

**DATE:** May 10, 2012  
**TO:** Interested Parties  
**FROM:** Paul Holland, Fiscal Analyst  
**RE:** Work Sharing and Short-Time Compensation as Unemployment Insurance Strategy

### Introduction and Purpose

Short-time compensation (STC), also known as work sharing, is an unemployment insurance strategy that permits employees whose hours are reduced, in lieu of layoffs, to collect unemployment benefits in proportion to that reduction.<sup>1</sup>

On December 1, 2011, Governor Snyder delivered a special message entitled Developing and Connecting Michigan's Talent, in which he called upon the Legislature to "support work sharing."<sup>2</sup> The Governor acknowledged the increased dynamism of the labor market wherein younger or highly skilled employees are "mobile, making it easy to seek work elsewhere after a layoff." Maintaining that "many of these individuals would have remained in Michigan if they had the option," the Governor urged the adoption of a STC program to, in his view, retain talent and accelerate economic recovery.

Fundamentally, a STC program allows employees, novice and senior, to "share the pain" of economic constriction while remaining attached to the labor force and enables employers to more rapidly ramp-up production, mitigating rehiring and retraining costs, as the economy recovers. In terms of unemployment insurance law, this requires sanctioning the payment of unemployment benefits to individuals not entirely unemployed and excluding these individuals from the typical "work search" and "work availability" requirements.

For example, if an employer restricts production by 20%, instead of laying off 20% of the workforce who would then be eligible for regular unemployment benefits, the employer could reduce all employees' hours by 20% and those employees would be able to claim 20% of their regular unemployment benefits.<sup>3</sup> So an employee who normally earned \$500 per week working 40 hours would work 32 hours and be paid \$400 by their employer and, under Michigan law, receive \$53 in prorated unemployment benefits. Several developed nations (from Germany to Canada) and numerous states (from California to Rhode Island) have utilized STC programs for decades and have met with varying levels of employer participation.

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<sup>1</sup> "Work sharing" and "short-time compensation" are often used interchangeably; however "work sharing" refers to any arrangement by which employers reduce employees' hours in lieu of layoffs, while "short-time compensation" are the unemployment benefits paid to such employees whose hours have been reduced. Thus, short-time compensation would be expected to encourage work sharing. Furthermore, "job sharing" refers to the splitting of a single full-time job into multiple part-time jobs and is unrelated to both work sharing and short-time compensation. For the remainder of this memo, the term "short-time compensation" will be used to denote the unemployment benefits paid to employees engaged in work sharing.

<sup>2</sup> Snyder, Rick. (2011). A Special Message from Governor Rick Snyder: Developing and Connecting Michigan's Talent. Lansing, MI.

<sup>3</sup> However, the percent reduction in hours could be greater than the percent reduction of employees if employers are required to maintain health and retirement benefits (fixed costs) since a reduction in hours only reduces variable costs while layoffs reduce total costs (variable + fixed); thus a given reduction in staff could be equivalent to a greater reduction in hours, if the costs of health and retirement benefits are greater than the payroll savings of reducing the hours of all employees (including senior) rather than laying off novice employees.

This memo will review experience, experimentation, and evaluation pertaining to STC programs throughout history and governments. In addition, this memo will summarize the implications of the recently enacted federal Layoff Prevention Act of 2011 which authorizes substantial federal funding for state STC programs and House Bill 4516 which would establish a STC program within Michigan.

### STC Programs around the World and across the States

Approximately 25 nations, primarily in Europe or otherwise economically developed, administer a STC program in concert with other labor market regulations. Throughout these nations, employer participation in STC programs has dramatically increased during the recent recession and many national governments have promoted participation by expanding eligibility and relaxing conditions of their STC programs. A recent study by the OECD finds that while STC may prolong inefficient employment that will inevitably be terminated, this risk is reduced during periods of economic crisis when there is little prospect of moving into more productive occupations.<sup>4</sup> Governments are encouraged to evaluate the costs and benefits of promoting generous STC programs and advised to begin restricting program generosity as the economy recovers so not to subsidize the clinging to inefficient employment.<sup>5</sup> Nevertheless, over the recent recession, STC programs prevented unnecessary unemployment for many permanent employees by facilitating reductions in working hours, including an estimated 415,000 jobs (0.8%) in Japan and 235,000 jobs (0.9%) under the German *Kurzarbeit* program.

