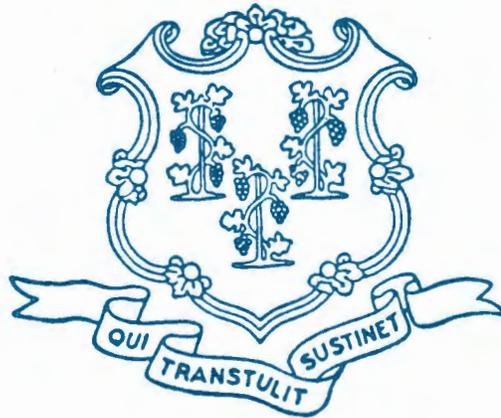


**Connecticut General Assembly**



**Joint Legislative  
Program Review Committee**

**Report On  
Connecticut State Unemployment  
Compensation Program**

**September, 1975**

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CONNECTICUT GENERAL ASSEMBLY  
JOINT LEGISLATIVE PROGRAM REVIEW COMMITTEE

Report on

CONNECTICUT STATE UNEMPLOYMENT COMPENSATION PROGRAM



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## Introduction

This report of the Legislative Program Review Committee discusses two major issues: the financing of the state's Unemployment Compensation Program and the efficiency and effectiveness of the Employment Security Division of the Connecticut Labor Department.

The Committee has concerned itself with the issues of financing and eligibility requirements for the Unemployment Compensation Program, which were first treated in the Committee's Preliminary Report on the Financing of Connecticut's Unemployment Compensation Program. Since the publication of the Preliminary Report in April, 1975, the Committee and its staff have examined additional issues in these areas. The new material can be found in the Financing and Eligibility chapters of this report, along with material from the Preliminary Report.

The Committee reaffirms its earlier position that new sources of revenue are needed to pull the unemployment compensation fund out of its current bankrupt state, and that current eligibility standards must be tightened up to ensure that only those persons who have lost their jobs through no fault of their own be eligible for benefits.

Because of the recession economy this state is currently experiencing, the Legislative Program Review Committee believed it was especially timely to study the activities

of the Connecticut Labor Department's Employment Security Division (ESD). The Committee felt that it was appropriate to determine how well this Division is meeting the needs of the public at a time when public needs are at a record high level.

The Employment Security Division operates two major programs: Unemployment Compensation (UC) and Employment Services (ES). The UC program provides temporary financial assistance to eligible persons who have lost their jobs, and the ES program attempts to place people in suitable jobs or job training programs.

The administration of both the UC and ES programs is totally Federally financed. Unemployment Compensation benefits are paid out of a state unemployment compensation fund, which is financed by a payroll tax on state employers. The rate of this tax, as well as certain benefit eligibility standards, is set by state law.

Because of the source of administrative funds, Federal guidelines (based on the experience of all states) have been established to direct the ESD's numerous activities. Budget requests that influence staffing patterns, internal operations, and policy must be approved at the Federal level. Several of the Legislative Program Review Committee's recommendations will require discussion with Federal officials, and the implementation of some recommendations is dependent upon Federal cooperation.

Audits of the Employment Security Division are made by appropriate Federal and state officials. The Division is supervised on both the Federal and state levels and is responsible to both levels of government. This monitoring on the two levels contributes in part to the high degree of management efficiency the Committee observed while studying the Employment Security Division.

In assessing the operation of the ESD, the Legislative Program Review Committee sought to answer three basic questions: (1) Are ESD programs operating effectively to meet the needs of Connecticut citizens? (2) Are ESD programs operating efficiently to obtain maximum results from available resources? and (3) Are ESD programs operating according to legislative intent?

In order to find answers to these questions, the Legislative Program Review Committee and its staff spent four months gathering and analyzing information about ESD activities. State and Federal statutes were examined and studied. The Committee held two full-day public hearings on Unemployment Compensation to gain the perspectives of government, business and labor officials, and private citizens on possible solutions to UC problems. Numerous interviews with ESD staff, business leaders, and labor representatives were held. A survey was sent to a representative sample of UC recipients to gain their views on ESD services. State employers were also surveyed to obtain

their opinions on the Connecticut State Employment Service. The Committee also contacted members of the ESD Advisory Council to determine how that group contributes to the operation of the ESD.

On the whole, the ESD was found to operate its programs in a manner that is effective, efficient, and adheres to legislative intent. The ESD is striving, and in most cases succeeding, to provide services to all Connecticut citizens who need them in a timely and adequate manner. The ESD is to be congratulated for its achievements in this area.

There is however, substantial room for improvement. Services to clients in the ESD program can, for example, be improved by providing more job counseling for those unsure of their interests and skills. Efforts to discover and recover overpayments to UC claimants should continue to be expanded, and the role of the ESD Advisory Council should be thoroughly examined.

The Legislative Program Review Committee wishes to acknowledge the assistance of the staff of the Connecticut Labor Department in the preparation of this report. During the course of this study, they have provided the Committee and its staff with all information requested. The Legislative Program Review Committee thanks Commissioner Frank D. Santaguida and his staff for their cooperation.



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Chapter I

FINANCING CONNECTICUT'S UNEMPLOYMENT COMPENSATION PROGRAM

Revising Taxation Schedules

Repayment of Federal Loans: the Impact of Recent  
Changes in Federal Unemployment Compensation Laws

Changes in Unemployment Compensation Laws Made by  
the 1975 General Assembly

Pooling of Non-Charged Benefits

A Review of Experience Rating Formulas

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## Chapter I

### FINANCING CONNECTICUT'S UNEMPLOYMENT COMPENSATION PROGRAM

This chapter deals with various methods of restoring and maintaining the solvency of Connecticut's unemployment compensation fund. We have pointed out the strengths and weaknesses of each alternative and have presented recommendations regarding what we believe to be the most appropriate method of financing our Unemployment Compensation Program.

Connecticut's unemployment compensation fund is currently in serious financial trouble. For the past three years, this state has paid out more in unemployment compensation benefits than it has collected in unemployment compensation taxes from employers. To pay benefits to all eligible applicants, the state has had to borrow over \$160 million from the Federal government since 1972. Additional loans are planned, since continuing high unemployment means that benefits paid out will exceed taxes collected this year by an estimated \$111.6 million. The financial difficulty of the unemployment compensation fund is clearly becoming worse.

Two categories of proposals that would restore and maintain the solvency of the unemployment compensation fund have been presented to the General Assembly. The first category assumes that the fund is in a deficit because employer taxes have been set at unrealistically

low levels.

The second category of proposals assumes that if the number of people collecting benefits were reduced, the fund would not be in its present poor condition. These proposals would increase the fund balance by tightening up eligibility requirements, thereby reducing the number of people eligible to collect benefits.

Each of these categories of proposals has its merits, as well as some drawbacks. The following material discusses these points, and presents a feasible method of reforming our financing system.

In determining which method of financing to recommend, the Committee used several basic criteria. The new method of financing should:

- (1) bring in enough revenue to pay benefits to all eligible applicants without having to borrow money from the Federal government;
- (2) have a flexible rate schedule that would allow higher rates to be imposed when the fund balance is extremely low and to be withdrawn when the fund balance returns to a normal level; and
- (3) be reasonably easy to administer.

#### Revising Taxation Schedules

#### Imposition of the "Flat Rate"

One reform which several labor organizations have suggested to the Joint Committee on Labor and Industrial

Relations is to replace the present benefit-ratio system of unemployment compensation tax, which bases an employer's tax rate on the amount of benefits his ex-employees collect. These groups suggest that the General Assembly adopt a flat rate system which would require a uniform tax from all employers regardless of the amount of benefits paid to their ex-employees.

Proponents argue that this system would assist the recession-prone employers (who now are required to pay the highest rates) by raising the more stable employers' rates and lowering the recession-prone employers' rates. It is felt that by equalizing rates among all employers, the state would reduce the risk of some recession-prone employers' going out of business due to extremely high unemployment taxes.

Labor groups have suggested a 2.7% flat tax rate for all employers, and have also suggested raising the wage base on which these taxes are computed from \$4200 to \$8000. Connecticut Labor Department revenue projections indicate that this proposal would bring in approximately \$197 million in taxes in 1975 and about another \$200 million in 1976. With an estimated \$280.1 million in benefits to be paid in 1975, and \$185 million in 1976, the combined two year deficit would still be over \$68 million. This must be added to our debt up to 1974 of over \$62 million.

It is especially interesting to note that even employers with very high tax rates do not favor the flat rate system, though they would stand to benefit from it. They appear to believe that better economic times are coming and that with reduced layoffs they will return to paying the lower tax rates.

Because this proposal falls so short of producing needed revenues, even with an extremely high wage base, and because the Committee believes that a departure from the merit rating system is not in the best interest of employers, the Legislative Program Review Committee does not recommend the approval of this proposal.

#### Imposition of Higher Tax Rates

The "easiest" way to raise additional funds for the unemployment compensation fund is to raise taxes.

In most states, including Connecticut, employers are required to pay two types of state unemployment compensation taxes: a basic tax and an additional tax. Both taxes are levied on an employer's annual taxable wage base, which is \$4200 per employee in most states. (The 1975 Connecticut General Assembly raised the base in Connecticut from \$4200 to \$6000, retroactive to January 1, 1975.)

The basic tax is a "charged tax," which varies from employer to employer based on the amount of unemployment compensation benefits the firm's former employees have

collected. This tax is based on the merit-rating principle, which holds that firms whose former employees are collecting the most unemployment compensation benefits should pay the highest tax rates.

The additional "fund balance" or "solvency" tax is uniform for all employers and is charged only when the balance of the unemployment compensation fund goes below or above a certain "trigger" level. Solvency tax rates vary depending on how low the balance in the fund becomes; the lower the balance, the higher the solvency tax. (During periods when the fund balance is extremely high, a "negative" fund balance tax reduces the charged tax.)

Two proposals for increasing tax rates were considered by the 1975 General Assembly. Both of these proposals were endorsed by the Legislative Program Review Committee in its Preliminary Report on the Financing of Connecticut's Unemployment Compensation Program published in April, 1975.

The first proposal considered was to increase the minimum charged tax rate from 0.5% to 1.0% of the employer's taxable payroll. The Committee noted in its Preliminary Report that the adoption of this proposal would bring in an additional \$6.6 million in 1975 and \$7.1 million in 1976, assuming it were based on the old \$4200 wage base. If the wage base were raised to \$6000 as recommended by the Legislative Program Review Committee, the proposal would generate an additional \$8.9 million in 1975 and \$11.1 million in 1976.

A proposal to increase the maximum fund solvency tax from 0.9% to 1.0% of the employer's taxable payroll was also considered by the 1975 Assembly. Projections contained in the Preliminary Report indicated that the adoption of this change would raise an additional \$4.3 million in 1975 and \$4.6 million in 1976, if the \$4200 wage base were retained. If the Assembly moved the wage base to the recommended \$6000, \$5.8 million in 1975 and \$6.1 million in 1976 could be expected in additional revenue.

The 1975 General Assembly rejected legislation to raise the minimum charged tax rate from 0.5% to 1.0%, but did enact a bill that raised the fund solvency tax from 0.9% to 1.0% and raised the taxable wage base from \$4200 to \$6000, retroactive to January 1, 1975. The adoption of these three changes is expected to bring in about \$48.3 million more than would have been collected in taxes had the previous wage base and tax rates been retained.

The Legislative Program Review Committee believes that the adoption of these changes is a definite move in the right direction, but that these changes alone are not strong enough to solve our financial crisis. Even with the increases voted by the General Assembly this year, benefit payouts will exceed taxes collected by some \$111.6 million in 1975, and \$16.2 million in 1976, and \$21.9 million in 1977. Connecticut will be forced to continue to borrow from the Federal government in order to pay benefits to

all eligible applicants, and our debt will reach \$211.7 million by the end of 1977.

It is clear that additional taxes, or more restrictive benefit eligibility standards, or a combination of both measures are needed to resolve the financial crisis faced by Connecticut's unemployment compensation fund. Further discussion of Committee recommendations for such changes are contained in the following sections.

#### Making the Fund Solvency Tax More Responsive to Changes in the Unemployment Rates

The current trigger for the imposition of the fund solvency tax appears to be unreasonably low. In order for the current maximum fund solvency tax of 1.0% to be imposed, the balance in the unemployment compensation fund must be below \$38 million. This would mean that the fund could currently pay out less than five weeks' benefits, since we are currently paying out benefits at the rate of a little over \$8 million weekly.

The current fund balance trigger for the minimum fund solvency tax of 0.1% to go into effect is \$231 million, which is about 29 weeks worth of benefits at current payment rates.

A "negative fund balance tax," which has the effect of reducing the employers' charged tax rate, takes effect when the fund balance reaches \$273 million.

It is clear that the maximum fund solvency tax should be

implemented prior to the emergency situation which a \$38 million fund balance represents. The newly approved 1.0% tax cannot raise revenue fast enough to meet a deficit of over \$160 million. The fund solvency tax, therefore, should be imposed as a measure to prevent a deficit, rather than to cure one.

The Legislative Program Review Committee believes that the state unemployment compensation fund should contain between one and 1.5 times the dollar amount of benefits paid out during the worst experience year, a "Reserve Multiple Minimum" formula which the Federal government has recommended to the states for some time.<sup>1</sup>

Using this formula as an ideal, the lowest fund solvency tax rate would go into effect when the fund balance falls below 1.5 times the dollar amount of benefits paid out during the worst experience year; the highest fund solvency tax would go into effect when the fund balance is below one times that amount. Negative fund solvency tax rates could be used once the balance in the fund surpassed the 1.5 level.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD ADOPT THE FOLLOWING REVISED FUND BALANCE TAX RATE TABLE: (SEE SECTION 31-225a(d) OF THE CONNECTICUT GENERAL STATUTES.)

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<sup>1</sup> The Federal government's "reserve multiple minimum" of 1.5, in addition to taking into consideration the worst cost experience, also takes into consideration changes in liability as gauged by the growth in total wages that have occurred since the reference period.

FUND BALANCE TAX RATE TABLE

If Fund Solvency  
Ratio is:

Add the Following Fund  
Balance Tax Rate To  
Employers' Charged Tax Rate

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5.5% or less	1.0%
5.6% - 5.7%	.9%
5.8% - 6.0%	.8%
6.1% - 6.3%	.7%
6.4% - 6.6%	.6%
6.7% - 7.0%	.5%
7.1% - 7.2%	.4%
7.3% - 7.5%	.3%
7.6% - 7.8%	.2%
7.9% - 8.1%	.1%
8.2% - 8.4%	0
8.5% - 8.7%	-.1%
8.8% - 9.0%	-.2%
9.1% - or more	-.3%

The Legislative Program Review Committee believes that the adoption of this revised tax table will work to prevent the unemployment compensation fund from incurring the unreasonably high deficits it has incurred over the past several years.

Imposition of a New Emergency Tax

Since it is clear that even with the additional taxes

voted by the 1975 General Assembly, Connecticut will continue to be unable to pay benefits to all eligible applicants without resorting to loans from the Federal government. Connecticut's debt to the Federal government, already over \$160 million, will rise to some \$211.7 million by the end of 1977. This type of fiscal crisis should be considered an emergency situation.

The Legislative Program Review Committee believes that a special, temporary "emergency tax" should be adopted by the General Assembly in order to deal with this crisis. The tax should be designed to bring in the additional revenue which the unemployment compensation fund needs so badly in times of economic recession, but should be flexible enough to be withdrawn when the fund is at "parity" level (contributions equal to benefit payouts) or above (contributions more than benefit payouts). This "emergency tax" would be triggered as of January 1st of any year if the dollar amount of taxes paid by employers fell below the dollar amount paid out in benefits during the previous year.

In order to allow Connecticut employers sufficient lead time to budget for this new tax, the Legislative Program Review Committee believes that the earliest effective date for this tax should be January 1, 1977.

