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COMING UP SHORT

Current unemployment insurance benefits fail to meet basic family needs

by Heather Boushey and Jeffrey Wenger

The nation's unemployment insurance (UI) system, created to protect workers and their families against the prospect of poverty when they lose their job through no fault of their own, is about to be severely tested. And it is poised to fail unless states act immediately to raise weekly benefits. With the unemployment rate rising dramatically, hundreds of thousands of Americans suddenly out of work are about to find that their families cannot survive on unemployment insurance.

Since 1990, the percentage of lost income replaced by UI benefits across the 50 states has fallen five percentage points, so that, in 1999, UI benefits replaced only 33% of an average worker's lost earnings. In just about every state, UI benefits for a typical, or median, worker with children fall short of what a family needs to meet its living expenses. Nationwide:

- a single working parent with two children will fall $1,317 short each month of the amount of money needed to maintain a minimal, no-frills lisving standard;
- in a two-parent, two-child family with one full-time and one part-time worker, UI benefits (for the full-time worker) will be $334 lower each month than the amount needed to meet basic needs.

How much do working families need?

Basic family budgets measure what a family would need to spend in order to have a safe and decent standard of living. These budgets realistically reflect local costs faced by families for food, housing, child care, health care, transportation, taxes, and other necessary expenses.[1]

While most poverty measurements examine deprivation or the minimum amount necessary for survival on a *national* level, basic family budgets set a standard based on the costs of purchasing necessary goods and services in 433 specific communities across the country.[2] Since the cost of living can vary greatly from one city or rural community to the next, comparing UI benefits (which also vary widely from state to state) to basic family budgets for individual communities clearly illustrates the hardships faced by newly unemployed workers and their families (Boushey et al. 2001).

UI benefits fall short of covering family budgets

For UI to function as insurance against poverty, workers must receive benefits that meet these basic family budget levels. Unfortunately, in nearly all cases benefits fall short of need.

Table 1 shows UI adequacy for single-parent families[3] with a median-wage worker residing in the median community in each state in terms of basic family budget. For these families, UI benefits fall short of covering basic budgets in every single community[4]; the average monthly shortfall is $1,317. Every month of unemployment for these families means incuring that much more debt or facing the prospect of eviction, food shortage, or utility cut-off.

Table 2 shows UI adequacy for two-parent families where one spouse's UI benefits are combined with the earnings of a spouse employed part time. For these families, total family income falls short of covering basic family budget needs in 396 out of 433 communities, or 91% of the United States.[5] On average, this family's budget needs are $334 greater than its combined UI and part-time income.[6]

Families living in Baltimore, Md., for example, would need $361 more per month to meet their budgets. Other communities are much worse off. In Billings, Monatana, and Bismarck, N.D., families in which the full-time worker loses a job would run a monthly budget deficit of $741 and $770, respectively. **Figure A** illustrates the monthly shortfall facing two-parent, two-child families in eight major metropolitan areas.

How will families make ends meet?

Since UI benefits, even when combined with the earnings of a spouse employed part time, will not cover the family budget, families must find other ways to make ends meet. The hard tradeoffs include increasing the hours worked by the part-time spouse, drawing down any existing savings, or going into debt. In a recession, however, it may be difficult for part-time workers to increase hours of work, and single-parent families do not have access to this possibility at all. As for relying on some sort of emergency "nest egg," most families have none (note also that basic family budgets do not include any "spending" for savings). Savings rates for American families are at historic lows, and many were deeply in debt before the current recession. The current average outstanding consumer debt per worker is nearly $5,000, making going into further debt an impossibility for many families.

Making cuts in the family budget would mean living with inadequate food, eliminating health insurance, or doing without other necessities such as transportation, clothing, or utilities. Since the family budgets don't include money for restaurant meals or entertainment, and perhaps underestimate health insurance costs for the unemployed,[7] there is little fat to trim.

