# Worksharing: A tool to avoid layoffs in Ohio

A Brief From

Policy Matters Ohio

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## Executive Summary

Seventeen states are using a creative approach to helping employers and workers weather bad times. These programs, which allow the payment of unemployment benefits to workers at employers that shorten workweeks instead of laying off staff, can benefit Ohio workers and the companies that employ them in several ways. Employers can retain skilled employees, avoid expensive retraining and rehiring, boost employee morale and be more easily able to gear up when demand recovers, when compared to layoffs. Employees can maintain much of their income, stay employed and retain their benefits. A bill in the Ohio House of Representatives would establish such a program, known as worksharing or short-time compensation.

Employer participation is voluntary. Companies must submit short-time compensation (STC) plans to the state for approval, and certify that they would lay off employees in the affected unit were it not for the reduction in hours. The Ohio bill, like the typical state program, requires that health and other fringe benefits be continued for affected employees. It also requires that the union approve a company's worksharing plan if there is a collective bargaining agent.

The program structure is fairly simple. Instead of laying off a fifth of the workforce, an employer could retain all of its employees, who would work four days a week. They would then receive prorated unemployment benefits for the fifth day, which would equate to half their usual pay, up to a maximum. For most employees, this would mean receiving 90 percent of their former pay while working one day less a week. For instance, a worker who had earned $750 a week would work four days and receive four-fifths of her regular paycheck, or $600. She would get one-fifth of the $375 weekly unemployment compensation check she would have gotten had she been laid off, or $75. Thus, altogether, she would receive $675.

Participation has mushroomed in the states with existing STC programs. Altogether, 288,618 individuals participated last year in one of the 15 states that reported on the number of beneficiaries to the U.S. Department of Labor, a huge increase from the year before (see table, next page). Overall, there was more than one STC participant for every 22 regular UC recipients in these 15 states in 2009. If Ohio had an STC program that gained as many participants as the average state program, there would have been more than 23,000 Ohioans participating in 2009. The number of layoffs prevented would have been a proportion of that, but clearly, thousands of Ohioans who otherwise would have been laid off would instead have been working.
STC is funded in the same fashion as regular UC benefits: Tax rates rise on employers based on payout of benefits to their laid-off employees. A 1997 report for the U.S. Department of Labor found that STC programs don't threaten the solvency of state UC trust funds.

Unfortunately, while the levels of new layoffs in Ohio have fallen, they are still high. More than 87,000 Ohioans collected their first unemployment check in the first two months of 2010, and Ohio is likely to have high unemployment for some time to come. Even in good times, some

employers experience down cycles. An STC program provides options to employers that could be useful in a variety of economic climates.

The Ohio Department of Job & Family Services has said on a preliminary basis that computer programming required to set up an STC program may cost $2 million to $3 million**.** The state's Unemployment Compensation Special Administrative Fund could be tapped to cover those costs.

A clause should be added to the bill that employers must be current on their unemployment tax obligations to the state in order to participate in a shared work program. It should also ensure that a worker who gets a second job should not be excluded from the program for that reason.

Short–time compensation will only appeal to some employers, and does not prevent employers from laying off workers later. However, it provides an opportunity that Ohio employers should be permitted to make use of, with the proper safeguards. For some, it will be a means to avert layoffs. Policy Matters recommends that Ohio lawmakers approve House Bill 432 because of its potential to benefit some employers and some workers in difficult times.

**Short-time compensation participants in 15 states**

| | **2006** | **2007** | **2008** | **2009** |
|---|---|---|---|---|
| AR | No data | 139 | 1,321 | 2,299 |
| AZ | 921 | 1,577 | 2,311 | 8,658 |
| CA | 12,439 | 17,845 | 30,298 | 92,482 |
| FL | 293 | 397 | 1,735 | 5,265 |
| IA | 5 | No data | No data | 4,928 |
| KS | 1,286 | 1,849 | 12,040 | 15,585 |
| MA | 2,167 | 1,872 | 2,740 | 19,854 |
| MN | 1,443 | 2,120 | 3,624 | 14,173 |
| MO | 7,079 | 6,866 | 10,963 | 20,379 |
| NY | 5,297 | 5,734 | 7,611 | 39,823 |
| OR | 2,574 | 1,241 | 3,208 | 14,320 |
| RI | 1,643 | 1,846 | 3,750 | 8,809 |
| TX | 3,273 | 5,021 | 9,024 | 20,213 |
| VT | 436 | 661 | 1,370 | 2,648 |
| WA | 998 | 1,756 | 6,393 | 19,182 |
| **Total** | **39,854** | **48,924** | **96,388** | **288,618** |

