The Washington Reemployment Bonus Experiment Final Report

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THE WASHINGTON REEMPLOYMENT BONUS EXPERIMENT

EXECUTIVE SUMMARY

INTRODUCTION

The principal objective of unemployment insurance (UI) is to reduce hardship by providing labor force members with partial wage replacement during periods of involuntary unemployment. In performing this income maintenance function, UI has the potential of prolonging spells of unemployment. Indeed, leading economists began publishing research findings in the 1970s strongly suggesting that UI tends to lengthen jobless spells beyond that which would occur without UI payments. The 1980s saw several state and federal experiments, testing initiatives designed to reduce work disincentives while retaining the income maintenance functions of UI. A new program, offering bonus payments to UI claimants for speedy return to work, was tested in experiments run in Illinois in 1984-85 and in New Jersey in 1986-87. The apparent success of these experiments in reducing insured unemployment led the U.S. Department of Labor (USDOL) to launch expanded versions of these bonus offer experiments in Washington and Pennsylvania in 1988.

The purpose of the Washington Reemployment Bonus (WREB) experiment was to validate results of the previous experiments, test a new range of reemployment bonus plans, and identify the most cost-effective plan. WREB was designed by the W.E. Upjohn Institute for Employment Research in collaboration with the Washington State Employment Security Department (WSESD) and the USDOL.

EXPERIMENTAL DESIGN

A reemployment bonus plan has three parts:

(1) a bonus amount--in WREB, the bonus amount equaled a multiple of a claimant's weekly benefit amount (WBA);

(2) a qualification period, i.e., the period of unemployment over which the bonus offer is open--in WREB, the qualification period was specified as a fraction of the claimant's entitled duration of benefits, plus one week to account for the waiting week; and

(3) a reemployment period, i.e., the length of time the participant must remain employed full time to receive a bonus--in WREB, the reemployment period was fixed at four months.

The WREB experimental design had six treatments--three bonus levels and two alternative qualification periods, as shown in the following table:

Treatment Arrangement

	Qualification Period	
Bonus Amount	.2 x duration + 1 (short)	.4 x duration + 1 (long)
2xWBA (low)	Treatment 1	Treatment 4
4xWBA (mid)	Treatment 2	Treatment 5
6xWBA (high)	Treatment 3	Treatment 6

OPERATIONS

Enrollment into the experiment took place between February and November, 1988, in 21 of the State's 31 Job Service Centers (JSCs), handling 85 percent of the state's claimant population. Claimants, filing for a new benefit year, were randomly selected on the basis of their Social Security Numbers, and made bonus offers by regular claimstakers. To be eligible to participate in the experiment, a UI claimant must have established a benefit year based on Washington wages. In total, 12,451 eligible claimants were enrolled into the six treatments, and an additional 3,083 were assigned as controls.

To qualify for a bonus:

- An enrolled claimant had to submit a Notice of Hire (NOH) to the WSESD central office upon becoming reemployed at a full time job; recalls to the previous job and union hiring hall placements did not qualify, but self-employment was acceptable.

- After being reemployed continuously for four months, the claimant submitted a voucher for payment of the bonus; after verification that the bonus conditions had been met, WSESD authorized payment of the bonus.

This design was followed closely in WREB. Through both computer checks and personal visits, operations were carefully monitored. The error rates were very low, and the program appeared to have functioned as designed.

RESULTS

The goals of the experimental program were to reduce unemployment and to reduce costs to the UI trust fund. Thus, differences between control and treatment group members in weeks of insured unemployment and amount of UI compensation received were the measures of experimental effect. The measurements of greatest policy interest were those over the full benefit year.

The following table shows the overall average effects on benefit-year compensation received and weeks of insured unemployment for each of the six experimental treatments, each bonus level, and all treatments combined[1]:

Differences Between Experimental and Control Group Means
Over the Benefit Year
(standard errors in parentheses)

	UI Compensation		Weeks of Insured Unemployment	
	Parameter Estimate	Standard Error	Parameter Estimate	Standard Error
T1	18.66	45.74	-0.04	0.293
T2	-40.70	45.16	-0.27	0.289
T3	-106.92**	50.98	-0.70**	0.326
T4	-117.15**	44.95	-0.62**	0.287
T5	-39.79	45.14	-0.26	0.289
T6	-140.53**	51.52	-0.75**	0.329
T1,4	-51.32	38.33	-0.34	0.245
T2,5	-40.23	38.22	-0.26	0.244
T3,6	-123.45**	41.89	-0.73**	0.268
All T's	-65.18**	33.18	-0.41*	0.212

Source: Table 5-4.

