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Committee on Finance

Hearing on Using Unemployment Insurance to Help Americans Get Back to Work: Creating Opportunities and Overcoming Challenges

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Chairman Baucus, Ranking Member Grassley, and members of the Committee on Finance, thank you for the opportunity to testify this morning.

I am Douglas J. Holmes, President of UWC- Strategic Services on Unemployment & Workers' Compensation (UWC). UWC counts as members a broad range of large and small businesses, trade associations, service companies from the Unemployment Insurance (UI) industry, third party administrators, and unemployment tax professionals. The organization traces its roots back to 1933 at the time when unemployment insurance was first being considered for enactment.

The hearing this morning is very timely in addressing the question of how we can overcome the challenges presented by the current economy and create opportunities for unemployed workers to get back to work.

In addressing how to help Americans get back to work and methods to create opportunities and overcoming challenges we should address the current status of unemployment insurance, its relationship to other programs and the initiatives that have been shown to be effective in times of constrained resources.

ASSURE THAT THE CURRENT ECONOMIC RECOVERY CONTINUES WITH THE CREATION OF ADDITIONAL JOBS FOR UNEMPLOYED WORKERS

The first step in getting unemployed workers back to work must be the creation of jobs. It is no exaggeration to say that the UI employer financed system is in the worst financial condition since its inception. As of April 6, 2010, 35 states and jurisdictions had outstanding Title XII debts totaling more than $39.5 billion. The federal unemployment account from which states borrow to pay unemployment compensation is itself in deficit and relying on transfers from the federal general revenue fund to cover loan obligations.

The federal extended unemployment compensation account from which regular federal extended benefits are funded is in deficit along with the federal unemployment account. Since general revenue is being advanced to these accounts, each additional dollar spent at this point through the federal unemployment account or extended unemployment compensation account is subject to interest to be paid back to the general revenue fund and because the general revenue is operating in a deficit position, each additional dollar being spent for unemployment compensation adds to the federal deficit.

According to the US Department of Labor's projections for the President's FY 2011 budget, very large amounts of borrowing from the Federal Unemployment Account are projected over the next few years. The balance of outstanding loans is projected to increase from $17.4 billion at the end of FY 2009 to a peak end-of-year balance of $93 billion in FY 2013. A total of up to 40 states are projected to borrow.

Individual state unemployment benefit accounts are in even worse shape. Many states have unpaid balances in their Title XII loans that are greater than a year of state unemployment benefit payments and state UI tax revenue has been overwhelmed with increases in benefit payments. For example, Indiana has a current unpaid Title XII balance of over $1.8 billion with annual state UI tax revenue of only $499 million and annual benefit payments of $1.8 billion. California has a current unpaid Title XII balance of over $8.5 billion with annual tax revenue of only $4.7 billion and annual benefit payments of $10.9 billion.

It is not possible for these and a number of other states to increase state unemployment taxes enough within the period before the next recession to reach current USDOL solvency suggestions without unprecedented tax increases or slashes to benefit payments.

There are a number of reasons that we find ourselves in such a weakened position. Virtually no economists, state officials, legislators, or employers in 2007 anticipated the size and depth of the Great Recession of 2008 and 2009. Most states were prepared to meet the benefit payment requirements of a 2001 size recession but not one with historical proportions. Even states such as Hawaii, which enjoyed a relatively solvent state unemployment trust fund balance that met USDOL guidance in 2007 found itself faced with a projected deficit, a tremendous automatic state unemployment tax increase for 2010, and very little time to enact state legislation to adjust to the changing circumstances. Without emergency legislation in early 2010 Hawaii employers would have faced an increase in average per employee state unemployment taxes from $90 per employee per year to $1,070 per year. Even with emergency legislation the per employee tax increase on average is in the $600 per employee range, and will continue to increase dramatically to cover the size of benefit payment obligations.

