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Good morning. Chairman Baucus, Ranking Member Grassley, and distinguished members of the Committee, thank you for this opportunity to discuss the Unemployment Insurance (UI) program and how it can help Americans get back to work. I appreciate the Committee's interest in pursuing potential improvements to this important program.

For 75 years, the UI program has been a critical safety net for American workers and an economic stabilizer in times of recession. As you are well aware, our nation has experienced one of the deepest, longest recessions in history. There has been some encouraging news – last month the economy created the largest number of new jobs in three years – but we still have a long way to go. Job growth remains slow and unemployment—particularly long-term unemployment—continues to plague millions of workers and their families. The UI program has provided a desperately needed lifeline as unemployed workers search for new jobs. It helps workers and their families put food on the table and pay the rent.

It is also an important component of economic recovery. The President's Council of Economic Advisors estimates that every $1.00 spent on unemployment benefits boosts GDP by $1.60. According to the Congressional Budget Office, UI benefits were one of the two most cost effective ways to stimulate job growth. As you know, stimulating the economy means retaining and creating jobs.

The President is committed to actively promoting job creation. I thank the members of this committee for their work on the Hiring Incentives to Restore Employment (HIRE) Act, which the President recently signed into law and which will give employers an incentive to hire and retain unemployed workers. The President's Budget includes $100 billion in job creation, including investments in small businesses, infrastructure, and green jobs. The President has proposed repeating successful Recovery Act programs including summer jobs, Pathways Out of Poverty, and Energy Training Partnerships, as well as making new investments in on-the-job training.

The additional weeks of benefits made available through the Emergency Unemployment Compensation (EUC) and Extended Benefits (EB) programs have been critical for millions of jobless workers. The Administration supports extending these programs so those workers still seeking employment can maintain their purchasing power and get the help they deserve. Given the following issues: the current employment outlook for workers, the desire to give workers more certainty about future benefits, and the administrative challenges states have faced, and continue to face, with short, one-month extensions; we support a long-term extension of these programs through the end of the year.

A top priority for this Administration is to ensure the continued strength and viability of this important program. Our nation's economy continues to evolve and change, and it is important to examine ways to improve the program and ensure that UI claimants have every opportunity to reconnect to good jobs and career pathways, and improve their ability to reenter the workforce and support themselves and their families. This recession has strained the UI system in several ways:

- States have been challenged with their capacity to manage the huge increase in workload with, in many cases, 1970s-era computer systems;
- New Federal programs were challenging to implement due to the short time-frame for implementation and the complexity of the programs, including the addition of tiers to the EUC program;
- Because many states' benefit reserves were not "recession ready," states' trust funds are depleted and states are borrowing at record levels; and
- Due to claims filing by telephone or over the Internet, many states faced challenges in effectively connecting UI claimants to workforce services delivered through One-Stop Career Centers.

States have done an extraordinary job in rising to these challenges. However, looking to the future of the UI program, we must not underestimate the challenges ahead. It will be important to build on the strengths of the program and to modernize and improve those areas that have not functioned as well.

While I'm focusing on a few key areas today, I want to keep the door open to additional dialogue with the Committee about potential reforms to this critical program.

BACKGROUND

I would like to begin by providing some background information about the scope of the impact of the UI program during this recession. UI measures enacted by Congress, including the UI provisions in the Recovery Act, responded to nearly unprecedented economic problems with historic investments in unemployment insurance, including the longest-running program in history, the most weeks of assistance in history, the first benefit increase during a downturn in history, and steps to expand UI coverage to the highest proportion of unemployed workers in 30 years.

The UI program has provided benefits to 30.6 million individuals since the recession began in December 2007. For an individual, these benefits are often modest, averaging about $320 a week. In total, the program has paid $223.3 billion in benefits including $139.3 billion in regular benefits; $65.7 billion in EUC benefits; and $6.7 billion in EB benefits. The Federal Additional Unemployment Compensation (FAC) program, which adds $25 to each weekly payment of UI, has added $11.7 billion in payments. Many state's UI trust fund balances have been depleted, as discussed below. It will take some time to restore positive balances.

Unfortunately, the nation's unemployment rate remains high at 9.7% and, for the twelve month period ending February 2010, 54% of new claimants exhausted their regular UI benefits. Fifteen million people continue to look for work. Long-term unemployment is a challenge as well. Many have simply given up hope of finding a job. According to the Bureau of Labor Statistics (BLS), 44% of unemployed workers have been out of work more than 6 months. A recent analysis by the Pew Fiscal Analysis Initiative reports that 23% (3.4 million people) of jobless workers have been unemployed for over a year. According to BLS data, there are 5-6 workers for every job opening. These statistics clearly indicate our work is not done.

