

MARCH 14, 2023



# To Restore Confidence in Unemployment Systems, States Must Pass Commonsense Reforms

**Kristi Stahr**  
*Research Analyst*

**Hayden Dublois**  
*Data & Analytics Director*

# KEY FINDINGS



**FRAUDULENT CLAIMS AND UNEMPLOYMENT  
OVERPAYMENTS ARE PLAGUING STATES.**



**PROGRAM INTEGRITY MEASURES  
ARE THE SOLUTION.**



**STATES HAVE SAVED UNTOLD  
AMOUNTS THANKS TO UNEMPLOYMENT  
PROGRAM INTEGRITY.**

## THE BOTTOM LINE:

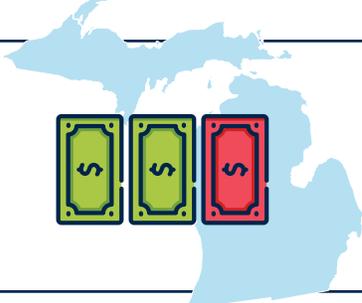
**STATES MUST REFORM THEIR UNEMPLOYMENT  
PROGRAMS TO PROTECT RESOURCES.**

## Overview

Unemployment insurance (UI) was designed to be a temporary safety net for unemployed individuals seeking work.<sup>1</sup> Yet during the COVID-19 pandemic, Congress expanded payouts with additional weekly payments of up to \$600 extra, while lengthening the time individuals could receive benefits—turning a temporary benefit into a welfare-type dependency program ripe for fraud.<sup>2-4</sup>

While misuse of government programs and wasteful spending is not new, payment errors increased significantly during the pandemic, more than tripling from 7.3 percent in early 2020 to 23.7 percent in spring 2021.<sup>5</sup> Paying individuals to stay home only exacerbated the issue, with up to \$400 billion lost due to improper payments during COVID-19.<sup>6</sup>

But even before COVID-19 hit, unemployment systems around the country were plagued by overpayments and fraud. In 2019, Michigan reported roughly one out of every three UI dollars as improperly paid.<sup>7</sup> Put simply, UI program integrity is a long-standing challenge for states that requires the attention of policymakers across the nation.



**IN 2019, MICHIGAN REPORTED  
ROUGHLY **ONE OUT OF EVERY THREE**  
UI DOLLARS AS IMPROPERLY PAID.**

## Fraudulent Claims and Unemployment Overpayments Are Plaguing States

Fraud, waste, and abuse in UI programs are affecting the solvency of states' trust funds.<sup>8-10</sup>

During the COVID-19 pandemic, Michigan paid out more than \$8.5 billion in improper unemployment payments, contributing to its trust fund declining by 75 percent.<sup>11</sup> In Arkansas, the state paid nearly \$273,000 in improper payments to deceased individuals, with another \$4.8 million paid to more than 500 incarcerated individuals.<sup>12</sup> And in Vermont, nearly 90 percent of UI claims filed were fraudulent at one point during the pandemic.<sup>13</sup>



**IN VERMONT, **NEARLY 90 PERCENT OF**  
UI CLAIMS FILED WERE FRAUDULENT AT  
ONE POINT DURING THE PANDEMIC.**

Other notable examples include the rapper Fontrell Baines, also known as “Nuke Bizzle,” who bragged in the viral YouTube music video, “EDD,” about getting “rich off” fraudulently collecting unemployment benefits.<sup>14-15</sup> “Bizzle” used the Pandemic Unemployment Assistance program to apply for unemployment benefits using 92 different identities to collect pre-paid debit cards—totaling more than \$1 million through California’s Employment Development Department (EDD).<sup>16</sup>

To top it off, during eight months in 2020, the U.S. Office of the Inspector General identified more than \$5 billion fraudulently paid out with nearly \$100 million in unemployment benefits paid to federal prisoners and another \$58 million paid out to deceased individuals.<sup>17</sup> In one case, an individual applied for unemployment in 40 states with the same single Social Security number, receiving more than \$220,000 in unemployment benefits from 29 states.<sup>18</sup>

# 226,829

**THE NUMBER OF FRAUDULENTLY USED SOCIAL SECURITY NUMBERS FROM MARCH 2020 TO APRIL 2021 IN MULTIPLE STATES TO RECEIVE UI BENEFITS—WITH A PRICE TAG OF \$3.5 BILLION.**<sup>19</sup>



## Program Integrity Measures Are the Solution

When Congress removed the safeguards protecting states’ programs through pandemic-related “relief” for individuals facing hardship due to job loss, it created the perfect storm for fraud, waste, and abuse.<sup>20-21</sup> But this so-called “relief” backfired and cost states and businesses alike by quickly depleting UI trust funds, fueling a historic worker shortage, and opening the door to billions lost in fraudulent payments and overpayments to ineligible enrollees.<sup>22</sup>

To restore confidence in unemployment programs, states must use tools already at their disposal to detect fraud before it happens and prevent ineligible enrollees from drawing benefits to ensure resources are preserved for the truly needy. States can look to these commonsense reforms for robust solutions.

