

Personal Reemployment Accounts

Mitt Romney's Training Voucher and Reemployment Bonus Proposal

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Personal Reemployment Accounts Mitt Romney's Training Voucher and Reemployment Bonus Proposal

Governor Mitt Romney has issued his presidential plans for jobs and economic growth in his book *Believe in America: Mitt Romney's Plan for Jobs and Economic Growth*, which includes his approach to providing publicly funded training to unemployed workers (Romney for President 2011, 124–27). He proposes to consolidate all training programs into a single program and give the states responsibility for delivering this training by providing a block grant. The mechanism he proposes for delivering training is called personal reemployment accounts, or PRAs.

The concept of PRAs was developed in 2003 by R. Glenn Hubbard, a professor at Columbia University, when he was the chair of the Council of Economic Advisers (CEA) for President George W. Bush. Professor Hubbard is now an economic advisor to Governor Romney and wrote the preface to *Believe in America*. So Professor Hubbard's concept of PRAs lives on almost a decade after he first proposed it.

We can better understand PRAs by looking at their history. They were proposed as a legislative initiative in 2003, were subject to policy analysis, were tested through a multistate demonstration project, but were never enacted into law.

The PRA proposal would establish a different way of delivering training and reemployment services to unemployed workers, while at the same time create incentives for early return to work. The approach brings together two concepts. The first is that the delivery system for publicly financed training should offer the PRA recipient choice and individual “ownership” of the means to return to work. Unemployed workers who need to upgrade their skills would not be directed, as they are now, to training programs where they can obtain the assistance of publicly funded professional counselors. Instead, unemployed workers would make their own choices about both the kind of training to engage in and where to receive that training. They would be given a training voucher worth a specified amount, and they could use that voucher to purchase training and reemployment services, but they would be in charge of selecting a course of training and a training provider. They could either purchase counseling and other reemployment services to help them with their selection or they could make their selection entirely on their own. They also could decide not to participate in training, immediately search for a new job, and cash in their reemployment bonus.

The second concept of the PRA is a reemployment bonus. Unemployed workers would be offered a lump-sum payment if they found a new job within a fixed period. Reemployment bonuses are meant to provide an incentive to workers to speed their return

to work. The federal government has used several demonstration projects to try to develop a cost-effective reemployment bonus offer. The hope of those experiments was that, if workers were offered the bonus and returned to work quickly, their unemployment insurance payments would be reduced, and the taxes they would pay to the government after they became employed would offset the cost of the reemployment bonus. Thus, a reemployment bonus might pay for itself. The federal bonus experiments sought to determine an optimal reemployment bonus dollar amount.

Hubbard's 2003 PRA proposal melded these two concepts into a single voucher worth \$3,000 for targeted unemployed workers. These unemployed workers could have used this money for training or for other reemployment services. The unemployed would, in effect, have "owned" these accounts. If they returned to work quickly, they would have retained any remaining balance in their PRA as a reemployment bonus to be used any way they saw fit.

Below I discuss what is known about PRAs: their components, the 2003 legislative proposal that has been resurrected by Governor Romney, and the development of the 2003 PRA proposal. Next, I review two reports analyzing the 2003 PRA proposal and the 2008 evaluation of a PRA demonstration project, highlighting specific ways in which the PRA design advanced by Governor Romney is at odds with what research has taught us. Finally, I provide six recommendations for improving the policy proposal and conclude by addressing the necessity for further research in this area.

Components of Personal Reemployment Accounts

Let's look more closely at each of the two components of PRAs: training vouchers and reemployment bonuses.

Training Vouchers

Training vouchers attempt to give workers greater choice in deciding what kind of training to take and whom to take the training from. The purpose of a training voucher is to try to increase the supply of training services from which consumers can choose. The expectation is that vouchers will create competition among training providers. Training vouchers were not used much in the United States until the Workforce Investment Act (WIA) of 1998 made them part of the federal training system, in that case as individual training accounts (ITAs). Before then, some states and localities had experimented with vouchers, and the U.S. Department of Labor had conducted a training voucher demonstration project in the mid-1990s.

