

## When the Paychecks Stop— Unemployment Insurance Fails to Help Many Former Welfare Recipients Who Lose Their Jobs

Despite recent increases in employment among welfare recipients, 40 percent of former welfare recipients who exit welfare for work cannot rely on the unemployment insurance (UI) system as a safety net if they lose their jobs. Furthermore, those who stay on welfare longer before leaving welfare for work and those who leave welfare for nonwork-related reasons are even less likely to be able to use the UI system as a safety net. These are among the key findings from a study conducted by Mathematica Policy Research to better understand UI eligibility among former welfare recipients.

For the first time since the implementation of welfare reform, the United States has entered a recessionary period. There has been much speculation about what would happen to the record number of recipients who left welfare for work during the boom economy in the mid- to late 1990s when the economy eventually sagged. The slowdown of 2001 highlighted questions about whether former welfare recipients have broken the cycle of dependency and become mainstreamed into the labor force, enabling them to use the same social insurance programs available to other workers in case of job loss. An important question is whether the UI system, the primary safety net for working people who lose jobs, adequately addresses the needs of former recipients who have left welfare for work.

### Economic Conditions Worsen for Entry-Level Workers

Between March 2001, when the recession began, and year's end, the number of individuals employed declined by around 1.4 million workers. The largest declines occurred in October and November, with about 400,000 job losses in each month. These declines were concentrated in low-wage industries that are likely to employ former welfare recipients, such as manufacturing, services, and retail trade.

Another sign of weakness in the labor market was the increase by 1.1 million in the number of part-time workers

who wanted to work full time during 2001. Although emerging data from early 2002 suggest that the recession may be mild, the number of individuals looking for jobs remains high. "Former welfare recipients may have greater difficulty than others in keeping their jobs or finding new ones," says Anu Rangarajan, director of the Mathematica Policy Research team working on UI issues and associate director for Human Services Research.

### A New Safety Net May Be Needed for Former Welfare Recipients

"To a large extent, welfare reform achieved one of its goals—to move individuals from dependency to employment and self-reliance," Dr. Rangarajan asserts. The 1996 welfare reform law that created Temporary

#### Note from the Director—Barbara B. Blum

This issue describes what we know about the role of unemployment insurance (UI) as a safety net for workers who were formerly welfare recipients and now face unemployment. Recent research on this issue has been done at Mathematica Policy Research using data from a five-year evaluation that is tracking 2,000 TANF recipients in New Jersey as they exit welfare for work. Anu Rangarajan, Ph.D., associate director for Human Services Research, and Walter Corson, Mathematica Policy Research vice president, are currently leading new research sponsored by the Assistant Secretary for Planning and Evaluation of the U.S. Department of Health and Human Services and the state of New Jersey to continue studying the UI system as a safety net for former TANF recipients. Given the time limits for coverage imposed by current welfare law, the unemployment insurance system is likely to play a key role in the future for low-income workers losing their jobs. Researchers and policymakers will need to pay greater attention to the variety of state regulations governing eligibility and payments under the UI system to safeguard low-income workers as the current welfare regime is reauthorized.

## The Unemployment Insurance (UI) Program: Complex and Varying by State

The UI program, the largest worker protection or insurance program for job loss, was designed to help cushion the impact of an economic downturn and provide temporary wage replacement for those laid off. It is not means tested and is available for all workers. In most states, benefits are financed by employer taxes, with built-in financial disincentives for employers who frequently lay off workers.

### Eligibility

Unemployment insurance eligibility rules and payment rates are complex and vary by state. The federal government sets broad guidelines, but states may define their eligibility requirements and establish benefit levels. Three factors determine UI eligibility: (1) length of employment, (2) reason for job separation, and (3) availability to work. In general, wages can be partially replaced through UI benefits if individuals have worked for a certain period of time and have had a minimum level of earnings, have lost their jobs through no fault of their own, and are able to, and available for, work.

In most states, to be eligible for UI, a person must have earned more than a specified amount over a one-year “base” period, frequently defined as the first four of the past five completed calendar quarters. Most states also require individuals to have worked in at least two quarters during the base period. A few states also require claimants to work a minimum number of weeks or hours. In 2001, the minimum earnings required in the base period to qualify ranged from \$130 to \$3,120. In most states, workers who are fired for a reason other than gross misconduct are usually eligible, while those who quit are usually ineligible. In a few states, however, workers who quit for personal reasons,

such as child care or scheduling problems, are eligible. Most states also require claimants to actively look for full-time work. About 20 states allow those seeking part-time work to receive benefits.

