REFORMING UNEMPLOYMENT INSURANCE TO SUPPORT AMERICAN WORKERS AND BUSINESSES

HEARING

BEFORE THE

SUBCOMMITTEE ON WORK AND WELFARE

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED EIGHTEENTH CONGRESS

SECOND SESSION

JUNE 4, 2024

Serial No. 118–WW08

Printed for the use of the Committee on Ways and Means

U.S. GOVERNMENT PUBLISHING OFFICE
57–013 WASHINGTON : 2024

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United States House Committee on
Ways & Means
CHAIRMAN JASON SMITH

FOR IMMEDIATE RELEASE CONTACT: 202-225-3625
May 28, 2024
No. WW-08

Chairman Smith and Work & Welfare Subcommittee Chairman LaHood Announce Subcommittee Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses

House Committee on Ways and Means Chairman Jason Smith (MO-08) and Work & Welfare Subcommittee Chairman Darin LaHood (IL-16) announced today that the Subcommittee on Work & Welfare will hold a hearing on reforming unemployment insurance. The hearing will take place on **Tuesday, June 4, 2024, at 2:00 PM in the Sam Johnson Room located in 2020 Rayburn House Office Building.**

Members of the public may view the hearing via live webcast available at https://waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear the witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMSubmission@mail.house.gov.

Please ATTACH your submission as a Microsoft Word document in compliance with the formatting requirements listed below, **by the close of business on Tuesday, June 18, 2024**. For questions, or if you encounter technical problems, please call (202) 225-3625.

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All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Please indicate the title of the hearing as the subject line in your submission. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its facilities accessible to persons with disabilities. If you require accommodations, please call 202-225-3625 or request via email to WMSubmission@mail.house.gov in advance of the event (four business days' notice is requested). Questions regarding accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories and news releases are available on the Committee website at http://www.waysandmeans.house.gov/.

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REFORMING UNEMPLOYMENT INSURANCE TO SUPPORT AMERICAN WORKERS AND BUSINESSES

TUESDAY, JUNE 4, 2024

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON WORK AND WELFARE,
COMMITTEE ON WAYS AND MEANS,
Washington, DC.

The subcommittee met, pursuant to call, at 1:59 p.m. in Room 2020, Rayburn House Office Building, Hon. Darin LaHood [chairman of the subcommittee] presiding.

Chairman LAHOOD. Well, good afternoon, everybody. I want to welcome everybody to our Subcommittee on Work and Welfare for our hearing today on reforming unemployment insurance to support American workers and businesses.

And I am grateful for the witnesses for your time and the effort you took to be here today, and for our conversation and dialogue that we will have for this hearing. I especially want to thank the committee members that are here today for this important subject.

My name is Darin LaHood, and I represent Illinois's 16th district, covering much of the central and northern part of Illinois.

For the purposes of today's hearing we want to learn how Congress can help rebuild and restore confidence in the unemployment insurance program after the turmoil of identity theft, fraud, and claim delays during the pandemic.

GAO has estimated that between $100 and $135 billion was lost from COVID-era UI programs to fraudsters and criminals, foreign and domestic, deploying sophisticated schemes to divert benefits from unemployed workers. My home state of Illinois lost approximately $3.2 billion to fraud. This is outright theft of valuable taxpayer dollars that were not delivered to workers who needed them the most.

And while COVID programs have since expired, this data exposes a number of program weaknesses that need to be addressed. In February 2023 the Ways and Means Committee held a hearing with witnesses from the Department of Labor, Inspector General's Office, GAO, and the Pandemic Response Accountability Committee. These oversight agencies testified to problems with outdated state systems and weak online security that made the UI program particularly vulnerable to fraud.

Last year this committee passed the Protecting Taxpayers and Victims of Unemployment Fraud Act, which includes steps to strengthen program integrity, recover lost funds, and prevent future fraud. The House has since passed this legislation on a bipartisan basis.

We know fraudsters are still attacking UI and other Federal benefit programs, and we need to build on these efforts moving forward. This hearing will investigate three main areas of reform.

Number one, supporting state program integrity improvements and technology modernization, which are vital to this process. We will explore ways to prevent fraud by verifying identity of UI recipients and moving away from the "pay and chase" model of benefit delivery.

Second, we must focus on reemployment. The purpose of UI is to provide a bridge between jobs. However, many workers end up exhausting their benefits and remain out of the labor force. According to the Department of Labor, 38 percent of UI claimants exhausted their benefits in the first quarter of 2024. We know the longer a worker remains out of the labor force, the harder it is to return to work. That is why I have co-led, along with Ranking Member Danny Davis, to my left, the BRIDGE for Workers Act, to strengthen the Reemployment Services to Eligibility Assessments program. Our bill would offer more flexibility to states to provide job skills training, resume preparation, and career exploration to connect unemployed workers to in-demand jobs more quickly. We passed this bill unanimously out of committee last November, and I look forward to its consideration on the House floor very soon.

Third, to improve program administration, we will examine the administrative funding model for state UI programs which collects but does not distribute adequate resources to states. The Federal Unemployment Tax, pronounced FUTA, provides a dedicated revenue stream to support state administration of the UI program. However, these dollars are not ending up in state agency hands to enact needed system improvements.

In fiscal year 2022 states received approximately $3.7 billion less in administrative funding than employers collectively paid in FUTA taxes due to problems with how dollars flow through the Unemployment Trust Fund. This process also creates disparities in how funding is allocated across the country. As part of making the UI program more resilient, reforms are needed to improve this financing mechanism so states are able to invest in long-term solutions.

Lastly, I would like to recognize my colleagues Representative Carey, Representative Steel, and Representative Tenney for their recent introduction of legislation to modernize UI and support workers and small businesses. These bills are important building blocks for us to work on reforming this critical program for American workers.

Again, I am grateful for the witnesses before us today. I want to thank you for being here today, and we look forward to your testimony.

Chairman LAHOOD. With that, I am pleased to now recognize the gentleman from Illinois, our ranking member, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chair. And before I begin my statement, I want to thank you for the hearing and thank the witnesses for coming.

But I want to convey all of our best wishes to our colleague, Dwight Evans, who could not join in person today. I know Dwight is probably watching this hearing and formulating questions, and we all look forward to having him back with us in person very soon.

Unemployment insurance is an earned benefit to assist workers who lost their jobs through no fault of their own, helping workers pay the rent and put food on the table while stabilizing our local and national economies. During the pandemic, 22 million, or about one in four, American workers received unemployment benefits. Unemployment benefits kept five million people out of poverty and helped prevent the long, deep recession predicted by economists. The Biden American Rescue Plan's extended unemployment benefits and other investments resulted in record-breaking job growth and the longest stretch of low unemployment since the 1960s.

However, the pandemic highlighted that much work remains to make the unemployment insurance program fair and effective. Millions of workers spent hours or days trying to access and complete the unemployment benefit application, and many never succeeded. People of color, younger workers, and lower-paid workers were disproportionately less likely to know they could even apply.

The Government Accountability Office also notified us about a deeply troubling and unacceptable problem among workers who applied for benefits: White workers were more likely to receive benefits than Black workers.

Unfortunately, problems with equitable access to unemployment benefits preceded the pandemic, with many states making it difficult or near impossible for workers to claim earned unemployment benefits when they needed them. States often justified the roadblocks as fraud prevention, but the stark reality was that workers who were our friends and neighbors were locked out of benefits they earned.

The good news is that both red and blue states are now hard at work removing some of these barriers to unemployment benefits. Ways and Means Democrats worked closely with the Biden Administration to provide the American Rescue Plan resources so that the states could take immediate action to ensure that workers receive their benefits fairly and on time, while preventing fraud.

The Department of Labor has funded 160 grants in 46 states to ensure basic fairness to people of all ages and races in our unemployment system. I am very proud of the good work in my home state of Illinois, as well as around the country, and I look forward to hearing about these efforts from Jennifer Phillips today. The success of the equity grant shows how much states can do with adequate resources.

But we should not confuse the effects of funding shortfalls with the appropriate funding consequences states currently experience when they fail to pay benefits to unemployed workers. The ARPA equity grants were an important first step to make sure that all workers received their earned benefits, and these grants are an investment that should continue.

In addition, there are larger structural issues to address, starting with giving the Department of Labor the data and tools it needs to protect workers.

Mr. DAVIS. Thank you, Mr. Chairman, and I yield back.

Chairman LAHOOD. Thank you, Mr. Davis, for your opening statement there.

We will now go to introduction of the witnesses and have their five-minute presentation. I will start with introductions from left to right.

J.T. Taylor is the senior director of fraud at ID.me from McLean, Virginia.

Next we will have Beth Townsend as executive director of the Iowa Workforce Development in Des Moines, Iowa.

Next we will have Chris Stricklin, who is the president of Dunn University in Birmingham, Alabama.

We have Will Raderman, who is an employment policy analyst at the Niskanen Center in Washington, D.C.

We have Jennifer Phillips, who is the program lead at Georgetown University's Beeck Center for Social Impact and Innovation in Washington, D.C.

Welcome to you all.

Mr. Taylor, I will start with you. You are recognized for five minutes.

STATEMENT OF J.T. TAYLOR, SENIOR DIRECTOR OF FRAUD, ID.ME

Mr. TAYLOR. Thank you, Chairman. Chair LaHood, Ranking Member Davis, and distinguished committee members, thank you for the opportunity to testify today on reforming unemployment insurance to support American workers and businesses.

My name is J.T. Taylor, and I currently serve as the senior director of fraud at ID.me. Drawing from over two decades of public service in the United States Secret Service, the U.S. intelligence community, and the U.S. military, I bring a comprehensive perspective on digital fraud and cyber threats.

ID.me is a leading digital identity verification platform, independently certified against NIST 863.3. We support over 129 million digital wallets, and help dozens of Federal and state agencies enhance security and streamline identity verification processes.

The COVID–19 pandemic presented unprecedented economic challenges requiring a swift response. In March 2020 the CARES Act was signed into law designed to deliver emergency assistance to individuals and businesses affected by the pandemic. However, lacking identity verification controls, this rapid action opened the door to widespread fraud.

The GAO reported improper payments totaling $247 billion in 2022, with estimates of pandemic-related UI fraud ranging from 100 billion to 135 billion. ID.me estimates this figure closer to be 400 billion based upon our data and insights from 27 states that we supported during that tumultuous time period. This discrepancy highlights the persistent challenges in accurately quantifying and combating fraud due to the technological limitations and fraud reporting deficiencies across the state networks.

Overall, 27 states partnered with ID.me for digital identity verification at the height of the pandemic, implementing IAL2 controls in their respective programs, effectively curbing fraudulent activities and expediting claim processing for legitimate applicants.

As a result of our NIST IAL2 solution, we have been credited by seven states for helping to avert a staggering $273 billion in potential fraud loss.

We were brought in, in part, because legacy methods of identity verification that have traditionally supported public benefit programs are no longer up to the task of both stopping fraud and ensuring that the communities who need the programs the most are able to access them seamlessly. The combination of stolen personal information and generative AI enables fraudsters to hyper-scale their fraudulent attempts. Biometrics, including facial verification and liveness detection, are essential in combating these threats.

ID.me's responsible use of biometrics, guided by principles of fairness, transparency, and choice through the multiple verification pathways ensures that identity verification processes are both secure and inclusive. However, the increasing sophistication of deep fakes from domestic fraudsters to nation-state-affiliated cyber criminals makes securing these inclusive verification pathways much more difficult.

The Department of Homeland Security has acknowledged the clear and present danger posed by synthetic content, which threatens various domains, including national security and the financial sector. Biometrics are increasingly proving to be an effective countermeasure to deep fakes and digital injection attacks, and ID.me believes that biometrics will need to play an even bigger role in the protection of benefits in the future.

Now is the right time to discuss how responsible use of biometrics, continuous human oversight, and threat research and monitoring will enable the government to maintain its edge in the fight against digital fraud. Congress should work with the executive branch to avoid any form of blanket bans or restrictions on their use, and advance guidelines for responsible deployment of biometrics.

The integrity of our national services and benefit programs hinges significantly on the robustness of our identity verification processes. My recommendations on strengthening these mechanisms are as follows: number one, adherence to NIST guidance on identity verification; number two, opt for NIST Identity Assurance level 2; and number three, establish uniformity in data retention and the statute of limitations for prosecutorial support.

Additionally, legislative efforts like Protecting Taxpayers and Victims of Unemployment Fraud Act should be commended and advanced as soon as possible. The longer we wait to act, the harder it will be to recover what stolen dollars we can mitigate and the newest evolutions of fraud we are starting to see.

Key provisions like extending the statute of limitations for criminal charges and civil actions for prosecuting fraud from five to ten years, and incentivizing states by allowing them to retain a percentage of the recovered overpayments of unemployment benefits and reinvesting these dollars into program integrity and fraud prevention are crucial. By allowing recovered funds to be utilized to modernize state systems for verifying identity and income, states can further enhance their fraud prevention measures, ensuring UI claims are cross-verified against the National Directory of New Hires and the State Information Data Exchange System.

It is also important, however, to underscore that states have been—effectively demonstrated, when given choice, they can efficiently leverage the competitive identity verification marketplace developed around the NIST I02 guidelines. Just as Congress added the identity verification requirement under section 242 of the Continued Assistance Act to improve integrity of the Pandemic Unemployment Assistance Program, Congress should also consider further steps to add identity verification to traditional UI and subsequent UI programs.

Recovery and resilience extend beyond strict measures. They require fostering competitive innovation where technology can thrive to recover stolen funds and prevent future losses. This effort must include continuous dialogue and cooperation between private sector and government entities.

As we tackle these challenges and work to ensure solvency and crucial public benefit programs like UI, we owe it to the American taxpayer to implement forward-thinking strategies and robust infrastructures that ensure accessibility, security, and privacy.

Thank you again for the opportunity to discuss these crucial issues.

[The statement of Mr. Taylor follows:]

Testimony of

JT Taylor
Senior Director of Fraud
ID.me, Inc.

"Reforming Unemployment Insurance to Support American Workers and Businesses"

United States House of Representatives
Ways and Means
Work & Welfare Subcommittee
June 4, 2024

ID.me is a Credential Service Provider (CSP) independently certified against the National Institute of Standards and Technology (NIST) Special Publication (SP) 800-63-3 Identity Assurance Level 2 (IAL2), and Authenticator Assurance Level 2 (AAL2). ID.me is able to verify users via omni-channel pathways, including Unsupervised Remote (online self-serve), Supervised Remote (video chat), and in-person options. ID.me supports over 129 million wallets and more than 650 customers, including 16 federal agencies and 40 state agencies across 30 states. Of the 129 million wallets, over 60 million have active NIST credentials.

JT Taylor
Senior Director of Fraud
ID.me

Chair LaHood, Ranking Member Davis, and distinguished committee members, thank you for the opportunity to testify today. I am honored to discuss “Reforming Unemployment Insurance to Support American Workers and Businesses.” My name is J.T. Taylor, and I serve as the Senior Director of Fraud at ID.me. As I share insights and recommendations today, drawn from the breadth of my professional journey, I wish to highlight that these views are distinctly my own and may not necessarily align with the official positions of ID.me or affiliated entities.

Before this role, I dedicated over two decades to the U.S. Secret Service, the U.S. Intelligence Community, and the U.S. Military. These experiences provided me with a deep understanding of global security dynamics. As a Special Agent with the U.S. Secret Service, I led major domestic and international fraud and cybercrime investigations. My career in intelligence operations and investigative work has given me a comprehensive perspective on the complexities of digital fraud and cyber threats.

ID.me is a leading digital identity verification platform that protects consumers and businesses from fraud and identity theft. Our platform is designed to provide secure and convenient access to a wide range of services, ensuring that individuals' identities are verified accurately, efficiently, and in a privacy-enhancing way. ID.me serves over 129 million wallets, with over 60 million of these users holding a verified NIST IAL2 identity credential. This credential provides rapid access to essential services across various sectors, including government agencies, healthcare organizations, financial institutions, and consumer brands through the ID.me Digital Wallet.

We partner with numerous organizations in the private sector, as well as 16 Federal agencies and 40 state agencies across 30 states, to enhance security and streamline the identity verification processes. Our partnerships include collaborations with the U.S. Departments of Veterans Affairs, Treasury and dozens of state workforce agencies, among others. Our comprehensive approach and advanced technology have established ID.me as a trusted provider in the field of digital identity verification.

The CARES Act and Rampant Pandemic Fraud

The COVID-19 pandemic presented unprecedented economic challenges, requiring a swift response. In March 2020, the CARES Act was signed into law, designed to deliver emergency assistance to individuals and businesses affected by the pandemic. However, this rapid action opened the door to widespread fraud.

The extent of unemployment insurance (UI) and public assistance fraud during the COVID-19 pandemic has been a topic of significant debate, with various estimates highlighting the scale and impact of the issue.

In 2022, the Government Accountability Office (GAO) reported that the Federal government made improper payments totaling $247 billion, of which $200 billion were overpayments and excludes estimates for programs like the Pandemic Unemployment Assistance Program (PUA) and the Supplemental Nutrition Assistance Program (SNAP). This marks a distressing rise from $108 billion in 2012.[1] Recently, the GAO added another layer of complexity to the reporting, estimating pandemic-related UI fraud to be between $100 billion and $135 billion. The GAO's findings highlight the

[1]U. S. Government Accountability Office. Report (2023). Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement. March 29, 2023.

challenges in accurately quantifying fraud due to varying technological capabilities of state workforce agencies.[2]

ID.me estimates that overall figure to be higher and has publicly stated an estimated figure of $400 billion in fraudulent claims for unemployment insurance during the pandemic.[3] This is based on our unique vantage point of supporting 27 states simultaneously and synthesizing data and observations from across those states, including insights from multiple experts, analysts, and law enforcement officials. Cybersecurity professionals like Jon Coss and Rachel Greszler have also estimated that fraud could reach hundreds of billions of dollars nationwide.[4] Additionally, ID.me has substantial evidence of identity theft fraud that state audits may not detect, further supporting this estimate.[5]

Given the scale of improper payments and the technological limitations faced by many states, it is likely that it will take years to fully audit and uncover the extent of fraud during the pandemic.

These disparities in reporting stem from several factors:

- **Technological Limitations and Reporting Deficiencies:** Many states lacked the technological infrastructure to detect and report fraudulent claims accurately. For instance, the Department of Labor's (DOL) Inspector General (IG) reported that 60% of states did not complete the required reporting for fraudulent payments during the early months of the pandemic. This underreporting skews the overall fraud estimates, making it challenging to obtain a precise figure.

- **Varying Standards of Fraud Detection:** States differed in their ability to implement identity verification measures that could effectively detect and prevent fraud. States like Arizona and California, which adopted identity verification tools conforming to Department of Commerce's National Institute of Standards and Technology (NIST) standards early on, reported notable decreases in fraudulent claims. Conversely, states with slower implementation saw higher fraud rates, further complicating national estimates.

- **Scope of Identity Theft and Eligibility Fraud:** The introduction of new programs like PUA created new avenues for fraudsters. Eligibility fraud, where individuals applied for benefits in states where they were not eligible, compounded the problem. ID.me's data showed a peak in out-of-state applicants during the height of the pandemic, indicating widespread eligibility fraud that traditional state systems struggled to detect.

- **Organized Crime and International Fraud Rings:** The pandemic saw an influx of sophisticated fraud schemes orchestrated by domestic and international crime rings. The DOL IG and other experts have highlighted the role of organized crime in driving the surge in fraudulent claims, further inflating the estimated losses.

These various factors highlight the need for improved identity verification and reporting mechanisms. By understanding the complexities and challenges in reporting and detecting fraud, we can better appreciate the measures needed to reform the UI system, protect it from future exploitation, and ensure that those who need it most are able to access it. The vital process of digital identity verification, meant to ensure

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[2] U.S. Government Accountability Office. Report (2023). Unemployment Insurance: Estimated amount of fraud during pandemic likely between $100 billion and $135 billion. September 12, 2023
[3] Hall, Blake. Calculating the Road to Losing $400 Billion Dollars. January 20, 2022.
[4] Greszler, Rachel. "Testimony before the Subcommittee on Financial Institutions and Consumer Protection Committee on Banking, Housing, and Urban Affairs." August 3, 2021.
[5] Podkul, Cezary. "How Unemployment Insurance Fraud Exploded During the Pandemic." ProPublica, July 26, 2021.

users – especially those applying for government benefits online – are genuinely who they claim to be, came under attack.

In the initial stages, urgency overshadowed the importance of accuracy and the integrity of the relief programs. Consequently, early initiatives were rolled out without mandating the verification of the claimant. Recognizing this potential vulnerability in the process, state-level benefits administrators stepped in, enforcing identity verification at diverse stages of the claims process. In the absence of rigorous identity verification for digital government services, the door was left wide open for identity theft and fraudulent claims.

From 2019 to 2020, the Federal Trade Commission saw a staggering 2,920% increase in identity theft reports associated with government document fraud. The post-pandemic period still witnesses rampant fraud, challenging our prevention systems. Despite the proven efficacy of the NIST identity assurance standards during the pandemic, some states opted for alternative solutions that do not adhere to NIST, resulting in a surge of fraud and numerous residents denied their rightful benefits. Notably, Ohio and Connecticut are still grappling with fraudulent and recurring onslaughts, illustrating the widespread and ongoing nature of this issue. At the same time, agencies within the Executive Branch are advancing the adoption of a National ID Verification Offering at the state level through direct subsidies and grants – even before it demonstrates the ability to meet the federal government's own standards.[6] We have seen what happens when states deploy non-conformant solutions and believe federal actions are exposing state agencies to a high – and avoidable – level of risk. Our nation faces a persistent and multifaceted threat from fraud, and concerted, coordinated efforts – with guidance and oversight from Congress – are required to address and rectify these vulnerabilities.

Interlinked Vulnerabilities

The pandemic brought about a monumental shift in global employment patterns, leading to an unparalleled rise in unemployment claims. Many states, faced with rapidly depleting unemployment reserves, turned to federal loans to ensure the continuation of benefit payouts. Notably, over twenty states took this route, creating a ripple effect that directly burdens the mainstays of our economy: small businesses.

The financing system supporting unemployment benefits is deeply integrated with the broader business ecosystem. Conventionally, businesses make contributions through a tax, calculated based on their workforce size, to support these benefit funds. However, with increasing state debts and evolving economic conditions, this once stable system is now in peril.

States grappling with significant budget deficits have considered reallocating funds initially set aside for mitigating these debts. As a result, the repayment responsibility is gradually being shifted onto businesses. This could mean that businesses, especially small ones, would face progressively increasing per-employee taxes each year for as long as this substantial debt remains—a period some analysts believe could extend up to a decade.[7]

Highlighting this situation emphasizes the critical relationship between the unemployment benefits system and the viability of small businesses. Fraud in unemployment programs doesn't just drain crucial funds; it indirectly threatens the very viability of business. Policymakers need to understand and address this

[6] Jones, John Hewett. FedScoop. GSA misled customer agencies over Login.gov privacy standard compliance, watchdog alleges. March 7, 2023; GSA GSA and DOL expand Login.gov partnership to increase access, decrease fraud, and support modernization in unemployment insurance. September 9, 2023.
[7] Ohanian, Lee. Hoover Institution. (n.d.). California defaults on $18.5 billion debt, leaving state businesses holding the bag. April 11, 2023.

intertwined challenge as Congress deliberates the path ahead. This issue will only worsen if states do not adopt or maintain strong digital identity verification standards.

During the peak of the pandemic, 27 states fortified their cybersecurity defenses by partnering with ID.me for digital identity verification. These states were under siege, facing relentless attacks from both nation-state adversaries and a mix of international and domestic fraudsters armed with vast troves of stolen identities. By integrating with ID.me and our NIST 800-63-3 compliant omni-channel solution, these states not only effectively curbed the majority of these fraudulent activities but also expedited the claim processing for genuine applicants. The impact was immense and quantifiable: several states have lauded ID.me for helping to prevent a staggering $273 billion in potential fraud losses.[8]

Common indicators of fraud emerged throughout the pandemic including questionable IP addresses, duplicative physical and email addresses, and the misuse of identification numbers. The volume and velocity of claims and applications made it challenging to establish rigorous checks and balances to mitigate fraud while ensuring timely claim processing for legitimate applicants in real time.

As we move beyond the pandemic's hardships, it is crucial to not overlook the insights these experiences have afforded us. As stewards of public funds and trust, federal and state agencies must refine their processes. Preparing for future emergencies requires developing more resilient, secure, and efficient systems to ensure assistance reaches those in need while minimizing the scope for misuse.

As former Assistant Secretary of the Treasury for Terrorist Financing and Financial Crimes, Elizabeth Rosenberg observed in January 2022, *"Rarely in public policy discussions do complex problems have simple solutions… But actually, there really is a kind of a silver bullet, at least one of the closest things to it that I've seen in public policy making–and that's digital ID… digital ID has the potential to immediately and dramatically improve how we protect our national security and our financial security.*

"Indeed, the adoption of such technological solutions can have a transformative effect. We've already witnessed this in action when states like Arizona, realizing the extent of fraud they were subjected to, collaborated with digital ID companies, such as ID.me. The results were profound: the introduction of this digital verification system acted as a deterrent, signaling to the fraudsters that their tactics were no longer viable."[9]

A critical oversight by agencies like the Small Business Administration (SBA) mirrored the challenges faced by the Department of Labor: they confused identity validation with identity verification. While validation merely ascertains that a combination of a Name, Date of Birth, and Social Security Number belongs to a real person, verification dives deeper, ensuring that the individual claiming an identity is indeed the rightful owner of that identity.

The vulnerabilities in relying exclusively on identity validation through personal identifiable information (PII) have been brutally exposed due to the plethora of data breaches.

[8] State of Arizona Department of Economic Security. "*Arizona Prevents More Than $75 Billion in Unemployment Benefit Fraud*."; McCarter, Mickey. "*Georgia Sought Identity Verification Solution to Stop Fraud*." State Tech Magazine, October 13, 2021; State of California, Office of Governor Gavin Newsom. "*EDD Recovers $1.1 Billion in Unemployment Insurance Funds, with More Investigations and Recoveries to Come*" June 21, 2022; Kanowitz, Stephanie. Route Fifty "*UI modernization, identity verification limit state fraud loss.*" March 20, 2023; State of Nevada, Department of Employment, Training and Rehabilitation (DETR). "*Director Elisa Cafferata announces resignation from the Department of Employment, Training and Rehabilitation (DETR)*" December 23, 2022; State of New Jersey, Department of Labor & Workforce Development. "*NJDOL Looks Back at 2021 Accomplishments While Continuing to Aid Workers, Businesses Amid Ongoing Global Pandemic*." January 3, 2022.
[9] Elizabeth Rosenberg, Assistant Secretary for Terrorist Financing and Financial Crimes, U.S. Treasury. Better Identity Coalition "Identity, Authentication, and the Road Ahead" January 24, 2022.

An alarming instance was in 2017 when the Chinese People's Liberation Army purportedly pilfered the Equifax database, compromising the sensitive personal information of roughly 150 million American adults. With such an expansive stolen database containing names, dates of birth, and SSNs, fraudsters found it easy to deceitfully claim pandemic assistance in systems relying solely on identity validation by simply fabricating their employment records.

A telling account from USA Today highlighted the simplicity of this fraudulent exercise. They interviewed a university student in Africa who candidly shared his modus operandi: by spending just $2 on the dark web, he could purchase stolen identities and file deceptive claims. His strike rate was profitable, managing a successful fraudulent payout for roughly one in every six attempts. His return on investment? A staggering profit, turning an initial outlay of $12 into a fraudulent windfall of $50,000.[10]

Robust identity verification methods like the IAL2 standard could have significantly reduced the fraud experienced during the pandemic. Not only would these standards have been instrumental in curbing malicious activities, but they could also have been leveraged to implement enhanced controls to thwart social engineering attempts. Moreover, beyond the obvious advantage of fraud prevention, a uniform embrace of these standards paves the way for enhanced interoperability across federal and state agencies. This, in turn, would lead to a more streamlined and positive experience for Americans.

Data Brokers Amplify Vulnerabilities: How Third-Party Data Compromises Intensify Fraud in Federal Benefit Programs

The thriving realm of data brokers has emerged as a potential pitfall in the seamless execution of various state and federal benefits delivery efforts, particularly in the backdrop of the COVID-19 crisis. Through my research and experiences on this subject, a glaring issue became apparent: hacked accounts from consumer data brokers became potent tools in fraudulent activities. Not only did they aid in bogus COVID-19 related business loans, but also fueled counterfeit unemployment claims.

In mid-2020, renowned cyber-security watchdog KrebsOnSecurity unveiled concerning findings. An informant, seeking anonymity, revealed an alarming trend: a network of fraudsters was rampantly disseminating intricate personal and financial data of Americans.[11] Even more unsettling was the discovery that the data had its roots in a U.S.-based consumer data broker. Investigations unveiled that this analytics giant had been compromised, feeding these fraudsters with invaluable consumer data.

The information trafficked by these scammers is no ordinary data. It encapsulates everything from full Social Security numbers to personal addresses, and even to granular details like IP addresses tied to a consumer's online activities. What made this even more disturbing was the sheer extent and depth of the data being funneled. The compromised data wasn't just aiding identity theft; it was facilitating multi-state unemployment claims and fraudulent loan applications.

Historical data serves as a testimony to the recurrent misuse of consumer data. In 2013, a startling revelation saw a 24-year-old operating an identity theft service from Vietnam, granting unauthorized access to the personal and financial data of over 200 million Americans. This breach was orchestrated by deceitfully posing as a private investigator to a subsidiary of a major credit bureau.[12] Such instances expose the deep-seated vulnerabilities of data brokers and their consequential impact.

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[10] Penzenstadler, Nick. USA Today. How scammers siphoned $36B in fraudulent unemployment payments from US. December 30, 2020.
[11] Krebs, B. KrebsOnSecurity. Hacked Data Broker Accounts Fueled Phony COVID Loans, Unemployment Claims, Krebs on Security. August 21, 2020.
[12] Krebs, B. Experian Lapse Allowed ID Theft Service Access to 200 Million Consumer Records. Krebs on Security. March 10, 2024.

While major credit bureaus remain pivotal, Nicholas Weaver, a distinguished academic from UC Berkeley, suggests that data brokers could be the bigger goldmine for ID thieves. This is primarily because of the breadth and depth of the information they hold, which goes beyond static identifiers like SSNs. It's comprehensive enough for knowledge-based authentication – a primary requirement for credit validations, and a practice that has been recommended by experts to be retired because of its ineffectiveness in preventing fraud.

Fraudsters often cash out using money mules, cryptocurrency, prepaid cards, or online-only banks, allowing for substantial transaction amounts. These instruments allowed for substantial transaction amounts, making them especially attractive for fraudulent activities. One can't help but concur with Justin Sherman's recent observation to the House Energy and Commerce Committee that the current debate on consumer consent is "broken."[13] The convoluted labyrinth of terms of service agreements, filled with jargon and legalese, effectively ensures that users are unaware of the rights they're signing away. This is not genuine consent but an orchestrated obfuscation of the truth.

Furthermore, while recent FTC actions and penalties against data brokers are commendable, sporadic enforcement is hardly a sustainable solution. The industry's rapid growth, coupled with the complexity of digital ecosystems, necessitates comprehensive and systemic solutions. As FTC Commissioner Rebecca Kelly Slaughter aptly noted, individual enforcement actions can only do so much. It is up to Congress to enact robust, holistic regulations that protect individual privacy rights while ensuring data brokers operate within well-defined, ethical bounds.[14] The era of unchecked data brokerage needs stringent oversight. A balance must be struck between the data-driven digital economy and the inviolable right to privacy. The American people deserve nothing less.

Inclusivity and Accessibility in Identity Verification

Ensuring that federal and state agencies are sufficiently equipped to tackle identity-based fraud should not mean a compromise on accessibility. This balance is essential to maintaining inclusivity, privacy and fairness in identity verification processes. Legacy methods of identity verification, powered by data brokers and credit bureaus, struggle to verify users without a presence in online records, which are primarily comprised of financial records. These legacy methods – still in place across federal and state agencies today – link access to affluence. Their use disadvantages lower-income users, which disproportionately impacts the young and minorities. Consumer Financial Protection Bureau estimates there are 45 million Americans who have "invisible," incorrect, or unscorable credit.[15] These are users that would likely have been unable to verify their identity using legacy methods.

ID.me's NIST 800-63-3 compliant omni-channel solution is designed to help these and other underserved populations that have traditionally struggled to verify their identity online: low-income users, veterans living overseas, individuals with recent name changes, and individuals with housing insecurity. In doing so, we close about 75% of the digital divide left by algorithm-only solutions by offering users alternative pathways to verification. We are also the only provider in the market that provides alternatives for users that either struggle with or are not comfortable with algorithm-only solutions.

To date, over 9 million users have been verified via ID.me's alternative video chat pathway. Demographics that benefit most are lower-income populations, which coincides with the target beneficiaries of many government programs. ID.me has been able to double access rates for agencies

[13] Sherman, Justin. Testimony. "*Who is Selling Your Data?*" U.S. House of Representatives Energy and Commerce Subcommittee on Oversight and Investigations. April 19, 2023.
[14] Lima, Cristiano. The Washington Post. *Analysis* | *FTC consumer protection chief puts data brokers on notice*. September 21, 2023.
[15] Consumer Financial Protection Bureau. CFPB Explores Impact of Alternative Data on Credit Access for Consumers Who Are Credit Invisible. February 16, 2017.

when compared to algorithm-only solutions powered by credit bureaus and data brokers. In some instances, access rates were tripled for traditionally underserved demographics.[16]

Without ID.me and this alternative pathway, these users would have either been unable to access benefits or would have had to travel to a government agency to apply in-person. The act of visiting an agency and waiting in line to complete an application process in-person can be difficult for individuals with limited mobility, individuals who work outside the opening hours of agencies, or who struggle to find childcare. Giving users options means they can pick the pathway that works best for them.

Additionally, it is crucial that these verification pathways support multiple languages to cater to a diverse user base. This inclusivity ensures that linguistic barriers don't impede access. Adopting this multifaceted approach to identity verification ensures that no individual, irrespective of their circumstances or preferences, faces undue hindrances when accessing essential services and benefits. In essence, the bedrock of a secure and effective national benefit system lies in both robust identity verification practices and a streamlined approach to data retention. Only by synergizing these elements can we fortify our defenses against fraud while ensuring that genuine beneficiaries have unhindered access to the services and benefits to which they are entitled.

In testimony to the New Jersey State Assembly in 2022, the Commissioner of the New Jersey Department of Labor, Rob Asaro-Angelo, said, *"Let me be very clear about something: ID.me has increased equity in our system. Let me tell you why. Because folks in legacy systems, the way they were judged on if they were a high risk for fraud, was based on their banking, based on their credit history, based on if they owned a home, based on if they were transient workers or not. ID.me, all you need is your license or your passport or some other form of identification, that gets you through."* [17]

It is worth emphasizing, as pointed out by The Washington Post, that in 2020, less than half of the Americans aiming to set up an online account with the IRS were successful. Former IRS Commissioner Rettig aptly underscored this when he remarked on the IRS's previous system, stating it had a 40% authentication rate. This left 60% of users unable to access services digitally, compelling them to resort to in-person visits or phone calls. Working with ID.me, the IRS was able to get authentication rates well above 70%[18]. That rate has risen since Commissioner Rettig's testimony and continues to rise as we continue to add equity-enhancing features to our verification pathways. This underscores the widespread nature of this challenge and how solutions like ID.me are an absolute necessity in today's digital age.

Until 2022, a mere 23.9% of Puerto Rican taxpayers could successfully verify their identities online via the IRS Secure Access system.[19] This platform, dependent on data from credit bureaus and data brokers, left a significant portion of the population underserved. However, a paradigm shift occurred when ID.me came into the picture. By integrating with the IRS, ID.me facilitated a range of verification pathways, leading to a 3x increase in verification rates for users from Puerto Rico to 78.6% – a testament to their efficacy.

The Role of Biometrics and the Rising Threat of Generative AI-Driven Deepfakes

As digital fraud continues to evolve and threaten public benefits programs like UI, the integration of biometrics and advanced AI technologies is not just beneficial but essential. The rise of generative AI has

[16] Press Release. Puerto Rico Commissioner to Congress, Jenniffer González-Colon. IRS improves online identity verification for Puerto Ricans in response to Rep. Jenniffer González inquiry. June 8, 2023.
[17] Asaro-Angelo, Rob. New Jersey Assembly Budget Committee Hearing. May 04, 2022.
[18] Singletary, M. Washington Post. *Despite privacy concerns, ID.me nearly doubled the number of people able to create an IRS account.* Washington Post. February 25, 2022.
[19] Ibid.

enabled fraudsters to create highly convincing deepfakes, posing significant challenges to traditional fraud detection methods. Biometrics are an effective way to stop these attacks and should be used responsibly with human review and fallbacks.