One question asked about ITAs before WIA was enacted was whether they should be offered as a "pure voucher," which an unemployed worker could use to choose a training program and a training provider with little or no counseling; or whether publicly funded counseling should be included to improve training choices and employment outcomes.

Governor Romney's PRA proposal assumes that a pure voucher would work well and that the voucher holder is likely to make a sound choice. As a result, the PRA recipient can use the voucher without receiving counseling. The recipient can purchase counseling from a public or private counseling service, but the fee would act as a disincentive to obtaining counseling.

Providing training vouchers without counseling would be counter to the findings of the U.S. Department of Labor's ITA experiment, which tested alternative training vouchers that provided more or less counseling. The final report of that evaluation found that counseling matters: an approach that required more counseling (and provided a higher maximum training voucher amount) was more cost-effective than a more "pure voucher" approach. According to the evaluation, only 4 percent of workers who were given the option to receive no-cost training counseling received it, compared with 60 percent of those for whom it was required before they could receive training. Training selections made by the pure voucher group resulted in significantly lower employment and earnings outcomes relative to decisions made by those required to participate in counseling (Perez-Johnson, Moore, and Santilano 2011).

Reemployment Bonuses

For many years, policymakers have thought about the potential of reemployment incentives to encourage unemployed workers to speed their return to work. While reemployment bonuses have not been available in the United States, they are available in several other countries. In 1974, reemployment bonuses were introduced in Japan, where unemployed workers can receive a cash bonus for accepting a new job (but no more frequently than once every three years). Reemployment bonuses also have been used in South Korea since 1995 (Martin and Grubb 2001).

Between 1984 and 1989, four reemployment bonus experiments were conducted in the United States. They tested varying levels of lump-sum payments to permanently separated workers who took new, full-time jobs within six to 12 weeks of becoming unemployed and held those jobs for at least three to four months. These experiments were conducted to learn about the behavioral response of unemployment insurance (UI) recipients to the availability of UI benefits. Would UI recipients not look for work aggressively until their benefits were close to running out? The experiments also were used to design a reemployment bonus system intended to speed displaced workers' return to work in a manner that would benefit employees while being cost effective. The thesis of these experiments was that UI claimants would be better off if they went back to work sooner—as long as they took similar jobs that paid similar wages to the jobs they would have taken in the absence of the bonus offers. Bonus offers were tested to see if they could be financially advantageous to the government sector, which would be true if the cost of offering bonuses was offset by a decrease in UI payments and an increase in tax receipts during longer periods of employment.

Evaluations and analysis of the four reemployment bonus experiments found that bonuses were most cost effective when they were targeted to unemployed workers who were likely to exhaust their UI benefits, the offer amount was low, and bonuses were available for a relatively long period (Corson and Haimson 1996; Decker and O’Leary 1995; O’Leary, Decker, and Wandner 2005; Woodbury and Spiegelman 1987). A low bonus offer amount was defined as no greater than four times the average weekly benefit payment to UI recipients, or about \$1,200 today, and a long bonus offer period was for 12 weeks following the bonus offer when first applying for UI benefits.

Personal Reemployment Accounts Begin: The Legislative Proposal

Following the development of the personal reemployment accounts program design by R. Glenn Hubbard and his staff at the CEA, President Bush announced PRAs as part of an economic stimulus package on January 7, 2003. On January 29, legislation to create PRAs was introduced in the House of Representatives as H.R. 444, the Back to Work Incentive Act of 2003.¹ Under H.R. 444, UI claimants deemed likely to exhaust their entitlement to benefits would be offered a \$3,000 PRA that could be used to purchase reemployment services, including training, or as a reemployment bonus. Reemployment services could be bought from public or private providers. Each reemployment service purchased would draw down against the \$3,000 PRA. Workers would be eligible for a reemployment bonus if they became employed within 13 weeks of becoming unemployed, and they could continue to collect UI benefits until they became reemployed. The amount of the bonus would be \$3,000 or the PRA balance, if reemployment services were purchased. A newly rehired worker would be immediately eligible for 60 percent of the bonus; the remaining 40 percent would be payable if the worker retained the job for six months (Levine and Lordeman 2005).

