Congressional Research Service
Informing the legislative debate since 1914

Compensated Work Sharing Arrangements (Short-Time Compensation) as an Alternative to Layoffs

Updated November 1, 2016

Congressional Research Service
https://crsreports.congress.gov
R40689

CRS REPORT
Prepared for Members and
Committees of Congress

Summary

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

Although the terms *work sharing* and *short-time compensation* are sometimes used interchangeably, *work sharing* refers to any arrangement under which workers' hours are reduced in lieu of a layoff. Under a work sharing arrangement, a firm faced with the need to downsize temporarily chooses to reduce work hours across the board for all workers instead of laying off a smaller number of workers. For example, an employer might reduce the work hours of the entire workforce by 20%, from five to four days a week, in lieu of laying off 20% of the workforce.

Employers have used STC combined with work sharing arrangements to reduce labor costs, sustain morale compared to layoffs, and retain highly skilled workers. Work sharing can also reduce employers' recruitment and training costs by eliminating the need to recruit new employees when business improves. On the employee's side, work sharing spreads more moderate earnings reductions across more employees—especially if work sharing is combined with STC—as opposed to imposing significant hardship on a few. Many states also require that employers who participate in STC programs continue to provide health insurance and retirement benefits to work sharing employees as if they were working a full schedule.

Work sharing and STC cannot, however, avert layoffs or plant closings if a company's financial situation is dire. In addition, some employers may choose not to adopt work sharing because laying off workers may be a less expensive alternative. This may be the case for firms whose production technologies make it expensive or impossible to shorten the work week. For other firms, it may be cheaper to lay off workers than to continue paying health and pension benefits on a full-time equivalent basis. Work sharing arrangements in general also redistribute the burden of unemployment from younger to older employees, and for this reason the arrangements may be opposed by workers with seniority who are less likely to be laid off.

From the perspective of state governments, concerns about the STC program have included the program's high administrative costs. Massachusetts has made significant strides in automating STC systems and reducing costs, but many other states still manage much of the STC program on paper.

Currently, approximately half of the states and the District of Columbia have enacted STC programs to support work sharing arrangements. However, few UC beneficiaries are STC participants. At the peak of its use in 2010, the STC beneficiaries totaled nearly 3% of regular unemployment compensation first payments. The reasons for low take-up of the STC program are not completely clear, but key causes include lack of awareness of the program, administrative complexity for employers, and employer costs. P.L. 112-96, passed in February 2012, offered grants to states to help bring attention to the states' STC laws. In addition, P.L. 112-96 provided temporary federal funding to states that have existing STC programs or to create a new one. Despite these changes, the proportion of UC claimants receiving funds from STC remains low relative to overall UC claims.

Contents

What Are Short-Time Compensation and Work Sharing? ... 1
Short-Time Compensation Versus Partial Unemployment Benefits ... 3
Program Reach and Beneficiaries ... 3
Benefits and Concerns ... 6
State Governments and State Unemployment Trust Funds ... 6
Employers ... 8
Employees ... 9
Legislative History ... 10
P.L. 112-96 ... 13
Concluding Remarks ... 14

Tables

Table 1. Short-Time Compensation (STC) and Regular Unemployment Compensation (UC) First Payments, 1985 to 2015 ... 4
Table 2. State Legislation and Short-Time Compensation (STC) First Payments as Percentage of Regular Unemployment Compensation First Payments, 2015 ... 5
Table 3. State Enactment of Short-Time Compensation (STC) Program ... 12

Table A-1. States with Short-Time Compensation Programs, 2016 ... 16

Appendixes

Appendix. State Implementation of Short-Time Compensation Programs ... 15

Contacts

Author Information ... 17

Short-time compensation (STC), sometimes called work sharing, is a program within the federal-state unemployment compensation (UC) system. It provides pro-rated unemployment benefits to workers whose hours have been reduced in lieu of a layoff. STC may be helpful to a firm and its workers during an economic downturn or other periods when employers determine that a temporary reduction in work hours is necessary.

The STC program has never reached many workers. As will be discussed below, approximately half of states have enacted STC legislation and, within these states, few firms and workers have participated. The reasons for this seem to be a combination of difficulty the U.S. Department of Labor (U.S. DOL) has had in implementing the 1992 authorizing legislation, lack of awareness on the part of employers, unsuitability of work sharing arrangements for some firms or workers, and costs of the program. Congress passed legislation in February 2012, P.L. 112-96, which provided clarification to the definition of STC and also provided incentives to states to adopt and modify STC programs. Despite these changes, the proportion of UC claimants participating in STC remains low.

What Are Short-Time Compensation and Work Sharing?

The terms *short-time compensation* and *work sharing* are sometimes used interchangeably, however the term *work sharing* also refers more broadly to any arrangement under which a firm chooses to reduce work hours across the board for many or all workers instead of permanently laying off a smaller number of workers.[1]

In a typical example of work sharing, a firm that must temporarily reduce its 100-person workforce by 20% would accomplish this by reducing the work hours of the entire workforce by 20%—from five to four days a week—in lieu of laying off 20 workers. Workers whose hours are reduced are sometimes compensated with STC, which is equivalent to regular unemployment benefits that have been pro-rated for the partial work reduction.[2] In this example, workers' STC benefits would be 20% of the unemployment benefit they would have been entitled to had they been laid off. As unemployment benefits generally replace almost half of an average worker's wages (with considerable variation among states),[3] 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. Employees would therefore receive a combined income of about 90% of their full-time wages as compensation for four days of work: 80% as wages plus 10% as STC.

