

Colorado Center for Policy Studies Working Paper #5

Do Errors in Benefit Payments Depend on the Filing Method? The Case of Unemployment Insurance in the United States

Edward C. Hoang, Ph.D.
Assistant Professor of Economics
University of Colorado Colorado Springs

September 25, 2016

Acknowledgement: *Financial support from the Cushman Public Policy Research Fund at the University of Colorado is gratefully acknowledged. This paper brief benefited from comments of participants at the Colorado Center for Policy Studies advisory board meeting, including Dr. Daphne Greenwood, Center Director.*

I. Executive Summary

“When the Federal Government makes payments to individuals and businesses as program beneficiaries, grantees, or contractors, or on behalf of program beneficiaries, it must make every effort to confirm that the right recipient is receiving the right payment for the right reason at the right time. The purpose of this order is to reduce improper payments by intensifying efforts to eliminate payment error, waste, fraud, and abuse in the major programs administered by the Federal Government, while continuing to ensure that Federal programs serve and provide access to their intended beneficiaries.” Executive Order 13520-Reducing Improper Payments and Eliminating Waste in Federal Program, November 23, 2009.

In 2014, US states paid a total of \$36 billion in Unemployment Insurance (UI) benefits. Out of this amount, \$4.5 billion were overpayments to beneficiaries. This estimate is based on audit data collected by the Department of Labor (DOL) which has historically monitored the UI system in each state for compliance with federal rules. As a result of the Executive Order signed in late 2009 calling for the elimination of improper payments and wasteful spending in programs administered by the federal government, and the rapid growth in UI benefit overpayments, the DOL and state employment offices have made it a top priority to focus on this initiative by improving the accuracy and efficiency of the UI program.

At the same time that errors in UI benefit payments have grown (1996 to 2014), states have increasingly transitioned from the traditional method of filing UI claims face to face with staff in UI offices to accepting claims remotely through automated systems such as the telephone and internet. In 2014, there were no claims filed in the UI offices for 38 states while virtually all states, with the exception of West Virginia, accepted a majority of claims remotely filed via either the

telephone or internet. This represents a significant departure from how claims were traditionally filed in 1996 when nearly all applications for UI benefits were accepted at the UI offices.

Using panel data on 50 US states for the period 1996-2014, this study examines the relationship between the different methods to filing UI claims and the error rate in UI benefits paid. The key findings in this study are:

1. UI benefit overpayments are likely to decrease when UI claims are filed face to face in the UI offices.
2. UI benefit overpayments are likely to increase when UI claims are remotely filed via either the telephone or internet.

II. Background

The Unemployment Insurance (UI) program in the United States is designed to provide temporary income assistance to workers who become unemployed at no fault of their own. In this partnership between the federal and state governments, each state finances and administers its own UI program but operates under broad guidelines imposed by the federal government.¹ These guidelines allow states significant discretion for selecting specific parameters affecting benefit levels received by claimants, eligibility standards, and total program expenditures.²

The Department of Labor (DOL) is responsible for ensuring that each state's UI program is fairly administered and financially secure according to federal guidelines. Also, part of their oversight is determining the accuracy of paid claims in each state's UI program through the Benefit Accuracy Measurement (BAM) program.³ Since the program's inception in 1996, BAM requires all states to conduct audits on unemployment insurance claims to determine whether benefits are being accurately paid in accordance with state rules.⁴ These audits conducted by BAM investigators are based on weekly samples of UI benefits paid that are selected at random.

Based on the BAM audit samples, the DOL calculates the total amount of overpayments and underpayments in UI benefits. Over the period 1996-2014 and after adjusting for inflation, the average total amount of UI benefits overpaid by state UI programs is \$68.3 million per year.

¹ In addition to setting guidelines, the federal government will pay administrative costs that state governments incur in running their UI program and make advances to states that lack the money to pay UI benefits.

² Also, each state finances their UI program by taxing covered employers on a relatively small portion of each employee's wages. The tax proceeds are deposited into a UI trust fund in the Department of Treasury. Financing for the federal portion of the UI system comes from payroll taxes imposed on employers under the Federal Unemployment Tax Act (FUTA).

³ The BAM program also determines whether claims were improperly denied.

⁴ In 1987, the DOL had an operated a program called Benefits Quality Control (BQC) which was replaced by BAM in 1996. Both programs were designed to detect improper payments and denials in UI claims but the audit rules changed when switching from BQC to BAM.

During the same period, the average total amount of underpayments is approximately \$3 million per year, which represents less than 0.5% of total UI benefits, compared to average overpayments of over 10%. As can be seen in Figure 1, overpayments were relatively constant during the period 1995-2000, but then started to rise rapidly until 2002. Although overpayments declined from 2003-2007, they started to rise again during the Great Recession. After peaking in 2010, overpayments have been falling until flattening out in 2012.

