Getting America Back to Work and Hastening the Recovery

By Brian Blase, Casey Mulligan and Doug Badger

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Abstract

The COVID-19 pandemic has caused enormous hardship to households and businesses. Congress has sought to mitigate this economic disruption in a variety of ways, including enacting a $600 weekly increase in unemployment insurance (UI) benefits that are scheduled to expire July 31. This add-on payment creates a disincentive for recipients to return to work and therefore weakens the ability of businesses to recover. We estimate that if the add-on payment were extended beyond its scheduled expiration, almost two-thirds of those on UI after July 31 would be out of work because of the $600 bonus. The enhanced UI benefit should be allowed to expire on July 31. But if political imperatives prevail and Congress determines it must vote for an extension, the benefit should be scaled down and phased out as quickly as possible. We also recommend that workers be allowed to keep the add-on benefit for a period of time after they return to work. In addition, the current enhanced benefits should apply only to people unemployed as of June 30, 2020. We also recommend against creating a health insurance subsidy for UI recipients. We found no evidence of widespread workplace coverage loss, and the addition of such a benefit would likely discourage a return to work and increase layoffs. If Congress does choose to add health benefits, it should do so through government contributions to health savings accounts, which would maximize the value of the benefit to UI recipients by affording them the broadest possible range of options to get or retain coverage.

Focus on Incentivizing Work

Fortunately, the economy appears to be in a much stronger position than many expected just a few months ago. Both the June and July jobs reports brought very welcome news. Most economists and experts expected the June report, which reported the employment status in May, to show that the number of jobs had declined by 5 million or more and that the unemployment rate would approach 20 percent.[1] The report sent positive shockwaves through the country as the number of jobs increased by 2.5 million and the unemployment rate declined from 14.7 to 13.3 percent.[2] The July jobs report continued the positive news with an unexpectedly high net jobs increase of 4.8 million from May to June and bumping the previous month's gain to 2.7 million.[3] The economy thus has recovered about one-third of the 22.2 million jobs it shed during March and April. The unemployment rate declined to 11.1 percent.

Despite this good news, 19.3 million Americans were collecting unemployment insurance (UI) benefits during the week ending June 20.[4] That is a substantial im-

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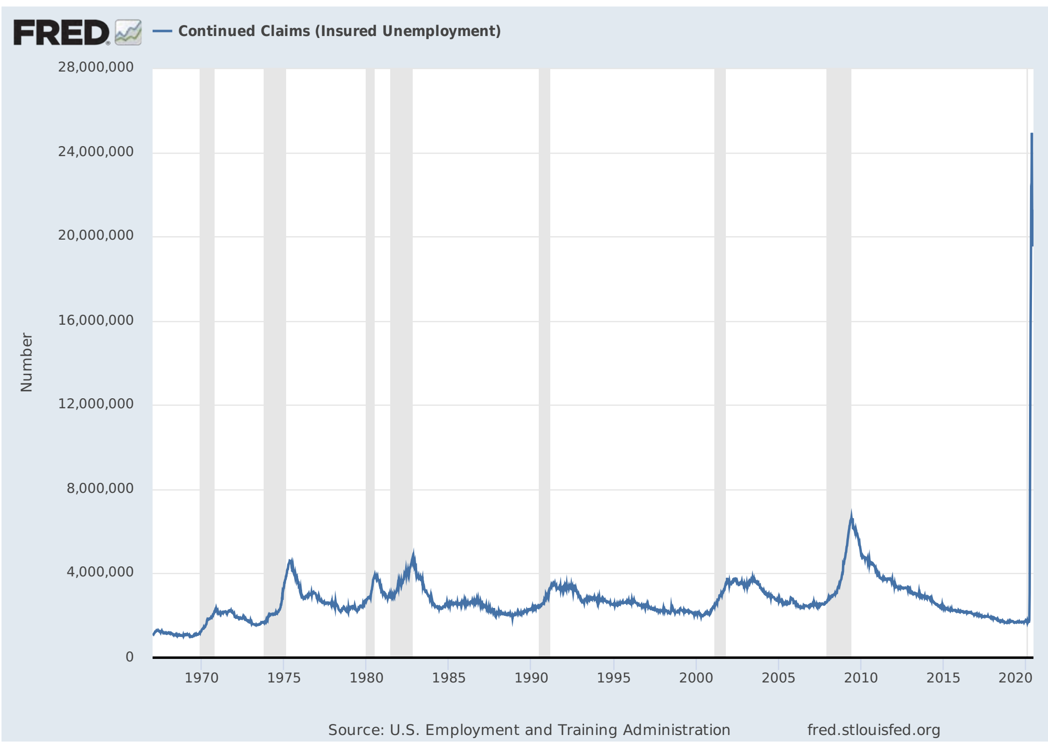
[1] Heather Long, "Economists Predicted 20 Percent Unemployment in May. How Did They Get It So Wrong?" Washington Post, June 5, 2020. https://www.washingtonpost.com/business/2020/06/05/unemployment-rate-wrong/ (accessed July 2, 2020).

[2] Bureau of Labor Statistics, "The Employment Situation – May 2020," U.S. Department of Labor, June 5, 2020, p. 1. See: https://www.bls.gov/news.release/archives/empsit_06052020.htm The report notes that there was a "misclassification error" in the April and May household surveys that resulted in a 3 percentage point understatement of the unemployment rate for both those months (p. 6). The report states: "According to usual practice, the data from the household survey are accepted as recorded."

