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BUDGET SPOTLIGHT

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Unemployment Insurance: Budgetary History and Projections

The Unemployment Insurance (UI) system provides temporary weekly benefits to qualified workers who are unemployed through no fault of their own. The system is run jointly by the states and the federal government.

- The states administer the system under federal laws and regulations, set regular benefit amounts, specify eligibility requirements, and distribute benefit payments.
- The federal government sets broad guidelines for the system, pays a portion of states' administrative costs, and advances funds to states if they lack the money to pay benefits promptly.

Funding for UI is drawn from payroll taxes levied primarily on employers (by state governments and by the federal government).

Benefit payments and tax receipts flow through the Unemployment Trust Fund (UTF) in the U.S. Treasury and are considered federal spending and revenues. That fund directly links revenues and distributions for the permanently authorized unemployment programs. Each state has an account in the UTF. States can accumulate balances during periods of low unemployment, draw down those balances when benefit expenditures exceed tax receipts, and borrow from the federal government when balances are insufficient to cover benefits.

Notes: Unless otherwise indicated, all years referred to in this report are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end. All amounts are in nominal dollars (not adjusted for inflation). Numbers may not sum to totals because of rounding. The shaded vertical bars in the figures indicate recessions, which begin just after a peak in economic activity and run through the subsequent trough.

This brief is one of a series of reports describing trends in funding and spending for particular federal programs and how the Congressional Budget Office accounts for those trends when preparing its baseline and cost estimates.

What Programs Provide Unemployment Benefits and to Whom?

Within the UI system, there are two programs that are permanently authorized and provide unemployment benefits: regular unemployment insurance and extended benefits (EB). Outlays for regular and extended benefits are classified as direct spending.[1] Lawmakers have authorized additional, temporary unemployment compensation programs during periods of high unemployment nationwide.

Regular UI

Regular unemployment insurance is the program through which workers who have lost their job involuntarily receive weekly cash benefits. Workers receive those benefits regardless of the national unemployment rate or the unemployment rate in the state in which they live. Benefit amounts are based in part on workers' past earnings. People who are self-employed, are not actively seeking work, or lack a recent earnings history are typically ineligible for regular UI benefits.

In general, roughly one-third of unemployed workers claim regular UI benefits, although a larger proportion of workers are eligible for and claim benefits during periods of high unemployment. Most aspects of UI benefits, including amounts, eligibility, and duration, are set in law by each state, so UI programs differ from state to state.[2] Most states allow unemployed workers to claim up to 26 weeks of benefits, although under certain circumstances some states offer fewer weeks and others offer more. The proportion of lost wages covered by the average weekly benefit also varies by state; in 2023, regular UI benefits replaced roughly 40 percent of covered workers' lost wages, on average.[3] In fiscal year 2023, outlays for regular UI benefits totaled about $31 billion.

Extended Benefits

If certain measures of high unemployment in a state are met, then regular UI benefits may be extended at the state level through the permanent Extended Benefits program.[4] That program provides up to 13 or 20 additional weeks of benefits to certain workers who have exhausted their regular UI benefits.

Outlays for the EB program totaled less than $400 million in 2023 because some people received benefits for weeks of unemployment prior to 2023—namely, during the COVID-19 pandemic. (Extended benefits were not available to workers who became unemployed in 2023 because no state met the definition of high unemployment in that year.)

Temporary Programs

When unemployment is high nationally, lawmakers often enact temporary programs to provide additional benefits to unemployed workers. Most recently, in response to the pandemic, lawmakers authorized various programs. Among them were programs that provided additional weeks of benefits to workers who exhausted their regular UI, provided a benefit for unemployed workers who did not typically qualify for regular UI, and boosted weekly benefits for all unemployed workers. Spending on those programs was significantly higher than spending on temporary programs authorized during earlier recessions. As of the end of 2023, total outlays since 2020 for those programs equaled $664 billion (see Figure 1).[5]

What Are CBO's Baseline Projections for Spending on Unemployment Benefits?

In the Congressional Budget Office's January 2025 baseline, the agency projected that outlays for regular UI would grow from about $40 billion in 2025 to $59 billion in 2035, and outlays for EB would grow from around $55 million in 2025 to about a quarter of a billion dollars in 2035.[6] For regular UI benefits, CBO's projections are based on the agency's forecast of the unemployment rate, labor force participation, and other economic variables, as well as historical data about the number of people who receive benefits, the amount they receive, and for how long. For extended benefits, CBO's

1. Direct (also called mandatory) spending is the budget authority provided by laws other than appropriation acts and the outlays that result from that budget authority.

