wage records. However, the largest cost cited by states relates to the increased number of claimants receiving UI benefits. If alternative base provisions were implemented, Texas estimated that the annual costs to the unemployment insurance trust fund would be $24 million per year in benefits paid to potential claimants; California officials estimated their costs at $33 million per year.

From the standpoint of the states, the second objection—changes to the traditional roles of the state and federal governments—raises more difficult problems. While the federal government has imposed some specific requirements, these requirements are viewed as minor conditions only; for example, UI claimants cannot be denied benefits if they refuse work as a union strikebreaker. In contrast, the proposals discussed here—for example, the earnings requirements or allowable reasons for quitting a job—pertain to issues that state officials consider integral to the operation

of the state's UI program that, until now, have been generally under the control of the state.

Conclusion

Despite interest in ensuring that the UI program is meeting the needs of low-wage workers, little action has been taken at the state or federal levels to expand UI availability to this group. In part, this reflects the difficulty of addressing the cost implications of expanded eligibility and balancing states' autonomy in operating their UI programs. Yet, as a safety net, the UI program continues to offer only minimal protection for low-wage workers. Even though employers in many states pay the same UI payroll taxes for employees earning minimum wage as they pay for employees earning far more than that amount, low-wage workers are much less likely than higher-wage workers to be included in the UI safety net. In the event of an economic downturn, many low-wage workers may find that, unlike higher-wage workers, they will be unable to qualify for UI benefits. While the situation deserves attention on its own merits, the sweeping changes in national welfare policy heighten its importance. A UI program that supports all workers who lose their jobs through no fault of their own during times of economic hardship can play an important role in helping many former welfare recipients maintain their places in the labor force and out of the welfare system.

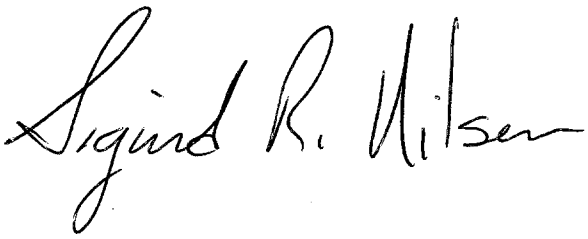
Agency Comments

In its review of a draft of this report, the Department of Labor generally agreed with our findings and conclusion. It made three major comments: (1) that the changing U.S. economy and its labor force have led to the current movement for UI reform; (2) that nonmonetary eligibility criteria such as voluntarily quitting a job may explain some of the differences between the UI rate of receipt for low-wage and other workers; and (3) that the increases in the national minimum wage between 1996 and 2000 may have made some unemployed low-wage workers eligible for UI. We concur with these comments and have modified our report as appropriate. Labor also made technical comments, which we have included in our report where appropriate. (Labor's comments appear in app. III.)

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after its issue date. At that time, we will send copies to the Honorable Alexis M. Herman, Secretary of Labor; the Honorable Donna E. Shalala, Secretary of

Health and Human Services; appropriate congressional committees; and other interested parties. We will also make copies available upon request.

Please call me at (202) 512-7215 or Gale Harris at (202) 512-7235 if you or your staffs have any questions about this report. Other GAO contacts and staff acknowledgments are listed in appendix IV.



Sigurd R. Nilsen
Director, Education, Workforce, and
Income Security Issues

Scope and Methodology

We used a variety of data sources to examine the role of unemployment insurance (UI) as part of the safety net for low-wage workers. To show the general trends of UI participation among all unemployed, we summarized data compiled by the Department of Labor. To measure the use of UI by low-wage workers as opposed to other workers, we used data from the Survey of Income and Program Participation (SIPP), a survey conducted by the Bureau of the Census. To determine the specific eligibility criteria used currently in state UI programs, we surveyed the directors of these programs. Finally, to assess whether states have changed their policies and practices to better ensure that low-wage workers are included in the UI safety net, we reviewed data from the Department of Labor as well as data from a national survey of UI directors, and we visited the four most populous states to talk with state officials about their UI system. We performed our work between January 2000 and September 2000 in accordance with generally accepted government auditing standards.

Estimating the Unemployment Rate and UI Rate of Receipt of Low-Wage Workers

To compare low-wage workers' experience with UI with that of other workers, we estimated the unemployment rates and the UI rates of receipt for the two groups of workers. To do this, we needed information on (1) the employment status of individuals; (2) specific characteristics of the employed population; (3) specific characteristics of the unemployed population; and (4) detailed information on unemployed people who collected UI. We talked with experts at the Department of Labor and the Bureau of the Census and reviewed academic research and other related literature to determine what data sources could be used for our study.

