

UNMASKING THE UNEMPLOYMENT CRISIS:

The new pandemic plaguing America



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KEY FINDINGS

1



IOWA SAW UNEMPLOYMENT
FRAUD INVESTIGATIONS INCREASE BY
5,058 PERCENT DURING THE PANDEMIC.

2



NEW MEXICO SAW UNEMPLOYMENT
FRAUD INVESTIGATIONS INCREASE BY
2,103 PERCENT DURING THE PANDEMIC.

3



PENNSYLVANIA SAW UNEMPLOYMENT
FRAUD INVESTIGATIONS INCREASE BY
3,129 PERCENT DURING THE PANDEMIC.

**THE BOTTOM LINE:
THE WEEKLY UNEMPLOYMENT BONUSES HAVE MADE FRAUD
A BIG BUSINESS. STATES SHOULD OPT OUT.**

Background

The unemployment system was designed to provide temporary, limited help to unemployed Americans who lost their jobs through no fault of their own as they searched for new work. But over the past year, another kind of beneficiary has taken center stage: fraudsters seeking to bilk taxpayers out of millions of dollars.

The unemployment system has had severe program integrity issues for years, but the COVID-19 pandemic has brought these issues into the limelight. Indeed, taxpayers could be on the hook for as much as \$300 billion in improper unemployment payments.¹ Two big reasons why: Congress made fraud more lucrative than ever and then made it easy to cheat.

By creating an unemployment bonus and extensions that let fraudsters collect tens of thousands of dollars in benefits, Congress made fraud pay better than ever before. By forcing states to accept applicants' word that they are eligible for pandemic-related benefits—no verification required—they made it easy to scam the system. **Quite simply, it was more lucrative for individuals to skim and scam the unemployment system than it was for them to return to work.**



**TAXPAYERS COULD BE ON THE HOOK
FOR AS MUCH AS \$300 BILLION IN
IMPROPER UNEMPLOYMENT PAYMENTS.**

Unemployment fraud skyrocketed in 2020 and beyond

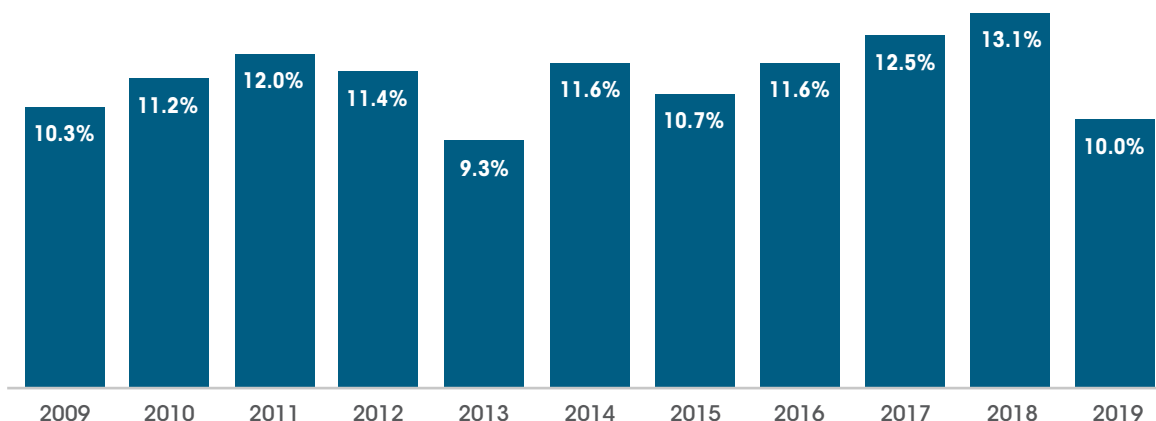
America's unemployment system has been plagued by severe program integrity issues for years. The COVID-19 pandemic and government-imposed economic shutdowns simply brought these issues into the limelight.

For the last decade, the improper payment rate for unemployment benefits has hovered around 10 percent or more—meaning **taxpayers have paid out billions of dollars in unemployment benefits that should never have gone out the door.**²⁻⁵ Virtually all of these payment errors are caused by applicants and enrollees. In 2019, for example, claimants were fully or partially responsible for nearly \$2.3 billion of the total \$2.5 billion in identified overpayments.⁶⁻⁷

Congress's response to the COVID-19 pandemic and economic shutdowns only made these problems worse.⁸