Assuming the Legislative Program Review Committee's complete package of increased taxes and restricted eligibility

standards is adopted, it is unlikely that the emergency tax would be imposed in 1977, since 1976 benefit payouts would be less than taxes collected. However, in 1977, benefits paid are likely to exceed taxes collected, so the 0.5% emergency tax would be triggered "on" as of January 1, 1978. Tax revenues in 1978 are predicted to exceed benefit payouts, so the tax would be triggered "off" as of January 1, 1979, and would not be re-imposed in the foreseeable future.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD ADOPT A SPECIAL TEMPORARY EMERGENCY TAX OF 0.5% WHICH WOULD BE TRIGGERED AS OF JANUARY FIRST OF ANY YEAR IF THE DOLLAR AMOUNT OF TAXES PAID BY EMPLOYERS WAS BELOW THE DOLLAR AMOUNT PAID OUT IN BENEFITS DURING THE PREVIOUS CALENDAR YEAR.

THE INITIAL EFFECTIVE DATE OF THIS LEGISLATION SHOULD BE JANUARY 1, 1977.

#### The Taxable Wage Base in Connecticut

The taxable wage base in Connecticut at present is \$6000, although \$4200 is the standard provided in the Federal Unemployment Tax Act (FUTA), and is the current base in most states. Seven states, (Alaska-\$10,000; Hawaii-\$7300; Michigan-\$4800; New Jersey-\$4800; Oregon-\$5000; Connecticut-\$6000; and Washington-\$6000) have set a wage base higher than the Federal standard.

Four states (Hawaii, North Dakota, Washington, and New Jersey) use some form of "escalating wage base," a base computed as a percentage of state average wages. In Hawaii, the first state to use an escalating wage base (1964), the base is computed annually at 90% of the state's average annual wage for the fiscal year. The base in North Dakota is set at the FUTA standard and is now in effect. If the level of the fund falls below 1.5 times the highest amount of benefits paid in any year, the base is then computed as 70% of the state's annual average wage with a maximum limit of \$100 over the preceding year's base. Washington's wage base amount is also related to the fund level. If the fund is less than 4.5% of total annual payrolls, the base increases \$600, not to exceed 75% of the state's average annual wage for the second preceding calendar year. Effective January 1, 1976, the wage base in New Jersey will be computed annually at 28 times the statewide average weekly wage.

Calculating the taxable wage base as a percentage of average wages has an historical basis. In 1938, the Federal government set the wage base at \$3000. At that time the \$3000 wage base was 90% of the taxable payrolls of covered employers.

Unemployment insurance benefits in Connecticut are calculated on employees' earnings. The maximum benefit amount is determined each year as 60% of the average

annual production worker's wage. Since employee earnings increase yearly, benefits paid to unemployed workers increase accordingly.

Contributions made by employers are calculated by multiplying the tax rate by the total taxable payroll (the taxable wage base times the number of employees). Since contributions are collected on a taxable wage base that remains constant at a relatively low amount, tax rates must increase to supply the additional revenue necessary to meet increased benefit payments. By keeping the tax base low, unrealistically high maximum rates must be levied when unemployment is high. According to Eugene C. McKean, "... a taxing system which is based on employers' payrolls should levy its tax on a substantial portion of those payrolls each year rather than on a constantly diminishing portion of them."<sup>2</sup>

The underlying concept in using a merit rating system like Connecticut's benefit ratio system is that an employer's contributions will equal what is paid out in benefits to his unemployed workers. Obviously, the system is not operating with total efficiency in Connecticut, since many employers who are paying maximum tax rates of 5.9% are still in a deficit situation. Their contributions are not covering the cost of paying benefits to their ex-employees. Employers with little or no unemployment

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<sup>2</sup> Eugene C. McKean, The Taxable Wage Base in Unemployment Insurance Financing (Kalamazoo, Michigan: Upjohn Institute for Employment Research, 1965), p. 92.

experience are currently paying the minimum tax rate of 1.4%. In effect, stable employers are subsidizing the unstable employers.

The advantage to raising the wage base a substantial amount rather than constantly raising tax rates lies in the fact that under a higher wage base, the given tax structure remains effective longer. There is more stability in the program and less need for legislative revision. Such revision of tax schedules can be a complex and lengthy procedure. Also, tax schedule revisions often result in a compromise, since affected employers have divergent interests and will therefore advocate tax schedules that provide the greatest advantage to their individual concerns. Adherence to merit-rating principles may suffer because of this.

An escalating wage base, one that rises as the average covered wage rises, has the most flexibility since it is automatically adjusted to keep pace with changes in earnings, the computation basis for benefits. An escalating wage base can give, for all practical purposes, indefinite financial stability to an unemployment insurance program. The Committee was interested in the notion of an escalating wage base when the Preliminary Report was being prepared, but felt time was not then available to give proper consideration to the matter. Further study has been conducted and findings and final

recommendations concerning an escalating wage base appear later in this chapter.

#### Projected Yields from Suggested Wage Bases

A chart, in the appendix of this study, developed from the Connecticut Department of Labor estimates, shows total yields from various suggested taxable wage bases alone and in combination with possible tax rate increases. It can be seen from these figures that it is impossible using the given information, to reach fund solvency this year.

The goal of achieving fund solvency must be met, but impact of higher unemployment compensation taxes on Connecticut employers must be considered as well.

Any increase in taxes on employers will increase production costs. Substantial tax increases in Connecticut could place state employers in a non-competitive position with regard to out-of-state employers. By imposing higher unemployment compensation tax rates and a higher taxable wage base the fund could reach an adequate level. But the competitive position of Connecticut firms with respect to product prices could be seriously impaired.

Projections of unemployment rates, benefit payouts and contribution amounts decrease in reliability for years beyond 1976. It is more practical to speak in terms of trends when discussing these figures for the future. If it is decided to postpone reaching fund solvency for several years, it is necessary to estimate

future unemployment conditions.

The Department of Labor has provided rough estimates of the expected unemployment rates and benefit payouts in 1977 and 1978. In 1977, an unemployment rate of 6% is predicted and benefit payouts may reach \$191.0 million. A 5.3% unemployment rate is estimated for 1978, with benefit payouts dropping to \$163.0 million.

These estimates show an improved economic picture for the next few years. If they hold true, a \$6000 wage base with increased tax rates could bring the fund to a parity situation in 1976.

It should be remembered that none of the suggested wage base-tax rate schedules that appear in the appendix chart produces enough money to build up the reserve to an adequate level or to pay back the Federal debt in a short time span. Without an adequate reserve, the maximum fund balance tax rate (solvency tax) will be in effect until a substantial fund level is reached. Building an adequate reserve, even in better future economic conditions, will take a number of years. If unemployment rates and benefit payout amounts approach Connecticut's current levels in the near future, Connecticut may again find it necessary to borrow large sums from the Federal government.

#### Escalating Wage Base: Additional Considerations

The Legislative Program Review Committee has given

further consideration to the notion of an escalating wage base since the Preliminary Report on the Financing of Connecticut's Unemployment Compensation Program was issued. Further study has shown that an escalating wage base would be a desirable feature in Connecticut's Unemployment Compensation financing system.

The previously mentioned flexibility of an escalating wage base would relieve the need for frequent legislative revision, and the advantages of imposing a higher taxable wage base would also accrue from an escalating wage base. The fund would have more financial stability since the wage base and benefits would be more closely related with an escalating wage base in operation. Since the maximum benefit level is calculated as a percentage of average annual wages (60% of the average annual production worker's wage), it would be logical to calculate the wage base in a similar manner. With a fixed wage base, the potential liability for benefit payouts increases as wages, and therefore benefits, increase. Unrealistic rate increases become necessary to bring in additional revenue during periods of high unemployment.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD SET THE TAXABLE WAGE BASE AT 60% OF THE AVERAGE ANNUAL COVERED WORKER'S WAGE, WHICH WOULD MEAN A DOLLAR AMOUNT OF APPROXIMATELY \$6000 IN 1976.

The projected revenue for a 60% escalating wage base would nearly equal that of a \$6000 wage base. Although the Committee previously recommended a \$6000 wage base, further study reveals that an escalating wage base set at 60% can yield approximately the same revenue with the added advantages of flexibility and responsiveness.

To prevent an escalating wage base from becoming excessive, limits on the annual increase should be set. North Dakota computes the wage base at 70% of the state annual wage not to exceed the preceding year's wage base by more than \$100. With such a limit incorporated into Connecticut's system, employers would not face an infinitely increasing wage base that could become an unreasonable tax burden.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD PROVIDE THAT THE TAXABLE WAGE BASE NOT EXCEED THE PRECEDING YEAR'S WAGE BASE BY MORE THAN \$200.

#### Repayment of Federal Loans: The Impact of Recent Changes in Federal Unemployment Compensation Law

Under legislation approved by the Congress in late June, a major change was made in the timetable for the repayment of loans from the Federal government. Connecticut, along with six other states and Puerto Rico, was given an extension of three years on the repayment of its Federal loans. This means that Connecticut employers will not

be required to pay a Federal penalty tax until 1978, as opposed to 1975, the date required under the old law. The extension in no way reduces the amount Connecticut or any other state owes to the Federal government.

This extension was designed to provide a "breathing spell" for state employers, and hopefully, during the time of the extension the economy will improve and employers will be in a better position to repay the loans.

Because the impetus to rapidly repay Federal loans in order to avoid the penalty tax is significantly reduced by the recent legislation, the Legislative Program Review Committee believes that modifications of its original recommendations on financing the unemployment compensation fund (contained in the Preliminary Report) are now appropriate. The Committee believes that the tax burden on state employers can be significantly reduced through the adoption of its balanced program of revised tax schedules and eligibility requirements.

Under current taxation schedules (as revised by the 1975 General Assembly), revenue collected will be exceeded by benefits paid out through 1977, accumulating a total debt of approximately \$211 million. This debt would be paid off through the employer penalty tax, starting with 0.3% in 1978, and rising 0.3% yearly until the tax reached a peak of 1.5% in 1982 and 1983. In 1984, no Federal penalty tax would be imposed since our debt would

be totally paid off. The repayment would cost Connecticut employers a total of about \$211 million over a six-year period.

The Legislative Program Review Committee believes that repayment can and should be accomplished more rapidly if the debt is not allowed to rise to such an enormous figure. With the disqualification of persons who quit or who were fired for cause, plus the temporary emergency tax, and an increase in the minimum charged tax rate to 1.0%, further loans would be unnecessary and the debt would be stabilized in 1975 at \$173.6 million. This debt could be repaid through a combination of the Federal penalty tax and the application of any surplus to the debt as of 1981, and still leave a surplus of approximately \$16 million in the fund, assuming no additional deficits are incurred.

The Legislative Program Review Committee believes that its original recommendation to increase the minimum charged tax rate from 0.5% to 1.0% (contained in the Preliminary Report) is now unnecessary due to the new Federal legislation which postpones repayment of loans. Even without an increase in the minimum charged rate, the Federal debt would be repaid in 1982, and a surplus of \$13.4 million would be accumulated. With the debt stabilized at the 1975 level, employers would be paying the penalty tax for a short time and it is possible that the debt would be repaid in four years. This would mean the highest

penalty tax rate paid by Connecticut employers would be 1.2%. The maximum rate, 1.5%, would never be applied.

Therefore, the Legislative Program Review Committee affirms the following recommendations:

1. THE GENERAL ASSEMBLY SHOULD ADOPT A SPECIAL, TEMPORARY EMERGENCY TAX OF 0.5% WHICH WOULD BE TRIGGERED AS OF JANUARY 1 OF ANY YEAR IF THE DOLLAR AMOUNT OF TAXES PAID BY EMPLOYERS IS BELOW THE DOLLAR AMOUNT PAID OUT IN BENEFITS DURING THE PREVIOUS CALENDAR YEAR.

(See page 11 )

CURRENT PROJECTIONS INDICATE THAT THIS TAX WOULD BE IMPOSED ONLY ONE YEAR (1978) WITHIN THE FORESEEABLE FUTURE.

THE COMMITTEE BELIEVES THAT THE ADOPTION OF THIS TAX IS MOST IMPORTANT SINCE IT WOULD BRING IN ADDITIONAL REVENUE WHICH THE UNEMPLOYMENT COMPENSATION FUND NEEDS SO BADLY IN TIMES OF ECONOMIC RECESSION. HOWEVER, IT IS FLEXIBLE ENOUGH TO BE WITHDRAWN WHEN THE FUND BALANCE RETURNS TO "NORMAL" DURING GOOD TIMES.

2. THE GENERAL ASSEMBLY SHOULD PERMANENTLY DISQUALIFY PERSONS WHO QUIT THEIR JOBS (EXCEPT IN CASES OF CONSTRUCTIVE DEPARTURE),

WERE FIRED FOR CAUSE, OR WHO REFUSE SUITABLE  
WORK FROM COLLECTING BENEFITS UNTIL THEY  
BECOME RE-EMPLOYED AND EARN TEN TIMES THEIR  
WEEKLY BENEFIT RATE. (See page 45 )

3. THE GENERAL ASSEMBLY SHOULD MAKE NO CHANGE  
IN THE MINIMUM CHARGED TAX RATE, SINCE NEW  
FEDERAL LEGISLATION MAKES THE IMPOSITION  
OF INCREASED TAXES IN THIS AREA UNNECESSARY.

Changes in Unemployment Compensation Laws Made by the 1975  
General Assembly

Public Act 525 of the 1975 Session raises the taxable wage base from \$4200 to \$6000 and raises the maximum fund solvency tax rate from 0.9% to 1.0%. Efforts to increase the minimum charged tax rate from 0.5% to 1.0% and to permanently disqualify persons who quit, were fired for cause, or who refused suitable work were narrowly defeated after a lengthy debate in the Senate.

The Legislative Program Review Committee is pleased that the General Assembly has taken these first steps towards making the unemployment compensation fund solvent, but firmly believes these steps are simply not strong enough to solve our financial crisis. Even with the new taxes authorized by this General Assembly, benefit payouts will still exceed taxes collected by about \$111.6 this year, bringing our state's total debt to over \$173.6 million.

The Committee also believes that it is unreasonable to impose additional taxes on employers without also restricting the number of persons eligible to receive benefits. The Legislative Program Review Committee reaffirms its position that persons who quit, were fired for cause, or who refused work be permanently disqualified from receiving benefits until they become re-employed and earn 10 times their weekly benefit rate.

The Committee believes that it is of vital importance to provide benefits only to those persons who are unemployed through no fault of their own, and that it is unfair to expect employers to subsidize persons who left their jobs through their own actions. (See page 45 )

The Legislative Program Review Committee is confident that the 1976 General Assembly will move to complete the job which it has started and return Connecticut's Unemployment Compensation Program to sound financial footing.

#### The "Competitive Advantage" Question

At a public hearing on March 24, 1975, the Committee heard complaints from a representative of the state's construction industry that Connecticut firms are being put at a competitive disadvantage by out-of-state firms who are bidding on a Connecticut project for the first time. Those firms who have no Connecticut experience are charged a tax rate of 3.9%, while most in state construction firms are at the highest merit rating, 5.0%, plus the 1.0% fund

solvency tax.

The General Assembly is precluded from altering the tax rate for employers with no experience by the Federal Unemployment Tax Act (FUTA). This law requires that employers who have not yet established merit ratings be charged either 2.7% or the five-year average merit rating, whichever is higher. Since the five-year average merit rating for Connecticut is 3.9%, new employers are charged this figure. This practice cannot be altered under current Federal law.

The Legislative Program Review Committee believes that the "competitive advantage" which turns out to be about \$126.00 per employee (6.0% - 3.9% or 2.1% times \$6000) is not enough to put Connecticut firms at a true disadvantage relative to out-of-state contractors. It must also be remembered that when Connecticut firms go out of state for the first time, they too are given the "competitive advantage" of a lower rating.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD MAKE NO CHANGE IN THE  
CURRENT LAW CONCERNING TAX RATES FOR EMPLOYERS  
WITHOUT EXPERIENCE RECORDS.