We considered four data sources with information on the use of the UI program nationwide—SIPP, the Current Population Survey (CPS), the Benefit Accuracy Measurement program (BAM), and general Department of Labor UI administrative data. SIPP is a longitudinal survey that collects information on labor force participation and income sources over a 3-year period. CPS, a national survey conducted by the Bureau of the Census for the Bureau of Labor Statistics, is a longitudinal survey that collects data on employment status and other demographic characteristics over a 1-year period. BAM is a Department of Labor program that collects information in order to evaluate the accuracy of state UI payments, and it includes specific data on demographic characteristics of people who collect UI benefits. Labor also maintains other administrative databases that collect information related to unemployment and the UI program. Figure 6 compares various data elements that are available among these four sources.

Figure 6: Comparison of Data Elements Available Among Sources With Nationwide Information on UI Participation

Data Element	SIPP	CPS	Labor's BAM	Other Labor UI Data
Years Data Collected	1984-96	1948-Present	1988-Present	1971-Present
Employment Status of People Surveyed	✓	✓	✓	
For the Employed Population				
• Total Population	✓	✓		
• Wage and Salary Information	✓	✓		
• Hours and Weeks Worked	✓	✓		
For the Unemployed Population				
• Total Population	✓	✓		
• Wage and Salary Information	✓			
• Hours and Weeks Worked	✓			
• Total Claims Filed for UI				✓
• Reasons for Unemployment		✓		
For People Who Receive UI Benefits				
• Total Number	✓	✓	✓	
• Wage and Salary Information	✓		✓	
• Hours and Weeks Worked	✓		✓	

Note: Shaded areas indicate data were not available.

Source: GAO analysis of SIPP, CPS, BAM, and other Department of Labor UI data.

From our review, we determined that SIPP was the only data source that would allow us to estimate what portions of the unemployed population were low-wage and higher-wage and the extent to which each group received UI. SIPP is a survey administered in person to participants every 4 months over a 3-year period. During the 3-year period, the same set of questions is asked of the same individuals, allowing for analysis of an individual's labor force experience over the entire time. The respondents who are surveyed for this period are referred to in total as a "panel." For example, participants in the panel included in the 1993 SIPP first reported

data beginning in October 1992, and they continued to report data at 4-month intervals through December 1995.

Our data analysis required that we use SIPP data that covered an entire 3-year period. At the time we conducted our research, the only completed SIPP panels with data from the 1990s were those started in fiscal years 1990, 1991, 1992, and 1993. The latest data available from these panels were for December 1995 from the 1993 SIPP panel. As a result, our research using SIPP data was limited to the period January 1990 through March 1995.[1]

General Methodology for SIPP Analysis

To estimate the unemployment rates and the UI rates of receipt for low-wage and higher-wage workers using the 1990 through 1993 SIPP panels, we took the following steps:

Step 1: We created a sample from each SIPP panel of 18- to 64-year-olds who were not self-employed.

We limited our sample in each SIPP panel to those between the ages of 18 and 64. We also excluded those who were self-employed and for whom there were incomplete data during the 3-year period. Our sample included data on the wages and salaries of respondents as well as the number of hours and weeks worked.[2]

Step 2: We used March of the last year of each SIPP panel to determine employment status.

Because of the design of our analysis, we chose to focus on the employment status in one month, March, from the last year of each panel.[3] Because seasonal employment can greatly affect employment status at certain times of the year (such as summer and winter), we examined data

[1]Although the SIPP database contained data through December 1995, because of the design of our analysis (described more fully later in this app.), we used data through March 1995.

[2]Our final unweighted samples were 17,088 cases for 1992, 12,266 cases for 1993, 15,953 cases for 1994, and 15,448 cases for 1995.

[3]Therefore, from the 1990 SIPP panel, we focused on March 1992; from the 1991 SIPP panel, we focused on March 1993; from the 1992 SIPP panel, we used data from March 1994; and from the 1993 SIPP panel, we used data from March 1995.

from March, a month less likely to be affected by seasonal employment. SIPP records data on a monthly basis. Since it is possible for an individual to be both employed and unemployed in the same month, to address this issue, we consulted with officials at the Bureau of the Census.[4] We considered a person as employed if he or she had a job for the entire month or, if the person missed work during this period, it was not because he or she was laid off and he or she spent no time looking for a job.[5] We considered a person as unemployed if he or she was out of work for the entire month or, if the person did work for part of the month, he or she spent the rest of the time laid off or looking for another job.[6] We did not include those who were out of the labor force.[7]

Step 3: We "looked back" 27 months for the most recent job.

