2023 Overview of North Carolina's Unemployment Insurance Program

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N.C. DIVISION OF EMPLOYMENT SECURITY

DES Overview

- One of 5 divisions in the N.C. Department of Commerce

- Purpose to administer the unemployment insurance system for the State of North Carolina by delivering efficient, effective and quality service

- Benefits are funded by unemployment taxes that employers pay on employee wages (UI Trust Fund)

- Federal-state partnership

- DES does not receive any funding from North Carolina's General Fund

UI Overview

- Trust fund $4.1 billion

- Benefits in North Carolina are a maximum of $350 per week

- Maximum duration is 12 weeks

- Average Weekly Benefit amount is $297.33

- Unemployment Insurance is not a Salary Replacement Program

Life of a Claim

- Individual files a claim.

- DES determines eligibility.

- Eligible claims are paid.

- Individuals or employers have two different appeal rights.

Individuals & UI: Eligibility

- Claimant must be eligible and qualified

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Eligibility:

- Earn enough money within 12-month period
- Meet work search requirements
- Be able to work
- Be available for work

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Qualification:

- Unemployed through no fault of their own

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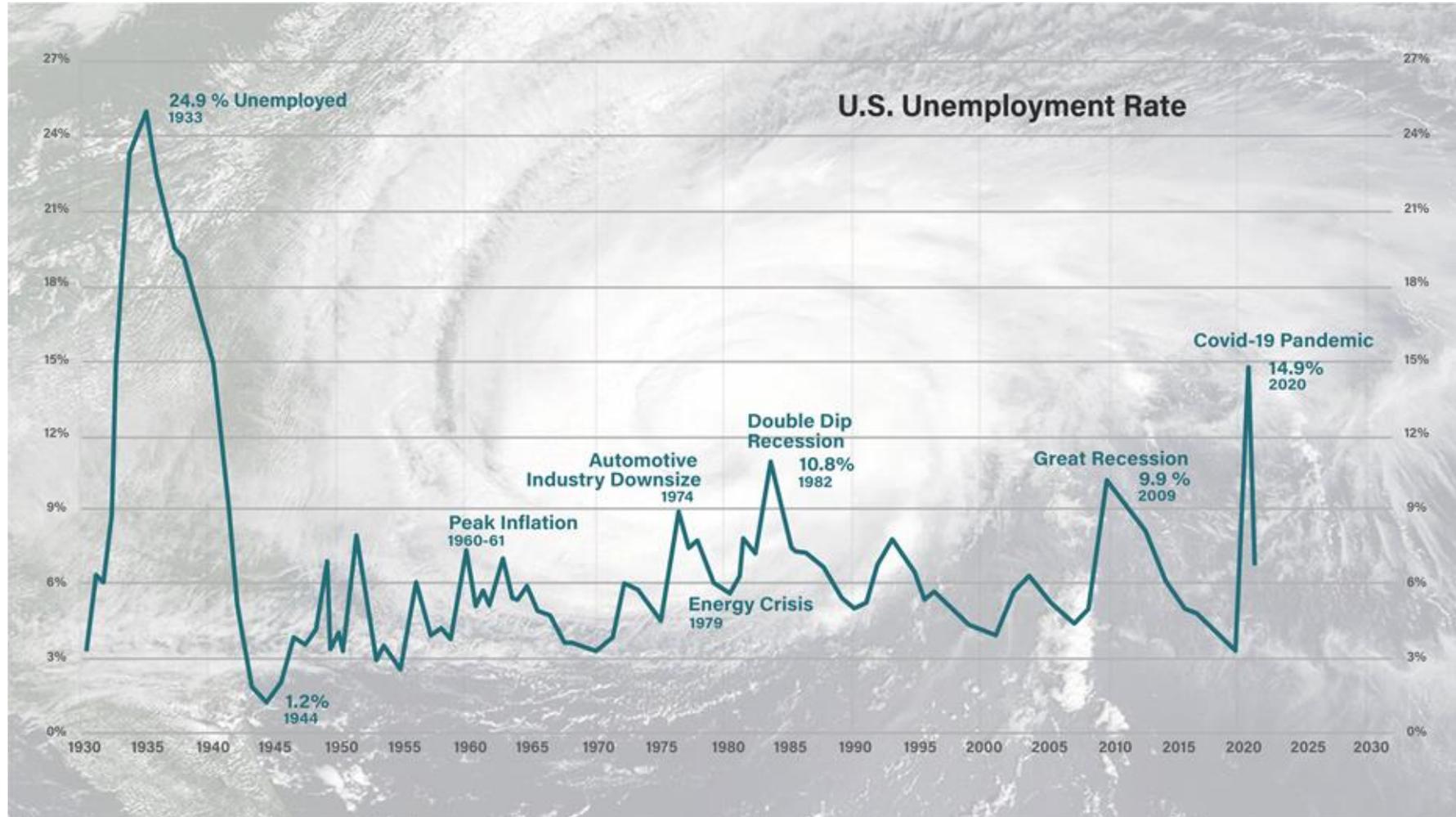
- DES will determine eligibility

PANDEMIC in RETROSPECT

Then the unthinkable happens...
The Perfect Storm

Historical Context: Unemployment Rates

U.S. Unemployment Rate

24.9 % Unemployed
1933

1.2%
1944

Peak Inflation
1960-61

Automotive
Industry Downsize
1974

Energy Crisis
1979

Double Dip
Recession
10.8%
1982

Great Recession
9.9 %
2009

Covid-19 Pandemic
14.9%
2020

Currently at pre-pandemic unemployment levels.

