
EPI & CEPR Issue Brief

IB #205

ECONOMIC POLICY INSTITUTE & CENTER FOR ECONOMIC AND POLICY RESEARCH

APRIL 14, 2005

FINDING THE BETTER FIT

Receiving unemployment insurance increases likelihood of re-employment with health insurance

by Heather Boushey and Jeffrey Wenger

The benefits of unemployment insurance (UI) are obvious to anyone who has ever received them. UI provides income support during periods of involuntary job loss. For recipients of UI, this income is used to pay for basic needs like housing, food, and utilities, or to preserve personal retirement savings.

It is also well known that unemployed workers who receive UI benefits tend to stay unemployed longer than those who do not receive benefits. However, if unemployed workers who receive UI land jobs with better pay or benefits, or that are a better fit with their skills, then the extra time spent unemployed may be good for them and their new employer. Research on better pay and skill fit at reemployment after a spell of unemployment has been limited, and, up until now, there has been no research on whether workers receive better benefits.

This analysis finds that the likelihood of being hired into a job that provides employer-sponsored health insurance (ESI) increases by 5.7% for men and 5.6% for women if they received UI while unemployed. This finding is based on an analysis of recent data from the Survey of Income and Program Participation (1996-2003).

The benefits of unemployment insurance

UI is a critical component of our nation's social safety net, providing much-needed income to workers when they are unemployed. Yet, the program is often criticized on the basis of its so-called "moral hazard"—that is,

This Issue Brief is a joint release by the

Economic Policy Institute

and the **Center for Economic and Policy Research**

since job seekers receive UI benefits for income support, some of them will take longer than necessary to find work.

But the solid evidence that UI prolongs spells of joblessness (which this analysis also confirms), ignores the issue of “job matching,” that is, whether longer unemployment spells give jobseekers extra time to find a *better* job.

Prior research indicates that UI helps workers find jobs that better match their skill. Workers who are better matches should have higher productivity (Belzil 2001 and Centano 2004). Belzil (2001) finds a weak relationship between UI generosity and reemployment job duration. Centano (2004) finds that greater UI generosity leads to longer job tenure in the post-unemployment job and provides some limited evidence that match quality is more likely to be improved by UI benefits during a recession.

Furthermore, workers who receive UI often find new jobs with higher pay, compared to those who did not receive UI while they were unemployed. Earlier work by Ehrenberg and Oaxaca (1976), Burgess and Kingston (1976), and Addison and Blackburn (2000) have demonstrated a link between UI receipt and higher wages. However, some of these findings have been called into question by Classen (1977) and Lee (2000), making this potential benefit of UI open to debate.

But pay is not the only aspect of jobs that is important to workers. This analysis is the first to examine whether UI receipt increases the likelihood that the new job will have employer-sponsored health insurance (ESI). Since employment is by far the most common way most prime-age workers and their families obtain health insurance, this is a particularly important question.

UI and employer-sponsored health insurance

Examining those who had found a job after a period of unemployment, we found that receipt of UI raises the likelihood that the new job will have employer-sponsored health insurance by 5.7% for men and 5.6% for women. (Both effects are statistically significant at the 5% percent level.)

Note, however, that being re-employed in a *part-time* job significantly reduces the likelihood of receiving ESI. For both men and women, working less than 35 hours a week reduces the likelihood of ESI by nearly 19%.¹ Being a member of a union raises the likelihood of getting a job with health insurance benefits by about 12.5% for both men and women. Finally, as education increases, the probability of reemployment with health insurance benefits also increases.

Other results (not shown) from our regression analysis comport with both theory and our predictions. If a worker has ESI from a spouse or other family member, this significantly reduces the probability of finding employment with ESI. For men, the probability declines by 36.6 percentage points and for women the probability falls by 32.8 percentage points. While these effects are quite large, for our sample which consists of only those reemployed, the effects seem reasonable in magnitude. Our Medicaid receipt variable doubles as both a poverty control and a health insurance measure and, as expected, receiving Medicaid significantly lowers the probability of accepting a job with ESI.

There also appear to be considerable differences by gender on the likelihood of getting ESI. In particular, women who have children under the age of 5 are significantly less likely to find a job with ESI, but there was no statistically significant effect for men (although the estimate was also negative).

TABLE 1
Percent increase in likelihood of finding a job with employer-sponsored health insurance

	Women	Men
Received UI	5.6%	5.7%
Works under 35 hours/week	-18.8	-18.7
Union member	12.4	12.5
High school graduate	8.6	8.4
Some college	13.4	13.2
College graduate	16.3	16.1
Advanced degree	17.2	17.1

Note: All results are significant at the 5% level.

