



# **Unemployment Insurance Administrative Funding and Costs: A Literature Review**

**Needels Consulting, LLC**

Karen Needels

**Abt Global**

Ashleigh Hawthorne, Meghan Shea, John Westall, Correne Saunders, and Andrew Clarkwest

**December 2024**

This document was prepared for the U.S. Department of Labor (DOL), Chief Evaluation Office by Abt Global under Contract # 1605DC-18-A-0037/1605C2-23-F-00005. The views expressed are those of the authors and should not be attributed to DOL, nor does mention of trade names, commercial products, or organizations imply endorsement of same by the U.S. Government.



<b>Executive Summary .....</b>	<b>ii</b>
<b>Background.....</b>	<b>1</b>
<b>1. Sources for and methods of distributing UI administrative funding.....</b>	<b>3</b>
1.1. Annual congressional appropriations are the main source for UI administrative funding .....	3
1.2. Supplemental funding can provide significant intermittent funding for UI administration .....	6
1.3. Reed Act distributions also are potential sources of funds for UI administration .....	8
1.4. Some states supplement funding for UI administration provided by the federal government with their own funding.....	9
<b>2. Patterns in UI administrative funding and costs .....</b>	<b>10</b>
2.1. National statistics about UI administrative funding and costs .....	10
2.2. Literature-based assessments of UI administrative funding and costs .....	12
<b>3. Implications of inadequate UI administrative funding.....</b>	<b>15</b>
3.1. Customer service and program usage implications .....	15
3.2. Program integrity implications .....	15
3.3. Operational implications .....	16
<b>4. Recommendations in the literature.....</b>	<b>17</b>
4.1. Increase congressional appropriations.....	17
4.2. Remove UI trust funds from the Federal Unified Budget.....	18
4.3. Adjust the thresholds for Reed Act distributions.....	18
4.4. Increase the Federal Unemployment Tax Act taxable wage base and/or the tax rate .....	19
4.5. Foster greater funding usage from different sources for UI program administration, such as those already used by state agencies .....	22
4.6. State-level revenue generation through additional taxation of employers or employees.....	22
4.7. Incorporate incentives for cost-efficient, high-quality program administration .....	23
4.8. Make fundamental changes to the federal-state partnership for the UI program.....	24
<b>5. Summary and open questions .....</b>	<b>27</b>
5.1. The UI administrative financing process, assessments of it, and challenges arising from it.....	27
5.2. Recommendations from the literature .....	28
5.3. Open questions.....	28
<b>References .....</b>	<b>31</b>



## Executive Summary

---

Operated through a partnership between the federal government and state agencies, the Unemployment Insurance (UI) system is complex. In addition to the UI benefits paid to unemployed workers (“claimants”) who meet the program’s requirements, funding for the program must cover all aspects of its administration, which is primarily conducted by the 50 states and the District of Columbia, Puerto Rico, and the U.S. Virgin Islands that operate state-specific UI programs. According to federal law, a federal responsibility in the federal-state partnership embodied in the UI system is providing funding to states for UI program administration. States’ administrative costs associated with operating their UI programs include salaries and fringe benefits paid to personnel who work for the UI program and non-personnel costs, such as capital costs due to the real estate where UI program activities are conducted and information technology (IT) costs to serve both claimants and employers. States bear the responsibility to ensure that UI-related taxes are collected from employers and UI benefits are paid to eligible claimants.

The U.S. Department of Labor’s Chief Evaluation Office, in collaboration with the Employment and Training Administration’s Office of Unemployment Insurance and DOL’s Office of Unemployment Insurance Modernization, commissioned the **UI Administrative Costs Study** to better understand what is needed to fund administration of the UI program as a whole and the possibilities for strengthening UI administrative financing. One component of the study is a review of the literature about challenges that arise with the current approach to funding UI administrative costs and alternative funding mechanisms that have been proposed. This report summarizes findings from the literature about UI administrative funding and costs and will be used to support other study activities, including semi-structured discussions with UI administrators and an analysis of quantitative data about funding for and costs of UI program administration across states. These study activities will provide answers to questions about how administrative funding levels have changed over time, including when compared with inflation, how UI administrative funding compares with states’ actual costs, and whether there are characteristics of states that are related to gaps between administrative funding and costs.

This report is divided into five sections. The first four present information about (1) sources for and methods of distributing UI administrative funding, (2) patterns in UI administrative funding and costs, (3) implications of inadequate UI administrative funding, and (4) recommendations in the literature. In the fifth section, we summarize findings and present open questions about different aspects of UI administrative financing.

### *Distribution of UI Administrative Funds*

States receive UI administrative funds through four main avenues: (1) annual congressional appropriations; (2) federally administered one-time supplemental funds; (3) occasional distributions, called Reed Act distributions, from the federally managed UI trust fund accounts to states; and (4) state-level supplemental funds. While annual congressional appropriations are the main source of UI administrative funds, federally administered one-time supplemental funds can be used to provide significant intermittent funding to states for specific purposes including modernizing IT systems, increasing accessibility of UI services to claimants and employers, and

strengthening the program’s ability to ensure that UI benefit payments are made only to claimants who are entitled to receive them. Although unlikely to occur in the near future based on the UI administrative funding structure, Reed Act distributions have been available to states only intermittently. In addition to using Reed Act funds to pay UI benefits, eligible states can also use these funds to support the administration of their UI programs. States can also use state-level funds to supplement federal grants. Common sources of state-level funds include revenue from states’ general funds, state-level administrative taxes, and penalties and/or interest payments.

## *Patterns in UI Administrative Funding and Costs*

To provide context for the discussion about the views expressed by literature authors about UI administrative funding and costs, we include in this report a high-level analysis of quantitative data about nationwide levels of UI administrative funding provided from the federal government to states and costs incurred by states from 2002 through 2022.<sup>1</sup> The data show that nationwide annual UI administrative funding allocated to states ranged from \$2.41 to \$4.64 billion dollars; these statistics do not include federal funds provided to states through infrequent mechanisms such as Reed Act distributions or special one-time grants. States’ combined annual administrative costs ranged from \$2.68 to \$4.43 billion. Across these 21 years, annual administrative funding was less than annual administrative costs for 15 years and greater than annual administrative costs for six years. The six years during which funding exceeded costs include five years from 2009 through 2013 (around the time of the Great Recession and its aftermath) and 2020, which was the beginning of the pandemic era.

Across the literature we reviewed, most authors focused on the overall level and adequacy of funding (“the size of the pie”) rather than on the merits or drawbacks of the allocation process to states (“how the pie is sliced”). The literature authors highlighted the patterns in administrative funding and administrative costs in slightly different ways, but a cross-cutting assessment from the authors is that the funding is not adequate for UI program administration. Across the literature, authors noted that (1) congressional appropriations for UI administration have been less than forecasts of states’ costs; (2) Congress has been appropriating a declining percentage of revenues that are raised for UI program administration; (3) that less than 10 percent of UI program administrators reported in a survey that they perceive that administrative funding is adequate; and (4) the inflation-adjusted decline in administrative funding in recent years has been about 27 percent. Literature authors cited several factors related to core aspects of the UI administrative funding process that have led to the gap between UI administrative funding and costs.

## *Implications of Inadequate UI Administrative Funding*

Literature-based implications of inadequate UI program administrative funding include poor customer service and failures of state UI programs to meet key targets for program performance, such as making UI benefit payments to claimants in a timely manner. Authors across the literature we reviewed also reported that inadequate UI administrative funds can weaken the program’s

---

<sup>1</sup> Future study activities include an examination of these and other relevant quantitative data in detail.

integrity—that is, its ability to ensure payments are provided only to eligible claimants—and its ability to operate in an efficient manner. We did not find any literature that quantified implications of these effects of inadequate administrative funding, but any detrimental effects of inadequate administrative funding (or inefficient use of it) might put at risk the goals of the UI program to provide temporary income support to eligible unemployed workers and serve as a stimulus to the economy during economic downturns.

## *Recommendations in the Literature*

A wide range of individuals and groups who are engaged in the UI system, such as UI agency staff, employers, and members of the labor force who are or could become unemployed, as well as an array of advocacy groups, have made recommendations about how to strengthen UI administrative financing. The recommendations include increasing congressional appropriations as well as removing the federally managed UI trust funds—and especially in this case the one from which UI administrative funds are paid to states—from the Federal Unified Budget. Some literature authors speculated that these steps, in and of themselves, could go a long way towards solving the challenges associated with UI administrative financing. Other literature-based recommendations include strategies intended to increase the frequency of Reed Act distributions of funds from the federal UI trust funds to states and increasing the revenues collected from employers through raising the cap on the amount of their employees' earnings upon which taxes are paid for the purpose of UI program administration. Other literature-based recommendations include greater leveraging of existing funding sources to support UI program administration, increasing revenue generated by each state, incorporating incentives into the administrative funding structure, and making fundamental changes to the federal-state partnership for the UI program.

## *Areas for Further Research*

Although the literature that we reviewed documented changes over time in UI administrative financing, its implications, and ideas about how to address financing challenges, additional information could be helpful to policymakers interested in addressing UI administrative financing challenges. It could be helpful to learn more about the following:

- UI administrators' perspectives on the recommendations in the literature.
- UI administrators' strategies for operating their programs in light of administrative funding levels that do not match administrative costs.
- The ability of state UI programs to incorporate funds from other agencies or organizations to cover UI program operations costs.
- UI administrators' strategies for operating their programs given fluctuations over time in UI administrative funding and workloads.
- UI administrators' approaches to adjust to uncertainties in economic forecasts about UI program workloads and the potential availability of above-base funding.
- Factors that are associated with the extent of funding adequacy in states.
- The distribution of funds among states.



- Implications of UI administrative financing issues on program integrity.
- Implications of UI administrative funding gaps on states' ability to meet standards established by the federal government for program performance.

Additional study activities, including semi-structured discussions with UI administrators and a detailed analysis of quantitative data about UI administrative funding, will provide some insights in response to these questions, but additional research will need to be conducted to more comprehensively answer these questions. Answers to these types of questions could assist in strengthening UI administrative financing and mitigating challenges that hamper the ability of the program to achieve its goals.

---

## Background

---

Operated through a partnership between the federal government and state agencies, the Unemployment Insurance (UI) system is complex. In addition to the UI benefits paid to unemployed workers (“claimants”) who meet the program’s requirements, funding for the program must cover all aspects of its administration, which is primarily conducted by the 50 states and the District of Columbia, Puerto Rico, and the U.S. Virgin Islands that operate state-specific UI programs.<sup>2</sup> According to federal law, a federal responsibility in the federal-state partnership embodied in the UI system is providing funding to states for UI program administration. States’ administrative costs associated with operating their UI programs include salaries and fringe benefits paid to personnel who work for the UI program and non-personnel costs. UI program employees work on an array of activities, such as receiving and processing claims for benefits filed by claimants; assessing the eligibility of the claimants when it is in dispute; establishing, gathering and processing taxes paid for the program by employers within the state; and reporting program-related statistics to the federal government. Non-personnel expenses include—but are not limited to—capital costs due to the real estate where UI program activities are conducted, information technology (IT) costs to carry out activities of the programs involving employers (such as collecting taxes from them), and IT costs to enable claimants to file claims for benefits and the state UI agencies to ensure that benefits are paid only to claimants who are eligible. States bear the responsibility to ensure that UI-related taxes are collected from employers and UI benefits—which are an entitlement—are paid to eligible claimants.

Concern about whether UI administrative funding is sufficient for program operations has been documented for decades. For example, the General Accounting Office (GAO, 1989) stated that federal UI administrative funds are often less than what is proposed in DOL’s annual budget requests to Congress, leading to insufficient funds for states to pay for staff and/or IT. Emsellem and Evermore (2020) also reported that, when adjusting for inflation, federal UI administrative funding declined by 30 percent between 1999 and 2019, making it challenging for states to operate the core functions of their UI programs. The problem became especially visible due to significant operational challenges that arose during the COVID-19 pandemic-related increase in UI claims in 2020. The challenges, such as insufficient phone line capacity or call center staff to support UI claimants trying to file or inquire about their claims, delays in the payment of benefits, high rates of improper payments, and lags in implementing new programs, brought levels of UI administrative funding to the forefront of the minds of UI agency staff and policymakers, as UI agencies were not adequately resourced for the demands placed on the UI system (Dixon, 2022; GAO, 2022).

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) and DOL’s Office of Unemployment Insurance Modernization, seeks to better understand what is needed to fund administration of the UI program as a whole and the possibilities for strengthening UI

---

<sup>2</sup> Hereafter, we refer to the 53 jurisdictions that administer UI programs as “states.” The Federal Unemployment Tax Act defines “state” to include the 50 states and the District of Columbia, Puerto Rico, and the U.S. Virgin Islands 26 U.S.C. 3306(j)(1).



administrative financing. As such, in September of 2023, DOL commissioned the **Unemployment Insurance Administrative Costs Study**.<sup>3</sup> One aim of the study is to identify relevant literature and synthesize challenges of the current approach to funding UI administrative costs that have been documented, as well as alternative funding mechanisms that have been proposed. To address this study aim, we used a snowball-type approach to identify literature, beginning with documents that our study team was already aware of and following additional leads identified either by DOL staff or through the literature review while it was underway. This approach to identifying literature was appropriate given the time period spanned by it and the diversity of potential sources. We focus on objective and nonpartisan sources but, when relevant and appropriate, we include the perspectives of individuals and groups who are engaged in the UI system, such as UI agency staff or advocacy groups. Most, but not all, of the literature we reviewed focuses on the overall level and adequacy of UI administrative funding (“the size of the pie”) rather than on the merits or drawbacks of the process that DOL uses to allocate administrative funds across states (“how the pie is sliced”).

