CONGRESSIONAL TESTIMONY

Protecting Consumers from Financial Fraud and Scams in the Pandemic Recovery Economy

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My name is Rachel Greszler. I am a Research Fellow in Economics, Budgets, and Entitlements at The Heritage Foundation. The views I express in this testimony are my own and should not be construed as representing any official position of The Heritage Foundation.

The onset of the COVID-19 pandemic led to a tremendous expansion in government programs providing funds to individuals, families, and businesses. Many of these programs helped prevent a deeper and more prolonged crisis by keeping afloat businesses that otherwise would have failed, and by preventing individuals and families from losing their housing or having essential services cut off. But these programs have not been without consequence, including widespread fraud and abuse with individuals' personal identifiable information stolen, as well as significant taxpayer costs and some adverse impacts on the recovery.

In my testimony today, I would first like to discuss the unintended consequence of fraud and abuse in the pandemic unemployment insurance (UI) programs. I will then consider the implications of proposed unemployment insurance expansions and the creation of large new government programs on individuals' privacy and financial security, and on the integrity of taxpayers' dollars.

Unintended Consequences of Pandemic Unemployment Insurance Expansions

Unemployment insurance benefits operate through individual states, which typically provide benefits to workers that equal between 40 percent and 50 percent of their previous wages, for up to 26 weeks. But not all unemployed workers are eligible for unemployment benefits; to qualify, workers must have been in covered employment (meaning that they worked for a traditional employer who paid into the unemployment

insurance system on their behalf), must have been consistently employed for a specified number of months, and typically must have been laid off through no fault of their own (as opposed to quitting or being fired).

In response to the COVID-19 pandemic, which resulted in government-imposed shutdowns of many businesses and tens of millions of workers losing their jobs and incomes through no fault of their own, Congress sought to temporarily expand unemployment benefits to reach more individuals who had lost income. Some of the pandemic unemployment insurance expansions included:[1]

- **Increased benefit levels.** Congress provided an unprecedented $600 weekly supplement to state unemployment insurance benefits from March 2020 through July 2020, and an additional $300 weekly supplement from December 2020 through September 2021. Congress also added an additional $100 per week on top of other unemployment benefits, available from December 2020 through September 2021, to "mixed earners," who had at least $5,000 of self-employment income in the prior year.

  The higher benefit levels attracted more criminals to seek Americans' identities to fraudulently claim unemployment insurance benefits. And the fact that more than two-thirds of unemployed workers were initially receiving more from unemployment benefits than from their previous paychecks undoubtedly prolonged many workers' periods of unemployment.[2]

- **Extended benefits.** Congress extended eligibility for unemployment insurance benefits from the usual 26-week limit (six months) to 79 weeks (18 months).

  Economic studies consistently show that extended benefits lead to longer durations of unemployment.[3] For example, researchers at the Federal Reserve Bank of New York estimated that the extended unemployment benefits during the Great Recession contributed significantly to the long period of high unemployment, increasing the number of unemployed workers by about 4.6 million in 2010 and by 3.3 million in 2011.[4] The extended benefits undoubtedly increased some workers' periods of unemployment and allowed criminals to steal more weeks' worth of unemployment benefits.

- **Expanded coverage, added eligibility criteria, and reduced verification.** Congress established the Pandemic

[1]The goal of the UI expansions did include extending benefits to people who would not traditionally be counted as unemployed, such as parents needing to stay home with children due to school and childcare closures, and workers unable to report to work because of COVID-19 closures. However, other economic policy responses, such as 12 weeks of mandated paid family and medical leave with federally financed tax credits, and the Paycheck Protection Program funds to continue workers' paychecks, provided financial support to these workers outside the UI systems.

[2]Peter Ganong, Pascal J. Noel, and Joseph S. Vavra, "US Unemployment Insurance Replacement Rates During the Pandemic," NBER *Working Paper* No. 27216, May 2020, https://www.nber.org/system/files/working_papers/w27216/w27216.pdf (accessed August 1, 2021).

[3]Drew Gonshorowski and Rachel Greszler, "The Impact of Additional Unemployment Insurance Benefits on Employment and Economic Recovery: How the $600-per-Week Bonus Could Backfire," Heritage Foundation *Backgrounder* No. 3490, April 29, 2020, https://www.heritage.org/sites/default/files/2020-04/BG3490_0.pdf.