To determine the wage level of an unemployed person, we identified the most recent job held by that person. To do this, we reviewed the work history to determine whether the person had had a job during the period covered by the SIPP panel. Starting in March of the last panel year (the month we used to determine unemployment), we looked back on a month-by-month basis to determine the most recent month in which that person was identified as employed. By using March of the last panel year we could, where necessary, look back for a period of 27 months to identify prior employment. In some cases, a respondent did not have a job during the entire 27-month period. If a respondent had not held a job at all during this time, we excluded the person from our sample.

[4]See Paul Ryscavage, *The Survey of Income and Program Participation: Measuring Spells of Unemployment and Their Outcomes*, No. 84 (Washington, D.C.: Bureau of the Census, Dec. 28, 1988).

[5]We specifically defined employed on the basis of the following SIPP categories: (1) with a job entire month, worked all weeks; (2) with a job entire month, missed 1 or more weeks, no time on layoff; (3) with a job 1 or more weeks, no time spent looking for work and no time on layoff.

[6]We specifically defined unemployed on the basis of the following SIPP categories: (1) no job during the month, spent entire month looking for work or on layoff; (2) no job during the month, spent 1 or more weeks looking for work or on layoff; (3) with a job 1 or more weeks, spent 1 or more weeks looking for work or on layoff; and (4) with a job entire month, missed 1 or more weeks of work, spent time on layoff.

[7]We define labor force as either (1) employed people or (2) unemployed people who are seeking employment.

Step 4: We divided our sample into low-wage and higher-wage workers.

We divided both the employed and unemployed populations into either low-wage or higher-wage workers on the basis of data from the current job if the person was employed or from the person's most recent job if unemployed. We defined low-wage as earning $8 per hour or less, based on 1999 dollars. For our analysis, we adjusted the rate for inflation. We determined the $8 level by dividing the annual income for a family of four at the federal poverty level by 2,080 hours (full-year, full-time employment).[8] We determined each person's hourly earnings in one of two ways: (1) if the data included an hourly wage, we used the reported hourly wage in the most recent month that the person was employed or (2) if there was no reported hourly wage, we constructed an hourly wage using data from the most recent month that the person was employed (reported monthly salary divided by the number of weeks worked in the month multiplied by the number of hours usually worked during the week). In some cases, a respondent who had had a job could not be classified as either low-wage or higher-wage because of missing wage or salary data. Table 11 shows what percentage of our SIPP sample had missing wage or salary data.

Table 11: Classification of Jobs Held by Unemployed Workers in the 27-Month Period

Numbers in percentages

Year	Low-wage job	Higher-wage job	Missing wage or salary data
1992	44.5	51.4	4.1
1993	49.6	47.9	2.6
1994	50.5	44.5	5.0
1995	49.6	44.4	6.0

Source: GAO analysis of SIPP data.

[8]The $8 per hour threshold for defining "low-wage" has been used in other studies. See, for example, Economic Policy Institute, *The State of Working America 1998-1999* (Ithaca, N.Y.: Cornell University Press, 1999) and Jared Bernstein and Heidi Hartman, "Defining and Characterizing the Low-Wage Labor Market," *The Low-Wage Labor Market* (Washington D.C.: Department of Health and Human Services, Dec. 1999).

Step 5: We determined whether the unemployed worker reported UI as a source of income.

We then identified whether each respondent had received UI benefits while out of work. If an unemployed former worker reported UI as a source of income in March of the last panel year, we classified the person as receiving UI. Otherwise, we classified the person as not receiving UI.

Step 6: We identified additional characteristics of the unemployed population.

We further analyzed the unemployed population by identifying the industries in which they had worked, whether they had worked full-time, and how long they had worked before becoming unemployed. To identify the kinds of industries low-wage and higher-wage unemployed workers had worked, we used the industry code of the most recent job. Our work presents data for nine industry groups: (1) retail trade; (2) manufacturing; (3) finance; (4) mining and construction; (5) agriculture, fishing, and forestry; (6) wholesale trade; (7) transportation and utilities; (8) public administration; and (9) services. We developed these groups by combining detailed CPS industry codes. For example, the services sector combines five types of service industries: business services, personal and entertainment services, medical services, education and social services, and professional services.

Next, we identified whether the unemployed former worker had been employed full-time or part-time. We defined full-time employment as working 35 or more hours each week and part-time employment as working fewer than 35 hours per week.

