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Informational Hearing 09-28-2011 - Unemployment Reserve Fund

(FORM UPDATED: 08/11/2010)

WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

2011-12

(session year)

Senate

(Assembly, Senate or Joint)

Committee on ... Labor, Public Safety, and Urban Affairs (SC-LPSUA)

COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
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INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
(**ab** = Assembly Bill) (**ar** = Assembly Resolution) (**ajr** = Assembly Joint Resolution)
(**sb** = Senate Bill) (**sr** = Senate Resolution) (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

Department of Workforce Development
Secretary's Office
201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946
Telephone: (608) 266-3131
Fax: (608) 266-1784
Email: sec@dwd.wisconsin.gov



Scott Walker, Governor
Scott Baumbach, Secretary

Testimony
Provided by Georgia E. Maxwell, Executive Assistant
September 28, 2011

Dear members of the Assembly Committee on Labor and Workforce Development and the Senate Committee on Labor, Public Safety and Urban Affairs:

Thank you for holding this informational hearing today as it provides a wonderful opportunity to share with you the significant changes to the Unemployment Insurance (UI) program that are underway at the Department of Workforce Development (DWD), as well as to provide further program details that may be of interest to you.

Governor Walker took office just nine short months ago and we have been immersed in his efforts to improve the way government works ever since. We knew from the start there were areas within in DWD that were in need of retooling. One of the areas we found most in need of attention was the UI division. To that end, we have begun a major computer upgrade that will allow us to better serve employers and claimants. That upgrade will be online in a little over a week. We have also begun exploring ways to align UI claimants with the Division of Employment and Training so they spend less time looking for a job. Our first step toward this goal was to require new UI claimants to post their skills and contact information on the Job Center of Wisconsin website. Finally, we have begun to look at Chapter 108 and will spend the better part of the next year making recommendations for reform.

We have also addressed some issues that were left to us by the prior administration. Included in that list is notifying thousands of Wisconsin businesses they were being assessed for interest owed to the federal government on the UI trust fund. We also notified thousands of UI claimants they should not have received the Federal Additional Compensation (FAC) payments made to them with stimulus dollars. We are in the process of recouping those dollars now. Finally, we have put in place a cross-match system to address payments made to inmates making fraudulent claims.

I would like to turn things over to Mr. Craig Barkelar at this point. He serves as the Division Administrator for UI and he has a presentation on the UI program that I believe will answer many of your questions. Of course, I am happy to respond to any questions or comments directed specifically at me should they arise.

Thank you for your time and attention.



Unemployment Reserve Fund

Legislative Audit Bureau

September 2011

Report 11-8

Unemployment Reserve Fund

- Accounts for taxes (contributions) paid by employers
- Provides benefits to eligible unemployed individuals
- Also accounts for benefits funded by the federal government

Employer Taxes

- Four tax rate schedules included in statutes
- Highest tax rate schedule currently in effect
- Tax rates vary
- Tax rates applied to each employee's wages up to the wage base established by statute