Both the OECD study and a study by the International Labor Office (ILO) of the *Kurzarbeit* program in Germany find that STC is utilized primarily within the manufacturing sector by larger employers; the OECD encourages increasing participation by smaller employers who likely have lower profits and fewer options to reduce labor.<sup>6</sup> Both studies question the effectiveness of job training for employees subject to work sharing, an increasingly prevalent feature of European STC programs. The authors of the OECD study describe a tension in targeting job training for the very employees that the employer is attempting to retain because of their valuable skills; the very fact that employers are willing to retain these skilled employees presumes that their skills already correspond with the job requirements. The ILO study concludes that low participation rates in these training programs verifies that they are of little importance to employers. The ILO study corroborates the OECD findings that STC programs are most effective, and least costly, when they are limited in duration; specifically, between six months and one year.

Kevin Hassett, of the American Enterprise Institute, describes a dilemma; while sales and profits are down during a recession and many workers are idle, employers want to avoid the large fixed cost of locating and training skilled workers when the recession ends. "Thus, a firm would prefer, all else equal, to hoard labor during a recession." STC subsidizes labor hoarding and facilitates accelerated expansion. Furthermore, "showing up at work every day," supports employees, and diminishes stigma, by keeping "them in contact with the labor force, making it much easier to search for alternative employment." Dean Baker, of the Center for Economic and Policy Research, joins Hassett in maintaining that STC has enabled Germany and the Netherlands to keep unemployment levels down even though both nations have experienced sharper declines in GDP than the U.S." While alleging that the costs to government is roughly the same, "the big difference," emphasize the authors, "is that instead of unemployment benefits that effectively pay people for not working, we would be paying people for working shorter hours."

<sup>4</sup> Hassett, Kevin. (2009, November 08). U.S. Should Try Germany's Unemployment Medicine: Kevin Hassett. *Bloomberg*.

<sup>5</sup> Baker, Dean & Hassett, Kevin. (2010, April 05). Work sharing Could Work for Us. *Los Angeles Times*.

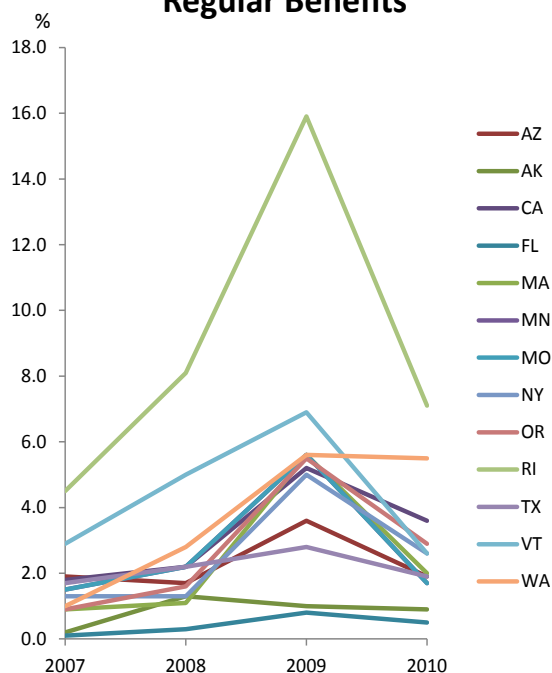
<sup>4</sup> Hijzen, Alexander & Venn, Danielle. (2011). The Role of Short-Time Work Schemes during the 2008-09 Recession. OECD Social, Employment and Migration Working Papers, No. 115. Organisation for Economic Co-operation and Development.