States, unlike Hawaii, that did not have automatic adjustments in state unemployment tax bases found themselves in a sea of red ink with very little time to make adjustments in unemployment tax rates or benefit payout. In some states weekly benefit amounts had been indexed to increase while the state unemployment tax base remained static. Also, initiatives to drastically cut benefits or increase payroll taxes during a recession were viewed as counter-productive to assuring the economic security of unemployed workers or the economic recovery needed to produce additional jobs.

In 2010, according to a survey conducted by the National Association of State Workforce Agencies (NASWA), state unemployment tax wage bases are scheduled to increase in 24 states, contribution rate schedules are expected to increase in 28 states, and 10 states are already at their highest rate schedules. Employers will see a further rise in rates due to the increase in unemployment experience in individual employer accounts. The additional imposition of increases in the FUTA tax through the reduction in the FUTA offset credit penalty will increase payroll tax burden and discourage new hiring. Employers in Michigan have already had the FUTA penalty imposed for 2009, and based on current and projected Title XII loan balances, Michigan, South Carolina and Indiana will be subject to penalties for 2010 and twenty five states will be subject to penalties for

2011. These FUTA penalties add to the already dramatic state unemployment tax increases in 2010 and expected for 2011 and 2012.

Clearly, given the size of the state and federal debt and already skyrocketing state UI taxes a coordinated effort on the part of the states and the federal government is essential to solve the deficit problem. The solution should include relief from federal penalties to assure that the economic recovery continues, and a longer term strategy to manage the tremendous state and federal UI system debt while improving the UI program's ability to assist individuals in returning to work.

Provide short term relief from Federal Unemployment Tax Penalties

In this environment in which UI payroll taxes are increasing and will continue to increase for a number of years, employers are reticent to create new jobs or rehire employees because of the uncertainty and size of payroll tax burdens. An immediate positive step would be to provide relief from FUTA tax penalties on employers in states that are borrowing to pay unemployment compensation.

The waiver of interest on loans to states to pay unemployment compensation should be extended through 2012—helping states and employers in the short term to plan to restore solvency and to implement solvency legislation within a reasonable timeframe.

Consistent with the continued waiver of Title XII interest, FUTA offset credit penalties should be waived through 2011. The FUTA offset credit penalty and Title XII interest both were designed as sanctions to penalize states that chose not to maintain solvent state UI trust funds. In normal periods these sanctions may be justified, however, in the current instance the size and duration of the recession could not have been anticipated and the period of time to respond was too short. The fact that 35 states and jurisdictions are already borrowing and up to 40 are expected to borrow is testament to the fact that the primary cause of state UI trust fund insolvency was due to factors outside the control of individual states or employers in a particular state.

IMPLEMENT INTIATIVES AND PROVIDE SERVICES THAT ARE MOST EFFECTIVE IN ASSISTING UNEMPLOYED WORKERS IN RETURNING TO WORK

At the same time that the UI system is in the worse shape financially, there are record numbers of long term unemployed, many of whom are being paid emergency unemployment compensation and federal additional compensation. As of the most recent report from US DOL 5,593,484 were paid EUC and FAC.

An analysis of the makeup of these 5.6 million long term unemployed workers and those who are likely to exhaust unemployment compensation who are currently claiming state unemployment compensation is needed to determine the most effective ways to assist them in returning to work. Once there is a determination of the size of the population to be served and an evaluation of resources needed, assessments of workers should form the basis on which to determine whether the individuals are in need of job search, training, and/or support services.

In some cases there will be barriers that must be addressed (e.g. illiteracy, drug abuse, child care needs). Partnering with public and private workforce agencies may be needed.

It should be noted that the publicly funded workforce system in place today is limited in its capacity, and an effective plan must combine public as well as privately funded services, and an emphasis on personal responsibility and incentives to create jobs.

Job Search and Reemployment Services

Workers with skills in demand can immediately benefit from job search and reemployment services. The Reemployment & Eligibility Assessment Program (REA) is provided with a small amount of earmarked funding to promote rapid reemployment of UI claimants, reduce overpayments and cost-savings for the UI trust fund. The REA combines in-person interviews similar to eligibility reviews with assessment of individual claimant skills and abilities, labor market information and the development of a work-search plan. The REA program has been demonstrated in many states to reduce the duration of unemployment for individuals participating in the program and should be expanded as a priority.

