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THE IMPACT of PENSION OFFSET in NEW JERSEY

The study of the effects of the Pension Offset provision in the New Jersey Unemployment Compensation Law.

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This study of the impact of the pension offset provision of the New Jersey Unemployment Compensation Law was written by James Phillips of the Office of Program Research. Data processing and programming work was completed by Stephen Blasko. Clerical assistance was provided by Eileen Monahan.

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Introduction

The trust funds administered by each state for the purpose of paying unemployment compensation to eligible claimants are part of what is known as the Unified Federal Budget. Taxes collected from employers and workers (where applicable) are considered federal revenues; benefit payments are treated as U.S. government expenditures. During the late 1960s, this had the effect of mitigating the impact of the deficits induced by the defense expenditures associated with the Vietnam War, since unemployment insurance revenues in the aggregate exceeded benefit payout. The back-to-back recessions of 1970-71 and the much more catastrophic downturn that occurred in 1973-75 resulted in the bankruptcy of 16 state trust funds in 1975 alone. Aggravating these deficits was the added federal borrowing that was required when the Federal Unemployment Account, from which loans to these states were made to enable them to continue to pay benefits, itself became insolvent.

In the absence of legislation on the state level to tighten what were perceived to be overly generous benefit and eligibility criteria, Congress turned its attention to those aspects of the nation's unemployment insurance system that could be changed to effect benefit savings. One of these was related to pension and pension-like payments received by those who voluntarily or involuntarily retire. As part of its Employment Security Amendment of 1976, Congress requested that certain pension and similar income be offset against a claimant's benefit entitlement. Prior to that time these sources of income were not taken into consideration in New Jersey in computing a claimant's weekly benefit amount. While these individuals were required to fulfill the usual eligibility criteria, such as that they be able and available for work and maintain an active search for work, it was felt that such claimants were only tenuously attached to the labor force and, in any event, were engaging in a form of "double dipping."

As the next section explains in greater detail, a wide variety of payments have been deducted from a claimant's entitlement since April 1, 1980, when the pension offset provision became effective; the extent of the deduction depends upon the individual's contribution to the pension. Although the pension offset provision in the New Jersey Unemployment Compensation Law was felt to have resulted in significant savings to the state's trust fund, these could not be precisely identified based on available data. The present study was undertaken to arrive at a more reliable estimate of the impact of this provision as well as to ascertain the demographic and labor force characteristics of those affected by it. The results are presented in the following pages.

Legislative Background

One of the provisions of P.L. 94-566 (Employment Security Amendments of 1976) required that, as a condition of the certification of state laws, a claimant's weekly benefit amount be reduced by any "governmental or other pension, retirement or retired pay, annuity, or any other similar periodic payment which is based on the previous work of such individual..." for weeks of unemployment beginning after September 30, 1979. This effective date was changed by P.L. 95-19 to March 31, 1980.

As originally enacted, the pension offset provision resulted in a 100 percent offset of a wide variety of payments, including primary social security, state and local government pensions, federal civilian pensions, disability pensions, private-for-profit employer pensions, military retirement and disability pensions, railroad retirement annuities, and benefits derived from Individual Retirement and Keough plans. Failure to enact such a provision in its unemployment compensation law would have resulted in a state's forfeiture of federal administrative funding as well as the 90 percent credit normally allowed employers against the federal unemployment tax.

This formulation of pension offset provoked a considerable amount of controversy, particularly from senior citizens groups who objected to the broad scope of the mandated reductions as well as to the fact that no consideration was given to when the retirement income credits were earned or to any contributions made to the pension plan by the claimant. To meet these objections, P.L. 96-364 was enacted and signed by President Carter on September 26, 1980. This legislation permitted, but did not mandate, the modification of states' existing pension offset laws so that only those pensions earned from a base period employer would be deducted

and any employee contributions to the pension plan could be considered.