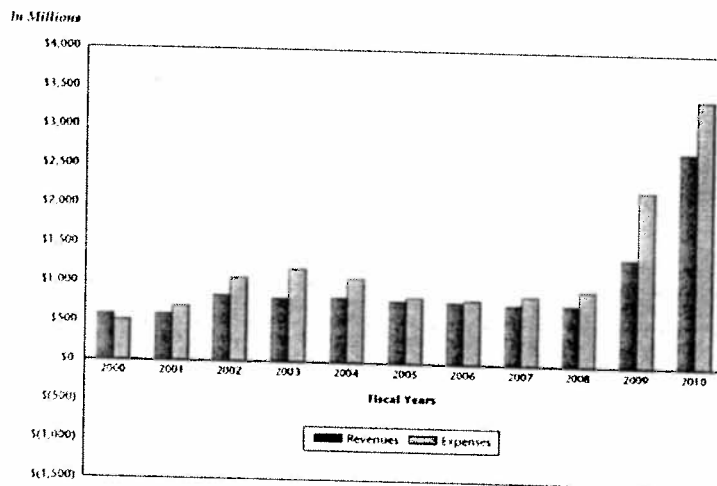
Taxable Wage Base

- \$12,000 for 2009 and 2010
- \$13,000 for 2011 and 2012
- \$14,000 for 2013

Benefits During our Audit Period

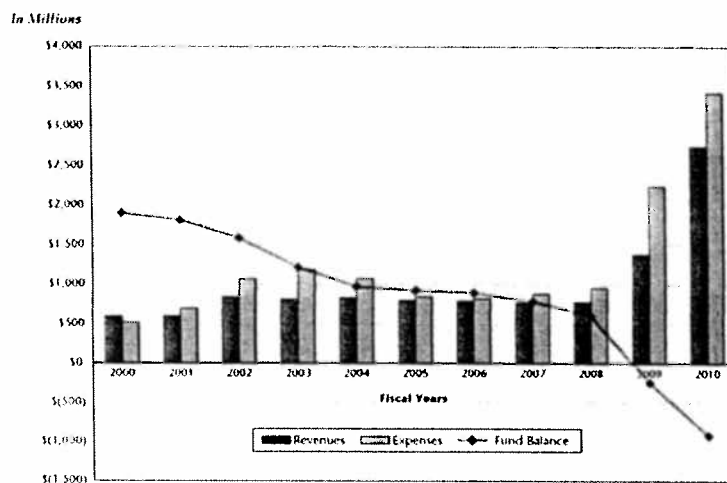
- Regular benefits: up to 26 weeks
- Federally funded benefits available
- Minimum benefit of \$54 per week
- Maximum benefit of \$363 per week
- \$25 per week Federal Additional Compensation ended December 2010

Wisconsin's Experience



Revenues have not accumulated over past 10 years.

Fund Balance



Update on Federal Borrowing

- Began borrowing in February 2009
- Loan balance is currently \$1.2 billion
- Interest payment of \$42.3 million due 9/30/11
- Interest funded by special assessment on certain employers

Fiscal Management Issues

- Improve financial reporting
- Identify and establish overpayments for certain federally funded benefits
- Recover overpayments to incarcerated individuals (included in Report 11-4)

- We did find individuals that were in jail

→ Expand on this

Unemployment Reserve Fund

Legislative Audit Bureau

September 2011

Report 11-8



Joint Informational Hearing

Assembly Committee on Labor and Workforce Development
and

Senate Committee on Labor, Public Safety and Urban Affairs



Georgia Maxwell

Executive Assistant

Craig Barkelar

Administrator, Division of Unemployment Insurance

Unemployment Benefit Programs, Reserve Fund
Solvency and Special Program Requirements

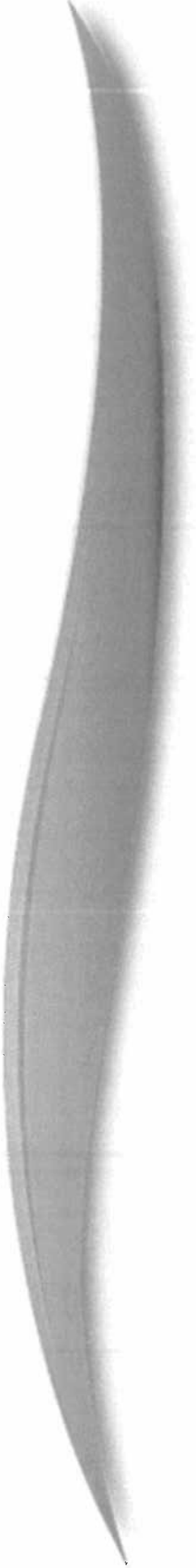
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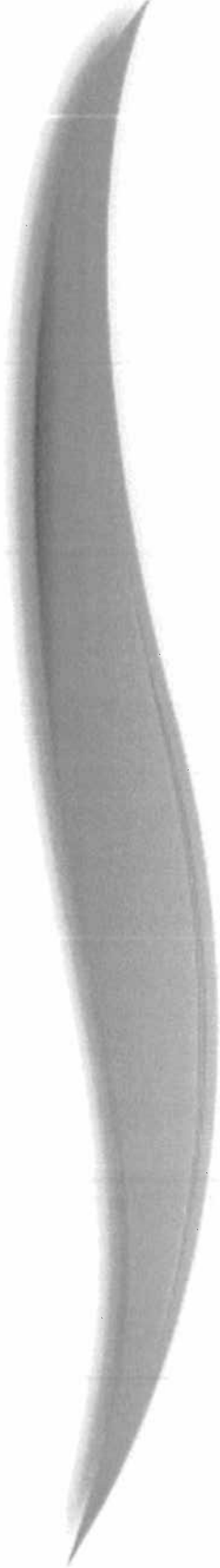
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Department of Workforce Development

