

STATE ADMINISTRATION

BUDGET AUTHORITY BEFORE THE COMMITTEE						
(Dollars in Thousands)						
	FY 2008 Enacted	FY 2009 Enacted	Diff. FY08 Enacted / FY09 Enacted	Recovery Act	FY 2010 Request	Diff. FY09 Enacted / FY10 Req
Activity Appropriation	2,639,638	3,274,637	634,999	0	3,195,645	-78,992

Introduction

States administer the Unemployment Insurance (UI) program directly and are responsible for establishing specific policies and operating methods that conform to the Federal Unemployment Tax Act (Chapter 23, Internal Revenue Code), Title III of the Social Security Act, and Federal regulations. The major functions performed by the states are: (1) determining benefit entitlement, (2) paying benefits, and (3) collecting state UI taxes from employers.

The states also administer Federal programs for payments to: former Federal military and civilian personnel; claimants who qualify for extended or special Federal unemployment benefits; workers certified under the Trade Adjustment Assistance and Reemployment Trade Adjustment Assistance (formerly called Alternative Trade Adjustment Assistance) programs; and individuals unemployed due to disasters.

As part of a Department of Labor (DOL) program assessment, the following improvement plans for Unemployment Insurance have been established: Obtaining additional tools and resources to help states prevent tax and benefit fraud and reduce benefit overpayments; promoting use of the National Directory of New Hires to improve detection of fraud and improper payments; and facilitating electronic collection of job separation information from employers to improve the accuracy of eligibility determinations and speed initial payments to beneficiaries.

The UI program has established four Performance Indicators for FY 2010:

- 1) **Payment Timeliness:** 85.9 percent of all State UI intrastate first payments for weeks of full unemployment will be made within 14/21 days. Making timely payments to unemployed workers is critical to fulfilling the UI system's key statutory objective of making full payment of unemployment compensation "when due".
- 2) **Detection of Overpayments (previously known as "Payment Accuracy"):** Establish for recovery at least 52.8 percent of the amount of estimated overpayments that states can detect and recover.
- 3) **Facilitate Reemployment:** This performance indicator is the percentage of UI claimants who were reemployed during the first quarter after the quarter in which they received their first UI payment. The FY 2010 target has been set at 58.6 percent. A modified target will be based on Administration unemployment assumptions.

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4) **Establish Tax Accounts Promptly:** 90.0 percent of the UI tax liability determinations for new employers will be made within 90 days of the end of the quarter in which employers become liable.

Past Performance Results and Future Projections

1) Payment Timeliness: The FY 2008 target of 88.4 percent was not attained; 86.8 percent of first payments were made within 14/21 days, down from the FY 2007 level of 88.2 percent. States performing below the 87 percent minimum acceptable level of expected performance in the UI performance management system (UI Performs) will be expected to submit a corrective action plan that outlines the actions they will take to improve their performance as part of their FY 2010 State Quality Service Plan. In view of the projected weakness in the labor market, FY 2009 and 2010 targets for first payment timeliness reflect performance levels below the FY 2008 level for at least the next two years.

2) Detection of Overpayments: States detected and established for recovery 56.0 percent of the estimated overpayments, which met the FY 2008 target of 56.0 percent. However, statistical analysis of this measure suggests that this improved performance may not be sustained. The overpayment establishment component of the measure is quite sensitive to economic conditions, and the projected weak labor market is expected to force states to divert staff from integrity to claims taking functions. Also, more recent data indicate that the estimated overpayment rate may increase slightly, as the positive effect of decreased separation errors is more than offset by increases in unreported earning and eligibility issues such as being able and available to work. Based on the Administration economic assumptions, FY 2009 and 2010 targets reflect performance for this measure that is projected to be below FY 2008 levels for at least the next two years.

3) Facilitate Reemployment: In FY 2008, 62.5 percent of UI claimants were reemployed in the calendar quarter following the quarter in which they received their first UI payment. This performance was below the target of 65.2 percent, and represents a decrease of 2.6 percentage points from the FY 2007 level of 65.1 percent. Analysis of the state reemployment data indicate that performance is significantly influenced by factors outside the control of the state agencies administering the UI program, most notably economic conditions, measured by the Total Unemployment Rate (TUR). Regression analysis indicates that the reemployment rate declines by 2 percentage points for every 1-point rise in unemployment. The decrease in reemployment rates parallels the rise in unemployment between FY 2007 and FY 2008, and the measure will likely decline further due to the expected rise in TUR during FY 2009.