Accordingly, New Jersey amended its unemployment compensation law effective for weeks of unemployment beginning on or after January 1, 1981 to provide that only a pension or pension-like payment received from a base-period employer would be deducted from the weekly benefit amount, and, further, that the reduction would be made according to the following schedule:

1. If the claimant contributed nothing to plan, the reduction is 100 percent.
2. If the claimant contributed something less than 100 percent, the reduction is 50 percent.
3. If the claimant contributed 100 percent of the cost of the pension, then no reduction is made.

Sampling

In order to obtain an estimate of the savings in benefit payments during Calendar Year 1983 from the pension offset provision, a random sample of 1,000 claimants was selected from the "Current Day Transaction File" during the last week of July 1983. Social Security numbers of individuals receiving benefits under the Regular Unemployment Insurance Program with a pension indicator were chosen in consecutive order until the required sample size was obtained. Since the maximum duration of any claim under the regular program is 26 weeks, it was felt that, by pulling the sample in July, nearly all of the claims would have been initiated and concluded sometime during 1983[1]. Then in January 1984 the complete payment record for each of the claimants sampled for each week that a payment occurred was extracted from the Local Office On-Line Payments System, the computerized system for computing monetary entitlement[2].

Whenever a claimant reports the receipt of pension income during the initial claims interview, a nonmonetary determination is made to determine whether any reduction in the weekly benefit rate (WBR) is warranted. Based on a count of the number of nonmonetaries related to the pension offset provision during 1983, approximately 10,000 claimants had their WBRs reduced, but not to zero. The selected sample comprises about 10 percent of pension recipients. This sample size will yield statistically reliable results at the 95 percent confidence level. This means that, if 100 samples of this size were selected, in 95 of them the results

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[1]A total of 1,048 claimants were included. Fourteen were eliminated from the sample because of incomplete or erroneous information, resulting in a final total of 1,034. Of these, 901 (87 percent) had dates of claim between January and July 1983, 131 (13 percent) were from 1982 and two were from 1981.

[2]This strategy of selecting a sample was pursued rather than totalling the amounts offset for each week compensated to pension receiving claimants during 1983 because to do so would have entailed accessing several million records, a task that was judged to be prohibitively costly in terms of data processing resources.

obtained would be within five percent of the figures obtained if all 10,000 were examined. However, data relating to Hispanics, to claimants younger than 50 years and older than 80 years and to certain two-digit industry groups should be used with caution. Since these subgroups constitute such a small proportion of the total sample, statistics for them are potentially subject to much larger error.

Impact on the Trust Fund

The 1,034 claimants included in the sample experienced an average total amount of benefits offset of $989. This was computed by totalling the individual amounts deducted for each week in which an offset occurred and then dividing by the total number of claimants examined. As previously mentioned, there were approximately 10,000 individuals that were subject to a reduction in their weekly benefit rate (WBR) because of pension income during 1983. Thus, it is estimated that the pension offset provision resulted in a savings to the unemployment insurance trust fund of about $9.9 million that year.

Other factors to be considered, however, lead to the conclusion that this figure is an underestimate of the true savings. In addition to these 10,000, there were approximately 900 claimants whose WBRs were reduced to zero. Since they never received a payment, however, none of them were captured by the particular sampling technique that was used. On the assumption that each would have collected for the same length of time on average as those that were included and would have had the same average pension deduction, then the additional savings attributable to this group would be a maximum of $900,000.

There is a second factor that might tend to increase the savings estimate. Because a claim remains open for 52 weeks after initial filing, it can be interrupted by employment before maximum benefits are exhausted and then reopened at a later date. An examintion of the sample reveals that 61 percent did in fact exhaust by the time the LOOPS data was extracted in January 1984. This is significantly higher than the 46 percent exhaustion rate for all claimants in 1983. However, since it was apparent that some portion of the 39 percent who had not exhausted by January 1984 undoubtedly went on to collect some additional weeks of benefits, those claims were reexamined after the end of the latest possible

benefit year, July 1984[3]. Of the total of 376 individuals in the sample with some remaining entitlement, only 98 actually received more weeks of benefits totalling less than $25,000.

