Good morning and thank you for inviting me to be here today to present the complete picture of the state’s unemployment compensation system. To do that, I’ll take you through a short presentation that will give you a visual look at the system as it existed before the enactment of the State Infrastructure and Improvement Fund in 2012, after SIIF, which includes the system before the December 2016 layoffs, and what the system looks like now.

Finally, I will outline what we believe to be the options and their consequences as we move forward with your help.

The department gathers data on unemployment service every day, really every hour. Those facts and figures tell a story on their own and I will share many of these with you today; however, I feel it’s necessary to also provide a brief narrative of the full impact of the SIIF funding, including the improvements made with that funding, and to explain in detail the deep and devastating interruptions to service caused by the lack of funding to administer the state’s unemployment compensation system.

This short presentation is intended to give you a much bigger and more accurate picture of the current situation.

First, let me explain how Act 34, the law that created the Service and Infrastructure Improvement Fund, defined what the SIIF funds were to be used for.

House Bill 26 was signed into law on July 3, 2013 by then-governor Tom Corbett. Act 34 contained two primary priorities:

(1) “To improve the quality, efficiency and timeliness of services provided by the service center system to individuals claiming compensation under this act, including claim filing, claim administration, adjudication services and staffing and training of system employes.”

And (2) that “Expenditures for information management technology, communications, communications technology and other infrastructure components that the secretary determines are likely to result in significant and lasting improvements to the unemployment compensation system.”
In November of 2012, we literally had millions of busy signals when UC claimants were attempting to contact UC call centers about claims, and average wait times on the phone were well over an hour. (This may sound familiar.)

In November of 2016, before the layoffs, we experienced under 33,000 busy signals and the average wait time was only nine minutes and 53 seconds.

A key service metric within UC is first payment timeliness; how quickly can we make a first payment to a newly eligible claimant. The U.S. Department of Labor has a “first payment” benchmark: 87 percent of claims filed are to be paid within the first 14 days of the end of the first potentially eligible week.

In federal fiscal year 2012, Pennsylvania made timely payments 82 percent of the time after having been failing to meet the benchmark since before the start of the Great Recession in 2008. In federal fiscal year 2016, Pennsylvania, on average, made 92.6 percent of all initial payments within the first 14 days.

We were making significant progress and exceeded the federal benchmark in 2016 thanks to SIIF and improvements the department made.

For lower authority appeals, or the referee level, 60 percent of referee decisions are to be issued within 30 days of the appeal date. In November 2012, we adjudicated only 40 percent of lower authority appeals within 30 days of the appeal date. In September 2016, we averaged 78.7 percent of appeals adjudicated within that metric.

We were making significant progress and exceeded the federal benchmark in 2016!

For higher-authority appeals, or UC board of review level, 50 percent of decisions are to be issued within 45 days of the appeal date. In November 2012, only 4.7 percent of higher-authority appeal decisions were issued within that timeframe. In September 2016, 69.8 percent of our higher-authority appeal decisions were issued within 45 days.

Yes, we were making significant progress and exceeding the federal benchmark in 2016!

We made significant progress with significantly less federal funding from year to year. The success was due in large part to the 2013 enactment of the Service and Infrastructure Improvement Fund, or SIIF.

Federal funding is based on a number of factors, including the number of unemployment claims and the state’s unemployment rate, so as our unemployment rate dropped and claims for benefits decreased accordingly, the state received fewer federal dollars, yet the costs to operate our UC system don’t drop. If anything, they increase each year, if only slightly.

With SIIF, the department improved processes, improved infrastructure, and quite frankly, was able to have the right amount of staff to appropriately handle the administration of our UC system in a timely and efficient manner.
Now, enter November 2016.

When the 2015-2016 legislative session ended without SIIF being reauthorized, the department had to immediately reduce its budget for calendar year 2017 by $57 million. We did this through a combination of reduced infrastructure costs and reduced personnel.

The department is now operating a wounded unemployment system.