2. Department of Labor, Employment and Training Administration, "Comparison of State Unemployment Laws 2023" (updated April 18, 2024), https://tinyurl.com/3k92rn36.

3. Department of Labor, Employment and Training Administration, "UI Replacement Rates Report" (updated April 18, 2024), https://tinyurl.com/hxr6rufk.

4. For more information about how extended benefits are triggered, see Julie M. Whittaker and Katelin P. Isaacs, *Unemployment Insurance (UI) Benefits: Permanent-Law Programs and the COVID-19 Pandemic Response*, Report for Congress R46687, version 11 (Congressional Research Service, January 31, 2022), https://tinyurl.com/4uan7jjb.

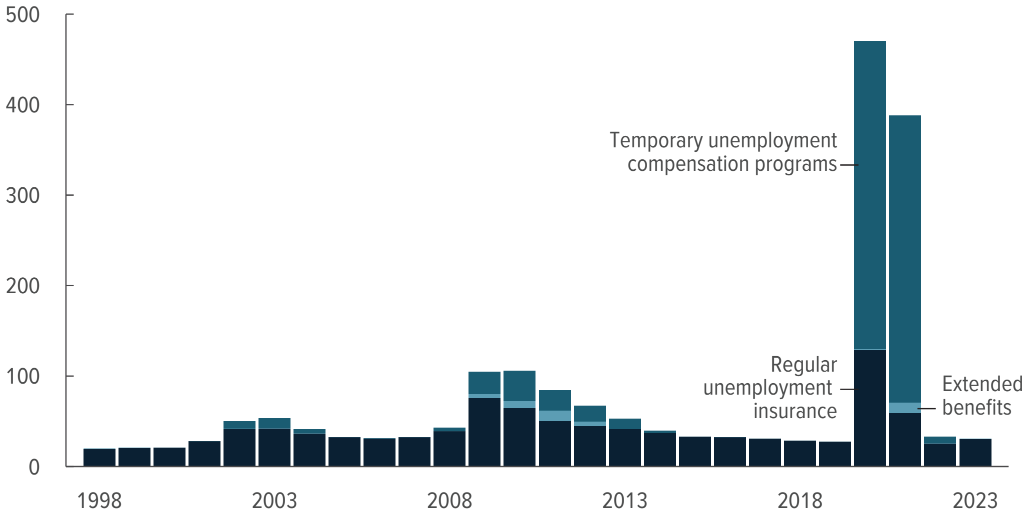
5. That $664 billion is the total amount of outlays (including for the collection of overpayments) for weeks of unemployment that occurred during 2020 and 2021. Benefit adjudication, overpayment investigation, administrative delays, and other factors caused some outlays to occur after those programs expired.

6. Congressional Budget Office, *The Budget and Economic Outlook: 2025 to 2035* (January 2025), www.cbo.gov/publication/60870. Also see CBO's baseline projections for unemployment compensation, available at https://tinyurl.com/3rytwp75.

Figure 1.

Outlays for Unemployment Compensation, by Program

Billions of dollars



Lawmakers have acted several times in the past 25 years to provide temporary additional unemployment benefits in response to recessions that began in 2002, 2008, and 2020.

Data source: Congressional Budget Office, using data from the Department of Labor. See www.cbo.gov/publication/60776#data.

a. In 2023, outlays for temporary unemployment compensation programs were negative because recovered overpayments of benefits (which are considered offsetting receipts) were greater than benefit payments. (Offsetting receipts are funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are credited to a receipt account. They are treated for budgetary purposes as negative budget authority and outlays.) That difference of $0.6 billion is too small to be visible in the figure.

projections of outlays are based on the probability that some states will have high unemployment, triggering those states to pay extended benefits.

How Are Unemployment Benefits Funded?

Unemployment benefits are funded through payroll taxes levied by state governments and by the federal government.

Using authority granted to them by the State Unemployment Tax Act (SUTA), states levy taxes on employers to fund 100 percent of regular UI benefits and 50 percent of extended benefits. SUTA taxes are levied as a percentage of each employee's earnings, up to a maximum taxable wage base (that is, the amount of earnings subject to the tax). The minimum and maximum tax rates vary widely by state, as does the taxable wage base.[7] The rate paid by an employer is based on that employer's "experience rating," which is the amount of unemployment benefits paid to its former employees relative to the firm's total number of employees. For that reason, tax rates are higher for employers whose former employees claim more unemployment benefits. SUTA tax revenues tend to be higher in the years following high unemployment, in part because many employers have higher tax rates.

