NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES), SUBMITTED BY THOMAS S. WHITAKER, PRESIDENT, AND DEPUTY CHAIRMAN OF THE NORTH CAROLINA EMPLOYMENT SECURITY COMMISSION ON SEPTEMBER 15, 2009 TO THE SENATE COMMITTEE ON FINANCE

Mr. Chairman and Members of the Committee, thank you for the opportunity to testify today at this hearing entitled, "Unemployment Insurance Benefits: Where Do We Go From Here?" The National Association of State Workforce Agencies (NASWA) submits this testimony for the record.

The members of our Association constitute State leaders of the publicly-funded workforce investment system. The mission of NASWA is to serve as an advocate for state workforce agencies, as a liaison to workforce system partners, and a forum for the exchange of information. Our organization was founded in 1937. Since 1973 it has been a private, non-profit corporation, financed by annual dues from our member agencies and other revenue.

The Economic Situation

As the economy enters its 20th month of probably the worst economic recession since the Great Depression, the employment situation continues to deteriorate, but at a slower pace. Here are some relevant statistics:

1. Nonfarm payroll employment declined by 216,000 in August compared to 276,000 in July. The economy has shed 6.9 million jobs since the beginning of the recession in December 2007.
2. The unemployment rate was 9.7 percent in August compared to 9.4 percent in July and 4.8 percent at the beginning of the recession.
3. The number of unemployed persons hit 14.9 million in August compared to 7.7 million at the beginning of the recession.
4. Over the past year, the number of unemployed workers eligible for UI, has more than tripled.
5. Nearly 10 million workers are receiving either state or federal unemployment compensation. About 3.5 million of these workers are receiving federal extensions of unemployment compensation authorized under the Recovery Act.
6. The number of workers unemployed for 27 weeks or more is 4.9 million; more than triple the number at the beginning of the recession.
7. The average duration of unemployment has increased to almost 25 weeks, which is the longest average duration of unemployment since BLS began keeping records in 1948. By comparison, the average duration of unemployment during the 1981-1982 Recession was only about 18 weeks.
8. There are only about 3 million job openings available today, making the ratio of unemployed job seekers to available job openings as much as 5 to 1 nationwide and much higher in some states and localities.
9. Even if we filled all job openings with unemployment insurance claimants, we still would have about 7 million workers on unemployment compensation and 11 million unemployed workers overall.

10. Record numbers of workers are being served by workforce programs -- the most recent data available show almost 31 million workers served by the workforce system in the 12-month period ending March 31, 2009. For the same period a year earlier, the workforce system served 19 million persons.
11. Employment services have seen a 45 percent increase in persons served for the 12-month period ending March 31, 2009; serving more than 18 million American workers and far exceeding any other employment and training program. For a similar period in 2008, the program served 13 million persons.
12. The number of persons served in the Workforce Investment Act (WIA) Adult program has skyrocketed by 110 percent. Over the four quarters ending March 31, 2009, the WIA Adult program served 4.6 million participants compared to 2.1 million participants over a similar period in 2008.

Although some economists have speculated the recession might be over, we know unemployment lags economic recoveries. The Administration's Mid-Session Economic Review projects the monthly unemployment rate will peak at above 10 percent early in 2010 before beginning to decline in the middle of 2010. Private consensus projections show similar patterns. With as many as five workers for every job opening on average, states will face major challenges in the coming months reemploying unemployed workers, administering unemployment benefits and helping unemployed workers acquire new skills.

The Structure of the Unemployment Insurance System

The unemployment insurance (UI) system is a unique federal-state partnership, grounded in federal law, but administered through state law by state officials. It provides temporary, targeted, timely and partial wage replacement to laid-off workers. Created by the Social Security Act of 1935, the UI system has been a successful social insurance program for many years. The system is decentralized to the state level to address the varying economic problems among the states. State unemployment benefits are financed through state payroll taxes, which are held in individual state trust fund accounts in the Unemployment Trust Fund in the U.S. Treasury.

