PUSHED TO THE LIMIT:

# How federal unemployment insurance boosts have strained state trust funds

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# KEY FINDINGS

**1**

STATES' UNEMPLOYMENT TRUST FUNDS HAVE PLUMMETED BY MORE THAN 96 PERCENT SINCE JANUARY.

**2**

STATES HAVE ALREADY BORROWED MORE THAN $27 BILLION TO COVER THE COST OF UNEMPLOYMENT BENEFITS.

**3**

TRUST FUND DECLINES ARE A DIRECT RESULT OF SHUTTING DOWN THE ECONOMY AND PAYING PEOPLE MORE TO STAY HOME THAN RETURN TO WORK.

**4**

CREATING ANOTHER UNEMPLOYMENT BONUS WOULD DECIMATE TRUST FUNDS EVEN FURTHER.

## BOTTOM LINE:

CONGRESS MUST REJECT NEW UNEMPLOYMENT BONUS PROPOSALS.

## Overview

In early 2020, the COVID-19 pandemic caught policymakers at all levels of government by surprise. As many states began to shut down their economies, Congress responded to rising unemployment with the CARES Act, which contained a substantial expansion of unemployment insurance (UI). Conventional work search requirements for UI were suspended, new classifications of workers were made eligible for benefits overnight, the duration of benefits was increased, and an unprecedented $600-per-week bonus was added to unemployment checks.[1-3]

Unfortunately, this bonus wreaked havoc on the recovery and the unemployment system's finances. Individuals could collect substantially more in unemployment benefits by staying home than they could earn returning to work.[4] Two-thirds of small business owners reported that they were worried their employees would not return because they would make more on unemployment, making it harder for them to reopen.[5] The Department of Labor estimated that waste, fraud, and abuse in the unemployment system have increased tenfold.[6]

Although federal taxpayers covered the cost of the weekly bonus, states' UI trust funds have plummeted as unemployment claims skyrocketed due to this unprecedented bonus. Worse yet, the UI boost further discouraged work and enabled states to remain closed.

Thankfully, the unemployment boost expired at the end of July. Since then, however, some in Congress have called for a new bonus.[7] Even a partial restoration of the $600 weekly boost would further decimate already depleted UI trust funds, put the brakes on the nation's economic recovery, open the door to unprecedented levels of fraud, and hang states out to dry. Congress must preserve limited UI resources and protect the fiscal health of states' trust funds by rejecting any attempt to institute a new unemployment bonus.

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STATES' UNEMPLOYMENT TRUST FUNDS HAVE **PLUMMETED BY MORE THAN 96 PERCENT** SINCE JANUARY

UI trust fund balances less federal loans on January 1, 2020 and August 18, 2020


*Source: U.S. Department of the Treasury*

## States' unemployment trust funds have plummeted by more than 96 percent since January

In January, states had nearly $75 billion in their UI trust funds.[8] However, these levels were short-lived. In late March, unemployment claims skyrocketed to record-breaking levels, including nearly 6.9 million initial claims during the week of March 28 alone.[9]

The implementation of the CARES Act further encouraged rising demand for UI resources. Since the CARES Act was enacted, more than 50 million Americans have filed initial unemployment claims.[10]

By mid-April, states' UI trust funds had already lost nearly $12 billion—a decline of nearly 16 percent.[11] In some states, the declines were even sharper. Massachusetts, for example, saw its unemployment trust fund drop by nearly 57 percent in a matter of weeks.[12] Unfortunately, this was just the beginning.

By August 18, states' trust funds had fallen below $30 billion.[13] Worse yet, those balances included more than $27 billion borrowed from federal taxpayers.[14] After accounting for these loans, **states' net trust fund balances plummeted to less than $3 billion—a 96 percent drop from the beginning of the year**.[15]

In many states, the UI trust funds are now completely insolvent. California, for example, had $3.2 billion in its trust fund at the beginning of the year.[16] By mid-August, its trust fund had a negative balance of nearly $11 billion, after accounting for federal loans—a decline of more than 400 percent.[17]

States' economic shutdowns and Congress' decision to pay people more to stay home on unemployment than return to work accelerated states' rush toward UI insolvency.

## Trust fund declines are a direct result of shutting down the economy and paying people more to stay home than return to work

The CARES Act's UI boost discouraged work and made it harder for small businesses to reopen, as unemployment suddenly paid better than returning to work for millions of Americans.[18-20] The bonus also opened the door to massive new unemployment fraud schemes, draining UI resources even more rapidly.[21] Worse yet, individuals refused to return to work when businesses tried to call back employees as they began to reopen—another form of unemployment fraud.[22] All told, the estimated unemployment fraud and improper payments arising from the CARES Act alone is $26 billion.[23] That is not only a tenfold increase in improper spending, but also what taxpayers spent on the entire unemployment system in 2019.[24]

States' decisions to shut down their economies with stay-at-home orders only accelerated the path to UI insolvency. Although they began with similar levels of unemployment, states that shut down their economies through stay-at-home orders experienced far higher spikes in unemployment and a much slower recovery.[25] Indeed, states that did not issue stay-at-home orders have already witnessed their unemployment rates return to less than six percent.[26]

