"UNEMPLOYMENT INSURANCE: AN OVERVIEW OF THE CHALLENGES AND STRENGTHS OF TODAY'S SYSTEM"

HEARING

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

OF THE

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES

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"UNEMPLOYMENT INSURANCE: AN OVERVIEW OF THE CHALLENGES AND STRENGTHS OF TODAY'S SYSTEM"

WEDNESDAY, SEPTEMBER 7, 2016

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON HUMAN RESOURCES,
Washington, DC.

The Subcommittee met, pursuant to call, at 10:01 a.m., in Room 1100, Longworth House Office Building, the Honorable Vern Buchanan [Chairman of the Subcommittee] presiding.

[The advisory of the hearing follows:]

WAYS AND MEANS
CHAIRMAN KEVIN BRADY

Buchanan Announces Human Resources Subcommittee Hearing on "Unemployment Insurance: An Overview of the Challenges and Strengths of Today's System"

House Human Resources Subcommittee Chairman Vern Buchanan (R-FL) announced today that the Subcommittee will hold a hearing entitled "Unemployment Insurance: An Overview of the Challenges and Strengths of Today's System" on **Wednesday, September 7, at 10:00 AM in room 1100 of the Longworth House Office Building**. This hearing will examine program integrity, trust fund solvency, and reemployment strategies within the Unemployment Insurance system.

In view of the limited time to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record must follow the appropriate link on the hearing page of the Committee website and complete the informational forms. From the Committee homepage, http://waysandmeans.house.gov, select "Hearings." Select the hearing for which you would like to make a submission, and click on the link entitled, "Click here to provide a submission for the record." Once you have followed the online instructions, submit all requested information. ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, **by the close of business on Wednesday, September 21, 2016**. For questions, or if you encounter technical problems, please call (202) 225-3625.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but we reserve the right to format it according to our guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record.

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

The Committee seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202-225-1721 or 202-226-3411 TTD/TTY in advance of the event (four business days notice is requested). Questions with regard to special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available at http://www.waysandmeans.house.gov/

Chairman BUCHANAN. The subcommittee will come to order.

Good morning and welcome to today's hearing reviewing the challenges and the strengths of the Federal State unemployment insurance system.

The purpose of this hearing is to highlight efforts being undertaken by those on the ground to address the program's integrity, trust fund solvency, and successful reemployment strategies.

Helping the unemployed to return to work as quickly as possible and preventing improper payments within the system will better serve employers who fund the system to keep taxes low, as well as workers who claim benefits by getting them back to work sooner.

In 2015, more than 46 billion was levied from employers annually through State and Federal taxes to pay for benefits and program administration. Out of that, 32 billion in benefits were paid to 6.5 million beneficiaries.

States are eager to do more to help the unemployed return to work quickly for the sake of workers and job creators. I am excited to hear from two States in particularly, Utah and my home State of Florida, who are rethinking the old unemployment office and transforming UI into reemployment systems.

Florida has combined a number of agencies at the State level to create the Department of Economic Opportunity to provide its citizens with a more streamlined approach to services and even rebranded their UI benefits to be reemployed assistance. I am looking forward to hearing more from the department's executive director, Cissy Proctor, about some of the innovative steps the State has taken.

As a business owner myself for 40 years, I know firsthand how important it is for a State's financial house to remain in order and the consequences of raising taxes on a company's bottom line.

I am particularly pleased to have Mr. Walter Carpenter, a small-business owner from the Orlando area, who will provide members with a first-hand account of how policies thought up in Washington truly impacts a firm's ability to hire new employees and grow a regional economy.

Finally, this hearing will also discuss the importance of properly targeting UI benefits to ensure they are going to the right person at the right time. In fiscal year 2015 alone, States improperly paid $3.5 billion in UI benefits or one out of every $10 sent out from the UI system. The Office of Management and Budget continues to designate the UI program under the annual list of high-error programs, and yet no real progress has been made to improve this percentage.

To many States, UI agencies rely on discovering and then trying to recover UI payments after they occur. This pay-and-chase approach is costly, time-consuming, and wasteful. It also means that only a fraction of improper payments are ever recovered. Since States' UI benefits are supported by payroll taxes on jobs, this misspending leads to higher taxes on jobs, reducing the very job creation the employee needs most.

I welcome all our witnesses today and look forward to our discussion.

Now I yield to the distinguished gentleman, Mr. Doggett, for the purposes of an opening statement.

Mr. DOGGETT. Thank you, Mr. Chairman, colleagues.

Witnesses, we are pleased to have you here.

Just as builders know to check the roof after a big storm to be ready for the next one, economic experts know that during periods of prosperity and job growth, like the one we are experiencing right now in most parts of the country, that is the time to make sure that our unemployment insurance system is ready for the next recession. We have accomplished much in this country, but we have never been able to totally suspend the business cycle, just as we don't totally suspend hurricanes and storms, and unless we are ready, the problems will only intensify.

Unfortunately, many States seem to be interested in tearing new holes in the insurance system, rather than getting ready for the next storm. Those State policies are dangerous not just for workers, but also for our national economy.

Well-functioning unemployment insurance is our first line of defense in keeping economic downturns from spreading and worsening. As bad as the last recession was, it would have been far worse without unemployment insurance, and it would have been lessened had the efforts that Democrats made here in Congress to extend benefits for a longer period of time been permitted.

Extended unemployment benefits prevented 1.4 million home closures between 2008 and 2012, and we know from economic studies that every dollar of unemployment benefits paid produced about a dollar and a half to $2 in additional economic growth, stimulating the economy and preventing other workers from being laid off.

Of course, we could have done much more had unemployment benefits been extended. The estimates are that we could have prevented the loss of about another 200,000 jobs.

Unfortunately, the majority of States have ignored the lessons of the last recession. Certainly my State of Texas has ignored it, and they are not preparing their insurance programs for the next recession. Indeed, many are actively reducing the likely effectiveness of the unemployment insurance system.

As of the end of last year, only 18 States in the entire country were prepared to pay a year of benefits in another recession. The rest of the States did not meet minimum standards of trust fund solvency.

There are some significant exceptions that are doing their job. Utah, which is represented at our hearing today, is one of the few States that indexes its taxable wage base and has a solvent trust fund. My home State of Texas, like most States, would quickly run out of money to pay benefits in a recession. And while I am pleased to hear that Florida is continuing to improve the solvency of its trust fund, it has apparently done so largely by making collection of insurance benefits earned in Florida more difficult for unemployment workers to obtain than any other State in the country.

Fifteen States have cut benefit levels, and the average unemployment benefit replaces significantly less than half of wages lost. More than 30 States have changed eligibility to end unemployment insurance altogether for some workers who receive other earned benefits or work in specific types of jobs. Nine States now provide less than 26 weeks of unemployment benefits, the lowest level in those nine States in about half a century.

As the Government Accountability Office noted in a recent audit, with long wait times by phone and in person, abandoned calls, dropped calls, blocked calls, and long delays in claims processing, many States have also created practical barriers to the unemployed accessing the insurance that they are due to rely upon. This is a time when States are serving fewer workers and yet erecting more barriers.

We all agree that the States should make their unemployment trust funds protected from fraud and errors. Individuals, employers, and identity thieves that steal from trust funds should be punished. But some States seem to have forgotten why they are safeguarding these funds, and that is to pay workers the benefits that they have earned when they collect them and need them.

In addition, this Congress is failing to adequately fund the employment service, which plays a critical role in connecting the unemployed with new jobs and providing the skills necessary.

The cost of a well-funded trust fund is reasonable for employers. Wyoming is a State that is doing its job. It has indexed its unemployment tax to maintain a steady trust fund balance and currently has the best-prepared trust fund in the country. And a Wyoming employer with a low layoff rate pays as little as $69 per employee per year in State unemployment taxes. As we saw in the last recession, the benefits of that modest investment for workers in our economy are substantial.

It is time for some accountability from the States regarding why workers are not getting earned unemployment benefits and State trust funds are in the red, in deficit, and not prepared for the next recession, and it is way past time for Congress to take some action.

Thank you, Mr. Chairman.

Chairman BUCHANAN. Thank you.

I see the full committee chairman has joined us. The chair would now like to recognize Chairman Brady for his statement and questions.

Mr. BRADY. Thank you, Chairman Buchanan.

Does this work?

I am more mobile than I look.

Okay. Thank you, Chairman Buchanan, for holding this important hearing on our unemployment insurance system. Thanks for letting me join you for a moment.

One of the most important tenets of the law is that it requires a person applying for and receiving Federal unemployment payments to be able to work, to be available for work, and actively seeking work as a condition for eligibility.

In 2012, the bipartisan Middle Class Tax Relief and Job Creation Act was signed into law by President Obama with broad bipartisan support. It overturned an outdated 1960s era Department of Labor ban on States screening and testing unemployment insurance applicants for illegal drugs. Under the law of the land today, States are allowed but not required to test unemployment applicants who either, one, lost their jobs due to drug use or are seeking a new job that generally requires new employees to pass a drug test.

In a world where more and more industries and careers require workers who are drug free, especially in security-sensitive professions with many directed, by the way, by Federal law, this important reform signed by President Obama made sound policy since then and continues to today. If you have lost a job due to drug use, you have established you are not fully able to work. If you can't take a new job because you can't pass a required basic routine drug test, you are not really available for work either. In both cases, you have forfeited your eligibility to receive unemployment payments subsidized by employers.

Clearly, the intent of the 2012 law was that States could restrict benefits for such individuals who fail drug tests, as well as designed programs to help them overcome their drug use issues.

This policy of reasonable State drug testing builds on the work of 20 States that already limit unemployment insurance benefits for people who refuse to take or fail an employer drug test or who have left previous employment issues with drugs. And according to a survey by the Society for Human Resource Management, more than half of all businesses drug test all their employees. So this is no longer the exception, it is the rule of the workplace.

Upon enactment, my home State of Texas was the first to modify their State laws to begin the Congress-approved policy but was denied the ability to fully implement it because the Department of Labor was slow and had not yet issued regulations on the provision. Texas, by the way, has been awarded and honored by this White House for its work in matching local workers to local jobs through unemployment.

In the four long years since the law was signed, other Members of Congress and I have met repeatedly with Labor Department and

White House budget officials, written letters to Secretary Perez and others, held congressional hearings, attended numerous meetings and conference calls detailing our concerns over the administration's delays and widely panned draft regulations which prevent willing States and proven States from implementing the law as intended by Congress. Specifically, we thought the Labor Department's proposed rule in 2014 fell significantly short of achieving the intended purpose and would all but guarantee the law was not implemented as Congress intended.

In August of this year, over 4 years after the drug-testing provision was signed into law, the Department of Labor issued its final rule, which, similar to the proposed rule 2 years earlier, severely limited the ability of States to implement this important policy, harming unemployed workers in their quest to find new employment. The Department of Labor's rule contradicts congressional intent, which aimed to assure employers that UI claimants reentering the workforce are truly able and available to work so more of them can be hired.

Because I believe this administration reneged on Congress' clear wishes to allow States to screen and test for drugs today, I am introducing the Ready to Work Act of 2016. This bill is consistent with the congressional intent from 2012 to fulfill the promise of existing law. It removes the role of the Department of Labor to determine which occupations should be subject to this policy. This bill seeks to give control back to the States where decisions about the administration of unemployment insurance programs involve both applicants and the businesses that fund the system.

If you are unemployed and using drugs, are unable or unwilling to pass a basic drug test for a job that requires one, you are not ready to work and are not eligible under the law for unemployment payments.

Once again, thank you, Chairman Buchanan, for holding this hearing, and to our witnesses who are here today to talk about ways we can help more Americans return to work quickly, to match those who are unemployed with businesses eager to hire them. This is an important issue.

With that, Mr. Chairman, I yield back. And thank you for allowing me to join you this morning.

Chairman BUCHANAN. Thank you, Mr. Chairman.

Without objection, other members' opening statements will be made part of the record.

Today's witnesses panel includes four experts: Ms. Cissy Proctor, executive director for the Florida Department of Economic Opportunity; Mr. Walter Carpenter, President of Pinel & Carpenter, Inc.; Ms. Judith Conti, federal advocate coordinator for the National Employment Law Project; Ms. Michelle Beebe, director of unemployment insurance for the Utah Department of Workforce Services.

We will begin with Ms. Proctor. Please proceed with your testimony. Thank you.

STATEMENT OF CISSY PROCTOR, EXECUTIVE DIRECTOR, FLORIDA DEPARTMENT OF ECONOMIC OPPORTUNITY

Ms. PROCTOR. Chairman Buchanan, Members of the Committee, thank you for having me here this morning. And good morning to you all.

My name is Cissy Proctor, and I serve as the executive director of the Florida Department of Economic Opportunity. And I appreciate the invitation to be here this morning to talk about the successes we are experiencing in Florida and about the strengths and challenges of Florida's unemployment insurance system, which we call reemployment assistance.

For businesses and job seekers alike, Florida is a great place to be, because Governor Rick Scott and our legislature are committed to cutting taxes, reducing unnecessary regulation, and ensuring that Florida is open for business. Right now there are more than 250,000 job openings across the State. Private sector businesses have added more than 1.1 million jobs over the last 5 years. Our unemployment rate is at a more-than-8-year low. Our GDP increase and private sector growth rate are beating the Nation. Our State has come a long way over the past 5 years and the private sector is confident in our future.

During the Great Recession, our State's future looked very different. Unemployment increased to 11.2 percent. Private sector businesses lost more than 900,000 jobs. Jobs demand continued to fall, as did home prices, the number of visitors, and the number of new residents that called Florida home. Our GDP dropped significantly, and our reemployment assistance claims reached 700,000.

And for those who lost a job, reemployment assistance provided short-term financial assistance, but did not get them to where they really needed to be, which is back at work.

During this time, newspaper articles were trumpeting Florida's decline. "Is Florida Over?" asked the Wall Street Journal.

So how did Florida recover from this recession and see headlines change in the Wall Street Journal to "The Model is Florida, Florida, Florida"?

Under Governor Scott's leadership and commitment, he has provided unrelenting focus on job creation and getting every Floridian back to work. In 2011, one of Governor Scott's first actions, in coordination with the legislature, was to create the Florida Department of Economic Opportunity out of three separate agencies that worked on community and economic development, as well as workforce development and their silos.

The newly created agency's mission became multifocused in these three areas to allow Florida's growth holistically. So we are looking at it holistically with connections between workforce training, economic development, and healthy communities. As we know, a well-trained and ready workforce is key to ensuring economic development as Florida continues to grow.

And with a strong emphasis on getting the State's workforce headed in the right direction, the next step was to rebrand Florida's unemployment insurance program as reemployment assistance. This wasn't just window dressing. The goal of unemployment insurance is to be a bridge for individuals who lost their job through no fault of their own.

But what happens when you get to the end of the bridge and there is nothing there? We chose to change the culture in Florida to ensure that the bridge of assistance connects job seekers to reemployment. And we know the most successful way to get job seekers back to work is to rely on a strong statewide workforce system, which we have done in Florida.

I would like to shift the focus a little bit now to talk about identity theft and fraud in public benefit systems. This criminal combination is a huge challenge for the reemployment assistance program in Florida, but it is not just a Florida problem. The Federal Trade Commission recently announced that more than 49 percent of all identity theft reported in 2015 was related to government documents and public benefits fraud, and that is up from 38 percent in the previous year.

The fraud we are seeing is not just the traditional one-off case where an individual knowingly misrepresents eligibility for assistance. This fraud we have exposed is criminal, and it threatens the integrity of the reemployment assistance program. Organized criminal enterprises are stealing or purchasing this personal information on the dark Web and then using it to get into our systems and steal public benefits.

We realized this crisis at our agency, and we realized it would quickly undermine the reemployment assistance program. In early 2014, the agency's IT and reemployment assistance teams partnered to develop and implement a new system that analyzes unemployment claims data and detects patterns of fraud in real time. The system is called the Fraud Initiative Rules and Rating Engine, or FIRRE, and the results that we have seen are stunning and far beyond anything we would have expected to find.

In the past 2½ years, we have stopped more than 110,000 illegal claims from being filed in Florida, which represents $460 million that would have been stolen from our system. And individuals may not even be aware that their identities are stolen as they are with the IRS tax returns when they file their claim or file for benefits.

So fighting fraud is not only important to protect identities and ensure those who deserve to receive reemployment assistance benefits are getting them, but it is also vital to protect Florida's unemployment trust fund.

So how is Florida's reemployment assistance program prepared for the future? We know that recessions come and go, and there is no doubt that another national recession will hit. The only question is when. So continuing to research innovative ways to help our programs run effectively and efficiently will take us through another recession and be able to continue to serve claimants while connecting them with employment opportunities in a local community.

We know barriers to employment still exist, and we are working with our partners across the State on innovative ways to eliminate those barriers.

Thank you.

Chairman BUCHANAN. Thank you, Ms. Proctor.

[The prepared statement of Ms. Proctor follows:]

Rick Scott
GOVERNOR

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

Cissy Proctor
EXECUTIVE DIRECTOR

Testimony of Cissy Proctor

Executive Director

Florida Department of Economic Opportunity

Before the Committee on Ways and Means

Subcommittee on Human Resources

U.S. House of Representatives

September 7, 2016

"Unemployment Insurance:

An Overview of the Challenges and Strengths of Today's System"

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Chairman Buchanan and Members of the Committee:

My name is Cissy Proctor, and I serve as the Executive Director of the Florida Department of Economic Opportunity. Thank you for the invitation to testify before the members of the House Committee on Ways and Means. I'm excited to talk to you about the success we are experiencing in Florida and about the strengths and challenges of Florida's Unemployment Insurance system, which we call Reemployment Assistance.

For businesses and jobseekers alike, Florida is a great place to be, because Governor Rick Scott and our Legislature are committed to cutting taxes, reducing unnecessary regulation and ensuring Florida is open for business. Right now, there are about 250,000 job openings across the state. Private sector businesses have added more than 1.1 million jobs over the past five years, and more than half of those jobs are in industries with an average annual wage of more than $45,000. Our unemployment rate is at a more than eight-year low. Our GDP increase and private sector growth rate are beating the nation. Our state has come a long way over the past five years, and the private sector is confident in our future.

During the Great Recession, our state's future looked very different. Unemployment increased to 11.2 percent. Private sector businesses lost more than 900,000 jobs. Job demand continued to fall, as did home prices. The number of visitors and new residents both declined. Florida's GDP dropped significantly. Reemployment assistance claims reached 700,000. And for those who lost a job, reemployment assistance provided short-term financial assistance, but didn't get them to where they really needed to be – back to work. As these numbers show, the recession hit Florida harder and lasted longer than in other states.

FLORIDA IS LASER-FOCUSED ON JOBS

During this time, newspaper articles were trumpeting Florida's decline. "Is Florida Over?" asked the *Wall Street Journal*. "Sorrow in the Sunshine State" was the *Economist*'s take. *USA Today* wrote it was "The End of an Era of Growth." How did Florida recover from this recession? Gov. Rick Scott's leadership and commitment has provided an unrelenting focus on job creation in Florida. After he was elected, the headlines began to change. *The Wall Street Journal* headlines read, "The Model is Florida, Florida, Florida" and "Has Florida Found the Secret to Saving the Economy?" *The New York Times* said, "A Bet on Florida Pays Off."

In 2011, one of Gov. Scott's first actions in coordination with the Legislature was to create the Florida Department of Economic Opportunity out of three state agencies that once covered workforce, economic and community development in their own silos. The newly created agency's mission became multi-focused in these three areas to allow us to look at Florida's growth holistically, with connections between workforce training, economic development and healthy communities. We know a well-trained and ready workforce is key to ensuring economic development continues in Florida, improving the quality of life in communities across our state.

With a strong emphasis on getting the state's workforce heading in the right direction, the next step was to rebrand Florida's unemployment insurance program as reemployment assistance. This wasn't just window dressing. The goal of unemployment insurance is to be a bridge for individuals who lost their jobs through no fault of their own. But what happens when you get to the end of the bridge and there's nothing there? We chose to change the culture in Florida to ensure the bridge of assistance connects jobseekers to reemployment.

Focusing on this goal now successfully aligns our reemployment and workforce systems. The reemployment assistance program includes a skills assessment that is available to all jobseekers, to help them find jobs matching their current skills and abilities. The skills assessment also connects jobseekers to training opportunities that enhance their skill sets, qualifying them for new careers. Additionally, jobseekers are connected to the Employ Florida Marketplace, one of the largest job banks in the nation, with hundreds of thousands of job postings from Florida businesses and more than 20,000 job websites.

The most successful way we have been able to get jobseekers back to work is relying on our statewide workforce system. Florida is known for having one of the most successful workforce systems in the country. CareerSource Florida is the overarching board for our 24 local workforce boards and 100 career centers across the state. In the past five years, the CareerSource Florida network has assisted about 500,000 businesses and helped more than 3.5 million Floridians with training, job placement and other career services.

The total annual earnings of Florida jobseekers who went to work after being assisted by the CareerSource Florida network from 2011 through 2015 was $11 billion. These newly employed individuals earned $7.3 billion more in total wages than they were earning previously, directly improving their own financial stability and positively impacting their families and communities. Additionally, since 2011, more than 35,000 veterans with significant barriers to employment have been placed in jobs through the work of our agency and workforce boards.

CareerSource Florida also partners with private sector businesses to help meet their needs for a trained workforce. The FloridaFlex and Incumbent Worker Training grant programs invest in existing and expanding businesses to offset costs for upgrading employees' skills. Together, the programs have assisted 3,000 businesses and provided customized training for 360,000 employees across the state. These kind of partnerships clearly show the necessity for an approach that integrates workforce development with economic development.

We also have several new programs launching this year to continue to improve the success of our workforce system. One program, which we will be announcing later this month, seeks to increase the number of individuals receiving reemployment assistance who are connected to career opportunities through our local workforce boards. Our goal is to increase engagement with these individuals and decrease the timeframe from the first day they receive assistance to the first day they start a new job. It's an exciting initiative, and I can't wait to share the results.

Secondly, we have recently begun to take a look at a dozen counties across Florida that have had serious challenges recovering from the recession. The majority of these counties are in rural areas of the state, but all have limited job opportunities, high unemployment rates and other negative economic indicators – including high poverty levels, low high school graduation rates and low average wages – that set them apart. We are taking a holistic look at these 12 counties to see what support and coordination we can provide. We plan to bring our partners and other state agencies on board to review challenges such as transportation, assisting individuals with disabilities, employing felons, and other difficult barriers to employment. We know that government cannot fix the problem, but government can provide a variety of supports to the jobseekers and job creators in each community, and sometimes, government can help by getting out of the way. Again, we are very excited about this initiative. It will be a long-term investment in these communities that we hope will result in real economic impact.

FIGHTING PUBLIC BENEFIT FRAUD

Now, I'd like to switch topics a bit to talk about identity theft and fraud in public benefit systems. This criminal combination is a huge challenge that the reemployment assistance program in Florida is experiencing. And it's not just a Florida problem. The Federal Trade Commission recently announced that more than 49 percent of all identity theft reported in 2015 was related to government documents and public benefit fraud, and that's up from 38 percent the previous year.

The fraud we are uncovering is not the traditional, one-off case where an individual knowingly misrepresents eligibility for reemployment assistance. The fraud we have exposed is criminal, and it threatens the integrity of the reemployment assistance program. Organized criminal enterprises are stealing or purchasing on the dark web personal information, then using this information to illegally access systems to steal public benefits. Criminals are stealing and purchasing identities in massive quantities because they are valuable, and public benefit fraud is one of the most common ways these criminals can cash in. If a criminal used a single stolen identity in all 53 unemployment programs, more than $20,000 would be stolen each week. That doesn't take into account any other public benefit programs, such as SNAP, that are also facing this threat.

At our agency, we realized we were facing a crisis that would quickly undermine the reemployment assistance program. In early 2014, the agency's IT and reemployment assistance teams partnered to develop and implement a new system that analyzes unemployment claims data and detects patterns of fraud in real time. This system is called the Fraud Initiative Rules and Rating Engine, or FIRRE. The results have been stunning, beyond anything we expected to find.

In the past two and a half years, we have stopped more than 110,000 illegal claims from being filed in Florida. This represents $460 million that would have been stolen from Florida's Unemployment Compensation Trust Fund. We are very proud of our FIRRE team, which was recently recognized with the State Excellence Award for Leadership by the National Association of State Workforce Agencies (NASWA) and three times has won the state of Florida's TaxWatch Prudential Productivity Award, given to agencies that protect significant taxpayer funds. The U.S. Department of Labor's Office of Inspector General has also recognized the agency's efforts on identity theft and fraud prevention with FIRRE.

We know identity thieves are constantly adapting techniques to thwart existing fraud-detection solutions; in other words, the criminals are many steps ahead of us. This is the reason our in-house FIRRE system is so important. Because we developed and implemented the program, we are flexible and able to adjust the process as necessary to continue combatting criminals' innovative means to use stolen identities. The number of claims we are locking in Florida has continued to drop since FIRRE was fully implemented. We are now stopping most illegal activity before it gets into our system. Because of FIRRE's success, we are working with other Florida agencies and agencies in other states to raise awareness of public benefit fraud and to share best practices on preventing identity theft and fraud.

We know individuals may not even be aware their information has been stolen and used to perpetrate fraud. For example, with the IRS, individuals quickly realize fraudulent tax returns have been filed in their name when they attempt to file their taxes or claim a return. However, because many Floridians will never file for public benefits like reemployment assistance, they will never realize their identities have been stolen and used fraudulently. So we recently began notifying individuals who we believe are victims of identity theft, and providing them with resources to protect their personal information. We are also playing a key role in the creation of a federal Suspicious Actor Repository through NASWA's Unemployment Insurance Integrity Center so we can share information related to identity theft claims with other state workforce agencies. We continue to partner with the Inspector General at the U.S. Department of Labor, along with state and local law enforcement in Florida, to fight these criminals and identity theft in our reemployment assistance program.

Fighting fraud is not only important to protect identities and ensure only those who deserve to receive reemployment assistance benefits are getting them, but it's also vital to protect Florida's unemployment trust fund. As many of you know, almost every state was forced to borrow money from the federal government during the height of the Great Recession in order to pay unemployment benefits. Florida was no different. The Unemployment Compensation Trust Fund is designed to build up a surplus during times of economic prosperity as fewer people are claiming benefits and more businesses are paying into the fund. That surplus is meant to help states weather economic downturns, but the Recession taxed most states' resources, even states like Florida that had a healthy surplus.

From the employer's perspective, indebtedness to the federal government meant higher payroll taxes. Florida's loan began in 2009 and ultimately totaled $3.5 billion. In 2013, Florida became one of the first states to repay its federal loan in full. As of today, the U.S. Virgin Islands and the state of California remain indebted to the federal government for trust fund loans. California still owes more than $3 billion, nearly the entire value of Florida's loan.

Florida's trust fund currently sits at $3.3 billion and is one of the healthiest trust funds in the country. The recovery of the trust fund, combined with the improving economy, has resulted in decreasing payroll taxes for employers, from a minimum rate of $120.80 per employee to the current minimum rate of $7 per employee. Our agency is responsible for maintaining the health of this trust fund, protecting taxpayers' dollars, and ensuring reemployment assistance benefits are available for those who truly need them. We could not do this without fighting fraud.

Ensuring the health of the system is paramount in helping those who need reemployment assistance and connecting them with career opportunities. Recently, we began a pilot program to allow in-person reporting to ensure that those claimants who are having difficulties navigating the online system are able to go to a local career center to authenticate their claims. This also gives these claimants a direct connection with our workforce system and enables them to quickly access training and employment opportunities. We plan to expand the pilot across the state this year.

Our agency is also working diligently to improve our core federal measures by making our reemployment assistance system as efficient and seamless as possible. We have focused on meeting and exceeding the standards on First Payment Time Lapse, because we realize if claimants are paid on time, they don't need to call our call centers or go online to check on their benefits. Hitting this one measure not only helps us meet claimants' immediate needs, but it calms the entire reemployment assistance system. We have improved our First Payment Time Lapse from 60 percent in the third quarter of 2015 to 79.7 percent in the second quarter of 2016. Today I can report that we have made more than 80 percent of first payments on time each week since June 2016. We expect to meet and exceed this federal measure soon.

PREPARING FOR THE FUTURE

How is Florida's reemployment assistance program prepared for the future? We know recessions come and go, and there is no doubt another national recession will hit. The only question is when. We are gearing up while the number of reemployment assistance claimants is low to be prepared for when these numbers rise again. One of the ways we have begun to find efficiencies in our system is implementing process improvements through a program called the

"Theory of Constraints." Some of you may already be familiar with the concepts of this program, and I know the state of Utah, who we will also be hearing from today, has implemented this across its entire state government, proving programs can be run efficiently and cost-effectively at the same time. The "Theory of Constraints" allows our team to focus on the constraint – a work flow or process that is holding us back – and determine ways to eliminate the constraint. In the past six months, using this process, and not adding any additional personnel, IT resources or funding, we have found efficiencies equal to about 20 additional employees in the reemployment assistance program.

Continuing to research innovative ways to run our programs and find these efficiencies are what will take us through another recession and be able to continue serving claimants while connecting them with employment opportunities in their local communities. It is critical that each state have the flexibility to implement innovative solutions to unique challenges, as Florida has done. Increasing the flexibility of the program and providing more control over administrative dollars will allow every state to ensure system integrity, including preventing fraud, and increase efficiencies to better serve claimants.

In closing, continuing to allow each state to manage reemployment assistance and workforce services is vital to maintaining the level of success Florida is currently experiencing. Our integrated programs are bridging the gap between unemployed workers and career opportunities. We know barriers to employment still exist, and we are working with our partners across the state on innovative ways to eliminate those barriers so that all Floridians have the opportunity to live the American Dream. Thank you so much for having me here today, and I'm happy to answer any questions you may have.

Chairman BUCHANAN. Mr. Carpenter, please proceed with your testimony.