<sup>5</sup> Especially since unemployment insurance is not experience rated in Europe as it is within the United States, presenting much greater risks of inefficiency and moral hazard.

<sup>6</sup> Crimmann, Andreas, Wiebner, Frank, & Bellmann, Lutz. (2010). The German Work-Sharing Scheme: And Instrument for the Crisis. Conditions of Work and Employment Series, No. 25., International Labor Office.

Throughout the United States, 23 states, and the District of Columbia, have enacted STC programs into law. The first state to enact and implement a STC program was California in 1978.<sup>7</sup> Arizona (at the behest of Motorola Corp.) and Oregon soon enacted STC programs, and an additional 16 states enacted programs (though two were terminated) using the guidelines of a temporary federal STC law enacted in 1982 and expired in 1985.<sup>8</sup> Throughout this period, states innovated with STC programs regardless of specific federal authorization.<sup>9</sup> In 1992, Congress enacted federal unemployment law amendments permanently authorizing STC programs and requirements, yet these amendments created significant legal uncertainty for states and few new STC programs were implemented.<sup>10</sup> Following the onset of the recent recession, six additional states enacted STC programs and bills creating programs have been introduced in numerous state legislatures. By and large, the STC programs within each state are substantially similar to one another, the specifications in HB 4516, and the requirements of the Layoff Prevention Act.

### STC Benefits as Percentage of Regular Benefits



SOURCE: USDOL, Employment Training Administration, ETA Report No. 5-159.

Over the past decades, STC programs have met with ambiguous success, while STC is frequently championed as a novel and beneficent method for avoiding layoffs and stabilizing the labor force, employer participation remains small. A Congressional Research paper shows that over the past thirty years, the percent of employees collecting STC benefits crossed the 1% threshold only thrice (1992, 2001, & 2010) and 2% only once (in 2009).<sup>11</sup> On average, a mere 0.6% of unemployment beneficiaries were subject to a STC program. In 2010, 3.6% of first unemployment benefit payments in the state with the oldest STC program, California, were under the STC program as were 7.1% (down from 15.9% in 2009) in Rhode Island, the state from which the federal legislation is modeled. Evidently, employers have not embraced work sharing, even supported with STC, in large numbers. Whether this is due to a lack of publicity for the program, employers' economic uncertainty, concerns about worker productivity, or avoidance of administrative burden is disputed and remains ambiguous.

As mentioned above, the oldest STC program in the nation was implemented in California. The program has been in place for over thirty years and provides an opportunity to study how such a program affects existing unemployment programs and what kind of employers and employees are likely to participate.<sup>12</sup> Irrespective of its age, participation in California's STC program has been marginal. The employers that did participate were disproportionately likely to be within the manufacturing sector (62%) and within that sector, tended to be engaged in more intricate manufacturing, (such as

<sup>7</sup> The states are: Arizona, Arkansas, California, Colorado, Connecticut, Florida, Iowa, Kansas, Louisiana, Maine, Massachusetts, Maryland, Minnesota, Missouri, New Hampshire, Oklahoma, Oregon, New York, Pennsylvania, Rhode Island, Texas, Vermont, and Washington

<sup>8</sup> Tax Equity and Fiscal Responsibility Act of 1982 (Pub.L. No. 97-248).

<sup>9</sup> Balducchi, David E., Wandner, Stephen A. (2007). Work Sharing Policy: Power Sharing and Stalemate in American Federalism. *The Journal of Federalism*, 38(1), 111-136.

<sup>10</sup> Unemployment Compensation Amendments of 1992 (Pub.L. 102-318).

<sup>11</sup> Shelton, Alison M. (2011). Compensated Work Sharing Arrangements (Short-Time Compensation) as an Alternative to Layoffs. *CRS Report for Congress*, Congressional Research Service.