### Benefit Levels

Benefit levels also vary widely by state and are typically 40 to 60 percent of average weekly wages. Most commonly, the weekly benefit amount equals 50 percent of average weekly wages in the highest quarter of the base period up to a maximum amount. Maximum payments range from a low of around \$200 a week in Louisiana and Mississippi to a high of around \$500 a week in Massachusetts. Weeks of potential duration range from four to 30 weeks. Most states have a 26-week maximum. Twelve states also have dependent allowances.

### Reciency Rates

UI recipiency rates (the percentage of the unemployed claiming UI) tend to be fairly low and have been falling over time. Less than 40 percent of unemployed individuals nationally received benefits in 2000. Recipiency rates may be declining due to more optimistic job expectations, lack of awareness about eligibility, or a changing composition of the work force (including a decrease in manufacturing and unionization and an increase in part-time work). Variation in state UI programs and state labor markets leads recipiency rates to differ widely across states. In 2000, aggregate recipiency ratios averaged under 20 percent in New Hampshire to more than 70 percent in Connecticut and Massachusetts.

Assistance for Needy Families (TANF) transformed the old welfare system (Aid to Families with Dependent Children—AFDC) into one that provides temporary support and includes strong incentives for participants to work. Although some critics voiced concerns over the effects of welfare reform and the ability of the labor market to absorb welfare recipients in large numbers, strong economic conditions made the transformation easier, adds Dr. Rangarajan. Since mid-1996, welfare caseloads have declined by more than half—from 4.4 million families in August 1996 to just over 2.1 million in September 2001. Studies of welfare leavers show that nearly two-thirds leave for employment, so that well over a million individuals are expected to have entered the labor force.

These dramatic changes, however, took place during strong economic conditions. The recession, exacerbated by the events of September 2001, hit entry-level workers particularly hard. Before 1996, former recipients who lost their jobs could return to welfare. However, the current time limits on welfare and other disincentives to participate in TANF will make returning to welfare less

feasible or even impossible for some, and the UI program may be the alternative safety net if jobs are lost.

## UI Program Rules Do Not Favor Low-Wage Workers

There is concern among some policymakers and researchers that the eligibility rules of the UI program make it less accessible to low-wage, entry-level workers, especially former welfare recipients who may move in and out of the labor force.

The UI program could place low-wage workers at a disadvantage in three ways, says Walter Corson, vice president of Mathematica Policy Research. First, to meet the minimum earnings requirements, low-wage workers must work more hours than higher-wage workers. Second, women with children, particularly single mothers with young children, may have child care or other family needs that lead them to quit their jobs, making them ineligible for UI in many states. Finally, for the same reasons, these individuals may be more likely to want to work part time, also making them ineligible for UI in many states.

## **Reforms to the UI system to better accommodate the needs of the working poor include using more recent earnings in eligibility determination, allowing those looking for part-time work to qualify for benefits, and having more generous nonmonetary eligibility related to reasons for job separation.**

### **Pre-TANF Evidence Shows Few Former Welfare Recipients Would Qualify for UI**

Little empirical evidence exists on the extent to which former welfare recipients can qualify for UI if they lose their jobs. Research conducted with pre-TANF data has shown that UI eligibility restrictions are more likely to disqualify former welfare recipients because they work in low-wage jobs. For example, explains Corson, an Urban Institute study by Wayne Vroman suggests that only about 20 percent of former welfare recipients are likely to be eligible for UI, while a study by Kelleen Kaye at the U.S. Department of Health and Human Services (DHHS) estimates an upper boundary of one-third are likely to have monetary eligibility, but only 13 percent are likely to receive UI.

Researchers are just beginning to address the issue of the extent to which the UI program is likely to cover welfare recipients who have worked more recently under the new welfare rules and in a period of strong economic conditions. Policymakers are also proposing changes to the UI system to better accommodate the needs of the working poor. These include such reforms as using more recent earnings in eligibility determination, allowing those looking for part-time work to qualify for benefits, and having more generous nonmonetary eligibility related to reasons for job separation.

However, there is limited knowledge about the sensitivity of UI eligibility to such changes or about how much former welfare recipients might benefit from proposed changes, says Dr. Rangarajan. She points out that one proposed change would allow those looking for part-time work to be eligible for UI. However, if part-time workers also have low wages, work intermittently, and do not qualify for UI because of inability to meet the minimum earnings requirements, then merely changing the rules to make those seeking part-time work eligible may have only a modest effect on eligibility rates.