As of Dec. 19, 2016, we shuttered the UC service centers in Allentown, Altoona, Lancaster, which reduced infrastructure expenses. We eliminated 521 positions and absorbed as many of those staff as possible into other open positions in the department and other commonwealth agencies. Eleven people found positions before the layoffs took effect in December and so our final number was 499 furloughed employees, not just in the service centers, but also in our Harrisburg service center, UC tax and policy offices, UC Board of Appeals, the legal, information technology, administration services, and communications offices that support UC functions. These cuts were deep and devastating.

The drastic reduction in staff goes well beyond those individuals whose primary responsibility is answering phones in the service centers.

The state’s UC system’s overarching goal is to provide benefits to Pennsylvanians unemployed through no fault of their own to bridge the lack of income between jobs so that they may pay bills, put food on the table, and otherwise reduce some of their burden.

One of the many responsibilities of our service center staff is to answer phone calls from customers and, even with reduced staff, these dedicated employees are handling thousands of calls each day. Unemployment must be paid accurately and according to the law, or we risk overpayments, backlogs, and jeopardizing the stability of the system. The process of receiving unemployment is not as simple as filing an application online or over the phone, submitting it, and receiving a check in the mail.

Each claim must be reviewed to ensure eligibility under the law. Employers involved in a claim must be notified of an application for benefits and provided an opportunity to respond to the claimant’s reason for separation. If there is a discrepancy between the claimant’s story and the employer’s story, efforts are made to resolve the conflict with both parties to make an accurate determination of the claimant’s eligibility.

Reducing staff by half does not equate to doubled call wait times. Service center staff are responsible not only for the upfront service of answering the phone calls, but also the detailed review and processing that follows to ensure that benefit eligibility is determined properly according to the law. The drastic reduction in staff has impacted the prompt completion of the eligibility review process and caused delays in payment.

Remember that I explained to you that before the December layoffs, the UC system was performing above federal benchmarks and, most importantly, providing timely payment of benefits to unemployed Pennsylvanians. The success was due, in large part, to the additional funding the SIIF had provided since 2013.
It's a completely different and disturbing picture now.

At the peak of the crisis, for the week ending January 28, 2017, we experienced more than three million busy signals. Those who do get through are put into a queue and are held there for up to two hours waiting to speak with a service center representative, often after having tried to get through on multiple days or weeks.

We adjusted the number of phone line queue spots to ensure we could accommodate more callers each day and to leave fewer people waiting for hours at a time. This has helped, but is certainly hasn't solved all problems or eliminated frustration.

For claims, few are "clean," meaning there are no eligibility or separation issues. Claims that are "clean" can be processed rather quickly, so some people are receiving their benefits in a timely manner. However, there are a significant number of claims that do have issues that must be thoroughly researched before payment can be made. These are the claims that are now delayed due to the significant reduction in staff and our inability to process the high volume in a timely manner. The full impact of the resulting backlog has yet to be realized.

Our social media is blowing up with comments, questions, and complaints. And we are addressing the claimant issues the best we can with our existing UC staff. It is making a difference, but it's not enough.

Our Legislative Affairs staff of three handled more than 5,000 inquiries in January alone. Our executive receptionist and secretarial staff are fielding calls all day, every day. The referral of claimant inquiries from social media, legislators and other areas in the department all get funneled to the same service center staff who are answering the phones, adjudicating the claims, and working to get payments to those people making those inquiries. Many of the inquiries are duplicates from the same person inquiring in multiple places.

Frustrated callers are visiting our PA CareerLink locations to use the UC phone lines in droves with lines out the door and around the block, creating bottlenecks for people visiting the centers for other services. CareerLink phone lines receive priority ranking within the general queue. With over 60 CareerLinks statewide, some days we have more UC staff on the phones with people in the CareerLinks than we have servicing the rest of the state trying to call from home.

To explain a little more here: To address the large number of claimants at the PA CareerLinks, over half of the available service center representatives are servicing the direct phone lines to the PA CareerLink locations. This leaves a limited number of service center representatives to answer calls to the toll-free number. There simply are not enough staff to handle the high volume of claimant inquiries coming in from all avenues.