### PERFORM DATA CROSS-CHECKS

By sharing information with other state agencies such as new hire records, incarceration records, and death records, states can cross-check claims with existing data.<sup>23</sup> States should also be actively participating in the National Association of Workforce Agency’s Integrity Data Hub to check for multi-state claimant schemes and other fraudulent activity.<sup>24</sup>



### FLAG SUSPICIOUS ACTIVITY

States should implement a system to flag suspicious activity to thwart ineligible enrollees from receiving benefits. States can do this by using multi-factor authentication, reviewing claims from duplicate IP addresses, mailing addresses, and bank accounts, and flagging potential ineligible claims for applicants who do not perform weekly job searches or are no-shows for prospective employers providing interviews.<sup>25</sup>



## RECOVER OVERPAYMENTS AND PROSECUTE UI FRAUD



States should rescind any waivers that excuse the recovery of certain overpayments, such as “good conscience” waivers that grant discretion to bureaucrats to not recover some overpayments.<sup>26</sup> States should also recover improper payments by using benefit and tax refund offsets and enforce greater penalties for committing UI fraud. State legislatures can require the recovery of unemployment overpayments to facilitate these efforts.

## INCREASE ACCURACY THROUGH TIMELY REPORTING AND REVIEWS



By creating checks and balances, states can strengthen administrative accuracy to determine UI eligibility. To accomplish this, state legislatures should provide oversight by requiring state workforce agencies to produce annual reports on program integrity. As part of these reports, leaders can also look for other ways to improve the program and identify weaknesses.

## States Have Saved Untold Amounts Thanks to Unemployment Program Integrity

States must establish safeguards by implementing robust program integrity measures to recover improper payments.<sup>27</sup> Fortunately, some states have heeded the call and thwarted potential overpayments and fraud thanks to implementing unemployment program integrity reforms.<sup>28</sup>

Research shows that states with robust program integrity are more successful at preventing and recovering fraud.<sup>29</sup> After Minnesota began utilizing the state directory of new hires in 2019, it flagged more than 1,500 new hire issues equaling nearly \$1.2 million in claims.<sup>30</sup> Similarly, when Washington began using the national directory of new hires in 2017, it detected nearly 4,200 cases of new hire matches between 2017 and 2019, totaling up to nearly \$3 million in claims.<sup>31</sup> New Jersey also identified nearly 275,000 “hits” over three years after implementing its use of the national directory of new hires, saving more than \$320 million in fraudulent claims.<sup>32</sup>



**Research shows that states with robust program integrity are more successful at preventing and recovering fraud.**



Meanwhile, after implementing cross-checks of incarcerated individuals, Ohio officials discovered more than 1,500 enrollees serving prison sentences had received unemployment insurance benefits.<sup>33</sup> And after the state lost nearly \$290 million to pandemic-related fraudulent unemployment insurance claims, Ohio implemented additional cross-checks using employer data, while increasing penalties relating to UI fraud.<sup>34</sup>

Finally, in Maine, more than \$200,000 in unemployment overpayments were “waived” from recovery between 2014 and 2017.<sup>35</sup> After this practice ended in 2018, the amount waived from recovery plummeted to zero.<sup>36</sup>

These cases—and others like them—demonstrate the effectiveness of commonsense program integrity reforms in protecting states’ UI trust funds and preserving resources for the truly needy.

## **BOTTOM LINE: States must reform their unemployment programs to protect resources.**

Unemployment fraud existed long before COVID-19, and it will continue to exist so long as policymakers allow it to. Through simple, proven reforms, policymakers have an opportunity to emulate the successful models of other states and protect their UI trust funds. And codifying these reforms is critical, as some states waived program integrity requirements administratively during COVID-19, opening up states to waste, fraud, and abuse.<sup>37-38</sup>

Through performing data cross-checks, flagging suspicious activity, recovering overpayments, prosecuting fraud, and timely reporting, states can and should take action to preserve their UI resources.

