



Transitioning From the Military to the Civilian Workforce: The Role of Unemployment Compensation for Ex-Servicemembers

People who leave the military often face different challenges when searching for civilian employment than people who move from one civilian job to another. The recession of 2007 to 2009 increased policymakers' focus on how well veterans who left active-duty service during or after the recession have fared in the civilian labor market. In its new report *Labor Force Experiences of Recent Veterans*, the Congressional Budget Office compares the labor market outcomes of veterans who have left active-duty service since September 2001 with the outcomes of civilians (people who have never served on active duty in the armed forces).¹ In this companion report, CBO describes the use of unemployment benefits among service members who have recently transitioned to the civilian workforce.

Unemployed veterans who are newly separated from the military's active component (the regular Army, Navy, Marine Corps, or Air Force) or who are deactivated after serving on active duty in the reserve component (the National Guard or Reserves) may be eligible for a special type of unemployment insurance, called Unemployment Compensation for Ex-Servicemembers (UCX). The UCX program is administered by the states on behalf of the Department of Labor, but it is paid for by the military, as the recipients' former employer. In all, the Department of Defense (DoD) spent \$310 million on UCX benefits in 2016, down from a peak of \$1.0 billion in 2011. (Those amounts, which are expressed in 2017

dollars, include spending for Extended Benefits, additional weeks of unemployment benefits that are available in states with especially high unemployment rates.)

CBO analyzed data from the Army about the UCX program in fiscal year 2013 (the most recent year for which complete data were available when the analysis was conducted). In that year, nearly half of the soldiers who left the Army's active component applied for UCX benefits, as did about 20 percent of Army reservists who had served for at least 90 days on active duty and then been deactivated. Those data are only for the Army and cover only one year, so the results do not necessarily reflect the Army's experience in other years—particularly as the economy has improved—or the experiences of the other military services. However, because veterans generally begin receiving UCX benefits shortly after they leave the military, those data suggest that many soldiers did not or could not find a job near the end of their Army enlistment or soon thereafter.

Transitioning to the Civilian Workforce

Entering or reentering the workforce can be difficult for anyone, but veterans can face special obstacles associated with their military service. Partly for that reason, the federal government operates various education and employment assistance programs that help many service members who are leaving, or have recently left, active duty. Other public and private entities also offer programs that can ease the financial burden or provide skills to veterans transitioning to the civilian labor market.

1. See Congressional Budget Office, *Labor Force Experiences of Recent Veterans* (May 2017), www.cbo.gov/publication/52418.

Note: Unless otherwise indicated, all years referred to in this report are calendar years, and all dollar amounts are expressed in 2017 dollars. Amounts are adjusted to remove the effects of inflation using the gross domestic product price index, with values of that index for 2017 projected by the Congressional Budget Office. Numbers in the text and table may not add up to totals because of rounding. Data underlying the figure are posted along with this report on CBO's website.

For service members who leave the armed forces and decide to seek civilian employment, searching for a job is not like moving from one job to another in the civilian sector—or even like entering the workforce after finishing school. Newly separated veterans encounter several added difficulties. For example, when they leave the service, they may move from the location of their last duty station to another state (perhaps to their home town), and they may not have had an opportunity to look for a job in person at their destination before leaving the military. Some service members may separate from the military shortly after returning from an overseas deployment, which also leaves them little time to hunt for a job before their discharge.

Moreover, for many veterans, military service is likely to have been their first full-time employment, so they may have little experience looking for a job in the civilian sector. For instance, although most civilians have had at least one job by age 22, many veterans of that age are just starting to enter the full-time civilian workforce. (For people joining the active component, the minimum age for enlistment is generally 18—or 17 with parental consent—and they are typically required to commit to serving on active duty for four years.)

The federal government has a long history of initiatives to ease the difficulties that service members face when returning to civilian life. The Servicemen's Readjustment Act of 1944—also known as the GI Bill of Rights—established unemployment compensation and education benefits that were used by much of the veteran population after World War II. In fiscal year 2016, more than 1 million people took advantage of education programs offered by the Department of Veterans Affairs (VA), at a cost to the federal government of about \$13 billion.

In addition, since November 2012, DoD has required nearly all separating service members to participate in the Transitional Assistance Program, which includes employment services and counseling. (Previously, those services were voluntary and the program was shorter.) Many other benefits, programs, and services—some of which are available to all veterans and others only to specific groups—also help veterans find work.² Besides employment assistance, veterans received about \$67 billion in

disability payments from VA in fiscal year 2016 to offset potential losses in earnings because of medical conditions that occurred or worsened while they were serving in the military.