To determine the number of weeks worked by the person in the year immediately before he or she became unemployed, we created a subsample from our original SIPP sample. The subsample included only those who were unemployed in March of the last panel year and who had had a job during the 15 months prior to unemployment (as compared with the 27-month look-back period for our original sample). After identifying the most recent job in the 15-month period, we counted how many weeks each person had worked during the 12 months before becoming unemployed. We classified the unemployed low-wage and higher-wage workers into three categories: (1) those who had worked more than 35 weeks during the year, (2) those who had worked between 20 and 35 weeks during the year,

and (3) those who had worked fewer than 20 weeks during the year. To increase the size of this subsample, we combined all four SIPP panels.

Calculating the Unemployment Rate

We calculated the overall unemployment rate by dividing the number of unemployed by the total number of people in the labor force, as follows:

$$\text{Unemployment Rate} = \frac{\text{Total Unemployed}}{\text{Total Number in the Labor Force (Unemployed + Employed)}}$$

The unemployment rates for low-wage and higher-wage workers were calculated on the basis of their representation in the labor force. For example, the unemployment rate for low-wage workers was calculated by dividing the number of unemployed low-wage workers by the number of low-wage workers in the labor force.

$$\text{Low-Wage Unemployment Rate} = \frac{\text{Unemployed With Low Wages}}{\text{Total Number in the Labor Force With Low Wages}}$$

In calculating an unemployment rate for higher-wage workers, we included the cases with missing wage or salary data in such a way as to calculate the most conservative estimates, that is, estimates that would minimize any differences between the low-wage and higher-wage unemployment rates. To calculate this rate, we assumed that all those with missing wage data were actually higher-wage unemployed workers. With that assumption, the group with missing wage data was added to the higher-wage unemployed group when we calculated the higher-wage unemployment rate.

$$\text{Higher-Wage Unemployment Rate} = \frac{\text{Unemployed With Higher Wages + Unemployed With Missing Wage Data}}{\text{Total Number in the Labor Force With Higher Wages + Unemployed With Missing Wage Data}}$$

The unemployment rate we calculated using the SIPP data differs for a variety of reasons from the standard unemployment rate published by the

Bureau of Labor Statistics from CPS data. These two rates differ in part because each rate measures different populations. Specifically, our rate includes only those in the labor force who are between the ages of 18 and 64, whereas the standard rate includes all those who are 16 years old and older. Also, our analysis excludes those who are self-employed, while the standard rate includes self-employed workers. Another key contrast results from technical differences between the two databases used to calculate these rates. SIPP, for example, records data for each month, but the CPS records data for a 1-week period. Therefore, while employment status in SIPP measures whether or not a person was employed during the entire month, the CPS measures whether the person was employed during the week that included the 12th of the month.

Calculating the UI Rate of Receipt

We calculated the overall UI rate of receipt by dividing the number of unemployed workers who had collected UI benefits during March by the total number of unemployed workers in that month.

$$\text{UI Rate of Receipt} = \frac{\text{Unemployed Who Collected UI}}{\text{Total Unemployed}}$$

In calculating the UI rates of receipt, we included the respondents with missing wage data in such a way as to present the most conservative estimates; that is, we allocated the missing wage data so that our estimates would minimize the difference between the receipt rates for the two groups. Therefore, to calculate the UI rate of receipt for low-wage workers, we assumed that all workers with missing wage data who were paid UI benefits were low-wage unemployed workers. Conversely, to calculate the higher-wage UI rate of receipt, we assumed that all those with missing wage data who were not paid UI benefits were higher-wage unemployed workers.

$$\text{Low-Wage UI Rate of Receipt} = \frac{\text{Low-Wage Unemployed Who Collected UI} + \text{Missing Wage Unemployed Who Collected UI}}{\text{Low-Wage Unemployed} + \text{Missing Wage Unemployed Who Collected UI}}$$

$$\text{Higher-Wage UI Rate of Receipt} = \frac{\text{Higher-Wage Unemployed Who Collected UI}}{\text{Higher-Wage Unemployed} + \text{Missing Wage Unemployed Who Did Not Collect UI}}$$

The UI rate of receipt we constructed using SIPP data is not comparable to the Department of Labor's standard UI recipiency rate. Our UI rate of receipt measures the number of people who have actually received a UI check as a percentage of the unemployed in the labor force. Labor's standard recipiency rate, on the other hand, measures the number of people who file a claim for UI as a percentage of the unemployed in the labor force.[9] By measuring the number of people who file a claim for benefits, Labor's rate includes those who eventually receive UI as well as those who do not.

