



75-0151
097058



LM097058

Funding Of Employment Service And Unemployment Insurance Activities

Department of Labor

**BY THE COMPTROLLER GENERAL
OF THE UNITED STATES**

MWD-75-60

~~702307~~ **097058**

APRIL 16, 1975



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-133182

The Honorable James C. Wright
House of Representatives

Dear Mr. Wright:

Your August 13, 1973, letter requested us to look into the following questions, relating to the Federal-State Employment Service and Unemployment Insurance programs, which were contained in an August 9, 1973, letter to you from the Lieutenant Governor of Texas.

1. "Are state employment security agencies, such as the Texas Employment Commission, adequately funded to carry out congressional mandates?"
2. "Does the surplus in federal unemployment tax collections indicate an excessive unemployment tax rate?"
3. "Are the surplus federal unemployment tax funds being properly and efficiently managed?"

As your office agreed, we did not make a comprehensive review of the Federal-State Employment Service and Unemployment Insurance activities but limited our work to analyzing that information relating to the areas of concern.

We examined funding activities for administrative costs of the Employment Service and Unemployment Insurance activities for fiscal years 1970-74. In particular, we obtained and analyzed data on congressional appropriations and on the Department of Labor's obligations and expenses for these activities. We studied the history and legislation related to the administration of the Unemployment Trust Fund; reviewed policies, procedures, and documents; and held discussions with officials of the Departments of Labor and the Treasury.

To obtain a representative picture of State Employment Service and Unemployment Insurance administrative operations, we obtained funding and workload information for California,

Georgia, Illinois, New Mexico, New York, Texas, and Washington. We selected these seven States on the basis of their geographical dispersion and size of activity. Funding information was provided by the States in December 1973 and January 1974, and workload information for the States was obtained from Labor in May and June 1974.

FUNDING OF EMPLOYMENT SERVICE
AND UNEMPLOYMENT INSURANCE ACTIVITIES

State Employment Service and Unemployment Insurance activities make up the Federal-State employment security program authorized under the Wagner-Peyser Act (29 U.S.C. 49) and the Social Security Act (42 U.S.C. 501). Labor's Manpower Administration administers the program, which is twofold: (1) Employment Service--matching and finding jobs for people and people for jobs--and (2) Unemployment Insurance--providing financial benefits to insured unemployed individuals. Services are provided in the 50 States, Puerto Rico, and the District of Columbia. The following paragraphs contain (1) background data on funding of Employment Service and Unemployment Insurance activities and the information developed in response to the second question above and (2) information in response to the third question to the extent we were able to determine actions by the States to maintain an adequate reserve balance for paying Unemployment Insurance benefits. We also looked into the extent to which amounts not appropriated by the Congress for Employment Service and Unemployment Insurance administration and remaining in the Unemployment Trust Fund were managed by Labor in accordance with the Social Security Act.

Does the surplus in collections indicate an excessive unemployment tax rate, and are the surplus funds properly and efficiently managed?

The employment security program is financed principally from Federal unemployment taxes paid by employers under the Federal Unemployment Tax Act (26 U.S.C. 3301). A Labor official stated that, starting with fiscal year 1973, the Employment Security Amendments of 1970 restricted authorizations from the Unemployment Trust Fund for State Employment Service office services to the work force whose employers are subject to the Tax Act. Services of the Employment Service to the estimated 15 percent of the work force whose employers are not subject to the Tax Act are financed by appropriations

from general funds of the Treasury under the Wagner-Peyser Act, as amended. Under Labor's budget process, funds from the Unemployment Trust Fund and general funds are allocated to the States for Employment Service and Unemployment Insurance activities on the basis of Labor-approved annual operating plans of the States. Most of these funds for administering Employment Service and Unemployment Insurance activities come from the Unemployment Trust Fund.

At June 30, 1974, the fund had a balance of about \$12.5 billion. During fiscal years 1970-74, tax collections and interest earned on the fund totaled about \$26.7 billion. In addition, the fund had about \$0.7 billion in repayable advances from the Treasury for Unemployment Insurance extended and emergency benefit payments.

