

How Are States Responding to Cuts in UI Administrative Funding?

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Overview

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

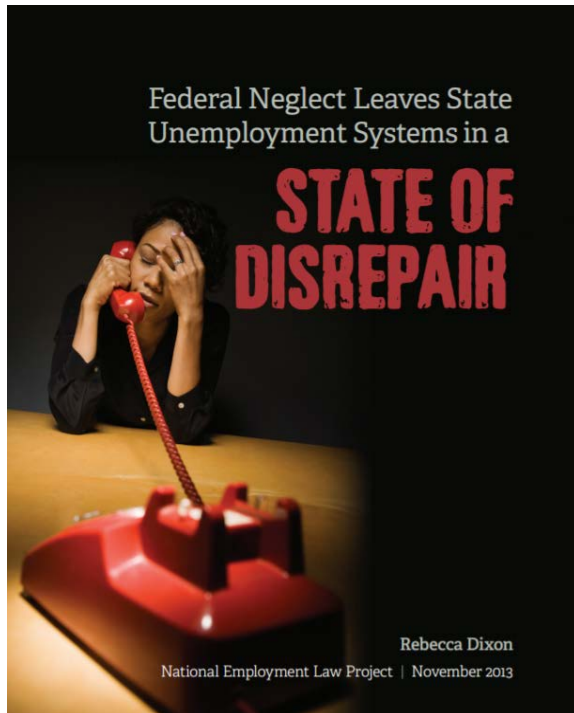
Federal Funding Failed to Keep Pace With Recession Demands/UI Claims



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)

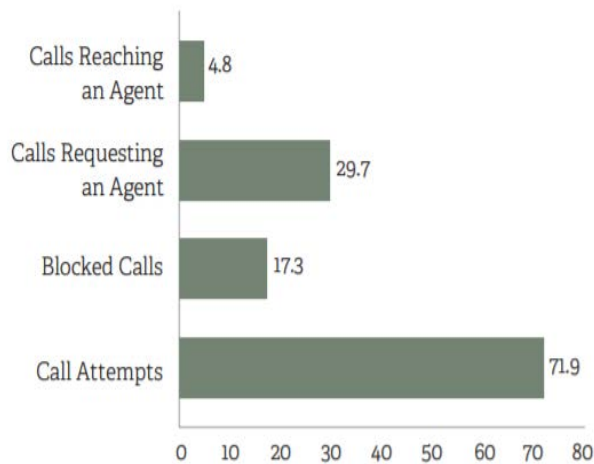
UI Claimant Services Severely Impacted by the Federal Funding Shortfall



- 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.

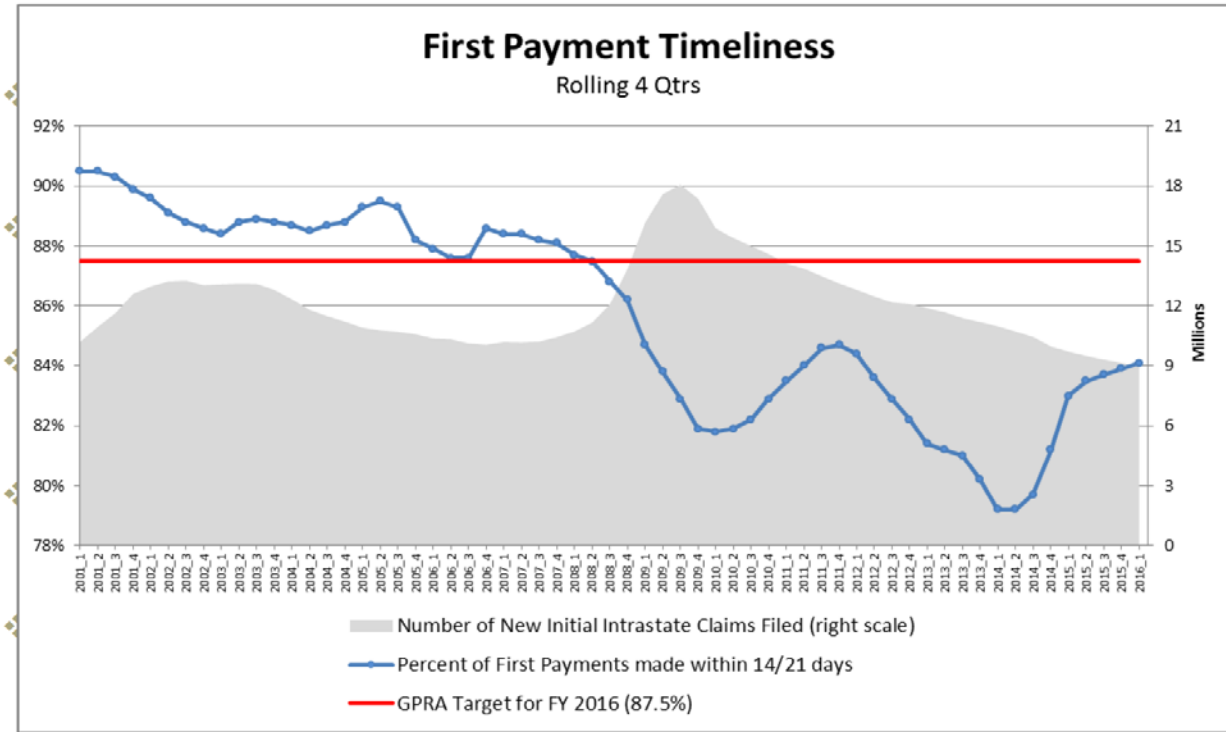
Examples of Recession Breakdowns in Service Resulting from Funding Cuts

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



- 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).

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