Because the UI program differs from state to state, we analyzed whether there were differences in the UI rates of receipt for the low-wage and higher-wage unemployed that lived in different states. For purposes of comparison, we created two groups of states—those with high standard recipiency rates and those with low standard recipiency rates based on Labor's standard recipiency rates from 1992 through 1995. States that consistently were in the 15 states with the highest standard UI recipiency rates were in one group and states that were consistently the lowest 15 were in the other. To increase the size of the sample for each of the two groups of states, we combined all four SIPP panels.

For each unemployment rate and UI rate of receipt presented in the analysis, we tested whether the differences between low-wage and higher-wage workers were statistically significant. To do this, we compared the sampling errors for the two estimates and, if the sampling errors for the low-wage and higher-wage workers did not overlap, we concluded that each difference is statistically significant. Unless otherwise noted, statistical significance was tested at the .01 level, thereby allowing us to conclude that there is only a 1 percent chance that the difference between the rates is due to sampling error.

Data Analysis for the Rest of the 1990s

Although SIPP data are unavailable for the latter half of the 1990s, other relevant data are available from the CPS and from the Department of Labor's BAM database. From the CPS data, it is possible to calculate the proportion of low-wage (or higher-wage) workers in the employed labor force. From the BAM data we can determine the proportion of low-wage (or higher-wage) workers who received UI, compared with the total

[9]Labor's overall standard recipiency rate was 34 percent in 1992, 31 percent in 1993, 33 percent in 1994, and 35 percent in 1995.

number of unemployed workers receiving UI. Table 12 compares these data with our calculations, using the SIPP data for the years 1992 through 1995.

Table 12: Data From CPS, BAM, and SIPP for Low-Wage Workers in the Employed Labor Force and Workers Paid UI, 1992-99

	Low-wage workers as a percentage of all employed workers		Low-wage workers paid UI as a percentage of all unemployed workers paid UI	
Year	CPS[a] (A)	SIPP[b] (B)	BAM[c] (C)	SIPP[b] (D)
1992	28.4	24.9	27.8	27.4
1993	30.0	26.1	25.5	37.1
1994	30.7	28.6	29.3	31.8
1995	30.6	27.7	27.3	27.9
1996	30.3	N/A	30.3	N/A
1997	28.6	N/A	30.6	N/A
1998	27.4	N/A	30.8	N/A
1999	26.8	N/A	27.1	N/A

Note: N/A = not available.

[a]Calculation from the Economic Policy Institute.

[b]As calculated by GAO.

[c]As calculated by the Department of Labor.

As shown in column A of table 12, the CPS percentage of low-wage workers in the employed workforce was roughly 30 percent for the entire period. In column C, the BAM percentage of those paid UI who were low-wage workers was also roughly 30 percent during the same time. Although the table refers only to low-wage workers, the percentages for higher-wage workers can be computed as the inverse of the low-wage percentage (that is, 100 minus the low-wage percentage). Thus, the CPS percentage for higher-wage workers is roughly 70 percent, and this percentage is about the same as the BAM percentage for higher-wage workers—also about 70 percent.

Figure 7 demonstrates that the data from the CPS and BAM can be used to infer how the rate of UI receipt and the unemployment rate relate across wage groups between 1996 and 1999. It can be shown that, given the observed pattern of data from CPS and BAM, it is unlikely that the rate of

UI receipt for low-wage workers would exceed that of higher-wage workers during this period. Essentially, for this to have occurred, the unemployment rates across the wage groups would have to have converged dramatically during this period—in sharp contrast to the experience of earlier years. Whereas between 1992 and 1995 the unemployment rate for low-wage workers exceeded that of higher-wage workers by well over 100 percent, as long as the unemployment rate for low-wage workers exceeded that of higher-wage workers by as little as 18 percent throughout the rest of the decade, the rate of receipt for low-wage workers remained less than that of higher-wage workers for each year between 1996 through 1999.

In figure 7, RR (lw) equals the UI rate of receipt for low-wage workers and UR (lw) equals the unemployment rate of low-wage workers. For higher-wage workers, the UI rate of receipt is RR (hw) and the unemployment rate is UR (hw).

