CENTER ON BUDGET AND POLICY PRIORITIES
820 First Street, NE, Suite 510, Washington, DC 20002
Tel: 202-408-1080 Fax: 202-408-1056 center@cbpp.org www.cbpp.org

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ISSUES RAISED BY PRESIDENT'S PROPOSED PERSONAL REEMPLOYMENT ACCOUNTS

by Jessica Goldberg and Wendell Primus

The Bush Administration's proposal for "Economic Growth and Job Creation," released on January 7, includes a proposed new program to assist the unemployed: Personal Reemployment Accounts. This analysis is not a full examination of the merits of the accounts; rather it is an attempt to raise some issues related to the likely effectiveness of the accounts and to look at the proposal in relation to other components of the growth package.

The findings of this brief analysis include:

- The potential effectiveness of the new program as a response to the current unemployment situation depends in substantial part on how quickly it can be enacted and implemented. Putting the program in place would not be speedy, because federal legislation is needed and then states would have to make significant decisions and actually implement the policy. In many states, this could take half a year or more.

- Funding for the new program could have been put to better use by providing additional unemployment insurance benefits for the one million workers who have exhausted all their benefits but were left out of the extension of the Temporary Extended Unemployment Compensation (TEUC) program that was signed into law on January 8. Providing additional federally-funded benefits to those workers would be a more effective stimulus than creating a new system of reemployment accounts that will not immediately inject money into local economies.

- Outside of the new accounts, the President's budget for 2004 proposes cuts in other employment and training funds of more than $700 million, or by nearly 10 percent.[1] Further, the accounts might be used as a rationale for declining to adopt other measures to assist the unemployed later in the year, such as another extension of the Temporary Emergency Unemployment Compensation program (or improvements to that program). Yet the proposed new program would not be an effective substitute for unemployment insurance benefits; in particular, it would not come close to covering all of the unemployed workers who will need assistance from the TEUC program if unemployment remains elevated.

[1] This cut is measured relative to the 2002 levels of funding for these programs adjusted for inflation.

- Together, the new funds for Personal Reemployment Accounts and the unemployment insurance extension that Congress approved in early January constitute two percent of the Administration's $700 billion "growth package." It is unprecedented for assistance for the unemployed to represent such a small fraction (and for tax cuts for the affluent to represent such a large fraction) of a package to create jobs and boost the economy while it is weak.

What are Personal Reemployment Accounts?

The President's proposal would provide one-time funding of $3.6 billion to states to create individual reemployment accounts for workers who are likely to exhaust their unemployment insurance benefits. Under the President's proposal, accounts of up to $3,000 would be made available to certain unemployed workers to pay for job training, child care and other work supports, and in some cases to be used as income support.

- **Who would receive these accounts?** States would determine which workers thought to be at risk of exhausting their unemployment insurance benefits would receive Personal Reemployment Accounts. Under the current unemployment insurance system, workers are "profiled" based on their previous employment history, education, and local labor market conditions when they first file for unemployment benefits. Workers who could be made eligible for the personal accounts include those whose profiles indicate they are likely to exhaust their regular, state-funded unemployment benefits without finding jobs, as well as workers who exhausted all of their state and federal unemployment benefits within the three-month period immediately preceding the date of enactment of the new program. The Administration estimates that up to 1.2 million workers could benefit from the plan.

  Nevertheless, few if any of the one million workers who already have exhausted all of their state and federal unemployment benefits and are unemployed today would benefit from the accounts, because of the requirement that workers have exhausted their benefits within the three months prior to the program's enactment. The program also includes certain other restrictive criteria regarding which exhaustees could be covered.

- **What would the accounts provide?** Accounts of up to $3,000 would be administered by the One Stop Career Center system. (The federal government's One Stop Career Centers, created by the 1998 Workforce Investment Act, are local offices that provide counseling, training, referral, and other services to people looking for jobs.) Individuals could use funds in the accounts to purchase "intensive services," including counseling and job training from the One Stop Career centers or other providers. Under current law, workers who are considered likely to exhaust their regular UI benefits receive intensive services from One Stop Career Centers and other job training options, such as community college courses, at no cost. Workers who received Personal Reemployment Accounts would, in effect, not only have to purchase the intensive services already available to other workers, but also would not be able to receive those services for a year after receiving an account if the funds in the account ran out. Since the amount of services unemployed workers can receive is not limited under current policy and sometimes exceeds $3,000, the $3,000 limit on services to workers who would benefit from Personal Reemployment Accounts could reduce the amount of services some workers receive.

