

# Unemployment Insurance Recipients and the Official Unemployment Rate: Why the Numbers Are Different

By Jason Palmer and Jim Rhein\*

*The unemployment rate is one of the most commonly requested economic variables and is a reliable measure of labor market activity and overall economic health. Yet, there is much confusion about what the number actually represents. In addition to describing how the unemployment rate is calculated, this article will discuss why one of the more common misperceptions, that the unemployment rate reflects only those collecting unemployment insurance benefits, is false.*

## Introduction

One of the most common misperceptions of the unemployment rate is the belief that it is simply a representation of the number of people who are receiving state unemployment insurance benefits. This article will address that misperception. First, this article will discuss the origins of two different measures – the number of unemployed (as published) and the number of unemployment insurance recipients. Next, it will identify the major differences between the published number of unemployed and the number of persons receiving unemployment benefits. Finally, the article will examine what the unemployment rate might be if it included only unemployment insurance recipients.

## The Number of Unemployed

Each month, the Census Bureau, in cooperation with the Bureau of Labor Statistics surveys over 60,000 households in the United States (approximately 2,000 in Michigan). This survey is called the Current Population Survey, or “CPS.” Through this survey, participants are asked a series of questions to determine whether individuals are counted as “Employed,” “Unemployed,” or “Not in the labor force.”

To be considered unemployed in the CPS, an individual must meet all of three conditions:

- Must have done no work for pay or profit during the survey week.
- Must have taken specific steps to find work during the last four weeks – this is

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referred to as “actively seeking employment.”

- Lastly, to be considered unemployed, an individual must be willing, able, and available to accept work if a job is offered to them.

The civilian labor force is defined simply as the sum of all employed and unemployed individuals, and this value is used in the calculation of the unemployment rate. In this calculation, the number of unemployed is divided by the civilian labor force, and the resulting ratio is the unemployment rate. For example, consider an economy with a labor force of 100,000, with 5,500 unemployed individuals, and 94,500 employed individuals. After the calculation, the unemployment rate in this economy would measure 5.5 percent.

The unemployment rate is one of the most commonly requested statistics and is a reliable measure of labor market activity and overall economic health.

In Michigan, each month the Bureau of Labor Market Information and Strategic Initiatives publishes the official estimates of the state’s labor force, employment, unemployment, and unemployment rate. This data is generated using regression models developed by the U.S. Department of Labor for use by all states. The

primary input into the model is the labor force estimates received from the CPS. Therefore, the Michigan unemployment rate that we read in the newspaper, see on television, or hear on the radio, primarily originates from the CPS.

### **Unemployment Insurance Claimants**

Each month, thousands of people call, walk, or log into the state Unemployment Insurance Agency to file a claim for unemployment insurance (UI) benefits. Generally, these people have become unemployed and believe they will qualify for and will receive benefits as temporary income as they seek new employment. However, not all claimants are eligible for benefits and some will not receive them. To be eligible for unemployment benefits, an individual must have had qualified earnings from a liable employer during a particular time **and** the individual must be available for and actively seeking suitable work. Some individuals may also be required to register for work with a Michigan Works! service center.

In Michigan, the Unemployment Insurance Agency (UIA) manages the unemployment insurance system. In addition to daily administrative responsibilities, UIA tracks the number of claimants that are approved or denied benefits. Once released, these statistics can be a useful tool in gauging labor market

activity. For example, if the Agency records a relatively high number of unemployment insurance claims during a month, it may signal that an economic event or a seasonal fluctuation has caused an above average number of workers to lose their jobs.

The remainder of this article will focus on the number of individuals who have been approved for unemployment insurance benefits, and how that differs from the number of overall unemployed. Each week, UIA produces an internal report detailing the number of individuals that are receiving benefits. As noted above, it is commonly (but incorrectly) believed that these individuals – those receiving unemployment insurance benefits – are the only persons who are counted as unemployed.

