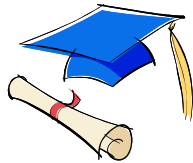


# State of Washington Employment Security Department

## Claimant Expenditure Survey Fiscal Year 2007



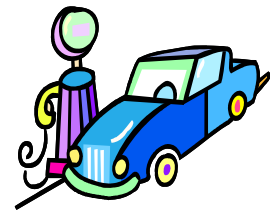
Education



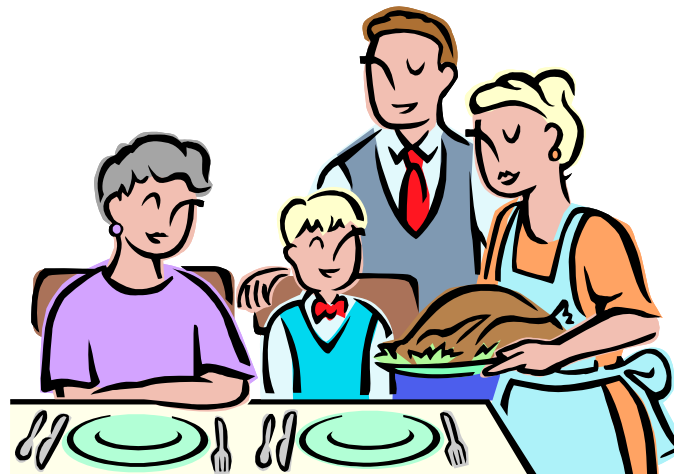
Shelter



Health



Transportation



January 2008



Food



Credit & Loans



Entertainment



Clothing

The Unemployment Insurance Division  
Office of Research & Analysis

# **Claimant Expenditure Survey, 2007**

## **Introduction**

This report summarizes the results of the 2007 Employment Security Department (ESD) Claimant Expenditure Survey (CES). This survey was first conducted in 2002 and repeated in 2003 and 2005. The purpose of the CES is to explore how funds disbursed in unemployment benefits are returned to the economy through an analysis of the household expenditures of unemployment benefit recipients.

The Employment Security Department (ESD) and state legislators interested in the household spending of people receiving unemployment compensation can use this information as a basis for policy decisions. The CES is designed to be compared with the Consumer Expenditure (CEX) Survey, a more in-depth, and largest-of-its kind survey of household spending in the United States conducted by the Federal Bureau of Labor Statistics (BLS). Though the categories of household expenses are similar, there is a lag in the BLS survey, making it necessary to view the CES survey in relation to past CEX results.

## **Agency Background and Wage Replacement**

The mission of ESD is to help people succeed throughout their working lives. The department accomplishes this by supporting workers during times of unemployment, by connecting job seekers with employers, and providing business and individuals with the information and tools they need to adapt to a changing economy. ESD is the state's largest employment agency, helping to match people with jobs every business day. During calendar year 2007 the Employment Security helped 218,860 unemployed people in Washington State by providing payments while they looked for new work. When thousands of businesses, students and job seekers needed information on the fastest growing careers, average wages or local economies, this vital information is provided by ESD.

Washington's unemployment insurance program offers the first economic line of defense against the effects of unemployment. People out of work through no fault of their own are entitled to a portion of their income. Though significantly less than their former pay, it is intended to mitigate the economic impact on a household. With a cap on benefits, the highest-wage workers may experience a much steeper drop in their monthly income. But through these payments to laid-off workers, a family is ensured that at least a portion of the necessities of life (food, shelter and clothing) will be obtainable while they search for work.

UI benefits represent approximately 41 percent of previously earned income of the sample population. Most households showed a concentrated effort to conserve on non-essential spending. With a maximum benefits cap, people who had previously held high-wage jobs were likely to receive a significantly smaller percentage of their prior earnings as benefits. "Savings and investments" was the category that was most often deferred; and respondents' comments often indicated that they were drawing on savings while unemployed.

Maximum benefits of \$496 per week are paid to those who earned approximately \$27 per hour or more. A person with previous earnings above that threshold would receive the capped amount, which may indicate that unemployment benefits represent an even lower percentage of replacement income. The 2007 CES Survey indicates that 28.2 percent of claimants were capped at the maximum benefit level. It appears that many of the respondents had previously held high-paying jobs. (For comparison, a minimum-wage job would warrant a benefit payment of less than \$150 per week.)

## **Methodology and Response Levels**

In 2002, the Unemployment Insurance (UI) Office of Research and Analysis developed the initial research model for the Claimant Expenditure Survey, designed the instrument and conducted the survey for the first time. Several staff from the Labor Market and Economic Analysis (LMEA) branch of ESD provided support in developing the final research model.