Conceptually, the proposed PRAs is a two-pronged approach to reemployment. The first prong is human capital development to help workers improve their job skills while they search for work. From the \$3,000, they would be able to purchase their choice of training and intensive services, as well as supportive services, including transportation and child care services. Here, the concern is not just getting workers a job but also improving job skills to pave the way for more productive, better-paying employment in the future.

The other prong is a financial incentive to speed workers’ search for work—a reemployment bonus. The reemployment bonus encourages workers to immediately search for jobs that call for their current skills. As a result, a reemployment bonus is likely to discourage participation in training before the return to work.

Taken separately, training vouchers and reemployment bonuses had been part of the public policy discussion for long time. Training vouchers had been tested by the states in the 1980s and had been part of the national workforce training delivery system since enactment of the WIA in 1998. The federal government had also looked carefully at reemployment bonuses, having conducted three social experiments that tested their effectiveness and efficiency.

However, training vouchers and reemployment bonuses had not previously been combined in a single workforce development instrument. When they were combined in H.R. 444, PRAs were touted as “offer[ing] a new, innovative approach designed to provide unemployed Americans additional flexibility, greater choice, and more control over their employment search, as well as a reemployment bonus for those who find a job quickly” (House Education and the Workforce Committee 2005).

Policy Development of Personal Reemployment Accounts²

The Council of Economic Advisers, under the leadership of its chair R. Glenn Hubbard, developed the concept and design of personal reemployment accounts in late 2002. Hubbard’s intent was to make employment and training programs more market-oriented. Giving workers ownership of a training/reemployment service voucher and a potential cash bonus appeared to be an attractive market-oriented package. But these two components are very different and, at least to some extent, in tension. The key to making the PRAs work would be how the components were meshed together.

The 2003 PRA proposal also served another function. Because the United States was coming out of a recession, PRAs were part of a larger proposal to distribute approximately \$10 billion to the states as an economic stimulus package. The design of the PRAs would reflect concern about rapid stimulus, although most of the stimulus package was later withdrawn as the economy improved. Nonetheless, the \$3.2 billion set aside for PRAs survived. The market orientation of PRAs continued to make them an attractive proposal to the Bush administration.

To give President Bush a new economic plan by the beginning of 2003, the Council of Economic Advisers had little time to develop the PRA proposal. Tom DeLeire was the staff labor economist at the CEA in 2002–03, on leave from Michigan State University. Within the time constraints, however, DeLeire reviewed the literature on the reemployment bonus experiments. He consulted with Bruce Meyer, who had written a widely read journal article on the UI experiments, including the reemployment bonus experiments (Meyer 1995). Meyer provided broad policy advice about reemployment bonus legislation. He did not, however, make specific recommendations about how to design a reemployment bonus for incorporation into PRAs.³ Those more specific recommendations could have been provided by Mathematica and Upjohn Institute researchers who had conducted and evaluated the reemployment bonus experiments for the Department of Labor, or the Department of Labor research staff who had worked on the reemployment bonus experiments, but they were not consulted.

The Council of Economic Advisers had done enough analysis to get the design of the PRA reemployment bonus component right. The CEA justified the PRAs based on the four random assignment reemployment bonus experiments. The evaluations of the experiments “showed that a bonus of \$300 to \$1,000 motivated the recipients to become reemployed, reduced the duration of UI by almost a week, and resulted in new jobs that were comparable

in earnings to those obtained by workers who were not eligible for the bonus and remained unemployed longer” (CEA 2003, 126).

The targeting of the PRA program design was taken from the reemployment bonus experiments, with PRA offers made to UI claimants who were likely to exhaust their entitlement to UI benefits. These individuals were identified using the same worker profiling methodology used by the Worker Profiling and Reemployment Services and Self-Employment Assistance programs (Wandner 2010).

In its annual report, the Council of Economic Advisers described PRAs as “not intended as a replacement for UI but rather... as a new component of the UI system. They would be offered as an additional option to those UI recipients who, under current UI rules, are referred to reemployment services” (CEA 2003, 123–26). Thus, PRAs would supplement the UI program, and they would be targeted to workers using existing methods for referring UI claimants to reemployment services.

