DATA POINT

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CALIFORNIA POLICY LAB

Lost Wages Assistance Program will provide temporary support for California workers

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SUMMARY

The "**Lost Wages Assistance**" (LWA) program provides grants to participating states in order to fund a $300 per week supplementary payment to individuals receiving unemployment insurance (UI) benefits, so long as they meet certain eligibility requirements. On August 22nd, the California Employment Development Department (EDD) announced that the Federal Emergency Management Agency (FEMA) had approved California's application and would provide an initial amount of $4.5 billion and that the state would provide the benefits for a minimum of three weeks, and more funding was possible. This Data Point provides an overview of the impact of the LWA program in California as well as policy considerations for any additional federal unemployment supports.

LWA PROGRAM

In the early stages of the economic crisis, in recognition of the unique challenges posed by the COVID-19 pandemic, Congress passed the CARES Act, authorizing an extra $600 payment (Federal Pandemic Unemployment Compensation, or FPUC) to all UI beneficiaries from March 29th until July 25th. During that period, this benefit injected $45 billion into California's economy.[1] However, Congressional leaders were unable to come to an agreement on whether to extend or replace FPUC benefits, and the payments expired on July 25th. On August 8th, 2020, the President issued a memo authorizing the Federal Emergency Management Agency (FEMA) to spend up to $44 billion from FEMA's Disaster Relief Fund (DRF) in order to supplement lost wages through the newly created "Lost Wages Assistance" (LWA) program.[2] LWA authorizes states to provide UI claimants a lost wages supplement of up to $400, where $300 is provided from the federal contribution (via the DRF) and $100 is provided from state funds.[3] California, like most other states participating in the program, is expected to only provide the $300 federally funded benefit.

CALIFORNIA APPROVED TO OFFER LWA FOR AT LEAST THREE WEEKS

California, along with over 30 other states, has already been approved for the program, but like most other states, has yet to disburse funds to claimants.[4] A delay between a state obtaining FEMA approval and LWA benefits actually being distributed is to be expected, as any change in the state's UI system requires computer systems to be updated.

To be eligible for LWA benefits, an individual must have a Weekly Benefit Amount[5] (WBA) of at least $100 and be eligible for benefits for that week.[6] In states that participate in the program, individuals who have experienced UI-eligible unemployment[7] during or after the week ending August 1st are eligible to also receive supplementary LWA benefits. Claimants are also eligible for retroactive payments (back to the week ending August 1st) as well. This brief uses administrative data from the Employment Development Department (EDD) for individuals paid benefits for the week ending August 1st to analyze the potential impact of the program for unemployed Californians and the state economy.

THE IMPACT OF THE $300 LWA BENEFITS ON ELIGIBLE WORKERS

In the week of July 26th to August 1st, 3.79 million Californians were paid UI benefits for unemployment experienced during that week. Of those 3.79 million claimants, 95% (3.6 million) had a WBA of $100 or more, and thus would be eligible for LWA benefits. For individuals who were likely to be eligible for payment in the week ending August 1st, the average payment (not including LWA) was $275. Adding in the $300 LWA benefits raises this to $575. To put this in perspective, the median family income (MFI) in California is $86,165,[8] which comes out to $1,657 per week. HUD considers 50% of MFI (equivalent to $828.50 per week) to be "Very Low Income." Since the maximum WBA is $450 in California, even with this $300 LWA benefit, a family with one claimant receiving LWA in addition to the maximum weekly benefit ($750 in total) would still be considered "Very Low Income" by HUD. As a comparison, the now-expired FPUC benefits ($600 per week), would have raised the average payment (for those eligible for LWA) up to $875, above HUD's Very Low Income threshold, while also providing payments to those with Weekly Benefit Amounts below the $100 threshold.

WHO ARE THE WORKERS NOT ELIGIBLE FOR THE $300?

Our analysts suggest 192,000 UI claimants received benefits of less than $100 during the week ending in August 1st and hence would not be eligible for LWA. Our data allows us to analyze the demographic and industry characteristics of these workers. Of the demographic groups we analyzed in Table 1, we find that younger claimants are substantially less likely to be eligible for LWA, with more than 1 in 5 claimants aged 16-19 disqualified for LWA and nearly 1 in 10 of those aged 20-24. However, while younger claimants make up a disproportionate share of ineligible claimants, the vast majority are still adults older than 20 (82.5%). Over 60% of ineligible claimants were female, and over 57% had only a high school degree or less (Table 1).[9] Compared to those eligible for LWA, those who are ineligible are more likely to be female, more likely to identify as Asian, more likely to be less-educated, and more likely to be under 25 years old.

