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The Urgent Need to Raise Unemployment Insurance Benefits

FPI Recommendation

- New York State should immediately reform its Unemployment Insurance (UI) system to prepare for a national recession by:
    - paying down the UI trust fund debt and restoring the trust to solvency;
    - raising the benefit to its statutory level for 2025 of 48 percent of the average weekly wage; and
    - broadening the UI tax base to cover all wages at a rate of 1-1.6 percent to set the trust on a path to long-term solvency.

Key Findings

- Unemployment insurance stabilizes the state economy during economic downturns, but New York's UI system has been insolvent for decades and UI benefits are inadequate to keep workers out of poverty.

- If a recession were to occur nation-wide, the unemployment rate in New York State could rise to between 8% and 12% (between 850,000 and 1.2 million individuals unemployed at the peak of a future recession).

- The average weekly benefit currently paid to UI recipients is $300 (equivalent to $1290/month), *below the federal poverty threshold for a single adult*.

- The maximum weekly benefit has been frozen since 2019 at $504 per week, even though it was set under state law to increase to $843 in 2025. This benefit freeze is triggered by the State UI trust's $6.4 billion debt to the federal government from increased claims during the Covid pandemic.

- Unemployed workers have lost out on $8.8 billion in aggregate benefits since 2019 due to a freeze in the UI benefit level at a weekly maximum of $504 (now worth $424 after adjusting for inflation).

Introduction

UI is an essential component of the social safety net in the Unites States and acts as an important stabilizer during economic downturns by providing temporary income to those who have faced lay-offs or joblessness through no fault of their own (i.e. not due to poor performance or a voluntary departure). The State must urgently prepare to meet rising unemployment claims in light of current federal workforce layoffs, impending federal spending cuts (which will impact state and local public employees), and the economic turmoil likely to result from the new Trump administration's policy agenda.

However, the State's UI program currently holds a debt of $6.4 billion with the federal government, which has frozen the UI benefit (as required under state law) since the start of the Covid-19 pandemic; the maximum benefit has been frozen at $504 per week—the equivalent of $26,210 per year and less than the minimum wage—since 2019 while the cost of living has increased dramatically over the same time period. This $6.4 billion debt is now at the center of one of this year's major budget debates.

Business advocates point out that the debt, if left unpaid, will result in higher tax rates on employers, while worker advocates and organized labor are focused on raising the benefit to ensure economic security. Thus, both groups have an interest in paying off the federal debt. The Governor proposed making a $165 million interest payment on the debt but had no plan to accelerate paying back the debt principle. The Assembly counter-proposed a payment of $7 billion (as the $6.4 billion debt would have to be paid down and additional funds contributed to the trust to restore solvency) to the federal government that would eliminate the outstanding UI trust fund debt, protect businesses from any tax increases, and allow for the UI benefit to increase.

Given impending economic turmoil, State policymakers must prioritize benefit adequacy to protect New Yorkers and to protect the state economy from a downward spiral. Paying off the debt may be a necessary step to quickly un-freeze the benefit, and policymakers have a few options for how to expediently pay off the debt either through the use of state reserves, repurposing the "inflation refund," or imposing a surtax on employers. But, without more comprehensive funding reform, the program may quickly fall back into insolvency, causing the benefit to freeze again.

To fully ensure the long-term solvency of the system, the State will need to reform the UI contribution funding mechanism. Currently, UI contributions are paid by employers on a small share of wages at a relatively high tax rate, which disproportionately burdens employers of lower wage workers and results in artificially low contributions from the employers of higher wage worker. A better UI financing scheme would follow conventional tax policy logic by broadening the tax base to cover all wages while lowering the rate, thereby increasing annual revenue to a level adequate for trust solvency while more fairly distributing the tax burden among businesses.

This brief discusses the heightened risk of recession and motivates the need for UI reform in the near-term. The brief then discusses the four major priorities regarding unemployment insurance this year: 1) increasing the weekly benefit received by unemployed workers, 2) reforming the UI tax to achieve solvency, 3) expanding UI to cover all workers, and 4) options for paying off the $6.4 billion owed to the federal government.