The federal government pays for the other 50 percent of extended benefits and for the costs of administering UI benefits (although many states provide supplemental funding for administrative costs). It also makes repayable advances to states when they do not have enough in their trust fund accounts to pay benefits. Funds to pay those expenses come from a payroll tax imposed on employers through the Federal Unemployment Tax Act (FUTA) and deposited into federal accounts in the UI trust fund.[8] The FUTA tax rate for employers is 6.0 percent

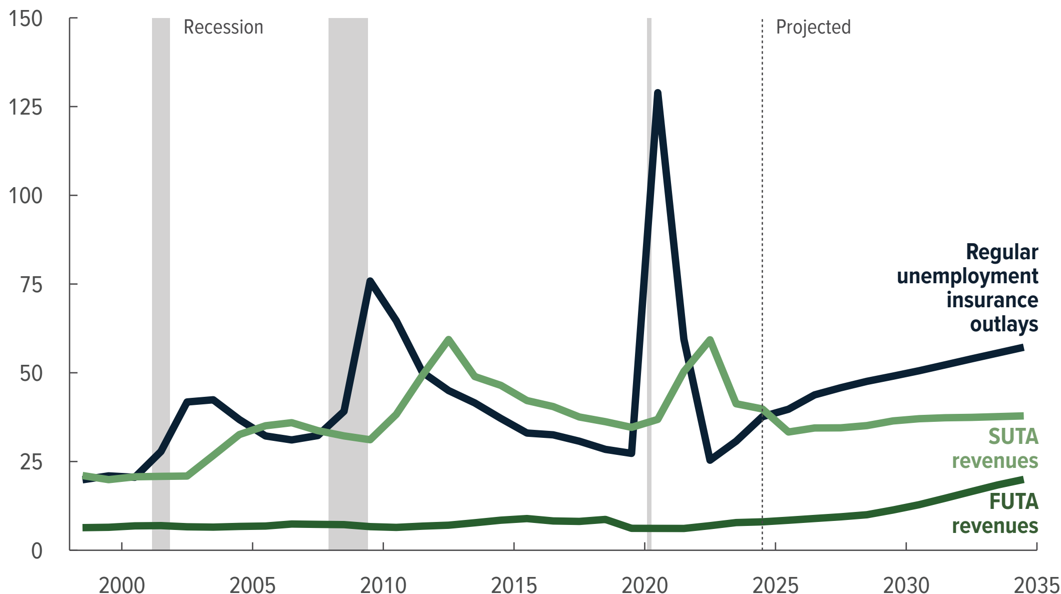
7. For more information on current tax rates and wage bases by state, see Department of Labor, Employment and Training Administration, "Significant Provisions of State Unemployment Insurance Laws" (updated October 30, 2024), https://tinyurl.com/3vrtpr6p.

8. If the balances in federal accounts in the UI trust fund reach statutory limits, any excess funding is transferred to state accounts in the UI trust fund without further legislative action from lawmakers. (That process is referred to as a Reed Act distribution.) Those distributions are rare; the last occurred in 1998. In CBO's projections, no Reed Act distributions occur over the next 10 years. For additional information about accounting mechanisms in the UI trust fund, see Katelin P. Isaacs and Julie M. Whittaker, *The Unemployment Trust Fund: FY2024 Income, Outlays, and End-of-Year Balances,* Report for Congress R48062, version 3 (Congressional Research Service, May 8, 2024), https://tinyurl.com/bdfyeezj.

Figure 2.

Outlays for Regular Unemployment Insurance and Revenues From State and Federal Unemployment Taxes

Billions of dollars



SUTA tax revenues are typically higher in the years following increases in regular UI outlays. In response to the coronavirus pandemic, though, lawmakers temporarily provided funding for some regular UI benefits, so states did not need to collect as much in SUTA revenues to replenish their trust fund accounts as they would have without that additional federal funding.

Data sources: Congressional Budget Office; Department of Labor. See www.cbo.gov/publication/60776#data.

The projections for 2025 to 2035 are from CBO's January 2025 baseline; see *The Budget and Economic Outlook: 2025 to 2035*, www.cbo.gov/publication/60870. Actual outlays and revenues for 2024 are based on preliminary information from the Department of the Treasury.

