FINAL REPORT

COMPREHENSIVE ASSESSMENT OF SELF-EMPLOYMENT ASSISTANCE (SEA) PROGRAMS

EXECUTIVE SUMMARY

This report on Self-Employment Assistance (SEA) Programs catalogs the eight state programs that were established between 1995 and 1999 and presents participant outcomes that were collected through a survey of former participants.

Congress authorized SEA programs for five years as part of the NAFTA legislation in 1993. Between 1995 and 1999, eight states passed enabling legislation and implemented SEA programs. The seven continuing SEA programs are located in Delaware, Maine, Maryland, New Jersey, New York, Oregon, and Pennsylvania. In 1999 SEA programs were permanently authorized by Congress; however, no additional states have established programs.

In SEA programs, states are permitted to assist Unemployment Insurance (UI) claimants in establishing themselves in self-employment. Claimants are permitted to receive SEA allowances in lieu of unemployment compensation while being required to devote themselves full time to activities supporting their self-employment in lieu of the regular UI work search requirements.

Previous studies, in particular the study of self-employment demonstrations in 1995, found self employment assistance to be a cost-effective intervention when operated according to the framework that was established in the Massachusetts Enterprise Project. A 1998 Report to Congress on the subsequently implemented programs, while finding that there was insufficient data to complete a benefit-cost analysis, recommended continuing the program.

This study, in addition to cataloging the details of program operation in each of the states, reports participant outcomes as well as differences in participant outcomes from those of a comparison group that did not participate in SEA, even though they had been eligible. The study found that participants in large numbers engage in self-employment and many remain self-employed up to three years following program participation. However the data was insufficient to allow conclusions regarding the program’s cost effectiveness. The findings that are reported are accompanied with suggestions for a number of modifications to improve the operation of SEA programs.

SEA Program Background

To participate in an SEA program, UI claimants must pass through a profiling process that has been designed to assess the likelihood of their reemployment within the 26 weeks of UI benefit eligibility or, conversely, the likelihood of their exhaustion of benefits prior to reemployment. By statute, SEA programs may not serve more than 5% of a state's UI claimants. Only New York has ever included more than 1% of its UI claimants in its SEA program.

States are required to provide entrepreneurial training, business counseling, and technical assistance to SEA participants. At the same time, states are given significant latitude in the design and operation of their programs. In general, the state agency or office overseeing unemployment insurance benefits has secured the cooperation of the state agency or office that is responsible for employment and training programs to design a training process that satisfies all of the UI requirements. Program services have been managed at the service delivery level. In some states contractors have provided program management. In most states service providers have been contracted to deliver the training, business counseling, and technical assistance that are required by the federal legislation.

A significant restriction of the authorizing legislation requires that the SEA program be budget neutral. Budget neutrality for SEA requires that the program not cause the incurring of any additional expense to the UI trust fund than would have been experienced without the program.

Study Methodology

This study was designed around the goal of obtaining longer-term outcomes experienced by participants compared to others who did not participate in SEA. Though not a control group, which would have been created through random assignment at the beginning of the intervention, the comparison group was sought in order to gain some sense of how SEA program participant outcomes were like or unlike the experience of a similar group of individuals. The comparison group was constructed using a simple random sample of individuals who profiled as likely benefit exhaustees, were offered enrollment in SEA, but pursued regular unemployment compensation instead.

Data sources included a telephone survey supplemented with wage record and administrative data provided by state UI information specialists for each of the 1176 survey respondents. Approximately 600 former program participants (200 each from the states of Maine, New Jersey, and New York) were randomly sampled from the pool of participants enrolled in their state's SEA program between 1995 and 1999. From the same time period, approximately 600 individuals (again, 200 from each of the three states) of eligible non-participants were randomly sampled for the telephone interview.

In assessing outcomes, multiple regression analysis was used to control for observable difference between the groups. However, since the groups are not identical and may be subject to omitted variable bias, care should be taken in interpreting the results of the comparisons.

Principal Findings

The full report presents a discussion of the variety of state programs that exist and examines their unique program operations. Participant outcomes are reported and compared to the outcomes of the non-participant comparison group. The text below summarizes the study's findings and presents recommendations for program improvement.

Service Delivery
States have undertaken unique and inventive means to deliver services that are required for participants but are not funded through the statute. Most states have devised strategies for partnering in the operation of their SEA programs between the state UI office and the state office responsible for Employment and Training. Small Business Development Centers (SBDCs) have been a third partner in many locations, providing more SEA training than any other entity at relatively low cost.

Characteristics of SEA Participants
Demographic characteristics of SEA program participants differ significantly from those of other UI claimants who similarly profile as likely to exhaust their benefits. It is suspected that the interplay of self-selection into the program and the SEA program's "cold shower" introduction may affect who chooses to pursue the program. The main observable differences are:

- Participants are likely to have higher levels of education; higher pre-unemployment wages; a previous professional, technical, or managerial occupation; and to have been male in comparison to non-participants.
- Participants express much higher levels of interest in business ownership than non-participants, which may contribute to their decision to enroll in the SEA program.