This edition was compared to previous CES studies, with income and expenditures adjusted to 2007 dollars using the Bureau of Labor Statistics Consumer Price Index (CPI) to ensure comparable data. A sufficient random sample of claimants was selected to achieve 95 percent confidence level, with an error rate of plus-or-minus 5 percent. Survey participants were mailed an introductory letter with a one-page survey and a postage-paid return envelope. Participants were asked to respond within two weeks. Participants who did not respond were sent a second reminder letter and a replacement survey. A third and final survey was mailed several weeks later to give claimants a final opportunity to participate.

A toll-free number was available for participants to call with questions concerning the survey. Confidentiality and the voluntary nature of the survey were emphasized on the questionnaire and in all correspondence in keeping with concerns of the legislature that claimants should understand that the survey was voluntary and that their benefits were not in jeopardy if they chose not to participate.

A number of calls were received from people concerned that the department was asking for their information in order to make judgments on spending decisions. When reassured that the study was to determine the extent to which unemployment benefits satisfied household expenses during spells of unemployment, their concerns were put to rest and most were willing to participate.

The survey achieved a 42.2 percent overall response rate; sufficient for an acceptable confidence level and error rate. The following summary includes both average and median figures.<sup>1</sup> The median values were included because surveys of this type tend to produce a limited number of values that are unusually high or low, which might skew an average. Some claimants were called for clarification when an unusually high monthly income was noted that was not in keeping with normal household income. A few cases of significant sums of severance pay were

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<sup>1</sup> Median is a measurement of central tendency. It is the value of the case marking the midpoint of an ordered distribution of values.

identified and excluded from the averages to keep the study focused on typical monthly household budgeting. In order to provide the most recent information, results from the 2003, 2005 and 2007 CES will be compared with 2003 and 2005 CEX figures.<sup>2</sup> All CEX and CES figures have been adjusted to 2007 dollars.

The instrument asked participants to record their marital status and the number of people living in the household who were part of their family unit (excluding housemates, renters and temporary guests). Adult partners living in the household and contributing to the net household income were placed in the married category as descriptive of the family unit at the discretion of the respondent. The total net household income was requested for June 2007. They were then asked to record all expenditures during June 2007 in the following 10 categories: housing, food, transportation, credit card and loan payments, health, entertainment, apparel and services, education, and miscellaneous expenses. In addition, participants were asked to record any money put into savings or investments during June 2007.

### **Uses and Limitations**

Random sample surveys are prone to two primary types of errors: non-sampling and sampling.

Non-sampling errors are caused by a few reasons such as differences in interpreting questions, the inability or unwillingness of the respondent to provide correct information, mistakes in coding the data obtained, and data-entry errors. Two non-sampling errors that may have an effect on the results and accuracy of the 2007 CES are possible.

- First, participants received only generalized direction on what expenditures to include in the major categories which may raise the possibility of duplicating or overlooking expenditures.
- Secondly, claimants occasionally made the mistake of reporting the balance of their savings accounts and/or investments, instead of just recording money saved and/or invested during the month.

In cases where responses on the survey were omitted, seemed unusually high or low, or were skewed in some other fashion, a follow-up call was conducted for clarification. Follow-up calls were made on just over 6 percent of responses. Questionable responses and missing information were clarified with the respondents. Through these follow-up phone calls, it was determined that most responses were reasonable and accurate. Therefore, these errors have not significantly skewed results, and the research model remains reliable.

Sampling errors can occur because observations are not taken from the entire population. Excluding participants (as mentioned below) from the survey universe based on the amount of unemployment compensation they received and whether or not they lived in the state of

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<sup>2</sup>A lag in the CEX data made comparison with more recent data impractical. When possible, statistics from the CEX will be presented for the western region of United States rather than nationwide. The western region includes Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, and Wyoming.

Washington will affect the results of the CES, but this procedure will serve to better explain the targeted activity and errors due to sampling will be negligible.