[4]Marcus Hagedorn et al., "Unemployment Benefits and Unemployment in the Great Recession: The Role of Equilibrium Effects," The Federal Reserve Bank of New York *Staff Report* No. 646, revised September 2019, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr646.pdf (accessed April 13, 2020).

Unemployment Assistance program to provide benefits—both regular state-level benefits plus the $600 and $300 bonuses—to workers who do not pay into the unemployment insurance systems. This included individuals such the self-employed, freelancers, and gig workers, as well as others who may not have lost a job or income as a result of the pandemic.

In addition to adding coverage for new groups of workers, Congress added new criteria—other than being laid off through no fault of one's own—through which individuals could collect unemployment insurance benefits such as being "impacted" by school or daycare closures, quitting one's job for reasons related to COVID-19, losing partial income, or the very broad qualification of having one's employment be "affected" by COVID-19.

These expansions made it impossible for unemployment insurance programs to utilize their normal verification processes, in which an individual's employer has to verify that they were laid off through no fault of their own. Consequently, most unemployment insurance programs had to rely on self-verification of past income and employment. This opened the door to individual-level fraud and abuse by workers filing for their own benefits, but more significantly, it allowed criminals to file for and receive benefits on behalf of individuals without their knowledge.

While these expansions undoubtedly helped ease the financial consequences for individuals who lost jobs and incomes because of the pandemic, they also had significant unintended consequences. In addition to contributing to the current labor market shortage by making it easier and sometimes more advantageous for individuals to be unemployed than employed, the expansions were also exploited by criminals with total benefit payments far-exceeding policymakers' intent.

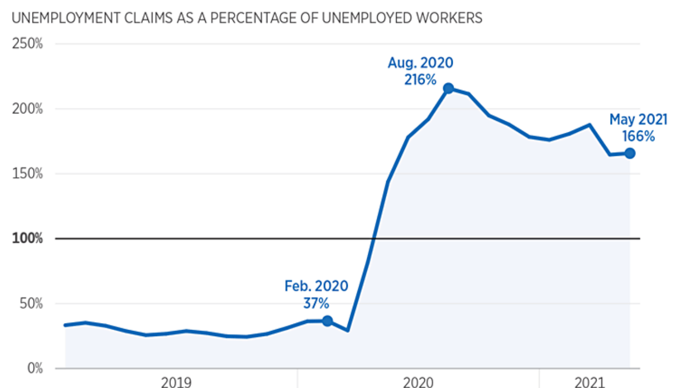
Unemployment Benefits Have Exceeded Unemployed Workers

Typically, about 40 percent of unemployed workers receive unemployment insurance benefits.[5] Since the pandemic began, far more people have received unemployment benefits than have actually been unemployed. Between April 2020 and May 2021, the number of people receiving unemployment benefits averaged 176 percent of the number of unemployed people.[6]

CHART 1

Unemployment Benefits Exceed Unemployed Workers

Historically, about four out of every 10 unemployed workers received unemployment benefits. Since Congress expanded benefits during the COVID-19 pandemic, about 18 workers have received benefits for every 10 unemployed workers.



SOURCE: News release, "Unemployment Insurance Weekly Claims," U.S. Department of Labor, July 1, 2021, https://www.dol.gov/ui/data.pdf (accessed July 7, 2021).

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[5]There are various reasons why not all unemployed workers collect unemployment benefits, including not participating in the UI system due to self-employment, not having worked long enough to qualify for benefits, or choosing not to file for benefits due to short spells of unemployment.

[6]U.S. Department of Labor, Employment and Training Administration, Office of Unemployment Insurance, "UI Weekly Claims," data archive, https://oui.doleta.gov/unemploy/claims_arch.asp (accessed June 30, 2021).

Between April 2020 and May 2021, the number of continued claims that were processed and paid out totaled 1.365 billion cumulative weeks of benefits. Had the pandemic programs provided unemployment benefits to 100 percent of all unemployed workers, the cumulative number of benefit checks sent out would have been 807 million, which implies that at least 557 million [7] benefit checks went to people who were not actually unemployed. [8] The number of unemployment benefits sent out above and beyond 100 percent of unemployed workers equals about 41 percent of all benefits. Assuming there was no significant difference in the size of benefit claims that went to unemployed workers verses those to people other than unemployed workers, then $357 billion [9] of the estimated $873 billion [10] in total pandemic unemployment insurance benefits did not actually go to unemployed workers. [11] While some states have successfully recovered hundreds of millions, or up to a couple billion dollars, total recoveries will likely pale in comparison to the magnitude of fraud. [12]

[7]Figures do not add due to rounding. The 557 million figure comes from subtracting 807.5 million claims that would have covered 100 percent of unemployed workers' benefits from the 1,364.9 million in claims that were paid out, leaving an excess claims total of 557.4 million.