The amount of benefits for which an individual qualifies is based on his past work and wages. Up to 26 weeks of benefits are available in most states. However, most UI beneficiaries are experienced workers who go back to work before receiving their maximum entitlement. During periods of high unemployment an additional 13 or 20 weeks of extended benefits (EB), financed equally by the states and federal government, may be available. Congress may also act to provide special federally financed benefits during recessions.

The American Recovery and Reinvestment Act (The Recovery Act) provided the following benefits:

- Extended the Emergency Unemployment Compensation (EUC) program, commonly known as EUC08, until December 31, 2009.
- Temporarily increased benefits by $25 a week through 2009, which phases out June 30, 2010.
- Temporarily modified provisions in the permanent federal-state extended benefits (EB) program in which the Federal government pays 100 percent of EB benefit costs until the end of 2009 with a phase out to June 1, 2010.
- Provided for as much as $7 billion in special distributions from the Unemployment Trust Fund (UTF) to the states that have certain benefit provisions under the section known as "Unemployment Insurance Modernization Act."

- For insolvent state UI programs receiving loans to pay benefits, the Recovery Act waived charging interest on these loans until January 2011.

The U.S. Department of Labor chart below illustrates the number of weeks available to UI claimants after the first extension was passed by Congress in July 2008.

Weeks of Unemployment Benefits Before July 2008

State	State-Federal Extended Benefits *	
26	**13**	**7**
Maximum weeks in most states	Up to 13 weeks available in states that have certain levels of unemployment	Up to 7 extra weeks of EB at state option available when unemployment exceeds certain levels

* Funded 50% -50% by States and Federal Government

Weeks of Unemployment Benefits Currently Authorized

State	Federal Emergency Unemployment Compensation		State-Federal Extended Benefits **	
26	**20**	**13**	**13**	**7**
Maximum weeks in most states	Up to 20 weeks available nationwide	Up to an extra 13 weeks paid in "high unemployment State"	Up to 13 weeks available in states that have certain levels of unemployment	Up to 7 extra weeks of EB at state option available when unemployment exceeds certain levels
	- New Program - Benefits July 2008 - 100% Federally Funded Until December 2009			

** 100% Federally funded after February 17, 2009

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

The Current State of the Unemployment Insurance System

Insufficient Federal Funding of Administration

While much as been written about problems states have encountered with unemployment insurance call centers and claims processing, states have done an extraordinary job reacting and adapting to this unprecedented challenge.

States have been processing unemployment insurance (UI) claims on outdated computer systems, many originally developed in the 1970s to handle a fraction of states' current claim loads. Many states continue to have old technology and crumbling technology infrastructure as the foundation for their unemployment insurance systems. A number of states have experienced system failures as they managed the massive caseloads during this recession and some states still are at risk of system failure. How old is the current state UI technology? A recent survey of the states indicates the median age of these computer systems is 23 years old.

Telephone call centers also were in the news as they are one of the two primary methods of taking unemployment insurance claims, the other primary method being over the internet. A number of states have requested funds to expand or upgrade their call center technology to add capacity for processing initial claims or to do one or both of the following: (1) Improve their efficiency in handling UI claims inquiry calls, and (2) Replace aging and outdated interactive voice response systems used to process weekly continued UI claims.

The cost to implement and maintain these UI systems is considerable. The most recently completed state systems cost in excess of $50 million. The U.S. Department of Labor is encouraging states to form consortia to share in the development and costs of new systems using up-to-date technology.

About $500 million was made available to states this year under the Recovery Act to ameliorate underfunding of UI administration. But states have been underfunded by at least $500 million per year since the 1990s. Some states have filled this gap with approximately $200 million of their own funds, but this is uneven among states and is inconsistent with the original design of the program. Moreover, due to state fiscal crises, these added state funds appear to be declining. Under the Social Security Act, the federal government is supposed to provide UI administrative funds to the states for "proper and efficient administration" of the system. It should fully fund administration of the system.

UI Program Integrity and Reducing Fraud

The lack of capacity and supporting technology to process appeals has slowed claims processing in many states. A number of states have requested funds to improve state appeals processing systems by, for example, purchasing digital audio recording capability to capture, maintain, index, share, and archive clear and accurate recording of appeals hearings.

