Building Resilience:
A plan for transforming unemployment insurance

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Executive summary

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Our nation's first line of defense against economic crises

The federal-state unemployment insurance (UI) system, created by the Social Security Act of 1935 (SSA), provides crucial income support to workers who have lost employment for good cause or through no fault of their own. UI benefits play the important role of an automatic stabilizer by supporting the economy during downturns and giving financially constrained households the resources to continue spending on basic living expenses, keeping funds circulating in our economy.

Throughout the last two recessions, the most severe since the Great Depression, UI expansions targeted nearly $1.4 trillion to individuals and families most likely to reinvest those funds back in the economy through continued spending on goods and services.[1] This increase in UI benefits helped disrupt the harmful cycles of increased joblessness that lead to decreased consumption.[2] During the COVID-19 pandemic alone, UI benefits supported over 53 million workers and returned an estimated $880 billion to the economy,[3] softening the labor market crisis and ultimately helping the economy recover to bring down the unemployment rate to 50-year lows. The Federal Reserve found that the UI program was the most effective on a dollar-for-dollar basis of any economic stimulus delivered during the pandemic.[4] Further, research that models the performance of the economy during the Great Recession with and without UI shows that UI payments closed nearly two-fifths of the gap in real gross domestic product caused by the recession.[5]

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[1] This nominal value accounts for the $880 billion of regular and temporary federal unemployment benefit spending during the COVID-19 pandemic from March 2020 to September 2021, and the more than $500 billion of regular and federal UI spending during the Great Recession from 2008 to 2013.

[2] Wayne Vroman, *The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession* (submitted by the Urban Institute and IMPAQ International to the U.S. Department of Labor, July 2010) https://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf.

[3] Testimony of Larry D. Turner, Inspector General, Office of Inspector General, before the House Committee on Ways and Means, *The Greatest Theft of American Tax Dollars: Unchecked Unemployment Fraud* (February 8, 2023), www.oig.dol.gov/public/testimony/02082023.pdf.

[4] Christopher Carroll and others, *Welfare and Spending Effects of Consumption Stimulus Policies*, Finance and Economics Discussion Series (Federal Reserve Board of Washington DC, 2023), www.federalreserve.gov/econres/feds/files/2023002pap.pdf.

[5] Wayne Vroman, *The Role of Unemployment Insurance as an Automatic Stabilizer During a Recession* (submitted by the Urban Institute and IMPAQ International to the U.S. Department of Labor, July 2010) https://wdr.doleta.gov/research/FullText_Documents/ETAOP2010-10.pdf.

In good economic times as well as bad, UI plays a critical role in preventing unexpected job loss from pushing individuals and families into deeper economic hardship. In practical terms, UI helps people and families put food on their tables, keep a roof over their heads, and maintain access to vital medicines during the most difficult of times. During the pandemic, unemployment benefits kept 5.5 million people from falling into poverty, including 1.4 million children,[6] and reduced the level of food insecurity among mid- to lower-income claimants by 42 percent.[7] Further, research from the Great Recession finds that the exhaustion of UI benefits led to significant drops in income, particularly for lower-income and single-parent households. This fall in income resulted in a 13-percentage point increase in the poverty rate for these families.[8] UI's income support also protects individuals and families from further instability, like housing loss. Additional research finds that the Great Recession's UI extensions helped unemployed homeowners avoid falling behind on their mortgage payments, preventing an estimated 1.3 million foreclosures between 2008 and 2013.[9]

Unemployment benefits also strengthen individual connections to the workforce. Extensive research indicates that involuntary job loss can hurt people's careers by reducing earnings[10] and generating job instability for many years afterwards.[11] Not only are UI claimants required to search for work and be available for work, but they are also offered or may be required to receive beneficial reemployment services.

[6] Liana E. Fox and Kalee Burns, *The Supplemental Poverty Measure: 2020*, Current Population Reports (Census Bureau, September 2021), www.census.gov/content/dam/Census/library/publications/2021/demo/p60-275.pdf.

[7] Julia Raifman, Jacob Bor, and Atheendar Venkataramani, "Association Between Receipt of Unemployment Insurance and Food Insecurity Among People Who Lost Employment During the COVID-19 Pandemic in the United States," *JAMA Network Open*, vol. 4, no. 1 (January 2021), www.ncbi.nlm.nih.gov/pmc/articles/PMC7402065/.

[8] Jesse Rothstein and Robert Valletta, *Scraping By: Income and Program Participation After the Loss of Extended Unemployment Benefits* (National Bureau of Economic Research, June 2017), www.nber.org/papers/w23528.

[9] Joanne W. Hsu, David A. Matza, and Brian T. Melzer, "Unemployment Insurance as a Housing Market Stabilizer," *American Economic Review 2018,* vol. 108, no. 1 (January 2018), pp. 49-81, https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.20140989.

[10] For example, Kenneth A. Couch and Dana W. Placzek, "Earnings Losses of Displaced Workers Revisited," *American Economic Review*, vol. 100, no. 1 (March 2010), pp. 572–589, http://dx.doi.org/10.1257/aer.100.1.572; Markus Gangl, "Scar Effects of Unemployment: An Assessment of Institutional Complementarities," *American Sociological Review*, vol. 71, no. 6 (2006), pp. 986–1013, https://doi.org/10.1177/000312240607100606.

[11] Ann Huff Stevens, "Persistent Effects of Job Displacement: The Importance of Multiple Job Losses," *Journal of Labor Economics*, vol. 15, no. 1 (January 1997), pp. 165–88, www.jstor.org/stable/2535319.

A rigorous study conducted after the Great Recession found that personalized reemployment services delivered to unemployed workers in Nevada increased earnings by 15 to 18 percent and provided savings to the government by accelerating recipients' returns to work.[12]

A subsequent evaluation of this model, conducted in four states—Indiana, New York, Washington, and Wisconsin—and published in August 2019, found similar effects to those observed in the Nevada study, including reduced average UI duration and increases in participants' employment and earnings.[13] In recognition of this success, the Nevada intervention serves as the model of the UI system's current approach to reemployment services.

There is substantial evidence that a well-functioning UI system is critical to the health of the U.S. economy and labor force. Yet, the unprecedented conditions of the COVID-19 pandemic revealed long-standing, systemic deficiencies.

Pandemic turbulence reveals systemic shortcomings

Following decades of administrative underinvestment, state UI agencies entered the COVID-19 pandemic having experienced the lowest claims levels—and hence their lowest level of administrative funding—in 50 years. In real terms, administrative funding declined by 23 percent between 1989 (on the eve of the 1990 recession) and 2019.[14] Many states also relied on antiquated information technology (IT) or were in the process of modernizing their IT systems. These conditions severely limited states' ability to respond in a timely manner to the surge in unemployment and the historic demand for UI's income support that followed. As shutdowns began impacting the nation's labor market, states had to rapidly increase staffing levels with minimal time for training. During this time, states also had to pivot to fully remote operations to mitigate the spread of COVID-19 among their staff.

[12] Marios Michaelides and others, *Impact of the Reemployment and Eligibility Assessment (REA) in Nevada* (Submitted by IMPAQ International to the U.S. Department of Labor, January 2012), https://wdr.doleta.gov/research/FullText_Documents/ETAOP_2012_08_REA_Nevada_Follow_up_Report.pdf.

[13] Jacob A. Klerman and others, *Evaluation of Impacts of the Reemployment and Eligibility Assessment (REA) Program: Final report* (Submitted by Abt Associates to the U.S. Department of Labor, November 2019), www.dol.gov/sites/dolgov/files/OASP/evaluation/pdf/REA%20Impact%20Study%20-%20Final%20Report.pdf).

[14] Internal Department calculations.

The pandemic also illuminated the UI program's uneven reach across the workforce, due to federal and state laws that exclude certain low-paid, part-time, self-employed, and gig economy workers. Given the overrepresentation of women and workers of color in these types of jobs,[15] such laws are important contributors to observed gender, racial, and ethnic disparities in UI receipt.[16] The limited coverage provided by the traditional UI program was a major reason that Congress established the Pandemic Unemployment Assistance (PUA) program, which provided critical support to these underserved populations by extending eligibility to workers who were ineligible for regular state UI benefits. According to research, PUA disproportionately benefited lower-income workers and those on the labor market's margins, including younger workers with more limited work histories and older workers approaching retirement.[17] However, the speed with which the program was established, coupled with the design and states' administrative challenges, made it vulnerable to payment errors, fraud attacks by sophisticated criminal organizations, and delays in delivery.

The COVID-19 pandemic also occurred after a period during which many states markedly constricted their UI benefits. Without strong incentives or requirements in federal law regarding states' funding of their UI benefits, states have repeatedly failed to pay benefits during recessions without borrowing from the federal government.

[15] Martha Ross and Nicole Bateman, *Meet the Low-Wage Workforce* (Metropolitan Policy Program at Brookings Institution, November 2019), www.brookings.edu/wp-content/uploads/2019/11/201911_Brookings-Metro_low-wage-workforce_Ross-Bateman.pdf.

[16] Historically, research has found lower rates of UI receipt among workers of color, lower educated workers, lower-wage workers, and women. See, for example, Rebecca M. Blank and David E. Card, "Recent trends in insured and uninsured unemployment: Is there an explanation?" *The Quarterly Journal of Economics*, vol. 106, no. 4 (1991), pp. 1157-1189; Alix Gould-Werth and H. Luke Shaefer, "Unemployment insurance participation by education and by race and ethnicity," *Monthly Lab. Rev.* (October 2012), pp. 28-41. In the case of women, despite their greatly expanded role in the labor force since 1935, the degree to which state rules cover their typical work arrangements or accommodate situations that commonly restrict their availability or lead to separation still varies.

[17] Generally, pandemic research finds that workers traditionally underserved by UI, and those affected most acutely by pandemic job loss, may have had greater benefit access relative to pre-pandemic and to more advantaged workers (see Fiona Grieg and others, *Lessons learned from the Pandemic Unemployment Assistance Program during COVID-19* (JPMorgan Chase Institute, April 2022), www.jpmorganchase.com/institute/research/household-income-spending/lessons-learned-pandemic-unemployment-assistance-program-covid). However, findings differ depending on the data, time period, and dimension of recipiency studied. For example, a June 2022 GAO report documents lower approval rates among applicants among traditionally less advantaged workers. Other Department-commissioned research finds that certain pre-pandemic disparities by age, race, and education persisted during the pandemic (see Eliza Forsythe and Hesong Yang, *Understanding disparities in unemployment insurance recipiency* (submitted by University of Illinois, Urbana-Champaign to the U.S. Department of Labor, November 12, 2021), www.dol.gov/sites/dolgov/files/OASP/evaluation/pdf/University%20of%20Illinois%20-%20Final%20SDC%20Paper.pdf.).

A record 36 states borrowed from the federal government to pay regular UI benefits during the Great Recession.[18] The need to repay federal loans, coupled with the desire to avoid related tax increases over this period triggered a wave of benefit reductions. In 2019, the last full pre-pandemic year, fewer than three in 10 unemployed workers received UI benefits. In 13 states, this share was below 15 percent. This decline occurred after UI recipiency had recovered from a previous historic low of 28 percent in 1983 to 36 percent in 2007.[19] Consequently, many states entered the pandemic with UI programs designed to support a diminished share of the unemployed. In the third quarter of 2023, as the end of federal pandemic expansions left states with more limited programs, just 27 percent of the unemployed received UI benefits.

Additionally, the "perfect storm" conditions of the COVID-19 pandemic exposed an already challenged UI system to significant risk of improper payments and fraud. Improper payments are erroneous UI payments that may be either higher or lower than a claimant is owed and, in many cases, occurred through no fault of the claimant. Benefits overpaid also include those obtained through fraudulent activity, though such payments typically represent a minority share of all overpayments. The estimated improper payment rate for the regular UI program, inclusive of all overpayments and underpayments, has exceeded 10 percent for 17 of the last 20 years.[20] In the two recent pandemic-impacted years, the program had estimated an improper payment rate of 18.7 and 21.5 percent, respectively.

[18] Wayne Vroman, *The Big States and Unemployment Insurance Financing* (Urban Institute, March 2016), www.urban.org/sites/default/files/publication/78776/2000661The-Big-States-and-Unemployment-Insurance-Financing.pdf.

[19] The UI recipiency rate, calculated as the ratio of insured unemployment to total unemployment, is affected by the composition of the unemployed population. During periods of low unemployment, the unemployed population includes larger shares of those who have left jobs ("job leavers") versus those who have been laid off ("job losers") and thus are less likely to be eligible for benefits. Thus, it is useful to compare UI recipiency between periods of low unemployment, i.e., to compare rates for 2007, 2019, and 2023. Even with ups and downs, the UI recipiency rate had never dropped below 36.9 percent before 1978, and has routinely been below 30 percent since 2010. Longer-term historical data are available at *Unemployment Insurance Chartbook*, https://oui.doleta.gov/unemploy/chartbook.asp.

[20] The Improper Payments Information Act of 2002, as amended, established a statutory 10 percent improper payment rate reporting threshold for programs considered susceptible to significant improper payments, among other requirements.

In the last year, the program saw a significant year-over-year decline in the improper payment rate, dropping to 14.8 percent in 2023. Still, this rate remains elevated.[21]

The frequency and complexity of fraud attacks—specifically, claims involving the use of stolen and synthetic identities (identity (ID) fraud)—against state unemployment compensation (UC) programs increased significantly during the pandemic. The risk was especially high in the PUA program, a program that was enacted to reach new populations of unemployed workers quickly during a remarkably uncertain time. Unlike traditional UI benefits, Congress did not establish for the program a requirement that applicants verify their employment or identity until the program was reauthorized in December 2020, and many PUA claims did not have employers as interested parties to provide built-in identity and eligibility confirmation.

Notably, the risks to the UI system did not sunset with the pandemic. The UI system continues to be targeted by sophisticated and ever-evolving fraud, perpetrated by domestic and international criminal organizations. As documented in this plan, the Department of Labor (the Department) has comprehensively assessed the risk of fraud to the UI program in line with best practices recommended by the Government Accountability Office (GAO) and is taking action accordingly. Already, the Department is moving swiftly to combat future threats, ranging from expanding states' cross-matching capabilities through the Integrity Data Hub, strengthening ID verification in state UI programs, and partnering with law enforcement agencies so criminals perpetrating fraud against the UI system are brought to justice. The Department has heeded hard lessons from the COVID-19 pandemic and is committed to fostering a high-integrity program so that all the UI system's stakeholders are confident that benefits are being provided to those eligible and truly in need.

[21] The figures reported in the text reflect the Improper Payment rates. When Unknown Payments are included, these reported rates increase to 18.9 percent (for 2021), 22.2 percent (for 2022), and 16.5 percent (for 2023). If an agency is unable to determine whether the payment falls into the proper or improper category, that payment should be considered an 'unknown' payment. These are figures reported by PaymentAccuracy.gov, www.paymentaccuracy.gov/payment-accuracy-the-numbers/.

Federal-state partnership

A distinctive feature of the UI program is its federal-state structure. Each state (defined as the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands)[22] designs its own UI program within the framework of the federal requirements. The major functions of the federal government are to: (1) ensure conformity and compliance of state law, regulations, rules, and operations with federal law; (2) determine administrative funding requirements and provide money to states for proper and efficient administration of their programs; and (3) set broad overall policy for program administration, monitor state performance, and provide technical assistance as necessary.

States' laws define the benefit structure (e.g., eligibility/disqualification provisions, benefit amount) and the state tax structure (e.g., state taxable wage base and tax rates) within a broad federal framework. The result is essentially 53 different UI programs such that two people in different states with similar past employment experience might differ in their UI eligibility or the benefit amounts they receive if they qualify. The UI program is also unique in that it is almost totally funded by employer taxes, the rates of which vary with the amount of benefits claimed by separated employees; only three states collect taxes from workers.[23]

These two distinctive features produce significant heterogeneity across states and greatly contribute to the system's challenges. While the Department can pursue various activities that foster equity and stability, certain fundamental challenges can only be addressed through comprehensive legislative reform.

[22] "State" is defined in Section 3306(j)(1) of the Federal Unemployment Tax Act, 26 U.S.C. 3306(j)(1), and includes the District of Columbia, the Commonwealth of Puerto Rico, and the Virgin Islands.

[23] Those states are Alaska, New Jersey, and Pennsylvania.

Historic American Rescue Plan Act investments in modernization

Signed by President Biden on March 11, 2021, the American Rescue Plan Act (ARPA) provided a total of $2 billion to the Department to address the most acute operational and administrative challenges facing states. This amount was subsequently reduced to $1 billion by the Fiscal Responsibility Act (FRA), enacted on June 2, 2023, though the goals for use of these funds remain unchanged. Reflecting the most pressing system needs, ARPA provided funding for the Department to focus on three pillars of UI modernization:

- **Detecting and preventing fraud;**
- **Promoting equitable access; and**
- **Ensuring the timely payment of benefits**

ARPA represents the first time the Department received significant resources to work with states to implement sweeping UI system improvements within the framework of these pillars. The Department, in line with the statute, is carrying out the UI modernization work on three primary tracks: (1) provision of direct grants to states to promote advancement within each pillar, including through IT modernization; (2) federal administrative costs to assist and collaborate with states in identifying and addressing immediate challenges, particularly in the areas of operational processes and IT; and (3) systemwide infrastructure investment and development, including the provision of government-operated solutions to help address immediate fraud concerns.

In 2021, then-Secretary of Labor Marty Walsh created the Office of Unemployment Insurance Modernization (OUIM) within the Office of the Secretary to provide strategic oversight of these resources and activities, as well as strategic policy direction for UI modernization. OUIM works closely with the Employment and Training Administration's (ETA) Office of Unemployment Insurance and other offices within ETA, the Office of the Chief Information Officer within the Office of the Assistant Secretary for Administration and Management's Office, and other Department partners.

Assistance and collaboration with states has been anchored by the Tiger Team initiative, formally announced through Unemployment Insurance Program Letter (UIPL) No. 02-22 in November 2021.[24] Tiger Teams are multi-disciplinary teams of experts designed to analyze state UI systems and process challenges. Through December 2023, the Department's Tiger Team initiative engaged with 36 states to identify immediate needs and areas for improvement in operational processes that can benefit timeliness and reduce backlogs, while also proposing solutions to combat fraud and support equitable access for eligible claimants. The Department has provided over 378 collaboratively identified, state-specific recommendations to the 36 participating states.[25] In addition, Tiger Teams have identified promising practices and developed tools and resources for use by all states. Examples of these resources include the UI Equitable Access Toolkit,[26] the Robotic Process Automation Toolkit,[27] and a repository of plain language resources.[28] In Fiscal Year (FY) 2024, states will continue to leverage grant funds to implement projects stemming from state-specific recommendations.

As part of efforts to bolster state UI programs against fraud, the Department has also made available a National ID Verification Offering to states to strengthen ID verification now and into the future. This offering was formally announced through UIPL No. 11-23 in July 2023.[29] The Department is using ARPA funds to provide government-operated ID verification solutions, including a digital option through the U.S. General Services Administration's (GSA) Login.gov and an in-person option through the U.S. Postal Service.

[24] Department of Labor, Employment and Training Administration, *Grant Opportunity to Support States Following a Consultative Assessment for Fraud Detection and Prevention, Promoting Equitable Access, and Ensuring the Timely Payment of Benefits, including Backlog Reduction, for all Unemployment Compensation (UC) Programs*, UIPL No. 02-22 (November 2, 2021), www.dol.gov/agencies/eta/advisories/unemployment-insurance-program-letter-no-02-22.

[25] Department of Labor, Employment and Training Administration, *Tiger Team updates* (June 2023), www.dol.gov/agencies/eta/ui-modernization/tiger-teams.

[26] Department of Labor, Employment and Training Administration, *Unemployment Insurance Equitable Access Toolkit* (April 2023), www.workforcegps.org/resources/2023/04/UI_Content/Public_Equitable_Access_Toolkit.

[27] Department of Labor, Employment and Training Administration, *Robotic Process Automation Toolkit* (August 2023), www.workforcegps.org/resources/2023/04/UI_Content/Public_RPA_Toolkit_Landing_Page.

