

Employee Benefit ■ Plan Review

U.S. Supreme Court Says Workers Can Sue State Over Post-COVID-19 Unemployment Benefits Processing Times: Key Takeaways for Employers

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The U.S. Supreme Court recently issued a decision that raises big implications for workplace claims brought under state law. Alabama residents who applied for unemployment benefits during the COVID-19 pandemic challenged the way the state handled their claims – arguing that the process took unreasonably long. The workers sought to speed up the process under a federal law that allows people to sue state government officials for violating their civil rights. Even though the Alabama Supreme Court sided with the state, the U.S. Supreme Court ruled in favor of the workers and gave employees across the country a new tool for speeding up final decisions on state administrative claims.

Here is what employers need to know about the ruling and how it may impact your workplace.

HOW DID WE GET HERE?

- *Workers Said Unemployment Claims Were Processed Too Slowly*
In *Williams v. Reed* (formerly *Williams v. Washington*),¹ a group of unemployed

workers brought a lawsuit in Alabama state court claiming that the state Labor Department unlawfully delayed the processing of their unemployment benefits claims while the state was experiencing a major backlog during the COVID-19 pandemic. The workers wanted a court to order the Department to process their claims faster.

Specifically, they raised due process and other federal claims under 42 U.S.C. §1983, a law that allows people to sue state governments for civil rights violations. They alleged that the state's policies, practices, and procedures related to unemployment compensation applications violated the Social Security Act and constitutional due process rights.

- *State Trial Court Dismissed Lawsuit*

The Alabama Secretary of Labor sought to dismiss the lawsuit, arguing that the workers had not exhausted administrative remedies, as required under the relevant state statute, before they could bring a §1983 claim. The state trial court sided with the Secretary of Labor and dismissed the suit. On appeal, the Alabama Supreme

Court upheld the lower court's decision since the workers had not completed the administrative process or received a final decision on their unemployment benefits claims.

• "Catch-22"

The workers argued that the Alabama ruling created a Catch-22 because the very process they wanted the state to speed up was the one that had to be finalized before they could bring their lawsuit. One worker, for example, claimed that the Alabama Labor Department never scheduled a hearing even though he followed up multiple times by phone and email. Notably, they were not asking the court to find that they were entitled to unemployment benefits, rather, they were asking for a faster turnaround, including:

- An initial nonmonetary decision within ten days to every worker who had not yet received a decision;
- A hearing date within ten days for each worker who requested a hearing;
- A scheduled hearing not later than 90 days after the request for the hearing; and
- Pay for every approved claim within two days of approval.

HOW DID THE U.S. SUPREME COURT RULE?

In a 5-4 decision, the Justices sided with the workers, reversed the Alabama Supreme Court's ruling, and remanded the case for further proceedings. The Supreme Court said the state court's interpretation of the administrative-exhaustion requirement for unemployment benefits claims would effectively

immunize the Alabama Secretary of Labor from §1983 due process suits alleging unlawfully delayed claims processing.

"In essence, Alabama has said that to challenge delays in the administrative process under §1983, you first have to exhaust the administrative process. Of course, that means that you can never challenge delays in the administrative process," Justice Kavanaugh wrote for the majority. "That catch-22 prevents the claimants here from obtaining a merits resolution of their §1983 claims in state court and in effect immunizes state officials from those kinds of §1983 suits for injunctive relief. Under this Court's precedents, however, Alabama cannot maintain such an immunity rule."

The Supreme Court noted that its ruling "does not mean that *premature* procedural due process claims will necessarily prevail." The Court did not rule on whether Alabama's delays violated the workers' due process and statutory rights, only that they could bring their lawsuit.

WHAT DOES THE RULING MEAN FOR EMPLOYERS?

While this lawsuit involved unemployment benefits claims, the ruling may apply broadly to state agency processes. Employees often file workplace claims – such as discrimination and harassment claims – with state civil rights agencies. State laws commonly require employees to "exhaust all administrative remedies" before bringing their claim to court. This process generally includes filing a complaint with the relevant agency, participating in hearings and other proceedings, filing appeals, and receiving a final decision. These state agencies are often under-staffed and

are known for moving at a snail's pace.

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The Supreme Court's decision in *Williams* may lead to more employees seeking to side-step their state's administrative process and bring claims directly to court if they can somehow demonstrate that the state process is dragging on too long. This means employers could see faster processing of administrative claims, as state agencies look to avoid lawsuits like the one filed in Alabama. This could also mean more direct lawsuits against employers, particularly if state agencies fast-track administrative review to avoid the due process claim.

Notably, however, the Justices said that premature due processes claims would not necessarily prevail. The Court acknowledged that "a plaintiff who asserts a due process claim without exhausting will usually lose because of the requirement that the challenged procedural deprivation must have already occurred, except in an unusual case where you're actually challenging the inability to exhaust." 🌟

NOTE

1. https://www.supremecourt.gov/opinions/24pdf/23-191_q8l1.pdf.

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