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It's Time to Rebuild Workforce Services and Integrate Employment Systems

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Table of contents
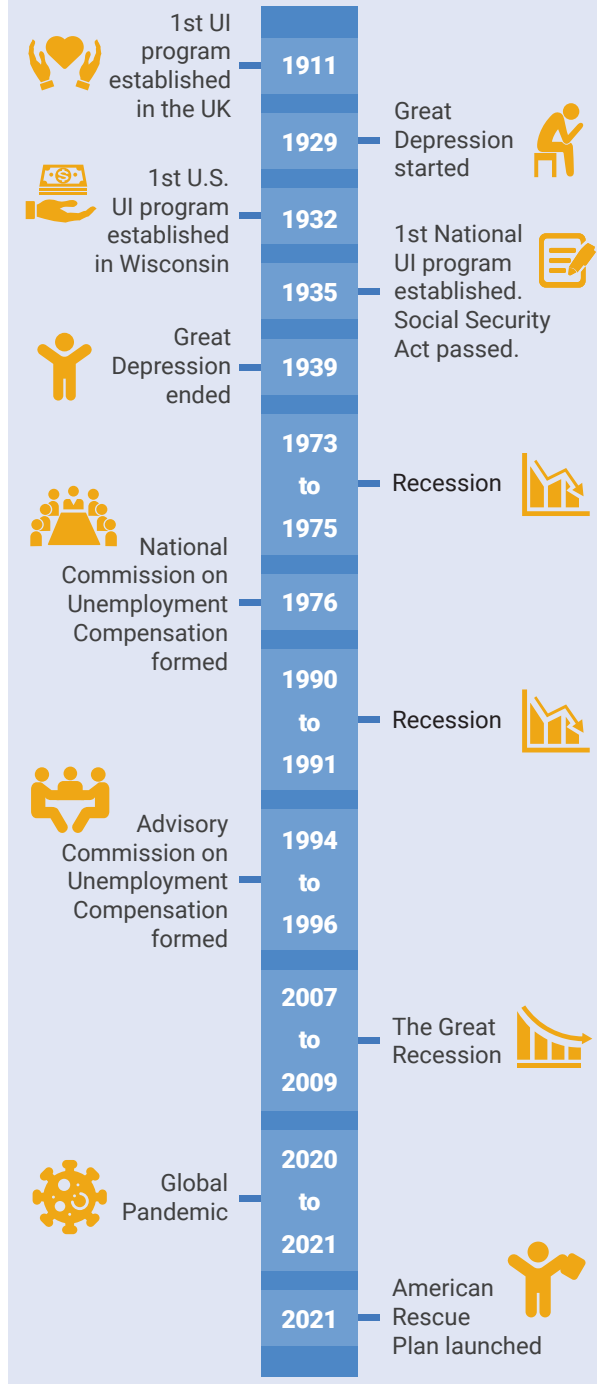
Unemployment insurance (UI) has been around for over a century. The United Kingdom established the first modern UI program in 1911. Although it focused on sick leave, the same essential characteristics are still part of today's UI. Basically, employers and employees contribute to a fund from which wage earners could benefit if they can't work. The U.S. unemployment system began in 1932, when the State of Wisconsin established the first state plan. It reached the national level with the Social Security Act of 1935, passed in response to the Great Depression. This history may seem distant and academic, but it's crucial, because the U.S. system hasn't been significantly reformed since its establishment.

Instead, an obvious pattern has emerged: With each significant economic downturn, Congress extends and/or augments UI benefits but ultimately leaves the UI system's fundamental business rules unchanged. Following the recession of 1973–1975, which severely depleted state trust funds, Congress in 1976 formed the National Commission on Unemployment Compensation (NCUC). And despite extending the benefit period during that recession, Congress didn't adopt any of NCUC's recommendations.[1] Similarly, when Congress recognized the need for reform during the 1990–1991 recession and its resulting strain on the UI system, it created the Advisory Commission on Unemployment Compensation (ACUC) and again failed to adopt any of the suggested measures in the ACUC's final report.[2] And with each recession, the system broke down a little more.