Working reduced hours because of economic conditions is currently quite common. In September 2016, an estimated 61% (3.5 million) of all part-time workers were employed part-time because of slack work or business conditions.[4]

[1] Work sharing should be distinguished from "job sharing," which usually involves splitting a single position among two or more part-time workers.

[2] For more on the federal-state unemployment insurance system, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[3] U.S. Department of Labor, *Unemployment Insurance Chartbook*, Replacement Rates, U.S. Average, http://ows.doleta.gov/unemploy/chartbook.asp.

[4] U.S. Bureau of Labor Statistics, *Employment Situation News Release*, *September 2016*, Table A-8, "Employed Persons by Class of Worker and Part-time Status."

Work sharing has a decades-long history in the United States. For example, in the early 1930s, President Hoover encouraged employers to reduce employees' hours instead of laying them off. In 1932, the President's Organization on Unemployment Relief issued a report that concluded, "Reduction in the working time is the principal method of spreading employment" through such means as reduced days per week, reduced hours per day, or rotating time off.[5]

The federal government introduced a temporary, national STC program in 1982 with the Tax Equity and Fiscal Responsibility Act (TEFRA; P.L. 97-248), which expired in 1985. The U.S. DOL did not curtail the program's operation in existing states, nor did it stop new states from adopting the program. The recession of 1990-1991 brought renewed attention to STC, leading Congress to enact permanent STC legislation, the Unemployment Compensation Amendments of 1992 (UCA; P.L. 102-318). However, at the time, government officials argued that the 1992 law was restrictive in application and would have put many existing state STC programs out of compliance and required clarification. In February 2012, Congress passed P.L. 112-96, which, among other provisions, clarifies requirements related to STC programs. Under P.L. 112-96, the term *short-time compensation program* means a program under which

- employers participate on a voluntary basis and submit a written plan to the appropriate state agency;
- an employer reduces the number of hours worked by employees in lieu of layoffs;
- employees' workweeks have been reduced by at least 10% and by no more than the percentage determined by the state (if any, but in no case by more than 60%);
- STC is paid as a pro rata portion of the unemployment compensation that would otherwise be payable to the employee if such employee were employed;
- eligible employees are not required to meet the "able, available and actively seeking work" requirement of regular unemployment compensation, but they must be available for their normal workweeks;
- eligible employees may participate in a state-approved, employer-sponsored, or Workforce Investment Act training program; and
- employers who provide health or retirement benefits (defined benefit or defined contribution pension plans) must certify to the appropriate state agency that such benefits will continue to be provided to STC participants under the same terms and conditions as though the workweek of such employee had not been reduced or to the same extent as other employees not participating in the STC program.

As described below, P.L. 112-96 provided temporary, federal financing for 100% of STC benefits in states that meet the new definition of an STC program. A transition period of up to two years and six months from enactment of this law was provided for states with existing STC programs that did not meet the new definition.[6]

[5] William J. Barrett, *Spreading Work: Methods and Plans in Use*, The President's Organization on Unemployment Relief, Washington, DC, April 1932.

[6] Under permanent law, STC benefits are financed the same way that regular unemployment benefits are financed, that is, through state unemployment taxes on employers. An employer's unemployment tax rate is determined from a schedule of possible rates depending on the firm's experience with unemployment, including STC. This is known as "experience rating." By taxing STC employers based on their experience with STC in addition to regular unemployment, states ensure that the cost of STC is not passed on to non-STC firms.

Currently, over half of the states and the District of Columbia have enacted STC programs. A description of STC programs in the states that currently operate them can be found in the **Appendix**.

Short-Time Compensation Versus Partial Unemployment Benefits

The federal-state unemployment insurance system also permits payment of "partial unemployment benefits" to a worker whose hours have been reduced significantly or to an unemployed worker who has accepted a part-time job while searching for a permanent, full-time job. To qualify for partial unemployment benefits, however, a worker must generally experience a significant reduction in work hours and pay.

States provide partial unemployment benefits to part-time workers who are earning less than their weekly benefit amount (which is based on previous earnings). States reduce a worker's unemployment benefit by the amount of earnings from work, usually less a small disregard (for example, $50 or 25% of the weekly UC benefit amount), with the result that a person may receive almost no benefit if he or she has part-time earnings greater than the benefit amount.[7]

Unemployment benefits generally replace almost 50% of average wages, up to a cap, although there is considerable variation by state. As a result, to qualify for partial unemployment benefits, an average worker generally must have a reduction of 50% or more in his or her normal hours. For higher-income employees this may translate into even deeper cuts in work hours.

Partial unemployment benefits may help employees whose hours are reduced by 50% or more, but they offer little incentive for employees to accept voluntarily a smaller reduction in work hours. By comparison, most state STC programs cap work hour reductions under a qualified work sharing plan to no more than 60%. STC benefits are available to employees whose work hours have been cut by as little as 10% and are not offset by work earnings.

Program Reach and Beneficiaries

Although just over half of states now have STC programs, there continues to be only limited use of the option. From 1982 through 2008, the ratio of STC beneficiaries to regular unemployment compensation beneficiaries among all states attained 1% only twice, in 1992 and in 2001. In 2009, however, the ratio of STC beneficiaries to regular unemployment compensation beneficiaries rose to 2%, and this ratio reached nearly 3% in 2010, as shown in **Table 1**.

Use of STC is highly countercyclical to business conditions because employers are more likely to be interested in work sharing when they need to manage labor costs in the face of relatively low demand for their products. The local peaks in 1992, 2001, and 2009-2011 correspond with the recessions of July 1990 to March 1991, March 2001 to November 2001, and again with the December 2007-June 2009 recession. Almost 98,000 workers received STC in 1992, about 111,000 received STC in 2001, about 314,000 received STC benefits in 2010, and about 236,000 workers received STC in 2011. In 2013, STC use fell significantly to under 74,000 beneficiaries. By 2015, the number of new STC beneficiaries had fallen to just over 60,000; however, it remains higher than numbers reported in the pre-recessionary years of 2004-2007.