The findings from this literature review provide a foundation for other aspects of the study. These pertain to how funding levels have changed over time, including when compared with inflation, how UI administrative funding compares with states’ actual costs, and whether there are characteristics of states that are related to gaps between administrative funding and costs. To investigate these issues, we will conduct and analyze findings from semi-structured discussions with state UI administrators to understand four main topics: administrative funding, administrative costs, the gap between administrative funding and costs, and recommendations to strengthen administrative financing. We will use the semi-structured format to encourage administrators to share insights about their states’ distinctive experiences with UI administrative financing and to enable interviewers to adapt the discussions to reflect each state’s unique circumstances. We also will conduct an analysis of quantitative data generated by UI state agencies about their program costs and publicly available data about states’ characteristics. When combined, these study activities will generate insights about both the overall level of administrative funding and how it is allocated across states—that is, both the size of the pie and how it is sliced.

In this report, we present the findings from our review of the literature about UI administrative funding and costs. In Section 1, we provide an overview of the current sources for and methods of distributing UI administrative funding. In Section 2, we provide a high-level perspective about UI administrative funding and costs using quantitative data as well as perspectives in the literature about this funding and costs. In Section 3, we briefly present implications mentioned in the literature about problems that can arise when UI administrative funding is not adequate. In Section 4, we describe recommendations from the literature for resolving challenges with UI administrative financing. In Section 5, we briefly summarize the literature and present outstanding questions that are not addressed in the literature we reviewed, but for which answers could be helpful to policymakers who desire to strengthen UI administrative financing.

---

<sup>3</sup> The study does not include an examination of financing for UI program benefits. Furthermore, the study focuses on administrative funding for regular UI programs exclusive of the permanent Extended Benefits program and emergency benefits programs that arise from congressional legislation in response to economic downturns.



## 1. Sources for and methods of distributing UI administrative funding

---

The sources of UI administrative funding can be grouped into four categories. The largest is annual appropriations from Congress. Less frequently, as a result of new legislation or other episodic circumstances, the federal government has provided supplemental funding. In addition, occasional disbursements from federally managed UI trust fund accounts to states have been made. Finally, some states collect and use additional funds through within-state mechanisms to supplement federal UI administrative funding. We discuss each source and the methods of distributing the funds in the subsections below.

### 1.1. Annual congressional appropriations are the main source for UI administrative funding

The process for funding the administration of the UI system involves several steps that, in brief, raise funds from states and distribute most of those funds from the federal government back to states. Since 1983, the Federal Unemployment Tax Act (FUTA) tax imposed on most employers<sup>4</sup> in the United States has been on the first \$7,000 of each employee's wages (Ziegler & Squire, 2023); this dollar amount is referred to as the FUTA "taxable wage base" (TWB). Although the tax rate is at 6.0 percent, employers typically receive a 5.4 percent tax credit against the tax.<sup>5</sup> This yields an effective FUTA tax of \$42 per employee, per year. The revenue raised through the FUTA taxes is distributed to federally administered trust fund accounts that serve different purposes, as described below.

As of 2024, 80 percent of the revenue from the FUTA tax is allocated to the Employment Security Administration Account (ESAA), which is a federal trust fund primarily used to fund the administrative costs of the UI system; the remaining 20 percent is allocated to the Extended Unemployment Compensation Account (EUCA), which is another federal trust fund and which is used to pay the federal share of the Extended Benefits program (Isaacs & Whittaker, 2024).<sup>6</sup> If the ESAA end-of-year balance exceeds 40 percent of the congressional UI administrative

---

<sup>4</sup> Employers subject to the tax use IRS Form 940 to file returns; instructions for Form 940 include details about which employers, under which conditions, are subject to the tax: [https://www.irs.gov/instructions/i940#en\\_US\\_2023\\_publink13660id0e253](https://www.irs.gov/instructions/i940#en_US_2023_publink13660id0e253). In general, 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.

<sup>5</sup> Two conditions arise that affect the availability and size of the tax credit. One is whether the state is in compliance with federal rules for UI program administration. According to West and Hildebrand (1997), official tax credit sanctions related to compliance have only very rarely been imposed on a state. The second condition pertains to when states have outstanding balances of advances under Title XII of the Social Security Act. According to data available through [https://oui.doleta.gov/unemploy/futa\\_credit.asp](https://oui.doleta.gov/unemploy/futa_credit.asp), 22 states had tax credit reductions during 2011, and 3 did during 2023.

<sup>6</sup> Additional details that govern the management of FUTA revenues across these trust funds are described by Miller (1997). In this report, we present only the most salient ones.

appropriations for the prior fiscal year after adjusting for outstanding obligations, the extra funds are transferred to the EUCA (Raderman, 2024). A third federal trust fund account, the Federal Unemployment Account (FUA), is used to provide loans to states when their state-specific trust funds dedicated to contain funds for paying benefits to eligible UI claimants become insolvent. The FUA was allocated a portion of FUTA revenue in a few previous years, but it currently does not directly receive FUTA revenues.

Statutory caps govern the maximum amount of funds that each of these three federal trust fund accounts can contain. When accounts exceed these caps, the excess funds are transferred to accounts that have not.<sup>7</sup> Since the 1969 Unified Budget Act, the federal UI trust funds have been part of the Federal Unified Budget and the budgeting process for it. Inclusion of the UI federal trust funds in the Federal Unified Budget means that the funds raised for the UI and related programs through the FUTA tax are not directly linked to congressional appropriations and expenditures for those programs. UI tax receipts and outlays for both UI administration and benefits flow through the U.S. Treasury and, as a result, affect the overall financial position of the federal government (Isaacs & Whittaker, 2024).

Although most FUTA tax revenues are deposited in the ESAA, allocations made from the federal government to state UI agencies for UI program administration are episodic, purposive, or discretionary. They are created through a political process and, as a result, their amounts and distributions do not align with the amount of funds raised through FUTA taxation or states' needs (Raderman, 2024). The Administration submits an Annual Budget Request to Congress based on workload forecasts, and Congress determines the level of funding to include in annual appropriations. Because the UI trust funds are part of the Federal Unified Budget, congressional lawmakers' determination of how much to allocate for UI administration is made in relation to their other funding priorities.

In addition, each year, using a model called the Resource Justification Model (RJM), DOL gathers detailed information on actual past costs arising from the UI program staff's salaries and fringe benefits and from non-personnel expenses. The RJM process produces projections of states' future administrative costs based on DOL-supplied workload forecasts derived from the federal administration's economic assumptions. The RJM process also enables states to specify and justify expectations of increases in future UI administrative costs. However, the RJM does not include consideration of the amount of funds that UI program administrators believe necessary for an adequately administered program.<sup>8</sup> The RJM-based administrative cost projections also do not directly determine the amount of funding that states receive for UI program administration. As discussed in Section 2, literature authors have noted that congressional appropriations have been consistently less than RJM's projections of states' administrative costs.

---

<sup>7</sup> Additional details about federal trust fund account statutory caps and transfer of funds can be found in Section 1.3.

<sup>8</sup> Because state UI administrators make decisions about how to operate their programs given the funding that is available to them, a relationship arises between (1) funding availability, on the one hand; and (2) RJM-based estimates of costs, on the other hand. That is, the past incurred costs might have been different if historical funding levels were different.

The share of appropriated funds provided to individual states for UI administrative purposes depends on the amounts Congress appropriated and the UI workload that materializes during each fiscal year. Because the UI system conducts a wide range of tasks, there are several metrics used to assess UI administrative workloads.<sup>9</sup> However, overall workloads are often described by the “average weekly insured unemployment” (AWIU), which gives a high-level perspective about the volume of UI program activities and the related need for UI administrative funding. A base level of administrative funding is allocated to cover a portion of the total workload activity projected for the year. Thus, base administrative funding is often described in relation to the “base” AWIU, but—in practice—UI administrative funding is calculated from base workload levels for each of the relevant workload areas. Above-base funding is provided to states when their UI administrative workloads exceed the amounts allocated in their base awards. Above-base funding enables DOL to issue a portion of the annual funding based on actual workload levels incurred during the year instead of doing so solely on projected state workload levels. Additional funding, referred to as “contingent funding,” is allocated by Congress for the UI system if it becomes apparent that UI claims activities at a national level will exceed the total state administrative appropriation for the AWIU (i.e. base and above-base levels). For instance, in fiscal year 2023, the congressional appropriation for UI administrative funding included a contingency reserve of \$28.6 million per 100,000 AWIU above the threshold of 1,778,000 AWIU that would trigger the contingency funding (ETA, 2023). Contingency funding is awarded to states through the same process used for above-base funding. Compared to base funding, contingent funding has a lower reimbursement rate per full-time-equivalent (FTE) of UI program staff; a primary explanation for this is that some costs incurred by state UI agencies, such as some types of technology costs, do not rise in proportion to increases in workloads. Another reason could be that workers who are employed when UI workloads are high tend to be part-time workers whose cost to the UI agency is less than the cost of full-time workers (GAO, 1989).

DOL distributes UI administrative funding to each state through UI administrative grants. Nationwide, UI administrative grants (which include base, above-base, and contingency funding) were about \$4.6 billion for fiscal year 2020 and declined to about \$2.8 billion for fiscal year 2022.<sup>10</sup> According to OUI (2020b), base allocation amounts are typically announced during late June or early July of each year. A stop-loss provision has historically limited the year-to-year declines in base allocations that each state UI agency receives to no more than 5 percent of the previous year’s base allocation. However, this provision has been infeasible when the total congressional allocation for base funding shrinks by more than 5 percent, as happened for fiscal year 2019 (OUI, 2018).

---

<sup>9</sup> The metrics include measures of the numbers of claims that are filed by new claimants and on an ongoing basis, determinations that the state UI agencies make regarding claimants’ eligibility for benefits, and appeals about benefit eligibility and payments that the agency processes. They also include measures of the number of employers within each state subject to FUTA taxes and data related to the number of employees each employer has for each calendar quarter.

<sup>10</sup> This information was retrieved from DOL at [https://oui.doleta.gov/unemploy/futa\\_receipts.asp](https://oui.doleta.gov/unemploy/futa_receipts.asp) on May 20, 2024. The statistics exclude federal funding from special one-time grants that are described in Section 1.2.

## ***1.2. Supplemental funding can provide significant intermittent funding for UI administration***

In addition to the standard UI administrative grant funding provided to states through the normal annual appropriations process, supplemental funding for UI administration has become available at times through congressional legislation in response to recent economic downturns. In contrast to annual appropriations which occur on a regular, predictable cycle, supplemental funding is less predictable in availability and has differed at least sometimes from annual appropriations in the allowable range of options for use.

Recently, supplemental funds have been used to fund infrastructure improvements that states had foregone making with their regular UI administrative funding. For example, in response to the recession that lasted from December 2007 to June 2009—often referred to as the “Great Recession,” the American Recovery and Reinvestment Act of 2009 (ARRA) provided additional funding to states for UI administrative purposes (Barnow et al., 2012).<sup>11</sup> Through ARRA, states received a total of \$500 million that could be used for UI administration and/or staff-assisted reemployment services; each state’s share was based on its share of FUTA taxable wages nationwide. Data gathered through a national survey and interviews with state administrators from 20 states indicated that about half of states planned to spend most or all of these funds on technology improvements; the remainder of states planned to spend the funds on staffing or a mix of staffing and technology improvements (Barnow et al., 2012). In addition, ARRA authorized up to \$7 billion as incentive payments to states for incorporation of certain types of UI policy “modernization” provisions that were intended to increase unemployed workers’ eligibility for benefits or the benefit amounts that states provided.<sup>12</sup> States could use these incentive payments either for benefits or, pursuant to a specific appropriation made by the state’s legislature, for UI and/or Employment Services program administration. Barnow et al. (2012) estimated that states received \$4.4 billion of the \$7.0 billion available for incentive payments and, based on the state administrator interviews mentioned above, the states varied considerably in the extent to which they used the incentive funds for benefits or program administration. Neither the \$500 million nor the modernization incentive payments have a deadline for being spent.

More recently, federal legislation and DOL initiatives since the early days of the COVID-19 pandemic in 2020 have provided supplemental funding to states for efforts to increase unemployed workers’ access to the UI system, improve the timeliness with which states pay benefits to eligible claimants, and strengthen program integrity—that is, states’ ability to ensure that benefits are paid to eligible claimants and not to ineligible claimants. Much of this funding has come through the Emergency Unemployment Insurance Stabilization and Access Act of 2020 (EUISAA), which provided \$1 billion in emergency transfers for UI administration beginning in March

---

<sup>11</sup> Whittaker (2012) describes the ARRA-based distributions of \$500 million and up to \$7 billion described in this paragraph as special distributions that have some properties similar to Reed Act distributions, which are discussed in Section 1.3.