[3] "The Employment Situation – June 2020," U.S. Department of Labor, July 2, 2020. https://www.bls.gov/news.release/empsit.nr0.htm (accessed July 5, 2020).

[4] U.S. Department of Labor, "Unemployment Insurance Weekly Claims," July 2, 2020. https://www.dol.gov/sites/dolgov/files/OPA/newsreleases/ui-claims/20201323.pdf (accessed July 7, 2020). Congress also has established a Pandemic Unemployment Assistance (PUA) program. People who are ineligible for UI, including the self-employed, may qualify for PUA if they self-certify that they are available to work but are prevented from doing so for a reason related to COVID-19 (e.g., they or a household member has been diagnosed with COVID-19 or is manifesting symptoms, the worker's place of employment has been closed due to COVID-19). There is considerable evidence that the U.S. Department of Labor's data on the number of PUA recipients includes double-counting. In order to avoid double counting, we do not add PUA claims to continuing UI claims but, as a result, may underestimate UI participation. "Pandemic Unemployment Assistance (PUA) Implementation and Operating Instructions," U.S. Department of Labor, undated. https://wdr.doleta.gov/directives/attach/UIPL/UIPL_16-20_Attachment_1.pdf (accessed July 7, 2020).

provement over early May, when nearly 25 million were collecting unemployment benefits, but still far more than in late February, when UI recipients numbered just 1.7 million.[5] The figure below shows the number of Americans collecting UI over the past 50 years. While trends have been moving in the right direction over the past few months, the number of UI benefit recipients is still nearly three times the previous record of 6.6 million set in May 2009 and more than four times the pre-great recession high of 4.7 million, reached in 1982.[6]



One of the main reasons the unemployment rate remains high is because most out-of-work employees receive higher income from remaining unemployed than

[5] FRED Economic Data, "Continued Claims (Insured Unemployment)," Federal Reserve Bank of St. Louis. See: https://fred.stlouisfed.org/series/CCSA#:~:text=Continued%20claims%2C%20also%20referred%20to,for%20that%20week%20of%20unemployment (accessed June 20, 2020). The Labor Department reported that 19,290,000 people had continuing UI claims during the week ending June 20, on a seasonally adjusted basis. It also reports unadjusted figures for persons receiving Pandemic Unemployment Assistance (PUA). The estimates made in this paper are based on continuing UI claims, and are therefore conservative to the extent that they do not include PUA participants.

[6] Ibid.

by returning to work. That is primarily because the CARES Act, passed in March, created a $600 federal weekly unemployment add-on benefit. This add-on, combined with the standard benefit amount that varies by state, raised the total average unemployment benefit to nearly $1,000 a week.

Those enhanced unemployment benefits will expire on July 31 unless Congress extends them. If it does, government policy will continue to encourage people to collect UI instead of returning to work. According to CBO, “roughly five of every six recipients would receive benefits that exceeded the weekly amounts they could expect to earn from work during those six months” if the $600 weekly UI bonus were to be extended through January 2021.[7]

If Congress were to extend the benefit, we estimate that almost two-thirds of those on UI after July 31 would be out of work because of the $600 bonus extension.[8] That will significantly impede the economic recovery and may harm recipients themselves over the long-term. Those who are unemployed for long periods of time have lower earnings because skills atrophy, and they therefore have a lower likelihood of subsequent employment.[9] CBO expects that the negative incentives on work and output from this proposed extension would swamp the economic “stimulus” effect. It writes:

> In calendar year 2021, both output and employment would be lower than they would be if the increase in unemployment benefits was not extended. That would occur mainly because the effect of the reduced labor supply would, in CBO’s assessment, last longer than

[7] CBO provides this example: “For example, a single worker would have a ratio of benefits to potential earnings of 100 percent if his or her potential earnings were $21 per hour for 40 hours a week in Mississippi or $30 per hour for 40 hours a week in Massachusetts. For people with much lower potential earnings, that ratio is much higher.” See: Phillip Swagel, “Re: Economic Effects pf Additional Unemployment Benefits of $600 per week,” Congressional Budget Office, June 4, 2020. https://www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf

[8] See appendix for discussion of this result.

[9] Katharine G. Abraham, John C. Haltiwanger, Kristin Sandusky, James Spletzer, “The Consequences of Long-Term Unemployment: Evidence from Linked Survey and Administrative Data,” NBER Working paper No. 22665, issued September 2016, revised February 2018. See: https://www.nber.org/papers/w22665

the effect of increased overall demand.[10]

The UI bonus contradicts another central provision of the CARES Act that offered loan forgiveness to small businesses that maintained or rehired workers. The Paycheck Protection Program (PPP) allowed distressed businesses to borrow money to continue to pay their workers and meet their regular expenses. The loans are forgiven if employers keep employees on their payrolls. In short, the PPP was designed to encourage workers to remain attached to their place of employment. The $600 weekly UI bonus has the paradoxical effect of encouraging workers to file for unemployment benefits and not return to work as long as they are receiving the UI checks.

In setting policy in this area, lawmakers must balance the short-term needs of unemployed workers with the goals of achieving a robust economic recovery, facilitating the reopening of businesses, and incentivizing UI recipients to return to work, all in the midst of a pandemic of uncertain course.[11] Enhanced government aid for the unemployed causes unemployment to stay higher than it otherwise would. To benefit workers over the longer term, disincentivize further layoffs and speed the economic recovery, Congress should not extend the weekly add-on unemployment benefit past its July 31 expiration.