THE UNEMPLOYMENT SYSTEM HAS A LONG HISTORY OF WASTE, FRAUD, AND ABUSE

Unemployment system's improper payment rate, by fiscal year



Source: U.S. Department of Labor

In March 2020, Congress created an unemployment bonus that nearly tripled benefits, with the average enrollee collecting nearly \$1,000 per week—the equivalent of more than \$50,000 per year.⁹ Congress extended how long someone could stay on the program to up to 86 weeks and suspended the requirement that enrollees search for work.¹⁰ If that were not bad enough, Congress forced states to accept applicants' self-attestation that they were eligible for certain pandemic-related unemployment benefits, creating a massive vulnerability for fraud.¹¹

The U.S. Department of Labor's Inspector General now estimates that at least \$89 billion of federal pandemic-related unemployment benefits were improper.¹² **Private sector experts project unemployment fraud over the last year could ultimately total as much as \$300 billion.**¹³

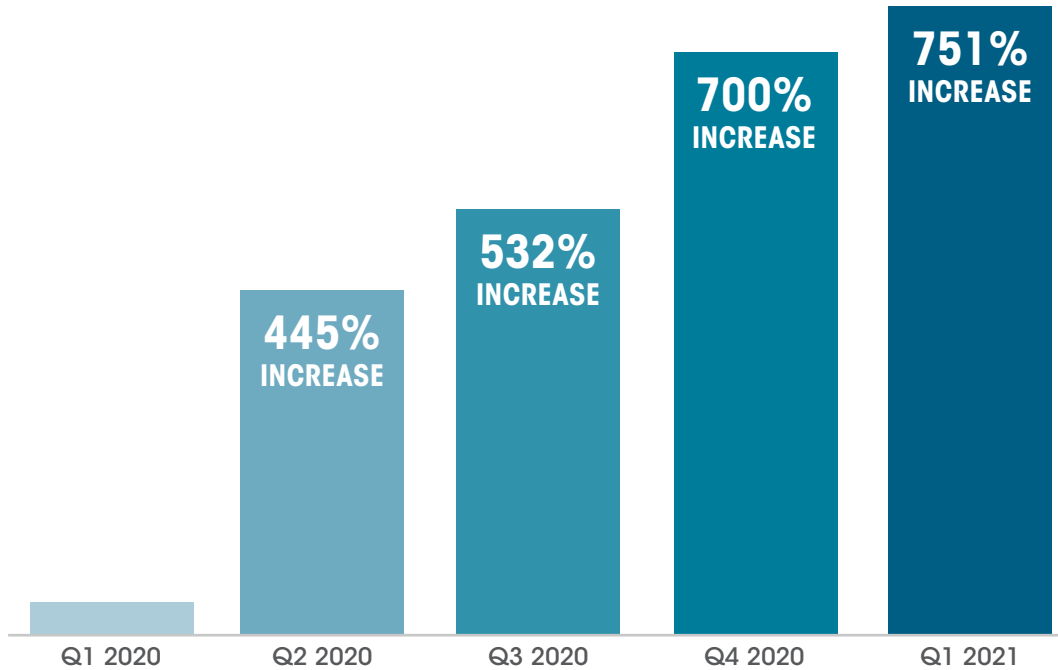
The full fraud picture remains murky

Unfortunately, the true amount of unemployment fraud occurring right now may never be known. The U.S. Department of Labor suspended the Benefit Accuracy Measurement program—a tool used to identify problems and payment errors in states' unemployment systems—in March 2020.¹⁴ Several states had stopped providing data even before the suspension.¹⁵

Recent audits have revealed numerous areas of weaknesses in states' unemployment programs. As a result, fraudsters have been able to collect benefits in multiple states, file claims with stolen identities, collect benefits for the deceased, apply for benefits with suspicious and anonymous email addresses, operate wide scale fraud rings from within prison, and more.¹⁶

For example, the overpayments states were able to identify increased by nearly eightfold between the first three months of 2020 and the first three months of 2021.¹⁷⁻²¹ **Some states even reported that more than half of all payments made under pandemic-related unemployment programs were fraudulent.**²²

UNEMPLOYMENT OVERPAYMENTS GREW EIGHTFOLD IN THE YEAR FOLLOWING THE COVID-19 OUTBREAK



Source: U.S. Department of Labor

But even though data has been scarce due to these changing dynamics, new state-level data exclusively obtained by the Foundation for Government Accountability reveals the problems could be even worse than expected.

New state data shows rampant unemployment fraud

Although the Foundation for Government Accountability sought data from all states to determine the severity of the unemployment fraud crisis, many states denied open records requests or provided incomplete datasets.²³ But the sampling of data obtained does not paint a pretty picture.