#### Connecticut's Charging Method: The Benefit-Ratio System

The benefit-ratio system of determining employer tax rates was originally adopted by the General Assembly in 1973 (Public Act 73-536). Under the provisions of this

Act, the "compensable separations" method of charging benefits was to be used until October 1, 1974. (The compensable separations method charges claims to the last employer's account in an amount equal to the recipient's weekly benefit rate multiplied by 15.)

At that time, a switch was to have been made to an "inverse chronological order" benefit-ratio charging system, which means that benefits would be proportionately charged to the claimant's base period employers in inverse chronological order.

However, Public Act 229 of the 1974 Session postponed the date for the implementation of inverse chronological order charging until January, 1975. This postponement was made because the Connecticut Labor Department did not have adequate data processing equipment to switch over from the relatively simple compensable separations charging system to the much more complex benefit-ratio charging system. The Department did request funds from the U.S. Department of Labor to make major improvements in its data processing capabilities, but this request was not approved.

Two years after the passage of the original benefit-ratio bill, the Connecticut Labor Department still lacks the equipment necessary for implementing benefit-ratio charging, and is currently using the old compensable separations system of charging employers.

Public Act 525 of this Session once again affirms the General Assembly's commitment to implementation of the benefit-ratio charging system. Under this Act, the Connecticut Labor Department is given until July 1, 1978, to complete the transition from compensable separations to benefit-ratio charging. Connecticut Labor Department officials indicate that adequate data processing equipment for this system will be installed by this date.

#### Pooling of Non-Charged Benefits

Although Connecticut has adopted a benefit-ratio unemployment compensation taxing system, benefit-ratio charging methods are not yet in effect, as discussed previously.

Under either charging method, a certain amount of benefits are not charged to individual employer accounts. Non-charged benefits are pooled and, consequently, no individual employer's account is held responsible.

Major benefit costs currently being pooled are dependency allowances, estimated to cost \$14.8 million in 1975, and benefits paid to claimants after the four week disqualification period (for those who quit, were fired, or refused suitable work), totaling approximately \$30 million in 1975.

The cost of "rehire credits" is also pooled. Rehire credits were devised to provide employers with an incentive to call back former employees who have been collecting

unemployment benefits. An employer's account, under the compensable separations charging method, is charged an amount equal to the claimant's weekly benefit rate times 15 without regard to the duration of a claim. If an employer rehired an ex-employee who had not received benefits for 15 weeks, he or she would still be charged for 15 weeks of benefits if provisions for rehire credits were not available.

Section 31-225b of the Connecticut General Statutes allows employers to apply for rehire credits. An Employer who rehires a former employee within less than seven weeks of the date that the employee began collecting benefits is eligible to receive up to a 90% credit of the compensable separation charge. The percentage amount of credit is dependent on how soon within seven weeks the rehiring occurs. Benefit costs not covered by the employer because of rehire credits are pooled with other non-charged benefits.

The cost of non-charged benefits should, in theory, be covered by an appropriate margin calculated into the charged rate schedule. Since the charged rate schedule in combination with a \$4200 taxable wage base was not sufficient to bring in the revenue necessary to meet even charges benefit payouts and maintain an adequate fund, it was necessary to institute a surcharge, the .9% fund solvency tax. The fund solvency tax was intended to replace money paid out in non-charged benefits and also

to build up the fund level. This tax, applied to all covered employers in addition to their charged rate, has proven still inadequate to meet the demands of current benefit payouts, which include pooled charges. Benefit payouts still exceed contributions.

The Legislative Program Review Committee believes that the revisions of the Unemployment Compensation system recommended in this report would direct the fund toward a sound financial base and reduce the amount of pooled charges. Raising the minimum charged rate to 1.0% could provide revenue to more adequately meet the pooled benefit costs. By permanently disqualifying individuals who quit, were fired, or who refused suitable work, a recommendation discussed in the following chapter on eligibility, the amount of pooled charges would substantially decrease.

The newly increased fund solvency tax of 1.0% could be used to meet the intended purpose of covering the remaining non-charged benefits, dependency allowances. Although pooling of charges does not strictly adhere to experience rating principles, dependency allowances serve a social purpose and therefore cannot be considered an individual employer's responsibility.

#### Recommendation

THE COST OF DEPENDENCY ALLOWANCES SHOULD CONTINUED  
TO BE "POOLED."

When the benefit-ratio charging method is in effect,

rehire credits will no longer be necessary since employer's accounts will be charged in direct relation to benefits paid to ex-employees. The Committee recognizes the desirability of rehire credits under the compensable separations charging method and approves of the use of rehire credits while the present charging method remains effective .

#### A Review of Experience Rating Formulas

Because the benefit-ratio experience rating system is relatively new to Connecticut, the Committee believes it would be beneficial to include in this report a general review of all basic experience rating formulas in use in recent years in the United States. The Legislative Program Review Committee wishes to acknowledge the assistance of Mr. Ralph Altman of the United State Department of Labor and Mr. Denis George of Marsh, McLennan and Company in the preparation of this section on experience rating formulas.

State unemployment compensation funds are primarily financed in all states by employer contributions collected through some system of experience rating (also called merit-rating) taxation. Five experience rating formulas, reserve ratio (32 states), benefit-ratio (11), benefit wage ratio (5), payroll variation (4), and compensable separations (in use only in Connecticut until 1975), have been in use in the United States in recent years. Modifications of the

basic formulas have been made to tailor the particular systems to meet the varied needs of each state.

All five experience rating formulas are designed to assign a tax rate that is dependent upon the individual employer's experience with unemployment. Some measure of the individual's experience is established and this is related to other employers throughout the state. The insurance principle inherent in experience-rating results in awarding low-risk employers (those with a history of stable employment) a low tax rate. High-risk employers (those with a history of large layoffs and frequent labor turnover) are required to contribute to the fund at a higher rate. It is felt that experience rating provides employers with an incentive to stabilize their payrolls, thereby reducing unemployment. Experience rating also achieves a certain degree of equity in the distribution of the tax burden of unemployment compensation.

Ideally, an experience rating system would have a minimum tax rate of zero and an unlimited maximum tax rate. With such a rate schedule, and direct charges for all benefits, employers would exactly match in tax contributions what is paid out in benefits to their eligible ex-employees, and the state's unemployment compensation fund would balance perfectly. However, to support such a system, one would have to assume that the individual employers are directly and solely responsible for all unemployment that occurs. It has been generally recognized that this is

not the case. A certain amount of unemployment is due to economic conditions beyond an employer's control. Each state, therefore, has made various provisions within its experience rating system which recognize the social responsibility of certain unemployment costs and relieve individual employers of these costs.

In some states, certain types of benefits (dependency allowances, for example) are not charged to an individual employer's account. The cost of non-charged benefits is covered by a flat or scaled rate applied as a surcharge, or a margin for the "pooled" charges is built into the charged rate structure.

The level of a state's unemployment compensation fund is also considered, and measures of fund level adequacy which trigger various tax tables have been developed in all the states. When the fund is at a dangerously low level, a higher tax table is imposed. When the fund reaches a specified reserve level, tax rates can be reduced to a more favorable schedule.

While all five systems follow experience rating principles, the degree of adherence to such principles varies in the states. Two philosophies of responsibility for unemployment can be discerned. Reserve ratio and benefit-ratio systems place unemployment responsibility chiefly on individual employers and assign tax rates accordingly. Benefit wage ratio, payroll variation, and Connecticut's

former system, compensable separations, give statewide economic conditions consideration when tax rates are assigned. Some measure of statewide unemployment is drawn up - a state experience factor, a state percentage of payroll decline or a size of fund index, and the individual employer's rate is weighted by the statewide measure.

Experience rating systems can also be classified by theory of purpose. Reserve ratio experience rating is a system based on the theory of accumulation of reserves against future liabilities. Under a reserve ratio formula, an account is maintained for each employer. Contributions are credited and benefits are charged to this account. Benefits are subtracted from contributions and the resulting balance is the employer's theoretical reserve. This balance is divided by the employer's taxable payroll to determine the amount of future benefits if layoffs should occur. Rates are assigned according to the potential liability. If the present balance is not adequate, a higher rate will be assigned to build up the employer's reserve. When an employer's reserve is more than adequate, the contribution rate is reduced.

Benefit-ratio, benefit wage ratio, compensable separations and payroll variation operate under a replenishment concept - what is paid out in benefits will be matched by employer contributions. Adjustments are made in computing tax rates to cover any non-charged benefits.

Replenishment theory systems are geared to the short-term experience and are more subject to the effects of general economic fluctuations than an accumulation system such as reserve ratio. Because replenishment systems do not consider future liabilities in the way reserve ratio does, an adequate fund level is important. When unemployment is high, there is a possibility that the fund will be drained to pay benefits until increased tax rates to bring in more employer contributions are levied.

Another problem associated with replenishment experience rating systems is that they tend to be cyclical. When economic conditions are in a downswing and unemployment is high, most experience rating systems respond by imposing higher taxes when employers are in financial difficulty and are least able to pay higher taxes. Only a reserve ratio system has a counter-cyclical impact on the financing of unemployment compensation. Because the reserve ratio formula is based on three factors, benefits, the individual employer's balance and payrolls, as an employer's payroll declines during an economic downswing, so will his or her unemployment compensation contribution. The converse is true during an economic upswing - as payrolls increase, future liabilities increase, and an employer will pay a higher rate when he or she is in a better financial position.

Benefit-ratio, benefit wage ratio, compensable separations and payroll variation with their "pay-as-you-go"

concepts are all cyclical in nature. The formulas that determine rates have a compounding effect when tax rates are increased. When benefit payments are high and payrolls are declining, tax rates are high under these systems. Employers must contribute more to match benefit payouts when they are least able to do so.

The cyclical nature of the "pay-as-you-go" systems makes them very sensitive to economic fluctuations. This sensitivity can be offset by the buildup of an adequate fund which would lessen the pressure to raise tax rates substantially under unfavorable economic conditions. It should be noted that an unusually long duration of high unemployment can quickly deplete a fund, making Federal loans and higher taxes a necessity. It is generally difficult to build up the reserves necessary for long-term unemployment, especially under a replenishment type experience rating system.

A related problem involves limitations on the number of increased tax table movements that can be imposed within a certain length of time. Some states have included in their systems maximum rate increases to prevent excessive taxation of employers during periods of high unemployment. While limits of this type are favorable to employers, the financial health of the fund is impaired. Many times under these circumstances, contributions will not equal the benefits paid and the experience rating principle

suffers as well.

One advantage to the replenishment systems is that because they are geared to the short term, usually a three year period, tax ratings are effective for a relatively short time. Unusually high unemployment years are computed in the experience rating formula on a short term basis. If unemployment is of short duration, employers can look forward to a reduced rate within three years. In theory, replenishment formulas establish rates that bring in contributions as needed - high rates are effective only for the times benefit payouts are high and fund levels are low. Most states using a reserve-ratio system maintain employer accounts from the original inception date of the system but exclude certain exceptionally bad unemployment years. In such a system, one year of high unemployment with high benefit payouts may be calculated into an employer's tax rate indefinitely. Several states using reserve-ratio formulas have recognized this problem and have provided alternatives such as using the last five years' payout accumulation to determine the reserve ratio if it is to the employer's advantage.

Another advantage characteristic of all replenishment systems except benefit-ratio is that they are relatively easy to administer. Reserve ratio and benefit-ratio systems as they exist in most states require that individual employer accounts be maintained as well as ongoing records

of a claimant's employers, earnings, and amount of benefits received. Because duration of a claimant's unemployment is a factor in computing charges to employer accounts in these two systems, all these records are necessary.

Benefit wage ratio, compensable separations and payroll variation do not consider duration of benefit payment in their rate formulas, so the detailed records required by most reserve ratio and benefit-ratio systems are unnecessary and administration is simpler. The payroll variation system uses percentage decline in taxable, or more preferably, total payrolls, as a measure of an employer's unemployment experience. If an employer's payroll declines, a higher rate is imposed. If the payroll increases or remains the same, rates decrease. Contributions, duration, and benefit payouts play no role in the payroll variation formula.

Critics of those systems that do not consider duration of unemployment feel that there is no incentive for employers to control the length of a claim. Excessive costs to the unemployment compensation fund could occur because of this since employers would have less incentive to police claims and therefore to prevent unjustified benefits from being paid.

Who is charged as well as how much and what is charged differs among the systems. Critics have said that systems without proportional charging methods are not in keeping

with experience rating principles. By charging all base period employers proportionately, which involves assigning a claimant's benefit costs according to wages earned, each employer shares the responsibility of an ex-employee's unemployment.

Responsibility for unemployment is also shared in a method that involves charging all base period employers in inverse chronological order. A maximum limit, usually some fraction of the wages paid to the claimant by the employer or some specified amount which considers wages, is placed on the amount that can be charged to any one employer.

The least equitable charging method in terms of experience rating principles charges only the most recent employer. Another method that involves charging only one employer, the principal base period employer, is more desirable but experience rating principles still suffer.

While charging methods differ in all the states and none is exclusive to any one system, most states charge proportionately or chronologically. In the payroll variation system, where benefits are not considered in assigning rates, no charging of benefits occurs. Employers are charged on the basis of payroll fluctuations. In all the other experience rating systems, charging is related in some way to benefits paid.

Experience rating systems should, in theory distribute the unemployment compensation tax burden equitably, encourage

job stability and call backs, and give employers an incentive to control benefit abuse. Obviously, these tax systems should also provide a sound financial base to the fund and produce revenue adequate to meet benefit payouts without placing an excessive tax burden on employers. To be most effective, an experience rating system should keep pooling of non-charged benefits to a minimum, establish a reasonably wide spread of rates, be countercyclical in its impact on employers and include duration of unemployment in its formula. Charging methods should operate under the theory of shared employer responsibility.

Systems with a high degree of adherence to the experience rating principle are reserve ratio and benefit-ratio. The payroll variation formula exhibits the least adherence to the experience rating principle, although it is, under most circumstances, very sensitive to economic conditions and could be an incentive to economic expansion and job creation.

No experience rating formula in itself can guarantee sound financing of a fund and adherence to experience rating principles. A taxing system must combine a number of factors to be efficient and effective, and these factors must be adapted to the special characteristics of each state. The wage base amount and its relationship to benefit computation, maximum and minimum rate levels, the spread of rates, triggers for rate schedules, charging methods, and coverage provisions must be considered. Eligibility

requirements for benefits also have an impact on the effectiveness of unemployment compensation financing systems.

An unemployment compensation taxing system using any of the five formulas can be effective and efficient once the areas mentioned above receive proper attention in accordance with the goals that a state sets for its unemployment compensation program. One system without modification is not suitable for all states because of economic diversity. Flexibility is possible in all the experience rating formulas and is evidenced by the numerous and sometimes comprehensive variations of the basis formulas. By making use of this flexibility, each state can meet its established goals by adopting a formula and developing a system which will produce a financially sound fund and equitable employer taxation.

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Chapter II

REVISING BENEFIT ELIGIBILITY STANDARDS

Reinstituting the Waiting Week

Permanently Disqualifying Persons Who Quit, Were  
Discharged for Cause, or Who Refused Suitable Work

Disqualifying of Substitute Teachers

Limiting Benefits of Retired Persons

Extending Benefits to Striking Workers

Tightening Anti-Fraud Methods

The Forty Multiplier Eligibility Requirement

Dependency Allowances

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## Chapter II

### REVISING BENEFIT ELIGIBILITY STANDARDS

Fund solvency can be achieved by increasing contributions (in effect levying higher taxes on employers) or by decreasing benefit payouts through stricter eligibility requirements, or by some combination of both alternatives. The various suggestions for altering the tax structure have been discussed in the previous chapter of this report. This section is concerned with arguments for and against proposed changes in eligibility requirements. The current basic requirements are that a person be unemployed (as defined in the statutes), that he or she make reasonable attempts to find work and have earned at least forty times his or her potential weekly benefit rate. If a claimant meets these requirements and does not fall under any of the disqualification provisions included in the statutes, he or she is immediately eligible for benefits.