Rapid Response Services should be marketed more aggressively with the business community to assure that employers are aware of the services available. Employers are typically not aware of the services or have made independent outplacement and reemployment service plans for displaced workers. With appropriate consultation, private/public partnerships can serve to reduce the number of workers who become unemployed, reduce the duration of unemployment, and reduce the cost to employers.

It has been well established that effective job search reduces the number of weeks that individuals remain on unemployment compensation and serves to more quickly fill the staffing needs of employers. The use of web based job search systems and public/private partnerships has demonstrated that greater efficiency and effectiveness in job search can be a win/win by reducing the duration of unemployment compensation, and returning unemployed workers to the workforce more quickly.

UWC supports the continued use of reemployment rate measures as established under GPRA. The goal of employment security should be employment, and performance measures should reflect this priority.

Targeted Training

The assessment and referral to training and placement of unemployed workers can be effective in enabling workers to find new work. Employer based programs, such as customized training, on the job training, and programs such as Georgia Works that permit individuals to work as employees or trainees in anticipation of long-term employment are the most effective in moving unemployed workers into training which is likely to lead to employment.

The July 2009 report of the President's Council of Economic Advisers "Preparing the Workers of Today for the Jobs of Tomorrow", identified the elements of more effective post-high school education and training and reported that "The curricula for occupationally-oriented programs should be developed in close collaboration with local employers and other workforce stakeholders".

The report went on to note that one of the great virtues of many "sub-baccalaureate" training providers was their alliance with employers in providing customized training.

Active participation by employers is the key to successful training as employers ultimately make the hiring decisions. Targeted initiatives in the areas of health services, manufacturing, and other growth areas make sense in the current economy as a way to meet employer needs and to reduce unemployment.

Individuals qualifying for unemployment compensation benefits typically have work experience and training from prior work that enables them to find similar work. However, particularly during a long term recession such as we have experienced, a larger number of individuals become structurally unemployed and may find themselves with skills that are no longer in demand in the labor market.

These individuals may require services well beyond the temporary partial wage replacement provided by the UI program and job search services, and are best served in partnership with private and public programs. Trade Adjustment Assistance and the Workforce Investment Act provide a broader array of support services, assessment, testing, skills training, and referral services.

The leveraging of public funding across program areas as well as private funding driven by employers who are making hiring decisions can be extremely effective in developing the training and support needed to return unemployed workers to work.

Geographic Relocation

Deep recessions historically result in significant geographic shifts in the availability of employment as labor markets adjust to the emerging areas of growth and employment levels in some labor markets do not return to previous levels.

Individuals remaining unemployed for extended periods should be encouraged to consider relocating to other geographic locations in which employment that matches their skills and abilities is available.

Work Sharing and Short-time Compensation

Work Sharing/Short-Time Compensation (STC) is conceptually appealing as it seeks to find a way during difficult economic times to preserve employment for workers and assure that employers have the skilled staff that they need to rebound as demand for goods or services increases.

Short-time compensation (STC) is authorized in 18 states. The program enables workers whose hours are reduced under a formal work sharing plan to be compensated with STC, which is paid as a regular unemployment benefit that has been pro-rated for the partial work reduction. Some employers have reported that the program enabled them to retain workers that otherwise would have been laid off and allowed them to increase hours of work as the economy improved – the result being fewer laid-off employees, lesser cost to the employer, and more efficient use of skilled labor. Some employers have reported that they were surprised by increasing state unemployment tax rates after using STC, while for others the impact on state unemployment taxes appeared to be negligible.

The details of work-sharing plans in a number of states and in legislation recently proposed raise a number of questions that should be addressed in any new federal authorization or amendments to existing authorization for the program, including:

How is it paid for?

If part of the proposal is to provide a new source of federal funding for STC payments, how much additional funding would be needed and what offsets would be provided for it?

