

July 24, 2009

Jobless Checks for Millions Delayed as States Struggle

JASON DePARLE

WASHINGTON — Years of state and federal neglect have hobbled the nation's unemployment system just as a brutal recession has doubled the number of jobless Americans seeking aid.

In a program that values timeliness above all else, decisions involving more than a million applicants have been slowed, and hundreds of thousands of needy people have waited months for checks.

And with benefit funds at dangerous lows even before the recession began, states are taking on billions in debt, increasing the pressure to raise taxes or cut aid, just as either would inflict maximum pain.

Sixteen states, with exhausted funds, are now paying benefits with borrowed cash, and their number could double by the year's end.

Call centers and Web sites have been overwhelmed, leaving frustrated workers sometimes fighting for days to file an application.

While the strained program still makes more than 80 percent of initial payments within three weeks — slightly below the standard set under federal law — cases that require individual review are especially prone to delay. Thirty-eight states are failing to make those decisions within the federal deadline.

For workers who survive a paycheck at a time, even a week's delay can mean a missed rent payment or foregone meals.

Kenneth Kottwitz, a laid-off cabinet maker in Phoenix, waited three months for his benefits to arrive. He exhausted his savings, lost his apartment and moved to a homeless shelter.

Luis Coronel, a janitor at a San Francisco hotel, got \$6,000 in back benefits after winning an appeal. But in the six months he spent waiting, there were times when he and his pregnant wife could not afford to eat.

"I was terrified my wife and daughter would have to live on the street," Mr. Coronel said.

Labor Secretary Hilda Solis said: “Obviously, some of our states were in a pickle. The system wasn’t prepared to deal with the enormity of the calls coming in.”

The program’s problems, though well known, were brushed aside when unemployment was low.

“The unemployment insurance system before the recession was as vulnerable as New Orleans was before Katrina,” said Representative Jim McDermott, Democrat of Washington, who is chairman of a House panel with authority over the program.

Now the number of unemployed Americans has doubled since 2007 to 15 million and the program is more than tripling in size. About 9.5 million people are collecting benefits, up from about 2.5 million two years ago. Spending is expected to reach nearly \$100 billion this year, about triple what it was two years ago.

Given how suddenly the workload has increased, some analysts say the delays might have been even worse.

“Payments are later than they should be, and later than they used to be, but states have been overwhelmed,” said Rich Hobbie, director of the National Association of State Workforce Agencies, which represents the program’s administrators. “Considering the significant problems in the program, unemployment is responding well.”

The recovery act passed in February provided states an additional \$500 million for administration. It also suspended interest payments through 2011 for states paying benefits with federal loans.

Unemployment insurance began as a New Deal effort with dual goals: to sustain idled workers and stimulate weak economies. States finance benefits by taxing employers, typically building surpluses in good times to cover payments in bad.

In 2007, the average state paid about \$290 a week and aided 37 percent of the unemployed.

As downturns over the last 20 years proved infrequent and mild, states cut taxes, and the federal government, which pays administrative costs, reduced its support by about 25 percent. The states’ performance sagged.

In a recent report to the Department of Labor, Ohio said its computer problems “kept the system performance at a snail’s pace.” Louisiana said its call center was staffed with “temporary workers, with little knowledge” of unemployment insurance.

North Carolina said a wave of retirements had left it “unable to maintain pace or volume of work.” Virginia wrote “performance continued to be very stagnant” and called the odds of improvement “bleak.”

By 2007, 11 states were paying benefits so slowly they violated multiple federal rules, up from just two at the start of the decade.

While most eligibility reviews can be done by computer, about a quarter require a caseworker — to ensure, say, the applicant was laid off, rather than quit.

In the last year, states processed just 61 percent of these cases within three weeks — well below the federal requirement of 80 percent. More than a half-million cases, 6 percent, took more than eight weeks, and 350,000 took more than 10 weeks.

Of the 12.8 million eligibility reviews that have occurred during the recession, 4.6 million took more than three weeks. That is 2.1 million more than federal rules allow.

Appeals take even longer, with 28 states violating timeliness rules, many of them severely.

Perhaps no state is as troubled as California, which has not met timeliness standards for nine years. As in most other states, its 30-year-old computer runs on Cobol, a language so obsolete the state must summon retirees to make changes.

