

SECRETARY OF LABOR  
WASHINGTON

SEP 17 2003

The Honorable J. Dennis Hastert  
Speaker of the House of Representatives  
Washington, D.C. 20515

Dear Mr. Speaker:

I have enclosed for consideration of the Congress a draft bill to strengthen the financial integrity of state unemployment insurance (UI) programs by reducing tax avoidance and improper benefit payments. The bill would assist in preventing the manipulation of unemployment experience by certain employers to avoid paying their fair share of unemployment taxes. In addition, the bill would provide states with access to information that would assist in detecting fraudulent claims for UI. These common sense reforms would promote fairness and save hundreds of millions in erroneous payments for UI benefits.

Currently, state unemployment tax rates for employers are required to be based in part on the unemployment experience of each employer. In general, the more UI benefits paid to former employees, the higher the tax rate of the employer. However, by unscrupulous practices such as transfers of businesses to shell companies, some employers have been able to pay lower unemployment tax rates than they should based on their actual experience.

The manipulation of state unemployment tax rates - commonly called "SUTA dumping" ("SUTA" refers to state unemployment tax acts)-- is of significant concern to the Department of Labor. This abusive practice can undermine confidence in state UI programs by forcing all employers to pay more UI taxes to compensate for the revenue lost as a result of those who avoid taxes. Federal legislation is needed to halt SUTA dumping. According to a recent report by the General Accounting Office, more than three-fifths of state UI administrators indicated that their state laws were insufficient to combat SUTA dumping. Fourteen states reported that they had identified specific SUTA dumping cases within the past three years, with revenue losses from those cases exceeding \$120 million.

The draft bill would amend title III of the Social Security Act to condition eligibility for Federal UI administrative grants on the inclusion of provisions in state UI laws that prevent the manipulation of unemployment experience through transfers or acquisitions of businesses. Enactment of the bill would assist in maintaining the

integrity of the UI experience rating system and state unemployment funds, deter UI tax rate manipulation schemes, and ensure that employers pay their fair share of unemployment taxes.

In addition, the draft bill would amend section 453 of the Social Security Act to provide state UI agencies with access to information from the National Directory of New Hires (NDNH) that would assist in the quick detection of individuals who illegally collect UI benefits after returning to employment.

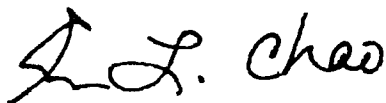
The NDNH contains information relating to the recent hiring of individuals as well as UI wage and benefit information provided by state UI agencies. While states have access to information reported in their own states, they may not have access to relevant information that is being reported by employers to other states. For example, multi-state employers may choose to report new hires and wages to only one state, and some UI claimants may become employed in states other than the one from which they are claiming UI benefits. Federal agencies also only report new hires and wages to the NDNH. By providing state agencies access to this information, with all necessary safeguards to protect privacy and ensure that the information is only used for authorized purposes, the bill would enhance the ability of states to detect fraud and abuse and strengthen the financial integrity of the UI program.

The Budget Enforcement Act's pay-as-you-go requirement and spending caps expired on September 30, 2002. The Department's preliminary estimates indicate that this proposal would result in savings of approximately \$295 million over five years due to reduced benefit outlays and state revenue changes. The Administration supports the extension of budget enforcement mechanisms in a manner that ensures fiscal discipline and is consistent with the President's budget.

I urge the Congress to give prompt, favorable consideration to this bill. I have also enclosed a detailed statement in explanation of the bill.

The Office of Management and Budget has advised that there is no objection to the transmittal of this draft bill to the Congress and that its enactment would be in accord with the program of the President.

Sincerely,

A handwritten signature in black ink that reads "E. L. Chao". The signature is written in a cursive, flowing style.

Elaine L. Chao

Enclosures