#### Reinstating the Waiting Week

One suggestion for reducing benefit payouts is to reinstitute the waiting week. Connecticut is one of eight states (Alabama, Connecticut, Delaware, Kentucky, Maryland, Michigan, Nevada, New Hampshire) that allow a claimant to file immediately for benefits. Most states require a waiting period, traditionally one week of unemployment, before a claim can be filed. Thirteen

other states provide payment for the first week of unemployment depending on the amount of the fund reserve and/or certain requirements concerning the claimant's duration of unemployment.

Connecticut's waiting week was repealed in 1967. Reasons cited for this action included a discussion of the original purpose for a waiting period. The administration process took a considerable length of time when the unemployment insurance program was first initiated. A waiting period of one week was necessary to begin processing a claim, and several more weeks were needed to issue a check.

Today, with modern equipment, such administrative functions can be handled rapidly, although there still tends to be a two week lag between a filing date and the date a benefit check is received. This can present a "cash flow" problem for the claimant. It has been suggested that a waiting period would not be burdensome for most claimants since many employers hold back one pay period. Pay for this period is received by the employee when he or she leaves a job. Considering the time lag of two weeks, a claimant could still face at least one week with no income at all.

Figures ranging from \$10.1 million to \$17.0 million have been suggested as the annual amount that would be saved by reinstating a waiting week in Connecticut. It is difficult to arrive at an accurate amount since

the cost is dependent on the future number of eligible unemployed workers and the future average duration of unemployment. These numbers are difficult to predict. It should also be mentioned that savings resulting from reinstatement of a waiting week are derived only because the waiting week postpones the first payment of benefits. A claimant is still eligible for 26 weeks of benefits plus whatever extended benefits are available.

Employer abuse of the elimination of the waiting week has been suggested as cause for its reinstatement in Connecticut. Since claimants are immediately eligible for benefits, employers may not feel obligated to carry their employees through slow production periods. Employers may decide to "furlough" employees instead, putting them on week on - week off schedules, rather than resorting to straight layoffs.

As Labor Commissioner Frank Santaguida pointed out in his testimony to the Legislative Program Review Committee on March 24, 1975, the employer, because of the benefit-ratio system, will still have to pay a higher contribution because of these furloughs and therefore absorb the cost for the drain on the unemployment compensation fund. The employer is willing to do this, even though he may be experiencing financial difficulties due to the recessionary economy, because he wishes to maintain a relationship with his skilled employees. This work relationship could

be lost if the employer's only alternative is a straight layoff while his firm is operating on a marginal basis. Since the employer will contribute more to the fund as a result of these furloughs, and because one of the original concepts of unemployment insurance is the preservation of skills, the argument that employers are abusing the system does not seem particularly strong.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD NOT REINSTITUTE A WAITING WEEK IN CONNECTICUT SINCE IT IS AN UNNECESSARY STEP WHICH WOULD CAUSE HARDSHIP FOR A NUMBER OF THE UNEMPLOYED, AND IT IS DIFFICULT TO PINPOINT HOW MUCH IS ACTUALLY SAVED BY REQUIRING A WAITING WEEK.

#### Permanently Disqualifying Persons Who Quit, Were Discharged for Cause, or Who Refused Suitable Work

The Connecticut statutes presently disqualify persons who quit, refused suitable work, or were fired for cause from collecting benefits for the week in which this action took place and for the next four weeks. If, following the disqualification period, a claimant can still meet the eligibility requirements, he or she can collect benefits.

Most other states are more restrictive concerning payments to persons who quit, were fired for cause, or who refused suitable work. For example, 34 states totally disqualify persons who quit from receiving benefits for

the duration of their unemployment, and require them to become re-employed and earn a certain number of times their weekly benefit rate in order to qualify to receive benefits. Twenty states disqualify persons who were fired for cause for the duration of their unemployment, and 19 states disqualify persons who refused work for their duration of unemployment. Even among states which merely postpone the start of benefits, the disqualification period averages about seven weeks, which is nearly twice Connecticut's four-week disqualification period.

A number of people are currently speaking out in favor of lengthening Connecticut's disqualification period for people who were fired, quit their jobs, or had refused suitable work. They argue that unemployment compensation was originally designed to provide emergency relief to people who had lost their jobs through no fault of their own, and that people who had become unemployed of their own volition have no justification to receive benefits.

The Connecticut Labor Department estimates that approximately \$30 million in benefits is paid annually to people who quit or were fired for cause. This drain on the unemployment compensation fund has helped to bring it into its current deficit situation. Benefits paid to persons who quit, were fired, or who refused suitable work are not charged to individual employers. Costs of

these benefits are pooled with other non-charged benefits and are paid for by all employers. By permanently disqualifying the individuals, the amount of non-charged, "pooled" benefits would be reduced. Reducing the amount of pooled charges would be in keeping with experience rating principles as well as having a favorable financial impact on the fund.

The Legislative Program Review Committee believes that the current four-week disqualification period is grossly insufficient, and that Connecticut's disqualification period should reflect the principle that unemployment compensation benefits should be paid only to those persons who have lost jobs through no fault of their own.

The Committee is well aware, however, that there are cases of "constructive departure" when an employer makes working conditions so unbearable that an employee has no choice but to resign. The Committee does not believe that individuals should be penalized for leaving a job under such stress.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD PERMANENTLY DISQUALIFY PERSONS WHO QUIT THEIR JOBS (EXCEPT IN CASES OF CONSTRUCTIVE DEPARTURE AS DISCUSSED ABOVE), WERE FIRED FOR CAUSE, OR HAD REFUSED SUITABLE WORK FROM RECEIVING BENEFITS FOR THE DURATION OF THEIR UNEMPLOYMENT. THE COMMITTEE FURTHER RECOMMENDS THAT SUCH

DISQUALIFIED PERSONS BE REQUIRED TO BECOME RE-EMPLOYED AND EARN AT LEAST TEN TIMES THEIR WEEKLY BENEFIT RATE BEFORE THEY BECOME ELIGIBLE TO RECEIVE BENEFITS.

THE GENERAL ASSEMBLY SHOULD SPECIFICALLY DEFINE THE TERM "CONSTRUCTIVE DEPARTURES."

#### Disqualifying Substitute Teachers

Current Connecticut law provides that substitute teachers who work more than 40 days within a school semester are eligible to receive unemployment compensation benefits.

The Legislative Program Review Committee has heard testimony from representatives of a number of school boards that recommend that substitute teachers be disqualified from receiving benefits. They argue that substitute teachers are actually temporary workers, and that as such, they should not be allowed to collect benefits.

One school superintendent pointed to a case in his town where a substitute teacher had been paid \$2,326.00 in the 1973-74 school year. This teacher has filed for, and has been approved, for benefits that will amount to \$1,976.00, only slightly less than the town has paid the teacher in wages. The school superintendent said this provision of the law opens up liability to the Board of Education for an amount that could nearly equal the dollars budgeted for salaries of substitute teachers when one considers all the substitute teachers his town employs.

The Connecticut Association for the Advancement of School Administration notes that under the present law, substitute teachers can become eligible for benefits "despite the fact that they initially understood and contracted for the temporary positions."

The Legislative Program Review Committee believes that allowing substitute teachers to collect unemployment benefits distorts the purpose of providing benefits to persons who lost their jobs through no fault of their own.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD DISQUALIFY SUBSTITUTE TEACHERS FROM RECEIVING UNEMPLOYMENT COMPENSATION BENEFITS.

#### Limiting Benefits of Retired Persons

Current Connecticut law allows retirees to collect unemployment compensation benefits, provided they are actively seeking work. The weekly amount of any pensions they may receive is deducted from the amount of their weekly benefit rate. Social Security payments, however, are not deducted from unemployment compensation payments.

The Legislative Program Review Committee believes that this is an obvious inconsistency. Receipt of Social Security payments while collecting full unemployment compensation benefits distorts the original purpose of unemployment compensation, which was to provide emergency relief to people who become unemployed through no fault of their own.

### Recommendation

THE GENERAL ASSEMBLY SHOULD REQUIRE THAT THE AMOUNT OF SOCIAL SECURITY PAYMENTS, AS WELL AS THE AMOUNT OF PENSION BENEFITS, BE DEDUCTED FROM UNEMPLOYMENT COMPENSATION CHECKS RECEIVED BY RETIREES.

### Extending Benefits to Striking Workers

Extension of unemployment compensation benefits to striking workers is a proposal that has received great support from major labor organizations for many years.

Strikers, labor groups argue, are unemployed through no fault of their own, and thus meet the basic requirement for receiving unemployment compensation benefits. They say that strikers would much rather be working, but are forced to strike as a last resort to obtain the wages and working conditions they need and deserve. Workers, it is argued, should not be penalized for attempting to obtain fair and adequate contracts.

Business leaders generally oppose extension of benefits to striking workers. They point out that striking workers have voted to leave work, and have thus become unemployed as a direct result of their own actions. They argue that allowing striking workers to collect unemployment compensation benefits would encourage prolonged labor disputes and strikes on minor issues, since workers would not have to absorb as much of a monetary loss due

to lost wages as they currently do while on strike. Also, workers would have a definite advantage in bargaining since they would still have money coming in, but management would forgo all profits during a labor dispute.

The Legislative Program Review Committee believes that striking workers should not be entitled to receive unemployment compensation benefits since this would violate the principle that benefits should be restricted to only those individuals who lose their jobs through no fault of their own.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD TAKE NO ACTION TO CHANGE THE CURRENT LAW PROHIBITING STRIKING WORKERS FROM COLLECTING UNEMPLOYMENT COMPENSATION BENEFITS.

#### Tightening Anti-Fraud Methods

Another method suggested to reduce benefit payouts is to expand and strengthen the fraud detection operations of the Department of Labor's Benefit Payment Control Unit. Detected overpayments due to fraud in 1975 amounted to \$291,003.00 of which the Department has recovered \$192,191.00 to date. The unit has recovered about 66% of the amount of overpayments. It should be noted that the rate of recovery of overpayments significantly increased in the second half of FY 1975.

When the unemployment rate is high and claims are being made in large numbers, the district office work load is heavy and time to investigate claims is limited. It

may be possible for a certain number of fraudulent claims to go undiscovered in such circumstances.

The cases of fraud that are hardest to detect are those involving collusion between an employer and an employee. A person receiving unemployment benefits may make an agreement with an employer to be paid "under the table," perhaps at a lower wage level, so he or she can still collect benefits. If the employer does not report these wages to the Employment Security Division as required by law, there is no way for the state to discover the fraud unless it is reported by another party.

The maximum legal penalty for making fraudulent claims is a \$200 fine and six-month jail sentence. This penalty is rarely imposed. More often, the state tries to arrange an installment schedule for repayment. The Employment Security Division also has the power, in cases of fraud, to attach wages and seize assets if repayment is not made.

At present, the bulk of investigative work is carried on in the district office. The Department of Labor also employs 50 "fact-finders," whose main responsibility is to determine if a claimant is initially eligible and remains eligible for benefits by actively seeking work. If questions arise concerning fraud that require information that a fact-finder is unable to obtain, two investigators are available to go into the field to further pursue these questions.

A staff of two investigators during a period when more than 130,000 persons receive benefits is clearly inadequate. The Connecticut Labor Department itself admits that "Connecticut's Benefit Payment Control Section has never recovered from the tremendously high claim load during 1971-1972." (Employment Security Division Plan of Service and Federal Budget Request Fiscal Year 1974-1975, page III-29.)

The Labor Department notes that the two investigators have a caseload of 600-700 cases each, and that there is a present backlog of some 13,000 suspected cases of fraud. In fiscal year 1974, Connecticut complied with a Federal recommendation that, in order to reduce costs, two anti-fraud verification procedures should be dropped. Because this compliance meant that a number of fraudulent overpayments went undetected, Connecticut has decided to re-implement the verification procedures this fiscal year, assuming Federal funds are made available. (All funds for the administration of unemployment compensation are Federal.)

#### Recommendation

THE CONNECTICUT LABOR DEPARTMENT SHOULD REQUEST FEDERAL FUNDS FOR AT LEAST 20 TEMPORARY FRAUD INVESTIGATORS IN ORDER TO REDUCE THE NUMBER OF PEOPLE COLLECTING FRAUDULENT UNEMPLOYMENT COMPENSATION BENEFIT OVERPAYMENTS.

## The Forty Multiplier Eligibility Requirement

One of the original concerns in determining eligibility requirements for unemployment compensation benefits was to develop a measure of the labor force attachment. The general consensus in this matter is that only workers who have been seriously and steadily employed should receive benefits when they become unemployed through no fault of their own. In other words, only claimants whose work records show a strong attachment to the labor force should be eligible for benefits. In Connecticut, attachment to the labor force is measured by a worker's earnings. In order to be eligible to receive benefits, a claimant must have earned at least 40 times his weekly benefit amount in his base period.

The eligibility requirement was amended to its current multiplier of 40 from a multiplier of 30 in 1973 (PA 73-671). Representatives of labor organizations have argued that by increasing the multiplier (in effect, raising the amount of earnings necessary to qualify for benefits) otherwise eligible low-wage employees are being unfairly disqualified. Labor organizations' estimates show that in 1974 approximately 8,000 workers were ineligible for benefits due solely to the 40 multiplier requirement.

The previously noted 30 multiplier eligibility requirement also carried the further stipulation that the dollar amount necessary to qualify for benefits must have

been earned in at least two different calendar quarters. It was felt that a high level of earnings alone does not necessarily show a strong attachment to the labor force. Duration of employment should also be a factor in determining eligibility.

When the multiplier was changed from 30 to 40 in 1973, the two different calendar quarters requirement was dropped.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD REINSTITUTE THE TWO DIFFERENT CALENDAR QUARTERS REQUIREMENT AND ATTACH IT TO THE PRESENT 40 MULTIPLIER ELIGIBILITY REQUIREMENT.

This would prevent people who may earn a great deal of money in a short period of time from qualifying. Strong labor force attachment should be judged by duration of employment as well as amount of wages earned.

The Legislative Program Review Committee has obtained information from the Connecticut Labor Department concerning the impact of the proposed change in eligibility requirements from 40 to 30.

According to the Labor Department, the lowering of the multiplier would result in the addition of some 40,000 people to the Unemployment Compensation Program in 1975, at a cost of approximately \$17.7 million. In 1976, an additional 31,000 people would be covered, raising

unemployment compensation benefit payouts about \$12.2 million.

The Labor Department notes that the current 40 multiplier eligibility standard represents about 20 weeks of base period earnings, assuming a person's wages are constant. A 30 multiplier would lower the number of required work weeks to 15, again assuming constant wages.

Furthermore, lowering the multiplier to 30 would make it easier for high level wage earners to qualify on a lesser number of weeks of employment, since it is quite possible to earn 30 times one's weekly benefit rate in a single quarter. The Committee does not believe this is in the best interest of the unemployment compensation program.

The Legislative Program Review Committee does not believe that requiring an individual to work for 20 weeks to prove his or her "attachment to the labor force" in order to qualify for unemployment compensation benefits is excessive or unreasonable.

#### Recommendation

THE GENERAL ASSEMBLY SHOULD RETAIN THE CURRENT  
40 MULTIPLIER ELIGIBILITY STANDARD.

#### Dependency Allowances

Eleven states including Connecticut currently provide for dependency allowances, although the definition of dependent and the allowance amount varies with each state.

A dependent, in general, must be "wholly or mainly supported by the claimant" or "living with or receiving regular support from him or her."