**THE ESTIMATED UNEMPLOYMENT FRAUD AND IMPROPER PAYMENTS ARISING FROM THE CARES ACT ALONE IS $26 BILLION**

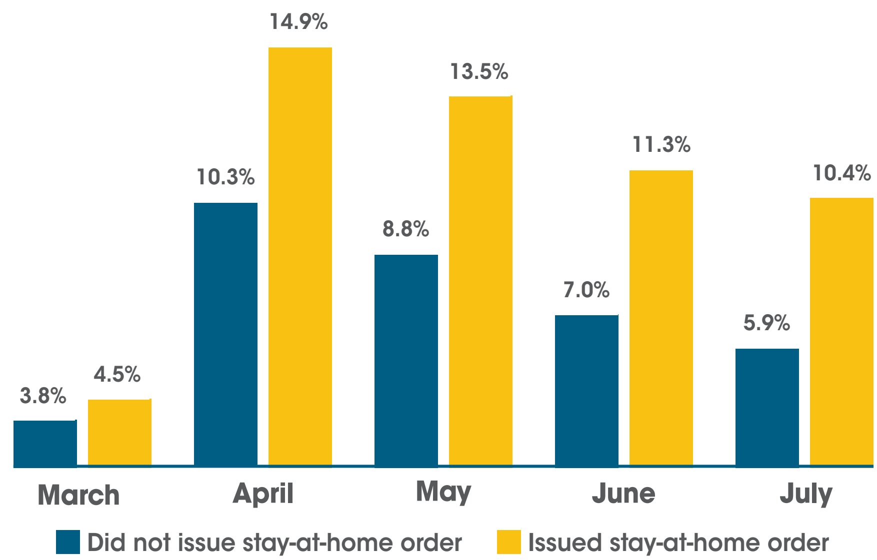
## STATES THAT DID NOT SHUT DOWN THEIR ECONOMIES HAVE **WEATHERED THE PANDEMIC MUCH BETTER**

Change in UI trust fund balances between January 1, 2020 and August 18, 2020, by decisions to issue stay-at-home orders


*Source: U.S. Department of the Treasury*

## STATES THAT DID NOT SHUT DOWN THEIR ECONOMIES HAVE **LOWER UNEMPLOYMENT AND HAVE RECOVERED MORE QUICKLY**

Monthly unemployment rate, by decisions to issue stay-at-home orders




*Source: U.S. Department of Labor*

As businesses shut down or were forced to issue mass layoffs in states that issued stay-at-home orders, unemployment claims skyrocketed—growing more quickly than in states that remained open.[27] As a result, trust funds in the seven states that did not issue stay-at-home orders have weathered the COVID-19 pandemic much better than the states that shut down their economies. The trust funds in those seven states declined by just 15 percent between January and mid-August.[28] States that shut down their economies saw their trust funds fall by an average of 102 percent on average, meaning their funds have negative balances after accounting for federal loans.[29] Additionally, none of the seven states that remained open have needed to borrow funds to stay afloat and all have remaining trust fund balances that would get them through a typical recession.[30]

The $600 UI boost contributed to mass unemployment, accommodated the shutdown policies of some states, and caused fraud to spike nationwide. This boost—combined with mandatory business closures in certain areas of the country—directly caused the sharp decline in UI trust fund balances.

## Creating another unemployment bonus would decimate trust funds even further

By mid-August, states' net trust fund balances had fallen to just $2.7 billion.[31] This is inadequate to sustain unemployment at normal benefit rates and impossible to fund the spike in claims that would follow yet another UI boost.

By mid-August, 11 states' trust funds had run completely dry, forcing them to take out federal loans just to pay out benefits.[32] Another seven states had received approval for loans they would need in the coming weeks.[33] Another unemployment bonus would push even more states over the edge and into the red. That not only means taking out massive loans from federal taxpayers just to pay out benefits but would also likely lead to future tax hikes on employers to pay back the debt.[34]

Since the unemployment bonus expired, the number of people applying for unemployment has fallen and the number of people going back to work has spiked.[35] But creating a new unemployment bonus that pays people more to stay home than return to work could quickly throw the brakes on America's economic recovery. As a result, another UI boost could threaten to deplete states' trust funds altogether.

"Creating a new unemployment bonus that pays people more to stay home than return to work could quickly throw the brakes on America's economic recovery."

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## Bottom line: Congress must reject new unemployment bonus proposals

**ANOTHER UI BOOST WOULD ENCOURAGE UNEMPLOYMENT, INCENTIVIZE FRAUD, AND EVAPORATE RESOURCES**

Current proposals in Congress would seek to restore the full $600 boost or replace it with a slightly lower unemployment bonus.[36] These proposals would discourage work and flood states with more applicants and more unemployment fraud. These plans could also jeopardize the country's economic recovery.

States' UI systems have already been stretched to the limit. Further strain on their trust funds would have lasting and drastic implications.

