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Putting Short-Time Compensation to Work: How Employers Can Avert Layoffs and Reduce Training Costs

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Putting Short-Time Compensation to Work How Employers Can Avert Layoffs and Reduce Training Costs

This article summarizes findings from "Employer Views about the Short-Time Compensation Program: A Survey and Analysis in Four States," a recently completed study sponsored by the U.S. Department of Labor. To read the study, visit http://wdr.doleta.gov/research/FullText_Documents/ETAOP-2016-01_Final-Report-Acc.pdf.

Twenty-eight states have adopted a program that gives employers an alternative to laying off workers.¹ Instead of reducing head count when facing slack economic conditions, employers in those states can retain workers by reducing their work hours, with unemployment benefits picking up a portion of the loss in hourly earnings. The program takes on several names across the states providing it, such as work sharing or shared work, but the federal law refers to it as short-time compensation (STC). It is an option under the Unemployment Insurance (UI) program that enables employers to retain their workforces during business slumps and avoid losing skilled employees. Employers experiencing sales declines can spread the reduction of work hours across a larger pool of employees in lieu of totally laying off a smaller number of employees. Unlike regular UI, the STC program provides a percentage of weekly unemployment benefits to employees whose workweeks have been reduced. Employees receive wages for the reduced hours that they actually work that are supplemented by a percentage of the

weekly unemployment benefits for which they would be eligible if they were laid off.

The program has advantages for both employers and employees. Employers can retain valuable workers during sales declines and can avoid hefty recruiting costs when demand turns around and additional workers are needed. Moreover, unlike the alternative of layoffs, employees receiving STC can retain company-sponsored benefits, such as health insurance coverage, and do not have to undergo the onerous task of finding a new job.

Participation in STC is voluntary, and despite the benefits of participating in STC, relatively few employers in the states offering the program actually take advantage of it. To understand what employers thought about the program, the U.S. Department of Labor (USDOL) sponsored a study on STC in four states. This article highlights the findings of the recently released study (Balducchi et al. 2015), which was conducted by Impaq International Inc.

The study's chief objectives were to gauge employers' satisfaction with STC and understand the possible barriers to employer participation. The study surveyed employers in four states (Kansas, Minnesota, Rhode Island, and Washington) regarding their experiences during and after the Great Recession (2008–2013). Employers who participated in STC

were asked about their knowledge of and experience with the program, and those who did not participate were asked about their awareness of the program. The study found that employers who used STC were pleased with how the program helped them weather declines in demand during and after the Great Recession, and they had positive feedback about how state workforce agencies administered the program.

OBJECTIVES AND METHODOLOGY

The survey was conducted in four states with a long and robust history—more than 20 years each—of administering the STC program. It asked employers about their STC involvement, along with their assessment of how well state workforce agencies administered the program. Employers also were asked about their employees’ impressions of the program. The survey used a mixed-mode methodology, consisting of computer-assisted web interviewing and telephone interviewing, with multiple follow-ups.

The sample of STC employers included in the survey was drawn from employers with at least one STC-approved plan during 2008–2013 and an industry-stratified sample of employers, without an STC plan during the same period.²

Three broad industry sectors were included in the survey: 1) manufacturing, 2) transportation, warehousing, trade, and professional services, and 3) all others. The first two of these industry sectors were those with the most STC employers. The survey analyses were based on 2,415 total employer responses, which included responses from 1,869 STC employer respondents and 546 non-STC employer respondents. The study focused mostly on STC employers, given their much higher response rate and the opportunity for subgroup analysis. Because their numbers were smaller, non-STC employer respondents were studied only in the aggregate for a few key issues.

STUDY FINDINGS

Workloads and Procedures

Relative to the regular UI program, STC has been used very little in the United

States, especially during nonrecessionary times. Nonetheless, STC first payments increased sharply during the Great Recession (see Figure 1). Rhode Island’s high usage of STC can be explained by high levels of unemployment in manufacturing and program promotion; similarly, Washington also heavily promoted program usage. High utilization in Minnesota and Kansas was due to state-specific economic conditions, with particularly high usage by the aircraft industry in Kansas.

