WhoBenefitedMostfromtheCARESActUnemploymentInsuranceProvisions?

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Summary:
The regular unemployment insurance (UI) program in the United States requires workers to have a minimum amount of earnings as well as a sufficient work history before unemployment. Low-wage workers are more likely to have a short work history before unemployment because they are more likely to be separated from their jobs. Pandemic Unemployment Assistance (PUA) under the CARES Act temporarily eliminated the requirements for minimum past earnings and length of employment, thus making many low-wage workers who were ineligible for UI under the regular program temporarily eligible. The extra weekly benefit provided by Federal Pandemic Unemployment Compensation (FPUC) under the CARES Act UI was also more important to low-wage workers. Hence low-wage workers benefited more from the CARES Act UI policies.

Key findings:
1. The regular unemployment insurance (UI) program in the United States requires workers to have a minimum amount of earnings and a sufficient work history before unemployment.
2. Low-wage workers are more likely to have a short work history before unemployment because they are more likely to be separated from their jobs.
3. Pandemic Unemployment Assistance (PUA) under the CARES Act temporarily eliminated the requirements for minimum past earnings and length of employment, thus making many low-wage workers who were ineligible for UI under the regular program temporarily eligible.
4. The extra weekly benefit provided by Federal Pandemic Unemployment Compensation (FPUC) under the CARES Act UI was more important to low-wage workers.
5. Hence, low-wage workers benefited more from the CARES Act UI policies.

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Key words: CARES Act, PUA, unemployment insurance, minimum past earning requirement, length of employment requirement, labor markets, fiscal policy

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The regular unemployment insurance (UI) program in the United States requires workers to have a minimum amount of earnings as well as a sufficient work history before unemployment. Low-wage workers are more likely to have a short work history before unemployment because they are more likely to be separated from their jobs. Pandemic Unemployment Assistance (PUA) under the CARES Act temporarily eliminated the requirements for minimum past earnings and length of employment, thus making many low-wage workers who were ineligible for UI under the regular program temporarily eligible. The extra weekly benefit provided by Federal Pandemic Unemployment Compensation (FPUC) under the CARES Act UI was also more important to low-wage workers. Hence low-wage workers benefited more from the CARES Act UI policies.

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1 Introduction

The unemployment insurance (UI) program helps workers who have lost their jobs by temporarily replacing part of their wages. The regular UI program provides benefits to eligible workers for up to 26 weeks and replaces roughly 40-50 percent of workers’ wages with a maximum benefit between $300 and $500, depending on states. The COVID-19 outbreak led to widely implemented shutdown policies across the United States. The shutdown of businesses and the infection risk resulted in a rapid rise in the unemployment rate from 3.5 percent in February 2020 to a postwar record high of 15 percent in April 2020. In response to the COVID-19 pandemic, Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which temporarily increased the generosity of UI benefits: Pandemic Unemployment Assistance (PUA) expanded the UI eligibility to workers who normally did not qualify for the benefits, including but not limited to low-wage workers, part-time workers, self-employed workers, and workers who were affected by COVID-19, Pandemic Emergency Unemployment Compensation (PEUC) extended the benefit for 13 weeks initially and then to 24 weeks, and Federal Pandemic Unemployment Compensation (FPUC) increased the week benefit payment by $600 initially and then $300. The CARES Act UI provided extra income to millions of US workers during the pandemic when the unemployment rate was high. When labor market conditions improved, Congress ended the program on the first weekend of September 2021. In this article, we explore the question of which wage group benefited more from the CARES Act UI policy.

The answer to this question depends on the differences between the regular UI program and the CARES Act UI program. One critical difference between the two is the eligibility for UI. Not every unemployed worker qualifies for UI. Before the pandemic, eligibility depended on workers meeting the requirement of minimum past earnings. Obtaining UI requires workers to have earnings above a threshold set by each state one year before unemployment. According to Chao (2022), the threshold varies across states, and most states have a threshold of less than $6,000 with a mean of $3,000 across all states. Another eligibility criterion for the regular UI program is to require workers to have been employed for at least six months out of the one-year period before unemployment. Low-wage workers are more likely to have a short work history before unemployment because they have a high probability of losing their jobs. Hence, the minimum-past-earning requirement and the length-of-work requirement together imply that, in normal times, low-wage workers are more likely to be ineligible for UI and thus are less insured by UI compared to high-wage workers.

