



Testimony before the Committee on Ways
and Means, House of Representatives

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**TRADE ADJUSTMENT
ASSISTANCE**

**Changes Needed to Improve
States' Ability to Provide
Benefits and Services to
Trade-Affected Workers**

Statement of Sigurd R. Nilsen, Director
Education, Workforce, and Income Security Issues





Highlights of [GAO-07-995T](#), a testimony before the Committee on Ways and Means, House of Representatives

Why GAO Did This Study

The Trade Adjustment Assistance (TAA) program, administered by the Department of Labor (Labor), is the nation's primary program providing income support, job training, and other benefits to manufacturing workers who lose their jobs as a result of international trade. In fiscal year 2006, Congress appropriated about \$900 million for TAA, including about \$220 million for training. GAO has conducted a number of studies on the TAA program since the program was last reauthorized in 2002. This testimony draws upon the results of two of those reports, issued in 2006 and 2007, as well as ongoing work, and addresses issues raised and recommendations made regarding (1) Labor's administration of the TAA program, (2) the challenges states face in providing services to trade affected workers, (3) the factors that affect workers' use of the wage insurance and health coverage benefits, and (4) the impact of using industrywide certification approaches on the number of workers potentially eligible for TAA.

www.gao.gov/cgi-bin/getrpt?GAO-07-995T.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Sigurd Nilsen at (202) 512-7215 or nilsens@gao.gov.

TRADE ADJUSTMENT ASSISTANCE

Changes Needed to Improve States' Ability to Provide Benefits and Services to Trade-Affected Workers

What GAO Found

Labor could improve the way it administers the program in two key areas—the process it uses to allocate training funds and its tracking of program outcomes. Labor's process for allocating training funds presents two significant challenges to states. First, the amount states receive at the beginning of the fiscal year does not adequately reflect the current demand for training services in the state. Second, Labor distributes a significant amount of funds to most states on the last day of the fiscal year, even to states that have spent less than 1 percent of the current fiscal year training allocation. Regarding program outcomes, TAA nationwide performance data are incomplete and may be inaccurate. We recommended that Labor develop procedures to better allocate the training funds and improve data. Labor recently noted that it would examine its processes.

States face challenges in providing services to workers, including the lack of flexibility to use training funds to provide trade-affected workers with case management services, such as counseling to help them decide whether they need training and which training would be most appropriate. States receive no TAA program funds for case management and must either use their limited administrative funds or seek resources from other programs, such as those funded by the Workforce Investment Act. States also reported that their efforts to enroll workers in training are sometimes hampered by the training enrollment deadline and that workers find the deadline confusing. We have suggested that Congress consider providing states the flexibility to use training funds for case management and simplifying the training enrollment deadline.

Few TAA participants take advantage of the wage insurance and health coverage benefits, and several factors limit participation. For example, several states reported that the requirement that workers must find a job within 26 weeks to receive the wage insurance benefit was the major factor preventing more workers from taking advantage of the benefit. Regarding the health coverage benefit, several states told us that high out-of-pocket costs may discourage workers from using the benefit. Furthermore, states also reported that the health coverage benefit can be complicated and difficult to understand. We have suggested that the Congress may wish to consider increasing the length of time workers have to become eligible for wage insurance. In addition, we also recommended that a centralized resource be developed to assist workers with their questions about health coverage. In response, the agency has developed new simplified materials.

Finally, an industry certification approach based on three petitions certified within any 180-day period would likely increase the number of workers eligible for TAA, potentially doubling those eligible. The approach also presents some design and implementation challenges.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the challenges states have faced in implementing some aspects of the Trade Adjustment Assistance Act (TAA) program. We have conducted a number of studies on the TAA program since the program was last reauthorized in 2002, and my testimony today will focus primarily on the results of that work as well as from our ongoing work.¹ Today I'll be talking about issues we identified and our recommendations for improving the program.

The Trade Adjustment Assistance program, established in 1962 and administered by the Department of Labor (Labor), is the nation's primary program providing income support, job training, and other benefits for manufacturing workers who lose their jobs as a result of international trade. In fiscal year 2006, Congress appropriated about \$655 million for income support payments and another \$220 million for training for trade-affected workers. In 2002, Congress made a number of key changes designed to expand benefits and decrease the time it takes to get workers into services. Among the changes, the act

- established a deadline for workers to enroll in training, after they have been laid off or their petition has been approved, in order to maintain eligibility for extended income support payments;
- created a wage insurance benefit for workers age 50 and older, subsidizing the difference between the prior and new wages of some trade-affected workers who find reemployment quickly; and
- created a health coverage tax credit to help trade-affected workers pay for health insurance.

In order for workers to receive TAA benefits and services, Labor must certify that workers in a particular layoff have been adversely affected by international trade. The certification process begins when a petition is

¹ For further information on TAA, please see the following reports: GAO, *Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services*, [GAO-07-701](#), [GAO-07-702](#) (Washington, D.C.: May 31, 2007); *Trade Adjustment Assistance: Labor Should Take Action to Ensure Performance Data Are Complete, Accurate, and Accessible*, [GAO-06-496](#) (Washington, D.C.: Apr. 25, 2006); *Trade Adjustment Assistance: Most Workers in Five Layoffs Received Services, but Better Outreach Needed on New Benefits*, [GAO-06-43](#) (Washington, D.C.: Jan. 31, 2006); and *Trade Adjustment Assistance: Reforms Have Accelerated Training Enrollment, but Implementation Challenges Remain*, [GAO-04-1012](#) (Washington, D.C.: Sept. 22, 2004).

filed with Labor on behalf of a group of laid-off workers. Labor then surveys the firm undergoing the layoff and its customers and also reviews data on the firm's industry to determine whether it meets the criteria for certification. Congress is now considering approaches that would facilitate certifying entire industries for TAA. One approach being considered would make an industry eligible to be investigated for possible certification when Labor certifies three petitions from that industry within 180 days. An investigation would determine whether the entire industry has been affected by trade and, therefore, whether workers in any future layoff in that industry should automatically be eligible for TAA.