During the same period, the States had withdrawn from the fund about \$23.5 billion for Unemployment Insurance benefit payments and \$4 billion more was made available for Employment Service and Unemployment Insurance administrative costs. The payments and costs exceeded moneys received by about \$0.1 billion for the period, resulting in a decrease in the balance during the 5 years.

Included in the balance was a reserve for Unemployment Insurance benefit payments that averaged about \$10.6 billion for the above period. The reserve, for the most part, is accumulated by State and is intended to permit States to pay Unemployment Insurance benefits during fairly extended periods of economic downturn. The remaining amounts are used for Employment Service and Unemployment Insurance administration, extended and emergency benefit purposes, and making loans to States that do not have sufficient reserves for Unemployment Insurance benefit payments.

Reserve for Unemployment
Insurance benefit payments

According to a Labor official, a reserve ratio multiple 1/ of 1.50 indicated the ability to pay Unemployment Insurance benefits for 18 months at the highest level experienced for 12 consecutive months since January 1, 1958, and is considered

1/ The reserve ratio multiple is the product of a complex formula which considers (1) the reserve balance, (2) the total wages of covered employment, and (3) past experience regarding the payment of Unemployment Insurance benefits.

by Labor to be an adequate level. At December 31, 1973, the reserve ratio multiple for the 50 States, Puerto Rico, and the District of Columbia ranged from 3.01 for South Carolina to 0.02 for Washington. Twenty-nine States and Puerto Rico were below the 1.50 multiple. After analyzing the reserve balances, Labor found a nationwide reserve ratio multiple of 1.05 at December 31, 1973.

A Labor official stated that the States were adjusting the amounts being collected from employers for Unemployment Insurance benefit payments. For example, amounts being collected were increased when the multiple indicated a low reserve, as in the case of New Jersey, which had a multiple of 0.29, and were decreased when the multiple indicated a high reserve, as in the case of South Carolina, which had a multiple of 3.01. Appendix II shows, for the seven selected States and nationwide, the average employer tax rate as a percent of taxable wages, the ending date of the 12 consecutive months used as the base in computing the multiple, and the reserve ratio multiple and reserve balance for Unemployment Insurance benefit payments at December 31, 1973.

Amounts in the Unemployment Trust
Fund balance for Employment Service
and Unemployment Insurance Administration

Surplus amounts remaining in the fund for Employment Service and Unemployment Insurance administration were about \$167 million at June 30, 1970, and gradually increased to about \$705 million at June 30, 1974. A Labor official stated that:

- About \$355 million of the \$705 million was made available for extended benefits purposes and for repaying a part of the \$0.7 billion advanced to the fund by the Treasury.
- The remaining surplus remained in the fund at the level authorized by the Social Security Act. 1/
- Surplus amounts at the end of fiscal year 1973 were handled in a similar manner.

- - - -

1/ The act provides for this surplus which equals 40 percent of the total appropriations from the Unemployment Trust Fund.

During the period we examined, expenditures from the Unemployment Trust Fund for benefit payments and administrative costs exceeded moneys received from all sources by \$0.1 billion. This seems to indicate that the unemployment tax rates nationwide are not excessive.

A major part of moneys in the fund--the reserve--is for paying Unemployment Insurance benefits by the States during periods of fairly extended economic downturn. The States apparently are trying to maintain adequate reserves for Unemployment Insurance benefits. However, indications are that, nationwide, the reserve was lower than that considered adequate by Labor.

Regarding Employment Service and Unemployment Insurance administration, Labor appeared to be managing surplus amounts in accordance with the Social Security Act.

ADMINISTRATIVE FUNDING AND WORKLOAD

This section deals with the first question: Is the funding of State agencies adequate to carry out congressional mandates? During fiscal years 1970-74, Labor allocated to the States funds for Employment Service and Unemployment Insurance administration consistent with congressional appropriations, except for fiscal year 1973. The following table shows the administration's budget requests, the congressional appropriations, and Labor's allocations for Employment Service and Unemployment Insurance administration.

