

# Unemployment Insurance Program

**B U S I N E S S P L A N**  
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# 1.0 EXECUTIVE SUMMARY



Arnold Schwarzenegger  
Governor

**TO: California’s Unemployment Insurance (UI) Program Partners, Stakeholders, and Customers**

When the first UI Program Business Plan was developed early in 2001, California’s economy was doing well, with a low unemployment rate of 4.7 percent. By the time the plan was completed in 2002, the state and the nation had endured a tragic terrorist attack on September 11, 2001, that was followed by a nationwide economic downturn that lasted through 2003.

Over the past five years, the UI program has had many challenges and opportunities to improve our services and program operations, including:

- Implemented legislation that significantly increased California’s maximum weekly benefit amount and applied the increase retroactively back to September 11, 2001.
- Deployed *eApply4UI*, an Internet claim filing application, in 2002. Currently, more than 40 percent of UI claims are filed via *eApply4UI*.
- Secured appropriation of Reed Act funds for a major automation project to upgrade the call handling and payment systems, and provide Internet and phone certification options for UI claimants.
- Implemented a new identity verification process and multiple crossmatch systems to enhance fraud prevention and detection activities.
- Borrowed federal funds to pay UI benefits for the first time ever when the UI Trust Fund became insolvent briefly in 2004.
- Provided enhanced reemployment services to customers through the Reemployment and Eligibility Assessment project, piloted in 2005 and ongoing since then.
- Redirected an entire call center to file claims and provide the full range of UI services to Louisiana residents after the destructive effects of Hurricane Katrina in 2005.
- Replaced outdated payment scanners to provide for a more efficient payment system and the electronic scanning and capture of UI forms.
- Conducted numerous hiring efforts and grappled with continued high attrition rates, with many employees poised to retire in coming years.

The **UI Program Business Plan, 2007 - 2012**, serves as a “road map” to guide the administration of California’s UI program over the next five years. The plan affirms the UI program’s vision and mission, and establishes goals, objectives, and strategies to ensure the UI program meets customer needs and operates as an effective wage replacement system.



In addition, the plan provides insight on the impact of changes in economic and demographic trends on UI funding and service delivery and identifies the challenges involved in meeting the needs of a changing customer base.

The UI program was established in response to the hardship created by widespread unemployment during the Great Depression. For over 70 years, the program has provided an economic safety net for California workers and served as an economic stabilizer for California communities. The funding and structure of the UI program were designed to meet the needs of prime age, full-time workers in a labor surplus economy

Technology and globalization have changed how we work, our markets, and the composition of our workforce. In today's world, labor shortages are not uncommon; workers are older and working for longer periods of time; and the number of contingent workers, part-time workers, and individuals who are self employed is steadily increasing. Despite these changes, the UI program components and funding mechanisms have remained largely unchanged.

## Business Issues

There are six issue areas that represent the key business challenges facing the UI program:

- Access and Integration of UI Services
- Modernization of UI Program Technology and Infrastructure
- Program Quality
- Staff Resources
- Program Funding
- Future Policy Strategies

These issue areas will drive current and future goals, objectives, and initiatives in the UI program.

## Program Initiatives

In order to address the key business issues discussed in this plan, we have established 6 goals with 16 corresponding objectives. The goals are as follows:

- Improve ease of access to UI services.
- Improve quality of UI services.
- Ensure consistent and equitable UI services to customers.
- Improve UI system capacity to enhance customer service and program performance.
- Ensure UI Branch employees have the knowledge, skills, abilities, and work opportunities for peak performance.
- Ensure the UI program continues to support economic prosperity in our communities and statewide as California continues to grow and change.



A variety of initiatives are planned or already underway to address these goals. Our ability to complete these initiatives depends on the availability of resources, and in some instances, the approval of state and federal oversight entities.

The sections that follow provide information on the past, present, and future of California's UI program and describe strategies for meeting current and future challenges in key areas related to access and integration of services, technological improvements, program quality, staffing resources, funding, and future policy directions.



DEBORAH BRONOW  
Deputy Director  
Unemployment Insurance Branch  
California Employment Development Department





## 2.0 PROGRAM DESCRIPTION

# VISION

The Unemployment Insurance Branch will provide high-quality unemployment insurance services.

We will accomplish this through effective leadership, knowledgeable and skilled staff, and access to information, tools, and technology.

# MISSION

The Unemployment Insurance Branch provides comprehensive unemployment insurance services to workers and employers.

Our services sustain economic prosperity in our communities, provide income replacement, and assist in the reemployment of workers.



## BACKGROUND

*“No Country, however rich, can afford the waste of its human resources. Demoralization caused by vast unemployment is our greatest extravagance. Morally, it is the greatest menace to our social order.”*

*Franklin D. Roosevelt, Second Fireside Chat, Washington, D.C.  
September 30, 1934*

For more than 70 years the UI program has been a short-term wage replacement program for individuals who become unemployed through no fault of their own. The UI program is an economic stabilizer and stimulator during economic downturns and helps maintain an available skilled workforce. In response to the stock market crash of 1929 and the Depression of the 1930s, Congress enacted the Wagner-Peyser Act of 1933. This legislation called for the establishment and state administration of public employment offices throughout the country. Subsequently, the unemployment compensation program was established with the enactment of the Omnibus Social Security Act in August of 1935.

The basic UI program components include payment and funding of benefits. These components are carried out in a unique federal-state partnership. The UI program is jointly administered by the federal government as part of a national UI program, and by the state government which establishes California’s administrative and eligibility requirements. The program is entirely financed by unemployment tax contributions from employers.

### **Payment and Funding of Benefits**

Eligibility for UI benefits requires claimants to be out of work due to no fault of their own, able to work, available for work, actively seeking work, and willing to accept suitable employment. Currently, approximately 15.5 million California employees are covered for UI benefits.

The UI program is fully funded by states’ employer contributions. The Federal Unemployment Tax Act (FUTA) provides the authority for collection of federal and state employer UI payroll taxes based on the amount of wages they pay their employees. Both federal and state UI taxes are held in Unemployment Trust Funds at the United States Department of Treasury. These contributions fund both UI benefits and UI administration at the federal and state levels.



## Federal-State Partnership for Program Administration

In the shared federal-state structure, the federal role consists primarily of setting broad program guidelines and overseeing the program administration. Within the federal guidelines, states have discretion in setting tax rates, determining benefit levels, and determining eligibility requirements. States also have discretion in determining the method of service delivery. As a result, there is great diversity among the states in terms of tax rates and eligibility requirements, as well as their operations.

## Statutory Basis for the UI Program

California's UI program is subject to laws and regulations at both the federal and state level. The Social Security Act (SSA) and the FUTA provide the federal statutory basis for states' UI programs. The SSA establishes the basic framework of the federal-state UI system and provides requirements for program funding. The FUTA focuses primarily on the tax aspects of the program as well as establishing benefit standards and coverage provisions. At the state level, the California UI Code is the statutory authority for California's UI program and mandates the state's eligibility requirements. Title 20 of the Code of Federal Regulations prescribes rules to implement federal UI laws, while Title 22 of the California Code of Regulations guides California practice on the implementation of state UI laws.

## Comparing California

California undeniably administers the largest UI program nationally in terms of participating employers, revenue collected, and benefits paid. The following chart demonstrates the size of California's UI program by comparing basic statistical program information against the next 10 largest states in terms of UI tax revenues.



Figure 1, *UI Basic Statistics*, compares states with the largest volume of subject employers, UI tax revenues, first payments, and total UI benefits paid.

**Figure 1: UI Basic Statistics, Calendar Year 2006: California Compared to the 10 Largest States<sup>1</sup>**

State	Subject Employers <sup>2</sup>	UI Tax Revenues	First Payments	UI Benefits Paid
California	1,130,000	\$5,001,700,000	947,507	\$4,492,100,000
Illinois	293,000	\$2,511,097,000	334,744	\$1,563,754,000
New York	488,000	\$2,397,316,000	454,201	\$2,086,684,000
Pennsylvania	284,000	\$2,300,634,000	447,066	\$1,898,484,000
Massachusetts	184,000	\$1,594,916,000	210,418	\$1,181,333,000
Texas	421,000	\$1,563,336,000	297,478	\$1,011,729,000
New Jersey	261,000	\$1,518,039,000	305,259	\$1,674,375,000
Michigan	218,000	\$1,516,376,000	475,596	\$1,877,441,000
Washington	194,000	\$1,341,731,000	171,137	\$665,373,000
Florida	487,000	\$1,127,083,000	239,827	\$677,476,000
Ohio	229,000	\$1,067,963,000	275,431	\$1,049,618,000
<b>TOTAL</b>	<b>4,189,000</b>	<b>\$21,940,191,000</b>	<b>4,158,664</b>	<b>\$18,178,367,000</b>

*Below is a list of commonly used terms and definitions to describe basic principles and components of the UI system ranging from financing methods to benefit coverage. These terms are used in Figure 2, *UI Benefit and Tax Components*, to compare the difference in principles and components among the states which are reviewed when considering benefit increases and financing reforms.*

## Benefit Information

■ **Wage Replacement Rates:** The wage replacement rate measures the percentage of lost earnings that are replaced by UI benefits. Most recent recommendations by the Advisory Council on Unemployment Compensation recommended at least a 50 percent wage replacement over a six-month period. California's average wage replacement rate is set at 50 percent.

1 Data sources: U.S. Department of Labor *Unemployment Insurance Data Summary, 4th Quarter 2006* and *Unemployment Insurance Financial Data Handbook, 2006*. UI tax revenues and UI benefits paid for California are based on the *EDD UI Fund Forecast, May 2007*. The largest states are defined as those states with the highest UI tax revenues in Calendar Year 2006.

2 The California Unemployment Insurance Code, Article 3, Sections 675-687.2 define employers subject to taxation upon the payment of wages.



- **Reciency Rates:** The reciency rate is the ratio of the insured unemployed (those claiming benefits, excluding claims under extensions such as the Federal Extended Benefits) to the total unemployed. For calendar year 2006, the reciency rates among all states ranged from 17-57 percent. California's reciency rate was 40 percent in 2006.
- **Maximum Weekly Benefit Amount (MWBA) Indexing:** Some states use a mechanism known as indexing that links the MWBA to a specified percent of the average weekly wage. This mechanism increases the MWBA annually as the average weekly wage rises. Adjusting the MWBA on an annual basis helps the UI program to keep pace with the cost of living and inflation.
- **Alternate Base Period (ABP):** ABPs are offered as a vehicle to allow individuals with a recent labor market attachment, who do not qualify for UI benefits under the state's regular base period, to potentially qualify under an alternate base period. Currently, 19 states offer ABPs.
- **Dependency Allowances:** Additional money is added to a claimant's weekly benefit amount if the claimant supports a dependent. Twelve states pay dependency allowances. California does not pay dependency allowances.

## Tax and Fund Information

- **Average High Cost Multiple (AHCM) / Trust Fund Solvency:** The U.S. Department of Labor (DOL) uses an indicator called the AHCM to measure trust fund solvency levels. The AHCM determines how many years of benefits the states' trust funds could pay without additional revenues during an economic downturn or a recession. The recommended minimum AHCM level is 1.0 or one year.
- **Taxable Wage Base (TWB):** The taxable wage base is the maximum total wages, subject to UI taxation, earned by an employee in a year. Federal law establishes \$7,000 as the lowest allowable taxable wage base. California's taxable wage base is set at this level.
- **Taxable Wage Base Indexing:** Some states use a mechanism known as indexing that links the amount of the taxable wage base to a state's average annual wage. The purpose of indexing is to ensure that a state's taxable wage base is in line with the rising levels of wages in order to maintain a sufficient trust fund balance to pay UI benefits. The indexing mechanism is assessed on an annual basis and, as a result, employers' taxable wage base amounts may increase.

