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A Threat to the COVID-19 Recovery: The Unemployment Benefits of the CARES Act

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Table of Contents

Executive Summary

As of June 25, 2020, COVID-19 has killed nearly 120,000 Americans and infected over 2,400,000.[1] No doubt the measures implemented by the federal government, states, and local authorities to contain the spread of the virus were based on public health response. However, the same measures plunged the American economy into a severe recession. Economic growth plunged by 5 percent in the first quarter. This is the result of business closures – some of which are deemed nonessential. These closures left owners with little to no income to pay their employees and other business expenses. Employers are not the only casualties; workers have also been hit hard.

On March 26, 2020, unemployment claims surpassed 3.28 million, an all-time high. The number of claims was dwarfed by claims during the week of April 4, which tallied over 6,606,000.[2] To put this into perspective, during the recession of 2008-2009, jobless claims peaked at 665,000. Jobless claims during the week of April 4 are 9.5 times higher than the previous all-time mark of 695,000, set during the stock market crash of 1982. The US unemployment rate currently stands at 13.3%, one of the highest rates since the Great Depression.[3]

In response to the unprecedented healthcare and economic crises produced by the COVID-19 epidemic, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. On March 27, 2020, President Trump signed the Act into law. Though the CARES Act achieved its primary objective of preventing a full-scale meltdown of the United States economy, the overly generous unemployment benefits distributed as part of the law pose a real threat to the long-term health of the American economy. Specifically, the $600 benefit provided by the Federal Pandemic Unemployment Compensation program (FPUC) incentivizes workers to remain on government assistance as businesses struggle to reopen.

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[1] "Coronavirus Resource Center", Johns Hopkins University (June 25, 2020). https://coronavirus.jhu.edu/us-map
[2] United States Department of Labor, Unemployment Insurance Weekly Claims, https://www.dol.gov/ui/data.pdf
[3] "The Employment Situation-May 2020", United States Department of Labor (June 5, 2020). https://www.bls.gov/news.release/pdf/empsit.pdf

According to economists from the University of Chicago, “68% of those eligible for unemployment insurance (UI) will gain more money from the program than from lost earnings” with an estimated replacement rate, or ratio of benefits compared to past earnings, of 134%.[4] In Massachusetts, the median unemployment-eligible worker can expect to earn 125% of their former salary on these benefit regimes.

After careful study, The Beacon Hill Institute recommends that Congress discontinue the $600 FPUC as it crafts new COVID-19 related legislation. Furthermore, combined UI benefits (either from states or the federal government) should be capped at 99% of workers’ wages. This will encourage workers to return to work, preventing a prolonged economic recovery. Congress should also appropriate funds to transition UI verification from self-reported to a state-verified process. This will decrease the waste, fraud, and abuse that will likely arise in any further stimulus package.

[4] Peter Ganong, Pascal Noel, Joseph S. Vavra, “The Unemployment Insurance Calculator”, University of Chicago (2020). https://bfi.uchicago.edu/insight/blog/ui-calculator/.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act

Introduction

John Hopkins University estimates the current death toll from the COVID-19 virus in the United States to be about 120,000. [5] The total will continue to climb for the foreseeable future. By shutting down the economy and limiting the interaction found in nominally free markets, local and state governments induced massive losses upon businesses and consumers. The Bureau of Labor Statistics reported in March of 2020 that the unemployment rate spiked to 4.4 percent, reflecting the early effects of COVID-19 and efforts to contain it. [6] The June unemployment rate registered at 11.1 percent. With millions of Americans out of work, businesses closed, and financial markets quickly running dry of liquidity the federal government responded by passing the CARES Act. The legislation addressed the problems arising from the necessary cessation of non-essential business activity and the resulting impacts on the economy. The CARES Act provides a total of $2.2 trillion to different sectors of the economy, spending roughly $560 billion on individuals who are facing difficulties paying for rent, food, and other necessities. [7]

This report examines the unemployment insurance benefits provided to Americans under the CARES Act the impact on the US economy's recovery from the COVID-19 pandemic.

Provisions of the CARES Act

Central to the CARES Act are several programs that increase UI payouts and extend UI benefits to those who otherwise would not qualify for traditional UI benefits. Worker assistance

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[5] Ibid.

[6] Bureau of Labor Statistics, "The Employment Situation", (April 2020). https://www.bls.gov/news.release/archives/empsit_04032020.pdf

[7] "The $2 Trillion CARES ACT, a response to Covid-19, is equivalent to 45% of all 2019 federal Spending", USA Facts (April 6, 2020). https://usafacts.org/articles/what-will-cares-act-and-other-congressional-coronavirus-bills-do-how-big-are-they/

consists of unemployment insurance and cash to workers in the form of direct payments and retirement account provisions, PUA benefits, and a $600 FPUC benefit.