Lastly, an indeterminate number of individuals who were aware that their weekly benefit rates would be greatly reduced or reduced to zero never filed a claim.

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[3]The data contained in Tables I through XII are derived from the information extracted from the LOOPS database in January 1984.

Labor Force and Demographic Findings

In addition to estimating the savings to New Jersey's Unemployment Insurance Trust Fund produced by the pension offset provision, another goal of the study was to obtain a clearer picture of the earnings, previous labor force attachment and demographic characteristics of those receiving deductible pensions. The results are presented in Tables I through XII and are discussed below.

The majority of those included in the sample, 54 percent, were women. The distribution of claimants by race was strikingly similar for both males and females, as shown in Table I. An overwhelming proportion, 87.7 percent, were White; Blacks accounted for 8.2 percent, Hispanics 3.9 percent, while one claimant was Asian or Pacific Islander. These percentages differ markedly from those for the general claimant population in 1983.[4]

The average age of the claimants studied, both male and female, was 66 years (Table II). While males and females had accumulated nearly the same number of base weeks (44 and 40, respectively) their previous earnings and benefit entitlements differed substantially. The $7,280 of mean base year earnings for females was half of the $14,651 for the 478 males sampled.

The maximum benefits to which they were entitled as well as the weekly benefit rate reflected this disparity. Males were, on average, potentially eligible to receive $3,288 in total benefits at an average weekly rate of $133, while females,

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[4]The general claimant population characteristics are derived from a three percent sample of claimants taken each month in the local unemployment offices. For the racial groups noted above the comparable percentages were 67.6 (White), 20.2 (Black), 11.9 (Hispanic) and 0.3 (Asian or Pacific Islander) and are listed in Table I under the heading "All Claimants Percent."

on the other hand, could have collected an average of $2,578 or 22 percent less at an average weekly benefit rate of $106.[5] Earnings during the life of the claim, while small, also differed, averaging $4 weekly for females and only $1 weekly for males.

Because the mean pension deduction was 37 percent lower for women ($41 versus $65 for men) the net weekly benefit payments to the two groups were similar. Females on average received $68 after the pension deduction while males received $73. The average number of weeks of benefits received was 21.7 for males and 18.7 for females and the average number of weeks in which a pension offset occurred was 19.9 and 17.6, respectively.[6]

Table III presents averages for these same variables but broken out by race. Once again the average age and number of base weeks is nearly identical for the racial groups shown. Base year earnings for Blacks, however, at $7,785 were

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[5]The difference in maximum benefits between males and females is considerably less than the gap in base year earnings because maximum benefits are a function of the weekly benefit rate, which reflects earnings, and the maximum duration. Three weeks of benefits can be collected for every four weeks worked. In 1983 the weekly benefit rate was calculated as two-thirds of the claimant's average weekly wage, subject to a maximum of one-half of the statewide average weekly wage in the second preceding calendar year, or $158 per week. It is this ceiling on the maximum weekly benefit rate that accounts for this observed discrepancy.

[6]This explains the fact that the sum of the pension offset amount and the weekly benefit payment exceeds the weekly benefit rate. The former was calculated for only those weeks in which an offset was made, while the latter was based on all weeks compensated.

only 71 percent of the $10,986 earned by Whites. In addition, Blacks' weekly benefit rate ($106), was below the comparable figure for Whites ($119). Interestingly, average duration of claim for Blacks at 17.9 weeks was less than that for Whites (20.2 weeks) despite the fact that the two groups were eligible, on average, for 26 weeks of benefits.

Table IV shows the average number of base weeks and the average amount of base wages by race and sex. There were very small differences in the base week totals for males and females of each race and in the base wages for Black and White females. The $15,274 in average base period wages earned by White males was more than double both the $7,337 earned by White females and the $6,640 earned by Black females, and it was 66 percent higher than the $9,202 earned by Black males.

This same pattern emerges from the data on mean weekly benefit rates, displayed in Table V. While Black and White females were eligible to receive $101 and $106, respectively, the average WBR of White males, $135, was significantly higher than that for females of both races as well as the $112 for Black males.