Many design decisions about the PRAs were driven by budgetary concerns and by the primacy of the training voucher portion of the accounts. There would be no entitlement to PRAs; they would be offered only until the \$3.6 billion appropriation was exhausted. This appropriation was estimated to be sufficient to serve 1.2 million beneficiaries (in program year 2003) who were “very likely” to exhaust their entitlement to UI benefits. Qualifying unemployed workers would be given accounts valued at \$3,000, which could be used to purchase reemployment services, training, and supportive services, although core reemployment services would continue to be provided free of charge. Workers who found jobs within 13 weeks of receiving their first UI payments would be able to retain the balances of their PRA accounts as reemployment bonuses.

In the 2003 *Economic Report of the President*, the Council left open the timing and number of payments under PRAs: “States would have the option of providing the cash balance as a single lump sum or in two installments of 60 percent and 40 percent, the latter after the recipient had been on the new job for 6 months” (CEA 2003, 125). Thus, the CEA would have permitted a single delayed lump-sum payment as in the experimental design, but in the interest of rapidly infusing funds into a weak U.S. economy, supporters of H.R. 444 opted for the second approach.

It is not possible to reconcile the CEA’s reading of the reemployment bonus experiment literature with the final 2003 legislative proposal. CEA staff believed that the proposal’s reemployment bonus amount was too large and that it was being paid too soon. As the proposal moved from an early public policy initiative to a legislative proposal, changes were made that were not based on rigorous research and public policy analysis.

Once the CEA completed its analytical work, most development of the PRA legislation was turned over to the Domestic Policy Council. The Domestic Policy Council worked with the Department of Labor’s Employment and Training Administration political staff to complete the legislative proposal. The Department’s research and policy staff who had

worked on the experiments and on the development of a reemployment bonus proposal as part of the proposed Reemployment Act of 1994 were aware of the developing PRA proposal. They were requested to supply some background materials, but they were not included in discussions about the PRA program design.

The lack of careful policy development meant that the PRAs had a number of design flaws. The most important was that the reemployment bonus offer was too large and the training voucher was too small. The reemployment bonus was that large because it was driven by the size of the training voucher; the Domestic Policy Council did not consider decoupling the two amounts. A reasonable training voucher amount would have been much larger than the reemployment bonus offer. The bonus offer, in turn, should have been in the range that the four random-assignment experiments found most cost effective. (In 2003, the national UI average weekly benefit was \$254, so the reemployment bonus offer should have been set at no more than four times that amount. Thus, the PRA bonus offer was at least three times greater than it should have been.)

In 2003, it appeared that the PRA proposal might be enacted without any further testing. Department of Labor research staff suggested conducting further analysis to support the PRA initiative. Analyses based on prior experiments could help anticipate what would happen if PRAs were implemented, give guidance about how states could design and implement the bonus component of the PRAs, and provide detailed administrative procedures for offering and paying the bonuses. When PRAs were not enacted immediately, new concerns developed about proceeding with PRA demonstrations with insufficient planning: the analysis could help to guide how the demonstrations would be designed and implemented.

Analysis of the Personal Reemployment Accounts

To prepare for the possible implementation of personal reemployment accounts on a large scale, either as demonstration projects or as a national program, the Department of Labor commissioned two studies to assess the likely impacts of the program and methods by which the program could be implemented. The studies built upon existing datasets and evidence about the two components of the PRAs: the reemployment bonuses and the training vouchers.⁴

Decker and Perez-Johnson (2004) of Mathematica based their analysis on the ongoing ITA training voucher experiment as well as a Pennsylvania reemployment bonus experiment that Mathematica had conducted. The training voucher experiment tested a pure voucher option that looked much like the training voucher portion of the proposed PRA program. Voucher recipients could use the pure vouchers in the manner they thought best to purchase training. Counselors in one-stop career centers would meet with pure voucher recipients, but the recipients were free to make training decisions on their own. The preliminary findings from the ITA experiment interim evaluation were that unemployed workers who were offered a pure voucher were more likely to receive training than

individuals who received more counseling and direction, but they took training in similar occupations to those taken by individuals offered the other voucher designs.

