

A REVIEW OF THE SHARED WORK
UNEMPLOYMENT COMPENSATION PROGRAM
(PURSUANT TO CHAPTER 506, STATUTES OF 1979)

AUGUST 1984

LEGISLATIVE ANALYST
STATE OF CALIFORNIA
925 L STREET, SUITE 650
SACRAMENTO, CALIFORNIA 95814

84-8



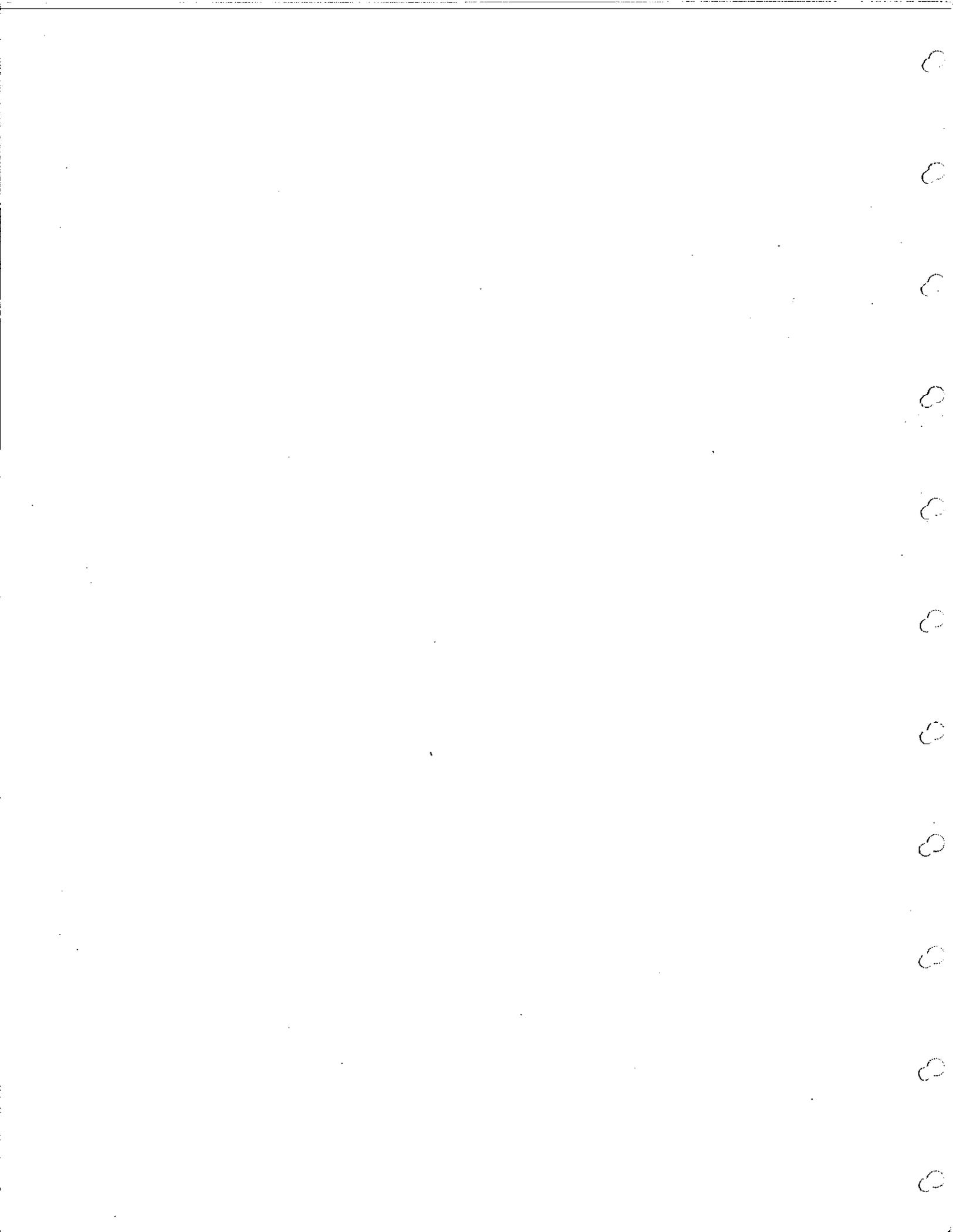
TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY.....	1
INTRODUCTION.....	6
CHAPTER I. DESCRIPTION OF THE SHARED WORK UNEMPLOYMENT COMPENSATION PROGRAM.....	7
Overview of the Basic Unemployment Insurance Program.....	7
The Work Sharing Concept.....	8
The SWUC Program: Legislative History.....	10
Employer Eligibility.....	12
Employee Eligibility.....	13
UI and SWUC Financing.....	15
EDD Administrative Procedures.....	16
CHAPTER II. THE LEGISLATIVE ANALYST'S FIRST EVALUATION OF THE SHARED WORK UNEMPLOYMENT COMPENSATION PROGRAM.....	18
Overview of the Report.....	18
Administrative and Policy Issues.....	19
Legislative and Administrative Actions on Recommendations Contained in the Interim Report.....	20
SWUC Audit Plans.....	22
CHAPTER III. EDD'S EVALUATION OF THE SHARED WORK PROGRAM.....	24
EDD's Approach to Evaluating the SWUC Program.....	24
Critique of EDD's Approach.....	25
Major Findings of the EDD Simulation.....	26
Flaws in the Simulation Design.....	27
User Perceptions of SWUC.....	31



TABLE OF CONTENTS--contd

	<u>Page</u>
CHAPTER IV. SWUC PROGRAM DATA AND CURRENT PROGRAM TRENDS.....	36
Problems with SWUC Data.....	36
Program Participation.....	39
CHAPTER V. PROGRAM COSTS.....	44
Administrative Costs.....	45
Benefit Costs.....	48
Length of Claims.....	50
Indirect General Fund Effect.....	52



EXECUTIVE SUMMARY

The Shared Work Unemployment Compensation (SWUC) program was established in 1978 as an alternative to layoffs during periods of reduced demand for labor. The program allows employees to receive Unemployment Insurance (UI) benefits when their work week has been reduced, even though they continue to be employed.

Chapter 506, Statutes of 1979 (SB 210), required the Legislative Analyst to prepare two reports on the shared work program. This is the second of the two reports. It reviews the operation of the SWUC program and assesses the evaluation of the program prepared by the Employment Development Department (EDD).

EDD Evaluation

In May 1982, the EDD issued a report evaluating the shared work program. Our review of that report leads us to conclude that EDD's evaluation methodology is flawed because (1) the data on which the evaluation is based are unreliable and (2) the assumptions used to structure the evaluation seem biased in favor of showing positive net benefits from the program. Moreover, the EDD assessment does not answer the basic question posed by the initial evaluation design: how does participation in the SWUC program affect the behavior of firms and workers? Because of these shortfalls, the EDD assessment does not provide reliable information on the costs and benefits of the shared work program.

User Perceptions of SWUC

The EDD surveys of employer and employee perceptions, however, do provide useful data on why firms and workers participate in the program. The data show that employers participate because they believe that,

relative to layoffs, work sharing results in higher productivity and production flexibility and lower absenteeism.

Employees like the shared work program because it helps maintain their "economic security." The EDD data show that many employees are apprehensive about a pending workforce reduction because they are unable to assess the impact of the reduction on their personal employment situation. For example, 40 percent of workers surveyed by the department felt there was at least a 50/50 chance that they would be laid off, even though an average of only 20 percent ultimately were laid off. It is this uncertainty over who will be laid off that probably generates much of the support for SWUC among workers. It does not account for all of the program's support, however. In fact, at least 25 percent of those who favor the program felt they were not at risk of being laid off.

Problems with SWUC Data

Most of the data collected by EDD on the characteristics of the shared work claimants are unreliable. In fact, the department itself does not use these data because the data are deficient in a number of important respects. Specifically:

- The EDD data do not accurately reflect the number of persons who participate in the program because of errors in the way the department compiles the information.
- The department's data on SWUC client characteristics are internally inconsistent.
- The department's data on the SWUC program cannot be compared with data from the regular UI program because, in many cases, the data are aggregated into different--and incompatible--groups.

Because of these deficiencies, it is impossible to evaluate the effects of the program on various groups of participants.

To facilitate legislative review of the SWUC program, we recommend that:

1. The EDD immediately correct the problems of inaccurate and internally inconsistent data, and establish correct, consistent data series on the program.

2. The EDD ensure that data collected on all aspects of the UI program are presented in the same format so that interprogram comparisons can be made.

Program Costs

Like all UI programs, the SWUC program incurs two types of costs:

(1) administrative costs, which are funded by the federal government and

(2) benefit costs, which are financed by employer contributions. Both

types of costs can be analyzed in two different ways. First, the costs can

be analyzed on a per-claimant basis. Second, these costs can be compared

with costs under the regular UI program for a given reduction in work

hours.

Our conclusions regarding the costs of the shared work program are

as follows:

Administrative Costs: We were unable to determine the

administrative costs per claimant under the SWUC program because EDD does

not compile separate cost data on the program. The administrative costs

related to a given work reduction probably are higher for the shared work

program than for the regular UI program. This is because all of the

persons employed by a "work sharing" firm collect SWUC benefits, whereas

only a portion of the persons employed by a firm using layoffs to adjust employment to work requirements collect regular UI benefits.

Administrative Alternatives. In order to reduce the administrative costs of the SWUC program, the EDD could alter its program administration to focus on the employer, rather than each employee. Because the SWUC program is operated in a manner similar to the regular UI program, the EDD must separately register each SWUC claimant, issue checks to each participant, and charge each check to the employer's reserve account. While regular UI claimants are unemployed, and therefore require individual processing, SWUC claimants remain attached to an employer. As a result, the EDD could avoid some of SWUC's higher costs by working directly with participating employers. The department could implement this administrative change simply by changing UI regulations.