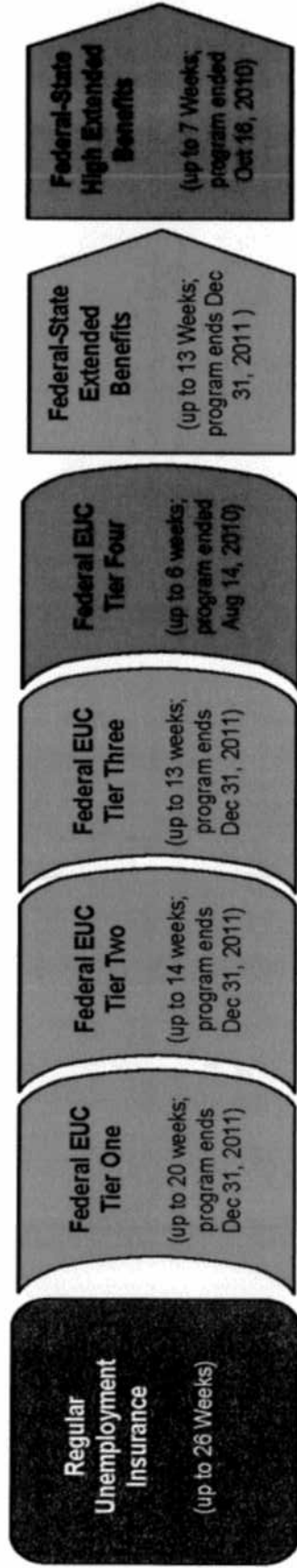
September 28, 2011



UNEMPLOYMENT PROGRAMS AND BENEFITS



Unemployment Benefit Programs




How it works:

- If you are in , then after 12/24/11, you are no longer eligible for EUC.
- If you are in , then after 12/31/11, you may complete your existing tier, but you are not eligible for the next tier.
- If you are in , then after 08/14/10, you may continue to receive any remaining Tier 4 benefits.
- If you are in , then after 12/31/11, you will no longer receive a payment, regardless of any benefits remaining.
- If you are in , then after 10/16/10, you will no longer receive a payment, regardless of any benefits remaining.

Note: The order of payments shown reflects the order that most claimants will receive benefits.


After all other benefit programs end, Wisconsin offers another 26 weeks of extended training benefits

Wisconsin Provides Up To 26 Weeks of Regular Unemployment Benefits



- ③ In 1983, Wisconsin lowered the number of its benefit weeks from 34 to a maximum of 26 weeks
- ③ While 26 weeks of benefits is most common, Massachusetts has a 30 week maximum and Montana has a 28 week maximum
- ③ If the maximum number of weeks of state benefits were lowered, the number of benefit weeks available in federal emergency unemployment compensation programs would decrease proportionately

Six States Will Provide Less Than 26 Weeks of Benefits



- Ⓐ For the first time in over 50 years, several states will offer unemployment benefits for less than a maximum of 26 weeks
- Ⓑ Illinois and Arkansas are moving from 26 to 25 weeks
- Ⓒ Michigan, Missouri and South Carolina are moving from 26 to 20 weeks
- Ⓓ Florida is moving from a maximum of 26 weeks to a range between a maximum of 12 to 23 weeks based on the unemployment rate
 - Ⓐ 5.0% or lower – 12 weeks
 - Ⓑ Additional week for every 0.5 percentage point increase in the unemployment rate
 - Ⓒ 10.5% or higher – 23 weeks

