

Setting the Wrong Course: Personal Reemployment Accounts fail to address the real needs of jobless workers

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Executive Summary

The Bush Administration and certain members of Congress are continuing to push personal reemployment accounts (PRAs) as an alternative to real job training and employment services. Under PRAs, unemployed workers would get a \$3,000 account that they could use to pay for employment services or get a cash bonus for finding a job quickly. Yet, PRAs are an empty promise to Americans seeking help to find a good job. The accounts are too small to purchase meaningful training but just large enough to discourage workers from pursuing cost-effective, short-term services that could help them get back to work more quickly.

The Administration has already begun testing this idea in a seven-state, multi-million dollar PRA pilot program, but no results have been reported. Now, a House subcommittee has authorized five years of funding for a nationwide PRA demonstration project without waiting to see whether the pilot program works.

As Congress decides whether to enact this new demonstration program, we urge them to consider the following evidence.

- PRAs are based on the false premise that workers are not looking hard enough for new jobs and are willingly staying unemployed to collect unemployment insurance (UI) benefits longer. This premise is wrong, and PRAs are particularly ineffective in today's economy because jobs are relatively scarce.
- Workers who receive PRAs are rendered ineligible for training and counseling services delivered through the one-stop system, and will have to pay for these services using their PRA. PRA recipients will miss out on individual training accounts, which typically amount to \$10,000 per worker. The Labor Department's (DOL) own study of earlier bonus programs confirmed that recipients will forego counseling services with the hopes of cashing in on a bonus.
- The reemployment bonus feature of the PRA plan was studied extensively in the 1990s to determine whether it reduced unemployment benefit costs by getting workers employed sooner. Workers were employed, on average, only half a week sooner, and the programs were not found to be cost-effective for the government. Given this poor track record, Congress should await the results of the seven-state pilot project before spending more on PRAs. Instead, Congress and DOL should concentrate their efforts on strengthening existing underfunded programs for dislocated workers and improving access to unemployment benefits – the ultimate personal reemployment account available to experienced workers actively looking for a new job.

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Description of the PRA proposal

The most recent PRA proposal is part of H.R. 27, “The Job Training Improvement Act of 2005.” This bill would establish a national PRA program for up to five years. Funding for PRAs will come at the expense of other Workforce Investment Act (WIA) programs. The Administration appears determined to launch the personal employment account program, despite the fact that Congress failed to enact a \$3.6 billion program in 2003 and a \$50 million pilot introduced last year.

PRAs are essentially a voucher for “up to” \$3,000 per selected individual. Under the proposal, jobless workers are potentially eligible for PRAs if they are identified as likely to exhaust their unemployment benefits or those who have already exhausted benefits. PRA eligibility would be determined by states or by local WIA agencies participating in the program.

The accounts have dual uses: purchasing reemployment services for jobless recipients and providing a bonus to workers who find jobs. Under H.R. 27, PRAs may be used by recipients to purchase a variety of reemployment services, including:

- intensive services (e.g., skill assessment, individual employment plans, counseling and career planning, short-term skill development),
- training services (e.g., occupational skills training, on-the-job training, private-sector training, skill upgrading, job readiness training, adult education, and literacy training), and
- support services (e.g., child care, transportation, and work search expenses).

PRA holders can buy these services from any provider, whether they have been certified by the workforce development system or not.

The second element of PRAs is a bonus for jobless recipients who find work quickly. If a jobless worker finds new employment within 13 weeks of the establishment of the PRA, the worker can receive the unused balance as a cash bonus. An individual receives 60% of the remaining PRA funds upon accepting a job, and the 40% balance after remaining on the job for six months.

PRAs are the wrong approach to help workers

The PRA concept is a terribly flawed method of delivering worker assistance. PRAs are inadequate to meet the tuition requirements of most training courses and community college programs. Existing federally-funded individual training account vouchers have a far greater value, typically amounting to \$10,000 per recipient. PRA recipients must forego their eligibility for free publicly-funded job counseling provided by the Workforce Investment Act (WIA intensives) delivered at one-stop centers across the country. PRA account holders would have to use the money in their account to purchase these services – which are normally free. And, PRAs must be used within one year of their establishment.

