A Quantitative Analysis of Relaxing UI Eligibility Requirements
Evidence from the Pandemic Unemployment Assistance Program
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When 28 million workers in March and April 2020 applied for unemployment insurance (UI), it was the first time that applications were not evaluated based on standard eligibility requirements. With the sudden arrival of the pandemic, job loss surged unprecedentedly, and the job-finding rate collapsed. In order to mitigate these pandemic effects on workers, several UI policy changes were made to the existing UI system. Pandemic Unemployment Assistance (PUA) program expanded UI by relaxing the minimum past-earning eligibility requirement, and the Federal Pandemic Unemployment Compensation (FPUC) and the Pandemic Emergency Unemployment Compensation (PEUC) programs, respectively, extended UI benefits by increasing the benefit levels and the maximum duration. **My job market paper aims to quantify the heterogeneous effects of UI expansions on workers during the pandemic recession and asks what the consequences were of this unprecedented expansion of eligibility.**

To evaluate the effects of UI expansion (PUA) on heterogeneous workers, I propose an equilibrium search model with application uncertainty. First, I found that workers affected by the eligibility requirements are selected. The UI eligibility requirements, especially past earnings requirements, mostly affect workers at the lower end of the earnings distribution. Moreover, I observe that workers for whom the requirements are binding have low earnings, face high unemployment risk, have jobs with high separation rates, and have fewer assets. Since those workers have less ability to self-insure, they are more willing to apply for UI benefits due to a higher marginal utility of additional UI support to smooth consumption against income fluctuation. Figure 2 shows the claiming effort from low earners (Figure 2a) and high earners (Figure 2b) with or without PUA. Claiming effort can be thought of as the willingness to continuously apply for UI for each applicant.

The probability of receiving UI conditional on initially applying is increasing in the claiming effort. For example, claiming effort can be how much time each applicant is willing to spend at weekly interviews or gathering information relevant to applications. There are two things to notice from Figure 2. First, low earners on average exert higher claiming effort than high earners due to their low ability to self-insure. Second, PUA has a significant effect only on low earners. The above prediction is because PUA significantly increases the probability of receiving UI for low-income workers. As a result, low earners are more willing to put more effort into the process. On the other hand, since high earners are originally more likely to be considered eligible even without PUA, relaxing eligibility requirements does not considerably affect high earners.

Figure 2: Percent Change in Claiming Effort from Pre-pandemic

(a) Low Earner

(b) High Earner

Week after the Start Date of UI Expansion

PUA
Without Expansion
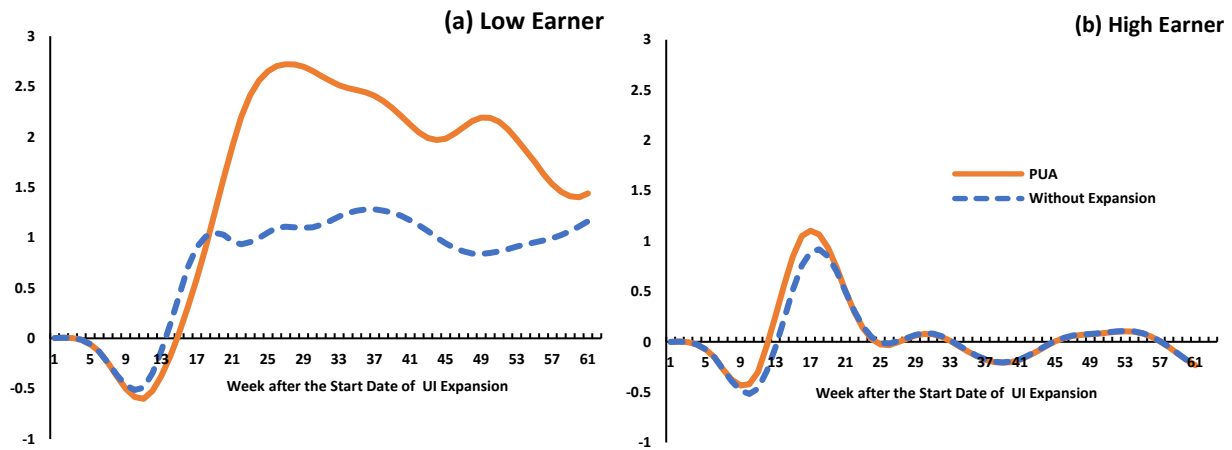
Second, consumption responses across different types of workers differ. Figure 3 shows the differences in consumption responses between low earners (Figure 3-a) and high earners (Figure 3-b). In Figure 3, high earners are barely affected by PUA, and the change in consumption is also muted. On the contrary, low earners get more consumption pass-through from PUA since they have high marginal propensity to consume. As a result, consumption responses are higher from low earners than high earners, especially under PUA. Lastly, high earners recover their consumption to the pre-pandemic level faster than low earners with or without PUA.

Figure 3: Percent Change in Consumption from Pre-pandemic

(a) Low Earner

(b) High Earner

Week after the Start Date of UI Expansion

PUA
Without Expansion
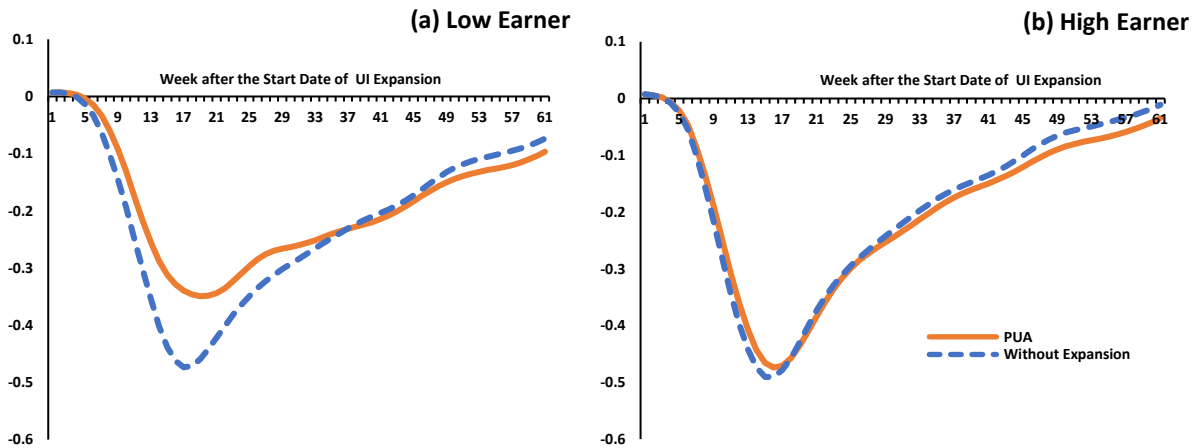
To conclude, UI expansion (PUA) is a powerful policy instrument, especially during this recession, where workers are separated unexpectedly. Moreover, UI expansion has heterogeneous effects on different types of workers. PUA beneficiaries are mostly low earners who provide high marginal gains for an additional UI benefit to support them through unemployment. These heterogeneous effects are especially important when we think about evaluating the performance of UI policy changes. In the paper, I also show that the heterogeneous effects have serious implications when evaluating the optimal duration of such UI policy changes. (For more on the optimal duration of the UI expansions, please refer to the most updated paper.)