STATEMENT OF WALTER CARPENTER, MAI, CRE, PRESIDENT, PINEL & CARPENTER, INC.

Mr. CARPENTER. Chairman Buchanan, Ranking Member Doggett, and the Members of the Subcommittee on Human Resources, thank you for the opportunity to testify today.

I am Walter Carpenter, president of Pinel & Carpenter in Orlando, Florida. I graduated from the University of Florida in 1975, and in the early 1980s, I was afforded the opportunity to become a partner in my firm. Pinel & Carpenter is a real estate valuation and consulting firm primarily providing professional services throughout the State of Florida.

Both as an employer and an employee, I am humbled by the fact that many of my fellow workers have been employed with the firm for over 20 years, spanning my 41 years with the company. I look upon these workers and their families as an extension of our work family, recognizing they depend upon the decisionmaking and success of the company.

As a small-business owner, the day-to-day challenges of successfully growing a business, meeting customer demands, managing employees, and monitoring Federal and State laws and regulations sometimes seems overwhelming. As an employer, I would like to speak to you today regarding three areas of the unemployment system I believe directly impact small businesses.

First, the unemployment tax rate and the rate base, which depends upon the amount to be paid by employers, can have a direct impact on future hiring decisions. Depending upon the type of business and the claims experience of the employer, the tax rate can dramatically vary and during significant rate increases can actually have a negative impact on employment within a State.

Secondly, as small-business men and women, we understand the importance of the unemployment system being primarily a State responsibility with successful solutions creatively solved at a more local level. As there are many differences from region to region and State to State, one size does not fit all, and an overall Federal solution may actually have unintended adverse consequences in many States.

Finally, as an employer, I specifically understand the very important issue of the integrity in the employer-funded unemployment insurance system. During the downturn of the Florida economy, employers and employees recognized the value of the system that provided a short-term partial wage replacement for individuals who found themselves temporarily unemployed.

As previously mentioned, the bottom line and cost tax rate paid by employers is closely monitored and watched in the State of Florida. Although the professional service company like mine may have comparatively low rates, I interact on a regular basis with other employers in the manufacturing and construction fields which have immediately felt the significant rate increase of the trust funds as they become depleted. Yet, as an employer, we can partner with our State government in formulating solutions which balance a rate increase with job growth by increasing funding through other

State programs to encourage companies to relocate to Florida or for existing companies to expand.

Throughout the 2010, 2011, and 2012 legislative session in Florida, employers worked with the State to effect increases in the trust fund to adequately pay unemployment claims. The cumulative effect of these cooperative efforts allowed the borrowed money from the Federal Government to be paid back and the interest paid off in 2 years. The trust fund in Florida has rebounded to a once again healthy status and the employers are paying relatively low rates, which started in 2014 and continue today.

In most States, the majority of job growth is generated by small businesses at the local level. Unemployment claims are paid out to individuals at the local level, and the revenue is generated to pay the claims through private employers within the State. The unemployment insurance program is appropriately designed to place the primary responsibility for the unemployment insurance system at the State level with the ability to borrow funds from the Federal Government on a temporary basis when State trust funds experience shortfalls.

To effectively promote job growth and funding for new companies to relocate to Florida and for existing businesses to expand, the State considers what may be an appropriate maximum number of weeks in Florida for payment of unemployment compensation. Again, the State of Florida, working with the business community, has found that a sliding scale of benefits works well in our State. I do not believe a Federal one-size-fits-all approach when it comes to the trust fund is a proper to way to achieve creative solutions.

Finally, as an employer who has contributed to the trust fund for some 40 years, I believe the integrity of the unemployment system is critical. Of utmost importance is the adoption of clear, straightforward administrative standards requiring that State law requires that individuals be able to work, available to work, and actively seeking work.

As an employer, I believe continued improvement should be made in the methods used by State unemployment insurance agencies. The unemployment system is intended to be an insurance temporary payment program and is not a public assistance system. Again, I see this as a public-private partnership with the businesses providing the revenue to support the trust funds and each individual State maintaining the integrity of their State systems.

Chairman Buchanan, Ranking Member Doggett, and the other Members of the Subcommittee, thank you for the opportunity to present my views to you. I appreciate your service, your time, and your consideration.

Chairman BUCHANAN. Thank you, Mr. Carpenter.

[The prepared statement of Mr. Carpenter follows:]

TESTIMONY OF WALTER N. CARPENTER JR.

PRESIDENT AND CEO OF PINEL & CARPENTER, INC.

BEFORE THE

SUBCOMMITTEE ON HUMAN RESOURCES

COMMITTEE ON WAYS AND MEANS

UNITED STATES HOUSE OF REPRESENTATIVES

HEARING ON

“UNEMPLOYMENT INSURANCE: AN OVERVIEW OF THE CHALLENGES

AND STRENGTHS OF TODAY’S SYSTEM”

SEPTEMBER 7, 2016

Chairman Buchanan, ranking member Doggett, and members of the Subcommittee on Human Resources, thank you for the opportunity to testify today.

I am Walter N. Carpenter Jr., President of Pinel & Carpenter, Inc., in Orlando, Florida. I graduated from the University of Florida in 1975 and immediately began my working career at the predecessor firm (Rex McGill Appraisal Company) of Pinel & Carpenter, Inc. In the early 1980's, I was afforded the opportunity to become a partner in the firm. Pinel & Carpenter, Inc. is a real estate valuation/ consulting firm, primarily providing professional services throughout the state of Florida.

Both as an employer and an employee, I am humbled by the fact that many of my fellow workers have been employed with the firm for over 20 years, spanning my 41 years with the company. I look upon these workers and their families as an extension of our work family recognizing they depend upon the decision-making and success of the company. As a small business owner, the day-to-day challenges of successfully growing a business, meeting customer demands, managing employees, and monitoring federal and state laws and regulations sometimes seems overwhelming. My management team must wear many hats to keep up with the ever changing laws and regulatory interpretations which affect small businesses on a federal and state level.

As an employer, I would like to speak to you today regarding three areas of the unemployment system I believe directly impact small businesses. First, the unemployment tax rate and rate base which determines the amount to be paid by employers can have a direct impact on future hiring decisions. Depending upon the type of business and claims experience of the employer, the tax rate for unemployment insurance can vary dramatically and during significant rate increases can actually have a negative impact on employment within a state. Secondly, we as small business men and women understand the importance of the unemployment system being primarily a state responsibility with successful solutions creatively solved at a more local level. As there are many differences from region-to-region and state-to-state, one size does not fit all and an overall federal level solution may actually have unintended adverse consequences in many states. Finally, as an employer, I specifically understand the very important issue of integrity in the employer-funded federal/state unemployment insurance system.

My management team and I recognize and appreciate your leadership in providing oversight to the employer funded federal/state unemployment insurance system. During the downturn (2009/2011) in the Florida economy, employers and employees recognized the value of the system that provided short-term partial wage replacement for individuals who found themselves temporarily unemployed.

As previously mentioned, the bottom line cost/actual unemployment tax rate paid by employers is closely monitored and watched in the state of Florida. Although a professional service company like mine may have comparatively low rates, I interact on a regular basis with other employers in the manufacturing/construction fields which have immediately felt a significant rate increase as “trust funds” are depleted. Yet, as an employer we can partner with our state government in formulating solutions which balance a rate increase with job growth by increasing funding through other state programs to encourage new companies to relocate to Florida or for existing companies to expand. Throughout the 2010, 2011, and 2012 legislative sessions in Florida, employers worked with the state to affect increases in the unemployment insurance "trust fund" to adequately pay unemployment claims. The cumulative effect of these cooperative efforts allowed the borrowed money from the federal government to be paid back and interest paid off in two years. The unemployment insurance "trust fund" in Florida has also rebounded to a once again healthy status and the employers are paying relatively low tax rates which started in 2014 and are continuing today.

As in most states, the majority of jobs and job growth is generated by small businesses at the local level. Unemployment insurance claims are paid out to individuals at the local level and the revenue is generated to pay the claims through private employers within the state. The Unemployment Insurance program is appropriately designed to place primary responsibility for the unemployment insurance system at a state level, with the ability to borrow funds from the federal government on a temporary basis when the state unemployment trust fund experiences shortfalls. To effectively promote job growth and funding for new companies to relocate to Florida or for existing businesses to expand, the state considers what may be an appropriate maximum number of weeks in Florida for payment of unemployment compensation. The number of weeks may not be the same for other states. Again, the state of Florida working with the business community has found that a sliding scale from 12 to 23 weeks of benefits works well in our state. I do not believe a federal "one size fits all" approach when it comes to the unemployment insurance "trust fund" is a proper way to achieve creative solutions.

Finally, as an employer who has contributed to the “trust fund” for some 40 years, I believe the integrity of the unemployment insurance system is critical. Of utmost importance is the adoption of clear, straight forward administrative standards requiring that state laws require that individuals be able to work, available to work, and actively seeking work. Despite the federal requirement that state laws require that these requirements be met as a condition of an individual being paid unemployment compensation, some states have “exemptions” that undermine the integrity of the “trust funds”.

As an employer, I believe continued improvements should be made in the methods used by state unemployment insurance agencies to avoid overpayments and identify claimants who may have received paid benefits for weeks when they were working full time or for weeks when they were not able to work, available to work, or actively seeking work. The unemployment insurance system is intended to be an insurance (temporary payment) program and not a public assistance system. Again, I see this as a public/private partnership with the businesses providing the revenue to support the “trust funds” and each individual state maintaining the integrity of their state payment systems so as to assure businesses within their state that all compensation paid from the “trust funds” are proper and going to the individuals who temporarily require the funds.

Chairman Buchanan, ranking member Doggett, and other members of the Subcommittee, thank you for the opportunity to present my views to you. I appreciate your service, your time, and consideration.

Chairman BUCHANAN. Ms. Conti, please proceed with your testimony.

STATEMENT OF JUDITH M. CONTI, FEDERAL ADVOCACY COORDINATOR, NATIONAL EMPLOYMENT LAW PROJECT

Ms. CONTI. Thank you. Good morning, Chairman Buchanan, Ranking Member Doggett, and Members of the Subcommittee. I appreciate the invitation to testify today.

Since it was established over 80 years ago, the UI system has been one of the mainstays of our Nation's social insurance system, and there is no better example of the importance of the UI system than the role it played in the Great Recession. In 2009 alone, UI kept an estimated 5 million people out of poverty and saved more than 2 million jobs. Over the course of the recession, it closed the GDP gap by nearly 20 percent.

Unfortunately, as Ranking Member Doggett has noted, too many States have taken actions that have weakened the UI system since the end of the recession. And as a result, today UI recipiency is at historic lows and State trust funds are still largely unprepared for the next recession, which though not imminent is certainly inevitable.

Today, I would like to focus on three key areas: State trust fund financing and solvency, program integrity, and reemployment services.

Over the past three decades, rather than forward funding trust funds during good economic times, a majority of States have managed their programs with more of a pay-as-you-go approach, which left them woefully unprepared for the last recession. Thus, during the Great Recession, States had to borrow more than $141 billion dollars from the Federal Government to pay their UI claims. And then the States had to repay these loans, which was done with a mandatory tax on businesses, which they had to pay long before the recovery had really taken hold and they were able to pay those funds as easily as they could have during good economic times.

Though virtually all States have paid back their loans, the programs as a group are still unprepared for the next recession. Only 18 States have sufficient reserves to get through 1 year of typical recession claims and none of the 13 largest States in terms of UI meet that standard.

Equally worrisome, because so many States have chosen to repay the debt by slashing benefits, we are not ready for the next recession in terms of the cushion that workers may need transitioning between jobs.

But there is time to correct these problems, and the Federal solution is simple. We recommend that Congress gradually raise the UI taxable wage base over the next 6 years to $59,000, which is half of the Social Security taxable wage base, and we recommend that it be tied to the Social Security wage base after it. States and the Federal Government can then adjust tax rates in order to make sure that they are fair and sufficient to fund for the next recession.

And I realize that the concept of raising taxes is anathema to some, but it is important to keep them in perspective. Currently, they represent only 0.6 percent of overall hourly compensation costs, a mere 21 cents per worker per hour, and it is a small price to pay during good economic times for the income support and economic stimulus that they provide during recessions.

With respect to program integrity, we need to be sure that we approach this in a balanced manner, not just talking about claimant fraud. In 2015, for example, just 2.9 percent of total payments represented claimant fraud. And, of course, as Ms. Proctor described, there is a larger fraudulent scheme that the States need to be adequately financed to deal with as well.

A virtually equal percentage of overpayments, 2.7 percent in 2015, were found to be due to agency error, and my written testimony details the levels of employer fault for overpayments as well.

One of the single biggest barriers to better program integrity is the persistent underfunding of UI agencies. Their funding has remained flat since 1995, and it is at its lowest rate since 1986. They need to be better resourced to zealously pursue program integrity.

They also need to be better resourced, as other witnesses here today agree, to better invest in high-quality and targeted reemployment services. There is ample evidence of their value to workers, employers, and State trust funds, which are held in trust by the Federal Government. Yet, in spite of that fact, in spite of the fact that the U.S. workforce grew by 36 percent between the years of 1985 and 2015, funding for reemployment services has shrunk by 61 percent over the same period of time.

In order to correct this underfunding and ultimately save the UI trust fund's money from shortened durations of unemployment, we recommend that Congress appropriate sufficient funds for the agencies to run vibrant reemployment services programs through their employment service. We also recommend that Congress make a one-time appropriation to help States update their UI technology, which will help them better administer every aspect of their program.

Alternatively, Congress could consider funding 2 years of enhanced reemployment services through the Federal Unemployment Account, require that States put the funds they save in those UI payments into a type of escrow account, and then reinvest that once the 2-year period is over.

I appreciate the opportunity to testify today, and I am happy to answer any questions that you may have. Thank you.

Chairman BUCHANAN. Thank you, Ms. Conti.

[The prepared statement of Ms. Conti follows:]

NELP NATIONAL EMPLOYMENT LAW PROJECT

TESTIMONY

Testimony of Judith M. Conti
National Employment Law Project

Unemployment Insurance: An Overview of the Challenges and Strengths of Today's System

Hearing before the United States Congress

Human Resources Subcommittee
House of Representatives Ways and Means Committee

September 7, 2016

Judith M. Conti
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Good morning Chairman Buchanan, Ranking Member Doggett, and members of the Subcommittee on Human Resources. My name is Judith M. Conti, and I am the Federal Advocacy Coordinator for the National Employment Law Project (NELP). NELP is grateful for the opportunity to address the Subcommittee today and share our views about how vitally important the Unemployment Insurance (UI) system is to our national economy, and the ways in which we can strengthen it to better serve the needs of not just unemployed workers, but employers as well.

NELP is a non-profit organization that for over 40 years has fought for the rights and needs of low-income and unemployed workers. We seek to ensure that work is an anchor of economic security and a ladder of economic opportunity for all working families. In partnership with state, local, and national allies, we promote policies and programs that create good jobs, strengthen upward mobility, enforce hard-won worker rights, and help unemployed workers regain their economic footing.

Since it was established over 80 years ago, the UI system has been one of the mainstays of our nation's social insurance system. By partially replacing lost wages, UI helps people who are involuntarily unemployed, and their families, maintain basic living standards while they look for another job. UI is particularly important during periods of economic recession because it helps stabilize our economy by boosting demand and reducing the drop in overall consumption. UI targets benefits to cash-strapped individuals and families who, rather than saving their weekly benefits, likely spend them on necessary everyday expenses, like groceries and gas. This continued spending helps to keep local businesses afloat and prevents even more unemployment during periods in which our economy can ill-afford it.

There is no better example of the importance of the UI system than the role it played in the Great Recession. In 2009 alone, when recessionary layoffs peaked, and the federal government first made available up to 73 additional weeks of benefits to long-term unemployed claimants in the hardest hit states, unemployment insurance kept an estimated five million people—including jobless workers and their families—out of poverty, [1] and saved more than two million jobs.[2] From 2008 to 2012, UI benefits prevented an estimated 1.4 million home foreclosures.[3] And according to economist and long-time UI expert Wayne Vroman, the provision of UI benefits during the Great Recession—both regular state-funded benefits and emergency federal benefits for the long-term unemployed—closed the associated gap in real gross domestic product by nearly one-fifth (18.3 percent).[4]

As important as UI was in helping millions survive the recession without falling into poverty or losing their homes, the fact is that many states were ill-prepared to handle the level of claims that were filed. By the end of the Recession, 36 states had to take federal loans to keep their UI trust funds afloat and pay out state claims.[5] And unfortunately, as states then had to repay those loans, too many did so by slashing benefits for unemployed workers, and imposing new barriers, both legal and administrative, to receiving UI. The impact on jobless workers is stark: in 2007, UI recipiency was at a rate of 36%, and as of calendar years 2014 and 2015, it stood at a paltry 27%, an historic low.[6] It's rebounded slightly as of the 12 months ending in June of this year to 28%, with some states showing recipiency levels of an anemic 10%. These levels are simply too low if we want UI to be an effective economic stabilizer. (For more details on UI recipiency on a state-by-state basis, please see Table 2 at the end of this testimony.)

This is a short-sighted approach both for workers and their families as well as businesses that depend on continued demand for their goods and services to succeed. And as a result of these choices, our UI system is severely under-prepared for the next recession, which though its timing is impossible to predict, its occurrence is inevitable. Policy decisions by some state legislatures to starve UI programs of revenue and to restrict benefit payments, by narrowing eligibility and reducing benefit amounts, have severely weakened the program's ability to meet its core objectives of supporting individuals and families through periods without work and stabilizing our economy during crises.

NELP is pleased that you are holding this hearing today, because now is the time for us to get serious about the policies we need to enact in order to restore vitality to the UI program. That is why, together with the Center for American Progress and the Georgetown Center on Poverty and Inequality, we recently released a comprehensive report entitled **"Strengthening Unemployment Protections in America: Modernizing Unemployment Insurance and Establishing a Jobseeker's Allowance."**[7] The recommendations are numerous and I won't go into all of them today.

Instead, I would like to focus on three key areas, which, if addressed, will greatly improve not just the UI system, but its ability to return workers to jobs more quickly, to better serve employers and their needs, and to weather the inevitable recessions our economy will experience from time to time. Moreover, these are areas around which there already is or can be significant agreement, and I hope this hearing can be the first of many working sessions where we put our collective heads together to improve this vital social insurance program.

My testimony will first discuss the best way for states to "forward-finance" their UI trust funds so that they are ready to handle the next recession without having to borrow money from the federal government to pay for their state UI benefits or raise taxes on employers to repay those loans. The second issue I will discuss is the need for adequately funded and more balanced approaches to program integrity. Finally, I will end with recommendations about the need for more high-quality reemployment services in order to better and more quickly return unemployed workers to jobs.

1. Responsible Financing of State UI Trust Funds

State UI programs are funded by state and federal (FUTA) taxes on businesses, and three states supplement these contributions with small taxes on worker earnings.[8] In general, the amount businesses contribute in state taxes depends on the portion of each employee's annual earnings subject to UI taxes—known as the taxable wage base—and a business's history of lay-offs. The federal tax employers pay, FUTA, is a flat amount—$42 per year per full-time worker—and that money mostly goes to the states to finance the administration of their UI programs, as well as to fund federal benefits for the long-term unemployed and loans to states when they deplete their trust fund reserves.

The intent of UI's design is to accumulate trust fund reserves during economic good times in order to pay benefits during recessions, otherwise known as "forward-funding." In this way, states can likely pay recession-level claims without raising UI payroll taxes on employers or paying interest on loans. Over the past three decades, however, many states have been indifferent (at best) to trust fund solvency. A majority of states have managed their UI programs to keep payroll taxes low, rather than to build reserves. In fact, some states have even designed their programs to automatically cut taxes, using what we call a "pay as you go" approach. A majority of states have had tax cuts and some even conducted UI tax holidays.[9]

The political pressure to cut taxes is obvious, of course, but as a result of these choices, average UI taxes have fallen lower as a percent of total wages in each succeeding decade as documented in NELP's 2012 report, "Lessons Left Unlearned: Unemployment Insurance Financing After the Great Recession."[10] And as a result, the average state UI contribution rate covering the ten-year period from 2000 to 2009 dropped to just 0.65 percent of total wages, the lowest in the UI program's history.[11]

States have also been reluctant to raise their taxable wage bases, in large part because federal law only requires they impose UI taxes on the first $7,000 of a worker's annual earnings. This base has not risen since 1983. By comparison, the Social Security wage base is almost 17 times the UI wage base ($118,500 as of 2016). As total wages and benefits paid have risen, this key funding mechanism has stayed flat.[12]

Though some smaller states have taken responsible steps in this area, today 30 states (including Puerto Rico) impose UI taxes on less than $15,000 of a worker's annual earnings.[13] Of the 13 largest states in terms of UI-covered employment, only North Carolina has a tax base greater than $15,000, whereas California and Florida impose taxes on the federally required minimum of $7,000. At $44,000, Washington State has the highest base of all states. Not surprisingly, although it is the 15th largest state in terms of UI-covered employment, it was the largest state not to borrow during the Great Recession.

As a result of these choices, heading into the Great Recession, state UI trust funds were unprepared even for a modest downturn, let alone a crisis of the magnitude the U.S. economy experienced between 2008 and 2010. In total, 36 states depleted their trust fund reserves and were forced to take out loans from the federal government to continue paying state benefits. Between 2008 and 2015, state UI programs borrowed more than $141 billion in total, with outstanding advances peaking at $51 billion in 2011.[14]

Then, all the states that had to borrow had to repay with interest and federal UI tax penalties—penalties that were borne by all of a state's employers, including those with low layoff histories. These mandatory repayments began long before businesses had recovered from the recession. Thus, instead of states paying modestly higher taxes during the good times, when they could well afford it, they were hit with mandatory tax increases, which escalated each year until repayment was completed, just as they were coming out of the recession, the worst possible time for a tax increase.

Today, though virtually all states have paid back their loans—and despite the fact that, in the aggregate, states currently have approximately $46 billion in reserves, including loans, in their UI trust funds[15]—the programs as a group remain unprepared for the next recession.

A key measure of state UI trust fund preparedness is called the average high cost multiple (AHCM). An AHCM of 1.0 means that a state has enough UI reserves to pay benefits to workers for a year of a recession that is roughly similar in magnitude to earlier recessions. An AHCM of 0.5 converts to six months. As of the end of CY 2015, just 18 states met this standard. Notably, **none** of the 13 largest states in terms of UI-covered employment—like California, Illinois, Florida and New York—are included in this measure of preparedness. Indeed, the amount that states have in reserves right now is an amount that barely covers one year's worth of state benefits in a typical **non-recession** year.[16] In addition, there are a number of states who only recently moved their trust fund balances into positive territory, as well as three remaining jurisdictions (California, Ohio, and the Virgin Islands) with outstanding federal trust fund loans. And of the eight states that issued municipal bonds in the private market after the Great Recession, six (Colorado, Illinois, Michigan, Nevada, Pennsylvania, and Texas) had remaining private-market bond obligations totaling $8.3 billion as of January, meaning that the financial obligation still exists, but the source and timing of repayment have shifted.

The Division of Fiscal and Actuarial Services of the Office of Unemployment Insurance publishes an annual "minimum adequate financing rate" for each state.[17] This figure calculates the level of taxation required for a state to reach an AHCM of 1.0 within five years. The Division's most recent report found that 46 of the 53 UI jurisdictions had tax rates that fell below its calculated minimum adequate financing rate in 2015.

States should also index their taxable wage bases so they go up gradually, each year, keeping track with either inflation or wage growth. During the recession, of the 17 states with indexed taxable wage bases, only 7 required federal loans, compared to 29 of the 36 states without this feature.[18] By 2015, the number of states with indexed bases increased to 20.[19] Of the 30 states with tax bases below $15,000, just one state, Colorado, indexes.

Below is a table of the states which currently have indexed taxable wage bases along with their AHCM as of January 2016, the majority of which are safely above 1.0.

Table 1: 20 States with Indexed Taxable Wage Bases, Taxable Wage Base Amounts, and AHCMs, 2016

State	Taxable Wage Base	AHCM
Alaska	$39,700	1.50
Colorado	$12,200	0
Hawaii	$42,200	1.20
Idaho	$37,200	1.27
Iowa	$28,300	1.25
Minnesota	$32,000	1.05
Montana	$30,500	1.48
Nevada	$28,200	0
New Jersey	$32,600	0.33
New Mexico	$24,100	0.69
North Carolina	$22,300	0.62
North Dakota	$37,200	0.75
Oklahoma	$17,500	1.99
Oregon	$36,900	1.78
Rhode Island	$22,000	0.25
Utah	$32,200	1.77
Vermont*	$16,800	1.28
Virgin Islands	$23,000	0
Washington	$44,000	1.31
Wyoming	$25,500	2.35
Average of Indexed States	$29,220.00	--

Sources: U.S. Department of Labor, UI Quarterly Data Summary, as of 1st Quarter 2016, available at http://ows.doleta.gov/unemploy/content/data_stats/datasum16/DataSum_2016_1.pdf (last accessed September 2016) for AHCM information. U.S. Department of Labor, "Significant Provisions of State Unemployment Insurance Laws," available at http://www.unemploymentinsurance.doleta.gov/unemploy/content/sigpros/2010-2019/January2016.pdf (last accessed September 2016).

In the aftermath of all this borrowing, the predominant policy response by states to their excessive UI debt has been to permanently reduce UI benefit amounts or restrict eligibility to jobless workers in some way, instead of correcting their long-standing financing issues. For example, before the Great Recession, all state unemployment insurance programs offered a maximum of at least 26 weeks of benefits to eligible claimants. Today nine states pay fewer than this amount, including four which offer a maximum of just 20 weeks, and five which tie the maximum to the state's unemployment rate. In three of these states, the maximum drops to 16 or fewer weeks. Most recently, Idaho's UI program transitioned to a sliding scale, ranging from 20 to 26 weeks. Other benefit restrictions include seasonal worker exclusions and complex documentation requirements that further inhibit access, especially among less advantaged claimants.[20]

The result is that UI receipt among unemployed workers has dropped to record lows—in 2014 and 2015, just 27 percent of jobless workers in the United States received unemployed insurance benefits; as of the 12 months ending June 30th, that rate had increased by just one percentage point to 28 percent. Today, thirteen states pay benefits to fewer than 1 in 5 unemployed workers (See Table 2).

So we are in a situation where states are not, by and large, adequately preparing their trust funds for the next recession AND too many have crippled their UI programs' ability to adequately support the unemployed and their state economies during the next recession. It's a lose-lose proposition.

The financing and benefits choices that states make, and the consequences of those decisions, are demonstrated in stark contrast by Utah and Florida, both of which are represented in this hearing today. Utah, for example, has long paid reasonable UI benefits along with maintaining a strong record of retaining adequate trust fund balances. In 2015, for example, Utah had a high cost multiple of 1.77, ranking fifth of the 53 UI jurisdictions on this solvency measure,[21] while paying an average weekly benefit of $369. Utah also offers up to 26 weeks of UI benefits to jobless workers and has a 2016 maximum weekly benefit of $509. Utah also has a taxable wage base of $32,200. (See Table 1, above.)

Florida, on the other hand, has a taxable wage base of $7,000, the federal floor, a maximum weekly benefit of $275—$55 a week below the U.S. average benefit of approximately $330—offers only 12 weeks of benefits, and has the lowest recipiency rate in the country, coming in at a mere 10%. In spite of this, Florida has a high cost multiple of only 0.88, nearly half of what Utah has.[22]

While states currently have the authority in our system to make their own choices about taxation and benefit levels, running a restrictive, but solvent, program, or keeping UI taxes low, while ignoring the reality that recessions will happen, are choices that undercut the overall UI goals of supporting jobless workers and their families with adequate wage replacement and boosting our economy during recessions.

Because UI trust funds are held by the federal government, and are guaranteed by the federal government as well, NELP believes it is important for Congress to set forth better policies to ensure that these trust funds are ready for future recessions. As discussed in more detail in the "Strengthening Unemployment Protections in America" paper, we recommend that Congress gradually raise the UI taxable wage base over the next six years to $59,000, which equals half of the Social Security taxable wage base. Thereafter, the wage base should be tied to the Social Security tax base so that it will increase automatically in future years. As the wage base is raised, the FUTA tax rate should be lowered to a degree that ensures sufficient revenue to support an expanded public Employment Service (see below) and prepare to finance the federal agenda for automatic economic stabilization needed during the next recession.[23]

And when considering UI taxes, it's important to keep them in perspective, for they are not at all significant in terms of overall labor costs or tax burdens on employers—and I say that as someone who was an employer for seven years, running a small business. In 2015, for example, state UI taxes averaged 0.72 percent of total wages. The highest state in terms of UI taxes was Vermont, where UI contributions were 1.51 percent of total wages. South Dakota was the lowest, where UI payroll taxes were 0.30 percent of total wages.[24]

When compared to other costs of labor, UI taxes are insignificant, especially when you consider the returns employers can reap when they stabilize our economy during recessionary periods. The U.S. Department of Labor conducts an annual "Employer Costs for Employee Compensation" survey of employers in all sectors of the civilian economy. In March 2016, this year's report showed that average employer labor costs for all civilian workers was $33.94 an hour. Of this total, 3 cents were paid for the FUTA tax and 18 cents were paid for state UI payroll taxes, for a total of 21 cents an hour. As a combined percentage of total hourly costs, UI taxes amount to 0.6 percent of overall hourly employee compensation costs.

2. Program Integrity Efforts Must be Balanced and Adequately Funded

Not only must state trust funds be properly funded, they must also be zealously protected so that the resources go to those who need and deserve them. Program integrity is of the utmost importance in ensuring the well-being of the trust funds, and NELP strongly supports all legitimate efforts in furtherance of program integrity.

