STATEMENT OF

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Good morning Chairman Davis, Ranking Member Doggett, and members of the Subcommittee. Thank you for the invitation to testify today and for holding this hearing on the Unemployment Insurance (UI) provisions in the American Jobs Act of 2011, which will generate economic growth and jobs; provide income support for long-term unemployed workers who are looking for jobs and continue to face challenges in returning to work due to the sluggish economy; and provide opportunities for states to implement innovative reforms to the UI system to help these workers become reemployed and for currently employed workers to retain their jobs. These provisions in the American Jobs Act of 2011 will help unemployed workers regain their footing in this economy and encourage employers to hire the long-term unemployed.

Helping unemployed workers become reemployed is essential to sustained recovery and economic strength, and is one of the most important issues facing our country today. These provisions complement other provisions in the Act that would put workers back on the job, including tax cuts to help America's small businesses hire and grow, tax relief to all American workers and their families, new investments in our Nation's infrastructure, and other measures targeted specifically on populations struggling to find work—such as tax credits for hiring the long-term unemployed and returning veterans, and the Pathways Back to Work Fund that would expand job opportunities for low-income adults and youth.

OVERVIEW OF UI PROVISIONS IN AMERICAN JOBS ACT OF 2011

The President's proposal will, by the end of 2012, prevent 6 million Americans from losing access to the benefits they need to sustain their families while looking for work. In addition, the proposal provides states with options to implement UI reforms tied to reemployment by drawing on bipartisan ideas to address long-term unemployment in an aggressive, multi-pronged way.

The American Jobs Act of 2011 would extend the Emergency Unemployment Compensation (EUC) program and special provisions concerning the Extended Benefits (EB) program, programs that support the long-term unemployed, for one year. In addition, the Act will require states to provide Reemployment Services and Reemployment and Eligibility Assessments (RES/REA) to EUC recipients to speed their return to work.

Further, the American Jobs Act of 2011 establishes the "Reemployment NOW" program, providing $4 billion for states to implement innovative programs to help the long-term unemployed return to work. States will have flexibility to implement an array of innovative reemployment programs using their share of the funds, including:

- A Bridge to Work program to allow EUC recipients to connect with employers and obtain short-term work-based experience, thereby enhancing their long-term employment opportunities and allowing the long-term unemployed to maintain or update their skills;
- Wage insurance to provide a wage subsidy to older EUC recipients who take jobs at a lower wage than was paid at their previous job;
- Intensive reemployment services for current EUC recipients and long-term unemployed workers who have already received all EUC benefits to which they were entitled;
- A Self-Employment Assistance program that enables EUC recipients to create their own jobs through entrepreneurship; and
- Innovative programs designed by states to aid the reemployment of current EUC recipients and long-term unemployed workers who have already received all EUC benefits to which they were entitled.

The American Jobs Act of 2011 also promotes state adoption and expansion of short-time compensation (STC) programs, or work-sharing, which allows employers to avoid lay-offs by reducing hours for employees who then receive a pro-rata share of their weekly UI benefit equal to the percentage by which their hours were reduced.

Additional information about these proposals is provided below.

UI BENEFIT EXTENSION

According to the President's Council of Economic Advisers, about 40 million people received, or lived with a recipient of, EUC and EB benefits between December 2007 and October 2010. One-quarter of those people -- 10.5 million -- were children. Without EUC and EB during the recession, the typical household receiving these benefits would have seen its income fall by about a third. The Bureau of the Census found that more than 3.2 million people would have slipped into poverty in the past year without having unemployment benefits.

In August, there were approximately 6 million workers who were unemployed for more than six months -- over two-fifths of the nearly 14 million Americans who are unemployed. Extending UI is not only critical to ensuring that these Americans do not lose important benefits, but also to provide a boost to consumer spending and economic growth. According to the Congressional Budget Office, UI is one of the most effective ways to stimulate the economy because UI beneficiaries generally spend the entire benefit amount they receive and do so quickly, often at small businesses in their local communities. In fact, according to research conducted by IMPAQ International (Vroman and Benus, "The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession," July 2010), during times of high unemployment, up to $2 of economic activity is generated by each $1 in UI benefit spending.

