

REPORT

Summary of Literature Review: Challenges and Strategies Used to Operate Unemployment Insurance Programs During the Great Recession

July 2018

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Submitted to:

Chief Evaluation Office
U.S. Department of Labor
200 Constitution Ave., NW, Room S2312
Washington, DC 20210

Project Officer: Janet Javar

Contract Number: M0147/GS23F8198H/DOLQ129633249/DOLU139134319

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Disclaimer:

This report was prepared for the U.S. Department of Labor (DOL), Chief Evaluation Office by Mathematica Policy Research, under contract number M0147/GS23F8198H/DOLQ129633249/DOLU139134319. The views expressed are those of the authors and should not be attributed to DOL, nor does mention of trade names, commercial products, or organizations imply endorsement of same by the U.S. Government.

This report summarizes key challenges and strategies of states operating unemployment insurance (UI) programs during the Great Recession and its aftermath.¹ It is based on a targeted literature review for the U.S. Department of Labor (DOL) that focuses on UI operations during and after the Great Recession, which extended from December 2007 to June 2009 (National Bureau of Economic Research 2010).² We also highlight strategies that UI programs implemented when unemployment and the number of UI claims were relatively low, to position their UI programs to better meet the demands of their workloads during future economic downturns. Three limitations are that we did not uncover any causal studies that assessed the effectiveness of different strategies, the experiences of states' UI programs that are reported in the literature are not necessarily representative of the experiences of all states' UI programs, and the strategies used by one or more states might not be appropriate in other states.

This report is divided into four sections:

1. The strain on the UI system caused by the Great Recession
2. Challenges and strategies used for processing claims
3. Challenges and ideas to improve UI trust fund solvency
4. Lessons for applying innovations

1. THE STRAIN ON THE UI SYSTEM CAUSED BY THE GREAT RECESSION

Operational demands on states' UI systems dramatically increased during and after the Great Recession. Most immediately, a wave of unemployed workers became eligible for UI benefits during the Great Recession, and states' UI systems served an unprecedented influx of claimants. The number of first payments made for the regular UI program increased from about 7.7 million in 2007 to 14.2 million in 2009.³ Serving these claimants meant that UI staff had to handle more requests for assistance and work on more eligibility determinations. During this period of high operational demands, states' measures of timeliness for first payments, nonmonetary determinations, and appeals declined (National Administration of State Workforce Agencies [NASWA] 2013; Vroman 2012b).

Many workers who lost their jobs during or shortly after the Great Recession had difficulty getting a new job. The unemployment rate increased from 4.7 percent in November 2007 to 9.5 percent in June 2009, the official end of the Great Recession. As an indicator of sustained labor

¹ Except when noted otherwise, we use "states" to refer to the 53 UI jurisdictions in the United States. This includes the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands.

² Based on guidance from DOL, our literature review focused on a subset of presentations made during the National Association of State Workforce Agencies (NASWA)–UI Directors Conference, 2017. NASWA is a national organization that represents state workforce agencies, strives to enhance the agencies' ability to accomplish their goals, and advocates for advances in workforce development policy (<http://www.naswa.org/about/>). We also included other relevant literature, but DOL did not intend for the literature review to include a systematic, exhaustive search of all possible relevant evidence that is publically available.

³ Statistics cited in this and the next three paragraphs for UI first payments, benefit payments, and exhaustion are from DOL Employment and Training Administration 5159 reports (<http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>).

market difficulties, the unemployment rate continued to trend upward until it peaked at 10.0 percent in October 2009. It did not fall below 9.0 percent until October 2011, and it reached the pre-recession rate of 4.7 in May 2016 (Cunningham 2018; U.S. Bureau of Labor Statistics, Current Population Survey). High unemployment and a weakened job market led to increased durations of unemployment benefit receipt and added financial pressure on state UI trust funds. The regular UI program has typically offered up to 26 weeks of benefits to eligible claimants. Nationally, from 2007 to 2009, the average number of weeks of regular UI benefits collected increased from 15 weeks to 19 weeks, and the regular UI exhaustion rate increased from 35 percent to 53 percent. UI benefit payments increased from \$32 billion per year to nearly \$80 billion per year during that period. Many states’ UI trust funds became depleted, and 36 borrowed from the U.S. Department of the Treasury (Treasury) to maintain positive balances in their trust funds and continue paying benefits during and after the recession (DOL 2017a). The monthly total balance on trust fund loans from Treasury increased from less than \$1 billion in early 2008 to \$40 billion by March of 2010 (DOL Employment and Training Administration [ETA] 2112 reports, as analyzed in Hock et al. 2016).⁴