Benefit Costs. The per-claimant benefit costs of the SWUC program are \$30.30 per week. This is \$56.60, or 65 percent, less than the average UI benefit. It is likely that the benefit costs related to a given work reduction, however, are higher for the SWUC program than for the regular UI program. This is because SWUC participants are likely to have more seniority--and therefore higher wage levels--than the typical worker drawing regular UI benefits as a result of being laid off. It is not possible, however, to determine from the available data how large the cost differential between the two programs is. Although the observed difference is nearly 75 percent--benefit costs of approximately \$151.50 a week under the SWUC program, compared to average weekly benefit costs of \$86.90 under the regular program, assuming a 20 percent work reduction--a portion of the difference is due to factors other than those related to program design.

Length of Claims. The EDD data indicate that the typical SWUC claimant collects fewer weeks of benefits than does the average recipient of benefits under the regular UI program. We estimate that the average SWUC participant received 6.2 weeks of benefits, as compared to 7.8 weeks under the regular program. This data indicate that the potentially higher SWUC benefit costs discussed above may be partially offset by a shorter period of work reduction under the SWUC program.

Unfortunately, we cannot determine the effect of the difference in the length of claims between the two programs. This is because the length of claim data for the SWUC and regular UI program are not strictly comparable. As with the benefit cost data, factors unrelated to the design of the SWUC program, such as the heavy use of SWUC by manufacturing firms, may influence the length of claim data. In addition, unlike benefit cost data, productivity changes resulting from the use of shared work could be reflected in the length of time a firm uses SWUC. The data do not contain the detail required to establish comparisons that incorporate such productivity changes.

SWUC Audit Plans

In our first report on the shared work program, we recommended that EDD establish audit procedures for the program. In response to the recommendation, EDD designed an audit plan examining both EDD and employer procedures. We reviewed the department's audit plan and concluded that it was not sufficiently broad. Accordingly, we recommend that at regular intervals during the year the EDD conduct spot audits of employers who are using the SWUC program in order to help protect the program from potential collusive behavior between employers and workers.

INTRODUCTION

Chapter 506, Statutes of 1979 (SB 210), requires the Legislative Analyst's office (LAO) to prepare two reports on the use and operation of the Shared Work Unemployment Compensation (SWUC) program.

We issued the first of these reports, "A Review of the Shared Work Unemployment Compensation Program," in January 1981. At the time that report was being prepared, the Employment Development Department (EDD) was conducting an in-depth study of the costs and benefits of the SWUC program. In anticipation of the EDD study, our first report focused on the potential costs and benefits of the SWUC program.

In this report, our second study of the program, we review EDD's evaluation of work sharing. In addition, we review how the program operates and how it is used. In the first chapter, we describe the operations of the SWUC program in comparison to the regular Unemployment Insurance (UI) program. In the second chapter, we review the findings of our first report on the SWUC program. Chapter III discusses the EDD's evaluation of the shared work program. In Chapter IV, we summarize the current trends in the use of the program. In addition, we discuss the limitations of the data on program usage collected by EDD. The last chapter--Chapter V--analyzes program costs and compares SWUC benefit and administrative costs with those of the regular UI program.

This report was prepared by Paul Warren under the supervision of Hadley Johnson.

CHAPTER I
DESCRIPTION OF THE SHARED WORK UNEMPLOYMENT
COMPENSATION PROGRAM

The Shared Work Unemployment Compensation (SWUC) program was established in 1978 to supplement the existing Unemployment Insurance (UI) program. In general, the SWUC program was designed to operate within the framework of the UI program. This chapter provides a brief description of the UI program, along with a more detailed description of the SWUC program.

Overview of the Basic Unemployment Insurance Program

The purpose of the UI program is to reduce economic hardship by providing benefit payments to eligible workers who, through no fault of their own, are temporarily unemployed. The UI program is financed by taxes ("contributions") levied on employers by the state and federal governments. Generally, UI taxes levied and collected by the state finance the payment of UI benefits to eligible workers. The tax levied by the federal government finances the administration of the UI program at both the state and federal levels, plus certain special UI benefits.

The federal UI tax rate currently equals 3.4 percent of taxable wages, as defined.¹ Federal law allows California employers to claim a tax credit equal to 2.7 percent of taxable wages as long as California's UI laws and regulations are in compliance with federal laws and regulations. Thus, the effective federal tax rate currently equals 0.7 percent of

1. Currently, the first \$7,000 of wages paid per employee are taxable.

taxable wages. These taxes are collected by the federal government along with federal income taxes.

The UI benefits are financed by employer contributions, and are paid to recipients by the Employment Development Department (EDD) in accordance with federal and state regulations. The EDD is responsible for setting each employer's UI tax rate, collecting the tax from the employer, and making benefit payments to eligible claimants. The EDD keeps track of both the taxes paid by each employer and the benefit payments made to his/her former employees.

Administrative activities, such as tax determination and data collection, are performed at EDD's headquarters office in Sacramento. Field offices located in over 150 cities across the state provide assistance to both employers and employees. These field offices verify claimant eligibility for UI benefits and compute benefit amounts.

The federal Department of Labor (DOL) has oversight responsibilities for the UI program. It reviews the administrative and benefit payment budgets of each state and verifies state compliance with federal UI regulations. The DOL also performs periodic audits of claims paid and administrative costs financed by the federal government.

The Work Sharing Concept

The purpose of SWUC is to provide an alternative to layoffs during periods in which a firm is faced with a temporary reduction in workload. It seeks to accomplish this purpose by allowing employed workers to receive partial UI benefits when their work hours are reduced. As a result, employers faced with a temporary reduction in workload can reduce the work

hours of all employees instead of laying off selected workers, without causing a corresponding reduction in the employees' income. The distinctive feature of the SWUC program is the payment of prorated unemployment benefits to employees who are working reduced hours in order to avoid the need for layoffs.

The reader may find helpful an illustration of how this program works. Assume that a firm with 100 employees experiences a 20 percent reduction in workload as a result of a decline in sales. Faced with a situation in which he has more full-time employees than he needs, the employer has two alternatives. One alternative is to lay off 20 percent of his work force; the other is to reduce everyone's work week by one day (or 20 percent). Without the SWUC program, the second option would reduce the employees' net income by about 20 percent (actually, a little less, given the progressive structure of federal and state tax systems and the savings in work-related expenses that otherwise would be incurred on the fifth day, such as parking or bus fare). Under the SWUC program, however, the employees on the shortened work week can collect unemployment benefits for the one day per week that they are out of work. In this example, most employees would receive about 90 percent of their regular take-home pay in the form of salary and UI benefits. In addition, they may continue to receive full health benefits as well as some or all of their regular sick leave, vacation, and retirement benefits.

Proponents of work sharing assert that it has a number of advantages over layoffs. Among other things, work sharing:

- Provides greater income for those who otherwise would be laid off.
- Maintains fringe benefits, such as health insurance, for affected employees.
- Enables employees to continue accumulating job skills.
- Allows employers to keep valued employees.
- Preserves affirmative action gains by allowing more minorities, women, and youth to retain their jobs.
- Lowers public assistance expenditures by reducing the number of full-time unemployed individuals.

Both employers and employees can gain or lose under the shared work program. Because an employer's UI tax rate is based on the frequency with which his employees--current and former--claim UI benefits, participation in the SWUC program can (although it will not necessarily) increase the employer's tax payments. Thus, the employer must weigh the potential cost of higher UI tax payments (if any) under the shared work program against the savings resulting from not having to go through a "rehire-retraining" process when business picks up. In the case of workers participating in the program, those employees who would not have been laid off must sacrifice a percentage of their regular earnings so that employees who would have been terminated can continue to work.

The SWUC Program: Legislative History

Chapter 397, Statutes of 1978 (SB 1471, Greene), established the SWUC program on a temporary basis. The immediate reason for the enactment of Chapter 397 was the concern that Proposition 13, the "Jarvis-Gann

Initiative" approved by the voters in June 1978, would produce serious, temporary disruptions in both public and private labor markets. The intent of the original legislation was to permit and encourage the sharing of available work as an alternative to layoffs until new employment patterns could develop. By providing an alternative to layoffs, it was hoped that the amount of full-time unemployment--and the welfare dependency that often accompanies unemployment--which was expected to follow in the wake of Proposition 13 could be reduced.

The original legislation called for the termination of the SWUC program on December 31, 1979. However, Ch 506/79 (SB 210, Greene), extended the program through December 1981. In addition, Chapter 506 made minor revisions in the program and required the Legislative Analyst to prepare two reports on the SWUC program.

Chapter 674, Statutes of 1981 (SB 130, Greene), extended the SWUC program for an additional two years through December 1983 and made various changes to clarify provisions governing the program. Chapter 674 also required that the EDD establish procedures for auditing the payment of program benefits.

Chapter 542, Statutes of 1983 (SB 57, Greene), put in place the Legislature's first substantial revision of the program. In addition to extending the program until December 31, 1986, SB 57:

1. Increased from 20 to 26 the number of weeks for which SWUC benefits are available in any 52-week period.
2. Limited the duration of the employer SWUC plan to 6 months a year, unless the current unemployment rate exceeds 7.5 percent. This

change clearly establishes SWUC as a program designed to reduce the impact of temporary layoffs, except during periods of high unemployment when permanently laid-off workers have particular difficulty in locating new jobs.