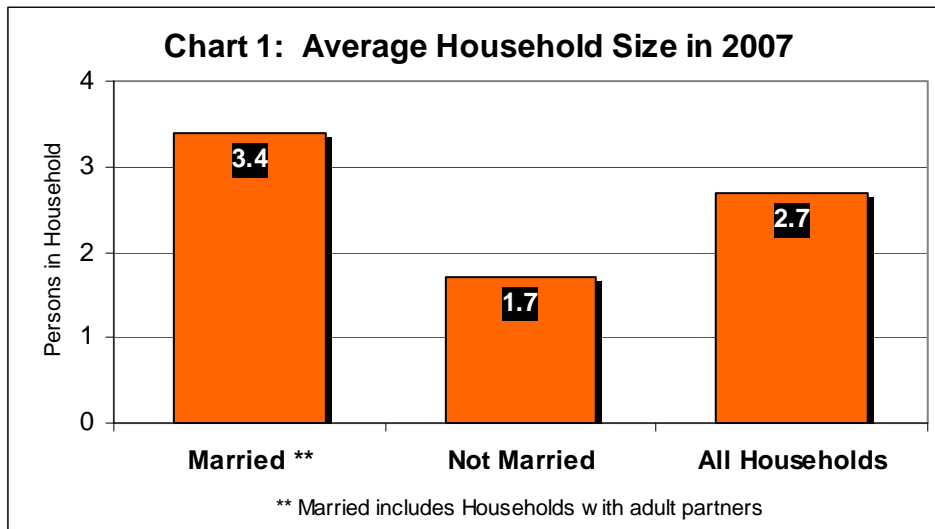
### Description of Sample Households

A number of criteria were established in selecting a survey universe. To be selected, a claimant must have made a valid claim and received benefits between June 1 and June 30, 2007; the final month of Washington State fiscal year 2007. The claimant must have received benefits for the entire four-week target month to establish a complete household month during which unemployment benefits replaced a wage earner's income. Combined benefit payments could not exceed the maximum of \$1,984 for June 2007. Further, no single check amount could have exceeded \$496 during this time frame, which was the maximum allowable weekly benefit. The claimant also must have been a Washington resident in June 2007.

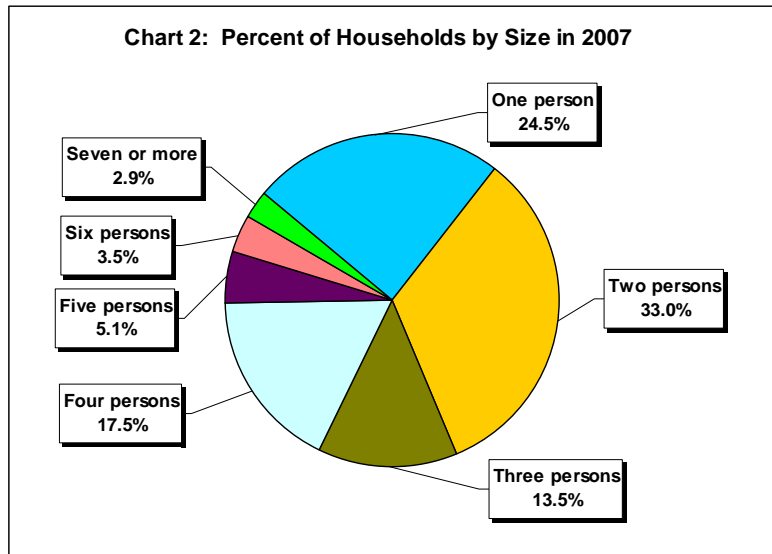
Household Composition	CEX *			CES		
	2001	2003	2005	2003	2005	2007
<b>Married **</b>	3.2	3.2	3.2	3.1	3.4	3.4
<b>Not Married</b>	1.6	1.6	1.6	1.9	1.7	1.7
<b>All Households</b>	2.6	2.6	2.6	2.5	2.6	2.7

\* Department of Labor Western Region  
 \*\* Adult partners living in the household are counted as Married

The average size of households seems to be consistent between the state CES and the federal CEX surveys. Households surveyed in the CES survey were slightly larger but comparable to national CEX households. The 2007 CES found claimant households to be slightly larger than the average household in the 2005 CES Survey, increasing from 2.6 people to 2.7 people per family unit.



Almost one-quarter (24.5%) of respondents lived alone. Another third (33.0%) lived in two-person households. More than seven out of 10 (71.1 percent) households had three or fewer people. Over half (52.5 percent) reported at least one dependent.



### Key Findings

A qualified claimant is eligible for benefit payments for 26 weeks. At the beginning of the fiscal year the statewide average number of weeks paid was 14.4 weeks, which is low by historical standards. By July 2007 the average duration had declined to 13.4 weeks.

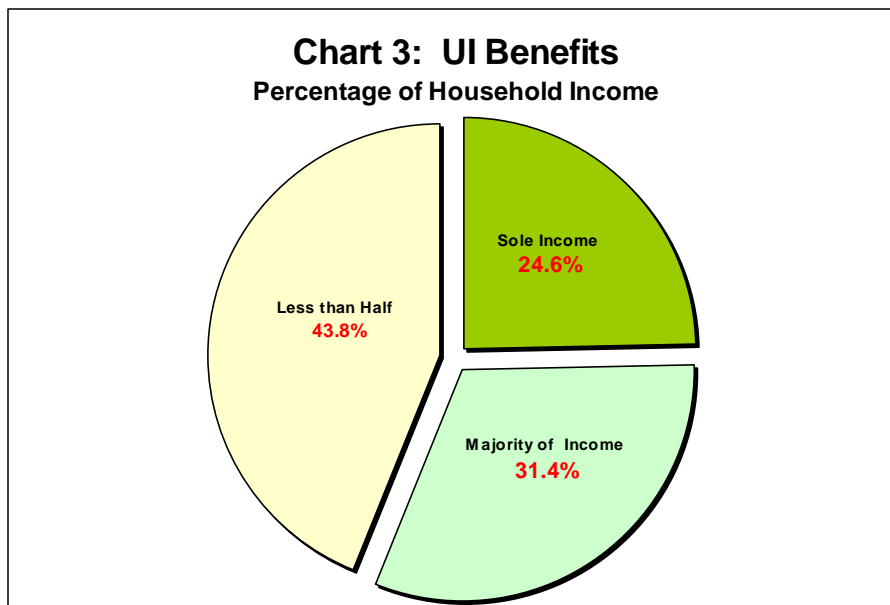
On average, claimant households in Washington spent more than their total household income during episodes of unemployment, indicating that they experienced a drain on household resources during each month of continued unemployment. Expenses compared to income increased from 105 percent in 2005 to 112 percent in 2007. In other words, outlays exceeded income to a greater extent in 2007.

