

Excessive Pandemic Unemployment Benefits Are a Warning Against Unemployment Program Expansions

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KEY TAKEAWAYS

The massive expansion in unemployment insurance benefits may be the most flawed, wasteful, and damaging part of the government's COVID-19 economic policy response.

Unemployment benefits equated to 176 percent of unemployed workers during the COVID-19 pandemic and an estimated \$357 billion in excess payments.

Lawmakers must end pandemic unemployment insurance programs and establish universal savings accounts so that Americans can save without government intervention.

The massively expanded unemployment insurance (UI) benefits have, arguably, turned out to be the most flawed, wasteful, and, in many instances, damaging component of the federal government's COVID-19 economic policy response. Yet many of these expanded benefits remain in place today, 16 months after the start of the pandemic, with high vaccination rates, dropping infection numbers, and a record-high number of job openings.

The expansion of benefits to workers who do not contribute to UI systems, the lack of proper eligibility verifications, and the unprecedented size of unemployment checks—often exceeding \$1,000 per week—caused a surge in unemployment benefits never before seen in this country, and far beyond policymakers' intent. Throughout the pandemic,

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far more people received UI benefits than were actually unemployed.¹ Historically, about 40 percent of unemployed workers received unemployment benefits, but, since Congress expanded benefits during the COVID-19 pandemic, unemployment benefits have equated to 176 percent of unemployed workers. These programs have resulted in an estimated \$357 billion of Americans' tax dollars being used to send unemployment benefits to people who were not unemployed, caused the identity theft of hundreds of thousands—if not millions—of people, and recently contributed to an unprecedented labor shortage that is holding back America's recovery.

Some policymakers want to perpetuate these problematic programs through new and expanded UI programs and federal mandates on states. The systematic failures, widespread fraud, and unintended economic effects of these programs should serve as a warning sign—not a blueprint—to policymakers considering permanent UI expansions.

Unemployment Insurance, Pre-Pandemic and Post-Pandemic

UI in the United States is largely a state-based system with minimal federal requirements. The intent of UI is to provide temporary financial help to individuals who were laid off while they find new employment. To qualify for benefits, workers must have been in covered employment (meaning that they worked for a traditional employer who paid into the UI system on their behalf), must have been consistently employed for a specified number of months, and typically must have been laid off through no fault of their own (as opposed to quitting or being fired). States typically provide benefits that replace about 40 percent to 50 percent of workers' previous earnings, for an average of up to 26 weeks.

During recessions, the federal government has often supplemented state unemployment benefits by paying for extended weeks of eligibility, providing as much as 99 weeks of benefits during the Great Recession of 2008 and 2009.

In response to the COVID-19 pandemic, federal policymakers enacted unprecedented expansions to UI systems, including:²

Expanded coverage. Congress established the Pandemic Unemployment Assistance program to provide benefits to workers (such as the self-employed and gig workers) who do not pay into the UI system, as well as to workers who otherwise lacked eligibility (such as not having been regularly employed).

Increased benefit levels. Congress provided an unprecedented \$600 weekly supplement to state UI benefits from March 2020 through July 2020, and an additional \$300 weekly supplement from December 2020 through September 2021. Congress also added an additional \$100 per week on top of other unemployment benefits, available from December 2020 through September 2021, to “mixed earners,” who had at least \$5,000 of self-employment income in the prior year.

Extended benefits. Congress extended eligibility for UI benefits from the usual 26-week limit (six months) to 79 weeks (18 months).

Loosened eligibility. Congress significantly expanded the criteria for collecting UI benefits through its pandemic program, including reasons other than being laid off through no fault of one’s own. Some of these additional qualifications included losing partial income, being “impacted” by school or daycare closures, quitting one’s job for reasons related to COVID-19, or the very broad qualification of one’s employment being “affected” by COVID-19.