	FY				
	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
	(millions)				
Budget estimate to the Congress	\$667.7	\$743.5	\$830.5	\$814.8	\$966.8
Congressional appropriations	665.8	743.5	832.0	905.9	<u>a/962.8</u>
Labor's allocation to States	665.8	743.5	832.0	854.8	<u>b/911.8</u>

a/This includes a fiscal year 1974 supplemental appropriation of \$81 million.

b/Funds not allocated remain available throughout fiscal year 1975 for allocation to the States.

For fiscal year 1973, Labor allocated to the States about \$854.8 million compared to \$905.9 million appropriated by the Congress. The resulting difference of \$51.1 million, which remained in the Unemployment Trust Fund and the general fund of the Treasury, had been designated for use in the following areas.

	(millions)	
Employment Service administration:		
Unemployment Trust Fund	\$17.6	
General fund	<u>2.0</u>	\$19.6
Unemployment Insurance administration:		
Unemployment Trust Fund		<u>31.5</u>
Total		<u>\$51.1</u>

A Labor official explained that Labor's \$854.8 million allocation to the States included \$814.8 million which represented Labor's revised fiscal year 1973 budget request and \$40 million included in a fiscal year 1973 supplemental appropriation. According to Labor, the \$51.1 million difference was made possible because of increased efficiency in Employment Service operations.

To examine the adequacy of funding for administering program activities, we analyzed the relationships between funding of Unemployment Insurance and Employment Service activities and selected workload factors on a national basis and for the seven States reviewed. The data received from the States and Labor was not complete in some cases, and in others it was in a form that would allow detailed analysis only for fiscal years 1972-74.

Unemployment Insurance activities

Labor has used a sophisticated method for determining allocations to the States for Unemployment Insurance functions. Before fiscal year 1974, the number of State positions and resulting allocations were increased or decreased depending on the trend of each State's workload. For fiscal year 1974 allocations, standards of time required to perform each Unemployment Insurance function were added to the formula. We did not attempt a detailed analysis of the adequacy of the allocation formula.

Labor officials stated that, in relation to the number of Unemployment Insurance State positions, Unemployment Insurance has two basic functions--collecting taxes from employers and paying benefits to Unemployment Insurance claimants. Labor considers the number of employer tax accounts as the most important workload item regarding the collection of taxes and the total number of weeks claimed as the most important workload item regarding the payment of benefits.

The following table shows a comparison of selected workload items, staffing, and funding for Unemployment Insurance activities during fiscal years 1973 and 1974 on a nationwide basis. Fiscal year 1972 was used as the base year.

	FY	
	<u>1973</u>	<u>1974</u>
	(Percentage change)	
Workload items:		
Employer tax ac-		
counts	30.79	36.38
Weeks claimed	-26.57	-20.63
Staffing:		
Man-years of service	-8.52	-13.59
Funding:		
Labor allocation to		
States	2.48	7.12

During the period, weeks claimed showed a downward trend but employer tax accounts increased for both fiscal years. The man-years of service for Unemployment Insurance activities decreased for both fiscal years. Labor's allocation of funds to the States for administration increased slightly in fiscal year 1973 and somewhat more in 1974.

Appendix III shows an analysis of employer tax accounts, weeks claimed, man-years of service, and funds provided by Labor for the seven States. During fiscal years 1973 and 1974, all States showed upward trends in employer tax accounts and, for most States, weeks claimed decreased in fiscal year 1973 but increased during fiscal year 1974 in relation to the previous year. Man-years of service showed downward trends for this period for most of the States, and the funds provided by Labor showed a mixture of upward and downward trends. Texas, for the most part, followed the general pattern of the seven States.

Employment Service activities

In the early 1970s, Labor allocated funds to State Employment Service agencies on the basis of State plans and on the goals to be achieved as established by Labor. With fiscal year 1974, a resource allocation concept which developed into the Balance Placement Formula was used on a trial basis for allocating funds to selected State Employment Service agencies. The formula was designed, in part, to provide State Employment Service agencies with an incentive for meeting broad objectives. Among the factors considered were the types of applicants being placed. Fiscal year 1975 funds for all States were allocated using the formula.