Since the Social Security Act was signed in 1935 the best option for the US congress has been to inject funds to alleviate strain when the system comes under stress. And these measures do have real impact. Along with immediate relief to the unemployed individual, they help the general economy when the monies provided are spent throughout that individual's community. But it's not enough. Real and meaningful change is needed to UI's core operating principles. The methods and the technology are available, along with Federal funding under the American Rescue Plan, and the time to do it is during those periods between recessions.[3]

The history of unemployment programs

1st UI program established in the UK — **1911**

1929 — Great Depression started

1st U.S. UI program established in Wisconsin — **1932**

1935 — 1st National UI program established. Social Security Act passed.

Great Depression ended — **1939**

1973 to 1975 — Recession

National Commission on Unemployment Compensation formed — **1976**

1990 to 1991 — Recession

Advisory Commission on Unemployment Compensation formed — **1994 to 1996**

2007 to 2009 — The Great Recession

Global Pandemic — **2020 to 2021**

2021 — American Rescue Plan launched

The current state of UI systems

Each state holds UI benefit contributions in a tightly regulated trust to ensure funds are used only for unemployment benefit support. State legislatures set contribution rates, which are impacted over time by an employer's experience rating — a measure of its history of separated employees claiming unemployment. These business rules, however, may negatively influence UI system operations due to several factors:

- Employers are incentivized to challenge the benefits ex-employees receive because, over time, these benefits increase business operating costs. This may lead to valid claims going unpaid.
- Employer experience ratings are capped. If an employer reaches that cap, any additional layoffs will not impact its operating expenses. As a result, employers will often ignore state attempts to validate UI claims. This can lead to claims being paid in error.
- Employers misclassify workers as independent contractors because they aren't required to contribute to the trust fund on behalf of these workers, who aren't eligible for conventional unemployment. An exception to this rule has been made during the current pandemic, and independent contractors are eligible for assistance using federal funds.

> **Despite the lack of incentive, as of 2020 the solvency level of 31 states' UI trust funds was greater than or at the recommended minimum solvency standard; 22 states and jurisdictions were below the recommend standard.[4]**

Employers' basic contribution rules are unlikely to change. Because of this, a reactive solution is the only option during an economic downtown. It's also critical to note that when state UI trust funds deplete during such times, states turn to the federal government for either loans or supplemental grants to make up the difference.

But the UI system is intended to be forward-funded. So, in times of economic prosperity, when the number of employed workers and the resulting UI tax revenue go up, trust funds should build up such that benefits can be paid when required. But because states know that the federal government will always bail them out in times of crisis, there is little to no incentive to adequately forward-fund trusts to conceivably weather a financial crisis.

Despite the lack of incentive, as of 2020 the solvency level of 31 states' UI trust funds was greater than or at the recommended minimum solvency standard; 22 states and jurisdictions were below the recommend standard. [4]

Lack of funding or underfunded states could make the statistics more alarming, but most of the unemployed pandemic assistance benefits are 100% federally funded.

Fundamental gaps exist

In addition to the issues with UI business rules, many of today's UI systems have a fundamental technical gap and deep technical debt. Part of the problem is because the roots of UI service delivery are firmly embedded in a time when most claimant interactions occurred in person. But even a move to receiving services online won't help, as the systems used are largely just web-based interfaces to the outdated legacy mainframes and processes that supported in-person service delivery.

The Great Recession of 2007–2009 demonstrated how these interfaces failed to properly manage UI claim loads, requirements and/or payment integrity. As a result, the U.S. Department of Labor released tens of billions of dollars in grants to modernize systems and make other technical improvements. Unfortunately, as the current pandemic clearly demonstrates, these funds haven't been well spent; we've seen almost universal failures similar to or exceeding the magnitude of those witnessed during the Great Recession.

