

'Free' E-Verify May Cost Small Business \$2.6 Billion: Insight

By Jason Arvelo | January 27, 2011 12:01AM ET

(Bloomberg) -- A proposal to require every U.S. employer to use free federal databases to confirm the legal status of a new hire would cost employers billions of dollars in associated expenses, according to data compiled by Bloomberg.

Businesses with fewer than 500 workers would bear the greatest burden, according to the data, spending about \$2.6 billion a year to use the government's web-based verification system, E-Verify, compared with less than \$100 million for the 4 percent that used it in 2010.

U.S. employers voluntarily use E-Verify, which validates the employment eligibility of new hires using federal databases. Though E-Verify does not charge for the use of its database, employers' costs included training and certifying staff or hiring vendors to conduct the searches.

If mandated for all employers, E-Verify would have cost \$2.7 billion in fiscal 2010, according to data compiled by Bloomberg. Small businesses, which account for 99.7 percent of employers, would have paid \$2.6 billion of that, according to the data.

Employers spent about \$43 million in the fiscal year ending Sept. 30, 2008, to interact with the site, according to data compiled by Bloomberg based on a survey commissioned by the government. The survey results were released in December 2009, and Bloomberg has adjusted the figures for inflation and increased usage.

If E-Verify costs remained constant, and usage of the system is adjusted for growth, the employers spent an estimated \$95 million in fiscal 2010 on E-Verify.

Small Business Costs

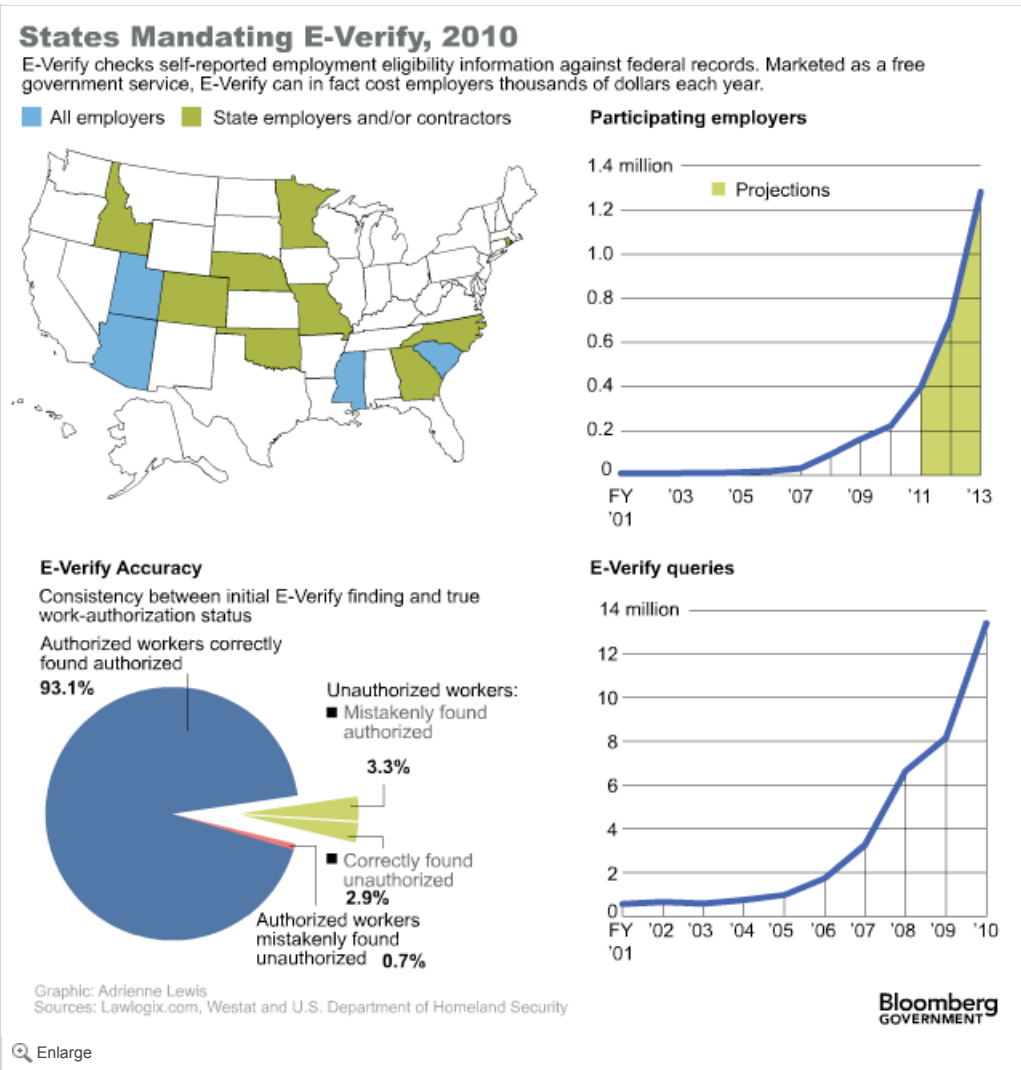
Several states now mandate the use of E-Verify for private and public employers. Support has grown for making it mandatory nationwide. Last year, Democratic senators Robert Menendez of New Jersey and Patrick Leahy of Vermont introduced an immigration bill calling for all employers to adopt some form of E-Verify within five years.

