

STATEMENT OF MICHAEL CULLEN
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BEFORE THE
COMMITTEE ON FINANCE
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Hearing on Reducing Overpayments and Increasing Quality in the Unemployment System

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Chairman Baucus, Ranking Member Grassley, and distinguished members of the committee, thank you for the opportunity to testify this morning.

I am Mike Cullen, Managing Director at On Point Technology. On Point Technology's entire focus is Unemployment Insurance, and as a company we take pride in our employees' experience and expertise in this arena. Prior to joining On Point, I spent 14 years with the Colorado Department of Labor and Employment, serving six years as the State's Unemployment Insurance Program Director – our staff possesses similar backgrounds as career state unemployment insurance professionals. For over 20 years, On Point's solutions have enabled 15 states to find and collect improperly paid UI benefits, returning hundreds of millions of dollars to their state trust funds. We are proud to provide more efficient management systems that strengthen UI programs and help minimize tax burdens on employers.

Background

The Unemployment Insurance system faces its greatest set of challenges in a generation. The recession's impact on state and federal UI trust funds is clear and stark as millions of unemployed continue to look for work in an economy that struggles to regain its feet. To date, 35 state trust funds have been forced to borrow a combined \$38 billion, and many of these state programs still face insolvency. However, this problem is not exclusive to the states – due to extended demand, Federal UI accounts have had to borrow an additional \$37 billion from the United States Treasury to support the numerous federal unemployment insurance programs.

Unprecedented UI payouts, bankrupt trust funds, and unparalleled borrowing means that the benefits to our nation's unemployed are imperiled. Employers, who are struggling to keep their business afloat, are increasingly bearing the burden of rebuilding the trust funds in the form of tax increases. In 2010, employers in 24 states saw UI tax increases. If the trend continues, tens of thousands of employers in 28 states will face these tax increases in 2011. For example, in Florida payroll taxes have jumped from \$8.40 per employee to \$100 per employee – a huge increase for any small business looking to hire new employees.

The improper payment of benefits has exacerbated the challenges state UI programs face. Historically, during times of high unemployment the number of claims paid erroneously and the incidence of fraud increases. In 2010, the United States Department of Labor (USDOL) conservatively determined the overpayment rate to be 9.6%.

Since the beginning of the recession in December 2007, more than \$230 billion in unemployment benefits have been paid. Moreover, the Administration projects that an additional \$453.7 billion of UI will be paid over the next 5 years. This means that over \$22 billion has been paid improperly over the past 2 ½ years and unless immediate action is taken, an additional \$43.5 billion will be paid improperly over the next five years. According to the President's 2011 budget, the UI program will have to borrow \$51 billion in 2010 and an additional \$25 billion in 2011 from the general fund.

The current outdated systems create a tension between timely processing of benefits and ensuring the integrity of these payments. However, this dilemma ultimately represents a false choice. With an investment in technology systems, we can both improve states' capacity to process benefits while dramatically enhancing the integrity of these payments.

Administrative Funding

Since 1992, administrative funding for the UI program has remained static. State agencies have been required to cut service levels or compete for other state dollars to administer their UI programs. Cost savings have been found through limited automation, but UI support systems on average, are 24 years old. That age has impaired the states' ability to move quickly in administering the variety of currently active UI payment programs. It has also made it difficult to effectively use currently available software to address large, labor-intensive, repetitive processes. Because of limited administrative funds dedicated to integrity, little automation has been implemented.

Best Practices

On Point Technology has found that the detection and recovery of overpayments can be dramatically increased.

- Currently, most states have some automated processes to detect overpayments, such as the National Directory of New Hires (NDNH), but the primary tool remains a 35 year old cross match system that is highly inefficient. After the overpayments are detected, the automated processing typically comes to a grinding halt. Most states rely upon manual processing to recoup wrongly paid benefits. Performing calculations, interfacing with state systems, and creating documents for employers and claimants are labor intensive processes. Resolving any question regarding a case, generally requires searching through file cabinets to secure the required information. These manual processes prevented states from addressing the overpayment problem before the recession and have proven impossible to ramp up with the increase in workload. Adapting existing

technology to eliminate this paper processing will dramatically increase productivity. States should store information in a web-accessible system to enable automated reports, letters, and interface thereby increasing productivity.

- Most states adjudicate every overpayment manually based on state statutes and UI case law. On Point works with state adjudication experts to translate state law and precedents into business rules to issue automated determinations. Using these techniques, states have seen 70% of overpayment decisions automated. This assures all decisions are made on the same criteria and thus have the same results. It is our experience that implementing software incorporating these processes improves the overall detection and processing of UI overpayments by at least 300%. One state has had a return on investment of more than 100 times the original cost.
- Organized fraud exists. States that are armed with software to find organized fraud can avoid significant losses to their trust funds. In June of 2005, the U.S. Department of Labor's Office of Inspector General testified before Congress about a single organized fraud ring that stole 15,000 identities and committed \$58 million of UI fraud. Other cases have been found. A proactive approach could have identified this organized fraud earlier, saved millions of UI dollars, and prevented identity theft for thousands of individuals. The use of automated software to search disparate databases for known patterns of fraud can detect and stop these illegal activities. Importantly, On Point's software shares updatable audits of known fraudulent patterns between states reducing the spread of these schemes.

Most states lack a comprehensive overpayment collection process. States that implement overpayment collection software, typically experience dramatic improvements, doubling their overpayment collections amounts in most cases.

Recommendations

Improper payments represent a large and growing threat to the integrity of the UI system and require an immediate solution. We believe there are several ways that Congress can invest a comparatively small amount yet yield substantial results to both the U.S. Treasury and state UI trust funds.

- Congress should provide dedicated administrative funding for software to support effective integrity activities with each UI extension and through the annual appropriations process. Purposing 10% of the administrative funds for integrity technology to protect the dollars from fraud and abuse could return significant multiples of the investment in the first year of implementation alone. Savings realized will enable states to assist more beneficiaries for a longer period of time while mitigating waste fraud and abuse and keeping payroll taxes lower. These savings provide for better options for the states, and a sound national economic policy in a time of need. Both the Congressional Budget Office and the

Department of Labor have recognized that dedicated integrity funding produces net revenue increases for the unemployment trust funds and the federal budget. Based upon our experience, investments in software for state integrity programs can easily return \$10 every year for each dollar spent in the first year.

- Adding the first day of work to the National Director of New Hires would make this an even more effective tool for the states to indentify overpayments.
- In concert with the Department of Labor and the states, we encourage Congress to consider a long-term solution legislative solution to the Unemployment Insurance integrity problem. In this context, the proposed Unemployment Compensation Integrity Act is a much needed first step towards a thoughtful legislative process.

Our unemployment Insurance system is a vital lifeline for millions of Americans especially during times of economic turmoil like we face today. We must act to preserve the integrity of the system to ensure its continued viability for those in need. Fortunately, we are in a position to strengthen the UI trust funds and to help ease the tax burdens are employers will soon face. A modest investment in integrity technology will yield significant savings for the government, our employers and our taxpayers.

Thank you for the opportunity to testify. I am available for any questions you might have.