

**Abstract**

This paper reconsiders the behavioural effects of replacing the existing unemployment insurance system with unemployment accounts (UAs). Under this alternative system, workers are required to save a fraction of their wage in special accounts whereas the unemployed are allowed to withdraw savings from these accounts. Previous studies argued that such a reform will improve employment incentives considerably and thereby lead to a dramatic decrease in unemployment levels and durations. We show that this expected impact hinges critically on the assumptions on intertemporal choice. Using recent insights from behavioural economics, we demonstrate that the theoretical impact of UAs on unemployment is limited. This study points out that the overall effect of introducing an UA system on labour market behaviour is ambiguous rather than substantially positive.