POLICY ANALYSIS

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CALIFORNIA POLICY LAB

The Benefit Implications of Adjusting the Earnings Disregard for Partial UI Benefits in California

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SUMMARY

This analysis approximates the benefit implications of policy proposals that aim to raise the Unemployment Insurance (UI) benefits available to UI claimants with partial earnings through increases in the earnings disregard. In California, earnings of UI claimants above a certain threshold, called 'earnings disregard', reduce UI benefits one-for-one. We examine the implications of two alternate disregard amounts ($150 and $300) for UI claimants in California. An increase in the earnings disregard above its current level of $25 would raise the benefit amounts of individuals currently receiving Partial UI benefits, and allow more claimants to receive Partial UI. We find that a disregard increase would substantially raise the amount of benefits paid to Partial UI claimants. A basic estimate of the change in weekly benefit payments of an increase in the disregard from $25 to $150 is about $51 million. For the week ending June 20th, had the disregard been $150, an additional 36,000 individuals claiming UI would have received at least some benefit, about 1.5% of the regular UI payments to workers experiencing unemployment that week. These additional payments would have disproportionately gone to economically vulnerable demographic groups: younger, less educated, female, and Hispanic claimants would receive more payments.

DETERMINANTS OF PARTIAL UI BENEFITS

Unemployment Insurance claimants in California who report positive earnings during a week of unemployment receive benefits under the "Partial UI" system. Under partial UI, the greater of $25, or 25% of reported weekly earnings is "disregarded", and every dollar of income after that is deducted from the claimants Weekly Benefit Amount (WBA). Thus, if a claimant has a WBA of $300, and reports $200 in income for a given week, 25% of that income ($50, which is greater than $25) is disregarded, and the other $150 is deducted from the $300 WBA. In this scenario, this hypothetical claimant would receive a UI payment of $150.

The motivation underlying an earnings disregard is to incentivize UI claimants to find whatever work they can – any income earned up to $25 (or 25%) has no effect on their UI benefits. Yet, after that, each dollar earned reduces their UI benefits by 75 cents, reducing the incentive to work. If the earnings disregard was increased from $25 to $300, as described in legislation proposed by the NELP and Legal Aid at Work, claimants would a) have larger financial incentives to find work, and b) have more take-home pay for any amount of work they do.

The effect of an increased earnings disregard on unemployment benefits received is illustrated in the following figure:

Figure 1: Partial UI Benefits under a $25 Disregard and a $300 Disregard

As seen in Figure 1, increasing the earnings disregard from $25 to $300 increases benefit payments on both the extensive (more people would be able to receive some UI benefits while working) and intensive margins (people already receiving UI benefits would receive a higher amount).

ANALYSIS OF POLICY PROPOSALS

We are able to calculate the number of claimants who would receive positive payments and their potential benefit levels under three different disregard schemes: the current $25 disregard, a $150 disregard, and a $300 disregard. Knowing how much individuals on UI are earning is the crucial piece of information needed to perform this calculation. This is because the amount of earnings implies different amounts of partial UI benefits under the three scenarios, as discussed in Figure 1.