Unfortunately, our discussions around program integrity tend to focus almost exclusively on claimant fraud, and that paints a very inaccurate picture of how UI overpayments happen on the whole. Make no mistake—no one should be working and collecting UI if they are not authorized to do so. Unless a worker is on temporary layoff, no one should be collecting UI if they aren't diligently looking for suitable work, or if they turn down suitable work. But the majority of overpayments are not due to claimant fraud, and we need to look to all the stakeholders in the UI system and their responsibilities when assessing program integrity. In point of fact, in the vast majority of overpayment cases, the culpable party is not the worker; or they are "non-fraud," meaning that the worker was not intentionally trying to defraud the system. While fraud should of course be curbed to the best extent possible, its prevalence should be kept in context.

For the one-year period ending June 2015, 10.3% of UI payments were overpaid (this represents a decrease from the 12.4% overpayment rate for a comparable period ending 2014).[25] Just 2.9% of total payments represented fraud (down from 3.2% in 2014).[26] ***Fewer than one out of three (28.2%) overpayments were found to be fraudulent.*** Equally notable, 2.7% of total payments were found to be overpaid due to agency error (which is up from 1.6% in 2014). I point this out not to cast aspersions on the agencies administering UI programs, but rather to note the fact that nearly as many overpayments are because of agency error as from claimant fraud.

So why this magnitude of agency error? Of course some is inevitable as no one is immune from making mistakes. But the fact is that UI agencies are seriously under-resourced, and that lack of adequate funding for their work is a significant driver of agency error.

The UI Integrity Center of Excellence, which is a national collaboration of the U.S. Department of Labor, state workforce agencies, the National Association of State Workforce Agencies (NASWA), and the New York State Department of Labor, issued a UI Integrity Report in October of 2015.[27] For this report, the Center surveyed all state UI agencies and asked about their top UI integrity concerns. Number one was identity theft (i.e., people applying for UI with someone else's identity); but number two was funding and resources.[28] And though UI administration is, in theory, supposed to be fully funded by the modest federal UI tax paid on each worker (a maximum of $42 per worker per year), the fact is that states have to supplement this funding in order to allow the UI agencies to function.[29] As NASWA has previously noted:

> States argue that even in good economic times they do not receive enough administrative funds to administer their programs as they would like. Since 1995, the federal government has not adjusted grants to the states for administration of their UI programs for inflation (except for the one percent increase in fiscal year 2010). When adjusted for inflation and normalized at a base two million average weekly insured unemployment level, base funding for State UI Administration is at its lowest since 1986.[30]

We cannot ignore employer error either. Employers are as much a stakeholder in the system as workers, and, as such, need to uphold their obligations, including timely and accurate reporting of earnings and responses to claims and requests for information. In 2015, employer actions (or lack thereof) contributed to 16.2% of overpayments, 19.9% of fraudulent overpayments, and roughly 20% of the overpayments also included in the agency error rates.[31]

There's another critically important issue that Congress cannot ignore, which is the failure of employers to pay their fair share of UI taxes. In 2015 alone, the federal Department of Labor reports that employers failed to pay $525 million that they owed in UI contributions. In total, the states are owed over $40.7 billion that employers have failed to pay in UI taxes, which is often the result of employer misclassification of workers as independent contractors and other forms of employer fraud and misrepresentation.[32]

Finally, program integrity cannot be only about recovering and limiting overpayments, but also must ensure that all benefits to which claimants are entitled are promptly and properly paid. Indeed, an earlier NELP analysis demonstrates workers may be more likely to be **underpaid** benefits to which they are entitled rather than to be overpaid as a result of fraud. In 2010, a peak recession year, workers were underpaid an estimated $2.2 billion in benefits. In contrast, overpayments resulting from fraud were less than half that amount ($912 million), and overpayments from agency error were close to $502 million.[33]

The inescapable conclusion is that UI agencies clearly need more funding to better tackle all aspects of program integrity in a balanced and sufficient manner. Increasing and indexing the taxable wage base will not just provide better investments in the state trust funds, but also in the FUTA contributions that fund the administration of state UI programs.

I end this section with a cautionary tale about program integrity measures and how they must be designed and implemented properly in order to increase public confidence and support for UI programs. Out of Michigan, we have a very recent example of a badly misguided effort at program integrity that not only harmed innocent claimants, but also damaged trust in government. Michigan's new system, ironically named MiDAS, was fully implemented on October 1, 2013 when a new benefit control software package took effect.[34] Federal data discloses that under this new system, Michigan's findings of fraud increased in the next few quarters by roughly five times the state's historic fraud determination rate. Under MiDAS, one-third of overpayment determinations included a fraud allegation, as compared with ten percent over the history of the Michigan UI program.

In an April 2016 report, Michigan's Auditor General found that MiDAS had made fraud determinations regarding 47,350 claims between the start of the program and March 31, 2015. The Auditor General found that notices under MiDAS did not include "the reasons for, or the facts that led to" the determination of fraud, as required by federal guidelines and state law. The state agency advised the Auditor General that the U.S. Postal Service had returned approximately 450,000 mailed items in 2014 alone, and the audit report made a finding that the state agency "did not effectively and efficiently process claimant and employer mail that was returned undeliverable and without a forwarding address."[35]

From advocates who have interviewed or represented some of the thousands accused of fraud, we do know that the basic approach in MiDAS was making wholesale accusations of claimant fraud solely using computer software and leaving it to claimants to appeal and defend these accusations. Many did not appeal because MiDAS had gone back up to six years to look for potential instances of fraud, and they had moved or no longer kept in touch with their electronic mailboxes set up in conjunction with those old UI claims. MiDAS notices included multiple determinations and were difficult to understand even for lawyers. High penalties of up to four times the overpayments were automatically assessed by MiDAS.

By the summer of 2014, some public attention was focusing on the program that accused tens of thousands of fraud and intercepted tax refunds or garnished wages from individuals who had no prior notice of fraud allegations. In February 2015, Michigan's Auditor General issued a report that found that many allegations of fraud were overturned or abandoned upon appeal to an impartial administrative law judge and state legislative oversight stepped up.[36] In addition, the U.S. Department of Labor issued program guidance in October 2015 that required improved notices and barred using software to make fraud accusations without any human staff involvement in fraud determinations.

The full story of MiDAS is still not known. There are at least two pending lawsuits, one federal and one in state court. And a U.S. Department of Labor investigation took place in the summer of 2014, but the Department has kept its findings and the state's resulting corrective actions out of the public eye. State legislative hearings have also led to some modifications of MiDAS. But corrective efforts to date have not cleaned up the mess MiDAS created. At this point, there are tens of thousands of Michigan claimants who did not timely appeal fraud determinations (some of which they never received) and who the Michigan agency is pursuing from overpayments, penalties, and interest.

In short, MiDAS is not a valid program integrity effort, but a program that treats Michigan's claimants as an opportunity to make money. As a result of their experiences under MiDAS, or reports of its excesses, some Michigan claimants have chosen to not file UI claims, and trust in the state agency is justifiably eroded—the exact opposite of program integrity. MiDAS serves as a cautionary tale that program integrity does not justify abandoning impartial administration of state UI programs or basic fairness when implementing overpayment and fraud detection software.

3. It is Time to Invest in Robust and Effective Reemployment Services

Though much of the focus on UI is on income replacement, equally important, UI can and does connect claimants to job-search assistance through local career centers, also known as American Job Centers (AJCs). Indeed, a core objective of the UI program is to provide jobless workers with the necessary tools and time to search for a job that is similar in wages and working conditions to their prior employment.[37] There are two programs at the AJCs, the Employment Service (ES) and the Workforce Investment and Opportunity Act (WIOA). This testimony will focus more on the ES, through which the workforce development professionals at the AJCs provide a range of services, from connecting qualified workers with local employers who have job openings; conducting screenings to assess skills and training needs; providing work search assistance, from help preparing resumes to honing interviewing skills; and links to training and educational opportunities where appropriate and/or necessary, often funded through WIOA.

There is ample evidence that these reemployment services provided by the ES are of great value to both workers and employers alike. Trained professionals can help workers develop reemployment strategies that are likely to be successful, such as looking to develop skills and find work in growth sectors. They can also help them market their current skills in ways that appeal to employers. Equally important, a vibrant ES can also work with employers to ensure that they have realistic expectations in the job market and design job announcements that will attract ample qualified workers. Further, the ES can help employers identify workers who are registered for services who may have the necessary qualifications or attributes to succeed in open jobs.

Unfortunately, as important as these services are, they've been allowed to founder for the past three decades; and as ES funding has remained flat for 30 years, local offices have been forced to close across the country. Though the U.S. workforce grew by 36% between 1985 and 2015, funding for the ES shrunk by 61%.[38] This is in spite of the fact that there is ample well-regarded evidence that effective reemployment services can reduce spells of unemployment, facilitate better job matching between workers and employers, lower the cost of hiring for employers, and save money for UI trust funds. For example, a recent DOL study of Nevada's reemployment program demonstrated that it reduced the duration of unemployment for participants by 3.5 weeks as compared with non-participants, thereby reducing the average UI payment to participants by $877. [39]

Moreover, though there are Congressionally sanctioned tools such as the Worker Profiling and Reemployment Services program, and the Reemployment and Eligibility Assessments, states have scant resources to implement these programs, and, therefore, they aren't widely used or offered. If used, these tools help identify those who are likely to exhaust their UI benefits without finding a job (in 2015, 37.6% of all UI claimants exhausted without finding a job), thereby allowing counselors to provide them with more intensive services to either get them the training they need to have marketable skills, or to better tailor their job search to focus on open positions that match the skills they do have.

In our joint report, "Strengthening Unemployment Protections in America," we have recommended that Congress should appropriate approximately $1.54 billion in additional annual funding, relative to 2016 appropriations levels, for Reemployment Services and Eligibility Assessments through the UI system, and for more services through the ES. We've also suggested that Congress make a one-time appropriation of $50 million for states to update their UI technology, which will help with both reemployment services and program integrity. We encourage those who are interested to read the report and its recommendations in full.

Alternatively, Congress could consider funding two years of enhanced reemployment services through the Federal Unemployment Account (FUA), the same account that provided the trust fund loans during the recession and recovery, and require that states essentially put the funds they save in UI payments into a type of escrow account that can then be re-invested into quality reemployment services once this initial two-year funding ends. If states are required to keep segregating the portion of UI trust funds that they save by virtue of reemployment services, it could provide a steady and reliable stream of money to continue enhanced services.

Conclusion

The UI system has long been one of the centerpieces of the social insurance program in this country and it has tremendous capacity to help buffer workers and families as they deal with transitions between jobs, and to support our national economy in times of recession. Now is the time for us to be thinking through ways to strengthen this important program and to be sure that we're ready when the next recession hits.

NELP thanks you for the opportunity to share these reflections and recommendations, and we stand ready to be a partner in working to strengthen our UI system and use it to more quickly return workers to suitable work.

Table 2: Percentage of Unemployed Workers Receiving UI, 12 months ending June 30, 2016

State	Recipiency Rate
Alaska	47%
Alabama	16%
Arkansas	32%
Arizona	15%
California	35%
Colorado	31%
Connecticut	39%
District of Columbia	33%
Delaware	31%
Florida	10%
Georgia	13%
Hawaii	33%
Iowa	39%
Idaho	25%
Illinois	30%
Indiana	18%
Kansas	26%
Kentucky	22%
Louisiana	14%
Massachusetts	45%
Maryland	24%
Maine	30%
Michigan	28%
Minnesota	43%
Missouri	21%
Mississippi	15%
Montana	38%
North Carolina	11%
North Dakota	74%
Nebraska	21%
New Hampshire	20%
New Jersey	49%
New Mexico	22%
Nevada	26%
New York	36%
Ohio	23%
Oklahoma	29%

Oregon	30%
Pennsylvania	44%
Rhode Island	32%
South Carolina	13%
South Dakota	15%
Tennessee	15%
Texas	30%
Utah	21%
Virginia	18%
Vermont	43%
Washington	26%
Wisconsin	32%
West Virginia	36%
Wyoming	42%
United States	28%

Source: NELP calculations of ETA 5159 "Claims and Payment Activities" data and Bureau of Labor Statistics data.

Endnotes

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[11] Id. at 3.
[12] "Strengthening Unemployment Report," at p. 73.
[13] State Unemployment Insurance Taxable Wage Bases, 2013 – 2016, http://www.americanpayroll.org/members/stateui/state-ui-2/?print=1AMS.
[14] See endnote 5.
[15] NELP calculations of ETA 2112 "UI Financial Transaction Summary," data, U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, available at http://ows.doleta.gov/unemploy/DataDownloads.asp (last accessed September 2016).
[16] For example, between 2011 and 2015, state UI benefits paid ranged from approximately $32 billion to $49 billion, according to NELP calculations.
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[18] This count includes the U.S. Virgin Islands.
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[31] See endnote 28 at pp. 22-23.
[32] http://www.ows.doleta.gov/unemploy/pdf/UI_taxinfo/2015/PercentUnpaid-Contributory.pdf.
[33] See endnote 28 at page 10.
[34] See, e.g., http://www.freep.com/story/opinion/editorials/2016/04/27/michigan-unemployment-fraud/83545186/; https://www.theguardian.com/us-news/2016/feb/12/michigan-unemployment-

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[36] See, e.g., http://www.audgen.michigan.gov/finalpdfs/15_16/r641059315.pdf.

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[39] Id. at page 14.

Chairman BUCHANAN. Ms. Beebe, please proceed with your testimony.

STATEMENT OF MICHELLE BEEBE, DIRECTOR, UNEMPLOYMENT INSURANCE, UTAH DEPARTMENT OF WORKFORCE SERVICES

Ms. BEEBE. Chairman Buchanan, Ranking Member Doggett, and Members of the Subcommittee, good morning and thank you for the opportunity to be here. My name is Michelle Beebe and I serve as the unemployment insurance director for the Utah Department of Workforce Services.

To provide some background on Utah, the average individual in Utah qualifies for 22 weeks of benefits at $375 per week and stops filing after 12.3 weeks. Our duration and exhaustion rates are among the 10 lowest in the country, even with our relatively high wage replacement rate. Our State unemployment trust fund was one of only 15 to retain solvency during the most recent recession, and we are currently ranked as the fifth healthiest in the Nation.

The recently enacted Workforce Innovation and Opportunity Act has three primary points of impact on UI: Reemployment services, providing meaningful assistance when filing a claim for benefits, and using employer wage records to evaluate performance.

Utah uses a triage approach in facilitating reemployment that leverages technology. Individuals filing a new claim are required to complete our online work registration and assessment. This includes participating in our State labor exchange, identifying their level of need, and utilizing online workshops. Individuals completing this process show a 26 percent increase in higher rates compared to individuals who fail to complete the process.

A certain portion of individuals will find work regardless of our intervention. The key is to identify who would best be served by an investment in mediated services. This is addressed with a worker profiling model, which evaluates education and previous work history to identify the probability of exhausting benefits.

Utah began participating in the original REA program in 2010, and we migrated to the new RESEA program in 2015. This extended the program statewide, and it focused Utah's mediated outreach on efforts that were for individuals that were recently separated from military service and those identified in the probability model.

Over a period of 5 years, individuals participating in the REA program have drawn $10.9 million less in State unemployment benefits controlled through the control group. When we account for administrative costs, Utah generated an estimated $5.8 million net positive return to the State trust fund as a result of the REA program.

To provide assistance for those filing new claims, instead of in-person support at 31 one-stop centers across our State, we centralized our claims center, and we now operate with only 25 staff. This phone and online customer service delivery model includes an online chat feature and a help desk where staff in the one-stop centers can reach a claims taker in less than a minute. By leveraging technology, the hours of coverage and the convenience of access is increased significantly. This is one example of a State using its resources effectively to accomplish the program mission.

Congress designed the UI program as a Federal-State partnership. This ensures that the voice of local employers, who fundamentally support the payments of unemployment benefits through our State trust fund, is heard. Administration of the program is based on workload projections and historical operational costs for funding; however, the amount requested by States is consistently decreased in the final base allocation and has not been adjusted to include inflationary increases. This underfunding has shifted the purpose of the model to essentially having States compete with each other for ever-diminishing pieces of the same pie. States are left with limited means to pursue innovation.

The demonstration projects that were created with the Middle Class Tax Relief and Job Creation Act is one example of proposed alternative funding that showed an imbalance in that partnership. This allowed for 10 States to pursue projects to improve the effectiveness of reemploying individuals using State trust fund dollars. Unfortunately, the overly prescriptive nature of the legislation and the subsequent interpretation by the Department of Labor made pursuit of such an opportunity unrealistic and in the end no States applied.

Administrative funding is limited and States need flexibility in order to achieve sustainability and to pursue invasion. States should be held accountable by their employer base—and by extension of Federal Government—to spend responsibly and with demonstrable impact. We exist to protect workers during periods of involuntary unemployment and to protect employers by preserving the skills of the local workforce. This can be facilitated with flexibility in the use of funding and by realigning the balance of the Federal-State partnership to recognize the value of State innovation.

Thank you to the committee for engaging in this discussion today.

Chairman BUCHANAN. Thank you, Ms. Beebe.

[The prepared statement of Ms. Beebe follows:]

State of Utah

GARY R. HERBERT
Governor

SPENCER J. COX
Lieutenant Governor

Department of Workforce Services

JON S. PIERPONT
Executive Director

CASEY R. CAMERON
Deputy Director

GREG PARAS
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State Innovation: Re-employment Focus in the Unemployment Insurance Program

Submitted by Michelle Beebe
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To the House Committee on Ways and Means
Subcommittee on Human Resources
U.S. House of Representatives

On September 7, 2016
Hearing on Challenges and Strengths of Today's Unemployment Insurance Program

State of Utah

GARY R. HERBERT
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United States House Committee on Ways and Means
Subcommittee on Human Resources

Written Testimony:
State Innovation: Re-employment Focus in the Unemployment Insurance Program

Chairman Buchanan, Ranking Member Doggett, Members of the Subcommittee:

Thank you for the opportunity to discuss the challenges and strengths of today's Unemployment Insurance (UI) system, specifically as it relates to the State of Utah.

INTRODUCTION

My name is Michelle Beebe and I serve as the UI Division Director for the Utah Department of Workforce Services. The 220 individuals in my division are committed to serving the more than 77,000 employers and 1.3 million workers in the State of Utah. We provide temporary assistance to eligible individuals who are unemployed while they actively seek re-employment. We connect such individuals with job referrals and resources in these re-employment efforts. Employers invest in this program because it retains a skilled local workforce and keeps purchasing power in our economy.

The average individual in Utah qualifies for about 22 weeks of unemployment benefits at $375 per week and stops filing after 12.3 weeks, generally because they have returned to work. Our average duration and exhaustion rates are among the 10 lowest states in the country, even with our relatively high wage replacement rate. Our state Unemployment Trust Fund, with a balance of $936 million, was one of only 15 states to retain solvency during the most recent recession and is currently ranked as the 5th healthiest in the nation by the U.S. Department of Labor (USDOL).

The conversations surrounding administration of the UI program during its more than 80 years of existence have certain fundamental themes: facilitating a swift return to re-employment, minimizing tax burden on employers, providing sufficient level of benefits to fulfill the program mission, increasing program integrity, achieving a sustainable funding model and efficiently handling workload volume.

The emphasis in these conversations shifts depending on the status of the economy. During times of escalated workload, as we experienced from 2009 to 2011, we have an all-hands-on-deck approach to simply processing claims and getting money back into the economy. As workload decreases, the conversation of accessibility rises to saliency and brings with it questions of impact on program integrity. If we make benefits easier to pay, we may lose opportunities to prevent improper payments. There are interdependencies in these themes.

The recently enacted Workforce Innovation and Opportunity Act of 2014 (WIOA) highlights existing program strengths and identifies areas for enhancement. There are constraints with diminishing program funding and an imbalance in the federal-state partnership that impact the ongoing mission of the UI

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program to provide economic security for individuals facing involuntary unemployment and preserving a skilled workforce for employers.

ROLE OF THE UI PROGRAM IN WIOA IMPLEMENTATION

The foundational purpose of WIOA is to increase access to and opportunities for the employment, education, training and support services that individuals need to succeed in today's labor market.[1]

Workforce Services currently administers four of the six core partners identified in the WIOA legislation. These include youth workforce investment activities, adult and dislocated worker employment and training activities, and employment services under the Wagner-Peyser Act. In October 2016, our agency will absorb a fifth partner with the Vocational Rehabilitation program. Additionally, our agency administers the Temporary Assistance for Needy Families (TANF) program, Supplemental Nutrition Assistance Program (SNAP), housing and community development grants, childcare and refugee services.

UI is explicitly identified as one of the required partners tasked with providing access through the one-stop delivery system.[2] In Utah, the UI program is at the table and actively engaged in these conversations.

- Utah has a solid re-employment strategy in place with demonstrable results, starting with the offering of online service options to all individuals and moving to targeted staff-assisted options for those that need the extra help in getting back to work.
- Utah leverages technology to provide meaningful assistance to individuals, recognizing that a centralized service delivery model for the standardized claims filing process allows staffing resources to be directed to those services that benefit from a more localized approach.
- Utah sees value in having more robust labor market information to measure performance. Identifying the right level of detail requires consideration of the burden it places on employers and the burden it places on state agencies to accommodate the additional requirements.

Re-employment Services
Each state establishes a service delivery model that is tailored to their geographical and economic profile. Utah successfully facilitates re-employment with a "triaged approach" by offering a self-service option to all individuals and strategically allocating limited staffing resources for mediated services. Individuals filing a claim in Utah who are not job attached or enrolled in approved training are currently required to

[1] WIOA Sec. 2 under 29 USC 3101
[2] WIOA Sec. 121 under 29 USC 3151(b)(1)

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make at least four new job contacts each week and report the details of each contact weekly before payment is released.

Self-Service Option – Worker Profiling Model and Application
All individuals who file a claim for unemployment, regardless of their eligibility, will receive a Resource List with information for conducting a work search and finding childcare, health insurance, mortgage assistance and other supportive services.

Individuals who are not job attached are required to complete an Online Work Registration and Assessment within 10 business days of filing a claim. This includes creating a profile with our state labor exchange and answering 24 straightforward questions that are designed to identify their need for basic re-employment services. Based on the answers, the individual may be referred to a selection of up to five online workshops. Failure to complete the registration, assessment, or subsequent workshop referrals without showing good cause will result in a denial of benefits. This approach has proven to be a cost effective service delivery option.

- Individuals completing the registration process have a higher likelihood of re-employment, as demonstrated by a 26 percent increase in hire rate compared to individuals who failed to complete the process.
- Individuals appear to find value in the workshops, as demonstrated by voluntarily completing 27.8 percent more online workshops than is required.
- Approximately 12.8 percent of claimants failed to complete their online workshops and are now ineligible for benefits.

At the end of the registration process, an individual is automatically provided with individualized labor market information detailing local job openings and the average wage expectations in different geographic areas for related occupations.

A certain portion of individuals will find work regardless of additional services that may be offered. The key is to identify who amongst those filing for unemployment benefits would best be served by an investment in mediated engagement.

Utah's current Worker Profiling Model, required by federal law,[3] was developed in 2008 and analyzes the status of an individual at the time of initial filing, including an evaluation of their level of education,

[3] Sec. 303(a) of the Social Security Act at 42 USC 503(j)

tenure in previous employment, wage replacement rate, high quarter earnings and industry. We are in the process of creating a new model that will analyze the data and automatically learn from its experience to become more robust.

Staff-Assisted Services
Individuals who continue to file for unemployment benefits may be selected to participate in Utah's Re-employment Support Services (RSS) program. This program allows employment services staff to select individuals to attend an in-person re-employment activity based on their geographic location, occupational skills and other parameters. Such in-person group activities include workshops discussing professionalism, job search skills and hiring fairs. Failure to participate in the RSS referral without showing good cause will result in a denial of benefits.

- Individuals participating in the RSS program have a higher likelihood of re-employment, as demonstrated by a 17.9 percent increase in hire rate compared to individuals who failed to participate.

Nothing prevents an individual from participating in these workshops, both online and in-person, on their own. Such services are advertised on the Resource List, via our website jobs.utah.gov, and through the local one-stop centers.

Mediated and Individualized Approach where it counts – RESEA Program
Utah began participating in the original Re-employment and Eligibility Assessment (REA) program in September 2010, and migrated to the Re-employment Services and Eligibility Assessment (RESEA) model in July 2015. This expanded the program statewide, eliminated the requirement to select a control group, and focused Utah's mediated outreach efforts on individuals recently separated from military service and individuals identified through the initial profiling model as most likely to exhaust their benefits.

The RESEA program requires that selected individuals complete an eligibility review of their recent work search activities. The individual then meets with a re-employment counselor in-person to review these activities, connect with available government and community resources, and develop a plan for re-employment. This generally occurs within the first two months of filing a claim for benefits and after the individual has already completed the Online Work Registration and Assessment and Online Workshops. Utah also conducts a follow-up appointment over the phone for individuals that are still collecting benefits after three months.

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During the five years that Utah participated in the original REA program, the following outcomes were observed:

- Individuals participating in the REA program have drawn an estimated $10.9 million less in state unemployment benefits compared to the control group.
- Individuals participating in the REA program experienced a 10.2 percent lower exhaustion rate and 3.4 percent lower average duration than the control group.
- Accounting for $5.1 million in administrative costs, Utah generated an estimated $5.8 million net positive return to the state Unemployment Trust Fund.
- While not quantified, additional savings accrued due to decreased dependence on other federal/state support programs.

Meaningful Assistance

The second point of WIOA impact on the UI program is the requirement that one-stop centers provide information and assistance on filing unemployment claims.[4] As many government services shift towards an online self-service delivery system, WIOA raises an interesting question about the need to locate UI-specific staff within local one-stop centers. The UI workload is inherently seasonal. In addition to following the business cycle of up and down turns in the economy, Utah's program experiences a winter influx of claims, as well as a weekly uptick on Mondays as more individuals contact the department towards the beginning of the week to receive their weekly payments.

Since Utah centralized UI operations in 1997, we have benefited from economies of scale and significant technology improvements. Instead of providing a claims taker in each of the 31 one-stop centers across Utah and adding additional staff to heavy traffic areas, and accommodating for leave coverage and lunch breaks in the more rural areas, centralization allows us to operate with a claims staff of approximately 25.

Utah supplements its phone and online customer service delivery model with the availability of an online Live Chat feature and an internal UI Help Desk, where staff in the one-stop centers can reach a claims taker in less than a minute for those escalated situations. For the 12-month period ending June 2016, more than one in five customer interactions was conducted via online chat, more than a quarter of all claims filed were processed online outside of traditional business hours and more than 99 percent of weekly claims were filed online. By providing many of our services online, the hours of coverage and convenience of access is increased significantly.

[4] WIOA Sec. 134 under 29 USC 3174(a)(2)(A)(x)

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Information Sharing (UI Wage Records)
The third point of WIOA impact is the reliance on quarterly wage records collected by the UI program to assess WIOA performance accountability of the core partners and approved training providers.[5] The definition of quarterly wage records includes: (1) employee's wages, (2) employee's social security number and (3) identifying information for the employer.[6] As collaboration is strengthened across public and private entities, WIOA requires an examination of the benefit in including additional details in UI wage records to offer a more precise picture of the economy. This includes proposals to add elements such as occupational title, rate of pay and hours worked to each individual wage record.

Utah's more than 77,000 active employers contact Workforce Services every quarter and report 6.3 million employee wage records over the course of a year. Such reports are generally submitted through an online file upload or by mailing in a paper form that must then be keyed into the UI software by a technician. Through increased outreach over the last two years, Utah has achieved a 12.6 percent increase in the amount of employers filing through our website, which provides an easily accessible and historical record of information reported to the department and an automated and accurate calculation of tax liability. Nine out of every 10 employers currently file online.

Utah, in collaboration with the Workforce Information Council, conducted a survey about wage record enhancements in summer 2015, using approximately 22,000 unique email addresses representing employers and payroll service providers. More than 1,600 responses were received. Employers were asked to indicate if their payroll systems currently have Standard Occupational Codes (SOC) available for quarterly reporting. Of those that responded, 80 percent indicated that they either do not have SOC codes available or believe this to be inapplicable to their business operations. Of the respondents that prepare their own payroll, the addition of SOC codes was rated as being "very difficult."

Respondents were asked to rate their level of support for wage record enhancement given the benefits and concerns listed, with 59 percent reporting that they either "strongly oppose" or "somewhat oppose" the initiative. Respondents were asked to describe additional concerns and 286 provided comments. The most common response groups include: unnecessary government burden, unclear value to business, uncertain commercial software capabilities and increased reporting complexity.

Standardizing the definition of wage records and adding in additional reporting elements has the potential of imposing an unfunded mandate on public and private sector employers. This also requires that states update their existing data collection tools to accommodate the increase in volume and new formatting for

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[5] WIOA Sec. 116 under 29 USC 3141(i)(2)
[6] 20 CFR 603.2(k)

additional elements. It is clear that the value of having more robust labor market information has not yet been effectively demonstrated to all employers that would be impacted. Utah supports finding the least-burdensome way to collect additional information from employers in order to provide more robust labor market information that will facilitate re-employment.

INNOVATION IN ACTION: ADDRESSING WORK SEARCH REQUIREMENTS

Utah is currently engaged in two different partnerships for re-employment pilots to test the effectiveness of alternative work search strategies. The first pilot is testing the hypothesis that an individual taking personal responsibility for developing their own Re-employment Plan will be more likely to return to work than an individual being held accountable only to reporting the minimum number of weekly job contacts. This uses the Worker Profiling Model in an attempt to identify the population that falls somewhere between (a) those who will find a job regardless of our intervention and (b) those with a high probability of exhaustion that are participating in the RESEA program. The second pilot is testing the effectiveness of using a network-based online approach to work search in facilitating a quicker return to employment. This pilot is focused on RESEA customers. Results for both pilots are pending.

Positive outcomes from these pilots could drive changes to Utah's work search policy and lead to investment in technology enhancements, provided funding is available.

