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Unemployment Insurance and Pensioners - Provisions and Problems

Daniel S. Hamermesh

Michigan State University

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Chapter 1
Unemployment Insurance
and Pensioners—
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Introduction

The debate typified by the epigraph to this volume was over provisions proposed as part of the temporary extension of the potential duration of unemployment insurance (UI) benefits during the 1961 recession. While pensioners were not denied regular UI benefits, the compromise legislation did provide that extended UI payments should be reduced by the amount of pension benefits (but not Social Security old age benefits) received. This debate spurred a rash of studies by state UI research groups on the extent to which pensioners receive UI benefits, and a summary of these studies with a consideration of the policy issues was produced by Merrill Murray (1967).

The issue appeared dead between 1967 and 1975: no state studies were done on the subject, and, while bills were occasionally introduced on it in Congress, none even led to hearings, much less to floor debate. In 1976, though, after substantial hearings and debate, and as part of a complex series of changes included in the UI Amendments of 1976, a federal standard of a dollar-for-dollar reduction of UI payments against all retirement income was enacted.\(^1\) The debate over this restriction paralleled that in the

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1. P.L. 94-566. The provision was not included in the House bill, but was added by the Senate Finance Committee, approved by the Senate and by the House-Senate Conference Committee. It states, "the amount of compensation payable to an individual for any week which begins after September 30, 1979 [later amended to March 31, 1980], and which begins in a period with respect to which such individual is receiving a governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual shall be reduced (but not below zero) by an amount equal to the amount of such pension, retirement or retired pay, annuity or other payment, which is reasonably attributable to such week."
1961 debate, though in 1976 there appeared to be a greater awareness, even on the part of liberal legislators, that abuses occurred. For example, one stated:

[It] should be clear that it is unconscionable and an aberration of our unemployment compensation laws that some retirees with large annuities or pensions also are permitted to receive unemployment compensation benefits. The public perceives this as a rip-off of Government funds, and justifiably so. . . . [However], it does not make good sense or good public policy to completely cut off from the unemployment compensation system a retiree who receives $5 a month from a pension or annuity.  

The 1976 legislation was initially intended to become effective in 1979, "permitting the National Commission on Unemployment Compensation [created in the 1976 Amendments] opportunity for a thorough study of this issue and the Congress to act in light of its findings and recommendation." (Because of delays in organizing the Commission, the effective date of the restriction was later delayed until 1980. Efforts were also made to prevent the restriction from ever taking effect or to weaken its impact, but it became effective in April 1980.) It is this restriction on the simultaneous receipt of retirement benefits and UI and the stated need "for a thorough study" that provide part of the motivation for this volume.

The need for a study is underscored by the lack of available information on the distribution of UI payments among the elderly, among pensioners in particular, and on how UI affects their behavior. Discussions of the merits of restricting UI payments to pensioners have often ignored what would seem to be basic issues. The effect of such a restriction on the distribution of income within the entire population and among older workers

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4. In June 1979, Congressman Corman of California introduced H.R. 4464 to repeal the federal restriction on the receipt of UI by pensioners. His bill received substantial support from groups of retired persons, from the AFL-CIO, and from representatives of the Department of Labor in hearings held in September 1979.
alone has not been considered. Potential effects on the ability of older workers to maintain living standards at or above some minimum level have also received no attention. Nor has the effect of such a restriction on the operation of the labor market, particularly on the retirement decision of older workers, been considered in discussions of this policy. Instead, the recommendations have been based either on arguments regarding the proper role of federal legislation in setting standards for state UI laws, or on arguments that the restriction would introduce needs considerations into a program that has been a social insurance rather than a welfare program.5

It is hoped that this volume will fill part of the void. It should also shed some additional light on the more general, and increasingly important, issue of retirement behavior. With the age structure of the population of the United States tilting toward people 55 and over, the neglected area of the economics of the elderly needs to be considered in much greater depth. As a byproduct of the general discussion of UI and the elderly, and of examination of the economic merits of restricting UI payments to pensioners, the findings of this study should also enhance the existing knowledge of the economic situation of the older population. Before delving into the particular studies that comprise the bulk of this volume, though, the way in which state UI laws treat the issue and the general outcomes of those laws among the older population need to be considered.

