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BEFORE THE JOINT ECONOMIC COMMITTEE**

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Good morning, Chairman Bennett and members of the Committee. I thank you for inviting me to testify on the Administration's proposal for Personal Reemployment Accounts, which are embodied in HR 444, the Back to Work Incentive Act introduced by Congressman Porter on January 29, 2003.

Personal Reemployment Accounts represent a significant investment of new dollars to help individuals in search of employment and employers in search of skilled workers. The Accounts will provide governors and localities with a flexible new tool for use in their already existing workforce investment systems. Perhaps most important, these Accounts help realize the guiding principle that wherever possible, resources and decision-making authority belong directly in the hands of individuals.

One Part of the President's Overall Growth and Jobs Plan

On January 7th of this year, President Bush announced a comprehensive economic growth and jobs package to help the economy grow, to create millions of jobs and to deliver critical help to unemployed individuals.

One of the proposals that would immediately help unemployed men and women get back to work is the establishment of Personal Reemployment Accounts. These Accounts will be worker-managed, contain up to \$3,000, and will be used for the purchase of a variety of reemployment services and as a bonus for obtaining early reemployment. They will empower

individuals by giving them more flexibility, personal choice and control over their job search and career. They will be administered through the One-Stop Career Center system established under the Workforce Investment Act (WIA).

Because experience has shown that unemployed workers have a wide range of needs, the Personal Reemployment Accounts will allow each worker to design a custom reemployment services package in accordance with those needs. For example, some individuals may determine they need extensive retraining in order to compete for jobs in a high-growth industry; others may only need to complete a short-term computer course in order to return to work quickly; still others may need to purchase child care in order to search for work.

By enabling unemployed workers to obtain the reemployment services they need most, they will likely return to work sooner and in a job for which they are more prepared and better skilled.

Individual and State Flexibility

The President's budget included one-time special funding of \$3.6 billion in additional resources to states to begin funding the Personal Reemployment Accounts in FY 2003. It is anticipated that these funds will allow states to help a total of at least 1.2 million unemployed workers over the next two fiscal years. These funds are in addition to the resources that Congress has already provided to help job seekers under the Workforce Investment Act and the Trade Act.

The receipt of Account funds will not adversely affect an individual's ability to be eligible for and receive Unemployment Insurance benefits. The Accounts are targeted at those newly unemployed workers eligible for at least 20 weeks of Unemployment Insurance who have

been determined by the States to be likely to exhaust UI benefits before finding a new job. In addition, a transition provision gives States the option of making Accounts available to certain current UI claimants who were previously found likely to exhaust UI or to certain workers who have already exhausted their UI benefits.

Subject to broad federal and State-established safeguards to prevent abuse, Account holders will be able to use the funds to purchase intensive reemployment services (such as counseling and case management), training, and supportive services (such as transportation and child care) available either through the One-Stop Career Center system, from other sources outside the One-Stop system, or in combination. This is a flexible way for unemployed workers to obtain access to services and benefits that they need to return to work faster.

The “Reemployment Bonus”

Another important aspect of the proposed Reemployment Account is the “Reemployment Bonus.” New UI claimants who have been given an Account and who become reemployed within 13 weeks from their first UI payment will receive any cash remaining unspent in their Account as a Reemployment Bonus. Similarly, if a State elects to provide Personal Reemployment Accounts under the transition provisions, those UI claimants can also receive the Reemployment Bonus if they become reemployed within 13 weeks of the effective date of the Account.

The bonus would be paid to the individual in two installments: 60% at employment and 40% after six months of job retention. Individuals who do not find employment within 13 weeks would not be able to “cash out” their Account but would continue to be able to purchase

intensive reemployment, training and supportive services for up to one year from the effective date of the Account.

Lessons From Previous Research on Reemployment Bonuses

At various times from 1984 to 1989, four states (Illinois, New Jersey, Pennsylvania, and Washington) conducted controlled experiments to determine the effectiveness of providing reemployment bonuses to unemployed workers. In these experiments, a random sample of new UI claimants were told they would receive a cash bonus if they became reemployed quickly.