4) Establish Tax Accounts Promptly: In FY 2008, 84.9 percent of new status determinations were made within the specified 90-day period, which matched the 84.9 percent target. Performance, however, decreased from the FY 2007 level of 85.6 percent. The majority of states reported decreases. Statistical studies have indicated that new status timeliness is countercyclical: it rises as economic activity and business creation rates fall. However, the recent decrease in performance may reflect the reassignment of tax staff to UI claims-taking in response to the sharply increased claims workloads. If this trend continues, performance may fall short of the FY 2009 and 2010 targets.

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Funding Mechanism

The Department provides annual formula workload-based grants to states for the administration of UI programs, in accordance with Section 302(a) of the Social Security Act which requires the Secretary of Labor to determine within appropriated funds the amount “necessary for proper and efficient administration” of each state’s UI law during the fiscal year. A “base” administrative grant is issued at the beginning of the fiscal year, and states may receive additional administrative funds above their base grant levels on a quarterly basis when claims-related workloads exceed the amount that was funded in the base grant.

In developing administrative funding allocations for states, the Department uses state-specific information that directly relates to the cost of administration in each state, e.g., the number of claims processed, the average amount of time required to process a claim, the number of employers subject to the UI tax, personnel costs, the number of wage records processed, non-personal services, such as rents and utilities, and costs related to overhead. The funding formula is designed to provide each state with an amount that will support a roughly equal level of services across states to beneficiaries and employers.

Five-Year Budget Activity Component History

Fiscal Year	Funding (Dollars in Thousands)	FTE
2005	2,663,040	0
2006	2,497,770	0
2007	2,497,770	0
2008	2,639,638	0
2009	3,274,637	0

NOTE: Excludes Recovery Act Funding. See budget activity head table.

FY 2010

The FY 2010 Budget request for UI State Administration is \$3,195,645,000, a decrease of \$78,992,000 from the FY 2009 appropriation of \$3,274,637.

The funds requested are sufficient to process 5,059,000 average weekly insured unemployment (AWIU) which includes processing benefit payments made under the Trade Act of 1974, as amended. During the year, states are expected to collect \$44.9 billion in state unemployment taxes and to pay an estimated \$88.6 billion in Federal and State UI benefits to 11.4 million beneficiaries, including former Federal military and civilian personnel, recipients of Federal-state extended benefits, and workers adversely affected by imports who may be eligible for benefits under the Trade Act.

The request continues the contingency reserve language which provides for additional funds to meet unanticipated workload. The formula for FY 2010 finances \$28,600,000 per 100,000 increase in the total AWIU. In addition, the appropriation language for FY 2010 continues to

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allow states up to three years to obligate their UI funds if those funds are used for automation activities. This language allows states to obligate FY 2010 funds used for automation until September 30, 2012.

The request also includes a legislative proposal (similar to that included in the President's 2009 Budget) addressing UI Integrity which would give states new tools and additional resources to reduce improper payments and collect both delinquent benefit overpayments and employer taxes. There is no cost associated with this proposal, and it would reduce overpayments by \$3.9 billion and employer tax evasion by \$300 million over 10 years. (These estimates reflect the direct and indirect effects of the legislative proposal.)

Also included in the President's 2010 Budget request is a proposal to reform the Extended Benefits (EB) program. Since enactment of the permanent EB program in 1970, the economic and operational environments for which the program was designed have changed substantially, resulting in a program that is ill-suited to 21st century needs. The Administration is exploring ways to improve the program's efficiency as an automatic economic stabilizer, and to streamline its administration.

FY 2009

During FY 2009 the state agencies are expected to collect \$36.7 billion in state unemployment taxes and to pay \$102.9 billion in Federal and state unemployment benefits to 12,000,000 beneficiaries.

\$3,274,637 is available for State Administration in FY 2009, \$634,999,000 above the FY 2008 level for this activity. This amount includes funding under the contingency reserve formula, discussed below, and it reflects the significant increase in unemployment claims workloads being experienced by the state agencies as the recession has deepened.

The funding provided for in the FY 2009 appropriation is sufficient to support administrative costs associated with an average weekly insured unemployment level of 3,487,000. Based on the latest economic assumptions available, the Department projects that the average weekly insured unemployment level for FY 2009 will be 5,209,000. If that projection holds true, the application of the contingency reserve formula contained in the FY 2009 appropriation would provide an additional \$492,492,000 for State UI administration.

In addition to the amounts above, \$40,000,000 was included in the final appropriation passed in March 2009, and will allow for significant expansion of the Reemployment and Eligibility Assessments which are discussed in the next section.

