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The secret behind jobless claims: record-low numbers aren’t all they seem

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Jennifer Materkoski didn’t even bother applying for unemployment benefits when she abruptly lost her public relations job early this year.

“I wasn’t sure I would qualify” says Materkoski, 35, who lives in Wheeling, West Virginia, and doubted she could access benefits because she was a contract employee. She also figured she had a good shot at another job. She got one, but it took two months, leaving her and her husband in a financial hole after buying a house late last year.

“I’m still behind on my mortgage and other bills from the hardship ... of no income,” she says.

Her hesitation to seek unemployment insurance is becoming more common, and it's distorting the perception of the economy's health.

On the surface, things looks almost too good to be true. The number of people applying for unemployment benefits for the first time hit a 49-year low in September. Since the figure broadly reflects how many workers are being laid off, it underscores the strength of the job market and the economy.

But here’s the dirty little secret behind the numbers: The share of laid-off Americans even *trying* to get these benefits is the lowest on record.

Some unemployed people who don’t apply, such as Materkoski, are among the nation’s growing legion of freelancers, contractors and temporary workers, many of whom either aren’t eligible or don't think they are. Others are deterred by state cuts to benefits or state-imposed hurdles that have made it harder to apply for, and keep, benefits since the Great Recession of 2007 to 2009. Still others are baby boomers who may decide to retire early rather than seek jobless benefits.

The upshot: The economy is in good shape, but not *that* good. The low share of laid-off workers seeking jobless benefits also raises concerns about the social safety net in coming years as the economy shows early signs of wobbling. The stock market has retreated from its October peak, oil prices have tumbled and General Motors announced about 14,000 layoffs last week. Many economists predict a recession in 2020.

“If it’s a problem now, when the next recession hits, the (benefits) program isn’t going to have the same kind of stimulative effect on the economy” and provide the same lifeline to jobless Americans as it did during the Great Recession, says George Wentworth, senior counsel for the National Employment Law Project (NELP), a worker advocacy group.

In recent months, about 60 percent of laid-off workers have applied for jobless benefits for the first time, down from about 100 percent during and after the Great Recession, according to an analysis by Moody’s Analytics. Of course, fewer unemployed Americans seek benefits when the economy is good and job openings are plentiful.

Yet the 60 percent share of unemployment insurance applicants is significantly below the 75 percent portion during the last two economic expansions in the late 1990s and mid-2000s, the Moody’s study shows. In 2000, the unemployment rate fell as low as 3.8 percent, close to today’s 3.7 percent. Payroll processor ADP Thursday that businesses added a solid 179,000 jobs last month, below the 199,000 economists expected. Friday's employment report is expected to reveal 198,000 total job gains.

Here's why many laid-off workers aren’t filing claims:

Cuts to benefits

Faced with insolvent unemployment trust funds, nine states have lowered the duration of basic unemployment benefits over the past seven years, from a standard 26 weeks to as few as 12 weeks. The states are Arkansas, Florida, Georgia, Idaho, Kansas, Michigan, Missouri, North Carolina and South Carolina.

Some states – such as Indiana, North Carolina, Pennsylvania and Rhode Island – also have reduced the size of the unemployment checks that jobless workers receive, according to NELP. North Carolina slashed the maximum weekly benefit from $525 to $350.

Rather than cut benefits, Wentworth says the states could have increased the insurance premiums that employers pay into the trust fund.

The Moody’s study found the nine states that trimmed the duration of benefits have seen an average 12,000 fewer initial claims each month. Knowing they’ll receive checks for a shorter period, some jobless workers choose not to apply, Moody’s economist Dante DeAntonio says. As a result, the number of first-time claims in those states is nearly half of their previous lows in the 1990s.

By comparison, in the 41 states that didn’t cut benefits, first-time jobless claims are about 30 percent below the prior bottom.

Chris Edwards, an economist with the libertarian Cato Institute, backs states that have dialed back jobless benefits. “The longer the benefits are, the more they encourage unemployment,” he says.

Administrative hassles

While Wentworth agrees the nine states cited by Moody’s are playing a role in discouraging the jobless from applying for unemployment insurance, he says it’s not because they’ve scaled back benefits. Laid-off workers, he argues, still want their unemployment checks, even if they'll get less. Rather, he says, the nine states, and some others, have made it harder for the unemployed to apply for and hold onto the benefits at all.

In Florida, laid-off workers must complete a lengthy online skills test. In Oklahoma, applicants can be denied if they don’t register for a job-finding service and post their resume online within seven days of filing claims.

States such as Florida, Nebraska, North Dakota, South Carolina and Utah require benefit recipients to apply to four or five jobs a week, compared with one or two in most states, NELP says. And states including Maine, New Hampshire, Tennessee and Wisconsin have cut off benefits if applicants don't accept "suitable" job offers, expanding the parameters of that term in recent years to include, for example, positions with lower salaries.

"It shouldn't be an obstacle course," Wentworth says.

But, Edwards says, "I do not have a problem with putting hurdles in front of people who want government benefits. It weeds out the people who only have low-level claims from people who really need it."

The gig economy

Thirty-one percent of U.S. workers were freelancers, contractors and temporary workers last year, up substantially from prerecession levels, according to Barry Asin, president of Staffing Industry Analysts, a research and consulting firm. In many cases, such workers don't have direct employers that pay into the unemployment fund on their behalf, so they wouldn't qualify for benefits.

But the question of eligibility can be fuzzy. Contractors who are supervised just like employees – as Materkoski of West Virginia says she was – may be able to prove they were misclassified and receive benefits, Wentworth says.

Older population

With baby boomers aging, 23 percent of the labor force is 55 and older, up from 13 percent in 1990. Older workers may be less likely to apply for unemployment because they have a bigger nest egg or expect to retire soon and receive Social Security payments, DeAntonio says. Yet that could mean they'll have to make do with less income in the meantime if they don't find another job.

Without the various factors that have discouraged unemployment insurance applications, the share of laid-off workers applying for benefits and the level of claims would be close to what they were in the late 1990s and mid-2000s expansions, DeAntonio says.

Misleading signal?

If first-time jobless claims are historically low because fewer laid-off workers are applying, it could become a bit tougher to sniff out a weakening economy. Initial claims, released by the Labor Department every Thursday, typically reflect how many workers were laid off the week before, providing the best real-time gauge on the state of the economy.

In September, first-time claims sank to 202,000, lowest since 1969. The showing was especially impressive since the workforce is much larger than it was 50 years ago. On Thursday, the Labor department said claims fell 4,000 to 231,000 the week ending Dec. 1 . They've trended higher the past couple of months but are still well below the 300,000-plus weekly applications filed in the late 1990s and mid-2000s.

Citing the lower share of laid-off workers seeking benefits, DeAntonio says, "I don't think the relationship between claims and the health of the labor market is as clear as people think it is."

But economist Jim O’Sullivan of High Frequency Economics downplays the concern, saying he focuses on the change in claims rather than the level.

The bigger issue, analysts say, is that when the next downturn comes, fewer Americans will rely on unemployment insurance.

During the last recession, the benefits “prevented millions of workers from falling into poverty,” Wentworth says. Now, “It’s kind of a shell of its former self.”