CHALLENGES FACING THE UI PROGRAM

Funding Constraints
The Resource Justification Model (RJM) is currently used to justify the allocation of UI administrative funding based on a "cost per unit" methodology, using workload projections and operational costs.[7] The total amount for each state is rolled up into the congressional budget request. However, the amount requested by states is consistently decreased in the final base allocation appropriated by Congress. Additionally, costs have not been adjusted to include inflationary increases.

This underfunding has shifted the purpose of the RJM from having states provide justification of resource levels to instead using it to proportionally distribute base funds among the states, essentially having states compete with each other for a larger piece of the same diminishing pie. As economic conditions improve and workloads decline, the funding for one-time SBR grants also declines. This leaves states with limited means to fund continued administration and pursue innovation.

[7] U.S. Department of Labor Employment & Training Administration webpage on Resource Justification Model at http://www.ows.doleta.gov/rjm/

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Recognizing State Roles in Pursuing Innovation

Congress designed the UI program as a federal-state partnership, a structure in which the federal government provides over-arching support in ensuring conformity and compliance within the framework of federal law. States are provided with the latitude to adopt their own laws towards accomplishing the goals of the program, tailored towards their unique economic and geographic landscapes. This ensures that the voice of local employers, who fundamentally support the UI program structure, is heard. This also provides states with the agility to address changes in the dynamics of local labor markets.

One such example of proposed alternative funding with an imbalance in the federal-state partnership is found in the opportunity for demonstration projects through The Middle Class Tax Relief and Job Creation Act of 2012.[8] This allowed for 10 states to apply for demonstration projects that improved the effectiveness of re-employing individuals collecting unemployment benefits. With approval, these states could waive certain provisions of the Federal Unemployment Tax Act (FUTA) and Social Security Act in order to conduct an impact evaluation and evaluate the extent to which re-employment was improved without increasing the net cost to the state's Unemployment Trust Fund.

However, the overly prescriptive nature of this legislation and subsequent interpretation by USDOL[9] made pursuit of such an opportunity unrealistic. The experimental nature of a demonstration project was severely limited with legislation that specified "direct disbursements to employers who hire individuals receiving unemployment compensation, not to exceed the weekly benefit amount for each such individual, to pay part of the cost of wages that exceed the unemployed individual's prior benefit level" and the Secretary of Labor's requested assurances, including what appears to be the guarantee of success. In the end, no states applied.

CONCLUSION

Administrative funding is limited and states need flexibility within the federal-state partnership to continue along the path of sustainability and innovation. States should be held accountable by their employer base, and by extension the federal government, to spend responsibly and with demonstrable impact, though such latitude should not come with overly burdensome compliance requirements that negate the benefit.

There are inherent risks in changing the institutional structure of the UI program. There are also significant gains to be had by making strategic changes that retain the relevancy of the program in

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[8] Sec. 305 of the Social Security Act at 42 USC 505
[9] USDOL ETA Unemployment Insurance Program Letter (UIPL) 15-12, including Changes 1 and 2

protecting workers during periods of involuntary unemployment and protecting employers by preserving the skills of such a workforce. Flexibility in how funding is used and realigning the balance of this federal-state partnership to recognize the value of state innovation can facilitate this process.

Thank you to the Committee for creating an environment where we can have these discussions and move important policy forward that serves the employers and employees of our country.

Chairman BUCHANAN. I want to thank all of our witnesses for great testimony today. And I will begin with the questioning.

Mr. Carpenter, you are a small-business guy. I am. I know I talk to a lot of different business people, and over the years some have told me if they paid $30,000 or $40,000 salary, when they add all the add-ons to it, FICA and all the other costs, UI costs, everything else, it used to be 20 percent, now it is close to 40, 42 percent. So when they hire someone for 50, it ends up being really 70 compared to an independent contractor or something else.

So I guess I want to get your thoughts with the rising cost of insurance. I know you represent small business across the State as well and as a small business person. Ms. Conti had suggested raising the cost of unemployment insurance to small businesses, what impact would that have on your business and business in general in Florida?

Mr. CARPENTER. Thank you, Chairman.

I think any type of an increase in a cost center for a small business has an adverse impact. It requires an immediate increase in revenue, which is not always obtainable for a small business. And it is usually the cumulative effect of what people believe to be small incremental tax increases taken on a small business in totality is what has caused the problem. Oftentimes small integral increases in and to themselves don't look big, but to a small business, multiple ones do.

Chairman BUCHANAN. Ms. Proctor, I am so impressed with what has taken place with the current administration in Florida. I know we have gone from 11 percent unemployment down to 4 or 5. And I know the governor and yourself have restructured a lot of it in terms of economic opportunity and UI and all these other agencies you merged together. Maybe you can take a minute and just explain to us, and maybe it would help other States as well, what Florida has done, because it is very impressive what has happened over the last couple of years.

Ms. PROCTOR. Yes, sir. Thank you, Chairman.

Over the last couple of years, since Governor Scott took office, the focus really has been on getting every Floridian back to work. We know that every job is important, and we know that if we support the private sector industry in our State and make sure that taxes are low and regulation is low, then there is going to be more job creation. Businesses are going to come where they are welcome, and if the taxes are too high, then businesses won't feel welcome, just like individuals go where they feel welcome and loved.

And so we know that and we see that all across the State. If we reduce the regulation and a business is able to open its doors sooner, then they are able to make that revenue sooner, they are able to hire more people sooner, and the economic impact of that is always felt at a local level.

So it is very important that we focus not only on the job creation in the private sector, but make sure we support that with an environment that shows that businesses are very welcome in Florida and that Florida is open for business.

Chairman BUCHANAN. And your thoughts just quickly on if we raise the UI fees that go to, companies have to pay small businesses in Florida, what impact would that have?

Ms. PROCTOR. So we have focused on cutting taxes, not raising taxes in the State of Florida. We know that every tax is money out of a business owner's pocket, and we would rather them use that money to hire more people or give more benefits or use the money as they see fit. So we know that, as was just testified to, every tax increment adds on top of each other not only at the State level if we add taxes on top of other taxes, but there is also local regulation that has to be taken into account and a business owner will feel all of those. So we are focused on cutting taxes rather than raising them.

Chairman BUCHANAN. Thank you.

And I now would like to recognize the distinguished gentleman, Mr. Davis.

Mr. DAVIS. Thank you very much, Mr. Chairman.

And I thank all the witnesses for being here with us.

Ms. Conti, let me ask, I am concerned about the unemployment safety net. Certain groups of Americans continue to struggle. For example, the unemployment rate for African Americans is 8.1 percent, much higher than the average. Further, 2 million Americans remain long-term unemployed, with African Americans, Asian Americans, and older Americans remaining jobless the longest.

In Illinois, 40.3 percent of the unemployed were jobless for 27 weeks or more, much higher than the average 27 percent nationally. Chicago's local rate of employment is below the national average and other large urban cities.

These high rates or long-term employment, plus the large number of disconnected workers, together with the lower-income jobs appearing after the recession, the lack of State trust fund solvency, and the tenuous economic health of certain States, suggest that any economic volatility in the global market could harm millions of Americans.

What reforms do you think are needed to help these hardest-hit Americans now and to help the unemployed if global economic volatility increases in the next few years?

Ms. CONTI. Thank you for your question, Congressman Davis.

I think there are two tools that we have at our disposal. The first is more vibrant reemployment services, starting with, as Ms. Beebe spoke about, the worker profiling system. Utah uses it is to great effect, so they can meet a worker on that first week of unemployment and predict who is the most likely to exhaust benefits without getting a job and provide them with the intensive services they need to either find a job in that period of time or to move them into the publicly available training that is available through the Workforce Investment Opportunity Act.

Unfortunately, far too many States don't use the worker profiling system that Congress enacted in 1996, I believe it was, and the reasons are twofold. One is many don't have the money to do it because there aren't adequate appropriations for UI administrations. Some States, Utah probably being one of them, use some State money to help with this as well.

But beyond that, I have also heard a number of State administrators express concern that if they use the profiling system too much and disproportionately, it is people of color, for example, or women who are turning up as the ones that are most likely to exhaust benefits, they are worried about some sort of discrimination lawsuit. When I have spoken with folks at DOL, they don't have any concerns like this.

So I think it would be time for all of us, and this committee could help to facilitate that, to facilitate a discussion and perhaps a guidance of the best usage of worker profiling so that States can feel comfortable using it to the degree of success that Utah has.

The other thing I would bring up, especially since you speak about disconnected workers, just recently, this summer, along with the Center on American Progress and the Georgetown Center for Poverty and Inequality, we released a fairly substantial large report about the ways we believe that the UI system should be overhauled in order to make it as vibrant as possible and protect workers, employers, the trust funds, and have that role in the economy we think that it should.

And one thing we recommended was the institution of something called a job seekers allowance. It would be a means-tested, modest 13-week benefit that people who are disconnected from work, people who have not earned enough money or been sufficiently attached to the workforce to qualify for UI, new entrants to the workforce, a small amount of money they can use to defray costs like transportation, resumes, wardrobe in order to be able to interview, child care if necessary for interviewing.

And we think that this is something, and once you bring somebody into the system and give them this help and then get them connected with reemployment services, as well, or employment services, perhaps, in the first instance, when they have that extra cushion, when they have that connection to the workforce system and the employment service, we think that is going to be something that would be great at getting people who have either given up looking for work or disconnected people or folks who haven't had a chance to get into the workforce system yet that opportunity.

Mr. DAVIS. Thank you very much. And I would certainly agree that the Georgetown proposal, as well as some of the interesting things that the State of Utah is doing, would be very helpful. I have looked at this for a long time. So thank you very much for your testimony.

And I yield back, Mr. Chairman.

Chairman BUCHANAN. Thank you, Mr. Davis.

I now recognize Mr. Rice.

Mr. RICE. Thank you, Mr. Chairman.

I am so pleased to hear about the successes in Florida and Utah in particular and glad that the Federal Government has allowed States the level of flexibility they have, although I hear you, Ms. Beebe, that perhaps we need to allow States more flexibility for innovation so that we can continue to solve this problem.

I think the best way to solve the problem is to have a better labor market. You know, we have got over 90 million people out of the workforce permanently, not looking for a job, because they could basically gave up, a large percentage of them. So the best way to help with reemployment is to create a tighter labor market where people don't struggle, have such a difficult time to find job. And the way we do that under the purview of this committee is tax reform and other things to make this country more competitive, in my opinion.

But working with the economy that we have now, and the successes that you, Ms. Proctor, and you, Ms. Beebe, have seen in your various States, one thing I am curious about is, is there a State association or mechanism for the States to regularly get together and compare notes on successful programs and how these innovations can be shared with other States?

Ms. Proctor.

Ms. PROCTOR. Thank you, Congressman.

Absolutely. And one of the things we like to do is we like to make sure we talk to other States. And we work regularly will Utah and with NASWA and make sure that our successes are heard not only in our State, but also in other States, because all of the States across the Nation are going to have different ideas, and we don't always know what will work in one State. If it may work in Florida, it may not work in other States. But if it does work in Florida, there is a chance it will work in other States.

And so we want to make sure we share that information as broadly as possible. We also want to make sure that we have a strong economy, because if we don't have a strong economy and, as you were saying, a strong labor force and job market, then we are in a difficult situation. So the stronger our economy, the better these innovative ideas will work.

Mr. RICE. And we certainly need a reasonable sinking fund to take care of the next recession. We will never completely do away with business cycles. But as you say, lower taxes yield a stronger economy and less need for unemployment insurance. So there is a balance in there somewhere.

Ms. Beebe, can you tell me about any history that you have had with looking at other States and adopting any things that they have innovated or other States looking at your programs and maybe picking up some of your ideas?

Ms. BEEBE. Yeah, absolutely. And I think the beauty of bringing States together is that you find what may have worked in Florida, while it may not have a direct translation to our State, there are pieces that are translatable to our economy and we can make it work for our local solution.

Recently, the Department of Labor and the National Association of State Workforce Agencies called together representatives from both State unemployment programs and State workforce programs to talk about work search. We realize that this notion of checking off a certain number of contacts each week is not necessarily how people meaningfully find work. There are things like networking, there is how to use the Internet effectively. And so by getting together a group of different views within the same room and to talk through how can we reenvision work search so that it is more effective and also fits the requirements for the unemployment program.

Mr. RICE. I am so impressed with the testimony you have given about the use of technology both for bringing people back in the workforce and screening people and then with the, I guess you call it, centralization of your unemployment ops where your experts are all in one area, you can use the chat feature that you were talking about. So often you hear about technology putting workers out of work. You are using technology to put people back to work. That is a fascinating thing. So thank you for your service.

I yield.

Chairman BUCHANAN. Thank you, Mr. Rice.

Mrs. Noem.

Mrs. NOEM. Thank you, Mr. Chairman.

And, Mr. Carpenter, in your testimony you talked about how one size doesn't fit all. And I think in some of the questioning that we have already had today, the different programs that were talked about were not one size fits all. In fact, there are 53 different programs across the country based on what each State has chosen to do and offer. But for you as a business owner, tell me why it is important that you don't have the same programs that another State may have.

For me, I am from South Dakota and a small business owner, and I don't know if the same program would work for South Dakota that would work in New York or California or Florida or Illinois. So tell us today why it is important as a business owner to have flexibility and have a program that may not be nationwide or federalized.

But also, I want you to talk about Ms. Conti in some of her testimony talked about raising the threshold and potentially raising the amount of money that goes into these unemployment funds and what that would do to you and your business when that goes into place.

Mr. CARPENTER. Thank you.

Florida has different types of businesses than other States. So I think what may adversely impact another State with regard to employment may not have the same effect in Florida. So I think the greatest to overcome unemployment is to concentrate on employment and to provide job growth, and I think that is what Florida has done.

So also, I think the innovation that you get with small business working with their State governments on how to adjust the unemployment system in their State, that creates a variety of those, that some will work in some States not in others. But that provides a large number of those through shared ideas to be shared rather than a top-down effect from the Federal Government.

Mrs. NOEM. Do you have a specific provision or something that you feel like was implemented in Florida that made a big difference for you as a business owner?

Mr. CARPENTER. Well, I think the biggest impact in Florida over the last 8 to 10 years has been the State working with small businesses on what is important with regard to job growth and the interaction of the State agencies with the university and the community colleges and working with small business so that the jobs and the skill set that small businesses need are actually introduced at the community college and the college levels to help the employment in the State.

And I certainly don't think that an increase in the wage level on unemployment is necessary. I mean, Florida lived through a tremendous recession, and its unemployment funds are back up to the level already that it was prerecession, maybe even a little bit above that. And that has been obtained within a short period of time and was still done at the level that we have been at. So as a small business, I don't think, at least in Florida, that is certainly not necessary.

Mrs. NOEM. Ms. Proctor, how many weeks is your unemployment, your UI available? What is your program and the average benefit per week?

Ms. PROCTOR. So right now we are at 12 weeks and it is specifically tied in statute to the unemployment rate. So as the unemployment rate drops and more jobs are available in our economy, there are fewer weeks available to get the supplement that is provided by the reemployment assistance program in Florida.

Mrs. NOEM. Do you know what the average weekly benefit is?

Ms. PROCTOR. The average weekly benefit, you can get a maximum of $275, and most folks get a little bit less than that. And usually people stay on about 11 weeks is what we are seeing right now.

Mrs. NOEM. Okay. All right. Great.

Ms. Beebe, was there other—I know I don't have much time—but was there something specific or another State that was doing something that caused you to look at your program and make a change? Because you are outstanding, your cooperation with other States. Is there something in particular that helps you get new ideas to implement or to try in Utah?

Ms. BEEBE. I would like to be bring up the example of the State workforce development board as part of the Workforce Innovation and Opportunity Act. Utah is one of, I believe, 10 States that is considered a single State designee, so the workforce board covers our entire state workforce development.

Mrs. NOEM. How is that funded?

Ms. BEEBE. It is funded through WIOA dollars, employment services dollars. It has a variety of funding.

And with the workforce development board, I was recently having a conversation with a group of employers about how to set up an ideal one-stop center. And it was interesting, we had an employer who has nine employees, they are located in a rural town called Price, Utah, and we have an employer who has 3,500 employees in an urban center, 1,200 of which are engineers, and the distinction of what these employers need for success.

A hospital in Price, they found that they can find qualified candidates to come and get experience with their residency, but they will oftentimes leave once they have that 2-year period to put on their resume. And so in order to effectively recruit people for that location, they need to find people that have family ties to the location. And so this rural-urban unique situation is very, very important to have in the conversation.

Mrs. NOEM. Yeah. Great. I am out of time. Sorry. Thank you.

Ms. BEEBE. Thank you.

Chairman BUCHANAN. Thank you, Mrs. Noem.

Mr. Crowley.

Mr. CROWLEY. Thank you, Mr. Chairman. Thank you for this hearing today.

I think it is important that we have an understanding of the role that unemployment insurance plays throughout our country. It is there to help people through a tough time when they have lost their job through no fault of their own usually. No one looks forward to unemployment insurance, in fact, when they are fired for no fault of their own. No one looks forward to unemployment insurance. I don't have a constituent who says, "I can't wait to be on unemployment insurance." Unemployment insurance typically replaces a third or less of a worker's income.

What it does do is help people make ends meet between jobs so they don't lose their home or have their children have to go hungry. And yet, we have seen States cut back unemployment benefits during some very difficult times for Americans. And there have been proposals to make it worse, not better.

Primarily, my colleagues on the other side of the aisle fought us every step of the way when we tried to keep unemployment benefits going to the 3.6 million Americans who had not yet found work during the largest recession in our Nation's history since the Great Depression. It seems corporate tax cuts are always on the table. When it comes to helping working families, they deemed unemployment insurance to be too extravagant.

Ms. Conti, I would like to hear more about what you are seeing in the unemployment system and what we really should be doing. What are some of the reasons that people looking for new jobs, why is it they need income, not just job placement services? Does cutting off or blocking unemployment insurance benefits make it easier or harder to look for a job?

Ms. CONTI. Most of the studies that you see show that it makes it harder to look for a job. Unemployment assistance is something that keeps people connected to the workforce and keeps them engaging and looking for the jobs. It provides people with the money they need to travel to job interviews, whether it is local, just using gas or public transportation, or perhaps crossing State lines or going to different cities. It takes care of child care for people when they are looking for jobs, wardrobes, all of the tools that we need for looking for jobs.

Mr. CROWLEY. And by the way, Ms. Conti, it doesn't pay for it. It helps.

Ms. CONTI. Exactly.

Mr. CROWLEY. Child care alone, unemployment insurance is not going to cover the cost for child care alone.

Ms. CONTI. Right. The costs are astronomic. But if somebody loses so much of their income and there is no replacement and they have a young child that they can't keep in daycare, for example, or can't put in some sort of affordable and safe care while they are interviewing for a job, we hear all sorts of horror stories that there are low-income single mothers, for example, who have had to leave their children unattended to go look for jobs and then all of a sudden they are in the child welfare system.

So there is a drastic cause-and-effect problem here and we need to be looking at it as a whole.

Mr. CROWLEY. Holistically.

Ms. CONTI. There are studies that talk about how when there are children in families that are suffering unemployment they have less educational achievement, that they really suffer as a result of it.

So unemployment is a real human waste. It is a human tragedy. Adults want to support their families. They generally want to work for a living. It can have a dramatic effect on an entire family unit and, in times of recession, on entire communities.

So when we see States responding to solvency issues by slashing benefits so badly that we don't believe they are going to be ready for the next recession and aren't going to be able to provide adequate resources in times of heightened unemployment, it really troubles us for what we are going to see in the future.

Mr. CROWLEY. It is remarkable, I think, in terms of where we have come in the last 8 years, and forgetting that this was the worst recession since Herbert Hoover's Presidency and the Great Depression that really started in the Bush administration, was left in the lap of the present administration.

But nine States currently offer less than 26 weeks' unemployment benefits. When was the last time so many States gave workers so little opportunity to earn enough unemployment protection for themselves and for their families? Do you have an idea?

Ms. CONTI. Not since before the Federal/State unemployment insurance system was founded.

Mr. CROWLEY. And when was that?

Ms. CONTI. It is over 81 years old.

Mr. CROWLEY. Eighty-one years. So not since it has been founded has less been given to unemployed workers in this country who are looking for work. Is that correct?

Ms. CONTI. Correct. And right now we have recipiency rates in the Nation of about 26 to 28 percent, whereas before the recession it was at 36 percent. There are a few States where recipiency is as low as 1 in 10 unemployed workers in the State, and that is not what we believe is an adequate safety net.

Mr. CROWLEY. I have additional questions, but my time is running out, unfortunately, so I will have them in writing for you. And if you can respond in writing, we would appreciate it.

Ms. CONTI. I will be happy to do so. Thank you.

Mr. CROWLEY. Thank you, Mr. Chairman.

Chairman BUCHANAN. Thank you, Mr. Crowley.

I now recognize Mr. Smith.

Mr. SMITH. Thank you, Chairman Buchanan. I want to thank the witnesses for being here.

One thing we should all agree on is reducing fraud in unemployment insurance. When people defraud the system, the people who legitimately need our help don't get access to the resources that are needed.

As I traveled through Missouri during last month, I was completely shocked to read that a man from New Madrid County in southeast Missouri in our congressional district was convicted of a variety of fraud charges. Among other convictions, his actions resulted in more than $60,000 worth of fraudulent unemployment insurance benefits to some of his employees.

Sure, I am pleased the authorities tracked him down and ended his scheme, but concerned how many more people in Missouri and throughout our country are out to defraud the system.

Ms. Proctor, in your testimony you talked about identity theft and fraud in the UI program in particular. Given your experiences, can you discuss the ways in which Florida has become better at identifying this illegal activity?

Ms. PROCTOR. Yes, sir. Thank you very much.

So what we found was that there was, back in 2014, something else going on in the system. It wasn't just the traditional one-off where somebody may say that they are eligible for benefits and then we find out later that they are not, the cut of the pay and chase that the chairman was speaking of.

What we found is that people were stealing identities from you name it. I mean, you hear about information being stolen from all types of systems all over the world and then being sold. And they were using those fake identities to come into the system and get benefits. And they can do that in Florida; they can do that all across the country.

For instance, someone could come in and say they are me. They could come in and say they are Cissy Proctor and that they have lost their job through no fault of their own. And they probably know more information about myself than I do. You can buy the IP address, for instance, that I may file, may use to go on my online banking system. And they can buy anything they want.

And so we found that that was very prevalent in our system, and we built an in-house system to fight the fraud. And so we have what is called, we call it our FIRRE system, that on the front end looks for patterns to see if the person who is coming in, for instance, and saying they are Cissy Proctor is not.

For example, you may be able to file a claim in a very, very short period of time that a person would not be able to do it in, or there are a lot of other examples that we use to find this fraudulent activity. And then we keep it out of our system so that they are not given more information or access to the money or access to the system.

And then what we have started to do is we have provided, people who we think their identity has been stolen, we have started sending them letters to let them know, because like my testimony earlier, unlike the IRS system, you may never file for reemployment benefits in Florida, so you may never know that your identity has been stolen.

So we want to let these people know proactively, to give them the resources that they need. And so it has been a proactive approach on our end to make sure that we keep this identity theft out of our system.

Mr. SMITH. What were some of the initial challenges whenever adopting that system?

Ms. PROCTOR. We built it ourselves. And so it was the creation of a system in-house that looked at identity theft in a different way. It wasn't looking at just blocking anybody from getting into the system, but we had to make sure that we were only blocking the folks that weren't real. We don't want to block somebody who is coming in the system legitimately to get the benefits that they are due. We want to only block the people who are coming in who have stolen identities, are coming in to steal money out of the Unemployment Trust Fund.

So that was the biggest challenge that we had. And what we have implemented now on the back end is, if somebody has difficulty, if they have difficulty authenticating who they are, or we have a question about whether or not somebody is using a false identity—for instance, you can buy a PDF of a driver's license with your picture on it—and if someone was using something that we questioned, we now have an in-person verification option for people. We will call them in and they will come into one of our career centers. So not only can they authenticate who they are, but then they also can get the help that they need to get reemployed in Florida.

Mr. SMITH. So what advice would you give the folks back home in Missouri, to adopt a system similar to Florida, or is there any other advice that you would give?

Ms. PROCTOR. We work with States all across the country, and we are happy to, if there are folks in Missouri that would like to talk to our team, we can run them through a demo of our FIRRE system, show them what we found, show them what our technology does. And we have also for other States, we have actually run some claims through our system to show them what levels of fraud they may or may not have in their system.

Mr. SMITH. Thank you, Mr. Chairman.

Chairman BUCHANAN. Thank you, Mr. Smith.

Mr. Dold, you are recognized.

Mr. DOLD. Thank you, Mr. Chairman.

And I certainly want to thank our witnesses for taking your time to come and help us with what we believe is obviously an issue throughout the country, and we want to make sure that those that find themselves out of work have an opportunity not only to get back on their feet but find employment again.

And ultimately, as we look at the unemployment rate that the country nationwide says it is 4.9 percent, we all know that that number is significantly higher than 4.9 percent. At least back in Illinois, we know that there are a number of folks that have stopped looking for work. And I think that ultimately we want to find more people back into the workforce.

Time and time again, Mr. Carpenter, I interact as a small-business owner with other small-business owners. Let's say I have jobs available. I am having a hard time finding people to actually come take the jobs. And obviously the role that we want to see is, how can we get those that are dealing with our unemployment insurance to be able to marry up with employers.

So, Ms. Beebe and Ms. Proctor, you obviously in your roles are working with your States. How are you engaging with small-business employers that are looking for work? And we recognize that a one-size-fits-all doesn't work, but can you tell us real quickly how you are working with small businesses to get people back to work with local businesses?

Ms. PROCTOR. Yes, sir. In Florida, we know that more than 65 percent of the businesses in Florida have fewer than five employees. So the small businesses are really the backbone of our community. And so what we want to make sure is that there is an environment within which they can do what they need to do, which is run their own businesses.

What is interesting and really great about the Florida Department of Economic Opportunity is on one side we have the Reemployment Assistance Program, where we are trying to help those who lose their job through no fault of their own get back to work. So we have a whole system and network of career centers and State colleges and universities and private industry and charities that are working very hard in Florida to get people back to work.

And on the other end we work with the business community, because we have the economic development programs for our State. And so we work with the chambers across the State, not only the Florida chamber but also local chambers, to make sure that we understand what the business needs are in our State and we can marry up the business needs with those needs of folks who are looking for a job and may need extra training.

We also recognize in the middle is the communities. We want healthy communities. We want to make sure that the infrastructure is available in those communities to support the businesses and support a strong economic climate so that everybody who wants a job can get back to work.

Mr. DOLD. Great.

Ms. Beebe, do you want to talk just a little bit about what you are doing in Utah?

Ms. BEEBE. Absolutely. So we have some formal and informal means. In terms of formal engagement with the business community, we find that that occurs through the State Workforce Development Board, where more than 50 percent of the representatives are from businesses across the State.

We also have an Employment Advisory Council. So any time we are looking at potential policy changes, we take it in front of our group, which has five public, five employer, and five employee representatives, to make sure we are not developing government policy in a bubble.

In terms of the informal means, we have workforce development specialists that are located around the State of Utah whose sole job is to engage the employer community in making that match between job seeker and employer. Finding a job in tech industry Utah County is going to be a very different experience from finding a job in the oil and gas industry in Duchesne County, and that local approach is important.

Mr. DOLD. You also talked a little bit about triaging folks as they are coming in and using technology to be able to do that. Obviously, the opportunity that everybody is going to be doing the same thing, therefore, taking less staff time, actually freeing up staff time to be able to focus on those that might have more specific needs.

Can you talk about how important it is to have the flexibility to be able to do things differently in Utah than perhaps a one-size-fits-all mentality coming from the Federal Government?

Ms. BEEBE. Absolutely. And so by having that flexibility to identify what works best for Utah, we can use our resources where it is appropriate. I know that some States have selected to have an unemployment representative in each of the one-stop centers. And as individuals file for claims, they are meeting with them one-on-one.

By having the flexibility to use our resources, the claims process is standardized. We can do that centralized. The RESEA program is not standardized; it is an individualized approach. It requires an individualized communication. And so by identifying what those needs are, we are able to have that tailored approach.

Mr. DOLD. Well, I certainly appreciate that.

And, Mr. Carpenter, can you talk just a little bit as a small-business owner how you have helped leverage or have leveraged what Ms. Proctor and her organization are doing?

Mr. CARPENTER. Absolutely. I think the engagement of the State with the small businesses on what their actual needs are from an unemployment standpoint is utmost important. And it changes. I mean, it is not something that is stagnant. So that is an ongoing conversation with the State of what skill sets are needed in small businesses in our particular State as compared to potentially a different State, like Connecticut.

Mr. DOLD. Thank you, sir.

Mr. Chairman, my time has expired. I yield back.

Chairman BUCHANAN. Thank you, Mr. Dold.

The gentleman from New York, Mr. Reed.

Mr. REED. Thank you, Mr. Chairman.

And thank you to our witnesses.

The questioning will go to Ms. Proctor and Ms. Beebee, because I believe you have implemented something I am very interested in exploring a little closer.

The Theory of Constraints, as indicated in your written testimony, Ms. Proctor, can you articulate that a little bit more in detail? What are you looking for in there to make the programs more efficient, less duplicative in their efforts, and what are you seeing as the common barriers that you are identifying through the Theory of Constraints and solving with that practice?

Ms. PROCTOR. Thank you so much for the question. We have worked very closely with Utah, who has implemented the Theory of Constraints across the State. And what we know is that we want to make sure that we provide reemployment assistance to claimants who are eligible in a timely manner. And how do you do that with a system that seems to eat up more workers and more IT and more money without really making a big difference and making sure that the people who are eligible receive that money timely?

And so we went to Utah and have implemented the Theory of Constraints to make sure that what we have is a streamlined process. We make sure that the process runs without looking to new IT, without looking to additional money or staff time until we have streamlined the process as much as possible, and then we identify the IT needs that may help that process just take it one more step. And then if we need additional resources or additional dollars, we know that we have basically found in every nook and cranny every available resource in the agency that we can.

