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“Stability and Security: Employment Development Department Readiness for Potentially Tumultuous Economic Times”

Wednesday, May 10, 2017

9:30 am

State Capitol, Room 2040

BACKGROUND

During the Great Recession, California’s unemployment rate went from its pre-recession low of 4.8% to a post-recession peak of 12.4% - an unemployment rate unseen since the 1940s. Although California’s unemployment rate now stands at 4.9%, with the state gaining a total of 2,507,400 jobs since the economic expansion began in February 2010, there are still 942,000 unemployed workers unable to reap the benefits of the economic recovery. The recession resulted in a large influx of Californians seeking access to unemployment benefits, and this caused various challenges for the Employment Development Department (EDD), the state agency tasked with distributing benefits to the state’s unemployed workforce. Challenges ranged from long wait times to speak with an EDD representative, to delays in receiving benefits.

Over the past several years, both houses of the Legislature have conducted oversight hearings on the issues, such as delays in benefit payments to claimants and challenges with technology that have negatively impacted the customer service experience of claimants during the recession. This committee held one such hearing on these matters in 2015. Since then, the EDD has made great strides to implement trainings and technology upgrades in order to improve customer service and access to benefits for California’s unemployed. The purpose of this hearing is to receive an update from EDD on their progress with these issues and current measures in implementation, or planned, to improve services to Californians. This will hopefully ensure that in the case of a future recession, the department is equipped with the tools necessary to meet the needs of our unemployed.

Employment Development Department Duties

The EDD offers a wide variety of services to Californians under its Employment Service, Unemployment Insurance, State Disability Insurance, Workforce Investment, and Labor Market Information Programs. As California’s largest tax collection agency, the EDD also handles the

collection, accounting, and auditing of payroll taxes and maintains employment records for nearly 7 million California workers. EDD is one of the largest departments in the state government and has nearly 10,000 employees providing services throughout California.

Unemployment Insurance Program: An Overview

The Unemployment Insurance (UI) program is a federal-state program, authorized in federal law but with broad discretion for states to set benefit and employer contribution levels. UI provides weekly unemployment insurance payments for workers who lose their job through no fault of their own. Benefits range from \$40 to \$450 per week for up to 26 weeks, depending on earnings in a 12-month base period. To be eligible for benefits, a claimant must:

- Have received enough wages during the base period to establish a claim.
- Be totally or partially unemployed.
- Be unemployed through no fault of his/her own.
- Be physically able to work.
- Be available for work.
- Be ready and willing to immediately accept work.
- Be actively looking for work.
- Be approved for training before training benefits can be paid.

To apply for UI benefits an individual may file online with eApply4UI and complete an application, contact EDD by telephone to speak to a Department representative who will ask a series of questions and record responses, or complete a paper UI application and fax or mail it to an EDD office for processing.

Financing UI: UI is financed by employers paying unemployment taxes on the first \$7,000 in wages paid to each worker. The actual tax rate varies for each employer, depending in part on the amount of UI benefits paid to former employees. Meaning, an employer can earn a lower tax rate when less employees collect UI and employers with more UI claims can have a higher tax rate. Part of the employer's tax goes directly to the federal government to pay for the administration of the system. The greater portion goes into a special UI Trust Fund from which benefit payments are made to the workers who are unemployed, which is administered by EDD.

UI Benefits: Generally, California provides weekly benefits equal to 50 percent of a claimant's average weekly earnings (with a cap of \$450 per week) during the quarter of highest earnings in the prior twelve months. The average weekly benefit amount in 2017 for California claimants was \$320. The maximum duration of benefits in California is 26 weeks, but the average duration of claims was approximately 13 weeks in 2017. Claimants must submit a certification that they are able to work and are actively seeking work every two weeks to continue to receive UI benefits.

Claimants can submit their certification three ways:

- Mail in a paper certification form provided to them by EDD.
- Use the TeleCert program to certify by telephone.
- Online certification through EDD's "UI Online" System, which replaced the Web Cert System.