If new authorization and funding would be on a temporary basis how would state programs be funded after temporary federal funding was discontinued?

Should state unemployment trust fund dollars dedicated to the payment of unemployment compensation to those who are unemployed be used to pay individuals who are not unemployed under state law?

What would be the bottom line impact on other employers contributing to the state unemployment trust fund? Would the net impact be to deplete the unemployment trust fund? Would other base period employers who are not participating in the plan be charged a portion of the benefits?

What other federal restrictions, if any, would be imposed on employers seeking to participate in an authorized work-sharing plan? Prohibitions against participating in labor disputes? Restrictions against the plan impacting fringe benefits, retirement plans or health plans?

The existing 18 state laws have addressed a number of these issues in slightly different ways. To the extent that new federal requirements were included in new or amended authorization language, some number of states and employers in those states would likely be required to modify their plans in ways that are not acceptable to them.

Although we recognize that some employers and workers may benefit from work-sharing and STC plans, there are many details that need to be addressed.

Improve Accuracy and Integrity

One of the most effective ways to get unemployed workers back to work is for them to take responsibility personally and to be motivated to take jobs that are available. A number of administrative and policy measures have been shown to be effective in motivating unemployed workers to take responsibility.

During the recession it has been understandably difficult for state UI administrative staff to focus on benefit payment control, fraud and overpayments when the priority has been to assure that the growing number of unemployed workers were able to complete their applications, weekly claims forms and be paid quickly.

Paying attention to whether individuals are actively seeking work and making accurate benefit determinations sends the signal to unemployed workers that they are expected to take the initiative to actively seek work and be accountable.

One established method to improve integrity is the Eligibility Review Program (ERP), which ensures that benefits are being properly paid by continuously reviewing a claimant’s ability to work and promoting an active search for work by assisting claimants in their job search plan. Although the ERP program has been demonstrated to be effective in reducing unemployment duration, it has been underfunded in recent years.

Historically, during times when significant numbers of claims are processed under strained conditions the number of claims paid erroneously and the incidence of fraud increases. Even in non-recession years, approximately 10% of unemployed claimants are erroneously paid benefits for a variety of reasons and in most cases the erroneous payments are overpayments. Fraudulently claimed overpayments typically range from 2% to 3% of payments, and also increases with the amount of payments being made. A UI program that pays out more than $120 billion is likely to have overpayments of close to $12 billion including up to $3.6 billion in fraudulent overpayments. In light of this, targeted administrative funding is essential immediately. The longer the lack of dedicated funds for integrity functions, the more difficult it will be to assure active work search, avoid inaccurate payments, or effectively collect overpayments. Also, immediate attention and publicity of the fact that the agency is cracking down on fraud serves as a deterrent to fraud. Funding is needed to procure detection and collection systems and dedicate staffing to increase the capacity and the integrity of the system.

UWC supports the cross-matching of quarterly wage information, and new hire data bases with unemployment claims data to identify overpayments and fraud. Federal legislation requiring a monthly statement of charges to employer accounts would also be helpful in indentifying erroneously paid and charged benefits

It should be noted that the Congressional Budget Office and the Administration have recognized that dedicated integrity funding produces net revenue for the federal unified budget. The combination of compelling need and net benefit to the budget should prompt immediate action.

Examine the Impact of the American Recovery and Reinvestment Act (ARRA) Unemployment Compensation Related Provisions

The Emergency Unemployment Compensation (EUC), the Federal Additional Compensation (FAC) and the 100% Reimbursement of state benefit payments for regular federal extended benefits provided for in the American Recovery and Reinvestment Act (ARRA) have served to provide needed support for unemployed workers who became unemployed due to the recession. They may also have had the unintended consequence of contributing to the increase in the duration of unemployment compensation and restricting states in addressing solvency.

A comparison of the average duration of weeks of state unemployment compensation from the fourth quarter of 2008 to the fourth quarter of 2009 shows a dramatic increase in average duration nationally from 14.9 weeks of benefits to 18.8 weeks of benefits.

