EXECUTIVE SUMMARY

Unemployment Insurance (UI) is a critical program in the economic toolkit of the U.S. In addition to providing countercyclical support during economic downturns, which is a critical function of the program, it helps people who have lost work through no fault of their own to maintain attachment to the workforce, prevent wage erosion, and help them pay bills, when forces out of their control limit their income. UI is social insurance. Social insurance is meant to cover all eligible workers for a portion of their lost income.

The COVID-19 pandemic exposed major cracks in the UI system, including massive technology failures, a core administrative structure ill equipped to pay benefits on time and to the right people, and a base set of laws and assumptions that varied widely in benefit amount, duration, and access. A massive bipartisan federal response in March 2020 dramatically increased the number of weeks of benefits and weekly benefit amounts, and it qualified far more workers, resulting in over 53 million workers receiving over $880 billion over the course of the pandemic.* However, unsurprisingly, setting up three massive programs while in the middle of a pandemic and a claims application surge that dwarfed the previous record for new claims was bound to result in mistakes in running the program. Also, fraudsters who had been sitting on personal information gained through breaches years ago and largely outside of UI systems for years saw a new emergency program as an opportunity to pilfer public funds.

The National Academy of Social Insurance's UI Task Force, convened in December 2020, has been looking at lessons learned from the pandemic, solutions proposed over the past few decades, and the vast knowledge base and range of its members' views. The Task Force developed this report to help policymakers, the media, and the public understand what policy levers exist, how they work, and what the trade-offs are for each one. This report is presented as a full package of options because developing a solution for UI, unlike many policy areas, will likely require a grand bargain. A handful of reforms that does not consider all the policy levers could stabilize benefits in one way but cause reductions in other areas. For example, setting a floor on replacement rates without considering duration would mean that states looking for savings could, toward that end, further reduce the weeks of benefits they offer. The Task Force acknowledges that any package of policy reforms will cost money, and more so in states that have maintained less generous UI systems.

While opinions differ on various areas of UI policy reform, there are also broad areas of bipartisan agreement. For example, vast differences across states in basic operations, definitions, business practices, concepts, and technology in administering UI are not optimal, particularly in an economic downturn. It would have been easier to deploy emergency programs or share fraud solutions when fraudsters were using similar attacks in multiple states if states had a more common operating framework.

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* Department of Labor. *Building resilience: A plan for transforming unemployment insurance*. https://oui.doleta.gov/unemploy/pdf/transfplan/Building_Resilience_Executive_summary.pdf

The Task Force considered the following areas:

- **Administrative and technology issues.** Entering the pandemic at a 50-year low in funding led to cascading failures. More opportunities for both state-to-state and federal-state collaboration should have been in place, but to succeed, states would have needed a better funding model, more similarity among systems, and truly modern technology. We should rethink how administrative funding works, particularly with regard to technology.
- **Reemployment and keeping people connected to work.** One of the key roles that UI plays is keeping people connected to the workforce. We could do better at helping people who have lost their jobs secure an adequate replacement for their prior employment, which will require greater collaboration between UI and reemployment opportunities. If we are able to take advantage of better technology and better job replacement options, the relative generosity of benefits could be dialed up with less concern about potential disincentives to accept suitable work.
- **Fraud identification and prevention.** States must have more robust and effective methods to detect and prevent fraud going forward. Because the face of fraud in UI shifted so dramatically during the pandemic, the system needs a more unified front. The problem concerns the whole of government and whole of society, requiring greater partnership across government and through public-private collaboration. Further study of effective fraud interdictions would also be useful. Finally, fraud prevention cannot come at the expense of program access; we must figure out how to minimize user pain while rooting out bad actors.
- **Duration of benefits for standard benefits and Extended Benefits.** States have been reducing duration of standard benefits, which has many knock-on effects, including limiting the number of weeks available if there is a major downturn and Extended Benefits (EB) kick in. EB does not reliably serve the unemployed in economic downturns, as evidenced by the fact that Congress routinely has to step in and extend benefits in crises. Numerous studies and reports have recommended optimal durations of and triggers for EB to kick in. An in-depth literature review and study of proposals in this area would be a useful future study.
- **Initial and continuing eligibility.** States have complex and shifting rules about who qualifies for UI and what they must do to remain qualified. Employers often want to limit their tax liabilities by ensuring that eligibility is more restrictive. Workers are often discouraged from applying. Often only about a quarter of laid-off workers apply. No discussion of making a UI system effective makes sense without a rigorous conversation about eligibility, as is included in this report.
- **Wage replacement levels.** Both the bipartisan 1980 NCUC and 1996 ACUC commissions recommended that UI replace 50 percent of a worker's prior income, up to a cap of two-thirds of the average weekly wage (AWW). With significant wage stagnation and evidence from the pandemic that claimants were still accepting work with significantly higher levels of wage replacement, many experts are now often recommending a greater percentage of wage replacement. Inflation erodes wage replacement in states that do not

index their maximum wage replacement. While Academy task forces do not make policy recommendations, the ideal wage replacement amount is a tool for policymakers to consider.

- **Financing.** Any consideration given to establishing benefit floors must include how to pay for them. Current law requires that taxation be "experience rated" so that when employers lay off workers eligible for UI, they pay more into the system to reflect the risk they are creating. This is intended to discourage layoffs and place the cost burden on responsible parties. However, there are flaws to this approach. People sometimes lose work when the employer is not at fault. Also, creating an incentive for a well-funded employer to challenge someone who just became jobless could create an unfair playing field. It is worth considering alternatives to our current financing system.
- **Special and supplemental UI programs**. This section deals with programs such as Short-Time Compensation (also known as work sharing) that helps workers who have lost work but are not in traditional layoff situations.