There is considerable heterogeneity in benefit overpayments between states. Table 1 reports the benefit overpayment rate, which is state UI benefit overpayments divided by total state UI benefits paid, for states with average overpayment rates above the 90th percentile and below the 10th percentile. According to Table 1, the mean overpayment rate during the period 1996-2014 is 0.106. Over the same period, Louisiana has the largest average overpayment rate of 0.225 and states such as Indiana, Kansas and Virginia have overpayment rates larger than the national average overpayment rate. Connecticut has the lowest overpayment rate of 0.040 and states such as Hawaii, Oklahoma, and West Virginia have rates below 0.1.

Figure 1

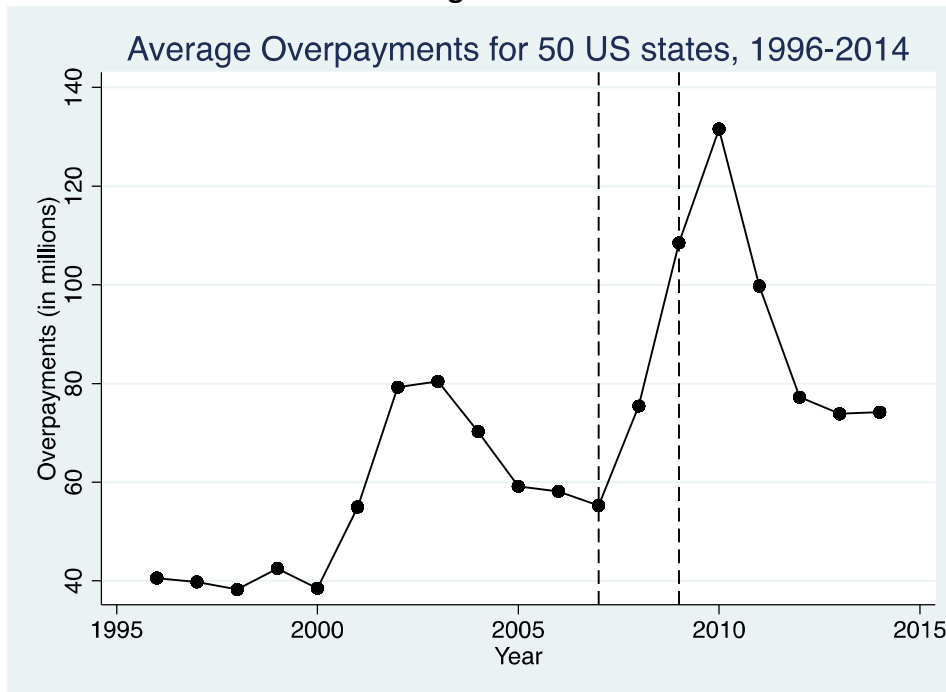
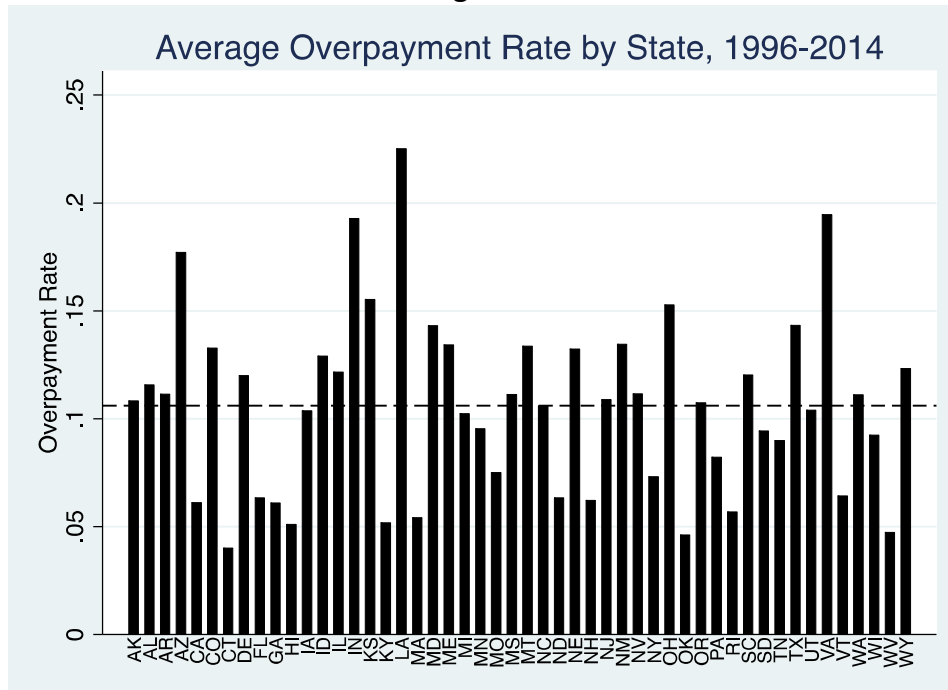


