Unemployment Insurance in a Crisis: Learning from Past Lessons

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Background and Introduction

During economic downturns, Congress tends to step in and improve unemployment insurance by improving core functions such as increasing benefit duration and amount. Founded on the heels of the Great Depression, Unemployment insurance (UI) serves several purposes. The most obvious is that people who lose work through no fault of their own are able to get a benefit to help make ends meet until they find a suitable replacement for their old job.

However, during mass layoffs and economic downturns, it is meant to serve as a macroeconomic stabilizer that keeps economic pain from spreading from one struggling sector to the rest of the economy by keeping consumer consumption up. The International Monetary Fund estimates that every dollar spent in unemployment benefits in the pandemic generated $1.92 in economic activity. It also serves an important role in helping people get back to work. In order to get UI benefits, claimants sign up with Employment Services and are connected to a variety of other supports. That is part of the reason Congress pays greater attention to the program when mass layoffs occur.

This issue brief explains the importance of unemployment insurance as a macroeconomic stabilizer during economic downturns and options policymakers have as they plan for an increasingly likely recession this year.

How Policymakers Can Step In

In 1970, Congress adopted a permanent program to increase duration of benefits when unemployment rises called Extended Benefits (EB). It allows for additional weeks of benefits when unemployment increases significantly over the same thirteen week period in the last two years. This program is complicated; details on the triggers and number of weeks can be found in this Congressional Research Service (CRS) report.

The inherent problem is that since the reference period is a thirteen week average, it takes time to trigger on thereby leaving workers who have already had difficulty finding work without benefits. It is also important to keep in mind that for decades leading up to and including the Great Recession, states mostly had a uniform 26 weeks of regular UI, so EB would be 13 or 20 weeks in states with an optional High Unemployment Period.

After the Great Recession, many states reduced the standard duration of benefits, and EB only provides 50% of the maximum duration of benefits. Bipartisan commission reports released in 1980 and 1996, as well as several more recent recommendations by prominent economists have recommended improving the automatic triggers to additional weeks of benefits in a downturn, largely because EB takes too much time to trigger on and additional weeks are limited. However, permanently improving EB would cost money that would have to be offset, whereas emergency economic stimulus packages rarely require pay-fors.

Absent permanent changes, Congress generally steps in when mass layoffs threaten the broader economy and adds weeks of benefits as necessary. The CRS report linked above lists the eight times, not counting the pandemic expansions, that Congress has increased benefit level and duration during a crisis. Policymakers are going to have additional considerations to make in any future expansion now that states have reduced duration and replacement of prior income to balance fairness and critical access to this potent countercyclical stabilizer. Federal policymakers are in the unenviable position of having to decide if it is fair to provide a bigger subsidy to states that have elected to cut benefits when it means that it helps the workers otherwise most excluded by policies often made over the objection of workers and the organizations that represent them.

Administrative Considerations

Administrative funding for state UI agencies has been trending downward for decades, and is also tied to workload in the last year. While there were reasonable increases in this funding in the first couple of years post-pandemic, states are in a similarly challenging position that they were in early 2020. There are two ways in which administrative funding can increase in a downturn, which are above base and contingency funding. The U.S. Department of Labor (DOL) holds some appropriated funding aside to provide to states in case workload increases significantly, which allows DOL to allocate to states above base funding. Additional contingency funding can also be available if the Average Weekly Insured Unemployment increases significantly.

Even with these two additional sources, state funding levels are wholly insufficient to withstand any kind of historically significant downturn. In early March 2020, the Families First Coronavirus Relief Act provided an additional billion dollars to state administration funding. The first $500,000,000 was available to any state with at least a 10 percent increase in new claims. The second $500,000,000 was tied to states offering certain flexibilities, such as waiving work search requirements, waiting weeks, and employer experience rating (additional taxes levied with increased eligible layoffs). Congress may wish to consider providing additional administrative dollars to states to ensure eligible claimants get paid on time and that UI dollars do not flow to fraudsters.

Another major administrative consideration is technology funding. About half of states are still operating on 1970's COBOL programs. While twenty-seven states have modernized technology systems, those upgrades started in the early 2000's and might not have been upgraded in the most state of the art fashion. The U.S. Department of Labor put a great deal of effort in nudging states away from using the less user-centric "waterfall" modernization process, where a vendor builds a Commercial Off The Shelf (COTS) project offsite in a somewhat cookie-cutter oriented process, and instead has urged states to move toward a modern Agile approach.

