Child Care Center Financial Viability During COVID-19: Short-Time Compensation Programs (Work Sharing) Update

January 5, 2021

In Brief. The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) provided federal funding for states to operate a short-time compensation program (STC) as a layoff aversion program. The new FY2021 Consolidated Appropriations & COVID Relief Act enacted in December (P.L. 116-260) extends this assistance **through March 14, 2021**.

For child care centers, an STC policy could be a way to help pay staff and avoid layoffs.

STC programs enable individuals to receive partial earnings (through reduced hours) and partial unemployment (related to a percent reduction in hours) in lieu of being laid off (and avoiding the loss of health insurance and retirement coverage as well as the need to receive full unemployment payments).

For states that have established STC programs through state legislation, federal funding covers 100 percent of the cost. For states without a STC law, state labor agencies can pursue a policy agreement that is approved by the U.S. Department of Labor with 50% of the cost covered by the federal government.

History. The concept and provision of STC programs are not new. Dr. Frank Schiff, vice president and chief economist at the Committee for Economic Development (CED) from 1969 – 1986, was one of the primary authors of the construct of work sharing programs and regularly testified about them before Congress in the 1970s and 1980s.[1]

- The first federal temporary STC program was enacted in 1982 as part of the Tax Equity and Fiscal Responsibility Act (TEFRA, P.L. 97-248).
- STCs were permanently authorized as part of the Unemployment Compensation Amendments Act of 1992 (P.L. 102-318).
- The Middle Class Tax Relief and Job Creation Act of 2012 (P.L 112-96) clarified some of the STC definitions and rules and provided additional incentives to states to operate STC programs.

How STC Programs Work

Under State STC programs, employers interested in participating submit an application to their labor agency for approval. For employees, instead of being laid off, they would typically work a reduced set of hours per week. In return, they would receive a percentage of their unemployment compensation. For example, if an employee typically works 40 hours per week and his/her hours are reduced to 32 hours per week (a 20 percent reduction), then the employee would receive reduced earnings (based on a 32 hour week) and 20 percent of his/her unemployment compensation.

For employers, an STC program can help them navigate a temporary period where otherwise employees may need to be laid off. Reducing hours instead of imposing layoffs helps retain a workforce for recovery periods. For employees, having a job (even at reduced hours) is often more security than being unemployed.

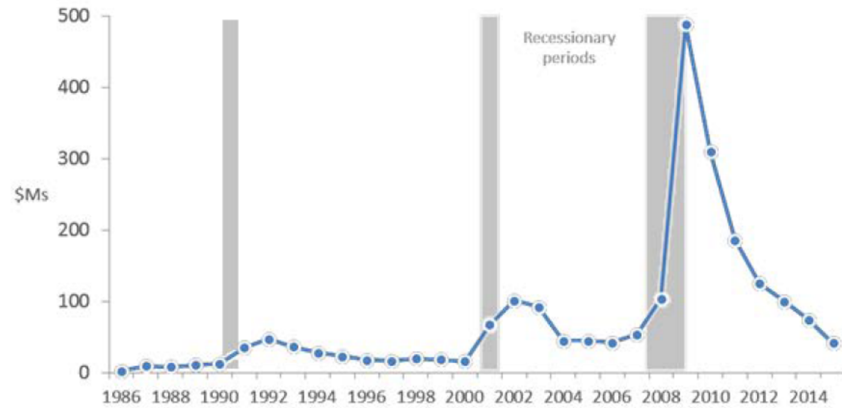
States with Current STC Programs

Currently, 27 states have STC programs that comply with federal guidance.[2] Most recently, the Virginia General Assembly passed legislation on April 22, which goes into effect July 1, 2020.[3] California has the oldest STC program enacted in 1978 followed by Arizona, Arkansas, Colorado, Connecticut, Florida, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, Ohio, Oregon, Pennsylvania, Rhode Island, Texas, Vermont, Virginia, Washington and Wisconsin.[4,5]

Use of STC Programs

Use of STC programs varies, with a cycle that increases as unemployment rises. The highest number of STC participants was 288,619 in 2009 during the Great Recession.[6] Participation in STCs was greater during the 2007-2009 recession compared to the 2001 recession.[7] The U.S. Department of Labor estimates that 570,000 jobs were saved through STC programs operating between 2008-2015.[8]

Figure 2.4 Annual amount of STC compensation benefits paid, 1986 - 2015



Source: U.S. Department of Labor, Employment and Training Administration, Implementation of the Short-Time Compensation Program Provisions in the Middle Class Tax Relief and Job Creation Act of 2012, Report to the President and to the Congress, February 22, 2016.

The CARES Act and STC Programs

Under the CARES Act passed in March 2020, Congress broadened the safety net for those who are unemployed to include a new Pandemic Unemployment Assistance program (PUA) to provide support for individuals excluded from state unemployment programs such as the self-employed. The CARES Act also included a new $600 per week supplement to unemployment compensation for anyone who receives state unemployment compensation as well as those who receive unemployment through the new PUA program.

The $600 weekly supplement expired July 31, 2020. As part of the new P.L. 116-260, the weekly supplement was restored, but reduced to $300 per week through March 14, 2021. In states that have STC programs, individuals who receive unemployment benefits also will receive the $300 per week supplemental payment (through March 14, 2021).

Employee Health and Retirement Benefits

STC programs also help employees maintain health insurance.

Federal law[9] requires state STC programs to require employers to certify that if the employer provides health benefits and retirement benefits to any employee whose hours have been reduced through an STC program that such benefits will continue to be paid for employees as though the work week had not been reduced. The only exception is if an employer cancels health insurance and retirement for all employees (e.g., for employees not participating in STC programs).

The retention of health insurance coverage and retirement benefits is important, and when individuals are no longer employed, such coverage is terminated. Therefore, participation in STC programs not only provides a monetary safety net for employees but also a benefit protection not available to the unemployed.

STC Policies Can Work for Child Care Centers

State consideration of STC policies can help retain and sustain the child care supply.

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[1] Dr. Frank Schiff was the vice president and chief economist at the Committee for Economic Development (CED) from 1969 – 1986. Prior to working at CED, Dr. Schiff was a senior staff economist with the Council of Economic Advisors (1964-1968), was Deputy Undersecretary of the Treasury for monetary affairs from 1968-1969 and was involved in domestic economic policy and international monetary policy formulation and negotiations, debt management and relations with the Federal Reserve.

[2] U.S. Department of Labor Short-time Compensation Fact Sheet, https://oui.doleta.gov/unemploy/docs/stc_fact_sheet.pdf
[3] Virginia General Assembly, SB 548, April 22, 2020. https://lis.virginia.gov/cgi-bin/legp604.exe?ses=201&typ=bil&val=sb548&submit=GO
[4] Compensated Work Sharing Arrangements (Short-Time Compensation) as an Alternative to Layoffs, Congressional Research Service, November 2016.
[5] National Conference of State Legislatures, https://www.ncsl.org/research/labor-and-employment/work-share-programs.aspx
[6] Implementation of the Short-Time Compensation (STC) Program Provisions of the Middle Class Tax Relief and Job Creation Act of 2012, U.S. Department of Labor, Employment and Training Administration, February 2016. https://oui.doleta.gov/unemploy/docs/stc_report.pdf
[7] Ibid.
[8] Ibid.
[9] 6 U.S. Code § 3306 (v) Short-time compensation program. https://www.law.cornell.edu/uscode/text/26/3306