



Funding the Administration of Unemployment Benefits

Overview and Reforms to Improve Efficiency and
Program Integrity

Matt Weidinger

JANUARY 2026

Executive Summary

The COVID-19 pandemic exposed significant flaws in the nation’s unemployment insurance (UI) system, which resulted in the improper payment of at least \$191 billion—and potentially upwards of \$400 billion—in taxpayer funds.¹ The direct causes of those extensive losses included the poor design of temporary federal benefit programs, which opened the door to abuse, and the expanded benefits themselves, which created a greater target for criminals bent on defrauding the system. Those and other factors contributed to unprecedented demand for benefits at the sudden onset of the pandemic in March 2020.²

Some argue that insufficient administrative funding bears significant blame for those improper benefit payments and other program failings, as sufficient administrative funding is needed to dispense benefits efficiently and effectively to deserving claimants. According to this view, a key reform required to provide prompt and proper payment of unemployment benefits in the future is to increase UI administrative funding compared with recent levels and the current baseline going forward. Without such increased funding, the argument goes, states will be unable to improve the administration of UI benefits before another recession when claims, and likely attempts to defraud the system, will once again spike.

This report reviews the recent history of UI administrative funding, including the various components of federal and state administrative funding, and the revenue sources behind those funds. It breaks down which states receive relatively more or less funding to administer UI benefits compared with employer-paid federal tax revenues collected for that and other purposes. In the process, it reviews the complex dynamics behind the administrative funding of the nation’s critical UI system, explains nuances involved in this long-standing partnership between states and the federal government, and considers recent reform proposals.

The report discusses why raising federal unemployment taxes is not sufficient, because that would simply disperse more funds through today’s flawed distribution system. It offers a more practical solution: to allow all, or at least some, states to set and collect the revenues they deem appropriate to administer state and, when payable, federal unemployment benefits, subject to strengthened federal anti-fraud requirements.

Applying lessons learned from the pandemic, this report reviews how such reforms could improve administrative systems, reducing the risk of fraud and boosting the efficiency and accuracy of state and federal unemployment benefit payments in the future.

Funding the Administration of Unemployment Benefits

Overview and Reforms to Improve Efficiency and Program Integrity

Matt Weidinger

The nation’s unemployment insurance (UI) system was created in 1935 in response to the Great Depression. Nine decades later, 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.³

Benefit levels and eligibility terms vary widely across states. For the 12 months ending in November 2025, the national average weekly state UI benefit was \$468.⁴ In a typical recent non-recessionary year, state UI benefits total about \$40 billion, although those amounts grow significantly in recessions, when they are regularly augmented by larger and longer federal benefits.⁵

The UI program was conceived as part of a broader array of social insurance programs for workers, which first offered Social Security Old-Age and Survivors Insurance and later grew to include disability and health insurance coverage. Following this social insurance model, employers pay state and federal unemployment payroll taxes (i.e., “premiums”) in advance, offering eligible workers coverage against

the loss of income. The federal role in the UI program includes funding extended benefits for those who exhaust state UI checks during periods of elevated unemployment. In all but one recession since 1957, Congress has authorized temporary or “emergency” federal unemployment benefit programs that offered additional weeks of benefits to workers who exhaust state UI benefits.⁶ Since 1970, federal law also has authorized a permanent joint federal-state Extended Benefits (EB) program, which has generally been supported with 50 percent state and 50 percent federal funds.⁷

Temporary federal benefit expansions reached record heights during the pandemic, in both generosity and total spending. Unprecedented \$600 (and later \$300) weekly supplements were temporarily added to all state and federal unemployment checks.⁸ Congress also created the Pandemic Unemployment Assistance (PUA) program to aid the self-employed, independent contractors, and others never before eligible for UI checks. In addition to providing 100 percent federal funding for EB program benefits, the

federal government created another temporary extended benefits program, which together ensured that state and federal unemployment checks lasted up to 18 months per worker.⁹ An individual collecting just the average weekly UI benefit amount nationwide for that duration received over \$46,000 in all state and federal checks.¹⁰ Other temporary federal programs subsidized first-week benefit payments by states and provided additional benefits to certain “mixed” earners. In all, state and federal unemployment benefits paid during the pandemic totaled approximately \$900 billion, including over \$700 billion in federal benefits.¹¹

In recent years, the cost of such extraordinary federal benefits has been increasingly supported by federal general revenues, not UI payroll taxes, increasing federal deficits.¹² This practice reflects how the system has moved beyond its “social insurance” roots whenever revenues originating outside the system’s traditional payroll tax financing mechanism support federal (and sometimes state) benefits.

Administrative Funding

A key federal role in the UI system is providing annual funds to states for the proper and efficient administration of both state and, when payable, federal unemployment benefits. In fiscal year 2025, Congress appropriated \$3.4 billion in base federal grants to states for program administration, along with additional contingency funds if average weekly insured unemployment rates exceed preset levels.¹³ Federal revenues support not only program administration but also the comparatively minor cost of Department of Labor (DOL) national activities, the federal share of EB program expenses, and federal loans to insolvent states.

Federal Unemployment Tax Act (FUTA) revenues collected by a federal payroll tax pay for those expenses. The federal tax is \$42 per year for most workers, or effectively 0.6 percent of the first \$7,000 in wages. During fiscal year 2023, estimated FUTA receipts totaled \$7.1 billion.¹⁴ Federal administrative funding supported by FUTA revenues, as

well as other federal and state funds, is reviewed in detail below.

Any discussion about the adequacy of that funding must also touch on the UI system’s administrative failings during the pandemic, which have prompted calls for reform from both sides of the political aisle.

For many Democrats, the major administrative failing during the pandemic was the significant delay in processing and paying surging unemployment benefit claims and the associated effects on qualified claimants, millions of whom were laid off without warning during late March and April 2020. Massive spikes in demand—driven by the pandemic and the creation of new temporary federal benefit programs whose caseloads soon exceeded that of the state UI program—contributed to those delays.

The delays were exacerbated by what, especially for many Republicans, soon became a second significant administrative failing during the pandemic—massive fraud in state and federal unemployment benefits. The two issues sometimes intertwined, such as when California shut down its unemployment claims processing system for two weeks in September 2020 to reduce massive claim backlogs while adding new anti-fraud features designed to prevent abuse of especially temporary federal benefits.¹⁵

Taxpayer losses to improper payments and fraud were enormous and significantly driven by the flawed design of temporary federal benefit programs. The flat \$600 (and later \$300) weekly supplements often increased total unemployment benefits beyond prior earnings, harming the availability of workers as the pandemic lifted and jobs returned.¹⁶ The large supplements also made the reward for defrauding the system greater than ever before.

The PUA program initially allowed claimants to “self-certify” their eligibility, including for weekly supplements. That program also initially failed to confirm claimants’ identities and prior earnings history. After PUA ended, a Biden administration review admitted that the program had an astonishing 36 percent improper payment rate.¹⁷

Fraud resulted in implausibly high benefit claims. For example, in California the massive volume of PUA claims suggested every self-employed individual

in the state applied for PUA benefits.¹⁸ Overall, official estimates of improper payments stretched to \$200 billion, while unofficial estimates reached \$400 billion, most involving federal benefits.¹⁹ Many experts believe that most improper payments—and certainly most fraudulent benefit payments—flowed to overseas criminal syndicates, while significant losses also benefited domestic gangs, solo criminals, and agency insiders.²⁰

Those improper payments far exceeded any prior program losses. In the decades before the pandemic, significant benefit misspending was an ongoing problem but generally involved individuals' making excessive claims about their own unemployment benefits. While significant, prior improper payment rates—and real dollar losses—constituted just a fraction of the pandemic experience.²¹

The bottom line is that these twin concerns during the pandemic—of a UI system administratively incapable of efficiently processing claims for deserving claimants while simultaneously being open to major, organized fraud—have greatly amplified interest in administrative funding reforms in recent years.

Perhaps unsurprisingly given those administrative failures, many reviews of UI administrative funding argue that current federal funding is insufficient. For example, an April 2024 DOL report stated that “in real terms, administrative funding declined by 23 percent between 1989 (on the eve of 1990 recession) and 2019.”²² As Julie Su, the acting secretary, noted in December 2022, “Administrative funding, which supports core UI operations like staffing, training and claims review, was at record low levels—the lowest in at least 30 years—leading up to the pandemic.”²³

Even though they determine the level of appropriations for UI administration, lawmakers in Congress often express the same frustration about the adequacy of current funding. For example, a group of Democratic senators wrote in May 2024,

Part of the reason states were so unprepared to deal with this surge of claims was decades of underinvestment in UI administration. Because Congress has consistently failed to appropriate sufficient administrative funding for the program,

the Department of Labor (DOL) is forced to allocate funding to states using outdated cost assumptions that don't reflect the actual cost of administering UI, leaving state workforce agencies operating on shoestring budgets.²⁴

The authors of the letter failed to mention that during those decades before the pandemic, both Republicans and Democrats held congressional majorities.²⁵ Indeed, in 2020, the year the pandemic hit, congressional control was split between Democrats in the House and Republicans in the Senate. That suggests that factors beyond party control have contributed to what the authors regard as insufficient administrative funding over time.