Wisconsin's Unemployment Program Provides Assistance While Claimants Seek Employment

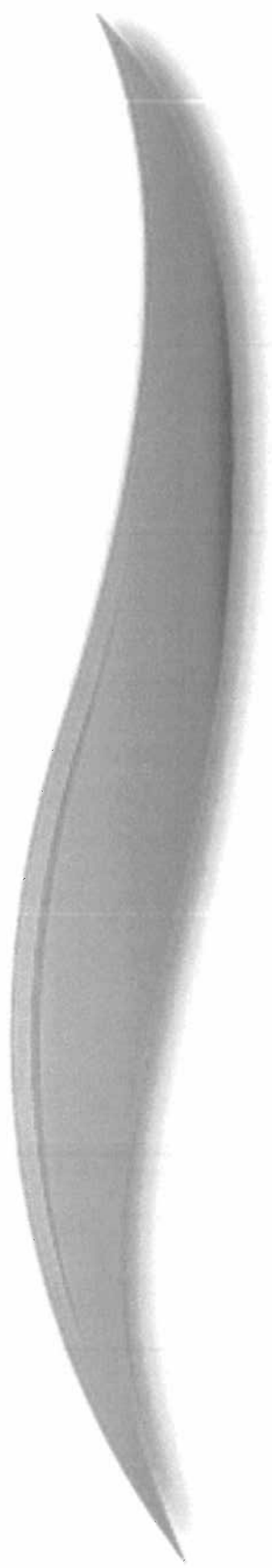
Unemployment compensation program is not “needs based” but rather is set to provide partial and temporary aid to the unemployed

State	Minimum Weekly Benefit	Maximum Weekly Benefit	Average Weekly Benefit
Illinois	\$51 - \$77	\$388 - \$531	\$323
Indiana	\$50	\$390	\$314
Iowa	\$56 - \$67	\$376 - \$461	\$302
Michigan	\$117 - \$147	\$362	\$293
Minnesota	\$38	\$372 - \$578	\$345
Wisconsin	\$54	\$363	\$269

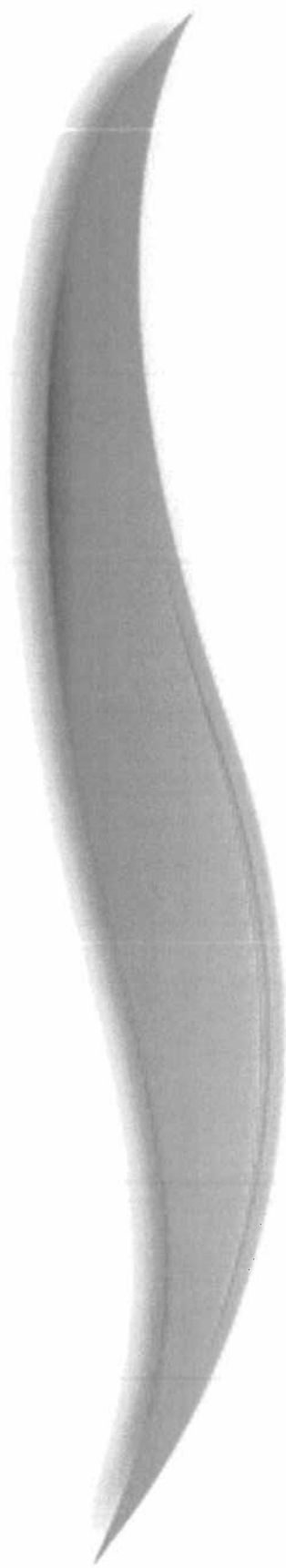
Note: Where a range is shown, an add-on benefit is available for claimants with one or more dependents

After Other Programs Are Exhausted, Wisconsin Provides up to 26 weeks of Extended Training Benefits to Those in Approved Training

- ③ Enacted in response to record numbers of unemployed
- ③ Established to encourage claimants to learn new skills
- ③ State staff verify enrollment and review curriculum
- ③ Too soon to determine whether training programs are meeting goals
- ③ \$12.5 million cost in 2011, or nearly two times more than expected



