

# **Effects of the Unemployment Insurance Work Test on Long-Term Employment Outcomes**

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## Main Findings

- Unemployment Insurance (UI) recipients are required to be able, available, and searching for work in order to qualify for benefits—they must satisfy the **work test**
- Using data from the Washington Alternative Work Search RCT matched with 10 years of follow-up UI administrative wage records, we study the long-term effects of the work test on employment outcomes
- We find that the work test results in shorter time to reemployment, improves short-term employment outcomes, and longer duration of tenure with first post-claim employer for **permanent job losers**
- For other UI claimants, the work test makes little difference in employment or earnings
- Policy implications: the work test reduces UI benefits costs without convincingly harming employment outcomes for any claimant category considered

## Background

The **work test** has been a central part of UI since the system began in the 1930s

- UI recipients are required to be able, available, and searching for work in order to qualify for benefits
- States implement this requirement by telling new UI claimants that they need to search for work and to be prepared to give evidence of their search effort to the state agency
- As states moved to telephone and internet claims during the 1990s and early 2000s, many relaxed enforcement of the work test
- It is important to understand the effects of a more “hands off” approach to the work test on post-unemployment outcomes

## Rationale for the work test

- Reduce **moral hazard** associated with UI
  - UI is intended to insure short spells of lost earnings, but it creates an incentive to reduce search effort and to take longer to become reemployed
  - The work test is intended to shorten the time to reemployment
  - Shortened unemployment duration might make the claimant more attractive to employers and hence **improve** employment outcomes

## But the work test may also have costs

- One of the original justifications for UI was to give workers the time and means to search for a **good job match**
  - A strictly enforced work test may pressure workers to accept a poor job match, leading to an **unstable** pattern of employment and **lower** long-term earnings

**Question:** what is the effect of the work test on long-term employment outcomes?

## Previous research on work test has come to different conclusions

- Literature on the effects of eliminating (or relaxing) the work test has come to different conclusions:

E.g. Johnson & Klepinger (1994), Klepinger, Johnson, and Joesch (2002), Ashenfelter, Ashmore, and Deschênes (2005), Poe-Yamagata et al. (2011), Toohey (2014), van Berg and Vikström (2014), Arni, Lalive, and van Ours (2014)

- More generally, it is unclear what the relationship between UI generosity/duration of benefits and subsequent employment outcomes:

Ehrenberg and Oaxaca (1976), Burgess and Kingston (1976), Classen (1977), Addison and Portugal (1989), Addison and Blackburn (2000), Gregory and Jukes (2001), Lalive (2007), McCall and Chi (2008), Caliendo, Tatsiramos, and Uhlendorff (2012), Schmider, von Wachter, and Bender (2012), Nekoei and Weber (2013), Tatsiramos and van Ours (2014)

## **We reexamine data from the Washington Alternative Work Search (WAWWS) experiment merged with follow-up administrative records**

- Conducted in Washington State (1986–1987)
- We match workers enrolled in WAWWS to administrative wage records for 1987 through 1997
- Wage records identify the **employer** who paid the worker **by quarter**, which allows us to measure employment outcomes along several dimensions, including duration of nonemployment, duration of tenure with the first post-claim employer (match quality), employment, hours, and earnings, and the number of post-claim employers

## **WAWS Experimental Design**

- Tested the effects of the work test by randomly assigning new UI claimants at the Tacoma Employment Service Center between July 1986 and August 1987 to one of three groups:
  - a group subject to the standard work test (SWT)
  - a group subject to a modified work test (MWT)
  - a group subject to no work test (NWT)

## **Randomization**

- Based on last two digits of Social Security number

## **Standard Work Test (SWT)**

- Able, available, and searching for work
- Expected to contact at least three employers per week and be prepared to give evidence of their search effort in an eligibility review interview (ERI)
- ERI: Report to Employment Service for a one-hour lecture followed by a 15-minute individual interview, usually in week 12 after the initial claim



## **Modified Work Test (MWT) group**

- Similar to SWT, except:
  - o Some claimants were called in for an ERI earlier: in week 6 rather than week 12
  - o Additional focus put on job development planning\* rather than UI eligibility issues

\* Job development plan is a service that aims to establish a job seeker's employment goals and to provide information to the job seeker about employers and their needs.