Securing services via responsible use of biometrics

Deployment of biometrics for identity verification, including facial recognition and liveness detection, are included in NIST's digital identity guidelines, Special Publication 800-63-3. These technologies are effective at ensuring that users are genuinely who they claim to be, which is vital for preventing fraud in digital services, particularly for government benefits. A string of high-visibility data breaches, including 147 million consumers from Equifax and 22 million from the Office of Personnel Management, means that legacy methods of verification are no longer effective. With stolen personal information, fraudsters could now answer sensitive questions about an individual, rendering "knowledge-based verification" obsolete. NIST understood the need for new verification methods and included the requirement for "biometric or physical comparison" of the claimant to the strongest piece of evidence provided during the verification process.

At the same time, ID.me recognizes the sensitivities around the use of biometrics. This is why ID.me's use of biometrics is guided by design principles that should be adopted industry-wide and enforced via policy:

1. Use algorithms that have been demonstrated, in government testing by NIST and/or DHS, to (1) have industry-leading accuracy and (2) perform consistently across demographic groups
2. Back-stop them with human review when there is a non-positive outcome for the end user

This approach would be in line with the Biden Administration's Office of Science and Technology Policy's (OSTP) *Blueprint for an AI Bill of Rights,* which calls for "human alternatives, consideration, and fallbacks."[20] As far as we are aware, we are the only solution in the market that provides human review and fallbacks to users and the agencies they are trying to access.

Digital inclusion is under attack from fraudsters

ID.me's multiple verification pathways increase inclusiveness for underserved populations. However, the increasing sophistication of deepfakes is making it more difficult to secure these inclusive verification pathways. The U.S. Department of Homeland Security (DHS) has acknowledged the clear and present danger posed by synthetic content, which threatens various domains, including national security and financial sectors (Homeland Security, 2024). As an example of their effectiveness, a fraudster recently ran a deepfake scam in Hong Kong and was able to steal $25 million from a single company.[21]

Biometrics are an effective countermeasure to deepfakes and injection attacks. ID.me believes that biometrics will need to play an even bigger role in the protection of benefits in the future. Now is the right time to discuss how responsible use of biometrics, continuous human oversight, and threat research and monitoring, will enable the government to maintain its edge in the fight against digital fraud. Congress should work with the Executive Branch to avoid any form of blanket bans or restrictions on their use and advance guidelines for responsible deployment of biometrics, as outlined above.

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[20] The White House. Blueprint for an AI Bill of Rights: Making Automated Systems Work for the American People. October, 2022.
[21] Regan, H., & Hodge, N. CNN. Deepfake scam fools Hong Kong company into paying $25 million to fake CFO. February 4, 2024.

Reclaiming Fraudulent Payments: A Comprehensive Framework

The integrity of our national services and benefits programs hinges significantly on the robustness of our identity verification processes. Leveraging established best practices is essential in safeguarding these systems from fraudulent activities and ensuring that genuine beneficiaries have seamless access. My recommendations on strengthening these mechanisms is as follows:

1. **Adherence to NIST's Guidance on Identity Verification:** It's imperative for government agencies to align with the expertly crafted guidelines of the Department of Commerce's National Institute of Standards and Technology (NIST). These guidelines provide a clear roadmap for agencies to assess transactional risks and determine the appropriate identity assurance level (IAL) — ensuring that the level of identity verification rigor matches the potential risks associated with each service or benefit. By utilizing NIST's guidance, agencies can elevate their performance standards and secure their operations against malicious activities.

2. **Opting for NIST Identity Assurance Level 2 (IAL2) Policy**: From ID.me's experience in working alongside federal and state agencies, those that value strong fraud protections while distributing entitlement benefits typically gravitate towards the IAL2 policy. The rationale is grounded in the transaction's inherent risks and the attractiveness of these benefits to potential fraudsters. Some agencies opt for an initial verification process, while others grant users preliminary portal access with a lower assurance level, subsequently elevating the verification rigor to IAL2 during application initiation. Embracing IAL2 is demonstrably effective in thwarting fraudulent access, thereby ensuring that entitlement benefits reach their rightful beneficiaries.

3. **Establishing Uniformity in Data Retention for Prosecutorial Support:** Currently, the federal landscape is marked by a mosaic of data retention guidelines, with each agency marching to the beat of its own drum. This inconsistency often proves to be a bottleneck in prosecuting fraudulent activities. To overcome this, Congress should champion a standardized approach to data retention, ensuring that all agencies operate under a unified framework. An expert central authority, such as NIST or an alternative governing body, should be entrusted with the responsibility of crafting clear directives on the terms and tenure of data retention. With standardized guidelines, agencies will be better positioned to furnish evidence, bolstering the legal machinery's efforts to hold fraudsters accountable.

Integrating these state-of-the-art technological solutions has been instrumental in overcoming barriers to access that have long plagued the system.

Congressional Action and Future Initiatives

Legislative efforts like the *"Protecting Taxpayers and Victims of Unemployment Fraud Act"* are important to fully address the scope of issues exposed during the pandemic. This bill aims to recover fraudulent unemployment payments and improve the integrity of UI programs across states. Key provisions include incentivizing states to recover fraudulent funds by allowing them to retain 25% of recovered federal funds. This incentivizes state workforce agencies to invest in costly investigations and prosecutions that might otherwise be avoided due to lack of financial return.

Additionally, the bill proposes using the recovered funds to modernize state systems for verifying identity and income, and implement other program integrity activities. By retaining 5% of state UI overpayments recovered, states can further enhance their fraud prevention measures, ensuring UI claims are cross-verified against the National Directory of New Hires and the State Information Data Exchange System.

Extending the statute of limitations for prosecuting fraud from 5 to 10 years, as recommended by the Pandemic Response Accountability Committee (PRAC), also provides a broader window to hold fraudsters accountable. The investment included in the FY2024 budget to enhance and preserve the PRAC's data analytics function, aligns with the goals of H.R. 1163 and underscores the broad bipartisan support for robust fraud prevention and recovery strategies.

It is evident that a comprehensive approach involving both state and federal efforts is essential to combat fraud effectively. It is also important to underscore that states have effectively demonstrated – when given the choice – they can efficiently leverage the competitive identity verification marketplace developed around the NIST guidelines as adopted by federal agencies under the Federal Information Security Modernization Act (FISMA) and subsequent guidance OMB M-19-17. Just as Congress added the identity verification requirement under Section 242 of the Continued Assistance Act to improve the integrity of the Pandemic Unemployment Assistance program, Congress should also consider further steps to add an identity verification requirement to traditional UI and subsequent UI programs.

Private sector identity verification solutions that conform to NIST standards, like ID.me, play a pivotal role in this ecosystem by providing the technological backbone needed to detect and prevent fraudulent activities, ensuring that benefits reach those who genuinely need them while protecting taxpayer dollars.

Conclusion

The digital landscape offers incredible opportunities for the future of effective public benefit service delivery but also significant challenges, particularly highlighted by the staggering losses due to fraud during the pandemic. Tackling these issues requires more than just government action. It calls for innovative private sector solutions working in harmony with governmental efforts to prevent fraud and enhance digital identity verification – and states being allowed the flexibility to choose from among the most secure, federally compliant options that best suits the needs of their residents.

Public networks systems are vulnerable, and the rapid disbursement of funds exposed these weaknesses. Accurate reporting on the extent of fraud varies, with estimates in the hundreds of billions of dollars. This discrepancy underscores the complexities in measuring and combating fraud effectively.

Members of Congress and decision-makers alike must understand that our national interest mandates support for initiatives that underscore technological integration and the harmonization of standards, particularly the NIST 800-63 digital identity guidelines. These are essential frameworks that ensure we stay ahead of those who seek to exploit the system. Jeremy Grant, the former advisor for the Obama-Biden administration's National Strategy for Trusted Identities in Cyberspace and now Director of the Better Identity Coalition, commented, *"IAL2 is not just a compliance requirement; in the world of remote identity proofing it is the line between a system that can fend off the bulk of identity theft attacks coming from organized criminals, and one that cannot."*

Recovery and resilience extend beyond strict measures; they require fostering innovation where technology can thrive to recover stolen funds and prevent future losses. This effort must include continuous dialogue and cooperation between the private sector, tech partners, and government entities.

As we tackle these challenges, we owe it to the American taxpayer to implement forward-thinking strategies and robust infrastructures that ensure equity, security, and innovation. Together, let's aim for a secure future that benefits every American. Thank you for the opportunity to discuss these crucial issues.

Chairman LAHOOD. Thank you, Mr. Taylor, and thanks for your prior service to the country. We will next move to Ms. Townsend. You are recognized for five minutes.

STATEMENT OF BETH TOWNSEND, EXECUTIVE DIRECTOR, IOWA WORKFORCE DEVELOPMENT

Ms. TOWNSEND. Thank you, Chairman LaHood and Ranking Member Davis and other members of the committee for the opportunity to speak to you today about Iowa's Reemployment Case Management program and our efforts to help Iowans find reemployment at the earliest possible moment.

I am Beth Townsend and, as the director of Iowa Workforce Development since 2015, I am here to talk about the value in providing intensive, one-on-one support and innovative resources as soon as someone files for unemployment.

Iowa has seen significant and consistent value in overhauling our approach to helping Iowans find jobs. Iowa Workforce Development is the centerpiece of workforce information programing and solutions in Iowa. We are the agency responsible for administering the unemployment insurance program, implementing all Federal workforce services programs, including 15 American job centers located throughout the state.

Iowa, like every state, depends on our employers to move our economy forward. But real, long-term growth requires a workforce that is stable as well as sufficient. We want people to feel fulfilled where they work, which helps decrease the churn in the labor force that has been so common since the pandemic. That is why Iowa Workforce Development focuses on helping its customers find rewarding careers, rather than jobs. This is the path that benefits our entire state the most, when both workers and employers grow together.

Nothing is a better illustration of Iowa's innovative efforts to grow and develop its workforce than the Reemployment Case Management program, also known as RCM, which was created in 2021 in response to the workforce shortage caused by the pandemic. Our path to creating the Reemployment Case Management program began in 2020, when the COVID–19 pandemic created unprecedented joblessness and overwhelmed unemployment systems throughout the nation.

One step Governor Reynolds took in an effort to get more Iowans back into the workforce and ease the challenge employers were facing in June of 2021 was to end Iowa's participation in Federal unemployment programs early. Her actions removed the disincentive that the generous pandemic benefits had created for some Iowans to continue to sit on the sidelines.

Additionally, in October 2021, Governor Reynolds announced a shift in the mission of Iowa Workforce Development. Our agency's new and overriding policy priority would be to get those jobless Iowans to the other side of the unemployment as quickly as possible. This unemployment—or this simple yet profound change revolved around returning unemployment to its original purposes: serving as a short-term bridge between careers, rather than as a means of long-term support.

It is important to understand that the RCM was not created to eliminate or lessen unemployment benefits. Instead, our goal was to reduce the need for benefits by helping the unemployed find work quickly.

Our Reemployment Case Management program is built on two things: strengthening the incentives that encourage the unemployed to aggressively search for work, and providing more assistance earlier in the process to increase the odds of their success. To do this we decided to implement a modified and supplementary version of the Federal RESEA program.

As you know, RESEA programs have been part of unemployment in the United States for more than a decade. Iowa has operated a version of RESEA since 2015, but under the terms of the federally-funded program which require waiting until claimants receive unemployment benefit payments and are notified about RESEA, career planners were not meeting with unemployment claimants at the earliest until roughly the fifth week after an initial claim was filed.

Given the increased demand for workers created by COVID–19, as well as workers' increased need for job search assistance, we deemed that delay to be too long. Instead, RCM was created to be a new, state-funded program that would supplement the Federal version, meeting with unemployment claimants from the week after their initial claims were filed.

Unemployment claimants in Iowa now are contacted about RCM during the first week after they file for benefits. Career planners schedule one-on-one appointments and immediately assign claimants to several virtual workshops on topics of how to navigate the computer system for reporting work search, how to build a successful resume, and how to interview for a job. Career planners continue to have regular one-on-one employments with claimants to review job search results and assign reemployment activities.

Once the claimant becomes eligible for RESEA, the program takes over the one-on-one appointments and monitoring. The claimant continues to receive these services until he or she is reemployed. If anyone exhausts 50 percent of their eligible benefit weeks, we shift him or her to more intensive services.

Because of the RCM program, we have seen a reduction of 30 percent—of over 30 percent in the amount of duration of unemployment benefits, and we have saved approximately $250 million in unemployment benefits in the last two years, paid out, which results in a reduction in unemployment taxes to our employers. Through this program we have been very successful in helping Iowans get back to work faster and helping Iowa employers find the workforce that they need. Thank you.

[The statement of Ms. Townsend follows:]

WRITTEN STATEMENT OF BETH TOWNSEND
EXECUTIVE DIRECTOR, IOWA WORKFORCE DEVELOPMENT
U.S. HOUSE WAYS & MEANS COMMITTEE, SUBCOMMITTEE ON WORK AND WELFARE
JUNE 4, 2024

Thank you, Chairman Smith, LaHood, and Ranking Member Davis, for the opportunity to speak to you today about Iowa's Reemployment Case Management Program and our efforts to help Iowans find reemployment at the earliest possible moment. I am Beth Townsend, and as the Director of Iowa Workforce Development since 2015, I am here to talk about the value in providing intensive, one-on-one support and innovative resources as soon as someone files for unemployment, usually the first week after they have become unemployed. Iowa has seen significant and consistent value in overhauling our approach to helping Iowans find jobs.

I am a native Iowan, from Sidney, Iowa, with parents who always stressed the power of education and the possibilities that it could open for me. My father was a public-school teacher and superintendent and before it was fashionable, he encouraged my sister and I to aim as high as possible. At a time when women's careers usually included choosing between secretarial, nursing or teaching, he encouraged us to be the doctor, be "the boss" or be the superintendent. My mother, a brilliant woman who graduated from Oklahoma State University in 1958 with a degree in chemistry, always stressed the importance of education, especially for women, to insure we had every option available to us regardless of the life path we chose. After graduating from the University of Nebraska College of Law, I joined the United States Air Force as a JAG and served a total of 21 years on active and reserve duty. I retired from the U.S. Air Force Reserve in 2010 as a Lieutenant Colonel. Upon returning to Iowa after leaving active duty in 2001, I spent 10 years in private practice before being appointed by Governor Terry Branstad as the Director of the Iowa Civil Rights Commission in 2011 and the Director of Iowa Workforce Development in 2015. Governor Kim Reynolds appointed me to the same position in 2019 and 2023.

Iowa Workforce Development is the centerpiece of workforce information, programming, and solutions in Iowa. We are the agency responsible for administering the unemployment insurance program, implementing all the federal workforce services programs including fifteen American Job Centers located throughout the state of Iowa. In 2023, under Governor Reynolds leadership, Iowa reorganized its state government and among the many changes, Iowa Workforce Development gained oversight of all Workforce Innovation and Opportunity Act (WIOA) programs including vocational rehabilitation and adult education services for our state. This meant that, for the first time, all of Iowa's WIOA programs would be housed and administered by a single entity rather than the three agencies that had previously had parts of the programs.

What this meant for Iowans and our employers is easier access, more efficiencies and better leveraging of all available resources to create and sustain our workforce, thus providing a skilled workforce for our over 80,000 employers. In the first year, we believe that the changes have already placed us on a path toward breaking down silos, cutting through red tape, and discovering new ways to get more people into the workforce more quickly. This is no small thing in a state where employers with growth and economic expansion plans repeatedly cite their urgent need for more workers.

Iowa, like any state, depends on our employers to move the economy forward. But real, long-term growth requires a workforce that is *stable*, as well as sufficient. We want people to feel fulfilled where they work which helps decrease the churn in the labor force that has been so common after the pandemic. That's why Iowa Workforce Development focuses on helping its customers find rewarding *careers*, rather than jobs. People who work in a career they love are more likely to stay with an employer who allows them the chance to grow and will be more successful and productive in their chosen field. This is the path that benefits our entire state the most – when both workers and employers grow together.

Nothing is a better illustration of Iowa's innovative efforts to grow and develop its workforce than the **Reemployment Case Management** program (also known as RCM) which was created in 2021 in response to the workforce shortage caused by the pandemic.

RCM was launched at the beginning of 2022 as part of a fundamental reset in Iowa's relationship with unemployment. Before the pandemic, our agency's focus revolved around being an efficient and effective provider of unemployment assistance benefits. Assistance with reemployment was left to the individuals to seek and request it, especially early in the process. In contrast, launching the Reemployment Case Management program has helped us become a true reemployment center. Through this program, Iowa Workforce Development has shortened the average time Iowans spend on unemployment by more than 30%, boosted Iowa's available workforce, and saved employers' unemployment taxes in the form of lower unemployment tax rates. We believe our RCM program is a national model for helping put people back to work after unemployment sooner rather than later and helps those individuals find the best possible careers and job opportunities that they not have otherwise even considered.

Origins

Our path to creating the Reemployment Case Management program began in 2020, when the COVID-19 pandemic created unprecedented joblessness and overwhelmed unemployment systems throughout the nation. Iowa saw its average daily customer service call volume jump from 800 to more than 28,000 calls per day by the end of March 2020. Initial unemployment claims jumped from 2,229 during the first week in March 2020 to 64,194 three weeks later. By the end of April 2020, when our unemployment rate also hit its highest level in recorded history at 11.0 percent, Iowa was processing roughly 169,000 continuing unemployment claims per week. The onslaught would not drop below 100,000 until the second week in August.

More troubling from a systemic perspective is that many people responded to the turmoil by opting out of the economy altogether. Iowans traditionally have an extraordinary work ethic, and our state consistently maintains one of the highest labor force participation rates in the country. Nevertheless, in the wake of incredibly generous pandemic unemployment benefits, more than 94,000 people left Iowa's workforce between February and August 2020, creating an unprecedented need for workers in almost every industry. Iowa employers were paralyzed by their sudden inability to hire, as the pandemic aggravated a longstanding labor shortage and took it to new levels. Throughout 2020 and 2021, our Iowa*WORKS* job bank consistently averaged 70,000 to 80,000 (and sometimes more) postings for unfilled jobs, while businesses continued to struggle to find the skilled workforce, they needed to remain productive, never mind trying to expand.

One step Governor Reynolds took in an effort to get more Iowans back into the workforce and ease the challenges employers were facing in June 2021 was to end the federal unemployment programs early. Her actions removed the disincentive the generous pandemic benefits had created for some Iowans to continue to sit on the sidelines. At the same time, Iowa Workforce Development looked for ways to inject more urgency into reemployment for unemployed Iowans.

In October 2021, Governor Kim Reynolds announced a shift in the mission of Iowa Workforce Development. From that point on, the governor proclaimed, Iowa would move beyond the traditional duties associated with aiding jobless Iowans in times of need. Instead, our agency's new and overriding priority would be to get those jobless Iowans to the other side of their unemployment as quickly as possible. This simple-yet-profound change revolved around returning unemployment to its original purpose – serving as a short-term bridge between careers, rather than as a means of long-term support. It's important to understand that RCM was *not* created to eliminate or lessen unemployment benefits. Instead, our goal was to reduce the *need* for benefits by helping the unemployed find work, and all the good things that come with it, more quickly.

We believe we have achieved that goal.

How? Our Reemployment Case Management program is built on two things: strengthening the incentives that encourage the unemployed to aggressively search for work and providing more assistance, earlier in the process, to increase the odds that they succeed.

Launch

We tested this early assistance idea with a pilot project in late 2021, connecting unemployment claimants with reemployment services immediately after a group of claimants filed for unemployment benefits. After a few months of providing this earlier assistance, we discovered that the UI claimants who received it were reporting employment earlier – often before they would have even been eligible for the RESEA program. A full program was then approved, so Iowa hired, on-boarded, and trained 18 new Career Planners and one manager before the main RCM launch in January 2022. Training focused on educating new staff about reemployment services and how to get UI claimants connected to job opportunities. Career planners also learned how to review unemployment claims and verify job search activities.

With the launch, Iowa Workforce Development began to require that unemployed Iowans participate in four reemployment activities each week, up from the previous requirement for two. Completing all four activities – and recording them weekly in a newly developed module of the state computer system – would be a required condition for maintaining any claim for unemployment benefits. Alongside this, we changed the definition of "reemployment activities" and began requiring that at least three of those activities involve submitting job applications. The fourth could be either another a job application or one item from a pared-back and re-focused list (see the chart below) of other activities that we deemed to be those most likely to help claimants land a new position.

Acceptable Reemployment Activities (effective Jan. 2022)

Self-guided

Apply for a potential job by submitting a resume or application.

Take a Civil Service Exam.

Register with a placement facility at a school or college.

Interview for a job.

Attend an Iowa*WORKS* workshop.

Attend a job fair sponsored by Iowa*WORKS* or one of its partners.

Attend a scheduled career networking meeting with Iowa*WORKS* office.

Staff-Assisted Activities

Create a Reemployment Plan (RESEA)

Attend an appointment with a Career Planner at an Iowa*WORKS* office.

Attend an appointment with a core Iowa*WORKS* partner (Vocational Rehabilitation, Adult Basic Education, Wagner Peyser, Title I)

Take part in a mock job interview at Iowa*WORKS*.

As the new rules came online at the beginning of 2022, RCM career planners also began to provide one-on-one job search assistance for most unemployment benefits claimants. (Participation in most cases was mandatory. But union members and highway construction crews, who are statutorily exempt in Iowa from the need to search for work during temporary layoffs, likewise were excluded from the need to participate in RCM.)

Career Planners were aided in their work by modifications to Iowa's workforce computer systems that now made it easier for RCM program staff to match claimants' skills and abilities with the job postings of employers with open positions. As previously mentioned, (and as I will discuss in more detail in a moment), the new system also expanded Iowa Workforce Development's ability to capture and supervise the job search activities of unemployment claimants.

Investment and ROI

Iowa Workforce Development is funding all these new efforts (from calendar 2022 through 2026) with roughly $10.7 million from Iowa's portion of State and Local Fiscal Recovery Funds (SLFRF) through the American Rescue Plan Act (ARPA). The five-year budget includes:

RCM Budget	
$8,828,663	Career Planners' (and two supervisors') salary, benefits, and indirect charges (20 FTEs)
$1,625,000	Annual license fees on the new REX computer system
$275,000	REX system implementation
$10,728,663	**Total**

Less than 2½ years after implementation, we calculate that the RCM program has provided a return on investment of more than $250 million in the form of saved unemployment benefits and reduced average duration by 4 weeks.

During the five "normal" years before RCM, (excluding the record-setting unemployment levels in 2020), Iowa paid out an average of $388 million in unemployment benefits per year. In calendar years 2022 and 2023, our state paid $253 million and $260 million respectively. We expect to see to see similar numbers in 2024, potentially (barring a large economic downturn) pushing our total savings from RCM to roughly $400 million by the end of this year.

Of course, after 2026, when the ARPA funds have run out, Iowa will have to utilize state funding for the program. One alternative for state funding is providing states more access to FUTA payroll taxes collected each year for administrative purposes. For instance, in FY2022, Iowa employers paid $63.7 million in payroll taxes under the Federal Unemployment Tax Act, or FUTA, but our state government received only $36.7 million of that money, or 58 percent, to use for UI administration. I would encourage you to address this discrepancy. If Congress were to change that formula and allow Iowa to keep more of the administration taxes paid by its employers, then our agency would have a predictable stream of revenue to fund more innovative ideas and programs like the Reemployment Case Management program – without forcing our state government to bear the burden.

Now that you understand the framework, I would like to walk you through some of the details about how the RCM program works.

Supplementing RESEA

As stated previously, Iowa's twin goals in launching RCM were to shorten the length of time claimants spend receiving unemployment benefits and to return jobless Iowans to the workforce as quickly as possible. To do this, we decided to implement a modified and supplementary version of the federal RESEA (Reemployment Services and Eligibility Assessment) program. As you know, RESEA programs have been part of unemployment in the United States for more than a decade. RESEA is based on a successful Nevada program that provided job search counseling and eligibility assessment for unemployment claimants. With the extra assistance, Nevada was able to shorten claimants' time on unemployment by an average of 1.82 weeks and $536 in benefits paid. The idea was quickly adopted elsewhere, and Iowa has operated a version of RESEA since 2015. But under the terms of that federally funded program, which require waiting until claimants receive an unemployment benefits payment and are properly notified about RESEA, Career Planners were not meeting with unemployment claimants at the earliest, until roughly the fifth week after an initial claim was filed. Given the increased demand for workers created by COVID-19 – as well as workers' increased need for job search assistance – we deemed that delay to be too long. Instead, RCM was created to be a new, state-funded program that would supplement the federal version, meeting with unemployment claimants from the week after their initial claims were filed.

Unemployment claimants in Iowa now are contacted about RCM during the week after they first file for unemployment benefits so the claimants can quickly begin developing the skills they will need to successfully navigate their unemployment. Career Planners schedule a one-on-one appointment and immediately assign claimants to several virtual workshops on topics such as how to navigate the computer system for reporting work search, how to build a successful resume, and how to interview for a job. Career Planners continue to have regular one-on-one appointments with claimants to review job search results and assign reemployment activities. Once the claimant becomes eligible for RESEA, that program takes over the one-on-one appointments and monitoring of reemployment activities. The claimant continues to receive these services until he or she is reemployed. If anyone exhausts 50 percent of their eligible benefit weeks, we shift his or her claim to more intensive case management.

As of my testimony here today, 46,109 one-on-one appointments have been completed through the Reemployment Case Management program to date, with 11,385 UI claimants reporting that they have found reemployment. (Note that the actual number of people who have left RCM to take jobs is larger than that, because claimants are not required to advise as to why they stop filing for benefits.)

Now, I would like to spend some more time highlighting the value that unemployment claimants get from their interactions with us.

REX

As I stated previously, it was obvious from the outset of RCM that our new Career Planners would need new tools to meet the program's goals. Before RCM, Iowa Workforce Development struggled to maintain an accurate account of unemployment claimants' work search activities. There simply was too much ever-changing information for us to store it and review it effectively. We solved this in 2021 by adding the REX (Reemployment Exchange) module to the Iowa*WORKS*.gov platform that houses electronic information for Iowa's American Job Centers. Now, unemployment claimants input their work search activities into our system as part of the process of filing their weekly claims for benefits. Career Planners can review those submissions, confirm that both the quantity and type of activities being completed are appropriate, and lock claims if necessary to encourage compliance.

The technology also allows Career Planners to match skills and abilities with open job postings and make connections that the claimant might not otherwise consider. The system includes a Virtual Recruiter that we can set up to automatically send job referrals to claimants based on a resume submitted to the system. Career Planners also can use it to point someone with experience in one industry to high-demand jobs in an adjacent industry where their skills might, in fact, be just as valuable. In the case of someone who loses their job after a long period in the same occupation, Career Planners can use the system to identify any gap in skills that might serve as a barrier to the claimant's job search and refer him or her to applicable training. Labor Market Intelligence data also is available to advise job seekers on expected wages and projected demand for specific occupations.

Workshops

Most of the initial education that Career Planners provide to claimants in terms of helping them find a new job is dispensed via topical workshops. These are offered both online and in-person at Iowa's American Job Center (Iowa*WORKS*) offices, which Iowa Workforce Development supports in partnership with local workforce development boards throughout the state. Iowa*WORKS* offers a total of 24 live virtual workshops each month. In addition to resume building and job interviewing, we hold a weekly Virtual Job Club to discuss a variety of reemployment skills. Regular sessions

JUNE VIRTUAL WORKSHOPS

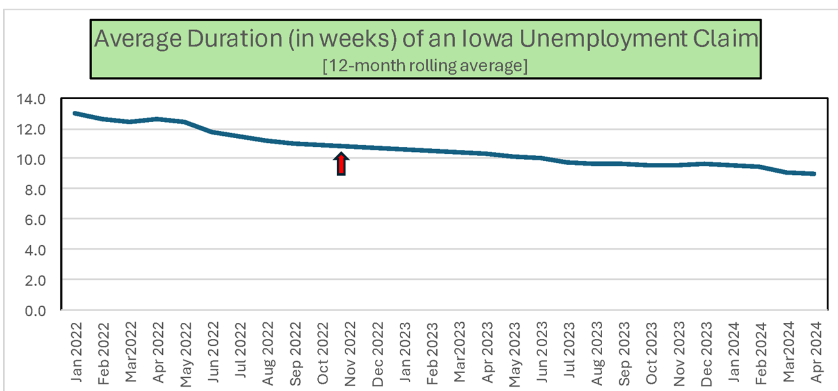
Iowa*WORKS* is excited to offer these employment workshops! Classes will be held virtually on Zoom with the opportunity to attend at our Iowa*WORKS* American Job Center or from the comfort of your own home.

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 **9am - 11am** - Essential Tools for Job Seekers **2pm - 3pm** - Smart Planning for your Money - Insurance 101	4 **9am - 12pm** - Interview 101 **1pm - 3:30pm** - Spanish Interview & Negotiate	5 **9am - 11:30am** - Conduct a Job Search **1pm - 2:30pm** - Virtual Job Club - Who Would You Hire?	6 **9am - 11am** - Create a Great Resume **1pm - 2:30pm** - Bring Your A-Game - Part 1	7 **9am - 11:30am** - Maintain a Positive Attitude **1pm - 2pm** - Completing Your Weekly Certification
10 **9am - 11am** - Essential Tools for Job Seekers **2pm - 4pm** - Navigating Ageism in Your Job Search	11 **9am - 10am** - Registered Apprenticeship	12 **9am - 11am** - Advanced Resume **1pm - 2:30pm** - Virtual Job Club - Power of O*Net	13 **9am - 10am** - Mock Interview Workshop **1pm - 3:30pm** - Bring Your A-Game - Part 2	14 **1pm - 2pm** - Completing Your Weekly Certification
17 **9am - 11am** - Essential Tools for Job Seekers **1pm - 3:30pm** - Develop A Career Plan & Research Industry Trends	18 **9am - 12pm** - Interview 101 **1pm - 3:30pm** - Spanish Essential Tools for Job Seekers	19 **9am - 11:30am** - Conduct a Job Search **1pm - 2:30pm** - Virtual Job Club - Business Panel	20 **9am - 11am** - Create a Great Resume **1:00pm - 2:30pm** - State of Iowa Job Applications	21 **9am - 11:30am** - Maintain a Positive Attitude **1pm - 2pm** - Completing Your Weekly Certification
24 **9am - 11am** - Essential Tools for Job Seekers	25 **9am - 11am** - EMERGE **1pm - 3pm** - Military Members Power Hour - A-Game for Veterans - Part 2	26 **9am - 11am** - Advanced Resume **1pm - 2:30pm** - Virtual Job Club - Success in IowaWORKS.gov	27 **9am - 10am** - Mock Interview Workshop **1pm - 2:30pm** - Spanish Mock Interview Workshop	28 **1pm - 2pm** - Completing Your Weekly Certification

include a weekly business panel where Iowa employers provide feedback on the application process, a live mock interviewing workshop where audience members get to select the candidate they would hire based on interviewing performance, and a session on how to use LinkedIn/social media to accelerate your job search. Attendance at virtual workshops has grown steadily during the life of RCM and now averages 6,000 people per month (not counting the in-person audiences). Several workshops, including a popular one on "Navigating Ageism in Your Job Search," have been created based on the feedback and requests we received from regular focus groups drawn from RCM participants.

Results

All these changes – the new Career Planners, new work search requirements, new technology, and a focus on live virtual workshops – have combined to make unemployment a much shorter experience for most Iowans. People literally are getting back to work faster than ever. The average duration of an unemployment claim in our state has dropped from 13 weeks when the RCM program was launched in January 2022 to 9.0 weeks in April 2024. This is the shortest duration figure that that Iowa has ever recorded in the 64 years that we have been keeping such statistics. Additionally, the total amount of unemployment benefits paid in 2022 and 2023 ($253 million and $260 million, respectively) represent the lowest levels for benefits paid since 2000. Both improvements coincide directly with the launch of our Reemployment Case Management program. (One note: Six months after the launch of RCM, unrelated state legislation reduced the maximum amount of available unemployment benefits in Iowa from 26 weeks to 16. However, claim duration was already falling by that point. The red arrow on the chart below marks the earliest any unemployed Iowan would have exhausted a 16-week claim under the law.)



RCM has had impacts across our agency. For example, we've found that providing earlier assistance to jobless Iowans has made them more proactive about finding work throughout the process. Before RCM, our participation in the RESEA program was at 68 percent. With the program in place, the figure in April was 81 percent. We see this as evidence that the unemployed are staying engaged, preparing better for their work search, and generally looking for work more actively than they would have done without RCM.

In February 2023, the American Institute for Full Employment recognized Iowa's "innovations" with RCM by awarding Iowa Workforce Development the organization's national Full Employment Award. More recently, a review by Actus Policy Research called our program "one of the most intensive job-search assistance interventions ever studied within the U.S." According to the Actus review, 82 percent of unemployment claimants in RCM received one-on-one expert assistance with their job search, compared to 13 percent of those in a control group. Additionally, RCM participants were found to be 19 percent less likely to exhaust their unemployment benefits.

It is important to note that RCM also is serving as a valuable tool to help us ensure that unemployment benefits are used properly. Iowa, like other states, takes unemployment fraud very seriously. Earlier this year, we began using the ID.me verification service to double-check the identities of everyone who files an unemployment claim. The service first came available in January as an alternative to sending personal identification documents to Iowa Workforce Development staff. However, for the last two months, anyone who files for unemployment benefits in Iowa has been required to first pass ID.me's verification checks. We estimate that this new step has blocked at least 1,200 potentially fraudulent claims, even while ID.me has sped up the verification process for claimants overall.

In its own way, RCM has strengthened our system against fraud by providing a different type of integrity check – one intended to make certain that unemployment claimants complete all the required steps on their way to finding another career. As I said previously, we feel a tremendous duty to help those Iowans who need a bridge from one job to the next. But it is not productive for the individual, employers, or the state to have people sitting at home collecting benefits when we have more open jobs than people to fill them.

The additional scrutiny that we're now able to provide because of the Reemployment Case Management program has made Iowa much more effective at stopping this from happening. Thus far in 2024, our reemployment team has been identifying and addressing an average of 70 improper work searches a month from claimants who have either been failing to seek work at all or doing so in ineffective ways, such as by chasing opportunities well outside their skills and abilities. We believe this is an important aspect of RCM's success. By eliminating opportunities to manipulate the system, we're encouraging Iowans to focus more intently on their job searches and to take advantage of the valuable assistance we're giving them to find real and rewarding careers.

We are very proud of the success of Iowa's Reemployment Case Management program that has enabled us to cut costs, enhance UI integrity, increase the effectiveness of job searches and more importantly, help Iowans find amazing career opportunities. In more than a few cases, this has resulted in unemployment claimants thanking us for helping them land careers (and wages) that they never would have imagined possible without the assistance provided through RCM. Why has it worked? Because we've both incentivized claimants to work hard at reemployment and given them the tools they need to get there. In the process, we've also listened intently to our claimants, providing new services online and in new topic areas when they've told us that they need it. As a result, our claimants have become much more effective job seekers, and the RCM program has only gotten more effective as we've gone along. Listening is the key.

I thank you for the opportunity to share with you today information about our Reemployment Case Management Program. I hope it demonstrates the great work states are doing and encourage the federal government to collaborate with state workforce agencies and organizations like the National State Workforce Agency (NASWA). There are a huge number of individuals at the state level who have vast experience in unemployment and what works to get people back to work. Each state has a different economy, different workforce and different needs. Experts from states and NASWA can significantly help Congress craft bills and programs that will increase the return on investment in workforce programs as well as provide states with sufficient discretion to be able them to utilize federal funding to meet state specific needs.

As I mentioned previously, Iowa employers currently pay $27 million more in FUTA taxes than what the state gets back for administration of our unemployment programs. If that money was under Iowa's control, my agency would have much more flexibility to improve our unemployment system – and the money that we didn't have to spend on UI could go toward building up other areas of our workforce system, such as Iowa's long-stated goal of launching more work-based learning and apprenticeship programs tied to Iowa high schools. As I hope the RCM program has demonstrated to you, states have innovative and creative ways to solve workforce issues and often it's just a matter of resources to be able to launch these programs.

With that, I'd like to thank Chairman Smith, Subcommittee Chairman LaHood, Ranking Member Davis, and all the other members of the Subcommittee for giving me the opportunity to testify. I'd be happy to provide more information if you have any questions.

Thank you.

Chairman LAHOOD. Thank you, Ms. Townsend. I also want to thank you for your prior service in the Air Force.

With that we will next recognize President Stricklin for five minutes.

STATEMENT OF CHRIS STRICKLIN, PRESIDENT, DUNN UNIVERSITY

Mr. STRICKLIN. Good afternoon, Chairman LaHood, Ranking Member Davis, and distinguished members of the subcommittee. On behalf of the Alabama Workforce Council, I am Chris Stricklin, a retired Air Force colonel with an encore career in the construction industry at Dunn Companies in Birmingham, Alabama.

Thank you for the opportunity to speak on our belief the answer to reducing the number of people on unemployment insurance, as well as increasing labor force participation and getting people back to work, lies in revolutionizing our workforce, both removing obstacles to entry and improving the opportunity to earn a livable wage while on a career progression pathway. This requires teamwork and an all-hands-on-deck approach with business, government, and education leaders to create multiple pathways for individuals to receive the education or skills needed to be successful and remain employed.

