

Personal Reemployment Accounts: Simulations for Planning Implementation

Executive Summary

Proposed legislation called the Back to Work Incentive Act of 2003 introduced a new model for customer choice among publicly funded reemployment services. The Bush administration recommended a two-year federal budget of \$3.6 billion to provide each eligible unemployment insurance (UI) claimant a personal reemployment account (PRA) of up to \$3,000. Personal reemployment account funds could be used for three things: 1) to purchase reemployment services, 2) as a reemployment bonus, and 3) as extended income maintenance for exhaustees of regular UI benefits. Personal reemployment account offers would be targeted to UI beneficiaries most likely to exhaust their UI entitlements using state Worker Profiling and Reemployment Services (WPRS) models.

If PRAs are enacted, core services at one-stop career centers would remain free to all customers, but PRA recipients wishing to use intensive, supportive, and job training services would be required to use account funds to purchase them from a qualified public or private vendor. Additionally, PRA recipients who return to work within 13 weeks of their UI claim date may receive the unused balance in the PRA as a cash reemployment bonus. Sixty percent of the balance would be paid upon reemployment with the remainder payable after six months steady employment. Those failing to gain reemployment and exhausting regular UI entitlement could draw support payments from their PRAs at the rate of their weekly benefit amounts (WBAs).

The PRA proposal combines several employment initiatives in an innovative way, but legislation authorizing PRAs has not yet been enacted. However, the proposal remains active and has the president's continued support. The W.E. Upjohn Institute has investigated aspects of

how the proposed PRAs would work under a grant from the U.S. Department of Labor. The Institute conducted PRA simulation analyses using a unique data set for the state of Georgia linking UI claims and employment services records. To be forward looking, our simulations used the new WPRS model now being implemented in Georgia.

PRA Budgets and Service Prices

The proposed \$3.6 billion for PRA enrollments over two years requires funds be distributed to states in proportion to their share of national unemployment. Based on 2002 unemployment figures Georgia's share would be 2.37 percent or \$85.32 million. The proposal also requires that PRA funds be allocated within states in proportion to regional shares of state unemployment. Given that offers are to be targeted using WPRS scores to those most likely to exhaust their benefit entitlement, nearly all offers would be made to UI claimants in the top 30 percent of the state WPRS distribution of claimant scores. Consequently, we focus our simulations on that group of claimants.

Since the simulation analysis required monetary values for services, hypothetical prices were set based on statewide service expenditures, service usage rates, and relative valuations for services. Based on our sample for analysis, Table E.1 summarizes imputed prices for services as well as usage rates during the two PRA relevant time periods: the first 13 weeks and the remaining 39 weeks in the UI benefit year. In addition to supportive and training services, Georgia one-stop centers offer five types of intensive services. The most popular intensive services among those potentially eligible for a PRA are customer service plan and counseling. The table shows that among those profiled, 18.9 and 20.3 percent of claimants used these services during the first 13 weeks. The table further shows that the bulk of service use occurs in

that earlier time frame. Relatively small proportions of UI claimants use either supportive or training services, which are imputed to be most costly.

PRA Simulations

Our simulations focus on estimating the average expected cost per \$3,000 PRA offer, and the number of offers possible over two years given the budget. Estimates of these magnitudes are critical for states planning for PRA enrollment over a two-year cycle. The simulations also provide evidence on the pattern of service use, bonus receipt, and income maintenance payments likely to result under PRAs.

To span the range of possible responses to PRA offers, our simulations include a baseline of no change in behavior regarding service use and UI benefit receipt, as well as impacts shortening UI duration by 1 and 2 weeks. These alternatives encompass the range of responses observed in the UI reemployment bonus experiments (Robins and Spiegelman 2001). The simulation grants a first bonus payment for UI duration of less than 13 weeks, and a second bonus payment when there are also positive earnings in the first and third quarters following the claim and at least \$2,000 in earnings the second quarter. Under the proposal, a second bonus is not paid if reemployment services are purchased after a first bonus payment. Table E.2 shows that for the baseline simulation, 26.7 percent of the sample could be paid both bonuses—provided funds remained in the PRA after purchase of services—while a total of 40.2 percent of those potentially offered a bonus appear to qualify for a first bonus payment. Since they did not gain employment during the first 13 weeks, 58.8 percent of the sample would not qualify for either bonus but could use PRA funds for services or income support payments after benefit exhaustion.