<sup>12</sup> Each state’s potential share of the \$7 billion in funds was in proportionate to its share of FUTA taxable wages, and states could receive none, one-third, or all of its potential share of the funds based on which modernization provisions the state had in a state’s permanent law within the time period for eligibility to receive the funds (Mastri et al. 2016).

2020 (OUI, 2020a). Each state's potential share of the funds was based on its proportionate share of FUTA taxable wages during calendar year 2018 multiplied by \$1 billion.<sup>13</sup> Another substantial source of funding has come through the American Rescue Plan Act of 2021 (ARPA) under Public Law 117-2.<sup>14</sup> DOL (2024a) describes the grant opportunities and other initiatives through which more than \$780 million has been provided to states. Each grant opportunity has specific purposes for addressing potential claimants' access to the program (such as translating program documents into different languages, using plain language in program correspondence and forms, or addressing barriers to accessing UI services through mobile devices), payment timeliness, and/or program integrity. Almost every state has received at least one type of ARPA-based grant or support from DOL. Most recently, in 2023, DOL awarded \$204 million to 19 states in an effort to improve and modernize their IT systems.<sup>15</sup>

States also can receive additional funding after approval of Supplemental Budget Requests (SBRs). SBR funding availability depends on the level of congressional appropriation for state administration. SBR opportunities primarily occur when there is funding remaining after states are fully funded for the claims volume experienced in a given year; this occurs when claims activity is less than what had been projected during the annual appropriations process and there are undistributed above-base funds near the end of a fiscal year. When available, SBR funds are intended to support states with special projects such as improving their UI business processes and IT systems (Barnow et al., 2012). DOL has not provided an SBR opportunity to states for the regular UI program since fiscal year 2017.<sup>16</sup> The SBRs can be submitted by individual states or a consortium of states, and awards can be made on a competitive basis or based on the specific merit of the request; each approved SBR has a unique purpose (OUI, 2020b).

---

<sup>13</sup> States were eligible to receive half of its share if they met specific three conditions related to employer notifications to employees whose employment with the employer was ending, the availability of more than one method that people could use to access the UI system, and state agency notifications to UI claimants about the processing of their initial claims; states were eligible to receive the other half of the funds if they met other conditions related to the increase in new claims compared to the prior year and other policies that affected claimants' and employers' interactions with the UI system (OUI 2020a).

<sup>14</sup> To receive ARPA funds, interested states applied for specific grants announced through [DOL's UI Program Letters \(UIPLs\) and Training and Employment Notices \(TENS\)](#). In total, seven ARPA grant opportunities were available to states, covering the detection and prevention of fraudulent claims for UI benefits, the integrity of the UI system, claimant's experiences with the system, IT modernization, the availability of technical assistance to states to identify ways to improve their program operations, and the equitable access to the UI program by different groups of individuals. The period of performance varied between grants, although a common period of performance is from April 1, 2023, to December 31, 2025. The award amounts were also specific to each grant, with most being between \$100 and \$200 million, divided among states. Additional information about the scope and use of ARPA funds for UI administration can be found at U.S. DOL (2024a).

<sup>15</sup> Of the \$204 million available for IT modernization and maintenance, each state that applied for the grant was eligible for up to \$11.25 million, regardless of the state's size. Grant funds were awarded to states in the order DOL received the completed initial applications until grant funding was fully obligated (OUI, 2023a).

<sup>16</sup> The SBR opportunity during fiscal year 2017 was due to specific one-time funding of \$50 million appropriated by Congress to facilitate modernization of UI tax and benefit systems through efforts by state consortia (OUI, 2017).

### ***1.3. Reed Act distributions also are potential sources of funds for UI administration***

Another source of UI administrative financing that has been available historically, albeit only intermittently, has been Reed Act distributions to states (OUI, 2020b). The term “Reed Act” refers to Public Law 83-567, which is part of the Employment Security Administrative Financing Act of 1954 and which amended Title IX of the Social Security Act (Center for Employment Security Education and Research [CESER], 2004). Reed Act distributions to states arise when the federal government has accumulated an excess of FUTA funds above a prespecified amount across the three federal UI trust fund accounts described above. According to Isaacs and Whittaker (2024), the statutory maximum for the EUCA is the greater of \$750 million or 0.50 percent of wages subject to state UC laws and the statutory maximum for the FUA is the greater of \$550 million or 0.5 percent of the covered wages; this latter amount was \$45.23 billion in fiscal year 2024. The statutory maximum on the ESAA is 40 percent of the prior year’s congressional appropriations and is measured at the end of each federal fiscal year (September 30); this was \$1.87 billion for fiscal year 2024 (Isaacs & Whittaker, 2024). “Special” Reed Act distributions also can be authorized through specific one-time congressional legislation. Authorized uses for the regular Reed Act distributions that arise based on the funds in the three federal trust fund accounts are governed by a standard set of rules, while special distributions may be governed by a different set of rules specified in the authorizing legislation.

Reed Act distributions do not occur on a regular basis (Whittaker, 2012). Three were made in the 1950s, before the creation of the Federal Unified Budget that combined the federal administrative budget and the UI trust funds. Each of these distributions ranged from about \$33 million to \$71 million. Four additional distributions were made between 1998 and 2001. The distribution made in 1998 was about \$16 million. In contrast, each of the three distributions made in 1999, 2000, and 2001 was a \$100 million special distribution that arose from the Taxpayer Relief Act of 1997. A special distribution of \$8 billion arose from the Job Creation and Worker Assistance Act of 2002 that was intended to stimulate the economy in the aftermath of the recession during 2000 and 2001 (CESER, 2004).<sup>17</sup> Given the relatively low recent and projected balances in the federal trust fund accounts compared to balances when Reed Act distributions have typically occurred, it is unlikely for a Reed Act distribution to occur in the near future.<sup>18</sup>

The primary purpose of regular Reed Act funds is to pay UI benefits. Therefore, these Reed Act distributions must be deposited in states’ UI trust funds and are subject to rules limiting withdrawal to the payment of UI benefits. However, states with adequate trust fund balances to

---

<sup>17</sup> Whittaker (2012) explains that the distributions of \$500 million and up to \$7 billion as a result of ARRA, which are discussed in Section 1.2, were from the Unemployment Trust Fund that contains the three federal trust fund accounts and have some properties similar to a Reed Act distribution. However, Whittaker (2012) does not explicitly classify them as special Reed Act distributions.

<sup>18</sup> Forecasted end of the fiscal year 2024 net balances for the ESAA, EUCA, and FUA were \$3.41 billion, -\$9.60 billion, and \$12.79 billion, respectively (OUI, 2024a). The ESAA had an account ceiling of \$1.87 billion and the EUCA and FUA both had a ceiling of \$45.23 billion. At the end of fiscal year 2024, the EUCA owed \$5.50 billion to the general fund and the FUA owed \$19.00 billion to the general fund.



pay for benefits have discretion through the passage of state legislation and under certain conditions to use the distributions for the administration of UI and/or Employment Services and/or certain types of real property purchases for UI and Employment Services (CESER, 2004; OUI, 2020b).<sup>19</sup> For example, some states with adequate trust fund balances used Reed Act distributions to purchase new equipment (such as computers) and software to improve their UI programs. A study about the 2002 Reed Act distribution found that states generally valued the potential to use the funds for long-term UI infrastructure investment, but states that had trust funds that were nearly insolvent—that is, that were nearly unable to pay UI benefits to eligible claimants unless an outside source of funds provided a loan to the trust fund—were less able than other states to be able to take advantage of this potential (CESER, 2004). Furthermore, the study showed that, as of February 2004, about \$1.3 billion of the \$8 billion went towards UI and/or Employment Services administration, although it also estimated that about \$3.8 billion of the \$8 billion remained to be used.

#### ***1.4. Some states supplement funding for UI administration provided by the federal government with their own funding***

States can also contribute revenues from within-state sources for UI program administration (National Association of State Workforce Agencies [NASWA], 2022). One common source of state supplemental funding is a state's general fund. Another source is a state-level administrative tax that is specifically designated for UI program purposes—in this case, program operations. A third source of state supplemental funding is penalties and/or interest payments that the states receive from employers that have not adhered to certain types of program requirements, such as the timely payment of FUTA taxes or the responsibility to file required reports.

We describe recent data about the prevalence and usage of these sources of funding below, in Section 2.2.

---

<sup>19</sup> Restrictions on the use of Reed Act distributions arise for states that do not have adequate balances in their trust funds to pay for benefits. Historically, the flexibility given to states in how they use Reed Act funds has been similar for regular and special distributions. However, because special distributions arise due to congressional legislation, it is possible that future legislation might lead to deviations from this pattern.



## 2. Patterns in UI administrative funding and costs

A theme in the literature that we reviewed was that UI administrative funding provided by the federal government to state UI agencies was less than administrative costs that the state agencies incurred. In this section, we present information from quantitative data about how UI administrative funding and UI administrative costs have compared to each other. We also present literature-based assessments about the relationship between UI administrative funding and costs and explanations for changes in this relationship over time.

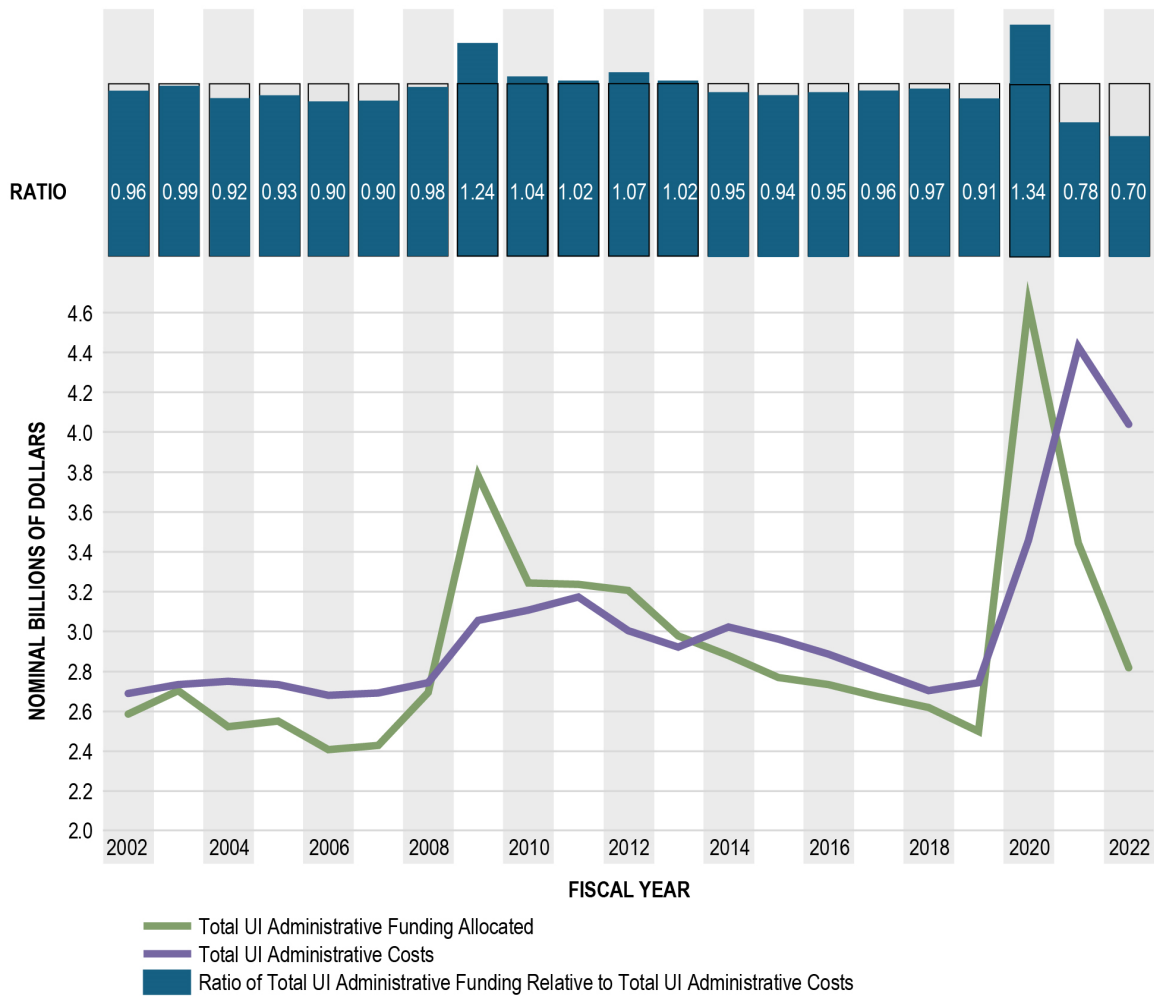
### 2.1. National statistics about UI administrative funding and costs

A quantitative analysis of data about UI administrative funding and costs shows the relationship of these measures over time. DOL provides data for a measure of *total UI administrative funding*, which includes base funding, above-base funding, and funding awarded through SBRs; it does not include special one-time grants or Reed Act distributions. According to these data, the nationwide annual UI administrative funding allocated to states between 2002 and 2022 ranged from \$2.41 to \$4.64 billion dollars (Figure 1). According to data that states reported to DOL through the RJM process for fiscal years 2002 through 2022, the years for which RJM data are available, their annual *total UI administrative costs* ranged from \$2.68 to \$4.43 billion (Figure 1). In each year, the ratio of total administrative funding to states' annual actual costs ranged from 0.70 to 1.34 (Figure 1). Of the 21 years from 2002 through 2022, annual administrative funding was less than annual administrative costs for 15 years and greater than annual administrative costs for six years.<sup>20</sup> The six years during which funding exceeded costs include five years from 2009 through 2013 (around the time of the Great Recession and its aftermath) and 2020, which was the beginning of the pandemic era. Although base funding is not intended to cover all of each state's administrative costs during the year, we show for contextual purposes a similar analysis that compares annual base funding to administrative costs. During the same 21-year period, the ratio of base funding for UI program administration to administrative costs ranged from 0.48 to 0.85 (Figure 2). Taken together, the two figures provide an assessment of the extent to which UI administrative funding (exclusive of one-time grants and Reed Act distributions) covers UI administrative costs on an annual basis and the role that annual UI base funding serves in doing so.<sup>21</sup>

<sup>20</sup> Across all 21 years, total administrative funding summed to \$61.43 billion while total administrative costs summed to \$63.33 billion; thus, the ratio of total administrative funding to administrative costs was 0.97 (statistics not shown in the figure). However, we caution that a comparison of amounts summed across years will depend on the start and end points of the years included in the calculation, given the year-to-year variability of funding and costs. Furthermore, the analyses that we present here uses nominal dollars; it does not take into account how inflation affects comparisons over time.