RESERVE FUND SOLVENCY



Unemployment Insurance Reserve Fund

Activity and Condition Projections as of September 28, 2011
(in millions)

Year	2011	2012	2013	2014
Opening Balance	(\$1,356)	(\$1,376)	(\$1,121)	(\$666)
Plus Revenues	1,160	1,316	1,390	1,387
Less Expenses	1,180	1,061	935	725
Ending Balance	(1,376)	(1,121)	(666)	(19)

Reserve fund may become solvent by the end of 2014

State Unemployment Tax Rate Increases Will Promote Solvency

- ③ Employers state unemployment tax is calculated by multiplying their taxable wages by their experience rating
 - ④ Taxable wages have and will increase, which generates more tax revenue
 - ✓ In 2010, the taxable wages were up to the first \$12,000 earned
 - ✓ In 2011, taxable wages are up to the first \$13,000 earned
 - ✓ In 2013, taxable wages will increase up to the first \$14,000 earned
- ⑤ An employer's experience rating is a function of the difference between what an employer pays in to the Reserve Fund and what the Reserve Fund pays out in benefits on behalf of the employer
 - ✓ As an employer rating becomes more negative, the rate increases
 - ✓ As an employer rating becomes more positive, the rate decreases

State Unemployment Tax Schedules Promote Reserve Fund Solvency

- ☹ Employers unemployment tax is also affected by movement between four tax schedules based on the Reserve Fund balance
- ☹ Rates progress from Schedule A (highest) to Schedule D (lowest) as the reserve balance increases
- ☹ Rates progress from Schedule D (lowest) to Schedule A (highest) as the reserve balance decreases

Schedule	Reserve Fund Balance
A	Less Than \$300 Million
B	\$300 Million to \$900 Million
C	\$900 million to \$1.2 Billion
D	More Than \$1.2 Billion

Rate Schedule Triggers Were Set Over Twenty Years Ago and Are Not Responsive Enough to Growth in the Economy

- ⓐ Rather than fixed amounts, triggers could be in the form of a percentage of total wages
- ⓑ As total wages increase overtime, the percentage triggers ensure reserve balance targets increase proportionately

Schedule	Reserve Fund Balance
A	Less Than 1.25% of Total Wages
B	1.25% to 1.9% of Total Wages
C	1.9% to 3.25% of Total Wages
D	More than 3.25% of Total Wages

Federal Unemployment Tax Increases Will Also Promote Reserve Fund Solvency

- Ⓐ Reserve fund deficit is funded through a federal loan
- Ⓑ If a federal loan continues for more than two years, employers lose 0.3 percentage points of their federal tax credit the following year and an additional 0.3 percentage points in each succeeding year
- Ⓒ The additional federal unemployment tax revenue is used to pay down the outstanding loan balance

Year	Percentage Credit Loss	Additional Federal Unemployment Tax
2012	0.3	\$49 million
2013	0.6	\$98 million
2014	0.9	\$147 million

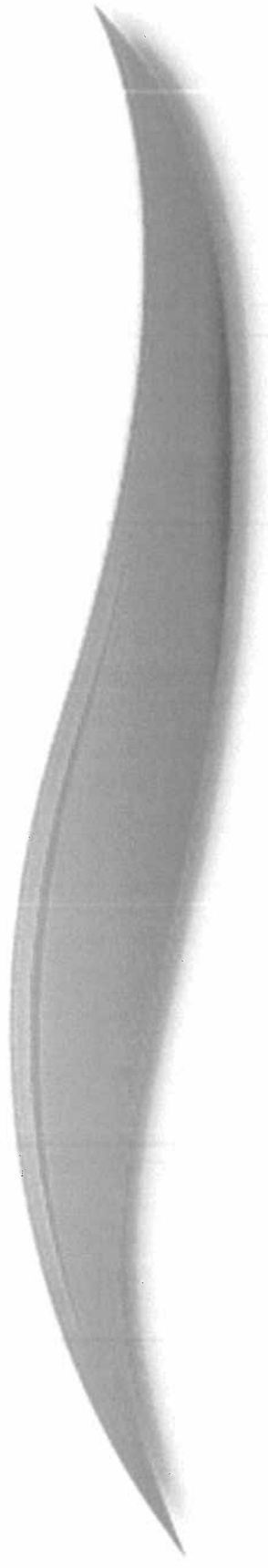
Lower Benefit Expenses Will Promote Reserve Fund Solvency