If every UI claimant offered a PRA accepted, and every recipient spent the entire \$3,000 grant, then 28,440 offers could be made over two years with the Georgia budget of \$85.32 million. However, it is unlikely that all account recipients will spend their entire grant. Table E.3 summarizes the average cost per offer given the prices and usage pattern for services observed in Georgia. Since there is uncertainty about what elements of PRAs may emerge from current deliberations or future proposals, the table presents results for three combinations: 1) bonus, purchase of services, and exhaustee payments, 2) bonus and purchase of services, and 3) bonus only with free services.

The Average Cost of PRA Offers

The top row of Table E.3 reports that offers with all three elements would cost an average of \$2,475 in the absence of any behavioral response. If durations for those offered PRAs are 1 week shorter, the average cost per offer rises by \$40, if the response is 2 weeks the cost rises by \$76 per offer from the baseline. The increased cost results from more beneficiaries becoming employed soon enough to qualify for bonus payments. The average cost increases resulting from responses to the PRA offer are modest.

If the extended jobless benefits feature of PRAs is eliminated, the average baseline cost of a \$3,000 account drops more than \$1,000 to \$1,452. Accounting for 1- and 2-week behavioral responses increases the average cost by \$39 and \$76, respectively.

The bottom row of Table E.3 shows costs associated with simplified PRAs involving only a targeted reemployment bonus. Simulations for Georgia indicate the baseline \$3,000 bonus offer would cost \$1,040 in payments, and if insured durations declined by 1 or 2 weeks the costs would rise by \$46 and \$91, respectively. Previous analysis of targeted reemployment

bonuses suggested that cash offers as large as \$3,000 would not be cost effective, but smaller offers could be cost effective while still encouraging quicker return to work (O’Leary, Decker and Wandner forthcoming).

The Number of PRA Offers Possible

Table E.4 translates the PRA average cost figures into estimates of the number of offers that could be made assuming 100 percent acceptance of PRA offers. An 80 percent acceptance rate was observed in the Illinois bonus experiment, which required a formal acceptance of the offer (Woodbury and Spiegelman 1987). Assuming that acceptance is not correlated with factors systematically influencing the rate of spending from PRAs, enrollment estimates could be adjusted by a factor equal to the reciprocal of the take-up rate. Our simulations indicate that the baseline PRA with all three elements could be offered to 34,473 Georgia UI claimants over two years. That is about 17, 000 per year, or about 6.3 percent of Georgia UI claimants based on 2001 data. The PRA proposal targets WPRS profiled claimants most likely to exhaust benefits who are initially eligible for at least 20 weeks of benefits, and 17,000 offers constitute about 13 percent of this target group in Georgia. Even with a 1- or 2-week behavioral response, the Georgia budget would permit nearly 17,000 offers per year.

If the PRA included only the bonus and purchase of services, not the extended benefits feature, more than 31,000 offers per year could be made with the Georgia budget regardless of the behavioral response. For offers that were simply \$3,000 targeted bonuses, more than 43,000 offers per year could be made with the PRA grant to Georgia.

Additional Program Design Considerations

Our simulation results are very robust relative to the assumed service prices. Cutting service prices in half would increase the number of offers possible by only about 20 percent. However, there is uncertainty about how charging for services would affect the pattern of services chosen.

Under what conditions would a PRA recipient either purchase services or take their chances and pursue bonus payments? To investigate this question, we identified the reemployment outcomes that would make a participant financially indifferent toward the following two extremes: 1) purchasing no services with the hope of receiving the full PRA amount in bonus payments, or 2) spending the entire PRA amount to purchase services with the hope of speeding up reemployment or receiving a higher reemployment wage. To spend the entire budget on services, the UI beneficiary must expect either earnings to be nearly 14 percent higher or that employment will occur at least 6 weeks sooner. Research on employment and earnings effects of employment services and job training suggest effects are more modest (Leigh 1995). PRA recipients might therefore reduce use of services in hopes of receiving larger reemployment bonuses.

