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Summary

Fraudulent unemployment insurance claims cost Oregon taxpayers \$76.3 million in 2003, or 9.5 percent of all claims paid. Oregon's fraudulent claims rate is higher than average, and it spends significantly more on processing claims than most states. Oregonians should demand better accountability from their Employment Department before spending more on this flawed system.

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Oregon Unemployment Insurance Overpayments

by William B. Conerly, Ph.D.

According to a U.S. Department of Labor audit, the Oregon Employment Department paid out \$76.3 million of taxpayers' money to fraudulent enrollees in 2003. This means 9.5% of all of the state's unemployment insurance (UI) benefits were paid out unnecessarily. Oregon's overpayment crisis is especially troubling given the Employment Department's request for state funds to supplement the federal payments that provide the bulk of their budget. Taxpayers should demand responsible spending of their hard-earned cash, and should hold the Oregon Employment Department responsible for doling out money to the undeserving.

The overpayment problem has reached an all-time record high, as the following table shows. (2004 data are not yet available.)

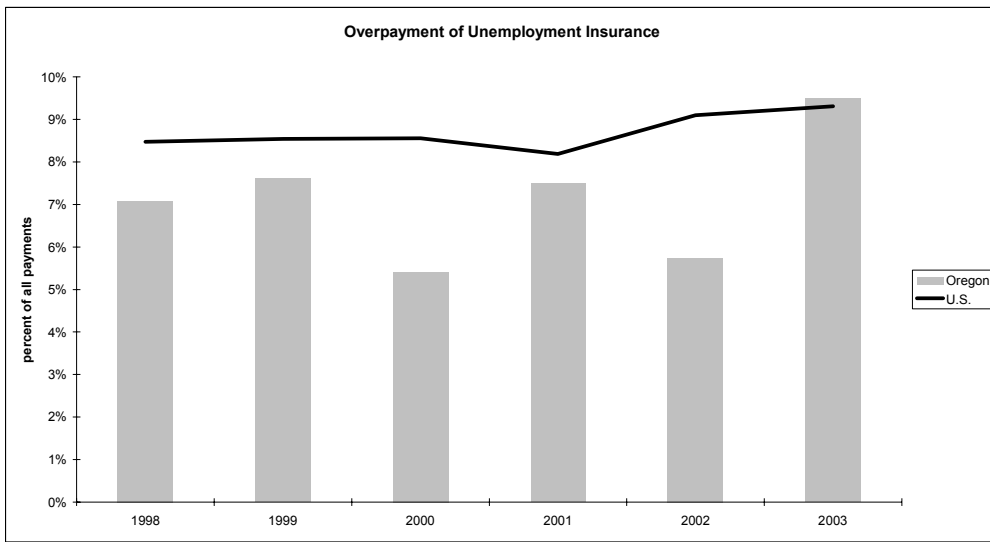
Unemployment Insurance Payments in Oregon

	Total Payments	Overpayments	
	\$ millions	\$ millions	% of total
1998	\$386.1	\$27.3	7.08%
1999	\$401.4	\$30.6	7.62%
2000	\$385.3	\$20.8	5.40%
2001	\$550.5	\$41.4	7.52%
2002	\$793.2	\$45.5	5.74%
2003	\$803.0	\$76.3	9.50%

In 2003, Oregon's overpayments exceeded the national average of 9.3%.

According to the U. S. Department of Labor, there are multiple causes of the overpayment problem. (Oregon doesn't break down results by cause of overpayment.) Enrollees failing to report earnings while receiving benefits is the greatest single cause of overpayment nationally. It's difficult for state employment departments to track when enrollees' return to work but continue to receive UI benefits. From the standpoint of most employment departments, these overpayments are hard to prevent and hard to recover.

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Another cause of overpayment is “under the counter” earnings, in which people do not report income. These cases don’t even figure towards the overpayment rate, since there’s no way for the state’s formal audits to determine the number. This means that Oregon’s 9.5% overpayment rate is actually an understatement of the true problem. In addition, an unknown number of beneficiaries do not look for work, which they are required to do as a condition of receiving unemployment assistance

Oregon’s legislature recently passed a bill that authorizes an employment tax for supplemental funding of Employment Department administration, throwing the overpayment issue into the forefront of taxpayer issues. The federal government provides funding for administration of unemployment insurance. Some states rely solely on these federal funds, while others kick in some state money.

Last year Oregon’s supplemental funding was the second highest of any state in the nation, behind only New York. This means Oregon’s actual dollars of spending, not adjusted for the size of the state, ranks second, placing it ahead of states like California, which is nearly 10 times as large, Texas, Florida, and Washington. Given this relatively large employer tax and overly generous funding for administration, curing our overpayment problem should be a top priority for the state.

Employers, through the employment tax, have to bear the cost of the unemployment insurance system. Corporations choosing to stay in Oregon pass the expense to employees in the form of lower wages and reduced benefits. Other corporations might choose to move to areas with more company-friendly mindsets. Either way, the tax is a drain on the Oregon economy.

Until the government is prepared to root out careless expenditures, taxpayers should say no to excessive funding of poorly regulated programs. The \$76 million per year wasted on unemployment insurance benefits is a good place to start.

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