- ③ Expenses will decrease over time
- ③ As the economy improves, more jobs will be created
- ③ Advisory Council may propose legislation that generates benefit savings
 - ③ Package approve on September 22, 2011 could reduce annual expenses by \$10.0 million or more
- ③ Legislature may pass legislation that generates benefit savings
 - ③ Waiting week will save an average of \$45 million annually
- ③ Claimants will exhaust benefits

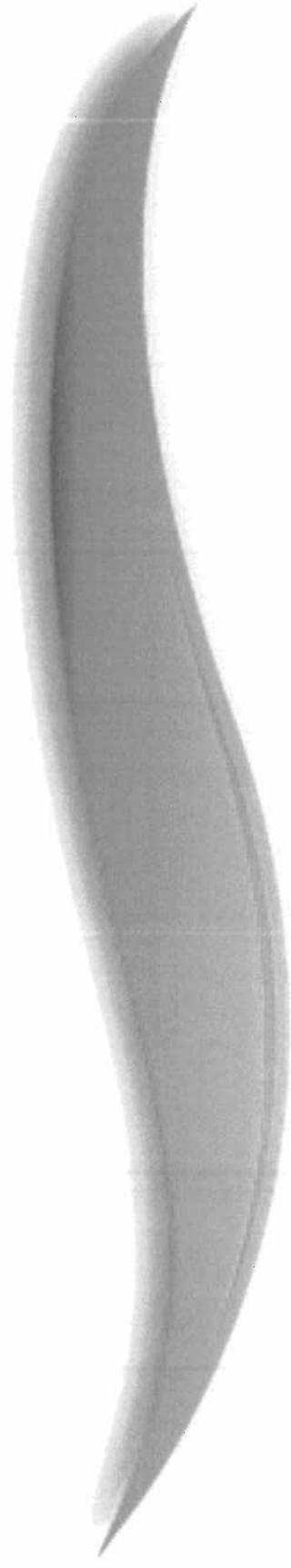
Employers Pay Interest on the Federal Loan – Annual Special Assessment

- Ⓐ Federal government restricts the use of unemployment taxes to pay benefits
- Ⓑ In 1983, Wisconsin enacted a law requiring a special assessment be charged to all employers to pay interest on future federal loans
 - Ⓒ Reimbursable employers are assessed at 75% of taxable employers' rate
- Ⓓ If interest is not paid, federal government can withhold administrative funding and eliminate the entire 5.4% federal unemployment tax credit

Year	Special Assessment
2011	\$45 million
2012	\$50 million
2013	\$36 million
2014	\$15 million



UNEMPLOYMENT PROGRAM REQUIREMENTS OF INTEREST



When can a claimant refuse a job offer and retain unemployment benefits?

- Ⓐ Claimants lose benefits if they refuse **suitable work** without good cause
- Ⓑ Suitable work is a job that is reasonable considering a person's training, experience, duration of unemployment and jobs available in the labor market
- Ⓒ Work is unsuitable if:
 - Ⓐ substantially less favorable (SLF) than those prevailing for similar work in the locality;
 - Ⓑ position is vacant due to a strike ; or
 - Ⓒ if a condition of employment is joining a company union or refraining from joining a labor organization
- Ⓓ SLF wages are those in the lowest 25% quartile in labor market
- Ⓔ SLF hours or other conditions occur when less than 25% of all similar work in the labor market requires comparable hours or conditions

When can a claimant refuse a job offer and retain unemployment benefits?