Overall, the number of unemployment fraud investigations opened in 2020 dwarfed investigations opened in 2019, even as some states suspended investigations during the peak of new applications.²⁴ Likewise, the number of cases determined to be fraudulent skyrocketed in 2020.²⁵

STATE	2019 FRAUD INVESTIGATIONS	2020 FRAUD INVESTIGATIONS	PERCENT CHANGE
Arkansas	37,800	171,617	1,004%
Idaho	1,915	27,417	1,332%
Iowa	38	1,960	5,058%
Kansas	4,075	45,000	1,004%
New Mexico	492	10,839	2,103%
Pennsylvania	738	23,826	3,129%

Unemployment fraud investigations skyrocketed in 2020

354%
INCREASE

ARKANSAS

UNEMPLOYMENT FRAUD
INVESTIGATIONS

NEW CASES
IN 2019 **37,800**

NEW CASES
IN 2020 **171,617**

Arkansas was able to avoid some of the more severe economic ramifications from the COVID-19 pandemic due to less stringent lockdown policies and the legislature swiftly reopening the economy. But the state was not immune to copious amounts of unemployment fraud.

Unfortunately, the extent of unemployment fraud in Arkansas may not be fully known for some time because the state's workforce agency temporarily stopped conducting fraud investigations altogether so resources could be devoted instead to processing unemployment claims. Even so, the number of open cases has skyrocketed by 354 percent.²⁶

1,331%
INCREASE

IDAHO

UNEMPLOYMENT FRAUD
INVESTIGATIONS

NEW CASES
IN 2019 **1,915**

NEW CASES
IN 2020 **27,417**

While Idaho's economy fared better than others during the height of the pandemic—with unemployment rates consistently under the national average—the state still suffered at the hands of fraudsters.²⁷ The state saw a massive uptick in fraud investigations—a 1,332 percent increase in 2020—and the number of fraudulent claims identified increased nearly tenfold.²⁸

891%
INCREASE

UNEMPLOYMENT FRAUD
IDENTIFIED

FRAUDULENT
CLAIMS IN 2019 **1,791**

FRAUDULENT
CLAIMS IN 2020 **17,748**

5,058%
INCREASE

IOWA

UNEMPLOYMENT FRAUD INVESTIGATIONS

NEW CASES
IN 2019 | **38**

NEW CASES
IN 2020 | **1,960**

Throughout the pandemic, Iowa's unemployment rates remained consistently lower than the national average, and its pro-small business approach to the pandemic staved off an economic collapse.²⁹ Still, the state's fraud investigators stayed busy.

The state opened 1,960 new fraud investigations between March and August 2020, an increase of more than 5,000 percent from 2019.³⁰ In that same time period, the number of fraudulent claims that the state identified grew by more than 2,200 percent.³¹ Fraud investigations have ramped up even further since then, as Iowa has now handled more than 37,000 cases of unemployment fraud since the pandemic began.³²

2,234%
INCREASE

UNEMPLOYMENT FRAUD IDENTIFIED

FRAUDULENT
CLAIMS IN 2019 | **38**

FRAUDULENT
CLAIMS IN 2020 | **887**

1,004%
INCREASE

KANSAS

UNEMPLOYMENT FRAUD INVESTIGATIONS

NEW CASES
IN 2019 | **4,075**

NEW CASES
IN 2020 | **45,000**

Like other states, Kansas's unemployment system was ripe for fraud. In a survey of all 36 fraud staff at the Kansas Department of Labor, just one staffer believed the state's procedures and tools at the beginning of the pandemic were effective to combat fraud in the pandemic-related unemployment programs.³³

Agency officials reported that staff were "overwhelmed" by the number of unemployment applications being filed and "did not have time" to thoroughly review them all.³⁴ Fraud investigators opened 45,000 new cases between March and August 2020, an elevenfold increase since 2019.³⁵ Auditors estimate that nearly one in four of all payments made in 2020 were fraudulent, costing taxpayers as much as \$600 million.³⁶

2,103%
INCREASE

NEW MEXICO

UNEMPLOYMENT FRAUD
INVESTIGATIONS

NEW CASES
IN 2019

492

NEW CASES
IN 2020

10,839

As New Mexico officials forced businesses across the state to shut down and issued stay-at-home orders for its citizens, the number of applications for unemployment benefits skyrocketed. In order to deal with the unprecedented number of new claims, the state's unemployment agency reassigned staff from the rest of the department to help process applications.³⁷ This caused major backlogs in fraud investigations, which could take another year to work through at the agency's current pace.³⁸

But even with the backlog of uninvestigated reports, the number of new fraud investigations has exploded. Between just March and August 2020, investigators opened nearly 11,000 new fraud investigations—an increase of more than 2,100 percent since the same time period in 2019.³⁹ The number of confirmed fraudulent claims increased by a whopping 4,300 percent.⁴⁰ As a result of these issues, the state estimates that it has made at least \$250 million in improper unemployment payments since the COVID-19 pandemic began.⁴¹