### **UI Monetary Eligibility Rates Increase, But Many Former Welfare Recipients Still Ineligible**

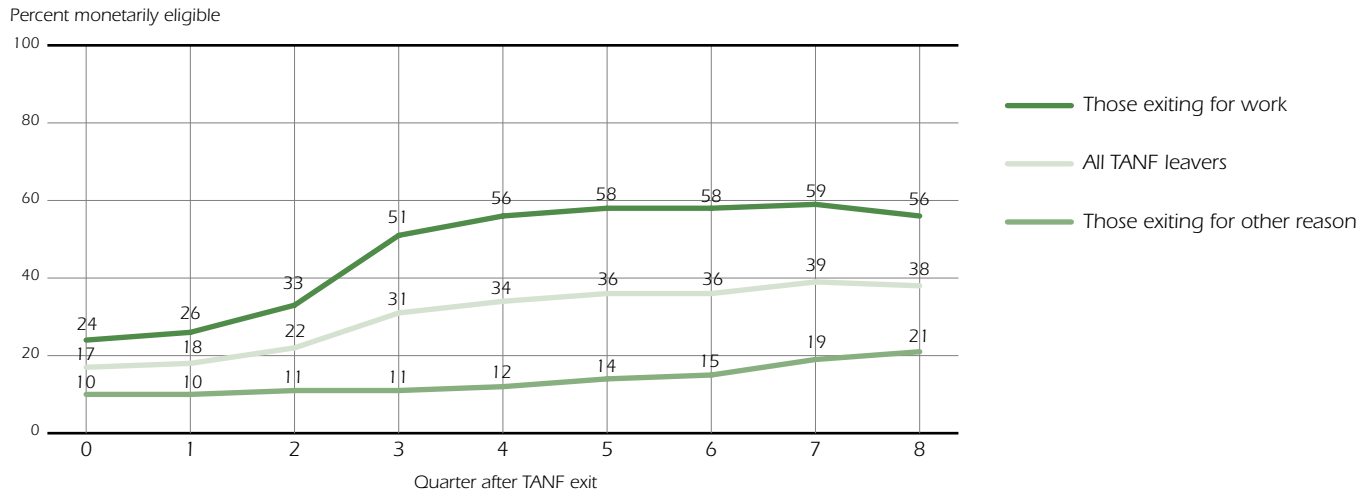
Some evidence from recent studies using post-TANF data suggest that more former welfare recipients earn enough

to appear to be eligible for UI now than in pre-TANF periods, but many still remain ineligible. Higher eligibility rates are a result of their significantly longer labor force attachment. For example, says Corson, a study by Mathematica using New Jersey data shows median employment spells of around 16 months for employed welfare recipients in the post-TANF period, compared with median spell lengths of 6 to 9 months for employed recipients nationally during the 1980s and early 1990s.

Mathematica researchers examined patterns of UI eligibility after welfare exit using administrative and survey data from its Work First New Jersey (WFNJ) evaluation, a five-year evaluation tracking a sample of 2,000 welfare recipients who received TANF under the new welfare reforms. “New Jersey reflects the national average and trends fairly well with respect to welfare benefits, work requirement rules, and caseload profiles,” points out Dr. Rangarajan. This study finds patterns of employment experiences of former TANF recipients in the state are similar to national patterns. New Jersey wages are slightly higher than national averages, partly reflecting the state’s higher cost of living. To learn about UI eligibility, she and the team of researchers selected individuals who had exited welfare and worked within three months after exit. Using earnings information from quarterly wage records, the same source state UI programs use to determine monetary eligibility, the researchers examined how many of these former welfare recipients achieved UI eligibility and how quickly they did so. The findings show that:

- ▶ *Nearly half of those who exited welfare for work become monetarily eligible for UI within three quarters after welfare exit (see figure on page 4). The eligible proportion grew to nearly 60 percent in later quarters. This figure is nearly twice as high as that found in studies using pre-TANF data. However, 40 percent remained ineligible. These findings are similar to those from other recent studies by Kelleen Kaye at DHHS and Heather Boushey and Jeffrey Wenger at the Economic Policy Institute that examined UI monetary eligibility. Using Survey of Income and Program Participation data, these researchers also found monetary eligibility rates of around 60 to 70 percent for former TANF and other public assistance recipients. Harry Holzer’s study at the Urban Institute used data*

### Monetary Eligibility for Unemployment Insurance Among All TANF Leavers



from a survey of employers of welfare recipients in four cities. Based on median duration of employment and starting wages, he estimates that most of these former recipients would qualify for UI.

- ▶ *Few TANF recipients who exit welfare for nonwork-related reasons become eligible for UI.* When all TANF leavers, regardless of the reason for leaving welfare, were examined, eligibility rates were considerably lower—only about one-third had accumulated enough earnings to be monetarily eligible for UI. This is because many who exit welfare for nonwork-related reasons do not eventually move into the labor force. Some are disabled and transition from TANF to Supplemental Security Income, some live with an employed spouse or partner, and some do not qualify because they move in and out of the labor force.
- ▶ *Those who found work within three months of TANF entry were considerably more likely to attain eligibility for UI.* Around 70 percent of these working welfare recipients attained UI eligibility—and therefore may have been the most job ready—compared with 30 to 35 percent of those who stayed on welfare longer before leaving for work.

