

Extending Unemployment Insurance Benefits: The Cost of Inaction for Disabled Workers

The Great Recession left a battered labor market in its wake. The unprecedented rise in long-term unemployment is particularly troubling.¹ Many of the long-term unemployed have continued to receive much-needed support thanks to Congress and the Administration's expansion and extension of the unemployment insurance benefits program. However, these crucial programs are scheduled to expire next month. The expiration of the unemployment insurance benefits extension puts millions of out-of-work Americans and their families at risk of real economic hardship. This brief provides an overview of the economic impact of extending unemployment benefits insurance, including a new estimate of the cost of inaction.

Our findings include:

- Unemployment insurance benefits not only provide economic security for individual families. They also boost the nation's economy as a whole. Every dollar spent on unemployment benefits can raise gross domestic product by \$1.60.²
- In the absence of unemployment insurance benefits, unemployed disabled workers are likely to drop out of the labor force and turn to Social Security Disability Insurance (SSDI) instead.
 - ◇ Nearly 290,000 unemployed disabled workers will exhaust their unemployment benefits by the end of 2010 in absence of an extension of the program. The JEC estimates that about two-thirds of these workers will move to SSDI. The cost of shifting these workers out of the labor market and onto the SSDI rolls – *the cost of inaction* – is \$24.2 billion.
 - ◇ In contrast, the cost of providing disabled unemployed workers with extended unemployment insurance benefits and COBRA premium subsidies to facilitate the purchase of health insurance is \$721.3 million in 2010.
 - ◇ The federal government could save \$23.5 billion by extending benefits and avoiding a lifetime of SSDI for currently-unemployed disabled workers.

Report by the U.S. Congress Joint Economic Committee
Representative Carolyn B. Maloney, Chair
Senator Charles E. Schumer, Vice Chairman

Prepared by the Majority Staff of the Joint Economic Committee

Unemployment Benefits Boost the Economy as a Whole

Unemployment insurance benefits are crucial to helping millions of American workers continue to put food on the table and pay the bills. But unemployment benefits also have a significant impact on the strength of the American economy as a whole.

Workers receiving unemployment insurance payments are typically cash-strapped and will spend their benefits quickly. This quick spending generates a “multiplier” for the economy as a whole. Every dollar of unemployment benefits that a recipient spends can generate a cascade of spending by others, providing a significant jolt to the nation’s economy. For instance, when an individual spends his unemployment benefits on groceries, the supermarket then spends additional dollars to pay the cashier, the truckers who delivered the food, and the farmers who grew the food. In that sense, every dollar spent on unemployment benefits generates more than a dollar back for the national economy as a whole.

Indeed, the President’s Council of Economic Advisers estimates that every dollar spent on unemployment insurance benefits raises gross domestic product (GDP) by \$1.60.³ The non-partisan Congressional Budget Office recently reported that increasing aid to the unemployed is more cost-effective in terms of boosting economic growth and employment than a variety of other policies under consideration.⁴

