United States Government Accountability Office

Report to Congressional Requesters

June 2025

ECONOMIC DOWNTURNS

Considerations for an Effective Automatic Fiscal Response

GAO-25-106455

GAO

Highlights

Highlights of GAO-25-106455, a report to congressional requesters

June 2025

ECONOMIC DOWNTURNS

Considerations for an Effective Automatic Fiscal Response

Why GAO Did This Study

GAO previously found that automatic stabilizers reduced the detrimental effects of recent economic downturns. For example, studies GAO reviewed showed that during downturns automatic stabilizers generated additional economic activity. They also had positive effects on the well-being of individuals and families, such as alleviating poverty and supporting positive health outcomes. Automatic stabilizers temporarily increase federal deficits in the wake of economic downturns.

GAO was asked to review several issues related to automatic stabilizers. This report describes (1) factors that contribute to the effective design of automatic stabilizers, (2) how triggers can be used to support automatic stabilization, and (3) the trade-offs and other considerations of select policy options to enhance automatic stabilizers.

To identify the factors that contribute to the effective design of automatic stabilizers and how triggers can be used to support automatic stabilization, GAO evaluated and compiled information from a literature review and from 21 expert interviews.

To identify policy options, GAO assessed information from a literature review and interviewed 21 experts in economic policy, social policy, automatic stabilizers, and specific policy areas. GAO evaluated evidence of various potential automatic stabilizers' strengths and limitations, including their alignment with the factors that make automatic stabilizers effective. GAO discussed the potential automatic stabilizers with applicable federal agencies.

What GAO Found

The federal budget contains mechanisms—known as automatic stabilizers—that alter spending levels and tax liabilities in response to changes in economic conditions without direct intervention by policymakers. For example, when incomes and the employment level fall, more people may become eligible for certain government benefits, such as unemployment insurance and food assistance, and tax liabilities may be lower. Conversely, when incomes and the employment level rise, eligibility for government benefits may fall and tax liabilities may rise.

GAO identified four principles that could be used to assess the design or reform of automatic stabilizers. Information from literature and economic and social policy experts suggests that effective automatic stabilizers are timely, temporary, targeted, and predictable. Within those four broad principles, GAO identified eight factors that contribute to the effective design of automatic stabilizers (see table).

Principles and Factors for Effective Design of Automatic Stabilizers

Principles	Automatic stabilizers are more effective when they:
Timely	Provide stimulus when it is needed most
Temporary	End stimulus as the economy recovers
	Are designed to minimize their long-term effect on the deficit
	Phase out benefits gradually as the economy recovers
Targeted	Are intended to have the greatest economic impact
	Reach the entire eligible population to the extent possible
	Tailor aid to state and local governments to reflect the relative severity of the economic downturn in each state or locality
Predictable	Are established in advance so that they are ready in times of crisis

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

Deficit increases caused by increased spending and lower tax revenue during economic downturns should be temporary and should be mitigated by automatic declines in spending and increases in tax revenue during periods of economic growth. Developing internal controls and improving fraud risk management in automatic stabilizer programs before an economic downturn takes place can help agencies reduce improper payments and help mitigate their effect on the deficit.

While some automatic stabilizers naturally adjust to economic conditions, others use a pre-determined set of rules, known as a trigger, to automatically initiate or expand economic stimulus at the beginning of an economic downturn and end or reduce stimulus when economic conditions no longer call for it. When economic indicators, such as the unemployment rate, reach an established threshold, triggers could start or end stimulus accordingly. Well-designed triggers have the potential to match stimulus to real-time economic conditions and avoid the delays that may occur when policymakers rely on taking discretionary action. However, designing triggers may be challenging, in part because it is difficult to accurately assess economic conditions in real time. Discretionary fiscal policy can allow policymakers more flexibility to tailor assistance to specific circumstances, but actions need to be timely to have the maximum effect.

What GAO Recommends

GAO previously recommended that Congress could consider enacting a Federal Medical Assistance Percentage formula that targets variable state Medicaid needs and provides automatic, timely, and temporary assistance in response to national economic downturns.

The Departments of Agriculture, Health and Human Services, Labor, and the Treasury provided technical comments, which we incorporated as appropriate.

For more information, contact Jeff Arkin at arkinj@gao.gov

Based on an analysis of the strengths and limitations of policy options from relevant literature and interviews with knowledgeable experts, GAO identified 17 potential policy options to enhance existing automatic stabilizers or to create new ones (see table). These options are not listed in any specific order and are not comprehensive of all potential policy options for enhancing automatic stabilizers. GAO previously recommended that Congress consider taking action that would enhance Medicaid as an automatic stabilizer. Other than that previous recommendation, GAO does not endorse any specific policy option.

Potential Policy Options to Strengthen Automatic Stabilizers

Policy Area	Policy Option
Unemployment Insurance (UI)	1. Temporarily expand UI eligibility
	2. Temporarily increase weekly UI benefit amounts
	3. Temporarily increase the duration of UI benefits
Short-Time Work Programs	4. Temporarily federally fund the Short-Time Compensation program[a]
	5. Expand short-time work programs to all states
Supplemental Nutrition Assistance Program (SNAP)	6. Temporarily increase SNAP benefit amounts
	7. Temporarily suspend SNAP time limit and work requirements for able-bodied adults without dependents
	8. Temporarily waive certain SNAP administrative requirements
	9. Temporarily increase federal SNAP administrative funding to states
Medicaid	10. Adjust the Federal Medical Assistance Percentage formula to be responsive to economic conditions
Tax system	11. Provide direct payments to individuals and families through the tax system
	12. Temporarily reduce employee payroll taxes
Earned Income Tax Credit (EITC)	13. Temporarily allow taxpayers the option to include or exclude UI compensation when calculating EITC
	14. Temporarily increase EITC amounts for eligible taxpayers without qualifying children
	15. Temporarily allow taxpayers the option to use income from a prior year to calculate EITC amounts
	16. Temporarily increase the EITC phase-in rate
Child Tax Credit	17. Temporarily provide an advance Child Tax Credit

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

[a]The Short-Time Compensation program is a part of the UI system and allows employees experiencing a reduction in work hours to collect a percentage of unemployment benefits to replace a portion of their lost wages.

Each of these policy options have trade-offs with other policy goals. Some general trade-offs that are broadly applicable to many of the options include:

Economy. Generally, strengthening automatic stabilizers can reduce the detrimental effects of economic downturns and prevent the economy from getting worse. However, enhancing automatic stabilizers could potentially contribute to inflation if they generate a large amount of spending that caused demand for goods and services to exceed the economy's capacity.

Federal budget. Strengthening automatic stabilizers in ways that increase spending or reduce tax revenue during an economic downturn could add to the federal deficit and debt. However, during periods of economic growth automatic stabilizers result in less federal spending and more tax revenue, which could help reduce deficits. Policy design should carefully weigh the benefits of additional stabilization with any additional budgetary cost.

Improper payments. Increasing benefit amounts or expanding eligibility without appropriate administrative capacity could increase the risk of improper payments—payments that should not have been made or were made in incorrect amounts. Improper payments can include payments to ineligible recipients, duplicative payments, or payments for ineligible goods and services. Developing internal controls before a crisis occurs could help prevent or mitigate improper payments and potential fraud.

Contents

Abbreviations

ABAWD	Able-Bodied Adults Without Dependents
ACTC	additional child tax credit
AGI	adjusted gross income
ARPA	American Rescue Plan Act of 2021
CBO	Congressional Budget Office
CHIP	Children’s Health Insurance Program
CTC	Child Tax Credit
DOL	Department of Labor
DSH	Disproportionate Share Hospital
DWP	Department for Work and Pensions
EB	Extended Benefits
E-FMAP	enhanced Federal Medical Assistance Percentage
EI	Employment Insurance
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
EPOP	employment-to-population
ERC	Employee Retention Credit
EU	European Union
FEA	Federal Employment Agency
FMAP	Federal Medical Assistance Percentage
FNS	Food and Nutrition Service
G7	Group of 7
GDP	gross domestic product

HHS	Department of Health and Human Services
HMRC	His Majesty's Revenue and Customs
IMF	International Monetary Fund
IRS	Internal Revenue Service
MEUC	Mixed Earner Unemployment Compensation
NBER	National Bureau of Economic Research
NPS	National Insurance and Pay As You Earn Service
OECD	Organisation for Economic Co-operation and Development
OIG	Office of Inspector General
PPP	Paycheck Protection Program
PUA	Pandemic Unemployment Assistance
SBA	Small Business Administration
SNAP	Supplemental Nutrition Assistance Program
STC	Short-Time Compensation
STW	Short-Time Work
TFP	Thrifty Food Plan
Treasury	Department of the Treasury
TIGTA	Treasury Inspector General for Tax Administration
UC	Universal Credit
UI	Unemployment Insurance
UK	United Kingdom
USDA	U.S. Department of Agriculture

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

June 9, 2025

The Honorable Ron Wyden
Ranking Member
Committee on Finance
United States Senate

The Honorable Michael F. Bennet
United States Senate

Since 2000, the U.S economy has experienced three recessions, most recently the rapid and severe recession caused by the COVID-19 pandemic. In response, the federal government used tax and spending policies to stimulate economic growth and limit the detrimental economic effects on individuals and families. Some of this stimulus was enacted in direct response to the recession through legislation including the Jobs and Growth Tax Relief Reconciliation Act of 2003, the American Recovery and Reinvestment Act of 2009, the CARES Act, and the American Rescue Plan Act of 2021.[1]

Some of this stimulus also occurred automatically through certain provisions in federal law known as automatic stabilizers. These provisions alter spending levels and tax liabilities to respond to the effects of fluctuations in economic activity without the need for changes in the tax code or other legislation. As a result, they can provide timely adjustments in response to changes in economic conditions without direct intervention by policymakers. For example, when incomes and the employment level fall, more people may become eligible for certain government benefits, such as Unemployment Insurance and food assistance, and tax liabilities may be lower. Conversely, when incomes and the employment level rise, eligibility for government benefits may fall and tax liabilities may rise.

[1]The federal government provided $10 billion in temporary fiscal relief payments to states as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, § 401(b), 117 Stat. 752, 766 (2003), to provide antirecession fiscal stimulus and to help close state budget shortfalls due to the recession that began in March 2001, and also provided over $800 million to respond to the 2007-2009 financial crisis through the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009). In response to the COVID-19 pandemic, the federal government provided about $4.7 trillion through the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020), the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021), and other COVID-19 relief laws.

While some automatic stabilizers naturally adjust to economic conditions, others use a predetermined set of rules, known as a trigger, to activate changes in response to economic conditions. Triggers are tools that can automatically initiate stimulus at the beginning of an economic downturn and end stimulus when economic conditions no longer call for it. When economic indicators, such as the unemployment rate, reach an established threshold, triggers will start or end stimulus accordingly.

Strengthening automatic stabilizers could potentially help the federal government further support economic growth in the near-term to recover more quickly from recessions and further help vulnerable individuals and families mitigate the inevitable hardships that accompany them while also building in safeguards to prevent improper payments and fraud. At the same time, strengthening automatic stabilizers could potentially help the government automatically reduce support for the economy and individuals as the economic outlook improves to avoid overstimulating the economy and further contributing to federal deficits and debt.

We were asked to review several issues related to automatic stabilizers. We previously reported on the effect of automatic stabilizers on the well-being of individuals and families during economic downturns.[2] In this report, we (1) examine the factors that contribute to the effective design of automatic stabilizers, (2) describe how triggers can be used to support automatic stabilization, and (3) identify policy options that could enhance automatic stabilizers, along with related trade-offs and other considerations.

We focused this report on two categories of automatic stabilizers: existing automatic stabilizers and potential new automatic stabilizers. The major existing automatic stabilizer programs, as identified by the Congressional Budget Office (CBO), are Unemployment Insurance (UI), the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and several provisions in the tax code. We previously reported that these automatic stabilizers reduced the detrimental effects of economic downturns and improved the well-being of individuals and families.[3] Potential new automatic stabilizers we selected for analysis include existing federal programs that currently do not automatically respond to

[2]GAO, *Economic Downturns: Effects of Automatic Spending Programs and Taxes*, GAO-24-106056 (Washington, D.C.: Nov. 16, 2023).

[3]GAO-24-106056.

changes in economic conditions and previous temporary programs that have been enacted in response to prior economic downturns.

To do this work, we:

- Conducted a literature review of publications from academia, government, international organizations, and think tanks.
- Interviewed knowledgeable subject matter experts from government, nongovernmental organizations, organizations representing state and local governments, and academia.
- Conducted case studies of three countries: Canada, Germany, and the United Kingdom (UK).[4] We selected these countries based on several characteristics, including membership in the Group of 7 (G7) and Organisation for Economic Co-operation and Development (OECD), and to ensure representation of both centralized and decentralized governmental structures.[5]
- Identified factors and trade-offs that make automatic stabilizers effective in supporting the economy and the well-being of individuals and families and how triggers could be used to support stabilization by synthesizing themes from the literature review and expert interviews. We obtained feedback from experts on a draft list of factors before finalizing the list.
- Identified and selected policy options for both enhancing current automatic stabilizers and for potentially creating new ones. To do this, we (1) identified potential policy options based on a review of literature and interviews with experts; (2) analyzed the potential policy options to ensure that they met certain criteria, such as being targeted to individuals and families and being administered or at least partially

[4]We did not conduct an independent legal analysis to verify the information we obtained about the laws, regulations, or policies of the foreign governments selected for this study. Instead, we relied on appropriate secondary sources, including government websites, interviews with government officials, government reports, and other sources to describe programs in our case study countries.

[5]G7 is an informal forum of Canada, France, Germany, Italy, Japan, the UK, and the U.S. established as a platform for economic and financial cooperation. OECD members are committed to democracy based on the rule of law and human rights, and adherence to open and transparent market-economy principles. OECD members also have significant budget and financial sector infrastructure and progressive tax systems that are regularly monitored by OECD officials. G7 participants and OECD members have various governance structures. Governance structures can be centralized, with administrative responsibilities held primarily at the national level, or decentralized with administrative responsibilities shared between the national and subnational governments, such as states.

funded by the federal government; (3) analyzed the strengths and limitations of these policy options, including their alignment with the factors that contribute to the effectiveness of automatic stabilizers; and (4) consulted with experts and the federal agencies that would administer or oversee the applicable programs and taxes. Our list of policy options is not comprehensive of all potential policy options for enhancing or creating new automatic stabilizers. We do not endorse the potential policy options, except for one option that we previously recommended to Congress.

We conducted this performance audit from December 2022 to June 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Automatic Stabilizers Are Fiscal Mechanisms That Help Stabilize the Economy During Downturns

Economies go through alternating periods of upswings and downturns. This pattern is commonly referred to as the business cycle.[6] The National Bureau of Economic Research (NBER) defines a recession as a significant decline in economic activity that is spread across the economy and that lasts more than a few months.[7] NBER defines an economic expansion as occurring after the economy reaches its lowest point and economic activity begins to increase.

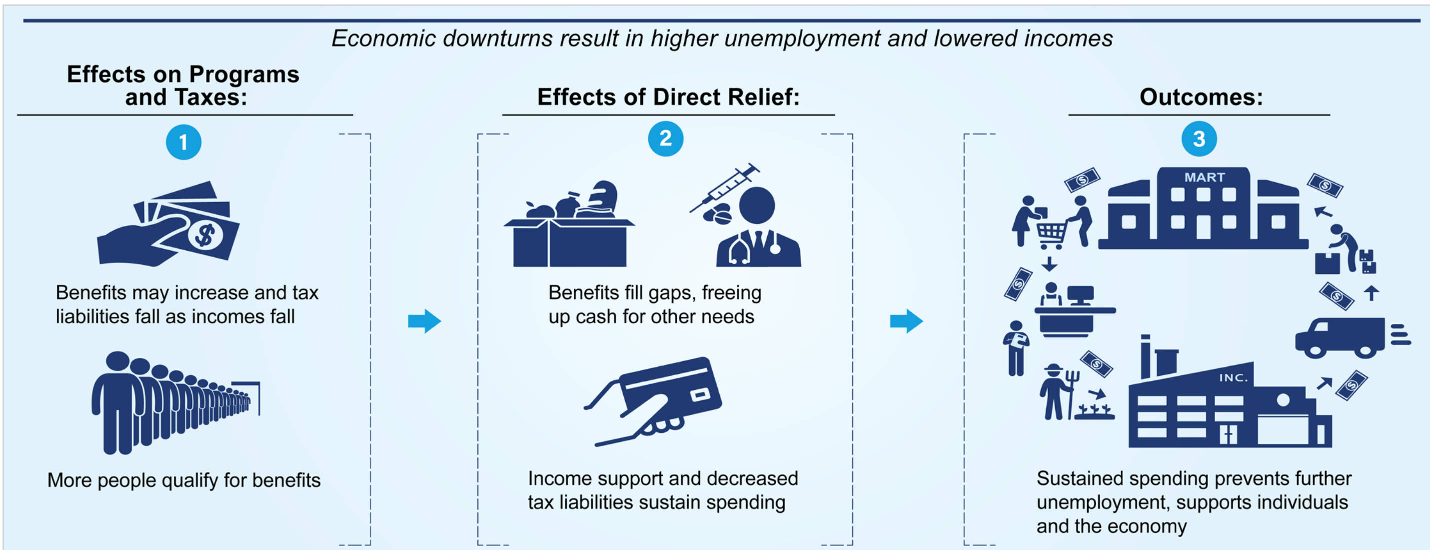
During economic downturns, automatic stabilizers are one way the federal government can use tax and spending policies to support economic growth and limit the detrimental effects on individuals and families. Studies we reviewed in our prior work found that automatic

[6]A business cycle refers to the period where overall economic activity fluctuates between a high point (peak) and a low point (trough). When the economy begins to rise out of a trough, it marks the beginning of a new cycle. Business cycles vary in length and magnitude.

[7]Recessions are designated by a committee of experts within NBER, a private nonprofit research organization established in 1920 that focuses on understanding the U.S. economy. NBER research is supported by grants from government agencies or private foundations, by corporation and individual contributions, and by income from the NBER’s investment portfolio. The NBER committee uses indicators such as employment, personal income, industrial production, and quarterly economic growth to calculate monthly data on recessions.

stabilizers limit the depth of economic downturns and reduce fluctuations in economic activity.[8] Figure 1 provides examples of how tax provisions and spending programs work as automatic stabilizers and affect the economy.

Figure 1: Effects of Automatic Stabilizers During Economic Downturns



Source: GAO analysis. See appendix IV for additional source information on graphics. | GAO-25-106455

Automatic stabilizer mechanisms help to reduce uncertainty individuals may experience during an economic downturn related to potential financial hardships, such as job loss and food insecurity. Mitigating this uncertainty can help prevent people from substantially reducing consumption and increasing saving in anticipation of such financial hardship, actions that can exacerbate the effects of a downturn.

[8] GAO-24-106056, and Cashin et al., "Fiscal Policy and Aggregate Demand," 1538 and Glenn Follette and Byron Lutz, "Fiscal Policy in the United States: Automatic Stabilizers, Discretionary Fiscal Policy Actions, and the Economy," *Finance and Economics Discussion Series* No. 43, Federal Reserve Board (Washington, D.C.: 2010), 17.

Key Automatic Stabilizer Programs

There are three spending programs that CBO identified as automatic stabilizers: UI, SNAP, and Medicaid.[9] All three of these programs experience increased enrollment during economic downturns and a decrease in enrollment as the economy recovers.[10]

- **UI** is a joint federal-state program that provides temporary financial assistance to eligible workers who have become unemployed through no fault of their own by replacing a portion of a recipient's previous employment earnings.[11] UI benefits are primarily funded through state taxes on employers, while program administration is financed through a federal tax on employers.[12]
- **SNAP** provides nutrition benefits to supplement the food budgets of low-income households. The goal of SNAP is to help low-income households obtain a more nutritious diet by increasing their food-purchasing power. SNAP benefits are funded by the federal government, with administrative costs shared by states. SNAP benefit eligibility and amounts are determined by household size and income.[13]
- **Medicaid** finances health care coverage for millions of low-income and medically needy individuals. Medicaid is jointly funded by the federal government and states, with the federal government matching most state expenditures based on a statutory formula that covers at least half of states' expenditures.[14]

[9]CBO officials told us that they consider programs automatic stabilizers for the purposes of their budget estimates when the level of spending is most affected by the business cycle. They exclude programs that are too small to be considered a major program or are not affected by the business cycle.

