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Short-Time Compensation and Compensated Work Sharing Arrangements

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September 16, 2009

Agenda

- What is Short-time Compensation (STC)/Compensated Work Sharing?
- How Do STC Programs Work?
- A Little History
- Reasons Why Many States Do Not Have STC Programs

What is Short-time Compensation, aka Compensated Work Sharing?

- A firm needs to reduce its 100-person workforce temporarily by 20%. The choices are:

  - lay off 20 workers

  OR

  - reduce the work hours of the entire workforce by 20% — from five to four days a week

What is Short-time Compensation, aka Compensated Work Sharing? (continued)

- Short-time compensation (STC) is a program within the federal-state unemployment compensation system.
- In the 17 states that operate STC programs, workers whose hours are reduced under a formal work sharing plan may be compensated with STC.
- STC is a regular unemployment benefit that has been pro-rated for the partial work reduction.

Some Definitions

- States with STC programs require employers who seek STC for their workers to submit a formal work sharing plan for approval.
- “Work sharing” refers to any arrangement under which workers’ hours are reduced in lieu of a layoff. STC may or may not be paid.
- Not to be confused with: Partial Unemployment Benefits

Example

- A firm temporarily reduces the work hours of its entire workforce by 20% – from five to four days a week.

- Work sharing employees receive about 90% of their full-time wages as compensation for four days of work: 80% as wages plus 10% as STC.

  - Unemployment benefits generally replace about half of a worker's wages (with variation among states).

  - STC benefits for a worker who has experienced a 20% reduction in hours would amount to about 10% of the worker's wages before the reduction in hours.

How Do STC Programs Work?

- Employer develops a formal work sharing plan and submits it for approval to the relevant state agency.
  - Employer certifies that the reduction in work hours is in lieu of temporary layoffs.
  - If the workforce is covered by a collective bargaining agreement then states generally require that the relevant union(s) consent to the employer's plan.
- STC benefits are financed through experience-rated state unemployment taxes on employers.

Employees

- All states require eligible STC beneficiaries to have had their workweeks reduced by 10% or more.
- Eligible employees are not required to meet the "able and available for work" requirement, but must be available for their normal workweek.
- Eligible employees may participate in an employer-sponsored training program.
- In a typical program, workers will retain their employer-provided health and retirement benefits as if they continued to work a full week.

Regulatory Framework

- Many of these programmatic elements are not required by the 1992 law that permanently authorized the STC program.
- Instead, states retain these features from a temporary STC program that Congress authorized from 1982 to 1985.
- USDOL oversees the STC program as part of the larger federal-state unemployment compensation system.

A Little History

- In the 1930s, Herbert Hoover encouraged work sharing.
- In 1975, New York was the first state to consider STC legislation as part of a broader employment policy bill that died in committee.
- In 1978, California became the first state to enact an STC law.
- From 1982-1985, the federal government introduced a temporary, national STC program with the Tax Equity and Fiscal Responsibility Act (TEFRA, P.L. 97-248).
- In 1992, Congress enacted permanent STC legislation, the Unemployment Compensation Amendments of 1992 (UCA, P.L. 102-318).

17 States Operate STC Programs

- Arizona
- Arkansas
- California
- Connecticut
- Florida
- Iowa
- Kansas
- Maryland
- Massachusetts
- Minnesota
- Missouri
- New York
- Oregon
- Rhode Island
- Texas
- Vermont
- Washington

Use of STC Programs

- One third of states have STC programs.
- Since 1982, the ratio of STC beneficiaries to regular unemployment compensation beneficiaries in all states has never exceeded about 1% nationwide.
- In 2008 the ratio of STC beneficiaries to beneficiaries of regular unemployment compensation ranged from 0.3% in Florida to 8.1% in Rhode Island.

Benefits

- Employers can use STC to reduce labor costs; reduce recruitment and training costs when business improves again; sustain morale compared to layoffs; and retain highly skilled workers.

- Employees face more moderate earnings reductions spread among the workforce instead of layoffs, and may retain health and pension benefits.

- Potential macroeconomic benefits.

Drawbacks

- STC cannot help firms avert layoffs or plant closings if company's situation is dire
- Laying off workers may be a less expensive alternative for some firms (production technologies, fringe benefits)
- State government concerns about the expense of administering STC programs
- Possible redistribution of economic hardship from younger to older employees

Other Issues

- Employers' lack of awareness about STC
- Ambiguity in current federal law

Reasons Why Many States Do Not Have STC Programs

- Difficulty the U.S. Department of Labor (USDOL) has had in implementing the authorizing legislation
- Lack of awareness on the part of employers
- Unsuitability of work sharing arrangements for some firms and/or workers
- Concerns in some states about the administrative costs of the program