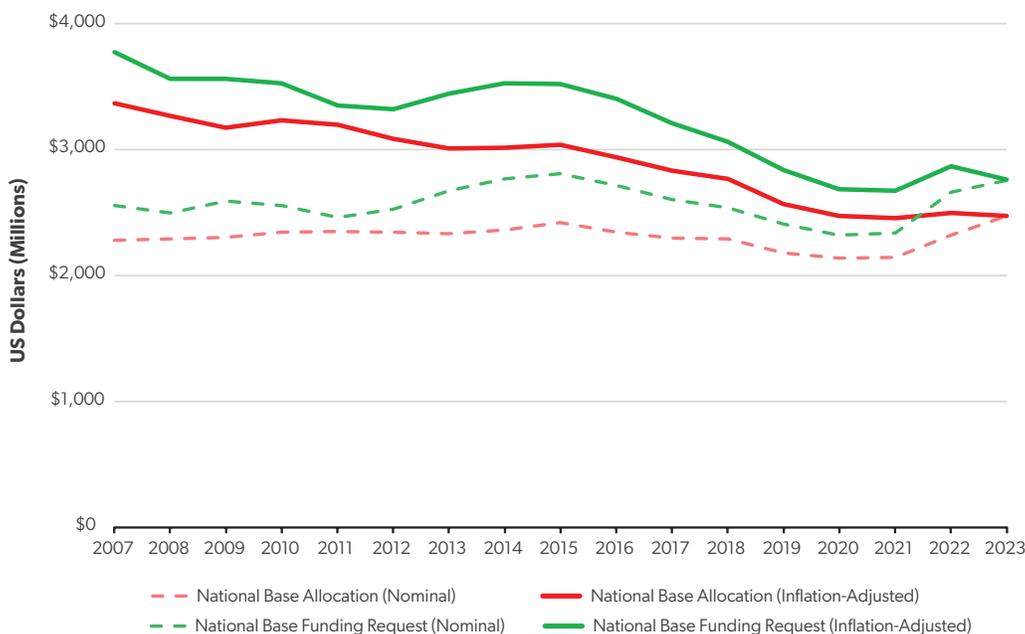
A variety of recent reports depict UI administrative funding over time. A May 2024 report by Will Raderman of the Niskanen Center points to the narrowest category of administrative funding—annual base funding displayed in Figure 1—in arguing that “base administration allocations have not kept up with inflation” from 2007 to 2023.²⁶ Raderman's report finds that “inflation-adjusted base administrative funding reduced by \$900 million over this period, a 27 percent decline,” and he argues for reforms to “strengthen the overall administrative funding stream.”²⁷

A December 2024 literature review prepared by Needels Consulting and Abt Global for the DOL widens the aperture slightly. According to that review,

nationwide annual UI administrative funding allocated to states ranged from \$2.41 to \$4.64 billion dollars; these statistics do not include federal funds provided to states through infrequent mechanisms such as Reed Act distributions or special one-time grants. . . . Across these 21 years, annual administrative funding was less than annual administrative costs for 15 years and greater than annual administrative costs for six years.²⁸

Figure 2 displays what the report describes as “total UI administrative funding” compared with “total UI administrative costs” across fiscal years 2002 through 2022.

Figure 1. Base Funding Provided to States for UI Administration



Source: Will Raderman, *Getting the Job Done on Unemployment Insurance: How Congress Can Reinforce Program Administration and Integrity with Finance Reform*, Niskanen Center, April 30, 2024, 9, <https://www.niskanencenter.org/getting-the-job-done-on-unemployment-insurance-how-congress-can-reinforce-program-administration-and-integrity-with-finance-reform/>.

Figure 2 adds above-base and contingency funding to the base funding spotlighted in Figure 1. While that increases the total administrative funding and changes the trajectory of the trend over time by displaying nominal dollars, the report admits it omits significant administrative funds provided through special onetime grants and other “infrequent mechanisms.” Those additional federal funds include targeted onetime administrative funding provided during emergencies along with funds provided to cover the state costs of administering temporary federal emergency benefits.

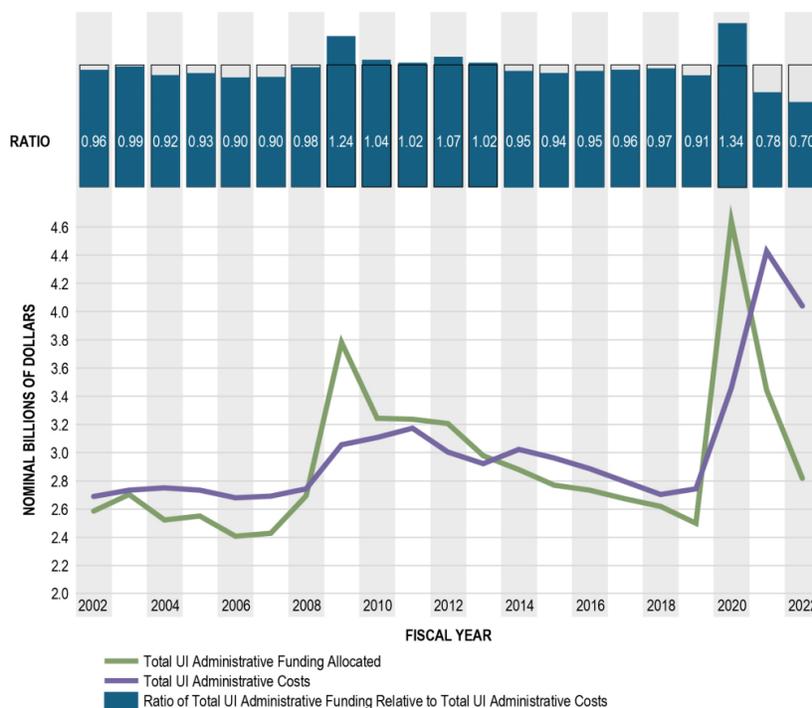
The pandemic provided clear examples of the often-significant additional federal funding not reflected in Figures 1 and 2.

At the onset of the pandemic, federal lawmakers anticipated the need for additional administrative resources for states to process surging state and newly expanded federal benefit claims. State workforce agencies received several infusions of federal

funds for those extraordinary administrative costs, starting with \$1 billion provided under the Families First Coronavirus Relief Act, enacted in early March 2020.²⁹

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, enacted later that month, provided the first federal pandemic funds specifically for certain anti-fraud expenses, appropriating \$25 million to the DOL Office of Inspector General (OIG) “to oversee the unprecedented expansion of the Unemployment Insurance (UI) programs provisioned by the Act.”³⁰ Subsequent legislation expanded dedicated anti-fraud funding. One year later, the March 2021 American Rescue Plan Act included a \$2 billion modernization fund (of which \$1 billion in unobligated balances was later rescinded by the 2023 Fiscal Responsibility Act), some of which was dedicated to program integrity.³¹ Those actions clearly indicate that, from the earliest days of the pandemic, policymakers understood the elevated risk of fraud and

Figure 2. Comparison of Total UI Administrative Funding Allocated to States with Total UI Administrative Costs, Fiscal Years 2002–22



Source: Karen Needels et al., *Unemployment Insurance Administrative Funding and Costs: A Literature Review*, Needels Consulting and Abt Global, December 2024, 11, fig. 1, https://www.dol.gov/sites/dolgov/files/OASP/evaluation/pdf/Unemployment-Insurance-UI-Administrative-Funding-and-Costs_A-Literature-Review.pdf.

Note: The total UI administrative funding allocated calculations are based on DOL reports of the total UI administrative funding amounts distributed to all states for the operation of their UI programs. US Department of Labor, Office of Unemployment Insurance, “UI Budget,” 2024, <https://oui.doleta.gov/unemploy/budget.asp>. Calculations of the total UI administrative costs according to Resource Justification Model data were made by the UI Administrative Costs Study Team on September 13, 2024.

the need to provide states additional administrative resources to combat it.