Figure 7: Formulation Demonstrating the Use of CPS and BAM Data to Infer How the Rate of UI Receipt and the Unemployment Rate Relate Across Wage Groups for 1996 Through 1999

1. $$\text{RR (lw)} = \frac{\text{Total Paid UI Who Are LW Unemployed}}{\text{Total LW Unemployed}}$$

2. Rewrite Total Paid UI Who Are LW Unemployed

   a. $$\text{Given BAM (lw)} = \frac{\text{Total Paid UI Who Are LW Unemployed}}{\text{Total Unemployed Paid UI}}$$

   b. $$\text{Then Total Paid UI Who Are LW Unemployed} = \text{BAM (lw)} \times \text{Total Unemployed Paid UI}$$

3. Rewrite Total LW Unemployed

   a. $$\text{Given UR (lw)} = \frac{\text{Total LW Unemployed}}{\text{Total LW}}$$

   b. $$\text{Then Total LW Unemployed} = \text{UR (lw)} \times \text{Total LW}$$

   c. $$\text{Given Total LW} = \frac{\text{Total LW}}{\text{LW Employed}} \times \text{LW Employed}$$

   d. $$\text{Then Total LW Unemployed} = \text{UR (lw)} \times \frac{\text{Total LW}}{\text{LW Employed}} \times \text{LW Employed}$$

   e. $$\text{Given } \frac{\text{LW Employed}}{\text{Total LW}} = 1 - \frac{\text{LW Unemployed}}{\text{Total LW}} = 1 - \text{UR (lw)}$$

   f. $$\text{Then Total LW Unemployed} = \text{UR (lw)} \times \frac{1}{1 - \text{UR (lw)}} \times \text{LW Employed}$$

   g. $$\text{Given CPS (lw)} = \frac{\text{LW Employed}}{\text{Total Employed}}$$

   h. $$\text{Then Total LW Unemployed} = \text{UR (lw)} \times \frac{1}{1 - \text{UR (lw)}} \times \text{CPS (lw)} \times \text{Total Employed}$$

4. Combine 2(b) and 3(h) Into (1) to Yield

$$\text{RR (lw)} = \frac{\text{BAM (lw)} \times \text{Total Unemployed Paid UI}}{\text{UR (lw)} \times [1/[1 - \text{UR (lw)}]] \times \text{CPS (lw)} \times \text{Total Employed}}$$

5 Rewriting (4)

$$RR\ (lw) = \frac{BAM\ (lw)}{CPS\ (lw)} \times \frac{1 - UR\ (lw)}{UR\ (lw)} \times \frac{\text{Total Unemployed Paid UI}}{\text{Total Employed}}$$

6 Rewriting (5)

$$\frac{\text{Total Unemployed Paid UI}}{\text{Total Employed}} = RR\ (lw) \times UR\ (lw) \times \frac{1}{1 - UR\ (lw)} \times \frac{CPS\ (lw)}{BAM\ (lw)}$$

7 By Symmetry, We Know That

$$\frac{\text{Total Unemployed Paid UI}}{\text{Total Employed}} = RR\ (hw) \times UR\ (hw) \times \frac{1}{1 - UR\ (hw)} \times \frac{CPS\ (hw)}{BAM\ (hw)}$$

8 Setting (6) and (7) Equal Gives

$$RR\ (lw) \times \frac{CPS\ (lw)}{BAM\ (lw)} \times \frac{UR\ (lw)}{1 - UR\ (lw)} = RR\ (hw) \times \frac{CPS\ (hw)}{BAM\ (hw)} \times \frac{UR\ (hw)}{1 - UR\ (hw)}$$

a Rearranging Terms Yields

$$\frac{RR\ (lw)}{RR\ (hw)} = W \times \frac{UR\ (hw)}{1 - UR\ (hw)} \times \frac{1 - UR\ (lw)}{UR\ (lw)}$$

$$\text{Where } W = \frac{CPS\ (hw)}{BAM\ (hw)} \times \frac{BAM\ (lw)}{CPS\ (lw)}$$

Considering the highest value W had taken from 1996 through 1999 was 1.18 in 1998, RR(lw) is less than RR (hw) throughout the decade as long as UR (lw) is greater than UR(hw) by at least 18 percent.

Eligibility Criteria for State UI Programs

To ascertain how individual states would treat specific circumstances that might be particularly applicable to low-wage workers, and to former welfare recipients, we sent a questionnaire to state UI directors. For the most part, the questionnaire presented hypothetical situations related to unemployed workers, and asked the UI directors to determine whether the unemployed worker could qualify for UI benefits in their state program. We received responses from all 50 states.

Status of State UI Programs

To assess whether state UI programs had changed in the 4-year period since welfare reforms, we reviewed the Department of Labor's compilation of legislative changes in state UI laws from all 50 states.