- ☹️ Claimants lose benefits if they refuse suitable work without **good cause**
- ☹️ Federal guidelines state that good cause reasons for refusing work may include illness, hospitalization, distance, religious objections, physical restrictions and participating in training
- ☹️ A claimant has good cause to refuse work if the individual has not had a reasonable opportunity to seek work that is in line with the claimants recent work history
- ☹️ A claimant also has good cause if a job is refused during the first six weeks after becoming unemployed and it is at a lower grade of skill level or the pay is less than 80% of last job

What are claimants' work search requirements?

- ③ Claimants are required to conduct **work searches** (two actions) for suitable work weekly unless requirement is waived
- ③ Work search actions include:
 - ✓ applying for work with employers who have job openings
 - ✓ applying or taking exams for civil service government jobs
 - ✓ registering with a union referral or hiring hall
 - ✓ registering with a placement facility of claimant's profession
 - ✓ registering with a placement facility of a college or university
 - ✓ responding to classified job advertisements
 - ✓ registering with a private placement agency
 - ✓ participating in employment workshops

Under what circumstances are work search requirements waived?

- ③ Claimants are required to conduct work searches (two actions) for suitable work weekly unless requirement is waived
- ③ Work search actions may be waived if:
 - ✓ reasonable expectation of returning to former job
 - ✓ performing work for a customary employer
 - ✓ reasonable expectation of starting new job within four weeks
 - ✓ normally obtain work through a trade union hiring hall
 - ✓ jury duty
 - ✓ enrolled in approved training
- ③ Approximately 60% of claimants are not subject to work search requirements *as per requested "breakdown"*

What are claimants documentation requirements for work search?

- ③ Work search actions must be recorded
- ③ State program requires claimants to record their work search activities and certify in their weekly claims application that they have performed the weekly work search requirement
 - ③ If there is a concern over work search, state staff can require up to eight weeks of documentation and audit the information to determine if claimant was ineligible for benefits
- ③ Federal extended benefits programs require that work search documentation be provided to the department
- ③ Department staff have not audited work search to a significant extent because of the high workload in the last three years

How can the department make work search more meaningful?

- ③ With 60 percent of claimants not required to conduct work searches, the department will review waivers to determine if some should be eliminated and others shortened to limit the time work searches are not required
- ③ The department is developing plans to modify the claims portal so claimants must submit work search records in order to submit a weekly claim, which will facilitate audits
- ③ As part of its program integrity efforts, the department will audit 100 claimants' work search records weekly, and request two new positions to significantly increase the number of weekly audits of work search over time

When can an incarcerated individual receive unemployment benefits?

- ③ Individuals incarcerated for less than 48 hours are considered attached to the labor market and can receive benefits if otherwise eligible
- ③ Individuals with work release privileges that are specifically for the purpose of seeking work and accepting work if offered can receive benefits if otherwise eligible
- ③ Inmates of a state penal institution are not eligible for benefits because they unavailable for work in general and are considered withdrawn from the labor market

How does the department limit fraudulent claims from incarcerated individuals?

- ③ There are several sources and tools available to detect fraudulent claims from those that are incarcerated
 - ③ Department staff learn of possible issues during interactions with, for example, claimants, their family and friends, employers, law enforcement, and media
 - ③ Department receives a monthly list of incarcerated individuals and runs a cross-match to identify possible fraud issues
 - ③ Department is exploring the receipt of a daily list of individuals incarcerated so cross-matching can identify possible fraud issues more quickly--daily rather than once a month
 - ③ In 2011 to-date, there have been approximately 425 determinations of fraud, with about one-third a result of tips and two-thirds a result of cross-match procedures

Why do the hours used for full time work vary among eligibility determinations?

- ③ Unemployment program would benefit from a clarification of what disqualifies eligibility regarding hours worked
 - ③s. 108.05(3)(b), Wis. Stats., disqualifies benefits to claimants who work 32 or more hours for an employer paying at least 80% of base period wages, as long as the hourly rate is the same as in the base period
 - ③s. 108.05(3)(c), Wis. Stats., disqualifies partial benefits for claimants who work 40 hours or more
 - ③s. 108.02(15s), Wis. Stats., defines full time work as 32 or more hours in a week
- ③ Changing statutes to comply with the definition of full time work and disqualifying for work of 32 or more hours under all circumstances would promote consistency and clarity.