Labor officials stated that, in relation to the number of Employment Service State positions, assessment activities, which include taking new applications, conducting counseling interviews and administering tests, and placement activities consume over half of the State Employment Service offices' time.

The following table compares selected workload items, staffing, and funding for selected Employment Service activities during fiscal years 1973 and 1974 on a nationwide basis. Fiscal year 1972 was used as the base year.

	FY	
	<u>1973</u>	<u>1974</u>
	(Percentage change)	
Workload items:		
Assessments	6.16	-13.06
Placements	6.53	-3.13
Staffing:		
Man-years of service	1.47	-.35
Funding:		
Labor allocation to States	3.03	5.78

Workload items showed an increase for fiscal year 1973 but a decrease for 1974. Staffing for Employment Service activities was almost unchanged. Funds allocated to the States by Labor showed a slight increase.

Appendix IV shows an analysis of assessments, placements, man-years of service, and funds provided by Labor for the seven States. In fiscal year 1973, most States showed

increases in assessments and a mixture of increases and decreases in placements. During fiscal years 1973 and 1974, man-years of service showed mixed trends but funds provided by Labor generally showed upward trends. However, according to a Labor official, increases in funding for Employment Service and Unemployment Insurance administration for fiscal year 1974 were due in part to Labor's moving the computerized job placement activities to Employment Service and Unemployment Insurance administration from the area of manpower training services. Texas, for the most part, followed the general pattern of the seven States.

- - - -

The Congress appropriated more funds in fiscal years 1972 and 1973 for Employment Service and Unemployment Insurance administrative activities than were requested in the administration's budget. Labor allocated to the States the total appropriations except for fiscal year 1973 when an additional \$51.1 million available for allocation was not allocated. Although our work was not comprehensive enough to conclude whether the funds made available were adequate for States such as Texas to carry out congressional mandates, data for seven States indicated that Texas' Employment Service and Unemployment Insurance activities generally followed the pattern of the other six States and national Employment Service and Unemployment Insurance activities.

- - - -

We submitted this report to Labor officials for comment, and their views were considered in preparing the report. (See app.I.)

As agreed with your office, copies of this report are being provided to Labor.

Sincerely yours,



Comptroller General
of the United States



U.S. DEPARTMENT OF LABOR
OFFICE OF THE ASSISTANT SECRETARY
WASHINGTON

MAR 17 1975

Mr. Gregory J. Ahart
Director
Manpower and Welfare Division
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Ahart:

This is in response to your letter to the Secretary of Labor, dated January 24, 1975, which transmitted for our review a draft report regarding the Federal-State Employment Security system.

The report was prepared in response to an inquiry by Congressman James C. Wright, and to the following three questions which were proposed to him by the Lieutenant Governor of Texas:

1. Are State employment security agencies, such as the Texas Employment Commission, adequately funded to carry out congressional mandates?
2. Does the surplus in Federal unemployment tax collections indicate an excessive unemployment tax rate?
3. Are the surplus Federal unemployment tax funds being properly and efficiently managed?

We have discussed the report with members of your staff and have made recommendations which have now been incorporated into the report.

We wish to thank you for the opportunity to review the report and if we can be of any further assistance in this matter please let us know.

Sincerely,


FRED G. CLARK

Assistant Secretary for
Administration and Management

UNEMPLOYMENT INSURANCE RESERVERATIO MULTIPLE AND RESERVE BALANCEIN SELECTED STATES AS OF DECEMBER 31, 1973

	Average employer tax rate (<u>note a</u>)	12 months ended (<u>note b</u>)	Reserve ratio <u>multiple</u>	Reserve balance Unemployment Insurance benefit <u>payments</u>
Nationwide	1.99	Dec. 1958	1.05	\$10,933,937,000
California	3.31	May 1961	1.01	1,214,457,000
Georgia	.98	Nov. 1958	2.64	448,591,000
Illinois	2.20	Feb. 1959	.75	423,769,000
New Mexico	1.59	Oct. 1961	1.60	42,661,000
New York	2.78	Feb. 1959	1.17	1,346,142,000
Texas	.63	Jan. 1959	1.34	328,613,000
Washington	3.00	Aug. 1971	.02	6,482,000

^aSix States had a taxable wage base of \$4,200 and Washington's was \$5,400. The average employer tax rate is shown as a percent of taxable wages.