3. Defined "weekly hours" of work to mean the employees' normal weekly hours, or 40 hours, whichever is less. This provision eliminates the possibility of employees receiving SWUC benefits because of reductions in overtime hours.

Employer Eligibility

Employers decide whether to participate in the SWUC program. In order to qualify for the program, employers must have their work sharing plans approved by the Director of EDD. All work sharing plans must meet the following criteria:

1. The planned reduction in work hours must amount to at least 10 percent of regular hours and wages.

2. The planned reduction must involve at least two employees and at least 10 percent of the permanent work force of the affected work unit or units. The definition of work units is left to employers.

3. The bargaining agent for the affected workers must agree to the plan in writing.

4. The plan must identify all employees participating in the program and the reduction in each employee's work hours and wages.

Employers also are required to identify the cause of the work reduction, its expected duration, and the number of employees who would be laid off in the absence of the SWUC program. This information, however, has no bearing on plan approval.

To minimize "bureaucratic red tape" and encourage participation in the program, employer administrative responsibilities are minimal. An employer can make changes in the number of employees participating in SWUC or the extent of wage and hour reductions covered by an existing plan simply by providing written notification to the EDD. Moreover, employers are not required to continue fringe benefits to work sharing employees.

Employee Eligibility

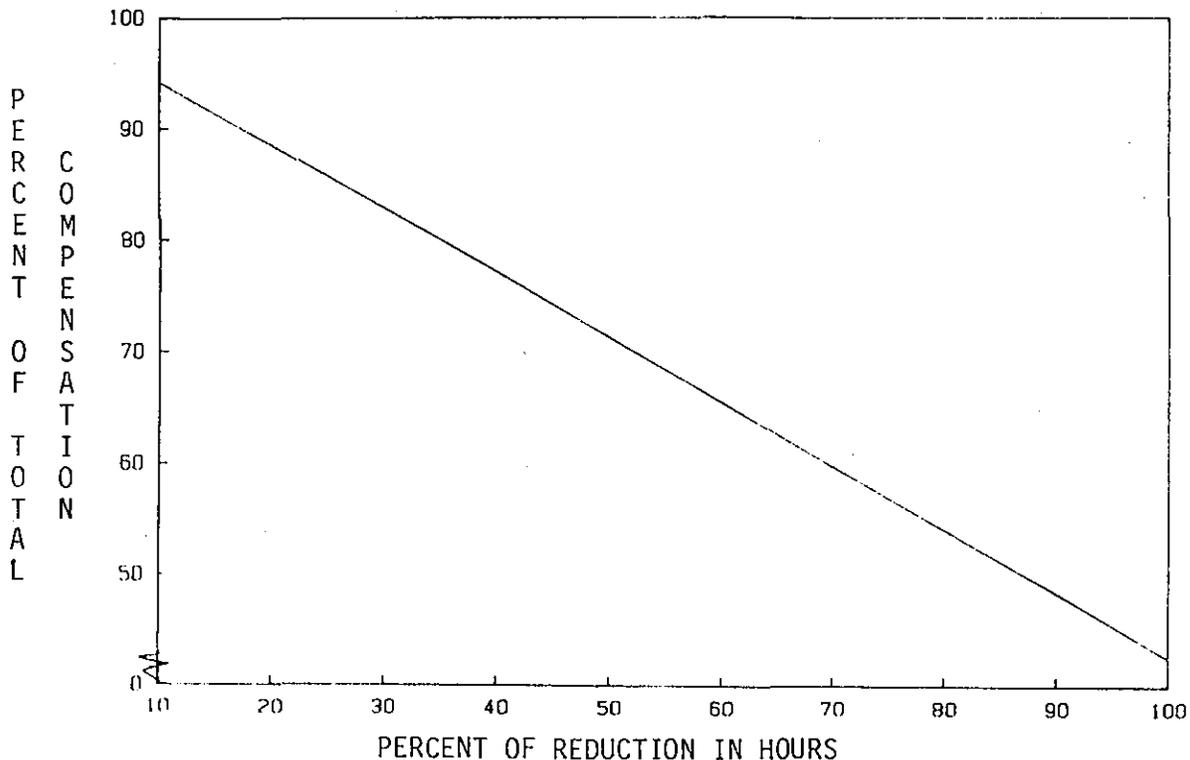
Employees in units where workload has declined can participate in the SWUC program only if their employer has a certified work sharing plan covering their unit, and only if their total wages and work hours are reduced by 10 percent or more each week. If workers are represented by a union, the union also must approve in writing work sharing before a SWUC plan is approved by the EDD. Workers that subsequently are laid off may become eligible for regular UI benefits, with the duration of those benefits reduced in accordance with the dollar value of benefits received through the SWUC.

Additionally, to qualify for SWUC benefits an employee must meet regular UI eligibility requirements. For example, in 1983 an employee must have earned at least \$1,200 in the 12-month "base period" in order to be eligible to collect UI benefits. An individual can receive up to \$166 per week in UI benefits. The actual weekly benefit amount depends on the employee's largest amount of earnings in any quarter of the base period.

The SWUC program allows employees to receive prorated UI benefits, following a one-week uncompensated waiting period, for up to 26 weeks in any 52-week period. In contrast to the regular UI program, the SWUC claimants need not document job-search efforts unless the employer has certified to the EDD that the work reduction is permanent.

Chart 1 illustrates the potential amount of total compensation, including UI benefits, available to the average worker participating in the shared work program. For example, it shows that a 10 percent reduction in an employee's work hours would leave the employee with 94 percent of his/her former income. Of this amount, 90 percent would be earned as wages and 4 percent would be in the form of SWUC benefits. Similarly, with a 20 percent reduction in work hours, an individual would continue to receive 89 percent of his/her former income.

Chart 1
The Shared Work Unemployment Compensation Program
Maintains a High Percentage of an Individual's Income



As Chart 1 reveals, total compensation declines as work hours are reduced, but at a slower rate because of the availability of SWUC benefits. If work hours are reduced to zero, a worker's compensation would be limited to regular UI benefits which, for this average worker, would provide 43 percent of his/her normal (that is, full-time) income.

In order to receive SWUC benefits, individual employees must submit to the EDD weekly certification forms provided to them by their employers. The certification forms verify that all employee eligibility requirements for SWUC participation have been met. The initial benefit claim must be filed personally by each claimant at a local EDD branch office following the one-week uncompensated waiting period; all subsequent claims and benefit payments are submitted by mail to the EDD.

UI and SWUC Financing

As noted earlier, both the regular UI and SWUC programs are supported by taxes collected from employers by the state and federal government. In general, UI taxes levied by the federal government finance the administration of the UI program, special extended UI benefits (triggered when the unemployment rate reaches a certain level), and benefit claims of federal employees and military personnel. State UI tax receipts finance the payment of most benefits to eligible workers in both the UI and SWUC programs.

The EDD is responsible for collecting the state UI tax and administering program benefit payments. In addition, the EDD determines the appropriate UI contribution rate for each employer. In general, an employer's UI contribution rate (referred to as the "reserve account tax

rate") is based on (1) the claims for benefits submitted by the employer's current and former employees ("experience rating") and (2) the size of the UI Trust Fund's reserves.² Currently, the UI contribution rate varies among employers from 0.7 to 4.9 percent of an employee's taxable wages.

In addition to reserve account tax rate contributions, some SWUC participating employers must also repay the UI Fund for SWUC benefits paid out in the prior year. This additional charge is paid by employers whose reserve account balance was negative (cumulative benefits paid out exceeded cumulative employer contributions) at the end of the two prior fiscal years.

EDD Administrative Procedures

The EDD currently administers the SWUC program through a centralized plan approval unit in Sacramento and local unemployment insurance offices throughout the state. The plan approval unit ensures that employer applications for SWUC contain necessary information and comply with program regulations. After approving an employer plan, the approval unit notifies the employer by letter and provides the employer with claim forms for employees to fill out and submit to their local UI offices.

The approval unit also notifies the local UI office of an employer's eligibility for SWUC. These local offices are responsible for registering SWUC claimants and paying valid claims. Firms intending to include a large number of workers in their SWUC plans are encouraged to contact their local

2. "Experience rating" is the ratio of an employer's reserve account balance (contributions less benefit charges) to the employer's taxable payroll for the last three years. Size of the UI Trust Fund's reserves is the ratio of the UI Fund balance to total taxable wages statewide.

UI offices to arrange a time when workers can be registered. In cases where more than 100 workers are involved, the EDD employees often travel to the firm site to register workers. After the one-week waiting period required of all UI claimants, participating workers are paid the benefits to which they are entitled on a weekly basis.

The EDD advises us that most of the local UI offices' SWUC-related responsibilities were centralized in EDD's main UI office in Sacramento. Starting in December 1983, local EDD offices began passing employee SWUC claim forms on to the central SWUC processing office. The processing office reviews the claims, authorizes and writes SWUC payment checks, and conducts occasional audits of SWUC claims. The department advises that this change was made because local UI offices often lack familiarity with the SWUC program. By centralizing administration of the program, the EDD believes it will make program operations more efficient and will reduce errors.

CHAPTER II

THE LEGISLATIVE ANALYST'S FIRST EVALUATION OF THE SHARED WORK UNEMPLOYMENT COMPENSATION PROGRAM

Chapter 506, Statutes of 1979, required the Legislative Analyst's office (LAO) to submit to the Legislature two reports on the SWUC program. Our first report, entitled "A Review of the Shared Work Unemployment Compensation Program," was issued in January 1981. This chapter provides a brief summary of that report. In addition, this chapter reviews the legislative and administrative actions taken by EDD to implement the recommendations contained in that report.

