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**Testimony before the Senate Finance Committee
on the Success of the Rhode Island WorkShare
Short-Term Compensation Program**

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Good morning, Chairman Baucus and members of the U.S. Senate Committee on Finance. My name is Charles Fogarty. I currently am a member of the cabinet of Governor Lincoln Chafee, where I serve as Director of the Rhode Island Department of Labor and Training. I am pleased to be able to speak with you this morning about our state's 20-year experience with the WorkShare short-term compensation program.

WorkShare is a successful layoff aversion program that has prevented an estimated 14,650 layoffs* in our state since 2007—the beginning of the recent economic downturn in Rhode Island. As you know, Rhode Island has been experiencing double digit unemployment rates since March 2009, with a high of 11.8 percent in March 2010 and with a current rate of 10.5 percent as of September 2011. We in Rhode Island believe strongly that our WorkShare program has kept this rate from escalating and causing further damage to our state economy.

History

WorkShare began in Rhode Island in 1991, within a year of the passage of federal legislation allowing short-term compensation programs; the launch of the Rhode Island WorkShare program coincided with a statewide economic downturn and credit union crisis in the state. In 2002, the Rhode Island program was expanded from 26 weeks to 52 weeks.

The WorkShare program had been used almost exclusively by the manufacturing industry until the economic downturn following the September 11th attacks in 2001. At that time, the types of employers using WorkShare expanded to include those from other industry sectors. At the height of the most recent recession, enrollment in the WorkShare program peaked in 2009, resulting in more than 27,000 initial claims and a total of 6,600 averted layoffs¹ in that year alone.

¹ Layoffs averted are calculated by multiplying the percentage of the workers' reduced hours by the number of workers covered by the employer's plan.

	Layoffs Averted	Initial Claims
1992	2,173	9,652
1993	1,400	5,003
1994	1,474	4,628
1995	2,228	6,546
1996	2,033	6,643
1997	2,140	5,120
1998	1,773	5,749
1999	1,656	5,399
2000	1,408	4,036
2001	3,998	10,803

	Layoffs Averted	Initial Claims
2002	2,602	8,370
2003	1,801	7,832
2004	1,017	4,452
2005	1,165	5,006
2006	1,288	5,618
2007	1,472	6,451
2008	2,934	10,546
2009	6,618	27,372
2010	2,933	12,099
*2011	699	2,678

*As of September 30

Currently, the majority of WorkShare claimants are men. Sixty percent of claimants are employed in production occupations that are predominantly found in the manufacturing sector. However, 25 percent of WorkShare claims in 2011 have occurred in sectors other than manufacturing, including wholesale trade, professional and technical services, and health care.

Partial Wage Replacement

Through WorkShare, a company may uniformly reduce the work hours of its entire workforce or of all employees within an impacted business unit or division. This reduction can run from as little as 10 percent to as much as 50 percent. Income that would otherwise have been lost due to a work week reduction is partially reimbursed through Unemployment Insurance. In Rhode Island, our average Unemployment Insurance benefit covers approximately 60 percent of lost wages.

Here's an example: Suppose a person working full-time earns \$500 each week—\$100 each day that he is working. Under WorkShare, suppose that same person has his work week reduced from five days to four days. In this scenario, the participating company would pay that employee \$400 in wages, and Unemployment Insurance would pay him \$60—60 percent of one day's wages—for the remainder of the work week. That brings the week's total of wages and benefits to \$460. Had that person been laid off, his weekly benefits would have totaled approximately \$300—\$160 less than if he had participated in the WorkShare program.

Additional examples are provided in the following chart:

1/2 Day Cut (10% Reduction)				
5-Day Wages	Regular UI Payment	4.5 Days Wages	10% WorkShare	Total Wages + WorkShare
\$400	\$240	\$360	\$24	\$384
\$500	\$300	\$450	\$30	\$480
\$600	\$360	\$540	\$36	\$576
\$700	\$420	\$630	\$42	\$672
\$800	\$480	\$720	\$48	\$768
\$900	\$540	\$810	\$54	\$864
\$1,000	\$566	\$900	\$56	\$956

1 Day Cut (20% Reduction)				
5-Day Wages	Regular UI Payment	4 Days Wages	20% WorkShare	Total Wages + WorkShare
\$400	\$240	\$320	\$48	\$368
\$500	\$300	\$400	\$60	\$460
\$600	\$360	\$480	\$72	\$552
\$700	\$420	\$560	\$84	\$644
\$800	\$480	\$640	\$96	\$736
\$900	\$540	\$720	\$108	\$828
\$1,000	\$566	\$800	\$113	\$913
1.5 Day Cut (30% Reduction)				
5-Day Wages	Regular UI Payment	3.5 Days Wages	30% WorkShare	Total Wages + WorkShare
\$400	\$240	\$280	\$72	\$352
\$500	\$300	\$350	\$90	\$440
\$600	\$360	\$420	\$108	\$528
\$700	\$420	\$490	\$126	\$616
\$800	\$480	\$560	\$144	\$704
\$900	\$540	\$630	\$162	\$792
\$1,000	\$566	\$700	\$169	\$869
2 Day Cut (40% Reduction)				
5-Day Wages	Regular UI Payment	3 Days Wages	40% WorkShare	Total Wages + WorkShare
\$400	\$240	\$240	\$96	\$336
\$500	\$300	\$300	\$120	\$420
\$600	\$360	\$360	\$144	\$504
\$700	\$420	\$420	\$168	\$588
\$800	\$480	\$480	\$192	\$672
\$900	\$540	\$540	\$216	\$756
\$1,000	\$566	\$600	\$226	\$826
2.5 Day Cut (50% Reduction)				
5-Day Wages	Regular UI Payment	2.5 Days Wages	50% WorkShare	Total Wages + WorkShare
\$400	\$240	\$200	\$120	\$320
\$500	\$300	\$250	\$150	\$400
\$600	\$360	\$300	\$180	\$480
\$700	\$420	\$350	\$210	\$560
\$800	\$480	\$400	\$240	\$640
\$900	\$540	\$450	\$270	\$720
\$1,000	\$566	\$500	\$283	\$783