Nearly half (49.7 percent) of single-person households indicated that unemployment benefits were their sole source of income. In households with two or more adults, a working spouse or partner may have contributed to the net household income. Overall, 56 percent of claimant households responded that unemployment compensation represented a majority of their income, with 24.6 percent indicating that unemployment benefits were their only income (see Table Two).

The Bureau of Labor Statistics CEX survey indicated that western states spent an average of just 79 percent of total household income on living expenses in 2005. (Note: Since the CEX survey represents all households rather than just households experiencing episodes of unemployment, it is understandable that CEX households report expenses as a much lower percent of income than CES households.)

<b>Table Two. Unemployment Benefits as a Percentage of Household Income</b>					
	<b>2003</b>	<b>2005</b>	<b>% Change 2003-2005</b>	<b>2007</b>	<b>% Change 2005-2007</b>
<b>Sole Income (100%)</b>	33.7%	30.7%	-3.0%	24.6%	-6.1%
<b>Majority of Income (&gt;=50%, but &lt;100%)</b>	34.4%	39.4%	5.0%	31.4%	-8.0%
<b>Less than Half (&lt;50%)</b>	32.0%	30.0%	-2.0%	43.8%	13.8%
<b>Average Portion of Household Income</b>	55.8%	60.2%	4.4%	47.1%	-13.1%
<b>Median Portion of Household Income</b>	74.3%	74.4%	0.1%	61.7%	-12.7%

The 2007 CES found that unemployment benefits for the average claimant household amounted to \$1,491. Just under one-quarter (24.6 percent) of households reported that this was their sole income for the survey month; a decline of 6.1 percent from 2005. Unemployment compensation represented 47.1 percent of total income for the average claimant household in 2007, compared to 60.2 percent in 2005 (a 13.1 percent decrease). The median, or central point of claimant responses confirms this trend by indicating that unemployment benefits composed 61.7 percent of a household's income.



As might be expected, fixed expenses such as housing, transportation, education and loan payments took a greater share of household income. Categories where consumers had more discretion in adjusting payment showed decreased levels of spending as households tightened their belts and deferred unnecessary spending. These categories included food, apparel, entertainment and miscellaneous expenses.

Increases in expenses generally outpaced increases in income as discovered in the 2003 and 2005 surveys. The gap increased further in 2007. In 2003 the gap between income and expenses was

\$86 on average. By 2005 the average range had increased to \$135, and in 2007 expenses exceeded income by \$370.

## Survey Results

Claimant households spent \$3,406 on average in June 2007, an increase of \$562 from 2005 (see Chart 4). Income increased by \$458 from \$2,709 in 2005 to \$3,167 in 2007. Thus expenses outpaced income. Median expenditures actually declined from 2005 through 2007 as households restricted their spending.