[28] Department of Labor, Employment and Training Administration, *Plain language repository*, www.dol.gov/agencies/eta/ui-modernization/use-plain-language/plain-language-repository.

[29] Department of Labor, Employment and Training Administration, *Announcement of Grant Opportunities and National Identity (ID) Verification Offering under the American Rescue Plan Act (ARPA)*, UIPL No. 11-23 (July 13, 2023), www.dol.gov/agencies/eta/advisories/uipl-11-23.

The Department is covering transaction costs for up to two years from the publication of UIPL No. 11-23, subject to the availability of funding and necessary agreements being in place.

The Department is actively working with interested states to deploy the services provided through the National ID Verification Offering. The Department is also collecting individual-level data from states participating in the offering(s), with the goal of deepening understanding of the impact of ID verification tools across participating states and the UI system.

Through September 2023, the Department has awarded $783 million in ARPA-funded grants to 52 of the 53 UI jurisdictions (see Table 1).[30] This includes but is not limited to $226.9 million in Fraud Prevention/Detection and Integrity grants to 51 states and territories, $219.3 million in Equity Grants to 45 states and the District of Columbia, $113.4 million in Tiger Teams funding and assistance to 36 states, and $204.2 million in IT Modernization grants to 19 states and territories. A complete list of ARPA-funded UI grants is shown in Table 1. The Department is monitoring states' implementation and progress of ARPA-funded activities through two quarterly reports (a narrative report and financial report).

[30] Every UI jurisdiction that applied for ARPA funding received at least one ARPA grant.

Table 1. ARPA grants awarded

Grant	Solicitation (Issue Date)	Awarded (millions)	States
Fraud Detection / Prevention	UIPL No. 22-21 (08-11-2021)	$133.9	50
Integrity	UIPL No. 11-23 (07-13-2023)	$93.0	49
Equity	UIPL 23-21 (08-17-2021)	$219.3	46
Tiger Teams	UIPL No. 02-22 (11-02-2021)	$37.8	36
	UIPL No. 11-23 (07-13-2023)	$75.6	36
IT Modernization	UIPL No. 11-23 (07-13-2023)	$204.2	19
Navigator	UIPL No. 11-22 (01-31-2022)	$18.0	7
Claimant Experience	Training and Employment Notice No. 16-21 (12-02-2021)	$1.05	3
Total		**$782.9**	**52**

The Department published a report documenting states' funding and progress across the three ARPA pillars through September 2023 to highlight notable ARPA-supported projects and activities.[31] The ARPA investment is a vital down payment on a more resilient, equitable, high-integrity UI system.

[31] Department of Labor, *Insights and Successes: American Rescue Plan Act Investments in Unemployment Insurance Modernization* (November 2023), www.dol.gov/agencies/eta/ui-modernization/arpa-success-stories.

By aggressively combatting fraud, promoting equitable access, improving timely delivery of payments, modernizing and bolstering IT infrastructure, and fostering deeper collaboration with states, the Department is leading a paradigm shift towards a more resilient, efficient, and user-centric UI system. ARPA-supported innovations are addressing immediate challenges and laying a foundation to better meet the needs of a diverse, modern workforce.

However, the FRA recission of ARPA funds from $2 to $1 billion limited the reach and positive impacts of the ARPA modernization approach. While $1 billion in total funding from ARPA remains an important, sizable investment, states will eventually exhaust ARPA funds and encounter the same scarcity of federal administrative funds that has defined the last few decades. As requested in the 2025 Budget, Congress must act to provide sustained investments supporting efforts to continue to modernize and reform the UI system. This includes providing long-term support for ID verification and other program integrity strategies to address evolving fraud risks and to remain at the forefront in the fight against fraud in federal and state unemployment programs. Such action would allow the program to meet its promise of providing countercyclical benefits to protect workers and the economy in steep downturns, paying benefits quickly when people need them, and keeping workers attached to the labor force while out of work to minimize the detrimental effects of job loss on their longer-run earnings and employment.

Addressing GAO’s high-risk designation

In recognition of the UI system’s challenges (both before and during the COVID-19 pandemic), GAO placed the UI program on its High-Risk list on June 7, 2022 and recommended that the Department “develop and implement a plan for transforming UI that meets GAO's high-risk criteria for transformations.”[32] The Department agreed with the recommendation and, in a 2022 Statement of Executive Action, described actions it is taking to address it and to meet the framework outlined by GAO to exit the High-Risk list.

[32] Government Accountability Office, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, GAO-22-105162 (June 2022), www.gao.gov/products/gao-22-105162.

This transformation plan represents a fuller accounting of activities and strategies underway and being pursued by the Department, along with recommendations for necessary legislative action. These activities and strategies directly address the GAO's recommendation. This plan is structured according to the Department's key action areas supporting transformations in the UI system. These action areas are as follows:

1. **Adequately funding UI administration;**
2. **Delivering high-quality customer service;**
3. **Building resilient and responsive state IT systems;**
4. **Bolstering state UI programs against fraud;**
5. **Ensuring equitable access to robust benefits and services;**
6. **Rebuilding and stabilizing the long-term funding of state UI benefits; and**
7. **Strengthening reemployment and connections to suitable work.**

Each section contains a description of the problem underpinning the UI system's current state, followed by details of the Department's actions for achieving quantifiable progress towards transformation as well as plans for monitoring progress. The Department has already achieved significant progress. Where applicable, this plan denotes activities and strategies that have been completed, those that are underway, or those that are being planned.

The steps outlined here go a long way toward achieving transformation, but there is also a need for additional action. This plan also proposes a series of legislative reforms that would give the Department appropriate tools to more effectively oversee the program and further support states' efforts to build and sustain robust, resilient, and stable UI programs. The recommended reforms contained in this plan are based on the Biden Administration's UI reform principles.[33]

[33] The Administration's reform principles can be found on pages 15 to 20 of the State Unemployment Insurance and Employment Service Operations (SUIESO) section of ETA's FY 2025 Congressional Budget Justification (CBJ), www.dol.gov/sites/dolgov/files/general/budget/2025/CBJ-2025-V1-07.pdf.

1
Adequately funding state UI administration

The federal underfunding of state UI administration poses significant and far-reaching challenges to the UI program. In real terms, administrative funding declined by 23 percent between 1989 (on the eve of the 1990 recession) and 2019. The current administrative funding framework is based predominately on a state's workload (defined as the volume of unemployment claims), leading to steep drops in funding when the economy improves, and leaving states poorly positioned to respond to downturns, let alone an economic collapse of the magnitude experienced in spring 2020. The outdated funding formula has not kept pace with staff costs or the costs of reinvesting in and maintaining online systems, making it difficult to support states' efficient operations of their UI systems or key fraud prevention activities like identity verification.

The Department uses state-specific information collected through its Resource Justification Model (RJM) to distribute available funds according to state workloads. The Department allocates funding based on the amount of funding *made available* by Congress through appropriations, which has been consistently less than the costs reflected in states' RJM submissions.

The Department took action to address this discrepancy by updating staff salary rate information and workload productivity factors for the first time in decades in its FY 2022 budget request. Recent Congressional appropriations for state UI administration have not matched the funding level requested in the President's Budget. Furthermore, the Department is conducting a study through its Chief Evaluation Office to better understand the costs of operating a UI program and provide the data to undergird potential changes in how the Department receives funding from Congress and distributes funding to the states. Ultimately, congressional action will be required to ensure that federal funding is in line with the President's Budget request and better matches the actual funding needed for states to adequately administer the UI program in good times and bad.

Strategies and legislative reform recommendations detailed in the plan are as follows.

Strategy	Status as of Q2 FY 2024
1.1. Update key factors in the Department's formula for estimating state administrative funding	Completed
1.2. Evaluate the level and distribution of administrative funding	Underway
Adequately fund administrative funding	Legislative
Consider stronger, more practical enforcement levers	Legislative
Retain up to five percent of recovered fraudulent UI overpayments for program integrity activities	Legislative
Require states to use penalty and interest collections solely for UI administration	Legislative

2
Delivering high-quality customer service

Providing swift financial relief to individuals impacted by job loss is a central tenet of the UI system, yet the surge of claims during the pandemic caused severe backlogs and significant customer experience problems, including extended wait times and unsatisfactory interactions with program staff. These experiences underscore the importance of streamlining cumbersome application and certification processes, incorporating plain language and translation capabilities, and building mobile-responsive websites.

The Department is undertaking strategies to assist states in their efforts to return to acceptable levels of performance, and significant progress is being made: in FY 2023, 69.4 percent of UI first payments met the Department's standard for timeliness, up from 61.2 percent in 2022, representing a significant increase toward the 87 percent standard.[34]

[34] Department of Labor, Employment and Training Administration, *UI Performs Core Measures*, https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf.

The Department plans to explore updates to timeliness and adjudication standards, and reporting overall, to empower the UI system with better information on potential sources of delays and barriers to benefits, including the potential impacts of ID verification processes in state UI programs. Moreover, the Department plans to deliver additional guidance and recommendations to states about how to apply best practices in customer experience, especially measuring the experiences of users with online systems.

Strategies outlined in the transformation plan are as follows.

Strategy	Status as of Q2 FY 2024
2.1. Develop customer-centric recommendations for state UI programs	Completed
2.2. Promote and support plain language activities	Completed
2.3. Give states actionable tips for adopting RPA into current workflows	Completed
2.4. Support states in strengthening customer experience and IT metrics	Underway
2.5 Promote responsible automation to streamline non-discretionary, repetitive tasks	Underway
2.6 Consider updates to UC confidentiality regulations to better support UC stakeholders	Underway
2.7. Update reporting on claims to enhance understanding of timeliness	Planned
2.8. Update the acceptable level of performance for timeliness measures	Planned
2.9. Update timeliness and adjudication reporting	Planned

3
Building resilient and responsive state IT systems

States' IT challenges pre-date the COVID-19 pandemic. A 2016 GAO study found that most states (60 percent) believed that their IT systems had significant issues that limited their ability to efficiently process UI claims and serve claimants.[35] Efforts to upgrade technologies have suffered from insufficient funding and limited capacity among states and their contractors to manage IT projects. Moreover, many state UI IT systems are monolithic, meaning they operate as a single large unit rather than as a series of independently managed parts. This "all or nothing" approach is sub-optimal as it makes it difficult for states to adapt their systems over time and leverage emerging technologies. The Department has laid out a vision for IT modernization that encourages states to pursue modular and incremental approaches, and to understand UI IT modernization as an ongoing process.

To pursue this vision, the Department has dedicated $204 million in ARPA grants to support states in adopting modular, Application Programming Interface (API)-driven approaches to technology development, with a focus on measurable improvement in system performance and customer experience. Moreover, the Department has invested in a new Open UI Initiative with the UI Information Technology Support Center of the National Association of State Workforce Agencies to establish interoperability protocols that make it possible for states and the private sector to develop modular solutions that meet states' needs.

[35] Government Accountability Office, *Unemployment Insurance: States' Customer Service Challenges and DOL's Related Assistance*, GAO-16-430 (May 2016), www.gao.gov/assets/gao-16-430.pdf.

Strategies outlined in the transformation plan are as follows.

Strategy	Status as of Q2 FY 2024
3.1 Apply principles of effective pilot program design	Completed
3.2. Invest in measurable and agile UI IT modernization through grants	Underway
3.3. Create opportunity for knowledge-sharing and collaboration on open and modular IT solutions	Underway
3.4. Enhance the reliability and accessibility of the Department's UI database management system	Underway
3.5. Enhance the UI IT Modernization Pre-Implementation Planning Checklist	Planned

4
Bolstering state UI programs against fraud

The Department considers the issue of fraud a top priority and is working proactively to mitigate fraud risks in all UI programs. ETA is researching, identifying, investing in, and providing states with new tools, strategies, funding, and guidance to help combat the constantly shifting and newly emerging types of unemployment fraud. Such efforts are balanced against the vital need to preserve and protect benefits for legitimate UI claimants, ensuring that those who genuinely require support are not deterred from receiving the assistance to which they are entitled.

Based on practices recommended by GAO in their Framework for Managing Fraud Risk in Federal Programs,[36] the Department completed a comprehensive fraud risk assessment project to ensure UI fraud risk management activities are conducted and evaluated in alignment with the GAO's Fraud Risk Framework.

[36] Government Accountability Office, *Framework for Managing Fraud Risk in Federal Programs*, GAO-15-593SP (July 2015), www.gao.gov/assets/gao-15-593sp.pdf.

This included developing a UI fraud risk profile to: (1) identify inherent fraud risks facing the UI program; (2) assess the likelihood and impact of inherent fraud risks; (3) examine the suitability of existing fraud controls, and (4) prioritize residual fraud risks.[37]

As a result, the Department took action to address the highest residual UI fraud risks by bolstering the capacity to cross-check incoming claims against multiple indicators of potential fraud by investing in the Integrity Data Hub (IDH). The Department is also expanding the use of ID verification services in states by making available government-operated solutions for up to two years through the GSA's Login.gov and the U.S. Postal Service. Moreover, the Department has strengthened partnerships with the Department of Labor, Office of Inspector General (DOL-OIG) to hold criminals accountable and provided resources to states to enhance the recovery of overpayments accrued during the pandemic. Further legislative action is needed to ensure that all states utilize recommended cross-matching strategies and have sufficient resources to detect and prevent fraudulent payments.

Strategies and legislative reform recommendations detailed in the plan are as follows.

Strategy	Status as of Q2 FY 2024
4.1. Designate a responsible entity in the Department for improper payment reduction	Completed
4.2. Assess fraud risk in state UI programs using leading practices in the GAO's Fraud Risk Framework	Completed
4.3. Develop interim solutions to provide the DOL-OIG direct access to states' claims data, and IDH data, for the purpose of audits and investigations	Completed
4.4. Enable states to cross-match UI claims against prisoner records	Completed
4.5. Strengthen resources for victims of UI ID fraud	Completed

[37] Residual risks are the risks that remain after inherent risks have been mitigated by existing control activities.

4.6. Provide states with funding to strengthen capacity to protect the UI program from fraud and recover overpayments	Underway
4.7. Strengthen ID verification in state UI programs	Underway
4.8. Expand states' cross-matching capabilities with the IDH	Underway
4.9. Expand states' reporting of nonmonetary determination and disqualification activities	Underway
4.10. Partner with the DOL-OIG and other law enforcement agencies	Underway
4.11. Strengthen states' Integrity Action Plans	Underway
4.12. Coordinate with banks, financial institutions, and law enforcement	Underway
Require states to cross-match against system(s) designated by the Secretary	Legislative
Require states to use a system(s) of information exchange with employers designated by the Secretary	Legislative
Require states to cross-match against the National Directory of New Hires	Legislative
Require states to cross-match with a system(s) designated by the Secretary that contains information on incarcerated individuals	Legislative
Require states to disclose information to the DOL-OIG	Legislative
Allow states to retain up to five percent of recovered fraudulent UI overpayments for program integrity use	Legislative
Require states to use penalty and interest collections solely for UI administration	Legislative
Allow states the authority to issue a formal warning when claimants are unclear about work search requirements	Legislative

Allow states to use contract support in recovery efforts under the Treasury Offset Program	Legislative

5
Ensuring equitable access to robust benefits and services

Despite its important relief and stimulative effects, UI's reach across the unemployed workforce is uneven and, in several states, benefit adequacy is eroding. State UI programs have historically lacked robust structures for communicating with workers about their potential benefit eligibility, how to apply, and continuing eligibility requirements.

Outdated rules penalize or exclude low-paid and part-time workers, independent contractors, and those forced to leave a job for compelling personal reasons, such as loss of childcare or family illness, and contribute to significant demographic disparities and declining benefit receipt.[38]

Additionally, since the Great Recession, a period of record UI trust fund insolvency, a significant number of states have reduced the duration of UI benefits below the long-accepted 26 weeks; and more states have recently proposed similar durational cuts.[39]

ARPA's equity-enhancing investments are spurring a range of activities that are lowering access barriers for eligible unemployed workers, including stronger partnerships with community-based organizations, efforts to orient state staff to equity-related concepts and techniques, and enhanced demographic data reporting. But essential segments of the U.S. workforce remain excluded from the UI program, and in several states the amount of UI benefits falls short of sustaining an individual during a comprehensive job search.

[38] Christopher J. O'Leary and Stephen A. Wandner, *An Illustrated Case for Unemployment Insurance Reform*, Working Paper 19-317 (W.E. Upjohn Institute for Employment Research, 2020), https://doi.org/10.17848/wp19-317; Daphné Skandalis, Ioana Elena Marinescu, and Maxim Massenkoff, *Racial inequality in the U.S. unemployment insurance system*, Working Paper No. w30252 (National Bureau of Economic Research, 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4165324.

[39] Nick Gwyn, *State Cuts Continue to Unravel Basic Support for Unemployed Workers* (Center on Budget and Policy Priorities, June 27, 2022), www.cbpp.org/sites/default/files/6-27-22sfp.pdf.

To ensure equitable access to robust benefits and services, the ARPA UI modernization investments must be strengthened by legislative reform. This includes but is not limited to consideration of minimum benefit standards to be applied to all state programs to ensure that similar workers can get appropriate protection against the dangers of unemployment regardless of where they live.

Strategies and legislative reform recommendations detailed in the plan are as follows.

Strategy	Status as of Q2 FY 2024
5.1. Issue guidance that provides states greater clarity on key equity-related concepts and requirements	Completed
5.2. Relieve the burden of repayment of Coronavirus Aid, Relief, and Economic Security (CARES) Act overpayments for claimants not at fault	Completed
5.3. Compile and disseminate Department's learnings from Tiger Team engagement on equitable access	Completed
5.4. Invest in equity-enhancing programs and activities through grants	Underway
5.5. Orient state staff to equity-related guidance and techniques through trainings	Underway
5.6. Enhance and expand states' UI data reporting, to better understand racial/ethnic and other inequities in regular UI benefit receipt	Underway
5.7. Facilitate partnership with community-based organizations through the Navigator Pilot Program	Underway
5.8. Develop new, deeper equity-related insights through state data partnerships	Underway
5.9. Explore methods of verifying the income of non-standard workers	Planned

5.10. Explore policy issues related to coverage of contingent and self-employed workers, especially during economic emergencies	Planned
5.11. Research new performance standards for equitable access	Planned
5.12. Train states to effectively address worker misclassification	Planned
5.13. Make clear that states can share information with agencies that enforce wage-and-hour laws to address misclassification	Planned
Ensure all entitled and eligible individuals experiencing employment loss receive UI's income support	Legislative
Extend unemployment protections to non-standard workers	Legislative
Provide adequate benefits in every state	Legislative
Ensure the federal-state Extended Benefits program responds timely and adequately to downturns	Legislative
Invest in reducing worker misclassification	Legislative

6
Rebuilding and stabilizing the funding of state UI benefits

States pay UI benefits using funds from individual state unemployment accounts, known as "UI trust funds." The ability of states to maintain sufficient UI trust fund reserves and meet their benefit obligations during recessions has declined in recent years. The changing nature of work, including employers' increased reliance on permanent separations rather than temporary layoffs, is an important contributing factor; however, a major challenge has been states' ability to generate sufficient payroll tax revenues.

Advisory bodies have recommended that states use "forward funding" to generate sufficient reserves.[40] Forward funding refers to the practice of states increasing their UI trust fund reserves when the economy is strong in preparation for larger outlays during economic downturns. States' gradual movement away from this practice, due to states' strong interest in keeping employer UI taxes low, has led to adverse consequences for unemployed workers and undermines the UI system's effectiveness as an automatic stabilizer. In order for a countercyclical stabilizer such as UI to best function, it should build up funding capacity when the economic environment is favorable.

Forward funding of state UI programs is desirable because it reduces the likelihood and extent of state and/or federal tax increases after trust funds have been exhausted. Taking large federal advances can also result in states lowering benefits. During the Great Recession, a record 36 states had to borrow from the federal government to pay regular UI benefits.[41] The need to repay loans and avoid tax increases resulted in significant benefit cutbacks, such that in 2019, the last full pre-pandemic year, fewer than one-third of unemployed workers received UI benefits nationally, while 13 states compensated fewer than 15 percent.