Eligibility

WorkShare is available to any employer with two or more employees, provided that a business meets certain criteria. WorkShare is designed as a layoff aversion program during an unanticipated downturn, and cannot be applied to a time period associated with regular seasonal slowdowns. Only those employees who normally work 30 hours or more per week and who would normally be eligible to receive regular Unemployment Insurance benefits in Rhode Island are eligible to participate in WorkShare. By policy, employers enrolled in WorkShare are asked to continue to provide existing fringe benefits, including vacation, sick leave, health care and retirement benefits.

WorkShare employers must file an approved plan for work week reductions (including affected individuals, hours and wages), and furnish reports necessary to verify and evaluate that plan as it progresses. In cases where a collective bargaining unit is to be involved, that bargaining unit must sign off on the plan before the state approves its implementation. In Rhode Island, a WorkShare plan can be modified 30 days after it takes effect. Also in Rhode Island, a WorkShare plan cannot exceed 52 weeks, but may be renewed two consecutive times.

Promotion

There are several reasons we believe that WorkShare has been particularly successful in Rhode Island. One has to do with our long-standing commitment to the program. On any given day, we have three to five Unemployment Insurance employees dedicated to operating the WorkShare program. Additionally we have trained all our Unemployment Insurance claims-takers to monitor business claims for layoffs patterns that could indicate a need for WorkShare. And, our partners in the Workforce Development Division educate employers on WorkShare as part of a menu of available services.

One of the barriers to promoting WorkShare is the proprietary nature of the information. Most companies who are struggling do not want their customers, suppliers and competitors to know that they are considering layoffs or work week reductions. Accordingly, we do not publicize the names of WorkShare companies unless the companies give us permission. However, those companies who have come forward—some after their WorkShare experience has concluded and some while they are actively participating in the program—become our best business-to-business communicators. One of the benefits of Rhode Island's small size is that word can travel fast, and when that word is WorkShare, the news continues to spread across the state.

Rhode Island Success Stories

During this prolonged recession, WorkShare has proven to be more than a simple win-win situation for government and business. It's a win-win-win (3x) for employees, employers and the State of Rhode Island. The biggest benefit for employees is an obvious one: they get to keep the jobs at which they already excel. Conference Board data for August 2011 counted 16,400 job openings and 59,600 job seekers—that is 3.64 job seekers for every one job available. Those are tough odds if you are trying to put food on the table. That is why layoff aversion programs like WorkShare are so important—they provide stability to Rhode Island families that might otherwise be facing an average of more than 30 weeks of unemployment.

WorkShare is a win for employers, because they are able to protect their greatest investment: a trained and productive workforce. Employers will tell you that when laid-off workers walk out the door, all the knowledge and skills they have accumulated on the job walk out the door with them. And those same employers will tell you that when the economy turns around, they will have to recruit, hire and train new workers to fill positions lost to temporary downsizing before they can take advantage of the improved business climate. However, those employers who have benefited from WorkShare will tell you a different story. They will tell you that, because their employees are able to remain on the job part-time during hard times, those same employees will be prepared and able to boost production immediately when the economy turns around.

José Gouveia, the employment and training manager at Hope Global—a RI manufacturer that had used WorkShare in 2009 and 2010—has this to say about the program:

“While our company was on the WorkShare Program, it certainly reduced the layoffs and helped in our overall survival. It allowed us to keep our talented workforce and our employees to maintain their benefits. Our company is doing well; but looking back, the WorkShare Program was a big help when we journeyed through a challenging period. Programs like this one are important to help businesses throughout the country and to allow people to still earn a paycheck.”

Geoff Grove, CEO of Pilgrim Screw, a Rhode Island manufacturing company which is now active on the WorkShare program, says:

“By giving small businesses an option other than a full layoff, WorkShare helps us to maintain skill sets that might otherwise be lost. People in small companies often wear many hats. So, a layoff may mean that a skill is lost to the company when the person leaves, unlike in large companies where skills are often redundant.”

Michael Cooley, CEO of The Quinlan Companies, calls his company the ‘poster child’ for WorkShare.

“The single-most instrumental action we took that put us back on the map was WorkShare. We were preparing to cut a portion of our staff, and instead we were able to have the WorkShare program subsidize wages until we got through the downturn in the economy. We survived the recession, we’ve just added a huge facility and we will be hiring more people in Rhode Island.”

As for the State of Rhode Island, the win is simple economics. WorkShare keeps taxpayers employed today and WorkShare keeps companies poised for future opportunity. WorkShare saves jobs.

At this point, I would like to thank the chairman for this opportunity to testify, and I am happy to answer any questions the committee may have.