Overview of Report

Due to the lack of adequate program data, we were unable to measure the effect of the SWUC program on employers, employees, and the state for our first report. Instead, we reviewed the conceptual basis for the program and concluded that there was "strong justification to recommend the continuation of the SWUC program." Specifically, we concluded that:

- The probable net effect of the SWUC program on employers is to increase their profits, because those who would benefit from the program can choose to participate in it while those who would not benefit can forego participation.
- The SWUC program redistributes income among workers because employees who are required to share work time, in effect, subsidize those employees who otherwise would be laid off.
- The fiscal impact of the SWUC program on the state is less clear-cut, although it is likely that reductions in public assistance costs more than offset reductions in taxable income.

- The impact of the program on the UI Fund could not be determined due to the lack of empirical data.

Administrative and Policy Issues

Our first report recommended a number of changes in EDD's administration of the SWUC program and raised several policy issues regarding the program for the Legislature's consideration. With respect to program administration, the report recommended that:

1. The EDD establish guidelines for determining a "normal work week"
2. Seasonal and intermittent employees be excluded from SWUC eligibility.
3. The EDD require employers to certify that all employees listed on a work-sharing plan have worked a "normal work week" for at least one pay period.
4. Employer participation be limited to a specified number of weeks in each 52-week period.
5. The SWUC benefits be computed on the basis of the actual percentage reduction in weekly wages.
6. The SWUC tax revenues generated by "negative balance" employers be credited to their respective reserve accounts, rather than to the statewide balancing account.
7. The EDD establish audit procedures for the SWUC program.

In addition, the report raised four policy issues for the Legislature's consideration. Specifically, the report questioned whether there should be:

1. Limits on SWUC participation by firms that are going out of business.
2. Regulations excluding highly skilled and/or highly paid employees;
3. Job-search requirements for all employees participating in the SWUC program.
4. An expansion of SWUC coverage to include all involuntary part-time workers.

Legislative and Administrative Actions on Recommendations
Contained in the Interim Report

The passage of SB 130 (Ch 674/81, Greene) and SB 57 (Ch 542/83, Greene) extended the SWUC program and addressed several of the recommendations included in the interim report.

1. Determining "Normal Work Week" Standard. Chapter 674 permits the EDD to establish procedures for carrying out the purposes of the SWUC program, including regulations defining normal hours, days, work weeks, and wages. Chapter 542 went further by defining normal work week as "the number of hours in a week that the employee normally would work for the regular employer, or 40 hours, whichever is less."

2. Excluding Seasonal and Intermittent Workers. The intent behind enactment of the SWUC program was to bolster employment in those sectors facing nonroutine, short-term economic fluctuations, and to allow for a smoother transition of human resources from declining to expanding sectors of the economy. Since seasonal and intermittent workers fit neither of these profiles, we recommended that such employees be deemed ineligible for program benefits. No action has been taken on this recommendation.

3. Participating Employee Certification. Since the inception of the SWUC program, it has been the administrative policy of the EDD to require that an employee work full-time for at least one pay period before being eligible for inclusion in a work-sharing plan. In this manner, employers are not able to hire new employees directly into a work-sharing plan. Our first report recommended that this policy be embodied in statute. No action has been taken on this recommendation.

4. Limitation on the Duration of Employer Participation. Our initial report recommended that employer participation be limited to a specified number of weeks in any 52-week period. This recommendation is consistent with the stated goal of the program: to mitigate the effects of short-term economic fluctuations. Chapter 542 limited individual employer participation to 26 weeks in any 52-week period except when the civilian unemployment rate exceeds 7.5 percent, in which case employer participation can last indefinitely.

5. SWUC Benefit Computation. Chapter 674 requires that the percentage reduction in work hours be rounded to the nearest 5 percent in the computation of employee benefits. This is essentially a compromise between the original requirements that reductions be rounded to the nearest 10 percent and our recommendation that benefits be computed on the basis of actual (that is, unrounded) percentage reductions.

6. Employer Tax Provisions. Our first report recommended that SWUC surcharge revenues be credited to the individual employer's reserve accounts. Chapter 542 made this recommendation moot by eliminating the surcharge tax and requiring instead that employers with negative balances in their reserve repay the cost of SWUC benefits directly.

7. Audit Procedures. Chapter 674 required the EDD to submit proposed audit procedures to the Joint Legislative Audit Committee for approval. These procedures have been submitted to the committee, and the department began its first audit of the program in October 1983. Results of that audit were not available for inclusion in this report.

SWUC Audit Plans

The EDD audit of the SWUC program covers the following areas:

1. Approval of SWUC employer plans by the central office.
2. SWUC operations in EDD field offices.
3. Employer practices.
4. Employer UI tax rate assessments.

The audit will determine the extent to which all program activities are complying with work-sharing rules and regulations.

There is one area, however, that, in our judgment, the audit plan does not cover adequately--ongoing investigations to insure that employers and workers are not colluding to obtain SWUC benefits illegally. Because employees remain attached to their employers during a work reduction, it is easier for the worker and employers to engage in illegal collusive behavior than it is in the regular UI program. For example, employers could report a 50 percent work reduction, but reduce hours by only 20 percent. The additional UI payments received because of the over-reported reduction in work hours could then be divided between the employer and the worker.

The EDD audit design does not give adequate attention to the potential problem of collusion. While the EDD plans to conduct SWUC audits every two years, no spot checks are planned between audits. Spot audits of firms--where an EDD auditor visits the worksite in order to confirm the

reported work reduction--could identify cases of collusion, as well as deter collusive employer/employee behavior. In light of the opportunity for fraudulent behavior provided by the program design, we recommend that the EDD conduct spot audits of a sample of employers participating in the shared work program at regular intervals throughout the year.

CHAPTER III

EDD'S EVALUATION OF THE SHARED WORK PROGRAM

In May 1982, the EDD issued a report on the SWUC program. The purpose of the report was to identify the cost and benefits of the SWUC program to workers, firms, governments, and society. This chapter provides our assessment of the department's report. We conclude that the report's evaluation methodology is flawed because the department (1) used unreliable data and (2) made assumptions that are not verified and seem biased in favor of showing positive SWUC benefits. Most importantly, however, the evaluation does not answer the basic question posed by the initial evaluation design: how does participation in SWUC affect the behavior of firms and workers? Without this information, we can only guess at the costs and benefits of the program.

EDD's Approach to Evaluating the SWUC Program

The department's study of the SWUC program was motivated by widespread interest on the part of the state and federal governments in determining the social and economic effects of the shared work program on firms and workers. The purpose of the evaluation, therefore, was to measure the costs and benefits of the SWUC program to workers, firms, governments, and society.

At the outset, the EDD proposed to use an experimental research design as a means of evaluating the effects of participation in the SWUC program. The proposed research design called for firms to be assigned to separate test and control groups. The test group would be composed of

firms that had participated in SWUC; the control group would consist of firms that participated in the regular UI program.

The initial EDD study proposal indicates that the test and control groups would be composed of firms of similar size and industry type, so that EDD would be able to determine whether there was any systematic difference in the behavior of firms participating in the shared work and regular UI programs. In other words, the EDD proposed to measure the way a firm's behavior might change in response to the SWUC program.

The final EDD report does not reflect the use of this experimental design. Rather, the report is based on a complex simulation of the planned test and control experiment. The EDD advises that it decided to use the simulation approach, rather than the research design, because the control group established by the department was too small to guarantee that the data on these firms was representative of all firms covered by the regular UI program. The department maintains that it did not have adequate funds to survey additional firms in order to increase the size of the control group.

Critique of EDD's Approach

Simulations are often useful in determining the impact of programs such as shared work. Simulations attempt to predict the impact of programs in the real world by combining actual data with a few key assumptions about how people or firms behave in certain situations. The reliability of any simulation, therefore, depends on the quality of the data and the extent to which the assumptions reflect actual behavior.

Where the focus of the research is on behavior itself, however, a simulation is of little value. This is because assumptions regarding behavior beg the fundamental question: how do firms and individuals behave when confronted with specified incentives? In choosing to perform a simulation, the EDD, in effect, opted not to determine experimentally the costs and benefits of SWUC. It did so despite the fact that the original SWUC experiment was intended to measure how the behavior of firms changes when a shared work program is available, and even though less-detailed simulations of SWUC had been done previously.

Because the EDD abandoned the experiment that would have allowed the department to measure the differences in the behavior of SWUC and regular UI participants and decided instead to merely estimate those differences using a simulation, the evaluation does not demonstrate how SWUC alters firm and worker behavior. Instead, it simply states how SWUC might work if firms and workers behave in a certain way. As a result, we conclude that the report does not provide any information about the costs and benefits of SWUC beyond what was already known.

Major Findings of the EDD Simulation

Based on the results of its simulation, the department concluded that the major financial effects of the SWUC program are as follows:

- Firms that use the SWUC program are able to avoid the costs of replacing laid-off workers--hiring and training costs--when production returns to normal. This is because SWUC firms are able to keep all of their already-trained employees by reducing their work hours when layoffs otherwise would be necessary.

Thus, when production returns to normal, shared work firms do not have to hire and train additional employees. The report refers to the avoidance of costs associated with replacing lost workers as "transition benefits."

- From the workers' standpoint, the SWUC program results in the transfer of wages from senior workers to less tenured workers, due to the across-the-board reduction in work hours. In effect, by reducing their work hours, 80 percent of a firm's workers give up 20 percent of their wages so that the other 20 percent--those who otherwise would have been laid off--remain employed.

