Work Sharing: An Alternative to Layoffs

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Frequently Asked Questions

As the nation's economic recovery remains weak, a growing number of businesses are searching for ways to weather economic downturns while retaining their workforce. Work sharing has become a viable alternative to layoffs in states that have these programs in place. This fact sheet provides answers to frequently asked questions about state work sharing programs.

What is work sharing?

Work sharing (also referred to as "shared work" or "short-time compensation") is a type of unemployment benefit. Work sharing provides employers with an alternative to layoffs when they are faced with a temporary decline in business. Instead of laying off a portion of the workforce to cut costs, an employer may reduce the hours and wages of all employees or a particular group of workers. Workers with reduced hours and wages are eligible for pro-rated unemployment benefits to supplement their paycheck. Because work sharing is voluntary, employers can make decisions about participation in the program based on their unique circumstances.

How do work sharing programs operate?

A firm facing a 20 percent reduction in production might normally lay off one-fifth of its work force. Faced with this situation, a firm with a work sharing plan could retain its total workforce on a four-day-a-week basis. This reduction from 40 hours to 32 hours would cut production by the required 20 percent without reducing the number of employees. All affected employees would receive their wages based on four days of work and, in addition, receive a portion of unemployment benefits equal to 20 percent of the total weekly benefits that would have been payable had the employee been unemployed a full week. In this example, if the employee making $500 per week is normally eligible for $250 a week in unemployment benefits, the person would receive $400 in wages and $50 in work sharing benefits for the week (20 percent of the $250 weekly benefits). Like regular unemployment benefits, work sharing benefits do not fully cover lost income, but they help mitigate the loss.

Why is it good for employers?

Work sharing helps employers weather a business slowdown by reducing the work hours of their full-time employees. The program helps employers temporarily reduce their payroll costs, retain skilled workers and avoid the future expense of recruiting, hiring and training new employees when the economy improves.

Why is it good for employees?

Work sharing helps keep workers on the job, maintains their income and enables them to retain health and retirement benefits. More senior employees who would not have been laid off may accept small temporary reductions in their work hours and weekly wages to prevent layoffs of less senior workers.

How are work sharing benefits financed?

Work sharing benefits are paid from the state Unemployment Insurance (UI) trust fund. Most employers pay taxes based on the size of their workforce and their experience with workforce reductions over time (called experience-rating). Employers who have a stable workforce and who pay out fewer benefits tend to have lower tax rates than those that have frequent layoffs. Work sharing benefits are charged to employers who pay taxes or attributed to employers (such as non-profit organizations and public agencies) who reimburse the trust fund in the same manner as regular unemployment benefits.

What is the impact of work sharing on state UI trust funds?

Work sharing does not appear to have any significant impact on state UI trust funds. According to a U.S. Department of Labor study, work sharing benefits are experience-rated at least as well as regular unemployment benefits. In other words, an employer that participates in a work sharing program is likely to pay back the trust fund through unemployment taxes or direct reimbursements.

Can employees participate in education and training and continue to receive work sharing benefits?

Yes, states may permit employees receiving work sharing benefits to participate in an employer-sponsored training program to enhance their job skills. Other federal and state training resources may also be available to employees participating in work sharing programs.

Are claimants who have received work sharing benefits eligible for extended benefits?

Yes, a UI claimant who has exhausted work sharing benefits or combined work sharing and regular unemployment benefits in a benefit year would be entitled, if otherwise eligible, to extended benefits.

Do employers support work sharing programs?

Yes, employers support work sharing because it promotes employment stability. In many cases, employers have championed the adoption of state laws. For example, Motorola took the lead in promoting UI law changes in Arizona, Florida and Texas.

