



JB Pritzker
Governor

Thomas D. Chan
Acting Director

Illinois Employment Security Advisory Board
June 18, 2020
Minutes

Board Attendees:

Phone: Jim Argionis
Rob Karr
Mark Denzler
John Gedney
David Prosnitz
Joanna Webb-Gauvin
Pat Devaney
John Easton
Mark Grant
Rick Terven

With a quorum of the members present, the meeting was called to order by Chairman Argionis.

Agenda:

1. A motion was made to approve the minutes from March 19, 2020. The motion was seconded, and the minutes were approved.
2. Chairman Argionis, per ESAB operating resolution number one, made motion that the fiscal year 2021 ESAB meeting dates be scheduled for September 17, 2020; December 10, 2020; March 18, 2021; and June 17, 2021. The motion was seconded and passed.
3. Director's Comments (Tom Chan, Acting Director)

The last time we met was the day before the Governor's Stay at Home order went into effect. At that time, IDES was focused on 4 things: (1) moving IDES staff to work remotely, if possible; (2) engaging CMS to see if the normal hiring rules could be relaxed; (3) shifting existing staff around to prioritize delivery of the unemployment insurance program; and (4) drafting rules to ensure the UI program was as responsive to the growing crisis as permitted by federal law.

Even in the early days of the pandemic, it was clear that the demand for the programs of this agency were going to reach historic levels. In just a matter of days, Illinois went from record low unemployment levels to record highs. Going into this downturn, accounting for first quarter receipts, IL's trust fund balance was over \$2 billion. The models we were developing in March to monitor the Trust Fund balance were forecasting insolvency by the number of *days*. As Isaac will discuss in a moment, today coincides with depletion of those reserves. By tomorrow, we will be borrowing from the federal government to pay benefits.



JB Pritzker
Governor

Thomas D. Chan
Acting Director

This agency, and every unemployment agency in the country, has come under a great deal of scrutiny by those individuals who have either been denied benefits by the unemployment system, or been prevented for one reason or another from getting through to speak to an IDES employee.

To understand the scale of the unemployment numbers, and what this agency has undertaken and actually accomplished during this pandemic, we need to take a look at a few charts. As you all know, all of this agency's administrative funding comes from employer taxes collected by the federal government. The way the federal government distributes those funds to states is based on a state's workload levels over the last 3 years.

I will not be the first to criticize this funding model, called the Resource Justification Model (or RJM). because over the years it has received a great deal of criticism for its inability to quickly adapt to dramatic changes in the economy. The RJM is backwards looking, not forwards. The RJM is based on the idea that the workload levels of the agency over the last 3 years will dictate staffing levels needed over the next year. As I just mentioned, in the 3 years leading up to this crisis, Illinois' unemployment rate was at an historical low. So according to the RJM, IDES's low headcount was justified. In reality, if you're planning an organizational structure for system readiness in response to quick changes in the economy, there isn't a worse way that I can think of to establish administrative funding.

One model we could be looking to is the National Guard's support of the military. The National Guard is a reserves system of individuals who are trained during normal times how to respond if activated during an emergency. National Guard members do not otherwise work for the military full-time. As I have been explaining at these board meeting, Illinois had been struggling to onboard new employees faster than the rate of attrition. As we've discussed, there was a hiring freeze covering most of the 4 years of the last administration, which was coupled with the fact that much of our workforce had been staying in their jobs beyond their retirement-eligible age, which not only delayed new hiring, but now that these employees are making the decision to retire, they are generally retiring in greater numbers than state government can replace them.

Using an example that you may recall, IL did not meet federal audit standards in 2018 because, despite our best efforts to hire and train, we did not have enough auditors to conduct audits. That problem was not, and is not, contained to our audit division. With record-low unemployment levels, no merit-based salary adjustments for two decades, and a compensation package that (at least pre-COVID) struggled to compete with the private sector, the State of Illinois has had a very difficult time attracting qualified applicants and getting new employees to stay in the job.