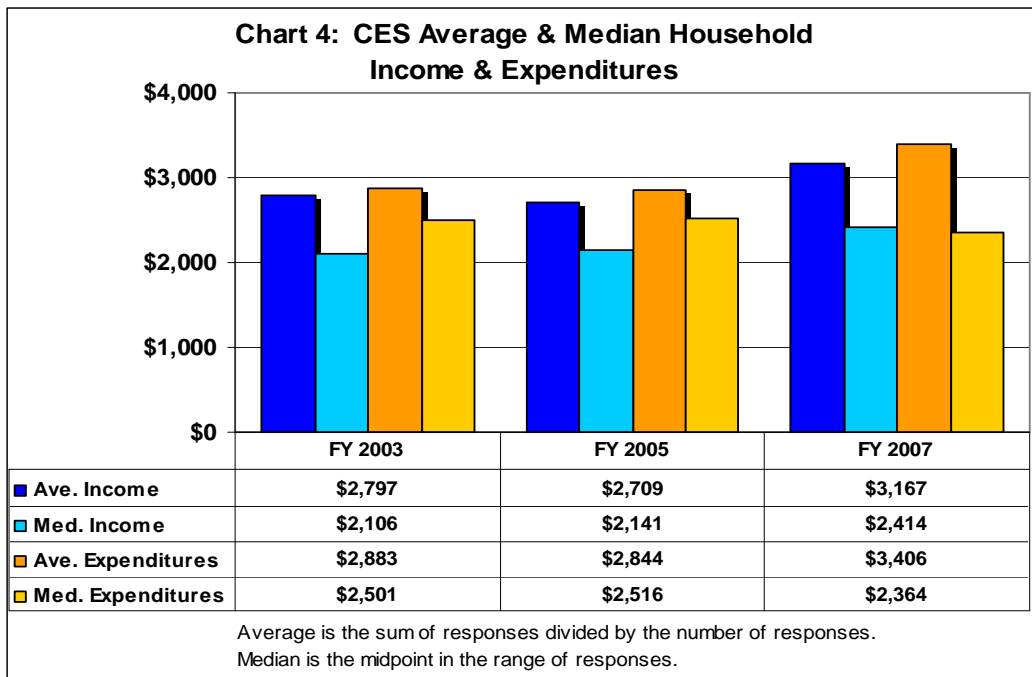


Table Four compares the differences between CES and CEX income and expenditures. Changes in average income and expenditures in the 2005 CEX are in stark contrast with those of the 2007 CES. As previously stated, CEX families are not typically experiencing unemployment in the same way as households in the CES sample.

In 2005, CEX household income increased by \$632 and expenditures increasing by \$483 for the western states. In addition, the 2005 CEX concluded that western households spent just 79.0 percent of their income annually, a 0.8 percent decrease from 2003, implying that income outpaced expenditures. The CEX increase in income from 2003 to 2005, coupled with only a slight increase in expenditures, resulted in a reduced portion of income necessary to satisfy expenses.

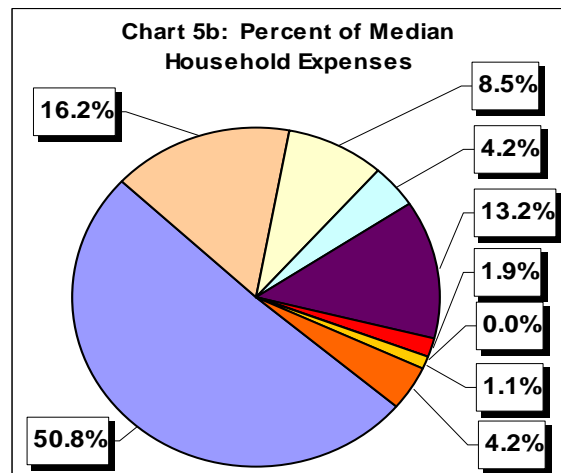
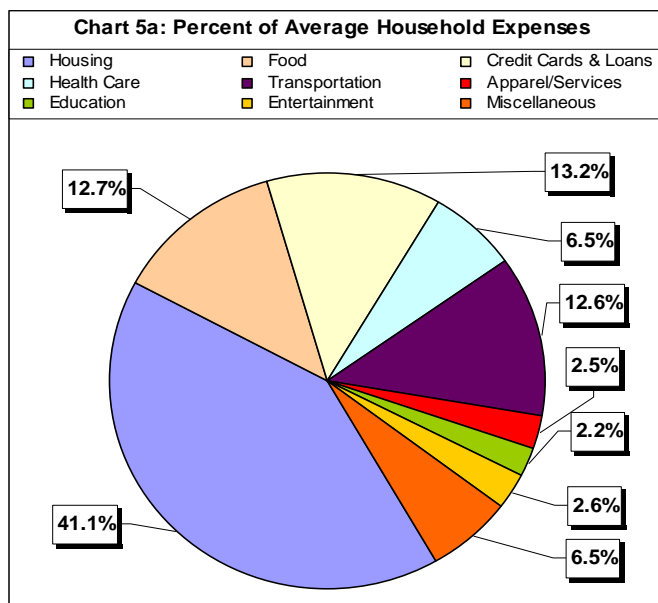
CES households, on the other hand, saw expenditures as a percent of income exceeded one-hundred percent (105 percent) in 2005. On average, CES households had \$88 less income in June 2005 than they had per month in 2003, and \$39 less in expenses.

The imbalance increased in 2007. CES households experienced a minimal increase in income from 2005 to 2007, with a slightly larger increase in expenditures. On average, CES households saw \$458 more in monthly income from 2005 to 2007 and a spending increase of \$562 during the same period. Expenditures as a percent in income rose to 107.6 percent.

	CEX Survey**		CES Survey				
	2003	2005	2003		2005		2007
	Average	Average	Average	Difference from 2003 CEX	Average	Difference from 2005 CEX	Average
<b>Household Income</b>	\$4,418	\$5,074	\$2,797	-\$1,622	\$2,709	-\$2,365	<b>\$3,167</b>
<b>Sum of Average Expenditures</b>	\$3,527	\$4,010	\$2,883	-\$644	\$2,844	-\$1,166	<b>\$3,406</b>
<b>Sum of Average Expenditures as % of Income</b>	79.8%	79.0%	<b>103.1%</b>	23.3%	<b>105.0%</b>	26.0%	<b>107.6%</b>

\* - All figures in 2007 dollars.  
 \*\* The Federal CEX Survey represent all consumer households and is not limited to episodes of unemployment

Claimant household expenditures in proportion to total income changed very little from the 2005 to 2007. Similar to the findings in 2005, claimant households continue to spend the majority of their income on vital household expenses, such as housing, food and transportation costs.