Even more consequentially for state budgets, the CARES Act also provided full federal funding to reimburse states for the cost of administering several large new temporary federal benefit programs. The legislation specified that federal funds would fully cover states’ administrative costs in implementing these federal pandemic benefits, which quickly grew to unprecedented scale and expense. For example, the authorizing legislation of the PUA program noted that federal funds would cover 100 percent of state administrative expenses, including those related to processing applications for assistance, conducting identity verification or validation, and making timely

and accurate payments. Similar language specified that federal funds would fully cover state administrative costs associated with dispensing Federal Pandemic Unemployment Compensation, Pandemic Emergency Unemployment Compensation, and Short-Time Compensation benefits, along with federal funding of the first week of state UI benefits.³²

Those and other temporary programs authorized by the CARES Act provided an unprecedented \$675 billion in federal unemployment benefits during the pandemic, with subsequent Lost Wages Assistance program spending raising the total to over \$700 billion.³³ Despite the massive scale of those benefits, and thus likely significant funding provided to states to administer them, to the author’s knowledge DOL has

never published data on the amount of federal funds provided to states to administer temporary federal pandemic benefits. Repeated requests to DOL for this information have gone unheeded.

However, if funding provided to administer federal pandemic benefits equaled even 1 percent of those benefits, the figure—and thus amounts excluded from reports on “total administrative funding”—would exceed \$7 billion, an enormous amount.

While states naturally cannot predict or budget for amounts beyond relatively stable, if low, annual base funding, such additional funds provide significant—and widely overlooked—resources to states to pay unemployment checks of all kinds, especially during emergencies.

Including such additional funding would likely alter the message conveyed by Figures 1 and 2, which failed to consider funds provided to administer large temporary federal programs.

Any spikes attributable to including previously undisclosed federal administrative funding still would be short-lived, expiring when the underlying temporary benefit programs ended. In the end, the picture that would likely emerge is one in which recent policy does not provide states with predictable funding for program administration, showing spikes that track recessions and especially the duration of temporary federal benefit programs.

That means that in years when the economy is expanding and the important work of preparing the UI system to manage the strains of a future recession should occur, overall administrative funding tends to be at its lowest. As the nation experienced during the pandemic, this pattern contributes to significant losses, including considerable delays in providing benefits to eligible claimants alongside hundreds of billions of dollars in taxpayer losses to improper payments and fraud. As discussed below, those losses far outweigh the comparatively modest cost of making system improvements.

The data above are national in scope, which masks important state-level variation. One key consideration is that many states, often blaming the inadequacy of federal funds, supplement those funds with their own resources. The most recent DOL *Comparison of*

State Unemployment Laws notes that 29 states currently apply a special state tax, generally on employer payrolls, to support “UI administration or non-UI purposes.”³⁴ Fourteen of those states (Arkansas, California, the District of Columbia, Kentucky, Maine, Montana, New Hampshire, New York, Oklahoma, Oregon, Puerto Rico, South Dakota, Wisconsin, and Wyoming) specifically list program administration as a purpose of their special state tax.

The December 2024 literature review by Needels Consulting and Abt Global notes that “state administrators report that usage of state-based supplemental funding has increased over time, reaching more than \$444 million during fiscal year 2019, the most recent year for which the information is currently available.”³⁵ If, as is discussed below, states received increased federal administrative funding or could exercise more control over what are now FUTA revenues, some or all of these states might reduce or even eliminate such state surtaxes.³⁶

An additional consideration involves how federal funds are targeted to individual states. Congressionally appropriated administrative funding typically includes a base funding amount, some additional reserved funds, and a claims-volume multiplier based on average weekly insured unemployment estimates.³⁷ States communicate their administrative funding needs to DOL via the Resource Justification Model (RJM), a complicated formula designed to sum personnel and benefit costs by function, among other items. Many states find it most cost-effective to hire subject matter experts to ensure they maximize administrative funding, which is a reason to reform the complicated RJM to better address system needs.

Past Calls for Reform

A comprehensive review of reform proposals involving the administrative financing of the UI system is beyond the scope of this report. Nevertheless, it is worth mentioning noteworthy calls for reform stretching back several decades.

In the 1990s, several UI proposals were developed to devolve control over federal unemployment taxes

and administrative funding to the states. In 1997, the US House Ways and Means subcommittee with jurisdiction over the UI system received testimony about a draft devolution proposal crafted by nine states and a leading employer trade association. Eric J. Oxfeld, executive director of the trade association UBA (now UWC), summarized the problem addressed by the draft proposal as follows:

Currently, the Federal Government returns to the States only about 60 cents on the dollar. . . .

Despite the large surpluses in FUTA, States are getting less in grants than they need to administer the program properly. As a result, this has led to a cutback in services to jobless workers. It's no coincidence to us that the average duration of an unemployment claim has been steadily getting longer, even as unemployment has gone to record low levels.³⁸

Two years later, Senator Mike DeWine (R-OH) introduced the Employment Security Financing Act of 1999. His legislation called for state UI agencies to collect FUTA taxes, with most of the revenues deposited into individual state administration accounts. States would access those funds through the state appropriations process instead of depending on federal appropriations of administrative funding. The result would be significantly greater state control over, and in many states greater funding for, program administration.

As DeWine noted on introducing the legislation, Ohio

receives less than 39 cents of each employer FUTA dollar. This shortfall in funding has led to the closing of 22 local employment service offices during the last four years. In order to make up for the shortfall of FUTA dollars, the Ohio legislature has appropriated more than \$50 million during the last four years to pay for the administration of employment services, something that should be funded by FUTA taxes. This appropriation of state tax dollars forces Ohio taxpayers to pay twice to fund these services.³⁹

Other states similarly received back only a fraction of federal FUTA revenues to administer their UI systems. DeWine continued:

Ohio is not alone. Since 1990, less than 59 cents of every FUTA dollar has been sent back to the states. In fact, in 1997, states received a paltry 52% return on their FUTA tax dollars. As a result, many states are being forced to make up the shortfall from their own general funds, and cut back on other services provided to the unemployed.⁴⁰

The DeWine legislation failed to advance, in part because of the cost associated with providing states more control over federal administrative funds. That cost resulted from two basic facts about the current federal UI system. First, it provides states with discretionary funds in most years. Second, proposals that allow states to determine how much to spend on administration (or that otherwise guarantee states a minimum share of federal revenues each year) are regarded, for the purposes of federal budgeting, as converting discretionary funding into mandatory funding. The resulting apparent cost is far larger than one might assume.

Because such legislation is not credited with any savings from reducing discretionary appropriations, the federal budget score includes the entirety of the new mandatory spending. To use a simplified example, if Congress appropriates \$4 billion per year for program administration but adopts policies that guarantee states receive \$5 billion in such funding, the new mandatory cost will be \$5 billion per year—not the additional \$1 billion one might assume.

While, as the pandemic experience shows, Congress does not always cover the cost of new or expanded benefits, there is at a minimum political pressure to do so, especially when legislation proposes permanent reforms. Given the challenge of finding offsets for \$5 billion in annual mandatory spending, much less \$50 billion or more over 10 years, such proposals face significant headwinds.

The George W. Bush administration subsequently offered a related “New Balance” administrative

financing reform proposal as part of the president's fiscal year 2003 budget, which in key respects resembled prior devolution plans. Testifying before the Ways and Means subcommittee with jurisdiction over UI in March 2002, Assistant Secretary of Labor Emily Stover DeRocco noted:

The Administration's long-term vision includes allowing States to finance UI and ES [employment services] administration while providing a very responsible transition, reforming extended benefits, and reducing FUTA taxes. A key component of the proposal is the transfer of funding authority from the Federal to the State level, which would be phased in over several years to give States sufficient time to make necessary administrative and legislative changes.⁴¹

Under the proposal, the FUTA tax would have gradually declined to 0.2 percent (from 0.8 percent at that time), and states would have received shares of \$14 billion in federal transitional funding for administration.⁴² DeRocco added,

Our proposal shifts administrative funding responsibility of about \$3.5 billion to the states while also shifting a federal payroll tax cut of over \$5.5 billion to their employers. We believe that the states have sufficient incentives to adequately fund the UI and ES benefits and services that assist workers and employers.⁴³

Summarizing his party's opposition to the proposal, Ranking Member Ben Cardin (D-MD) stated,

I am concerned the plan would begin to dismantle the current Federal-State partnership in responding to unemployment. The proposal would eliminate the payments now sent by the Federal Government to the States for administrative costs for the UI programs, and it would eliminate three-quarters of the Federal FUTA tax, which finance extended unemployment benefits and loans to the States in addition to the administrative grants.⁴⁴

Despite administration backing and unified Republican control of the Congress, the Bush administration's plan failed to advance. One significant reason appears in the fine print of the administration's budget documents: the plan's almost \$29 billion cost over 10 years.⁴⁵

Fast-forwarding two decades, the Biden administration in 2024 offered a UI reform plan "for transforming unemployment insurance" whose first "action area" was addressing the system's presumed administrative underfunding.⁴⁶ The DOL report detailing that plan summarized conditions on the eve of the pandemic as follows:

Following decades of administrative underinvestment, state UI agencies entered the COVID-19 pandemic having experienced the lowest claims levels—and hence their lowest level of administrative funding—in 50 years. In real terms, administrative funding declined by 23 percent between 1989 (on the eve of the 1990 recession) and 2019. Many states also relied on antiquated information technology (IT) or were in the process of modernizing their IT systems. These conditions severely limited states' ability to respond in a timely manner to the surge in unemployment and the historic demand for UI's income support that followed.⁴⁷

The Biden administration report's first proposed legislative reform was to "adequately fund administrative funding," starting by "fully funding the President's FY [fiscal year] 2025 Budget Request which includes updated salary and workload processing factors, and includes \$25 million in funding to support the costs of ID verification in state UI programs."⁴⁸ The proposal was not acted on.