Our team of industry partners, the State of Alabama, the Department of Labor, and our workforce councils simultaneously focus on training those searching for employment for the first time, upskilling those yearning for advancement, and retraining those on unemployment. To be successful we must ask ourselves, what leads people to need unemployment compensation?

Our group of leaders began efforts with the belief that workforce issues in UI could not be solved by merely putting a hammer in someone's hand. Instead, we must capture their hearts and their minds, and inspire motivation in both our industries and in their futures. This is not a labor crisis; it is an issue of finding one's personal identity and purpose.

Our efforts initially targeted areas with some of the highest unemployment and least skilled population. The training model delivered awareness of job options in different specialties so one could find what interested them, then reduce barriers to entry. Training is provided at reduced cost, designed to be accomplished quickly, and focused on one simple task: train the first two weeks on the job. This delivers a measure by which to guide course development while delivering to industry partners an individual who understand safety and basic operation. This translates to employers with a reduction in on-the-job training, improved safety outcomes, and increased retention.

Through our efforts we enabled unskilled, under-skilled, and unemployed individuals the ability to obtain skill certifications which follows for their entire career. We are now reaching a previously untapped or underserved pool of motivated individuals and enabling their career pathways, not merely jobs.

Our model of certification is hybrid, in which an individual takes theory portion of the class online, on demand, and on their schedule, then transitions to an in-person lab for the last part of the hands-on. Through this effort, over 3,000 Alabamians have earned credentials to date, and the training has extended to other industries including food and beverage, hotel operations, meat cutter, and mental health worker.

Along the same motivation, courses have been conducted in our prisons to reduce recidivism and build a positive future for parolees, specifically developing a commercial driver's license program which has graduated 78 parolee students to date.

Our next innovation is occurring this month at Dovetail Landing, with a focus on veterans reentering the workforce after their military service with the Reverse Boot Camp.

Alabama has developed a comprehensive approach to decreasing the need for unemployment compensation while increasing the labor force participation and post-secondary attainment rates by concurrently developing new modalities of training that integrate supportive services, work-based learning, enhanced career navigation, and short cycle training programs to allow individuals facing benefits cliffs to persist in training and the workforce. By unbundling and modernizing degrees, Alabama is providing multiple points of entry and exit for Alabamians to enter training and the subsequent workforce.

What I am most excited about with regard to reducing unemployment is Governor Kay Ivey's December 23 launch of the Alabama Talent Triad as the nation's first full-scale talent marketplace to connect education and training providers, students and job seekers, and employers based on a direct skills match. In March this year Alabama State Workforce Development Board adopted a policy to require the Alabama Talent Triad to be used for the Workforce Innovation and Opportunity Act training program intake process.

Where this best impacts our conversation today will be a policy to be adopted shortly, which would enable unemployment insurance claimants to apply for all available and suitable employment using the triad. This will allow the state to instantly verify work search requirements. Rather than the traditional three applications per week, Alabamians will now be able to apply for all jobs, potentially hundreds, with the click of one button, and this will be a required first step of signing up for unemployment.

In closing, we are a state working together for a better tomorrow for our individuals, our companies, our industries, our communities, our state, and our nation. Together this will revolutionize our social dialogue and develop career routes with progression pathways, especially for those who may have fallen behind.

Thank you for the opportunity to sit before you today and explain why we truly believe Alabama is number one in the nation for workforce innovation.

[The statement of Mr. Stricklin follows:]

Chris Stricklin, 4 June 2024 Testimony

Good afternoon Chairman LaHood, Ranking member Davis & Distinguished members of this Subcommittee. On behalf of the Alabama Workforce Council, I am Chris Stricklin, a retired Air Force Colonel, with an encore career as a construction industry executive at Dunn Companies, in Birmingham, Alabama. Thank you for the opportunity to speak on our belief that the answer to reducing the number of people on Unemployment Insurance, as well as increasing labor force participation and getting people back to work lies in revolutionizing our workforce, both removing obstacles to entry and improving the opportunity to earn a livable wage while on a career progression pathway. This requires teamwork and an all-hands-on deck approach with business, government, and education leaders to create multiple pathways for individuals to receive the education or skills, the training or retraining, needed to be successful and remain employed. Our team of industry partners, the State of Alabama, the Department of Labor and our Workforce Councils simultaneously focus on training those searching for employment for the first time, upskilling those yearning for advancement and retraining those on unemployment. To be successful, we must ask ourselves… what leads people to need unemployment compensation. Our group of leaders began efforts with a belief that the workforce issues and UI could not be solved by merely putting a hammer in someone's hand. Instead, we must capture their hearts and inspire motivation in both our industries and their future. This is not a labor crisis… it is an issue finding one's personal identity and purpose. After reading Gallup's 'Wellbeing at Work,' we confirmed what we had suspected. When people have the opportunity to do work they are naturally gifted at and properly trained to do…they enjoy their work…find it stimulating…and want to do more of it.

Our efforts initially targeted areas of Alabama with some of the highest unemployment rates and least skilled population. The training model delivered awareness of job options in different specialties so one could find what interested them then reduced barriers to entry. Training is provided at reduced cost, designed to be accomplished quickly, and focused on one simple task, train the first two weeks on the job. This delivers a measure by which to guide course development while delivering to industry partners an individual who understands safety, personal protective equipment, and basic operation of the heavy equipment on which they are trained. This translates for employers to a reduction in on-the-job training, improved safety outcomes, and increased retention.

Through our efforts, we enabled unskilled, under skilled and unemployed individuals the ability to obtain skills certification which follows for their career and is universally recognized. We are now reaching a previously untapped or underserved pool of motivated individuals and enabling their career pathways. Not merely jobs.

Our model of certification is hybrid in which an individual takes the theory portion of the class on-line, on-demand, at their pace and then moves on to in-person lab. Course development is led by our Innovation Center which offers rapid, non-credit training courses in high-demand fields. Instruction on the videos is conducted by actual operators who are motivated to train others. Once finished with the theory, a student then schedules one of the upcoming 8-hour in-seat training labs at their local community college.

Through this effort, over 3,000 Alabamians have earned credentials to date, and the training has extended to other industries including food and beverage, hotel operations, meat cutter, and mental health worker. Along the same motivation, courses have been conducted in our prisons to reduce recidivism and build a positive future for parolees, specifically developing a Commercial Driver's License Program which has graduated 78 parolee students to date. A next innovation is occurring this month at Dovetail Landing with a focus on veterans reentering the workforce after their military service with a 'reverse boot camp'.

Alabama has developed a comprehensive approach to decreasing the need for Unemployment compensation while increasing the labor force participation and postsecondary attainment rates by concurrently developing new modalities of training that integrate supportive services, work-based learning, enhanced career navigation, and short-cycle training programs to allow individuals facing benefits cliffs to persist in training and the workforce. By unbundling and modularizing degrees, Alabama is providing multiple points of entry and exit for Alabamians to enter training and the subsequent workforce.

What I am most excited about with regard to reducing Unemployment is Governor Kay Ivey's December 2023 launch of the Alabama Talent Triad as the nation's first full-scale talent marketplace to connect education and training providers, students and jobseekers, and employers based on a direct skills match. In March this year, Alabama's State Workforce Development Board adopted a policy to require the Alabama Talent Triad to be used for the Workforce Innovation and Opportunity Act training program intake and assessment process. Where these best impacts our conversation today will be a policy to be adopted shortly which will enable unemployment insurance claimants to apply for all available and suitable employment using the Triad. This will also allow the state to instantly verify work search requirements. Rather than the traditional analog process of applying for three jobs per week, Alabamians will now be able to apply for all jobs (potentially hundreds) with the click of one button and this will be required as the first step of signing up for Unemployment.

In closing, we are a state working together for a better tomorrow for our individuals, companies, industries, communities, state and our nation. Together this will revolutionize our social dialogue and develop career routes with progression pathways, especially for those people who may have fallen behind. Thank you for the opportunity to sit before you today and explain why we truly believe Alabama is Number One in the nation for Workforce Innovation.

Chairman LAHOOD. Thank you, President Stricklin, for that, and we are grateful for your service.

Mr. STRICKLIN. Thank you.

Chairman LAHOOD. We will next recognize Mr. Raderman for five minutes.

You are now recognized.

STATEMENT OF WILL RADERMAN, EMPLOYMENT POLICY ANALYST, NISKANEN CENTER

Mr. RADERMAN. Chairman LaHood, Ranking Member Davis, and members of the committee, thank you for inviting me here today and for holding a hearing on how to better administer unemployment benefits.

My name is Will Raderman, and I am an employment analyst at the Niskanen Center, a non-partisan think tank founded in 2015. We have been privileged to support this committee's work, most recently with the Tax Relief for American Families and Workers Act. Our central economic philosophy is that strong free markets and robust social policies together provide the foundation for a free and fair society.

Unfortunately, programs meant to complement our dynamic economy and keep families stable following job loss are falling short. This includes recurring performance issues with the state unemployment insurance systems. My testimony will touch on three related points.

One is that Federal funding sent to state UI agencies for administration has been eroded by inflation and fluctuates year to year, making it difficult to develop strategic, long-term investments.

Two, substantial amounts of tax revenue raised specifically for program administration is not ending up in state agency accounts to fund upgrades.

And three, Congress should reform the financing process so that state agencies have the resources needed to maintain program integrity.

Early on in the COVID pandemic, it became clear that UI agencies were not equipped to handle the surge of claims. Although the agencies received an influx of additional funding to help manage the situation, years worth of necessary improvements could not be implemented overnight. Many legitimate applicants were forced to wait months before receiving their benefits, while criminals stole up to $135 billion, according to GAO estimates.

The magnitude of the fraud was unprecedented. However, the administrative shortcomings were not. Past emergencies like Hurricane Katrina exposed many of the same system gaps that were exploited at a far more costly scale during COVID. Similar types of malfunctions will repeat themselves without changes to the administrative financing process so that state agencies can steadily invest in program modernization. One-off funds are not a substitute.

Each year Congress provides state agencies with the base allocation to fund program administration, which they must try to plan around, but those allocations are not reliable. Since 2007 the value of the base allocation sent out to states has declined by $900 million when adjusting for inflation, a 27 percent decline. Every agency is worse off as a result.

State space funding is also volatile. Less funding is released during stronger economic years, when fewer claims are projected. The result is that UI agencies get fewer resources when they have the most opportunity to focus on system updates.

To make matters worse, the approved funding is divided up differently each year through a distributional resource justification model. This formula causes states' allocations to fluctuate over time, and tends to shortchange agencies struggling the most to process benefit claims. In particular, this formula contributes to significant regional disparities that hurt central and southern states. Their agencies can receive half as many dollars per working-age resident as the best-funded ones.

Part of the problem is that we are leaving hundreds of millions of dollars of revenue already raised annually for the purpose of UI administration on the sideline. Eighty percent of the funding raised through the Federal unemployment tax is kept in a Federal account to fund program administration, while 20 percent is automatically directed to an emergency benefits account. Yet agencies are not given full access to the 80 percent of funds intended for program administration, due to congressional appropriations and complex trust fund rules.

The spare revenue could be used by state UI agencies to improve their systems, but it is rarely made available for that purpose. Instead, a strict account law frequently causes unused funds in the administrative account to be diverted to the emergency benefits account, including more than $4.5 billion in the five years leading up to the pandemic. A better use of those funds would have been to allow UI agencies to upgrade their institutional capacity.

To counter these issues, we advise Congress to pursue reforms to establish a stronger connection between what is raised for program administration and what goes back to the UI agencies, and to ensure that agencies receive steadier, inflation-adjusted allocations over time.

In conclusion, administrative financing fixes are necessary to maximize agency performance and integrity.

Chairman LaHood, Ranking Member Davis, and members of the committee, thank you again for the opportunity to testify today. I look forward to hearing your questions.

[The statement of Mr. Raderman follows:]

NISKANEN CENTER

STATEMENT OF WILL RADERMAN

EMPLOYMENT POLICY ANALYST, NISKANEN CENTER

TESTIMONY FOR THE UNITED STATES HOUSE WAYS AND MEANS COMMITTEE

WORK AND WELFARE SUBCOMMITTEE HEARING ON:

"Reforming Unemployment Insurance to Support American Workers and Businesses."

JUNE 4, 2024

Chairman Smith, Chairman LaHood, Ranking Member Davis, and Members of the Committee, thank you for inviting me here today and for holding a hearing on how to better administer unemployment benefits. My name is Will Raderman, and I'm an employment policy analyst at the Niskanen Center, a non-partisan think tank founded in 2015. We have been privileged to support this committee's work, most recently with the Tax Relief for American Families and Workers Act. Our central economic philosophy is the idea that strong free markets and robust social policies together provide the foundation for a free and fair society.

Unfortunately, programs meant to complement our dynamic labor market and keep families stable following job loss are falling short in key ways. This includes recurring performance and integrity issues with the state unemployment insurance (UI) systems that provide economic security to laid off workers searching for their next role. These weaknesses are, in part, a product of flawed UI administration financing by the federal government.

My testimony will touch on three related points.

1. Federal funding directed to state agencies for UI administration has been eroded by inflation and fluctuates year-to-year, making it difficult to develop strategic long-term plans and investments.
2. Substantial amounts of tax revenue raised specifically for program administration is not ending up in state agency accounts to fund system improvements.
3. Congress should reform the financing process so that state agencies have the resources needed to maintain the highest levels of program integrity and effectiveness.

Early on in the Covid-19 pandemic, it became clear that state unemployment insurance agencies were not equipped to handle the surge of claims. Although the UI agencies received an influx of additional funding to help manage the situation, years' worth of necessary system improvements could not be implemented once the crisis arrived. Many legitimate applicants were forced to wait months before receiving their benefits, while criminals stole up to $135 billion according to Government Accountability Office estimates.[1] Improper payments, of which fraud is one cause, soared tens of billions of dollars higher.[2]

This administrative collapse was due to a culmination of factors.[3] There was inadequate communication between states and under-utilization of available data sharing systems to verify claims.[4] Agencies were under-staffed and often lacked essential in-house technical expertise to make quick adjustments as the situation worsened. Proposed modifications were also held up because of complicated program rules. Finally, relaxed self-certification requirements for one of

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[1] U.S. Government Accountability Office, *Unemployment Insurance: Estimated Amount of Fraud During Pandemic Likely Between $100 Bil- lion and $135 Billion*, GAO-23-106696 (Washington, D.C.: September 12, 2023).
[2] Office of Inspector General, *OIG oversight of the Unemployment Insurance program* (Washington, D.C.: U.S. Department of Labor, December 15, 2023).
[3] Statement for the record on "*Investigating Pandemic Fraud : Preventing History from Repeating Itself*", Before the U.S. House Ways & Means Oversight Subcommittee, 118th Congress (2023) (Statement by Matt Darling et al., Niskanen Center).
[4] Angela Hanks, "Encouragement for States to Use the Integrity Data Hub (IDH) available through the Unemployment Insurance (UI) Integrity Center" (Washington D.C.: Training and Employment Notice 24-21, Department of Labor, May 5, 2022).

the major federal emergency unemployment programs left it vulnerable to criminal enterprises.[5]

The magnitude of the fraud was unprecedented. However, these administrative shortcomings were not. For instance, Hurricane Katrina exposed many of the same alarming system gaps that were exploited at a far more costly scale during COVID-19.[6] UI agencies in the affected states were unable to efficiently ramp up their capacity, loosened eligibility rules to get emergency benefits to displaced workers faster, would have benefitted from better data sharing, and had an elevated rate of improper payments.

These sorts of malfunctions will repeat themselves without changes to the general administrative financing process so state agencies can steadily invest in better staffing, systems, and technology.

Unreliable allocations provided to state agencies

Each year, Congress provides state agencies with a base allocation to fund program administration.[7] Additional dollars are only released when the workload exceeds expectations, meaning agencies must plan their years according to the initial funding allotted. But those base allocations are not reliable. Since 2007, the value of the annual base allocations sent out to states has declined by around $900 million dollars when adjusting for inflation, a 27% decline. Every state agency is worse off as a result.[8]

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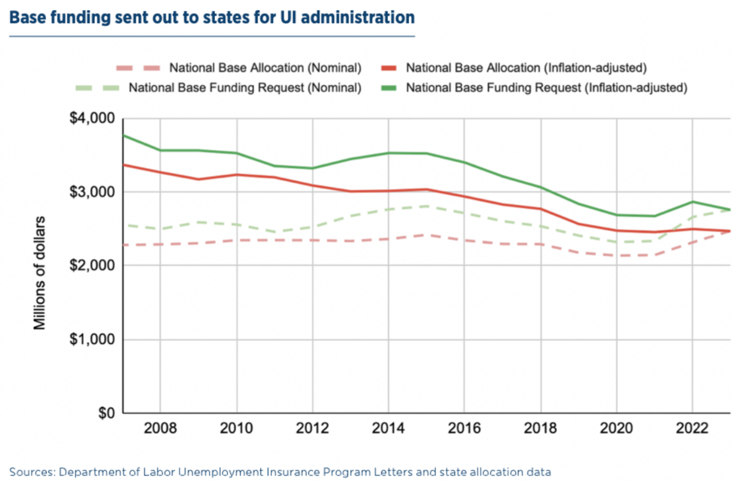
[5] Matt Weidinger and Amy Simon, *Pandemic Unemployment Fraud in Context: Causes, Costs, and Solutions* (Washington, D.C.: American Enterprise Institute, January, 2024).

[6] U.S. Government Accountability Office, *Hurricanes Katrina and Rita: Federal Actions Could Enhance Preparedness of Certain State- Administered Federal Support Programs*, GAO-07-219 (Washington, D.C.: February 7, 2007); Elliot P. Lewis, "Individuals Received Disaster Unemployment Assistance in Both Louisiana and Mississippi" (Washington, D.C.: Management Letter No. 06-06-010-03-315, U.S. Department of Labor Office of Inspector General, September 29, 2006).

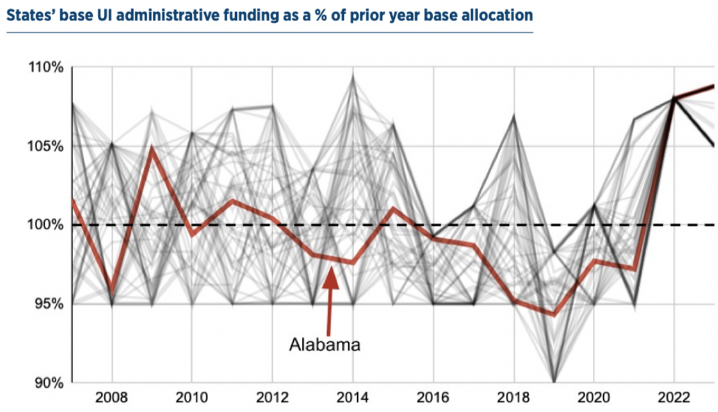
[7] Congressional Research Service, *Funding the State Administration of Unemployment Compensation (UC) Benefit* (Washington, D.C.: June 2, 2023).

[8] Will Raderman, *Getting the job done on unemployment insurance: How Congress can reinforce program administration and integrity with finance reform* (Washington, D.C.: Niskanen Center, May, 2024).



States' base funding is also quite volatile. Less overall base funding is released during stronger economic cycles when fewer claims are projected. The result is that UI agencies receive fewer total resources when they have the most opportunity to focus on system updates, whether that be adding new verification tools or streamlining internal procedures.

To make matters worse, the approved funding is divided up differently between the agencies each year through a distributional Resource Justification Model (RJM). This formula causes states' allocations to fluctuate over time – making it hard to advance long-term plans with the present resource levels – and tends to shortchange agencies struggling the most to effectively process benefit claims. In particular, the RJM contributes to significant regional disparities that hurt Central and Southern states. Their agencies must administer UI benefits with under $10 per working-age resident while states in other regions of the country typically rely on double-digit rates, with the best-resourced UI agencies receiving over twice as many dollars per working-age resident.



Author's calculations using Department of Labor data

Recent one-time funds approved by Congress have helped agencies take steps to update their systems, but are not a substitute for steadier annual administrative allocations that support long-term planning. As my colleague, Jen Pahlka, has documented, "big-ticket" purchases have a limited impact when the agencies are not capable of adapting their systems and ensuring the right tools are being added over time.[9] Furthermore, what may reduce fraud and poor performance today could be less effective tomorrow. New Jersey Labor Commissioner Robert Asaro-Angelo made a similar point in testimony before the House Ways and Means Oversight Subcommittee last Fall, saying, "There's no 'silver bullet' to completely eradicate fraud from our benefits systems, but, we can combat it in every way possible" by "continually learning and training so we stay one step ahead."[10] Predictable, consistent investments are required to build up that valuable internal capacity.

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[9] Jennifer Pahlka, "Better government tech starts with people. New Jersey shows how.," The Washington Post, June 13, 2023.
[10] *Testimony from New Jersey Labor Commission on Fraud Prevention*, Before the U.S. House Ways & Means Oversight Subcommittee, 118th Congress (2023) (Testimony by Robert Asaro-Angelo, New Jersey Department of Labor Commissioner).

Only a fraction of dollars raised for UI administration are utilized

There is a gap between what is raised for program administration and what is distributed to state agencies. Thanks to inadequate appropriations and complex Trust Fund rules, we are leaving significant amounts of revenue *already* raised for the purpose of UI administration on the sideline.

The Federal Unemployment Tax, known as FUTA, is paid by employers and applied to the first $7,000 of a worker's wages, usually at a 0.6% net rate.[11] This generally translates to $42 in taxes generated per worker, which gets deposited into federal accounts. 80% of the funding raised through FUTA is kept in the Employment Security Administration Account (ESAA) to fund program administration, while 20% is automatically directed to the account that funds the federal portion of Extended Benefits, additional weeks of benefit eligibility activated in times of high unemployment.

Agencies are not given full access to the 80% of FUTA funds intended for program administration due to the congressional appropriations rules. In an average year, there is around a $400 million difference between what is deposited into ESAA for administrative tasks and what is actually sent to agencies.[12] The vast majority of states are only getting back a fraction of dollars raised in their borders specifically for program administration, with Southeast and Central states seeing the worst returns.

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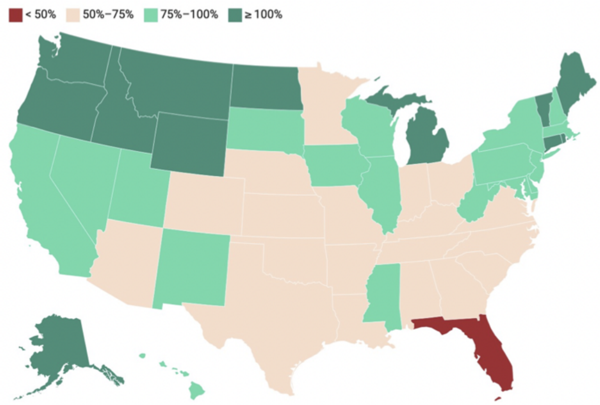
[11] Internal Revenue Service, *FUTA Credit Reduction* (Washington, D.C.: April 3, 2024).

[12] Author's calculations based on three Department of Labor documents covering historical program data from 2006 to 2022. See: U.S. Department of Labor, *Unemployment Insurance Program Outlook, President's Budget*(s).

Proportion of funds deposited in ESAA for administration by states that were returned to them over the past two decades



Author's calculations using Department of Labor data

The spare revenue could be used by state UI agencies to improve their systems, but it is rarely made available for that purpose. Instead, a strict statutory provision frequently causes unused funds in ESAA to be diverted to the Extended Benefits account, even though that account has already received its automatic share of FUTA revenue. When the end-of-year balance for ESAA exceeds 40% of the Congressional appropriations made over the past year, the "excess" funds must be transferred to the account for Extended Benefits.[13]

This requirement cements the existing funding problems established by the appropriations process. In the five fiscal years leading up to the Covid-19 pandemic, over $4.5 billion was transferred out of ESAA due to this balance provision.[14] A better use of those funds would have been to allow state UI agencies to upgrade their institutional capacity over that period, which would have reduced the enormous scale of criminal fraud suffered during the pandemic and allowed more legitimate claimants to quickly access benefits.

[13] Julie M. Whittaker, *Unemployment Compensation (UC) and the Unemployment Trust Fund (UTF): Funding UC Benefits*, (Washington, D.C.: Congressional Research Service, October 28, 2016).
[14] U.S. Treasury, *ESAA Account Statement Reports* (Washington, D.C.: January, 2024).

Ways to reform the financing process

The financing of UI administration warrants a significant overhaul in order to better serve laid-off workers and protect taxpayer dollars. We advise Congress pursue the following reforms:

1. The full 80% of FUTA revenue set aside for program administration should be dedicated to this purpose each year. Importantly, this entails eliminating the ESAA balance limit provision or making it obsolete. Too much funding meant for administrative tasks is currently being diverted away due, in part, to this rule and should be directed back towards UI agencies.
2. Besides making full use of available funding already being raised, those resources should be distributed in a more reliable manner. The Resource Justification Model contributes to the variable state-level allocation amounts and creates unreasonable disparities between states, with harms to agencies most in need of additional resources for cleaning up their systems. Congress should distribute administrative allocations to states with a clearer link to each state's overall working-age population.
3. The above steps would provide critical support to state agencies and make complete, efficient use of existing revenue generated for UI administration. But to prevent further erosion in the inflation-adjusted value of UI administration investments, additional revenue must be generated through indexation of the FUTA taxable wage base. The wage base has not been updated in over forty years, weakening the true value of the annual FUTA funds raised over time as price levels increase.[15] This decline can be halted by indexing FUTA's taxable wage base right now for inflation or adjusting it in accordance with an average wage index as done with Social Security's taxable wage base.[16] Congress can also permanently reverse past erosion by doubling the FUTA wage base now and indexing it.

To conclude, there are serious, chronic issues with how we finance unemployment insurance administration. Under a broken status quo, far too many legitimate UI claimants are

[15] Andrew Stettner, *Increasing the Taxable Wage Base Unlocks the Door to Lasting Unemployment Insurance Reform* (Washington, D.C.: The Century Foundation, July 14, 2021).
[16] Social Security Administration, *Contribution And Benefit Base* (Washington, D.C.: 2024).

under-served, while fraudulent claims go undetected. Financing reforms are necessary to maximize agency performance.

Chairman Smith, Chairman LaHood, Ranking Member Davis, and Members of the Committee, thank you again for the opportunity to testify today. I look forward to hearing your questions.

Chairman LAHOOD. Thank you, Mr. Raderman. We will now recognize our last witness, Ms. Phillips.

You are recognized for five minutes.

STATEMENT OF JENNIFER PHILLIPS, PROGRAM LEAD, GEORGETOWN UNIVERSITY, BEECK CENTER FOR SOCIAL IMPACT

Ms. PHILLIPS. Thank you, Chairman LaHood, Ranking Member Davis, and distinguished members of the subcommittee, for the opportunity to testify today. It is my honor to share insights about how state unemployment insurance agencies are helping historically disenfranchized workers access UI benefits, and how simplifying and improving access for all workers actually boosts UI system integrity.

I work for the Beeck Center for Social Impact + Innovation at Georgetown University, and we focus on best-in-class digital service delivery solutions to ensure access to public benefits. And previously I proudly worked for the Illinois Department of Employment Security as the assistant deputy director for service delivery.

Unemployment insurance is an economic first responder program. It safeguards eligible workers from financial crises when they lose a job, and it helps stabilize the economy. Eligible workers can and should expect it will work for them when they need it. And Michigan's mission statement really says it all: UI should be fast, fair, and fraud free.

Pandemic claim volume, combined with years of declining investment in state technology, brutally exposed foundational cracks in aging systems, and millions of eligible American workers struggled to obtain UI benefits. Research shows that many were historically disenfranchized workers who were less educated, younger, and from racial and ethnic groups.

Equitable access means that any eligible worker should be able to effectively and efficiently obtain and—apply and obtain for benefits that they are entitled to without facing undue burdens or barriers. McKinsey Research finds that when a person's experience utilizing state services meets or exceeds expectations, it can boost trust in government, improve morale among civil servants, and lower government agency costs.

U.S. DoL has awarded nearly $800 million for ARPA UI modernization to help achieve three congressionally-mandated, mutually reinforcing goals of preventing and detecting fraud, increasing benefit timeliness, and expanding equitable access to UI. These innovation-focused grants offer an unprecedented opportunity to modernize UI. And as a former state UI administrator, I thank you, and I want you to know that UI leaders across the country are hard at work meeting those goals.

State innovation will shine a light on what works and what does not. That plus U.S. DoL's recent Building Resiliency recommendations will create a roadmap for the reforms that are most needed. In my written testimony I outline ten UI access challenges and corresponding solutions that U.S. DoL and states are working on, and I will highlight five now.

[Slide]

Ms. PHILLIPS. In Illinois we created an acronym for the first three: PLATE, Plain Language, Accessibility, and Translation for Equity. PLATE encourages thinking about claimant diversity, like for someone who reads at a fifth grade level, or is blind, or is deaf, or whose first language is not English. States like New Jersey—and that is up on the screen—took complicated UI correspondence and made it easy to understand, with actionable steps for claimants. They also created a how-to toolkit to share with other states like Illinois.

Fourth, it is critically important to develop technology solutions that build in iterative feedback loops via user research. We need to build, test, improve, launch in phases, and keep improving. Illinois plans to update its UI application and online claimant portal. To better understand user pain points, Illinois partnered with U.S. DoL to analyze over 270,000 claimant survey responses. We conducted live claim filing observational research, and we analyzed data about where people abandon in the application process. States are improving their ability to conduct this type of customer experience and usability research, ensuring that new technology works for unemployed workers, especially those historically marginalized.

Lastly, another key challenge is website navigation and how to apply for UI. States like Michigan, working with human-centered non-profit Civilla, have created a step-by-step claimant roadmap on their website. They offer weekly claim-filing help sessions, and launched a Community Connect program with regional liaisons to help when needed. State outreach efforts that increase human interaction also help confirm that claimants are legitimate filers.

States have pivoted from the crush of the pandemic to now pioneering and implementing innovative solutions that increase equitable access to UI. My written testimony has more than 25 examples of that state ingenuity that improve access and can also drive down non-fraud improper payments. To keep this momentum, states need flexibility and continued funding. They need ways to accelerate the work by collaborating. And organizations like the Beeck Center and others, supported by private philanthropy, help convene, connect, and catalyze this change.

States need champions. States need Congress to champion additional technology modernization and customer experience improvements to restore faith that when an eligible American worker loses their job, UI will work for them fast, fair, and fraud-free.

It was an honor to testify to the committee today, and I welcome your questions. Thank you.

[The statement of Ms. Phillips follows:]

GEORGETOWN UNIVERSITY | beeckcenter social impact + innovation | Digital Benefits NETWORK

STATEMENT OF JENNIFER PHILLIPS
PROGRAM LEAD, NETWORK COLLABORATION, DIGITAL BENEFITS NETWORK
BEECK CENTER FOR SOCIAL IMPACT + INNOVATION
AT GEORGETOWN UNIVERSITY
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
WAYS AND MEANS SUBCOMMITTEE ON WORK AND WELFARE
"Unemployment Insurance Reform: Supporting American Workers and Businesses"
JUNE 4, 2024

Thank you, Chairman LaHood, Ranking Member Davis, and distinguished members of this subcommittee, for the opportunity to testify today.

I will share insights and examples about how state unemployment insurance (UI) agencies are expanding equitable access to unemployment insurance (UI). Equitable access financially helps eligible—yet disenfranchised—workers. Improved overall access and simplification can also improve UI system integrity and overall system performance.

My comments blend two perspectives. I work for the Beeck Center for Social Impact + Innovation at Georgetown University. The Beeck Center improves systems that are the foundation for daily life, using data, design, technology, and policy as instruments for equitable societal change. The Beeck Center is philanthropically funded and works as part of a diverse ecosystem of organizations improving access to benefits. Through our Digital Benefits Network anchor project, we work collaboratively with federal, state, local, tribal and territorial governments, and nonprofit, private, and research partners on best-in-class digital service delivery solutions that ensure access to public benefits, including UI. I will also be speaking from my past role working on state level UI modernization as the Assistant Deputy Director for Service Delivery at the Illinois Department of Employment Security (IDES). I will also share concrete examples from other state UI agencies across the country who are hard at work fortifying their UI systems' ability to be both accessible and securely protected from fraud.

My testimony addresses four questions:

- *Why focus on equitable access to UI?*
- *What are the barriers to equitable access that states are working to address and what are the solutions they are working on?*
- *How might increasing equitable access decrease non-fraud improper payments and improve overall UI system performance?*
- *What do states need to keep this work moving forward?*

Why Focus on Equitable Access to UI?

UI is an economic first responder program. It safeguards eligible workers from financial crises when they lose a job and helps stabilize the economy. During the pandemic, state UI agencies delivered more than $870 billion in benefits to more than 53 million workers.[i] UI has an evidence-based return on investment of between $1.55 to $2.00 of economic activity for every $1 spent.[ii] Additional research shows that UI significantly attenuates the volatility of economic fluctuations, all the way to local communities.[iii]

UI is not a means-tested program. It is an 89-year-old agreement made between the federal and state governments, employers, and workers to bridge the financial gap between jobs. Eligible workers can and should expect that it will work for them when they need it, and that they'll receive the right benefits at the right time. Michigan's mission statement says it all: UI should be fast, fair, and fraud-free.

During the pandemic, there were tsunami levels of claimants. This, combined with years of declining investment in state technology, brutally exposed foundational cracks in aging systems, exacerbating vulnerabilities. It left state systems to face a dual crisis: how to ensure eligible workers receive UI benefits while also protecting systems from fraud. This was such a problem that the Government Accountability Office or GAO designated the UI system as high risk because its administrative and program integrity challenges posed significant risks to service delivery and exposed the system to significant financial losses.[iv]

Millions of Americans found they could not access UI benefits they were eligible for when they needed them most. University of Illinois economist Eliza Forsythe's research showed that many were from historically disenfranchised groups; workers who were less educated, younger, and from racial and ethnic minorities.[v] In 2023, the unemployment rate for disabled people (7.2) was double that of non-disabled people (3.5).[vi] And the Bureau of Labor Statistics (BLS) released data in March 2023 that showed that 7 in 10 unemployed workers who had worked in the previous 12 months did not apply for UI.[vii] Fifty-five percent of those who did not apply for benefits didn't believe they were eligible. And 10 percent cited barriers to applying or problems with the application process. In June 2022, the General Accountability Office (GAO) recommended that the United States Department of Labor (USDOL) focus on inequities after finding racial disparities in UI benefit receipt in 3 of 4 states analyzed.[viii] Study after study, from the Federal Reserve Bank of Philadelphia[ix], National Bureau of Economic Research[x], The Century Foundation's Racial Equity Explorer[xi], to universities such as Barnard and Duke[xii] – all find the same thing: historically disenfranchised workers of color – especially African-American and Hispanic workers – are less likely to receive UI benefits than White workers. Ananat and Gassman-Pines' research found that racial and ethnic groups' unemployment contributes to income loss, material hardship, and mental health problems and that "UI has unrealized potential to be a force for reducing these disparities."[xiii]

To quote former USDOL Deputy Director for the Office of UI Modernization (OUIM), Michele Evermore, her in July 2023 testimony to the House Select Committee on Economic Disparity, "lack of access to UI means that every economic downturn sets communities of color back."[xiv] Research tells us that financial stability is the gateway for better child outcomes, educational success for both parents and children, and reattachment to the labor market.[xv] In Illinois, we were working to address two types of equitable access: helping eligible workers get to the proverbial UI front door and how to get through the front door.

In March of 2021, Congress responded by authorizing the American Rescue Plan Act (ARPA) which included flexible (non-resource justification model) funding for modernizing unemployment insurance systems.[xvi] The $2 billion investment that states were counting on was clawed back last year to $1 billion in the Fiscal Responsibility Act. This was a major setback to states who were planning grant proposals for UIPL 7-23 that was subsequently rescinded. These funds expressly focus on three Congressional-mandated, mutually reinforcing goals: preventing and detecting fraud, increasing benefit timeliness, and expanding equitable access to UI. USDOL has awarded $782.9 million to 52 of 53 states and territories, to help them achieve these goals (a detailed list is at the bottom of the testimony).[xvii]

Congress and USDOL knew how besieged states were and understood that without targeted, specialized UI modernization resources, state systems would not be ready for the next labor market destabilizing event. It was essential to incentivize states with ARPA funds to address problems that the pandemic exposed and to take on new ways to make unemployment insurance more secure, accessible, efficient, and responsive to the needs of workers.

These innovation-focused grants offer an unprecedented opportunity to modernize technology and improve processes that result in stronger integrity, better system-wide performance, and equitable customer experience. As a former state UI administrator, I thank you for making these funds available and want you to know that state UI leaders across the country are working to meet these federal goals.

How the ARPA UI modernization funds (Integrity, Equity, Tiger Team, UI-IT Mod) get used will shine a light on what works and what does not and will create a mosaic picture of what reforms are most needed to continue to improve equitable access to UI, UI integrity, and overall UI performance.

Challenges to Achieving Equitable Access and State Solutions

As defined in UIPL 01-24, equitable access means that state UI agencies ensure that all eligible workers have an effective and meaningful opportunity to obtain the benefits to which they are entitled. Further, a focus on equitable access requires states to review how their processes affect different populations to ensure that a state's operations are not creating undue burdens or barriers for any particular group who would otherwise be entitled to benefits.