All eleven states include children as dependents with the intent that the claimant receive the allowance amount for those children he or she is morally obligated to support. Alaska, Connecticut, Illinois, Indiana, Massachusetts, Michigan, Ohio, Pennsylvania, and Rhode Island include as dependents children under age 18. In Washington, D.C. and Maryland, the age limit for dependent children is 16. All except Massachusetts include stepchildren under the term children. Connecticut is one of nine states that include adopted children as eligible dependents. Older children unable to work because of handicaps are listed as dependents in this category in all but two states, Indiana and Maryland.

Non-working spouses are considered dependents in seven states, one of which is Connecticut. Two states, Michigan and Washington, D.C., provide dependency allowances for parents and orphaned brothers and sisters under 18 who are unable to work and are being supported by the claimant.

Weekly dependency allowance amounts differ among the 11 states. Alaska allows \$10 per dependent, the highest amount available in the eleven states. Washington, D.C., allows \$1 per dependent, the lowest amount. Connecticut, Pennsylvania, and Rhode Island provide \$5 per dependent,

Massachusetts provides \$6, and Maryland \$3. Four states have a range of dependency allowance amounts which are awarded according to high quarter wage amounts and number of dependents. Illinois offers from \$1 to \$22, Michigan, from \$1 to \$12, and Indiana and Ohio, from \$1 to \$10.

Each of the states sets a maximum weekly limit on the amount of the total dependency allowance. Only in Connecticut and Massachusetts can a claimant receive allowances for more than five dependents.

In cases of partial unemployment, the claimant may still draw dependency allowances in addition to the weekly benefit amount in all eleven states. Except for Michigan, Illinois, and Indiana, full dependency allowances are paid to partially unemployed claimants.

Connecticut first began paying dependency allowances in 1945. The original definition of dependent included: (1) a claimant's wife, wholly or mainly supported by him provided she did not receive remuneration of any nature of more than \$10 weekly, (2) a claimant's husband who is physically or mentally incapacitated and who is wholly or mainly supported by the claimant, (3) any children or step-children under 16, and (4) older children regularly attending school or who are physically or mentally incapacitated who are unmarried, and who don't receive more than \$10 remuneration of any nature during a week of eligibility.

The weekly allowance amount was set at \$2 per dependent in 1945, with the total weekly allowance not to exceed 50% of the claimant's weekly benefit amount. This limit set the maximum allowance amount at \$6 weekly.

The 1945 dependency allowance was, as are all current allowances, an amount in addition to a claimant's weekly benefit amount. Husbands and wives simultaneously collecting benefits were restricted then, as they are today, from claiming each other as dependents and only one unemployed parent could claim the children, if any, as dependents.

In 1947, the General Assembly modified the weekly allowance amount and the definition of dependent. A claimant received \$3 for each child and stepchild under 16 who at the beginning of his or her benefit year was wholly or mainly supported by the claimant. Spouses and handicapped children were no longer considered dependents. The maximum weekly allowance was still set at 50% of the weekly benefit amount, or \$12 at this time.

In 1957 the dependency allowance was increased to \$4 per dependent, and the definition of dependent was expanded to include handicapped children 16 and over.

Minor changes were also made in 1965. The weekly dependency amount per dependent was increased to \$5, and the dependency age for children was raised to 17 years old.

A non-working spouse, as defined by regulation and

living in the same household with the claimant, was included as a dependent in 1967. The dependency age for children again increased, from 17 to 18 years.

An amendment in 1971 allowed a claimant to adjust his or her dependency allowance upon acquiring additional dependents during a benefit year. Connecticut is currently the only state that does not fix the number of dependents for a claimant's benefit year.

A 1973 Federal District Court case, Vaccarella vs-Fusari, interpreted the term children in Connecticut's statute providing for dependency allowances to include those children to whom claimants stand in loco parentis.

It has been argued that dependency allowances do not adhere to the insurance principle associated with unemployment compensation. Unemployment compensation benefits were originally intended to compensate for the wage loss that results when an insured employee has lost his or her job. Obviously, the impact of unemployment is more severe on someone with a family than on a single person without dependents.

While dependency allowances may not be consistent with the insurance principle of unemployment compensation, such additional benefits are desirable in terms of the social purposes of unemployment compensation.

Compensation for wage loss is and should be the primary concern of an unemployment insurance program, but it should also be noted that the benefits paid have an

important impact on the state and national economy as well as on the individual. Without the buying power provided by unemployment compensation benefits, claimants would be unable to meet living expenses, bills would be left unpaid, savings would be depleted and loans would become necessary. Dependency allowances help claimants meet the costs of providing a family with the necessities of life and in doing so diminish the adverse effects of joblessness on the business community.

In Connecticut, dependency allowances will account for approximately 5.3% (\$14.8 million) of the total regular unemployment compensation benefit payment in 1975. In recent years, the average weekly amount paid to a claimant with dependents is about \$11 or allowances for two dependents. About one third of the total number of claimants are eligible for dependency allowances.

The cost of dependency allowances is not charged to the recipient's employer. Dependency allowances are included with other non-charged benefits that are "pooled" and paid for by all employers. Since dependency allowances are a social concern, it is proper to cover the cost of such benefits through pooling.

In recognition of the special needs of an unemployed individual with dependents, the Legislative Program Review Committee believes that the estimated \$14.8 million to be paid out in 1975 dependency allowances does not seem excessive or unwarranted.



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Chapter III

ADMINISTRATION AND MANAGEMENT OF THE UNEMPLOYMENT COMPENSATION PROGRAM

Accessibility

Prompt and Courteous Service

Accuracy

Efficiency

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Mailing Unemployment Compensation Checks: An Experimental Program

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Chapter III  
ADMINISTRATION AND MANAGEMENT OF THE  
UNEMPLOYMENT COMPENSATION PROGRAM

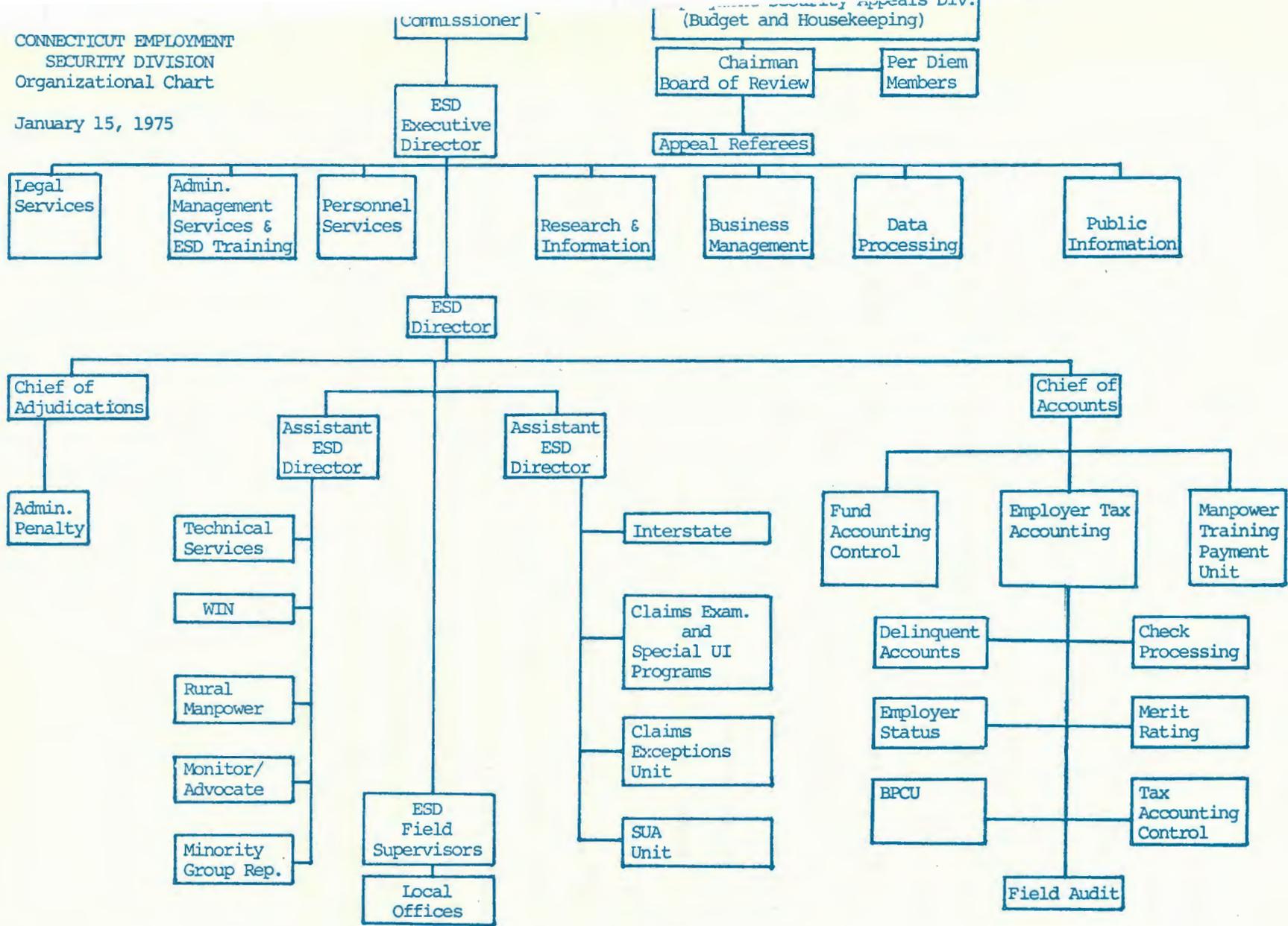
The Connecticut Labor Department's Employment Security Division is responsible for the operation of both the Unemployment Compensation and Employment Service (job placement) Programs.

Prior to 1971, the Labor Department contained two separate units, one for Unemployment Compensation and another for the Employment Service. In 1971, Commissioner Jack Fusari directed a reorganization of the Labor Department, which resulted in combining of the two units into a united Employment Security Division. The reorganization, Commissioner Fusari believed, would reflect the essential interrelatedness of unemployment compensation and employment services.

The current organizational set-up of the Employment Security Division provides for an executive director, a director, and two assistant directors. One assistant director basically handles the Unemployment Compensation (UC) program, and the other handles the Employment Service (ES) program. (The services provided un the ES program are described in Chapter IV.) Administrative services, ranging from legal services to public information, are provided under the direction of the executive director. (See attached organization chart.)

CONNECTICUT EMPLOYMENT  
SECURITY DIVISION  
Organizational Chart

January 15, 1975



Connecticut's Unemployment Compensation Program dates back to 1936, when it was established to provide temporary emergency relief for those persons with steady work records who became unemployed through no fault of their own. Connecticut's Unemployment Compensation Program was established in response to the Federal Social Security Act, which required the individual states to develop unemployment compensation programs which would be adapted to conditions prevailing in their areas.

Administrative costs of operating state Unemployment Compensation programs are totally Federally funded, provided individual state programs are in conformity with minimum Federal requirements. The Federal government also partially or wholly funds certain "special" unemployment compensation programs which provide benefits in times of heavy unemployment and to individuals who would not ordinarily be covered under most state programs.

Currently, the Connecticut Labor Department administers five different unemployment compensation benefit programs. The various programs, titles, eligibility requirements, and funding sources are described in the chart which appears on the following three pages.

## CURRENT UNEMPLOYMENT COMPENSATION PROGRAMS

### PROGRAM AND ELIGIBILITY

#### 1. Regular Benefits

Meet general statutory eligibility requirements then classified into specific program according to type of wages:

- a. UC  
Earned specified amount of covered wages in private sector.
- b. UCFE  
Earned specified amount of covered wages in federal civilian employment.
- c. UCX  
Earned specified amount of covered wages in military service.
- d. Interstate  
Earned specified amount while living in Connecticut but working in another state or while living in another state and working in Connecticut.
- e. Reimbursable  
Earned specified amount of wages while working for nonprofit organization or as a state or municipal employee. Employers in this category have chosen to repay benefit costs rather than be subject to a tax rate.

#### FUNDED

100% state (financed through employer taxes).

#### DURATION

Maximum of 26 weeks in most cases; small percentage of claimants eligible for shorter time because of amount of wages earned in the base period.

### PROGRAM AND ELIGIBILITY

#### 2. Federal - State Extended Benefits (EB)

Effective December 7, 1974, when insured unemployment rate reached 4% for a 13-week period and equaled or exceeded 120% of the average of the same period in the preceding two years.

In period of substantial unemployment, collect EB if have exhausted regular benefits but still within original benefit year and are eligible under state statutory requirements in all other respects.

FUNDED

50% by state and 50% by Federal

DURATION

50% of the original duration, usually 13 weeks.

PROGRAM AND ELIGIBILITY

3. Federal Supplemental Benefits (EC)  
Temporary program under the Federal Emergency Unemployment Compensation Act. Effective March, 1975.

Under original EC legislation, in periods of substantial unemployment, claimants who in the 52 weeks prior to July 1, 1975, (June 28 in Connecticut) have exhausted their benefits but are within their benefit year and who cannot collect under any other state or Federal program but are eligible under state law in all other respects can collect benefits until June 28, 1975 (in Connecticut). Recent Federal legislation signed by the President on June 30, 1975, extends EC benefits beyond the June 30, 1975 expiration date and provides eligible claimants with an additional 13 weeks of EC benefits, making a maximum of 26 weeks of EC benefits possible.

Because of the Federal extension of EC, most claimants are now eligible to collect up to 65 weeks of benefits through the various state and Federal programs outlined above.

FUNDED

100% Federal

DURATION

Maximum of 26 weeks Federal legislation recently extended EC benefits from a 13-week maximum effective until June 28, 1975, to a 26-week maximum effective until December 31, 1975.

PROGRAM AND ELIGIBILITY

4. Additional Benefits (AB)

In a period of substantial unemployment, claimants who have exhausted their benefits but who are within their benefit year and who are not eligible to collect under any other state or federal program but are still eligible under state laws in all other respects can collect AB.

FUNDED

100% by state

DURATION

Maximum of 13 weeks

PROGRAM AND ELIBILITY

5. Special Unemployment Assistance (SUA)

Temporary program under the "Federal Emergency Jobs and Unemployment Assistance Act." Effective late December, 1974.

Workers ineligible for regular benefits, domestic employees, agricultural employees, and in some states, state and local government employees (in Connecticut state and local government employees are eligible for regular benefits) can collect SUA benefits if they meet all other state statutory requirements. Also, some workers not eligible for regular benefits because of insufficient earnings in the first four of the last five quarters, their base period, may be eligible for SUA benefits since the wages of the 52 weeks pre-used to determine SUA benefits.

FUNDED

100% by Federal

DURATION

Maximum of 39 weeks

\*Recent Federal legislation (effective June 30, 1975) extended SUA benefits from a 26 week maximum to the current 39 week maximum.

### The Application Process

When a person become unemployed, he or she must report to the local State Labor Department office nearest his or her home to apply for unemployment compensation benefits. The person brings a form (a "blue slip") from his or her ex-employer indicating the reason for his or her unemployment (layoff, quit, discharge, etc.), then lists all employers in the last 24 months, with dates worked. Each applicant is also given a booklet explaining his or her rights and responsibilities under the unemployment compensation law.

Approximately two weeks after a valid initial claim is filed, the claimant can pick up his or her first check at the local Labor Department office. Persons who quit or were fired for cause are disqualified from collecting benefits for a four-week period.

In addition to a basic weekly benefit rate ranging from \$15 to \$104 (depending on the claimant's past earnings), claimants receive \$5 per person for their non-working spouse and dependent children.

The current duration of benefits in Connecticut for most claimants is 65 weeks.

### Measures of Effectiveness

The Legislative Program Review Committee believes that in order to be effective, Connecticut's Unemployment

Compensation Program should provide service that is:

- (1) accessible to all claimants;
- (2) prompt and courteous;
- (3) accurate; and
- (4) efficient.

