

Pennsylvania Reemployment Bonus Demonstration Final Report



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**PENNSYLVANIA REEMPLOYMENT
BONUS DEMONSTRATION**

FINAL REPORT

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EXECUTIVE SUMMARY

The Unemployment Insurance (UI) program provides short-term income support to involuntarily unemployed individuals while they seek work. To promote rapid reemployment, the program currently uses work-search requirements and employment-service referrals; however, policy interest has recently been expressed in providing additional job-search assistance and other employment-oriented services to UI claimants, including additional monetary incentives for claimants to seek work on their own. These monetary incentives could be provided in the form of a reemployment bonus--a lump-sum benefit paid to those who become reemployed or self-employed quickly. A reemployment bonus would compensate for the reemployment disincentives inherent in the regular UI system, which pays benefits to claimants for the weeks in which they remain unemployed.

The Pennsylvania Reemployment Bonus Demonstration tested the effect of alternative reemployment bonuses on the reemployment and UI receipt of UI claimants. The demonstration showed that reemployment bonuses can reduce the amount of time spent on UI, thereby reducing benefit payments. The demonstration also provided some evidence that the bonus offers increased the employment and earnings of claimants. Overall, the demonstration showed that the benefits of reemployment bonuses can exceed their costs to society, claimants, and the government. However, for all the bonus offers tested, the amount of the bonus payments plus their administrative costs exceeded the savings in UI payments. Thus, reemployment bonuses do not appear to be cost-effective from the standpoint of the UI system itself.

DESIGN OF THE DEMONSTRATION

The Pennsylvania Reemployment Bonus Demonstration was designed to test the effect of alternative parameters of a reemployment bonus offer, including the amount of the bonuses that are offered and the time period in which the bonus offer remains valid--the qualification period. It tested six treatments, or bonus-offer variations, according to a design in which eligible claimants were assigned randomly to the six treatments and to a control group that was not offered a bonus. The purpose of this random assignment design was to allow differences in the behavior of claimants in the treatment groups to be attributed to the effect of the treatments with a known degree of statistical precision.

The six treatments were chosen to bracket the policy-relevant range of reemployment bonus options. Four treatments incorporated two bonus offer amounts and two qualification periods. The two bonus offers that were tested included a low offer (three times the weekly benefit amount, or an average of \$500) and a high offer (six times the weekly benefit amount, or an average of \$1,000). The two qualification periods that were tested included a short period (6 weeks) and a long period (12 weeks) beginning with the bonus offer date. One additional treatment tested a bonus offer that declined gradually from the high offer amount over a 12-week qualification period, thus giving claimants an incentive to become reemployed as quickly as possible within the 12-week period.

A special element of the demonstration was the offer of a job-search workshop. The workshop was offered in combination with the five bonus offers, in the expectation that some claimants might not be able to take full advantage of the bonus because they lacked job-finding skills. To help isolate the added benefits of offering the job-search workshop, the demonstration included a sixth treatment

in which claimants were offered the most generous bonus (a high bonus amount and long qualification period) but not the job-search workshop.

Another important element of the demonstration design was that the bonus offer was to be offered only to UI-eligible claimants who were not job-attached. For this reason, claimants who had a definite recall date within 60 days or who obtained jobs exclusively through their union were excluded from the demonstration. A few special categories of claimants were also excluded. In order to apply these eligibility requirements, the bonuses were offered one or two weeks after the initial UI application, when claimants signed for their waiting week or their first week of benefits.

Claimants who started a job within the qualification period could receive a bonus if they maintained employment for 16 consecutive weeks. Bonus were not paid to claimants who were recalled by their pre-layoff employers or to claimants who were determined to be ineligible for UI benefits prior to their reemployment.

THE IMPLEMENTATION OF THE DEMONSTRATION

Demonstration-eligible claimants were selected and bonus offers were made between July 1988 and October 1989, a period in which the Pennsylvania economy was quite strong (employment was growing, and the average unemployment rate was 4.5 percent). Over this period, 15,005 eligible claimants were selected and assigned to treatment and control groups. Of these claimants, 14,086 signed for the waiting week or received a first payment and were thus eligible to receive a bonus offer if they were assigned to a treatment group. These claimants were located in 12 offices throughout the state. The 12 offices were selected randomly to represent the UI population in the state.

The demonstration procedures were, in general, implemented as planned. Findings on eligibility determination, bonus offers, the job-search workshop, and bonus claims and payments are as follows:

Eligibility Determination

- Eligible claimants were correctly identified and were assigned randomly to the treatments and the control group. These eligible claimants constituted about half of the UI-eligible population. The most important screening criterion was the exclusion of claimants who had a definite recall date. Use of this screening criterion yielded eligible claimants that had shorter average job tenure and were less likely to have worked in manufacturing industries than were ineligible claimants.
- An analysis of the post-UI labor-market experience of eligible and ineligible claimants indicates that the selection criteria successfully directed bonus offers to claimants who generally were not job-attached.

Bonus Offers

- Ninety-four percent of the treatment group members who signed for a waiting week or first compensable week attended orientation and received a bonus offer. These offers were provided in a timely fashion (an average of about 17 days after the benefit application date).