Unemployment insurance (UI) separation issues account for more than 21 percent of all UI overpayments and are the second largest cause of UI overpayments, reaching almost $900 million in 2008. The Separation Information Data Exchange System (SIDES) will shortly expand from six states to 15 states in the coming months and will reduce the rate of overpayments and also the cost of processing separation data. SIDES is an electronic web-based system that enables the transmission of unemployment insurance separation information between state agencies and employers. When fully operational by the end of 2009, SIDES will improve timeliness of UI claims processing, provide significant administrative and benefit cost savings, dramatically improve the accuracy of separation information, and reduce improper benefit payments and appeal reversals.

States have expressed a need for an array of other technology related projects, including funding to replace obsolete desktop computers, mail handling software and mail processing equipment, laptops for field auditors, accounting systems, and aged document management and imaging systems.

<u>Insolvency of Some State Programs</u>

Insolvency of state UI programs has received much media attention recently, but under federal law insolvent states still must pay benefits by borrowing either from the federal government or private sources. According to the U.S. Department of Labor Mid-session FY 2010 review, *"Very large amounts of borrowing* (by state UI programs) *are projected over the next few years. The balance of outstanding loans is expected to increase from the current $14 billion to a peak end-of-year balance of $90 billion in FY 2012."* After borrowing, state UI programs must not only repay their loans, but correct their fiscal imbalances by raising taxes or cutting eligibility or benefit levels. This can lead to relatively smaller and less effective state UI programs.

States set their own taxable wage bases, which in 2009 ranged from $7,000 to $35,700. In contrast, the taxable wage base under the social security old age, survivors and disability insurance program was $106,800 in 2009. Each state also establishes tax schedules that determine individual employer tax rates based on each employer's experience drawing down funds. State tax rates ranged in 2009 from zero in 19 states for employers who don't draw much out of the system to as much as 15.4 percent of taxable payroll on high-cost employers in Massachusetts.

Insolvent state UI programs borrowing in this recession tend to have high unemployment rates that have increased substantially since 2007 and relatively low taxable wage bases that are not increased automatically each year. These characteristics tend to create an imbalance with benefits growing at a more rapid rate than taxes, resulting in insolvency during serious recessions. To assist insolvent state UI programs, the recently enacted Recovery Act provided interest free loans until December 31, 2010.

A primary factor in state insolvency is comparatively low taxable wage bases in many state UI programs. Thirty-five of fifty-three programs operate with fixed taxable wage bases that change only through state legislative actions. Just one of these states has a taxable wage base above $14,000 (Connecticut at $15,000). In contrast, the other eighteen UI programs operate with an indexed taxable wage base (a base that automatically increases with increases in average wages per worker). Their taxable wage bases <u>averaged</u> about $24,000 in 2008. Indexation has been present in these states for more than 20 years. Adjusting for state size and past costs, their UI trust funds are much larger than for the non-indexed states. Only six of the 21 states currently insolvent have indexed taxable wage bases while six of eight states with the most ample reserves, as measured by their High Cost Multiple, have indexation.

One solution to insolvency would be for some state UI programs to increase and index their taxable wage bases and seek ways to reduce the rate of growth in benefit outlays to correct their imbalances. These changes would be small compared to other major social insurance programs.

State unemployment insurance costs in recent good times were only about 0.5 percent of employee compensation compared to 5.7 percent for Social Security and Medicare or 1.6 percent for workers' compensation.

Permanently Fund Extended Benefits with Federal General Revenues

The federal government also might consider permanently funding the federal-state extended benefits (EB) program with general revenues only. The program does not work well. It has been superseded by emergency extensions usually funded with general revenues in every recession since 1973. At best it operates as a "trip wire" to alert Congress to consider emergency extensions bills. Full federal funding probably would induce some states to adopt the optional EB triggering mechanism based on total unemployment rather than insured unemployment, which would make it easier for such states to activate the program than the mandatory trigger using insured unemployment. Such a permanent reform would recognize no two recessions are alike and Congress passes federally funded emergency programs during recessions anyway.