I mean, one of the examples that we have really focused on with the team out of Utah and the Theory of Constraints is our first payment timeliness. We know that if we can pay claimants timely that it is an extremely important measure, and we haven't been able to hit it in a long time. And just last week, we hit the measure and actually exceeded it.

And I think the focus on making sure that we have a streamlined system, a process that works, when something goes wrong in the system or we have, for instance, a hurricane like we just had where you may have disruption, we need to be able to manage that, and being able to manage that with a streamlined process makes much more sense than if it is duplicative.

Mr. REED. So let me get to more of the frontline input, because obviously a lot of times sometimes folks in D.C. focus on their point of view from here. I am really looking for input from people on the front line.

So, Ms. Beebe, when you are talking about looking at streamlining these programs within your agency, do you look outside of your agency? How do we deploy the Theory of Constraints, not just within the agency yourself, either economic development or workforce I believe is your agency, how do you deploy that beyond? Because if you are cutting checks to a claimant, are you using one central office in the Florida government in order to do that or are you doing that within your department and another department is doing it on another program, et cetera, et cetera, et cetera? That is duplicative, in my opinion.

So how do you do that? Explain that to me. And what are you uncovering as you identify these points of constraints?

Ms. BEEBE. Thank you for the question. And as Ms. Proctor said, it is not always about getting more money. I think that the fundamental aspect is engaging staff.

Mr. REED. Within your agency or outside of your agency?

Ms. BEEBE. Within agency to begin with.

Mr. REED. How do you go beyond your agency walls? How do you get into those other silos? So that is one thing I have uncovered in looking at some initiatives we have taken. We have silos in government that don't know and don't communicate with each other. How do we break those barriers down so we are using the resources most effectively that are deployed in each agency for the purposes that other agencies may be able to tap into?

Ms. BEEBE. I think that comes under strong leadership. One way that we have been able to engage outside of those silos is to address the issue of worker misclassification. We have found that our Utah Department of Workforce Services is often looking at it from an unemployment insurance perspective; our Utah Labor Commission is looking at it from a workers compensation perspective; and our Department of Commerce is looking at it from a business license perspective.

By having a coordinated council that meets on a regular basis that has these open lines of communication, we are able to share tips and leads, we are able to share best practices, and we are able to collaborate on our communication streams so that we are not addressing it in a one-off.

Mr. REED. And what has been your experience once you have done that? Has that been a positive experience or have there been negative experiences you can share, both positive and negative experiences, with us as policymakers?

Ms. BEEBE. It has been very positive for us and we have seen incredible gains.

Mr. REED. And why has it been positive? What has allowed it to be positive?

Ms. BEEBE. The sharing of ideas and the sharing of tips and leads. Information disclosure is so important when it is done in a controlled manner in respect to the confidentiality of the data that we are sharing.

Mr. REED. Okay. And what have been negatives? I have got 5 seconds. Any negative experiences?

Ms. BEEBE. Negative experience, I think it is the challenges of working with larger groups, and those are overcome with strong leadership and open communication pathways.

Mr. REED. I appreciate that input.

With that, I yield back. My time has expired.

Chairman BUCHANAN. Thank you, Mr. Reed.

I would just like to thank all of our witnesses.

And I know my personal experiences, seeing the administration in Florida, the focus has been on jobs and creating jobs. You can't create jobs unless you have successful small businesses. And I think that is one of the reasons that we have had so much success the last four or five years in Florida, because we talked earlier, it is about the culture that has been created. Focus on small business, it will get you the jobs and keep full employment, which is the goal.

But thanks for your thoughts and ideas today.

Please be advised that members will have 2 weeks to submit written questions to be answered later in writing. Those questions and your answers will be made part of the formal hearing record.

Chairman BUCHANAN. With that, the subcommittee stands adjourned.

[Whereupon, at 11:18 a.m., the subcommittee was adjourned.]

Member Questions For The Record

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

September 14, 2016

Judith M. Conti
Federal Advocacy Coordinator
National Employment Law Project
2040 S St NW, Lower Level
Washington, DC 20009

Dear Ms. Conti:

Thank you for testifying before the House Ways and Means Subcommittee on Human Resources during the hearing entitled, "Unemployment Insurance: An Overview of the Challenges and Strengths of Today's System." In order to complete the record of the hearing, please respond to the attached Question for the Record (QFR) from Mr. Crowley.

Pursuant to the Committee rules, we ask that responses to the QFR be returned to the Committee by 6:00 p.m. on Wednesday, September 21, 2016.

If you have any questions concerning this matter, please feel free to call Rosemary Lahasky or Anne DeCesaro of the Subcommittee staff at (202) 225-1025.

Sincerely,

Vern Buchanan

Vern Buchanan
Chairman

Crowley QFR for Judith Conti

- Ms. Proctor described Florida's FIRRE system as stopping 110,000 illegal claims.
  - Does Florida have clear evidence that all those blocked claims were actually illegal?
  - What are some of the reasons that FIRRE's software might be blocking claims from workers who just want the benefits they earned?
  - Are there other states that are similarly using computer software to accuse individuals of fraud, without making sure the allegations are correct?

I am writing in response to your questions regarding the Florida fraud prevention system known as the Fraud Initiative Rules and Rating System (FIRRE). The executive director of Florida's Department of Economic Opportunity testified that since 2014, FIRRE "stopped more than 110,000 illegal claims from being filed in Florida" and that "represents $460 million that would have been stolen from Florida's Unemployment Compensation Trust Fund".

While NELP does not have access to confidential unemployment insurance records maintained by the DEO, there is ample evidence to suggest that large numbers of unemployed Floridians are having difficulties navigating the on-line filing system known as CONNECT and that many of these individuals are being locked out of CONNECT altogether because of very restrictive criteria in the FIRRE system.

Background:

In September 2015, the National Employment Law Project (NELP) published a report on the Florida unemployment insurance program, Ain't No Sunshine: Less than One in Eight Unemployed Workers in Florida is Receiving Unemployment Insurance.[1] This report documented how over the prior four years, Florida had imposed a series of new claims-filing requirements and procedures that made it more difficult for involuntarily unemployed workers to apply and qualify for unemployment insurance (UI). As a consequence of procedural hurdles and drastic cuts in available benefit weeks, less than one in eight unemployed Floridian was receiving unemployment insurance, the lowest rate in the nation. The report further found that this downward trend has accelerated since the introduction of a new automated filing system known as CONNECT in the fall of 2013.

Electronic filing requirements, some of which were included in state legislation enacted in 2011, made the process of establishing UI eligibility in Florida among the most onerous in the country. Immediately after implementation of House Bill 7005 in August 2011, thousands of workers were unable to successfully complete online transactions necessary to apply and qualify for UI benefits, largely because of poor automated systems and lack of personal customer assistance. The NELP report documents large increases in the numbers of workers disqualified for procedural reasons related to failure/inability to provide necessary filing information electronically.

On April 5, 2013, the U.S. Department of Labor's Civil Rights Center (CRC) issued a 56-page *initial determination* in *Miami Workers Center v. Florida Dept. of Economic Opportunity, Division of Workforce Services* (CRC Complaint No. 12-FL-048),[2] finding the State's electronic filing system for unemployment insurance (UI) benefits had a discriminatory effect on limited English proficient (LEP) persons and persons with disabilities in violation of Title VI of the Civil Rights Act, Section 504 of the Rehabilitation Act, Title II of the Americans With Disabilities Act, and Section 188 of the Workforce Investment Act (WIA). Based on these violations, the CRC concluded Florida must take certain corrective actions, or face sanctions that could include termination of DOL-funding. To date, Florida has not entered into any form of compliance agreement to institute necessary corrective actions.

In October 2013, Florida launched a new UI website and claims-filing system, known as CONNECT, that resulted 2-4 month delays in benefit payments to tens of thousands of unemployed Floridians. These delays ultimately prompted the U.S. Department of Labor to order that Florida DEO institute necessary corrective actions and system modifications to begin making timely payments. Major problems with the design and testing of the new CONNECT system were the subject of legislative hearings and a state

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[1] http://www.nelp.org/publication/aint-no-sunshine-florida-unemployment-insurance/.

[2] http://www.titleviconsulting.com/blog/?p=458.

audit. CONNECT is more complex and requires more individualized adjudications than the prior filing system. As a result, Florida has been among the slowest states in the nation in determining the eligibility of unemployed workers who apply for UI benefits.

In the 33 months after CONNECT went live (October 2013 through June 2016), Florida ranked second to last nationally in meeting a core UI program performance measure known as first-payment timeliness. This measure captures the percentage of benefit payments issued to claimants within 14 days after the first compensable week of unemployment. The federal standard is 87 percent; in the 33 months from October 2013 to March 2015, just over 66 percent of Florida first payments were issued within the recommended time frame.

Other key findings in the NELP report were:

- The number of workers disqualified for not satisfying procedural reporting requirements quadrupled since online filing was mandated in August 2011, despite the fact that fewer than half as many individuals were claiming benefits.
- Only 39 percent of those Florida workers who apply for benefits ever receive a first payment, the second lowest rate in the country. Nationally, 68 percent of those workers applying for unemployment insurance receive UI benefits. Florida's first-payment rate has dropped roughly 20 percentage points since 2010.
- Only 12 percent of Florida's unemployed received unemployment insurance in the 12-month period ending June 30, 2015, tied with South Carolina for the lowest of all 53 jurisdictions administering unemployment insurance programs. The national average is 27 percent. (Note: Recipiency in Florida dropped further to 10 percent for the year ending June 30, 2016.)

<u>FIRRE Questions</u>

(1) Does Florida have clear evidence that 110,000 blocked claims were clearly illegal?

NELP cannot answer whether Florida has evidence that 110,000 claims blocked were illegal. We do know that in a national presentation last October (attached), DEO reported that it had blocked in excess of 130,000 claims through FIRRE. Since DEO is now reporting a number that is more than 20,000 less than that after an additional year of operation, it is possible that there has been some change in the way DEO categorizes blocked claims as "illegal".

A published report by the Sun-Sentinel last November (attached) documented a number of cases in which unemployed workers were locked out of the CONNECT system for reasons relating to verification of identity. The Sun-Sentinel piece (which also reports last year's higher number of claims) explains how claimants flagged as potential fraud are locked out of CONNECT for 72 hours and are instructed to call DEO and required to provide documentation of their identity. The frustrating experience of some claimants trying to prove their identities to DEO is recounted in the article, including the difficulty in reaching a staff person to provide assistance. We know that some unemployed workers ultimately verify their identity to DEO and are able to file their claims; DEO should subtract this number from the cases identified by FIRRE as a first step toward ascertaining the true number of attempted fraud claims. What we do not know is how many claimants misidentified as potential fraud do NOT make it through the process of identity verification, either because they are unsuccessful when they try or because they do not try. It seems probable that an individual attempting to perpetrate fraud on-line through identity theft would likely not engage DEO staff directly once they have been locked out of the system.

(2) *What are some of the reasons that FIRRE's software might be blocking claims from workers who just want the benefits they earned?*

Legal Services attorneys in the Sun-Sentinel piece speak about the difficulty of contacting an agency representative and of the range of causes (including mistakes) for a person to be locked out of the system; these include forgetting a PIN and inability to answer unusual questions about prior addresses. Anecdotally, NELP has been told by state advocates that some of the causes cited by unemployed workers have included more than one person filing from the same computer (not uncommon when claimants use computers at public libraries or community organizations), and differences in residential address from what is reported by the Department of Motor Vehicles.

(3) *Are there other states that are similarly using computer software to accuse individuals of fraud, without making sure the allegations are correct?*

I have already provided testimony about how Michigan's MIDAS system made wholesale accusations of claimant fraud solely using computer software and left it to claimants to appeal and defend these accusations. Systematic over identification of fraud without due process left thousands of law-abiding Michigan workers with unwarranted debts and penalties, the state facing lawsuits and the public trust in government severely eroded. Numerous other states are developing identity verification/fraud prevention systems but to date, we know of no states that have been as cavalier with due process as Michigan or have made it exceedingly difficult to correct cases of fraud misidentification.

NELP NATIONAL EMPLOYMENT LAW PROJECT

POLICY BRIEF | SEPTEMBER 2015

Ain't No Sunshine:

Fewer than One in Eight Unemployed Workers In Florida Is Receiving Unemployment Insurance

BY GEORGE WENTWORTH & CLAIRE MCKENNA

Executive Summary

Over the past four years, Florida has imposed a series of new claims-filing requirements and procedures that have made it more difficult for involuntarily unemployed workers to apply and qualify for unemployment insurance (UI). As a consequence of procedural hurdles and drastic cuts in available benefit weeks, fewer than one in eight unemployed Floridians is currently receiving unemployment insurance, the lowest rate in the nation. This downward trend has accelerated since the introduction of a new automated filing system known as CONNECT in the fall of 2013.

Electronic filing requirements, some of which were included in state legislation enacted in 2011, have made the process of establishing UI eligibility in Florida among the most onerous in the country. Immediately after implementation of House Bill 7005 in August 2011, thousands of workers were unable to successfully complete online transactions necessary to apply and qualify for UI benefits, largely because of poor automated systems and lack of personal customer assistance. Each of these transactions could only be completed online: initial claim filing, registration with the public employment service, posting of an online resume, a 45-question math, reading, and research skills test,[1] and extensive documentation of weekly work-search activity.

In the fall of 2013, the Florida Department of Economic Opportunity (DEO) launched, to disastrous effect, a new automated filing system known as CONNECT. Tens of thousands more claimants experienced benefit delays of two to four months, prompting the Secretary of Labor to intervene and order corrective action necessary to get benefits paid. Major problems with the design and testing of the new CONNECT system have been the subject of legislative hearings and a state audit. CONNECT is more complex and requires more individualized adjudications than the prior filing system. As a result, Florida has been among the slowest states in the nation in determining the eligibility of unemployed workers who apply for UI benefits.

Since 2011, the Florida unemployment insurance program has made it more difficult for workers to receive benefits following involuntary job loss. Key indicators of this trend include the following findings:

- Only 12 percent of Florida's unemployed received unemployment insurance in the 12-month period ending June 30, 2015. That rate is tied with South Carolina for the lowest of all 53 jurisdictions administering unemployment insurance programs. The national average is 27 percent. Recipiency in Florida dropped from 16 to 12 percent in the eighteen months following the launch of CONNECT.
- Between 2010 and 2014 (a period in which Florida's unemployment rate dropped from over 11 percent to 5.7 percent), the number of claimants who were disqualified for reasons not related to the separation from their job increased by more than 180 percent. Most of that increase was because claimants did not satisfy a procedural reporting requirement or because the state found that they were not "able and available" for work or did not meet requirements for online documentation of employment registration or work search.
- The number of workers disqualified because DEO found they were not "able and available for work" or not

"actively seeking work" more than doubled in the year following the launch of CONNECT, even though weekly claims declined by 20 percent in that same year.
- The number of workers who have been disqualified for not satisfying procedural reporting requirements has quadrupled since online filing was mandated in August 2011, despite the fact that fewer than half as many individuals are claiming benefits.
- Only 39 percent of those Florida workers who apply for benefits ever receive a first payment, the second lowest rate in the country. Nationally, 68 percent of those workers applying for unemployment insurance receive UI benefits. Florida's first-payment rate has dropped roughly 20 percentage points since 2010.
- Between calendar years 2010 and 2014, new claims for benefits in Florida declined by 44 percent compared to 32 percent nationally. During that same period in which there were comparable declines in state and national unemployment rates, first UI payments declined by 62 percent in Florida compared to 35 percent nationally.

Background: House Bill 7005 Cuts Benefits and Imposes Unfair Filing Obstacles

In 2011, the Florida legislature enacted, and Governor Rick Scott signed into law, a series of major changes to the state's unemployment insurance program (HB 7005). These changes made it more difficult for unemployed workers to access, qualify for, and maintain benefits, and decreased the duration of benefits qualified unemployed workers were eligible to receive. The law imposed new barriers to benefit eligibility and expanded benefit disqualifications.

As background, UI claimants must meet certain requirements to initially qualify for weekly benefits and to remain eligible on an ongoing basis, throughout their unemployment spell. The first two components of UI eligibility are (1) establishing monetary entitlement by having enough recent wages to meet state minimum earnings requirements, and (2) being involuntarily unemployed (in other words, the claimant's job separation was not for a reason that is disqualifying under state law, e.g., discharge for misconduct, or voluntary leaving without cause). After these two conditions have been satisfied, claimants must establish that they are able to work, available for work, and actively seeking work during each week they are claiming benefits. It is in these "continuing eligibility" conditions, in particular, where there is considerable variation among states in terms of how they measure such concepts as adequacy of labor market attachment and work search.

Like most other states, Florida's unemployment trust fund borrowed from the federal government in order to pay benefits during the Great Recession. In response to increased federal unemployment taxes on business, Florida enacted major unemployment insurance legislation in 2011 aimed at reducing benefit payouts. Among the major changes enacted in Florida by HB 7005 were the following:

- Requiring that all benefit claims must be filed electronically;
- Requiring all UI applicants to complete an online "Initial Skills Review" test in order to be eligible for benefits;
- Requiring all UI recipients to contact five employers per week, and to report those contacts to the state agency, to maintain eligibility;[2]
- Replacing the maximum benefit duration of 26 weeks with a sliding scale tied to the state's unemployment rate, ranging from 23 weeks when the rate is 10.5 percent or higher, down to as few as 12 weeks when the rate drops below 5.5 percent;[3]
- Expanding the definition of disqualifying misconduct; and
- The unemployment insurance program itself was re-named "Reemployment Assistance".[4]

Florida's adoption of a mandatory online claim-filing system and virtual elimination of filing by telephone, long the primary method of filing, disenfranchised thousands of UI claimants who could not successfully navigate the complex and unwieldy online application. The electronic transactions associated with claim-filing took the average computer-fluent claimant 30 minutes to complete, and more than an hour when coupled with a required initial skills review exam.[5] Those affected included individuals with literacy deficits, limited English proficiency, mental and physical disabilities, and limited experience with computer technology. Indeed, workers from all backgrounds faced greater process obstacles to establishing UI eligibility than in any other state.

Limited-English-proficient (LEP) persons and people with disabilities were effectively denied access to UI

benefits under the new system. On April 5, 2013, the U.S. Department of Labor's Civil Rights Center (CRC) issued a 56-page initial determination in Miami Workers Center v. Florida Dept. of Economic Opportunity, Division of Workforce Services (CRC Complaint No. 12-FL-048), finding the state's electronic filing system for UI benefits had a discriminatory effect on LEP persons and persons with disabilities in violation of Title VI of the Civil Rights Act, section 504 of the Rehabilitation Act, Title II of the Americans With Disabilities Act, and section 188 of the Workforce Investment Act (WIA). Based on these violations, the CRC concluded Florida must take certain corrective actions or face sanctions that could include termination of federal UI administrative funding. To date, Florida has not entered into any form of compliance agreement to institute necessary corrective actions.
Florida imposed a series of eligibility conditions that required claimants to complete additional online transactions to establish or maintain UI eligibility. As with the basic online initial claim, each of these transactions was made more difficult by the lack of staff assistance available to claimants trying to navigate each new electronic requirement. The additional online transactions included the following:

- An initial skills assessment consisting of a 45-question test to be completed online as part of the initial claim process; (Note: In 2014, the Florida Legislature acted to make the skills assessment voluntary and removed participation in the assessment process as a condition of benefit eligibility. See HB 7023.[6])
- A requirement that UI claimants register for work electronically on the "Employ Florida Marketplace" as a condition of benefit eligibility, including completion of a "background wizard" (another detailed online application in order to qualify for a first benefit payment) and an online resume; and
- Detailed documentation of five employer contacts per week on weekly claim certifications filed electronically as a condition of weekly eligibility.[7]

New Filing Requirements Drive Down Applications and First Payments

Collectively, all of these requirements resulted in disproportionately fewer unemployed workers applying for and receiving UI benefits. Both new applications for UI benefits by persons recently unemployed, known as initial claims, and first benefit payments in Florida experienced disproportionate declines relative to national levels, despite comparable improvements in rates of unemployment.

From the 12 months ending July 2011 to the same period ending July 2012, average weekly new state UI initial claims in Florida declined by 23 percent, while average weekly state UI first payments dropped by an even greater 40 percent. By comparison, new initial claims and first payments nationwide experienced respective declines of just 9 and 10 percent over the same period.[8]

Cumulatively, the impact of these changes appears to have endured. Despite a decline in unemployment very comparable to the national trend line, Florida has seen substantially steeper declines in all measures related to unemployment insurance claims-filing and receipt. Between calendar years 2010 and 2014, new claims for benefits in Florida declined by 44 percent compared to 32 percent nationally. During that same period, first UI payments declined by 62 percent in Florida compared to 35 percent nationally. And while average weekly continuing claims dropped by 42 percent nationally, the decline in Florida was 62 percent (see Table 1 below).

Table 1. Average Weekly State UI Claims in Florida and the United States (in thousands), 2010 and 2014

	New Initial Claims	First Payments	Continuing Claims
Florida			
2010	17.4	9.8	218.9
2014	9.8	3.7	84.2
% change	*-44%*	*-62%*	*-62%*
United States			
2010	276.6	199.5	4,484.2
2014	189.2	129.9	2,589.4
% change	*-32%*	*-35%*	*-42%*

Source: NELP calculations of U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, 5159 Report, Claims and Payment Activities data. Figures cover State UI benefits.

Since 2011, Disqualifications Based on Weekly Filing Requirements Have Skyrocketed

Since 2011, there has been dramatic growth in disqualifications based on claimants not satisfying a procedural reporting requirement or requirements for online documentation of employment registration or work search. Table 2 below shows the number of UI applicants in Florida who were denied benefits for reasons relating to nonmonetary requirements between 2010, the last full calendar year before HB 7005 took effect, and 2014, the last full calendar year for which there is data.

The upper half of the table shows denials by year for nonmonetary reasons unrelated to a claimant's separation from work (e.g., a claimant earned other income while claiming benefits, was found to be unavailable for work, or work search was deemed inadequate); the lower half shows denials by year for separation-related reasons (e.g., a claimant voluntarily quit a job without good cause).

The number of workers who have been disqualified because DEO found that they were not able and available for work or because they failed to comply with the state's "actively seeking work" standard has more than tripled since 2010, and has more than doubled in the year following implementation of the CONNECT system, from 2013 to 2014.

The number of workers who have been disqualified for purely procedural reasons (see "Reporting Requirements" section in Table 2 below) has increased by more than 300 percent since online filing was mandated in August 2011. In 2010, the last full year before the changes, fewer than 18,000 claimants were denied benefits for failing to meet reporting requirements. Last year, more than 75,000 Floridians were disqualified for process reasons, despite the fact that the number of individuals claiming benefits declined by more than half over the same period.

During a period in which Florida's unemployment rate dropped from over 11 percent to 5.7 percent, the annual number of disqualifications related to reasons other than separations increased by roughly 172,000 (or by more than 180 percent), and most of that increase (roughly 152,000 disqualifications last year) was because claimants did not meet a procedural reporting requirement or submit adequate documentation of employment registration or work search. Finally, in 2014, the number of denials for reasons related to work-search and procedural reporting requirements exceeded the total number of state UI first payments (approximately 213,100 denials compared to approximately 193,400 first payments).

Table 2. Nonmonetary Denials by Reason in Florida (in thousands), 2010 to 2014

	2014	2013	2012	2011	2010
Able, Available, or Actively Seeking Work	137.7	62.4	75.6	79.8	43.9
Disqualifying or Deductible Income	18.5	21.8	29.1	10.7	2.6
Refusal of Suitable Work	0.4	0.5	0.7	0.7	0.8
Reporting Requirements	75.5	105.9	84.0	48.7	17.6
Refusal of Worker Profiling Referrals	10.2	3.3	1.6	4.0	3.1
Other	23.0	8.7	11.1	13.7	25.4
Total Nonseparation Denials	**265.3**	**202.5**	**202.0**	**157.6**	**93.5**
% change from year ago	*31%*	*0.3%*	*28%*	*69%*	*7%*
Voluntary Leaving Work	54.5	40.0	53.0	64.8	86.4
Discharge for Misconduct	30.7	32.9	44.7	53.5	60.5
Total Separation Denials	**85.3**	**72.9**	**97.7**	**118.3**	**146.9**
% change from year ago	*17%*	*-25%*	*-17%*	*-20%*	*-15%*
Total Nonmonetary Denials	**350.6**	**275.4**	**299.7**	**275.9**	**240.4**
% change from year ago	*27%*	*-8%*	*9%*	*15%*	*-8%*
Average Weekly New Initial Claims	9.8	10.5	11.8	13.7	17.4
% change from year ago	*-6%*	*-11%*	*-14%*	*-21%*	*-13%*
Average Weekly Continued Claims	84.2	105.3	126.3	158.8	218.9
% change from year ago	*-20%*	*-17%*	*-20%*	*-27%*	*-24%*

Source: NELP calculations of U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, 207 Report, Nonmonetary Determinations Activities, and 5159 Report, Claims and Payment Activities data. Figures cover State UI benefits.

Implementation of CONNECT Accelerates Already Steep Declines in Eligibility and Recipiency

In October 2013, Florida launched a new UI website and claims-filing system, known as CONNECT, that resulted in months-long delays in benefit payments to tens of thousands of unemployed Floridians.[9] These delays ultimately prompted the U.S. Department of Labor to order that Florida DEO institute necessary corrective actions and system modifications to begin making timely payments.[10] Major problems with the design and testing of the new CONNECT system have been the subject of legislative hearings and a state audit.[11]

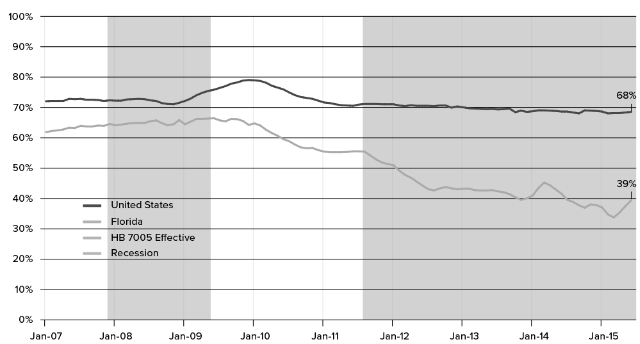
In the 18 months after CONNECT went live (October 2013 through March 2015), Florida ranked second to last nationally (just ahead of North Carolina) in meeting a core UI program performance measure known as first-payment timeliness.[12] This measure captures the percentage of benefit payments issued to claimants within 14 days after the first compensable week of unemployment.[13] The federal standard is 87 percent; in the 18 months from October 2013 to March 2015, just over 64 percent of Florida first payments were issued within the recommended time frame.

In the year following implementation of Florida's CONNECT system, from 2013 to 2014, the number of benefit denials resulting from nonmonetary determinations (unrelated to separations) increased by 31 percent (or by roughly 62,800), despite the fact that state UI new initial claims decreased by a little more than 6 percent, first payments decreased by 12 percent, and weekly claims fell by 20 percent (see Table 2, row titled "Total Nonseparation Denials"). Most notably, denials for reasons related to availability for work and work search more than doubled following the launch of CONNECT, increasing from about 62,400 to 137,700.

Fewer than Four in Ten Applicants for Unemployment Insurance in Florida Ever Receive a UI Payment

A major reason that Florida has the lowest UI recipiency rate in the nation is that more than 6 in 10 workers who apply for benefits are disqualified before ever receiving a single week of benefits. Figure 1 below shows first benefit payments as a proportion of new initial claims in Florida and the United States since shortly before the Great Recession began in in the final quarter of 2007. The figures shown are 12-month averages. In the year ending June 2015, of those Florida workers who applied for benefits, only 39 percent ever received a first payment, compared to 68 percent nationally. (This actually represents an increase from an earlier 12-month period ending March 31, 2015 when only 34 percent, or one in three Florida claimants, received a first payment—an all-time state low.) Thus, while two out of three unemployed workers who apply are eligible for UI nationally, more than 6 in 10 Florida applicants are denied benefits without ever receiving a first payment. Florida's first-payment rate is second lowest in the nation (a percentage point above South Carolina) and has dropped 20 percentage points since a comparable period in 2010.

Figure 1. Percentage of New Initial Claims Resulting in First Payments in Florida and the United States, January 2007 to June 2015



Source: NELP calculations of U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, 5159 Report, Claims and Payment Activities data. New initial claims and first payments cover state UI benefits, UCX, and UCFE. Figures are 12-month moving averages to account for seasonality.

Fewer than One in Eight Unemployed Workers in Florida Is Receiving Unemployment Insurance

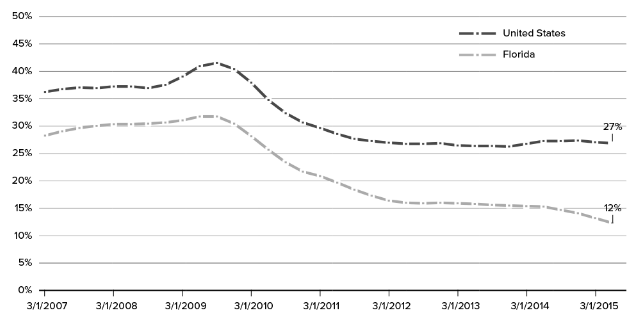
Fewer than one in eight unemployed workers in Florida is receiving unemployment insurance. Figure 2 below shows the shares of all unemployed workers in Florida and the United States who received UI benefits in each quarter since the beginning of 2007. The figures shown are 12-month averages. Only 12 percent of Florida's unemployed received unemployment insurance in the year ending June 30, 2015. That rate is tied (with South Carolina) for the lowest in all 53 jurisdictions administering unemployment insurance programs. For the most recent quarter alone (not shown in the figure), Florida's recipiency rate dropped to just below 11 percent.[14]

UI recipiency in Florida has trailed the national average since before the start of the Great Recession. For instance, Figure 2 shows that recipiency in Florida and the nation each hit a high point shortly after the declared end of the recession in 2009. In the third quarter of 2009, 42 percent of unemployed workers nationally received UI benefits, while that number was 32 percent in Florida for the same period. In the following five and a half years, national recipiency declined by 15 percentage points (or 35 percent) to 27 percent. But the decline in Florida's recipiency has been much steeper – a drop of 20 points (or 61 percent) to 12 percent. Notably, this downward trend sharpened following the launch of CONNECT in October 2013.