*Coefficient significant at the 90 percent confidence level for a two-tail test.
**Coefficient significant at the 95 percent confidence level for a two-tail test.

[1]These results were derived from regressions that used control variables to eliminate the effects attributable to differences in pre-experimental characteristics among the six treatments and the control group. Mean comparisons between treatment and control groups without use of control variables understated the differences in compensation received, because the control group included a sample of claimants with lower than average WBAs.

The following is a summary of the principal findings:

- The high bonus level treatments (six times the WBA) caused substantial, and statistically significant, reductions in UI compensation and weeks of insured unemployment.

- Treatment 6, the high bonus and long qualification period, had the largest effects; i.e., a reduction of $140 in compensation and 0.75 weeks of unemployment.

- Three of the four low and middle level bonus treatments failed to produce statistically significant effects.

- Across the six treatments, the mean response was a $65 reduction in compensation and a 0.41 week reduction in the duration of UI payments.

It was a goal of WREB to use the six experimental treatments to select the most cost-effective combination of bonus level and qualification period for a bonus offer program. The effects of varying the bonus amount, holding the qualification period constant, and varying the qualification period, holding the bonus amount constant (see Table 5-6), were as follows:

- Shifting from a low (2xWBA) to a medium (4xWBA) bonus level had no effect;

- Shifting from a medium to a high (6xWBA) bonus level had a statistically significant impact, reducing compensation by $83, and weeks of insured unemployment by one-half week; and

- Shifting from a short to a long qualification period somewhat reduced compensation.

In the same vein, we estimated the effect of each dollar of additional bonus payment and each week of qualification period, with the following results:

- While the estimates were computed with a large margin of error (Table 5-7), the estimated effect was a reduction in compensation in the benefit year of $6.51 for each $100 increase in bonus amount offered, and $5.48 for each additional week in the qualification period.

We also investigated the timing of treatment impacts. If the bonus offer is effective, treatment assigned claimants should leave UI sooner than control assigned claimants. Following are the findings regarding the impact of the experiment on the timing of UI benefit termination:

- Through week 7--the longest qualification period for Treatments 1, 2 and 3--claimants assigned to T3 left UI at a rate 3.0 percent greater than control subjects;

- Through week 13--the longest qualification period for Treatments 4, 5 and 6--claimants assigned to T6 left UI at a rate 4.7 percent greater than control subjects.

- By the time the maximum entitled duration of benefits in Washington elapsed, 0.7 percent more treatment assigned claimants than control claimants had left UI, confirming the overall finding of a permanent effect of the bonus offer on insured unemployment.

IMPACTS ON SELECTED SUBGROUPS

Treatment effects were also computed for population subgroups defined on the following characteristics: dislocated worker status, gender, race/ethnicity, age, base period earnings, and characteristics of local areas.

Experimental effects were examined for dislocated workers categorized under three successively more inclusive definitions of dislocation. Only for the broadest definition of worker dislocation was there a treatment effect on UI compensation which was significantly different from that for nondislocated workers. Claimants who were employed during each of the 12 calendar quarters prior to filing for unemployment reduced UI compensation by an average of $217 over the benefit year when offered a high bonus, and this response was statistically significantly greater than for nondislocated workers.

Males exhibited a larger response to bonus offers than females. However, the differences across gender were not statistically significant.

With regard to impacts on different racial/ethnic groups, a statistically significant treatment effect on compensation or unemployment was exhibited only by non-hispanic whites. There was no evidence that there were different impacts across racial/ethnic groups, but this may have been due to the relatively small size of the minority samples.

The estimated effects of the experiment were greater for older claimants (aged 45 and over) than for younger claimants, although the differences were not statistically significant.

In an analysis of subgroups defined by a combination of age, gender, and race/ethnicity, the average treatment response of younger black males was very different from the response of all other subgroups (see Table 6-7). Younger black males showed a statistically significant response opposite to expectations. The bonus offer apparently caused members of this group to increase the level of compensation they received and their weeks of insured unemployment.

Considering subgroups defined by their age and base period earnings (BPE), the following was found:

- The impact was very strong on UI compensation drawn by high earning/older workers, possibly indicating that discouraged workers were responsive to job search incentives;

- The impact was also strong on UI compensation drawn by low earning/young workers, who might not yet have been strongly attached to the work force and were encouraged to increase job search;

- High earning/young workers did not respond to the experimental treatment; these workers may have already been strongly attached to the work force and maximizing job search effort.