Facts About UI and Older People in the U.S. and Elsewhere

As table 1.1 shows, persons 55 years and older comprised nearly one-sixth of all UI recipients in a recent year. This was nearly double their representation among the unemployed counted in the

5. For example, the National Commission on Unemployment Compensation (NCUC) disposed of its obligation to consider the issue by arguing that the federal restriction should not be allowed to become effective: (1) Because no other benefit standards at the federal level have been adopted; and (2) Because it implies viewing UI as a needs-based program (NCUC, Interim Report, November 1978, pp. 95-100). The Commission does not appear to have engaged in any formal study of this issue.
monthly Current Population (household) Survey (CPS) used to compute the national unemployment rate. The figures are not quite comparable; older workers do account for a greater fraction of CPS unemployment among experienced workers than is implied by column (2) in the table. However, after appropriate adjustments are made, it may be inferred that workers 55 and over represented about 10 percent of unemployed job losers, job leavers, and labor force reentrants. Comparing this to their share of insured unemployed, it may be inferred, though by no means has it been proven, that the UI system is paying benefits to a disproportionate number of elderly individuals who do not consider themselves to be unemployed by the commonly accepted criteria contained in the household survey. This finding underscores the importance of the problem of payment of UI benefits to the older population, and points out the necessity of more detailed analysis of the issue such as is contained in chapters 2 - 4 of this volume.

There are no data on the amount of UI benefits received by individuals 55 and over. It is likely, though, that around $1.5 billion of the benefits paid in 1978 accrued to older workers, as this figure amounts to one-sixth of the $9 billion in UI payments for that year. Since base-period earnings, and thus weekly benefits, are likely to be at least as high among older recipients as for the average UI beneficiary, and since duration is longer for older workers, the $1.5 billion may even be a low estimate. Further, studies by the U.S. Bureau of Employment Security of claimants of regular state UI benefits (done in conjunction with the Temporary Extended Unemployment Compensation Act of 1961) show that 7 percent of all claimants also received Old Age

6. In 1977, new entrants to the labor force accounted for 14 percent of the unemployed in the CPS data. Assuming none of these is age 55 or over, and removing them from the totals in order to get a count of the experienced unemployed, results in an estimated 9.7 percent (8.5 x 1.14) of the experienced unemployed age 55+. This is a far smaller percentage than their representation among the insured unemployed. It may appear unusual to include unemployed reentrants and job leavers in the unemployed for purposes of this comparison, as few people in either category are likely to be among the insured unemployed. However, unlike new entrants, there is no reason to assume that older workers are less than proportionately represented among the CPS unemployed classified as job leavers or reentrants. Thus their retention in the calculation will not bias the comparison.
UI and Pensioners

and Survivors' Insurance (OASI) retirement benefits, 3 percent received other retirement benefits, and 8 percent of all claimants received some form of retirement benefit. Since only 21 percent of UI claimants in 1961 were 55 or over, it may be concluded that a substantial fraction of older claimants in 1961 received some pension income. This conclusion is likely to be even more valid in 1979. (Chapter 2 provides some more detailed evidence on this.) As shown below, there has been only a slight expansion since the early 1960s in the extent to which states impose restrictions on receipt of retirement income and UI benefits. At the same time, the coverage and level of private pension benefits (including those paid to government employees) and of OASI have been increasing. (Partly as a result, people are retiring earlier in life.)

That the coverage of private pension programs has increased is unquestionable. In 1965, pension recipients accounted for only 7.8 percent of individuals 55 and over; by 1974, this figure had risen to 15.5 percent. (Note that this is based on individuals; clearly, substantially higher percentages of people 55 and over are in families containing persons who received part of their income in the form of pension benefits.) Beneficiaries of OASI retirement programs also increased in the same period, from 39.6 percent of people 55 and over in 1965 to 47 percent in 1974. Moreover, OASI retirement benefit amounts became much more liberal after 1970. Until that year, the average primary insurance amount never

7. Calculated from Haber and Murray (1966, p. 474) and from Department of Labor, Bureau of Employment Security, TEUC Report, No. U-225-5. The 21.5 percent figure is, as can be seen from a comparison with table 1.1, substantially above today's percentage. The difference is even greater than it appears; 1961 was a year of deep recession, whereas 1977 represented a recovery year, and the fraction of older workers among the insured unemployed is lower in a recession (see Hamermesh 1977, p. 22). The apparent long term decline in the representation of older workers among the insured unemployed likely has three causes: (1) The drop in labor force participation among persons 55+ in the past twenty years has meant that fewer older persons are eligible for UI if they are not at work; (2) Expansions of coverage have been to industries and firms that employ proportionately fewer older workers than industries that were already covered by 1961; and (3) A sharp rise in the fraction of youth in the population and the labor force has occurred.

8. The numerators for these calculations are from Munnell (1977, p. 6), and the denominators are from Bureau of the Census, Current Population Reports, P-25, Nos. 321 and 643.
exceeded 32 percent of the average wage in manufacturing. (It was 29 percent in 1965.) By 1974 it had climbed to 37 percent, and in 1976 it was 40 percent of the manufacturing wage. The 1977 Social Security Amendments, which legislated long-run stability in replacement rates, ensure that, while this rise will not continue, replacement rates will stay at the higher levels of the early 1970s rather than revert to the lower levels of the 1960s. We may conclude that both the coverage and levels of retirement schemes, both employer-based pensions and Social Security retirement benefits, have increased substantially since the middle 1960s.