Sept. 2023: 3.4%

Life-Altering Events

- Great Depression

  - Created the Social Security Act of 1935

- Energy Crisis

  - Establishment of a national computerized UI system

- Great Recession

  - Rewrote NCGS Chapter 96

  - Duration, Benefit Amounts, Qualified Reasons

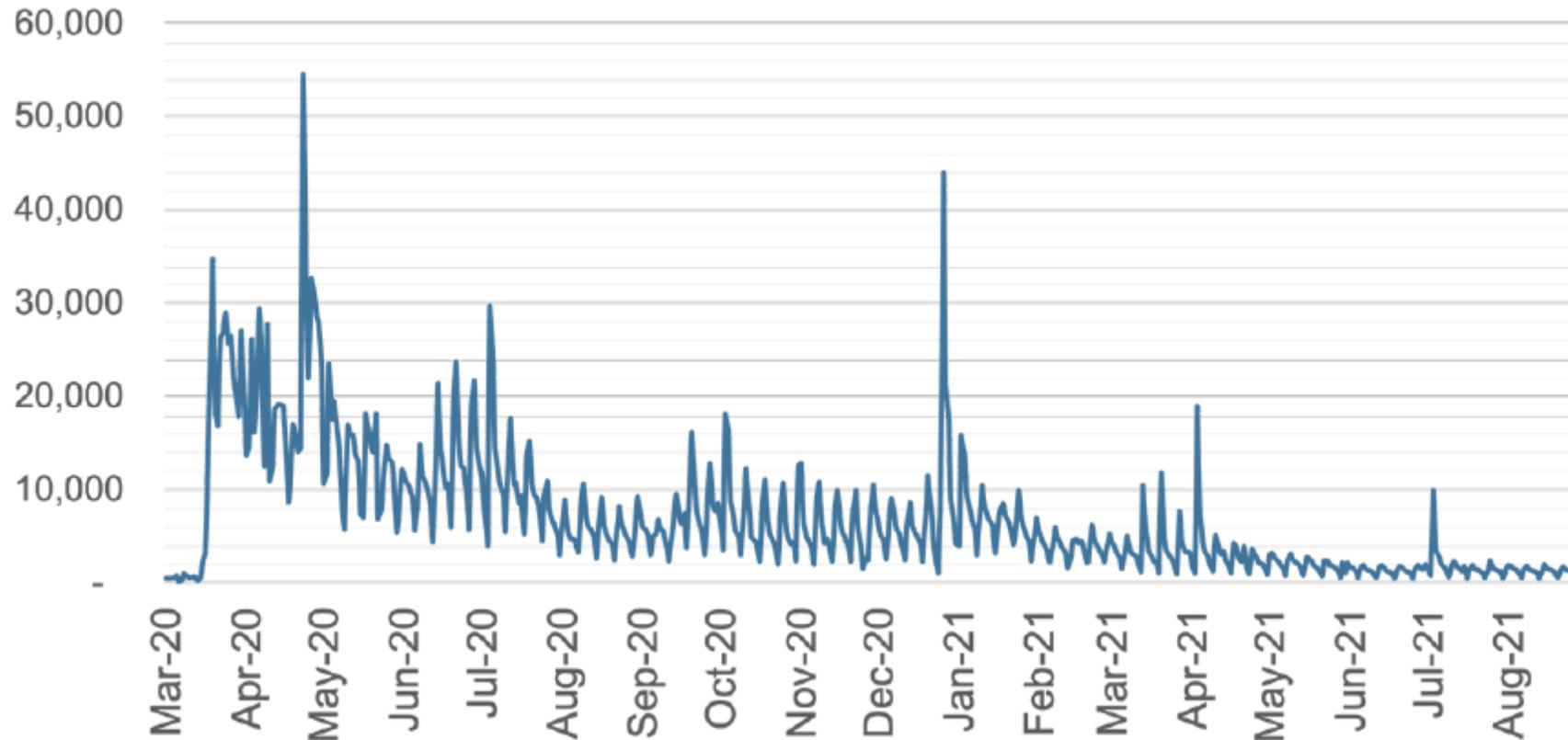- Pandemic

  - Changed how we live worldwide

A Perfect Storm: Surge in Unemployment Claims

3.8M Claims Filed March 15, 2020 – September 10, 2021
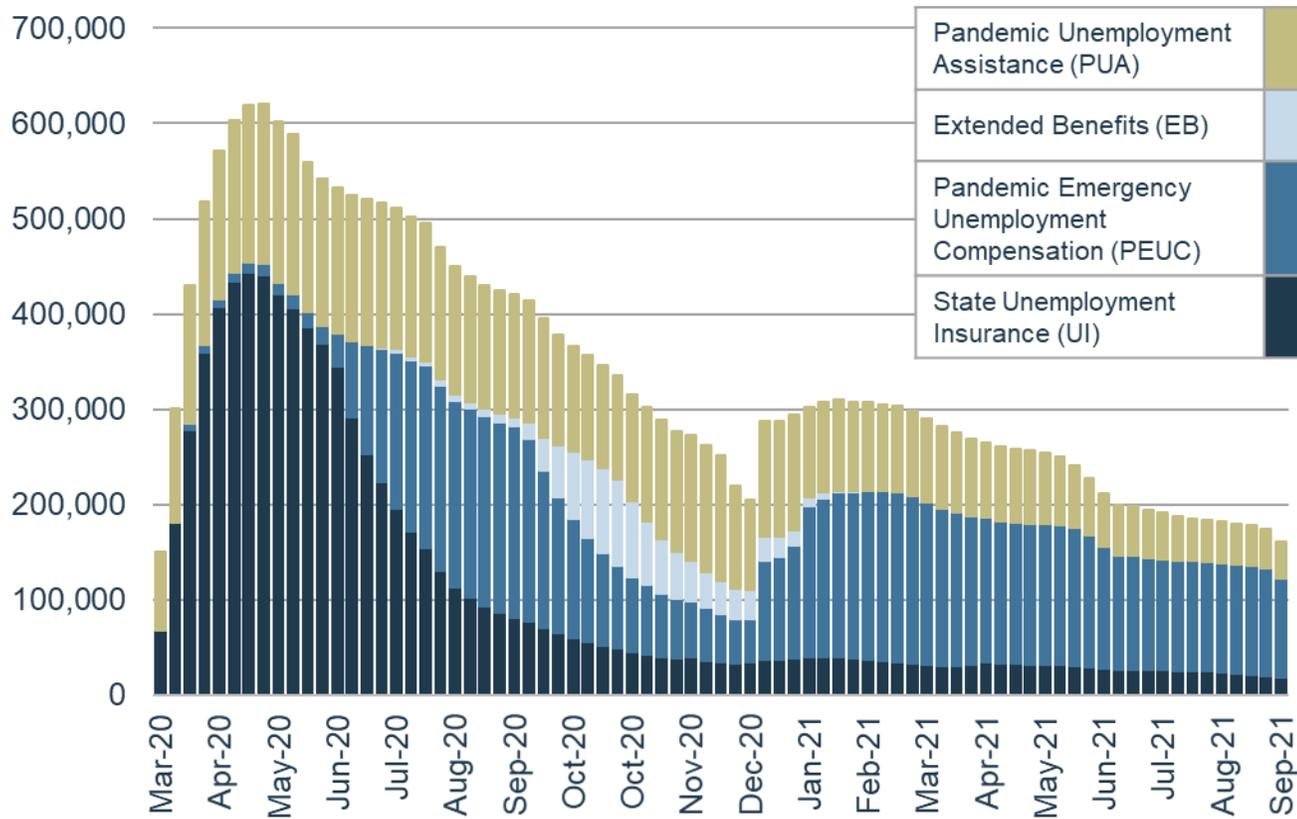
Claims Filed Per Day

