

# Do Financial Incentives for Training and Caseworker Meetings Enhance Re-employment?

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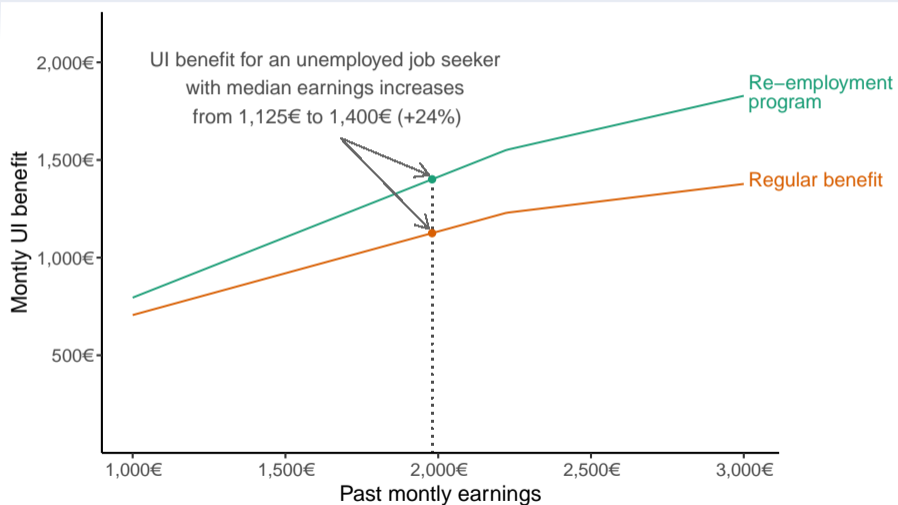
# Background

- Some lessons from active labor market programs (ALMPs) literature:
  1. The average effect of participation in ALMPs on employment is relatively small
  2. Some programs have large effects in some subgroups
    - Better targeting of programs to different groups could increase the average effect
  3. Many job seekers dislike ALMPs
    - Low participation rates of voluntary programs
    - Threat effects of mandatory programs
- How to improve the effectiveness of ALMPs?
  - One option is to rely on mandatory ALMPs, with benefit sanctions for non-compliers
  - In 2005, Finland adopted a different approach and introduced a voluntary program that combined higher benefits with participation in targeted ALMPs

# Re-employment Program

- Voluntary program aimed at enhancing re-employment of dismissed workers
- Program participants...
  - met a caseworker at the beginning of their unemployment and signed an employment plan specifying ALMPs and other services they should use or apply for
  - became eligible for higher unemployment insurance (UI) benefits up to 4 weeks
  - ...and for the duration of individually targeted training programs outlined in their employment plan (up to 37 weeks)
- Possible effects on re-employment through....
  - early and frequent caseworker interactions (+)
  - increased participation in training programs (?)
  - better matches between training programs and job seekers (+)
  - higher benefits (-)

# UI benefits as a function of past labor earnings



# Research questions and setting

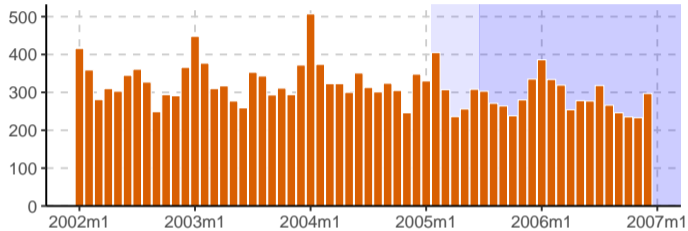
- How the re-employment program affected labor market outcomes?
  - Participation in training programs during the UI spell
  - UI duration
  - Non-employment duration (the time until the next job within 2 years)
  - Employment over the 2-year period
- We use a DiD approach to estimate the causal effect of the re-employment program
  - The program came into effect in July 2005
    - Transition period: those who became unemployed between February 15 and June 30 could qualify, if still unemployed on July 1
  - Workers with 3+ years of work history who were laid off for economic reasons were eligible

