

Holding the Line

Unemployment insurance

State solutions to the U.S. worker rights crisis

Report • By **Daniel Perez** • September 29, 2025

What does current federal law say about unemployment insurance?

Established in the wake of the Great Depression through the Social Security Act of 1935, unemployment insurance (UI) is a critical safety net program that provides a partial replacement of wages to workers who have separated from employment. UI helps workers and their families afford their basic needs during spells of unemployment. It also helps stabilize the macroeconomy by **keeping dollars flowing to local economies** where layoffs and job losses could otherwise result in harmful drops in aggregate demand. UI is a forward-funded reserve, accumulating tax dollars during periods of economic stability to support workers during economic downturns.

Federal law establishes UI as federal-state partnership. Under the existing framework, the federal government sets baseline program parameters and raises revenue through Federal Unemployment Tax Act taxes to cover state administrative costs (e.g., processing claims or maintaining state unemployment trust funds), provide technical assistance, and conduct performance monitoring. States are responsible for paying worker benefits, although the federal government typically covers at least half of the cost of “extended benefits” during recessions. States have significant discretion to determine key features of their UI programs, such as eligibility criteria, benefit amounts and durations, and financing mechanisms.

What are the threats to state UI programs?

Unemployment insurance programs face mounting threats—some that are new, some from long-standing structural weaknesses that have left many state UI programs chronically underfunded and ill-prepared for economic downturns. In particular:

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1. **The Trump administration aims to weaponize UI systems to advance its mass deportation agenda:** All workers in the U.S. with legal status (regardless of citizenship or nationality) are eligible for UI benefits, though immigrants who lack work authorization are not. Despite this distinction, in April 2025, Secretary of Labor Lori Chavez-DeRemer issued **letters** warning state governors against granting UI benefits to noncitizen workers, including those legally authorized to work. The letters threatened to withhold federal funds and directed states to verify the immigration status of UI applicants. Further, the U.S. Department of Labor recently **proposed a rule change** around UI data collection that **poses risks to applicant privacy** and could expand the risk of UI data being used for immigration enforcement.
2. **The Trump administration's rollback of merit staffing opens the door to UI privatization:** Project 2025 calls for states to “innovate” with their UI programs by **approving “non-public” organizations** to administer benefits. This would dismantle **long-standing merit staffing guidelines** that require benefits to be administered by impartial career civil servants. Weakening merit staffing risks putting UI administration in the hands of actors who may not be impartial or accountable to the public. Although privatization of UI is explicitly prohibited by the Social Security Act, this backdoor approach erodes the public nature of UI administration. Research shows that introducing **a profit motive** for vital public services often results in **reduced service quality, little cost savings**, and less transparency, oversight, and accountability.
3. **UI programs suffer from long-standing weaknesses that undermine their effectiveness as a safety net and economic stabilizer:** Although unemployment insurance is a critical lifeline for unemployed workers, benefit levels **replace less than 40% of wages** on average, leaving many workers **unable to meet their basic needs** and **disproportionately discouraging UI take-up among women and workers of color in low-wage jobs**. Many states have also **shortened benefit durations** below the historical standard of 26 weeks, despite research showing such cuts **reduce reciprocity** without **improving employment rates** or **program solvency**. At the same time, **taxable wage bases and employer tax rates** have eroded, **starving trust funds**. Most states now fail to meet **federal solvency standards**. Many states also rely on outmoded technology and understaffed state agencies to administer UI benefits and federal funding to modernize state UI systems was recently **rescinded by the Trump administration**. Finally, **restrictive eligibility rules** exclude large swaths of the workforce, including **part-time and low-wage workers, women, Black and brown workers, misclassified workers**, independent contractors, undocumented workers, and the self-employed. These weaknesses leave UI programs chronically underfunded, inaccessible to millions, and ill-equipped to protect workers or stabilize the economy during downturns.
4. **Project 2025 seeks to weaken UI eligibility criteria by circumventing suitable work standards:** Under federal law, workers can remain eligible for UI if they decline job offers that don't meet a reasonable standard of suitability. Suitability definitions can vary by state but often consider factors such as health and safety conditions, wages, skills match, commuting distance, or other job characteristics when determining suitability. Some states' suitable work requirements weaken the longer a worker is unemployed. Despite evidence that continued UI eligibility leads to better job

matches and job quality, Project 2025 proposes providing states with **waivers to suitable work requirements**. Should waivers to this critical UI standard be adopted, workers could be disqualified from UI for turning down *any* job offer, no matter how unsafe, low-paid, or ill-suited to their experience. This would fundamentally weaken UI's ability to facilitate good job matching, while putting workers in a precarious financial position following a job separation.