A portion of this low rate of recipiency is also attributable to the fact that Florida's program now provides only a maximum of 14 weeks of benefits, tied with Georgia for second lowest in the nation.[15] One consequence of having cut the scope of its program almost in half is that Florida currently has the highest UI exhaustion rate in the nation. For the most recent 12-month period for which data is available, approximately 62 percent of Florida claimants who received benefits exhausted their maximum entitlements without having found new employment.[16]

Clearly with almost two-thirds of those claimants who do manage to receive benefits running out of UI before they find a new job, the Florida program is not meeting the basic goal of serving as a bridge from loss of one job to securing suitable new employment.[17] The 14-week maximum not only prematurely pushes jobless Floridians into the 88 percent of unemployed workers without financial protection; it also forces those same workers to accept employment that is not comparable to the jobs they lost.

Figure 2. Regular UI Weeks Claimed to Total Number of Unemployed Workers, First Quarter of 2007 to Second Quarter of 2015



Source: NELP calculations of U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, 5159 Report, Claims and Payment Activities, and U.S. Bureau of Labor Statistics data. Weeks claimed cover state benefits, UCX, and UCFE. Figures are 12-month moving averages to account for seasonality.

Conclusion

Unemployment insurance is a federal-state program created by the Social Security Act of 1935. The purpose of unemployment insurance is to promptly provide partial income replacement for workers who are involuntarily unemployed so that they can meet basic financial needs while looking for new employment. Florida's program is no longer serving that purpose.

Florida has imposed a series of burdensome process requirements and technological obstacles so severe that unemployment insurance is virtually inaccessible for the average jobless Floridian seeking benefits earned through their work histories. Instead of remedying this problem, the implementation of the CONNECT system appears to have made the situation worse. And for the small share of jobless workers who do receive benefits, the limited weeks available have proven to be inadequate time for most to secure suitable new employment.

A program in which the number of disqualifications for reasons relating to availability, work search, and procedural reporting requirements exceeds the number of first payments is not unemployment insurance; it is an obstacle course. And the steep decline in Florida initial claims over the past four years (by 44 percent compared to 32 percent nationally) strongly suggests that these obstacles are discouraging unemployed workers from filing for unemployment insurance.

The federal government funds administration of the unemployment insurance program, and federal law establishes standards with which states must comply to ensure qualified unemployed workers can access benefits[18] and are not unfairly denied.[19] The State of Florida is thwarting the fundamental rights of unemployed workers to apply and qualify for unemployment insurance. An insurance program that pays benefits to fewer than 4 in 10 unemployed workers who apply and fewer than one in eight jobless workers in the state can hardly be called insurance. Unemployed Floridians struggling to make ends meet until they get that next job deserve a UI system that is fair and accessible. The Social Security Act was intended to hold state unemployment insurance programs to standards of fairness and accessibility. There should be no exception for Florida.

Endnotes

1. In 2014, the Florida legislature amended the law to make the initial skills review voluntary and to remove it as a condition of eligibility for unemployment insurance. See CS/HB 7023 (2014).
2. This requirement was modified in 2012 to require contact with only three employers in smaller Florida counties (Fla. Stat. 443.091(1)(e)6.)
3. Under this formula, the current maximum duration of unemployment insurance in Florida is 14 weeks.
4. For purposes of this report, we will refer to the Florida program as unemployment insurance.
5. "Getting Unemployment Check in Florida Frustrating Ordeal for Many," St. Augustine Record, August 22, 2012, available at http://staugustine.com/news/local-news/2012-08-22/getting-unemployment-check-florida-frustrating-ordeal-many#.VfI_3RFVhBe. See also Letters of Complaint to U.S. Secretary of Labor Hilda Solis from Florida Legal Services and National Employment Law Project, dated May 18, 2012 and October 1, 2012.
6. Ch. 2014-218. Section 19 amending Section 443.091 (c)(1) Florida Statutes.
7. For claimants unable to make the required number of employer contacts in a week, meeting with a representative at a local CareerSource Center to access reemployment services may satisfy the work search requirement for that week. For more information see http://sitefinity.floridajobs.org/onestop/onestopdir/.
8. U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, 5159 Report, Claims and Payment Activities. Figures cover State UI benefits. Available at http://ows.doleta.gov/unemploy/DataDownloads.asp.
9. Frances Robles, "Faulty Websites Confront Needy in Search of Aid," New York Times, January 7, 2014, available at http://www.nytimes.com/2014/01/07/us/faulty-websites-confront-needy-in-search-of-aid.html. Lizette Alvarez, "Florida site said to delay millions in aid to jobless," New York Times, January 10, 2014, available at http://www.nytimes.com/2014/01/11/us/floridas-site-said-to-delay-millions-in-aid-to-jobless.html.
10. Michael Van Sickler, "DEO Mum on Status of Payments to Thousands of Unemployed Floridians," Tampa Bay Times, January 27, 2014, available at http://www.tampabay.com/news/business/deo-mum-on-status-of-payments-to-thousands-of-unemployed-floridians/2162972.
11. Michael Van Sickler, "State Audit Highly Critical of Florida's Unemployment System CONNECT," Tampa Bay Times, February 27, 2015, available at http://www.tampabay.com/news/politics/gubernatorial/state-audit-highly-critical-of-floridas-unemployment-system-connect/2219504. See also Report of Florida Auditor General David W. Martin, Department of Economic Opportunity: CONNECT, Informational Technology Operational Audit, Report No. 2015-107, February 2015, available at http://www.myflorida.com/audgen/pages/pdf_files/2015-107.pdf.
12. U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, State Rankings of Core Measures, First Payment Timeliness (in 14/21 days), available at http://workforcesecurity.doleta.gov/unemploy/ranking.asp.
13. The first-payment standard for states without a waiting week is 87 percent of first payments made within 21 days after the first compensable week.
14. U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, UI Data Summary, Second Quarter 2015, available at http://ows.doleta.gov/unemploy/content/data_stats/datasum15/DataSum_2015_2.pdf.
15. The lowest benefit maximum in the nation is offered in North Carolina, which recently lowered its maximum UI entitlement to 12 weeks for initial claims filed after July 1, 2015.

16. U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, UI Data Summary, Second Quarter 2015, available at http://ows.doleta.gov/unemploy/content/data_stats/datasum15/DataSum_2015_2.pdf.

17. Florida's weekly UI benefits are also among the least generous in the nation. The average UI payment is currently $237 per week, and the maximum benefit level of $275 is higher than only four other states. See UI Data Summary, Second Quarter 2015, available at http://ows.doleta.gov/unemploy/content/data_stats/datasum15/DataSum_2015_2.pdf.

18. Section 303 (a) (1) of the Social Security Act requires states to employ " (s)uch methods of administration . . . as are found by the Secretary of Labor to be reasonably calculated to insure full payment of unemployment compensation when due."

19. Section 303(b)(1) of the Social Security Act states: "Whenever the Secretary of Labor, after reasonable notice and opportunity for hearing to the State agency charged with the administration of the State law, finds that in the administration of the law there is—

    (1) a denial, in a substantial number of cases, of unemployment compensation to individuals entitled thereto under such law . . . the Secretary of Labor shall notify such State agency that further payments will not be made to the State until the Secretary of Labor is satisfied that there is no longer any such denial or failure to comply.

DEO FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

2015 NASWA UI Directors' Conference
Identity Theft & Public Benefits Fraud

Fraud Initiative Rating and Rules Engine (FIRRE)

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THE PROBLEM

- **Identity theft** occurs when someone's Personal Identifying Information (Social Security number, date of birth, driver's license information, wage information, medical information, etc.) is accessed/used without his or her knowledge/permission, usually for financial gain.

- **Personal Identifying Information** (Social Security number, date of birth, and driver's license information, etc.) is being secured through hacking, theft, data breaches, or by other means.

DEO FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

PREVALENCE

- *"In 2014 there was a new Identity theft victim every two seconds"*
  – Javelin Strategy and Research 2015
- ***"Florida is the state with highest per capita rate of reported identity theft complaints, followed by Washington and Oregon"*** *– FTC Feb 2015*
- ***Identity theft affects everyone*** **(FTC Feb. 2015)**

  0-19 - **6%**
  20-29 - **18%**
  30-39 - **18%**
  40-49 - **19%**
  50-59 - **19%**
  60-69 - **13%**
  70+ - **7%**

DEO FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

PREVALENCE

ID Theft is at crisis levels

U.S. Population: 320,000,000

Records Breached in 2014: 1,023,108,267

A sampling of populations hit by identity theft in recent years:

- Court Ventures: 200,000,000
- EBay: 145,000,000
- Heartland: 130,000,000
- TJ Maxx: 94,000,000
- AOL: 92,000,000
- Anthem: 80,000,000
- Sony: 77,000,000
- JP Morgan: 76,000,000
- Target: 70,000,000
- Home Depot: 56,000,000
- U.S. OPM: 18,000,000
- Experian: 15,000,000
- Excellus BCBS: 10,000,000
- Virginia DOH: 8,200,000
- Scottrade: 4,600,000
- Texas HHS: 2,000,000

DEO FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

PUBLIC BENEFITS FRAUD

- ***Criminals, including organized gangs, are using stolen IDs to steal massive sums from government agencies***
- ***Miami US Attorney: "We are facing a tsunami of fraud. Stolen IDs are the new crack cocaine of criminal street gangs"***
- ***"Government benefits fraud was the most common form of reported identity theft in 2014"*** *– FTC Feb 2015*
- ***"Tax-refund fraud is estimated to reach $21 billion by 2016 due to identity theft"*** *– CNBC Feb 2015*

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

FLORIDA UI EXAMPLE

- **2013:** Identified about **9,600 fraudulent claims** through complaints, etc.
- **2014:** deployed in-house data analytics program and found nearly **70,000 fraudulent claims**
- **2015** (as of August 31st): identified over **57,000 fraudulent claims** (on pace for **85,000 fraudulent claims**)
- The potential value of fraudulent claims = **$529 million**
- **Note**: UI is small in scope (70K claimants) compared to other benefits (3.6M SNAP beneficiaries)

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

WHY SO MUCH FRAUD?

- Ease of stealing IDs (information is everywhere and unprotected)
- Automation and use of internet as the primary benefit delivery system
- Mandates for fast payment vs. fraud detection
- Many agencies are not looking for this and are not coordinating
- A safe and profitable crime
  - One claim in all 52 UI programs = $21,000 per week

FLORIDA SOLUTION

- Executive support regarding state and federal assistance
- Created in-house business driven solution
- Fraud Initiative Rating and Rules Engine **(FIRRE)** looks for patterns that indicate fraud
- Increased staff dedicated solely to ID theft fraud from 6 to 35
- Shared data with other states and with other agencies in Florida
- Identified points within each business process that help detect identity theft

FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY

OUR SUCCESS

- The State Excellence Award for Leadership (SEAL) Award in 2015
- Estimated cost savings was more than $307 million in 2014
- As of August 2015 estimated cost savings is more than $221 million
- At the current rate, the program is on track to prevent more than $327 million in fraudulent claims from being paid in 2015
- Millions in cost avoidance for downstream business impacts of fraudulent claims
- Provided specific data sets to U.S. Department of Labor (OIG) and law enforcement that aids in prosecution

FIRRE Technical

History of RA Fraud:
- Traditional Fraud = File for Unemployment collect benefit but go back to work
- New Fraud:
  - File fraudulent claim based on someone else's identity
  - Hijack claim and redirect payments

History of FIRRE:
- Work started in Jan 2013
- FIRRE POC Live May 2013
- FIRRE Solution Design July 2013
- SBR granted Oct 2013
- Executive approval to develop FIRRE solution July 2014
- Development kickoff date 2014-10-22

FIRRE Solution is the reason for this project. We want to use cutting edge technologies to identify fraud before it gets into any system. By using and linking various data sources, DEO wants to stop fraudulent activity early in order to eliminate the downstream effects. It takes approximately, 20+ man hours to clean up a fraudulent claim.

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FIRRE Technical

FIRRE 1.0 Phase 1 scope:
- Create framework for full solution
- Be able to import data into database from various sources on a daily and real-time basis
- Use the data to link and identify fraudulent claims for day, week, month, year and all time for limited business rules
- Have a real-time interface to Connect for locking and unlocking claims
- Gather statistics for Machine Learning

Status = Complete

FIRRE 2.0 Phase 2 scope:
- Enable more rules
- Enable Machine Learning / Intelligence
- Add more data sources
- Enhance ad-hoc reporting
- Enhance user experience
- Add real-time interfaces with Connect
- Add hardware

- Status = In Progress

FIRRE 3.0 Phase 3 scope:
- Refine and add rules Rules
- Refine Machine learning
- Enable rules from other Departments
- Grant access to other Florida departments (DCF)
- Add hardware

FIRRE 4.0 Phase 4 scope:
- Extend to second data center

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FIRRE Technical

The Fraud Initiative Rules and Rating Engine (FIRRE) system is a custom developed real-time intelligent system based on modern technologies used by Facebook, Google, Amazon, Netflix, eBay and other innovative companies to identify patterns for fraud and behavior analysis. The technologies allow for fast, concurrent, and parallel processing of rules by the rules engine to efficiently and effectively process the data to detect fraudulent activity near real-time. The system can be used and applied to any number of programs.

Real time interfaces will allow the detection of fraudulent / suspicious activity before the claim has been accepted to reduce the downstream effects.

The following reports will ensure the accuracy and effectiveness of the system:
- Financial reports
- Statistical reports for all patterns
- Activity reports (security and productivity)
- Fraud reports (detection, cluster, cleared, etc.)

As in a credit score, each incoming claim will get a activity score to rate the risk of the claim.

Data linking and validation with other authoritative sources (DOR, DCF, FDLE, AHCA) will ensure the low risk of false positive identification.

Discussions with various states on POC analysis of their data through FIRRE

We anticipate changes in Machine Learning technologies will help further anticipate and detect fraudulent activity. FIRRE will keep pace with the current and emerging technologies in order to fully take advantage of advancement in Machine Learning.

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FIRRE Technologies

(BACKEND)

- Datastax Enterprise
  - **Cassandra** = Data Store. NoSQL (Not Only SQL). Auto replicated. Fault tolerant. No Single point of failure. Designed by Facebook. It is modeled after Google Big Table and Amazon Dynamo. March 2009 it became an Apache project. Open source. SQL like access with CQL
  - **Solr** = Enterprise Google type searching. Reporting. Faceted Search. Real-time indexing. Dynamic clustering and integrated into Cassandra. Document handling (word, PDF). Access by REST and CQL Open Source Apache.
  - **Spark** = Analytics engine. Data Migration. ETL. 100X faster then Hadoop. Open source Apache.
  - **ML Lib** = Machine Learning Library for Spark.

(DEVELOPMENT)

- **Python** = Used for interaction with Spark and Machine learning
- **Angular JS / Bootstrap =** Google developed Angular and twitter developed Bootstrap. Together they form the core of the user interface design and functionality.
- **Golang** = Language Developed at Google in 2007. Current release is 1.5. 25 words for the entire language. Highly productive. Faster then Java, C#, in almost all categories. Easier to program and develop. Single binary. No issues with Deployment. Designed to be concurrent. Most developers become productive in a day of learning. Used by the Google, Baidu, Docker, Twitter, Tumbler, Drobox, Sound Cloud, etc.

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FIRRE Infrastructure

(HARDWARE)

-Architecture
  - HP DL 380 with 2 CPU Sockets
  - 512 GB Ram
  - SSD
  - CentOS Linux – to keep costs down

(BACKEND)

- Datastax Enterprise
  - Cassandra
  - ML Lib
  - Solr
  - Spark

(DEVELOPMENT)

- GoLang = Google Language
- Python
- Angular JS / BootStrap

Benefits of Technologies used:

- Open Source - allows for minimal cost yet robust and feature rich
- Updated frequently by Community and governing body
- Modern – Technologies that are designed with current and future challenges of developing for large amounts of data
- Designed to be real time response
- Designed to be real time replication with very minimal effort and cost
- Designed for Enterprise search over **Petabytes** of data
- Designed to interact with **Petabytes** of data
- Designed to be able to perform analysis over **Petabytes** of data
- Designed to utilize Machine Learning to support continued enhancements

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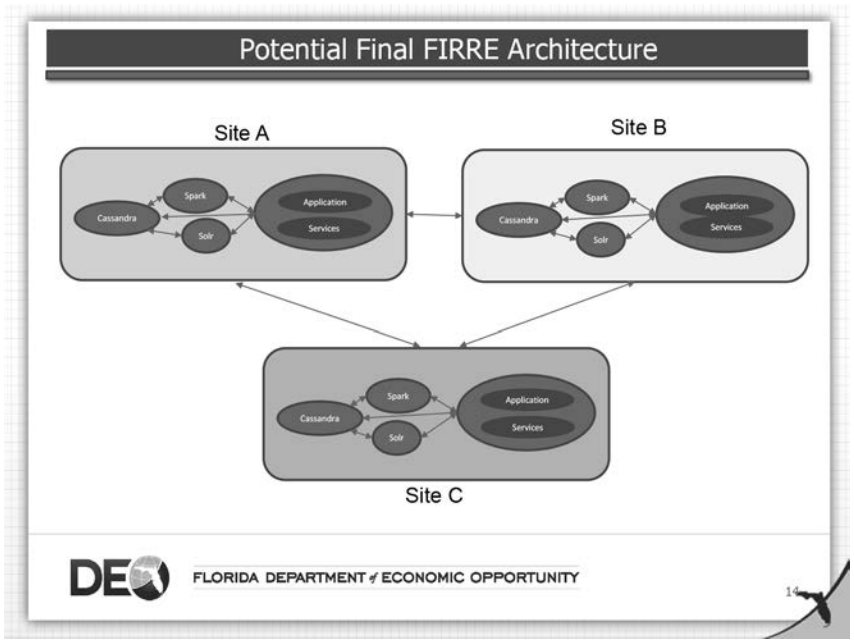
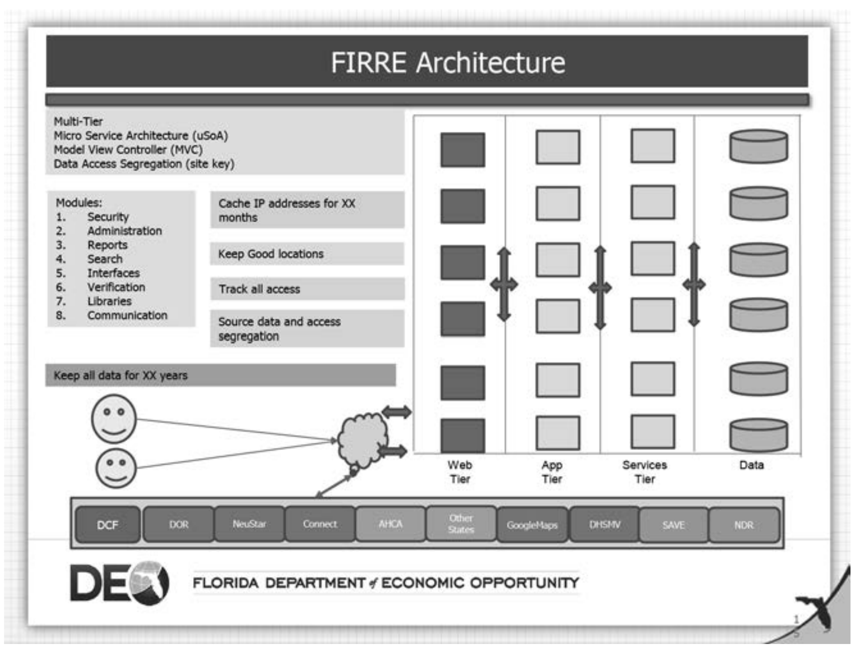

Potential Final FIRRE Architecture
Site A
Site B
Site C
Cassandra
Spark
Solr
Application
Services
FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY
14


FIRRE Architecture
Multi-Tier
Micro Service Architecture (uSoA)
Model View Controller (MVC)
Data Access Segregation (site key)
Modules:
1. Security
2. Administration
3. Reports
4. Search
5. Interfaces
6. Verification
7. Libraries
8. Communication
Cache IP addresses for XX months
Keep Good locations
Track all access
Source data and access segregation
Keep all data for XX years
Web Tier
App Tier
Services Tier
Data
DCF
DOR
NeuStar
Connect
AHCA
Other States
GoogleMaps
DHSMV
SAVE
NDR
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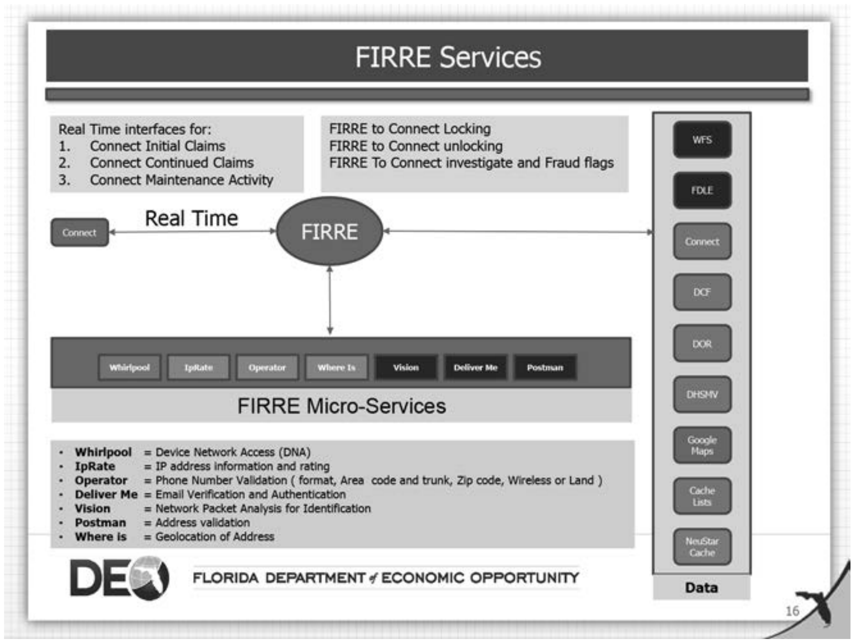
FIRRE Services
Real Time interfaces for:
1. Connect Initial Claims
2. Connect Continued Claims
3. Connect Maintenance Activity
FIRRE to Connect Locking
FIRRE to Connect unlocking
FIRRE To Connect investigate and Fraud flags
Connect
Real Time
FIRRE
Whirlpool
IpRate
Operator
Where Is
Vision
Deliver Me
Postman
FIRRE Micro-Services
Whirlpool = Device Network Access (DNA)
IpRate = IP address information and rating
Operator = Phone Number Validation (format, Area code and trunk, Zip code, Wireless or Land)
Deliver Me = Email Verification and Authentication
Vision = Network Packet Analysis for Identification
Postman = Address validation
Where is = Geolocation of Address
WFS
FDLE
Connect
DCF
DOR
DHSMV
Google Maps
Cache Lists
NeuStar Cache
Data
FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY
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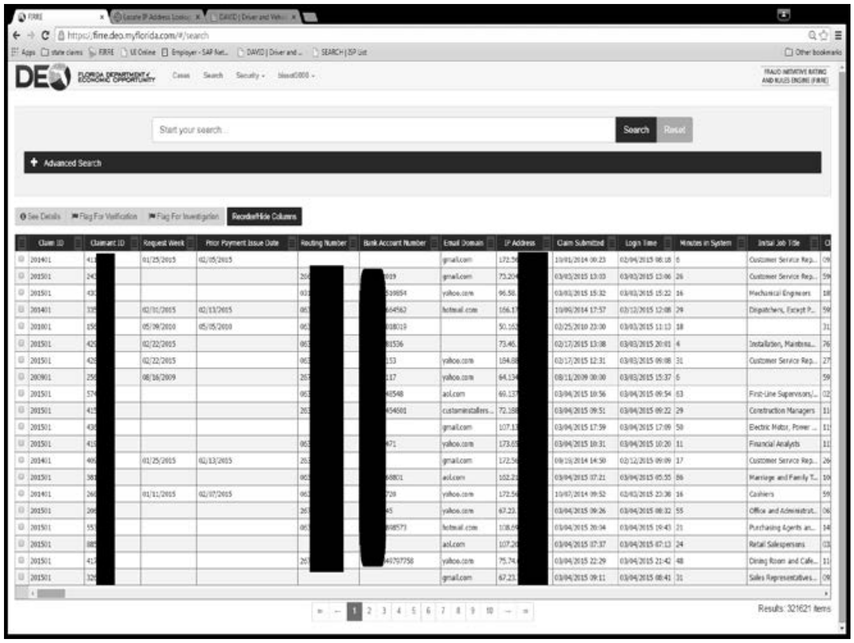
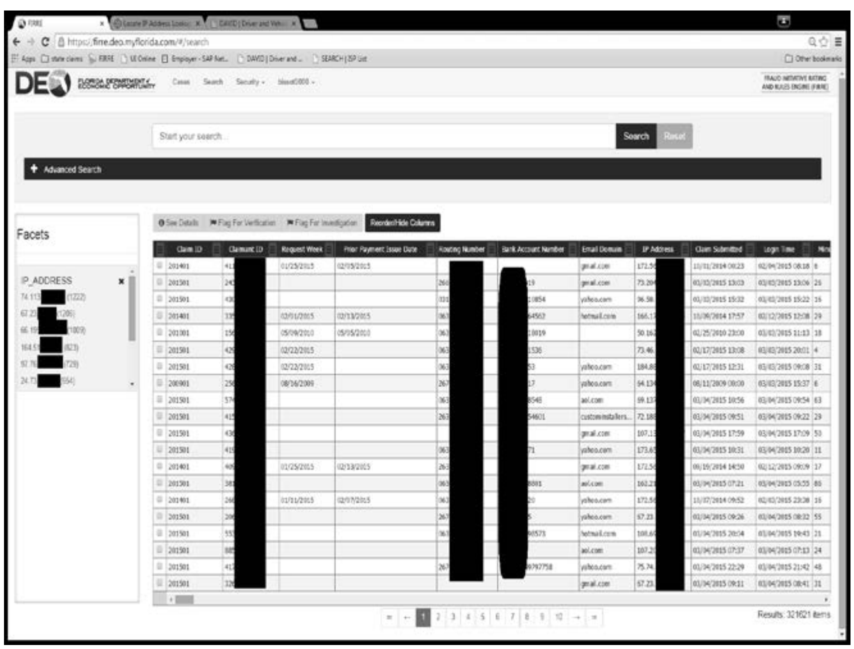
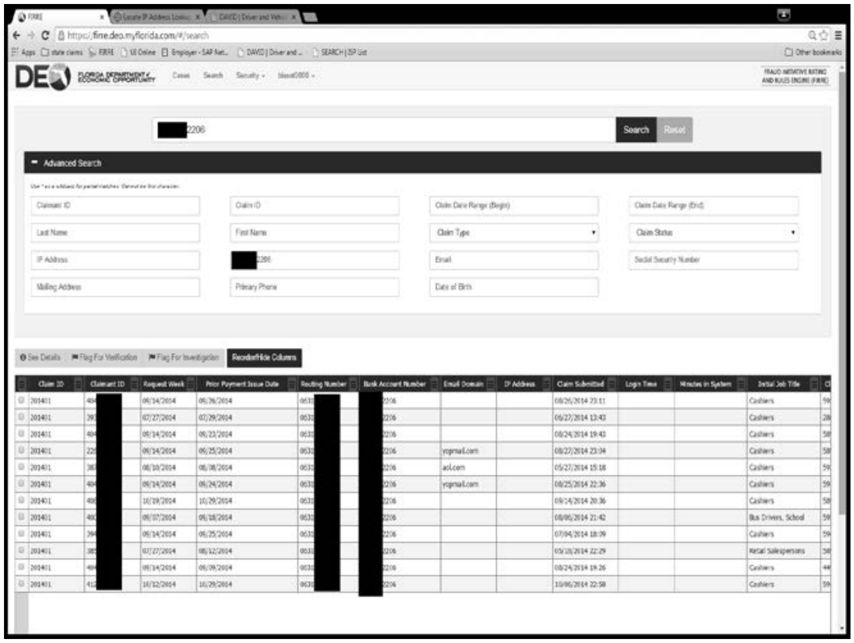
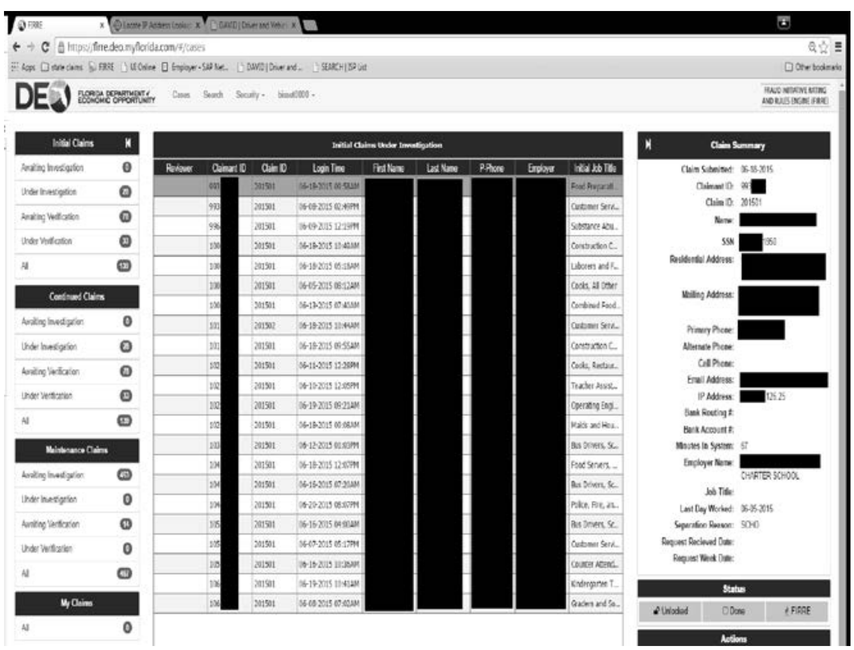
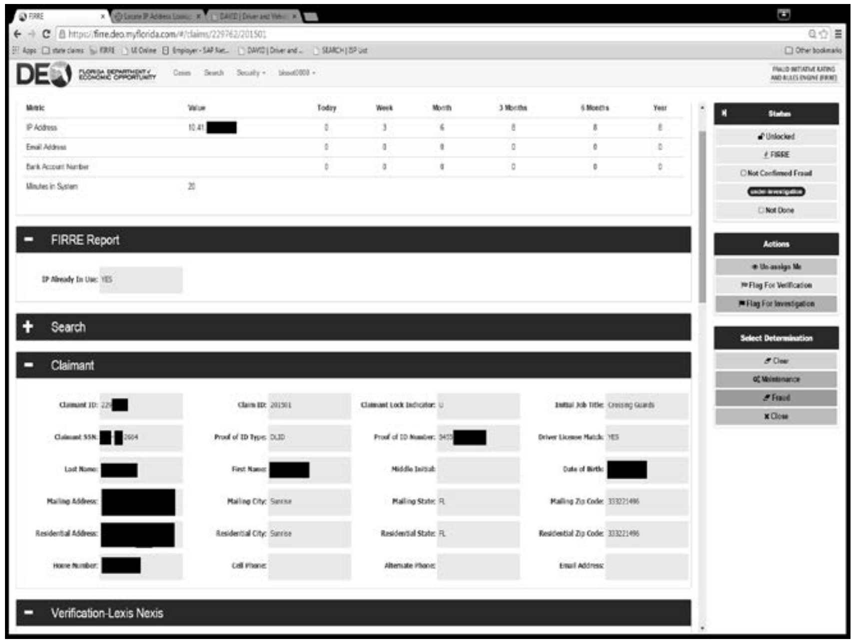
SCREENSHOTS
Let's take a look at FIRRE
FLORIDA DEPARTMENT of ECONOMIC OPPORTUNITY


