



# Analytics

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Less than half of Delawareans receive unemployment insurance benefits when they lose their job. The claims process is time consuming and demeaning for many. Errors in payment and outright fraud waste millions. There is a better way. Personal Unemployment Accounts (UA), run like a 401K or IRA, can provide an attractive alternative. The bulk of payments are put aside in an interest bearing account managed by a private company or the state pension fund. Payments are made from the account. If funds are not used they can be rolled into your IRA for retirement or left to heirs. This could be a significant way for low income workers to build assets. A small portion of payments would go into a common fund to pay benefits when the private funds are insufficient. In unusual circumstances, such as the current recession, the government can still supplement the funds.

Currently, taxes are paid to the state by an employer. Rates are set based on the unemployment experience of the company or industry and generally range between 2% and 5%. Companies with infrequent layoffs pay less. While employees don't pay the taxes directly, the taxes are part of total compensation and do affect pay rates. The owners of companies, people working less than thirty hours/week, workers fired for cause, and people who have earned less than

\$11,000/yr had taxes paid in but are not eligible to collect. Because of this, only 48% of out of work people in Delaware collect unemployment benefits. In 2006 Delaware paid \$98 million to 22,545 recipients who received an average of \$251/week for 17 weeks. During recessions the federal government provides the states with financial assistance to extend benefits. Currently, beneficiaries can collect up to ninety-nine weeks instead of the usual 26 weeks.

While beneficiaries are not getting rich, the current government based system does provide disincentives to work. Nationwide in 2006, re-employment took twenty weeks for recipients compared to seven weeks for non-recipients. Near the end of benefits, recipients find jobs at twice the rate as non-recipients. For example, 11% of recipients find jobs near the end of benefits compared to an expected rate of 5% if job hunting success was spread evenly over a twenty week period. Benefit extensions may be adding 1.5% to the unemployment rate during this recession according to a study by Micheal Feroli for JP Morgan Chase. Various states have instituted fraud crack downs and typically recover 1% to 3% of pay outs.

When unemployment insurance began under FDR it was designed to carry someone through a temporary layoff and the recipient was

expected to be re-hired to the same job. Now layoffs are more often permanent and a successful job hunt may require re-training for a whole new industry. Often this is a once in a career experience. UA's solve many of these problems. Benefits can be more generous, can last longer, can be used for training, and cover everyone who has paid in, even if you are fired for cause. If you cheat, you are simply cheating yourself. The incentive to stay unemployed disappears. Applying for benefits and meeting compliance requirements for continued benefits is simplified. A recent study released by the Cascade Policy Institute showed 97% of recipients would be better off with an UA compared to standard unemployment insurance. This study, "Unemployment Accounts: A Better Way of

Protecting the Unemployed" by Stéphane Pallage, Ph.D., chair of the Department of Economics at the University of Quebec in Montreal, and Christian Zimmermann, Ph.D., Associate Professor of Economics at the University of Connecticut can be found at this link, <http://www.cascadepolicy.org/2010/08/04/unemployment-accounts-a-better-way/trackback/> . For more information on this subject visit [www.cascadepolicy.org](http://www.cascadepolicy.org) and see the article by Christina Martin, Director Asset Management Project, Titled "The Individual Asset Account: Turning Unemployment Insurance into an Asset".

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