## REFERENCES

1. Alli Fick and Jonathan Ingram, "Top five unemployment insurance fraud schemes—And how to stop them," Foundation for Government Accountability (2021), <https://thefga.org/research/top-five-ui-fraud-schemes>.
2. Hayden Dublois and Jonathan Ingram, "How indexing unemployment can restore state trust funds, cut taxes, and grow the workforce in the wake of COVID-19," Foundation for Government Accountability (2021), <https://thefga.org/research/indexing-unemployment-in-the-wake-of-covid19>.
3. CBPP, "Policy basics: How many weeks of unemployment compensation are available?," Center on Budget and Policy Priorities (2023), <https://www.cbpp.org/research/economy/how-many-weeks-of-unemployment-compensation-are-available>.
4. Alli Fick, "How unemployment benefits have become the new welfare—And how to fix it," Foundation for Government Accountability (2021), <https://thefga.org/research/unemployment-benefits-the-new-welfare>.
5. Office of Unemployment Insurance, "IPIA overpayment rate by quarter & state, 2021 report," U.S. Department of Labor (2021), [https://oui.doleta.gov/unemploy/bam/2021/IPIA\\_17\\_PIIA\\_21\\_Overpayment\\_Rate\\_by\\_Quarter\\_&\\_State.xlsx](https://oui.doleta.gov/unemploy/bam/2021/IPIA_17_PIIA_21_Overpayment_Rate_by_Quarter_&_State.xlsx).
6. Felix Salmon, "Half of the pandemic's unemployment money may have been stolen," Axios (2021), <https://www.axios.com/2021/06/10/pandemic-unemployment-fraud-benefits-stolen>.
7. U.S. Department of Labor, "2019 calendar year data," U.S. Department of Labor (2020), <https://www.dol.gov/sites/dolgov/files/ETA/UIOverpayment/XLS/2019Quarter1YearData.xlsx>.
8. Hayden Dublois and Jonathan Ingram, "How indexing unemployment can restore state trust funds, cut taxes, and grow the workforce in the wake of COVID-19," Foundation for Government Accountability (2021), <https://thefga.org/research/indexing-unemployment-in-the-wake-of-covid19>.
9. Office of Inspector General, "Covid-19: ETA and states did not protect pandemic-related UI funds from improper payments including fraud or payment delays," U.S. Department of Labor (2022), <https://www.oig.dol.gov/public/reports/oa/2022/19-22-006-03-315.pdf>.
10. Office of Unemployment Insurance Division of Fiscal and Actuarial Services, "State unemployment insurance trust fund solvency report 2022," U.S. Department of Labor (2022), <https://oui.doleta.gov/unemploy/solvency.asp>.
11. Hayden Dubois, "Michigan's unemployment system is broken—But can be fixed," Foundation for Government Accountability (2022), <https://thefga.org/research/michigan-unemployment-system-broken>.
12. Arkansas Department of Commerce, "Department of Commerce audit findings for the year ended June 30, 2020," State of Arkansas (2022), <https://www.arkleg.state.ar.us/Calendars/Attachment?committee=003&agenda=25113&file=Department+of+Commerce+Audit+Findings.pdf>.
13. James Finn, "Labor Department has paid hundreds of thousands of dollars in fraudulent claims," VTDigger (2021), <https://vtdigger.org/2021/05/03/labor-department-has-paid-hundreds-of-thousands-of-dollars-in-fraudulent-claims>.
14. United States Attorney's Office, Central District of California, "Rapper who bragged about COVID-related jobless benefits scam agrees to plead guilty to federal fraud and firearm charges," U.S. Department of Justice (2022), <https://www.justice.gov/usao-cdca/pr/rapper-who-bragged-about-covid-related-jobless-benefits-scam-agrees-plead-guilty>.
15. The official music video has more than 250,000 views. Fat Wizza and Nuke Bizzle, "EDD," YouTube (2020), <https://www.youtube.com/watch?v=K0ck7hTsug8>.
16. United States Attorney's Office, Central District of California, "Rapper who bragged about COVID-related jobless benefits scam agrees to plead guilty to federal fraud and firearm charges," U.S. Department of Justice (2022), <https://www.justice.gov/usao-cdca/pr/rapper-who-bragged-about-covid-related-jobless-benefits-scam-agrees-plead-guilty>.
17. Carolyn R. Hantz, "Alert memorandum: The Employment and Training Administration (ETA) needs to ensure State Workforce Agencies (SWA) implement effective unemployment insurance program fraud controls for high risk areas," Letter for the Office of Inspector General for the U.S. Department of Labor (2021), <https://www.oig.dol.gov/public/reports/oa/2021/19-21-002-03-315.pdf>.
18. Ibid.
19. Carolyn R. Hantz, "Alert memorandum: The Employment and Training Administration (ETA) needs to ensure State Workforce Agencies (SWA) implement effective unemployment insurance program fraud controls for high risk areas," Letter for the Office of Inspector General for the U.S. Department of Labor (2021), <https://www.oig.dol.gov/public/reports/oa/2021/19-21-002-03-315.pdf>.
20. Alli Fick, "How Unemployment Benefits Have Become the New Welfare—And How To Fix It," Foundation for Government Accountability (2023), <https://thefga.org/research/unemployment-benefits-the-new-welfare/>.
21. Sam Adolphsen, "Big Brother is driving the worker shortage," The American Spectator (2022), <https://spectator.org/big-brother-is-driving-the-worker-shortage>
22. Ibid.
23. Alli Fick and Jonathan Ingram, "Top five unemployment insurance fraud schemes—And how to stop them," Foundation for Government Accountability (2021), <https://thefga.org/research/top-five-ui-fraud-schemes>.
24. Ibid.