# Data and sample restrictions

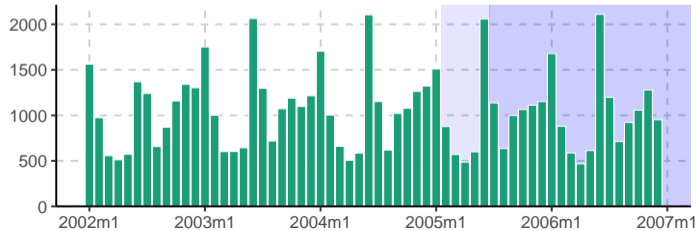
- Population-wide matched register data
  - UI records from unemployment funds
  - Job and earnings records from pension institutions
  - Data on job seekers and ALMPs from the public employment service
- Sample
  - New UI spells (including training periods) that started in 2002-2006 after job loss
  - 25-54 years old with at least 3 years of work history
  - $N = 79,791$
- Treatment group: Job seekers who were laid off for economic reasons
- Control group: Job seekers whose fixed-term contract expired

# The number of UI spells by group

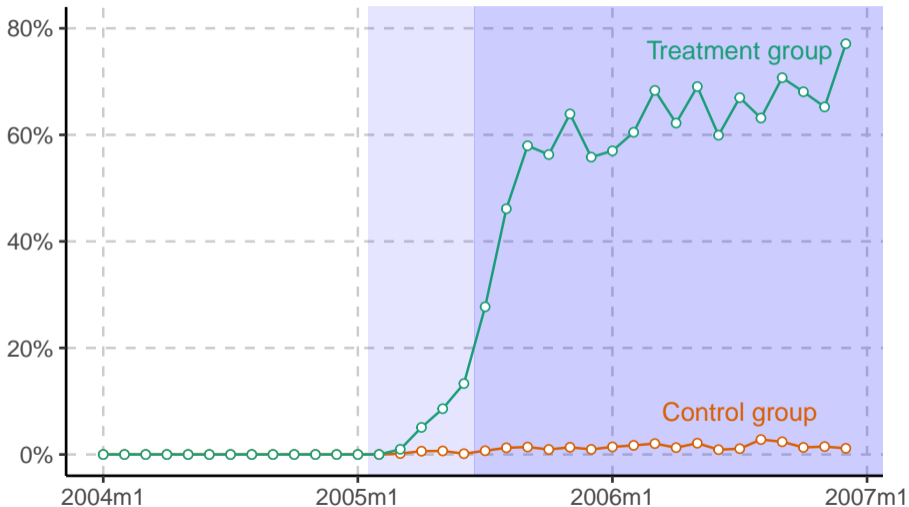
(a) Treatment group



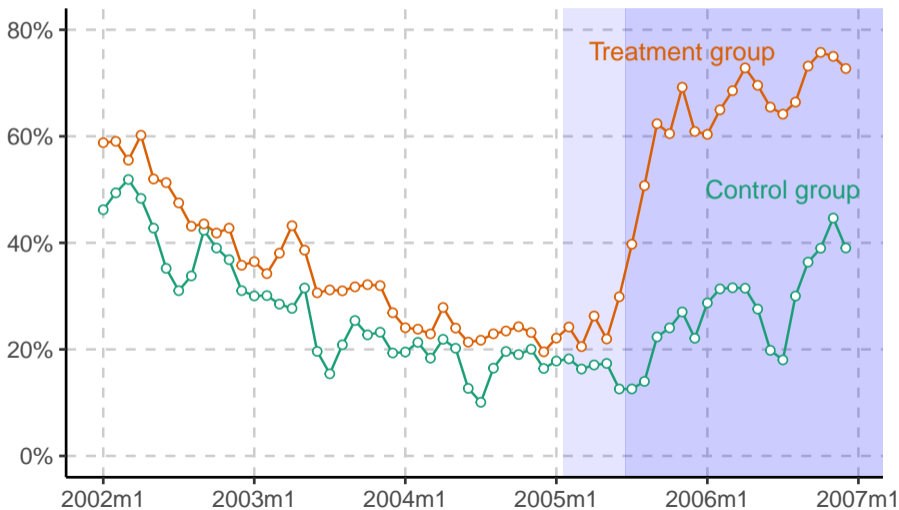
(b) Control group



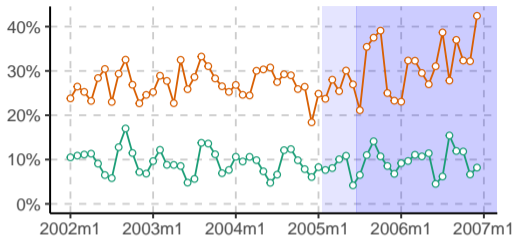
# Program enrollment rate by UI entry month



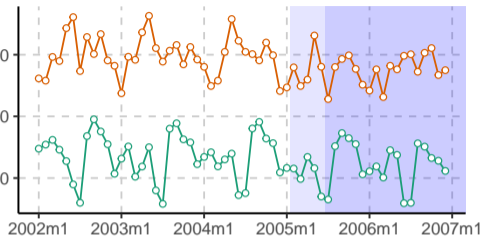
