

9-20-2024

Granting Unemployment Insurance Benefits in Borderline Cases Helps Workers at Low Cost

Jonathan Cohen
Amazon, joncohen@gmail.com

Geoffrey C. Schnorr
U.S. Military Academy, gcschnorr@gmail.com

Citation

Cohen, Jonathan and Geoffrey C. Schnorr. 2024. "Granting Unemployment Insurance Benefits in Borderline Cases Helps Workers at Low Cost." Policy and Research Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/pb2024-75>

This title is brought to you by the Upjohn Institute. For more information, please contact repository@upjohn.org.

POLICY BRIEF

Granting Unemployment Insurance Benefits in Borderline Cases Helps Workers at Low Cost

Jonathan Cohen and Geoffrey C. Schnorr

BRIEF HIGHLIGHTS

- *About 1 in 10 Unemployment Insurance (UI) claims are denied due to the circumstances of a worker's job separation.*
- *Claimants denied for separation-based eligibility reasons are disproportionately younger and lower-income, and likelier to be non-white and female.*
- *Extending UI eligibility to borderline denials slightly increases the length of time these workers take to find a job but does not change their total earnings over the next three years, although neither estimate is statistically different from zero.*
- *Transferring \$1 to the unemployed by broadening separation-based eligibility costs the government \$1.19, much less than transferring \$1 through other types of Unemployment Insurance program expansions.*

For additional details, see the full working paper at <https://research.upjohn.org/workingpapers/404/>.

Unemployment Insurance (UI) protects workers against the financial risk of losing their job through no fault of their own. The classic motivation for UI is a company laying off workers due to slow business. But what if the company alleges the worker engaged in misconduct? Or if the worker quits to handle family care obligations? Are these job losses outside of the worker's control? States define the circumstances under which workers who quit or are fired remain UI-eligible. When there is evidence of a quit or firing, a government caseworker interviews the claimant and employer to determine eligibility. Roughly 10 percent of UI claimants are denied benefits because they are found to be at fault for their job loss (U.S. Department of Labor, Employment and Training Administration 2024a,b).

Surprisingly, we know little about the effects or costs of broadening separation-based UI eligibility. This is in stark contrast to how much we know about changing other UI parameters, such as how much in benefits claimants receive each week or how many weeks they can claim (Schmieder and von Wachter 2016).

In a [related paper](#), we use administrative data from California's UI program to estimate the impact of relaxing at-fault eligibility criteria on employment and related policy-relevant outcomes. In our setting, claimants undergoing eligibility investigations are assigned—essentially randomly—to government offices that differ in their propensity to deny a claim. We use this as a natural experiment to compare the trajectories of claimants assigned to relatively lenient offices with those assigned to relatively strict offices. We find that expanding eligibility to borderline at-fault claimants—who were denied benefits by their assigned office but would be deemed eligible by other offices—modestly lengthens time between jobs and slightly increases subsequent earnings, although these effects are not statistically different from zero.

We also compare the government costs of such expansions around separation eligibility with costs of other types of UI expansions (Lee et al. 2021). We show that expanding the UI program by relaxing at-fault eligibility is substantially cheaper than increasing the level of benefits (dollars per week) or duration of benefits (weeks) paid by the program.

Unemployment Insurance for Workers Who Quit or Were Fired for Cause

Separation-based eligibility criteria deny benefits when claimants quit without “good cause” or were fired for “misconduct.” States choose how to define these terms.

In data from California's Employment Development Department, we observe all UI claims filed in the state from 2002 to 2019 and the outcome of any eligibility interviews on those claims. Of roughly 23 million claims that were otherwise eligible for benefits, we find that 30 percent (6.9 million) had a separation-based eligibility investigation and 42 percent (2.9 million) of these were denied. About a quarter of denied claimants were able

Granting Unemployment Insurance Benefits in Borderline Cases Helps Workers at Low Cost

We find that expanding eligibility to borderline at-fault claimants slightly lengthens time between jobs and slightly increases subsequent earnings, although these effects are modest and not statistically different from zero.

to successfully appeal the denial and received some UI benefits, but the remaining three-quarters (2.1 million) received no support from the UI program.