The creation of the Pandemic Unemployment Assistance (PUA) program allows those who are "not traditionally eligible for unemployment benefits" to receive weekly payments determined by the state.[8] As of June 6th, over 11 million Americans have filed claims for PUA benefits.[9] Massachusetts alone has processed more than 573,000 new claims since April 20th.[10]

Table 1: Provisions of the CARES Act

Programs/Spending in Division A	Programs/Spending in Division B
Paycheck Protection Program (PPP)	Medical Assistance Spending
Pandemic Unemployment Assistance (PUA)	Disaster Relief
Pandemic Emergency Unemployment Compensation (PEUC)	Food Assistance
Unemployment Compensation (UC)	Aid to the Agricultural Sector
Extended Benefits (EB)	Aid to Higher Education
Direct Payments to Individuals	Specific Industry Bailouts (e.g. Airlines)

Those who qualify for PUA payments are also eligible to receive an additional $600 per week under the Federal Pandemic Unemployment Assistance (FPUC) program.[11] Individuals eligible for and enrolled in the PUA can continue to receive weekly payments from the state for

[8] Katie Reed and Monica Schulteis, "President Trump Signs Into Law the Coronavirus Aid, Relief, and Economic Security (CARES) Act", The National Law Review (March 29, 2020). https://www.natlawreview.com/article/president-trump-signs-law-coronavirus-aid-relief-and-economic-security-cares-act

[9] "Unemployment Insurance Weekly Claims", dol.gov (June 25th, 2020). https://www.dol.gov/ui/data.pdf

[10] "Massachusetts Weekly Unemployment Claimant Data", mass.gov, (June 6th, 2020). https://www.mass.gov/news/massachusetts-weekly-unemployment-claimant-data-06-04-20

[11] Ibid.

up to 39 weeks (through 12/31/20).[12] Unemployment benefit programs separate from the PUA include PEUC (Pandemic Emergency Unemployment Compensation), UC (Unemployment Compensation), and EB (Extended Benefits). Individuals who have "exhausted all rights to [these] benefits" can qualify for the PUA as well. The CARES Act also established direct cash payments of $1200 to workers who make less than $75,000, with an extra $500 given per child.[13]

Determination of Benefit Payouts

The Federal Pandemic Unemployment Compensation (FPUC) provides every eligible American receiving unemployment benefits an additional $600 per week.[14] In addition to the FPUC, the Pandemic Unemployment Assistance (PUA) assists in relieving citizens by loosening eligibility requirements for unemployment benefits.[15]

Weekly payouts from PUA, in a similar manner to traditional UI benefits, are based on the worker's reported previous income and cannot exceed the state's weekly payment for regular unemployment benefits. For example, the maximum weekly payment in Massachusetts cannot exceed $823.[16]

The average weekly benefit payment is calculated in combination with traditional UI, PUA, and/or FPUC benefits. The FPUC benefit is $600 per week, regardless of the state in which a worker lives. The PUA benefit, also known as the "base benefit," is equal to half a state's weekly unemployment benefit. To calculate the "base benefit," one of two pieces of information is required: the highest-grossing quarterly income or the weekly income. By dividing the

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[12] Gay Gilbert, "4 Things to Know About Unemployment Benefits Under the CARES Act", U.S. Department of Labor (May 11, 2020). https://blog.dol.gov/2020/05/11/4-things-to-know-about-unemployment-benefits-under-the-cares-act
[13] Ibid.
[14] "A Guide to Federal Pandemic Unemployment Compensation", File Unemployment (May 6, 2020). https://fileunemployment.org/compensation/a-guide-to-federal-pandemic-unemployment-compensation/
[15] "Unemployment Insurance Relief During COVID-19 Outbreak", U.S Department of Labor (2020). https://www.dol.gov/coronavirus/unemployment-insurance
[16] Department of Unemployment Assistance, "Pandemic Unemployment Assistance Benefits", mass.gov (April 20, 2020) https://www.mass.gov/doc/pandemic-unemployment-assistance-guidebook/download

highest-grossing quarterly income by 26, one can figure out their "base benefit."[17] For example, someone's "base benefit", with a previous quarterly income of $1000, would be $38. One can also divide their weekly income by two to calculate the "base benefit". In total, an unemployed worker in Massachusetts can receive a maximum of $1423.00 in weekly benefit payments.