Table 1. Regular UI program measures near the start and end of the Great Recession

| Regular UI program measures in a year | Near the Start of the Great Recession (2007) | Near the End of the Great Recession (2009) |
|--|--|--|
| Number of first payments | 7.7 million | 14.2 million |
| Average number of weeks of benefits collected | 15.2 weeks | 18.8 weeks |
| Exhaustion rate | 35% | 53% |
| Dollars of benefits paid | \$32.4 billion | \$79.6 billion |

Source: Data from DOL ETA 2112 reports, as analyzed in Hock et al. (2016); DOL ETA 5159 reports (<http://workforcesecurity.doleta.gov/unemploy/claimssum.asp>).

DOL = Department of Labor; ETA = Employment and Training Administration; UI = unemployment insurance.

States’ UI systems had to quickly operationalize two benefit extension programs enacted to help claimants: (1) the Emergency Unemployment Compensation Act of 2008 program, known as EUC08 or Emergency Benefits; and (2) the Extended Benefits program, also known as EB. Depending on when a claimant filed for benefits and the economic conditions of the state he or she lived in, the claimant might be eligible to sequentially collect both EUC08 and EB benefits. In conjunction with regular UI benefits, EUC08 and EB could increase the maximum potential duration for eligible claimants to 99 weeks (The Council of Economic Advisors and the Department of Labor 2014; Needels et al. 2016). Benefits through EUC08 and EB were federally-funded, but states were responsible for administering the programs, which required adjusting their IT systems to identify eligible claimants, informing potentially eligible claimants of these programs, and processing claims.

States ultimately served 43 percent of their UI recipients under the EUC08 program, representing a higher rate of emergency benefit administration to claimants than in recent

⁴ Hock et al. (2016) used monthly data on loans that were provided by DOL for March 2008 through 2014. Balance information was not available for January and February of 2008.

recessions and a substantial increase in the volume of total claims to process (Nicholson and Needels 2011). From 2008 to 2013, there were 24.5 million first payments under the EUC08 program and 6.6 million first payments under the EB program (DOL ETA 5159 reports, Hock et al. 2016). To demonstrate how large this is, the average yearly total of first payments under both benefit extension programs was 5.2 million, which is about 70 percent of all UI first payments made in 2007.

New federal initiatives provided assistance to help states cope with the strain brought on by the recession, but states had to rapidly understand and make use of these opportunities. One of the most prominent pieces of federal legislation authorizing assistance was the federal stimulus package, the American Recovery and Reinvestment Act of 2009 (Recovery Act). The Recovery Act contained funding for UI and other workforce programs, among many initiatives made available to federal and state agencies. For UI, the Recovery Act included opportunities for states to receive additional benefits for their unemployed workers and aid for the administration of benefits. For other workforce programs, it included funding to establish new services or increase service delivery, and a large portion of this funding had to be used within two years. Because of the time limit on funding for other workforce programs, states' UI operations were affected because states had to rapidly develop and implement plans to use the Recovery Act funds for the regular UI program and other workforce programs simultaneously.

Both the Recovery Act and other legislation included changes to requirements for the emergency and extended benefits programs, which complicated implementation and reporting for states. From calendar years 2008 to 2013, 12 federal laws were passed that affected emergency and extended benefit entitlements, including adding tiers of benefits under EUC08 and a new requirement that claimants receiving EUC08 benefits also receive reemployment services and reemployment eligibility assessments (RES/REA).⁵ These changes presented distinct operational challenges to states. Some tiers of EUC08 and EB triggered on and off in states based on their unemployment rates, so states had to program their IT systems to adjust the number of weeks of benefits available to claimants over time. States also had to notify, schedule, and provide RES/REA to newly eligible claimants. Between April 2012 and December 2013, states scheduled more than 5 million claimants to receive these required services, and delivered services to more than 3 million claimants (Needels et al. 2015).

