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Michigan Unemployment Claims Processing

Hearing before the Michigan Legislature

Joint Select Committee on the COVID-19 Pandemic

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Thank you, Committee Chair Hall and Vice-Chair Nesbitt for holding this hearing today. I submit these comments regarding the state of Michigan's Unemployment Insurance system.

No state entered the 2020 COVID-19 pandemic well equipped to process the massive increases in new Unemployment Insurance (UI) claims that flooded state systems throughout March and April. Administrative funding has been nearly flat for the past 20 years. In 2001, the federal government provided $94,825,829 in funding to run Michigan's UI agency. By 2020, that figure barely increased to $101,927,940. Using the Bureau of Labor Statistics' inflation calculator, the 2001 funding level is nearly $140 million in today's dollars, so that represents a significant decline in real funding for the state agency. Since March, however, more than 1.3 million new claims have come in. Historically, the highest week of new claims on record nationally was 695,000 for the week ending October 2 in 1982. In the week ending April 4 in Michigan alone, 388,554 new claims were filed. More than one million new workers in Michigan will be eligible for a benefit, according to initial claims data.

Andrew Stettner at The Century Foundation has analyzed the number of Insured Unemployed versus all of the new initial claims that have been filed over the course of the recession and found that 76.58% of Michigan residents have gotten a benefit. That makes the state 8th in the nation in terms of processing benefits. Roll Call has reported that of large states, Michigan trails only New York in percent of claims processed, with only 18 percent of workers awaiting a decision at the time of publication. In addition, state data show that by mid-May, 92 percent of eligible jobless claims had been paid or have been approved to receive benefits. This is a remarkable achievement given the state's troubled history with benefit processing. Taking a benefit system that was designed to reduce benefit payout and shifting everything to presume that unemployed workers ought to get a benefit is much like turning a barge. It is a huge shift to make and cannot happen immediately, but the speed at which this is occurring is to be commended.

To understand what the system had to overcome, it is important to look at what has happened to the program in the past decade. Benefit recipiency – that is the percent of unemployed workers getting a benefit - fell from 40 percent immediately preceeding the Great Recession to just 26 percent in 2019. That is because Michigan was the first state to slash benefit duration and access after the last recession. The state cut maximum benefit duration from 26 to 20 weeks and established some of the most punishing provisions to look for fraud at the expense of paying benefits of any state in the nation.

These cuts have major racial implications. In 2011, when this legislation was passed, the average duration of unemployment for Black and Asian workers was 27.7 weeks, but for white workers it was just 19.7 weeks. It is no wonder that cities like Detroit and Flint were unable to recover from the last recession and still have astronomical unemployment rates. The Black unemployment rates in those cities is 17.4% and 25% respectively. When unemployment reached 14.7 percent for the broader population in April, it was rightly viewed as a national emergency.

The new benefit IT system, built on a foundation of exclusion and over-emphasis of fraud, was the site of one of the biggest UI policy failures in history. MiDAS flagged at least 37,000 workers for fraud, and with a 93 percent inaccuracy rate due to a faulty algorithm. Innocent workers who were out of work through no fault of their own had to pay back quadruple their unemployment insurance lifeline plus twelve percent interest.

This is the system that the new administration inherited. This rapid turnaround of a system that was engineered to criminalize unemployed workers is a clear demonstration of the fact that political will can

override bad engineering in record time. Governor Whitmer immediately issued a sweeping [executive order](#) on March 13, even before the [WHO declared](#) COVID-19 to be a pandemic, that restored maximum benefit duration to 26 weeks, improved access to work sharing benefits, waived work search requirements, and waived employer charging for benefits relating to the coronavirus. Michigan was [one of the first states](#) to take this kind of bold action. The administration has recently issued another [executive order](#) that expands on the previous one by expanding eligibility to COVID-affected workers, further expanding the circumstances work sharing applies to, and even waiving Michigan's onerous "rework" requirements that require that a laid off worker earn a specified amount of money ($6000) with their new employer before they can be eligible for unemployment. This provision is highly discriminatory as it means a longer period of work, therefore disqualification, for lower paid workers.

Michigan was [one of the first states](#) to have Pandemic Unemployment Assistance (PUA) up and running, as well as the $600 Pandemic Unemployment Compensation benefit. Most importantly, Michigan established one of the most compassionate methods of making sure people who qualify for PUA get benefits smoothly. One condition of PUA is that workers cannot be eligible for UI. In some states, that meant the state agency is putting workers through the entire UI process, denying them, and then inviting them to apply for PUA. Some states asked workers who were likely to qualify for PUA just to wait to apply until they got the new computer system up and running. Michigan's UIA, however, allowed workers to apply as they were able to and simply held applications that were not UI eligible but could potentially be processed as a PUA claim until the agency was able to process it as such.

The state benefits from having a claimant advocate at its helm. The current state UI director has represented claimants at the University of Michigan Law Clinic for many years prior to his appointment in state government, which means he understands the things that push workers out of the system or discourage application and is working to eliminate them. That is also why Michigan was one of the first states to consider spreading out applications to make sure more people got through more quickly by assigning days of the week to claimants alphabetically.

A major issue for Michigan and other states is the fact that the Employment and Training Administration has long placed a premium on [investigating overpayments](#) rather than paying earned benefits quickly and state systems have adapted to that reality. That means that many state IT systems, including Michigan's, are designed to hold benefits up that have any potential flag. This is a system that is calibrated to flag and deny benefits. That means any situation that is not based on an employment record with one employer for the past 18 months, a simple confirmable layoff, and no complicating income can hold up the system, slowing the entire process. It is my understanding that Michigan's UI agency is now working to make sure that IT roadblocks set up over the course of the last decade are not preventing benefits from getting to workers quickly.

According to Employment and Training Administration data on erroneous denials, the denial error rate for separation reasons in 2017 was 17.44 percent, while that error rate in 2007 was just 8 percent. Similarly, in 2017, 17.54 percent of benefits were erroneously denied for nonseparation issues, while in 2007, the improper nonseparation denial rate was only 9.9 percent. Michigan is rightly focused on moving toward a position of working to address underpayments rather than focusing solely on overpayments, particularly in this time of crisis. Every dollar spent in an economic downturn multiplies in the local economy. Economists [Alan Blinder and Mark Zandi](#) found that every dollar spent in the last recession on unemployment benefits generated $1.61 in local economic activity. Presumptive eligibility in a state like Michigan where major communities never recovered from the last recession is key.

Clearly, benefits were cut off too soon in the last recession, and the state suffered. Thankfully, they are being turned on as quickly as possible during this one.

Michigan should be commended for its swift action in this crisis. However, while the Governor and the UI agency have taken swift executive action, these changes are only temporary. Michigan's legislature should follow suit and pass legislation to permanently codify the thoughtful systems improvements the state has enacted. The Michigan League for Public Policy has an excellent legislative framework that will help to secure a better UI system in Michigan now, and in the future.