FUTA = Federal Unemployment Tax Act; SUTA = State Unemployment Tax Acts; UI = unemployment insurance.

on the first $7,000 of each worker's earnings, but many employers receive a credit of 5.4 percent for SUTA taxes paid, resulting in a net FUTA payroll tax of 0.6 percent. (That credit is based on the amount the employer has paid in SUTA taxes and whether the state has any outstanding repayable advances.)

To fund emergency unemployment benefit programs, lawmakers have frequently authorized the use of revenues from the general fund of the Treasury rather than from dedicated payroll taxes. That occurred most recently with the programs authorized in response to the pandemic.

In 2023, SUTA revenues totaled about $41 billion, and FUTA revenues totaled almost $8 billion (see Figure 2). For 2025, CBO projected that states would collect $33 billion in SUTA revenues, and the federal government would collect more than $8 billion in FUTA revenues. CBO's projections of SUTA and FUTA taxes are largely based on projected employment and projected benefit payments.

How Is Funding for State Administration Determined?

Lawmakers appropriate funding for states' UI-related administrative activities, which include reviewing eligibility, making payments, and helping claimants find employment. Typically, lawmakers provide that funding annually from a federal account in the Unemployment Trust Fund, but the law does not stipulate that the amount must be based on previous years' FUTA collections or on the balances in the federal trust fund. The Department of Labor (DOL) distributes that funding among states on the basis of their population, UI caseloads, and other administrative factors. In 2024, appropriations totaled $4 billion for state administration and employment services.

As required by section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 (Public Law 99-117), CBO's baseline projections of UI administration start with the most recent amount appropriated and then adjust that funding for each year of the 10-year projection period to account for anticipated inflation and

changes in the beneficiary population.[9] Those appropriations are subject to the limits on discretionary funding put in place for 2024 and 2025 by the Fiscal Responsibility Act of 2023 (P.L. 118-5). (The limits on discretionary budget authority can be adjusted for specific activities, including UI program integrity activities, but those adjustments also are limited. Program integrity activities are actions that ensure program funds are spent correctly, including actions to prevent fraud, waste, and abuse.)

Annual appropriation acts typically authorize additional funding for administrative activities under certain circumstances. That funding becomes available to states when the number of unemployment claims expected to be filed per week nationally (called average weekly insured unemployment, or AWIU) exceeds a specified volume. For example, the Further Consolidated Appropriations Act of 2024 (P.L. 118-47) appropriated $28.6 million for every 100,000 claims above 3,075,000. Based on its projection of the probability that the AWIU would exceed that threshold, CBO estimated that the provision would result in an additional $5 million being provided to states in 2024; ultimately, the AWIU did not exceed that threshold, and states did not receive any additional funding.

How Does the Federal Budget Reflect Repayable Advances Made to States?

If a state does not have a sufficient balance in its UTF account to pay benefits, the state can receive a repayable advance from the federal government. Those advances to states ensure that benefits are paid on time and are recorded in the federal budget as intragovernmental transfers within DOL.

States are not charged interest on the advances if they repay them by the end of the fiscal year in which they were granted and meet other criteria. If states do not meet those criteria and thus incur interest charges on the advances, the interest paid is recorded as an offsetting receipt in the federal budget.[10] During recent recessions, lawmakers temporarily suspended the accrual and collection of interest on repayable advances. For example, legislation enacted during the pandemic waived the interest on repayable advances made from March 18, 2020, to September 6, 2021.

States can repay those advances in a few ways:

- In some cases, as states' economies improve, SUTA revenues may naturally increase and benefit outlays decrease, enabling states to repay the advances.
- States may raise their UI taxable wage base or tax rates to increase the amount they collect, or they may reduce benefit amounts or duration to decrease the amount of benefits paid relative to the amount of taxes being collected. Or they may do both.
- States can repay the trust fund by issuing bonds or using other state funds.

If a state does not repay its advance within a certain period, the FUTA credit for state taxes paid is automatically reduced, effectively raising the FUTA tax rate, and the difference in the amounts collected by applying the old and new rates is retained by the federal government to repay the advance.[11] States cannot pay the interest on advances using SUTA revenues; they must use general state revenues or other measures.

