



Extended unemployment benefits helped jobless and Colorado economy during recession

ISSUE BRIEF
July 23, 2010

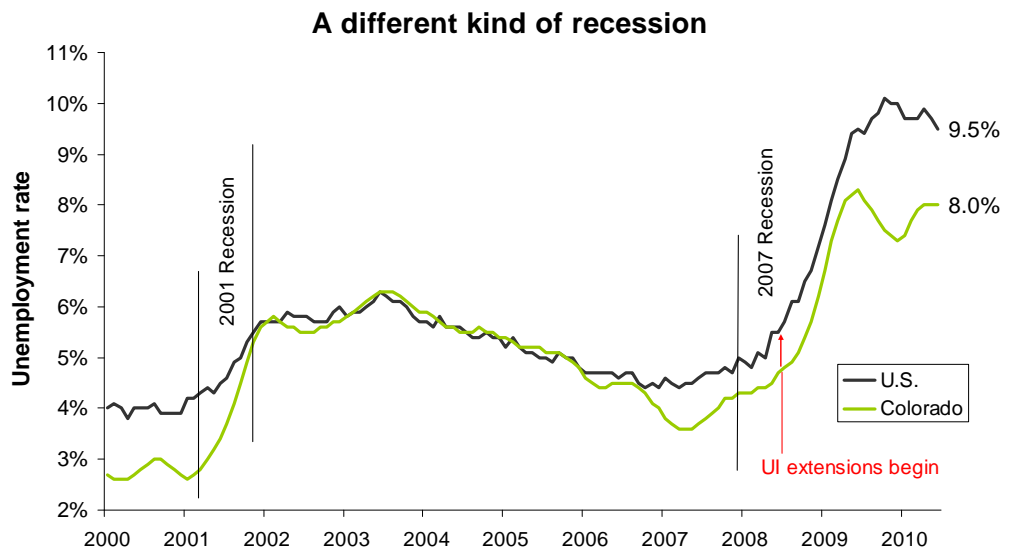
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The Colorado Fiscal Policy Institute is a project of the Colorado Center on Law and Policy, a nonprofit, nonpartisan research and advocacy organization seeking justice and economic security for all Coloradans.

The regular 26 weeks of unemployment benefits weren't enough for many workers to weather this unusually long and severe recession.

Extended unemployment insurance benefits have played a key role in keeping Colorado families and the economy afloat in the midst of the Great Recession. As the recession passed the half-year mark in summer 2008, many unemployment insurance recipients reached the end of their standard 26-week benefits. To avert making matters worse as the economy deteriorated and jobs grew scarcer (Figure 1), the federal government enacted a series of extensions of unemployment benefits. These extensions have brought just more than \$1.5 billion in aid to unemployed Coloradans. In addition, the extensions created \$1.6 billion in economic activity in the state and some 12,000 jobs as recipients spent their benefits on food, rent, and other day-to-day expenses.

Figure 1



Source: Bureau of Labor Statistics

Unemployment insurance basics

If a worker loses his or her job through no fault of his or her own, the worker may apply for unemployment insurance benefits. Truly an insurance plan, the program uses money collected on behalf of the worker during times of employment to fund weekly benefits during times of unemployment. Limited in duration and amount, these payments provide a security net for workers while they look for new jobs.

Under the regular unemployment system, payments into the state

Unemployment insurance recipients are eligible for an additional 60 weeks of benefits as a result of federal extensions during the recession. That has brought \$1.5 billion in federally-funded benefits to Coloradans from July 2008 to June 2010.

unemployment trust fund are made by employers on behalf of workers during a “base period” of employment. The base period used for determining income, which is the basis for benefit levels. Then, should a worker be laid off, the payments fund his or her weekly unemployment benefits.