# Worksharing: A tool to avoid layoffs in Ohio

Seventeen states are using a creative approach to helping employers and workers weather bad times. These programs, which allow the payment of unemployment benefits to workers at employers that shorten workweeks instead of laying staff off, can benefit Ohio workers and the companies that employ them in several ways. Employers can retain skilled employees, avoid expensive retraining and rehiring, and boost employee morale, when compared to layoffs. Employees can maintain much of their income and stay employed. A bill in the Ohio House of Representatives would establish such a program, known as worksharing.[1] Short-time compensation, as it is also called, is a well-established program in the United States, first enacted in California in the 1970s. Employer participation is voluntary. Companies must submit short-time compensation (STC) plans to the state for approval, and certify that they would lay off employees in the affected unit were it not for the reduction in hours. The Ohio bill, like the typical state program, requires that health and other fringe benefits be continued for affected employees.[2]

The program structure is fairly simple. For example, instead of laying off a fifth of the workforce, an employer could retain all of its employees, who would work four days a week. They would then receive prorated unemployment benefits for the fifth day, which would equate to half their usual pay, up to a maximum. For most employees, this would mean receiving 90 percent of their former pay while working one day less a week. For instance, a worker who had earned $750 a week would work four days and receive four-fifths of her regular paycheck, or $600. She would get one-fifth of the $375 weekly unemployment compensation check she would have gotten had she been laid off, or $75. Thus, altogether, she would receive $675. The amount of the UC benefit would be limited to the same maximum covering jobless workers in the regular program, pro-rated just as the benefit would be.

Worksharing offers a number of benefits for employers, as mentioned. Such plans make it easier to retain trained employees, and can allow companies to avoid hiring and training costs. By keeping employees on the payroll, employers may be more easily able to gear up when demand recovers.[3] Workers also can benefit, by avoiding layoffs and retaining health and retirement benefits. Worksharing can also help morale.[4] A flyer put out by the Rhode Island Department of Labor and Training highlights those and other benefits of its program:

- "Workers keep their jobs and maintain economic security
- Employers retain skilled and trained workers
- Workers continue to receive company benefits
- Employers avoid the time and expense of training new employees

George Wentworth of the National Employment Law Project and Laura Abu-Absi of the Ohio Department of Job & Family Services provided invaluable assistance in allowing this brief to be written. However, the author takes sole responsibility for the contents.

[1] House Bill 432, available at http://www.legislature.state.oh.us/bills.cfm?ID=128_HB_432
[2] Shelton, Alison M., Congressional Research Service, "Unemployment Compensation: Short-Time Compensation and Compensated Work Sharing Arrangements," July 2, 2009, p. 2
[3] "Work Sharing Unemployment Insurance Program," Fact Sheet of the California Economic Development Department.
[4] Greenhouse, Steven, "Work-Sharing May Help Companies Avoid Layoffs," *The New York Times*, June 15, 2009

- Workers maintain employment skills and remain available for advancement opportunities
- Employers avoid disruption in business operations and can respond quickly as business improves."[5]

Seventeen states currently offer short-time compensation as a part of their unemployment compensation systems; six more now are considering doing so.[6] Use of these programs has been quite small in the past, but has surged during the recession. Eight states that responded to a survey last year by the Ohio Department of Job & Family Services about their STC programs all said they had seen major growth lately.[7]

Comprehensive data on all states with STC programs for all years is not available. However, fifteen states reported on the number of STC beneficiaries last year to the U.S. Department of Labor. Altogether, some 288,618 individuals participated in one of these states' programs last year, nearly triple the number from the year before.[8] Figure 1 shows how the number of participants has increased, according to data from DOL and the Congressional Research Service. The data is somewhat incomplete, but it is clear that the program has grown sharply:[9]

[5] Rhode Island Department of Labor and Training, "Do You Want to Keep Your Skilled Workers? Learn about WorkShare,"