Decker and Perez-Johnson divided their study into three parts. The first part dealt with predicted impacts of the PRA reemployment bonus offers on bonus receipt rates, UI receipt, and entry into the UI program. These were compared to the results under the reemployment bonus experiments. Decker and Perez-Johnson estimated that a \$3,000 bonus offer would provide a much greater incentive to pursue the bonus and, thus, substantially increase the rate of bonus receipt from 11–22 percent in the four experiments to about 30 percent for PRAs. The increase in participation was expected because of the higher bonus offer amount and because the first installment of the bonus would be payable immediately rather than after four months on the new job. Decker and Perez-Johnson also predicted that reductions in UI receipt would be greater because the bonus offer was larger and would target a population likely to be unemployed longer in the absence of a bonus offer.

The second part of the Decker and Perez-Johnson study dealt with the PRA design, trying to help state workforce agencies decide whether the PRA offer should be set at \$3,000 or a lower amount. Decker and Perez-Johnson pointed out trade-offs in setting the PRA level. A \$3,000 level was approximately twice as great as the largest reemployment bonus set under the experiments, but it would still be less than most local ITA offers under the Workforce Investment Act. Lowering the overall offer below \$3,000 would bring the reemployment bonus offer closer to tested levels, but it would exacerbate the inadequacy of a training voucher. At the same time, lowering the offer would also allow PRAs to serve more UI recipients.

The third part of the study dealt with recommended state procedural issues in developing and implementing their PRA programs. Decker and Perez-Johnson developed procedures that could make it easier for states to implement PRAs. They opted for simplicity to allow quick implementation and to accommodate a temporary three-year program that would be established under H.R. 444. They adapted procedures from the Pennsylvania reemployment bonus experiment, providing procedures for offering bonuses, verifying employment, and making payments similar to those that would have to be developed under the PRAs.

In another PRA study, O’Leary and Eberts (2004) simulated the effects of the PRAs using detailed transaction-level administrative data from Georgia. They first estimated the costs for intensive training and supportive services based on state expenditure levels, relative to use of each service and valuations for the services. The simulations estimated the average cost per offer of a \$3,000 PRA to help states estimate how many offers to make during an enrollment cycle. The simulations also determined the likely pattern of use of the reemployment bonus, reemployment services, and income maintenance payments. O’Leary and Eberts made their estimates under a baseline that assumed no behavioral response to the bonus offer, as well as estimates assuming a one- or two-week reduction in UI receipt.

Under the baseline estimate, O’Leary and Eberts determined that 40 percent of workers would receive a first payment under the reemployment bonus, while only 27 percent would remain employed and receive the second payment. They estimated the cost associated with the PRA bonus offers and purchase of reemployment and supportive services at approximately \$2,500, with small increases above that amount as PRA recipients learned about the reemployment bonuses and increased their reciprocity rates. The authors concluded that a \$3,000 bonus offer would not be cost effective, while a smaller targeted bonus could be.

O’Leary and Eberts estimated the number of PRAs that could be offered, assuming 100 percent take-up of PRA offers. They also estimated a likely take-up rate of approximately 80 percent, based on the reemployment bonus experiments and the increase in the PRA offer amount. They considered the sensitivity of their estimates of the number of PRAs that could be offered to changes in the assumed prices for services, finding that the results were quite stable. O’Leary and Eberts also found that by reducing the price of services by half, the Department of Labor would be able to increase the number of offers by roughly 20 percent. Because of a lack of data, however, the authors could not determine how charging for reemployment services that were previously free would change the demand for those services by the workers offered the PRAs.

O’Leary and Eberts further estimated the likelihood that workers would go to one or the other extreme: either only purchase services and not pursue a bonus, or pursue the bonus and not purchase any services. They found that an individual who purchased services and did not pursue the bonus would have to experience an earnings increase earnings of 14 percent or return to work six weeks sooner to compensate for not receiving the full bonus offer. Based on past research, O’Leary and Eberts determined that neither of these results was likely. Thus, as expected with an overly generous bonus offer, the PRA design strongly encouraged pursuing the bonus at the expense of training.