# Share of job seekers who met a caseworker and signed an employment plan by the end of their first UI month



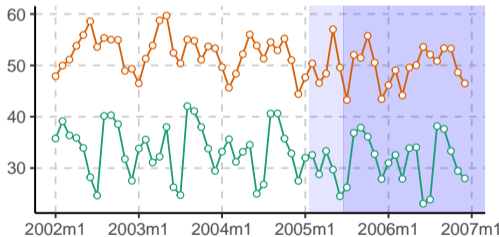
(a) Participated in training



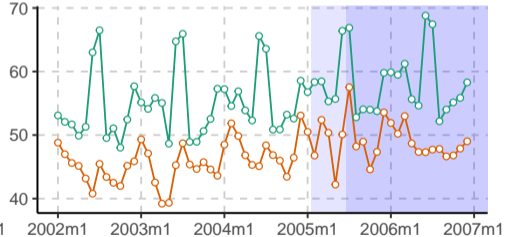
(b) UI duration, weeks



(c) Non-employment duration, weeks



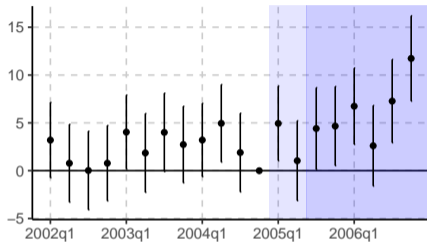
(d) Employment over next 2 years, weeks



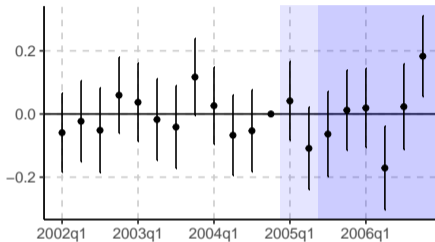
—○— Control group —○— Treatment group

# Event-study estimates for program eligibility effects

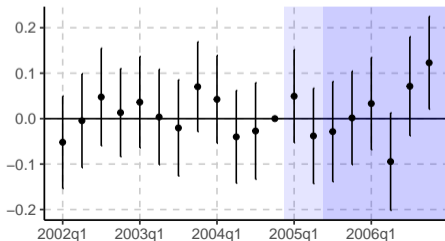
(a) Participated in training, %-points



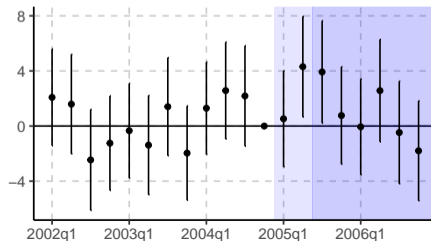
(b) Log UI duration



(c) Log Non-employment duration



(d) Employment over next 2 years, weeks



## Pooled-data estimates for subgroups

To increase statistical power, we also estimate the following simplified DiD model:

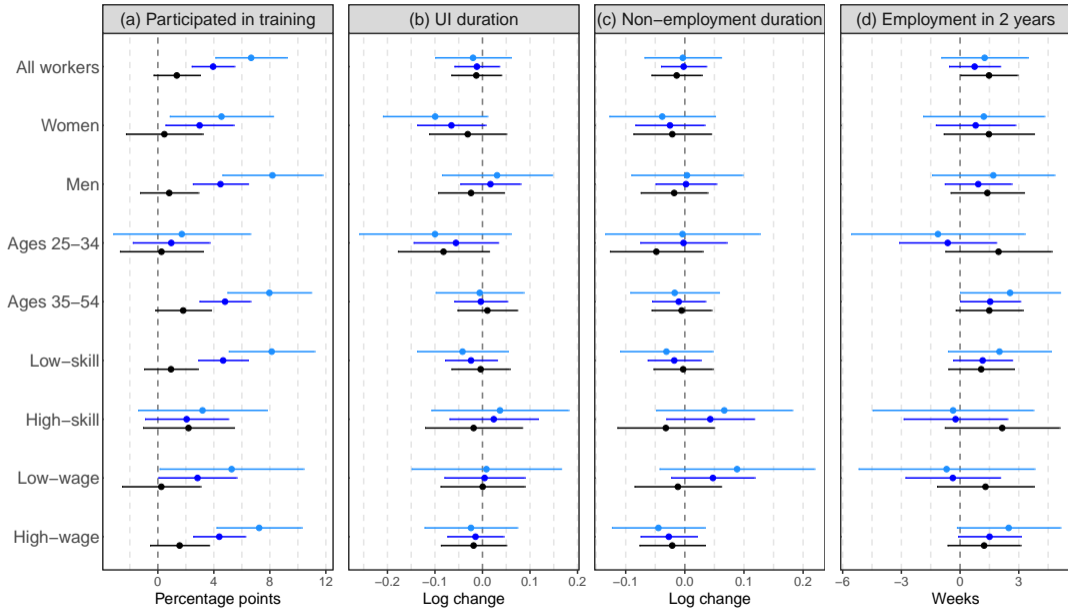
$$Y_{it} = \alpha_t + X_{it}\beta + \theta Treat_{it} + \delta (Treat_{it} \cdot Post_{it}) + \varepsilon_{it}, \quad (1)$$

where  $\alpha_t$  are quarter-by-year fixed effects,  $X_{it}$  are controls,  $Treat_{it}$  is a treatment group dummy, and  $Post_{it}$  is a dummy for post-reform UI spells.

We also report IV estimates of the effect of program enrollment from

$$Y_{it} = \lambda_t + X_{it}\theta + \phi Treat_{it} + \mu Enrolled_{it} + \varepsilon_{it}, \quad (2)$$

where  $Enrolled_{it}$  is a dummy for those who enrolled in the re-employment program, which is instrumented with  $Treat_{it} \cdot Post_{it}$ .