25. Hayden Dublois, "How states can recover unemployment insurance overpayments," Foundation for Government Accountability (2021), <https://thefga.org/research/states-recover-unemployment-insurance-overpayments>.
26. Office of Unemployment Insurance, "UI law comparison," U.S. Department of Labor (2022), <https://oui.doleta.gov/unemploy/pdf/uilawcompar/2022/complete.pdf>.
27. Alli Fick and Jonathan Ingram, "Top five unemployment insurance fraud schemes—And how to stop them," Foundation for Government Accountability (2021), <https://thefga.org/research/top-five-ui-fraud-schemes>.
28. Hayden Dublois, "How states can recover unemployment insurance overpayments," Foundation for Government Accountability (2021), <https://thefga.org/research/states-recover-unemployment-insurance-overpayments>.
29. Ibid.
30. Authors' calculations using ETA 227 overpayment detection and recovery data. See, e.g., Office of Unemployment Insurance, "Data downloads," U.S. Department of Labor (2023), <https://oui.doleta.gov/unemploy/DataDownloads.asp>.
31. Ibid.
32. Ted Sherman, "NJ targeting unemployment insurance fraud; the check may not be in the mail," New Jersey Department of Labor (2014), [https://nj.gov/labor/lwdhome/press/2014/20140623\\_uifraud.html](https://nj.gov/labor/lwdhome/press/2014/20140623_uifraud.html).
33. Laura A. Bischoff, "Ohio targeting prisoners who collect unemployment," Dayton Daily News (2017), <https://www.daytondailynews.com/news/ohio-targeting-prisoners-who-collect-unemployment/qv7d5JbQ38W5oZUhr3jPnJ>.
34. Ballotpedia, "Unemployment insurance fraud in Ohio," Ballotpedia (2023), [https://ballotpedia.org/Unemployment\\_insurance\\_fraud\\_in\\_Ohio](https://ballotpedia.org/Unemployment_insurance_fraud_in_Ohio).
35. Authors' calculations using ETA 227 overpayment detection and recovery data. See, e.g., Office of Unemployment Insurance, "Data downloads," U.S. Department of Labor (2023), <https://oui.doleta.gov/unemploy/DataDownloads.asp>.
36. Ibid.
37. Office of Unemployment Insurance, "Pandemic Flexibilities," U.S. Department of Labor (2020), <https://oui.doleta.gov/unemploy/pdf/pandemicflexibilities2.pdf>.
38. Illinois Employment Security Advisory Board, "June 18, 2020 Minutes," Illinois Department of Employment Security (2020), [https://ides.illinois.gov/content/dam/soi/en/web/ides/tools\\_resources/esab\\_employment\\_securityadvisoryboard/june2020-ESAB-minutes.pdf](https://ides.illinois.gov/content/dam/soi/en/web/ides/tools_resources/esab_employment_securityadvisoryboard/june2020-ESAB-minutes.pdf).



15275 Collier Boulevard | Suite 201-279  
Naples, Florida 34119  
(239) 244-8808

[TheFGA.org](http://TheFGA.org) | [@TheFGA](https://twitter.com/TheFGA) | [TheFGA](https://www.instagram.com/TheFGA) | [TheFGA](https://www.facebook.com/TheFGA)