State lawmakers must act now to strengthen UI programs ahead of the next crisis

States lawmakers have broad authority over UI benefits, eligibility, and the financing of their states' unemployment insurance trust fund, meaning they wield substantial power to ensure programs' solvency and effectiveness when an economic crisis materializes. In light of the Trump administration's **anti-growth, inflationary economic policy** and a **softening labor market**, policymakers must act with urgency to fortify UI programs.

Step I: Update state funding mechanisms to solidify trust funds and set basic minimum benefit standards

In recent decades, **lawmakers in many states** have sought to replenish unemployment trust funds by paring back benefits and restricting eligibility criteria. These efforts have largely failed to restore fund solvency or improve employment rates and have instead caused considerable harm to workers. State policymakers have the authority and tools to modernize their programs in ways that protect solvency without undercutting protections for workers. Policymakers should:

- **Raise and index the taxable wage base to reflect the typical worker's income:**
States have broad discretion in setting their taxable wage base (TWB), provided it meets or exceeds the exceptionally low federal minimum of \$7,000. (As of 2025, the **median state TWB** is only \$14,000.) States should link or index their TWBs to typical wages in their state. Currently, 18 states index their TWBs to the state's average weekly wage, including **Oregon** (TWB of \$54,300), **Hawaii** (\$62,000), and **Washington** (\$72,800). This ensures UI revenues keep pace with growth in the state economy, while creating a more equitable tax base and strengthening trust fund solvency. Adjusting taxable wage bases also allows states to generate more revenue at lower State Unemployment Tax Act (SUTA) rates. For instance, applying a 5.7% rate to a \$7,000 tax base generates \$400 in revenue per worker, while a much lower rate of **3.8% applied to a \$21,000 tax base generates \$800**—twice the revenue.
- **Guarantee a minimum of 26 weeks of potential benefit duration:** **An extensive body of research** finds that longer UI benefits do not meaningfully discourage work and any

resulting increase in unemployment duration is offset by improved job matching, as workers find jobs with higher pay or that better match their skills. Prior to the Great Recession, all states **offered at least 26 weeks of potential benefit duration** (PBD) to eligible workers. Policymakers should ensure UI programs guarantee a minimum of 26 weeks of PBD.

- **Raise benefit levels to afford workers a minimum standard of living:** Low benefit levels mean low-wage workers—should they even qualify for benefits—often receive benefits that are unlivable. As a stepping stone to more ambitious and meaningful benefit level increases, lawmakers should set **minimum benefit levels** that working families can survive on: a benefit amount of at least 30% of the state’s average weekly wage or \$300 per week (indexed to median wage growth), whichever is greater.

Getting started: Key questions for state unemployment insurance laws

- How many weeks of benefits are available to workers?
- What is the maximum weekly benefit available to workers?
- Is there a dependent allowance?
- Does the program utilize all available extended benefit programs?
- What is the taxable wage base? Is it flexible? How is it calculated?
- What is the SUTA tax rate?
- Does the unemployment trust fund meet the recommended minimum adequate solvency level as defined by the Department of Labor?
- How are employers experience rated?
- Which workers are eligible?

Monetary eligibility criteria

- How is labor force attachment defined? Are there hours or earnings thresholds workers must meet to be eligible for UI?
- What is the base period for measuring sufficient hours or earnings?
- Does your state have an Alternative Base Period (ABP)? Is it automatically applied, or must it be requested?

Nonmonetary eligibility

- What must unemployed workers do to maintain eligibility?
- What are the work search requirements for workers?
- How is suitable work defined?
- How are “good cause quits” defined?
- Does the state have a well-functioning short-term compensation program?

Step II: Improve program access and benefits to levels that make UI fulfill its core objectives

Unemployment insurance is one of the most important tools for reducing the harmful, reverberating effects of unemployment and one of the most effective programs for combatting recessions. Providing adequate benefits to unemployed workers leads to better reemployment outcomes, keeps dollars flowing in local economies, and ultimately lends itself to a more productive and dynamic economy. To this end, state policymakers should:

- **Strengthen program administration and remove barriers to UI access:** Applying for UI benefits is often a complex process and serves as a barrier to entry to workers who are navigating job loss. Underfunding and inadequate staffing of state and local UI administrative offices can compound these problems. Lawmakers should ensure that state agencies and UI offices have adequate resources to help applicants navigate the process and quickly process claims. In addition, the Century Foundation and Philadelphia Legal Assistance provide a [comprehensive set of recommendations](#) for state policymakers and agencies seeking to modernize UI systems and reduce barriers to access.
- **Automatically extend UI benefits in difficult economic conditions to strengthen the program's role as a macroeconomic stabilizer:** When UI programs do not scale with market conditions, this [deepens the damage caused by recessions](#). To better leverage UI's stabilizing potential, states should utilize the optional Total Unemployment Rate (TUR)-based extended benefit program to guarantee workers can receive up to 20 weeks of extended benefits during severe economic crises. As of 2023, only [27 states and territories](#) utilize the optional TUR-based trigger. Although optional state extended benefit programs carry some budgetary costs, they can [help mitigate the long-lasting scarring effects of an economic contraction](#).
- **Set benefit levels that offer real protection for workers:** State laws governing wage replacement and benefit maximums vary widely, but [some states have adopted benefit formulas that provide much stronger protection](#). For instance, in 2024, Hawaii's program provided an average weekly benefit of \$653 (57% of worker wages), Washington's average weekly benefit was \$722 (51% of wages), and Massachusetts's was \$704 (48% of wages.) The National Employment Law Project's [policy brief](#) describes optimal formulas for computing benefits.
- **Establish a dependent allowance to allow parents and caregivers to fulfill their obligations:** Households with children are much [more likely to face food and housing insecurity](#) when a job is lost. Dependent allowances, already enacted in [13 states](#), can help mitigate these harms by recognizing the added burdens that caregivers face. Policymakers should [adopt similar measures](#) and define dependents broadly to reflect the diversity of family structures and care responsibilities.
- **Make short-term compensation ("work-sharing") more appealing for employers and workers:** During economic downturns, employers often resort to layoffs to reduce costs, harming workers financially and businesses in lost skilled labor. Under a short-

time compensation (STC) (or “work-sharing” arrangement), firms can reduce employee hours instead eliminating jobs, while UI benefits partially offset lost wages for workers. Currently **33 states** have STC programs in place, but utilization remains uneven and low relative to **comparable programs** in OECD nations. States can strengthen STC programs by making firms of all sizes eligible, removing experience rating penalties, allowing employers to certify reductions in hours on behalf of workers, and ensuring earnings from other jobs are not counted against workers’ STC benefits. The Washington Center for Equitable Growth **provides additional recommendations** for reducing administrative barriers and engaging in employer outreach and education.

Step III: Modernize unemployment insurance to reflect the needs of a 21st century economy

The unemployment insurance system, designed in the 1930s, no longer reflects the realities of today’s workforce. It excludes many gig, part-time, and irregular workers, and **inherits frameworks that are rooted in racism and sexism**. Lawmakers should adopt more expansive frameworks for UI eligibility and accessibility by taking action to:

- **Set progressive benefit levels that truly alleviate economic hardship:** Policymakers can ensure UI systems truly alleviate economic hardship and strengthen worker bargaining power, while targeting those workers most in need, by progressively structuring benefits. A smart approach **would replace at least 85% of wages for the lowest earners, gradually scaling down to 50% for high earners**, and 30% for very high earners.
- **Increase benefits duration to ensure workers have sufficient runway and better prospects when reentering the workforce:** **Evidence shows** that when workers have a longer benefit runway, they have better reemployment outcomes, find jobs that better match their skills, earn higher wages, and are more likely to remain on the job. States should guarantee a minimum of 30 weeks of potential regular UI benefit duration.
- **Raise or remove the ceiling on the taxable wage base:** Policymakers can truly address solvency concerns by dynamically increasing or eliminating caps on taxable wage bases. States should set the TWB to **at least half of the Social Security taxable wage limit** (\$176,100 as of 2025). Several states have successfully increased their TWBs by **indexing** to a high proportion of the average worker’s wage. Whether by raising the cap, indexing it to wages, or relinking it to the Social Security base, modernizing the taxable wage base would strengthen trust fund solvency and create fairer contributions across employers of low- and high-wage workers.
- **Reform experience rating to eliminate harmful incentives to fight legitimate UI claims:** Federal law requires states to adopt rules such that employers with higher rates of separations pay higher UI taxes. This approach, known as “experience rating” **encourages** workforce stability and helps ensure equity among employers by charging more of those who draw more heavily against unemployment trust funds. However, these rules create the perverse incentive for employers to block legitimate

claims by encouraging workers to not file, challenging claims, or structuring their workforce to minimize the number of employees eligible for UI, such as relying on part-time or contract labor. States can remove these harmful incentives by experience rating employers based on **changes in the number of hours worked** by their employees or the number of workers they employ. Alaska, for example, implemented a “**payroll decline quotient**” method which ties tax rates to changes in payroll over time instead of the number of claims made by workers. Further, since some firms are indifferent to additional layoffs because of a capped experience rating tax, states can **impose penalties** on firms that persistently remain at the cap.

