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The Impact of the CARES Act on Colorado Unemployment Benefits

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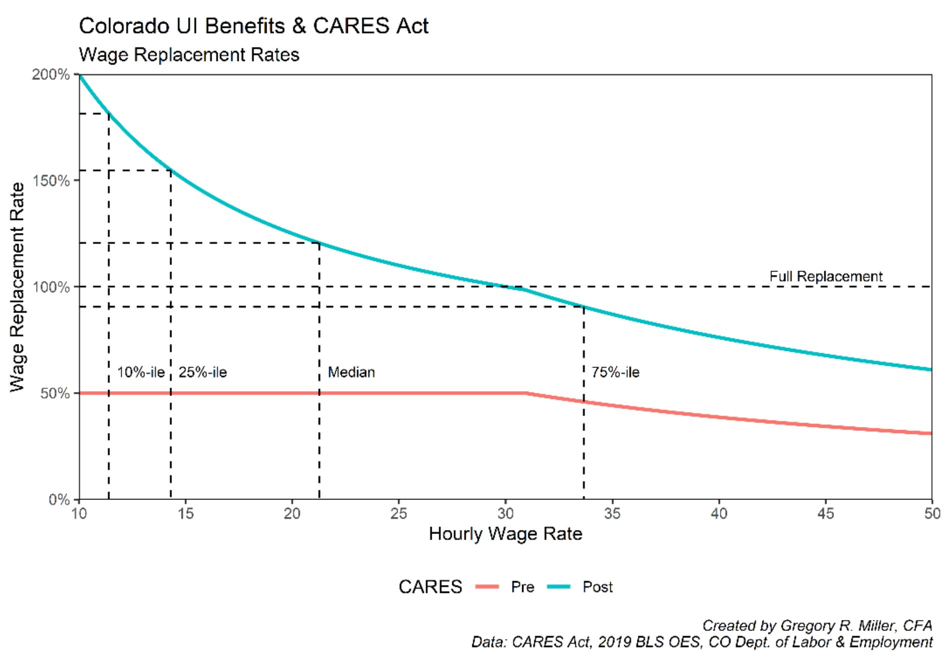
- Using data from the Bureau of Labor Statistics (BLS), I look at the intersection of the unemployment provisions of the CARES Act, Colorado's unemployment insurance (UI) scheme, and the Colorado labor market.
- I find that the wage replacement rate (WRR) – the percent of wages replaced by UI benefits – for the majority of Colorado workers is greater than 100%. The CARES Act has introduced a substantial inverse relationship between the WRR and hourly wages.
- The inverse relationship has important implications for wage penalties faced by essential workers, as well as the re-hiring of workers for all firms as social distancing enforcement is relaxed.

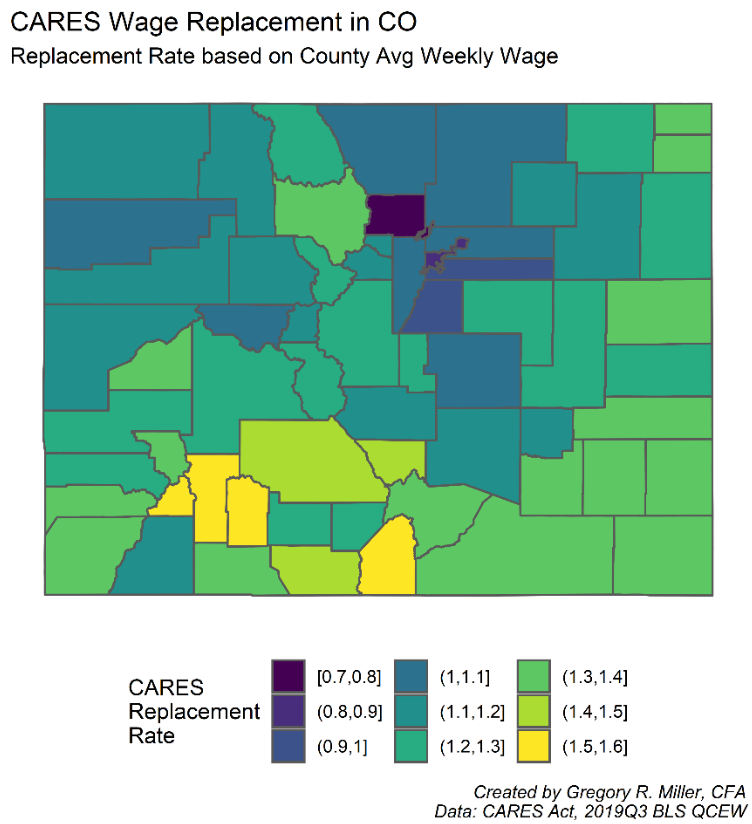
The passage of the CARES Act introduced temporary but substantial changes to how UI benefits in the U.S. are provided. One of the most important changes is an increase of $600/week in benefits for all beneficiaries regardless of prior wages in addition to whatever is provided by a state government. This has changed the traditional relationship between UI benefits and pre-unemployment wages. Typically, UI benefits are determined by a formula that ensures that the WRR is constant up to some maximum weekly benefit amount whose rate is less than 100%. In Colorado, prior to the passage of the CARES Act, the WRR was 50% of prior wages up to $681/week.[1] The graph below illustrates how the CARES Act has affected WRRs in Colorado using data from BLS Occupational Employment Statistics (OES).



[1] The actual formula for determining benefits is slightly more complicated than presented here. However, this is a reasonable approximation and greater complexity would not change the overall phenomenon discussed in this report. For more information on the precise calculation of UI benefits in Colorado visit: https://www.colorado.gov/pacific/cdle/unemployment

For the majority of workers in Colorado, the additional $600/week in benefits has pushed the WRR above full replacement. Based on BLS data, the lowest quartile of Colorado wage earners would make 54.8-85.1% more from collecting UI benefits than from working. Although there are epidemiological considerations that may justify temporarily increasing the WRR above full replacement, the dramatic scale of the increase may lead to unintended and problematic consequences.[2]

One of the consequences of the shift in the WRR is that low wage earners whose occupations have been classified as "essential" are functionally penalized for remaining in their jobs. Since these workers have become critical in facilitating the social distancing behavior of the rest of the population and simultaneously face increased risks of infection, it may be worth considering targeted supplementary benefit programs at least to nullify the penalty for not claiming UI benefits.



The substantial UI benefit premium above full replacement may also complicate efforts by firms that try to increase staffing again as social distancing enforcement is relaxed. In Colorado, the geographic distribution of wages means that businesses in different areas of the state are likely to face varying degrees of these problems. The map above uses the most recent data on county-level average weekly wages from BLS Quarterly Census of Employment and Wages (QCEW) to show WRR under CARES at the average weekly wage. In many of Colorado's rural counties the WRR at the average weekly wage is now 140-160%, whereas in Boulder and Broomfield counties it is still 74-76%.

[2] This reduces the incentive of workers to return to work even when they are sick and therefore likely to infect coworkers with SARS-CoV-2.