### Accessibility

The Committee believes that client accessibility is a major determinant of the quality of unemployment compensation services. Accessibility can be defined in terms of geographical location of offices, of the ability of non-English speaking persons to be adequately served, and of the ability of the general public to get accurate, understandable information about their unemployment compensation rights and responsibilities.

The Connecticut Labor Department currently operates 34 local offices, including 25 permanent office and nine temporary offices. These offices are spread fairly evenly throughout the state, with the exception of the northwest corner. (See attached map.)

The permanent offices are, for the most part, located in the larger cities and towns where unemployment is a chronic problem. Satellite or itinerant (the term used by the Labor Department) offices, which generally operate on a part-time basis out of facilities lent by local governments or civic organizations, are set up by the Labor Department



to temporarily service clients in areas with heavy unemployment. They are generally located in outlying districts where it is a hardship for clients to travel to the permanent main offices.

The Committee finds that rational and uniform criteria have not been consistently applied by the State Labor Department in determining where to locate itinerant offices and how long to keep these offices open. The Department has been severely pressured by local and state officials in certain areas and has, upon occasion, opened or kept open itinerant offices that could not be justified on the basis of unusually large numbers of eligible unemployed persons in the area or the inconvenient location of a permanent office.

The Department currently has no official guidelines for determining justification for opening of local office, its hours of operation, or at what point diminishing claims justify closing it. Decisions are made by the Labor Commissioner, after consultation with his staff, on a case-by-case basis.

This overly flexible policy, the Committee believes, has made the department quite vulnerable to political pressure to open satellite offices as a type of "pork barrel" operation, resulting in unnecessary expenditures of taxpayers' money. Itinerant offices, while all are rent-free, do generate additional costs in terms of

office maintenance, phone service, and employee and equipment transportation costs to and from the main, permanent office.

Recommendation

THE CONNECTICUT LABOR DEPARTMENT SHOULD DEVELOP SPECIFIC GUIDELINES FOR THE LOCATION AND HOURS OF OPERATION OF ITINERANT LOCAL OFFICES AND STRICTLY ADHERE TO THESE GUIDELINES. THESE GUIDELINES SHOULD BE BASED ON AN AREA'S CLAIM LOAD AND DISTANCE FROM A PERMANENT OFFICE.

FURTHERMORE, THE LEGISLATIVE PROGRAM REVIEW COMMITTEE RECOMMENDS THAT ITINERANT OFFICES THAT CANNOT BE JUSTIFIED UNDER THE GUIDELINES DEVELOPED BE PHASED OUT.

Permanent offices were generally found to be reasonably conveniently located and accessible by public transportation. Parking, however, was found to be a severe problem at several offices, particularly those located in the larger cities. If claimants at these offices are able to find parking spaces, by the time they receive their checks after waiting in line for extended periods, they often find parking tickets on their cars for violating time limits. This situation understandably causes a great deal of frustration and resentment.

Recommendation

THE DEPARTMENT OF LABOR SHOULD MAKE EVERY EFFORT TO

REDUCE PROBLEMS CAUSED BY THE PARKING SHORTAGE. SUCH EFFORTS SHOULD INCLUDE REQUESTING LOCAL POLICE DEPARTMENTS TO SET ASIDE PARKING AREAS NEAR THE LOCAL OFFICES TO BE DESIGNATED FOR CLAIMANT USE, ATTEMPTING TO ARRANGE FOR CLAIMANTS TO PARK THEIR CARS IN NEARBY CHURCH, SCHOOL, OR COMMERCIAL LOTS, AND IF POSSIBLE, EXPANDING THE NUMBER OF SPACES AVAILABLE SHOULD ALSO BE AN IMPORTANT FACTOR IN DETERMINING IF PRESENT BUILDING LEASES SHOULD BE RENEWED UPON EXPIRATION.

Service to non-English speaking persons has presented a challenge to the Department of Labor over the years. Labor Department employees interviewed by the Legislative Program Review Committee indicated that a substantial number of their clients, perhaps as high as 10-15%, are non-English speaking. Many offices, particularly those in the major cities, employ Spanish-speaking individuals who can service clients in their native language. Several Department of Labor publications now in the works are being printed in both Spanish and English. Persons who speak other languages can sometimes be helped by local office staff who happen to speak their language, but are most often asked to come back with an English-speaking friend or relative if they cannot be understood.

It appears to the Legislative Program Review Committee that the Department of Labor is making reasonable efforts

to service non-English speaking clients. The Department is to be commended for hiring Spanish-speaking personnel for the larger offices, and the Legislative Program Review Committee encourages the continuation of this policy.

The Department of Labor maintains a small Public Information Service, which is responsible for publicizing all Departmental programs including Unemployment Compensation. Radio and TV spot advertising is used to inform the public about how to apply for unemployment compensation benefits and use the State Employment Service to find a job. News releases concerning Department programs are prepared and sent to local media, and the public information chief serves as spokesman for the Department when questions about unemployment compensation come from the press. Budget limitations have somewhat restricted the activities of the Public Information Service. While area TV and radio stations broadcast a small amount of unemployment related public service announcements the Committee believes the high level of unemployment in Connecticut is a major concern and deserves expanded attention from the media. The Committee suggests that the public information staff encourage the media to increase public service reporting of the services offered at the unemployment offices.

The most widely used source of information about unemployment compensation is the "Unemployment Insurance: Your Responsibilities" booklet prepared by the Public

Information Service and distributed to all applicants at the time of their initial claim. This booklet explains eligibility requirements, the procedure for filing a claim, benefits, appeals, and special unemployment compensation programs. The booklet is written in very general terms, since an individual's eligibility or benefit rate is subject to a number of variables, but it does provide the basic information a claimant needs to know. Department personnel are always available to answer any additional questions an applicant may have.

In a mail survey of unemployment compensation claimants conducted by the Legislative Program Review Committee, the great majority of respondents indicated that they had received satisfactory explanations of what they could expect to receive in unemployment compensation benefits and how they could appeal if they disagreed with a local office decision.

It appears likely to the Legislative Program Review Committee that the individuals who responded negatively to the question of the Department's exploratory practices were dissatisfied with receiving explanations from a booklet rather than from a claims examiner or other staff person. The Committee believes, however, that it is impossible for the staff to give each client a personal explanation of how the program operates in periods of extreme unemployment, such as exists now.

In offices where the initial claims lines are long, it might prove useful to distribute the explanatory booklets to applicants while they are waiting in line. This would allow the applicants to read the booklets in advance and be prepared to ask the claims examiners any questions they might have. It would also, of course, give applicants something to do while waiting in extended lines. This might help to reduce the high level of boredom and frustration felt by persons stuck in long initial claims lines at the local offices. Employers might also be encouraged to keep a supply of booklets to distribute to employees being laid off or dismissed. This would better prepare first-time claimants for the application process at the local office.

The Connecticut Labor Department operates two special units to ensure that Unemployment Compensation and Employment Services are equally accessible to all people, regardless of race, creed, color, sex, national origin or area of residence. These two units, the Monitor Advocate and the Minority Group Representatives, both report to the assistant employment security division director who is responsible for Employment Services. Both positions were established at the direction of the Federal government.

The Monitor Advocate unit, which consists of one person, has two major responsibilities: to advocate the needs of migrant and seasonal farm workers, and to ensure

that a complaint system is set up and operating properly. This unit has been in operation since July, 1974.

The Monitor Advocate has set up a monitoring system, with the help of the Boston Regional Office of the U.S. Labor Department, that checks up on the types of services given to migrant and seasonal workers to ensure that they are being given the opportunity to seek a wide variety of non-farm jobs for which they may qualify.

The Monitor Advocate's major area of concern has been the development of an effective mechanism for resolving client complaints. The Monitor Advocate currently receives about 125-150 complaints a month, but this number is expected to rise considerably when more publicity is given to the complaint system in the near future.

The Monitor Advocate is able to resolve a good number of the less complex complaints on his own, and refers the rest to such agencies as the Human Rights and Opportunities Commission and the Wage and Hours Division of the Connecticut Labor Department. The Monitor Advocate follows up the complaints he refers to other agencies to try to see that they are handled in a timely and reasonable way. A "tremendous backlog" of complaints does exist, however, according to the Monitor Advocate.

The majority of complaints handled by the Monitor Advocate, over 50%, have to do with the question of wages. Others concern human rights, working conditions and related issues.

The Minority Group Representatives (three individuals) have the responsibility of planning, organizing, and supervising programs of service to minority groups. They perform compliance reviews of local offices to evaluate the quality and quantity of services given to minority groups. The Minority Group Representatives also review and investigate complaints of discrimination and recommend corrective actions.

The Minority Group Representatives also work closely with the Monitor Advocate to ensure that the complaint system is functioning in a satisfactory manner, that the problems of discrimination are handled expeditiously, and that full services are accorded to rural residents and migrants.

The Legislative Program Review Committee staff had an opportunity to speak with one of the Minority Group Representatives concerning the problems of discrimination. The representative indicated that it has been his experience that, while cases of outright discrimination do occur at intervals, they are not a major problem. Prejudicial attitudes among staff and employers, which must be corrected over many years, continue to present problems with which the Minority Group Representatives attempt to deal.

Because there are only three representatives for the entire state, they are unable to make compliance reviews of each local office more than once every two years. This has resulted in some "backsliding" at the local office

level, according to the representative with whom the Committee spoke, since staff members are apt to become less conscious of equal opportunity programs when they are not constantly reminded of them.

The Legislative Program Review Committee believes that the Monitor Advocate and Minority Group Representatives programs are useful in assuring equal access to Employment Security Division program for all people. It would appear reasonable to continue to develop such vital services to allow for expansion of services across the state.

#### Recommendation

THE SERVICES OFFERED BY THE MONITOR ADVOCATE AND THE MINORITY GROUP REPRESENTATIVES SHOULD BE BETTER PUBLICIZED BY THE CONNECTICUT LABOR DEPARTMENT SO THAT ALL CITIZENS IN THE STATE MAY TAKE ADVANTAGE OF THEM.

#### Prompt and Courteous Service

The average period of time between date of application and receipt of the first unemployment check is 14.2 days, which the Committee believes is within reason.

This type of prompt service, however, is in sharp contrast to the long wait a claimant often experiences when he or she files an initial claim.

Initial claims lines are quite often extremely long since initial claimants can walk into the local offices at any time in unpredictable numbers. Applicants

in the initial claims lines simply have to wait to be served on a first-come, first-serve basis.

After a claimant's initial visit, however, he or she is given a specific time to return to pick up his or her check. This appointment procedure is used for two reasons: it allows Department employees to schedule claimants at appropriate intervals in order to provide prompt service to all claimants, and it also discourages clients from taking part-time or temporary jobs "under the table" since they must report at a specific time each week in order to collect their checks.

The Legislative Program Review Committee examined the courtesy of Department employees through personal interviews with staff members and a mail survey of claimants. Unemployment compensation staff were found to be, with very few exceptions, very courteous and respectful to the public. Department employees are to be commended for their fine performance in this area.

A very small minority of claimants did report that they had been treated brusquely or even rudely at their local offices. The Legislative Program Review Committee understands that employees are expected to service an extremely high number of individuals every day and that some of these individuals can be impatient or unpleasant after waiting in long lines. It is vital, however, that employees are constantly reminded that they are responsible for providing courteous service to all claimants at all times.

It is evident to the Committee, based on survey responses, that the vast majority of employees are currently providing such service.

### Accuracy

It is obviously vital that unemployment compensation checks be made out in the proper amount, that records be verifiable, and that any errors found be promptly corrected.

The Benefit Payment Control Unit (BPCU) within the Employment Security Division is responsible for auditing benefit payments and recovering overpayments. This unit has developed a number of methods for detecting the fraudulent overpayments, which are a chronic problem, especially during periods of heavy claims.

The most common type of fraudulent claim filed in Connecticut is made by a person who is working "under the table" while collecting unemployment compensation benefits. This type of fraudulent claim is very difficult to detect. The BPCU does a "cross-match" of the wages paid by Connecticut employers on a quarterly basis and unemployment compensation benefit payments, which is useful in detecting this type of fraud. However, in many cases, the claimant and his or her employer will agree not to report his wages, and the cross-match becomes useless. The Labor Department does, however, receive substantial numbers of anonymous "tips" about persons who are collecting fraudulently and

follows up all such tips. This activity has resulted in the recovery of numerous overpayments.

The BPCU also utilizes a "return to work" form, by which employers notify the Department when they hire a former unemployment compensation recipient. This prevents the newly hired employee from collecting more unemployment compensation benefits than he or she is actually entitled to.

The Labor Department estimates that the rate of error in unemployment compensation computations (including common clerical errors and fraud) is in the 30% range. The current manual system of writing and posting benefit checks is highly susceptible to error. The Department is studying the feasibility of a switch to an automated processing system, which could be expected to reduce the rate of errors.

The rate of detection of fraudulent error can also be expected to improve when the BPCU fraud investigation unit expands from two investigators to five this fiscal year. A staff of two is clearly inadequate to investigate fraud at a time when over 130,000 claims are being filed each week.

The problem of recovering overpayments is a major one for the BPCU. The rate of recovery is low (66%), but indications are it is gradually increasing. The Department has the authority to reduce a claimant's future benefits

by the amount of any overpayment not recovered, but has not made extensive use of this authority in recent times since it is extremely time consuming to manually go through the old records to ascertain if any overpayments were made.

The Legislative Program Review Committee recommends that the Department of Labor continue to expand efforts to improve the rate of discovery and recovery of overpayments. The Legislative Program Review Committee encourages the U.S. Department of Labor to support the Connecticut Labor Department in these efforts by providing funds for adequate staff and equipment for this vital function.

#### Efficiency

The Legislative Program Review Committee has found that the Employment Security Division is operating below peak efficiency, basically due to extensive use of inexperienced intermittent help.

Currently, the Employment Security Division employs approximately 1,500 persons. Of this number, some 1,200 are permanent employees and 300 are temporary, "intermittent" employees who have been called in to handle the heavy claim load.

Some of the "intermittant" employees are people who have been with the Department on and off for years and are experienced, well-trained workers. Many, however, are inexperienced and are put on the lines with little

or no prior training. This group, obviously cannot be expected to maintain the production pace set by the more experienced workers.

Labor Department officials are quite aware of the difficulties this lack of training for new personnel creates. In recent months, new emphasis has been placed on the importance of training, both on the job and in the classroom. The training staff now consists of one individual who has other duties in addition to his training director function. Plans to expand the staff in the coming fiscal year have been made, and the number of departmentally operated courses offered will be substantially increased. The Department will also continue to send personnel to courses given by the U.S. Labor Department and to appropriate courses given at local colleges and universities.

The Legislative Program Review Committee applauds the Labor Department's plans to expand its employee training program, and believes that this effort will lead to increased productivity in the Employment Security Division.

The Labor Department is also to be commended for initiating a program for cross-training certain personnel in both the Unemployment Compensation (UC) and Employment Service (ES) functions. This program, when fully operational, will allow rotation of selected personnel (interviewers, claims takers, receptionists, adjustments clerks, and assistant managers) through all phases of the Unemployment

Compensation and Employment Service operations so that they can be assigned to work in many areas, depending on need. Currently, for example, a number of cross-trained individuals who generally work in Employment Service are helping to service the unusually high number of Unemployment Compensation claimants.

The cross-training program was started in 1972, but has not been fully implemented due to the recent heavy volume of unemployment claims which have left little time for training. Now that unemployment rates appear to be stabilizing and are expected to go down in future months, the cross-training effort will be intensified so that, ultimately, all Unemployment Compensation and Employment Service employees in the five classes mentioned above will be cross-trained.

The cross-training program, once fully implemented, can be expected to increase the productivity and efficiency of the Employment Security Division by providing additional flexibility to place people where the need is greatest. The Legislative Program Review Committee encourages the continuation and further development of this program.