Policy Considerations for the Federal Government

Fiscal and monetary policies remain expansionary, but their positive effects come with significant time lags. The Recovery Act also has time lags, but positive effects are beginning to show up, such as in the successful completion of the summer youth program and the implementation of the various other provisions by state and local governments. However, with 15 million workers still unemployed and the economy generating only about 3 million job openings, more progress toward recovery is needed to help American workers.

This fall Congress faces difficult questions. At a time when some might want more short-term stimulus and aid for the unemployed, it also faces raising the national debt limit when Americans are not only concerned about the current difficult situation, but also the growing national debt built up by many years of annual deficit spending.

If general fiscal and monetary policies and the Recovery Act are not enough to help unemployed Americans in the near term, what else can the federal government and states do to help them until substantial job growth puts them back to work?

Extend Emergency Unemployment Compensation

We understand many workers are exhausting their UI benefits and the NASWA Board of Directors will be meeting next week to adopt a formal position on the extension of EUC08 and whether to add additional weeks. In addition, the NASWA Board will consider other policy initiatives such as a separately funded summer employment youth program, extension of interest-free loans to states, the shared work program, additional funding for reemployment services, and public service employment programs. We will forward NASWA's new policies to the Committee the week of September 28th.

Reemployment Services (RES)

Some workers are able to adjust to job loss without aid. These workers generally are well educated, have substantial savings, and have contacts that help them obtain new jobs and gain new skills. But many workers need assistance to select the adjustment strategy that is best for them among many options. This includes whether to look for a good job in a growing sector or take the time to enter a training program to build new skills that will foster future earnings growth.

This is the value of reemployment services. No other institutions are equipped to provide job finding services and training to such a large and diverse group of workers at such low cost other than State Workforce Agencies.

Providing reemployment funds to help states deploy reemployment initiatives to the nation's unemployed, especially those collecting unemployment insurance, should be a high priority for Congress. An investment of $500 million for reemployment service grants would assist 1.4 million unemployment insurance claimants get back to work. These grants provide job search tools, early intervention services, career guidance, job referrals, and training for UI claimants. Because the average weekly benefit of unemployment compensation is approximately $300, investing $500 million in reemployment services alone could save the UI system about $840 million in benefit outlays by decreasing the duration of these UI claimants by about two weeks.

Reemployment and Eligibility Assessments (REA)

The REA initiative is designed to make sure unemployment insurance claimants are searching for work and to help them find jobs faster through individualized job search and training services. In New York State, for example, participants found jobs approximately two weeks faster than those in a control group. Other states have had a similar experience. Some 34 states have secured REA grants from USDOL, but more funding is needed.

Administrative Funding

The UI system will be processing very high workloads for the next 12-to-24 months with insufficient levels of funding to properly and efficiently administer claims. Most states need to recruit and train staff to handle the telephone call volume, to resolve claims issues on a timely basis, to ensure integrity in the claims and tax processes and to make the systems changes needed to allow increased automation and customer self-service. However, the system is showing signs of degradation as Government Performance and Results Act (GPRA) measures of First Payment Timeliness, Appeals Timeliness, Detection of Overpayments, and Facilitation of Reemployment are well below achieving their goals.

Shared Work

The Shared Work program, operating in 17 states, is an effective layoff aversion strategy. In New York State, for example, from October 2008 through August 2009, 2,057 firms and 50,731 participants registered in the program, representing a 659% increase of firms and 538% increase of participants. Increased federal financial support and technical assistance to the states is needed. Also, Congress might consider Senator Reid's bill, S. 1646, to remedy a technical problem that has deterred USDOL from issuing guidance. This would reduce uncertainty about state unemployment insurance law compliance with federal law and allow other states to enact a shared work program with confidence their new laws would be in compliance with federal law.

Correct Inequitable Treatment under the Extended Benefits Program

For employers subject to the federal unemployment tax, the federal-state extended benefits program is financed half from federal unemployment taxes and half with state unemployment taxes. For employers not subject to federal unemployment taxes, such as state or local governments, they must reimburse the state system for the cost of extended benefits for workers they have laid off. Since employers subject to federal unemployment taxes have been temporarily relieved of the federal half of this burden by the full funding of extended benefits by federal general revenues, reimbursable employers would like equal treatment and receive the same relief from federal general revenues. This would not only be more equitable treatment for reimbursable employers, but would help state and local governments deal with their fiscal crises and perhaps avoid some layoffs.