For individuals who did not receive bonuses, O’Leary and Eberts considered whether \$3,000 would be sufficient to purchase a bundle of services. They found that a shortfall of funds was likely. They also estimated the increase in the number of PRAs that could be offered as the statewide maximum PRA offer was lowered.

In the Washington and Pennsylvania reemployment bonus experiments, bonus recipients did not experience lower wages than the control group. While O’Leary and Eberts posited that paying the first bonus payment immediately upon becoming unemployed might result in lower wages, they did not have data from which to estimate whether or by how much wages might decline.

Thus, these two analyses by the Mathematica and Upjohn teams predicted a number of adverse outcomes if PRAs were implemented. Because the PRA bonus offer was too large—nearly three times larger than the research had suggested—the reemployment bonus cost would be very great, and the outcome would likely yield a cost-ineffective program. The overly large reemployment bonus offer would result in higher participation and receipt rates

than would be the case with a lower bonus offer. Early payment of the reemployment bonus might encourage PRA recipients to find a job quickly to receive the bonus and not stay on the job long enough to receive the second bonus payment. At the same time, the training offer was too small. The maximum training amount available to PRA recipients would be lower than the cap for training under WIA programs in most states, and PRAs would substitute for the availability of free WIA services. It would be difficult to find suitable training at a price no greater than \$3,000. Thus, use of the PRA to fund training would be limited, and training participation rates would be low. When the PRA demonstration evaluation results became available in 2008, as discussed above, they vindicated the estimates made by the Mathematica and Upjohn analysts four years earlier.

The Personal Reemployment Account Demonstration

H.R. 444 was not enacted in 2003, but the Bush administration was still eager to try out PRAs. In August 2004, the Department of Labor announced plans to implement a PRA demonstration project. States were asked to apply. On October 29, 2004, Secretary Elaine Chao announced that Florida, Idaho, Minnesota, Mississippi, Montana, Texas and West Virginia were awarded a total of nearly \$7.9 million to participate in a demonstration project that would allow unemployed workers to use personal reemployment accounts to find new jobs. The demonstration project was designed to test the effectiveness of PRAs.⁵

To fund the demonstration, each state had to agree to obligate its entire fiscal year 2005 Wagner-Peyser reemployment services grant allocation to the project. Nationally, the reemployment services grants totaled \$34 million in FY 2005. The Department supplemented these grant funds by providing each state with an additional \$750,000 in federal discretionary funds from the Employment and Training Administration's budget to support the demonstration.

Using the research findings from the prior demonstration projects, department staff and research contractors tried to improve the flawed PRA design for the demonstration project and proposed legislation. They used data and analysis from the reemployment bonus and training vouchers experiments and conducted simulations using state administrative data. Mathematica Policy Research provided technical assistance and conducted an evaluation.

The Department developed the basic demonstration design, which closely followed the legislative design embodied in H.R. 444. States would offer PRAs of \$3,000, with funding available to make a total of 2,000 offers for the seven participating states. States would charge participating workers for services other than WIA core services. They also had to develop their own cost list for all reemployment services. Reemployment bonuses would be paid to workers who received PRA offers and found full-time jobs by their 13th week of UI receipt. The bonus consisted of two payments, one paid upon employment consisting of 60 percent of the account balance, and the other 40 percent (or the account balance) payable after six months on the job.

The Department gave the states design options. They could choose the reemployment bonus amount to be the balance of the \$3,000 PRA offered or some smaller amount. Florida, Minnesota, Mississippi, and Montana chose to offer individuals the remaining balances in their accounts—as in the proposed legislation. Texas, Idaho and Minnesota, however, developed methods to reduce the bonus offers below \$3,000. States also determined the cost of services. Six states developed cost lists, while Idaho had all services offered by community colleges that already had developed price structures. States could offer the PRAs statewide or in selected local workforce areas. West Virginia was the only state that offered PRAs statewide (Hess 2004, 2005).