We have heard talk of overpayments and the collection of those being mismanagement of our system and, if collected, a possible solution to our funding crisis.

Please allow me to explain overpayments: how they occur and the department's role in both their occurrence and recouping them, because there are significant misperceptions of how they work.
91 percent of the time that there is an overpayment it is due to error on the part of a claimant or an employer. For example, a claimant misreports his or her earnings when filing a bi-weekly claim, stating that there were no earnings when in fact there were. Or, an employer does not respond to a request for separation information and so a claimant’s claim of “no work” was, in reality, an employer firing that person and so eligibility is affected, a payment amount is affected and an overpayment occurs.

Five percent of overpayments occur due to a combination of claimant and employer errors.

That leaves 4 percent of overpayments due to department error. For 2016, that is 2.5 million dollars, or expressed as a factor of the 2.1 billion dollars in benefits paid, one-tenth of one percentage points of overpayments due to department error.

And while we prefer that no overpayments occur, we feel our track record of both preventing and recouping overpayments is quite strong.

The bottom line: The department does not create overpayments, we catch them.

For overpayments that are collected – and we collected $36.5 million in 2016 – the principal owed by both claimants and employers goes directly into the UC Trust Fund where it can be used for benefit payments only.

Any penalties collected from claimants and any penalties and interest collected from employers goes into the administration fund.

Enough said about overpayments.

Moving on...

There has been much talk about the department needing an exit strategy from SIIIF funding and what the system would look like if it existed with only federal funding. The way the system looks now — exhausting wait times, delayed payments, lines at PA CareerLink locations, millions of attempted calls, busy signals, a growing backlog of claims, overpayments and appeals processing, frustration on the part of claimants and staff — this is what our system looks like operating with only federal funds.

We knew — and the past three months confirm — that those Pennsylvanians in the unfortunate situation of having lost a job and needing the lifeline that is unemployment benefits, want options for applying for and maintaining those benefits. Filing online at uc.pa.gov is easy and efficient, and online applications have increased to an average over the past six months of 75 percent due to our communications efforts, but online is not for everyone.

Some people don’t have the access, prowess, or confidence to use a computer. They need the person on the other end of the phone to help them file, answer questions, and provide calm in the midst of the storm that is being unemployed. Others simply need assurance from another human being that their claim is being handled, that a problem is being taken care of, and that someone, in fact, does care.
As I stated earlier, not all claims are “clean,” or simple. Many claims require significant research and communication with both claimants and employers. Those claims cannot be processed in a timely manner without a functioning UC system that includes personnel in place to do the necessary work.

This is an unemployment system that is drowning. With all hands on deck, we are serving customers to the best of our ability, benefits are being paid as quickly as possible, and there is a sliver of light at the end of the tunnel, but that is only because as the year wears on, claims do typically slow down. However, they will peak again seasonally and with current staffing levels most likely we will not have dug out of the backlog that will ensue based on current system overload.

This is particularly evident given the General Assembly’s passage of Act 144 of 2016. While this legislation took the right step to make more than 40,000 seasonal workers eligible for unemployment benefits, these workers will suffer the same problems their fellow claimants are experiencing now.

What we accomplished with SIIF and what we can do with additional funding

We made steady improvements in the past four years, specifically 2013 through 2016, thanks to the additional funding provided by SIIF, dedicated staff, more efficient processes, and better staff training.

We made improvements in a number of technological – or infrastructure – areas and laid the ground work for a new benefit modernization effort to replace the failed IBM/UCMS attempt. Key among those:

- We “virtualized” the phone system so that a call to a service center can go anywhere in the state to the next available agent, a vast improvement over the old system whereby calls were geographically assigned to call centers based on area code and exchanges. In the past, if there was a large company layoff in one area, the service center would be bombarded with calls and may not have been able to handle them in a timely manner, while another center in another area may not have had as many calls. The new virtualized phone system eliminated this problem.
- We moved to a new server system to house our tax and benefit platforms.
- We engaged Carnegie Mellon University and its technical expertise in the area of procuring a qualified system modernization vendor so that the project can be done right this time and problems associated with the IBM contract management could be avoided.

