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PREPARED TESTIMONY FOR THE RECORD of the:
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON HUMAN RESOURCES
Hearing on the Implementation of 2012 Unemployment Insurance Reforms
Offered by Bill Starks, Unemployment Insurance Director
Utah Department of Workforce Services

Introduction

Mr. Chairman and Members of the House Human Resources Subcommittee, I am Bill Starks, the Unemployment Insurance Director of the Utah Department of Workforce Services. I have been involved in Unemployment Insurance administration for 33 years. I appreciate the opportunity to provide you with my observations on last year's Middle Class Tax Relief and Job Creation Act of 2012 and re-employment opportunities on the UI system.

The Utah Department of Workforce Services (DWS) Unemployment Insurance (UI) program is focused on a few core goals:

- Effective re-employment of UI claimants is fundamental to maintaining the economic well-being of individuals, the state and the nation.
- Effective integrity and compliance safeguards help ensure the long-term solvency of the UI trust fund.
- Continual process improvements that focus on cost-effective service delivery provide maximum value to claimants and employers supported by data-driven outcomes.

Providing re-employment support for UI claimants should be an integrated UI, Wagner Peyser and Workforce Investment Act (WIA) service delivery effort in partnership with public and private entities. Early engagement of UI claimants is critical to effective re-employment and is a "win-win," helping claimants learn the life skill of effective job search, getting claimants back to work sooner and helping employers who are ultimately funding the UI system. However, the current funding streams that are needed to implement cost effective re-employment initiatives need to be more flexible. Congress should consider incentivizing states that demonstrate they can help claimants and save money within the UI trust fund at the same time. While many re-employment and integrity activities can clearly establish very positive returns on investment to the UI Trust Fund, current federal law prevents the states from utilizing a small portion of the savings to continue these types of activities. However, this should not be in lieu of, or a replacement of, the current administrative funding streams.

Background

Shortly after the Great Recession began in 2008, Utah discovered that we did not have the resources to effectively engage the explosion of new UI claimants, the claimants were not prepared to become re-employed and our systems were not aligned to provide effective integrated re-employment services. The number of UI claimants increased three-fold in less than 12 months; states were simply scrambling to pay benefits to the influx of new claimants. Fortunately, Utah had invested in high quality UI and ES information technology systems that provided us with greater flexibility and options for developing a more automated approach to re-employment.

Discoveries

In our studies of our programs, we had three significant discoveries that have important implications for how we operate our programs. First, Utah performed a control group study and surveyed 505 UI claimants participating in Utah's REA program and found that they rated their job search readiness at a D+ average. Through online workshops alone, we saw job search readiness climb approximately two grades to a B+. This indicated a major job search skills gap and a great opportunity to better prepare job seekers to seek and land jobs.

Second, we implemented an online work search requirement involving job search skills enhancement that averaged less than one hour of commitment per week for a two-week period. In our initial work 31.5 percent of claimants refused to participate. Once their benefits were suspended, 25 percent of our claimants complied (6.5 percent did not) and became re-engaged in work search. This demonstrated that we have approximately one in four claimants who were not engaged but who could easily become engaged in meaningful activities through the latest in on-line learning.

Last, we found that claimants who were required to use our online job search readiness system voluntarily completed over 30 percent more modules than they were required to complete. This told us that the claimants not only were willing to re-engage and improve their job search readiness, but also appeared to value the training and work search activities they were asked to complete.

Utah's Re-employment Approach

Utah's average UI duration went from a high of 18.2 weeks in 2009 to 13.5 weeks at the end of 2012, the 49th lowest in the nation despite having a fairly high wage replacement rate. UI partnered with our Workforce Development Division (WDD) and our Utah Department of Technology Services (DTS) to implement multiple strategic initiatives. Utah also leveraged American Recovery and Reinvestment Act (ARRA) stimulus funds, U.S. Department of Labor (DOL) Supplemental Budget Request (SBR) grants, Reed Act Distributions and federal

administrative grants to help fund the initiatives. While we have made progress, our goal is to continually strive to improve services for employers and job seekers.

Provide Meaningful UI Claimant Requirements

Regardless of the strategy to help claimants, they must be provided with meaningful expectations that focus claimants on returning to the workforce as their top priority. In Utah, we are employing an agency-wide strategy designed to align our entire department around a common goal: jobs. We require our claimants to participate in mandatory re-employment activities; failure to participate without good cause will result in denial of UI benefits.