<sup>12</sup> MaCurdy, Thomas, Pearce, James, & Kihlthau, Richard. (2004). An Alternative to Layoffs: Work Sharing Unemployment Insurance. *California Policy Review*. SPHERE Institute.

electronics, machinery, and fabrication) which require specialized skills. Participating employers were larger and older and their employees were more likely to be unionized and pay higher wages. Furthermore, employers that utilized STC also relied more heavily on regular unemployment benefits than employers that did not use STC. These employers used STC for only a portion of their labor input adjustments; specifically for the highly skilled and paid segments of their workforce. Employees that participate are inclined to be those with specialized skills and experience and those most likely to find other full-time employment and preserve higher wages, supporting the notion that STC allows employers to maintain valuable human capital and mitigate recruitment and retraining costs. Notably, employees under STC plans tended to collect fewer weeks of benefits during temporary downturns.

The Rhode Island STC program is the most extensively utilized in the country and served as the model for the requirements of the Layoff Prevention Act of 2012. Established in 1991, the state's STC program has prevented an estimated 14,650 layoffs since 2007.<sup>13</sup> Similar to California, the vast majority of STC claimants have historically and recently been employed in the manufacturing sector (70% to 80%). However in 2011, approximately a quarter of claimants were from the wholesale trade, profession and technical services, and healthcare and social services sectors. Contributing greatly to Rhode Island's success with STC is the state's aggressive promotion of the program through various media and organizations (i.e. Chambers of Commerce) and a Business Services Unit that monitors claims data and proactively contacts employers likely to begin laying off employees with information about the program (a.k.a. "rapid response team"). The state has recognized some challenges for the STC program, namely the inefficiencies of a manual system for processing claims in which staff must file and fax copious physical documents and the demand by employers to allow more flexibility in modifying work share plans while still effectively monitoring their compliance.

The New York Times reports that STC programs are underutilized "largely because of inertia and ignorance," but that "pressure is growing on states" to expand or establish such programs to combat persistently high unemployment rates.\* Writing in 2009, the Times continued that since the recession began, some states have "beaten the drum" to encourage greater participation in STC programs and as a result "5,000 Connecticut workers are participating in worksharing [*sic*], up from 250 a year ago. In Washington State, 39,119 are participating, up from 6,039 a year ago. And in Massachusetts, 10,127 workers are, compared to 621 a year...."

\* Greenhouse, Steven. (2009, June 16). Work sharing May Help Companies Avoid Layoffs. *The New York Times*.

A report commissioned by the USDOL Employment Training Administration, concluded that the of relatively few employers, often economically unhealthy, who participated in STC, most were satisfied with the program and used it repeatedly, but still resorted to layoffs as their primary labor reduction strategy.<sup>14</sup> The report found that STC programs have a negative impact on states' Unemployment Trust Fund accounts in the short term, especially during recessions and when used in concert with layoffs. Employers who used STC programs imposed significantly higher charges on their unemployment insurance (UI) tax accounts, putting greater strain on the Trust Fund. However, because employer tax liabilities are experience-rated, the negative impact of STC benefits is effectively internalized to the employer through higher UI tax liabilities. The report determined that, due to existing experience-rating formulas, the negative impact of STC programs is likely to be recouped over a reasonable period of time.<sup>15</sup>

<sup>13</sup> Testimony of Charles J. Fogarty, Director of RI Department of Labor and Training, to the Senate Finance Committee on November 10, 2011 and "Meeting the Demand during Economic Crisis: Rhode Island's WorkShare Program" presented by Raymond Filippone and Kathy Catanzaro of the RI Department of Labor and Training.

<sup>14</sup> Berkley Planning Associates & Mathematica Policy Research, Inc. (1997). Evaluation of Short-Time Compensation Programs: Final Report. U.S. Department of Labor, Employment and Training Administration.

