

## The Illinois Unemployment Insurance Incentive Experiments

Final Report  
February 1987

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## EXECUTIVE SUMMARY

From mid-1984 to mid-1985, the Illinois Department of Employment Security conducted an experiment designed to test the effectiveness of bonus offers in reducing the duration of insured unemployment. This experiment was funded under the Wagner-Peyser Act, which allows states to use funds "for exemplary models for the delivery of services." Illinois Governor James R. Thompson reviewed this proposed project and approved use of his ten percent (10%) discretionary money under Wagner-Peyser 7(b). The experiment had two distinct treatments.

The first, called the Job Search Incentive Experiment (JSIE), offered new UI claimants a cash bonus of \$500 if they met the following conditions:

- \*Filing initial claims, and eligible to receive benefits.
- \*Obtained employment before receiving 11 weeks of benefits.
- \*Employed continually for 4 months.
- \*Worked on the job 30 or more hours per week.

The second, called the Hiring Incentive Experiment (HIE), offered an employer of a new UI claimant a cash bonus of \$500 for hiring a participating UI claimant who met the same conditions as stated above.

The purposes of the experiment were to determine the following:

1. Do incentive payments to claimants influence their job search behavior?
2. Do incentive payments to employers influence their hiring behavior?
3. Do incentive payments paid either to claimants or employers reduce the duration of insured unemployment?
4. Are incentive payments an efficient means of reducing the flow of benefits from the UI Trust Fund?

The experiment was conducted in 22 designated Job Service offices in northern and central Illinois, including the City of Chicago. About 17,000 new UI claimants who registered with the Job Service were randomly assigned to one of the two treatments or the control group according to the last two digits of their Social Security numbers. The success of the randomization process in generating identical samples for assignment to each of the two experiments and the control group is shown in Table 5-2. The Job Service, rather than the UI office, was the place of enrollment in order to limit the experiment to those UI claimants who were legally required to register with the Job Service and actively engage in job search. (Excluded categories include

recent veterans, federal employees, members of unions with associated hiring halls, and claimants on layoff with recall dates within 4 weeks.)

For each claimant assigned to a treatment, a Job Service specialist described the treatment and asked the claimant to sign an agreement to participate. Each claimant who agreed to participate and had a valid UI claim was enrolled in the experiment and sent a packet of materials. After this point, the process for the two treatments differed somewhat.

For the JSIE, the packet included a "Notice of Hire" form that the claimant signed and returned to the Department of Employment Security (DES) upon obtaining full-time employment within the 11-week period. The DES verified that benefit payments had stopped within the designated period, and sent the participating claimant a voucher, which the claimant submitted for payment of \$500 after completing 4 months of continuous employment. Upon receipt of the voucher, the DES verified that UI benefit payments had not been resumed within the 4-month period, and issued a check for \$500.

For the HIE, the packet included multiple copies of a letter to employers explaining the bonus offer, which the participating claimant could use in his or her job search. Upon becoming employed, the claimant gave the employer the "Notice of Hire" form, which the employer and the claimant signed. The employer sent the Notice of Hire to the DES, which verified that the participating claimant was not receiving UI benefits and sent a voucher to the employer. The voucher was signed by both the employer and the claimant at the end of the 4-month employment period, and submitted to the DES for payment. Upon verification by the DES, a check for \$500 was issued to the employer.

Approximately 12,000 of the originally assigned group of 17,000 claimants were determined to be eligible to participate in the experiment. Table 5-1 shows that 84 percent of those eligible to participate in the JSIE signed the agreement to participate, but only 65 percent of those eligible for the HIE agreed to participate. As indicated by the low proportion of participants submitting Notices of Hire or receiving bonuses, and as further shown by the results of a Follow-Up survey of 2,000 experimental claimants, the "real" participation rates, especially in the HIE, were considerably lower. The limited use of the HIE suggests that this experiment had little scope for reducing UI benefit payments or weeks of unemployment.

The effects of the experimental treatments were determined by examining the benefits paid to claimants over a full benefit year, and the number of weeks of insured unemployment experienced over a full benefit year. A full benefit year (rather than just the spell of unemployment immediately following the initial

claim) is required to determine the true effects of the treatments, because claimants could have redistributed their unemployment experience over a benefit year, with unemployment dropping immediately following the initial claim, but increasing later on.

The JSIE had a large and statistically significant effect on the benefit receipts and weeks of insured unemployment of eligible claimants. Claimants eligible for the JSIE received \$158 less in state regular benefits over the full benefit year than did members of the control group. Also, JSIE eligibles experienced 1.15 fewer weeks of insured unemployment over the benefit year than did controls. Both the \$158 benefit reduction and the 1.15-week unemployment reduction were achieved on average over the full group of claimants eligible to participate in the JSIE. Finally, the JSIE reduced the probability that a claimant would exhaust his or her benefits by 3.2 percent. These results are displayed in Table 5-4. Computation of the net benefits of the JSIE shows that for every \$1 spent on bonuses, expenditures from the UI Trust Fund were reduced by \$2.30.

The results of the HIE are more complex. The HIE clearly reduced benefit payments and weeks of insured unemployment in the spell of unemployment immediately following the initial claim for all eligibles. This in itself is remarkable, given the small number of claimants who participated in the experiment. But, over the full benefit year, the HIE had no statistically significant effect on the benefits paid to HIE enrollees taken as a whole, or on the number of weeks of insured unemployment they experienced.

An important question to be addressed is whether the reduced weeks of unemployment induced by the JSIE were purchased at the expense of reduced effective job search time and acceptance of a less satisfactory job. We have tested this hypothesis by examining the post-experimental earnings of claimants who found employment. Table 5-5 demonstrates that there was no earnings loss for JSIE eligibles in the first full quarter of earnings after benefit termination. (The first post-claim quarter is ignored, because it may be contaminated by the effects of the experiment on timing of job acquisition.) Both before and after the experiment, earnings of the controls and JSIE eligibles who obtained post-claim employment were virtually identical.

We have also examined the effects of the treatments broken down by sex, age, race, occupation, industry, and benefit payment levels. The disaggregations by sex and race expose some important results not evident from the aggregate analysis. As shown in Table 6-8, the HIE had large and statistically significant effects on benefits paid and weeks unemployed of white women, but had no effect on men or black women. The reasons for this strong sex-race differentiation of the results are not totally clear, but investigation of participation in the HIE indicates clearly that whites were more prone than blacks to participate in the experiment, as shown in Table 7-2. We speculate that white women were affected by the HIE, whereas white men were not, because the

jobs white women obtain tend to involve less on-the-job training. If so, then the \$500 hiring bonus would offset a larger proportion of the training costs incurred by an employer who hired a woman.

We conclude that the JSIE demonstrates that bonus payments to UI claimants are a remarkably efficient means of reducing UI benefit payments and insured unemployment, and at a minimum should be further tested. Additional experiments with the JSIE should provide variation in bonus levels and weeks of elapsed time over which the voucher is valid.

The conclusions on the HIE are less clear. The fact that it was effective for one group--white women--indicates the potential efficacy of a voucher program paying benefits to employers. However, the participation rate in the experiment was so low that no conclusion can be drawn as to how effective a program would be, if modelled on the experiment.