In preparation for reauthorizing the program, you asked us to provide information on some of the key issues identified in our work that should be addressed in reauthorization. In addition, you asked us to analyze the impact of an alternative industrywide approach to certifying TAA petitions. My testimony today will provide information and highlight our recommendations on (1) Labor's administration of the TAA program, (2) the challenges states face in providing services to trade-affected workers, (3) the factors that affect workers' use of the wage insurance and health coverage benefits, and (4) the impact of using industrywide certification approaches on the number of workers potentially eligible for TAA.

To address the first objective, we drew upon our most recent report and a 2006 report on TAA performance data.² Our recent report was based, in part, on a survey of the 46 states that received an initial allocation of TAA training funds in federal fiscal year 2006, and a supplemental survey to collect additional financial information on fiscal year 2006 training expenditures and obligations. Information on performance data is based primarily on a survey of 46 states conducted between November 2005 and January 2006 and on site visits to five states—California, Iowa, Ohio, Texas, and Virginia. To answer the second and third objectives, we interviewed Labor and Internal Revenue Service (IRS) officials and visited state and local officials in four states—California, Massachusetts, Michigan, and North Carolina. We also analyzed Labor's quarterly activity reports and IRS's data on the health coverage benefit. To address the fourth objective, we interviewed officials at Labor and the International Trade Commission and analyzed Labor's data on TAA petitions from calendar year 2003 to 2005, the Bureau of Labor Statistics' Mass Layoff Statistics data, and the Census Bureau's data on trade and production, as

² [GAO-07-701](#), [GAO-07-702](#), [GAO-06-496](#).

well as the International Trade Commission's data on trade remedies. We conducted our work in accordance with generally accepted government auditing standards.

In summary, our work shows that Labor could improve the way it administers the program in two key areas—the process it uses to allocate training funds to states and its tracking of program outcomes. Labor's process for allocating training funds does not adequately reflect the current demand for training services in the state, and Labor distributes additional funds to states regardless of whether they need them. Regarding program outcomes, we found that TAA performance data are incomplete and may be inaccurate. For example, only half the states are including all participants, as required by Labor. States face challenges in providing services to workers, including the lack of flexibility to use training funds to provide trade-affected workers with case management services, such as counseling to help them decide whether they need training and which training would be most appropriate. States receive no TAA program funds for case management and must either use their limited administrative funds or seek resources from other programs, such as those funded by the Workforce Investment Act (WIA). States also reported that their efforts to enroll workers in training are sometimes hampered by the training enrollment deadline and that workers find the deadline confusing. Few TAA participants take advantage of the wage insurance and health coverage benefits, and several factors limit participation. For example, several states reported that the requirement that workers must find a job within 26 weeks to receive the wage insurance benefit was the major factor preventing more workers from taking advantage of the benefit. Regarding the health coverage benefit, several states told us that high out-of-pocket costs may discourage workers from using the benefit. Finally, an industry certification approach based on three petitions certified within any 180-day period would likely increase the number of workers eligible for TAA—potentially doubling those eligible—but also presents some design and implementation challenges. For example, using an industrywide approach raises the possibility that workers who have not been affected by trade will be certified. We made a number of recommendations to Labor to address the issues we identified, as well as suggested that Congress make changes during reauthorization to improve the program.

Background

The TAA program was designed to assist workers who have lost their jobs as a result of international trade. The program provides two primary benefits to these workers—training and extended income support. In

addition, as a result of the TAA Reform Act of 2002, workers also have access to wage insurance and health coverage benefits. In order to be eligible for any of these benefits, Labor must certify that a layoff was trade affected.

TAA Benefits and Services

Under TAA, workers enrolled in the program have access to a variety of benefits and services, including the following:

Training. Participants may receive up to 130 weeks of training, including 104 weeks of vocational training and 26 weeks of remedial training, such as English as a second language.

Extended income support. Participants may receive a total of 104 weeks of extended income support beyond the 26 weeks of unemployment insurance (UI) benefits available in most states.

Job search and relocation benefits. Payments are available to help participants search for a job in a different geographical area and to relocate to a different area to take a job.

Wage insurance benefit. The wage insurance benefit, known as the Alternative Trade Adjustment Assistance (ATAA) program, was created by the TAA Reform Act of 2002 as a demonstration project for workers age 50 or older and those who find reemployment within 26 weeks of being laid off that pays less than \$50,000 and less than what they previously earned. Workers who meet these criteria are eligible to receive 50 percent of the difference between their new and old wages, up to a maximum of \$10,000 over 2 years. For the fiscal year 2008 budget request, Labor estimated wage insurance benefits at \$23 million.

