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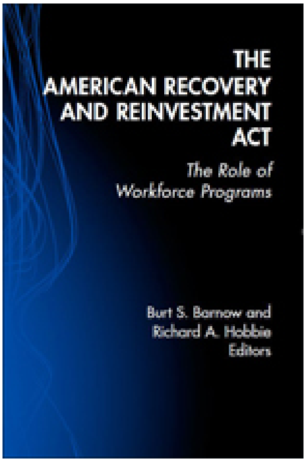
Unemployment Insurance



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Chapter 8 (pp. 191-266) in:
The American Recovery and Reinvestment Act: The Role of Workforce Programs
Burt S. Barnow and Richard A. Hobbie, eds.
Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, 2013

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BACKGROUND ON THE UNEMPLOYMENT INSURANCE (UI) SYSTEM

From its beginning, the Unemployment Insurance (UI) system has served two purposes—1) economic stabilization and 2) temporary and partial wage replacement for most workers who have lost their jobs. During recessions, policymakers historically have relied on expansions to unemployment insurance benefits to assist not only individuals but also the economy more broadly, since benefit expansions help sustain purchasing power and thereby minimize the depth and duration of recessions (Blaustein 1993).

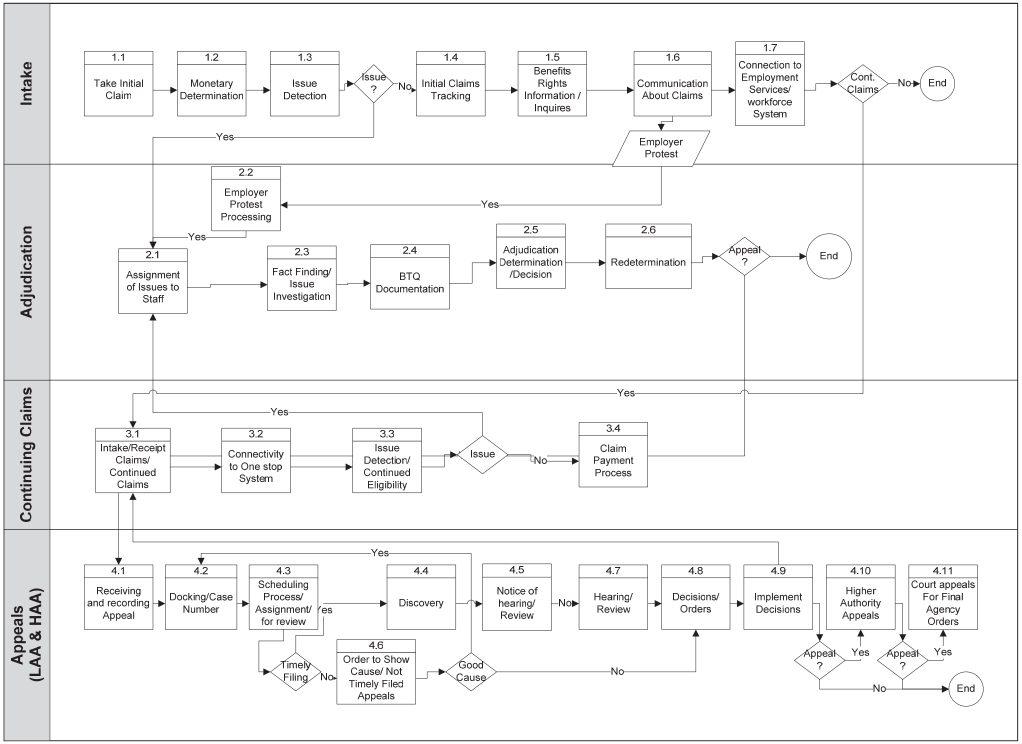
The UI system is a unique federal-state partnership, grounded in federal law but administered through state law by state officials. Created by the Social Security Act of 1935, it has been a successful social insurance program for many years. The system is decentralized at the state level to address the varying economic conditions among the states. State unemployment benefits are financed through state payroll taxes, which are held in individual state trust fund accounts in the federal Unemployment Trust Fund in the U.S. Treasury. State UI agencies are responsible for both the tax and benefit functions necessary to administer their UI programs.

Administering unemployment benefits involves four core business processes, which are displayed in Figure 8.1: 1) intake, 2) adjudication, 3) continuing claims, and 4) appeals. These are complicated and time-consuming tasks, each involving numerous subprocesses, which have been made harder by a record number of claimants during and after the "Great Recession." Taking and responding to initial claims for UI benefits (intake) involves not only making a determination of eligibility but also detecting issues and referring cases for adjudication, tracking claims, communicating with claimants, and connecting some or all claimants to workforce services designed to speed reemployment. Adjudication involves assigning cases to staff, processing information from employers, conducting fact-finding, and making eligibility determinations. For continuing claims, states must determine continued weekly eligibility, detect issues and refer cases for adjudication, process claims, and connect some or all claimants to workforce services designed to speed reemployment. Claimants or employers may file appeals regarding a state's determination of an individual's eligibility for benefits. Nearly all states have both lower and higher authority appeals processes, which involve subprocesses related to recording the appeals, assigning cases, conducting discovery, providing notices of hearings, conducting hearings, implementing decisions, and possibly preparing for appeals of final agency orders through the court system.

THE UI PROVISIONS OF THE AMERICAN RECOVERY AND REINVESTMENT ACT

The Recovery Act's main objective was to provide economic stimulus that would "save and create jobs immediately" (whitehouse.gov 2009). Other objectives were to provide aid to individuals affected by the recession and to invest in improving schools, updating infrastructure, modernizing health care, and promoting clean energy. At the time of passage in February 2009, the cost of the economic stimulus package, which included both spending and revenue provisions, was estimated by the Congressional Budget Office (CBO) to be $787 billion over the 10-year period from 2009 through 2019. By February 2012, the CBO had revised the estimate to $831 billion and reported that "close

Figure 8.1 Core Business Processes for UI Benefits Administration



SOURCE: NASWA, UI Performance and Accountability Project for the U.S. Department of Labor, March 2011.

to half of that impact occurred in Fiscal Year 2010, and more than 90 percent . . . was realized by the end of December 2011" (CBO 2012).

The unemployment insurance provisions of the Recovery Act included both tax and spending provisions. Major provisions included a $500 million supplemental distribution to states for UI administration, a provision temporarily waiving interest on federal loans to state UI trust funds, funding to encourage state UI program "modernization," UI benefit extensions, a temporary $25 weekly UI benefit enhancement, and a provision temporarily suspending federal income tax on a portion of UI benefits. As Table 8.1 shows, the CBO estimated that these provisions would result in federal outlays totaling approximately $45 billion over 10 years, with almost all the funds projected to be spent quickly—in fiscal years 2009 and 2010. However, the estimates were made in the early months of 2009, well before the depth and duration of the Great Recession were widely understood, and they substantially underestimated actual costs. The estimates also do not include subsequent extensions related to the Great Recession. Estimates of all benefit extensions subsequently totaled more than $200 billion for the 2008–2012 time period.

Additional detail on the Recovery Act's UI provisions is provided in Table 8.2, and information on other UI legislation enacted in response to the Great Recession in Table 8.3.

THE RESEARCH PLAN

As noted above, the main objectives of the Recovery Act's UI provisions were to provide relief to out-of-work Americans and to help stabilize and stimulate the overall economy. This study discusses challenges states faced in getting UI benefits into the hands of customers quickly, to ensure not only that customers got the assistance they were due but also that the program worked as timely economic stimulus. It also presents recent summary evidence of the UI system's macroeconomic and antipoverty impacts and administrative performance during the recession. The study also documents the effect of the Recovery Act legislation in achieving secondary objectives more specifically related to the UI program. These secondary objectives include eligibility expansions,

Table 8.1 Estimated Budget Effects of the UI Provisions of the Recovery Act

Recovery Act provision	Explanation of provision	Estimated budget effects, FY 2009–2019 ($ billions)
Interest-free loans	Temporarily waived interest payments and the accrual of interest on federal loans to states through December 31, 2010.	1.1
Administrative funding	Transferred $500 million to the states for administration of their unemployment programs and staff-assisted reemployment services for claimants.	2.6
UI modernization	Provided up to a total of $7 billion as incentive payments for states to "modernize" state UC benefit provisions. Payments were available through September 30, 2011, and states could use them for UI benefits or UI or ES administration.	
Benefit extensions	Extended the Emergency Unemployment Compensation (EUC) program for new claims from March 31, 2009, to December 31, 2009 (subsequently extended through the end of 2012). Provided 100% federal financing of the Extended Benefits (EB) program for weeks of unemployment beginning before January 1, 2010 (subsequently extended through the end of 2012).	27.0
Benefit increase	Provided a temporary $25 per week supplemental unemployment benefit, known as the Federal Additional Compensation (FAC) program, for weeks of unemployment ending before January 1, 2010 (subsequently extended through beginning of June 2010); prohibited states from reducing average weekly benefit amount for regular compensation below level of December 31, 2008.	8.8
Suspension of federal income tax	Temporarily suspended federal income tax on the first $2,400 of unemployment benefits (per recipient) received in 2009.	4.7
Total		44.7

NOTE: Figures do not sum to total because of rounding.
SOURCE: U.S. Joint Committee on Taxation (2009); votesmart.org (2009).

Table 8.2 Detailed Explanation of the UI Provisions of the Recovery Act

Temporary interest-free loans on outstanding state trust fund balances

The Recovery Act temporarily waived interest payments and the accrual of interest on loans received by state unemployment trust funds through December 31, 2010. This provision was not renewed.

A special $500 million transfer to states for UI administration

The Recovery Act provided a $500 million special UI administrative distribution to states. Each state's share was deposited in the state's account in the Unemployment Trust Fund on February 27, 2009, where it is available for

- implementing the state's UI modernization provisions;
- improving outreach to individuals potentially eligible under the state's UI modernization provisions;
- improving UI tax and benefit operations, including responding to increased demand for UI; and
- administering staff-assisted reemployment services for UI claimants.

Funds may not be used for the payment of UI. Each state's share was based on its proportionate share of Federal Unemployment Tax Act (FUTA) taxable wages multiplied by the $500 million. Most state laws require appropriation of these funds by the state legislature.

UI modernization provisions and incentive payments

The Recovery Act made a total of $7 billion in UI modernization incentive payments available to states that included certain eligibility provisions in their state UI laws. States received one-third of their share of the payments for using more recent wages (the alternative base period provision) to determine UI eligibility if a claimant was not eligible using the normal base period. States received the remaining two-thirds of their share for adopting two of the following four eligibility provisions:

- Pay UI to individuals seeking only part-time work.
- Ease qualifying requirements for workers who quit their jobs because of certain family responsibilities. These relate to workers who leave work because of domestic violence or sexual assault, to care for an ill family member, or to accompany a spouse who moves to a new job.
- Extend benefits to workers in approved training who exhaust regular UI.
- Add dependents' allowances to weekly benefits.

The maximum incentive payment allowable for a state was distributed to the state Unemployment Trust Fund accounts based on the state's share of estimated federal unemployment taxes (excluding reduced credit payments) made by the state's employers. States had to apply, and applications were due to the U.S. Department of Labor by August 22, 2011. Incentive payments were available through September 30, 2011.

States may use incentive payments for

- the payment of UI; or
- upon appropriation of the state legislature, administrative costs for the UI and employment services programs.

There is no time limit on the use of the incentive payments for benefit or administrative purposes.

Table 8.2 (continued)

Extension of the Emergency Unemployment Compensation (EUC) Program
Under Recovery Act provisions, the Emergency Unemployment Compensation (EUC) program, created in June 2008 and expanded in November 2008, provided up to 20 weeks of benefits to eligible jobless workers in all states and up to 13 additional weeks of benefits in states with high unemployment. The Recovery Act extended the date for new EUC claims from March 31, 2009, to December 31, 2009, with payments on those claims ending on May 31, 2010. The EUC program was extended in subsequent legislation through the end of 2012.
Temporary full federal funding of extended benefits
The Extended Benefits (EB) Program is a permanent federal-state program that provides up to 13 or 20 additional weeks of unemployment benefits to eligible jobless workers in states with high and rising unemployment. At state option, workers in some states with very high total unemployment rates (TUR) are eligible for 20 weeks of EB rather than the standard 13 weeks. Costs of EB under permanent federal law are split equally between the federal government and the states.
The Recovery Act provided 100 percent federal funding of EB for weeks of unemployment beginning before January 1, 2010. This provision, which was extended in subsequent legislation through the end of 2012, gave states an incentive to adopt an optional “trigger” based on the state’s three-month average TUR. It is easier for many states with relatively low insured unemployment rates to trigger on the TUR instead of on the insured unemployment rate.
Increased UI benefit amounts—Federal Additional Compensation
The Recovery Act created a new, temporary Federal Additional Compensation (FAC) program providing a 100 percent federally funded $25 add-on to all weekly UI payments for weeks of unemployment ending before January 1, 2010. (This provision was subsequently extended three times for new claims through June 2, 2010, and for weeks compensated through the end of 2010.) All states signed agreements to pay FAC effective February 22, 2009, the first week for which FAC was payable.
A temporary suspension of federal income tax on unemployment benefits
By law, all federal unemployment benefits are subject to income taxation. The average unemployment benefit is approximately $300 per week. Effective for taxable year 2009, the Recovery Act temporarily suspended federal income tax on the first $2,400 of unemployment benefits per recipient. This provision was not extended in subsequent legislation.

SOURCE: NASWA staff, based on summaries of the legislation from the NASWA Web site.

Table 8.3 Other UI Legislation Related to the Great Recession (as of June 30, 2012)

Law	Approval date	Explanation of provisions
P.L. 110-252 Supplemental Appropriations Act of 2008	06/30/2008	Provided $110 million of contingency funding to states for UI administration; authorized EUC through March 31, 2009.
P.L. 110-328 SSI Extension for Elderly and Disabled Refugees Act of 2008	09/30/2008	Permitted states to use the Treasury Offset Program (TOP) to recover covered unemployment compensation (UC) debts through offset from federal income tax debts.
P.L. 110-449 Unemployment Compensation Extension Act of 2008	11/21/2008	Increased the basic EUC entitlement by up to 7 weeks, for a total of up to 20 weeks of benefits; created second tier of benefits of up to 13 additional weeks.
P.L. 111-5 American Recovery and Reinvestment Act of 2009	**02/17/2009**	See Table 8.2.
P.L. 111-92 Worker, Homeownership, and Business Assistance Act of 2009	11/06/2009	Extended second tier of EUC to 14 weeks and to all states, and created a third tier (of up to 13 weeks) and a fourth tier (of up to 6 weeks)
P.L. 111-118 Department of Defense Appropriations Act of 2010	12/19/2009	Extended the EUC program, 100% federal financing of the EB program, and the $25 FAC benefit through the end of February 2010.
P.L. 111-144 Temporary Extension Act of 2010	03/02/2010	Extended the EUC program, 100% federal financing of the EB program, and the $25 FAC benefit through April 5, 2010.
P.L. 111-157 Continuing Extension Act of 2010	04/15/2010	Extended the EUC program, 100% federal financing of the EB program, and the $25 FAC benefit through June 2, 2010.
P.L. 111-205 Unemployment Compensation Extension Act of 2010	07/22/2010	Extended the EUC and EB programs again, until the end of November 2010 (the FAC program was not extended); provided rules for coordinating EUC with regular compensation; imposed a nonreduction rule on states for regular UI compensation.

P.L. 111-291 Claims Resolution Act of 2010	12/08/2010	Made amendments to the TOP regarding the collection of certain UC debts; required employers to report to the National Directory of New Hires (NDNH) the first services remuneration date of each newly hired employee.
P.L. 111-312 Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010	12/17/2010	Extended the EUC and EB programs to early January 2012 and made changes through December 31, 2011, to the EB look-back enabling states with declining unemployment rates to continue to trigger on EB.
P.L. 112-40 Trade Adjustment Assistance Extension Act of 2011	10/21/2011	Imposed a mandatory penalty assessment on UC fraud claims; prohibited non-charging in certain cases of employer failure to respond adequately or in timely fashion to requests for UC claim-related information; included certain retired employees in the definition of “new hires” for the NDNH.
P.L. 112-78 Temporary Payroll Tax Cut Continuation Act of 2011	12/23/2011	Extended the EUC and EB programs to early March 2012 and extended through February 29, 2012, the changes to the EB look-back made by P.L. 111-312.
P.L. 112-96 Middle Class Tax Relief and Job Creation Act of 2012	02/22/2012	Extended the EUC and EB programs through the end of 2012; extended through December 31, 2012, the changes to the EB look-back made by P.L. 111-312; provided funding for reemployment services and reemployment eligibility assessments; and other provisions.