Nonetheless, the broad topic of underfunding for administration has received significant attention in Congress in recent years. The House Ways and Means subcommittee with jurisdiction over the UI system held a hearing in June 2024 on possible UI reforms, including improvements in administrative funding. As Subcommittee Chairman Darin LaHood (R-IL) summarized in his opening statement,

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.⁴⁹

One focus of the hearing—which echoed concerns expressed by devolution proponents two decades earlier—was the mismatch between federal revenues and the amount appropriated back to states to administer UI benefits. As Chairman LaHood continued,

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.⁵⁰

Just as devolution proponents noted in the 1990s, the mismatch today between federal revenues and amounts returned to states for administration remains significant. Figure 3 uses DOL data to compare FUTA revenue with annual federal administrative grants since 1981, in inflation-adjusted terms. These administrative grants include base and contingency funds appropriated for state UI administration, plus state administrative costs for employment services, veterans' employment programs, and Bureau of Labor Statistics labor market information programs. They do not include additional onetime grants or extraordinary administrative payments associated with temporary federal benefits paid during recent recessions and supported by federal general revenues. With that caveat, Figure 3 displays how, even though the gap has narrowed since the Great Recession and especially after the 0.2 percent FUTA surtax

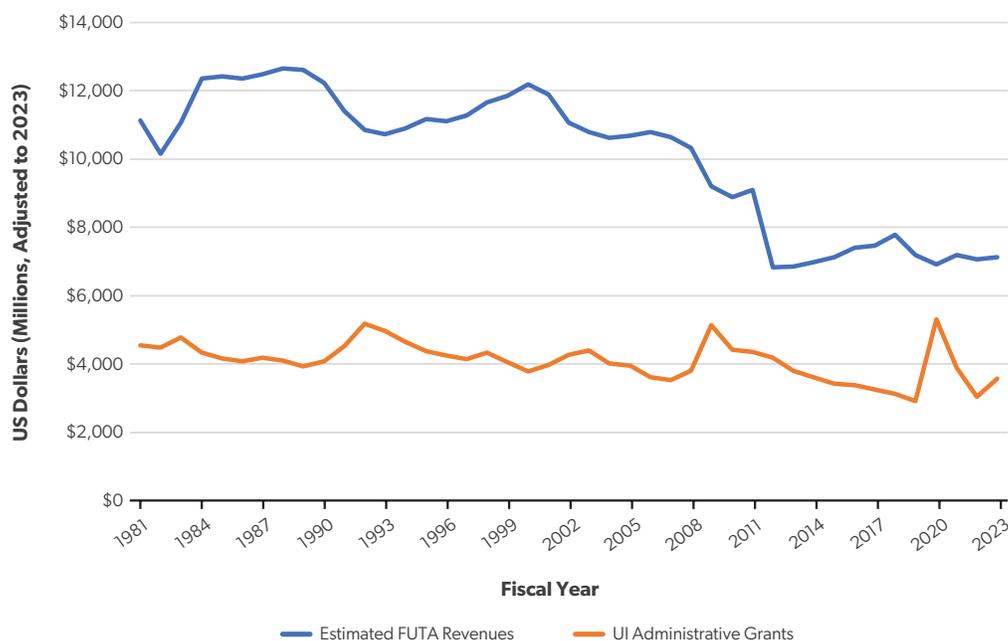
ended in 2011, federal administrative grants continue to fall well short of FUTA revenue collected to support that and other program purposes.⁵¹

Overall, since 1981, the combined gap between federal unemployment tax revenues that could have been devoted to administration and amounts that have actually been appropriated for base and contingency grants totals \$258.7 billion (in inflation-adjusted 2023 dollars). This gap equals approximately 59 percent of all FUTA revenues collected over that period. Other uses of FUTA revenue, such as supporting the federal share of EB program costs, explain only a small fraction of the gap over time.⁵² And instead of being supported by federal payroll tax revenue, EB and other extraordinary federal benefit costs have been increasingly supported by federal general revenues. This trend reached all-time highs during the pandemic, when federal general revenues supported a record 71.4 percent and 87.8 percent of unemployment benefit expenses in fiscal years 2020 and 2021, respectively.⁵³ Additional uses of federal revenues, such as covering the cost of DOL national activities, reflect only minor expenditures.

Viewed on a state-by-state basis, federal revenues currently returned to states for program administration fail to paint a more encouraging picture. Using DOL data to compare FUTA revenues collected by states with administrative funding returned to them in fiscal year 2023 (the most recent year of data) reveals that almost every state was a net loser. That is, as displayed in Figure 4, 51 of 53 states received less federal UI administrative funding than their employers paid in annual FUTA taxes.⁵⁴

In 42 states, federal funds for program administration constituted less than 60 percent of revenues collected for this purpose, including 30 states where administrative funds reflected 40 percent or less of those revenues. Counting EB and other federal funds provided to states did not change that picture, with 51 of 53 states remaining net losers and only Alaska and the US Virgin Islands coming out ahead.⁵⁵

The bottom line is that in the most recent year of data, the overwhelming majority of states received less back in federal funds to administer UI benefits than their employers paid in federal payroll taxes

Figure 3. FUTA Revenues Versus UI Administrative Grants Since 1981

Source: US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned,” https://oui.doleta.gov/unemploy/futa_receipts.asp.

for that and other program purposes. At a time when many argue state UI systems should receive increased funding to improve how they prepare for future program needs, federal funding was intentionally diverted, often significantly, from that purpose in most states.

It is also hard to ignore the significant partisan tilt among states where that diversion is greatest, as also reflected in Figure 4. Of the 30 states (including DC and Puerto Rico) that received 40 percent or less of their employer-paid FUTA back in the form of administrative grants, 19 (63 percent) were led by Republican governors. Of the remaining 23 states (including the US Virgin Islands) that received comparatively greater shares of federal revenue back for program administration, only seven (30 percent) had a Republican governor.

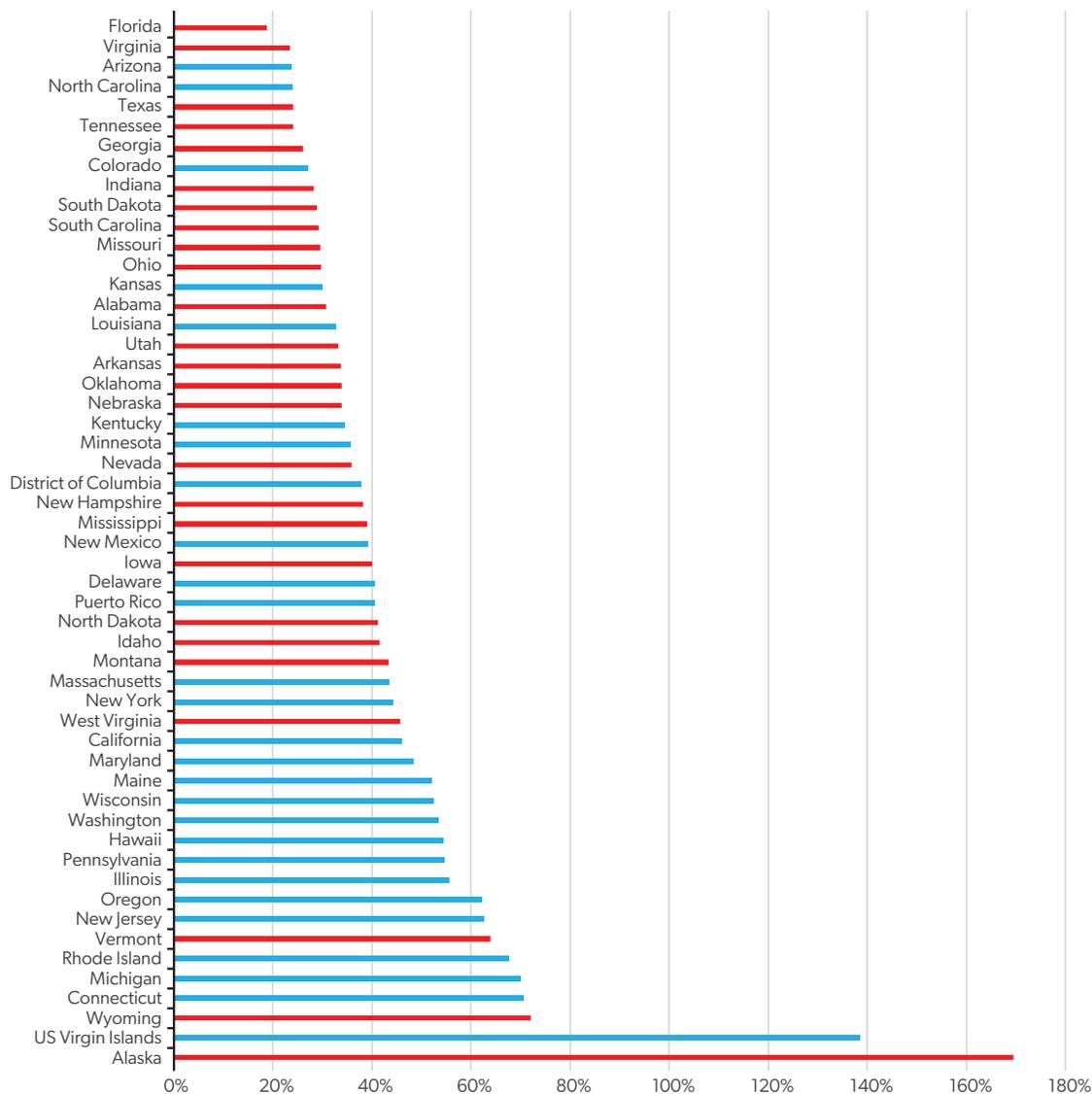
Despite those dynamics arguing for reform, recent legislative action has continued to fall far short of calls for systemic changes. On March 11, 2025, the House passed H.R. 1156, which would extend the statute of