[7] See Table 3-8, *Comparison of State Unemployment Insurance Laws 2016*, Employment and Training Administration, U.S. Department of Labor, 2016, pp. 3-17 to 3-20, http://ows.doleta.gov/unemploy/pdf/uilawcompar/2016/monetary.pdf.

Table 1. Short-Time Compensation (STC) and Regular Unemployment Compensation (UC) First Payments, 1985 to 2015

Year	STC 1st Payments	Regular UC 1st Payments	Percentage of STC 1st Payments to All 1st Payments STC/(UC+STC)*100%
1985	4,387	8,363,380	0.05%
1986	12,956	8,360,752	0.15%
1987	23,019	7,203,357	0.32%
1988	25,588	6,860,662	0.37%
1989	32,474	7,368,766	0.44%
1990	44,922	8,628,557	0.52%
1991	94,813	10,074,550	0.94%
1992	97,619	9,243,338	1.06%
1993	65,557	7,884,326	0.83%
1994	53,410	7,959,281	0.67%
1995	45,942	8,035,229	0.57%
1996	41,567	7,995,135	0.52%
1997	32,494	7,325,093	0.44%
1998	47,728	7,341,903	0.65%
1999	36,666	6,967,840	0.53%
2000	32,916	7,035,783	0.47%
2001	111,202	9,868,193	1.13%
2002	93,795	10,092,569	0.93%
2003	83,783	9,935,108	0.84%
2004	42,145	8,368,623	0.50%
2005	40,238	7,917,301	0.51%
2006	39,854	7,350,734	0.54%
2007	48,924	7,652,634	0.64%
2008	96,388	10,059,554	0.96%
2009	288,618	14,172,822	2.04%
2010	314,102	10,738,550	2.92%
2011	236,379	9,474,445	2.49%
2012	89,091	8,661,577	1.01%
2013	73,958	7,818,878	0.95%
2014	53,581	7,043,011	0.76%
2015	60,353	6,501,251	0.93%

Source: CRS calculations from data provided by the U.S. Department of Labor's Employment Training Administration. Data on first payments for regular unemployment insurance are from ETA report No. 5-159, available to congressional clients by request.

Table 2 shows first payments of STC benefits during 2015 in states with STC programs. STC usage varies significantly among the states with STC programs. For example, the ratio of STC beneficiaries to beneficiaries of regular unemployment compensation ranged from negligible usage in many states to over 9% in Missouri.

Table 2. State Legislation and Short-Time Compensation (STC) First Payments as Percentage of Regular Unemployment Compensation First Payments, 2015

State	Number of 1st STC Payments	Number of 1st Regular UC Payments	Ratio of 1st STC Payments to all 1st Payments STC/(UC+STC)*100%
Arkansas	579	57,641	1.00%
Arizona	815	82,567	0.99%
California	18,734	1,012,256	1.85%
Colorado	111	92,374	0.12%
Connecticut	379	120,404	0.31%
Florida	10	194,170	0.01%
Iowa	468	92,606	0.51%
Kansas	2,160	59,694	3.62%
Maine	6	30,004	0.02%
Maryland	119	107,255	0.11%
Massachusetts	613	189,738	0.32%
Michigan	73	242,223	0.03%
Minnesota	1,389	122,686	1.13%
Missouri	9,795	103,654	9.45%
New Hampshire	154	17,437	0.88%
New York	5,647	459,372	1.23%
Ohio	1,713	196,409	0.87%
Oregon	2,390	94,121	2.54%
Pennsylvania	10	391,726	0.00%
Rhode Island	902	31,551	2.86%
Texas	9,206	482,925	1.91%
Vermont	110	16,928	0.65%
Washington	4,970	162,883	3.05%

Source: CRS calculations from STC first payments data provided by the U.S Department of Labor, Employment and Training Administration, and data on regular unemployment first payments from ETA report no. 5-159, available to congressional clients by request.

Notes: If a state did not have at least one first STC payment in 2015 it is not listed. States with an operating program but no STC participants are omitted.

A 2002 study (hereinafter, MaCurdy et al.) in California, the largest (numerically) user of STC, found that manufacturing firms were more likely than other firms to use STC. Manufacturing firms accounted for only 11% of firms generating unemployment benefits of all kinds but they

accounted for 62% of STC firms. Wholesale trade was the other sector more likely than average to use STC. Firms that used STC were generally older and larger than non-STC users. The average employment in STC firms was 239, compared to average employment of only 40 workers in firms that generated UI charges through layoffs in 2002. Older and larger firms were also more likely to have human resources departments to assist with implementing STC.[8] In Connecticut in 2009, manufacturing firms were more likely than other firms to use STC.[9]

An interesting finding in the California study is that STC firms often have jobs that require lengthy apprenticeships or on-the-job training programs in which workers learn skills not taught in school. Within the manufacturing sector, the industries that used STC the most were manufacturers of electronics, industrial machinery, fabricated metals, instruments, furniture, primary metals, leather, rubber and plastics, and paper products. Within the construction sector, STC firms were more likely than other construction firms to be "specialty trades contractors" such as plumbers and electricians.

Benefits and Concerns

A firm's decision to seek STC as part of a work sharing arrangement hinges on a number of factors, for example whether work sharing is appropriate for both a firm and its employees. The low usage rate of STC, even in some states that offer the program, may be due in part to the fact that work sharing itself is not appropriate for all firms or all employees.