[10]Economic downturns have implications for state governments' funding and administration of these programs. Costs for funding UI benefits and Medicaid increase during economic downturns when enrollment for these programs increases. In addition, because state governments administer UI, SNAP, and Medicaid, they bear the additional workload of processing new applications. On the other hand, state revenues often decline during economic downturns. Because states are typically required to maintain balanced budgets, they can face significant fiscal pressure during economic downturns.

[11]In addition to the 50 states, the District of Columbia, the Commonwealth of Puerto Rico, and the U.S. Virgin Islands also participate in UI.

[12]*See generally* 26 U.S.C. §§ 3301-3311.

[13]*See generally* 7 U.S.C. §§ 2011-2036d.

[14]42 U.S.C. § 1396d(b).

In addition to these three spending programs, CBO identified multiple provisions within the U.S. tax code that also act as automatic stabilizers. These include provisions for (1) individual income tax; (2) payroll taxes (taxes that pay for Medicare, Social Security, and UI); (3) corporate income tax; and (4) taxes on production and imports. For example, individual income taxes are progressive, meaning that individuals with higher incomes generally pay a higher share of their income in taxes while individuals with lower incomes generally pay a lower share. During economic expansions, income tax revenue increases as individual incomes rise and the share of income paid in taxes rises. The opposite effect occurs during downturns. CBO analysis shows that the taxes that act as automatic stabilizers account for nearly all federal revenue.[15]

These programs and the taxes exist primarily for purposes beyond economic stabilization. They were created with other goals, for example, supplementing the food budgets of low-income families or collecting revenue to fund government programs and operations.

Discretionary Fiscal Policies

In addition to automatic stabilizers, the federal government can make temporary changes to taxes or spending programs—referred to as discretionary fiscal policy.[16] Discretionary fiscal policy is often used to make temporary changes to key automatic stabilizer spending programs either to extend the duration of benefits, provide benefits to individuals who do not traditionally qualify, or increase benefit amounts for eligible individuals.[17] Discretionary fiscal policy provides policymakers with more flexibility to tailor assistance to specific circumstances, but it sometimes entails a delay in providing benefits since adjustments to programs may require legislative action.

Automatic Stabilizers in Other Advanced Economies

According to the International Monetary Fund and OECD, the ability of automatic stabilizers to reduce the severity of downturns in the business cycle can be related to the size of the government's spending and revenue as a share of the economy. Automatic stabilizers in advanced

[15]In fiscal year 2023, individual and corporate income taxes, payroll taxes, and excise taxes accounted for 96.5 percent of the revenue collected by the government.

[16]Monetary and fiscal policy are two broad sets of tools the federal government can use to mitigate the effects of economic downturns and promote growth. Monetary policy is directed by the Federal Reserve and can encourage economic activity. It includes policies that affect the money supply, interest rates, and credit availability. Fiscal policy, such as increasing government spending, lowering tax revenue, or some combination of both, can also encourage economic activity.

[17]GAO-24-106056.

economies typically include progressive tax systems as well as spending programs such as unemployment benefits and short-term work programs, which allow employers to retain employees during downturns.[18]

OECD simulations show that automatic stabilizers offset an average of 60 percent of economic shocks to household disposable income in 23 OECD countries. However, the effects of automatic stabilizers vary significantly across countries, with the U.S. near the middle of this range.[19]

To show how automatic stabilizers operate in other advanced economies, appendix II provides illustrative examples from Canada, Germany, and the UK. While these three countries' automatic stabilizers operate in different ways, they all demonstrate how automatic stabilizers can be used to support the economy and the well-being of individuals and families.

Automatic Stabilizers are More Effective if They Are Timely, Temporary, Targeted, and Predictable

We identified several factors for designing automatic stabilizers that are effective in supporting the economy and the well-being of individuals and families, as well as trade-offs between those factors and other policy goals. These factors are based on a synthesis of information from our literature review and interviews with experts in economic policy, social policy, and automatic stabilizers. They align with four broad principles for policymakers to consider when enhancing existing automatic stabilizers and creating new ones: ensuring that they are timely, temporary, targeted, and predictable (see table 1).

[18]OECD found that automatic stabilizers offset between 40 percent and nearly 100 percent of economic shocks to household disposable income in its member nations, based on 2016 data. Alessandro Maravalle, Lukasz Rawdanowicz, *"How Effective are Automatic Fiscal Stabilisers in the OECD Countries?,"* Working Paper No. 1635 (Paris, France: OECD Economics Department, Jan. 2020); João Tovar Jalles, Youssouf Kiendrebeogo, W. Raphael Lam, and Roberto Piazza, *"Revisiting the Countercycality of Fiscal Policy,"* Working Paper WP/23/89 (Washington, D.C.: International Monetary Fund, April 2020).

[19]Maravalle and Rawdanowicz, *How Effective are Automatic Fiscal Stabilisers*, 11.

Table 1: Principles and Factors for Effective Design of Automatic Stabilizers

Principles	Automatic stabilizers are more effective when they:
Timely	**Factor 1:** Provide stimulus when it is needed most
Temporary	**Factor 2:** End stimulus as the economy recovers
	Factor 3: Are designed to minimize their long-term effect on the deficit
	Factor 4: Phase out benefits gradually as the economy recovers
Targeted	**Factor 5:** Are intended to have the greatest economic impact
	Factor 6: Reach the entire eligible population to the extent possible
	Factor 7: Tailor aid to state and local governments to reflect the relative severity of the economic downturn in each state or locality
Predictable	**Factor 8:** Are established in advance so that they are ready in times of crisis

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

Automatic stabilizers in the U.S. and our three case study countries—Canada, Germany, and the UK—can serve as illustrative examples of how these factors help automatic stabilizers support the economy and well-being.[20]

Automatic stabilizers operate through programs and taxes that exist primarily for purposes beyond economic stabilization. For example, SNAP helps low-income families afford nutritious food, and payroll taxes finance Medicare and Social Security. As a result, it is important to consider any potential changes to automatic stabilizers in tandem with other policy goals, such as program administration, prevention of improper payments and fraud, and fiscal sustainability.

Automatic Stabilizers Are More Effective When They Are Timely

To provide the greatest benefit to the economy and the well-being of individuals and families, stimulus should be provided as soon as possible when an economic downturn begins. However, precisely timing stimulus can be a challenge. If it is implemented too early, the economic impact of the stimulus may not be large enough to justify its budgetary cost. On the other hand, if it is implemented too late there is a risk that the economic downturn becomes so severe that much more stimulus is needed to stabilize the economy. In addition, if stimulus is not initiated until after the economy has started to recover, it may contribute to inflation.

[20]For more detailed examples of automatic stabilizers in Canada, Germany, and the UK, see appendix II.

Factor 1: Automatic stabilizers are more effective when they provide stimulus when it is needed most.

Compared to discretionary fiscal policy, automatic stabilizers generally can provide stimulus more quickly because they respond directly to economic conditions without the need for policymakers to act. Conversely, they can ensure that stimulus ends based on economic conditions so it does not end too early, which could jeopardize economic recovery, or last too long, which could contribute to inflation.

Timely stimulus can also ensure that individuals and families receive support at the right time. During economic downturns, many people lose their jobs or face increased financial instability. By providing support for the economy at the right time, automatic stabilizers can prevent these conditions from getting worse and provide support for people facing economic hardship when they need it most. For example, one expert on the federal social safety net whom we interviewed said that when automatic stabilizers are available at the time of income loss, they can replace that income and help people maintain consumption, which dampens economic shock and maintains well-being for individuals and families. Similarly, we previously found that UI benefits can help households that have suffered job loss sustain consumption, leading to increased demand for goods and services which bolsters economic activity and reduces the unemployment rate.[21]

Providing programmatic flexibilities, such as easing administrative requirements, could also streamline the process for individuals and families facing economic hardship to receive financial assistance. However, providing stimulus quickly can hinder fraud prevention by limiting the time available to apply processes intended to ensure government assistance is provided only to eligible individuals and families, and in the correct amounts.

[21]GAO-24-106056.

Example: Germany's Short-Time Work Program Balances Timely Payments with Fraud Prevention

Germany's Short-Time Work (STW) program allows workers to remain employed and companies to retain workers during economic downturns. Companies facing hardship reduce workers' hours instead of laying them off, and the government provides 60 percent of their net income (or 67 percent for workers with children) for the hours not worked.

To initiate STW, a company submits a written announcement to its local employment agency. After the local employment agency reviews the company's announcement and confirms that basic requirements for participation have been met, the company can request that the local employment agency reimburse it for eligible costs. According to officials from Germany's Federal Employment Agency (FEA), the government typically makes payments to companies within 15 business days of the announcement. They said that the company's monthly requests for reimbursement are reviewed for accuracy by FEA. As part of this process, officials told us they use software to assist in detecting instances of potential fraud. FEA officials explained that a comprehensive final examination is conducted after STW has ended for the company. According to FEA officials, if fraud is discovered the company must immediately pay back benefits or face prosecution. This multi-stage process enables Germany to provide timely assistance to companies and workers during economic downturns, which prevents layoffs and helps avoid further economic disruption.

Source: GAO analysis of German government information and information provided by officials from Germany's FEA. | GAO-25-106455

Automatic Stabilizers Are More Effective When They Are Temporary

Ending stimulus as the economy recovers can help limit the detrimental effects that automatic stabilizers can have on other policy goals, such as deficit reduction and preventing the economy from overheating.

What happens when the economy overheats?

The economy is said to overheat when the demand for goods and services exceeds what can be produced when the economy is at full capacity. When this occurs, the resulting gap between supply and demand can lead to a rise in inflation.

An overheating economy may lead to a downturn if high inflation persists and policymakers enact contractionary fiscal policies that shrink the economy, such as increasing taxes or reducing government spending. Additionally, central banks could take actions that increase interest rates, which would make borrowing more expensive and saving more attractive, thereby reducing spending and slowing the economy.

Source: GAO analysis. | GAO-25-106455

Factor 2: Automatic stabilizers are more effective when they end stimulus as the economy recovers.

Ending stimulus as the economy recovers can help limit the growth of federal deficits and debt, as well as the economic effects of rising debt. According to CBO, perpetually rising debt as a share of gross domestic product (GDP) has many direct and indirect implications for the economy and individuals.[22] For example, as the government's borrowing needs grow, interest rates could rise. Higher interest rates may entice some investors to buy Treasury securities, leaving less capital available to invest in other productive uses, such as research and development.

Example: The United Kingdom's Universal Credit Automatically Adjusts Benefit Payments Using Real-Time Earnings Data

The United Kingdom (UK) provides monthly direct payments to eligible low-income beneficiaries, known as Universal Credit (UC). Payments vary by income. For recipients with earned income, the amount is reduced by 55 pence for every £1 of earnings. As such, during economic downturns more people are eligible and payment amounts can increase for beneficiaries who experience a decline in income.

Payments are automatically adjusted to reflect most beneficiaries' current wages and taxes using real-time data from His Majesty's Revenue and Customs, the UK's tax agency. These data are shared with the Department of Work and Pensions, which administers UC. By automatically adjusting payments based on real time data, the UK ensures that the financial support UC provides is tailored to current economic circumstances and the needs of individuals and families.

Source: GAO analysis of United Kingdom government reports and information. | GAO-25-106455

Similar to the challenges of determining when to initiate stimulus described above, it can be difficult to determine when to end stimulus. Ending benefits too early, while unemployment remains elevated, could hamper economic recovery and remove benefits when individuals and families are still relying on them to mitigate hardships caused by the economic downturn. One economic policy expert we interviewed suggested that the duration of benefits should correspond with the unemployment rate. Specifically, when the unemployment rate remains high for a longer period of time, this expert said that benefits should be provided for longer, when it can be harder to find employment. Similarly,

[22]CBO, *The Economic Effects of Waiting to Stabilize the Federal Debt* (Washington, D.C.: Apr. 28, 2022).

we have reported that the federal government could provide states with additional temporary Medicaid assistance during economic downturns based on the employment-to-population ratio.[23]

Factor 3: Automatic stabilizers are more effective when they are designed to minimize their long-term effect on the deficit.

We previously found that automatic stabilizers contributed to federal deficits in the wake of recent economic downturns, when spending increased and tax revenue declined, but are not the key drivers of debt over the long term.[24] Deficit increases caused by automatic stabilizers during economic downturns should be temporary and should be mitigated by automatic declines in spending and increases in tax revenue during periods of economic growth. By supporting economic growth, automatic stabilizers can also help improve the federal government's fiscal condition over time.

To be consistent with a long-term fiscal policy it is important that automatic stabilizers strike the right balance between short-term deficits and long-term economic growth. The federal government faces an unsustainable fiscal path due to an imbalance between spending and revenue that is built into current law and policy. In February 2025, we projected that debt held by the public would reach its historical high of 106 percent of GDP by 2027 and grow more than twice as fast of the economy over a 30-year period, reaching 200 percent of GDP by 2047.[25] If not addressed, this poses serious economic, security, and social challenges. Since 2017, we have suggested that Congress develop a strategy to place the government on a sustainable long-term fiscal path,

[23]The employment-to-population ratio compares the number of employed persons in a state to the working age population aged 16 and older. See GAO, *Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns*, GAO-12-38 (Washington, D.C.: Nov. 10, 2011).

[24]GAO-24-106056.

[25]GAO, *The Nation's Fiscal Health: Strategy Needed as Debt Levels Accelerate*, GAO-25-107714 (Washington, D.C.: Feb. 5, 2025).

where government spending and revenue result in a stable or declining ratio of debt held by the public to GDP over the long term.[26]

Reducing improper payments and improving fraud risk management in automatic stabilizer programs can help mitigate their effect on the deficit. We found that for fiscal year 2024, four automatic stabilizer programs—Medicaid, the Earned Income Tax Credit, SNAP, and UI—totaled $64 billion in estimated improper payments. [27] Improper payments include overpayments and underpayments, which can result from fraud, lack of agency oversight, mismanagement, errors, and abuse. We previously developed a framework with five principles and corresponding practices that can help Congress and federal program managers design and manage programs that provide emergency assistance funding.[28] Specifically, the five principles are:

- commit to managing improper payments;
- identify and assess improper payment risks, including fraud;
- design and implement effective control activities;
- monitor the effectiveness of controls in managing improper payments; and
- provide and obtain information to manage improper payments.

When properly and promptly applied, these principles can successfully reduce improper payments.

Factor 4: Automatic stabilizers are more effective when benefits are phased out gradually as the economy recovers.

Gradually phasing out benefits when economic conditions indicate that they should be ended prevents recipients from abruptly losing support. If the additional benefits provided during an economic downturn are reduced to predownturn levels all at once, individuals and families may

[26]GAO, *The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future*, GAO-17-237SP (Washington, D.C.: Jan. 17, 2017).

[27]GAO, *Improper Payments: Information on Agencies' Fiscal Year 2024 Estimates*, GAO-25-107753 (Washington, D.C.: Mar. 11, 2025).

[28]GAO, *A Framework for Managing Improper Payments in Emergency Assistance Programs*, GAO-23-105876 (Washington, D.C.: July 13, 2023).

face a sudden drop in income that causes them to reduce their consumption, which could in turn slow economic recovery. We previously reported that in October 2021, following the September 2021 expiration of more generous UI payments, the number of households that reported not having enough to eat began to rise steadily.[29]

On the other hand, one economic and social policy expert we interviewed pointed out that if there were predictable pre-established conditions for ending stimulus the ability to plan may mitigate the impact on recipients. For example, some discretionary fiscal policy actions taken during the COVID-19 pandemic, such as continuous Medicaid enrollment, initially had end dates corresponding to the duration of the public health emergency.[30] This led to uncertainty about the duration of Medicaid coverage for enrolled individuals and state administrative agencies. We previously recommended that the Centers for Medicare & Medicaid Services document and implement lessons learned from the end of the continuous enrollment requirement.[31]

Phasing out benefits could have effects on other policy goals. For example, the more complicated a mechanism for phasing out benefits is, the more administrative burden it could create. Agencies that administer automatic stabilizers like SNAP may have to make multiple changes to their systems to implement a gradual benefit reduction.

In addition, we previously found that while reducing benefits as earnings rise can create potential work disincentives, a more gradual phase-out

[29]GAO-24-106056.

[30]Under the Families First Coronavirus Response Act, to receive temporary enhanced federal funding, states were required to keep enrollees continuously enrolled in Medicaid during the public health emergency. Pub. L. No. 116-127, § 6008(b)(3), 134 Stat. 178, 208 (2020).

[31]Subsequently, the Continuous Appropriations Act, 2023, delinked the end of the continuous enrollment condition from the end of the public health emergency, and instead required that the continuous enrollment condition end on March 31, 2023, which was before the end of the public health emergency. Pub. L. No. 117-328, div. FF, tit. V, subtit. D, §5131, 136 Stat. 4459, 5949 (2022). States were then required to resume full eligibility redeterminations, including disenrollments. This transition from continuous enrollment is known as Medicaid “unwinding.” See GAO, *Medicaid: Federal Oversight of State Eligibility Redeterminations Should Reflect Lessons Learned after COVID-19,* GAO-24-106883 (Washington, D.C.: July 18, 2024).

can lessen these disincentives.[32] However, a slower phase-out of benefits can increase budgetary costs.

Automatic Stabilizers Are More Effective When They Are Targeted

According to CBO, the same dollar amount of spending increases or tax reductions can have significantly different effects on overall demand, depending on how it is provided and to whom.[33] Therefore, designing automatic stabilizers so that they are well-targeted can help ensure that they increase economic activity as much as possible for a given budgetary cost. In addition, targeting the amount of stimulus so that it reflects the magnitude of an economic downturn can prevent an over-response that could have excessive budgetary costs and potentially lead to inflation. Targeting can also ensure that stimulus protects the well-being of individuals and families by assisting those who have been most effected by an economic downturn.

Factor 5: Automatic stabilizers are more effective when they are intended to have the greatest economic impact.

Well-targeted stimulus can have the greatest impact on the economy and well-being for a given budgetary cost. Stimulus funds have a more profound effect on short-run demand when recipients spend—rather than save—the financial assistance that they receive. Studies we reviewed found that providing stimulus to low-income individuals and families has the greatest boost to short-run demand in the economy for a given budgetary cost because they are likely to spend any assistance on immediate needs.[34]

In addition, targeting those with the greatest need can have the most significant effect on the well-being of individuals and families during economic downturns. For example, we previously found that SNAP

[32]GAO, *Federal Low-Income Programs: Multiple Programs Target Diverse Populations and Needs*, GAO-15-516 (Washington, D.C.: July 30, 2015).

[33]Congressional Budget Office, *Options for Responding to Short-Term Economic Weakness* (Washington, D.C.: January 2008).

[34]Congressional Budget Office, *Options for Responding*; Douglas W. Elmendorf and Jason Furman, *If, When, How: A Primer on Fiscal Stimulus* (Washington, D.C.: The Hamilton Project, January 2008); Organisation for Economic Co-operation and Development, *Employment Outlook 2017* (Paris: OECD Publishing, 2017).

helped the poorest households moderate income fluctuations and UI helped keep people out of poverty during recent economic downturns.[35] However, the effects of individual economic downturns vary, and some may have a greater effect on higher-income individuals, such as homeowners.

Example: Canada Adjusts Employment Insurance Benefits Based on Regional Economic Conditions

Canada's Employment Insurance (EI) program provides support for individuals who are unemployed through no fault of their own—known as EI regular benefits—or workers who take time off for life events such as illness and caregiving responsibilities—known as EI special benefits. EI regular benefits are targeted to be higher in areas of the country with the greatest economic need. Specifically, a 3-month moving average unemployment rate is calculated monthly for each of Canada's 62 economic regions. This average determines for how long benefits are provided, how much is provided, and how many hours a worker needs to have worked to qualify for benefits. The 3-month moving average that is calculated for each month determines the benefit rules for workers who file that month. According to officials, the rules in place for the month in which a worker files for benefits remain in place for that worker for the duration of their benefits.

Source: GAO analysis of Canadian government documents and information. | GAO-25-106455

According to Joint Committee on Taxation officials, programs targeted to specific eligible populations can be more difficult to administer than programs with broad eligibility. The time needed to verify eligibility can affect the speed at which benefits can be provided.