- Based on site observations, we believe that claimants were largely offered the correct bonus parameters. Most claimants also appeared to understand the bonus offer, suggesting that the extent to which the bonus offer was understood was likely comparable to what would exist in an ongoing program.

Job-Search Workshop

- The participation rate for the demonstration job-search workshop was very low (under 3 percent). This low participation rate was due primarily to the general lack of interest among claimants, rather than to implementation problems.
- The low participation rate in the workshop may be due directly to the strong economy in which the demonstration operated and to the fact that the workshop was offered early in an individual's unemployment spell. Moreover, the fact that the bonus was offered at the same time that the workshop was offered may have provided a disincentive to participate in the workshop.

Bonus Claims and Payments

- Seven to eight percent of the claimants with short qualification periods and 10 to 14 percent of the claimants with long qualification periods received a bonus payment. The highest bonus receipt rates occurred for the most generous treatments. Overall, 11 percent of claimants received bonuses averaging \$906.
- About 20 percent of the claimants who filed a claim for a bonus were judged to be ineligible, primarily because their job did not start within the qualification period, or because the individual was not eligible for UI. Other individuals who appeared to be eligible when they first became reemployed did not work for the required 16 weeks and thus did not receive a bonus.
- An important question is whether the bonus receipt rate found in the demonstration is comparable to what could be expected in an ongoing program. At most, about 6 percent of the claimants might have been eligible for a bonus for which they did not apply, making the maximum bonus receipt rate 17 percent.

IMPACTS ON UI RECEIPT

The demonstration treatments were expected to reduce UI benefit receipt among eligible claimants by inducing them to find reemployment quickly. We examined this hypothesis by comparing UI receipt among claimants who were assigned to one of the bonus treatments with UI receipt among claimants who were assigned to the control group. Our estimates based on these comparisons show that most of the bonus offers that were tested reduced UI receipt significantly over the benefit year.

The most generous bonus offer--the highest bonus amount for the longest qualification period--had the greatest impact on benefits, reducing average UI receipt by about 0.8 weeks, or by \$130. In addition, this most generous bonus also reduced the proportion of claimants who exhausted their benefits. The more limited bonus offers--a smaller bonus amount, a shorter qualification period, or

a bonus that declined over time--reduced UI receipt by an average of about a half a week, or by \$80, per claimant. These bonus offers did not affect the likelihood that benefits would be exhausted.

These estimated impacts of the bonuses did not vary significantly among most subgroups. However, impacts were significantly greater among claimants from manufacturing industries than among claimants from nonmanufacturing industries.

Further analysis indicated that the bonus offers significantly increased the rate of exit from UI during the bonus qualification periods. Moreover, most of the bonus offers reduced UI receipt more among relatively short-term claimants than among longer-term claimants, who were likely to exhaust their UI benefits.

IMPACTS ON EMPLOYMENT AND EARNINGS

Because the bonus offers reduced UI receipt, we expected to observe an increase in employment and earnings among claimants assigned to the treatments, and we did find some evidence that this increase occurred. Data from UI wage records showed that the treatments had no impact on employment, but that they had a generally positive but insignificant impact on earnings. Despite the lack of statistical significance of the earnings impact, the magnitudes of the estimates, which were generally between \$0 and \$200 for the year following benefit application, were consistent with the estimated impacts on UI receipt. The largest impacts occurred for the most generous bonus offer (a high bonus amount and long qualification period), for which we also observed the largest reduction in UI receipt.

Estimates based on the interview data provided somewhat stronger evidence that the treatments increased the employment and earnings of claimants. The interview-based estimates showed that the treatments had a positive but insignificant effect on employment, and that they had a positive and significant effect on earnings. According to these estimates, the bonus offers increased earnings by \$200 to \$550 in the year after the benefit application date; again, the most generous bonus offer had the largest impact. The interview data also suggested that the treatments increased earnings because they increased the likelihood of full-time employment.

There is no evidence that the bonus offers prompted claimants to take less desirable jobs in an effort to qualify for the bonus. None of the treatments had a negative impact on the hourly wage rate in the first post-unemployment job. In addition, the first post-unemployment jobs held by bonus-eligible claimants were similar to their pre-unemployment jobs in many respects, including their weekly wage rate.

BENEFIT-COST ANALYSIS

The bonus offers generally yielded net benefits to claimants and to society as a whole. Claimants responded to the bonus offers by giving up benefits that were approximately equal to the bonus payments that they received. Consequently, because claimants also experienced greater employment and earnings from having been offered the bonuses, they received net benefits from the bonus program. Society also received net benefits from the bonus program because the earnings gains exceeded the relatively low administrative costs of the program.

Although the bonus offers generated net benefits to claimants and to society, they were not cost-effective from the perspective of the UI system. The costs of administering and paying reemployment bonuses in the Pennsylvania demonstration generally exceeded the reduction in UI receipt caused by the bonus offers. The bonus offers thus yielded modest net losses for the UI trust funds. Nevertheless the taxes on increased earnings generated net benefits to the government as a whole for two of the bonus offers (the low bonus amount and long qualification period, and the high bonus amount and short qualification period). The government either broke even or incurred only a modest loss for the other treatments.