Table 1: Variation in Overpayment Rate

	Overpayment Rate
Mean for all US states	0.106
<i>States above the 90th percentile</i>	
Indiana	0.193
Kansas	0.155
Louisiana	0.225
Virginia	0.195
<i>States below the 10th percentile</i>	
Connecticut	0.040
Hawaii	0.051
Oklahoma	0.046
West Virginia	0.047

Figure 2



In Figure 2, the average overpayment rate for all states is displayed. As can be seen in this figure, there is much variation across states in overpayment rates. The point of reporting Table 1 and Figure 2 is in part to show the range of overpayment rates for states near the top of the ranking

and for states at the extreme end. Each state administers its own UI program and, thus, has different rules in place to determine eligibility and the amount of temporary income assistance for claimants. Therefore, because of the variation in UI policies between states, states will exhibit differences in errors made in benefits, specifically overpayments. In the next section, the causes of error in UI benefits are discussed.

III. Causes of Errors in UI Benefits

Traditionally, claimants to receive UI benefits are required by states to file their claims at a state public employment office. Application by potential recipients to the UI program is necessary to establish eligibility and to compute the legal amount of compensation given to each recipient. Incorrect or misleading information provided by the claimant regarding eligibility and the amount of compensation will lead to error in the calculation of UI benefits.

For example, in order to be eligible for UI benefits, the state needs to understand the reason why the worker was separated from her employment. Overpayments will be created if the claimant receives benefits but is found later to be ineligible according to state rules to receive support payments due to disqualifying reasons for being separated from work. To further establish eligibility, it needs to be determined if the worker has met the state's work search requirements. Overpayments will be created if the claimant has received benefits but is supposed to be disqualified from receiving payments because she hasn't met work search requirements.

If it is determined that an unemployed worker is eligible for UI, then the next step is to calculate the level of support payments. This amount is paid on a weekly basis, and the most common duration for which benefits can be paid is 26 weeks.⁵ The level of weekly benefits depends on wages and other forms of compensation, and the way that alternative compensation forms, such as tips or incentive pay, are treated varies between states. Overpayments can be a result of three factors: wages are over-reported, the worker receives benefits but is unable and unavailable to work, and/or the worker continues to receive benefits even after returning to work. All of these factors represent information that is necessary for accurate and efficient UI program administration.

Certainly, errors in establishing eligibility and computing levels of weekly benefits can create benefit underpayments. According to the DOL, misreported earnings and erroneously denied claims largely contribute to underpayments. Although underpayments are also a cause for concern, their share in total UI benefits is much smaller compared to overpayments and represent less than 0.5% of benefits paid. In addition, underpayments are more likely than

⁵ The rules for extended and emergency Unemployment Insurance which extends benefits beyond 26 weeks are identical to the state rules in terms of eligibility and weekly benefit amount. Differences are the share of UI paid by the federal government, and the allowable duration of the benefits.

overpayments to be addressed by beneficiaries and corrected more promptly. Is there data that shows this part is working? Logical but not necessarily true.

Another aspect of the BAM program is to determine the number of improperly denied claims. According to the DOL, claims that are improperly denied are generally attributed to separation issues. In 2014, nearly 9% of 2.36 million claims denials were improperly denied. Although benefit underpayments and improperly denied claims contribute to the accuracy and efficiency of the administration of the UI program, this current study focus on monetary errors, specifically benefit overpayments, because of its relatively large share in total UI benefits and its potentially large financial burden on the UI program. How much could it potentially affect rates?

To summarize, the key factors that represent information necessary for UI program administration are:

1. Separation issues
2. Work search issues
3. Base period wage issues
4. Able and available issues
5. Benefit year earnings

These factors are typically vetted by the public employee in the state public employment office to determine eligibility and accurate support payments for potential UI claimants. However, over the past decade, there has been a dramatic shift in the type of claims filings accepted by the states.