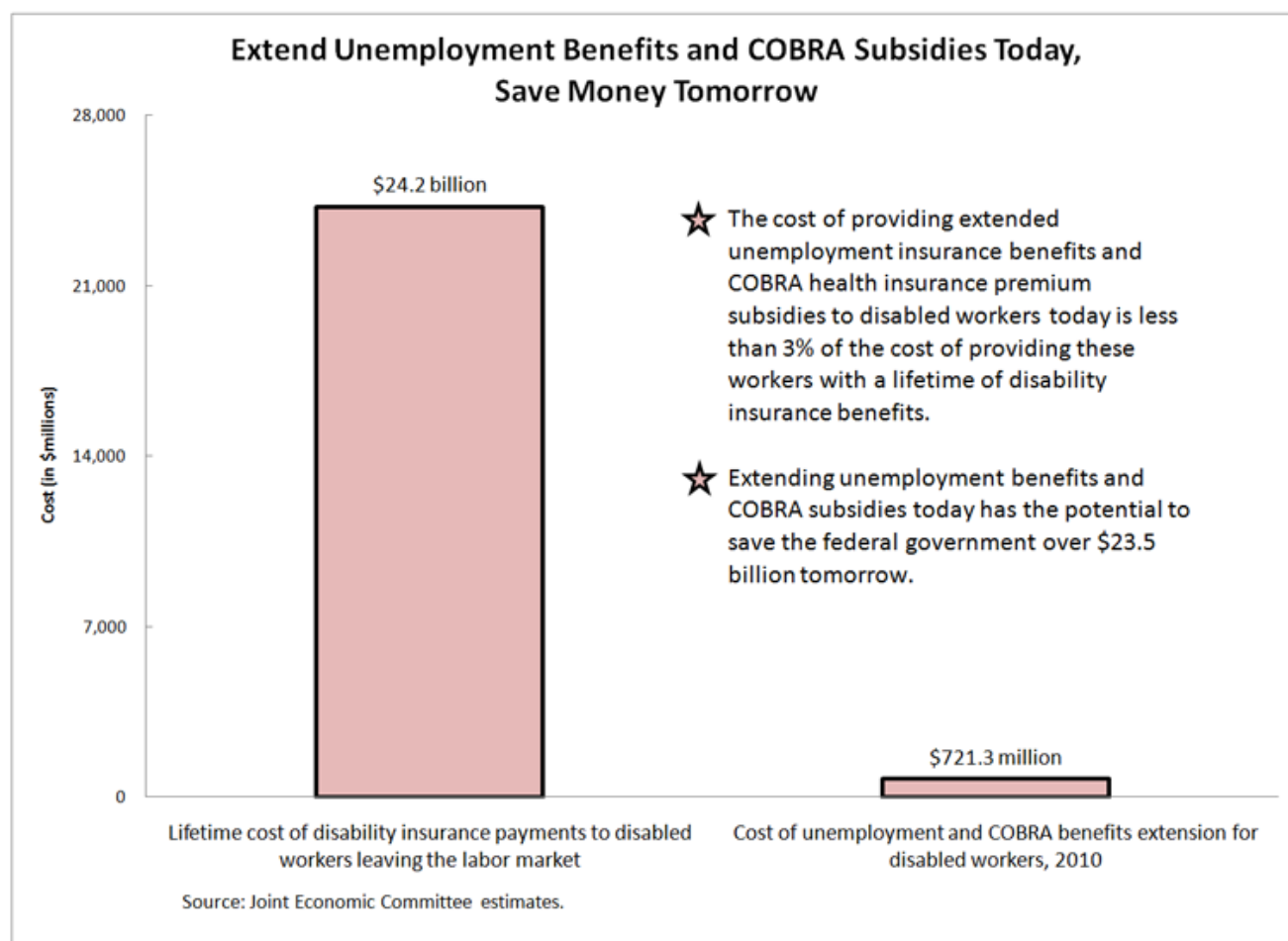
Spending on Unemployment Benefits Now Saves on Disability Insurance Later

831,000 disabled Americans are currently unemployed.⁵ The majority of these workers may be eligible for Social Security Disability Insurance (SSDI), which provides monthly payments for disabled workers who are unable to work because of their disability. Enrollment in SSDI is a function of the economic environment because the availability of jobs for disabled workers diminishes in difficult economic times. The extension of unemployment benefits is important for helping keep these disabled workers attached to the labor market, because in the absence of unemployment insurance benefits many of these workers are likely to shift into the disability insurance system.⁶ This shift out of the labor market and onto SSDI comes at a substantial cost to the federal government, because once an individual enters the disability rolls, he is unlikely to return to the labor market.⁷

The Joint Economic Committee (JEC) estimates that a failure to extend unemployment insurance benefits would result in nearly 290,000 disabled unemployed workers exhausting unemployment benefits in 2010.⁸ The majority, two-thirds, of these disabled exhaustees are likely to turn to the SSDI program for economic support, which means dropping out of the labor market. These SSDI recipients are likely to remain on the rolls until they age off of SSDI and onto traditional old-age Social Security benefits at age 65.⁹ This is a costly proposition, especially because SSDI recipients become eligible for Medicare benefits after two years on the disability insurance rolls. *The JEC estimates the lifetime cost of providing disability benefits to individuals pushed out of the labor market by the failure to extend unemployment benefits is over \$24.2 billion.*¹⁰

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In contrast, extending unemployment benefits compensation is likely to secure the labor market attachment of these unemployed disabled workers, providing them with the much-needed income necessary to survive in the labor market until conditions improve. In addition, the extension of COBRA premium support, which subsidizes the purchase of health insurance coverage for laid-off workers, provides further key support of particular value for disabled individuals who may have unique health care needs. *The JEC estimates the cost of extending unemployment benefits and COBRA premium support for disabled workers would be approximately \$721.3 million in 2010.*¹¹



The federal government can spend \$721.3 million now on disabled workers, securing their attachment to the labor market for the future. Or it can spend \$24.2 billion over the course of these disabled workers' lifetimes on the disability rolls. *Therefore, the JEC estimates that the government can save \$23.5 billion by extending unemployment insurance and COBRA premium subsidies today.*