Workers with reemployment accounts who find jobs by the 13th week in which they are receiving unemployment insurance benefits (or, if they have already exhausted their unemployment benefits, within 13 weeks of receiving a reemployment account) could receive, as "reemployment bonuses," any funds remaining in their reemployment accounts. These cash payments would be made in two stages, with 60 percent of the remaining funds being paid to a worker upon becoming reemployed, and the remaining 40 percent being paid after a worker has retained a new job for six months. Also, workers who exhaust all state and federal unemployment insurance benefits no more than three months before the accounts are created would also qualify, at states' discretion, for Personal Reemployment Accounts. Such workers might be permitted to use the funds as income support similar to unemployment benefits as well as to purchase reemployment services (the intent of the proposal in this regard is not clear). Workers who receive Personal Reemployment Accounts concurrently with unemployment insurance benefits could not use the Personal Reemployment Accounts as additional income support to supplement their unemployment insurance checks, but could purchase transportation or child care with the reemployment account funds.

- **When would the program take effect?** There would be several steps involved in establishing and implementing the program. First, of course, federal legislation would have to be enacted, and that could take several months, given the controversy over this and other elements of the "growth" package. Then, in some states, state law might also require legislative action at the state level. Finally, the One Stop Centers would have to set up procedures for administering the accounts. All told, it could take several months after enactment at the federal level before the accounts became available to workers.

- **How long would the accounts last?** Workers would have access to funds in their accounts for up to one year. Nationally, the program is to last two years; in each state, the program would presumably taper off when states had spent all of the funds that they received to operate the program. The Administration estimates that $1.6 billion would be spent on Personal Reemployment Accounts in fiscal year 2003, and the remaining $2 billion would be spent in 2004. That amount of spending in 2003 may be optimistic, however, since it may take longer than anticipated to get this program up and running.

Are Personal Reemployment Accounts the Best Use of Scarce Resources for Unemployed Workers?

To the extent that these funds augment, rather than supplant, existing unemployment programs, the Personal Reemployment Accounts have potential. Increasing the resources available to unemployed workers would benefit those workers. In addition, to the degree it built up workers' skills, such a program might modestly improve the productivity of the labor force and the economy. In particular, making funds available so workers can purchase specialized training services from outside vendors, in addition to receiving services at One Stop Centers under existing programs, may help workers adjust to the evolving labor market. The potential for funding child care or transportation to enable jobless workers to undertake more effective job searches also is promising, as long as such funding is in addition to, not in place of, existing child care funding.

Despite such potential, the proposed Personal Reemployment Accounts may not be the best use of scarce federal dollars. The National Employment Law Project, for example, has noted that the funds the Administration proposes to use for the Personal Reemployment Accounts could instead be put to better use to bolster existing programs.[2] The cost of the new accounts would be more than two and a half times the annual amount budgeted through the Workforce Investment Act (the general employment and training legislation) for services for dislocated workers who do not have the opportunity to return to their previous jobs and are at risk of becoming long-term unemployed. Since the goals and types of services the reemployment accounts would provide are consistent with existing programs and would be administered by the One Stop Career Centers, it might be more efficient to channel additional funds to existing services for unemployed workers than to create an entirely new program that is only scheduled to last for two years. An additional option for using the funding proposed for Personal Reemployment Accounts would be making the more extensive package of benefits and services currently provided to dislocated workers who lost their jobs as a result of changes in trade policy, available to other dislocated workers. (The National Employment Law Project's analysis of the Personal Reemployment Accounts also includes several other observations that warrant consideration, such as the likely ineffectiveness of bonuses as employment incentives when unemployment is high and jobs are unavailable. That analysis is available at www.nelp.org.)

