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# Michigan's Unemployment System Is Broken—But Can Be Fixed

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# KEY FINDINGS



MICHIGAN PAID OUT AT LEAST **\$8.5 BILLION**  
IN **IMPROPER UNEMPLOYMENT PAYMENTS**  
DURING COVID-19.



MICHIGAN'S UNEMPLOYMENT TRUST FUND  
HAS **PLUMMETED BY 75 PERCENT.**



MICHIGAN HAS **ONE OF THE WEAKEST**  
**UNEMPLOYMENT SYSTEMS** IN THE REGION,  
WITH HIGH TAXES AND HIGH DEPENDENCY.

## THE BOTTOM LINE:

**GOVERNOR GRETCHEN WHITMER'S RESPONSE TO  
MICHIGAN'S UNEMPLOYMENT CRISIS IS INADEQUATE, BUT  
THERE ARE REAL SOLUTIONS.**

## Overview

All states' unemployment programs were hit hard by COVID-19 and the sharp rise in unemployment claims that followed. But some states were better prepared than others. Michigan was not one of those well-prepared states.

Prior to the pandemic, more than 30 percent of Michigan's unemployment payments were improper, many of which were outright fraudulent.<sup>1</sup> **This was the highest improper payment rate in the nation at the time.**<sup>2</sup> Fewer than 15 percent of these improper payments were recovered by the state, representing tens of millions of taxpayer dollars lost to errors and fraud.<sup>3</sup>

As a result of its poor performance prior to COVID-19, Michigan was ill-prepared for the influx of unemployment claims brought on by the pandemic. Ultimately, this caused Michigan's unemployment system to shatter—leaving the state in dire need of reform.

## Michigan experienced unprecedented unemployment fraud during COVID-19

From March to October 2020 alone, Michigan paid out an estimated \$8.5 billion in fraudulent or improper unemployment claims across all programs.<sup>4</sup> For comparison, that is **more than eight times the size of Michigan's unemployment trust fund today.**<sup>5</sup> And by some metrics, that number is an understatement. Other sources have pegged the true fraud and improper payment amount to be as high as \$11 billion.<sup>6</sup>



**FROM MARCH TO OCTOBER 2020, MICHIGAN PAID OUT AN ESTIMATED \$8.5 BILLION IN FRAUDULENT OR IMPROPER UNEMPLOYMENT CLAIMS.**

According to independent audits, Michigan's unemployment system had a roughly 20 percent failure rate during COVID-19 at preventing fraud.<sup>7</sup> In other words, for every five dollars in benefits applied for during the initial stages of the pandemic, at least one of those dollars was fraudulent or potentially fraudulent.



**FOR EVERY FIVE DOLLARS IN BENEFITS APPLIED FOR DURING THE INITIAL STAGES OF THE PANDEMIC, AT LEAST ONE OF THOSE DOLLARS WAS FRAUDULENT OR POTENTIALLY FRAUDULENT.**

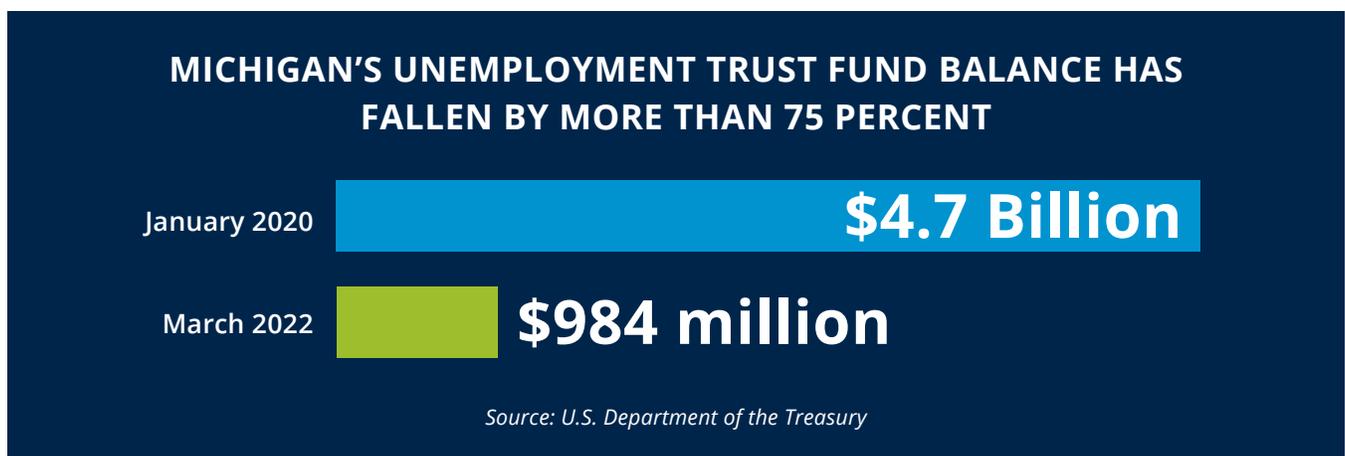
The situation was so dire that even the Kardashians found themselves as part of a fraud scheme, with Kim Kardashian and Kylie Jenner being used as part of falsely filed claims.<sup>8</sup> Two individuals from Michigan stole more than \$3 million via unemployment fraud alone.<sup>9</sup> Other stories of fraud cast a dark cloud over the state's unemployment system.<sup>10-11</sup>