Unemployment payments are proportional to base-period wages and calculated using a combination of formulas. In general, a laid-off worker receives about half of his or her former weekly wage in unemployment benefits each week, with a maximum weekly payment of \$489 (the weekly wage of a person earning \$25,428 per year). Standard benefits last for a maximum of 26 weeks, and may expire sooner depending on how long the recipients were employed and how much they earned. While they collect benefits, recipients must show proof of an ongoing job search, pursuing at least five new job contacts each week.ⁱ

Recessionary extensions

In summer 2008, the recession was steadily worsening and unemployed people were reaching the end of their standard benefits. (Figure 1) In response, Congress approved money to extend the number of weeks of unemployment insurance benefits available. The first such extension came in July 2008 with the implementation of Emergency Unemployment Compensation. The program provided additional weeks of fully federally-funded unemployment benefits. Emergency Unemployment Compensation was modified in November 2008 and again in November 2009 to further extend the maximum duration of unemployment benefits. In addition, in February 2009 the American Recovery and Reinvestment Act (commonly known as the Recovery Act or Stimulus Bill) added \$25 per week to unemployment payments (a provision called Federal Additional Compensation) and added more weeks of benefits with a change to the Extended Benefits program.ⁱⁱ

Established through a patchwork of legislation, these extensions combined add 60 federally-funded weeks of unemployment benefits in Colorado. More weeks may be available for other states.ⁱⁱⁱ As a result, an unemployed Coloradan could collect 86 weeks of benefits while looking for work – 26 weeks of standard benefits plus 60 weeks of extended coverage. (Figure 2) Built-in rules restrict the total payment to a recipient to a percentage of his or her base-period income, so some recipients might not be eligible for the full term. However, in today’s economy, where there are 4.7 job seekers per job opening nationally, and the median duration of employment is longer than ever,^{iv} the extended assistance is an appropriate response to economic conditions.

The typical Coloradan receiving unemployment benefits has only \$250 as a buffer as he or she looks for work.

Figure 2

RECESSIONARY UNEMPLOYMENT EXTENSIONS IN COLORADO			
PROGRAM	MAX NUMBER OF WEEKS IN COLORADO	FEDERAL FUNDING TO COLORADO	FUNDING SOURCE
Standard unemployment benefits	26	-	State unemployment trust fund
Emergency Unemployment Compensation	47	\$1,219,825,106	100% federal
Extended Benefits	13	\$87,356,157	Temporarily 100% federal
Federal Additional Compensation	N/A. Additional \$25 per week.	\$193,900,000	100% federal
TOTAL	86	\$ 1,501,081,263	

Source: Colorado Department of Labor and Employment and U.S. Department of Labor Funding shown as of July 1, 2010.

Unemployment benefits as stimulus

The large and much-needed extension of unemployment benefits has brought a huge amount of money into the Colorado economy. In total, \$1.5 billion has gone to pay for extensions to unemployment insurance benefits for people who have exhausted regular benefits.^v The extensions have been entirely federally funded.

The injection of money has had a twofold effect. First, extended benefits provided crucial economic assistance to laid-off workers who have struggled to find new jobs. While no substitute for full employment, the benefits went to buy groceries, pay hospital bills and make rent payments during the search for new jobs. (Figure 3)

Second, money for extended benefits was a stimulus to the state economy. Because of the strained finances of many people receiving unemployment benefits — the median liquid assets of a Coloradan receiving unemployment benefits is a mere \$250^{vi} — weekly benefits are spent quickly and largely locally. That spending pumps dollars into the economy, generating jobs and economic activity as the money is spent, collected, paid out in wages or profits, and re-spent.

The Colorado Fiscal Policy Institute analyzed the economic effect of extended unemployment benefits in Colorado accounting for the composition and dynamics of the Colorado economy (see methodology). Overall, the federal extensions to unemployment insurance benefits to date have generated an estimated \$1.6 billion in economic activity in Colorado and 11,965 jobs. In other words, the additional \$1.5 billion in extended benefits for Coloradans seeking work translates to \$1.6 billion worth of in-state commerce and an

additional 11,965 jobs; first as benefits are spent on day-to-day household expenses, and second as proceeds from these transactions are re-spent in other areas of the economy. Not surprisingly, the economic activity is concentrated in sectors serving household needs. (Figure 3)

Figure 3

TOP COLORADO INDUSTRIES AFFECTED		
COLORADO INDUSTRY	OUTPUT GAIN	EMPLOYMENT GAIN
Rental and real estate (mortgage)	\$288,845,688	575
Offices of physicians, dentists, and other health practitioners	\$86,812,512	723
Wholesale trade businesses	\$79,597,304	372
Food services and drinking places	\$70,492,256	1,216
Private hospitals	\$68,764,264	572
Insurance carriers	\$39,993,932	131
Retail Stores - Food and beverage	\$26,674,816	345
Retail Stores - General merchandise	\$22,735,374	371
Nursing and residential care facilities	\$19,485,768	401
Retail Non-stores - Direct and internet sales	\$15,180,866	317

Source: Colorado Fiscal Policy Institute

Federal extensions of unemployment benefits have brought \$1.5 billion to Colorado recipients, creating \$1.6 billion in economic activity, and generating 11,965 jobs. That economic activity is centered around household sectors.