IV. UI Claims Filing Methods

Since the inception of the UI program in 1935, workers have filed their claims for UI benefits by visiting the state employment office.⁶ In 1991, Colorado was the first state to allow claimants to file their claims over the telephone. In the same year, Colorado closed its UI offices to accepting claims and required all claimants to apply for benefits over the telephone. The next state to adopt the telephone technology was Wisconsin in 1995 which also closed its UI offices and required all claims to be file over the telephone starting in the same year. While most states at some point after 1995 allowed claims to be filed over the telephone, states such as Arkansas, Delaware, Georgia, Indiana and West Virginia never adopted the telephone system.

With the exception of West Virginia, all states have at some point after 2001 allowed claimants to file their claims over the internet. Also, West Virginia never adopted either the telephone or

⁶ Most states had enacted their UI program under the Social Security Act of 1935. In 1932, Wisconsin was the first state to implement their UI program, and other states such as California, Massachusetts, New Hampshire, New York, Utah, and Washington enacted their programs prior to 1935.

internet technologies as methods to filing claims for benefits. In 2002, California, Colorado, Florida, Georgia, Idaho, Kansas, Maryland, Minnesota, Missouri, New Hampshire, New Jersey, Nevada, New York, Pennsylvania, Rhode Island, South Carolina, Texas, and Virginia were the first states to allow claimants to file their claims via the internet.

In 2014, six states accepted of all their claims filings via the internet (Arizona, Florida, Indiana, Montana, New Hampshire, and South Carolina). Also, in 2014, there were no claims filed at the UI offices for 38 states, and 32 states accepted claims only via the telephone or internet. A list of the states that accepted office, telephone, and internet claims in 2014 can be found in the Appendix section.

Although, recently, the telephone and online systems have become common ways to file claims in most states, there are other filing methods such as filing claims by mail and employers filing claims on behalf of the employees. However, the aggregate number of these claims are extremely small and account for less than 10% of all claims.

There doesn't seem to be any financial incentive, such as saving on labor costs, for states to switch from face to face contact with UI staff to automated filing methods since administrative costs of their UI program are fully financed by the federal government. Improving delivery service by reducing the wait time of filing claims in the UI office is a potential reason to why states started to accept claims remotely filed via the telephone or internet. Some states have even transitioned within the automated systems, accepting more claims via the internet than over the telephone. For example, Figure 3 shows that all Colorado claims during the period 1996-2001 were filed over the telephone. However, with the introduction of the internet filing method in 2002, telephone claims have been gradually falling while internet claims have been rising. In 2014, Colorado accepted 80% of all claims via the internet and 20% of claims over the telephone.

In Figure 4, the national averages for telephone and internet claims exhibit similar patterns to those displayed for Colorado in Figure 3. Since the adoption of the online system by most states in 2002, there has been a fall in telephone claims as more claims filed via the internet were accepted by states. While internet claims have been rising, the fraction of claims file in UI offices have been steadily declining, as depicted in Figure 4. Nonetheless, it is observed that states have increasingly traded off office claims filings for claims filed via the automated systems.