In fiscal year (FY) 2013, federal sequestration, which provided automatic spending cuts to the federal budget, brought a separate complication to UI administration. Sequestration reduced benefit amounts for benefits paid for by the federal government and required additional changes to the states' IT systems that determined benefit payment amounts. For EUC08 and EB benefits, the federal budget reduction was 5.1 percent for all of FY 2013 (Oates 2013). DOL applied the reductions beginning on or after March 31, 2013, to allow time for implementation. To meet the reduction of 5.1 percent for the fiscal year, benefits for weeks beginning on or after March 31 were reduced by 10.7 percent. States that incorporated the benefit changes in their systems later

⁵ When EUC08 was most expansive, it included four tiers of benefits. Claimants who were required to receive RES/REA included EUC08 claimants receiving the first tier of benefits or who transitioned from the first to the second tier of benefits on or after March 23, 2012. A claimant could receive a waiver from a state if the state determined he or she had previously completed participation in similar services or there was justifiable cause for not completing participation (Oates 2012).

in FY 2013 reduced benefits by a larger percentage to reduce the overall benefit amount for the fiscal year by 5.1 percent.

2. CHALLENGES AND STRATEGIES USED FOR PROCESSING CLAIMS

During the recession, states had to expand their capacity to administer new types of claims that had to be processed in different ways. This included the two benefit extension programs mentioned above, EUC08 and EB. For a shorter period, an additional program existed, the Federal Additional Compensation (FAC). The EUC08 and EB programs had eligibility rules, benefit formulas, and reporting requirements that differed from the regular UI program. The idea of benefit extension programs is not new—emergency benefits programs similar to EUC08 have been available during recessions since the 1950s, and the EB program has been a permanent standby program since the 1970s. However, states could not simply use their experiences with those earlier programs during the Great Recession because each recession’s emergency program has had distinctive features, and there had been little activity in EB since the 1980s (Nicholson and Needels 2011). States also had to incorporate into their programs an ability to provide FAC benefits, which were additional, temporary \$25 weekly UI benefits that were not related to existing UI program rules.

Prior to this scale-up in the UI program’s breadth and complexity, states had been reporting that they needed more funds for UI program administration. When the UI system was created by the Social Security Act of 1935, the law specified that the federal government would provide UI administrative funds for “proper and efficient administration.” In congressional testimony in 2009, NASWA reported that UI administration had been underfunded by the federal government by \$500 million a year since the 1990s, and NASWA (2013) estimated that states supplemented federal funds with about \$180 million for UI administration in 2007. States reported that already-existing shortfalls in funding made it challenging to prepare for and respond quickly to growing unemployment at the start of the Great Recession (NASWA 2013). The most recent information collected by NASWA reflects that states have continued to provide increasing levels of supplemental funding. NASWA reported that, in FY 2016, states provided an additional \$450 million in funding to support UI program administration (NASWA 2017).

Based on our targeted review, we found that the extensive challenges states faced in processing claims tended to fall into three categories:

1. The need to expand staffing quickly
2. The need to use infrastructure to handle different claims at high volumes and new program requirements
3. The need to allocate Recovery Act funds to workforce programs quickly when planning how to scale up operations for both UI and workforce programs.

Challenge: Expanding staffing quickly

States reported three primary types of barriers to having adequate staff to address the higher claims volume and meet other federal requirements. First, several states reported being understaffed prior to the recession (NASWA 2013). Second, in response to the recession, several states implemented government-wide hiring freezes, placed other restrictions on hiring, or used

furloughs to restrict spending. The UI programs in these states had to seek waivers or exemptions from such statewide actions, contributing to lags between when the staffing need was perceived and when new staff could begin processing claims (NASWA 2013). Third, when the number of claims started increasing in 2008, it was difficult to predict how severe the recession would be and how much additional staff would be necessary to operate the regular, emergency, and extended benefits programs. Moreover, new legislation changed UI staffing needs to operate the programs. Notably, the Middle Class Tax Relief and Job Creation Act of 2012 (referred to as the Middle Class Tax Relief Act from here on) required states to provide RES/REA to most new EUC08 claimants. In nine states chosen for a study of these requirements, UI staff were responsible for determining benefit eligibility and, in a subset of states, delivering reemployment services. States had to increase UI staffing or shift existing staff to complete these tasks (Needels et al. 2015).

