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UPJOHN INSTITUTE *Employment Research*

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Personal Reemployment
Accounts

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New Facility

New Books

Vol. 11, No. 1

Employment Research is published quarterly by the W.E. Upjohn Institute for Employment Research. Issues appear in January, April, July, and October.

The Institute is a nonprofit research organization devoted to finding and promoting solutions to employment-related problems at the national, state, and local level. The Institute is an activity of the W.E. Upjohn Unemployment Trustee Corporation, which was established in 1932 to administer a fund set aside by the late Dr. W.E. Upjohn, founder of the Upjohn Company, to conduct research on the causes and effects of unemployment and seek measures for the alleviation of the hardships suffered by the unemployed.

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Christopher J. O'Leary and Randall W. Eberts

Personal Reemployment Accounts

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

**PRA offers would be targeted
to UI beneficiaries most likely to
exhaust their UI entitlements
using state WPRS models**

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 (O'Leary and Eberts 2003). 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 based on statewide service expenditures, service usage rates, and relative valuations for services. Based on our sample for analysis, Table 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

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

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

Table 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

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 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 if 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 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

Table 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 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

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 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 3 shows costs associated with simplified PRAs involving only a targeted reemployment bonus. Simulations for Georgia indicate that 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 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

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.

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

Table 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

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

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.

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 offered only 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.

For links to additional information on PRAs, visit <http://www.upjohninstitute.org/pr.html>.

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Randall W. Eberts is executive director of the Upjohn Institute.

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Institute Moves in to New Facility

Randall W. Eberts

I am pleased to announce the opening of our newly expanded and renovated facility. After nearly two years of planning and a year of construction, we moved into our new offices on October 27. The new facility doubles the space of our main building, adding an additional 20,000 square feet of new offices and meeting rooms, and totally renovates the existing building of similar size. Although we have two other buildings on our campus, we found over the past several years that we had outgrown our space. We had squeezed as many people in the main building as we could. When we moved into the original building in 1965, we had a staff of 14; when we moved out of the building to make way for construction, we had 34 employees in that building and 21 in our other two buildings.

Obviously, it was time to expand.

Staff had considerable input into the design of the building and their workspace, and they are pleased with the highly functional space that resulted. Now we have additional office space to house visiting scholars and summer interns, a large conference room to hold seminars or small conferences, several meeting rooms, and an expanded library. We also have a state-of-the-art teleconferencing center.

The Upjohn Institute's new facility doubles the space of the original building, adding an additional 20,000 square feet. The building to the left is one of two additional Institute buildings, which are refurbished mansions that house various operations.

The construction process began in October 2002 and was completed one year later. The original building, constructed in a U-shaped configuration with a courtyard in the middle, was completely renovated and fully integrated with the new two-story addition.

A spacious reception area welcomes visitors and opens into a two-story atrium with skylight, as shown in the bottom photo.

For those who have visited our Web site during the past year, you may have kept abreast of our progress in transforming our existing building.

The Institute grew out of Dr. Upjohn's concern about the well-being of workers who are displaced due to economic downturns. In 1932, he purchased a sizable parcel of land outside of Kalamazoo where laid-off workers could grow food for their families. This grand experiment of a land-based social safety net was replaced by the Unemployment Insurance system a few years later.

Today, the Institute has 55 employees working in two divisions. The research division, including 10 Ph.D. economists, analyzes the dynamics of the labor market and conducts evaluations of employment programs around the world. The employment management division is the administrative entity for the local Workforce Development Board, administering all federal and state employment programs for our part of Michigan. The marriage of research and operations makes the Institute a unique organization, and with this expansion and upgrade, we believe that we are better equipped to fulfill our mission of finding practical solutions to employment issues.

The large conference room allows ample room for seminars and guest speakers.

Natural light and open space contribute to the Institute's modern design. The two-story glass atrium offers a seamless view into the landscaped courtyard and a panoramic view of downtown Kalamazoo from the second floor.

New Books

Job Creation, Job Destruction, and International Competition

Michael W. Klein
Scott Schuh
Robert K. Triest

When job loss occurs in the U.S. labor market—particularly in the manufacturing sector—international

competition invariably receives the brunt of the blame. Jobs, it seems, are being siphoned off overseas as a result of free trade agreements with nations that have eager, low-

wage workforces. In fact, say the authors, this is only part of the story. At the same time jobs are being lost, other jobs are being created. Therefore, a more nuanced view of the effects of international competition is called for in order to truly understand its effects on the U.S. job market.

Klein, Schuh, and Triest offer such a view by presenting a picture of how the effects of international trade on employment in U.S. manufacturing industries vary widely. They explore the labor-market dynamics and adjustment costs associated with international factors, particularly the way fluctuations in exchange rates, overseas economic activity, and the altering of trade restrictions contribute to churning—the simultaneous job creation among some firms and job destruction among others.

This book serves as the first step toward building a base of knowledge that should improve our understanding of, and policies toward, the effects of international competition on labor markets.

216 pp. \$40 cloth ISBN 0-88099-272-7 / \$17 pbk. ISBN 0-88099-271-9. 2003.

Nonstandard Work in Developed Economies

Causes and Consequences
Susan Houseman
Machiko Osawa, Editors

Full-time, permanent employment has historically been the norm in the developed economies of the United States, Japan, and Europe. Yet in

most of these countries, the fraction of workers engaged in nonstandard work (e.g., part-time, temporary, or contract positions) has increased in recent years, in some countries dramatically so.

The papers comprising this book reveal the considerable variation in the levels of growth in a broad set of nonstandard work arrangements while presenting a comprehensive view of how the nature of the employment relationship is changing within and among countries.

The international roster of economists, sociologists, and labor law experts who contributed to this volume draw on cross-country variations in economic conditions and institutional characteristics to explain why some arrangements have grown faster in some countries than in others and what this means for workers.

Overall, this book will be useful for anyone seeking to gain a better understanding of the trends in nonstandard work arrangements including factors influencing their size and growth, their impact on women, and their implications for employees' job security, pay, and benefits.

520 pp. \$70 cloth ISBN 0-88099-264-6 / \$26 pbk. ISBN 0-88099-263-8. 2003.

International Trade and Labor Markets

Theory, Evidence, and Policy Implications
Carl Davidson
Steven J. Matusz

Davidson and Matusz set out to examine the impact of trade on the poor and unemployed by showing that there is much to be gained by

extending the traditional analysis of international trade to allow for labor markets characterized by workers whose labor-market experiences are punctuated by

spells of involuntary employment.

To accomplish this, they develop models to investigate the impact of a variety of policies that are aimed at offsetting some of the costs of worker displacement caused by trade and trade policies. These models allow them to investigate the impact of trade on the poor both through its impacts on job opportunities and its impact on the distribution of income when unemployment is present. They are also able to explore how best to compensate those who are harmed by trade liberalization.

145 pp. \$40 cloth ISBN 0-88099-274-3 / \$16 pbk. ISBN 0-88099-273-5. 2004.

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