Yet a major overhaul in California has been delayed for five years, with \$66 million in federal funds still waiting to be spent. In part, the shelved project was meant to upgrade the call centers, which were “completely swamped” last winter, a legislative analyst wrote, with “desperate unemployed Californians dialing and redialing for hours.”

Deborah Bronow, who runs the state’s unemployment insurance program, said, “The systems were antiquated to begin with,” and “we were unprepared.”

In April, Gov. Arnold Schwarzenegger declared a state of emergency, saying the failure to efficiently process checks posed “extreme peril to the safety of persons and property.”

California has not met federal standards for adequate reserves since 1990. Still, it cut taxes and raised benefits in the last decade. It is now paying benefits with federal loans, with its debt projected to reach nearly \$18 billion next year.

Among those hurt by delays was Mr. Coronel, the San Francisco janitor who lost his hotel job in January. With the phone lines jammed, it took him two days to file an application and a month to learn it had been denied.

Then the waiting really began, as Mr. Coronel filed an appeal and heard nothing for three months. Luckless as he applied for new jobs, he borrowed to pay the rent, then moved in with his mother, and joined his pregnant wife in skipping meals.

“The worst day was when my daughter was born,” he said. “I had no clothes for her, and no car seat.”

While federal rules require states to decide 60 percent of appeals cases within a month, in recent years, California has met that deadline for just 5 percent. A report by the state auditor last year found the appeals board rife with nepotism and mismanagement.

Mr. Coronel won the appeal, but is soothing a marriage strained by a six-month wait. “It’s extremely stressful when you don’t know how you’re going to support your family,” he said.

Nationally, the program is the worst financial shape since the early 1980s, when back-to-back recessions left more than half the states borrowing from the federal government. Tax increases and benefit restraints gradually rebuilt the funds, then states changed course and pushed taxes well below historical levels.

From 1960 to 1990, the tax rate averaged about 1.1 percent of overall payroll. Over the last decade, it fell to 0.65 percent. That represents a tax cut of 40 percent.

Measured against a decade’s payroll, that saved employers \$165 billion. But by 2007, when the recession began, the average state had just six months of recession-level benefits in reserve, half the recommended sum.

“The attitude became, ‘We don’t need a firehouse — we can buy hoses when the fire starts,’ ” said Wayne Vroman of the Urban Institute, a Washington research group.

Some analysts defend the tax cuts, saying they helped both employers and workers, by spurring the economy and creating jobs.

“Lower tax rates make it easier to attract business,” said Doug Holmes, president of UWC, a group that advocates on behalf of employers. “We don’t want to spend a whole lot of time beating ourselves up because we didn’t raise taxes enough. Nobody anticipated a recession this size.”

A big reason the reserves fell, Mr. Holmes said, is that the jobless now spend more time on the rolls — 15 weeks in recent years, up from 13 weeks several decades ago. Each extra week costs the program about \$3 billion a year. The solution, he said, is stronger job placement provisions.

But others see an irresponsible past that now promises future pain.

“Workers who had nothing to do with the funds becoming insolvent are going to be asked to pay for that with benefit cuts,” said Andrew Stettner, an analyst at the National Employment Law Project, a workers’ rights group. “That’s the worst thing states can do — it takes money straight out of the economy.”

Among those who say timely benefits are essential is Mr. Kottwitz, the Arizona cabinet maker, who lost his job just before Christmas. He filed a claim and promptly received a debit card, with no money on it. It took him weeks to reach a program clerk, who told him to keep waiting.

“They said, ‘We’re behind — be patient,’ ” he said.

With little savings, no family nearby, and a ninth-grade education, Mr. Kottwitz, 42, had limited options. He got \$100 a month in food stamps, collected cans and applied for jobs. When his

landlord put him out, he moved to a shelter so overcrowded he spent his first few nights on the ground.

“I felt like I was the scum of the earth,” Mr. Kottwitz said.

In March, the shelter referred him to Ellen Katz, a lawyer at the William E. Morris Institute for Justice, an advocacy group, who secured his benefits. By the time the money arrived, Mr. Kottwitz had lost nearly 40 pounds. His first stop was an all-you-can-eat buffet.

Now back in an apartment, he said he was sharing his story in the hope that someone might read it and offer him a job.

“You think that someone would have seen this coming and been more prepared,” he said.