

Missing the mark: “Personal Reemployment Account” pilot program fails to address real needs of jobless workers

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The Bush Administration’s fiscal year 2005 budget proposes spending \$50 million to create “personal reemployment accounts” (PRAs) for jobless workers. Rep. Jon Porter (R-NV) introduced H.R. 4444, the “Worker Reemployment Accounts Act of 2004,” to establish this pilot program, with House consideration expected as early as June 3rd. Funding for the pilot is expected to come from existing Workforce Investment Act (WIA) demonstration money. While this year’s pilot proposal is far less ambitious than the administration’s FY 2003 request for \$3.6 billion for PRAs over two years, it is nevertheless poorly timed and ill conceived.

The timing of both the 2003 and 2004 PRA proposals has not been coincidental—both followed shortly after the defeat of attempts to extend federal Unemployment Insurance (UI) benefits to the long-term unemployed. However, the proposed PRA is not an adequate replacement for UI; the PRA will help less than 0.2% of the unemployed. Instead of adopting a limited PRA pilot proposal, Congress should directly address the serious problems facing millions of jobless workers, particularly those out of work for more than 26 weeks.

Description of the PRA proposal

PRAs are essentially a voucher for “up to” \$3,000 per selected individual. Under the proposed pilot program, only about 15,000 jobless workers identified as likely to exhaust their unemployment benefits, or those who have already exhausted benefits, are potentially eligible for PRAs. PRA eligibility would be determined by states or by local WIA agencies participating in the pilot program. The accounts as proposed have dual uses: purchasing reemployment services for jobless recipients and providing an incentive for recipients to accept jobs.

Under H.R. 4444, 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) and training services (e.g., occupational skills training, on-the-job training, private-sector training, skill upgrading, job readiness training, adult education, and literacy training). In addition, the funds can be used for support services (e.g., child care, transportation, and work search expenses). However, PRAs have important limitations: they must be used within one year of their establishment and for that year recipients may only receive WIA services on a fee-for-service basis. PRA recipients cannot access free core services typically provided through WIA.

The second element of PRAs is an incentive for jobless recipients to seek and accept work. If a jobless worker finds new employment within 12 weeks of getting the PRA and keeps the job for six months, all of his or her unused PRA funds are paid in two steps to the recipient as a “reemployment 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.

Missing the mark in today’s labor market

Today’s labor market is characterized by insufficient new job creation, high and sustained unemployment insurance (UI) benefit exhaustions, and widespread long-term unemployment. Since the recession began 37 months ago in March 2001, 1.6 million jobs have disappeared, representing a 1.2% contraction. To keep up with growth in the working age population since

March 2001, we should have created more than 5 million jobs. Thus, the total job shortfall is about 7 million. In addition, a large number of unemployed workers continue to exhaust their UI benefits each month, with more than 320,000 workers exhausting in April 2004. Finally, long-term unemployment continues to remain extremely high, with 1.8 million people---22% of the total unemployed--out of work for 27 weeks or more. Reflecting this tough labor market, public concern about dislocation, offshoring, and poor job opportunities is widespread and legitimate.

In the face of these realities, the majority leadership in the House has refused to extend the Temporary Extended Unemployment Compensation (TEUC) program and has instead proposed PRAs. PRAs, however, cannot address the serious problems facing today's jobless and dislocated workers. Supporters of PRAs seem to believe that jobless workers themselves are the source of the unemployment problem and that they need incentives to look for work harder and to accept jobs sooner, rather than income support and substantial retraining programs. Instead of providing hundreds of thousands of jobless workers with the time and resources needed to find good jobs paying middle-class wages, this bill proposes a very limited pilot program that will help less than 0.2% of the unemployed.