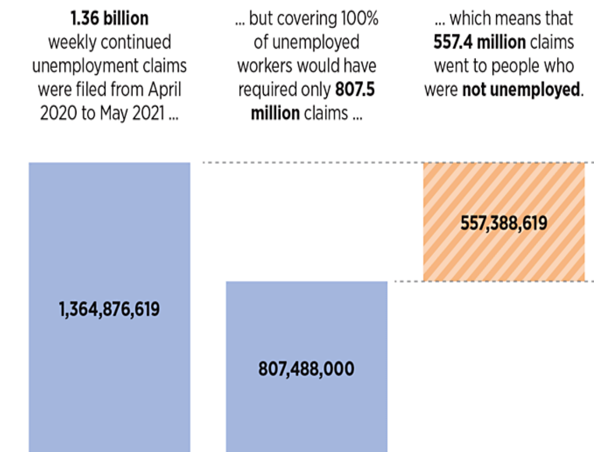
[8]This analysis compiles all of the weekly continued claims data provided by the Department of Labor's Employment and Training Administration and compares those weekly claims levels to the monthly reported totals of unemployed workers based on the Bureau of Labor Statistics' (BLS's) monthly employment reports. For example, the continued UI claims for June 2020 equaled (in millions of claims): 30.6 + 31.5 + 32.4 + 32.0 = 126.5 total claims, while the number of unemployed people, as measured during the second week of the month, and assumed to hold steady across all four weeks of the month equaled (in millions of workers): 17.7 + 17.7 + 17.7 + 17.7 = 70.8, for a comparison of 126.5 million cumulative weeks of unemployment insurance benefits compared to 70.8 million cumulative weeks of unemployed workers. The unemployment figures reported by the BLS are based on a representative sample of about 60,000 U.S. households. COVID-19 had some impact on the BLS's collection, including lower response rates, which may have resulted in different weightings applied to respondents' surveys. Moreover, beginning in March of 2020, the BLS changed the definition of "unemployed" to include people who were employed but absent from work (such as those not working but still receiving paychecks through the Paycheck Protection Program). Yet, this change was not fully adapted by all surveyors, and some individuals who were still employed but absent from work were counted as employed while others were counted as unemployed. Compared to the pre-COVID-19 definition of unemployment, the official unemployment figures reported (included in this analysis) were higher than they would have been under the old definition, meaning that this analysis does count among the unemployed a portion of workers who were still employed but absent from work for COVID-19-related reasons. For an explanation of the misclassification errors, see Rachel Greszler, "What Policymakers Need to Know About 'Misclassifications' in Recent Unemployment Reports," The Daily Signal, June 16, 2020, https://www.dailysignal.com/2020/06/16/what-policymakers-need-to-know-about-misclassifications-in-recent-unemployment-reports/.

[9]This estimate of $357 billion equals 41 percent of the estimated $873 billion in total pandemic unemployment insurance benefits. Since not all unemployed workers filed for and received UI benefits during every week of unemployment, the 41 percent figure likely represents a lower bound on the percentage of payments that went to unemployed workers.

[10]U.S. Department of Labor, Office of Inspector General, "DOL–OIG Oversight of the Unemployment Insurance Program," June 10, 2021, https://www.oig.dol.gov/doloiguioversightwork.htm (accessed June 29, 2021).

[11]While some programs, such as short-time compensation and workshare, provide benefits to workers who are not unemployed but have lost some of their work, these programs accounted for a tiny fraction—about 0.5 percent—of all pandemic unemployment benefits.

[12]News release, "U.S. Secret Service Helps Recover $2B Through Investigations into COVID-19-Related Financial Fraud," U.S. Secret Service Media Relations, May 12, 2021, https://www.secretservice.gov/newsroom/releases/2021/05/us-secret-service-helps-recover-2b-through-investigations-covid-19#:~:text=One%20year%20into%20investigating%20COVID,to%20state%20unemployment%20insurance%20programs (accessed July 6, 2021).



SOURCES: News release, "Unemployment Insurance Weekly Claims," U.S. Department of Labor, July 1, 2021, https://www.dol.gov/ui/data.pdf (accessed July 7, 2021), and U.S. Bureau of Labor Statistics, "Civilian Unemployme (Seasonally Adjusted)—LNS12000000," https://data.bls.gov/cgi-bin/surveymost?bls (accessed June 20, 2021).