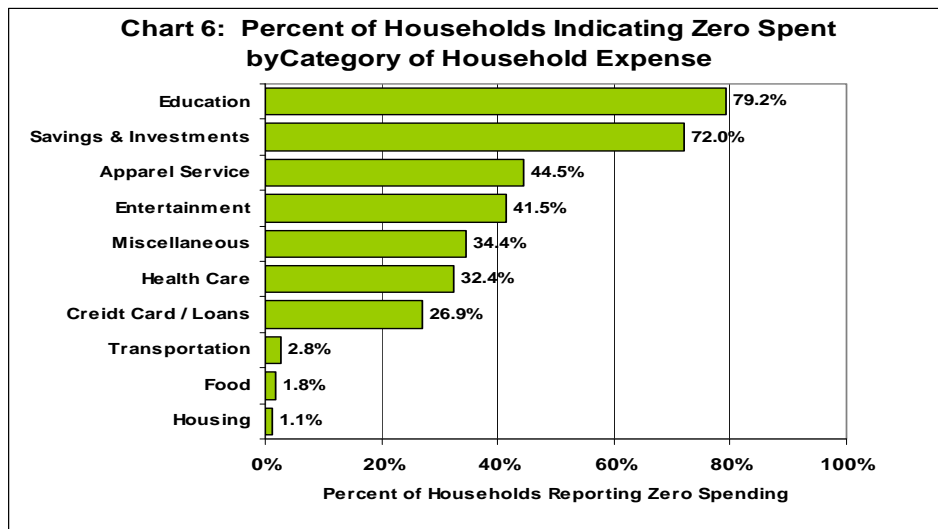
Median housing costs, a better indicator of what the typical households spends for shelter, declined slightly as a portion of household spending, from 51.1 percent of expenditures in 2005

to 50.8 percent in 2007. Credit Cards & Loans saw the greatest drop (1.5 percent) as people seemed to depend less on credit or pay off credit cards to save on interest payments.

Expenditures	2005				2007					
	Average		Median		Average		% Change	Median		% Change
	Sum	% of Total	Sum	% of Total	Sum	% of Total	05-07	Sum	% of Total	05-07
Housing	\$1,177	41.4%	\$1,014	51.1%	1400	41.1%	-0.3%	\$1,200	50.8%	-0.4%
Food	\$367	12.9%	\$321	16.2%	432	12.7%	-0.2%	\$383	16.2%	0.0%
Credit Cards & Loans	\$359	12.6%	\$198	10.0%	450	13.2%	0.6%	\$200	8.5%	-1.5%
Health Care	\$177	6.2%	\$86	4.3%	222	6.5%	0.3%	\$100	4.2%	-0.1%
Transportation	\$411	14.4%	\$268	13.5%	430	12.6%	-1.8%	\$311	13.2%	-0.3%
Apparel/Services	\$74	2.6%	\$20	1.0%	86	2.5%	-0.1%	\$45	1.9%	0.9%
Education	\$72	2.5%	\$0	0.0%	74	2.2%	-0.4%	\$0	0.0%	0.0%
Entertainment	\$60	2.1%	\$12	0.6%	90	2.6%	0.5%	\$25	1.1%	0.4%
Miscellaneous	\$148	5.2%	\$64	3.2%	222	6.5%	1.3%	\$100	4.2%	1.0%
<b>Sum of Expenditures</b>	<b>\$2,844</b>		<b>\$1,984</b>		<b>\$3,406</b>			<b>\$2,364</b>		

\* - All figures in 2007 dollars. Savings and Investment are excluded from this table.

As expected, some categories of expenses, such as housing, food and transportation are not as easily curtailed during times of unemployment, and respondents tended to report significant spending in these categories. Other areas, such as savings and investments, apparel, and entertainment tend to be more discretionary, and many household reported zero spending for these items. It was surprising that the top category for no spending was education, though more than half (52.3 percent) of households had at least one dependent. This may be explained in part because the target month of June 2007 falls outside the traditional school year, and many school age children may have been on vacation.



The Consumer Expenditure (CEX) Survey conducted by the federal Bureau of Labor Statistics lists additional categories of expenditures that were not compiled in CES data. These include personal care, reading, tobacco and alcohol, charitable contributions, insurance and pension contributions, and housekeeping. These categories in the CEX data added an additional \$634 in 2003, or 21.7 percent and \$491 in 2005, for 14.5 percent more costs. These items may be reflected in the higher totals in the CES Miscellaneous categories.

