

EVALUATION OF SHORT-TIME COMPENSATION PROGRAMS

FINAL REPORT

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EXECUTIVE SUMMARY

Section 401 of the Unemployment Compensation Amendments of 1992 (P.L. 102-318) directed the Department of Labor to report to Congress on the implementation of short-time compensation (STC) programs. This volume provides the Department and Congress the most complete information available on the status of such programs, and presents several recommendations for their improvement.

As originally intended, STC provides employers with an alternative to layoffs, enabling them to apportion work reductions among a larger group of workers than they would have in the absence of the program. Rather than lay off 20 percent of the workforce, for example, an employer might reduce the hours of the entire workforce by 20 percent. Workers whose hours are reduced are compensated with STC benefits, which are essentially unemployment insurance benefits pro-rated for partial work reductions. In the absence of STC programs, workers generally receive no UI benefits for such partial layoffs. STC thus eases the impact of work reductions on individuals, and eliminates a significant gap in UI coverage. It also helps firms to retain valuable employees. When business improves, employers can increase the hours of their existing employees rather than hiring new ones. As a result, STC can reduce recruitment and training costs for employers.

Short-time compensation programs were first introduced in the United States in 1978 in California. Federal legislation enacted in 1982 encouraged other states to adopt STC, and 17 states now operate such programs. Within these states, participation in STC has been limited to less than 1 percent of employers in any given year. This evaluation was motivated by concerns with the levels of state and employer participation in STC, as well as a range of issues related to the administration, financing, and impacts of STC programs.

RESEARCH GOALS AND METHODS

The evaluation was guided by four principal research goals.

- (1) **To explain why states choose to adopt STC and to describe variations in STC states' policies and practices.** While 17 states operate STC programs, 36 states and jurisdictions do not. We sought to explain the circumstances surrounding the adoption of STC as well as the concerns of states and jurisdictions that do not operate these programs. In addition, we sought to document the variations among existing STC programs.
- (2) **To identify lessons for improving the administration and use of STC.** STC programs have been in operation in the U.S. for fewer than 20 years. Our research was designed to document the operational lessons learned by states during this relatively short period, and to make these lessons

available to existing STC states, as well as to states and jurisdictions considering adoption of the program.

- (3) **To assess the practices and perspectives of STC employers and the effects of STC on employees.** The decision to use STC is made by firms, and obtaining the input of employers was thus a key feature of our evaluation. In addition, we sought to examine the effects of STC on employees, although we were limited in our ability to address this issue.
- (4) **To assess the impact of STC on the Unemployment Trust Fund and firm layoff behavior.** States considering the adoption of STC have raised concerns about the impact of the program on the Unemployment Trust Fund, and previous research has challenged the assumption that STC reduces layoffs. Our research was designed to investigate both of these issues.

Three major research activities were implemented to address these goals including: a survey of employment security agency officials in every state, a survey of 500 employers who have used STC, and an analysis of unemployment insurance administrative records in five states.

FINDINGS

The evaluation produced nine major findings.

- (1) **The adoption of STC programs by states is being slowed by an absence of clear support from various stakeholders, and by a variety of lingering concerns about the program.** Where STC has been adopted, it has been largely due to the efforts of key stakeholders, including representatives from the state employment security agency, legislators, employers, labor groups, and the state governor. Stakeholders who understand the program and support it strongly have faced minimal opposition. Opposition to STC has generally been based on concerns with the program's administrative costs, its impact on Unemployment Trust Funds, or the belief that it is not appropriate or needed in certain states.
- (2) **Among states that have adopted STC, the basic design of the program is fairly consistent, although specific rules vary.** The basic outlines of STC programs were identical in all states: employers must complete a plan describing their planned work reductions, states must approve plans, and ongoing claims must be filed for the duration of the plan. Apart from this basic outline there were substantial variations in STC programs. STC plans could last from 13 to weeks to one year, allowable work reductions ranged from 10 to 100 percent, and plans could be renewed indefinitely in some states, but were sharply limited in others. There was also considerable variation in the administration of STC programs by state employment security agencies.
- (3) **Several states have developed practices that show promise for reducing the ongoing costs and administrative burden of STC.** Several state employment security agencies have developed strategies to automate and streamline the processes for STC plan filing, plan approval, and the filing

of ongoing claims. These efforts appear to have reduced the administrative costs of STC programs for both employers and state employment security agencies.