Through a system of payments made directly to unemployed workers, UI ensures that at least some of life's necessities, most notably food, shelter, and clothing can be met while actively searching for

new work. For the most part, UI benefits are spent in the claimant's local community, thereby helping sustain the economic well-being of local businesses.

Challenges Facing EDD and the UI Fund

UI Post-Recession Recovery

Between June 2007 and June 2010, California's unemployment rate experienced a 132 percent increase – from 5.3 percent in 2007 to 12.3 percent in 2010. This led to a dramatic increase in demands for unemployment benefits. According to a March 2011 report from the State Auditor, *Employment Development Department: Its Unemployment Program Has Struggled to Effectively Serve California's Unemployed in the Face of Significant Workload and Fiscal Challenges*, the number of initial claims the department processed grew by 148 percent within the same time period. And in response to the State Auditor's report, the Labor Agency stated that the Employment Development Department's UI program paid \$43.1 billion in UI benefits paid to unemployed workers over the 2010 and 2011 calendar years, significantly surpassing the \$5 billion annual average paid in UI benefits during the previous decade. This surge in claims as well as federal extensions of unemployment benefits resulted in individuals receiving benefits for longer periods of time, thereby further contributing to the department's unprecedented workload.

During this time, the EDD's dramatic increases in workload led to delays in distributing payments to claimants, primarily due to a claimant's inability to reach EDD on the phone. Additionally, EDD has been working on modernizing its computer systems which have also caused some delays in the past. In order to address the backlog, the department took various actions including increasing staff and allowing them to work overtime and on weekends, and updating its phone system to increase the public's timely access to services.

UI Fund Insolvency

Due to the increased demands for unemployment insurance benefits during the recession, the State's Unemployment Fund became insolvent, requiring the UI program to rely on federal loans in order to provide benefits without interruption to unemployed Californians. According to a 2010 Report from the Legislative Analyst's Office, *California's Other Budget Deficit: The Unemployment Insurance Fund Insolvency*, the UI fund has been insolvent since January 2009 when it ended the year with a shortfall of \$6.2 billion. According to the Employment Development Department's March 2017 Unemployment Insurance Statistics, the UI deficit was \$3.1 billion, down from a high of \$9.7 billion at the end of 2013 and according to the October 2016 *Unemployment Insurance Fund Forecast* is projected to drop to \$1.1 billion by the end of 2017.

Technology Updates

For years the EDD operated on an almost 30 year old antiquated IT system that was inadequate to handle the heavy UI claims volume that resulted from the Great Recession. Although the EDD has been working on modernizing its IT system since the early 2000's, it has been a challenging task that has led to delays in payments as well as much media and public scrutiny. The EDD has replaced its major IT systems and continues to make upgrades to its various programs.

Another key feature that EDD has implemented is a virtual hold to reduce claimants' frustration and repeat call attempts. The virtual hold feature allows callers to automatically get a call back when it is their turn to talk with an EDD representative, reducing time spent waiting on the line for claimants.

EDD has implemented IT projects such as UI Online, that would improve customer service by providing the claimant greater access to information on a self-service basis via the Internet. This project also allows EDD to redirect staff resources to other business functions within the UI Program. Additionally, the improvements also help by reducing paper handling and associated costs and creating greater efficiencies in UI payment processes.

Conclusion: EDD in the 21st Century

EDD undertakes a tremendous task to respond to the needs of our unemployed during economic recession. Although EDD has made improvements to the administration of the UI program, additional work and funding is necessary to continue this progress and enhance efficiency. It is especially critical that EDD continue to modernize as many of its services as it can to meet the needs of the changing 21st century economy.

Committee staff will continue to monitor EDD's progress as more modernization projects are implemented to ensure customer benefits are delivered without interruption. However, the EDD and the Legislature have much to consider as the department plans ahead for long-term sustainability, especially addressing the UI insolvency issue and California's debt to the federal government.

It is the responsibility of the Legislature to ensure that much-needed services reach our most vulnerable, and in today's hearing we will take a closer look at what EDD is doing to prepare for any future economic downturn as well as preparations to ensure that upcoming technological upgrades to the UI program are implemented smoothly and without any benefit payment interruptions.