The highest one-day total was 54,000 claims on April 24, 2020.
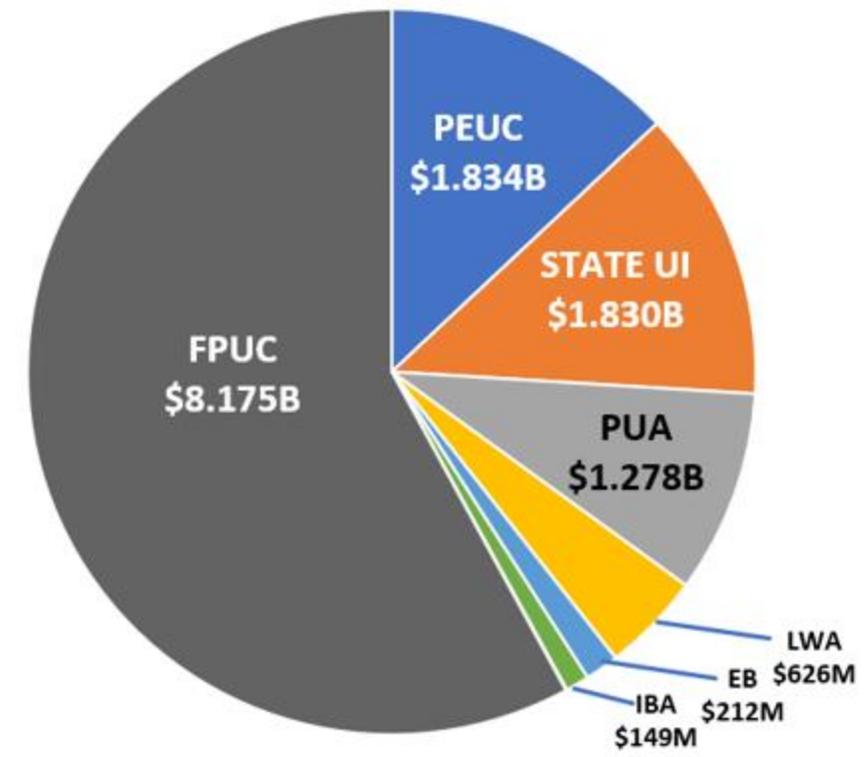
A Perfect Storm: Basic Factors

- Administered 9 different state and federal UI programs simultaneously
  - Separate eligibility requirements and processes

- Paid out more than $14 billion within 18 months

- More than 25% of NC's 4.6 million workforce filed for UI benefits
  - Majority first-time UI filers
  - More than 1.5 million individuals paid

- 171% increase in NC max benefit ($350-$950)

- Went from 12 weeks of benefits to 72+ weeks

A Perfect Storm: Paid $14 billion in benefits to more than 1 million people

Number of Claimants Paid by Benefit Week (4 Primary Programs)

Legend:
- Pandemic Unemployment Assistance (PUA)
- Extended Benefits (EB)
- Pandemic Emergency Unemployment Compensation (PEUC)
- State Unemployment Insurance (UI)