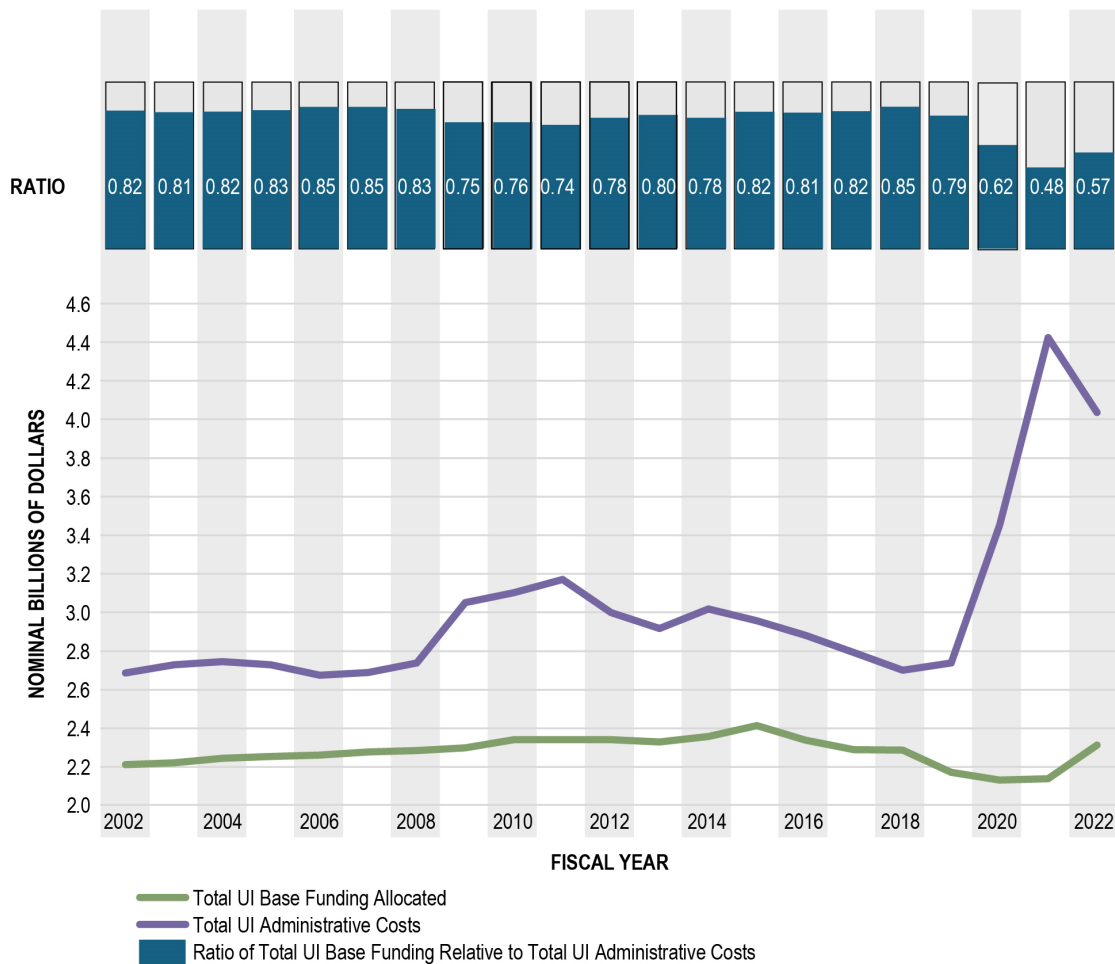
<sup>21</sup> As shown in Sections 1.2 and 1.3, one-time grants and Reed Act distributions are sporadic in nature, but they can be significant in relation to annual appropriations for UI administrative funding.

Figure 1: Comparison of Total UI Administrative Funding Allocated to States to Total UI Administrative Costs, Fiscal Years 2002 through 2022



Note: The total UI administrative funding allocated calculations are based on DOL reports of the total UI administrative funding amounts distributed to all states for the operation of their UI programs (OUI, 2024b). Calculations of the total UI administrative costs according to RJM data were made by the UI Administrative Costs Study Team on September 13, 2024.

Figure 2: Comparison of Total UI Administrative Base Funding Allocated to States to Total UI Administrative Costs, Fiscal Years 2002 through 2022



Note: The total UI base funding allocated calculations are based on DOL reports of the base funding amounts distributed to all states for the operation of their UI programs (OUI, 2024b). Calculations of the total UI administrative costs according to RJM data were made by the UI Administrative Costs Study Team on September 13, 2024.

## 2.2. Literature-based assessments of UI administrative funding and costs

The literature that we identified highlights the patterns in administrative funding and administrative costs in slightly different ways, but a cross-cutting assessment from literature authors is that the administrative funding is not adequate. For example, Henning et al. (2016) points out that base allocations across fiscal years 2009 through 2015 were 16 percent less than states’ submissions of costs in the RJM. In a summary of discussions from a roundtable held by the National Academy of Social Insurance held in October 2015, Schreur and Veghte (2016) also note that congressional appropriations of administrative funds have been consistently less than the total funding the RJM indicates are necessary. West et al. (2016) reports that shortfalls in administrative funding relative to administrative costs are more significant when states have high unemployment levels. In addition, Wandner (2018) points out that Congress has been appropriating

a declining percentage of the FUTA tax revenues that are deposited in the ESAA. In the most recent publicly available survey of state UI administrators on UI administrative funding conducted by the National Association of State Workforce Agencies (NASWA), the national organization that represents state workforce agencies and advocates for their ability to accomplish their goals and responsibilities, 8 percent (representing 3 states) of the 40 state administrators that responded said that administrative funding was adequate, whereas 38 percent (15 states) described it as limited but manageable, and the remainder (55 percent, representing 22 states) said it is a serious or critical shortfall (Van Erden et al., 2017). More recently, Raderman (2024) calculated that 20 states experienced inflation-adjusted declines of 30 percent or more in their administrative funding between the mid-2000s and 2023; the average decline nationwide was about 27 percent and no state experienced an increase.

In addition, as mentioned in Section 1.4, some states supplement the federal UI administrative funding with state funding. An increased reliance by states on supplemental funding for UI program administration was documented by GAO (1989) more than three decades ago (in reference to increases observed during the 1980s). More recently, the 2019 State Supplemental Funding Survey conducted by NASWA asked state administrators about their use of state supplemental funding sources for the UI program, although the survey does not distinguish between state supplemental spending for UI program administration and spending for UI benefits (NASWA, 2022). According to these survey findings, the most common source of state supplemental funding during fiscal year 2019 was penalty and interest income, used by 37 states (out of 51 that responded to the survey), whereas 16 states had funding from a state administrative tax, 11 had funding from the state's general fund, and 14 had funding from another type of source. States expended more than \$444 million from these state sources for the UI program.<sup>22</sup>

We identified in the literature several factors for the discrepancy between the administrative funds that states request and the funds they receive through congressional appropriations, though we did not discern any single factor that was most consistently cited or determined to be the most important. Henning et al. (2016) identify the following interrelated factors: (1) the inclusion of federal UI trust funds in the Federal Unified Budget; (2) treatment of UI administrative funding as discretionary even though UI benefits are mandatory; (3) the administrative funding allocation not being dependent on FUTA revenues; and (4) the federal creation of unfunded mandates that state UI agencies must comply with. Holmes (2017) reports that FUTA tax revenue has been used to artificially offset the federal deficit for decades. West and Hildebrand (1997) point out that the administrative costs for some other entitlement programs (Medicaid, the Supplemental Nutrition Assistance Program) are viewed as mandatory even though they are funded from general revenues, while federal funding for UI program administration comes from discretionary funds even though states' payment of UI benefits to eligible claimants is mandatory. West et al. (2016) and West and

---

<sup>22</sup> As noted above, it is not clear from the survey what portion of this spending was for UI administration rather than other purposes. In addition, NASWA cautions that large portions of the expenditures come from a small number of states, so nonresponse from one or more states could cause survey-based statistics about the estimated dollar amounts from state supplemental sources to be lower than actual nationwide amounts. In essence, the estimate of total state supplemental spending for the UI program is based on an implicit assumption that nonrespondent states had no supplemental funding. Fifty-one states responded to the 2019 NASWA survey.

Hildebrand (1997) also point out that sequestration of federal expenditures also has led to occasional reductions in UI administrative funding for some program activities even after an amount has been appropriated. However, since the sequester order required by the Budget Control Act of 2011 and implemented during 2013, discretionary administrative grants for the regular UI program have not been affected by sequestration (Whittaker et al., 2023). Administrative funding pertaining to program activities for pandemic-era temporary federal unemployment benefits programs was exempt from sequestration for some fiscal years and not for others (see, for example, OUI, 2021a; OUI, 2021b).

Some authors discuss the potential merits and drawbacks of the current administrative funding allocation process across states. O’Leary and Wandner (1997) and Davidson and Martin (1998) deem cross-state subsidies, which arise when some states get a bigger portion of FUTA-based revenue for UI administration than they contribute, to be beneficial nationally because they provide extra support to states (1) with relatively high per-claimant costs of administering a UI program due to their small populations and/or (2) that are disproportionately negatively affected by an economic downturn. O’Leary and Wandner (1997) further noted that cross-state subsidies are intentional by DOL and can affect different regions of the country at different points in time; the authors provided an example of the “Oil Patch” recession during the mid-1980s. However, Raderman (2024) posits that the UI administrative funding process can exacerbate state-specific differences in UI reciprocity across states because states with flawed systems that are difficult for claimants to use have relatively low UI workloads, which leads to low amounts of administrative funding for those states and their inability to adequately improve their systems.<sup>23</sup> Furthermore, the author documents that some states, especially those in the central and southeast United States, receive less than half the administrative funding allocation per working-age resident of the maximum received by any state—that is, less than \$10 per working-age resident compared to at least \$20—although this type of measure is not used in the current approach of allocating administrative funding across states based on their UI program activities and costs measured through the RJM. Furthermore, many factors, such as state-specific differences in eligibility criteria for benefits or the potential duration of benefits offered to eligible claimants, could contribute to cross-state and regional variations in UI reciprocity rates.

---

<sup>23</sup> In Section 3.3, we discuss some authors’ claims that the current approach to allocating resources across states encourages states to be inefficient because each state’s share of UI administrative funding depends on its administrative costs.

## 3. Implications of inadequate UI administrative funding

---

Administrative funding availability will influence the decisions that UI program administrators make about how they can operate their state programs within the resources available to them. In this section, we briefly discuss implications mentioned in the literature about the effects of UI administrative funding availability on customer service and program usage, program integrity, and program operations.

### 3.1. Customer service and program usage implications

Literature-based implications of inadequate UI program administrative funding include poor customer service such as long wait times to speak to UI program staff, jammed phone lines, and failures to meet key program performance targets regarding the timeliness of benefit payments (for example, GAO, 2016; Lachowska et al., 2022).

Furthermore, both Vroman (2018) and Raderman (2024) tie inadequate administrative funding to the UI reciprocity rate—that is, the percentage of unemployed workers who receive UI program benefits. Vroman (2018), for example, speculates that inadequate administrative funding could contribute to a decrease in UI reciprocity, although he knew of no study that has documented all the effects of administrative problems on reciprocity. Regardless of the presence or nature of a relationship between UI administrative funding and the UI reciprocity rate, however, any detrimental effects of inadequate administrative funding (or inefficient use of it) on states' abilities to receive and process UI claims in a timely manner might put at risk the UI program's goals of providing temporary income support to eligible unemployed workers and serving as a stimulus to the economy during economic downturns.

