



Unemployment Insurance Administrative Costs Study: Examining the Current Funding Framework for UI Program Administration

SUMMARY

In 2023, 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), sponsored the **Unemployment Insurance Administrative Costs Study**. The study included:

- A review of literature about UI administrative costs (Detailed findings from the literature review are presented in Needels, K., Hawthorne, A., Shea, M., Westall, J., Saunders, C., Clarkwest, A. (2024). Abt Global and Needels Consulting. *Unemployment Insurance (UI) Administrative Funding and Costs: A Literature Review*. Chief Evaluation Office, U.S. Department of Labor. Available online: <https://www.dol.gov/resource-library/unemployment-insurance-ui-administrative-funding-and-costs-lit...>);
- Analyses of informational interviews with administrators from eight state UI agencies and with DOL's OUI; and
- Analyses of quantitative data about states' program costs and funding provided for UI administration.

The state administrators interviewed during July and August 2024 represented eight purposively selected states: Alaska, Florida, Indiana, New Hampshire, New York, North Dakota, West Virginia, and Wisconsin. They were selected 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. During January and February 2025, the study team also conducted interviews with OUI to gain additional information and insights about the UI administrative financing process. The quantitative data analyzed by the study team covered a 22-year period from Fiscal Year (FY) 2002 through FY 2023. Data on administrative costs come from the Resource Justification Model (RJM), which is DOL's data collection system that records UI administrative spending by state agencies to operate their UI programs each fiscal year. Administrative funding data include the federal administrative grant funding that DOL allocated annually to states and one-time grant funding, both of which are based on congressional appropriations.

This DOL-funded study was a result of the annual process to determine the department's research priorities for the upcoming year. It contributes to the labor evidence-base to inform [employment and training](#) programs and policies and addresses Departmental strategic goals and priorities.

This report presents an overview of the current UI administrative funding process, a synthesis of findings about how funding compares to costs, and open questions based on these findings that could point to further insights about funding adequacy. Qualitative



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findings are based on a literature review and informational interviews with administrators from eight state UI agencies and with DOL's OUI. Quantitative findings are based on measures of states' administrative costs and funding from FY 2002 through FY 2023. The report also presents limitations of the data and analyses.

Findings from these analyses provide insights about differences between administrative funding and costs over time and across states, key features of states' cost structures, and how UI administrative financing correlates with program performance. In addition, the study authors believe that the findings provide evidence about the current UI administrative funding process and surface insights that can inform potential future developments in this process.

RESEARCH 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?
3. How has federal UI administrative funding, as measured by annual federal administrative allocations, compared to UI administrative costs, as recorded in states' annual RJM data submissions?
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?

KEY TAKEAWAYS

- From interviews with a sample of state UI administrators, and a review of relevant literature, the study authors 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.



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- To address the perceived 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.
- The **perceived effects of insufficient levels of UI administrative funding, as cited by literature authors, center on program performance**—for instance, jammed phone lines and difficulty for state programs to achieve performance standards such as the timely payment of benefits. These perceptions align with the 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.** The study authors 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.
- **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. The study authors 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.
- In the absence of a way to define and measure funding adequacy, the study authors explored measurable criteria such as funding-to-cost ratios, state resource contributions, and performance metrics to gain insights into the current UI administrative funding approach.



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- Overall, 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** (that is, contributions amounting to at least 10 percent of costs).
- **In addition, states with higher levels of combined federal funding (annual plus one-time grant funding) relative to costs tended to have better UI program performance.** However, state resource contributions did not show a similar correlation with performance.
- Study authors also examined the composition of administrative costs between fixed (not workload-driven) and workload-driven costs. **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 and program operations.** 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.
- **The findings from this study help illuminate additional questions related to defining or understanding adequacy of UI administrative funding.** These include: identifying a standard for whether UI programs are operating properly and efficiently; understanding the relationship between funding and proper and efficient program administration; identifying strategies for maintaining proper and efficient program administration during unexpected increases in UI workloads; and addressing non-workload-based costs, specifically IT-related costs, within the current UI administrative funding process.



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Reference Period: 09/2023 – 01/2026

Submitted by: Abt Global, Needels Consulting

Date Prepared: March 2026

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