Increased risk of a recession in near term

The Trump administration is currently causing a major upheaval to the economy and US labor market. While it is not clear exactly how large or persistent the economic shocks will be over the next few months and years, it is clear that some economic turmoil will take place. Already, many federal workers have been laid off. Major cuts to research funding are likely to impact university hiring as well over the next few months, with many schools already reporting some layoffs.[i] As of the publication of this paper, the Trump administration has implemented a new set of reciprocal tariffs that have already caused major turmoil in global financial markets and will likely start translating into real supply shortages and price increases in the US over the coming weeks. Further, if the presidential administration and Congress succeed in achieving major cuts to Medicaid and other programs, there are likely to be much more widespread layoffs in the healthcare sector and beyond.

Professional forecasters and economists agree that the probability of an economic recession has increased since the start of the Trump administration, though economic uncertainty is at an all-time high.[ii] Goldman Sachs updated its forecasted probability of a US recession from 20% to 35%.[iii] The financial firm also lowered their 2025 GDP growth rate forecast for the US from 2.0% to 1.5%, a significant decline in economic output that will likely come with upticks in unemployment. A Bloomberg survey of economists in late March also increased its forecasted probability of a recession from 25% to 30% and decreased growth forecasts.[iv] In their March meetings, the Federal Open Markets Committee updated their projections for economic growth in the US economy to show that they expect lower growth in 2025, 2026, and 2027. They also expect a slightly higher level of unemployment and inflation in 2025 that could extend to future years. Meanwhile the S&P 500 has dropped by 9 percent since its peak on February 19.

New York already has one of the slowest growing economies among all US states. That means that any further slow-down in US growth will likely hurt New York disproportionately and that recovery from a recession in New York will take longer than it would if the economy were strong. Data since 1990 shows that during national recessions, New York has faced employment losses of 8% on average, about 800,000 jobs. Leaving out the extreme employment loss seen during Covid-19, New York recessions see an average employment loss of 4%, about 400,000 jobs. If a recession were to occur nation-wide, we could expect an employment shock between 4% and 8% to occur in New York, pushing the unemployment rate up to between 8% and 12%. Given that there is natural churn in the economy, we'd expect the total number of unemployed people to potentially reach between 850,000 and 1.2 million in New York at the peak of a recession.

Table 1. Employment change from peak to trough for past four recessions (thousands)

	1990	2001	2008	2020	Average	Average, without Covid
United States	-1,525	-2,635	-8,690	-21,868	-8,680	-4,283
New York	-577	-301	-337	-1,982	-800	-405

Table 2. Employment change from peak to trough for past four recessions (percentage change)

	1990	2001	2008	2020	Average	Average, without Covid
United States	-1%	-2%	-6%	-14%	-6%	-3%
New York	-7%	-2%	-4%	-20%	-8%	-4%

Table 3. Peak unemployment rate for past four recessions (% of labor market)

	1990	2001	2008	2020	Average	Average, without Covid
United States	7.8	6.3	10.0	14.8	9.7	8.0
New York	9.0	6.5	9.0	16.7	10.3	8.2

Table 4. Hypothetical recessionary shocks to New York labor market

Shock to employment (%)	Jobs lost due to shock	Unemployment Rate	Unemployed Individuals
Current labor market	0	4.3%	447,793
-4%	-400,000	8.1%	847,793
-8%	-800,000	12.0%	1,247,793

Even in non-recession times, many people find themselves out of work and reliant on UI to pay regular bills. In 2025 so far, about 235,000 New Yorkers have applied for UI to support their living expenses while they search for new work. In January and February of 2025, the average weekly benefit paid to UI recipients was $300 (equivalent of $1290/month), not enough to pay typical monthly expenses such as rent and groceries. In fact, the poverty line for a single adult in the US is set at $1,304 in 2025; thus the average rate of UI benefits is *below the poverty threshold* in New York.[v]

So far in 2025, 17 percent of UI claims in New York have come from individuals working in Construction & Utilities, 15 percent have come from individuals who work in Transportation & Warehousing, 13 percent have come from individuals working in Administrative & Support Services, 9 percent have come from Accommodation & Food Services, and 8 percent have come from Healthcare & Social Assistance.[vi]

