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## **Unemployment Insurance**

# Unemployment Insurance

## Introduction

Unemployment insurance (UI) is a shared federal-state system that provides partial wage replacement to workers who lose their jobs through no fault of their own and who are able to work, available to work, and actively seeking work. It also connects workers with reemployment services.

Virtually all workers face the risk of becoming laid off at some point during their careers. In 2014, 10.9 percent of those who worked or looked for work were unemployed at some point during the year.<sup>1</sup> When unemployment occurs, most workers find it difficult to make ends meet. Unemployment insurance is intended to help these workers stay afloat during the search for new employment.

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The number of workers meeting eligibility requirements and receiving UI benefits varies depending on how the economy is doing, as well as due to state differences in eligibility rules, benefit levels, and benefit durations. In 2015, when the unemployment rate was roughly half of what it was early in the economic recovery in 2010, 6.6 million workers applied for and received benefits. In comparison, 14.4 million workers applied for and received benefits in 2009 and joined millions more already receiving benefits. Between 2008 and 2013, which included the years of the Great Recession, 24 million workers received extended and emergency benefits.<sup>2</sup> The total system cost of UI benefits varies with changes in the number of recipients. In 2015, total benefits paid from the regular UI program were \$32.5 billion. In 2010, this figure, including all state and federal benefits, was five times as large at \$156 billion.<sup>3</sup> These differences are partially the result of increased numbers of unemployed people and in part the result of temporary changes in the UI system during the recession.

The following sections of this *Report* describe and take stock of the UI system's benefits, administration, financing, and reemployment services. Within each section, a set of current policy challenges and reform options is presented.

<sup>1</sup> U.S. Department of Labor, 2015, "Work Experience Summary," Bureau of Labor Statistics, December 9, 2015, <http://www.bls.gov/news.release/work.nr0.htm>.

<sup>2</sup> These benefits are described in the following section. Council of Economic Advisers and the Department of Labor, 2013, "The Economic Benefits of Extending Unemployment Insurance," <https://www.whitehouse.gov/sites/default/files/docs/uiereport-2013-12-4.pdf>.

<sup>3</sup> U.S. Department of Labor, 2016, "Unemployment Insurance Outlook: FY 2017 Midsession Review," Division of Fiscal and Actuarial Services, Office of Unemployment Insurance.

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**Unemployment Insurance Administration**

# Unemployment Insurance Administration

## Background

*Each state's UI administrative agency, under the oversight of the U.S. Department of Labor, is responsible for oversight of the integrity of the system and ensuring that benefit payments are timely and accurate.*

The UI system is a shared federal-state responsibility. Claims for benefits are made through each state's UI offices. Each state's UI administrative agency, under the oversight of the U.S. Department of Labor, is responsible for oversight of the integrity of the system and ensuring that benefit payments are timely and accurate.

The U.S. Department of Labor (DOL) is responsible for the administration of the federal UI programs and oversees the conformity and compliance of the 53 "state" programs.<sup>11</sup> Conformity and compliance with federal law include such requirements as the categories of workers that must be covered by state programs, the structure of some aspects of state UI taxes, and the methods by which states may receive and pay back loans from the federal government to shore up their UI trust fund accounts. Within these parameters, states have wide latitude to determine UI eligibility, tax rates and bases, and levels of benefits.

## Policy Challenges

### *Inefficient administration*

The administrative efficiency of state UI systems varies widely. When the unemployment rate increases, state UI administrators are often unable to quickly and accurately handle the volume of claims. A key performance measure used by the federal government to determine state compliance with federal UI laws is the timeliness of benefit payments. During the Great Recession, in the first quarter of 2009, only 40 percent of states met the federal guideline.<sup>12</sup>

In addition to the timeliness of benefit payments, other federal guidelines involve the accuracy and integrity of benefit payments. These performance guidelines could be revised to encourage states to actively identify

<sup>11</sup> Under the UI program, states include the District of Columbia, Puerto Rico, and the Virgin Islands.

<sup>12</sup> Federal guidelines consider acceptable performance to be if a state makes at least 87 percent of first payments with 14/21 days of compensability. For the federal guidelines, see: U.S. Department of Labor, 2015, "Core Measures and Acceptable Levels of Performance," Unemployment Insurance Performance Management, State Workforce Agency Performance Reports, <http://workforcesecurity.doleta.gov/unemploy/performance.asp>. For state performance assessments, see: U.S. Department of Labor, 2016, "First Payments in 14/21 days," State Rankings of Core Measures, <http://workforcesecurity.doleta.gov/unemploy/ranking.asp>.

improper payments, more actively collect overpayments, and process claims improperly denied or underpaid.

#### *Administrative burden of EUC*

While federal lawmakers have a political incentive to retain the option to actively authorize EUC benefits in recessions, the complex structure of these benefits and the short timeframe within which they are expected to take effect put a strain on the state agencies that must administer them. Many state IT systems are several decades old and in the last recession were ill-equipped to handle the many congressionally ordered tiers of EUC benefits that required calculation of the duration of an individual unemployed worker's spell of unemployment. These systems could not be sufficiently recalibrated in time to effectively administer benefits under newly structured eligibility requirements that took effect the day they were enacted. As a result, some states struggled to accurately determine eligibility and to deliver EUC benefits to the qualified beneficiaries.

## Policy Options

### Improving Administration

#### *Strengthen program integrity*

DOL could require states to use penalties from UI overpayments only for UI purposes and require a percentage of the penalties to be used on program integrity measures. Overpayment amounts collected by state agencies could be made available to the state agency as administrative funding to further improve integrity efforts.

#### *Enhance administrative oversight*

The federal government has a key responsibility to ensure that states timely and accurately pay benefits. The Government Accountability Office has found significant customer service problems in state UI programs. To address these problems, DOL could provide training to ensure that all eligible workers are able to file for benefits, and DOL could make more affordable and effective customer service tools available to all states. These initiatives could be done at the same time DOL continues to support multi-state coordinated efforts to address potential claimant fraud and abuse including increasingly sophisticated

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technology-based efforts to identify illicit UI users.

*Improve administrative efficiency*

The federal government appropriates funding each year for administration of state UI systems. The federal government could help states streamline administration, thereby reducing program cost, by providing long term administrative funding for automated system design, implementation, and updating. This should be paired with an active oversight and research program to measure the impacts of technology on claimant experience and ability to access reemployment services.



**Ease the Administrative Burden of Implementing EUC**

*Establish a pre-existing EUC structure to reduce state administrative uncertainty*

Federal lawmakers could create a preexisting and permanent EUC program structure that could be activated in a recession. This plan would maintain the need for congressional authorization so that Congress could be credited with extending benefits in a crisis. Because the structure would be known ahead of time, states could make preparations for implementing this EUC program before an unemployment crisis. A challenge posed by this approach would be that different economic downturns or recessions may necessitate different UI policy responses that would be difficult to build into a permanent structure.

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<sup>13</sup> Upon the passage of the UI program as part of the Social Security Act in 1935, all wages were subject to UI taxes. The taxable wage base of \$3,000 was established in 1939.