



**Congress's destructive
\$600 weekly
unemployment bonus
is boosting fraud
and killing jobs**

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KEY FINDINGS

1

CONGRESS DRAMATICALLY EXPANDED UNEMPLOYMENT BENEFITS IN RESPONSE TO THE COVID-19 OUTBREAK.



2

INCREASED BENEFITS ARE OVERLOADING A SYSTEM ALREADY SUBJECT TO FRAUD.



3

FRAUDSTERS ARE EXPLOITING UNEMPLOYMENT SYSTEMS, INCLUDING BY REFUSING TO RETURN TO WORK.



4

THE \$600-PER-WEEK BONUS HAS MADE UNEMPLOYMENT FRAUD MORE LUCRATIVE.



BOTTOM LINE:

CONGRESS MUST LET THE \$600 WEEKLY UNEMPLOYMENT BONUS EXPIRE AND REVAMP THE AMERICAN ECONOMY.

Overview

In response to the COVID-19 pandemic, Congress dramatically expanded unemployment insurance (UI) benefits through the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act (FFCRA).¹⁻² In addition to increased benefit durations past state maximums, permitting states to suspend critical job search requirements, and benefits for previously ineligible people, a \$600 weekly unemployment bonus was added onto existing benefits.³ To put this in perspective, this unemployment bonus is 24 times larger than the \$25 weekly bonus adopted by Congress during the Great Recession in 2009.⁴

While the bonus is set to expire in July, Democrats in Congress are trying to extend it to at least 2021, threatening the American recovery.⁵ Indeed, at least 68 percent of people receiving unemployment benefits are now paid more to remain unemployed than to return to work.⁶⁻⁷ The average benefit for unemployment is now nearly \$1,000 per week, or the equivalent of about \$50,000 annually.⁸

State unemployment systems are now overloaded and more susceptible to fraud than perhaps ever before. The U.S. Department of Labor's Inspector General is already estimating that waste, fraud, and abuse in the UI program is about to explode to possibly more than \$26 billion for the CARES Act payments alone.⁹ Extending the UI bonus beyond its scheduled expiration in July would balloon these fraud costs even higher.

Congress has also made unemployment fraud more appealing with nearly triple the average unemployment compensation benefit compared to pre-COVID-19.¹⁰ New unemployment programs in the CARES Act and FFCRA extend benefits above state maximums and to previously ineligible people making fraud costlier than ever.

Ultimately, for the sake of the American economy and struggling small businesses, Congress must ensure the \$600 weekly bonus expires on schedule.¹¹

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Increased benefits are overloading a system already subject to fraud

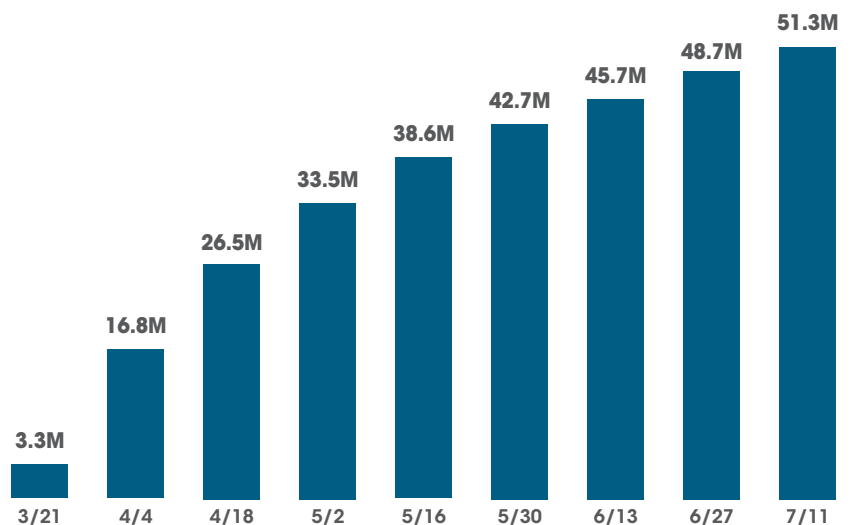
Since mid-March, unemployment systems have seen record enrollment, with more than 51 million people making initial claims for UI benefits.¹²⁻¹³ And this new enrollment surge is consuming a program that is already rife with fraud.