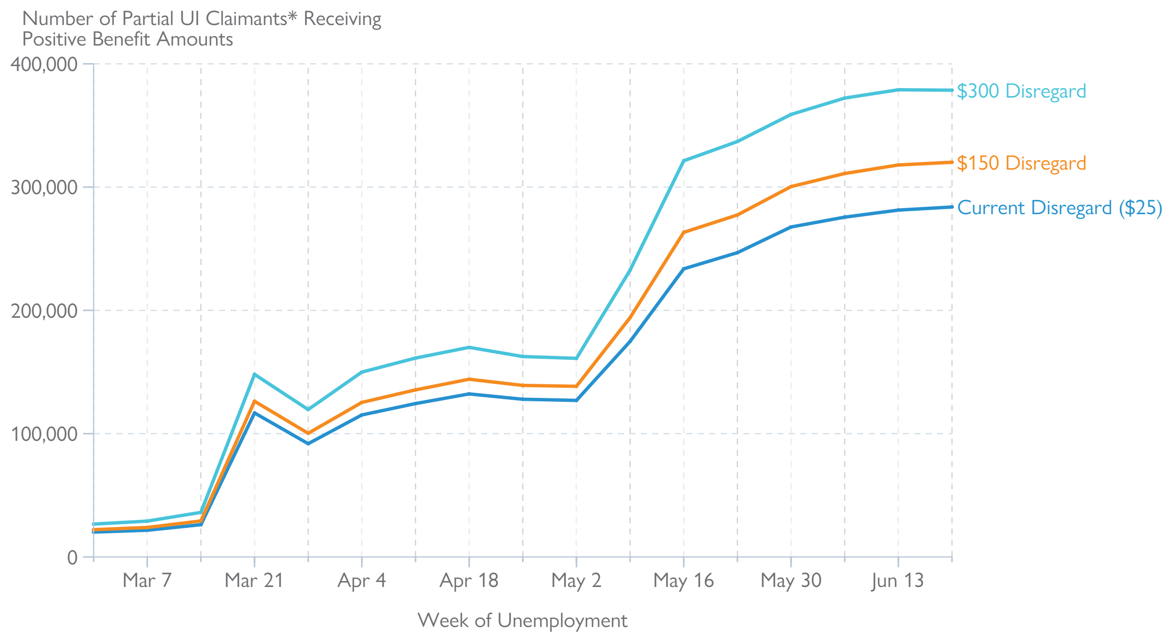
During the bi-weekly certification, UI claimants self-report the amount they earned in each week. Based on this data we proceed as follows. We first take the subset of payments to regular UI claimants reporting positive earnings from work (4.9 million Partial UI payments since March 15, the beginning of the COVID-19 crisis). From this group, we focus on the subset of claimants (86%) for which our calculations based on the current UI benefit rules in place and the amount of self-reported earnings match their actual benefit payment received.[1]

Some of these claimants earned too much income from partial employment during a given week to be eligible for a positive payment from Partial UI – these individuals are included in the sample as well, as they may end up being eligible to receive UI payments under higher disregards. We then estimate the expected payment for the individuals in our sample under the two other disregard frameworks, holding their work earnings constant.[2]

RESULT 1: AN INCREASE IN THE EARNINGS DISREGARD LEADS TO A RISE IN THE NUMBER OF INDIVIDUALS RECEIVING PARTIAL UI BENEFITS, AND A REDUCTION OF BENEFIT DENIAL DUE TO EXCESS EARNINGS

Under current benefit rules, for individuals claiming benefits for unemployment experienced during the week ending June 20th (the latest available date, due to normal processing lags), 284,000 (of the 436,000 regular UI claimants[3] in our sample reporting earnings) received a positive benefit payment after the $25 disregard and corresponding WBA deduction was taken into account. Had the earnings disregard instead been $150, an additional 36,000 individuals would have received positive benefits (320,000 in total). Had the disregard been $300, an additional 95,000 individuals would have received positive benefits relative to the current framework (379,000 in total).

Figure 2: Number of Partial UI Claimants Who Both Report Working and Who Would Be Eligible for a Positive Benefit Payment under a $25, $150, or $300 Disregard