The National Association of State Workforce Agencies (NASWA) has taken over that work with its Open UI Initiative, which continues ambitious forward-thinking work on this front. One state that has been leading the way on these efforts is New Jersey, with other states working to move toward a similarly claimant friendly technology improvement effort. States have challenges outside of their unemployment systems in modernizing, including roadblocks that can come from the state procurement system to merely lacking necessary buy-in to modernization from the highest executive leadership in the state. In an upcoming downturn, Congress might want to consider additional support specifically for technology solutions to speed up claims processing in a time of crisis.

Programs to be Aware of During Mass Government Layoffs

In February 2025, the National Academy of Social Insurance published an explainer of programs available to claimants related to federal layoffs. The key issue for policymakers to understand is that both Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Ex-servicemembers (UCX) are both "reimburseable" benefits, as are many of the non-profits that are experiencing mass layoffs. That means that they have not been paying unemployment taxes into the system; instead they will repay benefits that state agencies pay to their former employees. That is important, because it means that state UI agencies do not have wage records for these employees and it will make their role in validating claimant wages and reasons for separation more difficult.

Role of Congressional and State Legislative Staff

During periods of mass layoff and economic uncertainty, claimants struggling to navigate unemployment systems will reach out to their elected officials. Although UI is made incredibly complex through 53 states, territories, and the District of Columbia providing benefits in 53 wildly varying processes, some basic advice about applying for unemployment is universal. First, in a downturn, claimants should expect the process to take some time. Ideally, benefits are supposed to be paid in 14 to 21 days, but stressors on the system from the pandemic lingered for years, keeping states from paying timely benefits.

Claimants should make sure that they have pay stubs and names and addresses for all of their employers in the past eighteen months. They should also make sure they either choose a memorable password, or write it down and keep it in a secure location. Some states can time claimants out without warning and have a password reset process that involves calling the state agency and waiting for a new password to come in the mail. Federal employees should have their SF-8 and most recent SF-50 form with reason for separation available. Any applicant should be able to explain their reason for separation, including whether the claimant quit for good cause. Claimants should certify every week that they are unemployed and able and available to work even if they have not started receiving payments yet.

Several states have legal aid units with expertise in helping unemployment claimants, so staff should find out if their state has legal aid or legal services chapters that they can refer constituents to. Labor unions that represent workers with high turnover also often have excellent staff who can help people navigate the unemployment system. A handful of states still have UI Navigator programs initially funded through American Rescue Plan Act funding. Relevant staff should also keep an eye on DOL guidance which updates frequently. Finally, staff can keep track of complaints so that they can report the most frequently raised concerns to the state UI agency so they have the opportunity to fix common issues that claimants experience.

Why 2025 is Different From 2008 or 2020

On the heels of the Great Recession, states found their trust funds depleted. When state trust funds run low, states usually increase employer tax obligations. When that happens, there is an imbalance in which the stakeholders who will see a higher tax bill focus strongly on unemployment just as workers who had been unemployed are finding new jobs. This effect was particularly strong in the 2010s. As mentioned above, even though states had all paid a uniform 26 weeks of benefits for decades, several states reduced duration to as few as 12 weeks.

States also added hurdles to access by reducing the quality of jobs claimants have to accept without losing benefits, adding work search requirements, and narrowing qualifying reasons for separating from work. Weekly benefit amounts were reduced in a couple of states, but the bigger issue is that benefits have not kept up with inflation. For example, in California, the weekly benefit amount in 2008 was $450 per week. In 2025, it is still $450 per week. This stagnation is true in many states. In Arizona, it has been frozen at $240 and Florida is stuck at $275. Even in states that index for inflation, the index has not worked well. In Washington, DC the weekly maximum in 2008 was $359 and today is just $444.

In 2019, UI policy observers warned that because of these dramatic cuts to the system, the unemployment insurance system was not prepared for another economic downturn, as it had become insufficient to provide a reliable countercyclical stabilizer. When COVID-19 struck the US, the emergency programs that Congress enacted papered over the limited access with Pandemic Unemployment Assistance and made up for the low benefit levels with Federal Pandemic Unemployment Compensation. Without these dramatic eligibility and monetary entitlement increases, the UI system will be in worse shape than anytime in recent memory in getting enough money to enough people to serve as the stabilizer it has in past downturns.

While states have been working to improve their systems administratively, they still have a long way to go. Congress provided the U.S. Department of Labor with $2 billion to help states improve access, fight fraud, and provide benefits equitably in the American Rescue Plan Act, but later rescinded half of that funding. While hundreds of successful projects will certainly help to smooth out processes, states will need years to fully implement all of the improvements needed to be able to rapidly respond to serious crises.

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