Unemployment Insurance Administrative Costs Study:

Examining the Current Funding Framework for UI Program Administration

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Contents

Executive Summary v

1. Introduction 1

2. Background and Overview of the Unemployment Insurance Administrative Financing System 6

2.1. Revenue sources for the Unemployment Insurance program 6
2.2. Federal annual Unemployment Insurance administrative grants 7
2.3. Additional Unemployment Insurance administrative funding sources 9

3. Summary of Existing Literature and Operational Insights about Unemployment Insurance Administrative Funding and Costs 11

3.1. Many state UI administrators and literature authors believe that the annual federal funding for UI program administration is not enough for the programs to operate properly and efficiently 12
3.2. With a few exceptions, state administrators, OUI, and literature authors have relatively favorable views about the way annual federal funding is divided among states 16
3.3. State administrators view one-time federal grants as helpful for improving their UI systems, while also posing some challenges 17
3.4. There is a perception among state UI administrators interviewed for this study that states are using more money from their own sources than in the past to administer their UI programs 19
3.5. State administrators, OUI, and literature authors do not agree about how to fund rising technology costs in UI program administration 20

4. Historical Levels of Unemployment Insurance Administrative Funding and Costs 23

4.1. Over a 22-year period, federal funding was between 0.5 and 3.6 percent less than states' UI administrative costs, depending on whether the funding measure included or excluded federal one-time grants in addition to federal annual grants to states 23
4.2. UI administrative funding tended to exceed costs during recessions, and costs tended to exceed funding in nonrecessionary years 26
4.3. Differences between funding and costs were similar across small, medium, and large states 29

5. Considerations for Assessing the Level of Unemployment Insurance Administrative Funding: Adequacy and Program Performance 31

5.1. States experienced cumulative funding gaps prior to both the 2008 and 2020 recessions, followed by post-recession cumulative funding surpluses 32
5.2. State resources accounted for 8 percent of total UI administrative costs over the 22-year analysis period 35

5.3. Annual federal UI administrative funding may have a stronger correlation with UI performance than states' use of their own resources 39

6. Considerations for Assessing Funding Needs for Unemployment Insurance Administration: Non-Workload Costs 44

6.1. Over the 22-year analysis period, workload processing accounted for a slight majority of total costs (51 percent), and non-workload staff time accounted for another 27 percent of total costs 46

6.2. Costs for most workload processing activities followed a fluctuating but downward trend over the 22-year analysis period, and expenditures shifted toward payment integrity and system performance 47

6.3. Although total IT costs were similar at the start and end of the analysis period, there were periods of growing and shrinking investments 52

6.4. Smaller states tended to have greater per-unit workload processing costs and the lowest level of IT expenditures compared to other states 55

6.5. Having a higher share of total costs dedicated to PS, Non-Workload activities is associated with higher UI performance, but this is not the case for other RJM cost categories 58

7. Discussion of Findings, Study Limitations, and Open Questions 62

7.1. Discussion of study findings 62

7.2. Limitations of the study and its findings 65

7.3. Reflections on study findings 68

7.4. Open questions 70

References 74

Appendix A: Study Data and Methods 79

Appendix B. Data Exhibits 100

Appendix C. Glossary 118

List of Exhibits

Exhibit 4.1: UI Federal Annual Grant Funding and Combined Grant Funding versus Total UI Administrative Costs, Fiscal Years 2002 through 2023 26

Exhibit 4.2: Ratios of UI Administrative Grant Funding to UI Administrative Costs, Fiscal Years 2002 through 2023 28

Exhibit 4.3: Ratio of Combined Grant Funding to Total UI Administrative Costs by State Size, Fiscal Years 2002 through 2023 30

Exhibit 5.1: Ratio of Cumulative Combined Grant Funding to Total UI Administrative Costs Starting Five Years Pre-Recession, 2008 and 2020 Recessions 35

Exhibit 5.2: Number of States Contributing Their Own Resources, or Substantial Resources (at least 10% of costs), to Their UI Administration, Fiscal Years 2002 through 2023 36

Exhibit 5.3: National Average State Resource Ratio (States' Spending on UI Administration to Their Total UI Administrative Costs), Fiscal Years 2002 through 2023 37

Exhibit 5.4: Comparison of Size among States that Did and Did Not Contribute Substantial Resources for Their UI Administration, Fiscal Years 2002 through 2023 38

Exhibit 5.5: UI Performance Overall and for States with "Higher" and "Lower" Ratios of Combined Administrative Grant Funding to Total UI Administrative Costs, Fiscal Years 2002 through 2023 42

Exhibit 6.1: Cost Share by Category, Overall, Fiscal Years 2002 through 2023 47

Exhibit 6.2: Reported UI Administrative Costs Within Three Major Cost Categories Over Time, Fiscal Years 2002 through 2023 (in Billions of Dollars) 48

Exhibit 6.3: Reported UI Administrative Costs Within Six Subcategories of Personal Services, Workload Costs, Fiscal Years 2002 through 2023 49

Exhibit 6.4: Costs in the Four Subcategories of Personal Services, Non-Workload Costs, Fiscal Years 2002 through 2023 51

Exhibit 6.5: Costs in the Two Subcategories of Non-Personal Services Costs, Fiscal Years 2002 through 2023 52

Exhibit 6.6: Costs Spent on IT & Communications, Fiscal Years 2002 through 2023 53

Exhibit 6.7: States' IT Cost Shares, Fiscal Years 2002 through 2023 54

Exhibit 6.8: Average Personal Services, Workload Cost per Initial Claim, by State Size, Fiscal Years 2002 through 2023 56

Exhibit 6.9: Average Annual Total IT Cost, by State Size, Fiscal Years 2002 through 2023 57

Exhibit 6.10: Average Annual IT Cost per Initial Claim, by State Size, Fiscal Years 2002 through 2023 57

Exhibit 6.11: UI Performance for States with "Higher" and "Lower" Ratios of PS, Non-Workload Costs to Total UI Administrative Costs, Fiscal Years 2002 through 2023 59

Exhibit A.1: State Selection Criteria 81

Exhibit A.2: States Included in the UI Administrator Interviews 84

Exhibit B.1: UI Administrative Costs and Funding, All States (in Billions of Dollars) 101

Exhibit B.2: UI Administrative Costs and Funding, Small States (in Millions of Dollars) 102

Exhibit B.3: UI Administrative Costs and Funding, Medium States (in Millions of Dollars) 103
Exhibit B.4: UI Administrative Costs and Funding, Large States (in Billions of Dollars) 104
Exhibit B.5: Costs and Funding, 2008 and 2020 Recessions (in Billions of Dollars) 105
Exhibit B.6: State Spending on UI Administrative Costs (in Millions of Dollars) 106
Exhibit B.7: Average State UI & Economic Characteristics by State Resource Ratio 107
Exhibit B.8: UI Performance Index Scores 109
Exhibit B.9: Costs and Cost Shares by Major Category in the Resource Justification Model 110
Exhibit B.10: Costs by Category (Real 2023 $): Personal Services, Workload Categories (in Millions of Dollars) 111
Exhibit B.11: Costs by Category (Real 2023 $): Personal Services, Non-Workload Categories and Non-Personal Services (NPS) Categories (in Millions of Dollars) 112
Exhibit B.12: States' IT Cost Shares, Fiscal Years 2002 through 2023 113
Exhibit B.13: Average State UI & Economic Characteristics by State IT/Communications Costs Share 114
Exhibit B.14: Average Annual State Costs per Initial Claim by Category and State Size, Fiscal Years 2002 through 2023 116
Exhibit B.15: Average Annual State Costs by Category and State Size, Fiscal Years 2002 through 2023 116
Exhibit B.16: Performance Index Scores by Cost Share Category 117

List of Boxes

Summary of Study Findings viii
Key Findings from Section 3 11
Box 3.1. Ideas from Literature Review Authors 12
Key Findings from Section 4 23
Box 4.1. Measures of Funding and Costs 24
Box 4.2. State Size Groups 29
Key Finding from Section 5 31
Box 5.1. Interpreting the Ratios of Cumulative Combined Grant Funding to Total Unemployment Insurance (UI) Administrative Costs in Exhibit 4.1 34
Box 5.2. State Resources, Substantial State Resources, and the State Resource Ratio 36
Box 5.3. The UI Performs System, State Program Performance Measures, and the UI Performance Index 40
Key Findings from Section 6 44
Box 6.1. Cost Information in the Resource Justification Model (RJM) 45
Summary of Study Findings 63

Executive Summary

As established by federal law, the Unemployment Insurance (UI) system operates as a partnership between federal and state governments. According to Title III, Section 302 of the Social Security Act of 1935, the federal government is responsible for appropriating and allocating funding to states at a level it determines necessary for the "proper and efficient administration" of the system each year (42 U.S.C. 502). The main source of funding for UI program administration is a Federal Unemployment Tax Act (FUTA) tax that is imposed on almost all employers in the United States, although other sources are sometimes used, as well. Each year, Congress decides how much funding to appropriate from FUTA tax receipts to states for the purpose of UI administration.

The 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which operate UI programs, are typically referred to as "states" for UI program purposes, and they are hereafter referred to in that way as well. States' administrative costs associated with operating their UI programs include salaries and fringe benefits paid to staff who work for the UI program. They also include non-personal[1] costs, such as capital costs of the real estate where UI program activities are conducted and information technology (IT) costs to serve both employers and unemployed workers who file to receive UI program benefits ("claimants"). States bear the responsibility to ensure that the state UI-related taxes are collected from employers, UI benefits are paid to eligible claimants, and the program is protected against threats such as fraud.

The U.S. Department of Labor's (DOL) Chief Evaluation Office, in collaboration with the Employment and Training Administration's (ETA) Office of Unemployment Insurance (OUI), is sponsoring the **Unemployment Insurance Administrative Costs Study**. DOL's objective for the study is to generate evidence about the current UI administrative funding process, which could provide policymakers with insights to inform potential future developments to address funding adequacy questions.[2] Together with Needels Consulting, Abt Global is conducting the study and providing analysis of factors relevant to the determination of states' UI administrative costs. In this report, we present a brief overview of the current UI administrative funding process, a high-level synthesis of findings from our analyses, and a discussion of open questions that arise from the study's findings and that

[1] In the Resource Justification Model handbook (U.S. Department of Labor, 2022), the terms "Personal Services" and "Personnel Service Costs" are sometimes used interchangeably. Both refer to costs associated with salaries and wages for staff involved in UI program administration. We use "personal" (and "non-personal") throughout this report when referring to these RJM-defined categories.

[2] The study focuses on administrative funding for regular UI programs. It does not examine administrative funding pertaining to national UI program activities or other UI-related programs, such as emergency benefits programs that arise from congressional legislation in response to economic downturns, or other programs and activities related to employment security.

could—when answered—provide additional insights that policymakers could use to address questions about adequate funding of its administration.

Study data sources and study methods

We used three types of data sources and analysis methods for the study: (1) a review of literature about UI administrative costs, (2) analyses of informational interviews with administrators from eight state UI agencies and with DOL's OUI, and (3) analyses of quantitative data about all states' program costs and funding provided for UI administration.[3] For the literature review, we started with documents recommended by leading UI experts and followed additional leads identified either by DOL staff or through the literature review while it was underway. We prioritized sources that were not sponsored by organizations with a stated advocacy or lobbying role related to influencing UI policy or programs, but when relevant and appropriate, we included the perspectives of individuals and groups engaged in the UI system, such as UI agency staff or advocacy groups. Detailed findings from the literature review are presented in Needels, et al. (2024).

The state administrators we interviewed during July and August 2024 represented eight purposively selected states: Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin. We selected these states to provide a mix of characteristics such as geographic location, population, and use of state resources for UI administration, but they are not meant to be representative of the nation. Through the interviews, we asked administrators with varied experiences in managing the financing of UI program administration under different program conditions about their experiences with and perspectives about UI administrative funding and costs; the gap between funding and costs; changes in funding and costs over time; challenges with the current funding structure; steps states have taken to address challenges they have faced, including the use of state resources to supplement the federal funds; and recommendations to strengthen UI administrative financing.

During January and February 2025, we also conducted two interviews with OUI to gain additional information and insights about the UI administrative financing process. During these interviews, we asked about topics similar to those in the state interviews. We also used a conversational approach that enabled OUI to share thoughts on UI administrative financing topics not directly addressed in the protocol, such as various ways to define funding adequacy.

We also examined quantitative data that cover a 22-year period from Fiscal Year (FY) 2002 through FY 2023. At the time we collected the data, this time period corresponded to the complete set of years of publicly available data about the UI administrative costs that states incurred. Our analyses of the quantitative data include UI administrative costs data reported by states to DOL and DOL-

[3] A detailed explanation of the study's data sources and methods is presented in Appendix A.

provided data about the federal administrative grant funding that DOL allocated annually to states based on congressional appropriations.

Discussion of key findings from the study

In this report, we present findings that have emerged to date from our analyses of the relevant literature we reviewed, the interviews with state UI administrators and OUI, and quantitative data about UI administrative funding and costs. The box below summarizes these findings, and the section following includes a brief discussion of them.

Summary of Study Findings

This study aims to generate empirical evidence about the current Unemployment Insurance (UI) administrative funding process and surface insights that could inform potential future developments in that process. The statute governing UI administrative financing (42 U.S.C. 502) says the federal government is responsible for funding proper and efficient UI administration, and states are responsible for administering their programs. The statute does not define what proper and efficient UI administration looks like. Our review of relevant literature, discussions with a purposive sample of UI administrators, and analysis of data on funding and costs from Fiscal Years 2002 to 2023 led to the following findings:

- State UI administrators and UI researchers say operating a program well is especially hard in a recession, when many people are filing for unemployment benefits. State UI administrators described how having adapted to a lean mode of operating when the economy is strong makes it especially challenging to easily handle surging workloads and additional federal funding at the start of a recession. Other ways of funding UI program administration have been suggested, though most require Congress to approve them. (See Section 3)
- When interviewed, a sample of state UI administrators described additional operational challenges that arise under the current UI administrative funding approach. Despite generally favorable views about the way annual federal funding is divided among states, the overall amount is perceived as too low. State administrators discussed some drawbacks to managing additional funding from one-time federal grants and perceived more reliance on state funding sources. One area of concern is rising technology costs in UI administration; there is disagreement on how best to plan for this. (See Section 3)
- The study looked at UI administrative financing over 22 years. We compared how much money the federal government paid states versus how much states spent. On average, the states got 0.5 percent to 3.6 percent less than they spent, depending on whether federal one-time grants were included alongside annual grants. During economic recessions, states as a group got more money than they spent; in other years, they got less. In general, spending data from states may understate the level of resources states would devote to UI administration if more funding were available. (See Section 4)
- Different states have different economies and UI program features. None of the differences we examined predicts whether the money from the federal government will be more or less than the state's costs. (See Section 4)
- The federal government monitors how state UI programs perform. States that, on average, had higher federal funding (including one-time grants) relative to their costs had higher average program performance over the 22-year period. The ratio of annual federal funding to costs, without one-time grants, does not appear correlated with program performance. Neither does the size of state funds as a share of UI administrative costs. (See Section 5)
- UI administrators who participated in interviews say that the way states get money to run their UI programs now will likely not cover needs for IT in the future. Paying for IT can be a challenge for smaller states in particular. Although small states spend less on IT than medium or large states, IT costs more per initial claim in smaller states. (See Section 6)

Despite the limitations in the analyses, the findings included in this study report provide evidence about the strengths and weaknesses of the current UI administrative funding process that can, in turn, inform potential future developments in it.

From interviews with a sample of state UI administrators and OUI, and a review of relevant literature, we found **a general, though not universal, perception that the federal annual grant funding for states' UI program administration is not enough to cover what is necessary for proper and efficient UI program operations.** Though the allocation of available funds across states is generally viewed favorably, state UI administrators perceive that the overall size of the funding "pie" is too small, and rising IT costs present a particular challenge.

To address the funding gap, **literature authors proposed various approaches to increasing the amount of funding available for UI administration, though these approaches have their own set of challenges**. For instance, most would require congressional action to authorize additional resources to states. State UI administrators also pointed out operational challenges introduced by opportunities for one-time funding, as well as state legislative hurdles to supplementing federal funding with state funds. Their insights highlight the need to consider the broader context of the UI system and variability across states when weighing tradeoffs for possible alternatives.

The **perceived effects of insufficient levels of UI administrative funding, as cited by literature authors, center on program performance**—for instance, poor customer service, such as long wait times to speak to UI program staff or jammed phone lines, and difficulty achieving performance standards for the program, such as timely payment of benefits. These perceptions align with our analyses of quantitative data, which show correlations between federal funding-to-cost ratios and program performance.

The study also found that **gaps between federal UI administrative funding and states' UI administrative costs have persisted over time**. From our high-level analysis of quantitative data, we found that over a 22-year period, federal UI administrative funding—whether measured by annual grants only or annual grants combined with one-time grants—was often below states' reported UI administrative costs, with gaps ranging from 0.5 percent to 3.6 percent. Funding tended to exceed costs during recessions, but costs often exceeded funding in the years between recessions. State administrators discussed operational challenges stemming from this cyclical misalignment, especially in the early months of a recession when they have adapted to a lean mode of operating that cannot easily handle surging workloads.

There were **no state-level program characteristics that correlated with federal funding being above or below states' costs for UI administration**. Funding ratios were similar across small, medium, and large states (as measured by UI covered employment), indicating that state size was not associated with significant differences in the funding-to-cost gap. These findings are largely consistent with a funding model that relies heavily on historical costs and workload forecasts, both of which are correlated with state size. We note, however, that among states that covered at least 10 percent of their UI administrative costs with their own funds, more than half were small states, signaling that small states may have greater need than what the federal funding system currently supports. Further, the funding ratios presented throughout this report rely on cost data from the Resource Justification Model (RJM), but the RJM does not provide a mechanism for states to report foregone spending—for example, unfilled staff positions or desired investments not undertaken.

In the absence of a way to define and measure funding adequacy, we explored measurable criteria such as funding-to-cost ratios, state resource contributions, and performance metrics to gain insights into the strengths and weaknesses of the current UI administrative funding approach. State contributions accounted for at least 8 percent of total UI administrative costs over the analysis period. Smaller states have been more likely than larger states to make substantial contributions of their own resources towards UI program administration. Importantly, higher levels of combined federal funding (annual plus one-time grant funding) correlated with better UI program performance, while state resource contributions did not show a similar relationship. These findings suggest that **federal funding levels may correlate with program performance more so than supplemental state funding**.

Finally, beyond overall funding levels and contributions, the composition of administrative costs between fixed (not workload-driven) and workload-driven costs is also worth considering. **Fixed costs, reported in the RJM as cost categories not associated with changes in workload, play a significant role in states' UI administrative cost structures**. Over the 22-year study period, these costs accounted for 49 percent of all costs. IT costs, as one category of non-workload costs, fluctuated over time between 7 and 12 percent of all administrative costs, with notable increases following periods of sudden workload increases. Although smaller states had lower levels of IT investments than larger states, they reported higher average IT costs per initial claim, which may indicate across states that a portion of IT costs is fixed. Overall, states that allocated a higher share of their budgets to non-workload activities—such as program integrity and performance monitoring—tended to achieve better UI performance. However, no consistent performance advantage was observed for states with higher IT spending. This lack of correlation is surprising given expectations that technology improvements might enhance operations. These findings underscore the importance of recognizing and accounting for fixed, non-workload costs in funding models, especially for smaller states that may struggle to absorb them within a funding framework that heavily emphasizes the size of workloads.

Limitations of the study findings

Although the study has contributed to an understanding of UI administrative financing issues, it is important to keep in mind the limitations of the study's data and analysis methods when drawing conclusions from those findings.

First, the literature review was not intended to systematically cover a particular time period or range of literature sources. We started with resources recommended by national experts in UI policy, followed citations of and from those sources to identify additional perspectives, and we concluded our literature review effort when new relevant literature and insights no longer seemed to be emerging.[4] Still, it is possible that the perspectives of some UI system stakeholders, such as employers or workers, are not fully represented among the literature we reviewed. More generally,

[4] A full reference list is available in Needels, et al. (2024).

it is possible that we did not review all literature that could provide evidence and insights about UI administrative financing.

Second, findings based on the state UI administrator interviews cannot be interpreted as nationally representative because we purposively selected states to be interviewed. Furthermore, administrators from a ninth state that we asked to participate in an interview were unable to. Their views are not represented in our findings.

Third, when constructing measures of federal funding for states' UI administration, we made three important assumptions:

- We excluded from our measure of combined grant funding the one-time federal grants that states could have used for purposes other than UI program administration. Some one-time grant funds—namely the incentive payments to states authorized through the American Recovery and Reinvestment Act of 2009—could be used for a range of different purposes, including but not limited to UI program administration. It is unclear how best to treat these funds in the analysis. On the one hand, including these funds in our combined grant funding measure would enable the measure to better reflect funding that the federal government provided that *could* be used for UI program administration. This would mean that our estimates of federal funding, including one-time grants, are lower than what was actually the case. On the other hand, because states had flexibility in how to use them, the funds could be considered discretionary state funds. Ultimately, states' decisions not to use these funds for UI program administration could be interpreted as suggestive evidence that either states did not perceive a need for more UI administrative funding, or states did perceive such a need but other needs were more important to the state policymakers who determined how the funds should be spent.
- When assigning the timing of one-time grant funding to states, we attributed each grant to the year it was awarded. Because this analysis does not account for the actual year, or years, in which those funds were received by states, our combined funding measure for any given year may overstate or understate the amount of available funding.
- We also excluded some funds from state sources from our measures of state supplemental funding. Specifically, as described in Section 5, we excluded from our calculations of state supplemental funding the funds reported in the RJM data as coming from an "Other" state source; that is, other than state general funds, state administrative taxes, penalty and interest funds, and Reed Act distributions.[5] We excluded costs in the "Other" state sources category

[5] We briefly describe Reed Act distributions in Section 2.3. For a more in-depth discussion of Reed Act distributions, see the Congressional Research Service report *The Unemployment Trust Fund and Reed Act distributions*, accessed in March 2026 at: https://www.congress.gov/crs-product/RS22006?hl=RS22006&s=1&r=4

because we found instances in which these costs reflected federal one-time emergency grants for UI administration. Our excluding these costs ensured that our estimates of state-sourced funds used for UI program administration reflect only expenditures that could confidently be attributed to state sources. As a result, the estimates represent a lower bound on spending of funds from state sources.[6]

Fourth, our quantitative data analysis has two notable limitations related to the time periods included in the analysis:

- Our findings are inherently limited to the 22 fiscal years for which we had data (FY 2002 through FY 2023). This limitation does not influence our analyses of UI administrative financing issues within any given year included in the analysis, but it limits our ability to generate findings and draw conclusions based on a longer period of time or for other years outside of these 22 years. For instance, this period includes only two complete recession cycles. Given that UI administrative financing issues are heavily context dependent—such as where the economy is in a business cycle, the size of annual congressional appropriations for UI administration, or whether Congress has provided one-time grants—inclusion of other years of data would inevitably lead to somewhat different empirical findings.
- Our empirical findings might be sensitive to the extent to which states carry unused funds from one year to the next, because we did not analyze data on the account balances (unspent funds). Accounting for funds carried over could affect both within-year comparisons of fundings and costs and between-year comparisons (to the extent that states had unused funds in their accounts at the beginning and end of the 22-year period). The flexibility that states have to carry funds from one year to the next depends on the source of funds. For example, we attribute one-time grant funding to the year of award, but states typically have more than one year to spend this funding. However, it is possible that the full grant amounts might not be available for spending in later years in the rare event the grants are terminated prior to their original expiration dates.

Ultimately, though, we believe that the findings from quantitative data analyses provide valuable insights about differences between funding and costs over time and across states, states' cost structures, and the relationships between UI administrative financing and states' characteristics and program performance.

Importantly, as well, the study was not designed to shed light on the level of UI administrative funding that *could* be considered adequate for administering state UI programs at the performance levels expected by the federal government. States may have, to varying degrees, had to constrain

[6] Had we included all "Other" funds in our analyses of state resources, our estimates of states' contributions would have been about $4.3 billion larger during the 22-year analysis period, and state resources would have accounted for 13 percent, rather than 8 percent, of resources spent for UI program administration.

their costs to fit within the funding available from the federal government and state sources. Constraints on these resources could, in turn, have prevented states from operating in a way to achieve desired performance levels.

Despite the limitations in the analyses, the findings included in this study report provide evidence about the strengths and weaknesses of the current UI administrative funding process that can, in turn, inform potential future developments in it.

1. Introduction

Title III of the Social Security Act of 1935 established the Unemployment Insurance (UI) system as a partnership between federal and state governments. Social Security Act Title III, Section 302, specifies that the funding for the "proper and efficient administration" of the UI program is a federal responsibility. The U.S. Department of Labor's (DOL) also works with states in several other ways, such as providing guidance about federal requirements for UI program operations and monitoring states' UI programs.

States are responsible for operating UI programs. These include the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands (hereafter these 53 jurisdictions are referred to collectively as "the states"). Responsibilities of states include, but are not limited to, complying with federal and state requirements for the UI program, collecting state UI-related taxes from employers, providing UI program benefits to eligible unemployed workers who file to receive them ("claimants"), and ensuring that their programs are protected against threats such as fraud. States are permitted to contribute their own resources to support the UI program. With special agreements between each state and the federal government (e.g., Extended Benefits (EB) or temporary emergency federal programs), state UI agencies also administer federal programs that provide benefits to eligible unemployed workers, such as when the federal government provides fully or partially federally funded benefits to claimants who have collected all of the state-funded UI benefits to which they are entitled.

States incur administrative costs to operate their UI programs. These include costs referred to as personal—that is, salaries and fringe benefits paid to personnel who work for the UI program. They also include non-personal costs, such as capital costs of the real estate where UI program activities are conducted and information technology (IT) costs to serve both employers and claimants. The main source of funding for UI program administration is a Federal Unemployment Tax Act (FUTA) tax imposed on almost all employers in the United States, although other sources are sometimes used as well.[7] Each year, Congress decides how much funding to appropriate from FUTA tax receipts to states for the purpose of UI administration.

The DOL's Chief Evaluation Office, in collaboration with DOL's Employment and Training Administration's (ETA) Office of Unemployment Insurance (OUI), has sponsored this **Unemployment Insurance Administrative Costs Study**. DOL's objective for the study is to generate evidence about the current UI administrative funding process, which could provide policymakers with insights to inform potential future developments to ensure that the program is adequately

[7] More information about the FUTA tax can be found in Section 2.2.

funded, however that is defined.[8] Together with Needels Consulting, Abt Global has been conducting the study and providing analysis of factors relevant to the determination of states' UI administrative costs.

Overview of the study

In this report, we present a brief overview of the current UI administrative funding process and a high-level synthesis of findings from our analyses. We also discuss open questions that arise from the study's findings and that could—when answered—provide additional insights that policymakers could use to address questions about adequate funding of UI program administration. The study was designed to answer six research questions using a mixture of both qualitative and quantitative data sources. Below we present the study's research questions, its data collection and analysis methods, and its findings.

Study research questions

In collaboration with DOL, the study team identified six guiding research questions to frame the analyses and discussion of findings in this report:

1. What challenges have been cited about the current approach to funding UI administrative costs, especially during times of unexpected increases in UI claims; and what alternative funding mechanisms or structures have been proposed?
2. How has federal UI administrative funding compared to UI administrative costs, as reported by state UI administrators; and what are the implications for program operations and financing decisions?
3. How has federal UI administrative funding, as measured by annual federal administrative allocations, compared to UI administrative costs, as recorded in states' annual Resource Justification Model (RJM) data submissions?[9]

[8] The study focuses on administrative funding for the regular UI program as well as for Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Ex-Servicemembers (UCX), and states' efforts to verify claimant identity and eligibility for UI using the Systematic Alien Verification for Entitlements program and other tools. The study does not focus on administrative funding for national UI program activities or other UI-related programs, such as the permanent Extended Benefits program and emergency benefits programs Congress creates in response to U.S. economic downturns. In addition, the study did not focus on funding for other programs and activities related to employment security, such as the Disaster Unemployment Assistance program, the Wagner-Peyser program, the Reemployment Services and Eligibility Assessment (RESEA) program, Trade Readjustment Act benefits and services, or U.S. Bureau of Labor Statistics activities. The core infrastructure used for the administration of states' UI programs may provide value for these additional program activities.

[9] RJM is DOL's data collection system that records UI administrative spending by state agencies to operate their respective UI programs each fiscal year.

4. How have differences between federal UI administrative funding and UI administrative costs varied over time and across states?
5. To what extent do measurable criteria provide insights about the potential strengths and challenges of the current approach to UI administrative funding?
6. What is the role of fixed costs (particularly fixed IT costs) in states' UI administrative cost structures?

Study data collection and analysis methods

The study has included a review of literature about UI administrative costs, qualitative analyses of informational interviews with administrators from eight state UI agencies and DOL's OUI, and analyses of quantitative data about states' program costs and funding provided for UI administration.

- We included in the study a **review of literature** from 1980 through 2024, with an emphasis on literature between 2010 and 2024. The purpose of the scan was to inform other study activities, including the content of semi-structured discussions with state UI administrators and the direction of analysis of quantitative data about funding for and costs of UI program administration across states. To identify relevant literature, we began with a scan of relevant documents, websites, and conference proceedings our team was already aware of from previous national UI studies. We then followed additional leads identified by U.S. Department of Labor (DOL) staff and consulted with a former DOL staff member who had a lead role in developing the RJM and the approach to UI administrative funding currently in use. We also identified additional sources through following citations and reference as the literature scan was underway. We prioritized sources that were not sponsored by organizations with a stated advocacy or lobbying role related to influencing UI policy or programs, but when relevant and appropriate, we included the perspectives of individuals and groups engaged in the UI system, such as UI agency staff or advocacy groups. (For detailed findings from the literature review and a complete list of references, see Needels et al., 2024.)
- The **state administrators we interviewed** during July and August 2024 represented eight purposively selected states, not intended to be nationally representative: Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin. Administrators had varied experiences in managing the financing of program administration under different UI program conditions. We asked about their experiences with and perspectives about UI administrative funding and costs; the gap between funding and costs; cyclical changes and trends over time in funding and costs; challenges with the current funding structure; steps states have taken to address challenges they have faced, including usage of state funding to supplement the federal funding (as measured by expenditures in the RJM); and recommendations to strengthen UI administrative financing.

- During January and February 2025, we also conducted two **interviews with OUI** to gain the federal perspective on UI administrative financing. We asked about topics similar to those in the state interviews. Our conversational approach let OUI also share thoughts on UI administrative financing topics outside our interview protocol, such as various ways to define funding adequacy.
- The **quantitative data** we examined cover a 22-year period, from Fiscal Year (FY) 2002 through FY 2023; that is, all fiscal years for which all relevant data were available at the time we began the analyses. The 22 years begin during a recessionary period and include two other recessionary periods, two full time periods of economic expansion between recessions, and one time period of economic expansion underway at the end of FY 2023. As such, our analyses considered a range of UI program experiences.

Organization of the report

This report has seven sections: Section 1 provides an introduction to the study and its research aims; Section 2 provides the institutional background; Sections 3–6 present findings; and Section 7 synthesizes and outlines open questions. We have categorized findings into separate chapters for overarching findings from our analyses of the relevant literature we reviewed (Section 3), the interviews with state UI administrators and OUI (Section 4), and quantitative data about UI administrative funding and costs (Sections 5 and 6). A more detailed summary of each section is listed below:

- Section 1 provides an introduction to the study, its objectives, and research questions.
- Section 2 provides an overview of both the study and the current process for funding UI administration, the latter of which can be helpful for understanding the study's findings.
- Section 3 (findings) summarizes themes that emerged from the literature and informational interviews we conducted.
- Section 4 (findings) summarizes historical levels of UI administrative funding based on our analyses of quantitative data.
- Section 5 (findings) discusses considerations for assessing the level of UI administrative funding through the lens of program performance.
- Section 6 (findings) discusses the role of UI administrative costs that are not typically driven by variations in the volume of various UI activities.
- Section 7 provides a cross-cutting discussion of findings from the study, study limitations, and open questions that arise as a result of the study's findings. If answered, the open questions could further DOL's objective of obtaining evidence to inform potential future changes to the UI administrative funding process.

Two appendices to the report provide detailed information about study data and methods (Appendix A) and additional tables to support study findings from the quantitative data analysis (Appendix B). A third provides a glossary of terms used in the report (Appendix C).

2. Background and Overview of the Unemployment Insurance Administrative Financing System

The UI Administrative Costs Study was designed to provide answers to the six study research questions listed in the Introduction. The questions span several aspects of UI administrative financing, including challenges with the current UI administrative funding process; potential ways to inform the process; the relationship between administrative funding and the costs that states have incurred operating their programs — overall, over time, and across states; and the role of different types of costs in states' cost structures.

Findings from the study in Sections 3-6 of this report can be best understood with a contextual understanding of the current process for funding UI administration. In this section, we describe key elements of the UI administrative financing system to provide that context.

2.1. Revenue sources for the Unemployment Insurance program

The process for funding the administration of the UI system involves a complex set of steps that raise funds from employers, deposit most of the funds in a federally managed trust fund dedicated to funding UI program administration, and distribute funds from it to states.[10] Since 1983, the FUTA tax, which almost all employers in the United States pay, has been imposed on the first $7,000 of each employee's wages, after ranging from $3,000 to $6,000 between 1940 and 1982 (Miller, 1997; Ziegler & Squire, 2023).[11] Also since 1983, the FUTA tax rate remains at 6%, with credits of up to 5.4% for employers that meet state unemployment tax obligations. Most employers meet this criterion, such that the typical tax is 0.6% on the first $7,000 of wages, or up to $42 per employee per year as of August of 2025. The revenue raised through the FUTA tax is paid directly to the Internal Revenue Service and distributed to federally administered trust fund accounts that serve various purposes. As of 2024, 80 percent of the revenue from the FUTA tax is transferred to the Employment Security Administration Account (ESAA), which is a federal trust fund primarily used

[10] See Needels et al. (2024) for details in addition to those presented here.

[11] The Internal Revenue Service provides guidance on which employers are required to pay FUTA taxes using Form 940. Generally, employers that paid wages of at least $1,500 in a calendar quarter or that had one or more employees during at least 20 weeks during a year are subject to FUTA tax. The thresholds for the number of employees or wages paid are higher for agricultural employers and lower for household domestic service employers. Importantly, independent contractors are not classified as employees for the purposes of determining an employer's FUTA liability. In addition, tax-exempt organizations, state and local governments, and some types of other employers (such as agricultural employers that meet specified conditions) are not subject to FUTA tax.

to fund the administrative costs of the UI system; the other 20 percent funds extended unemployment benefits when unemployment is high (Isaacs & Whittaker, 2024). [12]

The federal government's primary method for providing funding to states for UI program administration is through annual UI administrative grants disbursed from the ESAA to the states (the federal funding process is described in Section 2.2). The federal government also intermittently provides administrative funding through one-time grants and other methods (Section 2.3); this type of funding could come from either the ESAA or another source, such as federal general revenues.

The law specifies that the funding of UI program administration is a federal responsibility (42 U.S.C. 502), but states are permitted to contribute their own resources to support the program. Most states do supplement the federally provided funds for UI program administration with their own resources to (National Association of State Workforce Agencies [NASWA], 2019, 2022).

2.2. Federal annual Unemployment Insurance administrative grants

The federal government's responsibility for providing UI administrative funding to states was specified in Title III, Section 302 of the Social Security Act of 1935, but the details of how it provides this funding to states have evolved over time (West & Hildebrand, 1997). The process hinges on the distinctive features of the UI system and the federal-state partnership that underpins it. It involves determining both the amount of funding to be provided to states nationally and the amount provided to each state. Although it involves many steps and details, at a high level the process has three steps:

1. ***Every year DOL and the Office of Management and Budget develop the President's Budget request to Congress for UI administrative funding.*** This request is generally based on a combination of historical information and a forecast of the volumes (or "workloads") of different UI activities in the coming fiscal year—which, in turn, is based on the Administration's forecast of economic conditions. The relevant costs include those incurred for processing UI workloads and those for maintaining the states' UI systems regardless of workloads. The activities include tasks such as accepting claims for UI benefits from claimants and assessing and determining eligibility for benefits.