Dollars Paid (All Programs)
March 15, 2020 – Sept. 10, 2021

- FPUC $8.175B
- PEUC $1.834B
- STATE UI $1.830B
- PUA $1.278B
- EB $626M
- IBA $212M
- LWA $149M

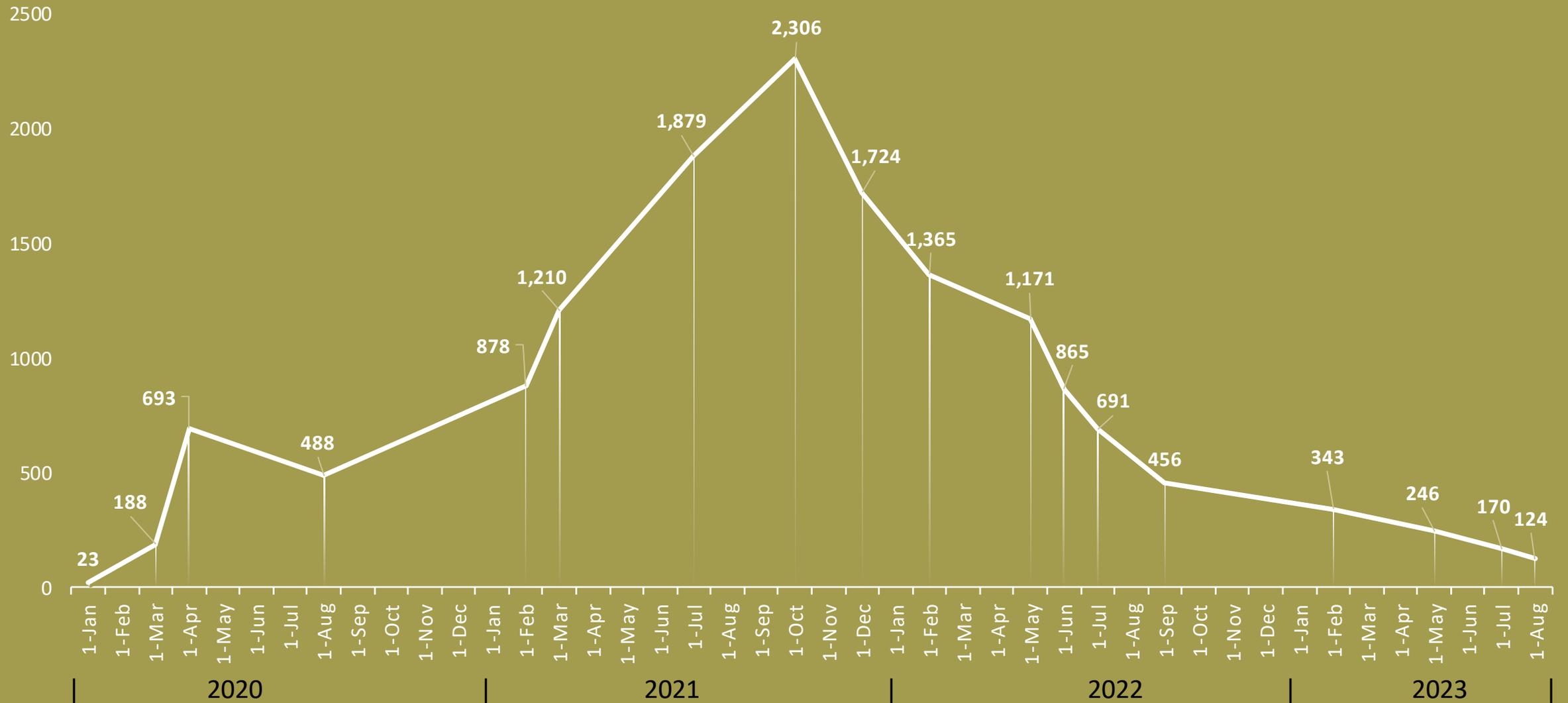# After the Storm

- Backlogs

  - Lower Authority Appeals

  - Higher Authority Appeals

- Customer Service
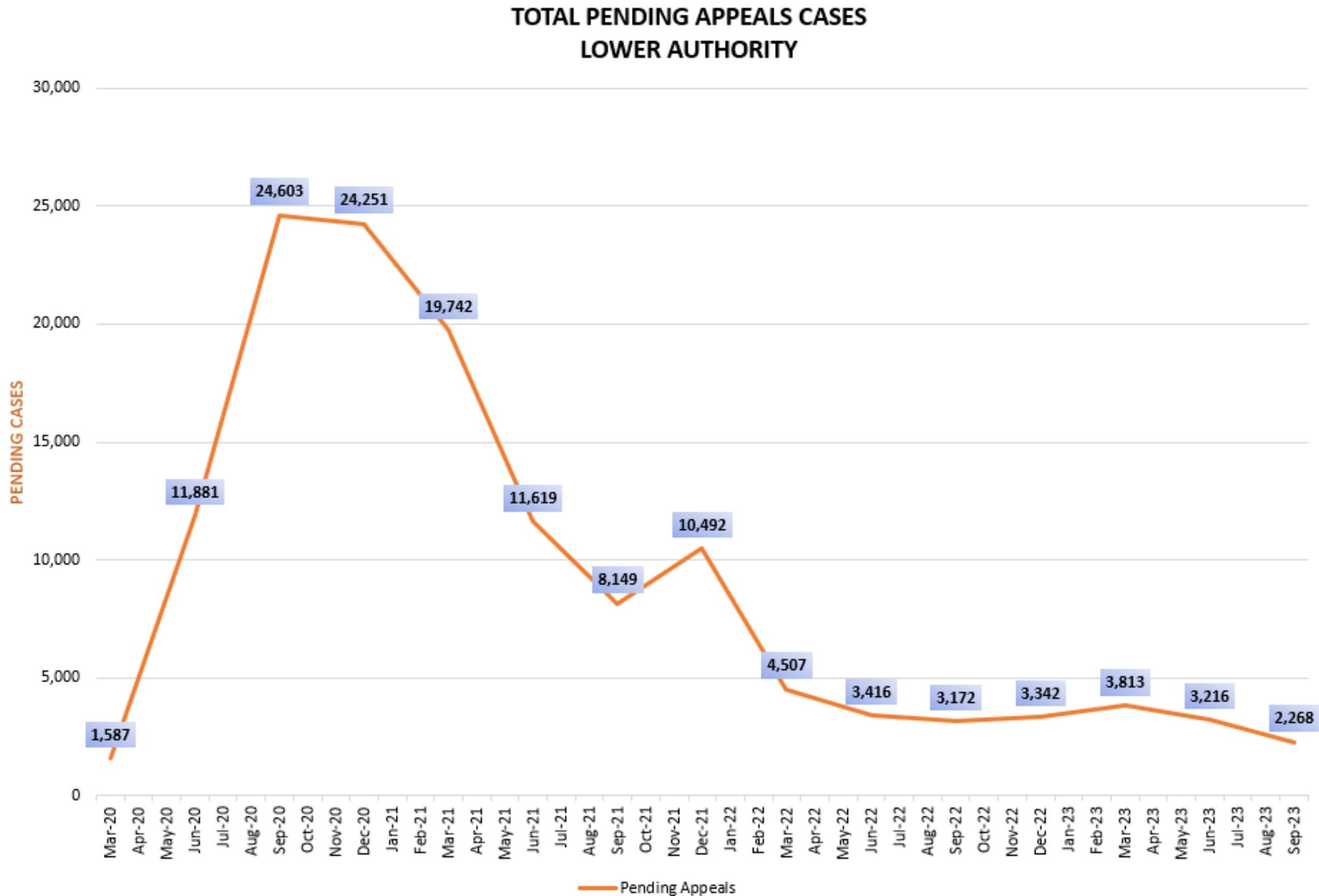
HIGHER AUTHORITY
TOTAL PENDING CLAIMS CASES

Customer Service Improvements

- **Live Chat**: Launched convenient option to connect with an agent online

- **Call Back Option**: Caller may select an option for a call-back rather than waiting

- **Claimant ID Recovery**: Self-service feature to recover account information

- **Mobile Friendly Website:** launched 2022

- **Mobile app**

- **Claim Status Updates**: Self service status update online or by phone. Since June 2020, it has had 49-million-page hits with 11+ million unique users

An eligibility determination has been completed and payment should be released if there are no other pending issues. A copy of the determination will be available on your My Document page within 48 hours of the decision.

IMPROPER PAYMENT RATE

Improper Payment Rate: The Beginning

- The Payment Integrity Information Act (PIIA) of 2019 requires programs to report an annual improper payment rate below 10 percent.

  - Repealed:
    1. Improper Payments Information Act of 2002 (31 U.S.C. 3321 note)
    2. Improper Payments Elimination and Recovery Act of 2010 (Public Law 114-204; 124 Stat. 2224)
    3. Improper Payments Elimination and Recovery Improvement Act of 2012 (31 U.S.C. 3321 note); and
    4. Fraud Reduction and Data Analytics Act of 2015 (31 U.S.C. 3321 note).

- Improper payment defined as "any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements…"

Improper Payment Rate: Calculation of Rate

Based on the results of the Benefit Accuracy Measurement (BAM) statistical survey.

- **USDOL defines the sample size for states.**
- North Carolina sample size is 130 paid claims and 39 denied claims to be surveyed each quarter, regardless of the total amount of claims submitted each year.
  - Total claims paid by year:
    - 2023: 72,175 *year-to-date*
    - 2022: 99,875
    - 2021: 462,269
    - 2020: 2,582,133

North Carolina's UI Improper Payment Rate

NC DEPARTMENT
of COMMERCE
EMPLOYMENT SECURITY

CALENDAR YEAR	2019	2020	2021	2022
IP RATE %	16.95%	15.33%	26.22%	16.67%**
$ IP AMOUNT PAID	$17,751,866	$225,211,589	$76,071,117	$24,611,969
TOP OP BY CAUSE	Work Search Benefit Year Earnings (BYE) Separation Issues	BYE Separations Issues Work Search	BYE Separations Issues Work Search	Work Search Separation Issues BYE

**Overpayment Rate excluding work search 9.67%

NC Improper Payment Drivers

- Inadequate work search
  - When a claimant failed to show proof of seeking work with three employers as required by NC law

- Benefit year earnings
  - A claimant returned to work and failed to report their earnings as required by NC law.
  - Essentially double-dipping – working and getting an unemployment check

- Separation issues
  - A claimant returned to work during the benefit period and failed to report

Causes of Improper Payments by Year

# Improper Payment Rate: North Carolina's Work Search Saga

"All animals are created equal – some more equal than others."