To prevent improper payments, automatic stabilizers need to balance flexibility with accountability. Programs with less robust verification processes may be more susceptible to fraud. For example, under the CARES Act, the Pandemic Unemployment Assistance (PUA) program allowed workers who were not previously eligible for UI—such as self-employed individuals and gig workers—to obtain UI benefits by self-certifying that they could not work due to a COVID-19 related reason.[36]

[35] GAO-24-106056.

[36] Pub. L. No. 116-136, § 2102, 134 Stat. at 313.

The Department of Labor's Office of the Inspector General reported that states cited self-certification as a top fraud vulnerability.[37]

We previously reported that, while the 2021 Consolidated Appropriations Act addressed this issue by creating new documentation requirements for PUA, the program had already become an attractive target for increasingly sophisticated fraud schemes.[38] We found that preexisting internal control plans might have helped managers quickly implement appropriate controls before payments were disbursed, such as by leveraging existing data-matching services to validate individuals' employment status. In emergencies, we found that such plans may also help agencies to conduct postpayment checks in a timelier manner.

Factor 6: Automatic stabilizers are more effective when they reach the entire eligible population, to the extent possible.

According to economic and social policy experts we interviewed, reaching everyone who is eligible for benefits ensures that federal aid provides the most support to economic recovery, as well as individuals and families. If people who are eligible do not receive benefits, then automatic stabilizers will not have their full intended effect on the economy and well-being. However, it can be difficult to reach people who are not already known to agencies administering stimulus programs.

[37]Department of Labor, Office of Inspector General, *COVID-19: States Cite Vulnerabilities in Detecting Fraud While Complying with the CARES Act UI Program Self-Certification Requirement*, Report No. 19-21-001-03-315 (Washington, D.C.: Oct. 21, 2020).

[38]GAO-23-105876. Pub. L. No. 116-260, div. N, § 241(a), 134 Stat. 1182, 1960 (2020).

Example: The Internal Revenue Service Identified Potentially Eligible Beneficiaries for Economic Impact Payments

During the COVID-19 pandemic, the Internal Revenue Service (IRS) distributed three rounds of direct payments to eligible individuals, known as Economic Impact Payments. These payments were provided on a temporary basis only and therefore are not an automatic stabilizer. In an effort to distribute these payments to the entire eligible population, IRS used various methods to engage people who may have been eligible for these payments but were not already in the tax system. For example, some eligible individuals are not required to file a federal tax return. In 2020, IRS mailed roughly 9 million letters to people who do not normally file a federal income tax return but may have qualified for a payment. Overall, IRS identified and contacted potentially eligible individuals by:

- collaborating with organizations that help people experiencing homelessness,
- obtaining data on potential beneficiaries from the Social Security Administration and the Department of Veterans Affairs,
- conducting outreach on social media, and
- using data from third-party income reporting forms.

See policy option 11 below for a discussion of the effects of potentially making these payments automatic stabilizers, including trade-offs and other considerations.

Source: Treasury Inspector General for Tax Administration, Implementation of Economic Impact Payments, 2021-46-034 (Washington, D.C.: May 24, 2021), and GAO analysis of IRS documents and interviews with IRS officials. | GAO-25-106455

It is also important to ensure that payments are only made to those who are eligible, and made in the correct amounts. We previously reported that the risk of improper payments may be higher in emergencies because the need to provide assistance quickly can hinder the implementation of effective controls.[39]

Factor 7: Automatic stabilizers are more effective when they tailor aid to state and local governments to reflect the relative severity of the economic downturn in each state or locality.

State and local governments often face fiscal pressures during economic downturns because revenues generally fall at the same time as certain expenses increase. For example, more people become eligible for

[39] GAO-23-105876.

Medicaid during economic downturns, and states are responsible for paying a portion of Medicaid costs. However, it is important to target aid to state and local governments in a way that is proportionate to their respective needs. According to the Pandemic Response Accountability Committee, allocating COVID-19 rental assistance funding to state and local governments based on population rather than need led to a mismatch between the distribution of pandemic relief funds and need.[40]

Example: GAO Prototype Formula Would Target U.S. Medicaid Funds to States Based on Need

The Federal Medical Assistance Percentage (FMAP) formula sets the federal matching rate for most state Medicaid expenditures. This formula uses per capita income to calculate each state's federal matching rate. However, our prior work has found that this is a poor proxy for states' need for Medicaid funds because it does not fully account for the size of a state's population in need of Medicaid services or the ability of a state to fund Medicaid. We suggested that Congress consider enacting a formula that targets variable state Medicaid needs and provides automatic, timely, and temporary assistance in response to national economic downturns. For example, we developed a prototype formula that would initiate a temporary FMAP increase when 26 states show a sustained decrease in the employment-to-population ratio. As of February 2025, this matter for congressional consideration has not been implemented.

Source: GAO, Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns, GAO-12-38 (Washington, D.C.: Nov. 10, 2011). | GAO-25-106455

According to CBO, federal transfers to state and local governments only provide stimulus if they do not pay for spending that would have occurred anyway. To stimulate the economy, these payments must lead to an increase in spending or prevent a decrease (or have a similar effect on taxes).[41]

On the other hand, automatic aid for state and local governments may create a disincentive for them to prepare for economic downturns. To mitigate this issue, federal funding could include requirements to match federal funding or maintain reserves to address unforeseen events, or aid could be provided as loans that must be repaid once revenues are restored.

[40]Pandemic Response Accountability Committee, *Lessons Learned in Oversight of Pandemic Relief Funds* (June 8, 2022).

[41]CBO, *Options for Responding.*

Automatic Stabilizers Are More Effective When They Are Predictable

One advantage of automatic stabilizers compared to discretionary fiscal policy is that they can be put into place before a crisis occurs. This allows policymakers, administrative agencies, and the public to know what programmatic changes will occur during an economic downturn and plan accordingly. Likewise, quickly implementing new programs in times of crisis can lead to administrative challenges. For example, we previously reported that during the COVID-19 pandemic, pressure to quickly implement Pandemic Unemployment Assistance and other new UI program requirements made it difficult for states to establish sufficient controls ahead of program implementation to prevent improper payments.[42]

Factor 8: Automatic stabilizer programs are more effective when they are established in advance so that they are ready in times of crisis.

Establishing policy in advance to support automatic stabilizers' response to economic downturns can allow time for thoughtful policy design and the development of administrative structures. Such preparation can facilitate implementation of the policy when a crisis occurs.

In cases where state and local governments have a role in program administration, advanced preparation can allow time for effective communication between the federal government and these entities. It can also allow time for state and local governments to develop systems, workforce and technical capacity, and other infrastructure that they would need in times of crisis.

In addition, preparing guidance before a crisis occurs can mitigate potential uncertainty and prevent delays in issuing stimulus when it is needed. Timely guidance from federal agencies can also help state and local governments that have a role in program implementation ensure that they are prepared to meet federal requirements.

Developing a program's internal controls before an emergency takes place can help federal program managers mitigate improper payments. We previously recommended that Congress consider requiring the Office of Management and Budget (OMB) to provide guidance for agencies to

[42]See GAO, *Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks*, GAO-22-105162 (Washington, D.C.: June 7, 2022).

develop internal control plans that would immediately be ready to use in, or adaptation for, future emergencies or crises.[43] Preexisting internal control plans should include prepayment controls, such as use of the Do Not Pay working system. This system is operated by the Department of the Treasury (Treasury) and provides a variety of data matching and data analytics services for all federal executive agencies and many state agencies to support their efforts to prevent improper payments. Using the system can help agencies to determine payment eligibility quickly prior to payment issuance. In addition, expedited postpayment controls, such as postpayment reviews and recovery audits, are critical when the quick disbursement of funds makes prepayment controls difficult to fully apply.

When federal funds are distributed before clear guidance for spending and reporting on those funds is available, they may be spent in a way that is later deemed improper. For example, we previously reported that Coronavirus Relief Fund payments to state and local governments were required to be disbursed 30 days after the enactment of the CARES Act, which did not allow time for Treasury to develop guidance in advance.[44] As a result, Treasury made payments while it was still developing guidance and recipient accountability requirements. The Pandemic Response Accountability Committee later reported that Treasury issued three versions of guidance and eight versions of Frequently Asked Questions, which caused confusion, delayed use of the money, and resulted in some ineligible uses of these funds.[45]

Establishing automatic stabilizer programs in advance can also give households and businesses confidence that they will be supported in the event of an economic downturn. For example, workers covered by UI can count on those benefits to replace a portion of their former income if they lose their jobs through no fault of their own. If people do not have

[43]As of February 2025, this matter for congressional consideration has not been implemented. See GAO, *Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond*, GAO-22-105715 (Washington, D.C.: Mar. 17, 2022).

[44]GAO, *COVID-19 Relief: Treasury Could Improve Its Administration and Oversight of State and Local Fiscal Recovery Funds,* GAO-24-106027 (Washington, D.C.: Dec. 14, 2023); and *COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions*, GAO-20-701 (Washington, D.C.: Sept. 21, 2020). The CARES Act required Treasury to disburse Coronavirus Relief Fund payments to states, the District of Columbia, localities, tribal governments, and five U.S. territories within 30 days of enactment. Pub. L. No. 116-136, § 5001, 134 Stat. at 501-04, codified at 42 U.S.C. § 801.

[45]Pandemic Response Accountability Committee, *Lessons Learned in Oversight of Pandemic Relief Funds,* June 8, 2022.

confidence that programs like UI will help them during an economic downturn, they may reduce consumption due to financial risks, known as precautionary savings. If a lot of people respond to an economic downturn by spending less and saving more, it could make the downturn worse. On the other hand, predictable federal aid may create disincentives for state and local governments to prepare for economic downturns.

One way to ensure that automatic stabilizers are ready in advance is to use established mechanisms to deliver aid. Using existing systems to deliver aid can help ensure that it is distributed quickly. For example, we previously reported that Congress has leveraged the Medicaid program to quickly increase funding to states and ensure that eligible individuals maintained access to essential health care services during the COVID-19 pandemic and other times of crisis.[46]

Example: The United Kingdom's Universal Credit Provided an Existing Mechanism to Deliver During the Pandemic

The United Kingdom (UK) began implementing monthly direct payments to eligible low-income beneficiaries through the Universal Credit (UC) program in 2013 and rolled out UC for new claims nationwide in 2018. This program consolidated multiple low-income programs and tax benefits into a single payment. During the COVID-19 pandemic, the number of UC claims increased from nearly 3 million in February 2020 to nearly 6 million in February 2021. According to a UK official responsible for administering UC, the UK Department for Work and Pensions was able to quickly process the surge of applications without the need for major changes or updates because the program had online functionality before this sudden increase.

Source: GAO analysis of UK government documents and information. | GAO-25-106455

Well-Designed Triggers Can Enhance Automatic Stabilization

Triggers can also be designed to help enhance the effectiveness of an automatic stabilizer. For example, by initiating changes automatically based on economic indicators, triggers have the potential to match stimulus to real-time economic conditions and mitigate the delays that may occur with discretionary fiscal policy alone.

Delays can occur in part because recessions are officially identified after the fact. The National Bureau of Economic Research (NBER) Business Cycle Dating Committee identifies recessions by retrospectively analyzing economic data, including data on income, employment, consumption, and

[46]GAO, *COVID-19: Lessons Can Help Agencies Better Prepare for Future Emergencies*, GAO-24-107175 (Washington, D.C.: Aug. 1, 2024).

industrial production.[47] The committee waits until sufficient data are available to avoid the need for major revisions to its determinations.

As a result, NBER typically identifies the start of a recession several months after it actually occurs and identifies the end of recession after it is confident that the economy is recovering. While this approach contributes to the reliability of NBER's determinations, it means that official recession dates may not be sufficiently timely to use for initiating and ending fiscal stimulus.

In the absence of real-time information about when a recession begins and ends, policymakers can use economic indicators to judge when to act based on current conditions. Indicators can be used to establish triggers for automatic stabilizers, as well as inform discretionary fiscal policy and monetary policy decisions.

Economic policy experts we interviewed said that it can be advantageous to use indicators related to unemployment to trigger automatic stabilizers, compared to economic output data such as gross domestic product. Data on unemployment become available sooner than data on economic output, so they provide a more accurate representation of current economic conditions.

Some studies have proposed indicators based on unemployment data to approximate the start of a recession and trigger stimulus. These studies identified patterns in the data that occurred in past recessions with the goal of providing a timely indicator to show when recessions may occur in the future.[48] Several economic and tax policy experts we interviewed said that policymakers could potentially consider a trigger known as the Sahm Rule, which was proposed in a 2019 study by a former Federal Reserve economist. This study suggests that stimulus could automatically be

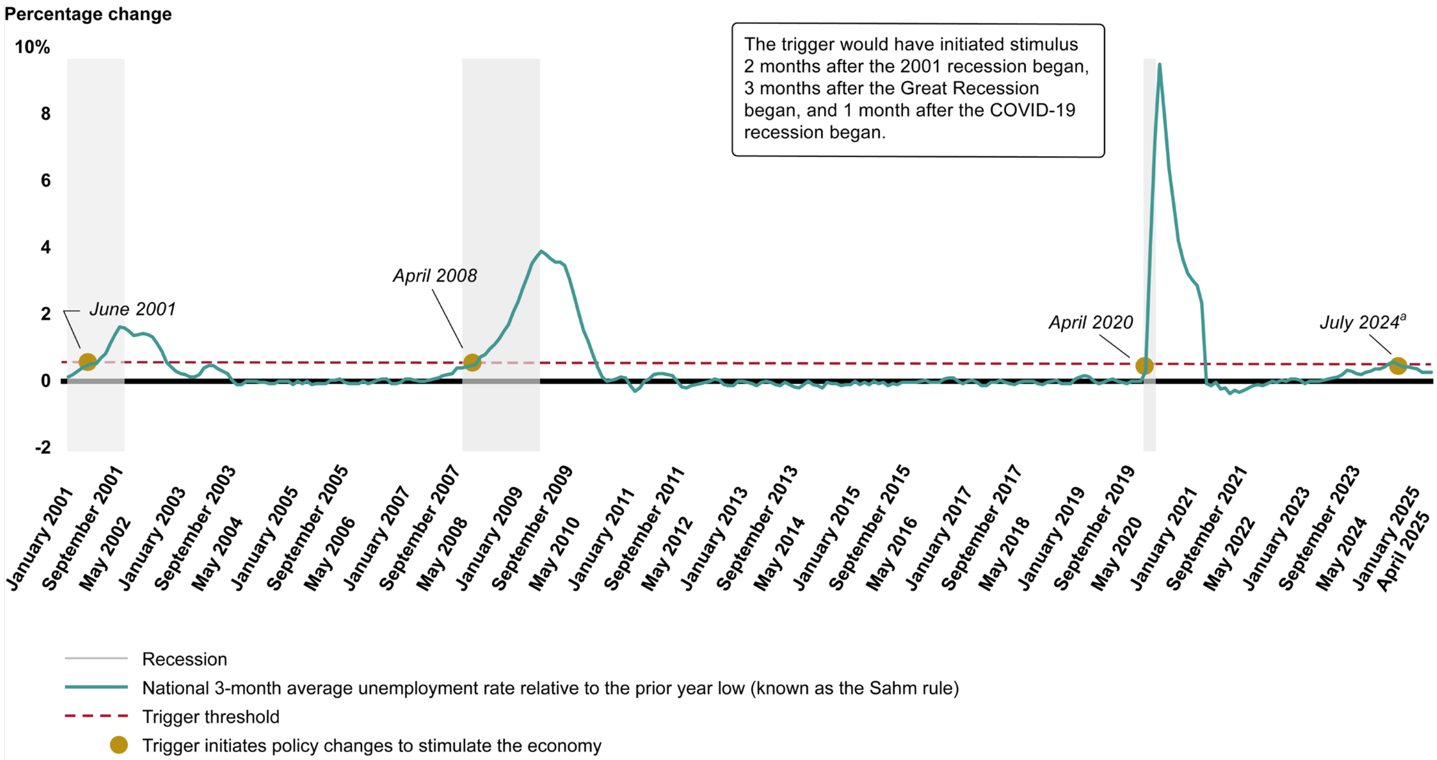
[47]NBER, an independent nonprofit organization, declares official recessions.

[48]A recent study suggests that, while unemployment data can be a timely indicator of the start of a recession, they could be timelier if they are augmented with data on job vacancies. See Pascal Michaillat and Emmanuel Saez, "Has the Recession Started?," (working paper, University of California, Santa Cruz and University of California, Berkeley; September 2024).

initiated when the national 3-month average unemployment rate increases by 0.5 percentage points relative to the prior year low.[49]

Potential triggers can be compared to past recession dates to show how accurately they would have predicted those recessions. However, we do not know how accurately they would predict future recessions. The Sahm Rule generally would have started stimulus near the beginning of the past three recessions.

Figure 2: Recent Recessions Compared to a Potential Trigger to Automatically Stimulate the Economy



Source: GAO analysis of data from the National Bureau of Economic Research and the Federal Reserve. | GAO-25-106455

[a]In July 2024, the national 3-month average unemployment rate increased by 0.53 percentage points compared to the prior year low. Because this increase exceeded 0.50 percentage points, it met the

[49]Claudia Sahm, "Direct Stimulus Payments to Individuals," *Recession Ready: Fiscal Policies to Stabilize the American Economy* (Washington, D.C.: The Hamilton Project and the Washington Center for Equitable Growth, Brookings Institution, 2019). Other studies have also evaluated triggers for initiating fiscal stimulus. See, for example, Douglas W. Elmendorf and Jason Furman, *If, When, How: A Primer on Fiscal Stimulus* (Washington, D.C.: Brookings Institution, January 2008), and Richard H. Mattoon, Vanessa Haleco-Meyer, and Taft Foster, "Improving the impact of federal aid to the states," *Economic Perspectives,* 3Q (2010).

Sahm Rule's conditions for beginning fiscal stimulus. It remained above the threshold in August and September 2024 and subsequently fell to 0.43 in October and November 2024.

When a trigger's conditions for initiating stimulus are met, there can be uncertainty about whether an economic downturn is beginning or if the trigger may activate when a recession is not actually taking place. The economic circumstances of 2024—in which the Sahm rule's conditions for triggering fiscal stimulus were met for 3 months, as shown in figure 2—illustrate the difficult decisions that policymakers face about initiating stimulus. A trigger that initiates stimulus early could provide support to the economy that is entering a recession. On the other hand, it may risk an unnecessary increase in the federal deficit and potentially overheating the economy if a recession does not occur.

Moreover, whether to use a trigger, and what trigger to use, should be considered in the context of specific policy options. There is no one universally applicable trigger. Triggers that initiate recurring spending, such as changes to the benefits provided by public assistance programs like SNAP, may need to be designed differently than triggers that initiate individual economic impact payments. Examples of triggers designed for specific stimulus policies include:

- Sahm's 2019 study proposed automatic economic impact payments using a trigger.[50] Specifically, when the national 3-month average unemployment rate increases by 0.5 percentage points relative to the prior year low, it would automatically authorize lump-sum stimulus payments to individuals. Additional payments could potentially be made in subsequent years, depending on the unemployment rate.[51]
- Currently, the Unemployment Insurance (UI) system includes an Extended Benefits (EB) program, which extends the duration of UI benefits to eligible claimants based on the insured unemployment rate

[50]Sahm, "Direct Stimulus Payments to Individuals."

[51]An increase of 2.0 percentage points or more from the initial unemployment rate would result in a second year's payments. After the second year and after the unemployment rate has peaked—whichever comes later—the total stimulus amount would be scaled down as the unemployment rate declines. Annual payments would continue in the third (and subsequent) years until the unemployment rate is no more than 2.0 percentage points above the level at the time of the first payment.

and total unemployment rate in each state.[52] The threshold that must be reached to trigger EB, and the additional duration of benefits provided when EB activates, varies by state.[53] One study we reviewed analyzes potential alternative triggers for EB using the Sahm Rule to more closely link EB triggers with economic conditions.[54] The study found that the Sahm Rule would trigger EB earlier in a recession, when unemployment is low but starting to rise.

- We have previously proposed a prototype formula for automatically adjusting the Federal Medical Assistance Percentage (FMAP) formula—which sets the percentage of federal assistance for state Medicaid expenditures—during economic downturns.[55] Our prototype formula would use the monthly employment-to-population ratio to trigger an FMAP increase. The trigger would activate when the 3-month average of this ratio decreases in 26 states, compared to the same 3-month period in the previous year, over 2 consecutive months.