Source: Authors' analysis of SIPP 1996-2003 data.

We found that receiving UI had a negative combined effect on the probability of being re-employed and having health insurance. In particular, the marginal effects estimates from 2000-03 indicate that men's joint probability of finding a job with ESI declined by 7%, while the effect for women was a decline of 7.6%. The deteriorating labor market during those years probably contributed to that result.

Conclusion

This analysis presents new evidence that receipt of UI raises the probability of an unemployed person finding a job offering health insurance benefits. As in others' research, we too find that UI prolongs unemployment. But we also find that, unlike other recent research, the longer jobless spells associated with UI result in better job matches.

Clearly there are downsides to longer unemployment spells, most importantly that the economy loses the productivity of workers who are out of work. However, there are clear upsides to longer unemployment as well. Workers who can take the time to do a proper job search and perhaps wait for the "right" job will likely be more productive in their new employment. These workers will find jobs that better match their skills, that pay more, and that offer them ESI.

We find that one of the upsides associated with UI benefits is that they increase the odds that workers will find jobs with employer-sponsored health insurance. Specifically, receiving UI benefits raises the likelihood of finding a job with ESI for both men and women by nearly 6%. Because the vast majority of prime-age families obtain health insurance through their employer, this is an important benefit that results from receiving UI.

These results are quite positive. There has been a common but too-narrow view that the only benefit from UI comes from maintaining consumption. We find that the health insurance effect offsets a significant proportion of the prolonged unemployment effect.

This new finding, coupled with the other likely benefits—such as wage improvements and reduced turnover—must be considered when evaluating the overall effect of UI. Factoring in the additional effects of maintained consumption, preservation of savings, and the macro-economic stabilizing effect on local and national economies, UI may have, on balance, a positive effect on the economy.

Data and Methods

The data examined in this analysis are from the 1996 and 2001 panels of the Survey of Income and Program Participation (SIPP).² The SIPP is a monthly, multi-panel longitudinal survey of the U.S. civilian, non-institutional population that is conducted by the U.S. Census. It is specifically designed to examine issues related to participation in income maintenance programs, such as welfare and UI benefits. It collects extensive information on individuals' backgrounds, employment and earnings, and access to services such as health insurance and child care.³

The model used in this analysis employs a bivariate probit technique that incorporates information about both reemployment and whether a worker has ESI within three months of the start of reemployment.⁴ Our key variable of interest is an individual's UI benefit experience during the unemployment spell *prior* to reemployment, that is, whether an unemployed worker receive UI benefits during their most recent spell of unemployment.⁵ One limitation of this variable is that we do not know whether the employer offered ESI to the new employee. Instead, we only know whether individuals report having ESI in their own name. Thus, the estimation of reemployment may be biased downwards as we are undoubtedly counting people as being reemployed without ESI, when in actuality they chose to not take part in their new employer's health insurance plan. We also control for job characteristics during their *prior* employment spell.

We include information on whether an individual has another source of health insurance, such as Medicaid, or from another family member's employer. Individuals with access to health insurance from another source may be less in need of a job with ESI; this might decrease the probability of finding any reemployment or decrease the probability of reemployment with ESI. We also include a measure of workers' previous job characteristics by including modal industry, occupation, and union status across all periods of employment during the panel and assigning that to all unemployment spells. A full set of education, year, race, ethnicity, and marital status control variables are included in the regression. We estimate separate models for men and women.

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Endnotes

1. For this and other estimates of the marginal effects of the variables presented in this paragraph, see Table 1.
2. The 1996 panel follows individuals from December 1995 through to February 2001. We include data from the 2001 panel following individuals from December 2000 through the first half of 2003. Our sample includes individuals ages 18 to 64 who were employed during the panel, then became unemployed.
3. Unlike other available longitudinal datasets, such as the Panel Study of Income Dynamics or National Longitudinal Survey of Youth, it covers all workers and contains monthly, rather than annual data. The SIPP data are structured so that every month one-fourth of the sample is interviewed; over each four-month interval (a “wave”), all sample members are interviewed. During each wave, respondents are asked a set of core questions, which cover labor market participation, wages, and participation in income support programs; additional questions from topical modules change each wave. The first topical module includes employment and welfare history; other modules focus on childcare, assets, and training history.
4. We also test this as reemployment with ESI within six months of reemployment with similar results.
5. It seems clear that UI benefit receipt is endogenous health insurance receipt. That is, stable employment that leads to UI benefit eligibility is also likely to affect receipt of ESI upon reemployment. We estimate our model using state-level policy parameters as instruments for UI benefit receipt and find that the results are still statistically significant and larger in magnitude. Results are available from the authors upon request.