### 3.2. Program integrity implications

Inadequate UI administrative funding also can hinder the UI system's ability to operate with integrity—that is, to ensure that UI benefits are paid only to claimants who are entitled to receive them. Although the integrity of the system has been a longstanding priority for UI administrators and policymakers, fraud committed against the UI system (as well as improper payments to individuals due to nonfraudulent reasons) has become especially prominent in recent years. After the Great Recession, the 2017 NASWA survey of states showed that 55 percent of UI program administrators (22 out of 40 respondents) reported not having adequate non-personnel resources to efficiently prevent, detect, and recover fraud and overpayments (Van Erden et al., 2017). More recently, DOL's Office of the Inspector General estimated that at least \$191 billion in UI benefits could have been paid improperly during the pandemic era, with a significant portion attributable to fraud, although this estimate reflects both the regular UI program and emergency benefits

programs that are outside the scope of this literature review; this estimate was based on an improper payment rate of 21.52 percent (Turner, 2023).<sup>24</sup>

According to DOL (2024a), one of the main intents of the more than \$780 million in one-time supplemental grant funding that DOL offered to states during 2021 through 2023 through the ARPA was to enable states to increase the security of their IT systems. The extent to which these funds increase states' abilities to better prevent and detect fraud and recover fraudulent and nonfraudulent overpayments remains to be determined, as states' activities are currently in progress.

### **3.3. Operational implications**

Several authors have documented that operational problems can arise from a low level of UI administrative funding and its unpredictable nature on a yearly basis. For example, findings from a survey of states, as reported by GAO (2016), indicate that low UI administrative funding can lead to inadequate staffing and high turnover, especially given the complexity of staff's jobs and the length of time it takes to train staff. In addition, because the UI program can have a wide swing in its workload and funding over the business cycle (O'Leary & Wandner 1997), there is a structural incentive to rely on temporary staff. Another operational problem that can arise from inadequate UI administrative funding and that was mentioned in the literature is outmoded IT systems that are hard to maintain or upgrade (GAO, 2016). Some authors, such as Dixon (2022) and Raderman (2024), report that both the low level of funding and its unpredictable nature on an annual basis make it challenging for states to commit to investing in IT as they should. Because of the funding fluctuations over the business cycle, it can be difficult to forecast future funding for system updates that are large in scale and would normally be funded over several years. Although a one-time infusion of funds—such as through supplemental funding or a Reed Act distribution—can be very helpful to states, Dixon (2022) and Raderman (2024) called for greater consistency in funding to enable states to develop and maintain more secure and functional systems, including both IT and staff proficiency.

More broadly, some authors such as Interstate Conference of Employment Security Agencies (ICESA, 1980) and Lachowska et al. (2022) have criticized the current approach to UI administrative funding as not providing incentives for states to operate cost-efficiently. Although, as discussed above, state funding allocations are not perfectly tied to their estimates of past costs or projections of future costs, these authors posit that states have incentives to operate inefficiently in the hope that doing so will enable them to attain a larger portion of the total funds available for UI administration.

---

<sup>24</sup> The estimated improper payment rate was based on regular UI programs, the Pandemic Emergency Unemployment Compensation (PEUC) program, and the Federal Pandemic Unemployment Compensation (FPUC) program—but not the Pandemic Unemployment Assistance (PUA) program, which is generally believed to have been much more vulnerable to fraud (Turner, 2023). The estimated dollar amount of improper payments includes the regular UI program and the PEUC, FPUC, and PUA programs. OIG generally defines the pandemic period as stretching from March 2020 to September 2021, although it is defined as starting in January 2020 for the PUA program; furthermore, the estimates do not reflect updates to the underlying data made after the analysis was conducted due to states' continued efforts to process claims from the pandemic period (Turner, 2023).



## 4. Recommendations in the literature

---

Individuals and groups who are engaged with the UI system, such as UI agency staff, employers, and members of the labor force who are or could become unemployed, as well as an array of advocacy groups, hold a wide range of perspectives about the many different facets of the UI system. For some, their perspectives are undergirded by rigorous analyses conducted in an objective and nonpartisan manner. For others, they are undergirded at least somewhat, if not more so, on philosophical views of how the system should work. This disparity of perspectives leads to a range of recommendations about the best ways to strengthen the UI administrative financing process.

In this section, we discuss recommendations raised in the literature about how to improve UI administrative financing. We focus our discussion on ideas that we found from our broad review of relevant literature, acknowledging that the list of recommendations is not comprehensive.<sup>25</sup> Most of the recommendations could be implemented solely through congressional action to enact legislative change. Others could be achieved through actions taken by DOL and/or the state UI agencies.

Typically, the recommendations have been embedded within broader discussions about how to reform other facets of the UI system, such as those related to benefits, state trust fund adequacy, or the organizational structure for UI program administration. Thus, when the recommendations from the literature are considered by policymakers, it will be especially important to understand the implications of the ideas on the entire UI system, even though the implications of some ideas are largely outside the scope of this literature review.

Furthermore, although we present these recommendations as distinct, some are interrelated. Inevitably, we anticipate that policymakers who want to reform UI administrative financing will likely want to consider the appropriateness of joint adoption of more than one idea discussed below.

### 4.1. Increase congressional appropriations

Suggested changes to the congressional appropriations process are common in the literature that we reviewed, although the details of the recommendations vary across authors. For example, the National Commission on Unemployment Compensation, which was a congressionally-established national commission created to explore potential reforms to the UI system, recommended having funding sufficient to cover the average of the four quarters of states' projections for UI program staff needs for the year and full funding for non-personnel services costs (NCUC, 1980).<sup>26</sup> Vroman

---

<sup>25</sup> For example, as the organization representing state workforce agencies, NASWA catalogues in its yearly summary of its legislative priorities its ideas that will provide states with increased UI administrative funding and/or give states greater flexibility in the use of administrative funds. The full set of the organization's most recent priorities, which are not covered here, are available from NASWA (2024).

<sup>26</sup> At the time of the NCUC, base funding was set to cover a percentage of the staff projected for the state's lowest quarter of workload activity during the year.

(2009) recommended increasing federal UI administrative funding to better align with the FUTA revenue that states generate, noting that these additional funds could enable states to upgrade their IT systems and have more effective and accurate program administration. Dixon (2020) called for dedicated funding for IT modernization. Furthermore, GAO (2022) noted that a discussion between UI experts from the government, private sector, public-private partnerships, and academia held as part of an assessment of how to strengthen the UI program included a recommendation to increase federal funding for UI administration, particularly during periods of economic growth to enable states to train staff in preparation for future recessions. In response to the GAO (2022) report, DOL (2024b) noted that UI administrative funding declined 23 percent in real dollars between 1989 and 2019 and called for Congress to fund the President's Fiscal Year 2025 Budget Request in its entirety to ensure that states can administer the basic functions of their UI programs adequately using appropriations. The Fiscal Year 2025 Budget Request includes \$25 million to continue to fund ID verification processes in states. It also takes into account adjusted salary and workload processing factors. Despite the differences in the details, all of these authors recommend raising the levels of congressionally appropriated funding for UI administration, and in some cases adapting the method for appropriating funds, as a strategy to improve the adequacy of program administration.

#### ***4.2. Remove UI trust funds from the Federal Unified Budget***

The recommendation to remove the federal UI trust funds from the Federal Unified Budget is longstanding, having been made in both the 1980 NCUC and another congressionally established national commission established to explore UI system reform options, the 1995 Advisory Council on Unemployment Compensation (ACUC). The 1980 NCUC recommendation was based on an assessment of both the history of the creation and evolution of the Federal Unified Budget and a recognition that congressional proposals during the economic downturn in the 1970s were dominated by efforts to cut UI program costs even though the UI program is designed to serve as a countercyclical stimulus (NCUC, 1980). In essence, implementing the recommendation would involve making the ESAA a lockbox and, specifically, not allowing its funds to be diverted for other purposes, including those served by the other two federal UI trust fund accounts. The ACUC (1996) noted that, by including the federal UI trust funds in the Federal Unified Budget, the system is unable to provide economic stabilization, particularly during recessions. As such, the ACUC also recommended that the federal UI trust funds be removed from the Federal Unified Budget. West and Hildebrand (1997) posited that a larger congressional appropriation coupled with removal of the UI trust funds from the Federal Unified Budget might resolve states' administrative funding problems.

#### ***4.3. Adjust the thresholds for Reed Act distributions***

As discussed in Section 1.3, Reed Act distributions have been made infrequently during the 70 years since legislation created the potential for these types of distributions. During those seven decades, Congress has changed the ceilings used to determine the statutory maximums allowable in the UI trust fund accounts and/or to trigger Reed Act distributions several times (CESER, 2004;

Whittaker, 2012). One author (Wandner, 2023) suggested adjusting the ceilings downward to facilitate a greater likelihood that a regular Reed Act distribution would be triggered.<sup>27</sup>

However, even if the federal trust fund ceilings were adjusted downward, three considerations would influence the likelihood that a Reed Act distribution would be triggered. First, two of the three federal trust funds are in debt to the general fund: at the end of fiscal year 2024, the EUCA owed \$5.50 billion to the general fund and the FUA owed \$19.00 billion (OUI, 2024a). Thus, it seems unlikely that the balances for these federal trust funds will achieve any new, lower ceilings for quite some time. Second, and as discussed in Section 1, the ceilings for the EUCA and FUA are the maximum of a fixed dollar amount and a percentage of UI-covered wages, so increases in UI covered wages will lead to increases in the ceilings. Third, because the ESAA ceiling is based on the previous year's congressional appropriations, an increase in appropriations in one year will lead to an increase in ESAA's ceiling for the next year. In addition to rules that govern the maximum amount of FUTA funds that can be in the three federal UI trust funds before a Reed Act distribution is made, rules govern the conditions under which funds are transferred from one account to another.<sup>28</sup> Therefore, for the recommendation of downward adjustments to the federal UI trust fund ceilings to generate a regular Reed Act distribution, its implementation would need to take into account both the balances within all three federal trust funds and how, in practice, their ceilings already change over time.

Ultimately, the size and frequency of Reed Act distributions would depend on the details of how the recommendation is implemented. As discussed in Section 3.3, some authors have noted that a one-time infusion of funding can be helpful to UI administrators, but it also can pose challenges for its management and efficient use (Dixon, 2022; Raderman 2024).

#### ***4.4. Increase the Federal Unemployment Tax Act taxable wage base and/or the tax rate***

A very common recommendation in the literature is for Congress to increase the FUTA TWB. Authors such as Wandner (2023) frame their recommendation within the context that the FUTA TWB has been fixed at \$7,000 since 1983, essentially making it a flat per-worker amount that is regressive. Across the literature, a goal of the recommendation has been to raise more revenue through FUTA taxes so that additional funds would be available for UI program administration. Should Congress consider a potential change to the FUTA TWB, analyses would be necessary to forecast how much additional FUTA tax revenue would be raised. However, the additional revenue raised would be subject to both the same allocation process across the federal UI trust funds and

---

<sup>27</sup> This author coupled this suggestion with the creation of a federal administrative capital account to pay for improvements in or replacements of state UI hardware and software, although it is not clear that the two suggestions would need to be jointly implemented.

<sup>28</sup> As noted in Section 1.1, funds in the ESAA at the end of the year that exceed a certain threshold are transferred to the EUCA. To facilitate more funds going to states for UI program administration, Raderman (2024) suggests that there should be no end-of-year transfers from the ESAA to the EUCA regardless of the balance in the ESAA.

the same congressional appropriations process as are the used for the revenues raised with the current FUTA TWB.

Another common goal of the recommendation to increase the FUTA TWB has been to decrease the regressivity of the tax because a higher FUTA TWB is less regressive than a low one.<sup>29</sup> An increase in the FUTA TWB would differentially affect employers within a state. Currently, low-wage employers with high staff turnover are affected disproportionately by the FUTA TWB (West & Hildebrand, 1997). Wandner (2018) recommends a higher FUTA TWB in part because it will better share the burden of UI taxes across low- and high-wage employers. In addition, the FUTA tax structure is regressive because all employers for a worker holding more than one job that is subject to the tax must pay the tax, regardless of the total amount of FUTA tax paid across the worker's jobs. As a result, the FUTA tax contributions made on behalf of part-time workers might exceed those of full-time workers who earn higher wages and salaries from a single job (O'Leary & Wandner, 2018).

Because of the complexity in enacting a change to the FUTA TWB, most authors of the literature we reviewed recommended indexing it so that it stays paced with inflation over time.<sup>30</sup> However, authors' recommendations differ in terms of the level to which they recommend raising the FUTA TWB or the measure to which they recommend indexing. Some recommend indexing the FUTA TWB to a measure that reflects average annual earnings; others recommend indexing it to the Social Security TWB. For example, the NCUC (1980) recommended increasing the FUTA TWB to about two-thirds of the national annual wage. Bivens et al. (2021) recommends raising to 100 percent of the Social Security TWB. Wandner (2023) recommends raising the FUTA TWB to at least 50 percent of the Social Security TWB, phasing in over five years. West et al. (2016) recommends a somewhat slower phase-in period taking place over six years.<sup>31</sup> O'Leary and Wandner (2018) recommend setting the FUTA TWB at 26 times the average annual wages in UI-covered employment or 33 percent of the Social Security TWB. In contrast, the ACUC (1996) recommended setting the FUTA TWB to a specific dollar amount (\$9,000), with annual adjustments.