Many veterans have access to other sources of income to reduce the financial hardships of their transition. For example, they may be eligible to collect unemployment benefits under the UCX program when they first leave active duty. Although that program is designed to help newly separated veterans while they look for work, it may reduce the incentive for veterans to find a job quickly, causing veterans' unemployment rates to be higher than would otherwise be the case. However, reducing the pressure to find work quickly may give veterans the time to find a higher-quality job than they might otherwise. Overall, the effects of the various employment policies and programs on veterans' labor force outcomes are not known.³

Unemployment Compensation for Ex-Servicemembers

Personnel who have separated from the active component and reservists who were called up for active duty and then deactivated may be eligible for UCX benefits. Unlike civilians—who receive unemployment compensation only if they lost a job for reasons beyond their control—service members may collect UCX benefits if they decide voluntarily to separate after fulfilling their military commitment or for certain other reasons. Until November 2015, deactivated reservists had to have served for at least 90 days on active duty to be eligible for compensation.⁴

2. For a comprehensive list of programs and assistance, see Benjamin Collins and others, *Employment for Veterans: Trends and Programs*, Report for Congress R42790 (Congressional Research Service, May 11, 2015).

3. Some researchers have concluded that unemployment rates for veterans lessen as their length of time out of the military increases, although the size of the decline has not been estimated precisely. One study found that unemployment rates were only slightly higher for young veterans (ages 18 to 24) who had separated within the previous year than for those who had separated more than a year earlier. Using different methods and data, that study also found (as did CBO) that unemployment rates were higher for young veterans than for similar civilians, but the gap between the two populations' rates shrank by about 0.4 percentage points for each additional month in the survey sample, suggesting a decline of about half during the sample period (an average of seven months). See David S. Loughran, *Why Is Veteran Unemployment So High?* (RAND Corporation, 2014), www.rand.org/pubs/research_reports/RR284.html.

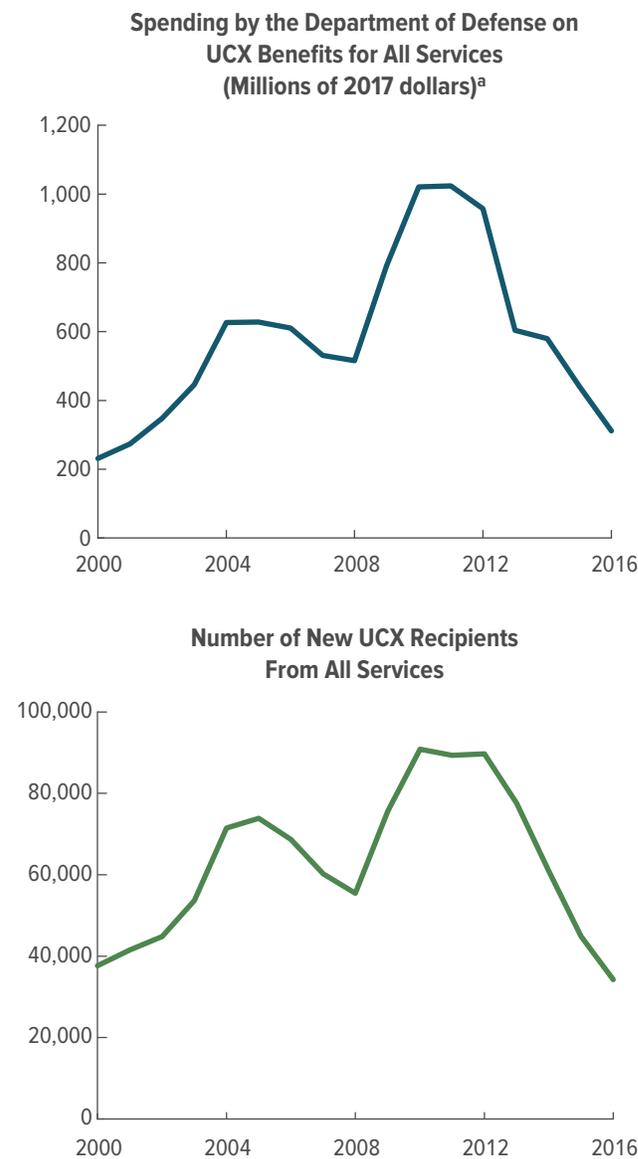
4. That requirement was lengthened to 180 days by the National Defense Authorization Act for Fiscal Year 2016, P.L. 114-92, 129 Stat. 809.