Unemployment Benefits Far Exceed Unemployed Workers

The result of these unprecedented expansions in UI benefits has been a surge in unemployment-benefit claims and payouts far beyond policymakers’ intent. Typically, about 40 percent of unemployed workers receive UI benefits.³ Since the pandemic began, far more people have received unemployment benefits than have actually been unemployed. Between April 2020 and May 2021, the number of people receiving unemployment benefits averaged 176 percent of the number of unemployed people.⁴

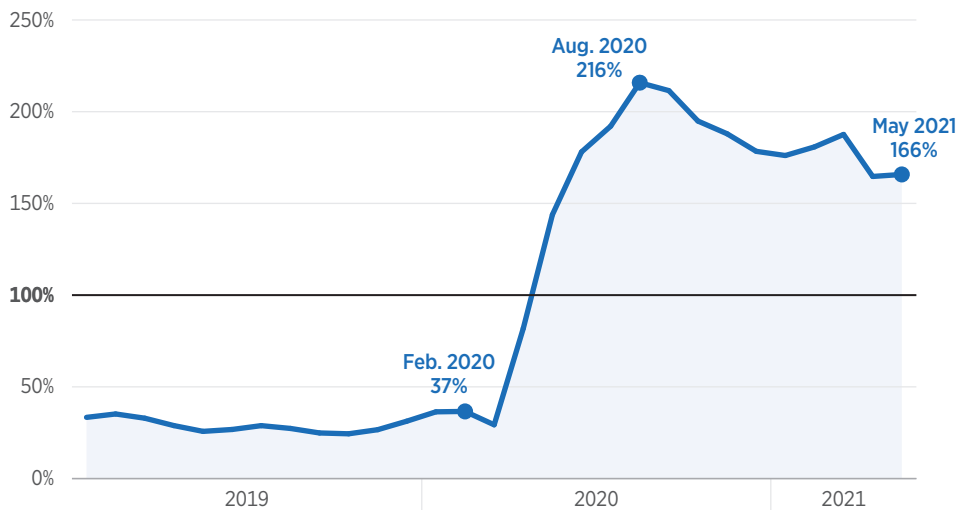
Between April 2020 and May 2021, the number of continued claims that were processed and paid out totaled 1.365 billion cumulative weeks of benefits. Had the pandemic programs provided unemployment benefits to 100 percent of all unemployed workers, the cumulative number of benefit checks sent out would have been 807 million, which implies that at least 557 million⁵ benefit checks went to people who were not actually unemployed.⁶ The number of unemployment benefits sent out above and beyond 100 percent of unemployed workers equals about 41 percent of all benefits. Assuming there was no significant difference in the size of benefit claims that went to unemployed workers verses those to people other than unemployed workers, then \$357 billion⁷ of the estimated \$873 billion⁸ in total pandemic UI benefits did not actually go to unemployed workers.⁹ While some states have successfully recovered

CHART 1

Unemployment Benefits Exceed Unemployed Workers

Historically, about four out of every 10 unemployed workers received unemployment benefits. Since Congress expanded benefits during the COVID-19 pandemic, about 18 workers have received benefits for every 10 unemployed workers.

UNEMPLOYMENT CLAIMS AS A PERCENTAGE OF UNEMPLOYED WORKERS



SOURCE: News release, "Unemployment Insurance Weekly Claims," U.S. Department of Labor, July 1, 2021, <https://www.dol.gov/ui/data.pdf> (accessed July 7, 2021).

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hundreds of millions of dollars in fraudulent payments, total recoveries are unfortunately only on the magnitude of a few billion dollars nationally.¹⁰

The intent of UI expansions was to provide temporary financial support to tens of millions of workers who lost their jobs or the ability to work through no fault of their own. Due to the tremendous increase in the size and duration of benefits, the easing of verification requirements, and the extension of benefit eligibility to independent workers, the UI programs suffered significant unintended consequences, including widespread fraud, identity theft, and misuse.