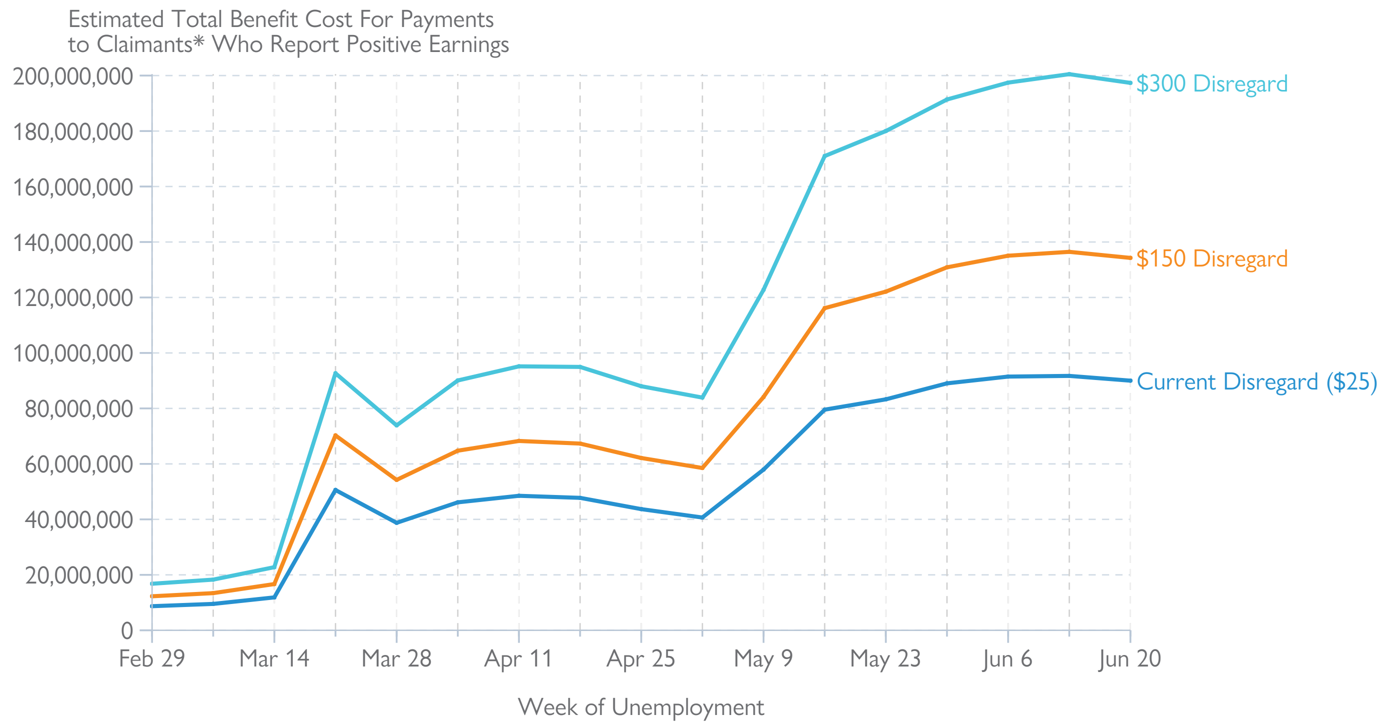


Number of Partial UI claimants refers to the number of (non-PUA) claimants who report positive earnings and would receive payment under each disregard amount.
*This summation is done after restricting to the 79% of claimants reporting earnings for which the relationship between these self-reported earnings and the payment they received under the current disregard is accurately predicted by the law.
Data includes only claims to regular UI.

RESULT 2: AN INCREASE IN THE EARNINGS DISREGARD WOULD LEAD TO A SUBSTANTIAL INCREASE IN TOTAL PARTIAL UI BENEFITS PAID

In order to estimate the additional benefits from adjusting the earnings disregard, we can compute the benefit payment each claimant would have been eligible for under the two alternate disregard frameworks, then sum these payments for all individuals in our sample during a given week of unemployment. Comparing these combined payments for each week gives a rough estimate of the additional benefits paid to unemployed workers. A caveat is that these calculations do not factor in potential changes in behavior that may result from such a policy change.

Figure 3: Estimated Total Benefit Payments to Claimants Who Both Report Working and Who Would Be Eligible for a Positive Benefit Payment under a $25, $150, or $300 Disregard



Total Cost does not include the cost of $600 FPUC payments. Total cost is computed by multiplying the number of (non-PUA) claimants who report positive earnings and would receive payment under each disregard amount by the average payment for each of those claimants, where average payment is also calculated according to the relevant disregard amount.
*This calculation is done after taking the claimants who report postive earnings, and then restricting to the 79% of this set in which the relationship between the self-reported earnings and the payment received under the current disregard is accurately predicted by the law.
Data includes only claims to regular UI.

