**Benefit Year Earnings (BYE) Performance Measure Technical Analysis**

<u>**Weeks Overpaid vs. Fraud**</u>

The proposed performance measure would target those BYE errors that are considered the most serious. To meet this objective, the BYE performance measure can be defined either in terms of the number of weeks overpaid or by the proportion of BYE overpayments classified as fraud.

The Benefit Accuracy Measurement (BAM) survey samples paid and denied UI claims each week and conducts a thorough audit to determine the propriety of the decision to pay or deny benefits. Although BAM improper payment estimates refer to the single paid week that was selected for audit (referred to as the key week), BAM captures <u>limited</u> information concerning overpayments established outside the key week. BAM data for CY 2008 to CY 2010 show that, nationally, a little over half of all BYE errors are for five or more weeks of benefits that were improperly paid.

Distribution of Number of Weeks Overpaid
BYE Overpayments - CY 2008-2010
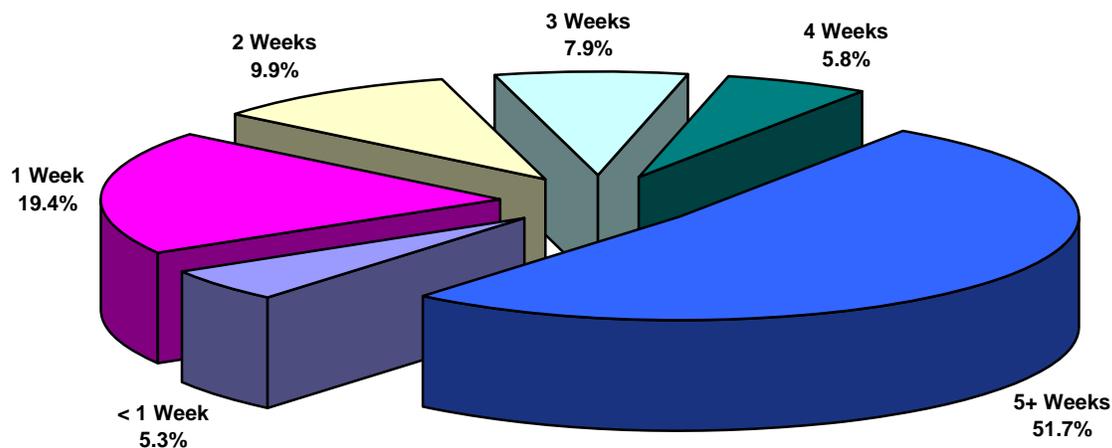
In deciding between weeks overpaid versus fraud to define the measure, both data quality and data availability need to be considered. Currently, the only source of data available for this measure is the BAM survey. In terms of data quality, the fraud definition is preferable to weeks overpaid due to the following significant limitations of the BAM data.

- BAM sample sizes at the state level are too small to produce accurate estimates of the distribution of BYE improper payments by the number of weeks overpaid. Given the current sample allocation for BAM paid claims (360 cases per year in the ten smallest states in terms of UI weeks paid and 480 cases in all other states), the number of cases coded as BYE overpayments is limited, even for multiple years.

For CY 2008 to CY 2010, cases coded as BYE overpayments ranged from 24 in Georgia to 181 in Louisiana. While sample sizes are adequate (although only marginally so in Georgia and a few other states) to estimate a binomial distribution of fraud vs. nonfraud, samples are inadequate in most states to estimate a distribution of weeks of overpayment from 1 to 26 or more.

- BAM is designed to estimate the accuracy of the single compensated week that is selected for the BAM audit. Although BAM documents overpayments for multiple weeks that are attributable to issues identified in the BAM audit in the Total Overpayments data element (H3 in the b_master table), these data are not suitable for this proposed performance measure because:

    - According to the BAM coding guidance, only overpayments officially established as a result of BAM are documented in the Total Overpayments data element. Accordingly, many states do not count overpayments established outside the key week that were detected through state Benefit Payment Control activities.

