



Unemployment Benefits

Executive Summary

A person who is actively seeking employment and is unable to find work may be eligible for unemployment benefits. In the 2022 session, several bills have been introduced relating to unemployment including: the maximum duration for an individual to receive unemployment benefits to be based on the Missouri average unemployment rate ([SB 665](#)); extending the length of unemployment benefits in Missouri ([HB 1729](#)); and adjustment of the total amount of wages derived from severance pay ([SB 1114](#)).

Highlights

- Each state has unemployment programs and their policies vary by state.
 - Unemployment benefits are determined by a number of parameters, such as the cost of living in that state.
 - Missouri ranks 44th in benefits paid to the unemployed workers (\$320 per week), 44th for the unemployment duration (20 weeks), and 48th in the cost of living in the state.
- Increasing the duration of unemployment benefits reduces the likelihood of leaving unemployment, particularly for low-wealth households.
- The amount of unemployment weekly pay can affect job search behavior of the unemployed. Other factors, such as amount, mode of distribution, and timing have an influence on the unemployment duration.

Limitations

- Although research agrees that lower lengths of unemployment duration tend to incentivize workers to find jobs faster (and thus exit unemployment), it has not been determined if a shorter benefit duration causes unemployed workers to accept “lower quality” jobs.

Research Background

Unemployment in the U.S. & Missouri

A person who is available for employment is unable to find work may be eligible for unemployment benefits. Unemployment rates [are measured by the number of unemployed workers as a percentage of the labor force](#). Benefits are available to eligible workers who become unemployed through no fault of their own (e.g., company layoffs) and meet eligibility requirements through the [U.S. Department of Labor’s unemployment insurance program](#).

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The average U.S. unemployment rate for the last 20 years has been about 5%. Over the years, the unemployment rate has fluctuated as a result of national or worldwide events, such as the food and economic crisis in 2008 and the COVID-19 pandemic. As shown in Figure 1, unemployment rates before the pandemic were at a historical low of 3.5% since 2002 before spiking to 14.7% in April 2020 (the highest unemployment rate shown in the figure). As of March 2022, the U.S. unemployment rate was 3.6%.¹



Figure 1. Civilian unemployment level, seasonally adjusted. The shaded areas represent recession and COVID-19 outbreak, U.S. Bureau of Labor Statistics.¹

Over the last 20 years, the average unemployment rate for Missouri has been about 5.75%. When the national unemployment rate was at its highest during the pandemic at 14.7%, the Missouri unemployment rate was 11.2%, and the number has been declining since then. Last month, the unemployment rate of Missouri was 3.6% with an estimated number of unemployed Missourians being 109,474. Currently, Missouri ranks [26th](#) in unemployment rate in the nation.

Unemployment Benefits Determination

Unemployment benefits intend to provide temporary financial assistance to people who are currently out of work but are actively seeking employment. Each state determines their own unemployment benefits program. Most programs are not intended to replace a person’s entire paycheck from a previous employer and pay out for no more than 28 weeks. Every state uses its own formula to calculate the amount paid to unemployed people, but it is typically based on

previous earnings from the most recent employer over a current 52-week period. This means the amount each unemployed person receives will vary. The state of Massachusetts pays the highest weekly amount (\$823) and Mississippi pays the lowest (\$235). In [Missouri](#), one can receive up to \$320 of weekly unemployment benefit for up to 20 weeks. For the comprehensive list of current unemployment benefits rates in the nation, the unemployment duration, and cost of living, please visit supplemental [Table 1](#).

Unemployment Duration

Research suggests that unemployment benefits **create longer or more frequent episodes of unemployment**.^{2,4,5,6} This applies especially for workers who tend to accept jobs that have a higher risk of unemployment, or spend more time searching for a new job after becoming unemployed.² Drawing from data in the 1990s, a 10% increase in unemployment benefits raises average unemployment durations by 4-8% in the U.S.³

There are additional determinants that can influence how fast workers get back to employment, such as how much, when, and in what form the severance is distributed.² For example, nearly half of those unemployed in the U.S. report zero liquid wealth (cash) at the time of job loss, suggesting that liquidity is a concern for many unemployed individuals. Jobless households tend to spend and consume less than the households who enjoy permanent income.²

Reducing Duration of Unemployment Benefits

Research indicates that for unemployed workers who are restricted by available cash, we tend to see a longer unemployment duration if the benefits are paid out in cash and in a lump-sum form, although this is mostly applied to unemployed workers who are limited by available cash. Then reducing the duration of unemployment benefits can bring increased exit rates from unemployment.⁵ European countries that applied reduced duration of benefits show an average of 10% exit rate from unemployment compared to European countries with longer benefit durations.³ Nevertheless, although research points that lower lengths of unemployment duration can lead to faster exit from unemployment, this effect may be due to reduction in labor force rather than exit to employment and that shorter benefit duration may cause unemployed workers to accept “lower quality” jobs.^{4,6} Additionally, researchers point out that other determinants, such as favorable business conditions, are also found to increase the likelihood of leaving unemployment, although the effect is significantly smaller compared to benefit receipt.⁴

References

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