The Department plans to continue generating resources that provide information and educate the public on the status of states' UI solvency. Ultimately, legislative action is needed to fully stabilize the funding of state UI programs. This could include ensuring more equitable and progressive financing mechanisms, to prevent erosion of states' capacity to respond to increases in unemployment. This could also include consideration of steps to reduce incentives for employers to contest legitimate claims.

[40] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1994-1996* (1996), https://research.upjohn.org/externalpapers/1.

[41] Wayne Vroman, *The Big States and Unemployment Insurance Financing* (Urban Institute, March 2016), www.urban.org/sites/default/files/publication/78776/2000661The-Big-States-and-Unemployment-Insurance-Financing.pdf.

Strategies and legislative reform recommendations detailed in the plan are as follows.

Strategy	Status as of Q2 FY 2024
6.1. Continue publishing an annual report as a means to provide information and educate the public on the status of states' UI solvency	Underway
Increase state and federal trust fund solvency	Legislative
Reduce the incentives for employers to contest legitimate UI claims	Legislative

7
Strengthening reemployment and connections to suitable work

Despite a rise in permanent layoffs and increased unemployment duration for workers across the economic spectrum, workforce services and supports for UI claimants remain dispersed and limited in scope. There are four federally funded programs that provide reemployment services and primarily serve UI claimants: the Reemployment Services and Eligibility Assessment (RESEA) program, the Wagner-Peyser Employment Service, the Workforce Innovation and Opportunity Act (WIOA) Adult program, and the WIOA Dislocated Worker program. In recent years, Congress has codified the investment in the RESEA program by making it a permanent part of the SSA. The RESEA program involves a one-on-one session between the claimant and a qualified counselor and an assessment of the claimant's continuing eligibility for UI benefits.[42] The permanent RESEA program is modeled after a Nevada program, which was found to save UI trust fund dollars by accelerating recipients' reemployment.[43]

[42] The purposes of the RESEA program are identified in Section 306(b), Social Security Act: (1) to improve employment outcomes of UC recipients and reduce the average duration of UC receipt through employment; (2) to strengthen program integrity and reduce improper UC payments through the detection and prevention of such payments to ineligible individuals; (3) to promote the alignment with the broader vision of WIOA of increased program integration and service delivery for job seekers, including UC claimants; and (4) to establish reemployment services and eligibility assessments as an entry point for UC claimants into other workforce system partner programs.

[43] Marios Michaelides and others, *Impact of the Reemployment and Eligibility Assessment (REA) in Nevada* (submitted by IMPAQ International to the U.S. Department of Labor, January 2012), https://wdr.doleta.gov/research/FullText_Documents/ETAOP_2012_08_REA_Nevada_Follow_up_Report.pdf.

The RESEA program is statutorily limited to claimants that states deem most likely to exhaust their UI benefits before finding employment; this means that outside of the RESEA context, claimants in need of more intensive reemployment assistance can encounter difficulties in accessing such support.

Beyond RESEA, additional challenges related to UI and strengthening connections to employment persist. A challenge for strengthening the UI/reemployment connection is the UI system's predominant approach to work search requirements, with many states using outmoded and overly complex requirements. Furthermore, the UI system's overall response to downturns is weakened because the system does not take full advantage of the Short-Time Compensation (STC) program. STC, also known as "work sharing" or "shared work," is a layoff aversion program that keeps workers employed and attached to their employer when business conditions decline.

As part of transformation efforts, ETA will continue to implement the permanent RESEA program, including outcome-based payments, and will develop RESEA performance measures and enhance its capacity to support the program. Between FY 2022 and FY 2024, funding for RESEA increased 53 percent from $250 million to $382 million, and states are in the process of investing in their staffing and infrastructure to support this expansion. As part of reform efforts, the Department also recommends greatly expanding reemployment services for unemployed workers to strengthen the UI program's role as a bridge to high-quality reemployment. Further, to mitigate disruptions caused by declines in business demand, STC should be required in every state, and grants to states to implement a program when the economy is strong can help promote its use.

Strategies and legislative reform recommendations detailed in the plan are as follows.

Strategy	Status as of Q2 FY 2024
7.1. Increase staffing to support the RESEA program	Completed
7.2. Monitor RESEA and UI program performance with three new performance measures	Completed
7.3. Promote expansion of STC through grants under the CARES Act	Completed
7.4. Reward state RESEA program performance with outcome payments	Completed
7.5. Publish and implement a revised RESEA State Plan template	Completed
7.6. Develop a significant body of causal evidence regarding effectiveness of RESEA and related interventions	Completed
7.7. Develop a base-funding formula for RESEA state grants	Completed
7.8. Expand states' reporting of RESEA activities to account for the increased opportunity for innovation in service delivery	Underway
7.9. Issue guidance on worker profiling approaches	Planned
7.10. Disseminate best practices for implementation and promotion of STC in states	Planned
7.11. Help states re-envision work search	Planned
Expand RESEA eligibility to all regular UI claimants	Legislative
Update the RESEA funding distribution formula	Legislative
Modify the RESEA Technical Assistance set-aside	Legislative
Require all states to provide STC	Legislative

Moving forward

The Department is committed to transforming the UI system, one of the foundations of the U.S. social safety net, into a stable, equitable, high-integrity system that fulfills its promise of supporting the unemployed through a socially and economically vulnerable time and stabilizing the economy when recessions strike. The Department will continue to monitor and report on progress in the strategies and reform recommendations outlined in this transformation plan. This includes assessing the rate of improvement in the UI system's core performance standards,[44] particularly those related to benefit timeliness, payment accuracy and fraudulent activity, and claimant reemployment. The Department is taking proactive measures to mitigate fraud risks and strengthen program integrity across the UI system, and notable progress is being made towards achieving the core performance standard of an improper payment rate of less than 10 percent. For example, the rate of improper payments was 14.8 percent in 2023, reflecting a decline of more than six-and-a-half percentage points from 2022. As previously noted, the Department's efforts are also facilitating progress toward the 87 percent standard for first payment promptness. The Department will also continue to monitor related performance indicators, such as states' preparedness for funding UI benefits during the next recession and UI recipiency.

[44] Department of Labor, Employment and Training Administration, *UI Performs Core Measures*, https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf.

Action area 1
Adequately funding state UI administration

Building Resilience:
A plan for transforming unemployment insurance

Action area 1
Adequately funding state UI administration

Adequate and sustainable funding for the state administration of the unemployment insurance (UI) programs is foundational to addressing the challenges and issues identified by the Government Accountability Office in their pandemic-related studies of the UI program and their designation of the program as high risk. Without an appropriate ongoing level of funding, the program will be restrained in making systemic and transformational improvements.

The federal underfunding of UI administration poses significant and far-reaching challenges to the fair and efficient operations of the UI system. The Social Security Act (SSA) authorizes grants to states for the purpose of administering their UI programs. These grants are funded by federal payroll taxes paid by employers, a portion of which are deposited in the Employment Security Administration Account for the purpose of UI administration. The amount of these funds made available for state grants is set by Congress through the discretionary budget,[45] with funding appropriated for a baseline amount of UI claims, plus a contingent amount if claims rise above the base level.

In determining the amount of appropriated funds for each state, the Department uses state-specific information that relates directly to their administrative costs. The Department of Labor (the Department) has developed a Resource Justification Model (RJM) to collect data from states and uses this data to distribute available funds accordingly.

[45] The original Social Security Act in 1935 required that all federal and state UI taxes be restricted for use by the UI program, but all UI trust funds were included with the unified budget in 1968.
For a full discussion of the history and policy issues, please see National Commission on Unemployment Compensation, *Unemployment Compensation: Final Report* (July 1980), pp. 103-104, https://books.google.com/books?id=6P7PgAxFLOkC&printsec=frontcover#v=onepage&q&f=false.

A key factor in determining state funding allocations is the amount of funding appropriated by Congress. While data compiled from states' RJM submissions outlines the total costs incurred by states to operate their programs, the Department must allocate funding based on the amount of funding *made available* through appropriations, which has been consistently less than the costs reflected in states' RJM submissions and, in many years, less than the amounts requested through the President's budget. Starting in Fiscal Year (FY) 2022, the President's Budget request was based on updates in salary rates and processing factors that had not been changed in decades, but Congress's enacted budgets have not fully reflected this increased request.

Another key challenge with the current administrative funding framework is that it is based on a state's workload, or the volume of unemployment claims. This leads to funding declines when there are improvements in the economy, and leaves states ill-equipped to respond to cyclical economic downturns, let alone an economic collapse of the magnitude experienced in spring 2020. In real terms, administrative funding declined by 23 percent between 1989 (on the eve of 1990 recession) and 2019.[46]

Generally, this erosion in funding has made it difficult for states to fill the key expert roles required to operate a UI program and to have a sufficient number of trained adjudicators, investigators, benefit payment control staff, appeals judges and claims-takers in place when unemployment rises. Additionally, funding for states is based largely on the human resources needed to process claims, despite growing use of phone and online filing. However, the outdated funding formula has not kept pace with staff costs or the costs of reinvesting in and maintaining online systems, making it difficult to support states' efficient operations of their UI systems. The funding model also does not account for investment in fraud prevention and overpayment recovery activities, such as identity (ID) verification, which are essential to program administration.

Failure to address the chronic underfunding of state UI administration will continue to challenge states' ability to improve customer service and program performance as well as effectively fight fraud. It also severely limits their ability to support continued modernization once the American Rescue Plan Act funds are depleted.

[46] Internal Department calculations.

Strategies

Completed	
1.1. Update key factors in the Department's formula for estimating state administrative funding	Historically, the only factors that changed from year to year in the formula used to determine the amount of state UI administrative funding the Department requests through the Federal budget cycle were the projected national UI workloads. However, the President's FY 2022 Budget request for state UI administration was modified to include a one-time update of the factors for workload processing productivity and state staff salary rate information, and the President's Budget has continued to request funding to support this updated formula. The factors included in the formula had not been updated in decades. Outdated measures for processing rates and salary rates resulted in estimates that were not reflective of current administrative costs. Further, the use of outdated factors contributed to states being underfunded and not being prepared for the surge in claims from the pandemic. The update of these factors resulted in an overall increase to the formula-driven budget request for state UI administrative funding.
Underway	
1.2. Evaluate the level and distribution of administrative funding	The challenges experienced by state UI programs during the pandemic have led the Department to evaluate both the level of administrative funding provided by Congress, and the mechanism used for its distribution, examining what would be sufficient funding for the operations and ongoing maintenance of state UI programs. The Chief Evaluation Office, in collaboration with the Employment and Training Administration's Office of Unemployment Insurance, is conducting a mixed methods exploratory study that aims to better understand how the costs to administer, operate, maintain, and improve state UI programs change over time and under different economic conditions. The first two phases of the study, happening concurrently, began in November 2023, and are expected to last 12 to 18 months. A third phase would answer more in-depth research questions about total funding and the RJM methodology. The findings are expected to inform potential future policy development related to UI administrative funding.

Proposed legislative reform

- **Adequately fund administrative funding –**
  Critically, core administrative funding—the amount before workload-based increases—needs to be sufficient to fund the basic administrative, technical, and legal capacities in states of all sizes. Congress should start by fully funding the President's FY 2025 Budget Request which includes updated salary and workload processing factors, and includes $25 million in funding to support the costs of ID verification in state UI programs.

- **Consider stronger, more practical enforcement levers –**
  The Department's current enforcement authority is not well structured to support the Department's UI transformation plan. Currently, the Secretary of Labor has very limited options to require state UI agencies to take actions to respond to high improper payment rates, poor performance related to the timeliness of benefits, or failure to comply with critical civil rights and access protections, and has no ability to reward states that perform well. Under the two governing statutes that regulate UI (the SSA and the Federal Unemployment Tax Act (FUTA)), the Department's only enforcement options are to withhold the state's entire administrative grant or declare employers in that state ineligible for credits against the FUTA—actions that would cause significant harm to workers and employers. Alternatives to these remedies could be authorized by law, including options for withholding a portion of a state's administrative grant and requiring states to use part of their administrative grant for specific activities to correct failed performance; or having the state participate in required technical assistance (such as a Tiger Teams assessment.)

  Two additional proposals, explained in more detail under Action Area 4, Bolstering State UI Programs Against Fraud, would provide states additional resources for improving administration of UI programs. The first would allow states to retain up to five percent of recovered fraudulent UI overpayments for program integrity use. The second would require states to use penalty and interest collections solely for UI administration. Currently, states have discretion to use these funds for non-UI purposes.

Action area 2

Delivering high-quality customer service

Building Resilience:
A plan for transforming unemployment insurance

Action area 2
Delivering high-quality customer service

Providing swift financial relief to individuals and families impacted by job loss is a central tenet of the unemployment insurance (UI) system, with federal regulations that require the timeliness of first payments and appeals being among the most prominent safeguards for claimants. Yet, the surge in UI claims during the pandemic, coupled with shortages of experienced staff and information technology (IT) challenges, caused severe backlogs and significant customer experience problems, including extended call wait times and unsatisfactory interactions with program staff,[47] and this remains a critical weakness of state UI programs. Payment delays can cause significant financial hardship, with research from the pandemic showing sharp spending reductions among workers who faced wait times for their initial payments of more than a month compared to those who waited for shorter periods.[48]

Further, cumbersome applications and ongoing certification processes, including use of highly technical language or jargon, limited translation options, and a lack of mobile responsiveness, often deter eligible unemployed workers from accessing much-needed income support. While such deficiencies pose challenges for all who file for UI, they may be especially detrimental to individuals with limited proficiency with technology, low literacy, or low English proficiency. For example, in a June 2022 report, the Government Accountability Office (GAO) found that states' customer service challenges were especially difficult for speakers of languages other than English.[49]

[47] Marla McDaniels and others, *Customer Service Experiences and Enrollment Difficulties Vary Widely across Safety Net Programs*, (Urban Institute, January 2023), www.urban.org/research/publication/customer-service-experiences-and-enrollment-difficulties.

[48] Diana Farrell and others, *Consumption effects of unemployment insurance during the covid-19 pandemic* (JPMorgan Chase Institute, July 2020), www.jpmorganchase.com/institute/research/labor-markets/unemployment-insurance-covid19-pandemic.

[49] Government Accountability Office, *Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning,* GAO-22-104251 (June 7, 2022), www.gao.gov/products/gao-22-104251.

With the availability of in-person services varying across states,[50] UI claimants face an uncertain environment when seeking assistance with common filing issues, leading to elevated call-center volume and an increase in claimant application errors.

These issues can also lead to payment errors, including both overpayments and underpayments. When individuals understand what they are being asked, they are more likely to answer accurately, and less likely to be paid benefits that are later found to be paid inaccurately. For example, clearer instructions and tools can enable individuals to accurately report part-time earnings within their benefit year—and errors in this type of reporting are one of the leading causes of overpayments.

Unclear communications and applications can also contribute to improper denial of benefits. According to Benefit Accuracy Measurement data, a weekly audit of paid and denied claims, and the Department of Labor (the Department)'s main data source on improper payments, the rate of UI claims wrongfully denied for job separation reasons has been edging upwards, growing from 7.6 percent in 2002 to 12.4 percent in 2022.[51] The rate of claims improperly denied for nonseparation reasons was 11.6 percent in 2022, and has fluctuated between 11.0 percent and 21.5 percent over the same time period.

To address these challenges, the Employment and Training Administration (ETA) is undertaking strategies to assist states in their return to acceptable levels of program performance, and notable progress is already being made. For example, in Fiscal Year (FY) 2023, 69.1 percent of first payments for intrastate claims were paid within 14/21 days, up from 61.2 percent in FY 2022, representing significant recovery towards the acceptable level of performance of 87.0 percent.[52]

[50] Government Accountability Office, *REEMPLOYMENT SERVICES: DOL Could Better Support States in Targeting Unemployment Insurance Claimants for Services*, GAO-18-633 (September 2018), www.gao.gov/assets/gao-18-633.pdf.

[51] Department of Labor, Employment and Training Administration, *Calendar Year 2002 Benefit Accuracy Measurement Data Summary*, (2002), https://oui.doleta.gov/unemploy/bam/2002/bamcy2002.asp; (2022), https://oui.doleta.gov/unemploy/bam/2022/PIIA_2022_Benefit_Accuracy_Measurement_Annual_Report.pdf.

[52] The term "14/21 days" refers to the different standards for states depending on their waiting week status: 14 days after the first compensable week in the claimant's benefit year for waiting week states and 21 days for non-waiting week states. In waiting week states, the first compensable week is normally the second week in the claims series, while in non-waiting week states, it is normally the first week in the claims series, hence the lower 14-day threshold for waiting week states. More information on the UI system's core performance measures is provided at https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf.

The promptness of appeals decisions is recovering more slowly, with just 23.3 percent of lower authority appeals decisions issued within 30 days in FY 2023, compared to an acceptable level of performance of 60 percent.

Effective customer experience in the digital context occurs when unemployed workers can file an online UI application quickly, accurately, and with minimal staff intervention. Instructions and cues for claimants to navigate the system and access necessary services are comprehensive, in plain language, and offered in commonly spoken non-English languages. Claimants who need non-digital pathways, such as phone or in-person, are accommodated.

Good customer experience results in a well-informed claimant, more accurate and complete filings, and greater trust in the UI system, while also reducing administrative burden and waste for the state. As detailed below, the Department is executing a range of strategies to promote more accurate and efficient customer experiences within the UI system.

Strategies

Completed	
2.1. Develop customer-centric recommendations for state UI programs (GAO-22-104251)	The Tiger Team initiative focused on partnering with states and multi-disciplinary experts to develop a set of recommendations to, among other things, enhance equitable access and improve timely delivery of benefits. This included simplifying language across state communications; streamlining translation services; improving and, where appropriate, increasing state in-person services; supporting states in making online platforms more accessible and easier to use; supporting states' enhanced collection and use of equity-based data; increasing community engagement, including through community-based partnerships; and leveraging promising practices across states.[53] In particular, the Tiger Team initiative has encouraged states to leverage behavioral insights to enhance efficiency and improve customer experience.

[53] Department of Labor, Employment and Training Administration, *Tiger Team updates* (June 2023), www.dol.gov/agencies/eta/ui-modernization/tiger-teams.

	This includes implementing the National Association of State Workforce Agencies' Behavioral Insights toolkit.[54] Among other resources, the toolkit includes a list of strategies for states to employ to accelerate claimants' responses to information requests, to help claimants accurately report their employment history and earnings from employment, and to encourage compliance with work search requirements. The Department completed the Tiger Teams initiative with 36 states and the delivery of 378 state-specific recommendations. Additionally, the Department developed a reference site with best practice examples and a series of toolkits and training curricula that present step-by-step recommendations to improve customer service and equitable access to benefits.
2.2. Promote and support plain language activities	States are required to communicate to claimants any information that may affect their past, present, or future benefits. Such communications can cause undue stress if the information presented is confusing, written at an advanced reading level, or overly legalistic. Providing concise, reader-focused information helps alleviate burden on claimants and leads to a more positive customer experience. With this in mind, the Department is working with states to adopt plain language of vital UI documents, simplifying complexity for UI customers, particularly claimants, reducing errors, and enabling greater self-service with less intervention by state agency staff. To date the Department has worked with several states to identify and implement high-value plain language changes,[55,56] and has developed a central repository of plain language resources to support and expedite state efforts in these areas.[57]

[54] National Association of State Workplace Agencies, *Behavioral Insights Toolkit*, https://library.naswa.org/bitoolkit.

[55] Department of Labor, Employment and Training Administration, *Language portfolio*, www.dol.gov/agencies/eta/ui-modernization/language-portfolio.

[56] Department of Labor, Employment and Training Administration, *Use plain language for claimant notices*, www.dol.gov/agencies/eta/ui-modernization/use-plain-language/claimant-notices.

[57] Department of Labor, Employment and Training Administration, *Plain language repository*, www.dol.gov/agencies/eta/ui-modernization/use-plain-language/plain-language-repository.

