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Overview of Efforts to Modernize EDD's Benefit Systems

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Hon. Sharon Quirk-Silva, Chair

LEGISLATIVE ANALYST'S OFFICE

Background

Employment Development Department (EDD) Runs Three Major Benefit Programs. EDD runs three major employment benefit programs for the state: unemployment insurance (UI), disability insurance (DI), and paid family leave (PFL). Together, these programs provide $22 billion in annual benefit payments to about 2 million workers.

- ***Unemployment Insurance.*** California's UI program is a state-federal partnership that provides temporary wage replacement benefits to unemployed workers. By backfilling lost wages, the program bolsters the state's economy during downturns and helps alleviate families' temporary economic challenges. Most workers receive about $400 per week while they remain unemployed. When the unemployment rate is low, about 1 million workers claim UI benefits each year. On the other hand, roughly 2 million workers have claimed benefits each year during past downturns (not including the pandemic). Benefits paid range from $5 billion to $10 billion each year.
- ***Disability Insurance.*** California's DI program—EDD's largest benefit program—provides short-term payments to workers who are injured outside of work (and therefore not covered by workers' compensation insurance). Benefit duration is set according to a physician assessment of the injury but is capped at 52 weeks. About 750,000 workers receive DI each year, with average weekly benefits of about $1,000. Benefits paid have totaled about $14 billion in recent years.
- ***Paid Family Leave.*** California's PFL program provides up to eight weeks of partial wage replacement to workers for bonding with a new child, taking care of an ill family member, and a few other family circumstances. About 300,000 workers claim PFL benefits each year, totaling about $2.5 billion annually.

Attempts to Improve Technology at EDD

Aging Technology Systems Were Not Built With Today's UI Program in Mind. Like many departments, EDD has long recognized the need to upgrade its Common Business-Oriented Language (COBOL)-era mainframe database systems that underpin UI, DI, and PFL. These systems became the standard for business and government databases during the 1970s and 1980s, when paper-based applications were batch processed overnight. Since that time, the state has attempted to add modern functionality and security—real-time identity verification, cybersecurity, 24/7 user access to online account information, and digital document upload—by building a bridge that the modern feature uses to extract information from (or manipulate) the mainframe.

EDD Has Been in the Process of a Major Technology Upgrade Since at Least 2003. As the challenges of linking modern features to mainframe databases became clear, EDD began undertaking steps to update its core technology systems. These steps date back to at least 2003 when the state launched the UI Modernization ("UI Mod") project to update UI call centers, continued claims processing, and some early self-service features.

Time Line of Key Technology Efforts at EDD

- ***2003 Through 2015—UI Mod Project.*** Partial modernization allows workers to file claims, certify ongoing claims, and manage claims online.
- ***2003—State Uses DI Program Architecture to Create Paid Family Leave.***
- ***2004 Through 2012—Disability Insurance Automation (DIA) Project.*** Partial modernization allows workers to file disability claims online. Claims for PFL continue to be exclusively paper-based.
- ***2016—State Launches Benefits System Modernization (BSM) Project.*** First state effort to combine UI, DI, and PFL programs under a single, modern data system.
- ***2020—Pandemic-era UI Strike Team Recommends Pause to BSM.*** Staffing and technology expertise is redirected from the BSM project to implement pandemic-era federal UI programs and address unprecedented workload and delays.
- ***2022 and Ongoing—BSM Project "Reimagined" as EDDNext.*** State restarts BSM-like approach to UI, DI, and PFL technology integration but with added emphasis on customer experience based on lessons learned during pandemic.

A Closer Look at EDDNext

EDDNext Is an Ambitious, Wide-Ranging Upgrade to EDD Technology and Process. Unlike earlier attempts to improve technology at EDD that more narrowly targeted a few key technology aspects, EDDNext includes upgrades to most key EDD technology and processes. This includes how workers interact with EDD, how workers submit required information to EDD, and how staff store and retrieve administrative data. The 2026-27 Governor's Budget proposes $146 million for EDDNext, bringing total project appropriations to $931 million to-date.

Now in Its Fifth Year, Most Elements of EDDNext Upgrade Are Complete or Nearly So... The state organized the EDDNext project as "work streams," allowing each separate upgrade to move forward in parallel. This approach has allowed the state to finish and implement technology aspects such as the first phase of a new Shared Customer Portal, the call center callback options, real-time identity verification, fraud protection, and document upload, as well as process improvements such as shortening forms and replacing jargon with plain language.

…But Most Critical and Costly Elements Are Only Just Starting. The most costly and complex element of EDDNext—the integrated claims management system (ICMS) to replace the COBOL-era database mainframe—began earlier this year, after initially being slated to begin in 2024-25. The state has pushed back the expected project completion date from 2029 to 2031.

