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UNEMPLOYMENT INSURANCE FRAUD IN LOUISIANA TOPS \$50 MILLION IN 2008-2009

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Fraud in the payment of unemployment insurance benefits in Louisiana, based on information supplied by the Louisiana Workforce Commission, amounted to \$23.1 million in 2008 and reached \$27.0 million in 2009.

UI fraud across the entire United States, according to the U.S. Department of Labor, amounted to \$1.2 billion in calendar year 2008 the latest year for which this information is available nationwide. California led in the nation with \$260 million in fraudulent payments. Louisiana posted a fraud rate of 11.7 percent in 2008, the highest in the nation and more than 4 times higher than the national average.

The U.S. fraud rate has fluctuated over a narrow range from 1.90 percent in 2001 to 2.81 percent in 2008. Nationwide, UI benefits payments in 2008 amounted to \$41.6 billion.

These figures, which are based on very small samples of claims that each state unemployment insurance agency is required to audit every year, represent underestimates of fraud because they do not reflect the amount of *undetected* fraud. Further, the amount of fraudulent payments does not represent monies actually retrieved by state agencies. Thus, in 2008 an estimated \$1.2 billion dollars in overpayments were charged against the accounts of U.S. employers thereby adding to the cost of production and making it more difficult for them to compete.

There are several reasons for fraudulent UI payments including base period wages, the nature of separation from last job, and whether the claimant is able and available for work. However, there are only two types of violators: working violators and nonworking violators. Working violators are claimants who are drawing UI benefits even though they are employed. Nonworking violators are claimants who are getting benefits even though they are unable to work, unavailable for work, refuse work, left their last job voluntarily, were dismissed from their last job due to misconduct, or on strike.

In Louisiana, the worst offending state in 2008 in terms of fraud rate, overpayments were estimated at \$15.3 million. In Texas the overpayments total was *smaller* than in Louisiana, even though Texas paid out *7.5 times more* in total benefits.

The Louisiana fraud rate in 2009 dropped to 5.71 percent, but with \$472.4 million paid in benefits in 2009, fraudulent payments climbed to \$27.0 million in 2009.

From its very beginnings in the mid-1930s, unemployment insurance has been a federal-state program with the principal responsibility in the hands of the states. Each state writes and interprets its own laws, regulations, and policies, and for that reason one must be careful in comparing UI experience, including fraud, state to state.

The table below shows 2002-2009 fraud rates for the United States and for Louisiana and the neighboring states of Texas, Mississippi, and Arkansas. Without comparing one state to another, we observe that in Texas the fraud rate has been low and falling even lower and in Mississippi it has ranged between 3 and 5 percent. No clear trend has emerged in Arkansas. In Louisiana the rate bumped upward after Katrina until 2009 when it retreated to 5.71 percent. Even so, the 2009 fraud rate remains well above the 2002-2005 rate.

	FRAUD RATE: PERCENT				
	U.S.	Louisiana	Texas	Mississippi	Arkansas
2002	2.16	2.91	2.51	3.46	3.37
2003	2.11	3.56	1.11	3.32	3.90
2004	2.54	2.32	0.80	3.53	6.82
2005	2.59	3.45	3.34	4.36	7.24
2006	2.71	7.42	3.25	3.46	4.77
2007	2.73	6.26	2.53	4.80	4.77
2008	2.81	11.67	0.98	3.36	5.01
2009	*	5.71	0.82 p	*	*

* information available on Labor Department website in August 2010. p: preliminary estimate.

The next table shows for Louisiana the number of insured unemployed, the Louisiana UI agency's own estimate of the amount of fraudulent payments, Mayo Research Institute's re-estimate of fraudulent payments based on substituting the U.S. fraud rate for the Louisiana rate, and the amount of additional fraudulent payments in Louisiana due to its higher-than-average rate of fraud.

We call attention, first, to the very well-known surge in the number of insured unemployed in fourth-quarter 2005 due to Hurricane Katrina and the huge increase in fraudulent payments in the following year. From 151,500 in fourth-quarter 2005, insured unemployment dropped to 48,600 in first-quarter 2006 and then to 22,400 in the following quarter.

We also take note of the little-known penalty that Louisiana employers pay for fraud in the UI program. If the fraud rate in Louisiana had matched the national average for 2002-2009, Mayo Research Institute estimates that Louisiana employers would have saved roughly \$53.1 million in UI taxes.

INSURED UNEMPLOYMENT AND AMOUNT OVERPAID: LOUISIANA

	Insured Unemployed*	Official Fraud Estimate	Re-estimate based on U.S. Fraud Rate	Difference
2002	35,400	\$ 8,080,000	\$ 5,997,000	\$ 2,083,000
2003	41,100	9,839,000	5,832,000	4,007,000
2004	31,400	6,305,000	6,903,000	<598,000>
2005	151,500	5,160,000	3,874,000	1,286,000
2006	19,200	15,366,000	5,614,000	9,752,000
2007	20,100	9,992,000	4,675,000	5,317,000
2008	39,200	23,105,000	5,561,000	17,544,000
2009	80,000	26,972,000	13,274,000	13,698,000

* For all UI programs. Fourth-quarter data for 2002-2008 to show the impact of Hurricane Katrina. Third-quarter data for 2009 because fourth-quarter data not available.

Two elements enter into the way in which the UI program is perceived by the public and how it develops in the future: fraudulent payments and the need of the unemployed. We have seen in recent months the need of the unemployed used to justify extending benefits for some workers to 99 weeks through large federal appropriations. At the same time, little attention has been paid to the extent of fraudulent payments, which increase as benefit duration is extended thereby undermining support for the program.

The Louisiana state agency should be doing more to prevent fraud from occurring by intensifying the training of claims-takers and claims-examiners in fraud detection and by providing them with sufficient time to scrutinize the claim itself and the claimant. A perfunctory routine at this stage of UI operations creates an environment that contributes to fraudulent payments. Perhaps the Texas agency could teach Louisiana how to make sure that UI benefits are paid only to those for whom they are intended.

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