The federal government issued several pieces of guidance that are helping federal and state agencies address these undue burdens. Last year, the White House Office of Management and Budget (OMB) announced the Burden Reduction Initiative, which aims to reduce the administrative burdens millions of Americans face when trying to access government services or benefits.[xviii] This initiative builds upon research from the Georgetown University Better Government Lab at the McCourt School of Public Policy, which hosted a one-day conference in May 2024 on ways to measure administrative burden. It also released guidance on digital accessibility.[xix] In 2021, there were two White House executive orders: advancing racial equity[xx] and improving customer experience.[xxi]

Providing equitable access is also an important part of providing good customer service to all individuals. People expect our government services to work and we learned the hard way that was not the case during the pandemic. Applying for UI can be complicated and that can be compounded when the technology doesn't work well either. For eligible workers who belong to groups that historically face disparities accessing government programs—such as low-wage workers, Black and Hispanic/Latinx workers, individuals with disabilities, individuals with limited English proficiency, women, and individuals living in rural areas, individuals with lower digital literacy, limited digital access—it can be even harder. McKinsey research finds when a customer's experience (as a constituent, business, or another government agency) utilizing state services meets or exceeds expectations, it can boost trust in government, improve morale among civil servants, diminish negative media coverage, and lower costs for government agencies.[xxii] The simple—yet not easy task—of making the UI process clear and understandable reduces mistakes that lead to both under- and over- payments.

State-level Equitable Access Challenges + Solutions

I'd like to highlight ten key equitable access challenges and concrete examples from states.
This is not an exhaustive list and there is no shortage of exceptional examples of how states are addressing equitable access in UI. The documents listed below this section have numerous examples embedded.

1. **Plain language**
2. **Accessibility**
3. **Translation or Language-Access**
4. **Human-centered Design and Claimant-Centered Research**
5. **Digital User Experience**
6. **UI Outreach and Lack of Knowledge About Qualifying for UI benefits**
7. **Website Navigation and How to Apply for Benefits**
8. **Digital Identity Proofing**
9. **Equity Research and Data Analysis**
10. **Training for State Staff**

1. Plain Language

Virtually every UI state agency is working to make the UI experience, from start to finish, easier to understand using principles of plain language. Plain language, as defined by plainlanguage.gov, is clear, concise, well-organized, and follows other best practices appropriate to the subject or field and intended audience. OUIM created a plain language online repository to provide examples to states. The National Association for State Workforce Agencies (NASWA) has behavioral insights contractors that are working with states such as Nebraska and Nevada on plain language and evaluating and measuring the impact.[xxiii] New Jersey's overhaul of its UI emails and corresponding research showed reductions in time to understand and the power of making information more accessible and easier to understand.[xxiv]

2. Accessibility
State UI agencies are improving accessibility in their websites, call centers, correspondence, handbooks, forms, and more for disabled individuals, as well as building accommodations into processes. Tools built into enterprise software, such as Microsoft Word and Adobe, mean that UI staff can check for document accessibility instantly. In Illinois, there was a backlog of PDF documents attached to the IDES website that were not screen-reader accessible. IDES worked to move PDF content into printable web content as a strategy for making all content accessible and also translated.

Oregon has put their UI claimant handbook on Spotify for blind claimants.

3. Language Access
Most UI state agencies are also hard at work making sure that websites, forms, digital experiences, and correspondence are available in multiple languages. California's Employment Development Department has added three new languages to its UI application, now available in the top eight languages spoken in the state.

New Jersey and Illinois worked with U.S. Digital Response to implement a English-Spanish UI Glossary. This glossary is now embedded into Illinois'' website translation technology in Weglot.

States like Washington and Illinois, among others, are working to ensure that all UI letters contain Babel notices, which is a short notice in multiple languages that is included in a document and informs the reader they can request language access services to ensure they understand.

States like Pennsylvania, Nebraska, Virginia, among others, have created explainer videos in multiple languages.

4. Human-centered Design and Claimant-Centered Research
Bolstered by the White House executive order on customer experience, USDOL has encouraged states—especially in the Tiger Team consultations and in UIPL 01-24— to use human-centered design and customer experience strategies to pinpoint pain points and develop solutions.

States are analyzing data points from claimant journeys. Illinois plans to update its UI application and online claimant portal. Before changing the technology, Illinois needed to know what pain points users experienced.

Asking claimants about their experience
Illinois attached a customer satisfaction survey at the end of its online UI application in April 2020. With USDOL help, Illinois improved the survey and began analyzing the data on a weekly basis to pinpoint claimant pain points. This process was shared on the USDOL Blog: Evaluating customer experience with survey design.[xxv]

Observational Research
Illinois also engaged in live claim filing observational research in September 2023 to better understand where claimants were getting stuck in the application and where they needed staff assistance. This research was also shared on the USDOL Blog: Improving UI benefits delivery through direct observation of UI claimants.[xxvi]

Friction or Funnel Analysis
Illinois pulled analytic data from its benefit system to look for the places where claimants abandoned either the online application or the weekly certification process. This was an attempt to find specific

places in either process that were confusing to claimants and/or where errors were occurring. This was essential to do before updating the technology for an old application.

User-testing
New Jersey has openly shared all of its user-testing on communications to claimants, including how the research was conducted.

5. Digital User Experience
The majority of UI claimants are applying, certifying, and interacting with state UI agencies in a digital environment. Prior to the pandemic, states were not conducting usability testing, but since ARPA, states have not just been conducting user acceptance testing (UAT)—which is the bare minimum to see if the system performs as expected—but actually conducting iterative user experience testing to gain insights for accessibility and incorporate user feedback.

States are modernizing applications, working to simplify questions, code in more languages, and ensure mobile-friendliness. States are also working to modernize online portals, where claimants can check the status of their claim, see benefit amounts, certify for benefits, see correspondence and key documents such as 1009G tax forms, and set up direct deposit.

States like North Carolina, DC, Massachusetts, South Carolina, and Georgia have new portals, updating technology built decades ago. At the end of May, New Jersey announced that its simplified application is fully phased-in, allowing applicants to save progress and come back later and making things easier on the back end by ensuring that applicants fill out the forms correctly. They worked with Nava, a public benefit corporation, to make sure new technology was backed with user research. As a result, there's been a 14-percent reduction in applications requiring manual review.[xxvii] New Jersey's successful modernization project will continue to serve as a model for states across the country as they continue to deploy ARPA funds and work with USDOL to upgrade their systems and processes.[xxviii]

States like New Jersey, Massachusetts, and California also have worked with Nava, on developing online claims benefit trackers. OUIM posted claim status information on its website to share this information with all states and territories.

Illinois plans to use a portion of its Equity grant and new IT Modernization grant to update its online UI application and claimant portal. The current application can be completed on a tablet or mobile device, but it is not easy for claimants and the design is prone to mistakes with dropdown menus that are hard to navigate.

6. UI Outreach and Lack of Knowledge About Qualifying for UI benefits
More than a third of the Equity grant projects are focused on outreach. Projects incorporated conducting mobile outreach, hiring navigators, working with community organizations, and doing research to better understand how to reach potential claimants and help them to understand the system. States are improving their ability to conduct customer experience and user testing research, ensuring they will be savvy technology purchasers or builders.

Seven states—Maine, New Mexico, Oklahoma, Oregon, Pennsylvania, Washington, and Wisconsin—received UI Navigator grants to conduct outreach and provide resources to those who have experienced disparate access to UI benefits and services.[xxix] For unemployed workers whose employers do not share information about unemployment insurance at time of separation, community-based organizations can play a vital role in helping them understand their eligibility and next steps.

Maine's Peer Workforce Navigator program launched in 2022 and was a partnership between five community-based organizations. Its approach mimicked strategies used by unions in helping unemployed workers applying for UI. A Century Foundation case study found that: "the combination of rapid response efforts, job fairs, and walk-in clinics at both the Career Center and Peer Workforce Navigator partners all informed claimants of their rights in an effective way and provided support to a community that needed the intervention."[xxx]

Connecticut has an unemployed worker advocate program, which functions like state-run version of legal aid and is designed to reduce barriers to receiving benefits and help unemployed workers navigate the appeals process.

Even if you know about UI, it can be confusing to know whether to apply. Several states— California, New York and Oregon—have online estimation calculators to help applicants better understand their eligibility and an estimated benefit amount.

7. Website Navigation and How to Apply for Benefits
Michigan UIA procured the services of Civilla, a human-centered design nonprofit, to create a claimant UI roadmap with step-by-step instructions and holds claimant online help sessions multiple times a week. Michigan also has 10 regional community liaisons ready to assist unemployed workers. Illinois recently revised its website to include 10 Things You Should Know and Information Needed to File Online.

Investing in UI website navigation also has the potential to improve overall UI system performance. In Illinois, we knew that the call center volume ballooned annually in January through April with requests for 1099-G tax forms. Over the past two tax seasons, IDES worked to clarify the process to claimants on its website and through an email campaign to encourage self-service online. These simple customer experience-friendly steps resulted in a dramatic decrease in call volume.

8. Digital Identity Proofing
State agencies must balance equitable access with system integrity and fraud prevention. In May 2023, the Beeck Center released a new data set on digital authentication and identity proofing in unemployment insurance and other benefit applications.[xxxi] Key findings included that 46 of 53 state and territorial agencies require claimants to create an account before they can file an unemployment claim and that 30 agencies have identity proofing or verification processes at some point before, during or after the claim application process.

However, these technology solutions can create obstacles for legitimate claimants and also exist in a rapidly changing technology landscape. Many state systems previously relied on knowledge-based verification (KBV) questions that present users with a series of questions about their private information—including information from their credit history. KBV are not considered a secure approach to proofing identities according to the National Institute of Standards and Technology (NIST) and U.S. Government and Accountability Office (GAO), and also create obstacles for people with limited credit history. Many states pivoted to prompting users to upload identity documentation and selfies to be verified using facial recognition technologies. The use of biometric comparison can also present accessibility and equity issues for those unable to complete those processes.[xxxii] Having high confidence that someone is who they say they are can help improve access to services. Agencies can help claimants by providing clear, step-by-step information, including what documents they need to have ready to create accounts, how to complete multi-factor authentication, and verify their identity. Illinois recently revised its website to help provide the right information to create an account and reset a password.

Additionally, agencies can provide options for different pathways for identity proofing. USDOL developed a partnership with the US Postal Service and the General Services Administration for a non-digital pathway for people to prove their identity at post offices. An earlier ARPA claimant experience grant to Arkansas piloted this approach and now it is operational in nine states, including Colorado, Hawaii, Massachusetts, North Carolina, Ohio, Oklahoma, Oregon, and Utah.

9. Equity Research and Data Analysis
Several states are analyzing large data administrative sets to understand and identify equity disparities. States like Michigan and Pennsylvania have public data dashboards. Illinois is using a portion of its Equity grant to

examine equitable access differences in an unemployed worker's likelihood to file, timeliness of first payment, and exhaustion of benefits.

10. Training for State Staff
USDOL created a UI equitable access toolkit and, in partnership with the National Association of State Workforce Agencies (NASWA), a UI equity training for state employees. Implementing equitable access and customer-centric initiatives at all levels requires scores of state employees to shift mindsets and learn new ways of working. In Illinois, as part of the Equity grant, more than 33 staff from six divisions were trained in plain language. To further grow the bench of staff who understand the importance of the claimant experience, IDES developed an intranet training site for staff called Plain Language, Accessibility, and Translation for Equity (PLATE). This site contains on-demand plain language training, how-to examples for thinking about PLATE in daily workflows, and links for other resources.

Additional Sources of Equitable Access Examples

All ARPA UI modernization state-level investments work in combination to improve aspects of equitable access and user experience. The full list of those investment types is described at the end of the testimony.

USDOL Resources

USDOL issued policy guidance to states last November with UIPL 01-24, with specific explanations about how equitable access is being able to use the system without facing undue burdens or barriers.[xxxiii] This UIPL also has guidance on how to identify claimant pain points.

USDOL also established a website for the Office of UI Modernization that supports states in their modernization efforts. This site is an essential repository for states to access best-in-class information on customer experience, new technology and automation, plain language, sample code for a modernized UI application, claim status examples, and more.

USDOL published several ARPA reports on state projects to improve equitable access.

Promoting Equitable Access to Unemployment Compensation Programs
In May 2023, AIR completed an overview of state equity grant strategies for USDOL.[xxxiv] $219.3 million in Equity Grants were awarded to 46 states to focus on systematically approaching fairness in processes and eliminating barriers to access.[xxxv] States are implementing more than 160 projects addressing technology improvements and claimant communication linked to underlying equity barriers for specific populations and AIR identified seven primary equitable access topics.

Tiger Team Cohort Trends and Updates
Multiple Tiger Team states were working on equitable access recommendations centered on simplified communication/plain language, translation, online and offline accessibility, claim status updates, website content navigation and accessibility, equity and accessibility data and metrics, community engagement, and continuous improvement feedback loops.

Insights and Successes: American Rescue Plan Act Investments in Unemployment Insurance Modernization
This report shares core equitable access issues and plentiful state examples including: plain language, accessibility, translation (highlighting Montana's work to make letters easier to understand), staff-led assistance and outreach (highlighting Alabama's UI ombudsperson approach), and enhanced data reporting and analysis to understand disparities.

Building Resilience: A Plan for Transforming Unemployment Insurance
This April 2024 report responds to the GAO report that put the UI system on its High-Risk list, referenced above. It details the activities and strategies completed and those underway by USDOL. It also contains recommendations that directly address the critical challenges identified by GAO. The plan outlines seven key

action areas that, in combination, will build a resilient UI system capable of responding effectively to future economic challenges. Several of the action areas relate to improved access and experience in UI. The second action area (delivering high-quality customer service) and fifth action area (ensuring equitable access to robust benefits and services) reinforce previously highlighted challenges and solutions.

Digital Benefits Network at the Beeck Center for Social Impact + Innovation Resources
The Digital Benefits Network (DBN) at Georgetown University's Beeck Center for Social Impact + Innovation recently published two reports highlighting state-level promising practices in UI modernization, with a focus on equitable access.

In December 2023, the Beeck Center published "*Promising Practices in State Unemployment Insurance Digital Service Delivery*," and cited examples in Oregon on language access; New Jersey on their plain language, mobile-friendly application as well as language access; Michigan on its new claimant roadmap and first-time filer coaching sessions; and Illinois on its equity-focused research.[xxxvi]

In May 2024, the Beeck Center published "*Promising Practices to Increase Equitable Access in Unemployment Insurance*," and cited examples from Missouri on language access; Nebraska on claimant communications; Nevada on user testing for claimant communications; and Maine on outreach to claimants and partnerships with community-based organizations.[xxxvii]

The DBN offers additional original research on administrative burden in public benefit programs, including UI, and numerous resources published with other organizations on topics such as a human-centered design. The DBN manages the **Digital Benefits Hub**, which is an online, open resource library of best practices in digital service delivery containing more than 60 UI-specific resources and more than 700 resources related to excellence in digital service delivery. The Digital Benefits Hub is a partnership with the American Public Human Service Association (APHSA). The DBN also hosts the **Unemployment Insurance Technology Coordinating Coalition**. Started in the height of the pandemic, this community of practice engages states, legal advocates, labor unions, technologists, think tanks, and other nonprofits in discussing and developing solutions to UI technology problems through bi-weekly calls, annual convenings, closed-door sessions, research, and technical assistance. The Beeck Center also has a USDOL-funded partnership with National Association of State Workforce Agencies' Information Technology Service Center (NASWA ITSC) for the **USDOL Open UI Initiative** and its newly launched Technical Advisory Group (TAG). This partnership aims to create a shared framework for building modular UI systems, develop incentives to encourage innovation, and provide states greater flexibility in technology investments to achieve UI program objectives.

Ensuring Equitable Access, Mitigating Improper Payments, and Improving Overall System Performance
When services and processes are more accessible and equitable, states effectively reduce confusion and, in turn, can reduce agency-based and claimant-based errors. This may have the subsequent effect of reducing non-fraud improper payments, which are mistakes made during the process, and improving overall UI agency performance.

An Overpayment Detection and Recovery Activities report (USDOL ETA 227) is required quarterly for all state UI agencies. This report includes both fraud and non-fraud improper payments. In 2022, the leading causes for non-fraud overpayments were: Benefit Year Earnings (29%), Separation (27%), Work Search (10%), Other Eligibility Issues (10%), Other Causes (9%), Able and Available (8%), Base Period Wages (3%), and Employment Service Registration (1.5%).

In 2023, 62 percent of Illinois' total overpayments were considered non-fraud improper payments. Of the 62 percent non-fraud improper payments, 57 percent were attributable to a claimant error made somewhere along the process. Claimants are held responsible for these mistakes and often are asked to pay back overpayments, with low recoupment rates. Reporting earnings can be confusing because workers are not sure what they earned until they see their paycheck a week or two later. It is not fair to blame claimants, especially in these non-fraud cases, for mistakes made when applications, identity and income verification, technology, correspondence, call centers, and other processes are hard to decipher and understand.

Investing in making UI more equitable and accessible may have an immediate effect on unemployed workers and the communities they live in, and it also has the potential for a substantial return on investment if states can prevent costly errors that lead to improper payments before they occur. When states continuously improve their integrity efforts to identify how and where improper payments may be occurring, along with how to prevent them, states may find equitable access improvement opportunities that also improve program integrity.

For instance, if we know that benefit year earning, separation, and work search are among the most common problems, what would the savings amount to if there were a five- or 10-percent reduction in those improper payments if claimants made fewer mistakes? Small percentage changes add up to millions of dollars in Illinois and even more nationwide. States could start with any of the other non-fraud overpayment errors by examining the administrative burden or difficulty that may arise as a result of a poorly worded application, process, form or request for information. Saving taxpayer dollars is something everyone can rally around. Improving equitable access not only helps eligible workers secure UI benefits and find their financial footing while they look for that next job, it also strengthens the integrity and performance of state UI systems.

What States Need to Continue Making Progress

All of the work states are doing with the ARPA UI Modernization investments will point to what is working and what is not. It will provide a roadmap of the UI reforms that are most needed to improve customer experience and equitable access. I urge this Committee and Congress to pay close attention to the states' experiences with these grants.

Increased Administrative Funding for Equitable Access Work

Many of the state examples shared would have been possible without the ARPA UI Modernization funding. And I am deeply concerned about whether states have the capacity to continue funding these efforts under the current administrative funding scenarios. There needs to be a financing mechanism to continue this work, whether that is changes to UI administrative funding or additional federal support.

Leadership

UI agency executives must be committed to improving access with dedicated strategic plans for improving equitable access and customer experience. As referenced in UIPL 01-24 on equitable access, this must be more than an agency equal opportunity officer. UI modernization is a change management endeavor and requires bold leadership to drive the policy, systems, and culture change required to deliver systems that work for claimants and employers.

Focus on the Data

You cannot change what you cannot measure. Some state UI agencies are focused on collecting data on equity and customer experience, and some are making that data publicly available. This is imperative to pinpointing where access inequities exist and developing solutions. ARPA funds allowed states to expand what data they were collecting and analyzing and how to make better decisions about technology or process changes as a result. Demographic gaps in the state data exist that could be improved, such as selecting multiple races and the addition of new racial or ethnic categories, like Middle Eastern/North African.[xxxviii]

More Time and Greater Flexibility

States might need more time to spend these grants and more flexibility. In Illinois, we were working as hard and fast as we possibly could. The pandemic backlogs and related pandemic audits have consumed state agencies' time and attention.[xxxix] It is hard to take on new initiatives while digging out from past issues, and organizational change is a marathon not a sprint. In Illinois we found that the ARPA grants were all quite interrelated, including for various procurements. Procurement also presents its own set of challenges to scope, contract, and spend technology and process improvement funding. I have no doubt that state UI leaders are excellent stewards of these federal resources, but the full set of possible changes may not happen within the bounds of these grants. Be patient with states and listen to their concerns.

Guidance on Staffing
Illinois and other states do not have customer experience units or procurement staff with deep expertise in designing, building, and buying technology solutions. States that do have those resources are starting to share their organizational charts, job descriptions, and strategies with other states. USDOL OUIM offered expert staff to states in the fall of 2022. Illinois raised its hand and for nearly a year, we had weekly access to a team of technologists and customer experience experts. It was akin to having another unit in our agency and coaching accelerated the modernization process. Working with this team created the pathway to develop the strategic customer experience roadmap that was outlined in Illinois' UIPL 11-23 IT modernization proposal.

Peer-to-Peer Connections
USDOL and organizations like NAWSA and the Beeck Center are helping states connect to learn from each other. Regional USDOL offices lead monthly Equity and Tiger Team calls where states can share updates and ask each other questions. The Beeck Center has planned a series of customer experience how-to webinars for later this summer, sharing examples from leading states for states that are just getting started.

Conclusion
States have pivoted from the crush of the pandemic to pioneering and implementing innovative solutions to increase equitable access to UI, which when done right increases integrity. My written testimony has more than 25 examples of state ingenuity that improve access and drive down improper payments. To keep this momentum, states need flexibility and continued funding. They need ways to accelerate the work by collaborating. And organizations like the Beeck Center and others, supported by private philanthropy, help convene, connect, and catalyze this change. To effectively tackle the toughest UI modernization challenges, we need to collaborate across sectors to create even greater public value.[xl] States need Congress to champion additional technology modernization and customer experience improvements to restore faith that when an eligible American worker loses their job, UI will work for them. Fast, fair, and fraud-free.

Appendix: Types of ARPA UI Modernization Investments
UDSOL has awarded $782.9 million to 52 of 53 state, territorial, and tribal jurisdictions to help them achieve these goals.

1) **Fraud and Integrity Grants**, first made available in 2021, which provided $133.9 million to 50 state-level programs and in 2023, providing an additional $93 million in integrity grants.
2) **Equity Grants**, $219.3 million was awarded to 46 state-level programs.
3) **Tiger Team Grants** available in 2021, provided under which $37.8 million was awarded to 36 states, followed by $75.6 million made available in 2023. These grants offered states multi-disciplinary Tiger Teams that were tasked with discovering and diagnosing the causes of pandemic-era failures in state UI systems and then provided funding for recommended solutions.
4) **IT Modernization Grants**, made available in 2023, providing $204.2 million for 19 states to implement their IT modernization plans.
5) **Navigator Grants**, $18 million to seven state agencies to work with community-based organizations (CBOs) on outreach to potential UI claimants.
6) **Claimant Experience Grants**, $1.05 million to three states. These grants helped create the groundwork for New Jersey's new UI application and Arkansas piloting a partnership with USPS for identity proofing.

All references are hyperlinked. Separate endnote references are available upon request.

GEORGETOWN UNIVERSITY | beeckcenter social impact + innovation | Digital Benefits NETWORK

STATEMENT OF JENNIFER PHILLIPS
PROGRAM LEAD, NETWORK COLLABORATION, DIGITAL BENEFITS NETWORK
BEECK CENTER FOR SOCIAL IMPACT + INNOVATION
AT GEORGETOWN UNIVERSITY
BEFORE THE UNITED STATES HOUSE OF REPRESENTATIVES
WAYS AND MEANS SUBCOMMITTEE ON WORK AND WELFARE
"Unemployment Insurance Reform: Supporting American Workers and Businesses"
JUNE 4, 2024

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Chairman LAHOOD. Thank you, Ms. Phillips, and that concludes our formal testimony today. We will now move to the question-and-answer period, and I will recognize myself for questions.

[Chart]

Chairman LAHOOD. Mr. Raderman, I am going to start with you. For years, states have said there is inadequate administrative funding available for making needed improvements to their UI technology and benefit systems. As the chart behind me shows—and I think is up on the monitoring screens here—outside economic downturns such as the Great Recession of 2008 and COVID–19, states routinely receive less than half of Federal tax revenues paid by employers to administer the UI program. In fact, prior to the pandemic, when the economy was strong, states received about 40 percent of what employers paid in.

It is clear that substantial amounts of tax revenue raised specifically for UI administration is not ending up in the state agency hands to enact needed system improvements. So, Mr. Raderman, can you explain some of the challenges this administrative financing mechanism creates, and what can be done to improve it?

Mr. RADERMAN. Thank you for the question, Chairman LaHood.

So the current financing mechanism is causing states to manage their programs with bare bones resources and with little to no guaranteed funding each year to actually focus on system improvements. The result of that is a lot of the problems that you see during COVID we are seeing in past crises like Hurricane Katrina, as well, because the financing system is not in a good place to actually let states proactively address those problems over time.

In order to actually improve the system there needs to be a stronger connection between what is being raised for program administration and what is being returned to states each year.

Chairman LAHOOD. And what is your recommendation on improving that connection from a public policy standpoint?

Mr. RADERMAN. There is going to be kind of two points in time that I think—or two points of access that need to be changed. One is the actual appropriations. It needs to be that all of the dollars being raised are being approved. But there is also the issue that some of the Federal accounts that manage the dollars end up diverting funds away from program administration when that balance for the administrative account exceeds a pretty low value.

So making sure those funds are actually going back to states is crucial, as well.

Chairman LAHOOD. And what you just mentioned there, is it your recommendation that it be codified into law?

Mr. RADERMAN. Currently, there is a statutory provision that is diverting funds away from the administrative account. And our view at the Niskanen Center is to change that so those funds stay for program administration.

Chairman LAHOOD. Thank you for that. I am going to turn next to Ms. Townsend.

In your testimony you state that unemployment claimants in the State of Iowa are contacted about the state's reemployment case management program when they first file for benefits so claimants can quickly begin developing skills to successfully navigate a pathway back into the labor force.

As I referenced in my opening, our BRIDGE for Workers Act, which gives states additional flexibility to provide reemployment support to any individual receiving benefits as long as the state believes these services would help them return to work more quickly.

Ms. Townsend, can you talk more about the return on investment that reemployment services provide, and how that relates to rebuilding our labor force, particularly looking at the success you have had in Iowa?

Ms. TOWNSEND. Thank you for that question.

So since the inception of the program we have spent approximately $4 million on our Reemployment Case Management, and that pays for 18 caseworkers and a manager. It also pays for some computer upgrades so that we were able to better track individual efforts in terms of their work search activities, and also manage their cases better.

Of the $4 million, we anticipate that by the end of 2024 we will have saved $400 million in unemployment benefits. So it is about a 1-to-100 return so far. Just to give you an idea, in 2019, the year before the pandemic, Iowa paid out roughly $388 million in unemployment benefits. Once the Reemployment Case Management system went into effect, we paid $253 million in 2022 and $260 million in 2023, and we expect to—or anticipate paying a similar amount.

But one of the things that I would also point out is the value that individuals receive in getting that one-on-one assistance. I receive daily success stories from individuals who, when they lose their job, they are frustrated, they are hopeless, they are anxious, and they are not sure where they are going to go. And having that person in their corner to say, you can do this, you can do more. Let's apply for that job that maybe you didn't think you had the experience for, and let's get your resume and interview skills up to par to get those.

So we are helping Iowans get jobs that are beyond what they expected to get. They are getting really good-paying jobs, and they are getting those careers that, like I talked about in my opening statement, they are going to stay with, and they are going to continue to benefit the employer that they have come to in their next act.

Chairman LAHOOD. Thank you for that. And, Ms. Townsend, have you found that other states have tried to model or look at your program as a success in what they do?

Ms. TOWNSEND. We have received inquiries from other states about how we are doing it. I think it is probably a funding issue. We are—Governor Reynolds gave us ARP dollars to fund the program, and that is what we have been—we will use until 2026, at which point we will ask the legislature for funding if we don't have any additional Federal funding.

Chairman LAHOOD. Thank you for that.

Mr. Taylor, I will turn to you now. An April report from the GAO analyzed data from 2018 to 2022 that showed the federal government's losses were an estimated $233 to $521 billion annually to fraud, a substantial portion from the unemployment insurance program. I think you referenced that in your statement.

Mr. Taylor, can you describe the current trends your company has noticed in relation to UI fraud, and what can be done to strengthen program integrity for the unemployment program?

Mr. TAYLOR. Thank you, Chair LaHood. I would offer that—when ID.me was initially retained by the 27 states in my opening testimony, what we found was an outdated system, a legacy system built around what is known as knowledge-based answers, things like looking at a credit report to see what type of car you drove whenever you were in college or high school. This was an outdated policy.

Whenever we went into those 27 states, fraud rates went down, accessibility went up. Today the threats that we are facing to specifically unemployment are—have risen to a critical infrastructure level, primarily driven by nation-state involvement, where they are attacking a number of states. This includes the country of China, it also includes the country of Nigeria, predominantly.

So fraud has evolved. Yet the controls that we have put in place have not evolved at the vast majority of states and institutions. ID.me has seen great gains specifically around the IAL2. But even today, we enhance the IAL2 NIST policy by adding in the machine learning aspects. What we have found is that you have to fight AI with AI.

And the stolen identities are already out there. Now there is a hyperscaling that is taking place within these criminal networks. As an agent on the front lines of this back in 2020, you would get a phone call and it would be maybe a person that suffered one instance of identity theft. Whenever I came to work at ID.me, we verify 60,000 to 70,000 identities per day. We have a receptacle, we have an email box where you can email in to our team and see if you are under threat of identity theft. And the scale that we see today is a direct result of this hyperscaling of fraud controls.

So what I am seeing today is that not only are the outdated aspects of identity verification need to be replaced by at least IAL2, but at the same time fraud is evolving quicker than our policies, and we need to account for that.

Chairman LAHOOD. Thank you for that, Mr. Taylor. Those conclude my questions.

I will next turn to Ranking Member Davis for your questions.

Mr. DAVIS. Thank you, Mr. Chairman, and thank you to all of our witnesses.

Ms. Phillips, thank you for testifying today and for the important work you did on behalf of Illinois workers.

One of the things we fought to do in the American Rescue Plan was invest in equity, and specifically in race equity in the unemployment program. What are some of the long-term benefits for children and communities when workers who are historically left out are able to access their earned benefits?

Ms. PHILLIPS. Thank you, Ranking Member Davis, for that question. I have four points to answer that question.

One, financial stability is incredibly important. Losing a job is stressful, it has devastating consequences. Sixty-four percent of Americans live paycheck to paycheck right now. If you cannot find a job immediately or get UI benefits that you—assuming you may be eligible, families may not be able to pay bills, rent, and other expenses. My written testimony offers citations on numerous research studies that show how financial stability is a gateway for better child outcomes, emotional and educational success for both parents and children, and reattachment to the labor market.

Financial instability can be a disrupting force, like having to move to a different school district because you don't have enough money to pay rent. And parents—research is very clear on parents' unemployment that can also have long-term effects on children's lifelong earnings.

The third point is that there is well-documented and well-researched evidence that shows the mental health and the stress impacts that unemployed people face. I cite research in the testimony about that hardship, about anxiety and depression that unemployed workers face that also affects children.

And finally, the fourth point is that local economies lose when they—they lose when eligible workers can't get UI, when people have less income and those dollars are not circulating into those local economies.

The research also is very clear, and there is numerous studies cited in my testimony about how unemployment has extreme disparities for people of color, namely African American and Hispanic families.

Mr. DAVIS. Thank you. Can you tell us more about why ensuring equitable access makes unemployment insurance more effective as a tool for preventing recession or making economic downturns shorter and less bad?

Ms. PHILLIPS. I also cite research in my testimony that shows the return on investment for the unemployment insurance program is $1.2 to every dollar spent. There is evidence in my testimony that cites a Harvard research project that shows the importance of UI as an economic stabilizer, demonstrating that states that have more generous unemployment insurance benefits actually significantly lessen the volatility of local economic fluctuations. Having workers have financial stability is good for local economies, and the lack of UI access that happens during financial economic downturns when people cannot access UI and cannot get reemployed right away sets communities of color back economically.

Mr. DAVIS. Ms. Phillips, can you tell us more about what data we collect currently to measure fairness in the UI system, and what additional data we might need to hold states fully accountable?

Ms. PHILLIPS. Thank you for that question.

Currently, I will cite two examples of where there is data collected that has really robust demographic information.

Right now the U.S. DoL requires states to report on recipiency rates. That has strong demographic information. But I will say that any new reform that can allow for greater disaggregation of data will help states—will help Congress hold states accountable. One example that I cite in my testimony is the ETA 227 report. That is the overpayment report that states report on—to U.S. DoL quarterly. Within that report there is a section on non-fraud improper payments.

In my testimony I cite that just in last—in 2023 in Illinois, the percentage of non-fraud improper payments was actually higher than the fraud improper payments. And we have no demographic disaggregated data to show, like, what is happening with those non-fraud improper payments. They are this—they are—they can be claimant error, state agency error, employer error. But we don't know anything about anything deeper than that.

And then finally, I would just like to say, like, in terms of recommendations for what states could collect in the future, Illinois is using its equity grant to look at likelihood to file. One of the equitable access to UI issues is not just what happens when someone actually has applied and is on the journey to reemployment, but we know virtually nothing about people who don't make it to the front door who are potentially eligible.

One of the things that Illinois is doing with the equity—the ARPA equity grant is looking at when employers file a WARN notice, and figuring out if we can find out why people choose to apply or not apply to UI.

And finally, states could be collecting customer experience data. They could be collecting survey information like we did in Illinois that asks claimants about their levels of trust, satisfaction, timeliness, and ease with the application process.

Mr. DAVIS. Thank you——

Ms. PHILLIPS. Thank you.

Mr. DAVIS [continuing]. Mr. Chairman, for your indulgence, and I yield back.

Chairman LAHOOD. Thank you, Mr. Davis. We will now recognize Mr. Carey of Ohio.

Mr. CAREY. First I want to thank the chairman for having the hearing, and I want to join the ranking member in wishing our colleague, Mr. Evans—we can't wait to have you back up here with us.

I also want to thank the witnesses for being here to discuss these much-needed reforms to unemployment insurance program—or UI from now on.

Today, alongside my colleague, Representative Greg Landsman from Cincinnati, I am proud to introduce the New Opportunities for Business Ownership and Self-Sufficiency, or as we call it, NO BOSS Act. This legislation intends to support individuals pursuing small business ownership by improving the currently under-utilized Self-Employment Assistance Program within the UI program. Our legislation aims to make state participation less burdensome and to encourage greater engagement in the SEAP program.

[Chart]

Mr. CAREY. Mr. Chairman, currently the Federal Unemployment Tax, or FUTA, tax is paid versus revenue received by states whose fraud UI administration is unequal across the states. You can see from the chart behind me.

The disparity is most pronounced in the Midwest, where I come from, in Ohio, the south, southwest, according to your own calculations. In Fiscal Year 2022, according to the Department of Labor, FUTA receipts versus amounts returned data, Ohio employers paid an estimated $229 million in FUTA taxes, and Ohio received $105 million in administrative grants from DoL, which is—if you do the math, it is only about 46 percent of the taxes paid.

So as you can see, Ohio kind of is getting the short end of the stick here on the UA administration funding versus taxes paid by its employers. Funding that could be used to potentially administrate programs like the Self-Employment Assistance Program, or SEAP, which my bill, the NO BOSS Act, gives states more flexibility to administer.

Can you explain a little bit why this disparity is so pronounced in these areas?

Mr. RADERMAN. Thank you for the question, Representative.

So the way that the dollars for program administration get distributed, it is through a resource justification model, the—kind of the main points of emphasis in terms of how it gets divided up between the states, it includes both program efficiency and processing, the various basic workload, and then how accessible the program is. So is there going to be a higher workload in the state?

And so the states that—or the agencies that are having the most issues with either efficiency or accessibility, they end up getting penalized the most when it comes time to actually distributing the dollars. And a better approach would make—would be to make sure that all the states were getting a much more stable amount, making sure that it was based more on the working population that was overseen, rather than the claims levels itself.

Mr. CAREY. Okay, thank you. This committee has done important work to address fraud and overpayments of the UI benefits, including the House-passed Protecting Taxpayers and Victims of Unemployment Fraud Act, which was mentioned earlier today.

States like Ohio are making investments in fraud recovery and prevention efforts. And as they continue to recover these fraudulent payments, we should be working to incentivize their investments in these efforts. So back to you, sir. What thoughts do you have on policy recommendations that would incentivize states to pursue fraud recovery work?

Mr. RADERMAN. Thank you for the question, Representative.

A number of the proposals that have been put forward do include incentives that provide states a percentage of the funds that are reclaimed. I know that there has been proposals to allow the OIG to pursue fraud for a longer period of time, making sure that that fraud—those fraud dollars end up going back to the States. It makes sense to us.

But I think making sure that the state agencies have more robust funding moving forward so all the dollars that are being raised specifically for administration, ensuring that they go back to the states and that some of the losses due to inflation over the past several decades get undone, those are both important measures to put them in a better financial position.

Mr. CAREY. Again, I want to thank the witnesses, and I want to thank the chairman and the ranking member for having this hearing. And with that I yield back.

Chairman LAHOOD. Thank you, Mr. Carey. I will now recognize Mrs. Steel.

Mrs. STEEL. Thank you, Mr. Chairman LaHood, for holding this hearing. And thank you, all the witnesses for coming out.