The American Jobs Act of 2011 would extend the EUC program for new claimants until January 3, 2013, with a final phase-out date for all claimants of June 8, 2013. EUC provides up to 53 weeks of benefits. This Act would also extend full federal funding of EB through January 4, 2012. EB provides up to 20 weeks of benefits in states with high unemployment. Without these extensions, the EUC program and these EB provisions will expire in early January 2012. The extension would prevent 6 million Americans next year from losing access to benefits while looking for work.

REEMPLOYMENT SERVICES AND REEMPLOYMENT ELIGIBILITY ASSESSMENTS

The American Jobs Act of 2011 would require states to provide Reemployment Services (RES) and Reemployment and Eligibility Assessments (REAs) to EUC recipients who begin to receive EUC or who begin new tiers of EUC benefits. By combining RES services with UI eligibility assessments, states will be able to provide EUC recipients with an opportunity to meet face-to-face with staff in a One-Stop Career Center and receive services such as career counseling, labor market information, job search assistance, skills assessment, and support in developing a reemployment and work-search plan. REAs are also real-time, in-person reviews of an individual's eligibility for unemployment benefits so as to prevent improper payments. This combination of REA and RES is key to supporting reemployment while also maintaining program integrity. While RES/REAs are provided to some regular UI claimants in most states, this Act would ensure the provision of RES/REAs to EUC recipients, who are long-term unemployed and in need of reemployment assistance.

Research has shown that providing both RES and REAs to UI claimants reduces UI duration and saves unemployment funds by helping claimants find jobs faster and eliminating payments to ineligible individuals. A recent study of the REA program by IMPAQ International found that the REA program is effective in producing savings for the UI program. The study suggested that combining REA with RES into a seamless delivery system may achieve greater impacts than providing REA services alone, with referral to subsequent reemployment services. The results from the State of Nevada, which included a combined REA and reemployment services model, showed larger savings to the Unemployment Trust Fund than the results from the other states that did not combine these functions. Claimants who received REAs in Nevada received, on average, 2.96 fewer weeks of benefits than similar claimants, which translated to a reduction in benefit payouts of $805.

Research found that individuals who receive critical core services such as job search assistance at earlier points of joblessness have measurably higher earnings than groups of individuals who receive such services later in the process (Dolton and O'Neill, "The Long-Run Effects of Unemployment Insurance Monitoring and Work-Search Programs: Experimental Evidence from the United Kingdom," Economic Journal, March 1996, pp. 387–400). By improving the connections between assessment, servicers, and job placement, DOL estimates that this proposal would save approximately $1.6 to $3.0 billion, more than offsetting the full government investment of $1 billion. It should be noted that all experimental and non-experimental research on the subject has concluded that REAs and RES reduce UI duration. Estimates of reduction in UI benefits range from

0.4 weeks to 1.8 weeks (Poe-Yamagata, "Impact Of The Reemployment And Eligibility Assessment (REA) Initiative," 2011; Almandsmith, "Evaluation of the Strengthening the Connections Between Unemployment Insurance and the One-Stop Delivery Systems Demonstration Project in Wisconsin," 2006; Jacobson and Petta, "Measuring The Effect Of Public Labor Exchange (PLX)," 2000). The estimated cost savings noted above takes a middle estimate of 0.8 weeks to 1.5 weeks. Together, reemployment services and UI eligibility assessments will help speed EUC recipients' return to work and help save trust fund dollars.

REEMPLOYMENT NOW

The Reemployment NOW initiative in the American Jobs Act of 2011 is designed to introduce reemployment reforms to the UI program in order to limit the duration of benefits for EUC claimants by helping the long-term unemployed find suitable work. Under the program, $4 billion would be available for allotments to states with approved state plans to carry out programs and strategies to assist long-term unemployed workers in obtaining reemployment. Fund allocations will be based on state shares of the long-term unemployed and include any reallocations from states that choose not to participate. The optional programs and strategies are described here in more depth.

Bridge to Work

The Bridge to Work program borrows from and improves upon a number of promising aspects of Georgia Works and similar programs including WorkReady Missouri, Return to Work New Hampshire, and Opportunity North Carolina. Bridge to Work strengthens the best features of these state programs while adding important worker protections. EUC recipients may receive temporary work-based experience that helps them maintain or learn new skills, and they get the chance to be considered for long-term employment. This program would work in tandem with the Administration's proposed hiring tax credit for the long-term unemployed of up to $4,000, which will provide employers additional incentive to offer permanent employment to program participants.