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Widespread Fraud, Identity Theft, and Abuse

By putting an unprecedentedly high dollar value on unemployment insurance benefits, making them available for three times as long as usual, widening eligibility, and reducing verification requirements, unemployment insurance benefits were not only abused by some individuals, but they became a high-value, easily accessible target for criminals.

According to the Office of Inspector General (OIG),

> The unprecedented infusion of federal funds into the UI program gave individuals and organized criminal groups a high-value target to exploit. That, combined with easily attainable stolen personally identifiable information and continuing UI program weaknesses identified by the OIG over the last several years, allowed criminals to defraud the system.[13]

The OIG noted that had improper payments throughout the pandemic remained at their usual pre-pandemic 10 percent rate, the federal government would have issued $87 billion in improper payments. (The OIG estimates up to $873 billion in total pandemic unemployment insurance benefits.)[14] The Inspector General report notes, however, that ongoing investigations find that the improper payment rate exceeds 10 percent.[15]

Some researchers have estimated improper payment rates approaching 50 percent within the pandemic unemployment insurance programs. For example, Blake Hall, CEO of the authentication company ID.me, said, "The fraud rates that we're seeing are over 10 times what we usually see at federal agencies."[16] Hall, whose company works with about two dozen states to detect fraudulent benefit claims, estimates that unemployment fraud has potentially cost taxpayers $400 billion. My analysis estimates that $357 billion worth of payments will have gone to non-unemployed individuals.

Unemployment insurance fraud has been so high that the OIG is investigating or reviewing more than 100,000 complaints of fraud, and these unemployment insurance fraud investigations account for 87 percent of the Inspector General's cases, compared to 12 percent prior to the pandemic.[17]

In addition to the cost to taxpayers—which, this author's analysis of $357 billion going to non-unemployed people would consume the

[13]U.S. Department of Labor, Office of Inspector General, "DOL–OIG Oversight of the Unemployment Insurance Program."
[14]Ibid.
[15]Ibid.
[16]Consumer Bob and Nicholas Kjeldgaard, "Unemployment Benefits Fraud Could Cost $300 Billion Nationwide," NBC San Diego, March 24, 2021, https://www.nbcsandiego.com/news/local/unemployment-benefits-fraud-could-cost-300-billion-nationwide/2558796/ (accessed July 6, 2021).
[17]U.S. Department of Labor, Office of Inspector General, "DOL–OIG Oversight of the Unemployment Insurance Program."

entire annual wages of 6.9 million median workers—unemployment expansions have also caused a personal-identity-theft assault on hundreds of thousands—if not millions—of Americans.

In the one-year period prior to the pandemic—between April 2019 and March 2020—the Federal Trade Commission (FTC) received 23,471 identity theft reports from individuals who said their personal information had been used to obtain a government document or claim a government benefit. [18] In the year following the pandemic—from April 2020 to March 2021—the FTC received 636,520 such reports—a 27-fold increase in a single year.[19]

While states have undertaken efforts to detect and prevent fraud, some states' actions may have *fueled* fraud. According to the *Los Angeles Times*, though the California state auditor recommended in March 2019 that the Employment Development Department (EDD) stop including Social Security numbers in its mailed documents, the EDD continued to send out 38 million pieces of mail containing Social Security numbers after the onset of the pandemic.[20] Of the California EDD's estimated 10 percent to 27 percent of fraudulent benefits paid out,[21] 35,000 were issued to names of California prison inmates.[22]

In addition to outright criminal activity through stolen identities, there has almost certainly been a high level of individual misuse, abuse, and fraud. Factors such as self-reported verification of eligibility standards allowed people to lie about whether they were working, to falsify how much income they were receiving prior to the pandemic, and to hide income they earned while receiving unemployment benefits.

Moreover, the generous benefits and easy eligibility undoubtedly caused workers to choose unemployment benefits over work. Anecdotes from employers across the country show this to be the case, and the data also confirm it. Never before has America experienced relatively high unemployment alongside a record number of job openings, a record-high quits rate, and a record-low number of layoffs.[23]

[18]See Tableau Public, "Identity Theft Reports by the Federal Trade Commission," FTC Consumer Sentinel Network Report, https://public.tableau.com/app/profile/federal.trade.commission/viz/IdentityTheftReports/TheftTypesOverTime (accessed August 2, 2021), and Federal Trade Commission, "Protecting Consumers During the COVID-19 Pandemic: A Year in Review," April 16, 2021, https://www.ftc.gov/system/files/documents/reports/protecting-consumers-during-covid-19-pandemic-year-review/covid_staff_report_final_419_0.pdf (accessed July 6, 2021).

