EPI Issue Brief

Issue Brief #163 Economic Policy Institute September 12, 2001

MENDING UNEMPLOYMENT INSURANCE WITH THE MINIMUM WAGE

by Jeffrey Wenger

The safety nets offered by state unemployment insurance (UI) systems have become frayed in recent years, with strict eligibility requirements raising the bar too high for many unemployed workers and low benefits replacing too little of lost income. The problem is most acute for low-wage workers, many of whom may work part time and are excluded from benefits entirely. But a review of the evidence suggests that one national policy — *raising the minimum wage* — can increase the ability of the UI system to provide important social benefits in two ways:

- Workers whose low wages make them ineligible for benefits in a number of states would now have sufficient income to qualify.
- The UI benefits workers receive would tend to rise, since benefits are based on the level of workers' wages during their previous period of employment. Many eligible workers who had previously not filed because benefits were too low would likely be induced to file for the higher amounts.

Enhanced eligibility

Many state eligibility requirements bias the unemployment insurance policy against low-income workers, women, and contingent laborers. Workers must earn both the statutory minimum earnings in the base year and the minimum in the peak quarter. It may be difficult for low-income workers to meet this criteria. For example, while full-time, full-year workers earning the higher of the federal or state minimum wage in 2000 would qualify for UI benefits in all 50 states and the District of Columbia, half-time, half-year workers earning the minimum wage would fail to qualify in eight states.

Eligibility for unemployment insurance benefits and the minimum wage are directly linked. Increases in statutory minimum wages raise the number of states in which part-time, part-year minimum wage workers are eligible to receive UI benefits.

TABLE 1
Unemployment insurance eligibility for minimum wage workers employed 26 weeks, 20 hours per week

Year	Federal minimum wage	Number of states where worker is ineligible	States
1990	$3.80	16	Ariz., Idaho, Ind., La., Mich., Mo., N.H., N.J., N.C., N.D., Okla., Va., Wash., W.Va., Wis.
1991	4.25	10	Idaho, Ind., Maine, Mont., N.H., N.C., N.D., Okla., Vt., Wash.
1992	4.25	12	Idaho, Ind., Maine, Mont., N.H., N.C., N.D., Okla., Vt., Va., Wash., Wis.
1993	4.25	15	D.C., Idaho, Ind., Mass., Maine, Mont., N.H., N.C., N.D., Okla., Utah, Vt., Va., Wash., Wis.
1994	4.25	12	Idaho, Ind., Maine, N.H., N.C., N.D., Ohio, Okla., Vt., Va., Wash., Wis.
1995	4.25	10	Idaho, Ind., Maine, N.H., N.C., N.D., Ohio, Va., Wash., Wis.
1996*	4.75	10	Fla., Ind., Maine, N.H., N.C., N.D., Ohio, Va., Wash., Wis.
1997**	4.75	10	Fla., Ind., Maine, N.H., N.C., N.D., Ohio, Va., Wash., Wis.
1998	5.15	8	Fla., Ind., Maine, N.H., N.C., N.D., Va., Wash.
1999	5.15	8	Fla., Ind., Maine, N.H., N.C., N.D., Va., Wash.
2000	5.15	8	Fla., Ind., Maine, Mich., N.H., N.Y., N.D., Wash.

* Minimum wage increase took effect in October.
** Minimum wage increase took effect in September.

Source: Author's analysis.

The federal minimum wage was increased four times in the 1990s, from $3.35 (unadjusted for inflation) at the beginning of the decade to $5.15 in September 1997. Several states raised their minimum wages above the federally mandated minimums as well. By 2000, ten states (including the District of Columbia) had minimum wages above the federal level.

Table 1 looks at the UI eligibility status by state for workers employed for 26 weeks at 20 hours per week from 1990 to 2000.

In 1990, minimum wage workers working half-time, half-year failed to meet the monetary eligibility requirements in 16 states. The minimum wage increase of 1991 lowered that number to 10. Other minimum wage increases had similar effects. For example, had the minimum wage not been raised in late 1996, the number of states in which these low-wage workers were ineligible to collect UI benefits would have increased from 10 to 13. Similarly, in 1998 the minimum wage increase of late 1997 reduced the number of states in which these low-wage workers were ineligible for benefits from 10 to eight.

The periods in which the minimum wage was not increased offer further evidence of the relationship between the federal minimum wage and UI benefits. For example, from 1991 through October 1996, when the minimum wage stood at $4.25, the number of states in which half-year, half-time minimum wage workers were

ineligible for benefits rose to 15 (in 1993) before dropping back down to 10. While the number of "ineligible" states rose and fell, it is nevertheless true that, by the middle of the 1990s, half-time, half-year minimum wage workers were no more likely to be eligible for UI benefits than they were in 1991.

The estimates of eligibility in Table 1 may, in fact, be generous. They assume that all previous earnings are counted when determining eligibility, but in most states this is not the case: states tend to disallow a portion of a worker's most current earnings. For example, in 2000, forty states had base periods that disallowed as much as three months of recent earnings. This implies that a recent labor market entrant who worked 20 weeks prior to being laid off may have had only seven weeks included in their benefit calculation. Under these circumstances, full-time minimum wage workers in 19 states would fail to qualify for benefits.

Higher benefits, more filings

State UI programs generally replace a portion of a worker's previous earnings with unemployment benefits. Higher wages while working will likely translate into higher benefits while looking for work (though the relationship is far from one-to-one). Thus, all else equal, a higher minimum wage will tend to increase UI benefits.

A higher minimum wage also has a positive effect on the percent of unemployed workers filing for benefits. An examination of state data over time reveals a $1 increase in the minimum wage leads to a 1.9 percentage-point increase in the number of unemployed workers filing for benefits. In fact, the number could be as high as 3.6%. (These findings are detailed in the forthcoming EPI briefing paper, "State Trends in Unemployment Insurance Eligibility," by Jeffrey Wenger.) Since minimum wage increases act to both raise eligibility and benefit levels, this effect does not seem overly large.

Conclusion

The least-advantaged workers are those most in need of the protections provided by unemployment insurance. But as the value of the minimum wage erodes, these workers suffer not only declining living standards while they work but also a frayed or nonexistent safety net when they lose their jobs through no fault of their own. An overhaul of the 50-plus unemployment insurance programs in the United States is an essential element of helping hard-working families survive when they need assistance the most. This process will require efforts at the federal level and in each of the states. Raising the minimum wage is a distinct national policy that can be an important first step.