While triggers may be designed to enhance timeliness of economic stimulus, they could also align with other factors for effective automatic stabilizers described above:

- **Temporary.** Triggers can specify conditions for ending stimulus when economic indicators suggest it is no longer necessary. By ending stimulus as economic conditions improve, triggers can help prevent stimulus from lasting too long.
- **Targeted.** Triggers could also help ensure that stimulus is targeted to the severity of an economic downturn. For example, they can be designed to distribute stimulus based on economic conditions in each state.
- **Predictable.** Because triggers use a predetermined set of rules, they can help ensure that households, businesses, and state and local

[52]The insured unemployment rate generally means the percentage derived by dividing the average weekly number of individuals filing claims for regular compensation in a state by the average monthly employment covered under state law. The total unemployment rate means the number of unemployed individuals in a state divided by the civilian labor force in the state for the same period.

[53]States may provide EB for up to 13 weeks.

[54]Gabriel Chodorow-Reich, Peter Ganong, and Jonathan Gruber, “Should We Have Automatic Triggers for Unemployment Benefit Duration and How Costly Would They Be?,” *AEA Papers and Proceedings,* (2022): 112-116.

[55]GAO-12-38.

governments will know how the federal government will use fiscal stimulus to respond to an economic downturn.

Options to Strengthen Automatic Stabilizers Involve Trade-Offs

Based on a review of relevant literature and interviews with knowledgeable experts, we identified 17 potential policy options to strengthen automatic stabilizers, as shown in table 2.[56] Our list is not comprehensive of all policy options for enhancing automatic stabilizers. We have previously recommended that Congress consider taking action that would enhance Medicaid as an automatic stabilizer.[57] Other than that previous recommendation, we do not endorse any specific policy option.

Table 2: Potential Policy Options to Strengthen Automatic Stabilizers

Policy Area	Policy Option
Unemployment Insurance (UI)	1. Temporarily expand UI eligibility
	2. Temporarily increase weekly UI benefit amounts
	3. Temporarily increase the duration of UI benefits
Short-time work programs	4. Temporarily federally fund the Short-Time Compensation program
	5. Expand short-time work programs to all states
Supplemental Nutrition Assistance Program (SNAP)	6. Temporarily increase SNAP benefit amounts
	7. Temporarily suspend SNAP time limit and work requirements for able-bodied adults without dependents
	8. Temporarily waive certain SNAP administrative requirements
	9. Temporarily increase federal SNAP administrative funding to states
Medicaid	10. Adjust the Federal Medical Assistance Percentage formula to be responsive to economic conditions
Tax system	11. Provide direct payments to individuals and families through the tax system
	12. Temporarily reduce employee payroll taxes
Earned Income Tax Credit (EITC)	13. Temporarily allow taxpayers the option to include or exclude UI compensation when calculating EITC
	14. Temporarily increase EITC amounts for eligible taxpayers without qualifying children
	15. Temporarily allow taxpayers the option to use income from a prior year to calculate for EITC amounts
	16. Temporarily increase the EITC phase-in rate
Child Tax Credit	17. Temporarily provide an advance Child Tax Credit

Source: GAO analysis of information from literature and interviews with experts. | GAO-25-106455

[56]The existing automatic stabilizer programs in the U.S., as identified by the Congressional Budget Office, are UI, SNAP, Medicaid, and multiple provisions in the tax code. See appendix I for our methodology for identifying the policy options.

[57]GAO, *Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns*, GAO-12-38 (Washington, D.C.: Nov. 10, 2011).

Note: These potential policy options are not listed in any specific order. We have previously recommended that Congress consider taking action that would enhance Medicaid as an automatic stabilizer. Other than that previous recommendation, we do not endorse any specific policy option.

For each of these options, we provide a brief background of the policy area, a description of the policy option, and an overview of any related actions that the federal government has taken to address past emergencies, such as economic downturns or natural disasters.

All these policy options have strengths and limitations. Below we provide a list of general trade-offs that are broadly applicable to many of the options. In addition to these general trade-offs, for each of the policy options we include a description of option-specific trade-offs and considerations, where applicable. Our list of trade-offs is not a comprehensive list of all potential strengths or limitations.

Each policy option could be implemented in different ways that could influence its effectiveness. Therefore, for each option, we include a list of selected questions for policymakers based on our analysis of relevant literature, interviews with knowledgeable experts, and temporary policies from prior economic downturns.

We did not examine how the different policy options could interact with each other or how the effectiveness of certain policies could be changed if paired or substituted with other policies. Specifically, there could be potential implications of enacting multiple automatic and discretionary policies at the same time.

Trade-Offs and Other Considerations for Strengthening Automatic Stabilizers

Some general trade-offs and considerations that are broadly applicable to many of the policy options include:

Economy. Generally, strengthening automatic stabilizers can help households, businesses, and state and local governments maintain spending during economic downturns, which can increase demand for goods and services, thus bolstering economic activity. However, an automatic fiscal response that generates a large increase in spending could have other important economic effects, such as contributing to inflation.

Federal budget. During economic downturns automatic stabilizers typically result in more federal spending and less revenue, which temporarily increases budget deficits. Strengthening the current automatic stabilizers by increasing benefit amounts or changing eligibility requirements could further increase federal spending or reduce tax revenue. However, some enhanced automatic stabilization could take the place of typical discretionary action that may not be as timely, targeted or predictable. Nevertheless, automatic stabilizers should be designed with careful consideration for balancing budgetary costs with the benefits of stabilization to the economy and the well-being of individuals and families. Over the long term, a strong economy can improve the federal government's fiscal health.[58]

State budgets. During economic downturns, state tax revenue typically declines. Because states generally have a requirement to balance their respective budgets, according to the National Association of State Budget Officers, this revenue loss could potentially lead to spending cuts, which could limit recovery efforts and prolong downturns. Enhancing automatic stabilizers—which include several programs that are federal-state partnerships—can help remove some of the fiscal risk to states by shifting some spending from states to the federal government. However, if fiscal risks are shifted from states to the federal government, states might have less incentive to prepare for economic downturns, such as by saving for such contingencies (e.g., through a rainy day fund).[59]

Individuals and families. Automatic stabilizers can help support the well-being of individuals and families with the greatest need during economic downturns. For example, we previously found programs with automatic stabilizer mechanisms help to reduce uncertainty when individuals experience the effects of an economic downturn, like job loss and food insecurity.[60]

Administration. Using and enhancing the administrative systems of existing automatic stabilizers could be more efficient than designing and implementing new programs. However, programmatic changes to automatic stabilizers may necessitate administrative changes, such as updates to processes, guidance, or information technology systems. These changes could lead to the federal government and state

[58]For more information on the relationship between the economy and the federal government's fiscal health, see GAO-25-107714.

[59]Rainy day funds include state budget stabilization or reserve funds that state governments may use to supplement general fund spending during a revenue downturn or other unanticipated shortfall. See GAO, *Intergovernmental Issues: Key Trends and Issues Regarding State and Local Sector Finances*, GAO-20-437 (Washington, D.C.: Mar. 30, 2020).

[60]GAO-24-106056.

governments increasing (1) time spent on administrative activities; (2) costs, such as IT costs; or (3) compliance and oversight workload.

Improper payments. Automatically expanding eligibility or increasing benefit amounts absent appropriate capacity in administrative controls could increase the risk of improper payments. An improper payment is any payment that should not have been made or that was made in an incorrect amount, including both overpayments and underpayments. They can be caused by either deliberate misrepresentation of information—known as fraud—or unintentional mistakes. Examples of improper payments include payments to an ineligible recipient, payments for ineligible goods or services, and duplicate payments. For example, we previously estimated that the amount lost to fraud in UI programs during the pandemic—from April 2020 through May 2023—was likely between $100 billion and $135 billion.[61]

Strengthening automatic stabilizers by better planning for and taking a more strategic approach prior to an economic downturn could help prevent or mitigate improper payments. Congress and federal program managers could design and implement internal controls that allow assistance to be disbursed rapidly while mitigating identified risks of improper payments, including those resulting from fraudulent activity.[62]

Trigger design. Well-designed triggers can help ensure that automatic stabilizers are timely, temporary, targeted, and predictable. Because triggers encompass (1) what indicator would initiate additional automatic fiscal action, (2) how soon in an economic downturn it would be initiated, and (3) how long it would be in place, they should be designed thoughtfully for each program to ensure that they are appropriate. However, designing triggers may be challenging, in part because it is difficult to accurately assess economic conditions in real time.

[61]GAO, *Unemployment Insurance: Estimated Amount of Fraud During Pandemic Likely Between $100 Billion and $135 Billion*, GAO-23-106696 (Washington, D.C.: Sept. 12, 2023).

[62]GAO-23-105876.

Policy Area: Unemployment Insurance

The UI system is a federal-state partnership that provides income support to workers who have lost employment through no fault of their own.[63] Under this arrangement, states design and administer their programs within federal parameters.[64] The Department of Labor (DOL) has general responsibility for overseeing the UI program to ensure that states are operating the program properly and efficiently. For example, DOL is responsible for monitoring state operations and procedures, providing technical assistance and training, and analyzing UI program data to diagnose potential problems.

UI acts as an automatic stabilizer because UI enrollment increases during economic downturns as more people lose jobs and become eligible for benefits. Qualified unemployed workers receive benefits after filing a claim with the UI program in the state where they worked. UI benefits play an important role in supporting the economy during downturns by giving households resources to continue spending on basic living expenses. Use of UI benefits decreases as the economy recovers and more individuals find employment.

UI benefits are funded primarily through state taxes levied on employers.[65] The benefits replace a portion of a claimant's previous employment earnings.[66] States have discretion on the maximum number of weeks of regular UI benefits to offer, with current durations ranging from 12 to 28 weeks, according to DOL.[67] The UI system includes the Extended Benefits (EB) program where states extend UI benefits for up to an additional 13 weeks under certain economic conditions. Some states

[63]For the purposes of this report, the UI system includes existing UI programs (including the regular UI program and Extended Benefits), and programs established in response to recent recessions (such as Emergency Unemployment Compensation, Pandemic Unemployment Assistance, and Federal Pandemic Unemployment Compensation, among others).

[64]20 C.F.R. Pt. 601.

[65]According to DOL, three states (Alaska, New Jersey, and Pennsylvania) collect taxes from employees. Department of Labor, Office of Unemployment Insurance Division of Legislation, *Unemployment Compensation Federal-State Partnership* (May 2024).

[66]UI benefits are based on a percentage of an individual's earnings over a recent 52-week period up to a state maximum amount, according to DOL. See Department of Labor UI Fact Sheet, accessed December 31, 2024 (https://oui.doleta.gov/unemploy/aboutui.asp)

[67]As of January 2023, the maximum duration of benefit period ranges from 12 to 30 weeks. Department of Labor Comparison of State Unemployment Laws, accessed November 22, 2024 (https://oui.doleta.gov/unemploy/comparison/2020-2029/comparison2023.asp).

have added an additional 7 weeks of extended benefits, up to 20 weeks, according to DOL.[68] EB funding is typically split equally between the states and the federal government; however, in past recessions the federal government has taken discretionary action to fully fund them.

According to the Bureau of Labor Statistics, UI benefit uptake surged at the onset of the COVID-19 pandemic, as initial UI claims rose nearly 3,000 percent from about 200,000 per week to more than 6 million per week during late-March and early-April 2020.[69] EB was triggered in all states except South Dakota during the COVID-19 pandemic, according to DOL.[70]

The UI system faces systemic challenges that affect its ability to meet the needs of unemployed workers during nonrecessionary times as well as during economic downturns. We have identified challenges such as staffing limitations, outdated IT infrastructure, increased improper payments, and limited effectiveness of triggers for the EB program.[71] In 2022, we reported that program variation across states contributed to disparities in worker access and benefit distribution.[72] We also found that continued use of legacy IT systems hindered states' abilities to implement new programs during the COVID-19 pandemic. We added UI to our High-

[68]The EB program extends the duration of UI benefits to eligible claimants when certain economic criteria are met. Specifically, triggers for this program are based on the insured unemployment rate, which generally means the percentage derived by dividing the average weekly number of individuals filing claims for regular compensation in a state by the average monthly employment covered under state law, which means the number of unemployed individuals in a state divided by the civilian labor force in the state for the same period. See Department of Labor UI Extended Benefits Fact Sheet, accessed December 31, 2024 (https://oui.doleta.gov/unemploy/extenben.asp).

[69]An initial claim is the first claim filed by a person and is used to determine eligibility for benefits. A state UI office reviews each initial claim and either accepts or rejects it, with benefits paid to accepted claims. Department of Labor, Bureau of Labor Statistics, *Applying for and Receiving Unemployment Insurance Benefits during the Coronavirus Pandemic* (Washington, D.C.: September 2021), https://www.bls.gov/opub/mlr/2021/article/applying-for-and-receiving-unemployment-insurance-benefits-during-the-coronavirus-pandemic.htm.

[70]GAO-22-105162.

[71]GAO-22-105162.

[72]GAO-22-105162.

Risk List in 2022 based on these ongoing challenges and the risks they pose to service delivery and financial costs.[73]

In April 2024, in response to our high-risk designation and recommendation, DOL released a comprehensive plan for transforming the UI system. The plan includes strategies for modernizing state UI infrastructure and increasing states' administrative capacity, as well as recommendations for legislative changes to improve the UI system.[74] These strategies and changes include adequately funding state UI administration, improving the resilience and responsiveness of state IT systems, bolstering state UI programs against fraud, and addressing funding challenges for state UI benefits. In our most recent High Risk report, DOL officials told us that 47 of the 53 actions in the agency's UI transformation plan were completed or underway as of December 2024.[75]

Based on our review of literature and interviews with economic policy and UI experts, policymakers have various options to make the UI system more responsive to economic downturns (see options 1-3 below). Each of these options has trade-offs and other considerations. For example:

- Automatically initiating temporary changes to UI eligibility, benefit amounts, or duration could strain state budgets.
- States may not have the administrative capacity and IT capabilities to implement these policy options without first addressing systemic UI infrastructure challenges.

[73]GAO-22-105162. The High-Risk List highlights federal programs and operations that are vulnerable to waste, fraud, abuse, and mismanagement or are in need of transformation. We release a High-Risk series report every 2 years at the start of each new Congress. In this case, we designated the UI system as a high-risk area out of cycle to highlight the urgency of the issues and maximize the opportunity for the federal government to take action.

[74]Department of Labor, *Building Resilience*: *A Plan for Transforming Unemployment Insurance* (Washington, D.C.: Apr. 5, 2024). DOL has proposed legislative reforms that would extend unemployment protection to workers that typically fall outside of the traditional UI system, like freelancers and self-employed workers. According to DOL's proposal, the UI system should permanently address gaps that the CARES Act programs temporarily filled. It cites the high utilization of those programs as an indication of the need for programs that include workers who are not currently eligible for regular UI.

[75]GAO, *High-Risk Series: Heightened Attention Could Save Billions and Improve Government Efficiency and Effectiveness,* GAO-25-107743 (Washington, D.C.: Feb. 25, 2022).

- The risk of fraud and other improper UI payments could increase if state systems lack appropriate capacity for managing changes in benefit eligibility, amounts, and duration.

These policy options also could help households maintain an income source and their ability to contribute to the economy during an economic downturn. We previously reported that UI and other social safety net programs helped stabilize income and prevented rises in poverty during recent economic downturns.

Option 1: Temporarily Expand UI Eligibility

Our literature review and interviews with economic policy and UI experts found that temporary, automatic adjustments to eligibility during economic downturns could allow UI to expand to populations that typically do not have access to benefits. This expansion would increase the number of unemployed individuals who are eligible for UI benefits. For example, individuals who are self-employed, independent contractors, and gig workers are typically ineligible for UI benefits. We have previously reported that workers in these categories may experience lower job stability and receive fewer benefits, which may leave them more vulnerable during recessions.[76]

[76]GAO, *Pandemic Unemployment Assistance: Federal Program Supported Contingent Workers amid Historic Demand, but DOL Should Examine Racial Disparities in Benefit Receipt,* GAO-22-104438 (Washington, D.C.: June 7, 2022).

Previous Discretionary Actions

The federal government temporarily expanded Unemployment Insurance (UI) eligibility during the COVID-19 pandemic.

- The **Pandemic Unemployment Assistance (PUA) program** authorized UI benefits for individuals not otherwise eligible for UI benefits who were unable to work as a result of specified COVID-19-related reasons. PUA initially provided for up to 39 weeks of benefits and was subsequently authorized to provide up to a total of 79 weeks of benefits. Initially, applicants only self-certified that their unemployment or inability to work was due to one of the COVID-19-related reasons, increasing the risk of fraud and error. Subsequently, applicants generally were required to provide documentation substantiating their employment or self-employment. PUA expired in September 2021.
- The **Mixed Earner Unemployment Compensation (MEUC) program** was intended to cover regular UI claimants whose benefits did not account for significant self-employment income and who thus may have received a lower regular UI benefit than they would have received had they been eligible for PUA according to the Department of Labor (DOL). MEUC provided $100 per week to individuals who received at least $5,000 in self-employment income in the most recent tax year. The $100 weekly benefit was in addition to other UI benefits received by claimants, however, individuals receiving PUA were ineligible for MEUC payments. MEUC was payable only in states that opted to administer the benefit. MEUC expired in September 2021.

Source: GAO analysis of DOL guidance and the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020); the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021) | GAO-25-106455

However, automatically initiating a temporary expansion of UI eligibility could affect the solvency of state budgets. States have UI trust fund reserves to pay for UI benefits, which are primarily funded through state taxes on employers. Workers who may qualify for UI benefits during this eligibility expansion, such as self-employed individuals or gig workers, may not have employers who would typically pay into UI trust funds. This difference in program spending and revenue could potentially contribute to challenges with solvency of those funds during a recession.

In evaluating this option, policymakers could consider:

- What populations would be included in an expanded UI eligibility policy?
- How would populations who are not typically eligible for UI be notified that they may qualify for benefits?
- What internal controls would be used to ensure that UI benefits are paid only to eligible individuals?
- What portion of the UI benefit expansion would be financed by the federal government?

- What trigger would be used to expand eligibility for UI benefits and phase out this change once economic conditions improve?

Option 2: Temporarily Increase Weekly UI Benefit Amounts

Our literature review and interviews with economic policy and UI experts found that temporary and automatic increases to weekly UI benefit amounts would provide households with additional support during economic downturns. According to DOL, while UI benefits were typically designed to replace 50 percent of an individual's prior year wages, some state calculations result in individuals receiving lower amounts.[77] In our prior work, we convened stakeholder panelists to examine UI system responsiveness to worker needs and economic conditions, as well as the risk of improper payments. The panelists noted that UI replacement rates could be adjusted during economic downturns, providing increased benefits during significant recessions.[78] Policymakers have used discretionary action in recent downturns to increase UI benefits. The federal government could fund 100 percent of future benefits, as it has in the past, or require states to cover a portion of the cost.

Previous Discretionary Actions

The federal government temporarily increased weekly Unemployment Insurance (UI) benefit amounts during the Great Recession and the COVID-19 pandemic.

- The **Federal Additional Compensation program** provided an additional $25 per week for individuals receiving regular UI benefits during the Great Recession.
- The **Federal Pandemic Unemployment Compensation program** provided $600 in additional weekly benefits to qualified UI recipients through July 2020. The program was reauthorized in December 2020 to provide $300 in benefits until it expired in September 2021.
- The **Mixed Earner Unemployment Compensation (MEUC) program** provided $100 per week to individuals receiving certain UI benefits who had received at least $5,000 in self-employment income in the most recent tax year. MEUC expired in September 2021.

Source: GAO analysis of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020); and the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

[77]Department of Labor, *Building Resilience.*

[78]GAO-22-105162. We previously convened a 2-day virtual roundtable composed of 16 stakeholder panelists whom we selected from government, the private sector, public-private partnerships, and academia to discuss topics related to transforming UI programs.

In evaluating this option, policymakers could consider:

- What portion of the UI benefit increase would be financed by the federal government?
- What internal controls would be used to ensure that UI payments are made in the correct amounts?
- What are options for phasing the reduction of benefits as the economy improves?
- Would a uniform formula be used to calculate benefits consistently across all states?
- What trigger would be used to increase UI benefits and phase them out once economic conditions improve?