Table 2: Estimation of Wages (UI Assistance vs. Non-UI Wages)

Wages	$15	$12	$9	$7.25
Earnings During 40 Hour Week	$600	$480	$360	$290
Base Benefits	$300	$240	$180	$145
FPUC Benefits	$600	$600	$600	$600
Total (FPUC +Unemployment):	$900	$840	$780	$745
Increase (Compared to Base Wages):	**50%**	**74%**	**117%**	**157%**

Table 2 identifies the "base benefits" in conjunction with FPUC benefits relative to different wages. The figure compares weekly income made by "base benefits" and FPUC benefits with earnings of a standard 40-hour workweek. As the wage decreases to the federal minimum wage, the employee makes increased returns on unemployment compared to working earnings.

[17] "Massachusetts Unemployment Advocacy Guide", Massachusetts Law Reform Institute (2020). https://www.masslegalservices.org/system/files/library/UIGuide2020.05.14.20.pdf

The wage replacement rate, which is "the share of a worker's wages that is replaced by unemployment benefits," measures the extent to which a worker's unemployment benefits exceed his or her wages. Analyzing this rate allows us to estimate the likelihood that an unemployed worker returns to work, as a higher rate signifies that a worker will earn more by staying unemployed.[18] Calculating the replacement rate requires "dividing the average unemployment payment by the average 40-hour-a-week salary of those who receive unemployment benefits."[19]

Accounting for the benefits from state UI/PUA and FPUC benefits, nearly three-quarters of all states have a replacement rate that exceeds 100%, signifying that the average worker will receive more in unemployment benefits than his or her salary.[20] Massachusetts, as part of the minority, has a replacement rate of 93%.[21] However, the state's average replacement rate does not account for the discrepancies in replacement rates for workers in different occupations. The replacement rate "increases for workers with lower full-time pay.": Thus, fast-food workers experience a replacement rate of more than 200%, whereas lawyers are at a replacement rate of roughly 30%.[22]

Eligibility Requirements and Verification Process

To qualify for the FPUC program, recipients need to be current claimants of unemployment compensation. The following UC programs are valid: regular UC, PUA, EB (Extended Benefits), TRA (Trade Readjustment Act), and DA (Disaster Unemployment

[18] Ella Koeze, "The $600 Unemployment Booster Shot, State by State", The New York Times (April 23, 2020). https://www.nytimes.com/interactive/2020/04/23/business/economy/unemployment-benefits-stimulus-coronavirus.html
[19] Ibid.
[20] Ibid.
[21] Ibid.
[22] Greg Iacurci, "It pays to stay unemployed. That might be a good thing", CNBC (May 9, 2020). https://www.cnbc.com/2020/05/09/it-pays-to-stay-unemployed-that-might-be-a-good-thing.html

Assistance).[23] If an individual can "receive at least $1 of underlying benefits for the claimed week," then the claimant can receive the entirety of the additional $600 in benefits under the FPUC.[24]

To qualify for the PUA, individuals must first meet the prerequisite of being ineligible for or having exhausted all rights to regular unemployment benefits. As stated above, regular benefits include PEUC, UC, and EB.[25] Next, these individuals must also be unable to work due to a "COVID-19 related reason.[26] Workers either teleworking with pay or receiving paid sick leave and/or other paid leave benefits are not eligible for PUA. [13] However, if an individual receives either paid leave benefits for "less than his or her customary work week" or teleworks with pay but works less than he/she worked before the pandemic, then that individual "may be eligible for a reduced PUA WBA".[13]

After meeting the prerequisites for the qualifications listed above, recipients of the PUA primarily fall under the "self-employed" category. Under the PUA, a self-employed individual is someone whose "primary reliance or income is on the performance of services in the individual's own business, or on the individual's own farm". This mainly includes independent contractors, gig economy workers, and workers for certain religious entities.[13] Because they are not typically covered by regular unemployment benefits, these types of workers are the primary recipients of the PUA.[27] This program also extends coverage to those lacking sufficient work histories, or individuals with recent attachments to the workforce and/or individuals without enough wages under *covered* employment (during the last 18 months) to establish a claim under

[23] "UPDATE: Massachusetts Department of Unemployment Assistance Announces Guidance On CARES Act Implementation", mass.gov (2020). https://www.mass.gov/info-details/update-massachusetts-department-of-unemployment-assistance-announces-guidance-on-cares

[24] Jim Paretti, "New DOL Guidance Clarifies Eligibility for $600 Payments under CARES Act", littler.com (April 5, 2020). https://www.littler.com/publication-press/publication/new-dol-guidance-clarifies-eligibility-600-payments-under-cares-act