Health coverage benefit. The health coverage benefit, known as the Health Coverage Tax Credit (HCTC) and also created by the TAA Reform Act, helps workers pay for health care insurance through a tax credit.³ Workers can choose to receive the benefit in one of two

³ The Trade Adjustment Assistance Reform Act of 2002 created a health coverage tax credit for certain workers who are eligible to receive income support benefits under the TAA program because their jobs were lost due to foreign competition and for certain retirees whose pensions from a former employer were terminated and are now paid by the Pension Benefit Guaranty Corporation (PBGC).

ways—as an advance option that covers 65 percent of their monthly premiums, allowing them to lower the amount they have to pay out of pocket for health coverage, or as an end-of-year tax credit that is claimed on their income taxes. To be eligible for the health coverage benefit, workers must either be (1) receiving extended income support payments or eligible for extended income support but still receiving UI payments, or (2) receiving the wage insurance benefit. IRS administers the health coverage tax credit program. There are three health plan options that are automatically eligible: COBRA continuation plans,⁴ coverage through the worker’s spouse, and individual market plans purchased by the worker. In addition, the TAA Reform Act also allows states to designate other coverage alternatives—called state-qualified options.

TAA Certification Process and Eligibility Requirements

Currently, Labor certifies workers for TAA on a layoff-by-layoff basis. Petitions may be filed by the employer experiencing the layoff, a group of at least three affected workers, a union, or the state or local workforce agency. Labor investigates whether a petition meets the requirements for TAA certification and is required to either certify or deny the petition within 40 days of receiving it.

The TAA statute lays out certain basic requirements for petitions to be certified, including that a significant proportion of workers employed by a company be laid off or threatened with layoff and that affected workers must have been employed by a company that produces articles. In addition, a petition must demonstrate that the layoff is related to international trade in one of several ways, including the following:

- Increased imports—imports of articles that are similar to or directly compete with articles produced by the firm have increased, the sales or production of the firm has decreased, and the increase in imports has contributed importantly to the decline in sales or production and the layoff or threatened layoff of workers.
- Shift of production—the firm has shifted production of an article to another country, and either

⁴ Under the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, certain employers with 20 or more employees are required to make available 18 to 36 months of continued health care coverage for former employees and their dependents who lose health coverage due to certain circumstances, such as when a worker is laid off.

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- the country is party to a free trade agreement with the United States or
 - the country is a beneficiary under the Andean Trade Preference Act, the African Growth and Opportunity Act, or the Caribbean Basin Economic Recovery Act or
 - there has been or is likely to be an increase in imports of articles that are similar to or directly compete with articles produced by the firm.

Labor investigates whether each petition meets the requirements for TAA certification by taking steps such as surveying officials at the petitioning firm, surveying its customers, and examining aggregate industry data. When Labor has certified a petition, it notifies the relevant state, which has responsibility for contacting the workers covered by the petition, informing them of the benefits available to them, and telling them when and where to apply for benefits.

Training Funds

Approximately \$220 million is available annually for training, and states have 3 years to spend these funds. Thus fiscal year 2006 funds must be used by the end of fiscal year 2008. Each year Labor allocates 75 percent of the training funds to states according to a formula that takes into consideration several factors, including the average amount of training funds allocated to states, reported accrued training expenditures, and the average number of training participants over the previous 2½ years. In addition, to minimize year-to-year fluctuations in state funding, Labor uses a hold harmless policy that ensures that each state's initial allocation is at least 85 percent of the initial allocation received in the previous year. In fiscal year 2006, Labor initially allocated \$165 million of training funds to 46 states. To cover administrative costs, Labor allocates to each state an additional 15 percent of its training allocation. Labor holds the remaining 25 percent in reserve to distribute to states throughout the year according to need as they experience unexpected large layoffs.

TAA Performance Reporting System

Labor is responsible for monitoring the performance of the TAA program. States are required to submit information on exiting participants through the Trade Act Participant Report (TAPR) each quarter. The TAPR data submitted by states are used to calculate national and state outcomes on the TAA performance measures for each fiscal year, which include reemployment rate, retention rate, and wage replacement rate. Unlike other training programs, like WIA, TAA has no individual state performance goals, and states do not receive incentives or sanctions based

on their performance levels, nor are they otherwise held accountable for their performance. In addition to submitting TAPR data, states also submit data to Labor on TAA services and expenditures each quarter.

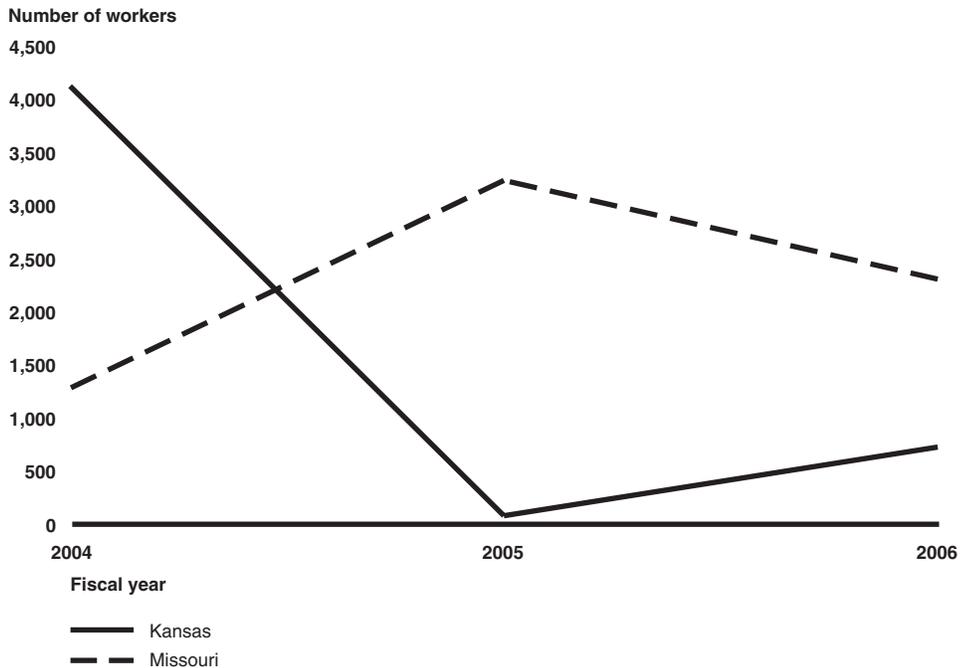
Labor Could Improve Its TAA Program Administration

