



The Self-Employment Assistance (SEA) Program

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Summary

Self-employment is one potential pathway to exit a spell of unemployment. The regular Unemployment Compensation (UC) program generally requires unemployed workers to be actively seeking work and to be available for wage and salary jobs as a condition of eligibility for UC benefits. These requirements constitute a barrier to self-employment and small business creation for unemployed workers who need income support. The Self-Employment Assistance (SEA) program, however, provides an avenue for combining income support during periods of unemployment with activities related to starting one's own business.

Thus, within the joint federal-state UC program, the SEA program focuses on the reemployment of UC beneficiaries. State SEA programs help unemployed workers generate their own jobs through small business creation. SEA waives state UC work search requirements for those individuals who are working full time to establish their own small businesses. SEA provides a weekly allowance in the same amount and for the same duration as regular UC benefits. It is available only to individuals who would otherwise be entitled to UC benefits and have been determined likely to exhaust their UC benefits. Despite the unique configuration of SEA, which pairs self-employment activities and income support, participation in the program by states as well as unemployed workers is limited. Currently, only eight states have active SEA programs. In part, the small-scale nature of the program is likely due to the authorizing legislation requirement that SEA be budget neutral; that is, no UC funds may be used to provide self-employment training.

P.L. 103-182, the North American Free Trade Agreement Implementation Act, created the SEA program on December 8, 1993. It was permanently authorized by P.L. 105-306, the Noncitizen Benefit Clarification and Other Technical Amendments Act, which was signed on October 28, 1998. Like the rest of UC, the SEA program is financed by federal taxes under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes under the State Unemployment Tax Acts (SUTA).

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The Self-Employment Assistance (SEA) Program

In 2009, 9.8 million workers were self-employed, making up 7.0% of all workers.¹ Yet the joint federal-state Unemployment Compensation (UC) program does not provide benefits to the self-employed.² To be eligible for UC benefits, individuals generally must be able, available, and actively seeking work in wage and salary jobs. The Self-Employment Assistance (SEA) program offers an exception to this eligibility framework. It pays a weekly SEA allowance, which is identical in amount and duration to what an individual would have received as a regular UC benefit. Unlike regular UC, however, SEA waives state requirements that individuals be actively searching for wage and salary jobs. Instead, UC-eligible individuals participate in self-employment activities and must meet additional requirements, including being determined likely to exhaust their UC benefits.

SEA allowances are available to individuals who are eligible for unemployment benefits under the UC system and who meet certain other requirements. SEA is one of three programs operating within UC that focuses on the reemployment of UC beneficiaries. The other two UC reemployment service programs include the Short-Term Compensation (STC) program and the Worker Profiling and Reemployment Services (WPRS) program. In participating states, STC programs provide pro-rated unemployment benefits to workers whose hours have been reduced in lieu of a layoff, thereby retaining workers.³ WPRS requires all states to establish systems to identify UC claimants likely to exhaust benefits and refer them to various types of reemployment services (e.g., orientation, assessment, counseling, placement services, a job search workshop, and referral to training). Thus, in addition to the job-sharing of STC and the profiling of WPRS, SEA attempts to reemploy UC beneficiaries through self-employment. Although SEA offers this alternative route out of unemployment, participation in the program by states and unemployed workers is low, partly as a result of a budget neutrality requirement.

P.L. 103-182, the North American Free Trade Agreement Implementation Act, created the SEA program in 1993.⁴ P.L. 105-306, the Noncitizen Benefit Clarification and Other Technical Amendments Act of 1998, made the program permanent. The SEA program is financed—as is the case with UC, in general—by federal taxes on employers under the Federal Unemployment Tax Act (FUTA) and by state payroll taxes on employers under the State Unemployment Tax Acts (SUTA). The operation of SEA programs in states may not cost more than what would have been spent if a state had not participated in the program (i.e., budget neutrality). Moreover, the number of individuals participating in the SEA program in states may not exceed 5% of all UC beneficiaries.

¹ Data on employment, including self-employment, are available from the Current Population Survey (CPS). Conducted by the Bureau of Labor Statistics, the CPS is a monthly survey of approximately 60,000 U.S. households. It provides information on the labor force status of the civilian population ages 16 and older.

² For information on the UC program as well as other types of unemployment benefits available to workers, see CRS Report RL33362, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity*, by Katelin P. Isaacs, Julie M. Whittaker, and Alison M. Shelton.

³ Currently, 17 states have STC programs. For more information on short-time compensation, see CRS Report R40689, *Compensated Work Sharing Arrangements (Short-Time Compensation) as an Alternative to Layoffs*, by Alison M. Shelton.

⁴ Section 3306(t) of the Federal Unemployment Tax Act (FUTA) defines the SEA program. Section 303(a)(5) of the Social Security Act permits the use of expenditures from the Unemployment Trust Fund (UTF) for SEA.

