

Statement of the Hon. D. Cameron Findlay, Deputy Secretary, U.S. Department of Labor

Testimony Before the Subcommittee on Human Resources
of the House Committee on Ways and Means

Hearing on Unemployment Fraud and Abuse

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Mr. Chairman and distinguished Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss federal and state efforts to reduce overpayments, fraud, and abuse in our nation's Unemployment Insurance (UI) benefit payment program.

The UI program is key to the economic security of our nation. As the primary source of temporary, partial wage replacement for workers laid off and seeking jobs, UI is an important stabilizer during economic downturns. About 3.4 million workers currently are claiming regular UI benefits — a 30% increase over this time in 2001 and a 90% increase over this time in 2000. An additional 1.4 million workers currently are claiming temporary extended unemployment compensation pursuant to the 13-week UI program extension enacted by Congress on March 8, 2002.

To maintain the vital mission of the UI program, it is essential that benefits are paid promptly to eligible workers and that integrity systems are in place to minimize overpayments, fraud, and abuse. As you probably know, improving financial management is a major initiative within the President's Management Agenda (PMA), the President's plan to improve government performance and efficiency. Under the PMA, the Office of Management and Budget has identified UI overpayments as one of the Department of Labor's primary financial management challenges. As a member of the President's Management Council, I am charged with implementing the PMA at the Department of Labor, and I personally take this UI issue very seriously. I have convened a task force comprised of, among other individuals, officials from the Employment and Training Administration, or ETA, our agency that administers the UI program, and our Office of Chief Financial Officer, to develop a plan to address this issue. I am pleased to share with you today some of the solutions that we currently are pursuing.

Overpayments, Fraud, and Abuse: An Overview

At the outset, it is important to define the scope of this problem and to recognize that there are different categories of UI overpayments, each of which calls for a different response. According to ETA's Benefit Accuracy Measurement (BAM) data for calendar year 2001, 8.2% of all unemployment benefits, or a total of \$2.45 billion, are classified as overpayments. Of this \$2.45 billion, approximately \$385 million can be attributed to technical eligibility issues, primarily meeting a State's work search requirements. In other words, many UI payments, while technically "overpayments" under current state eligibility definitions within the UI program, are made to individuals who failed to meet certain technical eligibility requirements but otherwise meet the primary UI eligibility requirements of being unemployed through no fault of their own and wanting to work. For instance, a payment made to a claimant who failed to maintain sufficient documentation concerning his ongoing work search requirements would be considered an "overpayment" under the BAM program. States, however, would not necessarily seek recovery of such an overpayment.

An additional \$120 million of the \$2.45 billion in total UI overpayments for 2001 can be attributed to overpayments made in the absence of fraud or abuse which the State agency chooses not to recover. For example, an employer may inadvertently overstate quarterly wages, resulting in an impermissibly large UI payment made to a claimant. Because there is no fault on the part of the individual claimant in such an instance, many states would not attempt to recover such an overpayment. \$1.37 billion of the \$2.45 billion in total overpayments are classified as nonfraud overpayments that are recoverable. These include cases such as where an initial finding of eligibility is reversed following an employer's appeal, and where a claimant has erroneously reported earnings.

Finally, \$580 million of the \$2.45 billion in total UI overpayments for 2001, or 1.9% of total UI payments for that year, was attributable to fraud or abuse within the UI program. By any standard, these figures add up to a lot of money. That is why the Department of Labor has been hard at work on the problem.

New Initiatives To Address the UI Overpayment Problem

Integrity of the UI program is a priority for the Department of Labor and the Administration. However, much of the work to ensure that integrity must be done by the states, which, as you know, actually administer the UI program. States already carry out various Benefit Payment Control activities to identify and collect UI overpayments, such as cross-matching information within various computer databases. In 2001, states used various computer cross-matches to establish for recovery as UI overpayments some \$227 million — or about 32% of the total established for recovery that year. While this is a significant figure, the Department is encouraging states to enhance their computer cross-matching capabilities to increase even further the identification and collection of UI overpayments.

Let me give you some examples of how cross-matching improves the detection and collection of UI overpayments. The largest single cause of UI overpayments involves individuals who are collecting UI benefits while working. Indeed, approximately 31% of the overall BAM estimate of overpayments in 2001 was due to such individuals. Because UI wage records are reported quarterly, there is a significant lag period before these types of overpayments can be identified via the traditional wage/benefits cross-match. UI overpayments are often the result.