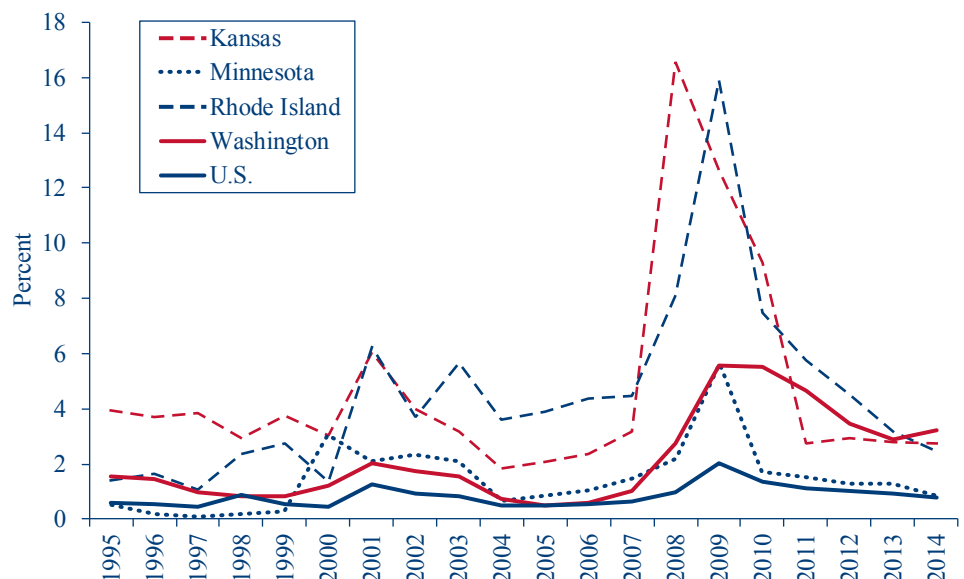
The administration of the STC program in these four states differed in the employer application process and in the apportionment of responsibility between employers and employees in claiming benefits. Online applications for the program could be downloaded from the state workforce agency websites in Kansas, Minnesota, and Washington. While each state workforce agency helped employers prepare applications, and employers were able to transmit them through mail, fax, or electronically, only Washington enabled employers to upload applications online. Claims-filing procedures also varied. In two states, Minnesota and Washington, employees submitted STC initial and continued weekly claims for benefits to state workforce agencies in accordance

with regular UI claims-filing procedures. In Kansas, employers electronically submitted the STC initial and continued weekly claims on behalf of employees directly to the agency. And in Rhode Island, the STC initial claim was submitted by the employee, while STC weekly continued claims were submitted by the employer. According to state workforce agencies, more front-end collaboration with employers during the STC application process is often required when compared to overall UI claims filing. Employers seemed to be satisfied with their ongoing STC duties. While all four states ranked high for employer satisfaction, Kansas employers ranked it highest.

Employer Characteristics

The STC employers in Kansas, Rhode Island, and Minnesota were more highly concentrated in manufacturing than Washington, where they were fairly balanced across the three industry sectors. The vast majority of STC employers in the study states were for-profit employers. STC employers had been in business longer than non-STC employers. Sixty-two percent of STC employers had been in business at least 20 years, compared to 38 percent of non-STC employers.

Figure 1 Trends in STC First Payments as a Percentage of UI First Payments in Study States, 1995–2014



SOURCE: ETA 5159. (Balducchi et al. 2015, p. 128)

Further, over 81 percent of STC employers in all industries reported that more than 75 percent of their employees were medium- or highly-skilled. Microenterprises (with 1–9 employees) were substantially underrepresented among STC respondents except in Washington; however, employers with 10–249 employees (e.g., Kansas and Minnesota) typically used the STC program. Rhode Island and Washington greatly increased STC participation by microenterprises, which have historically had lower participation rates, by having state workforce agencies aggressively promote the program.

Repeat Usage

According to state administrative data, 43–65 percent of STC employers were repeat users. Compared to a previous STC study (Walsh et al. 1997) conducted in the 1990s, repeat use appeared to increase. Moreover, the STC employers said that they participated in the program because of difficult economic times, as well as a desire to retain valued employees and maintain their morale and health benefits.