We have made significant improvement in our customer service and we have done so with far less federal funding and with significantly fewer employees even before the recent layoffs. The far more drastic loss of staff in December is jeopardizing this progress, affecting employee morale, and creating unacceptable service to those Pennsylvanians in need of benefits.
UC Programs had already reduced staffing levels in response to the cuts in federal funding. The department's Bureau of Human Resources reported that the number of filled positions in all UC programs has declined by more than half from 2,003 employees as of the end of 2011 to 941 employees as of the end of 2016. The number of staff positions in the UC service centers has dropped from 1,452 employees as of the end of 2011 to 585 employees as of the end of 2016. That is a 60 percent reduction over that timeframe. Because of funding uncertainty, we cancelled plans to hire 120 intermittent intake interviewers in December (those on the service center phones hired as needed for busier months.)

Bottom line: With the December layoffs and inability to hire intermittent intake interviewers, we are left with one-third of the people we would have hoped to have on the phones. Add to that the potential eligibility of 40,000-plus seasonal workers due to the passage of Act 144, and you have a disaster.

Along with the difficulties of reduced staff and frustrated callers, our biggest fear is a computer system breakdown that could literally shut down the entire unemployment system in the state, leaving tens of thousands of Pennsylvanians without benefits.

Our current 50-year-old computer system is working, but it's held together with chewing gum and duct tape. Since the system was first developed, improvements and modifications have been added on one at time for the creation of multiple layers of code that simply don't know how to communicate with each other.

We need an unemployment system that provides timely and accurate benefit payments to all eligible Pennsylvanians! Our young people, single parents, families, senior citizens — everyone deserves a system that is efficient, accurate and easy to maneuver in whatever way suits them best. A system that is designed and working to provide benefits to support each person in a time of need that helps them back onto the road of a job, a paycheck, and a bright future.

With proper funding to run the system, we were able to make significant improvements and provide a high level of customer service while operating cost-effectively and efficiently. Now, the improvements we made under proper funding will be lost. We are experiencing excruciating wait times, growing backlogs, and we will continue to struggle with reduced federal funding.

The Service and Infrastructure Improvement Fund was enacted to address the shortfall of federal administrative funding. The amount of the awards was based on a formula to bridge the gap between the cost to effectively run the program and the federal funding. The fund was created to help in a time when UC customer service was suffering due to insufficient staff in relation to the heavy workload and an aged, cumbersome and inefficient computer system. Those needs are the same today.

There are now 41 states that supplement federal funding with other funding mechanisms to administer their UC systems. Pennsylvania is fortunate to have a mechanism that does not come from already-stressed state budget, does not raise taxes, and does not jeopardize the UC trust fund to pay benefits.
With proper funding, we can complete the benefits modernization system that will provide significant efficiencies, improvements and timeliness of service to claimants. We are in the process of selecting a vendor to completely overhaul our computer system. Our best estimate at this time for implementation of a new modernized system, based on the completion of the procurement process and the expected implementation once a vendor is chosen, is 24-36 months.

Completion of this modernization project will have significant and long-lasting positive effects on the UC system. The new system will, among other efficiencies:

- Improve processes for UC initial claims, continued claims, benefit payments, benefit charges, appeals, overpayments, and provide for adjudication, fund accounting, financial reporting, and federal and management reporting.
- Perform with high reliability, consistency, and accuracy.
- Be configurable, and upgradeable to meet the department's current requirements while also offering the flexibility to support future program needs.
- Be able to be integrated into the department's existing business and IT environment.
- Implement a system which provides streamlined and automated processes which enable the department to meet or exceed federal performance measures.
- Improve fraud detection efforts.
- Reduce costs of maintenance.
- Increase productivity.
- Increase the self-service options available to claimants and to staff without the need for department IT support.