Participation by employers and employees in a state's Bridge to Work program would be voluntary and short-term -- up to 38 hours per week for up to 8 weeks. This program ensures participants receive at least the minimum wage for the work they perform by providing "top off" payments, when necessary, to supplement the weekly EUC payment. Key worker protections -- including workers' compensation coverage -- are mandatory, and the program is designed to ensure that current employees are not displaced or disadvantaged by an employer's participation in the program. If an employer does not hire any Bridge to Work participants after 24 weeks of participation, that employer may no longer participate in the program. States may use their share of the Reemployment NOW funding to cover the additional costs of the program beyond the EUC benefits (such as administrative costs and top-off payments to ensure participants receive at least the minimum wage) -- ensuring that states have the support they need to sustain these innovative programs.

Wage Insurance

Particularly in the current economy, unemployed individuals have frequently been unable to find work that pays a wage commensurate with their previous wage, and this can be particularly disruptive for older workers. Wage insurance smoothes the transition to new employment for workers who have lost their jobs and have taken new work at lower wages; it temporarily supplements older workers' earnings by giving them a portion of the difference between their current and previous earnings. Particularly if that employee is taking an entry-level position in a different industry, the employee will then have the opportunity for future wage increases and the acquisition of new skills. At the same time, the proposal requires the employer to pay the same salary to participants as other employees in equivalent jobs. This is done to avoid depressing wages. Wage insurance is currently offered on a limited basis through the Alternative Trade Adjustment Assistance (ATAA) program. The Department of Labor's most recent data shows that 89 percent of workers who received wage insurance under the ATAA program had a job after completing the program, and 95 percent of those workers remained employed six months later.

Under the Reemployment NOW proposal, states would be permitted to use some of their share of the $4 billion to design a program to provide wage insurance for up to two years for EUC recipients who are 50 or older. Older long-term unemployed workers have the longest duration of unemployment with a staggering 52 week average. They are also less likely to move or to accept jobs in new sectors and occupations. Participation would be voluntary and limited to individuals earning no more than $50,000 per year in their new job. Participants would receive a wage insurance payment of up to 50 percent of the difference between the previous wage and the new wage, and the total of the payments received by any participant could not exceed a maximum amount established under the program by the state. To qualify, the worker would have to be employed on a full-time basis and not employed by the employer for whom the worker had last worked.

Intensive Reemployment Services

Provision of reemployment services is an essential strategy to help workers find jobs. Reemployment strategies that combine the use of quality labor market and career information, assessments of the individual's skills and skills gaps, and reemployment services that include job search assistance are methods which have proven to reduce UI duration by speeding the individual's return to work, including during a recession. For this reason, the legislation provides states the option to use their share of the Reemployment NOW funding to provide a program of enhanced reemployment services to help EUC recipients and other long-term unemployed workers successfully return to work in good jobs. These innovative and more rigorous and intensive reemployment services may include assessments, counseling, case management, and services designed to enhance communication skills, interview skills, and other skills necessary for obtaining reemployment.

Self-Employment Assistance

To encourage entrepreneurship and enable unemployed workers to create their own jobs, Federal law currently permits states to operate self-employment assistance (SEA) programs. Under SEA, states may pay a self-employment allowance, in lieu of the regular UI benefit, equivalent to the weekly UI benefit to eligible jobless individuals while they are working full-time to establish businesses with the goal of becoming self-employed. Currently eight states operate SEA programs as part of their regular state UI program. A very successful SEA program championed by Senator Wyden in Oregon since 1995 has shown positive effects. Reemployment NOW provides the opportunity for states to offer this self employment option to EUC recipients.

There is evidence that self-employment is a viable reemployment strategy for some unemployed workers if they are provided the necessary supports and training. When claimants have UI benefits and can devote their full-time attention to creating their business, they have greater success. In addition, supporting small business development has the potential to create additional new jobs.

A 2001 comprehensive assessment of SEA programs (Kosanavich and Fleck, "Comprehensive Assessment of Self Employment Assistance Programs," Employment and Training Administration Occasional Paper, 2002-01) indicates that participation in the SEA program is an important predictor of which individuals will eventually take steps to become self-employed; those who received SEA training were nearly 19 times more likely to have been self-employed than those who were not enrolled in the program. Data also indicates that participation in an SEA program generally has a positive impact on the earnings of an individual after initially filing a claim for unemployment, even if the individual subsequently obtains employment rather than becoming self-employed. The 2001 study found that earnings generally increased over time.