We also checked to see if \$3,000 would be sufficient to purchase the bundles of services chosen given the assumed prices. If no PRA money was spent on bonuses and all on services, about one-half of 1 percent of the UI claimants in our Georgia sample would have a budget shortfall. Among these claimants the mean budget shortfall was \$551 in the first 13 weeks and \$637 during the remainder of the UI benefit year.

The PRA proposal requires that the amount of the PRA be uniform throughout the state and not exceed \$3,000. Since the UI reemployment experiments set bonus offers as multiples of the WBA we simulated setting PRAs as 10 times the WBA, with a minimum of \$1,500. The maximum WBA in Georgia is \$300. This design would permit about 15 percent more bonus offers, and it also may moderate the incentive for some claimants to accept low-paying jobs simply to qualify for the first bonus paid upon reemployment.

The UI reemployment experiments paid bonuses only after at least 16 weeks of continuous reemployment. In these experiments, the reemployment earnings of those offered bonuses were at least as high as the control groups. The timing of bonus payments under the proposed PRAs might yield a different impact on wages.

The proposed formula for PRA budget allocations to states and local service delivery regions within states is determined by the estimated share of unemployment. This formula will yield a disproportionate share of PRA dollars to qualified UI claimants in states with relatively exclusionary UI eligibility conditions. The total unemployment rate exceeds the insured unemployment rate by a greater margin in such areas. Since PRAs are only offered to UI claimants, the allocation could more equitably be based on the state and local share of insured unemployment. Changing the allocation rule to be based on insured unemployment would not penalize states that have higher rates.

Summary

Economists have long touted the merits of incentives, pricing, and targeting in social programs, particularly reemployment programs. These features have been tried in demonstration programs and some are now used in Individual Training Accounts and the WPRS system.

However, all three features previously have not been combined in the same program.

Simulations suggest that successful implementation of such a program requires an understanding of the possible responses by participants. Simulations also point to the range of behavioral responses necessary for PRAs to function well. While findings from past studies indicate that measured responses to reemployment bonuses and expected wage gains from services fall short of what is necessary for participants to choose services over the bonus, final assessment of PRAs awaits implementation or demonstration of the program.

Table E.1 Estimated Services Usage Rates and Prices for Intensive, Supportive and Training Services among WPRS Profiled UI Claimants in Georgia, Program Year 2001

Services	Up to 13 weeks (%)	After 13 weeks (%)	Hypothetical prices (\$)
Intensive services			
Service coordination	0.5	0.2	356
Customer service plan	18.9	4.6	356
In -Depth Assessment	0.1	0.0	712
Counseling	20.3	5.1	712
Expanded workshop	0.4	0.3	712
Supportive services	1.7	0.6	1,068
Training services	2.7	1.8	1,424

Table E.2 Sample Percentages by Employment Status in PRA Time Periods among Recipients Profiled to be Most Likely to Exhaust UI Benefits

Employed in first 13 weeks	Employed after 13 weeks	
	Yes	No
Yes	26.7	13.5
No	9.9	49.9

Table E.3 Average Cost per PRA Offer for Alternative Combinations of Features (\$)

PRA scenario	Baseline	1-week impact	2-week impact
Bonus, purchase services, and UI exhaustee payments	2,475	2,515	2,551
Bonus and purchase services	1,452	1,491	1,528
Bonus only with free services	1,040	1,086	1,131

Table E.4 Number of PRA Offers Possible in Georgia over Two Years for Alternative Combinations of Features Assuming All Offers Are Accepted

PRA scenario	Baseline	1-week impact	2-week impact
Bonus, purchase services, and UI exhaustee payments	34,473	33,924	33,446
Bonus and purchase services	65,149	63,538	62,111
Bonus only with free services	93,403	89,473	85,929