- In Utah, UI claimants are required to register for work with the department's online job board within ten business days of their initial claim to qualify for benefits.
- In February 2011, Utah doubled the minimum work search requirements to four job contacts per week, which can take less than two hours per week. Returning to work should be a full-time job. Not all states require this type of activity. Not only does this set the wrong expectation for the UI program, it skews the primary measure by which Congress and the DOL seem to be using in assessing improper payments from state to state through the Benefits Accuracy Measurement (BAM) process. In August 2012, Utah converted its systems to require that all UI claimants file their weekly claim online, which includes documenting their four job contacts. We had a very positive outcome with 99 percent compliance by the second week of implementation.
- We also engage claimants in workshops, eligibility reviews, re-employment counseling and other activities as a condition of eligibility for continued benefits.

Utah's Five-Part Triaged Re-employment Strategy:

With limited resources and record UI caseloads, we designed a "triaged" approach to engaging the claimants through integrated online interfaces, assessments, learning and tools as the initial tier of services and staff-assisted services as the second tier. Job seekers are more motivated in early weeks of unemployment so it is ideal to equip them and engage them immediately. From Utah's perspective it is far more cost effective to provide as much in online self-service options as is reasonably possible before engaging claimants with staff-assisted re-employment services.

1. **Enhanced Job Registration System:** ARRA Stimulus funding was devoted to integrating Utah's current job-match system with our UI benefits system. Utah invested approximated \$440,000 of these one-time funds to help modernize the self-service job exchange portal to realize a sustainable technology benefit rather than

invest all of the funds in unsustainable staffing costs. The integrated systems gather more accurate and complete data from job claimants and eliminate redundant data collection. New AutoCoder software assigns ONET codes to job seekers and employer job orders, and these assigned ONET codes are transferred to Labor Market Information (LMI). LMI provides individually relevant job market information to claimants on their personalized “My UI Account” web page, providing relevant information on job openings they are qualified for that is seamlessly integrated into their weekly online filing process.

- 2. Online Overview and Evaluation Workshops:** Effective July 2012, all non-deferred UI claimants are required to take an online overview and evaluation as part of their work registration requirement, which is seamlessly integrated into the online initial claims process. The overview provides a brief introduction to DWS re-employment services and direct links to training and educational opportunities, supportive services and job opportunities. The claimant is then guided to an evaluation that asks 24 straightforward questions designed to identify their need for basic re-employment skills. Depending on claimants’ answers to the questions, they are required to take up to five online re-employment workshops. Results of the online evaluation will also populate our employment services system, UWORKS, for employment counselors to view in order to assess additional tools or resources the job seeker may need. Claimants must complete workshops to address their job search skills gaps within 14 days to avoid a claim denial unless the claimant can demonstrate good cause for failure to complete the workshop(s).

The need for developing online re-employment workshops became immediately apparent. Providing in-person workshops to all UI claimants would have overwhelmed employment centers; the department had neither the space nor the staffing to reach out to all new UI customers at the same time. The department had developed staff-assisted workshops a couple of years earlier that were showing promising outcomes by reducing the average duration of UI claimants that participated. However, the majority of the claimants never participated or did so just before they exhausted their entitlement to benefits.

- a. Initial outcomes indicate that UI claimants are much better prepared to become re-employed sooner, 39 percent of the claimants completing the workshops were hired versus only 28.3 percent for claimants who did not complete the workshops, representing a 37 percent increase in hire rates.
- b. Claimants seem to like the workshops; they are voluntarily completing 42 percent more online workshops than they are required.
- c. Approximately 7 percent of claimants failed to complete their online workshop(s) and are now ineligible for UI benefits. This has proven to be a

very cost effective service delivery option that is sustainable and provides significant savings to the trust fund.

- 3. Enhanced Integration of Employment Services with UI:** Utah developed a Re-employment Support Services (RSS) system that allow employment center staff to select appropriate UI claimants to engage in workshops, employment counseling, job fairs and other re-employment activities provided the claimant remains unemployed 30 days after completion of their online workshops. While nothing prevents a claimant from seeking staff-assisted services at any point in their claim, our objective was to maximize the potential benefits of the self-service option first. The automated system facilitates written notification to claimants of their selection for re-employment workshops, automated tracking systems and an automated feedback loop to UI adjudication if they fail to participate in these re-employment activities. This also allows employment centers to engage active UI customers who are also receiving assistance from one or more other DWS public assistance programs. This helps the department leverage our resources while helping to reduce both UI and public assistance caseloads simultaneously.

