IT Can Be Done

Reducing Payment Errors in Unemployment Insurance

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JUSTIN BULLOCK AND ROBERT GREER
Bush School of Government and Public Service

The United States Unemployment Insurance Program (UI), was set up to provide a safety net for workers who lose their jobs through no fault of their own. It is authorized by federal statute, implemented and administered at the state level, and financed by both. States may each set their own qualifying requirements, benefit amounts, and duration times. These differing layers of federal and state regulation (and lack of consistent regulation) make for a very complex system where mistakes are inevitable.

The US Department of Labor (DOL), which has been monitoring improper payments since at least the 1980s, estimates that in 2013, the UI program covered 131 million workers, paid $74.4 billion in benefits, and spent $4.8 billion on administrative costs.[1] With so much public money and so many workers' interests involved, the Unemployment Insurance Program and its payment errors are wor-

WHAT'S THE TAKEAWAY?

Government payment programs make a lot of errors that cost taxpayers money.

Information technology and communication innovations at the Department of Labor have lowered the error rate for the Unemployment Insurance Program.

Using federal funds to finance state-level innovations saved money.

Other payment programs could benefit from similar strategies.

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thy of a closer look. According to data provided by the DOL's Benefit Accuracy Measurement (BAM) program, of 193,132 audited claims made during a ten-year period 2002-2011, 25.73% contained payment errors (49,698 errors). Overpayments outnumber underpayments nearly 4 to 1.

EFFORTS TO LIMIT PAYMENT ERRORS

The federal government began focusing on improper payments throughout the federal government in the early 2000s. In 2002, congress passed the Improper Payment Information Act, which signaled the federal government's intention to take improper payments seriously. This legislation was followed by Executive Order 13520 issued by President Obama that required federal agencies to develop a more structured approach to eliminate payment errors, waste, fraud, and abuse in major federal programs. Congress again took action in 2010 passing the Improper Payment Elimination and Recovery Act. This act set a 10% error rate benchmark for any program to be in compliance with the statute.

Although the UI program error rate had fallen from prior levels, it was above 10% in 2011, leaving the UI system out of compliance. In response to these conditions and in an effort to reign in the rise of improper payments, the assistant secretary of the Employment and Training Administration at the DOL issued a program letter identifying the following four root causes of improper payments in UI:[2]

1) payments made to individuals after they have returned to work, referred to as Benefit Year Earnings

2) payments paid improperly as result of untimely or incomplete job separation information

3) payments paid improperly as a result of states' inability to validate that the claimant had met the state's work search requirements, and

4) payments paid improperly as the claimant had failed to register with the state's Employment Services.

After publication of the UI program letter, the DOL began offering supplemental funding to state workforce agencies (SWAs) to implement several top-down strategies designed to lower improper payments. The strategies involved information technology (IT) solutions that cross-referenced employment data from several national and state databases. Another tactic focused on improving communication between SWAs, corporations, and claimants. The funded strategies included:

1) Widespread adoption of the State Data Exchange System (SIDES) which allows UI agents to quickly and accurately check claimants' separation data directly with employers. This is important because the UI program only pays benefits for specific causes of job separation.

2) Mandatory cross matching between State and National Directories of New Hires (SDNH/NDNH) to combat the underreporting of earnings by claimants while they are collecting benefits.

3) Increased communication (messaging) between SWAs, corporations, and claimants to improve claimants' and employ-

ers' awareness of their responsibilities for data reporting and claimants' work search requirements.

Our research focused on the UI payment data from 2004-2013, a few years before and after the 2011 UI program letter. We took a close look at the improper payment rates in each state compared to when pieces of the strategic plan were implemented.

There are any number of external factors that influence improper payments (such as state population, unemployment rate, gross state product, UI administrative costs, and the Great Recession) making it difficult to gauge the effect of the DOL's improvement efforts. So, we combined the BAM data with other state-level data and used regression analysis to control for other influences and isolate the effects of the UI error-reducing strategies.[3]

RESULTS

As figure 1 shows, in 2011 the rate of improper payments did begin to decrease. However, as the bars on the graph show, there was wide variation in the state rates. Our calculations