Congress must reject the calls for another UI boost scheme, which would only serve to encourage unemployment, incentivize fraud, and evaporate resources from the program. Standing strong against another UI boost is the only way to guarantee a robust economic recovery and preserve the fiscal health of states.

# APPENDIX

## STATES' UNEMPLOYMENT TRUST FUNDS HAVE PLUMMETED BY MORE THAN 96 PERCENT SINCE JANUARY

UI trust fund balances less federal loans on January 1, 2020 and August 18, 2020

| STATE | TRUST FUND BALANCE 1/1/2020 | TRUST FUND BALANCE LESS FEDERAL LOANS 8/18/2020 | CHANGE |
|---|---|---|---|
| Alabama | $704,456,280 | $179,226,537 | -74.6% |
| Alaska | $500,977,665 | $365,893,878 | -27.0% |
| Arizona | $1,097,519,502 | $515,878,721 | -53.0% |
| Arkansas | $846,046,865 | $654,106,415 | -22.7% |
| California | $3,260,789,629 | -$10,864,962,291 | -433.2% |
| Colorado | $1,153,504,105 | -$25,415,528 | -102.2% |
| Connecticut | $706,020,817 | $159,161,309 | -77.5% |
| Delaware | $172,630,672 | $26,407,399 | -84.7% |
| District of Columbia | $521,251,876 | $251,721,791 | -51.7% |
| Florida | $4,071,519,600 | $1,682,152,412 | -58.7% |
| Georgia | $2,559,981,541 | $338,626,947 | -86.8% |
| Hawaii | $597,673,732 | -$330,664,737 | -155.3% |
| Idaho | $713,790,067 | $555,563,690 | -22.2% |
| Illinois | $1,946,242,074 | -$1,510,109,510 | -177.6% |
| Indiana | $895,342,153 | $110,726,519 | -87.6% |
| Iowa | $1,260,136,829 | $1,168,945,342 | -7.2% |
| Kansas | $998,544,728 | $687,191,690 | -31.2% |
| Kentucky | $618,703,897 | -$291,450,608 | -147.1% |
| Louisiana | $1,062,227,765 | $255,133,222 | -76.0% |
| Maine | $508,553,554 | $492,450,542 | -3.2% |
| Maryland | $1,273,594,518 | $401,777,677 | -68.5% |
| Massachusetts | $1,725,208,489 | -$1,191,312,042 | -169.1% |
| Michigan | $4,661,100,963 | $1,615,097,863 | -65.3% |
| Minnesota | $1,705,263,924 | -$349,215,177 | -120.5% |
| Mississippi | $710,211,252 | $490,193,900 | -31.0% |
| Missouri | $1,070,141,101 | $551,513,148 | -48.5% |

# APPENDIX CONTINUED

| STATE | TRUST FUND BALANCE 1/1/2020 | TRUST FUND BALANCE LESS FEDERAL LOANS 8/18/2020 | CHANGE |
|---|---|---|---|
| Montana | $374,979,615 | $226,804,720 | -39.5% |
| Nebraska | $456,242,980 | $407,335,385 | -10.7% |
| Nevada | $1,940,100,622 | $309,739,373 | -84.0% |
| New Hampshire | $307,998,160 | $128,642,577 | -58.2% |
| New Jersey | $2,888,365,115 | $199,425,617 | -93.1% |
| New Mexico | $469,558,927 | $60,515,457 | -87.1% |
| New York | $2,651,482,639 | -$6,874,488,773 | -359.3% |
| North Carolina | $4,003,197,955 | $3,066,720,422 | -23.4% |
| North Dakota | $225,975,141 | $311,074,277 | 37.7% |
| Ohio | $1,264,072,100 | -$729,997,882 | -157.7% |
| Oklahoma | $1,116,304,233 | $411,288,732 | -63.2% |
| Oregon | $5,054,857,898 | $4,371,925,235 | -13.5% |
| Pennsylvania | $3,435,423,679 | $542,820,869 | -84.2% |
| Rhode Island | $537,929,841 | $251,849,869 | -53.2% |
| South Carolina | $1,098,191,332 | $1,009,706,500 | -8.1% |
| South Dakota | $136,388,088 | $122,803,815 | -10.0% |
| Tennessee | $1,273,986,041 | $1,120,182,152 | -12.1% |
| Texas | $1,934,397,487 | -$3,867,391,242 | -299.9% |
| Utah | $1,172,615,481 | $842,482,991 | -28.2% |
| Vermont | $516,158,884 | $306,224,343 | -40.7% |
| Virginia | $1,464,142,254 | $252,602,091 | -82.7% |
| Washington | $4,778,075,957 | $2,592,621,862 | -45.7% |
| West Virginia | $191,400,873 | -$28,647,322 | -115.0% |
| Wisconsin | $1,971,405,287 | $1,435,631,827 | -27.2% |
| Wyoming | $376,906,230 | $294,513,947 | -21.9% |
| **TOTAL** | **$74,981,590,417** | **$2,703,025,948** | **-96.4%** |

*Source: U.S. Department of the Treasury*

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