Labor could improve the way it administers the program in two key areas—the process it uses to allocate training funds and its tracking of program outcomes. Labor’s process for allocating training funds presents two significant challenges to states. First, the amount states receive at the beginning of the fiscal year does not adequately reflect states’ spending the year before or the current demand for training services in the state. Second, Labor distributes a significant amount of funds to most states on the last day of the fiscal year, even to states that have spent virtually none of their current year’s allocation. In addition the performance information that Labor makes available on the TAA program does not provide a complete and credible picture of the program’s performance. For example, only half the states are including all participants, as required, in the performance data they submit to Labor.

Labor’s Policies for Allocating Training Funds Present Challenges to States in Managing Their Funds

Labor’s process for allocating training funds does not adequately recognize the episodic nature of layoffs or the extent to which states have used their previous year’s allocations. Labor allocates 75 percent of TAA training funds based upon a formula that takes into account expenditures and participation over the previous 2½ years. The year-to-year fluctuation in layoffs within a state may result in states receiving more or less funds than they actually need. For example, the estimated number of trade-affected workers being laid off declined dramatically in Kansas from fiscal years 2004 to 2005 and increased somewhat in 2006. Overall the estimated number of trade-affected workers in Kansas laid off in fiscal year 2006 represented about an 80 percent decrease from 2004. On the other hand, Missouri experienced an 80 percent increase in the number of trade-affected workers being laid off between fiscal years 2004 and 2006 (see fig. 1). Kansas used hardly any of its fiscal year 2006 training fund allocation, while Missouri used virtually all of its. Despite these trends, both states received about 15 percent less in fiscal year 2007 than they received in 2006.

Figure 1: Fluctuation in Estimated Number of Trade-Affected Workers Laid Off from Fiscal Years 2004 to 2006 in Kansas and Missouri



Source: GAO analysis of Department of Labor petitions data.

While the 46 states responding to our survey reported using (spending or obligating), on average, about 62 percent of their fiscal year 2006 training funds during the fiscal year, the percentage of funds states expended and obligated varied widely. Thirteen of the states reported using less than 1 percent of their fiscal year 2006 funds for training, while 9 states reported using more than 95 percent of their fiscal year 2006 training funds(see fig. 2). The amount individual states reported using ranged from 0 percent in several states to about 230 percent in 1 state.

Figure 2: States with High and Low Use of Fiscal Year 2006 Training Funds



Source: Department of Labor, (Map) Map Resources.

A particular problem with Labor’s allocation process is the hold harmless policy, which guarantees that each state receives no less than 85 percent of what it received in the previous year. While this policy is intended to minimize significant fluctuations in state funding from prior years, it awards states comparable training funds without recognition of the previous year’s expenditures or obligations. For example, the 13 states that used less than 1 percent of the fiscal year 2006 funds received nearly \$41 million in fiscal year 2007—an amount slightly less than they received in fiscal year 2006. Moreover, 5 of the 13 states received a larger allocation in fiscal year 2007 than they received in 2006.

Labor distributes a significant amount of funds to most states on the last day of the fiscal year, regardless of whether states need these additional funds. Labor distributed end-of-year funds to 48 states, including about \$5 million to states that had spent or obligated less than 1 percent of their

initial fiscal year 2006 allocation.⁵ Labor distributes these funds to each state based upon a calculation that takes into account the amount of training funds each state received from its initial allocation plus any additional amount it received during the year.⁶ According to Labor officials, all states will receive an end-of-year allocation unless a state specifically informs Labor it does not want any additional funds or if it had not received any funds at all during the year. Waiting until the last day of the fiscal year to distribute training funds to states does not reflect good planning or management of program funds. Labor officials agreed that the distribution of reserve training funds could be improved so that more funds are disbursed throughout the year rather than on the last day. Officials also acknowledged that states that have not spent or obligated any of their initial allocation probably should not receive additional training funds at the end of the year.

In our recent report, we recommended that the Secretary of Labor develop procedures to better allocate training funds and ensure that any reserve funds are given to only those states that have spent or obligated a substantial portion of the current fiscal year allocation. In its comments, Labor agreed with our findings and recommendations and noted that it would examine the process for allocating training funds to states.

TAA Data Do Not Provide a Complete and Credible Picture of the Program's Performance

TAA performance data are incomplete and may be inaccurate. States report that they are not including all TAA participants in their performance data, despite Labor's requirement that all participants be included after they exit the program. We found that only 23 of the 46 states we surveyed reported that they are including all exiting participants in their submissions to Labor. In general, states have information on those in training, but may not systematically track those who receive other assistance, but not training. Furthermore, Labor does not have a process in place to ensure that states are including all exiting TAA participants in their reporting submissions. Despite the importance of accurately identifying exiters, the exit dates themselves may not be accurate because some states do not consistently obtain proper documentation to verify the

⁵ Hawaii and North Dakota did not receive end-of-the year funding because these states received no training funds at all during the year.

