

# How Are States Responding to Cuts in UI Administrative Funding?

**Maurice Emsellem**  
**National Employment Law Project**

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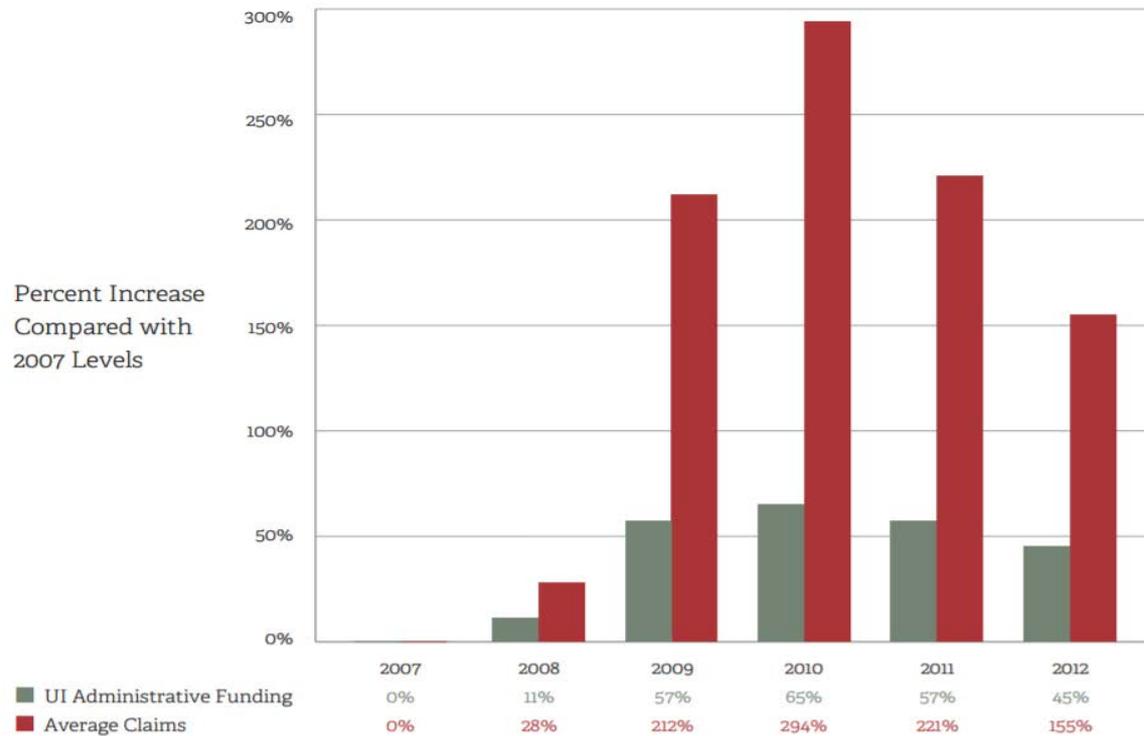


**Maurice Emsellem**, Director  
Access and Opportunity Program  
[emsellem@nelp.org](mailto:emsellem@nelp.org)  
(510) 663-5700

# Overview

- The Federal Funding Shortfall
- The Impact on Claimant Services
- Recommendations for Reform

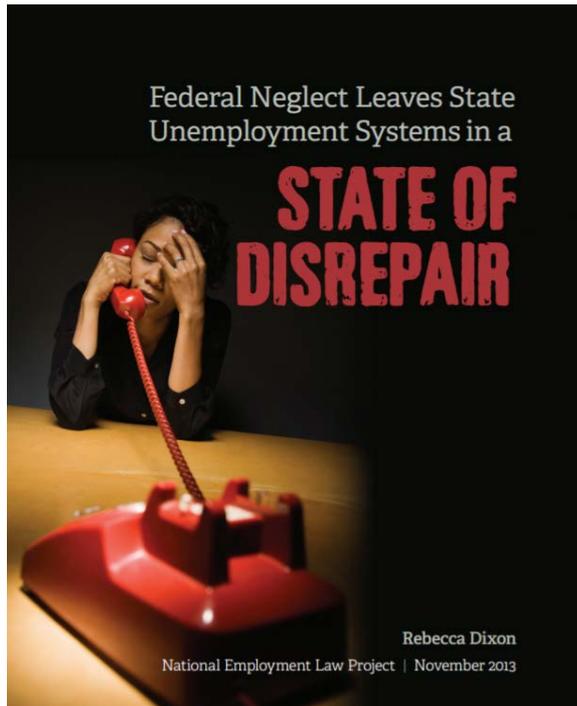
# Federal Funding Failed to Keep Pace With Recession Demands/UI Claims



