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Program Integrity: Making Unemployment Insurance Work Better

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There are two truths about Unemployment Insurance (UI) that are in tension. For almost 90 years, UI has been an essential safety net program providing cash benefits to the unemployed. At the same time, hundreds of billions of UI dollars are lost to fraud or improperly paid out. That's why it's imperative for policymakers to modernize UI so it better serves those in need and eradicates waste and fraud.

Enter *program integrity*... At a macro level, program integrity efforts combat fraud and error while also improving delivery of a service or benefit. They are often aimed at administrative or technological improvements. UI is currently subject to certain program integrity initiatives, but it's clear that more must be done. The program was added to the Government Accountability Office's High-Risk List in 2022 for federal operations that are in need of transformation. [1]

Below, we break down key stats on UI and program integrity, current issues within the program, and prominent policy proposals. With a series of fiscal debates on the horizon, there is opportunity for policymakers to make government programs work better and ensure the safety net effectively reaches the people who need it. Let's start with fixing UI.

This report is part of a program-by-program series looking at program integrity issues throughout the federal budget.

Five Fast Facts: UI & Program Integrity

1. Roughly $28 billion in federal Unemployment Insurance payments were distributed in 2019. [2] In 2020 and 2021 during the COVID pandemic, that rose to $473 billion and $392 billion respectively. [3] Federal UI payments normalized back down to $34 billion in 2022 and $30 billion in 2023. [4]

2. Improper payments in UI, which include paying too much (including fraud) or too little, exceeded 10% of payments in 17 of the last 20 years. [5] But during the pandemic, improper payments jumped to nearly 19% in FY 2021 and 22% in FY 2022. [6] Estimates put total improper payments during the pandemic at as much as $191 billion. [7]

3. During three years of the pandemic, $100-$135 billion was lost to fraud. [8] Put another way, fraud alone accounted for 11%-15% of total UI paid out. [9]

4. Around three-fourths of UI improper payments during the pandemic were disbursed in FY 2021. [10] Improper payment amounts declined under Biden, but the rate remained high.

5. While substantially less than the pandemic, currently UI improper payments are estimated to exceed $100 *million* per year.

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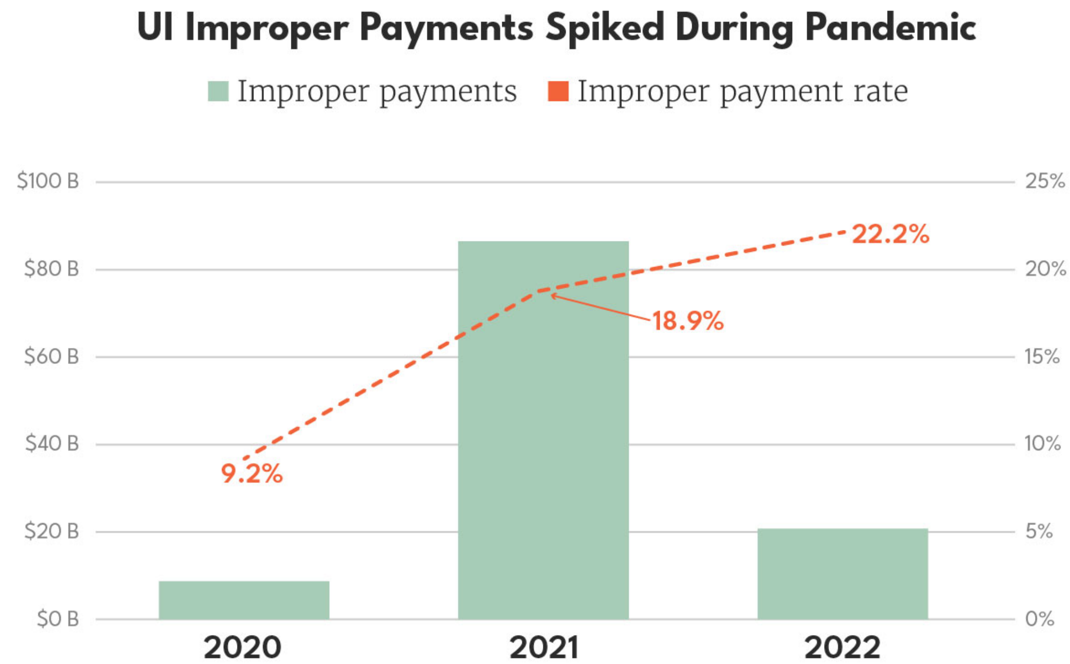

Note: These improper payment estimates and rates do not include Pandemic Unemployment Assistance, one of multiple unemployment programs in those years.

Source: U.S. Government Accountability Office.

Current Program Integrity Issues

The federal government has already invested a small amount of funding to find and fix UI program integrity issues nationwide. The COVID-era funds included $600 million to improve IT infrastructure and program integrity for states, $200 million to strengthen identity verification, and $100 million for simplification and automation to reduce improper payments. Congress also provided $250 million for a “Tiger Team” deployment of experts to improve program integrity.