But political imperatives may prevail over the best policy. Some policymakers said they want to gradually phase out the UI bonus for current recipients rather than abruptly ending it. If so, we recommend that the added amount be as small

[10] Ibid. At first glance, the UI bonus would appear to increase aggregate demand because it gives the unemployed more money to spend. But that ignores the effect of redistribution on the spending of many more people who are working or out of the labor force and must finance the bonus by paying taxes or lending to the government. Rather than increasing aggregate demand, redistribution changes its composition, such as shifting spending from luxuries to necessities and from investment goods to consumer goods. Indeed, redistribution can reduce aggregate demand for labor to the extent that luxuries and investment goods are produced more labor-intensively than necessities. It can also reduce aggregate demand by reducing aggregate income, as less is produced when people are discouraged from working and employers are discouraged from hiring.

[11] A recent editorial, written by a coauthor of this paper, Casey B. Mulligan, and Stephen Moore compared the economic effects of extending the $600 add-on with a payroll tax holiday. They estimate that, while the UI bonus extension would cost 10 million jobs and reduce GDP by 5 percent, a payroll tax cut would spur job creation and economic growth. Casey B. Mulligan and Stephen Moore, "A True Economic Stimulus Plan," The Wall Street Journal, July 2, 2020. https://www.wsj.com/articles/a-true-economic-stimulus-plan-11593728372 (accessed July 4, 2020).

as possible, and the extra time period be as short as possible. We also recommend that Congress allow recipients who return to work to continue to receive the scaled down payments for a period of time.

Regardless of the specific policy it enacts, Congress must not structure aid in a manner that incentivizes additional layoffs. Businesses struggling to stay afloat are more likely to furlough or terminate workers when unemployment benefits are comparable to, or greater than, wages. The extended benefits should only be available to those who were unemployed as of June 30.

Congress also should not add in-kind benefits to cash unemployment benefits. First, such benefits add to the incentives for businesses to lay off workers and for people to remain unemployed. Second, such benefits do not maximize the well-being of the recipients, as they restrict recipients from using the assistance in ways that make them best off.

One such proposal is for the government to subsidize unemployed workers' continued participation in their employers' health plans through COBRA continuation. (COBRA allows certain unemployed workers and family members to remain enrolled in their former employer's group health plan, generally for a period of up to 18 months.[12]) A subsidy for COBRA locks the recipient into a single use for the government aid—a use that will provide many recipients with far less benefit than the cost of the subsidy.

Fortunately, there are far fewer uninsured than had been projected, as nearly 98 percent of people with employer coverage before the pandemic have maintained employer coverage, indicating that health insurance subsidies are unwarranted. This is particularly the case given action that the Trump administration already has taken to expand COBRA.[13]

[12]As discussed below, the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) allows certain unemployed workers and their family members to remain enrolled in the group health plan of their former employer for a period of time. The former worker generally must pay 102 percent of the premium, making COBRA continuation coverage more expensive than most alternative forms of health insurance. In some cases, employers or labor unions will pay these premiums on behalf of the worker, although they are under no legal obligation to do so. There are proposals to have the government subsidize these premiums for unemployed workers.

[13] See footnote 30.

Below is a set of principles to guide further policy in helping businesses and workers:

Congress has already provided more than enough aid for the unemployed through July 31

Congress should not provide any in-kind aid prior to July 31 on top of the massive UI federal bonus it created. Some policymakers have proposed additional support for the unemployed through in-kind benefits such as a COBRA continuation subsidy. Importantly, the $600 weekly UI bonus is far more than the average cost of maintaining employment-based health insurance, if workers want to continue that coverage or select a more affordable plan that better suits them and better fits their budgets. In addition to remaining in their former employer's group health plan, UI recipients can enroll in Affordable Care Act (ACA) coverage. In most states, short-term limited-duration insurance plans are available, offering financial protection against the risk of high medical claims for relatively low premiums, in part because these plans are free from the ACA's rules for how insurance must be offered and priced and what it must cover.[14]

Extending the $600 UI bonus would be economically devastating

Extending the bonus would impose four types of significant costs and hinder the economic recovery. First, with so much money at stake, tens of millions of people put much effort toward making and collecting an unemployment claim.[15] This overwhelms an unemployment system that has never had to process so many applications in such a short time. A recent survey found that at least 8 million people "tried to apply but couldn't get through,"[16] and others could have applied for benefits had the process been easier. We estimate that the administration and frustration costs, on average, exceed $100 per week per beneficiary, and likely much more.

[14] Chris Pope, "Renewable Term Health Insurance: Better Coverage Than Obamacare," Manhattan Institute, May 2019. See: https://media4.manhattan-institute.org/sites/default/files/R-0519-CP.pdf; Blase, Brian, "Not 'Junk': Setting the Record Straight on Short-Term Health Coverage Plans," The Daily Signal, October 23, 2019. See: https://www.dailysignal.com/2019/10/23/not-junk-setting-the-record-straight-on-short-term-health-coverage-plans/

[15] Such a person may have already been on the fence between receiving income from work versus using their work time for other purposes (in economics parlance, on the margin of working).

[16] Ben Zipperer and Elise Gould, "Unemployment filing failures," Economic Policy Institute, April 28, 2020. See: https://www.epi.org/blog/unemployment-filing-failures-new-survey-confirms-that-millions-of-jobless-were-unable-to-file-an-unemployment-insurance-claim/

Both eligible people who tried and failed to submit an application and those who never applied not only miss out on the $600 weekly UI bonus but also on any state benefit they would have received if they had been able to complete their application. In this way, the bonus helps people who are good (or lucky) at navigating a congested system, and delays assistance to many workers who may be in greater need.