4,310%
INCREASE

UNEMPLOYMENT FRAUD
IDENTIFIED

FRAUDULENT
CLAIMS IN 2019

185

FRAUDULENT
CLAIMS IN 2020

8,158

3,113%
INCREASE

PENNSYLVANIA

UNEMPLOYMENT FRAUD
INVESTIGATIONS

NEW CASES
IN 2019

738

NEW CASES
IN 2020

23,862

Pennsylvania has faced many of the same issues as other states. Its unemployment program has been hit by fraudsters using information stolen from data breaches, by inmates in state and federal prisons, by individuals who do not even live in Pennsylvania, and more.⁴²⁻⁴⁴ Between March and August 2020, investigators opened nearly 24,000 new cases of potential unemployment fraud—a shocking increase of more than 3,100 percent since 2019.⁴⁵

Fraud will continue as long as it is easy and lucrative

Pandemic-related unemployment programs have created a massive explosion in fraud over the last year. Two primary causes: how easy it is to commit fraud and how lucrative the payouts are. In March 2020, Congress created a \$600 weekly unemployment bonus on top of regular

unemployment benefits.⁴⁶ It also extended how long someone could stay on the program, forced states to accept applicants' self-attestation that they were eligible, and suspended work search requirements.⁴⁷⁻⁴⁸ As a result, fraudsters filing claims could receive tens of thousands of dollars for each approved application.⁴⁹

Although the initial unemployment bonus expired in July 2020, Congress created a new \$300 weekly unemployment bonus.⁵⁰ Although this bonus technically has a sunset date, Congress could continue to extend it and Democrats have even proposed expanding these pandemic-related programs even further.⁵¹ As long as fraud remains easy and lucrative, bad actors will continue to scam the system.



AUDITORS ESTIMATE THAT NEARLY ONE IN FOUR OF ALL PAYMENTS MADE IN 2020 WERE FRAUDULENT, COSTING TAXPAYERS AS MUCH AS \$600 MILLION.

States have tangible options to stop the fraud pandemic

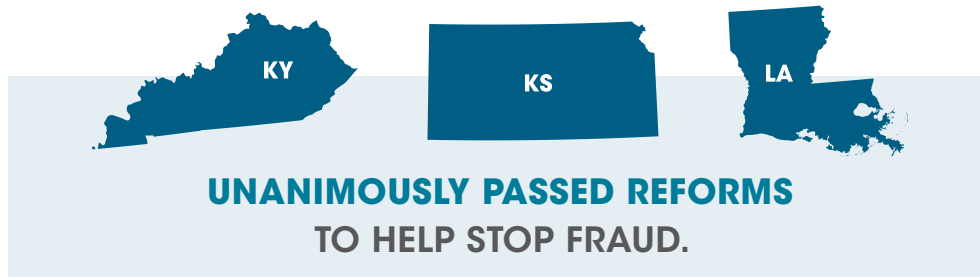
While Congress debates making unemployment fraud more lucrative, states can chart a different course. First and foremost, states can and should end the pandemic-related unemployment programs driving so much of this fraud.⁵² And they are: In May 2021, a whopping 23 governors announced plans to end these programs.⁵³

But even as states wind down those federal programs, more work will be needed to restore the integrity of the unemployment system. Thankfully, **there are a number of measures that states can adopt to protect taxpayers, support a functional unemployment system, and ensure benefits are distributed only to those eligible:**

- 1** Engage with the National Association of State Workforce Agencies (NASWA) integrity data hub, a multi-state tool that allows states to crossmatch UI claims against relevant databases.
- 2** Check federal, state, and local jail and prison records to make sure applicants and enrollees are appropriately eligible.
- 3** Check new hire records to ensure enrollees are eligible.
- 4** Check other relevant government records, such as death records and out-of-state addresses, to flag potential fraud cases.
- 5** Cooperate with law enforcement to treat UI fraud claims seriously.
- 6** Recover overpayments from individuals who improperly received them.

These commonsense reforms are trending in statehouses across the country. The legislatures in Kentucky, Kansas, and Louisiana, for example, recently passed these reforms unanimously, which were then signed into law by their Democrat governors. Alabama, Arkansas, Montana, and West Virginia have all also recently enacted legislation to combat the issues plaguing their unemployment systems.

IT'S TRENDING



Congress has made fraud a profitable business and left states scrambling to pick up the pieces after their unemployment programs have been left in shambles. Thankfully, 25 states have courageously responded to this by opting out of the egregious unemployment bonus and many others are working to protect program integrity.⁵⁴ The remaining states on the sidelines should check into the game and act now to ensure that fraud is not the highest-paying job in their states.

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