[25] "UPDATE: Massachusetts Department of Unemployment Assistance Announces Guidance On CARES Act Implementation", mass.gov (2020). https://www.mass.gov/info-details/update-massachusetts-department-of-unemployment-assistance-announces-guidance-on-cares

[26] "Pandemic Unemployment Assistance Benefits Guide", mass.gov (2020). https://www.mass.gov/guides/pandemic-unemployment-assistance-benefits-guide#-eligibility-

[27] Megan Leonhardt, "These 25 states are already paying gig workers and self-employed Americans unemployment", CNBC (April 24, 2020). https://www.cnbc.com/2020/04/24/states-paying-unemployment-to-gig-workers-self-employed-americans.html

regular UI. This differs from other unemployment insurance programs because "most states require at least 6 months of work" to qualify for regular UI.[28]

Compliance with PUA regulations is determined through a self-reported verification process. Applicants need to prove that their job offer was rescinded or delayed or show reasonable cause for quitting or unable to work due to COVID-19.[29] Moreover, proving that they are otherwise willing to work, but cannot due to these circumstances related to this pandemic.

In addition, the Department of Labor Employment and Training Administration stipulates that a general fear of exposure to the virus is not enough to refuse work or quit your job.[30] Applicants are required to provide their personal information such as their social security number, bank account, address, phone number, email, birth date, USCIS A-number (if not an American citizen), and wage records of 2019, which includes 1099 forms, pay stubs, and bank statements.

Once verified, weekly benefits might be increased and will be made retroactive to February 8, 2020, or the day the applicant became unemployed, whichever is more recent.[23] Applicants will receive an electronic disqualification if they are denied. However, they can appeal the disqualification within 30 calendar days of the day of the disqualification.

Conclusions and Recommendations

The CARES Act, especially provisions such as the PPP and other programs that provided direct aid and loans to businesses, kept the American economy on life support during its most perilous period since the Great Depression. A study from the University of Pennsylvania indicates that the CARES Act "will dampen the fall in GDP in the second quarter of this year (2020 Q2) from an annualized rate of 37 percent to 30 percent, and will produce

[28] Kaitlin Mulhere, "MONEY's Guide to Applying for Unemployment if You're a Freelancer, Independent Contractor, or Self-Employed", Money.com (April 23, 2020). https://money.com/unemployment-benefits-coronavirus-independent-contractor/
[29] "Pandemic Unemployment Assistance Benefits", mass.gov (2020). https://www.mass.gov/doc/pandemic-unemployment-assistance-guidebook/download
[30] Jennifer Liu, "Can you refuse to go back to work and still claim unemployment benefits?", (May 11, 2020). https://www.cnbc.com/2020/05/11/what-happens-to-unemployment-benefits-if-youre-called-back-to-work.html

around 1.5 million additional jobs by the third quarter (2020 Q3)."[31] It is estimated that, without the CARES Act, one measure of poverty would have increased from 12.5% to 16.3%. Since its enactment, however, the poverty rate has instead stayed at around 12.7%.[32]

In the short term, the CARES Act functioned as designed, acting as a stopgap measure to protect the economy during the worst of the pandemic and economy-crushing lockdowns. The CARES Act was enacted to provide wages to those who lost jobs due to government-imposed shutdowns for the period they were out of work. The CARES Act was not designed, nor should it be redesigned to, act as a stimulus package whereby the government spends trillions to reboot the struggling economy. As evidenced by the lackluster recovery from the 2008 global recession, these types of federal stimulus programs simply do not work.

The CARES Act as it is currently constituted poses real risks to our long-term recovery from the COVID-19 pandemic. Specifically, provisions of the CARES Act that must be reconsidered include the FPUC and PUA benefits. These programs create perverse incentivizes that will more than likely prolong the economic recovery from the COVID-19 pandemic.

The vast majority of workers receiving some combination of state-run UI or PUA benefits and the $600 FPUC bonus are receiving more on government assistance than they earned while working. According to economists from the University of Chicago, "68% of those eligible for UI will gain more money from the program than from lost earnings" with an estimated replacement rate, or % ratio of benefits compared to past earnings, of 134%.[33] In Massachusetts, the median unemployment-eligible worker can expect to earn 125% of their former salary on these benefit regimes.