In other words, heading into this downturn, our baseline staffing numbers, the employees hired to operate our programs and meet minimum federal performance standards, were, despite our best efforts, at an all-time low. On top of that, the federal funding model does not currently support a reserve staff, which could have allowed states to train individuals on unemployment to be activated during a recession. This is all to say that the baseline number of employees we went into this recession with is generally the number of employees that we will have to serve the unemployed population for the foreseeable future.

There have been a lot of questions about why IDES has not quickly onboarded more employees, both internally and externally. There are two important limitations. In normal times, it usually takes



JB Pritzker
Governor

Thomas D. Chan
Acting Director

around 6 months to post a job and fill it. Assuming the person accepts the jobs and decides to stay beyond the first few days, which is by no means a guarantee, it then takes, typically, 9 months for our managers to train that person on just enough of the unemployment basics to handle even the simplest of calls from a UI claimant, and that is assuming that the managers have sufficient bandwidth to dedicate themselves full-time to onboarding and training, a luxury our managers do not have because they are serving in multiple roles and performing the work of multiple employees.

This isn't to say we have not tried to scale up. We've certainly focused our efforts on hiring, but this isn't the private sector. We are subject to state civil service laws that throw a lot of hurdles in the way of quickly ramping up our staff level. So what hiring have we done? Since April 1, IDES has hired 18 full-time staff. However, during that same time period it took us to hire 18 new staff, 11 other staff retired IDES has also hired 29 retirees on Personal Service Contracts to assist with claims. In addition, IDES has a contract through Deloitte for call employees (from IL). Since we started the process in late April, Deloitte has onboard 850 agents. Not all of them have stayed on board and not all of them have been on the phone at the same time. IDES currently has 170 full-time vacancies we're trying to fill as soon as possible and at least 200 other jobs that we will be trying to fill as time permits.

If you go to the second page of the handout, you can see that as our workforce retires, institutional knowledge goes with them. In 2014, 87% of our workforce had more than 5 year of UI experience. 6 years later, at the beginning of 2020, that number has dropped 20%.

As of today, the unembargoed claim data show nearly 1.7 million claims filed since March, and many of them are coming back to certify that they remain unemployed. We won't be out of this until you see the number of continued claims drop significantly. For context, during the 2008 recession, there was no week in which we had more than 350,000 claimants certifying for benefits. If you go to the last page of the charts, this all translates to a lot of phone calls to IDES, and therefore, complaints and criticism over IDES's inability to answer every call.

If you look at the statistics, you'll see we're receiving around calls from 200,000 unique claimants each week. And even though our capacity is expanding, we're only ever answering about 15% of those calls. These numbers are dramatic. And I wouldn't want to say that the anger of individuals who haven't been able to get through isn't justified. But I also want to emphasize the remarkable number of IL residents this agency has served. Isaac will be providing a financial update a little later, but here's the headline, since March 1, IDES has paid about 6 and a half billion dollars in benefits to the unemployed residents of this state. I also think it's important to explain that a lot of the frustration I've seen originates not from IDES operations, but with the unemployment process itself. Not only are most of the claimants filing today unfamiliar with the unemployment process, but the system itself was not designed to be the primary economic supporting machine of Americans during a global pandemic. As I've found myself explaining recently, unemployment benefits aren't paid the day or even the week in which someone files. Unemployment is paid retroactively for previous weeks of actual unemployment. Under the current system, someone files for unemployment, then two weeks pass, then they are paid within a few days after they certify their unemployment during the last two weeks. This means that if everything goes according to the way the system was designed, someone isn't going to be paid for about 3 weeks until after they file for benefits. I am certainly open to the criticism that 3 weeks is a long time to



JB Pritzker
Governor

Thomas D. Chan
Acting Director

wait for payment during a pandemic. I also think a lot of the public misunderstood the Governor's suspension of the waiting week to mean benefits would be paid sooner.

