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TECHNICAL REPORT

Explaining the Increase in Unemployment Compensation for Ex-Servicemembers During the Global War on Terror

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Prepared for the Office of the Secretary of Defense

NATIONAL DEFENSE RESEARCH INSTITUTE

The research described in this report was prepared for the Office of the Secretary of Defense-Reserve Affairs and conducted within the Forces and Resources Policy Center of the RAND National Defense Research Institute (NDRI), a federally funded research and development center sponsored by the Office of the Secretary of Defense, the Joint Staff, the Unified Combatant Commands, the Department of the Navy, the Marine Corps, the defense agencies, and the defense Intelligence Community under Contract W74V8H-06-C-0002.

Library of Congress Cataloging-in-Publication Data is available for this publication.

ISBN 978-0-8330-4514-0

Published 2008 by the RAND Corporation
1776 Main Street, P.O. Box 2138, Santa Monica, CA 90407-2138
1200 South Hayes Street, Arlington, VA 22202-5050
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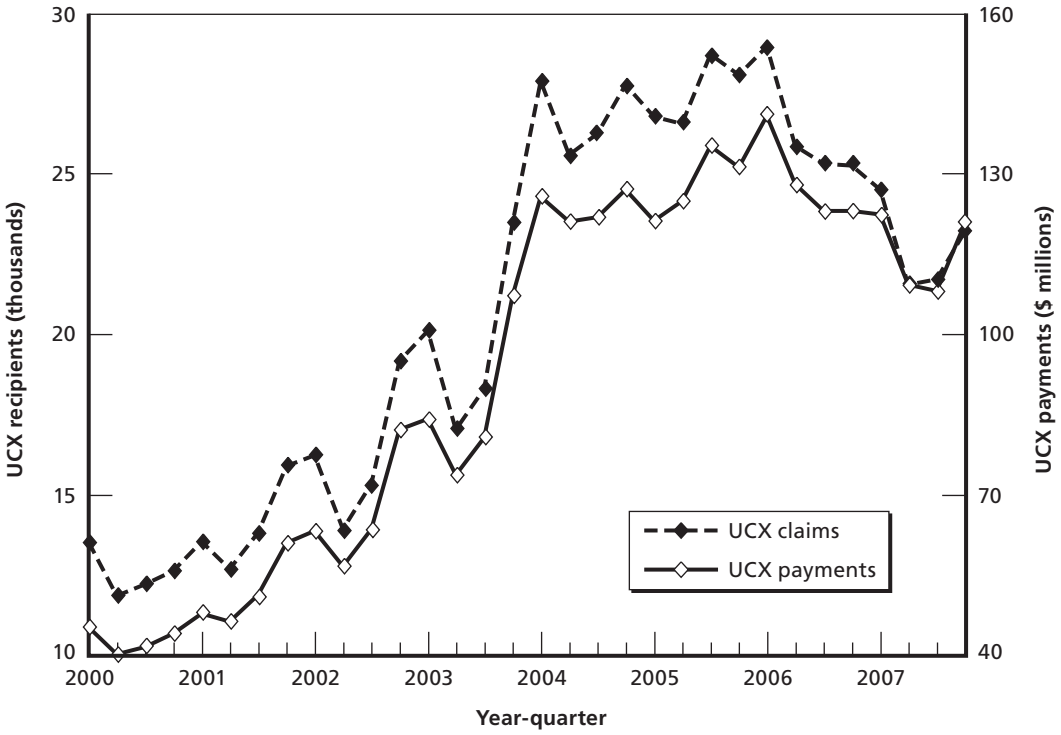
Summary

Between 2002 and 2004, the number of veterans receiving Unemployment Compensation for Ex-Servicemembers and the cost of this program to the U.S. Department of Defense (DoD) increased by about 75 percent (see Figure S.1). The UCX program is the military counterpart to the civilian Unemployment Insurance (UI) program, which provides income assistance to the unemployed as they search for work. Honorably discharged active-component personnel and reserve-component personnel completing a period of active-duty service of 90 or more days are eligible to receive UCX benefits provided that they meet other federal and state-specific requirements of the UI system.