An examination of the mean pension offset amounts in Table VI, however, tells a somewhat different story. While White males rank substantially higher than all females, the difference between their $66 average pension deduction and the $59 for Black males is not statistically significant. Also not significantly different are the $42 offset for White females and the $35 for Black females.

The average weekly benefit payment, i.e., the amount on average that was received on a weekly basis by these subgroups of claimants after the pension offset was deducted is shown in Table VII. Black and White females both received an average of $68. This was only marginally less than the $74 netted by the White males studied but significantly higher than the $52 for Black males. This somewhat anomalous result can be traced to the fact that, although males are generally

eligible to receive higher weekly benefit rates than females and those for White males exceed those for Black males, females in general and Black females in particular are subject to much lower pension deductions.

The statistics on average duration of claim and the percentage of the potential maximum that was used (Table VIII) also yield some interesting results. The differences among the average duration for White (21.7 weeks) and Black (20.4 weeks) males as well as White females (18.9 weeks) are not statistically significant, but the 15.9 weeks of benefits collected on average by Black females is notably lower. Further, Black females on average used only 61.1 percent of the maximum number of weeks of benefits to which they were entitled as opposed to 83.5 percent for White males, 78.5 percent for Black males and 72.7 percent for White females. This can be attributed to the fact that Black females reported the highest average earnings during their claim than the other groups. Table IX indicates that Black females earned an average of $8 for those weeks during their claim in which employment occurred; White females earned $4 and both White and Black males had no earnings.

The mean ages of the claimants in the sample by sex and race in Table X reveal few differences with the exception of Black males, whose average age of 69 was greater by four years than White males and Black females and greater by three years than White females.

Table XI indicates the means for the variables under study for five separate age groups[7]. By far the greatest percent of claimants (71.2) was between 60 and 69 years old, the decade in which retirement typically occurrs. In terms of maximum benefits, base weeks, average duration of claim and earnings, very few differences

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[7]The results shown for the 20-49 and 80-89 age groups are not statistically significant and are not inluded in this discussion.

were manifested between the 60-69 and 70-79 age groups. The corresponding values for the first three criteria are greater for those in the 50-59 group while earnings were lower. The average base wages for the 50-59 age category ($18,630) far exceeded those for the 60-69 ($10,926) and the 70-79 ($8,376) categories. This is reflected in the average weekly benefit rates, which were $151, $117 and $109, respectively. Those in the oldest group had an average pension offset amount of $60 while those in the 60-69 category experienced an average offset of $51 and the 50-59 group, $53.[8] Average weekly payments followed the same pattern as base wages and weekly benefit rates. The 50-59 year-old claimants received an average of $102 after the offset, those 60-69 received $71 and the 70-79 group received a mean weekly payment of $51. Average duration for the two oldest categories were indistinguishable (19.8 and 19.9 weeks); those 50-59 collected on average for 21.9 weeks.

The distribution of pension claimants by two-digit industry classification along with the means for the same variables are shown in Table XII. By far the largest group (36.1 percent) was previously employed by manufacturing firms, followed by retail trade (16.4 percent) and services (14.8 percent). Base period wages varied considerably. They averaged $18,849 in nonclassifiable establishments and $14,135 in wholesale trade but were $6,747 in retail trade and $6,725 in public administration. This disparity is reflected in the weekly benefit rates, which were $149 and $134 for nonclassifiable establishments and wholesale trade, respectively, substantially higher than those for retail trade ($94) and public administration ($91). The average pension deduction for wholesale trade ($64) and nonclassifiable establishments ($60) exceeded those for the other industries examined.

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[8]These differences were not statistically significant.

Summary

In conformity with federal Law, since April 1, 1980, New Jersey has provided for the deduction of a wide variety of pensions from the weekly benefits to which affected claimants are otherwise entitled. Based on the sample of 1,034 claimants that was studied, it is estimated that the pension offset provision resulted in savings to the state's unemployment insurance trust fund of at least $10.8 million during 1983. This is 1.6 percent of the $693.3 million paid out under the Regular UI Program that year.