Frankly I think the frustration with the current unemployment system during this pandemic is appropriate. The system we have today was designed in 1935. Adequate preparation for the next pandemic, or even the next recession, is going to require fundamental structural changes. Unfortunately, the constant merry-go-round we have been on since 1935 is recession, unemployment, criticism of the unemployment system, economic recovery, and then, we move on to the next crisis and ignore the issue until the next recession starts the cycle all over again. I am hopeful that the current frustration will last beyond this moment and turn into real change. To name just a few examples: (1) the RJM model needs to be changed to better fund agency operations for recessionary periods; (2) we should implement and fund a reserve staff of qualified unemployment specialists, for activation during a crisis; (3) we need to review state hiring rules, or least provide special exemptions from those rules for IDES, to allow us to more quickly scale and to then be able to retain experienced employees; and finally (4) we should consider the timeliness of benefits and even whether the UI system itself should be the vehicle for pandemic stimulus payments.

I look forward to working in the years to come, hopefully with your involvement, to restructure state and federal laws to make the system we have more like the system we need.

4. Legislation & Rulemaking Update (Kevin Lovellette)

In response to the unprecedented increase in claims due to the COVID-19 dislocation as well as the Federal programs created in its wake, several legislative and administrative amendments to the Unemployment Insurance Act and related rules have been enacted.

Legislative Actions

The UI Act has historically been shaped through the agreed bill process in which stakeholders representing the business and labor communities negotiate amendments without unduly burdening either employers or claimants. Each agreed bill meeting leads to the creation of a set of future tax increases and benefit cuts known as "rest stops," which represent unacceptable results to either side in order to encourage them to come back to the negotiating table. This year these rest stops were moved forward to 2022 and unless further amended will lead to taxes and benefit cuts which would generate approximately \$500 million each.

Several changes were made to Extended Benefits that are triggered by the unemployment rate. These will allow between 13 to 20 additional weeks of benefits to claimants who exhaust Regular UI and federal Pandemic Emergency Unemployment Compensation (PEUC). Extended Benefits will be federally funded through the remainder of the year under the Families First Coronavirus Response Act. Extended Benefits are currently triggered on in Illinois.

The waiting week for benefits customarily given to claimants under the UI Act was waived for the length of the gubernatorial disaster proclamation or 100% of the federal funding for that week provided by the Families First Coronavirus Response Act, whichever is longer.



JB Pritzker
Governor

Thomas D. Chan
Acting Director

Traditionally, employees of educational institutions are unable to qualify for benefits during the period between terms, i.e. summer break and holidays. This exclusion was lifted for this year only for non-instructional, non-administrative, and non-research educational staff.

Finally, to both prevent a crippling increase in tax rates driven by the thousand-fold increase in claims, as well as qualify for 100% federal funding for Extended Benefits, all COVID-19 related benefit charges incurred by taxable employers between March 15th, 2020 and the end of the year will be waived, as will 50% of reimbursable charges during the same period. The federal government will reimburse the reimbursable employers the remaining 50%.

Administrative Actions

On the Administrative Rules front, many technical changes were needed to accommodate the CARES Act. This included the allowance for electronic notification of documents under the PUA Program (Pandemic Unemployment Assistance) as well as implementing eligibility and employment status regulations for claimants under that new federal program. The recoupment process (meaning the withholding of benefit weeks to satisfy existing claimant debt to the Department) was modified to include all federal programs pursuant to the USDOL.

To help adapt present UI rules to the nature of the COVID-19 crisis, several changes to claimant eligibility were made or are being considered. These include clarification of the “able and available” status, exempting registration with the job service for those who are temporarily furloughed, and relaxing work search requirements for Extended Benefits as provided for by USDOL.

The requirements for employers were relaxed by waving penalties for late filing of February 2020 wage reports. Forthcoming rules will provide 30 days to supplement a quarterly protest for reimbursable charges and delay the implementation of charging employers for a “pattern of late response” under Section 706 until April next year.

Finally, the previously mentioned benefits allowed this year for non-instructional educational employees requires an administrative rule to define the scope of those services.

Mandatory Ethics Training for Board Members

Mandatory Annual Ethics Training and Harassment and Discrimination Prevention Training are both now available in OneNet for online completion by the end of the year. Watch for an email coming soon from Gina Wilson, our Ethics Officer, with more details.