The sharp and sustained increase in the UCX caseload since 2002 has contributed to concerns that veterans of the wars in Iraq and Afghanistan are having difficulty transition-

Figure S.1
Average Weekly UCX Caseload, by Quarter



SOURCE: U.S. Department of Labor, Employment and Training Administration.

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ing to the civilian labor market. The research reported in this document examines the reasons why the UCX caseload has risen and considers the implications of those findings for the UCX program.

Data

To understand this increase in the UCX caseload, we drew on several data sources. We began by analyzing aggregate data on the UCX program maintained by the U.S. Department of Labor (DoL), Employment and Training Administration (ETA). We then created an individual-level database of UCX recipients. That database began with a sample of UCX recipients obtained from hard-copy reports maintained by the individual military services. Data limitations and considerations of cost led us to select two quarters of these data to be key-punched into electronic form: the second quarter of 2005 for the Army, Air Force, Navy, and Marine Corps and the second quarter of 2002 for the Army and Air Force alone (data on the Navy and Marine Corps were not available for that quarter). The two quarters were selected so as to span the observed increase in the UCX caseload.

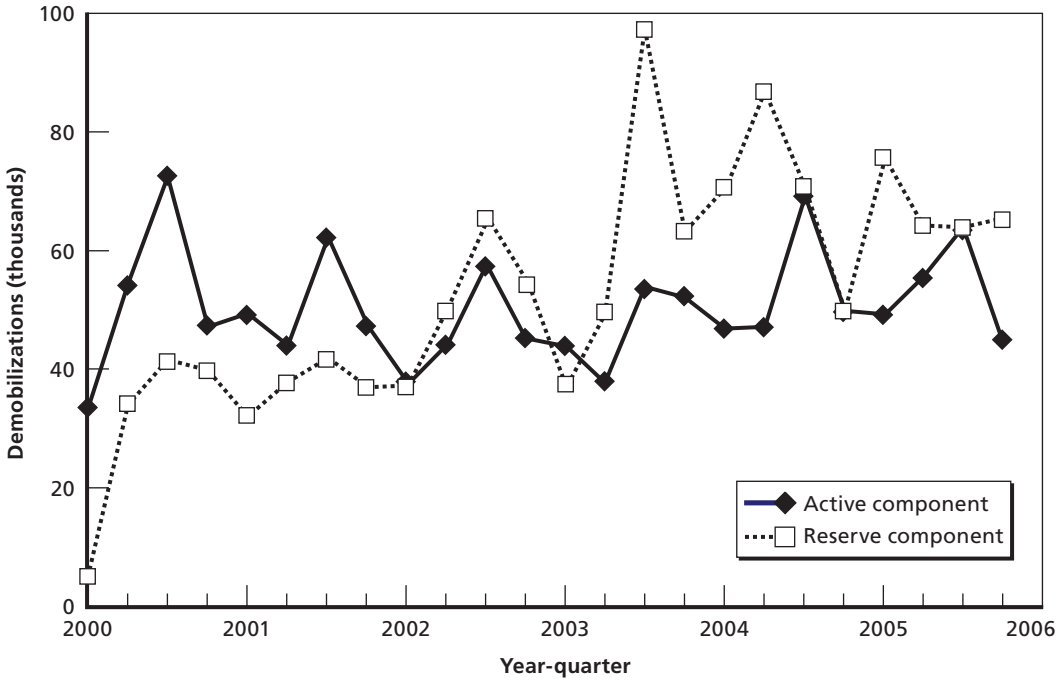
We augmented these individual-level data on UCX claims by incorporating information from service records on component, rank, dates of service and deployment, and self-reported health from the Post-Deployment Health Assessment (PDHA). We also analyzed survey data on post-activation employment of reservists from the Status of Forces Survey of Reserve Component Members (SOFS-R).

Rising UCX Eligibility and Claim Rates

We find that the increase in the UCX caseload is attributable both to large increases in the number of veterans potentially eligible to receive UCX and to large increases in the fraction of potentially eligible veterans who claim UCX (the claim rate). As can be seen in Figure S.2, the number of reservists completing an activation of 90 or more days, and therefore potentially eligible to receive UCX, increased sharply following September 11, 2001, as reservists were deployed to assist with homeland security and to support operations in Afghanistan. With the beginning of Operation Iraqi Freedom in early 2003, reserve deactivations increased to unprecedented levels. By contrast, active-component separations have been relatively stable since 2000.