Start your search...
Search
Reset
Advanced Search
Results: 321621 items


Start your search...
Search
Reset
Advanced Search
Facets
IP_ADDRESS
Results: 321621 items


Advanced Search
Search
Reset
See Details
Flag For Verification
Flag For Investigation
Reorder/Hide Columns


Initial Claims
Continued Claims
Maintenance Claims
My Claims
Initial Claims Under Investigation
Claim Summary
Status
Actions



https://firre.deo.myflorida.com/#/claims/229762/201501
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Cases
Search
Metric
Value
Today
Week
Month
3 Months
6 Months
Year
IP Address
10.41 [redacted]
Email Address
Bank Account Number
Minutes in System
20
Status
Unlocked
FIRRE
Not Confirmed Fraud
Not Done
Actions
Flag For Verification
Flag For Investigation
Select Determination
Clear
Maintenance
Fraud
Close
FIRRE Report
IP Already In Use: YES
Search
Claimant
Claimant ID: 229[redacted]
Claim ID: 201501
Claimant Lock Indicator: U
Claimant SSN: [redacted] 2604
Proof of ID Type: DLID
Proof of ID Number: [redacted]
Driver License Match: YES
Last Name: [redacted]
First Name: [redacted]
Middle Initial:
Date of Birth: [redacted]
Mailing Address: [redacted]
Mailing City: Sunrise
Mailing State: FL
Mailing Zip Code: 333221496
Residential Address: [redacted]
Residential City: Sunrise
Residential State: FL
Residential Zip Code: 333221496
Home Number: [redacted]
Cell Phone:
Alternate Phone:
Email Address:
Verification-Lexis Nexis

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Workplace
Business Workplace

State's fraud crackdown slows unemployment payments

rawford unemployment benefits
my Beth Bennett / Sun Sentinel

ecilia Crawford sits at her Boca Raton home. Crawford, a psychologist who lost her job at a Delray Beach recovery :nter, is fighting for her unemployment benefits.

ecilia Crawford sits at her Boca Raton home. Crawford, a psychologist who lost her job at a Delray Beach recovery :nter, is fighting for her unemployment benefits.

\my Beth Bennett / Sun Sentinel)

Marcia Heroux PoundsContact ReporterSun Sentinel
Unemployed workers wrestle with delayed benefits

Florida's efforts to crack down on rampant unemployment fraud are delaying payments to people who truly are entitled to them, lawyers and advocates for the unemployed say.

Many people out of work are waiting weeks to receive benefits at a time when they're struggling to keep up with their bills, advocates say.

"When you've seen a grown man cry because he's so worried about not being able to receive his less than $275 a week, it's heart-breaking," said Gepsie Metellus, executive director of the Sant La Haitian Neighborhood Center in Miami, who said her waiting room is nearly always full of people unable to get their unemployment benefits.

The reason is extra security measures the state implemented last year to deal with increasing numbers of fraudsters trying to game the system.

Jesse Panuccio, executive director of the Florida Department of Economic Opportunity, which oversees the unemployment system, calls fraud a top priority for Florida and a national crisis.

The department caught 70,000 cases of fraud in 2014 and 60,000 from January to mid-September this year, saving taxpayers $529 million, Panuccio told a Senate committee.

"

When you've seen a grown man cry because he's so worried about not being able to receive his less than $275 a week, it's heart-breaking.

- Gepsie Metellus

That represented 10.7 percent of 653,359 total claims last year and 15.9 percent of 363,125 claims this year, the DEO says.

Federal and state law requires that all unemployment claims be screened. Florida uses a system that cross-matches information with government records, including records from the Department of Motor Vehicles and the Social Security Administration.

All unemployed people who file for unemployment benefits must provide a valid Social Security number and another document, such as a driver's license or U.S. Passport. Those flagged through Florida's online unemployment system as potentially fraudulent are locked out of the system for 72 hours and instructed to call a Tallahassee agency to further prove who they are.

"

DEO seeks to operate the most efficient call centers possible to best serve the public. Many enhancements have been made over the last four years.

- Jesse Panuccio

But the extra security measures — and the difficulty of reaching anyone to clear up problems — are delaying benefits to many unemployed workers, lawyers say.

Liam McGivern, a lawyer at Legal Services of Greater Miami, said he has clients who were locked out of the system with no need to verify identity. He said he called several times on behalf of one client, finally learning that the man had been locked out of the system by mistake — the agency had no additional questions about his identity.

Laurie Yadoff, supervising attorney at Coast to Coast Legal Aid of South Florida in Plantation, said Florida's $77 million online filing system itself is the first obstacle for the unemployed. If an applicant doesn't initially answer the security questions correctly, the person can't get back into the system.

"The only way is to call a specific number for assistance to verify your identification. When you call the number, it tells you that there is no one to assist you — try again," she said.

If the caller gets through, the person can get a temporary pin to get back into the system — but that doesn't re-open the person's case so he or she can claim benefits.

Jim Bass of Deerfield Beach applied for benefits in 2014 and was asked: "Where have you not lived with your ex-wife?" Bass, a software engineer, said he thought the question about his ex-wife's address was "absurd."

"I was so offended at that question," said Bass, who had been divorced from her since 1986. "I hadn't been in communication with her for years. How in the world am I supposed to know that?"

Unemployment workers told him: "We're sorry. We can't verify your identity," even though he has lived in the same house since the 1980s. Finally, he was directed to fax a copy of his Social Security card. He didn't have a physical card so he went to the Social Security office to get a temporary one and faxed it to the state as requested.

Weeks went by and he heard nothing, so he called again and was told that no one could verify getting his Social Security document. Bass said he got benefits only after he called his Florida legislator, Rep. George Moraitis Jr., R-Fort Lauderdale.

A recent report by the National Employment Law Project, a group that advocates for the unemployed, labeled Florida's system "virtually inaccessible," with fewer than one in eight unemployed workers receiving jobless benefits — the lowest level in the nation.

"We recognize fraud is an issue and states should be aggressive in combating fraud," said George Wentworth, a lawyer for the group. But he said that detecting fraud has to be balanced with making timely payments to the unemployed.

"Is the net so wide that a lot of honest, unemployed workers are being further hassled and encountering one more obstacle in a system that we've documented has a lot of obstacles?" Wentworth asked.

He said the unemployed who are flagged — who he said may be victims of identify theft themselves — deserve to be cleared and receive benefits in a timely manner. It's unlikely that a thief would continue pursuing benefits if flagged, Wentworth said.

"If you're somebody who has committed identify theft and you get locked out, you're probably going away at that point. You don't want to talk to anybody," he said.

The DEO insists that creating jobs is the best way to help the unemployed. The department touts Florida's economic growth and takes issue with the National Employment Law Project's criticism.

The claim that a small share of people get benefits is misleading because it includes all of the unemployed — even those who are not legally entitled to benefits, the DEO says.

"NELP disagrees with Florida's pro-growth policies and favors more government intervention," the DEO said in a news release Thursday. "To advance its agenda, NELP has leveled a number of misleading claims about Florida's Re-employment Assistance program."

As for problems with the system, the DEO points to the number of people who have succeeded in getting benefits this year: 55,174 in Broward County, 38,908 in Palm Beach County and 77,946 in Miami-Dade County.

"DEO seeks to operate the most efficient call centers possible to best serve the public. Many enhancements have been made over the last four years, including better self-service options through an automated system," Panuccio said in a statement for the Sun Sentinel.

Spokeswoman Erin Gillespie said the state must make sure its unemployment insurance program "is as fair and efficient as possible. That means paying claims accurately and as timely as possible, and making sure there is not fraud in the system."

In fact, state agencies overseeing unemployment benefits are under a Labor Department directive to make "timely" payments, even if an issue arises and is being investigated.

When an issue arises with a claim, "it is the duty of the agency to resolve the issue promptly," the department says. The state agency should conduct an investigation and provide the individual an opportunity to be heard before making an official determination, according to directives in 2000 and again on Oct. 1 of this year.

If the state agency cannot make a determination before the date of a timely payment, it must "presume the claimant's continued eligibility until it makes a determination otherwise," the Labor Department said.

Boca Raton resident Cecilia Crawford would say her case has not met that standard.

Crawford, a psychologist who was laid off at a recovery center in Delray Beach, got locked out of the benefits system and doesn't know why. She filed for unemployment Aug. 20 and has not yet received a benefit payment.

When she finally reached someone at Florida's unemployment system weeks later, she was told her case was being checked for out-of-state wages. She said all of her wages were local, not out of state.

"That would it would be a strange thing for me to make an error on," Crawford said.

Because she has not received unemployment payments, Crawford, 65, said she had to file earlier than she wanted for her Social Security benefit, accepting a reduced payment. She's also looking for a roommate to trim her rent costs. Usually she lends financial support to her 28-year-old disabled son, but she doesn't know how to do that at the moment.

"He had to turn off his cable, which a big deal when you live alone," she said. And if she doesn't get unemployment, she'll have to decide between paying next month's rent or her car insurance, due in November.

"I'm down to the wire," Crawford said.

mpounds@tribpub.com or 561-243-6650

- Unemployment and Layoffs
- Jobs and Workplace

- 

  Florida's unemployment benefits 'virtually inaccessible,' study finds

- 

  Florida's unemployment system drawing complaints

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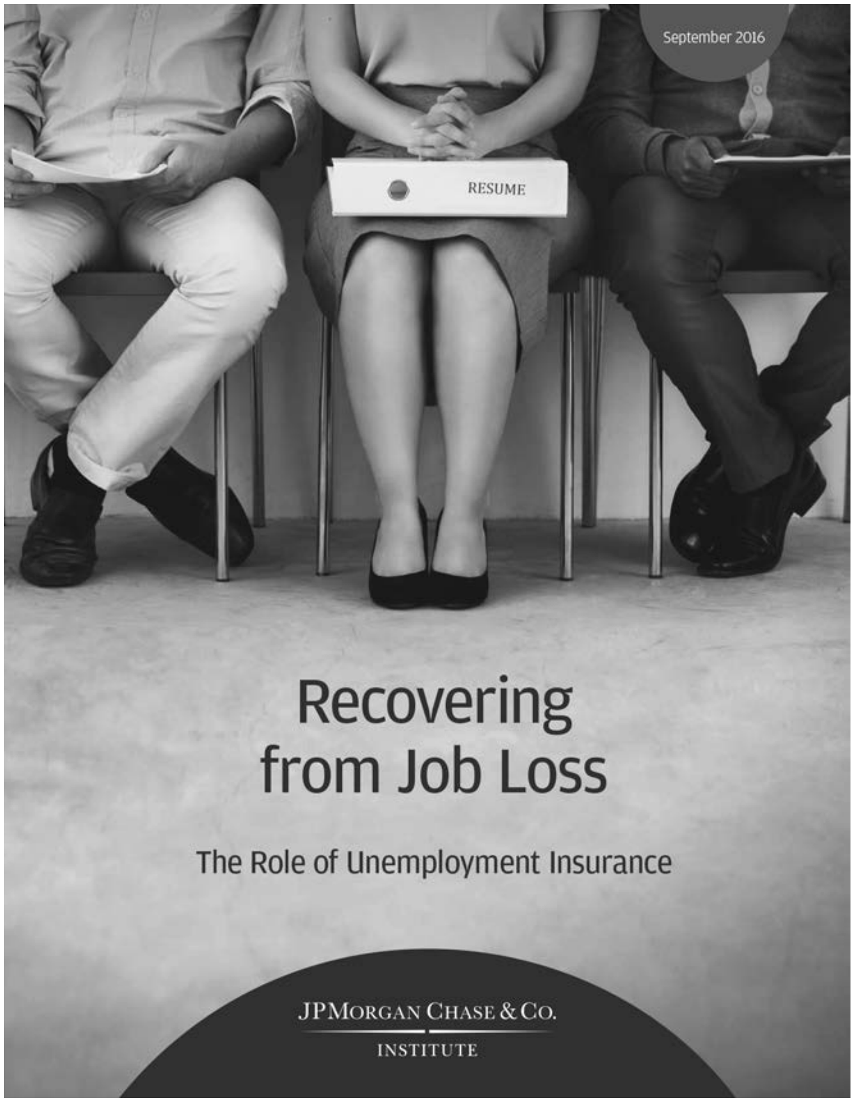
83°

Member Submissions For The Record



Recovering from Job Loss

The Role of Unemployment Insurance

Diana Farrell
Peter Ganong*
Fiona Greig
Pascal Noel*

Executive Summary

This report examines the role of unemployment insurance (UI) in mitigating the financial impacts of job loss, one of the most common economic shocks that families experience. Using an anonymized sample of 160,000 Chase customers, this study provides a first-ever look into comprehensive and high frequency measures of spending behavior over the course of an unemployment spell among a large sample of UI recipients. With just 27 percent of the unemployed receiving UI—a record low recipiency rate—and the rapid growth of the contingent workforce, this report provides a critical fact base to inform efforts to reform UI and to redesign the social safety net for the 21st century.

Key Findings

1. UI softens the drop in family income due to job loss from roughly $1,826 a month—a 46 percent drop in monthly income—to just $617 a month—a 16 percent drop.

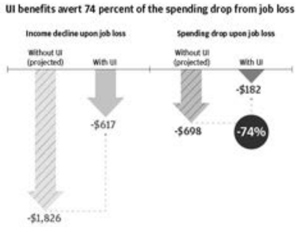
2. Spending drops by just 5 percent upon job loss because UI benefits boost spending dramatically, averting 74 percent of the potential drop absent UI.

3. Spending declines coincide with income losses. Income and spending recover within 18 months for the short-term unemployed but remain depressed for the long-term unemployed. When UI benefits are less generous, the long-term unemployed experience more economic hardship but also go back to work sooner.

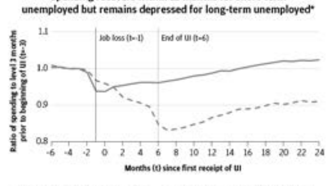
4. Among all UI recipients, job loss causes a drop in discretionary spending and student loan payments, but the long-term unemployed cut nearly every category of spending when UI runs out.

5. Families with high liquid assets reduce their spending upon job loss by roughly half as much as families with low liquid assets.

UI benefits avert 74 percent of the spending drop from job loss



Spending recovers within 18 months for short-term unemployed but remains depressed for long-term unemployed*



* Reflects UI benefit recipients in states with maximum benefit duration of 6 months

* This report builds on a recent academic paper written independently by Peter Ganong and Pascal Noel *How Does Unemployment Affect Consumer Spending?*

Introduction

The experience of unemployment is nearly universal. Surveys show that over 90 percent of baby boomers have had at least one unemployment spell, and, every year, about one in four working adults experience a period of joblessness. These individuals face a substantial income loss. In *Paychecks, Paydays, and the Online Platform Economy*, we documented the high degree of income volatility that families experience. Unemployment insurance (UI) benefits provide wage replacement for individuals in the event that they lose their job. In this report, we evaluate the role that UI plays in mitigating the financial impacts of job loss, which is a key source of income and expense volatility. Our report is a first-ever look into comprehensive and high frequency measures of spending behavior among a large sample of the unemployed in the US.[1]

Although the UI system is intended to protect workers against the consequences of job loss, most unemployed workers do not receive UI. Roughly 90 percent of workers have the types of jobs that make them eligible for UI, but many unemployed people are still ineligible for a variety of reasons.[2] Other unemployed people have already exhausted their unemployment benefits. In total, just 27 percent of unemployed people nationwide, roughly two million individuals a month, received unemployment insurance in 2015. This is the lowest recorded recipiency rate since World War II.[3] In some states with particularly restrictive eligibility requirements, such as Florida, Georgia, and Louisiana, fewer than 15 percent of jobless workers received UI in 2015, compared to more than 70 percent in North Dakota. The level and duration of unemployment insurance benefits also varies by state.[4] These benefits are typically intended to replace 30-50 percent of pre-tax wages on a weekly basis for up to six months or until the individual finds another job.

With the rapid growth of independent contractors, record low labor force participation rates, and an increase in the share of total unemployed who are long-term unemployed, the fraction of Americans working in traditional W-2 employee arrangements with eligibility for benefits, such as UI, is shrinking. These trends have stirred lively debates about the future of work and how the social safety net might be redesigned for the 21st century.

This report informs three key debates regarding UI reform and the social safety net more broadly. First, there have been recent policy proposals to expand coverage of UI benefits to part-time workers and those who must leave a job due to compelling family reasons or family illness. We contribute to this debate by estimating how much of the potential spending drop from unemployment is averted by UI based on a comparison of UI recipients in states with high versus low UI benefits. Second, in the wake of the Great Recession some states have cut maximum benefit durations below the traditional 26-week norm. In response, advocates have proposed a federal requirement that states offer up to 26 weeks of benefits. We can assess the impact of this proposal by comparing the spending trajectory in Florida—which offered 14 weeks of benefits in 2015—to spending trajectories in states that offer 26 weeks of benefits. Finally, some proposals seek to make the social safety net more portable, by, for example, establishing "individual security accounts" based on pro-rated employer contributions. We explore how liquid assets levels—a proxy for the potential safeguard of individual security accounts—are correlated with spending levels after job loss.

Our dataset offers good coverage of the financial lives of UI recipients.[5] From a universe of 28 million Chase checking account customers we rely on an anonymized sample of 160,000 regular Chase customers who received unemployment insurance between 2014 and 2016 across 18 states. To be eligible for UI benefits, a claimant needs substantial work history in the prior year. As a result, the typical UI recipient is a middle-income household with a bank account.[6] Subjects in our dataset who receive direct deposit of their UI benefits have similar incomes, spending levels, ages, and checking account balances to external benchmarks from public use datasets, suggesting that our results here are likely to generalize to all UI recipients.

Every year, about one in four working adults experience a period of joblessness.

Our results show that UI is remarkably effective at preventing large spending drops among the short-term unemployed. We organize our results into five findings. First, UI softens the drop in family income due to job loss from roughly $1,826 a month—a 46 percent drop in monthly income—to just $617 a month—a 16 percent drop. Second, spending drops by just 5 percent upon job loss because UI benefits boost spending dramatically, averting 74 percent of the potential drop absent UI. Third, spending declines coincide with income losses. Income and spending recover within 18 months for the short-term unemployed but remain depressed for the long-term unemployed. When UI benefits are less generous, the long-term unemployed experience more economic hardship but also go back to work sooner. Fourth, among all UI recipients, job loss causes a drop in discretionary spending and student loan payments, but the long-term unemployed cut nearly every category of spending when UI runs out. And finally, families with high liquid assets reduce their spending upon job loss by roughly half as much as families with low liquid assets.

UI is remarkably effective at preventing large spending drops among the short-term unemployed.

Data Asset

From a universe of 28 million Chase checking account holders, we assembled an anonymized sample of 160,000 families across 18 states who met the following five criteria.

1. Received direct deposit of their first UI check after December 2013 and their last UI check before June 2015
2. Received UI for six or fewer contiguous months
3. Experienced one spell of receiving UI benefits[7]
4. Live in states that offer 26 weeks of UI benefits. In Finding 3, we compare this group to UI recipients in Florida where benefits lasted 16 weeks in 2014 and 14 weeks in 2015
5. Have at least five outflows out of their checking account in the three months prior to and after UI receipt

Among our sample, median earnings among families that received UI benefits was $4,540, roughly comparable to the national median of $5,106. Among the families in our sample, we studied income and spending by analyzing inflows and outflows out of the checking account as well as on Chase debit and credit cards. We defined income as all inflows which are not explicitly categorized as transfers from other financial accounts, and we rescaled take-home labor income into pre-tax dollars. We defined spending to include debit card expenditures, Chase credit card expenditures, consumer debt payments (mortgages, auto loans, non-Chase credit cards, and student loans), bills (e.g. electricity, cable, insurance) and cash withdrawals from the ATM.

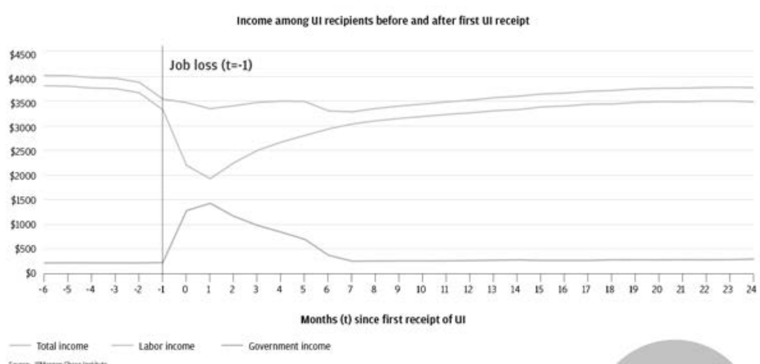
Findings

Finding One

UI softens the drop in family income due to job loss from roughly $1,826 a month—a 46 percent drop in monthly income—to just $617 a month—a 16 percent drop.

Unemployment causes a large—though usually short-lived—drop in labor income. Figure 1 shows labor income, government income, and total income for UI benefit recipients in the six months prior to and 24 months after the first month in which they received UI. Upon job loss, which typically occurs one month before the first receipt of UI benefits, take-home labor income for the typical family falls by $1,826, a 46 percent drop in total income.[8] In aggregate, unemployment insurance offsets $1,197 of that income loss, replacing 66 percent of the lost $1,826 of labor income.[9] Once UI benefits are taken into account, average total income falls by $617, a 16 percent drop, upon job loss. Mean total income begins to recover after reaching its lowest point seven months after the first receipt of UI, but does not return to pre-job loss levels within our two-year time frame. The gradual recovery in labor income shown in Figure 1 largely reflects a growing share of that population finding new jobs.

Figure 1: Labor income drops by $1,826 upon job loss, and unemployment benefits offset 66 percent of drop in total income in the first six months



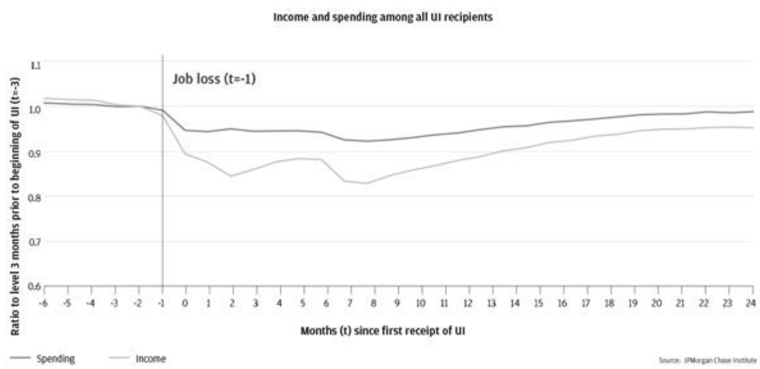
UI benefits avert 74 percent of the spending drop from job loss.

Finding Two

Spending drops by just 5 percent upon job loss because UI benefits boost spending dramatically, averting 74 percent of the drop.

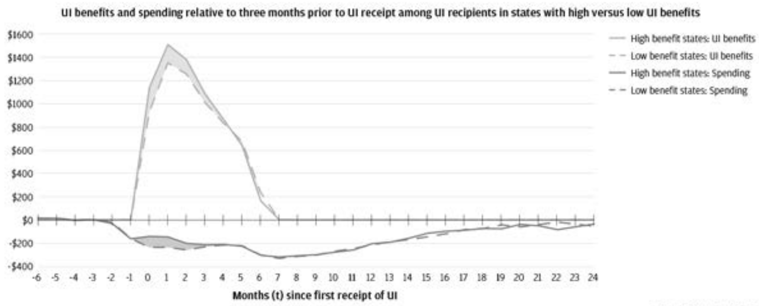
The path of spending mirrors the path of income in the wake of an unemployment spell (Figure 2). However, the impact on spending is much smaller than the impact on income. While total income drops by 16 percent upon job loss, spending drops by just 5 percent in aggregate upon job loss—just $182. Spending drops by a total of 8 percent at its low point seven months after first receiving UI before almost fully recovering 24 months after first receiving UI (Figure 2).[10]

Figure 2: Spending drops by less than income, and neither recover within our two-year timeframe



Families that receive UI in states with relatively more generous UI benefits experience a smaller decrease in spending during unemployment. To estimate the impact of UI benefit levels on spending, we compare states with high UI benefits, where benefits replace 40 percent of total family income, to states with low UI benefits, where benefits replace 34 percent of total family income.[11] In high-benefit states, families receive an extra $227 per month in UI benefits and show a $82 smaller drop in spending at start of unemployment (Figure 3). Put differently, people in states where UI benefits are $1 higher have a 36-cent smaller drop in spending at the start of unemployment. This cross-state comparison between high- and low-benefit states suggests that UI benefits play an important role in cushioning the impact of unemployment on not just income but also spending.

Figure 3: UI recipients in high benefit states decrease their spending less than UI recipients in low benefit states

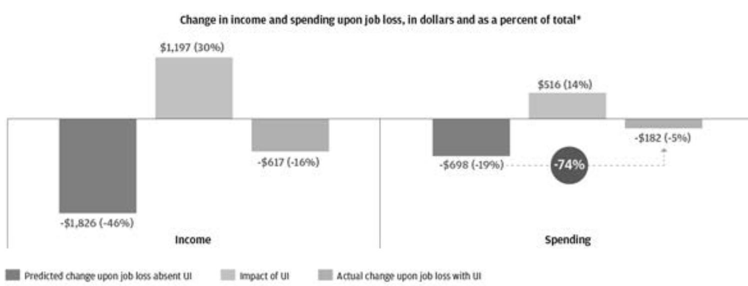


Source: JPMorgan Chase Institute

To assess what the path of spending might have been for a worker who did not receive UI benefits, we extrapolate from cross-state differences in UI benefit levels. First, as stated above, we note that states that paid $227 less in benefits had a $82 larger drop in spending, suggesting that people spend 36 percent of received UI benefits. Second, we apply that percentage to the full amount of monthly UI benefits: if people spend 36 percent of the full $1,423 monthly benefit, that means that UI benefits boost their total spending by $516. Put differently, in the absence of UI, they would have spent $516 less (36 percent of $1,423) upon job loss. Third, we observe that in fact spending only dropped on average by $182 upon job loss among people who did receive the UI benefit. We deduce that, absent the UI benefit, spending would have dropped by $698 ($516 plus $182).

UI is highly effective at cushioning the short-term blow from job loss. In percentage terms, as a result of UI benefits, total income dropped by just 16 percent instead of 46 percent, and spending dropped by 5 percent instead of 19 percent. Therefore we conclude that UI benefits mitigated 74 percent of that potential spending drop upon job loss.[12]

Figure 4: UI benefits reduce the spending drop associated with job loss by 74 percent



* Changes in income and spending upon job loss are measured as the change between three months prior to receipt of the first UI check and one month after receipt of the first UI check.

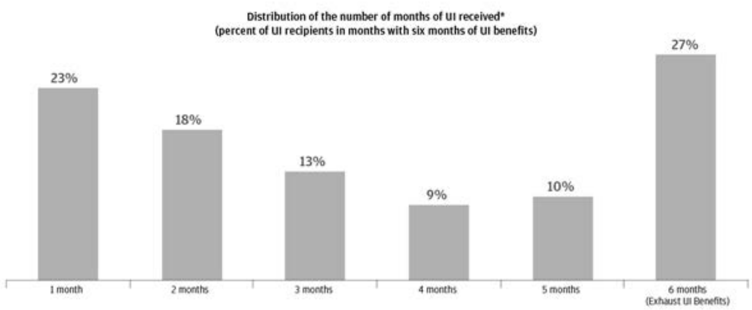
Source: JPMorgan Chase Institute

Finding Three

Spending declines coincide with income losses. Income and spending recover within 18 months for the short-term unemployed but remain depressed for the longer-term unemployed. When UI benefits are less generous, the long-term unemployed experience more economic hardship but also go back to work sooner.