EUC IMPLEMENTATION ANOMALY

Before moving to talk about jobs and getting more UI claimants reemployed, I would like to speak briefly about an implementation anomaly related to the EUC program—the effect of part-time or temporary employment on eligibility. A basic premise of the EUC program – and indeed UI benefit extensions in general – is that the worker has no eligibility for state UI. State UI claims are paid with respect to a 12-month period called a "benefit year." When EUC claimants reach the end of their state benefit year, states check to see if the claimants can re-establish state eligibility.

Some workers, including those who worked at part-time or temporary jobs after they initially established eligibility for state benefits, discover they are again entitled to a new round of regular state benefits based on this work. Sometimes this results in a considerably reduced weekly benefit amount because the part-time earnings are lower than the earnings used to establish the original claim. Affected workers consider this to be unfair. Their weekly amount is reduced because they returned to work while others who did not obtain work may continue to receive a higher benefit.

This issue also arose in 1992 in a previous emergency extension program. A legislative "fix" was enacted that enabled the worker to choose to either stay on the 1992 emergency program or return to receiving state benefits – we call this the "choice" provision. At that time, states were challenged to implement the "choice" provision, given that it was very difficult and time-intensive to explain the choice to workers, taking into account the ramifications of each choice based on their state's law and individual claimants' circumstances. We certainly agree this raises an equity issue and sympathize with the workers involved.

We are aware of several proposals to address this situation. As these proposals are considered, we strongly recommend that state implementation concerns be taken into account in addressing this matter, given the huge administrative burden states already face during this recession.

SHORT-TIME COMPENSATION

The UI program has a component that helps some workers retain their jobs instead of being laid-off. Short-time compensation (STC), popularly known as "work sharing," allows an employer to reduce the weekly hours of work for all, or a group of its workers, rather than temporarily laying off some workers. Workers receive a pro-rated portion of their weekly benefit amount based on the percentage by which their work week is reduced.

Seventeen states currently operate STC programs (Arizona, Arkansas, California, Connecticut, Florida, Iowa, Kansas, Maryland, Massachusetts, Minnesota, Missouri, New York, Oregon, Rhode Island, Texas, Vermont, and Washington).

The Department believes the benefits of this approach are obvious. Instead of facing a layoff, workers not only retain their jobs, but also do not face a period of unemployment that may cause their skills to grow stale. Employers are spared the need to lay off workers and are able to retain skilled and committed workers. The shared work approach enables employers and workers to both "share the pain" caused by an economic downturn while reaping the benefits already mentioned. Recent numbers speak for themselves as the states with STC provisions report huge surges in STC use. For example, in Rhode Island, the number of STC plans increased fourfold from about 540 in January 2007 to over 2,300 in January 2010. We therefore believe states should be encouraged to adopt these provisions.

Unfortunately, the Department has been limited in its ability to promote STC because of a technical problem with the law. In fact, amendments are necessary to continue operation of current state STC provisions. In brief, UI is a social *insurance* program. It insures workers against the risk of unemployment. The Department has long held that the insurance nature of the program necessarily means that eligibility requirements for UI are limited to those based on the "fact or cause" of the worker's unemployment. As a result, states may not, for example, introduce needs or means testing. The STC laws in most states, however, introduce factors that are not related to the "fact or cause" of unemployment. As one example, a state may condition approval of an employer's STC plan on whether an employer continues health coverage and other benefits. While this is a policy with which we agree, it means the payment of STC is not based solely on whether the individual is unemployed.

A technical fix to Federal law providing an exception to the "fact or cause" requirement would resolve these concerns. Language accomplishing this purpose is contained in our Unemployment Compensation Integrity bill, which we expect to transmit to Congress shortly. Also, Senator Reed of Rhode Island has proposed legislation that would, among other things, address these technical concerns. We are willing to discuss with you whether states - or employers - should be given incentives to participate in this program.

We look forward to working with the Committee to address these issues.

SELF-EMPLOYMENT ASSISTANCE

The UI program can also help encourage entrepreneurship. The self-employment assistance (SEA) program is designed to encourage and enable unemployed workers to create their own jobs by starting their own small businesses. Under SEA, states may pay a self-employment allowance equivalent to the weekly unemployment benefit to eligible jobless workers while they are establishing businesses and becoming self-employed.

To participate in the program, individuals must be eligible for unemployment benefits, have been permanently laid off from their previous job, and have been identified as likely to exhaust benefits. In addition, they must participate in self-employment activities including entrepreneurial training and business counseling. Federal law requires that no more than 5 percent of individuals receiving regular unemployment benefits may participate in a state's SEA program. The Department recently completed a three-state demonstration to test the effectiveness of providing self-employment services through One-Stop Career Centers. The results showed that UI claimants started businesses at a significantly higher rate than other public workforce system clients.