**Figure 2: UI Benefit and Tax Components: California Compared to the 10 Largest States<sup>1</sup>**

STATE	BENEFIT INFORMATION					TAX AND FUND INFORMATION				
	MWBA	Replacement Rate	Reciency Rate	MWBA Indexing <sup>2</sup>	ABP	Dependency Allowances	Trust Fund Balance	AHCM (Ratio) <sup>4</sup>	TWB	TWB Indexing <sup>5</sup>
<b>California</b>	\$450	49%	40%	No	No	No	\$2.3B	0.27	\$7,000	No
<b>Illinois</b>	\$367-498*	38%	41%	Yes	No	Yes	\$1.3B	0.26	\$11,500	No
<b>New York</b>	\$405	44%	42%	No	Yes	No	\$313.2M	0.07	\$8,500	No
<b>Pennsylvania</b>	\$520-528*	54%	57%	Yes	No	Yes	\$1.4B	0.28	\$8,000	No
<b>Massachusetts</b>	\$575-862*	47%	48%	Yes	Yes	Yes	\$994.3M	0.41	\$14,000	No
<b>Texas</b>	\$364	42%	19%	Yes	No	No	\$2.0B	0.39	\$9,000	No
<b>New Jersey</b>	\$536	50%	51%	Yes	Yes	Yes	\$693.6M	0.23	\$26,600	Yes
<b>Michigan</b>	\$362	48%	43%	No	Yes	No	\$112.3M	0.03	\$9,000	No
<b>Washington</b>	\$496	45%	32%	Yes	Yes	No	\$3.1B	1.36	\$31,400	Yes
<b>Florida</b>	\$275	40%	29%	No	No	No	\$2.3B	1.12	\$7,000	No
<b>Ohio</b>	\$355-479*	44%	31%	Yes	Yes	Yes	\$499.6M	0.14	\$9,000	No

1 Data Sources: U.S. Department of Labor, various publications: *Unemployment Insurance Data Summary, 4th Quarter 2006*; *Unemployment Insurance Financial Data Handbook, 2006*; and *Comparison of State UI Laws, 2007*. UI Trust Fund balance for California is based on the *EDD UI Fund Forecast, May 2007*. The largest states are defined as those states with the highest UI tax revenues in Calendar Year 2006.

2 Thirty-six states currently index their WBA.

3 Trust Fund balance as of the fourth quarter of 2006.

4 The U.S. DOL recommends that states have an AHCM of at least 1.0.

5 Eighteen states currently index their taxable wage base levels.

\* Range based on Dependency Allowances.



## CALIFORNIA'S ECONOMY and DEMOGRAPHICS

As California's economy and population change over time, the UI program must evolve to meet the needs of a changing customer base. The transition to a service-oriented economy and the decline of manufacturing jobs make the state more vulnerable to economic downturns and present challenges for lower-skilled workers. There are six main economic and demographic trends that will impact future policy decisions about how to maintain the UI program's role as an effective wage replacement system. These trends include the following:

- The transition to a service-oriented economy
- California's growing population and labor force
- Shifts in the racial and ethnic composition of the state's population
- An aging population and workforce
- Increased demand for educated workers
- More workers seeking alternatives to full-time employment

These demographic trends are used to help highlight the UI program's current customer base and expected changes in the future. Potential shifts in the UI customer base present considerations for service delivery, coverage, and funding. These trends are considered the primary factors that will be reviewed when considering potential programmatic reforms and operational enhancements in the future.<sup>1</sup>

### California's Economy

California's trillion-dollar economy is currently the eighth largest in the world.<sup>2</sup> As of July 2007, over 17 million Californians were employed,<sup>3</sup> with employment projected to reach 19 million by 2014, an increase of 12 percent.<sup>4</sup>

More than four out of every five jobs in California is in service industries. Conversely, less than one out of every five jobs is in goods-producing industries. Employment projections indicate that more than 70 percent of the job growth will fall within five major industry sectors that include: professional and business services, education and health services, government, retail trade, and leisure and hospitality.<sup>5</sup>

The fastest growing occupations are in the technology, healthcare, and education industries.<sup>6</sup> Of the 30 fastest growing occupations, 25 will require a post-secondary degree or other credential.<sup>7</sup> However, there are also job opportunities for individuals with lower education levels, although these jobs tend to pay lower wages. Seven of the top ten occupations with the most projected job openings require just 30 days of on-the-job training, including retail salespersons, office clerks, and janitors.<sup>8</sup>



The prevalence of technology and automation in the workplace often causes occupational declines. In the coming years, demand for administrative support personnel, such as word processors and typists, as well as clerks in a variety of industries, computer operators, and telemarketers will decline. Farm workers and laborers are also expected to experience a decline in employment.<sup>9</sup>

Since peaking at 6.9 percent during much of 2003, the California unemployment rate fell steadily to 5.3 percent in July 2007. Unemployment rates throughout the state vary widely with a low rate of 3.8 percent in Marin County and a high rate of 20.2 percent in Imperial County.<sup>10</sup> The broad range of industries which do business in California and the vast geographical areas contribute to California's spread in unemployment rates. Due to slower economic growth associated with the cooling in California housing markets, labor market analysts predict the unemployment rate will rise gradually over the next couple of years.<sup>11</sup>

Despite this projection, California is expected to generate 6.5 million job openings from 2004 to 2014. Four million of these job openings will result from vacancies caused by those workers that have left the labor force or have changed occupations.<sup>12</sup>

As California's economy becomes less diverse with the loss of manufacturing jobs, the state is potentially more susceptible to economic downturns and workers are at greater risk of both short-and long-term bouts of unemployment. More episodic employment results in increased usage of the UI program and potentially less tax revenue to fund benefit payments. This presents challenges to ensure adequate funds are available to pay benefits and coverage provisions are robust enough to cover unemployed workers. In addition, if there is the need for people to use the UI system more frequently, there may be a greater expectation of easy access to services and more self-service options.

## California's Population and Labor Force

There are a number of demographic trends impacting California's population and labor force. It is anticipated that these trends will present some public policy issues for ensuring California has a strong and viable labor force in the future. This is especially critical for the state's aging labor force and the demand for workers in specific occupations.

California is the most populous state in the nation with more than 37 million residents.<sup>13</sup> California's population is projected to be over 44 million by 2020, a 19 percent increase.<sup>14</sup> As the population grows and more workers enter the labor force, the number of people covered for UI purposes will also increase.



## RACE / ETHNICITY

Shifts in the demographic composition of the population may have an impact on service delivery in the UI program. The future composition of California's labor force, as with the state's population as a whole, is shifting towards a Hispanic majority. By 2020, it is projected that approximately 30 percent or more than 13.4 million individuals of working age will be Hispanic.<sup>15</sup>

Another major trend is the increase in foreign-born residents. Twenty-five percent of California residents were foreign-born in 2000. This demographic group is projected to increase to 30 percent by 2025.<sup>16</sup> This trend may facilitate the need for service delivery in additional languages to meet customer needs. As the public and private sector increasingly move toward self-service delivery options, existing and future UI applications will require translation to allow non-English speaking customers to effectively access UI services.

## AGE

Along with changes in its ethnic distribution, the state will also experience shifts in the age distribution of its residents. An unprecedented number of Californians will reach retirement age over the next few years. This increase in California's older population will be driven primarily by the baby boomers who will begin to reach retirement age in 2011. By 2020, it is projected that 14 percent, or 6.4 million, Californians will be 65 or older.<sup>17</sup>

Labor force participation rates are generally highest for individuals age 25 to 54. The labor force participation rate represents those individuals that are working or looking for work within the working age population of 16 and older. Labor force participation rates for people over 65 are typically lower.

However, recent research indicates that Californians are working later in life than they once did for a number of reasons, including improved health, longer life expectancy, financial need, and other non-financial reasons. Approximately 62 percent of Californians age 55 to 64 were employed in 2006, up from 59 percent in 2000 and 54 percent in 1995. In addition, 25 percent of people age 65 to 69 were employed in 2006, up from 20 percent in 1995.<sup>18</sup>

Fewer than 40 percent of workers age 66 to 70 report financial reasons for working.<sup>19</sup> Older Californians who continue to work, especially those who have the financial flexibility to work for other reasons, such as the desire to stay active or to do meaningful work, may choose to work intermittently rather than hold a steady job. This weakened attachment to the labor force could result in increased usage of the UI program if individuals collect benefits between jobs. Older workers have more difficulty getting back to work than their younger counterparts, which means they may collect UI benefits for a longer period of time than they would have in the past.<sup>20</sup>



In addition, older individuals typically have higher wages that would qualify them for a higher benefit amount, potentially resulting in an adverse effect on the Trust Fund, although this would be offset to a certain degree by the taxes contributed to cover these workers.

As new entrants to the workforce, younger workers generally have a weaker attachment to the labor market, making them more likely to be among the first employees to be laid off during an economic downturn and collect UI benefits. As older workers retire from their permanent, full-time jobs, some will transition to part-time employment. These workers may also be more vulnerable to unemployment during adverse economic conditions.

## EDUCATION

A significant percentage of the California workforce has some postsecondary education. Over 40 percent of Californians employed in 2004 had a college degree, with 75 percent of this population holding a bachelor's degree or higher. However, there are also significant numbers of California adults with little education. In 2004, nearly 16 percent of workers age 25 to 54 had not received a high school diploma or a general equivalency diploma.<sup>21</sup>

Recent projections by the California Department of Finance indicate expected growth in enrollment at California public postsecondary institutions. Between 2005 and 2015, enrollment is expected to increase by over 22 percent or more than 500,000 students, for a total enrollment of 2.7 million.<sup>22</sup>

Education will play a critical role for the state's future labor force. The shift from a manufacturing to a services-based economy requires a more educated labor force. Higher education is an important factor in many of California's fastest growing occupations. Eight of the top ten fastest growing occupations from 2004-2014 require post-secondary education. Six of these occupations require a bachelor's degree.<sup>23</sup>

While a services-based economy provides job opportunities for individuals at all skill levels, the jobs available to lower-skilled workers tend to be low-paying, such as retail sales. As the services industry grows and the need for educated workers increases, those with less training or education may be unemployed more frequently or need to utilize the UI program for longer periods of time.

In addition, as manufacturing jobs decline, those workers may require retraining to learn new skills for employment in a different industry. This type of intensive training may result in longer benefit duration as individuals collect UI while completing the necessary training to reenter the workforce. The UI program may also need to examine its benefit and training provisions to determine if they will continue to meet customer needs.



## Alternatives to Full-Time Employment

Although not discussed in prior demographic sections, alternatives to full-time employment is a trend that has implications for the UI claimant population. The traditional employment model of a full-time, 40-hour workweek has transformed to a work environment where many Californians work on a contingent or part-time basis, or are self-employed.

Six percent or just over one million individuals were considered contingent workers in California as of February 2005. A contingent worker is defined as any worker who does not expect his or her job to last more than 12 months. Contingent workers are typically covered for UI purposes. These workers are concentrated in the services industry and are twice as likely to work part-time. A large percentage of contingent workers are from low-income households.<sup>24</sup>

Due to the temporary nature of their work, contingent workers are likely to utilize the UI system more frequently than other workers. As contingent work continues to be more common, there is a potential impact to the Trust Fund as more individuals collect UI benefits. In addition, coverage provisions may need to be reevaluated to ensure that California's contingent workers are adequately covered for UI purposes.

Part-time employment is quite common in today's economy. Approximately 17 percent of working Californians were employed on a part-time basis, defined as one to 34 hours per week, as of July 2007.<sup>25</sup> Senate Bill 40 (Chapter 409, Statutes of 2001) added the ability for part-time workers to collect UI benefits in California.

Significant numbers of Californians are self-employed. As of September 2006, 1 out of every 10 working Californians was self employed.<sup>26</sup> This has implications for the UI program, as self-employed individuals are not generally covered for UI purposes and therefore do not pay taxes in support of the program. On the other hand, this means they also do not collect UI benefits, which would seemingly negate any concern of decreased funding. However, an increase in the number of self-employed Californians in the future could potentially result in a smaller pool of funding to pay UI benefits as workers leave covered employment for self-employment. At that point, the wages of those individuals are no longer a source of revenue for the UI Trust Fund. More self-employment could also result in a greater number of Californians who are not covered during periods of unemployment.

The UI program will continue to monitor demographic trends to determine the potential impact on service delivery, coverage, funding, and other aspects of the program. These trends are important factors for current and future policy decisions to ensure that the UI program continues to be an effective wage replacement system.



This section outlines the basic UI services provided, how services are accessed, and targeted services for claimants and employers. In addition, this section describes the role of automation in service delivery.

### Basic UI Services

#### UI BENEFITS

The basic UI program provides up to 26 weeks of partial wage replacement and up to a maximum of \$450 per week to eligible claimants. The minimum available benefit is \$40 per week for 14 weeks.