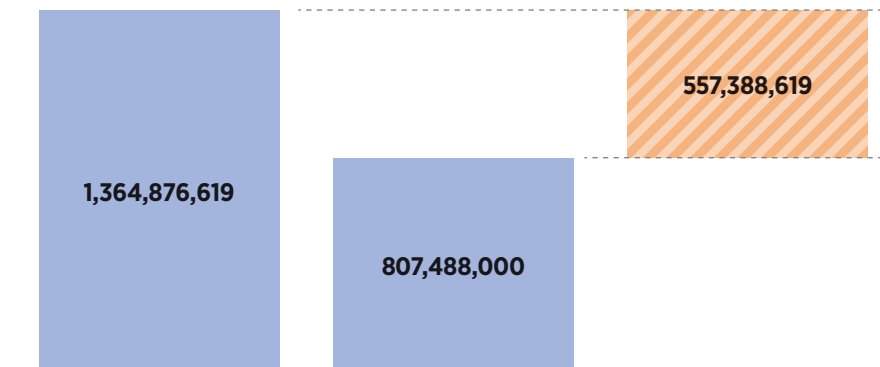
CHART 2

Half a Billion Excess Claims for Unemployment Benefits

1.36 billion
weekly continued
unemployment claims
were filed from April
2020 to May 2021 ...

... but covering 100%
of unemployed
workers would have
required only **807.5
million** claims ...

... which means that
557.4 million claims
went to people who
were **not unemployed**.



SOURCES: News release, “Unemployment Insurance Weekly Claims,” U.S. Department of Labor, July 1, 2021, <https://www.dol.gov/ui/data.pdf> (accessed July 7, 2021), and U.S. Bureau of Labor Statistics, “Civilian Unemployment (Seasonally Adjusted)—LNS12000000,” <https://data.bls.gov/cgi-bin/surveymost?bls> (accessed June 20, 2021).

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Widespread Fraud, Identity Theft, and Misuse

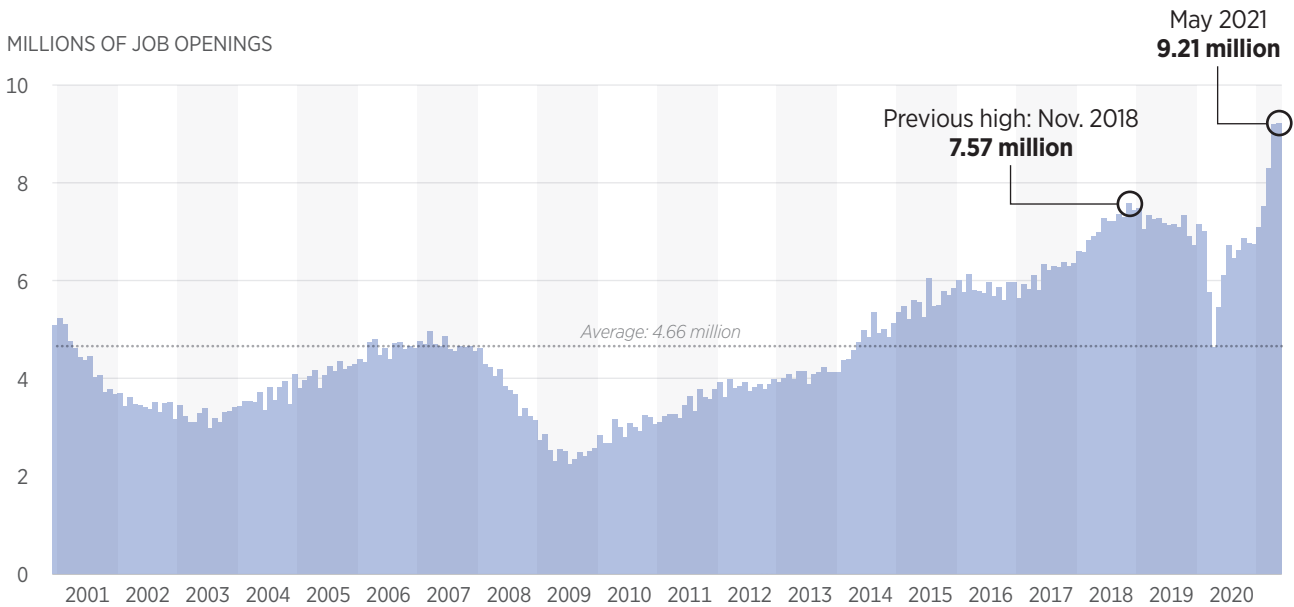
According to the Office of Inspector General (OIG),