At the end of fiscal year 2024, three states had outstanding advances totaling $26 billion (see Figure 3).[12] Five states had paid $0.6 billion in interest on their advances. Those states are projected to pay back the advances over the next decade, but states may require advances over the same period.

How Does CBO Show Changes in Revenues That Result From Changes to UI Outlays?

Consistent with historical experience, CBO expects that over time states will maintain a balance in their accounts so that changes in benefits paid will be offset by changes in revenues collected. For example, if spending for UI

9. For most other discretionary programs, the Deficit Control Act requires CBO to adjust its baseline projections only for inflation. See Congressional Budget Office, *CBO Explains the Statutory Foundations of Its Budget Baseline* (May 2023), www.cbo.gov/publication/58955.

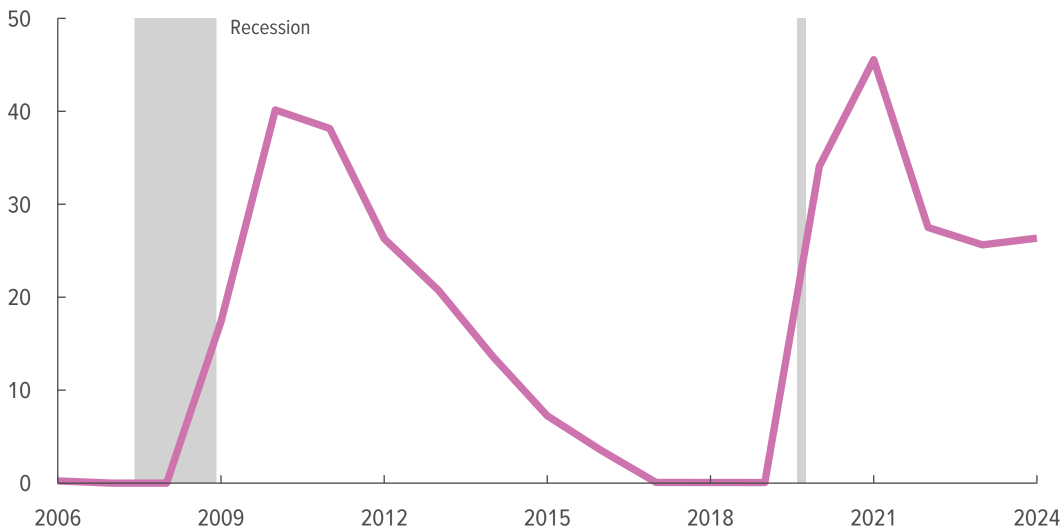
10. Offsetting receipts are funds collected by government agencies from other government accounts or from the public in businesslike or market-oriented transactions that are credited to a receipt account. They are treated as negative budget authority and outlays for budgetary purposes.

11. For more details about repayable advances and FUTA increases, see Julie M. Whittaker, *The Unemployment Trust Fund (UTF): State Insolvency and Federal Loans to States*, Report for Congress RS22954, version 55 (Congressional Research Service, January 13, 2023), https://tinyurl.com/3ntaehxd.

12. Department of the Treasury, "Advances to State Unemployment Funds (Social Security Act Title XII)," https://tinyurl.com/mtaw9skw.

Figure 3.

Aggregate Amount of Outstanding Repayable Advances Made to States as of the End of Each Fiscal Year



Outstanding repayable advances fell to near zero before the coronavirus pandemic but then rose. If states borrowed funds from sources other than the federal government, the amounts borrowed would not be included in the aggregate outstanding repayable advances, and any interest paid on those loans would not be shown on the federal budget.

Data source: Congressional Budget Office, using data from the Department of the Treasury. See www.cbo.gov/publication/60776#data.

benefits increased, CBO would estimate that deposits of state payroll taxes into those accounts over the following years also would rise. Those increases in revenues typically lag the increased spending by a few years.

On net, CBO expects that changes in revenues would not completely offset changes in spending because paying additional taxes for unemployment insurance would cause employers to pay less in other kinds of taxes, thus reducing the base of income taxes and other payroll taxes. That is, gross collections would be partially offset by a loss of other receipts.

Unemployment benefits are generally considered taxable income for federal taxes, and changing the amount of unemployment benefits that people receive may alter their taxable income. When estimating the cost of legislation for budget enforcement purposes, CBO and the staff of the Joint Committee on Taxation do not include changes in income tax revenues that result from changes in benefit amounts received through taxable federal transfer programs or subsidies, including unemployment benefits. (In this case, subsidies refer to cash or near-cash federal subsidies, which are benefits that the government provides to individuals, businesses, or institutions, usually to remove a burden or promote a social good.) That budgetary treatment is based on a long-standing agreement with the Budget Committees. Nevertheless, revenues would be affected by such benefit payments, and those effects would be reflected in CBO's baseline budget projections if the legislation was enacted.