Option 3: Temporarily Increase the Duration of UI Benefits

Our literature review and interviews with economic policy and Unemployment Insurance experts found that temporary and automatic extensions of the duration of UI benefits during economic downturns could allow households to maintain consumption levels while continuing to seek employment in particularly challenging job markets. We have previously found that when states reduce the maximum duration of benefits, it leads to reductions in UI benefits for some individuals and likely lessens UI's positive effects on the economy.[79]

The EB program can provide additional weeks of UI benefits once regular UI benefits are exhausted. However, we have found that the program has been limited in its effectiveness during recent downturns because its triggers have not been timely, resulting in policymakers taking discretionary action to expand benefit duration (see examples in box below).[80] In 2021, we convened a panel of stakeholders with UI subject-matter expertise to explore options for transforming UI.[81] The panelists noted that in past recessions discretionary actions were taken because the EB program did not respond adequately to national recessions. Panelists suggested that the triggers for the EB program be made more responsive to changes in economic conditions.

[79]GAO, *Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs*, GAO-15-281 (Washington, D.C.: Apr. 22, 2015).

[80]GAO-22-105162.

[81]GAO-22-105162.

Previous Discretionary Actions

The federal government extended the duration of Unemployment Insurance (UI) benefits during the Great Recession and the COVID-19 pandemic.

- The **Emergency Unemployment Compensation program** provided benefits during the Great Recession to individuals who exhausted regular UI benefits. The benefits extension varied in length depending on the extent of unemployment in each state, with maximum duration of up to 53 weeks between 2010 and 2012.
- The **Pandemic Emergency Unemployment Compensation program**, at the time of its expiration, provided up to 53 weeks of benefits for those who exhausted their regular UI benefits. The additional weeks of benefits expired in September 2021.

Source: GAO analysis of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009); American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021).. | GAO-25-106455

Automatically initiating a temporary increase in the duration of UI benefits during economic downturns or modifying the existing triggers for the EB program could provide confidence to unemployed individuals that they would have an extended period of time to seek employment while receiving UI benefits during an economic downturn. This confidence can help sustain consumption, which contributes to economic stability. We have previously reported that increases in UI benefits during economic downturns, including extended duration of benefits, had limited to modest effects on the length of time spent unemployed, but could also result in better job matches.[82]

In evaluating this option, policymakers could consider:

- What portion of the increased benefit duration would be funded by the federal government?
- What internal controls would be used to ensure that extended UI benefits are paid only to eligible individuals?
- How would the duration of benefits be determined for a given recession?
- What trigger would be used to increase the duration of UI benefits and phase out this change once economic conditions improve?

[82]GAO-24-106056.

Policy Area: Short-Time Work Programs

A short-time work program is a subsidy or payment to reduce employees' hours of work rather than laying them off during an economic downturn. These types of programs can mitigate the adverse effects of reduced business activity by averting layoffs and by ensuring employees are available to resume full employment after the downturn ends. Additionally, employees covered by short-time work programs have greater income stability because in addition to some of their lost wages being replaced, they also continue to receive retirement and healthcare benefits from their employers.

Use of Job Retention and Short-Time Work Programs Internationally

Job retention programs, including short-time work programs, were one of the main policy tools used by many Organisation for Economic Co-operation and Development (OECD) member countries to contain the negative economic effects, such as unemployment, during the COVID-19 pandemic. Most OECD members are developed countries, with high-income and market-based economies.

By May 2020, job retention programs, including short-time work programs, supported about 50 million jobs across OECD member countries, about 10 times as many as during the Great Recession. For example, Germany's short-time work program received 10 million claims in the first 2 months of the pandemic, representing about 20 percent of the German labor force. As a result, the unemployment rate in Germany increased slightly—from 3.3 percent to 3.5 percent—from February to April 2020. Conversely, the unemployment rate in the U.S. increased more substantially—from 3.5 percent to 14.8 percent—over the same period

Source: OECD, Job retention schemes during the COVID-19 lockdown and beyond (Paris; Oct. 12, 2020), and GAO analysis of International Monetary Fund and OECD data. | GAO-25-106455

Studies on short-time work programs we reviewed found that while short-time work programs mitigated increases in unemployment, they also reduced movement of labor to businesses with higher productivity. Specifically:

- Several studies looking at both individual countries and cross-country data suggest that job retention and short-time work programs helped save jobs during the Great Recession and COVID-19 pandemic.[83]
- Another study found that the effectiveness of short-time work programs at preventing large increases in unemployment generally depended on the size of the benefit and of the design of the policy.[84]
- Short-time work programs can also keep economically ineffective businesses operating by subsidizing business losses that cannot be fully attributed to a temporary economic shock. For example, a study looking at the effects of the short-time work program in Italy during the Great Recession found that by keeping employees in low-productivity businesses, the short-time work program reduced the movement of labor to businesses with higher productivity levels, thus reducing the overall level of productivity.[85]

The short-time work program in the U.S. is called the Short-Time Compensation (STC) program and is part of the UI system. It allows employees experiencing a reduction in work hours to collect a percentage of unemployment benefits to replace a portion of their lost wages. As a result, STC allows participating employers to reduce employees' work hours instead of laying them off, keeping the employees attached to their jobs. After an economic downturn subsides, employers can increase the work hours of their existing employees, who are already trained and thus more productive than would be newly hired employees.

---

[83]Tito Boeri and Herbert Bruecker, "Short-time work benefits revisited: some lessons from the Great Recession," *Economic Policy*, vol. 26, issue 68 (2011): 697–765; Russell Cooper, Moritz Meyer, and Immo Schottt, *The Employment and Output Effects of Short-Time Work in Germany*, Working Papers 23688 (Cambridge, M.A.: National Bureau of Economic Research, February 2017); Pierre Cahuc, Francis Kramarz, and Sandra Nevoux, *When Short-Time Work Works,* Working Paper 692 (Paris: Banque de France, 2018); Thomas Dengler and Britta Gehrke, *Short-Time Work and Precautionary Savings*, Discussion Paper Series 14329 (Bonn, Germany: Institute of Labor Economics, April 2021); Jaanika Meriküll and Alari Paulus, "The Impact of the Covid-19 Job Retention Support on Employment," *Economics Letters*, vol. 222 (2022); and Luca Salerno, Axel Börsch-Supan, Diana López-Falcón, and Johannes Rausch, *Short-Time Employment Aid During the COVID-19 Lockdown Short-And Long-Run Effectiveness*, Working Paper 32760 (Cambridge, Ma.: National Bureau of Economic Research, August 2024).

[84]Victoria Osuna and José Ignacio García-Pérez, "Temporary Layoffs, Short-Time Work and COVID-19: The Case of a Dual Labour Market," *Applied Economic Analysis*, vol. 30, no. 90 (2021): 248-262.

[85]Giulia Giupponi and Camille Landais, "Subsidizing Labour Hoarding in Recessions: The Employment and Welfare Effects of Shorttime Work," *Review of Economic Studies*, vol. 90 (2022).

Like the UI system, STC is administered by states and is overseen by DOL. States are not required to operate an STC program, but if they do, the program must be consistent with federal law. According to DOL, 32 states and the District of Columbia currently participate in the STC program. DOL reported that employees' STC benefits can last between 26 and 52 weeks, depending on the state. Generally, to qualify for STC, employees must first be determined to be eligible for UI among other federal and state requirements.

Both STC and UI claims draw money from the same UI state trust funds, and both programs can affect a company's experience rating. Experience rating measures an employer's past use of the UI system and adjusts the employer's state UI tax rates to ensure that each employer contributes their fair share to the trust fund. For example, an employer who lays off more employees—resulting in more employees claiming UI benefits—would pay higher state UI taxes. DOL officials stated that an STC claim can affect a company's experience rating less than a full UI claim because the amount being drawn from the trust fund for a STC claim is less than a UI claim. Therefore, employers using STC, rather than UI, could save money in the long term by lowering any adjustments to their state UI tax rates to cover the use of the UI trust fund.

According to DOL officials, there is less opportunity for individuals to commit fraud in STC because employers report their use of STC to state workforce agencies. As a result, officials said these agencies do not rely on self-certification to verify eligibility.

However, the current STC program is not widely used compared to regular UI. Employers' utilization of STC remains relatively low due to several factors: (1) STC is an optional program; (2) in participating states, many employers are unaware of their state's STC program; and (3) differences in eligibility requirements from state to state can be administratively burdensome for employers with employees in multiple states. Additionally, only employees determined to be eligible for UI can receive STC, which excludes self-employed individuals and gig workers, according to DOL.

DOL officials stated that there is an administrative burden on the states that administer the STC program and on the employers that must apply to receive the claim. Specifically, states review each application to check the eligibility of the employer and the employees and to verify that the employer is dealing with a temporary economic shock. As a result, there could be a delay between an economic downturn and STC payments.

DOL officials stated that the STC application process can be an intensive process because it requires that employers initially submit a STC plan for approval, which includes:

- how many employees will be affected;
- the specific percentage by which affected employee hours will be reduced;
- an estimate of the number of employees who would be laid off if an STC program is not implemented; and
- confirmation that certain employee health and retirement benefits will continue to be provided.

Additionally, according to DOL officials, employers in some states are required to continually verify their eligibility and that of their covered employees by calculating weekly hours worked and submitting this information to their state's workforce agency. While some states have modernized their systems to allow for some automation of the application and reviewing process, many states still use paper submissions.

Generally, STC utilization is relatively low, although it increased sharply during the COVID-19 pandemic. Specifically, DOL data show that the number of initial STC claims in participating states rose from about 1.2 percent of all UI claims in those states in February 2020 before the COVID-19 pandemic to about 5.1 percent of all UI claims in those states in June 2020. The highest level of initial STC claims in a single month was 161,273 initial claims in May 2020. According to DOL data, from March 2020 to September 2021, the STC program saved around 392,000 full-time equivalent jobs.

Additionally, in response to the COVID-19 pandemic, the federal government created several new programs that provided funding to businesses to keep employees from separating from jobs: the Paycheck Protection Program (PPP) and the Employee Retention Credit (ERC).

Job Retention Programs During COVID-19

The Paycheck Protection Program (PPP) provided forgivable loans to small businesses through June 30, 2021, for their payrolls and certain other eligible costs to keep small business workers employed. According to data from the Small Business Administration (SBA) as of October 11, 2024, SBA awarded 11.5 million loans totaling around $792.6 billion. SBA reported that the PPP helped retain around 89.6 million jobs nationally.

The Employee Retention Credit was a refundable tax credit provided through December 31, 2021, designed to encourage employers to keep employees on their payroll. Employers whose business was fully or partially suspended by a government order due to COVID-19 or whose gross receipts declined by more than 50 percent could claim a tax credit. The credit amount was based on qualified wages paid to employees, including certain health care expenses, up to $10,000 in wages paid. We previously reported that employers claimed a total of 367,285 credits totaling about $32 billion for 2021 based on data available in January 2022.

Source: GAO, COVID-19: IRS Implemented Tax Relief for Employers Quickly, but Could Strengthen Its Compliance Efforts, GAO-22-104280 (Washington, D.C.: May 17, 2022), and Paycheck Protection Program: Program Changes Increased Lending to Smaller and Underserved Businesses, GAO-22-105788 (Washington, D.C.: Mar. 16, 2022), ; and GAO analysis of the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020) and SBA data. | GAO-25-106455

We and others reported challenges with these programs.

- We reported that two of the PPP programs—PPP Purchases and PPP Forgiveness—had an estimated improper payment rate between 40.5 and 49.1 percent, respectively, which accounted for around $19 billion dollars in improper payments in fiscal year 2023.[86]
- The Treasury Inspector General for Tax Administration (TIGTA) also found that IRS relied on attestations that a business was eligible for ERC solely because the business was a recovery startup business. However, TIGTA found that IRS did not have a process to verify whether a business claiming ERC was in fact a recovery startup business. According to TIGTA, 928 businesses claimed nearly $17.5 million in ERCs that had an Employer Identification Number issued before February 15, 2020, which is a potential sign of ineligibility

[86]GAO, *Improper Payments: Information on Agencies' Fiscal Year 2023 Estimates*, GAO-24-106927 (Washington, D.C.: Mar. 26, 2024). In fiscal year 2023, the Small Business Administration separated the PPP into three reporting categories—PPP Approvals, PPP Purchases, and PPP Forgiveness. PPP Approvals did not have a population in fiscal year 2023 for reporting purposes and last reported in fiscal year 2022.

because recovery startup businesses are those that began to carry on business after February 15, 2020.[87]

- As of February 28, 2025, IRS's Criminal Investigation division has initiated 545 criminal cases related to ERC, with potentially fraudulent claims worth more than $5.6 billion in tax years 2020 through 2023.

Based on our review of literature and interviews with economic policy and UI experts, the federal government has various options to expand short-time work programs to automatically react to economic downturns (see options 4 and 5 below). Each of these options has trade-offs and considerations.

Option 4: Temporarily Federally Fund the Short-Time Compensation Program

Our literature review and interviews with economic policy and UI experts found that to enhance the STC program as an automatic stabilizer, the federal government could temporarily fund the program during downturns. STC, as part of the UI system, is funded primarily through state taxes levied on employers.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government temporarily provided funding for 100 percent of up to 26 weeks of Short-Time Compensation (STC) program payments from March 2020 to September 2021. This funding was available both to states previously participating in the STC program as well as states that began participating in the STC program after March 27, 2020. In total, the Department of Labor made about $1.3 billion available to 25 states and the District of Columbia during this time.

Source: Department of Labor Inspector General, COVID-19: ETA's Oversight of Short-Time Compensation Did Not Detect $129.6 Million In Questioned Costs, Office of Audit (Washington, D.C.: June 26, 2024), and GAO analysis of the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020), as amended by the Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020) and the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

Temporarily federally funding the STC program could encourage more states to participate in the program and help reduce the adverse effects of an economic downturn by reducing layoffs and ensuring that employees can resume full employment as the economy improves. Federally funding the program could be activated by a trigger based on state or national indicators, such as the unemployment rate.

[87]Treasury Inspector General for Tax Administration, *Delays Continue to Result in Businesses Not Receiving Pandemic Relief Benefits,* 2022-46-059 (Washington, D.C.: Aug. 31, 2022). A recovery startup business means an employer (1) that began carrying on any trade or business after February 15, 2020; and (2) for which the average annual gross receipts for a specified taxable year period does not exceed $1 million. 26 U.S.C. § 3134(c)(5).

Federally funding the STC program could also help shield state UI trust funds from unexpected economic conditions that could affect their solvency.[88] Specifically, states' trust fund solvency could be put at risk if they must suddenly pay out large amounts of the funds for both UI benefits and STC claims during economic downturns. In 2020, during the COVID-19 pandemic, 23 states had to borrow from the federal government to fulfil their UI and STC obligations. DOL found that, as of January 2024, only 19 states' UI trust funds met the minimum solvency standards.[89]

Furthermore, creating the program in advance, before an economic downturn, could help establish better administrative and oversight mechanisms compared to discretionary action during a crisis. For example, the DOL Office of Inspector General (OIG) found questioned costs during the COVID-19 pandemic in seven of the 10 states selected for in-depth testing.[90] In one state that accounted for the vast majority of these questioned costs, claimants who were employed on a seasonal, temporary, or intermittent basis could have potentially received benefits, which DOL OIG stated is not allowed under DOL guidance. Establishing federal oversight procedures ahead of time could help ensure that states have systems in place that are aligned with relevant DOL guidance and potential claimants are properly vetted.

However, employers with employees in multiple states may need to engage with several different states, which may have different STC requirements and application processes because the administration of the STC programs would remain within each state.

In evaluating this option, policymakers could consider:

- What percentage of the STC program would be federally funded?

88Each state maintains its own UI trust fund reserve built from state taxes, primarily on employers, and used only to pay for state UI and STC benefits.

89DOL recommends that states maintain a UI trust fund balance equal to at least 1 year of recession-level benefits based on historical data.

90Department of Labor Inspector General, *COVID-19: ETA's Oversight of Short-Time Compensation Did Not Detect $129.6 Million In Questioned Costs,* Office of Audit (Washington, D.C.: June 26, 2024). Questioned costs are costs resulting from an alleged violation of a law, regulation, contract, grant, or other document or agreement governing the use of federal funds that (1) are not supported by adequate documentation (also known as an unsupported cost), or (2) appear unnecessary or unreasonable.

- How long would federally funded STC payments be provided?
- Would there be universal guidelines and requirements that employers in all states must follow?
- What internal controls would be used to ensure that STC payments are only provided to those that are eligible?
- What trigger would be used to determine when the federal government would begin funding the STC program and when this funding would phase out once economic conditions improve?

Option 5: Expand Short-time Work Programs to Every State

Our literature review and interviews with economic policy and UI experts found that to enhance short-time work programs as an automatic stabilizer, policymakers could expand coverage of a short-time work program into every state to support employers and employees nationwide during an economic downturn. This expansion could be accomplished in various ways, such as by (1) requiring that every state adopt an STC program, as proposed in DOL's transformation plan; or (2) replacing the current STC program with a federally-funded and administered program with uniform requirements and guidance.[91]

[91] DOL has proposed legislative reforms that would require all states to provide STC to mitigate disruptions caused by declines in business demand. According to DOL's proposals, STC should be required in every state and receive greater federal support to ensure it is accessible for employers. See Department of Labor, *Building Resilience: A Plan for Transforming Unemployment Insurance* (Washington, D.C.: Apr. 5, 2024).

Previous Discretionary Actions

In response to the COVID-19 pandemic, there were several efforts to expand short-time work to additional states. Specifically, between March 2020 to September 2021, the federal government temporarily:

- Allowed states without a qualifying Short-Time Compensation (STC) program the opportunity to enter into an agreement with the Department of Labor to operate a temporary federal STC program.
- Provided $100 million in grants to states for implementation or improved administration of their STC programs, and to promote and enroll employers in STC programs. In total, 10 states and the District of Columbia were awarded just under $20 million.

Source: GAO analysis of the CARES Act, Pub. L. No. 116-136, 134 Stat. 128 (2020), and the Department of Labor, Building Resilience: A Plan for Transforming Unemployment Insurance (Washington, D.C.: Apr. 5, 2024). | GAO-25-106455

Expanding the coverage of a short-time work program to more employees would provide income stability and could help support the economy by keeping unemployment rates low and by shortening the amount of time required to recover after an economic downturn.

According to DOL officials, of the states and territories that have UI programs, 18 states and two territories did not have STC programs as of July 2024. Expanding the current STC program would mean that states that do not participate in the STC program would adopt an STC program to allow for STC payments from the states' UI trust funds.[92] These states could leverage their existing UI and data collection systems and other states' programs as models, which could ease the initial startup burdens on the states. Additionally, because STC claims would still be drawn from the states' UI trust funds, any increases to the number of STC claims would not directly affect federal spending.

However, more STC claims could increase the administrative burden on states because they would have an increased volume of eligibility determinations to process.

In evaluating this option, policymakers could consider:

- What incentives or requirements would be used to ensure participation from all states?

[92]State STC laws must be consistent with the federal definition of STC. 26 U.S.C. § 3306(v)(10).

- What technical assistance and funding would the federal government provide to states standing up STC programs for the first time?

Conversely, replacing the state STC programs with a new federal short-time work program would allow for uniformity across states so that more employers, especially those with employees in multiple states, can more easily participate in the program. A federal short-time work program would shift costs from state UI trust funds to the federal government, which would remove state financial risks but increase federal costs. Creating this new federal program would require additional funding and staff to initiate, operate, and oversee it. For example, DOL officials stated that the federal government would need to create new data systems and administrative structures, which may include data sharing agreements with all states.

In evaluating this option, policymakers could consider:

- For how long would the federally funded short-time work payments be provided?
- What economic threshold would employers need to meet to be eligible for payments?
- Would the federal government provide payments to employers or directly to the employees?
- What internal controls would be used to ensure that payments are only provided to those who are eligible?
- What is the maximum percentage of an employee's wages that would be paid during a downturn?
- Would employers be required to re-pay short-time work payments?

Policy Area: Supplemental Nutrition Assistance Program

The Supplemental Nutrition Assistance Program (SNAP) provides nutrition benefits to supplement the food budgets of low-income families so they can afford a more nutritious diet. SNAP benefit amounts are determined by household size and income. During economic downturns, when incomes fall, more people become eligible and apply for SNAP benefits. In addition, if people who already receive SNAP benefits lose income, they may become eligible for an increased benefit amount, up to a maximum threshold. Average monthly participation in SNAP rose by 16.6 percent during the economic downturn caused by the COVID-19 pandemic, from 35.7 million beneficiaries for fiscal year 2019 to 41.6

million beneficiaries for fiscal year 2021, according to U.S. Department of Agriculture (USDA) data.[93]

USDA is responsible for administering SNAP in partnership with states.[94] The federal government provides funding for SNAP benefits. Administrative costs, such as processing applications and verifying eligibility, are shared between the federal government and the states.