SOURCE: USDOL (2013a).

improved state trust fund positions, improved UI tax and benefit operations, and a renewed emphasis in the UI program on reemployment. These program-specific objectives are outlined in Table 8.4.

This study also documents some of the operational and administrative challenges states faced in implementing the new benefit expansions and other provisions, as well as some of the state innovations and sustainable improvements to UI operations resulting from the demands of the recession or the availability of new Recovery Act funding (specifically, the Recovery Act funding for UI administration and the incentive payments for implementing UI modernization provisions).

To gather information for the study, the research team conducted in-depth teleconference interviews with key UI administrative, tax, benefits, and information technology (IT) staff in the 20 sample states during the fall and winter of 2011–2012. A pilot teleconference interview was held with officials in the state of Florida on October 7 and another on October 27, 2010.

To prepare for the teleconference interviews, the research team assembled and shared with the states an interview guide that included questions about states' experiences with the recession and with Recovery Act implementation (see Box 8.1). The research team also developed individual state case studies and used these studies to customize the interview guide for each state interview. The state case studies recorded individual state UI program conditions and actions before and after the Recovery Act, incorporating information on each state's

- UI program structure and economic environment;
- historical UI program performance;
- historical and current UI program financial conditions;
- response to a 50-state NASWA survey on the recession and the state's experiences in implementing the Recovery Act (NASWA 2010a);
- tax and benefits IT systems, based on a NASWA-funded survey (NASWA 2010b); and
- legislative actions, if any, regarding the UI modernization provisions of the Recovery Act and to address trust fund solvency.

In addition to the results from the 20 state interviews, the research team drew on numerous USDOL and NASWA sources for this report,

Table 8.4 Legislative Intent of UI Recovery Act Provisions

	Legislative intent					
Recovery Act provision	Economic stimulus/state fiscal relief	Relief to individuals	Permanent expansions of UI eligibility	Improved state trust fund positions	Improved state UI tax and benefit operations	Emphasis on reemployment
EUC extension	X	X				
Interest-free loans	X			X		
Extended benefits	X	X		X		
Benefit increase (FAC)	X	X				
Temporary suspension of federal income tax	X	X				
UI modernization	X		X	X	X	X
Administrative funding	X				X	X

SOURCE: Authors' compilation.

Box 8.1 Interview Guide Questions for Recovery Act Study, UI Provisions

1. What was the status of state UI administrative performance before the recession, and how was state UI administrative performance affected by the recession? What were the implications for states' decision-making as they dealt with the caseload surge of the recession and implemented the Recovery Act's UI provisions?
2. Before passage of federal stimulus legislation in February 2009, what adjustments did states make to their UI operations to handle the overwhelming numbers of new and continued claims filed by jobless workers? How were these process improvements and technology upgrades funded, and did they result in any sustainable improvements to UI operations?
3. On what did states spend or plan to spend the $500 million allocation for UI administration? What has been the timetable for the expenditure of these funds?
    a. Did states spend or plan to spend UI administrative funds to improve tax and benefit operations, and if so, what process improvements or technology upgrades were or will be implemented? Are these improvements or upgrades sustainable?
    b. Did states spend or plan to spend UI administrative funds to improve the connection between the UI and workforce systems and the availability of reemployment services, and if so, what improvements and services were or will be implemented? Are any of these improvements or services sustainable?
    c. Did states spend or plan to spend UI administrative funds to implement the modernization provisions of the Recovery Act?
    d. Did states combine or plan to combine new UI administrative funds with other funds (e.g., UI contingency funds, Reed Act funds, state funds) to achieve their goals?
4. What administrative and operational challenges and successes have states encountered in implementing the UI benefit expansion provisions, including:
    a. the Emergency Unemployment Compensation (EUC) provisions;
    b. the Extended Benefit (EB) Program provisions;

   c. the Federal Additional Compensation (FAC) provision; and
   d. the provision temporarily suspending federal income tax on certain benefit payments?
5. What changes did states make to state UI laws as a result of the Recovery Act's modernization act provisions?
   a. Did states without an optional trigger for the EB program enact one, and if not, why not?
   b. Did states expand eligibility for UI through the modernization incentive provisions?
   c. What was the nature of the debate on these provisions? Are statutory changes likely to be sustained?
6. What are states spending or planning to spend UI modernization payments on employment services administration; or to improve the connection between the UI and workforce systems or the availability of reemployment services? If so, what improvements and services were or will be implemented? Are they sustainable?
   a. Are states spending or planning to spend UI modernization payments to pay benefits?
7. What was the status of state UI trust funds before the recession, and how did states' trust fund positions change during the recession? How have states responded?

SOURCE: UI teleconference interviews conducted for the study by researchers from the Urban Institute and NASWA.

which are documented in footnotes. These sources provide historical data on UI program performance, the financial status of state UI trust funds, funding for UI administration (including state supplemental funding), UI claims activity, and expenditure patterns for Recovery Act UI administrative grants.

SETTING THE STAGE: UI ADMINISTRATIVE FINANCING AND UI CLAIMS WORKLOAD BEFORE AND DURING THE GREAT RECESSION

Before the Great Recession in December 2007, many states were struggling to administer their programs even at a time of high employment. Federal base funding for UI program administration had been declining since the mid-1990s, adjusting for inflation and workload. Despite hoped-for improvements in productivity from the adoption of remote methods (i.e., telephone call centers and the Internet) for taking UI claims, many states faced steep challenges when the recession brought a three-fold spike in initial UI claims and a more than doubling of continued UI claims. They were not in a position to expand capacity dramatically without engaging in substantial reallocations and triaging of existing resources. Fortunately, the UI system was designed to respond to such increases in demand for unemployment benefits with additional administrative funds, but not without critical time lags and much scrambling by states as they awaited additional resources.

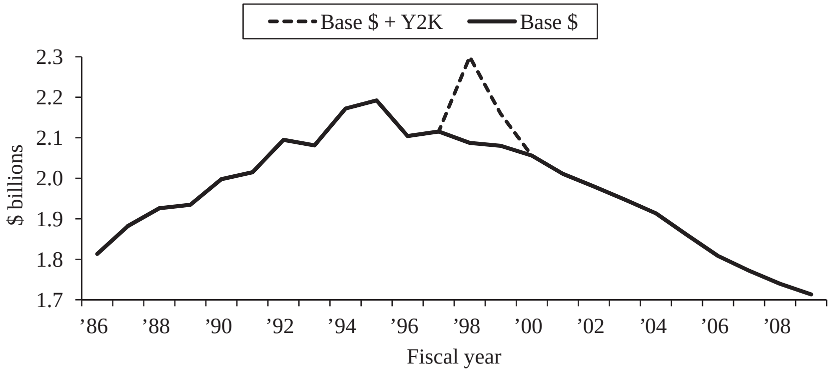
Funding for State UI Administration before the Recession

In the federal-state UI system, one of the roles of the federal government is to provide grants to states to fund the administration of state UI programs. In part, Title III of the Social Security Act says the following:

> The Secretary of Labor shall certify . . . for payment to each state which has an unemployment compensation law . . . such amounts . . . necessary for the proper and efficient administration of such law during the fiscal year . . . The Secretary of Labor's determination shall be based on (1) the population of the State; (2) an estimate of the number of persons covered by the State law and the cost of proper and efficient administration of such law; and (3) such other factors as the Secretary of Labor finds relevant.

Figure 8.2 shows federal base funding for state administration of UI programs from 1986 to 2007, adjusted for both inflation and workload. The solid line graph shows a substantial decline in real resources for base funding in the period before the recession, from about $2.2 billion per two million in average weekly insured unemployment (AWIU) in

Figure 8.2 UI Base Funding, 1986–2009 (inflation-adjusted dollars, per 2 million AWIU)



NOTE: Dotted line shows added federal funding to aid states in making software adjustments for the year 2000 changeover.
SOURCE: U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services staff.

1995 to less than $1.8 billion per two million in AWIU in 2007. AWIU of two million claimants is a rough USDOL measure of the base workload that would exist nationally to maintain operations of all state UI programs even at very low unemployment levels. Note that the dotted line shows added federal funding to aid states in making software adjustments for the year 2000 changeover.

Although some of the decline in funding might be due to adjustments that occur automatically as state programs become more efficient, states have long said they have not received enough base-level funds to administer their programs in a proper and efficient manner even during periods of relatively low unemployment, much less to make many necessary longer-term capital investments (NASWA 2012). Historically, many states have adjusted for insufficient funds by adding state funds, but recently their ability to supplement is dwindling as states cut their own UI spending to balance their annual budgets. To illustrate this, in the aggregate states added about $180 million of their own funds to the federal grants for administration of UI in 2007, but this total declined to about $135 million in 2010.

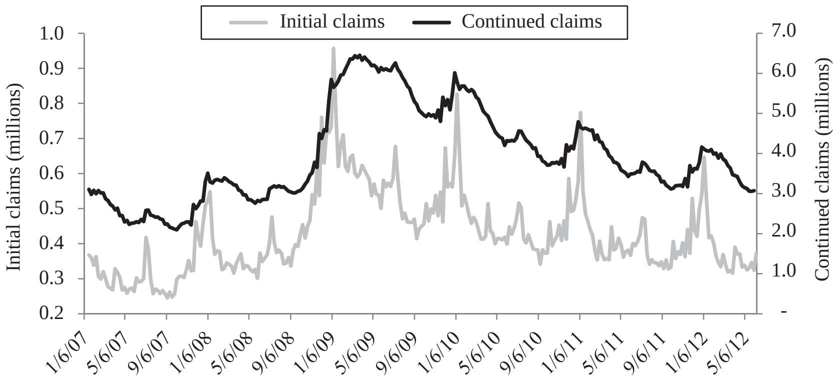
The status of state UI IT systems at the start of the recession reflects the insufficient capital investment. The average age of UI IT systems for both tax and benefits administration was over 20 years in 2009, and only eight states had a modernized benefits system (NASWA 2010b). Without a modernized benefits IT system, states face difficulties in addressing caseload surges, implementing federal law changes, and automating and redesigning processes of UI benefits administration. Among the interview states, only two had a modernized benefits system entering the Great Recession—Nebraska and Ohio. Illinois recently completed a modernization effort. While numerous other states are engaged in consortia or single-state efforts to modernize their benefits systems, many are in the planning stages. The ability to produce an efficient and responsive system will depend on the availability of funding (costs to develop a full UI IT system are estimated to range from roughly $40 million upwards), as well as other factors such as the quality of project technical requirements and vendors' ability to deliver.[1]

The Effect of the Great Recession on UI Claims Workload

Figure 8.3 shows the effect of the Great Recession on weekly initial claims and continued claims workload for regular state UI benefits (excluding Emergency Unemployment Compensation [EUC] and Extended Benefits [EB]) at four-month intervals from January 2007 through midyear 2012. The number of weekly initial claims for state benefits (unadjusted for seasonal variations) was about the same in July 2008, six months after the start of the recession, as it was in July 2007, before the beginning of the recession.[2] Unemployment usually lags behind the initial stages of a recession. Between July 2008 and January 2009, weekly initial claims more than tripled, from around 300,000 to around 900,000. The number of weekly continued claims for state benefits also rose, in response to more and more claimants entering the system and staying on UI for longer durations than had been experienced historically in the program.[3] Weekly continued claims nearly doubled, from about 3 million in July 2008 to about 6 million in July 2009.

As the economy began recovering, from 2010 to 2012, weekly initial claims and continued claims activity showed gradual declines. As employer layoffs declined, the number of initial claims declined, but growing long-term unemployment and extensions of unemployment

Figure 8.3 Numbers of Unadjusted Initial and Continued UI Claims



SOURCE: U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services staff.

benefits led to longer durations on regular state benefits and higher numbers of weekly continued claims than would have existed in a stronger economic recovery.[4] At the beginning of 2012, the number of weekly initial claims was nearly back to normal, but the number of weekly continued claims remained high at about four million.

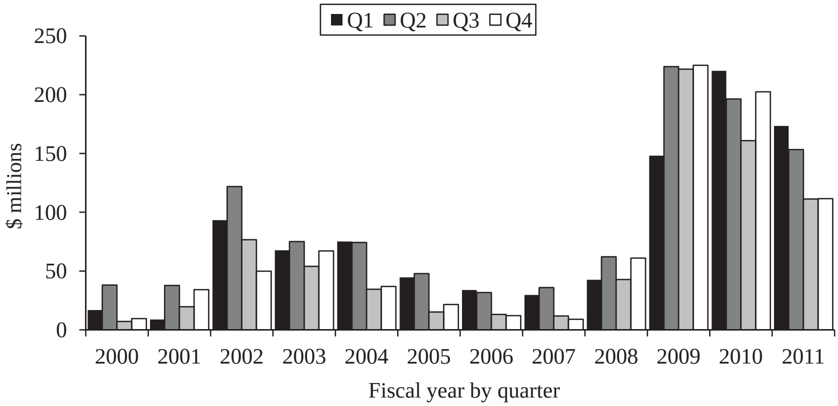
The Responsiveness of UI Administrative Funding during the Great Recession

As the prior two subsections document, base funding for administration of the UI program was low before the recession, and when the recession began to take effect the UI system was confronted with a threefold spike in initial claims activity. An unforeseen increase in service demand of this magnitude and over such a short time period is extraordinary by the standards of most business or government agency operations, and perhaps the best comparison can be made to the resource allocation and upscaling issues that some businesses and agencies (such as insurance and utility companies) confront after a natural disaster. To address the new workload demands with additional service capacity, the main sources of funding available to states were federal grants for above-base and contingency funding.[5] Whereas base funding is, in a sense, how much USDOL determines a state needs to keep its program running at or near full employment, above-base funding is distributed annually by USDOL to states processing workloads that exceed those funded by base funding. Conceptually, this allows USDOL to distribute funds to states that need funds above the base funding level, but only after the threshold workload has been experienced and reported by the individual state.

Contingency funding is activated automatically at the national level when the average weekly insured unemployment exceeds the level of AWIU that was funded in the federal budget. When a recession begins, contingency funding usually activates after the beginning of the recession when unemployment increases. The formula provides USDOL with $28.6 million per 100,000 additional AWIU above the level funded in the budget, which USDOL then distributes to states that have experienced the increased unemployment.

Figure 8.4 shows federal grants to states for above-base and contingency funding for UI administration from fiscal years 2000–2011. These data are not adjusted for either inflation or workload. Significant increases for above-base and contingency funding helped states cope

Figure 8.4 Federal Grants to States for UI Administration—Above-Base and Contingency Funding (by quarters—FY 2000 to FY 2011)



SOURCE: U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services staff.

with the recession that began in December 2007, the last month of the first quarter of Fiscal Year 2008. The substantial increases in above-base and contingency funding began in Fiscal Year 2009 (which started October 1, 2008) and continued in 2010 and 2011. Note that because funds are distributed as states experience and report increased caseloads (above-base funding) and after unemployment rises at the beginning of a recession (contingency funding), the increase in funding follows the pattern of the historically steep increase in claims activity that began in September 2008. Many states reported having little to no lead time or funding to prepare for the unprecedented increases in claims activity through new investments in labor and other resources, or through the streamlining of business processes.

UI PROGRAM PERFORMANCE BEFORE AND DURING THE GREAT RECESSION

Performance Related to Economic Impacts

Much has been written about problems states encountered with unemployment insurance call centers and online claims processing at the beginning of the recession, but at the level of broad program indicators, state UI programs were successful in reacting and adapting to the unprecedented challenges of the Great Recession, and in paying out a record increase in benefits within a short time period. From 2008 to 2010, benefits paid to UI claimants more than tripled, from roughly $42 billion in Fiscal Year 2008 to $143 billion in Fiscal Year 2010, before falling to $113 billion in Fiscal Year 2011. As will be documented in later sections of this chapter, the rapid and unprecedented increases in workload on state workforce agencies since 2008 presented numerous challenges and required significant adjustments. Some state programs, heavily reliant on outmoded computer systems for payment processing, were brought nearly to a breaking point. However, the UI system met the broad objectives of the Recovery Act to stabilize the economy and help individuals sustain their incomes.