The unprecedented infusion of federal funds into the UI program gave individuals and organized criminal groups a high-value target to exploit. That, combined with easily attainable stolen personally identifiable information and continuing UI program weaknesses identified by the OIG over the last several years, allowed criminals to defraud the system.¹¹

The OIG noted that, had improper payments throughout the pandemic remained at their usual pre-pandemic 10 percent rate, the federal government would have issued \$87 billion in improper payments. (The OIG estimates up to \$873 billion in total pandemic UI benefits.)¹² The Inspector General report notes, however, that ongoing investigations find that the improper payment rate exceeds 10 percent.¹³

CHART 3

More than 9 Million Current Job Openings



SOURCE: Bureau of Labor Statistics, Job Openings and Labor Turnover Survey, Job Openings Level, <https://www.bls.gov/jlt/> (accessed July 7, 2021).

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Some researchers have estimated improper payment rates approaching 50 percent within the pandemic UI programs. For example, Blake Hall, CEO of the authentication company ID.me, said, “[t]he fraud rates that we’re seeing are over 10 times what we usually see at federal agencies.”¹⁴ Hall, whose company works with about two dozen states to detect fraudulent benefit claims, estimates that unemployment fraud has potentially cost taxpayers \$400 billion. The analysis in this *Backgrounders* above estimates \$357 billion worth of payments going to non-unemployed individuals.

UI fraud has been so high that the OIG is investigating or reviewing more than 100,000 complaints of fraud, and these UI fraud investigations account for 87 percent of the Inspector General’s cases, compared to 12 percent prior to the pandemic.¹⁵

In addition to the cost to taxpayers—which, at the above analysis of \$357 billion going to non-unemployed people would consume the entire annual wages of 6.9 million median workers—unemployment expansions have also caused a personal-identity-theft assault on hundreds of thousands—if not millions—of Americans.

Among the identity-theft reports filed with the Federal Trade Commission in 2020, 394,000 came from individuals who said their personal information had been used to claim a government benefit.¹⁶ This marked a nearly 300-fold increase from about 13,000 such reports in 2019.¹⁷

While states have undertaken efforts to detect and prevent fraud, some states' actions may have *fueled* fraud. According to the *Los Angeles Times*, though the California state auditor recommended in March 2019 that the Employment Development Department (EDD) stop including Social Security numbers in its mailed documents, the EDD continued to send out 38 million pieces of mail containing Social Security numbers after the onset of the pandemic.¹⁸ Of the California EDD's estimated 10 percent to 27 percent of fraudulent benefits paid out,¹⁹ 35,000 were issued to names of California prison inmates.²⁰

In addition to outright criminal activity through stolen identities, there has almost certainly been a high level of individual misuse, abuse, and fraud. Factors such as self-reported verification of eligibility standards allowed people to lie about whether they were working, to falsify how much income they were receiving prior to the pandemic, and to hide income they earned while receiving unemployment benefits.