Flaws in the Simulation Design

While the EDD study presents information on the financial impact of the SWUC program on workers, firms, governments, and society, our analysis indicates that the information cannot be relied upon because the simulation has the following serious flaws:

- The assumptions that guide the simulation were not verified using data collected as part of the experiment.
- The simulation appears to have been structured so as to show positive benefits from the SWUC program.
- The simulation results do not accurately reflect the way program costs and benefits vary over time.
- The quality of the underlying data is questionable because, in some instances, the data are incomplete, inconsistent, or nonsensical.

Assumptions Were Not Verified. The EDD's simulation was based on numerous assumptions about the way firms and workers behave. These assumptions, however, were not verified with data collected as part of the experiment. Instead, the department merely submitted its assumptions to a "test of reasonableness" (that is, the department adopted assumptions that it thought were "reasonable"). However, data presented in EDD's own report cast doubt on the appropriateness of several key assumptions.

For example, the EDD assumed that firms use seniority as the sole basis for deciding which workers to lay off. As a result, the simulation assumes that new employees would be laid off first. This assumption, however, is not supported by data that EDD itself collected from employers using a questionnaire. Table 1 shows that only 15 percent of the employers surveyed by the department reported using seniority alone as the criterion for deciding which workers to lay off.

Table 1

Layoff Criteria Varies Widely Among
Firms Using Shared Work UI Program

Criteria	Percent
Strictly by seniority	14.6%
Mostly by seniority	15.7
Mixed seniority and performance	19.7
Mostly by performance	15.3
Strictly by performance	9.1
Strictly by function	4.4
Other	<u>21.2</u>
Total	100.0%

SOURCE: EDD Shared Work Survey

The Simulation Biases the Results. Many of the crucial decisions made by the EDD in designing the simulation have the effect of biasing the results in favor of the SWUC program. For example:

1. The simulation ignored that work sharing can and does occur without the use of the SWUC program. Specifically, the simulation did not take into consideration that workers often accept reductions in their work week during recessions without the inducement of partial unemployment benefits such as are available through the SWUC program. By ignoring this fact, the simulation overestimates the benefits to firms participating in the program. Specifically, a portion of the savings in hiring and training costs made possible by voluntary reductions in work hours could be achieved by employers in the absence of the SWUC program. In fact, federal statistics show that in 1982, the work week for 3.3 million U.S. workers was reduced. Because most states do not have a SWUC program, it seems reasonable to conclude that most of these reductions were not prompted by the availability of partial UI compensation, but still resulted in benefits to employers.

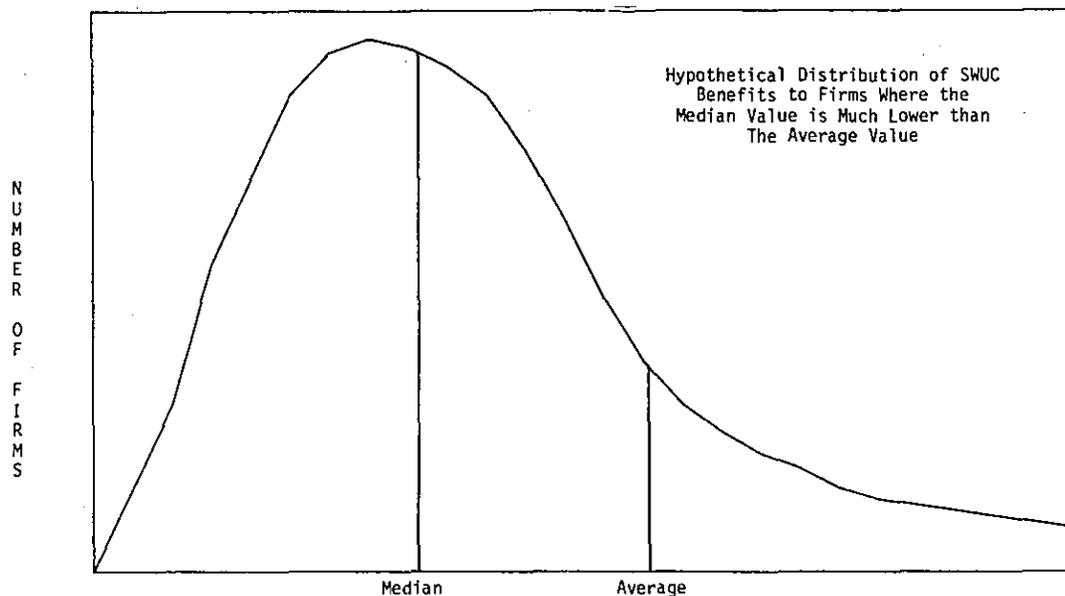
2. The benefit levels attributed to the SWUC program are not representative of the benefits available when a typical firm participates in the program. In its simulation, the EDD uses the average benefit levels under the program to represent the incentive structure facing employees of the "typical" firm. In our judgment, however, the median benefits provided through the SWUC program may be more representative of what is available to employees of the typical participant. By using average, rather than median, benefits, the EDD simulation overstates the amount of UI benefits

available to work sharers, and thus attributes to the program a greater incentive effect than what may, in fact, exist.

Chart 2 shows the distribution of transition benefits provided under the SWUC program. The average benefits (\$1,761) are more than twice the size of the median benefits (\$855). In effect, the average benefits have been inflated by extraordinarily large payments to employees of a few firms. Clearly, the median benefits are a more appropriate indicator of "typical" benefits available through the program.

3. The simulation does not accurately reflect the way costs and benefits vary with time. The simulation focuses on the costs and benefits associated with the SWUC program in a single week, relative to the costs and benefits from a layoff lasting one week. This comparison ignores the fact that the longer an individual is unemployed because of a work reduction, the more likely that person will find another job. This relationship implies that the longer the work reduction continues, the lower the benefits to employers participating in the shared work program will be because more and more laid-off employees would have found another job. Presenting only the average weekly benefits oversimplifies what is really

Chart 2



occurring because it leaves the false impression that, regardless of whether a firm reduces work hours for three weeks or three months, the weekly benefits to the firm will be identical.

4. Quality of data questionable. The survey data collected by the department from firms, in some instances, were incomplete, inconsistent, or nonsensical. Attempts by the EDD to "clean up" the data resulted in information of questionable reliability. For example, more than 50 percent of the firms surveyed by the department did not know how much it cost them to hire and train new employees. In these cases, the EDD assumed that the average cost of hiring and training new employees was the same as it was for similar firms, or for the "average" firm in the sample if there was no similar firm. Because only one-half of the firms responded to these questions regarding costs, it is not clear whether their responses are representative of all SWUC users.

Furthermore, EDD's method for reconciling internally inconsistent answers may or may not be valid. Where inconsistencies were discovered, the department used what it considered to be the more "reasonable" of the two conflicting responses. This method of reconciling data, however, could introduce biases into the basic data. Lacking statistical reliability, this method cannot be counted upon to produce reliable data.

User Perceptions of SWUC

As part of its survey, the EDD queried employers and employees on their perceptions of the SWUC program. Unlike the fiscal data, the attitudinal data was not modified by the evaluators, so it is not subject to the criticisms discussed in the previous section. Moreover, by

supplying the number of responses to each question, EDD's report provides an adequate basis on which to assess the significance of the responses, and thereby increases our confidence in the basic data.

The results of the survey show that employer and employee perceptions of the shared work program are similar. Table 2 shows that more than 80 percent of both employers and employees expressed positive opinions about the program. Less than 5 percent of both groups expressed negative opinions toward it.

Table 2
Employer and Employee Satisfaction with
The SWUC Program

	<u>Employers</u>	<u>Employees</u>
Dissatisfied/Opposed	4.8%	3.9%
Neutral	13.5	10.4
Satisfied/In Favor	<u>81.7</u>	<u>85.7</u>
Totals	100.0%	100.0%

Number of Employers Responding = 292
Number of Workers Responding = 454

Source: EDD Shared Work UI Surveys

Employer Attitudes. While the SWUC program is popular with both employers and employees, the two groups give different reasons for supporting it. Table 3 shows some of the reasons why participating employers prefer shared work to layoffs. Clearly, a significant number of employers felt that employee morale, productivity, and production

flexibility (the employer's ability to alter the factors of production) are higher under the SWUC program than they are when layoffs are used to reduce work hours. A smaller number of employers feel that, as a result of the program, absenteeism is lower, as well.

Table 3
Employers Feel SWUC Improves Employee Performance

	<u>Lower</u>	<u>Same</u>	<u>Higher</u>
Morale	10.3%	21.4%	68.3%
Absenteeism	27.5	67.8	4.7
Productivity	11.9	47.3	40.8
Production Flexibility	7.5	34.6	57.9

SOURCE: EDD SWUC Employer Survey

Thus, from the employer's point of view, the SWUC program results in higher productivity, production flexibility, and lower absenteeism which translate into lower production costs. At the same time, the program may result in offsetting increases. For example, many employers maintain fringe benefits--such as medical insurance--for all those working reduced hours. This increases the employer's hourly labor costs. The extent to which lower costs brought about by the SWUC program are offset by higher costs is not known. What the data in Table 3 imply, however, is that there may be other benefits to employers from opting for shared work beyond the transition benefits described earlier in this chapter. As a result, it is not hard to understand why some employers like the SWUC program.

Employee Perceptions. As shown in Table 2, 86 percent of those workers who have participated in the SWUC program feel positively about it. There are a number of reasons why workers are willing to accept reductions in their work hours and wage earnings. The most important of these reasons is that through work sharing, workers are able to maintain income and employment. In fact, 74 percent of workers listed the "maintenance of economic security" as an important advantage of participating in the SWUC program. No other reason was mentioned by such a large percentage of the workers.