	In addition, the Department has conducted a series of plain language webcasts, covering foundational concepts, organizational voice and tone, and how to conduct user research. Recordings of these webcasts are available on WorkforceGPS.[58]
2.3. Give states actionable tips for adopting Robotic Process Automation (RPA) into current workflows	Using American Rescue Plan Act funding, the Department is helping states overcome initial barriers to non-intelligent automation tools like RPA, a form of business process automation technology that can significantly improve operational efficiency by handling manual, non-discretionary tasks[59] quickly and without error. The Department has been an important resource for states considering adopting RPA tools or looking to further develop existing use. The RPA Toolkit,[60] which was informed by state Tiger Team engagements, gives states actionable tips for incorporating this type of automation into their workflows. In addition,a recent blog post by the Department details how states can deploy RPA solutions to help them reduce administrative burdens associated with UI appeals workflows.[61]
Underway	
2.4. Support states in strengthening customer experience and IT metrics (GAO-22-104251)	The Department has prioritized customer experience (CX) through publication of Unemployment Insurance Program Letter No. 11-23[62] and through resources it is providing to states through the Office of Unemployment Insurance Modernization.[63]

[58] Department of Labor, *Plain Language Webcast Series* (April 2023), www.workforcegps.org/resources/2023/04/UI_Content/Plain-Language-Webcast-Series.

[59] Non-discretionary tasks are typically activities that are performed or executed without the exercise of judgment or choice by merit staff; they are typically prescribed by a set of rules.

[60] Department of Labor, *RPA Toolkit Landing Page* (February 2023), https://ui.workforcegps.org/resources/2023/02/16/18/32/RPA-Toolkit-Landing-Page.

[61] Jerrad Lee and Amelia Wellers, *Lessons from States on Using RPA to Manage Unemployment Insurance Appeals* (Department of Labor, Employment and Training Administration), www.dol.gov/agencies/eta/ui-modernization/new-tech/rpa-for-ui-appeals.

[62] Department of Labor, Employment and Training Administration, *Announcement of Grant Opportunities and National Identity (ID) Verification Offering under the American Rescue Plan Act,* UIPL No. 11-23 (July 2023), www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2023/UIPL%2011-23/UIPL%2011-23.pdf.

[63] Sylvie Williams, *Customer Experience Principles* (Department of Labor, Employment and Training Administration), www.dol.gov/agencies/eta/ui-modernization/blogs/cx-principles.

	The Department is working to provide additional guidance and technical assistance to states on how to improve customer experiences, looking to principles in existing legislation like the 21st Century Integrated Digital Experience Act,[64] so that claimants can navigate the UI system with greater confidence and transactions can be completed more accurately and efficiently. The Department is promoting this within the context of five principles that ensure a better experience for UI claimants and reduce administrative waste for state agencies: mobile usability, accessibility thresholds, non-digital support offerings, plain language, and effective wayfinding. To help states apply these principles, the Department has provided direct instruction and assistance to states via a series of workshops and webinars. This includes providing strategies on how to identify and understand pain points within their UI system, how to implement continuous feedback loops and usability testing, and how to define and measure CX metrics, such as time to complete applications. For example, the Department developed a claim status playbook for states seeking to improve how they communicate statuses to claimants.[65] The Department also hosted a webinar in May 2023, which drew high attendance and representation from across states. As best practice recommendations are developed, the Department plans to offer additional technical assistance to states on how to deliver better customer experience and evaluate their IT systems against these measurements.
2.5. Promote responsible automation to streamline non-discretionary, repetitive tasks	The Department is working to support state agencies so they can leverage automation products to improve service delivery and strengthen program integrity, while also creating guardrails that protect staff and claimants, and adhere to key regulations regarding merit-staffing. Used correctly, states can leverage automation to reduce backlogs, minimize errors, accelerate claimant benefit receipt, and free up staff resources for more mission-critical work.

[64] 21st Century Integrated Digital Experience Act, P. L. 115-336, 132 STAT. 5025, www.congress.gov/115/plaws/publ336/PLAW-115publ336.pdf.

[65] Department of Labor, Employment and Training Administration, *Communicate status to claimants*, www.dol.gov/agencies/eta/ui-modernization/claims-status.

	In addition to the RPA Toolkit (see Strategy 2.3), the Department is identifying design considerations for tools and products that automate certain workflows through a prototyping partnership with Stanford University's RegLab.[66] The Department is producing case studies and other documentation that will help states responsibly automate segments of their claims-processing.[67] The Department is planning, where appropriate, to issue new guidance to specifically address the role of automation in UI programs, and the appropriate role of automation to assist merit staff in making decisions within the UI program.
2.6. Consider updates to unemployment compensation (UC) confidentiality regulations to better support UC stakeholders	The Department is considering comprehensive updates to the UC confidentiality regulations in 20 CFR 603. To inform potential updates, the Department issued a request for information in July 2023 and the comment period closed in September 2023.[68] The Department will consider the information received in response to the request for information (RFI) as it reviews the UC confidentiality regulations. The RFI asked for feedback on a requirement for states to disclose confidential UC information to the Department of Labor, Office of Inspector General for oversight and audits (among other topics). In addition, the Department requested feedback on several other items that states and stakeholders have raised over the years, including addressing questions around sharing information across the workforce system (including with local workforce development boards), the permissibility of sharing information with federally recognized Indian tribes, data warehousing, the use of contractors/subcontractors, and updates to recognize the evolution in IT.

[66] Stanford's Regulation, Evaluation, and Governance Lab (RegLab), https://reglab.stanford.edu/.

[67] A January 2024 post by the Department describes this initiative in greater detail: Nikki Zeichner and others, *Introducing Artificial Intelligence Adjudicator Assistance (AIAA): A Research Initiative Exploring Ways to Streamline Work for Adjudicators* (Department of Labor, Employment and Training Administration), www.dol.gov/agencies/eta/ui-modernization/aiaa.

[68] Federal-State Unemployment Compensation (UC) Program; Confidentiality and Disclosure of State UC Information, 88 Fed. Reg. 47829 (July 25, 2023), www.federalregister.gov/documents/2023/07/25/2023-15631/federal-state-unemployment-compensation-uc-program-confidentiality-and-disclosure-of-state-uc.

	This review may result in the development of a notice of proposed rulemaking aimed at revising the regulations in a manner that would address the evolution of both IT and the public workforce system and how such changes relate to the required and permissible disclosure of confidential UC data, including for bolstering program integrity.
Planned	
2.7. Update reporting on claims to enhance understanding of timeliness (GAO-21-191)	Related to the work on acceptable levels of performance, the Department will update its reporting on claimants. The Department continues to work on developing a new state report to collect data on the number of distinct individuals claiming regular UI benefits and other information, including the causes of claims processing backlogs such as identity (ID) verification issues. This recommendation responds to gaps in data and reporting identified during the Coronavirus Aid, Relief, and Economic Security Act program, and would fulfill a recommendation from GAO.[69]
2.8. Update the acceptable level of performance for timeliness measures	ETA will review and develop a plan to make any needed regulatory revisions to acceptable levels of performance concerning UI timeliness measures in light of the potential impact of new integrity controls, particularly ID verification measures.
2.9. Update timeliness and adjudication reporting	The Department is updating standardized reporting related to timeliness, which will help the Department manage towards timeliness standards and facilitate the monitoring of, and assistance to, states. ETA plans to develop a standard national definition for claims adjudication backlogs and standardized and transparent reporting to track states' progress reducing backlogs. Current definitions largely report the time it takes to pay benefits or make decisions, and not the number of pending claims or decisions.

[69] Government Accountability Office, *COVID-19: Urgent Actions Needed to Better Ensure an Effective Federal Response*, GAO-21-191 (November 30, 2020), www.gao.gov/products/gao-21-191.

Action area 3
Building resilient and responsive state IT systems

Building Resilience:
A plan for transforming unemployment insurance

Action area 3
Building resilient and responsive state IT systems

States' unemployment insurance (UI) technology challenges pre-date the COVID-19 pandemic. A 2016 Government Accountability Office (GAO) study found that most states (60 percent) believed that their information technology (IT) systems had significant issues that limited their ability to efficiently process UI claims and serve claimants.[70] As of 2019, only 22 of those states had moved the administration of UI from legacy mainframe systems to a modern application technology.[71] Both the GAO and the Department of Labor, Office of Inspector General (DOL-OIG) pointed to the condition of state UI IT systems as a reason that states struggled to pay benefits accurately and timely during the pandemic.[72]

The condition and design of state IT systems contributes to the UI system's vulnerability to fraud. This was especially evident during the massive increase in claims and exponential growth in complex fraud attacks during the pandemic. The development of resilient IT systems that can continuously adapt to changing conditions and integrate evolving fraud prevention technologies needed to protect the program is a critical component of a comprehensive program integrity strategy. Such investments in IT infrastructure protect the system from fraud, while also providing a mechanism to promote equitable access, increase timely access to benefits, and deliver improved customer experience. These IT investments complement targeted antifraud strategies like identity (ID) verification, data analytics, and cross-matching.

[70] Government Accountability Office, *Unemployment Insurance: States' Customer Service Challenges and DOL's Related Assistance*, GAO-16-430 (May 12, 2016) www.gao.gov/products/gao-16-430.

[71] Julia Simon-Mishel and others, *Centering Workers—How to Modernize Unemployment Insurance Technology* (The Century Foundation, October 2020), https://tcf.org/content/report/centering-workers-how-to-modernize-unemployment-insurance-technology/.

[72] For example, the DOL-OIG found that modernized states implemented the PEUC and PUA programs 15 and 8 days faster than non-modernized states during the critical early days of the pandemic. See Testimony of Larry D. Turner, Inspector General, Office of Inspector General, Department of Labor, before House of Representatives Committee on Oversight and Accountability, Subcommittee on Government Operations and the Federal Workforce, *Waste, Fraud, and Abuse Go Viral: Inspectors General on Curing the Disease* (March 9, 2023), www.oig.dol.gov/public/reports/oa/2023/19-23-004-03-315.pdf.

Despite the need for IT modernization in states, such efforts have been challenging due to a lack of state staff capacity or expertise to manage IT projects, and the capacity of contractors to follow through.[73] Funding is another challenge. Apart from the American Rescue Plan Act (ARPA), Congress has not provided significant additional funds to support state IT upgrades. The Department of Labor (the Department) made nearly $400 million available to states between 2011 and 2017, but this was cobbled together from a series of supplemental budget requests; and some states struggled to convert this funding into completed projects.

Technology architecture has also proven to be a significant barrier. The technical term for the brittle and inflexible systems still in use today is "monolithic." Monolithic software is designed to operate as a single unit rather than as a series of independently managed parts. While monoliths may be easier to implement initially, they are more difficult to maintain because the various components cannot be easily changed or replaced without affecting the entire system. This "all or nothing" approach is sub-optimal as it makes it difficult for states to adapt systems quickly and leverage emerging technologies. It also forces states into a choice between maintaining their legacy technology far longer than is preferred or embarking on system overhauls that either fail to deliver desired results or deliver short-lived results that require repeating the overhaul process a few years later.

As laid out in Unemployment Insurance Program Letter (UIPL) No. 11-23, an effective approach to UI IT modernization starts with the understanding that technology is always evolving, and state systems must be responsive to the changing and increasingly complex external environment, including shifts in demand for UI's income support, the creation of new federal programs, demands for data collection, and emerging fraud threats. In line with recommendations from the DOL-OIG to "develop and operate a modular set of technological capabilities,"[74] the Department encourages states to pursue modular and incremental approaches to IT modernization.

[73] Government Accountability Office, *Unemployment Insurance: DOL Needs to Further Help States Overcome IT Modernization Challenges*, GAO-23-105748 (July 2023), www.gao.gov/assets/gao-23-105478.pdf.

[74] Department of Labor, Office of Inspector General, *COVID-19: States Struggled to Implement CARES Act Unemployment Insurance Programs*, Report No. 19-21-004-03-315 (May 28, 2021), www.oig.dol.gov/public/reports/oa/2021/19-21-004-03-315.pdf.

Such approaches involve "breaking down" complex monoliths into smaller, more interchangeable components (i.e., modules) that are easier to change and maintain.

As described below, the Department is making an initial investment of $204 million towards this new approach. Though still sizable, this initial investment was greatly reduced following the Fiscal Responsibility Act recission of ARPA UI funding in June 2023. Additional ongoing resources will be needed at the federal and state levels to evolve towards this more sustainable model.

In addition, using ARPA resources, the Department has piloted new technologies with states and assessed states' technical assistance needs. The Department has leveraged the lessons of these efforts to refine its approach for the coming fiscal year and beyond, with the aim of helping states improve the resilience, performance, and agility of their IT systems.

Strategies

Completed	
3.1. Apply principles of effective pilot program design (GAO-23-105478)	Following GAO recommendations, the Department has implemented best practices in effective pilot design. The Department defines a pilot as a small scale, time-limited test, the results of which can be studied to assess the efficacy, value, and feasibility of a proposed solution. Pilots require testing with people (e.g., users) and a structured approach to gathering and incorporating user feedback into a human-centered and outcome-driven software development process. While the learning goals for pilots may vary, the Department's pilot design includes the following items concerning pilot-related documentation and supporting activities: clearly defined objectives; an evaluation plan; targeted scope; risk assessment and management; and stakeholder engagement and communication. The Department has applied these principles to its existing pilots on responsible automation and government-operated ID verification solutions.

Underway	
3.2. Invest in measurable and agile UI IT modernization through grants (GAO 23-105478)	The Department awarded more than $204 million in grants to support strengthening and modernizing UI systems in 18 states and the U.S. Virgin Islands. States identified at least one of three grant categories that align with the Department's vision for IT modernization: migration from legacy platforms to cloud-based technology; modular and Application Programming Interface (API)-driven approaches; and measurable improvements to the customer experience. States then have up to five years from the notice of award to implement these projects. These grants will focus on translating UI technology changes into measurable improvements in system performance and customer experience. As a condition of receiving a grant, states agree to report quarterly on at least one "desired outcome metric" specific to each category. As part of the effort, the Department will encourage grant recipients to share models, lessons learned, and software modifications with other states to allow them to also benefit.
3.3. Create opportunity for knowledge-sharing and collaboration on open and modular IT solutions	As a next phase of our modernization work, the Department is working to ensure that states have the infrastructure to implement resilient and sustainable technology. Through a collaborative agreement with the National Association of State Workforce Agencies' UI Information Technology Support Center (UI ITSC), and in partnership with the Beeck Center for Social Impact and Innovation, the "Open UI Initiative" aims to change how states build and buy technology, by: (1) establishing a common framework and approach for modular IT system development; (2) creating market-based incentives that drive innovation; and (3) providing more choices for how states invest in technology to meet the goals of the UI program. In Fiscal Year 2024, UI ITSC will establish and lead a Technical Advisory Group (TAG), composed of key experts and stakeholders that represent the many facets of the UI community. The TAG will provide guidance and input on the development of the Open UI framework and help UI ITSC define the core modules to orient around, as well as their related interoperability protocols.

	With the first version of this framework in place, UI ITSC will engage states and vendors to begin sourcing software that aligns with the framework and show traction towards the Open UI Initiative's larger vision, with early adopters starting to contribute to, or using, the emerging solutions before the end of the year.
3.4. Enhance the reliability and accessibility of the Department's UI database management system	The Department operates a foundational database management system for the UI programs through which states provide critical UI data, including statistical samples, to the Department. These data are used for program performance monitoring and oversight, and to determine funding to state agencies. This data management system is critical to the Department's effort to transform the program. The Department has commenced a multi-year modernization of the UI Database Management System. The modernization will transition the system from physical servers to an enterprise cloud-based solution. The project will increase reliability and ease of use for the states, while ultimately reducing maintenance costs; improve state data collection by reducing submission burden with more automation and validation; improve access management to minimize security vulnerability; reduce custom coding and reduce operations and maintenance costs; and modernize the external/public website to improve the user experience and incorporate data visualization capabilities.
Planned	
3.5. Enhance the UI IT Modernization Pre-Implementation Planning Checklist	The Department had previously issued guidance (UIPL No. 11-18) advising that any state undertaking a modernization of a major component of a UI IT system or systems must submit an Employment Training Administration (ETA) 9177 Report. A major component can be a full benefits or tax system, or it can be a significant component subset. The ETA 9177 Report is a comprehensive checklist denoting critical functional areas that states should verify prior to implementation including, but not limited to, technical IT functions and UI business processes that interface with the new system. With this information, ETA will be able to identify any needed technical assistance as states prepare for the implementation of a modernized system and have an assurance that the state's implementation will have a significant likelihood of being successful.

	This requirement was reiterated with the publication of UIPL No. 11-23 on July 13, 2023. As part of the learnings from the ARPA IT Modernization grants, the Department will continually update the ETA 9177 Report checklist, as necessary, and use it to drive improvements.

Action area 4
Bolstering state UI programs against fraud

Building Resilience:
A plan for transforming unemployment insurance

Action area 4
Bolstering state UI programs against fraud

The "perfect storm" conditions of the COVID-19 pandemic exposed an already challenged unemployment insurance (UI) system to significant risks of fraud and improper payments. The combination of decades of administrative underfunding, outdated state information technology (IT) systems, record claims volumes, and temporary programs designed with weaker program integrity controls in 2020 provided an opportunity for criminals to exploit vulnerabilities in UI programs, resulting in elevated rates of fraud and improper payments.

Fraud takes on many forms including eligibility fraud, which occurs when benefits or services are acquired as a result of false information being provided with the intent to receive benefits for which an individual would not otherwise be eligible. State law determines the criteria for establishing a fraud determination within the UI program. Identity (ID) fraud, another major type of fraud, occurs when one person or group of persons uses the identifying information of another person to illegally receive benefits; ID fraud also includes fictitious employer schemes.[75]

The frequency and complexity of fraud attacks against state UI programs, specifically ID fraud, increased significantly during the pandemic. The risk was especially high in the Pandemic Unemployment Assistance (PUA) program. Unlike traditional UI benefits, Congress did not establish a requirement that PUA applicants verify their employment or identity until the program was reauthorized in December 2020. Also, unlike traditional UI benefits, PUA did not require that employers receive notice of claims being filed, which normally gives them an opportunity to validate claimant information with the states.

[75] Fictitious employer schemes involve creating companies that exist only on paper with no actual employees, business operations, or business expenses for the sole purpose of reporting fake wages and subsequently filing fraudulent unemployment claims using the fake wages.

A top priority for the Employment and Training Administration (ETA) is to improve overall program integrity, and certain activities identified in this plan also support the Department of Labor (the Department)'s Agency Priority Goal – Strengthening America's Safety Net for Workers.[76] The Department is working proactively to mitigate fraud risks in all UI programs. ETA is researching, identifying, investing in, and providing states with new tools, strategies, funding, and guidance to help combat the constantly shifting and newly emerging types of unemployment fraud. Such efforts are balanced against the vital need to preserve and protect benefits for legitimate UI claimants, ensuring that those who genuinely require support are not deterred from receiving the assistance to which they are entitled.

Improper payments are erroneous UI payments that may be either higher or lower than a claimant is owed. The estimated improper payment rate for the regular UI program has exceeded 10 percent for 17 of the last 20 years. In 2021 and 2022, two years severely affected by the pandemic, the program's estimated improper payment rate spiked to 18.7 and 21.5 percent, respectively.[77] Benefits overpaid also include those obtained through fraudulent activity, though the Department has consistently found that fraudulent payments typically represent a minority share of all overpayments within the regular UI program. Though still elevated, 2023's improper rate of 14.8 percent represents a significant year-over-year decline.[78]

The Department's strategies and projects to help bolster state UI programs against ongoing and emerging fraud threats are described as follows. In addition, further legislative action is needed to ensure that all states employ important cross-matching strategies and have sufficient resources to prevent fraudulent payments.

[76] Brent Parton and Jim Garner, *Strengthening America's Safety Net for Workers* (Department of Labor, Employment and Training Administration, FY22-23), www.performance.gov/agencies/dol/apg/goal-2/.

[77] These are figures reported by PaymentAccuracy.gov, www.paymentaccuracy.gov/payment-accuracy-the-numbers/.

[78] This figure comes from PaymentAccuracy.gov. Accounting for Unknown Payments, which may be proper or improper, this rate increases to 16.5 percent.