In 2019, nearly 10 percent of all UI payments were improper, amounting to more than \$2.6 billion in payment errors.¹⁴

The U.S. Department of Labor conservatively estimates that at least \$26 billion in CARES Act unemployment spending will be lost to improper payments.¹⁵ For context, the entire unemployment system paid out just over \$26 billion in benefits during all of 2019.¹⁶ **This means taxpayers will likely pay more in improper unemployment spending from the CARES Act alone than they paid for the entire UI system last year.**

MORE THAN 51 MILLION AMERICANS HAVE FILED FOR UNEMPLOYMENT BENEFITS SINCE MID-MARCH

Cumulative initial UI claims filed since March 15, 2020



Source: U.S. Department of Labor

Fraudsters are exploiting unemployment systems, including by refusing to return to work

Fraudsters from around the world are now seeking to exploit these overloaded systems. The Secret Service has been working to uncover and stop an international fraud ring that they estimate could cost the UI system hundreds of millions of dollars.¹⁷ The scheme is stealing Americans' identities to fraudulently sign up and obtain benefits, including the \$600 weekly unemployment bonus.¹⁸ The FBI is also investigating unemployment fraud in Rhode Island, where the Director for the Rhode Island Department of Labor and Training admitted that the \$600 weekly bonus under the CARES Act is "another incentive for bad actors" seeking to defraud the overloaded systems.¹⁹ People refusing to return to work or refusing suitable work is also spiking fraud with Virginia flagging more than 12,000 accounts of people refusing to work.²⁰⁻²¹

States from the around the country are also reporting spikes in fraud. As states try to respond to the historic increase in claims due to shutdowns and layoffs, the \$600 bonus payments are making it very lucrative for fraudsters who know many states probably lack the staffing and resources to combat fraud while the systems are overloaded with an unprecedented amount of claims.



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Mississippi

Mississippi Governor Tate Reeves is addressing fraud in his state and sounding the alarm, explaining that like other states, Mississippi’s unemployment system has been “attacked with false claims.”²² State officials in Mississippi estimate more than \$1 billion in payments have been made for unemployment benefits since the start of the COVID-19 pandemic.²³ Given Mississippi’s improper payment rate in 2019, this could amount to more than \$76 million in improper payments so far.²⁴ That number could also be much higher, as the incentive to defraud is increased due to the \$600 weekly bonus provided for in the CARES Act.



Washington

Washington has been one of the worst-hit states with unemployment fraud during the COVID-19 pandemic. The Nigerian fraud ring targeted Washington and it is estimated that as much as \$650 million in fraudulent claims have already been paid out.²⁵ While portions of the payouts have been recovered, hundreds of millions may never be returned to taxpayers.²⁶ Even before these targeted efforts, Washington had an improper payment rate of more than 12 percent, paying out nearly \$112 million in improper payments in 2019 alone.²⁷



Oklahoma

Oklahoma has seen more than 64,000 fraudulent unemployment claim attempts.³⁵ Oklahoma teachers have been targeted, and identities have been stolen to make fraudulent unemployment claims.³⁶ Now, state leaders estimate tens of millions in fraudulent claims may have been paid out between March and May alone.³⁷



Arizona

Arizona is also seeing a rise in fraudulent unemployment claims. More than 5,000 claims have been investigated for fraud, including those who had their identities stolen and benefits taken out in their name.²⁸ They are now having to delay some payments to legitimate claims to try and stop and better vet the rise in fraudulent claims.²⁹ The Arizona Department of Economic Services has acknowledged that “approximately 10 percent of benefits issued are found to be the result of fraud,” more than double Arizona’s 4.2 percent fraud rate realized last year.³⁰⁻³¹