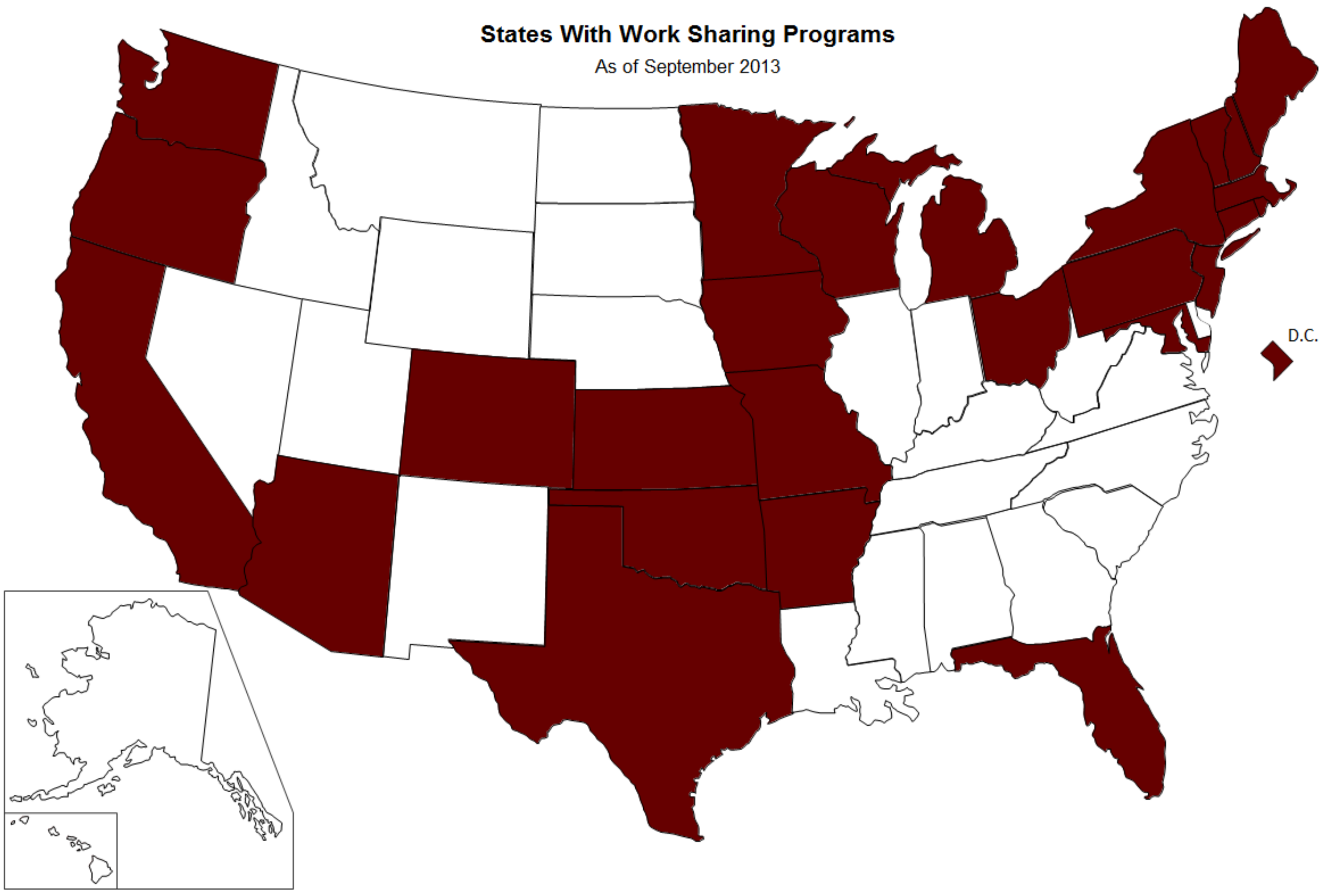
Does organized labor support compensated work sharing?

Yes, state legislation has generally won the support of labor organizations. In most states, union approval of employer work sharing plans is required if the business has a unionized workforce. Workers retain their jobs, and unions hold onto members.

How do states adopt work sharing programs? Which states have programs?

State UI laws must be amended to establish work sharing programs. There are twenty-seven (27) programs in 26 states and the District of Columbia (See Figure 1). Note: Louisiana, which has enacted a program but has not implemented it, is not shown on the map.

Figure 1



During the Great Recession, has there been any action at the federal level to promote use of work sharing?

Yes, Sen. Jack Reed and Rep. Rosa DeLauro sponsored federal legislation to spur adoption of state work sharing programs; the Layoff Prevention Act of 2012 was enacted on February 22, 2012. This law updates and clarifies work sharing provisions in federal law. It requires an employer to submit a written work-sharing plan to the state workforce agency, and to certify that workers' health and retirement benefits will not be reduced due to participation in the work sharing program. In addition, the Act includes a mechanism by which a state may request approval by the Secretary of Labor for other provisions in state law "that are determined to be appropriate for the purposes of a short-time compensation program."

The Act includes $100 million in grants to make state work-sharing programs more efficient and more effective for workers and employers. Although some states have promoted work sharing, it is generally a little-known option for employers. Grants available under the Act can be used for startup and implementation, improvements in program administration, and increased outreach to employers.

What do economists say about work sharing?

Economists across the political spectrum, including Mark Zandi with Moody's Analytics, Kevin Hassett with the American Enterprise Institute and Dean Baker with the Center for Economic and Policy Research, have written about the value of work sharing for businesses, workers and the economy. Federal Reserve Board Chairman Ben S. Bernanke has said: "And for the economy as a whole, work sharing arrangements can help to reduce some of the economic costs associated with the loss of worker skills during periods of high unemployment as well as diminish the detrimental effects high unemployment rates can have on local communities."

What will work sharing mean to my state and community?

Work sharing helps to minimize the number of layoffs during tough economic times. Employers view work sharing programs as a win-win proposition by promoting employment stability and retention of workers' skills. Workers continue to receive wages and other employee benefits for their hours on-the-job, and they receive pro-rated unemployment benefits for their non-work days. It benefits the community by keeping skilled workers in the area and by maintaining workers' spending in the local economy.