A rough rule of thumb used by the Congressional Budget Office (CBO) is that making benefits available to all regular UI recipients for an additional 13 weeks increases their average duration of unemployment by about two weeks and that increasing UI benefit levels by 10 percent increases the average duration of unemployment by about one week.

A comprehensive study of the effect of the federal extensions on the duration of unemployment in Pennsylvania during the 1980s was conducted by Stephen Jarajda and Frederick Tannery and published in the Cornell Industrial and Labor Relations Review in 2003. The study confirmed the findings of previous literature that there is an adverse effect of longer unemployment entitlement on duration of unemployment. In the Pittsburgh labor market 19% of unemployed claimants found new work immediately after exhausting benefits and another 10% were rehired by their previous employer. In Philadelphia, nearly one-quarter of the unemployed found new work immediately after exhaustion and another 2% were hired by their previous employer. The EUC program has provided unemployment compensation payments for up to 53 weeks with an additional $25 per week provided under the FAC.

The FAC may have the effect of increasing the cost of labor, particularly as job opportunities return. A $25 per week addition is nearly a 10 percent increase on average, and for claimants with lower wages this additional weekly payment may be a disincentive to accepting work as it becomes more readily available.

The FAC provisions also contained language that restricts states from adopting measures to address state UI trust fund solvency.

The language in the ARRA with respect to the FAC provides that an agreement under which the FAC is paid from federal funds would cease to apply upon a determination by the Secretary of Labor that the method governing the computation of regular compensation under the State law of that State has been modified in a manner that

(1) The average weekly benefit amount of regular compensation which will be payable during the period of agreement will be less than

(2) The average weekly benefit amount of regular compensation which would otherwise have been payable during such period under the State law as in effect on December 31, 2008.

This language has become an issue in a number of states considering options to address solvency, and has been cited as a restriction against reductions of maximum weekly benefit amounts as part of solvency packages even in states with the maximum weekly benefits among the highest in the country.

Prior to the special 100% federal reimbursement, most states had not adopted the optional trigger because it triggered on extended benefits earlier than the state viewed as necessary and/or because the state unemployment trust fund was only reimbursed at the 50% rate for benefits paid under the program. It should be noted also, that the regular federal EB program does not provide for reimbursement to state or local governments or Indian tribe accounts.

The result of the 100% reimbursement provision has been not only to increase the number of states triggering on regular federal extended benefits of 13 or 20 weeks, but also to increase the amounts needed from the Federal Extended Unemployment Compensation account to provide for state reimbursement.

In recent months there has been a downward trend in initial claims for unemployment compensation that hopefully is the sign of a longer term sustainable recovery. As of the week ending April 3rd, the average initial claims number for the most recent four weeks was 450,250. A number below 400,000 is generally accepted as indicative of normal (non-recessionary) claims levels.

LONG TERM STRATEGIES

Conduct a Study and Make Recommendations

A careful study of UI system solvency is needed with implementation to begin as the economy fully recovers. The study should include a review of the major revenue and cost drivers in the current system, including 1) state and federal unemployment tax bases, 2) tax rates, 3) adjustments in tax and benefit amounts, 4) benefit eligibility requirements and conditions of payment, 5) weekly benefit amounts and duration, 6) debt management,

7) extended benefit trigger provisions, 8) circumstances under which Federal loans may be available to states and terms of repayment, 9) clear delineation of the scope of the employer financed unemployment insurance system within the larger context of social safety net programs, and 10) proper administrative financing, including targeted administrative funding for integrity.

Experience Rating

A critical element of the Federal/State unemployment compensation system is the requirement that employer contribution rates under state law must be based on factors related to unemployment. This requirement assures greater employer participation in determinations with respect to the allowance of unemployment compensation benefits and weekly determinations of eligibility because employers have an economic interest in whether their accounts are charged and their contribution rates are increased. The requirement adds integrity to the system by increasing the likelihood that UI agencies will have the information needed to determine fraud and overpayments.