The Department of Labor’s evaluation of the reemployment bonus experiments conducted in the states of New Jersey, Pennsylvania, and Washington showed that a reemployment bonus of \$300 to \$1,000 reduced the duration of UI by almost a week, and resulted in new jobs comparable in earnings to those obtained by workers who were not eligible for the bonus and remained unemployed longer. Similarly, a study of the experiment conducted in Illinois found that a reemployment bonus of \$500 reduced the duration of unemployment by more than a week and did not lead to lower earnings at the worker’s next job.

Administered Through the WIA One-Stop Career Center System

It is important to emphasize that although they infuse \$3.6 billion in new resources, the proposed Personal Reemployment Accounts do not require a new program delivery system.

Here is the framework for how Reemployment Accounts will work:

By existing law, after an individual is found eligible to receive Unemployment Insurance, states identify those recipients “who are likely to exhaust regular compensation and will need job search assistance services to make a successful transition to new employment” – i.e., those

most in need of extra help. Although states have flexibility in developing the criteria, the factors typically used to identify these workers include local unemployment rates, prior employment in a declining industry and the participant's level of education and recent job tenure. The purpose behind this process is early intervention to help with a quicker re-attachment to the labor market.

Those individuals determined most likely to exhaust are referred to and registered at the One-Stop Career Center for reemployment services. Under this new initiative, they may also be selected by the state to receive a Reemployment Account. Receipt of a Reemployment Account is not an individual entitlement. States will have the ability to set criteria and priorities for selection from the pool of eligible individuals determined as likely to exhaust their benefits.

The Accounts will be administered through the existing workforce investment system network of One-Stop Career Centers. In this case, "administered" means that the Career Center will pay Account holder invoices (training costs, childcare costs, transportation costs) up front on behalf of individuals, or after the fact with proper documentation. These payments are similar to those already made by the One-Stop Career Centers for the current WIA programs. Under broad federal parameters and subject to state-determined fund safeguards, individuals will have freedom to choose resources and services available from the One-Stop Career Center itself, or from the marketplace outside of the Center.

While development of a Reemployment Plan (which will help the individual make decisions about the training and other services he needs) will be encouraged by One-Stop Career Centers, it is an option and not required. It is also important to note that 2% of the \$3.6 billion will be available for state operational costs, including updating their current systems for identifying UI recipients likely to exhaust their UI benefits, and 5% for startup and operating costs in localities.

A New Tool for Assisting Unemployed Workers

The Accounts will be a one-time, non-transferable offering. As mentioned earlier, a Reemployment Account is not an entitlement, but neither is it a requirement for obtaining services. If eligible individuals choose not to accept the Account, they may use all core One-Stop services (electronic job search tools, workshops, labor market information and the like) at no cost and may obtain free Center-provided intensive services and training if they qualify based upon locally-determined needs and conditions. Eligible individuals who choose to accept the Reemployment Account will have complete access to all of the One-Stop Career Center's free core services, but will have to purchase intensive services and training using the Account.

Unlike the way business is currently conducted in One-Stop Career Centers, a Personal Reemployment Account holder has direct access to up to \$3,000 in purchasing power, and, if a job is obtained quickly enough and retained, can receive the balance of their Account as a cash bonus. An Account holder will not be able to receive any free WIA-provided intensive or training services for one year from the date of the establishment of their Account, in order to free up existing WIA resources to serve other job seekers.

Assured Service for Account Holders

Account holders who take a job, "cash out" the 60% bonus but then lose that job through no fault of their own, will be allowed to use the remaining 40% in their Account to purchase additional services from inside or outside the system. One year after the establishment of an Account, all WIA services will be available to the Account holder at no cost, just as they are for any worker. But he or she will not be eligible for another Account, and will be subject to the local Center's priority of service policies.

Conclusion

We believe that the Personal Reemployment Accounts are a bold and innovative idea. This approach will build upon the current workforce investment system but will not require a new government infrastructure. While Personal Reemployment Accounts are a new State and local tool to deal with the current economic conditions, it is a concept the Administration will want to continue in WIA reauthorization. We envision that such Accounts would be operational at the local level 90 days from enactment of the Back to Work Incentive Act. The Administration urges quick action on this proposal.

This concludes my remarks. I would be glad to respond to any questions you have.