Thus, PRA recipients face the self-defeating choice between spending their PRA to get any form of reemployment assistance (even counseling) or holding out for a job to get their bonus. Because a substantial proportion of this target population currently takes advantage of cost-effective intensive services like job counseling (20% use counseling in their first 13 weeks of employment)—this is a major concern.

In fact, the Department of Labor's own study predicts workers won't use PRAs to pay for services. Upjohn Institute researchers predicted that workers would not spend any of their \$3,000 on services unless they expected the services to boost their earnings by 14% or get them re-employed six weeks more quickly. Because short-term services are unlikely to produce such large impacts, the study concluded that "most PRA recipients will probably conserve PRA funds by using fewer intensive, supportive and training services than if they were free. Account recipients will instead seek speedy employment with the aim of cashing out their PRA as a reemployment bonus.¹" The researchers observed that low-wage workers in particular might opt for an \$1,800 bonus (60% of the \$3,000 available at initial reemployment) by accepting an inferior or temporary job.

Personal Reemployment Account Pilot Is Already Using Re-employment Dollars

The President's FY 2005 budget included a \$50 million pilot project for PRAs. Despite the fact that Congress did not appropriate these funds, DOL has moved forward with the first stage of the pilot. To create this new pilot, DOL moved money from State Unemployment Insurance and Employment Services Operations to the pilot project and offered nine states up to \$750,000 each (\$4 million total) as an incentive to run a PRA pilot.

There is an important catch. Participating states have to reprogram their portion of a \$35 million federal grant to improve reemployment services into the PRA pilot program. In essence, money to enhance services that we know are effective (like job search assistance) will now go to test a questionable approach. While DOL initially hoped to get nine states to sign up for the demonstration, only seven—Florida, Idaho, Minnesota, Mississippi, Montana, Texas and West Virginia—signed on. At a minimum, we should wait to see how PRAs fare in these seven states before expanding the program.

Jobless workers don't need a bonus to be convinced to go back to work

The central – and demeaning – idea of PRAs is that jobless workers need a cash incentive (i.e., a bonus) to be convinced to go back to work. This does not make sense: in the absence of such a bonus, jobless workers already have plenty of incentives to return to work. In 2003, workers collecting UI received an average weekly UI benefit of only \$264, less than half of the amount they earned prior to layoff. A March 2004 study of UI recipients by the Congressional Budget Office (CBO) found that "[w]hen UI recipients lost their job, [their] income—excluding UI benefits—dropped by almost 60 percent. With UI benefits included, the income loss was about 40 percent."² The CBO found that nearly one-quarter of UI recipients who remained without work for four months or more fell into poverty despite getting UI benefits. Few families can afford to sustain these sorts of income losses in order to keep getting UI benefits.

The unemployment insurance recipients targeted for PRAs are experienced workers who have demonstrated their work effort. As evidence of their eagerness to return to work, many long-term unemployed swallow deep pay cuts to return to work. For example, the Bureau of Labor Statistic found that one-third of workers dislocated from long-tenured jobs (a population targeted for PRAs) from 2001 to 2003 took a 20 percent pay-cut or more to get back to work. At best, the provision of employment bonuses is misguided; at worst, it is demeaning to working families.

Today's labor market demands a more thoughtful approach to helping long-term jobless workers return to good, stable employment. Despite the beginnings of a job recovery, the nation has been enduring the

worst stretch of long-term unemployment on record since the 1980s. For the past 28 months in a row, more than 20% of jobless workers have been out of work for more than six months – topping the record worst of 18 months in the 1980s. Moreover, as of November 2004 (the most recent data available) there were still 2.5 unemployed workers for each available job opening. The lack of appropriate jobs and structural mismatches between workers’ skills and opportunities—not motivation—explain persistent long-term joblessness.

**Reemployment bonuses have already been researched –
and they are not cost effective**

While Congress is seeking funds for a large-scale, five-year demonstration program, it has already funded a series of major experiments on the core concept of the PRA proposals—reemployment bonuses.