States experienced difficulties in bringing on new staff to address the increased workload. Most states hired new staff who required intensive training on UI topics; a subset also re-hired staff who had retired. Some states reported that hiring for UI programs was slow due to the need to adhere to their usual hiring practices. States also indicated that, due to limited training capacity, new staff could not always be trained quickly to address the most pressing needs. Temporary workers formed the bulk of new hires and were often hired relatively easily from central sources such as a temporary employment agency. However, temporary staff tended to have higher turnover, so recruitment and training was an ongoing need (NASWA 2013; Needels et al. 2015).

We identified the following strategies that some states used to address the need to ramp up staffing more quickly:

- **Providing training on the UI program to community leaders or staff at community hubs.** These non-UI staff helped guide unemployed individuals who had basic questions about UI eligibility or the UI program. For example, Ohio trained local staff at libraries to help claimants file online (NASWA 2013).
- **Strengthening a pool of workers who were trained in UI.** The benefit to establishing or strengthening a pool of potential staff who are trained in UI is that they can be drawn upon quickly when assistance with the UI program is needed. This could include cross-trained staff who rotate through business units in UI, as occurs in Iowa, or a permanent pool of intermittent workers, which is the strategy Illinois officials used (West 2017; NASWA 2013). Some states expanded the hours that staff worked and re-assigned staff temporarily from workforce programs or other business units within the UI program to give priority to processing initial and continued claims. States where workers were cross-trained in UI and job-search assistance topics had more flexibility to re-assign staff (NASWA 2013).
- **Increasing training capacity by simplifying or condensing the training process, and automating it where possible.** For example, Louisiana had planned to nearly double its total number of adjudicators (from 30 to 55) to help cope with the recession. To mitigate training constraints, staff created a shortened training series for new hires (NASWA 2013). In addition, as of late 2017, Iowa was planning to conduct more portions of its UI training online rather than in person (West 2017).

- **Using metrics to continuously monitor and improve operations.** In Minnesota, staff receive regular mandatory training on how UI is funded and what the funding covers, and minutes per task are recorded and shared as needed to identify staffing needs and improve efficiency (Hegman 2017). Arizona began tracking daily progress on claims and producing electronic reports on timeliness, which were shared with staff and compared to performance measure benchmarks (Brewer 2013). In Iowa, staff members receive daily schedules of tasks to improve efficiency (West 2017).

Challenge: Adjusting IT systems to handle different types of claims

As detailed in NASWA (2013), states operated under tight timelines to implement the emergency and extended benefits programs, add the FAC to benefit payments, and produce the required reports for DOL. States rely on their IT systems to process regular UI claims and produce related reports, but incorporating these new functions into their IT systems was difficult because most states' systems were developed in the 1970s and 1980s and had not been upgraded significantly. These systems used outdated hardware and programming languages that were difficult to work with (U.S. Government Accountability Office [GAO] 2012; NASWA 2010). Consequently, state UI staff and IT staff worked, often overtime, to automate internal calculations (such as the benefit payment calculations) quickly and accurately. Another operational challenge for states was managing notifications to claimants of their eligibility for the emergency or extended benefits programs, especially around three instances in 2010 when the programs temporarily lapsed between federal laws. States advised claimants to continue filing claims during a lapse to maintain their eligibility determination, but many claimants were confused and did not continue filing. When a lapse ended, claimants' who began filing again had to have their eligibility re-determined, increasing the workload for UI staff (NASWA 2013). Finally, states had to expand their technological capacity to field phone calls and other contacts from claimants. Some states that emphasized filing claims online rather than by phone or in-person still found that claimants were going to American Job Centers to ask questions of staff. These states increased their phone capacity after finding that the claimants were overwhelming American Job Center staff (NASWA 2013).