The maximum amount of SNAP benefits is based on USDA's estimated cost to eat a healthy diet on a limited budget, known as the Thrifty Food Plan (TFP). Periodically, USDA reevaluates the TFP, which can lead to changes in the cost of the TFP and the maximum SNAP benefit. USDA most recently reevaluated the TFP in 2021, resulting in a 21 percent increase in the cost of the TFP and the maximum SNAP benefit.[95] Between reevaluations, USDA adjusts SNAP benefits once a year based on changes in the cost of living. This calculation is published in June and takes effect in October each year.

Based on our review of literature and interviews with experts, the federal government has options to make SNAP a more effective automatic stabilizer. Each option includes trade-offs and other considerations (see options 6 through 9).

Option 6: Temporarily Increase SNAP Benefit Amounts

Our literature review and interviews with economic and social policy experts found that to enhance SNAP as an automatic stabilizer,

[93]U.S. Department of Agriculture Food and Nutrition Service, *Supplemental Nutrition Assistance Program Participation and Costs*, accessed February 3, 2025, https://www.fns.usda.gov/pd/supplemental-nutrition-assistance-program-snap.

[94]Under SNAP, "state" is defined as the 50 states, the District of Columbia, the U.S. Virgin Islands, Guam, and the reservation of an Indian tribe whose tribal organization meets the requirements for participation as a state agency. 7 U.S.C. § 2012(r). In lieu of SNAP, the Nutrition Assistance Program block grant funding is provided to Puerto Rico, the Commonwealth of the Northern Mariana Islands, and American Samoa. Additionally, the Food Distribution Program on Indian Reservations provides USDA Foods to income-eligible households living on Indian reservations, and to American Indian families residing in Food and Nutrition Service services areas in Oklahoma.

[95]We previously reported on USDA's 2021 TFP reevaluation. See GAO, *Thrifty Food Plan: Better Planning and Accountability Could Help Ensure Quality of Future Reevaluations*, GAO-23-105450 (Washington, D.C.: Dec. 14, 2022). Before the 2021 reevaluation, USDA last reevaluated the TFP in 2006. The 2021 TFP reevaluation allowed plan costs to increase beyond inflation for the first time in 45 years. However, according to USDA officials, because the 2021 TFP increase coincided with the expiration of a 15 percent benefit increase, SNAP benefits increased by about 6 percent between September and October 2021.

policymakers could automatically increase the amount of SNAP benefits during significant economic downturns and reduce them once economic conditions improve. The increase in benefits could be initiated at the beginning of an economic downturn when a pre-determined economic trigger reaches a certain threshold, and end based on predetermined conditions that indicate economic recovery.

Automatically increasing SNAP benefits during economic downturns could help support the economy and protect against food insecurity. We previously reported that studies suggested that SNAP helped protect against food insecurity during the Great Recession and COVID-19 pandemic.[96] For example, one study showed that, during the COVID-19 pandemic, self-reported food insufficiency rates declined following a discretionary 15 percent increase to SNAP benefits in January 2021.[97]

[96]GAO-24-106056.

[97]Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, div. N, tit. VII, § 702, 134 Stat. 1182, 2092 (2020). “Food insufficiency” is a measure used for the Census Bureau’s Household Pulse Survey. Specifically, households were considered food insufficient if they reported sometimes or often not having enough food to eat in the past 7 days. Anna Aizer and Claudia Persico, “Lessons Learned from the COVID-19 Policy Response and Child Well-Being,” *Recession Remedies: Lessons Learned from the U.S. Economic Policy Response to COVID-19* (Washington, D.C.: The Hamilton Project and the Hutchins Center on Fiscal & Monetary Policy, Brookings Institution, 2022): 273.

Previous Discretionary Actions

During the Great Recession and the COVID-19 recession the federal government used a variety of mechanisms to temporarily increase Supplemental Nutrition Assistance Program (SNAP) benefits.

- During the Great Recession, the federal government increased the formula for calculating maximum SNAP benefits by 13.6 percent of the Thrifty Food Plan. Because the formula for calculating the maximum allotment is the basis for calculating each household's benefits, this provision increased benefits for all SNAP recipients. According to social policy experts, this increase was initially intended to be phased out through increases in food prices caused by inflation as the economy recovered. However, inflation remained low in the following years, and subsequent legislation ended the benefit increase on October 31, 2013.
- In response to the COVID-19 pandemic, the federal government provided, at the request of states, emergency allotments to participating households through February 2023. These emergency allotments increased benefits for all affected households to the maximum amount. As a result, benefits remained the same for recipients with the lowest incomes—who already received the maximum amount—but increased for recipients with higher incomes who did not already receive the maximum amount. Subsequent U.S. Department of Agriculture guidance stated that benefits for all households would be increased by at least $95 per month. As a result, households that had not been receiving emergency assistance payments prior to the new guidance, or had been receiving less than $95 per month in emergency assistance payments, received up to $95 in additional assistance. In addition, the federal government increased the formula for calculating the maximum benefit amount by 15 percent from January through September 2021.

Source: GAO analysis of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009); Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020); American Rescue Plan Act of 2021 Pub. L. No. 117-2, 135 Stat. 4 (2021); and Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, 136 Stat. 4459 (2022), and USDA documents. | GAO-25-106455

There are a variety of mechanisms that could be used to automatically adjust SNAP benefits, such as temporarily increasing benefits for all recipients, increasing the maximum benefit amount, or increasing benefits to all households to the maximum amount. These approaches could have varying effects on SNAP participants receiving different levels of benefits. For example, households that receive maximum benefits—which are typically the poorest households—may receive additional benefits if the maximum amount is increased, but not experience a change if benefits for all households are raised to the maximum level. USDA officials explained that households receiving higher SNAP benefit amounts would likely spend those benefits faster than households receiving lower amounts of SNAP benefits. They suggested that targeting increased benefits to households that tend to use them faster may have a greater economic impact.

During economic downturns, SNAP benefits increase economic activity and reduce food insecurity. USDA has estimated that every $1 spent on

SNAP during economic downturns generates about $1.50 in economic activity.[98] We previously reported that studies showed that SNAP helped the poorest households moderate income fluctuations and protected against food insecurity during the Great Recession.[99]

However, providing additional benefits would temporarily increase federal spending. For example, the Congressional Budget Office (CBO) estimated that a provision in the American Rescue Plan Act of 2021 that extended a 15 percent increase in SNAP benefits from June 30, 2021, to September 30, 2021, would cost about $3.5 billion.

Temporary changes to SNAP benefits could be challenging for state agencies to administer. According to officials from USDA's Food and Nutrition Service (FNS), state agencies would need to reprogram their IT systems when an increase is initiated and when it is ended. If additional benefits are phased out over time, state administrative agencies would need to reprogram their systems for each step of the phase-out. However, if benefits were phased out all at once, recipients would abruptly lose the increased SNAP benefits. Studies have shown that reducing the temporary SNAP benefits that were provided in past downturns was associated with reduced food security.[100]

[98]Patrick Canning and Brian Stacy, *the Supplemental Nutrition Assistance Program (SNAP) and the Economy: New Estimates of the SNAP Multiplier,* Economic Research Report Number 265, U.S. Department of Agriculture Economic Research Service (Washington, D.C.: July 2019).

[99]GAO-24-106056.

[100]Bhagyashree Katare and Jiyoon (June) Kim, "Effects of the 2013 SNAP Benefit Cut on Food Security," *Applied Economic Perspectives and Policy,* vol. 39 no. 4 (2017); Kabir Dasgupta and Alexander Plum, "Termination of SNAP Emergency Allotments, Food Sufficiency, and Economic Hardships," *Finance and Economics Discussion Series* 2023-046, Board of Governors of the Federal Reserve System. (Washington, D.C.: 2023); Matthew Lavallee, Sandro Galea, and Nadia N. Abuelezam, "Supplemental Nutrition Assistance Program Emergency Allotments and Food Security, Hospitalizations, and Hospital Capacity," *JAMA Network Open,* vol. 6 no. 8 (2023); Aaron Richterman, Christina Roberto, and Harsha Thirumurthy, "Associations Between Ending Supplemental Nutrition Assistance Program Emergency Allotments and Food Insufficiency," *JAMA Health Forum*, vol. 4 no. 8 (2023); Namrata Sanjeevi and Pablo Monsivais, "Association of emergency allotment discontinuation with household food insufficiency in Supplemental Nutrition Assistance Program participants: A quasi-experimental study," *Preventative Medicine,* vol. 177 (2023); and Whitney Wells, Kaitlyn Jackson, Cindy W. Leung, and Rita Hamad, "Food Insufficiency Increased After The Expiration of COVID-19 Emergency Allotments For SNAP Benefits In 2023," *Health Affairs,* vol. 43 no. 10 (2024).

In evaluating this option, policymakers could consider:

- How would benefits be adjusted?
- Would benefits increase by the same magnitude for each economic downturn, or would the increase be proportionate to the severity of the downturn?
- Would benefits be increased nationwide, or on a state-by-state basis to account for varying local economic conditions?
- What internal controls would be used to ensure that benefits are paid only to eligible individuals?
- What trigger would be used to increase benefit amounts and restore them to previous levels once economic conditions improve?
- Would a temporary increase be ended gradually or all at once?

Option 7: Temporarily Suspend SNAP Time Limit and Work Requirements for Able-Bodied Adults Without Dependents

Our literature review and interviews with economic and social policy experts found that to enhance SNAP as an automatic stabilizer, policymakers could automatically suspend time limit and work requirements for Able-Bodied Adults Without Dependents (ABAWD) during significant economic downturns and reinstate them as conditions improve.

Supplemental Nutrition Assistance Program Requirements for Able-Bodied Adults Without Dependents

Able-Bodied Adults Without Dependents (ABAWD) are people aged 18-54, who are able to work and do not have any dependents. ABAWD are limited to receiving 3 months of Supplemental Nutrition Assistance Program (SNAP) benefits within any 3 year period, unless they fulfill certain work requirements. The options for fulfilling these work requirements are:

- Working 80 hours a month. Work can be for pay, for goods or services, or in kind, unpaid, or volunteer work.
- Participating in a qualifying work program for 80 hours a month, as determined by the state agency.
- Working and participating in a qualifying work program for a total of 80 hours per month, as determined by the state agency.
- Participating in and complying with the requirements of a workfare program.
- Certain people who meet exemptions set by federal law are not considered ABAWD, such as those who are medically certified as physically or mentally unfit for employment, experiencing homelessness, pregnant, or veterans.
- According to a U.S. Department of Agriculture (USDA) report, in fiscal year 2020 ABAWD participants increased from 7.3 percent of SNAP participants in the prepandemic period to 8.8 percent in June through September of that year.

Source: GAO analysis of SNAP-related legislation and USDA, Characteristics of Supplemental Nutrition Assistance Program Households: Fiscal Year 2020, SNAP-21-CHAR (Alexandria, Va.: June 2022). | GAO-25-106455

FNS may approve state requests to temporarily waive the time limit for ABAWD in areas with unemployment over 10 percent or a lack of sufficient jobs. During economic downturns, waivers become more prevalent. State requests for waivers increase as more geographic areas meet federal approval standards based on high unemployment or lack of jobs, and USDA approves relatively more waivers.

Currently, waivers only take effect once states apply for them and USDA approves them. Making these waivers automatic could ease this administrative burden and improve their timeliness. In addition, state agencies have discretion on whether to request waivers and may not request them for all areas that are eligible. Automatically suspending ABAWD time limits and work requirements nationwide by federal mandate would ensure that they are applied consistently.

Previous Discretionary Actions

The federal government suspended time limit and work requirements for Able-Bodied Adults Without Dependents (ABAWD) nationwide in response to the Great Recession and the COVID-19 pandemic, though not all states chose to suspend them entirely, according to USDA officials.

- During the Great Recession, the federal government suspended ABAWD requirements from April 2009 through September 2010.
- In response to the COVID-19 pandemic, the federal government suspended ABAWD requirements from April 2020 through June 2023.

Source: GAO analysis of American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009), and the Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020). | GAO-25-106455

Automatically suspending time limit and work requirements for ABAWD during economic downturns could help this population purchase food and maintain consumption at a time when job opportunities may be limited. However, suspending these requirements would temporarily increase federal spending. For example, CBO estimated that the Families First Coronavirus Response Act provision that suspended ABAWD requirements would increase spending by $2.7 billion in 2020 and 2021.

Suspending ABAWD requirements could possibly affect participants' incentives to work. Studies we reviewed show mixed evidence on whether time limit and work requirements incentivize participants to become employed or increase hours worked.[101] On the other hand, these studies consistently showed that time limit and work requirements reduce SNAP participation among ABAWD. For example, one study found that work requirements reduced SNAP participation by 53 percent among adults subject to those requirements, with a disproportionately large effect among homeless participants, but found no evidence that work requirements affect employment.[102]

[101]Colin Gray, Adam Leive, Elena Prager, Kelsey Pukelis, and Mary Zaki, "Employed in a SNAP? The Impact of Work Requirements on Program Participation and Labor Supply," American Economic Journal: Economic Policy 2023, vol. 15, no. 1 (2023); Tracy Vericker, Laura Wheaton, Kevin Baier, and Joseph Gasper, "The Impact of ABAWD Time Limit Reinstatement on SNAP Participation and Employment," Journal of Nutrition Education and Behavior, vol. 55, no. 4 (2023); Congressional Budget Office, Work Requirements and Work Supports for Recipients of Means-Tested Benefits, Publication 57702 (Washington, D.C.: June 2022); Jeehoon Han, "The impact of SNAP work requirements on labor supply," Labour Economics, vol. 72 (2022); and Timothy F. Harris, "Do SNAP Work Requirements Work?" Economic Inquiry, vol. 59, no. 1 (2021). Findings from these studies are often directly relevant to older workers and may not apply broadly.

[102]Gray et. al, 2023.

According to FNS officials, suspending ABAWD requirements could simplify SNAP application processing for state agencies during the period that the suspension is in effect. However, administrative challenges would arise when the suspension is ended. FNS officials said that resuming ABAWD requirements could strain IT systems and workforce capacity at state agencies that administer the program. In addition, if significant staff turnover occurred while these requirements were suspended, staff may need training.

In evaluating this option, policymakers could consider:

- How would ABAWD who do not currently receive SNAP be notified that they may be eligible for benefits?
- What trigger would be used to suspend ABAWD requirements and to reinstate them once economic conditions improve?
- When work and job training requirements are reinstated, would further investment in SNAP Employment and Training Programs be needed to meet demand?

Option 8: Temporarily Waive Certain SNAP Administrative Requirements

Our literature review and interviews with economic and social policy experts found that to enhance SNAP as an automatic stabilizer, policymakers could automatically and temporarily waive certain application and reporting requirements. Temporarily waiving administrative requirements could ease the burden on the state government agencies that administer SNAP, and help the program respond to economic conditions in a timelier manner. However, it could also increase fraud and error.

Currently, state agencies are required to

- interview applicants;
- verify applicants' income;
- verify applicants' assets;[103] and
- verify applicants' other eligibility information, such as Social Security numbers, residency, identity, disability, and household composition.

---

[103]Asset limits vary by state. Some states have adopted policies that remove the asset test for SNAP. See GAO, *Supplemental Nutrition Assistance Program: Improved Oversight of State Eligibility Expansions Needed*, GAO-12-670 (Washington, D.C.: July 26, 2012).

Once state agencies successfully complete the verification process, they certify households to participate in SNAP, generally for up to 12 months.[104] Certified households are required to report changes in their circumstances—such as household income, composition, residence, or other resources—to state agencies.

Administrative flexibilities were implemented in response to the COVID-19 pandemic. These flexibilities addressed both the increase in SNAP applications caused by the economic downturn and the unique circumstances of the public health emergency, such as reduced in-person operations.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the U.S. Department of Agriculture (USDA) Food and Nutrition Service (FNS) was authorized to make temporary adjustments to Supplemental Nutrition Assistance Program (SNAP) application and reporting requirements. FNS approved flexibilities included:

- Suspending the requirement to maintain a recording of telephonic signatures.
- Suspending use of state agencies' Income and Eligibility Verification System to verify income for households with ongoing benefits.
- Revising authorized representative requirements to allow certain community partners to sign a SNAP application based on a household's verbal assent.
- Extending certification periods for up to 6 months.
- Waiving initial and recertification interviews, by not requiring an initial interview in cases where identity and other information have been verified.
- Using periodic reporting procedures—in which participants report changes such as income and people in the household—to recertify households rather than requiring applications and interviews.

These adjustments ended in June 2023, the month after the COVID-19 public health emergency declaration ended. According to FNS officials, verification of eligibility requirements such as income and identity remained in place during the COVID-19 pandemic.

Source: GAO analysis of the Families First Coronavirus Response Act, Pub. L. No. 116-127, 134 Stat. 178 (2020), and USDA information. | GAO-25-106455

In a report to Congress, FNS stated that these administrative flexibilities enabled the federal government and state agencies to address the rapid increase in households in need of food assistance while ensuring continued access for existing beneficiaries. Such flexibility could reduce

[104]State agencies may certify households in which all adult members are 60 or older or have disabilities for a maximum of 24 months and all other households for a maximum of 12 months, unless the household is included in a demonstration project allowing longer certification periods.

barriers for households to quickly obtain SNAP benefits during future economic downturns as well as public health emergencies.

However, flexibilities within application and reporting requirements may increase the risk that SNAP benefits are provided to households that are not eligible or are provided in incorrect amounts. USDA found that estimated payment error rates increased from 7.4 percent in 2019 to 11.5 and 11.7 percent, respectively, in 2022 and 2023.[105]

According to FNS officials, temporarily easing application and reporting requirements could reduce administrative burden in the short term but could lead to a surge of administrative actions when these requirements are reinstated. Such a surge could be mitigated by staggering the reinstatement of these requirements. In addition, while FNS and state agencies experienced challenges implementing administrative flexibilities quickly during the COVID-19 pandemic, authorizing FNS to automatically implement them in response to economic conditions could allow the federal government and the states to prepare in advance.[106]

In evaluating this option, policymakers could consider:

- Which administrative flexibilities that were provided during COVID-19 would be most beneficial for future economic downturns that are not driven specifically by a public health emergency?
- Which requirements would be waived?
- What additional payment integrity measures could be implemented to help ensure payment error rates do not increase as a result of waiving administrative requirements?

---

[105]Estimated improper SNAP payments in 2022 and 2023 totaled about $19.3 billion. USDA was not able to report improper payment rates for 2020 or 2021 because certain quality control measures had been suspended during that time. We previously reported on SNAP improper payment rates. See GAO, *Improper Payments: USDA's Oversight of the Supplemental Nutrition Assistance Program*, GAO-24-107461 (Washington, D.C.: Sept. 26, 2024).

[106]In light of the challenges in implementing these temporary flexibilities, among other things, we recommended that FNS develop a comprehensive strategy for nutrition assistance programs to respond to emergencies that includes lessons learned due to the COVID-19 pandemic. In response to our recommendation, in January 2024, FNS finalized a comprehensive plan for its nutrition assistance programs to respond to emergencies. See GAO, *COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies*, GAO-22-105291 (Washington, D.C.: Jan. 27, 2022).

- Would application and reporting requirements be suspended for all applicants and participants, or only for certain applicants, such as those whose eligibility has previously been verified?
- What trigger would be used to suspend the application and requirements that policymakers choose to waive, and to reinstate them once economic conditions improve?

Option 9: Temporarily Increase Federal SNAP Administrative Funding to States

Our literature review and interviews with economic and social policy experts found that to enhance SNAP as an automatic stabilizer, policymakers could temporarily increase federal funding to states for SNAP administrative expenses.

While SNAP benefits are funded by the federal government, administrative expenses are split between the federal government and the states. State administrative expenses include eligibility determinations, fraud prevention, and services for beneficiaries such as job training and nutrition education. During economic downturns, state administrative costs for SNAP increase, as more people become eligible and submit applications. The federal government provided additional SNAP administrative funding to states in the Great Recession and COVID-19.