limitations for prosecuting pandemic benefits fraud from five to 10 years and allow states to retain up to 5 percent of recovered overpayments for use in administering the system.⁵⁶ As of January 2026, the Senate had failed to act on even that modest House bill, which falls far short of directly providing additional administrative funds.

Taken together, Figures 3 and 4 indicate that, despite the apparent surplus of FUTA revenue available to increase UI administrative funding, year after year Congress has continued to provide states far less than it could to support the administrative needs of this system. And decade after decade, through Republican and Democratic administrations alike, proposals that seek to expand administrative funding, or at least allow states to do so, have been shelved with almost no legislative action.

Ironically, one of the reasons for that continued neglect may be the system’s increased dependence on making significant changes only during recessions, under legislation that is, by nature, temporary. That

Figure 4. UI Administrative Grants as a Share of FUTA Revenues by State, 2023



Source: US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned,” https://oui.doleta.gov/unemploy/futa_receipts.asp.

Note: Red and blue reflect the party of the state’s governor as of January 2023 (or, in the case of Washington, DC, the mayor).

legislation has provided surges in onetime funds to address crises, plus undisclosed amounts of federal funding to administer temporary benefits. But by focusing exclusively on those emergency needs, that practice may have relieved pressure on Congress to develop the permanent changes the system needs to be better prepared for future recessions.

Offering States Increased Flexibility with Accountability

In the June 2024 Ways and Means hearing, Representative Blake Moore (R-UT) noted that during the pandemic especially, many policies failed by trying to enforce a single federal solution on all states,

arguing, “We are not going to be able to solve these things at the Federal level.” Moore pointed to federal policies that resulted in “particularly small business owners . . . not being able to hire people, or not being able to get some of their folks back to work” as “an un-American concept.” He called instead for a focus on state-level discretion and evaluation “to make sure these programs are actually run well.”⁵⁷

Recent years have seen confirmation of Representative Moore’s concerns, along with a growing state demand for increased flexibility in paying state and federal unemployment benefits. Two important examples stand out.

First, in the wake of the Great Recession, and initially driven by constraints embedded in federal law involving the availability of temporary federal benefits, a number of states began altering the duration of state UI benefits.⁵⁸ While in recent decades most states offered a maximum of 26 weeks of state benefits, one in five states have shortened the maximum benefit duration in recent years, in some cases tying shorter availability of benefits to lower unemployment rates. Those state changes reflect the mirror image of long-standing federal EB program policy, which offers longer benefit durations in states where rates exceed certain “high unemployment” thresholds.

The second example is reflected in multiple states’ decisions to reject the continuation of emergency federal benefits during the pandemic. As noted above, federal law provided record extended and expanded federal unemployment benefits during the pandemic. But when those benefits continued to be available well after state unemployment rates significantly declined, and labor shortages appeared, about half the states took the extraordinary step of simply ending federal benefits altogether, arguing, as Representative Moore recalled, that those benefits were keeping workers on the sidelines and stifling recovery.⁵⁹ The first state to opt out was Montana, where Republican Governor Greg Gianforte argued in May 2021 that “the vast expansion of federal unemployment benefits is now doing more harm than good” and that a “return to pre-pandemic unemployment programs will help get more Montanans back to work.”⁶⁰

Those unexpected policy adaptations display how many states have decisively altered unemployment benefit policies, including in ways federal policymakers did not previously anticipate. That willingness to deviate from the prior state and federal policy consensus holds important implications for the debate over the proper level of administrative funding for the UI system.

Under the current system, federal payroll taxes are collected and then only partially appropriated back to states to administer benefits. Few believe that this system works effectively and properly targets funding to state needs today. What’s worse, today’s funding system is widely believed to have contributed to the system’s inability to meet growing demand for benefits during the pandemic and forestall massive amounts of improper payments.

A Proposal for Improvement

As described in detail below, an improved system would incorporate a number of changes at both the state and federal level. In sum, it would allow states to determine the proper amount needed to effectively administer UI, eliminate the federal payroll tax and expect states to raise their own taxes needed to support most administrative costs, continue to deploy general revenues for federal responsibilities, and hold states strictly accountable for preventing improper payments, especially involving future federal benefits.

States Should Determine How Much to Spend on Basic Program Administration

States have long lamented federal underfunding for administration. There is no reason they cannot take on the responsibility of determining the proper amount to spend on an effective and efficient UI system, including one that can handle increased responsibilities during recessions. All states already determine how much to spend on state UI benefits, which cost over eight times what states received for program administration in FY 2023, a historically low-benefit year.⁶¹

States Should Set the Proper Level of Taxes Needed to Cover Administrative Funding

This change follows directly from the first, eliminating the wasteful federal middleman. The simplest path would be to gradually phase out the current federal unemployment tax and replace it with state payroll taxes. The FUTA tax was cut by 25 percent in 2011, yet, as displayed in Figure 3, it remains well above the level needed to support federal administrative funding. That suggests that net payroll taxes in nearly all states could drop even as spending on administration rises. Allowing states to set and collect the taxes they need to cover the cost of administration also parallels how states already set and collect payroll taxes to cover UI benefit costs.

As discussed above, some states already levy their own state taxes to support non-benefit costs. Due to federal underfunding, 29 states have adopted state surtaxes to support non-benefit needs, including 14 states that use such surtaxes to support program administration.⁶² Those current state taxes could be eliminated or at least reduced if states had increased control over federal revenues collected—but not fully appropriated back to them—to support UI administration.

Federal General Revenues Should Be Used for Other Federal Responsibilities

Beyond administration, other federal responsibilities include EB, loans to insolvent states, and DOL national activities. Those costs either are minor (in the case of DOL national activities) or have already been supported with general revenues (such as when EB was 100 percent federally funded during the pandemic). During the pandemic, federal general revenue funding rose to unprecedented heights, covering almost 88 percent of benefit costs in 2021. Given recent history, there is no reason to retain the FUTA tax to cover comparatively minor program expenses or costs already covered by general revenues during recessions.

Reform States Should Be Required to Operate Anti-Fraud Policies

Key program efficiency and anti-fraud policies should be built into the reform proposal. Any state opting to set and collect its own taxes to support administration should certify that the projected revenues and spending are sufficient to efficiently administer current state benefits, as well as increased benefits in a typical future recession. States must also deploy basic anti-fraud policies. For example, reform states may not allow claimants to self-certify their eligibility for benefits and must confirm claimant identities before benefits are paid. They must conduct data matching against lists of prisoners, the deceased, current workers, and other ineligible individuals—before benefits are paid. And heightened scrutiny must be paid to claims filed in multiple states or by individuals using foreign IP addresses.⁶³

To enforce those anti-fraud requirements, the payment of future federal emergency administrative funds should be contingent on their implementation, as Senator Todd Young (R-IN) proposed during the pandemic.⁶⁴ Congress should similarly make the provision of at least some federal emergency benefits contingent on states' adopting and enforcing these program integrity requirements.

Simply put, states' greater control over the administrative funding of the UI system should be conditioned on ensuring federal taxpayers are protected against a repeat of the massive rip-offs experienced during the pandemic. The administrative buck has to stop somewhere.

Cost Implications

As in the past, the cost implications of these changes will be important to consider.