 - a. Outcomes indicate that 45 percent of the claimants who follow through with the engagements were hired versus only 31.1 percent for claimants who did not complete the engagement, representing a 45 percent increase in hire rates.
- 4. Re-employment Eligibility Assessments (REAs):** REAs combine (1) in-person UI eligibility reviews, (2) labor market information, (3) development of an individual re-employment plan and (4) referral to re-employment services or training. The first Utah REA claimants were selected on September 6, 2010. Claimants are selected using a profiling model that utilizes statistical data to identify claimants who are most likely to exhaust their benefits.

Utah's second REA grant started on September 7, 2011, and ended on March 31, 2012. In our second REA grant year, Utah implemented follow-up REA interviews for claimants who have received initial REA services. These interviews provide additional assistance to help claimants reach their re-employment goals and ensure they are keeping commitments made in the initial visit. REA workers are also able to schedule UI REA claimants for in-person re-employment activities that are enforced by denying benefits if the claimant does not participate. These activities served to further enhance claimant re-employment preparation. Utah started its third year of participation in the REA program on April 1, 2012. Similar to recent research conducted by IMPAQ International in 2011, Utah found evidence that the REA

program is effective in reducing UI duration and generating savings to the UI trust fund.

- a. To date, the individuals selected to participate have drawn \$3.5 million less in regular state UI benefits than the “control group.” Additional significant savings to the EUC federal trust account were also realized.
- b. Taking into account \$1.7 million in administrative costs, Utah generated a \$1.8 million net positive return.
- c. Our most recent results indicate 21 percent of claimants selected to participate in the program are no longer collecting UI benefits because they failed to participate within 10 days of being selected.
- d. Results also indicate that 12.9 percent fewer claimants exhaust their benefits than the control group.
- e. Claimants experienced 4.7 percent fewer weeks compensated than the control group.
- f. Claimants experienced 141 percent more disqualifications than the control group.
- g. Claimants experienced 9.4 percent more re-employed than the control group,
- h. Claimants experienced 5.9 percent fewer weeks to date of re-employment than the control group.

- 5. REAs for EUC Claimants:** Section 2142 of the *Middle Class Tax Relief and Job Creation Act of 2012 (HR3630)* required states to provide re-employment services and REAs to claimants who begin receiving EUC First Tier benefits or who transition from First Tier to Second Tier on or after March 23, 2012. This requires (1) in-person UI eligibility reviews, (2) labor market information, (3) a skills assessment and (4) orientation to the services available in the One-Stop Centers.

Utah feels there is always value in engaging UI claimants. However, engaging the UI claimant in the early stages of the claims process will provide far greater trust fund savings and EUC benefit savings. Currently, unemployed Utahans are only eligible for up to 14 weeks of EUC Tier I benefits, due to Utah’s 5.3 percent three-month average Total Unemployment Rate. The claimant is required to be scheduled for the in-person REA by their sixth week; thus the EUC claimant will have eight or fewer weeks of EUC benefits remaining by the time they have completed the engagement.

- a) To date 24 percent of claimants selected to participate in the program are no longer collecting UI benefits because they failed to participate within 10 days of being selected.

By comparison to other current initiatives, we expect to not only achieve better trust fund cost savings than all of our benefit cross match integrity efforts together but also much better employment outcomes in the process.

Utah's Reaction to Recent Programs and Opportunities

Given Utah's experience with an integrated reemployment approach we have the following thoughts on recent programs and opportunities to improve our unemployment insurance system.

New Work Search Provisions of EUC Claimants:

Section 4001 of the EUC as amended by the *Middle Class Tax Relief and Job Creation Act of 2012* required EUC claimants to do the following:

- I. Register for work with the state agency.
- II. Engage in an active work search.
- III. Maintain documented work search records and provide them to the state upon request.

Utah believes these requirements are good public policy and supports their enactment. Utah already requires both regular UI and EUC claimants to provide documentation of four job contacts as part of their weekly online UI certification process.

Demonstration Projects:

Section 2102 of the *Middle Class Tax Relief and Job Creation Act of 2012* provided that DOL could waive the provisions of the Social Security Act §303(a)(5) and the Federal Unemployment Tax Act §3304(a)(4), which require a state to use all money withdrawn from its unemployment compensation (UC) fund solely for the payment of UC benefits and enter into agreements with up to 10 states that will develop demonstration projects that expedite the re-employment of individuals receiving UC benefits without increasing the net cost to the states' unemployment trust fund account.