Analysis of the demographic and labor force characteristics of the sample reveals that the vast majority are White. Average base year earnings for males were more than twice those for females. Although men had an average weekly benefit rate substantially higher than for women, the average weekly amounts received by the two groups were much closer because the average pension deduction for females was less than that for the males sampled. Base wages for Whites exceeded those for Blacks, entitling Whites to a higher weekly benefit rate. The average duration of claim for the sample was about three quarters of the maximum number of weeks to which these individuals were eligible. Black females collected fewer weeks of benefits as a percentage of the maximum number for which they were potentially eligible than either White males and females or Black males and also earned significantly more on average during their claims. The average number of weeks in which an offset was made was 1.4 weeks less than the average duration of claim, apparently reflecting a delay in the receipt of pension income after the onset of unemployment.

TABLE I

DISTRIBUTION OF PENSION CLAIMANTS
BY SEX AND RACE

	Male		Female		Both Sexes		All 1983 Claimants
	Number	Percent	Number	Percent	Number	Percent	Percent
White, not Hispanic	417	87.2	490	88.1	907	87.7	67.6
Black, not Hispanic	38	8.0	47	8.5	85	8.2	20.2
Hispanic	22	4.6	18	3.2	40	3.9	11.9
Asian or Pacific Islander	1	.2	1	.2	2	.2	0.3
All Races	478	100.0	556	100.0	1,034	100.0	100.0

TABLE II

MEANS OF VARIABLES FOR PENSION CLAIMANTS BY SEX
ALL RACES

Variable	Male	Female	Both Sexes
Age (years)	66	66	66
Base Weeks	44	40	42
Base Wages	$14,651	$7,280	$10,688
Maximum Benefit Amount	$ 3,288	$2,578	$ 2,907
Weekly Benefit Rate	$ 133	$ 106	$ 119
Weekly Earnings	$1	$4	$3
Weekly Pension Offset Amount	$65	$41	$53
Weekly Benefit Payment	$73	$68	$70
Duration (weeks)	21.7	18.7	20.1
Pension Deduction (weeks)	19.9	17.6	18.7

TABLE III

MEANS OF VARIABLES FOR PENSION CLAIMANTS BY RACE
BOTH SEXES

Variable	White Not Hispanic	Black Not Hispanic	All Races
Age (years)	66	67	66
Base Weeks (weeks)	42	40	42
Base Wages	$10,986	$7,785	$10,688
Maximum Benefit Amount	$ 2,936	$2,624	$ 2,907
Weekly Benefit Rate	$119	$106	$119
Weekly Earnings	$3	$5	$3
Pension Offset Amount	$54	$48	$53
Weekly Benefit Payment	$71	$60	$70
Duration (weeks)	20.2	17.9	20.1
Pension Deduction (weeks)	18.9	16.7	18.7

TABLE IV

MEAN BASE WEEKS AND BASE WAGES OF PENSION CLAIMANTS
BY SEX AND RACE

	Male		Female		Both Sexes	
	Base Weeks	Base Wages	Base Weeks	Base Wages	Base Weeks	Base Wages
White, not Hispanic	44	$15,274	40	$7,337	42	$10,986
Black, not Hispanic	41	$ 9,202	40	$6,640	40	$ 7,785
All Races	44	$14,651	40	$7,280	42	$10,688

TABLE V

MEAN WEEKLY BENEFIT RATE OF PENSION CLAIMANTS
(BEFORE PENSION DEDUCTION)
BY SEX AND RACE

	Male	Female	Both Sexes
White, not Hispanic	$135	$106	$119
Black, not Hispanic	112	101	106
All Races	133	106	119

TABLE VI

MEAN PENSION OFFSET AMOUNT OF PENSION CLAIMANTS
BY SEX AND RACE

	Male	Female	Both Sexes
White, not Hispanic	$66	$42	$54
Black, not Hispanic	59	35	48
All Races	65	41	53