States faced challenges in making timely adjustments to their IT systems to serve all claimants. The systems did not easily allow for the differences in benefit amounts, durations, and eligibility requirements for the emergency and extended benefit programs. In particular, states noted difficulties issuing payments when recipients' benefit entitlements involved earnings from two or more states, and when claimants had multiple regular UI claims and corresponding emergency and extended benefit program entitlements. After the Middle Class Tax Relief Act mandated that many EUC08 claimants receive RES/REA, states found it challenging to track service appointments and receipt (Needels et al. 2015). States also found it difficult to incorporate the FAC of \$25 per week because it was a flat amount for claims within a certain period of time, regardless of the amount of the regular UI benefit payment.

States made significant technological and administrative adjustments to their internal and external systems in response to the recession. Because of the challenges presented by inflexible technology, states used strategies that focused on application and design of technology to ease the workload on staff:

- **Making claimant materials more user-friendly so claimants could serve themselves.** States attempted to make their websites, automated phone systems, and external-facing documentation or notices more user-friendly to increase the ease for potential claimants to serve themselves. Forty-two of forty-eight states surveyed in GAO (2016) reported using an automated phone system that claimants could use for self-service. However, in six focus groups of claimants held in three states, claimants expressed that phone menus were long and complex, and it was easy for them to make mistakes. Some states modified their websites and call-in systems to make it easier for claimants to get answers to common questions and do self-service without speaking with staff. For instance, Connecticut shifted more adjudication of benefit eligibility and overpayment inquiries to written or online assistance rather than addressing all cases by phone (Dudzinski 2017). Almost all states upgraded phone lines and added to call center capacity (NASWA 2013).⁶
- **Considering alternatives to the traditional call center structure, including using cell phones and e-mail forms for inquiries, and telecommuting.**
 - Several states, including Nevada and Washington, implemented call center technology such as virtual hold, which allows a caller to choose between remaining on the phone in a waiting queue or being automatically called back by a computer system when an appropriate staff person becomes available (NASWA 2013).
 - New York allocated claims and automated callback across the week to better distribute claims over staff and reduce wait times for claimants (NASWA 2013).
 - Nebraska and Texas freed up existing call center lines by purchasing cell phones for adjudicators or allowing certain staff (claims examiners and appeal hearing officers) to use a conferencing technology from home. Nebraska found that using cell phones to expand call center capacity during the recession was faster than installing additional permanent landlines. Recently, California and Colorado were considering policies that would allow certain UI staff to telecommute (Fitzgerald 2017; Huerta 2017). In addition to freeing up call center lines, these alternatives can help with office space constraints when states need a large number of staff.
 - Florida changed its e-mail forms online so that staff were more likely to have enough information to respond to claimants' questions. Where possible, staff from local American Job Centers responded to these questions (NASWA 2013).
- **Issuing payments by debit card rather than mail.** Some states, including Maine and Nevada, issued payments by debit card rather than mail, which can help to more quickly process the increase in claims and distribute benefits (GAO 2012; NASWA 2013).
- **Using technology to streamline staff members' work.** This can include automating tasks and production of reports, or helping cluster similar work together so that staff can

⁶ Darling et al. (2017a) provides an overview for practitioners in labor programs with ideas for addressing common issues. The report highlighted the benefits of presenting the most important information first and ensuring that the language that is used is easy to understand. Darling et al. (2017b) describes how behavioral insights were used to design and send emails that improved take-up in Michigan's UI Reemployment Eligibility Assessment program.

gain specialized knowledge more quickly (NASWA 2013). Minnesota reported that its IT system is used to organize and prioritize work across various employees (Hegman 2017).

- **Modifying IT systems to increase the flexibility in handling benefits that have different eligibility and payment rules than regular UI claims.** States with old IT systems and some with more modern IT systems tended to implement the FAC outside their normal computer programs for administering UI (NASWA 2013). Of the 20 states NASWA studied (2013), only North Carolina reported being able to avoid significant challenges implementing the FAC because its IT system allowed for “adjustment payments” or flat payments that could directly change benefit amounts.