A dynamic lifeline

Federally extended unemployment benefits have played a key role in stabilizing the lives of the unemployed and the economy as a whole. They provide a financial buffer for people struggling to get by during the search for work and generate fast-flowing, robust economic stimulus. Indeed, unemployment insurance continues to be one of the best tools to lift Coloradans and the nation out of recession.

Methodology

Estimates for economic output and employment gains from extended unemployment insurance (UI) are created using IMPLAN (IMpacts for PLANning) economic impact modeling software. The software uses empirically derived regional input-output accounting to enable modeling of local industry changes. For more information, see the IMPLAN website: <http://implan.com/v3/>.

Extended funding for benefits is modeled as an increase in household income. To do so, extended UI funding totals must be tabulated, and apportioned to household income ranges, as household income ranges help predict spending behaviors. This is accomplished in six steps:

1. Total funding for each federal extension is tabulated, using Colorado Department of Labor and Employment (CDLE) data.
2. Income distribution data on 2009 UI recipients (supplied by CDLE) is converted to an estimated base-period household income using empirically based assumptions regarding household income and composition.
3. Individual UI recipient base-period income data is converted into an annual income-equivalent while receiving benefits.
4. The UI benefit income is combined with adjusted base-period household income to estimate household income while receiving UI. That provides an estimate of household income for each individual while he or she is receiving UI.
5. UI household income estimates are merged with the CDLE distribution data.
6. The funding total from (1) is apportioned to household income ranges using the distribution from (5), and modeled.

Results are shown in 2010 dollars.

ⁱ Colorado Department of Labor and Employment. <http://www.colorado.gov/cs/Satellite?c=Page&childpagename=CDLE-UnempBenefits/CDLELayout&cid=1251567061108&pagename=CDLEWrapper>

ⁱⁱ Analysis of U.S. Department of Labor, Colorado Department of Labor, and third party sources, including:

“Emergency Unemployment Compensation 2008 (EUC08) Summary Data for State Programs. *U.S. Department of Labor*. July 20, 2010. <http://www.ows.doleta.gov/unemploy/euc.asp>

“Question & Answer: The Economic Recovery Bill’s New ‘Extended Benefits State Option,” *National Employment Law Project*, April 14, 2009.

“Most Current News Items,” *Colorado Department of Labor and Employment*, July 20, 2010. <http://www.colorado.gov/cs/Satellite/CDLE-Main/CDLE/1251575236720>

“Emergency Unemployment Compensation,” *Colorado Department of Labor and Employment*, July 20, 2010 and June 2, 2010. <http://www.colorado.gov/cs/Satellite/CDLE-UnempBenefits/CDLE/1248095315687>

“State Extended Benefits,” *Colorado Department of Labor and Employment*, June 7, 2010. <http://www.colorado.gov/cs/Satellite/CDLE-UnempBenefits/CDLE/1248095315727>

ⁱⁱⁱ In very high unemployment states extended benefits may be available for up to 73 weeks (making 99 weeks of total benefits). These extra weeks come from two sources. First, Emergency Unemployment Compensation offers a “fourth tier” of benefits to states with a three-month average unemployment rate of greater than 8.5 percent. This fourth tier adds an additional six weeks of benefits. Currently Colorado does not qualify for this fourth tier. Second, the Recovery Act modification of the Extended Benefits program allows for an additional 13 weeks of benefits for states with a total unemployment rate greater than 6.5 percent, and 20 weeks for states where total unemployment rate exceeds 8 percent. Colorado currently falls in the first category. *Source: see note ii.*

^{iv} “Jobs Opening and Labor Turnover,” *Economic Policy Institute: Economy Track*, July, 2010. <http://www.economytrack.org/jobopening.php>

See also “UEMPMED: Median Duration of Unemployment,” *Federal Reserve Bank of St. Louis: Economic Research*, July 2, 2010. <http://research.stlouisfed.org/fred2/series/UEMPMED>

^v Personal communication, *Colorado Department of Labor and Employment*, July 12, 2010.

^{vi} Personal communication, *Colorado Department of Labor and Employment*, July 6, 2010.