Most unemployment spells are short-term, lasting less than six months. UI is paid on a weekly basis until the individual finds another job, and so UI durations can be used to measure how long it took a jobseeker to find a job. Among our sample of UI recipients in states that offer six months of UI benefits, 23 percent of recipients find a job within the first month and therefore receive UI benefits for one month or less, 18 percent receive UI for two months, 13 percent for three months, 9 percent for four months, and 10 percent for five months. The remaining 27 percent remain unemployed for six months or longer and exhaust their UI benefits (Figure 5).

Figure 5: Over one in four UI recipients exhausts their UI benefits



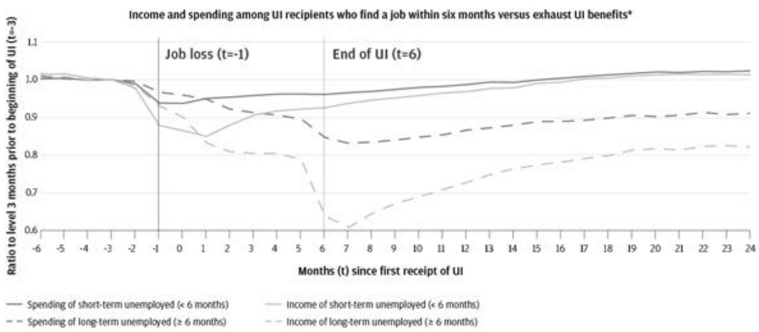
* In most states, UI benefits last for 26 weeks (or 6 months). This chart displays the distribution of months of UI benefits received across all states in our sample regardless of the maximum UI benefit duration. Since UI benefits are paid on a weekly basis, months are approximated as follows: month 1 includes weeks 1-4; month 2 includes weeks 5-8.5; month 3 includes weeks 8.6-13; month 4 includes weeks 14-17; month 5 includes weeks 18-21; month 6 includes weeks 22-26.

Source: JPMorgan Chase Institute

UI does a good job of cushioning the blow of job loss for the short-term unemployed, but not the long-term unemployed. Those who find a job within six months experience less dramatic and shorter-lasting drops in income (Figure 6). Their income recovers completely within 18 months, possibly because the short-term unemployed are able to be more selective and take high-quality, high-wage jobs. The long-term employed, roughly one in four UI recipients who take longer than six months to find a job, exhaust their UI benefits and their income recovers much more slowly.

Spending drops are also more dramatic for the long-term unemployed than for the short-term unemployed. Among individuals unemployed for fewer than six months, spending drops by 6 percent upon job loss and begins recovering immediately with full recovery by month 16. For those unemployed longer than six months, spending drops by 4 percent upon job loss. Spending drops in total 17 percent by month seven when UI benefits run out, after which spending begins to recover but does not return to pre-job loss levels within our two-year timeframe.

Figure 6: UI benefits provide good insurance against short-term unemployment but are less effective for long-term unemployment

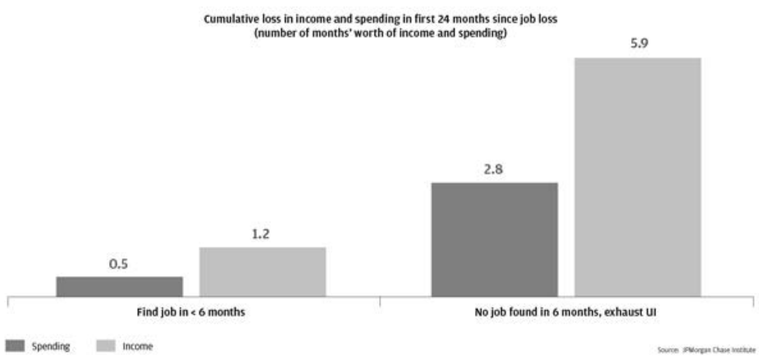


* Reflects UI benefit recipients in states with maximum benefit duration of six months.

Source: JPMorgan Chase Institute

Cumulative losses in income and spending are at least four times greater for those who remain unemployed after six months compared to those who find a job within six months (Figure 7). UI recipients who find a job within six months experience a cumulative labor income loss of $8,938, and, once UI benefits are taken into account, $4,748 or just over one month's worth of income. Cumulatively, these individuals cut spending by roughly one-half of one month's worth of spending. UI recipients who remain jobless after six months experience a much larger cumulative labor income loss of $32,669 and, once UI is taken into account, $21,217 or over five months' worth of income. This translates into more than two months' worth of lower spending over the two-year timeframe.

Figure 7: Cumulative losses in income and spending are four times greater for those who remain unemployed after six months compared to those who do not find a job within six months.



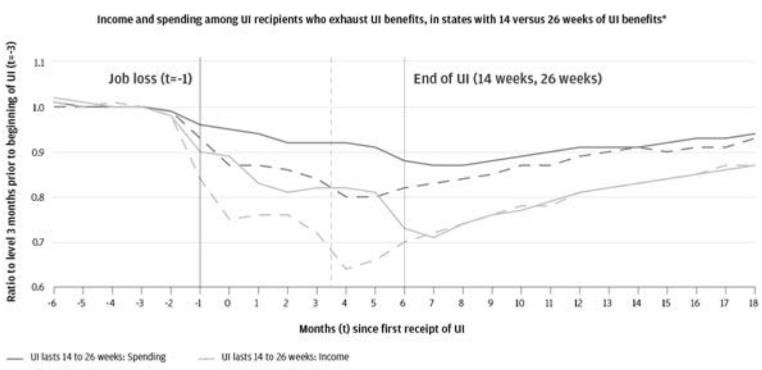
Source: JPMorgan Chase Institute

Additional evidence that UI benefits directly affect income and spending during unemployment comes from a comparison of Florida with other states. Among states in our sample, Florida offers uniquely low unemployment insurance benefits: the maximum benefit duration is tied to the unemployment rate and was 16 weeks in 2014, 14 weeks in 2015, and 12 weeks in 2016; and real benefit levels have fallen by one-third since 2002. Figure 8 compares income and spending of UI recipients who exhausted UI benefits in Florida, which paid a maximum of just 14 weeks of benefits in 2015, to those in states that offer 26 weeks of UI benefits but who received UI for at least 14 weeks. UI benefits are also considerably lower in Florida ($1,010) compared to other states ($1,423). As a result, average incomes in Florida fall more precipitously upon job loss but they start to recover four months after the start of UI benefits, whereas they start to recover after six months in other states. Thus the timing of income recovery coincides with the length of UI benefits.

The depth and timing of spending cuts across states closely follow the path of income. In Florida, UI recipients cut their spending by 13 percent immediately upon job loss compared to just 5 percent among individuals in states with six months of UI benefits. When UI benefits run out, recipients make further cuts to their spending totaling 20 percent in month four in Florida and 12 percent in month six in other states. The cumulative loss of spending in the 18 months after UI receipt is considerably larger in Florida (2.6 months worth of spending) to other states (1.7 months worth of spending).

Florida's less generous unemployment benefits, in terms of both level and duration, seem to result in a spending drop that is 49 percent bigger than the typical state.[13] Despite these deeper cuts in income and spending in Florida, income and spending exhibit similar recovery paths after 12 months. This cross-state evidence suggests that the faster reemployment in Florida does not necessarily lead to improvements in job quality.

Figure 8: Spending drops sharply, but income recovers, when UI benefits end—after 14 weeks in Florida and after 26 weeks in other states



* In Florida UI benefits lasted 16 weeks in 2014 and 14 weeks in 2015. To ensure comparability between samples, this chart compares people who exhausted UI benefits in Florida (i.e. received 14 weeks of benefits) to those in states that offer 26 weeks of UI benefits who received UI for at least 14 weeks.

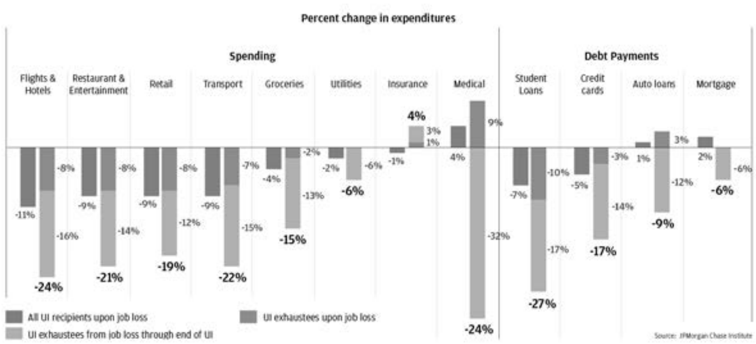
Source: JPMorgan Chase Institute

Finding Four

Among all UI recipients, job loss causes a drop in discretionary spending and student loan payments, but the long-term unemployed cut nearly every category of spending when UI runs out.

At the onset of unemployment, discretionary spending drops sharply. Spending on flights and hotels, restaurant and entertainment, retail, and transport, drops by 9 percent or more (Figure 9). A decreased need for spending on work-related items helps to explain these patterns. When someone stops working, they no longer need to pay every day for expenses like gas to get to work and buying food at the cafeteria. Among all UI recipients upon job loss, spending on non-work related goods such as groceries and utilities drops modestly. Payments to insurance companies and out-of-pocket medical expenses actually increase upon job loss, possibly due to the expiration of employer-sponsored medical benefits.

Figure 9: Job loss causes a drop in discretionary spending and student loan payments, but the long-term unemployed also cut essentials when UI runs out.



UI recipients who do not find a job within six months and exhaust their UI benefits face serious material hardship. In Figure 9 we aggregate the drop in spending from the onset of UI with the additional drop in spending that occurs when UI benefits run out. People make more dramatic cuts to discretionary spending categories by the time UI benefits have run out: spending on flights and hotels, restaurants and entertainment, retail, and transport falls by 19 percent or more. However, people also cut essentials by the time UI benefits have run out—their spending on groceries falls by 15 percent, and even medical expenditures drop by 24 percent.[14]

UI recipients do not cut back on most types of debt payments upon job loss. Eventually, the long-term unemployed make modest cuts to payments on their credit cards (17 percent), auto loans (9 percent), and mortgages (6 percent) when UI benefits run out. The major exception is student loan payments, which fall by 7 percent upon job loss and 27 percent among the long-term unemployed once UI benefits expire. One possible explanation is that the consequences of mortgage and auto delinquency (repossession) and credit card delinquency (loss of a liquid buffer) are more severe than the consequences of student loan delinquency. In addition, income-based repayment policies may allow people in some states to suspend or reduce their student loan payments when their income drops.

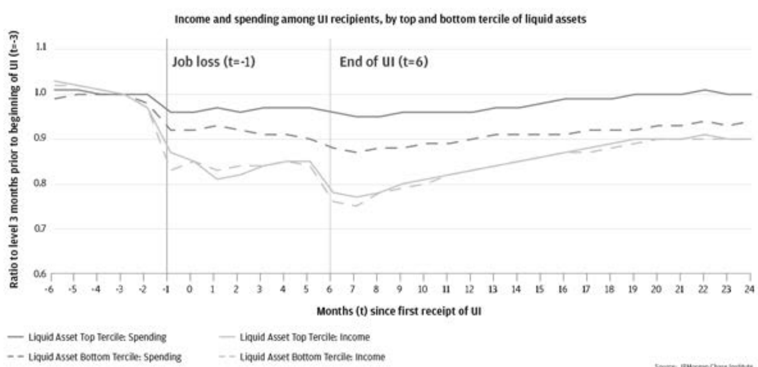
Finding Five

Families with high liquid assets reduce their spending upon job loss by roughly half as much as families with low liquid assets.

Spending drops by much less than total income at job loss (5 percent compared to 16 percent), so how do families make up the difference? We see some evidence that people are using more credit products but not enough to make up the full difference. As mentioned above, debt payments decline only modestly. On average, people borrowed $19 more per month on credit cards during UI receipt. Since people are not using formal credit, they must be drawing down on their liquid assets or borrowing from within their social networks. In fact, during UI receipt, checking account balances drop by $43 per month. Inflows from external accounts increase by $16 per month—representing either transfers from a family's non-Chase account or contributions or loans from friends and family. It is possible that families are using unobserved resources to sustain their spending during unemployment.

We explore the use of private funds as a proxy to understand what it might mean for individuals if they had access to more portable benefits such as individual security accounts. Liquid assets partially mitigate the spending drop associated with job loss. We measure a family's liquid asset buffer as the ratio of their estimated liquid assets to their monthly spending prior to unemployment and group families into terciles. Figure 10 illustrates income and spending for families with different asset buffers. The income loss from unemployment across asset groups is quite similar, but liquid asset holdings are strongly correlated with the extent of the drop in spending. Upon job loss, families with low liquid assets (in the bottom third in terms of liquid assets) cut their spending by 8 percent, while people with high liquid assets cut their spending by just 4 percent. The spending patterns of these groups diverge further when UI benefits run out—families with low liquid assets cut their spending by a total of 13 percent compared to a total of just 5 percent among families with high assets.

Figure 10: Although income recovers at a similar speed for families with high and low liquid assets, liquid assets cushion the drop in spending at job loss and when UI benefits run out



How effective are liquid assets at helping to smooth consumption? As a point of comparison, according to the 2013 Survey of Consumer Finances, among employed households with a checking account moving from the bottom tercile to the top tercile in liquid assets is associated with having roughly $30,000 more in liquid assets. Applying our estimates of spending among UI recipients in the bottom- and top-terciles of liquid assets within the Chase sample to the national distribution of liquid assets implies that a $30,000 increase in liquid assets would yield the same improvement in consumption smoothing as $227 more in UI benefits per month.[15] Put differently, a $100 increase in UI benefits has the same effect on spending as an additional roughly $8,000 in liquid assets. Although the relationship between asset holding and the spending drop is not necessarily causal, this calculation implies that UI benefits are more effective than liquid asset holdings at smoothing spending during unemployment.

Liquid assets partially mitigate the spending drop associated with job loss, but promoting liquid asset accumulation is unlikely to be a sufficient path to helping people smooth spending during unemployment.

In states that offer six months of UI benefits, 27 percent of recipients remain unemployed for six months or longer and exhaust their UI benefits.

Implications for Policy

Studying the income and spending behavior of UI recipients reveals both good and bad news about the role of UI in mitigating the hardships that stem from job loss. The good news from our paper is that, on average, UI benefits cushion most of the blow to families experiencing short-term unemployment who receive UI. Spending does not fall by much at the start of unemployment, and the drop is concentrated in discretionary spending categories. Both income and spending recover in the ensuing months. For those who receive UI, benefits play a critical role in mitigating hardship.

However, UI currently only covers 27 percent of unemployed workers, and expanding eligibility would likely help additional job losers to smooth their consumption. The growth in alternative work arrangements over the past twenty years has shrunk the base of people eligible for UI, contributing to UI recipiency dropping to its lowest recorded level. Reforming UI eligibility requirements to reflect today's labor market and to allow more to participate would expand the positive impacts of UI considerably, particularly among those with limited liquid asset buffers.

Even if eligibility were expanded, the long-term unemployed still experience significant hardship. Spending drops sharply when benefits run out, indicating that benefit exhaustion requires a large adjustment in economic routines. Spending drops across a wide variety of categories including groceries and health care, suggesting that families have a meaningful decline in their well-being after benefits run out. Further, even though UI benefit exhaustion is increasingly likely with each additional month of unemployment, the data show that the drop in spending at UI exhaustion is sudden. Families do not generally prepare for UI benefits to run out.

Looking beyond eligibility, the duration and level of UI benefits also affect the spending of the unemployed. UI recipients in Florida (which offers UI benefits that are less generous than most states in terms of both maximum level and duration) experience more hardship than UI recipients in other states. This suggests that ensuring a minimum number of weeks of UI benefits across all states (e.g., 26 weeks) would reduce hardship in some places. One consideration, however, is that when UI benefits are less generous, people go back to work sooner. These findings therefore point to a potential trade-off that policymakers must weigh when reforming UI benefits, namely whether to reduce the time to reemployment or alleviate more of the economic hardship experienced by the unemployed.

Finally, our data suggest that promoting liquid asset accumulation is unlikely to be a sufficient path to helping people smooth spending during unemployment. We calculated that moving from the bottom tercile to the top tercile of liquid assets, which is associated with having roughly $30,000 more in liquid assets, yields the same improvement in consumption smoothing as just $227 more in UI benefits per month. Government policies are unlikely to be able to incentivize or organize asset accumulation of this magnitude, meaning that there is a continued role for targeted benefits such as UI as part of a social safety net.

> A potential tradeoff in reforming UI is whether to reduce the time to reemployment or alleviate more of the economic hardship experienced by the unemployed.

Unemployment insurance is a critical element of our current social safety net that plays an important role in mitigating the impacts of job loss on income and spending. Families rely on UI benefits heavily and suffer when they run out. With the growth in independent work, UI is a benefit available to fewer and fewer Americans. The fact base presented here can help inform efforts to reform UI and develop other measures to address these new challenges.

Endnotes

1 Prior research on this subject was limited to more infrequent surveys with smaller sample sizes. Gruber (1997) and East and Kuka (2015) use the Panel Study of Income Dynamics (PSID) to examine the impact of unemployment insurance on food spending. The PSID is limited because until recently it did not ask recipients about spending on other non-food categories and because it surveys respondents on an annual or biannual basis.

2 See McKenna and McHugh (2016). Three criteria substantially restrict eligibility for these benefits. First, workers who are self-employed, independent contractors, or work for employers that are not required to contribute money to the federal employment program are not eligible. For example, employees who work at certain nonprofits, at state and local governments, and in agricultural labor services are not eligible for federal unemployment compensation. Second, the worker must lose a job through no fault of his/her own. Allowed causes include a layoff, a company restructuring or the end of seasonal work. It does not cover individuals who voluntarily quit for personal reasons, such as scheduling conflicts, or are fired due to unavailability, misconduct, or noncompliance with company policy. Third, the worker must have substantial wage earnings history in terms of both level and duration of earnings. This requirement means that workers who work part-time or do not have a sufficient or consistent enough wage history over the prior four quarters, might be eligible for more limited benefits or none at all. The Department of Labor reports that minimum wages over a four quarter base period needed to qualify for UI range from $280 in Puerto Rico to as high as $4,622 in Arizona.

3 See McKenna and McHugh (2016) for a time series from 1972 through 2016 and Wandner and Stengle (1997) for a time series from 1948 through 1996. The UI recipiency rate is computed as the number of UI recipients divided by the number of unemployed as reported by the Current Population Survey. National recipiency rates have been over 60 percent under temporary federal programs implemented during recessions.

4 The Department of Labor reported that in 2015 pre-tax earnings replacement rates from UI varied from 29% in Arkansas to 55% in Oklahoma, and, in dollar terms, ranged from $196 per week in Mississippi to $431 per week in Massachusetts in January 2014. North Carolina, South Carolina, Georgia, Florida, Arkansas, Missouri, Kansas, and Michigan offer less than 26 weeks, and Montana and Massachusetts offer more than 26 weeks of UI benefits. Once every week or every two weeks, UI recipients are required to affirm that they do not have a full-time job and are looking for work. When they find a job, benefits stop. The specific weekly payment and number of weeks is based on observed wages in the twelve-month reference period prior to job loss and are subject to maximum duration and amount caps, which vary by state. See Stone and Chen (2014) for additional background information on unemployment insurance.

5 For the purposes of our research, the unit of analysis is a set of bank accounts linked around a single primary account owner, whom we subsequently refer to as a "family." Some accounts represent a single individual. Others have two or more people who jointly own the account. In some cases, members of a family will not administratively link their accounts together. In our sample, the mean number of authorized users per account is 1.5, and 48 percent of accounts have only one authorized user.

6 As documented by the GAO, those who receive UI benefits are less likely to be working in low-wage jobs (as of 2010). Nationally the median monthly income of families in the 12 months prior to unemployment is $5,106 for UI recipients compared to $6,029 among all employed and $4,374 among all unemployed. These figures are based on the Survey of Income and Program Participation (SIPP) panel, which covered 2004 through 2007, and are inflated to 2014 dollars using Consumer Price Index for all Urban Consumers (CPI-U). "Unemployed" refer to people with a reported job separation followed by unemployment in the subsequent month.

7 Our findings are robust to allowing for multiple UI spells. We present results here for a single UI spell since it enables us to more clearly date the duration of job search.

8 The change in income upon job loss is measured as the difference between income three months prior to receipt of the first receipt of UI (t=-3) to one month after the first receipt of UI (t=1).

9 This replacement rate is estimated for the second month in which the UI check is received to ensure a full month of UI checks. However already by the second month, as shown in Figure 5, 23 percent of recipients have found a job. Conditional on receiving a UI check, the average monthly value of UI benefits is $1,423. A 66% replacement rate is substantially higher than the 30-50% statutory replacement rates published by the Department of Labor. The primary reason for this gap is that payroll and income taxes are withheld on labor income but there is no withholding on UI benefits. A secondary reason is that the JPMCI data only capture labor income paid by direct deposit; about 16% of payroll dollars are paid using paper checks.

10 Spending results in this report differ a bit from those reported in Ganong and Noel (2016); we use a more expansive definition of spending, while Ganong and Noel (2016) focus on nondurable spending.

11 We define low-benefit states as places with below-median family income replacement rates. Our full sample includes 18 states. In this analysis we include 12 states which show comparable trends in income and spending prior to job loss. The states with low benefits as a fraction of income are: Illinois, Arizona, New York, Ohio and Wisconsin. The high benefit states are: New Jersey, Idaho, Nevada, Washington, Kentucky, Utah, and Oregon. Three potential factors which could lead to a larger spending drop in low-benefit states: less generous non-UI safety nets, worse labor market conditions for jobseekers, or less advance news about a layoff. In fact, states with more generous UI have less generous Medicaid and SNAP benefits ($1600 per capita in high-UI states versus $1850 per capita in low-UI states) and similar labor market conditions in our sample period (5.6% unemployment in high-UI states versus 5.7% unemployment in low-UI states). Finally, the path of spending is similar in both low- and high-benefit states in the six months prior to the onset of unemployment, which is consistent with unemployment being equally a surprise in both states. However, there could be an omitted factor other than these three which is correlated with UI benefit levels and ability to smooth consumption.

12 This calculation is comparable to that estimated by Gruber (1997), who estimated that UI benefits averted 69 percent of the drop in food consumption, which fell by $243 (in 1984 dollars) or 7 percent instead of an estimated $792 in the absence of UI benefits.

13 We do not believe these results are specific to Florida. Ganong and Noel (2016) found that income recovery and further spending cuts occur at exactly 20 weeks in Michigan where the maximum benefit duration is 20 weeks.

14 We only observe the subset of out-of-pocket medical spending which is paid for with a debit or Chase credit card. In a future report, JPMC Institute will examine patterns of out-of-pocket medical spending in more detail. Tabulations from the Diary of Consumer Payments indicate that about one-third of out-of-pocket medical spending is paid for using cards.

15 In Figure 10, we segment individuals according to liquid asset using a household liquid asset estimate ascertained by JPMorgan Chase. We believe this asset estimate is better at ranking households by liquid assets than estimating the level of liquid assets. Therefore for the purposes of this calculation, we rely on the Survey of Consumer Finances for liquid asset levels within each tercile.

Acknowledgments

We thank David Wasser for superb research assistance and Kevin Feltes for help with writing. We would also like to acknowledge the contributions and support of the entire JPMorgan Chase Institute team and the JPMorgan Chase Intelligent Solutions team of data experts, without whom this research would not have been possible.

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We would like to acknowledge Jamie Dimon, CEO of JPMorgan Chase & Co., for his vision and leadership in establishing the Institute and enabling the ongoing research agenda. Along with support from across the Firm—notably from Peter Scher, Len Laufer, Max Neukirchen, Joyce Chang, Matt Zames, Judy Miller, and Alexis Bataillon—the Institute has had the resources and support to pioneer a new approach to contribute to global economic analysis and insight.

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http://blogs.wsj.com/economics/2016/09/15/more-weeks-of-unemployment-benefits-dont-lead-to-better-paying-jobs/

ECONOMY | EMPLOYMENT

More Weeks of Unemployment Benefits Don't Lead to Better-Paying Jobs

Florida residents with less jobless insurance see a deeper initial income cut, but find employment more quickly

A military veteran, right, attends a job fair in Pembroke Pines, Fla. Floridians get smaller unemployment checks for fewer weeks than most Americans. *PHOTO: LYNNE SLADKY/ASSOCIATED PRESS*

By

ERIC MORATH

Sep 15, 2016 10:59 am ET

Newly unemployed Floridians receive less generous jobless benefits for fewer weeks than allotted in most states.

The result? They find new employment more quickly, and those jobs pay as well as positions found by workers in other states, according to data the **JPMorgan Chase Institute** released Thursday.

In Florida, the maximum length of unemployment-insurance benefits is tied to the unemployment rate in the state. Last year it was 14 weeks. This year it's 12 weeks. Florida is one of a number of states that has cut the maximum amount of benefits in recent years. Most states provide the newly jobless 26 weeks, or six months, of support.

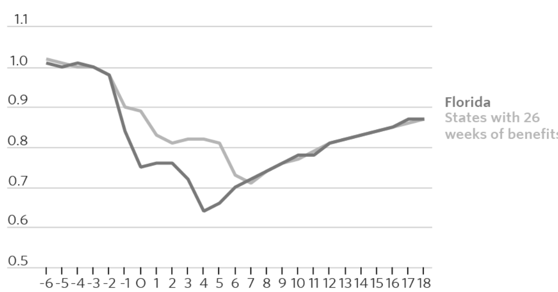
What's more, Florida's benefit payments are about 30% smaller than those made in other states the institute studied.

The shorter duration and smaller payments appear to cause Florida workers to cut back more sharply on spending after losing their jobs. Florida recipients cut their spending by 13% upon job loss, compared with 5% among people in states with six months of benefits, the report found.

But four months after receiving the first payment, when benefits would have been exhausted last year, Floridians who had been on unemployment rolls began to see their incomes rise again. That suggests more found new jobs. In states with six months of payments, incomes didn't start to improve until after seven months.

Income After Job Loss

The ratio of household income to income before job loss. Based on months before or after first receipt of unemployment benefits.



Source: JPMorgan Chase Institute
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"For those states providing less benefits, like Florida, the unemployed face a lot more initial hardship," said **Diana Farrell**, chief executive of the institute. But "they get back to work more quickly....It's a trade off."

By eight months after receiving the first benefit payments, recipients in Florida and states with more generous benefits had similar incomes, about three-quarters of their household earnings before losing their jobs. Income for both groups of former unemployment beneficiaries then grew at the same trajectory, through the next 10 months studied.

"Unemployment insurance is serving its primary function, to be a bridge between jobs, quite well," Ms. Farrell said. But it's "not clear you have a significant benefit between four and six months" of payments.

The JPMorgan report is based on an anonymized sample of 160,000 regular Chase banking customers who received unemployment insurance between 2014 and 2016 across 18 states.

The shorter duration of payments for Florida residents who lose their jobs cut does cut back on their spending more significantly. When benefits run out, recipients make further cuts, totaling 20% in the fourth month after the first payment in Florida, versus 12% in the sixth month in other states.

Nationally, new applications for unemployment benefits are near a four-decade low, according to the **Labor Department**. That suggests employers are reluctant to lay off workers with the unemployment rate below 5%. Just more than two million Americans received benefit payments in recent weeks.

That's about 27% of the unemployed. Other job seekers have seen their benefits expire, or are entering or re-entering the workforce after time away for school, family or other reasons.

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Public Submissions For The Record

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Human Resources
Hearing on Unemployment Insurance:

An Overview of the Challenges and Strengths of Today's System

Wednesday, September 7, 2016, 10:00 A.M.

By Michael G. Bindner
Center for Fiscal Equity

Chairman Buchanan and Ranking Member Doggett, thank you for the opportunity to submit these comments for the record to the Human Resources Subcommittee. We will leave it to the Administration witnesses to comment on program integrity and trust fund solvency and will concern our comments with reemployment strategies, as well as the unmentioned and most urgent topic of program payment sufficiency within the Unemployment Insurance system.

Unemployment insurance should offer workers the ability to step up, seeking further training and even more advanced education at the community college level and higher. Of course, the Unemployment Insurance Trust Fund is not the place to fund such projects – new funding streams should be developed. Because this training will ultimately benefit employers, some kind of employer subtraction value added tax would be the appropriate vehicle for both training costs and the training stipend. The H-1B technical skills training program can also be used for some of these funds. More highly trained workers would be given placement assistance and would be eager to demonstrate their new skills in the marketplace.

Unemployment benefit adequacy is the difference between losing your home and paying your credit cards and seeking bankruptcy protection. The recovery has not yet attained the velocity to make re-employment an automatic thing – even with placement assistance is the One Stop system.

There is a movement to increase the minimum wage to $15 an hour. It has already succeeded in some states and is likely to go national in the very near future. When it does so, Unemployment Compensation should be increased to match what a full-time minimum wage worker receives, lest the unemployed be forced to take jobs at that level of skill (when in fact, such workers should be receiving the paid training described above). Likewise, people on SSDI – and even SSI – should receive the same level of basic benefit – with higher benefiting recipients receiving the same higher benefits they receive now, boosted by the new minimum wage – which should pay for the transition in tax revenues.

For many, the United States has become the home of the poor. We can and should fix that. It will simply require employers to transfer productivity gains from CEOs to rank and file employees. We can do this now, without fuss, or we can bring back wage and price controls and the 70% tax rate to keep these funds out of executive hands. I suggest we do so the easy way without engaging punitive tax rates and price controls.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Contact Sheet

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