Some differences in response were found across geographic regions of the state and between areas experiencing different economic conditions. The differences, however, were not overwhelmingly strong.

- Claimants filing for benefits in western Washington (excluding the Seattle Metropolitan Area) responded less strongly than those in Seattle or in Eastern Washington.

- Impacts differed mildly across areas experiencing different total unemployment rates (TUR); claimants filing in areas where the TUR was particularly low (TUR below 5 percent) strongly responded to the experiment, whereas claimants in areas experiencing moderate or high TUR responded weakly or not at all.

- There were no differences across areas experiencing different employment growth rates.

SECONDARY EFFECTS OF THE BONUS OFFER

Secondary effects of the bonus offer of particular interest were effects on job quality, employer and union attachment, and use of the Employment Service.

An undesirable side effect of the experiment would have occurred if more rapid reemployment were achieved by acceptance of lower quality jobs. Measured by quarterly earnings (differences in which could result from taking jobs that paid lower hourly wage rates or provided fewer hours of work per quarter), no discernable, statistically significant, effects were found either for the total sample or for any of the major subgroups.

The design of the experiment gave rise to concerns that the experiment was (1) anti-union, because it precluded bonuses for placement through a union hiring hall, and (2) anti-employer, because it denied bonuses to claimants recalled to the separating job.

While the sample may be too small for reliability, data from 1,900 complete responses to the WREB follow-up survey contained no evidence that the experiment affected union membership adversely. Evidence regarding the effects on placement through the union hiring hall was inconclusive, with a relatively large estimated effect that was not statistically significant.

Since one purpose of the UI system is to maintain the employee-employer relationship by providing short-term benefits to workers on layoff, evidence that the experiment weakened the relationship would be troublesome. Results in this regard are mixed. Based on administrative data for the whole sample, we found that among claimants who return to work, the bonus offer did not affect the probability of returning to the previous employer. This was true also for the smaller group of claimants on "standby" and awaiting recall.

However, data for 1,900 respondents to a follow-up survey told a different story. Treatment assigned claimants who returned to work, returned to their previous employer (the separating employer or the main employer during the 5 years before filing for benefits) at a rate about 6 percent lower than reemployed control claimants who had about a 35 percent probability of returning to their previous employer. Therefore, we cannot dismiss the possibility that the experiment reduced employer attachment.

Finally, we found no evidence of increased use of the Employment Service, but there was evidence that job search intensity increased. In the experimental group the number of employer contacts averaged two per week, while in the control group there was an average of only 1.3 contacts per week; the difference between the treatment and control groups was statistically significant.

THE BENEFITS OF A BONUS OFFER PROGRAM

For purposes of policy making, the bottom line is whether or not a program's benefits outweigh its costs. If they do not, there is no reason to consider the program as a policy option. However, the net benefits of a program depend on the policy perspective.

The most striking overall finding is that from the perspective of society as a whole, a reemployment bonus program has large net benefits and an extremely high benefit/cost ratio. From the perspective of the UI system, the program is not appealing. However, for government as a whole, it is close to a break-even proposition.

Huge societal benefits derive from the high value of earnings gains and the very low administrative costs of the program--only $3 per eligible claimant. Negative net benefits calculated for the UI system are a result of too small an effect on compensation relative to the cost of paying bonuses. From the perspective of the government as a whole the program is somewhat more appealing, because added tax revenues derive from the increased earnings of claimants.

A bonus offer program for older workers looks like a good prospect, showing large gains to society and positive net benefits to the UI system and to government as a whole. For dislocated workers (defined as having been continuously employed for three years), middle and high WBA multiple bonus offers had large net societal benefits, but generated significant losses to the UI system. The possible earnings reductions for participants reduces the appeal of a bonus offer program for dislocated workers.

One caveat is that our estimate of societal benefits does not take into account changes in participation that might occur in a regular program. We have calculated that up to one-third of those assigned to the experiment did not collect bonuses to which they were entitled. Some portion of these probably would collect bonuses in a regular program, and this would lead to reduced societal benefits.

CONCLUSIONS

In conclusion, the WREB experiment was successful in that it operated as designed and generated reasonable results, consistent with those of the other bonus offer experiments. For society as a whole, the program appears to be beneficial as bonus offers may be a less expensive way to get people back to work than other alternatives, such as retraining. Unfortunately, a bonus offer program does not appear to generate net benefits to the unemployment insurance system specifically, or to the government in general. Except for a program aimed at older workers, some additional funds would be required to pay for a bonus offer program.