Fiscal Year 2026 UI Reform Priorities in New York

Inadequate unemployment insurance benefits can create a myriad of individual and macro-economic issues. On the individual level, if someone finds themselves out of work and on UI benefits, the benefit must be sufficient to cover the individual's regularly monthly costs such as food, housing. At current benefit rates, an individual could easily find themselves unable to pay for rent, food, or power. If the state of the economy is such that an individual has difficulty finding new work, then they may be forced to stay on UI for multiple months, thus increasing their risk of housing and food insecurity. Currently the average UI benefit paid in 2025 has been $300 per week, or about $1290 per month. This benefit payment is below the federal poverty line for a single adult in 2025, completely insufficient for meeting the needs of unemployed New Yorkers in search of work.

From a macroeconomic standpoint, adequate UI benefits make a significant difference in dampening the spiraling impact of a recession. Without adequate UI benefits, an individual or family would need to pause a significant amount of their spending when a member is out of work. Reductions in spending can deepen any economic turmoil by creating a suppression of aggregate demand leading to recessionary pressure. By providing adequate UI benefits, the State reduces recessionary pressures significantly.

Here are the top priorities that New York policymakers should consider this year:

Increase the weekly UI benefit

In New York, the weekly benefit is calculated to be 50 percent of the individual's weekly earnings in the highest-earning quarter of the previous year, with a maximum weekly benefit of $504 (the weekly equivalent of earning $26,200 per year). This benefit should be restructured so that it provides 100 percent wage replacement up to the State's median wage (currently about $51,200). The maximum benefit would be set at the State's median wage. In other words, an individual who makes $45,000, if unemployed, would receive the equivalent of their full salary for at least 26 weeks. An individual who makes $80,000, if unemployed, would receive the equivalent of an annual salary of $51,200 for 26 weeks.

The current benefit limit is so low that the program cannot serve its safety-net function. For instance, an out-of-work individual who had been working full time and making $40,000 in annual earnings will receive only $385 as their weekly UI payment (keyed to 50 percent of their annual earnings, or $20,000). This is about $9.60 on an hourly basis, significantly below the New York State minimum wage and not enough to pay for basic needs.

The UI program's maximum benefit is also notably lower than peer and neighbor states. For example, New Jersey's maximum benefits is $854 per week, Massachusetts's is $1,033 per week, Connecticut's is $796 per week, and Pennsylvania's is $613 per week.

One reason that the UI benefits are so low in New York is that the State has a large debt to the federal government, which freezes the maximum benefit. Under state law, the maximum benefit should have been increasing over the past five years, alongside increases in wages and as part of an effort to bring New York's benefits more in line with the cost of living. If New York's UI program hadn't become indebted to the federal government in 2020, or if it had been paid off expediently, New York would have had a maximum weekly benefit in 2024 of $808, 60% higher than the current maximum weekly benefit of $504. Instead, because of the trust fund debt to the federal government, unemployed workers in New York have lost over $8.8 billion in aggregate benefit payments between 2020 and 2024. In 2025, benefit rates would be set to rise to approximately $850 if the benefit were unfrozen.

Because of high inflation over the past few years, the real value of the benefit has fallen over time; a weekly benefit of $504 now only pays for goods worth about $424 in 2020 dollars. This creates major economic problems for unemployed New Yorkers who must continue paying for basic living expenses that have grown by over 20% since 2021, while benefits have remained flat.

Figure 1. Unemployment insurance maximum weekly benefit in NY and peer states

Figure 2. Real value of maximum weekly UI benefit (adjusted for inflation)