Previous Discretionary Actions

During the Great Recession and the COVID-19 pandemic, the federal government provided additional funding to states for Supplemental Nutrition Assistance Program administrative expenses. Specifically:

- During the Great Recession, the federal government provided about $290 million to states for fiscal years 2009-2010. During that period, the U.S. Department of Agriculture (USDA) obligated about $3 billion per year for state administrative expenses, including that additional funding.
- In response to the COVID-19 pandemic, the federal government made $1.2 billion available to states for fiscal years 2021-2023. During that period, USDA obligated about $5 billion per year for state administrative expenses, including that additional funding.

Source: GAO analysis of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009); Consolidated Appropriations Act, 2021, Pub. L. No. 116-120, 134 Stat. 1182 (2020); American Rescue Plan Act of 2021, Pub. L. No. 117-2. 125 Stat. 4 (2021); and the President's Budget. | GAO-25-106455

Note: these amounts exclude those designated for federal administrative expenses

Automatic and temporary administrative funding could help states manage increased caseloads quickly during a recession. In addition, because state governments often have more expenses and less revenue during economic downturns, funding for SNAP administrative expenses could help alleviate pressure on state budgets. When paired with temporary increases in SNAP benefits, this administrative funding could help ensure that benefits are quickly issued to program participants, which could in turn provide timely economic stimulus.

However, temporary administrative funding would not address states' most critical needs during economic downturns. According to FNS officials, while temporary administrative funding to states would be helpful, states have the greatest need for additional staff to process applications. Because these staff would need appropriate training and skills, officials said that it would not be as beneficial to temporarily hire them for economic downturns. Temporary funding does not provide the ongoing resources that states would need to hire longer-term staff, which would require funding beyond the economic downturn. Some studies we reviewed also expressed concern that automatically providing federal funding to states might be used to pay for expenses that would have occurred anyway, or could be a disincentive for them to prepare for economic downturns.[107]

In evaluating this option, policymakers could consider:

- How much funding would be provided?
- For how long would these funds be available?
- How would these funds be allocated among states?
- What trigger would be used to provide initial funding for state administration and what trigger could be used to determine if and when additional funding is provided?

Policy Area: Medicaid

Medicaid finances health care coverage for eligible low-income families with dependent children and aged, blind or disabled individuals. During economic downturns, Medicaid enrollment increases as incomes fall and more people become eligible. Enrollment may also increase as people become unemployed and lose employer-provided health insurance. According to Centers for Medicare & Medicaid Services data, Medicaid enrollment rose by 15.7 percent following the economic downturn caused

[107]Congressional Budget Office, *Options for Responding*; Richard H. Mattoon, Vanessa Haleco-Meyer, and Taft Foster, "Improving the impact of federal aid to the states."

by the COVID-19 pandemic—from nearly 64.1 million people in February 2020 to more than 74.1 million in February 2021.[108]

Medicaid is the nation's largest health program as measured by enrollment and the second largest health program—after Medicare—as measured by expenditures. Because Medicaid is jointly funded by the federal government and the states, it is also a significant component of both federal and state budgets. In fiscal year 2023, Medicaid expenditures totaled $849 billion, consisting of $578 billion from the federal government and $271 billion from the states. Past economic downturns have hampered states' ability to fund their Medicaid programs, as Medicaid enrollment increased and states' tax revenues declined.

Federal funding states receive for Medicaid is determined by a statutory formula, the Federal Medical Assistance Percentage (FMAP) formula. Under the FMAP formula, the federal government pays a larger portion of Medicaid expenditures in states with lower per capita income, and a smaller portion in states with higher per capita income, relative to the national average.

We previously found that per capita income does not reflect the size of a state's population in need of Medicaid services or a state's ability to fund Medicaid.[109] We also found that past discretionary measures to temporarily increase the FMAP to reflect economic conditions were not as timely or responsive as they could have been.[110] We suggested that Congress could consider enacting an FMAP formula that is targeted for variable state Medicaid needs and provides automatic, timely, and temporary increased federal assistance in response to national economic downturns.

[108]According to the National Bureau of Economic Research, the COVID-19 recession took place in March and April of 2020. However, states were required to keep beneficiaries continuously enrolled in Medicaid as a condition for receiving a temporary increase in federal funds. Pub. L. No. 116-127, § 6008(b)(3), 134 Stat. at 208. As a result, nationwide Medicaid enrollment increased by about 30 percent (22.4 million individuals) between February 2020 and February 2023. The continuous enrollment condition ended effective March 2023, and states resumed full eligibility redeterminations, including disenrollments. The eligibility redetermination process was still ongoing as of March 2025. Increased enrollment caused by the recession cannot be separated from the increase caused by continuous enrollment during the public health emergency.

[109]See GAO, *Medicaid Formula: Differences in Funding Ability among States Often Are Widened*, GAO-03-620 (Washington, D.C.: July 10, 2003).

[110]GAO-12-38.

Option 10: Adjust the FMAP Formula to Be Responsive to Economic Conditions

There are different ways that the FMAP formula could be adjusted to automatically respond to economic conditions, which would lead to different outcomes. Enabling the FMAP formula to automatically increase during economic downturns would make use of an existing mechanism to provide state fiscal relief tied to states' individual economic conditions. This automatic adjustment would be more predictable than enacting legislation on a discretionary basis when emergencies occur.

Previous Discretionary Actions

The federal government previously increased the Federal Medical Assistance Percentage (FMAP) during the Great Recession and the COVID-19 pandemic. This increase helped alleviate the fiscal pressures that states faced during these economic downturns.

- During the Great Recession, the federal government increased the FMAP to provide states with an additional $89 billion from October 2008 through December 2010. Subsequently, the federal government extended the FMAP increase, which provided states an additional $16.1 billion in January through June 2011. To be eligible for these funds, states were required to meet certain criteria and could not further restrict their Medicaid eligibility standards, methodologies, or procedures from what was in place on July 1, 2008.
- In response to the COVID-19 pandemic, in March 2020 the federal government increased the FMAP by 6.2 percentage points for states meeting certain conditions. This increased federal Medicaid spending by about $118 billion through March 2023. The increase began to phase down on April 1, 2023, by gradually reducing the FMAP on a quarterly basis. The FMAP increase ended entirely on December 31, 2023.

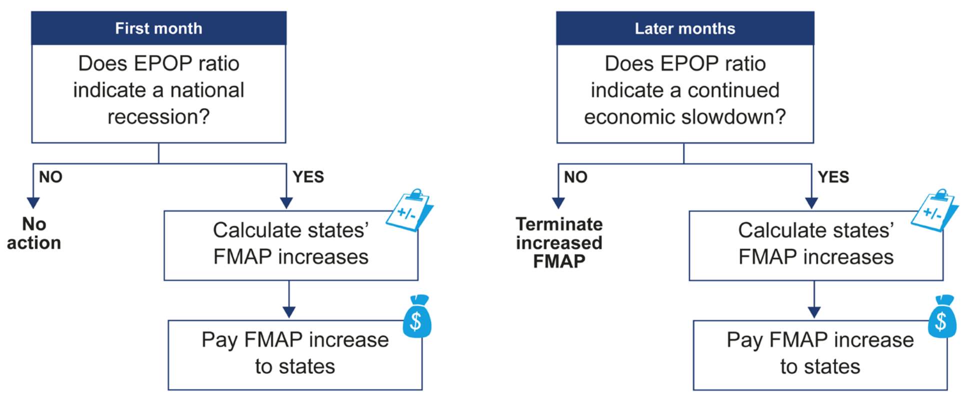
  To receive this additional funding, states were required to keep certain beneficiaries who were enrolled in Medicaid on or after March 18, 2020, continuously enrolled through March 31, 2023, regardless of whether they would have maintained eligibility. This continuous enrollment condition contributed to a Medicaid enrollment increase of more than 30 percent. In April 2023, states were required to resume eligibility reviews and disenrollments of ineligible beneficiaries. As a result, states faced an unprecedented volume of eligibility reviews. This volume led to a variety of challenges, including state Medicaid workforce capacity.

Source: GAO analysis of the American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, div. B. tit. V, § 5001, 123 Stat. 115, 496; Education, Jobs, and Medicaid Assistance Act, Pub. L. No. 111-226, tit. II, subtit. A, § 201, 124 Stat. 2389, 2393 (2010); Families First Coronavirus Response Act, Pub. L. No. 116-127, div. F, § 6008, 134 Stat. 178, 208 (2020); Consolidated Appropriations Act, 2023, Pub. L. No. 117-328, div. FF, tit. V, subtit. D, § 5131, 136 Stat. 4459, 5949 (2022); and GAO, COVID-19: Lessons Can Help Agencies Better Prepare for Future Emergencies, GAO-24-107175 (Washington, D.C.: Aug. 1, 2024); and GAO, Medicaid: Federal Oversight of State Eligibility Redeterminations Should Reflect Lessons Learned after COVID-19, GAO-24-106883 (Washington, D.C.: July 18, 2024); and Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns, GAO-12-38 (Washington, D.C.: Nov. 10, 2011). | GAO-25-106455

In a previous report, we recommended that Congress consider enacting an FMAP formula that is targeted for variable state Medicaid needs and provides automatic, timely, and temporary increased FMAP assistance in response to national economic downturns. In that report, we describe a prototype formula we developed that offers an option to provide automatic, timely, targeted, and temporary assistance during a national economic downturn through an increased FMAP.[111] The formula would use the employment-to-population (EPOP) ratio and a threshold number of states to trigger the FMAP increase. The EPOP ratio compares the number of employed persons in a state to the working age population aged 16 and older.

Once the threshold number of states—26 in our prototype—showed a sustained decrease in their EPOP ratios, a temporary FMAP increase would be triggered automatically (see fig. 3.) To target the increased funding based on states' anticipated increase in Medicaid costs, state assistance would be calculated based on increases in state unemployment (a proxy for increased Medicaid enrollment) and reductions in total wages and salaries (a proxy for the loss of state revenues). The temporary assistance would end once fewer than the threshold number of states showed a decline in the EPOP ratio over 2 consecutive months.

Figure 3: GAO Prototype Formula for Temporary Increased FMAP Assistance to States



Source: GAO. | GAO-25-106455

Note: The employment-to-population (EPOP) ratio is the ratio of the number of jobs in a state to the working age population aged 16 and older. The federal medical assistance percentage (FMAP) is the federal share of a state's Medicaid expenditures. For additional information on our prototype formula, see GAO, Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns, GAO-12-38 (Washington, D.C.: Nov. 10, 2011).

Our report included alternative design options for revising the FMAP formula and analyzed trade-offs involved with these options.[112] For

[111]GAO-12-38.

[112]GAO-12-38.

example, we analyzed the considerations involved in choosing thresholds for ending assistance and tailoring the amount of assistance to a state's level of need, among other things.

One more recent article we reviewed proposed an alternative FMAP formula. Like our prototype, it would automatically increase the FMAP during economic downturns in a way that targets funding based on individual states' Medicaid needs.[113] This formula aims to offset two-thirds of the deterioration in state budgets associated with an unemployment increase.

In this alternative formula, whether a state receives assistance in a given quarter and the amount of assistance it receives would be determined by its unemployment rate compared to a threshold level.[114] Federal matching funds would increase by 3.8 percentage points for each percentage point by which the state's unemployment rate exceeded the threshold, up to a cap of 90 percent.[115] To receive these funds, states would be required to maintain existing eligibility rules.

There are similarities and differences between this proposal and our prototype formula. For example:

- **Trigger for additional assistance to start.** Our prototype formula would trigger additional assistance based on national economic conditions, whereas the alternative proposal would consider the need for additional assistance on a state-by-state basis. Our report analyzed alternatives for scaling the FMAP increase to broader state budgetary needs, rather than Medicaid expenditure needs alone. Congress could scale up assistance to help states adapt to declining revenues during economic downturns—which would increase federal budgetary costs—or reduce the cost of the program by scaling down assistance to provide only a percentage of funding for state Medicaid

---

[113]Matthew Fiedler, Jason Furman, and Wilson Powell III, "Increasing Federal Support for State Medicaid and CHIP Programs in Response to Economic Downturns," *Recession Ready: Fiscal Policies to Stabilize the American Economy* (Washington, D.C.: The Hamilton Project and the Washington Center for Equitable Growth, 2019).

[114]In the authors' simulations, the threshold unemployment rate is set at the 25th percentile of the distribution of a state's unemployment rates over the past 15 years, plus 1 percentage point.

[115]In addition, the authors propose that states that have expanded Medicaid to certain uninsured adults would receive an additional 1 percentage point increase in the base matching rate per percentage point of excess unemployment.

needs. However, consistent with our recommendation to Congress, any of these options would determine the amount of additional assistance based on individual states' needs.[116]

- **Trigger for additional assistance to end.** Our prototype formula would end assistance soon after unemployment stopped increasing, while the alternative proposal would continue assistance until state economies had largely recovered. We reported that there are considerations and trade-offs involved in ending assistance. For example, altering the trigger for ending assistance to change the number of states that would need to have declining EPOP, or the amount of time that the EPOP would need to be in decline, would change the amount of time that additional FMAP funding would be provided and the associated budgetary cost.

These examples of potential changes to the FMAP can help policymakers consider options for adjusting it, and how a revised FMAP formula may interact with other policy goals. For instance, an increased FMAP that triggers sooner, lasts longer, and provides more generous assistance would have a greater effect on the federal budget than a more limited increase. In addition, automatically increasing the FMAP could be a disincentive for states to prepare for economic downturns.

Increasing the FMAP also has implications for payments to hospitals that serve a high proportion of Medicaid beneficiaries and uninsured low-income patients, known as disproportionate share hospital payments (see text box).[117]

[116]GAO-12-38.

[117]FMAP adjustments also affect funding for the Children's Health Insurance Program (CHIP). Federal funds for state CHIP programs are provided at a matching rate known as the enhanced FMAP (E-FMAP). In general, a state's E-FMAP is calculated by increasing the state's Medicaid matching rate by an amount specified in statue, up to a total E-FMAP of no more than 85 percent. See 42 U.S.C. § 1397ee(b). As such, an increase in the FMAP would also generally result in an increased share of federal funding for CHIP as determined by the E-FMAP. Similar to Disproportionate Share Hospital payments, a higher E-FMAP could result in a lower total amount of state and federal CHIP spending because states would reach their federal allotments faster. However, while states would need to spend less on CHIP to obtain the full federal match, they could choose to spend more.

Disproportionate Share Hospital Payments

Disproportionate Share Hospital (DSH) payments—payments to hospitals serving a high proportion of Medicaid beneficiaries and uninsured low-income patients—are jointly funded by state and federal governments. Federal DSH allotment amounts are set in law. State funding for DSH payments is matched with federal funds at the same federal medical assistance percentage (FMAP) as other Medicaid services up to the federal annual DSH allotment.

When the FMAP increases, states receive a higher percentage of federal matching funds—for regular Medicaid expenses and DSH—for each dollar of state funds. As a result, an FMAP increase can reduce total DSH spending, as federal DSH spending remains capped while states reach their federal DSH allotments faster (absent an increase in federal DSH allotments). A decrease in DSH funding could affect these hospitals' abilities to provide care for uninsured and underinsured individuals during economic downturns.

However, according to Centers for Medicare & Medicaid Services officials, states could choose to maintain the level of payments to affected hospitals by maintaining the level of state funds even though some of those funds would not be eligible for federal matching payments.

During the COVID-19 public health emergency the federal government temporarily increased federal DSH allotments so that total state and federal DSH funding would be the same as it was before the FMAP increase. The Medicaid and CHIP Payment and Access Commission has recommended that Congress change how DSH payments are calculated so that they are not affected by FMAP changes.

Source: GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, § 9819, 135 Stat. 4, 218 (2021), and Medicaid and CHIP Payment and Access Commission, "Countercyclical Medicaid Disproportionate Share Hospital Allotments," June 2023 Report to Congress on Medicaid and CHIP (Washington, D.C.: June 2023). | GAO-25-106455

In evaluating this option, policymakers could consider:

- How much would the federal matching rate for each state be increased during economic downturns?
- Would there be a maximum cap for the federal percentage of Medicaid funding?
- Would states be required to maintain existing eligibility standards to receive increased FMAP funding?
- Would states be required to maintain continuous enrollment to receive increased FMAP funding?

- Would statutory federal allotments applicable to certain health programs, such as DSH, be increased when the FMAP increases to maintain total funding levels?[118]
- What triggers would be used to increase the FMAP during economic downturns and return it to a normal level when economic conditions improve?
- Would triggers be based on national economic conditions, or individual state economies?

Policy Area: Tax System

The individual income tax and payroll tax systems, which together generate around 85 percent of all the federal government revenue, both act as automatic stabilizers during economic downturns. Specifically, as taxpayers' income declines, they generally owe less in income and payroll taxes.

- **Individual income taxes.** The individual income tax system is the largest federal revenue source, one of the largest sources of federal cash benefits to households, and the largest source of need-tested cash assistance for low- and moderate-income families with children. Income taxes generally are withheld from employees' paychecks, which spreads their tax payments out over the tax year. Self-employed taxpayers pay income tax quarterly.

  Certain benefits provided through the tax code for low- and moderate-income families are structured as refundable tax credits. For this type of tax credit, if a taxpayer's credit amount exceeds the taxpayer's tax liability, the amount of the credit that exceeds the taxpayer's tax liability will be given as a refund, even in cases where the taxpayer does not have any tax liability.[119]

  There are various advantages and limitations of using the federal income tax system as the mechanism to provide cash assistance to individuals and families. The advantages of using the income tax system include ease of use, reduced stigma, and low operational

[118]Policymakers could also consider implications in circumstances when the FMAP is not consistent across a fiscal year. For example, under the Families First Coronavirus Response Act, states received a temporary FMAP increase for fiscal year 2023 of 6.2 percentage points during the 1st and 2nd quarters, 5 percentage points for the 3rd quarter, and 2.5 percentage points for the 4th quarter. See Pub. L. No. 116-127, div. F, § 6008, 134 Stat. 178, 208 (2020), as amended by Pub. L. No. 117-328, § 5131, 136 Stat. 4459, 5949 (2022).

[119]Some credits are partially refundable, meaning that a portion of the tax credit can be given as a refund.

costs. However, tax benefits do not necessarily provide timely stimulus during economic downturns because taxpayers generally receive them once a year during the annual individual income tax return filing process. Also, some taxpayers may have difficulty claiming these benefits without third-party assistance. Additionally, tax benefits can be challenging to target because not all low-income households are required to file tax returns. According to Treasury Office of Tax Policy officials, it may be difficult to provide tax credits to the most vulnerable Americans, who may not file tax returns. Furthermore, IRS officials stated that the agency may face challenges identifying individuals who are ineligible for tax credits, which increases the risk for improper payments.[120]

- **Payroll taxes.** The federal government collects payroll taxes from employers and employees to finance Social Security and Medicare, and from employers to finance Unemployment Insurance benefits. Federal payroll taxes are the second-largest federal revenue source.

  Employers generally are required to withhold Social Security and Medicare taxes from employees' wages and pay the employer share of these taxes. Social Security and Medicare taxes have different rates applied to different wage bases. Currently, the tax rates for Social Security and Medicare are 6.2 percent and 1.45 percent, respectively, for both employees and employers, for a total of 15.3 percent. Self-employed individuals are subject to the full 15.3 percent self-employment tax.[121]

  Payroll taxes are the primary revenue source for the trust funds that pay both Social Security and Medicare Hospital Insurance benefits. Specifically, 91 percent of the money going into the two Social

[120]For example, Treasury data show that for fiscal year 2024, the improper payment rate for the Earned Income Tax Credit, one of the largest refundable tax credits, was 27 percent, resulting in about $16 billion in improper payments. "2024 Annual Improper Payments Dataset," Office of Management and Budget, accessed January 14, 2025, https://www.paymentaccuracy.gov/payment-accuracy-the-numbers/.

[121]In 2024, the maximum amount of earnings subject to Social Security tax was $168,600 per individual. Additionally, taxpayers are subject to an Additional Medicare Tax of 0.9 percent on certain earnings above a threshold ($200,000 for single, head of household, or qualifying widowed taxpayers; $250,000 for married taxpayers filing jointly; and $125,000 for married taxpayers filing separately). Self-employed taxpayers can deduct the employer-equivalent portion of their Social Security and Medicare taxes from their adjusted gross income.