Several recent studies using different analytical and modeling approaches have estimated these economic impacts.[6] One study by

Impaq, commissioned by the USDOL in 2004, estimated the macroeconomic impacts of the UI expansions that occurred with the Recovery Act and other UI legislation enacted before July 2010. The study (Vroman 2010) found the following:

- The UI program (both regular and extended benefits) "closed 0.183 [18.3 percent] of the gap in real GDP [gross domestic product] caused by the recession." As the USDOL noted in announcing the study, this translated into "nominal GDP being $175 billion higher in 2009 than it would have been without unemployment insurance benefits. In total, unemployment insurance kept GDP $315 billion higher from the start of the recession through the second quarter of 2010" (USDOL 2010).
- The "early intervention with EUC and EB caused these extended benefits to add a large element to the stabilization effect of UI . . . The UI program provided stronger stabilization of real output than in many past recessions because extended benefits responded strongly."
- Notable effects on employment included the effects of both regular and extended benefits on employment: In 2009Q2, the trough quarter, real regular UI benefits raised total employment by 1.050 million, while extended benefits caused an additional employment increase of 0.748 million and UI taxes had a negligible effect (a reduction of 0.002 million). During the eight quarters from 2008Q3 to 2010Q2, the estimated effects on employment were an increase in real regular UI benefits of 0.891 million and in real extended benefits of 0.714 million and a decrease in real UI taxes of 0.015 million.

The USDOL estimates these increases in employment yielded a reduction in the unemployment rate of 1.2 percentage points during the low point of the recession (USDOL 2010).

A January 2012 study by the Congressional Research Service analyzed the antipoverty effects of the UI program and found that the antipoverty effect of UI doubled during this latest recession compared to the last peak years of unemployment in 1993 and 2003, likely due to the Recovery Act expansions and related legislation. The estimated effect of UI benefits (both regular and extended benefits) on the poverty status of individuals and families was large (Gabe and Whitaker 2011):

- In 2010, well over one-quarter (27.5 percent) of unemployed people who received UI benefits would have been considered poor prior to counting the UI benefits they received; after counting UI benefits, their poverty rate was cut by well over half, to 12.5 percent.
- Because the U.S. poverty measure is based on the income of all coresident related family members, UI receipt affects not only the poverty status of the person receiving the benefit but the poverty status of all related family members as well. In 2010, while an estimated 12.4 million people reported UI receipt during the year, an additional 19.4 million family members lived with the 12.4 million receiving the benefit. Consequently (with rounding), UI receipt in 2010 affected the income status of some 31.9 million persons.
- The poverty rate for persons in families who received unemployment benefits in both 2009 and 2010 was approximately half of what it would have been without those unemployment benefits.
- In 2010, UI benefits lifted an estimated 3.2 million people out of poverty, of which well over one quarter (26.8 percent, or 861,000) were children living with a family member who received UI benefits.

Performance Related to Program Administration

The unprecedented increase in claims activity and benefit payments of the Great Recession caused a decline in key areas of state UI administrative performance.[7] While every state's recession experience is unique, some general national themes emerge from a review of both state performance data and the qualitative information relayed through the interviews of state UI officials. At a national aggregate level, the timeliness with which states conduct processes, the quality of eligibility determinations, and the accuracy of benefit payments all are sensitive to the volume of claims, and so they generally deteriorate during recessions; unsurprisingly, this analysis of USDOL data shows that the high volume of UI claims from 2008 through 2011 affected performance in all three areas.

Updating an earlier unpublished analysis (Vroman 2011), national data on state UI administrative performance from 1997 through 2011 were analyzed. Included were measures of timeliness for states' handling of first payments, continued claims, nonmonetary adjudication determinations, and appeals, as well as measures of the quality of adjudication determinations. Except for the continued claims measures, these timeliness and quality measures are part of the USDOL's "UI Performs" core performance measurement system, under which the USDOL has established uniform national acceptable levels of performance (ALPs). As such, they are considered "representative of the health of the entire unemployment insurance system" (USDOL 2013b). Also analyzed were the national data the USDOL currently uses to estimate and evaluate state performance in the area of benefit payment accuracy. These data are available through the Benefit Accuracy Measurement, or BAM, program. The BAM program "is designed to determine the accuracy of paid and denied claims . . . The results of BAM statistical samples are used to estimate accuracy rates for the population of paid and denied claims" (USDOL 2011).

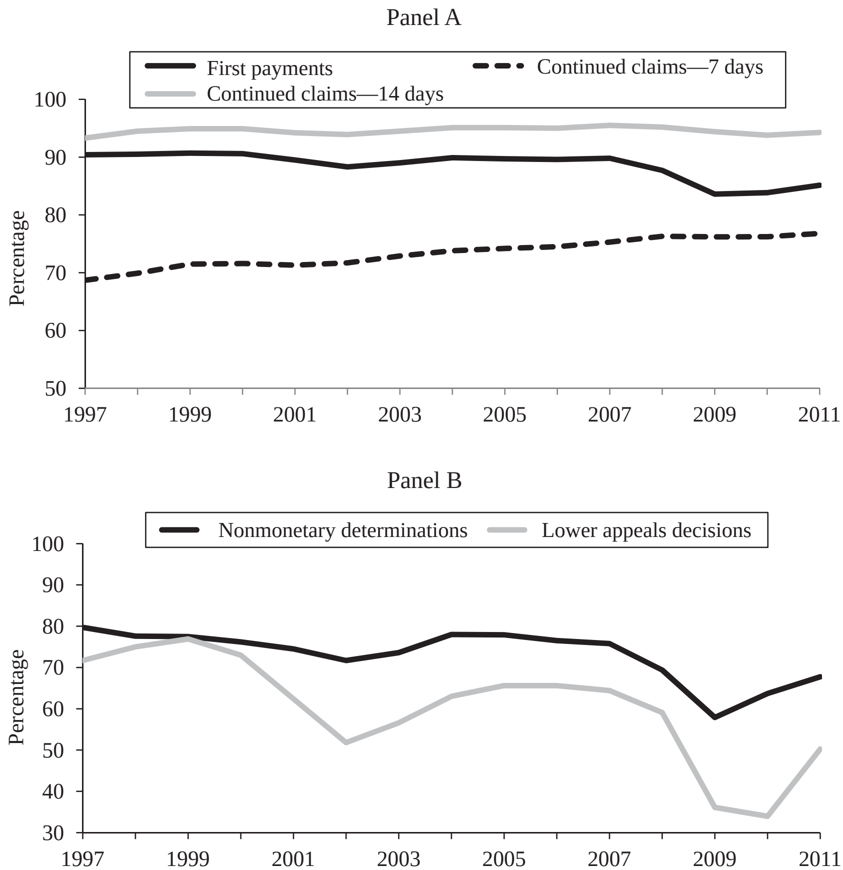
Timeliness of Performance

Figure 8.5 displays five series showing timeliness performance from 1997 to 2011. Each series is a simple average across 52 regular UI programs—i.e., the 50 states plus the District of Columbia and Puerto Rico, but excluding the Virgin Islands. The series track the following categories:

- The percentage of first payments made within 14/21 days
- The percentage of continued claims made within 7 days
- The percentage of continued claims made within 14 days
- The percentage of nonmonetary determinations made within 21 days
- The percentage of lower authority appeals decided within 30 days

The USDOL's acceptable levels of performance (ALPs) for the series are as follows: 87 percent of first payments within 14/21 days, 80 percent of nonmonetary determinations within 21 days, and 60 percent of lower-authority appeals decided within 30 days. As noted above,

Figure 8.5 National Trends in UI Program Timeliness Performance



SOURCE: Time-lapse data from USDOL ETA reports 9050, 9051, 9052, and 9054L.

there is no USDOL performance standard for continued claims timeliness, but this measure and the measure of first payment timeliness are of importance. These measures show how quickly recipients actually receive payments, and the Social Security Act and related regulations require states to determine eligibility and make payments "with the greatest promptness that is administratively feasible."[8]

Figure 8.5 shows that, averaging across states, state administrative performance is affected negatively by recessions. Because of the severity of the Great Recession, the decreases between 2008 and 2011 were much larger than during 2001 and 2002. Note also that decreases in timeliness were much larger for nonmonetary determinations and appeals than for first payments and continued claims. In fact, the percentage of continued claims made within seven days increased measurably between 1997 and 2011 (from 68.7 percent to 76.8 percent). Observe also in Figure 8.5 that the timeliness measures were uniformly higher in 2011 than in 2009. Timeliness in performance clearly improved in the later stages of the Great Recession. Continued improvement in 2012 probably can be anticipated.

The series traced by Figure 8.5 were also examined with multiple regressions. Two principal findings from those regressions should be noted. First, while there were trends in performance between 1997 and 2011, most trends were small. Only for lower authority appeals was there a downtrend that amounted to more than 5 percentage points per decade. A large positive trend was realized in continued claims made within seven days. This positive trend probably reflects greater reliance on telephone claims and Internet claims in more recent years. Second, all performance series showed a strong effect of the business cycle. The cycle was measured in three different data series: the total unemployment rate, weeks paid for regular benefits, and weeks paid for all three tiers of UI benefits. The three cyclical variables were all highly significant, showing a large negative effect of recessions on time-lapse performance.[9] The cyclical variables accounted for most of the time series variation in time-lapse performance. Generally, the cyclical effects on performance were much larger than the trends included in the same regressions. After controlling for the cycle, the trend effects between 1997 and 2011 were generally modest, less than 2 percentage points per decade for first payments, continued claims paid within 14 days, and nonmonetary determinations. The downward trend for timeliness of lower-authority appeals, however, was close to 5 percentage points per decade.

Evidence from teleconference interviews with state UI officials corroborates these administrative performance trends: state UI officials generally said they faced more difficulty with timeliness performance in the areas of appeals and nonmonetary adjudication determinations than in claims-taking, although trends varied by state and all three areas were affected by the recession.

These interviews suggest that several factors contributed to the general decline in state UI administrative performance. Some states noted that they were underfunded for UI administration before the recession, and, as noted earlier, many experienced a lag between the workload increases of the recession and the availability of additional funds for UI administration necessary to address the workload. In addition, UI officials mentioned the complicated and unpredictable federal law changes of the Recovery Act and subsequent UI legislation, outmoded state UI information technology systems that were inflexible and required "work-arounds," a need to hire quickly and the resulting inexperienced new staff, and high staff turnover. Obviously, many of these factors were interrelated.

The interviews suggest many state UI officials were more likely to maintain—or address declines in—claims-taking timeliness than timeliness in the other two functional areas, for several reasons. Many state officials reported deliberate action to make claims-taking a priority to respond to the economic needs of individuals and communities in their states. As noted earlier, states also are required by federal law to ensure prompt benefit payment. Often during the caseload surge, this emphasis on claims processing came at the expense of performance in another functional area—such as adjudications and appeals—through staff reassignments, for example. Other factors states mentioned include a higher degree of automation (i.e., less labor dependence) in initial and continuing claims functions, and less training needed when moving or hiring staff into the claims-taking area than in the more complex areas of adjudication and appeals.

Quality of Performance: Adjudication Determinations

The quality of UI agency nonmonetary adjudication determinations was adversely affected by the Great Recession, but at a national aggregate level the change was small, a peak-to-trough decline of about 4 percentage points. In fact, in the teleconference interviews with the states, when asked how state administrative performance had changed with the recession, only a few state UI officials mentioned issues with performance in the area of quality of determinations, and most tended to see these issues as a natural consequence of the recession.

The quality of state determinations for both separation and nonseparation issues is measured on a scale whose maximum value is 100 when the determination is judged to be fully satisfactory. Figure 8.6 traces developments in the quality of nonmonetary adjudication determinations from 1997 to 2011. It displays two quality series, providing separate scores for separation and nonseparation determinations. Both series are simple averages of 52 scores from the individual programs (the 50 states plus the District of Columbia and Puerto Rico).

Three features of Figure 8.6 are noteworthy. First, the series trend strongly upward between 1997 and 2008, but then decrease during 2009 and 2011. Second, quality is significantly higher for nonseparation determinations than for separation determinations. The difference in their scores averaged 6.5 percentage points during the 15 years spanned by the data. Third, the average quality scores decreased by about 4 percentage points during 2009 and 2011, showing a cyclical effect on performance.[10]

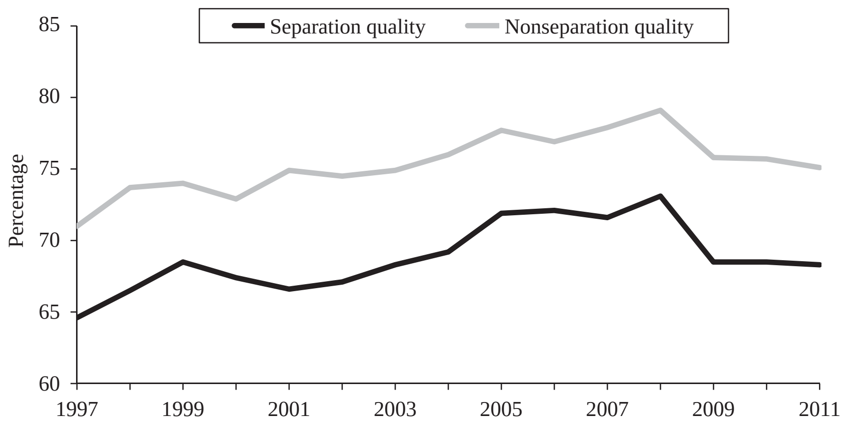
Payment Accuracy Performance

Data to estimate payment accuracy in the regular UI program have been collected for 25 years. Figure 8.7 displays the estimated overpayment rate for regular UI benefits from 1988 to 2011. Four features of the chart are noteworthy. First, in most years the estimated overpayment rate was between 7.5 and 10.1 percent of benefits. Second, there is an upward trend in the estimated rate. Most rates were less than 9.0 percent before 2000, while all exceeded 9.0 percent after 2000. Third, the highest estimated overpayment rate occurred in 2010, at 11.45 percent.

Fourth, the estimated overpayment rate decreased in 2011, to 10.67 percent. The high overpayment rate in 2010 might be linked to the high continued claims volume of that year. A specific feature of 2010 was the number of changes in EB and EUC eligibility (refer to Table 8.8). These stops and starts in extended benefit eligibility, along with three "reachback" periods in 2010, could have affected operations in the regular UI program.

A regression analysis of the BAM overpayment rate yielded three findings of interest. First, the uptrend in the error rate seen in Figure 8.7 was confirmed by regressions. The trend was estimated with greater precision when the regression excluded 1988 and 1989, the first years

Figure 8.6 Quality of Nonmonetary Determinations, 1997–2011 (% of determinations)

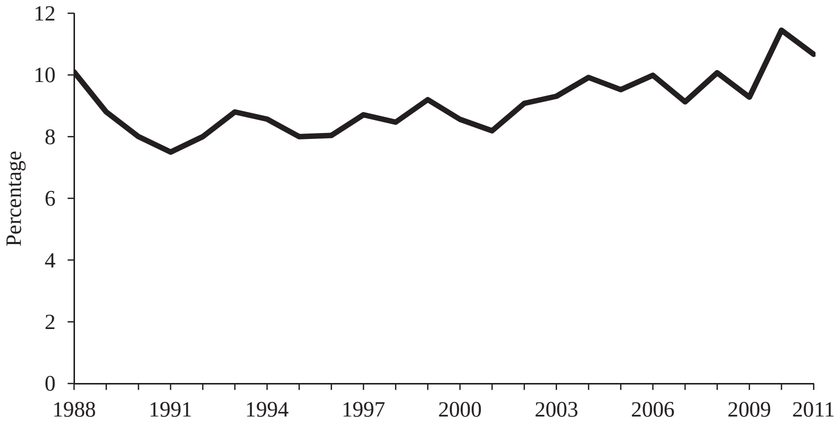


SOURCE: Quality data from USDOL ETA Report 9056.

of BAM measurements. Second, no systematic effect of cyclical variables was found despite the obvious spike in the error rate in 2010. The upward deviation above the regression line of the data point for 2010 is about 0.8 percentage points. The increase over 2009 so apparent in Figure 8.7 partly reflects a negative regression residual in 2009, when the error rate was almost 1.0 percentage point below the regression line. This statistical noise from 2009 and 2010 partially reflects the fact that the BAM samples are small, yielding variable BAM estimates for individual years. Third, estimates of trend and cyclical effects did not change when the data points for 2010 and 2011 were either included or excluded from the regressions. The upward trend in the estimated payment error rate ranged from 1.0 to 1.3 percentage points per decade. The absence of a strong cyclical effect stands in contrast to the cyclical effects found in the timeliness and quality regressions discussed previously.