#### UI ELIGIBILITY

Eligibility for benefits is determined by the following factors:

- Past earnings activity (labor force attachment)
- Conditions of job separation
- Continuing job search activity
- Ability to work and availability for work

### Access to Services

The UI program serves both claimants and employers. Customers can access UI services and information on the Employment Development Department (EDD) Web site or by calling one of the UI toll-free numbers. Individuals may file a UI claim online, by telephone, or by mail or fax. Reemployment services are also available electronically. For example, claimants can submit a résumé and look for work using EDD's online CalJOBS<sup>SM</sup> system. In addition, relevant labor market information is available on the EDD Web site.

#### LANGUAGE / DISABLED

The UI program provides information and services in a variety of languages representative of California's diverse population. The Department has toll-free 800 numbers for English, Spanish, Cantonese, Mandarin, and Vietnamese speaking customers. Many UI forms and publications are also available in the same languages. A teletypewriter (TTY) toll-free number is also available for hearing and speech impaired customers. The UI program meets the requirements of the Dymally-Alatorre Bilingual Services Act of 1973 which mandates that state agencies provide an equal level of service to non-English speaking customers.



## ONLINE SERVICES

Since the late 1990s, the DOL has supported remote claim filing which has resulted in most states supporting claim filing and related activities through the telephone and the Internet.<sup>27</sup> The flexibility and ease of using the Internet has changed UI claim filing as well as how people find work and access reemployment information.

Surveys report that the Internet plays an increasing role in how people seek work, with over 50 percent of unemployed workers having access to computers.<sup>28</sup> Some surveys suggest this rate is higher in California. With the availability of computers in most One-Stop Career Centers, UI claimants have access to a large range of online UI and reemployment services.

### ⇒ Internet UI Claim Filing

The UI program's Internet claim filing application, *eApply4UI*, was introduced on April 8, 2002. Customers may complete and submit the online application at their convenience 24 hours a day from any computer with Internet access. The application is also available in Spanish. The UI program conducts regular marketing and outreach efforts to increase awareness and use of *eApply4UI*.

In addition to providing a self-service claim filing option, the use of *eApply4UI* allows the UI program to maximize limited staffing and resources as *eApply4UI* claims take one-third the processing time as telephone claims.

Since its inception, over three million *eApply4UI* applications have been submitted, and currently, this online application accounts for more than 40 percent of total UI claims filed.

The *eApply4UI* application is continually enhanced for easier use and to serve a wider customer base.

The following chart shows the increased use of *eApply4UI* since 2002.

**Figure 3: California UI Claims Filed, Calendar Year 2002-2006**

Year	Total Claims Filed	Total Internet Claims Submitted <sup>29</sup>	Internet Claims as a Percentage of Total Claims Filed
2002	3,298,710	280,382	8%
2003	3,202,193	538,425	17%
2004	2,271,904	492,987	22%
2005	1,971,365	684,300	35%
2006	2,097,839	860,435	41%



### ⇒ *Internet Access to Information Services*

The EDD provides claimants and the general public a wide variety of online UI information. This ranges from UI claim filing options to the appeal process, as well as frequently asked questions and fact sheets describing various UI services.

There is also an online tool for the public to communicate with EDD electronically. The *Ask EDD* system allows customers to communicate claim information or submit a question, comment, or suggestion in a secure environment.

Since the establishment of the *Ask EDD* system, the number of messages received by the UI program has increased by more than 82 percent.

## **Targeted Services**

In addition to the basic UI program services, there are many targeted services available to claimants and employers. These services include reemployment assistance to help claimants reenter the workforce and special benefit provisions in the event of a disaster or during periods of high unemployment. The UI program also assists employers in retaining their workforce and promotes an active partnership with the employer community as key program stakeholders. The UI program also interacts with other EDD entities and state and federal agencies for the operation of various program functions.

## **REEMPLOYMENT SERVICES**

### ⇒ *One-Stop Partner System*

Currently, there are over 200 One-Stop Career Centers in California that receive federal funding to provide employment and training services to the public. The EDD's Employment Services and UI programs are both required partners of the One-Stop Career Center system. The Employment Services program is required to provide direct services in-person and the UI program is required to ensure that access to UI services is readily available in the Centers.

### ⇒ *Reemployment Services for UI Claimants*

The U.S. Department of Labor requires the states to provide reemployment services to UI claimants. These mandatory services include Worker Profiling and Reemployment Services that validate the individual's attachment to the labor market. These services are provided to UI recipients to assist them in returning to work quickly and to ensure they continue to meet UI eligibility requirements.

The EDD provides a number of different reemployment services that target different claimant groups and serve to meet the federal requirements. The primary services currently include Initial Assistance Workshops and Personalized Job Search Assistance provided by the Department's Employment Services staff and Reemployment and Eligibility Assessments provided by UI staff in One-Stop Career Centers.



### ⇒ *Trade Adjustment Assistance (TAA)*

The TAA program is a federal program that provides aid to workers who lose their jobs or whose hours of work and wages are reduced because of increased imports or foreign competition. Workers may be eligible for training, job search and relocation allowances, income support, and other reemployment services.

### ⇒ *California Training Benefits (CTB) Program*

The CTB program provides UI payments up to a maximum of 52 weeks to eligible, unemployed workers enrolled in state-approved training programs. These training benefits help sustain workers as they upgrade their skills and experience in order to reenter the workforce.

### ⇒ *Employment Training Panel (ETP)*

The ETP funds training programs for employees of companies facing foreign and domestic competition, current UI recipients or those who have recently exhausted their UI benefits, and other workers with specific needs, such as those in high unemployment areas or with barriers to full time employment.

## **EMPLOYER SERVICES**

### ⇒ *Partial Claims/Pacific Maritime Association*

Partial Claims program allows employers to retain their workforce for a limited time during periods of temporary loss of work. Pacific Maritime Association is a special program for longshoremen that allows them to collect UI benefits if they work less than their normal hours of work as a result of the employer sharing the work among employees.

### ⇒ *Work Sharing*

This program assists employers in maintaining their labor force during a workload reduction by allowing employees to share work for a reduction of hours and wages in lieu of being laid off.

### ⇒ *State Special Schools Benefits*

Employees of educational institutions are generally denied UI benefits under certain circumstances. However, there is a special provision for the State Special Schools, which enroll deaf, blind, and neurologically-handicapped students, that allows certain employees to collect UI benefits who would otherwise be denied under other provisions of law.



⇒ ***School Employer Advisory Committee (SEAC) and the Unemployment Insurance Technical Subcommittee (UITS)***

The SEAC partners with the EDD to identify, consider, and recommend improvements concerning the administration of the School Employees Fund, which is the financing method by which school employers pay their UI costs. Serving under the direction of the SEAC is the UITS, which consists of representatives from the school employer community and EDD, and whose purpose is the discussion of key issues pertaining to UI claims management.

⇒ ***California Employer Advisory Council (CEAC)/Employer Advisory Council (EAC)***

The CEAC is a nonprofit, statewide umbrella organization for more than 50 EAC chapters throughout California that consist of local employers. Partnering with EDD staff, the EACs help educate employers about employment issues, increase knowledge of EDD programs and services, and identify ways to improve EDD services.

⇒ ***Small Business Employer Advisory Committee (SBEAC)***

The SBEAC serves the small business community by working with EDD to provide a small business perspective on employment tax issues and to help small businesses understand the UI financing system and how to manage their UI costs.

**UI EMERGENCY SERVICES / HIGH UNEMPLOYMENT SERVICES**

⇒ ***Disaster Unemployment Assistance (DUA)***

DUA is a federal program that provides financial assistance and employment services to jobless workers and the self-employed when they are unemployed as a direct result of a major natural disaster.

⇒ ***California Extended Duration Benefits (Cal-ED)***

California provides for state-funded extended UI benefits, known as Cal-ED, during prolonged periods of high unemployment, providing up to a maximum of an additional 13 weeks of UI benefits to eligible, unemployed workers.

⇒ ***Federal Extended Duration Benefits (Fed-ED)***

Federal law provides for jointly funded federal-state extended UI benefits, known as Fed-ED, during prolonged periods of high unemployment in California, providing up to a maximum of an additional 13 weeks of UI benefits. When the Fed-ED program criteria is met, it supersedes the state-funded Cal-ED program if that program has been activated.



## GOVERNMENTAL RELATIONS

The UI program coordinates with a variety of federal and state government agencies and other EDD entities for the effective operation of the program. Interagency relations are necessary to provide a wide array of related services to California's workforce, as well as supportive services such as tax collection. In addition, coordination with other government agencies is essential for program integrity to verify claimant information for the proper payment of benefits, investigate and prosecute fraud, and collect fraudulent benefit overpayments.

The UI program works in partnership with other entities, some of which are listed below, to provide UI services:

- EDD Disability Insurance Branch
- EDD Workforce Services Branch
- California Department of Motor Vehicles
- California Office of Emergency Services
- Federal Emergency Management Agency
- Social Security Administration
- EDD Tax Branch
- California Department of Justice
- California Franchise Tax Board
- California Unemployment Insurance Appeals Board
- U.S. Department of Labor

## Automation to Improve Services

The UI program has a number of automation efforts underway to modernize service delivery, improve customer service, and streamline work processes. Increasingly, the public expects automated service options, such as online claim filing and direct deposit of UI benefits. The current automated systems and planned future enhancements help the program maximize the use of limited funding resources while also improving program integrity.

While there are several long-term efforts underway, the UI program has taken interim steps to improve current processes.

## CURRENT EFFORTS

### ⇒ *Imaging*

The UI program is in the initial stages of reengineering work functions to move from a paper-driven process to an electronic process. This will promote more flexibility, allowing for the distribution of work amongst UI offices throughout the state. It also positions the program to move into the imaging arena for the storage, retrieval, and management of workflow in all program functions.



### ⇒ *Small Automation Applications*

A small automation application, or a Macro, is a saved sequence of keyboard strokes that can be stored and then recalled with a single command or keyboard stroke. Macros are used in the UI program to establish standard procedures in the processing of UI claims, without the need for staff to learn complicated automated applications.

The Telephone Claim Filing Macro was recently developed to assist staff in filing claims. It reduces a number of routine clerical claim filing activities and increases consistency. It also links with several crossmatch processes, with both internal and external entities, to decrease fraud.

### ⇒ *Interactive Voice Response (IVR) Services*

The IVR system provides UI program information to claimants over the phone, including how to file a claim, status of UI benefits checks, and locations of EDD public offices. To obtain personal information, the claimant must establish a Personal Identification Number.

## **FUTURE EFFORTS**

### ⇒ *Enhanced Claim Filing Tools for UI Staff*

Currently under development, the Web Based Claim Filing Project will result in a more user-friendly, PC-based claim filing system, which will make it easier for staff to process UI claims and reduce training time for newly hired staff. The new system will also have anti-fraud components to increase program integrity.

### ⇒ *Online UI Claim Certification*

Currently, claimants certify their continued eligibility for UI benefits via mailed paper forms. In the future, claimants will be able to certify for UI benefits by telephone or online. This project will also upgrade the outdated UI payment system and provide new tools for fraud prevention.

### ⇒ *Debit Cards/Direct Deposit*

There is a Department-wide effort to research Direct Deposit and debit card options to pay UI benefits. Electronic payment of benefits would result in cost savings, as well as give claimants more immediate access to benefits and eliminate the need to replace lost checks.

### ⇒ *Enhanced Telecommunications*

Over the next two years, the EDD and other public agencies with large call centers will transition to upgraded telecommunication services to provide better customer service. Changes include voice and data services over networks, enhanced and expanded call center technology, voice over Internet protocol (VOIP), and broadband and wireless services. These changes will enable the UI Program to easily extend inbound call center services to all UI primary centers.



# GOVERNANCE

The following chart illustrates the relationship between the various governance bodies involved in the operation of the UI program in California.

**Figure 4: Unemployment Insurance Program Governance**

**FEDERAL DEPARTMENT OF LABOR**  
Provides UI program oversight and funding.

**CALIFORNIA GOVERNOR AND LEGISLATURE**  
Oversees all state agencies, enacts laws and regulations, and distributes funding.

**LABOR AND WORKFORCE DEVELOPMENT AGENCY**  
Improves access to employment and training programs for workers and employers, improves accountability and efficiency in the state's \$10.8 billion workforce training programs, increases coordination of enforcement programs in disability and tax programs, and employs a strategic approach to employment research programs.