Moreover, the generous benefits and easy eligibility undoubtedly caused workers to choose unemployment benefits over work. Never before has America experienced relatively high unemployment alongside a record number of job openings, a record-high quits rate, and a record-low number of layoffs.²¹

Caution Against Permanent Unemployment Insurance Expansions

Both prior to and since the pandemic, policymakers have introduced proposals to expand the federal government's role in UI,²² including:

- Mandating that states provide at least 26 weeks of benefits, cover at least 75 percent of a typical worker's prior wages, cover part-time workers and those who quit their jobs with good cause, and eliminate one-week waiting periods;
- Establishing programs to cover independent workers, such as the self-employed, freelancers, contractors, and gig-workers;

- Expanding the current federal program to kick in automatically as a supplement based on economic conditions, and to provide 100 percent benefit replacement during major disasters or public health emergencies;
- Establishing a \$250 weekly Job Seeker's Allowance available to any unemployed workers not covered by the traditional UI system, such as self-employed workers and new entrants into the labor force; and
- Creating a \$25 weekly allowance per dependent of unemployed workers.

While the intent of these proposals is to increase workers' incomes during periods of unemployment, such policies will inevitably result in unintended consequences, increase administrative costs and total unemployment insurance payouts, and ultimately be paid for by workers through higher UI taxes and reduced compensation.

For starters, economic studies consistently show that higher benefit levels and longer durations lead to higher levels of claims and longer periods of unemployment. For example, researchers at the Federal Reserve Bank of New York estimated that the extended unemployment benefits during the Great Recession contributed significantly to the long period of high unemployment, increasing the number of unemployed workers by about 4.6 million in 2010 and by 3.3 million in 2011.²³ Although well-intentioned, automatic increases in benefits based on economic conditions would likely prove self-defeating to the goal of economic recovery, as they would elevate unemployment levels and prolong unemployment durations.

UI programs are effectively a means of forced savings, but with rigid rules and a bureaucratic process required to access the savings. Although employers pay the tax to finance unemployment programs, workers ultimately bear the cost of employment-based taxes through lower wages and benefits. This would cause workers to pay both for the direct expansion in benefits (such as larger unemployment checks and longer durations) and for the resulting increase in unemployment caused by those expansions.

Extending benefits to independent workers would be far more complicated and problematic than the existing unemployment insurance programs because these workers are their own bosses. The problems with insuring independent workers include difficulties with verifying past income, the lack of an employer to verify the reason for a claim (it would be hard to distinguish between workers who lost work through no fault of their own and

those who wanted to take a month off), and administrative complications, such as the enforcement of a new unemployment insurance tax on millions of independent workers who have variable income and employment.

Moreover, UI would be of little or no advantage to independent workers when compared to traditional savings. If workers were to make claims for UI benefits, they would face steep UI tax rates in the future. Furthermore, while it is common for independent workers to have swings in their income levels, it is less common for them to suddenly lose all income, which is the shock that traditional UI programs seek to prevent.

Universal Savings Accounts: Helping to Prepare Workers for the Unexpected

The pandemic revealed that many Americans lack the savings they need to weather unexpected life events and loss of income. Instead of mandating new forms of forced savings through UI expansions, policymakers should make it easier for workers to save. While Americans have many options to save for expected life events, such as college, retirement, and health care, it is harder and less advantageous to save for unexpected events, such as losing a job, a car breaking down, or needing to take family or medical leave.

Policymakers should establish universal savings accounts (USAs) so that all Americans can save and invest in a single, simple, and flexible account for any purpose, with no minimum contribution required, and without having to pay penalties or additional taxes upon withdrawal.²⁴ While not having enough money to save is a clear barrier to savings, a potentially equal or larger barrier can be the fear of not being able to access savings or having to pay early withdrawal penalties if workers and families need their savings for an unexpected expense. Thus, USAs have been particularly helpful to lower-income and moderate-income households in Canada and the United Kingdom, for instance, where a majority of account holders are lower-income.²⁵

Conclusion

The pandemic UI expansions were plagued from the start, beginning with widely available and super-sized \$600 weekly bonuses and expansions that made preventing fraud and abuse difficult, leading to criminals taking advantage of easy access to large benefits and stealing peoples' identities, and an unprecedented labor shortage in the U.S.