**Table Five. Summary of 2003 through 2007 CES Expenditures, Change in Dollars\***

Expenditures	2003		2005		2007				
	Average	Median	Average	Median	Average		Median		Mode
					Average	Change from 05	Median	Change from 05	Most frequent
<b>Housing</b>	\$1,207	\$1,051	\$1,177	\$1,014	\$1,400	\$223	\$1,200	\$186	\$1,500
<b>Food</b>	\$403	\$343	\$367	\$321	\$432	\$65	\$383	\$62	\$400
<b>Credit Cards &amp; Loans</b>	\$320	\$184	\$359	\$198	\$450	\$91	\$200	\$2	\$0
<b>Health Care</b>	\$200	\$105	\$177	\$86	\$222	\$44	\$100	\$14	\$0
<b>Transportation</b>	\$350	\$231	\$411	\$268	\$430	\$20	\$311	\$43	\$200
<b>Apparel/Services</b>	\$79	\$53	\$74	\$20	\$86	\$12	\$45	\$25	\$0
<b>Education</b>	\$60	\$0	\$72	\$0	\$74	\$2	\$0	\$0	\$0
<b>Entertainment</b>	\$71	\$31	\$60	\$12	\$90	\$30	\$25	\$13	\$0
<b>Miscellaneous</b>	\$193	\$105	\$148	\$64	\$222	\$74	\$100	\$36	\$0

\* - All figures in 2007 dollars.

As shown in Table Six, the expenditure gap for claimant households increased significantly in 2007. CEX data represent typical household spending in the western United States. The CES represents Washington households experiencing an episode of unemployment. The average CES household in Washington spent much less on monthly expenses than CEX households (-24.6 percent) in 2005. In 2007, claimant households were still spending less than CEX households spent in 2005.

**Table Six. Comparison of Average Monthly Household Expenditures, CEX & CES**

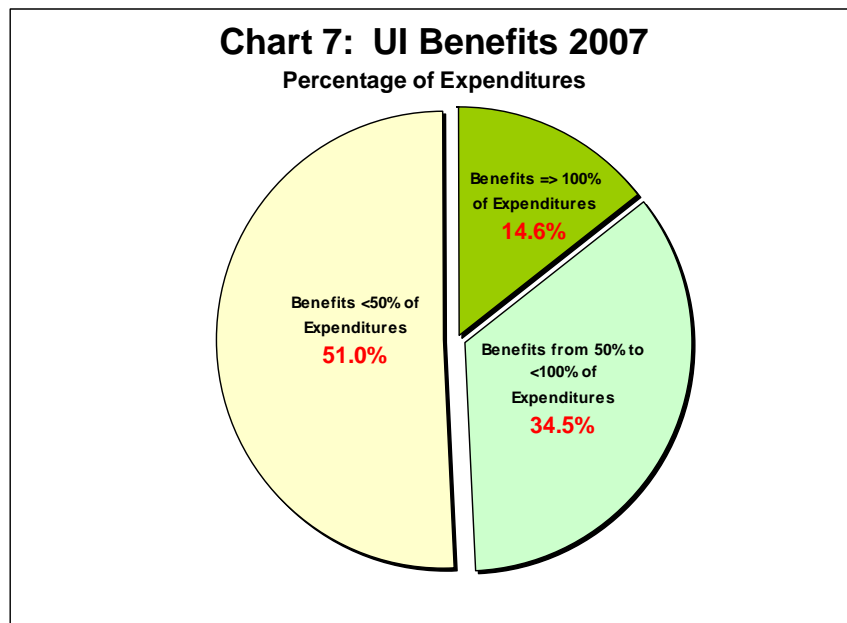
Expenditures	CEX Survey		CES Survey						
	2003	2005	2003	2003 % Change CEX to CES	2005	2005 % Change CEX to CES	2007	WA \$ Change 2005-07	WA % Change 2005-07
<b>Housing &amp; Utilities</b>	\$1,198	\$1,311	\$1,207	0.8%	\$1,177	-10.2%	\$1,400	\$193	19.0%
<b>Food</b>	\$476	\$513	\$403	-15.3%	\$367	-28.4%	\$432	\$68	17.8%
<b>Health Care</b>	\$216	\$230	\$200	-7.2%	\$177	-23.0%	\$222	\$78	25.0%
<b>Transportation</b>	\$689	\$721	\$350	-49.1%	\$411	-43.0%	\$430	\$22	4.8%
<b>Apparel/Services</b>	\$166	\$163	\$79	-52.5%	\$74	-54.8%	\$86	\$11	16.3%
<b>Education</b>	\$69	\$81	\$60	-13.4%	\$72	-11.9%	\$74	\$3	2.8%
<b>Entertainment</b>	\$185	\$206	\$71	-61.8%	\$60	-70.9%	\$90	\$31	49.6%
<b>Miscellaneous</b>	\$55	\$70	\$193	250.9%	\$148	112.4%	\$222	\$75	49.8%
<b>Total (minus Credit)</b>	<b>\$3,053</b>	<b>\$3,295</b>	<b>\$2,563</b>	<b>-16.0%</b>	<b>\$2,486</b>	<b>-24.6%</b>	<b>\$3,005</b>	<b>\$519</b>	<b>20.9%</b>

\* All figures in 2007 dollars.

