AMERICAN INSTITUTE FOR FULL EMPLOYMENT

PREVENTING LONG TERM UNEMPLOYMENT

Three Points of Leverage

Long term unemployment is a major problem in the United States. As of August 2013, an estimated 4.3 million workers have been unemployed for 27 weeks or more. Unfortunately, America's unacceptably high rate of long-term unemployment isn't uniquely associated with the slow recovery from the Great Recession. Even in good times, more than one third of unemployment insurance (UI) claimants fail to find a job before exhausting their benefits.

In the last six years, those state and federal benefits combined support for UI claimants was $500 billion. Considering the scope of the problem and the size of our unemployment programs and opportunities, it's time to rethink the options available to the three key stakeholders: state agencies, claimants and employers. By giving all three greater flexibility in creating solutions and enhanced incentives to engage more actively in our unemployment system, we can leverage their talents and efforts to substantially reduce unemployment.

State Agencies – 5% REA/RES Funding Option

States face a disconnected financing system that hinders their ability to make rational investments. State benefits are paid from a state trust fund (SUTA) financed by state-determined, employer-based tax systems. However, the funding to manage those claims (including reemployment) is primarily driven by a separate federal payroll tax (FUTA) with a separate allocation policy..

This causes a disconnect with unfortunate outcomes. For example, state Reemployment Eligibility Assessment (REA) and Reemployment Services (RES) programs are proving to be a win-win strategy, helping claimants back to work more quickly through one-on-one employment counseling while saving the UI Trust Funds four times as much money as they cost.[1]

However, these reemployment programs are limited to serving a small portion of our unemployed claimants. Unlike many insurance systems, the structure does not allow the reinvestment of saved money into the programs that made those savings possible. Instead these programs require funding from sources such as the FUTA payroll tax.

What if states were given the flexibility to use up to, say, five percent of their SUTA expenditures, or an equivalent amount of FUTA funds, for positive return-on-investment reemployment activities, such as the reemployment activities outlined above? To ensure integrity and positive impacts on UI Trust Fund balances, states could be required to submit reemployment program plans to the U.S. Department of Labor for review.

What might we see from states? With adequate funding and flexibility to triage service strategies, they might leverage claimant time and talents in a variety of ways—from light to heavy engagement, depending on need; from online learning to intensive wage subsidy programs for those who cannot find work.

[1] Nevada, for example, invested $201 dollars in its REA/RES program and reaped $805 in savings to UI benefit dollars for an impressive 300% return on investment.

For example, a state with 100,000 claimants might engage them in the following ways with the following estimated program costs and UI Trust Fund savings.[2]

STRATEGY EXAMPLE	Cost Per Claimant	Example % of Total Claimants	Example No. of Claimants	Ave Claim Weeks	Ave Claim $ / Week	Total Claim Dollars
Training & Tools - Online *	$10	75%	75,000	16.8	$ 306	$ 385,560,000
Staff Counseling **	$201	20%	20,000	16.8	$ 306	$ 102,816,000
Hiring Incentives ***	$2,500	5%	5,000	16.8	$ 306	$ 25,704,000
TOTAL			**100,000**			**$ 514,080,000**

STRATEGY EXAMPLE	Total Claim Dollars	Est. % of Claim Saved	Approx. Gross $ Saved	Total Service Costs	Approx. Net $ Saved	Est. ROI
Training & Tools - Online *	$ 385,560,000	7%	$ 26,250,000	$750,000	$ 25,500,000	3400%
Staff Counseling **	$ 102,816,000	11%	$ 11,200,000	$4,020,000	$ 7,180,000	179%
Hiring Incentives ***	$ 25,704,000	53%	$ 13,250,000	$12,500,000	$ 750,000	6%
TOTAL	**$514,080,000**	**10%**	**$ 50,700,000**	**$ 17,270,000**	**$ 33,430,000**	**194%**
Ave Per Claimant				$173		
Ave Funding Per Claimant (5% x $5K Ave Claim)				$250		

* Utah Online Training ** Nevada REA *** Texas Back to Work

Claimants – Engage and Equip

UI claimants are largely under-prepared for and under-engaged in job search. The average worker changes jobs nearly 13 times in a career and depends primarily on employment to meet their basic needs. For most people, job search readiness is a critical life skill, yet unemployed job seekers in two state surveys indicated their job search readiness is at a C- to D+ level.[3]

With such a low level of job search readiness, it's no wonder nearly half of UI claimants (45% as of 2nd Quarter 2013) fail to land a job before exhausting their benefits. This leads to depleted savings and increased risk of dependency on other support programs, such as the Supplemental Nutrition Assistance Program, housing subsidies, Temporary Assistance for Needy Families, Supplemental Security Income, Social Security Disability Insurance and/or Medicaid.