The second type of cost accrues to business owners whose workers earn less than $1,000 per week ($52,000 per year), as well as to the workers themselves. The UI benefit is actually worth more than $1,000 per week when opportunity cost is counted because workers also put an intrinsic value on the leisure time they have as a result of not working.[17] Returning to work means that a worker not only foregoes the $1,000 UI benefit, but also forfeits leisure time. While it may be difficult to assign a cash value to loss of leisure, the cost is real to the worker. This means that the cost of returning to work exceeds the loss of the cash value of the UI benefit.

As long as the bonus continues, such employers have to compete with UI, learn to do without low- and medium-skilled workers, shorten their hours, remain closed, or go out of business permanently. Normal employer margins are not large enough for many businesses to compete with the expanded UI, although some employers will be able to pass on the additional wage costs to consumers in the form of higher prices, especially if enough of their competitors go out of business. We estimate this opportunity cost to be $400 per week per beneficiary.

Many businesses in urban labor markets had been paying workers close to $1,000 a week on average before the pandemic. As a result, the businesses forced to close because of the UI bonus will tend to shift employment from rural and suburban areas to urban labor markets. The shift generates a third health cost because urban areas are where the virus has spread most easily.[18]

[17] An opportunity cost is the loss of potential gain from the next best alternative to the one chosen.

[18] Richard Florida, "The Geography of Coronavirus," Bloomberg City Lab, April 3, 2020. See: https://www.bloomberg.com/news/articles/2020-04-03/what-we-know-about-density-and-covid-19-s-spread

Meanwhile, with a flood of federal money going out and with expanded eligibility for unemployment benefits, fraudsters have unprecedented incentives to tap into the UI program.[19] While fraud can benefit those who commit it, it represents a clear added cost to taxpayers.

Keep the reward for being unemployed low, don't incent more layoffs, and allow people who return to work to temporarily keep the UI benefit

Making the add-on benefit available for people newly unemployed would incentivize more layoffs. Discontinuing the UI add-on for those who lose their jobs after June 30 would be one way to discourage additional layoffs and encourage recipients to return to work.

While the optimal policy outcome is for Congress to allow the UI bonus to expire after July 31, political considerations may lead to pressure to extend additional aid to the unemployed for a period. Despite Congress' good intentions, the bonus makes the decision to lay off workers much less difficult for employers, especially because it leads to UI benefits in excess of the wages for five out of six recipients.

One approach would be for the elevated bonus payment to continue for another four months but with a phase-down, for example, to $300 in August and September and $150 in October and November. Some of the nation's leading economists—Jason Furman, Timothy Geithner, Glenn Hubbard and Melissa Kearney—have proposed a similar approach—reducing the bonus so it would only replace up to 40 percent of a worker's prior wages with the benefit capped at $400 a week.[20]

In addition to reducing the UI bonus for those collecting UI as of June 30, Congress should consider allowing those recipients to keep the bonus if they go back to work. This will spur people to return to work and will help employers compete with the UI benefit and get their businesses back up and running.

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[19] Scott Dahl, "Testimony before the U.S. Senate Committee on Finance Hearing Title: 'Unemployment Insurance during COVID-19: The CARES Act and the Role of Unemployment Insurance during the Pandemic,'" U.S. Department of Labor, June 9, 2020. See: https://www.oig.dol.gov/public/testimony/20200609.pdf

[20] Greg Iacurci, "Top economists want to swap those $600 unemployment benefits with up to $400 a week," CNBC, June 18, 2020. See: https://www.cnbc.com/2020/06/18/economists-want-to-swap-600-unemployment-boost-with-up-to-400-a-week.html

Cash assistance is best

Determining the amount of aid for the unemployed is more difficult than determining the form of the aid. If policymakers wish to maximize the well-being that comes from the aid, they should recognize that people have different priorities and needs. Thus, they should allow people flexibility with how they use the assistance. This argues in favor of UI, which is a direct cash benefit, over in-kind subsidies geared toward housing, food or health insurance.

Don't subsidize health insurance premiums

If policymakers prioritize health care and coverage, then they should follow the same principle and provide the aid to families in ways that maximizes flexibility and choice. This would involve ignoring the lobbyists' campaign—currently underway with a coalition of health insurers, labor unions and big business, including hospital systems—to funnel money directly to the healthcare industry through a 100 percent COBRA subsidy and additional ACA subsidies. Unfortunately, the House placed these corporate welfare provisions in the HEROES Act, which it passed on May 15, 2020.

A government subsidy to workers for COBRA continuation premiums would have several adverse policy consequences. First, by adding health benefits to UI cash benefits, a COBRA subsidy would lengthen some periods of unemployment, slowing the economic recovery and impairing recipients' future employment prospects and earnings by discouraging their return to work. Such a subsidy would cost about $250 per week on average (less for single coverage and more for family coverage) and has many of the same economic properties of the UI bonus, and so would impose many of the same types of costs.[21]

In addition, many of the unemployed, even with their $600 weekly bonus, have revealed that they are not interested in spending their own money on COBRA

[21] According to Kaiser Family Foundation's 2019 survey of employers, the average premium for employer-sponsored individual coverage was $7,188. Average family coverage cost $20,576. Since there is no employer contribution to COBRA and since employers collect 102 percent of premium for COBRA continuation coverage, that works out to $141 weekly for individual coverage and $404 for family coverage. The average worker has coverage with another family member on their plan. We conservatively estimated that the cost of COBRA on average is $250 per week. See: https://www.kff.org/health-costs/report/2019-employer-health-benefits-survey/

coverage. In other words, Congress would need to pay much more to get the unemployed to enroll in COBRA than the unemployed would receive in terms of cash-equivalent value—the hallmark of an economic inefficiency.