Eight states currently operate SEA programs (Delaware, Maine, Maryland, New Jersey, New York, Oregon, Pennsylvania, and Washington).

Our understanding is that one of the major reasons why SEA has not become more widely used is that services are not always available for entrepreneurial training and business counseling. We are actively exploring ways to make these services more accessible. We also would be open to ideas on how to encourage more states to adopt SEA programs and to extend SEA eligibility to EUC claimants where state SEA programs are not available.

REEMPLOYMENT STRATEGIES FOR UI CLAIMANTS

UI benefits are a lifeline for jobless workers and their families; however, the best remedy for unemployment is reemployment. A number of studies have found that attention to UI beneficiaries' job search efforts and reemployment needs results in shorter claim durations.

In light of the recent recession, providing reemployment services to UI claimants has taken on even greater importance. The Recovery Act provided additional resources to the workforce investment system to support reemployment services.

As you know, many of today's UI claimants file their claims via Internet or telephone, never setting foot in a One-Stop Career Center. They may not be aware of the array of employment and training services available to them. In response, the Department has focused its attention and resources on better integrating and connecting UI claimants with services delivered through the One-Stop system. The goal is to ensure that claimants have access to the full array of employment and training services through the One-Stop system, while also ensuring that claimants comply with the individual state requirements to actively engage in seeking work as a condition of receiving UI benefits.

The Reemployment and Eligibility Assessment (REA) initiative has been one of ETA's core strategies to improve reemployment outcomes for UI claimants and also reduce improper payments. Thirty-four states are currently operating REA initiatives, 18 of them since FY 2005. In FY 2009, $39.3 million in REA grant funds was awarded and 16 additional states implemented REA initiatives. A total of $60 million has been appropriated for REAs in FY 2010 with a $50 million cap adjustment plus $10 million in base funding and we anticipate that additional states will implement REA initiatives this year. The 2011 President's Budget includes an increase in funding for REAs with a $55 million cap adjustment for this program integrity initiative. Projected savings from this initiative are $210 million for the 2011 investment.

REA grants are awarded on a competitive basis and must be used to assess the continued eligibility and reemployment needs of UI claimants who do not have a definite return-to-work date. Claimants identified for participation in the initiative must report in-person to their One-Stop Career Centers in order to develop a reemployment plan and make key connections to available One-Stop services to support that plan. This program has served 1.5 million claimants to date.

The ability to serve more UI claimants through the workforce investment system was given a significant boost by the Recovery Act, which included a new, major investment of $250 million to provide reemployment services to UI claimants. These funds were distributed to states by a formula authorized under the Wagner-Peyser Act to supplement existing reemployment services for UI claimants, and to support integrating employment service and UI information technology to identify and serve the needs of such claimants. These funds have been a critical complement to the REA funding, given that REA funding cannot be used for actual service delivery and have enabled close to 4 million additional UI claimants to receive reemployment services through One-Stop Career Centers.

States report a number of positive outcomes resulting from this funding. In addition to increased capacity to provide more services through One-Stop Career Centers, the funds have resulted in a strengthening of the partnership between state UI programs and One-Stops, transforming the way states assist UI claimants. Many states report improved processes for connecting claimants to services and substantial increases (25 percent or more) in the number of UI claimants engaged in services such as one-on-one career guidance and counseling; assessments and testing to identify transferable skills; job search assistance; soft skill development; and referrals to training, including Workforce Investment Act (WIA)-funded training.

During the course of this recession, training as a reemployment strategy has taken on new importance. While the economy recovers, the workforce system has been able to use WIA funds – both regular and Recovery Act – to refresh and upgrade worker skills and to better position workers to access in-demand jobs as they re-emerge, including jobs in demand sectors such as health care and green jobs. At the same time, investing in worker skill development is building the skilled workforce that employers need in this knowledge-based economy.

The Department has worked collaboratively with states to promote innovative uses of WIA employment and training funds, such as increasing the use of on-the-job training contracts with employers. While this is not subsidized employment, it is subsidized employment training and is an employment-based approach that gets workers into jobs while they are training. The Department recently announced the availability of up to $90 million in Recovery Act funds for states and their partners to create on-the-job training experiences through National Emergency Grants to help dislocated workers acquire job skills and experiences with the intention that employers will retain them. We have also requested an additional $500 million for on-the-job training to encourage employers to hire more currently unemployed workers.

In addition, as part of a Presidential initiative announced last May, the Department has also collaborated with the Department of Education and states to help UI claimants gain access to Pell grants to further their education and skill development. States have chosen to expand their "approved training" policies to enable more UI claimants to continue receiving benefits while pursuing training. Millions of claimants were notified of their potential eligibility for Pell Grants. One-Stop and UI staff worked collaboratively with local financial aid representatives, particularly through community colleges, to ensure claimants had access to the best information about both their potential eligibility for Pell Grants and other financial aid as well as their unemployment benefit eligibility.