Recently, Chairman Smith and I sent a letter to Acting Secretary Su asking for all details of any attempt of her to forgive or write off fraudulent unemployment insurance payments issued by California or any other state. I would love to submit this letter for the record, Mr. Chairman.

[Pause.]

Chairman LAHOOD. Yes, I am sorry, yes. [Laughter.]

So ordered.

[The information follows:]

JASON SMITH
MISSOURI,
CHAIRMAN

MARK ROMAN, STAFF DIRECTOR
(202) 225-3625

RICHARD E. NEAL
MASSACHUSETTS,
RANKING MEMBER

BRANDON CASEY, STAFF DIRECTOR
(202) 225-4021

U.S. House of Representatives

COMMITTEE ON WAYS AND MEANS
1139 LONGWORTH HOUSE OFFICE BUILDING
Washington, DC 20515

May 16, 2024

The Honorable Julie Su
Acting Secretary
United States Department of Labor
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Acting Secretary Su:

Last year, the House, with bipartisan support, passed H.R. 1163, the *Protecting Taxpayers and Victims of Unemployment Fraud Act*, to recover fraudulent pandemic unemployment payments and improve program integrity in the unemployment insurance (UI) program. This was in response to a report by the Government Accountability Office (GAO) that estimated fraud totals from pandemic UI programs to be between $100 billion and $135 billion.[1] According to some estimates, California's Employment Development Department (EDD), while under your leadership, paid approximately $30 billion to fraudsters, prisoners, scammers, and known international organized crime rings during the pandemic.[2]

Furthermore, as you know, in addition to the large amount of fraud that occurred at EDD, California remains one of only three states and territories (the others are New York and the U.S. Virgin Islands) that continue to maintain an outstanding federal UI loan. California received the largest such loan in US history, at one time totaling $23.8 billion in August 2021.[3] With a current loan balance of approximately $18.3 billion, California owes federal taxpayers nearly three times more than the State of New York at $5.7 billion.[4]

For this reason, we were very alarmed about guidance from the Department of Labor (DOL) – issued by you in your role as now Acting Secretary of DOL – that would potentially "forgive"

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[1] GAO. "Unemployment Insurance. Estimated Amount of Fraud during Pandemic Likely Between $100 Billion and $135 Billion." www.gao.gov/assets/gao-23-106696.pdf.
[2] Eric Westervelt, Pandemic-related fraud totaled billions. California is trying to get some of it back, NPR (Oct. 18, 2022), https://www.npr.org/2022/10/18/1128561539/pandemic-fraud-billions-california.
[3] Department of Treasury. "Advances to State Unemployment Funds (Social Security Act Title XII)." https://fiscaldata.treasury.gov/datasets/ssa-title-xii-advance-activities/advances-to-state-unemployment-funds-social-security-act-title-xii.
[4] Ibid.

this $30 billion in fraudulent benefit payments issued by EDD and other states[5] – suggesting a serious conflict of interest.

During your testimony before the House Committee on Education and the Workforce on May 1, 2024, you stated that it was "absolutely false" that this guidance (Unemployment Insurance Program Letter, UIPL 05-24) had anything to do with waiving fraudulent overpayments. However, this does not comport with recent statements included in the California State Controller's Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2022. In that report, on page 186, the Controller indicates that EDD:

> "…issued a letter to DOL in February 2024 requesting that three groups of CARES Act UC claims be considered resolved and no further work would be done to these claims. EDD is waiting on final federal approval of EDD's request as indicated in the February 2024 letter before the event can be recognized in the financial statements as a forgiveness of debt. Once federal approval is received approximately $29.0 billion of potential federal liabilities will be removed from future financial statements in addition to a portion of the remaining $26.0 billion in federal liabilities which would be subject to state finality laws."[6]

We write to request a copy of EDD's February 2024 letter described above and all relevant associated correspondence between the Department and the State of California.

In addition, we ask that DOL answer the questions below, and provide all responsive documents to the Committee, by **May 30, 2024.**

1. What, if any, evidence has EDD provided to DOL to show they made good faith efforts to claw back any of the billions in improper payments and fraudulent UI overpayments?

2. What evidence has EDD provided to demonstrate the claims impacted by the UIPL 05-24 waiver requests and state finality laws are not, in fact, fraudulent claims? Are organizations such as the DOL Office of Inspector General able to sample these groups of claims to ensure that there are not substantial amounts of fraudulent claims being prematurely closed or waived?

3. What was the driving need for the December 2023 guidance in UIPL 05-24? Did states, EDD or otherwise, request this guidance from DOL?

[5] Department of Labor. "Unemployment Insurance Program Latter No. 05-24."
https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2024/UIPL%2005-24/UIPL%2005-24.pdf.
[6] California State Controller. (2024, March 15). Annual Comprehensive Financial Report, pg. 186.
https://www.sco.ca.gov/Files-ARD/ACFR/acfr22web.pdf.

4. If a state has groups of claims closed or waived under UIPL 05-24's provisions, how do these claims impact any future improper payment rate calculations for these programs?

5. Please provide a list of all states that have requested finality-related waiver authority, including descriptions of the groups of claims or monitoring findings they would like to have waived.

6. Have there been discussions internally or with the White House regarding forgiving California's federal UI loans incurred during the pandemic totaling $18.3 billion as of May 16, 2024?

Thank you for your prompt attention to this important matter.

Sincerely,

Jason Smith
Chairman
Committee on Ways and Means

Michelle Steel
Member of Congress

Mrs. STEEL. We are still awaiting a response from the Department, and I want to submit another record of recent L.A. Times article titled, "Job Growth in California Falls Back, Unemployment Rate Remains Highest in the Country."

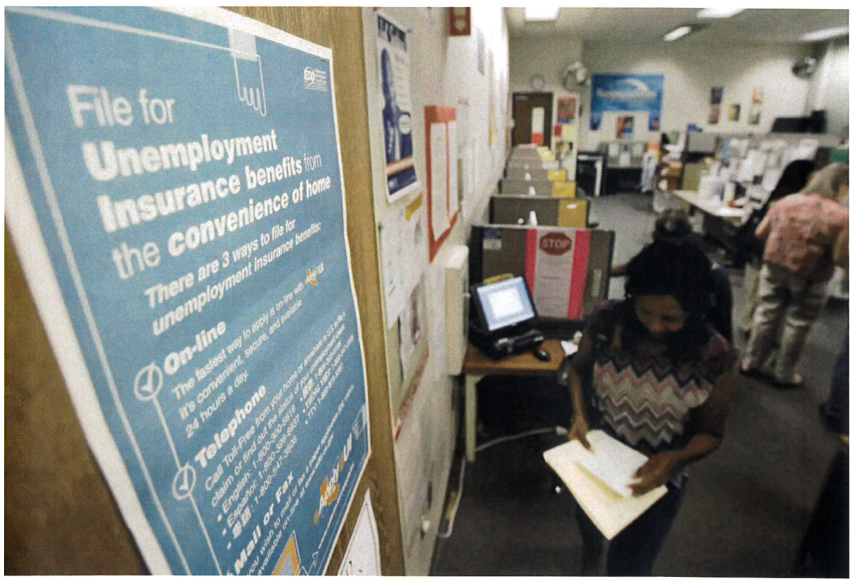
Chairman LAHOOD. Without objection.

[The information follows:]

Los Angeles Times

BUSINESS

As job growth in California falls back, unemployment rate remains highest in the country



A poster explains ways to file for unemployment insurance benefits at the JobTrain employment office in Menlo Park. (Paul Sakuma / Associated Press)

By Don Lee
Staff Writer

May 17, 2024 **Updated** 1:45 PM PT

California posted another month of anemic job growth in April, keeping the state's unemployment rate the highest in the country, 5.3%, the government reported Friday.

Statewide, employers added a net of just 5,200 jobs in April, down from 18,200 in March, according to California's Employment Development Department.

Nationwide, employers added 175,000 jobs in April and 315,000 in March. The U.S. unemployment rate in April was 3.9%.

Major sectors of California's economy — including manufacturing, information and professional and business services — showed job losses last month, and job opportunities aren't as plentiful as before, even as the number of unemployed workers in the state has risen by 164,000 over the last 12 months.

In California, there were 140 unemployed workers for every 100 job openings in March, according to federal statistics released Friday. Less than two years ago, there were about two openings for every jobless person.

Carol Jackson, an unemployed worker in South Los Angeles, says she has been pounding the pavement for months, hoping to make use of her recently minted associate degree in web management and database administration. But despite sending her resume to at least 100 employers, she has not had a single interview.

"I can tell you that California is pretty brutal now," said Jackson, 57.

Hiring in California has been lagging behind national trends, with one notable exception. The state's healthcare and social assistance sector added 10,100 jobs last month, bringing the gains over the last 12 months to about 155,000. That's 75% of all new jobs added since April 2023.

Hospitals and doctors' offices have been bulking up, but the fastest growth has been at outpatient centers, home healthcare firms, nursing facilities and, especially, social assistance, which includes vocational rehabilitation and child day-care services.

“Healthcare is the big gorilla in the room; it dominates everything,” said Mark Schniepp, director of the California Economic Forecast in Santa Barbara, adding that it’s likely to keep growing robustly with new and expanded medical facilities across the state.

Leisure and hospitality businesses added 3,100 jobs last month. The gains included employment at hotels and restaurants — despite the added stress employers are feeling from a minimum wage increase to $20 an hour for fast-food workers that went into effect April 1.

While there are fears of layoffs as the food industry adopts technology to replace workers, California’s restaurants are getting a lift from a pickup in tourism. The leisure sector overall is close to fully recovering from the deep losses caused by the COVID-19 pandemic.

Public-sector payrolls also held up well last month, increasing by 2,600. Thus far, state and local government jobs seem to be showing little effects from California’s massive budget deficits.

“But clearly that will be another factor,” said Sung Won Sohn, economics professor at Loyola Marymount University in Los Angeles.

Sohn and other economists worry that there are national, cyclical and state-specific threats to California's employment and broader economic outlook.

Key pillars of the state's economy continue to struggle.

Motion picture producers and other employers in the information sector show few signs of breaking out of the hiring doldrums, despite the film industry's resolution of labor strikes last fall. Los Angeles' motion picture and recording studio industries were down by 13,400 employees, or 12%, in April compared with the same month a year earlier. And many workers in the industry say conditions do not appear to be improving.

Large parts of the farm economy in the Central Valley remain sluggish, in part due to rising costs, tighter financial conditions and ongoing climate challenges.

Despite strong investments in artificial intelligence, layoffs have persisted at high-tech firms in the Bay Area and elsewhere. Scientific and technical companies shed jobs last month, and employment at computer systems design work and related services has been gradually declining.

Nationally, economists expect job growth to slow in the coming months, the result of persistently high interest rates and an expected pullback from consumers. The outlook is particularly dim in California.

"On the ground, there are several signs of even more slowdowns," said Michael Bernick, an employment lawyer at Duane Morris in San Francisco and former director of the state's EDD. Among them, he said, "small businesses continue to struggle statewide with higher prices and tightened consumer spending."

He and other experts have a similar refrain about what ails the state: high costs, excessive regulation and unaffordable home prices, among other factors.

"We just have real challenges here in California that other states don't face," said Renee Ward, founder of Seniors4Hire.org, a Huntington Beach-based organization that helps older workers find employment.

She said the number of job seekers registered with her service has jumped 26% so far in 2024 from a year ago.

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April 18, 2024

Don Lee

Don Lee writes economic stories out of Washington, D.C. Since joining the Los Angeles Times in 1992, he has served as the Shanghai bureau chief and in various editing and reporting roles in California. Lee previously worked at the Kansas City Star. He is a native of Seoul, Korea, and graduated from the University of Chicago.

Mrs. STEEL. Thank you.

Inflation, record high cost, and heavy state regulations are killing small businesses across the state.

Before I ask Mr. Taylor for the questions, and I want to ask Ms. Phillips that—you just mentioned while you are speaking that non-fraud proper overpayment is more than fraudulent payments?

Ms. PHILLIPS. Thank you, Representative Steel. So, yes, the U.S. Department of Labor requires all states on a quarterly basis to file the ETA 227 report, it is the improper overpayment report. And I am going to just make sure I have the exact number here.

So in 2023, 62 percent of Illinois's total overpayments were considered non-fraud, improper payments. And of that 62 percent of non-fraud, improper payments, 57 percent were attributable to a claimant error made somewhere along the process.

Mrs. STEEL. So it was Illinois, but not for the national average.

Ms. PHILLIPS. Yes, I have not done——

Mrs. STEEL. Yes, because we had this hearing with Acting Secretary Su regarding this, and she said that fraudulent payments by the law that you cannot really forgive because she wanted to forgive this loan that fraudulent payments went out in California. Out of $135 billion, $30 billion happened in California. It is over 22 percent. So that is actually under her watch, because she was labor secretary in California. She was the one who created it. Now she wants to forgive that. That is taxpayers' money, and it should not go to that. So that is why I was asking.

I asked the same questions that she couldn't give me any numbers for. So she was hiding something or, you know, you gave me some numbers because she said she doesn't know the numbers nationally, that during the COVID that this UI went out—the payments went out, and then how much was overpayment or how much was fraudulent payments.

Ms. PHILLIPS. And Representative Steel, I should amend my comment that the data, the ETA 227 data, is regular UI. It does not include the CARES Act program.

Mrs. STEEL. So it has nothing to do with the CARES Act, so——

Ms. PHILLIPS. Doesn't have the CARES Act.

Mrs. STEEL. So thank you.

Ms. PHILLIPS. Yes.

Mrs. STEEL. Thank you very much for clearing that up.

According to the Pandemic Response Accountability Committee, California estimated it sent $800 million in pandemic unemployment benefits to the 45,000 prisoners. Improper payments to prisoners, scammers, and international gangs are part of the reason California has a Federal unemployment insurance loan balance to the Federal Government of $18.3 billion. If it is not going to be paid, then guess what happens? Employers have to pay a much higher rate.

Some estimates show California Employment Development Department distributed approximately 30 billion, as I just mentioned, during the pandemic. So, Mr. Taylor, in your opinion, why was California the epicenter for UI fraud during the pandemic?

Mr. TAYLOR. Thank you, Representative Steel. Let me offer that prior to implementing ID.me, and right around October 2020, California was experiencing a landslide of fraud at the time. Coming out of the governor's office and post the ID.me integration, whenever we implemented the IAL2 controls in there, reporting out of the governor's office put it right at $125 billion in fraud savings that ID.me saved the State of California. Subsequently, California has moved away from the IAL2 standard, and now you are starting to see those fraud rates that you are alluding to.

As far as the why, it is going back to an old data broker model that I referenced in my testimony, where you are asking for PII that is quite literally available for cents on the dollar on the dark web.

Mrs. STEEL. Thank you very much, because I want to make very clear about that, because when Julie Su was Labor Secretary, she actually mentioned that, you know what, they are not up to date with how they are going to make proper payments.

I have a few more questions, but I am going to submit in writing because—since my time is over.

Mrs. STEEL. I yield back.

Chairman LAHOOD. Thank you, Mrs. Steel. I will now recognize Ms. Chu of California.

Ms. CHU. Ms. Phillips, the Niskanen Center—and indeed, some on this dais—assert that the formula that allocates the appropriations among states unfairly shortchanges certain states because the state employers pay more Federal UI taxes than they receive in Federal administrative payments. But the reason that certain central and southeastern states receive smaller allocations is that they erect barriers to receiving UI benefits, they pay UI benefits to fewer workers, and therefore have a smaller claims processing and payment workload. Is that correct?

Ms. PHILLIPS. So that is—I worked for Illinois Department of Employment Security, and probably am not the right person to ask on other states. But lower benefits would result in a lower FUTA.

I do want to say, Representative Chu, that one of the things that Mr. Raderman's testimony is spot on is that when states have fewer resources, when they need to make the improvements the most, that is a problem, right? State capacity during the pandemic was at its lowest point, and the funding goes up when it is raining the hardest, but the funding goes down when states need to really ramp up and improve both technological and process improvements.

Ms. CHU. Well, one thing is clear. There has not been full funding on helping the states deal with the UI workload, and this problem has been going on consistently. In fact, the only time they really had those funds was when the American Rescue Plan modernization funding came in, which you testified about with regard to its positive benefit.

Now, the Biden Administration has consistently proposed to increase annual funding and to fully fund the state UI workload to ensure that workers have access to the earned UI benefits while simultaneously helping states prevent fraud and errors. However, Republicans routinely appropriate less than what is needed to fund the state workload.

Can you talk about how consistent increased Federal funding for UI administration would enable the state workforce agency directors to increase support for staffing and technology, and perhaps even having things like equity grants?

Ms. PHILLIPS. Thank you for that question.

In my testimony I celebrate the ARPA UI modernization funding. Congress originally appropriated $2 billion. And last year, as a result of the Fiscal Responsibility Act, that was reduced to $1 billion. As a state administrator at that time, we were planning for that funding. We were working on proposals at that time, and it was a setback, capacity-wise, for us not—to know that we were not going to have as many resources for improving technology, improving processes, improving reemployment efforts, as well.

Ms. CHU. Well, we know that these funds that Congress provided through the American Rescue Plan have indeed made significant strides to help states improve their UI systems by detecting and preventing fraud, promoting equitable access, and ensuring the timely payment of benefits since the pandemic. In fact, because California received these funds, you know, through ARPA, it was able to actually deal with the fraudulent things that took place, was able to streamline its identity verification and fraud reporting system, expand language access, and also eliminate the backlog of unprocessed claims.

So, Ms. Phillips, would these type of improvements have been possible without the American Rescue Plan funding that Democrats provided?

And how should the lessons learned from these achievements inform any further reform of the UI system?

Ms. PHILLIPS. Thank you, Representative. I am going to start backwards with the lessons.

Organizations like the Beeck Center and others are trying to help connect states with one another. In my testimony U.S. DoL also has been documenting the ingenuity that states are working on not only on equitable access to UI, but also on timeliness of benefits, and detection of fraud, and preventing fraud.

I would argue that one of the best ways to prevent and detect fraud is by—I know this might sound strange coming from someone working on digital benefits, but making sure that the digital benefit access is also paired with in-person options, as is required by law, is an important fraud prevention mechanism.

Your question about whether this would happen—whether all of this innovation would have happened or would be happening if the ARPA funding was not there, I would argue probably not, for many of the reasons that Mr. Raderman was talking about, that the resource justification model makes it difficult to have extra resources to be able to work on modernization efforts.

Ms. CHU. Thank you. I yield back.

Chairman LAHOOD. Thank you. Now I recognize Mr. Moore of Utah.

Mr. MOORE of Utah. Thank you, Chairman LaHood, for holding this important hearing.

I would look back to when I first ran for this seat. It was just three-and-a-half years ago, and unemployment insurance was, you know, just becoming a thing with—as we were trying to navigate the pandemic and, you know, seeing the workforce go through a stress point. And it was that moment that, to me, was like we are not going to be able to solve these things at the Federal level. And it continually got worse.

And the thing that was the most frustrating to a lot of my constituents, particularly small business owners, was not being able to hire people, or not being able to get some of their folks back to work. That is an un-American concept. It is un-American. I get the pandemic was a tricky thing to navigate, and that different states handled it different ways, but we can't ever get to that point again. We can't ever get to that point again where it was easier to stay home and engage in this type of program than it was to go back to work.

And, you know, we didn't—I look back on it, and we made mistakes as a country, as a Federal Government, trying to do too much and creating unintended consequences. And I think the data will bear that out over the history of time. We saw an enormous amount of inflation right after the ARPA, or the American Rescue Plan, was passed. We cannot have so much money chasing too few goods, especially when there was a stress on supply chain and things like that.

And that, I think, is leading to my main point and one question simply that I have for Ms. Townsend. Like Iowa, Utah is a state that has been on the forefront of creating high-performance service delivery models for the unemployed and those lacking the job skills required to fully participate in the workforce. And so my point here, ultimately, is what are we doing at the state level to make sure these programs are actually run well?

And where do we get the outcomes? We are just not going to get the outcomes from the Federal Government. The nation is too big, the population is too high, and we do not have the purview and the ability to properly target where the work needs to be done.

The Utah Department of Workforce Services, Utah's integrated model for workforce and social assistance, simplified the application process for individuals seeking assistance such as unemployment insurance, and provides a case manager who identifies suitable services based on an individual's needs. Can you speak to the effectiveness of individuals receiving unemployment benefits having case managers in shortening their duration on unemployment insurance and finding meaningful employment?

Ms. TOWNSEND. Absolutely. Thank you for the question, Representative Moore.

So what we have found in Iowa is that when individuals, like I said before, come into the American job centers or contact Iowa Workforce Development after they have filed a claim for unemployment benefits, and we assign a single individual to help walk them through the process, most of them have not looked for a job for a period of time. Many of them have not looked for a new job for decades. And so—and as anyone who has been paying attention knows, the way to find a job now is not the way it was even five years ago, even pre-pandemic.

So having someone available to help them navigate the new system of basically virtual and all-digital application process, having someone available to look through your resume—because, for instance, in Iowa we have more jobs than we have unemployed, and I know it is the same in Utah. If you are applying for jobs and you are not getting a response, then the problem is probably in your resume. It is probably in the way that you are going about your job search.

And so one of the things that we can do with the reemployment case management is look at what jobs are you applying for? Are they the right jobs for your skills and your experience? What other jobs should you be applying for? And is there something in your resume that we need to fix or improve?

And so, when they get that one-on-one assistance, it helps direct them not only to the better jobs that they may not have otherwise realized they were eligible for, but also gives them that support and the hope that I can get this job. And they do. And we see—every day we are seeing stories about people who are getting jobs that pay them way more than they were making before they became unemployed.

Mr. MOORE of Utah. Absolutely, thank you. And I think the irony that—I can even, you know, admit it myself that I am saying that having a case manager involved, some people would claim that is more bureaucracy, right? What I am saying is, if we don't have that special attention to do this at the most basic level, where we are actually helping the individuals, we are going to continue, like Mr. Taylor was highlighting, the just an enormous amount of fraud that slips through the system unless you give it that special attention.

And that is why I want to be able to communicate and help spread throughout the country that states that do this well, they need to be replicated, and we don't need to just continue to throw more money at the problem. You need to put the right type of resources at the ground level to help these individuals get out of this mess, and that should be an incredibly bipartisan approach. And if you look beyond the rhetoric, that is what this Work and Welfare Committee is trying to do, is find the help that they need, and lift people out of these horrible situations that they get put in.

Ms. Townsend and to the rest of the witnesses, I appreciate your perspective, and I yield back.

Chairman LAHOOD. Thank you, Mr. Moore. We will recognize Ms. Tenney of New York.

Ms. TENNEY. Thank you, Mr. Chairman, and thank you to the witnesses. This is a really important issue.

I am a small employer up in upstate New York. And, you know, there has been serious systemic problems with unemployment insurance in this program, and particularly in the State of New York. There have been over 11 billion fraudulent unemployment payments since 2020. Yet despite this figure, New York has only recovered a small fraction of that.

New York is one of only two states, along with California, that remains delinquent on its loans borrowed from the Federal Unemployment Trust Fund and the COVID–19—and that was from the COVID–19 pandemic. The failure of Albany—and it is run by the Democrats right now, it is one-party rule all across the board—to repay the debts will force employers to bear the burden of these increased Federal unemployment taxes. And this debt remains, and it has been a tremendous burden. It has forced businesses to close in upstate New York. It is really heartbreaking.

And I just think it is worthy of note that last year, in our meeting on February of—I believe it was 2023—we had the inspector general here to discuss this unemployment at our last Ways and Means full committee hearing. And I asked the inspector general about New York, and he specifically said, "We tasked the governor of New York"—at the time it was Governor Cuomo—"in 2011 to change the systems in place, the computer systems, the technology, or you are going to have a real serious problem with fraud." And we ended up with that. And guess who is paying the price? Our beleaguered employers in upstate New York.

And so, because of this fiscal mismanagement and these real-world consequences, they are hiking this Federal unemployment tax that really particularly hits the smaller businesses, a lot of restaurants, a lot of businesses forced to close, and also those who are unable to find people to replace them.

That is why I am happy to join with Michelle Steel of California. We introduced legislation to protect employers in our respective states, New York and California. The small businesses in New York, and also California, should not be punished because of their state government's incompetence. And it really is, it is a huge concern because we do have programs to help people temporarily move into unemployment in their attempt to get a new job.

So I appreciate all the ideas and the tasks that you have here.

And I first wanted to just say thank you to Colonel Stricklin for your innovation in reading your testimony and hearing your testimony today on what you have done on trying to get people back into the workforce, particularly veterans, and I appreciate that. My son just became a major yesterday in the Marine Corps, so it was kind of fun to pin his little oak leaf cluster on him yesterday.

And so—but I know that so many people that—we have so many incredible people that serve in our military who can convert those skills into, you know, into the private sector when they go into their new careers, and so I thought maybe what you might explain to us in enhancing what you talked about, how you actually got people back to work, how this detrimental effect of our workforce shortage—how did you get businesses to deal with initiatives to get people back into the workforce in light of some of the issues we have today, where people almost have more incentives to stay home than they do to go to work? How do you inspire people to get out, go to work, take care of their families, pay taxes that we need for some of our services? How did you do that? And I would love to hear about it, especially with your unique background as a military member.

Mr. STRICKLIN. Thank you for the opportunity to respond to that, and it is something that we are very passionate about.

And when we started this five years ago in our group, we were not happy with the progress being made. And so we met and said we are going to make a difference. And this all started on a cocktail napkin among competitors in industry, among our training aspects of the Alabama Community College system and among our government. And we sat down and said, "How do we get people inspired to a new tomorrow? We need to find something they are passionate about, and we need to reduce the barriers to entry."

So when we started these courses, it started with a skid steer and a pile of rocks, a pile of aggregates, and we had people come in to learn this single piece of equipment. And everybody agreed that we are going to work together to make a difference. And then, down the road, when we are finished with this, we are going to compete over hiring them to get them back into our workforce. Because if we don't have a better workforce, there is nothing to compete with down the road.

And these individuals—if I could tell one quick story—so as we did the first pilot group, somebody went through and he thought he was going to earn a new job. And in three classes down the road I happened to be there, and he came up and hugged my neck, and he said, "I want to thank you and the committee for what you are doing because I thought I was getting a new job, but this didn't change my pay, it changed my family and my kids' futures, because you changed our level of income so that now I can offer more to my kids and offer more for their future." And that is how we inspire a new tomorrow to them. We all want good. We all love this nation.

Ms. TENNEY. So your company invests in getting new people during that transition period, where they are training and getting them off unemployment and getting into your business. Is that——

Mr. STRICKLIN. Yes, ma'am. And originally, we didn't know—it was funded by a grant. We didn't know if we were going to get it. And the partners in industry went to our training aspect. And we said, "If we don't get the grant, we will write a check to cover the first year of training."

Now, mind you, none of us wanted to, but we were willing to. And luckily, the grant came through. And when I mentioned in my testimony we have trained over 3,000 Alabamians, none of those 3,000 Alabamians have paid a cent for their training. It has all been through grants that we have enabled them to a new tomorrow.

Ms. TENNEY. Well, thank you so much. My time has expired. But thank you to everyone. I appreciate your insight.

Chairman LAHOOD. Thank you. I recognize Ms. Moore of Wisconsin.

Ms. MOORE of Wisconsin. Thank you so much, Mr. Chairman.

And thank you, Mr. Ranking Member. I think this is an extremely important discussion, and I want to get a few things straight before I move on.

I think, Ms. Phillips, you were talking about the non-fraudulent improper payments that were made. Did you say that we have not disaggregated what percentage of the overpayments were fraudulent versus non-fraudulent, accidental?

Ms. PHILLIPS. So we—thank you, Representative Moore, for that question. The ETA 227 has no demographic information.

Ms. MOORE of Wisconsin. Demographic.

Ms. PHILLIPS. There is no disaggregated demographic information. It is broken down by what type of improper—non-fraud, improper error code a state reports on that quarterly report, and the——

Ms. MOORE of Wisconsin. But we do know which ones were——

Ms. PHILLIPS. We know whether——

Ms. MOORE of Wisconsin [continuing]. Which ones were fraudulent——

Ms. PHILLIPS. Yes.

Ms. MOORE of Wisconsin [continuing]. Versus improper payment.

Ms. PHILLIPS. Non——

Ms. MOORE of Wisconsin. And what percentage is that? That wasn't clear to me.

Ms. PHILLIPS. So I only have—anyone could look at the information, state by state or nationally. But I can only speak right now to Illinois's numbers. And in 2023, as I mentioned just a minute ago—I just want to make sure I am completely accurate here—that 62 percent of Illinois's total improper payments—total overpayments were considered non-fraud improper payments.

Ms. MOORE of Wisconsin. Mr. Taylor, would you agree with that? I probably should have asked you that. What percentage of these payments were improper and other part fraudulent?

Mr. TAYLOR. It depends on the state, Representative Moore. There was a wide variety of disparity when it comes to what we call first-party and third-party fraud, third-party fraud being the stolen identity——

Ms. MOORE of Wisconsin. Yes, yes.

Mr. TAYLOR [continuing]. First-party improper.

Ms. MOORE of Wisconsin. Well, the reason that I have just burnt up so much of my time on this, Mr. LaHood, is because I just think our committee was focusing on this as if the majority of these payments were fraudulent.

And, I mean, thank God we made these payments because I think it was Ms. Phillips that said 64 percent of folks live paycheck to paycheck, and we know what people were doing four years ago. I mean, they were maxing out their credit cards, hoarding toilet paper. And so, we want to just be clear that it was important. I mean, all of you would agree that, despite the fraud, which is terrible, that we saved people's lives, literally, by providing this benefit.

Ms. Townsend, your reemployment work strategies. I mean, I am very impressed with your ability to get people back to work. It is a model that everybody has to look at. But I am wondering if what we used to say, that you bite your hand to spite your face or whatever—haven't we found that states that did a remarkable job of avoiding inflationary problems over the years reduced staffing, and then found themselves in this situation where we had an emergency and they just didn't have the staffing in place as a punishment, almost, for their doing so well in getting people unemployed?

So, I am wondering if any of you feel that the formula maybe punishes states that do a good job. Maybe I will ask you that, Ms. Phillips, and also—yes, go on.

Ms. PHILLIPS. Well, I think I would go back to Mr. Raderman's comments earlier that the way the resource justification model works is that when there is a low demand for unemployment benefits, that is also a low administrative amount of money that states have, and so you can't fix the roof during that time. So that is one point.

But I also want to comment on the workforce aspect because, as a former fellow UI administrator, states across the country are working on the RESEA program, and most administrators believe that the UI program is a temporary—it is a trampoline. But the people that are eligible to apply for UI are workers, and they want to get back to work. And most state agencies are working on——

Ms. MOORE of Wisconsin. Can I——

Ms. PHILLIPS [continuing]. That employment piece——

Ms. MOORE of Wisconsin. Can I ask something very quick before I get cut off?

Ms. PHILLIPS. Mm-hmm.

Ms. MOORE of Wisconsin. Do we see instances where there are barriers to applying to unemployment?

I mean, like the state has taken the position that we don't want to provide this benefit, and so many more people who are eligible and need it don't get it, and that also lowers the numbers and sort of masks the need?

Ms. PHILLIPS. Representative Moore, I can really only speak from my experience in Illinois that there was—there is no preventing people from applying. But I think we know, especially through the pandemic, the challenges that any UI claimant faces in applying, and the administrative burdens that they face on online applications, on certification processes, on other documentation that they need to provide.

I know I am over time, but one of the things that I cannot unsee is I observed these live claim filing observations, and I watched people from five different regions in Illinois apply, including an older woman, a 76-year-old woman from downstate Illinois near Carbondale, who was struggling mightily. She came into the office because she couldn't apply online. It wasn't working for her. There were many different blockades that I won't go into, but there are improvements that can be made to the actual application process.

Ms. MOORE of Wisconsin. Thank you so much, Mr. Chairman, for your indulgence.

Chairman LAHOOD. Thank you, Ms. Moore. I recognize Mr. Smucker of Pennsylvania.

Mr. SMUCKER. Thank you, Mr. Chairman, for convening this hearing. I would like to talk a little bit about the state's management of their own unemployment funds.

And as a former business owner, I think most business owners, you know, we value unemployment. We know that when you go through rough times, it is a safety net for employees that they are no longer able to provide work for. Even most business owners, at least in our case, I think we understood the need for a rating system—I was in Pennsylvania a rating system based on your own experience so that businesses who are laying off more workers are paying more.

But what did get frustrating was when states mismanaged their own funds and, as a result, businesses in Pennsylvania, for instance, had much higher rates and it was harder to compete.

And I am concerned right now, you know—during the pandemic we, of course, know that states' unemployment budgets were strained. There was a huge surge in claims. We have been talking about that this entire hearing. The federal government provided loans to states to help them bridge the gap and, of course, expected that to last while the pandemic lasts, and until individuals returned to work, and then expected, I think, to begin paying back those loans.

So it is—there are some states, like California, New York that have yet to pay the federal government for those loans from four years ago. And in fact, they not only have been accumulating that debt, but also now paying high interest. So in California $650 million already paid in interest, and another $550 million in interest due to the federal government by September 30. That really, I think, is going to matter to small businesses in those states who probably will end up having to bail out the states as a result of the bad policies by the governors and the administrations in those states. And it should maybe be even concerning to us, because eventually all taxpayers, if states can't pay that back, may need to bail them out even further.

And so I was proud to have cosponsored Representative Steel and Representative Tenney's legislation to ensure that small businesses will not have their credits against the FUTA, the Federal tax rate, reduced and will not see a dramatic increase. And I hope that today's hearing will call attention to best practices that states can utilize, can take advantage of during strong economic times to prevent these kind of future system strains and collapses in the future.

So Mr. Raderman, what actions can Congress take to ensure that states who receive Federal loans for their UI programs repay those loans in a timely manner, with hopefully minimal to zero impact on small businesses?

Mr. RADERMAN. Thank you for the question, Representative.

In terms of the state loans that were taken out, the way the programs are currently structured, it does fall to the states to fund the benefits. Our view is that the taxable wage base that is used to actually finance the state level benefits—I can't speak to every state, but I know for California and New York in particular, those wage bases have not been adjusted for inflation over time, and so it has become especially difficult to actually fund the benefits when downturns do occur, and that kind of results in that large amount of debt.

So the preference is to make sure that that wage base is indexed moving forward, or raised and indexed, and you can actually lower the rates overall so that businesses will have a bit more stable tax rates moving forward.

Mr. SMUCKER. With the budget hole that we are in now in those particular states, do you agree it will eventually probably impact the small businesses there? And how do you think it will do that?

Mr. RADERMAN. I agree, they are going to be facing higher rates at the moment. And I think it is important to address the financing issues now——

Mr. SMUCKER. I think it——

Mr. RADERMAN [continuing]. So that there is not a problem moving forward.

Mr. SMUCKER. I think there is a lot of concern there. I appreciate you responding to that.

Mr. Stricklin, your testimony was really impressive. It sounds like the program that you have in Alabama is very impressive. I was really just interested in one aspect of it, and I am out of time. But you talked—I have seen a lot of employee workforce education and training programs, and apprenticeship programs, and so on. Your goal is to train the first two weeks on the job. I have never really seen that exactly, and I found that really interesting. Really fascinating, actually. I would love to have you expand a little bit on that.

Mr. STRICKLIN. Yes, sir. Thanks for the opportunity to expand on that.

And when we sat down in the beginning, and you look at this problem—and it is so big you never know where to start, right? How do we climb a mountain? We have got to take the first step. And when we looked at this we said we have to have something manageable and measurable so that we know how to develop the training courses.

And we said, as owners of businesses, as small businesses, what do I want most from an employee when they show up? And we really boiled it back to I would love for somebody to walk in on day one of their third week, they know how to put on their safety equipment, they know where to go in the office, they know basic operation of the equipment. Then we can train them the specifics of what to do. And that is where that came from, is let's just train the first two weeks. That way they are showing up on day one of week three, and they are ready to run. Like, your company or my company or any company wants to train them in the specifics of what we do there and what our competitive advantage is.

Running a piece of equipment is running a piece of equipment. Operating a piece of equipment is——

Mr. SMUCKER. It is a really interesting concept, and I am out of time.

Mr. STRICKLIN. Thank you, sir.

Mr. SMUCKER. Thank you, Mr. Chairman, yes.

Chairman LAHOOD. Thank you, Mr. Smucker.

Well, that concludes our question-and-answer period. I know it went by quickly.

Let me just say in closing here how grateful we are for your generous testimony here today. As I think we all learned from this hearing, this is a complex subject. There are many nuances here that need to be worked out. And we have to figure out ways to rebuild and restore confidence in this system moving forward. And so this was a great learning process for the members here. It was great for me and everybody else here. So we appreciate your ideas, your proposals, your successes that you have had. And we look forward to staying in touch with you as we put together further public policy initiatives to address these problems and serve the people that we need to serve.

So with that, please be advised that members have two weeks to submit written questions to be answered later in writing. Those questions and your answers will be part of the formal record.

With that, we are grateful again for you being here today, and the committee stands adjourned.

[Whereupon, at 3:33 p.m., the subcommittee was adjourned.]