Federally financed COBRA could have large administrative costs. Presumably, it is intended for workers who lost their jobs and health insurance during the pandemic, but those very same people are no longer connected with their employers and insurance plans. Significant administrative effort by the unemployed, employers and insurers would be required to reconnect them and thereby make use of a COBRA subsidy.

The temporary subsidy of COBRA coverage in 2009 appears to have had little effect on health insurance coverage among UI recipients. A provision of the American Recovery and Reinvestment Act (ARRA) of 2009 created a temporary 65 percent subsidy of COBRA premiums. A 2015 paper, published by Mathematica Policy Research, compared COBRA take-up between two sets of workers: those eligible for the subsidy and those ineligible for the subsidy (because, for example, they qualified for UI before the subsidy was in effect). It estimated that the subsidy had a small, but statistically significant 4.7 percentage point impact on COBRA take-up. The take-up rate in the control group ineligible for the subsidy was 30 percent; the take-up rate among subsidy-eligible UI recipients was 35 percent. The study also concluded, however, that the subsidy did not significantly reduce the share of workers who experienced gaps in health insurance or the total number of months they remained uninsured. "These findings," the authors write, "suggest that at least some of the workers who opted for COBRA coverage in response to the availability of the ARRA subsidy would have found another form of insurance without the subsidy."[22]

A retroactive COBRA subsidy may thus not increase coverage, but it would certainly increase federal assistance to insurance companies and to companies that self-fund their health plans. It also would benefit companies and labor unions that currently are paying COBRA premiums on behalf of workers on UI. A COBRA subsidy would end this practice, substituting public spending for private spending.

[22] Jillian Berk and Anu Rangarajan, "Evaluation of the ARRA COBRA Subsidy: Final Report," Mathematica Policy Research, February 18, 2015, p. xiv. See: https://www.dol.gov/sites/dolgov/files/EBSA/researchers/analysis/health-and-welfare/evaluation-of-the-arra-cobra-subsidy.pdf

Fortunately, early data suggests that the problem of lost employer coverage is much smaller than expected. As of mid-April, only about one percent of American workers appear to have lost their job-based health insurance coverage according to a survey conducted by the left-of-center Commonwealth Fund and the survey research firm SSRS.[23] A second survey they conducted covering the period of mid-May through early June also shows that employer coverage remained robust.

According to their survey 98 percent of people with employer coverage prior to the start of the epidemic remain in employer coverage.[24]

This survey data shows much lower loss of coverage than some have suggested would occur. For example, Kaiser Family Foundation suggested that up to 27million workers and dependents may have lost coverage by May 2.[25] It appears Kaiser made two incorrect assumptions that ended up producing an erroneous

[23] According to a survey of U.S. adults by SSRS and the Commonwealth Fund, 32 percent of adults age 18 to 64 reported that they had lost their job or had their hours or pay cut because of the pandemic. Only 3 percent of those people said they had lost their health insurance. See: Sara R. Collins, Munira Z. Gunja, Gabriella N. Aboulafia, Erin Czyzewicz, Robyn Rapoport, "New Survey Finds Americans Suffering Health Coverage Insecurity Along with Job Losses," Commonwealth Fund, April 21, 2020. See: https://www.commonwealthfund.org/blog/2020/new-survey-finds-americans-suffering-health-coverage-insecurity-job-losses

[24] According to survey, 21 percent of working households reported that they and/or their spouse or partner were laid off or furloughed. (At least half were furloughed.) Of people who said they and/or their spouse/partner worked full-time/part-time and had lost or were furloughed from their job, 59 percent did not have coverage through a lost or furloughed job and 41 percent had coverage through a lost or furloughed job. Of those who had coverage through a job or a spouse's job, 53 percent were still covered through their furloughed job, 14 percent were covered by 'employer coverage,' defined as coverage through a spouse/partner's employer, 10 percent had COBRA, 7 percent were Medicaid or exchanges, and 21 percent uninsured. Putting the stats together, slightly less than two percent of workers went from workplace coverage to being uninsured. (21 percent who reported job loss/furlough times 41 percent of workers furloughed who had workplace coverage times 21 percent of workers furloughed who had workplace coverage and went uninsured.) That is less than 3 million people. Moreover, only about 0.6 percent of workers went from workplace coverage to enrollment in Medicaid or the exchanges. (21 percent who reported job loss/furlough times 41 percent of workers furloughed who had workplace coverage times 7 percent of workers furloughed who had workplace coverage who went to Medicaid or the exchanges.) This represents about 1 million people.