Figure 8.7 is helpful for assessing recent discussions about the size of UI payment errors during the Great Recession. Estimated overpayment error rates have exceeded 9.0 percent in every year since 2002. Between 2009 and 2010 the overpayment error rate increased from 9.28 percent to 11.45 percent. The popular discussion of payment errors has

Figure 8.7 National Trends in Estimated UI Overpayment Rates



SOURCE: Annual Benefit Accuracy Measurement (BAM) reports.

often emphasized the volume of erroneous payments. Although the error rate did increase in 2010, most of the recent increase in erroneous payments reflects growth in total benefit payments. Erroneous payments totaled $6.65 billion in 2010, out of regular UI benefits of $58.1 billion. With an error rate of 9.0 percent, the average between 1997 and 2005, this total would have been $5.39 billion. The principal determinant of the growth in the dollar amount of payment errors is the growth in the underlying volume of benefit payments, not the growth in the error rate.

STATE UI AGENCY OPERATIONAL ADJUSTMENTS DURING THE GREAT RECESSION—BEFORE IMPLEMENTATION OF THE RECOVERY ACT

During the period of the recession before implementation of the Recovery Act, states were wrestling with rising caseloads for regular benefits. They also struggled with additional caseload growth and implementation issues because of UI legislation approved in June and November 2008 authorizing and extending the EUC program. In most states, the major keys to addressing the surging caseloads were the hiring and training of staff. Also important in many states was automating or otherwise streamlining certain UI processes. This section provides detail on these staffing, technology and business process adjustments. Of course, states continued making adjustments throughout the remainder of the recession and beyond, especially in response to the provisions of the Recovery Act, and some of these are discussed in a later section of this chapter. This section is organized by types of adjustments, not by the core UI processes. However, Box 8.2 illustrates the types of adjustments states made in what was for many a challenging core UI process—appeals. The box highlights how investments in technology, staff, staff training, and business process changes were all potentially important to addressing appeals caseloads and backlogs.

Box 8.2 How Technology, Training, and Business Process Changes Addressed Appeals Caseloads and Lessened Backlogs

- Arizona: New technology for the first-level appeals process was planned before the recession and implemented successfully during the recession. This technology is Web-based and provides more functionality for customers, adjudicators, and administrative law judges (ALJs) on the front end. The combination of this new appeals system, the bringing back of retirees, and the hiring of temporary ALJs has enabled the department responsible for this function (which is outside the UI area) to address appeals time-lapse issues.
- Louisiana: The state reorganized its lower authority appeals processes as a result of a backlog. A new head of the appeals division was appointed, an outside consultant hired, and an improved division of labor implemented. Previously, ALJs performed tasks more appropriate for clerical staff, so a new clerk of court was established. Also, to help clear the backlog, 150 appeals cases were transferred to an alternative division (Administrative Law) for resolution. The state hopes eventually to move away from dependence on its legacy IT system and toward a Web-based approach.
- Michigan: The state addressed a trend upwards in the age of lower-authority appeals by centralizing appeals and setting up a separate postal box and fax line for appeals. Appeals work now is kept separated, saving days.

(continued)

Box 8.2 (continued)

- Montana: In training adjudicators, the state focused on training them well in fact-finding and decision-making, which slowed claims-processing times for adjudications but ultimately reduced the number of appeals. A backlog in adjudications also reduced the number of cases making it to appeals to begin with.
- Nevada: To help maintain timely appeals performance the agency got permission to hire additional referees in 2009, but the positions were hard to fill because they required significant UI experience, lacking in many new UI hires. The agency officials noted the volume of appeals increased sharply in part because the appeals rate rose due to the lack of jobs in the economy. Even relatively straightforward monetary determinations were being appealed by some unemployed workers desperate to get assistance, despite an absence of sufficient base period earnings.
- Ohio: To address delays in appeals, both the numbers of hearing officers and cases decided per officer have increased. By 2011 most of the backlog was eliminated, but it remains an area of concern. Modernizing the benefits system has helped to improve appeals timeliness.
- Virginia: Increased number of appeals (due, in part, to the lack of training among new hires handling first determinations) coupled with staff turnover and the reassignment of staff to other UI functions meant ALJs had a sharp decrease in average years of experience. The appeals function was strengthened by increasing overtime hours, hiring more staff (including some retirees) and training.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

Staffing Adjustments

States made numerous adjustments to staffing in response to the caseload surge, not only to meet the growing UI claims demand during regular hours, but also to allow for extended hours of operation. Staffing adjustments included hiring new staff, rehiring retirees, requiring or allowing staff overtime hours, and reassigning existing staff. Training new staff was necessary and often challenging, and hiring and keeping qualified staff was often a challenge as well. The story told by officials in one state—Virginia; see Box 8.3—provides an example of the significant scaling up of, and shift in, staff resources during the recession.

Table 8.5 describes some of the staffing adjustments each of the other interview states made before enactment of the Recovery Act.

New hires and training. Nearly every state reported hiring new staff members, and in the vast majority of states many or all of these new staff were temporary hires. New staff hiring presented both opportunities and challenges. Several states volunteered that the quality of new hires was above average because of the recession-related supply of available labor, and they expressed hopes that new hires could eventually become permanent staffers as other staff retired. For example, Nebraska officials remarked that the new staff came through the administrative services office that provides temporary staff, and that they were of higher caliber than is typical, with even lawyers and accountants in the mix. Maintaining temporary staff was sometimes a challenge; officials in several states volunteered that recruiting was a continuing

Box 8.3 Staffing Adjustments: A Virginia Example

Normally, in the Virginia Employment Commission, the breakdown of staff resources is about an even 50-50 split between UI and worker adjustment services at the One-Stops. With greatly increased UI caseloads during late 2008 and throughout 2009 the de facto allocation of Commission staff between UI claims and "everything else" changed to a roughly 80-20 split. A large element of the adjustment was the hiring of temporary staff for UI, but other adjustments included reassigning staff to UI claims, working increased overtime hours, and rehiring some recent retirees. The staff reassignments occurred both within UI (from functions like nonmonetary determinations and appeals to claims activities) and from the One-Stops to UI. Staff had previously been cross-trained, so reassigned workers were able to perform claims functions. Despite or because of these reallocations, performance decreased in first-payment promptness and nonmonetary determinations, and the volume of worker adjustment services in the One-Stops was drastically curtailed.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

Table 8.5 Examples of State UI Staffing Adjustments in Response to the Recession, before the Recovery Act

State	UI program staffing adjustments
Colorado	The agency made staffing increases in most functional areas, including initial claims, adjudication and fact-finding, first-level appeals, and continued claims. Weekly hours were adjusted in adjudication and fact-finding.
Florida	The state made an aggressive effort to hire and train additional staff, with the number of staff increasing from 400 to 1,700. These were overwhelmingly new employees hired on a temporary, contractual basis.
Illinois	Illinois was aggressive in staffing up. The state always maintains a pool of intermittent employees, many of whom are cross-trained for UI and Employment Services. The state increased the hours of many intermittent employees. The flexibility provided by these employees, both to scale up operations as well as to move staff between functions, proved very helpful as the number of UI claimants rose. The state also hired and trained new staff, and it temporarily rehired retirees. Staffing also was increased by extending staff hours.
Louisiana	New staff was hired to process initial claims in call centers and conduct monetary determinations and appeals. Total adjudication staff was expanded from 30 to 40, with plans to add 15 more by late fall of 2011. The state created a special training series for the new adjudicators. The shortage was exacerbated in mid-2011 through buyouts and retirements when agency downsizing was mandated.
Maine	Prior to the recession, staffing levels were at a low. About 40 to 45 claims takers were needed but only 18 were on staff, less than 50 percent of need. Even then, the agency was not able to handle the current workload as efficiently as it would have liked. Staffing levels were low for several reasons: attrition and retirements, a state hiring freeze, and funding declines. When the recession hit, pressure from the legislature and the public led to the tripling of claims staff, including the rehiring of retirees. Training was a challenge, even though the quality of hires was high. Some staff was reassigned within the agency; e.g., some quality-control staff, fraud adjudicators, and tax staff were moved to claims. The assignment of staff for nonmonetary determinations was modified, to ensure newer staff worked on simpler issues (quits rather than misconduct). Training was needed because adjudication was increasing due to increased volume; often claims staff were elevated to adjudication with limited experience.
Michigan	The state implemented voluntary and mandatory staff overtime, hired between 100 and 150 new temporary employees for a new call center (a 10 percent increase in agency staff), and reassigned staff, mostly from support activities to telephone claims filing for both initial and continued claims.

Montana	Montana offered compensatory time and overtime to existing staff, rather than hiring and training new staff, to maximize efficiency (the state later hired new staff).
Nebraska	As the recession hit, the state nearly doubled its claims-taking staff, from 60 to over 100. The new staff was mostly agency temporary staff traditionally allowed to work one year before taking a break and acquiring a new assignment. During the recession the agency got an exemption from this requirement to implement a break period. The new staff came through the administrative services office that provides temporary staff, and was of higher caliber than is typical, with some lawyers and accountants in the mix. The training schedule was intensive despite the quality of the new hires. New temporary staff also was hired for adjudications and first-level appeals work.
Nevada	Forty-four new UI staff were hired, a 5 percent increase. The new workers were temporary intermittent employees whose weekly hours could vary between 0 and 40. The state also reassigned 15 to 25 staff from outlying offices to UI operations and increased staff overtime hours (with regular staff working up to four hours' overtime each day).
New York	The state hired both temporary and permanent staff and reallocated existing staff to claims functions.
North Carolina	The state added staff in its adjudication unit, initial claims unit, and appeals. The state was understaffed in the adjudication unit prior to the recession. New hires were recruited from outside the agency and required training. The state sought hires with experience in the insurance industry. These were temporary positions, and turnover was an issue. The state was not able to hire up to the numbers it needed to address the workload. For appeals, the state hired lawyers from outside, which worked well since many of them were out of work but had high skill levels. While they were hired into time-limited positions, some have become permanent staff, and the appeals staff has been upgraded as a result. Hires for initial claims were primarily new, temporary staff, but some have been kept on as permanent staff. The state had an established training program it used for these new hires.
North Dakota	North Dakota hired temporary staff. Because the agency already used temporary staff to handle seasonal workload variation, the established pattern was followed but hiring volume was increased.
Ohio	Staff was approved for overtime hours. Prior to the recession, Ohio's agency was at full staffing levels, in part because officials began an early internal campaign for new hires and intermittent employees as the caseload began to grow. Local library staff was trained in on-line benefit applications so they could serve as a resource for persons wishing to file on-line who did not have computer access at home.

(continued)

Table 8.5 (continued)

State	UI program staffing adjustments
Pennsylvania	Before the recession, UC benefits staffing was at a low point of 700 employees, due primarily to limited federal administrative funding, so the initial focus as the recession hit was to hire staff as expeditiously as possible. Staffing increases were needed in all UC benefit functions, particularly those relating to new and continuing claims. Pennsylvania also temporarily reassigned staff from other UC functions (such as UC tax and fraud investigations), recalled annuitants, and used optional and mandatory overtime. Staffing increases took time because of state civil service rules and training capacity issues. Many of the new hires were temporary employees.
Rhode Island	Before the addition of new staff with the passage of Recovery Act legislation, people from outlying workforce development offices with UI knowledge were reassigned to UI and allowed to work up to four hours of overtime a day.
Texas	By November 2008, 110 additional staff members were hired and trained to work in the state's telecenters.
Washington	The state increased staff significantly beginning in February 2008, and by December 2010 it had boosted staff by 51 percent. These were both permanent and temporary hires.
Wisconsin	Before the recession, in the second half of 2007, the state agency lost 20 percent of its UI staff. As the workload increased with the recession, staff increases included long-term temporary (two-year) project staff, limited-term temporary (six-month) staff, and contract staff (temp agency staff). The agency also rehired some retirees and moved part-time staff between activities (to adjudication from nonclaims activities like IT and management). The agency also authorized overtime work.

SOURCE: UI teleconference interviews conducted for the study by researchers from the Urban Institute and NASWA.

need because of high turnover of temporary staff. Virginia officials noted, for example, that temporary employees often leave to take other jobs, an “ongoing problem in UI administration,” as they put it. Several states also mentioned hiring was a challenge, because of a lag between caseload increases and increases in UI administrative funding (Rhode Island), state civil service rules (Pennsylvania), or hiring freezes. Problems with training capacity or long lead times for training also hindered some states’ ability to place staff into positions.

Training new staff members was both important and a major challenge in many, if not all, states, as evidenced by the number of times state officials brought up training despite the interview protocol having no direct questions about training. Florida officials reported, for example, that training new staff was the biggest challenge they faced in ramping up. Nebraska, which nearly doubled its claims-taking staff as the recession hit, described its training schedule as “intensive.” Rhode Island officials noted that when the number of staff tripled in February 2009, the state faced significant challenges with training.

Training was necessary not only for staff coming in the door, but for staff moving among positions, and training staff in more specialized areas could require a significant investment of time. For example, officials in Montana noted the state couldn’t staff up fast enough in the nonmonetary determinations area because it takes four to six months to train a new hire adequately. Maine officials said newly hired staff worked on simpler issues at first, but it often was necessary to elevate these staff with little experience to high-skilled positions, such as adjudication, and more training was then required. This was mirrored in Nevada, which received permission to hire additional referees in 2009 to maintain timely appeals performance, but struggled filling positions because these referees require significant UI experience. Thus, recent hires were often promoted from examiner to adjudicator after just one week of agency experience. Rhode Island officials noted that during 2010 performance improvements in adjudications were smaller than in some other areas because more than half the persons doing adjudications were recent hires with limited initial knowledge of UI and no initial adjudication knowledge.

Insufficient staff training could have implications for both customer service and a state’s performance relative to federal standards, but getting staff into jobs quickly also was a priority. States sometimes had to make trade-offs between training staff quickly and training them well. Montana officials noted, for example, that training adjudicators "well" in fact-finding and decision-making slowed the state's claims processing times but ultimately reduced the number of appeals.

To the extent some states innovated in scaling up training capacity, it was not a focus of the study; this suggests a possible area for follow-up, given the challenge training presented to so many states. Louisiana responded to the difficult time frames and trade-offs by creating a new, shortened training series. Officials in Texas mentioned that the state did a good job of anticipating the training needs of new hires (and these new hires worked out well). In North Carolina, the state was able to rely on an already-established training program for new hires for the initial claims function. Illinois may present a special case: as part of normal operations, the state maintains a pool of intermittent employees, many of whom are cross-trained for UI and ES, so when the recession hit, the state was able to increase the hours of these intermittent employees without great investments in training, which provided unusual flexibility to scale up operations as well as move staff among various functions.

Staff reassignment. During the teleconference interviews, a majority of the interview states reported reassigning staff among UI functions, or from other agency functions to UI, usually with an emphasis on maintaining timeliness of claims-processing or adjudications. Staffing trade-offs sometimes resulted in performance declines in UI or workforce functions of lower priority for resources. Many states facing short- or long-term resource constraints coupled with high customer needs found it necessary to triage in this way. Some examples follow (Box 8.4):

Retiree hires. Many states reported temporarily rehiring retirees as a complement to other hiring; no state reported rehiring retirees as the only way to increase staff. Rhode Island, for example, enacted legislation in February 2009 allowing the state to rehire recent retirees for eight weeks, which allowed the state some lead time to train new hires so they would be more proficient when they started to perform claims-related and other activities. Arizona hired new staff generally, but hires of administrative law judges came from among retirees.