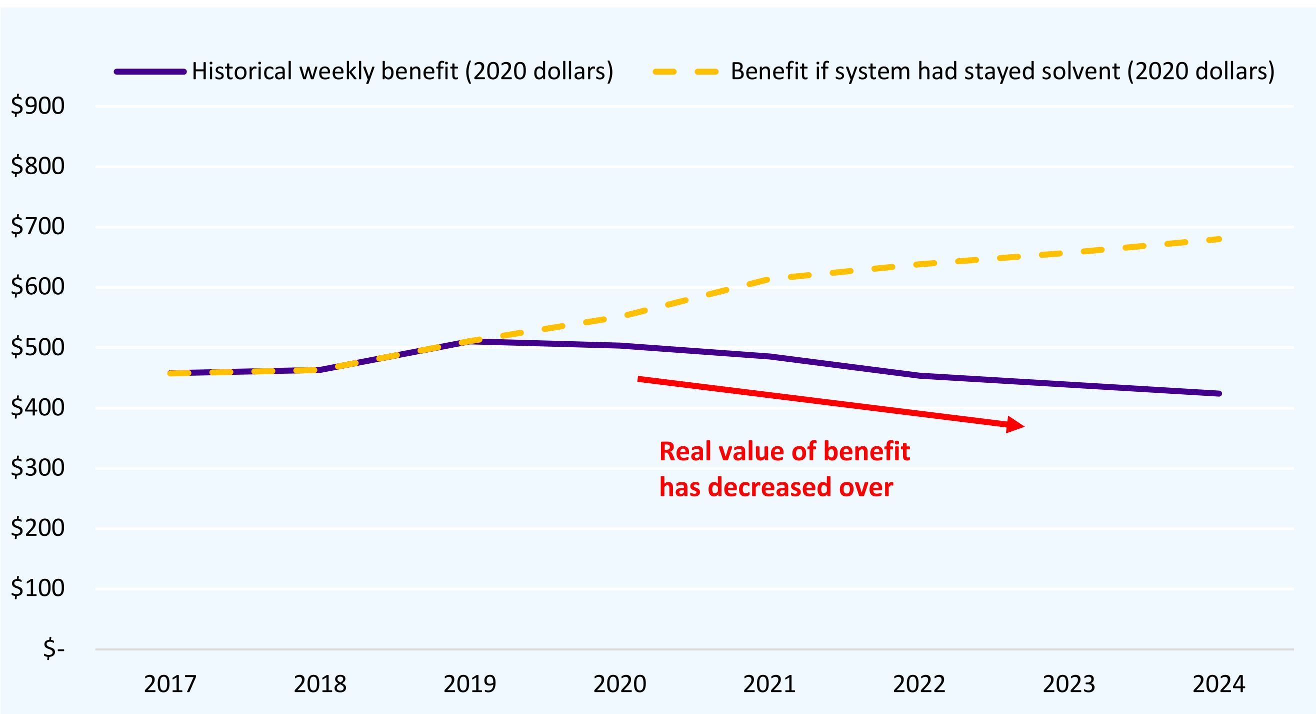

Table 5. Unemployment insurance maximum benefit, according to New York State law vs. actual benefit

	Statute, assuming solvency	Statutory amount, assuming solvency	Actual historical benefit	Actual historical benefit, adjusted for inflation (2020 dollars)
2017	$ 435	$ 435	$ 435	$ 457
2018	$ 450	$ 450	$ 450	$ 463
2019	36% Average Weekly Wage	$ 504	$ 504	$ 511
2020	38% Average Weekly Wage	$ 551	$ 504	$ 504
2021	40% Average Weekly Wage	$ 638	$ 504	$ 485
2022	42% Average Weekly Wage	$ 709	$ 504	$ 453
2023	44% Average Weekly Wage	$ 756	$ 504	$ 438
2024	46% Average Weekly Wage	$ 808	$ 504	$ 424
2025	48% Average Weekly Wage			
2026	50% Average Weekly Wage			
2027	50% Average Weekly Wage			
2028	50% Average Weekly Wage			

Significantly increase the UI taxable wage base

The UI funding mechanism also needs major reform, primarily through an increase in the taxable wage base. Currently, employers only pay tax on the first $12,800 of employee wages (that is, for an employee earning $50,000, the tax only applies to the first $12,800 of those earnings). According to data from the Department of Labor, only 16 percent of total wages in New York are considered "taxable" under the State's UI program. This percentage fell precipitously over the 1990s and early 2000s, and has been stable at just above 15 percent since 2007.

Because only the first $12,800 of an employee's wages are subject to the UI tax, low wage workers and their employers are taxed at effectively higher rates, making the tax regressive to the extent it is passed through to workers. The wages of employees making less than $50,000 per year are taxed at a maximum of 3 percent, whereas the wages of an employee making over $150,000 per year are taxed at a maximum of 1 percent.