PUA under the CARES Act temporarily eliminated the requirements for both minimum past earning and length of work, thus giving temporary UI eligibility to many low-wage workers who were ineligible for UI under the regular program. In addition, the extra weekly benefit under FPUC was also more important to low-wage workers than it was to higher-wage workers. This implies that low-wage workers benefited more from the CARES Act UI.
2 Low-wage Workers benefited more from the CARES Act UI

Low-wage workers are more likely to experience a job separation. Low-wage workers are more likely to separate from their jobs. Figure 1 plots the employment-to-unemployment (EU) transition rates constructed with the monthly CPS data over 2015–2019. Because the COVID-19 pandemic affected jobs that can be done remotely and those that cannot very differently, we divide the economy into contact and noncontact sectors and construct the EU transition rates for both sectors. The contact sector consists of jobs that cannot be performed remotely, while the noncontact sector consists of jobs that can be performed remotely. Figure 1 shows the EU transition rate by wage. The wages are normalized by the sector-specific average wage. The figure shows that the transition rate declines by wage in both sectors. Hence, low-wage workers are more likely to have a short work history before unemployment. PUA under the CARES Act temporarily eliminated the length-of-work requirement, making many low-wage workers who were ineligible for UI under the regular program temporarily eligible.

Workers in low-wage industries had low UI recipiency rates before the pandemic. One measurement for UI eligibility is the UI recipiency rate, which is the share of the unemployed workers who are collecting UI benefits. The requirements of minimum past earning and the length of work for UI eligibility imply that the UI recipiency rate is lower for low-wage workers, in turn implying that workers in an industry with lower wages are less likely to be eligible for UI, with lower-wage industries experiencing lower recipiency rates.

Using CPS supplemental data from May and September 2018 on UI receipt information, we construct the share of unemployed workers with UI by industry under the regular UI program. Figure 2 plots the UI recipiency rate by industry against the ratio of an industry’s average wage to the economywide average wage. The figure shows that the UI recipiency rate is
clearly lower in industries with lower wages. PUA expanded the UI eligibility to almost all active workers and therefore greatly increased the recipiency rate for low-wage workers.

Unemployed workers received large PUA benefits between May 2020 and September 2021. The US Department of Labor (DOL) reports the number of workers receiving UI benefits. Figure 3 plots the number of workers receiving benefits by program type. There are four programs: regular state UI, extended UI benefits, PUA, and PEUC.

The figure shows that the total number of workers receiving UI peaked in June 2020, when 123 million people were collecting benefits. Since then, the numbers gradually declined. By the end of September 2021—when the CARES Act UI was terminated—only 22 million workers receiving UI. The evolution in the numbers reflected labor market conditions: the unemployment rate was high at the beginning of the pandemic and then gradually declined. PUA quickly became the program with the most number of workers after the March 2020 passing of the CARES Act. Since then, it remained the most important program until the termination of the CARES Act.

3 Conclusion

Low-wage workers are less likely to be eligible for UI benefits under the regular program in the United States because the regular program requires workers to have a minimum amount of

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1 The DOL reports the number of weeks paid for UI benefits. Since UI benefits are paid weekly, the number of weeks paid is the number of workers collecting UI benefits at a given point in time.

2 The extended benefits program provides an additional 13 to 20 weeks of compensation to jobless workers who have exhausted their regular UI benefits in states where the unemployment rates are above some thresholds, regardless of whether the national economy is in recession.
earnings and a sufficiently long work history. Low-wage workers are not only more likely to be unable to meet the minimum-past-earning requirement but also more likely to have a short work history before unemployment since, compared to high-wage workers, they face a greater probability of being separated from their jobs. Hence, low-wage workers were less likely to qualify for UI benefits under the regular UI program before the COVID-19 pandemic. PUA under the CARES Act eliminated both the requirements for minimum past earnings and duration of employment, and thus many ineligible low-wage workers became eligible under PUA. During the policy period of the CARES Act, PUA was the program with the most participants. The extra weekly benefit under FPUC was also more important to low-wage workers. Taken together, these findings suggest that CARES Act UI benefited low-wage workers more than high-wage workers.

With the termination of CARES Act UI, the minimum-past-earning requirement and the length-of-work requirement are in place again for UI qualification. The low-wage workers who qualified for UI under PUA became ineligible again. The fact that low-wage workers are less insured by UI under the regular program might not be important in economic expansions because of the high probability of finding jobs. However, in economic downturns, the lack of insurance is detrimental to low-wage workers since they face higher risks of unemployment and have less wealth to insure against these risks, implying that temporary policies such as PUA can be extremely valuable to low-wage workers if implemented in economic downturns.

References