MEMBER QUESTIONS FOR THE RECORD

DARIN LAHOOD
16TH DISTRICT, ILLINOIS
LaHood.house.gov

COMMITTEE ON
WAYS AND MEANS

HOUSE PERMANENT SELECT
COMMITTEE ON INTELLIGENCE

SELECT COMMITTEE ON CHINA

1424 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6201
FAX: (202) 225-9249

Congress of the United States
House of Representatives

Rep. Darin LaHood QFRs
Committee on Ways and Means
Work and Welfare Subcommittee Hearing on
Reforming Unemployment Insurance to Support American Workers and Businesses
June 4, 2024

Questions for Will Raderman:
Mr. Raderman,

1. What are some of the downsides to proposals that seek to guarantee states receive more federal administrative funding (such as the 80 percent floor you described in the hearing)? Wouldn't doing that create a new entitlement in the eyes of the Congressional Budget Office (CBO)? How much would that cost and how would you offset the cost of the increased entitlement spending?

2. I noted your proposal to address currently outstanding federal Title XII loans to California and New York by raising the payroll tax wage base in all states. That seems a very blunt response to a problem affecting a handful of states, especially when those states had generous federal resources at their disposal during the pandemic they could have used to repay those loans. Just to be clear, is your proposal to increase both the federal and state UI payroll tax wage bases (at least in states that currently have a relatively low state wage base)? In which states would the state payroll tax wage base grow under your proposal?

Sincerely,

Darin LaHood
Chairman
Work and Welfare Subcommittee
Committee on Ways and Means

MORRIS DISTRICT OFFICE
1715 NORTH DIVISION STREET, SUITE E
MORRIS, IL 60450
(779) 238-4790

NORMAL DISTRICT OFFICE
108 EAST BEAUFORT STREET
NORMAL, IL 61761
(309) 445-8080

PEORIA DISTRICT OFFICE
100 NE MONROE STREET, ROOM 100
PEORIA, IL 61602
(309) 671-7027
FAX: (309) 671-7309

ROCKFORD DISTRICT OFFICE
527 COLMAN CENTER DRIVE
ROCKFORD, IL 61108
(779) 238-4785

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Responses to Questions for the Record for the 6/4/24 Ways and Means Hearing entitled *Reforming Unemployment Insurance to Support American Workers and Businesses*

Chairman LaHood,

Thank you for the thoughtful questions. I hope you find my responses to be useful to your future work and considerations.

What are some of the downsides to proposals that seek to guarantee states receive more federal administrative funding (such as the 80 percent floor you described in the hearing)? Wouldn't doing that create a new entitlement in the eyes of the Congressional Budget Office (CBO)? How much would that cost and how would you offset the cost of the increased entitlement spending?

I defer to CBO over how they would assess shifting from the current discretionary approach for UI administration financing, but emphasize that any CBO scoring must be weighed by lawmakers alongside the following factors:

1. These funds are already being raised for program administration. Ensuring that a steady 80% share of the FUTA revenue raised each year goes towards program administration does **not** require new taxes or revenue sources. Since FY 2006, an average of $4.66 billion has been deposited annually into the federal Employment Security Administrative Account (ESAA) specifically for program administration. Most of these funds are sent out through discretionary Congressional appropriations, but not all. On average, $370 million dollars raised annually for administration goes unused and could still be invested in better UI program performance.
2. With consistently better resources, UI agencies likely could have prevented more of the estimated $135 billion in benefit fraud during the pandemic. Likewise, agencies would have needed to spend fewer dollars pursuing fraud and correcting administrative errors.
3. Congress ends up approving additional administrative funds to help with program modernization, but in suboptimal ways. Rather than focusing on more reliable program investments over time, one-off spending bursts have been approved after recessions hit. Agency directors have noted limitations when any uptick in funding is temporary,

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forcing them to spend on shorter term expenses. The resources are applied towards system improvements, but cannot substitute for the consistent use of available FUTA resources. Proactive, long-term investments are necessary to limit the magnitude and cost of mistakes when crises hit.

4. Funds placed in ESAA specifically for administrative purposes that go unused in a given year are frequently spent within a ten-year period anyway. A strict statutory provision limits the end-of-year ESAA balance to 40% of the administrative allocations sent out over the previous fiscal year, and any funds in excess of that total are transferred to the federal Extended Unemployment Compensation Account (EUCA), which funds the federal portion of the Extended Benefits program. For instance, over $4.5 billion raised specifically for administration in the five fiscal years leading up to the pandemic was diverted from ESAA to EUCA due to this balance requirement. The funds technically went unspent those years, but were used once unemployment spiked in 2020. Thus when considering a longer, multiyear horizon, there is comparable net federal spending from the FUTA revenues raised, whether those dollars go towards immediate investments by UI agencies or to emergency benefits during future economic downturns.

A potential downside to proposals seeking to guarantee more UI administrative funding is that fewer dollars could be deposited into the Extended Unemployment Compensation Account. EUCA does struggle with solvency issues, and this would mean that the account would require more time to achieve a positive account balance following recessions depending on the reform proposal. Our view is that this would be a worthwhile tradeoff. States would benefit from these resources being made available to them for administrative improvements on an annual basis, rather than the funds sitting until a recession inevitably hits. EUCA already receives a guaranteed 20% share of FUTA funds — allowing UI agencies to spend available administrative funds on useful \investments in program integrity should take precedence over the dollars being directed to this emergency account.

I noted your proposal to address currently outstanding federal Title XII loans to California and New York by raising the payroll tax wage base in all states. That seems a very blunt response to a problem affecting a handful of states, especially when those states had generous federal resources at their disposal during the pandemic they could have used to repay those loans. Just to be clear, is your proposal to increase both the federal and state UI payroll tax wage bases (at

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least in states that currently have a relatively low state wage base)? In which states would the state payroll tax wage base grow under your proposal?

I appreciate the opportunity to provide clarity on the Niskanen Center's recommendations regarding the taxable wage bases.

Federally, funding for program administration has been inadequate and contributed to fragile UI systems. The most crucial step, as discussed above, is for Congress to ensure that UI agencies can utilize all available funds intended for program administration. The next most important step Congress can take is to index the federal unemployment tax (FUTA) wage base for inflation in order to stop the bleeding in the total real value of FUTA revenue from which states draw on for administrative funding.

Employers effectively pay a 0.6% tax on the first $7,000 of a worker's earnings, or $42, for program administration and Extended Benefits. Unlike most provisions in the tax code, the FUTA wage base was set at $7,000 in 1982 and left unindexed for inflation The result has been a steady decline of the real value of that $42 over time. Even short bouts of high inflation substantially erode the real value of FUTA revenues. In 2020, for example, the federal government raised about $51 (in real 2024 dollars) through FUTA – much more than the $42 raised today. Stopping any further erosion of the FUTA revenue stream now ensures that inflation does not undermine any reforms Congress makes to the allocation process, so states are better equipped to protect UI program integrity.

Indexing the federal wage base for inflation would have relatively minor impacts on state program financing, with only a handful of states affected in the near future. For context, employers can only receive the 5.4% FUTA credit reduction if they reside in a state with a UI taxable wage base equal to or higher than FUTA. Every program has a UI taxable wage base (SUTA) at least equalling FUTA's $7,000 level due to this incentive. Most states have much broader SUTA wage bases. Only Arkansas, California, Florida, Puerto Rico, and Tennessee are bound by the $7,000 minimum in 2024. If Congress were to index FUTA's taxable wage base, those five programs currently would need to adjust their SUTA wage base to comply with the federal minimum.

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The affected states would notably still retain full autonomy over the tax rates that apply to their wage base, allowing state lawmakers to determine the overall employer tax burden. States with solvent programs could respond to indexation by reducing the SUTA rates accordingly to raise similar amounts as they do now. Meanwhile, states with insolvent programs, like California, could broaden their SUTA wage base without adjusting rates. But that is a distinct issue for states, unrelated to our proposal to index the FUTA wage base, which has the singular goal of preventing further erosion of revenue for program administration.

Thank you again for the thoughtful questions. I hope these responses are useful for your committee's work moving forward.

Sincerely,
Will Raderman
Employment Policy Analyst
Niskanen Center

DARIN LAHOOD
16TH DISTRICT, ILLINOIS
LaHood.house.gov

COMMITTEE ON
WAYS AND MEANS

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1424 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6201
FAX: (202) 225-9249

Congress of the United States
House of Representatives

Rep. Darin LaHood QFRs
Committee on Ways and Means
Work and Welfare Subcommittee Hearing on
Reforming Unemployment Insurance to Support American Workers and Businesses
June 4, 2024

Question for Jennifer Phillips:
Ms. Phillips,

1. I noted your support for increased administrative funding for the UI system, including to "fix the roof" before the system encounters another recession. How much funding do you think is needed, how should that be divided among states, and how do you propose offsetting the increased costs for taxpayers?

Sincerely,

Darin LaHood
Chairman
Work and Welfare Subcommittee
Committee on Ways and Means

MORRIS DISTRICT OFFICE
1715 NORTH DIVISION STREET, SUITE E
MORRIS, IL 60450
(779) 238-4790

NORMAL DISTRICT OFFICE
108 EAST BEAUFORT STREET
NORMAL, IL 61761
(309) 445-8080

PEORIA DISTRICT OFFICE
100 NE MONROE STREET, ROOM 100
PEORIA, IL 61602
(309) 671-7027
FAX: (309) 671-7309

ROCKFORD DISTRICT OFFICE
527 COLMAN CENTER DRIVE
ROCKFORD, IL 61108
(779) 238-4785

DWIGHT EVANS
3RD DISTRICT, PENNSYLVANIA

WASHINGTON OFFICE
1105 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–3803
(202) 225–4001

DISTRICT OFFICE
7174 OGONTZ AVENUE
PHILADELPHIA, PA 19138
(215) 276–0340

DISTRICT OFFICE
1310 POINT BREEZE AVENUE
PHILADELPHIA, PA 19146
(215) 254–3400

Congress of the United States
House of Representatives
Washington, DC 20515

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CONGRESSIONAL BLACK CAUCUS
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June 18, 2024

Jennifer Phillips
Program Lead, Network Collaboration, Digital Benefits Network
Beeck Center For Social Impact + Innovation
Georgetown University

Questions for the Record
Work & Welfare Subcommittee Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses

Dear Ms. Phillips:

Question #1

During the Covid-19 Pandemic, in October of 2021, 17.9 million Americans were unemployed. Unfortunately, my district's county, Philadelphia County, experienced some of the highest rates of unemployment as compared to other Pennsylvania counties throughout 2020. Many of these Americans depended on receiving their earned unemployment benefits to make ends meet.

With the Pandemic placing such a strain on already underfunded unemployment administration, several weak points in our unemployment system became abundantly clear. Ms. Phillips, one of the issues was revealed by a study conducted in my Congressional District by Duke and Bernard Universities, which found definitive and significant disparities in administering unemployment benefits among hourly service industry workers.

Among those who applied for unemployment benefits from May 2020 to April 2021, only about sixty-five percent of Black and Hispanic applicants received benefits whereas seventy-eight-point three percent of White applicants received benefits. This disproportionality in receipt is mirrored in access to the federal Pandemic Emergency Unemployment Compensation supplemental benefits that were also available throughout the pandemic.

Ms. Phillips, would you elaborate on why applicants who are eligible to receive benefits within Black and Hispanic racial groups might have lower levels of receipt?

Question #2
President Biden has addressed this inequity of benefit disbursements with 260 million dollars of funding in equity grants from his American Rescue Plan Act. This investment helped States identify and address barriers workers face regarding access to state unemployment insurance benefits. Of these grants, the commonwealth of Pennsylvania was an initial recipient of about 68 million dollars of this funding in 2022 for this purpose.
Pennsylvania then established its Unemployment Compensation Navigator Program which invited community-based organizations to help workers learn about, apply for, and if eligible, receive unemployment benefits. The Navigator Program supports Pennsylvania's Department of Labor and Industry in delivering timely unemployment benefits to workers, especially individuals in groups that are historically underserved, marginalized, and adversely affected by persistent poverty and inequality. For example, the Navigator Program provides translation and interpretation services. Additionally, the Program establishes community events to raise awareness of the unemployment program with a focus on groups that are underrepresented in the unemployment system.
Ms. Phillips, what suggestions do you have of how we can build upon the progress towards equity that was made through the American Rescue Plan? Furthermore, how can other states achieve success similar to what Pennsylvania has demonstrated?

Thank you for responding to these questions.

Sincerely,

Dwight Evans
Member of Congress

GEORGETOWN UNIVERSITY | beeckcenter social impact + innovation | Digital Benefits NETWORK

Committee on Ways and Means
Work & Welfare Subcommittee
June 4, 2024
Reforming Unemployment Insurance to Support American Workers and Businesses

Questions for the Record
Response by Jennifer Phillips
Program Lead, Network Collaboration, Digital Benefits Network,
Beeck Center for Social Impact + Innovation at Georgetown University

Chairman LaHood Question

"I noted your support for increased administrative funding for the UI system, including to "fix the roof" before the system encounters another recession. How much funding do you think is needed, how should that be divided among states, and how do you propose offsetting the increased costs for taxpayers?"

Chairman LaHood,
Thank you for these excellent questions. My answers humbly reflect my experience and the acknowledgement that I am not an expert on UI financing. In my opinion, these questions deserve robust dialogue and gathering diverse stakeholder input, most importantly from state UI agency administrators.

How much funding do you think is needed?
The simple answer is more than what exists now, and it should be targeted funding that is available to states in a consistent way, over a specified, longer period of time to optimize strategic implementation plans that improve unemployment insurance (UI) system performance. Additional UI administrative funding should be explicitly linked to a set of criteria that focus on a new performance standard for UI systems. That could and should include the American Rescue Plan Act (ARPA) Congressional goals of improved fraud prevention and detection, benefit timeliness, and equitable access. It could also include new performance goals or standards such as reductions in overpayments or underpayments and ease of use for employers and unemployed workers.

Calculating a more precise amount is more complex and requires a deep analysis of whether the current UI financing mechanisms are working. I am not a UI financing expert and cannot comment on any proposed UI financing changes to the Resource Justification Model (RJM) or Federal Unemployment Tax Act (FUTA). UI turns 90 next year and its brittle and possibly counter-intuitive financing appears, to this former state administrator, to need an overhaul.

What I can say, from my experience, is that state UI agencies suffer from not being able to plan for longer-term modernization efforts—inclusive of both process and technology—under the current financing structure. Base funds have already dropped precipitously (inflation-adjusted 27 percent decline from 2007, Raderman, Niskanen) which is causing states to lose talent and capacity. There should be better mechanisms to reduce the fluctuation in funding between good and bad-times. The ARPA funding helps as a one time modernization funding but the base funding problem remains. I respectfully pose two questions for Congress to consider as it decides whether UI administrative funding is needed.

Why does Resource Justification Model financing make it difficult to fix the UI roof while the sun is shining?

The current RJM essentially pays states for the UI "usage." When UI demand is high, state UI budgets are higher. When UI demand is low, state budgets have to contract. It makes it hard to plan and execute needed modernization efforts, both processwise and technological. The RJM means that states are getting paid 80 cents on the dollar for administrative costs. This means states are 20 percent short to pay for significant fixes to problems that were exposed during the pandemic.

Fluctuating agency cash flow makes it difficult to fix the roof when the sun is shining; meaning resources are at their lowest when UI demand is at its lowest, and instead of deploying staff to work on process or technological fixes, resources contract and are reduced proportionally. RJM collects information about IT maintenance costs, but the allocation of funds is primarily workforce driven. A dedicated stream of funding for IT maintenance alongside one time funding is needed. It is not easy or effective for states to implement fixes when they are managing UI claim surges. The RJM is also retrospective from the most recently completed fiscal year, so even if states were well equipped to manage both, the money doesn't come at the right time.

Out of desperation to fix broken UI systems, some states have to turn to their state legislatures (Michigan appropriated $78 million over 10 years and Kansas appropriated $41 million over seven years excluding the cost of any hardware, software or infrastructure) to finance major UI system overhauls.

How could Congress use the ARPA UI modernization funding experience to answer the question about how much money states need and how an above base administrative appropriation could be most strategically deployed?

Congress originally appropriated $2 billion for the ARPA UI modernization, intending to create an infusion of short-term funding to fix glaring problems with the state UI systems before the next economic crisis. This was reduced to $1 billion last summer as part of the Fiscal Responsibility Act. States, including Illinois, were counting on those resources for modernization efforts on fraud/integrity, IT, and improved access. There are no additional funds in the foreseeable future to continue the work ARPA UI modernization has started.

The ARPA funds are one-time, time-limited funds. At present, there is no funding mechanism longer-term that is dedicated to exemplary UI system performance management focused on the three Congressionally-mandated goals of 1) fraud prevention and detection, 2) benefit timeliness, and 3) equitable access to UI. I worry about what will happen when this funding runs out in the states where the progress is half finished.

As a former state administrator, having a consistent appropriation for a longer timeline—say 10 years—would keep the pressure, accountability, and focus on bringing UI state systems up to future technology standards. Also worth noting, the US Department of Labor approach with the ARPA UI Modernization funding was a combination of grants for specific purposes and departmental assistance and guidance to states, in the form of the Office of UI Modernization and the 'Tiger Team' consultations. This approach contracts with the block grant approach for the American Recovery and Reinvestment Act in 2009 funding where, without some federal guidance and technical assistance, a number of IT projects failed.

Through my work at Georgetown University's Beeck Center for Social Impact + Innovation, we are constantly talking to state public benefits leaders, including UI. Because of those conversations, I wholeheartedly believe the federal ARPA funds are on the right track to help state UI agencies improve system integrity and performance, inclusive of fraud prevention, benefit timeliness, and overall customer experience, including equitable access.

I respectfully urge Congressional leaders to:

- Ask state UI leaders from across the country their opinion on how much additional administrative funding is needed. Consider partnering with the National Association of State Workforce Agencies (NASWA) or other nonprofit policy or academic institutions to pose this question to states.

- Find out from states and from the US Department of Labor what is working and what isn't with the ARPA grant process (there is quarterly grant data in the ETA 9178 reports). This was in my written testimony; the recent US Department of Labor reports: Insights and Successes: American Rescue Plan Act Investments in Unemployment Insurance Modernization and Building Resilience: A plan for transforming unemployment insurance highlight multiple state innovations.

- Consider a time-limited, dedicated modernization appropriation, especially for fraud and digital access technology improvements, to stay on top of rapid technology change and reduce continued vulnerability.

How should that be divided among states?

States vary with their recipiency rates, benefit amounts, and the duration of benefits offered to eligible unemployed workers. State UI systems also vary in terms of integrity and technology.

Putting those significant differences aside for the sake of answering your question, I respectfully recommend Congress should:

- Engage with state UI leaders about what they think they need to continue their UI modernization efforts. Not all states need the same amounts of administrative funding.

- Look at the ARPA UI modernization funding lessons to make future decisions. Ask for analyses from the US Department of Labor about what funding approaches had the best outcomes.

- Consider a combination of allocation-based funding and competitive funding.

    - Allocated funding would ensure that all states and territories would have access to a new appropriation. The majority of ARPA funding was allocation-based. I do not know all the criteria that went into those formulas, but state size was part of the calculations.

    - There were a few ARPA grants that were competitive. Use competitive funding for experimentation and advancing models that could be adopted later by other states. Competitive funding can also be used to reward states who are willing to innovate and focus on system integrity, equitable access, and overall system performance.

- Consider a way to develop a state internal risk score so administrative funding can be targeted to states whose systems are the most vulnerable. This could possibly be a request to the Government Accountability Office (GAO) or the Congressional Budget Office (CBO). Funding distribution could be targeted to high internal risk states. There is significant reporting data required by the US Department of Labor that could be used to assess whether a state UI system is ready to withstand a surge of claims. The American Enterprise Institute recently published a new scorecard concept to assess state fraud prevention and detection performance. The notion of "measuring what matters" and following the performance data would be one way to start the conversation about how resources should be divided among states.

How do you propose offsetting the increased costs for taxpayers?

I want to start with the acknowledgement that I am not an expert on UI financing. Answering this question also requires input from UI financing experts and other stakeholders.

When I was at the Illinois Department of Employment Security, part of my job was to apply for and create the strategic implementation plans for the ARPA UI Modernization funds. We were creating process and procurement plans for claimants and employers to have a more streamlined experience with UI and, hopefully, to make fewer costly mistakes. One particular US Department of Labor-required quarterly report drew my attention: the Overpayment Detection and Recovery Activities report or ETA 227, which I included in my written testimony. There was not enough space in my written testimony to include these graphics so I will add below. My argument for working on process improvements and technological innovations was that small changes that result in reduction of errors can lead to large-scale savings. For instance, making information easier to find online and making sure that employers and claimants have all the information they need and the steps to follow results in fewer call center calls, fewer mistakes made, and fewer adjudication errors and follow up needed. The back of the envelope cost-benefit analysis appears positive when states spend time and resources making their UI systems work better for users—both unemployed workers and employers.

One theory of change behind the UI modernization effort in the states is that when UI services and processes are more accessible, equitable and streamlined for both unemployed workers and employers, states effectively reduce confusion and, in turn, can reduce agency-based and claimant-based errors. This may have the subsequent effect of reducing non-fraud improper payments—which are mistakes made during the process—and improving overall UI agency performance. One hypothesis that could be measured going forward is whether the ARPA UI modernization funds had an impact on driving down overpayments, both fraud and non-fraud.

For instance, if you look at the state ETA 227 data just from 2023 (note: not all states had submitted 12/31/2023 data), here is what the amounts add up to:

2023 Overpayment Detection and Recovery Activities report (ETA 227)	
Total Fraud	$501,548,733
Total Non-Fraud	$1,271,220,385
Total Non-Fraud Claimant Error	$874,306,137

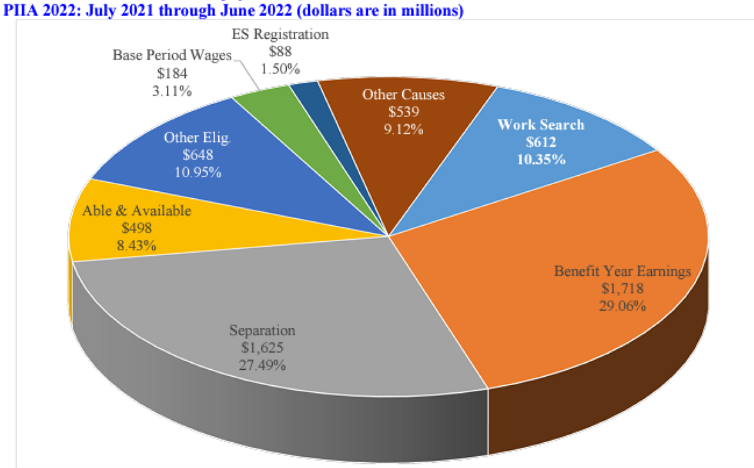
2023 Overpayment Detection and Recovery Activities report (ETA 227)		If 15% reduction
Total Fraud	$501,548,733	$75,232,310
Total Non-Fraud	$1,271,220,385	$190,683,059
Potential Savings from Reduced Overpayments		$265,915,369

Allowing states to keep a portion of recouped overpayments is a start and could help finance integrity technology and administrative state costs.

Congress could ask CBO for its opinion on whether reductions in non-fraud overpayments could be considered a saving or a loss. Depending on the opinion, this could be a way to create a future offset.

Source: Leading Causes of Overpayment: https://oui.doleta.gov/unemploy/pdf/Causes_UIOverpayments.pdf

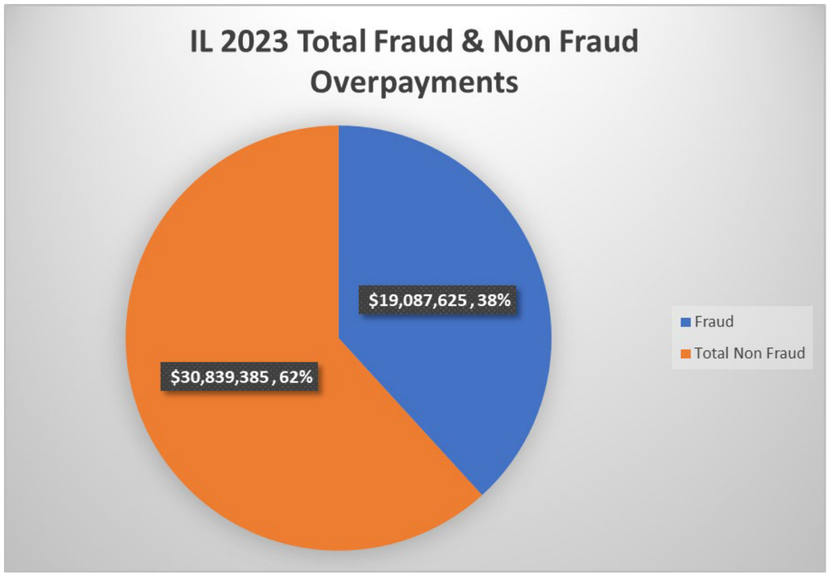
Pie Chart – Causes of UI Overpayments
PIIA 2022: July 2021 through June 2022 (dollars are in millions)



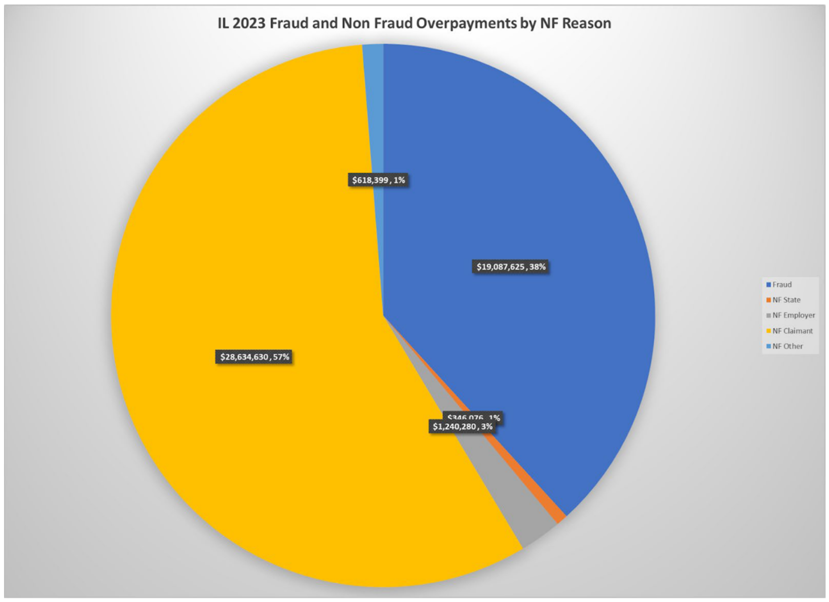
UI Program Percent of Total Dollars Overpaid by Cause			
% of Total Dollars Overpaid by Cause	**% of Overpayments (2022 PIIA Rate)**	**% of Overpayments (2021 PIIA Rate)**	**Relative Change**
Benefit Year Earnings (continuing to claim benefits after returning to work, failure to accurately report earnings)	29.06%	34.98%	-5.92%
Separation Issues (ineligible due to voluntarily quitting or discharge for cause)	27.49%	32.01%	-4.52%
Other Eligibility Issues (refusal of work, self-employment, failure to report for agency review or report requested information, citizenship status, and claiming benefits using a false identity)	10.95%	15.88%	-4.92%
Work Search (failure to actively seek work)	10.35%	1.67%	8.67%
All Other Issues	9.12%	3.78%	5.33%
Able and Available (Ineligible due to not being able to work or available for work)	8.43%	8.87%	-0.44%
Base Period Wages (Error in calculating claimant's benefit based on wages earned prior to period of unemployment)	3.11%	2.61%	0.50%
Employment Service Registration (failing to register for referral to work or reemployment services)	1.50%	0.20%	1.30%

Note: Rates are calculated using the methodology provided in UIPL No. 09-13 Change 1 and its attachment

Source: Author's Data Analysis from public ETA 227 data



Source: Author's Data Analysis from public ETA 227 data


IL 2023 Fraud and Non Fraud Overpayments by NF Reason
$618,399, 1%
$19,087,625, 38%
$28,634,630, 57%
$346,076, 1%
$1,240,280, 3%
Fraud
NF State
NF Employer
NF Claimant
NF Other

Representative Evans Questions

Representative Evans,
Thank you for your insightful questions. It is my honor to provide answers based on my experience as a former state UI administrator and in my current position working to improve access to a range of public benefit programs.

Question #1
During the Covid-19 Pandemic, in October of 2021, 17.9 million Americans were unemployed. Unfortunately, my district's county, Philadelphia County, experienced some of the highest rates of unemployment as compared to other Pennsylvania counties throughout 2020. Many of these Americans depended on receiving their earned unemployment benefits to make ends meet.
With the Pandemic placing such a strain on the already underfunded unemployment administration, several weak points in our unemployment system became abundantly clear. Ms. Phillips, one of the issues was revealed by a study conducted in my Congressional District by Duke and Bernard Universities, which found definitive and significant disparities in administering unemployment benefits among hourly service industry workers.
Among those who applied for unemployment benefits from May 2020 to April 2021, only about sixty-five percent of Black and Hispanic applicants received benefits whereas seventy-eight-point three percent of White applicants received benefits. This disproportionality in receipt is mirrored in access to the federal Pandemic Emergency Unemployment Compensation supplemental benefits that were also available throughout the pandemic.
Ms. Phillips, would you elaborate on why applicants who are eligible to receive benefits within Black and Hispanic racial groups might have lower levels of receipt?

Losing a job causes income loss, material hardship, and can have an impact on mental and physical health. Unemployment insurance benefits can be a force for good for eligible workers by easing financial hardship and duress. As I said in my written testimony, it is not a handout but an agreement between the federal and state governments, employers, and workers to bridge the financial gap between jobs. Eligible workers can and should expect that it will work for them when they need it, and that they'll receive the right benefits at the right time.

Evidence suggests there are significant differences in UI receipt by race, and some of the racial disparity research preceded the pandemic and has been evident in prior economic downturns.

I cited several studies, such as the research done by Elizabeth Ananat and Anna Gassmann-Pines and the GAO management report that called for a USDOL's response, in my written testimony and will include additional references here.

A sampling of reasons why potentially eligible Black and Hispanic racial groups might have ***lower levels of application*** for unemployment insurance include:

- They didn't think they were eligible. I cited this BLS survey research in my written testimony. And this University of Illinois at Champaign Urbana research.
- Their employers did not share any information about unemployment insurance with them. In states like Illinois, employers are required by the state UI law to provide information to an employee at time of separation for any reason.
- They weren't sure how or where to apply.
- The application process was confusing, difficult to understand, or not working. (Voices of Washington's Unemployed, Unemployment Law Project)

- The website, application, and help applying were not available in the language they were most comfortable using to apply.

A sampling of reasons why Black and Hispanic racial groups might have ***lower levels of unemployment insurance receipt*** include:

- They applied but did not meet their state's earnings eligibility test. The single most important variable is Black workers' lower pre-unemployment earnings, which explain almost 50 percent of the receipt gap and 30 percent of the take-up gap. (Racial Inequality in Unemployment Insurance Receipt and Take-Up, Philadelphia Federal Reserve)

- Their employer protested and they were found ineligible. Black, Asian, and American Indian claimants were more likely than White non-Hispanics to have their claims disputed or denied, in some cases, after controlling for observables. (Gender, Race, and Denied Claims for Unemployment Insurance: The Role of the Employer)

- Individuals that are below the poverty line are 28 percent less likely to have received UI. (Forsythe research). This reflects many of the issues outlined above.

- State-level differences may account for why racial groups have lower levels of UI benefit receipt and survey research showed that disparities arise at least in part from state-level policy choices and administrative burdens. (What Share of the Unemployed Receive Unemployment Insurance? Context, Trends, and Influences, Bipartisan Policy Center)

A sampling of reasons ***why more equitable access-focused research is needed*** include:

- There is not enough research about people, especially from historically marginalized populations, like disabled persons and persons of color, who might be eligible but never applied for UI.

- We need to know more about three categories of workers by demographic characteristics: 1) never applied, 2) applied but rejected, and 3) received benefits.

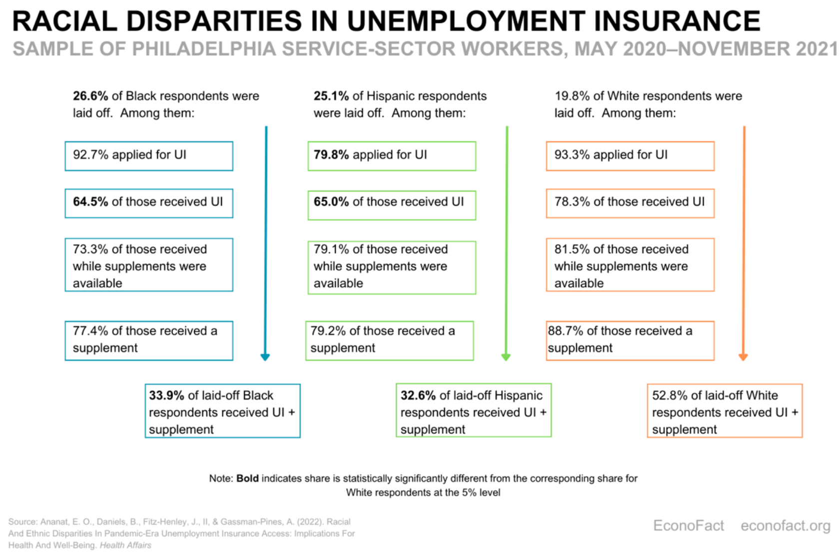
- We need to know more about the experiences people have while applying and during the benefit period with UI by demographic characteristics.

Organizations such as the National Employment Law Project and The Century Foundation have written extensively about how marginalized groups, especially people of color and disabled people, have lower rates of UI receipt. They also have recommendations for how to make UI more accessible and equitable, including: (How to Improve Unemployment Insurance for People with Disabilities, The Century Foundation)

- Provide meaningful language access and access for people with disabilities;
- Tell workers how to file;
- Mandate plain language;
- Address the digital divide;
- Don't penalize workers for agency mistakes; and
- Adequately fund state agencies.

(Reforming Unemployment Insurance is a Racial Justice Imperative, NELP)

Illustration of the Ananat/Gassman-Pines Research (EconoFact)
Graphical representation of the Ananat/Gassman-Pines research: *Racial And Ethnic Disparities In Pandemic-Era Unemployment Insurance Access: Implications For Health And Well-Being*.

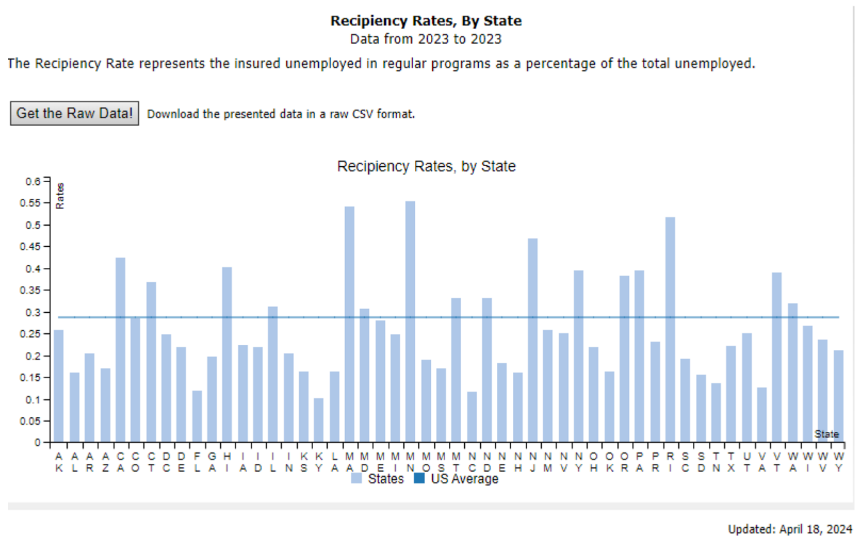


Historical View on Unemployment Insurance and Race
There is much written about the historical underpinnings of UI and how it assessed which workers "deserved" UI benefits.
From Black Workers Are More Likely to Be Unemployed but Less Likely to Get Unemployment Benefits, ProPublica:

> "The Social Security Act established unemployment insurance, in 1935, as a joint federal-state system. It had a narrow definition of who deserved benefits: full-time breadwinners who had been momentarily laid off but would return to work as soon as business picked up. This definition deliberately excluded agricultural and domestic workers, jobs held predominantly by Black Americans, from its purview.
>
> Historians have debated the extent to which these exclusions stemmed from racial animus. But whatever the motivations, the original definitions had a disparate impact: 65% of Black workers fell outside the reach of the new program, and in agrarian parts of South, that number went up to 80%, according to Larry DeWitt, a former historian for the Social Security Administration."
>
> "In every recession, we see these same disparities," said William Spriggs, a Howard University economist who analyzed the data. After the 2008 financial crisis, for example, 23.8% of jobless Black workers received unemployment vs. 33.2% for white workers, according to a 2012 study of national claims data by the Urban Institute."

2023 Recipiency Rates by State, USDOL Data

It should be noted that recipiency rates vary widely between the states. I am not aware of research that compares recipiency rates by race and ethnicity to the state benefit amounts and durations.