Why state systems are failing:

1. Many state modernization efforts are slow, stalled or non-existent, despite the availability of past funding.
2. States that have modernized have done so by implementing repurposed solutions, either old technology transferred from other states or technology built on platforms designed for other business purposes.
3. Systems leverage solutions built overseas by developers with incomplete knowledge of our UI business rules and nuances.
4. Systems don't include business process improvements when modernizing, and the resulting system is just a re-platformed copy of the outdated system.
5. Systems can't be configured, because the lack of flexibility in accommodating additional business cases and UI program changes required by legislation is crippling.
6. Systems are hosted on big iron or in conventional data centers without ready access to additional compute power or bandwidth.

Increasing the disconnect, most UI systems are siloed from the reemployment system. This is a problem because the same citizens need both systems, at the same time. And yet, very few common touchpoints exist. Each state requires individuals claiming benefits to register with its reemployment system, in addition to engaging in weekly work search activities. Some claimants may receive labor market information, but that's the extent of the reemployment assistance UI claimants receive.[5]

Winston Churchill once said, **"Those who fail to learn from history are condemned to repeat it."**

As states across the country evaluate options to fix a broken system with readily available ARP funds, it would behoove leadership to learn from historical missteps, misappropriations and sluggish modernization implementations — the system and systems need to change.

From safety nets to solutions

As a safety net for both the unemployed individual and the general economy the UI system provides funds that serve as temporary support while an individual seeks new employment. It also injects dollars into that individual's community to support local businesses. These funds equate to operating expenses. But once spent, they're gone. The UI system, including the current pandemic's robust assistance programs, doesn't invest in individuals or the economy. And while the workforce and reemployment services department — the sister department of UI — does provide some job search and training opportunities, those resources are usually ad hoc, disjointed and poorly integrated with states' UI systems and the unemployment claimant population. It's not the best way to follow Benjamin Franklin's lead "For the best return on your money, pour your purse into your head." To truly benefit from funding and technology we must carefully examine old assumptions and prepare both systems and citizens for the future.

Even without the exacerbating influences of the current COVID-19 crisis, individuals who become unemployed are often likely to be unemployed again in the future unless there's some material change to their circumstances. As such, the goal of any UI system shouldn't merely be to provide short-term support; it should also decrease the amount of time an individual spends on the UI roles while increasing the likelihood that, once reemployed, that individual is likely to continue in a state of employment. This change can only be accomplished through investments in both the individual and the supporting state and private resources. This creates human capital.

Traditionally, the approach to lifetime workforce development is very linear. An individual goes to school, develops a skill set, enters the labor market, perhaps refines that skill set, and continues along a career path that hopefully provides personal security and employment. However, it's unreasonable to assume that everyone's lifetime workforce experience will be constant and uneventful. Changing technology and economic factors may create an environment where a worker needs to reskill. This is less common among individuals with post-secondary education, but even that group may sometimes need skills-related assistance.

The long-term effects of the pandemic on current UI systems continue to unfold. The workforce system must similarly evolve to provide multiple effective opportunities and support to close the developing skills gaps and proactively address the overall health of the labor market. The good news is that these programs and opportunities do exist in the workforce ecosystem. Improvements are needed, though, including integration and process-driven capabilities. Luckily, the technology exists to provide that integration. States just need the will, motivation and support to make it happen.

To address the defects found in the varying UI solutions deployed over the course of many years, states need to consider new options, new ideas and new vendors.

To develop a UI system of the future to address defects found in the current solution, new UI systems must have the following tenets and characteristics — and hold fast to them:

- Be cloud-based with all federal- and state-mandated security controls and certifications.
- Be architected as a cloud-native application with the ability to scale to increase capacity with little or no human intervention.
- Be business-rules driven and capable of accommodating new UI support benefits programs or changes to existing programs with minimal modification to the base application. And those changes must be made through a business-rules engine or via configuration modifications, not by adding new programming or sideloading applications.
- Not rely on "pay and chase" overpayment control and instead leverage proactive fraud detection capabilities, which prevent improper payments from being made.
- Make extensive use of commercial, state and federal data sources and data exchanges designed to prevent fraud.
- Ensure all necessary updates and improvements are applied promptly to the core system so the system is properly maintained in accordance with industry best practices.