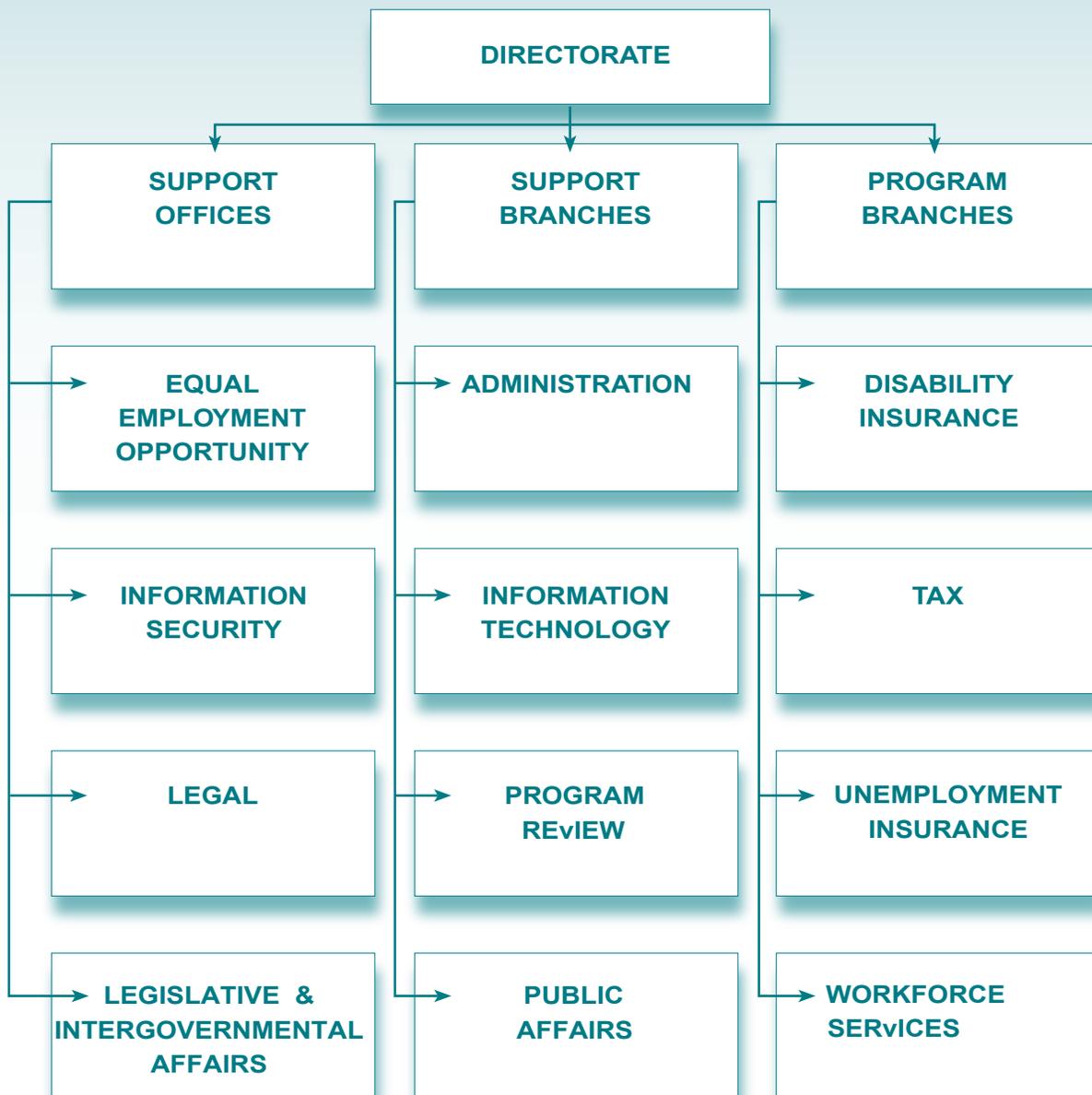
**CALIFORNIA EMPLOYMENT DEVELOPMENT DEPARTMENT**  
Administers the Disability Insurance, Unemployment Insurance, and Workforce Services programs. The EDD also is California's largest tax collection agency, handling the audit and collection of employment taxes and maintaining records for more than 17 million California workers.

**UNEMPLOYMENT INSURANCE BRANCH**  
Oversees the administration of the UI program and develops program policies and procedures that comply with federal and state laws governing the program. The Branch also maintains the integrity of the UI program and UI Trust Fund.



**Figure 5: Employment Development Department Organization Chart**

The EDD is comprised of the following branches and offices:





## Unemployment Insurance Branch Responsibilities

The UI program provides temporary wage replacement to claimants who are unemployed through no fault of their own and are actively seeking employment. The UI Branch works closely with other EDD entities including the Disability Insurance (DI) Branch, the Tax Branch, and the Workforce Services Branch to provide comprehensive and coordinated services to common customer groups. The EDD strives to provide a combination of services in a seamless manner regardless of programmatic boundaries. While the Department is making progress toward this goal, many coordination and service delivery challenges remain.

In addition to providing direct services to employers and unemployed workers, the UI Branch is responsible for protecting the integrity of the UI Trust Fund and ensuring that UI benefits are paid appropriately. Employer payroll taxes fund program administration as well as benefit payments to unemployed workers, and it is imperative that employers' accounts are properly charged for benefits paid to their former employees.

The EDD's UI Branch is responsible for the following activities as they pertain to the UI program. It is through the combined efforts of all Branch entities that these activities are undertaken to create a unified program:

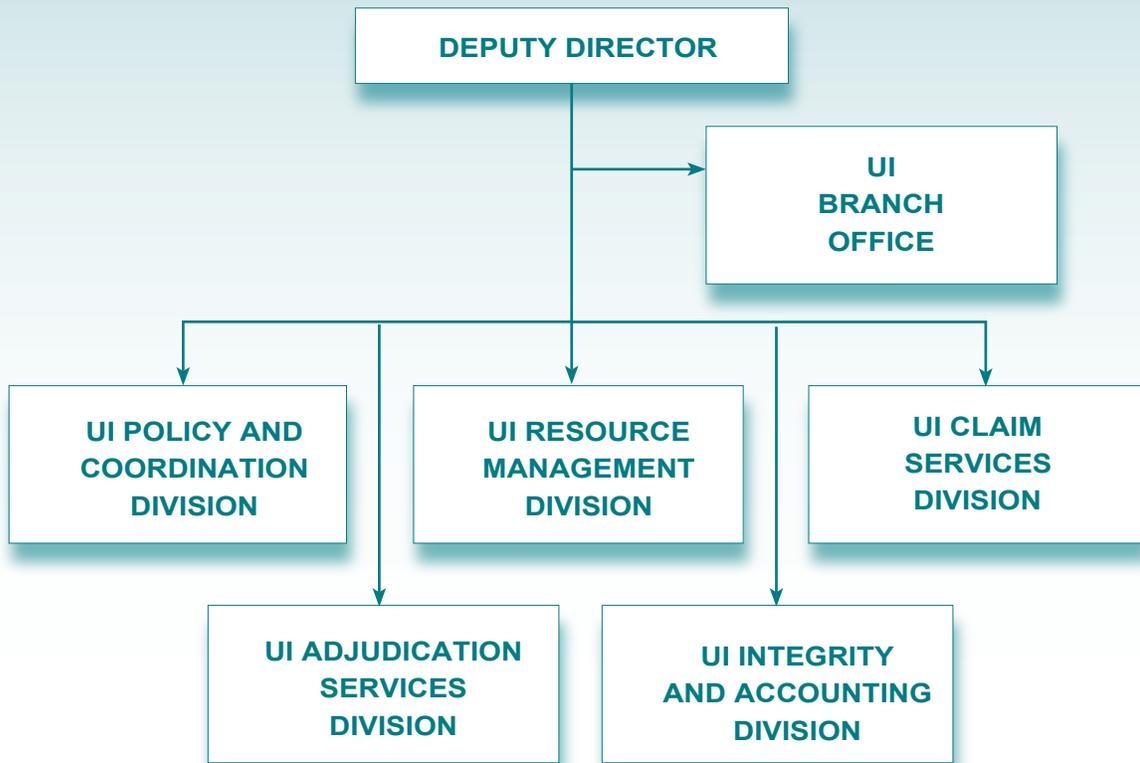
- Ensuring that the program continues to act as an effective economic stabilizer and a dynamic system responsive to the needs of a changing customer base.
- Developing program policy and procedures pursuant to federal and state laws.
- Analyzing and applying federal and state laws.
- Maintaining the integrity of the UI program and the UI Trust Fund.
- Filing UI claims, determining eligibility, and paying benefits timely and accurately.
- Assisting employers to maintain a trained workforce.
- Ensuring employers' accounts are charged correctly for benefits paid.
- Conducting administrative and oversight functions.
- Performing benefit accounting functions of the UI Branch including those associated with DI.
- Planning and developing automation projects.



## Organizational Structure

The UI Branch Deputy Director administers the UI program, and has five Division Chiefs who oversee their respective divisions. Each division has office or section managers who collectively comprise the UI Branch Senior Management Team. The UI Branch is comprised of the following five Divisions and one Office:

**Figure 6: Unemployment Insurance Branch Organization Chart**



### UI BRANCH OFFICE

The UI Branch Office performs a variety of activities and support functions required to assist the Deputy Director in working with the UI Division Chiefs to provide leadership and direction in all aspects of UI program administration. The UI Branch Office:

- Plans for the future of the UI program, establishes program initiatives/priorities, and tracks program accomplishments through the development and maintenance of a five-year business plan.
- Works with the Senior Management Team to support and oversee UI operations to ensure consistent and uniform service delivery to customers in accordance with federal and state law and policy.



- Interacts with employer associations, advocacy groups, and community organizations on a variety of issues related to the administration of California's UI program.
- Represents the interests of the UI program at the Enterprise level as a member of the Department's Executive Management Team.
- Influences UI program policy and legislation at the national and state level through active involvement with governmental officials, Congressional and Legislative representatives, advocacy groups, and stakeholders.
- Oversees and directs personnel selection and management practices to ensure compliance with the provisions of the labor agreement and to establish uniform hiring procedures that result in selection of the most qualified applicants.
- Facilitates collaboration, communication, and information sharing among members of the Senior Management Team.
- Serves as a liaison between the Business Operations Planning and Support Division and the field managers on all premises-related activities.

#### **UI POLICY AND COORDINATION DIVISION (UIPCD)**

The UIPCD coordinates the program activities across the Branch, working with other Department entities, state agencies, and federal partners. The UIPCD:

- Initiates, develops, plans, and implements UI program policy and procedural changes as a result of state and federal level policies and requirements, legislative changes, and administrative and court decisions.
- Initiates, leads, plans, and oversees statewide system, automation, and application enhancements for the UI Program.
- Oversees UI program performance against policy, program, and performance objectives and requirements.
- Ensures coordination within UI Branch and between EDD organizations to provide consistent, efficient, and effective UI services to our customers, while ensuring the integrity and security of the UI program.
- Provides administrative oversight of the UI program.

#### **UI RESOURCE MANAGEMENT DIVISION (UIRMD)**

The UIRMD plans, oversees, manages, and accounts for personnel and operating resources across the Branch. The UIRMD:

- Develops methodologies and systems for the allocation of UI budget resources.
- Represents the UI program and works with Fiscal Programs Division in the development of federal and state budgeting documentation.



- Forecasts workload demands, assesses production capacity, projects workload-based budget ceiling options for program operations, estimates expenditures, and develops spending plan options for the UI Branch.
- Prepares resource requests, reviews actual workload and resource utilization, and accounts for resources used for all UI claim handling processes.
- Prepares recommendations for UI Branch management, including budgeting alternatives to improve program effectiveness and efficiency.
- Coordinates workflow, and prioritizes and allocates resources to achieve targeted results, in consultation with the Branch's Deputy Director and Division Chiefs.
- Supports the UI call center operations by maintaining the intelligent call routing application (that distributes incoming calls to staff), and by partnering with Information Technology Branch and telecommunication vendors to ensure the call processing network meets business needs.

#### **UI CLAIM SERVICES DIVISION (UICSD)**

The UICSD serves customers through Customer Contact Centers and the Consolidated UI Services Centers. The UICSD:

- Files/Reopens UI claims via telephone, mail, or electronic access. Determines the correct type of claim to be filed (California intrastate, interstate, federal, military, Disaster Unemployment Assistance, and extensions).
- Identifies eligibility issues and takes appropriate action in order to pay or deny benefits promptly.
- Provides information to the public and employers.
- Initiates verification of claimant identity including claimant social security numbers.
- Authorizes the payment of UI benefits.
- Processes rulings to determine employers' liability for benefit charges.
- Processes claimant and employer correspondence including letters of protest and returned benefit checks.