[12] FUTA funds available for UI program administration are distinct from funds collected by states as a result of the State Unemployment Tax Act (SUTA). SUTA funds are deposited in state-specific trust funds and are used to provide benefits to eligible unemployed workers in that state. Like FUTA funds, SUTA funds are primarily paid by employers.

2. ***Congress appropriates funding to be provided nationally for UI administration.*** Each year's appropriated amount is determined through the congressional budget process[13] and is typically less than the amount of FUTA revenue raised for UI administrative purposes. This funding for UI program administration is discretionary and is not tied either to the balance in the ESAA or to the amount of FUTA funds raised in any year. In addition to the appropriated amount, Congress also typically specifies a funding amount to be provided should national UI workload activity exceed a threshold[14] established in the appropriation and which generally reflects the workload level upon which the main appropriation is based. This additional funding ("contingent funding") becomes available to states after they have begun to experience increased workloads relative to forecasted levels.
3. ***Based on the President's Budget and subject to congressional appropriation, DOL determines the amount of administrative funding to provide as base funding.*** *DOL also holds in reserve a portion of the total funding, typically less than 10 percent, which is issued as above-base funding. The amount of base funding is set based on a portion of the total forecasted workload for the whole year.*

When determining how much administrative funding to provide to each state for any given year, DOL takes into account differences across states in their UI administrative costs. Each year, states provide DOL information about their costs for the prior fiscal year using the RJM information collection tool. The RJM gathers information about UI program staff's salaries and fringe benefits, actual workloads for program activities (such as UI initial claims), and the hours spent on various UI program activities. The RJM also records states' non-personal expenditures, including, for example, expenditures on capital costs of the real estate where UI program activities are conducted, IT systems supporting access by workers and employers to the UI system, and IT systems supporting state UI program staff in processing UI claims and taxes. Differences in states' costs arise from: states' UI program laws; operational procedures; and other characteristics, such as their average wage rates and population sizes. Differences in states' costs can also arise from the historical record of appropriations to states—an issue that is discussed in Section 4 of this report.

Above-base funding is issued on a quarterly basis to states whose workloads exceed the levels for which base funding was provided, ensuring that the remaining funding is issued most efficiently based on states' actual, as opposed to forecasted, workload activity. By the end of most FYs DOL

[13] The congressional budget process begins with a budget resolution and involves multiple rounds of negotiation and collaboration. For a comprehensive overview of the process, see Congressional Research Service's 2023 report *Introduction to the Budget Process* (Saturno, 2023), accessed online in March 2026 at https://www.congress.gov/crs-product/R46240.

[14] This threshold is referred to in statute as the Average Weekly Insured Unemployment (AWIU) and reflects the average weekly number of weeks claimed during the fiscal year. For example, the FY 2026 appropriation provided that an additional $28.6 million would be available for every 100,000 increase in the AWIU level, should the workload exceed 3.075 million (U.S. Congress, 2026).

awards all appropriated amounts to states either through base or above-base funding distribution, with limited exceptions for funds used to support states' access to nationwide systems such as the National Directory of New Hires and the State Information Data Exchange.

DOL strives to encourage—at least to some extent—efficiency in program administration by building incentives into the allocation approach. That is, DOL prioritizes funding states with lower ratios of staff time to workload activities. (There are exceptions for states with relatively small workloads, given they have more difficulty achieving low ratios.) This allocation approach reflects elements of a principal-agent dynamic, where the federal government (principal) sets funding rules, and states (agents) respond to incentives, though states also face constraints beyond efficiency. DOL relies on the RJM data when determining the size of the administrative grant to provide to each state near the start of a new fiscal year. States' reported total UI administrative costs can be greater than the congressionally appropriated amount.

Occasionally, when DOL expects some of the congressionally appropriated funds to remain after making base and above-base allocations, it offers states the opportunity to submit a supplemental budget request (SBR) for a portion of the remaining funds. SBR opportunities and funding have historically arisen when the rate of economic recovery after a recession (such as the Great Recession from around FY 2009 through FY 2013) is faster—and, hence, UI program activities decline faster—than what had been forecast as part of the congressional appropriations process, resulting in additional funds becoming available when states need them the least.

The first two steps—in which Congress receives the President's budget request and through the congressional budget process determines the total amount of UI administrative funding to be provided nationwide—can be viewed as determining the "size of the pie." The third step—how DOL allocates appropriated funds across states—can be viewed as "how the pie is sliced."

2.3. Additional Unemployment Insurance administrative funding sources

Periodically, additional, one-time federal funding for UI administration has been provided through one of two routes. The first is congressional legislation in response to economic downturns. The second is through automatic distributions (called "Reed Act" distributions) that arise when the federal government has accumulated an excess of FUTA funds above a statutorily prespecified amount across the ESAA and two other federal trust fund accounts. These types of one-time funding disbursements are less predictable in availability than are annual appropriations, and one-time funding is not necessarily provided to all states in each and every year.

In addition, compared to annual grant funding, one-time funding sometimes has had a different range of options for use. For example, in response to the Great Recession, the American Recovery and Reinvestment Act of 2009 (ARRA) provided additional funding to states for UI administration and reemployment services (Barnow et al., 2012). In March 2020, Congress approved the Emergency Unemployment Insurance Stabilization and Access Act of 2020, which provided $1 billion in grants to states to cover UI administrative costs to process claims due to surging

unemployment related to the COVID-19 public health emergency and its effects on the labor market (Office of Unemployment Insurance [OUI], 2020). More recently, the American Rescue Plan Act of 2021 (ARPA) enacted in response to the recession during FY 2020 provided grant opportunities for states to use for the detection and prevention of fraudulent UI claims, the integrity of the UI system, improvements in claimants' access to and experiences with the system, modernization of the IT system, and the provision of technical assistance to states to identify ways to improve their program operations (U.S. Department of Labor [DOL], 2024).

UI state agencies have also received annual grant funding to provide reemployment services to claimants through the Reemployment Services and Eligibility Assessment (RESEA) program since FY 2015, and the Reemployment and Eligibility Assessment (REA) program between FY 2005 and FY 2015. The funding for these programs increased from $18 million in FY 2005 (DOL, 2017) to $375 million in FY 2023 (OUI, 2023a). These funds are not intended to cover UI administration costs, nor to cover the cost of handling UI claims issues that are detected as a result of the program activities, but UI agencies may be indirectly bolstered by improvements made to systems or processes shared across programs. We do not account for RESEA funding or costs in this report.

Furthermore, states can contribute revenues from within-state sources for UI program administration (NASWA, 2022). Sources could be, for example, funds that states have obtained through penalty and/or interest charges on employers whose UI tax payments are overdue, state general revenues, or a state-specific tax levied on employers and dedicated for UI administrative purposes. Supplemental funding from state sources does not factor into the amount of federal funds allocated to a state through the annual appropriations process and one-time grants.

3. Summary of Existing Literature and Operational Insights about Unemployment Insurance Administrative Funding and Costs

Key Findings from Section 3

- State administrators and literature authors say recent federal funding for Unemployment Insurance (UI) program administration is too low for the programs to operate properly and efficiently.
- With a few exceptions, state administrators, Office of Unemployment Insurance, and literature authors have relatively favorable views about the way annual federal funding is divided among states.
- State administrators view one-time federal grants as helpful for improving their UI systems, while also posing some challenges.
- There is a perception among state UI administrators interviewed for this study that states are using more money from their own sources than in the past to administer their UI programs.
- There is no clear consensus on how to fund rising technology costs in UI program administration.

An understanding of the core issues that have surrounded the UI administrative funding process can serve as a foundation for gaining insights about how to inform the process going forward. Two of the study's components aimed to develop insights about the strengths and challenges of the process and about potential implications administrative financing has for program operations. Insights gained from our review of relevant literature and interviews with state UI administrators and OUI[15] allowed us to answer the first two study questions: (1) "What challenges have been cited about the current approach to funding UI administrative costs, especially during times of unexpected increases in UI claims; and what alternative funding mechanisms or structures have been proposed?" (2) "How has federal UI administrative funding compared to UI administrative costs, as reported by state UI administrators; and what are the implications for program operations and financing decisions?"

In this section, we report the perceptions of literature authors, state UI administrators, and OUI officials about whether annual UI administrative grant funding is sufficient for enabling states to properly and efficiently conduct UI program operations. However, we caution against drawing causal inferences from interview findings given that the interviewed states were not selected to be nationally representative. We also report their views about the annual administrative funding allocation process across states and about one-time grant funding. We present findings about how states increasingly rely on their own sources of funding for UI administration. And we note the lack of consensus among experts about how best to address growing IT-related cost pressures.

[15] Appendix A contains details about these data sources and our analysis methodology.

3.1. Many state UI administrators and literature authors believe that the annual federal funding for UI program administration is not enough for the programs to operate properly and efficiently

Our reviews of relevant literature and interviews with state UI administrators and OUI were designed to provide insights about both the benefits and drawbacks of the UI administrative funding process. The literature authors, however, focused heavily on drawbacks of the process rather than its benefits (Box 3.1), as did the interviewees.

Many from both groups perceive that the total amount of congressionally appropriated funds is too low—that is, the "pie" is too small. Furthermore, authors and interviewees described ways they perceived the amounts of federal annual UI administrative funding being low enough to hamper proper and efficient state UI operations.

Box 3.1. Ideas from Literature Review Authors

The literature review developed a foundation for the study's interviews and quantitative data analysis. A report describing its findings in detail (Needels et al., 2024) discusses the ideas the literature authors had about how to improve Unemployment Insurance (UI) administrative financing, including:

- Increasing congressional appropriations.
- Making changes to the way in which UI trust funds are treated within the federal budget.
- Adjusting the thresholds for when mandatory distributions are made from the trust funds.
- Increasing the Federal Unemployment Tax Act taxable wage base and/or tax rate.

Other ideas suggested in the literature included:

- Fostering greater use of state sources of funds.
- Generating more funding through state taxation of employers or employees.
- Incorporating incentives for cost-efficient program administration.
- Making more extensive changes to the federal-state partnership.

Most of the recommendations could be implemented solely through congressional action to enact legislative change. Others could be achieved through actions taken by the U.S. Department of Labor and/or the state UI agencies.

Typically, the ideas were embedded within broader discussions about how to reform other facets of the UI system. Should policymakers consider these ideas, it will be important to understand their implications on the entire UI system.

► ***Both state UI administrators and OUI noted that each state's UI administrative spending is constrained by funding availability.*** State administrators must make decisions about how to operate their programs given the funding available to them.[16] Both state administrators and OUI noted that although the dollar amounts of UI administrative funding and reported UI program expenditures were approximately the same, that similarity is not evidence that state UI agencies receive federal funding sufficient to meet their needs.

State administrators and OUI also noted that shortfalls in administrative funding over time could exacerbate challenges operating UI programs. Specifically, because states must operate within the constraints of available funding and administrative funding is allocated across states (at least partly) in proportion to past

[16] Section 2 describes the process for funding UI administration.

costs, a state's receipt of less funding for program administration for one year can lead to less spending, which can lead to less funding the next year, and so on.

The RJM does not provide a mechanism for states to signal foregone spending—for example, unfilled staff positions or investments not undertaken. States can submit information about how they expect their administrative costs to change going forward, but DOL does not use this information when it allocates funds across states or when it develops a budget request to Congress with the Office of Management and Budget. The budget request is based on historical information about states' actual costs coupled with economic forecasts related to the level of UI program activities, which may not fully reflect anticipated changes in costs.

► ***Annual administrative funding appropriations are not tied to a measure of true costs that would be required to operate the UI system properly and efficiently.*** Some of the literature authors and state administrators noted that annual congressional appropriations depend upon both a complex process and historical information about states' program costs that are not tied directly to a full accounting of state UI agencies' needs.[17] Furthermore, when interviewed for this study, both state administrators and OUI pointed out that the current funding process does not adapt nimbly to evolutions over time in the UI system or in a state's labor rates that have administrative cost implications.

In three of the state interviews, as well as the interview with OUI, respondents cited as an example the new ID verification procedures that have been incorporated into the UI system in the past few years. These procedures are intended to strengthen the UI system's integrity—so state UI agencies pay benefits to eligible claimants only. Respondents that discussed the new procedures were unsure whether the added costs to UI claims processing that arise from the new procedures would result in increases in congressionally appropriated funding.[18]

In addition, administrators in all eight states interviewed cited recent significant increases in staff costs, with reasons being increases in (1) staff salaries and/or fringe benefits or (2) staff turnover due to stress. In two states, the administrators mentioned that the staff salary increases were authorized by their state legislature. Administrators in three states noted that

[17] As discussed in Section 2, congressional appropriations also are not directly related to either the balance in ESAA or the amount of FUTA funds raised for UI program administration in any given year. Some authors of the literature we reviewed discussed the potential effects of fundamental changes to the federal-state partnership for the UI program, ranging from eliminating or greatly reducing the role of either the federal government or states (e.g., see Galle, 2019; Interstate Conference of Employment Security Agencies, 1980; Pavosevich, 2023; Wandner, 2023). Fundamental changes to the federal-state partnership could significantly influence the need for UI administrative funding of either states or the UI system nationwide, although the magnitude of the effects on administrative costs would depend on the specific changes made.

[18] While the ID verification requirement is permanent, in June 2023, the federal government offered the opportunity to fund the costs of ID verification through ARPA funding over the following 2 years (Office of Unemployment Insurance, 2023c).

staff salary rates needed to be raised to attract/retain staff or that it is challenging to compete with the private sector, especially for IT and/or appeals staff.

► ***Administrators from seven of the eight states we interviewed reported using funds approved by their state legislatures to support the administration of their UI programs.*** Administrators in four states reported desiring to access more state funds (or in one case, any state funds) but being unable or reluctant to do so. Reasons included legislative restrictions; a perspective within the state that funding for UI administration was a federal responsibility and, so then, inappropriate for the UI agency to receive funding from the state; and concern about how employers might react to a proposed increase in the level or rate of taxes they pay to fund UI program administration.[19]

► ***Literature authors and state administrators attribute operational challenges and a potential difficulty achieving program goals to low levels of UI administrative funding.*** The implications of low funding on claimants and potential claimants have been discussed extensively in the literature (e.g., Government Accountability Office [GAO], 2016; Dixon, 2020; Lachowska et al., 2022). The perceived effects include poor customer service, such as long wait times to speak to UI program staff or jammed phone lines, and low rates of first payment timeliness. When literature authors call for increases in the levels of congressionally appropriated funding for UI administration (e.g., Van Erden et al., 2017; Vroman, 2009; GAO, 2022), they seem to assume that doing so could solve many of the UI system's operational problems. Furthermore, both Vroman (2018) and Raderman (2024) tie inadequate administrative funding to a low UI recipiency rate, which, while not a measure of UI performance, is a measure of the number of people paid UI benefits during a week divided by the number of unemployed people during a week. Neither author quantified the relationship between funding levels and UI recipiency rates but, to the extent that inadequate administrative funding leads to operational problems that interfere with eligible claimants' access to the UI program, when the program is weak it might be less able to stimulate the economy and to provide temporary income support to unemployed workers as they strive to return to work.[20]

► ***State administrators reported difficulty building funding reserves to address unanticipated and long-term program needs.*** Due to federal carryover rules, states generally have three months past the end of a federal fiscal year to obligate their administrative grant funds for that

[19] As explained in Section 2, almost all employers in the United States pay FUTA taxes that are used to fund UI program administration, which is a federal responsibility. An analysis of states' contributions of their own resources to fund UI program administration is in Section 5.

[20] The recipiency rate is constructed with a survey-based denominator that includes an estimated total number of unemployed people based on the Current Population Survey conducted by the U.S. Bureau of Labor Statistics. Thus, it cannot be inferred that a 100 percent recipiency rate should be a program performance goal. Some unemployed people are not eligible for UI program benefits.

fiscal year, although they may take up to two additional years after the end of the fiscal year to obligate funds used for automation (OUI, 2023b). Within that context, some state administrators and OUI reported that states have difficulty building funding reserves that would be helpful for responding quickly to an unanticipated spike in workloads and investing in one-time, long-term system improvements.

They view the lack of funding reserves as especially problematic after a several-year period with low UI program activities and the resulting low levels of federal administrative funding. OUI interview respondents cited 2019 as an example: after several years of declines in annual administrative funding (after adjusting for inflation), states were unable to invest in program improvements. Such improvements could have mitigated the strains on the UI system resulting from the recession-induced spike in claims associated with the highest unemployment rate since the first half of the 20th century during April 2020 (Bureau of Labor Statistics [BLS], 2024).

In addition, state administrators reported that administrative funding constraints made them unable to capitalize on the potential of new technological opportunities that could either cost-efficiently boost customer service and program performance or strengthen their infrastructure against emerging threats to program integrity.

► ***State administrators reported difficulty planning beyond a relatively short time horizon given uncertainty about final, official sizes of the annual administrative grants provided from the federal government to states and occasional delays in the provision of the funds.*** For example, state administrators reported that, without knowing the final, official size of their state's annual administrative grant, they were reluctant to hire new staff to assist with an increase in workloads or to incur IT-related expenses (e.g., new computers) that could boost staff efficiency.[21] In addition, both state administrators and OUI indicated that, occasionally, base and contingent administrative funds came to states after delays of up to several months. These delays exacerbated state administrators' reported challenges when trying to make decisions about UI program operations.

► ***State administrators reported heightened cost pressures over time.*** These pressures arise from an increased complexity in UI service provision and changes in the environment in which the UI program operates. These might include increases in the costs of technology, high inflation rates in recent years, and greater public expectations about the quality of customer service. They also can arise due to changes in the way that costs are shared between UI and other workforce programs within a state workforce agency. For example, administrators in two states we interviewed reported expecting significant increases in their technology-related

[21] During interviews with state administrators, we did not delve into other constraints on their changing staffing levels and/or bringing on contractors, such as to respond to a change in workloads or to upgrade their systems.

costs due to their states' reorganizations of their IT departments. State administrators reported implementing cost-saving actions, including leaving staff positions unfilled, incorporating technology expected to boost efficiency, hiring less expensive staff, and cross-training staff to perform several tasks.

3.2. With a few exceptions, state administrators, OUI, and literature authors have relatively favorable views about the way annual federal funding is divided among states

Although state administrators and literature authors perceived low levels of annual UI administrative funding as hampering proper and efficient program operations, they were generally more favorable about how the appropriated funds were allocated across states. That is, they generally were more concerned about "the size of the pie" than "how it was sliced." They, along with OUI, highlighted two desirable features of the process for allocating funds across states:

► ***The process takes into account flexibility given to states by the Social Security Act.*** As noted by both state administrators and OUI, as well as several literature authors (O'Leary & Wandner, 1997; Davidson & Martin, 1998; Raderman, 2024), states differ widely. The differences include, but are not limited to, population size; labor market attributes, such as industrial composition and cost of living; political and cultural landscapes; and how costs are shared across UI and other workforce-related agencies within a state due to the organization of the state entity responsible for UI program administration. Furthermore, a core component of the Social Security Act (Sec. 302) is that the UI system is based on a federal-state partnership.

As such, states have wide latitude in how they design and implement their UI programs within boundaries specified by the federal government. They have flexibility to design and operate their UI programs in ways that require resources surpassing the most administratively cost-efficient or least expensive methods, as long as doing so is consistent with federal standards.

We expect that differences across states in costs of administering their UI programs could arise from decisions that states make about almost any feature of the UI program, such as features related to coverage of employers and workers, UI program financing, and monetary and nonmonetary criteria for entitlement of unemployed workers to program benefits, to name a few.

For example, two states might weigh differently the tradeoffs between greater program access and per-claim administrative costs when determining their lists of acceptable reasons that unemployed workers could leave their jobs voluntarily and qualify for UI benefits. All else equal, a state with a more expansive list of acceptable reasons for voluntary quits would likely have a both higher UI recipiency rate and a higher average adjudication rate per claim than a state that has a less expansive list. This is because, in the former state, more unemployed workers would qualify for benefits but assessing UI eligibility for the unemployed workers who quit their jobs

can be complex and time-intensive for UI program staff. Therefore, because of different policy priorities, the administrative costs of the two states would differ. Interviews with state administrators provided examples of ways in which states may vary, such as using different strategies for staffing their UI programs or relying on technology to operate different parts of their programs.[22] OUI noted that the current UI administrative funding process—by and large—enables states to operate their UI programs in their own distinctive ways given their unique contexts and policy priorities.

► ***The process takes into account differences in states' cost structures and unexpected spikes in workloads.*** Differences in states' distinctive contexts lead to differences in UI administrative cost structures, such as their salary and wage rates for UI personnel, the frequency with which UI positions need to be filled due to staff turnover, and their mixes of personnel and non-personnel expenditures. Ultimately, even if states were to have identical UI program workloads, they would incur different costs to process those workloads.[23]

Furthermore, by design, DOL's current approach of temporarily holding in reserve a portion of the funds that are congressionally appropriated each year enables it to direct additional funds to states that experience an unanticipated spike in UI claims activities. However, due to limitations in the availability of funds, above-base funding sometimes is awarded at less than the full amount that a state would receive in base funds for the given increase in UI activities.

3.3. State administrators view one-time federal grants as helpful for improving their UI systems, while also posing some challenges

Both state administrators and OUI reported that one-time federal administrative grants, such as those provided through ARRA and ARPA, can help states respond to crises and make major system improvements that would be difficult to do with the annual administrative funding.[24] Across the eight states we interviewed, administrators from all but one reported having recently received one-time grants. Since 2020, one-time grant funds made available to states supported activities such as IT modernization, program integrity and fraud prevention, and program access (DOL, 2024).

[22] During the interviews with state administrators, we did not purposefully elicit examples of the flexibility given to states to operate their UI programs in ways that could influence their administrative costs.

[23] Administrators in two states we interviewed perceived that the RJM, and the funding process more generally, penalizes states for being efficient because the allocation of appropriated funds for UI administration across states depends in part on the speed with which UI staff perform activities. All else equal, states that document more minutes per activity will report higher costs, and could potentially receive a larger share of the appropriated funds than a similarly sized state that documents fewer minutes to complete workload activities.

[24] Funding made available through SBRs also is one-time. The most recent SBR opportunity was during FY 2017 after a one-time funding of $50 million appropriated by Congress specifically to facilitate modernization of UI tax and benefit systems by state consortia (OUI, 2017). In this report, however, SBR funds are included with annual grant funding in our quantitative analyses. See Appendix A for additional details about these data.

Administrators in two states reported that the grants help to narrow the gap between annual grant funding and the total costs that the states incur (or that they truly need to operate their programs well). However, both state administrators and OUI perceived that one-time infusions of federal funds are insufficient to fill this gap in the long run.[25]

Although state administrators appreciated the one-time grant funds, they reported challenges:

► ***The one-time grants include restrictions and additional responsibilities not included in annual grant funding.*** During the interviews, we heard that the terms of the one-time grants tend to include both new expectations for the states' UI programs and new reporting requirements. Administrators in four states perceived that one-time grants have historically been more restrictive in their purpose than is annual grant funding, and they have included additional responsibilities that would not otherwise be undertaken. According to those state administrators, these features thus mitigate a one-time grant's helpfulness in addressing funding shortfalls. Although administrators from at least one state expressed a desire for more flexibility in the usage of one-time grant funding, such as putting the funds towards regular UI operations, they speculated that it is harder to "sell" funding needs to Congress if the funds are not specified for congressional priorities.

► ***Administrators in at least four states believe that system improvements made with one-time funding can generate new recurring administrative costs that are not incorporated into the annual appropriations process.*** Because each new year's annual appropriation amount is based in part on recent prior appropriation amounts, administrators in four states consider the annual funding process not to be very responsive to changes in the costs of conducting UI activities. To the extent that one-time funds are intended to be used on enhancements to UI programs, this can leave states in a position of needing to do more in the future to maintain the enhancements while not receiving more funds to do so.

► ***One-time funding is typically provided at a time when state agencies do not have capacity to undertake new efforts.*** Both state administrators and OUI noted that one-time funds are typically provided during economic downturns when the UI system is already strained handling high UI program workloads. As a result, states sometimes do not have the capacity to undertake program improvements even when they view the improvements as important. In essence, states have the least capacity to make large-scale improvements when funding is available to do so—and states have the most capacity to make program improvements when there is not sufficient funding to do so. Administrators from two states reported declining to

[25] In Section 4, we present findings about the extent to which inclusion of one-time federal grants in a measure of federal grant funding for UI administration changes conclusions about how the amount of federal funding for UI administration compares to states' reported administrative costs.

pursue some one-time funding opportunities because the states could not take advantage of them.[26]

► ***The provision of one-time funding for system improvements simultaneously to many states drives up implementation costs.*** One OUI interview respondent perceived that state UI agencies do not need to undertake large-scale efforts, such as to modernize their systems, every year. However, when the federal government provides one-time grants to states to undertake such efforts, it typically provides the funding to all states, or at least a significant number of them, at the same time. An administrator from one state reported that this timing makes states that receive these grants compete for a small number of vendors that can perform the upgrades, letting vendors set higher prices than would otherwise be the case. One set of authors (West et al., 2016) suggested that more federal involvement might enable the UI system to take advantage of federal bargaining power to negotiate or contain costs for upgrades, such as to phone and IT systems.

Overall, state administrators perceive that under current procedures, one-time grants can be helpful for making structural improvements to their UI programs. But one-time grants also can leave states vulnerable because the initiatives funded by them are hard to sustain. Furthermore, given the timing of the grants, states cannot always take full advantage of them.

3.4. There is a perception among state UI administrators interviewed for this study that states are using more money from their own sources than in the past to administer their UI programs

Although federal law specifies that the funding of UI program administration is a federal responsibility (42 U.S.C. 502), states are permitted to contribute their own resources to support their program. Common sources of state supplemental funds include state general funds, funds that states have obtained through penalty and/or interest charges on employers whose UI tax payments are overdue, and funds collected through a state special administrative tax imposed on employers. Each of our study data sources—the literature review, interviews with state administrators and OUI, and quantitative data analysis—provides insight about states' use of supplemental funding:

► ***States have been increasing use of their own funds in an effort to mitigate the strain imposed by perceived low levels of federal funding.*** Across our interviews with state UI administrators, seven states reported using state supplemental funds, although we caution against drawing inferences from this finding given that the interviewed states were not

[26] The interview protocol for the state administrators did not include questions to elicit a comprehensive list of reasons (or a prioritization of reasons) why state administrators chose to pursue or decline to pursue one-time funding. Therefore, it is possible that considerations other than the timing of the availability of federal funding were important in these administrators' decisions about whether or not to pursue federal one-time funding.

selected to be nationally representative. State administrators and OUI attributed the increased use of state supplemental funds to the perceived unmet needs imposed on UI agencies by relatively low levels of federal funding. That is, states have been responding to a growing gap between the amount of federal funding provided for UI administration and their perceived need for it.

► ***State administrators and OUI do not believe that reliance on state funds to supplement federal funds will fully address the gap between funding and need.*** As mentioned above, administrators in four of the eight states interviewed reported difficulty in accessing more (or any) state funds. That is, they were constrained in their ability to generate supplemental funding. Reflecting a nationwide perspective, OUI also noted that some state UI agencies do not have access to any state funds or sufficient state funds to fully close the gap between federal funding availability and their perceived funding needs. OUI interview respondents did not quantify how many states they perceived to be in that situation, however. Additionally, OUI noted that federal funding is designed to cover states' UI administrative costs, accounting for states' flexibility in designing their UI policies and rules; it is not clear that state funds should be the mechanism for closing gaps between funding and need.

3.5. State administrators, OUI, and literature authors do not agree about how to fund rising technology costs in UI program administration

State UI agencies rely on IT for many tasks including, but not limited to, enabling claimants to file for benefits and the state to verify the identity of the claimants, detect fraud, and perform other program functions that have historically been handled by staff. At least two literature authors (Vroman, 2009; Dixon, 2020) focused on IT as a distinctive component of UI administrative costs and proposed ideas for how to fund the UI system's IT-related costs. As a result, we asked state administrators questions about both their IT costs and the relationship between administrative funding and their IT-related costs. From our literature review and interviews with state administrators and OUI, we draw three suggestive conclusions related to IT as part of UI program administration:

► ***IT-related costs will likely make up an increasing share of UI program administrative costs over time.*** Both state administrators and OUI viewed IT upgrades as necessary to support adequate UI program performance. Administrators from three states reported using automation to enhance efficiency and relieve cost pressures without compromising the quality of customer service or program access. One state administrator, however, noted that the state's recent upgrades are expected to make UI operations *more* complex and increase costs in the long run.

Administrators in six of our eight state interviews reported challenges modernizing and maintaining their IT systems due to insufficient administrative funds. Administrators in all

interviews reported expecting IT costs to become an increasing share of administrative costs.[27] They cited three drivers:

- Efforts to modernize their UI systems and make them more resilient against fraud threats.
- Reorganizations of IT staff and functions across the state or within the state entity responsible for UI program administration.
- Expectations of vendors' rate increases that will exceed the inflation rate.

►***State administrators and OUI had views about how best to ensure that large-scale, intermittent IT-related costs are adequately reflected in the administrative funding process.*** One OUI interview respondent pointed out that providing stable IT funding to all states in every year may not necessarily be the most efficient or effective way to allocate funds. They reason that costs fluctuate between larger investments in modernization of the IT infrastructure and relatively smaller ones needed for maintenance over time. States typically do not need to upgrade their entire claims-related IT systems every year.

Possibly to give states greater flexibility in the amount of funds for IT improvements, as well as when and how the states access those funds, two literature authors (Dixon, 2020; Wandner, 2023) recommended the creation of a federal administrative capital account or dedicated pool of funds to pay for improvements in or replacements to state hardware and software. When time during our state administrator interviews permitted (during four of the eight interviews), we asked administrators for their views about this recommendation: Administrators in three states were in favor of this dedicated funding. Administrators from another state expressed concern that having dedicated technology funding would lead to a reduction in other federal administrative funding and less flexibility in how states could use the funds.

►***Some state administrators noted the need to better account for fixed technology costs, especially in small states.*** Administrators in three states reported thinking that technology costs do not vary as significantly across workload size as personnel expenses do. For example, one state administrator noted that cloud technology keeps costs of storage relatively low and speed of UI program activities for large workloads relatively fast compared to what historically had been feasible. Furthermore, both OUI and two state administrators noted the administrative challenge that smaller states have, given that technology costs can be similar

[27] We present findings from our quantitative analysis of IT costs in Sections 6.3 and 6.4. That analysis shows that dollars spent on IT generally declined from FY 2002 through FY 2019, although not consistently, and then increased rapidly between FY 2019 and FY 2023. In addition, although the share of all UI administrative costs allocated to IT also declined between FYs 2002 and 2019, it rose markedly following the 2020 recession and reached its highest level in the analysis period in FY 2023—the most recent year of data included in the analysis.

across states of different sizes. An administrator from a small state (see Box 4.2) speculated that larger states are better able than small states to afford staff because larger states have more administrative dollars left over after incurring the roughly fixed IT costs. Thus, larger states will have capacity to employ disproportionately more staff to work on activities that cannot be easily automated.[28]

[28] See Box 4.2 for the study's definitions of "small," "medium," and "large" states.

4. Historical Levels of Unemployment Insurance Administrative Funding and Costs

Key Findings from Section 4

- Over a 22-year period, federal funding was between 0.5 and 3.6 percent less than states' Unemployment Insurance (UI) administrative costs, depending on whether the funding measure included or excluded federal one-time grants in addition to federal annual grants to states.
- UI administrative funding tended to exceed costs during recessions, and costs tended to exceed funding in nonrecessionary years.
- Differences between funding and costs were similar across small, medium, and large states.

A quantitative analysis of the historical levels of UI administrative funding and costs enables the study to provide answers and insights for two more of its research questions: (3) "How has federal administrative funding, as measured by annual federal administrative allocations, compared to UI administrative costs, as recorded in states' annual RJM data submissions?"; and (4) "How have differences between federal UI administrative funding and UI administrative costs varied over time and across states?" From this analysis, we gain insights about the relative sizes of national federal annual UI administrative grants and states' UI administrative costs over a 22-year period, as well as variation in administrative funding and costs over time and across states.

Although most of the findings in this section are based on quantitative evidence, we have supplemented the discussion throughout with findings from our literature review and interviews with state administrators and OUI. Appendix A contains details about all of the data sources and methodologies used for the quantitative analysis. Appendix B contains supplemental data tables. Appendix C provides a glossary of terms used in the report.

4.1. Over a 22-year period, federal funding was between 0.5 and 3.6 percent less than states' UI administrative costs, depending on whether the funding measure included or excluded federal one-time grants in addition to federal annual grants to states

Most administrators from the eight states we interviewed perceived that federal annual grant funding is insufficient to cover states' costs for UI administration. To assess how those grants compare to states' UI administrative costs, we analyzed measures of both UI administrative funding and states' costs reported in RJM submissions. Our analysis uses two measures of federal UI administrative funding. One measure (**"annual grant funding")** includes annual congressional appropriations only. The other ("**combined grant funding**")") also includes federal one-time grant funding. (See Box 4.1 below for additional details about these measures.) Through much of this report, we focus on the combined funding measure, given its greater comprehensiveness, but we distinguish between the two funding measures when insights can be gained from doing so.

4. ADMINISTRATIVE FUNDING AND COSTS

We also examined a measure of states' **total UI administrative costs**. We compared funding versus these costs using two ratios of UI administrative funding to states' total UI administrative costs. One ratio uses annual grant funding in the numerator (**"annual grant funding ratio"**). The other uses combined grant funding in the numerator (**"combined grant funding ratio"**).

Box 4.1. Measures of Funding and Costs

Our analysis uses two measures of federal Unemployment Insurance (UI) administrative funding:

- ***Annual grant funding***: the federal UI administrative grant funding that the U.S. Department of Labor allocates annually to states based on congressional appropriations, including base funding, above-base funding, and funding provided through supplemental budget requests.
- ***Combined grant funding***: annual grant funding plus federal one-time grants for UI administrative purposes. One-time grants included administrative funding under the American Recovery and Reinvestment Act of 2009 (ARRA) ($499.9 million), support for implementing or expanding Short-Time Compensation (STC) ($46.2 million), emergency administrative funding under the Families First Coronavirus Response Act ($999.8 million), STC grants ($20.0 million) like those from the prior recession, and American Rescue Plan Act of 2021 (ARPA) grants aimed at improving states' UI service delivery ($782.9 million initially, though all active grants were terminated as of May 2025). We exclude the ARRA modernization incentive payments, totaling an estimated $4.4 billion, from 2008 combined funding totals, as states could use the payments either for administrative purposes or to fund benefits for new claimant populations.

During the 22-year period from Fiscal Year (FY) 2002 through FY 2023 that is included in our analysis, dollar amounts of the two funding measures are the same for 15 years, because states did not receive federal one-time grants in those years. The seven exceptions are FYs 2009, 2014, 2015, and 2020-2023.

Neither measure includes funding for providing employment services to UI claimants or UI administrative funding from state sources. State-sourced funding is examined in Section 5.

We also examined states on a third measure:

- **Total UI administrative costs:** all costs that are allowable for UI program administration purposes, regardless of the source of the funding used to cover the costs.

We note that this measure reflects expenditures which are constrained by funding levels. Cost data from the RJM do not capture states' foregone or unmet needs for UI administration. As a result, these data may understate the level of resources states would choose to spend on UI administration is funding was unconstrained.

All dollar amounts of funding and costs have been adjusted for inflation to reflect dollars in 2023. See Appendix A for additional details.

What is included in each measure?			
Funding Source	**Annual Grant Funding**	**Combined Grant Funding**	**Total UI Administrative Costs**
Base funding	✓	✓	✓
Above-base funding	✓	✓	✓
Supplemental budget requests	✓	✓	✓
One-time funding for UI administration		✓	✓
State funds: general funds, administrative taxes, penalty & interest funds, Reed Act distributions			✓
State funds: other			

✓=includes the source. For definitions of sources and other terms, see Appendix C. Glossary.