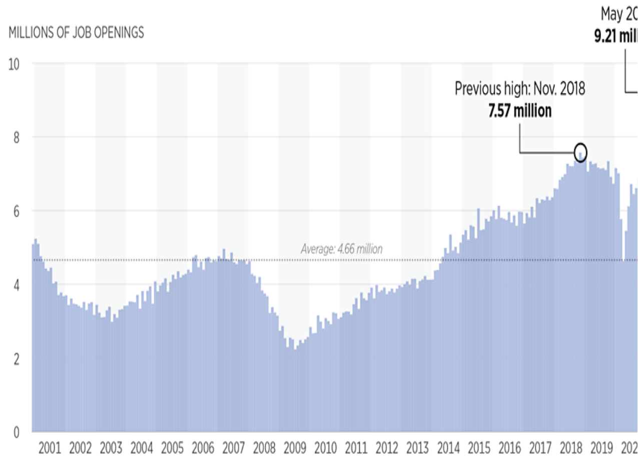
[19]Ibid.

[20]Patrick McGreevy, "Despite Reports of Unemployment Fraud, California Keeps Sending Mail with Social Security Info," *Los Angeles Times*, November 19, 2020, https://www.latimes.com/california/story/2020-11-19/california-edd-unemployment-social-security-numbers-fraud-forms (accessed June 29, 2021).

[21]State of California Employment Development Department, "California Unemployment: Fraud by the Numbers," January 16, 2021, https://www.edd.ca.gov/Unemployment/pdf/fraud-info-sheet.pdf (accessed July 6, 2021).

[22]Jack Kelly, "The Most Brazen $400 Billion Unemployment Funds Heist in History," *Forbes*, June 12, 2020, https://www.forbes.com/sites/jackkelly/2021/06/12/the-most-brazen-400-billion-unemployment-funds-heist-in-history/?sh=b3bbd302020e (accessed July 6, 2021).

[23]Rachel Greszler, "Fact Check: Was Biden Right About Federal Unemployment Benefits Having No Effect on Jobs Report?" The Daily Signal, May 12, 2021, https://www.dailysignal.com/2021/05/12/fact-check-was-biden-right-about-federal-unemployment-benefits-having-no-effect-on-job-report/.



Caution Against Permanent Unemployment Insurance Expansions

Both prior to and since the pandemic, policymakers have introduced proposals to expand the federal government's role in unemployment insurance,[24] including:

- Mandating that states provide at least 26 weeks of benefits, cover at least 75 percent of a typical worker's prior wages, cover part-time workers and those who quit their jobs with good cause, and eliminate one-week waiting periods;
- Establishing programs to cover independent workers, such as the self-employed, freelancers, contractors, and gig-workers;
- Expanding the current federal program to kick in automatically as a supplement based on economic conditions, and to provide 100 percent benefit replacement during major disasters or public health emergencies;
- Establishing a $250 weekly Job Seeker's Allowance available to any unemployed workers not covered by the traditional unemployment insurance system, such as self-employed workers and new entrants into the labor force; and
- Creating a $25 weekly allowance per dependent of unemployed workers.

As the pandemic unemployment programs proved, the higher dollar-value that unemployment benefits carry and the more easily accessible they become, the more readily criminals will steal Americans' identities to claim unemployment benefits. The magnitude of criminal fraud and the sheer number of Americans' identities that have been stolen throughout the pandemic suggest that the primary beneficiaries of such expansions may not be unemployed workers themselves, but rather criminals, with Americans' identities and tax dollars on the line.

Moreover, while these proposals are seemingly well-intended at improving the financial security of workers, government programs are not the most effective means to achieve this goal, and they will inevitably result in unintended consequences and costs.

For starters, economic studies consistently show that higher benefit levels and longer durations lead to higher levels of claims and longer periods of unemployment. As the Congressional Budget Office's analysis of extending the initial $600 bonus payments showed, higher benefit levels would be a drag on medium- and longer-term economic output and growth.[25]

[24] News release, "Bennet, Wyden Unveil Unemployment Insurance Overhaul," Senator Michael Bennet, April 14, 2021, https://www.bennet.senate.gov/public/index.cfm/2021/4/bennet-wyden-unveil-unemployment-insurance-overhaul (accessed June 29, 2021).