Information we have received indicates that SEA is effective in helping UI claimants become self-employed and, as their businesses grow, providing employment opportunities for other workers. For example, in Oregon, surveys have shown success and satisfaction with the SEA program. In 2011, approximately 70 percent of survey respondents indicated that they were able to launch a business after participating in the SEA program. Of the individuals who were able to launch a business, 43 percent indicated that their business was in an "emerging" stage and 23 percent indicated that their business was at "full function." Furthermore, about 15 percent of respondents indicated that they have hired full-time employees; about 8 percent indicated they have part-time employees; and 8 percent indicated that they have occasional employees.[1] One employer has 28 full-time employees.

Building on that evidence, Reemployment NOW will permit states to establish SEA programs for EUC recipients enabling them to continue to receive benefits for up to 26 weeks while working to start their own businesses. States will need to partner with Small Business Administration centers locally to support entrepreneurial training, to provide mentoring for participants, and to provide access to other small business development

[1] These two groups are not separate, thus some respondents may have both full-time and part-time employees.

resources. Under the proposal, EUC recipients would be allowed to resume receipt of EUC if they choose to end participation in SEA, which would make it more attractive for claimants to take the risk of trying to establish their own businesses.

Additional Innovative State Programs

While all of the strategies described above will help the long-term unemployed find jobs, states may have ideas about other innovative approaches. To support state creativity and flexibility, upon approval from the Secretary of Labor states will be permitted to use their share of the $4 billion Reemployment NOW funds to implement their own innovative reemployment strategies for the long-term unemployed. These strategies must meet a few key requirements. To be eligible, the strategies must directly benefit EUC recipients or other long-term unemployed workers either as a benefit paid or service provided, and may not reduce the duration or amount of compensation to which the EUC recipients would otherwise be eligible. In addition, states may not reduce the duration or benefit amount or eligibility for regular UI or EB. Further, the strategy may not result in displacement of workers.

SHORT-TIME COMPENSATION

The American Jobs Act of 2011 also includes a set of proposals designed to promote state implementation of short-time compensation programs, also known as work sharing. Work sharing is a job retention strategy that encourages employers to reduce employees' work hours in lieu of laying off employees. The employees then receive a percentage of their weekly UI benefit amount commensurate with the percentage by which their work week has been reduced. For example, if an employer reduces employees' work hours by 20 percent, those employees will then be eligible for 20 percent of the full weekly UI benefit amount they would have received had they been laid off.

STC is a win-win proposition for both workers and employers. By receiving a partial UI benefit payment, the effect of the reduction in wages is mitigated. In addition the reduction in income is generally much less than it would be if the individual were totally unemployed and received a full weekly UI payment. By remaining employed, rather than laid off, workers don't lose their skills and have a higher likelihood of regaining their prior income when the economy improves and their employers have a greater need for their services. Employers benefit because they are able to maintain a skilled workforce and avoid the costs associated with retraining returning workers or hiring and training new workers should the laid-off workers find other jobs. There are 24 states currently running STC programs. Further, to encourage states to try STC, this act would establish a two-year Federal STC program that states would administer. Finally, to support states that operate STC programs under their own laws, up to three years of Federal funding of STC benefits would be available.

UI SOLVENCY

Sustaining a viable UI program urgently requires trust fund solvency reforms. With sustained high unemployment and UI claims for over three years, many states have depleted the funds in their accounts in the Unemployment Trust Fund and have had to take repayable, interest bearing advances (loans). Thirty-Six states have received advances since the beginning of the recent recession, of which 16 states received advances in September and 28 states have outstanding advances. The advances provided during the last two years peaked at just over $48.5 billion in April 2011. The sizes of these advances reflect both the severity of the downturn and the fact that many states have chronically underfunded their UI systems. A number of states now have little prospect of paying back those advances any time in the foreseeable future. In fact, without intervention, it will take many states over a decade to pay off their advances -- and that assumes no intervening economic downturn. Furthermore, continued use of advances could lead to a decrease in the capacity of the UI program to provide economic stabilization UI tax increases needed to restore unemployment fund solvency are often paired with reductions in benefits, with the combined reduction in economic stimulus.

