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**Unemployment Insurance Benefits & Anti-Fraud Measures
Testimony by Wendy Block, Michigan Chamber of Commerce
Delivered to the House Commerce Committee
March 15, 2010**

Good afternoon, Mr. Chair and members of the Committee. My name is Wendy Block and I am the Director of Health Policy and Human Resources for the Michigan Chamber of Commerce. Thank you for the opportunity to testify before you today regarding our support for House Bill 4408 as introduced, which would require the state to more aggressively pursue fraud and abuse within the unemployment insurance system.

As we wade into this issue this morning it is important to remember that Michigan's unemployment insurance system is 100 percent employer financed in the form of two payroll taxes, state (or "SUTA") and federal (or "FUTA"). Michigan's Unemployment Insurance Agency's Tax Office maintains tax accounts for approximately 213,000 contributing employers and 5,300 reimbursing employers, and collects about \$1.6 billion a year in Michigan unemployment taxes from employers.¹

Currently, Michigan's UI system trust fund, the account from which the state pays out benefits, is in crisis. As of March 9, 2011, the state's UI Trust Fund had borrowed more than \$3.87 billion from the federal government to continue paying benefits. Left unchecked, reimbursements of these borrowed funds, plus nearly \$1 billion interest, will automatically trigger progressively higher, across-the-board, state

¹ Employers paid over \$1.6 billion in payroll taxes for the 12 month period ending September 30, 2008 to fund the payment of UI benefits and over \$500 million over the past five years to fund the administration of the UIA.

and federal UI tax increases on employers for years to come, possibly as long as a decade. Due to these triggers, the state Unemployment Insurance Agency (UIA) estimates that employers will be paying approximately \$240 million in additional UI taxes in 2011 and even more in 2012.

In general, it is safe to say that much of the current problem stems from millions of jobs lost during the recent recession. However, weaknesses and inefficiencies within the state's UI system are also to blame. Specifically, the US Department of Labor's Benefit Accuracy Management (BAM) data from 2009 (the most recent year available) has revealed a total of \$6.596 billion in benefits were paid in 2009. Of this, a total of 7.21%, or \$475.6 million, of waste and fraud was found in Michigan's UI system.² Based on prior federal data, we know that approximately 30% of all overpayments are made to people who were working while fraudulently collecting UI benefits, meaning approximately \$143 million was paid to individuals who were working while fraudulently collecting UI benefits in 2009. These estimates are based on a very small sample of 480 cases, so it is possible that fraud is more widespread than this federal data reveals.

The 2009 overpayment numbers are up slightly from a 6.29% overpayment rate in 2008, or \$344 million, with \$103 million being paid to individuals working while fraudulently collecting UI benefits.³ (Note: BAM captured data on working/fraudulently collecting up until 2008.) According to the US Government Accounting Office, the leading cause of this type of fraud and abuse is claimants who returned to work, yet continued to claim UI benefits.

At a quick glance, it would appear as if Michigan is performing about average when compared to other states' overpayment rates. However, we can think of no

² Benefit Accuracy Measurement, or "BAM", is a federally mandated tool to measure the accuracy of UI payments. For data, see <http://workforcesecurity.doleta.gov/unemploy/bam/2009/bam-cy2009.pdf> (page 27 - Annual Overpayments by Cause - all states CY 2009). Overpayment rate = \$6.596 billion in total benefits x 7.21% error rate.

³ Overpayment rate = \$5.47 billion in total benefits x 6.29% error rate.

other circumstance in the private sector, or possibly even the public sector, where a 7% error rate would be acceptable. In the private sector, most companies strive to keep their error rates well below one percent. For example, Motorola's Accounting Department has an error rate of 0.000001%. To accept anything less would impact profit margins, stock prices and overall company operations. Obviously, there is room for improvement in the UIA's 7.21% error rate.

Nearly all of the UI program abuse the Agency currently investigates is identified by outside whistleblowers. In addition, the UIA recently began the process of implementing its own computer-based data mining tool to find fraud and abuse on its own. However, because they built the system in-house, without the benefit of commercially available tools and experience, they have only implemented a single rule after six months of efforts. By contrast, fraud detection systems in other environments use sophisticated tools to develop and manage hundreds of rules.

Rather than reinventing the wheel, HB 4408 would require the Unemployment Insurance Agency to implement commercial fraud detection software so to take advantage of the best fraud practices employed by other states and industries. Many other states take such approach to addressing fraud, including the states of Alabama, Alaska, Arizona, Arkansas, Colorado, Illinois, Kentucky, Nebraska, New Jersey, North Carolina, Tennessee, Washington and Washington DC.

One such firm we spoke with suggests they can contract with the state and, through software integration, reduce overpayments (i.e., those working while collecting benefits) by \$50 to \$80 million if the state expended a one-time \$5 million investment in the software.

We believe there is a track-record of success with such software systems and there is no reason for the state NOT to move forward with such a project. In fact, more than 10 years ago the State of Washington invested \$800,000 in new packaged

software for UI overpayments, detection and prevention. Since that original investment, Washington has detected more than \$80 million in UI overpayments to people who were working and collecting UI at the same time. The original investment has been returned to Washington's UI Trust Fund more than 10 times over.

HB 4408 favors both claimants and employer alike by keeping money in the system to pay claimants the benefits they deserve and reducing the need for additional borrowing from the federal government and/or increases in employers' payroll taxes.

While the goal of this software system is to prevent fraudulent payments from ever being made, HB 4408 would increase the penalty for fraud and create a new "Special Fraud Control" fund to be used for the detection and collection of UI overpayments. The bill also specifies that the fund will be used "first to acquire packaged software with a proven record of success in detecting and collecting unemployment benefit overpayments".

This legislation will help the UIA prioritize and target fraud within the system. However, it will require leadership from the top as well as a new culture and process in order to be successful. It is one thing to "flag" fraud and another thing entirely to actively pursue the claim and question the claimant. We hope that the Agency is ready to take action because certainly our members believe they deserve better than a \$103 million giveaway of their hard-earned tax dollars.

Before I conclude my testimony I want to make sure you all are clear on the Michigan Chamber's position on this legislation, which is "support as introduced" or with minor, technical changes, such as an implementation date or additional ways to recover fraudulent payments that have left the system, such as wage garnishment.

What we cannot support is a bill that turns into a wish-list of costly UI extensions or expansions. Make no mistake: If this legislation is amended to include a costly benefit increase or expansion, we will oppose HB 4408.

This concludes my remarks. I'd be happy to answer any questions.



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Unemployment Fraud: Summary of US-DOL Benefit Accuracy Measurement (BAM) Data

	Total UI Benefits Paid to Claimants (MI)	Overpayment Rate (Waste & Fraud)	Working While Fraudulently Collecting	Sample Cases
CY '09 ¹	\$6.596 Billion	7.21% or \$475.6 million	\$142.7 million (estimated – approximately 30% of all overpayments)	480
CY '08 ²	\$5.47 Billion	6.29% or \$344 million	\$103.2 million (actual)	480

¹ <http://workforcesecurity.doleta.gov/unemploy/bqa.asp> - Click "Annual Overpayments by cause - all states"

² <http://workforcesecurity.doleta.gov/unemploy/bam/2008/bam-cy2008.pdf> - click the link on page 3 ("Integrity Rates-CY 2008-all states.xls")