[25] Congressional Budget Office, "Economic Effects of Additional Unemployment Benefits of $600 per Week," Letter to the Honorable Charles Grassley, June 4, 2020, https://www.cbo.gov/system/files/2020-06/56387-CBO-Grassley-Letter.pdf (accessed August 1, 2021).

Unemployment insurance programs are effectively a means of forced savings, but with rigid rules and a bureaucratic process required to access the savings. Although employers pay the tax to finance unemployment programs, workers ultimately bear the cost of employment-based taxes through lower wages and benefits. This would cause workers to pay both for the direct expansion in benefits (such as larger unemployment checks and longer durations) and for the resulting increase in unemployment caused by those expansions.

Unemployment Insurance Not Practical, Effective for Independent Workers. Extending benefits to independent workers would be far more complicated and problematic than the existing unemployment insurance programs because these workers are their own bosses. The problems with insuring independent workers include difficulties with verifying past income, the lack of an employer to verify the reason for a claim (it would be hard to distinguish between workers who lost work through no fault of their own and those who wanted to take a month off), and administrative complications, such as the enforcement of a new unemployment insurance tax on millions of independent workers who have variable income and employment.

Moreover, unemployment insurance would be of little or no advantage to independent workers when compared to traditional savings. If workers were to make claims for unemployment insurance benefits, they would face steep unemployment insurance tax rates in the future. Furthermore, while it is common for independent workers to have swings in their income levels, it is less common for them to suddenly lose all income, which is the shock that traditional unemployment insurance programs seek to prevent.

Expanded and New Government Programs Would Open More Doors to Fraud

In addition to expanding unemployment insurance programs, many federal policymakers seek to implement multiple costly new government programs that would send checks to individuals and families and to select businesses that would need to collect, store, and transmit individuals' and children's personal information electronically or through the mail. Each time that an individual has to provide their personal information creates an opportunity for a criminal to steal that individual's identity and use it to receive government benefits, or potentially to sell it to others seeking the identity of an American citizen.

Moreover, the amount of taxpayers' money wasted—through improper payments—is extremely high for federal programs. This is especially true for so-called refundable tax credits, which are effectively just payments associated with having filed taxes without necessarily having worked or paid federal taxes.

A May 2021 report from the Treasury Department's Inspector General for Tax Administration suggests that improper payment rates are not something that policymakers or government agencies can easily reduce, but are inherent to the nature of government programs:

> Although error rates for each of these credits remain high, the IRS attributes these refundable tax credit overclaims to their statutory design and the complexity taxpayers face when self-certifying eligibility for the refundable tax credits and not to internal control

weaknesses, financial management deficiencies, or reporting failures.[26]

Monthly Child Payments Ripe for Fraud and Errors. Already, the Additional Child Tax Credit (which is the refundable portion of the Child Tax Credit) has a 12 percent improper payment rate.[27] Improper payments include erroneous and fraudulent payments.

The now-temporary, but proposed-to-become-permanent, child payments of $250 and $300 per month ($3,000 and $3,600 per year) could be subject to even higher improper payment rates. For starters, the increased amount would entice more people—whether criminals or family members who are not entitled to the payments—to wrongly claim them. By removing the current child tax credit requirement that individuals have reported taxable income to claim the credit, it would be easier for people to falsely claim monthly child payments.

Moreover, the monthly delivery of payments based on individuals' prior years' tax filings could result in payments delivered to the wrong addresses or wrong bank accounts. (If no information is available from the prior tax filing year, payments will be sent based on two-years' prior returns, increasing the risk of errors and fraud.) Families move throughout the year, children in the foster system frequently change homes, there are blended families with children from different parents, many families lack bank accounts, and some even lack homes altogether. Delivering nearly 900 million monthly child payments to the correct place will almost certainly be prone to more errors and fraud than incorporating tax credits for 70 million children into parents' annual tax filings.[28]

At an estimated cost of nearly $1.6 trillion over 10 years, a 12 percent improper payment rate would translate into an additional $187 billion in additional errors and fraud (on top of existing improper payments within the child tax credit).[29] But the higher dollar value, lack of income verification requirements, and monthly payment structure would almost certainly entice greater fraud and cause additional errors. If improper payment rates were to reach the 24 percent and 27 percent that exist, respectively, within the Earned Income Tax Credit and Net Premium Tax Credit (Obamacare subsidies), fraud and improper payments within the expanded portion of monthly child payments would exceed $400 billion over the next 10 years. If improper payments within the existing child tax credits were to have similar improper payment rates when transitioned to monthly payments, the total cost of all improper and fraudulent child payments could exceed $700 billion.[30]

[26]Treasury Inspector General for Tax Administration, "Improper Payment Rates for Refundable Tax Credits Remain High," May 10, 2021, https://www.treasury.gov/tigta/auditreports/2021reports/202140036fr.pdf (accessed August 1, 2021).