What Are Improper Payments and Why Are They Important?

Benefit programs sometimes make payments in error. Improper payments are ones that should not have been made or that were made in an incorrect amount, including both underpayments and overpayments, or those that were made in the correct amount but with improper documentation.[13] Not all improper payments are fraud; some are the result of human error.

The Office of Management and Budget regularly designates UI as a "high priority" program because estimates of improper payments in the UI program total more than $100 million annually.[14] Actions by claimants, their employers, and state agencies can cause improper UI payments. Common reasons for improper payments in the UI program include issues around claimants' work search, benefit-year earnings, or eligibility for benefits (based on the reasons they separated from their previous

13. For more on improper payments, see Department of the Treasury, "PaymentAccuracy," www.paymentaccuracy.gov.

14. For a list of the programs in 2023 and 2024 at the highest risk of improper payments, see Department of the Treasury, "PaymentAccuracy: High-Priority Programs," https://tinyurl.com/245f8xfk.

employer or because a claimant or employer did not provide accurate documentation).

For 2023, DOL estimated that improper payments in the UI program totaled more than $4 billion, or about 13 percent of total unemployment benefits paid.[15] The estimated improper payments from fraud were less than 3 percent of total benefits paid. However, those estimates do not represent total overpayments that states can necessarily recover. To recover overpayments, states must establish that a specific payment was made in error and then follow certain administrative and legal processes to recover it. In the minority of cases, some states waive nonfraud overpayments if the claimant was not at fault. In 2023, states identified $1.8 billion of improper payments, less than a third of which were established as fraud. In that same year, about $0.9 billion was recovered. (Those amounts include benefit payments made before 2023.) Determinations of overpayments, definitions of fraud, and processes to investigate and recover payments vary by state, although all states must judge whether an overpayment was caused by fraud and cannot waive recovery for fraudulent payments.

Estimates of improper payments and fraud for the pandemic's emergency unemployment programs are higher than rates of improper payments for regular UI before the pandemic.[16] Two main issues contributed to that increase. First, during the pandemic, unemployment claims surged suddenly in 2020. Second, all unemployment benefit amounts increased substantially, and the Pandemic Unemployment Assistance (PUA) program allowed people who did not normally qualify for unemployment insurance to receive benefits. Initially, PUA participants could self-certify that they were unable to work, unlike recipients of regular UI; additional program eligibility and documentation requirements were added several months later.

Those issues put a large burden on state workforce agencies. They struggled to review claims quickly, hire additional staff, and adapt their information technology systems to administer the new programs—all while reviewing and investigating fraudulent claims.[17] Although states received additional administrative funding for those activities during the pandemic, federal funding for the administration of UI benefits, as well as overall unemployment claims, had declined between 2010 and 2019.

How Does CBO Evaluate Proposals Related to UI Program Integrity?

In general, program integrity activities for UI include decreasing improper payments, preventing tax avoidance and tax rate manipulation, and ensuring that eligible workers can claim benefits.[18] Specific activities vary by state on the basis of laws and priorities, but all states take steps to verify claimants' identity and work history, recover overpayments of benefits, and identify and prevent fraud. Those activities are funded by annual appropriations for the administration of the UI program. (Some states also use their own funds for program integrity activities.)

When CBO estimates the budgetary effects of proposals to improve UI program integrity, it considers available evidence about whether the policy would have a measurable effect on benefit payments, tax collections, or the recovery of improper payments. Providing more funding for program integrity activities broadly would not necessarily reduce benefit spending or increase revenues.[19]

Any particular proposal's effects on the federal budget would depend on how the proposal altered each state's current activities and how states financed any changes to those activities. Each state faces its own challenges related to improving program integrity and uses various methods to address those challenges. If states were required to undertake additional activities without receiving additional funding, CBO would consider whether the proposal would direct resources away from existing program integrity activities.