Challenge: Allocating funds quickly for scale-up

In addition to the challenges previously described, states had to quickly develop plans to use Recovery Act funding for UI and a large portion of Recovery Act funding for other workforce programs within two years. The funding timelines and operational challenges that workforce programs faced affected state UI operations because states were trying to scale up their UI and workforce systems simultaneously during the recession. Similarly, the added requirement in the Middle Class Tax Relief Act that states provide RES/REA to many EUC08 claimants typically required rapid scale-up and coordination between UI and Wagner-Peyser staff (NASWA 2013; Needels et al. 2015).⁷

All states worked with DOL to learn more about what might be contained in the Recovery Act prior to its passage or to understand subsequent guidance on the Recovery Act, the Middle Class Tax Relief Act, and other legislation. States used a range of strategies to collaborate with other agencies to distribute funds:

- **Coordinating with state partners to share resources, including optimizing office space, IT resources, and assignments for cross-trained staff.**
 - Some states established lines of communication between various agencies to help scale up operations. Arizona’s agencies shared a phone system during the recession and held cross-agency meetings to decide how to optimize phone capacity (NASWA 2013). In seven of nine states included in one recent study, state administrators coordinated the training for UI and Wagner-Peyser staff on the requirements for RES/REA (Needels et al. 2015).
 - Some state UI agencies worked with other branches of state government to address staffing needs. Rhode Island passed a law to allow the UI program to re-hire recently retired staff during 2009. Pennsylvania worked to obtain a state exemption from a broad hiring freeze (NASWA 2013).
- **Identifying and sharing targeted updates with staff to help reduce duplication of work, especially for staff who received questions from claimants.** Having easily accessible information can help staff more efficiently address questions and implement

⁷ State workforce programs also faced distinctive challenges from UI programs prior to and during the recession. To keep this report focused on UI operations, we do not describe them here and refer readers to Wandner (2012) for a more comprehensive discussion.

new processes to serve them. Taking the RES/REA requirement as an example, state UI and Wagner-Peyser administrators in Washington continued to meet regularly for three months after implementation of RES/REA began. During these discussions, the state administrators identified issues and worked to jointly resolve them in ways that would be feasible for UI and Wagner-Peyser staff. The state-level administrators also maintained a list of frequently asked questions for frontline staff (Needels et al. 2015).

3. CHALLENGES AND IDEAS TO IMPROVE UI TRUST FUND SOLVENCY

The Great Recession placed additional strain on UI trust fund reserves, with the Recovery Act providing some short-term relief. State UI trust funds contain state tax revenues from employers that are used to pay UI benefits and are held in state accounts at the U.S. Treasury. UI tax policy has historically been designed to build sufficient reserves in state trust funds during non-recessionary periods to sustain a positive balance during recessions, when unemployment increases dramatically. As DOL (2017b) notes, however, UI tax structures in most states did not cover the significant increases in UI benefit payments during the last several recessions. Several states noted that, prior to the Great Recession, their UI programs were underfunded and UI trust funds were declining (NASWA 2013). The Recovery Act provided an important source of funds to states by temporarily providing (1) interest-free loans for UI trust funds from Treasury and (2) incentive payments that were provided for having certain types of UI provisions and could be used for UI benefits or administration. This section focuses on potential strategies to strengthen UI trust fund solvency in anticipation of future recessions.

Challenge: Strengthening UI trust fund solvency

The volume and duration of regular UI claims during the Great Recession quickly increased funding needs for UI benefits. In addition, many states entered into the Great Recession with trust fund amounts that were at risk of insolvency. Because funding for UI is highly dependent on local contexts, including political considerations, we discuss in this section challenges and ideas from the literature review that are broader than those we presented in previous sections.

A measure of solvency recommended by the Advisory Council on Unemployment Compensation and described in DOL (2017b) is the Average High Cost Multiple (AHCM). It is a ratio that is calculated by dividing a year-ending UI trust fund reserves amount by a measure of benefit costs for a year that is large by historical standards—both standardized relative to total wages in taxable employment in the relevant years. Values higher than 1 are desirable because it means that UI trust fund reserves are sufficient to cover one year of payments at an expected recessionary benefit payout rate.