These trends in the numbers of veterans eligible to receive UCX suggest that a significant proportion of the overall increase in the UCX caseload is attributable to the intensive use of the reserve components in the Global War on Terror. The individual-level data allow us to identify the service and component of UCX claimants. Computations based on these individual UCX claim data for the second quarter of 2002 and the second quarter of 2005 imply that approximately 58 percent of the increase in the UCX caseload between 2002 and 2005 is attributable to the Army reserve components. We estimate that the Air Force, Navy, and Marine Corps reserve components account for a very small fraction of the overall increase in the UCX caseload between those years, which leaves the balance of the increase (about 40 percent) to the active components.

Figure S.2
Active- and Reserve-Component Demobilizations, by Quarter



SOURCES: Work Experience file, Active Duty Pay file, and Reserve Pay file.
NOTE: Counts exclude the Coast Guard.
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We also use these individual-level data to decompose the increase in the Army and Air Force UCX caseload into two parts: (1) increases in eligibility and (2) increases in the fraction of eligible reservists who claim UCX (data limitations prevent us from performing this decomposition for the Navy and Marine Corps). Specifically, from the individual-level data, we compute the probability of claiming UCX in a quarter for each component. Then, we compute the effect of changes in eligibility by using observed eligibility in each period, but holding the claim rates constant at their mean value. Similarly, we compute the effect of changes in claiming by using observed claiming rates, but holding the number of eligible servicemembers constant at their mean value.

Table S.1 tabulates the result of that analysis. Eligibility more than doubled in the Air Force reserve components and nearly tripled in the Army components. Changes in eligibility explain more than half the increase in the UCX caseload in both the Army and Air Force reserve components. Changes in active-component eligibility are much smaller (14 percent in the Army and 12 percent in the Air Force). Nevertheless, changes in eligibility explain about

Table S.1
The Effect of Eligibility and Claiming on the Increase in the UCX Caseload Between the Second Quarters of 2002 and 2005

	Active Component		Reserve Component	
	Army	Air Force	Army	Air Force
Percentage increase in eligibility	14	12	175	106
Percentage-point increase in claim rate	0.6	2.5	4.9	0.9
Share of increase in UCX caseload attributable to				
Increase in eligibility	26	55	54	53
Increase in claim rates	74	45	46	47

SOURCE: RAND UCX database.

one-quarter of the increase in the UCX caseload in the Army active component and more than half of the increase in the Air Force active component.

Deployment Duration, Post-Deployment Health, and UCX Claim Rates

While increases in the number of veterans eligible to receive UCX have been important, rising claim rates have also played an important role. Nearly half of the increase in the Air Force active- and reserve-component caseload, three-quarters of the Army active-component caseload, and half of the Army reserve-component caseload are accounted for by rising claim rates.

It seems unlikely that the increase in claim rates is due to a deterioration in the civilian labor market. Between 2002 and 2005, the overall civilian labor market generally improved; for example, civilian UI claims decreased markedly between these two years.[1] Instead, it seems likely that the increase in claim rates is due to changes in the nature of military service. We show that long deployments have become much more common and that longer deployments are associated with much higher claim rates. Our decomposition analysis suggests that these longer deployments explain more than a third of the overall increase in the Army active and reserve UCX caseload between 2002 and 2005 (similar analyses could not be conducted for other services).

We also explored the relationship between post-deployment health status (as measured in the PDHA) and UCX utilization among Army active- and reserve-component members. We show that self-reported health worsens with length of deployment and that poor reported health is associated with higher UCX claim rates. However, while these correlations are statis-

[1] The official Current Population Survey (CPS-based unemployment rate of younger veterans (ages 20–24) increased between 2003 and 2005 (while the unemployment rate of nonveteran youth declined). However, the official unemployment rate returned to 2003 levels in 2006. The decline in the unemployment rate of younger veterans in 2006 and a more formal analysis in earlier research (Savych, Klerman, and Loughran, 2008) suggest that the observed increase in veteran youth unemployment between 2003 and 2005 most likely reflects sampling variation rather than the influence of real economic factors. Thus, there is no clear evidence of either an improvement or worsening of the employment prospects of young veterans.

tically significant, our analysis suggests that they are not large enough to explain much of the overall increase in the Army UCX caseload.