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1. See the Bureau of Labor Statistics Household Survey, Table A-12, for data on the duration of unemployment (<http://www.bls.gov/news.release/empsit.t12.htm>).
2. Christina D. Romer, Council of Economic Advisers, Speech for National Association of Business Economists' 25th annual Washington Economic Policy Conference (March 3, 2009) available at <http://www.whitehouse.gov/administration/eop/cea/speeches-testimony/03032009/>. The Congressional Budget Office estimated that increasing aid to the unemployed would increase GDP from \$.70 to \$1.90 for every dollar of budgetary cost. See Statement of Douglas W. Elmendorf, Director, Congressional Budget Office, Joint Economic Committee, "Policies for Increasing Economic Growth and Employment in the Short Term," (February 23, 2010), available at http://jec.senate.gov/public/index.cfm?p=Hearings&ContentRecord_id=dd7e192a-5056-8059-762d-1770c6c35ebf&ContentType_id=14f995b9-dfa5-407a-9d35-56cc7152a7ed&Group_id=cb5dcfe4-afee-419f-94ee-e51eb07de989&MonthDisplay=2&YearDisplay=2010
3. Statement of Jane Oates, Assistant Secretary for Employment and Training, U.S. Department of Labor, Senate Finance Committee (April 14, 2010).
4. Congressional Budget Office, *Policies for Increasing Economic Growth and Employment in 2010 and 2011*. January 2010. (<http://www.cbo.gov/ftpdocs/108xx/doc10803/01-14-Employment.pdf>).
5. Unpublished data from the Bureau of Labor Statistics.
6. See, for example, Stapleton, D., et. al. 1998. "Empirical Analysis of DI and SSI Application and Award Growth." In eds. Rupp, K. and Stapleton, D. *Growth in Disability Benefits: Explanations and Policy Implications*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.
7. Social Security Administration. "Annual Statistical Report of the Social Security Disability Program." Baltimore, MD: SSA, July 2009. (http://www.ssa.gov/policy/docs/statcomps/di_asr/).
8. The JEC utilizes unpublished data from the Department of Labor on the number of individuals exhausting unemployment benefits in CY2010 in the absence of an extension of unemployment benefits combined with unpublished data from the Bureau of Labor Statistics on disabled individuals' unemployment to generate an estimate of the number of disabled workers exhausting benefits in the absence of an extension of unemployment benefits. We assume that share of recipients exhausting unemployment benefits who are disabled is equivalent to the share of the unemployed who are disabled.
9. Social Security Administration. "Annual Statistical Report of the Social Security Disability Program." Baltimore, MD: SSA, July 2009. (http://www.ssa.gov/policy/docs/statcomps/di_asr/).
10. The JEC utilizes unpublished data from the Bureau of Labor Statistics and unpublished data from the Department of Labor to estimate age-specific numbers of unemployed disabled individuals impacted by the failure to extend unemployment benefits. We then combine those numbers with age-specific estimates of the present discounted value of disability benefits (SSDI plus Medicare) to generate the lifetime cost of disability benefits for these individuals. Estimates for the present discounted value figures come from von Wachter, T. et al. 2010. "Trends in Employment and Earnings of Allowed and Rejected Applications to the Social Security Disability Insurance Program." (http://www.columbia.edu/~vw2112/papers/dissa_vwimjs.pdf). See the web appendix, available at http://www.columbia.edu/~vw2112/papers/Web_Appendix_dissa.pdf. We make two assumptions that may result in an upwardly-biased estimate. First, we assume that *all* disabled unemployed individuals are eligible for SSDI, which may not be the case. Second, we assume that none of these disabled individuals would have dropped out of the labor market and received SSDI payments independently of the government's action on unemployment benefits compensation. We make a third assumption that may result in a downwardly-biased estimate, however. Due to data limitations, our estimate of the cost of SSDI for disabled unemployed workers includes only workers age 35-65. While younger workers are less likely than older workers to enroll in SSDI, our calculations assume the rate of enrollment into will be zero for unemployed disabled workers under age 35. It is reasonable to believe that the rate of enrollment into SSDI for this group of younger unemployed disabled workers will be substantially greater than zero. Therefore, our calculations underestimate the rate of enrollment, which in turn downwardly-biases our estimate of the cost of SSDI in the absence of an extension of unemployment benefits.
11. The JEC utilizes unpublished data from the Bureau of Labor Statistics on disabled individuals' unemployment to generate an estimate of the share of all unemployed workers who are disabled (5.85%). We assume that the share of total unemployment accounted for by disabled workers is equivalent to the share of the total cost of the unemployment benefits extension that will benefit disabled unemployed workers in order to generate a cost estimate for the cost of the benefit extension to the unemployed. We utilize the Congressional Budget Office score for the cost of the unemployment benefits extension and the COBRA health insurance extension as a guideline for the total cost of the extension.