New Technologies and the Cost of Public Services: The Case of Unemployment Insurance in the United States

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Key Facts

- State governments have modernized their Unemployment Insurance (UI) systems over the past two decades by transitioning from the traditional method of applying for benefits in the UI office to remote filing of claims via automated systems (telephone/internet).
- However, increases in filing remotely are directly associated with more overpayments. Underpayments also occur, but are much less prevalent. Recipients are more likely to question underpayments, leading to their correction by the UI office.
- Although the amount of each individual overpayment is generally small, their total is much larger than underpayments, leaving a net cost for the UI fund and employers that finance it though taxes associated with each employee.
- After adjusting for inflation, the national average in overpayments of UI benefits is $68 million annually (based on 1996-2014 data). Overpayments rose from an average of $41 million per state in 1996 to $74 million in 2014.

Background

Since its inception in 1935, the United States Unemployment Insurance (UI) program has provided temporary income assistance to workers who have become unemployed through no fault of their own. The program is a partnership between the federal and state governments, although funded by mandatory contributions from employers. Each state finances and administers its own UI program, although the administrative costs are fully paid by the US Department of Labor. Although operating under broad guidelines imposed by the federal government, states have significant discretion in designing their own rules for Unemployment Compensation. They may set many of the parameters affecting (1) benefit levels received by claimants, (2) eligibility standards, and (3) total program expenditures. Since 1996, to ensure that each state's UI program is fairly and accurately administered, the US Department of Labor

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(USDOL) has required each state government to implement the Benefit Accuracy Measurement (BAM) program, a comprehensive field audit system designed by the USDOL, to ascertain whether their UI programs comply with federal and state rules.

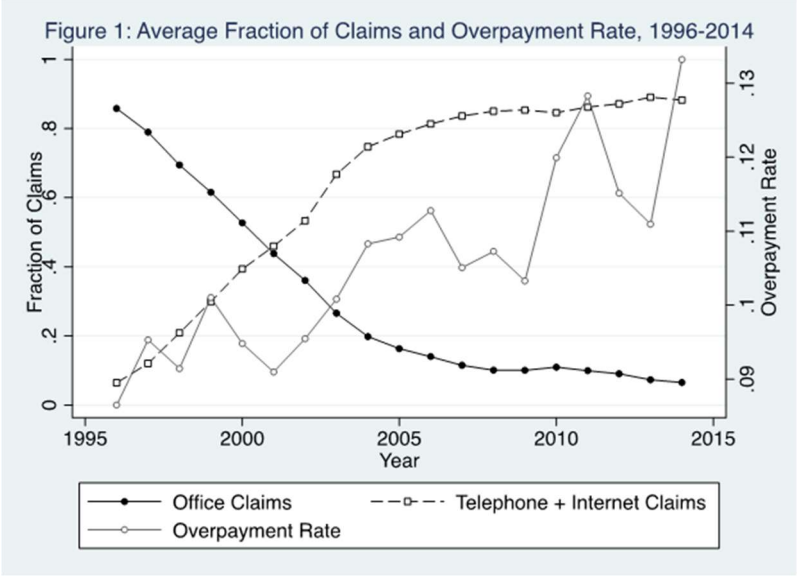
Claimants must file an application in order to establish eligibility and determine the correct amount of compensation they will receive each period while they are eligible. If an unemployed worker is validated to receive UI assistance, the next step is to calculate the level of support payments. This amount is paid on a weekly basis, and the most common maximum for which benefits can be received is 26 weeks. Overpayments of UI benefits can result from claimants (1) over reporting past wage levels, (2) receiving benefits while being unable and/or unavailable to work, and/or (3) continuing to receive benefits after returning to work.

Traditionally, workers filed their claims for unemployment compensation at a local office of their state's department of labor and employment. Colorado was the first state, in 1991, to move away from this by shifting exclusively to telephone applications. All other states except West Virginia now use online or telephone filing.