Employer participation resulted in two other significant findings: 1) retaining valued employees saved on hiring and training costs, and 2) across all states, only 16–21 percent of STC employers reported that they eventually laid off some STC employees. This means that approximately 8 out of 10 STC employers responding to the survey retained their STC employees after participation in the program. While 60–70 percent of STC employers indicated that participating in the program increased their administrative duties, employers ranked the program favorably, indicating that these duties were not likely participation barriers. Most employers indicated that using STC enabled them to maintain productivity and retain skilled workers.

Awareness, Opinions, and Perceptions

Across the country, STC is known by 10 different names, most commonly, shared work. While almost all STC employers knew the program by the

state's name (e.g., WorkShare in Rhode Island), less than 25 percent also knew the term *short-time compensation*. Non-STC employers were much less aware of the STC program, regardless of name. Approximately one-third of non-STC employers knew about the program by the name of the state's STC program, and less than 25 percent knew the term used in federal law, short-time compensation.

Lack of employer program awareness was likely a key reason the program was not used more frequently. STC employers obviously were the exception since they were small in number. Employers heard about the program most often from their state UI agencies, followed by other employers who had participated in the program. Applying for the program appeared to be easy: 65–82 percent of STC employers found the application process “very easy” or “easy,” and only 2–13 percent found it “difficult” or “very difficult.”

Notably, 86–99 percent of STC employers were “very satisfied” or “satisfied” with their interactions with state workforce agencies, and they were similarly satisfied with the administrative support they received from the agencies. STC employers tended to be uncertain about the UI tax implications of the program, though about one-third of STC employers said that STC was less expensive than a layoff of a similar magnitude. The study found that further research was needed to fully understand the program's long-term tax consequences. Still, the states' STC benefit and tax provisions appeared to have little impact on employer program usage, while procedures and outreach activities by state workforce agencies likely did.

CONCLUSION AND RECOMMENDATIONS

The results of this study support encouraging increased employer use of STC in the United States, particularly during recessions. By using STC to retain employees during tough economic times, employers say that they were able to increase production more quickly and more efficiently. They were also able to avoid recruiting and training costs and

circumvent the economic and social problems associated with job loss. The findings should be of particular interest to business groups and policymakers in states without STC laws.

To accomplish increased employer awareness of the program, the study recommends assigning and promoting STC under a single national brand in a manner similar to USDOL's branding of public workforce offices as American Job Centers. The study also indicates that state workforce agencies are critical to employer outreach, and USDOL's continued provision of technical assistance and guidance to states is needed. To promote more effective administrative practices, the study recommends federal reviews of state STC programs.

The STC program has changed significantly since the end of the study period in 2013, with state implementation of federal STC provisions and incentives contained in the Middle Class Tax Relief and Job Creation Act of 2012, (MCTRJCA) which provided states with grants to help them implement, improve, and promote their state STC programs. According to a USDOL report (2016a) to President Obama and the U.S. Congress, STC states' efforts since the enactment of the MCTRJCA have resulted in improvements in some STC programs and increased state readiness to make use of STC during the next recession. Three chapters of the Report to Congress were based on Benicci and Wandner (2015)—a study of the implementation of the STC provisions of MCTRJCA—and one from Balducchi et al. (2015).

President Obama's 2017 budget request seeks to further encourage states and employers to use STC by renewing incentives to states, providing for a 50/50 federal cost share for STC benefits when state unemployment is high and allowing states to reduce their UI taxes for the portion of benefits that is paid by the federal government (USDOL 2016b). Based on findings from a large number of employers in the STC employer study, these policy proposals appear to recognize the strong support by employers for STC during and immediately after the Great Recession.

Notes

1. In 2010, the District of Columbia also enacted STC, but the law has been neither implemented nor amended to conform to the Middle Class Tax Relief and Job Creation Act.

2. The sample did not include employers who participated in STC after the effective dates of state laws to comply with STC provisions in the Middle Class Tax Relief and Job Creation Act.

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