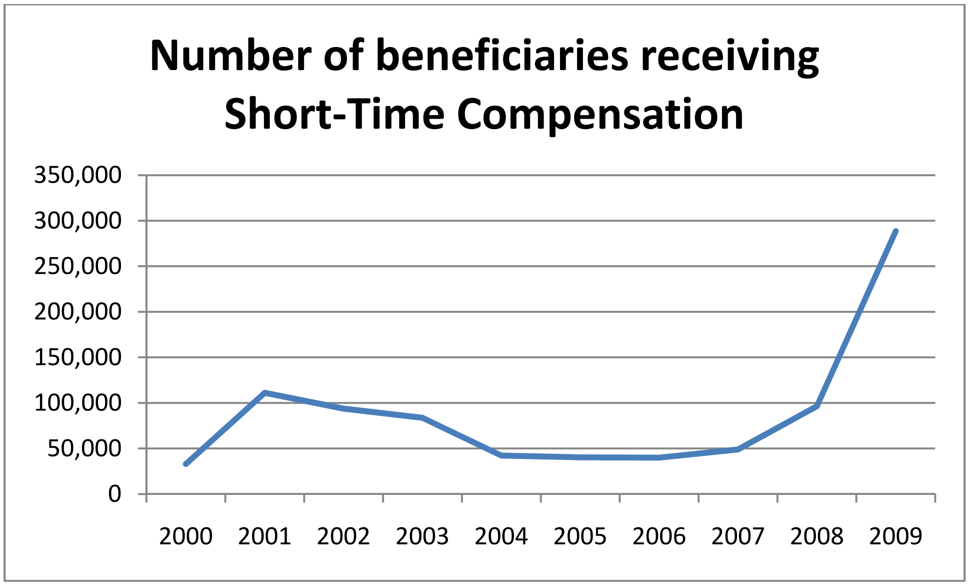
[6] National Association of State Workforce Agencies, Testimony submitted by Karen Lee, NASWA President and Commissioner of the Washington State Employment Security Department, to the Senate Finance Committee, April 14, 2010, available at http://finance.senate.gov/hearings/hearing/?id=868a8e37-5056-a032-5297-a991437cea80

[7] Ohio Survey of States Currently Offering Short-Time Compensation (AKA-Work Sharing) Programs, received from Laura Abu-Absi, Ohio Department of Job & Family Services, Data collected August-September 2009

[8] Data on the number of participants in Iowa, one of the 15 states, wasn't available in 2008. Iowa accounted for 4,928 of the total participants in 2009.

[9] Data for 2006 to 2009 received from Scott Gibbons, U.S. Department of Labor, March 29, 2010. Data for previous years from Congressional Research Service, op. cit., p. 4 (CRS data also originated at the Department of Labor). DOL figures shown above do not include data for Iowa in 2007 and 2008 and for Arkansas in 2006. However, it is clear that participation in these states has grown. These data also do not include the number of beneficiaries for Connecticut and Maryland in 2009, where the program also grew substantially over this time period. But even excluding those states in both 2008 and 2009, the number grew from 96,388 to 283,690. Data from CRS also excludes certain states for certain years.

Figure 1



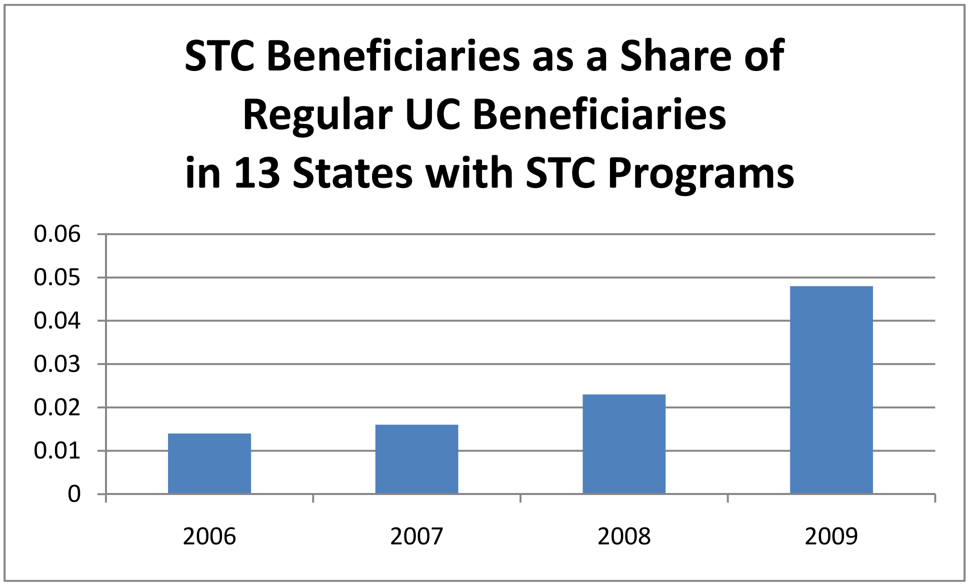

Source: U.S. Department of Labor, Congressional Research Service.