● Placebo DiD estimate ● DiD estimate ● IV estimate

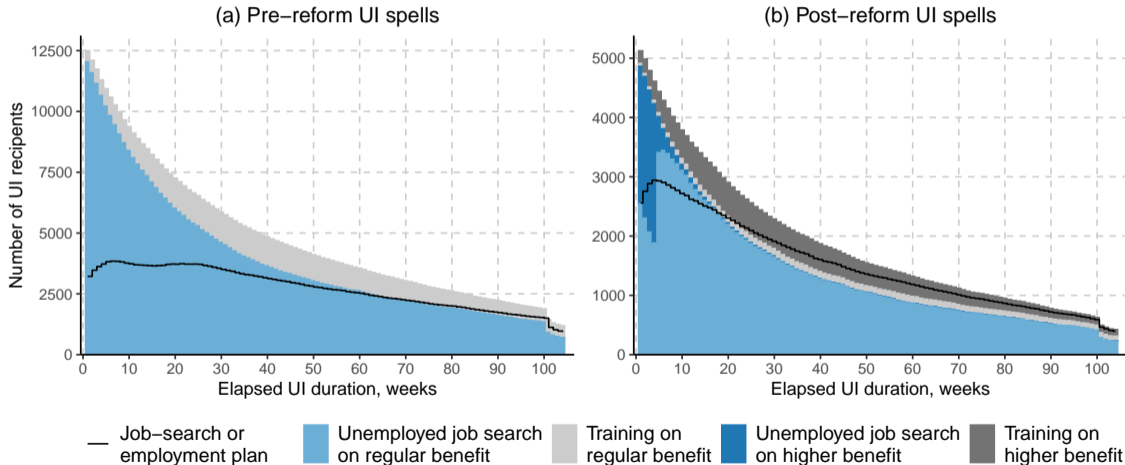
# Mechanisms

- We estimate a hazard model for re-employment, with time-varying effects of higher UI benefits, caseworker meetings and training participation
  - Non-random selection into training programs within UI spells accounted for (i.e., timing-of-events approach of Abbring and van den Berg, 2003)
- Results for caseworker meetings (no causal interpretation)
  - Meetings increase transitions to training programs while decreasing exits to employment
  - The former effect became stronger, no change in the latter due to the reform
  - Thus, post-reform meetings encouraged training participation, but were not helpful for direct job transitions
- Results for labor market training during UI spells
  - Evidence of a lock-in effect and a positive post-program effect
  - After the reform, no change in these effects for the treatment group
  - Thus, the RE program did not improve matches between training programs and job seekers

# Summary of the results

- The RE program was successful in bringing services to displaced workers early
  - The enrollment rate among eligible workers was about 70%
  - Most enrolled workers met a caseworker already during their notice period
  - Training participation increased by 4 %-points (7 %-points among enrollees) from 27%
  - Job seekers followed their employment plans and participated in individually targeted training programs outlined in their plans
- Despite improvements in service engagement, the RE program failed to achieve its primary objective of enhancing re-employment
  - Caseworker meetings only promote training, not direct transitions to employment
  - Caseworkers unable to use financial incentives to guide job seekers toward more effective training programs

# The number of UI recipients in the treatment group as a function of elapsed UI duration and benefit type



## Means of selected background characteristics

	Treatment group			Control group	
	Pre-reform	Post-reform	Enrollees	Pre-reform	Post-reform
Age	40.4	40.9	41.1	39.4	39.3
Female, %	39.4	42.2	46.7	53.3	55.4
Education, %					
Compulsory	27.3	25.4	23.4	26.0	24.5
High school or vocational	45.6	49.3	48.8	49.9	51.1
Lower tertiary	22.2	21.4	23.7	19.8	19.8
Upper tertiary	4.9	4.0	4.1	4.3	4.7
Work history, years	20.6	21.1	21.6	16.7	16.5
UI weeks in past 2 years	3.9	4.2	2.0	17.3	18.7
Duration of previous job, weeks	182.7	217.0	260.7	35.7	33.2
Past labor earnings, EUR/month	2328	2412	2440	1873	1996
Number of observations	12,503	5134	3114	40,543	18,557

Table 2: The effects of the RE program on training participation and re-employment outcomes