A final note on strategies for supporting reemployment of UI claimants—the Department is actively working with states and local entities to capture and disseminate reemployment best practices through a Web-based reemployment "community of practice" which features webinars, summaries of policies and practices, and opportunities to interact virtually with practitioners.

While we have made great progress in this area, it remains an area for continuous improvement, and we welcome the opportunity to explore other strategies and mechanisms to more effectively get UI claimants back to work.

SOLVENCY

The UI system was originally designed so that states accumulated reserves during economic expansions. During recessions, those reserves provide income support to unemployed workers and help stabilize the economy. However, as recessions became milder and expansionary periods grew longer, some states lowered their requirements for what constituted an adequate reserve. In the Department's view, this led to poor decisions for financing benefits. In fact, states entered the current recession with the lowest level of pre-recessionary reserves ever recorded.

This low level of reserves, combined with an extremely high level of benefit outlays and an inadequate level of funding in many states, has created an environment in which states are borrowing – and will continue to borrow— considerable amounts from the Federal government in order to pay UI benefits. As of April 7, 2010, 35 states had borrowed a total of $39.8 billion from the Federal Unemployment Account (FUA) in the Unemployment Trust Fund. By the end of FY 2010, that amount is estimated to increase to $57.3 billion. During this recession, we estimate that as many as 40 states will have borrowed at some point with borrowing peaking at around $90 billion during FY 2013. Repaying advances (or loans) and rebuilding state fund reserves is likely to take some time. In fact, it will probably take so long that we should be concerned about whether the UI system will be ready for the next recession.

The decline in state reserves began in the late 1980s. Generally, state reserves as they entered this recession were lower than at the outset of the previous recession. For example, using a commonly accepted measure called the Average High Cost Multiple (AHCM), 30 states were prepared for the recession of 2001, while only 18 states were prepared for the recession that began in December 2007. If all states were at or above the accepted AHCM level going into the current recession, it is estimated that only 12 states would have had outstanding advances on March 31, 2010, totaling $6.0 billion. The need for states to borrow funds diminishes the ability of the system to help stabilize the economy, as it triggers benefit reductions or tax increases while the economy is still recovering.

Federal law contains an automatic repayment provision for states with advances that have been outstanding for a certain period of time. Specifically, if a state has an outstanding advance on January 1st of two consecutive years and does not fully repay the advance by the November 10th following the second January 1st, the credit that employers in the state receive on the Federal unemployment tax is reduced. Revenue generated from the reduced credit is applied to the outstanding advance until it is repaid. These credits are decreased annually each time an additional consecutive January 1st has passed without repayment of the advance by the following November 10th. One state has already lost some credit. We anticipate that another two will lose some credit for tax year 2010 and another 23 will lose some credit for tax year 2011.

Normally, states pay interest on advances from FUA. The interest is deposited in the FUA. However, under Recovery Act provisions, interest does not accrue on outstanding advances from February 17, 2009, through December 31, 2010, and any interest due and payable during that period is deemed to have been paid. Beyond that time period, under current law, interest will again be applied on outstanding advances, and states will be required to pay interest from state funds that are *not* generated from the regular state UI tax used for benefit payment.

Two Federal accounts in the Federal Unemployment Trust Fund have been required to borrow as well. As already mentioned, the FUA has had to borrow from the General Fund to supply states with money to pay benefits. In addition, the Extended Unemployment Compensation Account, from which EUC was initially funded and EB continues to be funded, has also had to borrow from the General Fund. As of the beginning of April, these funds had outstanding advances of about $37 billion and accumulated interest charges of approximately $450 million. Federal unemployment tax revenues, paid by employers in all states, would pay this interest.

It is clear that solvency of the UI system will be a concern over the next decade. The Department is actively working with states as they rethink their UI financing models and we would be happy to work with the Committee on potential Federal actions to address this issue.

As a final note on this topic, we recognize that program integrity activities assuring proper benefit payments and collection of all employer taxes due are essential for states' attainment of solvency. When States must finance high levels of improper UI payments, employers face higher taxes and workers may see cuts in their benefit levels. Despite the efforts of States to reduce improper payments, over $11.4 billion in UI benefits were erroneously paid in 2009—an overpayment rate of 9.6 percent. The President's FY 2011 Budget includes a proposed legislative package—the Unemployment Compensation Integrity Act—that will provide states with new tools and additional resources to prevent and detect improper benefit payments and to collect both improper payments and delinquent employer taxes. We expect to transmit this proposal to Congress shortly.

CONCLUSION

Thank you for the opportunity to talk to you about the UI program. UI is both a critical and a complex program. I look forward to working further with the Committee as you consider new approaches to program improvement. I will be glad to respond to any questions you may have.