Overall, there was more than one STC participant for every 22 regular UC recipients in these states last year. Hypothetically, if Ohio had an STC program that gained as many participants as the average state program – 4.66 percent as many as the total of regular state UC recipients in the 15 states for which the DOL has data – then there would have been more than 23,000 Ohioans participating in 2009.[10] The number of layoffs prevented would have been a proportion of that, but clearly, thousands of Ohioans who otherwise would have been laid off would instead have been working. Figure 2 includes data from 13 states for which data was available for all four years.[11]

[10] This is based on the total of 503,921 Ohioans who received state unemployment compensation benefits in 2009. See Ohio Department of Job & Family Services, Summary of Activities under Regular Ohio Unemployment Compensation Law, December 2009, available at http://ohiolmi.com/asp/uc/OP_RPTS.ASP

[11] In the 13 states included in this chart, the 2009 percentage receiving STC benefits was slightly higher, at 4.8 percent. As stated above, states with programs that are not included in this chart are Arkansas, Connecticut, Iowa and Maryland.

Figure 2




Source: U.S. Department of Labor, Policy Matters Ohio calculations

In Washington state, for instance, the number of approved employer short-time compensation plans increased from 621 in 2008 to 2,800 in 2009, according to Karen Lee, commissioner of the state's Employment Security Department.[12] Washington expanded its program and outreach for it last year. "All over the state, business owners have told us how important the shared work program is to them and their employees," Lee said. Rhode Island has been the most active promoter of STC. Use there has exploded, with more than one STC participant for every seven regular UC recipients in 2009. *The Providence Journal* reported last spring that businesses participating there included banks, mortgage brokers, car dealerships, manufacturers, law firms and doctors' offices.[13] States such as Florida, Connecticut and California have found that manufacturers are the largest users of their short-time compensation programs.[14] Last year, there were 92,482 participants in the California program.[15] Table 1 shows how the number of participants in the program grew by state between 2006 and 2009:

[12] Lee testimony to the Senate Finance Committee, op. cit., p. 7.
[13] Gedan, Benjamin N., "WorkShare helping workers and employers," *The Providence Journal*, May 22, 2009, available at http://www.projo.com/news/content/RI_WORKSHARE_05-22-09_LEEF91B_v126.4045f72.html quoted in Shelton, "Unemployment Compensation: Short-Time Compensation and Compensated Work Sharing Arrangements," p. 6.
[14] Hoffman, Debbie, Florida Agency for Workforce Innovation, "Short-Time Compensation (STC) Program," p. 7; George Wentworth, National Employment Law Project, "The Connecticut Shared Work Program and the Future of Short-time Compensation," U.S. Department of Labor Recovery and Reemployment Research Conference, Washington, D.C., Sept, 16, 2009, and Shelton, op. cit., p. 6.
[15] DOL data from Gibbons, op. cit.

Table 1

| Short-time compensation participants | | | | |
|---|---|---|---|---|
| | **2006** | **2007** | **2008** | **2009** |
| AR | - | 139 | 1,321 | 2,299 |
| AZ | 921 | 1,577 | 2,311 | 8,658 |
| CA | 12,439 | 17,845 | 30,298 | 92,482 |
| FL | 293 | 397 | 1,735 | 5,265 |
| IA | 5 | - | - | 4,928 |
| KS | 1,286 | 1,849 | 12,040 | 15,585 |
| MA | 2,167 | 1,872 | 2,740 | 19,854 |
| MN | 1,443 | 2,120 | 3,624 | 14,173 |
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| RI | 1,643 | 1,846 | 3,750 | 8,809 |
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| WA | 998 | 1,756 | 6,393 | 19,182 |
| **Total** | **39,854** | **48,924** | **96,388** | **288,618** |