# States Struggle to Fill the Funding Void

- NASWA reports that roughly \$450 million was contributed by the states in 2016 to supplement federal UI administrative funding.
- Varying approaches adopted by the states to supplement federal UI funding:
  - Employer assessments (e.g., Arkansas, Georgia, Montana, New Hampshire, Rhode Island, Oregon)
  - General fund appropriations (e.g., California, Ohio)

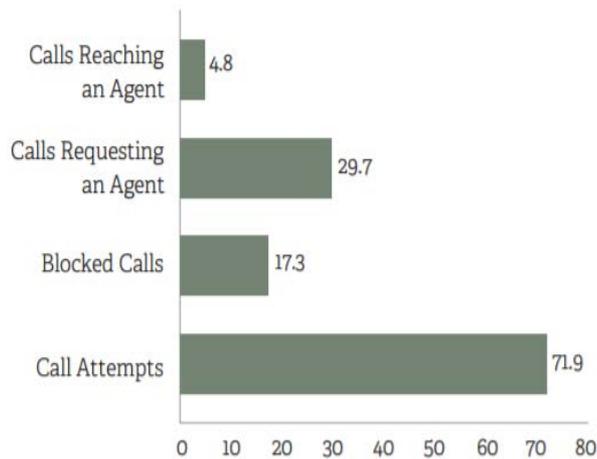
# UI Claimant Services Severely Impacted by the Federal Funding Shortfall



- Funding shortfalls reduce staffing levels (undermining timely handling of claims and appeals and producing severe telephone claims delays).
- Without adequate safeguards, IT and web-based cost-saving measures can lead to cost overruns, inadequate service, and more UI overpayments.
- Inadequate funding compromises services tailored to the disabled, LEPs, older workers and other vulnerable groups.

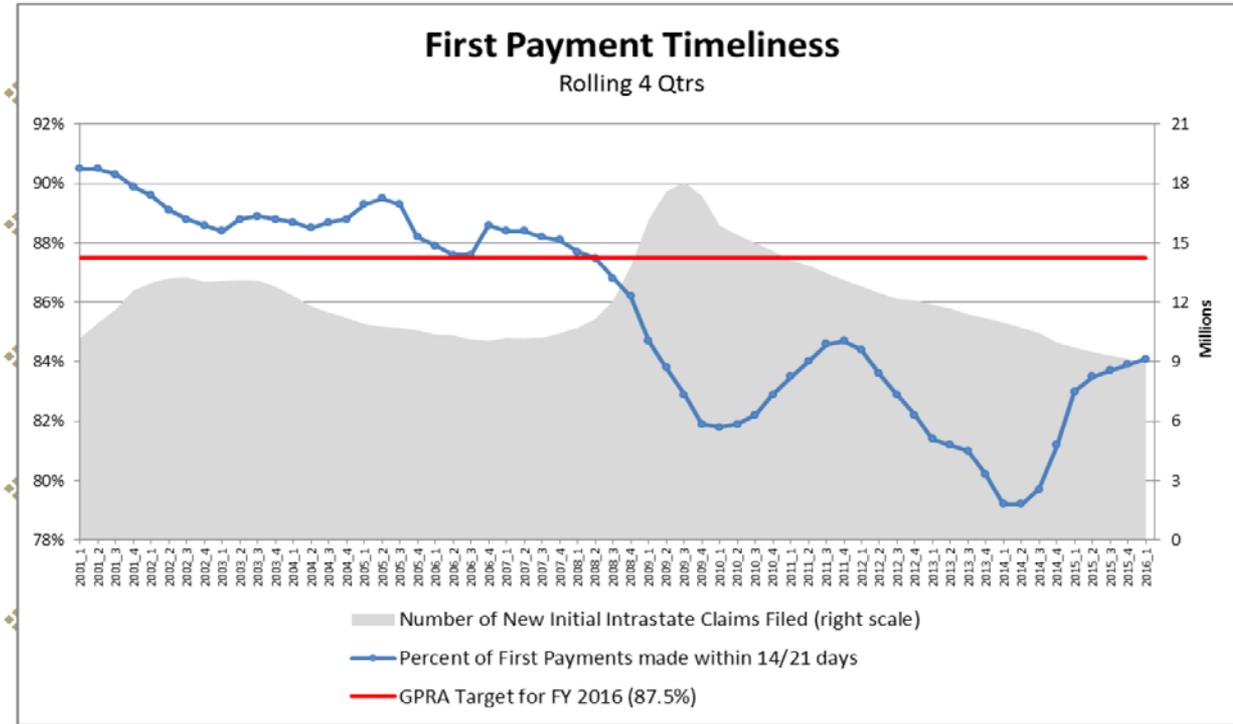
# Examples of Recession Breakdowns in Service Resulting from Funding Cuts