### **Why the Numbers Are Different**

As discussed, the government uses a household survey to estimate the number of individuals who are unemployed, **and** also maintains administrative counts of individuals who are receiving state unemployment benefits. These two sources do not equate: in fact, the levels produced are often very different. Ultimately, the official number of unemployed is much *larger* than the number of persons receiving unemployment insurance benefits. The next sections will discuss the major reasons these two sources do not match.

### **Categories of the Unemployed**

The unemployed can be divided into specific categories, only *one* includes those who are typically receiving UI benefits. These categories include:

- Persons who have lost jobs or are on temporary lay-off (job losers)
- Persons who voluntarily left one job and are looking for another (job leavers)
- Persons who are seeking their first job (new entrants)
- Persons that are returning to the labor market after a period of absence (reentrants)
- Persons who have exhausted their unemployment benefits and remain unemployed, and unemployed individuals who never apply for benefits.

The CPS provides estimates of the numbers of unemployed in Michigan in four of the above categories: job losers, job leavers, new entrants, and reentrants. As demonstrated below, only job losers will generally be eligible for unemployment insurance. However, the individuals in each of the above four categories all meet the definition of unemployment and would be classified as unemployed according to the CPS.

### *Job Losers*

The first category, job losers, includes all individuals who have lost their job due to temporary layoff, long term layoff, have permanently lost their jobs, or who have completed temporary jobs. In many instances, these individuals would qualify for unemployment benefits. However, in order to qualify, an individual in this category must have had qualified earnings from a liable employer and must be available for, actively seeking, and able to accept suitable work. These individuals would also be defined as unemployed by the CPS. In 2010-11, job losers accounted for over half (59 percent) of all unemployed individuals (Figure 1).

Individuals in the remaining categories of the unemployed generally **do not** qualify for unemployment benefits. These categories include:

### *Job Leavers*

Job leavers (6 percent of total unemployed) are unemployed persons who quit or otherwise terminate their employment voluntarily and immediately begin looking for work. Typically job leavers are individuals who are looking for a new job for any number of reasons including higher compensation, better working conditions, or a better fit with their skill set. This would also include people who are

switching occupations or industries altogether. While these people may have worked for a liable employer and had qualified earnings, they may not qualify for benefits because they voluntarily ended the employment relationship. Although job leavers may not qualify for unemployment benefits, they are certainly counted as unemployed according to the CPS because they are not working and they are actively seeking employment. A job leaver is one example of an individual who is counted in the official jobless rate but would not qualify for unemployment benefits.

### *Reentrants*

Reentrants (25 percent of total unemployed) are persons who previously worked but were out of the labor force prior to beginning their current job search. A reentrant could be an individual who had previously exited the labor market to return to school, or a person with family obligations such as raising children or caring for an elderly or sick relative. These individuals in past months have been out of the workforce for a period of time, and have not been conducting an active job search. Therefore, people in this category typically would not qualify for unemployment benefits. In contrast, once a reentrant is back in the labor market, and actively seeking employment, but not currently working, they would be counted as unemployed by the CPS. Thus, a reentrant is

another example of a person counted as unemployed who may not show up in the count of unemployment insurance recipients.

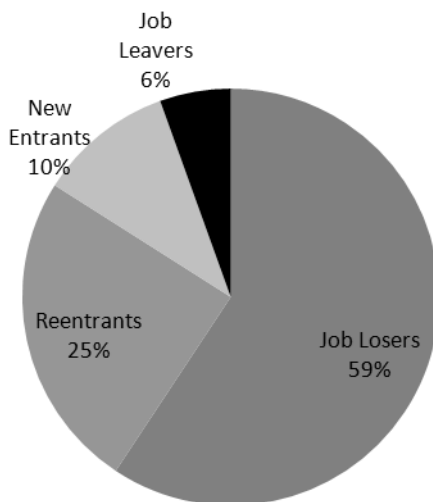
### *New Entrants*

Finally, new entrants (10 percent of total unemployed) are persons entering the labor market seeking their first job. This can include teen workers and recent high school and college graduates. However, a new entrant can be of any age and have any level of education. Since these individuals have no prior work experience, they have no prior employer and are not eligible for unemployment benefits. Yet, as new entrants are available for and seeking work and because they are currently not earning income, they would be classified as unemployed according to the CPS.