UCX benefits are administered by the states for the Department of Labor, and benefits are paid by the individual military services in their role as the previous employer. Separating service members and eligible deactivated reservists must meet individual states' eligibility rules for unemployment insurance, including such requirements as ability and availability to work. Benefit awards are based on state law, and the amounts are determined in the same way as for other state residents collecting unemployment compensation. Weekly benefit payments for veterans are based on their average regular military compensation (for their former rank), which includes military basic pay, allowances for housing and food, and the tax advantage that accrues because those allowances are tax-exempt. In many states, veterans earned enough while in the military to qualify for the maximum unemployment benefit. In most states, unemployed veterans (like civilians) can receive benefits for as long as 26 weeks.⁵ In 2015, the average weekly UCX benefit was about \$440, compared with an average weekly unemployment benefit for civilians of about \$330.

DoD's annual spending on unemployment compensation for all military services (UCX benefits plus Extended Benefits) varied widely between 2000 and 2016 (see Figure 1). Spending shot up from about \$230 million in 2000 to \$630 million in 2004 despite a strong economy. That increase occurred partly because the number of eligible veterans rose substantially as reservists were activated in large numbers in support of the conflicts in Iraq and Afghanistan.⁶ Spending peaked after the 2007–2009 recession, at \$1.0 billion in 2011, before dropping to \$310 million in 2016. (All of those amounts are expressed in 2017 dollars to remove the effects of inflation.)

Figure 1.

Trends in Costs and Recipients of Unemployment Compensation for Ex-Servicemembers Since 2000



Source: Congressional Budget Office, using data from the Department of Labor.

UCX = Unemployment Compensation for Ex-Servicemembers.

a. Includes spending on Extended Benefits, which are available to recipients in certain states that have high unemployment rates.

5. In states that have particularly high unemployment rates, people can receive Extended Benefits after their regular unemployment compensation runs out. Those benefits are included in the costs that the military pays for unemployment compensation. An additional temporary benefit program (called Emergency Unemployment Compensation) was created in 2008; those benefits were paid from other federal funds until the program expired on January 1, 2014.

6. See David S. Loughran and Jacob A. Klerman, *Explaining the Increase in Unemployment Compensation for Ex-Servicemembers During the Global War on Terror* (RAND Corporation, 2008), www.rand.org/pubs/technical_reports/TR588.html.

The number of new UCX recipients increased from roughly 38,000 in 2000 to a peak of 91,000 in 2010 and then dropped to 34,000 in 2016. By comparison, the number of new recipients of unemployment benefits for civilians peaked in 2009, the last year of the recession.

The growth in DoD's unemployment costs through 2011 resulted largely from increases in the number of new recipients and in the duration of benefits. By 2013, DoD's spending was falling rapidly as the number of new claimants dropped substantially, in part because of improvements in the economy after the recession and fewer activations of reservists. In all, more than 25 percent of separating active-component service members and eligible deactivated reservists in fiscal year 2011 received UCX benefits; that share dropped to less than 20 percent in fiscal year 2014.

Some of the growth in unemployment costs occurred because unprecedented numbers of reservists were called up during the conflicts in Iraq and Afghanistan. By law, reservists have the right to return to their former civilian job when they are deactivated (subject to some restrictions), which might suggest that few reservists would submit claims for unemployment compensation.⁷ Nevertheless, data from the Army show the opposite: Large numbers of deactivated reservists applied for UCX benefits, which helped fuel the growth in DoD's spending for the program. At the peak of that spending, in fiscal year 2011, more than 40 percent of new applicants for UCX benefits from the Army were deactivated reservists. That figure declined to 30 percent in fiscal year 2014.⁸

One possible reason that the number of applications for UCX benefits was so high among reservists could be that reservists who have a civilian job waiting on their

return may still qualify for the UCX program if they meet all other eligibility requirements of the state where they apply. In addition, the high percentage of reservists among UCX claimants may suggest that a number of reservists were unemployed when they were called up and then qualified for benefits when they were deactivated. Data limitations did not allow CBO to explore further the reasons for the large number of claims by veterans from the Army's reserve component.

Experiences of Army Applicants for UCX Benefits

CBO's analysis of data on UCX applicants who separated from the active component of the Army in fiscal year 2013 suggests that many soldiers did not or could not find a job near the end of their Army enlistment or shortly thereafter. CBO found that almost half of active-duty personnel who left the Army applied for UCX benefits, a share similar to that reported by other researchers.⁹ Almost half of those new applicants applied within the first month of separation from military service, and 70 percent applied within the first three months. It is not clear why more service members did not apply for benefits immediately. Some may have found civilian jobs quickly but been laid off; others may have attended school for a short period. Service members can generally qualify for UCX benefits for one year after separation, although the exact length of time depends on state rules.