Prior devolution proposals called for eliminating all or most of the federal payroll tax, delegating to states decisions about how much revenue to collect and spend to administer the UI system, and increasing federal administrative funding during a transition period. Such proposals failed to advance in no small part due to their apparently significant federal costs. Those costs are driven primarily by two factors.

The first involves the assumption that, if given the authority to alter federal taxes, states would reduce revenues, increasing federal deficits. One need look no further than Figures 3 and 4 to understand why they might do that. Those figures show the historical and continuing gap between federal tax revenues and administrative funding provided to states, which is especially pronounced in red states.

The second cost driver involves the conversion of current discretionary funding for program administration to mandatory funding. That applies to proposals that mandate states receive all or most federal revenue back in the form of administrative funding, effectively converting current discretionary funding into mandatory funding.⁶⁵ As I noted in June 2024 testimony, the cost ascribed to devolution proposals as a result of this dynamic is often far greater than its real-world impact, as reform proposals do not get credit for savings from replacing discretionary funding with new mandatory spending.⁶⁶

Policymakers should be sensitive to, but also realistic about, the cost of making such changes. Without considering the taxes states might collect in its place, eliminating the FUTA tax appears to cost \$75 billion over 10 years.⁶⁷ That ignores how those revenues are used, including the roughly \$55 billion expected to be spent under current law on all state and federal administrative funding over the same period. The difference of approximately \$2 billion per year or \$20 billion over a decade reflects the degree to which current federal taxes exceed administrative funding and as a result pad federal UI trust funds.

Should reformers have to “pay for” ending that excessive taxation, especially when the system just claimed \$700 billion in federal general revenues to pay extraordinary benefits during the pandemic? Or is eliminating that comparatively modest gap—by allowing states to match new state taxes with administrative spending—preferable, especially since most economists believe payroll taxes are ultimately borne by workers in the form of lower wages?⁶⁸ In the end, what should reformers really have to pay for? Current tax and spending practices and rules enormously complicate those essential questions.

Setting such questions aside, if it chooses to, Congress could minimize the apparent cost of allowing states to better match taxes and administrative spending in at least two ways. While allowing all states discretion over taxes and administrative funding, it could create a reasonable floor under new state-set taxes—such as by specifying each currently “losing” state adopting reforms must collect enough revenue to support a 10 percent increase in administrative funding compared with baseline levels. That would increase funding available for administration while minimizing potential payroll tax relief, reducing overall costs. Alternatively, Congress could limit the number of states allowed to adopt such reforms, with those state demonstrations informing broader future policy changes while limiting the immediate cost of federal reforms.

In the end, considerations of fiscal headwinds should be weighed in their broader context, which has never been more compelling than at present. The UI system lost at least \$200 billion, and potentially upward of \$400 billion, to improper payments and fraud during the pandemic, while deserving claimants too often had to wait weeks or even months for their claims to be processed. No Congressional Budget Office (CBO) score will credit a reform proposal with preventing similar failures in the future. But while inaction may appear to be free, it could be highly costly if it results in a repeat of even a fraction of such losses in a future recession or crisis. In contrast, reforms that yield more and better targeted administrative funding, tied to the enforcement of policies that would better prevent a repeat of recent misspending, would be a comparative bargain if they achieve their intended result.

Policymakers must face the obvious—that increasing administrative funding for the UI system inherently involves some costs. Whether simply increasing funding through the current system or providing states more discretion in setting administrative spending and the taxes needed to pay for it, Congress cannot overcome the basic fact that more spending results in higher taxpayer costs, at least in the short run. But if federal legislation to that effect appeals to state reformers and results in improved program

integrity, any costs could be dwarfed by future savings. Even if CBO does not score savings resulting from such policy “strings,” they are nonetheless critical, given recent history.⁶⁹

The alternative, such as the Biden administration’s UI “transformation” plan—which lamented insufficient administrative funding but simply promised additional dollars funneled through the current flawed system—is decidedly unappealing, especially considering this broader context. That plan also would permanently revive the fraud-riddled PUA program and mandate that all states permanently increase UI benefit durations, amounts, and availability. Such benefit increases—and resulting required state tax hikes—would fall hardest on low-wage red states.

Separately, congressional Democrats have urged “full funding” for UI administration while offering additional “automatic stimulus” proposals, which would permanently pay pandemic-style benefits whenever state or federal unemployment rates are elevated, at untold but doubtless enormous federal expense.⁷⁰ Such proposals would simply raise the federal spending baseline for future temporary benefit expansions, at even greater taxpayer expense, while offering permanent new subsidies to comparatively high-unemployment blue states. There is little reason to think such expensive proposals concentrating more spending and control in federal hands will be taken seriously during the current administration.

Conclusion

Many argue that insufficient administrative funding contributed to the UI system’s inability to efficiently manage the historic surge in demand for state and federal unemployment benefit payments, and prevent the equally historic surge in fraudulent claims, at the start of the pandemic. Multiple factors contributed to that failure, including the poor design of temporary federal benefit programs, which invited abuse. In the wake of the pandemic, both sides of the political aisle have expressed renewed interest in Congress

providing additional administrative funding for states to operate this critical system.

That interest often proceeds from an only partial understanding of administrative funding provided to states, which ignores federal payments provided to administer temporary unemployment benefits paid during recessions. While states cannot anticipate or budget for those payments, they nonetheless reflect administrative funds that federal taxpayers provide and policymakers should consider.

Regardless of the view one takes of overall funding for administration, such funding is indisputably subject to sharp spikes and equally precipitous declines at the start and end of recessions, respectively. That pattern makes it difficult for states to budget for, and develop, systems that can expand to meet rising demands, including for preventing improper payments. Losses in recent years far exceed the administrative expenses in question. If there is good news here, it is that current federal tax revenue exceeds amounts now appropriated to states to administer UI benefits. While federal budget rules and processes offer challenges for reform, that basic fact suggests that reforms could unlock additional administrative resources, even with modest tax reductions.

This report suggests allowing states to determine the amount of taxes and spending required to properly administer UI benefits, removing the unnecessary federal middleman from that process. Opponents will suggest, as Representative Cardin did in opposing the Bush administration’s 2002 devolution proposal, that these reforms would dramatically reduce the federal role in the UI system. But that is hard to square with recent experience, when the federal government spent a record \$700 billion in general revenues on unemployment benefits during the pandemic, with equally record losses to improper payments and fraud.

The better question is what is the best way to determine the necessary and proper amount of administrative spending needed to operate this system efficiently and effectively. The answer to that question lies with the individual states, not in the

regime of flat federal taxes and overcomplicated funding formulas that shortchange nearly all states.

Even with the proposed changes, the federal role in the system is certain to remain robust—including by offering significant extended and expanded benefits during and after recessions. However, to access those benefits, states should prove that the revenue they collect and spend on UI administration would be sufficient for the system to operate effectively and accurately in paying state and, when due, federal benefits. They would also need to adopt anti-fraud policies that taxpayers learned the hard way were needed, but not deployed, during the pandemic.

No matter what, the recent experience of states lamenting too little administrative funding while

losing vast amounts of especially federal benefits to fraud should be a thing of the past. If states cannot operate administrative systems that include basic protections to prevent fraud, they should not have greater discretion in spending more on administering the UI system.

These changes could be effective across all states or just some, guiding further reforms. In the end, states whose administrative funding falls the furthest short of federal taxes collected for this and related purposes are the most likely to adopt such changes. But the fact that almost no states are “winners” under current law both argues for changes and suggests many states would have a strong incentive to take advantage of such reforms if offered.

Acknowledgment

This project was supported by a generous grant from Arnold Ventures.

About the Author

Matt Weidinger is a senior fellow and Rowe Scholar in opportunity and mobility studies at the American Enterprise Institute. His work focuses on safety-net policies, including cash welfare and unemployment insurance.

Notes

1. For a detailed review of improper unemployment benefit payments during the pandemic, see 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/>.

2. For a summary of extraordinary federal unemployment benefits offered at the beginning of the pandemic and the record surge in demand for state UI and extraordinary federal benefits, 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/>.

3. There are 53 “state” UI programs, including in the District of Columbia, Puerto Rico, and the US Virgin Islands.

4. US Department of Labor, Employment and Training Administration, “Monthly Program and Financial Data,” accessed January 12, 2026, <https://oui.doleta.gov/unemploy/claimssum.asp>.

5. For annual UI benefit data, see US Department of Labor, Employment and Training Administration, “Monthly Program and Financial Data.”

6. The exception was the brief recession in 1980. For a full discussion of temporary federal extended benefits, see Matt Weidinger, *Extended: A Review of the Current and Proposed Duration of “Pandemic” Unemployment Benefits*, American Enterprise Institute, June 3, 2020, <https://www.aei.org/research-products/report/extended-a-review-of-the-current-and-proposed-duration-of-pandemic-unemployment-benefits/>.