	N (1)	Participated in training, %-points				UI duration, log changes				Non-employment duration, log changes				Employment over 2 years, weeks			
		Mean (3)	Placebo (4)	DiD (5)	IV (6)	Mean (7)	Placebo (8)	DiD (9)	IV (10)	Mean (11)	Placebo (12)	DiD (13)	IV (14)	Mean (15)	Placebo (16)	DiD (17)	IV (18)
All workers	76,685	26.8%	1.255 (0.846)	3.944*** (0.779)	6.662*** (1.305)	39.6	-0.015 (0.027)	-0.002 (0.024)	-0.004 (0.040)	52.2	-0.012 (0.022)	0.004 (0.020)	0.007 (0.033)	45.9	1.462* (0.746)	0.562 (0.672)	0.950 (1.135)
Women	38,959	32.5%	0.371 (1.403)	2.972** (1.245)	4.529** (1.886)	43.6	-0.030 (0.041)	-0.053 (0.036)	-0.081 (0.056)	58.4	-0.017 (0.034)	-0.016 (0.030)	-0.024 (0.046)	41.4	1.396 (1.182)	0.501 (1.042)	0.764 (1.588)
Men	37,726	23.2%	0.759 (1.066)	4.461*** (1.008)	8.173*** (1.829)	37.0	-0.026 (0.035)	0.022 (0.032)	0.041 (0.059)	48.1	-0.017 (0.029)	0.005 (0.026)	0.009 (0.048)	48.8	1.411 (0.961)	0.911 (0.876)	1.670 (1.607)
Ages 25–34	24,258	22.1%	0.214 (1.518)	0.896 (1.399)	1.605 (2.500)	32.2	-0.081 (0.049)	-0.042 (0.045)	-0.075 (0.081)	46.8	-0.047 (0.040)	0.006 (0.038)	0.011 (0.067)	51.9	1.962 (1.393)	-0.802 (1.276)	-1.435 (2.283)
Ages 35–54	52,427	28.6%	1.676* (1.018)	4.822*** (0.931)	8.007*** (1.530)	42.4	0.006 (0.032)	0.002 (0.028)	0.004 (0.047)	54.2	-0.005 (0.026)	-0.006 (0.023)	-0.010 (0.039)	43.6	1.519* (0.884)	1.410* (0.794)	2.341* (1.320)
Low-skill	57,693	26.8%	0.779 (0.982)	4.619*** (0.907)	8.063*** (1.568)	41.0	-0.007 (0.031)	-0.017 (0.028)	-0.030 (0.049)	53.4	-0.002 (0.026)	-0.014 (0.023)	-0.024 (0.040)	43.4	1.078 (0.861)	1.067 (0.776)	1.862 (1.356)
High-skill	18,992	26.8%	2.244 (1.662)	2.319 (1.519)	3.591 (2.343)	35.8	-0.021 (0.052)	0.039 (0.047)	0.060 (0.073)	48.9	-0.032 (0.042)	0.054 (0.038)	0.084 (0.059)	52.5	2.133 (1.499)	-0.551 (1.353)	-0.853 (2.095)
Low-wage	38,227	24.8%	-0.042 (1.434)	2.635* (1.424)	4.904* (2.628)	39.5	0.004 (0.045)	0.025 (0.043)	0.046 (0.080)	53.2	-0.009 (0.038)	0.059 (0.036)	0.110 (0.068)	43.6	1.239 (1.275)	-0.797 (1.247)	-1.483 (2.319)
High-wage	38,458	27.8%	1.506 (1.078)	4.424*** (0.949)	7.297*** (1.554)	39.6	-0.020 (0.035)	-0.006 (0.030)	-0.009 (0.050)	51.7	-0.019 (0.028)	-0.020 (0.024)	-0.033 (0.040)	47.0	1.228 (0.954)	1.313 (0.821)	2.166 (1.355)