### **UI ADJUDICATION SERVICES DIVISION (UIASD)**

The UIASD serves customers through Adjudication Centers, an Overpayment Center, and a Special Claims Office. The UIASD:

- Conducts accurate and timely determination of eligibility issues in accordance with federal and state laws.
- Resolves benefit adjustments and exceptions.
- Determines employers' liability for benefit charges.
- Investigates and establishes fraud and non-fraud UI overpayments.
- Recovers inappropriate charges against the UI Trust Fund.
- Conducts pre-appeal reviews to ensure that all pertinent facts are divulged at UI Administrative Hearings.
- Administers the Work Sharing, State Special Schools Benefits, and Trade Adjustment Assistance programs.

### **UI INTEGRITY AND ACCOUNTING DIVISION (UIIAD)**

The UIIAD serves customers through a centralized location. The UIIAD:

- Accounts for UI/DI benefit payments.
- Accounts for and maintains UI/DI benefit overpayment accounts.
- Accounts for and transmits Voluntary Federal Income Tax withholdings and Child Support Intercept deductions.
- Reconciles UI, DI, and other Department bank accounts.
- Administers interagency offset programs (with Franchise Tax Board and the Lottery) and the credit card program for repayment of UI/DI benefit overpayments.
- Conducts the UI Workers' Compensation Lien process.
- Administers the UI benefit audit cross-match program.
- Administers the annual 1099G process for UI/DI benefit payments.
- Assists employers with reconciling their wage records and the wage data reported to the Department.
- Performs all UI/DI claim monetary recomputations, including combining wages from other states and U.S. territories, or adding federal or military wages.
- Conducts claimant identity verification.



## PROGRAM FUNDING

The UI program is entirely funded by employer payroll taxes. Employers pay a federal tax to the Internal Revenue Service for the administration of the program and a separate state UI payroll tax to finance UI benefits paid to unemployed workers.

Most employers use the tax-rated method. The tax-rated method calculates a specific tax percent, which is applied to the first \$7,000 in earnings per employee on an annual basis. Administrative costs are covered by a federal tax of 0.8 percent, which is also paid on the first \$7,000 in wages per employee. For the state tax, which covers benefit costs, the actual tax rate varies for each employer, depending on the employer's overall use of the UI system as well as the condition of the UI Fund. An employer may earn a lower tax rate when fewer claims are charged to the employer's account by former employees. Employers' tax rates are based on one of seven tax schedules established under California law.

Indian tribes, governmental, and certain nonprofit employers may elect another means of paying their UI costs, called the reimbursable method. In this financing method, employers reimburse the UI Trust Fund on a dollar-for-dollar basis for all benefits paid to their former employees.

There have been numerous efforts throughout the history of the UI program to reform the UI financing structure and the existing system should be updated to reflect California's current economic environment.

### UI Funding Principles

The UI system is based on traditional insurance principles used by public and private insurers. These principles include fund solvency, experience rating, and pooled risk. These principles are the foundation of the UI program nationwide.

#### FUND SOLVENCY

California uses a multi-scheduled UI contribution system that was originally designed to ensure the solvency of the Unemployment Fund under changing economic conditions. The system was designed to increase employer contributions as the fund balance declines, and decrease contributions as the fund balance grows. The EDD works with actuaries who review the fund balance and operation of the taxing and benefit structures to ensure solvency. The actuaries review current and future Fund adequacy, the financing and benefit systems, and the impact of future economic and environmental circumstances on the Fund.



However, the funding system in California is over 20-years-old and in need of redesign in order to be effective in the current environment. The system does not reflect recent economic changes, such as increases in California's minimum wage and average weekly wage, as well as changes in the benefit structure.

The DOL and the Advisory Council on Unemployment Compensation, an advisory board established by the Director of the DOL, have recommended solvency standards for states' UI trust fund balances. The measure most frequently used by DOL is the average high cost multiple (AHCM). The AHCM determines how many years of benefits the state UI Trust Fund could pay, at the state's highest benefit level, without additional revenue. The calculation is based on the average of the three highest annual levels of UI benefits that a state has paid in any of the previous 20 calendar years.

### **EXPERIENCE RATING**

Experience rating determines the UI tax rate according to the employer's overall use of the UI system. It is designed to allocate more of the UI tax costs to employers whose workers receive more UI benefits. The UI tax rates are set to encourage employers to maintain a stable workforce, thereby reducing their tax liability.

### **POOLED RISK**

The pooled risk concept requires all participating employers to pay into the UI system, helping to defray the high UI costs of employers with poor experience ratings. Pooled risk works on the premise that some employers experience adverse economic conditions, or have operations that are dependent on seasonal or part-time workers, and will pay for their UI costs up to a specific threshold. The costs above the threshold are subsidized, or socialized, across the board to all employers. In addition, some costs are subsidized across the pool of employers due to specific state laws to reduce the adverse effect on employers' individual tax rates. When an individual resigns to preserve family unity, for example, costs are socialized across the employer pool.

### **REIMBURSABLE EMPLOYERS**

Public employers, most nonprofit organizations, and federally recognized Indian tribes have the option to be reimbursable employers. As opposed to the tax-rated method of financing, these employers may elect to reimburse the UI Fund on a dollar-for-dollar basis for all benefits paid to their former employees.

Likewise, public school districts and community colleges may elect to participate in the School Employees Fund (SEF), which is a special reimbursable financing method available for school districts. All school employers participating in the SEF have the same UI contribution rate, plus an additional charge based on the employer's individual experience.



## UI Program Costs

The UI program is fully funded by employer contributions, both for the payment of benefits to claimants and for the payment of states' administrative costs.

### BENEFIT COSTS

Employers pay state UI taxes, collected by EDD, which may be used solely for the payment of UI benefits. States must have a minimum taxable wage base of \$7,000 and a maximum state contribution rate of at least 5.4 percent. Generally, the new employer's UI tax rate is 3.4 percent for the first three years and then can change depending on the employer's experience rating and the tax schedule in use that year.

### ADMINISTRATION COSTS

In addition to state UI taxes, tax-rated employers pay federal payroll taxes of 0.8 percent on the first \$7,000 paid per year to each employee. The maximum amount an employer pays in federal taxes annually is \$56 per employee. These taxes are collected directly by the federal government and placed into three national UI Trust Fund accounts. The national accounts are used to redirect collected taxes back to the states. The three accounts are:

#### ⇒ *Employment Security Administration Account*

Provides funds for the operations of the UI, Employment Services, and veterans' employment programs.

#### ⇒ *Extended Unemployment Compensation Account*

Provides funds for the federal share (50 percent) of the extended benefits paid to unemployed workers.

#### ⇒ *Federal Unemployment Account*

Provides loans to states whose UI benefit trust funds become insolvent.

Administrative costs include the cost of UI premises. The DOL permits states to use selected administrative grants for construction and acquisition of real property. There is an effort underway in the EDD to reduce rent costs by maximizing existing facilities. With limited federal funding available, the UI Branch must strike a balance between maintaining adequate facilities for staff and ensuring sufficient funding to provide direct services to unemployed workers.

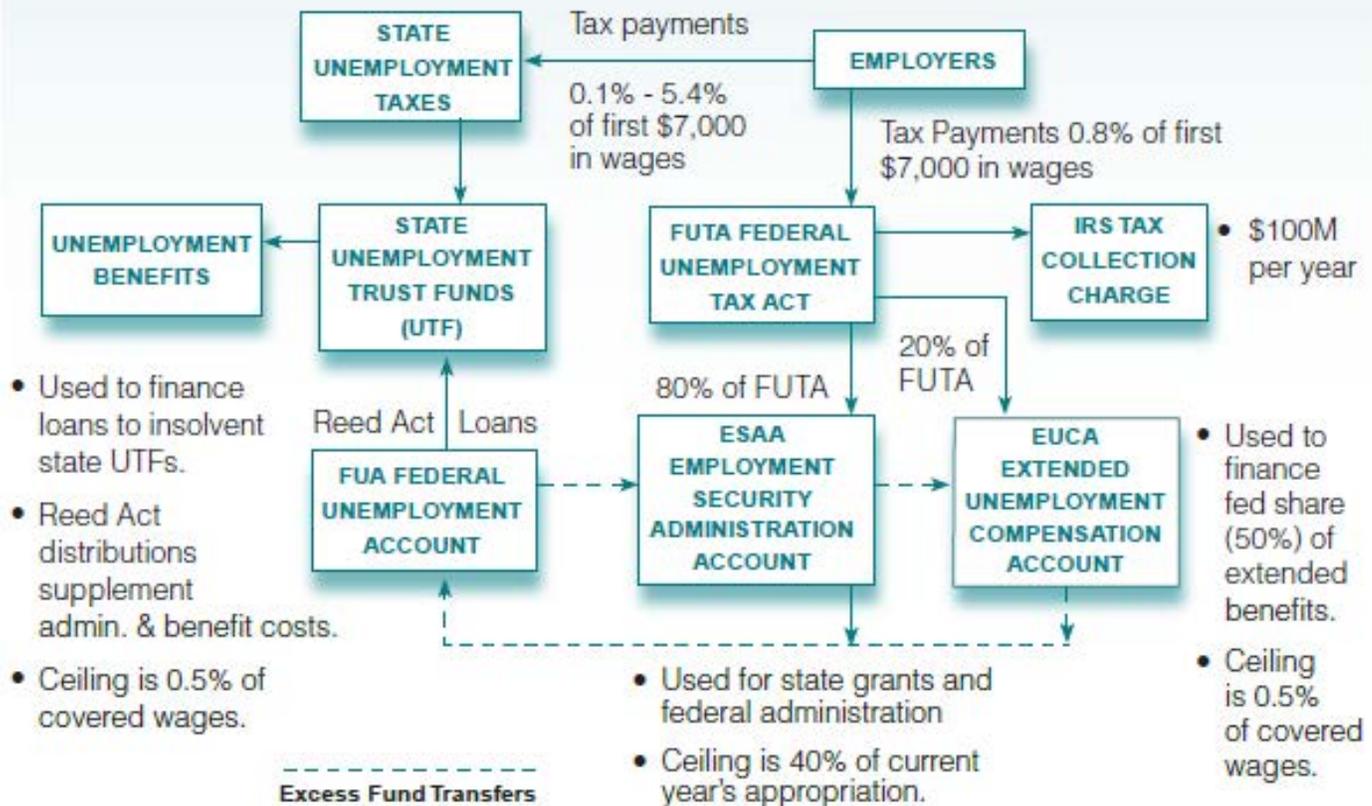


The following two charts show California's portion of contributions compared to the U.S. Total (Figure 7) and an overall picture of Employment Security Financing (Figure 8).

**Figure 7: UI Financial Data, Calendar Year 2006<sup>1</sup>**

Financial Information	California	U.S. Total	Percentage of U.S. Total
State Tax Contributions	\$5.0 billion	\$34.1 billion	15%
FUTA Contributions (2005)	\$861.8 million	\$7.1 billion	12%
Trust Fund Balance	\$2.3 billion	\$35.9 billion	6%
UI Grant <sup>2</sup>	\$353.2 million	\$2.6 billion	14%

**Figure 8: Employment Security Financing**



1 Data Sources: U.S. Department of Labor, *Unemployment Insurance Data Summary, 4th Quarter 2006* and *Unemployment Insurance Financial Data Handbook, 2006*. State tax contributions and Trust Fund balance for California are based on the *EDD UI Fund Forecast, May 2007*. UI base grant information provided by EDD Fiscal Programs Division.

2 For Federal Fiscal Year 2006-07: October 1, 2006 – September 30, 2007. Includes UI base grant, postage allocation, above-base contingency earnings, temporary extended unemployment compensation, and supplemental budget requests.



## Current UI Administrative Funding

### RESOURCE JUSTIFICATION MODEL

The DOL introduced the Resource Justification Model (RJM) to better justify to Congress the need to adequately fund the states' UI programs. Since funding amounts are tied to workload levels, states' requested funding levels could be better justified by more comprehensive reporting of data and performance elements.