State Governments and State Unemployment Trust Funds

Work sharing programs in combination with STC can provide macroeconomic benefits to a state by preserving jobs during cyclical downturns, maintaining consumption through continued wages and STC, and ensuring the continuation of employer-sponsored health insurance and pensions, thereby reducing reliance on state-provided services and supports. As is well known, widespread unemployment leads to lower consumer spending and sales tax revenues. In addition, state employment services realize savings through work sharing because they are not called on to provide job search and other assistance. In 2010, the National Governors Association promoted STC as one of a number of recommended policies for assisting workers in an economic downturn.[10]

The administrative costs of STC programs have been a concern for state labor agencies. In many states, STC is still paper-based and states approve employers' work sharing plans on a case-by-case basis. In addition, STC may increase processing costs for the state agency relative to layoffs because, for a given firm, work sharing affects a larger number of workers than if the firm were to lay off workers.[11] Some suggest that states would experience at least partially offsetting savings

[8] Thomas MaCurdy, James Pearce, and Richard Kihlthau, "An Alternative to Layoffs: Work Sharing Unemployment Insurance," *California Policy Review*, August 2004.

[9] George M. Wentworth, "The Connecticut Shared Work Program and the Future of Short-time Compensation," presentation to the U.S. Department of Labor's conference on "Recovery and Reemployment Research," Washington, DC, September 16, 2009.

[10] National Governors Association, *NGA Policy Positions: Employment Security System Policy*, July 11, 2010, section 11.3.

[11] STC is provided to a relatively larger number of work sharing employees, and 100% of these would be expected to qualify for STC. By contrast, laying off a smaller number of employees results in fewer initial claims for regular unemployment benefits and ultimately in even fewer beneficiaries, because some of those laid off are likely to fail eligibility tests. For example, newer workers, who are more vulnerable in layoffs, are more likely to fail requirements

as a result of not having to administer certain components of the regular unemployment system, such as the requirements that a worker be actively seeking work and that he or she not refuse suitable work. No studies have attempted to quantify STC's net administrative cost to states, however.

Some states have responded to high administrative costs by reducing the layers of approval for plan submissions, by automating the claims process, and by switching from employee-filed claims to employer-filed claims. States that have developed strategies to automate STC filing, approval, and ongoing claims have been able to reduce administrative costs, according to a study by Berkeley Planning Associates and Mathematica Policy Research, Inc. (hereinafter, Berkeley Planning Associates and Mathematica).[12] Massachusetts has gone the furthest by fully automating its STC program in 2001 and 2002. The system is Internet-based, and employers use it to submit their work sharing plans and their weekly STC transactions. Massachusetts has offered to make its software available at no cost to other states.

The impact of STC benefits on the solvency of state unemployment programs, as reflected in the balance of state unemployment trust fund (UTF) accounts,[13] is likely small. The immediate impact is negative as STC benefit payments increase with the onset of a recession. Increased state unemployment tax receipts respond with a lag. STC benefits are experience-rated[14] in approximately the same manner as regular unemployment benefits. As a result, the study by Berkeley Planning Associates and Mathematica concluded that the long-run effect on a state's UTF account, relative to layoffs, is probably minimal, although the impact could potentially be more serious if STC participation rates were very high and tax schedules were constrained.

When STC was first implemented in some states in the late 1970s and 1980s, proponents argued that it would help protect the gains made by affirmative action.[15] Because women and minorities were newer to the workforce, they were considered more vulnerable to layoffs than workers with seniority. However, the 1997 study by Berkeley Planning Associates and Mathematica found no evidence that STC disproportionately benefits ethnic or racial minorities, or women, although it is still possible that the program could help entry-level and newer workers in general.

Under P.L. 112-96, the Labor Secretary was authorized to award grants to eligible states for STC programs, with one-third of each state's grant available for implementation and improved administration purposes and two-thirds of each state's grant available for program promotion and enrollment of employers. The maximum amount of all grants to states authorized under P.L. 112-96 was $100 million; in the end, states received almost half ($46 million) of those funds.[16]

---

for regular unemployment benefits that are related to wages earned in the base period. A worker's "base period" is the time period over which his wages earned and hours/weeks worked are examined to determine his monthly unemployment insurance benefit.

[12] Berkeley Planning Associates and Mathematica Policy Research, Inc., *Evaluation of Short-Time Compensation Programs: Final Report*, U.S. Department of Labor, Employment and Training Administration, Washington, DC, March 1997.

[13] For more information on how state unemployment taxes flow through the UTF and are used to fund unemployment benefits, see CRS Report RS22077, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*, by Julie M. Whittaker.

[14] All states use a system called "experience rating" to relate an employer's state unemployment tax rate to its experience with the payment of unemployment benefits to former workers. For more information, see CRS Report RL33362, *Unemployment Insurance: Programs and Benefits*, by Julie M. Whittaker and Katelin P. Isaacs.

[15] During this period of state innovation, U.S. DOL did not challenge states' STC programs; although federal UC law did not explicitly allow states to fund STC with UTF funds.

[16] Actual STC grants are enumerated in Figure 4.1 of U.S. Department of Labor, Report to the President and to the

Employers

For employers, the decision between layoffs and an arrangement combining work sharing with STC may rest on both financial and non-quantifiable factors such as employee morale. Some firms may find that the combination of work sharing and STC helps reduce total costs during a downturn; however, other firms may find that layoffs are more cost-effective.

Immediate cost savings to employers under a work sharing/STC arrangement come largely from reduced expenditures on wages and salaries. If a work sharing arrangement that involves all employees is the alternative to laying off low-seniority (and generally lower paid) employees, then STC would presumably save the employer in wage costs.