Recovery Act

The American Recovery and Reinvestment Act of 2009 (Recovery Act) provided funding for unemployment benefits, incentives for modernization of benefit eligibility requirements, and for administration of activities specified by the act. The following UI related items were included in the Recovery Act:

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An extension of the Emergency Unemployment Compensation (EUC08) program through December 31, 2009, with a phase out to May 31, 2010, estimated to cost \$23.7 billion providing benefits to 3.4 million unemployed workers.

An addition of \$25 to all UI checks for weeks of unemployment ending before January 1, 2010, with a phase out ending on June 30, 2010, supplementing the checks for 16.3 million individuals and estimated to cost \$8.7 billion.

A provision making available a share of \$7 billion to states whose UI laws include certain benefit eligibility provisions. States can use the funds for UI benefits, or UI and/or Employment Service administration if appropriated by their legislatures.

A share of \$500,000,000 to states for administration of the modernization provisions, outreach to individuals who might be eligible for benefits as a result of modernization provisions, improvement of UI benefit and tax operations, and staff assisted reemployment services to UI claimants.

100% Federal funding of the Federal-state Extended Benefit (EB) program for weeks of unemployment beginning before January 1, 2010, with a phase out to June 1, 2010. EB costs are normally split evenly between states and the Federal government. The provision is estimated to add \$1.3 billion to Federal costs.

FY 2008

In FY 2008, state agencies collected \$32.2 billion in state unemployment taxes, and paid \$42.9 billion in Federal and state unemployment benefits to 8.9 million beneficiaries.

\$2,639,638,000 was available for State Administration in FY 2008, including funds to implement Reemployment and Eligibility Assessment initiatives in selected states to review the continuing eligibility and need for reemployment services of UI beneficiaries in One-Stop Career Centers; to improve the security of state information technology systems; to reduce improper payments by data cross-matches; to provide employers with electronic access to UI tax information, registration and filing services; and to make other program improvements.

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WORKLOAD SUMMARY (Dollars in Thousands)			
	FY 2008 Actual	FY 2009 Target	FY 2010 Target
Unemployment Insurance			
Employer Tax Accounts	7,469	7,527	7,745
Initial Claims Taken	16,571	17,252	26,850
Weeks Claimed	130,654	133,603	259,131
Budget Activity Total	\$2,639,638	\$3,274,637	\$3,195,645

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PERFORMANCE GOAL AND INDICATORS

Make timely and accurate benefit payments to unemployed workers, facilitate the reemployment of unemployment insurance beneficiaries, and set up unemployment tax accounts promptly for new employees.										
	FY 2005		FY 2006		FY 2007		FY 2008		FY 2009	FY 2010
	Goal Not Achieved		Goal Substantially Achieved		Goal Not Achieved		Goal Not Achieved			
Performance Indicator	Target	Result	Target	Result	Target	Result	Target	Result	Target	Target
1. Payment Timeliness: Percent of all intrastate first payments that will be made within 21 days.	89.9%	89.3%	89.9%	87.5%	90.0%	88.2%	88.4%	86.8%	85.7%	85.9%
2. Detect Overpayments: Percent of the amount of estimated overpayments that states detect established for recovery.	59.5%	58.7%	59.5%	62.0%	60.0%	54.6%	56.0%	56.0%	51.8%	52.8%
3. Facilitate Claimant Reemployment: Percent of UI claimants reemployed by the end of the first quarter after the quarter in which they received their first payment. *	--	--	Baseline	65.1%	65%	65.1%	65.2%	62.4%	59.0%	58.6%
4. Percent of Employer Tax Liability Determinations Made Promptly: Percentage of determinations about UI tax liability of new employers made within 90 days of the end of the first quarter they became liable.	82.4%	82.4%	82.5%	83.6%	82.8%	85.6%	84.9%	84.9%	88.7%	90.0%
Baseline(s): Facilitate Claimant Reemployment: In July 2005, the Employment and Training Administration (ETA) received approval under the Paperwork Reduction Act to collect data for this measure. State Workforce Agencies (SWAs) submitted data during FY 2006 from which a baseline was set.										
Data Source(s): ETA 9050 and 9050p Reports; Benefits Accuracy Measurement (BAM) data, and ETA 227 Report; ETA 5159 Report and ETA 581 Report. <i>Workforce System Results.</i>										
Comments: Regression analysis used to adjust targets for FY 2009 – FY 2010. Reemployment results are based on all states reporting. Data results run as of April 29 for overpayment detection and April 30 for new employer determinations.										