Ultimately, any potential decision about changing the FUTA TWB should consider empirical evidence about how sensitive employers' staffing decisions might be to the decision. One study by Duggan et al. (2022) found through an analysis of data from 1983 through 2019 for all states and Washington, D.C., that higher State Unemployment Tax Act (SUTA) TWBs are associated with lower employment levels, with a weaker association for the lowest-earning occupations compared to the

---

<sup>29</sup> A slight increase in the FUTA TWB likely would yield a small reduction in the regressivity of the tax, while a larger increase (i.e., closer to the Social Security TWB) would more substantially reduce the regressivity of the tax.

<sup>30</sup> Statistics from the ET Financial Data Handbook 394 Report, <https://oui.doleta.gov/unemploy/hb394/hndbkrpt.asp> indicate that states' taxable wages were about 98 percent of total wages in 1939, 43 percent in 1983 (when the FUTA TWB was most recently adjusted), and 23 percent in 2023. Because some states have higher SUTA TWBs than the FUTA TWB, these statistics are likely higher than the percentages of total wages that are covered by the FUTA TWB. To our knowledge, the latter percentages are not available.

<sup>31</sup> West et. al (2016) state that a six-year phase-in period would enable states to take more than one legislative session to accommodate a higher FUTA TWB and to come into full compliance with federal UI program rules. Because states are required to have SUTA TWBs that are at least as large as the FUTA TWB, their experience-rating systems used to tax employers for all UI program purposes (including UI administration and UI benefits) would need to be adjusted.

highest-earning ones. However, given the wide range across states in SUTA TWBs, it is unclear the extent to which findings from this study would apply to a potential change in the FUTA TWB.

Although not necessarily explicit goals of the recommendation to increase the FUTA TWB, two additional potential implications of an increase in it have been discussed in the literature. First, it might be possible that an increase in the FUTA TWB would help to shore up state trust funds used to pay UI benefits because SUTA TWBs must be at least as large as the FUTA TWB. However, one author (Galle, 2019) has questioned whether that would be the case if the increase in the FUTA TWB were accompanied by a revenue-neutral reduction in the FUTA tax rate, because states also could adjust their SUTA tax rates. DOL offers support to states through the actuarial models so that they can explore how changes in SUTA tax rates and SUTA TWBs might influence tax revenues raised, as well as how to assess whether any specific combination of changes would be revenue-neutral.

Second, an increase in the FUTA TWB might shore up balances in the FUA and EUCA trust fund balances as well in the ESAA. This is because—as described earlier—FUTA revenues are split into different federal trust fund accounts, and there is an interplay among these accounts due to statutory caps for them (Miller, 1997).

Were Congress to consider a change in the FUTA TWB to increase funds for UI administration, it is likely that it would also undertake an examination of the FUTA tax rate.<sup>32</sup> After accounting for the tax credit given to employers in states that are compliant with federal UI regulations, the effective FUTA tax rate has historically ranged from 0.3 percent to 0.8 percent (Miller, 1997). One option is to partly offset an increase in FUTA TWB through a reduction in the FUTA tax rate from its current level of 0.6 percent while still generating additional revenue for UI program administration (Wander, 2023). We did not review any literature that recommended an increase in this tax rate. However, in the past, Congress used a tax rate surcharge to achieve funding objectives (Miller, 1997). Congress implemented this surcharge of 0.2 percent in 1977 to facilitate repayment of a general fund debt caused by the outlay during the 1970s of benefits through the Extended Benefits program and an emergency benefits program called Federal Supplemental Benefits; Congress subsequently extended the surcharge to 2011 after that purpose was achieved, to facilitate federal deficit reduction. The effective tax rate was reduced to 0.6 percent in 2011 (Ziegler & Squire, 2023).

Ultimately, increases in congressional appropriations for UI program administration would need to accompany any increase in the FUTA TWB or tax rate for the change to be effective at generating more funding provided on an annual basis to states for UI program administration. However, it is possible that additional administrative funding could be intermittently provided to states if higher FUTA receipts (through increases in the FUTA TWB and/or tax rate) triggered Reed Act distributions, but it is unlikely that such distributions would occur quickly given the current balances in the federal trust fund accounts.

---

<sup>32</sup> This point raises another reason why the Duggan et al. (2022) findings about the experiences with differences across states in SUTA TWBs might not apply to potential changes in the FUTA TWB. Congressional legislators' priorities when making decisions about both the FUTA TWB and the FUTA tax rate might differ from those of state legislators—and different decisions about the tradeoffs between (federal or state) TWBs and tax rates could have different effects on employers' staffing decisions.

### ***4.5. Foster greater funding usage from different sources for UI program administration, such as those already used by state agencies***

Some authors have suggested ideas to boost funds available for UI program administration through capitalizing on existing funding sources to which states have access. For example, one federal budget proposal several years ago included a provision to allow states to use up to 5 percent of recovered overpayments or delinquent employer contributions for efforts to strengthen program integrity rather than for benefit payments (Simonetta, 2018). NASWA (2024) included a similar approach to increase UI administrative funding as part of its recent legislative priorities. Also, Simonetta (2018) described how the federal budget proposal would have, if enacted, enabled DOL to require states to use penalty and interest funds for UI administration. A motivation for this idea was to give DOL more leverage in how states use administrative funds, such as to spur states to strengthen program integrity or to provide states with incentives when they have good performance. Furthermore, there has been some support (ICESA, 1980; O’Leary & Wandner, 2018) for congressional implementation of a mechanism to boost contributions that governments and nonprofit organizations make to UI administrative financing. Currently, these types of organizations have the option to pay state UI taxes as other employers do or to reimburse state UI agencies for UI benefits that are paid and attributable to the organizations (OUI, 2023b). One option proposed by O’Leary and Wandner (2018) is a three percent premium to be added to benefit charge reimbursements for state and local government and nonprofit employers; funds collected through this premium could be used to finance the states’ UI program administration.

### ***4.6. State-level revenue generation through additional taxation of employers or employees***

Although much of the discussion above has focused on the generation of additional revenue from federal sources for UI administration, states have flexibility for generating additional revenues for their own UI administration. According to OUI (2023b), some states, such as Arkansas, Montana, New York, and Wisconsin, have enacted laws that enable them to collect additional taxes for UI administration. At a broad brush, these taxes act as surcharges on employers, although additional considerations arise when states also impose taxes for non-UI purposes. As with potential increases to the FUTA tax rate, we did not review any literature that suggested strengthening financing for UI administration through imposing a surcharge on the SUTA tax rates paid by employers.

However, in the literature we reviewed, two authors considered whether incorporating employee contributions to the UI system would be beneficial, although they had different opinions about recommending this idea. As with the potential imposition of tax rate surcharges, state legislatures have flexibility whether to give their state agencies authority to collect contributions from employees to generate UI revenues for administration or benefits. Employers in all states have the full responsibility of paying FUTA taxes, while three states split the responsibility of paying SUTA taxes between employers and employees (OUI, 2023b). The exceptions are Alaska, New Jersey, and Pennsylvania. With an eye towards UI reform that is broader than potential changes to UI administrative financing, and based on comments from UI program administrators in New Jersey,



Wandner (2023) speculated that broader use of employee contributions would decrease the employer–employee adversarial nature of the UI system, give workers more of a voice in the program, and foster a higher UI reciprocity rate. He recommended requiring all states to impose employee contributions set at about 50 percent of the employer contribution. Wandner (2023) does not expect that mandatory employee contributions would significantly hurt workers’ net incomes. In contrast, Bivens et al. (2021) advocate against taxing workers for UI program purposes out of concern that it would hurt low–wage workers, at least in the short term. Nevertheless, these authors acknowledge that this type of tax could be preferable to making no changes to the current system; they advocate for ensuring that any tax levied directly on employees should be progressive and accompanied by other reforms. It is important to note that literature discussing employee contributions does not distinguish clearly between raising revenue for funding administration of the UI program or for financing UI benefits.

#### ***4.7. Incorporate incentives for cost-efficient, high-quality program administration***

Some authors (Davidson & Martin, 1998; Lachowska et al., 2022) have recommended incorporating incentives to encourage states both to use cost-efficient methods for UI program administration and to provide higher-quality services to claimants and employers.<sup>33</sup> This recommendation stems from views that the UI program suffers because each state does not take into account how its decisions about UI program rules and operations affect people and organizations outside of its borders.<sup>34</sup> Furthermore, according to the authors, each state likely has a different preference from the federal government about both the ease with which claimants can access benefits and the level of UI taxes levied on employers. According to these authors, the current funding mechanism does not adequately motivate states to operate efficiently because UI administration is primarily funded by the federal government. Rather, the funding process encourages states to operate inefficiently, because the grant from the federal government that each state receives for UI administration depends on the states’ administrative costs, as reported through the RJM—and higher costs reported by a particular state would generally lead to it receiving a bigger portion of all congressionally–appropriated funding for UI administration (that is, a state with higher administrative costs would generally receive a bigger “slice of the pie”).

The recommendation for the federal government to incorporate incentives into funding for UI administration fits within a broader view by these authors that the federal government should encourage high-quality and low-cost administration of the UI program while compensating states for circumstances beyond their control, such as high unemployment or low population density. Lachowska et al. (2022) explained that an efficient allocation mechanism would involve three components: (1) pay for performance to reward quality, potentially using program performance

---

<sup>33</sup> The two pieces of literature that we reviewed use similar, but not identical, thought processes for reaching this recommendation. Our presentation of the recommendation aligns more closely with that of Lachowska et al.’s (2022).

<sup>34</sup> This type of situation is often called a principal–agent problem. In the case of the UI program, the federal government is considered the principal and the states are the agents—with each state not considering the benefits of a well-financed UI program to the entire country (Davidson & Martin, 1998; Lachowska et al., 2022).



measures that are already available (such as the extent to which states make the first benefit payments to UI claimants in a timely manner); (2) a contract to enable states to keep leftover funds; and (3) lump-sum payments to states facing circumstances, such as high unemployment, that are beyond their control.

Neither Davidson and Martin (1998) nor Lachowska et al. (2022) provide a comprehensive assessment of the potential challenges associated with implementing their recommendations, including any legal issues arising from the provisions in the Social Security Act that govern the UI system. However, Davidson and Martin (1998) point out that operational challenges could arise from a pay-for-performance funding component for UI administration within the context of state governments with balanced budget requirements. This is because the payment that a state would receive would not be known until after performance is measured. Nevertheless, these authors also point out that, according to Title III of the Social Security Act, the federal government is required not only to provide grants to states so they can administer their UI programs, but also to “encourage efficient administration” so that the UI programs can achieve their purposes.

#### ***4.8. Make fundamental changes to the federal-state partnership for the UI program***

Several authors of literature that we reviewed considered the implications of making fundamental changes to the federal-state partnership for the UI program, such as either eliminating or greatly reducing the role of either the federal partner or the state partners. These potential changes are typically embedded in visions of comprehensive UI program reform and would influence nearly every aspect of the UI system—with many stakeholders having strong opinions that are both philosophical and practical. In this subsection, we briefly present these ideas, describing what the ideas involve and how they relate to UI administrative financing that is the focus of this literature review.

One option discussed in the literature is to greatly reduce or remove the federal partner by permitting states to keep most or all the UI tax revenue they raise. For example, in 2002, the George W. Bush Administration created the New Balance proposal which in part called for states to assume the primary responsibility of paying for the administration of their UI programs (OUI, 2002). This proposal outlined a multi-year phased approach that would reduce the FUTA tax rate from 0.6 percent in 2003 to 0.2 percent in 2007. While this strategy would allow states to have greater flexibility with how they collect their funds for UI administration, the federal partner would have continued under the proposed plan to monitor states’ program performance and compliance with federal rules.<sup>35</sup> Similarly, Raderman (2024) suggests that FUTA funds raised from a state for UI program administration should be returned to the state, although he states that this change to the method for funding UI administration would not be sufficient on its own to eliminate the recent decline in the real value of base allocations. In essence, this approach would decouple the state-specific amount of funding for UI program administration from projected or recent historical

---

<sup>35</sup> The New Balance proposal was not enacted, and the FUTA tax rate has remained at 0.6 percent since 2011 (as discussed in Section 4.4).

workloads; Raderman advocates for this because, during healthy economic times when UI workloads are low, he perceives that states have the best ability to make program improvements—and that the states most in need of resources to improve their systems are shortchanged under the current funding approach.<sup>36</sup> Furthermore, ICESA (1980) considered the potential benefits of giving states more authority to set a tax rate and collect revenues for administration, enabling a state to merge these revenues for benefits into its state trust fund; under this scenario, states would still provide funding to cover the share of FUTA revenues (currently, 20 percent) that go to the EUCA to support the federal share of the Extended Benefits program.

However, some authors acknowledged the value of federal government involvement. For example, O’Leary and Wandner (1997) note that eliminating the federal role in the financing of UI administration would eliminate cross-state subsidies, which (as discussed in Section 2.2) can be perceived as beneficial for addressing temporary or permanent challenges to administering UI programs that states face and that are outside of their control. Furthermore, Davidson and Martin (1998) speculate that states will naturally tend towards a lower quality of service than does the federal government because—in theory—they will not take into account potential beneficial effects of a strong state UI program on people in other states while the federal government will do so.