Work sharing and STC arrangements can also reduce recruitment and training costs for employers. When business improves, employers can increase the hours of existing employees rather than recruit and train new ones.

Some employers find work sharing and STC programs attractive because they prevent the firm from losing skilled employees during an economic downturn and reduce the risk that skilled employees may leave for other companies. According to the MaCurdy et al. study of STC in California, employees of STC firms tended to be older and better paid than workers collecting regular unemployment benefits, suggesting that employers were using STC to retain highly skilled workers. Some employers use work sharing and STC to protect specific groups of highly skilled workers within a larger organization that is undergoing layoffs. For example, New York State's STC program allows employers to apply different percentage reductions to hours and wages in different departments, and STC may be implemented at the level of one or more departments, shifts, or units. Berkeley Planning Associates and Mathematica, as part of their 1997 study of STC, surveyed 500 employers who used work sharing in combination with STC and found that the ability to retain valued employees was a major attraction.

Most employers who used the STC program reported that they were satisfied and would use it again, according to the same 1997 survey. In fact, many firms used STC repeatedly, with some firms using it in every quarter over a three-year period.

Work sharing and STC arrangements may help sustain employee morale and productivity compared to layoffs. Even employees who survive a layoff may be vulnerable to "survivor's guilt" and emotional contagion (picking up on the despair of laid-off employees) that can reduce productivity.[17]

The most frequent complaint found in the survey conducted by Berkeley Planning Associates and Mathematica was that firms' state unemployment taxes increased following use of the STC program. In the survey, firms using STC experienced higher unemployment insurance (UI) charges compared to firms that had not used STC. The STC firms, however, also continued to lay off workers. One interpretation offered by the survey's authors is that STC firms were experiencing greater economic distress than similar non-participating firms.

In states where STC is charged to the firm according to the experience rating rules of the regular unemployment program, the firm incurs no more in UI tax costs by using STC than it would

Congress: Implementation of the Short-Time (STC) Program Provisions in the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96), Washington, DC, February 22, 2016, pp.4-3 to 4-4, http://oui.doleta.gov/unemploy/docs/stc_report.pdf. For potential grant amounts, see the list published within U.S. Department of Labor, Unemployment Insurance Program Letter, UIPL 27-12, Washington , DC, http://wdr.doleta.gov/directives/attach/UIPL/UIPL_27_12_Att4.pdf.

[17] Barbara Kiviat, "After Layoffs, There's Survivor's Guilt," *Time*, February 1, 2009.

through layoffs. For example, MaCurdy et al. wrote about California's STC system that "it does not matter for UI tax calculations whether a firm generates $1,000 in UI benefits through work sharing or layoffs." Seven states also impose additional tax provisions on work sharing employers, in order to ensure that employers who already pay the maximum state unemployment tax rate share in the burden. According to the Berkeley Planning Associates and Mathematica study of STC, states appear to experience-rate STC claims at least as well as regular unemployment compensation claims.

Certain nonprofit organizations, state and local governments, and federally recognized Indian tribes are permitted to reimburse their state unemployment funds for unemployment benefit payments attributable to service in their employ, instead of contributing taxes to the state's trust fund. Most state laws provide that reimbursing employers will be billed at the end of each calendar quarter, or another period, for benefits paid during that period. For these "reimbursing" employers, STC is not a cost-effective option.

There likely are several reasons why most reductions in hours take the form of layoffs rather than shorter work schedules. Employers' lack of awareness of STC has been cited as one reason for low employer participation. In addition, production technologies may make it expensive or impossible to shorten the work week. This is the case in some manufacturing industries, for example, where the costs of shutting down and starting up equipment are high.[18] Moreover, a work sharing arrangement may not reduce total costs to employers in exact proportion to the reduction in work hours. Some non-wage employment costs—referred to as "quasi-fixed" costs—are largely independent of the number of hours worked. Health and pension benefits are among those that fall into this category. P.L. 112-96 required employers to certify that health insurance and pension benefits during the period of the work sharing arrangement will not be reduced. Thus, STC firms continue to bear the full (rather than the pro-rated) costs of the two benefits.

Employees

Work sharing helps workers who would have faced layoffs avoid significant hardship, while spreading more moderate earnings reductions across more working individuals and families. When work sharing is combined with STC, the income loss to work sharing employees is reduced. Many state STC programs also require that employers continue to provide health insurance and retirement benefits to work sharing employees as if they were working a full schedule.

Some employees are simply happy to have any job in a tough labor market. One worker who received STC in 2009 in conjunction with a work sharing arrangement told a Rhode Island newspaper, "Versus being totally unemployed, it's a big plus. There aren't any jobs out there."[19]

Analysts have suggested that work sharing could shift the impact of an economic downturn from younger workers to older workers because it spreads the pain of a workforce reduction among workers of all ages. Younger employees, who are often the first to be fired in a downturn, presumably have the most to gain by work sharing combined with STC. More experienced and more highly paid workers would presumably have the most to lose, particularly in firms where

[18] For a more complete analysis, see David M. Lilien and Robert E. Hall, "Cyclical Fluctuations in the Labor Market," in *Handbook of Labor Economics*, ed. O. Ashenfelter and R. Layard, vol. 2 (Elsevier Science Publishers, 1986), pp. 1001-1035.