5. Benefit Integrity Update (Trina Taylor)

In addition to what the Director has noted, I would like to begin with a reminder that our entire Service Delivery team and their families are also vulnerable to this pandemic yet has continued to deliver much need assistances to millions of individuals and employers throughout the state. The following is a list of major accomplishments over the last 3 months:



JB Pritzker
Governor

Thomas D. Chan
Acting Director

- First, despite a decades old system, we successfully suspended the waiting week so individuals could be paid two weeks, instead of one, after their first certification;
- We enacted modifications to the work search requirement;
- We passed legislation to non-charge employers and are currently in the process of rolling out those changes;
- We passed legislation to provide benefits to a population of academic employees that have historically been excluded between academic terms, and again, we are in the process of changing our system to provide these benefits;
- Responded to and participated in countless UI presentations upon request by legislative offices, unions, employers, community organization, etc.;
- Trained Legislative District Office staff so they understand the system better to assist their constituents or at least explain the process while they wait to get through on the phones;
- Developed and posted a new UI claims video, so claimants could understand the basics of the filing process;
- Created Rapid Response PowerPoint for employers and the business community on the basics of the UI system and unemployment process;
- Answered and created hundreds of employer and claimant FAQ's;
- Successfully moved all call center staff to remote work and others through the agency, which was no small feat considering none of them were set up with proper IT equipment going into this.
- Provided necessary protective equipment for all staff who, for technological reasons, were required to continue reporting to field offices
- Stood up in very short order, 3 brand new federal unemployment programs: Pandemic Unemployment Assistance, Pandemic Emergency Unemployment Compensation, and Federal Pandemic Unemployment Compensation;
 - PEUC and PUA programs were both developed and deployed virtually;
 - Also, IL was recognized by USDOL at being the first state in ETA region 5 to successfully implement FPUC.
- All new staff needed to be trained on each of these new federal programs and, for the first time, all of the substantive and programmatic training that occurred was conducted virtually;
- Extended Benefits have officially triggered on, and Extended-Extended Benefits is also expected to trigger on. IDES is working to ensure claimants transition smoothly from one program to the next.
- Updated multiple aspects of the call center equipment in an attempt to accommodate high volume of calls, including a new call-back feature we expect to be rolling out shortly;
- Our external website was redesigned from the ground up, and enhanced to address the increased web traffic;
- Created a new Refusal of Work email address and process to accommodate employer protests;
- Staff continue to operate the RESEA program, as required by USDOL, despite the challenges imposed by social distancing;
- Processed an unprecedented volume of outgoing mail through enhanced partnership with our vendor, Pitney Bowes
- We've now successfully hired into nearly all of our senior management positions;
- We've successfully implemented artificial intelligence in our phone system and on our website;



JB Pritzker
Governor

Thomas D. Chan
Acting Director

- We've also successfully created a new outreach division so that we can begin properly communicating to all stakeholders;
- And finally, and this is an important one, our team has also had to navigate this pandemic as an employer. With nearly 1,200 employees throughout the state, some remote and some not, personnel management alone has become many of our full-time jobs. Because our employees are also part of our community, they are also part of this pandemic. Many of them or their families were directly impacted by this virus, and they continue to report to work and maintain a high level of professionalism while providing service to all customers.

For the period ending March 31, 2020 data has not been produced to provide an update on improper payments prevented, identified and recovered due to all staff engaged in implementing the new Unemployment Insurance (UI)-related programs under the Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020 and processing the unprecedented number of claims filed.

The U.S. Department of Labor has offered states the flexibility to suspend quarterly UI audits performed by the Benefit Accuracy Measurement (BAM) and Benefit Timeliness and Quality Control units for the 1st and 2nd quarter of 2020. In our attempt to maintain core functions and essential services during this crisis, Illinois took advantage of this opportunity, therefore our normal report on the UI performance measures is also unavailable. It should also be noted that the U.S. Department of Labor postponed the department's quarterly high priority status meeting until further notice.