There are some differences in expenses, as the CES data include utility expenses as part of housing; and CEX data do not account for credit card and loan costs (\$346 in 2005 ; \$450 in 2007 CES) or savings and investments for those who were able to contribute to savings (\$245 in 2005; \$215 in 2007). In most cases expenses exceeded income making savings impractical. At times, a respondent would note, “You’ve got to be kidding”, or similar comments to the savings and investment question.

<b>Table Seven. Benefits as a Percentage of Total Expenditures, CES 2003-2007</b>					
<b>Extent to which Benefits meet Expenditures</b>	<b>2003</b>	<b>2005</b>	<b>Change 2003-05</b>	<b>2007</b>	<b>Change 2005-07</b>
<b>Benefits Exceeded Expenditures</b>	22.0%	24.9%	2.9%	14.6%	<b>-10.3%</b>
<b>Benefits over half but less than 100% of Expenditures</b>	43.1%	42.3%	<b>-0.8%</b>	34.5%	<b>-7.8%</b>
<b>Benefits represent less than half of Expenditures</b>	34.9%	32.9%	<b>-0.2%</b>	51.0%	18.1%
<b>Average Portion of Expenditure</b>	54.2%	56.3%	2.1%	59.3%	<b>3.0%</b>
<b>Median Portion of Expenditures</b>	62.5%	80.2%	17.7%	49.9%	<b>-30.3%</b>

Families that were unable to pay all of their monthly expenses with unemployment benefits increased from 2003 to 2005, but declined by 10.3 percent in 2007. Households where benefits satisfied more than half but less than 100 percent of their expenditures decreased by 7.8 percent, while households where benefits contributed less than half of the household income increased by 18.1 percent to more than half of recipient households.



Typically, claimant households in both 2005 and 2007 did not save or invest. Just under a quarter of the recipient households (24.9 percent) managed to save or invest in 2007. The total amount saved, for those who were able to save or invest, increased by \$416 from \$254 in 2005 to \$670 in 2007. In some cases a sizeable amount attributed to saving or investment was derived from severance packages that are not a routine element of household monthly income. In other cases, a spouse or partner contributed to net household income, which resulted in household income exceeding monthly expenses.

<b>Table Eight. Savings and Investments, CES, 2003-2007*</b>					
	<b>2003</b>	<b>2005</b>	<b>Change 03-05</b>	<b>2007</b>	<b>Change 05-07</b>
<b>Saved or Invested Money</b>	22.8%	20.8%	-2.0%	24.9%	4.1%
<b>No Saving or Investment</b>	77.2%	79.2%	2.0%	75.1%	-4.1%
<b>Average Savings/Investments</b>	\$91	\$53	-\$38	\$170	\$117
<b>Median Savings/Investments</b>	\$0	\$0	\$0	\$0	\$0
<b>Average Savings/Investments when &gt;\$0.00</b>	\$400	\$254	-\$146	\$670	\$415

\* All figures in 2007 dollars.

Unemployment insurance benefits are an essential part of maintaining households during episodes of unemployment. With a replacement rate of less than 50 percent of previous earned income, there is little incentive to not look for work or to decline any reasonable offer of employment. Single-income families appear most at risk of falling behind in monthly expenses due to unemployment, though many two-income families were at serious risk of not being able to satisfy monthly obligations.

There seemed to be a larger number of people whose previous employment was in higher-paying jobs. More than one in four (28.2 percent) were authorized maximum benefits meaning that they had been earning more than \$27 per hour. Further, about one in four (26.1 percent) of those receiving maximum benefits cited their benefits as the sole household income during their unemployment episode. Household expenses exceeding 100 percent of income were common, indicating that families were drawing on savings, liquidating assets or depending on family or friends to make up the difference while unemployed. This is apparent in that more than three out of four families (75.1 percent) were unable to add to savings or investments.

Statistics on the total population, recorded for the federal government, support these findings. The average duration of unemployment from June 2005 to June 2007 declined by two weeks, from 15.5 weeks to 13.5 weeks, and has dropped by more than a month since the same period in 2004. Those who exhausted their benefits declined from about a third (33.1 percent) in 2004 to just under a fourth (24.5 percent) in 2005 to a little more than a fifth (20.8 percent) in 2006. The conclusion drawn from this is that people are spending less time on assistance and fewer people are suffering long-term unemployment. However, when people are unemployed through no fault of their own, unemployment insurance benefits are generally inadequate to cover all of a household's monthly expenses, providing strong incentive to return to work as soon as possible.