### **Unemployed Exhaustees**

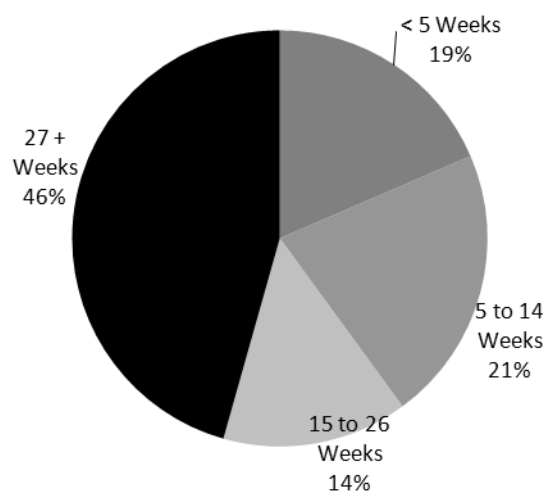
Under current Michigan law, an individual is eligible to draw a maximum of 26 weeks of state unemployment benefits. (After January 15, 2012 regular UI benefits will be capped at 20 weeks.) After this, the individual may be considered an “unemployed exhaustee.” An unemployed exhaustee is an individual that has “exhausted” their maximum allowable state unemployment benefit, but remains unemployed. Even though an individual is no longer receiving state jobless benefits, this person would still be counted as unemployed according to the CPS as long as they were actively seeking employment and were not currently working.

**Figure 1: Michigan Unemployed by Category, 2010-2011**



Source: Current Population Survey (Unpublished Data)

**Figure 2: Michigan Unemployed by Duration, 2010-2011**



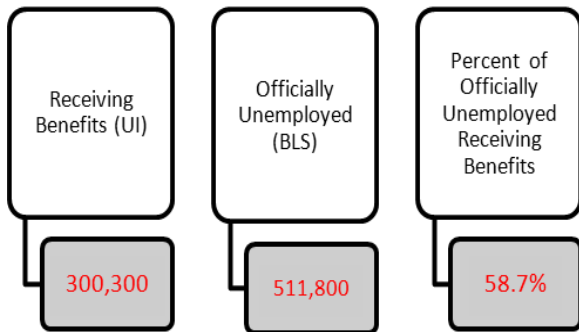
Source: Current Population Survey (Unpublished Data)

In 2010-11, 46 percent of all unemployed individuals in Michigan were jobless for 27 weeks or longer. If eligible for UI benefits, each of these approximately 230,000 individuals would have exhausted their unemployment benefits and would be ineligible for further state benefits. Yet they would continue to be captured in the official jobless rate.

### Reconciling the Differences

As has been shown, the estimate of total unemployed in Michigan includes many individuals who do not receive state unemployment insurance benefits. As Figure 3 shows, in 2010-11, the number of unemployment insurance claimants in Michigan was only about 59 percent of the total unemployed. The over 300,000 UI claimants in Figure 3 includes persons receiving state benefits and federal extended benefits.