LWA WOULD INJECT $1 BILLION PER WEEK INTO CALIFORNIA'S ECONOMY- BUT NOT FOR LONG

With almost 3.6 million individuals eligible for LWA benefits, the program would provide just over $1 billion in benefits per week to unemployed Californians. Since FEMA has allocated an initial amount of $4.5 billion to the state,[10] these benefits would expire in about four weeks in the absence of additional funding, after which, benefits will return to pre-crisis levels. Because most of these individuals will be eligible to claim the $300 retroactively since July 25th,[11] the benefits are predicted to be exhausted for weeks of unemployment that ended August 22nd.

The average WBA for people whose WBA was under $100 is $68. If California were to adjust the WBAs for these claimants by increasing them to $100 (so that they become eligible), it would cost the state $6.2 million per week[12], though it would receive nine times that amount in federal benefit. This would inject another $57 million from the LWA program into the state's economy each week. Alternatively, if California were to pay the cost of providing an extra $300 to those who don't qualify for the LWA benefits (because their WBA is less than $100), it would cost the state $57.5 million per week.

POLICY CONSIDERATIONS

1) Should Congress consider passing a second relief bill, both the size of any supplementary benefit amounts and their duration should be directly tied to the state of the local labor market, thus balancing the perceived risk of dis-incentivizing work (less of a concern during times of high unemployment) with the availability of jobs. Currently, there is scant evidence that increased benefits have been a significant factor holding back employment – rather, a lack of job openings, lack of childcare options, and the resurgent Pandemic (and the accompanying policy responses to it, such as certain sectors being ordered to shut down) appear to be the inhibiting factors.

2) Because the FPUC program has already expired, any replacement benefit system should be backdated to provide increased benefits for unemployment in the interim weeks. As claims are already concentrated among individuals with especially low incomes (and less wealth to cushion income shocks like losing the $600 FPUC benefit), the impact of missing even a single week of additional benefits could have significant effects among the most vulnerable.

3) Re-instating the $600 benefit as it formerly was may translate to fewer administrative challenges for aging computer systems, leading to fewer processing delays. Numerous state unemployment insurance programs have had to handle the overwhelming number of unemployment claims brought on by COVID-19 while at the same time dealing with the challenge of implementing new programs, the effects of which were seen in the delays in the distribution of LWA payments.

4) It is worth considering setting in motion a process by which a fixed weekly payment could be replaced by modification of benefit calculations to yield a higher amount of income replacement. In this way, increased benefits would be tied to the prior income of UI claimants as is usually the case. This process should be tied to financial incentives for states to change the replacement rate, and give states sufficient time to modify their programs.