The PRA demonstration project began in 2004 in the seven selected states. In 2006, the Department awarded a second round of funding to three original states—Idaho, Minnesota, and Mississippi—and provided new funding for Hawaii. The eight states received a combined total of \$12.5 million from the Department to establish PRAs for a minimum of 3,543 workers. In fact, since not all workers used up all the funds in their individual accounts, a greater number of workers was allowed to enter the project: 4,038 in the original seven states.⁶

Claimants’ participation in the demonstration projects was voluntary. The average acceptance rate was 64 percent, varying from 46 percent in Minnesota to 88 percent in Mississippi.

The evaluation of the PRA demonstration found that, as expected from the prior analyses, individuals offered PRAs were not interested in training and did not expend much of their vouchers on training. Less than one-tenth of disbursements were used to provide funds for participants enrolled in training, and virtually no participants purchased intensive services (table 1).

Table 1. Personal Reemployment Account Demonstration Project Average Disbursement Per User as a Percent of Total Expenditures

Type of disbursement	States with Restricted Supportive Services Purchases			States with Broad Allowable Supportive Services Purchases				All states
	MS	WV	FL	ID	MN	MT	TX	
Total bonuses	94	83	59	37	33	13	29	45
Intensive Training	0	1	1	0	1	0	0	1
Supportive services	2	13	2	20	7	17	14	9
Total services	4	3	38	43	60	70	57	46
Total expenditures	6	17	41	63	67	87	71	55
	100	100	100	100	100	100	100	100

Source: Kirby et al. (2008, 56).

Note: Numbers may not add to totals because of rounding.

Because of the overly generous amount of the bonus, participation increased greatly beyond the level found in the reemployment bonus experiments, with 45 percent of

disbursements going to the payments of reemployment bonuses. While a rigorous net impact and cost-benefit analysis was not conducted because of project design weaknesses and lack of data, the bonus offer was so large that it is unlikely that the reemployment bonus component of PRA could have been cost effective.

The most flexible form of funding was “supportive services.” These funds functioned, in effect, as a piggy bank that workers could raid any time they wanted. Forty-six percent of disbursements were used to fund supportive services. Allowable support services fell into three categories: assistance with a specific job offer; logistical support for job search, intensive services, or training (e.g., child care and transportation); and general expenses relating to job-search activities. In states without restrictive policies regarding the purchase of supportive services, the great majority of disbursements fell into this category. The largest purchases for support services were for vehicles, including mileage; utilities, rent, and mortgage payments; clothing, uniforms and supplies; and health screenings and other medical expenses. Child care was a smaller purchase (Kirby et al. 2008, 56).

The PRA demonstration did not meet the expectations of the policymakers who had designed the legislative proposal. The PRA structure was expected to show that these new accounts could provide training and reemployment incentives to help workers find productive employment. However, PRA recipients did not make significant use of the training option, largely because the maximum training payment was not large enough. Also, counseling was not freely provided, so PRA recipients had to purchase it from private or public providers to make sound choices about training. They opted not to purchase that counseling. As a result, the great majority of PRA demonstration participants failed to participate in training.

Looking at the purchase of PRA demonstration services, participants mostly bought supportive services in those states where use of supportive services was broadly permitted. While some of these payments may have helped workers return to work (e.g., transportation and child care costs), their dominance among service purchases was at variance with the intent of PRA designers.

Finally, the PRA demonstration showed that participants were intent on receiving their reemployment bonus, and reemployment bonus payments were far greater than was intended. Under the PRA demonstration, the training voucher function of the project was not used much and showed that the PRA design might need to be reconsidered.

Personal Reemployment Accounts: Issues and Recommendations

Governor Romney proposes to make personal reemployment accounts the centerpiece of his publicly funded job training delivery system. According to the PRA design developed by R. Glenn Hubbard that made its way into a 2003 legislative proposal, the accounts would consist of a training voucher and a reemployment bonus. We can assume that the governor’s intent is to follow the 2003 PRA design, the only one that has so far been advanced. Indeed,

R. Glenn Hubbard is an economic advisor to Governor Romney and wrote the introduction to *Believe in America*, which contains the Romney PRA proposal. The PRA proposal has some design flaws. It could be improved, however, with a number of design changes based on the research results.

Both the training voucher and reemployment bonus prongs of the 2003 design are at odds with what we have learned from past research: four reemployment bonus experiments, the Individual Training Account experiment, and the PRA demonstration project. The research results reveal five problems with the 2003 PRA design.