The data also shed light on where veterans from the Army's active component filed for UCX benefits. The five states with the most UCX applicants who separated in 2013 were Texas, California, Washington, Georgia, and North Carolina (see Table 1). Of those, all but California have large Army bases and at least 40,000 soldiers stationed there. On the whole, those states were also the ones that newly separated veterans were most likely to have lived in before joining the military. (Washington is an exception; its large number of UCX applicants may reflect the presence of Joint Base Lewis-McChord.)

7. The reemployment rights of service members are specified in the Uniformed Services Employment and Reemployment Rights Act of 1994, 38 U.S.C. §4312 (2012).

8. Earlier research indicated that the rising number of UCX claimants in the 2000s stemmed from growth in the number of active-component service members who were eligible for benefits as well as sharp increases in the number of eligible reservists. Initially, relatively few reservists were activated for long enough periods to qualify for UCX benefits, but that changed with deployments to the conflicts in Iraq and Afghanistan. See David S. Loughran and Jacob A. Klerman, *Explaining the Increase in Unemployment Compensation for Ex-Servicemembers During the Global War on Terror* (RAND Corporation, 2008), www.rand.org/pubs/technical_reports/TR588.html.

9. See Shannon Desrosiers, Elizabeth Bradley, and Lauren Malone, *Demographic Profiles of Those At-Risk of Collecting Unemployment Compensation for Ex-Servicemembers* (CNA, 2014); and Susan Payne Carter and Brian J. Miller, "Analysis of Army Veteran Unemployment Benefits and Transition Assistance" (draft, U.S. Military Academy, August 17, 2015), <http://tinyurl.com/hk2oull> (PDF, 333 KB). According to the CNA study, the percentage of veterans collecting UCX benefits varied by service and component.

Table 1.

Top Five States Where Army Personnel Who Separated in 2013 Applied for Unemployment Compensation for Ex-Servicemembers

State Where Veteran Applied for UCX Benefits	Number of UCX Applications	State's Unemployment Rate in 2013 (Percent) ^a	State's Ranking by Unemployment Rate ^b	Weekly UCX Benefit Payment (2017 dollars) ^c
Texas	7,060	6.4	18	470
California	3,250	9.4	48	480
Washington	2,770	7.3	30	640 ^d
Georgia	2,370	8.4	40	350
North Carolina	1,980	9.2	47	570

Source: Congressional Budget Office, using data from the Army.

These numbers apply only to newly separated veterans from the Army's active component. They exclude deactivated reservists, who are sometimes also eligible for UCX benefits.

UCX = Unemployment Compensation for Ex-Servicemembers.

- a. The national unemployment rate in 2013 was 7.6 percent.
- b. A lower number in the ranking denotes a lower unemployment rate.
- c. Amount is generally the maximum weekly benefit available in each state.
- d. Washington State ranks among the top states in the amount of weekly UCX benefits.

About two-thirds of UCX applicants had moved from their last duty station, many presumably back to their home state. Generally, Army veterans applying for UCX benefits were in states with the largest total populations.

The Army data suggest that many newly separated veterans from the active component had moved to another state for noneconomic reasons. For example, many UCX applicants were looking for jobs in states with some of the highest unemployment rates in the nation, rather than relocating to states where jobs might have been easier to find. Three of the five states with the largest numbers of applicants had unemployment rates above the U.S. average.

The size of a state's unemployment benefits also did not appear to explain the number of veterans from the Army's active component who applied for UCX benefits there. In other words, veterans did not tend to move to places where unemployment benefits were the largest. With the exception of Washington, the five states with the most UCX claimants from the Army did not have particularly generous unemployment benefits in 2013.

Army reservists who have been deactivated differ from veterans of the active component in a number of ways. For example, most reservists probably return to the state where they live and have a job; they are less likely to change states in response to economic factors. Although many reservists apply for UCX benefits, they do so at a much lower rate than service members separating from the active component. About 20 percent of Army reservists who were deactivated in fiscal year 2013 after a call-up of 90 days or more applied for UCX benefits, compared with almost 50 percent of newly separated veterans from the Army's active component.

For this analysis, CBO used Army data on the number of veterans who applied for UCX benefits, which was larger than the number of veterans who received benefits. The administrative database from which those numbers come had certain limitations, so CBO's estimates should be considered approximations. In addition, the results from analyzing a single year of data from the Army may not reflect the experiences of service members transitioning to the civilian workforce in other years, particularly as economic conditions have changed, or from the other military services.

This report was prepared at the request of the Ranking Member of the House Committee on Veterans' Affairs in the 113th Congress. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

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