Reemployment bonuses are not a cost-effective way to use public dollars. That’s because the studies show that the government spends more on reemployment bonuses than it saves in unemployment benefits by getting workers reemployed earlier. In 3 of the 4 states researched, “there were small responses of weeks of benefits to the bonuses, leading to small and mostly negative effects on the UI system and total government.”³

Impact of bonuses is limited – especially for workers in tight labor markets. At best, reemployment bonuses offer modest results when they supplement unemployment insurance in a labor market with ample jobs available. A survey of results by Northwestern University economist Bruce Meyer found that “the effects of the bonuses cluster around one-half of a week, or about three percent of the average duration of [unemployment benefit] receipt.”⁴ Bonuses were least effective for workers living in areas of high unemployment or suffering through spells of long-term unemployment. These results make common sense—when jobs are scarce or a worker’s skills don’t match available job opportunities, a cash bonus simply cannot make a good job appear.

This Administration has not done enough to help unemployed workers

As the Bush Administration enters its second term, it’s important to look at the PRA proposal as part of the bigger picture. Personal reemployment accounts are part of this Administration’s overall approach—providing less government support and shifting more risk to individuals and calling that “ownership.” PRAs give working families less opportunity and income support than provided by the nation’s bedrock economic security programs. PRA recipients would get less money in their pockets than under an extended benefit program – and have less access to publicly-supported reemployment services. PRAs are especially troublesome given other administration actions to curtail the federal role in protecting working families from the effects of joblessness.

- The Administration and Congressional leadership sat idly while a record 3 million jobless workers exhausted state unemployment benefits without having access to federal extended unemployment benefits. In all other recent recessions, federal extended jobless benefits had been provided when so many workers were running out of their state benefits.⁵ Extended unemployment benefits are the ultimate personal re-employment account: they let workers support themselves while they actively search for a new job (as required by all state unemployment benefit programs).

- The Bush Administration has been seeking to rid the federal government of its responsibility to ensure that workers receive the unemployment benefits they have earned. They have tried to eliminate federal funding for UI administration and have also announced their intention to weaken the federal regulations regarding the timely payment of UI benefits.
- In the vast majority of states, fewer than half of jobless workers even get unemployment benefits. The Administration has refused to implement the recommendations of the Advisory Commission on Unemployment Compensation that was established by the first President Bush. That Commission called for the Labor Department to work with states to remove legal barriers that exclude many low-wage and part-time workers from benefits.

Better policies are needed to help jobless families

The existing programs to assist dislocated workers are currently woefully underfunded and should be expanded to provide these workers with more training and income support. The last thing that Congress should do is further reduce important WIA training funds by siphoning more funds for an idea that is not supported by research and is unlikely to help workers in the current labor market. Instead, unemployed workers would be better served if Congress improved unemployment benefits and increased Trade Adjustment Assistance and WIA funding.

One program in urgent need of improvement is Trade Adjustment Assistance (TAA)—which provides extended income support and retraining to workers losing jobs due to foreign competition. Inadequate federal funding for TAA has prevented workers in states hardest hit by job losses from gaining access to urgently needed training tuition – and additional unemployment benefits available to workers enrolled in training. Moreover, the TAA program should be expanded to cover workers dislocated by offshoring in service industries or public employment who are excluded from these benefits.

¹ Christopher O’Leary and Randall Eberts, “Personal Reemployment Accounts: Simulations for Planning Implementation,” (U.S. Department of Labor Occasional Paper 2004-08) (2004, May) p. 29.

² Congressional Budget Office, “Family Income of Unemployment Insurance Recipients,” (2004, March), p. 2.

³ Bruce Meyer “Lessons from the U.S. Unemployment Insurance Experiments,” *Journal of Economic Literature*, Volume 33:1 (1995, March), p. 106.

⁴ *Ibid.*, p. 100.

⁵ Isaac Shapiro, “Number of Unemployed Who Have Gone Without Federal Benefits Hits Record 3 Million,” Center on Budget and Policy Priorities, October 2004.