[25] Rachel Garfield, Gary Claxton, Anthony Damico, and Larry Levitt, "Eligibility for ACA Health Coverage Following Job Loss," Kaiser Family Foundation, May 13, 2020. See: https://www.kff.org/coronavirus-covid-19/issue-brief/eligibility-for-aca-health-coverage-following-job-loss/

projection. The first is that fewer people are unemployed than they expected.[26] The second is that workers who were more likely to lose their jobs or have their hours cut were less likely to receive job-based coverage.[27] For example, the new survey from the Commonwealth Fund shows that three-in-five people who lost their job or were furloughed did not receive health insurance through work. And three-quarters of people who lost their jobs or were furloughed and received coverage through work remained on employer plans, with some moving to a spouse's plan and some already with COBRA.[28]

Further evidence of the low loss of job-based health insurance is the small number of people from March through May who used the special enrollment period (SEP) to enroll in a plan to replace minimum essential coverage (MEC). (These were mostly people who qualified for an exchange plan because of a loss of job-based coverage.) According to CMS, the number of people using an MEC SEP to enroll in an exchange plan in the 38 states using HealthCare.gov from March through May equaled about 334,000 people—only a 115,000 increase from the

[26] The U.S. Department of Labor's recent unemployment reports show about 21 million unemployed in May and about 18 million unemployed in June. These figures are roughly 15 million and 12 million above the unemployed levels respectively before the pandemic and will likely continue to fall over time as the recovery gains steam. Kaiser's analysis assumes 31 million people would be unemployed as a result of the pandemic—more than half the actual number that were.

[27] While 99 percent of firms with greater than 200 workers provide health benefits, that number drops to 71 percent for firms with 10-199 employees and to 47 percent for firms with less than 10 workers. Overall, 57 percent of workers have employer-subsidized insurance and they are concentrated among the largest corporations, which are least likely to have been affected by closures. See: Figure G in Kaiser Family Foundation, "2019 Employer Health Benefits Survey," September 25, 2019. See: https://www.kff.org/report-section/ehbs-2019-summary-of-findings/#figureg; business closures were centered around smaller companies that were less likely to offer coverage. See: Table 2 in Alexander Bartik, Marianne Bertrand, Zoë B. Cullen, Edward L. Glaeser, Michael Luca, Christopher T. Stanton, "How Are Small Businesses Adjusting to COVID-19? Early Evidence from a Survey," National Bureau Economic Research, April 2020. https://www.nber.org/papers/w26989

[28] Of those who had coverage through a job or a spouse's job, 53 percent were still covered through furloughed jobs, 14 percent were covered by 'employer coverage,' defined as coverage through a spouse/partner's employer, 10 percent had COBRA, 7 percent were covered under Medicaid or exchanges, and 21 percent were uninsured. See: https://www.commonwealthfund.org/publications/issue-briefs/2020/jun/implications-covid-19-pandemic-health-insurance-survey

2017-2019 average.[29]

Any subsidy would be in addition to administrative actions that make it easier for recipients to qualify for COBRA continuation coverage. A May 2020 Department of Labor (DOL) and Internal Revenue Service (IRS) rule, issued under emergency authorities, provides additional protection for consumers, nullifying much of the rationale for further subsidies. In fact, for people who lose employment-based coverage, this rule provides implicit insurance protection as long as the public health emergency remains. Here is the description of the rule by Katie Keith, the lead legal policy expert for *Health Affairs*:

> Employees generally have 60 days to choose COBRA continuation coverage and then have 45 days to make a premium payment. Under the joint notice, these deadlines would be extended through the outbreak period (up to 60 days after the end of the national emergency), meaning laid off employees could have a long window during which they could ultimately elect COBRA continuation coverage. If the employee ultimately opts into COBRA coverage, coverage is retroactive to the date that coverage would have been lost (so long as premiums are paid).[30]

Put somewhat differently, instead of being forced to decide within 60 days of termination whether to enroll in their former employer's group health plan, furloughed or terminated workers can wait until 60 days after the government declares the COVID-19 national emergency to be over. Coverage would be retroactive to the date of termination. This means that an unemployed worker could wait until she or a family member needed medical care to sign up. If the premium costs less than the medical care, the worker is better off retroactively enrolling, raising some adverse selection concerns. Depending on the costs of care, it may be in the

[29] Centers for Medicare and Medicaid Services, "Special Trends Report: Enrollment Data and Coverage Options for Consumers During the COVID-19 Public Health Emergency," U.S. Department of Health and Human Services, June 2020. See Figure 2 in https://www.cms.gov/CCIIO/Resources/Forms-Reports-and-Other-Resources/Downloads/SEP-Report-June-2020.pdf?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosvitals&stream=top

[30] Katie Keith, "ACA Round-Up: COVID-19 Delays, New COBRA Guidance, and More," Health Affairs, May 5, 2020. See: https://www.healthaffairs.org/do/10.1377/hblog20200505.663518/full/

interest of the hospital or provider to pay the COBRA premium, as some have done with ACA plans.[31]

The COBRA premium subsidy addresses this adverse selection problem by having the government pay premiums for every worker who lost his or her job and employer-sponsored health plan. This is a costly solution in search of a problem, given that healthcare utilization dropped precipitously in March and April, and still is well below normal levels,[32] and only a relatively small number of people have lost employer coverage. In addition, this approach would add medical subsidies to cash benefits in the unemployment system. This is virtually guaranteed to perpetuate unemployment while setting a precedent for encouraging layoffs in future recessions. The added protection resulting from the DOL and IRS rule nullifies most of the rationale for a COBRA subsidy to protect workers who lost employer coverage.

Interaction of UI bonus with eligibility for health programs

The UI weekly bonus does not count as income for the purposes of determining Medicaid eligibility, but it will count as income for the purposes of eligibility for an exchange subsidy. The normal state UI benefit counts as income for both purposes. As a result, the $400 average weekly state UI payment puts many households with only one or two people above the income threshold for Medicaid eligibility (determined monthly) and moves them into categories where they would be eligible for a subsidized ACA exchange plan.