The Employment Experiences of Army Reserve-Component UCX Recipients

In 2005, more than 19 percent of eligible Army active-component and 15 percent of eligible Army reserve-component members claimed UCX benefits following demobilization. The high claim rates of Army active-component members are perhaps more easily understood than the high claim rates of Army reserve-component members. Most active-component veterans have no recent civilian labor market experience. It is, therefore, plausible that many will require some time to find civilian employment that takes advantage of the skills they developed in the military.

The situation with reservists is quite different. The Uniformed Services Employment and Reemployment Rights Act (USERRA) of 1994 (P. L. 103-353) guarantees reservists employed at the time of activation the right to return to that job following activation. Since, as with UI, UCX generally requires that recipients accept suitable employment, the availability of a USERRA-protected job should make it less likely that a reservist would be eligible to receive UCX.[2]

However, our tabulations from the SOFS-R indicate that 59 percent of reservists who received UCX in the three months following deactivation were employed in the month prior to being activated. The SOFS-R asked these reservists why they had not returned to their pre-activation job. We classified those reasons as either involuntary (e.g., employer went out of business, change in employer circumstances, failure to offer prompt employment) or voluntary (e.g., disliked previous job, decided to attend school, "needed a break") in nature. Overall, among Army reservists who did not return to their pre-activation employer and instead collected UCX, 40 percent listed only voluntary reasons, 34 percent listed both voluntary and involuntary reasons, and 26 percent listed only involuntary reasons.

Implications

Our analyses suggest that the sharp rise in the UCX caseload is not evidence of a substantial weakening of the civilian labor market for recent veterans. Instead, our analyses suggest that the increase in the UCX caseload is due to changes in the population of veterans eligible for UCX. This includes a sharp increase in the number of veterans who qualify on the basis of their reserve service and a sharp increase in the length of reserve deployments.

Nevertheless, the sharp increase in the UCX caseload might suggest a rethinking of the UCX program. It appears that many reservists collecting UCX have a USERRA-protected job to which they have a statutory right to return. Policymakers might consider administrative steps to ensure that reservists claiming UCX understand that a USERRA-protected job will usually make them ineligible for UCX and to ensure that state UI program employees deter-

[2] The availability of a USERRA-protected job does not automatically disqualify reservists from receiving UCX. State workforce agencies make eligibility determinations based on a variety of other considerations, some of which vary from state to state. However, availability of suitable employment is a major consideration.

mine whether claimants have access to a USERRA-protected job before granting UCX benefits.[3] Discussions with DoL ETA staff suggest that official guidance on this issue was ambiguous through mid-2007 and that additional guidance to reservists and to state UI offices and employees might be useful.[4]

Alternatively, policymakers might decide that UCX is an appropriate vehicle for delivering income support to reservists who are recuperating from a stressful deployment and possibly considering alternative civilian employment.[5] It should be noted that any such UCX-funded leave would be in addition to paid leave accumulated while serving on active duty and that USERRA already allows reservists up to three months to return to their pre-activation job (though USERRA itself does not provide any income during that period).

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[3] We use "policymakers" generically here to refer to federal and state agencies with authority to enforce and interpret UCX and USERRA statutes and regulations.

[4] The ambiguity arises from a disparity between the language contained in the UCX Handbook (DoL ETA, 1994, Chapter IV, 7.a) and that in the Unemployment Insurance Program Letter (UIPL) No. 27-06 (DoL ETA, 2006b). The guidance contained in UIPL No. 27-06, issued in August 2006, is correct. DoL is revising the UCX Handbook to conform to the guidance contained in UIPL 27-06.

[5] Such a change would require a legislative change to the UCX statute, which, as written (20 U.S.C.F.R., Part 614), requires individuals to be able and available to work. Most states also require that individuals be actively seeking work.