4. ADMINISTRATIVE FUNDING AND COSTS

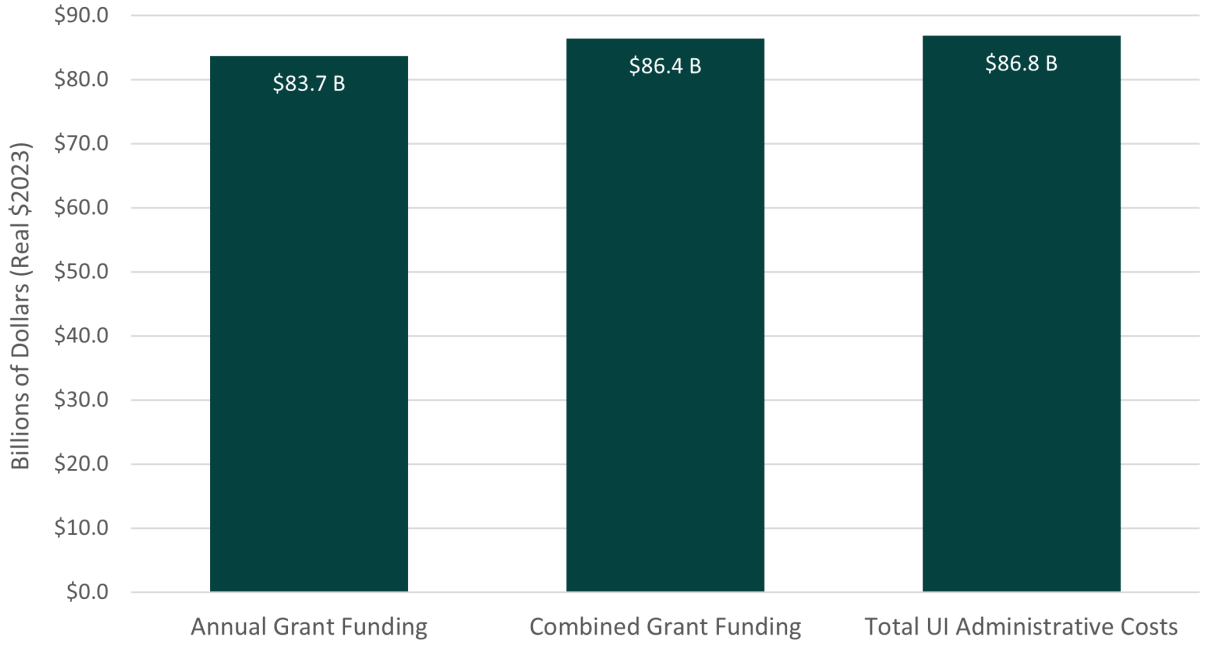
The time period included in our analysis was from FY 2002 through FY 2023. This time period began partway through a recession and covered two extended periods of economic growth, each followed by a major recession and economic recovery. Over this time period, we found that:

► ***Federal administrative funding was slightly less than states' costs for UI administration, with the gap ranging from 0.5 percent to 3.6 percent depending on the funding measure used (Exhibit 4.1).*** Over the 22-year period, across all 50 states, D.C., Puerto Rico, and the U.S. Virgin Islands annual grant funding summed to $83.7 billion and combined grant funding summed to $86.4 billion, compared to $86.8 billion in states' UI administrative costs. Thus, annual grant funding averaged 3.6 percent less than states' UI administrative costs; combined grant funding averaged 0.5 percent less than the costs.[29] However, these averages are based on highly variable annual patterns, where funding exceeded costs by 63 percent in some years and lagged by over 25 percent in others.

An important limitation in the interpretation of findings from our comparison of federal funding to states' costs is that states' spending is inherently restricted by available funds. The comparison does not enable an assessment of the adequacy of UI administrative funding relative to states' actual or perceived needs for UI administrative funding. Since states cannot report foregone spending, the RJM cost data may understate the true administrative needs of states.

[29] These percentages were calculated as follows. For annual grant funding, we divided the difference between the sum of the total UI administrative costs and sum of total annual grant funding ($86.8B - $83.7B = $3.1B) by the sum of the total UI administrative costs ($3.1B/$86.8B = 3.6%). Similarly, for combined grant funding, we divided the difference between the sum of the total UI administrative costs and sum of combined grant funding ($86.8B - $86.4B = $0.4B) by the sum of the total UI administrative costs ($0.4B/$86.8B = 0.5%). Thus, the percentages are weighted by states' total UI administrative costs.

Exhibit 4.1: UI Federal Annual Grant Funding and Combined Grant Funding versus Total UI Administrative Costs, Fiscal Years 2002 through 2023



Notes: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The "gap" percentages were calculated by dividing the difference between the total UI administrative costs and annual or combined grant funding by the total UI administrative costs. See Appendix Exhibit B.1 for additional details. B=billions. UI=Unemployment Insurance.

4.2. UI administrative funding tended to exceed costs during recessions, and costs tended to exceed funding in nonrecessionary years

Federal UI administrative grant funding was less than states' UI administrative costs over the full 22-year period, but this was not consistent over time.

► ***Funding tended to exceed costs during economic downturns (Exhibit 4.2).*** Annual and combined grant funding exceeded states' UI administrative costs during and after the 2008 recession (FYs 2009–2013) and around the 2020 recession (FY 2020). Of these six fiscal years, combined funding exceeded states' costs by at least 10 percent in two years (FY 2009 and FY 2020). The largest observed gap occurred in FY 2020, when, combined grant funding exceeded states' UI administrative costs by 63 percent. The combined grant funding measure includes both annual grant funding and one-time federal grants, both of which increased as a result of the federal responses to the 2020 economic downturn; between FYs 2019 and 2020, combined

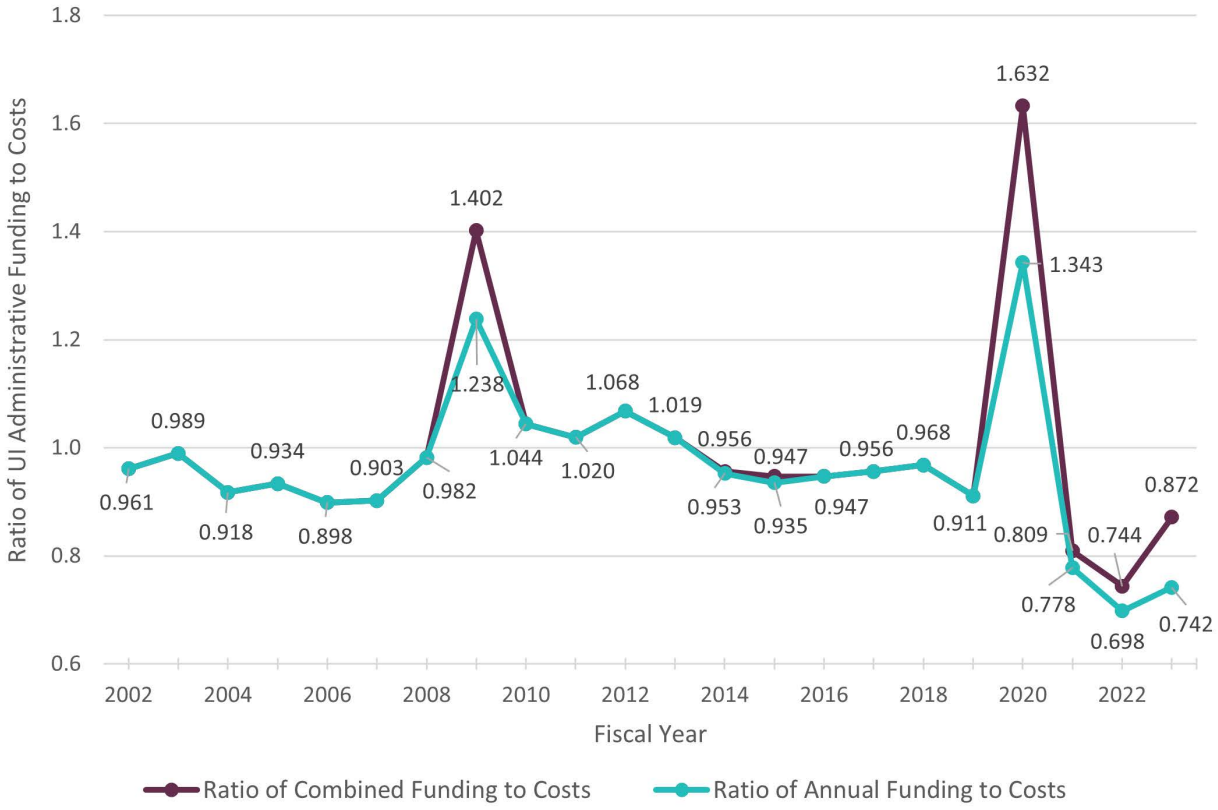
grant funding increased about 123 percent, whereas administrative costs increased about 24 percent.[30]

► ***In contrast, during nonrecessionary periods, federal UI administrative grant funding was less than states' UI administrative costs (Exhibit 4.2).*** This occurred during the seven-year period preceding the 2008 recession (FYs 2002–2008), the six years preceding the 2020 recession (FYs 2014–2019), and the two years following the 2020 recession (FYs 2022–2023). Of these 15 fiscal years, combined funding was less than states' UI administrative costs by at least 10 percent in four years (FY 2006 and FYs 2021–2023). Notably, combined funding was less than states' UI administrative costs by about 26 percent in FY 2022.

These two findings, taken together, are consistent with comments from administrators during five of the state interviews. Specifically, we heard administrators talk about a lag in funding, both across and within fiscal years. For example, one administrator said that their state sometimes receives funds that were needed during a recession after it is over. Administrators from two states noted that in some years they ended up with excess funds following a recession.

[30] As shown in Exhibit B.1 in Appendix B, both annual grant funding and one-time federal administrative grant funding increased considerably between FYs 2019 and 2020. Annual funding increased from $2.939 billion to $5.389 billion, while one-time federal grant funding increased from $0 to $1.160 billion. Thus, combined grant funding increased about 123 percent, from $2.939 billion to $6.549 billion. In contrast, states' UI administrative costs increased about 24 percent, from 3.226 billion to $4.012 billion.

Exhibit 4.2: Ratios of UI Administrative Grant Funding to UI Administrative Costs, Fiscal Years 2002 through 2023



FY=Fiscal Year. UI=Unemployment Insurance.

Note: The ratios in this exhibit are based on UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.1 for additional details. In most fiscal years, the annual and combined funding ratios are identical because states did not receive one-time grant funding during those fiscal years, so only one ratio is shown. The exceptions are FYs 2009, 2014, 2015, and 2020-2023, for which two ratios are shown. One-time grants are associated with the year of award, which does not necessarily match the year funds were spent. See Box 4.1 for additional details regarding one-time grants.

4.3. Differences between funding and costs were similar across small, medium, and large states

In addition to variation over time in the ratio of UI administrative funding to states' costs, there were some differences across states based on whether they were small, medium, or large states. We grouped states into these three size categories based on their UI-covered employment (Box 4.2). Comparing these groups of states, we found that:

Box 4.2. State Size Groups

We divided states into size groups using the U.S. Department of Labor's current size categories for Unemployment Insurance (UI) State Performance Excellence Awards. We measured size based on UI-covered employment:

- Small states = covered employment less than 1 million employees.
- Medium states = covered employment between 1 and 2 million employees.
- Large states = covered employment greater than 2 million employees.

When comparing UI financing measures (e.g. funding and cost) across the small, medium, and large size categories, we used two-sample *t*-tests with one record per state to determine whether differences were statistically significant at the 10 percent level. The analysis treated each pair of size categories and each UI financing measure as independent of the others; we did not adjust for multiple comparisons.

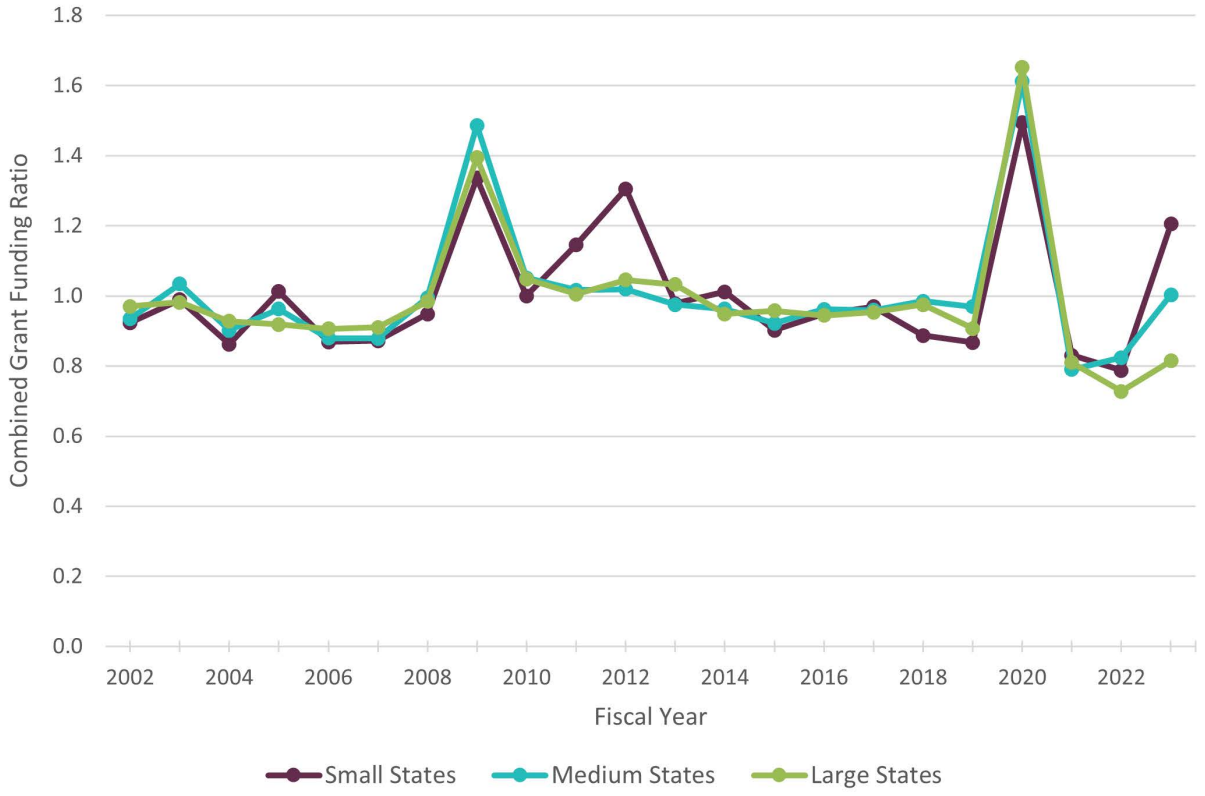
► ***Combined grant funding was close to states' UI administrative costs in small, medium, and large states, with no significant differences across groups of states based on their size (Appendix Exhibits B.2, B.3, and B.4).*** Over the full 22-year period, combined grant funding slightly exceeded states' costs for small states. Their ratio of combined grant funding to states' UI administrative costs was 1.007. For medium states, the ratio was 1.006. For large states, the ratio was 0.992, indicating combined grant funding was slightly lower than those states' UI administrative costs. However, we could not detect a statistically significant difference between any of the three ratios and a value of 1.0 (which would equal funding and costs). We also could not detect statistically significant differences in the ratio of any group of states from the ratio of any other group of states.[31]

► ***The ratio of combined funding to states' costs followed a similar pattern over time in large, medium, and small states (Exhibit 4.3).*** In most fiscal years (17 of 22), all three groups had either more funding than costs (ratio was above 1.0) or less funding than costs (ratio below 1.0). Over the period, the ratio increased and decreased similarly in all three groups of states. For example, the ratio generally declined from FY 2002 to FY 2007 and declined or remained flat from FY 2013 to FY 2014—two periods of sustained economic expansion. The ratio also increased markedly for all three groups of states during the 2008 and 2020 recessions, then

[31] We could not reject the three separate null hypotheses that the combined funding ratio equals 1 for small (p=.85), medium (p=.81), or large (p=.78) states. We also could not reject the null hypotheses that the combined funding ratio in small states is equal to the combined funding ratio in medium states (p=.75), that the ratio in small states equals large states (p=.98), or that the ratio in medium states equals the ratio in large states (p=.71).

declined after each recession, and rose again in FY 2023. Compared to medium and large states, small states had especially high combined funding ratios during FY 2012 and FY 2023, but this does not appear to reflect a more systematic difference by size.[32]

Exhibit 4.3: Ratio of Combined Grant Funding to Total UI Administrative Costs by State Size, Fiscal Years 2002 through 2023



UI=Unemployment Insurance.

Note: The ratios in this exhibit are based on UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibits B.2, B.3, and B.4 for additional details. See Box 4.2 for state size definitions. We assessed statistical significance using t-tests based on regression models that measure how the combined funding ratio varies with state size. (The models use UI administrative costs as weights given how the ratios by state-size group in Exhibits B.2., B.3, and B.4 are constructed.) Most differences by state size were not statistically significant at the 10 percent level. Exceptions, where the differences were statistically significant at the 10 percent level, were: small states compared to medium states in FY 2004, FY 2012, and FY 2023; and small states compared to large states in FY 2012 and FY 2019.

[32] In FY 2012, the differences in combined funding ratios between small and medium states and between small and large states were statistically significant; in FY 2023, the same was true of the difference between small and medium states. However, in almost every other year, small states had funding ratios that were not significantly different from other states. In addition, the patterns of funding changes associated with relatively high ratios in small states ratios differed between FY 2012 and FY 2023. In FY 2012, the small states received a relatively large increase in annual grant funding, while in FY 2023, small states received a relatively large increase in one-time funding for UI administration.

5. Considerations for Assessing the Level of Unemployment Insurance Administrative Funding: Adequacy and Program Performance

Key Finding from Section 5

- States that had higher combined administrative funding relative to their costs had higher average program performance.
- Program performance does not appear correlated with the ratio of annual federal funding to costs. Nor is it correlated with the size of state funds as a share of UI administrative costs.

State UI administrators in all states we interviewed expressed concerns about the adequacy of UI administrative funding. OUI also expressed an interest in ways to assess the extent to which administrative funding is adequate for UI program administration. In this section, we answer the fifth research question: (5) "To what extent do measurable criteria provide insights about the potential strengths and challenges of the current approach to UI administrative funding?"

Specifically, we examine the following three measurable criteria:

- Patterns of administrative funding[33] and costs over the business cycle.
- States' use of their own resources for UI administration.
- The relationship between funding and UI program performance.

Because of the complexity of the issues surrounding UI administrative financing, none of these criteria will provide a perfect or comprehensive understanding of what it means for UI administrative funding to be adequate because there are tradeoffs for each, and different perspectives about what it means for funding to be adequate."[34] In addition, none of these criteria capture states' unmet or foregone administrative needs; cost data from the RJM in general may understate the level of resources states would devote to UI administration if more funding were available. Nevertheless, these criteria provide insights about the circumstances in which states might or might not face challenges in meeting their goals when using federal funding to pay for UI administration.

Findings in this section are based on quantitative evidence supplemented with findings from our literature review and interviews with state administrators and OUI. Appendix A contains details about data sources and analysis methodologies. Appendix B contains supplemental data tables. Appendix C provides a glossary of terms used in the report.

[33] In this section, we focus on the combined grant funding measure rather than the annual grant funding measure. As explained in Section 4, the former measure includes federal one-time grant funding, which can be an important part of the federal administrative financing response to business cycle downturns.

[34] The study was not designed to provide an empirical estimate of what an adequate amount of UI administrative funding would be, either in general or under specific conditions. See Section 7 for a discussion of issues related to defining the adequacy of funding for UI program administration.

5.1. States experienced cumulative funding gaps prior to both the 2008 and 2020 recessions, followed by post-recession cumulative funding surpluses

As was shown in Exhibit 4.2 in Section 4, our combined grant funding measure—which includes both federal annual grants and federal one-time grants—indicates that funding was typically less than UI administrative costs in the years leading up to the recessions around 2008 and 2020. According to state administrators and OUI, this gap between funding and costs left states underprepared to handle the surges in claims volume when the recessions began. During recessionary periods, however, states received substantial additional administrative grant funding, including increases in their annual grants and additional one-time federal grants that could be used for administrative purposes.

In this section, we present an analysis of patterns of combined grant funding and states' total UI administrative costs over the business cycle to gain insights about the extent to which financing conditions over time could influence states' ability to prepare for recession. Specifically, we examined how gaps or surpluses in funding versus costs accumulated over the five years prior to each of the two recessions fully observed in the examined time period, during the recession, and up to five years afterwards. This analysis is intended to provide quantitative insights about reports by some state administrators and OUI that states have difficulty building funding reserves that could be helpful for responding quickly to an unanticipated spike in workloads and investing in one-time, long-term system improvements that could mitigate recession-induced strains on the UI system.[35]

[35] We discuss these reports by state administrators and OUI in Section 3.1. Due to federal carryover rules, states generally have three months past the end of a federal fiscal year to obligate their administrative grant funds for that fiscal year, although they may take up to two additional years to obligate funds used for automation (OUI, 2023b). The cumulative funding analysis should not be interpreted as implying that states could or should violate these carryover rules. Rather, it is intended to provide insights about the extent to which funding gaps and surpluses become magnified or dampened across different phases of business cycles. Understanding the cumulative patterns over time, in turn, can provide insights about potential system vulnerabilities that might exist after a several-year period of funding gaps, near the start of the next recession.

For simplicity, we have centered the cumulative funding analysis of each recession around a single fiscal year. [36] For the recession that began in December 2007 and ended in June 2009 (often referred to as the "Great Recession"), we chose FY 2008 as our focal year. For the recession that began in February 2020 and ended in April 2020, we chose FY 2020 as the focal year.

Consistent with state administrators' accounts of gaps and surpluses in funding over time, states encountered pre-recession funding gaps prior to both recessions. The cumulative funding surpluses that emerged afterward were of varying length and scope. Specifically, we found:

► ***States experienced funding gaps that accumulated prior to both the 2008 and 2020 recessions (Exhibit 5.1).*** In the five years leading up to both of these recessions, cumulative combined funding was less than states' cumulative costs. The cumulative funding-to-cost ratio dipped to 0.93 before the 2008 recession, and 0.95 before the 2020 recession. These dips corresponded to a cumulative gap of $1.44B in the five years before the 2008 recession (35 percent of average annual costs in that period) and a cumulative gap of $926M in the five years before the 2020 recession (27 percent of average annual costs in that period).

► ***The funding gaps that accumulated prior to both the 2008 and 2020 recessions were closed during the year after the 2008 recession and the year of the 2020 recession (Exhibit 5.1).*** For the 2008 recession, the cumulative funding starting five years prior to the recession exceeded cumulative costs for the first time in the year after the recession—that is, FY 2009. In essence, the amount by which funding exceeded costs as of FY 2009 was greater (by 1 percent) than the amount that costs exceeded funding during all of the prior years (FYs 2003-2008) combined. In contrast, cumulative funding exceeded cumulative costs by 8 percent during the 2020 recession year.

► ***States had a sustained cumulative funding surplus for five years after the 2008 recession, but the surplus lasted for a shorter period of time after the 2020 recession (Exhibit 5.1).*** Although states exhibited similar cumulative funding-to-cost patterns leading up to each recession, the post-recession patterns differed. After the 2008 recession, the cumulative funding ratio rose above 1.0 and remained elevated through the fifth year after the recession, fluctuating between 1.01 and 1.02. In contrast, following an initial spike to 1.08 in 2020, the

[36] In practice, however, each recession can be associated with distinctive patterns over time in changes in economic measures that are indicative of the business cycle, such as the national unemployment rate or gross domestic product. Centering the analysis on one fiscal year for each recession could mask differences in patterns relative to the start or end of each recession, given that the 2008 recession lasted for 18 months while the 2020 recession lasted for two months. In addition, each period of economic growth prior to or after a recession can last for a distinctive number of years and display different patterns over time in these economic measures. Our focus on five years prior to and five years after each recession is intended to illustrate the patterns over the business cycles for which we have data. Empirical findings are sensitive to both our focal year for each recession and the years we treated as pre- and post-recession years.

cumulative funding ratio declined to 0.97 by the third year after the recession—the last year included in our analysis.

In many ways, these cumulative funding patterns mirror the shape of each recession. Although the 2008 recession officially lasted from December 2007 to mid-2009, the unemployment rate did not peak until late 2009 and then remained elevated for several years (BLS, 2024). In contrast, as noted in Section 3.1, the unemployment rate spiked to the highest levels on record in April 2020, then it declined relatively quickly over the remainder of 2020 and into 2021 (BLS, 2024).

The box below explains how to interpret Exhibit 5.1, produced using a measure of *cumulative* combined grant funding centered on the two focal recession years.

Box 5.1. Interpreting the Ratios of Cumulative Combined Grant Funding to Total Unemployment Insurance (UI) Administrative Costs in Exhibit 4.1

2008 Recession. The dark purple line in Exhibit 5.1 represents the pattern of ratios around the 2008 recession. Fiscal Year (FY) 2003 is five years prior to the recession.

In FY 2003, the combined funding ratio—that is, the ratio of federal combined grant funding to states' total UI administrative costs—was 0.99. A ratio below 1 indicates a gap, with funding less than costs.

For successive years we computed a *cumulative* combined funding ratio. In FY 2004, four years prior to the recession, the cumulative funding ratio for the two fiscal years (2003 and 2004) equals the sum of combined grant funding for the two years divided by the sum of states' total UI administrative costs for the two years. This ratio was 0.95. The decline in the ratio from FY 2003 to FY 2004 indicates that the cumulative gap widened.

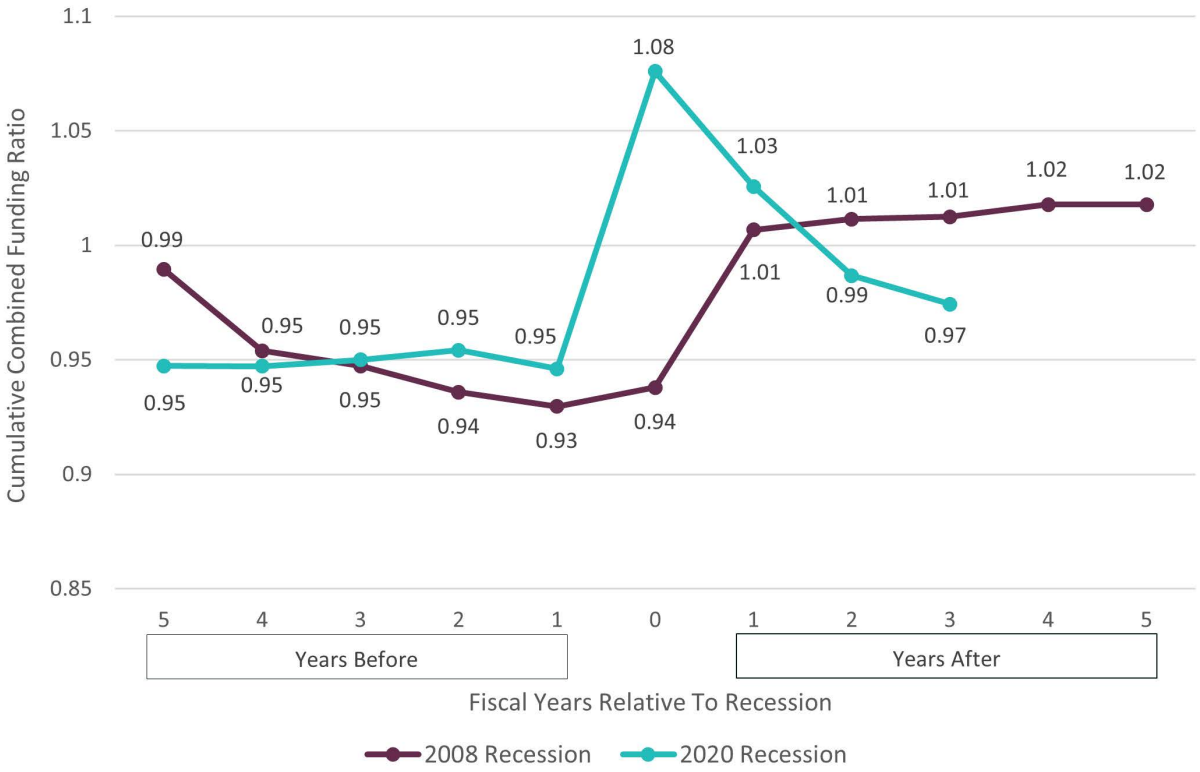
We followed a similar method to calculate cumulative funding ratios for three years prior to the recession, two years, and one year. At three years prior (FY 2005) the cumulative ratio remained at about 0.95. At one year prior (FY 2007) it had declined to its bottom of 0.93. During the recession year (FY 2008), the cumulative ratio increased slightly from 0.93 to 0.94.

The big increase—to 1.01—took place one year after the recession (FY 2009). Having a cumulative combined funding ratio of greater than 1.00 in FY 2009 indicates that combined grant funding totaled across all years from FY 2003 through FY 2009 exceeded states' UI administrative costs totaled across the same set of years.

The upward slope of the dark purple line starting after the recession year indicates that the cumulative surplus of federal combined grant funding versus states' cumulative total UI administrative costs grew in the following years. Thus, during the entire 11-year period reflected by the dark purple line in the exhibit, states operated with a cumulative gap between funding and costs for the first 6 years and a cumulative surplus for the following 5 years.

2020 Recession. The green line in Exhibit 4.1 shows a similar analysis but with a focus on the 2020 recession. For that recession, we were unable to calculate cumulative combined funding ratios for four and five years after the recession. This is because the relevant data for FYs 2024 and 2025 were not available when we conducted our analysis.

Exhibit 5.1: Ratio of Cumulative Combined Grant Funding to Total UI Administrative Costs Starting Five Years Pre-Recession, 2008 and 2020 Recessions



Note: The ratios in this exhibit are based on Unemployment Insurance administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.5 for additional details.

5.2. State resources accounted for 8 percent of total UI administrative costs over the 22-year analysis period

According to OUI interview respondents, states' use of their own resources to fund UI administration reflected a combination of state policy choices, administrative priorities, and a perceived need for additional administrative funding. Specifically, the respondents said states used their own resources to fill perceived shortfalls in federal administrative funding for minimally necessary program operations. They were not using their resources to provide supplementary, optional UI program features or services. In this section, we examine patterns over time and across states in states' use of their own resources to pay for UI administration. Box 5.2 below summarizes some of the key measures related to state resources that we assessed.

From our analysis, we found:

► ***Between 32 and 48 states contributed state resources toward UI administration during any given year during the 22-year analysis period (Exhibit 5.2).*** All 53 states allocated their own

resources to UI administration at some point during the 22-year analysis period (Appendix Exhibit B.6). More states contributed their own resources during years prior to the 2008 recession than after it.

► ***Between 10 and 24 states contributed substantial state resources (at least 10% of costs; see Box 5.2) during any given year (Exhibit 5.2).*** There was no clear upward or downward pattern over time in the number of states that contributed substantial amounts in any given year during the analysis period. In 18 states, the total amount of state resources contributed over the full period represented at least 10 percent of their total UI administrative costs (Appendix Exhibit B.6).

Box 5.2. State Resources, Substantial State Resources, and the State Resource Ratio

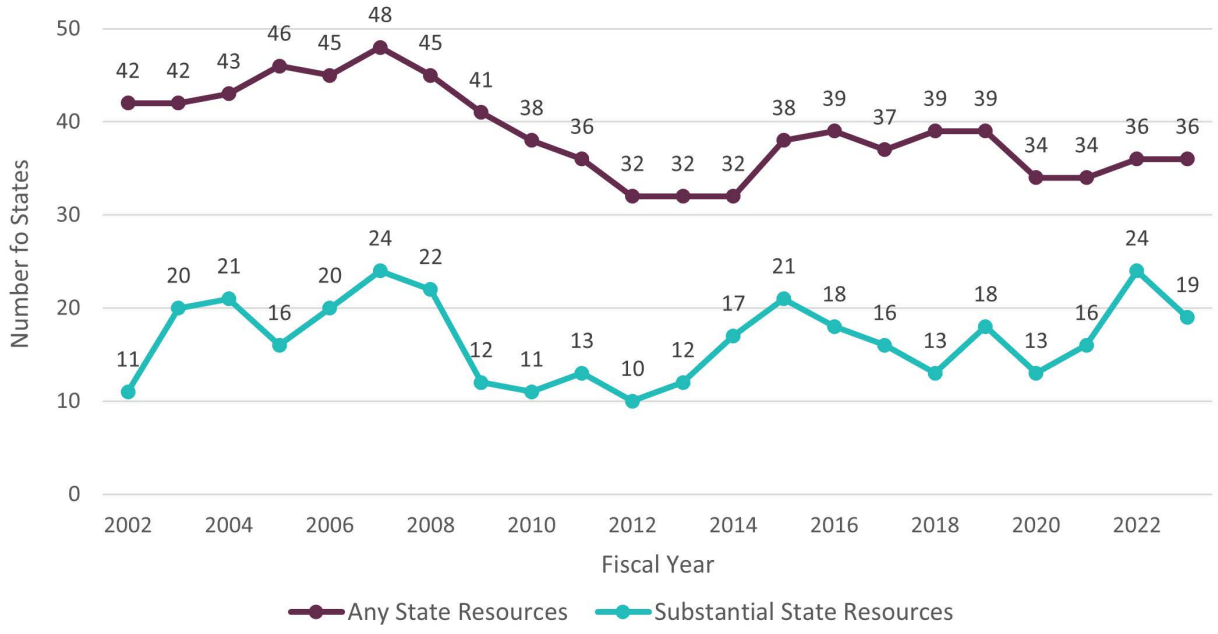
State resources include:

- *Funds from state sources* such as revenue from states' general funds, state-level administrative taxes, and penalties and/or interest payments.
- *Reed Act distributions* used for Unemployment Insurance (UI) program administration and reported in the Resource Justification Model data. States typically can use Reed Act distributions for UI program administration, although the allowable purposes for each distribution are based on its authorizing legislation.

We consider that a state contributed **substantial state resources** when state resources funded at least 10 percent of its total UI administrative costs overall during the 22-year analysis period.

We define the **state resource ratio** as state spending divided by total UI administrative costs.

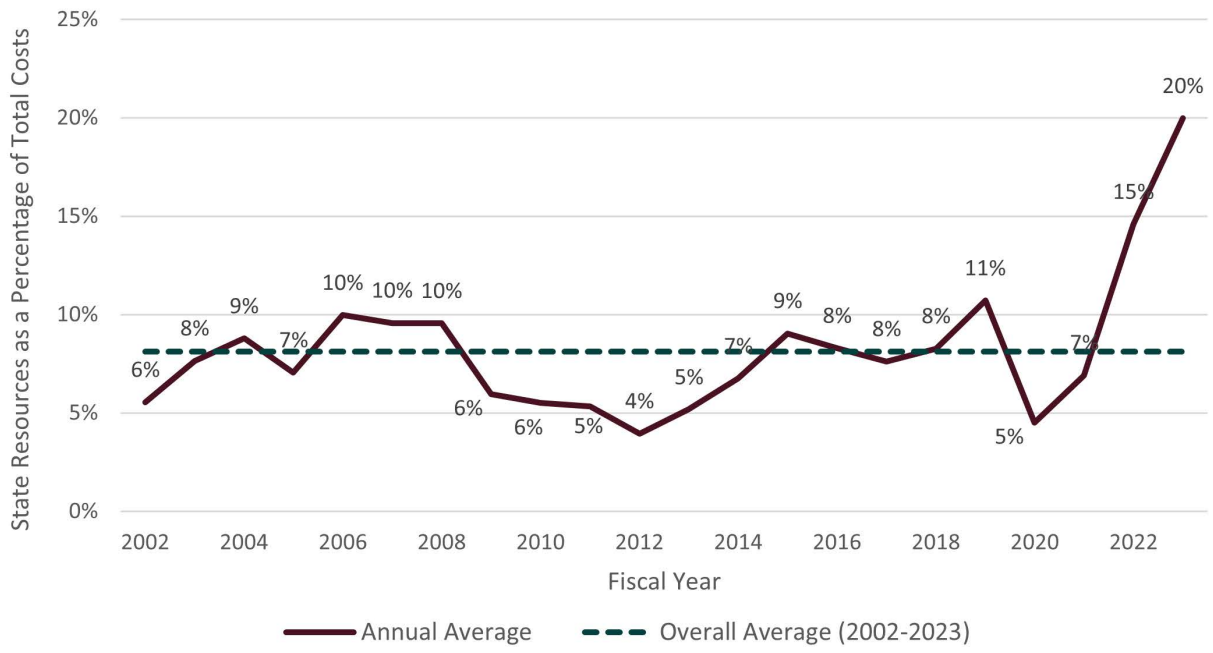
Exhibit 5.2: Number of States Contributing Their Own Resources, or Substantial Resources (at least 10% of costs), to Their UI Administration, Fiscal Years 2002 through 2023



Note: We consider that a state contributed substantial state resources when state resources funded at least 10 percent of its total UI administrative costs overall during the 22-year analysis period. The numbers of states in this exhibit are UI administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.6 for additional details. UI=Unemployment Insurance.