We see that the benefit increases along the extensive and intensive margins associated with a change in disregards (as illustrated in Figure 1) leads to substantial increases in benefits realized for this group of claimants. For payments made to those unemployed during the week ending June 20th, total benefits under the current disregard were $90 million. Under a $150 disregard, total benefits for all partial UI claimants would be approximately $134 million, and under a $300 disregard, total benefits would be about $197 million.

A simplified estimate of the *difference* in benefit payments resulting from an increase in the earnings disregard to $150, applied to payments to claimants unemployed during the week ending June 20th, is $44 million (This corresponds to $134 million – $90 million, or the gap between the dark blue line and the orange line for the week ending June 20th in Figure 3). In proportional terms, the *increase* in benefits from adjusting the earnings disregard, estimated at $44 million, would be just 6.8% of the total benefits paid for regular UI for unemployment occurring during that week (we estimate total UI payments for unemployment experienced during the week ending June 20th at $648 million[4]), holding all else constant.

If one makes the assumption that the other 14% of claimants who report earnings but who are not included in our sample were identical in composition to the claimants who are included, we could adjust the increase in benefits by multiplying by 1.16, giving an estimated increase of $51 million for the week, which comes out to be 7.8% of total benefit payments paid for unemployment during that week. The fraction would be smaller if the $51 million were to be compared to the total UI benefits paid *during* that week, among other reasons because of retroactive benefit payments.[5]

In the current environment, the additional benefits would require an increase in the amount borrowed from the federal government. The budgetary cost to the state's general fund resulting from such a policy shift would consist of the ensuing rise in interest payments in the future. Interest payments would increase by the same proportion as UI benefit increases. These interest payments are waived for 2020 and may be waived in the future.[6]

The $44 million estimate refers only for payments made for unemployment in the week ending June 20th. Figure 3 shows that the estimated increase in benefit payments result from this policy change (represented by the gap between the dark blue line and the orange) has changed over time as the number of claimants has grown due to the economic crisis. Looking back to February and early March, before the surge in UI claimants, we see that the estimated weekly benefit increase due to the policy change was much smaller. Furthermore, as the crisis expanded into different industries and higher-earning workers began filing UI claims (and thus receiving higher WBAs), the potential benefit per person likely increased as well. Figure 1 shows that for different individuals, the benefit increases of such a policy shift (measured by the gap between the blue and grey lines) depends partially on the claimants' WBA. Forecasting the actual benefit increases of such a policy should account for uncertainty in expectations both regarding the number of claimants and the WBA for those claimants going forward.

RESULT 3: INCREASING THE INCOME DISREGARD WOULD DISPROPORTIONATELY BENEFIT LOWER-INCOME CLAIMANTS

Our data also allows us to analyze who would receive payments under these various disregard frameworks. Table 1 shows that for the week ending June 20th, an increase in the disregard to $150 implies an additional 36,304 claimants in our sample would receive a positive benefit amount. Of these 36,304 claimants, we see that a disproportionate share are female (68%), younger (29% ages 20-24), less educated (58% with a high school degree or less), and Hispanic (47%). Previous research shows that on average, these groups receive lower weekly benefit amounts than the rest of the population of UI claimants (implying they have lower earnings as well), while also making up a larger share of UI claimants than their share of the labor force would suggest.