- Predicated on state's laws and rules

- Viewed and/or defined differently in each state

- In North Carolina:

  - Definitive work search requirement

  - No work search waiver

  - Verification of work search contacts required

Unemployment Insurance Payment Accuracy by State

Legend

- Improper Payment Rate: Greater than 13%
- Improper Payment Rate: 10-13%
- Improper Payment Rate: Less than 10%
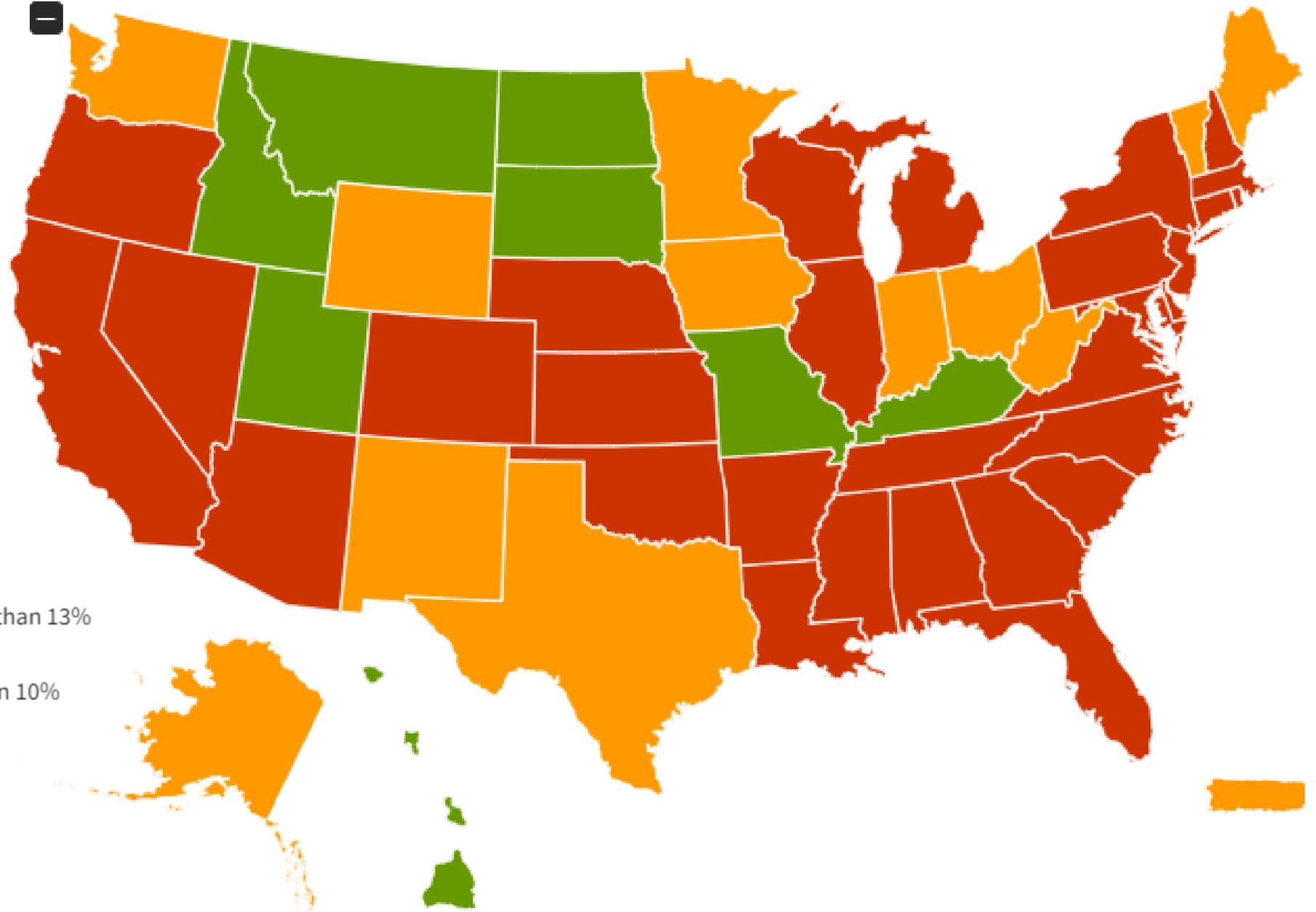
Improper Rate Solutions

1. Developing a Work Search repository to collect data on Work Search contacts

2. Developing a more robust chatbot to assist individuals filing for unemployment insurance benefits

3. Implemented claimant push notifications

4. Developed video detailing earnings information and work search requirements

   ○ Individual claimants are required to view when filing an initial claim

5. Automation of State Directory of New Hires (SDNH) work items

6. Benefits calculator

7. Mobile friendly website

UI INTEGRITY

Fraud
Improper Payments
and
Recoveries

Program Integrity

Addressing improper payments and fraud in the unemployment insurance program is a top priority for the U.S. Department of Labor and the N.C. Division of Employment Security both pre- and post-pandemic.

Two main types of unemployment benefits fraud:

Wage and Earnings Fraud

- The claimant knowingly makes false statements or withholds wage information to receive unemployment benefits.

Identity Theft / Imposter Fraud

- A fraudster uses another person's name and information to apply for and receive benefits.
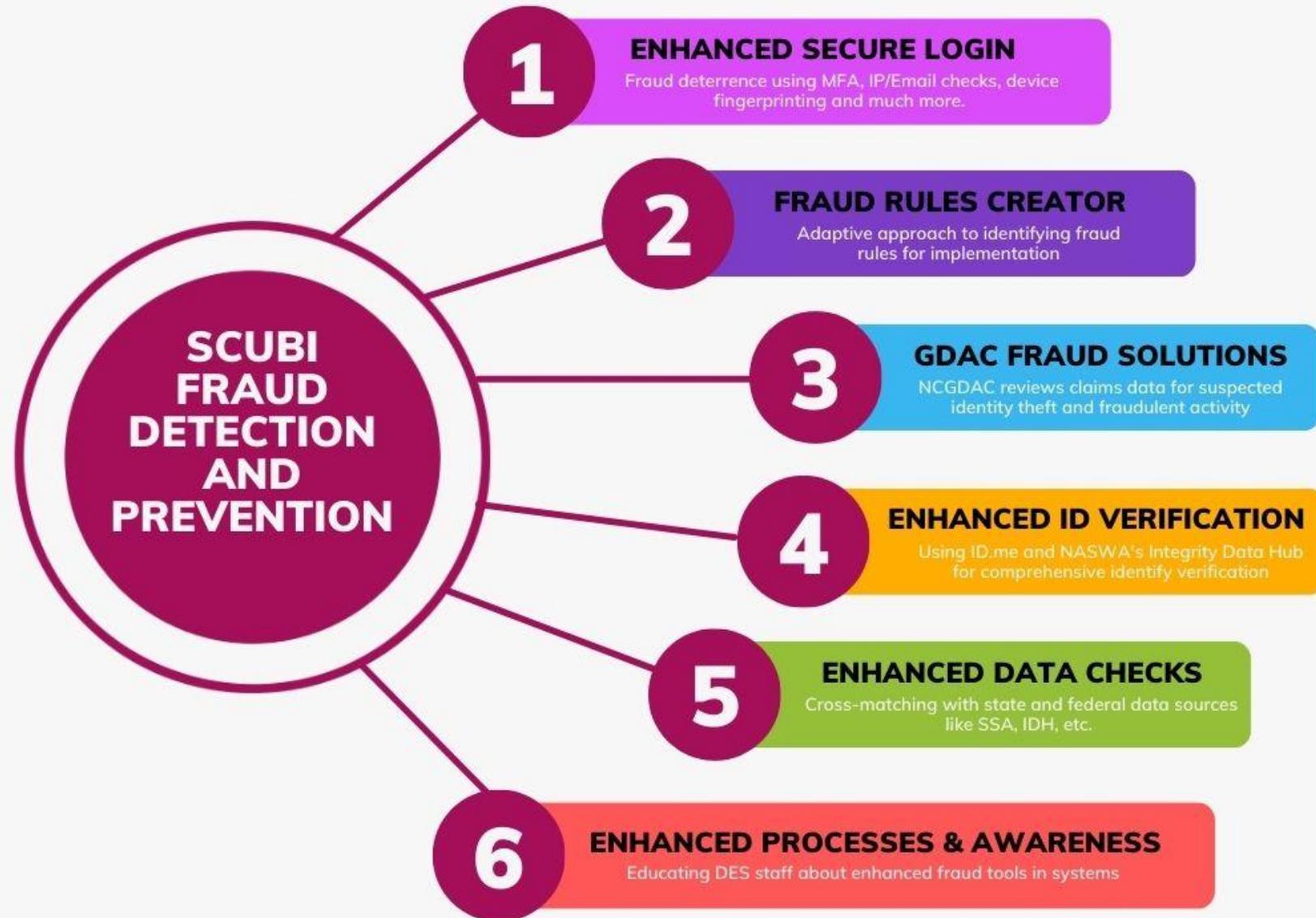
North Carolina Fraud Strategies