Box 8.4 How States Reassigned Staff to Maintain Timeliness of Claims-Processing and Adjudication in the Face of High Demand

- In Florida, the state received a waiver allowing the agency to reallocate staff resources from fact-finding to adjudication; this was in effect for 2009 only.
- Montana reassigned staffers from the Benefit Accuracy Measurement (BAM) area to work on adjudications, calling it "a finger in the dyke." But after six months the state was sanctioned for this reallocation of staff, even though state officials thought the reallocation ultimately would enhance integrity (by allowing for more accurate determinations).
- Pennsylvania reassigned staff to claims processing from other UI functions, including tax and fraud investigations.
- Prior to the addition of new hires, Rhode Island reassigned staff with UI knowledge from outlying workforce development offices to work in UI, and allowed them to work up to four hours of overtime a day.
- Wisconsin moved staff to adjudication from "nonproduction" activities like information technology and management, on a part-time basis.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

Staff overtime. States often had to implement aggressive measures as they strove to meet customer needs and performance standards, and as a result longer work hours came into play for some, if not many, employees. A majority of states reported encouraging or requiring staff overtime, at least temporarily. Several examples follow (Box 8.5):

Separately, many states reported tremendous efforts, including overtime on weekends, holidays, and through some nights, by IT and high-level administrative staff even before implementation of the Recovery Act, to help implement process adjustments dependent on technology changes as well as the early EUC legislation. Similar efforts followed with implementation of the Recovery Act provisions, as the report later documents.

Box 8.5 How States Met Increased Customer Demand by Encouraging or Requiring Employee Overtime

- Until later in the recession, when new hiring became a necessity, Montana found it more efficient to offer compensatory time and overtime to existing staff, rather than hire or train new staff.
- Nevada increased staff overtime hours, with regular staff working up to four hours' overtime each day.
- Ohio began an "early internal campaign" for new hires and intermittent employees as the caseload began to grow, and was able to reach full staffing levels early in the recession; the state approved these staff for overtime hours.
- Pennsylvania and Michigan relied on voluntary and mandatory overtime to increase staff capacity.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

Outside staff support. Many states undoubtedly undertook initiatives to reach out in the community for resources to support UI claims processing. In Ohio, for example, local library staff members were trained on how to apply for UI benefits over the Internet so they could serve as a resource for claimants wishing to file on-line who did not own a computer. The teleconference interviews did not collect systematic information on the use of outside staff resources.

Adjustments to hours of operation. All but a few states mentioned extending hours of operation in order to meet the needs of UI customers during this period. Some states kept a Monday-through-Friday schedule but extended the day, while others implemented weekend hours, and still others did both. Some states also expanded call center hours of operation. Examples of specific adjustments include those listed in Box 8.6.

Adjustments to call center capacity and phone lines. Nearly every state added one or more call centers or upgraded its phone lines to increase capacity during the recession. Even states shifting claims-

Box 8.6 How States Extended Hours of Operation to Meet the Needs of Customers

- Arizona opened offices earlier and closed them later, but remained with Monday-through-Friday hours.
- Florida extended hours of operation on weekdays, from 7 a.m. to 9 p.m., and established weekend hours of operation on both Saturdays and Sundays. Weekend operations were devoted to the processing of Internet claims; informational calls were accepted only on weekdays.
- Illinois increased the hours of interactive voice response (telephone IVR) availability from 12 hours (7:00 a.m. to 7:00 p.m.) to 16 hours (5:00 a.m. to 9:00 p.m.) per day.
- In Louisiana, office hours were extended by three hours, from 8:00 a.m.–5:00 p.m. to 7:00 a.m.–7:00 p.m.
- In Maine, career centers were opened on Saturday mornings to accommodate claims and information inquiries.
- Michigan extended both in-person and phone customer service hours, with phone hours increasing from 8:00 a.m.– 4:30 p.m. to 7:00 a.m.–6:30 p.m.
- Washington opened its call centers for four hours on Saturdays for two months during winter peak, and later opened centers an hour early during weekdays.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

taking heavily toward the Internet usually found it necessary to revert in part to this older technology as One-Stop staff were overwhelmed by large numbers of UI claimants arriving with UI claims questions. Unlike most of the staffing adjustments states made, some of these technology-supported upgrades to IVR systems and call centers are sustainable. Of particular note, several states mentioned that adopting “virtual hold” or similar technology markedly improved call center efficiency during the recession. This technology allows a claimant calling the center a choice to either remain on the phone in a queue or be called back by an automated computer system that assigns a call-back time based on call volume (Box 8.7).

Box 8.7 How States Increased Call-Center and Phone-Line Capacity during the Recession

- In Arizona, which had shifted claims-taking primarily to the Internet before the recession, the surge in UI claimant calls negatively impacted other Arizona agencies because of a shared phone system. After a number of cross-agency meetings, phone lines were added and the interactive voice response (IVR) system was reworked (e.g., to allow lines to switch from one agency to another depending on slack and peak demand times).
- Florida increased the number of phone lines by contracting out call center services for the overflow of calls.
- Illinois upgraded its IVR system and added new telephone lines, increasing IVR capacity by one-third. This required nine new T1 fiber-optic telephone lines and three new servers.
- In Maine, the scripting of the IVR for taking claims was streamlined to address the backlog in phone claims stemming from a high volume of information inquiries being served on the same lines as claims.
- Michigan implemented a new call center in January 2009, increasing the number of centers to four. The state also purchased new IVR boxes for continued claims before and again after Recovery Act implementation.
- North Carolina relied on an already-established, contracted call center overflow unit to handle high initial and continuing claims volume. The unit was set up prior to the recession in case the call center went down.
- Texas‘s telecommunications provider began installing additional telephone lines in August 2008. By October 2008, the agency had 168 additional lines, growing to 336 by January 2009. In September 2008 the IVR systems were modified to allow claimants to submit payment requests on any available day (previously such requests were limited to specific days). A temporary call center was opened.
- Washington funded a new call center. It also modified its IVR system by implementing virtual hold technology. Implementation of this technology increased the quality of call experience, reduced wait times and freed up intake agents. A significant minority of the interview states adopted this technology at some point during the recent recession.
- Wisconsin increased phone-line capacity for both initial and continued claims.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

Other technology upgrades. Overall, a majority of the technology updates the interview states implemented were motivated by caseload pressures and designed to allow for more self-service over the Internet, with a goal of reducing the need for staff involvement. The updates were fairly narrow in scope, although they were key to automating or otherwise streamlining certain operations. For example, Rhode Island implemented technology changes allowing a greater percentage of claims to be completed at initial application over the Internet without the need for follow-up involvement of UI staff. Other state examples appear in Box 8.8.

In many states, the recession exposed broader weaknesses inherent in outmoded large-scale state IT systems for UI benefits administration, and in related software applications. But modernizing UI IT systems is a costly and challenging task and not a short-term option to address the unexpected caseload demands of a recession. As noted earlier in this chapter, Illinois was the one state to complete an IT modernization effort during the recession, but its effort—focused on the IT benefits system—was initiated and in process before the recession. The section below on the Recovery Act's $500 million supplemental distribution to states for UI administration reveals that many states are using or planning to use these supplemental administrative funds to plan or help execute major, multiyear IT benefits or tax system upgrades. Illinois relied on these Recovery Act funds to help complete its modernization effort.

Other (nontechnology) business process improvements. In the teleconference interviews, many states mentioned making business process improvements that did not involve technology investments, and some are captured in Box 8.9.

Recovery Act UI Provisions: State Implementation Experience

$500 million for UI administration. The Recovery Act legislation included a supplemental grant of $500 million to states for UI administration. Funds were allocated to states without the need to apply or take other action, and based on each state's proportionate share of taxable wages under the Federal Unemployment Tax Act (FUTA). Unlike most Recovery Act grants, states were not required to obligate or spend these funds by a particular date. The strains the recession put on state UI programs and the competing needs—to shore up outmoded infrastructure,

Box 8.8 How States Updated Technology to Meet Increased Caseload Pressures

- In Arizona, a new technology for the first-level appeals process was planned before the recession and implemented successfully during the recession. This technology is Web-based and provides more functionality for customers, adjudicators and administrative law judges on the front end, although it still is tied to the old mainframe system.
- Colorado enhanced its on-line capabilities for completing fact-finding and adjudication. In addition, its outmoded computer system could not automatically pay EUC benefits on anything other than the most recent claims, causing the state to have to process an "extraordinary" number of claims manually. The state developed an automated solution for this manual process, allowing claims to be paid automatically but outside the existing payment system.
- Florida's technology innovations included putting more self-service online, with the capability for claimants to change their PINs and check claims; developing a refinement in the mainframe computer system that enables the computer to identify new employers; and developing an informational customer service e-mail system for claimants in order to reduce phone calls and address a problem of incoming emails containing no identifying information. The e-mail system includes identifier information from the claimant and the claimant's question, and e-mails are served by a callback team (to the extent possible, responses come from local One-Stop offices). The system eliminated some backlog, and 90 percent of e-mails were handled within two hours.
- Illinois reworked Internet certification processes and technologies.
- Maine implemented programming modifications for initial claims, continued claims, and adjudication activities. Also, the state was switching to debit cards at the time the caseload increased. Debit cards proved to be time savers and facilitated the servicing of the increased claims volume. (Nevada switched from paying claims by mail to the use of debit cards before the recession, in 2006 and 2007, and staff indicated the increased volume of calls during the recession could not have been addressed as well if payments were still made by mail.)

- In order to free up more telephone lines for incoming EUC and regular claims, Nebraska purchased cell phones for the adjudicators to use for fact-finding. It was much quicker to switch to cell phones than it would have been to install land lines, and to downscale once the extra capacity is not needed at the end of the recession. Using cell phones also made it possible for the state to be more flexible in utilizing office space, as using the cell phones meant adjudicators could relocate to another building to free up space for claims takers at the call center.
- New York responded to the claims volume by making programming modifications for initial and continued claims.
- North Dakota implemented a visual calendar to reduce claimant confusion caused by all the benefit extensions. The calendar gives claimants a highlighted date range for certifications.
- A big system adjustment for Ohio gave staff access to the benefits system even while batch processing was occurring. Previously, staff was not permitted to access the system during batch processing, and was forced to conduct certain business processes (both IVR and Internet) via paper during those times. The adjustment allowed certain business entries on a 24/7 basis, including filing initial claims, additional/reopened applications, filing of continued claims, fact-finding, entering appeals, claimant affidavits, and employer responses to requests for separation.
- Texas allows some claims examiners and appeal hearing officers to telecommute. The telecommuting staff members get their assignments and perform the work the same as staff located in the office. Telecommuting claims examiners have local and toll-free numbers that claimants and employers can use to return their calls, and they conduct their hearings telephonically utilizing Clear2There (C2T), a conferencing technology.

SOURCE: UI teleconference interviews conducted for the study by researchers from the Urban Institute and NASWA.

Box 8.9 How States Made Improvements to Their Business Processes to Meet Increased Demand

- Louisiana reorganized its lower-authority appeals processes. A new head of the lower-authority appeals division was appointed who previously had headed higher-authority appeals and accomplished process improvements there. With the aid of recommendations from an outside consultant, the state implemented an improved division of labor. Previously, administrative law judges (ALJs) were doing some clerical work, so a new clerk of court was established. Also, to help clear an appeals backlog, 150 appeals cases were sent to the Division of Administrative Law for resolution.
- Louisiana created a special training series for new adjudicators after experiencing a staff shortage.
- Michigan instituted business process changes to address a 15-percentage-point decline in performance related to quality of determinations. Originally, incoming cases were distributed to call centers on a first-come, first serve basis. Under the changes, officials organized work by areas of specialization, allowing for continuous training and process improvement, as well as greater staff accountability.
- Michigan made an effort to increase employer-filed claims to reduce individual claims (mostly in mass layoff situations).
- Michigan addressed an upward trend in the average age of lower-authority appeals by centralizing appeals and setting up a separate postal box and fax line for appeals.
- New York streamlined claims-taking with innovations such as identifying callback times when claims volume was lower and spreading claims more evenly over the week.
- In Ohio, local library staff was trained on online benefit application so they could serve as a resource for persons wishing to file on-line who did not have computer access at home.
- Washington formed a team to develop mitigation strategies for times when the caseload surged. The team was composed of subject matter experts from each of the call centers, so solutions were designed with desk-level input. The state also relied on business consultants to get

Box 8.9 (continued)

the "value of an outside perspective." A former Boeing employee with business process redesign experience was hired, as was a consulting group that was helpful in developing better business designs and associated performance measures.

SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

respond to increased claims demand, streamline operations, address the reemployment needs of claimants, modernize eligibility provisions, and protect trust fund balances—are reflected in the purposes to which states were allowed to dedicate the special distribution for UI administration:

- Implementing and administering the provisions of state law that qualify the state for the UI modernization money
- Improved outreach to individuals who may be eligible by virtue of the modernization provisions
- The improvement of UI benefits and tax operations, including responding to increased demand for UI
- Staff-assisted reemployment services for UI claimants

Note that unlike the Recovery Act's incentive funding for modernizing UI eligibility provisions, which also may be used for UI administration as well as employment services, the Recovery Act grant for UI administration could not be used to pay benefits.

During our teleconference interviews with UI officials in 20 states, we asked on which activities states had used or planned to use their share of the funding, the funding breakdown by activity, and how much of each state's share of these funds was already spent or obligated. Subsequent to these state interviews, additional information became available through a survey conducted by NASWA. The January–February 2012 NASWA survey was designed to gather information from all states on the status of these Recovery Act funds for the period ending December 31, 2011. Forty-eight states and the District of Columbia, representing 98 percent of total national allocations, responded to the survey. The NASWA survey did not gather data on how states allocated funding across allowable activities, but it did provide more recent information for some of the states on spending decisions and time frames.

How states are using the $500 million special distribution for UI administration. Findings from NASWA's national survey reveal on which activities states had obligated or spent *any* funds as of December 31, 2011:

- Over 80 percent of the 49 reporting jurisdictions had obligated or spent funds to improve UI benefits and tax operations (including both technology and staffing investments).
- Forty percent had obligated or spent funds on staff-assisted reemployment services for UI claimants.
- Nearly 30 percent had obligated or spent funds to implement and administer provisions of state law to qualify for UI modernization incentive funds.
- Close to 25 percent had obligated or spent funds to reach out to individuals who might be eligible for UI based on the modernization provisions.

In order to estimate the share of funding in the 20 interview states that will flow to various investments, information for these states from both the NASWA national survey and the state teleconference interviews were combined. Overall, the 20 states fell into three general categories:

- Approximately half of the states reported they would spend or had spent all or a large majority of funds on technology improvements. These improvements include large-scale IT benefits or tax system enhancements or overhauls; smaller-scale technology projects (e.g., implementation of debit-card technology for UI payments, improved IT security, and upgraded interactive voice response systems); or computer programming to accommodate law changes.
- About one quarter of the states had spent or planned to spend all or a majority of funds on staffing for basic UI operations or for reemployment services (and in all but one case these were temporary staff).

- In the remaining one-quarter of states, funds were more evenly divided between investments in technology and staffing.

Louisiana and North Dakota are examples of states with a heavy technology focus. Louisiana chose to spend a fraction of its funds during the recession to increase staffing but reserved the majority for longer-term investments in information technology. North Dakota was engaged in a state consortium project to upgrade its tax and benefits IT system before the recession and is dedicating the majority of its funds to this effort. In contrast, Ohio is an example of a state spending with a focus on staffing. Ohio spent its UI administrative funds quickly to fill a funding gap that resulted when its administrative grant for base funding was reduced by 11 percent at the beginning of the recession. The funding allowed Ohio to maintain staff throughout all UI operations. Texas's funds were split more evenly between technology investments and staffing. The state has emphasized UI claimant reemployment and directed over half its funds to improving reemployment services, with another large amount directed at technology improvements.

Table 8.6 summarizes the results for 19 of the 20 states interviewed (representing 95 percent of the funds allocated to the 20 states). The table shows that these states have spent or plan to spend approximately 60 percent of the funds overall on technology investments. The remaining 40 percent of funds have been or will be dedicated mostly to staffing for both basic UI operations and reemployment services. State-by-state details for all 20 states appear in Table 8.7.

It is not surprising these states are targeting the majority of funds toward technology-related projects, given the old age of many state UI IT systems, the desire to streamline processes as a result of both the recession and budget constraints, and the need to program computers for law changes. Some of the interview states are using (or planning to use) some or all of the funds to plan or execute major IT benefits or tax system upgrades, often looking to cobble together the funds with other funding sources, such as Reed Act monies and special funding from supplemental budget requests (SBRs). However, the availability of sufficient funding to complete major IT systems upgrades is an ongoing issue for many states.