Self-Employment Outcomes
Participants in the SEA programs in the states of Maine, New Jersey and New York achieved high rates of self-employment. Compared to eligible non-participants, individuals who participated in the SEA program in these states were 19 times more likely to have been self-employed at any time post-unemployment. At the date of the survey in December 2000, program participants were 16 times more likely to be self-employed than non-participants. For participants 25-36 months from initial program enrollment, 58% in New York and 60% in New Jersey were either self-employed or both self-employed and wage/salary employed. In Maine, over 40% of participants were either self-employed or both self-employed and wage/salary employed at 25-36 months since their program enrollment.

Overall Employment Outcomes
Participants in the SEA programs in Maine, New Jersey and New York experienced higher rates of reemployment in any position, whether self-employed or wage/salary employed, than non-participants. The study found that program participants were four times more likely than non-participants to have obtained employment of any kind (either wage/salary or self-employment).

Satisfaction
Program participants expressed high levels of satisfaction with self-employment and found the entrepreneurial training and business plan development to be the most helpful components of the SEA programs. In Maine and New Jersey, 90% of the participant self-employed are very satisfied or somewhat satisfied with their businesses. In New York, 87% are satisfied with their businesses.

UI Benefit Receipt
Program participants in the states of Maine, New Jersey, and New York on average collected \$950-\$2,000 more in UI benefits than the non-participants. A number of reasons may account for this differential, including:

- the differences between the participant and comparison groups that could not be controlled through regression analysis,
- the implicit incentive given to SEA participants to collect their maximum benefits,
- the administrative delay between participants' filing of UI claims and commencement of services while non-participants commence an immediate job search,
- the lowering of eligibility thresholds that may allow enrollment of some with lower likelihood of exhausting their benefits,
- possible imprecision of the states' profiling models,
- and the strength of the economy (record low unemployment) during the study period.

Benefit-Cost Analysis
Available self-employment earnings data are insufficient to measure the total earnings gains of program participants compared to non-participants. This limitation precludes an effective benefit-cost analysis. A comparison of costs among SEA program states shows wide variation. Specifically, program administration costs range from \$300 to \$600 per participant. Some states have implemented their programs through the utilization of existing personnel capacity and do not track the cost of additional SEA-related duties as there is not a specific budget line item. In addition, the cost of program services (training, business counseling, technical assistance) ranges from \$200 to \$2,000 per participant, corresponding to the extensiveness of the training provided within each state and the ability of some state programs to utilize in-kind contributions of training services. This amount may actually be less than overall JTPA Title III training programs, which averaged \$2,050 in PY 1995.

Recommendations

Given the findings that participants have achieved significant levels of self-employment, labor market attachment, and overall work satisfaction, and given the inconclusive benefit-cost analysis, there is no reason to suggest any major modifications to the program. To the extent that the goal of SEA programs is to create other options for reemployment for dislocated workers, it appears to succeed in enabling self-employment.

Within the context of the Workforce Investment Act, SEA could be implemented in any state as a relatively inexpensive program. The most significant administrative challenge of the program, providing and funding the program services, may have a ready solution for any state within the One-Stop environment that includes the use of Individual Training Accounts (ITAs) to pay for participant services. Integration of SEA into WIA will require the development of performance measures that are more appropriate to self-employment training.

The findings point to a possible violation of the requirement of cost-neutrality. If participants are receiving greater amounts of benefits, it may be the result of the conflicting priorities of maintaining the critical mass necessary for efficient operation and operating in a budget-neutral fashion. If the higher priority is to maintain sufficient enrollment, the recommendation is that the authorizing legislation be amended to relax the profiling requirement and the budget-neutral constraint. If the priority is cost neutrality, the recommendation is for DOL to encourage the states to further investigate whether or not their profiling models and eligibility thresholds are adequately identifying likely exhaustees and maintaining cost neutrality.

Other Recommendations

Other recommendations include aligning reporting requirements for SEA programs with other federal reporting and appropriations calendars and developing a structure for collecting participant self-employment earnings information to permit follow-up assessment of program impacts for five years following program participation. Also, the report recommends that SEA be studied within the broader context of individualized intensive services that are part of the structure that has been created under the Workforce Investment Act of 1998. Another recommendation is to provide technical assistance to the state programs that are expected to provide program statistics and annual reports.

Finally, if the Department of Labor desires to pursue further quantification of the net benefits of SEA programs, a vehicle for collecting self-employment earnings data needs to be created. Clear definitions of what should be counted as self-employment earnings as opposed to net profits or gross business earnings need to be integrated into the collection system and incentives may be considered for program participants to report this information. Both the model that has been developed in Maryland for tracking participant outcomes for five years following program participation, and the Washington State data collection system that identifies business activity represent approaches that could be adopted elsewhere.