7. During the past two recessions, the EB program was temporarily supported with 100 percent federal funds. For a review of recent full federal funding for EB and its implications, 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/>.

8. For a review of the \$600-per-week supplements provided early in the pandemic, 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/>.

9. See Weidinger, *Extended*.

10. The \$46,000 total assumes an unemployed individual receiving then-average state benefits of \$325 per week throughout the duration of special federal benefits. The total includes \$38,000 in expanded and extended federal benefits lasting up to 18 months, with the remainder reflecting state UI benefits. See Matt Weidinger, “As Democrats Offer Massive New Benefits, a Refresher on Pandemic Check Writing,” *AEIdeas*, August 30, 2022, <https://www.aei.org/opportunity-social-mobility/as-democrats-offer-massive-new-benefits-a-refresher-on-pandemic-check-writing/>.

11. For state UI spending, see US Department of Labor, Employment and Training Administration, “Monthly Program and Financial Data.” Most of the federal funds were authorized by the CARES Act, with specific program funding available at US Department of Labor, Employment and Training Administration, “Families First Coronavirus Response Act and Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding to States Through May 31, 2024,” https://oui.doleta.gov/unemploy/docs/cares_act_funding_state.html.

12. Recent reliance on federal general revenues deviates sharply from the past, when Congress employed a series of temporary federal payroll tax hikes to finance emergency federal benefit expansions. For example, that was the original purpose of the 0.2 percent FUTA “surtax” collected from 1977 through 2011. See Julie M. Whittaker, *Unemployment Compensation: The Fundamentals of the Federal Unemployment Tax (FUTA)*, Congressional Research Service, October 25, 2016, <https://crsreports.congress.gov/product/pdf/R/R44527>. According to a 2020 review, if that practice had been repeated during the pandemic, “today’s federal UI tax of typically \$42 per worker per year would grow to \$482—a 1,048 percent increase—and stay there for a decade. The federal UI tax rate would skyrocket from 0.6 percent to 6.6 percent.” While employers nominally pay payroll taxes, most economists believe they result in lower wages for workers. See Matt Weidinger, “Paying the Bill for the Pandemic-Related Unemployment Benefits,” *The Bulwark*, August 19, 2020, <https://www.aei.org/op-eds/paying-the-bill-for-the-pandemic-related-unemployment-benefits/>. For a depiction of payroll tax versus general revenue-funded benefits, see Matt Weidinger, “How Worker Benefits Turn into Welfare,” *RealClearPolicy*, July 26, 2023, <https://www.aei.org/op-eds/how-worker-benefits-turn-into-welfare/>.

13. US Department of Labor, “FY 2025 Congressional Budget Justification: Employment and Training Administration,” <https://www.dol.gov/sites/dolgov/files/general/budget/2025/CBJ-2025-V1-07.pdf>. The Congressional Budget Office describes the two-stage appropriations process here: Congressional Budget Office, *Unemployment Insurance: Budgetary History and Projections*, January 23, 2025, <https://www.cbo.gov/publication/60776>.

14. US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned,” https://oui.doleta.gov/unemploy/futa_receipts.asp.

15. David Manoucheri, “EDD Backlog and Fraud Timeline: How We Got Here,” KCRA, June 23, 2021, <https://www.kcra.com/article/edd-backlog-and-fraud-timeline-how-we-got-here-california-unemployment-jobless-covid-19/35312619>.

16. Unlike UI benefits, which vary by worker earnings, supplements were uniform for all recipients. One result was that many recipients (especially of the \$600 supplements) received more in total unemployment benefits than they previously earned from working—that is, they had a replacement rate of greater than 100 percent. See Peter Ganong et al., “US Unemployment Insurance Replacement Rates During the Pandemic,” Working Paper No. 27216 (National Bureau of Economic Research, May 2020), <https://>

www.nber.org/system/files/working_papers/w27216/w27216.pdf. Scott Sanders, the executive director of the National Association of State Workforce Agencies, which represents state UI administrators, noted in June 2020 testimony to the Senate Finance Committee that the decision to provide flat supplements was driven by state systems' inability to provide more personally tailored payments. In response to a question from Ranking Member Ron Wyden (D-OR) about whether "it would be difficult for most States to implement 100-percent wage replacement for each worker," Sanders said, "That is a reality under the current state of the UI systems across the U.S." *Unemployment Insurance During COVID-19: The CARES Act and the Role of Unemployment Insurance During the Pandemic: Inquiry of the Senate Committee on Finance*, 116th Cong. 60 (2020) (statement of Scott B. Sanders, executive director of the National Association of State Workforce Agencies).

17. US Department of Labor, Employment and Training Administration, *PUA Improper Rate Report*, August 21, 2023, https://oui.doleta.gov/unemploy/pdf/Pandemic_Unemployment_Assistance_Improper_Payment_Rate_Report.pdf.

18. Alex Bell et al., *An Analysis of Unemployment Insurance Claims in California During the COVID-19 Pandemic*, California Policy Lab, September 15, 2020, <https://www.capolicylab.org/wp-content/uploads/2020/09/Sept-15th-Analysis-of-UI-Claims-in-CA-During-the-Covid-19-Pandemic.pdf>.

19. 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/>; and Blake Hall, "Calculating the Road to Losing \$400 Billion Dollars," *ID.me*, January 20, 2022, <https://network.id.me/article/calculating-the-road-to-losing-400-billion-dollars/>.

20. See Matt Weidinger, "Did Russian Gangs Steal More from US Taxpayers Than We Gave Ukrainians to Defend Themselves?," *Washington Examiner*, November 18, 2022, <https://www.aei.org/op-eds/did-russian-gangs-steal-more-from-us-taxpayers-than-we-gav-ukrainians-to-defend-themselves/>; and Matt Weidinger, "Inspector General's Report Confirms Warnings of Vulnerability of Pandemic Unemployment Benefits to Fraud," *AEIdeas*, November 2, 2020, <https://www.aei.org/opportunity-social-mobility/inspector-generals-report-confirms-warnings-of-vulnerability-of-pandemic-unemployment-benefits-to-fraud/>.

21. As the OIG has noted, "For over 20 years, the OIG has reported on weaknesses in the Department's ability to measure, report, and reduce improper payments in the UI program, which has experienced some of the highest improper payment rates across the federal government. For 17 of the last 20 years, the reported estimated improper payment rate for the regular UI program has exceeded 10 percent." US Department of Labor, Office of Inspector General, "OIG Oversight of the Unemployment Insurance Program," June 5, 2025, <https://oig.dol.gov/doloigoversightwork.htm#14>.

22. 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.

23. Julie Su, "A UI System for the Next Storm," *US Department of Labor Blog*, December 2, 2022, <https://blog.dol.gov/2022/12/02/a-ui-system-for-the-next-storm> (page discontinued).

24. Senate Committee on Finance, "Wyden, Bennet, Reed, Colleagues Urge Full Funding of Unemployment Insurance to Combat Fraud and Provide Benefits for Jobless Workers," press release, May 15, 2024, <https://www.finance.senate.gov/chairmans-news/wyden-bennet-reed-colleagues-urge-full-funding-of-unemployment-insurance-to-combat-fraud-and-provide-benefits-for-jobless-workers>.

25. Charles Apple, "In Control," *The Spokesman-Review*, June 25, 2020, <https://www.spokesman.com/stories/2020/jun/25/control-house-and-senate-1900/>.

26. Will Raderman, *Getting the Job Done on Unemployment Insurance: How Congress Can Reinforce Program Administration and Integrity with Finance Reform*, Niskanen Center, April 30, 2024, 8, <https://www.niskanencenter.org/getting-the-job-done-on-unemployment-insurance-how-congress-can-reinforce-program-administration-and-integrity-with-finance-reform/>.

27. Raderman, *Getting the Job Done on Unemployment Insurance*, 2, 8.

28. Karen Needels et al., *Unemployment Insurance Administrative Funding and Costs: A Literature Review*, Needels Consulting and Abt Global, December 2024, iii, https://www.dol.gov/sites/dolgov/files/OASP/evaluation/pdf/Unemployment-Insurance-UI-Administrative-Funding-and-Costs_A-Literature-Review.pdf.