To examine the current status of the state UI programs, we included questions about the operation of UI programs in our survey of the state UI directors. We also visited four states—California, Texas, New York, and Florida—to talk with officials about the state UI program. We chose these states not only because they were the most populous states but also because they presented contrasts in how they manage their UI programs.

State Responses to GAO Questionnaire on UI Eligibility

In June 2000, we sent a questionnaire to the UI directors for the 50 states. In this appendix, we present the questions that we discuss in our report and data on how each state responded.

Question 2: Does your state have an alternative base period?

Alternative base period	No alternative base period
11 states: MA, ME, MI, NC, NJ, NY, OH, RI, VT, WA, WI	39 states: AK, AL AR, AZ, CA, CO, CT, DE, FL, GA, HI, IA, ID, IL, IN, KS, KY, LA, MD, MN, MO, MS, MT, ND, NE, NH, NM, NV, OK, OR, PA, SC, SD,TN, TX, UT, VA, WV, WY

Question 4: (If the state had no alternative base period) In your opinion, how likely or unlikely is it that your state will adopt an alternative base period in the near future?

Very unlikely	Unlikely	As likely as unlikely	Likely	Don't know
9 states: AZ, DE, KY, LA, MD, MO, NE, NH, UT	20 states: AL, AR, CO, FL, GA, HI, ID, IL, KS, MS, MT, NV, OK, OR, PA, SD, TN, TX, WV, WY	7 states: CA, CT, IA, IN, MN, NM, VA	1 state: AK	2 states: ND, SC

Questions 5, 6, and 7 dealt with personal circumstances for quitting a job. For each question, the respondent was asked to assume that (a) the worker has quit a job as a stockroom clerk with a retail chain store; (b) the worker's reasons for leaving the job are compelling and not the fault of the worker; (c) the worker is otherwise eligible to receive UI benefits.

Question 5: The worker quits because child care suddenly becomes unavailable and the employer cannot reschedule the worker's hours. Subsequently, child care becomes available. The worker files for UI.

Immediately eligible	Eligible after waiting for a fixed period	Ineligible	No response
13 states: AK, AR, AZ, CA, HI, IA, KS, MA, NY, OR, PA, RI, VA	4 states: MD, NE, WA, WY	32 states: AL, CO, CT, DE, FL, GA, ID, IL, IN, KY, LA, ME, MI, MN, MO, MS, MT, NC, ND, NH, NJ, NM, NV, OH, OK, SC, SD, TN, TX, UT, VT, WI	1 state: WV

Question 6: The worker was originally hired to work during the day shift. However, the employer requires that the worker change work hours to a night shift, and the worker quits because child care is unavailable during the night shift.

Eligible	Ineligible
41 states: AK, AL, AR, AZ, CA, CT, DE, FL, HI, IA, IL, IN, KS, KY, LA, MA, MD, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NY, OK, PA, RI, SC, SD, TN, TX, UT, VT, WA, WI, WV, WY	9 states: CO, GA, ID, ME, MI, NV, OH, OR, VA

Question 7: The worker quits to care for a sick child (physician certifies need). Subsequently, the worker is available to resume work. The worker files for UI.

Immediately eligible	Eligible after waiting a fixed period	Ineligible
22 states: AK, AR, AZ, CA, CT, HI, IA, IL, KS, MA, MD, ME, NY, OK, OR, PA, RI, TX, UT, VA, WA, WI	2 states: NC, NE	26 states: AL, CO, DE, FL, GA, ID, IN, KY, LA, MI, MN, MO, MS, MT, ND, NH, NJ, NM, NV, OH, SC, SD, TN, VT, WV, WY

Questions 8, 9, and 10 dealt with the requirement that a worker be "able and available" for work. For each question, it is assumed that the worker's previous job was a stockroom clerk in a retail chain store, that the worker was laid off this job, and that the worker is otherwise eligible to receive UI.

Question 8: In her prior job, the worker was employed part-time, for 30 hours a week. When she applies for UI and is asked whether she is available for work, she indicates that she is looking for work with the same hours as those of her previous job and is not able to work more hours than previously.

Eligible	Ineligible
20 states: AR, CO, DE, FL, HI, IA, KS, LA, MA, MN, ND, NE, NV, NY, OK, PA, SD, TN, VT, WY	30 states: AK, AL, AZ, CA, CT, GA, ID, IL, IN, KY, MD, ME, MI, MO, MS, MT, NC, NH, NJ, NM, OH, OR, RI, SC, TX, UT, VA, WA, WI, WV

Question 9: The worker is available to work full-time during the weekdays. However, she cannot work evenings or weekends because of the lack of affordable child care at that time. As a result, the worker is unable to take jobs that require that she work evenings or weekends.