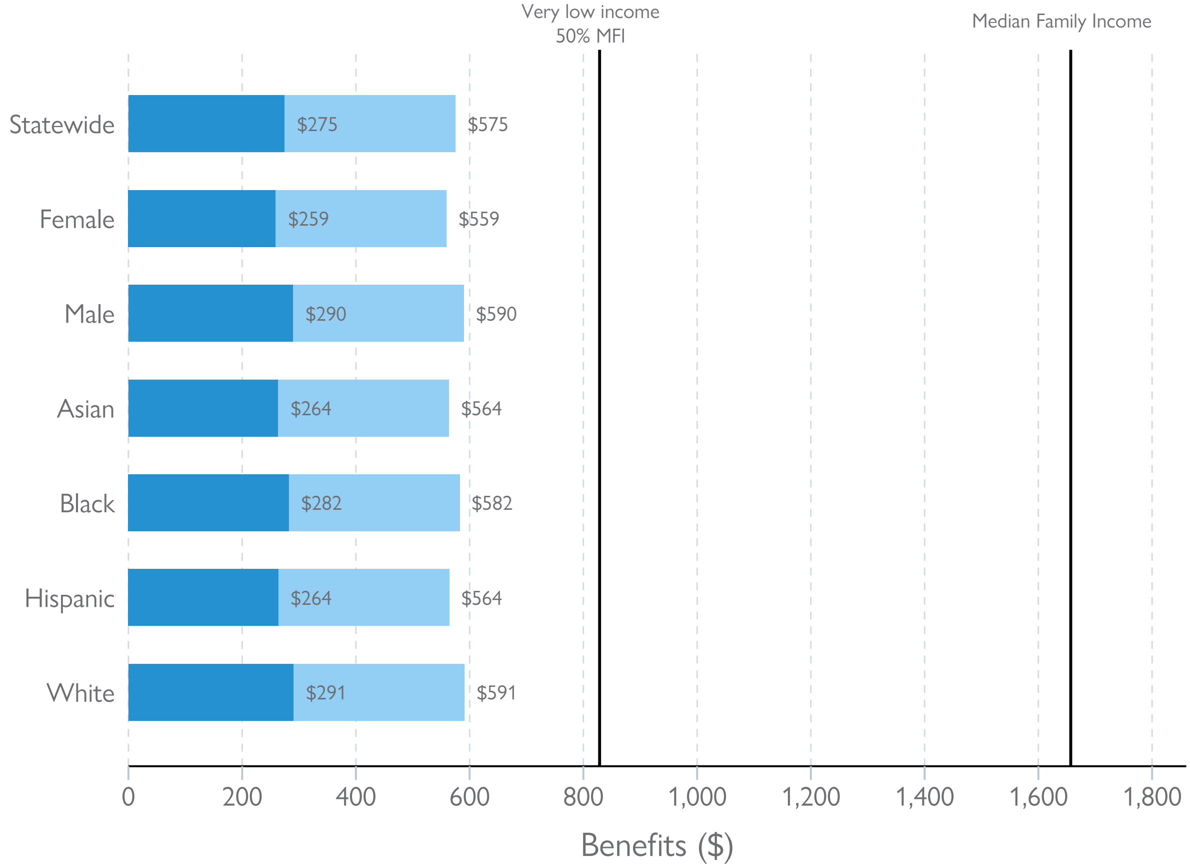
5) As governments and employers adapt to this rapidly changing public health threat, programs that equip employers to retain employees but at reduced costs can help with this transition. One such program is Work Sharing. Work sharing programs allow firms and employees to spread some of the burden of decreased work by reducing hours for a group of employees and replacing a portion of their lost pay with UI benefits, thus avoiding layoffs. During the COVID-19 crisis, Work Sharing programs can also be used to rehire laid off workers at less than full-time hours. Eligible workers receive a prorated WBA. If, for example, their hours were reduced by 50% they would receive 50% of the WBA they would be eligible for in the event of a layoff. Importantly, Work Sharing participants were eligible for the $600 per week FPUC benefit (and would be if it is re-instated). Relative to partial UI, an advantage of Work Sharing is that workers could earn up to 90% of their prior earnings and still receive both pro-rated UI benefits and an additional federal payment like the FPUC, if it is reinstated. This is in contrast to only 66% of prior earnings under partial UI.[13]
The last section of our June report discussed a concrete example of how low-wage workers could benefit from Work Sharing in this context.

Table 1: Benefits Paid for Unemployment Experience in Week Ending August 1st

GROUP	TOTAL INDIVIDUALS PAID BENEFITS	INDIVIDUALS PAID WITH WBA < $100 (INELIGIBLE FOR LWA)	PERCENT OF PAID INDIVIDUALS INELIGIBLE FOR LWA	PERCENT OF INELIGIBLE INDIVIDUALS COMING FROM THIS GROUP	AVERAGE PAYMENT OF THOSE WITH WBA < $100	AVERAGE PAYMENT OF THOSE WITH WBA > $100	AVERAGE PAYMENT INCLUDING LWA (FOR THOSE WITH WBA > $100)
Statewide	3,793,258	191,849	5.1		68	275	575
By Gender							
Female	1,901,546	113,778	6.0	60.1	68	259	559
Male	1,823,228	75,520	4.1	39.9	67	290	590
By Age Group							
16–19	146,540	33,182	22.6	17.5	67	181	481
20–24	509,232	50,022	9.8	26.4	68	223	523
25–34	981,089	38,478	3.9	20.3	67	280	580
35–44	706,611	22,591	3.2	11.9	67	292	592
45–54	614,269	18,591	3.0	9.8	68	291	591
55–64	512,125	16,290	3.2	8.6	68	288	588
65–85	229,267	10,009	4.4	5.3	68	280	580
By Education Group							
High School Degree or Less	1,344,823	109,036	8.1	57.6	68	273	573
Associate's Deg., Some College	699,499	57,442	8.2	30.3	68	275	575
Bachelor's Degree or More	406,366	22,905	5.6	12.1	67	321	621
By Race and Ethnicity							
Asian	564,573	33,385	5.9	19.0	68	264	564
Black	376,082	22,139	5.9	12.6	67	282	582
Hispanic	1,109,788	60,302	5.4	34.4	68	264	564
White	1,187,210	59,637	5.0	34.0	67	291	591