⁶ For example, if Labor had distributed a total of \$200 million in training funds during the year and a state had received a total of \$10 million (received \$7 million from its initial training allocation and had requested an additional \$3 million during the year), then that state would receive 5 percent of any reserve funds distributed at the end of the year.

dates. Accurate exit dates are critical to TAA performance data for two reasons. First, whether a participant exits determines if the individual should be included in the state's report to Labor. Second, the actual exit date determines when a participant's employment outcome will be assessed.

Some states are not using all available data sources to determine TAA participants' employment outcomes. Labor requires states to use UI wage records to determine the employment outcomes of participants reported to Labor. However, each state's wage record database includes only wage data on workers within the state and does not have data on participants who found employment in another state.

In our 2006 report, we made several recommendations to Labor to help ensure that TAA participant data reported by states are consistent, complete, and accurate, including issuing clarifying guidance. Labor has taken some steps to share information with states and to improve data quality. In fiscal year 2006, Labor distributed \$250,000 to each state to help them improve their TAA performance data systems, but it is too soon to know whether their efforts will improve the quality of the data.

States Face Challenges in Providing Services to Workers

States report being challenged by the lack of flexibility to use training funds to provide trade-affected workers with case management services, such as counseling to help them decide whether they need training and what type of training would be most appropriate. In addition, efforts to enroll workers in training are sometimes hampered by the confusing TAA training enrollment deadline that requires workers be enrolled in training within 8 weeks of certification or 16 weeks of layoff to qualify for extended income support.

Limited Flexibility in Use of Training Funds Hinders Case Management Services

States also cited the lack of flexibility to use training funds to provide trade-affected workers with case management services as a challenge. Workers often need help making decisions about training—what type of training to take or whether to enroll in training at all. Difficulty funding case management services for trade-affected workers was a concern among officials in the states we visited. For example, state officials in one state said providing proper assessment, career counseling, and other case management services was a real challenge and noted that additional funds from other sources are limited. States do not receive TAA program funds for case management and, by law, cannot use training funds for this service. As a result, states must either use their limited TAA administrative

funds or use funds from other programs to pay for case management, but there are limitations with these funding sources.

According to Labor officials, states are encouraged to co-enroll participants in the Workforce Investment Act (WIA) program, and in Labor's view states have sufficient WIA funds to pay for case management for TAA participants. About three-fourths of the states reported in our survey that they were able to utilize WIA funds to help pay for case management services. Yet nearly half of the states also reported that coordination with WIA was a challenge. For example, WIA funding may not always be available for TAA workers, especially during a large layoff. Furthermore, local officials in a state we visited said that while 85 percent of TAA participants do co-enroll in WIA, a large layoff can strain funding and makes it difficult for WIA to completely fund case management for trade-affected workers.

States also reported limitations to using administrative funds to provide case management. More than half of the states responding to our survey reported the shortage of administrative funds as a challenge. One state noted that its administrative funds are usually exhausted by the end of the first quarter because of the amount of case management that is required for the program. A local official in one state we visited said that it uses Wagner-Peyser funds to pay for case management because not enough TAA administrative funds are received and TAA training funds cannot be used. As a result, only one case manager could be funded, and this one person had to cover three counties and serve approximately 1,000 workers. Moreover, officials in some of the states we visited cautioned that administrative funds should not be used for case management because case management is a program activity—any increase in the administrative limit to pay for this service could lead to the misconception that the program has too much overhead. These state officials noted that having the flexibility to use TAA training funds for case management would alleviate this concern.

In our recent report, we suggested that Congress may wish to consider allowing a portion of TAA training funds to be used for case management services to allow states greater flexibility in how they may use their TAA funds to provide services to workers. Labor, however, contended that the WIA, rather than TAA, should finance case management. We agree with Labor that co-enrollment with WIA should be encouraged, but as our report points out, WIA funds are not always available to provide this service, especially during large layoffs. We believe that states would benefit from having the option to use a portion of their training funds to

defray the costs of providing case management services to trade-affected workers.

Training Deadline Can be Challenging and Confusing

Efforts to enroll workers in training are sometimes hampered by the “8-16” training enrollment deadline—that is, the requirement that workers be enrolled in training within 8 weeks of certification or 16 weeks of layoff, whichever is later, to qualify for extended income support. Nearly three-quarters of the states responding to our survey reported that enrolling workers in training by the 8-16 deadline was a challenge. For example, one state noted that trying to enroll participants in training by the 8-16 deadline is particularly challenging when dealing with large layoffs because it is difficult to handle all the logistics, such as notifying workers and setting up appointments, for a large number of workers within the deadline. Moreover, officials in the four states we visited also indicated that the deadline is very confusing to workers. They told us that workers become confused about which point in time the 8 weeks or 16 weeks apply to and, as a result, are not sure when the clock starts and stops. We previously reported that about three-fourths of states responded that workers, at least occasionally, inadvertently miss the deadline and consequently lose their eligibility for extended income support.⁷ In that report, we recommended that Labor track the ability of workers to meet the 8-16 deadline.⁸ As of April 2007, Labor had not yet begun gathering information on the impact of the deadline. In our recent report, we suggested that in order to make it easier for workers to comply with the training enrollment deadline, Congress may wish to consider simplifying the deadline by specifying a single time period that commences when workers are laid off or petitions are certified, whichever is later.