^bThis is a consecutive 12-month period since January 1, 1958, when the highest level for paying Unemployment Insurance benefits was experienced. (See p. 3.)

UNEMPLOYMENT INSURANCE ACTIVITIES IN SELECTED STATES
FISCAL YEARS 1973 AND 1974 (FISCAL YEAR 1972 BASE YEAR)
(PERCENTAGE CHANGE)

	<u>Employer</u> <u>tax accounts</u>		<u>Weeks claimed</u>		<u>Man-years</u> <u>of service</u>		<u>Funds provided</u>	
	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>
California	4.83	8.73	-12.17	-4.26	-13.09	-22.90	-3.50	-10.50
Georgia	90.05	106.58	-16.58	5.69	25.86	8.21	25.00	8.33
Illinois	75.21	84.52	-20.52	-1.88	-17.50	-23.74	5.79	1.05
New Mexico	9.15	14.62	.79	22.83	-1.42	-3.52	-9.09	-4.55
New York	3.50	2.95	-35.87	-32.69	-15.79	-19.36	-8.63	2.46
Texas	22.58	32.49	-19.32	-9.04	3.36	-12.37	16.35	8.65
Washington	3.37	5.87	-18.71	1.91	-16.45	-33.65	-8.73	-18.25

EMPLOYMENT SERVICE ACTIVITIES IN SELECTED STATES
FISCAL YEARS 1973 AND 1974 (FISCAL YEAR 1972 BASE YEAR)
(PERCENTAGE CHANGE)

	<u>Assessments</u>		<u>Placements</u>		<u>Man-years of service</u>		<u>Funds provided</u>	
	<u>1973</u>	<u>1974</u> <u>(note a)</u>	<u>1973</u>	<u>1974</u> <u>(note a)</u>	<u>1973</u>	<u>1974</u>	<u>1973</u>	<u>1974</u>
California	36.04		-2.38		2.59	2.57	11.96	21.82
Georgia	(b)		(b)		-3.69	-5.94	-10.27	2.23
Illinois	9.00		15.68		-3.27	-18.70	7.63	7.38
New Mexico	23.03		-16.91		6.44	-1.21	7.98	9.45
New York	23.37		-10.97		8.19	.43	3.59	7.50
Texas	1.03		14.38		4.62	3.67	8.44	23.86
Washington	(b)		(b)		-13.48	-33.56	-.55	-3.03

^aAs of August 1974 workload information for the States for fiscal year 1974 was not available from Labor.

^bData for fiscal year 1972 was not available.

Copies of GAO reports are available to the general public at a cost of \$1.00 a copy. There is no charge for reports furnished to Members of Congress and congressional committee staff members; officials of Federal, State, local, and foreign governments; members of the press; college libraries, faculty members, and students; and non-profit organizations.

Requesters entitled to reports without charge should address their requests to:

U.S. General Accounting Office
Distribution Section, Room 4522
441 G Street, NW.
Washington, D.C. 20548

Requesters who are required to pay for reports should send their requests with checks or money orders to:

U.S. General Accounting Office
Distribution Section
P.O. Box 1020
Washington, D.C. 20013

Checks or money orders should be made payable to the U.S. General Accounting Office. Stamps or Superintendent of Documents coupons will not be accepted. Please do not send cash.

To expedite filling your order, use the report number in the lower left corner of the front cover.

AN EQUAL OPPORTUNITY EMPLOYER

**UNITED STATES
GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548**

**OFFICIAL BUSINESS
PENALTY FOR PRIVATE USE, \$300**

**POSTAGE AND FEES PAID
U. S. GENERAL ACCOUNTING OFFICE**



THIRD CLASS