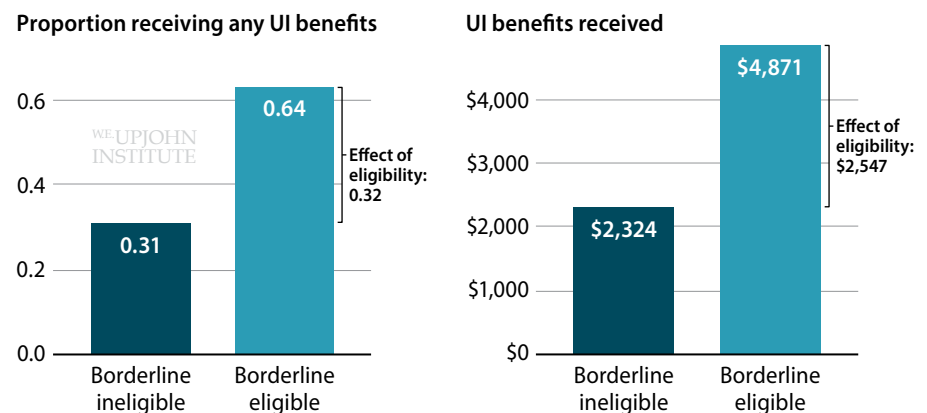
How We Measure the Impact of Expanding At-Fault Eligibility

Simply comparing the outcomes of eligible claimants with those of claimants ineligible because of separation-related reasons would not isolate the impact of separation-based eligibility. This is because workers with eligible claims and workers with ineligible claims generally differ in multiple ways. For example, denied claimants are disproportionately younger, non-white, female, and lower-income. Therefore, overall differences in employment between the two groups partially reflect these other differences and not the causal effect of eligibility.

To overcome this difficulty, we compare claims assigned to more versus less lenient processing offices. In California, the last two digits of the claimant's Social Security number determine to which of several processing offices the claim is assigned. Since the last two digits of Social Security numbers are effectively randomly assigned by the federal government, differences in approval rates across offices are due to the office's leniency rather than the types of claims the office investigates (Parker et al. 2013). In turn, differences in claimants' employment outcomes across offices reflect the causal effect of differences in their UI eligibility rates as shaped by the offices.

Using this approach with administrative claims and earnings data, we show in Figure 1 that eligibility doubles the probability that any UI benefits are received among these

Figure 1 Extending UI Eligibility Increases the Share of UI Recipients and the Benefits Received



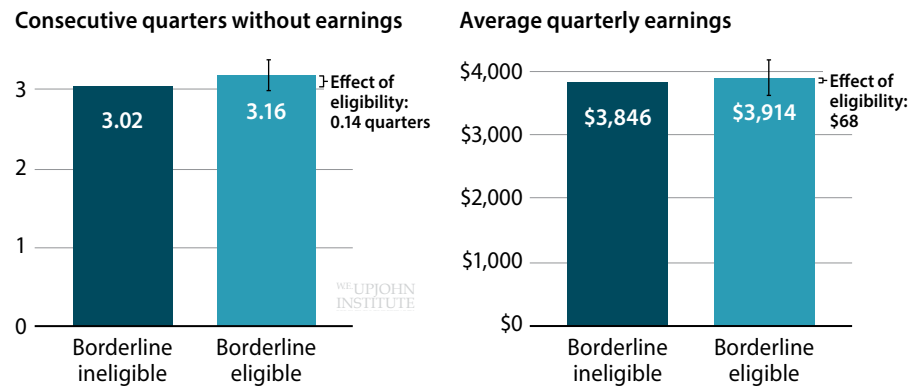
NOTE: The sample includes all UI claims filed in California between 2002 and 2019 with separation-based eligibility issues that were assigned to UI offices nearly randomly. The figure displays the fraction receiving any UI benefits (left panel) and the average amount of benefits (right panel) among individuals determined barely eligible and barely ineligible. The estimated effect of eligibility on UI receipt is the difference between these groups' averages; differences in both panels are statistically different from 0, with $p < 0.01$.

SOURCE: Authors' analysis of California Unemployment Insurance records.

borderline cases (left panel) and increases the dollar amount of benefits received by \$2,500 (right panel). As we show in Figure 2, eligibility also lengthens time to the next job by almost two weeks but has no appreciable effect on earnings during the three years after the claim. We estimate that the number of quarters without earnings increases less than 5 percent, from 3.02 to 3.16, equivalent to an increase of less than two weeks, and that average quarterly earnings increase by about 2 percent, or \$68, but neither of these estimates is statistically different from zero.