Unemployment benefits should not exceed unemployed workers. The fact that 41 percent of unemployment benefits have exceeded the number of unemployed workers is evidence of the inability of government-unemployment-program expansions to achieve their goals. The widespread criminal activity and abuse of the pandemic UI programs have cost taxpayers an estimated \$357 billion in fraudulent benefits and resulted in the identity theft of hundreds of thousands—if not millions—of Americans. Moreover, the expansion in benefits has undoubtedly contributed to an unprecedented labor shortage that is holding back America’s recovery. This experience provides a blueprint for what *not* to do with UI programs.

Policymakers should end the pandemic UI programs immediately. Instead of enacting further problematic and bureaucratic forced-savings programs under the guise of UI, policymakers should establish USAs to make it easier for Americans to save in a single, simple, and flexible account that they can access without limit or bureaucratic approval, to pay for all types of expected and unexpected life events.

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Endnotes

1. Unemployed workers are those who are part of the labor force and are actively looking for work.
2. The goal of the UI expansions did include extending benefits to people who would not traditionally be counted as unemployed, such as parents needing to stay home with children due to school and childcare closures, and workers unable to report to work because of COVID-19 closures. However, other economic policy responses, such as 12 weeks of mandated paid family and medical leave with federally financed tax credits, and the Paycheck Protection Program funds to continue workers' paychecks, provided financial support to these workers outside the UI systems.
3. There are various reasons why not all unemployed workers collect unemployment benefits, including not participating in the UI system due to self-employment, not having worked long enough to qualify for benefits, or choosing not to file for benefits due to short spells of unemployment.
4. U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, "UI Weekly Claims," data archive, https://oui.doleta.gov/unemploy/claims_arch.asp (accessed June 30, 2021).
5. Figures do not add due to rounding. The 557 million figure comes from subtracting 807.5 million claims that would have covered 100 percent of unemployed workers' benefits from the 1,364.9 million in claims that were paid out, leaving an excess claims total of 557.4 million.
6. This analysis compiles all of the weekly continued claims data provided by the Department of Labor's Employment and Training Administration and compares those weekly claims levels to the monthly reported totals of unemployed workers based on the Bureau of Labor Statistics' (BLS's) monthly employment reports. For example, the continued UI claims for June 2020 equaled (in millions of claims): $30.6 + 31.5 + 32.4 + 32.0 = 126.5$ total claims, while the number of unemployed people, as measured during the second week of the month, and assumed to hold steady across all four weeks of the month equaled (in millions of workers): $17.7 + 17.7 + 17.7 + 17.7 = 70.8$, for a comparison of 126.5 million cumulative weeks of unemployment insurance benefits compared to 70.8 million cumulative weeks of unemployed workers. The unemployment figures reported by the BLS are based on a representative sample of about 60,000 U.S. households. COVID-19 had some impact on the BLS's collection, including lower response rates, which may have resulted in different weightings applied to respondents' surveys. Moreover, beginning in March of 2020, the BLS changed the definition of "unemployed" to include people who were employed but absent from work (such as those not working but still receiving paychecks through the Paycheck Protection Program). Yet, this change was not fully adapted by all surveyors, and some individuals who were still employed but absent from work were counted as employed while others were counted as unemployed. Compared to the pre-COVID-19 definition of unemployment, the official unemployment figures reported (included in this analysis) were higher than they would have been under the old definition, meaning that this analysis does count among the unemployed a portion of workers who were still employed but absent from work for COVID-19-related reasons. For an explanation of the misclassification errors, see Rachel Greszler, "What Policymakers Need to Know About 'Misclassifications' in Recent Unemployment Reports," *The Daily Signal*, June 16, 2020, <https://www.dailysignal.com/2020/06/16/what-policymakers-need-to-know-about-misclassifications-in-recent-unemployment-reports/>.
7. This estimate of \$357 billion equals 41 percent of the estimated \$873 billion in total pandemic unemployment insurance benefits. Since not all unemployed workers filed for and received UI benefits during every week of unemployment, the 41 percent figure likely represents a lower bound on the percentage of payments that went to unemployed workers.
8. U.S. Department of Labor, Office of Inspector General, "DOL-OIG Oversight of the Unemployment Insurance Program," June 10, 2021, <https://www.oig.dol.gov/doloigoversightwork.htm> (accessed June 29, 2021).
9. While some programs, such as short-time compensation and workshare, provide benefits to workers who are not unemployed but have lost some of their work, these programs accounted for a tiny fraction—about 0.5 percent—of all pandemic unemployment benefits.
10. News release, "U.S. Secret Service Helps Recover \$2B Through Investigations into COVID-19-Related Financial Fraud," U.S. Secret Service Media Relations, May 12, 2021, <https://www.secretservice.gov/newsroom/releases/2021/05/us-secret-service-helps-recover-2b-through-investigations-covid-19#:~:text=One%20year%20into%20investigating%20COVID,to%20state%20unemployment%20insurance%20programs> (accessed July 6, 2021).
11. U.S. Department of Labor, Office of Inspector General, "DOL-OIG Oversight of the Unemployment Insurance Program."
12. *Ibid.*
13. *Ibid.*
14. Consumer Bob and Nicholas Kjeldgaard, "Unemployment Benefits Fraud Could Cost \$300 Billion Nationwide," *NBC San Diego*, March 24, 2021, <https://www.nbcсандiego.com/news/local/unemployment-benefits-fraud-could-cost-300-billion-nationwide/2558796/> (accessed July 6, 2021).
15. U.S. Department of Labor, Office of Inspector General, "DOL-OIG Oversight of the Unemployment Insurance Program."
16. Federal Trade Commission, "Protecting Consumers During the COVID-19 Pandemic: A Year in Review," April 16, 2021, https://www.ftc.gov/system/files/documents/reports/protecting-consumers-during-covid-19-pandemic-year-review/covid_staff_report_final_419_0.pdf (accessed July 6, 2021).
17. *Ibid.*
18. Patrick McGreevy, "Despite Reports of Unemployment Fraud, California Keeps Sending Mail with Social Security Info," *Los Angeles Times*, November 19, 2020, <https://www.latimes.com/california/story/2020-11-19/california-edd-unemployment-social-security-numbers-fraud-forms> (accessed June 29, 2021).