Other ideas discussed in the literature involve increasing federal involvement in the UI system, such as nationalizing or federalizing it. Wandner (2023) posits that nationalizing, which would involve a single set of federal laws and features administered by the federal government, would lead to greater efficiency in the UI program in the long run, although it would have significant administrative burden in the short run due to the need to establish an entirely new program. The author also points out that processes and outcomes would be the same throughout the U.S., eliminating differences between states. Wandner (2023) explains that federalizing would involve having a single set of UI program laws and features administered by states. The author suggests that this would lead to more similar processes and outcomes than are currently the case, although some interstate differences would persist despite the greater guidance and enforcement provided by the national UI office. A potential refinement could be to place primary responsibility for the UI program, including its administration, with the federal government, but allow states to opt out or request approval for waivers (Galle, 2019); the argument in favor of this approach is that it would establish the federal government’s approach as the default but still enable states to opt out of it if they deem it important enough to do so.

Despite the very significant differences in these potential ideas to reduce states’ involvement in the UI system, these ideas share a goal within the narrow context of UI administrative financing to reduce duplication and inefficiencies that are inherent to having 53 distinct programs within the national UI system. For example, more federal involvement might enable the UI system to take advantage of federal bargaining power to negotiate to contain costs for upgrades, such as to phone

---

<sup>36</sup> It stands to reason that, almost inevitably, state UI administrators will make decisions based on funding availability; underfunding over time at the federal level would likely lead states to adjust their expenditures (including costs reported in the RJM) and make decisions about how to operate their programs that they would not otherwise make were more funding available.



and IT systems, while having more longevity and cohesiveness than state consortia that try to leverage scale economies (West et al., 2016). When presenting a cost estimate for a potential national program, Pavosevich (2023) acknowledges that the estimate is heavily dependent on the specific assumed features of the program. He further notes that the amount needed to fund administrative costs is difficult to project: a national UI program could likely achieve significant savings through economies of scale and the elimination of duplicative effort across states, but it would also require funding to establish new computer and administrative systems for the national program. In the end, Pavosevich (2023) included in his cost estimation of a national program an assumption that the administrative funding level would remain about the same as it was under the system in place when he developed his estimates.<sup>37</sup>

As noted above, all the ideas that would make a fundamental change in the federal–state partnership for the UI system would have ramifications far beyond UI administrative financing. At a minimum, they would require changes to the Social Security Act, significant deliberation by Congress with input from stakeholders, and funding to make the changes.

---

<sup>37</sup> Pavosevich (2023) notes that the expectation of additional administrative expenditures hinges in part on an assumption that the national system would include an enhancement in testing that UI claimants adhere to the work search requirements for UI benefit eligibility (that is, the “work search test”) and reemployment services for UI claimants. As is the case with other features of Pavosevich’s potential national system, a change to this assumption would influence the costs necessary to administer the program.

## 5. Summary and open questions

---

Our review of the literature about UI administrative financing has included a description of the process involved to raise and distribute funds to states for UI program administration; assessments of the strengths and weaknesses of the process, including the amounts allocated to states for UI administration; operational and administrative challenges that are attributed to low or inconsistent funding; and recommendations in the literature to strengthen UI administrative financing. In this section, we summarize findings and present a list of open questions that remain about UI administrative financing.

### 5.1. *The UI administrative financing process, assessments of it, and challenges arising from it*

Although the process involved to raise and distribute funds for UI administration is complex, critical facets of it include congressional authority to determine the amount of funds to be appropriated for UI program administration, a disconnect between the amount of funds appropriated and the amount of funds raised, and fluctuations over time in the amount of funds that states receive for program administration and the costs they incur administering the program. An analysis of quantitative data about the funding allocated to states and their costs incurred for UI program administration shows that, in the 21 years from 2002 through 2022, nationwide UI administrative funding allocated to states ranged from \$2.41 to \$4.64 billion (in nominal dollars), while states' administrative costs ranged from \$2.68 to \$4.43 billion. States' costs exceeded the funding they received in 15 years; the 6 years in which funding exceeded costs were during and in the aftermath of the Great Recession (2009 through 2013) and the pandemic downturn of 2020.

A theme across the literature that we reviewed was that annual congressional appropriations for UI administration have not been commensurate with states' projected costs using the RJM, and they have not been keeping pace with inflation and other cost pressures on the UI system.<sup>38</sup> Most, but not all, authors focused on the overall level and adequacy of funding ("the size of the pie") rather than on the merits or drawbacks of the allocation process to states ("how the pie is sliced"). Furthermore, although one federal responsibility in the federal-state partnership that is embodied in the UI system is the provision of funding for UI administration, state administrators report that usage of state-based supplemental funding has increased over time, reaching more than \$444 million during fiscal year 2019, the most recent year for which the information is currently available (NASWA, 2022).

We did not find literature that quantifies any negative repercussions of the UI administrative funding situation. However, the repercussions that literature authors attributed to the level of administrative funding include poor customer service, a detrimental effect on states' abilities to adequately protect the integrity of the UI system against fraud, and challenges in effectively

---

<sup>38</sup> The UI Administrative Costs Study plans include additional analyses of quantitative data about administrative funding and costs to provide an updated and objective assessment of some of the literature-based assessments summarized in this report.

managing program operations. Furthermore, authors often noted that the lack of consistency and predictability of funding amounts posed challenges for long-term planning and efficient program administration.

## 5.2. Recommendations from the literature

Authors of the literature that we reviewed provided a broad set of diverse ideas for how to strengthen the UI administrative funding situation. Among those, common recommendations from the literature emerged.

- First, authors commonly called for increased congressional appropriations and the removal of the UI program from the Federal Unified Budget. Some authors speculated that these steps, in and of themselves, could go a long way towards solving the challenges associated with UI administrative financing.
- Second, authors recommended an increase in the FUTA TWB, which would both increase FUTA revenues and reduce the regressivity of the FUTA tax. However, it is not clear the extent to which congressionally appropriated funding would increase should the FUTA TWB be increased, because there is not a dollar-for-dollar relationship between the funds in the ESAA and funds that are congressionally allocated for UI administration.
- Third were recommendations for addressing challenges with UI administrative financing that involved adjustments to the thresholds used for determining Reed Act distributions and fostering greater access to different sources of funds for UI program administration.
- Finally, some authors suggested other changes to the mechanisms for allocating UI administrative funds to states (such as by incorporating incentives into the provision of funds) or changes in the federal-state partnership that has been longstanding in the UI system.

Some of the recommendations, and especially the more broad-reaching ones, would likely have significant implications on facets of the UI system that are outside of the scope of this literature review.

## 5.3. Open questions

Although the literature that we reviewed documented changes over time in UI administrative financing, its implications, and ideas about how to address financing challenges, additional information could be helpful to policymakers interested in addressing UI administrative financing challenges. It could be helpful to learn more about the following:

- ***UI administrators' perspectives on the recommendations in the literature.*** For example, are administrators in favor of a dedicated funding source for IT? What do they see as the advantages and disadvantages of an alternative funding system that includes incentives to encourage efficient program administration? Do administrators have ideas about how to improve UI administrative financing that are not found in the literature?
- ***UI administrators' strategies for operating their programs in light of administrative funding levels that do not match administrative costs.*** For example, when administrative funding exceeds administrative costs, to what extent are administrators able to identify and execute

plans for infrastructure investments? When administrative costs exceed administrative funding, are administrators able to identify efficiency improvements that enable them to maintain the same quantity and quality of services? If yes, in what types of UI program activities are those efficiencies most likely to be found? If no, what strategies do administrators use to make cutbacks, and how do the cutbacks affect claimants' experiences with the UI program?

- **The ability of state UI programs to incorporate funds from agencies or organizations to cover UI program operations costs.**<sup>39</sup> For example, do some states forgo using money from multiple funding streams to make investments in IT or data-sharing that might benefit both its UI program and other programs (such as those related to workforce development)? To what extent, if any, does the collaboration of different agencies or organizations to coordinate use of funds affect UI claimant experiences?
- **UI administrators' strategies for operating their programs given fluctuations over time in UI administrative funding and workloads.** What state strategies facilitate efficiency given fluctuations over time in administrative funding? What strategies enable states to be better prepared for times when UI claims surge? To what extent are administrators able to counteract potential problems arising from these fluctuations so they can prepare for future recessions?
- **UI administrators' approaches to adjust to uncertainties in economic forecasts about UI program workloads and the potential availability of above-base funding.** For example, to what extent do administrators defer investments so that they have a cushion in case above-base funding is not sufficient to cover the costs of higher-than-expected workloads? In what way, if any, might an alternative administrative funding model increase consistency over time in funding for UI program operations?
- **Factors that are associated with the extent of funding adequacy in states.** For example, are there economic or UI program conditions that seem to be related to administrative funding adequacy at the state level? If yes, what are they? To what extent do states' decisions to provide supplementary funding influence state UI program's ability to have administrative funding at least as large as administrative costs?
- **The distribution of funds among states.** For example, how well does the current allocation approach reflect different levels of funding needs across states? To what extent could the federal government ensure that all states have sufficient administrative funding to operate their UI programs? To what extent, if any, might additional information about states' costs or other characteristics be helpful for generating more accurate forecasts of administrative funding needs, particularly during economic downturns?
- **Implications of UI administrative funding on program integrity.** For example, to what extent is there a relationship between states' UI administrative financing situations and the accuracy with which they pay benefits? How does the relationship, if one exists, vary over time and across states? Given administrative funding availability, how can states ensure their system

---

<sup>39</sup> Coordination in this way is sometimes referred to as "blending" or "braiding" of funds.



infrastructure that protects against fraud stays resilient in the long run? To what extent does UI administrative funding for program integrity reduce improper payments?

- ***Implications of UI administrative funding on states' ability to meet standards established by the federal government for program performance.*** For example, can a relationship be identified between states' administrative financing situations and their ability to promptly pay UI program benefits? If such a relationship exists, to what extent does it vary over time?

Answers to these types of questions could assist in strengthening UI administrative financing and mitigating challenges that hamper the ability of the program to achieve its goals.



---

## References

---

- Advisory Council on Unemployment Compensation. (1996). Collected findings and recommendations: 1994–1996. U.S. Department of Labor. [https://oui.doleta.gov/dmstree/misc\\_papers/advisory/acuc/collected\\_findings/adv\\_council\\_94-96.pdf](https://oui.doleta.gov/dmstree/misc_papers/advisory/acuc/collected_findings/adv_council_94-96.pdf)
- Barnow, B., Cai, J., Chocolaad, Y., Eberts, R., Hobbie, R., Kaiser, J., Smith, T., Trutko, J., Vroman, W., & Wandner, S. (2012). Implementation of the American Recovery and Reinvestment Act: Workforce development and Unemployment Insurance provisions (ETA Occasional Paper 2013–23). U.S. Department of Labor, Employment and Training Administration. <https://research.upjohn.org/externalpapers/60>
- Bivens, J., Boteach, M., Deutsch, R., Diez, F., Dixon, R., Galle, B., Gould-Werth, A., Marquez, N., Roberts, L., Shierholz, H., & Spriggs, W. (2021). Section 2. Financing. In Center for American Progress, Center for Popular Democracy, Economic Policy Institute, Groundwork Collaborative, National Employment Law Project, National Women’s Law Center, and Washington Center for Equitable Growth (Eds.), *Reforming Unemployment Insurance: Stabilizing a system in crisis and laying the foundation for equity* (pp. 32–47). <https://www.nelp.org/publication/reforming-unemployment-insurance-stabilizing-a-system-in-crisis-and-laying-the-foundation-for-equity/>
- Center for Employment Security Education and Research. (2004). Unemployment Insurance: Assessment of the impact of the 2002 Reed Act distribution. <https://www.naswa.org/system/files/2021-03/2004-11unemploymentinsurance-assessmentoftheimpactofthe2002reedactdistribution-finalreport1.pdf>
- Davidson, C., & Martin, L. (1998). Administrative funding of Unemployment Insurance as a principal-agent problem. In L. J. Bassi & S. A. Woodbury (Eds.), *Reform of the Unemployment Insurance system* (pp. 219–242). JAI Press.
- Dixon, R. (2020). Software update required: COVID-19 exposes need for federal investments in technology. National Employment Law Project. <https://www.nelp.org/wp-content/uploads/Testimony-Disrepair-Transformation-Revive-Unemployment-Information-Technology-Infrastructure.pdf>
- Dixon, R. (2022). Examining the administration of the Unemployment Insurance system. National Employment Law Project. <https://docs.house.gov/meetings/ED/ED02/20220921/115126/HHRG-117-ED02-Wstate-DixonR-20220921.pdf>
- Duggan, M., Guo, G., & Johnston, A. C. (2022). Would broadening the UI tax base help low-income workers? (IZA DP No. 15020). IZA Institute of Labor Economics. <https://docs.iza.org/dp15020.pdf>
- Employment and Training Administration. (2023). FY 2024 Congressional budget justification state Unemployment Insurance and Employment Service operations. U.S. Department of Labor. [CBJ-2024-V1-07.pdf \(dol.gov\)](https://www.dol.gov/eoisa/2024/2024-V1-07.pdf)