Eligible	Ineligible	No response
38 states: AK, AR, AZ, CA, CT, DE, FL, GA, HI, IA, IL, IN, KS, LA, MA, MD, MN, MO, MS, NC, ND, NE, NH, NJ, NM, NV, NY, OK, PA, RI, SC, SD, TN, UT, VT, WA, WI, WY	10 states: AL, CO, ID, KY, ME, MI, MT, OH, OR, TX	2 states: VA, WV

Question 10: The worker is available to work full-time but always relies on public transportation to get to work. The worker is therefore unable to take jobs that require work during a night shift because public transportation is generally not available during night hours.

Eligible	Ineligible	No response
41 states: AK, AR, AZ, CA, CT, DE, FL, GA, HI, IA, IL, IN, KS, KY, LA, MA, MD, MI, MN, MO, MS, MT, NC, ND, NE, NH, NJ, NM, NV, NY, OK, OR, PA, RI, SC, SD, TN, UT, VT, WA, WI	6 states: AL, CO, ID, ME, OH, TX	3 states: VA, WV, WY

Comments From the Department of Labor

U.S. Department of Labor

Assistant Secretary for
Employment and Training
Washington, D.C. 20210

NOV 24 2000

Mr. Sigurd Nilsen
Director, Education, Workforce and
Income Security
U.S. General Accounting Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Nilsen:

This is in response to your letter of November 7, 2000, to the Secretary of Labor, requesting our review and comment prior to publication of the proposed GAO report entitled Unemployment Insurance: Role as Safety Net for Low -Wage Workers is Limited (GAO-01-181).

Overall this report is well written and does a good job of attempting to explain some of the reasons underlying UI's limited effectiveness for low wage workers. Staff from the legislative, actuarial, and research teams of the Office of Workforce Security, who spent considerable time with GAO staff conducting this analysis, reviewed the report.

Both the title and the analyses suggest the UI Program falls short in helping low wage workers. Certainly more could be done to help low wage workers, and as is mentioned in the report a "Stakeholder Workgroup" of organized labor, business, the States and DOL have spent considerable time formulating proposals for reforms. Adding a few sentences to the background section which succinctly tells the story leading up to the current movement for reform of the UI system would benefit the report's audience. Simply put, over sixty years ago the UI program was designed and worked well for a certain type of worker within the U.S. economy of that time. Since then, the U.S. economy and the composition of its labor force has changed, while the UI program has been slow to adapt to these changes. The result, is a larger portion of the labor force more closely resembles the category of worker for which UI was not designed. More recently, the reform of the welfare system has further increased the number of workers in this category.

The analysis does not fully discern between monetary and nonmonetary eligibility criteria as factors affecting recipiency. Do low wage workers have a higher incidence of being fired for cause and voluntary quits? This may help explain some of the differences between high wage and low wage workers in Tables 3 & 4. The analyses should acknowledge the presence of nonmonetary factors that might contribute to some of the differences.

AMERICA'S WORKFORCE NETWORK

The report relies heavily on the SIPP data which cover the period from 1992 through 1995. The report justifies this as a primary source of data because States have not made many law changes since then. However, since 1995 the minimum wage has been increased twice which could make previously monetarily ineligible unemployed workers eligible. This factor could impact the results.

We submit the enclosed additional comments for your consideration, and offer our staff's availability if there are any questions.

Sincerely,

for/ Raymond L. Bramucci

Enclosures

GAO Contacts and Staff Acknowledgments

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Staff Acknowledgments

In addition, Michelle C. Verbrugge, Richard Kelley, Grant M. Mallie, Joan K. Vogel, and Andrew M. Davenport made key contributions to this report.

Related GAO Products

Welfare Reform: States' Implementation and Effects on the Workforce Development System (GAO/T-HEHS-99-190, Sept. 9, 1999).

Welfare Reform: States' Implementation Progress and Information on Former Recipients (GAO/T-HEHS-99-116, May 27, 1999).

Welfare Reform: Information on Former Recipients' Status (GAO/HEHS-99-48, Apr. 28, 1999).

Welfare Reform: States' Experiences in Providing Employment Assistance to TANF Clients (GAO/HEHS-99-22, Feb. 26, 1999).

Welfare Reform: States Are Restructuring Programs to Reduce Welfare Dependence (GAO/HEHS-98-109, June 17, 1998).

Unemployment Insurance: Program's Ability to Meet Objectives Jeopardized (GAO/HRD-93-107, Sept. 28, 1993).

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