The experience rated system assists in avoiding erroneous payments and preserving unemployment trust fund dollars for those who properly qualify.

It also enables employers to project unemployment compensation costs, encourages proper management of human resources, and provides a fair basis upon which to distribute the cost of state unemployment compensation among the employers participating in the system.

In reviewing state unemployment tax rates, a comparison of state contribution rate schedules could be helpful in identifying best practices. The experience rate index (ERI) maintained by USDOL demonstrates that in some states many employers have contribution rates at the maximum rate, resulting in less incentive to control unemployment compensation costs. Some states have high minimum tax rates, resulting in greater contributions to be paid by employers that may never have laid-off an employee. Some states have a limited number of tax rate increments, reducing the incentive to manage costs.

The experience rated system works best when there is a direct relationship between unemployment claims experience and contribution rates. Artificial minimums or maximums may result in non-experienced based cost shifting. However, it should be recognized that each state has a different industrial mix, claims pattern and history that should be considered in any comparison.

There should also be an evaluation of the so called “non-charged” benefits that have increased in a number of states, undercutting the experience rated features of the program.

Long Term Solvency and Debt Management

The size of the state unemployment trust fund debt is so great in most states that a goal to meet solvency standards suggested by USDOL or the existing state law solvency standards within five years would require tax increases and/or benefit cuts which are simply too great, and would destroy the creation of jobs or eviscerate the primary safety net for the state workforce.

The review of possible solutions to the long term problem should include the write off of outstanding loans while addressing the need to reset the size of the program and the financing of it.

In response to significant extended unemployment compensation payout in the 1970s, the employer financed federal unemployment accounts dedicated to paying these claims were depleted and federal general revenue was advanced to cover the deficiency in funds. In 1976 the FUTA tax base was increased from $4,200 to $6,000 and the net FUTA tax rate was increased from 0.5% to 0.7%. In 1982, the FUTA tax base was increased from $6,000 to $7,000. The net federal tax rate was increased from 0.7% to 0.8% on a "temporary" basis until general revenue funds that had been advanced to pay extended benefits were repaid. Although all general revenue advances were repaid in 1987, the "temporary" surtax to be paid by employers was continued and is scheduled to sunset at the end of June 2011.

The response in the 1980s was to effectively increase the FUTA tax from $21 per employee per year to $56 per employee per year. A similar size flat tax increase would result in an increase from $56 per employee per year to $149 per year, a near tripling of the FUTA tax on top of the already increasing state unemployment taxes adversely impacting employers, particularly those with the lowest state unemployment contribution rates.

Avoid Job Killing Increases in Federal and State Unemployment Taxes

Employers decide to create jobs and maintain higher levels of employment based not only on the demand for goods and services but also on the costs associated with employees. Unemployment insurance has been a relatively low payroll cost in recent years, but it is becoming very significant in 2010 and the years to follow.

State unemployment taxes will be increasing dramatically in the next two years and stay at a much higher rate for a decade before solvency returns to state UI trust funds. Employers with relatively low state unemployment taxes will experience even greater percentage increases. As a point of comparison, for 1982, the state unemployment tax as a percent of total wages was 1.759%, nearly triple the state UI taxes as a percent of total wages of 0.61% as of the second quarter of 2009. Increases of this size will adversely impact job creation. A plan to address taxes and benefits while managing the outstanding debt is needed.

Reduce Unemployment Compensation Pay-Out

As the economy recovers, jobs become more widely available and the unemployment rate declines, there will be a reduction in benefit pay out. At the same time increases in unemployment tax revenue will result from higher payrolls, experience rate tax increases and solvency taxes. Although the trend lines will improve, without carefully assessing the long term cost of benefits and taxes and making appropriate adjustments, history will repeat itself with benefit obligations in the next recession that outstrip our ability to pay.

Since the 1980s the scope of the unemployment insurance system in a number of states has been expanded and benefit payout associated with these expansions has contributed to the insolvency of the state unemployment benefit accounts and ultimately the depletion of the Federal Unemployment Account.