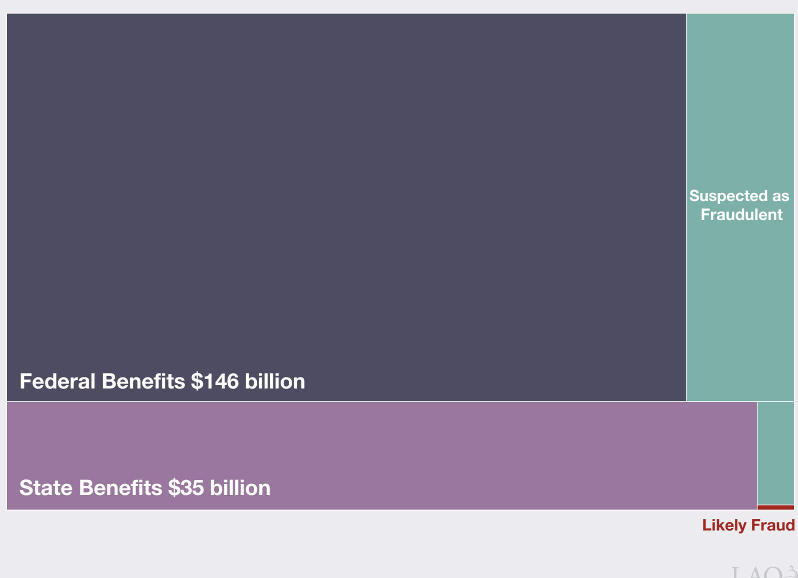
Recent Project Changes Raise Questions and Indicate Heightened Risk. Two recent changes to the ICMS project approach raise questions about the project going forward:

- Does the recent shift in vendor for the Shared Customer Portal suggest that key integration steps may be more complex than original understood?
- Does the new plan to integrate DI and PFL first and only optionally include UI program integration in the future mean the administration no longer sees the integration of all three of the state's major benefit programs as a necessary objective?

Preventing Pandemic-Era Fraudulent Claims

Additional Layers of Fraud Prevention Now in Place, Although Minimal Fraud Occurs in State's Normal UI Program. An unprecedented level of identity fraud targeting UI payments occurred during the pandemic. The figure below shows the administration's estimate of UI benefit fraud. The vast majority of the fraud occurred in the temporary, 100 percent federally funded programs that now have ended. The federal program did not require the same basic fraud safeguards found in the state's regular program. And since that time, the state has instituted additional fraud safeguards to further improve the state's UI program.

Temporary Federal Benefits, Not State Benefits, Were the Primary Target of Fraud



Is EDD Prepared for the Next Recession?

Unlike the Pandemic, Past Recessions Have Progressed Slowly, Allowing Time to Ramp-up State Efforts. During all three recessions prior to the pandemic—the mid-1990s recession, the dot-com bust, and the Great Recession—the level of new claims for UI increased steadily for six months or more before peaking. Looking ahead to the next recession, EDD will likely have some time to carry out its statutorily required contingency plans and redirect staffing before UI workload peaks.

Relative to 2008, UI Program Now Better Positioned to Handle Heightened Workload. In the aftermath of the pandemic, the state has expanded online UI self-service options and established a more comprehensive call center system. As such, many of the staff time bottlenecks that hampered EDD's response to the past recessions should come under less pressure in the future.

Despite Better Positioning, Unforeseen Issues Always Pose Risks. The technology and process improvements made since the pandemic, including those made as part of EDDNext, sought to shore up weaknesses that caused problems during the pandemic. While the UI program is now better positioned to avoid these specific issues, other unforeseen issues are likely to arise during the next recession that cause delays and benefit disruptions.

In Addition to Unforeseen Issues, Two Identifiable Weaknesses Carry Ongoing Risks. Despite improved technology and processes, some key identifiable weaknesses could also pose challenges during the next downturn:

- ***Continued Reliance on Fragile Connections to Legacy Mainframe Database.*** The key outstanding risk facing the department remains its legacy database system, which continues to be linked to each piece of new functionality through informal and untested data bridges and custom-built interfaces. The new functionalities added since the pandemic have not been stress tested. Should one or more of those bridges fail during the next recession, key program functions could be compromised.

Is EDD Prepared for the Next Recession?

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- ***Urgent State and Federal Policy Changes Would Remain Risky to Implement.*** During the past two downturns, the federal government took unprecedented steps to expand benefits and eligibility for UI. In both cases, the state redirected core information technology and program expertise to institute the changes, risking downstream disruptions to other functionalities. Should the state or federal government make new policy changes during the next recession, staffing redirections, and the associated risks, could again be needed.

Key Questions for Legislative Oversight

- How will the technology and process improvements made during the pandemic and within EDDNext support the UI program and unemployed workers during the next downturn?
- What are the phases of the recession contingency plan for UI as required by Chapter 543 of 2021 (SB 390, Laird)? How does the department expect these changes to mitigate risk?
- What was the rationale behind removing UI from the ICMS project that was started earlier this year?
- What are the main risks associated with leaving UI on the legacy database system for a longer duration?
- Who is the vendor on the ICMS project?
- What steps could the state take to partially modernize the PFL program to bring it more in-line with DI and UI service levels?