Strategies

Completed	
4.1. Designate a responsible entity in the Department for improper payment reduction (GAO 22-105051)	The Government Accountability Office (GAO) recommended the Department designate a dedicated entity for managing fraud risk in the UI program. Under an order from the Secretary, the Department's Chief Financial Officer (CFO) was delegated authority and assigned responsibility to serve as the Department's Improper Payment Reduction Coordinator. Responsibilities include, but are not limited to, coordinating the establishment of policies and procedures for assessing Departmental, component agency, and program risks of improper payments and coordinating the development of action plans to determine the nature and extent of possible improper payments for all of the Department's programs. Furthermore, on January 6, 2023, the Secretary issued a memorandum, designating the CFO as the dedicated entity responsible for managing the process of assessing fraud risks to the UI program.
4.2. Assess fraud risk in state UI programs using leading practices in the GAO's Fraud Risk Framework (GAO 22-105051)	In response to GAO recommendations in October 2021[79] and January 2023,[80] the Department has developed a thorough UI fraud risk profile that aligns its fraud risk assessment processes with the leading practices in the GAO's Fraud Risk Framework. The Department completed a comprehensive assessment using GAO's framework, including documenting the key risks facing the UI program and the overall risk tolerance. The Department will regularly update its assessment of UI fraud risks and incorporate any fraud risk management activities into ETA's UI Integrity Strategic Plan.[81] The Department is also communicating its antifraud strategy for the UI program to states and other relevant stakeholders through guidance. These activities will help states address the UI improper payment rate and improve the detection of recoverable overpayments.

[79] Government Accountability Office, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response*, GAO-22-105051 (October 27, 2021), www.gao.gov/products/gao-22-105051.

[80] Government Accountability Office, *Unemployment Insurance: Data Indicate Substantial Levels of Fraud during the Pandemic; DOL Should Implement an Antifraud Strategy*, GAO-23-105523 (January 23, 2023), www.gao.gov/products/gao-23-105523.

[81] Department of Labor, Employment and Training Administration, *Unemployment Insurance Integrity Strategic Plan*, https://oui.doleta.gov/unemploy/integrity_plan.asp.

4.3. Develop interim solutions to provide the Department of Labor, Office of Inspector General (DOL-OIG) direct access to states' claims data, and Integrity Data Hub (IDH) data, for the purpose of audits and investigations	The Department has enhanced its collaboration with the DOL-OIG, ensuring that states receiving American Rescue Plan Act (ARPA)-funded grants were required to provide the DOL-OIG with direct access to claims data for the purpose of audits and fraud investigations, generally through weeks of unemployment through 2025 (and in some cases through September 2028). This change eliminates the need for the DOL-OIG to subpoena such records. Additionally, the Department published Unemployment Insurance Program Letter (UIPL) No. 04-17, Change 1, and Training and Employment Notice No. 05-22 reminding states of the ongoing requirement to provide data for purposes of fraud investigations, as well as the DOL-OIG's authority to request such data for audits under the Inspector General Act. In addition, following up on recommendations from the DOL-OIG, the Department notified states that data regarding potential fraud flagged by the IDH will be shared with the DOL-OIG.[82] (Also, see activity described in Strategy 2.6 regarding consideration of changes to unemployment compensation (UC) confidentiality regulations to better support UC stakeholders.)
4.4. Enable states to cross match UI claims against prisoner records	Beginning in October 2021, the Department supported state access to the Social Security Administration's Prisoner Update Processing System (PUPS) through the Interstate Connection Network (ICON) system, allowing states to flag UI claims made by incarcerated individuals to initiate an investigation (see UIPL No. 01-22). This basic check gives states the ability to cross match UI claims information with prisoner data to aid states in determining if an individual meets UI eligibility requirements. Thirty-seven states either already have a connection to PUPS data or are in the process of establishing a connection. The Department continues to provide technical assistance to states to navigate this process.

[82] Carolyn R. Hantz, Assistant Inspector General for Audit, Letter to Suzan G. LeVine, Principal Deputy Assistant Secretary for Employment and Training, (July 1, 2021), www.oig.dol.gov/public/reports/oa/2021/19-21-006-03-315.pdf.

4.5. Strengthen resources for victims of UI ID fraud	As part of a comprehensive approach to strengthening the integrity of the UI system, the Department continues to strengthen resources for victims of unemployment ID fraud. The Department issued UIPL No. 11-23 to advise that states must take precautions to protect the rights of ID theft victims and mitigate the negative consequences related to the fraudulent activity, including ensuring that the owner of the Social Security Number (SSN) is not held responsible for any overpayment and that no legal action is taken against them. To support these efforts, the Department dedicated a website[83] to help people understand unemployment ID fraud, how to report it, and to provide resources to support victims of unemployment ID fraud. The website, available in English and Spanish, has been viewed hundreds of thousands of times since launching on March 22, 2021. Furthermore, to mitigate some risks associated with numerous phishing schemes, the Department has introduced a pop-up message as part of the process flow for the National ID Verification Offering services (see Strategy 4.7). The pop-up message notifies individuals that they are verifying their identity for an unemployment claim and provides them with resources to report ID fraud if they were directed to the national offering site to verify their identity and they did not file an unemployment claim.
Underway	
4.6. Provide states with funding to strengthen capacity to protect the UI program from fraud and recover overpayments	Through ARPA and the Coronavirus Aid, Relief, and Economic Security (CARES) Act, the Department has offered states $765 million in grants to support fraud prevention, fraud detection, and overpayment recovery activities. This includes $227 million in ARPA-funded Fraud Detection and Prevention and Integrity grants awarded to 50 state UI systems as of January 2024. As part of this overall investment, the Department also made available up to $525 million in CARES Act funding to assist states with efforts to prevent and detect fraud and to recover fraud overpayments in certain CARES Act UI programs.

[83] See dol.gov/fraud.

	States are using these funds to support a variety of activities, including reducing their fraud investigation backlogs and ongoing accumulation of fraud cases, strengthening ID verification, enhancing data management and analytics capabilities, improving cross-matching with other public data sources to flag potential fraud, and increasing the collection and recovery of overpayments. The Department is actively surveying states' progress, with the goal of capturing and sharing promising practices with all states.
4.7. Strengthen ID verification in state UI programs	The experience of the pandemic emphasized the need for a robust ID verification strategy in state UI programs. The best means by which states can ensure the name and SSN belong to the individual applying for UI is by conducting evidence-based ID verification. Evidence-based ID verification includes activities such as an individual presenting ID documents (i.e., official government-issued documentation, control over a device, account or address known to be associated with an identity, or biometric information) at a physical location, through a virtual platform, or through other state-developed processes or procedures that validate or verify an individual's identity. The Department has issued guidance directing states, at a minimum, to take a risk-based approach to identify incoming claims that require evidence-based ID verification. In addition, the Department is using ARPA funding to facilitate state access, for up to two years, to the General Services Administration's digital ID verification solution Login.gov and to in-person verification through the U.S. Postal Service. In Fiscal Year (FY) 2024, the Department will begin collecting and analyzing individual-level data from participating states as part of a strategy for evaluating the effectiveness and equity of this offering and determining the appropriate long-term solution once ARPA funding is exhausted.
4.8. Expand states' cross-matching capabilities with the IDH	In addition to evidence-based ID verification, it is important that states also use other tools, such as cross-matching with available Federal databases and utilizing verification systems, to ensure that individuals are eligible for benefits and to identity fraudulent activity.

	As part of efforts to strengthen the tools offered to states to protect against criminal actors perpetrating fraud in multiple states, the Department will continue investing in and promoting the use of the UI IDH, administered by the National Association of State Workforce Agencies (NASWA)'s UI Integrity Center. This is one piece of the broader work of the NASWA UI Integrity Center to provide technical assistance and support to states towards improving payment accuracy and the overall integrity of the UI system. As a result of continued investment and promotion, the number of states with IDH Participation Agreements has increased from 34 states in 2020 to all 53 states with UI systems. Also, the Department will continue promoting state use of all functionalities available in the IDH. With ARPA support, the Department is also working with states to make it easier to integrate the IDH into their internal systems to facilitate quicker investigations of suspicious UI claims. UIPL No. 11-23 identified three actions states should take, including: using all IDH functionalities; implementing IDH web service/real-time connectivity, if possible; and submitting all initial and continued claims to the IDH in real-time, or daily, at minimum. In addition, the Department is investing ARPA funding to support the IDH in gaining access to additional federal data sources. Lastly, the Office of Unemployment Insurance and the Department's Chief Evaluation Office have launched an initial study to assess the IDH's effectiveness in identifying fraud. The findings from this study will inform additional evaluation needs and action. This initial study began in July 2023 and is anticipated to be completed in the third quarter of FY 2024.
4.9. Expand states' reporting of nonmonetary determination and disqualification activities	The Department plans to submit notice to Federal Register seeking comments on revisions to existing Information Collection Request to enhance and/or expand data elements in the ETA 207 report, Nonmonetary Determination Activities, to capture work search issues, ID verification issues, and fraud issues, with a break-out for fraud and fraud specifically related to ID verification. The additions could provide the Department with data on the volume and nature of nonmonetary determinations and denials.

	The Department will use the data to analyze the ratio of disqualifications to determinations, to examine and evaluate the program effect of nonmonetary activities in these new categories, and to inform policy decisions related to funding and technical assistance.
4.10. Partner with the DOL-OIG and other law enforcement agencies	The Department continues to emphasize the requirement and states' responsibility to refer allegations that they reasonably believe constitute unemployment fraud, waste, abuse, mismanagement, or misconduct to the DOL-OIG. The Department will continue to partner with the DOL-OIG's Office of Investigations to streamline communication between states, the DOL-OIG, and other law enforcement agencies to ensure fraud is reported to the DOL-OIG and states are well-informed of law enforcement activities. Pursuant to recommendations by the DOL-OIG,[84] the Department has issued multiple guidance letters to states regarding the importance of referring cases for prosecution,[85] and will maintain a regular schedule of communications with the DOL-OIG to support targeted enforcement efforts and to support state engagement with the DOL-OIG. This authority has assisted with efforts to bring criminals perpetrating UI fraud to justice. As of June 2023, the DOL-OIG's work has led to more than 700 successful prosecutions and over $900 million in monetary recoveries.[86]
4.11. Strengthen states' Integrity Action Plans (IAPs)	The Department will review IAPs submitted by states through the State Quality Service Plan process and ensure the IAPs include actionable strategies that address the state's fraud prevention and detection efforts and the state's specific root causes of improper payments.

[84] Department of Labor, Office of Inspector General, *COVID-19: Pandemic Unemployment Assistance For Non-Traditional Claimants Weakened By Billions In Overpayments, Including Fraud*, Report No. 19-23-014-03-315 (September 27, 2023), www.oig.dol.gov/public/reports/oa/2023/19-23-014-03-315.pdf.

[85] Department of Labor, Employment and Training Administration, *Reminder on Federal Statute of Limitations on Criminal Prosecutions of Unemployment Insurance (UI) Fraud,* Training and Employment Notice No. 12-23 (December 1, 2023), www.dol.gov/agencies/eta/advisories/ten-12-23.

[86] Department of Labor, Office of Inspector General, *Semiannual Report to Congress* (October 1, 2022–March 31, 2023), www.oig.dol.gov/public/semiannuals/89.pdf.

	The Department will carry forward the work of the fraud risk assessment to the states and ensure that states' IAPs articulate a plan to identity and address both national and state-specific UI fraud risks through a comprehensive state antifraud strategy.
4.12. Coordinate with banks, financial institutions, and law enforcement	The Department will continue to work to facilitate the recovery/return of overpaid benefits, including those that were fraudulently obtained, through collaboration and coordination with banks, financial institutions, and law enforcement agencies. The Department has provided guidance to states for recovering federally funded UI benefits, which are held by banks and financial institutions as a result of suspicious and/or potentially fraudulent activity (see UIPL No. 19-21).[87] The Department will continue to provide targeted technical assistance to states regarding overpayment recovery and return of funds.

Proposed legislative reform

The completed UI fraud risk profile, and the accompanying UI Integrity Strategic Plan, outline a series of national strategies the Department is employing to effectively prevent fraud and reduce improper payments in the UI program. The risk mitigation and antifraud strategies tracked in the UI Integrity Strategic Plan address the highest residual risks identified in the UI fraud risk profile and are evaluated quarterly to determine their effectiveness. In FY 2024, the Department began requiring that states include in their IAP plans to develop a state antifraud strategy to address state-specific UI system vulnerabilities and risks.

[87] Department of Labor, Employment and Training Administration, *Benefits Held by Banks and Financial Institutions as a Result of Suspicious and/or Potentially Fraudulent Activity and the Proportional Distribution Methodology Required for Recovering/Returning Federally Funded Unemployment Compensation (UC) Program Funds*, UIPL No. 19-21 (May 4, 2021), www.dol.gov/agencies/eta/advisories/unemployment-insurance-program-letter-no-19-21.

To build on these efforts, the President’s FY 2025 budget proposes establishing the following program integrity requirements for state UI agencies:

- **Require states to cross-match against system(s) designated by the Secretary** – This proposal would require states to cross-match against system(s) designated by the Secretary, currently the NASWA UI Integrity Center’s IDH. UI system-wide use of the IDH will result in increased prevention, detection, and recovery of improper and fraudulent payments. Data sources continue to be added and currently include, but are not limited to: a suspicious actor repository for states to exchange data elements from suspicious UI claims; a multi-state cross-match to receive notifications when potentially fraudulent claims are filed in multiple states; an identity verification solution that provides identity scoring information to help states prioritize investigations of questionable identities; and a bank account verification service that allows states to authenticate bank account information.
- **Require states to use a system(s) of information exchange with employers designated by the Secretary** – This proposal would require states to use system(s) designated by the Secretary, currently the State Information Data Exchange System (SIDES), to exchange information electronically with employers, such as reasons for a claimant's separation from employment or a weekly accounting of claimant’s work and earnings with a particular employer. This system is designed to help employers provide the information required to determine the eligibility of a claimant to states more quickly by providing a secure electronic data exchange between states and employers or their agents, providing the state information that can help it pay benefits to eligible claimants and interrupt potentially fraudulent claims more quickly.
- **Require states to cross-match against the National Directory of New Hires (NDNH**) – This proposal will require state UI agencies to use the NDNH to better identify individuals continuing to claim UC after returning to work, which is one of the leading root causes of UI improper payments.
- **Require states to cross-match with a system(s) designated by the Secretary that contains information on incarcerated individuals –** This proposal would require states to cross-match against system(s) designated by the Secretary, including the Social Security Administration’s PUPS data. This should result in increased prevention and detection of improper and fraudulent payments.

- **Require states to disclose information to the DOL-OIG –** This proposal will require states to disclose information to the DOL-OIG to conduct audits and investigations to discover fraud, waste, and abuse or inefficiencies in the UC programs. States are already required to disclose information for the purpose of investigating UC fraud; however, the disclosure for purposes of audits is discretionary for states. In addition to state disclosure, this proposal would authorize DOL-OIG to have direct access to the system used for the electronic transmission of interstate claims (i.e., ICON) and the system for cross-matching claimants against other databases to prevent and detect fraud and improper payments (i.e., IDH), increasing efficiency and lowering burdens for states.
- **Allow states to retain up to five percent of recovered fraudulent UI overpayments for program integrity use –** This proposal will allow states to retain up to five percent of fraudulent overpayment recoveries and past-due amounts collected from employers (including when an employer is found to have misclassified employees as independent contractors) to fund additional program integrity activities in each state's UI program. This provides additional resources and incentives to states to increase detection and recovery of improper payments, to hold employers accountable for accurately reporting employees (e.g., combatting worker misclassification), and to carry out staff-intensive work to validate cross match hits and audit employers as required by law.
- **Require states to use penalty and interest collections solely for UI administration –** This proposal will require states to deposit all penalty and interest payments collected through the UI program into a special state fund and require the funds be used for improving state administration of the UI program and reemployment services for UI claimants. States with high improper payment rates would be required to use a portion of the funds for program integrity activities. Currently, states have discretion to use these funds for non-UI purposes.
- **Allow states the authority to issue a formal warning when claimants are unclear about work search requirements –** One of the primary drivers of improper payments is work search errors. This proposal centers on the requirement for an individual to be actively seeking work, which was added in 2012 to Section 303(a), SSA.

This proposal allows states to establish a practice of providing a formal warning—but not more than once per claim year—to promote equitable access and ensure full awareness of what an individual must do to meet the requirement to be actively seeking work before holding an individual ineligible for failure to comply with the work search requirements. When a formal warning is provided, the claimant would be allowed to keep the benefit payment for that week. While the specifics differ from state-to-state, formal warnings permit individuals to be eligible for UC the week that the work search requirement was not met, with the state warning the individual about ineligibility if work search requirements are not met in subsequent weeks. Additionally, this proposal would require that states provide certain "good cause" exemptions to the work search requirement, such as in the event of a disaster, and permits states to establish additional "good cause" exemptions.

- **Allow states to use contract support in recovery efforts under the Treasury Offset Program (TOP) –** States are required, as a condition of receiving federal funds to administer their UI program, to use the TOP to recover certain covered debts that remain uncollected. This involves the exchange of federal tax information (FTI) between states and the Treasury Department. States are already permitted to use contractors to support computer systems when handling FTI for tax administration purposes; however, they are restricted from using contractors to support computer systems that involve handling FTI for purposes of TOP. Many states struggle because their reliance on contractors to operate UI systems conflicts with the requirements regarding use of TOP. This proposal would allow states to use contractors to also support computer systems that involve handling FTI for purposes of TOP.

While these mechanisms will be effective at flagging suspicious claims from the pandemic and thereafter, law enforcement agencies need sufficient time to undertake criminal actions. In line with recommendations from the DOL-OIG, the administration has proposed extending the statute of limitation for federal crimes related to CARES Act payments to 10 years.[88]

[88] Department of Labor, Office of Inspector General, *COVID-19: Pandemic Unemployment Assistance For Non-Traditional Claimants Weakened By Billions In Overpayments, Including Fraud*, Report No. 19-23-014-03-315 (September 27, 2023), www.oig.dol.gov/public/reports/oa/2023/19-23-015-03-315.pdf.

Action area 5
Ensuring equitable access to robust benefits and services

Building Resilience:
A plan for transforming unemployment insurance

Action area 5

Ensuring equitable access to robust benefits and services

Despite its important relief and stimulative effects, unemployment insurance (UI)'s reach across unemployed workers remains uneven, and, in several states, benefit adequacy is of major concern. A 2021 report commissioned by the Department of Labor (the Department) found "dramatic disparities [in UI recipiency] between demographic groups, with lower recipiency rates among racial and ethnic minorities, younger workers, and less-educated workers." [89] Such disparities persisted during the COVID-19 pandemic, a period of unprecedented federal UI expansion, and are despite these workers' consistently elevated unemployment rates relative to the national average.

Select administrative and operational barriers serve as important hindrances to achieving equity in the UI system. State UI programs have historically lacked structures for communicating with workers about their potential benefit eligibility, the application process, and how to fulfill requirements for continuing to receive benefits. Further, complicated application and weekly certification processes, including use of highly technical language or jargon, limited translation options, and a lack of mobile-friendly options, frequently discourage eligible unemployed workers from accessing essential income support. The deployment of new state UI technologies has not always enhanced equity and accessibility, especially for populations that lack access due to language barriers, technological literacy, or lack of resources.

This helps explain the persistent finding that most unemployed workers fail to apply for UI in the first place. For example, in 2022, nearly three-quarters of the unemployed who worked in the previous 12 months had failed to apply for UI after separating from their last job; this figure was only slightly lower among workers traditionally eligible for UI, including people who had lost their jobs or completed temporary jobs (63 percent).[90]

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[89] Eliza Forsythe and Hesong Yang, *Understanding disparities in unemployment insurance recipiency*, (submitted by University of Illinois, Urbana-Champaign to the U.S. Department of Labor, November 12, 2021), www.oig.dol.gov/public/reports/oa/2023/19-23-015-03-315.pdf.

[90] Department of Labor, Bureau of Labor Statistics, *Characteristics of Unemployment Insurance Applicants and Benefit Recipients News Release* (March 29, 2023), www.bls.gov/news.release/uisup.htm.