Source: U.S. Department of Labor

There is no requirement that any employer use this program; it's entirely voluntary. States have often adopted short-time compensation programs at the urging of employers. "Employers who have used STC were generally satisfied with the program," concluded a 1997 report for the U.S. Department of Labor that is the most recent national study of the program.[16]

Short-time compensation is funded by employers in the same fashion as regular unemployment benefits: Tax rates rise on employers based on the payout of benefits to their laid-off employees. If an employer reduced work hours by one day a week instead of laying off a fifth of its employees, a roughly equivalent amount of benefits is likely to be paid. If the amount turns out to be any larger, say because benefit levels for senior workers are higher than those of younger workers who might have lost their jobs altogether, that will be reflected in the tax rates paid by the employer. Thus, short-time compensation programs don't threaten the solvency of state unemployment compensation trust funds. That was the conclusion of the 1997 federal study.[17]

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[16] Berkeley Planning Associates and Mathematica Policy Research Inc., *Evaluation of Short-time Compensation Programs -- Final Report*, Submitted to the U.S. Department of Labor, Employment and Training Administration, p. iii, available at http://wdr.doleta.gov/owsdrr/97-3/, p. iii

[17] Ibid, p. 8-6. The study concluded that, "As it currently operates, STC does not appear to threaten the solvency of State Unemployment Trust Funds." Firms using STC incurred higher tax rates to pay for benefits incurred. The study said it was "possible that Trust Fund impacts could be more serious if STC participation rates were much higher and overall shifts in tax schedules were constrained." However, none of the states that responded to the ODJFS survey last year cited a negative impact.

The Department of Job & Family Services has said on a preliminary basis that computer programming required by the adoption of a worksharing program may cost $2 million to $3 million.[18] Where will this money come from? One possible source is the Unemployment Compensation Special Administrative Fund, a fund which takes in interest and penalties on unemployment taxes that were not paid on time, as well as court costs and interest collected in connection with repayment of fraudulently obtained benefits. The SAF generates about $9 to $10 million a year, about a quarter of which is used to support the body that handles UC appeals. The SAF balance would more than allow for such spending.

The 1997 federal study noted that, "Several state employment security agencies have developed strategies to automate and streamline the processes for STC plan filing, plan approval, and the filing of ongoing claims. These efforts appear to have reduced the administrative costs of STC programs for both employers and state employment security agencies."[19] Massachusetts operates a web-based program under which employers submit their plans over the Internet, and if approved, continue to submit claims information and payment vouchers on a weekly or biweekly basis.[20] ODJFS estimated preliminarily last November that it would need three to four full-time-equivalent employees to administer the program on an ongoing basis. As with other unemployment compensation programs, Ohio should receive funds from the federal government for administrative costs.[21]

There is good reason to initiate this program now, even if recent data show modest improvement in the national employment picture. Unfortunately, while the levels of new layoffs may have fallen from earlier, they are still high. During January and February, a total of more than 87,000 Ohioans got their first unemployment compensation checks.[22] The governor's Council of Economic Advisers predicted in March that the unemployment rate would average 10.7 percent this fiscal year and 10.5 percent next fiscal year.[23] Ohio is likely to see a high rate of unemployment for some time to come. And even in good times, some employers experience down cycles. It is worthwhile to initiate a short-time compensation system so that employers have this option available.

Like STC programs in other states, House Bill 432 requires that the union approve a company's worksharing plan if there is a collective bargaining agent. In Connecticut, employers must post notice to workers that they are contemplating a worksharing plan, and employee comments are supposed to be collected and shared with the state workforce agency.[24] Thus, workers in nonunion companies also would have a say. This could be adopted as a proviso in the rules to the Ohio plan, as is the case in Connecticut.

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[18] E-mail from Laura Abu-Absi, Legislative Liaison, Ohio Department of Job & Family Services, Feb. 5, 2010, and interview with Sara Hall Phillips, Acting Deputy Director, Office of Unemployment Compensation, March 24, 2010. ODJFS is taking a closer look at this and expects to learn more shortly.

[19] Berkeley Planning Associates and Mathematica Policy Research Inc., op. cit., p. ii-iii.

[20] Conversation with Luz Cepeda, Massachusetts Department of Labor and Workforce Development, Division of Unemployment Assistance, March 23, 2010

[21] No studies have attempted to quantify STC's net administrative cost to states, according to the Congressional Research Service study (p. 7).