15. Department of Labor, Employment and Training Administration, "Data," https://tinyurl.com/539d3nhu.

16. Testimony of Gene L. Dodaro, Comptroller General of the United States, Government Accountability Office, before the House Committee on Ways and Means, *Unemployment Insurance: DOL Needs to Address Substantial Pandemic UI Fraud and Reduce Persistent Risks*, GAO-23-106586 (February 8, 2023), www.gao.gov/assets/gao-23-106586.pdf.

17. Government Accountability Office, *Unemployment Insurance: Pandemic Programs Posed Challenges, and DOL Could Better Address Customer Service and Emergency Planning*, GAO-22-104251 (June 2022), www.gao.gov/assets/d22104251.pdf; and Department of Labor, Employment and Training Administration, *PUA Improper Rate Report* (August 2023), https://tinyurl.com/43v2p4h2.

18. Department of Labor, Employment and Training Administration, *Unemployment Insurance Program Integrity Strategic Plan: Fiscal Year 2023 Actions*, https://tinyurl.com/2s4evnjb.

19. For example, see Congressional Budget Office, cost estimate for H.R. 1163, the Protecting Taxpayers and Victims of Unemployment Fraud Act (March 21, 2023), www.cbo.gov/publication/59019.

When a proposal provides funding for many types of activities, the effect on program integrity and administration, and the resulting effect on outlays, may not be clear. For example, the American Rescue Plan Act of 2021 (P.L. 117-2) provided $2 billion in additional funding for federal and state administrative activities.[20] DOL had broad authority to grant that funding to state workforce agencies for fraud prevention, claims processing, and UI system changes. With that funding, states could have taken actions that decreased benefit outlays (such as through activities that reduced improper payments) or taken actions that increased those outlays (by making it easier for individuals to claim benefits). Alternatively, states could have improved UI administration so they would have been more prepared to handle another large influx of claims or programmatic expansion in the future. Because CBO lacked sufficient information about how that funding would be used, it did not estimate that benefit outlays or revenues would change from the additional funding.

If CBO concludes that a program integrity proposal would measurably increase or decrease the amount of UI benefits paid, the agency estimates those effects, as well as any resulting changes in revenues (from adjustments that states would make to their SUTA taxes to maintain a balance in their trust fund accounts). However, not all such effects would be included in estimates used for budget enforcement purposes.[21] In particular, some effects may not be included if they result from changes in funding for administrative or program integrity activities.

When providing budgetary information to the Congress, CBO follows a set of principles that include 16 scorekeeping guidelines.[22] Two of those guidelines—numbers 3 and 14—have implications for whether the effects of program integrity proposals are included in estimates used for budget enforcement. In estimating the cost of appropriation bills prepared for budget enforcement purposes, CBO is directed by guideline 3 to exclude anticipated changes to mandatory spending or revenues that may result if the bill only increases or decreases discretionary funding for related activities (rather than making substantive changes to the way a program operates). Similarly, for such estimates, guideline 14 directs CBO to exclude any budgetary savings that might arise when mandatory funding is provided for program management or administration.

20. Of the $2 billion provided in 2021 to detect and prevent fraud, promote equitable access, and ensure the timely payment of benefits, $1 billion was subsequently rescinded by the Fiscal Responsibility Act of 2023.

21. For example, CBO previously estimated that increasing funding for the Reemployment Services and Eligibility Assessments program would decrease benefit outlays and revenues. That estimate was based on research showing that the program measurably decreased the number of weeks of benefits claimed by program participants. But those net savings were nonscorable (that is, not included in estimates prepared for budget enforcement purposes). See Congressional Budget Office, cost estimate for the Bipartisan Budget Act of 2018 (February 8, 2018), www.cbo.gov/publication/53556.

22. Congressional Budget Office, *CBO Explains Budgetary Scorekeeping Guidelines* (January 2021), www.cbo.gov/publication/56507.

This report was prepared to enhance the transparency of the work of the Congressional Budget Office. In keeping with CBO's mandate to provide objective, impartial analysis, it makes no recommendations.

Meredith Decker wrote the report with major contributions and coordination from Emily Stern and with guidance from Christina Hawley Anthony and Elizabeth Cove Delisle. Justin Falk, Kathleen FitzGerald, Ann E. Futrell, Xiaotong Niu, Brooks Pierce (formerly of CBO), Kurt Seibert, and Joshua Shakin provided comments. Mark Doms and Jeffrey Kling reviewed the report. Christine Bogusz edited it, and R. L. Rebach created the graphics and prepared the text for publication. The report is available at www.cbo.gov/publication/60776.

CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

Phillip L. Swagel
Director