Figure 1: State UI Improper Payment Rates
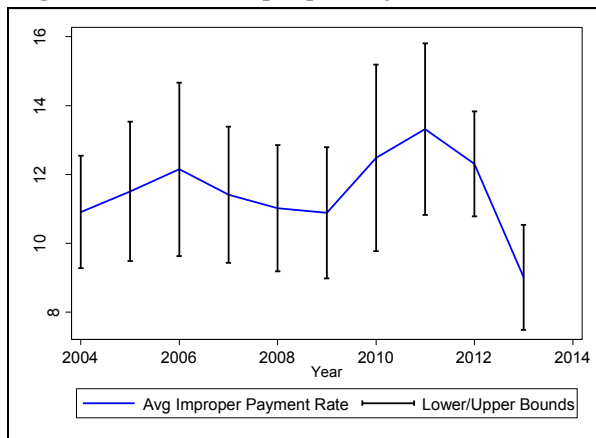
Source: US Department of Labor Benefit Accuracy Measurement (BAM) database

showed that the SDNH/NDNH and messaging strategies had a statistically significant positive effect in lowering both the state improper payment rates and the amount of total dollars overpaid per capita for states that had completed the strategies. We found no evidence that implementing the SIDES strategy had a systematic impact on errors.

While the data show that these strategies have helped lower improper payments, there is still room for improvement. In 2013, the UI program improper payment rate had decreased to 9.3% (under 10%), but that still amounted to a total of $6.2 billion in improper payments.[4] And, newer data show the error rate has crept back up to 11.7%.[5]
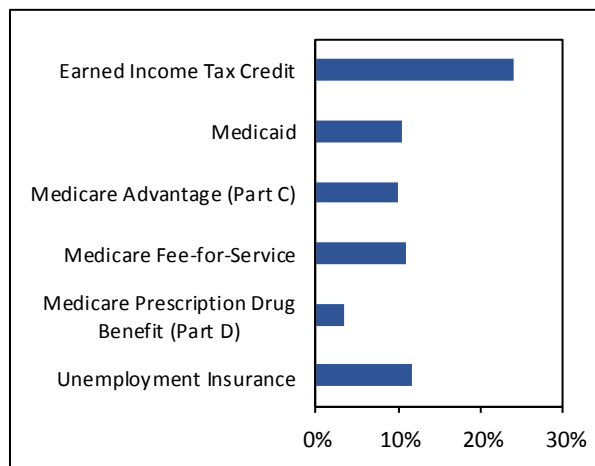
WHAT'S NEXT?

While there are always competing trade-offs between timeliness, cost, and complete accuracy, technological innovations and increased communication targeted at recognized sources of error provide a means in which UI agents can continue to decrease improper payments.

Further scrutiny and effort is needed not only on Unemployment Insurance, but also on other government payment programs with high error rates such as Medicare, Medicaid, and the Earned Income Tax Credit as shown in figure 2.

No one-size-fits-all strategy is likely to work for all programs, but it seems clear that data collection and reporting, political support, administrative innovations, supportive funding, and strategic use of data technology tools are all crucial components in successful efforts to reduce improper payments

within government programs. Furthermore, IT tools that directly target the leading causes of improper payments and those which do not require a behavior change on behalf of the claimants or employers are more likely to be successful. Additionally, communication strategies that broadly lower the costs to communication among the relevant stakeholders also show promise in lowering the incidence of improper payments.

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Justin Bullock is an Assistant Professor at the Bush School of Government and Public Service at Texas A&M University. He is the author of numerous articles on public management and policy.

Robert Greer is an Assistant Professor at the Bush School of Government and Public Service at Texas A&M University. His research focuses on state and local government financial management and issues of fiscal federalism.

Figure 2: Current Improper Payment Rates for some Government Payment Programs

Source: PaymentAccuracy.gov High Priority Programs https://paymentaccuracy.gov/high-priority-programs/ (accessed 8/30/2017).

Notes:

[1] Department of Labor, 2013

[2] Unemployment Insurance Program Letter No. 19-11.

[3] For more on methodology see Greer, R. & Bullock, J. (2017). Decreasing improper payments in state unemployment insurance: Evaluating Department of Labor strategies. *Public Administration Review*, forthcoming.

[4] Calculated by the authors from the BAM data. Includes the absolute values of both over and under payments.

[5] https://paymentaccuracy.gov/high-priority-programs/

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Contact:
Cynthia Gause, Program Coordinator
Mosbacher Institute for Trade, Economics, and Public Policy
Bush School of Government and Public Service
4220 TAMU, Texas A&M University
College Station, Texas 77843-4220

Email: bushschoolmosbacher@tamu.edu
Website: http://bush.tamu.edu/mosbacher

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