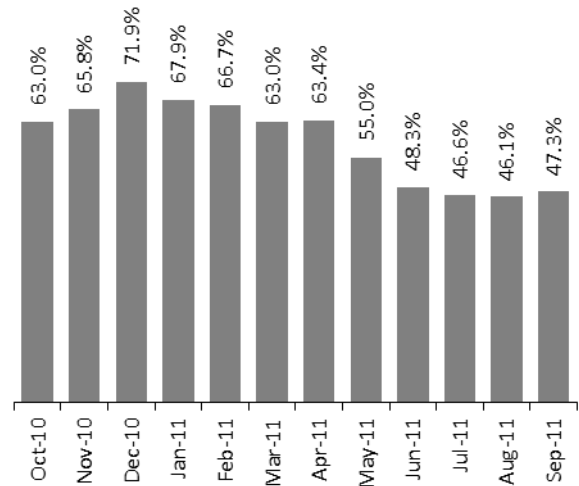
**Figure 3: Unemployment Benefits and the Officially Unemployed - 2010-2011 - Michigan**



Source: UIA, U.S. Bureau of Labor Statistics (BLS)

On average, more than half of all unemployed in Michigan received unemployment insurance benefits in 2010-11. But, the ratio of unemployment insurance recipients to the number of unemployed individuals fluctuates on a monthly basis.

**Figure 4: Share of Michigan Unemployed Receiving Regular and Extended Unemployment Benefits, 2010-2011**



Source: U.S. Bureau of Labor Statistics (Unemployment); Department of Licensing and Regulatory Affairs (UI Recipients)

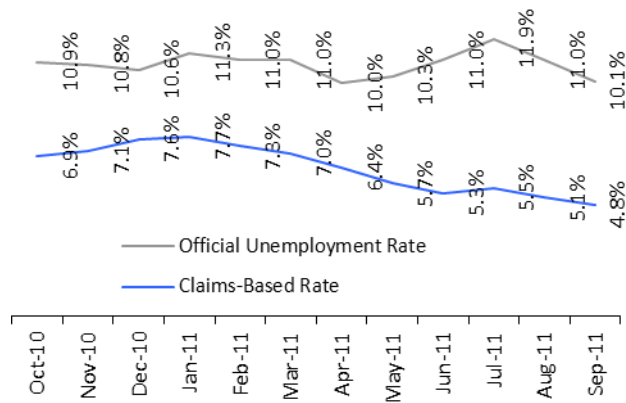
Much of this fluctuation can be explained by seasonal trends in the labor market. For instance, this ratio reached a high of 71.9 percent in December, primarily explained by the increase in seasonal layoffs in construction, retail trade, and leisure and hospitality. Many of these laid-off workers qualified for benefits.

The ratio reached a low of 46 percent in July and August, as more unemployed individuals were reentrants and new entrants. These individuals would not qualify for benefits.

**An Alternative “Claims-Based” Rate**

If only unemployment insurance recipients were counted in the state’s unemployment rate, what would the rate be? To answer this question, a claims-based rate can be calculated using the administrative statistics from UIA.

**Figure 5: Official Michigan Unemployment Rate vs. Claims-Based Rate, 2010-2011**



**Source: U.S. Bureau of Labor Statistics (Unemployment); Department of Licensing and Regulatory Affairs (UI Recipients)**

This alternative calculation would show a much lower rate than the published unemployment rate. This is because of the groups of individuals discussed above that meet the

official definition for unemployment but that do not qualify for unemployment insurance benefits.

As Figure 5 demonstrates, counting only claimants as unemployed would lower the jobless rate by a median 4 percentage points below the official rate. This difference would widen in the summer months and narrow in the winter months.

**Conclusion**

Each month the U.S. Census Bureau conducts a household survey to collect basic information on labor force, employment, and unemployment levels for the U.S. and all states. The results of this survey are provided to the U.S. Bureau of Labor Statistics and the states, and are combined with other variables in regression models to calculate the state unemployment rates. At the same time, state unemployment agencies track information about individuals filing for and receiving unemployment insurance benefits. Both of these sources provide important information for analyzing labor markets.

However, people often assume that the unemployment rate only reflects the number of individuals who are receiving unemployment benefits. This is not true. In fact, just 59

percent of the official count of Michigan unemployed collected unemployment benefits in 2010-11. As a result, if unemployment insurance recipients were used instead of the official number of unemployed to calculate the jobless rate, the rate in Michigan in 2010-11 would have been considerably lower.