In addition, on January 30 we began working closely with the Auditor General on the SIIF audit; an audit the department fully supported in the proposed legislative package of 2016. We are confident the audit results will show that the department spent tax dollars responsibly to improve the UC program. We remain committed to providing whatever information the AG requests.

We will provide that same transparency and cooperation with the General Assembly.

Which leads me to how we move forward.

As I see it, there are three funding options in front of you, the General Assembly.

The first is to fund the system properly – that is, to properly treat the wound. To fund the system as it was funded in 2013, 2014, 2015 and 2016. To develop a consistent funding source that
allows us to service Pennsylvanians at a level they deserve and had grown accustomed to, that doesn't add to their hardship in an already difficult time, that allows us to meet our federal benchmarks and avoid scrutiny from the U.S. Department of Labor. Proper funding that allowed us to made significant progress; progress that is now nearly lost.

The second is to fund the system in some reduced way, that is, to put a Band-Aid on the current wound. Partial funding would allow us to mitigate some of the current problems with them only to return with a vengeance when that partial funding runs out.

Partial funding would require us to close more service centers in the not-too-distant future, laying off more staff, and risking not meeting federal benchmarks in the midst of federal funding uncertainty.

The third option is to do nothing, to stand by and watch the system bleed to death. With current federal-only funding, we will be forced to lay off additional staff and close at least one more service center in 2017. We will be forced to close all service centers by 2019, and to lay off hundreds of staff, move all functions for people seeking benefits online, and leave Pennsylvanians without options. Everything will be online and there will be no voice on the phone to file a claim, answer questions, calm fears.

In the near term, doing nothing means excruciating wait times, massive backlogs, and burned-out staff, continued calls to each of your offices and all of ours. In the long term, dead silence. A flat line to help. No phone system, no people to help, no service except on a computer – for those who have one. Doing nothing means a system that fails Pennsylvanians. A system that will bleed to death.

Those are the options. I don't know how I can make it any clearer. We need your help. Let's work together to staunch the flow, to heal the wound, to do a better job for Pennsylvania.

Thank you. I would be happy to answer any questions at this time.

###
Unemployment Compensation Presentation
PA House and Senate Labor & Industry Committees

Mar. 1, 2017

Secretary Kathy Manderino
House Bill 26 – SIIF Creation
Signed into law as Act 34 of 2013 on July 3, 2013

“The money will be used to improve the quality, efficiency, and timeliness of services provided by the UC Service Centers, including staff and training; expenditures for information technology and other infrastructure components; and to cover administrative costs.”

July 3, 2013 press release from Corbett Administration
## Impact of SIIF on Service Levels

<table>
<thead>
<tr>
<th></th>
<th>Pre-SIIF (WE 11/17/12)</th>
<th>With SIIF (WE 10/1/16)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPEN CLAIMS</strong></td>
<td>324,451</td>
<td>117,875</td>
</tr>
<tr>
<td><strong>BUSY SIGNALS</strong></td>
<td>4,997,375</td>
<td>&gt;33,000</td>
</tr>
<tr>
<td><strong>AVERAGE WAIT TIME</strong></td>
<td>29min 15sec.</td>
<td>9min 53sec.</td>
</tr>
<tr>
<td><strong>FIRST PAY</strong> (Less than 14 Days)</td>
<td>82%</td>
<td>91.7%</td>
</tr>
<tr>
<td><strong>ADJUDICATIONS</strong> (Less than 30 Days)</td>
<td>40%</td>
<td>78.7%</td>
</tr>
<tr>
<td><strong>BOARD REVIEWS</strong> (Less than 45 Days)</td>
<td>47%</td>
<td>69.8%</td>
</tr>
</tbody>
</table>
The Anatomy of the Reductions

Service Center Closings

- Allentown
- Altoona
- Lancaster
- Harrisburg

Positions Eliminated: 521

- 40 UC IT Support Staff
- 37 Review Board Members
- 63 UC Tax Employees
- 336 UC Service Center Employees
Unemployment Claim Review Process

Initial Claim

- Claim filed by phone
- Claim filed online

Claim reviewed by staff

Request for info sent to employer

Changes in bi-weekly filing can require additional information gathering.