[19] Benjamin N. Gedan, "WorkShare Helping Workers and Employers," *The Providence Journal*, May 22, 2009.

jobs are protected by seniority. Consequently, employees with seniority may oppose a program that shares reductions across the labor force.[20]

Some research suggests that reduced work hours may have different implications for professional employees compared to hourly workers. Professional employees sometimes welcome a better work-life balance, while in some cases hourly workers rely not just on a full work schedule but also on overtime in order to make ends meet.[21]

When STC was introduced in the 1970s and 1980s, labor groups warned that safeguards were necessary to avoid reducing workers' health insurance and pensions. One concern had been that reduced work hours and pay could result in smaller contributions to pension plans. Traditional defined benefit pension plans generally calculate benefits based in part on a worker's high three or high five earnings years, so that workers close to retirement could be directly affected by a reduction in work hours and pay. As will be discussed below, Congress included protections for health and pension benefits when it authorized a temporary STC program from 1982 to 1985. These concerns seem to have died down during the 1980s,[22] however, and Congress did not include health or pension safeguards when it passed a permanent law authorizing STC in 1992. By 2012, these concerns had resurfaced and as a result P.L. 112-96 requires employers to certify that health insurance and pension benefits during the period of the work sharing arrangement will not be reduced.

An argument can be made that, in declining industries, work sharing and STC arrangements may cause some workers to delay serious job searches or retraining efforts. The relative advantages and disadvantages for an individual will depend in part on his or her particular skill set. STC cannot forestall what may be an inevitable layoff, however.

Legislative History

It is sometimes said that states are laboratories for policy, and the history of STC appears to bear this out. Following the recession of 1973-1975, state governments, businesses, and labor groups began to promote work sharing arrangements that included government-provided income support. **Table 3** provides the enactment year for all states with an STC program.

New York was the first state to consider STC legislation, in 1975, as part of a broader employment policy bill. The legislation died in committee.

In 1978, California became the first state to enact an STC law. California's action was in response to anticipated large-scale public sector layoffs arising from Proposition 13 tax reductions that limited state spending. Although the public sector layoffs never occurred, the private sector used the program. California was followed by Arizona in 1981. Oregon enacted STC legislation in 1982, with strong support from the Motorola Corporation. During this period of state innovation, U.S. DOL did not challenge states' STC programs, although federal unemployment compensation law did not explicitly allow states to use their unemployment trust funds to pay STC.

[20] Workers in a few industries that pay "supplemental" unemployment benefits may also oppose work sharing arrangements. These supplemental benefits, when combined with reduced earnings, may provide a greater total benefit to somebody who is completely unemployed than a work sharing arrangement that combines reduced pay with STC.

[21] Brenda A. Lautsch and Maureen A. Scully, "Restructuring Time: Implications of Work-hours Reductions for the Working Class," Human Relations, May 2007; volume 60, number 5.

[22] Telephone conversation with Steve Wandner, U.S. Department of Labor, June 22, 2009.

The federal government introduced a temporary, national STC program in 1982 with the Tax Equity and Fiscal Responsibility Act (TEFRA; P.L. 97-248). Motorola and the Committee for Economic Development[23] both lobbied in Washington for the legislation. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), after some initial opposition, came to support STC provided that safeguards were incorporated to protect pension and health insurance benefits and to secure union certification for employers' work sharing plans.

TEFRA, which expired in 1985 after three years, authorized states to use monies in their state accounts in the Unemployment Trust Fund to pay STC benefits to eligible employees whose work hours had been reduced by at least 10% under a qualified employer work sharing plan.[24] The law required the employer to draw up a formal work sharing plan and to seek the relevant state agency's approval of the plan as well as certification by the relevant union(s) if applicable. TEFRA also provided that employees who received STC benefits would not be required to meet a state's work search and refusal of suitable work requirements for unemployment benefits. Employees would, however, be required to be available to work a normal work week. TEFRA required employers to continue to provide health and pension benefits to employees whose workweek was reduced as if the employees worked their normal hours. The act required that employers who used STC be charged in the same manner as other UI taxes, in order to ensure that STC costs were paid by participating employers instead of being passed on to other employers. TEFRA directed the Secretary of Labor to develop model STC legislation for use by the states and also to provide technical assistance to states. Finally, P.L. 97-248 directed the Secretary of Labor to submit a final report evaluating the program and making recommendations.

U.S. DOL published model state legislative language and guidelines in July 1983. During TEFRA's three-year experimental period, eight additional states enacted STC programs.

Following the expiration of the three-year temporary program in 1985, the existing state programs continued. U.S. DOL stopped promoting STC when its mandate to act expired with the end of the temporary federal law. However, U.S. DOL did not curtail the program's operation in existing states, nor did it stop new states from adopting the program. U.S. DOL allowed states to use the expired 1983 federal guidance and continued to collect reporting data on STC programs in the states.

The recession of 1990-1991 renewed attention to STC, leading Congress to enact permanent STC legislation, the Unemployment Compensation Amendments of 1992 (UCA; P.L. 102-318). The 1992 law amended the Internal Revenue Code[25] to authorize states to pay STC benefits from their accounts in the Unemployment Trust Fund. UCA essentially consisted of a five-point definition of STC as a program under which (1) individuals' workweeks were reduced by at least 10%; (2) STC was paid as a pro rata portion of the full unemployment benefit that an individual would have received if totally unemployed; (3) STC beneficiaries were not required to meet availability for work and work search requirements, unlike beneficiaries of regular unemployment compensation, but they were required to be available for their normal work week; (4) STC beneficiaries could participate in employer-sponsored training programs; and (5) the reduction in work hours was in lieu of layoffs. UCA also directed the Secretary of Labor to assist states in establishing and implementing STC programs by developing model legislative language and

[23] The Committee for Economic Development is a nonprofit, business-led organization that has addressed economic and social issues since 1942.

[24] States pay unemployment benefits from state accounts in the Unemployment Trust Funds. These funds cannot be used by a state for any purpose other than the payment of unemployment benefits, with certain exceptions including short-time compensation.

[25] 26 U.S.C. §3304.

providing technical assistance and guidance to the states. Finally, UCA directed U.S. DOL to report on implementation of the STC program.