Areas to review for reductions include monetary qualifying requirements, dependency allowances, weekly benefit amounts, waiting periods, work search and availability requirements, conditions of removal of disqualifications, overpayment collections, and fraud.

In some instances, expanded benefit provisions were enacted with a provision socializing the cost or relying on temporary funding. Unfortunately, although benefit costs may not be charged to a specific employer account, the increased cost to the state unemployment trust fund nonetheless must be paid for with taxes to be paid by all employers or cuts in other benefit provisions. Also, long term costs associated with expansions that were temporarily funded nonetheless must be accounted for in determining long term solvency and making adjustments.

Keep the role of the UI program as it was established

As it was enacted and signed by President Roosevelt in 1935, the unemployment insurance program was smaller in scope than it is today. The program did not include a federal extended benefit program and there was no requirement that individuals working for non-profit agencies or state and local governments were to be covered for state unemployment compensation. Legislation enabling states to borrow from federal funds to pay unemployment benefits did not begin until the late 1950s and the Federal/State Extended Unemployment Compensation Act was not enacted until 1970.

At inception, however, unemployment insurance was a more important part of the national social safety net because the workforce relied primarily on wages and savings for economic security. The UI system was established as a temporary partial wage replacement program for workers who became unemployed through no fault of their own in connection with their work who were able to work, available for work and actively seeking work. That purpose and focus should be maintained.

A long list of social safety net programs and services has been established since unemployment insurance was enacted in 1935. The list includes TANF, TAA, WIA, SNAP, Medicaid, Medicare, heating assistance, subsidized housing, subsidized child care, subsidized health care, and earned income tax credits. Many of these programs include a cash assistance component.

Unemployment insurance plays a relatively minor role in the social safety net for individuals eligible for many of these programs. Economically disadvantaged individuals typically rely more on public assistance and social service programs for support than wages.

An individual who earns $100 per week for 30 weeks a year would typically be eligible for assistance under many social service programs for the economically disadvantaged and would rely principally on support from those programs. Because UI is only a partial wage replacement program for such an individual, he or she would be likely to receive only approximately $50 per week in unemployment compensation for up to 26 weeks, significantly less than the support provided by other programs.

Unemployment Insurance is much more important in providing economic security for individuals who rely principally on their employment and wages for support. The UI program serves a very specific purpose that employers are willing to support with dedicated employer tax dollars.

In developing plans to assist unemployed workers in returning to work, the UI program should be used in conjunction with workforce programs dedicated to provide job search, reemployment and training services that may be funded from other sources but are aligned to provide economic security and effective workforce services to the benefit of the individual, employers, and economic development.

CONCLUSION/RECOMMENDATION

The status of the slowly recovering economy dictates that, although the state and federal trust funds are insolvent, we must first do no harm to discourage job creation and economic recovery. The federal penalties that would otherwise be imposed in the form of Title XII loan interest and the FUTA offset credit penalty should be waived for two years to avoid dampening the creation of jobs and the economic recovery.

States should be properly funded to work with unemployed workers and employers to improve initiatives and services designed to return unemployed claimants back to work. The REA program, Rapid Response services, eligibility reviews, job search services that utilize electronic work search tools as well as assessment and referral techniques, and improved integrity should receive priority funding with the expectation that there will be a quantifiable reduction in the duration of unemployment compensation and an increase in the number of unemployed claimants referred and hired.

Training initiatives should be closely coordinated with employers in developing customized training, OJTs, apprenticeships and other employer based training that leads to employment.

Training and services provided for unemployed claimants should also be coordinated with providers in the private sector and with other workforce programs aligned to put claimants back to work.

A comprehensive study of the primary cost and revenue drivers of the federal and state unemployment system should be conducted with a view toward identifying solutions that recognize the need to avoid tax increases that would negatively impact job creation and reduce long term benefit pay-out without impairing the mission of the program to provide temporary partial wage replacement for unemployed workers who become unemployed through no fault of their own in connection with their work.