Notes: All cells except for the "By Education" section include PUA claimants. Table excludes claimants not reporting Gender. White and Black do not include those identifying as Hispanic. Table does not show information on claimants in which race is unknown, specified as 'other', or specified as Native American or Alaskan Natives. This table reports payments made to UI claimants for unemployment experienced between July 26th and August 1st. EDD News Release No. 20-37 reports a 4-week rolling total of the number of payments distributed in each week and includes payments to claimants with Federal-State Extended Duration extensions, which are not included in this table. Thus, the numbers in this table are not directly comparable to those in the news release.[14]

Figure 1: The Average Weekly UI Benefit Amount for California Claimants who would likely be eligible for LWA was $275



Note: Payment amounts are for the sample of claimants who have WBAs > $100 and received UI benefits for the week ending August 1st.

Acknowledgments

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For inquiries about the definitions, methodology, and findings of this data point, please contact Till von Wachter.
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To obtain the data tabulations used in this policy brief, please contact: Dr. Muhammad Akhtar, Deputy Division Chief, Labor Market Information Division, California Employment Development Department. Email: Muhammad.Akhtar@edd.ca.gov

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Endnotes

1 https://oui.doleta.gov/unemploy/docs/cares_act_funding_state.html
2 https://www.fema.gov/disasters/coronavirus/governments/supplemental-payments-lost-wages-guidelines
3 States can opt to provide only the $300 federal supplement if the aggregate state funding to the recipients of LWA is at least 25% of the aggregate benefits paid to these individuals. The state's contribution is allowed to come from money allocated in the CARES Act.
4 https://www.nytimes.com/article/stimulus-unemployment-payment-benefit.html
5 Weekly Benefit Amounts for regular unemployment insurance in California are determined based on prior earnings, and are generally equal to about 50% of average weekly earnings in the base period, with a cap at $450. Thus, most regular claimants earning $200 or less per week in their base period would be ineligible for LWA.
6 https://wdr.doleta.gov/directives/attach/UIPL/UIPL_27-20_Change-1.pdf
7 Individuals qualifying for PUA are also eligible for LWA benefits. (DOL ETA Advisory No. 27-20, Change 1)
8 Census, 2018 ACS
9 PUA claimants do not report education levels, so 57% of regular UI beneficiaries who would be eligible for LWA had only a high school degree or less.
10 https://edd.ca.gov/About_EDD/pdf/news-20-41.pdf. Note: Because LWA is paid out of FEMA's budget, there is concern that the funding for this benefit could quickly expire in the midst of other natural disasters. https://www.cbsnews.com/news/hurricane-laura-trump-300-unemployment-aid-disaster/ Assistance from FEMA for providing supplemental payments may end earlier if the total, unobligated balance of the DRF decreases to $25 billion. https://www.fema.gov/sites/default/files/2020-08/fema_supplement-lost-wages-payments-under-other-needs-assistance_faq.pdf
11 https://twitter.com/CA_EDD/status/1299502047050432513?s=20
12 Calculation: ($100 - $68)*191,849 = $6,230,524. It is unclear if California would be allowed under federal rules to "level up" the benefits in this way. If California were legally allowed to do this, and the state chose to do so, adjusting the program would likely mean a longer delay before benefits were distributed.
13 Eligibility rules for work-sharing require hours reductions be no more than 60% and no less than 10% relative to normal hours, see https://www.edd.ca.gov/pdf_pub_ctr/de8684.pdf. Thus, an individual seeing for example a 20% reduction in work hours who is participating in an STC program would be eligible for a payment of 20% of their WBA + $600, whereas they would be denied UI benefits because their earnings are greater than 66% of prior earnings. See the Appendix for further examples.
14 https://www.edd.ca.gov/About_EDD/pdf/news-20-37.pdf