#### Data Processing Needs

During the course of this study, it became clear to the Legislative Program Review Committee that the data processing systems used by the Employment Security Division are inadequate for its current work load. Much of the

processing is completed manually and takes a good deal longer to complete than is reasonable.

Check processing, for example, is a manual operation. Benefit checks are actually written at the local offices, and records of amounts paid are sent to the main office in Wethersfield for posting. It is not known until seven to ten days later how much money was actually disbursed in any given week. This manual check processing, in addition to causing time lags in posting accounts, is also subject to numerous clerical errors, as mentioned previously.

Another data processing difficulty stems from the recent changeover from a "compensable separations" to a "benefit-ratio." Current processing equipment is simply inadequate to handle the changeover, and hence, the new system has not yet been implemented.

In order to make the data processing system operate on a more timely and accurate basis, a needs survey is currently being taken by an internal team headed by the data processing coordinator. This team, aided by outside consultants and Labor Department officials from other states, has completed a preliminary report indicating methods for improving control of the flow of benefit payments and collection of employer taxes. This preliminary report is now being studied by the state labor commissioner.

The Legislative Program Review Committee commends the

Labor Department for its efforts to improve the efficiency of the data processing system and encourages both the Connecticut and U.S. Labor Departments to give full support to the timely improvement of this vital service.

Mailing Unemployment Compensation Checks: An Experimental Program

In an effort to reduce congestion at local offices and to improve the Department's service to the public, the Connecticut Labor Department recently initiated a pilot program of mailing unemployment compensation checks to claimants in the Bridgeport area. Because of the success of this pilot program, mailing has recently been extended to the New Haven, Torrington, and Waterbury areas.

Previously, all claimants were required to report to their local office every two weeks to pick up their checks. Under the new system, claimants report to the office every six weeks, while receiving checks by mail on a bi-weekly basis.

The new mailing procedure in no way reduces a claimant's responsibility to seek work. A claimant is still required to register with the Connecticut State Employment Service (CSES), and the CSES will continue to contact claimants when suitable job opportunities arise.

Bridgeport area postal officials have been quite cooperative in the implementation of the mailing experiment.

They have agreed to give special handling to the checks to ensure next-day delivery and they are taking steps to avoid the theft of checks in neighborhoods where this is a danger.

All indications are that the pilot program of mailing checks is successful, and will be gradually expanded to all offices during the current high level of unemployment. When the labor market improves, reporting intervals for claimants will be gradually shortened until claimants are once again required to visit their local office every two weeks.

The Legislative Program Review Committee believes that the mailing of unemployment compensation checks during periods of heavy unemployment is a worthwhile method of improving services to clients. The Committee urges, however, that clients be frequently reminded of their legal obligations to continue to seek suitable work and to report any wages they may receive from part-time work.

The mailing system carries with it the potential for an increased number of fraud cases. The Legislative Program Review Committee recognizes this problem area and encourages the Department to carefully evaluate the mailing system when data sufficient for comparison of incidents of fraud under both systems (mailing and local office distribution) is available.

## Employment Security Advisory Council

The Employment Security Advisory Council is composed of six members: two employer representatives, two employee representatives, and two representatives from the general public appointed to three-year terms by the Governor. Advisory Council members serve without compensation. The duty of the Council, according to Connecticut General Statutes Section 31-239, is to aid the Department of Labor commissioner in policy formation by discussing administrative problems and "assuring impartiality and freedom of political influence in the solution of such problems."

As a result of interviews with Council members and Department of Labor officials, the Legislative Program Review Committee believes that the Advisory Council as it now exists does not fulfill its statutory function. It became evident during attempts to contact Council members that the Council operates in name only. Only three of the six current members replied to a survey sent by the Committee to all Council members and only one responding member made arrangements for a personal interview.

The three members who did reply to the survey noted the Council is seldom included in policy making decisions and because of this, members are very dissatisfied with the role of the Council. Meetings are held on an irregular basis and are usually initiated by the commissioner. The

Council is not required to submit an annual report and in recent years has been involved in the preparation of only one major study, a report on merit rating completed in 1969. This report was the result of legislative action, Special Act 275 of the 1967 Session, and dealt with the implementation of a benefit-ratio experience rating system in Connecticut.

Federal officials have suggested that improvements be made in the utilization of Connecticut's Advisory Council by the Department of Labor. The lack of regard for the Advisory Council was evidenced in part by the fact that it is not included in the organizational chart of the Employment Security Division.

Although advisory councils are not required by Federal law, they are recognized to be a desirable resource group. Every state except California and the District of Columbia has an advisory council and most are required by state statute. In about half of these states, councils are appointed by the governor. Councils in the other states are appointed by the administrative agency head. Membership in almost all the councils includes representatives from labor, management, and the general public. Size of membership ranges from five to 18, with the majority averaging six to nine members. Eleven states require councils to make periodic reports to the governor and the legislature. New York, Massachusetts, and New Jersey require annual

reports to the legislature.

The Advisory Council in Connecticut does not submit an annual report of its activities to the Governor and the legislature. The present membership level of six members appears adequate, but expertise in the areas of employment security is limited to a minority of the Council members. Commitment to serve the Council in a full capacity appears to be lacking. The completely impartial character the Council is intended to maintain is also to be questioned.

The Committee seriously questions the usefulness of the Advisory Council as it now exists and doubts that at present, it performs any meaningful function.

#### Appeals

Federal law requires that every state provide an "opportunity for a fair hearing before an impartial tribunal for all individuals whose claims for unemployment compensation are denied." Each state system therefore includes an appeals process to conform with Federal requirements.

Connecticut's appeal process was modified in 1974 by Public Act 74-339. The unemployment commissioners section, in operation since 1938, was abolished and replaced by a referee system, a suggestion of Federal officials. The referee system is the appeals process used in the majority of the states.

Connecticut's appeals process was restructured for

several reasons. Under the old unemployment commissioners system, only one level of administrative appeal was available to claimants and employers who disagreed with local office examiners' decisions. An appeal was made directly to one of six commissioners (appointed to five year terms by the Governor) who set a time for a hearing. If any party to the dispute was not satisfied with the unemployment commissioner's decision, he or she could then appeal to the Superior Court. Having only one level of appeal on the administrative level added to the work load of the already overburdened courts.

Another problem with the unemployment commissioners system was that the commissioners were not included under classified service. Appointments were made on a political basis. Most appointees had little or no experience with the complex unemployment compensation laws when they assumed the position of unemployment commissioner, and formal training for commissioners was not provided. Decisions of commissioners were not binding on the Unemployment Compensation Division and were not considered precedents for future decisions. Uniform interpretation of the law suffered because of these factors, and the likelihood of second appeals to the courts was increased.

The appeals process under the new referee system is much improved in these areas. A three-member Board of Review was set up in July, 1974. The chairman of this

Board is appointed by the Governor, who makes the selection from a list of persons who qualify for the position by merit examination. The chairman is the executive head of the appeals division. Two per diem members (one representative of employers and one representative of employees) not in the classified service are also appointed by the Governor to serve on the Board for the duration of the Governor's term.

The Board of Review appoints referees, the initial hearing officers, whose duties are comparable to those of the former unemployment commissioners. Referees must take an exam and are in the classified service of the state. Once referees are appointed, they attend a three-day intensive training program sponsored by the Federal regional office. The chairman of the Board of Review designates a chief referee to be the administrative head of the referee section. Each referee is responsible to the chief referee, who assigns cases and supervises policy-making to assure equitable decisions.

The number of referees varies with the work load of the appeals division. The Board of Review not only has the power to appoint the referees, but also determines the number necessary to properly handle the division's duties. The appeals section is currently funded for six referee positions, which have been filled recently by new appointees. Unemployment commissioners whose terms

had not expired when the referee system went into effect can continue in office as referees until expiration of their original terms or longer if they pass merit examinations and meet the newly established referee requirements. Four present referees were formerly commissioners, bringing the total number of referees to 10. The Legislative Program Review Committee believes this number is adequate to meet the current work load.

Two levels of appeal are now available on the administrative level. An appeal is first heard by a referee. If any party is not satisfied with the referee's decision, a request for review by the full Board or by the chairman alone (except in a case involving a labor dispute) can be made. Few requests for a full Board hearing are received. In fact, the majority of second level appeals are "hearings on record." Appeals of this nature involve examination of the referee's findings of fact and conclusions of law by a Board member. This review can be done without the appearance of the parties involved. Hearings on record are a prompt and efficient means of giving appeal requests proper attention while screening out cases that lack substance for appeal. Board of Review decisions are binding on the Unemployment Compensation section and on referees.

Appeals of a Board of Review decision can be made to the Superior Court of Hartford County. Since the Board

has been in operation, only 29 (8.9%) of all the cases heard by the Board have gone on to Court. The Board has been in existence only since late 1974, so the Court cases are still pending at this time. These figures seem to indicate that instituting a second appeal level has alleviated much of the need for state court involvement in unemployment compensation cases.

Under the unemployment commissioner appeals system, the backlog of cases was unreasonably large. According to the present chairman of the Employment Security Board of Review, Mr. Morris Token, this backlog is gradually diminishing and should be completely eliminated in the near future because of staff additions and increasing expertise among present staff.

In general, appeals are handled quite promptly. The average length of time for most normal cases between receipt of a request for a hearing and notification of a referee decision is 30 days.

Appeal forms received by a referee usually take a week to be processed. Time to properly notify all parties must be allowed as well. A hearing date is usually set within two weeks of the receipt of a request. Parties to an appeal are notified of a referee's decision within another two weeks after the hearing date.

According to Federal criteria, at least 50% of all appeals cases requiring written decisions should be

handled within 30 days. The appeals division keeps records that follow Federal guidelines on the processing of cases. In June, 1974, under the unemployment commissioners system, 686 written decisions were issued. Of these decisions, 175 were made within 30 days of receipt of the request, 181 within 31-45 days, 156 within 46-75 days, and 175 were made on cases over 75 days old. Obviously the "50% within 30 days" Federal criterion was not being met under the former system.

New referees were appointed in April, 1975, and first held hearings in May, 1975. One thousand one hundred forty-nine cases were processed during the month. Three hundred eighty-five were dismissed for lack of substance, withdrawn, or otherwise dismissed. The total amount of written decisions was 764, and of these, 195 were made within 30 days, 149 within 31-45 days, 125 within 46-75 days, and 295 over 75 days. The new system shows some improvement in meeting the Federal criterion, but a large number of the month's cases fall into the over-75-days category.

According to the chief referee of the appeals division, Mr. Joseph Maluccio, failure to meet the Federal criterion occurs mainly because of interstate claims, which require receipt of pertinent information from other states. Mailing forms between states and subsequent processing of interstate appeals reduces the efficiency of the whole appeals division. Interstate and intrastate appeals are considered

together under the 50% within 30 days Federal criterion set. Mr. Maluccio stated that over 50% of the intrastate appeals are disposed of with a written decision within 30 days, but when the more complicated and time-consuming interstate appeals are considered, the average processing time for all cases is increased. For example, in May, 1975, interstate appeals accounted for 208 of the 764 decisions issued, and 199 of the interstate cases were in the over-75-days or backlog category.

The total backlog of cases (about 1,850 as of June, 1975) is due primarily to interstate appeals, which comprise over 30% of the total. Processing of the interstate claims takes considerably longer than the processing of less complex intrastate appeals. Since the referees must devote so much time to interstate claims, intrastate appeals may not receive prompt attention and may be added to the backlog. By carrying such a large backlog, the division cannot meet the Federal criterion.

Mr. Maluccio has designated reduction of the backlog, especially the backlogged interstate appeals, as the top priority of the referee section. He predicts that by July, 1975, the backlog of 600 interstate appeals can be reduced to 200. With a more manageable volume of interstate backlog, referees can devote their efforts to reducing the total backlog. During their first month of operations, the referees reduced the total backlog of 1,975 interstate

and intrastate cases to 1,850. It was Mr. Maluccio's opinion that once the interstate backlog was reduced to a reasonable number, the total backlog would receive more attention and rapidly diminish as the new referees gain more experience in the coming months. Reduction in the backlog will result in improvements in meeting the Federal criterion for all cases. Mr. Maluccio also felt it would be possible by the end of this summer for the majority of interstate cases to receive a written decision within 45 days or less. If this occurs along with a dramatic reduction of the backlog, it is feasible that the 50% within 30 days Federal criterion could be met this year.

The Committee supports the appeals division decision to concentrate on reducing the backlog of cases and the processing of interstate claims. With improvements in these areas, the intrastate appeals can be handled more promptly and efficiently.

If a claimant has been determined eligible by an examiner and a former employer appeals the examiner's decision, the claimant may opt to receive benefits during the appeal process until a decision is rendered. If the decision is unfavorable to the claimant, repayment of benefits received is ordered. A claimant initially determined ineligible who wins an appeal or a claimant who has decided to postpone benefit payment pending a decision receives benefits for the time he or she

was eligible while appealing the examiner's decision.

A claimant's right to appeal is explained in a booklet which is given out at the time of filing for unemployment compensation benefits. Appeal applications are easy to understand and are available at the local office. Local office staff are ready to answer questions and assist the claimant in filling out appeal forms. The right to appeal is also discussed in the notification of an examiner's decision, which is sent to both the claimant and his or her former employers. It was the opinion of Mr. Tonken that the parties to an appeal have a good understanding of the appeals process.

Interviews with staff of the appeals section revealed a sympathetic attitude toward the appealing parties. Flexibility in the appeals process was stressed as an important goal.

Hearings are held at the convenience of the parties involved. Referees have statewide jurisdiction, a change from the commissioners system in which each commissioner was assigned to a separate district. The district offices are being phased out and arrangements have been made to hold hearings in public facilities, such as town halls or schools, in different areas around the state. Use of such facilities eliminates the cost of maintaining offices (which was the practice under the former system) and reduces the travel time and expense of appealing for the parties involved. Board of Review hearings are held

in the Department of Labor building in Wethersfield. It was noted that the facilities are presently inadequate at this location, but plans to improve this situation are currently being reviewed.

Non-English speaking persons are advised to obtain the services of an interpreter if it becomes apparent during the appeals process that the one or more of parties involved has a language barrier. Usually a case is continued until the interpreter, usually a family member or friend, can appear with the non-English speaking party. Every effort is made by the referees and the Board to provide a fair hearing for everyone requesting an appeal.

#### The Appeals Process

A request for an appeal of an examiner's decision must be made within 14 days of receipt of notification of the examiner's decision. Once a hearing date has been set by the referee, notice must be sent to all interested parties not less than five days prior to the date. A referee's decision becomes final 15 days after notification is mailed or personally delivered to the parties involved. A request for appeal of a referee's decision, showing good cause for the reopening of the case, may be made to the Board any time before the 15th day of the notification period. Judicial review is permitted only after all administrative remedies are exhausted. All the expenses of appeals on the administrative level are carried by the agency.

Appeals officials have the power to administer oaths and issue subpoenas, but are not bound by formal court proceeding rules. Records of the proceedings at any hearing before a referee or the Board must be kept and any party to a hearing may be accompanied by legal counsel.

The Legislative Program Review Committee believes the improvements made in the appeals process under the new referee system have had a desirable effect in the areas of efficiency and effectiveness. The new eligibility requirements for hearings officials, the two administrative appeal levels, the shortened length of the process, and other internal modifications should produce more equitable hearings and better service to the parties involved.

Since the system has only been in operation since July, 1974, it is difficult to judge the quality of its performance. It appears that the quality of hearings under the new system is of a high level, although hard data sufficient to compare the present system with the former system are not yet available. The Committee suggests that a review of the new appeals process in terms of its statutory duties and self-defined goals be included in the Legislative Program Review Committee's follow-up to this report. More substantial data concerning the efficiency and effectiveness of the system should be available at that time.