In order to ensure the stability and solvency of the State's UI program, and in the interest of fairness, the UI tax should be structured like an ordinary payroll tax that covers all wages, rather than just a small share of wages. Table 6 compares the current state UI tax scheme to the proposed scheme that lowers the rate and expands the base, thereby achieving greater tax fairness while raising more revenue.

Figure 3. Ratio of taxable to total wages

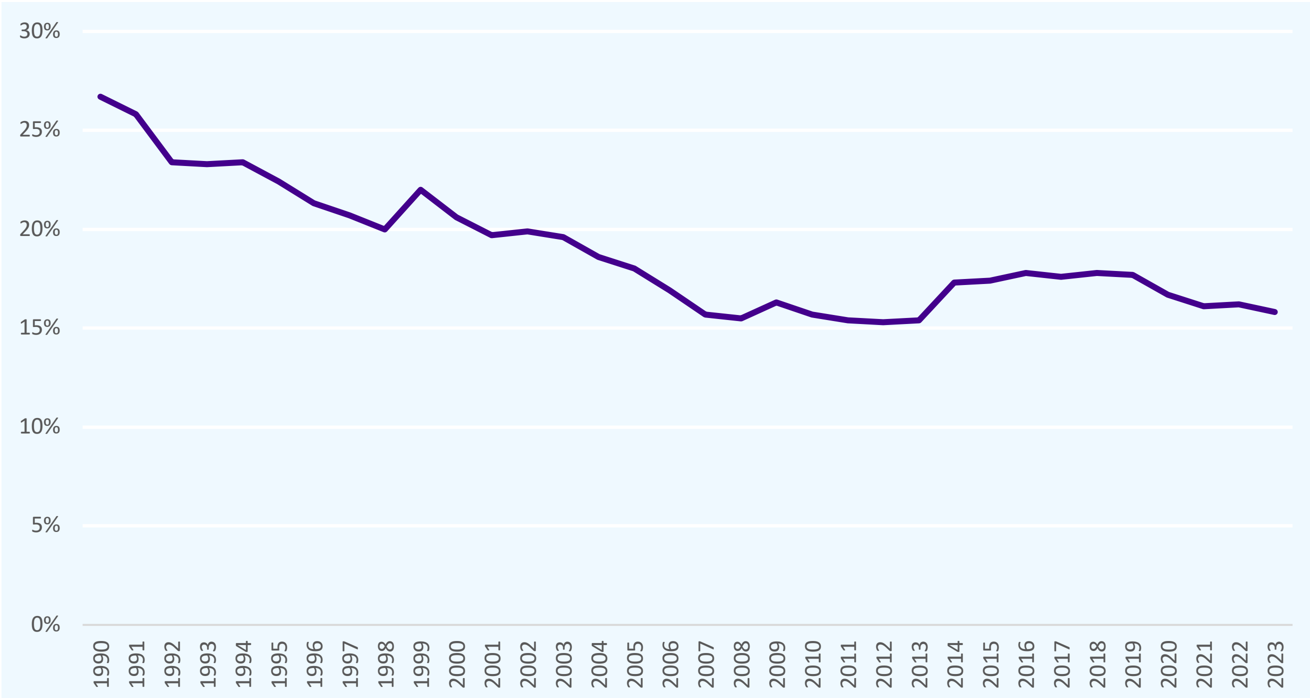

Figure 4. UI tax rates on employee wages by wage level

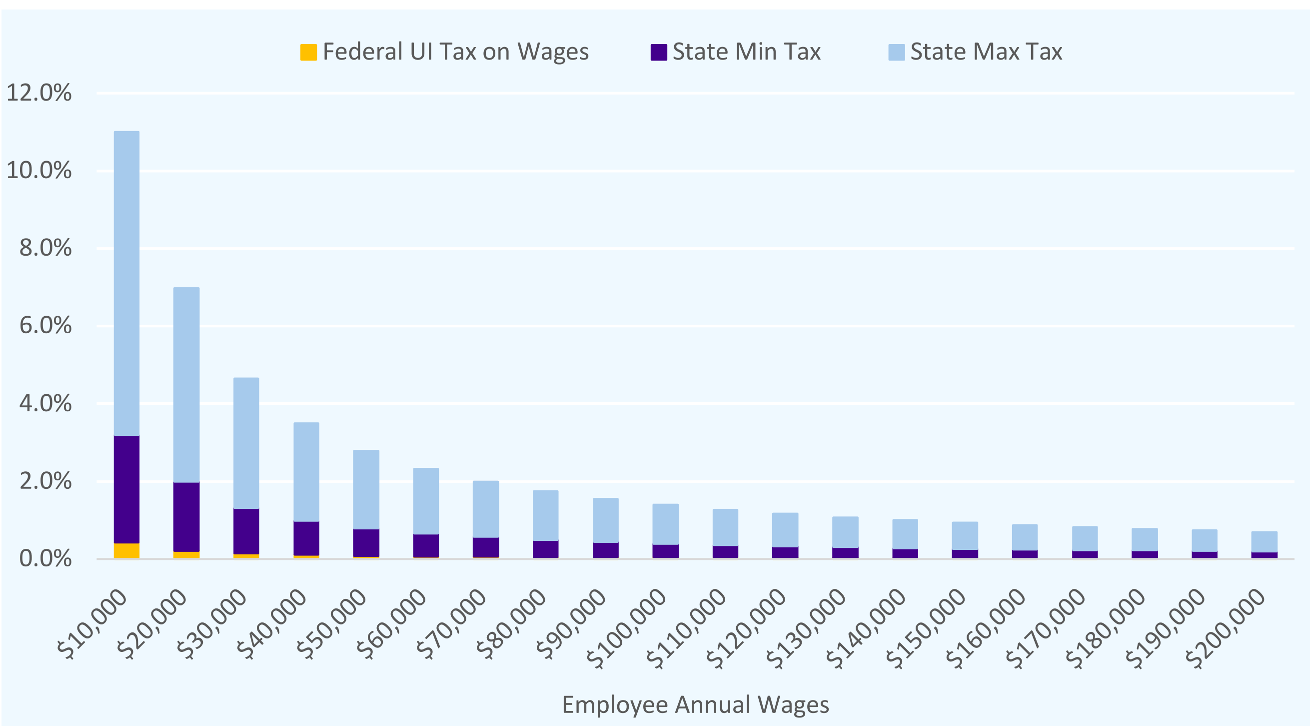

Table 6. Current UI tax scheme in NY vs. FPI reform proposal

Annual averages, 2005:Q1-2024:Q4	Current UI tax scheme	Proposed UI tax scheme
Total UI benefits paid	$ 4.4 billion	$ 4.4 billion
Total wages paid by taxable employers	$ 588 billion	$ 588 billion
Total taxable share of wages	$ 96 billion	$ 588 billion
Percent of total wages (paid by taxable employers) that are taxed	16.8%	100.0%
UI revenue raised	$ 3.67 billion	$ 5.88 billion
Average tax rate on taxable wages (across employers)	3.84%	1.00%
Regressive, Flat, or Progressive?	Regressive	Flat
Max tax rate on employee earning $50K	2.7%	1.00%
Max tax rate on employee earning $100K	1.4%	1.00%

Extend coverage towards universality

Many of the most important reforms to UI that the State can make are through expanding the program to cover more workers. There is no principled explanation for why our UI program does not cover all workers in the State—and, in fact, increasing the scope of covered workers would increase the capacity of the state economy to weather downturns and disruptions.

There are numerous existing proposals to extend UI coverage to more workers, including:

- The "Unemployment Bridge Program" expands UI to cover undocumented workers, self-employed workers, cash economy workers, and people who are in re-entry;[vii]
- UI for education workers: A proposal to expand UI coverage to school support staff, such as custodial staff and cafeteria staff, who lose their jobs during summer months while school is out;[viii]
- UI for striking workers: a proposal to extend UI benefits to workers who are on strike or are locked out of work due to an ongoing labor dispute.[ix]
- The "Scofflaw Bill" (S4477A/A5726) expands the enforcement powers of the Department of Labor to ensure that employers adhere to their UI tax obligations.