As mentioned in our last meeting, in the wake of the COVID-19 crisis the state will likely fall below the acceptable level of performance in several categories under the UI performance measures when we resume our quarterly auditing and reporting to the U.S. Department of Labor. Those categories likely to fall below the performance level include nonmonetary determination timeliness and quality percentages, in addition to our improper payment measures as a result of not having an opportunity earlier in the year to implement the recommendations provided by the UI Integrity team from the National Association of State Workforce Agencies NASWA).

At the point our operations begin to recover, the department will immediately begin planning and implementing measures to once again meet and maintain the acceptable level of performance in all categories.

6. Revenue Integrity Update and Trust Fund Report (Isaac Burrows)

Revenue Integrity

On the Revenue side, at the December meeting and throughout last year, IDES was projecting that although it would be close, we had been expecting to meet USDOL's-required audit standards for 2019. As a reminder, in 2018, IDES failed the federal performance standards because it did not meet two of the four required metrics: (1) auditing 1% of all contributory employers and (2) auditing at least 1% of total wages. To meet the minimum audit figure for calendar year 2019, IDES needed to complete 3,300 audits or about 275 audits per month. Thanks primarily to the leadership of our Field Audit Manager, new hires, additional training, and

lots of overtime, we ended with a total of 3,332 audits. I'm very pleased with our Revenue division, specifically our audit division, for getting to a place where it could meet the DLA in 2019, they had a lot to overcome after transitioning to a new computer system and trying to replace nearly half of the audit staff lost to retirements and attrition.

It's worth noting that the manager of the audit division announced her retirement effective May 31, 2020, which means we do not have the luxury of resting on our laurels and assuming our recent successes will continue. In addition, audit functions are not operating as usual because of COVID-19, and so we unlikely to achieve these same successes for 2020.

Trust Fund Balance Report

At the onset of the COVID-19 dislocation on March 16, 2020, the IDES Trust Fund balance was approximately \$1.6 billion, and we collected another \$831 million in employer receipts at the end of the first quarter. As a direct result of the extraordinary number of number of claims filed, the Trust Fund Balance decreased over 90% from the March 16 dislocation until today and we are projecting that the Trust Fund balance will be in a deficit position, quite possibly after benefits are paid tomorrow (Friday, June 19, 2020). So what happens next? As soon as the Trust Fund reaches a zero balance, each dollar of benefits paid is automatically advanced to the Trust Fund account. These advances are considered loans by the US DOL and will not accrue interest through December 31, 2020. We have forecasted and submitted our Title XII Request For Advances Loan in the amount not to exceed \$3.8 billion through September 30, 2020 and we will be revising these forecast continually as conditions warrant.

If we continue borrowing, at this same rate of approximately \$1.4 to \$3.8 billion over the last three (3) months of this year, we estimate that we will be in a deficit position in terms of dollars between \$5.2 and \$7.6 billion at the end of the year. It is important to note that while interest on these loan advances is waived until December 31st, we do not foresee that we will be in a position to repay the loan advances without interest at that time or any time in the near future. For contrast, the last time the agency had to execute the automatic loan advances, we borrowed approximately \$1.46 billion, issued bonds, and implemented a fund building rate (or a surcharge on employers of 0.055%) to help accumulate dollars to repay both. These actions allowed the agency to repay the \$1.46 billion in just under 6 years. At a \$5.2 to \$7.6 billion deficit, we could be looking at 15 years or more before we are able to replenish the Trust Fund. Considering that the Trust Fund is currently 100% funded by employers, this could have a significant impact on taxable rates without advanced legislation.

7. Quarterly Financials Presentation (George Putnam)

The state's UTF account ended the 2019 calendar year with a positive balance of \$1.95B. Under the baseline projection, the 2020 year-end balance is projected to be negative -\$4.94B and to remain negative through 2023 – the extent of the forecast horizon – and close with a balance of -\$9.76B. The account is expected to run annual deficits in each year through the end of the horizon. Per recent legislation, these projections include the projected benefits paid to non-academic professional staff and the revenue impact of non-charging employers.

Motion to adjourn was made and seconded. The meeting adjourned.