A better option for shielding unemployed workers and their families from these undue hardships is to

TABLE 1
Adequacy of unemployment benefits, single-parent family with two children under 12*

Metropolitan statistical area**	Monthly basic family budget	Monthly UI benefit	Monthly income gap
Anchorage, AK	$3,251	$1,282	$-1,969
Decatur, AL	2,229	823	-1,406
Pine Bluff, AR	2,052	870	-1,181
Flagstaff, AZ	2,325	888	-1,437
Yolo, CA	2,755	883	-1,872
Greeley, CO	2,803	1,446	-1,357
Waterbury, CT	3,189	1,425	-1,765
Washington, DC	3,808	1,290	-2,518
Dover, DE	2,648	1,277	-1,370
Jacksonville, FL	2,254	961	-1,293
Macon, GA	2,425	1,083	-1,343
Honolulu, HI	3,088	1,269	-1,820
Cedar Rapids, IA	2,305	1,277	-1,027
Pocatello, ID	2,268	953	-1,315
Peoria-Pekin, IL	2,606	1,485	-1,121
Kokomo, IN	2,378	1,165	-1,213
Wichita, KS	2,482	1,117	-1,364
Owensboro, KY	2,120	1,321	-800
Alexandria, LA	2,092	853	-1,239
Brockton, MA	2,791	1,438	-1,354
Baltimore, MD	2,903	1,212	-1,691
Bangor, ME	2,591	1,217	-1,374
Flint, MI	2,411	1,260	-1,151
St. Cloud, MN	2,921	1,243	-1,678
Springfield, MO	2,096	1,018	-1,078
Biloxi-Gulfport-Pascagoula, MS	1,976	823	-1,153
Billings, MT	2,435	901	-1,534
Greenville, NC	2,132	996	-1,136
Bismarck, ND	2,389	714	-1,675
Lincoln, NE	2,090	922	-1,168
Manchester, NH	2,998	1,169	-1,828
Trenton, NJ	2,878	1,667	-1,211
Albuquerque, NM	2,561	940	-1,621
Reno, NV	2,642	1,044	-1,598
Syracuse, NY	2,936	1,178	-1,758
Canton-Massillon, OH	2,235	1,091	-1,144
Lawton, OK	2,150	1,039	-1,111
Eugene-Springfield, OR	2,508	1,373	-1,135
Pittsburgh, PA	2,568	1,147	-1,420
New London-Norwich, RI	3,175	1,507	-1,668
Greenville-Spartanburg-Anderson, SC	2,160	1,035	-1,125
Rapid City, SD	2,221	935	-1,286
Jackson, TN	2,119	992	-1,128
Waco, TX	2,162	1,005	-1,157
Provo-Orem, UT	2,388	1,026	-1,362
Roanoke, VA	2,351	1,160	-1,190
Burlington, VT	2,898	1,173	-1,725
Bremerton, WA	2,665	1,217	-1,448
Eau Claire, WI	2,495	1,104	-1,390
Charleston, WV	2,246	1,031	-1,216
Casper, WY	2,086	979	-1,108

* Parent is unemployed but previously worked full time earning the state median wage.
** Community closest to, but not above, median family budget in each state.

Source: Author' analysis.