► ***State resources accounted for 8 percent of total UI administrative costs during the 22-year analysis period (Exhibit 5.3).*** We estimated that states contributed at least $7.1 billion during the 22-year analysis period. The national state resource ratio ranged between 4 and 11 percent in any given year from FY 2002 to 2021, with periods of growth and decline. After FY 2021, the average national state resource ratio rose to above 11 percent; however, the median state resource ratio during that period was in a similar range (5 to 7 percent) as during the late 2010s (see Appendix Exhibit B.6 for full results). While this pattern suggests that increases after FY 2021 may have occurred in a subset of states, analysis of within-state changes in contributions of funds for UI administration in these years (not shown) suggests there was not a straightforward or consistent pattern of changes. For instance, at least one state that had contributed funding in prior years reduced or did not make contributions in FY 2022 or FY 2023; at least one state started making contributions in FY 2022 and FY 2023 that had not done so in prior years; and at least one state increased its state contributions by a relatively large amount in FY 2022 or in FY 2023. As a result, it is not clear whether or not the changes for FY 2022 and FY 2023 represent systematic changes or the start of a longer-term trend.

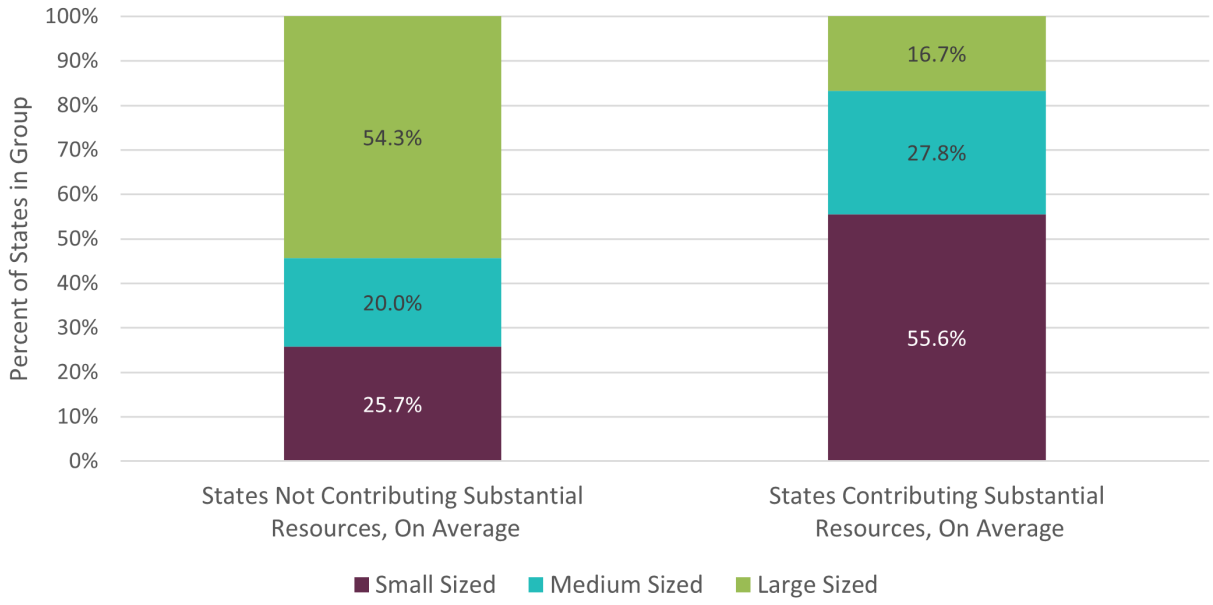
Exhibit 5.3: National Average State Resource Ratio (States' Spending on UI Administration to Their Total UI Administrative Costs), Fiscal Years 2002 through 2023



Note: The ratios in this exhibit are based on UI administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. State resources include funds from state sources such as revenue from states' general funds, state-level administrative taxes, penalties and/or interest payments, and Reed Act distributions used for UI administration. See Appendix A.3 for a definition of analysis measures, and Appendix Exhibit B.6 for full values and additional detail by year. UI=Unemployment Insurance.

▶ ***More small states made substantial contributions of resources for UI program administration than did large states (Exhibit 5.4).*** Among the 18 states contributing substantial resources (funding at least 10 percent of total UI administrative costs) over the 22-year period, 56 percent (10 states) were small and 17 percent (3 states) were large. In contrast, among the 35 states that funded less than 10 percent of their total UI administrative costs, 26 percent (9 states) were small and 54 percent (19 states) were large. [37]

Exhibit 5.4: Comparison of Size among States that Did and Did Not Contribute Substantial Resources for Their UI Administration, Fiscal Years 2002 through 2023



Note: Contributing substantial resources is defined as providing state resources that funded at least 10 percent of UI program administration costs, on average, from FYs 2002 to 2023, according to Resource Justification Model data for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The contrast between contributing substantial resources or not was statistically significant at the 10 percent level for small states and large states. The contrast was not statistically significant at the 10 percent level for medium states. See Appendix Exhibit B.7 for additional details.

▶ ***Besides state size, none of the other UI program or economic characteristics we examined were correlated with whether or not states contributed substantial state resources (at least 10 percent of costs) towards UI program administration.*** The state characteristics we examined,

[37] We found a similar association between state resource contributions and state size when using other thresholds for substantial state resources. The results reported in the text are based on a threshold that classifies state as contributing "substantial" resources if those resources amounted to at least 10 percent of total UI administrative costs; 18 states met this threshold. In results not reported, we also considered thresholds of 7.5 percent (met by 26 states), 12.5 percent (15 states), and 15 percent (8 states). For all three thresholds, we found that the share of small states making substantial resource contributions was significantly higher than the share of large states that did so.

and which are listed in Appendix Exhibit B.7, included UI program characteristics, such as states' UI recipiency rates, and their economic characteristics, such as their percentages of workers in a union or with a part-time job. This finding does not rule out the possibility that other characteristics influence the level of state resource spending.

An important limitation of this analysis is that we likely did not capture the full extent of states' spending from their own resources to fund UI administrative costs, given how the RJM data are structured. The state resources in the RJM include those listed in Box 5.2 above, but also a category for "Other" state resources used to pay for UI administration. We found instances in which states reported millions of dollars in "Other" state resources that reflected federal one-time emergency grants for UI administration. To avoid distorting the scope of state resource use, we excluded this "Other" category from our analysis. Doing so ensured that our reported statistics reflected only expenditures that could confidently be attributed to state resources, but the statistics represent a lower bound on non-federal spending.[38]

5.3. Annual federal UI administrative funding may have a stronger correlation with UI performance than states' use of their own resources

A key aspect of state UI programs that may be influenced by administrative funding is program performance. For example, some literature (GAO, 2016; Lachowska et al., 2022) links inadequate UI program administrative funding to poor customer service, such as long wait times for claimants to speak to UI program staff, and states' failures to make timely benefit payments.[39] Staffing and infrastructure that enable timely and accurate claims processing and high-quality service to both claimants and employers rely on administrative funding.

To systematically measure state performance, we constructed an index of UI program performance. The index measures the proportion of the DOL Secretary's Standards, Tier I Measures, and Core Measures related to UI system activities that each state has met during each year over our 22-year analysis period. The index includes between 14 and 22 measures in each

[38] Had we included all funds states reported as "Other" in the RJM in our analyses of state resources, our estimates of states' contributions would have been $11.4 billion instead of $7.1 billion during the 22-year analysis period. State resources would have accounted for 13 percent instead of 8 percent.

[39] To our knowledge, no prior literature has presented findings from a statistical analysis of the relationship between program performance and administrative funding.

year.[40] See Box 5.3 below for additional information on the performance monitoring system from which these measures were derived, and how we used them to produce a performance index.

Box 5.3. The UI Performs System, State Program Performance Measures, and the UI Performance Index

The U.S. Department of Labor (DOL) monitors state Unemployment Insurance (UI) program performance through a system called UI Performs. Introduced in 1995 (DOL, 1995), the UI Performs system has two categories of measures used for oversight (DOL, 2025a):

- The first category currently includes the DOL Secretary's Standards and Core Measures, which reflect critical indicators of overall UI system health (e.g., first payment promptness, nonmonetary determinations quality, and so on). Each measure has an associated Acceptable Level of Performance (ALP), which is established by the federal government and represents a minimum standard of state performance on the related UI system activities.
- The second category includes management information measures that capture more-detailed metrics similar to the Core Measures, along with measures of activities related to interstate and federal programs.

The **UI performance index** created for this analysis focuses on the first category of measures because (1) the Secretary's Standards are set by federal regulations; (2) the Core Measures are included in the public-facing UI Performs Score Cards (DOL, 2025b); (3) the measures correspond to a similar set of UI Performs Tier I measures in the early 2000s. The index ranges from 0 to 1 and captures the share of UI performance standards for each of these measures that states met.

- This index is based only on the performance measures that were in effect during each specific year of the 22-year analysis period, meaning the set of measures varies from year to year. One major source of variation over time is the shift from UI Performs Tier I measures to Core Measures starting in 2005 (DOL, 2005b). Additional measures, such as those for program integrity, were added in 2013. The index remained stable from 2013 on.
- We calculated the index for every state and year by first determining whether the state met the standards set for each measure in effect for the year and then calculating the average across measures. This approach weights each performance measure equally.
- We calculated the index for groups of states and years using simple averages for the group—that is, weighting each state or year equally.

Additional information about our UI performance index, including the specific measures we used and our methodology for calculating scores on the index, is in Appendix A.

We compared the performance index across groups of states defined by three UI financing measures using two-sample *t*-tests with one record per state to determine whether differences were statistically significant at the 10 percent level. As noted in the text, the three UI financing measures we considered are: (1) the annual grant funding ratio, (2) the combined grant funding ratio, and (3) whether states contributed substantial state resources. The analysis treated each UI financing measure as independent of the others; we did not adjust for multiple comparisons.

We used this index to assess the relationship between UI administrative financing and program performance using an approach that describes how strongly performance and financing are correlated but is not designed to distinguish cause and effect. (That is, the analysis method cannot provide insights whether or how much performance might be affected by different levels of UI

[40] The UI performance index tracks a varying the number of measures across years, which may affect the comparability of performance levels over time.

administrative funding.) We compared UI performance across states divided into subgroups based on three different financing measures:

1. The annual grant funding ratio,
2. The combined grant funding ratio, and
3. Whether states contributed substantial state resources (as defined in Section 5.2).

For the first two measures, we categorized states as "higher" or "lower" based on whether their ratio was at/above 1.0 or below 1.0, respectively, over the full analysis period. That is, states with a "higher" annual grant funding ratio received UI administrative funding through the annual allocation process that, over the 22-year period as a whole, added up to at least the total of their UI administrative costs over the same period (ratio > 1.0). For the third measure, we categorized states based on whether their state resources ratio equaled or exceeded 10 percent over the full 22-year period. Appendix Exhibit B.8 shows the mean score on the performance index for all states and the three sets of subgroups of states defined by these financing measures in each of the years analyzed.[41]

From our analysis, we found:

► ***The average score on the performance index across all states over the full analysis period was 0.75, with a particularly sharp decline observed during the 2020 recession (Appendix Exhibit B.8).*** On an annual basis, the overall score on the performance index remained relatively stable between 0.79 and 0.85 until the 2008 recession, after which it declined to 0.68 during FY 2010. It gradually recovered during the subsequent economic expansion, reaching 0.86 by FY 2019. However, performance fell sharply during the 2020 recession, with the score dropping to 0.64 in FY 2020 and 0.39 in 2021. As of 2023, it stood at 0.59, still well below pre-2020 levels. The unprecedented surge in claims during the 2020 downturn placed significantly greater strain on state UI operations (GAO, 2022).

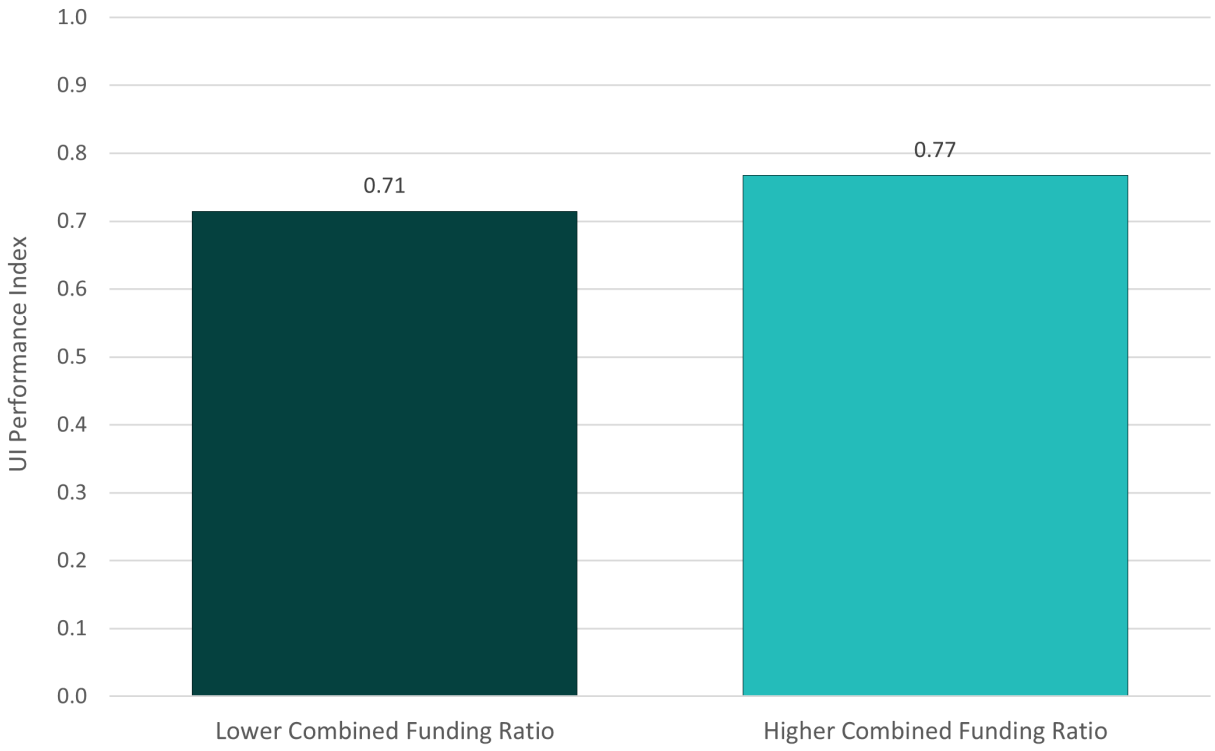
► ***States with higher combined funding ratios had higher performance than other states (Exhibit 5.5).*** States with higher combined funding (i.e., ratios of federal annual funding plus one-time grant funding to their total administrative costs) exhibited higher scores on the performance index than states with lower combined funding ratios (0.77 versus 0.71), with the difference statistically significant. However, as discussed below, this finding is a correlation that does not necessarily reflect an impact of funding on performance, since other factors (including past infrastructure investments) could affect both funding and performance.

► ***There were no systematic performance differences between subgroups of states categorized on the basis of their annual grant funding ratios or whether they contributed***

[41] Because the subgroups are defined using UI financing information for the 22-year period as a whole, each subgroup contains the same states in every year of the analysis.

substantial state resources (at least 10 percent of costs; see Appendix Exhibit B.8). We found that the difference in performance across the two sets of state resource subgroups was statistically insignificant for the entire 22-year period, as well as for 21 of the individual years within this 22-year period.

Exhibit 5.5: UI Performance Overall and for States with "Higher" and "Lower" Ratios of Combined Administrative Grant Funding to Total UI Administrative Costs, Fiscal Years 2002 through 2023



Note: This exhibit is based on UI performance data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands and on UI administrative cost data from the Resource Justification Model. Comparing states with higher and lower combined funding ratios, the difference is statistically significant at the 10 percent level. See Appendix Exhibit B.8 for additional details. UI=Unemployment Insurance.

Although our analysis used a UI performance index based on a set of performance measures that changed over time, we found similar results when using an alternative version of the index that included the same performance measures in all years.[42] Although the specific values of the two indices differed, the alternative index followed a similar path over time and led to the same

[42] This alternative index was based on UI performance measures in effect for at least 15 of the 22 years covered by our analysis period; Appendix A.3 lists these measures.

conclusions about statistically significant differences as the performance index used in our main analysis (Appendix Exhibit B.8).

One limitation of our analysis is that our findings are descriptive comparisons that are not designed to capture a causal relationship between funding and performance for a given period of time. Other factors could be associated with both administrative financing and performance levels. For example, states with more extensive UI eligibility rules or stricter enforcement policies may incur higher costs (resulting in a lower funding ratio) and end up identifying more improper payments (resulting in lower performance). States that invest more in training and procedures for staff who process claims may also incur higher costs (resulting in a lower funding ratio) while more easily meeting benchmarks for timeliness (resulting in higher performance). Furthermore, prior levels of investments in UI program administration or some aspects of it could influence both performance and—as a result of the federal process for allocating administrative funding across states—the level of federal administrative funding in any given future year.

6. Considerations for Assessing Funding Needs for Unemployment Insurance Administration: Non-Workload Costs

Key Findings from Section 6

- Costs for most workload processing activities declined over the 22-year period, and expenditures shifted toward payment integrity and system performance.
- Smaller states tended to have greater per-unit workload processing costs.
- Having a higher share of total costs dedicated to Personal Services, Non-Workload activities is associated with higher Unemployment Insurance performance, but this is not the case for other cost categories.

Learning about how the costs of UI program administration are spread across RJM categories can help policymakers to understand patterns in all UI program costs over time and across states. This can be especially valuable given that some types of costs, such as technology costs, are relatively "fixed"—that is, they do not rise in proportion to UI workload activities. Administrators from three states we interviewed raised questions about whether the RJM framework can fully capture the extent to which administrative costs scale or do not scale with workloads. They noted that states require a basic level of staffing and infrastructure (such as IT infrastructure) to maintain their UI programs regardless of workloads. Administrators from these states also suggested that non-workload costs, and especially IT costs, are becoming more important over time. Their comment aligns with a recent emphasis on IT modernization and one-time grant funding for it. Accordingly, we address the study's final research question: (6) "What is the role of fixed costs (particularly IT costs) in states' UI administrative cost structures?"

In this section, we describe our analyses of states' overall administrative cost structures—that is, how states allocated their costs across the categories reported in the RJM. We also assessed the extent to which UI administrative costs vary across different workloads and across states, and how cost structure relates to program performance. Specifically, we examined:

- States' administrative costs by RJM category and over time.
- How costs in each RJM category scale with workloads, and how spending across RJM categories varies by state size.
- The relationship between states' administrative cost structures and UI program performance.

Findings in this section are based on quantitative evidence supplemented with findings from our literature review and interviews with state administrators and OUI. Box 6.1 below summarizes the underlying cost information in the RJM we used to produce the cost category measures (all reported in 2023 dollars). Appendix A contains details about data sources and analysis

methodologies. Appendix B contains supplemental data tables. Appendix C provides a glossary of terms used in the report.

Box 6.1. Cost Information in the Resource Justification Model (RJM)

The RJM contains detailed accounting information on states' prior-year Unemployment Insurance (UI) administrative costs. Some personnel costs are assumed to fluctuate with the volume of UI system activities—that is, "workloads." Other personnel costs, as well as non-personnel costs, are assumed not to change with workloads. The costs in the RJM are grouped in three major categories and 12 more detailed subcategories:

Personal Services, Workload (PS, Workload) includes UI program activities in six subcategories:

- **Initial Claims:** staff work to process new applications for UI benefits.
- **Weeks Claimed:** processing of ongoing claimant certifications to verify continued eligibility for benefits.
- **Nonmonetary Determinations:** investigations and decisions on issues unrelated to monetary eligibility, such as reasons for claimants' separation from work and whether claimants are in compliance with the program's rules.
- **Appeals:** involving staff preparation and support for appeals when benefit determinations are contested.
- **Wage Records:** collection, verification, and maintenance of employer-reported quarterly wage data used to support the UI program.
- **Employer Tax Records:** administration of employer accounts, contribution collections, and updates to tax records.

Personal Services, Non-Workload (PS, Non-Workload) includes UI program activities in four subcategories:

- **Benefit Payment Control:** state efforts to detect and reduce improper payments.
- **UI Performs:** the U.S. Department of Labor's UI program performance management, planning, and oversight system.
- **Support:** direct supervision of the UI program, local operational management and planning, local data reporting, and other specific activities.
- **Administrative Staff and Technical Services:** central office administration, management and planning, auditing, federal reporting, and other specific activities.

Non-Personal Services (NPS) includes two subcategories for costs that are not expected to vary with workloads:

- **Information Technology/Communications** costs: referred to as "IT costs" in this report.
- **Other NPS** costs: Collectively, other NPS costs include states' administrative costs related to facilities, supplies, and various types of contracts; for example, for hiring temporary staff, data entry, translation services, and more (DOL, 2022).

The RJM data for are used during the allocation of congressionally appropriated funding for UI administration for a future year. See Appendix A for additional information about the RJM data and our analysis methods for the data.

This section is organized into subsections around five findings. In the first, we describe patterns in states' administrative costs across the three major cost categories reported in the RJM—(1) PS, Workload; (2) PS, Non-Workload; and (3) NPS. In the second, we focus on the 12 more detailed subcategories within the three major categories. We also describe how costs are distributed across the major and detailed categories over the full analysis period and what changes occur within each category over time. In the third, we focus in a more targeted way on IT costs, to provide a richer understanding of how costs for IT have changed over time and to attempt to identify characteristics of states that are associated with higher investments in IT. In the fourth subsection, we focus on the different cost structures (allocations of all costs across categories of

costs) by small, medium, and large states. In final subsection, we examine the extent to which program performance differs across states based on their cost structures.

6.1. Over the 22-year analysis period, workload processing accounted for a slight majority of total costs (51 percent), and non-workload staff time accounted for another 27 percent of total costs

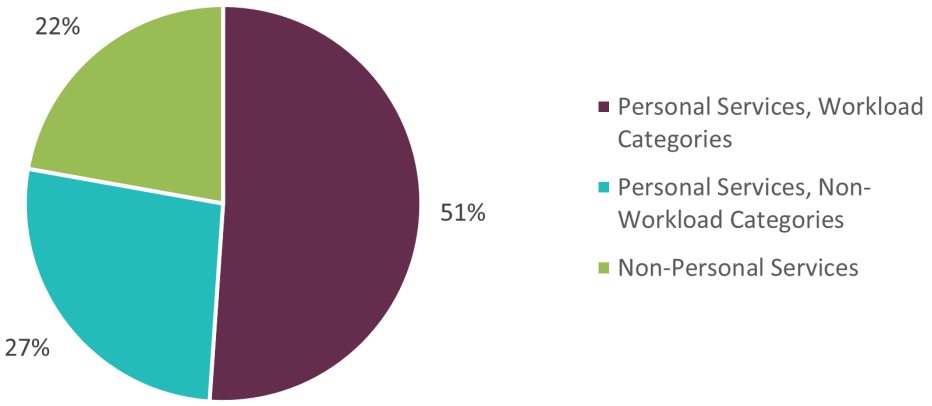
Two major RJM categories account for staff time for UI administration—PS, Workload and PS, Non-Workload. Together they accounted for more than three-quarters of total administrative costs. The PS, Workload category alone accounted for around half of total costs.

► ***PS, Workload costs accounted for a slight majority (51 percent) of total costs over the analysis period (Exhibit 6.1).*** Specifically, PS, Workload costs accounted for $44.4 billion out of $86.8 billion in states' total UI administrative costs over the 22-year analysis period. The largest subcategory within PS, Workload is Initial Claims (at $10.9 billion), followed by Employer Tax Records (at $9.7 billion) and Nonmonetary Determinations (at $8.6 billion) (Appendix Exhibit B.10).

► ***PS, Non-Workload costs accounted for more than one-quarter of total costs (27 percent) over the analysis period (Exhibit 6.1).*** Specifically, PS, Non-Workload costs were $23.2 billion, with the largest subcategory being Support (at $10.0 billion), followed by Administrative Staff and Technical Services (at $7.3 billion) (Appendix Exhibit B.11).

► ***NPS costs accounted for the remainder of total costs (22 percent), with IT accounting for slightly more than 9 percent of total costs (Exhibit 6.1).*** NPS costs were $19.3 billion, with Other NPS at $11.3 billion and IT at $8.0 billion (Appendix Exhibit B.11).

Exhibit 6.1: Cost Share by Category, Overall, Fiscal Years 2002 through 2023



Note: This exhibit is based on Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.9 for additional details.

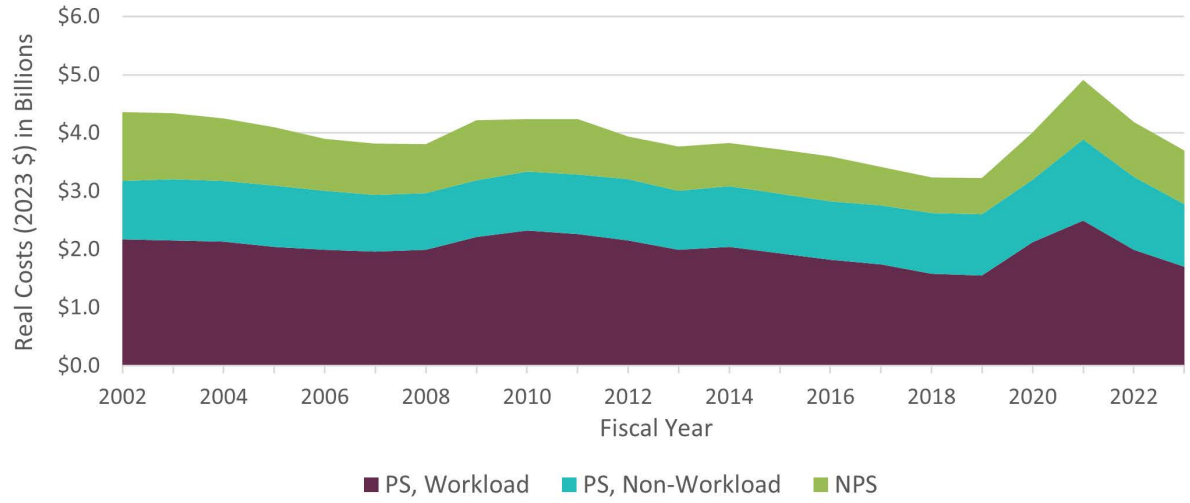
6.2. Costs for most workload processing activities followed a fluctuating but downward trend over the 22-year analysis period, and expenditures shifted toward payment integrity and system performance

PS, Workload costs accounted for about half of states' total UI administrative costs during the analysis period (at 51 percent). Since 2002, PS, Non-Workload costs accounted for an increasing share of total costs. Among the more detailed subcategories of costs reported in the RJM, increases were observed within UI Performs and Benefit Payment Control costs (both Non-Workload categories) and Nonmonetary Determinations costs (a Workload category). These trends align with DOL's growing emphasis on program integrity and performance monitoring.

Focusing first on PS, Workload costs, we found that total costs in this category mirrored changes in UI system activity over the business cycle, but costs in most specific Workload categories (other than Nonmonetary Determinations) declined from the start to the end of the analysis period.

► ***As could be expected, PS, Workload costs fluctuated with the business cycle (Exhibit 6.2).*** The amount spent on PS, Workload activities declined by roughly one-fifth overall (21 percent) over the 22-year analysis period. The decline was from about $2.2 billion in FY 2002 to $1.7 billion in FY 2023. However, as could be expected given that this major category of costs pertains directly to workloads, economic downturns were associated with temporary increases in PS, Workload costs. For example, between FYs 2019 and 2020, PS, Workload costs rose by 36 percent (from $1.5 billion to $2.1 billion).

Exhibit 6.2: Reported UI Administrative Costs Within Three Major Cost Categories Over Time, Fiscal Years 2002 through 2023 (in Billions of Dollars)



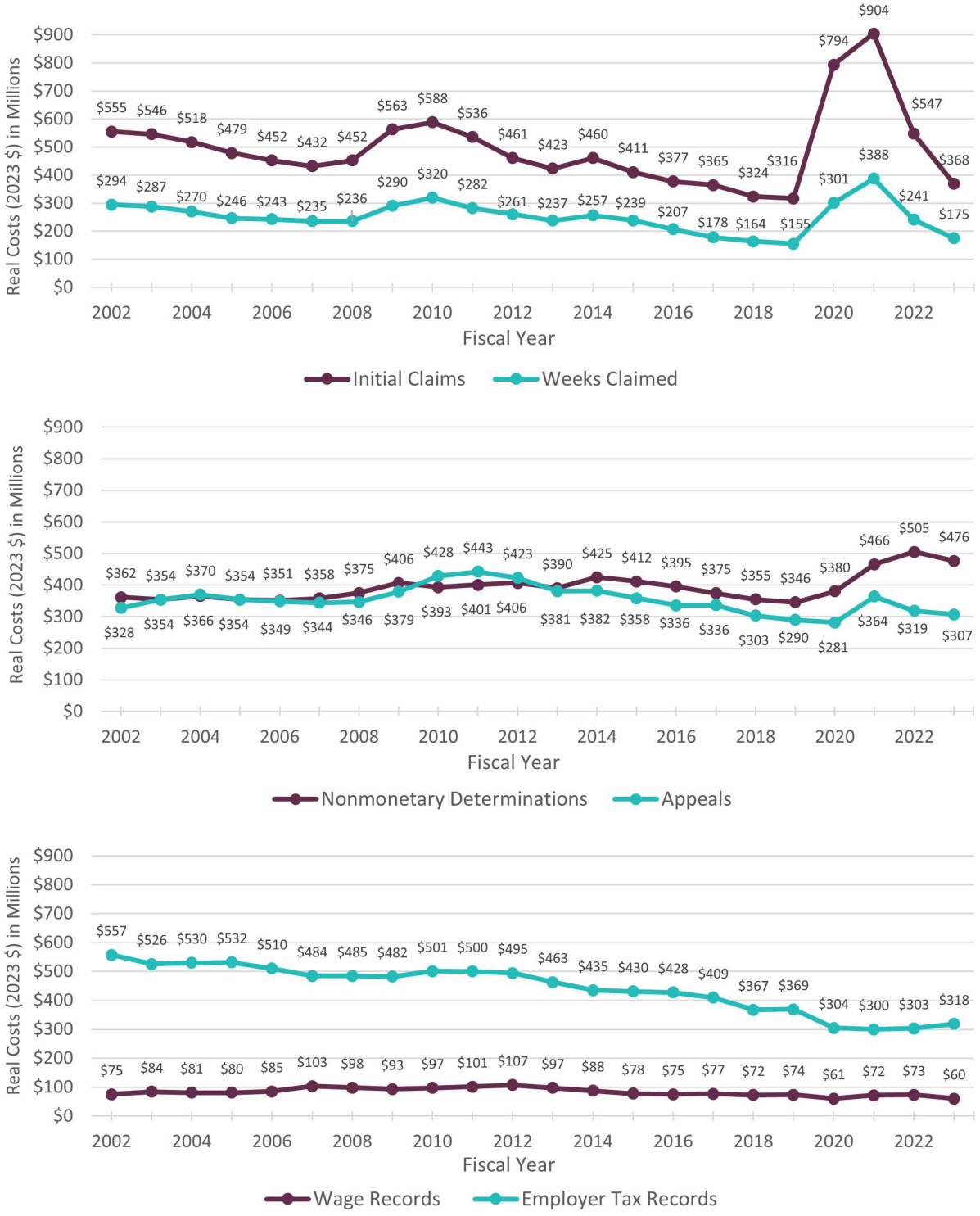
Note: This exhibit is based on Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.9 for additional details. NPS=Non-Personal Services. PS=Personal Services.

► ***The costs of most PS, Workload activities declined over time, although the costs for nonmonetary determinations increased by 32 percent over the 22-year analysis period (Exhibit 6.3).*** Five subcategories of costs within the PS, Workload category decreased over the 22-year period as a whole (Initial Claims, Weeks Claimed, Appeals, Wage Records, and Employer Tax Records). These costs did not decline steadily, however. For example, the costs of processing initial claims, weeks claimed, and appeals had temporary increases around the 2008 and 2020 recessions before returning to downward trends.

In contrast, the costs of nonmonetary determinations showed an increase over the 22-year period, with substantial increases coming after FY 2019. Costs for this subcategory rose by 32 percent between 2002 and 2023, from $361.6 million to $476.3 million. Within that period, nonmonetary determination costs declined by about 4 percent from FY 2002 to FY 2019. However, they increased from $345.8 million to $504.8 million from FY 2019 to FY 2022, followed by a drop to $476.3 million in FY 2023.

Taken as a whole, these patterns could reflect that initial claims and weeks claimed activities have become more easily handled through automation (i.e., without staff). In contrast, nonmonetary determinations might require more ongoing investments in staffing and training if those activities became more nuanced or required additional special handling. The increasing costs of nonmonetary determinations is also consistent with potential growth in UI eligibility issues detected through the REA/RESEA program, as well as expansions to states' efforts related to performance and integrity.

Exhibit 6.3: Reported UI Administrative Costs Within Six Subcategories of Personal Services, Workload Costs, Fiscal Years 2002 through 2023



Note: This exhibit is based on Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.10 for additional details.

We also found that PS, Non-Workload costs grew overall but not uniformly across types of costs. That is, costs in the Benefit Payment Control and UI Performs subcategories increased while costs in other PS, Non-Workload subcategories declined. In contrast, NPS costs fell overall, mostly due to a reduction in expenditures in the Other NPS subcategory which includes non-IT NPS activities.

► ***Costs increased in the PS, Non-Workload category by 6.4 percent, from $1.0 to $1.1 billion between FYs 2002 and 2023 after adjusting for inflation. (Exhibit 6.2 above).*** The costs remained relatively stable around the 2008 recession but spiked briefly in 2021, reaching $1.4 billion, before returning by FY 2023 to about the same amount as they were during FY 2019.