A House resolution supporting the mandatory use of E-Verify attracted 53 Republican and 10 Democratic co-sponsors.

The Department of Homeland Security's web-based E-Verify is, as the agency says on its website, "easy to use, fast, and best of all -- free." To the extent E-Verify keeps employers from hiring illegal workers, it saves them the cost of fines.

That doesn't mean the use of E-Verify is without cost. It cost the government \$247 million to run E-Verify, data compiled by Bloomberg showed. The government has published an 82-page user manual and offers training seminars to become acquainted with E-Verify.

Employers have to spend money on training or staff time. Some use private firms, such as Lawlogix, Fragomen and other immigration-law firms, which specialize in employment eligibility.



Small businesses estimated they spent a total of \$36 million on E-Verify in fiscal 2008, according to the survey. That equates to \$81 million in fiscal 2010, adjusting for inflation and usage that more than doubled in those two years.

Training Costs

A survey of employers, conducted for Homeland Security by the research firm Westat Inc., found that most employers reported no costs to use E-Verify. The system relies on citizenship data that employers must collect anyway for an I-9 employment form.

Westat classified costs as either set-up or maintenance. Set-up costs include any training or equipment necessary for E-Verify implementation. Maintenance costs are any re-trainings and equipment purchases required to sustain the program thereafter.

More than 73 percent of employers reported no direct set-up costs, and slightly more reported no maintenance costs, according to the survey.

Businesses with fewer than 500 workers bear the greatest burden because the fixed costs are spread over fewer hires. It cost small businesses that had just enrolled in E-Verify in 2008 an average of \$127 to run a new hire query, compared with \$63 for all firms. In 2010, those figures would be \$147 and \$73, respectively, according to data compiled by Bloomberg.

Large firms are able to spread the set-up and maintenance costs across a larger number of queries, tapping into the program's economies of scale.

High Satisfaction

Homeland Security says the system has been improved since the survey to make it less burdensome, but no further research has been conducted to determine the costs of using it.

Employers, including those that were legally obliged to enroll, rate the system highly on satisfaction surveys, according to the 2009 Westat Inc. study.

There are potential savings, too, for employers using E-Verify. Certifying a new hire with the program doesn't automatically shield a company from fines if an employee is found to be working illegally but passed an E-Verify check. It does provide the company a good faith, "refutable presumption that it has not knowingly hired an unauthorized alien" in the event civil or criminal suits are brought against an employer, according to Homeland Security.

Investigators can drop charges if, for example, they feel the employer didn't intentionally hire an illegal worker or has taken steps to ensure it won't happen again.

If E-Verify is mandated for all employers, Homeland Security anticipated it would spend \$765 million from fiscal 2009 to fiscal 2012, while the Social Security Administration expected to spend \$281 million from 2009 to 2013, for additional staff, technological components, and overhead.

(Jason Arvelo is a labor analyst. The views expressed are his own.)

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To contact the analyst on this story: Jason Arvelo in Washington at
jarvelo4@bloomberg.net

To contact the editor responsible for this story: Mike Riley at
mriley17@bloomberg.net

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