Pre-Pandemic

- Government Data Analytics Center (GDAC)
  - Cross Match and Ranking (NDNH, Incarceration, State Employees, Quarterly Wage)
  - Analysis of claims using fictitious employers
- Foreign IP address
- Pre-Paid bank cards
- Fraud Taskforce
- Law change to check IDs when asked
- SSN check

North Carolina Post-Pandemic UI Fraud, Detection, Prevention and Solutions

North Carolina Fraud Strategies

Post-Pandemic

- Integrated State Directory of New Hires

- Implemented banking verification through Integrity Data Hub

- Enhanced claimant system screens, giving individuals seamless access to overpayment information, potential waivers and pending investigations

- Designed and implemented an alert dashboard
  - Notifies DES if there is a sudden spike in claimant registration volume and claim submission traffic.

- Created the Benefits Integrity Alert (BIA) Visualization Tool
  - Identifies claimants with similar suspicious characteristics
  - Provides a self-service lookup interface for investigators to make filtered searches

The Impact

In 2021-2023, DES's fraud solution yielded the following results:

- Implementation of 106 fraud rule checks in production environment.

- Fraud rules are continuously reviewed to improve the effectiveness and efficiency of our predictive modeling.

- In 2022, 56,407 suspicious identity issues identified and 28,396 in 2023.

- In 2021, DES prevented $264M in fraudulent payments; $142M in 2022; and $68.5M in 2023 to date.

- DES sent 55,041 individuals' information to the National Suspicious Actors Repository.

- In 2022 during Thanksgiving week, 22,000 claims were submitted. Of those, 21,000 were flagged and not paid.

North Carolina Recovery Efforts

- DES uses a multitude of methods to recover monies, including:

  - Benefits offset,

  - Claimant payments,

  - State (DOR) and federal (UCTOP) tax offset,

  - Lottery winnings,

  - Court system,

  - Garnishment for fraud overpayments, and

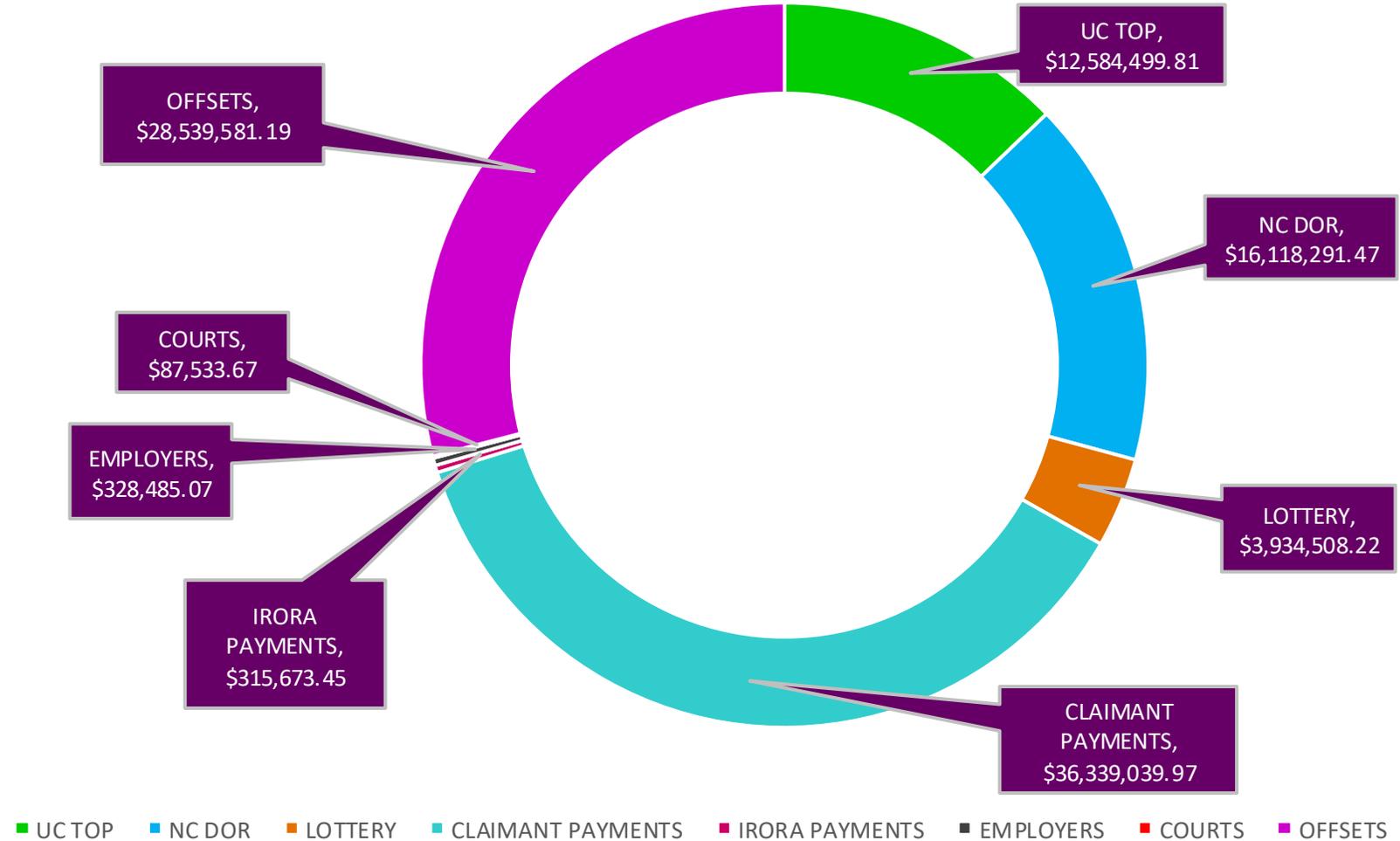 - Interstate Reciprocal Overpayment Recovery Arrangement (IRORA)
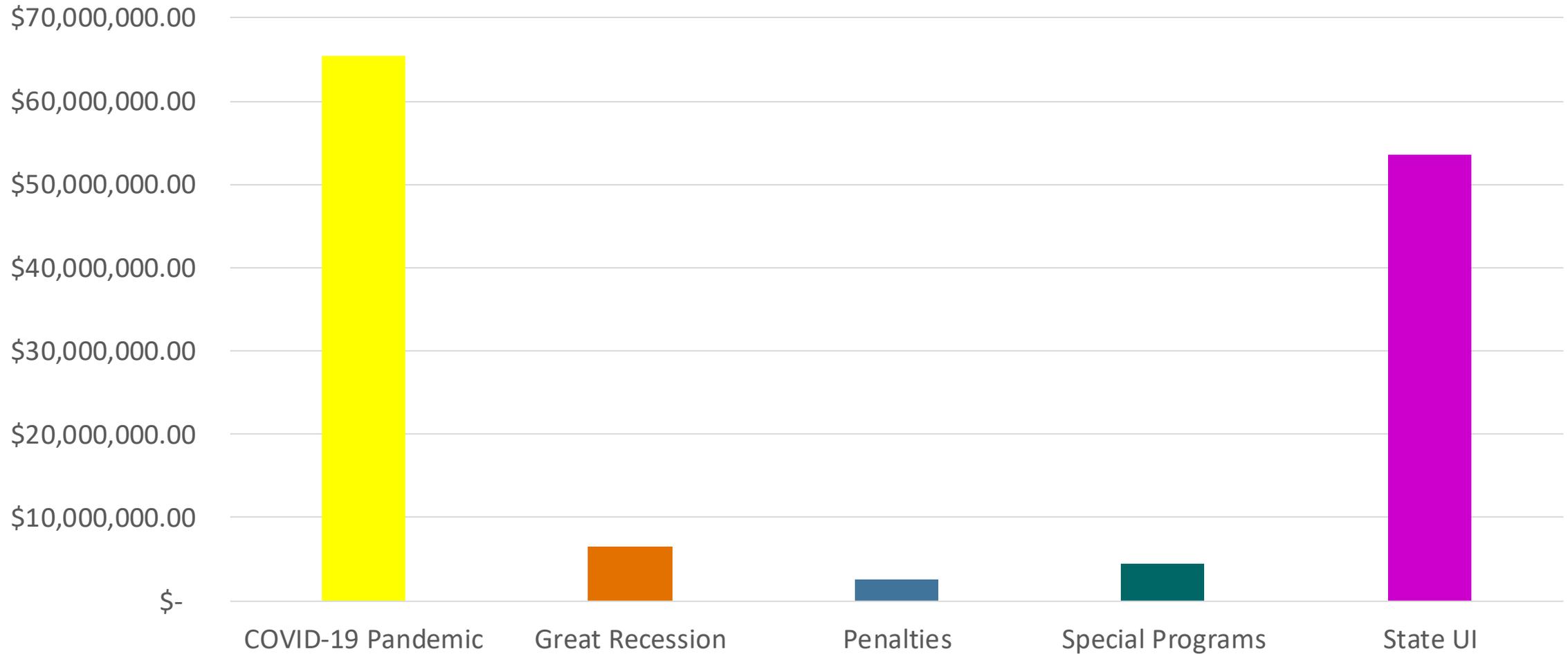
DES and Law Enforcement

- DES continues to work closely with local, state and federal law enforcement agencies by providing claim and payment information.
  - Secret Service
  - USDOL Office of Inspector General
  - NC Department of Insurance
  - US Department of Justice
  - NC County District Attorneys

- DES provides tips to law enforcement about suspected criminal behavior.

THREE YEARS of RECOVERED MONIES

Dollars Recovered by Method of Recovery Since April 1, 2020
(Includes Fraud and Non-Fraud)