Table 1.1
Percentage of Older Workers Among the Insured Unemployed, All Unemployed, and the Labor Force, by Selected Sex-Age Categories, 1977

<table>
<thead>
<tr>
<th>Sex-age category</th>
<th>Percent older workers among:</th>
<th>Insured unemployedb</th>
<th>All unemployed</th>
<th>Civilian labor force</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td>3.9</td>
<td></td>
<td>3.6</td>
<td>4.4</td>
</tr>
<tr>
<td>60-64</td>
<td>3.3</td>
<td>3.6</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>65+</td>
<td>2.8</td>
<td>1.4</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55-59</td>
<td>2.7</td>
<td></td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>60-64</td>
<td>2.1</td>
<td>2.8</td>
<td>1.6</td>
<td></td>
</tr>
<tr>
<td>65+</td>
<td>1.6</td>
<td>.7</td>
<td>1.1</td>
<td></td>
</tr>
<tr>
<td>Total 55+</td>
<td>16.4</td>
<td>8.5</td>
<td>14.6</td>
<td></td>
</tr>
</tbody>
</table>


a. As a percent of the entire population in the category.

The effect of these rather sudden changes is shown by the data in table 1.2. While there was little change in the relative economic position of households headed by older persons in the 1960s, there has been a steady and sharp improvement since that time in their relative incomes. This is especially true for households headed by persons 65 and over, and it has occurred despite the continued trend of a decreasing fraction of persons 65 and over remaining in the labor force. Improvements in private and public retirement income programs have clearly been the dominant factor in these changes in the economic position of older Americans.

Table 1.2

<table>
<thead>
<tr>
<th>Age of head</th>
<th>1964</th>
<th>1969</th>
<th>1973</th>
<th>1977</th>
</tr>
</thead>
<tbody>
<tr>
<td>All ages</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
<td>1.000</td>
</tr>
<tr>
<td>55-64</td>
<td>1.019</td>
<td>1.023</td>
<td>1.061</td>
<td>1.076</td>
</tr>
<tr>
<td>65+</td>
<td>.514</td>
<td>.509</td>
<td>.533</td>
<td>.569</td>
</tr>
</tbody>
</table>


At the beginning of the UI program, most states denied benefits to recipients of OASI retirement benefits (see Haber and Murray 1966). Over the years these restrictions were eased, so that by 1964, as table 1.3 shows, only 18 states, containing 26 percent of the covered work force, imposed any restrictions on the simultaneous receipt of OASI retirement benefits and UI payments. This changed little between 1964 and 1979: in 1971, only 14 states, containing 27 percent of the covered work force, imposed such a restriction; the figures for January 1979 were 17 states and 23 percent. Further, in January 1979 only two states, Arizona and Oregon, completely disqualified a recipient of such benefits (though Wisconsin did so, too, in certain cases); in most of the other 15 states there are provisions for prorated reductions in UI benefit payments related to the amount of OASI payments received.
Table 1.3

<table>
<thead>
<tr>
<th>Provision</th>
<th>Number of jurisdictions</th>
<th>Percent of covered employment in fiscal year</th>
</tr>
</thead>
<tbody>
<tr>
<td>No restriction</td>
<td>20</td>
<td>19</td>
</tr>
<tr>
<td>Restrict old age insurance only</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrict pension from base-period employer only</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Restrict pension from any employer</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Restrict old age insurance and base-period employer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restrict old age insurance and any employer</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>52</td>
<td>52</td>
</tr>
</tbody>
</table>


The number of states that restrict the simultaneous receipt of private pensions and UI benefits has grown over the years. There was little legislation on this in the early days of the federal-state UI program, but by 1964, 31 states, having 63 percent of the covered work force, imposed some form of restriction. This changed little in the 1960s, but by January 1979, 37 states, containing 71 percent of covered employment, imposed restrictions of this sort. While restriction is thus fairly widespread, its effects may not be as important as they appear, as only two states, Arizona and Wisconsin, deny benefits to pension recipients. Further, in most other states the prorated reduction in benefits is made only for
those pension receipts towards which a large fraction of the contributions has been made by the employer; even then, in most cases, only pensions from the base-period employer are restricted.

The trend of legislation in this area leads to several conclusions about public thinking on the issue. Although OASI retirement benefits have become much more liberal over the years, states appear to be continuing the "federal policy that unemployment compensation should not be denied to persons drawing federal old-age insurance benefits." However, the increasingly widespread applicability of private pension plans, often noncontributory or only partly employee-financed, appears to have spurred more states to impose more restrictions on the receipt of UI benefits along with private pension payments.