- (4) **Employer participation in STC is low, but the reasons for low participation remain unclear.** STC has failed to attract substantial interest among employers, and lack of information about the program may be partially responsible. Some evidence exists that improved marketing of STC to employers can raise participation levels, but such strategies have not been systematically tested.
- (5) **Employers who have used STC were generally satisfied with the program.** Most employers were satisfied with the STC program and would use it again. The major attraction of the STC program for employers was its ability to help retain valued employees. The most frequent cause for complaint was an increase in UI taxes following participation in STC.
- (6) **A substantial portion of STC firms used the program repeatedly.** Although STC is often thought to be most appropriate for averting layoffs during temporary economic downturns, many firms used STC repeatedly. In some cases firms used STC in every quarter over a three-year period. The extent of repeat STC use varied greatly by state.
- (7) **Among firms that have used STC, layoffs remained the primary workforce reduction strategy.** Despite their use of STC, firms continued to lay off workers and had substantially higher UI charges, on average, than STC charges. STC firms also experienced higher UI charges than comparison firms that had not used STC. These results suggest that the STC firms might have experienced greater economic distress than matched non-participating firms.
- (8) **Consistent with prior studies, STC does not appear to disproportionately benefit ethnic and racial minorities, the young, or women.** We found no evidence that STC disproportionately protected the jobs of minorities, women, and young adults.
- (9) **As it currently operates, STC does not appear to threaten the solvency of state Unemployment Trust Funds.** STC benefits were at least as fully experience-rated as other UI benefits, and were quickly recouped with higher taxes. It is possible, however, that Trust Fund impacts could be more serious if STC participation rates were much higher and overall shifts in tax schedules were constrained.

LESSONS FOR STATES

This study's findings suggest a number of lessons for states operating or considering adoption of STC programs.

- (1) **The impacts of STC on state Unemployment Trust Funds appear to be minimal.** Many states fear that STC will impact Unemployment Trust Funds negatively, but this perception is not supported

by our research. Even in the absence of surtaxes or other special financing provisions, STC claims appear to be experience-rated at least as well as regular UI claims.

- (2) **Careful attention to the design of procedures for filing and processing STC plans and claims can reduce administrative costs.** In the past states have also questioned whether STC's administrative costs are adequately compensated, but our research points to practices that can reduce costs significantly. States with the most efficient systems for processing STC plans and claims were less likely to report high administrative costs than states that processed plans and claims manually.
- (3) **Slight changes in program rules can affect STC participation.** Restrictions on seasonal employers and repeat usage of the program by employers appear to be correlated with lower levels of participation. States enforcing such provisions may wish to consider their effects upon employer participation.
- (4) **Marketing of the STC program may increase participation levels.** Few states promote STC programs actively, but participation levels appear to respond to marketing efforts. One-time mailings regarding the STC program have produced temporary increases in participation, and ongoing promotions may have more lasting effects.

LESSONS FOR THE DEPARTMENT OF LABOR

Our research also suggests several lessons for the Department of Labor.

- (1) **States continue to require technical assistance with STC programs.** The Department last offered STC guidance to states in 1987, in the form of a handbook. Many states cited this handbook as an aid in designing their STC programs, and renewed guidance is warranted.
- (2) **States have much to learn from each other, and greater communication among states has the potential to improve STC operations.** States have developed a variety of mechanisms for improving STC programs, but these lessons have not been broadly shared. Most STC programs appear to operate in isolation, and the Department may wish to facilitate information-sharing among states.
- (3) **Better marketing of the STC program may increase employer participation, though it is unclear to what extent.** The potential of improved marketing for raising participation levels has not been adequately tested, and the Department may wish to sponsor further efforts in this area. For substantial increases in participation it may also be necessary to increase incentives for employers.
- (4) **Many questions remain about the STC program.** Our conclusions regarding the impacts of STC on Unemployment Trust Funds and on reducing layoffs add to the debate over STC, but should not be deemed conclusive. In addition, our discoveries of extensive repeat use of STC, and the greater economic distress among STC than non-STC firms, deserve further investigation.