But here, the $600 bonus means many households, particularly small households, would receive only small ACA subsidies, if any, if they were to enroll in exchange coverage. In fact, these households will lose all or most of the premium subsidy and also the subsidy that results in lower out-of-pocket

[31] John LeBlanc, Carri Maas, and Andrew Struve, "Healthcare Litigation: Third-Party Payment of Premiums: Controversy and HHS Guidance," Manatt, March 23, 2017. See: https://www.manatt.com/insights/newsletters/healthcare-litigation/third-party-payment-of-premiums-controversy-and-h

[32] Amy Anderson and Doug Badger, "Recession Has Hit America's Health Care Industry – And It's Brutal," Fox Business News, June 10, 2020. See: https://www.foxbusiness.com/markets/recession-health-care-industry; Ateev Mehrotra et al., "The Impact of the COVID-19 Pandemic on Outpatient Visits: A Rebound Emerges," Commonwealth Fund, May 19, 2020. See: https://www.commonwealthfund.org/publications/2020/apr/impact-covid-19-outpatient-visits

expenditures.[33] That means they will pay more for care when they see their doctors or pick up their prescriptions. In sum, households will pay more for coverage that is worse. The larger the household size, the more likely they will enroll in either Medicaid (the UI bonus won't boost their household income above 138 percent of the poverty line in expansion states) or the exchanges (where they will receive a higher subsidy).

Some conservatives have suggested that a COBRA subsidy, which allows people to maintain employer coverage, is preferable to having more individuals enroll in Medicaid or the ACA exchanges.[34] However, since nearly 98 percent of workers with employer coverage before the pandemic have retained employer coverage, added enrollment in Medicaid and the exchanges has been relatively low over the past few months.[35] The June Commonwealth survey buttresses this by finding that only about half of one percent of people who lost employer coverage have enrolled in Medicaid or the exchanges.[36] This suggests that many, if not most, people who lost their jobs were already covered through the plan of a spouse or other family

[33] Once income exceeds 200 percent of the federal poverty level (FPL), people lose access to a generous cost-sharing reduction subsidy that functions to lower deductibles, copayments, and out-of-pocket maximums for people who select a silver plan. This drops the actuarial value of the plan from 87 percent for people with income between 150 and 200 percent of the FPL to 73 percent for people with income between 200 and 250 percent of the FPL and 70 percent for people with income above 250 percent of the FPL.

[34] Ryan Ellis, "Don't let private health insurance be a coronavirus victim," Washington Examiner, May 24, 2020. See: https://www.washingtonexaminer.com/opinion/dont-let-private-health-insurance-be-a-coronavirus-victim

[35] The low increase in exchange enrollment is discussed earlier in the paper. Regarding Medicaid, of 13 states analyzed, the median percent increase in enrollment was 2.2 percent. See: Joan Alker, "As Expected, Medicaid Enrollment is Starting to Increase," Georgetown University Health Policy Institute, May 14, 2020. https://ccf.georgetown.edu/2020/05/14/as-expected-medicaid-enrollment-is-starting-to-increase/

[36] Only about 0.6 percent of workers went from workplace coverage to enrollment in Medicaid or the exchanges. (21 percent who reported job loss/furlough times 41 percent of workers furloughed who had workplace coverage times 7 percent of workers furloughed who had workplace coverage who went to Medicaid or the exchanges). This is only about 1 million people. See: https://www.commonwealthfund.org/publications/issue-briefs/2020/jun/implications-covid-19-pandemic-health-insurance-survey

member, Medicaid, or an exchange plan they retained. In fact, many low-income workers may be enrolled in their state's Medicaid program, particularly in expansion states, because lax policing of eligibility standards for the expansion has led millions of people with incomes above eligibility thresholds to enroll in the program.[37] In sum, a COBRA subsidy would not significantly boost coverage so its largest effect—a major negative effect—would be to spur additional layoffs and longer spells of unemployment, because people could obtain health coverage fully at the taxpayer expense while collecting normal and enhanced UI benefits. Congress should also avoid directing more money at ACA plans, which are already massively subsidized and yet enrollment is well below half of initial expectations—evidence of the low-value they provide to many people.

Expand health savings accounts

A COBRA subsidy is expensive because employer coverage is costly, inefficient and locks the recipient into a single option to secure this government assistance. In order to maximize economic benefit, it would be far better for any subsidies intended to support health coverage to go directly to families in the form of cash so they have the option of using the money for the care and coverage that helps them most.

For those who were previously uninsured and lost their jobs, the better way to have these individuals avoid signing up for Medicaid and the exchanges is to provide them with a deposit in a health savings account (HSA) so they can choose coverage and care that works best for them. This approach maximizes welfare for the unemployed worker without inducing some of the adverse effects associated with a costly COBRA subsidy.

For every worker unemployed as of June 30 who lost workplace coverage and remained uninsured, Congress could provide a $1,500 HSA deposit for people who had individual coverage and a $4,000 HSA deposit for people who had family coverage. This amount would enable most displaced workers to pay for at least two

[37] Brian Blase and Aaron Yelowitz, "The ACA's Medicaid Expansion: A Review of Ineligible Enrollees and Improper Payments," Mercatus Center, November 2019. See: https://www.mercatus.org/system/files/blase-medicaid-expansion-mercatus-research-v2_2.pdf

months of a COBRA premium or buy other coverage, such as a short-term plan, that could last six months or more.

