SHORT-TIME COMPENSATION: An Alternative to Layoffs

The Short-Time Compensation Program, also known as Work-Sharing or Shared Work, preserves employees' jobs and employers' trained workforces during economic disruptions to an employer's regular business activity. This is accomplished by reducing the hours of work for an entire group of affected employees, thereby avoiding laying off some employees while others continue to work full time.

STC provides a portion of a weekly Unemployment Insurance payment to eligible employees whose workweeks have been reduced. The program cushions the adverse effect of the reduction in business activity on workers and helps ensure that these workers will be available to resume prior employment levels when business demand increases.

Short-Time Compensation provides a valuable layoff aversion strategy for States to offer to their business community!

Employers benefit from STC by retaining their skilled employees, thereby enabling employers to continue providing quality services and/or products to its customers during the economic downturn. Experienced, skilled work teams also stay intact so that when business picks up, the teams are ready to resume full operations. This can help to enhance productivity and alleviate the expense and time involved in hiring and training new workers when business conditions improve.

Employee morale is maintained because employees recognize the efforts of their employer in finding a way to keep them on staff; thereby avoiding the difficulties employees would experience if totally unemployed.

For some employers, the UI tax rate may be lower than if employees were totally unemployed.

STC is available for employers to use if and when they need it to help maintain their business. Having this layoff aversion strategy available can be extremely valuable to the business community.

Workers in the STC program are able to keep their jobs. Participating businesses must maintain any existing health insurance and retirement benefits for STC workers, which also adds value for employees.

By receiving a portion of unemployment benefits for the reduced hours of work, employees experience a smaller cut to their weekly income. Also, the employees continue to earn wages and maintain their purchasing power, thereby helping their local community. Employees also maintain their job skills as they continue to work.

Workers in an STC program are allowed to participate in training that is approved by the UI agency, including employer-sponsored training or training under the Workforce Investment Act. This provides an opportunity for STC participants to enhance job skills.

States with existing STC plans have identified many program benefits:

- STC offers a valuable layoff aversion strategy for businesses struggling during difficult economic times.

- Beyond the federal requirements, states can tailor their STC strategy to meet their specific needs.
- For a period of time, States may receive 100% federal reimbursement of the STC benefits paid.
- Depending upon the State's STC law, the state can relieve the employer of charges (or not require reimbursement from a reimbursable employer) for STC benefits that are subject to the 100% reimbursement by the federal government.
- Grant funds are also available to states to implement or improve an STC program and to promote and enroll employers in the state's STC program.

The state agency will determine whether the employer's plan is approved. The plan must meet the STC program requirements. Once an employer plan is approved, affected workers apply for unemployment benefits, employers report hours worked and wages earned, and employees receive a portion of their weekly benefits based on the percent reduction in their work hours.

States with STC programs in place have typically modified existing UI forms and processes for the STC program. Automating the STC claims filing process helps make it easy for all involved!

The State reports STC activity to ETA on current UI reports. ETA uses the reported data to reimburse the state for the STC benefit costs.

In recognition of the value STC can have for businesses during tough economic times, Congress modified the definition of STC through the Middle Class Tax Relief and Job Creation Act of 2012. The new subsection (v) of Section 3306, FUTA, includes specific requirements that define a State STC program and other modifications, all detailed in UI Program Letter No. 22-12.

The new law includes a number of financial incentives for State participation in STC. These opportunities will be described in detail shortly.

The Act's new sub-section "v" of Section 3306 of FUTA, contains specific requirements that define a State STC program.

Several of the program requirements already in place are the voluntary nature of employer participation, and the amount of Unemployment Insurance payable to STC employees as a pro rata share of the work week hours that have been reduced.

A provision expanded under the law allows for eligible employees to participate in training, including employer-sponsored training or worker training funded under the Workforce Investment Act.

Other provisions under the Act include:

- the continuation of health and retirement benefits for participating employees;

- the requirement that employers submit an STC plan for State approval. The plan must be consistent with the employer obligations under applicable Federal and State laws;
- and, other STC State statute provisions may be approved by the Secretary of Labor.

State STC programs must conform to the new definition in 3306(v), FUTA.

For states that were <u>not</u> administering an STC program on February 22, 2012, the state STC law must conform to the new definition prior to operating an STC program.

States that <u>were</u> administering an STC program on February 22, 2012, are provided a transition period for their STC laws to conform to the new definitions and requirements. Those states have until August 22, 2014 to ensure their STC legislation conforms to Federal law.

States with STC laws that conform to the new provisions may receive 100% reimbursement through August 22, 2015, for up to 156 weeks of Federal reimbursement of STC benefit costs.

As noted earlier, the 2012 law provides several incentives for States that are administering STC programs. For States with STC laws in place as of February 22, 2012 and whose law does not conform to the new definition of STC, 100% Federal reimbursement is available for up to 130 weeks through August 23, 2014. Reimbursement is available beginning February 26, 2012. The state can continue to receive the 100% reimbursement if state law is amended to conform to the new definition by August 23, 2014. The state can then receive up to 156 weeks of benefits (which includes the weeks reimbursed prior to conformity) until August 22, 2015.

If the state later enacts a conforming STC law, the state can receive 100% reimbursement after the law's enactment. 100% Federal reimbursement is available through August 22, 2015.

In order for a state to receive Federal reimbursement for STC benefits paid, STC claimants must not be seasonal, temporary or intermittent workers.

Finally, Federal reimbursement amounts are subject to sequestration.

Federal grants are available for States with conforming STC legislation. These include grants to establish an STC program or enhance a current program, and grants to promote the program to employers and to carry out enrollment activities. Program automation and enhanced program administration are allowable activities.

States may apply for either or both types of grants, and the application deadline is December 31, 2014. See UI Program Letter No. 27-12 for details about these opportunities.

The U.S. Department of Labor, Employment and Training Administration developed this website to inform stakeholders of the many benefits of STC and to provide a robust array of tools and resources to streamline state adoption of the STC program and enhance existing state STC initiatives.

A few of the websites highlights include the “Developing a State STC Program” that puts valuable strategies and recommendations from States with active programs at your fingertips, and offers a library full of example forms, fact-sheets and other documents to use in developing your state’s program materials.

The “Business Outreach Toolkit” contains a How-to Engage Employers Guide and templates you can download and customize.

And, “Guidance and Model Legislation” connects you with ETA guidance and model legislative language, as well as grant and reimbursement funding opportunities for states.

Thank you for viewing What is Short-Time Compensation? If you need technical assistance to start an STC program in your state or help with an existing program, please see the Contacts page to find out how to reach DOL’s regional office staff.

ETA hopes you will explore the information, tools and resources within this website and consider the many opportunities available to your state!