[22] Ohio Department of Job and Family Services, Summary of Activities under Regular Ohio Unemployment Compensation Law, January and February 2010, at http://ohiolmi.com/asp/uc/OP_RPTS.ASP

[23] "Governor's Economic Advisors Continue to See Slow Recovery," Gongwer News Service, Ohio Report, Vol. 79, Report #46, March 10, 2010.

[24] Conversation with George Wentworth, National Employment Law Project, and former director of program policy, Connecticut Department of Labor, March 19, 2010

A clause should be added to the bill that employers must be current on their unemployment tax obligations to the state in order to participate in a shared work program. It should also ensure that a worker who gets a second job should not be excluded from the program for that reason.

Workers participating in short-time compensation plans also could receive training to improve their skills. Under the 1992 federal law that permanently authorized states to have short time compensation plans, workers in such programs "may participate in an employer-sponsored training program to enhance job skills if such program has been approved by the State agency."[25]

Economist Mark Zandi testified in Congress this month that the wider adoption of work-share programs "…would help address persistent stresses in the job market." He called for federal support of such programs.[26] A bill proposed by Sen. Jack Reed (D-R.I) would set federal requirements for STC programs, provide assistance to states for them, and clarify technical issues regarding STC.[27]

Wayne Vroman, one of the nation's preeminent researchers of unemployment compensation, reviewed the use of short-time compensation around the world in a recent paper with a co-researcher and concluded: "This policy has the potential to preserve existing jobs and reduce employment losses in the current global crisis. The societal gains that flow from increased employment retention include enhanced income stability of affected persons and families, reduced open unemployment, and reduced training costs. Furthermore, STC shares the economic hardship of a recession among workers, employers, and governments."[28] In 2008, Vroman suggested that Ohio consider implementing a worksharing program as a part of recommendations he made to ODJFS after studying the Ohio UC system, its solvency and benefits.[29]

Short–time compensation is no panacea, and will only appeal to some employers. It does not prevent employers from laying off workers later. However, it provides an opportunity that Ohio employers should be permitted to make use of, with the proper safeguards, and for some, it will be a means to avert layoffs. Policy Matters recommends that Ohio lawmakers approve House Bill 432 because of its potential to benefit some employers and some workers in difficult times.

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[25] Cited in U.S. Department of Labor, Employment and Training Administration, Unemployment Insurance Program Letter No. 45-92, Aug. 20, 1992

[26] Testimony of Mark Zandi, Chief Economist, Moody's Analytics, before the Senate Finance Committee, April 14, 2010, available at http://finance.senate.gov/imo/media/doc/041410mztest.pdf

[27] See Wentworth, "The Connecticut Shared Work Program and the Future of Short-time Compensation," op. cit., and Jane Oates, Assistant Secretary for Employment and Training, U.S. Department of Labor, Statement before the U.S. Senate Committee on Finance, April 14, 2010, p. 8. In her testimony, Oates noted the huge increases in STC use and said states should be encouraged to adopt STC provisions. However, she also noted that a technical fix to the federal law is needed, which would make clear, for instance, that a state could condition approval of an STC plan on whether the employer continues to provide health coverage and other benefits.

[28] Vroman, Wayne and Vera Brusentsev, "Short-Time Compensation as a Policy to Stabilize Employment," November 2009, p. 1

[29] Vroman, Wayne, Solvency Recommendations for Ohio, July 10, 2008, pp. 13-14. According to Vroman's 2008 report on benefits, "Based on experiences in other states, worksharing in Ohio would be expected to serve a small client base. However, the program would provide some employers with an alternative to layoffs for making workforce adjustments in periods of weak demand." Wayne Vroman, Analysis of UI Benefits in Ohio, May 30, 2008, p. 19

Policy Matters Ohio is a non-profit, non-partisan research institute dedicated to researching an economy that works for all in Ohio. Policy Matters seeks to broaden debate about economic policy by providing research on issues that matter to Ohio's working people and their families. Areas of inquiry for Policy Matters include work, wages, and benefits; education; economic development; energy policy; and tax policy. Generous funding comes from the Joyce, Gund, Cleveland, Public Welfare, KnowledgeWorks, New World, Annie E. Casey, Sisters of Charity and W.K. Kellogg Foundations, the Economic Policy Institute, and Greater Cleveland Community Shares. To those who want a more fair and prosperous economy... Policy Matters.

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