However, Section 305(e) provides that activities under an approved demonstration project are limited to the following:

1. Subsidies for employer provided training, such as wage subsidies
2. Direct disbursements to employers who hire individuals receiving unemployment compensation, *not to exceed the weekly benefit amount (WBA) for each such individual, to pay part of the cost of wages that exceed the unemployed individual's prior benefit level* (emphasis added)

The above italicized provisions create, in our opinion, a major stumbling block for an efficient and effective re-employment demonstration project that provides employers hiring incentives. DOL issued guidance (UIPL 15-12) and provided an example of how this statutory provision is interpreted. Direct disbursements to employers are only permissible if the individual's wages in re-employment exceed such individual's prior WBA and may only be used to pay the difference between the new weekly wage and the individual's prior WBA. For example, if an individual's WBA is \$300 and the weekly re-employment wages are \$400, the wage subsidy could be no more than \$100, the amount by which the wages exceed the WBA.

The Utah Department of Workforce Services (DWS) implemented an effective re-employment initiative almost three years ago, the Utah Back to Work program, which provides eligible employers hiring incentives for hiring individuals currently receiving UI benefits. It provides the employer \$500 at the time of the hire and another \$1,500 if the employer retains the worker for 90 days. This appeared to be an ideal potential demonstration project, under the recently enacted legislation. However, as you can imagine, it would be extremely difficult to market, let alone administer, both for the employer and the department. Virtually every person hired would create a different incentive amount; the employer would have to certify weekly payrolls; and WBA's that run Sunday through Saturday would need to be reconciled with the employer's weekly, bi-weekly or monthly pay periods. In summary, the administrative burdens placed on the department and employers would likely far outweigh the possible benefits of the program.

Utah applauds the idea of demonstration projects that encourage innovation and risk-taking in the design of effective re-employment initiatives; however, Congress should consider amending this law to make it less burdensome to encourage states to participate.

Support Increased Flexibility of Resources:

Separate federal funding sources and associated program boundaries can present obstacles to integrated service delivery. There are clear limitations on how UI, Wagner-Peyser and WIA funds can be spent. While the intent of the limitations is to ensure effective and appropriate program administration, it effectively makes integration more difficult.

Section 303(a) (8) of the Social Security Act (SSA) restricts Title III grants to be used "solely....for the proper and efficient administration" of the state's unemployment compensation law; broadening the definition would provide administrators greater flexibility and resources, creating effective re-employment initiatives.

DOL has shown good leadership with its focus on re-employment, integrity and state consortium initiatives. It is time to connect benefits and employment into a seamless service delivery strategy without creating funding barriers.

Summary of How to Better Integrate UI into the Overall Workforce System:

- Engage claimants earlier in claims. Virtually all data suggests that the earlier in a claim that a state actively engages UI claimants in re-employment activities, the sooner the claimant returns to the workforce.
- Establish clear and meaningful expectations for claimants that re-employment is a priority and requires a full-time commitment. Claimants need to be held accountable when directed to re-employment activities and understand that there are consequences if they choose not to participate.
- Provide UI claimants an integrated approach, maximizing the latest in effective online learning and other technology wherever opportunities exist, to ensure claimants are fully engaged in all employment opportunities. An integrated automated approach is the most

cost-effective and feasible opportunity to initially engage the overall claimant population, saving enough time for employment services staff to focus on the claimants with multiple barriers who most need our help.

- Provide high-quality information technology systems to support your re-employment mission; this is mandatory, not optional.
- Increase flexibility with how program resources are used for re-employment initiatives without jeopardizing program integrity or accountability.
- Increase flexibility with the use of waivers and demonstration projects to incentivize states for developing innovative strategies for getting claimants re-employed sooner and realizing trust fund savings. Consider allowing states to use a small percentage, for example 5 to 10 percent, of any new net trust fund savings generated from enhanced re-employment (or integrity efforts) if such new uses would have a positive return on investment. This could enhance ongoing administrative funding while encouraging states to undertake meaningful initiatives.
- Provide timely follow-up (preferably electronically) to claimants throughout the life of their claim to ensure they continue to be actively engaged in their efforts to return to the workforce.
- Understand that though not all claimants are committed to getting back to work; if we encourage them with meaningful tools and support, the vast majority of claimants can become engaged and improve their job readiness. Sometimes through sheer persistence, claimants will become more engaged in their own success, close their job search skills gap and achieve much better employment outcomes.