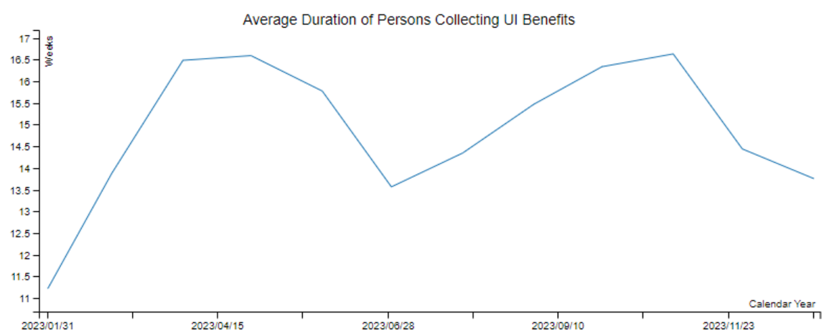
Average Duration of UI Benefits 2023, [USDOL Data]

It is worth sharing that the national average for UI benefits duration in 2023 was approximately 16 weeks or four months, less than any of the state maximum durations.

Average Duration of Person
Collecting UI Benefits
Data from 2023 to 2023

The average duration is the average number of weeks for which unemployment insurance claimants collect benefits under regular state programs. As the labor market weakens, the average duration increases and as the labor market strengthens, the average duration declines, making this series an important analytical tool.

Get the Raw Data! Download the presented data in a raw CSV format.



Updated: April 18, 2024

Question #2
President Biden has addressed this inequity of benefit disbursements with 260 million dollars of funding in equity grants from his American Rescue Plan Act. This investment helped States identify and address barriers workers face regarding access to state unemployment insurance benefits. Of these grants, the commonwealth of Pennsylvania was an initial recipient of about 68 million dollars of this funding in 2022 for this purpose.
Pennsylvania then established its Unemployment Compensation Navigator Program which invited community-based organizations to help workers learn about, apply for, and if eligible, receive unemployment benefits. The Navigator Program supports Pennsylvania's Department of Labor and Industry in delivering timely unemployment benefits to workers, especially individuals in groups that are historically underserved, marginalized, and adversely affected by persistent poverty and inequality. For example, the Navigator Program provides translation and interpretation services. Additionally, the Program establishes community events to raise awareness of the unemployment program with a focus on groups that are underrepresented in the unemployment system.
Ms. Phillips, what suggestions do you have of how we can build upon the progress towards equity that was made through the American Rescue Plan? Furthermore, how can other states achieve success similar to what Pennsylvania has demonstrated?

In my written testimony, I outlined 10 equitable access challenges and solutions (and acknowledged this was not an exhaustive list). The seven UI Navigator Grant states are working on these issues and more.

I respectfully offer the following suggestions to build on progress on equitable access made under the APRA UI Modernization Grants:

- Consider a new UI administration appropriation, above the resource justification model, to expressly continue the work started with ARPA UI Modernization Grants. In addition to funding the UI Navigator Grants, the ARPA funds are supporting Tiger Team Grants, Equity Grants, Integrity Grants, and UI IT Modernization Grants. Many of these grants, in some form or another, are working to increase equitable access to UI. The recent US Department of Labor reports Insights and Successes: American Rescue Plan Act Investments in Unemployment Insurance Modernization and Building Resilience: A plan for transforming unemployment insurance highlight multiple state innovations.

- Ask the US Department of Labor to continue funding equitable-access focused research that focuses on whether the experience of applying for UI and receiving UI benefits is improving or declining for historically marginalized populations.

- Closely monitor the seven UI Navigator grants and ask for scale and replication lessons from those states and USDOL (analysis of ETA 9178 narrative reports).

- Closely monitor Mathematica's qualitative research on the UI Navigator Grants.

- Consider ways to partner with the US Department of Labor and/or nonprofit and research institutions to hold listening sessions with state UI leaders on what the salient lessons from these grants are and what is needed to continue the positive momentum of this equitable access work.

- Encourage the US Department of Labor to add new quarterly data reports that ask states to track customer experience (CX) metrics and possibly develop new equitable experience (EQ) data. This could be piloted with a small cohort of states to ensure that it can be done, is not an excessive burden, and that the data helps show progress toward closing the racial inequity gap in UI benefit receipt. In this day and age, with the data that state agencies have (UI systems, website data, call center data), we should be able to monitor basic customer experience data such as abandonment rates, call times, website page visits, and time spent on applications and recertifications.

In addition to the recommendations above, my opinions on how can other states achieve similar success to what Pennsylvania has demonstrated are:

- Continue Congressional and US Department of Labor emphasis on centering UI modernization efforts around users and how to improve their experience applying for, receiving, and maintaining benefits, and accessing employment services to find a new job.

- Keep elevating and sharing state best practices through the US Department of Labor, NASWA, and other nonprofit and academic institutions such as Georgetown University's Beeck Center for Social Impact + Innovation.

- Make sure that states don't simply move old processes into digital formats. "Digitizing a broken process gets you a digitized, broken process." — New America's UI Playbook. Updating application technology before doing user testing on plain language, accessibility, and language access can cause states to have to go back and make revisions when users still have problems with access.

PUBLIC SUBMISSIONS FOR THE RECORD

Work & Welfare Subcommittee Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses

STATEMENT FOR THE HEARING RECORD
AMY SIMON, PRINCIPAL, SIMON ADVISORY
JUNE 18, 2024

Chairman LaHood, Ranking Member Davis, and members of the Work and Welfare Subcommittee of the House Ways and Means Committee. Thank you for the opportunity to submit additional content to the record in the wake of the June 4, 2024 Work and Welfare subcommittee hearing on unemployment insurance (UI) reform.

My name is Amy Simon and I am the founding Principal of the boutique consulting firm Simon Advisory. I served as the Chief of Staff of the US Department of Labor's (DOL) Employment and Training Administration (ETA) from 2019 to 2021. During that time, my portfolio included UI, workforce investment, trade adjustment assistance, and oversight of ETA's regional offices. During the COVID-19 pandemic, I saw firsthand both the incredible resilience and the vulnerability of the UI system as it responded to record-shattering claims volumes, the implementation of large new federal programs, and constant attacks from domestic and international fraudsters.

The current federal funding model for the state administration of unemployment insurance has significant shortcomings, several of which were noted during the subcommittee hearing.

First, states generally receive less, and in some cases much less, back to support state UI administration than state employers pay in via Federal Unemployment Tax Act (FUTA) taxes. Second, the Resource Justification Model (RJM) used to gather information about state needs and to distribute appropriated dollars focuses on arbitrary and overly-granular measurement of inputs and activities, rather than collecting clarifying data on the most important outcomes or rewarding states for innovative practices.

Third, the pandemic experience made it clear that, when not adequately resourced or managed, state UI technology and cybersecurity postures can become both economic security and national security threats. Although hundreds of millions of grant dollars from the CARES Act and American Rescue Plan Act were provided to states for these important purposes, there is not an ongoing, dedicated funding stream for cybersecurity or anti-fraud investments in UI administration. Funding these investments reactively has proven much less effective than preventative investments would have been, and sophisticated international or domestic criminal elements do not stop their attacks when grant funding is gone. Clearly, state agencies are and will continue to be responsible - directly or indirectly - for ongoing cybersecurity, data, fraud, and investigation costs at scale. These types of ongoing costs, in infrastructure, technology or staff, were not evident or even anticipated when the administrative funding model or the RJM were created.

For all these reasons, the current funding model is neither effective nor should it continue in its current form. First, I would encourage the subcommittee to work with the Department to assess and redesign the RJM, along with a wide range of UI policy, technology, and operational stakeholders, to ensure it matches the program's desired outcomes.

I am keenly aware that addressing the other challenges – FUTA tax distribution patterns and dedicated cybersecurity funding – requires the involvement of not only DOL but also the House and Senate appropriations committees. There are very real structural reasons that making some of the oft-suggested major changes in this space, such as moving UI administrative funding to the mandatory side of the budget (including by establishing a floor for FUTA receipts returned to states) or indexing the FUTA taxable wage base to inflation, would face significant resistance, often from both parties.

Appropriators could adopt one administrative funding improvement without impacting either congressional scoring dynamics or creating partisan angst: extend the time states have to spend appropriated UI administrative funds. Under the current model, the Department gathers the necessary information from states, prepares projections of annual weekly insured unemployment (AWIU) and supports the Appropriations Labor/HHS/Education subcommittee in finalizing the annual appropriations language.

For example, the FY2024 appropriations bill (passed in March 2024) requires that all the UI administrative funding be obligated by December 31, 2024. Only a small handful of specific dedicated funding purposes (automation, state consortia, RESEA grants) have different obligation timelines. In the best-case scenario, with a full-year appropriation, states would learn of their annual funding amount prior to the start of the fiscal year on October 1 and have obligated all the funds by the following December 31. Of course, obligating funding does not mean all the funding needs to be expended, but it does mean states must have a specific purpose for the funding or risk losing it.

As such, I suggest that the subcommittee, in its work with the Department and appropriations colleagues, identify ways to extend the life of the UI administrative funding to more than the current five quarters. In an ideal world, I would recommend an obligation deadline of the December two years out from the fiscal year under consideration. For example, the FY2024 would have had an obligation deadline of December 31, 2026.

To ensure that the funding is still used effectively and efficiently, appropriators could set boundaries on this longer-lived funding. First, they might consider applying a ceiling (that is, a maximum percentage) on the amount of the base UI administrative grant permitted to be spent outside of the first year. Second, they could restrict the longer lifespan money to only dedicated funding for specific investments (such as technology modernization or anti-fraud efforts). Third, they could allow longer funding lifespans when the relative amount of the UI admin grant is higher, thus giving states more flexibility when they have extra funds and creating some cushion for inevitably smaller UI administrative grants when the high-claims season ends.

I appreciate your consideration of this testimony and would be pleased to answer any questions you may have about this proposal or its implications for the proper functioning of the UI system.

DEPARTMENT OF LABOR & INDUSTRIAL RELATIONS

421 East Dunklin Street, P.O. Box 504
Jefferson City, MO 65102-0504
Phone: 573-751-4091
Fax: 573-751-4135
www.labor.mo.gov
Email: diroffice@labor.mo.gov

MICHAEL L. PARSON
GOVERNOR

ANNA S. HUI
DEPARTMENT DIRECTOR

MATTHEW S. HANKINS
DEPUTY DEPARTMENT DIRECTOR

June 3, 2024

The Honorable Jason Smith
Chairman, House Ways & Means Committee
1139 Longworth House Office Building
Washington, DC 20515

Dear Chairman Smith,

We are writing to bring to your attention a critical issue facing the Missouri Department of Labor and Industrial Relations (DOLIR), Division of Employment Security (DES) regarding the allocation of Federal Unemployment Tax Act (FUTA) funds. As you are aware, the FUTA taxes collected from employers in Missouri and other states are intended to fund the administration of state unemployment insurance programs. However, we have observed a significant discrepancy between the amount of FUTA taxes collected from Missouri and the funds we receive back for administrative purposes.

Missouri employers have consistently contributed substantial amounts in FUTA taxes, yet there has been a persistent shortfall in the funds allocated back to Missouri for the administration of our unemployment insurance program. In federal fiscal year 2022 alone, Missouri employers paid approximately $117.8 million in FUTA taxes, yet we received only $40.8 million[1] in our administrative grant. This persistent discrepancy leaves a substantial gap that hinders our ability to manage and administer the unemployment insurance program effectively.

This year marks a significant and concerning milestone for our program: for the first time in the history of the Missouri Division of Employment Security, we have had to request general revenue funds from the state legislature to cover our operational expenses. This unprecedented step underscores the severity of our funding shortfall and the urgent need for a reassessment of FUTA fund allocations. The Resource Justification Model (RJM) used to fund states' administration of the unemployment insurance program has been unable to keep up with rapidly rising salary costs, and ever-increasing technology expenses as states work to keep up with cyber security and other fraud threats to the UI program. The model was conceived during a time when workload counts were more closely tied to man hours worked by staff. The model does not sufficiently account for increasing technology costs that have become necessary for the operation of a state unemployment program and are not closely tied to the number of claims being filed.

Our analysis indicates that a considerable portion of the FUTA funds are being allocated to programs not directly related to the unemployment insurance program. While these programs provide valuable services,

[1] Source: https://oui.doleta.gov/unemploy/futa_receipts.asp

their funding should not come at the expense of unemployment insurance administration, which is essential for supporting unemployed workers and ensuring economic stability in our state.

The shortfall in administrative funding has tangible impacts on our ability to deliver services effectively. It hinders our capacity to process claims promptly, provide necessary support to job seekers, and implement essential modernization initiatives. This situation is untenable, particularly given the increasing demand for unemployment insurance services during economic downturns.

As a result of the pandemic, many supplemental funding opportunities have been made available to states to assist with work backlogs and technology improvements. Unfortunately, these funding opportunities come with relatively short periods of performance and restrictions on the use of the funds. These factors inhibit the state's ability to implement strategic plans for the long-term success of the program.

We respectfully request the committee to review the allocation of FUTA funds and consider measures to ensure that states receive adequate funding for the administration of their unemployment insurance programs. Specifically, we urge the committee to:

1. Ensure that a higher proportion of FUTA funds are allocated directly to state unemployment insurance administration. We request an allocation of at least fifty percent of FUTA receipts from Missouri employers to enable us to operate the program more efficiently and effectively.
2. Reevaluate the funding structure for other federal programs currently receiving FUTA funds to identify alternative funding sources.
3. Advocate for increased transparency in the distribution and use of FUTA funds to ensure accountability and effective use of these resources.

By addressing these concerns, we can ensure that Missouri and other states have the necessary resources to administer unemployment insurance programs effectively, support our workforce, and contribute to overall economic resilience.

Thank you for your attention to this critical issue. We look forward to working with you and the committee to find a sustainable solution that supports both our unemployed workers and the effective administration of unemployment insurance programs.

Sincerely,

Anna S. Hui

Anna Hui
Department Director
Department of Labor and Industrial Relations

Allen Andrews

Allen Andrews
Division Director
Division of Employment Security

Answering Key Questions About Unemployment Insurance Reforms

Matt Weidinger
Resident Scholar, American Enterprise Institute

June 14, 2024

Chairman LaHood, Ranking Member Davis, and members of the Work and Welfare Subcommittee, thank you for the opportunity to submit testimony on potential improvements to the nation's unemployment insurance (UI) system to better support American workers, businesses, and taxpayers. My name is Matt Weidinger, and I am a Rowe Scholar in poverty studies at the American Enterprise Institute. Previously, I served for over two decades on the staff of the House Ways and Means Committee, including as the committee's deputy staff director and for many years as the staff director of this subcommittee.

My testimony reviews possible reforms designed to improve the operation of the UI system in the context of key questions raised during the subcommittee's June 4, 2024 hearing.

Background on the UI System

The nation's UI system was created in 1935 in response to the Great Depression. It remains a shared partnership between the federal government and the states, which generally determine eligibility for, the amount of, and the duration of weekly state UI benefit checks—which offer partial wage replacement to eligible individuals. There are 53 "state" UI programs, including those operating in the District of Columbia, Puerto Rico, and the US Virgin Islands.

The "insurance" in its name marks UI as part of a broader array of government social insurance programs for workers, which includes the Social Security Old-Age, Survivors, and Disability Insurance program and the Medicare program. As under those other social insurance programs, state and federal UI payroll taxes (i.e., premiums) are paid in advance, entitling workers to coverage against the loss of income and thus prompting the need for unemployment benefits in the event of a layoff.

A January 2024 report I coauthored with Amy Simon breaks down the respective federal and state roles:

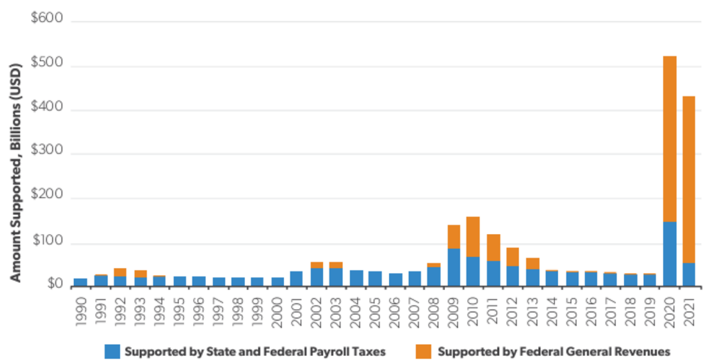
> The federal role in the UI program includes providing states funds to administer program benefits and, in recent decades, creating additional permanent and temporary programs offering extended benefits for those who exhaust up to 26 weeks of state UI checks. Except for the brief recession in 1980, in every recession since 1957, Congress has authorized temporary or "emergency" federal unemployment benefit programs that offered additional weeks of benefits to workers who exhaust state benefits. A permanent joint federal-state program called Extended Benefits, which at most times is supported with 50 percent state and 50 percent federal funds, was created in 1970. During the past two recessions, the Extended Benefits program was temporarily supported with 100 percent federal funds. States administer and pay both state and, when payable, federal unemployment benefits; their administrative costs are generally supported by federal funds.[1]

During the COVID-19 pandemic, Congress authorized major, but temporary, expansions in federal unemployment benefits. As depicted in Figure 1, a record $700 billion in temporary

[1] Matt Weidinger and Amy Simon, *Pandemic Unemployment Fraud in Context: Causes, Costs, and Solutions*, American Enterprise Institute, January 29, 2024, https://www.aei.org/research-products/report/pandemic-unemployment-fraud-in-context-causes-costs-and-solutions. See the report for additional discussion about state variation in labor markets, UI benefit levels, and payroll taxes.

federal unemployment benefits was provided in the form of $600-per-week, and later $300-per-week, federal supplements; extended benefits under two separate federal programs; unprecedented benefits paid by the federal Pandemic Unemployment Assistance (PUA) program; and other assistance.[2]

Figure 1. Shares of Unemployment Benefit Spending Supported by State and Federal Payroll Taxes Versus Federal General Revenues, by Fiscal Year Since 1990



Source: Matt Weidinger and Amy Simon, *Pandemic Unemployment Fraud in Context: Causes, Costs, and Solutions,* American Enterprise Institute, January 29, 2024, https://www.aei.org/wp-content/uploads/2024/02/Pandemic-Unemployment-Fraud-in-Context.pdf.

Figure 1 also displays that most pandemic benefit expansions were supported by federal general revenues and not the state or federal payroll taxes that have historically financed UI benefits and connected them to prior worker earnings. As during the Great Recession, the cost of these record federal benefit expansions was added to already-large federal deficits. As a result, the financing of the UI system during these emergencies became more typical of general revenue–funded welfare programs than of unemployment insurance, as that term has long been understood. Policymakers considering reforms to the UI system—and especially those that would revive pandemic expansions—should heed not only the enormous cost of doing so but also the resulting fundamental alternation of UI away from its longstanding social insurance roots.

Key Questions and Policy Answers on UI Reforms

1. *How can policymakers best determine appropriate funding for program administration?*

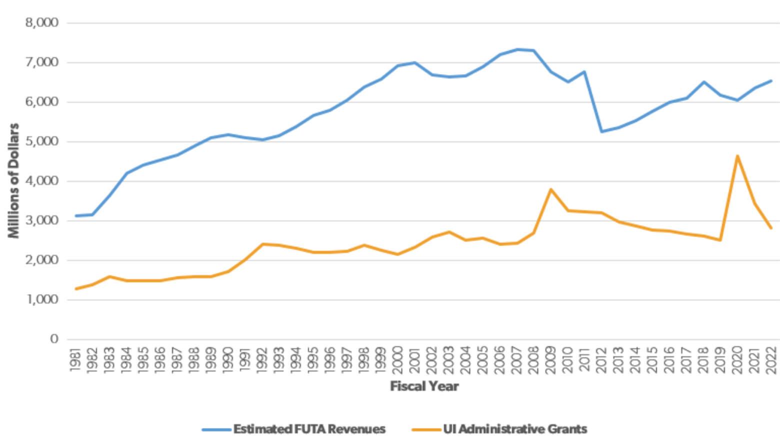
A key federal responsibility in the UI system is providing funding for program administration, which has drawn increasing attention in recent years. A common perspective is reflected in an April 2024 Department of Labor (DOL) report, which stated that "in real terms, administrative

[2] For an overview of benefit expansions during the pandemic, see Matt Weidinger, "Unprecedented: A Brief Review of the Extraordinary Unemployment Benefit Response to the Coronavirus Crisis," American Enterprise Institute, April 9, 2020, https://www.aei.org/research-products/report/unprecedented-a-brief-review-of-the-extraordinary-unemployment-benefit-response-to-the-coronavirus-crisis.

funding declined by 23 percent between 1989 (on the eve of 1990 recession) and 2019."[3] That statement reflects annual administrative funding and not one-time and other federal administrative funding all states receive during emergencies. Before deciding on future changes in federal administrative funding, the subcommittee should request of DOL a complete accounting of *all* federal administrative funds provided to states in recent years, including those devoted to administering major temporary federal benefit programs during the pandemic.

As Congress reviews that bigger picture, the adequacy of annual funding for UI program administration remains an important question. As Chairman LaHood and several witnesses noted, such funding typically falls well short of Federal Unemployment Tax Act (FUTA) revenue collected each year, including for that purpose. Figure 2 uses DOL data to compare nominal FUTA revenue with annual federal administrative grants since 1981.

Figure 2. Estimated Federal Unemployment Tax Act (FUTA) Revenues vs. Unemployment Insurance (UI) Administrative Grants, 1981–2022



Source: US Department of Labor, Employment and Training Administration, "FUTA Receipts vs. Amounts Returned," https://oui.doleta.gov/unemploy/futa/futa_report.asp.

Figure 2 displays how federal administrative grants to states typically fall far short of FUTA revenue collected to support that and other program purposes. The combined gap since 1981 totals $140 billion, or approximately 58 percent of FUTA revenues collected during that period, in nominal terms. Other uses of FUTA revenue, such as paying for the federal share of Extended

[3] US Department of Labor, Employment and Training Administration, *Building Resilience: A Plan for Transforming Unemployment Insurance: Executive Summary*, April 18, 2024, 17, https://oui.doleta.gov/unemploy/pdf/transfplan/Building_Resilience_Executive_summary.pdf.

Benefits (EB) program costs, explain only a small part of the gap.[4] Other purposes, such as supporting the cost of DOL national activities, typically reflect even smaller shares of FUTA revenue.

As the subcommittee discussed, some states object to significant variation in the distribution of federal administrative funding and perceived underfunding. Using DOL data to compare FUTA revenues with administrative funding provided to states in fiscal year 2022 (the most recent year of data) reveals that almost every state that year was a net loser. That is, 51 of 53 states received less in federal UI administrative funding than their employers paid in FUTA taxes.[5] Counting EB and other federal funds, 47 of 53 states were still net losers.[6] The bottom line is that, in the most recent year of data, the vast majority of states received less back in federal funds to administer UI benefits than their employers paid in federal payroll taxes for that and other program purposes.

At a time when many argue that state UI systems should be improving how they prepare for future program needs, these data show instead that federal funding available for administration is effectively being diverted from that purpose in most states. Some might argue that is to be expected of a program whose federal trust funds are designed to grow during recoveries so they can be drawn down in recessions. However, that design is in direct tension with calls to improve this system's administrative capacity and efficiency before a future emergency. It also puts at risk current state and future federal benefits, which will no doubt once again be subject to attack by criminals at home and abroad in another emergency. As displayed in Figure 1, if recent policies are revived, such benefits will be backed by federal general revenues that will far eclipse the comparatively smaller benefits supported by state and federal UI trust funds. That means all federal taxpayers, not just employers who pay UI payroll taxes, are effectively at risk.

One thing is clear: Current policy does not provide states with a predictable and, in the view of many observers, adequate stream of funding for program administration. That dynamic is especially pronounced in expansion years, when the important work of preparing for recessions should occur. As the nation experienced during the pandemic, real losses are associated with that, including considerable delays in providing benefits to eligible claimants when demand surges and the susceptibility of antiquated systems to improper payments and fraud.

The longstanding gap between FUTA revenue and federal administrative funding displayed in Figure 2 suggests that Congress has resources it could devote to expanding administrative funding if it chooses to do so. Achieving that aim will not be without cost, however. For example, scorekeepers will regard proposals that guarantee states receive a minimum share of

[4] For a discussion, see Matt Weidinger, "Why Even Permanent Benefit Expansions Are Never Enough," AEIdeas, September 27, 2022, https://www.aei.org/opportunity-social-mobility/why-even-permanent-benefit-expansions-are-never-enough. This post discusses how most federal EB program benefits, which were provided during the past two recessions, were supported by federal general revenues and not FUTA payroll taxes.
[5] The exceptions were Alaska and the US Virgin Islands. Data retrieved from US Department of Labor, Employment and Training Administration, "Estimated FUTA Receipts vs. Amounts Returned," April 18, 2024, https://oui.doleta.gov/unemploy/futa_receipts.asp.
[6] US Department of Labor, Employment and Training Administration, "Estimated FUTA Receipts vs. Amounts Returned." The additional "winner" states were Connecticut, New Jersey, New Mexico, and Wyoming.

FUTA revenues for program administration (such as the 80 percent figure discussed during the subcommittee hearing) as creating a new federal entitlement in place of current discretionary appropriations. The cost of doing so is far larger than one might assume, since the score of such legislation will not be credited with reduced discretionary spending toward the expense of new mandatory spending. To use a simplified example, if Congress currently appropriates $3 billion per year for program administration but instead adopts policies that guarantee states receive $4 billion in such funding, the new mandatory cost would be $4 billion per year—not an additional $1 billion as one might assume. Given the challenge of finding offsets for $4 billion in new annual mandatory spending, such proposals face significant headwinds.

Consistent with Rep. Blake D. Moore's (R-UT) suggestion that solutions often reside at the state level, lawmakers might instead replace the current federal administrative funding system altogether. Under the current system, federal payroll taxes are collected and then only partially appropriated back to states based on complicated federal formulas. A better targeted system would allow individual states to set and collect the proper amount of revenue needed to support administrative expenses.[7] Some states already do so, to a degree. Due to current federal underfunding, 28 states have adopted state surtaxes to support non-benefit needs, including 14 states that use such surtaxes to support program administration.[8] If they had more control over FUTA revenues, states might be able to reduce or even eliminate such surtaxes.

It is worth noting that, even if such revenues dedicated for program administration are held in the US Treasury, scorekeepers will likely project reduced revenues from allowing states to determine the proper level of these taxes. That would reflect in part the degree to which many states are losers under the current law (that is, by receiving less back in administrative grants than their employers pay in FUTA revenues), among other factors. Congress could minimize that effect by setting a floor on the revenues states must collect for program administration. The cost still would likely be smaller than that of proposals that would guarantee all states a minimum of 80 percent of current FUTA revenues.

2. *How can Congress better prevent fraud and abuse?*

The DOL inspector general has reported that improper payments during the pandemic conservatively totaled $191 billion, which he admitted reflects only a partial view of total taxpayer losses.[9] Some private estimates suggest that improper payments might have totaled $400 billion out of approximately $900 billion in total state and federal benefit spending.[10]

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[7] Congress has in the past considered "devolution" proposals designed to better match tax revenues with state administrative funding. For an example, see Employment Security Financing Act of 1999, S. 462, 106th Cong., 1st sess. (1999).
[8] US Department of Labor, "Financing: The Federal Tax and the Federal Unemployment Trust Fund (UTF)," https://oui.doleta.gov/unemploy/pdf/financing.html.
[9] Matt Weidinger, "Official Estimate of Unemployment Misspending Rises to 191 Billion—and That Is Still the 'Low End,'" AEIdeas, February 9, 2023, https://www.aei.org/opportunity-social-mobility/official-estimate-of-unemployment-misspending-rises-to-191-billion-and-that-is-still-the-low-end.
[10] For a detailed review of pandemic improper payments, see Weidinger and Simon, *Pandemic Unemployment Fraud in Context.*

The reforms proposed in H.R. 1163, the Protecting Taxpayers and Victims of Unemployment Fraud Act, reflect a strong starting point for realizing increased recovery of pandemic improper payments and preventing future losses.[11] The Senate should follow the House in passing this legislation so it can be signed into law this year.

In addition, future temporary federal programs should also incorporate lessons learned during the pandemic, including by

- Requiring identity verification before federal emergency benefits are paid;
- Barring self-certification of eligibility for benefits, as was the case initially under the temporary PUA program, which contributed to large losses to fraud and abuse;[12]
- Ensuring total unemployment benefits, including any federal supplements, do not exceed prior wages;[13] and
- Applying all data-matching rules under the regular UI program, including matches against lists of incarcerated, deceased, working, and other ineligible individuals, along with preventing the payment of claims filed in multiple states or to individuals using foreign IP addresses.

As Sen. Todd Young (R-IN) proposed during the pandemic, Congress also should make the provision of future federal emergency administrative funds—and perhaps even some subset of federal emergency benefits—contingent on states' adopting integrity improvements.[14]

3. *How can lessons learned during the pandemic improve future emergency responses?*

Beyond its demonstrated vulnerability to fraud and abuse, the UI system during the pandemic had a key failing: It could not manage the massive surge in unemployment claims as businesses shut down and Congress offered greatly expanded federal benefits, including through the unprecedented PUA and Pandemic Unemployment Compensation programs. Given the unique nature of the pandemic, a similar surge in claims and the revival of such extraordinary programs will hopefully not be repeated. But policymakers might consider several novel ways to better assist workers and states in responding to a future emergency whenever one occurs.

One low-cost approach would be to provide workers immediate access to their personal retirement savings in the event of a future crisis, allowing them to withdraw without penalty amounts equal to up to four weeks of average UI benefits in their state.[15] States could then use

[11] Protecting Taxpayers and Victims of the Unemployment Fraud Act, H. Rept. 118-34, 118th Cong., 1st sess. (2023).
[12] A review of reasons to reject self-certification is available at Matt Weidinger, "Recalling Pandemic Lessons on 'Self-Certifying' Eligibility," AEIdeas, February 29, 2024, https://www.aei.org/center-on-opportunity-and-social-mobility/recalling-pandemic-lessons-on-self-certifying-eligibility.
[13] For a discussion of how unemployment benefits during the pandemic often exceeded workers' wages, see Matt Weidinger, "If Congress Extends the $600 Unemployment Bonus Now, It May Never Go Away," *Washington Examiner*, June 24, 2020, https://www.aei.org/op-eds/if-congress-extends-the-600-unemployment-bonus-now-it-may-never-go-away.
[14] Unemployment Insurance Systems Modernization Act of 2021, S. 2898, 117th Cong., 1st sess. (2021).
[15] The March 2020 CARES Act included similar policies allowing coronavirus-affected individuals to take penalty-free distributions from personal retirement plans, which amounts they would later repay. See Congressional

those weeks to determine the claimant's eligibility for UI benefits, without the intense pressure that attended such determinations at the outset of the pandemic. Once a state determines the claimant is eligible for benefits, the withdrawals would be replaced with UI program funds and regular weekly UI benefit checks would continue for their normal course of up to 26 weeks, depending on the state.

This would let millions of workers quickly access funds needed to support themselves after layoff while also relieving pressure on state agencies and providing them crucial time to accurately assess individuals' eligibility for UI benefits. As a result, the UI system would provide more rapid assistance to workers while improving program integrity and efficiency—and hopefully preventing a repeat of the massive misspending that attended rushed eligibility determinations during the pandemic.

Lawmakers could also expand administrative flexibility by providing that whenever the EB program (or a temporary federal benefits program) is operational in a state, the merit staff requirement is automatically waived, as it was during the pandemic. This would provide immediate flexibility to expand the administrative resources available to quickly process UI and federal benefit claims whenever demand rises.

Other measures could focus on improving the design of future emergency federal benefit programs. One of the most noteworthy developments during the second year of the pandemic occurred when about half of all states terminated expanded federal unemployment benefits before the statutory end of those programs, often based on the view that those benefits delayed returns to work and the state economies' recovery.[16] Rather than revive the binary choice of retaining or shutting down such temporary programs altogether, Congress could provide states greater flexibility in how they can use federal emergency funds.

For example, states could be permitted to use federal emergency benefit funds to help workers find new jobs, pay reemployment bonuses, make systems improvements, or even shore up state trust funds to prevent future payroll tax hikes on jobs.[17] Over two decades ago, states were given similar flexibility in the use of federal funds in the wake of 9/11.[18] The nonpartisan Government Accountability Office confirmed that states used that flexibility to keep payroll taxes low, boosting job creation and wage growth that benefited all workers.[19] That flexibility also would

Research Service, "The Coronavirus Aid, Relief, and Economic Security (CARES) Act—Tax Relief for Individuals and Businesses," April 28, 2020, https://crsreports.congress.gov/product/pdf/R/R46279.

[16] Matt Weidinger, "As Red States Drop Unemployment Expansions, Democrats Try to Make Them Permanent," *The Hill*, May 21, 2021, https://www.aei.org/op-eds/as-red-states-drop-unemployment-expansions-democrats-try-to-make-them-permanent.

[17] For an example, see Matt Weidinger, "Use the $600 Unemployment Supplements to Get People Back to Work," RealClearPolicy, April 16, 2020, https://www.aei.org/opportunity-social-mobility/use-the-600-unemployment-supplements-to-get-people-back-to-work; and Matt Weidinger, "On Additional Stimulus, Try a Little Federalism," RealClearPolicy, November 18, 2020, https://www.aei.org/op-eds/on-additional-stimulus-try-a-little-federalism.

[18] Weidinger, "On Additional Stimulus, Try a Little Federalism."

[19] US General Accounting Office, "Unemployment Insurance: States' Use of the 2002 Reed Act Distribution," March 2003, https://www.gao.gov/assets/gao-03-496.pdf.

limit the cost of such a policy—a welcome feature as Congress wrestles with soaring federal deficits and debt.[20]

An additional measure to promote early returns to work would involve better targeting extended benefits to high-unemployment states. Doing so would promote earlier returns to work in lower-unemployment states by requiring that the EB program operate as a precursor to any temporary federal extended benefits—while also ensuring that states pay their half of EB program costs.[21] In the past two recessions, the federal government has paid for all EB program costs, in effect creating a second extended benefits program supported entirely with federal funds, which encouraged states to expand benefit eligibility since they bore none of the costs of doing so. Especially given regular trillion-dollar federal deficits, and comparatively flush state budgets, following that practice again makes little sense. Eligible states can and should support their half of EB program costs, as permanent federal law has long required.

A final policy that should be applied to future emergency programs would address states that receive federal unemployment loans. In sum, federal law should require that states with outstanding federal loan balances use any flexible federal emergency funds they receive to repay those loan balances first—that is, before devoting the flexible federal funds to additional spending, as some states have done in recent years.

During the pandemic, many states received federal Title XII unemployment loans to cover shortfalls in state benefit trust funds. In October 2020—roughly six months into the pandemic—19 states had received $34 billion in federal loans; in October 2021, 12 states had loans worth almost $46 billion.[22] As of June 5, 2024, only three states still maintained federal loan balances: California ($18.8 billion), New York ($5.8 billion), and the US Virgin Islands ($80 million).[23]

Many states used the massive amounts of flexible federal funding provided during the pandemic to repay their unemployment loans—and thus avoided the federal payroll tax hikes otherwise required to repay outstanding Title XII loans. In all, 23 states used $7.6 billion in federal CARES Act funds to boost their UI trust funds, while 26 states (many for a second time) used $19.2 billion in American Rescue Plan Act (ARPA) funds to do the same, including by repaying federal unemployment loans.

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[20] The 2002 legislation that provided all states a share of $8 billion in flexible federal unemployment funds was scored by the Congressional Budget Office as costing only $1.2 billion. See Erin Whitaker et al., "H.R. 3090: Job Creation and Worker Assistance Act of 2002," Congressional Budget Office, May 3, 2002, https://www.cbo.gov/sites/default/files/107th-congress-2001-2002/costestimate/hr30903.pdf.

[21] Weidinger, "Why Even Permanent Benefit Expansions Are Never Enough."

[22] Unless otherwise noted, these and other data related to states, loan balances, and the use of flexible federal funds are from Matt Weidinger, "The Next Time States Are 'Swimming in Money,' Make Them Repay Their Federal Loans," AEIdeas, November 20, 2023, https://www.aei.org/center-on-opportunity-and-social-mobility/the-next-time-states-are-swimming-in-money-make-them-repay-their-federal-loans.

[23] FiscalData.Treasury.gov, "Advances to State Unemployment Funds (Social Security Act Title XII)," https://fiscaldata.treasury.gov/datasets/ssa-title-xii-advance-activities/advances-to-state-unemployment-funds-social-security-act-title-xii.