Figure 5. California UI Call Center Statistics, FY 2011-2012 (in millions)<sup>34</sup>



- California: \$128 million federal funding shortfall reduced staffing by 900 and jammed the phone-claims process.
- Pennsylvania: \$30 million federal funding shortfall eliminated 322 call center positions, producing unprecedented Career Center demand for help.
- Rhode Island: \$3 million in reduced federal funding led to layoffs of one-third of call center staff and major delays in processing phone claims.

# States Still Failing Timeliness Standards



# Pennsylvania Case Study

- From 2006-2013, Pennsylvania paid IBM \$170 million for system upgrade that never came to fruition, generating \$60 million on cost overruns and pending litigation against the contractor.
- In 2016, the legislature failed to reauthorize \$58 million in state UI administrative funding, resulting in layoffs of roughly one-quarter of UI staff, three call-center closings, and a severe breakdown in claims processing and appeal delays.
- Partial state funding temporarily restored, and new \$21 million IT contract with GSI awarded (Louisiana and Tennessee auditors raised concerns

Pittsburgh Post-Gazette

Funding lapse jeopardizes unemployment program in Pa.



# Michigan Case Study

- In October 2013, Michigan's agency began using the \$41 million Michigan Integrated Data Automated System (MiDAS) to make fully automated fraud determinations (dating back to 2007).
- From 2013-2015, the MiDAS system falsely accused about 40,000 workers of UI fraud (93 percent of determinations were inaccurate and never verified by UI staff).
- The agency director was reassigned and a federal lawsuit settlement ceased collections, required individual reviews and increased safeguards regulating overpayment determinations (additional state litigation is pending against the contractor).

**Software vendors face lawsuit for unemployment fraud debacle**

POSTED 6:03 PM, MARCH 6, 2017, BY DARREN CUNNINGHAM



# Recommendations

- Increase Federal Funding: Support NASWA’s proposals to increase the state allocation by 25 percent and invest \$300 million in IT. Additionally, require more adequate safeguards against contractor abuses.
- Market Best Practices: Broadly share best practices that provide fair and effective claims services in response to the recent IT, automation and staffing challenges.
- Protect Vulnerable Workers: Follow federal standards ensuring that vulnerable workers can fairly access benefits (“[S]tate UI agencies must ensure that the use of new technologies and systems for administering UI programs and providing services do not prevent individuals from accessing UI benefits.” UIPL 02-16).

**Maurice Emsellem**  
[emsellem@nelp.org](mailto:emsellem@nelp.org)  
(510) 663-5700

## **National Employment Law Project**

75 Maiden Lane, Suite 601  
New York, NY 10038

212-285-3025 tel | 212-285-3044 fax  
[www.nelp.org](http://www.nelp.org)



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