



February 16, 2021

Testimony for Kansas Senate Commerce Committee  
SB 177

I am Jeff Oswald, President of Unemployment Insurance Services. We are a third-party administrator of unemployment tax and claims programs for employers nationwide. We represent well over 1,000 employers in all 50 states, which allows us to bring a broad perspective to the challenges confronting the unemployment insurance systems.

It has been nearly one year since the events of the initial state shutdowns which led to hundreds of thousands of unemployment claims being filed. The infrastructure was never designed to address the massive influx of claims and the archaic nature of the technology only exacerbated this situation. Claimants struggled with filing their claims as employers were in some cases forced to furlough entire workforces. A further hurdle was added when Federal stimulus programs were tacked on to the state unemployment system, forcing the KDOL to try to adapt a new payment system to a mainframe that was inadequate to handle the traditional claims. With each new wrinkle, it was becoming obvious that the system needed a massive modernization to better serve the constituents of the state, most specifically the claimants who were struggling to receive timely benefits.

As bad as the initial wave of claims was, the late summer and fall brought on a much more sinister development. Motivated by the various pandemic relief programs, bad actors took advantage of an overwhelmed system and began filing fraudulent unemployment claims by the thousands. Without the benefit of modern identity verification tools, the system was incapable of preventing tens of thousands of fraudulent claims being filed in unsuspecting Kansans' name. Employers and employees alike struggled to report this criminal activity, all the while legitimate claims were being delayed by the onslaught of illegitimate activity.

The cost of these two events has been significant. Prior to the beginning of the pandemic, the Kansas Unemployment Trust had nearly a billion dollars in reserve. It is nearly surreal to think that just a few weeks prior to the shutdown, this same business group was answering questions from legislators about creating additional circuit breakers to stem the flow of tax dollars into the fund. The true extent of this catastrophe is not yet known, but what is clear, is that the unemployment trust fund is depleted and will need to be replenished and modernized.

I believe it is helpful to understand the uniqueness of the unemployment system when compared to other labor programs. The unemployment system has a symbiotic relationship which intertwines the interests of the business community, labor, and state government. At times, these interests can conflict with each other. However, I feel that it is accurate to state that all three groups understand the need for a healthy and efficient claims and tax model to fulfill the mission of the system, which is to bring relief to those individuals who are deemed to be eligible for unemployment benefits.

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My testimony is going to focus on two important portions of the reforms that we are proposing in SB 177. I believe that everyone involved with the current unemployment system would agree that a drastic modernization of the technology used to administer the program is long overdue. It goes without saying that the KDOL and claimants believe that a modernization is needed as soon as possible. It has been unfortunate that claimants have struggled navigating a technological relic that was never designed or intended to manage hundreds of thousands of unemployment claims being filed simultaneously. Those of us who represent the business community recognize and strongly support this modernization effort, so individuals who require financial relief can obtain it in a timely and secure manner. Over the past eleven months I have been contacted by my clients many times seeking advice on how to help their employees who have been struggling to receive their unemployment benefits. The employers wanted their employees impacted by the pandemic to receive their rightful benefits without objection. The only request that the business community has is that the modernization process be done with common sense, foresight for future needs, as well as completed in a fiscally responsible manner. Businesses want to know that their investment in this very important program is protected from outside influences and criminal activity.

The second important reform of this bill is to adjust the means in which the trust fund is financed, specifically to the application of the surcharges. Back in 2015, we engaged in the challenge of reforming the finance model of the Kansas Unemployment Trust Fund. Prior to the reforms of 2015, an employer was faced with a system that had little to do with merit. The system was financially burdensome and unpredictable. When we proposed the switch from the arrayed method to a fixed tax rate model, there were concerns that it would not sufficiently finance the trust fund. Our rather modest goal was to create a system which would maintain a fund balance, without the need for surcharges, eight out of every ten years.

We were genuinely surprised at the success of the new model which allowed for employers to reside in a tax credit table in both 2019 and 2020, while still funding the trust to nearly one billion dollars. At the time of introducing these new tax tables, we had underestimated the success and potential hazards of this finance model, both in terms of credit and replenishment surcharges. We are seeking to adjust the method in which these surcharges are applied, so that they are equally distributed among employers based upon their earned merit rate. We believe that these changes will adequately replenish the trust fund while keeping within the spirit of the proportionality of the 2015 reforms.



Finally, I want to close with a message from the business community. I have never had a client who objected to a claimant receiving unemployment benefits when these benefits are needed through no fault of the employee. Certainly, we feel that it is vitally important to modernize this system so that the chance of a situation like the current one is minimized. We feel that the system needs to be efficient and expedient when payment of benefits is required. However, it is also very important to remember that the employers of the state ultimately finance the unemployment system in its entirety. It is understandable that they have concerns on how their tax dollars are being utilized. A modern, well financed, unemployment system will benefit all parties involved. We believe that SB 177 will accomplish the goals of having a claimant friendly system with a robust finance method which will support the financial needs of the unemployed.

On behalf of my clients, I thank you for your time.

Jeff Oswald  
President  
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