Several Factors Limit Participation in the Wage Insurance and Health Coverage Benefits

Several factors, including a short deadline for getting a job and the cost of buying health coverage, may limit participation in two new benefits resulting from the TAA Reform Act of 2002. In our site visits, states reported that the requirement that workers must find a job within 26 weeks to receive the wage insurance benefit was the major factor preventing more workers from taking advantage of the benefit. An additional factor that may limit participation in wage insurance by some older workers is the requirement that for a group of workers to be

⁷ [GAO-04-1012](#).

⁸ [GAO-06-43](#).

certified as eligible, the petitioning workers must have been laid off from a firm where the affected workers lacked easily transferable skills and a significant portion of those workers were aged 50 or over. While cost is one of the most significant factors limiting participation in the health coverage benefit, some states also reported that the health coverage tax credit program can be complicated and difficult to understand for both workers and local case managers.

Deadline to Find Employment and Other Requirements Limit Participation in the Wage Insurance Benefit

Few TAA participants take advantage of the wage insurance benefit. According to Labor officials, in calendar year 2006, 6,316 workers received the wage insurance benefit. The universe of workers eligible for wage insurance cannot be estimated because data are not available on the number of workers certified for TAA who are 50 years old or older and meet the other eligibility requirements. However, two-thirds of the states we surveyed reported that 5 percent or less of TAA participants received wage insurance in fiscal year 2006.⁹ We previously reported in a study of five layoffs that less than 20 percent of the workers potentially eligible for the wage insurance benefit received it.¹⁰ In this study, we found that workers' awareness of the wage insurance benefit varied greatly—many workers who were 50 years old and older were simply unaware of the benefit. While state or local officials told us they discussed the ATAA benefit at rapid response meetings or TAA information meetings, workers were often overwhelmed by the volume of information received after the layoff, and didn't necessarily recall some of the specifics.

Although officials in the states we visited for our most recent study believe the wage insurance benefit is beneficial to older workers close to retirement, two key factors limit participation. Officials said that one of the greatest obstacles to participation was the requirement for workers to find a new job within 26 weeks after being laid off. For example, according to officials in one state, 80 percent of participants who were seeking wage insurance but were unable to obtain it because they failed to find a job within the 26-week period. The challenges of finding a job within this time frame may be compounded by the fact that workers may actually have less than 26 weeks to secure a job if they are laid off prior to becoming certified for TAA. For example, a local case worker in one state we visited

⁹ This percentage is based on the total number of TAA participants because the number of workers potentially eligible for the wage insurance benefit is not readily available.

¹⁰ GAO-06-43.

said that the 26 weeks had passed completely before a worker was certified for the benefit.

Another factor that may limit participation by some older workers is the requirement that, under the TAA Reform Act, for a group of workers to be certified, they must have been laid off from a firm where the affected workers lacked easily transferable skills and a significant portion were aged 50 or over. Labor interprets a “significant portion” as the lesser of 5 percent of the affected workforce or 50 workers at a firm with 50 or more workers, or at least 3 workers in a firm with fewer than 50 affected workers. Labor investigates each petition to see if the firm meets the requirements, and in fiscal year 2006, nearly 90 percent of TAA-certified petitions were also certified for the wage insurance benefit. Labor officials said that eliminating this step of the TAA certification process—that is, allowing any TAA-certified workers who meet the individual eligibility criteria for the wage insurance benefit to participate—would decrease the agency’s investigation workload somewhat and may increase participation in the wage insurance benefit.

Labor officials told us they are taking steps to overcome the lack of awareness of wage insurance and promote the benefit by informally encouraging states to ensure case workers talk about wage insurance during one-on-one case management sessions. Furthermore, in our most recent report, we suggested that in order to enable more workers to take advantage of the wage insurance benefit, Congress may wish to consider increasing the length of time workers have to become reemployed and eliminating the requirement that to be certified as eligible for wage insurance, the petitioning workers must have been laid off from a firm where the affected workers lacked easily transferable skills and a significant portion of those workers were aged 50 or over.

Cost Is a Key Factor Limiting Participation in the Health Coverage Benefit

The high cost of the health coverage benefit to participants is the greatest barrier to higher participation. State officials said that many laid-off workers cannot afford to pay 35 percent of their health care premiums while their primary income is unemployment insurance benefits. IRS officials reported that the workers’ 35 percent share is among the primary barriers to participation in the benefit. For example, in the four states we visited, the average monthly premium for COBRA policies covering two or more individuals was about \$800. The workers’ out-of-pocket cost for COBRA coverage in these states would be nearly one-fourth of their monthly UI payment (see table 1).

Table 1: Comparison of Average Monthly Premiums

State	Average monthly UI payment	Average monthly COBRA premium for two or more	Workers' 35 percent share of monthly premium	Percentage of monthly UI payment
California	\$1,176	\$777	\$272	23
Massachusetts	1,465	895	313	21
Michigan	1,161	737	258	22
North Carolina	1,074	770	270	25
Average	1,219	795	278	23

Source: Source: GAO analysis of UI data from states and average COBRA premiums from IRS.

State-qualified plans are similarly expensive and are often more expensive than COBRA coverage. Currently, 43 states have such plans, which, among other requirements, must provide for preexisting conditions. For example, in one state we visited, the premium for the state-qualified plan for a family was about \$940 per month, while the average COBRA premium was about \$740 per month. The worker's share of the state-qualified premium was about \$330—or about 30 percent of the UI benefit—compared to about \$260 for COBRA coverage.