In addition to the American Jobs Act of 2011, the President's plan recommended to the Joint Committee on Deficit Reduction includes a proposal designed to provide employers and states with short-term relief while also improving the long-term solvency of state UI trust funds. These proposals were also included in the President's FY 2012 budget.

Two immediate challenges for both states and employers associated with this unprecedented use of advances. First, interest due on the advances must come from sources other than the state's account in the Unemployment Trust Fund. Second, Federal Unemployment Tax Act (FUTA) tax credits are scheduled to be reduced for states with advances outstanding for two years or more. The President's plan would grant states with outstanding advances an additional two years during which interest would not accrue and interest payments would not be made. The President's plan would also eliminate these FUTA credit reductions for taxable years 2011 and 2012. These short-term proposals will provide immediate relief to employers and states in support of economic recovery.

While the extraordinary depth and longevity of the recent recession is the significant cause for current state insolvency, insufficient planning and forward funding is also important factor in many states. States are given the flexibility to set benefit levels, and they should adopt a responsible tax structure to match. The last time that the FUTA wage base -- the minimum wage base that states can subject to UI taxes -- increased was under President Reagan in 1983, when it was set at $7,000; this increase reflected similar circumstances to the ones we face today. As a way to restore solvency to state UI systems, the Administration's proposal would raise the wage base to $15,000 (indexed thereafter to wage growth), simply restoring the wage base to near the same real level as that set under President Reagan -- and would do so in 2014, by which point the economy should be stronger.

Importantly, this plan would not increase "regular" federal UI taxes. The regular federal rate would be reduced when the tax base increases in 2014 so that employers' regular federal UI taxes are held roughly constant. And, states are given a choice. While states will have to set a wage base at least equal to the new federal level by 2014 in order to retain the full FUTA credit, they too could choose to reduce their tax rates in response to this increase in the base. However, we expect states to take the opportunity to realign their UI systems, restore responsibility, and markedly improve their solvency.

UI INTEGRITY EFFORTS

While the Administration supports a UI benefit extension, we are working very hard, in partnership with the states, to make sure that only those who are entitled to receive benefits do so. As a result, over the past year the Department of Labor has dramatically accelerated its work with states to address UI improper payments and is currently implementing a wide array of strategies, in partnership with states, to better prevent, detect, and recover improper payments and improve the integrity of the UI program.

Last month, the Department announced that 40 states, the District of Columbia, and Puerto Rico, received more than $191 million to implement these and other unemployment insurance program integrity technology infrastructure systems. In addition, the Department announced the selection of six "High Priority" states with a high percentage of improper UI benefit payments over a prolonged period to receive customized technical assistance in reducing their rate. The Department also unveiled a new web-site that displays state-by-state improper payment data and provides progress reports on strategies states are implementing to address improper payments.

Examples of UI program integrity strategies include: (1) preventing claimants from continuing to claim benefits after they return to work through states' use of the National Directory of New Hires (NDNH); (2) getting more timely and accurate separation information from employers or their representatives through use of the State Information Data Exchange System (SIDES), an automated separation information exchange; (3) recovering outstanding overpayments by intercepting Federal income tax refunds using the U.S. Department of the Treasury's Treasury Offset Program (TOP); (4) providing aggressive intensive technical assistance for states with particular focus on states that impact the overall UI improper payment rate the most and states that are struggling the most to reduce improper payment rates; and (5) proposing the Unemployment Compensation Program Integrity Act of 2011. Major portions of our Integrity Act are included in H.R. 2832, the trade legislation currently pending before the Congress, and when enacted, will require states to impose 15 percent penalty on benefit overpayments due to fraud; prohibit states from non-charging overpayments due to employer fault if there is a pattern of failure to provide timely and adequate information to the state agency; and require employers to report rehire of individuals separated for at least 60 days to the National Directory of New Hires. We look forward to these provisions becoming law.

CONCLUSION

As President Obama emphasized in his speech to Congress last month, the American Jobs Act of 2011 is important legislation that must be passed now to get Americans back to work. The UI provisions that I've briefly discussed today are essential elements designed to support the long-term unemployed and promote innovative strategies that will help them get jobs and promote employer hiring of the long term unemployed. I appreciate the opportunity to talk to you today about them, and look forward to continuing to work with the subcommittee on ways to help unemployed workers and to improve the UI program. I will gladly answer any questions you have.