If we look at workforce development as a non-linear experience and at the users of such a system as human capital to invest in rather than just support, we'll see a profound paradigm shift. Even ad hoc actions to assist a UI claimant take on a whole new value. For example, an individual becomes unemployed through no fault of their own. They file for unemployment and begin to receive benefits. As a condition of their ongoing unemployment claim, they must take the following workforce-related actions:

- Register with their state's jobs service. Based on their profile, they may also receive job postings that match their skill set.
- Report work search activities according to their weekly certification requirements. These activities can range from completing job applications to calling on employers to see if they're hiring.

If selected, an individual may receive a Reemployment Services and Eligibility Assessment (RESEA) Program intervention.[6] These sessions provide labor market information (LMI) and assess the individual's occupation and skills in accordance with state and federal measures. Assessments can provide valuable insight. For example, an individual who has worked in data entry may be referred to a workforce specialist for assistance because data entry is a declining occupation and continuing to search for a new data entry position may be futile.

All these activities are good requirements for any system paying UI; taken individually, however, they're insufficient to have a meaningful impact on an individual's lifetime job trajectory. In fact, these activities may well contribute to a path back into employment that's likely to end in another future job separation. But there's hope.

Reimagining UI workforce development interventions

In this paper we've examined some of the shortcomings of unemployment and reemployment systems as well as traditional workforce interventions and those required by a state's legislature or policies—but what is the real solution? With the prospect of a solution from federally funded programs, how can states use the funds wisely now and prepare for future challenges?

Technology may hold the answers.

A truly integrated system

The true integrated system of the future would allow all systems and databases to dynamically interface and comprehensively assess qualifications using artificial intelligence (AI) and machine learning (ML). To explain further, when an individual registers with their state workforce system, they provide a cursory profile that the system can use for job matching against the state's job board. However, this is also an ideal opportunity to capture a comprehensive snapshot of a claimant's education and work experience history. The system could potentially use ML and analytics to identify skill gaps or labor and experience deficiencies as well as suggest training. AI could also compare existing skill sets to similar available job and LMI indicators, allowing for more meaningful workforce intercessions or expedited placement.

Reemployment activities can stand on their own, separate from UI. As such, they can provide citizens a means to achieve proactive career advancement. But by automating reemployment activities and sharing data in real time with UI or other related state systems, the separated or transitioning worker receives meaningful career-building support while avoiding duplicative or unnecessary services that may not significantly contribute to their immediate and continued employment.

Meaningful outcome data

By taking a systematized approach, states will be able to capture meaningful data on outcomes and return on investment.

Comprehensive support

An integrated system should extend to social welfare programs and workforce investment boards, which also provide job training support and additional job search services.

Improved efficiency and user experience

All information should be captured through a single automated interface and workflow designed to support both reemployment support and the unemployment claim.

Federal and state compliance

Automating the RESEA intervention could provide additional metrics to be used to identify individuals whose reemployment may be challenging.

Extending the safety net

Many states offer career path training programs and participating in them may also augment or extend available benefits.