Given the other funding available to states for reemployment initiatives under the Recovery Act's Wagner-Peyser Act provisions, the

Table 8.6 Summary Estimates of State Investments from the $500 Million Recovery Act Grant for UI Administration (data from 19 interview states)

Type of investment	$ millions	% of total
Technology-related investments	153	60
Major system or small-scale upgrades	137	54
Programming for EUC/EB/modernization provisions	16	6
Staffing and infrastructure	99	40
Staffing of general UI operations (client services, administration)	45	18
Infrastructure	5	2
Staffing of reemployment initiatives	49	19
Total Recovery Act grants to 19 states for UI administration	252	100

NOTE: Percentages of subcategories in second column do not sum to 100 because of rounding.
SOURCE: UI interviews conducted by Urban Institute and NASWA researchers.

allocation of roughly a fifth of the UI administrative funding for reemployment staff is interesting, and possibly reflective of several states' focused emphasis on this area, as well as the heavy demand for One-Stop center services in the face of limited funding available through Wagner-Peyser Act and WIA programs. Texas, Washington, Michigan, and Pennsylvania are allocating roughly a third to a half of their grants to the hiring of reemployment staff. Texas, with a large total allocation, represents nearly half of the UI administrative funds states have used or plan to use for staffing of reemployment initiatives.

How quickly funds have been spent or obligated. As noted above, the Recovery Act did not require states to spend or obligate the special distribution for UI administration by a certain date. This funding is available to tend to the infrastructure and integrity needs of the UI system, and is key to enabling prompt and accurate payments to eligible individuals. States' priorities for the funding, outlined above, varied significantly, and therefore spending patterns did too, with some states focused on longer-term capital investments and others on nearer-term needs.

Based on public accounting methods, the major categories of state spending for UI administration—staffing and technology—generally ensure a fairly significant lag between the time funding is obligated and when it is actually spent.[11] Capturing information on both obligations and expenditures is important to understanding the full stimulus effect of the grant. Data from the NASWA survey of January–February 2012 show that, as of December 30, 2011, states had spent approximately 40 percent of the grant and obligated another 26 percent. Six states had spent all their funds, 13 had not yet spent any, and 34 had spent a portion.[12] The survey found that nearly all states had plans to spend or obligate any remaining funds. More recent data from the USDOL shows that six months later (through July 6, 2012), states had spent more than 50 percent of the grant. (Information on obligations was not available.) Seven states had spent all their funds, seven had not yet spent any, and 39 had spent a portion.

Emergency Unemployment Compensation and Extended Benefits. During 2009, 2010, and 2011, total UI benefit payments to unemployed workers exceeded $380 billion. Benefit payments in both 2009 and 2010 were more than four times their level in 2007, while payments in 2011 were more than triple those of 2007. Benefit extensions for claimants who had exhausted their regular UI entitlements were a major part of the increased payments. Federal Emergency Unemployment Compensation has been making payments to exhaustees in all states since July 2008, while Federal-State Extended Benefits were available in about three quarters of the states between mid-2009 and early 2012. The combined sum of EUC and EB payments exceeded $180 billion during 2009–2011. In fact, their combined totals in both 2010 and 2011 exceeded regular UI benefits for the first time in the history of benefit extensions that have been activated in all recessions since 1958.[13]

Administering benefit extensions has presented numerous challenges for the states. In contrast to regular UI, which operates continuously, EUC and EB are governed by federal legislation and trigger calculations that determine when they are "on." During the Great Recession the "on" periods for both programs have been determined by a series of federal enactments that the states had to implement, often on short notice, and sometimes with retroactive provisions that require states to reach back into the past to make appropriate benefit determinations and payments. EUC and EB were able to make payments until the last week of 2012. Absent further federal legislation, by December 2012 the statutory provisions affecting EUC benefits will have been in

Table 8.7 States' Investments from the $500 Million Distribution for UI Administration (planned and actual, as of January 2012)

State	Distribution amount ($ millions)	State investments from the $500 million special distribution for UI administration under the Recovery Act
Arizona	10.7	Arizona is one of four states in a consortium project to replace both the tax and the benefit automated systems that are currently in use. While funding was received from the USDOL to fund the majority of these system replacement costs, the state will use a large portion of the remaining balance of Recovery Act administrative funding on this consortium effort. In addition, the state will use a portion of the funding to gradually reduce staffing after EUC and EB are phased out in order to maintain client services during the phaseout period.
Colorado	9.1	About 83 percent was appropriated for UI workload support. As of April 30, 2011, 96 percent of these funds have been expended, while the remaining will be expended by the end of June 2011. In addition, 12 percent was appropriated and expended for costs associated with implementing the federal-state EB program. Specifically, the funds were used to program the agency's UI computer system to pay extended benefits. The remainder was appropriated for outreach and marketing of enhanced unemployment benefits to allow an individual enrolled in certain approved training programs to receive an additional 50 percent of the original weekly benefit amount for up to 20 weeks while enrolled in training. The majority of the UI administration money was used to pay for additional staff, which is not sustainable.
Florida	31.7	Florida's share of the new administrative funding will be used to implement an integrated claims/benefits/appeals IT system, to include also adjudications, charging and benefit payment control (BPC). The state will supplement the administrative funds with set-aside contingency funds. Florida plans to expend $10 million of the $31.7 million in FY 2012; $5 million will be expended by February 29 and $5 million more before September 30, 2012, for UC automation.
Illinois	21.5	The majority of Illinois's $21.5 million share of the new administrative funding was used to support the upgrade of the benefits IT system. The money has been largely spent. Other monies were also used to improve IT associated with benefits administration: a USDOL SBR, state penalty and interest (P&I) funds,

		and EUC caseload administrative monies. These changes will permanently enhance administrative capacity in the area of benefits administration, and state officials expressed confidence that the state is better poised to handle the next downturn.
Louisiana	7.0	Roughly 21 percent of Louisiana's $7.0 million share of the new administrative funding was spent on the hiring of additional staff. The remainder will be spent pending decisions regarding possible areas for IT improvements: basic tax and benefit processes, technical support for REA activities and support for more effective employment services. To improve basic tax and benefit processes, a new CISCO IT support software system will be implemented to help upgrade the call center. Replacing the legacy IT system will be a high priority.
Maine	2.0	Several technology initiatives are under way using these funds and a variety of funding sources. To date, all funds have been obligated but not fully expended. Other funding sources include SBR grants, contingency funds, and monies from the Reed Act distribution of 2002. Technology projects include instituting debit cards, improving overpayment recovery, improved IT security, and enhanced procedures for tax audits. When finished, all of these changes will permanently enhance the IT capabilities of the UI program. The biggest challenge in IT is to secure adequate resources to implement desired changes.
Michigan	14.9	Half of Michigan's $14.9 million share of the new administrative funds went to the workforce agency for reemployment services. The other half will be used for an interactive voice response (IVR) upgrade, which is part of UI IT modernization. The funds will be used in combination with UI Modernization Act incentive funds. The UI IT upgrades will involve an overhaul of front-end and back-end benefits and tax systems which will retire the state's old mainframe system. Rollout will occur in two phases, with tax and wage occurring by Fall 2012, and benefits by Fall 2013. Contracts are in place for spending all of the technology monies. The state hasn't faced any barriers to spending or planning to spend the UI administrative funds.
Montana	1.4	After first relying on UI above-base funding, the state has used the UI administrative funds to pay for staff to catch up on the claims backlog. The majority of funds will be used on staff and will be expended by June 2011. The additional staffers hired are temporary. The state used a small portion of the funds to improve Internet filing when EB was programmed, and the improvements to the Internet filing system will be permanent features of the state process. The improvements allow claimants to file redeterminations and appeals on-line.

(continued)

Table 8.7 (continued)

State	Distribution amount ($ millions)	State investments from the $500 million special distribution for UI administration under the Recovery Act
Nebraska	3.1	To date, all expenditures of funds have been dedicated to IT projects needed to modify the benefit payment IT system to accommodate new legislation. Ten percent was spent to upgrade the benefit payment system platform, hardware, and software to accommodate the newly enacted provisions passed in order to qualify for UI modernization incentive funds. Nearly half has been budgeted for additional IT programming changes needed to accommodate the additional benefits related Modernization Act provisions (40 percent had been spent at the time of the interview). Once the state is certain all modernization IT projects are completed, the remaining funds will be used for improvements to the UI benefits and tax systems. To date, the state has not combined these funds with other funding streams. But other funds would be needed to complete improvements to the UI benefits and tax systems. All of the changes made with the Recovery Act UI administrative funds will be sustainable improvements.
Nevada	5.5	The state has spent or obligated most of its share of the new administrative funding. $1.5 million allowed the state to expedite planned technology changes for the call centers, including a virtual call center that dynamically routes calls to the state's call centers as individual claims examiners become available. The telephonic system the state is replacing prioritized the claimant queues by region, which led to an imbalance in wait times. The adoption of the virtual call center/virtual hold system was a permanent modification to the UI telephonic infrastructure. Some of the funds ($1.2 million) have been or will be used to continue RES, which the state implemented in coordination with its existing REA program. RES and REA generate savings to the trust fund of about $5 for every $1 spent. Remaining funds will be used to upgrade the agency on-line registration system ($1.2 million), upgrade technology in One-Stop centers in order to enhance services in the resource centers statewide ($32,000), and make additional system enhancements for the prevention and detection of UI fraud ($940,000).
New York	29.5	The money will be used for large-scale IT upgrades for tax and benefits administration, as well as for staffing needs. Priorities and timing of future IT improvements are still under discussion. Monies for IT improvements also will be derived from other sources, such as contingency funds and Recovery

		Act UI modernization monies. When the upgrading has been completed, it will represent a sustainable improvement in administrative capacity. Staff members noted the existing IT systems are old and take time to modify.
North Carolina	14.6	The state will use $10 million for time-limited (two year) positions dedicated to adjudications, appeals, integrity, and claims-taking through the call centers. The remaining $4.6 million will be used for infrastructure improvements in the facilities.
North Dakota	1.0	This funding is being used for staffing and costs associated with WyCAN, a state consortium project to improve the benefits IT system. Because of this, the funds have a specific intended purpose but do not fall into the DOL obligation definition. The state used about 34 percent to hire temporary staff. The remainder of the funds will fund future IT upgrades, especially for the consortium modernization project, in combination with funds from several sources: remaining monies from the 2002 Reed Act distribution, and anticipated monies from the consortium.
Ohio	18.9	The state experienced a significant reduction in base grant funding. The state's share of the new administrative funding helped correct the shortfall. The state was able to maintain staff. The funding for these FTEs was spread throughout all operations and enabled the state to maintain its existing staff. In total, the new administrative funding was used for state payroll costs associated with improving outreach to claimants, payroll costs for improving tax and benefit operations, and reemployment services (internal administrative hires). The state did not combine these funds with other funds to implement these services, and all funds were spent on temporary efforts. State officials report no barriers to spending the funds.
Pennsylvania	19.5	About one-quarter of Pennsylvania's share of the administrative funds was allocated to hire new staff to support increased reemployment of claimants. The majority of the rest was utilized for programming modifications to the new computer system to accommodate new federal law changes, including building EUC functionality. Since EB had not been activated for over two decades, new programming for EB payments was also needed. About 6 percent was obligated and spent for programming in 2012. The upgrading of the computer systems represents a permanent increase in IT capacity. No impediments to spending administrative funds have been experienced.

(continued)

Table 8.7 (continued)

State	Distribution amount ($ millions)	State investments from the $500 million special distribution for UI administration under the Recovery Act
Rhode Island	1.7	The UI Division is in the process of finalizing statements of work for technological improvement projects in UI and tax on the balance of the funds. We anticipate work to begin on the projects during PY 2012. The state has spent about 30 percent of funds developing a new IT application for weekly certifications. Prior to September 30, 2010, claimants whose claim was pending could not use the automated payment system. Thus, once their claims were authorized, a certification mailing was sent out and back via mail. All customers now can certify on a weekly basis, even those in pending status, so funds can be released when payments are due. Before last September, weekly certifications were done by mail. They also used some of the funds to update their telephone system. Other planned IT uses include: automate the entire Web certification, upgrade aspects of tax operations, automate applications and payments in the STC (workshare) program, and automate the process of mass filings. The various IT activities are to be financed by at least three sources of money: Recovery Act administrative monies; SBR from national office; an anticipated workshare administrative cost allocation from the national office. When the automated weekly certification process is in place it will reduce the mail costs. Challenges to spending administrative funds on IT improvements include: numerous EUC bills that resulted in few administrative staff available for other functions and the centralization of IT in the state government. Even with good support from staff transferred from UI to central IT, access can be restricted because staff allocations and priorities are set outside the UI agency.
Texas	39.7	The state has obligated its $39.7 million share of these monies for use in UI benefit and tax operations and for reemployment services. Forty-three percent has been directed at tax and benefit automation improvements, while the remaining has been obligated towards improvements in reemployment services.
Virginia	13.5	Our plan has been to use this funding in FY 2012 and FY 2013 for base UI administrative activities. This looks achievable because of the progress of our UI modernization project. These augmentations will enable an increased focus on national and state integrity initiatives and the prevention and minimization of UI overpayments. We plan to have the funds fully expended by September 30, 2013.

Washington	10.5	The department has increased staffing and is currently utilizing these funds to address the high demand for reemployment services and the Unemployment Insurance claims center. According to TEGL 28-10 the department cannot obligate staff salaries; therefore, the obligation at this time is zero. The department began expending these funds as of January 1, 2012. The split is $4.14 million for core UI staffing, and $6.33 million for reemployment staffing.
Wisconsin	9.6	Two-thirds of Wisconsin's $9.6 million share has been/will be used for reemployment services. The remainder is allocated for technical modernization efforts. Of that amount, 44 percent was used for data base conversion. The remaining allocation will be used for benefits and modernization projects. The first phase will be the claimant portal, scheduled for completion in the fourth quarter of 2012. The claimant portal project will involve modernizing security so all applications are wrapped under one “security umbrella,” and adding new services such as electronic correspondence so they can e-mail claimants. The state will use other funds to supplement these projects. The funds were received from an SBR for “state-specific solutions.” UI grant funds will be used for the remaining costs for a series of multiple projects over a period of 3 to 5 years. The technical improvements are sustainable. The RES funding is for staffing and will be exhausted. The state has not faced any barriers to spending the UI administrative funds.

SOURCE: UI teleconference interviews conducted for the study by researchers from the Urban Institute and NASWA.

place for 54 months and Recovery Act–related EB provisions for 46 months.

Between June 2008 and February 2012, ten different federal laws were enacted that affected eligibility for benefit extensions. Table 8.8 identifies each law, along with the intake dates and end dates for EUC and EB. Four laws included reach-back provisions that required the state UI programs to examine earlier periods for purposes of determining extended benefit eligibility and payments. The longest reach-back period was 14 months, in the June 2008 legislation that created the EUC program. However, three bills enacted in 2010 also included reach-back provisions because eligibility for new claims lapsed before the legislation could be enacted. The longest break was an eight-week period during June–July 2010. Typically the states advised claimants to remain in active claims status during these periods so that they would be eligible for the full retroactive payments after new legislation extended the intake and eligibility dates.

The amount of detail in Table 8.8 provides insight into the degree of administrative complexity associated with the benefit extensions during 2008–2012. Besides the various start, stop, and reach-back dates shown in the exhibit, the individual bills also addressed the possible continuation, modification, or termination of other elements in the Recovery Act legislation of February 2009, such as maximum potential benefit duration, the tax treatment of benefits, the payment of federal additional compensation, and the calculation of weekly benefits (see the earlier Table 8.3). The Recovery Act legislation also facilitated the temporary expansion of the EB program by allowing the states to use total unemployment rate (TUR) triggers and providing full federal financing of EB payments.