Unfortunately, leadership from the governor was nowhere to be found. By not prioritizing fraud prevention, the administration invited fraud. The then-head of the state's unemployment agency was alleged to have remarked that fraud prevention simply was "not a high priority" for the agency.<sup>12</sup>

This unprecedented spike in unemployment overpayments and fraud contributed to the virtual collapse of the state's unemployment system.

## Michigan's unemployment system buckled under pressure

Michigan's unemployment system can only be described as broken. Prior to the pandemic, the state's unemployment trust fund balance sat at nearly \$4.7 billion.<sup>13</sup> Today, its trust fund sits at less than \$1 billion, representing a decline of more than 75 percent.<sup>14-15</sup>



Independent audits have found "deficiencies in internal controls" in Michigan's unemployment program, which contributed to "material weaknesses."<sup>16-17</sup> Coupled with an uptick in fraudulent claims, the state's system simply could not handle the pressure.

And that's not all. Compared to its neighbors, Michigan has the highest average unemployment tax rates on businesses, the longest amount of time the average individual spends on the program, and one of the highest unemployment dependency rates.<sup>18</sup>

These represent just a handful of the challenges that Michigan's unemployment system has faced. And state leadership has produced a woefully insufficient response.

## **THE BOTTOM LINE: Governor Whitmer's response Michigan's unemployment crisis is inadequate, but there are real solutions.**

In response to mounting evidence of widespread fraud by independent investigators, Governor Whitmer issued a series of executive orders related to unemployment insurance.<sup>19</sup> While these executive orders contain a few modestly helpful provisions, they are severely lacking in the fundamental reforms needed to fix Michigan's broken unemployment system.

Put simply, there's more Michigan policymakers can do. This includes:

## BUILDING COMPREHENSIVE UNEMPLOYMENT PROGRAM INTEGRITY

Michigan should build on the state's initial attempts to engage with data vendors to detect and prevent fraud at the earliest stages. Specifically, lawmakers can codify cross-checks against data the state already has at its disposal—like new hire records and incarceration records—to further prevent fraud and overpayments. Other states that have adopted unemployment program integrity measures have been able to avoid unnecessary headaches brought on by fraud.<sup>20</sup>



## IMPROVING OVERPAYMENT AND FRAUD RECOVERY

Michigan's unemployment overpayment recovery is inadequate. This is largely because the state simply does not have robust recovery mechanisms in place. For example, the state issues waivers to recover certain overpayments in instances of agency error or due to "equity or good conscience" considerations, which gives broad discretion to bureaucrats to waive the recovery of overpayments.<sup>21</sup> Michigan also fails to fully offset overpayments against future unemployment benefits.<sup>22</sup> Lawmakers should require the state to recover all unemployment overpayments by any means necessary.



## STRENGTHENING WORK SEARCH STANDARDS

Michigan only requires unemployment recipients to conduct one work search activity per week.<sup>23</sup> This is wholly inadequate, especially compared to neighboring states which require as many as four times the number of work search activities.<sup>24</sup> Since these activities are broad—encompassing not only applying for a job, but also attending a job fair, interviewing with an employer, and much more—they are fairly easy for claimants to complete.<sup>25</sup> The state should require a minimum of three work search activities per week.



**These three reforms—coupled with other commonsense measures, such as annual unemployment program integrity reports—can help get Michigan's unemployment system back on track.**

Right now, Michigan is at a crossroads. By continuing to follow the failed policies of the past, its unemployment system will remain weak and unprepared for a future crisis. But by seizing the moment and achieving real reforms, the state can build a better system for workers and businesses alike.

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