As discussed below, the typical work hour reduction under SWUC is 20 percent. For employees of most participating firms, the same reduction in work using layoffs would require that 20 percent of the workers be laid off. Thus, it is interesting to note that while 20 percent of the workers would have been laid off, 80 percent of the workers supported the idea of shared work and wage reductions. Obviously, some of these workers would otherwise have been among the 20 percent laid off, but most of them would not have been. Why are so many more workers willing to accept reductions than the number of workers that would be laid off? Part of the answer appears to be that employees cannot easily distinguish which workers would otherwise be laid off.

Table 4 shows the workers' perceptions of their own layoff susceptibility. It reveals that 40 percent of the workers participating in the SWUC program felt that they had at least a 50 percent chance of being among the 20 percent that would be laid off. This uncertainty over who would be laid off probably generates much of the support for the program,

but it does not account for all of it. In fact, at least 25 percent of those who favor the program felt that they were not at risk of being laid off.

Table 4

Worker Perception of Susceptibility to Layoffs

Would not be laid off	38.7%	
Less than 50% chance of being laid off	20.9	
50% chance of being laid off	9.9	} 40.0%
Greater than 50 percent chance of being laid off	14.5	
Would be laid off	15.6	
Other/not applicable	<u>0.4</u>	
Total	100.0%	

Number of Employees Surveyed = 455

SOURCE: EDD Shared Work UI Survey

CHAPTER IV

SWUC PROGRAM DATA AND CURRENT PROGRAM TRENDS

This chapter reviews recent data on the SWUC program collected by EDD. In addition, it discusses trends in how the program is used.

With respect to the program data collected by the department, we conclude that most of it is unreliable. Much of the data concerning SWUC claimants--the number and characteristics of individuals receiving benefits under the program--are not accurate. In fact, the department itself does not use this data because of known deficiencies in the way the information is tabulated.

Regarding program trends, we conclude that use of the SWUC program (as measured by the number of employers with approved SWUC plans) expanded rapidly during 1982 and 1983. The number of employers approved by the EDD to participate in the program doubled in 1982 as the recession intensified and the unemployment rate rose.

Problems with SWUC Data

The EDD collects a variety of data concerning the SWUC program. The employer plan includes data concerning the extent of planned work reductions and the number of employees affected by the work reductions, and indicates whether the affected workers are members of a union. The EDD also collects data--such as age, race, and extent of work reductions--on individuals claiming SWUC benefits.

We have identified a number of problems with the data collected by the department.

1. The department's data do not accurately reflect the number of persons who participate in the program, because of errors in the way the EDD compiles this information. For example, one of the department's internal reports on program usage showed that the number of participants was more than 25 percent below the number that EDD reported to the federal government. The EDD is aware of the undercounts, and advises us that these discrepancies are due to errors in the computer program that compiles the data. The department, however, has not corrected the problem.

2. The department's data on program usage is internally inconsistent. For example, data for one month showed a total of 7,765 employees participating in the program; elsewhere, it indicates that the total was 17,765. In addition, the report showed that of these 7,765 employees, 13 were "white" and 5,632 were "Hispanic," with no other racial groups participating. This implies that the number of participants was only 5,645.

3. The department's data on the shared work program cannot be compared with data from the regular UI program because, in many cases, the data are aggregated into different--and incomparable--groups. For this reason, we could not compare the age distribution of SWUC recipients with regular UI participants. Table 5 shows how the department aggregates data on participant age for the shared work and regular UI programs. Age data for the regular UI program are aggregated into three groups, while age data for the shared work program are presented in six categories. These six groupings cannot be aggregated into the three groups used to report age data for the regular UI because the group definitions are different.

Table 5

Claimant Age Groupings
SWUC and Regular UI

<u>SWUC</u>	<u>Regular UI</u>
Under 20 years old	Under 25 years old
20 to 29 years old	
30 to 39 years old	25 to 45 years old
40 to 49 years old	
50 to 59 years old	Over 45 years old
Over 59 years old	

Recommendations. Because of these problems with the department's data, it is impossible to evaluate the effects of the program on various groups of program participants. To make possible such an evaluation, and to allow a comparison of the SWUC program's performance with the performance of regular UI programs, we recommend that:

1. The EDD act immediately to correct the problems of inaccurate and internally inconsistent data. In addition, we recommend that the department revise the compilation of existing data so as to create accurate, consistent data series on the shared work program. Although the department is aware that the data it collects are inaccurate, it has no plans to correct the data. As a result, the department's effort to collect and tabulate the information on claimants is useless.

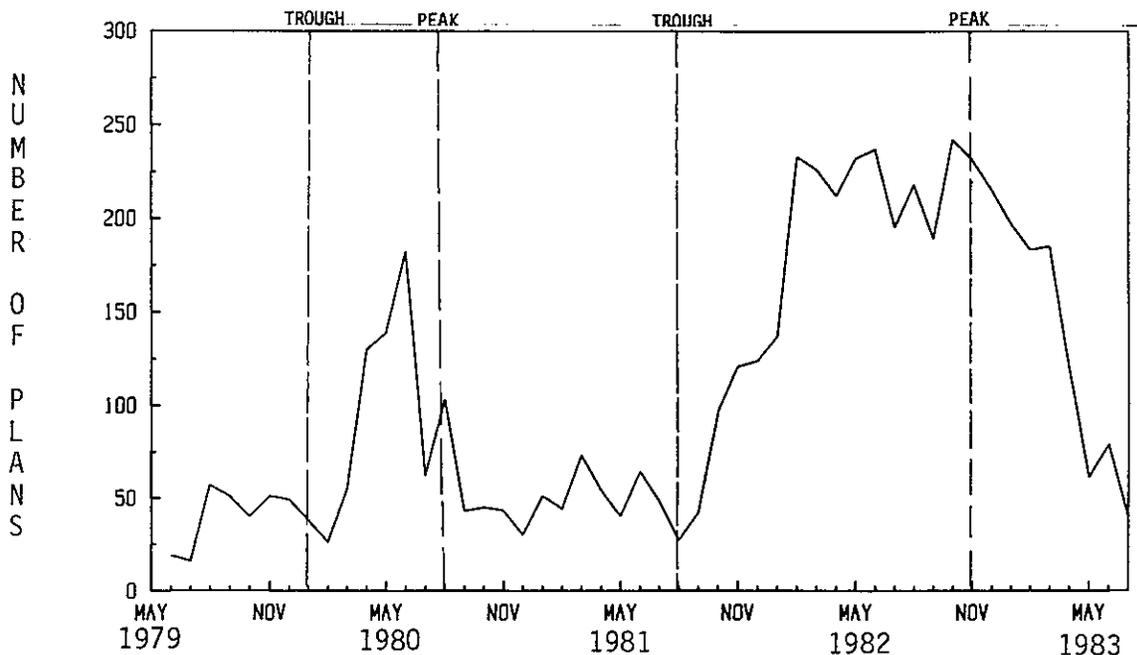
2. The EDD ensures that data collected on all aspects of the UI program--including SWUC and the regular UI program--are presented in the same format so that inter-program comparisons can be made. These formats should provide enough detail to permit meaningful comparisons of how different groups of individuals fare under these programs.

Program Participation

Because of the deficiencies in program data noted above, we believe that most of the department's information on program use is unreliable. For this reason, in analyzing trends in the SWUC program, we have relied on data derived from shared work plans submitted by employers. Unfortunately, it is not possible to determine the extent to which actual use of the program differs significantly from that projected in the employer plans. It is possible, of course, that actual use of the shared work program is very different from planned use, in which case the trends reported below would not reflect what is actually happening under the program.

Planned Use of SWUC. In 1982, 2,567 businesses employing 99,332 workers were approved for participation in the shared work program. This represents a 126 percent increase in the number of workers approved to participate in the program between 1978--the year in which the program began--and 1981.

Chart 3
The Use of SWUC Increases During Recessions
SWUC Plans Approved
1979 to 1983



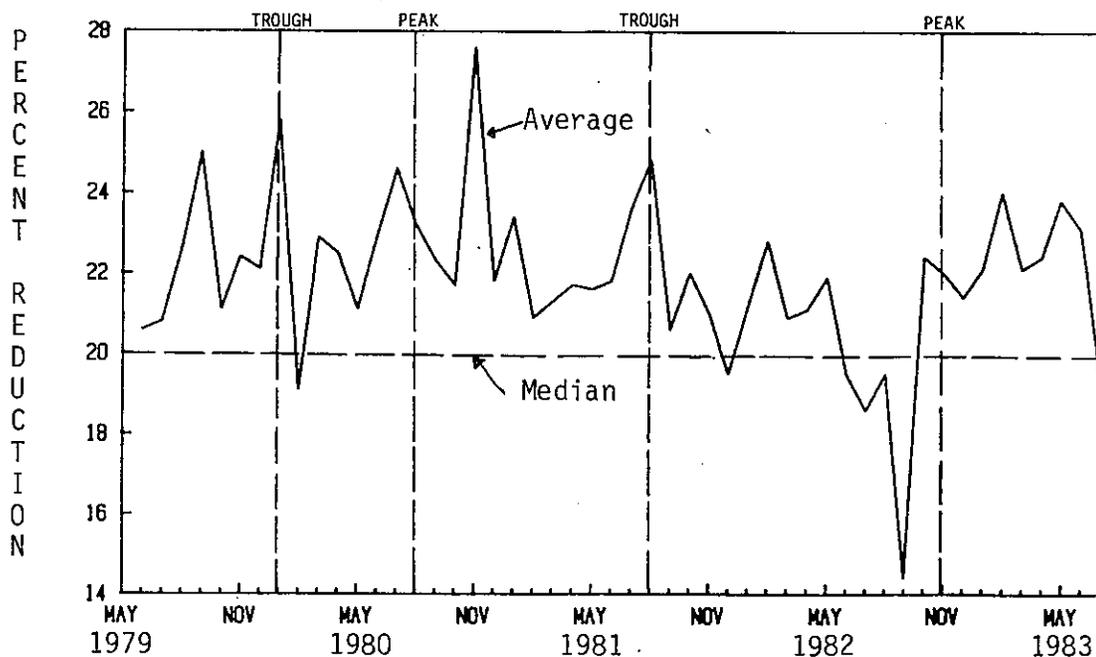
In general, employer use of the SWUC program parallels changes in the civilian unemployment rate, as shown in Chart 3. The chart shows the number of SWUC plans approved since June 1979 and the high (peak) and low (trough) points of the civilian unemployment rate in California during the 1980 and 1982-83 recessions. In August 1981, when the unemployment rate in California was at a low of 7.0 percent, 27 additional firms were granted authority to participate in the shared work program. By November 1982, when the unemployment rate had risen to 10.7 percent, 231 additional employers were authorized to participate in the program. This increase is not surprising, given that shared work is viewed as an alternative to layoffs: as the need to reduce work hours increases, the opportunity to use shared work (in lieu of layoffs) also increases.