- **Expand eligibility to all workers with demonstrated attachment to the labor force:** State monetary eligibility rules should be reformed to **guarantee coverage for all workers who demonstrate clear labor force participation**. Rather than relying solely on workers meeting specific earnings thresholds, states should also allow workers to qualify based on hours worked. Specifically, any individual who works at least 300 hours during two quarters of a base period should qualify. This means a worker who performed 15 hours of work per week for 20 weeks across two quarters would be eligible for UI. Hours from all work arrangements should be counted toward the 300-hour minimum, given that low-paid workers often hold multiple jobs across different employers. States should also extend the base period for determining eligibility to six quarters of work, to prevent low-paid, seasonal, and temporary workers from falling through the cracks. Oregon is currently the only state with a **hybrid model** allowing workers to qualify based on either earnings or hours.
- **Reform work-search requirements to account for issues that workers commonly face:** Overly **onerous work-search requirements** increase benefit denials while failing to save money for UI programs. **States should ensure work-search requirements are not so burdensome** that active jobseekers lose UI benefits before finding a new and suitable job. For instance, states should allow workers to continue receiving benefits if they have good cause for missing an appointment or work-search verification. If a worker falls short of work-search requirements, they should lose benefits only for that week, instead of being permanently removed from the program. States should also allow workers engaged in education or training programs that may boost their employment prospects to continue receiving UI benefits. Further, they should ensure continuing eligibility for workers available for part-time work, not just those seeking full-time work.
- **Enact strong suitable work requirements to boost worker reentry prospects:** A core function of UI is to promote stable, quality reemployment; workers should remain eligible for UI if they decline a job that is a poor match for their skills or of substandard quality. The National Employment Law Project **provides recommendations** that states can adopt to ensure strong suitable work criteria, including: 1) comparing the wage offered by a new job to the occupation’s prevailing wage and factoring in the worker’s expertise, training, and experience; 2) maintaining standards of suitable work that do not weaken based on the length of unemployment; and 3) reviewing offers for temporary employment under a lens of prevailing labor market conditions.
- **Expand eligibility criteria to cover workers compelled to leave their jobs for valid**

reasons: Historically, the UI program has failed to account for many of the reasons that might compel a worker to leave their job. States should adopt **stronger good-cause quits provisions** that include reasons such as leaving due to unsafe conditions, caregiving responsibilities, or harassment, while exploring broader eligibility criteria that **provide benefits to workers who quit**.

- **Extend UI eligibility to striking workers:** Allow **workers engaged in labor disputes** to access UI benefits under the same rules as other unemployed workers. While some states impose extra waiting periods for striking workers, policymakers should adopt no or minimal additional delays.
- **Establish joblessness protections for independent contractors, self-employed, and undocumented workers:** To function as a true safety net UI should cover all labor force participants, including self-employed workers, independent contractors, and undocumented workers who lose work. In recent years, California, Colorado, and New York have **pioneered successful initiatives for covering contractors, self-employed, and undocumented workers**. States should explore options for establishing similar programs to ensure workers excluded from traditional UI have access to similar safety net protections.
- **Adopt clear legal standards to combat worker misclassification:** When workers are wrongfully classified as independent contractors, they **lose the labor protections of W-2 employees**, including UI eligibility. Misclassification **imposes heavy costs on both workers and state trust funds**. Policymakers can address this by adopting **Pennsylvania's model**, which presumes that any worker performing services is an employee unless the employer proves that 1) the worker is free from the employer's control or direction in performing work and 2) the worker is customarily engaged in an independently established trade or business.
- **Design programs to protect workers' privacy:** While some states have **expanded wage records** to include details such as occupation, industry, or work hours to better evaluate job quality and improve services, UI programs should ensure workers can apply for benefits without risking retaliation or exposure of sensitive personal data. The Century Foundation and Immigration Research Initiative **recommend** limiting data collection to what is necessary, prohibiting disclosure for nonprogram purposes, and requiring data safeguards, while allowing applicants to self-attest wherever possible. To ensure accountability, violations of privacy rules should carry clear penalties. This year, Maryland lawmakers introduced **legislation to protect state databases** from unauthorized sharing and immigration inquiries, offering model language for policymakers seeking to protect state data more broadly.

Additional recommended resources

- National Employment Law Project (NELP)'s [**State Unemployment Insurance Policy Hub**](#);
- [***Reforming Unemployment Insurance: Stabilizing a System in Crisis and Laying the Foundation for Equity***](#)—a joint report of the Center for American Progress, Center for

Popular Democracy, Economic Policy Institute, Groundwork Collaborative, National Employment Law Project, National Women’s Law Center, and Washington Center for Equitable Growth;

- The Century Foundation’s [Unemployment Insurance Data Dashboard](#).

Editor’s note: *This piece was revised on October 8, 2025, to add an “Additional recommended resources” section and clarify the need to increase UI funding both to strengthen benefits and ensure effective UI program administration.*