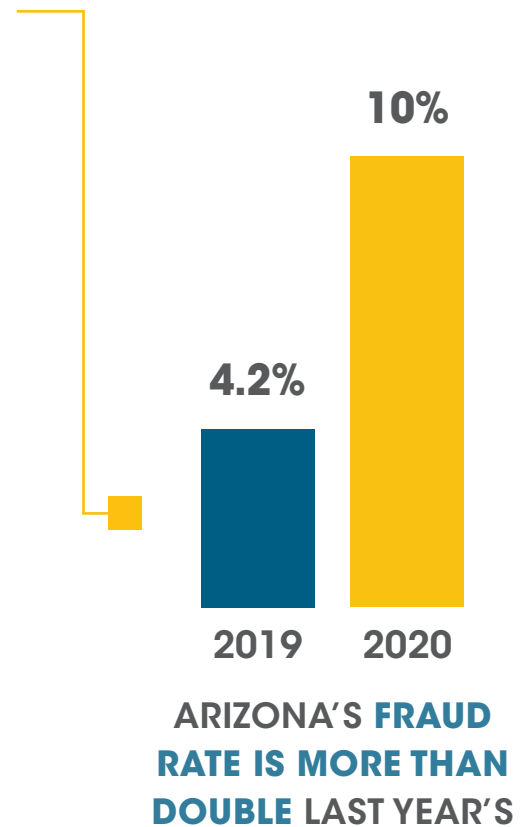
Michigan

In Michigan, more than 540,000 potential cases of fraud have been flagged by the state so far this year.³² Steve Gray, the director of Michigan’s Unemployment Insurance Agency, testified before legislators that “this environment has created a perfect storm for criminal activity” with the overloaded system, expanded benefits to previously ineligible recipients, and the \$600 weekly bonus.³³ Even before the perfect storm for fraud, Michigan was worst in the nation for bad UI spending practices with an improper payment rate of more than 32 percent, or \$222 million in wrongful payouts.³⁴



Montana

Since April 28, Montana has already paid out more than \$10 million in potential fraudulent unemployment claims.³⁸ Another \$220 million worth of fraudulent claims were also attempted during the same time period.³⁹ Similar to other states, identity theft to make fraudulent claims has contributed to the spike in improper payments.⁴⁰





UNDER THE CARES ACT, STATES CAN EXTEND UNEMPLOYMENT BENEFITS BY AN ADDITIONAL 13 WEEKS

The \$600-per-week bonus has made unemployment fraud more lucrative

The biggest change to unemployment with the CARES Act was the \$600 weekly unemployment boost given to all UI enrollees. This extra benefit is on top of the weekly state benefits. The sheer size of this weekly benefit—now almost \$1,000 per week on average—is a significant incentive for people to fraudulently seek unemployment benefits, as the value of benefits have roughly tripled.

Fraudsters who get into the system can also now receive benefits even longer than before. Previously, most states had a maximum of 26 weeks of unemployment eligibility, with some states having shorter durations or durations indexed to the unemployment rate.⁴¹⁻⁴² Now, under the CARES Act, states can extend unemployment benefits by an additional 13 weeks.⁴³ With more than three months of additional time on unemployment, finding a way to receive those benefits rather than working is even more attractive.

The bottom line: Congress must let the destructive \$600 weekly unemployment bonus expire and states must work to stop fraud

The most important thing Congress can do is allow the UI bonus to expire as scheduled in July. This will dramatically reduce the incentive for fraud and the cost of fraud. It will also allow for more robust economic recovery and further reduce overall unemployment claims as individuals return to work and are freed from unemployment dependency.

Many states' unemployment trust funds are on the brink of insolvency, with some states burning through 50 percent or more of their available funds by mid-April this year.⁴⁴ The problem has continued to worsen with outstanding loans and advance authorizations for unemployment trust funds already crossing \$32 billion as of July 14.⁴⁵ At the same time, states are facing on average a reduction of 20 percent of their general revenues and the federal deficit is predicted to increase to \$3.7 trillion for this fiscal year, nearly four times higher than before the pandemic.⁴⁶

With states strapped for cash, historic unemployment enrollment, increased incentive for fraud, and the increased cost of fraud all mean states should institute proper program integrity measures to weed out potential fraud in their unemployment systems.

Allowing the UI bonus to expire as scheduled will help reduce the incentive for fraud, decrease the inflated cost of fraud, and eliminate the driving force currently pushing people towards unemployment rather than work. Additional program integrity measures taken by states will ensure fraudulent claims are caught and stopped, ensuring the system is there for those who truly need it.