Importantly, outdated federal and state laws that penalize or exclude lower-paid and part-time workers, independent contractors, and those forced to leave a job for family, health, or safety concerns also contribute to significant demographic disparities and overall declines in UI recipiency.[91] As stated above, barriers to access to benefits can also contribute to the UI system's challenges with overpayments. For example, ensuring adequate translation options reduces the likelihood a UI applicant will answer a question inaccurately and thereby create an erroneous benefit payment.

Congress recognized that these holes in the UI system would cut millions of workers off from vital income support and deprive the economy of macroeconomic stabilization during the pandemic and created the Pandemic Unemployment Assistance (PUA) program, which became a central part of the UI system in 2020. Congress made program design choices that were meant to accelerate payment delivery during a period of remarkable economic uncertainty for the nation, which, when combined with decades of administrative underinvestment, left states vulnerable to fraud attacks. These risks could be alleviated if the permanent UI system were designed to respond to the needs of a diverse workforce during a national crisis.

The UI system is also weakened by eroding benefit adequacy. While UI benefits are typically designed to replace half of lost earnings, up to a statutory maximum in each state, the national replacement rate has averaged about 35 percent since 1950 and trended downward since the 1970s.[92] Research suggests that the decline in replacement in many states is due to stagnant maximum benefit amounts.[93] As of January 2024, 14 states, including nine Southern states and Puerto Rico, provided less than $400 per week.[94]

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[91] Christopher J. O'Leary and Stephen A. Wandner, *An Illustrated Case for Unemployment Insurance Reform,* Working Paper 19-317 (W.E. Upjohn Institute for Employment Research, 2020), https://doi.org/10.17848/wp19-317; Daphné Skandalis, Ioana Elena Marinescu, and Maxim Massenkoff, *Racial inequality in the U.S. unemployment insurance system*, Working Paper No. w30252 (National Bureau of Economic Research, 2022), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4165324.

[92] O'Leary and Wandner 2020.

[93] O'Leary and Wandner 2020.

[94] In ascending order those states and territories are Mississippi, Puerto Rico, Alabama, Florida, Louisiana, Tennessee, Arizona, Missouri, South Carolina, North Carolina, Michigan, Georgia, Wisconsin, Virginia, and Indiana. Alaska provides a dependents' allowance, which means their maximum benefit ranges from $370 to $442.

The short duration of unemployment benefits in select states also poses a risk to UI's effectiveness. Since the Great Recession—a period of record state UI insolvency—a significant number of states have reduced the duration of UI benefits below the long-accepted 26 weeks, despite employers' increasing permanent layoffs; more states have recently proposed similar durational cuts.[95]

Congress has yet to heed recommendations from the bipartisan Advisory Council on Unemployment Compensation in 1994 to reform the permanent Federal-State Extended Benefits program,[96] whose automatic "triggers" often fail to activate or maintain additional weeks of benefits during recessionary times. In its absence, Congress has relied on temporary, emergency programs that are challenging to administer, and which end arbitrarily.

The American Rescue Plan Act (ARPA)'s equity-enhancing investments, detailed below, are spurring a range of activities that are lowering access barriers for eligible unemployed. But essential segments of the U.S. workforce remain excluded from UI's income support, and in several states, the amount of UI benefits falls short of sustaining an individual during a comprehensive job search. Sufficient UI benefits provide workers with the necessary income to look for a job that matches their skills, experience, and prior wages, rather than taking the first available job even if it is a poor match. Claimants also gain access to cost-effective reemployment services to help with their job search or connect them to retraining if necessary and available. One of the primary goals of the UI program is to ensure that unemployed workers not only find a job but also find a suitable match. To ensure broad access to robust benefits and services, ARPA UI modernization investments must be bolstered by legislative reform.

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[95] Nick Gwyn, *State Cuts Continue to Unravel Basic Support for Unemployed Workers* (Center on Budget and Policy Priorities, June 27, 2022), www.cbpp.org/sites/default/files/6-27-22sfp.pdf.

[96] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1994-1996* (1996), https://research.upjohn.org/externalpapers/1/.

Strategies

Completed	
5.1. Issue guidance that provides states greater clarity on key equity-related concepts and requirements	On November 8, 2023, the Department published Unemployment Insurance Program Letter (UIPL) No. 01-24, a comprehensive, first-of-its-kind guidance on "Equitable Access in the UI Program."[97] This guidance describes the Department's definition of equitable access in benefits. The guidance also outlines steps states should take to analyze key UI metrics by demographics to ensure that all individuals have access to UI benefits whether applying online, by phone, or in-person. In November 2023, the Department hosted a webinar for state agencies and claimant advocates in which presenters discussed how the guidance informs UI stakeholders of ways that equitable access can be evaluated and enhanced, including through promising practices, technical assistance and tools from various Department initiatives, and state-based partnerships.
5.2. Relieve the burden of repayment of Coronavirus Aid, Relief, and Economic Security (CARES) Act overpayments for claimants not at fault	To improve administrative efficiency where permissible under the CARES Act, as amended, UIPL No. 20-21, Change 1, provided seven approved scenarios for states that permit the use of "blanket waivers" of the recovery of overpayments under the temporary pandemic-related UI programs, where individuals are without fault in the creation of the overpayments and recovery would be against equity and good conscience. UIPL No. 20-21, Change 1, also included a process by which states may submit additional scenarios for consideration, and the Employment and Training Administration (ETA) is reviewing these state-specific requests within the parameters of the statute.
5.3. Compile and disseminate Department's learnings from Tiger Team engagement on equitable access	A shortage of state staff with the expertise to surface and address equitable access barriers can hinder the efficacy of efforts to broaden UI's reach. ETA is developing tools and guidance to help states address this resource gap and embed equitable access principles in their UI operations. ETA developed the "UI Equitable Access Toolkit." [98]

[97] Department of Labor, Employment and Training Administration, *Equitable Access in the Unemployment Insurance (UI) Program*, UIPL No. 01-24 (November 8, 2023), www.dol.gov/agencies/eta/advisories/uipl-01-24.

[98] Department of Labor, Employment and Training Administration, *Unemployment Insurance Equitable Access Toolkit* (April 2023), www.workforcegps.org/resources/2023/04/UI_Content/Public_Equitable_Access_Toolkit.

	It is based on research and insights gathered through the Department's Tiger Team initiative. Research revealed that many states have similar challenges when it comes to promoting equitable access to their UI programs. The UI Equitable Access Toolkit contains common equity recommendations to states, promising practices, and insights, compiled in one interactive document.
Underway	
5.4. Invest in equity-enhancing programs and activities through grants	The Department has made $219.3 million in ARPA-funded Equity Grants to 45 states and the District of Columbia. In designing their Equity Grant projects, states had broad flexibility to develop state-specific strategies to promote equitable access within their jurisdiction, as long as they developed project metrics that are capable of tracking change or improvements, in addition to meeting all other grant requirements. Equity Grant projects target a variety of activities, including but not limited to translation,[99] plain language communication, staff-led customer assistance and outreach, enhanced data reporting and analysis, and equity-advancing process improvements. Many of these activities have the added benefit of supporting payment accuracy and reducing improper payments by facilitating information flow between claimants and states. To date, many of the states' project activities are intended to help—among others—individuals with no or limited English proficiency, individuals with lower educational attainment, Black and Hispanic/Latino workers, individuals with disabilities, and workers residing in rural areas. Reflecting important intersections of marginalized identities, projects aimed at one population are likely to benefit other groups as well. States will take lessons learned from these Equity Grant projects into a new and sustained focus on ways to remove unnecessary barriers to aid.

[99] Reflecting the Department's broader commitment to supporting underserved communities and improving access to Department-conducted programs and activities for limited English proficient (LEP) workers and individuals, the Department's Language Access Plan, published in July 2011 and revised for FY 2023, outlines efforts to conduct linguistically appropriate outreach and engagement and improve language access services to ensure that all communities can participate in the Department's programs. For more information on the plan see *Department of Labor Language Access Plan – FY 2023*, www.dol.gov/agencies/oasam/centers-offices/civil-rights-center/cola/FY2023-language-access-plan.

5.5. Orient state staff to equity-related guidance and techniques through trainings	As part of efforts to develop tools and guidance to help states embed equitable access principles in their UI operations, and building on the work and insights captured in the Equitable Access Toolkit (see Strategy 5.3), ETA is developing training lessons for states to address challenges and possible solutions to help ensure equitable access to UI programs. ETA released its first online training module in FY 2023, called "Fundamentals of Equitable Access in UI."[100] This online training, developed in collaboration with the National Association of State Workforce Agencies (NASWA), is intended to promote awareness of equitable access issues amongst state workforce agency leadership and non-leadership staff, identify barriers and possible solutions, and foster dialogue to further identify and address equitable access barriers within the state's UI programs. ETA expects to release at least two additional training modules in FY 2024. As of Q2 FY 2024, work is ongoing to develop training lessons to cover equity in UI program integrity and equity in UI policies and processes. These modules are being released through the NASWA learning management website.[101]
5.6. Enhance and expand states' UI data reporting, to better understand racial/ethnic and other inequities in regular UI benefit receipt (GAO-22-104438)	The Department is developing new standard reporting measures, with the goal of having national data on key UI metrics (such as continuing claims, denials, and appeals) by demographic and socioeconomic categories as well as modernizing reporting on race and ethnicity alongside proposed Office of Management and Budget (OMB) guidelines. These demographic breakdowns will be included as proposed additions to required ETA reports.

[100] Department of Labor, Employment and Training Administration, *Announcing "Fundamentals of Equitable Access in Unemployment Insurance (UI)" Online Training*, Training and Employment Notice No. 06-23 (September 1, 2023), www.dol.gov/sites/dolgov/files/ETA/advisories/TEN/2023/TEN%2006-23/TEN%2006-23%20%28Accessible%20PDF%29.pdf.

[101] National Association of State Workforce Agencies, NASWA Learning, www.naswa.org/learning.

	In FY 2024, ETA will leverage current workstreams (e.g., Tiger Teams, Equity Grants, Technical Assistance) to establish appropriate baseline, state-level demographic data metrics, collections, and reports to identify equity-based metrics; and will submit notice to Federal Register seeking comments on revisions to existing Information Collection Request to enhance and/or expand the demographic data elements in numerous reports. These data will allow states and the Department to see what demographic differences exist in UI measures and explore whether adjustments are needed to policy and procedures to ensure equitable access. Further, these data will enable the Department to respond to the Government Accountability Office (GAO)'s recommendation that it report on racial and ethnic inequities in the regular UI benefit program.[102]
5.7. Facilitate partnership with community-based organizations through the UI Navigator Pilot Program	The purpose of the ARPA-funded UI Navigator Pilot Program is for states to partner with community-based organizations (CBOs)—which may include claimant advocacy groups—to help workers learn about, apply for, and, if eligible, receive UI benefits and related services. In addition, this opportunity will support state agencies in delivering timely benefits to workers – especially individuals in groups that are historically underserved, marginalized, and adversely affected by persistent poverty and inequality. On June 10, 2022, the Department announced over $18 million in grant awards to seven states for this initiative: Maine, New Mexico, Oklahoma, Oregon, Pennsylvania, Washington, and Wisconsin.[103] ETA has partnered with the Chief Evaluation Office (CEO) to conduct an evaluation that can measure the impact of this initiative and inform future efforts to conduct outreach in partnership with CBOs.

[102] Government Accountability Office, *Unemployment Assistance for Contingent Workers in the Pandemic,* GAO-22-104438 (June 7, 2022), www.gao.gov/products/gao-22-104438.

[103] Department of Labor, Employment and Training Administration, "US Department of Labor awards more than $18M in grants to address disparities in delivery of unemployment benefits, services in 7 states" (News release, June 10, 2022) www.dol.gov/newsroom/releases/eta/eta20220610-0.

	The Department views partnerships with CBOs and other constituency organizations as an important strategy to reach diverse populations potentially eligible for UI benefits, and has included claimant advocacy groups in the development of Tiger Team recommendations, held national listening sessions, and has recommended that states continue that engagement with claimant advocacy groups on a regular basis.
5.8. Develop new, deeper equity-related insights through state data partnerships (GAO-22-104438)	CEO is initiating a series of pilot data partnerships with several state UI agencies to produce disaggregated federal indicators of access to UI benefits across key demographic groups. Both the Department and states have historically lacked sufficient data to understand which workers and communities have access challenges and the barriers they may face in accessing UI promptly. In the absence of rigorous disaggregated data collection and analysis, both the Department and states lack information essential for identifying effective solutions. These partnerships will produce indicators that may include application, recipiency, denial, and timeliness across demographic and socioeconomic groups, that state UI agencies can use to inform changes to program administration to improve equity for underserved populations, including through new outreach, education, and training.
Planned	
5.9. Explore methods of verifying the income of non-standard workers (GAO-22-104251)	One of the central challenges during the pandemic was income verification for non-traditional workers. Congress created the Pandemic Unemployment Assistance (PUA) program to serve populations that fall outside of the traditional UI system, like freelancers and self-employed workers. But as these individuals do not earn wages in UI covered employment, their employment and wages are not reported to states. This deprived states of one of the key integrity controls in the state UI system, which is to check new claims against the state's official records of employment. When Congress belatedly added income verification requirements in December 2020, states struggled to set up ways to process documentation from claimants who are non-traditional workers.

	Currently, the Disaster Unemployment Assistance (DUA) program provides benefits to individuals who have lost self-employment because of presidentially-declared natural disasters, and requires individuals to provide documentation of employment or self-employment. For DUA, eligibility for self-employed workers is based on the federal tax year, which makes federal tax returns the best source of income. Nearly all states process these documents manually and lack streamlined or direct access to federal tax records to verify or electronically procure these records. The Department has conducted research on technical avenues to streamline access to income information for the purposes of eligibility for UI benefits during future emergencies. We intend to publish this research and work with Congress and other federal agencies to increase the tools available to state UI agencies.
5.10. Explore policy issues related to coverage of contingent and self-employed workers, especially during economic emergencies (GAO 22-104438, GAO-22-104251)	ETA is working to address key policy issues related to covering contingent and self-employed workers with UI benefits, helping to address challenges raised during the pandemic about how to effectively support workers outside the traditional UI system, and the GAO recommendation in 2022 to "[assess] lessons learned from the pandemic to inform its future disaster response efforts and support Congress on ways to address future emergencies."[104] Pursuant to this and similar Department of Labor, Office of Inspector General recommendations,[105] the Department is gathering material regarding the operations of the federal pandemic unemployment programs (PUA, Pandemic Emergency Unemployment Compensation, Mixed Earners Unemployment Compensation, Federal Pandemic Unemployment Compensation) in preparation for future temporary programs, and plans to create a guide featuring resource materials, including guidance, tools, charts, standard operating procedures, data-analysis, Q&A, and lessons learned.

[104] Government Accountability Office, *Unemployment Assistance for Contingent Workers in the COVID-19 Pandemic,* GAO-22-104438 (June 7, 2022), www.gao.gov/products/gao-22-104438.

[105] Department of Labor, Office of Inspector General, *ETA and States Did Not Protect Pandemic-Related UI Funds from Improper Payments Including Fraud or From Payment Delays*, Report No. 19-22-006-03-315 (September 30, 2022), www.oig.dol.gov/public/reports/oa/2022/19-22-006-03-315.pdf and Department of Labor, Office of Inspector General, *COVID-19: Pandemic Unemployment Assistance For Non-Traditional Claimants Weakened By Billions In Overpayments, Including Fraud*, Report No. 19-23-014-03-315 (September 27, 2023), www.oig.dol.gov/public/reports/oa/2023/19-23-014-03-315.pdf.

	To further inform future responses to mass unemployment events that impact contingent workers, ETA has also been working with CEO and the International Labor Affairs Bureau[106] on research to address key policy questions related to coverage of these workers including how to determine if a contingent/self-employed worker has experienced involuntary unemployment, and how to finance, structure, and protect program integrity in any program for those who are unemployed.
5.11. Research new performance standards for equitable access	The UI program has core performance standards related to timeliness of benefits and payment accuracy, but lacks a core performance standard that captures whether states have methods of administration that support equitable access to benefits.[107] For example, the Denied Claims Accuracy data is produced regularly as part of the Benefit Accuracy Measurement program, the Department's main source of information on improper payments; but it does not currently serve as a core performance measure. Given the long-standing challenges related to equitable access to benefits, having a core performance measure focused on this program dimension would provide an important tool to support states in removing barriers to benefits. The Department plans to study additional standardized benefit adequacy and equitable access performance indicators and propose measures of equitable access for UI, pending analysis and consideration.
5.12. Train states to effectively address worker misclassification	When employers misclassify employees as independent contractors, states lose out on revenue from payroll tax contributions, and individuals who should be eligible for UI's income support do not receive it (a contributing factor to the underpayment of benefits). To address this, the Department will train states to address worker misclassification within the UI program. In addition, several states are using ARPA grant funding on projects to address misclassification, and the Department will share lessons learned from these projects.

[106] The Bureau of International Labor Affairs funded a study by Organisation for Economic Cooperation and Development (OECD) that suggested possible pathways for coverage for self-employed workers based on international experiences. OECD, *Benefit Reforms for Inclusive Societies in the United States: Income Security During Joblessness* (OECD Publishing, May 9, 2023) https://doi.org/10.1787/32d8f005-en.

[107] More information on the UI system's core performance measures is here: Department of Labor, Employment and Training Administration, *UI Performs Core Measures*, https://oui.doleta.gov/unemploy/pdf/Core_Measures.pdf.

5.13. Make clear that states can share information with agencies that enforce wage-and-hour laws to address misclassification	The Department's request for information (RFI) about potential updates to the unemployment compensation (UC) confidentiality regulations in 20 CFR 603 asks questions about ways in which rules could be clarified around the authority of states to share confidential UC information with federal, state, and local labor agencies — pursuant to assurances of confidentiality — in order to better target misclassification enforcement. Based on responses to the RFI, the Department may consider rulemaking to improve enforcement coordination efforts.

Proposed legislative reform

- **Ensure all entitled and eligible individuals experiencing employment loss receive UI's income support –** Comprehensive UI reform should include a federal floor on states' eligibility rules to prevent them from unfairly penalizing workers with more limited work histories or low wages. This includes workers in lower-paid service industries subject to their employers' volatile scheduling practices. All states should allow workers seeking part-time employment or who lost work for family-related reasons to be able to receive benefits, and provide equitable coverage to domestic, agricultural, and seasonal workers.
- **Extend unemployment protections to non-standard workers –** The UI system should permanently address gaps that the CARES Act programs temporarily filled. The high utilization of the CARES Act programs, including PUA, indicates the tremendous need for programs that include workers who are not currently eligible for regular UI. Expanded eligibility will be more durable and equitable — and less prone to error — if accomplished through permanent UI reform instead of temporary programs.

- **Provide adequate benefits in every state –** A reformed UI system must provide adequate benefits in every state. Since the Great Recession, a significant number of states have reduced the duration of UI benefits[108] and more have cut benefit levels far below a sustainable living income to avoid increasing taxes on employers. UI reform must improve benefits across states by ensuring that benefit levels at the maximum, minimum and in between, as well as benefit duration, are adequate to allow unemployed workers, particularly those who have historically been excluded from or struggled to access UI benefits, to receive the income support and job placement services they need to find their next job. Prior advisory bodies have recommended that these federal floors should be set relative to the overall wage levels or cost of living in each state.[109]

- **Ensure the federal-state Extended Benefits program responds timely and adequately to downturns –** A modern UI system must be easily scalable and respond automatically to economic downturns. This would allow UI benefits to ramp up quickly and automatically when the economy weakens and would tie the expiration of these benefits to improvements in the economy, rather than arbitrary deadlines. Restructuring the existing Extended Benefits program so it responds more quickly and effectively during recessions and to increases in long-term unemployment would provide certainty for workers and avoid the scenarios in which political dysfunction leads to delays in benefits when people need them most. This would also make it easier for states to prepare for extensions in advance, preventing the needless additional stress many laid-off workers experienced during the pandemic because of undue delays. Scalability also includes technical infrastructure that can quickly incorporate changes to program rules and benefit calculation and combat new fraud threats.