TABLE 2

Adequacy of unemployment benefits, two-parent family with two children under 12*

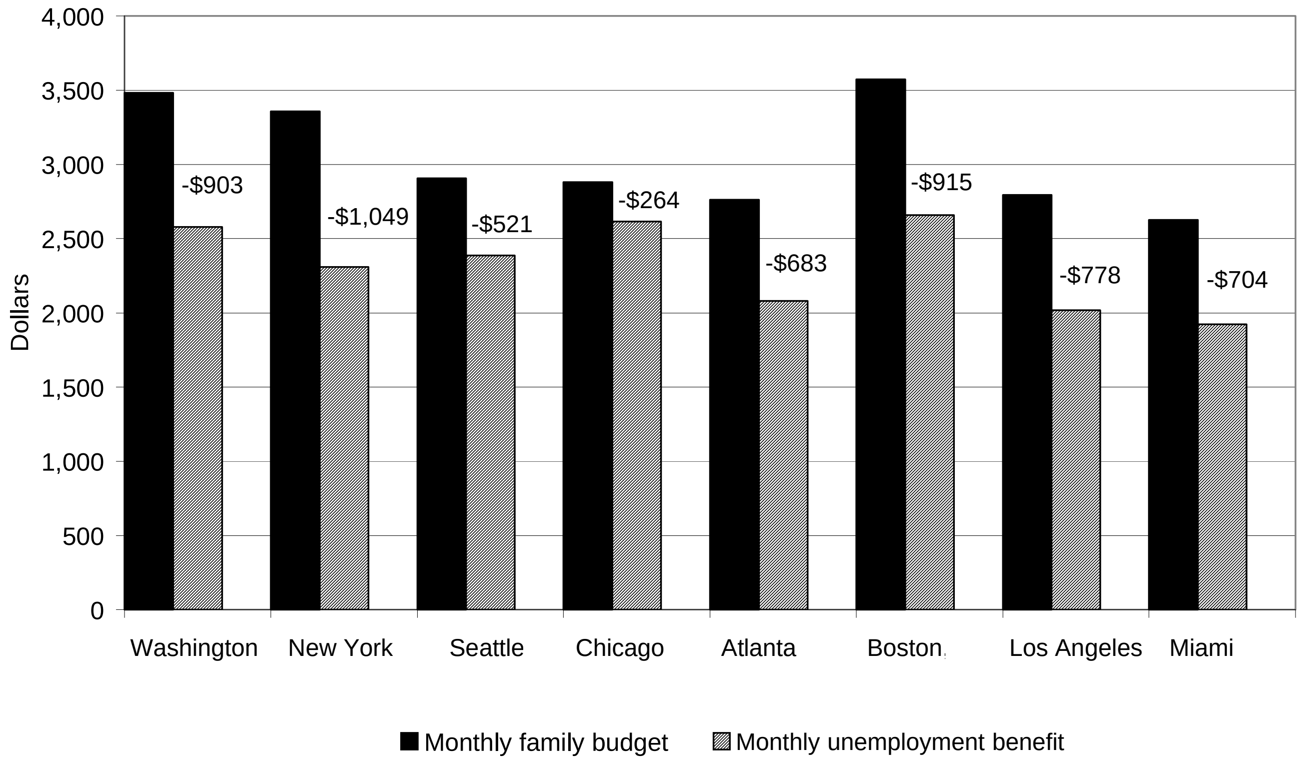
Metropolitan statistical area**	Monthly basic family budget	Combined monthly UI benefit and part-time income	Monthly income gap
Anchorage, AK	$3,028	$2,550	$-478
Decatur, AL	2,385	1,762	-622
Pine Bluff, AR	2,162	1,739	-423
Flagstaff, AZ	2,412	1,917	-495
Yolo, CA	2,648	2,018	-630
Greeley, CO	2,662	2,653	-9
Waterbury, CT	2,950	2,721	-229
Washington, DC	3,483	2,580	-903
Dover, DE	2,669	2,406	-263
Jacksonville, FL	2,404	1,923	-481
Macon, GA	2,414	2,080	-334
Honolulu, HI	3,050	2,295	-755
Cedar Rapids, IA	2,328	2,309	-19
Pocatello, ID	2,299	1,906	-393
Peoria-Pekin, IL	2,544	2,616	72
Kokomo, IN	2,402	2,202	-200
Wichita, KS	2,482	2,127	-355
Owensboro, KY	2,236	2,291	55
Alexandria, LA	2,214	1,787	-427
Brockton, MA	3,176	2,659	-517
Baltimore, MD	2,782	2,420	-361
Bangor, ME	2,686	2,173	-514
Flint, MI	2,391	2,394	2
St. Cloud, MN	2,674	2,487	-187
Springfield, MO	2,188	2,094	-94
Biloxi-Gulfport-Pascagoula, MS	2,141	1,717	-424
Billings, MT	2,510	1,768	-741
Greenville, NC	2,299	1,994	-306
Bismarck, ND	2,357	1,587	-770
Lincoln, NE	2,273	1,843	-430
Manchester, NH	2,919	2,307	-612
Trenton, NJ	2,877	2,920	43
Albuquerque, NM	2,552	1,878	-674
Reno, NV	2,653	2,047	-606
Syracuse, NY	2,692	2,310	-381
Canton-Massillon, OH	2,242	2,183	-59
Lawton, OK	2,268	1,958	-310
Eugene-Springfield, OR	2,603	2,430	-173
Pittsburgh, PA	2,460	2,210	-249
New London-Norwich, RI	3,066	2,646	-419
Greenville-Spartanburg-Anderson, SC	2,234	2,069	-165
Rapid City, SD	2,345	1,872	-472
Jackson, TN	2,201	1,983	-217
Waco, TX	2,272	1,971	-301
Provo-Orem, UT	2,421	2,052	-370
Roanoke, VA	2,354	2,320	-34
Burlington, VT	2,881	2,190	-691
Bremerton, WA	2,691	2,387	-304
Eau Claire, WI	2,415	2,164	-251
Charleston, WV	2,312	1,966	-346
Casper, WY	2,251	1,920	-331

* Unemployed parent previously worked full time earning the state median wage, with spouse working 20 hours per week earning the state median wage.
** Community closest to, but not above, median family budget in each state.