1. The PRA funding level is \$3,000 per recipient. This dollar amount means that PRAs will fund training only up to \$3,000, which is lower than the maximum training vouchers (i.e., ITAs) provided by most of the Workforce Investment Act system and less than the cost of many job training programs. The low dollar amount is likely to discourage workers from engaging in training. Thus, to the extent that the vouchers are intended to encourage training, they are too small.
2. The PRA reemployment bonus can be as high as \$3,000 if PRA recipients do not purchase services. This amount is greater than any bonus amount tested in the reemployment bonus experiments. It is also counter to the research findings that found, among the bonus amounts tested, the low bonus (i.e., averaging \$1,200 today) was most cost effective. Thus, the reemployment bonus is too high.
3. Under the PRA design, reemployment bonuses are payable in two stages: 60 percent upon becoming reemployed and 40 percent after remaining employed for six months. The reemployment bonus experiments reveal that a single payment after four months of employment is “sufficiently long to avoid encouraging claimants to accept short-term employment simply to qualify for a bonus” (Robins and Spiegelman 2001, 39). That design was used in the bonus experiments to ensure that the bonus offer induced participants to take jobs that paid the same wage as individuals who were not offered the bonus and that the new job was held for a reasonable period of time.
4. Counseling is not an integral part of the PRA training voucher component. With PRAs, individuals can enter training without seeing a counselor or seek out and pay for training counseling themselves. The evaluation of the ITA experiment showed that counseling improves the cost-effectiveness of job training.
5. The PRA demonstration showed that when supportive services are broadly available, they will be heavily used, discouraging the use of intensive and training services. Since the purpose of the PRAs is to encourage the use of training or the rapid return to work, the ability to use PRAs for a broad range of supportive services appears to encourage excessive use for such purposes as vehicles and gas; utilities, rent, and mortgage payments; and clothing, uniforms, and supplies.

To deal with these issues, the PRA design should be revised. Below are six suggested changes:

1. The training voucher and reemployment bonus portions of the PRA should be decoupled so the training voucher amount can be raised and the reemployment bonus amount can be lowered. PRA recipients would be offered the full PRA for the purchase of training and intensive services, but the reemployment bonus offer would be less than the full PRA.
2. The training voucher should be set at \$5,000 or more.
3. The reemployment bonus should be set at four times the individual's UI weekly benefit payment. Thus, the average bonus offer today would be approximately \$1,200.
4. The reemployment bonus payment should be made after four months of employment as a single payment.
5. If an individual decides to enter training, he or she should first be required to see a public or private training counselor.
6. Supportive services either should be excluded from the PRA or their use should be restricted.

Incorporating these design changes would bring personal reemployment accounts in line with what we have learned from a great deal of research. They would ensure that each prong of the PRA makes sense individually, but the changes still would not guarantee that the two prongs would work well together. The two prongs might still be out of balance, for example, encouraging too much or too little participation in training. To ensure that the revised overall PRA design works well, conducting another PRA demonstration could help improve its program design.

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Notes

¹ On January 4, 2005, two bills were introduced in the 109th Congress that would authorize personal reemployment accounts as part of the Workforce Investment Act: H.R. 26, a standalone bill, and H.R. 27, a bill to reauthorize WIA. The provisions of both bills were identical, and they, in turn, were identical to those of H.R. 444, which was passed by the House of Representatives in the 108th Congress.

² Much of the discussion in this section is based on the author's interview of Tom DeLeire, July 19, 2005.

³ Bruce D. Meyer, interview with the author, August 25, 2008.

⁴ The author proposed these two projects to assist in the implementation of the PRA demonstration projects, but also to ensure that program managers and public policy officials would have more realistic expectations about the likely outcomes of implementing PRAs.

⁵ U.S. Department of Labor, "U.S. Secretary of Labor Elaine L. Chao Announces Seven States Selected to Participate in a Test of Personal Reemployment Accounts," news release, October 29, 2004.

⁶ Data and analysis for the PRA demonstration projects in Kirby et al. (2008) are restricted to the seven original states because Hawaii entered the project late.

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