Relaxing restrictions on HSAs also would make these accounts more useful to these and other workers. The government should, at least during the emergency, drop rules that restrict peoples' ability to make HSA contributions only if they have certain policies. Government also should suspend rules that restrict workers from using HSAs for alternative healthcare arrangements, such as enrolling in direct primary care or health sharing arrangements.[38] So long as an individual has an insurance policy that is licensed by his or her state, the government could make contributions to the account. Consistent with federal restrictions against federal taxpayer dollars subsidizing abortion, people would only be eligible for HSA contributions if they did not use the HSA to purchase a plan that covers abortion services or use the funds to pay directly for an abortion.

Conclusion

The COVID-19 pandemic has caused enormous hardship to individuals, their families and to businesses across the nation. Its economic disruption has been profound. Congress has sought to mitigate this disruption in a variety of ways, including through a massive loan program for businesses to retain workers and a $600 weekly increase in UI benefits, scheduled to expire July 31. The UI add-on payment has the paradoxical effect of discouraging people from returning to work, especially since the benefit exceeds earnings for five of six recipients.

As the July 31 expiration of benefits draws nearer, lawmakers face difficult choices. One road is to extend the enhanced UI benefits and perhaps add health benefits in the form of COBRA premium subsidies. As we have explained, this course would be disastrous and would almost certainly prolong the recession, keep unemployment high, impair the recovery, and damage the long-term employment prospects of millions of workers.

[38] This action would be consistent with the Department of Treasury's proposed rule on June 8, 2020.

The preferable course is to allow the enhanced UI benefit to expire after July 31 to end the economic distortions it creates. If Congress determines the benefit must instead be phased out, we propose that it be scaled down and end as soon as possible. To help workers and encourage their return to work, we recommend that employees be able to keep any scaled down, temporary benefit for a period after they return to work. Any enhanced benefits should be available only to people who were unemployed as of June 30, 2020, so as not to incent further layoffs.

Finally, Congress should not add a specific health insurance subsidy. There is no evidence of widespread workplace coverage loss, and the addition of such a benefit would likely discourage return to work. If, however, Congress does choose to add health benefits, direct cash assistance is preferable since it is more flexible for workers. Congress could maximize its value to the unemployed and afford them the broadest possible range of choices through government contributions to HSAs, coupled with a relaxation of restrictions on their use, provided the prohibition of federal funding for abortion services remains intact.

Appendix: Estimating Participation and Opportunity Costs of UI

Even during normal times, the take-up of UI is less than one hundred percent. An eligible person who does not receive UI reveals that he or she faces a combination of costs (knowledge, administration, enrollment hassle, frustration, stigma, or other participation costs) that exceed the expected UI benefit that would be received. The marginal UI claimant has those costs equal to the benefit.

As noted in the text of our report, the amount of the UI benefit has increased because of the federal UI add-on—to more than $700 per week in all states with an average amount of nearly $1,000—but take-up remains below one hundred percent. Therefore, some people face participation costs in excess of $700 per week. By definition, the inframarginal UI claimants face lesser participation costs, although even these are not zero. Therefore, the average participation cost is positive and up to $700 per week, which is why we conclude "$100 per week per beneficiary, and likely much more."

As explained further below, we and others estimate the employment effect of continuing the UI bonus beyond July 31 to be about half—and perhaps as much as two thirds—of the number of people receiving UI. If those people would have earned an average of $800 per week before taxes, that makes the opportunity cost of the UI bonus about $400 per week (half of their weekly earnings before taxes).

Four parameters are sufficient to bound the employment impact dn of a UI benefit cut. Those parameters are: the number UI of people on UI, an impact $db < 0$ on the UI benefit level (expressed as a share of equilibrium after-tax income from work at the lower benefit level), the labor supply elasticity $\varepsilon s > 0$, and the labor demand elasticity $\varepsilon d < 0$. The bounding formula is:

$$dn > \frac{\varepsilon d}{\varepsilon s - \varepsilon d} d(b\,UI) > \frac{\varepsilon d}{\varepsilon s - \varepsilon d} UI\,db > 0$$

The second term is what the employment impact would be if all of the unemployed were indifferent between UI and no UI due to costs of program participation (PP cost). In other words, equilibrium requires that reducing the bonus by $600 is associated with a $600 reduction in the PP cost.

In reality, some of the workers on the margin between work and not work do not experience such a large reduction in their PP costs and are thereby drawn into work by a benefit cut more than the second term suggests, which is why it's an inequality rather than an equation. The comparison of the second and third terms follows from the assumption that a benefit cut reduces UI as well as b.

Ganong, Noel and Vavra (2020) find the median replacement rate of UI under the CARES Act of 134 percent.[39] At a benefit level of $1,000 per week, the corresponding weekly earnings is 1000/1.34 = $746. Cutting UI benefits by $600 per week is therefore db = -600/746 = -0.8. Using εd = -2 and εs = 1/2 and bounding with the third term above, the bound is:

$$dn > 0.8\ UI\ 0.8 = 0.64\ UI$$

In other words, almost two-thirds of those on UI after July 31 would be out of work because of the $600 bonus.

[39] Peter Ganong, Pascal Noel and Joseph Vavra, "Don't end expanded unemployment insurance: Improve it," The Hill, June 4, 2020. See: https://thehill.com/opinion/finance/501074-dont-end-expanded-unemployment-insurance-improve-it

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