[27]Ibid.

[28]There were an estimated 74.1 million children ages zero through 17 in the U.S. in 2021. Multiplying this figure by 12 equals 890 million monthly child payments. The current Child Tax Credit excludes 17-year-olds, resulting in roughly 70 million children ages 16 and under in 2021. Child population figures available at: Childstats.gov, "POP1 Child population: Number of children (in millions) ages 0–17 in the United States by age, 1950–2019 and projected 2020–2050," https://www.childstats.gov/americaschildren/tables/pop1.asp (accessed August 1, 2021).

[29]Erica York and Huaqun Li, "Making the Expanded Child Tax Credit Permanent Would Cost Nearly $1.6 Trillion," Tax Foundation, March 19, 2021, https://taxfoundation.org/expanded-child-tax-credit-permanent/ (accessed August 1, 2021).

[30]According to the Congressional Research Service, the total cost of existing Child Tax Credits was $118 billion in 2018. This estimate increases that annual amount in proportion to the child population through 2031, for an estimated total of $1.333 trillion in current-law child tax credits for the period 2022–2031. Added to the Tax Foundation's estimated $1.558 trillion cost of the monthly payment expansion brings the total to $2.891 trillion over 10 years. See Congressional Research

Childcare Subsidies: Potentially High Error Rates, Risk for Children's Identities. President Biden has proposed to spend $225 billion of taxpayers' dollars to provide subsidies for the childcare of virtually all young children in the U.S. It is not entirely clear yet how those subsidies would work, but it could be similar to the Obamacare exchanges, where childcare providers that comply with the federal government's requirements would be listed among a federal childcare exchange network upon which families could shop for childcare.[31]

For starters, childcare payments would likely be subject to significant improper payments as their levels would vary with parents' incomes and the custody arrangements of a child. The Earned Income Tax Credit and Obamacare Subsidies (Net Premium Tax Credits), which respectively have 24 percent and 27 percent improper payment rates, provide a good estimate for the improper payment rates that could come alongside subsidized childcare payments.

Moreover, the subsidies would require a new federal database exchanging information with tens of thousands of child care providers. To receive the subsidies, childcare providers would have to obtain significant personal information from both parents and children, likely including full names, home addresses, cell phone numbers, places of employment, dates of birth, and social security numbers. The storage and transmission of this information across providers and the federal government would open the door to criminals stealing personal information that they could use for any number of purposes, such as claiming monthly child payments, filing unemployment insurance claims on behalf of parents, or selling personal information to third parties or to individuals in search of a U.S. citizen's identity.

Government Paid Family Leave Another Privacy and Fraud Concern. Among the many other government programs the Biden Administration seeks to establish is a federal paid family leave program. Unlike receiving paid family leave through an employer—who already has the individual's information and does not need to transmit it through any new channels—qualifying for and receiving paid family leave benefits from a federal program would require the exchange of significant personal and medical information, creating the opportunity for identity theft and wrongfully claimed benefits.

More Government Programs, More Avenues for Personally Identifiably Information Exposure. Governments and businesses are increasingly aware of the threats of identity theft, and most have taken measures to try to protect against identity theft.

The more government programs that individuals and families rely on, the more avenues exist for their personally identifiable information to be compromised.

While most governments work hard to protect their citizens' personal information, large programs create large room for error, and government agencies have been far from immune from data breaches. A few examples

Service, "The Child Tax Credit: How It Works and Who Receives It," updated November 17, 2020, https://fas.org/sgp/crs/misc/R41873.pdf (accessed August 1, 2021).