Research doesn't support use of PRAs in tight labor markets

PRAs do not address the pressing problems of lack of available jobs, need for marketable skills, or insufficient training funds for today's dislocated workers. With respect to their use as reemployment bonuses, PRAs reflect an underlying philosophy that jobless workers are not looking hard enough for work and that they willingly remain unemployed longer to collect UI benefits. In terms of using PRAs to purchase reemployment services, the pilot program's vouchers offer no new resources for dislocated workers and create a danger that recipients will avoid or delay purchasing services in order to receive a bigger reemployment bonus.

Reemployment bonuses are not effective. Research does not support the use of reemployment bonuses to address widespread dislocation and long-term unemployment in a tight labor market. At best, reemployment bonuses offer modest results when they supplement unemployment insurance in a labor market with ample jobs available. A 2001 Upjohn Institute evaluation of reemployment bonus research found that "the evidence appears conclusive that bonuses are not the panacea originally envisioned." Research involving reemployment bonuses in Washington state conducted for the U.S. Department of Labor concluded that, "claimants in areas experiencing moderate or high [total unemployment rates] responded weakly or not at all" to the bonus program.

There are currently 1.8 million individuals who have been out of work longer than six months. As of February 2004 (the most recent month for which there are data), there is still only one job opening for every three unemployed workers. So, no matter how diligently unemployed workers search for a new job, there are literally no jobs available for two out of every three jobless workers. At most, in tight labor markets PRAs re-shuffle the queue of those seeking jobs, putting some workers back on the job before others, providing a so-called "substitution effect." In current labor market conditions, offering jobless workers reemployment bonuses is simply addressing the wrong problem.

While critics frequently claim that jobless workers avoid work in order to receive UI benefits, the hardships experienced by jobless workers and the inadequacy of UI benefits make this difficult to believe. In 2003, workers collecting UI received an average weekly UI benefit of only \$262, 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%. With UI benefits included, the income loss was about 40%.” 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.

PRA training dollars are unlikely to be effective. The incentives created by PRAs also miss the mark in terms of providing a new way to purchase reemployment services. Workers offered PRAs are intended to be those most likely to exhaust benefits—those without a high school diploma, those in declining industries, and those who live in areas of high unemployment—but also those most in need of training. PRAs create an incentive for these workers to refuse training in exchange for the promise of a reemployment bonus. The \$3,000 cap on PRAs falls short of what is required to purchase meaningful training for many dislocated workers. In addition, since workers receiving PRAs cannot access other WIA services, some will purchase \$3,000 worth of services through a PRA, but give up the opportunity to get up to \$10,000 in other possible WIA services available without cost under existing programs.

Better policies to help the unemployed

UI benefits in many states are too low to replace half of pre-layoff wages for many workers. UI programs also fail to pay UI benefits to a significant proportion of jobless workers: only 41% of the unemployed received regular UI benefits in 2003. The reemployment bonus proposal doesn't address the real world problem of inadequate UI benefit levels and low UI reciprocity.

Instead of offering this token PRA pilot project, Congress and the Bush administration should fund policies that address the real problems facing jobless workers today, as outlined below.

- **Congress should restore the Temporary Extended Unemployment Compensation (TEUC) program.** Between the expiration of TEUC in December 2003 and the end of April 2004, approximately 1.5 million unemployed workers exhausted UI benefits without further assistance. The economy is not producing sufficient numbers of new jobs to give them a reasonable chance of finding work. These long-term jobless workers still need TEUC benefits. Paying TEUC helps tide over jobless workers and also stimulates local economies by boosting consumer spending.
- **Existing programs for funding dislocated workers, which are currently woefully inadequate, should be expanded to provide these workers with more income support.** The administration has proposed to slash funding for Trade Adjustment Assistance (TAA) and WIA programs in Fiscal Year 2005 despite the continued lack of job opportunities for the millions of unemployed workers. The last thing that Congress should do is further reduce important WIA training funds by siphoning off \$50 million 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 increased TAA and WIA funding. The TAA program should be expanded to cover individuals dislocated by offshoring in service industries or in public employment. TAA training should be adequately funded to enable trade-impacted workers to receive retraining and income support.