Figure 3

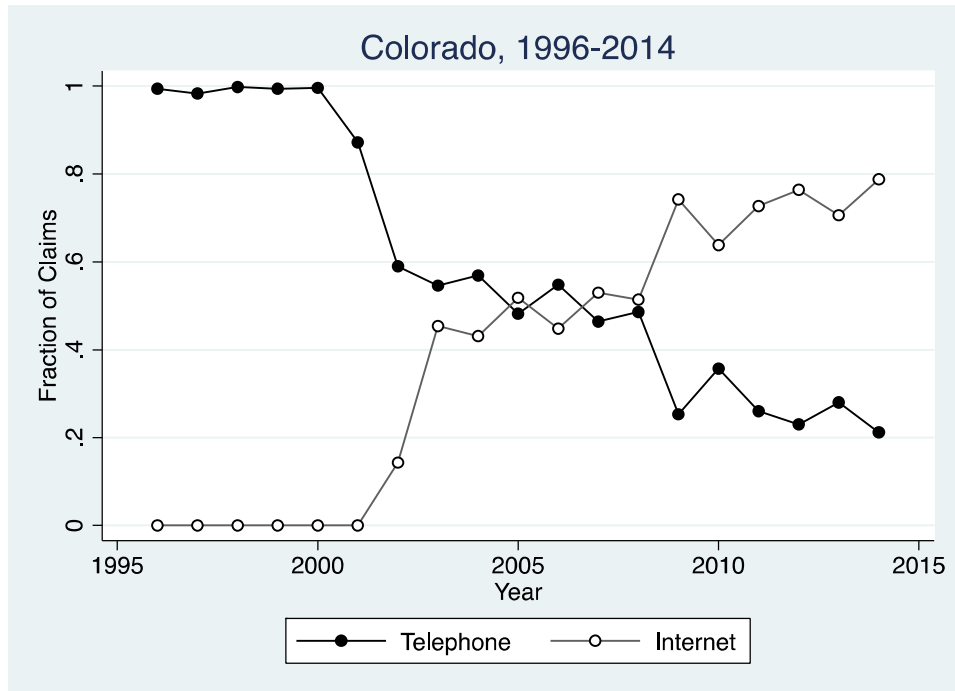
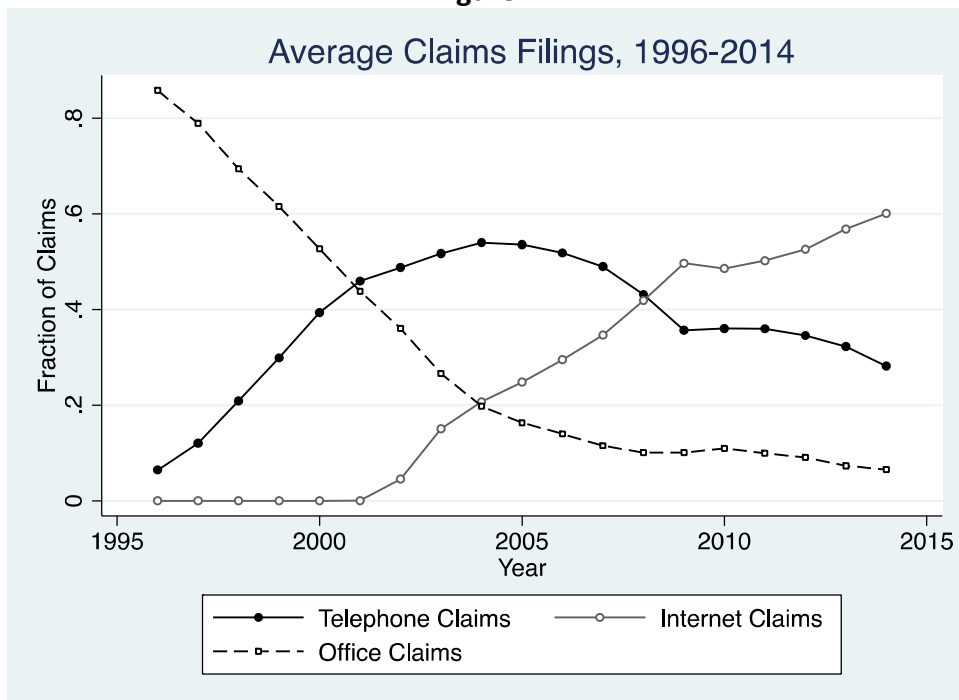