The following chart shows California's historical share of the federal administrative grant to operate the UI program. In addition to funding direct services to unemployed Californians, this funding is distributed throughout EDD and the California Unemployment Insurance Appeals Board (CUIAB) for a number of UI-related services, including tax collection, information technology infrastructure, and other administrative functions.

**Figure 9: California's Historical Funding for UI Administration, Federal Fiscal Year 2001-2007<sup>1</sup>**

Federal Fiscal Year	Federal Funding <sup>2</sup> (In millions)	State Funding <sup>3</sup> (In millions)
FY 2001-02	\$431.5	\$25.1
FY 2002-03	\$381.8	\$26.9
FY 2003-04	\$382.0	\$67.8
FY 2004-05	\$360.1	\$37.0
FY 2005-06	\$358.9	\$40.5
FY 2006-07	\$353.2	\$30.7

Although the RJM was developed to ensure adequate funding for the administration of the states' UI programs, California and other states are consistently underfunded at the federal level. While some of the decrease in funding is due to lower workload, this does not fully account for the declining funding stream. Federal funding has not kept pace with California's rising staff and automation costs, requiring supplemental state funding to properly administer the UI program.

1 Data Source: EDD Fiscal Programs Division

2 Federal funding includes UI base grant, postage allocation, above-base contingency earnings, temporary extended unemployment compensation, and supplemental budget requests.

3 State funding includes penalty and interest monies (EDD Benefit Audit Fund and EDD Contingent Fund), Reed Act monies, or a combination thereof.



## STATE FUNDING

As federal funding for program administration continues to fall short of actual need, many states have come to rely on supplemental state funding to augment federal funding. The following are state funding sources that California uses to improve and enhance the UI program.

The EDD has two sources of funding from penalty and interest monies, the Contingent Fund and the Benefit Audit Fund.

### ⇒ *Contingent Fund*

The Contingent Fund consists of monies collected from penalties and interest assessed against delinquent employer UI taxes. These monies are mainly used for EDD tax collection programs and to maintain Workforce Services programs. However, in recent years Contingent Fund monies have been appropriated by the State Legislature for UI fraud prevention initiatives.

### ⇒ *Benefit Audit Fund*

The Benefit Audit Fund is comprised of monies collected from penalties and interest assessed on fraudulent benefit overpayments. These funds are used to finance administrative costs associated with detecting, establishing, and collecting UI benefit overpayments. Benefit Audit funds are appropriated in the state budget and supplement federal UI benefit control resources.

### ⇒ *Reed Act*

The Employment Security Financing Act (Public Law 83-567) was passed in 1954 amending specific provisions that govern the national UI Trust Fund accounts. These amendments are referred to as the Reed Act and require Congress to return excess employer payroll taxes to the states.

The President authorized an \$8 billion Reed Act distribution to the states in 2002, of which California received \$936.9 million. Of this amount, \$66 million has been dedicated to UI modernization projects to upgrade the claim certification and payment systems and to replace an outdated call handling system. The balance of the Reed Act funds was used to pay UI benefits and cover other administrative costs.

### ⇒ *General Fund*

A small percentage of the EDD's total funding comes from state General Fund monies. The Department receives an appropriation from the collection of personal income taxes to administer the collection and audit of taxes. The EDD collects approximately 44 percent of all General Fund revenues and 72 percent of all personal income taxes paid.



## UI Administrative Finance Reform

In recent years, a number of states have advocated for change in the financing of the UI and related programs. Many states argue that these programs are continuously under funded and that, as a result, states are unable to adequately administer these programs and serve their dislocated workers, job seekers, veteran populations, and the business community.

In the last 30 years, the federal government has proposed a number of administrative changes to UI funding. Most recently, this resulted in the implementation of the RJM, which ties UI funding to workload levels. In addition, there have been numerous proposals to shift UI funding responsibilities from the federal government to the states, which will be an ongoing issue for the UI program. In recent years, the following initiatives were proposed at the federal level.

### DEVOLUTION OF UI FUNDING

The President's Budget for fiscal year 2003 proposed that UI and Employment Service funding responsibilities be fully transferred to the states by 2007. According to the proposal, the federal government would continue to collect only one-quarter (0.2 percent) of FUTA taxes. The federally collected funds would be used to continue financing the:

- Federal administration costs for program oversight.
- Federal share of the extended benefits paid to unemployed workers.
- Loans to states whose UI Trust Funds become insolvent.
- Small state adjustment program that ensures adequate administrative funding is available to all states.

The proposal would require California, as well as all other states, to enact implementing legislation. The federal government would still retain its authority to require the states to administer new programs and meet certain performance levels associated with the UI, Employment Services, and related programs. However, the administrative funding authority for these programs would be the states' responsibility.

### STATE CHOICE

In 2004, the DOL introduced a concept to give states the option to take primary responsibility for administrative financing of their UI programs. Under this concept, employers in states that opt to fund UI administration would eventually receive a reduction in federal taxes from 0.8 percent to 0.2 percent of the first \$7,000 in wages paid to each employee annually.

If the cost of administration of a state's UI program should ever exceed the tax savings to that state's employers, the federal government would provide funding to make up any difference. The State Choice approach was not adopted as Administration policy.



## EVALUATION and PERFORMANCE MEASURES

The DOL has established performance measures that all states are required to follow for continuous improvement of the UI program. Performance measures may play an important part in obtaining administrative funding. The federal measures provide information about the accuracy and timeliness of UI processes from the federal perspective.

### Federal/State Statutory Requirements

Under authority of Title III of the Social Security Act and the Government Performance Results Act (GPRA), the Secretary of Labor has established primary performance goals for the UI program. The purpose of these performance measures is to ensure that the UI program is properly administered by the states in accordance with federal law. This ensures that UI benefits are paid accurately and timely to unemployed individuals and maintains the integrity and solvency of the UI Trust Fund. This also ensures employers make timely UI tax contributions used for the payment of UI benefits to eligible unemployed individuals.

### GOVERNMENT PERFORMANCE RESULTS ACT

The GPRA of 1993 requires federal agencies to report to Congress annually on their strategic plans and program performance goals, objectives, and outcomes as part of the federal budget process. The purpose of the GPRA is to hold government agencies accountable for the services they provide to the public, which links performance to funding levels.

Since the UI program is federally-funded, the DOL is required to submit annual strategic and performance plans, which include UI program strategic guidelines and performance measures that are established by DOL as national standards for all states. The DOL annual plans set forth the strategic framework within which the states are required to develop their individual strategic plans and operate their UI programs accordingly. The purpose of the performance measures is to require states to meet minimum quality standards at these “baseline” levels and to strive for continuous improvement above these established measures.

As required by GPRA, DOL annually reports to Congress on achievement of four goals:

- Payment Timeliness;
- Payment Accuracy;
- Reemployment; and
- Establishment of new UI tax accounts timely.



## Federal Administrative Requirements

### USDOL PROVISIONS

In order to meet GPRA requirements and the requirements of the Social Security Act, the DOL has established UI PERFORMS as the UI program's performance management system. UI PERFORMS incorporates UI benefits, tax, and appeals activities. Listed below are the key components of the UI PERFORMS system:

- Benefit Accuracy Measure: Measures accuracy of UI benefit payments and denials.
- Benefit Timeliness and Quality: Measures quality of UI benefit decisions and lower authority appeals. Measures the timeliness in rendering determinations and appeals, and payment of UI benefits.
- Data Validation: Measures accuracy of data.
- Tax Performance System: Measures accuracy, timeliness, and quality of UI tax revenue collection and processing.

In order to receive federal administrative grants from DOL, states submit State Quality Service Plans (SQSP) describing each state's annual business and performance plans for administering the UI program. Each state's UI performance is compared to the GPRA goals. When states do not meet the performance goals, they are required to include an annual corrective action plan with the SQSP.

The SQSP includes the following information:

- A comparison of the state's performance against DOL standards.
- A description of the state's corrective action plans for UI programs that did not meet federal standards.
- A description of the state's goals for program improvement.

The SQSP is a dynamic document that the Department can use as a management tool, much like a business plan, not only to build strong program performance, but also to guide key management decisions, such as where to focus resources and improve services. The SQSP is designed to be flexible to accommodate, among other things, multi-year planning and significant changes that take place during the planning cycle.

In addition to DOL goals and requirements, the Department also establishes internal operational goals that are adopted to ensure the timely and accurate payment of UI benefits.

The following chart shows the federal performance standards for which the UI Branch is accountable. These measures are mandatory.



**Figure 10: Federal Performance Measures**

<b>Performance Measure</b>	<b>Target</b>
<b>First Payment Time Lapse</b>	
Percent of 1st Payments within 14/21 days: Full & partial weeks	87%
Percent of 1st Payments within 35 days: Full & partial weeks	95%
Percent of 1st Payments within 35 days: Intrastate UI, full weeks	93%
Percent of 1st Payments within 35 days: Interstate UI, full weeks	78%
<b>Non-monetary Determinations Timeliness</b>	
Percent of Separation Issues determined within 21 days of Detection Date	80%
Percent of Non-Separation Issues determined within 21 days of Detection Date	80%
<b>Non-monetary Determinations Quality</b>	
Percent of Separation and Non-Separation Determinations with Quality Scores greater than 80 points	75%



## STATE PROGRAM TARGETS

The primary functions of the UI program are claim filing, adjudication of claims, and timely payment of UI benefits. The following are the UI Branch's performance targets for those key functions and other related functions. There are a number of measures that are still being defined, and are designated in the following chart as "To Be Determined (TBD)." These measures represent major program initiatives over the next five years.

**Figure 11: UI Program Measures**

Performance Measure	Timeliness	Quality
<b>Call Center Access</b>		
Telephone Service Levels	TBD	TBD
Information Calls	TBD	TBD – Percent Without Substantive Errors
<b>Claim Filing</b>		
Claim Filing	TBD	TBD – Percent Without Substantive Errors
Telephone Claim Filing (Call Backs and Down Mode Processing)	Within 3 Business Days of Receipt	TBD - Percent Without Substantive Errors
Internet Claim Filing Applications/Paper Claim Filing Applications Completed	Within 3 Business Days of Receipt	TBD - Percent Without Substantive Errors
<b>UI Benefit Payments</b>		
Timeliness for Continued Claim Certification	Within 2 Business Days	TBD - Percent Without Substantive Errors
Benefit Payment	TBD	98% Without Substantive Errors
<b>Adjudications</b>		
Scheduling Interview Appointment Dates	Within 5 to 11 Business Days from receipt of eligibility information	Not Applicable
Notification of Decision to Interested Parties for Identity Determinations	Within 3 Business Days, following the suspense ending date	TBD – Percent Without Substantive Errors
Notification of Decision to Interested Parties for all other eligibility issues	Within 10 Business Days, following Interview	TBD – Percent Without Substantive Errors
Transmissions of Appeals Timeliness	Within One Business Day of Receipt	TBD – Percent Without Substantive Errors



**Figure 11: UI Program Measures (Continued)**

<b>Performance Measure</b>	<b>Timeliness</b>	<b>Quality</b>
Establishment of Overpayments	TBD	TBD
Overpayment Adjustments Completed	Within 2 Business Days of Receipt	TBD – Percent Without Substantive Errors
Rulings Reviewed	Within 10 Business Days of Mail Receipt	TBD – Percent Without Substantive Errors
Rulings Completed	Within 30 Calendar Days of the Ready-for-Ruling Date	TBD - Percent Without Substantive Errors
All Rulings Completed	By August 10 Each Year	Not Applicable
<b>Department Mailings</b>		
Process Employer Response to Notice of Claim Filed (DE 1101)	Within 2 Business Days of Mail Receipt	TBD - Percent Without Substantive Errors
Report of Taxable Unemployment Compensation Form (DE 1099G)	Completed by January 31 Each Year	Not Applicable
<b>Transfer of Funds Between Agencies</b>		
Transmit Child Support Intercept Funds	Within the Same Week	Not Applicable
Respond to Child Support Intercept Inquiries	Within One Business Day of Initial Inquiry	Not Applicable
<b>Recomputation (Wage Corrections)</b>		
Completion of Recomputations	Within 5 Business Days of Receipt	96% - Without Substantive Errors
Completion of Obstructed Claims	Within 10 Business Days of Receipt	96% - Without Substantive Errors

*NOTE: Substantive Error: Has the potential to create an overpayment, underpayment, unnecessarily delay payment, or inappropriately affect the employer's tax account; or the customer is not sufficiently identified to ensure confidentiality, system integrity, or claim security.*



## Customer Satisfaction Surveys

The EDD is committed to continually improving the various services we provide to our customers. In each of the last five years, the Audit and Evaluation Division's Customer Service Survey unit has conducted surveys to measure customer satisfaction with the Department's claim filing services.