The study also examined how monetary eligibility changed under alternative definitions of the base period. The most common base period used by states includes the first four of the past five completed quarters. Some critics have argued that, by ignoring the most recent period worked, this definition penalizes low-wage workers who tend to work intermittently. A few states—including New Jersey—have chosen an alternative base period definition as well that includes all of the past four completed quarters (thus capturing more recent employment). “As we expected,” says Corson, “we found that changing the

base period to include more recent quarters of earnings makes former TANF recipients eligible for UI more quickly after TANF exit.”

### New Study Underway on UI to Show How Changes Would Affect Eligibility

Many questions about the UI eligibility of former welfare recipients remain unanswered, say the Mathematica researchers: (1) How would potential changes in program requirements, such as minimum earnings to qualify, number of weeks worked, and nonmonetary requirements, affect UI eligibility? (2) What are the main reasons for noneligibility among former welfare recipients? (3) What safety nets do former welfare recipients have in case of job loss? In particular, to what extent does TANF remain a safety net for those who lose their jobs? Answers to these questions can help policymakers and researchers better understand the safety nets available to former TANF recipients and how much proposed UI changes might affect eligibility for this population.

The DHHS Office of the Assistant Secretary for Planning and Evaluation and the state of New Jersey have funded Mathematica to conduct a study to build on the research to date and examine these issues in greater detail. Specifically the researchers will address:

- ▶ *How sensitive is eligibility to those available for part-time work?* Many policymakers are concerned that former welfare recipients and low-wage workers may be disqualified from UI because they are unable to work full time. This study is examining the extent to which monetarily eligible individuals had worked in part-time jobs. These individuals may be the ones most likely to be disqualified for UI benefits if they want to continue to work part time.

- ▶ *How important are nonmonetary eligibility requirements such as reasons for job separation?* One reform suggested by advocates is to allow those who quit their jobs for family- or schedule-related reasons to qualify for UI. Using data from surveys on detailed reasons for job separation, this study is looking at how many people report quitting work for family-related reasons and thus may be able to qualify if a state were to implement such a reform.
- ▶ *What are UI benefit amounts for former welfare recipients who are eligible for UI?* Using UI rules for the state of New Jersey, the Mathematica researchers are computing weekly benefit amounts for former welfare recipients who appear monetarily eligible for UI and calculating potential duration of benefits as well as the fraction of sample members whose weekly benefits and potential duration exceed the caps that the program rules impose. This information will help show the fraction of individuals for whom extending the benefit period or raising the weekly benefit amounts might be helpful.
- ▶ *How might changes in UI program rules affect eligibility?* Researchers are examining how sensitive UI eligibility and benefit levels are to alternative definitions of key program parameters. In addition to simulating New Jersey's UI benefits, they are examining how the benefits would differ if program rules of other more and less generous states are used.
- ▶ *How many former TANF recipients actually receive UI?* For employed former welfare recipients, UI rates may be even lower than the national average because many welfare recipients are not likely to have ever had contact with the UI system and thus would be less likely to seek benefits. Researchers will use claims data from New Jersey to examine how many of those who lost their jobs actually filed for UI and whether they eventually collected benefits.
- ▶ *Is TANF still an alternative safety net for those eligible and ineligible for UI?* While UI may be a viable safety net for those eligible, it is limited in duration. For those ineligible for UI, TANF is the only safety net option. The study team is examining the amount of time remaining on TANF until time limits are reached and the overall safety nets available to former recipients, including TANF and UI.

Mathematica researchers plan to expand this study by including data from several additional states with varying welfare and UI program rules. This will allow them to capture differences in employment and earnings patterns that may arise from variation in welfare rules across states or from other factors related to each state's labor market and consequently affect UI eligibility. Findings from these studies will be available in fall 2002.

## Changing the base period to include more recent quarters of earnings makes former TANF recipients eligible for UI more quickly after TANF exit.

### Resources on Unemployment Insurance

*Note: Researchers and policymakers can request related UI publications by contacting Publications, [jallen@mathematica-mpr.com](mailto:jallen@mathematica-mpr.com) (609-275-2350). To be put on the mailing list for information on current Mathematica Policy Research studies of UI, contact Anu Rangarajan, [arangarajan@mathematica-mpr.com](mailto:arangarajan@mathematica-mpr.com) (609-936-2765).*

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# RESEARCH FORUM ON CHILDREN, FAMILIES, AND THE NEW FEDERALISM

The Research Forum, an initiative of the National Center for Children in Poverty, hosted at the Mailman School of Public Health, Columbia University, encourages collaborative research and informed policy on welfare reform and vulnerable populations. The Research Forum's ultimate goal is to identify and promote strategies that protect and enhance the well-being of poor children and their families.

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