Despite the high consequence of failure, many states have been limited, by budgets and policy, to using a single strategy in their work search requirements, asking claimants to simply contact two to three employers each week.[4] This approach typically does little to address claimants' lack of job search skills.

Unfortunately, this prevalent job search strategy is also not producing the desired level of engagement by claimants. For example, a 2012 Utah study showed that as many as 31% of long term claimants are not willing to engage in basic work search requirements such as online job search training.

Claimants affected by the 2012 Emergency Unemployment Compensation Reemployment Eligibility Assessment program followed a similar pattern. The program required long-term claimants to report to state workforce centers for reemployment reviews and assistance. Many states reported an initial claimant "no-show" rate of 50% or more, despite the potential for claimants to lose thousands of dollars in UI benefits.

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[2] Data estimates are based on studies from the State of Texas, Back to Work Program, Spring 2013, Utah Online Job Search Training System Case Study, NextJob, November 2012 and Impact of the Reemployment and Eligibility Assessment (REA) Initiative, , p. 64, Impaq International, June 2011.

[3] A control group study of 505 claimants, administered by the Utah Department of Workforce Services in 2011, revealed that claimants rated their job search preparedness in seven key categories, at a D+ average. A similar study in the one stops covering approximately one third of the State of Mississippi showed job seekers there rating their job search preparedness at a C- average.

[4] Annual Survey of State Unemployment Insurance Programs, Unemployment and Workers Compensation.

Claimants who do follow the single focus strategy often face frustration and depression that stems from job loss and is exacerbated by the inevitable rejections that follow ill-prepared cold calling. Given that, UI claimant engagement grows weaker over time.

To break this cycle, states should be empowered and incentivized with funding to engage claimants in a diversity of job search strategies to implement early in claimant unemployment spells, which would require perhaps five hours each week for the first month of a claim. Trackable reemployment activities that could be used to engage large numbers of claimants might include:

1. Job Search Training or Counseling
2. Networking Contacts
3. Researching Employers
4. Employer Contacts
5. Resume Completion
6. Registration with Employment Services
7. Upload Resume (e.g. Direct Employers)
8. One Stop Visit
9. Cover Letter Completion
10. Master Application Completion
11. Personality Assessment
12. Skills Assessment
13. Interests Assessment
14. Job Club
15. Hiring Incentives/Wage Subsidies

Employers – Option to Reimburse or Insure

Employers are subject to the specific state laws that determine their unemployment tax liability often with limited visibility and little incentive to manage their employees' unemployment. Meanwhile, nonprofits, Native American Tribes and government entities have a different option: They can choose to be self-insured under federal and state "reimbursing employer" laws.

Other proactive employers that aggressively work to minimize layoffs and their impact are pooled into the same insurance structure as those that don't. In a sense, we're "teaching to the middle of the class," rather than encouraging each employer to do their best to reduce unemployment impacts and improve their bottom line. The result is a reduced incentive for employers to help their employees.

There are many ways employers could be more actively involved in managing unemployment:

1. Work Share
2. Notice Period
3. Job Fairs
4. State Agency Collaboration
5. Personal Cell Phone Transition
6. Personal Computer Transition
7. Outplacement
8. References
9. Countercyclical Operations
10. Internal Transfer Program
11. Sensitivity in Communication
12. Posting Jobs With State
13. Job Club at Work
14. EAP Help Prior to Layoff Date

What might happen if we provided more employers the options most have in Workers Compensation? They could choose to be reimbursing/self-insured or privately insured. To ensure financial capacity to self-insure, states might institute requirements similar to those used in Workers Compensation programs. And to avoid unintended shifting of socialized cost, self-insurers could continue to pay their share of the tax in a separate socialized costs tax—again, similar to how Workers Compensation programs allocate socialized costs.

The Unemployment Insurance system has remained relatively unchanged for decades. It's time we updated the program to yield far better results for workers, state agencies and employers alike.

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