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*** FRIDAY, MARCH 11, 2011 AT 10:00 A.M. *****



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NATIONAL ASSOCIATION OF STATE WORKFORCE AGENCIES (NASWA)

**TESTIMONY ON DATA MATCHING AND REDUCING BENEFIT
OVERPAYMENTS**

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**TO THE SUBCOMMITTEE ON HUMAN RESOURCES
COMMITTEE ON WAYS AND MEANS**

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Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to testify today on the use of data matching to improve program integrity and reduce benefit overpayments. The National Association of State Workforce Agencies (NASWA) represents all 50 states, the District of Columbia and Puerto Rico, on issues relating to unemployment insurance, workforce development and job training. NASWA submits this testimony for the record and requests permission to submit several charts to accompany the testimony.

I am Joe Vitale, the Director of the Information Technology Support Center (ITSC) at NASWA. ITSC was created in 1994, and moved under NASWA on September 1, 2009. ITSC is dedicated to developing and advancing information technology solutions for state unemployment insurance agencies in partnership with the U.S. Department of Labor (USDOL). The ITSC is funded through three main sources: a direct grant by USDOL, grants for special projects from USDOL and single-state or multi-state direct funded projects.

As you review my testimony on how to improve customer service and program integrity through data matching please bear in mind the trade-off states face between paying benefits when due and obtaining timely information to accurately determine eligibility.

NASWA and states are implementing information technology in partnership with the USDOL and private sector vendors. These include data exchange and matching technologies, such as the Interstate Connection Network (ICON) and its associated Wage Record and Interchange System (WRIS), the State Information Data Exchange System (SIDES), and the National Labor Exchange (NLX).

Technology to Improve UI Program Performance and Administration

Since the early 1980s, a partnership of states and the Federal government, with private sector support, has developed leading-edge technology to improve UI program performance and customer service, and reduce UI overpayments. Two solutions, ICON and SIDES, involve data exchange and data matching.

Early Innovations: Interstate Connection Network (ICON) and Wage Record Interchange System (WRIS)

The first data exchange initiative dates back to 1982, when a state-to-state communications network was created by USDOL and six states. USDOL called this data exchange process and communications network the "Internet." The project was designed to facilitate cross-matching of UI data between states. In 1983, the name was changed to Unemployment Insurance Interstate Connection Network, or ICON. This early cooperative effort between the states and USDOL still exists today and the alliance now includes all 50 states, the District of Columbia and Puerto Rico.

ICON features 20 different applications for the exchange of data among states and between the states and the federal government. Examples include the use of ICON for the administration of interstate unemployment benefits, disseminating state wage information for federal employees and ex-military individuals filing for unemployment benefits, validating Social Security Numbers (SSNs) through the Social Security Administration for all individuals filing unemployment claims, and state access to information on the Health Coverage Tax Credit for import-displaced workers. Recently USDOL, working with a private-sector vendor, is modernizing ICON's 1980's technology platform, and moving from a private, secure mainframe network to an Internet-based design.

A key application of ICON is WRIS, developed for the purpose of exchanging wage data among states for augmenting intrastate Workforce Investment Act (WIA) performance data. WRIS maintains an index file to individuals' quarterly wage information stored by states. WRIS allows wage data to be exchanged among states, enabling workforce programs to secure wage data for individuals who have participated in workforce investment programs in one state then subsequently secured employment in one or more other states. By participating in WRIS, states have a more accurate picture of the effectiveness of their workforce investment programs, and are able to report more comprehensively on their performance.

The Unemployment Insurance State Information Data Exchange System (SIDES)

Until recently, most state UI integrity activities related to overpayments focused on detection and collection. The UI State Information Data Exchange System (SIDES) is a new partnership between USDOL, NASWA, states, large multi-state employers and employer third party administrators (TPAs) aimed at preventing overpayments and

improving the overall integrity of the UI system. A TPA is an organization that functions as an agent for employers in dealing with state unemployment insurance programs.

In FY 2010, the UI system paid \$144 billion in Federal and state unemployment benefits to 11.4 million claimants. States paid about \$63 billion in state benefits (excluding federal extensions); the USDOL estimates 10.6 percent of these benefits were overpaid.

Approximately 20 percent of the estimated improper payments are attributable to job separation issues, that is, state determinations concerning the reason why workers are no longer employed (See Figure 1 Overpayments). Most states request separation information from employers or their agents via a slow and manual paper-based process through the U.S. Postal Service. Ensuring the state unemployment insurance agency receives accurate and timely information from employers upon request would reduce this type of overpayment.