*Notes:* Spells started between February 15 and June 31, 2005 are excluded. N = number of observations. Mean = the average pre-reform outcome for the treatment group (percents in column 3, and weeks in columns 7, 11 and 15). DiD estimates are the estimates of  $\delta$  from the model in equation (2) and IV estimates are the estimates of  $\mu$  from the model in equation (3). Placebo estimates are DiD estimates obtained from the pre-reform data over the years 2002–2004 and assuming a placebo reform on July 1, 2003. High-skill workers include those with a Tertiary degree or higher. High-wage workers include those whose past labor earnings exceeds the sample median. All models include quarter-by-year time effects and controls for gender, age, education, occupation, mother tongue, living region, unemployment fund, the time spent on UI benefits in the past two years, work experience, job tenure, and wage decile. Standard errors clustered at the individual level are reported in the parentheses. Significance levels: \*\*\* 1%. \*\* 5% and \* 10%.

Table 3: Robustness analysis

	N (1)	Participated in training, %-points				UI duration, log changes				Non-employment duration, log changes				Employment over 2 years, weeks			
		Mean (3)	Placebo (4)	DiD (5)	IV (6)	Mean (7)	Placebo (8)	DiD (9)	IV (10)	Mean (11)	Placebo (12)	DiD (13)	IV (14)	Mean (15)	Placebo (16)	DiD (17)	IV (18)
Baseline sample with controls	76,685	26.8%	1.255 (0.846)	3.944*** (0.779)	6.662*** (1.305)	39.6	-0.015 (0.027)	-0.002 (0.024)	-0.004 (0.040)	52.2	-0.012 (0.022)	0.004 (0.020)	0.007 (0.033)	45.9	1.462* (0.746)	0.562 (0.672)	0.950 (1.135)
Baseline sample without controls	76,685	26.8%	1.218 (0.865)	4.175*** (0.799)	7.039*** (1.333)	39.6	-0.024 (0.028)	-0.004 (0.025)	-0.007 (0.041)	52.1	-0.020 (0.023)	0.000 (0.020)	0.000 (0.034)	45.9	1.848** (0.769)	0.396 (0.689)	0.667 (1.162)
Work history less than 20 years	54,539	25.6%	1.559 (1.058)	2.775*** (0.983)	4.774*** (1.681)	37.1	-0.030 (0.033)	-0.034 (0.030)	-0.058 (0.052)	49.9	-0.016 (0.027)	-0.002 (0.025)	-0.004 (0.043)	48.4	1.580* (0.938)	0.145 (0.852)	0.250 (1.466)
June and July UI spells excluded	60,135	26.7%	0.847 (0.938)	4.097*** (0.868)	6.736*** (1.416)	39.3	-0.044 (0.030)	-0.015 (0.027)	-0.025 (0.044)	51.9	-0.012 (0.024)	-0.004 (0.022)	-0.007 (0.036)	46.0	0.818 (0.819)	0.303 (0.738)	0.498 (1.214)
Temporary worker treatment group	62,746	16.8%	-0.366 (1.754)	0.912 (1.256)	3.050 (4.175)	31.4	-0.121* (0.062)	-0.107** (0.046)	-0.358** (0.159)	44.4	-0.053 (0.051)	-0.076** (0.039)	-0.255* (0.132)	52.8	1.311 (1.748)	0.877 (1.289)	2.933 (4.333)

*Notes:* Spells started between February 15 and June 31, 2005 are excluded. N = number of observations. Mean = the average pre-reform outcome for the treatment group (percents in column 3, and weeks in columns 7, 11 and 15). DiD estimates are the estimates of  $\delta$  from the model in equation (2) and IV estimates are the estimates of  $\mu$  from the model in equation (3). Placebo estimates are DiD estimates obtained from the pre-reform data over the years 2002–2004 and assuming a placebo reform on July 1, 2003. Apart from the second model, all models include quarter-by-year time effects and controls for gender, age, education, occupation, mother tongue, living region, unemployment fund, the time spent on UI benefits in the past two years, work experience, job tenure, and wage decile. Standard errors clustered at the individual level are reported in the parentheses. Significance levels: \*\*\* 1%. \*\* 5% and \* 10%.

# Production index and year-over-year change in production