19. State of California Employment Development Department, "California Unemployment: Fraud by the Numbers," January 16, 2021, <https://www.edd.ca.gov/Unemployment/pdf/fraud-info-sheet.pdf> (accessed July 6, 2021).
20. Jack Kelly, "The Most Brazen \$400 Billion Unemployment Funds Heist in History," *Forbes*, June 12, 2020, <https://www.forbes.com/sites/jackkelly/2021/06/12/the-most-brazen-400-billion-unemployment-funds-heist-in-history/?sh=b3bbd302020e> (accessed July 6, 2021).
21. Rachel Greszler, "Fact Check: Was Biden Right About Federal Unemployment Benefits Having No Effect on Jobs Report?" *The Daily Signal*, May 12, 2021, <https://www.dailysignal.com/2021/05/12/fact-check-was-biden-right-about-federal-unemployment-benefits-having-no-effect-on-job-report/>.
22. News release, "Bennet, Wyden Unveil Unemployment Insurance Overhaul," Senator Michael Bennet, April 14, 2021, <https://www.bennet.senate.gov/public/index.cfm/2021/4/bennet-wyden-unveil-unemployment-insurance-overhaul> (accessed June 29, 2021).
23. Marcus Hagedorn et al., "Unemployment Benefits and Unemployment in the Great Recession: The Role of Equilibrium Effects," *The Federal Reserve Bank of New York, Staff Report* No. 646, revised September 2019, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr646.pdf (accessed April 13, 2020).
24. Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, <https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings>.
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