A few years ago, with the help of funding from USDOL, a consortium of six states – Colorado, Georgia, New Jersey, Ohio, Utah and Wisconsin – a large national employer (JC Penney), and employer TPAs (ADP, TALX) began to design a standardized format and process for requesting and collecting separation information on UI claimants.

To help address this issue, NASWA and USDOL have worked with this consortium of states to pilot SIDES. SIDES will provide a secure electronic data exchange between states and employers with a standard format. This will help improve the quality and timely receipt of information by states.

SIDES is an electronic message broker between state agencies and employers or their TPAs. The information is transmitted securely over the Internet using a standard data exchange format. Communication is managed by a central software application, or “broker” (See Figure 2 Broker). The broker relies on a computer-to-computer Internet connection.

The broker is analogous to the US Postal Service, an intermediary that relays mail to and from state UI programs and employers. Requests for information from employers are batched or grouped by the state and transferred over the Internet securely to the central broker. Employers have two options: secure computer-to-computer file transfer or data entry through a secure website.

- Large multi-state employers can pick up from the broker the UI program request file and return separation information to the state UI program electronically multiple times daily;
- Small- and medium-size employers can participate in SIDES on a secure website.

The state transmitting the original request to the broker will then pick up the file from the broker and process the data into its back-end systems, linking it to the appropriate claimant record. Ultimately, separation data from SIDES are made available to the state

UI program to make accurate and timely decisions on the eligibility of unemployed individuals.

Today SIDES is in production in four states – Colorado, Georgia, Ohio and Utah –and one large TPA, ADP. Eighteen additional states have received funding from USDOL to integrate SIDES into their systems and are committed to implementing the system by early 2012, (See Figure 3 SIDES States).

When fully operational, this system will address and improve three vital areas: UI timeliness and accuracy of information, administrative cost savings, such as postage costs, to states and employers, and the reduction of improper benefit payments.

States have to undertake a significant programming effort to incorporate SIDES into their legacy UI claims processing systems. Newer technologies, such as imaging systems, enable states to convert the data received back from employers through the SIDES broker to images that state UI staff program members can read.

Preliminary information indicates SIDES has the potential to improve customer service, and reduce postage costs and overpayments. Performance data from the state of Utah, the first pilot state, show that 99.4 percent of all cases processed by the SIDES system were received back timely from employers. In some states, the sole communication of separation information from SIDES will reduce the postage costs dramatically. For the remaining states requiring communication of other information to employers NASWA is working to add another data exchange format that will reduce postagecosts substantially.

Another data exchange format under development that will also help in reducing overpayments is Earnings Verification (See Figure 4 Data Exchange Formats). This SIDES exchange is intended to help reduce the overpayments resulting when claimants wrongly fail to report on time they have gone back to work. Working while receiving benefits is the single largest reason for UI overpayments --in FY 2010, this category accounted for 29.3 percent, or \$2.1 billion, of overpayments.

Once the SIDES Earnings Verification functionality is in production, states will be able to gather results from the National Directory of New Hires (NDNH) cross-matching system indicating claimants who have gone back to work and automatically feed these data as a request into the SIDES broker, enabling employers to provide the states with verification of the individual's job start date and earnings for the time period in question. The earnings verification exchange will be ready for state and employer use in May 2011.

Concept for a National Applicant Directory and Data Matching System

In 2009, Congress appropriated \$37.5 million to create a Partnership Fund for Program Integrity Innovation in the Office of Management and Budget (OMB). NASWA recently submitted a concept paper to OMB seeking funding, proposing a National Applicant Directory and Data Exchange System modeled after two successful NASWA and USDOL initiatives -- UI SIDES and WRIS.

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This proposal is aimed at providing quicker, more consistent, and more accurate benefit eligibility information across a range of social programs by reducing the manual burden and duplication of effort in gathering eligibility and benefit information from program participants through the use of proven technology currently used by the state workforce agencies for UI and workforce system purposes. Unemployment Insurance, Education Assistance, Housing Assistance, SNAP (Food stamps), TANF, Medicare, Medicaid, Social Security Disability Insurance and Supplemental Security Income under SSA are some of the federal, state and local programs that could participate in this system.

The concept is to create a national index of applicants for these specific pre-defined social programs as the single source of customer data for use in determining program eligibility. The index will catalogue program recipients using a unique identification number and provide an indicator or pointer to the state and program area where the individual is receiving program services. This national index of program recipients will serve as a virtual clearinghouse of applicants for all participating programs. This centralized index file approach is featured in WRIS. In addition, WRIS data sharing agreements signed by participating states set the foundation for similar types of agreements needed to protect confidentiality in the National Applicant Directory and Data Exchange System.