For both EUC and EB, the potential duration of benefits was linked to each state's unemployment rate—i.e., higher unemployment triggered longer potential duration—but with a key difference in their triggers. The EUC trigger used only the level of the state's unemployment rate (the total unemployment rate, or TUR). Thus during 2010 and 2011, states with a TUR of 8.5 percent or higher could pay up to 53 weeks under four tiers of EUC, while states with an unemployment rate of 6.0 percent or below could pay only up to 34 weeks under EUC's first two tiers. The EB program, in contrast, has a two-part trigger: 1) the level of the unemployment rate and 2) the ratio of the current unem-

Table 8.8 Important Dates Affecting Eligibility for EUC and EB Since 2008

Law	Legislative date	EUC intake, last date	EUC benefit, last date	EB intake, last date	EB benefit, last date	Reach-back date
PL110-252	6/30/2008	3/31/2009	6/30/2009			5/1/2007
PL 110-449	11/21/2008	3/31/2009	11/27/2009			
PL 111-5	2/17/2009	12/31/2009	5/31/2010	1/1/2010	6/1/2010	
PL 111-118	12/19/2009	2/28/2010	7/31/2010	2/28/2010	7/31/2010	
PL 111-144	3/2/2010	4/5/2010	9/4/2010	4/5/2010	9/4/2010	
PL 111-157	4/15/2010	6/2/2010	11/6/2010	6/2/2010	11/6/2010	4/5/2010
PL 111-205	7/22/2010	11/30/2010	4/30/2011	12/1/2010	5/1/2011	6/2/2010
PL 111-312	12/17/2010	1/3/2012	6/9/2012	1/3/2012	6/11/2012	11/30/2010
PL 112-78	12/22/2011	3/6/2012	8/15/2012	3/7/2012	8/15/2012	
PL 112-96	02/23/2012	12/29/2012	1/5/2013	12/29/2012	1/5//2013	

NOTE: Blank = not applicable.

SOURCE: Table assembled from entries in the UWC publication "Highlights of State Unemployment Compensation Laws" and UIPL No. 04-10 (USDOL 2009).

ployment rate to the rate for the same three months one and two years previously.[14] Because the period of high unemployment following the Great Recession lasted so long in most states, in early 2011 the look-back for the EB triggers was extended from two years to three years to prevent EB from ending too soon.[15] Even with a three-year look-back, EB ended in nearly all states in mid-2012. During April and May 2012, the number of states paying EB decreased from 31 to seven.

Our sample states provide a good representation of the differing unemployment rates faced by state UI programs during the Great Recession. For example, across all 51 "states" in 2010,[16] the annual unemployment rate exceeded 10.0 percent in 16, fell below 7.0 percent in 10, and there were 25 state TURs in the intermediate range between 7.0 and 9.9 percent. In the interviewed states, the counts in the same high, medium, and low TUR intervals were respectively seven, eight and five states.

The interviewed states also present a varied picture in terms of experiences with EB and EUC, closely mirroring national experiences. During 2010, for example, 40 of 51 states paid EB, as did 17 of 20 in our sample. Of the 17, all but three paid EB for 20 weeks during at least part of 2010. Nationally, 47 states paid Tier 3 EUC benefits (47 weeks) during 2010, as did 18 of the 20 states we interviewed. The respective counts of states that paid Tier 4 EUC benefits (53 weeks) were 27 nationwide and 11 in our sample.

Both benefit extensions presented multiple administrative challenges for the states. During most weeks between June 2009 and March 2012, most states paid EB as well as EUC. Because nearly all states elected to pay EUC prior to EB, the sequencing of benefits was most commonly regular UI, then EUC, and finally EB, for persons eligible for all three types of benefits. Three factors explain why total EUC benefits were much larger than EB benefits: maximum duration of EUC was longer, more states paid EUC, and many EUC claimants returned to work before exhausting EUC and ever claiming EB. In 2010, for example, total weeks compensated under regular UI, EUC, and EB were respectively 200.7, 228.9, and 30.9 million.

Because nearly all states experienced major increases in weeks claimed, our interviews identified several common administrative problems. Communication problems with claimants were identified by all states. Claimant inquiries about eligibility frequently were made (or attempted) on phone lines intended for initial claims or continued claims. Modes of agency outreach such as public service announcements, agency splash pages on their Internet sites, and mailings were all used to disseminate information, but phone volume was frequently so large that it interfered with the prompt processing of claims.

Communication problems within UI program administration were also encountered. After federal legislation extending benefits was passed, the states frequently sought guidance from the national office regarding the interpretation and implementation of new provisions. After guidance was received, the information had to be communicated to agency staff so that correct information could be shared with claimants. Individual states offered differing opinions as to the timeliness of the federal guidance.

As states increased staffing to handle the increased volume of claims, those newly hired and reassigned from other agency divisions required training in their new responsibilities. This needed to be accomplished quickly because of the pressure of high claims volume.

New legislation often required rewriting IT programs related to benefit delivery. Writing and testing these programs was done under intense time pressure. Legislation passed in 2010 gave the states and claimants a choice in the calculation of the weekly benefit amount (WBA) when large WBA reductions were otherwise implied. While this favorably affected benefits for many claimants, it also presented programming challenges for the agencies in making appropriate calculations. Overall, many of the states reported that the recession exposed broader weaknesses inherent in outmoded state information technology systems for benefits and tax administration and related software applications. In many states, IT staff dedicated a tremendous number of hours, including time after-hours and during holidays, to “working” these systems and related applications to ensure customer needs for benefits administration were met.

During 2010 there were three separate periods with breaks in new intake for EUC and EB. Most states advised claimants to keep filing during the breaks, even though benefits were not being paid, so that payments could be made expeditiously once new intake resumed. Claimants found this confusing, and agency suggestions were not always followed, leading to payment delays when eligibility resumed.

The extension of EUC potential duration in November 2009 created four separate tiers of eligibility, with maximum potential duration of 20, 14, 13, and 6 weeks for tiers one through four, respectively. This legislation also created a fourteenth-week problem for the second tier of EUC benefits in several states. Many states had been paying 33 weeks of EUC (20 plus 13) and therefore needed to add a fourteenth week to the second tier of expanded eligibility. Several states mentioned that they had developed an IT "work-around" to pay the fourteenth week of Tier 2, necessitating programming and testing, again under severe time pressure.

Several states mentioned problems in administering payments when more than one type of UI benefit or earnings from more than one state was involved. These interfaces could involve Trade Adjustment Assistance (TAA) benefits and interstate claims as well as interfaces between regular UI, EUC (with its four tiers after November 2009), and EB.

The Recovery Act legislation reactivated the federal-state EB program, which had been largely moribund for 25 years. Between 1984 and 2008 EB was paid in very few states—e.g., the highest annual numbers were eight states in 1991 and five states in 1994 and 2003. After the Recovery Act, the state counts were 40 in 2009 and 2010, 37 in 2011, and 34 in 2012. Administering the revived EB program presented several challenges. EB has more stringent work-search requirements than EUC. Storage of work-search declarations (frequently received as paper declarations) as well as verification of them presented challenges in several states.

Because EB triggers include a look-back comparison of current state unemployment with unemployment one and two years earlier, several states would have triggered "off" in early 2011. This was avoided by allowing states to enact a three-year look-back early in 2011. Most states that paid EB enacted the extended look-back. The states that paid EB were mainly states that had established the temporary TUR triggers allowed under the Recovery Act. Following the Recovery Act, the number with TUR triggers increased from 12 to 39, and all 27 states that adopted the TUR trigger adopted temporary triggers. Under current legislation, the number of states with a TUR trigger will revert to 12 in January 2013.

While EB could be activated using either a TUR trigger or an IUR trigger, the vast majority of EB benefits were paid under TUR-based calculations. Only during March–June 2009 were IUR triggers of any importance—i.e., they were active in from four to 12 states. In the months between September 2009 and May 2012 no more than two states made weekly EB payments under an IUR trigger. Almost all EB payments during the Great Recession were paid under TUR triggers.

Federal Additional Compensation (FAC)

The Recovery Act created a new, temporary Federal Additional Compensation (FAC) program providing a 100 percent federally funded $25 add-on to all weekly UI payments for weeks of unemployment ending before January 1, 2010. The provision was subsequently extended three times for new claims through June 2, 2010, and for weeks compensated through the end of 2010. The FAC was unprecedented in that it made the same weekly payment to persons for partial weeks as it did for full weeks of benefits. All states signed agreements to pay FAC effective February 22, 2009, the first week for which FAC was payable.

Among the Recovery Act UI benefit provisions, the FAC stands out for presenting enormous administrative challenges relative to the size of total payouts. The FAC required states to do something outside of normal processes that they were not equipped to do, and to do it quickly. As a result, only one of the states we interviewed found the FAC relatively straightforward to administer. Most states faced multiple administrative challenges in the area of computer programming or systems development, with strong negative implications for the recovery of overpayments as well as for customer communications and service. Federal reporting and income tax withholding also presented challenges in many states.

Most states' IT benefits systems lack the flexibility to easily accommodate a simple-seeming add-on payment like the FAC. To implement the FAC provision in a short time frame, most states had to develop a separate computer program or even a separate payment system outside the main IT benefits system, or to pursue a manual payment process. Programming this new payment type into the existing benefits program (or system) was either impossible or would have resulted in great delays. For example, Maine officials reported that their IT system was not structured to handle the FAC, and they had to use an off line payment module usually reserved for special UI programs. Texas officials noted IT staff estimated it would have taken six months to incorporate FAC payment and overpayment processes into the state's automated benefits system, so the state chose to pay FAC as a supplement outside the system. Nevada officials mentioned they had to treat the FAC as a separate payment outside their regular UI programming, which substantially increased the administrative workload, and "several aspects of workload essentially doubled due to FAC payments," they said. Developing and testing the new programming or system was important to ensuring accuracy of payments, but it was also time-consuming.

North Carolina appears to have been unique among interview states in having a programming mechanism available to help administer the FAC. According to officials there, the benefits IT system allows for adjustments to UI payments when there is a change in the amount due a claimant. The state was able to treat the FAC as an "adjustment payment" in its system, which required some initial programming but did not create any major programming challenges.

Ohio and Nebraska, the only two states in the interview sample with a modernized benefits system at the beginning of the recession, reported significant challenges in implementing the FAC. In Ohio, implementation of the FAC required "drastic" system enhancements since it was a completely new type of enhanced benefit foreign to the state's IT benefits system. Officials there report that many processes were affected, including benefit payments, continued claims, employer charging, overpayments, repayments, reporting, and pay adjustment. The state was concerned about avoiding payment errors and devoted significant resources to testing the FAC programming prior to implementation. In Nebraska, also, the FAC was foreign to the state's modernized IT benefits system, and the state faced significant challenges with programming and overpayment recovery. Both states began paying FAC beyond the allowable first date of February 22, 2009, with Ohio reporting that it was one of the last states to begin payment, and Nebraska reporting that it worked until April 1 to implement needed programming changes.

Nearly all states reported difficulties identifying and recovering FAC overpayments. States often had to develop a new program to handle overpayments, since the payment of the FAC occurred outside the normal benefits program or system. Manual adjustments for overpayments were required in some states. One state official expressed the frustration typical of many of those interviewed, saying "the legacy of programs like this is that overpayments tend to be out there long after the program is exhausted."

In the majority of states, the FAC also created challenges with customer communications and service, as delays or administrative difficulties resulted in less-than-smooth FAC payment and overpayment recovery processes. Some states reported that they staggered FAC implementation because they could not implement it for all claimants on the same starting date, which created confusion and resulted in calls from claimants.

In many states, the FAC also created communications issues when it was phased out, as claimants did not understand why their benefit amount had been reduced. In a couple of states, communications lagged, but even in states that reached out aggressively through mailings and the Web site, claimant confusion was sometimes an issue that created a workload burden for state staff. Why this was a greater issue in some states than in others is not clear from the interviews.

To sum up, while several state officials noted that claimants benefited from the additional financial resources of the FAC, these benefits must be lined up against significant administrative costs. Most states reported that it was grossly inefficient to deliver these additional resources to claimants through an add-on payment, with costs spilling over to both claimants and program administration, including costs not accounted for here that resulted when states had to divert resources from other UI activities to handle FAC administration.

Income Tax Withholding

The state interviews revealed that UI programs did not face significant challenges in implementing the provision of the Recovery Act that provided a temporary suspension of the first $2,400 of UI benefits for taxable year 2009. Generally, states followed normal processes allowing claimants to decide whether to apply withholding and implementing claimant preferences. Many states did report initiating special communications to claimants. All claimants in Michigan received a mailing, for example. Arizona used the mail system and its agency Web site to inform claimants of the provision. Louisiana created a pop-up box as part of its Internet application. Montana placed information on its Web site. In New York, information was communicated using press releases, scripts added to the phone system's interactive voice response (IVR), and the Internet application. Generally, claimants made only a limited number of phone inquiries, except in Colorado, which reported significant claimant confusion and many calls.

UI Modernization

One innovative feature of the Recovery Act encouraged the states to broaden regular UI eligibility by adopting so-called modernization features. The legislation set aside $7.0 billion for distribution to the states whose UI laws included specific benefit provisions. Each state's proportional share of the $7.0 billion was determined by its share of federal taxable UI payroll. To receive its share, a state had to pass new legislation or demonstrate the presence of designated modernization features by late August 2011. Of the 53 state programs, 41 received either part or all of their shares of these funds.

Five aspects of benefit availability were the focus of Recovery Act modernization:

- The alternative base period (ABP)
- Part-time availability
- Enhanced eligibility for job-leavers who quit because of family responsibilities
- Eligibility for training support after exhausting ui benefits
- Paying the dependents' allowance

To receive any money, a state first had to have an ABP. States with an acceptable ABP received one-third of their total allocation for modernization. To receive the remaining two-thirds of modernization funds, a state had to have two of the remaining four features. Across the 53 UI programs, 41 received compensation for the ABP ($1.64 billion) and 36 received compensation for having at least two other modernization features ($2.78 billion). Thus, of the $7.0 billion total set aside for modernization, $4.42 billion (63 percent) was paid to the states.

The majority of states in our interview sample received modernization funds. Fourteen had an acceptable ABP and received one-third, and 11 of these received the remaining two-thirds. Modernization payments to the 20 states totaled $1.74 billion. Table 8.9 shows the breakdown for the 20 states by individual modernization feature.

The most obvious feature of the exhibit is the small number of states compensated for their dependents' allowance—only seven in the entire state UI system and just two of the 20 interviewed states. Nationally, 28 programs were compensated for their part-time provisions, 21 were compensated for quits for family reasons, and 16 were compensated for training support of exhaustees. In our sample of 20 states, these three provisions were of roughly equal prevalence, with counts of between five and eight states.

The states compensated for modernization usually applied for and were approved for payments shortly after the enactment of the Recovery Act in February 2009. Thirty-two of 41 approvals for ABP-related compensation occurred before December 31, 2009, and just two were approved after January 2011. Of the 32 approvals in 2009, 26 occurred before July 1. In nearly all instances, the states already with an ABP did not have to modify the ABP to receive approval.

One strong determinant of the timing of the applications and approvals was the presence of modernization provisions before the Recovery Act. Twenty-one of 41 programs with ABP compensation already had their ABP at the end of 2008. Table 8.9 shows that 10 of the 14 states in the interview sample had the ABP before the Recovery Act. The exhibit also shows that most of the states compensated for the individual two-thirds provisions had their provisions before the Recovery Act.

The intent of Recovery Act modernization was to broaden access to UI benefits. Among the 20 states interviewed, and more broadly within the set of 53 state programs, two factors have limited the actual expansive impact of modernization. First, several state programs—six of 20 within our sample and 12 of 53 among all state programs—did

Table 8.9 Recovery Act Modernization Payments in 20 Interview States

Time frame	ABP	Part-time	Quits for family reasons	Support for exhaustee training	Dependents' allowances
20 states, as of September 2011	14	7	8	5	2
20 states, before Recovery Act	10	5	7	3	2
Impact of Recovery Act	4	2	1	2	0

SOURCE: Counts based on data from the Office of Unemployment Insurance.

not enact any modernization provision. Second, several states that were compensated under Recovery Act modernization already had the specific provisions before the Recovery Act. For the latter states, the modernization payments were a windfall that did not lead to increases in weeks compensated or higher weekly benefits.

After the Recovery Act was enacted, nearly all 20 states in the sample made estimates of the cost of adopting each of the five individual modernization provisions. The states indicated that cost calculations strongly influenced decisions on whether to adopt any of the provisions (if not already present). Cost calculations also strongly influenced the selection of the detailed modernization provisions in the states that received the two-thirds compensation.