UC TOP, $12,584,499.81

OFFSETS, $28,539,581.19

NC DOR, $16,118,291.47

COURTS, $87,533.67

EMPLOYERS, $328,485.07

LOTTERY, $3,934,508.22

IRORA PAYMENTS, $315,673.45

CLAIMANT PAYMENTS, $36,339,039.97

Legend: UC TOP · NC DOR · LOTTERY · CLAIMANT PAYMENTS · IRORA PAYMENTS · EMPLOYERS · COURTS · OFFSETS

Three Years of Recoveries by Event

FIRST PAYMENT TIMELINESS

FIRST PAY PROMPTNESS 1997-2023

USDOL requires 87% for first pay timeliness.
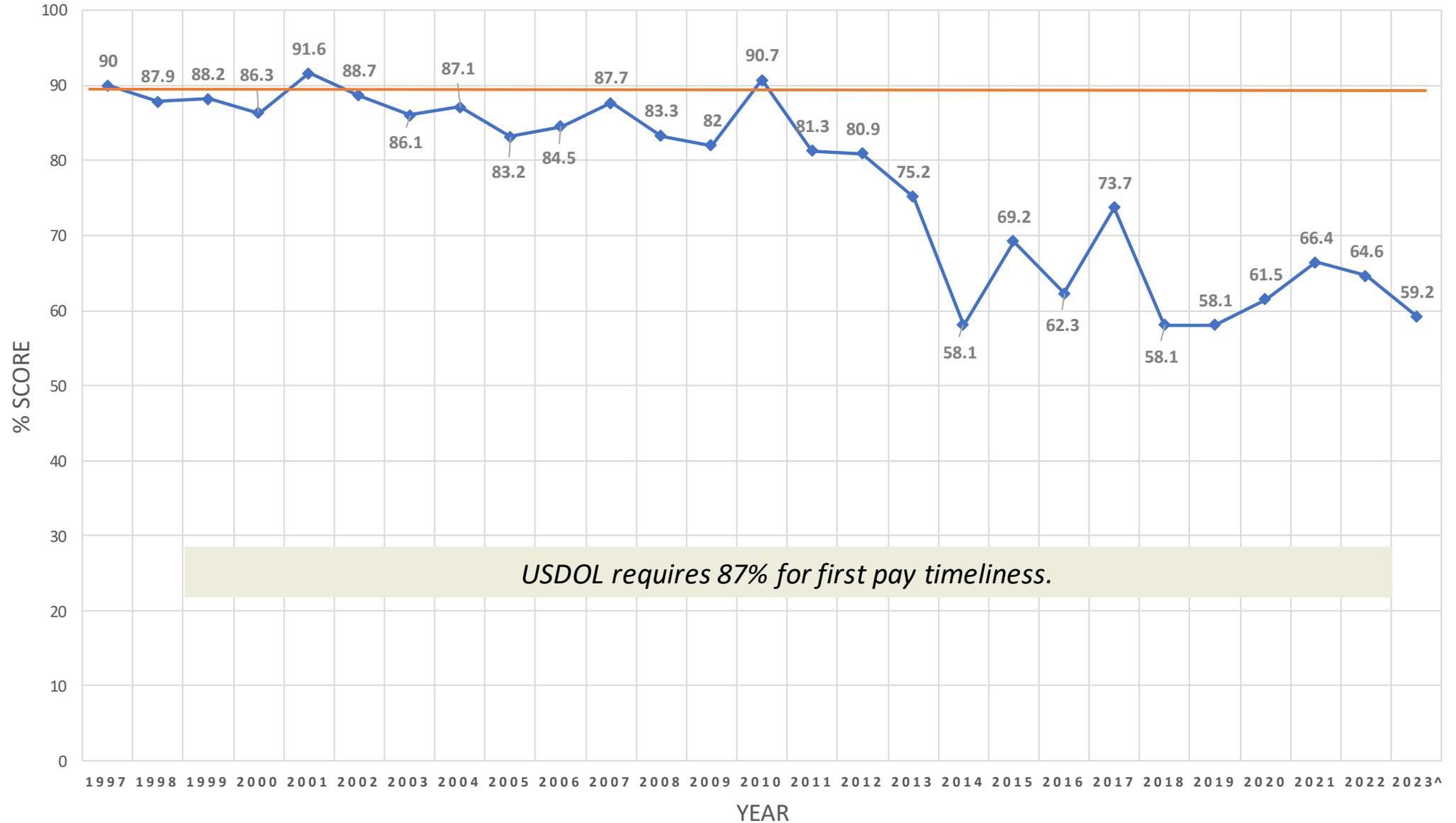
First Payment Promptness

	USDOL Acceptable Levels of Performance	NC for Q1 12/31/2022	NC for Q2 3/31/2023	NC for Q3 6/30/2023
First Payment Promptness: % of all 1st payments within 14/21 days after the compensable week	≥ 87%	68.6%	59.4%	64.2%
First Payment Promptness, 35 days intrastate UI full weeks	≥ 93%	88.0%	90.3%	88.2%

First Payment

Adjudication staffing:

- ~45% of Adjudication staff lost since December 2022
  - Represents 148 years of experience
- Reasons: retirement, salary, career pursuits, desire for 100% remote work
- Adjudication requires comprehensive training

Mitigation steps:

- Repurposed staff from: Call Center, Benefits Integrity, Appeals, and QC
- Hired retirees to assist Adjudication
- Overtime
- Review data to identify further automation opportunities
- Evaluating training program; adding more NASWA national training modules

Steps to Improve

- Implemented texting/push notifications to encourage people to complete required actions in timely manner

- Implementing in-person ID verification pilot offered through the USPS

- Implementing crossmatch with federal Prisoner Update Processing System (PUPS)

- Implementing AI conversational chatbot to support customers filing online

- Investigating use of AI to reduce Adjudication determination cycle time

- Implementing robotic process automation for tasks currently performed by staff.

- Complete Dashboard project to provide visibility to real-time data to drive decision-making

DES Improvements Through Metrics

- **Provides** real time status reporting of all stages of DES claims processing and payment.

- **Offers** full transparency of DES-wide claims processing progress.

- **Gives** managers visibility of claims processing progress from individual agent through team to business unit.

- **Delivers** nearly 100 individual dashboards, reports, claims lists, and US Department of Labor-required data submissions.

- **Provides** a transformative step in moving DES toward becoming a data-driven organization.

RECOMMENDATIONS
USDOL and State Auditors

USDOL

NC has previously implemented required Fraud Prevention and Detection Activities, and most recommended activities identified by USDOL.

Required Fraud Prevention and Detection Activities

- National Directory of New Hires cross-match

- Quarterly Wage Records cross-match

- Systematic Alien Verification for Entitlement (SAVE)

- Referral of allegations reasonably believed to constitute UC fraud, waste, abuse, mismanagement, or misconduct to DOL-OIG

- ID Verification including proper notification and adjudication when an eligibility issue arises

USDOL *(continued)*

Recommended Fraud Prevention and Detection Activities

- Social Security Administration cross-matches

- Federal, state, and local incarceration cross-matches

- Deceased Records cross-matches

- Vital Statistics cross-matches

- State Directory of New Hires cross-match

- State Identification Inquiry (SID) and IB8606 enhancements made to the Interstate Connection (ICON) network cross-match to prevent concurrent claim filing in multiple states

USDOL *(continued)*

Recommended Fraud Prevention and Detection Activities

- NASWA UI Integrity Center's Integrity Data Hub (IDH)

- Digital Authentication, such as Multifactor Authentication (MFA)

- Device Fingerprint/Reputation Management

- Fraud Risk Scoring (i.e., Case Management Prioritization), which includes using sophisticated risk analytics to assign a risk-based score to claims to detect suspicious activity early in the claims process, as well as minimize the number of false positives

- Comparisons and cross-matches that detect shared characteristics

Recommended Fraud Prevention and Detection Activities

- State Information Data Exchange System (SIDES)
- Use of a unique identifier to identify individuals instead of using the full SSN
- Fictitious employer cross-matches
- Periodic IT security assessments and audits consistent with NIST compliant IT security guidelines
- Adequate internal controls to protect the integrity and security of state assets

USDOL

Recommended Fraud Prevention and Detection Activities that are in progress of implementation:

- Department of Motor Vehicle cross-match (NC implementing for enhanced ID Verification)
- Prisoner Update Processing System (PUPS)

State Auditor's Recommendations

- Require Work Search activities to be reported in weekly certification process.
    - Developing a work search repository
- Garnishment
- RESEA improvements
    - DWS implemented self-rescheduling tool
    - DES working with DWS to create better oversight of the program
    - Partnered with ACTUS Policy Research to evaluate the program
- Continuing to cross-match with the State Directory of New Hires
- Continue to encourage use of our Benefit Calculator
- Standardized policies
- Readiness plan

Readiness Plan

- **The DES "State of Service Escalation Readiness"** is the assessment of how quickly and effectively DES can meet a significant escalation in claims filings, determinations, payments, and claimant calls.

- Plan is being established with these components:

  - Monitoring the economic environment.

  - Conducting a quarterly readiness assessment.

  - Maintaining action steps, resource pools, processes for rapid capacity expansion.

  - Identifying and carrying out readiness improvement projects on an ongoing basis.

- A comprehensive tabletop exercise will be held twice a year to reconfirm the plan.

Questions

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NC DEPARTMENT of COMMERCE
EMPLOYMENT SECURITY

For More Information

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