<sup>15</sup> A potential obstacle to expedient recoupment would occur if the UI tax rate for an employer that extensively used STC was capped at the state maximum.

The results of a survey initiated by the Ohio Department of Job and Family Services and subsequently updated by the Indiana Institute for Working Families indicate that the STC programs administered in the several states are substantially similar:

- States generally require 10% of employees, or at least two, to participate within the STC plan and their hours to be reduced between 10% and 60%, though many states are more restrictive.
- In most states, STC benefits are usually limited to 26 weeks with employers responsible for filing weekly certifications and employees required to be available to work hours the employer offers.
- STC benefits are charged to employers in the same manner as regular for employers that have a positive balance within their experience account (seven states charge supplemental taxes for employers at the maximum unemployment tax rate and a few states charge only the work sharing employer) and frequently may be continued during extended benefits programs.
- States unanimously report that STC has not had a negative impact on their unemployment trust funds.
- States differ in respects to the costs engendered in administering STC programs with some states reporting upwards of 10, 20, or 40 employees staffing the program while others report only minimal costs (i.e. \$500,000 annually) and few FTEs.
- States vary on whether part-time and season workers may participate in their STC programs and how long, or if, employees are required to have worked for the employer.
- By and large, program administrators recommend automating the STC program as much as possible, educating employers while making them responsible for filing claim information.<sup>16</sup>

## **Recent STC Legislative Developments**

### Enactment of the Layoff Prevention Act of 2012

On February 22, 2012, President Barack Obama signed the Middle Class Tax Relief and Job Creation Act of 2012 containing the Layoff Prevention Act of 2012.<sup>17</sup> Under the Act, employers could voluntarily participate in STC programs implemented by the states. Employers that do participate could reduce employees' workweeks, between 10% and 60%, rather than laying them off. Unemployment benefits would then be paid to employees as a pro rate portion of what would otherwise be paid if they were laid off. Employees meet availability for work and work search requirements by being available for their workweek as required by the state and may participate in state-approved training to enhance their job skills. Employers providing health and/or retirement benefits must provide those benefits for employees whose workweeks are reduced to the same extent as employees whose workweeks are not reduced. Finally, employers must submit a written plan describing how STC program requirements will be implemented in compliance with state and federal laws and estimate the number of layoffs that will be avoided.

States, such as Michigan, that have not enacted statutes authorizing an STC program may enter into an agreement with U.S. Department of Labor (DOL). Within the agreement, the state would submit a plan to provide a short-term compensation program in accordance with the federal requirements described above. The DOL will reimburse states for any additional administrative expenses associated with the STC program and 50% of unemployment benefits paid for claims under the STC program plan for two years or until May 24, 2014 (employers pay the remaining 50%). If states subsequently enacts a federally-compliant STC program in statute, the DOL will begin reimbursing

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<sup>16</sup> Thomas, Derek. (2011). Work Sharing: A Win-Win Strategy for Avoiding Job Loss. Indiana Institute for Working Families, Indiana Community Action Association.

<sup>17</sup> Layoff Prevention Act of 2012, Pub.L. No. 112-96, § 2160, 126 Stat. 156 (2012).

the state for 100% of the unemployment benefits paid for claims under the STC program. DOL reimbursements to states for benefits paid under an STC program, either pursuant to a plan (50%) or as authorized by statute (100%), are available for a combined three years or until August 22, 2015. The DOL will not reimburse states for unemployment benefits paid to claimants under the STC program in excess of 26 times their regular weekly benefit amount and will not accept an STC program plan that permits such benefit payments. Nor will the DOL reimburse states for, or approve a plan providing for, benefit payments to claimants seasonally, temporarily, or intermittently employed.

Additionally, the DOL will award grants to states that have enacted an STC program in statute: 33% of the total grants awarded to such a state would support the implementation and administrative improvement of the STC program while the remaining 67% would support the promotion of and enrollment in the STC program. Lastly, the DOL will provide technical assistance and guidance to states establishing and implementing an STC program, including the development of model legislative language.