Table 1: Demographic Distribution of Partial UI Claimants Receiving Payment under the Current Disregard, and Distribution of Additional Claimants Who Only Receive Payment under Alternate Disregards

GROUP	PERCENT OF POSITIVE PAYMENTS MADE UNDER THE CURRENT $25 DISREGARD	PERCENT OF ADDITIONAL PAYMENTS MADE UNDER A $150 DISREGARD	PERCENT OF ADDITIONAL PAYMENTS MADE UNDER A $300 DISREGARD
By Gender			
Male	38.5	32.5	34.7
Female	61.5	67.5	65.3
By Age Group			
16–19	3.0	11.6	8.1
20–24	16.7	29.8	24.2
25–34	30.9	23.8	27.2
35–44	18.0	11.2	14.0
45–54	15.7	10.3	12.3
55–64	12.3	9.4	10.6
65–85	3.4	3.9	3.6
By Education Group			
High School Degree or Less	54.8	58.2	57.0
Some College or Associate's Degree	30.1	32.1	31.6
Bachelor's Degree or More	15.0	9.7	11.4
By Race and Ethnicity			
White	32.6	32.2	32.6
Black	5.6	5.4	5.2
Hispanic	40.2	47.2	47.3
Asian	21.6	15.3	14.9
Total Number Receiving Positive Benefits Under Each Disregard			
Statewide	283,885	320,189	378,653

Notes: Data corresponds to claimants reporting at least some earnings for the week ending June 20th.

Background

The California Policy Lab has produced these calculations through an ongoing partnership with the Labor Market Information Division of the California Employment Development Department. Any statements should only be attributed to the California Policy Lab, and do not reflect the views of the Labor Market Information Division of the California Employment Development Department. The calculations were performed solely by California Policy Lab. Any errors or omissions are the responsibility of California Policy Lab, not of the Labor Market Information Division of the California Employment Development Department. For inquiries about the definitions, methodology, and findings of this data point, please contact Till von Wachter. Email: tvwachter@econ.ucla.edu.

The California Policy Lab builds better lives through data-driven policy. We are a project of the University of California, with sites at the Berkeley and Los Angeles campuses.

This research publication reflects the views of the authors and not necessarily the views of our funders, our staff, our advisory board, the California Employment Development Department, or the Regents of the University of California.

Endnotes

1 This is the case for 86% of those 4.9 million payments. Hence, our main sample consists of a total of 4.2 million payments. In the other 14% of payments, the payment received is different than what would be predicted by taking the WBA and deducting earnings from work (after adjusting for the disregard and tax withholding). The data we currently have access to does not provide an explanation for this discrepancy.

2 It is likely that some individuals will respond to an increase in earnings disregards and work more. We do not assess this scenario in the current memo.

3 This calculation excludes PUA claimants.

4 There were approximately 2,428,000 million regular UI claimants who received payment for unemployment during the week ending June 20th (including claimants who reported no earnings from work). These payments were $267 each on average. Multiplying these gives a total benefit amount of $648 million for unemployment occurring during the week of June 20th. Note that these payments do not include FPUC benefits, PUA benefits, or Work-Share benefits. Our estimates of total benefits paid are not directly comparable to those reported by EDD or the U.S. Department of Labor, as we count benefit payments by the week of unemployment, as opposed to by the week in which payments are processed. This is done because the week of unemployment is more economically meaningful, because payments for retroactive claims can increase the total amount processed in a given week, and the bi-weekly certification process can introduce fluctuations in amounts processed that do not reflect changes in underlying unemployment.

5 For an increase in the disregard to $300, (again applied to payments to claimants unemployed during the week ending June 20th), the additional benefit amount would be just over $107 million (This corresponds to $197 million – $90 million, or the gap between the dark blue line and the light blue line for the week ending June 20th in Figure 3, which is equivalent to about 16.5% of regular weekly UI benefits. Multiplying this by 1.16 to account for the rest of the sample, as done above, gives $124 million per week, or about 19% of regular weekly UI benefits.

6 The interest payments were waived in 2009 and 2010, during the last recession. The relevant interest rate is the return earned on the UI Trust Fund in the last calendar quarter of the previous year, see https://www.treasurydirect.gov/govt/rates/rates_tfr.htm.