Lessen Administrative Burden of Extended Benefits Work Search Requirements

Originally crafted in 1980, the federal-state extended benefits program requires claimants to actively engage in a "*systematic and sustained effort*" to obtain work and provide *"tangible evidence"* of an active job search. Most states have not administered the EB work search requirement since the early 1990's and, at that time, states generally handled claims by mail or in person and the unemployment insurance system was able to review and store tangible work search documentation. Today's claim-filing environment, largely automated via telephone or the internet, does not lend itself easily to this type of tangible data collection. Reengineering automated systems to accommodate and store tangible work search documentation creates physical storage problems for states and demands labor-intensive oversight by state staff. States would like Congress to consider a modification, allowing them the flexibility to replace review of the work search documents with some form of weekly random audit composed of a sample of EB claimants documentation.

Innovative State Approaches

The following are examples received over the last 48 hours how states are helping UI claimants get back to work. NASWA would be happy to expand this list to all states.

Florida

In Florida, all UI claimants are registered as job seekers in the “Employ Florida Marketplace” within 24 hours of filing for unemployment benefits. Florida allows its regional workforce boards to develop local strategies targeted to their unique local needs. Florida’s Priority Re-Employment Program (PREP) targets Unemployment compensation claimants who are on the 4th week of their claims for early service intervention.

Florida is providing regions with a list of Extended Benefit claimants (those claiming benefit for more than 59 weeks) so that intensive staff assisted services may be offered to them as appropriate. The State plans to acquire Help Wanted Online (HWOL) and the Transferable Occupation Relationship Quotient (TORQ) software to provide local regions assistance in their efforts to assess the needs of unemployment insurance claimants and to match them with existing job vacancies.

Idaho

Since 1996, Idaho employers have diverted 3 percent of their state unemployment insurance taxes to a Workforce Development Training Fund that subsidized the cost of training workers for newly created jobs or for new jobs if existing workers are at risk of being laid off. In that time, $48 million was committed to train over 20,000 workers for 75 companies at an average cost of under $1,900. Wages for these workers have risen over time, and in the last three year the average wage has been just under $15 an hour plus employer-paid health care. Even during the past year in the midst of the recession, commitments for $4.4 million have been made to 15 employers to train nearly 1,600 workers.

The Employer Correspondence Online Reporting System, or ECORE, was developed so employers can correspond directly with the Idaho Department of Labor. This provides instant messaging, updating addresses, providing separation information, determining addresses for mailing separation statements, managing third party accounts and viewing account activity, statement of benefit charges and charges to their accounts for the current quarter.

Business services representatives have been designated throughout the state to work with employers in their areas to identify future work force needs. Key staff in each of the 25 local offices are being trained in this business services strategy that will focus training resources in the identified direction to ensure businesses have the skilled workers they need to successfully expand. These workers will be training the rest of the local office staff so that the work force demands of local businesses will be a priority throughout the department's network.

Kansas

In July, Kansas implemented a process by which UI claimants are automatically registered for job search services available at the State's official labor exchange, which is part of NASWA's National Labor Exchange.

Kansas received a Reemployment Elgibility Assessment (REA) grant that will help it update its model for identifying claimants in need of special re-employment services and increase the staff available to provide those services. The goals of this REA project are to decrease the number of weeks claimants spend on unemployment by facilitating rapid re-employment and to decrease the likelihood of UI overpayments. Through the project, a revised worker profiling model will more accurately identify claimants most likely to exhaust their UI benefits. The existing model was developed in 1995 and hasn't been revised since.

Kansas has used a portion of new additional administrative funds to provide dedicated computers and staff in a number of their centers. The computers are for online UI filings. Staff members are trained to assist claimants in completing online UI applications and using other online services. This not only helps reduce the workload on the UI call center by encouraging more claimants to file online, but it also helps build the connection between claimants and the workforce centers.

Finally, Kansas is developing a "Wage Learner Model" that will help companies avoid permanent layoffs. The model allows employees on reduced work hours to use that time in training programs, while still collecting partial unemployment benefits for their lost wages.