### Introduction of House Bill 4516

On April 12, 2011, Representatives Ananich, Irwin, Smiley, Liss, Olumba, and Townsend introduced HB 4516 to amend the Michigan Employment Security Act (MESA) by adding sections 28b to 28m, establishing a STC program.<sup>18</sup> If enacted, the bill would permit employers to apply to the Unemployment Insurance Agency (UIA) for the approval of a shared-work plan for an "affected unit" of their enterprise (i.e. department, shift, subsidiary, etc.). The UIA's decision to approve or disapprove would not be subject to appeal.

Employers would be required to otherwise be in compliance with UIA, maintain a positive balance in their experience accounts, and have paid wages for twelve consecutive quarters preceding their application. Within the application, employers would be required to provide the following assurances for the affected unit: 1) that they will abide by UIA terms and conditions and submit reports as prescribed by the UIA, 2) refrain from hiring new employees in or transferring employees to the unit, 3) refrain from laying-off or further reducing employees hours, and 4) certify that the shared-work plan is in lieu of temporary layoffs that would affect at least 10% of employees resulting in an equivalent reduction in work hours.

The UIA would approve employers' applications to implement a shared-work plan, within 15 days of receipt, if the following requirements are met: 1) the plan applies to one affected unit with at least two employees, 2) all employees within that affected unit are included (excepting new hires and overtime workers), 3) employees are individually identified, 4) hours are reduced between 20% and 40%, 5) the reduction in hours is the same for all employees, 6) the hours reduction does not change, 7) wages are correspondingly reduced with hours, 8) the plan is approved by the collective bargaining representative if applicable, 9) the plan does not affect fringe benefits of unrepresented employees, 10) the plan is effective for a period of 52 weeks or less, and 11) the effective period of the plan combined with prior plans is less than 104 weeks of the past 156 weeks.

Unemployment benefits would be paid to employees under the shared-work plan subject to the same conditions as regular benefits (i.e. supported by employers proportional to base period wages and counted against employees' benefit year) and in proportion to the amount that the employees' hours are reduced. However, employees would not be required to meet "active search for work" or "refusal to apply for or accept work" requirements of the MESA and would be eligible for benefits by being able to work and available for their normal weekly hours of work for their employer. Employees would not

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<sup>18</sup> Senate Bill 697 introduced on September 27, 2011 is identical to HB 4516.

be eligible for benefits under the shared-work plan if they were remunerated for less or more hours during the week than within the plan.

Under a shared-work plan, employers would be responsible for filing benefit claims on behalf of employees and their experience accounts would be charged for such compensation. Employers would be able to apply to the UIA to modify an approved shared-work plan to account for changing economic conditions. The UIA could terminate a shared-work plan if it was not being executed according to the agreed upon terms and conditions, if the employer failed to comply with assurances, or if criteria on which the plan was approved is violated. Employers may terminate shared-work plans by written notice to the UIA.

If any provision added by HB 4516 was not approved by the U.S. Department of Labor, they would no longer apply. The sections added by HB 4516 would automatically be repealed five years after the effective date of its enactment.

#### Introduction of Senate Bill 1094

On April 25, 2012 Senators Caswell, Jones, Brandenburg, Colbeck, Nofs, and Kahn introduce Senate Bill 1094. SB 1094 is substantially similar to HB 4516, but includes the following differences:

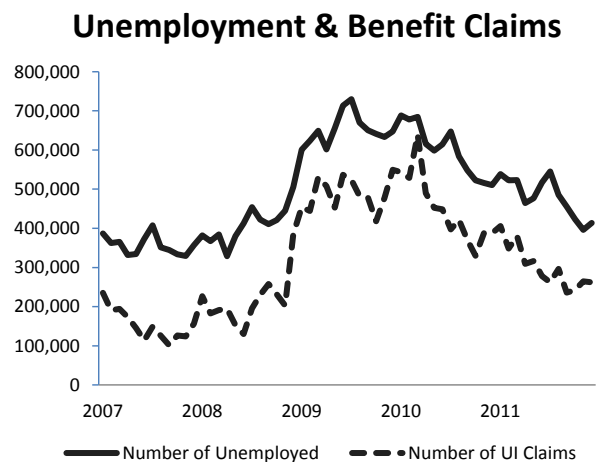
- Stipulates that seasonal or temporary employees are not eligible for benefits under a shared-work plan,
- Requires employers to certify that they have obtained approval of applicable collective bargaining unit representative rather than such approval being a criteria for UIA approval of a shared-work plan,
- Increases minimal threshold for proportion of employees affected by a shared-work plan to 15% with equivalent reduction in hours,
- Requires employers to provide estimates of the number of layoffs prevented under a shared-work plan,
- Requires employers to describe the manner in which they will give advanced notice of hours reduction,
- Limits benefits paid under a shared-work plane to 20 times the weekly benefit amount for each participating employee,
- Removes the limitation (104 of the past 156 weeks) pertaining to the effective periods of consecutive shared-work plans,
- Modifies the range of approvable hours reduction to between 15% and 45%,
- Stipulates that benefits paid under a shared-work plan are not used to establish limits on the duration of benefits but do apply towards the maximum benefits payable,
- Specifies that participation in job training is permitted under a shared-work plan but that training must be sponsored by the employer or provided under the Workforce Investment Act and approved by the UIA,
- Incorporates the 50% subsidy for short-time compensation paid under a shared-work plan by the federal government as authorized by the Layoff Prevention Act of 2012, by reducing employers' contribution to 50% for two year following the effective date of an agreement with the US Department of Labor, and
- Removes the five year sunset of sections enabling the payment of benefits under a shared-work plan.

#### **Implications for a STC Program in Michigan**

Since the beginning of the recent economic downturn, thousands of Michiganders have experienced the effects of cyclical unemployment. While there are signs that the labor market is improving, the

unemployment rates remains around 9% statewide. The chart to the right illustrates the number of unemployed persons and the number of individuals claiming unemployment benefits.<sup>19</sup> The average number of individuals claiming benefits in 2011 was 300,186. Let us assume that the hours of the average STC benefit claimant are reduced by 20%, so that for every five STC beneficiaries, one layoff is averted.<sup>20</sup> During 2011, claims by those affected by mass layoffs totaled 70,517 in Michigan.<sup>21</sup> If participation in the STC program constituted 1% of unemployment beneficiaries, then approximately 600 layoffs would be averted over the year; if 5%, then approximately 3,000; and if 10%, then 6,000 employees would remain employed rather than be laid off.

Work sharing supported with STC may provide an effective alternative to layoffs during cyclical downturns in the economy, but it will not prevent layoffs at a company experiencing sustained decline and failing to compete due to ineffective management or economic restructuring. Furthermore, data show that work-sharing may not preclude eventual layoffs but only forestall the inevitable, especially for less skilled employees who are frequently the first laid off. A potential result of work-sharing is that some individuals may remain employed at jobs in which they are inefficient longer than they otherwise would because the financial disincentive of layoffs is mitigated through work sharing supported with STC.<sup>22</sup> Nonetheless, STC would provide them with additional time and resources to prepare for an inevitable layoff and potentially, at least temporarily, lessen demand for state-sponsored monetary assistance. STC benefits would, however, be counted against employees' benefit year and if an employee is eventually laid off, their regular unemployment benefits would be reduced by the amount collected under the STC program.



SOURCE: MI Labor Market Information and Unemployment Insurance Agency.