What are the benefits and costs of allowing certain employers a 10 percent write-off?

- ③ Benefit payments are not written off as the name suggests rather recharged to the balancing account so an employer's balance in relation to its taxable wages (reserve percentage) is not less than a minus 10%
- ③ A charge to the balancing account (write-off) does not eliminate any portion of an employer's debt to the Reserve Fund, it simply affects their tax rate
- ③ Except for the period from 1984 through 1987, some form of recharging (write-off) has been in statute
- ③ Through 2010, a total of \$497 million has been moved from employer accounts into the balancing fund through write-off provisions

What is the status of the department's efforts to recover improper FAC payments?

- ⓐ In 2010, Legislative auditors reported that a \$25 weekly supplemental payment, titled Federal Additional Compensation (FAC), was improperly paid to a number of claimants in 2009 and 2010
- ⓑ Department agreed with this finding and has recently taken action to recover improper payments
- ⓒ FAC recovery notices have automatically been sent to 83,800 claimants; 3,000 notices remain and require manual processing
- ⓓ FAC overpayments are approximately \$12.0 million
- ⓔ Almost \$1.0 million has already been recovered
- ⓕ FAC overpayments that are recovered will be forwarded to the federal government.

Is funding available to improve the unemployment program's technology?



- ③ Wisconsin's Unemployment Insurance Division is funded primarily from a US Department of Labor administration grant
- ③ Department expects to fund automation modernization with administration and supplemental grant funds previously granted for this purpose, and funds anticipated in the future

What are the benefits of modernizing computer systems?

- ④ States are being encouraged to modernize to improve processing efficiency and increase the detection of fraud and overpayments
- ④ Wisconsin's Unemployment Insurance computer systems are very outdated and the benefits of modernization are significant
 - ✓ Facilitating re-employment by quickly connecting new claimants to the department's employment and training services
 - ✓ Requiring claimants to enter work search records, which will encourage a faster return to the job market and facilitate auditing of work search
 - ✓ Faster receipt of information from employer and claimant, which will facilitate determination of eligibility and reduce overpayments
 - ✓ Facilitate the use of additional cross match and other automatic information gathering to detect wage concealment and other types of fraud sooner

Thank You!



Questions?

**Executive Assistant Georgia Maxwell
Administrator Craig Barkelar**

**Department of Workforce Development
201 East Washington Avenue
P.O. Box 7946
Madison, WI 53707-7946
Telephone: (608) 266-3131
Email: sec@dwd.wisconsin.gov
<http://dwd.wisconsin.gov>**

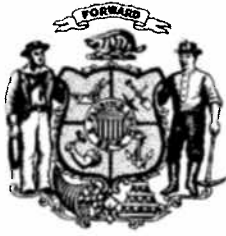
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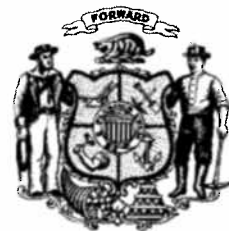


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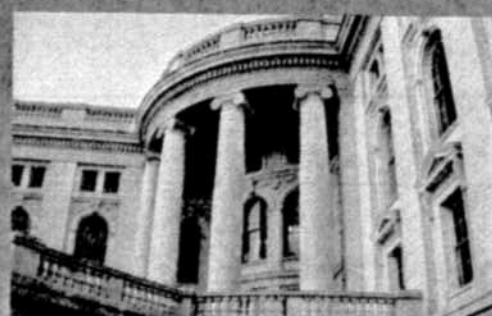
Report 11-8
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An Audit

Unemployment Reserve Fund

Department of Workforce Development

STATE OF WISCONSIN



Legislative Audit Bureau ■

An Audit

Unemployment Reserve Fund

Department of Workforce Development

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State Auditor – Janice Mueller

Audit Prepared by

Bryan Naab, *Deputy State Auditor and Contact Person*

Michelle Rudman

Rachel Jacobson

Jenny Nielsen

Daniel Purcell

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