Michigan

No Worker Left Behind is a tuition free program in collaboration with the state's workforce agencies, some of Michigan's largest employers and local community colleges. It provides up to two years worth of free tuition to any community college, university or approved training program. Workers pursue a degree or occupational certificate in a high-demand occupation or emerging industry, or in an entrepreneurship program. Since *No Worker Left Behind* was launched in August 2007, almost 89,000 workers have entered education and training programs.

Montana

Montana's legislature passed "Unemployment Insurance Modernization" legislation that provides unemployed workers with an alternate base period, benefits for part-time workers seeking part-time work, and additional benefits of up to 26 weeks for dislocated workers who have exhausted their regular UI benefits and are in a state-approved training program.

Recovery Act Workforce Investment Act (WIA) funds are being used extensively to train and support dislocated workers, many of whom are unemployment insurance claimants and need reemployment assistance. Some 25 new workers will be in place across the state to provide Reemployment Services by October 1, 2009. The state workforce agency also is working with the Governor's Rapid Response team to share information about programs to help the unemployed.

New Jersey

New Jersey Governor Jon Corzine announced yesterday the *RETURN-to-Work* initiative designed to help long-term unemployed workers – those who have exhausted all available state and federal unemployment benefits get back to work. Under the program, any private sector employer can be reimbursed for a portion of an eligible new employee's hourly wage rate for up to 12 weeks. The grants are capped a $2,400 per new hire and employers must retain new hires for at least six months.

Oregon

In Oregon, the focus has been on UI claimants most likely to exhaust benefits, and provide services that help them return to work earlier than they would have without assistance. Oregon's *WorkSource* staff re-engage with UI recipients, following up every few weeks to assist with job searches, resume writing, or provide other assistance as needed. By shortening the duration of unemployment claims, Oregonians benefit by returning to work sooner, employers benefit by finding good employees sooner and the Unemployment Trust Fund benefits by having fewer demands on its resources and lower unemployment taxes.

Oregon also is field testing a process that would require all new UI recipients to come to a *WorkSource* Oregon office where they are provided skills assessments and orientations to all the resources available to them to improve their skills and secure their next jobs.

Utah

Utah recently implemented a fully automated Worker Profiling Reemployment Service (WPRS) program that has increased the number of UI claimants participating in the program five fold with minimal increase in staffing. While Worker Profiling systems have been around for years, Utah's new system automates and integrates the unemployment insurance eligibility review, orientation, assessment, and job referral processes. Claimants are profiled for likelihood of exhausting their UI benefits by using predictive variables such as earnings, education level, industry, tenure, severance status, wage replacement rate, and claim filing time lapse. Claimants with a higher likelihood of exhausting their benefits are selected and notified to participate in the program.

Washington

In an effort to help workers easily find and apply for Recovery Act-funded jobs, Washington State requires all state agencies and their contractors to list Recovery Act jobs in the state job bank. Through September 5 more than 1,300 Recovery Act jobs have been listed – about 350 of which have been filled – and that number continues to increase.

Washington State introduced a new service-delivery model to allow the state to serve more workers and ensure each customer receives the level of service he or she needs – whether its help with an unemployment claim, a job referral or more intensive services to transition to a new career. Washington calls about 25,000 claimants into local offices each month to review their job search efforts and provide re-employment services.

Washington also has invested a portion of its Recovery Act funds to develop a new statewide business services team to focus on Recovery Act jobs and to work with employers to expand the number of jobs that match local job seekers' knowledge, skills and abilities.

Conclusion

Unemployment insurance is a prime economic stabilizer. It is doing its job, but it could do better. The federal government has begun reforming the system under the Recovery Act and the Obama Administration has pledged to improve the system even more. States also will be looking to reform their programs. As states work to right their fiscal imbalances, they must be cautious not to raise unemployment taxes too soon or too high and not to cut into adequate benefits for unemployed workers. This will be a delicate balancing act that will play out in state capitols around the nation. As the economic recovery begins, job creation and reemployment services for UI claimants should be emphasized at the same time some workers retool for the future. Such actions should aid employment growth, help workers, and improve our economy for the challenges ahead.