Under a STC program the number of hours of unemployment would likely remain the same or potentially increase, since employers who otherwise would not have used layoffs could reduce labor costs while retaining skilled labor. However, the number of individuals unemployed would be expected to decrease as the burden of declining demand is distributed over a larger portion of the labor force. Whether the increase in labor market stability and mitigation of the social costs of unemployment offsets potentially inefficient employment or potential losses in productivity is unknown. Because participation in the STC program is optional, employers, and collective bargaining units, would be able to decide how to distribute reductions in labor demand.

While the impact of STC on the solvency of states' Unemployment Trust Funds is fundamentally equivalent to traditional unemployment benefits (owing to the effective experience-rating of employers' UI tax liabilities), the amount of benefits claimed, and thus the amount of unemployment taxes charged, could be higher under a STC program. This is due to two factors: 1) only a portion of

<sup>19</sup> "Claiming" as in attempting to collect benefits, these numbers would include individuals who claim benefits but are ultimately disqualified from collecting benefits. The UIA does not have data on the number of individuals actually collecting unemployment benefits.

<sup>20</sup> Reducing the hours of five employees by 20% is equivalent to laying off a single employee (ignoring the costs of health and retirement benefits).

<sup>21</sup> A mass layoff is an event in which 50 or more initial claims are filed by employees against an establishment during a five week period.

<sup>22</sup> It is due to this retention of inefficient employees that work sharing may potentially negatively affect hourly productivity, though evidence pertaining to the effects of working sharing with STC on productivity is contradictory and not, yet, conclusive.



employees who have been laid off actually file claims for unemployment benefits whereas *all* employees subject to a STC plan claim proportional benefits, and 2) typically less senior employees earning lower wages are the first to be laid off and their weekly benefit amounts are lower than benefits for more senior employees, yet under a STC program, the hours of both novice and senior employees are reduced and benefits correspondingly paid. However, as a caveat, since the hours of senior employees would be reduced to the same extent as novice employees, average hourly wages would be lower than under layoffs, reducing employers' current payroll expenses.<sup>23</sup> Compared to traditional unemployment insurance, STC smooths labor expenditures to a greater degree, further reducing current payrolls now to be repaid through marginally higher unemployment taxes later.

Researchers from the Urban Institute encourage states to permit as much flexibility as feasible in the implementation of a STC program.<sup>24</sup> Because employers are uncertain about their economic position during a recession and their ability to retain skilled employees, they may need to redetermine the reduction in hours, who the reduction applies to, and for how long the reduction is needed. Requiring formal approval for each such change to work-sharing plans could be burdensome both to the employer and the state.

The Unemployment Insurance Agency (UIA) maintains that the number of employers within the system who would participate is uncertain but, based on the experience of other states, 1% is a fair assumption. As noted above, whereas only a portion of laid off employees actually claim unemployment benefits, all employees subject to a STC program would claim benefits; this would be expected to increase the number of claims filed with the UIA and thus administrative costs. If, however, the employer is permitted to disburse the STC benefits via payroll, these costs could be mitigated. Moreover, STC beneficiaries will not be required to submit work search and work availability information further reducing UIA administrative costs.

Under the Layoff Prevention Act of 2012, the federal government will cover any additional administrative expenses associated with the implementation of an enacted STC program until August 2015, as well as award grants to improve administrative efficiency (i.e. plan and claims automation) and promote employer participation (i.e. rapid response teams). The UIA is currently in the process of an information system rewrite which will automate much of what is currently performed manually, including a STC program if enacted. However, as the rewrite is not yet complete, the UIA anticipates the initial need for three new FTEs in order to adequately staff the STC program and annual expenditures of \$350,000 to \$400,000 to operate the program. Again, these costs would initially be supported by the federal government under the federal Layoff Prevention Act.

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<sup>23</sup> If hourly productivity is negatively affected by work sharing, then expected payroll savings due to STC would be, to an extent, diminished, as lower wages would be offset by lower productivity.

<sup>24</sup> Vroman, Wayne & Brusentsev, Vera. (2009). Short-Time Compensation as a Policy to Stabilize Employment. The Urban Institute.

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