[31] Given the additional requirements that childcare providers would have to comply with to become a subsidized provider—things like childcare teachers needing college degrees, highly-prescribed rules dictating the precise infrastructure necessary to provide childcare, and government-mandated curriculums—the number of providers would be limited, with high-cost, urban areas likely offering the most choices and rural areas potentially having few or no subsidized providers available.

of large government data breaches over the past decade include:[32]

- 2011: The Texas Comptroller's Office revealed that 3.5 million Texans' personal information—including Social Security numbers—had been inadvertently placed on a publicly accessible state server for a full year.
- 2011: The security firm that oversees Tricare military health care, Science Applications International Corporation, experienced a data breach that included the personal information of 4.9 million military hospital and clinic patients.
- 2012: The South Carolina Revenue Department experienced a data breach in which 3.6 million Social Security numbers and 16,000 unencrypted credit card numbers were exposed.
- 2015: The U.S. Office of Personnel Management experienced two separate, but linked, intrusions that resulted in the breach of personal information on about 22 million federal employees, contractors, and others.

Moreover, while private businesses' viability depends upon them maintaining the privacy of their clients and individuals are free to choose which companies they provide their information, governments cannot go out of business for failing to protect their citizens' personal information, and individuals typically do not have a choice in providing their personal information to government agencies.

A More Effective, Lower-Risk Solution to Boost Individuals' and Families' Financial Security

The pandemic revealed that many Americans lack the savings they need to weather unexpected life events and loss of income. And even prior to the pandemic, it was already hard for families with young children to save for expected life events and costs such as taking family leave and paying for childcare.

Instead of establishing new government programs that leave less income in workers' and families' paychecks—or that effectively require kids to pay their own expenses by financing childcare subsidies and monthly child payments through increased debt—policymakers should let Americans keep more of the money they earn and make it easier for them to save it.

While many Americans can choose to save for college, for retirement, or for health care costs in specialized accounts, with rigid rules and restrictions, it is harder and more costly[33] to save for things like losing a job, having a car breaking down, needing to take family or medical leave, or paying for childcare.

Policymakers should establish universal savings accounts (USAs) so that all Americans can save and invest in a single, simple, and flexible account for any purpose, with no minimum contribution required, and without having to pay penalties or additional taxes upon withdrawal.[34] While not having enough money to save is a clear barrier to savings, a potentially equal or larger barrier can be the fear of not being able to access savings or having to pay early withdrawal penalties if workers and families need their savings for an unexpected expense.

USAs have been particularly helpful to lower-income and moderate-income households in

[32]Nate Lord, "Top 10 Biggest Government Data Breaches of All Time in the U.S.," Digital Guardian, October 6, 2020, https://digitalguardian.com/blog/top-10-biggest-us-government-data-breaches-all-time (accessed August 1, 2021).

[33]The reason non-specialized savings are more costly is that those savings are taxed twice; both as income when earned, and then again as capital gains, interest, or dividends before they are spent.

[34]Adam N. Michel, "Universal Savings Accounts Can Help All Americans Build Savings," Heritage Foundation *Backgrounder* No. 3370, December 4, 2018, https://www.heritage.org/taxes/report/universal-savings-accounts-can-help-all-americans-build-savings.

Canada and the United Kingdom, for instance, where low- and moderate-income individuals represent over 50 percent of account holders, and low- and moderate-income individuals save the highest percentages of their incomes.[35]

Moreover, instead of taking home smaller paychecks and then having to file for and submit personal identifiable information to many different government programs, the alternative of letting workers keep more of their earnings and allowing them to save in a single flexible account that they can use to directly purchase the things they want and need (without mandated release of their personal identifiable information), fewer Americans would have their personal information compromised.

Summary

Expanded unemployment insurance benefits were a necessary component of the federal government's economic response to the COVID-19 pandemic, but these programs' systematic failures, widespread fraud, and unintended economic effects should caution policymakers against making any of these unemployment insurance expansions permanent.

Even prior to these pandemic programs, large federal programs have been inherently plagued by excessive fraud and improper payment rates, sometimes exceeding 25 percent. And multiple government agencies have been subject to massive data breaches compromising tens of millions of individuals' personal information.

Criminals' exploitation of generous government programs to steal Americans' identities and taxpayers' dollars serves as a warning sign against the creation of new government programs that would simultaneously up the ante for criminals and establish new avenues for breaches of personally identifiable information. Instead of requiring individuals to pay higher taxes and submit their personal information to multiple government programs to obtain the things they need to support themselves and their families, policymakers should let Americans keep and save more of their own money so that they can use it on the things they want and need without being limited to what government programs will provide and without putting their personal identifiable information at risk.

[35]Organization for Economic Co-operation and Development, "Encouraging Savings Through Tax-Preferred Accounts," OECD *Tax Policy Study* No. 15, 2007, https://www.oecd-ilibrary.org/taxation/encouraging-savings-through-tax-preferred-accounts_9789264031364-en (accessed July 24, 2020).

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