TABLE VII

MEAN WEEKLY BENEFIT PAYMENT OF PENSION CLAIMANTS
(AFTER PENSION DEDUCTION)
BY SEX AND RACE

	Male	Female	Both Sexes
White, not Hispanic	$74	$68	$71
Black, not Hispanic	52	68	60
All Races	73	68	70

TABLE VIII

MEAN DURATION OF CLAIM FOR PENSION CLAIMANTS
BY SEX AND RACE

	Male		Female		Both Sexes	
	Number of Weeks	Percentage of Maximum Duration	Number of Weeks	Percentage of Maximum Duration	Number of Weeks	Percentage of Maximum Duration
White, not Hispanic	21.7	83.5	18.9	72.7	20.2	77.7
Black, not Hispanic	20.4	78.5	15.9	61.1	17.9	68.8
All Races	21.7	83.5	18.7	71.9	20.1	77.3

TABLE IX

MEAN WEEKLY EARNINGS OF PENSION CLAIMANTS
BY SEX AND RACE

	Male	Female	Both Sexes
White, not Hispanic	$1	$4	$3
Black, not Hispanic	0	8	5
All Races	1	4	3

TABLE X

MEAN AGE OF PENSION CLAIMANTS
BY SEX AND RACE

	Male	Female	Both Sexes
White, not Hispanic	65	66	66
Black, not Hispanic	69	65	67
All Races	66	66	66

TABLE XI

DISTRIBUTION AND MEANS FOR PENSION CLAIMANTS BY AGE GROUP
BOTH SEXES

Age Group	Number of Claimants	Percent	Maximum Benefit Amount	Base Weeks	Base Wages	Weekly Benefit Rate	Weekly Earnings	Pension Offset Amount	Weekly Benefit Payment	Actual Duration (weeks)
20 - 49*	14	1.4	$2,789	42	$13,380	$113	$6	$47	$ 66	19.6
50 - 59	89	8.6	3,884	48	18,630	151	1	53	102	21.9
60 - 69	736	71.2	2,854	41	10,926	117	3	51	71	19.8
70 - 79	180	17.4	2,661	42	8,376	109	3	60	51	19.9
80 - 89*	15	1.4	2,771	41	6,720	109	1	63	52	22.2
All Ages	1,034	100.0	2,909	42	10,725	119	3	53	70	20.1

*These data are not statistically significant.

TABLE XII

DISTRIBUTION AND MEANS BY SIC CODE
BOTH SEXES

SIC	Description	Number of Claimants	Percent	Age	Maximum Benefit Amount	Base Weeks	Base Wages	Weekly Benefit Rate	Weekly Earnings	Pension Offset Amount	Weekly Benefit Payment	Actual Duration (weeks)
01-09	Agriculture, Forestry, and Fishing*	4	.4	67	$2,586	32	$ 8,775	$120	$2	$39	$104	16.0
15-17	Construction*	28	2.7	65	3,595	40	17,078	150	2	70	86	23.0
20-39	Manufacturing	374	36.1	65	3,128	41	11,637	128	5	54	77	20.6
40-49	Trans., Comm., Electric, Gas, and Sanitary Services	63	6.1	67	2,489	38	8,028	105	5	57	54	14.4
50-51	Wholesale Trade	52	5.0	64	3,408	47	14,135	134	2	64	68	23.6
52-59	Retail Trade	170	16.4	66	2,330	41	6,747	94	3	43	55	18.8
60-67	Finance, Insurance, and Real Estate	44	4.3	67	2,938	46	9,473	116	0	53	62	23.4
70-89	Services	153	14.8	67	2,944	43	11,163	121	2	52	70	21.2
91-97	Public Administration	89	8.5	67	2,274	40	6,725	91	1	48	55	15.3
98-99	Nonclassifiable establishments	57	5.6	63	3,722	46	18,849	149	1	60	93	23.5
	Total	1,034	100.0	66	$2,907	42	$10,688	$119	$3	$53	$70	20.1

*These data are not statistically significant.