[31] Alexander Arnon, Zheli He, Jon Huntley, "Short-Run Economic Effects of the CARES Act", University of Pennsylvania Wharton School of Business (April 8, 2020). https://budgetmodel.wharton.upenn.edu/issues/2020/4/8/short-run-effects-of-the-cares-act

[32] Andrew Keshner, "White House 'very seriously considering' another stimulus bill — here's how the CARES Act has impacted poverty rates", MarketWatch (June 25, 2020). https://www.marketwatch.com/story/the-cares-act-could-keep-poverty-rates-at-pre-pandemic-levels-but-researchers-worry-what-will-happen-when-the-money-runs-out-2020-06-23

[33] Peter Ganong, Pascal Noel, Joseph S. Vavra, "The Unemployment Insurance Calculator", University of Chicago (2020). https://bfi.uchicago.edu/insight/blog/ui-calculator/

Extending the current benefit programs, especially the $600 weekly FPUC benefit, will prolong the economic recovery from COVID-19 by incentivizing the unemployed to remain unemployed. When faced with the choice of returning to work, searching for a job in an extremely volatile economy, or staying home, it seems logical that the average worker will stay home. Private businesses simply will not be able to compete with government wages.

While it is true that PUA and FPUC benefits include clauses that exclude workers refusing to return to work from receiving benefits, this is not sufficient. Businesses undertaking a hiring spree once restrictions are lifted and labor is needed will not spend strained time and resources reporting employees to the federal government. Expecting businesses to do so ignores the fact that the post-coronavirus recovery will feature one of the largest unemployed populations in American history, with hundreds of thousands raring to go back to work. Most businesses will simply move on to another employee if their previous employee is hesitant about returning to work, not implore the government to force said employee back to work.

This perverse incentive structure is already affecting reopening businesses across the nation.[34] With many workers earning comparatively more under unemployment benefits, small businesses are struggling to hire their workers back.[35] Moody's Analytics found in pre-pandemic December that 41% of businesses were hiring. In March, that number was down to 12%.[36] This figure only ticked up marginally (0.4%) by May, as businesses reopened in phased steps across the nation.[37] Government-created worker shortages will cause many businesses to raise wages to compete (and thus cut staff), or close altogether. In any subsequent stimulus/bailout legislation, Congress should not extend the $600 FPUC benefit and cap

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[34] Cheyenne Haslett, Lauren Lantry, and Bejamin Siegel, "Employers struggle to compete with $600 coronavirus unemployment payments", ABC News (May 21, 2020). https://abcnews.go.com/Business/employers-struggle-compete-600-unemployment-payments/story?id=70800696

[35] Leigh Ann Caldwell, "Small businesses struggle to hire their workers back", NBC News (May 1, 2020). https://www.nbcnews.com/politics/congress/small-businesses-struggle-hire-their-workers-back-n1197061

[36] Chris Isidore, "More than half of American jobs are at risk because of coronavirus", CNN Business (March 16, 2020). https://www.cnn.com/2020/03/16/economy/job-losses-coronavirus/index.html

[37] Scott Tong, "Which jobs are coming back first? Which may never return?", Marketplace.org (June 17, 2020). https://www.marketplace.org/2020/06/17/which-jobs-are-coming-back-first-which-may-never-return/

combined state and federal UI benefits at a replacement rate below 100%. This will incentivize those able to return to work or search for a job to do so.

At the onset of the crisis, states were unable to design their unemployment systems to pay each person 100% of their past wage, which was the impetus for the $600 flat federal bonus to all eligible applicants. With unemployment claims falling and states adapting to the new economic environment by hiring more workers to deal with unemployment claims, this problem should no longer persist as a severe one. If this continues to be an issue for the states, the federal government should appropriate adequate funds for unemployment claim and verification processes.

To assist workers still unable to find work, programs such as the PUA should be extended, although verification processes should transition from self-verification (as in the case of PUA and FPUC benefits) to state government-led verification processes. One must remember that these programs are not traditional UI benefits.

Flaws in the CARES Act pose serious threats to the economic recovery from COVID-19. Local, state, and federal lawmakers should work together to find solutions to these glaring issues. Time is of the essence. The Beacon Hill Institute, therefore, recommends that Congress adopt the following changes to any subsequent amendments to the CARES Act of March 2020.

- Eliminate the $600 FPUC Benefit
- Cap combined benefits (FPUC, PUA, and traditional UI benefits) below 100% of previous earnings).
- Allocate funds for state-level verification processes to replace self-verification processes for PUA and UI benefits.

Nicholas R. Sammarco is a Research Assistant at the Beacon Hill Institute. He would like to thank summer interns Katherine Wang, Luke Eldridge, Donny Tou, and Alice Nguyen for their assistance in preparing this document.

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