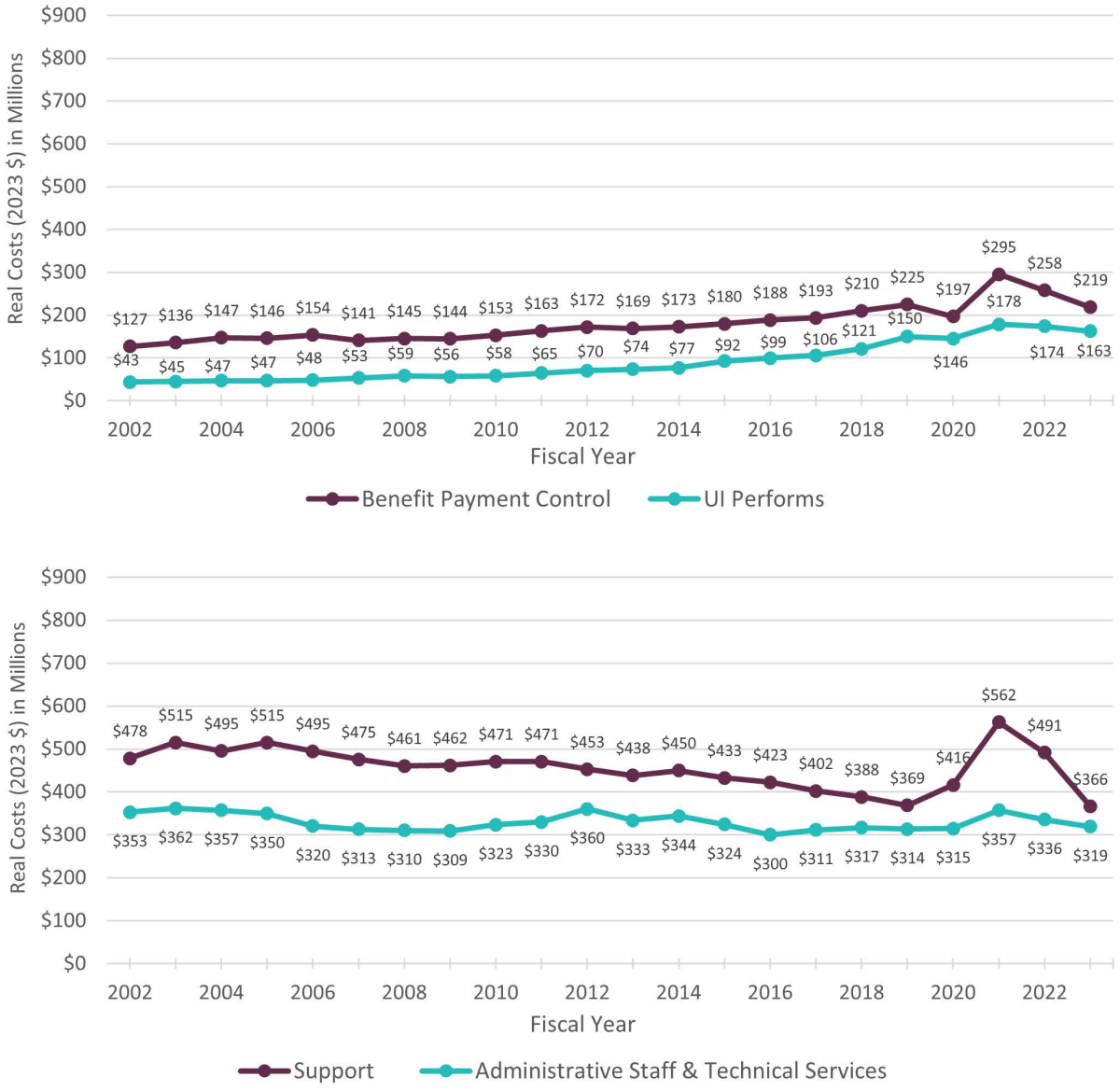
► ***Two of the four subcategories of the PS, Non-Workload category—Benefit Payment Control and UI Performs—experienced marked growth over time (Exhibit 6.4).*** Benefit payment control costs rose by 72 percent, from $126.9 million to $218.5 million. UI Performs costs nearly quadrupled, increasing from $43.4 million to $162.6 million. This growth is consistent with an expanded focus on program integrity and performance over the analysis period. For example, during the analysis period, UI Performs expanded to include measures of program integrity. This shift was related, in part, to national legislation passed between 2002 and 2015 requiring efforts to report on improper payments, conduct recovery audits, conduct risk assessments, and establish corrective action plans when improper payments exceed a threshold (see Hatch, 2024 for a summary of relevant legislation passed between 2002 and 2015). Additionally, as discussed in Section 3, during the last few years of the analysis period, state UI agencies were implementing new identify verification procedures.

Several state administrators we interviewed noted that greater expectations for integrity did not always come with dedicated increases in annual administrative funding for those activities. This contributed to their belief that federal funding was not enough to enable proper and efficient operation of UI programs.

► ***NPS costs declined by roughly one-fifth overall, or 22 percent, over the 22-year analysis period (Exhibit 6.2 above).*** The decline was from about $1.2 billion to $928 million. Between FYs 2019 and 2020, however, NPS costs experienced a temporary increase from about $619.8 million to $817.9 million (or 32 percent).

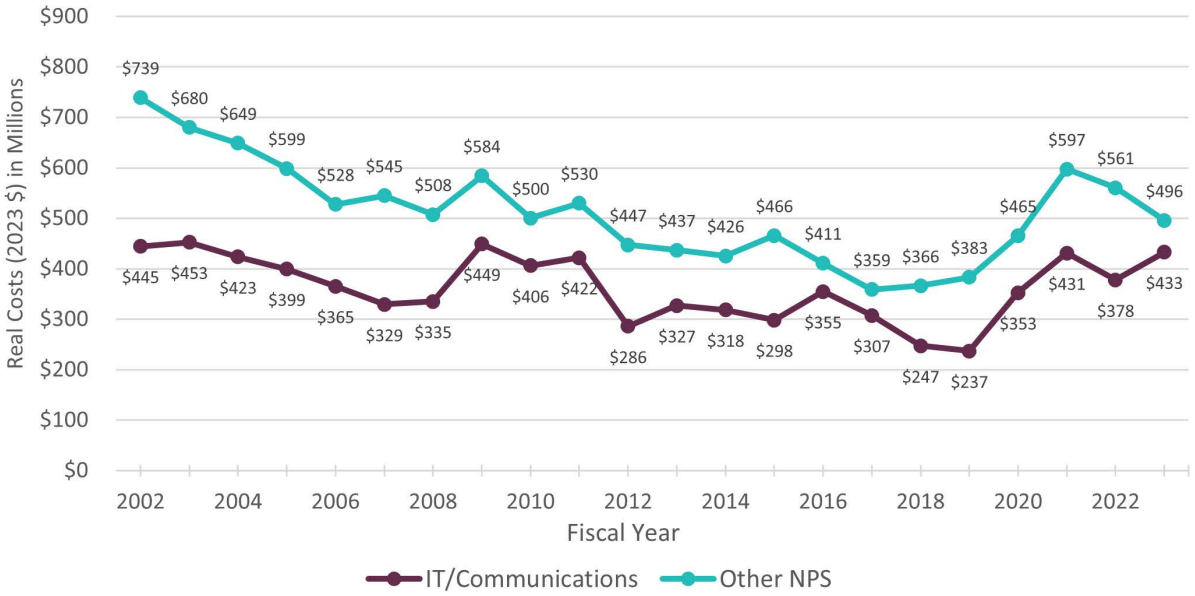
► ***Costs in the two NPS subcategories—IT and Other NPS—declined by 3 percent and 33 percent, respectively, over the 22-year period but showed marked declines prior to and increases after recessions (Exhibit 6.5).*** Both IT costs and Other NPS costs fell in the lead-ups to the 2008 and 2020 recessions but increased after each recession began. This pattern is consistent with perceptions by state administrators and OUI during the interviews about underinvestment in IT during periods of economic growth. (We discuss patterns in IT costs in more detail in the next subsection.)

Exhibit 6.4: Costs in the Four Subcategories of Personal Services, Non-Workload Costs, Fiscal Years 2002 through 2023



Note: This exhibit is based on Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.11 for additional details.

Exhibit 6.5: Costs in the Two Subcategories of Non-Personal Services Costs, Fiscal Years 2002 through 2023



Note: This exhibit is based on Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.11 for additional details. NPS=Non-Personal Services.

6.3. *Although total IT costs were similar at the start and end of the analysis period, there were periods of growing and shrinking investments*

In this subsection, we present findings from our focused analysis on IT costs, given their prominence as a source of cost pressures according to some of the literature authors and the interviews with state administrators and OUI.[43] We found that IT costs changed over the business cycle. In addition, although states differed considerably in their IT spending, we did not find any clear relationships between states' IT spending and their UI and economic characteristics.

► ***Dollars spent on IT generally declined from FY 2002 through FY 2019, although not consistently, and then increased rapidly between FY 2019 and FY 2023 (Exhibit 6.6).*** In real 2023 dollars, spending on IT was about $445 million in FY 2002 and about $433 million in FY 2023. However, IT spending followed a general downward trend between FY 2002 and FY 2019, albeit with temporary increases that reversed the downward trend. States' IT investments were at their lowest two amounts in FY 2018 and FY 2019, at about $247 and $237 million,

[43] As discussed earlier in this section, the subcategory for IT includes communication costs. For simplicity, we typically refer to the subcategory as "IT" only.

respectively. They then increased to $353 million in FY 2020 and $431 million in FY 2021—bringing IT expenditures (in real 2023 dollars) back to nearly where they were about two decades earlier. This increase may have been driven in part by federal investments authorized under ARPA, beginning in 2021, which provided states substantial funding to enhance fraud detection and prevention efforts, improve customer service, and strengthen IT infrastructure (DOL, 2024). We note that IT costs reflected in RJM do not differentiate between (1) large investments to upgrade or modernize IT infrastructure and/or software systems and (2) relatively smaller amounts of spending on maintenance over time. Spending on IT is likely to fluctuate between these types of spending and not necessarily in proportion to changes in workloads. Furthermore, the type of funding, such as one-time grants intended for specific purposes or routine annual grants, could influence state administrators' decisions about when and how they make certain types of IT investments, given that statutory language for funding appropriations governs the timing of and allowable uses for each specific set of funds.

Exhibit 6.6: Costs Spent on IT & Communications, Fiscal Years 2002 through 2023

IT=information technology.

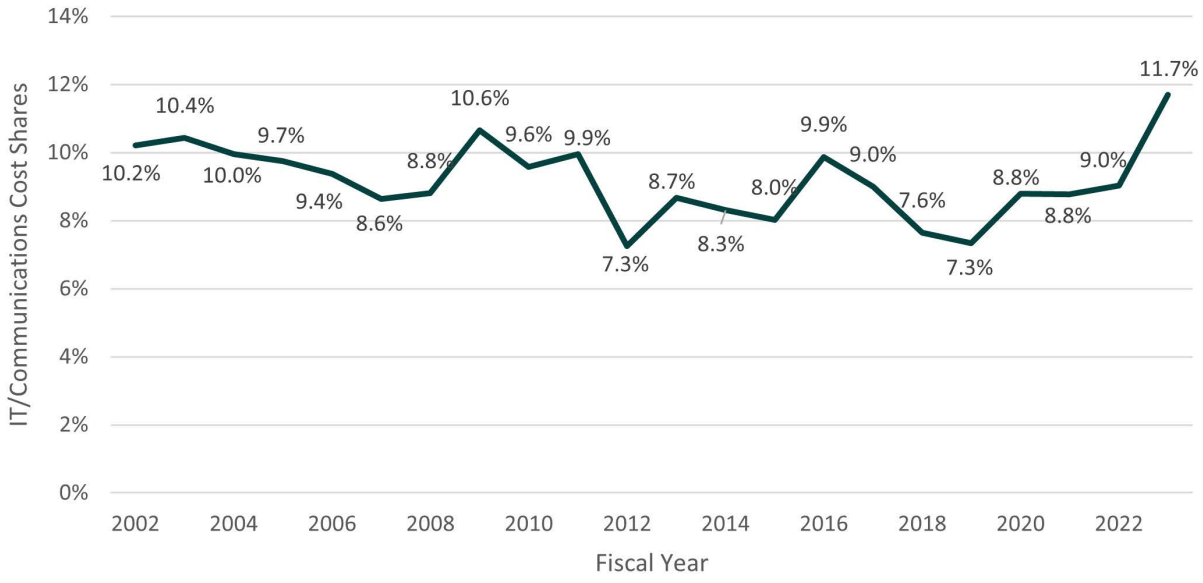
Note: This exhibit uses Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.11 for additional details.

► ***The share of all UI administrative costs allocated to IT also declined between FYs 2002 and 2019 and rose markedly following the 2020 recession, reaching the highest level of the analysis period during FY 2023 (Exhibit 6.7).*** Between FYs 2002 and 2023, the share of total costs allocated to IT rose from about 10.2 percent to 11.7 percent of all UI administrative costs. However, this growth was not consistent throughout the period. From FY 2002 to FY 2019, the IT cost share declined from 10.2 percent to 7.3 percent, although there were temporary

increases around the 2008 recession and in FY 2016. After FY 2019, the share of all UI administrative costs that were spent on IT rose to 11.7 percent. Although not definitive, this pattern is consistent with a view that states' expenditures on IT are scaled back more than are expenditures on other categories of costs when state administrators might consider funding to be low.

► ***There were no systematic differences in UI program or economic characteristics between states categorized according to the share of costs accounted for by IT (Appendix Exhibit B.13).*** We examined the relationship between 39 different UI program and economic characteristics and whether states had at least median or below-median portions of their costs incurred for IT. We did not detect a statistically significant difference between the two groups of states on 35 of the 39 characteristics, based on a series of two-sample *t*-tests with one record per state and a 10 percent significance level. The analysis treated each characteristic as independent of the others—that is, we did not adjust for multiple comparisons—in which case 10 percent of the differences could be identified as significant even if states with higher and lower IT cost shares were fundamentally similar. Because we found statistically significant differences for only 4 of the 39 characteristics (approximately 10 percent) of characteristics we examined, we concluded that the two groups of states did not differ systematically.

Exhibit 6.7: States' IT Cost Shares, Fiscal Years 2002 through 2023



Note: This exhibit uses Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. See Appendix Exhibit B.12 for additional details. IT=information technology.

6.4. Smaller states tended to have greater per-unit workload processing costs and the lowest level of IT expenditures compared to other states

Understanding how states' UI administrative costs for workload activities and IT systems differ with state size is important for ensuring the UI funding system efficiently supports UI program operations across states. Workload assumptions play a major role in the amount of UI administrative funds included in the annual budget request to Congress, and the amount ultimately appropriated by Congress. As reported earlier in Section 6, the RJM's PS, Workload category accounted for the majority (51 percent) of UI administrative costs during our 22-year analysis period. In addition, per-unit costs of processing workloads play a key role in determining the amount of UI administrative funding to states. In contrast, the portion of annual UI administrative funding related to IT is based in large part on the level of past expenditures on IT.

In three of our eight interviews with states, administrators noted that smaller states may face disadvantages with this approach, as they face IT costs similar to those of larger states, even though most administrative grant funding is tied to workloads. Further, administrators in all of the state interviews noted cost pressures related to maintaining and modernizing IT systems. If smaller states find it relatively more challenging to invest in their IT systems, this may require them to use more labor-intensive or less cost-efficient strategies for managing their workloads.

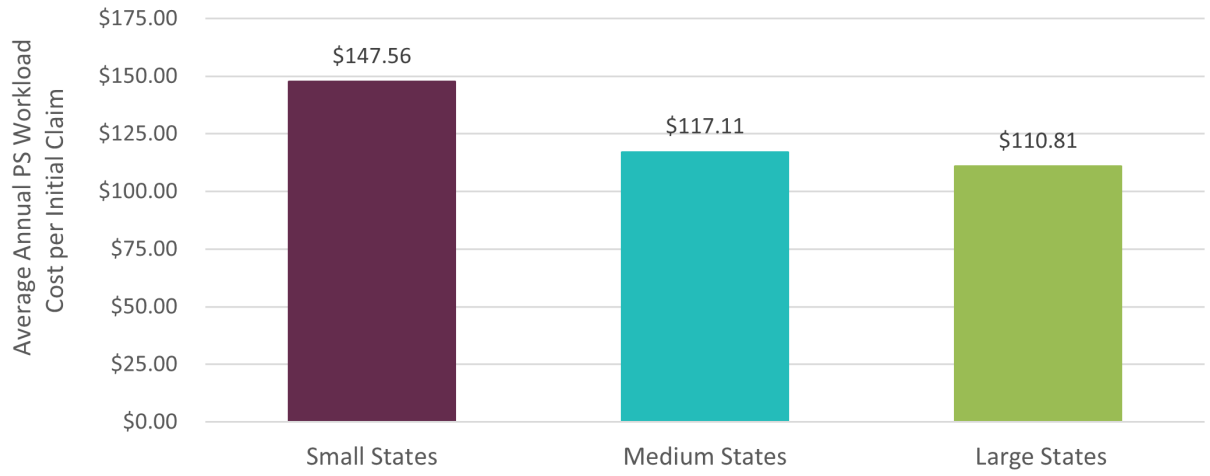
Based on RJM submissions for small, medium, and large states (defined in Box 4.2), we found that small states had relatively high per-unit costs of workload processing activities and relatively low IT expenditures.

► ***Per-unit workload costs were 26 percent higher in small states than medium states and 33 percent higher in small states than large states (Exhibit 6.8).*** We calculated per-unit costs for each state as the ratio of total costs in the PS, Workload category to the number of initial claims across the FY 2002-2023 period.[44] This measure of per-unit costs was $148 for small states and $111 in large states, a difference that was statistically significant. The difference in cost per initial claim between small and medium states ($148 versus $117) was also statistically significant, but the difference between medium and large states ($117 versus $111) was not.[45]

[44] Findings were similar when we calculated an alternative measure of per-unit workload costs that accounted for differences across specific workload subcategories. We constructed this alternative measure by first dividing states' costs in each subcategory by their workload volumes in that subcategory. Then, to put states of differing sizes on an even footing for comparisons, we used these per-unit costs for each workload subcategory to project what total Workload, PS costs would be if all state states had the same volume for each of the workload activities.

[45] Although the lower per-unit costs in medium and large states could reflect efficiencies that arise from processing a larger volume of workloads—sometime referred to as "economies of scale"—this pattern could also arise if UI program or economic characteristics affecting cost were correlated with state size. This study was not designed to disentangle these potential drivers of cost differences by state size.

Exhibit 6.8: Average Personal Services, Workload Cost per Initial Claim, by State Size, Fiscal Years 2002 through 2023

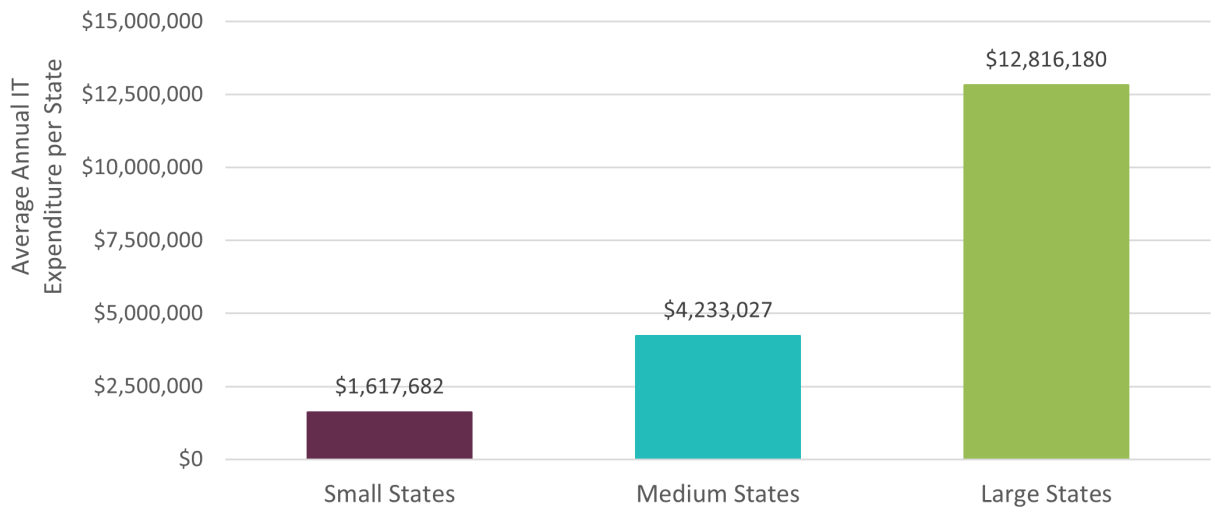


Note: This exhibit uses Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Differences between small and medium states and between small and large states are statistically significant at the 10 percent level. See Appendix Exhibit B.14 for additional details.

► ***Small states spent 38 percent as much as medium states on IT and 13 percent as much as large states on IT, on average (Exhibit 6.9).*** Per-state annual spending averaged about $1.6 million in small states, $4.2 million in medium states, and $12.8 million in large states. The differences between all three groups were statistically significant. Expenditures for states of different sizes may differ in part if some IT costs scale with workloads (e.g., identity verification) or some IT costs depend on the number of records that must be maintained in data systems. For example, small states received 32 percent as many initial claims as medium states and 10 percent as many weeks claimed as large states, on average, each year.

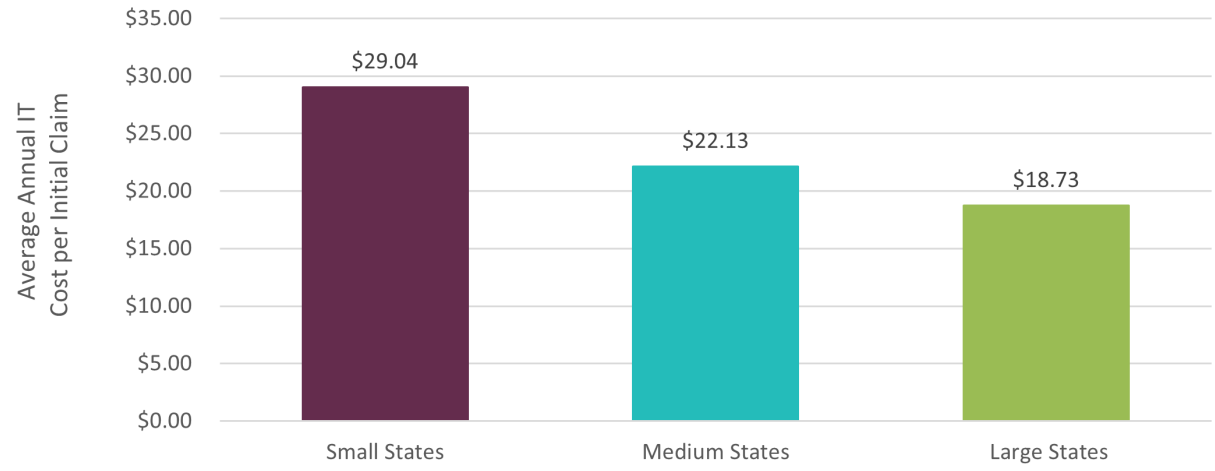
This pattern does not appear to reflect the high-level perspective we heard during administrator interviews—that smaller states face overall IT costs similar to larger states. Still, smaller states' IT costs per initial claim ($29) are higher than for medium and larger states ($22 and $19, respectively, with the difference between small and large states statistically significant (Exhibit 6.10). This fact could be because a *portion* of IT costs may be fixed or similar in scope across states. Additionally, as noted in previous sections, the RJM data do not reflect expenditures that state administrators desired but could not incur because of limitations in their funding. Small and medium states might face greater pressure than larger states to economize on IT spending or to prioritize IT-related investments that are deemed especially highly cost-efficient. To check this possibility, we would need to obtain additional information from state administrators or other state staff.

Exhibit 6.9: Average Annual Total IT Cost, by State Size, Fiscal Years 2002 through 2023



Note: This exhibit uses Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Differences between small and medium states, small and large states, and medium and large states are statistically significant at the 10 percent level. See Appendix Exhibit B.15 for additional details. IT=information technology.

Exhibit 6.10: Average Annual IT Cost per Initial Claim, by State Size, Fiscal Years 2002 through 2023



Note: This exhibit uses Unemployment Insurance administrative cost data from the Resource Justification Model for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The difference between small and large states is statistically significant at the 10 percent level. See Appendix Exhibit B.15 for additional details. IT=information technology.

We also examined PS, Non-Workload costs by state size and found that smaller states had lower average annual expenditures in this RJM category than larger states, but smaller states allocated a greater share of their budgets to this category. Across the 22-year analysis period as a whole, annual spending in the PS, Non-Workload category among small states ($6.0 million on average)

was roughly 50 percent the annual amount spent by medium states ($11.9 million on average) and 17 percent the annual amount spent by large states ($36.2 million on average). However, small states allocated 31 percent of their total UI administrative costs to PS, Non-Workload expenses, compared to 27 percent in medium states and 26 percent in large states (Appendix Exhibit B.15). One possible way of interpreting this pattern is that some PS, Non-Workload costs scale with workloads while other portions of these costs remain relatively fixed across states; other interpretations are also possible.

6.5. Having a higher share of total costs dedicated to PS, Non-Workload activities is associated with higher UI performance, but this is not the case for other RJM cost categories

How states decide to allocate administrative costs between the Workload and Non-Workload categories, or their subcategories, may affect UI performance. For example, states that allocate relatively more resources to strengthening their IT systems or enhancing benefit payment control activities might improve performance through faster claims processing, fewer improper payments, or better fraud detection. In this subsection, we examine how states' administrative cost structures relate to UI program performance.

To measure performance, we used the same UI performance index presented in Section 5. A score on the index is a numerical value that indicates, for each state and year, the portion of performance measures established by the federal government that the state met during the year. As such, a state's score can range from 0 to 1. (See Box 5.3 for more information on the performance index.)

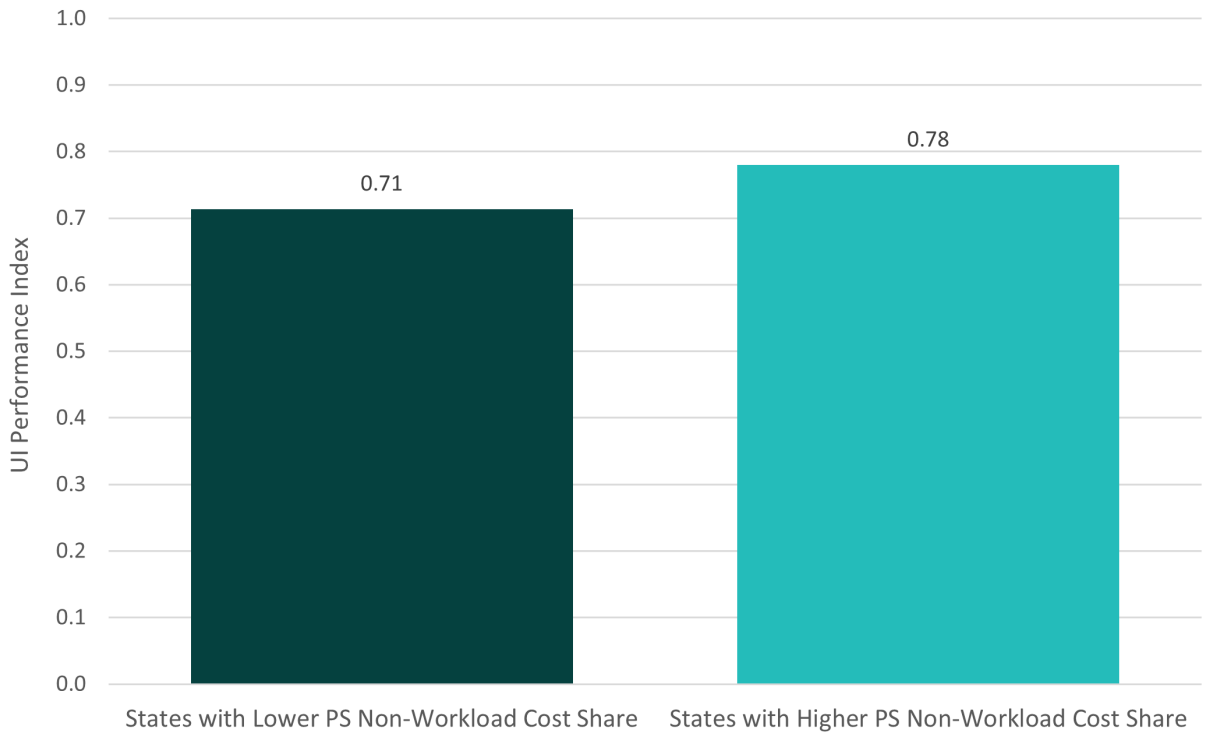
We compared the performance index across groups of states categorized based on their spending levels across each of the three major RJM cost categories over the 22-year analysis period, relative to their total UI administrative costs. Further, we classified states by the proportion of their total costs allocated to IT. For each cost category, we used the median value as the threshold to distinguish between states with "lower" and "higher" cost shares. We compared the performance index across states grouped in this way using two-sample *t*-tests with one record per state to determine whether differences were statistically significant at the 10 percent level.

This approach measures whether a higher or lower allocation in any particular cost category correlates with UI program performance over time, but is not designed to assess cause and effect. The available data do not provide insight into the reasons why states allocate their funds in a particular way, and the data do not capture the underlying drivers of UI program performance. As such, the analysis is not designed to understand the extent to which a particular allocation of costs causes higher or lower performance, and the analysis does not adjust for characteristics that may have differed across states with different cost structures or differing levels of performance.

Overall, having a higher share of total costs dedicated to PS, Non-Workload activities is associated with higher UI performance, but this is not the case for the other cost categories, including IT. Specifically, we find:

► ***States with higher ratios of PS, Non-Workload costs to total UI administrative costs had higher UI performance than other states (Exhibit 6.11).*** Specifically, states with higher PS, Non-Workload cost shares had an average performance index score of 0.78, and states with lower shares had an average score of 0.71 for the 22-year period as a whole. The difference was statistically significant. This finding might be due partly to greater spending on activities in the Benefit Payment Control and UI Performs subcategories, as well as increased management and support activities related to UI administration. However, it is unclear whether greater spending in those categories is the product of —or the cause of—higher performance, or (as discussed below) whether other factors influence both PS, Non-Workload Costs and performance.

Exhibit 6.11: UI Performance for States with "Higher" and "Lower" Ratios of PS, Non-Workload Costs to Total UI Administrative Costs, Fiscal Years 2002 through 2023



Note: This exhibit uses UI performance data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands and UI administrative cost data from the Resource Justification Model. Comparing states with higher and shares of costs in the PS, Non-Workload category, the difference is statistically significant at the 10 percent level. See Appendix Exhibit B.16 for additional details. PS=Personal Services. UI=Unemployment Insurance.

► ***Otherwise, states categorized based on their relative levels of spending in the PS, Workload and NPS administrative cost categories—as well as IT costs specifically—had similar UI performance (Appendix Exhibit B.16).*** States with lower and higher shares of PS, Workload costs had average performance index scores that were not significantly different based on statistical tests for the analysis period as a whole (0.76 versus 0.73). Similarly, we did not find a statistically significant performance score difference between states with lower and higher NPS cost shares for the 22-year period as a whole (0.73 versus 0.76). Finally, states that allocated a lower proportion of administrative costs to IT spending showed no significant difference in overall performance compared to states with higher IT spending (with scores of 0.73 versus 0.76).[46]

As in Section 5.3, while our analysis used a UI performance index based on a set of performance measures that changed over time, we found mostly similar results when using an alternative version of the index that included a subset of performance measures that was consistent across years. The main difference when using the alternate index was that UI performance was significantly higher in states with higher NPS costs, though performance continued to have no statistically significant relationship with IT costs. Because this pattern was not consistent across the two versions of the performance index, our findings focus on the relationship between UI performance and PS, Non-Workload costs—which was statistically significant for both versions of the index.

These findings indicate there might be a link between the allocation of state UI administrative costs and UI performance, and it may be useful to explore both the reasons why and whether incurring some types of costs in any given year or set of years lead to longer-term changes in performance that could be detected through a more comprehensive analysis. The positive relationship between PS, Non-Workload costs and UI performance could reflect other factors that differ across states that are linked to both measures. For example, in states where management and business occupations are more common, salaries may be higher for UI central office staff, supervisors, and auditors (leading to higher PS, Non-Workload costs), and employers within the state may file tax information that is more timely and complete (leading to higher performance). In addition, a richer analysis that explores patterns over time in the relationship between cost categories and performance might be able to detect the extent to which different types of investments at a point in time are associated with performance at later points in time. If so, the year-by-year correlations between performance and PS, Workload or IT costs may not be

[46] As previously noted, states received one-time grant funding through ARPA between FY2021 and FY2023 to inform their UI system infrastructure and improve key components of performance. During this period, we observed an overall increase in states' IT spending (see Exhibit 6.6). It is possible that states that received ARPA funding allocated a higher proportion of their costs to IT, and this may have increased UI performance after the end of the period we studied. However, our analysis does not explore this, and we do not observe any differences in performance based on states' IT cost shares for the analysis period.

statistically significant even if there is a causal link. Moreover, the analysis may not detect longer-term changes in costs that stem from periodic investments to improve performance.

7. Discussion of Findings, Study Limitations, and Open Questions

DOL sponsored this study to help deepen understanding of the adequacy of UI program administration funding. The study has provided valuable insights about several aspects of the UI administrative financing process, while noting there is no single definition of funding adequacy. Study insights cover the following topics, guided by the study's research questions:

- Strengths and challenges with the current approach to funding UI program administration, as perceived by literature authors, state UI administrators, and OUI.
- How state UI administrators and OUI perceive annual federal UI administrative funding relative to annual UI administrative costs incurred by states, and implications for program operations and financing decisions.
- How administrative funding compares to cost data reported in annual data submissions from states, as well as how the relationship of funding to costs varies over time and across states.
- The extent to which measurable criteria provide insights about the potential strengths and challenges of the current funding approach.
- The role of fixed costs, especially IT costs, in states' administrative cost structures.

In this section, we discuss findings from the study (Section 7.1), limitations of the study and its findings (Section 7.2), reflections on the findings within the context of broader considerations for determining the adequacy of UI administrative funding (Section 7.3), and open questions that arise from the study's findings which, when answered by additional research, could provide additional insights to potentially address further funding adequacy questions (Section 7.4).

7.1. Discussion of study findings

This section synthesizes study findings presented in Sections 3 through 6.

7. DISCUSSION AND OPEN QUESTIONS

Summary of Study Findings

This study aims to generate empirical evidence about the current Unemployment Insurance (UI) administrative funding process and surface insights that could inform potential future developments in that process. The statute governing UI administrative financing (42 U.S.C. 502) says the federal government is responsible for funding proper and efficient UI administration, and states are responsible for administering their programs. The statute does not define what proper and efficient UI administration looks like. Our review of relevant literature, discussions with a purposive sample of UI administrators, and analysis of data on funding and costs from Fiscal Years 2002 to 2023 led to the following findings:

- State UI administrators and UI researchers say operating a program well is especially hard in a recession, when many people are filing for unemployment benefits. State UI administrators described how having adapted to a lean mode of operating when the economy is strong makes it especially challenging to easily handle surging workloads and additional federal funding at the start of a recession. Other ways of funding UI program administration have been suggested, though most require Congress to approve them. (See Section 3)
- When interviewed, a sample of state UI administrators described additional operational challenges that arise under the current UI administrative funding approach. Despite generally favorable views about the way annual federal funding is divided among states, the overall amount is perceived as too low. State administrators discussed some drawbacks to managing additional funding from one-time federal grants and perceived more reliance on state funding sources. One area of concern is rising technology costs in UI administration; there is disagreement on how best to plan for this. (See Section 3)
- The study looked at UI administrative financing over 22 years. We compared how much money the federal government paid states versus how much states spent. On average, the states got 0.5 percent to 3.6 percent less than they spent, depending on whether federal one-time grants were included alongside annual grants. During economic recessions, states as a group got more money than they spent; in other years, they got less. In general, spending data from states may understate the level of resources states would devote to UI administration if more funding were available. (See Section 4)
- Different states have different economies and UI program features. None of the differences we examined predicts whether the money from the federal government will be more or less than the state's costs. (See Section 4)
- The federal government monitors how state UI programs perform. States that, on average, had higher federal funding (including one-time grants) relative to their costs had higher average program performance over the 22-year period. The ratio of annual federal funding to costs, without one-time grants, does not appear correlated with program performance. Neither does the size of state funds as a share of UI administrative costs. (See Section 5)
- UI administrators who participated in interviews say that the way states get money to run their UI programs now will likely not cover needs for IT in the future. Paying for IT can be a challenge for smaller states in particular. Although small states spend less on IT than medium or large states, IT costs more per initial claim in smaller states. (See Section 6)

Despite the limitations in the analyses, the findings included in this study report provide evidence about the strengths and weaknesses of the current UI administrative funding process that can, in turn, inform potential future developments in it.

7. DISCUSSION AND OPEN QUESTIONS

From interviews with state UI administrators and OUI, and a review of relevant literature, we found a commonly reported perception that the federal annual grant funding for states' UI program administration is not enough to support proper and efficient UI program operations. Though the allocation of funds across states is generally viewed favorably, state administrators perceive that the overall size of the funding "pie" is too small, and rising IT costs present a particular challenge.

To address the funding gap, literature authors proposed various approaches to increasing the amount of funding available for UI administration, though these approaches have their own set of challenges. For instance, most would require congressional action to authorize additional resources to states. State administrators also pointed out operational challenges introduced by opportunities for one-time funding, as well as state legislative hurdles to supplementing federal funding with state funds. Their insights highlight the need to consider the broader context of the UI system across states when weighing tradeoffs for possible alternatives.