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APPENDIX 1

NEARLY 10 PERCENT OF UI SPENDING WAS IMPROPER IN 2019

STATE	IMPROPER PAYMENT RATE	IMPROPER PAYMENT AMOUNT
Alabama	7.6%	\$11.0 million
Alaska	11.2%	\$9.1 million
Arizona	12.2%	\$23.0 million
Arkansas	7.8%	\$7.5 million
California	8.5%	\$423.5 million
Colorado	8.9%	\$33.1 million
Connecticut	14.2%	\$81.2 million
Delaware	9.1%	\$5.7 million
District of Columbia	8.7%	\$10.1 million
Florida	8.1%	\$24.8 million
Georgia	2.5%	\$7.4 million
Hawaii	5.3%	\$8.4 million
Idaho	10.1%	\$8.7 million
Illinois	11.0%	\$178.6 million
Indiana	7.1%	\$16.2 million
Iowa	9.4%	\$36.1 million
Kansas	13.3%	\$17.5 million
Kentucky	11.2%	\$31.5 million
Louisiana	8.7%	\$10.6 million
Maine	3.9%	\$3.1 million
Maryland	12.4%	\$51.2 million
Massachusetts	8.5%	\$120.0 million
Michigan	32.5%	\$222.6 million
Minnesota	8.8%	\$68.1 million
Mississippi	7.6%	\$4.6 million
Missouri	5.1%	\$11.2 million

APPENDIX 1 CONTINUED

STATE	IMPROPER PAYMENT RATE	IMPROPER PAYMENT AMOUNT
Montana	11.1%	\$11.4 million
Nebraska	9.3%	\$5.7 million
Nevada	9.4%	\$23.7 million
New Hampshire	6.9%	\$2.7 million
New Jersey	9.4%	\$178.8 million
New Mexico	7.1%	\$9.2 million
New York	10.6%	\$223.0 million
North Carolina	16.9%	\$17.8 million
North Dakota	10.6%	\$8.7 million
Ohio	10.5%	\$82.3 million
Oklahoma	5.9%	\$14.2 million
Oregon	11.9%	\$58.1 million
Pennsylvania	9.3%	\$165.1 million
Rhode Island	17.3%	\$24.9 million
South Carolina	9.5%	\$13.8 million
South Dakota	6.1%	\$1.6 million
Tennessee	14.5%	\$25.6 million
Texas	4.0%	\$81.6 million
Utah	4.6%	\$6.4 million
Vermont	2.7%	\$1.5 million
Virginia	9.5%	\$25.6 million
Washington	12.1%	\$111.9 million
West Virginia	5.9%	\$10.5 million
Wisconsin	15.9%	\$60.9 million
Wyoming	10.1%	\$4.9 million
TOTAL	9.9%	\$2.6 billion

Source: U.S. Department of Labor

APPENDIX 2

NEARLY 46 MILLION AMERICANS FILED FOR UNEMPLOYMENT BETWEEN MARCH 15 AND JULY 4

STATE	INITIAL CLAIMS FILED
Alabama	641,964
Alaska	143,828
Arizona	754,489
Arkansas	285,094
California	6,201,805
Colorado	486,262
Connecticut	444,674
Delaware	118,078
District of Columbia	116,279
Florida	3,046,641
Georgia	2,948,379
Hawaii	287,235
Idaho	167,485
Illinois	1,420,471
Indiana	861,263
Iowa	374,865
Kansas	319,765
Kentucky	1,044,258
Louisiana	789,000
Maine	169,272
Maryland	750,339
Massachusetts	1,093,415
Michigan	1,686,638
Minnesota	820,833
Mississippi	397,287
Missouri	708,894

APPENDIX 2 CONTINUED

STATE	INITIAL CLAIMS FILED
Montana	123,467
Nebraska	157,700
Nevada	534,478
New Hampshire	234,411
New Jersey	1,309,996
New Mexico	185,723
New York	2,961,401
North Carolina	1,173,253
North Dakota	80,532
Ohio	1,471,758
Oklahoma	803,120
Oregon	523,007
Pennsylvania	1,946,808
Rhode Island	187,300
South Carolina	664,195
South Dakota	56,281
Tennessee	672,356
Texas	2,797,465
Utah	194,680
Vermont	77,209
Virginia	938,559
Washington	1,440,435
West Virginia	177,315
Wisconsin	732,502
Wyoming	51,649
TOTAL	45,574,113

Source: U.S. Department of Labor

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