SEA Eligibility

In order to participate in a state SEA program, workers do not need to be actively searching for jobs. Rather, SEA beneficiaries must engage in full-time activities related to the establishment of a business and becoming self-employed.

To be eligible for an SEA allowance, workers must meet the following requirements:

- Eligible for UC
- Permanently laid off from previous job
- Identified as likely to exhaust UC benefits
- Participating in self-employment activities including entrepreneurial training, business counseling, and technical assistance

States identify UC claimants likely to exhaust benefits through the same worker profiling mechanism used in the WPRS program.⁵ As described above, the WPRS program establishes a targeting system in order to deliver a variety of reemployment services to unemployed workers deemed at risk of benefit exhaustion.

SEA Amount, Duration, and Program Interaction

Weekly SEA allowances are the same in amount and duration as a qualifying individual's regular UC benefit.

SEA participants are not eligible for the temporary Emergency Unemployment Compensation (EUC08) program or the permanent Extended Benefit (EB) program, both of which may provide additional weeks of benefits for unemployed workers. Individuals receiving SEA allowances are, however, eligible for the temporary Federal Additional Compensation (FAC) benefit of \$25 per week authorized by P.L. 111-5, the American Recovery and Reinvestment Act of 2009.⁶

State Availability of SEA

Currently, eight states have active SEA programs. In addition, two states have the authority in law for SEA, but have not established programs. Details, including expiration dates for several programs that are not permanently authorized, are provided in **Table 1**.

⁵ P.L. 103-152, the Unemployment Compensation Amendments of 1993, requires all states to establish WPRS systems. These systems must identify UC claimants who are likely to exhaust regular UC benefits. Most states use statistical methods to identify these workers.

⁶ For additional details on all of these unemployment benefits, see CRS Report RL33362, *Unemployment Insurance: Available Unemployment Benefits and Legislative Activity*, by Katelin P. Isaacs, Julie M. Whittaker, and Alison M. Shelton.

Table I. States with SEA Programs

State	Active SEA Program	Law Authorizing SEA, but No Active Program
California		X
Delaware	X	
Louisiana		X
Maine	X	
Maryland	X	
New Jersey	X	
New York	X (expires 12/7/2011)	
Oregon	X	
Pennsylvania	X	
Washington	X (expires 7/1/2012)	

Source: U.S. Department of Labor, Employment and Training Administration, *2010 Comparison of State Unemployment Insurance Laws*, at <http://www.workforcesecurity.doleta.gov/unemploy/comparison2010.asp>.

Barriers to Participation in SEA

Nationally, 7% percent of all workers are self-employed (9.8 million workers). Some recent studies suggest that workers may be more likely to move into self-employment during economic recessions and to move out of self-employment during periods of economic growth.⁷ Yet, as described below, participation in SEA is low. Fewer than 1% of UC claimants participate in the program.⁸ Reasons for this low participation most likely include barriers at both the state and individual levels.

State-Level Barriers

Under current law, no more than 5% of individuals receiving regular UC benefits in a state may participate in the program. The authorizing legislation also requires that an SEA program be budget neutral. State SEA programs may not incur additional costs above what the state would have spent on the regular UC program. Despite this budget neutrality stipulation, states are required to provide entrepreneurial training, business counseling, and technical assistance to SEA participants. Most state unemployment agencies partner with the relevant agency responsible for employment and training programs or Small Business Development Centers (SBDCs) to provide SEA training and services. According to one recent estimate, SEA program administration may

⁷ See Ellen R. Rissman, 2003, "Self-Employment as an Alternative to Unemployment," Working Paper Number 34, Fourth Quarter 2003, Federal Reserve Bank of Chicago; Daniel Aaronson, Ellen R. Rissman, and Daniel Sullivan, "Assessing the Jobless Recovery," *Economic Perspectives*, Second Quarter 2004 (Federal Reserve Bank of Chicago), pp. 6-9.

⁸ Stephen Wandner, "Employment Programs for Recipients of Unemployment Insurance," *Monthly Labor Review*, October 2008, pp. 17-27.

cost \$300-\$600 per participant and entrepreneurial program services may cost \$200-\$1,200 per participant.⁹ States must locate non-UC funds to pay for these SEA-specific costs. Thus, not only is participation in SEA capped, but states must seek out their own money to finance program administration and training. Both of these issues likely contribute to low SEA participation rates.

Individual-Level Barriers

In addition to state-level barriers, there are individual-level barriers that may explain why unemployed workers do not participate in SEA programs, even if they are available. First, SEA participation makes workers ineligible for other unemployment benefits (i.e., EUC08 and EB, as described above). Therefore, individuals may prefer to access the additional income support rather than participate in SEA. Also, the recent recession and current economic climate provide a challenging environment for starting a new business.

As a result of these restrictions and challenges, the number of individuals entering state SEA programs is relatively small. In 2009, there were fewer than 2,500 SEA participants nationwide.