- Emsellem, M., & Evermore, M. (2020). Understanding the unemployment provisions of the Families First Coronavirus Response Act. National Employment Law Project. <https://www.nelp.org/publication/understanding-the-unemployment-provisions-of-the-families-first-coronavirus-response-act/>
- Galle, B. (2019). How to save Unemployment Insurance. Arizona State Law Journal, 50, 1009–1065. <https://arizonastatelawjournal.org/wp-content/uploads/2019/02/Galle-Pub.pdf>
- General Accounting Office. (1989). Unemployment Insurance: Administrative funding is a growing problem for state programs (GAO/HBD-89-72BR). <https://www.gao.gov/assets/hrd-89-72br.pdf>
- Government Accountability Office. (2016). Unemployment Insurance: States' customer service challenges and DOL's related assistance (Report No. GAO-16-430). <https://www.gao.gov/assets/gao-16-430.pdf>
- Government Accountability Office. (2022). Unemployment Insurance transformation needed to address program design, infrastructure, and integrity risks (Report No. GAO-22-105162). [GAO-22-105162, UNEMPLOYMENT INSURANCE: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks](https://www.gao.gov/assets/gao-22-105162/gao-22-105162_unemployment_insurance_transformation_needed_to_address_program_design_infrastructure_and_integrity_risks.pdf)
- Henning, P., Hicks, B., Squire, J., & Van Erden, J. (2016). UI administrative funding review: Looking to the future. National Association of State Workforce Agencies. <https://www.naswa.org/system/files/2021-03/ui-administrative-funding-reform-looking-to-the-future.pdf>
- Holmes, D. (2017, June 29). [PowerPoint slides]. Employer, administrator, advocate roundtable. [https://www.uwcstrategy.org/wp-content/uploads/bsk-pdf-manager/Employer\\_Administrator\\_Advocate\\_Roundtable\\_2017\\_HOLMES\\_137.pdf](https://www.uwcstrategy.org/wp-content/uploads/bsk-pdf-manager/Employer_Administrator_Advocate_Roundtable_2017_HOLMES_137.pdf)
- Interstate Conference of Employment Security Agencies. (1980). Employment security administrative financing: ICESA recommendations based on an analysis of recommendations by Macro Systems, Inc., with comments by the Employment and Training Administration of the Department of Labor. In Unemployment Compensation: Studies and Research, Volume 2, (pp. 603–621). National Commission on Unemployment Insurance.
- Isaacs, K. P., & Whittaker, J. M. (2024). The Unemployment Trust Fund: FY2024 income, outlays and end-of-year balances (CRS Report for Congress R48062). Congressional Research Service. <https://crsreports.congress.gov/product/pdf/R/R48062>
- Lachowska, M., Mas, A., & Woodbury, S. (2022). Poor performance as a predictable outcome: Financing the administration of Unemployment Insurance. AEA Papers and Proceedings, 112. <https://www.aeaweb.org/articles?id=10.1257/pandp.20221073&page=21>
- Mastri, A., Vroman, W., Needels, K., & Nicholson, W. (2016). States' decisions to adopt Unemployment Compensation provisions of the American Recovery and Reinvestment Act. Final report submitted to the US Department of Labor, Chief Evaluation Office. Princeton, NJ: Mathematica Policy Research. March 2, 2016. Available at: [https://www.dol.gov/sites/dolgov/files/OASP/legacy/files/UCP\\_State\\_Decisions\\_to\\_Adopt.pdf](https://www.dol.gov/sites/dolgov/files/OASP/legacy/files/UCP_State_Decisions_to_Adopt.pdf)

- Miller, M. (1997). Appendix to chapter 8. The role of federal financing in the Unemployment Insurance system. In C. J. O’Leary & S. A. Wandner (Eds.), *Unemployment Insurance in the United States: Analysis of policy issues* (pp. 355–361). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780585338408>
- National Association of State Workforce Agencies. (2022). *NASWA FY 2019 state supplemental survey report: Results from the State Supplemental Funding Survey*. <https://www.naswa.org/system/files/2022-12/naswastatesupplementalfundingsurveyfy2019.pdf>
- National Association of State Workforce Agencies. (2024). *2024 legislative priorities*. <https://www.naswa.org/advocacy/government-relations/2024-legislative-priorities>
- National Commission on Unemployment Compensation. (1980). *Unemployment Compensation: Final report*. <https://play.google.com/books/reader?id=6P7PgAxFL0kC&pg=GBS.PR2&hl=en>
- Office of Unemployment Insurance. (2002). *Unemployment Insurance and Employment Service reform a New Balance executive brief*. U.S. Department of Labor. [UNEMPLOYMENT INSURANCE & EMPLOYMENT SERVICE REFORM](#)
- Office of Unemployment Insurance. (2017). *Unemployment Insurance (UI) supplemental funding opportunity for state consortia to modernize tax and benefit systems*. U.S. Department of Labor. [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2017/UIPL\\_22-17.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2017/UIPL_22-17.pdf)
- Office of Unemployment Insurance. (2018). *Fiscal year (FY) 2019 state workforce agency Unemployment Insurance (UI) resource planning targets and guidelines*. U.S. Department of Labor. [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2018/UIPL\\_10-18\\_Acc.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2018/UIPL_10-18_Acc.pdf)
- Office of Unemployment Insurance. (2020a). *Families First Coronavirus Response Act, Division D Emergency Unemployment Insurance Stabilization and Access Act of 2020*. U.S. Department of Labor. [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2020/UIPL\\_13-20.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2020/UIPL_13-20.pdf).
- Office of Unemployment Insurance. (2020b). *Unemployment Insurance directors' guide: Essential information for Unemployment Insurance (UI) directors*. U.S. Department of Labor. [https://oui.doleta.gov/unemploy/docs/ui\\_directors\\_Mar2020.pdf](https://oui.doleta.gov/unemploy/docs/ui_directors_Mar2020.pdf)
- Office of Unemployment Insurance. (2021a). *Implementation of sequestration under the Budget Control Act of 2011 (BCA) for mandatory Unemployment Insurance programs for fiscal year (FY) 2021*. U.S. Department of Labor. [https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2021/UIPL\\_12-21.pdf](https://www.dol.gov/sites/dolgov/files/ETA/advisories/UIPL/2021/UIPL_12-21.pdf)
- Office of Unemployment Insurance. (2021b). *Implementation of sequestration under the Budget Control Act of 2011 (BCA) for mandatory Unemployment Insurance programs for fiscal year (FY) 2022*. U.S. Department of Labor. [Implementation of Sequestration under the Budget Control Act of 2011 \(BCA\) for Mandatory Unemployment Insurance Programs for Fiscal Year \(FY\) 2022 \[dol.gov\]](#)

- Office of Unemployment Insurance. (2023a). Announcement of grant opportunities and national identity (ID) verification offering under the American Rescue Plan Act (ARPA). U.S. Department of Labor. [Announcement of Grant Opportunities and National Identity \(ID\) Verification Offering under the American Rescue Plan Act \(ARPA\) \(dol.gov\)](https://www.dol.gov/ebsa/announcements/2023/20230614-announcement-of-grant-opportunities-and-national-identity-id-verification-offering-under-the-american-rescue-plan-act-arpa)
- Office of Unemployment Insurance. (2023b). Comparison of state Unemployment Insurance laws 2023. U.S. Department of Labor. <https://oui.doleta.gov/unemploy/comparison/2020-2029/comparison2023.asp>
- Office of Unemployment Insurance. (2024a). Unemployment Insurance program outlook President's budget 2025. U.S. Department of Labor. [outlook tables PBUD 2022.xlsx \(doleta.gov\)](https://oui.doleta.gov/unemploy/outlook/PBUD_2022.xlsx)
- Office of Unemployment Insurance. (2024b). UI budget. U.S. Department of Labor. <https://oui.doleta.gov/unemploy/budget.asp>
- O'Leary, C. J., & Wandner, S. A. (1997). Summing up achievements, problems and prospects. In C. J. O'Leary & S. A. Wandner (Eds.), *Unemployment Insurance in the United States: Analysis of policy issues* (669–722). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780585338408>
- O'Leary, C. J., & Wandner, S. A. (2018). Unemployment Insurance reform: Evidence-based policy recommendation. In S. A. Wandner (Ed.), *Unemployment Insurance reform: Fixing a broken system* (131–210). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996532>
- Pavosevich, R. (2023). Appendix B: How much would a national UI program cost. Included in *Transforming Unemployment Insurance for the twenty-first century: A comprehensive guide to reform*. W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996914>
- Raderman, W. (2024). Getting the job done on Unemployment Insurance: How Congress can reinforce program administration and integrity with finance reform. Niskanen Center. <https://www.niskanencenter.org/getting-the-job-done-on-unemployment-insurance-how-congress-can-reinforce-program-administration-and-integrity-with-finance-reform/>
- Schreur, E., & Veghte, B. W. (2016). The current state of Unemployment Insurance: Challenges and prospects. National Academy of Social Insurance. [nasiBrf\\_ss19\\_3.05](https://www.nasi.org/brf/2016/03/05)
- Simonetta, S. (2018). UI reform proposals in the fiscal year 2017 Obama budget request. In S. A. Wandner (Ed.), *Unemployment Insurance reform: Fixing a broken system* (pp. 23–64). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996532>
- Turner, L. D. (2023). Testimony before the U.S. House of Representatives Committee on Ways and Means. Hearing Title: “The greatest theft of American tax dollars: Unchecked unemployment fraud”. U.S. Department of Labor. <https://www.oig.dol.gov/public/testimony/02082023.pdf>
- U.S. Department of Labor. (2024a). Insights and successes: American Rescue Plan Act investments in Unemployment Insurance modernization. [https://www.dol.gov/sites/dolgov/files/ETA/ui-modernization/ARPA Investments in Unemployment Insurance Modernization.pdf](https://www.dol.gov/sites/dolgov/files/ETA/ui-modernization/ARPA%20Investments%20in%20Unemployment%20Insurance%20Modernization.pdf)
-

- U.S. Department of Labor. (2024b). Building resilience: A plan for transforming unemployment insurance. [Building Resilience: A plan for transforming unemployment insurance, Employment & Training Administration \(ETA\) – U.S. Department of Labor \(doleta.gov\)](https://www.doeleta.gov/building-resilience)
- Van Erden, J., Squire, J., & Hewko, H. (2017). Unemployment Insurance administrative funding [PowerPoint slides]. National Association of State Workforce Agencies. [https://www.uwcstrategy.org/wp-content/uploads/bsk-pdf-manager/Julie\\_Squire\\_NASWA\\_PowerPoint\\_UI\\_Admin\\_Funding\\_Survey\\_UWC\\_final\\_143.pdf](https://www.uwcstrategy.org/wp-content/uploads/bsk-pdf-manager/Julie_Squire_NASWA_PowerPoint_UI_Admin_Funding_Survey_UWC_final_143.pdf)
- Vroman W. (2009). Unemployment Insurance: Current situation and potential reforms. The Urban Institute. [Unemployment Insurance: Current Situation and Potential Reforms \(urban.org\)](https://www.urban.org/publications/400007781)
- Vroman W. (2018). State UI financing response to the Great Recession. In S. Wandner (Ed.), Unemployment Insurance reform: Fixing a broken system (pp. 103–130). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996532>
- Wandner, S. A. (2018). Conclusions and needed reforms. In S. Wandner (Ed.), Unemployment Insurance reform: Fixing a broken system (pp. 211–218). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996532>
- Wandner, S. A. (2023). Transforming Unemployment Insurance for the twenty-first century: A comprehensive guide to reform. W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780880996914>
- West, R., Dutta-Gupta, I., Grant, K., Boteach, M., McKenna, C., & Conti, J. (2016). Strengthening unemployment protections in America: Modernizing Unemployment Insurance and establishing a jobseeker’s allowance. National Employment Law Project, the Center for American Progress, and Georgetown Law’s Center on Poverty and Inequality. <https://www.nelp.org/wp-content/uploads/Report-Strengthening-Unemployment-Protections-in-America.pdf>
- West, T. E., & Hildebrand, G. (1997). Federal–state relations. In C. J. O’Leary & S. A. Wandner (Eds.), Unemployment Insurance in the United States: Analysis of policy issues (pp. 545–598). W.E. Upjohn Institute for Employment Research. <https://doi.org/10.17848/9780585338408>
- Whittaker, J. M. (2012). The Unemployment Trust Fund and Reed Act distributions (CRS Report for Congress RS22006). Congressional Research Service. <https://crsreports.congress.gov/product/pdf/RS/RS22006/16>
- Whittaker, J. M., Isaacs, K.P., & Overbay, A. R. (2023). Funding the state administration of Unemployment Compensation (UC) benefits. Congressional Research Service. [Funding the State Administration of Unemployment Compensation \(UC\) Benefits \(congress.gov\)](https://www.congress.gov/reports/2023/07/11/html/Funding_the_State_Administration_of_Unemployment_Compensation_(UC)_Benefits)
- Ziegler, D., & Squire, J. (2023). UI 101 basics [Conference session]. Strategic services on Unemployment and Workers’ Compensation (UWC) 2023 Annual National Unemployment Insurance Issues conference, Memphis, TN. <https://www.uwcstrategy.org/wp-content/uploads/bsk-pdf-manager/2023/07/UWC-UI-101-Power-Point-2023.pdf>