

Memo

To: Department of Labor
From: TELI Team Larch: Marcela Alava, Mark Day, Lia Moeser, Katy Pusch, Leonard Speiser, Dee Vig
CC: White House
Date: November 6, 2020
Re: Providing Unemployment Assistance During Crisis

The federal-state system of unemployment insurance (UI) was designed to provide stop-gap income to workers who lost their jobs through no fault of their own and in turn provide a stabilizing effect on the economy. Over time, states built systems and processes for identity verification and claim payments. During normal times, unemployment is low, and unemployment claimants provide W-2s and state agencies are able to process claims without significant delays.

We propose a 2-pronged approach to deliver unemployment benefits to people faster, balancing it with automated fraud detection but without unduly burdening states. We propose:

- States use private ID verification companies to handle the increased load during crises (e.g., pandemics and recessions). The Federal government should:
 - Provide a list of certified companies that can provide ID verification
 - Negotiate costs and monitor service quality at the federal level
 - Offset some of the state's outsourcing costs and backend costs of integrating with external companies
- Creation of a centralized IP address monitoring system (similar to the successful Spamhaus email spam system)
 - Bad actors who generate a large number of fake applications would be flagged by IP addresses and states would deprioritize their processing

With COVID-19 and the subsequent CARES Act, which made UI available to independent contractors and other workers normally ineligible for UI, states went from processing 218,000 claims per week to 2.5 million claims per week (more than a 1,000% increase). States also cannot rely on getting W-2s for identity and wage verification.

Fraudulent unemployment claims using stolen personally identifiable information (PII) have also increased dramatically since the passing of the CARES Act in March 2020. To combat fraudulent claims, states heavily engage human adjudicators for further validation. As a result, states are facing a backlog of claims, and claimants are facing processing times of 10 weeks or longer rather than the standard 3 weeks. This creates a huge burden for households which in turn has a destabilizing effect on the economy.

If states could hire enough people quickly, they could get through the backlog, but they have neither the budget or the need for that many people during normal times. Also, hiring alone is not sufficient. Training is essential and even basic training takes ~6 months.

- Complex rules and regulations can make the work even more specialized. In California, for example, recomputation takes 3+ years of experience, schooling, and formal testing.
- Training of new employees has to be done by experienced staff who are consequently not able to do their normal work. Paradoxically, adding new staff results in throughput decline until the new staff is adequately trained. In California, for example, it now takes 2-5 times as long to do recomputations compared to pre-pandemic times.
- The pandemic also forced an abrupt move to remote training and remote work, which is difficult to get right even for experienced employees.

Recommendations

- Grant \$250M (\$5M per state) to update systems to support third party ID verification and fraud detection
- Grant \$250M (\$5 per applicant, up to 50M applicants) to states to cover the cost of outsourced ID verification when their unemployment backlog exceeds 3 weeks.