UCA did not contain the employee and employer safeguards that had been present in TEFRA. In particular, UCA did not require employers to do the following: submit work sharing plans to the state for approval; certify to the relevant state agency that the reduction in work hours was in lieu of temporary layoffs; win consent from the relevant union(s); or contribute to health insurance or pension plans as if the employee continued to be fully employed. UCA also did not contain the TEFRA provision that STC be charged to employers "in a manner consistent with the State law" for the purposes of determining state unemployment taxes on employers (P.L. 97-248 §194(e)). Finally, UCA did not give the U.S. Secretary of Labor the ability to determine what program elements would be appropriate beyond the 1992 law's five definitional items. These provisions were removed by committee staff in order to give states more flexibility.[26]

From 1992 until 2012 (when Congress passed P.L. 112-96), U.S. DOL largely sidestepped implementation of STC, neither developing new model state legislative language nor providing new guidance to the states. U.S. DOL did, however, support a study of the program (the 1997 study by Berkeley Planning Associates and Mathematica). Shortly after enactment of the 1992 law, U.S. DOL and Clinton Administration officials claimed the permanent federal law was "unworkable," according to an article by David E. Balducchi and Steven Wandner (hereinafter, Balducchi and Wandner).[27] At the time, government officials argued that the 1992 law was restrictive in application and would have put many existing state STC programs out of compliance. For example, Clinton Administration and U.S. DOL officials were concerned that existing state provisions requiring employers to continue to provide health and pension benefits were out of compliance with UCA's definition of STC, and U.S. DOL would need to require states to roll back these provisions.[28]

Table 3. State Enactment of Short-Time Compensation (STC) Program

State	Year Enacted
Arizona	1982
Arkansas	1985
California	1978
Colorado	2010
Connecticut	1991
District of Columbia	2010
Florida	1983
Iowa	1991
Kansas	1988
Louisiana	1986
Maine	2011
Maryland	1984

[26] Telephone conversation with Rich Hobbie, National Association of State Workforce Agencies, June 24, 2009.

[27] David E. Balducchi and Stephen A. Wandner, "Work Sharing Policy: Power Sharing and Stalemate in American Federalism," *Publius: The Journal of Federalism*, winter 2008, p. 21.

[28] Telephone conversation with David Balducchi, U.S. Department of Labor, June 24, 2009.

State	Year Enacted
Massachusetts	1988
Michigan	2012
Minnesota	1994
Missouri	1987
Nebraska	2014
New Hampshire	2010
New Jersey	2012
New York	1985
Ohio	2013
Oklahoma	2010
Oregon	1982
Pennsylvania	2011
Rhode Island	1991
Texas	1985
Vermont	1985
Virginia	2014
Washington	1983
Wisconsin	2013

Source: Congressional Research Service.

Notes: North Dakota enacted a one-year STC demonstration project in 2006 but did not implement it and its program has expired. Illinois enacted STC in 1983, but the law expired in 1988. Hawaii had a partial unemployment program similar to work sharing that was implemented on a temporary basis through July 1, 2012.

P.L. 112-96

On February 22, 2012, the President signed into law P.L. 112-96, the Middle Class Tax Relief and Job Creation Act of 2012, which was a comprehensive package of measures that includes STC provisions based largely on stand-alone bills S. 1333 (Senator Jack Reed) and H.R. 2421 (Representative Rosa DeLauro). P.L. 112-96 clarified the definition of STC and offered incentives to states to adopt and modify STC programs.

Provides Program Clarity

Under the new legislation, employers voluntarily submitted written STC plans for approval by the relevant state agency; eligible workers would receive unemployment compensation on a pro rata basis and would be able to participate in state-approved training; employees would meet the availability for work and work search requirements while collecting STC by being available for their work week as required by the state agency; and employers who provide health and retirement benefits would be required to certify that these benefits would continue to be provided under the same terms and conditions as though employees' work weeks had not been reduced or to the same extent as other employees not participating in the STC program. A state was able to ask U.S. DOL to approve other appropriate provisions in the state's STC law. For states that were

administering STC programs that did not meet the new definition in P.L. 112-96, a transition period equal to the earlier of 2½ years or the date the state changes its STC law was provided.

Temporary Federal Financing

P.L. 112-96 provided temporary (up to three years) federal financing for 100% of STC benefits in states that met the new definition of an STC program. States with existing STC programs that did not meet the new definition were eligible for 100% federal financing during a transition period of two years. The 100% federal financing ended on August 22, 2015. States without existing STC programs were allowed to enter into an agreement with U.S. DOL to receive federal reimbursement for temporary (up to two years) federal financing of 50% of STC payments to individuals, as well as federal reimbursement for additional administrative expenses, with employers paying the other 50% of STC benefit costs. If a state entered into an agreement with the U.S. Secretary of Labor and subsequently enacted a state law meeting the criteria in P.L. 112-96, that state was eligible to receive 100% federal financing for STC programs for a total period exceeding no longer than three years.

Administrative Grants

Under P.L. 112-96, U.S. DOL awarded grants to eligible states, with one-third of each state's grant available for implementation and improved administration purposes and two-thirds of each state's grant available for program promotion and enrollment of employers. The maximum amount of all grants was limited to $100 million, less a small amount to be used by U.S. DOL for outreach. U.S. DOL was required to develop model legislative language and to provide technical assistance and guidance to states, in consultation with employers, labor organizations and state workforce agencies.[29] U.S. DOL was directed to establish reporting requirements concerning the number of averted layoffs and participating employers. States had to apply for the STC grant(s) on or before December 31, 2014. Finally, P.L. 112-96 provided $1.5 million for U.S. DOL to report to Congress and the President, within four years of enactment, on the implementation of the legislation, including a description of states' best practices, analysis of significant challenges, and a survey of employers in all states to determine the level of interest in STC.[30]

Concluding Remarks

STC is currently legislated in just over half of the states and the District of Columbia. In these states, it has never reached a large number of workers, although there is evidence of increased use in 2009 through 2011. Congress passed P.L. 112-96 in February 2012 to promote state adoption and implementation of STC programs; however, STC remains a little-used program.

