Executive summary

Building Resilience:
A plan for transforming unemployment insurance

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]

[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 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, 69.1 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; 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.