While those efforts are important, the overall program continues to face program integrity problems, including:

Administrative Issues

Administrative shortcomings have been a leading critique of the current UI program. The Bipartisan Policy Center (BPC) reported that the US Department of Labor’s model to determine UI administration budget requests is inadequate for meeting state needs. [11] Since 2009, many state UI systems have seen continued decline of their budgets for administration, contributing to staff shortages and a rapidly overburdened system once the pandemic hit. [12]

In addition, many states rely on technical, jargon-heavy, and complex forms for UI claimants to fill out to receive benefits. This increases the likelihood of delays, misfiling, and improper payments. [13]

Infrastructure & Information Technology

Old IT systems are also a burden. Many state UI programs rely on the complicated and outdated COBOL, a nearly 50-year-old computer system. These programs buckled under the weight of almost 6.2 million applicants within a single week during the pandemic. [14]

Even in states where COBOL is no longer used, programs often report that systems have already become outdated. UI offices often are left using paper-based processes which complicate processing of benefits. COBOL's outdated infrastructure also makes it difficult to update claimant information, leading to delays. Further, COBOL requires increasingly specialized technical knowledge, which is diminishing due to the age of the system.

Identity Verification

UI offices often fell victim to fraudsters during the pandemic that were using stolen identities to access benefits. Some states have started to use third party vendors to conduct verification, but these efforts often still fall short.

Additionally, states often need detailed employer information before dispersing UI benefits. During the pandemic, many employers struggled to provide the information needed to verify claimants' employment and ensure timely processing of benefits.

Policy Proposals

There has been a raft of recent proposals to make UI work better. For example:

Bipartisan Senate Finance Committee Draft

Senate Finance Chairman Ron Wyden (D-OR) and Ranking Member Mike Crapo (R-ID) introduced a bipartisan UI bill in July that includes fraud and overpayment recovery, improvements to identity verification, and upgrades to administration and technology. It would also extend the federal statute of limitations for pandemic UI fraud to 10 years, from the five years allowed under current law. [15]

Specifically, the Wyden-Crapo bill requires states to "crossmatch" unemployment compensation claims against the National Directory of New Hires to prevent claimants from collecting UI if they are working. [16] States would use information data exchange systems to allow electronic transmission of accurate claim information between employers and states and would use crossmatching systems to identify potentially fraudulent unemployment claims. In addition, it would require states to crossmatch unemployment compensation claims against the Social Security Administration's prisoner database to prevent fraud.

The Senate bill also gives states stronger incentives to build more robust fraud detection systems. It allows states to waive overpayments of pandemic UI that have not been recovered as of date of enactment in non-fraud cases. [17] States could retain 5% of recovered overpayments of unemployment compensation and 5% of employer unemployment taxes collected as part of a state investigation. Also, states could retain up to 25% of overpayment recoveries of fraudulent pandemic unemployment overpayments.

On the administrative side, Wyden-Crapo would implement new access and technology requirements for online claim filing systems and in-person alternatives. The Senate bill also requires states to provide guidance to employers to facilitate their eligible workers' access to benefits. [18]

National Academy of Social Insurance Task Force on Unemployment Insurance

The National Academy of Social Insurance Task Force on Unemployment Insurance (NASI) released its final report in July and considered policy improvements in eight areas. While the task force addressed the structure of UI benefits and their financing, it also provided recommendations related to program integrity.

Administrative and technological recommendations included a better funding model for states to finance administration of UI benefits, more simplification and uniformity among UI systems, and "dramatic" technology modernization. Fraud identification and prevention recommendations considered ways to respond to increasingly large, well-organized international criminal rings attacking poorly-equipped state UI systems.

NASI's report notes that simplification and uniformity is probably one of the harder goals to achieve, as each state has developed its own practices and terminology. [19] One workaround, they argue, might include creating a framework for the meaning of terms and developing some model notices, or providing best business practices.

On the technology side, NASI argues that states should move away from large, monolithic technology upgrades and pursue updated technology strategies that engage with users on the claims and tax sides. The task force called for a separate technology budget beyond current administrative allocations and noted that some technology costs would need to be similar across states without regard to the size of the state or the number of claimants served. [20]

The report also notes that it would be easier for states to share solutions to fraud if there was a more common operating framework. [21] In addition, the task force notes that it is not clear whether any government entity has a comprehensive list of which anti-fraud vendors are working in which states, what services they are providing, what agreements which states have with vendors, or the cost. The threat will continue to evolve, and advocates say that ongoing supplemental funding will be needed—including the $48 million requested over two years in the President's FY 2025 budget.

Other Proposals

Other organizations and watchdogs have issued recommendations with helpful policy ideas related to reforming UI and strengthening its program integrity, including those that dovetail with the congressional and NASI efforts. Some are highlighted below:

- **Fix budget shortfalls for administrative staffing.** BPC's report, "Modernizing Unemployment Insurance: Lessons from the Tiger Teams," identified that many of the issues related to staffing was, in part, because of the Department of Labor's budget model, which was considered dated and often left budgets in shortfall when economic downturns occurred. [22]

- **Simplify UI applications to minimize accidental fraud and overpayment.** BPC, the Center on Budget and Policy Priorities, and Michele Evermore all point to how simplification in state UI systems can reduce the risk of accidental fraud or overpayment. [23]

- **Provide or require regular IT investment funds for states.** Currently, $600 million in American Rescue Plan funds are being put forth to upgrade UI IT systems. [24] BPC noted that IT investments require regular investment and maintenance to protect from fraud. [25]

- **Increase data sharing.** Increasing data sharing will allow states to combat fraudulent activity, ensuring that claimants who are recently reemployed won't collect UI payments.

- **Develop and deploy new biometric systems for identity verification.** Some states have already begun to deploy new biometric systems, which includes requiring photo uploads to prove an identity. For example, Kentucky deployed such a system in 2020 and saw fraud drop from 30% to 2% of benefits paid. [26] While DOL is not currently implementing biometrics in its verification process, it is working to develop Social Security verifications. [27]

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