Prior to the Great Recession, only 19 of 53 UI jurisdictions had AHCM values greater than 1.0. Twenty-one UI jurisdictions had AHCM values less than 0.5, and none had AHCM values greater than 2 (DOL 2017b). Mechanically, these values were low for states because, at the end of 2007, UI reserve ratios (numerators for the AHCM) were at an all-time low for a pre-recession year (Vroman 2012a). Combining the historically large scale of the Great Recession with the low pre-recession level of reserves in UI trust funds, many state UI trust funds were depleted.

To continue making benefit payments, states with depleted trust funds had to either borrow from Treasury under the Social Security Act Title XII program or the private market. During and after the Great Recession, 36 of 53 state UI programs borrowed from Treasury (DOL 2017a). Month-end balances on loans from Treasury reached \$47 billion in 2011 (DOL ETA 2112 reports, as analyzed in Hock et al. 2016). Since then, several states have borrowed in the private market. In 2012, states' private bonds totaled \$7 billion and Treasury loans totaled more than \$27 billion (DOL 2017a).

Most states also applied for at least some of the Recovery Act incentive funds that were offered to them. These funds were available to states if they adopted or already had in place certain types of UI provisions to expand access to benefits, such as an alternative base period and a dependents' allowance. (These provisions often have been referred to as "modernization provisions.") From 2009 to 2011, DOL approved state applications for incentive payments totaling \$4.4 billion (Hock et al. 2016).

In some states with automatic solvency adjustments to UI tax rates, legislation was passed to limit the increases in UI tax revenues that would have occurred due to automatic adjustments that would normally take place as a result of reductions in the states' trust fund balances. These solvency adjustments had been designed to be counter-cyclical and aid trust fund solvency shortly after periods of high benefit payouts. Based on our review of the literature described in this report, we found no rigorous empirical evidence about the net effect on trust fund solvency of the legislation that suspended the automatic adjustments.

Since the Great Recession, states have targeted legislation towards both tax revenues and benefit payments to address trust fund solvency problems. At the start of 2017, only 21 of 53 jurisdictions had reached an AHCM value of 1.0 or higher (DOL [2017a]). On the revenues side, some states increased their UI taxable wage bases. Two more states recently began indexing their taxable wage bases after the recession (DOL 2017a), and a few other states passed legislation to increase their taxable wage bases by a fixed amount (NASWA 2013). On the benefit payment side, some states reduced the availability of benefits, including lowering the maximum potential duration of regular UI benefits, adding a waiting week, or changing eligibility requirements (NASWA 2013, Vroman 2012b). Several states also strengthened their initiatives to improve overall accuracy of payments and recover overpayments (Vroman 2012b).

In response to states' need for additional guidance about how to boost trust fund solvency, DOL constructed a technical guide available for states to explore how to modify their UI tax rules to increase their revenues (DOL 2017b). The guide describes factors that hinder the ability of state UI tax rates to adequately respond to higher benefit payments:

1. A state's taxable wage base might be set too low, and not adjusted over time in light of inflation and wage growth.
2. A state's tax rates might be too low.
3. Tax contributions made by employers subject to the maximum UI tax rate might be disproportionately low relative to their assigned level of charged benefits.

4. A state's tax rates might not increase sufficiently to enable trust fund levels to recover from periods of high benefit payouts, both in terms of how much the tax rates change and when those changes in the tax rates are triggered.

To address each of these broad factors, the guide presents options for states to consider, drawing on diagnostic calculations, experiences of other states, and historical data on trust fund reserves. The guide also contains a worksheet and additional information to help states identify a target amount for a trust fund balance so that it is likely to stay positive during recessions.

Based on the literature review, we have identified strategies that some states adopted to address trust fund solvency following the Great Recession. We highlight strategies that were identified in the literature review as being significant for improving solvency, although long-term impacts on solvency are unknown and likely specific to each state's circumstances:

- **Indexing the taxable wage base to a measure of average wages.** States where taxable wages were indexed to a measure of average wages generally had healthier trust funds both before and after the recession (Vroman 2012a). From 2008 to 2012, 6 of the 16 indexed states took loans from Treasury, compared to 29 of the 35 non-indexed states. By the end of 2010, indexed states tended to have positive reserves on average, whereas other states tended to have negative reserves.⁸ Further, their taxable wage bases have increased automatically as their economies strengthened. Colorado is an example of a state that began indexing its wage base after the recession, following 23 years of setting it at \$10,000 (Watkins 2011).
- **Considering an alternative experience rating approach.** DOL (2017b) describes several experience rating approaches that are alternatives to the widespread approach of tracking individual employers' tax contributions and benefit charges to the trust fund. According to DOL (2017b), the alternative approaches, which set employers' taxes based on their employment, wages, or separations, could be simpler, cheaper to implement, and more efficiently measure unemployment risk across employers. DOL (2017b) presents these alternative approaches as part of a broader set of state UI tax reforms that states could consider implementing to boost trust fund solvency.
- **Reducing future UI benefit costs by implementing strategies to decrease overpayments or to change benefit payment rules.** Eight of 20 states interviewed in NASWA (2013) limited future payments through a range of strategies, including reducing benefit durations, adding a waiting week, changing the monetary eligibility requirement or work-search requirement, and using a severance pay offset.

These strategies are not presented as "best practices", given the significant variation among state UI laws with regard to taxing structures and benefit eligibility. They are examples of options states considered or adopted based on their labor market and economy. When adopted, these strategies are the result of complex analysis, negotiations, and policy development at the state level in the context of that state's circumstances.

⁸ As a fraction of payroll, trust fund reserves were 0.47 percent, on average, in 16 indexed states compared to -0.47 percent, on average, in 35 other states (Vroman 2012b).

4. LESSONS FOR APPLYING INNOVATIONS

A recurring theme in the literature was the value of testing and applying innovations to UI systems when they are not stressed by recession-level numbers of claimants. This section highlights a few strategies states have been using since the Great Recession to strengthen their UI systems. Although many states already use these strategies to varying degrees, we discuss them briefly because of the potential value of assessing whether the strategies can be incorporated in new or improved ways prior to the next economic downturn that, like the Great Recession, might test the strength and capacity of the UI system (GAO 2016).

Several state administrators emphasized that they found value in having an ongoing dialogue with other UI staff and DOL for identifying issues, removing bottlenecks, and improving the UI system. Indiana indicated that staff training and internal quality reviews are priorities for maintaining performance standards in the next recession (Shelby 2017). Connecticut and Iowa described seeking input from staff, measuring performance, and providing a platform for feedback (Dudzinski 2017; West 2017). Iowa also formalized regular communication, requiring managers to meet at least monthly with staff to review performance metrics and identify opportunities for trouble shooting (West 2017). Over the past few years, Colorado has used software to keep track of suggestions from state staff and log implementation of them (Fitzgerald 2017). In 2014, California formed an initiative to redesign its business processes and improve performance measures for first payment promptness and determination timeliness. The initiative used data and staff input to identify and reduce bottlenecks (Huerta 2017).

Soliciting feedback from claimants can also generate suggestions on how processes can be improved. Two-thirds of states collect feedback from claimants through surveys, their websites, and social media. States also collected process data such as average call wait times and website timeouts or crashes that claimants experience when trying to file claims online (GAO 2016). For instance, in focus groups with claimants in three states, GAO (2016) found that call wait times in three states varied from 20 minutes to two hours in 2014 and 2015—years in which the unemployment rates were well below the levels experienced shortly after the Great Recession. Combining these data with other information about claims could be used to better forecast needs for staff. From the claimant focus groups, GAO found that claimants found it challenging using automated phone systems with complicated menus that were not easy to navigate. Further, claimants with limited English proficiency had difficulty finding program materials they could understand. These challenges indicate potential for improvements for automated phone systems and translated materials that could help claimants file benefits without staff assistance.

Suggestions from states for trying innovations before a recession included applying them in regional, seasonal, and program contexts that share a need similar to a recessionary period. For instance, Minnesota said that the Trade Readjustment Allowance program provided a good opportunity to learn about the flexibility of the state's IT system for processing UI benefit extensions. Another example was applying a staffing approach to a call center in a season when there are many layoffs (Hegman 2017). As states pursue these and broader efforts to improve how programs can serve clients, they have the potential to improve UI operations by actively searching for and testing innovations to prepare for the next recession.

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