## **No Work Test (NWT) group**

- Assigned to an honor system that essentially eliminated the work test
- Claimants told to seek work actively
- But also told they would not be required to report job-search contacts — would not be called for an ERI
- UI benefits mailed unless the claimant called the Employment Service agency to report changes that would affect benefits (stopped looking for work, found a job)

## Eligibility review interviews and employment services received by claimant groups subject to no work test, the standard work test, and the modified work test

Service	(1)	(2)	(3)	(4)	(5)	(6)
	NWT	SWT	MWT	p-values (difference):		
				(1) and (2)	(1) and (3)	(2) and (3)
Eligibility review interview	0.004	0.250	0.322	0.000	0.000	<b>0.000</b>
Employment services						
job development plan	0.007	0.114	0.182	0.000	0.000	<b>0.000</b>
job referral/placement	0.155	0.185	0.160	0.027	0.721	0.108
other employment service*	0.062	0.107	0.116	0.000	0.000	0.503
Sample size	1,606	1,539	1,073			

\*Job consultation, receipt of or referral to training, testing, support services, contacting an employer on the claimant's behalf, or any other contact with the Employment Service

## Treatment Effects

We use straightforward regression adjustment:

$$y_i = \alpha + \beta_1 \text{SWT}_i + \beta_2 \text{MWT}_i + X_i \gamma + u_i,$$

where  $y_i$  denotes an outcome of interest

$\text{SWT}_i$  is a Standard Work Test treatment indicator

$\text{MWT}_i$  is a Modified Work Test treatment indicator

$X_i$  are time-invariant observables

## Estimated OLS effects of SWT and MWT on selected short-term outcomes

Outcome	No work test		Estimated effects (robust std. error)			
	Mean	(std. dev.)	Standard work test		Modified work test	
<b>UI outcomes</b>						
Benefits paid (\$), first spell	2,106	(1,765)	-430***	(54)	-467***	(59)
Weeks paid, first spell	17.23	(11.08)	-3.50***	(0.37)	-3.34***	(0.41)
Exhausted benefits (proportion)	0.354	(0.478)	-0.116***	(0.015)	-0.111***	(0.017)
<b>Short-term employment outcomes</b>						
First quarter outcomes						
Employed (proportion)	0.653	(0.476)	0.028*	(0.016)	0.038**	(0.018)
Hours worked	189	(205)	6.2	(7.0)	8.9	(7.6)
Earnings (\$)	2,123	(2,549)	86	(81)	80	(85)
Log wage (90% Lee bounds)			[-0.1245, 0.1212]		[-0.1107, 0.1195]	
Other outcomes						
Returned to same employer	0.342	(0.475)	-0.033**	(0.015)	-0.022	(0.017)
Returned to same industry	0.448	(0.497)	-0.029*	(0.016)	-0.004	(0.018)

## Comments

On the one hand, the results suggest that the work test mitigates moral hazard

- That is, the SWT and MWT groups received less UI benefits than the NWT group, but their unconditional earnings and work hours did not change
- This may suggest that, since earnings, hours worked, and wages for the NWT group were not any different from SWT and MWT, the NWT claimants may have returned to work without informing the UI agency, and hence continued to receive benefits to which they were not entitled

On the other hand, the work test may have led to a worse job match

- Why? Because the estimates show that claimants assigned to the SWT group (but not the MWT group) had a lower probability of returning to a former employer and hence were less likely to reestablish a successful job match

## Estimated Long-Term Effects of the Work Test

Next, we study whether the work test resulted in any long-term employment gains, and if so, for what type of claimant

- We estimate a separate model for the following reasons for job loss:
  - lost job permanently
  - quit for “good cause”
  - temporary layoff

## Estimated OLS effects of SWT and MWT on selected long-term outcomes for permanent job losers

Outcome	No work test		Estimated effects (robust std. error)			
	Mean (std. dev.)		Standard work test		Modified work test	
<b><i>Benefit year outcomes</i></b>						
Employed (proportion)	0.821	(0.384)	0.058*	(0.031)	0.095***	(0.036)
Hours worked	841	(731)	88.2	(66.2)	134.1*	(71.8)
Earnings (\$)	7,819	(8,230)	1,626**	(751)	1,829**	(792)
<b><i>Employment outcomes over 10 years</i></b>						
Average post-claim employed	0.711	(0.344)	0.028	(0.028)	0.004	(0.033)
Average post-claim hours	974	(733)	33.9	(60.8)	11.5	(73.0)
Average post-claim earnings (\$)	10,729	(9,257)	1,011	(776)	630	(915)
<b><i>Other outcomes</i></b>						
Number of post-claim employers	4.65	(4.1)	-0.012	(0.334)	-0.185	(0.373)
Quarters of nonemployment	5.01	(9.66)	-1.084	(0.785)	-2.038**	(0.910)
Quarters with first post-claim employer	6.00	(9.16)	1.299	(0.862)	2.249**	(1.054)