The United States is among the more generous Western nations in allowing the simultaneous receipt of UI benefits and public or private retirement benefits. Two types of restriction are common in other Western countries, and in most they involve complete denial rather than just pro rata reductions in UI benefits. In some countries, benefits are denied to workers who have reached a certain age regardless of their current or prior labor force status. (Often the age limit is higher for men than for women.) These include Belgium, Denmark, Finland, France, Germany, Greece, Ireland, the Netherlands, Sweden, Switzerland (in some cantons), and the United Kingdom. In other countries the restriction is based on the receipt of a pension, or upon receiving a pension and attaining a certain age. These nations include Canada, Italy, and Norway. As the U.S. is generally considered to have one of the less liberal panoplies of income maintenance systems, it is not clear why on this particular issue our policy is unusually liberal. It may be, though, that the politics of running 53 separate state UI programs (including the District of Columbia, Puerto Rico, and the Virgin Islands) along with a single federal old age benefit program has prevented the integration that exists in other countries where policy for both programs is set by the national

11. This information is taken from Blaustein and Craig (1977, Table 4).
government. Similarly, there may have been less concern here, until recently, about providing incentives to older workers to stay in the labor force.

**What This Monograph Does**

The central portion of this monograph consists of three essays on the economic impact of UI on the older worker. Chapter 2 examines one of the equity aspects of the program, namely, the effects of UI on the distribution of income among older people and the potential impact of the pension restriction embodied in the 1976 UI Amendments. Unless we know which older people will be hurt more by the restriction, all the arguments about the need to maintain the program’s integrity as social insurance or to maintain a proper federal-state structure will have little impact. So too will the usual economists’ arguments about the potential disincentive effects the program may currently contain.

Chapter 3 examines a different aspect of the equity impact of UI on the older population. Rather than considering how it affects the relative economic standing of members of the population, it examines instead how much UI really serves to prevent severe hardship among older recipients. In this context, the analysis focuses on whether and to what extent the program prevents the individual older worker from being forced to curtail his purchases sharply when he experiences a spell of unemployment. This analysis can inform us whether UI is needed by the older population, or whether it merely enables most older recipients to add a few extra consumption items not part of the basic commodities required for a minimally acceptable standard of living.

Chapter 4 considers the relationship between receipt of UI benefits and subsequent retirement and labor force status. While Murray (1967) did summarize the state studies of this relationship, none of those studies held constant for other factors that affect people's decisions to retire. Moreover, none contained a nationally representative sample of older workers, making the results obtained in those studies somewhat difficult to generalize.
In this examination of the issue, other factors that have been shown to affect retirement decisions are accounted for, and the analysis is based on a national sample of UI recipients and other older people.

Each of the three chapters uses as the basis for the empirical work the data from the Retirement History Survey. This survey, conducted by the Bureau of the Census for the Social Security Administration, was based on persons age 58-63 in 1969. The sample was representative of the older population in the groups of married men, unmarried men, and single women, as it included all such persons in the most recent discontinued Current Population Survey (CPS) rotation groups. Nineteen such groups were used in order to produce a sufficiently large sample; since the CPS is representative of the population, the Retirement History Survey is representative of older men and unmarried older women.

The initial wave of successful interviews included 11,153 persons, of whom 60.7 percent were married males, 10.7 percent unmarried males, and 28.6 percent single females. Exactly 90 percent of the respondents in 1969 were white; 21.4 percent had a high school diploma only, and 16.5 percent had completed at least one year of college. Each surviving respondent was to be reinterviewed biennially through 1979. When the work embodied in chapters 2 - 4 was done, data were available for 1969, 1971, and 1973. For each wave, interviewing was done between April and June of the survey year. Because of death and other causes of sample attrition, only 9,924 people remained in the sample in 1971 and only 8,928 in 1973. Each of the three essays uses a subsample of the main survey in which only those households or individuals are included for whom all the required data are available. In each essay, the data’s validity is discussed by comparing characteristics of the subsample to those of the entire sample. In no case did this comparison suggest that the subsamples were not representative.

12. A description of the survey is contained in Irelan et al. (1976). Information on sample attrition and more detailed problems with the data are discussed in the tape documentation available from the National Archives.
While the questionnaire used in the survey is not so complete on matters of prior earnings and job-related issues as those in several other surveys used by economists, it is unique in having both detailed data on retirement-related issues and data on income by source and expenditure by type. Moreover, it is also unique in its restriction to a narrow age cohort of older workers. As such, it provides the best available source of information with which to analyze the role of unemployment insurance in the lives of older Americans.

13. These include the National Longitudinal Surveys, conducted by Ohio State University, and the Panel Study of Income Dynamics, conducted by the University of Michigan.