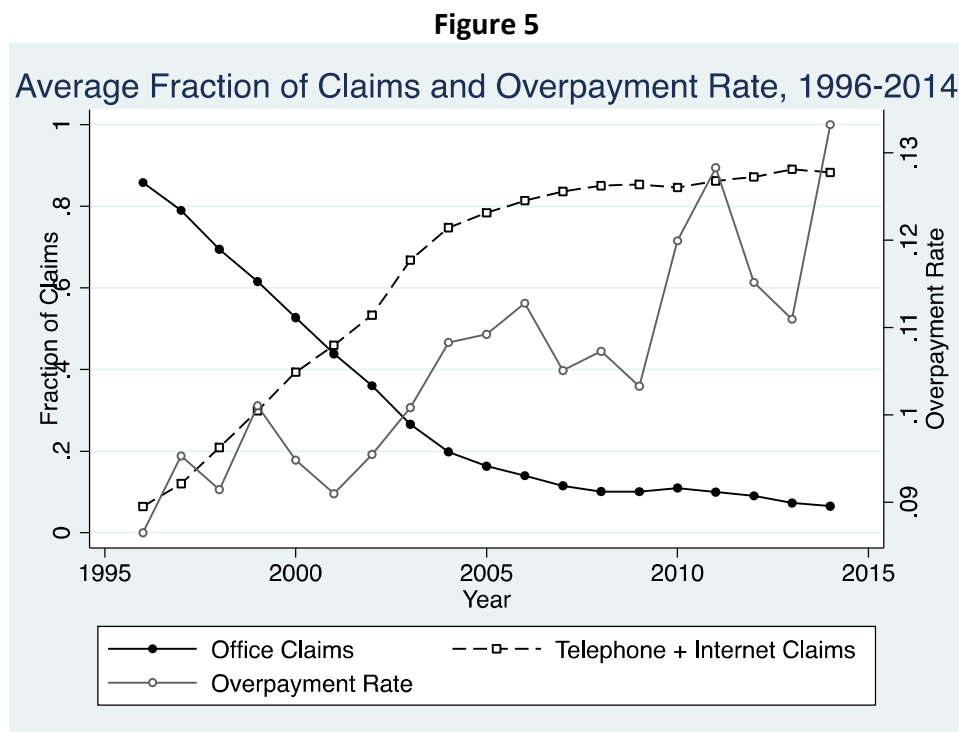
Figure 4



V. The Overpayment Rate and Claims Filing Methods

Three graphs are overlaid in Figure 5 which shows the fall in office claims but an increase in both telephone and internet claims and the overpayment rate. Telephone and internet claims are pooled together because both technologies represent significant departures from the traditional method of applying for benefits with staff in the employment offices, and both allow claimants to file their claims remotely. According to the US DOL, common causes of overpayments include unreported earnings and inaccurate reporting of earnings when workers apply for benefits by the telephone or the internet.⁷

Figure 5 suggests that claims filed in person at the UI office are associated with a decrease in the overpayment rate, and claims filed via the automated systems are associated with an increase in the overpayment rate. As suggested by the DOL, a common cause for overpayments is misreporting of earnings when certifying by the telephone or the internet. In person claims filings at the UI office could result in fewer errors if public employees more effectively check applications for compliance with state requirements. However, there is no prior evidence of whether the method in which claims are filed has a statistical influence on errors made in UI benefits.



VI. Empirical Approach

⁷ Department of Labor, Improper Benefits Information Act, 2013.

The goal of this study is to examine the relationships between the different filing methods and the overpayment rate that are displayed in Figure 5. This study applies an Ordinary Least Squares regression approach that uses the overpayment rate as the dependent variable and the fraction of claims filed in the UI office as the main independent variable. In a second empirical model, UI office claims will be replaced by the aggregate fraction of claims filed over the telephone and internet as the main independent variable.⁸ The data used to estimate the OLS models is panel data covering 50 US states and the period 1996-2014.

The office claims and the sum of the claims filed via the automated systems represent the main independent variable in two different OLS models. To control for other factors which may affect the overpayment rate and are correlated with the main independent variable, a host of state level control variables are included. All of the variables used in the estimations and their sources are reported in the Appendix section.

Data on the number and characteristics of the recipients of overpayments is not available. However, the total number of UI recipients is included as a proxy for the number of recipients of overpayments. Furthermore, demographics such as the share of the population under the age of 18, the share of the population over the age of 64, the share of the population that is white, and the share of the population with a college degree are included as proxies for the characteristics of UI recipients. Characteristics of the population can influence the number of claims filed in person at the UI office or via the automated systems. For example, the share of the population over the age of 64 may prefer to visit the UI office to file their claims.

To control for the influence of income on the overpayment rate, Gross State Product (GSP) is included in the regressions. It is important to control for income since states with relatively lower income may have claimants who prefer speaking directly to UI workers or have limited access to the automated systems; this in turn may have an effect on overpayments. The share of the work force in the manufacturing sector is included because the traditional orientation of UI programs in many states has been geared toward the manufacturing sector, which has a common reputation of being subject to economic cycles. Since some states rely relatively more on manufacturing, the unemployment rate is included to further account for economic cycles; also, it is important to include the unemployment rate because of the fact that during bad economic times, UI offices will be busier than during good times which may influence the rate of errors made at UI offices. Finally, the share of the public sector which is unionized is included because these members would be expected to prefer a more labor intensive form of government service delivery. Thus, if union power in a state is relatively stronger it might be expected that the transition to the automated systems will be will be delayed or prevented.

The variables in the OLS models are transformed into first differences. By taking the change in the model's variables, unobservable variables that influence the overpayment rate and are correlated with the main independent variable are controlled for. Year dummy variables are

⁸ To avoid multicollinearity, both variables (office claims and automated claims) cannot be included in the same OLS model.

included in the OLS models to account for aggregate shocks that may influence the overpayment rate. Furthermore, monetary variables are adjusted for inflation using the Consumer Price Index (2011=100) obtained from the Bureau of Labor Statistics.

VII. Main Findings

To illustrate the main findings from this study, the regression lines obtained from estimating the OLS regression models with the full set of control variables are presented. In Figure 6, the regression line for the OLS model estimating the effect of the change in office claims on the change in the overpayment rate is graphed. The slope of the regression line is -0.042 and is statistically different from 0 at all conventional statistical levels. The estimated slope coefficient suggests that a 1 percentage point *increase* in office claims is associated with a 0.042 percentage point *decrease* in the overpayment rate.