## Estimated OLS effects of SWT and MWT on selected long-term outcomes for claimants who quit for good cause

Outcome	No work test		Estimated effects (robust std. error)			
	Mean (std. dev.)		Standard work test		Modified work test	
<b><i>Benefit year outcomes</i></b>						
Employed (proportion)	0.786	(0.411)	0.032	(0.034)	0.074**	(0.035)
Hours worked	783	(748)	97.7	(68.8)	45.2	(79.7)
Earnings (\$)	7,671	(8,761)	620	(665)	186	(697)
<b><i>Employment outcomes over 10 years</i></b>						
Average post-claim employed	0.667	(0.36)	0.013	(0.030)	0.035	(0.033)
Average post-claim hours	926	(760)	-15.5	(62.4)	-42.2	(69.4)
Average post-claim earnings (\$)	9,986	(9,766)	350	(786)	-717	(793)
<b><i>Other outcomes</i></b>						
Number of post-claim employers	4.26	(3.44)	0.109	(0.298)	0.178	(0.330)
Quarters of nonemployment	5.67	(10.66)	-0.118	(0.870)	-1.229	(0.884)
Quarters with first post-claim employer	5.59	(8.77)	0.605	(0.740)	1.186	(0.045)

## Estimated OLS effects of SWT and MWT on selected long-term outcomes for claimants on temporary layoff

Outcome	No work test		Estimated effects (robust std. error)			
	Mean (std. dev.)		Standard work test		Modified work test	
<b><i>Benefit year outcomes</i></b>						
Employed (proportion)	0.927	(0.26)	0.003	(0.018)	0.021	(0.019)
Hours worked	1,232	(710)	-44.2	(46.9)	25.2	(51.7)
Earnings (\$)	14,487	(10,443)	88	(589)	864	(655)
<b><i>Employment outcomes over 10 years</i></b>						
Average post-claim employed	0.776	(0.303)	0.003	(0.021)	0.002	(0.024)
Average post-claim hours	1,131	(727)	3.7	(50.5)	-12.8	(55.2)
Average post-claim earnings (\$)	14,724	(10,742)	10	(664)	370	(737)
<b><i>Other outcomes</i></b>						
Number of post-claim employers	4.17	(3.15)	0.325	(0.243)	0.507**	(0.254)
Quarters of nonemployment	2.66	(6.49)	-0.397	(0.400)	-0.136	(0.533)
Quarters with first post-claim employer	10.34	(12.3)	-1.264	(0.857)	-1.135	(0.893)

## Differences between **SWT** and **MWT**

The results for *the permanent job losers* in particular suggest that the MWT appears to be a more successful policy than the SWT

Why?

MWT similar to SWT except, ERI was scheduled at an earlier date and had more emphasis put on job development planning

Was the MWT policy more successful because of the earlier ERI or because of the additional emphasis on the job development plan?

## Why was MWT more effective?

To understand this mechanism, we:

(1) Pooled the MWT and SWT groups

(2) Estimated the following regression

$$y_i = \delta_1 \text{MWT}_i + \delta_2 \text{ERI}_i + \delta_3 \text{JobPlan}_i + \delta_4 \text{ERI}_i * \text{MWT}_i + \delta_5 \text{JobPlan}_i * \text{MWT}_i + X_i \gamma + u_i$$

$\delta_4$  estimates the average difference in outcomes of claimants assigned to the MWT group who received an ERI

$\delta_5$  estimates the average difference in outcomes of claimants assigned to the MWT group who received a job development plan

We find suggestive evidence that the “softer” approach of job development planning resulted in improved outcomes more often than the earlier timing of the ERI

## Discussion and Summary

- The results provide little support for the idea that the work test leads to a worse job match and worse employment outcomes in the long term

*Overall, the work test **reduced costs** to the UI system without observably hurting workers*

*That is, the work test resulted in decreased claimant **moral hazard**: without the work test, claimants would draw more benefits, but would not ultimately have improved outcomes*

- For permanent job losers, in fact, the work test was beneficial:
  - Higher probability of employment, worked more hours, had higher earnings
  - These claimants were reemployed sooner than the comparison group and had a longer job tenure with the first post-claim employer

*The work test is a policy that **benefits** claimants permanently laid off*