A request for applicant data by a state or local agency for use in determining benefits eligibility would be processed by the requesting state through a web service to a central broker similar to the design used in the UI SIDES application (See Figure 5 Data Exchange System). The request could be batched and transferred periodically using secure web services or sent individually, and would be posted on a national secure website. Through this process, information including personal demographics, education, training, skills, wages, job history, and benefit receipt by the individual are collected.

The central repository does not contain the specific data being requested. It only maintains the applicants' name, unique identifier and an index to the state(s) and program(s) where the applicants' predefined data elements are stored. Standard predefined requests for applicant data or data exchange formats are sent to the central broker periodically during the day by the requesting state. These requests for data are picked up periodically by the participating states and programs, and processed through their back-end systems.

This model uses automated, standard, agreed-to-data exchange request formats. Applicants for benefits and services only have to provide key personal information once. Programs match data to the applicants and transfer or exchange key data among states and programs over a secure Internet connection. Overpayments will be substantially reduced with the increased availability of timely and accurate information. The USDOL and the state UI agencies in Florida and Missouri have expressed an early interest to participate in design development and implementation of this model.

Helping UI Claimants Get Back to Work: Data Matching Technology in the Public Workforce Development System

Data matching and data exchange technology applications are now also key components of the public “workforce development” system that helps UI claimants and other Americans get back to work more quickly through job search, skills and job matching, and training services. Of particular note is the National Labor Exchange (NLX), a free, advanced job-search engine that is an alternative to commercial job boards. NASWA operates the NLX in partnership with DirectEmployers Association (DE), a non-profit trade association of over 550 *Fortune 1000* companies formed to promote labor market efficiency.

In 2007, the NLX succeeded USDOL’s now-defunct America’s Job Bank (AJB), a federal investment that aimed to connect employers and jobseekers across the nation and cost approximately \$100 million over its lifetime. USDOL discontinued AJB primarily because it was costly and out-of-date.

Today, the NLX -- at no cost to the federal government, states, and their business and jobseeker customers -- collects and distributes new job orders into state job banks, substantially increasing job vacancies available to jobseekers. Moreover, the NLX is the only tool facilitating employers’ equal opportunity and veterans’ recruitment and regulatory compliance needs by cost-efficiently downloading their jobs into state job banks -- a functionality especially appreciated by large, multi-state employers.

The NLX uses no federal funds for operations, research, or development. Rather, this unique public-private partnership leverages private, non-profit-owned technology with existing state workforce agency resources to enhance employment services (ES) through the public workforce development system. Established under the Wagner-Peyser Act, the employment services system is funded by UI federal taxes. ES provides basic job search assistance services such as access to jobs information, labor market information, resume writing, networking, and interviewing skills.

A total of 49 state workforce agencies plus the District of Columbia participate in this alliance. Since its inception in March 2007, the NLX has provided over 9 million unduplicated, current jobs from verified businesses (to avoid identity theft and scams) into state workforce agencies’ job banks. Daily the NLX contains an average of 770,000 unique jobs. It has been used by up to 200,000 employers of all sizes.

With ease, state job banks across the United States can transmit job orders to each other, plus receive thousands of job orders via electronic download from leading U.S. employers. Because job orders are updated daily, the system avoids duplicative orders and ensures jobs are currently open. The NLX also offers a free job bank for state workforce agencies who wish to use it; currently New York, New Jersey, Connecticut, and Nevada use this no-cost option. In addition, the NLX offers state workforce agencies free indexing (spidering) services used in collecting job openings from additional

corporate sites identified by state agency staff, a substantial cost-savings for tight budgets.

Finally, NLX jobs are coded using the Occupational Network (O*NET), the USDOL-sponsored coding of occupations. This allows states easily to match coded jobs with UI claimants' O*NET codes (assigned based on the claimant's last job) and send claimants email notifications with possible job leads. This process is used in the New Jersey Department of Labor and Workforce Development with minimal programming costs and is popular with claimants. Many claimants who have exhausted all benefits and are no longer in the state system want to continue to receive job leads by email.

The NLX helps states accomplish the goal of capturing the highest numbers of currently available jobs with the least number of duplications and from verified employers. This substantially reduces jobseeker frustration when confronted with countless duplicate job ads and scams listed on some private employment web sites. The NLX system works flexibly with whatever skills assessment, skills matching, case management or performance reporting tools and systems states choose.