    - Issues detected on State UI, Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX) program claims may result in the establishment of overpayments for benefits paid from the Extended Benefits program and temporary programs such as Emergency Unemployment Compensation, which are included in the Total Overpayments data element in the BAM database. Because these overpayments for the episodic and temporary programs are not reported separately from overpayments in the State UI, UCFE, and UCX programs, the BAM Total Overpayments data element will overstate State UI, UCFE, and UCX overpayments.

- In the case of overpayments with multiple causes, it is not possible to separate the overpayments reported in the BAM Total Overpayments data element by cause. BYE overpayments cannot be differentiated, for example, from overpayments attributable to separation, active work search, and availability issues.

Because of the limitations of the BAM survey data, the U. S. Department of Labor (Department) would begin the process of obtaining authorization from the Office of Management and Budget (OMB) to collect population data on the number of overpayments and amounts overpaid established by state agencies by the number of weeks overpaid for BYE issues. However, in order to begin focusing on and measuring progress in reducing BYE fraud, we propose using the existing BAM data collection for this performance measure on an interim basis.

It is estimated that the development of an alternative data source would take 18 months to two years, and include the following requirements:

- Analysis and identification of an alternative metric and data collection source;
- Employment and Training Administration and Department approval of proposed data collection;

- Solicitation of states to participate in pilot testing;
- Development of pilot test procedures and instructions;
- Pilot testing by states;
- Analysis of pilot test results;
- Preparation of the Paperwork Reduction Act package for OMB approval;
- Preparation of final methodology and instructions for state implementation; and
- State agency programming of additional data collection.

Analysis - BYE Fraud Overpayments

The BAM methodology requires all overpayment errors to be classified as fraud or nonfraud. By defining the performance measure in terms of fraud BYE overpayments, the objective of reducing overpayment errors by targeting the most serious BYE violations can be met. For the period CY 2008 to CY 2010, 54.2 percent of BYE overpayments were due to fraud, slightly higher than the proportion of BYE overpayments that are five weeks or more (51.7 percent). The following table shows the U. S. aggregate and ranges by state for various metrics.

BYE Fraud CY 2008-2010	Lowest	Highest	U. S.
Average Annual Amount Overpaid (In millions of $)	SD - $0.28	CA - $180.02	$929.06
Percentage of UI Benefits	IA - 0.06%	LA - 7.27%	1.58%
Percentage of BYE Overpayments	IA - 2.92%	MS - 92.05%	54.18%

For CY 2010 alone, the U. S. percentage and amount of BYE fraud overpayments were slightly above the CY 2008 - CY 2010 averages.

BYE Fraud CY 2010	Lowest*	Highest	U. S.
Amount Overpaid (In millions of $)	MT - $0.82	CA - $164.20	$1,038.45
Percentage of Benefits	ME - 0.04%	LA - 9.08%	1.77%
Percentage of BYE Overpayments	MT - 1.38%	MS - 97.5%	53.30%

* Iowa reported no BYE fraud overpayments in CY 2010. The state reported $9.7 million in nonfraud BYE overpayments, which was 1.61% of UI benefits paid.

Estimated Affect on Annual Report and Operational Rates

The following chart shows the reduction in the Annual Report and Operational rates for various levels of reduction in the BYE fraud rate, using the preliminary CY 2010 rates of 11.51 percent (Annual Report) and 6.13 percent (Operational) as the baseline. All BYE fraud overpayments are included in both the Annual Report and Operational rates and represent 1.77 percent of UI benefits paid. If all states meet their reduction targets, the U.S. BYE fraud rate would decrease by 35 percent in the first year, and both the Annual Report and Operational rates would decrease by approximately 0.7 percentage points. After two years of implementation, the U. S. BYE fraud rate would decrease by 50 percent, and both the Annual Report and Operational rates would decrease by approximately 1.0 percentage point.

**Estimated Reduction In Annual Report and Operational Rates
CY 2010 Baseline**

Overpayment Rates (y-axis): 12.0%, 11.0%, 10.0%, 9.0%, 8.0%, 7.0%, 6.0%, 5.0%

Percent Reduction In BYE Fraud Overpayments (x-axis): 0%, 10%, 20%, 30%, 40%, 50%

Legend:
- Est. Annual Report
- Current Ann. Rpt.
- Est. Operational
- Current Oper.