In 2002, the Department shifted its focus from satisfaction with only telephone claim filing to include the general UI applicant population. The surveys expanded to include *eApply4UI* applicants as well as those who accessed the paper application on the EDD Web site.

The yearly surveys are used to measure UI service quality and can include written surveys conducted by Audit and Evaluation Division as well as a statewide Quality Control survey. The UI program is continuously reviewing aspects of the program to determine customer satisfaction.

### 2002 - 2006 CALL CENTER SURVEY RESULTS

In each of the surveys fielded during the last five years, the general trends have not varied significantly from year to year. The one major dissatisfaction with the telephone claim filing process is the inability to quickly and reliably reach a Department Representative on the first attempted phone call.

A very high proportion of the individuals surveyed express satisfaction with EDD's processing of their UI claim applications. While most indicate a preference to file by phone, those using *eApply4UI* indicate a high probability that they will continue to use the Internet in the future.

Results of applicants using the Internet to file for benefits:

- Approximately 90 percent of respondents indicate that it was very easy or easy to complete the application.
- Approximately 80 percent of respondents indicate that they completed the application process in 20 minutes or less.
- Of respondents who used the *eApply4UI* method to file a UI claim, 85 percent indicate that they would prefer to use the same method should they need to file for UI benefits in the future.



## TECHNOLOGICAL ADVANCES

In 1956, EDD was the very first department in the State of California to install computer systems to support its programs. Since that time, EDD has continued to update automated systems to improve service delivery and program support services as resources are available for these improvements. As technology advances to provide more sophisticated tools for service delivery, public expectations increase relative to the timeliness and availability of services.

Although the advent of technology in state government has been slow compared to the private sector, the EDD is committed to increasing and providing easy access to its services. For more than 10 years, customers have been able to file UI claims via the telephone and certify for weekly benefits by mail. It is no longer necessary for customers to report in person to receive UI services. Technology has helped staff improve service to customers and reduce processing costs. In 2002, the UI program deployed personal computers and related hardware and software. This provided the ability for staff to utilize the current mainframe systems while also building the capacity to run the client/server applications that will be critically needed to provide services in the near future. Implementing the use of personal computers for UI staff provides the foundation to increase access to services and leverage technology for future program enhancements.

As with all State agencies, EDD is continuing to move toward providing more information and access to services through eGovernment initiatives deployed over the Internet. Within EDD, successful eGovernment will consist of multiple applications based on the Department's services.

The Department is continuously seeking system enhancements to the UI program to improve service delivery, provide multiple ways to access UI services, increase self-service options, and maximize the use of limited funding. For example, the *eApply4UI* application allows individuals to submit UI claims through the Internet. First implemented in 2002, this system is now the source of over 40 percent of UI Initial Claims. The *eApply4UI* system is also more cost effective than other claim filing methods.

Projects are underway to implement a new claim filing system for use by UI staff that will improve quality and consistency in the claim filing process and reduce training time for individuals who file new claims. In addition, the UI Branch is pursuing a replacement and upgrade of claim payment systems to allow claim certification via telephone and the Internet, the implementation of new content management systems, and replacement and expansion of call management systems to all UI centers. These projects will provide the infrastructure for future system enhancements to improve processes and program performance, expand EDD's eGovernment capabilities, and enhance communication and services for customers.



## 3.0 BUSINESS ISSUES

### Six Key Issue Areas

There are six issue areas that represent the key business challenges facing the UI program:

- ⇒ ***Access and Integration of UI Services:*** Providing customers the services they need.
- ⇒ ***Modernization of the UI Program Technology and Infrastructure:*** Supporting modern methods of service delivery.
- ⇒ ***Program Quality:*** Improving timeliness and accuracy of services in order to meet customer needs and federal mandates.
- ⇒ ***Staff Resources:*** Finding innovative ways to meet current and future staffing needs.
- ⇒ ***Program Funding:*** The ability to maintain sufficient funding levels to pay benefits and administer the program.
- ⇒ ***Future Policy Strategies:*** Meeting the needs of our changing customer base and ensuring that the UI program continues to act as an effective economic stabilizer.

### ACCESS/INTEGRATION OF SERVICES

California's UI customers demand service choices and timely service delivery. The EDD is a department with four major program areas that serve California's workers, job seekers, and employer communities. They are the DI, Tax, UI, and Workforce Services programs. The EDD is challenged to integrate customer services and improve access to all reemployment, wage replacement, tax, and training services the Department provides. This requires these programs to collaborate and plan a strategy for integrated service delivery. The programs often share the same customers, yet provide services independently and often from different service access points.

For UI claimants, expanded access options means Internet claim filing and direct deposit of their benefit payments. Direct deposit and the use of debit cards are service delivery options that EDD is exploring with regards to the Department's benefit programs. Another important issue is the access of UI services by individuals with special needs. The UI program will expand efforts to address the special needs of those with limited English proficiency and enhance services to disabled customers.

Employers will also be looking to the UI program for expanded electronic access to services. One enhancement is the ability for employers to identify a centralized address for their UI claims management which should improve timely and accurate information for proper payment of UI benefits.

This streamlines employer processing and improves program integrity. The UI program continues to explore online service delivery options for the employer community.



## MODERNIZATION OF THE UI PROGRAM TECHNOLOGY AND INFRASTRUCTURE

The UI program began using automation in their service delivery systems about 35 years ago. California's UI program continues to operate in a 35-year-old mainframe environment. A substantial investment has been made over the years in this legacy system, both in terms of the initial system development and the maintenance and operations activities needed to keep the system running. Modernization efforts are underway, however, competing priorities and funding limitations extend the timeline for program automation development and implementation.

As additional funding becomes available to improve infrastructure, incremental steps will be taken to upgrade the system and build needed functionality. For example, the conversion to personal computers and the infrastructure upgrades linking all locations through client-server technology have provided employees the basic tools to communicate effectively between geographically dispersed locations. The UI Branch is currently replacing personal computers statewide to keep pace with changing technologies. The front-end upgrades have also provided the ability to add Web-based functionality and increase customer accessibility to UI services through the Internet.

The UI Branch is also implementing a major modernization project that will enhance service delivery, increase fraud detection and program integrity, and build a more flexible and responsive infrastructure to operate the UI program. The EDD's current UI call handling system supports six integrated call centers throughout the state where staff file claims and answer information calls from customers. The modernization project will result in the following enhancements to the UI program:

- Provide alternate ways for customers to certify for UI benefits via the telephone or Internet.
- Update the current UI payment system.
- Replace the existing outdated call handling platform with a modern and flexible system.
- Upgrade call handling for our specialized integrity and accounting call center.
- Improve call handling.
- Expand call center technology to eight additional UI centers.
- Facilitate business resumption plans.
- Promote flexibility in managing UI workload.
- Assist with fraud detection and prevention efforts by providing incoming call data to program staff.

These upgrades will improve services and call handling for the entire UI program.

Current and future automation efforts, including infrastructure upgrades, technology and telecommunication advancements, and network connectivity move the UI program closer to service delivery in a virtual environment, thereby improving UI services statewide. More business will be conducted through the Internet. Paper documents will be replaced with database-stored electronic images accessible by all UI staff.



The upgraded inbound call center technology will be extended to all UI primary sites. As a result, the UI Branch will transition from silo-based operations to multi-functional operations. Where the work is performed will be immaterial to the service provided. The Branch can leverage all staff resources throughout the state to improve service access, service quality, and work productivity. In addition, a virtual environment will enhance business continuity in the event of a localized disaster or prolonged outage at any site.

## **PROGRAM QUALITY**

For many years, California has been experiencing difficulty meeting federal performance measures. Meeting workload performance goals is important to comply with federal mandates. System enhancements will assist in making quality improvements that are currently handled manually, relying on staff's knowledge and correct application of processes and procedures. This will be useful in resolving performance problems that have persisted for several years.

Another important component of program quality is program integrity. Reducing UI fraud and abuse is a priority and will improve by the introduction of technology. The program will undertake projects to detect and prevent UI fraud, such as the caller identification data that will be provided with the new call handling platform, business intelligence for identifying fraud, and new crossmatch programs to curtail claimant fraud.

## **STAFF RESOURCES**

The EDD is one of the largest state departments in California with approximately 8,000 employees located throughout the State.

The UI Branch employs approximately 2,200 staff with more than three-quarters of those staff located in Call Centers and Adjudication Centers. All non-managerial employees in the UI Branch are represented by organized labor, subject to collective bargaining agreements that affect the terms and conditions of their employment.

The EDD employs hundreds of multilingual individuals who provide services to our non-English speaking and limited English proficiency clients. There will be a growing demand for multilingual services in both the public and private sectors, resulting in competition across the state for employees with these skill sets.

The UI Branch is embarking on a major succession planning initiative to prepare for the expected increase in retirements over the next several years and to position the UI program for strong leadership in the future. This effort will focus on manager development for future promotional opportunities including individual leadership development plans and training on essential leadership skills. The average annual attrition rate in the UI Branch is nearly 14 percent, with the primary factors being staff retirement and leaving for other work opportunities outside the UI Branch. As more employees reach retirement age in the next several years, it is likely that the attrition rate in the UI Branch will increase. This is compounded by the fact that



retiring staff take with them a wealth of experience and institutional knowledge, making succession planning efforts crucial to the future of the program.

The UI program is administered by highly trained program staff that provide direct services to customers. The training of program staff requires a significant investment of the UI Branch's time and resources. This investment ensures staff have developed the skills and obtained the legal and operational knowledge to provide a variety of key services to unemployed workers and employers.

Maintaining a highly-trained and skilled UI workforce will continue to be one of the UI Branch's top challenges and priorities in the coming years. The high percentage of employees who are at retirement age, compounded by employees changing jobs frequently throughout their careers, will require the UI Branch to engage in an ongoing hiring and training effort. Furthermore, the program's investment in new automation tools requires program staff to be able to effectively use new technologies and applications. As knowledgeable UI and Information Technology staff retire or move on to other opportunities, the Department will be challenged to maintain current automated systems and build future applications. These challenges increase the importance of the UI Branch's training efforts.

All UI Branch staff receive both classroom and on-the-job training (OJT). New employees hired in UI centers throughout the state receive intensive classroom training related to their assignment. The classroom training is followed by extensive OJT provided by the center's staff. All new employees also receive a New Employee Orientation as an introduction to the UI program and the Department.

Journey-level employees receive further training in specialized functions, as well as training when new automation projects or statutes are implemented that require significant changes to the UI program's procedures. Training for new and journey-level employees is conducted by the individual centers. The UI program's commitment to a quality training delivery system cannot be understated. A well-trained workforce provides the foundation that guarantees consistent, accurate, timely, courteous, and measurable application of California's UI program.

The UI Branch recognizes the need for a training structure that will meet future programmatic needs. A key initiative in this business plan is to develop a training office that supports an environment of continuous learning using innovative approaches to developing and delivering high quality standardized training throughout the UI Branch. By investing in the Branch's most important resource, its employees, the program will ensure that there are trained staff with the skills, knowledge, and abilities to effectively operate the UI program to serve California's employers and unemployed workers.

Recruiting and retaining staff to meet workload demands has been a constant challenge for the UI program. Government is just learning what the private sector has known for many years about staffing practices: successfully operating in the Information Age requires businesses to acknowledge new workforce realities and rethink the approach to recruitment, hiring, and maintaining the workforce. A challenge for the UI program is to modernize



staffing practices. One initiative underway is constructing an online exam process for UI field staff for just-in-time recruiting. A full classification study is also under consideration.

## **PROGRAM FUNDING**

### **Administrative Funding**

The states share widespread concern that monies allocated to them from the federal Employment Security Administration Account are insufficient to properly fund the program. The amount of federal UI funding has declined over the years. As a result, there has been a movement by UI stakeholders, such as the State Employment Security Agencies, DOL, National Association of State Workforce Agencies, and employer and claimant associations, to legislatively reform the federal administrative financing process. Over the last 30 years numerous proposals have been drafted that address this issue. The proposals are intended to ensure that the states receive adequate funding to operate their UI programs.

The Resource Justification Model was introduced to improve states' data and reporting elements and ties federal funding to states' workload levels. While the RJM was intended to more adequately fund UI administrative costs, California and other states are consistently underfunded and must seek additional state funding to administer their UI programs.