The perceived effects of insufficient levels of UI administrative funding, as cited by literature authors, center on program performance—for instance, poor customer service (such as long wait times to speak to UI program staff or jammed phone lines), and difficulty achieving federal performance standards for the program, such as timely payment of benefits. These perceptions align with our analyses of quantitative data, which show correlations between higher federal funding and higher program performance in some years.

In the absence of a way to define and measure funding adequacy, we explored measurable criteria such as funding-to-cost ratios, state resource contributions, and performance metrics to gain insights into the strengths and weaknesses of the current UI administrative funding approach. The study found that gaps between federal UI administrative funding and states' UI administrative costs have persisted over time. From our high-level analysis of quantitative data, we found that, over a 22-year period, federal UI administrative funding—whether measured by annual grants alone or those grants combined with one-time grants—was often below states' reported UI administrative costs, with gaps ranging from 0.5 percent to 3.6 percent. Funding tended to exceed costs during recessions, but costs often exceeded funding in nonrecessionary years. State administrators discussed operational challenges stemming from this cyclical misalignment, especially in the early months of a recession when they have adapted to a lean mode of operating that cannot easily handle surging workloads.

Funding ratios were similar across small, medium, and large states, indicating that state size was not associated with significant differences in the funding-to-cost gap. These findings are largely consistent with a funding model that relies heavily on historical costs and workload forecasts, both of which are correlated with state size. We note, however, that among states that covered at least 10 percent of their UI administrative costs with their own funds, more than half were small states, signaling that small states may have greater need than what the federal funding system currently supports. Further, the funding ratios presented throughout this report rely on cost data from the RJM, but the RJM does not provide a mechanism for states to report foregone spending—for example, unfilled staff positions or desired investments not undertaken.

State contributions accounted for 8 percent of total UI administrative costs over the analysis period. Smaller states have been more likely than larger states to make substantial contributions of their own resources towards UI program administration. Importantly, higher levels of combined federal funding (annual plus one-time grant funding) correlated with better UI program performance, while state resource contributions did not show a similar relationship. These findings suggest that federal funding levels may correlate with program performance more so than supplemental state funding.

Finally, beyond overall funding levels and contributions, the composition of administrative costs between fixed (non-workload) and workload-driven costs is also worth considering. Fixed costs, as reflected by cost categories not associated with changes in workload according to the RJM, play a significant role in states' UI administrative cost structures. Over the 22-year study period, these costs accounted for 49 percent of all costs. IT costs, as one category of non-workload costs, fluctuated over time between 7 and 12 percent of all administrative costs, with notable increases following periods of sudden workload increases. Although smaller states had lower levels of IT investments than larger states, they reported higher average IT costs per initial claim, which may indicate across states that a portion of IT costs is fixed. Overall, states that allocated a higher share of their budgets to non-workload activities—such as program integrity and performance monitoring—tended to achieve better UI performance (as measured by federal performance standards). However, no consistent performance advantage was observed for states with higher IT spending. This lack of correlation is surprising given expectations that technology improvements might enhance operations. These findings underscore the importance of recognizing and accounting for fixed, non-workload costs in funding models, especially for smaller states that may struggle to absorb them within a funding framework that heavily emphasizes workloads.

7.2. Limitations of the study and its findings

The study was designed to provide high-quality, objective findings in response to the study's research questions, within both the limitations of the potential data sources and appropriate analysis methods and the study's resources and schedule. The study aims to contribute significantly to an understanding of UI administrative financing issues. Nevertheless, it is important to keep in mind the study's limitations when drawing conclusions and insights about potential next steps for policymakers and other stakeholders.

First, the literature review was designed to cover a breadth of literature in a cost-efficient manner. As such, it used a snowball-type approach to identifying relevant papers and reports. One implication of this approach is that the review was not intended to systematically cover a particular time period or pre-defined range of literature sources. It is possible that the perspectives of some UI system stakeholders, such as employers or workers, are not adequately represented through the literature we reviewed. More generally, it is possible that we did not review all literature that could provide evidence and insights about UI administrative financing, although we concluded our literature review effort when new relevant literature and insights no longer seemed to be emerging.

Second, we purposively selected states to be part of the UI administrator interviews. This approach was by design so the interview information would represent a range of relevant UI program perspectives and experiences. However, as a result, the states cannot be interpreted as nationally representative. Furthermore, because administrators from a ninth state that we asked to participate in an interview were unable to, their views are not represented in our findings.

Third, given limitations in the content and quality of the quantitative data used for constructing measures of federal funding for states' UI administration, we made three important assumptions:

- We excluded from our measure of combined grant funding the one-time federal grants that states could have used for purposes other than UI program administration. Some one-time grant funds—namely the incentive payments to states authorized through ARRA—could be used for a range of different purposes, including but — importantly - not limited to UI program administration. It is unclear how best to treat these funds in the analysis. On the one hand, including these funds in our combined grant funding measure would enable the measure to better reflect funding that the federal government provided that *could* be used for UI program administration. The approach we used means that our estimates of federal funding, including one-time grants, are lower than what was actually the case. On the other hand, because states had flexibility in how to use the flexible one-time grants, the funds could be considered discretionary state funds. Ultimately, states' decisions not to use these funds for UI program administration could be interpreted as suggestive evidence that either states did not perceive a need for more UI administrative funding, or states did perceive such a need but other needs were more important to the state policymakers who determined how the funds should be spent.
- When assigning the timing of one-time grant funding to states, we attributed each grant to the year it was awarded. Because this analysis does not account for the actual year, or years, in which those funds were received by states, our combined funding measure for any given year may overstate or understate the amount of available funding.
- We also excluded some funds from state sources from our measures of state supplemental funding. Specifically, as described in Section 5, we excluded from our calculations of state supplemental funding the funds reported in the RJM data as coming from an "Other" state source; that is, other than state general funds, state administrative taxes, penalty and interest funds, and Reed Act distributions. We excluded costs in the "Other" state sources category because we found instances in which these costs reflected federal one-time emergency grants for UI administration. Our excluding these costs ensured that our estimates of state-sourced funds used for UI program administration reflect only expenditures that could

confidently be attributed to state sources. As a result, the estimates represent a lower bound on spending of funds from state sources.[47]

Fourth, although the study was designed to include in the quantitative data analysis the full range of years for which publicly available RJM data included actual costs incurred, the findings the analysis have two notable limitations related to the time period for which these data were available:

- The findings are inherently limited to the 22 fiscal years for which data were available (FY 2002 through FY 2023). This limitation does not influence our analyses of UI administrative financing issues within any given year included in the analysis, but it limits our ability to generate findings and draw conclusions based on a longer period of time or for years outside of these 22 years. Given that UI administrative financing issues are heavily context dependent—such as where the economy is in a business cycle, the size of annual congressional appropriations for UI administration, or whether Congress has provided one-time grants—inclusion of other years of data would inevitably lead to somewhat different empirical findings.
- The findings might be sensitive to the extent to which states carry unused funds from one year to the next, because identifying and gathering such data was not part of the study's design. Accounting for funds carried over could affect both within-year comparisons of fundings and costs and between-year comparisons (to the extent that states had unused funds in their accounts at the beginning and end of the 22-year period). The flexibility that states have to carry funds from one year to the next depends on the source of funds. For example, we attribute one-time grant funding to the year of award, but states typically have more than one year to spend this funding. However, it is possible that the full grant amounts might not be available for spending in later years in the rare event the grants are terminated prior to their original expiration dates.

Ultimately, though, we believe that the findings from quantitative data analyses provide valuable insights about differences between funding and costs over time and across states, states' cost structures, and the relationships between UI administrative financing and states' characteristics and program performance.

Some of the limitations discussed above relate to the empirical measures used in the analyses; more broadly, the study itself is constrained because the exercise of assessing adequate funding for UI administration requires more than empirical analyses. The findings included in this study report provide evidence about the strengths and weaknesses of the current UI administrative funding process that can, in turn, inform potential future developments in it. However, the study

[47] Had we included all "Other" funds in our analyses of state resources, our estimates of states' contributions would have been about $4.3 billion larger during the 22-year analysis period, and state resources would have accounted for 13 percent, rather than 8 percent, of resources spent for UI program administration.

was not designed to provide guidance on the level of UI administrative funding that *could* or *should* be considered adequate for administering state UI programs at the performance levels expected by the federal government (or desired by state governments and/or other stakeholders). As discussed in the next section, answering these more conceptual questions depends on a dynamic set of variables and assumptions, only some of which can be measured directly.

7.3. Reflections on study findings

In this section, we reflect on the study's findings as they pertain to foundational concepts related to adequacy in the context of UI administrative financing. We also discuss potential ways in which the findings from the study could be used to help guide policymakers' efforts to ensure that funding levels facilitate proper and efficient administration of the UI program.

There are two core concepts on which the understanding of UI administrative funding adequacy rests. First is a conceptualization of what constitutes proper and efficient UI program administration, and second is a conceptualization of what it costs to support that. This study's findings highlighted some of the complexities for defining standards related to each concept.

Proper and efficient UI program administration can mean different things in different contexts. The statute governing UI administrative financing (42 U.S.C. 502) states the federal government is responsible for funding proper and efficient UI administration, without defining what that means. From our literature review and interviews with state administrators and OUI, we learned about different facets of UI administration that were considered important.

One perspective, for example, was that funding needed to be sufficient to enable states to build and maintain systems that could nimbly respond to sudden increases in demand for UI program services, such as at the start of a recession. These systems would include both IT and skilled program staff to effectively and efficiently handle the spike in different types of workload activities, such as initial claims and appeals.

Another perspective on "proper and efficient" program administration was the states' ability to consistently meet or exceed federally-specified performance standards. Our analyses of funding ratios and program performance over time provided some evidence suggesting that higher average performance in states is positively associated with above-average expenditures on non-workload-based activities in some years. However, it might be reasonable to expect variation in performance even among high-functioning programs, when faced with a new challenge or a new requirement that redefines what is expected of the program. For example, we heard from both state administrators and OUI about new ID verification requirements that state UI agencies must meet in light of atypically high fraud rates that UI programs experienced during and in the aftermath of the 2020 recession. Inevitably, as state UI programs evolve—as they continually do—the standard for proper and efficient program administration also will change.

A third perspective considers program performance other than what is measured by current federally-specified performance metrics. For example, state UI administrators spoke about the importance of providing high-quality customer service, which they perceived in part was

dependent on staff training and retention. They also noted evolutions in the public's expectations about what a good, accessible system is, such as having new functionality or additional ways in which claimants can access information about their claims and benefits. In addition, our literature review identified some stakeholders' views of the recipiency rate as a potential measure of program effectiveness. However, we expect that whether or how to use it could be debated by stakeholders given the way in which the recipiency rate is typically measured and the inherent tension within the UI system about providing temporary income support to eligible unemployed workers while avoiding the disincentive effects of such support on reemployment.

The cost of proper and efficient UI program administration is a moving target. Setting aside the definition of proper and efficient administration, the statute provides guidance to the federal government to consider variation in workloads and other factors when determining how much funding to provide. However, as demonstrated through the study's analyses, program workloads vary significantly over the business cycle. The fluctuations in workloads are hard to predict given that the labor market evolves and each economic downturn is distinct. While the current funding approach has features designed to mitigate this challenge, we heard from state administrators that uncertainty about and lags in the provision of additional funding when workloads increase unexpectedly have hampered program operations.

In addition to workload fluctuations, we identified several other challenges related to the measurement of administrative costs that make it difficult to identify which other factors should be considered when assessing what states need to operate their programs. First, states do not have a mechanism for providing a full accounting of what they need. As discussed throughout the report, especially Section 4.1, reported costs in the RJM reflect expenditures incurred — not necessarily the full accounting of expenditures that would enable the states to operate programs properly and efficiently (however defined). For example, data about costs do not reflect unfilled staff positions or IT expenditures that could have enabled greater efficiency in the long run but which are unaffordable given funding constraints. Absent a crisp definition of what proper and efficient program administration is, and evidence that at least some states have been able to operate properly and efficiently, it cannot be known whether expenditures that were desired by administrators but not incurred would close the gap between actual performance and desired performance.

Second, costs of UI program administration depend on factors outside of UI agencies' control. We heard during interviews with state administrators about instances in which reorganizations within the state workforce agencies have recently changed (or will change) costs borne by the UI agency, such as how costs for a shared IT system are apportioned across the workforce programs that use it. We also heard of instances in which UI agencies needed to adapt to additional, unanticipated costs imposed by their state legislatures, such as a new program requirement related to claimants' work search or staff salary increases for all state government workers. Because these types of cost increases influence per-activity costs and not the volume of activities per se, state agencies would

not be able to expect a federal funding increase in the year in which the unanticipated costs are incurred.[48]

A third challenge that hampers adequate measurement of need for funding includes lack of information about why some states draw upon resources besides federal funds dedicated for UI program administration. These other funds include both state-sourced funding and federal-sourced funds that states can use either for UI program administration or another purpose. One example, discussed above in the context of the study's limitations, is ARRA funding that could be used towards either UI program administration or UI program benefits. It is unclear whether a choice to direct funds towards another purpose besides UI program administration reflects a lack of need for more administrative funding or simply a greater need for funding for the other purpose.

Finally, because states have broad discretion about how to operate and administer their programs, as long as they adhere to federal requirements, costs will be dependent on the choices of the states, which do not provide most of the funding for program administration. This situation is a classic example of what is often referred to as the "principal-agent problem," in which an "agent" makes decisions, but the "principal" bears the full responsibility for them. In this case, states make decisions about program administration, while the federal government is responsible for funding it. This type of situation could induce states to make cost-inefficient decisions—and, during state interviews, we heard claims that the funding process rewards states that operate inefficiently because they receive more funding than more efficient states with similar workloads.

In summary, defining and measuring adequacy in UI administrative financing is far from straightforward. The standards for what constitutes proper and efficient UI administration—and what it costs to achieve—are constantly evolving, shaped by changing demands, policy shifts, and state-level decisions. While the current funding model accounts for workload variation, the full range of needs and challenges is difficult to quantify. The findings in this report can help inform thinking about whether and how the model could or should be improved by providing insights about the strengths and challenges in the current funding approach, and documenting what is known about variations in funding and costs across recent business cycles using available data. The study also identifies factors that are not captured in available data but may affect states' ability to properly and efficiently administer the UI program in their state with the federal funding that is made available to them.

7.4. Open questions

The findings from this study help illuminate additional questions related to defining or understanding adequacy of UI administrative funding. We have listed those questions below, organized according to the key concept they pertain to:

[48] During our interviews, UI agency administrators viewed other state-level entities, such as the state legislature or other parts of the workforce agency that housed the UI program, as distinct from the UI agency. One could view the decisions of these other entities as subject to the principal-agent problems, discussed below.

Identifying a standard for whether UI programs are operating properly and efficiently

- As discussed in Section 7.3, proper and efficient program administration could be defined in several different ways, such as meeting or exceeding program performance standards or being able to respond nimbly to changes in workloads, the state and federal legislative landscapes that influence the program, and customer service expectations. To build on the findings in this study, stakeholders might consider: ***What other types of measures, beyond those that can be measured with currently available data, are relevant for assessing proper and efficient UI program administration within the current and likely future program landscape?*** For example, there might be value in including new tests of the resilience of the system to different types of stresses, somewhat analogous to the stress tests performed in the financial sector. Additionally, policymakers might want to consider inclusion of new measures of program performance related to customer service (such as wait times or hang-up rates for calls to the UI agency call centers), IT modernization status, or rates of recipiency among UI-eligible unemployed workers. Finally, it may be valuable to consider ways in which incentives for efficient resource use could be incorporated into future measures.
- Ultimately, any framework for assessing program performance will need to be flexible enough to be relevant and achievable by all states, given (1) the flexibility they have in designing and operating their programs, (2) the constraints UI agencies face when operating programs in coordination with other workforce programs, and (3) the highly variable and unpredictable workloads that states can face. It is possible that having this type of flexible framework for assessing whether UI programs are operating properly and efficiently could greatly facilitate the assessment of the adequacy of administrative funding.

Understanding the relationship between funding and proper and efficient program administration

- From our analysis of states' expenditures on different types of costs, we found that states with higher ratios of PS, Non-Workload costs (such as benefit payment control and UI Performs) to total UI administrative costs had higher UI performance than other states. However, it is unclear whether this finding reflects a causal link or is a product of other factors that affect both UI administrative spending decisions and performance. For example, in states where management and business occupations are more common, salaries may be higher for UI central office staff, supervisors, and auditors (leading to higher PS, Non-Workload costs), and state employers may file tax information that is more timely and complete (leading to higher performance). It would be helpful to ask: ***What considerations do state UI administrators take into account when they determine how much to allocate towards PS, Non-Workload activities and other activities?*** Answering this question could help identify the extent to which state administrators have discretion in cost allocation, and the mechanisms through which investments in PS, Non-Workload activities influence program performance outcomes.

Identifying strategies for maintaining proper and efficient administration during unexpected increases in UI workloads

- During our state interviews, we heard about a range of different strategies that administrators have used to prepare for quick responses to economic downturns and/or to operate amidst perceived inadequacies in administrative funding. However, the study was not designed either to systematically collect these types of strategies across all states or to identify conditions under which such strategies might be generalizable to other circumstances. An examination of such strategies could lead to insights that facilitate more efficient program operations across a range of states and economic conditions. For example, what strategies have states used to quickly bring staff on board to handle spikes in initial claims and other workload-dependent program activities, such as nonmonetary determinations and appeals? And, what strategies have states used to quickly expand their infrastructures, such as call center and website capacity, to handle large and sudden increases in workloads? ***Which strategies for managing workload fluctuations have been especially effective and cost-efficient?*** Which have not been? How do state administrators weigh the benefits and drawbacks of these strategies given uncertainty about the depth and duration of the increase in workloads? Finally, what ideas do state administrators have about how the federal government could support the ability of states to respond nimbly and cost-effectively when workloads change?

Addressing non-workload based costs, specifically IT-related costs, within the current UI administrative funding process

- The state administrators we interviewed mentioned several types of problems with IT investments: cost pressures due to the limited number of vendors available to do IT work, challenges with effectively using one-time time-limited funding, and difficulty sustaining IT-related changes made with such funding. As a result, the state administrators perceived that they were hampered in their ability to most efficiently use funding made available to them. This study was not designed to dive deeply into these problems or to generate a list of potential strategies to address them. Moving forward, to the extent that funds are available for making IT improvements (as they have been occasionally in the past), it would be helpful to explore: ***What are potentially effective options for facilitating better use of funding for IT investments?*** This exploration could include addressing a host of questions related to states' use of prior IT investments. For example, to what extent—if any—are the number of vendors, their pricing structures, and state procurement practices contributing to inefficient IT expenditures? What strategies do states use to help ensure that their UI agency staff have the necessary skills to effectively use (or adapt to changes in) IT systems? To what extent are the perspectives and skill sets of staff and customers, such as claimants and employers, taken into account when decisions about IT investments are made? To what extent are states able to maintain upgrades to their IT systems that were made with federal one-time grant funding? What are the benefits and drawbacks of small, incremental investments in IT compared to larger one-time

investments? And, to what extent do potentially effective options differ for states based on their size or organizational structures within the workforce agency that houses the UI program? Finally, how have states assessed whether their investments in IT have been worthwhile? And what strategies have they used to facilitate a good return on their investments, such as in staff efficiency, better program performance, or other metrics?

Answers to these open questions could be useful to provide additional insights to potentially inform the financing process and, ultimately, the UI system's ability to operate properly and efficiently with the available funding.

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Appendix A: Study Data and Methods

This appendix provides additional detail on the data sources and analysis methods used for the Unemployment Insurance (UI) Administrative Costs Study. The data sources are:

- A literature review (Appendix A.1).
- Interviews with state administrators and the Office of Unemployment Insurance (OUI) (Appendix A.2).
- Quantitative data about UI administrative costs and funding (Appendix A.3).

We also describe in this appendix the quality review process carried out during the study (Appendix A.4).

A.1. Literature scan and review

One component of the UI Administrative Costs study was a literature scan to identify documented challenges that arise with the current approach to funding UI administrative costs and alternative funding mechanisms that have been proposed. The purpose of the scan was to inform other study activities, including the content of semi-structured discussions with state UI administrators and the direction of analysis of quantitative data about funding for and costs of UI program administration across states. The results of the literature scan, with a complete list of references, are published in a separate document (Needels et al., 2024).

The literature scan occurred between January and May 2024. We focused on information about the administrative financing process, its challenges, and alternative funding mechanisms that have been proposed by experts in UI policy and program history during the past few decades. To identify relevant literature, we began with a scan of relevant documents, websites, and conference proceedings our team was already aware of. We then followed additional leads identified by U.S. Department of Labor (DOL) staff and consulted with a former DOL staff member who had a lead role in developing the RJM and the approach to UI administrative funding currently in use. We also identified additional sources through following citations and reference as the literature scan was underway. We categorized sources by topic, including UI funding structure, federal and state UI funding allocations, internal and external stressors on funding, conditions under economic recession and expansion, the RJM, and factors related to variance in funding across states. The literature we reviewed and cited was published from 1980 through 2024; in consultation with DOL, we considered this timespan would provide sufficient context and insight into the features and components of the current UI administrative finance system (within the constraints of study resources).[49] We prioritized sources that were not sponsored by organizations with a stated

[49] DOL and we did not view 1980 as a rigid start date for the literature search. Nevertheless, given the significant changes that have been made to UI program administration since the early 1980s, we did not anticipate

advocacy or lobbying role related to influencing UI policy or programs, but when relevant and appropriate, we included the perspectives of individuals and groups engaged in the UI system, such as UI agency staff or advocacy groups.

A.2. Interviews with state administrators and OUI

We conducted ten semi-structured interviews to capture the perspectives of state[50] administrators and OUI on UI administrative financing. Inclusion of both the state and federal perspectives is valuable because they reflect distinct roles and responsibilities in the federal-state partnership that underpins the UI system. During July and August 2024, we conducted interviews with administrators from eight purposively selected states (Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin) to learn about their experiences in managing the financing of program administration under different UI program conditions. The findings based on the state UI administrator interviews cannot be interpreted as nationally representative because we purposively selected states to be interviewed. Furthermore, administrators from a ninth state that we asked to participate in an interview were unable to. Their views are not represented in our findings. During January and February 2025, we conducted two interviews with OUI to gain additional information and insights about the UI administrative financing process.

State administrator interviews: Selection criteria and interview protocol

With DOL's guidance, we purposely selected nine states to invite for the interviews, of which eight completed an interview. This section describes the approach used for selection. We relied on the seven criteria in Exhibit A.1 below to identify a suitable set of states for this data collection effort. All 50 states, the District of Columbia, and Puerto Rico were considered and categorized according to their characteristics.[51,52]

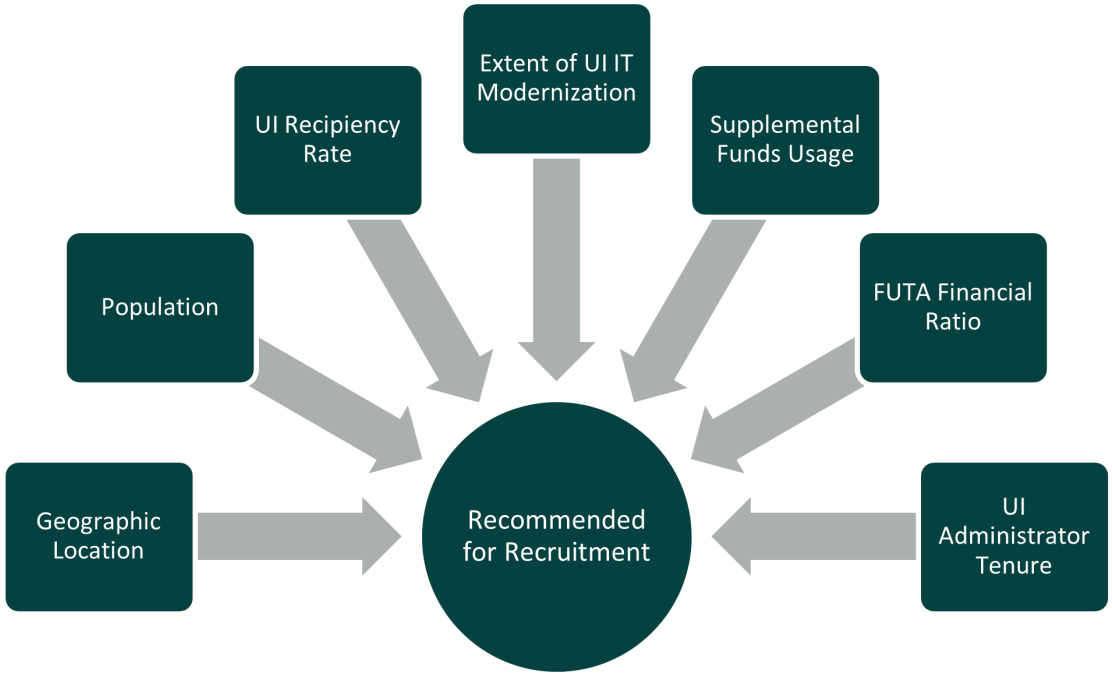
distinctive and relevant insights would be gained from using an earlier start date. A few of the many changes pertain to use of computers, the methods of communication between claimants and UI program staff, and how administrative funding was provided to states. Furthermore, the final report from the National Commission on Unemployment Compensation final report (NCUC 1980), which we included in our literature review, provided insights about the strengths and weaknesses of different facets of the UI system prior to 1980, including the funding of its administration.

[50] Throughout, we use the term "states" to refer to UI jurisdictions, unless otherwise noted.

[51] Given the unique characteristics of the U.S. Virgin Islands (i.e., relatively very low population, large federal FUTA tax credit reduction, etc.), it was eliminated early in the selection process as a feasible candidate for interviews.

[52] See the Notes to Appendix Exhibit A.2 for sources of the data used for these categorizations.

Exhibit A.1: State Selection Criteria



FUTA= Federal Unemployment Tax Act. UI=Unemployment Insurance.

Below is the rationale for using each of the seven selection criteria:

- **Geographic Location:** We selected at least one state from each of DOL's six regions to get a broad understanding of UI administrative challenges states face across the country.
- **Population:** We prioritized interviewing a mix of low-, medium-, and high-population states to better understand differences in the operation of their UI programs and the related implications on administrative costs. We used Civilian Labor Force data from January 2024 to construct this criterion. States with a population below 1.3 million people were categorized as "low-population" states (18 states), states with a population between 1.3 million and 3.3 million people were categorized as "medium-population" states (17 states), and states with a population greater than 3.3 million people were categorized as "high-population" states (17 states).
- **UI Recipiency Rate:** We used the UI recipiency rate[53] as a metric of each state labor force's use of the UI program and as a straightforward way to capture the influence of many other UI

[53] The UI recipiency rate available in the DOL UI ChartBook (retrieved December 2025, from https://oui.doleta.gov/unemploy/Chartbook) represents the percentage of unemployed individuals in a state who receive UI benefits (from ETA 5159 reporting) out of the total number of people unemployed (from the Current Population Survey, Bureau of Labor Statistics).

program features on administrative costs. For this criterion, we used the most recent recipiency rate data available at the time on the DOL/Employment and Training Administration (ETA) website (Fiscal Year [FY] 2023) and sorted states into three relatively even groups. Based on the distribution of the data, states with a recipiency rate above 0.3 were categorized as "high" (16 states), states with a recipiency rate below 0.2 were categorized as "low" (19 states), and states with a recipiency rate between 0.2 and 0.3 were categorized as "medium" (17 states).

- **Extent of UI IT Modernization:** We sought to interview a set of states that varied across their IT modernization status because the degree to which a state has modernized its systems will influence both its total administrative costs and the way it allocates resources across expense types. To create this criterion, we used the NASWA UI Information Technology Support Center's January 2024 categorization of the status of states' modernization efforts with their UI benefits and UI tax systems. We categorized states as "fully modernized" when NASWA indicated a state had deployed both modernized benefits and tax systems. We categorized states as "partly modernized" if a state had deployed one of the two systems but had not modernized both. The remainder of states we categorized as "not modernized." Most states fell within either the "fully modernized" (22 states) or "not modernized" (23 states) category, with a few being "partly modernized" (7 states).
- **Supplemental Funds Usage:** We prioritized selecting states that use different amounts of additional funding, particularly their own state resources, to better understand states' motivations to contribute additional resources to support the administration of their UI programs. To create this criterion, we reviewed supplemental funding usage shown in the Resource Justification Model (RJM) data from the most recent year available at the time (FY 2022) and categorized states into the following groups: "no" supplemental funding (9 states), supplemental funding usage that is "below" the median rate but greater than zero (17 states), and supplemental funding usage that is "above" the median rate (26 states).
- **FUTA Financial Ratio:** We reviewed data available in the Federal Unemployment Tax Act (FUTA) data dashboard, published on the DOL/ETA website, to determine sustained discrepancies between a state's percentage share of available federal funds for UI administration versus the revenue it generates through FUTA taxes. We used the most recent data in the FUTA data dashboard at the time (FY 2022) to find the ratio of the total FUTA funds returned to states versus the total estimated FUTA receipts (using Employment Security Administration Account [ESAA] contributions). We used this ratio to sort states into three groups. Given the natural breakpoints in the data, states with a ratio less than 0.5 were categorized as "low" (14 states), states with a ratio between 0.5 and 0.7 were categorized as "medium" (16 states), and states with a ratio greater than 0.7 were categorized as "high" (22 states).
- **UI Administrator Tenure:** We prioritized interviewing state UI administrators who have worked in the UI system for at least several years to gain historical perspectives about UI

administrative funding and costs over time. After we identified a list of 20 states that were varied and well balanced on the above criteria, we asked experts at NASWA to provide us with information on the tenure of UI administrators in those states. We also requested NASWA's input on whether there are UI administrators in other states besides these 20 who would be important to consider for because of their tenure. We used that data to determine which states to prioritize for the study.

State selection

After each of the criteria above was established, we began the process of purposively selecting states. We started by sorting the 52 states according to their categorization in each criterion, beginning with geographic location. We then looked at states' population size, recipiency rates, the extent of modernization, supplemental fund usage, and financial experiences to create an initial list of 20 recommended states that provided a mix of different characteristics within each category. We then requested information about UI administrator tenure in those states, from NASWA. States with administrators that had very short tenure (less than 1 year) were de-prioritized under the assumption they would not likely be able to respond to questions about longer term trends in UI financing within their states. In consultation with DOL and NASWA we used expert judgment to prioritize list of states to be contacted.

After we purposively selected nine states for interviews, NASWA staff notified those state UI administrators that we would be contacting them. Shortly thereafter, we emailed the state administrators to request their participation. Ultimately, administrators in one of the initial nine states declined to participate. We later requested administrators in a backup state to serve as a replacement; however, they also declined.

The administrators with whom we completed interviews were from the following eight states: **Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin.** Collectively, the eight states interviewed for this study represent all six DOL Regions (Exhibit A.2). The populations, UI recipiency rates, and FUTA financial ratios of these states vary across high, medium, and low categories. Four states were categorized as not having modernized their UI IT programs, three states as partly modernized, and one state as fully modernized. The 17 administrators who participated across the eight states were high-ranking staff within their respective state's UI program. They included UI directors, chief financial officers, RJM experts, and others with knowledge about UI administrative funding, administrative costs, and program operations. Six of the eight states included one or more administrators with at least five years of experience within the UI agency.

We conducted the first interview on July 10, 2024. We concluded the interviews on August 2, 2024.

Exhibit A.2: States Included in the UI Administrator Interviews

State	Geographic Location (DOL Region)	Population	UI Recipiency Rate	Extent of UI IT Modernization	Supplemental Funds Usage in FY2022 vs. Median	FUTA Financial Ratio
Alaska	6	Low	Medium	Not	Below	High
Florida	3	High	Low	Partly	Above	Low
Indiana	5	High	Low	Fully	Above	Low
New Hampshire	1	Low	Low	Partly	Above	Medium
New York	1	High	High	Not	Above	Medium
North Dakota	4	Low	High	Not	No	Medium
West Virginia	2	Low	Medium	Not	No	Medium
Wisconsin	5	Medium	Medium	Partly	Below	High

DOL=U.S. Department of Labor. ETA=Employment and Training Administration. FUTA= Federal Unemployment Tax Act. FY=Fiscal Year. IT=information technology. UI=Unemployment Insurance.

Note: UI Administrator Tenure data was not collected systematically and was based on anecdotal data, so it is not included in the exhibit.

Sources: DOL/ETA's Regional Offices; January 2024 Civilian Labor Force data from the U.S. Bureau of Labor Statistics, accessed March 2024; FY23 Recipiency Rates from DOL/ETA's Unemployment Insurance ChartBook; NASWA's Information Technology Support Center report on the Status of State UI IT Modernization Projects, accessed March 2024; and DOL/ETA's FY22 Estimated FUTA Receipts vs. Amount Returned data.

Conducting the state interviews

During the eight state interviews, which were conducted through video conference call and lasted about 90 minutes each, we used a DOL-approved semi-structured interview protocol to ask administrators about their experiences with and perspectives about UI administrative funding and costs, the gap between funding and costs, and recommendations to inform UI administrative financing. We also discussed changes in administrative funding and costs over time; challenges with the current funding structure; and steps states have taken to address challenges they have faced, including usage of state funding to supplement the federal funding.

We used a semi-structured interview format to encourage the state administrators to share insights about their state's distinctive experiences with administrative financing. We pursued some topics in detail when doing so was likely to yield insights; we also skipped or greatly reduced time spent discussing other topics when doing so was unlikely to yield insights or when time constraints hindered our ability to cover all topics in detail. As a result, the information that we collected was not uniform across interviews. Four of the interviews included a single participant, two interviews included two participants, and two interviews included more than two participants, for a total of 17 interview participants. With permission from participants, the meetings were recorded with auto-transcription for note-taking purposes; the recording and transcription were deleted once summary notes were reviewed by at least two different study team members. We used an inductive approach to tag and organize themes that emerged from the discussions, as documented in the notes, as well as to identify illustrative quotes.

OUI interviews

In analyzing the state interviews, we recognized the potential value of gathering information at the federal level to supplement state perspectives, given the distinctive role that OUI plays in UI administrative financing. We met with OUI on January 30 and February 5, 2025, for a two-part interview series to gain a more comprehensive picture of the UI administrative financing process. The first interview lasted 90 minutes and the second one lasted 60 minutes.

We developed and used a semi-structured discussion guide for this interview series. Similar to the discussion guide for interviews with state administrators, this protocol included questions about UI administrative funding and costs as well as the gap between funding and costs. We started with the discussion guide used with state administrators and removed questions about state-specific funding levels, as well as operational choices to address fluctuations in funding at the state level. We added questions about cross-state trends in using the RJM and DOL's role in allocating funds across states. We used a conversational approach, which allowed OUI to share thoughts on UI administrative financing topics not directly addressed in the state administrator interview protocol, such as how to define funding adequacy. We also skipped or greatly reduced time spent discussing other topics included in the discussion guide when doing so was unlikely to yield insights or when time constraints hindered our ability to cover all topics in detail.

A.3. Quantitative data

To develop and analyze quantitative measures of UI administrative funding and costs, as well as drivers of any gaps between funding and costs that we would identify, we used data from the following sources:[54]

1. Information in states' annual RJM submissions, consisting of recent UI administrative costs and the drivers of these costs (e.g., staffing levels, salary rates, number of claims, etc.) for each state.
2. Amounts of federal funds allocated to each state for UI administration.
3. Characteristics of states' UI systems.
4. Economic characteristics of states.
5. Information regarding states' UI performance metrics.

We analyzed data spanning 22 federal fiscal years (FY 2002 through FY 2023), as this period represented the full range of years for which publicly available RJM data included actual costs incurred. Where possible, data are recorded in federal fiscal years, but some data sources only report data using calendar years. We note below when data is only available for calendar years. All

[54] All data is taken as is after conducting quality checks on each variable.

dollar amounts are expressed in real 2023 dollars, adjusted for inflation using the implicit GDP deflator by dividing the nominal dollar amount by the GDP deflator for a given year.[55]

In the following subsections, we describe these data sources in greater detail and summarize the measures we constructed for our analysis.