Pennsylvania Department of Labor & Industry
The ‘Post-Layoff’ Crisis Peak

- Number of Open Claims: 171,965 (↑ 46%)
- Busy Signals: 4,624,936 (↑ 13,914%)
- Call Attempts Placed in Queue: 0.36% (↓ 94.5%)
- Avg. Wait Time: 1hr. 11min. 53sec. (↑ 620%)

*Data Comparison WE 10/1/16 with WE 1/14/17*
The ‘Post-Layoff’ Reality for Constituents

Do you understand I have a son who needs seizure medicine?!?!? Do you understand his life is at risk w/out it?! How can no one care?

Poor people have to eat! No food, No gas. What do you tell your kids, wife, family. How could state Gov do this to it Tax Payers. Criminal!

I started at 730 am calling unemployment just to get a spot and I have not gotten through. No one has called it’s been more than 5 days. No one gets how badly my family is suffering due to red tape. I can’t afford anything. Please help me, I am a single mom with 2 children.

I have been waiting over a month for my unemployment check. I’ve received an email stating you need more info from me but I can’t get through by phone to ask the question of what more info you need! Please someone get back to me. I went on line and sent an email. I have not received a response! I have called your 800 # 450 times today.
The Insurmountable Bottleneck

Legislative Affairs
Approx. 1,500 Inquiries Weekly

Press Office
Approx. 850 Inquiries Weekly

Exec. Secretaries
Inundated Daily with Inquiries

Pennsylvania CareerLink®
60+ Direct Lines

260 AGENTS AVAILABLE

Toll Free Number
Approx. 84,529 Unique Callers Weekly
The vast majority of overpayments are due to fault and fraud from claimants and employers.

Of the $63.5 million in 2016 overpayments, the department recovered $36.5 million.
Impact of SIIF on Infrastructure

- Virtualized Phone System – Allowing ‘Next Available Agent’ call appropriation
- Upgraded existing server system to allow for tax and benefit platform upgrades
- Replaced aging PC inventory
- Implemented new software to help aid efficiency
- Engaged consultant to assist with system modernization RFP
The Inherent System Limitations

**MAINFRAME**

**GREEN SCREEN (x3)**
Enables coded data from the MAINFRAME to be displayed as readable data to system users.

**DATA FILES / FTP - File Transfer Protocol**
Enables files to be transferred from and to the MAINFRAME.

**DATABASE SERVER**
Provides data to and stores data from the WEB SERVER.

**WEB SERVER**
Enables claimants to file and check status of unemployment claims online.

**IVR - Interactive Voice Response**
Allows caller to use phone’s keypad to answer automated voice prompts and route call appropriately.

**Current Programming Languages**
- **COBOL**
  - Origin: 1950’s
  - Legacy Language
  - (No longer used or supported by new systems)
  - Large & difficult to migrate into newer languages
  - Training programs no longer offered
  - Difficult to find anyone who can support/update program
  - Adding new system rules and functions difficult and yields unpredictable results

**DATABASE SERVER**
Provides data to and stores data from the WEB SERVER.

**WEB SERVER**
Enables claimants to file and check status of unemployment claims online.
The Significance of the Solution

Three Potential Outcomes
Proper Funding Heals the Wound

UC Service Centers

System Functionality

Federal Benchmarks

UC Staff

Pennsylvania Department of Labor & Industry
Reduced Funding is a Band-Aid

UC Service Centers

System Functionality
Federal Benchmarks
UC Staff

CLOSED

⚠️

Pennsylvania Department of Labor & Industry
Inaction is a Death Sentence

UC Service Centers
- CLOSED
- CLOSED
- CLOSED
- CLOSED

System Functionality

Federal Benchmarks

UC Staff

pennsylvania
DEPARTMENT OF LABOR & INDUSTRY