In states without the ABP there were two elements to the cost calculations. The modernization payment could be compared with the expected increase in the stream of future benefit payments. Among all six states that did not receive any modernization funds, state administrative staff said these calculations showed that the modernization payment would be used up in less than four years. This short period of positive impact on the trust fund balance was cited by many opponents as arguing against adopting UI modernization. Since employer payroll taxes support UI trust funds, the argument was ultimately about possible increases in future UI taxes. This cost argument was supplemented in three of the six states by the argument that adopting modernization would expand UI beyond its present scope, which was already deemed appropriate. Two of these states also expressed concern that UI modernization would increase the scope of federal influence in the UI system. These latter responses show that opposition and nonadoption were based on more than just cost considerations.

Cost comparisons were also important in states adopting two-thirds provisions. Given the strains on UI trust fund balances, the states were influenced to select the low-cost provisions among the four possibilities. Since several states were already paying dependents' benefits, there was probably greater certainty in budgeting for the cost of this modernization provision than the others. The increase in potential costs probably influenced a few states not to select this provision. Just one of the 53 programs (Tennessee) adopted a new dependents' allowance. In the sample of 20, two (Illinois and Rhode Island) were paid for having an appropriate dependents' allowance. Both already had the allowance but needed to make small modifications to satisfy Recovery Act requirements.[17] Their modifications left total benefit costs for dependents unchanged.

Several states reported that estimating the cost of the modernization training element posed great uncertainty. The uncertainty arose from at least three identifiable factors: 1) uncertainty about future take-up among those eligible, 2) uncertainty about future availability of extended benefits (and an associated effect on regular UI exhaustions), and 3) uncertainty about alternative future sources of support for training. Despite this uncertainty, the training for exhaustees was adopted by 16 states nationwide and by five in the sample. One explicit reason given for selecting training in two of the five states was that it was appropriate for the needs of the state's future economy.

Funds raised through UI taxes on employers and deposited into state trust funds can be used only for a single purpose: to pay regular UI benefits. Modernization funds under the Recovery Act could be used by the states for UI administration, claimant training, and IT upgrading, as well as for paying for benefits. The 14 states (out of 20 sampled) that received modernization funds indicated they would use the money in a variety of ways. The most frequent use (seven states) was to deposit the money into the trust fund to pay benefits. Thus, a total of seven out of the 20 state UI agencies had access to modernization funds to make investments in IT or staffing. Five states indicated they would use some of the funds to upgrade their IT systems, and one (Michigan) planned to use it all for IT upgrading. Four states said that some monies would be used to defray staffing costs. Although modernization funds have a wider set of potential uses than UI tax receipts, no state indicated that this greater flexibility was an important reason for adopting its modernization provisions.

Most states that have needed recent Treasury loans saw their trust funds descend to zero and to negative balances during 2009. Adopting an approved UI modernization package would have provided an immediate infusion into the trust fund and slowed its rate of decline. In interviews with the 14 states that received modernization payments, this positive short-run effect on trust fund balances was not mentioned by any state as a determinative factor in adopting modernization.[18]

One question that has been posed about UI modernization actions concerns the permanence of the changes. While the Recovery Act was in force, a state could not make temporary changes to enlarge access to benefits and receive modernization funds. The expansions, in other words, could not automatically sunset after a specific future date.[19] However, a current federal law such as the Recovery Act cannot prohibit future state legislation that might undo the modernization provisions. Eight states responded clearly to a question regarding serious state-level discussions about reversing their modernization provisions. Seven stated there had been no serious discussions, while just one indicated such discussions had been held. From information received in the interviews, it appears that the modernization provisions of the Recovery Act will not be reversed.

Trust Fund Loan Provisions and Status of State UI Trust Funds

The unprecedented increase in claims and benefit payments brought on by the Great Recession caused serious problems for most states in financing their regular UI benefit programs. State UI trust fund reserves held at the U.S. Treasury, the source for benefit payments in the regular UI program, declined sharply.[20] Between mid-2008 and the end of 2011, net reserves of the 53 programs in the state UI system decreased by more than $60 billion, with each state having a much lower fund balance at the end of 2011 compared to June 2008. At the end of December 2011, only 14 of the 53 programs had reserves equal to half or more of their reserves at the end of June 2008. The loss of reserves has caused widespread and large-scale borrowing. While this decrease in net reserves is an intentional aspect of UI program design and has helped to stabilize the economy, the states face major challenges in rebuilding their reserves.

To date, 36 of the 53 state programs have secured loans from the U.S. Treasury to help finance benefit payments. As a group, the 17 programs with indexed taxable wage bases have fared much better than the other states: loans have been made to 7 of 17 indexed programs, compared to 29 of 36 nonindexed programs. At the end of March 2012, 30 state programs owed nearly $41 billion to the Treasury. When loans obtained in the private bond market are included in the calculations, the March 2012 totals are 32 programs, having debts of roughly $46 billion.

The Recovery Act included a provision to reduce the immediate cost of state trust fund indebtedness. Loans by the Treasury to the states during 2009 and 2010 were made interest-free. Usually a state receives an interest-free loan only if all borrowing before September 30 of a given year is fully repaid by that date and no additional loans are secured from October to December of the same year. These are called “cash flow” loans. The states that borrowed during 2009 or 2010 did not meet this requirement in either year. The Recovery Act relieved debtor states of two years of interest charges, at an original estimated cost to the federal budget of $1.1 billion (see Table 8.1).

The states surveyed in phone interviews have shared fully in the financing issues of the state UI system. Fourteen of the 20 have needed loans, and many have large-scale debts. At the end of 2011, for example, 11 of these states had debts that represented at least 0.5 percent of covered payroll. For all 14 that have borrowed, loans have been outstanding for more than two years, and eight programs have been continuously in debt since the end of March 2009. The indexed states in the sample have generally fared better than the nonindexed states—e.g., two of the five indexed states have borrowed, compared to 12 of the 15 nonindexed states.

With large-scale and long-term debts, the states have been required to make interest payments to the Treasury starting in 2011. Also since 2011, automatic repayment has started to occur through increased FUTA tax credit offsets. These offsets start at 0.3 percent of federal taxable payroll in their first year of applicability and grow by at least 0.3 percentage points in each successive year that loans remain outstanding. Of the 14 debtor states in the sample, 12 were subject to FUTA credit offsets in 2011.

The interest charges and increased FUTA tax credit offsets provide financial motivation for states to repay their loans. Our interviews found the states have responded in a variety of ways. The imposition of the credit offsets has been automatic, a matter of adhering to federal requirements governing loan repayments. States have used different mechanisms to finance their interest charges. In some instances they also have acted to repay part of the principal on the loans. For most of the states, however, the response in repaying the principal has been slow as states struggle to recover from the effects of the recession. Several have relied on the workings of federal law to repay the principle of the loans and have not yet acted to improve their long-run situation. Others have borrowed or plan to borrow in the private bond market as part of their repayment strategy. During 2011, several also enacted legislation to reduce future benefit outlays. Thus, the states in the sample present a mosaic of responses that are still unfolding and were not completed in 2012. The full responses to their financing challenges may not be completed by the end of 2013 or longer.

To describe the state responses, let's begin with UI taxes. Annual revenue across the 20 states in 2011 averaged 38 percent higher than in the prerecession year of 2007. This average increase masks wide diversity. In six states total revenue increased by less than 25 percent, while one experienced a doubling of revenue. The modest responses in many states might reflect hope in those states for some form of financial relief from their debt obligations during 2009–2010, which did not occur. Also, while profits as a share of GDP were very high in both 2010 and 2011, there were concerns among many policymakers about the effect of revenue increases on employment growth and labor market recovery. [21]

Contrary to what might have been expected, slow revenue growth has characterized most of the 10 states with large debts in the sample. Just two of the 10 had 2011 revenue of at least 50 percent above their revenue in 2007. Thus, big revenue responses (i.e., 50 percent or more in 2011 compared to 2007) were more typical of the states that did not borrow (four of six) and the states with small loans (three of four). The interview responses did not suggest much larger revenue increases would occur during 2012.

At least to date, there has been reluctance to respond to financing challenges by undertaking large increases in the UI taxable wage base. While the tax base has increased in 11 of the 20 states at least once during 2010, 2011, and 2012, the changes have been largely automatic or due to prerecession legislation. The bases in the four indexed states have increased automatically, as have the bases in two other states where the base increases when the trust fund decreases (Louisiana and Rhode Island). Just three of the 11 with higher bases in 2012 achieved the increase through recent legislation. Colorado increased its base from $10,000 to $11,000, Florida raised its base from $7,000 to $8,000, and Michigan increased its base from $9,000 to $9,500. These changes are relatively modest, although Colorado's base will increase automatically in the future after the trust fund achieves a positive balance.[22] The interviews found that legislative proposals to raise the tax base faced strong opposition in the sample of 20 states.

Some states also have passed legislation to keep experience rating from operating as specified in the state UI statutes, when the statutory provisions would have resulted in an increase in UI taxes. In six of our 20 interview states, laws have been passed that either have limited the automatic movement to a higher tax rate schedule or have prevented the automatic full imposition of a statutory solvency tax. One obvious effect of these measures has been to slow the recovery of trust fund balances.

Eight states in our sample enacted measures in 2011 to limit future benefit payouts. The changes included reducing maximum potential duration (three), imposing a waiting week (two), increasing the monetary eligibility requirement (one), instituting a severance pay offset (one) and strengthening the work-search requirement (one). Several of the states have passed laws and administrative requirements to improve payment accuracy and reduce overpayments. Increased federal concern in this area is reinforcing state developments related to payment accuracy. We also found that the pace of benefit reductions in the states increased noticeably during 2011. For example, all three states in the sample that reduced maximum benefit duration for regular UI benefits did so in 2011.

The states have used a variety of strategies to pay interest on loans outstanding during 2011. These interest charges must be financed separately from the state's UI trust fund. The most common method, used in seven states, has been to levy a flat rate assessment distinct from the regular state UI taxes but collected through the UI tax apparatus. Other methods, used in a total of seven states, have included the use of general revenue (two), penalty and interest receipts (one), funds from a tobacco settlement (one), payments from a state reserve fund (one), and the use of proceeds from a private bond issuance (two).

The annual interest rate on loans from the Treasury was 4.09 percent in 2011, but it decreased to 2.94 percent in 2012. Because interest rates in the private bond market are lower than these rates, several states have explored issuing private debt to repay their Treasury loans. Two states have already borrowed in the private market (Michigan and Texas). Michigan has borrowed with very short-term instruments but expects to convert to longer-term bonds later this year. Illinois has authorized a bond issuance and is also expected to issue bonds later in 2012. At least three other states in the sample are exploring this option. The intent is to repay the principal owed the Treasury and to have the bonds cover not only private bond interest charges but also interest obligations related to Treasury loans. Repaying the principal owed the Treasury also will eliminate future FUTA tax credit offsets.

State officials recognize that issuing private bonds does not "cure" their financing problem. In effect, it changes the appearance of the debt because it no longer explicitly appears in reports of the Treasury or the USDOL. To assess the net trust fund situation of individual states and of the overall UI system, the principal on the private issuances must be subtracted from the balances held by each state at the Treasury. Current and future private debts are likely to extend to the end of the present decade.

Future developments related to private bond issuances will undoubtedly be influenced by the interest rate differential between Treasury loans and private loans. The differential decreased by more than 1 percentage point in 2012 compared to 2011, and the reduced spread may discourage the volume of future private bond issuances. At this time, however, several states are holding active discussions with investment banks about issuing private debt instruments.

To summarize, the interviews with the 20 states had four main findings related to trust fund solvency:

1) The states have exhibited a variety of responses to their trust fund indebtedness. Besides the response of their experience rating systems, some have overridden their tax statutes to retard the pace of tax increases, while others have reduced future benefits.
2) Several debtor states have yet to undertake measures to repay their loans and improve their long-run solvency prospects.
3) The states have used several methods to pay the interest charges on their UI loans from the Treasury.
4) Two states have already entered the private bond market, and others are likely to do so in the near future.

Notes

1. Cost estimate provided by the Information Technology Support Center at NASWA in an e-mail dated October 5, 2012.
2. We use seasonally unadjusted data because we are discussing "real-time" workload here.
3. Average duration for regular UI benefits was about three weeks greater than in any prior recession, topping out at 20.2 weeks in 2010.
4. Economists are still developing an understanding of the impact of the benefit extensions on unemployment and benefit receipt. Two studies that evaluate this are Grubb (2011) and Rothstein (2011).
5. In addition to the federal grants, states can receive funds through supplemental budget requests (SBRs), which fund irregular activities, such as implementing the State Information Data Exchange System (SIDES), Reemployment and Eligibility Assessments, or information technology modernization projects. States also can add their own funds for UI administration.
6. Examples of other studies and reviews not detailed in our report are Blinder and Zandi (2010); Hungerford (2011); and Rothstein (2011).
7. A few points about administrative performance should be made. First, the analysis refers to time lapses, quality, and accuracy in only the regular UI program. Second, details on the reasons for payment errors were not examined, neither with regard to the parties responsible for the errors (claimant, employer, or agency) nor with regard to which UI processes caused the errors. Third, no state-level analysis of time-lapse performance or payment accuracy was attempted.
8. CFR (Code of Federal Regulations) 640.3, interpretation of section 303(a)(1) of the Social Security Act.
9. Details of the regressions are available from the authors.
10. The aggregate quality indicators displayed in the chart were also examined with regression analysis. The regressions showed large and significant upward trends in quality performance as well as a measurable cyclical effect on performance.
11. Obligations are legal commitments to spend funds that occur at the time services are rendered, or before services are rendered when a binding agreement has been entered into.
12. Data were included for the District of Columbia, Puerto Rico, and the Virgin Islands.
13. Throughout the discussion the term "extended benefits" will be used to refer to the combined EUC and EB programs that pay benefits to regular UI exhaustees. When the individual programs are being discussed the abbreviations EUC and EB will be used.
14. The look-back provisions differ in EB depending upon the trigger used to activate EB—the trigger being either the TUR (total unemployment rate, from the Current Population Survey) or the IUR (insured unemployment rate, computed using UI claims data).
15. This extension was authorized by federal law, but it required state legislation to change the EB trigger.

16. The count includes the District of Columbia but not Puerto Rico and the Virgin Islands.
17. The Recovery Act required that the weekly allowance be at least $15 per dependent up to a family maximum of at least $50.
18. The short-run effect during the first three years would be positive even if the longer-run effect was not clear. For states with the indicated provisions already in place, the effect even in the long run was positive.
19. Prospective modernization legislation enacted in Missouri in 2009 included a sunset provision. It was not approved by the U.S. Department of Labor.
20. Long-term UI benefits—Emergency Unemployment Compensation (EUC) and Federal-State Extended Benefits (EB)—have both been fully financed by the federal partner since the enactment of the Recovery Act. Thus the discussion in the text is restricted to just the regular UI program.
21. The profit shares in the two years were 0.124 and 0.129, respectively, the highest shares in the past 25 years and much higher than the average of 0.086 during 2004–2007.
22. Rhode Island's base will also be indexed after 2012, but the changes will start from the $19,000 base present in 2011 and 2012.

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The American Recovery and Reinvestment Act

The Role of Workforce Programs

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Editors

2013

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Kalamazoo, Michigan

Library of Congress Cataloging-in-Publication Data

The American Recovery and Reinvestment Act : the role of workforce programs / Burt S. Barnow, Richard A. Hobbie, editors.
pages cm
Includes bibliographical references and index.
ISBN 978-0-88099-471-2 (pbk. : alk. paper) — ISBN 0-88099-471-1 (pbk. : alk. paper) — ISBN 978-0-88099-473-6 (hardcover : alk. paper) — ISBN 0-88099-473-8 (hardcover : alk. paper)
1. Manpower policy—United States. 2. Labor policy—United States. 3. United States—Economic policy—2009- 4. Economic development projects—United States. 5. Economic stabilization—United States. 6. Recessions—United States. 7. United States. American Recovery and Reinvestment Act of 2009. I. Barnow, Burt S. II. Hobbie, Richard, 1945-
HD5724.A58145 2013
331.12'0420973—dc23
2013041953

W.E. Upjohn Institute for Employment Research
300 S. Westnedge Avenue
Kalamazoo, Michigan 49007-4686

Cover design by Alcorn Publication Design.
Index prepared by Diane Worden.
Printed in the United States of America.
Printed on recycled paper.