Pay off outstanding loan balance to federal government ($7-8 billion)

New York's unemployment insurance system has been frozen in time since the start of the pandemic due to large outstanding loans from the federal government, known as its "Title XII Loan Balance." New York's loan as of February 2025 was $6.4 billion and it would take a payment of between $7 and $8 billion to reach fund solvency levels (so that there are sufficient funds in the system to pay current obligations). The only other state with a significant outstanding Title XII loan is California, which has an outstanding balance of $20 billion.

Without paying off these outstanding loans, New York cannot raise its maximum benefit and is unlikely to extend coverage to workers currently not eligible for the program. Because these changes are both timely and necessary, the State must prioritize paying down this debt as soon as possible.

Options for paying down the UI debt include:

- New York has accumulated $34 billion in fiscal reserves and uncommitted funds over the past five years. Some share of these reserve funds could be used to pay down the UI debt while still maintaining a substantial reserve. In fact, a large share of these reserves come from federal funding during the Covid-19 pandemic that many other states have used to pay off UI debt.[x]
- New York could use its current year surplus of $3.5 billion and next-year's surplus of $1.8 billion to pay down some of the UI debt. These surpluses are currently being used to fund the governor's "Inflation Refund" and "Middle Class Tax Cut"—costly expenditures for the State that will deliver little tangible benefit to New Yorkers. Ensuring the solvency of the State's UI trust and improving benefits would prove far more beneficial for working New Yorkers and would promote state economic stability in these highly uncertain times.
- Both to pay down the trust debt and to generally ensure solvency in the future, New York needs to reform its UI tax on employer payrolls. New York could accelerate paying off its UI trust fund debt by implementing either a surtax or a tax overhaul that increases the revenue base. The current UI tax structure unfairly burdens small employers and employers in volatile industries such as construction, while placing a relatively lower burden on large employers as well as firms in sectors such as finance and technology, which face less cyclicality in their business.

Conclusion

In the context of tumultuous federal policy and an uncertain economic outlook, New York State policymakers should make every effort possible to restore the State's UI program to solvency and improve and expand benefits to hard-working New Yorkers. Making these important reforms requires first paying off nearly $7 billion currently owed to the federal government, money that the State has owed since the onset of the Covid-19 pandemic. New York policymakers should seriously consider paying off outstanding debt using current reserves or the current surplus.

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[i] Rush, C. "Some universities are freezing hiring and laying off staff as Trump cuts federal funding," Associated Press. March 13, 2025. (https://apnews.com/article/college-jobs-education-department-nih-trump-antisemitism-af96e181e7958998a0fca0c8bb462b1e)
[ii] Economic Policy Uncertainty Index (https://www.policyuncertainty.com/index.html)

[iii] Jose, J. & S, S. "Goldman raises odds of US recession to 35%," Reuters. March 31, 2025. (https://www.reuters.com/markets/us/goldman-sachs-expects-us-fed-deliver-three-rate-cuts-2025-2025-03-31/)

[iv] Niquette, M. & Morgan, D. "Economists Dial Back US Growth Forecasts Amid Trump Uncertainty," Bloomberg. March 28, 2025. (https://www.bloomberg.com/news/articles/2025-03-28/economists-dial-back-us-growth-forecasts-amid-trump-uncertainty)

[v] Unemployment insurance data from the New York Department of Labor (https://dol.ny.gov/unemployment-insurance-data)

[vi] Ibid.

[vii] Excluded No More campaign. (https://fundexcludedworkers.org/)

[viii] Kamper et al. "Summer unemployment benefits could increase K–12 support staff incomes by $1.2 billion nationwide," Economic Policy Institute. September 5, 2024. (https://www.epi.org/publication/k12-support-staff-summer-ui/)

[ix] "Unemployment Insurance for Striking Workers," National Employment Law Center. October 21, 2024. (https://www.nelp.org/insights-research/unemployment-insurance-for-striking-workers/)

[x] Tax Foundation, "States Have $95 Billion to Restore their Unemployment Trust Funds—Why Aren't They Using It?" September 2021, (https://taxfoundation.org/state-unemployment-trust-funds-2021/).