In addition, there is currently a period of up to about 3 months where workers must cover the full cost of their health premiums before beginning to receive the advance credit, and these costs are not reimbursable. IRS officials reported that inability to pay the out-of-pocket costs between layoff and application for the advance credit is one of the reasons workers lose eligibility and may be denied the benefit.

While cost is one of the most significant factors limiting participation in the health coverage benefit, some states also reported that the health coverage tax credit program can be complicated and difficult to understand for both workers and local case managers. In our survey, nearly two-thirds of the states reported that limited IRS guidance on the benefit was still a challenge. Furthermore, during our site visits, some state and local officials said that they are not experts on the health coverage benefit and do not know enough details of the benefit to get information out to workers and to assist them with the enrollment process. In some local areas, case managers we interviewed said that they provide minimal information about the benefit and primarily refer workers to pamphlets or the IRS call center for details. We previously reported on the complexity of the health coverage benefit, noting that the process for workers to become eligible and enroll for the benefit was fragmented and

difficult to navigate.¹¹ In that report, we recommended to several agencies, including Labor and IRS, that a centralized resource be made available at the time individuals must make decisions about purchasing qualifying health coverage and meeting other eligibility requirements. In February 2007, IRS began distributing to all workers covered by a petition a more simplified program kit for the health coverage benefit.

Certification Applied Industrywide May Increase Number Eligible, but Implementation Challenges Exist

Two alternatives are being considered that would expand the current firm by firm petition certification approach. One approach being considered would make an industry eligible to be investigated for possible certification when Labor certifies three petitions from that industry within 180 days. Another approach would require certification of an industry once a trade remedy had been applied.¹² An industry certification approach based on three petitions certified within 180 days would likely increase the number of workers eligible for TAA, but the extent of the increase depends upon the specific criteria that are used. Using trade remedies for industrywide certification could also result in expanded worker eligibility for TAA in a number of industries, but the extent is uncertain. As we identify in our forthcoming report, either approach presents some design and implementation challenges.¹³

Extent of Increase in Eligible Workers Depends on How Additional Criteria Are Set

From 2003 to 2005, 222 industries had three petitions certified within 180 days and therefore would have triggered an investigation to determine whether an entire industry should be certified, if such an approach had been in place at that time. These industries represented over 40 percent of the 515 industries with at least one TAA certification in those 3 years and included 71 percent of the workers estimated to be certified for TAA from 2003 to 2005.¹⁴ The 222 are a diverse set of industries, including textiles,

¹¹ GAO, *Health Coverage Tax Credit: Simplified and More Timely Enrollment Process Could Increase Participation*. GAO-04-1029. (Washington, D.C.: September 30, 2004).

¹² Trade remedies include, for example, a duty imposed on an imported product because the industry had been injured by unfair trade practices.

¹³ For more detailed information on our analysis, see our forthcoming report, *Trade Adjustment Assistance: Industry Certification Would Likely Make More Workers Eligible, but Design and Implementation Challenges Exist*. GAO-07-919. (Washington, D.C.: forthcoming).

¹⁴ These industries are classified according to the four-digit Standard Industrial Classification (SIC) System codes.

apparel, wooden household furniture, motor vehicle parts and accessories, certain plastic products, and printed circuit boards.

The proposals for this approach would require that, once an industry meets the three-petition criterion, Labor investigate to determine whether there is evidence of industrywide trade effects. Not all 222 industries would likely be certified industrywide. In its investigation, Labor would use additional criteria and likely consider such factors as the extent to which an industry has been affected by imports, changes in production levels in the industry, or changes in employment levels.

The number of workers that would become eligible for TAA through an industry certification approach depends on what additional criteria are established. We used information from the 69 industries for which we had comprehensive data on petitions, unemployment, trade and production to estimate the potential increases in eligible workers programwide.¹⁵ We found that, if there were no additional criteria beyond three petitions certified in 180 days, the overall number of workers eligible for TAA might have nearly doubled, from about 118,000 to about 233,000 in 2005. If the trade threshold were set at a 10 percent increase in the import share of the domestic market, the number of eligible workers might have increased by approximately 49 percent from 118,000 to about 175,000. If certification were limited to industries with a 15 percent increase in any 1 year, the number of workers eligible for TAA might have increased by approximately 27 percent to about 150,000. Finally, if the criterion was a 20 percent increase in the import share in any 1 year, the number of workers might have increased by about 22 percent, to 144,000. More stringent criteria would result in a smaller increase in the number of workers eligible for TAA.¹⁶

¹⁵ Of the 222 industries, we analyzed 69 for which we had complete data. The data available used different classification systems that we matched to each other, but we only included data for which we had complete and well-defined matches. Since the 69 industries were not drawn from a random sample, the results of this analysis are not necessarily representative of the entire 222 industries.

¹⁶ Our analysis applied the same threshold to all industries. In practice, the criteria would likely vary by industry in order to take into account industry-specific patterns in trade and other economic factors.

Certifying Industries Subject to Trade Remedies Could Increase Eligible Population, but the Extent Is Uncertain

Using trade remedies for industrywide certification could result in expanded worker eligibility for TAA in a number of industries. The number of workers eligible for TAA might increase under this approach in areas in which there have been few or no TAA petitions. For example, even though ITC found that domestic producers of certain kinds of orange juice had been injured by imports, there appear to be no TAA petitions for workers producing orange juice.¹⁷

However, the number of workers eligible for TAA may not increase substantially in some areas, in part because of overlap between trade remedies and TAA petitions. For example, over half of outstanding antidumping and countervailing duty orders are for iron and steel products, for which hundreds of TAA petitions have been certified. In addition, industries with trade remedies may not necessarily have experienced many trade-related job losses because the International Trade Commission (ITC) does not focus on employment when determining whether an industry has been injured, according to an ITC official. Furthermore, trade remedies are intended to mitigate the trade-related factors that caused the injury to the industry, so employment conditions in an industry could improve after the trade remedy is in place.