State UI administrative costs

We use data from the RJM to measure states' UI administrative costs.[56] States share detailed accounting information to the RJM database, including actual costs incurred in the previous year. In the RJM framework, some personnel costs are assumed to fluctuate with the volume of UI system activities ("workloads") whereas other personnel costs, as well as non-personnel costs, are assumed not to depend directly on the volume of these activities. The RJM framework includes personnel cost information for six workload activities[57] and four non-workload activities.[58] The RJM also contains data on the dollar amounts of non-personal services (NPS) costs for categories such as IT, facilities, and equipment.

We use the following measures of states' UI administrative costs in our analysis:

- **Total UI Administrative Costs**: All costs that are allowable for UI program administration purposes, regardless of the source of the funding used to cover the costs.
- **RJM Category-Specific Costs:** UI administrative costs associated with specific cost categories recorded in the RJM. These categories include expenditures associated with the six workload activities, four non-workload activities, and NPS costs.
- **Personal Services (PS), Workload Costs:** PS, Workload costs refer to the total costs associated with the six workload activities.
- **PS, Non-Workload Costs:** PS, Non-Workload costs refer to the total costs associated with the four non-workload activities.

[55] Source: U.S. Bureau of Economic Analysis, Gross Domestic Product: Implicit Price Deflator [GDPDEF], retrieved October 2025 from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPDEF. While the time unit of analysis is most often the fiscal year, the GDP deflator data is measured over the calendar year.

[56] We sourced the RJM data from the Data Analysis Files retrieved August 2025 from https://oui.doleta.gov/rjm/ [accessed August 2025

[57] The six workload activities included in the RJM are (1) initial claims, (2) weeks claimed, (3) nonmonetary determinations, (4) appeals, (5) UI-covered employers, and (6) wage records.

[58] The four non-workload activities included in the RJM are (1) Benefit Payment Control, (2) UI Performs, (3) support, and (4) administrative staff and technical services.

- **Non-Personal Services (NPS) Costs:** NPS costs equal all other (non-labor-related) administrative costs, including costs for maintaining facilities, purchasing supplies, building or maintaining IT infrastructure, and communications.
    - **IT/Communications (IT/Comms) NPS Costs:** IT and communications NPS costs are a subset of NPS costs. The reporting of IT and communications NPS costs in the RJM changed starting in 2020, reflecting actual costs incurred during FY 2018. In our analysis, for actual costs incurred before FY 2018, we define IT/Comms NPS Costs as the sum of Communications Costs and Computer Services Costs, as reported in the RJM. In FY 2018 and later, we define IT/Comms NPS Costs as IT/Comms Costs, as reported in the RJM.
- **UI Administrative Costs Funded from State Sources:** In the RJM worksheets, states report the sources of UI administrative expenditures from state resources. These sources include states' general funds, state administrative taxes, penalty and interest funds, and Reed Act distributions.[59]
- **Substantial Spending from State Sources:** We refer to states in which at least 10 percent of total UI administrative costs are funded from state sources as having contributed "substantial" state resources to their UI administrative costs.

Federal administrative grant funding

Each year, DOL allocates federal UI administrative grant funding to states based on congressional appropriations. We used three main measures of UI administrative grant funding, defined as follows:

- **Annual UI Grant Funding:** A state's annual federal administrative grant funding for its UI program for a given year includes base funding allocations plus above-base allocations (when such funding was allowed and provided) and funds allocated in response to states' supplemental budget requests. This total does not include one-time grant funding that the federal government makes for UI administration outside the annual funding cycle and that are

[59] There is also a category of "Other" state sources reported in the RJM, but we excluded this category from our analysis due to irregularities in how states report state resource expenditures sourced from "Other" state sources. Notably, we found instances of states reporting UI administrative costs funded through federal programs as state-sourced expenditures. For example, in Budget Year 2023 RJM data, one state reported that more than $9 million of its UI administrative costs were funded through the Families First Coronavirus Response Act emergency grants as expenditures from state sources and included these costs in the "Other" state sources category. To avoid potentially distorting the scope of states' use of their own resources, we chose to exclude this "Other" category of states' spending from the analysis. As a result, our estimates of state resource spending are likely to represent a lower bound of total non-federal spending. However, our approach ensures that the reported statistics reflect only those expenditures we can confidently verify as originating from state sources.

described below. The amount and distribution of these funds can be found on DOL's website, recorded in the "UI" column of the "Estimated FUTA Receipts vs. Amounts Returned" tables.[60]

- **One-Time Federal Grants for UI Administration:** Non-recurring allocations of federal funds provided to states to support specific administrative needs, separate from the regular annual funding cycle. During the 2008 recession, one-time grants included administrative funding under the American Recovery and Reinvestment Act of 2009 (ARRA) ($499.9 million) and support for implementing or expanding Short-Time Compensation (STC) ($46.2 million). During the 2020 recession, they included emergency administrative funding under the Families First Coronavirus Response Act ($999.8 million), STC grants ($20.0 million) like those from the prior recession, and ARPA grants aimed at improving states' UI service delivery ($782.9 million). We exclude the ARRA modernization incentive payments, totaling an estimated $4.4 billion, from 2008 combined funding totals, as states could use the payments either for administrative purposes or to fund benefits for new claimant populations. We were unable to determine how much was used for each purpose. As a result, the 2008 combined funding totals represent a lower-bound estimate of all federal one-time grants available to states for UI program administration.
- **Combined Grant Funding:** A state's combined grant funding equals its "Total UI Grant Funding" plus "One-Time Federal Grants for UI Administration."

State UI system characteristics

We included state UI program characteristics in our analysis because these factors may influence the overall costs or the allocation of costs across workload and non-workload categories. We examined the correlation between states' funding ratios and their UI programmatic characteristics.

Five of the 18 characteristics of state UI systems come from states' data submissions to DOL using form ETA 5159. They are available via download from the UI Data Summary tables on OUI's website:

- **Benefit Duration:** The average number of weeks for which UI benefits are paid to claimants, calculated as the ratio of total number of weeks compensated during a given year to the total number of individuals receiving their first payment during the year.
- **Exhaustion Rate:** The proportion of claimants who receive the maximum amount of UI benefits available to them, measured by dividing the number of final payments (exhaustions) by the number of first payments from six months earlier.
- **Initial Claims:** The total number of new and additional claims for UI benefits filed within a year, including intrastate and interstate claims (the latter being counted in the liable state).

[60] FUTA tables downloaded August 2025 from https://oui.doleta.gov/unemploy/futa_receipts.asp.

- **Weeks Claimed:** The total number of benefit weeks claimed by UI recipients, including weeks that were not paid (due, for example, to disqualifications).
- **Recipiency Rate:** The share of unemployed individuals who are receiving UI benefits, calculated as the ratio of unemployed persons in regular UI programs (i.e., state UI, Unemployment Compensation for Federal Employees, and Unemployment Compensation for Ex-Servicemembers) to the total number of unemployed persons (from the Bureau of Labor Statistics).

Information about states' processing of UI eligibility issues comes from states' submissions of data using form ETA 207, available via download from OUI's Data Downloads page. Specific measures are defined as follows:

- **Nonmonetary Determinations:** The total determinations or redetermination made regarding nonmonetary eligibility status (as opposed to monetary eligibility considerations such as sufficient past wages). Nonmonetary determinations and redeterminations are made in response to issues regarding the reasons for the job loss that resulted in the UI claim ("separation" issues) or other ("nonseparation") reasons, such as not being able and available to accept work in a week for which benefits were claimed. Determinations and redeterminations can lead to denials of approval for benefits, depending on the results of the fact-finding efforts.
- **Determinations Rate – Separation Issues:** The rate of determinations for issues related to job separation (e.g., voluntary quit, gross misconduct, etc.), calculated as the number of separation issue determinations divided by the number of claimants making an initial claim in the same year.
- **Determinations Rate – Nonseparation Issues:** The rate of determinations for issues unrelated to job separation (e.g., ability to and availability for work), calculated as the number of nonseparation issue determinations divided by weeks compensated.
- **Denial Rate – Separation Issues:** The number of denials for separation-related reasons divided by number of initial claims.
- **Denial Rate – Nonseparation Issues:** The number of denials for nonseparation-related reasons divided by number of weeks compensated.

After a determination is made about UI eligibility issues, claimants have the opportunity to appeal the decision. States may have two levels of appeals authorities: a lower and a higher authority. Information about appeal decisions, including by type of appellant and by decision status, comes from states' submissions of data using form ETA 5130, available via download from OUI's Data Downloads page. Specific measures are defined as follows:

- **Benefit Appeals:** The number of appeals decisions made at both the lower and higher authority levels for UI claims.

- **Appeals Rates – Lower Authority Appeals:** The ratio of lower authority appeals to the number of initial claims filed; states with only one appeals authority count all appeals in this category.
- **Appeals Rates – Separation Issues:** The ratio of lower authority appeals to the number of denials for separation-related issues.
- **Appeals Rates – Nonseparation Issues:** The ratio of lower authority appeals to the number of denials for nonseparation-related issues.

In addition to processing claims from unemployed workers, state UI agencies also process information submitted by employers. Information about the volume of work in determining the taxable status of employers and processing wage items comes from states' submissions of data using form ETA 581, available via download from OUI's Data Downloads page. Specific measures are defined as follows:

- **Wage Records:** The total number of wage items submitted by employers and requiring processing by the state UI agency in a given year. Wage items are used to verify claimants' earnings and eligibility for UI benefits, often including information about each employer's employees and their earnings from the employer during a three-month calendar quarter.
- **Subject Employers:** The number of employers subject to state unemployment compensation laws. This includes both "contributory" employers, which are subject to FUTA taxes to fund UI benefits, and "reimbursing" employers, which are not subject to FUTA taxation but instead reimburse the state for UI benefits provided by the state to the employers' former employees.

Nearly all states receive additional grant funding to provide reemployment services to claimants, especially those who are likely to exhaust their benefits before becoming reemployed, through the Reemployment Services and Eligibility Assessment (RESEA) program and its predecessor, the Reemployment and Eligibility Assessment (REA) program. A key measure of RESEA program volume is the number of completed meetings with claimants; each meeting includes a UI eligibility review, reemployment assessment, and referrals for reemployment services. Information about the program comes from states' submissions of data using form ETA 9128 available via download from OUI's Data Downloads page. We used one measure related to the RESEA program, defined as follows:

- **RESEA:** The ratio of completed Reemployment Services and Eligibility Assessments (RESEAs) to first payments.

Finally, OUI collects information about the methods that claimants use to file initial and continuing UI claims in each state. The information is collected as part of the Benefit Accuracy Measurement

(BAM) survey and is available via download from the UI Claims Filing Method data page.[61] The specific measure is defined as follows:

- **Claims Filing Method:** The proportion of sampled claimants who use each of the following methods to file their initial and continued UI claims: Internet, telephone, in person, or other method.

State economic characteristics

We also examined state-level economic characteristics that may influence the administrative costs of UI programs. These characteristics—such as industry and occupational composition, unionization rates, and unemployment levels—can affect the volume and complexity of UI claims, the types of services needed, and the resources required to administer benefits effectively. All state economic characteristics are available for calendar years, and do not include Puerto Rico or the U.S. Virgin Islands.

Several of the economic characteristics came from the American Community Survey (ACS) for the U.S. Census Bureau (Ruggles et al., 2025) and are defined as follows:

- **Industry Composition:** The percentage of the civilian non-institutionalized population employed in certain industry sectors, including Construction, Agriculture, and Professional sectors.
- **Occupational Composition:** The percentage of the civilian non-institutionalized population employed in certain occupational categories, including Management, Business, Science, and Arts; Service; Sales and Office; Natural Resources, Construction, and Maintenance; and Production, Transportation, and Material Moving.
- **Educational Attainment:** The percentage of the civilian non-institutionalized population with various levels of education, including less than high school, high school, some college, college degree or more.
- **Non-English Speakers:** The percentage of the civilian non-institutionalized population who speak a language other than English at home.

We also included several economic characteristics collected as part of the Current Population Survey (CPS), conducted monthly by the U.S. Census Bureau and the Bureau of Labor Statistics (Flood et al., 2024). Specific measures are defined as follows:

- **Share of Union Workers:** The percentage of employed workers covered by union agreements.
- **Share of Part-Time Workers:** The percentage of employed workers who work fewer than 35 hours per week.

[61] Data are updated over time; the figures used for our analyses were downloaded on April 1, 2025.

- **Urbanicity:** The percentage of the civilian non-institutionalized population living in urban areas.

Finally, we included the state unemployment rate and median household income for each state, from the Bureau of Labor Statistics/Occupational Employment and Wage Statistics;[62] defined as follows:

- **State Unemployment Rate:** The annual unemployment rate in a state.
- **State Median Household Income:** The median household income in a state.

UI performance data

We used DOL data to compute state-level values for all of the individual Secretary's Standards, Tier I Measures, and Core Measure that were in effect to measure performance for UI system activities in each year from FY 2002 through FY 2023; these measures are listed below.[63] As noted in the main text (Box 5.3), the measures specified by DOL differed by year, so the list below also includes for each measure a range of years for which it was considered to be Tier I or Core. The list also indicates whether the measures was included in the "constant-composition" versions of the UI performance index we constructed to assess the robustness of study results.

- **First Payment Timeliness (All except workshare)**: Percentage of first payments made within 14 days (if a waiting week is required) or 21 days (if not) after the claimant's first compensable week of unemployment. In effect from 2004 to 2023; included in constant-composition index.
- **First Payment Timeliness (Intrastate, 14/21 days):** Percentage of first payments for intrastate claims made within 14 days (if a waiting week is required) or 21 days (if not) of the first compensable week of unemployment. In effect from 2002 to 2023; included in constant-composition index.
- **First Payment Timeliness (Intrastate, 35 days):** Percentage of intrastate first payments made within 35 days of the first compensable week of unemployment. In effect from 2002 to 2023; included in constant-composition index.
- **First Payment Timeliness (Interstate, 14/21 days):** Percentage of first payments for interstate claims made within 14 days (if a waiting week is required) or 21 days (if not) of the first

[62] Retrieved June 2025 from https://www.bls.gov/oes/tables.htm

[63] Except where noted, we computed each performance measure using the formula and data sources defined in two DOL documents: (1) *UI Performs Performance Measures and Minimum Performance, Criteria for Tier I Measures,* retrieved October 2025 from https://www.govinfo.gov/content/pkg/FR-1999-07-14/pdf/99-17895.pdf; and (2) *UI Performs Measures and Calculations [for Core Measures],* retrieved June 2025 from https://oui.doleta.gov/unemploy/pdf/formula.pdf. The list does not include Tier I measures related to state Unemployment Trust Fund transfers because, as noted later in this appendix, those measures are not used in the UI performance index we constructed.

compensable week of unemployment. In effect from 2002 to 2023; included in constant-composition index.

- **First Payment Timeliness (Interstate, 35 days):** Percentage of interstate first payments made within 35 days of the first compensable week of unemployment. In effect from 2002 to 2023; included in constant-composition index.
- **Nonmonetary Determination Timeliness — Separations and Nonseparations**: Percentage of determinations made within 21 days of detecting a nonmonetary issue (e.g., separation or eligibility) that could affect benefit rights. In effect from 2002 to 2004.
- **Nonmonetary Determination Timeliness — Separations**: Percentage of separation determinations (e.g., related to claimant's ability to/availability for work, job search, etc.) made within 21 days of detecting a nonmonetary issue that could affect benefit rights. In effect from 2002 to 2004.
- **Nonmonetary Determination Timeliness — Nonseparations**: Percentage of nonseparation determinations (e.g., related to the circumstances of the job separation, including whether a voluntary quit or discharge) made within 14 days of detecting a nonmonetary issue that could affect benefit rights. In effect from 2004 to 2023; included in constant-composition index.
- **Nonmonetary Determinations Quality — Separation and Nonseparation Issues:** Percentage of nonseparation determinations that receive a quality score of 80 or higher, based on quarterly sample evaluations drawn from the universe of nonmonetary UI determinations. For both nonseparation issue and separation issue determinations, evaluators assess elements such as whether the determination outcome and the issue detection date were correctly recorded (DOL, 2005a). In effect from 2002 to 2023; included in constant-composition index.
- **Nonmonetary Determinations Quality — Nonseparation Issues:** Percentage of nonseparation determinations that receive a quality score of 95 or higher, based on quarterly sample evaluations drawn from the universe of nonseparation determinations. In effect from 2002 to 2023; included in constant-composition index.
- **Nonmonetary Determinations Quality — Separation Issues:** Percentage of separation determinations that receive a quality score of 95 or higher, based on quarterly sample evaluations, drawn from the universe of separation determinations. In effect from 2002 to 2004.

- **Overpayment Detection:** Ratio of overpayments established to estimated overpayments, using a three-year moving average.[64] In effect from 2005 to 2023; included in constant-composition index.
- **Improper Payments:** Ratio of (1) the sum of total UI benefits overpaid and total UI benefits underpaid to (2) total UI benefits paid.[65] In effect from 2012 to 2023.
- **UI Overpayment Recovery:** Ratio of (1) overpayments recovered to (2) the difference between overpayments established and overpayments waived.[66] In effect from 2012 to 2023.
- **Lower Authority Appeals Timeliness:** The percentage of lower authority appeals decided within 30 and 45 days of filing. In effect from 2002 to 2023; included in constant-composition index.
- **Higher Authority Appeals Timeliness:** The percentage of lower authority appeals decided within 45, 75, and 150 days of filing. In effect from 2002 to 2004.
- **Average Age of Pending Lower Authority Appeals:** The average number of days that lower authority appeals have been pending, calculated as the total age of all such pending appeals divided by the number of such pending appeals. In effect from 2008 to 2023; included in constant-composition index.
- **Average Age of Pending Higher Authority Appeals:** The average number of days that higher authority appeals have been pending, calculated as the total age of all such pending appeals divided by the number of such pending appeals. In effect from 2008 to 2023; included in constant-composition index.
- **Lower Authority Appeals Quality:** The percentage of lower authority appeal decisions that receive a quality score of at least 85 percent of possible points, based on quarterly sample evaluations drawn from the universe of lower authority appeals. Evaluations assess more than 30 elements such as due process, testimony, and cross-examination (DOL, 2011). In effect from 2002 to 2023; included in constant-composition index.
- **New Employer Status Determinations Time Lapse:** The percentage of new employer status determinations completed within 90 days of the end of the quarter in which the employer

[64] Source: DOL ETA Overpayment Detection Core Measure Summary Reports; retrieved June 2025 from https://oui.doleta.gov/unemploy/3yr_overpay.asp

[65] Source: DOL Unemployment Insurance Performance Management BAM; retrieved June 2025 from https://oui.doleta.gov/unemploy/bqc.asp

[66] Source: DOL Unemployment Insurance Recovery Core Measures; retrieved June 2025 from https://oui.doleta.gov/unemploy/overpay_recovery.asp

became liable for FUTA tax payments.[67] In effect from 2002 to 2023; included in constant-composition index.

- **Tax Quality:** Assessment of the accuracy and completeness of a state's tax program, based on whether it fails more than three tax functions in a year or the same function for three consecutive years. Assessments are performed by the state's Tax Performance System unit. Tax functions examined include Status Determination, Cashiering, Report Delinquency, Collections, Field Audits, and Account Maintenance (DOL, 2010). States are assigned a Pass or Fail result. For the purposes of the performance index, we translated Pass into a 1 and Fail into a 0.[68] In effect from 2004 to 2023; included in constant-composition index.
- **Effective Audit Measure:** Measure of a state's audit effectiveness in identifying underreported wages or misclassified workers. States are assigned a Pass or Fail result based on whether they achieved at least the minimum score on four factors (e.g., percentage of contributory employers audited annually, percentage of total wages changed as a result of the audit), as well as whether they achieved two or more points above the combined minimum score. For the purposes of the performance index, we translated Pass into a 1 and Fail into a 0.[69] In effect from 2013 to 2023.

Analysis measures

As part of the analysis, we examined the dollar values of total administrative grant funding provided on an annual basis and the UI administrative costs incurred by states. To enable comparisons over time, we adjusted for inflation using the gross domestic product price deflator (the "GDP deflator") and expressed funding and cost values in 2023 dollars. Specifically, all dollar amounts are expressed in real 2023 dollars, adjusted for inflation using the implicit GDP deflator by dividing the nominal dollar amount by the GDP deflator for a given year.[70]

In addition to making comparisons of UI administrative funding to costs in dollar amounts, we constructed the measures below from the data described above for additional analyses:

- **Administrative Funding Ratios (Total UI and Combined UI):** These ratios divide federal UI administrative grant funding allocated to a state (annual and combined, respectively) by the

[67] Source: DOL Core Measures - State Results, New Employer Status Determinations in 90 days; retrieved June 2025 from https://oui.doleta.gov/unemploy/ranking.asp

[68] Source: DOL Core Measures - State Results, Tax Quality (by Calendar Year); retrieved June 2025 from https://oui.doleta.gov/unemploy/ranking.asp

[69] Source: DOL OUI ETA, Tax Performance System; retrieved June 2025 from https://oui.doleta.gov:8443/TPS-WP-CMC/web.jsp

[70] Source: U.S. Bureau of Economic Analysis, Gross Domestic Product: Implicit Price Deflator [GDPDEF], retrieved October 2025 from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/GDPDEF. While the time unit of analysis is most often the fiscal year, the GDP deflator data is measured over the calendar year.

amount of UI administrative costs incurred by the state. National and subgroup-specific aggregate funding ratios are weighted by states' total UI administrative costs. The ratios allow for comparisons across states and over time. They also provide standardized measures that are independent of the levels of funding and costs. Using the ratios enabled us to directly compare larger and smaller states using the relative levels of federal grant funding and costs; otherwise, relying on dollar amounts only would typically show greater differences for large states.

- **Gaps and Surpluses:** These categories relate to the ratios of a state's federal administrative grant funding compared to the sum of the administrative costs the state incurred. Funding gaps occur when the ratio is less than 1, and surpluses occur when the ratio is at least 1. These categories can be applied at the individual state level and for the nation as a whole.
- **Cost Shares:** Cost shares represent the proportion of a state's total UI administrative costs spent on a particular cost category or group of categories. National aggregate funding ratios are weighted by cost in the denominator of the respective share.
- **UI Performance Index:** The index includes between 14 and 22 UI Performs Tier I and Core Measures in each year. The index score for a state in a year indicates the portion of the measures in the index that the state met. We constructed this UI performance index as an alternative to assessing selected performance metrics individually. An index score provides a broad snapshot of a state's overall UI performance by aggregating multiple indicators into a single composite score. It offers an efficient way to assess the full breadth of a state's UI program performance and simplifies comparisons across states.

In addition, we weighted each measure in the index equally. This approach aligns with the UI Performs Score Cards framework, which does not assign different weights across measures.

We calculated the index score for each state in each year in the analysis period in three steps:

1. For each numerical performance measure, we assigned each state a value of 1 if its performance was above the Acceptable Level of Performance (ALP);[71] 0.5 if it attained at least 75 percent of the ALP but did not fully achieve it; and 0 if its performance was less than 75 percent of the ALP. The range of performance levels used to define these values is based on the green/yellow/red system for categorizing states in the UI Performs Score Cards.[72]
2. For each Pass/Fail measure, we assigned values of 1 (Pass) or 0 (Fail).

[71] See Box 5.3 for details of the specific ALPs.

[72] Information about the DOL UI Performs Score Cards and the color rating system for scorecard performance retrieved October 2025 from: https://oui.doleta.gov/unemploy/score_cards.asp. We translated the color system to a numeric 0-to-1 score by assigning red a value of 0, yellow a value of 0.5, and green a value of 1.

3. We created the score by averaging the values of the individual UI performance measures that were in effect for the year. If one of the performance measures was missing for a state, we excluded that measure from the average. As a result, the performance index score ranges in value from 0 to 1.

The performance index reflects only those measures in effect during each specific year, meaning the set of measures varies from year to year. This variation is primarily due to the transition that began in 2005 from the UI Performs Tier I and Tier II measures to the current Core Measures. Over time, additional measures, such as those related to program integrity, were introduced. However, the set of performance measures has remained stable since 2013; as a result, the set of measures included in the index is stable over that time period.

The index does not include the UI Performs Management Information Measures, which were introduced during the transition, as our framework is limited to the Core Measures currently included in the UI Performs Score Cards. Using available DOL guidance (DOL, 2005b), we used available data to reconstruct the earlier Tier I measures, including identifying their sunset dates, as well as the effective dates of the various Core Measures. However, we excluded Tier I measures related to Unemployment Trust Fund transfers because this category was eliminated in the transition to the Core Measures and does not capture performance related to the types of UI system activities covered by the RJM. Additionally, we excluded one tax measure, "New Employer Status Determinations Accuracy," which was in effect as a Tier I measure from FY 2002 to FY 2004. We excluded it because, to our knowledge, there are no public data sources providing relevant information needed to construct this measure. The index also does not include Tier II measures, as these are measures for which minimum performance criteria were not established.

To assign an effective year to each measure, we used as the basis the time period of the data subject to the performance measure. Our analysis is conducted by federal fiscal year (e.g., FY 2023 equals October 1, 2022, to September 30, 2023). Much of the performance measure reporting, however, is by program year (PY) (e.g., PY 2023 equals April 1, 2022, to March 31, 2023). If DOL instructed states to begin reporting a measure in FY 2006 using data from PY 2005, for example, we marked the measure as effective in the fiscal year corresponding to that data—that is, FY 2004—because PY 2005 spans April 1, 2004, to March 31, 2005, and overlaps with the second half of FY 2004 (April 1 to September 30, 2004). In general, if any portion of a fiscal year included data that was first subject to performance measurement, we considered that year to be the measure's effective year. Conversely, if a measure was being phased out and any portion of a fiscal year included data that was subject to performance measurement for the last time, we considered that year to be the measure's final year in effect.

Limitations of analysis measures and methods

These measures are not intended to have normative implications. Nor do they indicate how federal UI administrative funding compares to a federal standard for what is necessary or adequate for

administering state UI programs at the performance levels expected by the federal government. In short, a "gap" does not necessarily indicate the presence or absence of a state's "need" for UI administrative funding that is unmet by federal funding.

We also explored the extent to which the RJM's cost information would facilitate an analysis of how the level of workload might affect costs, but determined that additional data or a different analysis design would be needed to conduct this type of analysis. The RJM includes per-unit and total cost for each state and year, but it does not have information about incremental costs over a range of workloads in a given state and year. Therefore, analyzing relationships between costs and workloads would require comparing states that may have different underlying UI programs or economies and/or making comparisons between time periods with differing business cycle conditions. Such comparisons would not be able to isolate the role of workloads on costs without a rich set of information about the factors that drive UI administrative costs and/or an assumption-based model for describing the sources of variation in costs across states and time periods.

A.4. Quality review process

Throughout the course of this study, we relied on guidance and subject matter expertise from study partners and consultants to strengthen our research efforts. When applicable, we shared preliminary study findings with experts from NASWA and the UI Administrative Costs Study Expert Panel—composed of four experts with extensive UI knowledge. The Expert Panel consists of Laurie Harrington, Douglas Holmes, James Van Erden, and Stephen Wandner.

- As the Executive Director of the Heldrich Center for Workforce Development at Rutgers University, Laurie Harrington, M.P.P. oversees research on a variety of topic areas including the public workforce system and workforce development, and worked closely with the New Jersey Department of Labor & Workforce Development on UI modernization efforts.
- Stephen Wandner, Ph.D. is President of Wandner Associates, a Senior Fellow at the National Academy of Social Insurance, and a Nonresident Scholar at the Urban Institute. Wandner has authored several articles and book chapters on UI history, policy, and reform. Wandner formerly worked as the Director of Research and Demonstration at the U.S. Department of Labor and served as the Acting Director of the Office of Legislation and Actuarial Services for the Unemployment Insurance Service.
- Jim Van Erden, Ph.D. is a Senior Policy Advisor and Director at NASWA, and established NASWA's Integrity Center. In addition to his work at NASWA, Van Erden also worked at U.S. Department of Labor for over 20 years, including as Administrator of the Office of Work-Based Learning, Director of the Bureau of Apprenticeship & Training, and as Chief Actuary for the Office of Unemployment Insurance.

- Doug Holmes, J.D., is President of UWC – Strategic Services on Unemployment & Workers' Compensation. Holmes previously spent 22 years in Ohio as Chief Legal Counsel for Unemployment Insurance and then as UI Director.

Each of these experts provided us with critical feedback that deepened our understanding of the data, provided guidance on research methods, and bolstered our analysis and interpretation of findings. In addition to input from external experts, the study's Co-Principal Investigator, Andrew Clarkwest, reviewed study materials and provided additional insights.

Appendix B. Data Exhibits

The tables on the following pages of this appendix contain results from the quantitative analysis described in Appendix A.3. These results are summarized throughout the main text of the report.

Exhibit B.1: UI Administrative Costs and Funding, All States (in Billions of Dollars)

Year	Total UI Administrative Costs	Annual Grant Funding	One-Time Federal UI Administrative Grants	Combined Grant Funding	Annual Grant Funding Ratio	Combined Grant Funding Ratio
Overall (2002-2023)	$86.816	$83.670	$2.734	$86.404	0.964	0.995
2002	$4.357	$4.188	$0.000	$4.188	0.961	0.961
2003	$4.341	$4.295	$0.000	$4.295	0.989	0.989
2004	$4.253	$3.903	$0.000	$3.903	0.918	0.918
2005	$4.098	$3.827	$0.000	$3.827	0.934	0.934
2006	$3.899	$3.503	$0.000	$3.503	0.898	0.898
2007	$3.813	$3.442	$0.000	$3.442	0.903	0.903
2008	$3.810	$3.742	$0.000	$3.742	0.982	0.982
2009	$4.218	$5.222	$0.690	$5.912	1.238	1.402
2010	$4.239	$4.425	$0.000	$4.425	1.044	1.044
2011	$4.243	$4.326	$0.000	$4.326	1.020	1.020
2012	$3.941	$4.208	$0.000	$4.208	1.068	1.068
2013	$3.770	$3.842	$0.000	$3.842	1.019	1.019
2014	$3.832	$3.651	$0.013	$3.664	0.953	0.956
2015	$3.721	$3.479	$0.046	$3.525	0.935	0.947
2016	$3.593	$3.403	$0.000	$3.403	0.947	0.947
2017	$3.420	$3.269	$0.000	$3.269	0.956	0.956
2018	$3.233	$3.131	$0.000	$3.131	0.968	0.968
2019	$3.226	$2.939	$0.000	$2.939	0.911	0.911
2020	$4.012	$5.389	$1.160	$6.549	1.343	1.632
2021	$4.914	$3.823	$0.152	$3.975	0.778	0.809
2022	$4.184	$2.921	$0.192	$3.114	0.698	0.744
2023	$3.699	$2.744	$0.481	$3.224	0.742	0.872

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. Years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in billions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance.

Exhibit B.2: UI Administrative Costs and Funding, Small States (in Millions of Dollars)

Year	Total UI Administrative Costs	Annual Grant Funding	One-Time Federal UI Administrative Grants	Combined Grant Funding	Annual Grant Funding Ratio	Combined Grant Funding Ratio
Overall (2002-2023)	$8,005.0	$7,737.0	$327.1	$8,064.0	0.967	1.007
2002	$393.7	$363.5	$0.0	$363.5	0.923	0.923
2003	$406.1	$401.6	$0.0	$401.6	0.989	0.989
2004	$410.7	$354.1	$0.0	$354.1	0.862	0.862
2005	$389.7	$394.5	$0.0	$394.5	1.012	1.012
2006	$368.9	$320.5	$0.0	$320.5	0.869	0.869
2007	$358.5	$312.7	$0.0	$312.7	0.872	0.872
2008	$353.2	$335.1	$0.0	$335.1	0.949	0.949
2009	$386.5	$466.5	$49.9	$516.4	1.207	1.336
2010	$398.3	$398.5	$0.0	$398.5	1.000	1.000
2011	$395.0	$452.7	$0.0	$452.7	1.146	1.146
2012	$389.5	$508.3	$0.0	$508.3	1.305	1.305
2013	$379.2	$370.9	$0.0	$370.9	0.978	0.978
2014	$347.5	$351.6	$0.0	$351.6	1.012	1.012
2015	$356.0	$320.4	$0.6	$321.0	0.900	0.902
2016	$334.9	$317.6	$0.0	$317.6	0.948	0.948
2017	$322.6	$312.8	$0.0	$312.8	0.970	0.970
2018	$310.0	$275.0	$0.0	$275.0	0.887	0.887
2019	$295.0	$255.9	$0.0	$255.9	0.867	0.867
2020	$343.7	$436.9	$76.5	$513.3	1.271	1.494
2021	$409.6	$312.9	$27.2	$340.1	0.764	0.830
2022	$342.5	$245.7	$24.0	$269.7	0.717	0.787
2023	$313.9	$229.3	$148.9	$378.2	0.730	1.205

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor. Small states were those that had covered employment under 1 million employees. Years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance.

Exhibit B.3: UI Administrative Costs and Funding, Medium States (in Millions of Dollars)

Year	Total UI Administrative Costs	Annual Grant Funding	One-Time Federal UI Administrative Grants	Combined Grant Funding	Annual Grant Funding Ratio	Combined Grant Funding Ratio
Overall (2002-2023)	$11,845.8	$11,504.1	$416.8	$11,920.9	0.971	1.006
2002	$609.0	$569.6	$0.0	$569.6	0.935	0.935
2003	$593.5	$613.6	$0.0	$613.6	1.034	1.034
2004	$591.6	$533.6	$0.0	$533.6	0.902	0.902
2005	$571.0	$549.6	$0.0	$549.6	0.963	0.963
2006	$557.6	$490.3	$0.0	$490.3	0.879	0.879
2007	$528.5	$464.3	$0.0	$464.3	0.878	0.878
2008	$514.0	$511.3	$0.0	$511.3	0.995	0.995
2009	$575.0	$758.5	$96.0	$854.5	1.319	1.486
2010	$582.6	$612.6	$0.0	$612.6	1.051	1.051
2011	$580.0	$589.7	$0.0	$589.7	1.017	1.017
2012	$561.4	$572.1	$0.0	$572.1	1.019	1.019
2013	$527.7	$514.5	$0.0	$514.5	0.975	0.975
2014	$520.8	$499.6	$1.5	$501.1	0.959	0.962
2015	$519.3	$475.8	$3.0	$478.8	0.916	0.922
2016	$481.8	$463.2	$0.0	$463.2	0.961	0.961
2017	$461.9	$443.1	$0.0	$443.1	0.959	0.959
2018	$429.0	$422.7	$0.0	$422.7	0.985	0.985
2019	$416.6	$403.9	$0.0	$403.9	0.969	0.969
2020	$558.4	$742.3	$157.8	$900.2	1.329	1.612
2021	$687.7	$507.7	$35.4	$543.2	0.738	0.790
2022	$516.8	$393.6	$32.2	$425.8	0.762	0.824
2023	$461.5	$372.3	$90.8	$463.1	0.807	1.003

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor. Medium states were those that had covered employment between 1 and 2 million employees. Years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance.

Exhibit B.4: UI Administrative Costs and Funding, Large States (in Billions of Dollars)

Year	Total UI Administrative Costs	Annual Grant Funding	One-Time Federal UI Administrative Grants	Combined Grant Funding	Annual Grant Funding Ratio	Combined Grant Funding Ratio
Overall (2002-2023)	$66.965	$64.429	$1.990	$66.419	0.962	0.992
2002	$3.354	$3.255	$0.000	$3.255	0.970	0.970
2003	$3.342	$3.280	$0.000	$3.280	0.982	0.982
2004	$3.250	$3.015	$0.000	$3.015	0.928	0.928
2005	$3.138	$2.882	$0.000	$2.882	0.919	0.919
2006	$2.972	$2.692	$0.000	$2.692	0.906	0.906
2007	$2.926	$2.665	$0.000	$2.665	0.911	0.911
2008	$2.943	$2.896	$0.000	$2.896	0.984	0.984
2009	$3.256	$3.997	$0.544	$4.541	1.227	1.395
2010	$3.258	$3.413	$0.000	$3.413	1.048	1.048
2011	$3.268	$3.283	$0.000	$3.283	1.005	1.005
2012	$2.990	$3.127	$0.000	$3.127	1.046	1.046
2013	$2.863	$2.956	$0.000	$2.956	1.032	1.032
2014	$2.964	$2.800	$0.011	$2.811	0.945	0.948
2015	$2.845	$2.683	$0.042	$2.725	0.943	0.958
2016	$2.776	$2.622	$0.000	$2.622	0.945	0.945
2017	$2.635	$2.513	$0.000	$2.513	0.954	0.954
2018	$2.494	$2.433	$0.000	$2.433	0.975	0.975
2019	$2.514	$2.279	$0.000	$2.279	0.907	0.907
2020	$3.110	$4.210	$0.926	$5.135	1.354	1.651
2021	$3.817	$3.003	$0.089	$3.092	0.787	0.810
2022	$3.325	$2.282	$0.136	$2.418	0.686	0.727
2023	$2.924	$2.142	$0.241	$2.383	0.733	0.815

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor. Large states were those that had covered employment of over 2 million employees. The years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in billions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance.