Given the current unemployment situation, with record-breaking levels of long-term unemployment, eight-year high unemployment rates, and the loss of more than two million jobs in the last two years, the best use of $3.6 billion of new funding for unemployed workers might not be the creation of Personal Reemployment Accounts or further investment in existing reemployment services. Reemployment programs assume that jobs are available for workers with appropriate skills and training. The current labor market crisis, however, is not one of lack of training or education; instead, it is one of lack of jobs. Until jobs become available, workers who became unemployed through no fault of their own should be assisted in remaining financially solvent. Yet the estimated 1.1 million workers who, as of the end of January 2003, had exhausted all available benefits and were still unemployed do not currently qualify for any

[2] "The Bush Administration's Proposed 'Personal Reemployment Accounts' Fail to Respond to the Needs of the Long-Term Unemployed." National Employment Law Project, January 8, 2003.

unemployment insurance. Thirteen weeks of additional assistance for those who have exhausted all state and federal unemployment benefits could be financed with the $3.6 billion the President has slated for Personal Reemployment Accounts. Such a use of funds would be a more effective and immediate economic stimulus, as well as providing needed, direct relief to unemployed workers at a time when few jobs are available.

Other possible uses of the $3.6 billion that the President proposes spending on unemployed workers are needed expansions of eligibility for unemployment insurance. In most states, part-time workers who lose their jobs through no fault of their own – and who had unemployment insurance taxes paid on their behalf – nonetheless do not qualify for unemployment insurance benefits. Similarly, in the large majority of states, a worker's most recent experience is not considered in determining eligibility, thus disqualifying significant numbers of workers from receiving aid. The $3.6 billion could be used to help states fund benefits for workers who would qualify for benefits if their most recent wages were considered or if restrictions about availability for full-time work were lifted for workers who had previously worked part-time. Like providing additional weeks of benefits to the one million workers who have exhausted all available assistance, expanding unemployment insurance coverage to part-time workers and those with brief employment histories would provide welcome relief and economic stimulus.

Do Personal Reemployment Accounts Eliminate the Need for Federal Unemployment Benefits?

The Personal Reemployment Accounts are designed to assist those who are at danger of exhausting their regular unemployment benefits or have recently exhausted those benefits. Since the accounts would take several months to become operational, they could become available in some states around June 1, which is about when the just-adopted extension of the Temporary Extended Unemployment Compensation (TEUC) program would end.

The timing and the one-time nature of the funding for the proposal contribute to the concern that the adoption of these accounts could be used as a rationale not to extend the TEUC program further upon its expiration this spring or to improve it. Yet Personal Reemployment Accounts would not be an adequate replacement for TEUC.

- **Personal Reemployment Accounts would leave out many workers who exhaust their regular unemployment benefits; only a portion of this group would get such accounts.** The Administration estimates that a total of 1.2 million workers could be served with Personal Reemployment Accounts of $3,000. There is a trade-off between the number of workers who can be helped and the size of the account they can be given. For example, in 2001 and 2002, about 7.3 million unemployed workers exhausted their regular, state-funded unemployment benefits. To serve all of those workers in a $3.6 billion budget, each worker could have received only about $500. To provide the full $3,000 to each recipient would have meant assisting fewer than one in every six workers who actually exhausted their benefits. Indeed, providing the full $3,000 grants to even 1.2 million workers might not be feasible, since Assistant Secretary of Labor Emily DeRocco has indicated that administrative funding for the Personal Reemployment Accounts will come out of the $3.6 billion in discretionary funds.

In addition, as noted earlier, Personal Reemployment Accounts are not a substitute for providing additional weeks of TEUC benefits to the one million workers who have already exhausted all state and federal benefits and are still unemployed. These workers, who have been unable to find new jobs for nine months or longer, need immediate assistance.

- **Personal Reemployment Accounts do not provide as much economic stimulus as TEUC benefits**. A study by the Department of Labor shows that each dollar of unemployment insurance benefits increases GDP by $2.15. That stimulus occurs because workers who receive unemployment benefits typically spend them quickly on goods and services. Each dollar placed in an individual reemployment account would be likely to have a smaller stimulative effect, since not all of those monies would immediately be injected back into local economies. In addition, to the extent that funds from the reemployment accounts replaced other federal or state spending on job training, transportation, child care, or other services currently funded by the Unemployment Insurance's Employment Services program, the stimulative effect would be further reduced, since these would not be adding new dollars to the economy, but rather replacing other spending.

Conclusion

If Personal Reemployment Accounts are in addition to a strong temporary federal unemployment insurance program that provides sufficient benefits until the long-term unemployment situation improves, and in addition to existing training programs and reemployment services, they could present an opportunity to provide useful assistance to workers searching for jobs. If the accounts are used as part of an effort to prevent extending or augmenting existing unemployment benefits, however, they could do more harm than good.