Average Work Reductions. Information provided by EDD shows that the typical SWUC plan approved by the department anticipates a 20 percent reduction in work hours. This was the reduction anticipated by 64 percent of all SWUC plans approved since 1978. Perhaps one reason for the high incidence of 20 percent reductions is that this is the reduction that a firm achieves by moving from a five- to a four-day work week. By shutting down operations for an entire day each week, rather than for part of several days, a firm may maximize the savings from a given cutback in hours.

Chart 4 shows the average reductions in the work week, by month, between June 1979 and July 1983. In addition, the chart shows the median work reduction planned during this period. The median has been a constant 20 percent, except for one month--September 1982--when it was 10 percent.

Chart 4

The Median Percentage Work Reductions
Have Been Constant Since 1979



The average work reduction, however, has varied widely from month to month. The difference between the average and median work week is the result of a few employers planning quite large--up to 80 percent--reductions in the firm's work week. These large reductions cause the average work reduction to be significantly higher than the median reduction.

Employer Participation, by Industry Type. Although the shared work program originally was designed to help local governments adjust to the cut in revenues brought about by Proposition 13, the public sector is one of the smallest users of the program. Table 6 shows the distribution of approved SWUC plans, by industry type, for the period 1978-1983. The table also shows (1) the distribution of all employers participating in the UI program, by industry type, and (2) regular UI program usage in 1981, by industry. As the table reveals, less than 1 percent of approved SWUC plans are submitted by public sector agencies.

Table 6
Manufacturing Sector Uses the SWUC Program Heavily

	<u>All Employers (by reporting unit)</u>	<u>Regular UI Use--1981</u>	<u>SWUC Employer Plans Approved 1978-1983</u>
Manufacturing	7.7%	27.1%	52.4%
Government	3.1	1.7	0.4
Agriculture	6.2	9.9	1.6
Mining	0.3	0.3	0.1
Construction	7.3	13.1	7.5
Transportation	2.9	4.3	1.8
Wholesale Trade	7.4	5.1	5.0
Retail Trade	19.3	12.6	6.4
Finance, Insurance, and Real Estate	7.5	3.3	7.4
Services	37.2	16.0	17.4
Other	<u>1.1</u>	<u>6.6</u>	<u>--</u>
Totals	100.0%	100.0%	100.0%

Manufacturing firms clearly are the dominant user of the shared work program. Although manufacturing firms constitute only 7.7 percent of all UI reporting units and account for only 27 percent of regular UI benefit payments, this industry is responsible for more than one-half of all approved SWUC plans. One reason why the manufacturing sector uses the program so much more extensively than other sectors may be that manufacturing firms generally have more flexibility in reducing work hours than do other types of firms. For example, manufacturing plants do not need to remain open during "normal" business hours, as do firms in wholesale or retail trade.

Firms in the service, finance, insurance, and real estate industries also use the shared work program in greater proportions than they use the regular UI program. Service firms constituted 17 percent of SWUC

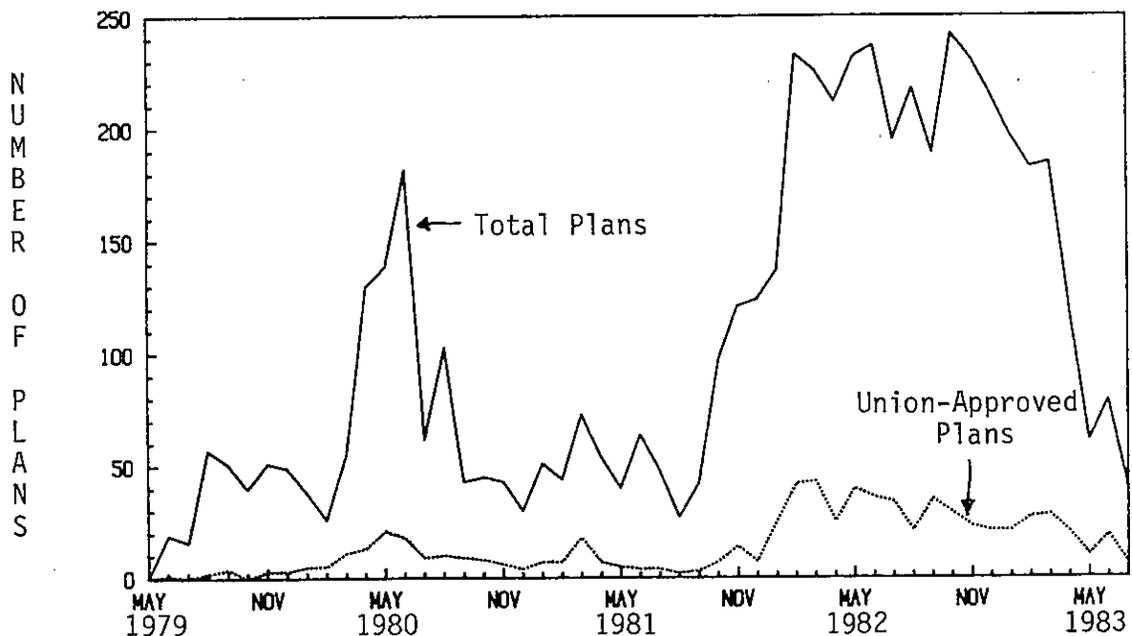
applications, while finance, insurance, and real estate businesses made up 7.4 percent of these applications.

Participation of Unionized Workers. Before EDD can approve a work sharing plan, any union representing the affected workers must approve the proposal. Therefore, participation of firms employing unionized workers reflects--to some extent--the attitude of workers toward SWUC. Chart 5 shows the participation in the shared work program of firms with unionized employees. The chart shows that the pattern of participation (that is, the increase and decrease in the number of approved plans) by unionized firms closely parallels that of all firms. This would seem to indicate that unions, as well as employers, believe the shared work program has merit.

As the chart indicates, however, the primary participants in the shared work program are nonunion firms. Since 1980, approved plans for employers with unionized workers comprise about 13 percent of all approved plans. The percentage of union workers reached its peak in March 1981, when approved plans covering union employees accounted for 25 percent of all plans.

Chart 5

Unionized and Nonunionized Firms
Make Similar Use of SWUC



CHAPTER V
PROGRAM COSTS

This chapter discusses the costs of the shared work program. Like all UI programs, the SWUC program involves two types of costs, both of which are paid by employers: (1) administrative costs, which are funded by a federal payroll tax and (2) benefit costs, which are financed by a state payroll tax.

There are two ways to measure the administrative and benefit costs of the SWUC program. First, the per-claimant cost of the shared work program can be compared with the per-claimant cost of the regular UI program. Second, the aggregate program costs associated with a given work reduction through layoffs can be compared with the costs of achieving the same reduction through work sharing.

Using the first method, we find that the average benefit costs per claimant under SWUC are significantly lower than the average benefit costs per claimant under the regular UI program.

Using the second method, we find that the administrative costs are significantly higher for the SWUC program than they are for the regular UI program. This is because, for a given work reduction, the shared work program serves an average of five times as many recipients as the regular UI program. In addition, the benefit costs are likely to be somewhat higher under the SWUC program than they are under the regular UI program, although limitations in the data prevent us from determining how large the difference is. (It should be noted that although SWUC benefit costs may be

higher than under the regular program, the higher costs will not reduce the UI Fund balance. This is because UI taxes are designed to ensure an adequate fund balance. Thus, as the amount of benefits distributed--under either the shared work or regular program--increases, taxes are increased for those employers using the programs.)

Finally, we discuss the indirect fiscal effect of using shared work reductions instead of layoffs. While there are theoretical reasons to believe that SWUC results in General Fund costs and benefits, the data are insufficient to justify any conclusions concerning the actual General Fund impact.

Administrative Costs

Per-Claimant Costs. The EDD does not know how much it costs to administer the SWUC program on a per-claimant basis. This is because the department does not separately track the administrative costs of the program. Instead, the EDD includes these costs within the total for the regular UI program, and the federal government reimburses the EDD for all administrative costs--SWUC and regular UI--at the same rate.