Table 2 presents data on SEA participants by state for recent years.

⁹ Department of Labor, Employment and Training Administration, 2001, ETAOP 2002-01, *Comprehensive Assessment of Self-Employment Assistance Programs*, by Heather Fleck and William Kosanovich.

Table 2. Number of Recent Participants in the Self-Employment Assistance (SEA) Program, by State, 2000-2010

State	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010 ^a
California	0	0	0	0	0	0	0	0	0	0	0
Delaware	1	0	17	43	56	31	21	22	35	13	4
Louisiana	0	0	0	0	0	0	0	0	0	0	0
Maine	98	109	118	202	482	351	252	201	130	158	15
Maryland	26	4,227	22	11	10	0	21	21	15	6	1
New Jersey	491	834	524	486	557	626	632	496	477	429	221
New York	1,654	1,480	1,634	70	475	309	177	369	219	461	161
Oregon	18	278	305	338	166	204	226	295	507	1,011	213
Pennsylvania	229	301	550	147	9	0	0	152	86	46	0
Washington	0	0	0	0	0	0	0	0	0	0	0
All SEA programs	2,517	7,229	3,170	1,297	1,755	1,521	1,329	1,556	1,469	2,124	615

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

Note: These numbers come from administrative data provided to the Department of Labor by state workforce agencies.

a. Data for 2010 are available through April 2010.

Assessment of SEA Programs

Prior to the authorization of SEA, two self-employment demonstration projects were conducted in the early 1990s in Massachusetts and Washington. Findings from this pilot are generally positive. Researchers concluded that the self-employment demonstration projects increased the likelihood of self-employment and the amount of time participants were employed.¹⁰ In addition, the demonstration evaluation determined that the structure of the Massachusetts program, which became the model for the future SEA program authorization, was a cost-effective approach to promoting reemployment among workers.

The most recent, comprehensive evaluation of state SEA programs was completed in 2001.¹¹ This study provides details on the state SEA programs established between 1995 and 1999 as well as SEA program participants. It also evaluates SEA program outcomes using survey data in three states: Maine, New Jersey, and New York. Based on a group comparison between SEA participants and SEA-eligible (but non-participating) individuals, the study highlights several positive outcomes. First, the analysis concludes that SEA participants were 19 times more likely

¹⁰ Department of Labor, Employment and Training Administration, 1994, Unemployment Insurance Occasional Paper 94-3, *Self-Employment as a Reemployment Option: Demonstration Results and National Legislation*, by Jacob M. Benus, Michelle Wood, and Neelima Grover.

¹¹ Department of Labor, Employment and Training Administration, 2001, ETAOP 2002-01, *Comprehensive Assessment of Self-Employment Assistance Programs*, by Heather Fleck and William Kosanovich.

than eligible non-participants in sample states to be self-employed at any point after their period of unemployment. Second, the study finds that SEA program participants were four times more likely to have obtained any type of employment (i.e., self-employment or wage/salary employment) than eligible non-participants. Finally, SEA program participants reported high levels of satisfaction with self-employment and the training they received as part of the SEA program.

The evaluation also has several limitations. Because the study failed to use a randomized, experimental design, the findings may be due not only to the impact of the SEA program, but also to unobserved differences between SEA participants and eligible non-participants. Additionally, this study was conducted during a time of relatively low unemployment in the three target states. Consequently, it remains unknown how SEA program participants might fare under different economic circumstances or state contexts.

Although not an analysis of SEA programs specifically, recent results from an evaluation of Project GATE (Growing America Through Entrepreneurship) also shed light on the impact of self-employment support for unemployed workers. Project GATE was a federally funded demonstration project implemented in seven sites in three states (Minnesota, Pennsylvania, and Maine) between 2003 and 2005. Designed to help individuals start or expand their own businesses, Project GATE provided self-employment training and other services. Although SEA programs are available only to eligible UC claimants likely to exhaust their unemployment benefits, Project GATE was designed for a wider audience (i.e., anyone interested in starting or growing a small business).

Researchers conducted an impact analysis of one subgroup of Project GATE participants composed of recent unemployment benefit claimants in Minnesota, providing a parallel with SEA participants. This analysis finds both positive and negative outcomes for these Project GATE participants.¹² For this subgroup of recent UC benefit claimants, participation in Project GATE increased the probability of owning a business and being employed. Yet, participants in this SEA-like program earned less in wage and salary jobs and earned no more in self-employment than non-participants. Finally, for recent unemployment benefit claimants, Project GATE increased the duration of unemployment benefit receipt by about three weeks.

¹² Department of Labor, Employment and Training Administration, 2008, ETAOP 2008-08, *Growing America Through Entrepreneurship: Findings from the Evaluation of Project GATE*, by Jacob Benus, Sheena McConnell, Jeanne Bellotti, Theodore Shen, Kenneth Fortson, and Daver Kahvecioglu.