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[108] Katelin P. Isaacs, *Unemployment Insurance: Consequences of Changes in State Unemployment Compensation Laws*, Report for Congress R41859 (Congressional Research Service, October 23, 2019) https://sgp.fas.org/crs/misc/R41859.pdf; Center on Budget and Policy Priorities (CBPP), *Policy Basics: How Many Weeks of Unemployment Compensation Are Available?* (CBPP), www.cbpp.org/research/economy/how-many-weeks-of-unemployment-compensation-are-available.

[109] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1994-1996* (1996), https://research.upjohn.org/externalpapers/1/.

- **Invest in reducing worker misclassification –** Workers incorrectly classified as independent contractors, who should be considered employees, need adequate coverage. For example, the 2025 Budget proposes investments in the Wage and Hour Division and the Office of the Solicitor so that they can maintain the staff needed to help ensure that businesses properly classify their employees, which will help bolster the solvency of the system and ensure that workers receive the unemployment benefits they are entitled to if they are laid off. While definitions of employment vary by program, this is one example of an investment in promoting proper classification of workers.

Action area 6

Rebuilding and stabilizing the funding of state UI benefits

Building Resilience:
A plan for transforming unemployment insurance

Action area 6
Rebuilding and stabilizing the funding of state UI benefits

States pay unemployment insurance (UI) benefits using funds from individual state unemployment accounts, known as "UI trust funds." The ability of states to maintain sufficient UI trust fund reserves and meet their benefit obligations during recessions has declined in recent years. The changing nature of work, including employers' increased reliance on permanent separations rather than temporary layoffs, is an important contributing factor; however, a major challenge has been states' ability to generate sufficient payroll tax revenues.

Prior advisory bodies have recommended that states use "forward funding" to generate sufficient reserves.[110] Forward funding refers to the practice of states building up their UI trust fund reserves when the economy is strong in anticipation of larger benefit outlays during economic downturns. States' gradual movement away from this practice has resulted in several negative changes for unemployed workers, and risks weakening the UI system's ability to meet its counter-cyclical objectives related to macroeconomic stabilization.

The UI system is financed through state and federal payroll taxes on employers.[111] Under the provisions of the Federal Unemployment Tax Act (FUTA), an effective federal tax rate of as low as 0.6 percent is levied on the first $7,000 of a covered employee's earnings (i.e., the taxable wage base), which amounts to $42 per covered employee per year.[112] Federal contributions are primarily used to fund the administration of state UI programs, advances to states, and the federal share of Extended Benefits during recessions.

[110] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1994-1996* (1996), https://research.upjohn.org/externalpapers/1/.

[111] In three states, Alaska, New Jersey, and Pennsylvania, employees also pay small payroll taxes; the federal tax is not levied on workers.

[112] Under FUTA, the federal unemployment tax is levied on covered employers at a rate of 6.0 percent. FUTA also provides credits against federal unemployment tax liability of up to 5.4 percent to employers who pay state taxes timely under a conforming state UI program. Accordingly, in states meeting the specified requirements, employers pay an effective federal unemployment tax of 0.6 percent. For more information, see Department of Labor, Employment and Training Administration, *Comparison of State Unemployment Insurance Laws 2023*, https://oui.doleta.gov/unemploy/comparison/2020-2029/comparison2023.asp.

State UI benefits are financed by state payroll taxes. Across all states, the amount of contributions an employer pays depends on the number of employees, the state's taxable wage base, and the tax rate assigned to the employer. State tax rates fall within statutorily set minimum and maximum thresholds.

An important dimension of UI financing in the U.S. is experience rating. This refers to the practice of adjusting employers' tax rates according to how much former employees claim benefits. It is designed to discourage unemployment by making employers pay for the costs of their layoff decisions, and equitably allocate the costs of unemployment. However, research suggests it may incentivize employers to contest the UI claims of their former employees and keep UI taxes low.[113]

With the $7,000 federal base as the legal floor, most state taxable wages bases do not exceed $15,000.[114] Unlike another important social insurance program, Social Security, the federal UI base is not indexed to inflation and has increased just three times since 1935, most recently in 1983. Recent research found that while more than three quarters of all covered earnings are taxable under Social Security, only just over one quarter of all UI covered earnings are subject to taxation.[115] While states can set a tax base above the federal minimum, they are not required to do so, and the low federal benchmark limits the amount of payroll tax revenue states generate to support payment of UI. The low tax base also means employers of low-wage workers pay a higher share of their employees' wages in UI taxes.

Forward funding as a method of financing UI began declining in the early 1990s. A steady decline in UI tax rates since then resulted in a measurable deterioration in the level of state UI trust fund balances.

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[113] Alix Gould-Werth, "Workplace experiences and unemployment insurance claims: How personal relationships and the structure of work shape access to public benefits," *Social Service Review*, vol. 90, no. 2 (June 2016), pp. 305-352, www.jstor.org/stable/26463049; Alexander Hertel-Fernandez, "Dismantling Policy through Fiscal Constriction: Examining the Erosion in State Unemployment Insurance Finances," *Social Service Review*, vol. 87, no. 3 (September 2013), https://doi.org/10.1086/672460.

[114] Department of Labor, Employment and Training Administration, *Significant Provisions of State UI Laws, Effective July 2023* (July 2023), https://oui.doleta.gov/unemploy/content/sigpros/2020-2029/July2023.pdf.

[115] Chris O'Leary and Kenneth Kline, *State Unemployment Insurance Reserves Are Not Adequate* (W.E. Upjohn Institute for Employment Research, March 2020), https://research.upjohn.org/cgi/viewcontent.cgi?article=1340&context=up_workingpapers.

At the end of 2007, following more than six years of economic expansion, state UI trust fund balances, on average, could pay out approximately five months of average recessionary benefit outlays, a historically low level for that period in an economic cycle. As a result, a total of 36 states were forced to borrow funds from the federal government under Title XII of the Social Security Act (SSA) in order to pay UI benefits during the Great Recession, with outstanding advances averaging 76 months. This does not account for additional states that turned to the private bond market to finance their trust fund deficits.

Later, because of the historic increase in unemployment and UI benefits during the pandemic, 23 states were forced to borrow funds in order to continue paying benefits. While four of these states maintained advance balances as of January 1, 2024, state borrowing was significantly reduced by the availability of alternative funding sources provided by Congress under the Coronavirus Aid, Relief, and Economic Security Act and the American Rescue Plan Act (ARPA). As of September 30, 2023, just 14 states' UI trust funds met the Department's minimum recommended level of solvency.

When UI programs are not forward funded, states might decide to lower benefits, increase taxes or a combination of both, when the economy is weak. During the Great Recession, the need for borrowing states to repay federal advances and states' desire to avoid tax increases over this period triggered significant benefit reductions, such that in 2019, the last full pre-pandemic year, fewer than three in 10 unemployed workers received UI benefits; in 13 states, this share was below 15 percent.

A state's trust fund balance also impacts the range of tax rates assigned to employers based on their experience for a given tax year. In general, the range of rates goes up when states' trust fund balances decrease, and they decline when balances increase. This is another reason why forward funding is important, as employers are best positioned to absorb tax increases when the economy is strongest. In order for a countercyclical stabilizer such as UI to best function, it should build up funding capacity when the economic environment is favorable.

Obtaining advances can also create difficult political decisions for a state. For example, if an advance results in interest coming due, a state must finance the interest payment from a source other than the regular UI tax. Therefore, maintaining solvent state UI trust funds is in the best interest of all involved. Recognizing these issues, the Department of Labor (the Department) issued regulations in 2010 that set funding goals for state unemployment trust funds and restricted certain benefits (e.g., the ability to receive interest-free cash flow borrowing) to those states that met forward-funding goals.[116]

The Department plans to continue generating resources that provide information and educate the public on the status of states' UI solvency. Ultimately, legislative action is needed to fully stabilize the funding of state UI programs.

Strategies

Underway	
6.1. Continue publishing an annual report as a means to provide information and educate the public on the status of states' UI solvency	The Department is using opportunities to educate and provide technical assistance to policymakers regarding the need for solvent, stably funded state UI programs, and the risk posed to states' UI benefit adequacy when states fail to properly fund their programs.

[116] Tax credits under the Federal Unemployment Tax Act; Advances under Title XII of the Social Security Act, 20 C.F.R. Part 606 (April 2007), www.ecfr.gov/current/title-20/chapter-V/part-606.

Proposed legislative reform

- **Improve state and federal trust fund solvency -** The pandemic severely drained state unemployment trust funds, and comprehensive UI reform must improve state and federal solvency through equitable and progressive financing mechanisms.
- **Reduce the incentives for employers to contest legitimate UI claims -** As noted earlier, UI taxes are experience rated. This means that the rate an employer pays in state UI taxes changes based on their individual "experience" with unemployment. The purpose of this practice, which dates back to the enactment of the SSA in 1935, is to discourage layoffs by making employers pay for the costs of their contributions to overall unemployment. Put simply, high-layoff employers are charged higher taxes. In all states except Alaska, however, this rate is based on the amount of benefits claimed by former employees and not the number of people laid-off.[117] The bipartisan Advisory Council on Unemployment Compensation noted that some members warned "that experience rating causes employers to make excessive use of the system's appeal mechanism in an attempt to keep their experience-rated taxes as low as possible."[118] Research on laid-off workers' UI claims-filing experiences during the Great Recession also describes instances where some employers actively deterred UI receipt.[119] A reformed UI program should examine ways it may reduce incentives for employers to wrongly contest UI claims.

[117] For more information on the different types of experience rating used by states see Department of Labor, Employment and Training Administration, *Comparison of State Unemployment Insurance Laws 2023,* Financing, Chapter 2 https://oui.doleta.gov/unemploy/pdf/uilawcompar/2023/financing.pdf.

[118] Advisory Council on Unemployment Compensation, *Collected Findings and Recommendations, 1994-1996*, (1996), https://research.upjohn.org/externalpapers/1/.

[119] Alix Gould-Werth, "Workplace experiences and unemployment insurance claims: How personal relationships and the structure of work shape access to public benefits," *Social Service Review*, vol. 90, no. 2 (June 2016), pp. 305-352, www.jstor.org/stable/26463049.

Action area 7
Strengthening reemployment and connections to suitable work

Building Resilience:
A plan for transforming unemployment insurance

Action area 7
Strengthening reemployment and connections to suitable work

Despite a rise in permanent layoffs and increased unemployment duration across the occupational distribution due to forces of technological change and globalization, workforce services and supports for unemployment insurance (UI) claimants remain dispersed and limited in their scope.

There are four federally funded programs that provide reemployment services and primarily serve UI claimants: the Reemployment Services and Eligibility Assessment (RESEA) program, the Wagner-Peyser Employment Service, the Workforce Innovation and Opportunity Act (WIOA) Adult program, and the WIOA Dislocated Worker program.

In 2018, amendments to the Social Security Act (SSA) permanently authorized the RESEA program, which had replaced the earlier Reemployment and Eligibility Assessment (REA) program in 2015. Historically, RESEA targeted UI claimants most likely to exhaust benefits, as well as recipients of Unemployment Compensation for Ex-servicemembers (UCX). However, provisions within the Department of Labor (the Department)'s annual appropriations have provided additional flexibility for states to include any claimants of regular unemployment compensation (UC).

The four statutorily defined goals for the RESEA program are to: (1) reduce the average duration of UI receipt through improved employment outcomes; (2) reduce improper payments by states through the detection and prevention of such payments to individuals who are not eligible; (3) promote alignment with the vision of WIOA; and (4) establish RESEA as an entry point to other workforce system partners.

To achieve these goals, the program provides a one-on-one session between the claimant and a qualified American Job Center staff member and an assessment of the claimant's continuing eligibility.

The RESEA program is modeled after a Nevada program, which was found to save UI trust fund dollars by accelerating recipients' reemployment.[120]

The RESEA program is statutorily limited to claimants that states deem most likely to exhaust their UI benefits before finding employment. Further, as with state UI benefit and tax structures, the availability of meaningful reemployment services for UI claimants varies by state, which can make it difficult for some UI claimants to know how to direct their job search or locate appropriate training.[121] In 2022, 18 percent of all UI claimants completed an RESEA session; approximately 81 percent of these individuals reported for reemployment services as a direct result of the RESEA session.[122]

Another challenge is the persistence of outmoded and cumbersome work search requirements in states. An essential provision of state UI programs is the requirement that claimants be able and available for work and actively seek work. Many states' work search requirements rely solely on employer contacts or applications that, while important, do not fully reflect how hiring occurs in the modem labor market and do not effectively connect claimants to workforce system services that will help them become reemployed. Further, reflecting outmoded rules and complicated digital interfaces and instructions, states are disqualifying workers at historically high rates for non-compliance with work search requirements, along with other continuing eligibility requirements.[123]

Lastly, the UI system's response to downturns is weakened by not taking full advantage of the Short-Time Compensation (STC) program. STC, also known as "work sharing" or "shared work," is a layoff aversion program that keeps workers employed and attached to their employer during business declines.

[120] Marios Michaelides and others, *Impact of the Reemployment and Eligibility Assessment (REA) in Nevada* (submitted by IMPAQ International to the U.S. Department of Labor, January 2012), https://wdr.doleta.gov/research/FullText_Documents/ETAOP_2012_08_REA_Nevada_Follow_up_Report.pdf.

[121] Government Accountability Office, REEMPLOYMENT SERVICES: DOL Could Better Support States in Targeting Unemployment Insurance Claimants for Services, GAO-18-633 (September 2018), www.gao.gov/assets/gao-18-633.pdf.

[122] Department's calculations using data from Reemployment Services and Eligibility Assessment Workload, ETA 9128, and Claims and Payment Activities, ETA 5159.

[123] For example, between calendar years 2009 and 2023, the ratio of benefit denials for nonseparation issues to weeks compensated more than tripled, rising from 1.3 percent to 4.7 percent. Prior to 2009, dating back to 1972, this rate ranged between 1.2 percent and 2.5 percent. These ratios were computed by the Department using data on denial of benefits for nonseparation issues from Nonmonetary Determinations Activities, ETA 207 and data on weeks compensated from Claims and Payment Activities, ETA 5159.

An employer, under a state approved plan, reduces the hours of a group of workers who receive partial UI benefits to compensate for the reduced hours. The Department published guidance to states regarding the use of STC to support the subsequent ramp-up of business coming out of the COVID-19 pandemic;[124] further legislative reform would help ensure the program can be maximized going forward.

Currently, only half of states (26) have operational programs,[125] and in states with programs, employer participation and broader usage remain low.[126] Prior evaluation research, commissioned by the Department, suggests that a lack of employer awareness is a "major barrier" to STC utilization is states.[127]

During the pandemic, federal funding was made available under the Coronavirus Aid, Relief, and Economic Security (CARES) Act for grants to implement and improve state STC programs, as well as to increase employer participation. However, only 11 states applied for these grants, in part because these funds were made available at a time when states were also responding to historic workload increases and implementing numerous new temporary pandemic unemployment programs.

As part of transformation efforts, the Employment and Training Administration (ETA) will continue to implement the permanent RESEA program, including delivering outcome-based payments to those states that serve more workers, and will develop RESEA performance measures and enhance its capacity to support the program. Between Fiscal Year (FY) 2022 and FY 2024, funding for RESEA increased 53 percent from $250 million to $382 million and states are in the process of investing in their staffing and infrastructure to support this expansion.

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[124] Department of Labor, Employment and Training Administration, *Unemployment Compensation (UC) for Individuals Affected by the Coronavirus Disease 2019 (COVID-19) – Short-Time Compensation (STC) for Reopening the Economy*, UIPL No. 10-20, Change 2 (May 25, 2021), www.dol.gov/agencies/eta/advisories/unemployment-insurance-program-letter-no-10-20-change-2.

[125] Department of Labor, Employment and Training Administration, "Short-Time Compensation", https://oui.doleta.gov/unemploy/docs/stc_fact_sheet.pdf.

[126] For example, in the high-layoff years of 2009 and 2020, the ratio of STC first payments to all regular UI first payments was just 1.96 percent and 2.00 percent respectively. These ratios were computed using data reported by states in Claims and Payment Activities, ETA 5159.

[127] Susan Houseman and others, *Demonstration and Evaluation of the Short-Time Compensation Program in Iowa and Oregon: Final Report* (W.E. Upjohn Institute for Employment Research, 2017), https://research.upjohn.org/projects/123/.

In the 2025 Budget, the Department also recommends greatly expanding reemployment services for unemployed workers through the RESEA program to strengthen the UI program's role as a bridge to high-quality reemployment. The Department also proposes three legislative changes to make technical fixes to the RESEA program based on experience over the first five years of this becoming a permanent program in the SSA. Further, to mitigate disruptions caused by declines in business demand, STC should be required in every state and there should be federal support to implement a program when the economy is strong to promote its use.

Strategies

Completed	
7.1. Increase staffing to support the RESEA program	ETA has strengthened staff support in the regional offices for the RESEA program. Historically, ETA's regional offices have not been able to dedicate one continuous person to provide full-time support to this growing and important permanent program.
7.2. Monitor RESEA and UI program performance with three new performance measures	A primary goal of the UI and Employment Service (ES) systems, and other workforce development programs, is to support the rapid reemployment of UI claimants. Doing so helps the claimant quickly reestablish earning power and also saves state UI trust funds from paying more benefits than necessary. With this goal in mind, the Department in December 2020, announced three new performance measures for the RESEA and UI programs.[128] The first measure is a new Core Measure in the UI program that reflects a state's RESEA program performance and captures the percentage of RESEA participants who are in unsubsidized employment during the second quarter after exit from the RESEA program. The second RESEA measure is a Program Performance Measure that captures RESEA participants' median earnings, also in the second quarter after exit.

[128] Department of Labor, Employment and Training Administration, *Performance Measures for Reemployment Services and Eligibility Assessments (RESEA) and Unemployment Insurance (UI) participants*, Training and Employment Guidance Letter No. 9-20 (December 17, 2020), www.dol.gov/sites/dolgov/files/ETA/advisories/TEGL/2020/TEGL_9-20.pdf.

	The third measure, also a Program Performance Measure, evaluates the reemployment rate for all UI eligible participants receiving reemployment services. Similar to the first Core Measure, it captures the percentage of UI eligible participants who are in unsubsidized employment during the second quarter after exit from the ES program. There is no additional reporting burden to states as a result of implementing these measures since ETA will use data that are currently collected and reported by states for performance accountability purposes under WIOA. The Department will develop and implement targets for these measures, to be applied in FY 2025. As the RESEA program expands, the implementation of these performance measures will play a key role in driving state efforts to facilitate the reemployment of individuals connected to the workforce system.
7.3. Promote expansion of STC through grants under the CARES Act	The CARES Act provided up to $100 million of funding for states to (1) implement or improve the administration of their STC programs, and/or to (2) promote and encourage employer use of STC as an alternative to layoffs. Prior to the recission of the remaining amounts of these funds by the Fiscal Responsibility Act of 2023, 10 states and the District of Columbia were awarded just under $20 million in total.[129] One-third of a state's funding is dedicated to implementation or improvement of the program, while the remaining two-thirds are dedicated to promotional activities. Unemployment Insurance Program Letter No. 22-20 provided guidance to grant fund recipients while the Office of Unemployment Insurance (OUI) developed and presented a series of webinars on model STC state legislation and CARES Act grant requirements. Additionally, OUI, in partnership with the Department's Office of Congressional and Intergovernmental Affairs, developed an STC promotional package addressed to governors in states without STC programs in an effort to promote program establishment. This package included an "STC Fact Sheet" and an "STC One Pager" that highlighted program opportunities and benefits. In addition, OUI provided a series of "STC Office Hours," where states could ask technical assistance questions directly to National Office staff.

[129] Along with the District of Columbia, those states are CT, IL, KY, ME, MO, NY, WA, WV, WY, and OR.