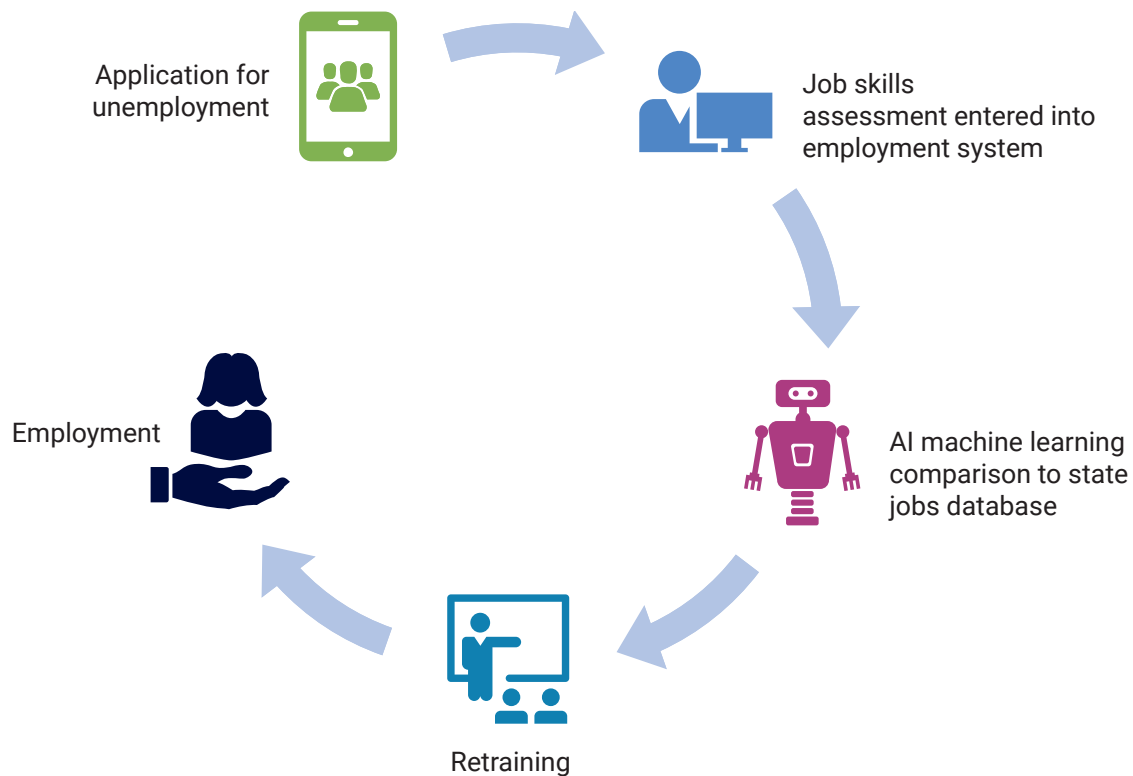### Broader workforce development options

In addition to available educational support, a modern workforce system can and should identify the claimant as a candidate for internship, apprenticeship or vocational training programs.

Focused investment in human capital

States can incentivize individuals to follow high-demand skills pathways by identifying candidates and absorbing the cost from appropriate skills-based training and education.

Application for unemployment

Job skills assessment entered into employment system

Employment

AI machine learning comparison to state jobs database

Retraining

There's a long way to go

The unemployment landscape does have bright spots, with some states moving toward the types of integrations described in this paper. By combining departments or creating agencies with umbrella workforce responsibilities, they've started to create a unified view of services and outcomes. We're also seeing a move toward interagency data sharing and cooperation. At a federal level, the Workforce Innovation and Opportunity Act — the enabling legislation that supports our national workforce programs — explores the need for stakeholder integration among workforce and educational service providers and will require a move toward longitudinal outcome reporting across those services.[5]

And although these examples are steps in the right direction, states still have a way to go. Change in government programs is complex. Many of the players involved have been siloed for so long that not only is integration a foreign idea, but the system on which they rely for case management isn't readily able to be integrated.

But it is possible. NTT DATA is a top 10 global business and IT services provider. The depth and breadth of our IT capabilities span everything from applications and security to user-centric design and infrastructure modernization. We've partnered with some of the leading purveyors of unemployment insurance solutions to offer dynamic system improvements designed to meet the needs of states and citizens alike. We know that no two state systems are alike, which is why we look at each system and state as a unique enterprise and develop a roadmap to the future based on the most pressing challenges within that state. We have a range of technologies at our disposal, born from a lexicon of commercial best practices and practical application throughout government.

The technology available now is such that the framers of the UI system could never have imagined — technology that can meet the requirements of current UI service delivery, add workforce support to close skills gaps and measurably reduce future unemployment. Change is coming; it must.

Let NTT DATA UI experts help you assess your systems, access funding and deploy a modern system to meet the needs of your citizens.

About the author

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Tom brings more than 25 years of executive business management and industry experience to his role with NTT DATA, most recently as CEO of On Point Technology, a solution provider in the UI domain. Tom's public sector experience includes having previously served as the CIO, and subsequently as Executive Director, at the Washington, D.C., Department of Employment Services. Before beginning his work in the public sector, he served as Chief Technology Officer and co-founder of a private consulting group that provided technological support and innovative tools to small businesses seeking access to federal contracts.

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