Figure 7 presents the regression line in an OLS model with office claims replaced with automated claims as the main independent variable. Automated claims are the sum of telephone and internet claims. As can be seen in Figure 7, the regression line has a positive slope indicating that automated claims and overpayment rates are positively correlated. Specifically, the statistically significant slope of the regression line is 0.035, which suggests that a 1 percentage point *increase* in automated claims is associated with a 0.035 percentage point *increase* in the overpayment rate.

Figure 6

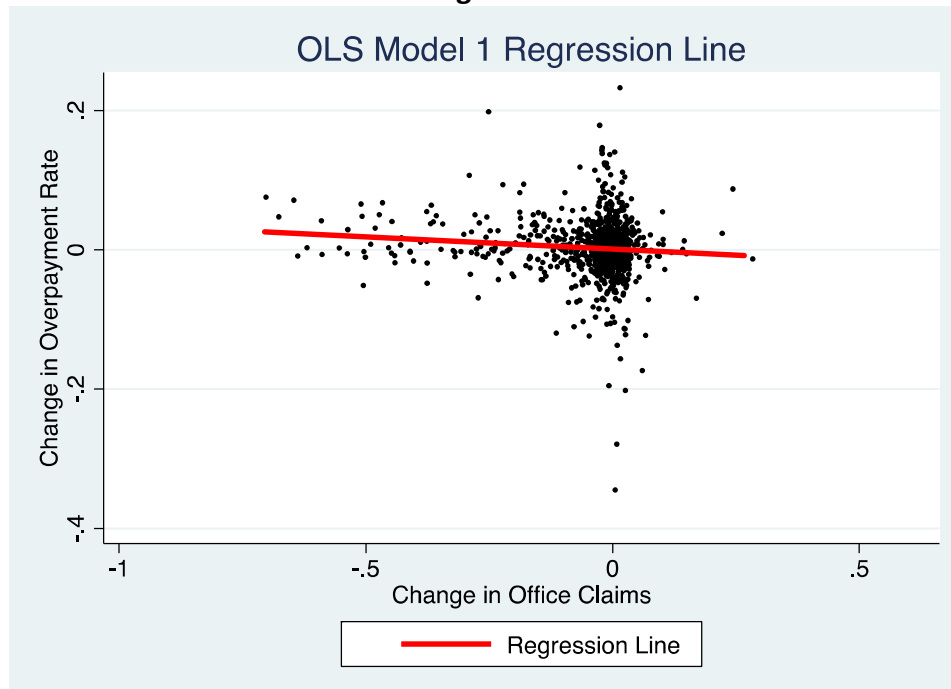
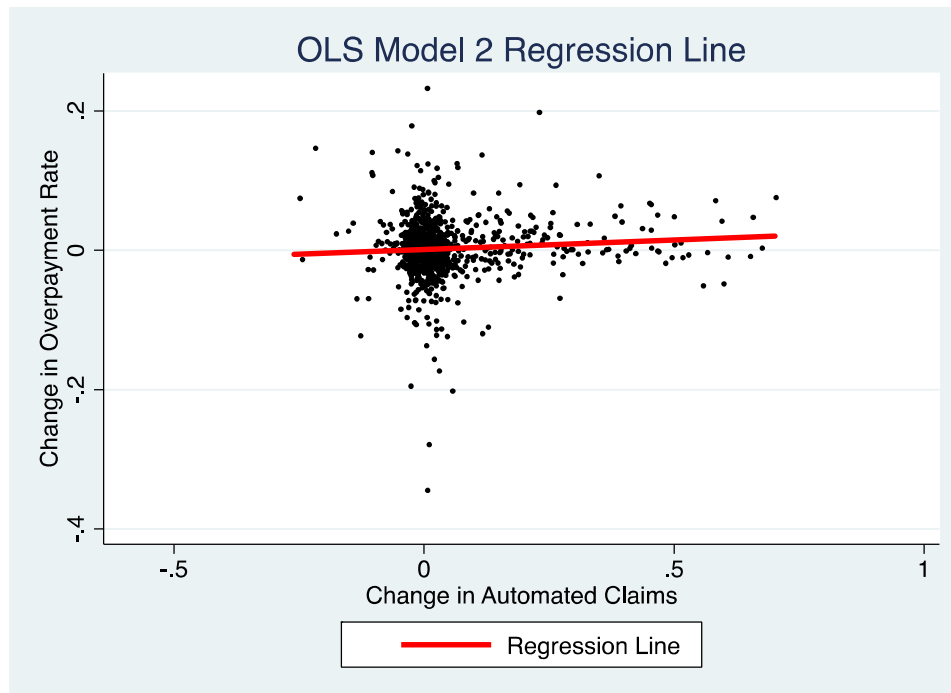


Figure 7



VIII. Policy Implications

The findings reported in this study have policy implications for the administration of the UI program. First, it is suggested that claims filed through the automated systems are associated with more overpayments. If states are paying out more in benefits than they are receiving in unemployment taxes from employers due in part to overpayments, then the solvency of the UI program is threatened. Consequences of an insolvent UI program would lead to businesses facing higher taxes imposed by the federal and/or state government or a reduction in average UI benefits.