	OUI also established a series of Regional Roundtables where state STC programs came together to share administrative and promotional best practices and discuss their STC experiences.
7.4. Reward state RESEA program performance with outcome payments	Outcome payments are designed to reward states that meet or exceed certain criteria of RESEA program performance. The SSA specifies that the Department must set aside 10 percent of RESEA funding for these payments through FY 2026, and 15 precent for fiscal years after 2026. Statutorily required, they are administered as an increase to an eligible state's RESEA base-funding grant. Based on RESEA program performance in FY 2022, 35 states were eligible for outcome payments totaling $24,687,500.[130] As part of efforts to enhance analysis of RESEA performance, the Department has also updated the methodology used to determine states' outcome payments, relying on a regression-based statistical model that accounts for interstate variation that may affect RESEA performance. The transition to RESEA-specific modeling was completed in 2023 and applied to FY 2022 outcome payments, awarded in March 2023.
7.5. Publish and implement a revised RESEA State Plan template	The foundation of the RESEA program is an annual RESEA State Plan that captures both operational information, such as budget estimates and performance targets, and strategic information, including information about partnership-building efforts across workforce programs and the latest evidence used to inform strategies. ETA first implemented the annual state plan requirement in FY 2019. A revised state plan template was implemented during the FY 2023 planning cycle and expires November 2025. The new template emphasizes integration of unemployment and reemployment systems in both service delivery and administrative systems, such as case management and performance reporting, and supports evidence-based decision making, which is a statutory foundation of the RESEA program.

[130] Department of Labor, Employment and Training Administration, *Announcing Unemployment Insurance (UI) Reemployment Services and Eligibility Assessments (RESEA) Program Outcome Payments for Fiscal Year (FY) 2022*, Training and Employment Notice No. 22-22 (March 29, 2023), www.dol.gov/sites/dolgov/files/ETA/advisories/TEN/2022/TEN 22-22/TEN 22-22.pdf.

7.6. Develop a significant body of causal evidence regarding effectiveness of RESEA and related interventions	In the years following the creation of a permanent and evidence-based RESEA program, the Department has amassed a body of causal evidence regarding the effectiveness of the RESEA program and related interventions designed to accelerate claimant reemployment. Much of this research is stored in the Department's online Clearinghouse for Labor Evaluation and Research.[131] Such evidence is critical to strengthening the UI system's role as a bridge to high-quality reemployment, including its role as an entry point to other workforce system partner programs. This research is also beneficial to states, as they are required since FY 2023 to dedicate at least 25 percent of their RESEA grant funding to services with a high or moderate causal rating of improving reemployment and duration outcomes for program participants. This share statutorily increases through FY 2027 to 50 percent. States are also required to evaluate any strategies that are not currently grounded in evidence. To support states' compliance with RESEA evidence-based requirements, the Department will continue to provide extensive technical assistance to states regarding evaluation design, data collection, and any necessary modifications resulting from RESEA program changes, such as the proposed eligibility expansion.
7.7. Develop a base-funding formula for RESEA state grants	In FY 2021, the Department began to determine each state's maximum RESEA base award using a formula allocation based on the state's Insured Unemployment Rate (IUR) and the size of its civilian labor force. The formula allocation includes provisions intended to stabilize funding from year to year, and to incentivize the timely expenditure of RESEA funds. These include a hold harmless provision, minimum funding clause, and carry-over threshold. More information on the final RESEA allocation formula can be found in the *Federal Register* notice, published on August 8, 2019 (84 Fed. Reg. 39,018). In December 2023, the Department initiated a 90-day process to implement a series of technical modifications to the RESEA formula's carry-over limitation. These modifications clarify the Department's methodology for calculating carry-over funding levels and will take effect during the FY 2024 RESEA grant award process.

[131] Department of Labor, *Reemployment Services and Eligibility Assessments (RESEA) Library*, Clearinghouse for Labor Evaluation and Research, https://clear.dol.gov/reemployment-services-and-eligibility-assessments-resea.

Underway	
7.8. Expand states' reporting of RESEA activities to account for the increased opportunity for innovation in service delivery	As part of its implementation of the RESEA program, ETA provided states with flexibility to include follow-up RESEA sessions, referred to as "Subsequent RESEAs," as part of their service delivery models (in contrast, the term "Initial RESEA" refers to the first meeting between an RESEA service provider and a UI claimant who responded to an official notification of selection and required participation in RESEA services.) Due to a combination of statutory and administrative changes to the RESEA program, the states' adoption of Subsequent RESEAs has become more common and now forms a significant portion of RESEA workloads in many states. In order to accurately reflect states' workloads and for OUI to provide accurate program oversight and targeted technical assistance to states, and assess the effectiveness of the RESEA program, ETA has proposed modifications to the quarterly ETA 9128 report to allow states to separately report the number of subsequent RESEAs that were scheduled and completed, and instances where a claimant failed to report as directed. The Federal Register Notice public comment period closed on January 24, 2022. OUI completed programming changes in December 2023, and guidance implementing these changes is expected in Q2 or Q3 of FY 2024.
Planned	
7.9. Issue guidance on worker profiling approaches (GAO 18-633)	Since 1994, states have been directed to identify claimants most likely to exhaust their state unemployment benefits without finding a job and target reemployment services to these individuals, as part of the Worker Profiling and Reemployment Services system. Following up on a specific recommendation by the Government Accountability Office,[132] the Department will provide updated information to states about the various options available to them to fulfill the requirement for profiling.

[132] Government Accountability Office, *Reemployment Services: DOL Could Better Support States in Targeting Unemployment Insurance Claimants for Services*, GAO-18-633 (September 5, 2018), www.gao.gov/products/GAO-18-633.

	While current RESEA guidance gives states flexibility to target a broad population of UI claimants, identifying those likely to exhaust remains an important part of an effective reemployment strategy.
7.10. Disseminate best practices for implementation and promotion of STC in states	ETA is partnering with states that have active STC programs (26) to highlight and share best practices through the WorkforceGPS community of practice, as well as through discussions with employer organizations.
7.11. Help states re-envision work search	Many states are recognizing that how people find work in today's labor market is very dynamic and rethinking their UI work search polices to expand the scope of actions that meet their requirements. In recent years, the Department has played a significant role in convening stakeholders and generating resources to assist states in promoting the rapid reemployment of UI claimants in suitable work. Most recently, in February 2020, the Department made available Model UI State Work Search Legislation (Training and Employment Notice No. 17-19). This builds on an earlier effort, in which a group of state workforce system leaders, in collaboration with representatives from the National Association of Workforce Agencies and national and regional ETA staff, came together to develop the Pathway to Reemployment Framework.[133] This framework consists of resources that provide stakeholders with a "re-envisioned" approach to work search for UI claimants, plus strategies and behavioral insights related to UI work search requirements that states may elect to adopt. Looking ahead, the Department will encourage state consideration of activities that support availability of reemployment services for UI claimants in ways that reflect how people actually find work in the modern economy.

[133] Department of Labor, Employment and Training Administration, *Pathway to Reemployment Framework* (2016), https://rc.workforcegps.org/resources/2016/10/03/05/36/Pathway_to_Reemployment_Framework.

Proposed legislative reform

- **Expand RESEA eligibility to all regular UI claimants –** RESEA eligibility is statutorily limited to claimants that states identify as likely to exhaust UI benefits. Each year since enactment of the permanent RESEA program, Congress has included provisions in the annual appropriations law expanding RESEA eligibility to all regular UI claimants. In addition, there has been significant increases in RESEA program funding, which supports providing reemployment services to a broader group of claimants. This proposal would codify and make permanent the expanded RESEA eligibility. Allowing states additional discretion to target different claimant populations will result in more robust RESEA programs that meet the needs of the individual state and will support effective evidence-based decision making. This change would also encourage states' efforts to identify, and implement, new evidence-based strategies without concern of a reversion to the more limited set of claimants.
- **Update the RESEA funding distribution formula –** The RESEA legislation requires the RESEA funding distribution formula to be based primarily on the Insured Unemployment rate (IUR). The IUR is based on weekly claims filed and the covered employment in the state over the 12-month period ending three months prior to the start of the fiscal year and six months prior to the start of the program year for RESEA. This formula approach can lead to large swings in state funding allocations and reflects a reactive funding strategy instead of a forward-looking approach. Removal of the IUR requirement will allow the Department to develop a formula using other data factors based on projected workloads, such as initial claims as a measure of new potential participants, which better aligns funding with states' claim workloads and actual program funding needs.
- **Modify the RESEA Technical Assistance set-aside –** The current statutory language for the RESEA program includes a set-aside for Technical Assistance of "no more than" one percent of the total RESEA funding. This phrasing suggests that this is an "up to amount" and that the Department may opt to use less than one percent but does not provide authority to reallocate any remaining balance to state RESEA activities. ETA requests to amend the statutory language to state that the technical assistance set-aside provides for "up to" one percent, and to allow for the distribution to states of any unobligated funds remaining from this set-aside that are not used for technical assistance purposes.

- **Require all states to provide STC –** STC should be required in every state and receive greater federal support to ensure it is accessible for employers. As described in the Administration's 2025 Budget, comprehensive UI reform must include expanding the number of employers who use STC, something that happened too rarely during the COVID-19 crisis. Prior evaluation research suggests that marketing of the program, or information campaigns, are effective ways to increase employer participation.[134]

[134] Susan N. Houseman and others, *Demonstration and Evaluation of the Short-time Compensation Program in Iowa and Oregon: Final Report* (W.E. Upjohn Institute for Employment Research, June 2017), https://research.upjohn.org/externalpapers/75/.

Conclusion

Building Resilience:
A plan for transforming unemployment insurance

Conclusion

As the depth and breadth of strategies contained in this plan make evident, the Department of Labor (the Department) is taking decisive, wide-ranging action to respond to the Government Accountability Office (GAO)'s recommendations and transform the unemployment insurance (UI) system, one of the oldest, most vital programs in the U.S., into a stable, equitable, high-integrity system that provides eligible unemployed individuals a reliable pathway to new employment and stabilizes the economy against recessions.

Work plays a central role in Americans' lives. It provides essential economic resources, fosters social connections, and offers structure and purpose. The absence of work, as experienced during unemployment, can have destabilizing and far-reaching consequences. The UI system is there to help people and families maintain their dignity during a vulnerable time and swiftly connect them to suitable work opportunities, enabling them to regain stability. This requires a system that provides access to benefits that are simple, secure, and timely, with effective protections against fraud.

As in previous downturns, UI played a crucial role in lifting the nation out of crisis when COVID-19 struck. But the pandemic's upheaval also exposed long-standing systemic deficiencies, reflecting years of federal administrative underfunding and the erosion of state benefit adequacy and financial health. Furthermore, the pandemic exposed a challenged UI system to significant risk of fraud and improper payments.

The Department and its state partners have been engaged in a major effort to translate the difficult lessons of the pandemic into a roadmap for the program's future. First and foremost, the American Rescue Plan Act (ARPA) has provided $783 million in grants to 52 of 53 states to combat fraud, promote equitable access, improve timely delivery of payments, and modernize information technology infrastructure. Beyond grant funding, ARPA has fostered deeper collaboration with states and set the stage for critical ongoing and planned activities in areas like fraud prevention, improving customer service, and strengthening connections to work.

The Department will continue to monitor and report on progress in the strategies elaborated in this transformation plan. This includes monitoring and assessing the rate of improvement in the UI system's core performance standards, particularly those related to timeliness, payment accuracy and program integrity, claimant reemployment, and related indicators like trust fund solvency and UI recipiency.

However, the strategies contained in this plan only take the UI system part of the way on the path to change. As suggested by the GAO, and grounded in the Department's reform principles, this plan also outlines challenges that call for legislative solutions. This includes adequate and sustainable funding for program administration, new standards around eligibility and adequacy, and investments to broaden the reach of personalized reemployment services that reflect how people actually find work in today's labor market. Today's strong economy gives Congress, the Department, and states the opportunity to transform the UI system before the next crisis. A lack of meaningful action now to address the UI system's major vulnerabilities puts us all at risk when the next recession hits.

Appendix I – Acronyms

API	Application Programming Interface
ARPA	American Rescue Plan Act
CARES	Coronavirus Aid, Relief, and Economic Security
CEO	Chief Evaluation Office
CFO	Chief Financial Officer
CX	Customer experience
DOL	Department of Labor
DOL-OIG	Department of Labor, Office of Inspector General
ES	Employment Service
ETA	Employment and Training Administration
FPUC	Federal Pandemic Unemployment Compensation
FRA	Fiscal Responsibility Act of 2023
FUTA	Federal Unemployment Tax Act
FY	Fiscal Year
GAO	Government Accountability Office
GSA	General Services Administration
ICON	Interstate Connection Network
ID	Identity
IDH	Integrity Data Hub
IT	Information technology
ITSC	Information Technology Support Center
IUR	Insured Unemployment Rate
MEUC	Mixed Earners Unemployment Compensation
NASWA	National Association of State Workforce Agencies
NDNH	National Directory of New Hires
OUI	Office of Unemployment Insurance
OUIM	Office of Unemployment Insurance Modernization
PEUC	Pandemic Emergency Unemployment Compensation
PUA	Pandemic Unemployment Assistance
PUPS	Prisoner Update Processing System

RESEA	Reemployment Services and Eligibility Assessments
RJM	Resource Justification Model
RPA	Robotic Process Automation
SIDES	State Information Data Exchange System
SSA	Social Security Act
STC	Short-Time Compensation
TOP	Treasury Offset Program
UC	Unemployment compensation
UI	Unemployment insurance
UIPL	Unemployment Insurance Program Letter
WIOA	Workforce Innovation and Opportunity Act

Action area 1 Adequately funding UI administration	**Status as of Q2 FY 2024**
1.1. Update key factors in the Department's formula for estimating state administrative funding	Completed
1.2. Evaluate the level and distribution of administrative funding	Underway

Action area 2 Delivering high-quality customer service	**Status as of Q2 FY 2024**
2.1. Develop customer-centric recommendations for state unemployment insurance (UI) programs	Completed
2.2. Promote and support plain language activities	Completed
2.3. Give states actionable tips for adopting Robotic Process Automation into current workflows	Completed
2.4. Support states in strengthening customer experience and information technology (IT) metrics	Underway
2.5. Promote responsible automation to streamline non-discretionary, repetitive tasks	Underway
2.6. Consider updates to unemployment compensation (UC) confidentiality regulations to better support UC stakeholders	Underway
2.7. Update reporting on claims to enhance understanding of timeliness	Planned
2.8. Update the acceptable level of performance for timeliness measures	Planned
2.9. Update timeliness and adjudication reporting	Planned

Action area 3 Building resilient and responsive state IT systems	Status as of Q2 FY 2024
3.1 Apply principles of effective pilot program design	Completed
3.2. Invest in measurable and agile UI IT modernization through grants	Underway
3.3. Create opportunity for knowledge-sharing and collaboration on open and modular IT solutions	Underway
3.4. Enhance the reliability and accessibility of the Department's UI database management system	Underway
3.5. Enhance the UI IT Modernization Pre-Implementation Planning Checklist	Planned

Action area 4 Bolstering state UI programs against fraud	Status as of Q2 FY 2024
4.1. Designate a responsible entity in the Department for improper payment reduction	Completed
4.2. Assess fraud risk in state UI programs using leading practices in the Government Accountability Office's Fraud Risk Framework	Completed
4.3. Develop an interim solution to provide the Department of Labor, Office of Inspector General (DOL-OIG) direct access to states' claims data, and Integrity Data Hub (IDH) data, for the purpose of audits and investigations	Completed
4.4. Better enable states to cross-match UI claims against prisoner records	Completed
4.5. Strengthen resources for victims of UI identity (ID) fraud	Completed
4.6. Provide states with funding to strengthen capacity to protect the UI program from fraud and recover overpayments	Underway

4.7. Strengthen ID verification in state UI programs	Underway
4.8. Expand states' cross-matching capabilities with the IDH	Underway
4.9. Expand states' reporting of nonmonetary determination and disqualification activities	Underway
4.10. Partner with the DOL-OIG and other law enforcement agencies	Underway
4.11. Strengthen states' Integrity Action Plans	Underway
4.12. Coordinate with banks, financial institutions, and law enforcement	Underway

Action area 5 Ensuring equitable access to robust benefits and services	**Status as of Q2 FY 2024**
5.1. Issue guidance that provides states greater clarity on key equity-related concepts and requirements	Completed
5.2. Relieve the burden of repayment of Coronavirus Aid, Relief, and Economic Security (CARES) Act overpayments for claimants not at fault	Completed
5.3. Compile and disseminate Department's learnings from Tiger Team engagement on equitable access	Completed
5.4. Invest in equity-enhancing programs and activities through grants	Underway
5.5 Orient state staff to equity-related guidance and techniques through trainings	Underway
5.6. Enhance and expand states' UI data reporting, to better understand racial/ethnic and other inequities in regular UI benefit receipt	Underway
5.7. Facilitate partnership with community-based organizations through the UI Navigator Program	Underway
5.8. Develop new, deeper equity-related insights through state data partnerships	Underway

5.9. Explore methods of verifying the income of non-standard workers	Planned
5.10. Explore policy issues related to coverage of contingent and self-employed workers, especially during economic emergencies	Planned
5.11. Research new performance standards for equitable access	Planned
5.12 Train states to effectively address worker misclassification	Planned
5.13 Make clear that states can share information with agencies that enforce wage-and-hour laws to address misclassification	Planned

Action area 6 Rebuilding and stabilizing the long-term funding of state UI benefits	**Status as of Q2 FY 2024**
6.1. Continue publishing an annual report as a means to provide information and educate the public on the status of states' UI solvency	Underway

Action area 7 Strengthening reemployment and connections to suitable work	**Status as of Q2 FY 2024**
7.1. Increase staffing to support the Reemployment Services and Eligibility Assessment (RESEA) program	Completed
7.2. Monitor RESEA and UI program performance with three new performance measures	Completed
7.3. Promote expansion of Short-Time Compensation (STC) through grants under the CARES Act	Completed
7.4. Reward state RESEA program performance with outcome payments	Completed
7.5. Publish and implement a revised RESEA State Plan template	Completed

7.6. Develop a significant body of causal evidence regarding effectiveness of RESEA and related interventions	Completed
7.7. Develop a base-funding formula for RESEA state grants	Completed
7.8. Expand states' reporting of RESEA activities to account for the increased opportunity for innovation in service delivery	Underway
7.9. Issue guidance on worker profiling approaches	Planned
7.10. Disseminate best practices for implementation and promotion of STC in states	Planned
7.11. Help states re-envision work search	Planned

Appendix III – Proposed legislative reforms

Action area 1 Adequately funding UI administration
Adequately fund administrative funding
Consider stronger, more practical enforcement levers
Allow states to retain up to five percent of recovered fraudulent unemployment insurance (UI) overpayments for program integrity activities
Require states to use penalty and interest collections solely for UI administration

Action area 4 Bolstering state UI programs against fraud
Require states to cross-match against system(s) designated by the Secretary
Require states to use a system(s) of information exchange with employers designated by the Secretary
Require states to cross-match against the National Directory of New Hires
Require states to cross-match with a system(s) designated by the Secretary that contains information on incarcerated individuals
Require states to disclose information to the Department of Labor, Office of Inspector General
Allow states to retain up to five percent of recovered fraudulent UI overpayments for program integrity use
Require states to use penalty and interest collections solely for UI administration
Allow states the authority to issue a formal warning when claimants are unclear about work search requirements
Allow states to use contract support in recovery efforts under the Treasury Offset Program

Action area 5 Ensuring equitable access to robust benefits and services
Ensure all entitled and eligible individuals experiencing employment loss receive UI's income support
Extend unemployment protections to non-standard workers
Provide adequate benefits in every state
Ensure the federal-state Extended Benefits program responds timely and adequately to downturns
Invest in reducing worker misclassification

Action area 6 Rebuilding and stabilizing the long-term funding of state UI benefits
Increase state and federal UI trust fund solvency
Reduce the incentives for employers to contest legitimate UI claims

Action area 7 Strengthening reemployment and connections suitable work
Expand Reemployment Services and Eligibility Assessment (RESEA) eligibility to all regular UI claimants
Update the RESEA funding distribution formula
Modify the RESEA Technical Assistance set-aside
Require all states to provide Short-Time Compensation

U.S. Department of Labor

200 Constitution Ave NW
Washington, DC 20210
1-866-4-USA-DOL
1-866-487-2365

www.dol.gov