[29] U.S. DOL guidance issued as required by P.L. 112-96 is accessible at http://ows.doleta.gov/unemploy/jobcreact.asp under the heading "STC."

[30] U.S. Department of Labor, Report to the President and to the Congress: Implementation of the Short-Time (STC) Program Provisions in the Middle Class Tax Relief and Job Creation Act of 2012 (P.L. 112-96), Washington, DC, February 22, 2016, http://oui.doleta.gov/unemploy/docs/stc_report.pdf.

Appendix. State Implementation of Short-Time Compensation Programs

Currently, 27 states and the District of Columbia have active STC programs. **Table A-1** displays how STC is implemented in those states. The basic structure of each state's STC program is broadly similar: eligible individuals have had their workweeks reduced by at least 10%, and this reduction in work hours must be in lieu of temporary layoffs. The amount of unemployment compensation payable to an individual is a pro rata share of the unemployment compensation to which that individual would have been entitled if he or she had been totally unemployed. Eligible employees are not required to meet the "able and available for work" requirement of regular unemployment compensation, but they must be available for their normal workweek. Finally, eligible employees may participate in an employer-sponsored training program.

Within these broad outlines there is considerable variation among states. An employer's STC agreement cannot exceed a period of 6 months in 5 states but may span up to approximately 1 year in 20 states and the District of Columbia. An individual may receive STC benefits for up to 18 weeks in Colorado or for up to 52 weeks in 8 states. Alternatively, California, Michigan, Washington, and Wisconsin place no limits on the number of weeks a worker may receive STC benefits, although these states have caps on total benefits paid to an individual to the maximum potential total UC entitlement.

Table A-1. States with Short-Time Compensation Programs, 2016

State	Maximum Duration of Approved STC Employer Agreement[a]	Required Reduction of Work	Maximum Number of Weeks Payable
Arizona	1 year	At least 10% but not more than 40%	26 weeks (limitation does not apply if state insured unemployment rate (IUR) for the current and preceding 12 weeks is equal to or greater than 4%)
Arkansas	12 months or date in plan, whichever is earlier	Not less than 10%, but not more than 40%	25 weeks
California	6 months	At least 10%	No limit on weeks, but cannot exceed 26 x weekly benefit amount
Colorado	12 months or less	At least 10% but not more than 40%	18 weeks
Connecticut	26 weeks	Not less than 10%, but not more than 40%	26 weeks
District of Columbia	12 months	At least 20%, but not more than 40%	50 weeks (with 2-week extension possible)
Florida	12 months	Not less than 10%, but not more than 40%	26 weeks
Iowa	52 weeks	Not less than 20%, but not more than 50%	26 weeks
Kansas	12 months	Not less than 20%, but not more than 40%	26 weeks
Maine	12 months	Not less than 10%, but not more than 50%	52 weeks
Maryland	6 months	At least 20%, not to exceed 50%	26 weeks
Massachusetts	26 weeks	Not less than 10%, but not more than 60%	26 weeks
Michigan	52 weeks	Not less than 15% but no more than 45%	No limit on weeks, but cannot exceed 20 x weekly benefit amount
Minnesota	At least 60 days but not more than 1 year	At least 20%, but not more than 50%	52 weeks
Missouri	12 months	Not less than 20%, but not more than 40%	52 weeks
Nebraska[b]	12 months	Not less than 10%, but not more than 60%	52 weeks
New Hampshire	26 weeks	Not less than 10%, but not more than 50%	26 weeks
New Jersey	12 months	Not less than 10%	26 weeks

State	Maximum Duration of Approved STC Employer Agreement[a]	Required Reduction of Work	Maximum Number of Weeks Payable
New York	Unspecified	Not less than 20%, but not more than 60%	26 weeks
Ohio	52 weeks	Not less than 10%, but not more than 50%	26 weeks
Oregon	Not more than 1 year	At least 20%, but not more than 40%	52 weeks
Pennsylvania	52 weeks	Not less than 20%, but not more than 40%	52 weeks
Rhode Island	12 months	Not less than 10%, but not more than 50%	52 weeks
Texas	12 months	At least 10%, but not more than 40%	26 weeks
Vermont	6 months or date in plan, whichever is earlier	Not less than 20%, but not more than 50%	26 weeks
Virginia	6 month or date in plan, whichever is earlier	Not less than 10%, but not more than 50%	26 weeks
Washington	12 months or date in plan, whichever is earlier	Not less than 10%, but not more than 50%	No limit on weeks, but total paid cannot exceed maximum entitlement
Wisconsin	6 months in any 4-year period within the same work unit	Not less than 10%, but not more than 50%	No limit on weeks, but total paid cannot exceed maximum entitlement

Source: U.S. Department of Labor, *Comparison of State Unemployment Insurance Laws, 2016* (Washington, DC: 2016), pp. 4-10 to 4-11, available at http://workforcesecurity.doleta.gov/unemploy/pdf/uilawcompar/2016/special.pdf.

a. Many states offer extensions in certain circumstances.

b. STC program becomes operative on October 1, 2016.

Author Information

Julie M. Whittaker
Specialist in Income Security

Acknowledgments

Alison M. Shelton originally authored this report.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.