Ensuring UI Claimants a Connection to the Services of the Public Workforce Development System

Most UI claimants now file for benefits from a computer or over the telephone, rather than applying in person. An unintended consequence is that most claimants are isolated from the public workforce development system and may not benefit from the NLX and other "reemployment" services. Federal and state partners are working jointly to develop technology and process improvements including a single point of entry portal for all Workforce Agency customers to ensure improved integration between the UI and workforce development systems. When UI claimants are required or encouraged to access "reemployment" services, employers find the workers they need and workers return to work more quickly. The single-point-of-entry portal will provide a gateway for customers to access services, from job registration and matching to information on training opportunities and to filing for UI benefits.

The Status of UI Information Technology Systems

Data matching technologies are key to improving UI program performance and customer service, reducing UI overpayments and improving the integrity of the UI system. They also are key to connecting UI claimants to the workforce development system, and helping them and other unemployed workers find a job when they get there. Unfortunately, however, many states will be slow to adopt these technologies because of their old and outmoded UI information technology systems.

States rely heavily on IT to accomplish their basic mission of collecting state UI taxes, processing UI claims and paying benefits. These UI IT systems were developed by states in the 1970s and 1980s, and many are still in use today as documented in a NASWA study conducted last year to determine the status and condition of UI IT systems across

the nation. Forty-one states responded to the survey. The data indicate that over 90 percent of the states have very old legacy mainframe IT systems supporting both the benefits and tax functions of UI. State Workforce Agencies operate UI computer systems based on outmoded and less flexible technologies than are available today. The average age of state UI benefit and tax computer systems is 23 years (See Figure 6). These antiquated systems result in inefficiencies and poor system performance. Systems over 40 years old are still in operation.

These mainframe systems continue to perform, and in many cases perform quite well, given their age. However, the costs of ongoing operations, maintenance, support and inflexible applications that are difficult to change, coupled with a significantly decreased pool of programming talent, all add up to higher costs of doing business. Two-thirds of the states responding to the survey are experiencing increasing costs for mainframe hardware and software maintenance and support. The longer states wait to modernize their legacy systems the more these liabilities will increase over the long term.

Four major problem areas of concern were expressed by 90 percent of states still running their UI benefits or tax systems on legacy mainframe systems:

- **Skyrocketing Costs** -- Maintaining support costs more every year due to the scarcity of staff skilled in older technologies. Knowledgeable in-house IT staff members are retiring rapidly.
- **Poor Agility** -- Hooking new-technology self-service components to old mainframe systems is complex and inefficient. Changes to implement new requirements, such as those for Emergency Unemployment Compensation or Extended Benefits and linking to SIDES are far more difficult and time consuming than with newer systems.
- **Poor Scalability** -- Increasing system capacity to handle higher claims levels is hampered by the sheer number of components that must be increased rapidly and in unison. A number of state legacy systems went “down” for hours or days in 2008 and 2009 because of limited capacity to handle the spike in claims being filed as a result of the 2007-2009 recession.
- **Inhibited Productivity** -- Technologies that improve staff productivity and services such as document management systems, forms management, and ad-hoc reporting tools cannot be easily implemented in legacy systems.

States that modernized their UI IT systems and re-engineered their business processes have improved productivity and customer service, and have achieved more accurate and timely benefit payments. They also are able to implement new laws faster and more accurately (See Figure 7 IT Modernization Map).

To take full advantage of the innovative data matching technologies described in this testimony, states urgently need to modernize their IT systems. For example, although 22

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states have joined the SIDES consortium -- many states having been members for over a year now -- only four states have been able to create the technology to integrate SIDES into their state legacy systems.

The USDOL recently awarded supplemental budget requests (SBRs) to two different groups of four states to explore the feasibility of building a common UI benefits and tax IT System. These groups are in the midst of a two-year project to determine if the states can work together and come up with common system requirements for a new system.

In order to reduce costs two consortia were formed. The first consists of the states of Arizona, Wyoming, Idaho and North Dakota exploring the feasibility of building a common UI benefits and tax system. The second consists of North Carolina, South Carolina, Georgia and Tennessee exploring the feasibility of building a UI benefits system.

The consortium model promises reduced costs and less of a strain on UI and IT technical resources. Because each state has different UI laws, this model is a challenge. However, the states have agreed to try to build systems that address approximately 80 percent of the required functionality. They are following an open source model of development -- which will allow them to maintain and enhance a common system without paying annual license fees for proprietary software.

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to testify today on some of the technologies States and their federal and business partners are developing to improve UI customer service and reduce overpayments.

The pooling of resources through consortia offers states a much more cost-effective option to upgrade their UI benefits and tax systems, and participate in data exchange initiatives such as SIDES. However, during these difficult economic times for state and federal budgets, funding for even cost-effective technology investments remains uncertain.

NASWA members hope to continue to work with Committee members and staff to ensure the long run integrity of the UI program.