It is difficult to estimate the extent that industry certification based on trade remedies would increase the number of workers eligible for TAA because trade remedies are imposed on specific products coming from specific U.S. trade partners, and data are not available on job losses at such a detailed level. The product classifications for a given trade remedy can be very narrow, such as a dye known as “carbazole violet pigment 23” or “welded ASTM A-312 stainless steel pipe.”

Potential Design and Implementation Challenges Exist

Although industry certification based on three petitions certified in 180 days is likely to increase the number of workers eligible for TAA, it also presents several potential challenges.

- *Designing additional criteria for certification.* Any industrywide approach raises the possibility of certifying workers who were not adversely affected by trade. Even in industries that are heavily affected by trade, workers could lose their jobs for other reasons, such as the

¹⁷ We cannot be certain about the degree of overlap between TAA petitions and trade remedy products because product information is not recorded in a standardized way in Labor’s petitions data.

work being relocated domestically. In addition, using the same thresholds for all industries would not take into account industry-specific patterns in trade and other economic factors.

- *Determining appropriate duration of certification.* Determining the length of time that an industry would be certified may also present challenges. If the length of time is too short, Labor may bear the administrative burden of frequently re-investigating industries that continue to experience trade-related layoffs after the initial certification expires. However, if the time period is too long, workers may continue to be eligible for TAA even if conditions change and an industry is no longer adversely affected by trade.
- *Defining the industries.* How the industries are defined would significantly affect the number of workers who would become eligible for TAA through an industry certification approach. Our analysis defined industries according to industry classification systems used by government statistical agencies. However, some of these industry categories are broad and may encompass products that are not adversely affected by trade.
- *Notifying workers and initiating the delivery of services.* Notifying workers of their eligibility for TAA has been a challenge and would continue to be under industry certification. Under the current certification process, workers are linked to services through the petition process. The specific firm is identified on the petition application, and state and local workforce agencies work through the firm to reach workers in layoffs of all sizes. For industry certification, however, there are no such procedures in place to notify all potentially eligible workers in certified industries. For large layoffs in a certified industry, agencies could make use of the existing Worker Adjustment and Retraining Notification (WARN) notices to connect with workers.¹⁸ However, in smaller layoffs in certified industries, or when firms do not

¹⁸ The WARN Act requires employers to give their employees or their representatives, the state's dislocated worker unit, and local government officials 60 days advance notice of a mass layoff or plant closure. Generally speaking, the WARN Act applies to employers with 100 or more full-time workers involved in layoffs or plant closures that affect 50 or more workers.

provide advance notice, workforce agencies may not know that the layoff has occurred.¹⁹

- *Verifying worker eligibility.* Verifying that a worker was laid off from a job in a certified industry to ensure that only workers eligible for TAA receive TAA benefits may be more of a challenge under industry certification than under the current system. For example, it may be difficult to identify the specific workers who made a product in the certified industry if their employer also makes products that are not covered under industrywide certification. In addition, determining who should conduct this verification may also present challenges. A centralized process conducted by Labor would likely be unwieldy, while verification by state or local workforce agencies could take less time, but ensuring consistency across states might prove challenging.

An approach using trade remedies presents some of the same challenges as an industry certification approach based on three petitions certified in 180 days.

Concluding Observations

Through our work on the Trade Adjustment Assistance Program since passage of the Reform Act in 2002 we have identified a number of areas where Labor and the Congress should take action. Taking steps to limit confusion, ease restrictions, and provide support for case management would facilitate workers' access to services and benefits. States' ability to assist these workers would be enhanced by an improved process for allocating training funds.

Mr. Chairman, this concludes my prepared statement. I will be happy to respond to any questions you or other members of the committee may have at this time.

¹⁹ In a 2003 report on the WARN Act, GAO found that employers provided notice for an estimated 36 percent of mass layoffs or plant closures that appeared subject to WARN's advance notice requirements. GAO, *The Worker Adjustment and Retraining Notification Act: Revising the Act and Educational Materials Could Clarify Employer Responsibilities and Employee Rights*, [GAO-03-1003](#) (Washington, D.C.: Sept. 19, 2003).

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Related GAO Products

Trade Adjustment Assistance: Changes to Funding Allocation and Eligibility Requirements Could Enhance States' Ability to Provide Benefits and Services. [GAO-07-701](#), [GAO-07-702](#). (Washington, D.C.: May 31, 2007).

Trade Adjustment Assistance: New Program for Farmers Provides Some Assistance, but Has Had Limited Participation and Low Program Expenditures. [GAO-07-201](#). (Washington, D.C.: December 18, 2006).

National Emergency Grants: Labor Has Improved Its Grant Award Timeliness and Data Collection, but Further Steps Can Improve Process. [GAO-06-870](#). (Washington, D.C.: September 5, 2006).

Trade Adjustment Assistance: Labor Should Take Action to Ensure Performance Data Are Complete, Accurate, and Accessible. [GAO-06-496](#). (Washington, D.C.: April, 25, 2006).

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