Source: Author' analysis.

FIGURE A

Gap between UI benefits and basic family budget, by selected metropolitan areas*



* Two-parent, two-child family, with unemployed parent previously earning full-time median wage and still-employed spouse working part time (20 hours per week) at median wage.

Source: Author's analysis.

increase the generosity of UI benefits and distribute them more progressively. Some states have already started to move in this direction. Washington, D.C. has raised its benefit replacement rate from 50% to 75% and raised the maximum amount a person can receive to $359 per week. Although both of these measures are temporary (lasting only six months), that may be enough time to provide income security during a painful economic period.

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Endnotes

1. See Bernstein, Brocht, and Spade-Aguilar (2000) for a more detailed account of the methodology used to generate these basic family budgets. These family budgets were created by identifying the cost of items necessary for a working family to maintain a safe and decent standard of living in particular communities. These budgets do not include the cost of restaurant meals, vacations, movies or savings for education or retirement. The individual items in the family budgets were calculated as follows:

- Food costs are based on the minimum amount a family needs to spend for food prepared at home as recommended by the U.S. Department of Agriculture's Low-Cost Food Plan.
- Housing costs are based on a two-bedroom apartment (for families with one or two children) or a three bedroom apartment (for families with three children) that costs no more than 40% of all structurally safe and decent housing in the community, as measured by the Department of Housing and Urban Development's Fair Market Rents.
- Health care costs are based on an amount that recognizes that not all families receive health insurance through their employers. We use a weighted average of the employee share of the premium for employer-sponsored health insurance (from the Bureau of Labor Statistics) and the premium costs for a non-group plan (from an online insurance quote service), plus the cost of out-of-pocket medical expenses (from a Lewin Group model).
- Transportation costs are based on average miles driven for work and other necessary trips. This amount takes into account different driving distances for cities, suburbs, and rural areas (from the Department of Transportation), and is based on the cost-per-mile estimates from the Internal Revenue Service.
- Child care expenses are based on center-based child care or family child care centers for four and eight year olds, as reported by the Children's Defense Fund.
- Other necessary expenses are based on the cost of telephone service as reported by the Federal Communications Commission, and the cost of clothing, personal care, household items, bank fees, union dues, reading materials, school supplies, and television as reported in Consumer Expenditure Survey data.
- Tax expenses include federal payroll taxes and federal, state, and local income taxes. This expense also takes into account funds received from the federal and state Earned Income Tax Credit (EITC) and the Child and Dependent Care Tax Credit.

2. Basic budgets were created for every metropolitan area in the country and a combined rural budget for each state using detailed methodology outlined in Bernstein et al. (2000).

3. We assume that the laid-off worker had been employed full time, full year and that the worker engages in a full-time job search while unemployed, which is a condition for receiving UI benefits.

4. We assume that, since a full-time job search is required to qualify for UI benefits, child care expenses stay the same for single-parent families. These are conservative assumptions, given that many recent labor market entrants, low-income workers, and part-time workers will not qualify for UI at all (Wenger 2001). The results are unchanged even if child care expenses are eliminated completely—no single-parent family will receive enough money from UI to meet its basic family budget even when these expenses are eliminated.

5. We assume that the laid-off worker's spouse works 20 hours per week at the state's median wage. Therefore, we add the cost of part-time child care expenditures to that family budget.

6. Family budgets are for 1999 while UI benefits are for 2000. Since we do not have sector-specific inflation rates for all components of the family budgets and since UI benefits are contingent on policy decisions, we did not adjust either for inflation. To adjust the family budgets by inflation would have only increased the gap between UI benefits and the family budgets.

7. These family budget estimates calculate the cost of health insurance in each community for individuals with and without employer-sponsored health plans, and then weights the average of these. This implies an underestimation of the family's cost absent an employer contribution. Because unemployment insurance makes no provision for health insurance, the unemployed are left to pick up the entire tab for health care coverage, which is likely to be more than these family budgets predict.

References

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