In contrast, California—which received the largest flexible federal grants, totaling nearly $60 billion, and maintained its own historic state budget surpluses during the pandemic—chose to spend those flexible federal funds on other purposes. As one January 2021 article put it, California was "swimming in money" yet devoted only a tiny $5.9 million in CARES Act and zero dollars in ARPA funds "towards unemployment benefits."[24] Meanwhile, following ARPA, the state adopted Gov. Gavin Newsom's $12 billion "Golden State stimulus plan" that provided Californians $600 checks as they headed to the polls for his recall election.[25] New York similarly used ARPA funds to design an unprecedented $2 billion unemployment benefit program for those living in the US illegally.[26]

As a result of their continuing large loan balances, federal payroll tax rates on employers in California and New York have already doubled and will continue rising so long as their federal loans are not fully repaid.[27] Economists agree that such payroll taxes directly reduce worker wages.[28] Legislation such as H.R. 8559, the Protecting Small Businesses from Imposed Tax Hikes Act introduced by Subcommittee Members Rep. Michelle Steel (R-CA) and Claudia Tenney (R-NY), is a well-intentioned attempt to shield small businesses and their employees from the effects of rising payroll tax rates.[29] Yet doing so will shift that burden to other employers without diminishing the prospect of an expensive federal bailout, which should be avoided at all costs.

In the future, Congress should be more aggressive in protecting taxpayers' interests by requiring states to repay unemployment loans using available federal resources. Policymakers also should reject calls to permanently increase federal payroll taxes in all states, as if that were somehow a solution to the temporarily elevated tax rates applied in these two large states due their irresponsible fiscal decisions.

Concluding Thoughts

The subcommittee's June 4 hearing focused on important questions related to the UI system's administrative financing, susceptibility to fraud and abuse, and efforts to help unemployed individuals return to work. The subcommittee is correct to focus on these important issues and

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[24] Adam Beam, "California Governor's Budget Booms Despite Pandemic Problems," Associated Press, January 8, 2021, https://apnews.com/article/gavin-newsom-california-coronavirus-pandemic-8d01e88ceeb4b0bc6cb1fb0d6a8d72b7.

[25] Evan Symon, "California Stimulus Checks to Arrive Week Before Recall Election in September," California Globe, July 13, 2021, https://californiaglobe.com/fl/california-stimulus-checks-to-arrive-week-before-recall-election-in-september.

[26] Matt Weidinger, "Flush with Federal Stimulus Cash, New York Creates $2 Billion Fund for Those Living in the US Illegally," AEIdeas, April 19, 2021, https://www.aei.org/society-and-culture/flush-with-federal-stimulus-cash-new-york-creates-2-billion-fund-for-those-living-in-the-us-illegally.

[27] US Department of Labor, Employment and Training Administration "FUTA Credit Reductions," April 18, 2024, https://oui.doleta.gov/unemploy/futa_credit.asp.

[28] Tax Foundation, TaxEDU Glossary, "Payroll Tax," https://taxfoundation.org/taxedu/glossary/payroll-tax.

[29] Office of Michelle Steel, "Steel, Tenney Introduce Legislation to Protect Small Businesses from Tax Hikes," press release, May 23, 2024, https://steel.house.gov/media/press-releases/steel-tenney-introduce-legislation-protect-small-businesses-tax-hikes.

develop practical and affordable reforms. As described above, such reforms should involve permanent law changes and the application of key lessons learned during the pandemic to future temporary emergency responses.

Along the way, Congress should reject proposals that call for the permanent revival of temporary programs created specifically in response to the pandemic or a federal takeover of the UI system.[30] Such proposals would result in large benefit increases along with matching payroll and other tax hikes that would encourage benefit collection over returns to work, among many other problematic effects. Doing so would slow returns to work and transition UI away from its social insurance roots, converting it into a quasi-welfare program that offers large, one-size-fits-all benefits increasingly separated from prior employment.

[30] For a review of such proposals and their flaws, see Matt Weidinger, "'Automatic Stimulus': How It Would Have Increased the Record Unemployment Benefits Paid During the Great Recession and Pandemic," American Enterprise Institute, December 2022, https://www.aei.org/wp-content/uploads/2022/12/Automatic-Stimulus-How-It-Would-Have-Increased-the-Record-Unemployment-Benefits.pdf.

Comments for the Record
United States House of Representatives
Committee on Ways and Means
Subcommittee on Work and Welfare
Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses
Tuesday June 4, 2024, at 1:30 pm

By Michael G. Bindner

The Center for Fiscal Equity

Chairman LaHood and Ranking Member Davis, thank you for the opportunity to submit comments to the Subcommittee, which are similar to those provided to the Ways and Means Subcommittee on Social Security from earlier today for their hearing on the state of the Trust Fund.

Social services, especially Unemployment Insurance, need a major overhaul. The categorical grant approach reinforced a provincial view of federalism; one which created regional economies, especially in the South, with a barely hidden racist intent. The result of these policies has been to keep the region in a state of sustained poverty. Alabama Wealthy is not wealthy in the larger economy. This wound was self-inflicted.

Family incomes must be guaranteed, although not with a one size fits all subsidy. Our proposal has three components; two of which should be familiar to the Committee:

1. An increase in the minimum wage to at least $11 per hour (if not more to account for pandemic inflation), with a $12 wage for a shorter work week. This distributes the burden of higher wages for less work with employees and employers.
2. Increase the Child Tax Credit to levels passed by the House, with increases to at least twice that in fairly short order.
3. Replace the current menu of social programs with long term unemployment insurance at below minimum wage levels, which would be supplemented with additional funding for participation in basic education (especially for ex-offenders), employment training, psychiatric or addiction rehabilitation programs. Old Age, Survivors and Disability Insurance would start with this amount as a minimum, with higher benefit levels based on employment history. Dependent payments would be made through the child tax credit once it has been increased to current survivor benefit levels.
4. Long term unemployment insurance would be awarded on a no fault basis, ending the need for eligibility investigations beyond verification of identity and for punitive disciplinary systems by employers designed to avoid paying benefits. This payment, which would be indexed for inflation, would be $10 per hour for a 28 hour week, would be tax free and funded by a national goods and services tax. States could enact higher benefit levels funded by a local GST.
5. Most, if not all, anti-poverty programs would be discontinued, although programs to increase rental housing supplies would be expanded.

Please see the attachments for more information on the conforming changes to tax policy.

Taken together, these reforms will remove the punitive features from anti-poverty programs, especially those which require an excess of red tape to participate - especially the earned income tax credit and supplemental security income.

Thank you for the opportunity to address the committee. We are, of course, available for direct testimony or to answer questions by members and staff.

Attachment - Tax Reforms

We offer two reform proposals in our comprehensive tax reform plan that will provide for a more equal distribution of Social Security benefits for the future, although if these proposals would make some current beneficiaries better off, they should be applied to them retroactively.

The problems with the current system are that the poor do not get enough and the rich get too much, although in the end, due to bend points, the rich only get what they put in, which drives the demand for personal accounts.

One oft-cited reform is means-testing. This will only make the call for personal accounts louder. The alternative to means testing is to lower the ceiling of the employee contribution. This seems counter-intuitive - but this is only the case if the employer and employee matches are equal. They need not be. Employer contributions need not be capped, nor should they be tied to income earned. Rather, they should be credited equally. Here are the details:

Individual payroll taxes. A floor of $20,000 would be instituted for paying these taxes, with a ceiling of $75,000. This lower ceiling reduces the amount of benefits received in retirement for higher income individuals. The logic of the $20,000 floor reflects full time work at a $10 per hour minimum wage offered by the Republican caucus in response to proposals for a $15 wage. The majority needs to take the deal. Doing so in relation to a floor on contributions makes adopting the minimum wage germane in the Senate for purposes of Reconciliation. The rate would be set at 6.25%.

Employer payroll taxes. Unless taxes are diverted to a personal retirement account holding voting and preferred stock in the employer, the employer levy would be replaced by a goods and receipts tax of 6.25%. Every worker who meets a minimum hour threshold would be credited for having paid into the system, regardless of wage level. All employees would be credited on an equal dollar basis, rather than as a match to their individual payroll tax. The tax rate would be adjusted to assure adequacy of benefits for all program beneficiaries.

If these options are adopted, the impetus to establish personal accounts largely goes away. Ironically, a more equal distribution on the side of accumulation would make personal accounts workable. Initially, the employer match would be replaced with a broad based VAT, as above. In time, as employee-ownership of the workplace evolves (and it must), funding with a goods and services tax would be replaced with funding with an employer-paid subtraction value added tax. Such a change would nearly be price neutral, although exporters would pay more while importers pay less.

Personal accounts for employee-owners could not be enacted now - as there are simply not enough such firms for this reform to make a difference. That this sector should be expanded is the difference between a widening income divide in the American economy and a more cooperative and democratic economic future.

A different form of tax reform is necessary to do this - one that involves a tax cut. Currently, when creating employee stock ownership programs, the founder sells his stock to an ESOP Trust fund and gets a tax premium due to the fact that capital gains taxes are not levied on such a sale. Giving shareholders in public companies the same benefit - in other words - a tax cut, will provide the incentives needed to jump start the employee-owned economy.

A further tax reform will facilitate this transition: fully end the “Death Tax” and capital gains taxes (both long and short term) and replace them with an asset value added tax, which is described in the attachment.

Increasing Incomes

The current "school solution" to increase savings to supplement Social Security, as found in Social Security 2100, is obscene. Those who can save, already do. Most cannot do so and giving them tax incentives, even with automatic contributions, highlights the inadequacy of the wages in the vast majority of households.

There are two reasons for this. The first is that the minimum wage has not increased in decades and the tipped wage is not a wage at all, especially when low tipping is not offset by higher wages, as required by law but never enforced (or paid). To restore the value of the minimum wage to the level it would have been had it been indexed to inflation would require an increase (and I mean an immediate increase) to $10 per hour. This was the counter-offer the Senate Minority made to counter a $15 wage increase until the Senate Parliamentarian ruled that such a reform was not germane in Reconciliation. The Majority Leaders should have taken the deal.

A $12 wage would restore the balance to 1965 levels, which is when the Kennedy-Johnson tax cuts took effect and compensation and productivity were decoupled. An $11 per hour wage with a decrease in full-time hours to 32 per week would have the same impact for workers.

A $15 wage - which is an old number - was meant to be a family wage - and would be $18 to have the desired effect. The other option, one proposed in the President's Budget, is to increase the Child Tax Credit to pandemic recovery levels (including making it fully refundable), although I would start the phase out at the $85,000 income level, with no credit for households earning over $150,000. The amount of the credit should also be increased with time to $1,000 per month, per child and then indexed for inflation.

The second reason wages are inadequate is the way inflation adjustments are made - which is as an equal percentage increase to all employees or beneficiaries rather than an equal dollar increase. This was an innocent mistake until tax rates were cut on the CEO class. When the government stopped taxing away increased compensation for business owners and executives who cut labor costs, a minor math mistake turned into class warfare from above. It is time to fix this.

Adjusting the minimum wage does not affect the median dollar in the economy, which is earned at the ninetieth percentile of households. This has been the case for decades, and it is why anyone below that level has LOST VALUE to inflation.

The federal government plays an outsized role in how salaries are determined through percentage based cost of living adjustments to government workers, beneficiaries, government contractors. The government can change this with the stroke of a pen.

From here on in, adjust for cost of living on a per dollar an hour rather than on a percentage basis (or dollars per month or week for federal beneficiaries). Calculate the dollar amount based on inflation at the median income level. No one gets more dollars an hour raise, no one gets less dollars per hour in increases. Increase the minimum wage as above and consider decreasing high end salaries paid to government employees and contractors. Even without decreases, simply equalizing raises will soon reduce inequality. Why is this necessary?

Let me emphasize: prices chaise the median dollar. The median dollar of income is actually at the 90th percentile, rather than the 77th percentile (which is about where the median is). This strategy will reduce inflation in both the long and short terms as prices adjust to decreases in higher salaried income.

Asset VAT - The President's Fiscal Year 2023 Budget, June 7, 2022

There are two debates in tax policy: how we tax salaries and how we tax assets (returns, gains and inheritances). Shoving too much into the Personal Income Tax mainly benefits the wealthy because it subsidizes losses by allowing investors to not pay tax on higher salaries with malice aforethought.

Asset Value-Added Tax (A-VAT) is a replacement for capital gains taxes and the estate tax. It will apply to asset sales, exercised options, inherited and gifted assets and the profits from short sales. Tax payments for option exercises, IPOs, inherited, gifted and donated assets will be marked to market, with prior tax payments for that asset eliminated so that the seller gets no benefit from them. In this perspective, it is the owner's increase in value that is taxed.

As with any sale of liquid or real assets, sales to a qualified broad-based Employee Stock Ownership Plan will be tax free. This change would be counted as a tax cut, giving investors in public stock who make such sales the same tax benefit as those who sell private stock.

This tax will end Tax Gap issues owed by high income individuals. The base 20% capital gains tax has been in place for decades. The current 23.8% rate includes the ACA-SM surtax), while the Biden proposal accepted by Senator Sinema is 28.8%. Our proposed Subtraction VAT would eliminate the 3.8% surtax. This would leave a 25% rate in place.

Settling on a bipartisan 22.5% rate (give or take 0.5%) should be bipartisan and carried over from the capital gains tax to the asset VAT.A single rate also stops gaming forms of ownership. Lower rates are not as regressive as they seem. Only the wealthy have capital gains in any significant amount. The de facto rate for everyone else is zero.

With tax subsidies for families shifted to an employer-based subtraction VAT, and creation of an asset VAT, taxes on salaries could be filed by employers without most employees having to file an individual return. It is time to TAX TRANSACTIONS, NOT PEOPLE!

The tax rate on capital gains is seen as unfair because it is lower than the rate for labor. This is technically true, however it is only the richest taxpayers who face a marginal rate problem. For most households, the marginal rate for wages is less than that for capital gains. Higher income workers are, as the saying goes, crying all the way to the bank.

In late 2017, tax rates for corporations and pass-through income were reduced, generally, to capital gains and capital income levels. This is only fair and may or may not be just. The field of battle has narrowed between the parties. The current marginal and capital rates are seeking a center point. It is almost as if the recent tax law was based on negotiations, even as arguments flared publicly. Of course, that would never happen in Washington. Never, ever.

Compromise on rates makes compromise on form possible. If the Affordable Care Act non-wage tax provisions are repealed, a rate of 26% is a good stopping point for pass-through, corporate, capital gains and capital income.

A single rate also makes conversion from self-reporting to automatic collection through an asset value added tax levied at point of sale or distribution possible. This would be both just and fair, although absolute fairness is absolute unfairness to tax lawyers because there would be little room to argue about what is due and when.

Ending the machinery of self-reporting also puts an end to the Quixotic campaign to enact a wealth tax. To replace revenue loss due to the ending of the personal income tax (for all but the wealthiest workers and celebrities), enact a Goods and Services Tax. A GST is inescapable. Those escapees who are of most concern are not waiters or those who receive refundable tax subsidies. It is those who use tax loopholes and borrowing against their paper wealth to avoid paying taxes.

For example, if an unnamed billionaire or billionaires borrow against their wealth to go into space, creating such assets would be taxable under a GST or an asset VAT. When the Masters of the Universe on Wall Street borrow against their assets to avoid taxation, having to pay a consumption tax on their spending ends the tax advantage of gaming the system.

This also applies to inheritors. No "Death Tax" is necessary beyond marking the sale of inherited assets to market value (with sales to qualified ESOPs tax free). Those who inherit large cash fortunes will pay the GST when they spend the money or Asset VAT when they invest it. No special estate tax is required and no life insurance policy or retirement account inheritance rules will be of any use in tax avoidance.

Tax avoidance is a myth sold by insurance and investment brokers. In reality, explicit and implicit value added taxes are already in force. Individuals and firms that collect retail sales taxes receive a rebate for taxes paid in their federal income taxes. This is an intergovernmental VAT. Tax withheld by employers for the income and payroll taxes of their labor force is an implicit VAT. A goods and services tax simply makes these taxes visible.

Should the tax reform proposed here pass, there is no need for an IRS to exist, save to do data matching integrity. States and the Customs Service would collect credit invoice taxes, states would collect subtraction VAT, the SEC would collect the asset VAT and the Bureau of the Public Debt would collect income taxes or sell tax-prepayment bonds.

Contact Sheet

Michael Bindner
The Center for Fiscal Equity
14448 Parkvale Road, #6
Rockville, MD 20853
301-871-1395 (landline)
240-810-9268 (mobile)
fiscalequitycenter@yahoo.com

Committee on Ways and Means
Subcommittee on Work and Welfare
Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses
Tuesday June 4, 2024, at 1:30 pm

All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears:

This testimony is not submitted on behalf of any client, person or organization other than the Center itself, which is so far unfunded by any donations.

See also an article transmitted in a separate file published in the January 2003 issue of *PVS Labor and Corporate Governance* for the benefit of members and staff, but not for inclusion in the record.

Testimony of Stephen A. Wandner, Submitted to the United States House of Representatives Committee on Ways and Means, Hearing on Reforming Unemployment Insurance to Support American Workers and Businesses, Tuesday, June 4, 2024

I am Stephen A. Wandner, Ph.D., President of Wandner Associates Inc., as well as a Senior Fellow at the National Academy of Social Insurance and a Nonresident Fellow at the Urban Institute. My testimony does not represent any of the organizations with which I am associated.

Below, I present my proposal for comprehensive unemployment insurance (UI) reform. It is based on the work I recently completed while writing my book, *Transforming Unemployment Insurance for the Twenty-First Century: A Comprehensive Guide to Reform,* that was published by the W.E. Upjohn Institute for Employment Research in August 2023. It also makes use of material from my book, *Solving the Reemployment Puzzle: From Research to Policy*, that received the annual Richard Lester Award for the Outstanding Book in Labor Economics and Industrial Relations from Princeton University.

My proposal also is based on my long experience with the UI program and on my own research. For many years, I worked for the U.S. Department of Labor's (USDOL's) UI national office as a program administrator, researcher, and actuary. Over the last five decades, I have written three books and many articles about UI, while the UI program has become less responsive to the needs of employees and employers.

What I have tried to do in both my latest book and in these proposals for reform is to think through how to fix a nearly 90-year-old broken UI system that has not been substantially updated or reformed for almost 50 years. The UI program, like other social insurance programs, should respond to changes in economic conditions, in the labor market, and in the demographic composition of our society.

Because there has been no substantial federal UI reform since 1976, the UI program does not serve either the current U.S. economy or labor market well. It also has had a sharply declining effect as an automatic stabilizer of the U.S. economy – a key goal of the program.

More specifically, the UI system should provide more adequate benefits to unemployed workers nationally and be more equitable in their provision between states. These payments should be adequately funded, and the level of benefits and taxes should be set in balance and be rebalanced over time. The larger benefit amounts should be funded in part by the introduction of a UI employee tax. Benefit provisions should adjust to take account of the major changes in U.S. labor market participation, including the increased participation of women and older workers, increased part-time unemployment, and changes in employee-employer relations such as the rise in contract employment and self-employment.

It is long past time for comprehensive federal UI reform to address these and other pressing problems discussed below. I hope you will consider my proposal.

Proposal for Transforming the Unemployment Insurance System: Research-Based Specifications and a Brief Analysis

Purpose: The proposal presented below provides the amendments that I consider necessary to transform the current UI system into a more effective and efficient federal-state program in accordance with the UI provisions of the Social Security Act. These recommendations are a response to the long-term decline of the UI program that has long been apparent but has been reenforced by the program failures and policy inadequacies of the UI system's response to the Great Recession of 2007-2009 and the Pandemic of 2020-2021. This proposal to restructure the 90-year-old[1] program would result in adequate and sustainable UI benefits, sufficient benefit financing in future years, expanded reemployment services to reduce ongoing unemployment, administrative and funding safeguards for the current programs, as well as strengthen the program's federal-state relationship, and prepare for future recessions by creating improved emergency and special benefit programs.

Principles: The aims of this comprehensive reform proposal are to: 1) create an adequate, well-financed UI system as a self-sustaining social insurance program; 2) maintain the social insurance principles of the UI system; 3) index both UI benefits and UI financing to create an adequate, balanced, and sustainable UI system; 4) create a politically sustainable, robust UI program by creating an engaged, knowledgeable constituency of employers, workers, and public who are committed to maintaining a strong program; 5) finance the UI program with contributions by both employers and employees to a) reduce some of the potential tax burden on employers, and b) enable covered employees to share political influence over the system by contributing to the costs for new and expanded program benefits, giving them a stronger voice in how the program operates and evolves; and 6) rebalance the UI program to have a strengthened federal role in the federal-state UI program.

These proposals are largely based on my book *Transforming Unemployment Insurance for the Twenty-First Century: A Comprehensive Guide to Reform* (W.E. Upjohn Institute for Employment Research, 2023), https://research.upjohn.org/up_press/271/. The page numbers for individual issues and proposals cited below, unless otherwise noted, relate to that book.

Regular UI Benefits

The regular UI benefit program should 1) increase access to the program for covered workers unemployed through no fault of their own while seeking reemployment, 2) establish nationwide benefit standards, 3) expand eligibility that recognizes and addresses the needs of

[1] The UI program was enacted as Title III of the Social Security Act on August 14, 1935. Since then, the fundamental federal-state administration and funding arrangement has remained unchanged.

the current U.S. economy and its expanded modern labor force, 4) improves nonmonetary provisions addressing the reasons for separations and other nonseparation issues, and 5) increases coverage to all workers who are in employer-employee relationships.

Improving Recipiency Rates and Access to Benefits

Providing Information About and Facilitating Claims Applications (pp. 115-117): The U.S. Department of Labor (USDOL) should provide state UI agencies with technical assistance to 1) ensure that potential claimants receive needed information and assistance in making claims applications, and 2) improve the employer experience when interacting with the state agencies. States should be provided with adequate administrative funding from the Federal Unemployment Tax Act (FUTA) and should be required to use these funds to improve the administrative process for claimants and employers. USDOL staff should be required to conduct onsite reviews of operating procedures in every state at least once every three years and report on individual state operational and performance data every year. (See proposal for an Annual Report to Congress below.)

Because separated workers have varying abilities to apply for benefits, all states should make it easier for workers to apply for benefits by providing multiple application methods– i.e., in person, by phone, and online (O'Leary et al. 2022).

Record of Employment (RofE) (pp. 118-119): USDOL should develop a national standardized RofE, modeled on the current Canadian RofE, which would make applying for benefits easier. Employers would then be required to submit a RofE electronically (or manually if needed) for every worker separated. The RofE would be given to separated employees and sent to the state UI agency to assist in UI eligibility determinations, as well as to the Bureau of Labor Statistics for its analysis and use. The RofE would contain information on each separated worker's employment, earnings, reason for separation, contact information, and how and where to apply for benefits. It would provide separated workers with sufficient information to determine whether they are likely to be eligible for UI benefits and would make clear whether they have been treated as wage and salary employees (rather than as contractors), and where and how to apply for benefits. It also would provide much of the input for state UI initial claims determinations, would reduce fraudulent UI claims by limiting applications to unemployed workers who received a RofE, and would improve economic statistics on employment and unemployment.

Standardized Definitions, Forms, Applications, Reports (pp. 120-121, 200-205): For initial claims (IC) and continued claims (CC) submitted by separated employees, each state would use a standardized form and software, employing USDOL-developed standardized definitions of employment, unemployment, and demographics. USDOL would develop IT versions of applications and provide states with the technical assistance needed to implement them. States would be required to adopt and implement these claims forms within three years of receipt of the definitions, IT applications, and technical assistance. Data from the applicant's RofE would be available for the states' use as key inputs to the state UI initial claims forms.

Benefit Eligibility Standards: Benefit Replacement, Duration, and Maximum/Minimum Standards (pp. 126-131)

States would be required to adopt four basic benefit standards in their UI laws: 1) Benefit Duration: minimum potential duration of a uniform 26 weeks; 2) Replacement Rate: at least 50 percent replacement of wages and salaries up to the state maximum weekly benefit amount; 3) Maximum Benefit Amounts: at least 66 2/3 percent of each state's average weekly wage (AWW); and 4) Minimum Benefit Amounts: at least 25 percent of state AWW.

To create a fiscally sustainable UI program in each state, the indexing of UI benefit amounts should be matched by the indexing of the UI the federal taxable wage base. (Note that the federal taxable wage base sets the minimum for state taxable wage bases.)

Alternative Base Period Benefit Standards (pp. 135-6, 152-154)

Two alternative base periods should be required for all states: 1) A recent Alternative Base Period should be mandatory in all states and, if needed, must include the claimant's wages for the most recently completed calendar quarter. (Such an alternative base period is already available in most states.) 2) Extended Base Periods: extended base periods should be required such that, if needed, they can look back at least 8 quarters to increase access to benefits for workers who temporarily left the labor market but have now returned to seek work.

Other Monetary Eligibility Provisions (pp. 133-139)

In almost all states, quarterly earnings requirements favor workers who have high hourly wages rather than low wages but strong weekly attachment to the labor force. To take into consideration strong labor force attachment, states should be required to use an hours-worked requirement of no more than 680 hours in the base period – the standard used by the State of Washington. Before introducing an hours-worked eligibility provision, states would have to collect quarterly hours worked for all covered employees along with their quarterly earnings.

Monetary eligibility should be set at the applicant's high quarter of earnings in their four-quarter base period, and they should be required to earn at least 1.5 times their high quarter earnings in their base period to be eligible for benefits (O'Leary et al. 2022).

Dependents' allowances are available in some states to workers in addition to their UI benefits. This is a form of unemployment assistance to further assist workers with dependents regardless of past earnings. Since these allowances are not related to labor force attachment, and are not a form of social insurance, they should remain a state option. Nonetheless, states with dependents' allowance should be encouraged to index the amount per dependent to the average weekly wages in the state's covered employment.

Nonmonetary Eligibility Provisions (pp.137- 144)

Eligibility provisions for all states should be aligned with the evolution of the American work force, including the three most dramatic changes that have occurred over many decades: 1) the increase in the labor force participation of women, 2) the increase in the labor force participation of older workers, and 3) the increase in part-time work. To accommodate these and other changes, several amendments should be made to the program eligibility criteria that would encourage workers to remain in the labor force or return to the labor force after a temporary absence.

Eligibility provisions in all states should deem applicants and recipients eligible even if they were affected by certain separation and nonseparation issues.

Separation issues that should not disqualify an individual from the receipt of benefits, if the individual would otherwise be eligible, are:

- Separated from part-time employment and/or are seeking part-time employment
- Following a spouse or partner to a new local area out of the current labor-market area
- Separated because of domestic violence or domestic obligations, including the loss of childcare or to care for a family member with a disease or disability
- Employed in work with unusual risk to their health or safety
- Experiencing new and extraordinary transportation issues.

Nonseparation issues:

- Encouraging workers to work part-time by allowing an earnings' disregard of 50 percent of the recipient's average weekly benefit amount
- Ability to collect UI while unavailable for work while in state-approved job training
- Encouraging older workers to stay in the labor force by eliminating pension offsets
- Eliminating all waiting weeks.

Coverage

Gig and other Contract Workers (pp. 147-150): The ABC three-part standard for the determination of whether an employer-employee relationship exists should be applied nationwide to increase the access to benefits by many workers currently considered gig and other IRS-1099 workers – workers who are not currently deemed "employees" under UI law.

Self-Employed (pp. 150-152): Self-employed workers should be offered voluntary coverage under the UI program as a form of a government unemployment saving account. This program could be like the Canadian program for self-employed workers. Self-employed workers could opt in to such a program and be eligible to receive self-employment benefits from their own self-employment accounts when involuntarily unemployed.

In 2020, Congress made uncovered workers temporarily eligible for Pandemic Unemployment Assistance (PUA), even though they had no covered wages, making it difficult or impossible for state UI providers to ensure that payments under the program were correct and not fraudulent.

Since future enactment of a similar program is possible, the Internal Revenue Service should be required to develop a searchable wage base of non-wage and salary workers who receive IRS-1099 forms. In the event of a future program like PUA, state UI programs could more efficiently and effectively administer such a program using that database and minimize fraud and abuse (pp. 154-155).

Regular Benefits Financing (pp. 165-181)

Taxable Wage Base (TWB): the federal TWB should be set at 50 percent of the Social Security TWB, with a 5-year phase in of one-fifth of the increase in the annual federal taxable wage base in each calendar year after enactment until it reaches the 50 percent level. The federal TWB sets the minimum for state TWBs. The increase and indexing should provide the basis for improved state benefit financing and improved UI administrative funding.

Employee Tax: Employees should pay a UI tax into state accounts in the Unemployment Trust Fund equal to approximately 50 percent of each state's estimated total UI tax as determined by USDOL by June 30 of each year for setting tax rates for the following calendar year. Employee taxes should increase UI recipiency among the unemployed through increased recognition that UI benefits are social insurance and not welfare.

FUTA should fully fund the UI loan fund as well as all administrative costs of UI, ES, Reemployment Services and Eligibility Assessment/Worker Profiling and Reemployment Services, labor market information, and other related costs. FUTA, however, should not fund any federal or state extended or emergency benefits.

By June 30 of each year, USDOL should recommend to Congress any changes in the FUTA tax rate required to fully fund its responsibilities for the upcoming calendar year based on USDOL's actuarial estimates made using data from prior calendar years.

Extended Benefits and emergency benefit programs would be paid from general revenue as such benefits do not constitute a measurable, insurable risk and thus cannot be considered social insurance.

By June 30 each year, USDOL should recommend to Congress the amount needed by the state UI programs to fund capital improvements for the forthcoming year. If appropriated by Congress, USDOL would allocate such funds to the states as determined by the Secretary of Labor. (See Annual Report to Congress below.)

Taxation of Benefits (pp. 158-159): The taxation of benefits initiated in the 1980s effectively reduced UI benefits and income security creating income loss for beneficiaries. UI benefits should not be subject to taxation.

The adequacy of funding for state UI benefit programs will be improved by requiring all states to:

- Eliminate nonzero tax rates on covered employers by requiring that the lowest employers' tax rate be at least 0.1 percent
- Have states impose at least 10 tax rates in every state tax schedule
- Have a wide range of tax tables established to respond to varying economic conditions
- Not override existing state UI laws that would require a shift of tax tables that would increase UI taxes at times when state UI reserves require replenishing.

By June 30, USDOL would report to Congress annually on the adequacy of state financing. (See Annual Report to Congress below.)

Extended Benefits (pp.159-163)

A tiered, phased system of extended benefits should be paid based on a state's total unemployment rates (TUR) when unemployment is high. This phased approach would ensure that increased durations of benefits are available in increasing and decreasing amounts as the U.S. enters and leaves a recessionary business cycle period.

There should be five tiers of benefits, with a range of extended benefits from 7 to 52 weeks. The triggering TUR rates should be set from 6.5 to 10 percent. Thus, the triggers would be set as follows (O'Leary and Wandner 2018, 149):

Weeks of Extended Benefits	TUR (%)
7	6.5
13	7
26	8
39	9
52	10

Extended benefits would be fully federally funded from general revenue. This reform would reduce the overall contribution costs to individual employers, which currently is set by federal extended benefit law as a fifty-fifty cost match between federal and state partners.

This extended benefit program would not prevent Congress from enacting additional emergency extended benefits to address issues related to individual recessions and economic crises.

Special Unemployment Benefits (pp. 183-193)

Three types of special unemployment benefits should be required to be implemented by state UI laws following a three-year phase-in period:

Short-Time Compensation (STC): The current voluntary STC program should be mandatory in every state. USDOL would develop administrative methods and computer software to operate the program in an automated manner. (STC is already available in most states.)

Self-Employment Assistance (SEA): A SEA program should be mandated for every state. The Workforce Innovation and Opportunity Act state training programs should be required to provide a very small portion of their training funds from their annual appropriations to each SEA participant. A performance measurement system should be developed for the SEA program separate from that for the training for wage and salary employees. (Self-Employment Assistance is currently available in a small number of states.)

Reemployment Bonuses (RB): Every state should be required to implement an RB program. Bonuses would be set at three times the UI recipient's average weekly wage and be available for up to 12 weeks. The bonus would be paid after four months of continuous reemployment. USDOL would conduct an evaluation of this program in at least three states as soon as the program is fully implemented. (Reemployment bonuses would be a new program that has been experimentally tested and found to be cost-effective in three states.)

Employment Service and Reemployment Services (pp. 190-193)

By June 30 each year, the Secretary of Labor would report to Congress the amount of Employment Service (ES) funding necessary to operate the Wagner-Peyser program in the coming fiscal year. ES should be fully funded at a real level equivalent to that in 1984 – the year before the decline in ES funding began – to provide adequate employment services to all American workers. ES should provide a robust set of services including 1) staff-assisted counseling, 2) job search assistance, 3) job matching and 4) referral to suitable jobs.

The Secretary of Labor should 1) reestablish the United States Employment Service (USES) as a separate program office within the USDOL Employment and Training Administration as required by the current Wagner-Peyser Act, and 2) appoint a USES Administrator to oversee the program. The USES should be fully staffed and trained.

Reemployment Services and Eligibility Assessment/Worker Profiling and Reemployment Service Programs (RESEA/WPRS) should remain as permanent programs administered by the ES. Congress is encouraged to fully fund the programs each year at a sufficiently high level that the two programs can serve all UI beneficiaries required to make an active independent job search.

Administration, Administrative Policy and Research and Evaluation

<u>Merit Staffing (pp. 216-218)</u>: Since many state UI and employment/reemployment decisions are made by UI and ES staff that affect the welfare of unemployed workers and job seekers, they are inherently governmental decisions. Therefore, all state UI and ES employees should be hired and promoted through state merit-staffing systems.

<u>Improved Data Systems (pp. 200-209)</u>: Standardized Employer Reporting: To improve data systems and simplify employer reporting, particularly for multi-state employers, USDOL should develop standardized definitions to be used by all states for quarterly wage reporting. USDOL should provide the standardized definitions to the states along with the standardized computer

programs and provide states with technical assistance for the adoption of standardized reporting. States would implement these definitions and forms within three years of receiving the necessary computer programs, manuals, and technical assistance.

USDOL should support multi-state employers in developing a single state method of reporting and administration of their UI programs to simplify employers' interactions with the state UI agencies and reduce their cost and reporting burdens.

The IRS also should provide a searchable database of IRS-1099 information that would be available for use by state UI agencies during any future temporary federally-mandated expansions of unemployment assistance to workers not covered by the UI program.

Fraud Protection (pp. 118-119, 219-223): The Secretary of Labor should improve fraud protection by developing a model Record of Employment (RofE) – like the Canadian Record of Unemployment – and require states to mandate that this record be given to each employee upon separation and sent to the state UI agency. This record would reduce fraud by improving and reducing the costs to the states and federal government in determining that initial claimants in fact worked for their asserted prior employers, had sufficient earnings to be eligible for benefits, and were not laid off not for cause.

For workers not in covered employment, IRS should make available to state UI agencies the latest available IRS 1099 annual reports. These reports would enable states to ensure that workers applying for any future unemployment assistance programs have past work experience and, if so, to determine their earnings in the prior year.

USDOL should continue and expand existing measures to reduce fraud and overpayments in the current UI program and in any emergency unemployment assistance program (like the Pandemic Unemployment Assistance Program) that Congress might enact in the future.

Public Policy Input – Reestablishing an Unemployment Insurance Advisory Council: The Secretary of Labor should reestablish a permanent Unemployment Insurance Advisory Board, consisting of employer and employee representatives, as well as public members to advise the USDOL and Congress on the changing needs of the UI program. The Board should meet at least twice each year.

Performance Measures: The Secretary of Labor should improve, revise, or develop new performance measures for UI and ES. USDOL should monitor and oversee these measures nationally and for each state. They should be published in the Annual Report to Congress.

Annual Report to Congress: The Secretary of Labor should submit a report to Congress each year by June 30, assessing the health of the UI program in the previous year. This report would include: 1) the status of the federal UI accounts, 2) the adequacy of federal funding of UI and ES administration, 3) the adequacy, conformity, and integrity of state benefit, tax, legal, and administrative systems, and 4) state UI and ES performance measures.

Federally Funded Research and Development Center (FFRDC) (pp. 195-214): USDOL should compete and contract with a nonprofit organization to create a FFRDC, like FFRDCs operating for and used by other federal cabinet agencies, e.g., the Rand Corporation. The FFRDC would provide technical assistance to USDOL to develop new or improved IT systems, data definitions and collection methods; provide technical assistance to the states; create longitudinal microdata bases; and conduct research and evaluation for USDOL; and provide technical assistance to states regarding research and evaluation.

Unemployment Social Welfare Programs

While federal and state UI programs primarily pay benefits for the basic social insurance program, in both the past and the present Congress also has designated UI programs to administer and pay benefits for social welfare programs that are not based on social insurance principles (pp. 3-13).

These social welfare programs include prior UI-administered programs such as Redwoods Unemployment Assistance of the 1970s, Airline Unemployment Assistance (2001), and Pandemic Unemployment Assistance (2020), as well as the current programs, i.e., Disaster Unemployment Assistance and Trade Adjustment Assistance. These programs are all acknowledged by Congress, social scientists and policy makers as not being social insurance programs and are referred to as "unemployment assistance programs" rather than "unemployment insurance programs." They all have been funded from U.S. general revenue rather than from the Unemployment Trust Fund to which employers pay through the FUTA tax.

Any proposed new social welfare programs such as the proposed Job Seekers Assistance Program (pp. 155-158) should be evaluated on their merits, considered separately from UI reform proposals, and, if enacted, be funded from U.S. general revenues.

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