## Final Comments

The Legislative Program Review Committee was especially impressed with the well-managed planning and personnel operations of the Employment Security Division.

Under the direction of the U.S. Department of Labor, the Division annually prepares a well thought-out Plan of Service for the coming fiscal year. Reasonable goals and objectives are developed and generally met.

In addition, the Division has a policy of promoting from within its own ranks. Many administrative positions, including several at the top level, are filled with persons who started out in entry-level positions.

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Chapter IV

EFFICIENCY AND EFFECTIVENESS OF THE CONNECTICUT STATE  
EMPLOYMENT SERVICE

Job Placement and Counseling

Special Manpower Programs

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## Chapter IV

### EFFICIENCY AND EFFECTIVENESS OF THE CONNECTICUT STATE EMPLOYMENT SERVICE

The Connecticut State Employment Service (CSES) is responsible for the placement, counseling, and referral for training of some 300,000 persons annually. Approximately two-thirds of the individuals served are unemployment compensation claimants who must register with the CSES in order to be eligible for unemployment compensation benefits. Any other individual who wants to is also eligible to use the CSES. Some 50,000 veterans use the CSES annually, and are, under Federal law, given priority treatment in referral and placement services.

CSES services are available at each of the local offices of the Connecticut Labor Department located throughout the state. The CSES utilizes a system of self-service microfiche viewers at each office that display up-to-date information on job opportunities throughout the region and state. If a client thinks he or she would be interested in and qualified for a particular job listed, he or she speaks with an employment counselor who screens the individual and refers him or her for an interview. Qualified employment counselors are also available, on a very limited basis, for counseling and testing clients who are uncertain as to what fields would be appropriate for them.

The staff limitations in the Employment Services area are due to the heavy unemployment compensation claim load. Many Employment Service people, because of cross-training, can and are working in unemployment compensation activities. Commissioner Santaguida recognized the impact understaffing has on the Employment Service activities such as counseling, placement, screening and referrals and made requests to the Federal office for additional temporary personnel. These requests were granted and with increased staff to handle the unemployment compensation claim load, Employment Service staff can return to their regular duties. Improvements in Employment Service activities because of returning staff should be evident soon.

All services of the CSES are equally available to all persons, regardless of race, creed, color, sex, age, or national origin. It is CSES policy to take affirmative action to promote employment opportunities for all applicants on the basis of their skills, abilities, and job qualifications.

The 1976 budget for the CSES indicates that an increased effort will be made this coming fiscal year to increase the number of individuals placed. The agency expects to accomplish this through staff training, emphasis on the placement and employer relations functions, and an extensive evaluation of the current placement process in each local office. It is projected that the number of individuals placed will increase by 9% under this program.

The gradually improving economic picture can be expected to contribute to increased placements also.

The State Labor Department has provided that Legislative Program Review Committee with the following statistics which give a picture of the operation of the CSES. The figures are for the period between July 1, 1974 - March 31, 1975.

- A. Number of persons registered with the CSES: 242,000  
Unemployment Compensation claimants: 163,000  
Other: 79,000
- B. Number of persons referred for interviews: 65,963
- C. Number of persons placed by CSES: 26,574
- D. Average hourly wage of persons placed by CSES: \$2.71
- E. Number of persons referred by CSES for job training: 2,241
- F. Number of job openings received from employers: 42,011

#### Job Placement Activities

It is clear from these statistics that the CSES has had great difficulty in soliciting adequate numbers of job orders in this recession period, but has also been unable to fill a large percentage of those orders it does receive from local employers.

The major reason for this difficulty, according to employers surveyed by the Legislative Program Review Committee, is that the CSES fails to properly screen candidates it refers to employers for interviews. Employers report that the CSES frequently sends candidates who lack

even the basic requirements for the job opening or who are really not interested in the position. A number of employers stated that they no longer use the CSES because of such poor experiences.

During periods of high unemployment, there is a great temptation to let a person "just have a chance" at a job opening, even if he or she does not exactly meet the requirements. Also, when the CSES is servicing such large numbers of clients as it is now, allocating the time to properly screen candidates can be a serious problem. This time problem has recently become even more severe since numerous Employment Security Division employees who ordinarily staff the CSES have been temporarily assigned to handle the extraordinarily high Unemployment Compensation claim load, leaving the CSES understaffed in many areas.

CSES staff people have noted that incomplete job orders received from employers contribute to the screening problem. Many times job descriptions are too general or vague as to necessary skills, and the referral of suitable candidates for these jobs becomes difficult. Newly instituted Employer Service Improvement Projects designed to encourage employers to use the Employment Service are now dealing with this problem. Local office staff receiving job orders are advised to ask employers for specific details and are devoting more time to referral follow-up.

The Employer Relations Unit, which is responsible for

the Improvement Projects is the "bridge" between Employment Service and the employers. Staff in this unit contacts employers on an individual basis to explain the Employment Service and encourage its use. Attempts are made to define problem areas and make corrections. The Committee believes the efforts of this unit to improve services to employers can result in an increased volume of quality job orders and job placements and encourages concentration in this area. Employer use of the Job Bank and job information services can aid the agency in realizing its goal of job placement of unemployed and underemployed individuals.

#### Counseling Services

Clients of the CSES report that they are concerned about the lack of job counseling provided. In a survey conducted by the Committee, a number of clients indicated that they were uncertain as to what positions they would be interested in, or qualified for, and thus had a very difficult time looking for work. Counseling by trained employment specialists would help to eliminate this problem and would most likely result in more and better job placements. This counseling function is time consuming, however, and has suffered during the current heavy Unemployment Compensation claim load. The function of job placement, which produces immediate results, has taken priority over the function of job counseling, the results of which are often less immediate. In fact, the

1976 budget provides for 106.3 man years for the placement function and only about 3.2 man years for counseling.

Recommendation

THE CONNECTICUT LABOR DEPARTMENT SHOULD GIVE SERIOUS CONSIDERATION TO INCREASING THE NUMBER OF MAN YEARS ALLOCATED TO THE COUNSELING FUNCTION. ALTHOUGH IT IS CLEAR THAT IMMEDIATE PLACEMENT OF CLIENTS MUST CONTINUE TO BE THE PRIORITY FUNCTION OF THE CSES, THE LEGISLATIVE PROGRAM REVIEW COMMITTEE BELIEVES THAT IMPROVED JOB COUNSELING SERVICES ARE A MAJOR NEED OF THE CSES. THE COMMITTEE URGES THE CONNECTICUT LABOR DEPARTMENT TO EXPLORE WITH THE U.S. LABOR DEPARTMENT METHODS FOR EXPANDING THE JOB COUNSELING SERVICES OF THE CSES TO BETTER SERVICE CLIENTS WHO ARE UNSURE OF WHAT OCCUPATIONS THEY WOULD BE INTERESTED IN OR QUALIFIED FOR.

Claimants also complained that many employers do not seem to list their managerial and professional-technical jobs with the CSES. CSES officials indicate that this charge, unfortunately, is valid for a number of firms. Such firms habitually listed their clerical and service jobs with the CSES, but go through private employment agencies to recruit their professional and managerial staff. This practice appears to be quite short-sighted on the part of these employers, since the CSES has on file the names of many highly qualified professional/technical

and managerial persons who are actively seeking work.

A Job Bank devoted exclusively to the listing of job orders for professionals is under consideration by the Department. Employer cooperation in the development of this proposal is being solicited. An Employment Service staff person has been assigned to work with a volunteer group of approximately 450 unemployed engineers, accountants and other professionals whose goal is job development for professional occupations. The combined efforts of this group and the Employment Service staff should produce better services for professionals and more awareness on the part of employers of the professional skills available in Connecticut through the Employment Service.

In an effort to provide employers with information on the services offered by the CSES, and to solicit employers' suggestions for improving the CSES, Governor Ella T. Grasso and the Connecticut Labor Department co-sponsored a "Conference on Jobs" in mid-June. This conference, attended by over 200 state employers, provided an excellent forum for government and business leaders to lay the groundwork for expanded and improved cooperation in job placement. The Governor and the Labor Department are to be commended for initiating this conference, and the Legislative Program Review Committee encourages the Labor Department to continue to keep open the channels of communication with state employers in order to better serve the businesses and citizens of Connecticut.

The job development function of Employment Service could be made more effective by further coordinating agency efforts with those of other state agencies and private organizations. The Department of Labor already works in conjunction with the Department of Commerce and the Department of Social Services in job development. Continued and expanded coordination of efforts in this area with the agencies mentioned above, the State Council on Jobs and private organizations with interests and experience in job placement and development would be helpful, and would have a positive impact on the quality of service offered to clients by the Connecticut Department of Labor.

#### Recommendation

THE CONNECTICUT DEPARTMENT OF LABOR SHOULD CONTINUE AND EXPAND EFFORTS TO COORDINATE THEIR OWN JOB DEVELOPMENT ACTIVITIES WITH THOSE OF OTHER STATE AGENCIES AND PRIVATE ORGANIZATIONS. THE LEGISLATIVE PROGRAM REVIEW COMMITTEE ENCOURAGES CREATIVE USE BY THE DEPARTMENT OF EXISTING RESOURCE GROUPS EXPERIENCED IN JOB DEVELOPMENT AND RELATED AREAS.

#### Special Manpower Programs

In addition to providing direct counseling and placement services, the State Labor Department also administers several Federally funded manpower services programs.

The Work Incentive (WIN) Program allows employers

to claim special tax credits for hiring welfare recipients, to write off costs of training and day care facilities at a faster than normally allowable rate, and repays employers for extra costs involved in training new WIN workers. This program, started in 1968, is cooperatively managed by the State Labor Department and the State Social Services (Welfare) Department.

The Comprehensive Employment and Training Act (CETA) program administered by the Department provides training with employment for economically disadvantaged, unemployed, and underemployed individuals.

Employers who train CETA participants are reimbursed for extraordinary training costs, including job instructor salaries, training materials and supplies, pre-job supplemental technical training, and program administration. Most training positions currently are in the welding, drafting, and machine trades, and are located in five major cities around the state.

The Federal Bonding Program is designed to help ex-offenders obtain jobs by bonding them when they would have ordinarily been denied jobs because of their inability to obtain fidelity bond coverage due to their criminal records.

Over 200 ex-offenders have been given "fresh starts" by this program; only one person has defaulted. Currently, this program is bonding 88 individuals for over \$600,000.

The State Labor Department operates, in cooperation with several community action agencies and local trade unions, apprenticeship programs to train young people for careers in skilled trades. Both classroom and on-the-job training is provided in these one-to-six-year programs. Through these programs, young people learn needed skills and receive a salary at the same time. Approximately 2,500 apprenticeship program sponsors are currently operating in the state, with 5,500 active apprentices. The Department of Labor has plans to expand this important program to continue to supply the pool of skilled workers Connecticut so badly needs.



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APPENDIX

Projected Yield Chart

Agency Response

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CONNECTICUT LABOR DEPARTMENT  
EMPLOYMENT SECURITY DIVISION

Comments on Reliability of the Projections

The Unemployment Compensation Payments were developed from the Marsh and McLennan program recently developed. These results appear reasonable for the given unemployment levels assumed.

The taxable wages were developed by a shorthand approach, using previous calculations as a guide.

The yield rates were based on a March 6, 1975, detailed tabulation to produce revenue estimates and the Marsh and McLennan program. Yield rates under the flexible tax base specifications were approximated by the phase-in effects of the shift in taxable wage base.

Research and Information  
April 3, 1975

The chart entitled Projected Yields from Combinations of Tax Rates and Wage Bases for 1975 and 1976 which appears in the appendix to this report was developed by the project team from projections supplied by the Research and Information Office of the Connecticut Labor Department.

PROJECTED YIELDS FROM COMBINATIONS OF  
TAX RATES AND WAGE BASES FOR 1975 AND 1976

(\$ amounts in millions)  
(Yields shown are on an accrual basis)

F.S.T.=Fund Solvency Tax  
M.R.=Minimum Rate

1975 Yields - Total Benefit Payments to = \$280.1 million								
Taxable Wage Base	Base Amount (Benefit Ratio Rate + 0.9% F.S.T.)	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0%	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0% + M.R. from 0.5% to 1.0%	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0% + M.R. from 0.5% to 1.0% + Emergency Tax of 0.5%	Fund Level
\$4200	120.2	-159.9	124.5	-155.6	131.1	-149.0	152.6	-127.5
5000	137.9	-142.2	142.8	-137.3	150.4	-129.7	175.1	-105.0
6000	162.7	-117.4	168.5	-111.6	177.4	-102.7	206.6	- 73.5
7000	184.8	- 95.3	191.4	- 88.7	201.6	- 78.5	234.7	- 45.4
7800	198.6	- 81.5	205.7	- 74.4	216.6	- 63.5	252.2	- 27.9
50% (4600)	129.7	-150.4	134.3	-145.8	141.4	-138.7	164.6	-115.5
60% (5500)	149.0	-131.1	154.3	-125.8	162.5	-117.6	189.2	- 90.9
70% (6400)	171.1	-109.0	177.2	-102.9	186.6	- 93.5	217.3	- 62.8
75% (6900)	184.8	- 95.3	191.4	- 88.7	201.6	- 78.5	234.7	- 45.4

PROJECTED YIELDS FROM COMBINATIONS OF  
TAX RATES AND WAGE BASES FOR 1975 AND 1976

(\$ amounts in millions)  
(Yields shown are on an accrual basis)

F.S.T.=Fund Solvency Tax  
M.R.=Minimum Rate

1976 Yields - Total Benefit Payments to = \$185.0 million								
Taxable Wage Base	Base Amount (Benefit Ratio Rate + 0.9% F.S.T.)	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0%	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0% + M.R. from 0.5% to 1.0%	Fund Level	Base Amount + F.S.T. from 0.9% to 1.0% + M.R. from 0.5% to 1.0% + Emergency Tax of 0.5%	Fund Level
\$4200	128.8	- 56.2	133.4	- 51.6	140.5	- 44.5	163.3	- 21.7
5000	142.8	- 42.2	148.0	- 37.0	155.9	- 29.1	182.0	- 3.0
6000	162.7	- 22.3	168.8	- 16.2	177.7	- 7.3	208.4	+ 23.4
7000	178.5	- 6.5	185.4	+ 0.4	196.2	+ 11.2	229.9	+ 44.9
7800	189.4	+ 4.4	196.9	+ 11.9	207.3	+ 22.3	244.6	+ 59.6
50% (5000)	144.3	- 40.7	149.5	- 35.5	157.4	- 27.6	183.5	- 1.4
60% (5900)	159.4	- 25.6	165.3	- 19.7	174.1	- 10.9	203.7	+ 18.7
70% (6900)	181.3	- 3.7	188.2	+ 3.2	198.2	+ 13.2	232.9	+ 47.9
75% (7400)	189.0	+ 4.0	196.4	+ 11.4	206.8	+ 21.8	243.6	+ 58.6





OFFICE OF THE COMMISSIONER

STATE OF CONNECTICUT  
LABOR DEPARTMENT  
200 FOLLY BROOK BOULEVARD,  
WETHERSFIELD, CONNECTICUT 06109

August 11, 1975

George L. Schroeder, Director  
Legislative Program Review Committee  
Connecticut General Assembly  
State Capitol - Room 402  
Hartford, Connecticut 06115

Dear Mr. Schroeder:

I have reviewed with staff your comprehensive report of the Unemployment Compensation Program which I administer.

We believe the recommendations you are making to the General Assembly on financing this program and for revising benefit eligibility standards will stimulate an awareness in that body to the acute problems which must be addressed at their next session.

I have directed staff to implement at once the worthwhile recommendations made in the report for improving the administration and management of the Unemployment Compensation Program and the effectiveness of the Connecticut State Employment Service.

Sincerely,

FRANK SANTAGUIDA  
Labor Commissioner