The cost of administering the SWUC program, however, may not be identical to the cost of the regular UI program, given that the two programs are administered differently. Costs of the SWUC program could exceed the costs of the regular UI program because (1) under the SWUC program, but not under the regular UI program, the EDD must review and approve employer plans and (2) the department pays SWUC benefits weekly, rather than every two weeks, as it does under the regular UI program. On the other hand, administrative costs of the SWUC program could be lower

than the costs of the regular UI program because (1) claimants for SWUC benefits have no work-search requirement that must be verified and (2) SWUC-related benefit appeals are virtually nonexistent.

Because the EDD does not maintain separate records on SWUC administrative costs, we cannot determine whether the net cost per SWUC claimant of administering the program is higher or lower than the cost per claimant of administering the regular UI program.

Administrative Costs Related to a Given Work Reduction. Although comparing the administrative costs of the regular UI and SWUC programs on a per-claimant basis is natural and useful, it also may yield results that are somewhat misleading. This is because a firm rarely is confronted with the choice between laying off one employee and merely reducing the work hours of that employee. Instead, the firm's choice almost always is between reducing total work hours through layoffs and reducing them through work sharing. Because the choice focuses on the method of reducing aggregate work hours to compensate for a reduction in the amount of work that needs to be done, rather than on the number of employees to be covered by a SWUC plan, comparing the administrative cost for the SWUC and regular UI programs associated with a given reduction in work hours provides a more meaningful comparison of program costs.

Clearly, the administrative costs for a given workload reduction are much higher for the SWUC program than they are for the regular UI program. This is due to the shared work program's basic objective: to spread the burden of reduced work among a greater number of persons. Thus, when a firm employing 100 workers must reduce its work hours by 20 percent and

chooses to participate in the SWUC program, all 100 employees would receive SWUC benefits. If, instead, the firm had responded to the decline in workload by laying off workers, only 20 employees would receive regular UI benefits. Thus, as a result of work sharing, five times as many workers will apply for benefits (100 workers, rather than 20). Consequently, for a given reduction in work hours, administrative costs invariably are significantly higher under the SWUC program than they are under the regular UI program.

Administrative Alternatives. The EDD administers the SWUC and the regular UI program in a similar manner. Both programs focus on the claimant. Under the SWUC program, each participating worker fills out SWUC claim forms containing information on eligibility, base wages, and the extent of the work reduction, and presents the form to a local UI office. In addition, SWUC benefits are mailed separately to each individual claimant.

There is no particular reason, however, why SWUC administration has to be focused on individuals. While regular UI claimants are unemployed and therefore require individual processing and payment, SWUC claimants remain attached to an employer. By focusing administration on the employer, rather than on the employee, the EDD could reduce the administrative costs of the shared work program significantly.

One possible method of simplifying administration of the SWUC program would be to require that participating employers submit all necessary employee information to the EDD, instead of requiring that individual employees report to local UI offices. The department would

process the application and make SWUC payments, once the employer certifies that the planned reduction occurred. The EDD would pay the UI benefits to the employer, who would include the payments in each participating employee's weekly paycheck.

By concentrating SWUC administration on the employer, the EDD would be relieved of the following administrative duties:

- Individually registering SWUC claimants.
- Issuing separate benefit checks to each claimant.
- Separately charging each SWUC benefit check to the employer's reserve account.

Neither federal nor state law requires that SWUC participants submit individual claims to the EDD. Therefore, the EDD could orient SWUC administration toward employers, rather than claimants, simply by changing UI regulations.

Benefit Costs

Claimant Costs. Not unexpectedly, the average benefit paid to a claimant under the shared work program is lower than the average benefit paid to an individual under the regular UI program. In 1982, average weekly SWUC benefits totaled \$30.30, while regular UI benefits averaged \$86.90 per week. The average benefit under the shared work program is lower, of course, because participants receive only a portion of the full UI benefit available to them. For example, if SWUC participants experience a 20 percent reduction in their work hours, each person would receive 20 percent of his/her full UI benefit amount.

Benefit Costs Related to a Given Work Reduction. If we measure benefit costs under the SWUC program and compare them to benefit costs under the regular UI program for a given reduction in work hours, it seems as if the costs of the shared work program are higher. For example, assuming the typical 20 percent reduction in work requirements, five workers working 20 percent fewer hours would each receive SWUC benefits costing, on the average, \$30.30 per week. This translates into \$151.50 in SWUC benefits each week ($\$30.30 \text{ per week} \times 5 \text{ employees} = \151.50). In contrast, the average weekly UI benefit for every worker laid off by his employer to achieve the same reduction in work hours averages \$86.90 per week. Thus, providing shared work benefits to five individuals working four days per week is \$64.60, or 74 percent, more expensive than laying off one worker ($\$151.50 - \$86.90 = \$64.60$).

Unfortunately, we cannot draw any definitive conclusions about benefit costs under the SWUC and UI programs for a given reduction in work hours. This is because the data maintained by EDD on shared work and regular UI work reductions are not strictly comparable. As a result, we cannot distinguish between increased benefit costs caused by the design of the SWUC program and higher costs associated with other unrelated factors.

For example, Table 6 shows SWUC claimants are more likely than regular UI claimants to be employed by manufacturing firms. These firms, however, pay higher wages than the typical nonmanufacturing firm. (In 1982, manufacturing wages averaged \$9.24 an hour; the average UI claimant, however, received approximately \$4.64, or one-half of the average manufacturing wage.) Because SWUC benefits are based on wages, it is

likely that a portion of the difference between average UI and average SWUC benefits reflects differences in wage levels, rather than differences in program design.

Nevertheless, our analysis indicates that for a given reduction in work hours, SWUC benefit costs probably are somewhat higher than the cost of benefits provided under the regular UI program. This is because shared work benefits are more likely to be paid to senior workers than regular UI benefits. While not all layoff decisions are made on the basis of seniority, a worker who is laid off (and thus receives regular UI benefits) is likely to have less seniority than those who are retained. In contrast, under the SWUC program, all employees--including the more senior workers--receive UI benefits. Given that (1) the amount of UI or SWUC benefits paid to an employee is based on the employee's wage level and (2) more senior workers tend to have higher wage levels than less senior workers, benefits paid to more senior workers generally will exceed benefits paid to less senior workers. This will cause the cost of the SWUC program to be higher than the cost of the regular UI program for a given reduction in work hours.

Unfortunately, the EDD data do not permit us to determine how much of the observed difference between SWUC and regular UI benefit costs is due to differences in program design and how much is due to factors unrelated to program design.

Length of Claims

The EDD's figures on the length of UI claims for the SWUC and regular UI program also suffer from the problem of noncomparability. Existing data show that the typical SWUC recipient collects fewer weeks of

benefits than does the average recipient of benefits under the regular UI program. Using data derived from plans submitted by employers participating in the SWUC program and data submitted by EDD to the federal government, we estimate that the average SWUC participant received 6.2 weeks of benefits. This compares to 7.8 weeks for the regular UI program.

There are two reasons, however, why these data are not strictly comparable. First, the data may reflect factors unrelated to the design of the shared work program. For example, because of the different industry make-up of SWUC and regular UI program participants, we cannot tell whether the difference in the average length of claims is due to program differences or reflects the fact that SWUC is used primarily by manufacturing firms.

In addition, examining the average length of claims by employees of a particular industry may not be sufficient to permit a comparison of what the SWUC program costs the UI Fund. The average length of claims could be influenced by productivity changes caused by sharing work that would not result from layoffs. Measuring the effect of work sharing on productivity using EDD's data is not possible. To determine whether such productivity changes result from work sharing, a comparison of similar firms or plants would have to be conducted. Such a comparison can only be made under carefully controlled circumstances.

In conclusion, the available data are not sufficient to permit a comparison of the benefit costs and length of claims under the SWUC and regular UI programs. In order to make this comparison, data from firms

participating in the shared work program would have to be carefully compared with data from similar firms that rely on layoffs to reduce work hours so that influences unrelated to the SWUC program--such as different wage levels--do not affect the results. The EDD's original design for the SWUC study proposed to establish such comparisons. Because this design subsequently was abandoned, we cannot measure how sharing work reductions affects employers and employees, nor can we determine what effect the difference in the length of claims has on the benefit and administrative costs of the SWUC and regular UI programs.

Indirect General Fund Effects

In addition to the direct cost to the UI program of SWUC administrative and benefit expenses, there are a number of indirect costs and benefits potentially resulting from using shared work reductions instead of layoffs. For example, sharing work reductions may result in General Fund savings to the extent that some participants would otherwise qualify for welfare benefits. Because laid-off workers generally experience a large reduction in income, it is quite likely that many of these individuals would be eligible for benefits such as Aid to Families with Dependent Children (AFDC) and Medi-Cal. Because these welfare programs have a significant General Fund cost component, the SWUC program may result in General Fund savings, as well as federal and county savings.

On the other hand, use of the SWUC program may reduce General Fund income tax revenues. This reduction results from the progressive income tax structure. For example, using the 20 percent layoff/work reduction scenario, if 20 percent of a firm's employees are laid off, the state

income tax rate for those individuals would fall to zero (assuming they have no other sources of income).³ Using SWUC, however, all of the firm's employees would experience a 20 percent reduction in wages and a corresponding fall in marginal tax rates. Because the top 20 percent of an employee's wages are taxed more heavily than the remaining 80 percent, net tax revenues would fall further under SWUC than under layoffs.

These are only examples of potential General Fund impacts of the shared work program. There are many other potential fiscal effects, such as sales tax revenues, which may increase or reduce General Fund revenues and costs. Unfortunately, there are no data available to measure the General Fund costs and benefits of the SWUC program. As with the data discussed above, data must be carefully collected in order to permit valid comparisons with data from the regular UI program. Until such time as data are available, it is impossible to accurately assess the General Fund impact of the SWUC program.

3. UI benefits are not subject to state income taxes.