Second, the federal government has provided financial support to some states while the majority of them have transitioned to accepting claims filed via the internet which has been found in this study to contribute to errors made in UI benefit payments. For example, in 2011, the DOL awarded 42 states with \$192 million in supplemental grants to finance projects related to reducing improper benefit payments. \$169 million in supplemental grants were given to 33 states in 2012.⁹ The findings in this study can help UI programs further understand the sources and how to reduce improper payments before spending extra resources on developing their online systems.

⁹ US Department of Labor, Unemployment Insurance Improper Payments, 2012.

Third, the findings in this study are relevant to an executive order signed by President Obama in 2009. The executive order created the Campaign to Cut Waste initiative with the goal of reducing waste, such as overpayments, at various federal agencies.¹⁰

Fourth, in person claims filings at UI offices are of interest to public workers employed in the UI offices. For example, if there are no other available positions for them in state government, public employees in the UI office might be displaced if states close UI offices and transition to only accepting claims filed via either the telephone or internet.

IX. Conclusion

In 1996, the average amount of *real* UI benefit overpayments for 50 US states is \$41 million. This amount had risen by 80.5% to \$74 million in 2014. While benefit overpayments have grown from 1996 to 2014, states have transitioned to accepting more UI claims over the telephone and the internet while traditional claims filed at the UI office have been steadily decreasing.

The analysis in this study confirms two important patterns. First, the study shows that UI benefit overpayments are likely to be reduced when claims are filed in UI offices. Second, states that have shifted to accepting claims via either the telephone or internet are more likely to have larger overpayments. Common causes for benefit overpayments are unreported and misreporting of worker earnings when certifying for benefits by the telephone or the internet. As suggested by the findings in this study, in office applications could result in fewer errors if public employees are able to more effectively check UI applications for compliance with state requirements in the office than with an online program.

The key findings in this study can help states and the DOL better understand how errors are created in UI benefit payments by existing state operations. This is critically important in their joint commitment to eliminate wasteful spending and improve the integrity of their UI systems called for by the executive branch of the federal government.

¹⁰ <https://www.whitehouse.gov/the-press-office/executive-order-reducing-improper-payments>

Appendix

Table A.1: Variables

Variable	Source
UI Overpayments	Department of Labor
Fraction of In Office UI Claims	Department of Labor
Fraction of Telephone UI Claims	Department of Labor
Fraction of Internet UI Claims	Department of Labor
UI Recipients	Department of Labor
Total UI Benefits Paid	Department of Labor
Unemployment Rate	Census Bureau
Gross State Product	Bureau of Economic Activity
Population	Census Bureau
Share of Public Sector Workers Unionized	http://unionstats.gsu.edu/MonthlyLaborReviewArticle.htm
Share of Manufacturing Workers	Bureau of Labor Statistics
Share of the Population Under 18	Census Bureau
Share of the Population Over 64	Census Bureau
Share of the Population with College Degree	Current Population Survey

Table A.2: States That Accept Office, Telephone, and Internet Claims in 2014

State	In Office	Telephone	Internet
Alabama		X	X
Alaska		X	X
Arizona			X
Arkansas	X		X
California		X	X
Colorado		X	X
Connecticut		X	X
Delaware	X		X
Florida			X
Georgia	X		X
Hawaii	X	X	X
Idaho		X	X
Illinois	X		X
Indiana			X
Iowa	X		X
Kansas		X	X
Kentucky	X	X	X
Louisiana	X	X	X
Maine		X	X
Maryland		X	X
Massachusetts	X	X	X
Michigan		X	X
Minnesota		X	X
Mississippi		X	X
Missouri		X	X
Montana			X
Nebraska		X	X
Nevada		X	X

Table A.2 Continued

State	In Office	Telephone	Internet
New Hampshire			X
New Jersey		X	X
New Mexico		X	X
New York		X	X
North Carolina	X	X	X
North Dakota		X	X
Ohio		X	X
Oklahoma		X	X
Oregon		X	X
Pennsylvania		X	X
Rhode Island		X	X
South Carolina			X
South Dakota		X	X
Tennessee		X	X
Texas		X	X
Utah		X	X
Vermont	X	X	X
Virginia		X	X
Washington		X	X
West Virginia	X		
Wisconsin		X	X
Wyoming		X	X