Relaxing separation-based eligibility costs the government less than increasing UI benefit levels or durations.

Figure 2 Extending UI Eligibility Has Little Effect on Either Time Unemployed or Quarterly Earnings



NOTE: The sample includes all UI claims filed in California between 2002 and 2019 with separation-based eligibility issues that were assigned to UI offices nearly randomly. The figure displays the number of consecutive quarters with zero earnings, a proxy for the length of the unemployment spell (left panel), and the average earnings per quarter, including quarters with zero earnings (right panel), among individuals determined barely eligible and barely ineligible. The estimated effect of eligibility on UI receipt is the difference between these groups' averages; neither difference is statistically different from 0, with $p > 0.10$. The vertical bars show 95% confidence intervals.

SOURCE: Authors' analysis of California Unemployment Insurance records.

How We Measure the Social Costs of Extending At-Fault Eligibility

Expanding UI transfers money from the government to the unemployed. If nothing else changes, then this costs the government the exact amount of money that is transferred. However, the total cost to the government also depends on how people's behavior responds to the transfer. For example, if additional UI benefits increase the time spent unemployed, then it also costs the government these additional UI benefits and foregone tax revenue. On the other hand, if that additional time allows the claimant to find a higher-paying job, then the government could gain additional tax revenue.

To make our estimates of expanding at-fault eligibility more relevant for policymakers, we reframe them in terms of these direct and indirect costs. We find that transferring \$1 to the unemployed by expanding at-fault eligibility criteria costs the government an additional \$0.19 due to more time spent out of work.

This measure of social costs is especially useful because it can be calculated for any type of UI program expansion. To determine whether \$0.19 is large or small, we use the same data (and additional analytical approaches) to estimate the costs of providing an additional \$1 to the unemployed through either a higher UI benefit amount or a longer UI benefit duration. We find that relaxing at-fault eligibility imposes a much lower cost than these other two more commonly studied policy changes.

Policy Implications

Concerns about the business cycle, redistribution, or work incentives frequently motivate policymakers to adjust the generosity of the UI program. Our research highlights an often overlooked lever that policymakers can use to make these changes: separation-based eligibility criteria.

In our setting, relaxing separation-based eligibility criteria can transfer additional funds to the unemployed at lower cost than increasing the level or duration of benefits. This suggests that policymakers who wish to provide additional UI benefits to the unemployed should expand at-fault eligibility criteria before increasing benefit levels

Granting Unemployment Insurance Benefits in Borderline Cases Helps Workers at Low Cost

Expanding eligibility criteria around separations for borderline cases helps some additional workers access UI benefits without substantially lengthening the average time these workers are unemployed or reducing their future earnings.

or duration. Similarly, policymakers who wish to provide *fewer* UI benefits to the unemployed should reduce benefit levels or durations before restricting at-fault eligibility criteria.

References

U.S. Department of Labor, Employment and Training Administration. 2024a. "[Report No. 207: Nonmonetary Determination Activities](#)." Washington, DC: USDOL, ETA.

———. 2024b. "[Report No. 539: Weekly Claims and Extended Benefits Trigger Data](#)." Washington, DC: USDOL, ETA.

Lee, David S., Pauline Leung, Christopher J. O'Leary, Zhuan Pei, and Simon Quach. 2021. "[Are Sufficient Statistics Necessary? Nonparametric Measurement of Deadweight Loss from Unemployment Insurance](#)." *Journal of Labor Economics* 39(S2): S455–S506.

Parker, Jonathan A., Nicholas S. Souleles, David S. Johnson, and Robert McClelland. 2013. "[Consumer Spending and the Economic Stimulus Payments of 2008](#)." *American Economic Review* 103(6): 2530–2553.

Schmieder, Johannes F., and Till von Wachter. 2016. "[The Effects of Unemployment Insurance Benefits: New Evidence and Interpretation](#)." *Annual Review of Economics* 8: 547–581.

Jonathan Cohen is an [economist](#) at Amazon. Geoffrey C. Schnorr is an [assistant professor of economics](#) at the United States Military Academy at West Point.



W.E. Upjohn Institute for
Employment Research



@UpjohnInstitute

WEBSITE

upjohn.org