29. The funds were authorized under the provisions included in Division D of that legislation, titled the Emergency Unemployment Insurance Stabilization and Access Act of 2020. Families First Coronavirus Response Act, H.R. 6201, 116th Cong. (2020).
30. US Department of Labor, Office of Inspector General, *Pandemic Response Oversight Plan*, April 15, 2020, 1, <https://www.oig.dol.gov/public/oaprojects/DOL-OIG%20Pandemic%20Response%20Oversight%20Plan.pdf>.
31. Brent Parton to State Workforce Agencies, July 13, 2023, <https://www.dol.gov/node/171097>.
32. CARES Act, H.R. 748, 116th Cong. §§ 2102, 2108 (2020).
33. See US Department of Labor, Employment and Training Administration, “Families First Coronavirus Response Act and Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding to States Through May 31, 2024.” An additional \$44 billion in benefits was authorized for the temporary Lost Wages Assistance (LWA) program that operated in August 2020 and subsequent months, raising all federal temporary unemployment benefits to over \$700 billion. For information on LWA, see Julie M. Whittaker and Katelin P. Isaacs, *Lost Wages Assistance: Benefits and Program Integrity*, Congressional Research Service, November 14, 2022, https://www.everycrsreport.com/files/2022-11-14_IF12249_57f35283babeb41041doff692e76e12dc73c938e.pdf.
34. US Department of Labor, Employment and Training Administration, *Comparison of State Unemployment Laws, 2023, 2-32-2-33*, table 2-16, <https://oui.doleta.gov/unemploy/comparison/2020-2029/comparison2023.asp>. The DOL report reflects state laws enacted as of January 1, 2023. The District of Columbia and Puerto Rico are included among the 29 states that apply a state tax for administration or non-UI purposes.
35. Needels et al., *Unemployment Insurance Administrative Funding and Costs*, 27.
36. Cost-allocation complexity, which applies when UI shares administrative expenses with other programs, might also be reduced if states set what is now federal UI administrative funding.
37. For a description of pre-pandemic formulas, see Rosemary Lahasky to State Workforce Agencies, “Fiscal Year (FY) 2019 State Workforce Agency Unemployment Insurance (UI) Resource Planning Targets and Guidelines,” August 6, 2018, US Department of Labor, Employment and Training Administration Advisory System, https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2018/UIPL_10-18_Acc.pdf.
38. *Unemployment Insurance Issues: Hearing Before the Subcommittee on Human Resources of the House of Representatives Committee on Ways and Means*, 105th Cong. 25 (1997) (statement of Eric J. Oxfeld, president of UBA).
39. 145 Cong. Rec. S1945–S1946 (daily ed. Feb. 24, 1999) (statement of Sen. DeWine).
40. 145 Cong. Rec. S1946 (daily ed. Feb. 24, 1999) (statement of Sen. DeWine).
41. *President’s Unemployment Administrative Financing Reform Initiative: Hearing Before the Subcommittee on Human Resources of the House of Representatives Committee on Ways and Means*, 107th Cong. 8 (2002) (statement of Emily Stover DeRocco, assistant secretary of the DOL Employment and Training Administration).
42. National Employment Law Project, “Unemployment Insurance and the Bush Administration Budget: A ‘New Balance,’ or New Marketing for Bad Ideas?,” March 2002, <https://www.nelp.org/app/uploads/2015/03/Unemployment-Insurance-and-the-FY-2004-Bush-Administration-Budget.pdf>.
43. *President’s Unemployment Administrative Financing Reform Initiative*, 11 (DeRocco).
44. *President’s Unemployment Administrative Financing Reform Initiative*, 5 (statement of Rep. Cardin).
45. US Government Printing Office, *Budget of the United States Government, Fiscal Year 2003*, 2002, <https://www.govinfo.gov/content/pkg/BUDGET-2003-BUD/pdf/BUDGET-2003-BUD.pdf>. See Tables S-9 and S-10 for spending and tax effects, respectively.
46. US Department of Labor, Employment and Training Administration, *Building Resilience: A Plan for Transforming Unemployment Insurance*, April 2024, https://oui.doleta.gov/unemploy/transformation_plan.asp.
47. US Department of Labor, Employment and Training Administration, *Building Resilience: A Plan for Transforming Unemployment Insurance; Executive Summary*, April 2024, 6, https://oui.doleta.gov/unemploy/pdf/transplan/Building_Resilience_Executive_summary.pdf.
48. US Department of Labor, Employment and Training Administration, *Building Resilience: A Plan for Transforming Unemployment Insurance; Action Area 1: Adequately Funding UI Administration*, 36, https://oui.doleta.gov/unemploy/pdf/transplan/Building_Resilience_Action_area1.pdf.

49. *Reforming Unemployment Insurance to Support American Workers and Businesses: Hearing Before the Subcommittee on Work and Welfare of the House of Representatives Committee on Ways and Means*, 118th Cong. 2 (2024) (statement of Rep. LaHood).
50. *Reforming Unemployment Insurance to Support American Workers and Businesses*, 2 (LaHood).
51. If states increased funding for administration, especially if those funds were held at the state level, states would benefit by having access to the float on what are now federal account balances.
52. See Weidinger, “Why Even Permanent Benefit Expansions Are Never Enough.” Federal EB program benefits, while in permanent law supported with 50 percent federal funds, have been 100 percent federally funded during the past two recessions, when they were supported by federal general revenues and not FUTA payroll taxes. Excluding those general-revenue-funded benefits leaves approximately \$19.8 billion in combined state and federal payroll tax-funded spending on EB benefits over time, or \$9.9 billion in federal revenue alone devoted to EB benefits.
53. Weidinger and Simon, *Pandemic Unemployment Fraud in Context*, 4, fig. 1.
54. The only exceptions were Alaska and the US Virgin Islands. US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned.”
55. US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned.”
56. *Pandemic Unemployment Fraud Enforcement Act*, H.R. 1156, 119th Cong. (2025).
57. *Reforming Unemployment Insurance to Support American Workers and Businesses*, 81–82 (statement of Rep. Moore).
58. See Matt Weidinger, “Bad News: Obama’s Stimulus Lowered Unemployment Insurance,” *The National Interest*, November 30, 2019, <https://nationalinterest.org/blog/buzz/bad-news-obamas-stimulus-lowered-unemployment-insurance-99952>.
59. For the complete list of states dropping federal benefits, see Julie M. Whittaker and Katelin P. Isaacs, *States Opting Out of COVID-19 Unemployment Insurance (UI) Agreements*, Congressional Research Service, August 20, 2021, <https://www.congress.gov/crs-product/IN11679>. For a discussion, see 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/>.
60. State of Montana, Governor’s Office, “Montana to Launch Return-to-Work Bonuses, Return to Pre-Pandemic Unemployment Program to Address Workforce Shortage,” press release, May 4, 2021, <https://news.mt.gov/Governors-Office/montana-to-launch-return-to-work-bonuses-return-to-pre-pandemic-unemployment-program-to-address-workforce-shortage>.
61. In fiscal year 2023, total federal administrative grants were \$3.6 billion, while state spending on UI benefits was \$30.5 billion. See, respectively, US Department of Labor, Employment and Training Administration, “Estimated FUTA Receipts vs. Amounts Returned”; and US Department of Labor, Employment and Training Administration, “Monthly Program and Financial Data.”
62. US Department of Labor, Employment and Training Administration, “Comparison of State Unemployment Laws 2023.”
63. For background on these proposed requirements, see Matt Weidinger, “Answering Key Questions About Unemployment Insurance Reforms,” testimony before the House Committee on Ways and Means, Subcommittee on Work and Welfare, June 14, 2024, <https://www.aei.org/research-products/testimony/answering-key-questions-about-unemployment-insurance-reforms/>.
64. *Unemployment Insurance Systems Modernization Act of 2021*, S. 2898, 117th Cong.
65. For example, the Niskanen proposal would have mandated states receive 80 percent of FUTA revenue for program administration, as discussed at the June 2024 Ways and Means subcommittee hearing.
66. Weidinger, “Answering Key Questions About Unemployment Insurance Reforms.”
67. The administration’s midsession review shows annual FUTA revenues gradually rising from \$7.0 billion in fiscal year 2024 to \$7.5 billion in fiscal year 2029. US Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, “Unemployment Insurance Program Outlook: Midsession Budget 2025,” https://oui.doleta.gov/unemploy/pdf/midsession_review_25.pdf.
68. Tax Foundation, “Payroll Tax,” <https://taxfoundation.org/taxedu/glossary/payroll-tax/>.
69. Congressional Budget Office, *Unemployment Insurance*.
70. Senate Committee on Finance, “Wyden, Bennet, Democratic Colleagues Urge Full Funding of Unemployment Insurance Administration,” press release, June 9, 2025, <https://www.finance.senate.gov/ranking-members-news/wyden-bennet-democratic->

colleagues-urge-full-funding-of-unemployment-insurance-administration. For a review of the effect of automatic stimulus proposals, including disproportionate benefit and tax hike effects on red states, 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 9, 2022, <https://www.aei.org/research-products/report/automatic-stimulus-how-it-would-have-increased-the-record-unemployment-benefits-paid-during-the-great-recession-and-pandemic/>.

© 2026 by the American Enterprise Institute for Public Policy Research. All rights reserved.

The American Enterprise Institute (AEI) is a nonpartisan, nonprofit, 501(c)(3) educational organization and does not take institutional positions on any issues. The views expressed here are those of the author(s).