The Study

My recent study examined the impacts on overpayments of filing claims remotely with new technologies rather than filing them in UI offices. I explored this in two ways. First, I looked at the nationwide trends in overpayments and remote filing.

Figure 1 shows the average fraction of claims (nationwide) filed in the office declining sharply since 1995. At the same time as the share filed by telephone or internet rose, so did trends in overpayment rates.



According to the USDOL, common causes of overpayments are unreported earnings and inaccurate reports of earnings when workers apply for benefits by the telephone or the internet.

This may explain why, as states are closing their UI offices and requiring claimants file their applications via the telephone and internet, overpayments in UI benefits are increasing.

However, economic and demographic conditions may be the cause of heterogeneity in overpayments over time. Therefore, in this study, I used a multiple regression analysis that included variables such as income, the unemployment rate, the share of the population under the age of 18, and the share of the workforce that is in manufacturing to evaluate the impact of remote filing with new technologies (telephone and internet) on overpayments. My empirical analysis shows that a 1 percentage point increase in claims remotely filed has been associated with a 0.035 percentage point increase in overpayments, after controlling for all the other variables listed above.

There is considerable heterogeneity in the overpayments among the states. The highest average rates of overpayment were in Louisiana (22.5%), Virginia (19.5%), Indiana (19.3%), Kansas (15.5%) and Colorado (13.3%). In contrast, Connecticut (4%), Oklahoma (4.6%), West Virginia (4.7%), and Hawaii (5.1%) had the lowest rates.

The Data

The data used in this study was collected from the USDOL for 50 US states during the period 1996-2014. This allowed for the evaluation of the overpayment rate (measured as the share of overpayments in total UI benefits) as a function of either the proportion of claims filed in person at the UI office or the combined shares of telephone and internet claims along with the host of economic and demographic control variables.

The Results

As can be seen in Figure 1, the overpayment rate and the share of automated claims (claims filed via the telephone and internet) have both increased during the period 1996-2014. During that period, the overpayment rate rose from 0.09 to 0.13, while the share of claims filed via the telephone and internet increased from 0.06 to 0.88. During the same period, the share of office claims (claims filed in person at the UI office) has declined from 0.86 to 0.07. (These claims shares do not exactly sum to one for any given year because the sum of the shares of other filing methods such as filing applications by mail or employers filing claims on behalf of the employee is usually less than 0.1.)

My regression analysis finds that the claims filing method has a statistically significant effect on the overpayment rate. A 1 percentage point increase in claims filed in person at the UI office decreases the overpayment rate by 0.042 percentage points. The study also finds that a 1 percentage point increase in claims filed via the telephone and internet increases the overpayment rate by 0.035 percentage points.

Concluding Remarks and Recommendations

The results of this study suggest an unintended consequence of shifting to new technologies. Overpayments in UI benefits are likely to be reduced by an average of nearly $3 million for each 1 percentage point increase in the proportion of claims filed at a UI office. That implies that a 20% shift of claims filed in-person could reduce overpayments by $60 million.

The UI data available did not show whether a shift to the new technologies helped to reduce administrative costs; however, it would not affect the state budget or the state UI fund because the federal government covers all administrative expenses. However, since total claims must be covered by UI trust funds that are contributed by employer UI taxes paid for each worker, states are often concerned with maintaining solvent funds. Overpayments can lead to the exhaustion of trust funds, which in turn may lead to higher charges to employers. These higher charges can potentially discourage new hires, business profitability and new business start-ups.

Further, the findings in this study suggest that either a) verification standards on automated systems need to be improved or b) states need to reverse the trend of closing UI offices. In either case, there may be an expanded role for public employees in the future. The vendors writing the automated programs are unlikely to be as familiar with claimant issues as are employees of the state labor department who regularly deal with these issues. Without some change in the trend to increased automation, the trend toward rising overpayments could unintentionally exhaust the resources of the UI program, which is there to help eligible workers. That will also put an increased burden on employers, whose contributions are the basis of state UI trust funds.