Cross-matching UI benefit records with new-hire directories offers a promising opportunity to reduce this lag period, thus preventing claimants who find work from continuing to claim UI benefits. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) required the development of such new-hire directories for the purpose of locating parents delinquent in child support payments. Under this statute, employers are required to report all new employees within as few as 20 days of the date of hire. In addition, PRWORA permits states to access their new-hire directories for UI purposes. Because of its usefulness in UI overpayment prevention and detection, the Department is actively promoting the use of new-hire directories by all states. However, currently, only about half of the states are utilizing these directories. I pledge to this Subcommittee that the Department will redouble its efforts in the future so that more states will take advantage of this important tool.

As you know, some claimants find work out-of-state or work for multi-state employers that report employment and wages to a different state. The Department is working to prevent abuses of such systems, which could include allowing state UI agencies access to information in the National Directory of New Hires. Any action would be done in a way that protects personal information. We commend the Committee for including such access in the Temporary Assistance for Needy Families reauthorization bill (HR 4737).

Another promising cross-matching opportunity involves Social Security data. States recently have implemented systems to take UI claims over the telephone and Internet. While these innovations have enabled states to handle significant increases in claims volume, states now need new tools to verify the identities of claimants filing electronically. The Department is working to implement a data exchange system that will give states access to Social Security Administration data during the initial claims process. This system will lead to a reduction of fraudulent claims filed with false identification. The Social Security Administration will also benefit by having access to benefit information that will help reduce overpayments within the Supplemental Security Income program.

Given the promise that data cross-matching holds, the Administration has requested \$10 million in the FY 2003 budget to help states gain access to all data that can improve the detection and recovery of UI overpayments. Also, recognizing the need to emphasize the problem and promote best practices, the Department in 2003 will sponsor a national integrity conference with the National Association of State Workforce Agencies to identify and disseminate successful practices, studies, and integrity information.

The Department will develop a new operational definition of UI overpayments and set a new Government Performance and Results Act (GPRA) goal for addressing overpayments. We are working to develop a definition of overpayments that is comparable among states and covers most recoverable overpayments. This new definition will more accurately describe UI overpayments by recognizing those errors that are technical in nature (e.g., based on insufficient documentation of work search) and excluding those overpayments that are non-detectable on a cost-effective basis. This is not an attempt to redefine the problem out of existence, but rather to recognize that, as I explained earlier, a significant portion of UI payments technically considered "overpayments" under current program definitions is being paid to claimants who meet the primary UI eligibility requirements.

Finally, we have proposed a major reform of the UI program in the President's budget that shifts responsibility for funding the administration of the program from the federal government to the states. Since UI is paid based on state law, states are in a better position to determine costs of running the program to reduce overpayments, fraud, and abuse. Also, insufficient funding for state administration in the past has caused states to reduce their integrity activities, because they are unable to reduce their core activities of paying benefits and collecting taxes and wage records. States will have a strong incentive to address overpayments, fraud, and abuse under this new system, as state funds spent on reducing abuse may result in savings in state funds used for benefit payments.

Funding for These Initiatives

In addition to the \$10 million request noted previously, enactment of the Temporary Emergency Unemployment Compensation Act — and the resulting \$8 billion "Reed Act" distribution of federal unemployment funds to states — has provided states with substantial funds that may be used to make UI program improvements, including implementing initiatives that address UI overpayment, fraud, and abuse. The Department of Labor has suggested that states consider using these Reed Act funds for, among other purposes, improving UI claims filing and payment methods and reducing UI overpayment, fraud, and abuse.

The initiatives described above can be developed and implemented with these Reed Act funds. Using these funds for these initiatives requires an appropriation by each state legislature. Some states already have appropriated Reed Act funds to pay for technology and system upgrades, and we will encourage other states to do so.

Conclusion

Mr. Chairman and Members of the Subcommittee, I trust that we have provided you with a clear picture of the scope of the UI overpayment problem and the Department of Labor's long-standing commitment to the integrity of the UI program, and we request your continued support in our ongoing efforts to minimize overpayments, fraud, and abuse within the UI program. Thank you for the opportunity to testify today. I will be pleased to answer any questions that you may have about my Department's efforts to reduce overpayments, fraud, and abuse in the UI program.