Abstract

Unemployment Accounts (UA) are mandatory individual saving accounts that can be used by governments as an alternative to the Unemployment Insurance (UI) system. The goal of this paper is to study the welfare implications of a shift from the current UI system to a new UA system in the United States. The UA system works as follows. During employment, the worker is mandated to make deposits into an individual saving account. The worker is entitled to withdraw payments from this account only during unemployment or upon retirement. In contrast, UI is funded by a payroll tax and provides benefits for a limited duration. I build an heterogeneous agents, incomplete-markets life-cycle model, in which workers face income fluctuations and unemployment shocks. I study a two tier UA-UI system where the unemployed first withdraw from their unemployment account until it is exhausted and then receive unemployment benefits. This hybrid policy provides insurance to workers more efficiently than either the traditional UI or a pure UA systems. Relative to a two tier UI system the hybrid policy leads to a welfare gain of 0.9%, and all initial deciles of wealth are better off. I discuss the relevancy of the policy to Israel in Appendix C.