Exhibit B.5: Costs and Funding, 2008 and 2020 Recessions (in Billions of Dollars)

Years Relative to Recession	Cumulative Total UI Administrative Costs Starting 5 Years Pre-Recession	Cumulative Annual Grant Funding Starting 5 Years Pre-Recession	Cumulative Annual Grant Funding Ratio Starting 5 Years Pre-Recession	Cumulative One-Time Funding Starting 5 Years Pre-Recession	Cumulative Combined Grant Funding Starting 5 Years Pre-Recession	Cumulative Combined Grant Funding Ratio Starting 5 Years Pre-Recession
2008 Recession						
5 years before	$4.341	$4.295	0.989	$0.000	$4.295	0.989
4 years before	$8.594	$8.198	0.954	$0.000	$8.198	0.954
3 years before	$12.692	$12.025	0.947	$0.000	$12.025	0.947
2 years before	$16.591	$15.528	0.936	$0.000	$15.528	0.936
1 year before	$20.404	$18.969	0.930	$0.000	$18.969	0.930
Recession year (2008)	$24.215	$22.712	0.938	$0.000	$22.712	0.938
1 year after	$28.433	$27.934	0.982	$0.690	$28.624	1.007
2 years after	$32.671	$32.358	0.990	$0.690	$33.049	1.012
3 years after	$36.914	$36.684	0.994	$0.690	$37.374	1.012
4 years after	$40.855	$40.892	1.001	$0.690	$41.582	1.018
5 years after	$44.625	$44.733	1.002	$0.690	$45.424	1.018
2020 Recession						
5 years before	$3.721	$3.479	0.935	$0.046	$3.525	0.947
4 years before	$7.313	$6.882	0.941	$0.046	$6.928	0.947
3 years before	$10.733	$10.151	0.946	$0.046	$10.197	0.950
2 years before	$13.966	$13.282	0.951	$0.046	$13.327	0.954
1 year before	$17.192	$16.221	0.944	$0.046	$16.266	0.946
Recession year (2020)	$21.204	$21.610	1.019	$1.206	$22.815	1.076
1 year after	$26.118	$25.433	0.974	$1.358	$26.791	1.026
2 years after	$30.302	$28.354	0.936	$1.550	$29.904	0.987
3 years after	$34.002	$31.098	0.915	$2.031	$33.129	0.974

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor. The cumulative funding and cost measures represent the sum of the measure in each column from five years before the recession to the year in a given row. The years relative to recession represent number of federal fiscal years (Oct. 1-Sep. 30) before or after the beginning of a recession. All dollar amounts are in billions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance.

Exhibit B.6: State Spending on UI Administrative Costs (in Millions of Dollars)

Year	Total UI Administrative Costs	Total State Resources	National Total State Resource (SR) Ratio	10th Percentile	Median	90th Percentile	Number of States with SR Ratio > 0	Number of States with Substantial SR Ratios
Overall (2002-2023)	$86,816.1	$7,052.7	0.081	0.020	0.069	0.197	53	18
2002	$4,356.7	$241.7	0.055	0.000	0.036	0.153	42	11
2003	$4,341.2	$332.2	0.077	0.000	0.063	0.205	42	20
2004	$4,252.6	$373.4	0.088	0.000	0.085	0.267	43	21
2005	$4,098.2	$289.1	0.071	0.000	0.049	0.237	46	16
2006	$3,898.9	$388.6	0.100	0.000	0.070	0.256	45	20
2007	$3,813.3	$365.2	0.096	0.004	0.094	0.262	48	24
2008	$3,810.3	$364.1	0.096	0.000	0.058	0.245	45	22
2009	$4,218.0	$251.2	0.060	0.000	0.037	0.227	41	12
2010	$4,238.7	$234.1	0.055	0.000	0.018	0.240	38	11
2011	$4,242.7	$225.6	0.053	0.000	0.025	0.186	36	13
2012	$3,940.8	$155.8	0.040	0.000	0.007	0.186	32	10
2013	$3,770.3	$194.9	0.052	0.000	0.032	0.182	32	12
2014	$3,832.4	$258.9	0.068	0.000	0.032	0.230	32	17
2015	$3,720.5	$336.6	0.090	0.000	0.072	0.266	38	21
2016	$3,592.8	$297.9	0.083	0.000	0.060	0.280	39	18
2017	$3,419.5	$260.6	0.076	0.000	0.067	0.257	37	16
2018	$3,233.4	$267.6	0.083	0.000	0.046	0.299	39	13
2019	$3,225.9	$345.4	0.107	0.000	0.067	0.314	39	18
2020	$4,011.9	$180.8	0.045	0.000	0.017	0.188	34	13
2021	$4,914.3	$339.4	0.069	0.000	0.021	0.204	34	16
2022	$4,184.0	$610.6	0.146	0.000	0.064	0.456	36	24
2023	$3,699.4	$738.8	0.200	0.000	0.054	0.468	36	19

Note: This table uses UI administrative cost data from the Resource Justification Model. The years represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. States that contributed substantial state resources had a state resource ratio of 10 percent or higher. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A.3. UI=Unemployment Insurance.

Exhibit B.7: Average State UI & Economic Characteristics by State Resource Ratio

Characteristic	Did Not Contribute Substantial SR (State Resource) Average State UI & Economic Characteristics	Contributed Substantial SR Average State UI & Economic Characteristics
UI Characteristics		
Average Duration in Weeks	15.297	15.421
Exhaustion Rate	37.4%	40.5%
Recipiency Rate	35.9%	34.7%
Determinations Rate - Separation Issues	21.2%	22.2%
Determinations Rate - Nonseparation Issues	3.4%	3.2%
Denial Rate - Separations Issues	11.2%	11.9%
Denial Rate - Nonseparation Issues	2.8%	2.7%
Lower Authority Appeals Rate	6.6%	5.6%
Lower Authority Appeals to Denials - Separation Issues	36.3%	37.0%
Lower Authority Appeals to Denials - Nonseparation Issues	18.3%*	12.2%*
Reemployment Services and Eligibility Assessments per First Payment	6.5%	7.3%
Initial Claims Filed by the Internet	46.4%	50.2%
Initial Claims Filed by Telephone	37.0%	29.0%
Initial Claims Filed in Person	11.7%	17.3%
Initial Claims Filed by an Other Method	4.5%	3.2%
Initial Claims Filing Method is Missing	0.4%	0.3%
Continued Claims Filed by the Internet	43.7%*	51.2%*
Continued Claims Filed by Telephone	47.7%*	36.7%*
Continued Claims Filed in Person	0.8%	0.8%
Continued Claims Filed by an Other Method	7.6%	10.5%
Continued Claims Filing Method Is Missing	0.2%	0.9%
Economic Characteristics		
Industry: Construction	17.2%	17.0%
Industry: Agriculture	1.7%	2.4%
Industry: Professional	34.2%	33.6%

Characteristic	Did Not Contribute Substantial SR (State Resource) Average State UI & Economic Characteristics	Contributed Substantial SR Average State UI & Economic Characteristics
Occupation: Management, Business, Science, and Arts	34.5%	34.7%
Occupation: Service	18.1%	18.3%
Occupation: Sales and Office	24.0%	23.6%
Occupation: Natural Resources, Construction, and Maintenance	9.8%	9.9%
Occupation: Production, Transportation, and Material Moving	13.0%	12.9%
In a Union	12.1%	11.2%
With a Part-Time Job	15.0%	15.6%
Education: No High School Credential	15.6%	14.6%
Education: High School or Equivalent Credential	28.4%	28.7%
Education: Some College	46.5%	46.9%
Education: College Degree or Higher	26.5%	26.6%
Non-English Speaker	14.9%	12.5%
Urbanicity	21.4%	22.9%
Unemployment Rate	5.6%	5.3%
Median Annual Wage	$35,884.49	$34,404.89
State Size		
Small	25.7%*	55.6%*
Medium	20.0%	27.8%
Large	54.3%*	16.7%*
Number of States	35	18

Note: This table uses UI administrative cost data from the Resource Justification Model. Data for states' UI characteristics are from the U.S. Department of Labor. States' economic characteristics are from the American Community Survey, Current Population Survey, and Bureau of Labor Statistics Local Area Unemployment Statistics. The years represent federal fiscal years (Oct. 1-Sep. 30). States that contributed substantial state resources had a state resource ratio of 10 percent or higher. While data on UI Characteristics and State Size are available for all 53 jurisdictions, data on Economic Characteristics exclude Puerto Rico and the U.S. Virgin Islands. All dollar amounts are expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. UI=Unemployment Insurance. * indicates the difference between a pair of columns is statistically significant at the 10 percent level from two-sample *t*-tests using state-level data.

Exhibit B.8: UI Performance Index Scores

Year	All States	Lower Annual Grant Funding Ratio	Higher Annual Grant Funding Ratio	Lower Combined Grant Funding Ratio	Higher Combined Grant Funding Ratio	Did Not Contribute Substantial State Resource (SR)	Contributed Substantial SR
Overall (2002-2023)	0.747	0.733	0.762	0.714*	0.767*	0.750	0.741
2002	0.835	0.816	0.854	0.797*	0.857*	0.853*	0.799*
2003	0.841	0.823	0.860	0.805*	0.863*	0.861	0.802
2004	0.795	0.765	0.825	0.738*	0.829*	0.806	0.771
2005	0.839	0.828	0.850	0.793*	0.867*	0.851	0.816
2006	0.832	0.821	0.842	0.807	0.847	0.836	0.824
2007	0.850	0.828	0.873	0.807	0.877	0.856	0.840
2008	0.825	0.806	0.845	0.795	0.844	0.816	0.843
2009	0.709	0.703	0.716	0.691	0.721	0.697	0.734
2010	0.677	0.644*	0.712*	0.621*	0.712*	0.679	0.675
2011	0.731	0.699	0.764	0.679*	0.763*	0.730	0.733
2012	0.736	0.713	0.759	0.697	0.759	0.732	0.743
2013	0.764	0.750	0.779	0.735	0.782	0.765	0.761
2014	0.794	0.793	0.795	0.778	0.803	0.784	0.813
2015	0.806	0.806	0.806	0.801	0.809	0.808	0.800
2016	0.829	0.827	0.830	0.827	0.830	0.815	0.856
2017	0.834	0.836	0.832	0.831	0.837	0.821	0.861
2018	0.829	0.833	0.825	0.821	0.834	0.835	0.818
2019	0.856	0.865	0.846	0.843	0.863	0.854	0.858
2020	0.637	0.641	0.632	0.621	0.646	0.659	0.594
2021	0.387	0.363	0.412	0.330*	0.422*	0.403	0.356
2022	0.448	0.411	0.486	0.368*	0.496*	0.468	0.409
2023	0.585	0.560	0.611	0.533	0.616	0.577	0.601

Note: This table uses UI administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor (DOL) for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The UI performance index score is derived from data from DOL. The years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). States with lower total or combined funding ratio had corresponding funding ratios less than one. States with higher total or combined funding ratios had corresponding funding ratios of at least one. States that contributed substantial state resources had a state resource ratio of 10 percent or higher. Values in this exhibit may not sum across rows or columns due to rounding differences. UI=Unemployment Insurance. * indicates the difference between a pair of columns is statistically significant at the 10 percent level from two-sample *t*-tests using state-level data.

Exhibit B.9: Costs and Cost Shares by Major Category in the Resource Justification Model

Year	Personal Services, Workload Categories (Costs)	Personal Services, Non-Workload Categories (Costs)	Non-Personal Services (Costs)	Personal Services, Workload Categories (Cost Share)	Personal Services, Non-Workload Categories (Cost Share)	Non-Personal Services (Cost Share)
Overall (2002-2023)	$44.357	$23.189	$19.270	51.1%	26.7%	22.2%
2002	$2.172	$1.001	$1.184	49.8%	23.0%	27.2%
2003	$2.151	$1.058	$1.133	49.5%	24.4%	26.1%
2004	$2.134	$1.047	$1.072	50.2%	24.6%	25.2%
2005	$2.043	$1.057	$0.998	49.9%	25.8%	24.4%
2006	$1.989	$1.017	$0.893	51.0%	26.1%	22.9%
2007	$1.957	$0.982	$0.874	51.3%	25.8%	22.9%
2008	$1.993	$0.975	$0.843	52.3%	25.6%	22.1%
2009	$2.213	$0.972	$1.033	52.5%	23.0%	24.5%
2010	$2.327	$1.005	$0.906	54.9%	23.7%	21.4%
2011	$2.262	$1.029	$0.952	53.3%	24.2%	22.4%
2012	$2.153	$1.055	$0.733	54.6%	26.8%	18.6%
2013	$1.992	$1.015	$0.764	52.8%	26.9%	20.3%
2014	$2.046	$1.043	$0.744	53.4%	27.2%	19.4%
2015	$1.928	$1.029	$0.764	51.8%	27.6%	20.5%
2016	$1.817	$1.010	$0.766	50.6%	28.1%	21.3%
2017	$1.740	$1.013	$0.666	50.9%	29.6%	19.5%
2018	$1.584	$1.036	$0.613	49.0%	32.0%	19.0%
2019	$1.549	$1.057	$0.620	48.0%	32.8%	19.2%
2020	$2.121	$1.073	$0.818	52.9%	26.8%	20.4%
2021	$2.493	$1.393	$1.028	50.7%	28.3%	20.9%
2022	$1.987	$1.258	$0.938	47.5%	30.1%	22.4%
2023	$1.705	$1.066	$0.928	46.1%	28.8%	25.1%

Note: This table uses UI administrative cost data from the Resource Justification Model. The years represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. Cost shares represent shares of total UI administrative costs. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A.
UI=Unemployment Insurance.

Exhibit B.10: Costs by Category (Real 2023 $): Personal Services, Workload Categories (in Millions of Dollars)

Year	Initial Claims	Weeks Claimed	Nonmonetary Determinations	Appeals	Wage Records	Tax
Overall (2002-2023)	$10,871.0	$5,503.9	$8,649.2	$7,772.3	$1,831.5	$9,728.7
2002	$555.5	$294.4	$361.6	$327.5	$75.0	$557.5
2003	$545.9	$287.4	$353.6	$354.0	$83.8	$525.9
2004	$518.1	$269.6	$365.5	$369.7	$81.1	$529.8
2005	$478.5	$245.7	$353.6	$353.5	$80.5	$531.6
2006	$452.3	$242.5	$350.9	$348.7	$84.8	$509.8
2007	$432.1	$235.5	$358.0	$344.3	$103.3	$484.2
2008	$451.8	$236.2	$375.2	$346.3	$98.5	$484.6
2009	$562.8	$290.3	$406.5	$378.6	$92.9	$482.1
2010	$588.0	$319.5	$393.3	$428.4	$97.2	$500.9
2011	$535.6	$281.9	$400.6	$442.5	$101.2	$500.4
2012	$460.8	$260.7	$406.5	$422.9	$107.4	$494.9
2013	$423.2	$237.4	$390.2	$380.8	$97.3	$463.3
2014	$460.4	$256.5	$424.7	$381.6	$87.7	$434.6
2015	$410.9	$238.8	$411.6	$358.4	$77.7	$430.5
2016	$376.9	$206.6	$395.2	$335.7	$74.9	$427.7
2017	$364.7	$178.3	$374.6	$336.2	$76.9	$409.5
2018	$323.6	$163.6	$354.8	$302.9	$72.2	$367.1
2019	$316.4	$154.7	$345.8	$289.6	$73.8	$369.0
2020	$794.0	$300.9	$380.0	$281.0	$60.5	$304.3
2021	$904.0	$387.6	$466.1	$363.9	$71.7	$299.9
2022	$547.3	$240.7	$504.8	$318.5	$73.1	$302.9
2023	$368.5	$174.9	$476.3	$307.2	$60.0	$318.2

Note: This table uses Unemployment Insurance administrative cost data from the Resource Justification Model. The years represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A.

Exhibit B.11: Costs by Category (Real 2023 $): Personal Services, Non-Workload Categories and Non-Personal Services (NPS) Categories (in Millions of Dollars)

Year	Benefit Payment Control	UI Performs	Support	Administrative Staff & Technical Services	IT/Communications	Other NPS
Overall (2002-2023)	$3,934.1	$1,970.3	$10,028.0	$7,257.1	$7,996.7	$11,273.4
2002	$126.9	$43.4	$478.1	$353.0	$444.5	$739.2
2003	$136.0	$45.1	$515.2	$361.8	$452.7	$679.9
2004	$147.0	$47.0	$495.3	$357.4	$423.4	$648.7
2005	$145.7	$46.7	$514.8	$349.6	$399.4	$598.6
2006	$153.6	$48.1	$494.9	$320.3	$365.3	$527.6
2007	$140.6	$53.0	$475.4	$313.0	$329.2	$544.7
2008	$145.2	$58.5	$460.6	$310.5	$335.3	$507.6
2009	$144.5	$56.4	$461.8	$309.0	$449.1	$584.1
2010	$153.0	$58.3	$470.5	$323.4	$406.1	$500.2
2011	$163.4	$64.6	$470.6	$329.9	$422.0	$529.9
2012	$171.9	$70.0	$452.5	$360.3	$285.8	$447.1
2013	$168.9	$73.8	$438.4	$333.5	$326.8	$436.7
2014	$172.8	$76.8	$449.8	$343.5	$318.4	$425.6
2015	$179.7	$92.4	$432.6	$324.0	$298.4	$465.6
2016	$188.4	$99.2	$422.5	$299.9	$354.7	$411.1
2017	$193.4	$106.0	$402.3	$311.5	$307.5	$358.7
2018	$210.1	$121.0	$388.1	$316.8	$247.1	$366.1
2019	$225.0	$149.7	$368.6	$313.5	$236.8	$383.1
2020	$196.5	$145.6	$416.4	$314.8	$352.5	$465.4
2021	$295.3	$178.2	$562.5	$357.0	$431.0	$597.2
2022	$257.7	$173.8	$491.2	$335.6	$377.6	$560.7
2023	$218.5	$162.6	$365.7	$319.0	$433.0	$495.5

Note: This table uses Unemployment Insurance administrative cost data from the Resource Justification Model. The years represent federal fiscal years (Oct. 1-Sep. 30). All dollar amounts are in millions and expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. IT=information technology.

Exhibit B.12: States' IT Cost Shares, Fiscal Years 2002 through 2023

Year	IT/Communications Share of Total Costs
Overall (2002-2023)	9.2%
2002	10.2%
2003	10.4%
2004	10.0%
2005	9.7%
2006	9.4%
2007	8.6%
2008	8.8%
2009	10.6%
2010	9.6%
2011	9.9%
2012	7.3%
2013	8.7%
2014	8.3%
2015	8.0%
2016	9.9%
2017	9.0%
2018	7.6%
2019	7.3%
2020	8.8%
2021	8.8%
2022	9.0%
2023	11.7%

Note: This table uses Unemployment Insurance administrative cost data from the Resource Justification Model. The years represent federal fiscal years (Oct. 1-Sep. 30). ITC/Communications Share of Total Costs represents percentage of total costs spent on IT/communications-related expenses. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A.
IT=information technology.

Exhibit B.13: Average State UI & Economic Characteristics by State IT/Communications Costs Share

Characteristic	Lower IT/Communications Share of Total Costs	Higher IT/Communications Share of Total Costs
UI Characteristics		
Average Duration in Weeks	15.468	15.215
Exhaustion Rate	39.1%	37.9%
Recipiency Rate	34.3%	36.6%
Determinations Rate - Separation Issues	21.1%	22.0%
Determinations Rate - Nonseparation Issues	2.9%	3.7%
Denial Rate - Separation Issues	10.7%	12.2%
Denial Rate - Nonseparation Issues	2.4%	3.1%
Lower Authority Appeals Rate	6.3%	6.2%
Lower Authority Appeals to Denials - Separation Issues	39.0%	34.2%
Lower Authority Appeals to Denials - Nonseparation Issues	16.7%	15.7%
Reemployment Services and Eligibility Assessments per First Payment	6.9%	6.6%
Initial Claims Filed by the Internet	46.6%	48.6%
Initial Claims Filed by Telephone	37.1%	31.8%
Initial Claims Filed in Person	11.9%	15.1%
Initial Claims Filed by an Other Method	4.3%	3.9%
Initial Claims Filing Method Is Missing	0.1%	0.6%
Continued Claims Filed by the Internet	48.3%	44.3%
Continued Claims Filed by Telephone	41.2%	46.8%
Continued Claims Filed in Person	0.7%	0.9%
Continued Claims Filed by an Other Method	9.1%	7.9%
Continued Claims Filing Method Is Missing	0.7%	0.1%
Economic Characteristics		
Industry: Construction	17.2%	17.0%
Industry: Agriculture	1.7%	2.2%
Industry - Professional	35.1%*	33.0%*

Characteristic	Lower IT/Communications Share of Total Costs	Higher IT/Communications Share of Total Costs
Occupation: Management, Business, Science, and Arts	35.8%*	33.4%*
Occupation: Service	17.8%	18.4%
Occupation: Sales and Office	23.8%	23.9%
Occupation: Natural Resources, Construction, and Maintenance	9.2%*	10.4%*
Occupation: Production, Transportation, and Material Moving	12.7%	13.3%
In a Union	11.5%	12.1%
With a Part-Time Job	15.1%	15.2%
Education: No High School Credential	15.2%	15.4%
Education: High School or Equivalent Credential	28.0%	28.9%
Education: Some College	46.2%	47.0%
Education: College Degree or Higher	28.1%*	25.1%*
Non-English Speaker	14.7%	13.6%
Urbanicity	24.0%	20.0%
Unemployment Rate	5.4%	5.5%
Median Annual Wage	$35,828.07	$34,952.42
Number of States	26	27

Note: This table uses UI administrative cost data from the Resource Justification Model. Data for states' UI characteristics are from the U.S. Department of Labor. States' economic characteristics are from the American Community Survey, Current Population Survey, and Bureau of Labor Statistics Local Area Unemployment Statistics. The years represent federal fiscal years (Oct. 1-Sep. 30). While data on UI Characteristics are available for all 53 jurisdictions, data on Economic Characteristics exclude Puerto Rico and the U.S. Virgin Islands. All dollar amounts are expressed in real 2023 dollars. Values in this exhibit may not sum across rows or columns due to rounding differences. The variables in each column are defined in Appendix A. IT=information technology. UI=Unemployment Insurance. * indicates the difference between a pair of columns is statistically significant at the 10 percent level from two-sample *t*-tests using state-level data.

Exhibit B.14: Average Annual State Costs per Initial Claim by Category and State Size, Fiscal Years 2002 through 2023

Category	Small States	Medium States	Large States
Personal Services, Workload	$147.56	$117.11	$110.81
Personal Services, Non-Workload	$110.85	$63.84	$59.48
Non-Personal Services	$84.16	$46.41	$46.83
IT	$29.04	$22.13	$18.73

Note: This table uses Unemployment Insurance administrative cost and workload data from the Resource Justification Model. Small states were those that had covered employment under 1 million employees; medium states were those that had covered employment between 1 and 2 million employees; large states were those that had covered employment of over 2 million employees. Each entry in the table is average of annual cost per initial claim for the total costs in the category indicated in the first column calculated across the states and years for the cost category in the first column in the size group indicated in the remaining column headings. We compared these averages using regression models at the state-year level with clustered standard errors by state to account for autocorrelation. Differences between small and medium states are statistically significant at the 10 percent level in each cost category other than IT. Differences between small and large states are statistically significant at the 10 percent level in all cost categories. IT=information technology.

Exhibit B.15: Average Annual State Costs by Category and State Size, Fiscal Years 2002 through 2023

Category	Small States	Medium States	Large States
Personal Services, Workload	$8,555,239	$23,747,531	$71,303,891
Personal Services, Non-Workload	$5,985,535	$11,932,945	$36,233,852
Non-Personal Services	$4,609,929	$9,190,058	$30,820,327
IT	$1,617,682	$4,233,027	$12,816,180

Note: This table uses Unemployment Insurance administrative cost and workload data from the Resource Justification Model. Small states were those that had covered employment under 1 million employees; medium states were those that had covered employment between 1 and 2 million employees; large states were those that had covered employment of over 2 million employees. Each entry in the table is average of annual total costs for the category indicated in the first column calculated across the states and years in the size group indicated in the remaining column headings. We compared these averages using regression models at the state-year level with clustered standard errors by state to account for autocorrelation. All differences by size in each cost category are statistically significant at the 10 percent level. IT=information technology.

Exhibit B.16: Performance Index Scores by Cost Share Category

Year	All States	States with Lower Personal Services (PS) Workload Cost	States with Higher PS Workload Cost	States with Lower PS Non-Workload Cost	States with Higher PS Non-Workload Cost	States with Lower Non-PS (NPS) Cost	States with Higher NPS Cost	States with Lower IT / Communications Cost	States with Higher IT / Communications Cost
Overall (2002-2023)	0.747	0.761	0.734	0.713*	0.780*	0.732	0.762	0.729	0.764
2002	0.835	0.844	0.826	0.819	0.850	0.835	0.834	0.813	0.856
2003	0.841	0.844	0.838	0.826	0.856	0.842	0.840	0.816	0.865
2004	0.795	0.812	0.778	0.765	0.823	0.773	0.815	0.771	0.817
2005	0.839	0.868	0.811	0.793*	0.884*	0.828	0.850	0.808	0.869
2006	0.832	0.847	0.817	0.775*	0.886*	0.842	0.822	0.825	0.838
2007	0.850	0.869	0.833	0.803*	0.896*	0.855	0.846	0.842	0.859
2008	0.825	0.860	0.792	0.767*	0.881*	0.789*	0.860*	0.806	0.843
2009	0.709	0.742	0.678	0.661*	0.756*	0.671*	0.747*	0.674	0.744
2010	0.677	0.701	0.655	0.647	0.707	0.637*	0.716*	0.654	0.700
2011	0.731	0.758	0.705	0.705	0.756	0.698	0.763	0.713	0.748
2012	0.736	0.753	0.719	0.719	0.752	0.718	0.753	0.730	0.741
2013	0.764	0.778	0.750	0.721*	0.806*	0.767	0.761	0.770	0.758
2014	0.794	0.802	0.786	0.732*	0.853*	0.797	0.790	0.799	0.789
2015	0.806	0.805	0.807	0.777*	0.833*	0.814	0.798	0.807	0.805
2016	0.829	0.835	0.823	0.794*	0.862*	0.839	0.819	0.819	0.838
2017	0.834	0.847	0.822	0.795*	0.872*	0.829	0.840	0.824	0.845
2018	0.829	0.834	0.825	0.818	0.840	0.831	0.828	0.815	0.843
2019	0.856	0.872	0.840	0.845	0.866	0.830	0.881	0.845	0.865
2020	0.637	0.620	0.653	0.627	0.646	0.614	0.658	0.579	0.692
2021	0.387	0.391	0.383	0.358	0.415	0.366	0.407	0.369	0.405
2022	0.448	0.441	0.454	0.413	0.481	0.403	0.490	0.411	0.483
2023	0.585	0.625	0.547	0.536	0.632	0.517	0.650	0.553	0.616

IT=information technology. Note: This table uses Unemployment Insurance (UI) administrative cost data from the Resource Justification Model and funding data from the U.S. Department of Labor (DOL) for all 50 states, District of Columbia, Puerto Rico, and the U.S. Virgin Islands. The UI performance index score is derived from data from DOL. The years 2002 to 2023 shown represent federal fiscal years (Oct. 1-Sep. 30). States with lower PS Workload, PS Non-Workload, NPS, or IT/Communications costs have below-the-median cost shares for that cost category. States with lower PS Workload, PS Non-Workload, Non-PS, or IT/Communications costs have at-or-above-the-median cost shares for that cost category. Values in this exhibit may not sum across rows or columns due to rounding differences. * indicates the difference between a pair of columns is statistically significant at the 10 percent level from two-sample *t*-tests using state-level data.

Appendix C. Glossary

above-base funding — the amount of the annual UI administrative grant held in reserve to be distributed to states that experience higher-than-forecast UI program workloads

administrative costs — the cost to a state to administer its UI program, including personnel costs and non-personnel costs

administrative funding process — determining both the amount of funding to be provided to states nationally and the amount provided to each state each year; takes three steps: (1) DOL and OMB develop a budget request based on historical information about states' actual costs and a forecast of states' needs. (2) Congress appropriates funds. (3) DOL determines how much of the funds to provide to each state, while holding in reserve some funding to meet unanticipated future needs

administrative staff and technical services — central office administration, management and planning, auditing, federal reporting, and other specific activities

American Recovery and Reinvestment Act of 2009 (ARRA) — in response to the Great Recession (2008), provided additional funding to states for UI administration and reemployment services

American Rescue Plan Act of 2021 (ARPA) — enacted in response to the recession during FY 2020; provided grant opportunities for states to improve/protect/modernize their systems and program operations

annual grant funding — one of two measures of federal UI administrative funding; counts annual congressional appropriations but not one-time federal grants for UI administration; includes base funding, above-base funding, and funding via supplemental budget requests (cf. *combined grant funding*)

annual grant funding ratio — one of two ratios to compare federal funding versus total UI administrative costs; calculated as annual grant funding in the numerator and total UI administrative costs in the denominator (cf. *combined grant funding ratio*)

annual UI administrative grants — primary vehicle DOL uses to disperse Employment Security Administration Account funds to the states; determined near the start of a new fiscal year

appeals — staff preparation and support for appeals when claimants or employers contest benefit determinations

base funding — the amount of the annual UI administrative grant initially distributed to states (cf. *above-base funding*)

benefit payment control — states' efforts to detect and reduce improper payments

claimants — unemployed workers who file to receive UI program benefits

combined grant funding — one of two measures of federal UI administrative funding; counts annual congressional appropriations plus federal one-time grant funding for administrative purposes (cf. *annual grant funding*)

combined grant funding ratio — one of two ratios to compare federal funding versus total UI administrative costs; calculated as combined grant funding in the numerator and total UI administrative costs in the denominator (cf. *annual grant funding ratio*)

contingent funding — a funding amount Congress specifies to be provided should national UI workload activity exceed the threshold upon which the main appropriation is based; becomes available to states after they have begun to experience increased workloads relative to forecasted levels

cumulative funding gap — difference between the sum of federal funding for UI over a time period and the sum of a state's UI administrative costs over the same period

Emergency Unemployment Insurance Stabilization and Access Act of 2020 — provided $1 billion in grants to states to cover UI administrative costs to process claims due to surging unemployment during 2020

employer tax records — administration of employer accounts, contribution collections, and updates to tax records

Employment Security Administration Account (ESAA) — federal trust fund that receives 80 percent of FUTA tax revenue, which is used to fund the administrative costs of the UI system

Federal Unemployment Tax Act (FUTA) — federal tax collected from employers; main source of funding for states' UI program administration

fiscal year — annual federal budget period, October 1 to September 30

fixed costs — UI costs not driven by workloads according to the RJM; includes program integrity and performance monitoring

gap in funding — when states' UI administrative costs for the fiscal year exceed the annual grant funding or combined grant funding received, calculated as a percentage

Great Recession — economic downturn of FY 2008

"how the pie is sliced" — third step in the UI administrative funding process, when DOL determines how much of the available funding for UI program administration to provide to each state

information technology (IT) — computer hardware and software enabling claimants to file for benefits and the state to verify the identity of the claimants, detect fraud, and perform other program functions that have historically been handled by staff

information technology / communications costs (IT costs) — hardware and software for the UI administrative system

initial claims — includes staff work to process new applications for UI benefits

large states — covered employment greater than 2 million employees

medium states — covered employment between 1 and 2 million employees

nonmonetary determinations — investigations and decisions on issues unrelated to monetary eligibility, such as reasons for claimants' separation from work and whether claimants are in compliance with the state's UI program rules

non-personal costs — includes capital costs of the real estate where UI program activities are conducted and IT costs to serve both employers and claimants

Non-Personal Services (NPS) costs — UI administrative costs not associated with personnel and not expected to vary with workloads. NPS costs: (1) IT/communications and (2) "Other" NPS

Office of Unemployment Insurance (OUI) — agency in the U.S. Department of Labor (DOL), Employment and Training Administration (ETA)

one-time federal UI administrative grants — provided via congressional legislation, typically in response to economic downturns; also can include automatic distributions (called "Reed Act" distributions); less predictable than annual appropriations and not necessarily provided to all states in each and every year

"Other" NPS costs — includes facility costs, staff travel costs, and costs for office equipment and supplies

personal costs — salaries and fringe benefits paid to personnel who work for the UI program

Personal Services, Non-Workload (PS, Non-Workload) costs — personnel costs associated with UI administrative activities that are not measured by workloads. Non-workload activities: (1) benefit payment control, (2) UI Performs, (3) support, and (4) administrative staff and technical services

Personal Services, Workload (PS, Workload) costs — personnel costs associated with the administration of the six UI workload activities

qualitative data — information collected from interviews or reviews of literature

quantitative data — information collected from computer systems and databases, policy documents, reporting forms

recipiency rate — measure of the number of people paid UI benefits during a week divided by the number of unemployed people during a week

Reed Act distribution — one-time federal funding for UI administration that arises when the federal government has accumulated an excess of FUTA funds above a prespecified amount across the ESAA and two other federal trust fund accounts

Resource Justification Model (RJM) — DOL's data collection system that records UI administrative spending by state agencies; used to document states' costs for administering their respective UI programs each fiscal year

"size of the pie" — the amount of funding Congress appropriates for UI program administration (a result of the first two steps in the UI administrative funding process)

small states — covered employment less than 1 million employees

Social Security Act, Title III, Section 302 — specifies that the funding for the "proper and efficient" administration of the UI program is a federal responsibility (42 U.S.C. 502); bases the UI system on a federal-state partnership

state resource ratio — a ratio with state spending in the numerator and total UI administrative costs in the denominator

state resources / state supplemental funding — contribution of funds by states to their own UI program administration; sources include penalty and/or interest charges on employers whose UI tax payments are overdue, state general revenues, Reed Act distributions, or a state-specific tax levied on employers and dedicated for UI administrative purposes

State Unemployment Tax Act (SUTA) — state tax collected primarily from employers; used to provide benefits to eligible unemployed workers in that state

states — the state partners in the UI partnership between federal and state governments; consists of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands, which operate UI programs

study states — Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin; included in the study's interviews of state UI program administrators

"substantial" state resources — when a state contributes state resources amounting to at least 10 percent of its total UI administrative costs in a year

supplemental budget request (SBR) — submitted by states for a portion of any funds remaining after base and above-base allocations have been made for that fiscal year

support — direct supervision of the UI program, local operational management and planning, local data reporting, and other specific activities

surplus in total funding — when annual grant funding or combined grant funding received exceeds states' total UI administrative costs for the year, calculated as a percentage

total UI administrative costs — a measure of all costs that are allowable for UI program administration purposes, regardless of the source of the funding used to cover the costs

UI Performs — UI program performance management, planning, and oversight system

wage records — collection, verification, and maintenance of employer-reported quarterly wage data used to support the UI program

weeks claimed — processing of ongoing claimant certifications to verify continued eligibility for benefits

workload — volume of UI administrative activities performed by state staff in a year considered to fluctuate directly based on the number of UI claimants or employers involved in the UI system. Workload activities: (1) initial claims, (2) weeks claimed, (3) nonmonetary determinations, (4) appeals, (5) wage records, and (6) employer tax records