Other recent proposals would transfer responsibility for raising revenue to finance UI operations to the states, leaving the federal government primarily responsible only for extended benefits and loans to insolvent state funds. It is expected that the topic of state-funded UI administration will continue to be an issue in the future.

### **Trust Fund Solvency**

A solvent trust fund means the reserve levels in states' UI funds are adequate to pay benefits. There are differing opinions as to what level of reserve constitutes "solvency." The state faced a solvency crisis during the early part of this decade. The UI financing system needs to be updated to reflect current economic conditions to better ensure fund solvency. California's system has not been reformed since 1984.

An adequate level of reserve involves many considerations. The system was designed based on a different economy, marketplace, and labor force. There are three major elements that must be considered for reforming the UI program tax mechanism:

- Experience rating system
- Taxable wage base
- Minimum and maximum payroll tax rates

## **FUTURE POLICY STRATEGIES**

A key responsibility of the UI Branch is to act as a steward for California's UI program. This involves collaborating with federal and state policymakers to craft a program that meets changing customer needs. There are a variety of economic, demographic, and social trends that will provide the foundation for future policy strategies in the UI program regarding funding, coverage, service delivery, and other related policy issues.



## 4.0 PROGRAM INITIATIVES

The operational business challenges and issues discussed in Section 3.0 are addressed by the following 6 goals and 16 objectives. The Branch has created a series of initiatives to meet the goals and objectives of our plan.

The program's ability to meet our goals and objectives and complete the initiatives depends on the availability of resources and, in some cases, the approval of state and federal oversight entities.

### Goal 1: Improve ease of access to UI services

#### OBJECTIVES:

- 1.1 Improve ease of access to claim filing services
- 1.2 Improve ease of access to information services
- 1.3 Improve ease of access to benefit payments
- 1.4 Improve awareness of available UI services

### Goal 2: Improve Quality of UI Services

#### OBJECTIVES:

- 2.1 Improve accuracy and integrity of UI benefit payments
- 2.2 Provide courteous services to all customers, partners, stakeholders, and coworkers
- 2.3 Improve UI Branch information security

### Goal 3: Ensure consistent and equitable UI services to customers

#### OBJECTIVES:

- 3.1 Ensure standardized services
- 3.2 Provide equitable services to special needs customers

### Goal 4: Improve UI system capacity to enhance customer service and program performance

#### OBJECTIVES:

- 4.1 Improve work productivity tools to increase efficiency
- 4.2 Improve business processes to increase efficiency
- 4.3 Improve work portability, workflows, and workload management to increase productivity
- 4.4 Improve integrity of UI program data to increase validity of performance assessments



**Goal 5:** Ensure UI Branch employees have the knowledge, skills, abilities, and work opportunities for peak performance

**OBJECTIVES:**

- 5.1 Ensure the classification, testing, recruitment, and selection process meet the UI Branch needs*
- 5.2 Provide development, work assignments, feedback, and support needed for employees to achieve peak performance and prepare for future job opportunities*

**Goal 6:** Ensure the UI program continues to support economic prosperity in our communities and statewide as California continues to grow and change

**OBJECTIVES:**

- 6.1** Ensure California's UI program meets future customer needs

## 5.0 FUTURE PROGRAM POLICY

The UI program was established to function as an economic stabilizer by providing temporary wage replacement to workers experiencing short-term periods of unemployment or seasonal bouts of unemployment.

Both the national and state economies have changed from an industrial manufacturing base with workers changing jobs numerous times during the course of their careers.

As evidenced in the following chart, California's workforce, economy, and population have changed dramatically since the UI program's inception in 1935.

**Figure 12: Changing Labor Market, 1935 vs. 2007-2012**

1935	2007-2012
<b>Workforce</b>	
1. Full-time, stable employment and a lifetime relationship with a single employer.	1. Full-time employment, multiple part-time jobs, or contractual or consultant positions. Could have multiple employers simultaneously.
2. Single occupation during one's work career.	2. Multiple occupations sequentially or concurrently during one's work career.
3. Loyalty to a single employer.	3. Loyalty to one's career rather than to a particular employer.
4. Corporate culture was hierarchical with silos based on function.	4. Corporate culture has a flatter structure with a more collaborative environment, where teamwork flows both vertically and horizontally.
5. Educational attainment was primarily a high school diploma, as well as job training and apprenticeships.	5. Educational attainment is a lifelong process, with specialized training and certification of skills and knowledge.
6. Workforce consisted of young, male breadwinners.	6. Workforce is multigenerational, global, and racially and ethnically diverse. Today women comprise over 50 percent of the working age population. Multiple income sources in a single household are also prevalent.
7. Upper management comprised of white males.	7. Upper management is still male dominated, but is shifting towards greater racial and gender diversity.



**Figure 12: Changing Labor Market, 1935 vs. 2007-2012 (Continued)**

1935	2007-2012
<b>Industry Information</b>	
1. Dominant industries were mining, construction, manufacturing, and agriculture.	1. Dominant industries are service-related, including the retail, financial, information technology, professional and business, and health fields.
2. Fastest growing industries were manufacturing and construction.	2. Fastest growing industries are information technology, health, and education.
3. The occupations with the most openings were assembly line or manual labor jobs.	3. The occupations with the most openings are primarily low-wage entry-level service jobs with high turnover, such as retail salespersons, cashiers, and waiters.
4. Many jobs were characterized by manual labor in a defined workplace with defined hours.	4. Technology has automated jobs and displaced workers, while also creating more knowledge workers. Virtual workplaces with flexible work hours are common.
<b>Employer Worksites</b>	
1. Employer worksites were primarily community based.	1. Employer worksites are multinational and global. Global outsourcing and offshoring of jobs is growing.
<b>Population Changes</b>	
1. Continued urban growth with nearly 75 percent of the population residing in urban areas.	1. Primarily urban population.
2. Majority of the population was white, but with increasing racial diversity and declining numbers of white immigrants.	2. Population is moving from a white to a Hispanic majority of more than 40 percent by 2020.
3. Nearly half of the total population was in the prime working age years of 25-54.	3. Aging population with more than 25 percent of California residents projected to be 55 or over by 2020.



If the California UI program is to continue to act as a wage replacement system for California's workers, there is a need to be aware of and responsive to emerging trends in the state's economy and labor force.

There are a number of economic and demographic trends, as reflected in Figure 12, which may impact future changes in the UI program including funding, coverage, service delivery, and other related policy issues. The shift to a service-oriented economy and the continued decline of manufacturing jobs potentially make the state more susceptible to economic downturns, thereby putting workers at greater risk of unemployment. UI benefit duration continues to increase over the years and it is taking longer for unemployed workers to find new employment. A possible reason for this trend is offshoring. In California, offshoring has had a significant effect on lower skilled or assembly-related manufacturing jobs.<sup>30</sup>

There are indications that some California industries are relocating low paid jobs requiring less technical knowledge to other states, while jobs requiring more education are remaining in the state.<sup>31</sup> This trend may result in certain workers experiencing longer or more frequent periods of unemployment and an increased need for training to re-enter the workforce. There are some projections that offshoring is extending to the service industries including information technology and administrative support.<sup>32</sup>

The aging of California's population may also have some bearing on future policy decisions for the UI program. People are working later in life, and as some older workers transition from permanent, full-time employment to part-time work, they may use the UI system more frequently between jobs. In addition, older workers generally have higher wages due to seniority, which would entitle them to higher benefits. However, they are likely to be unemployed for a longer period of time and less likely to obtain new employment. If these trends continue, there could be an impact to the UI Trust Fund in terms of higher benefit payments for a prolonged duration.

The dynamics of the workplace and how people approach their careers is also changing, and these trends have potential importance for the UI program. Increasingly, workers are seeking alternatives to the traditional employment model of the 40-hour workweek, such as part-time or contingent work or self-employment. These trends could be significant in terms of program funding as well as coverage provisions.

At this time it appears that UI claimants will experience more frequent periods of unemployment in their careers and these will be for a longer period of time than in the past. With regard to employment opportunities, new jobs, as opposed to job vacancies, will increasingly be more significant and these jobs may require higher levels of technical skill.<sup>33</sup> As workers remain longer in the workforce, they will use the UI system more frequently than in the past. As longer duration of unemployment and more frequent periods of



unemployment exist among workers, there will be an increased demand on the UI Trust Fund. Pressure to modify or increase the funding basis for the UI Trust Fund will be carried out in the federal and state political process.

There are a variety of national studies underway to examine the workforce and the other dynamics of the UI program for future policy consideration.

The workforce, business and industry composition, labor market attachment of workers, and the changing occupational structure of workers requiring lifelong learning to remain an active participant in the labor force are changing. These changes will all raise issues about the structure, financing, and purpose of the unemployment system nationally.

The dynamics of the economy are changing faster in the last 10 years than they did in the prior 70 years. The UI Branch is charged with operating a seamless program, delivering consistent, reliable, and secure services to the public including unemployed workers, the business community, and public sector agencies. In the next five years, the EDD will:

- Modernize the infrastructure of the program's service delivery system,
- Restructure the financing system,
- Analyze the changing economy and recommendations from the national studies, and
- Work with stakeholders to build an effective system to assist in the stabilization of the local, state, and national economy.



## 6.0 Appendix A: Statutory Basis for the UI Program

The UI program is administered as a unique federal-state partnership. The program is based on federal and state law and is administered by the states. California is subject to UI laws and regulations at both the state and federal level.

### Federal/State Statutory Requirements

#### SOCIAL SECURITY ACT (SSA)

The SSA establishes the basic framework of the Federal-State UI system. Key provisions of the SSA include the following:

- Provides states with funding for the administration of their UI programs.
- Sets requirements for program funding, such as methods of administration to ensure full payment when due.
- Establishes the structure of the Unemployment Trust Fund.
- Provides for loans to insolvent states to pay benefits.

#### FEDERAL UNEMPLOYMENT TAX ACT (FUTA)

The FUTA focuses primarily on the tax aspects of the UI program. Key provisions of the FUTA include the following:

- Establishes a federal payroll tax on employers.
- Provides for two credits, normal and additional, against the federal payroll tax under an approved state law.
- Mandates benefit standards for states.
- Requires states to meet experience rating provisions to receive the additional credit.
- Establishes coverage provisions, including definitions of wages, employers, and employment.

#### CALIFORNIA UI CODE (CUIC)

The CUIC is the state statutory authority for California's UI program. Key provisions of the CUIC include the following:

- Defines scope or coverage at the state level.
- Sets benefit levels.
- Establishes monetary qualifying requirements.
- Institutes nonmonetary eligibility requirements.



## Federal/State Regulations

### CODE OF FEDERAL REGULATIONS (CFR)

The CFR, Title 20, prescribes rules to implement federal UI laws. Many of these regulations outline requirements for states for the operation of various aspects of the UI program. Key provisions of the CFR, Title 20, include the following:

- Establishes federal administrative procedure for the approval and certification of state UI laws for the purposes of granting tax credits and administrative grants.
- Defines federal requirements and state responsibilities for quality control in the Federal-State UI system.
- Institutes requirements of federal UI law regarding the confidentiality and disclosure of UI information.
- Implements the tax credit provisions of FUTA and the loan provisions of Title XII of the SSA.
- Provides rules for the administration and implementation of the UI benefit programs for federal civilian employees and ex-service members.
- Implements the federal Extended Benefits and the Disaster Unemployment Assistance programs.
- Outlines an interstate arrangement to cover an individual for UI purposes when they have employment or wages in more than one state.
- Imparts standards for benefit payment and appeals promptness.

### CALIFORNIA CODE OF REGULATIONS (CCR)

The CCR, Title 22, prescribes regulations and rules dealing with the various sections of the CUIC. These regulations guide California practice on the implementation of state UI laws. Key provisions of the CCR, Title 22, include the following:

- Establishes state administrative procedure for the operation of the EDD, the California Unemployment Insurance Appeals Board, and interstate and federal cooperation.
- Implements state coverage provisions, including definitions of employment, employee, subject employers, and excluded services.
- Defines requirements for employer tax contributions and reserve accounts.
- Provides rules for UI benefits, including eligibility and disqualifications, computation of benefits, and filing, determination, and payment of benefits.
- Identifies role of public employment offices in the UI program.
- Lays out the appeal process and rights.



## ENDNOTES

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