Security trust funds come from payroll taxes.[122] However, more money is being drawn from the trust funds than is being received. Specifically, under current law, Social Security's Old-Age and Survivors Insurance trust fund and the Medicare trust fund are projected to be depleted in 2033 and 2036, respectively.[123] If the trust funds are depleted, payroll taxes would only be sufficient to fund payments to beneficiaries at a reduced level.

The federal government has temporarily reduced or allowed deferments of payroll taxes during previous economic downturns. In general, payroll tax relief can increase resources available to businesses or individuals quickly because it affects each paycheck.

Based on our review of literature and interviews with experts on economic, tax, and social policy, the federal government has options to enhance automatic stabilizers within the income and payroll taxes. Each of the options include trade-offs and considerations (see options 11 and 12).

Option 11: Provide Direct Payments to Individuals and Families Through the Tax System

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could provide direct payments to individuals and families during economic downturns.

[122] The two Social Security Trust Funds are the Old-Age and Survivors Insurance and the Disability Insurance Trust Funds. In addition to payroll taxes, the Social Security trust fund receives taxes on Social Security benefits, reimbursements from the U.S. Treasury, and interest income on its trust fund investments.

[123] GAO-25-107714.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government, through the Internal Revenue Service (IRS), distributed three rounds of payments to individuals, referred to as Economic Impact Payments. These payments were structured as advanced refunds for rebate credits, and eligibility for these payments was, in general, based on prior-year income tax return information. Taxpayers could file an income tax return and claim the tax credit for payment amounts not received. More than 476 million payments totaling $814 billion in financial relief were sent to individuals and families. Specifically:

- First round in March 2020: IRS distributed payments of up to $1,200 per eligible adult and $500 per qualifying child under age 17. The payments were reduced for individuals with adjusted gross income greater than $75,000. For a family of four, the payments provided up to $3,400 of direct financial relief. According to IRS data, IRS distributed about 162 million payments to individuals and families.
- Second round in December 2020: IRS distributed payments of up to $600 per eligible adult and up to $600 for each qualifying child under age 17. According to IRS data, IRS distributed about 147 million payments to individuals and families.
- Third round in March 2021: IRS distributed payments of up to $1,400 for eligible individuals or $2,800 for married couples who filed joint tax returns, plus $1,400 for each qualifying dependent, including adult dependents. According to IRS data, IRS distributed about 168 million payments to individuals and families.

Source: IRS and Department of Treasury documentation, and GAO analysis of IRS data and of the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020); and the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

Providing timely and flexible cash assistance, similar to the Economic Impact Payments (EIP) that were sent out in response to the COVID-19 pandemic, could encourage individuals and families to spend during an economic downturn. This spending could both help support individuals' and families' well-being and the economy during an economic downturn.

While these payments were not exclusively targeted to low-income individuals and families, some payments reached this population and helped prevent them from falling into poverty. For example, the Department of Health and Human Services projected that the second and third EIPs kept 2.9 million and 7.9 million people, respectively, out of poverty in 2021.[124] Similarly the Census Bureau found that the first two EIPs resulted in a 4.5 percentage-point decrease in the child poverty rate

[124]Suzanne Macartney, Robin Ghertner, Laura Wheaton, and Linda Giannarelli, *Federal Economic Stimulus Projected to Cut Poverty in 2021, Though Poverty May Rise as Benefits Expire* (Washington, D.C.: U.S. Department of Health and Human Services, 2022).

in 2020, representing 3.2 million children prevented from falling into poverty.[125]

To distribute automatic direct payments, IRS could use the existing EIP infrastructure that it developed and improved during COVID-19. IRS officials stated that the second and third rounds of payments were easier to administer because most of the programming was already in place from the first round of payments.

One consideration with automatic direct payments is to whom they are targeted. Low-income individuals and families are more likely to spend direct payments. However, EIPs were not strictly targeted to low-income households, as households with relatively high incomes were eligible for them as well.[126] Survey data from the Census Bureau indicate that households increasingly saved or used the second and third round of payments to pay down debt rather than spend them. When stimulus payments are not spent, they have less of an economic effect compared to their budgetary costs. Targeting automatic direct payments to lower income taxpayers based on their most recent tax filings could potentially provide similar economic benefits at lower budgetary cost compared to the COVID-19 EIPs. However, delivering targeted payments to these households can be complicated because many of them may not file tax returns, which could increase administrative burden and the potential for improper payments.

While providing fast and flexible money to individuals and families can quickly boost economic activity, a large influx of spending could potentially contribute to inflation. Specifically, inflation could occur if payments to individuals were to create more demand for goods and services than the economy can produce.

[125]Liana Fox and Kalee Burns, *The Supplemental Poverty Measure: 2020*, Report P60-275 (Washington, D.C.: U.S. Census Bureau, 2021). The supplemental poverty measure is a measure of economic deprivation—having insufficient financial resources to achieve a specified standard of living. The measure is based on recent, annually updated data on necessary expenditures—food, clothing, shelter, and utilities.

[126]For the first round of payments, the payment amount phased out after an income threshold of $75,000 for individual filers, $112,500 for heads of household, and $150,000 for married taxpayers filing jointly or a surviving spouse at 5 percent per dollar of adjusted gross income. The payment phased out entirely at income exceeding $99,000 for single taxpayers with no children and $198,000 for married taxpayers filing jointly with no children.

One challenge with EIPs was that in some cases payments were distributed to multiple taxpayers for the same dependents.[127] IRS officials stated that, due to current IT limitations, they are not able to detect instances where a payment is issued more than once for the same dependent. Specifically, IRS's accounting systems could not match payment amounts to specific qualifying children by their Social Security numbers. As a result, two different taxpayers could have received a payment for the same qualifying child if those two taxpayers claimed the qualifying child on different tax returns. IRS officials stated that to fix this issue, a separate tracking system would be needed to match dependents specifically with the payments.

In evaluating this option, policymakers could consider:

- What would be the payment amount?
- Would the payment amount be adjusted to reflect the severity of the economic downturn?
- To what extent would a household's characteristics (e.g., number of children or number of dependents) affect the payment?
- Would all individuals be eligible for the payment, or only those below a certain income threshold?
- Would the payment be gradually phased out based on income?
- Would the payment amount and income threshold be automatically adjusted for inflation?
- What trigger would be used to determine when the first payment is sent out to individuals and households?
- What internal controls would be used to prevent improper payments?
- What procedures would be implemented to address instances when the same dependent is claimed on multiple tax returns for the same tax period?
- Would there be only one payment based on a single indicator or should there be secondary indicators that would initiate additional payments?

[127]Treasury Inspector General for Tax Administration, *Implementation of Economic Impact Payments*, 2021-46-034 (Washington, D.C.: May 24, 2021).

Option 12: Temporarily Reduce Employee Payroll Taxes

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the federal payroll tax system as an automatic stabilizer, policymakers could temporarily reduce payroll taxes to increase employees' take-home pay.

Previous Discretionary Actions

In response to the Great Recession, the federal government temporarily reduced the employee and self-employed shares of the Social Security payroll tax by 2 percentage points. This temporary payroll tax cut was in effect for 2011 and reduced federal tax revenue by $111.7 billion. The Social Security trust funds were not affected because an amount equivalent to the reduction in revenues from the payroll tax cut was transferred to the trust funds from the Treasury General Fund.

In response to the COVID-19 pandemic, the federal government allowed employers to defer the collection and payment of the employee share of certain payroll taxes imposed on wages or compensation paid from September 1, 2020, through December 31, 2020. Self-employed individuals could defer half of their Social Security taxes imposed on net earnings from self-employment during the same period.

We previously reported, based on interviews with representatives from a tax preparer group and two payroll groups, that payroll tax deferrals could put employees in a poor position when withholding of the deferred payroll taxes resumed after an economic downturn because employees would need to backpay several pay periods of payroll taxes.

Source: Congressional Research Service, Payroll Tax Cuts as Economic Stimulus: Past Experience and Economic Considerations, IN11159 (Washington, D.C.: Aug. 23, 2019), GAO, COVID-19: IRS Implemented Tax Relief for Employers Quickly, but Could Strengthen Its Compliance Efforts, GAO-22-104280 (Washington, D.C.: May 17, 2022), and GAO analysis of Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, Pub. L. No. 111-312, 124 Stat. 3296 (2010) and the CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (2020). | GAO-25-106455

Reducing payroll taxes can increase resources available to individuals and families for individuals who remain employed during the economic downturn. Two studies that we reviewed found that a temporary payroll tax reduction for employees had among the highest multiplier effects among a variety of tax policy options.[128] Specifically, one study found that every $1 of temporary payroll tax reduction generates $1.27 in economic activity.[129]

As with direct payments to individuals, targeting payroll tax cuts to low-income individuals and families would provide the greatest boost to short-run demand in the economy for a given budgetary cost. However, targeting a payroll tax cut to just low-income households would be

[128]Mark Zandi, *Global Policy Prescriptions: How Another Recession Can Be Avoided* (Washington, D.C.: Moody's Analytics, 2011), and Alan Blinder and Mark Zandi, *The Financial Crisis: Lessons for the Next One* (Washington, D.C.: Center on Budget and Policy Priorities, 2015).

[129]Mark Zandi, *Global Policy Prescriptions*.

challenging. Employers do not necessarily know the income levels of their employees, who may have other income sources. As a result, employers would not always be able to accurately implement an income-based payroll tax cut. Additionally, targeting low-income households could result in a benefits cliff—or the sudden decrease in benefits that can occur with a small increase in earnings—unless the payroll tax reduction was gradually phased out, which could increase the complexity and cost of implementing a payroll tax cut. In addition, the benefits from a payroll tax cut could miss the neediest households because unemployed individuals or individuals whose income is not subject to payroll taxes would not benefit from a payroll tax reduction.

While an adjustment to payroll taxes may require additional guidance from IRS, it would be a part of the existing payroll system, and therefore, may not require IRS to stand up new systems or infrastructure to implement a reduction. However, there could be additional burdens on employers, who would need to adjust their withholding systems to accommodate any changes.

Additionally, without legislation authorizing transfers from the general fund to the trust funds to make up for reduced payroll tax receipts, adjustments to payroll taxes would affect the trust funds that finance Social Security and part of Medicare. Any reductions in payroll taxes that finance these trust funds could further affect the solvency of the funds.

In evaluating this option, policymakers could consider:

- Would the adjustment be a full or partial reduction of a taxpayer's payroll tax liability?
- For how long would the payroll tax adjustment be in place?
- Would the payroll tax adjustment be universal or targeted to only low-income individuals?
- Would self-employed workers be eligible for the payroll tax adjustment?
- What trigger would be used to determine when the payroll tax adjustment would start and phase out once economic conditions improve?

Policy Area: Earned Income Tax Credit

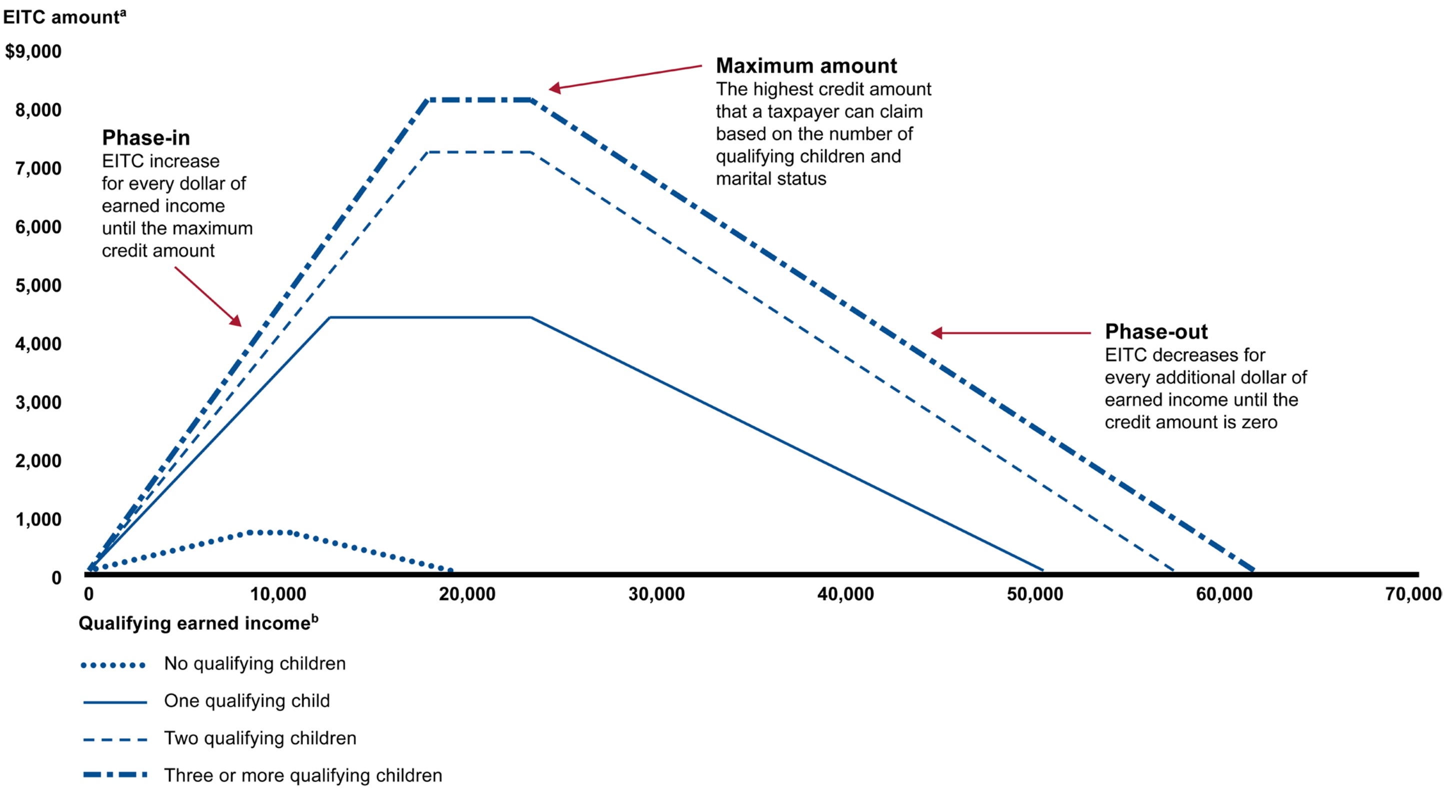
The Earned Income Tax Credit (EITC) is a refundable tax credit that boosts the income of eligible low-income taxpayers, especially those with children. It is intended, in part, to encourage low-income families to seek employment rather than public assistance and is expected to stimulate the economy because low-income individuals tend to spend rather than save more of their income.[130]

EITC eligibility and benefit amounts are based on various factors, including the amount of a taxpayer's earned income, the taxpayer's marital status, and the number of qualifying children they claim (see fig. 4). The credit phases in as a percentage of earned income. Upon reaching the maximum benefit, the credit plateaus. When income reaches a designated point, the benefit begins to phase out as a percentage of income. The phase-in and phase-out rates, maximum benefit, and phase-out point all differ depending on tax return filing status (such as single or married filing jointly) and the number of eligible children claimed.

Taxpayers who receive the largest EITC amounts are generally low-income earners with qualifying children. For 2020, 43 percent of all tax returns claiming the EITC had an income below $15,000, and 96 percent of all EITC dollars went to taxpayers with qualifying children.

[130]Senate Committee on Finance, Tax Reduction Act of 1975, Report to Accompany H.R. 2166, 94th Cong., 1st sess., March 17, 1975, S. Report 94-36, p. 11. We previously found that the EITC has had a strong effect on labor force participation for certain claimants but much less, if any, effect on hours worked. GAO, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Address Noncompliance*, GAO-16-475 (Washington, D.C.: May 27, 2016).

Figure 4: Earned Income Tax Credit (EITC) Amount for Single-Filer Taxpayers by Number of Qualifying Children and Income for 2025



Source: GAO analysis of Congressional Research Service, *The Earned Income Tax Credit (EITC): How It Works and Who Receives It,* R43805 (Washington, D.C.: Nov. 14, 2023), IRS Revenue Procedure 2024-40, and 26 U.S.C. § 32. | GAO-25-106455

[a]A single filer is a taxpayer who is unmarried, divorced, or legally separated.

[b]The EITC amount that a taxpayer receives is based on their earned income. Generally, earned incomes include all the taxable income and wages received from working. However, not all income is counted toward the EITC earned income calculation. Specifically, money collected from interest, dividends, pensions, annuities, Social Security benefits, alimony, child support, and Unemployment Insurance compensation do not count as an earned income for EITC.

We previously found that EITC has a mixed record as an automatic stabilizer.[131] Specifically, two studies found that more low-income taxpayers became eligible for the EITC during economic downturns.[132] However, these studies also found that certain types of families and

[131]GAO-24-106056.

[132]Marianne Bitler, Hilary Hoynes, and Elira Kuka, *Do In-Work Tax Credits Serve as a Safety Net*? (Cambridge, Ma.: National Bureau of Economic Research, 2014); and Maggie R. Jones, *The EITC Over the Great Recession: Who Benefited?* (Washington, D.C.: U.S. Census Bureau, 2015).

individuals, such as highly educated individuals, were more likely to become eligible, while others, such as single parents, lost eligibility. Married taxpayers were more likely to become eligible for the EITC because if one working spouse lost employment, the other spouse would still be receiving an earned income. Conversely, the studies found that less educated single mothers with children were, on average, more likely to lose employment and income for an entire tax year and therefore lose their eligibility for the credit. While EITC boosts low-income taxpayers' income, the refundable portion of the credit is provided to eligible individuals and families once a year after they file their federal income tax returns. Therefore, EITC does not provide timely benefits to taxpayers when there is a sudden economic downturn, and when they may need them the most. Beginning in 1979, the credit was also available as an advance credit. This meant that filers had the option to receive their credit as an additional payment and then reconcile the amount received with the amount they were actually eligible for upon filing their taxes. However, as we previously reported, the advance payment option had a low take-up rate of 3 percent and high levels of noncompliance.[133] The advance EITC was repealed in 2010.[134]

Moreover, adding additional rules to how the EITC is calculated could lead to further mistakes by taxpayers. We previously reported that the EITC eligibility requirements can be complex, and as a result, the program experiences a relatively high rate of improper payments.[135] For example, we reported that in fiscal year 2023 the EITC program had an improper payment rate of around 33 percent, which is estimated to be responsible for nearly $22 billion in improper payments.[136]

EITC rules are often complex because they address complicated family relationships and residency arrangements to determine who is a qualifying child. For example, each child must meet certain age, residency, and relationship tests. However, given complicated family

[133]GAO, *Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance*, GAO-07-1110 (Washington, D.C.: Aug. 10, 2007).

[134]Pub. L. No. 111-226, § 219, 124 Stat. 2389, 2403 (2010).

[135]GAO-16-475.

[136]Improper payment estimates and rates displayed in the table include both improper and unknown payments as reported on PaymentAccuracy.gov. See GAO*, Improper Payments: Key Concepts and Information on Programs with High Rates or Lacking Estimates*, GAO-24-107482 (Washington, D.C.: June 27, 2024).

relationships, determining whether children meet these eligibility requirements is not always clear cut nor easily understood by taxpayers. This is especially true when taxpayers share responsibility for children with parents, former spouses, and other relatives or caretakers.

IRS dedicates substantial resources to ensuring compliance with the EITC rules. For example, according to IRS data, around 44 percent of individual tax returns audits IRS closed in fiscal year 2023 were conducted on tax returns claiming EITC. However, it is difficult for IRS to verify taxpayer compliance with the EITC rules due to the lack of available third-party data on taxpayers' circumstances.

Policymakers have made discretionary adjustments to the EITC during economic downturns to make the program more responsive to economic conditions. For example, in response to the Great Recession and COVID-19, policymakers changed program requirements to increase the number of eligible taxpayers and the credit amount taxpayers could receive. Based on our review of literature and interviews with experts on economic, tax, and social policy, the federal government has options to tie some of the past discretionary changes to the EITC to an economic trigger to further support low- and moderate-income taxpayers during an economic downturn. Each option includes trade-offs and other considerations (see options 13 through 16).

Option 13: Temporarily Allow Taxpayers the Option to Include or Exclude Unemployment Insurance Compensation when Calculating EITC

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could give taxpayers the option to include or exclude Unemployment Insurance (UI) compensation when calculating their EITC amount.[137]

This change would allow taxpayers who lost their jobs through no fault of their own and received UI compensation the option to claim EITC amounts commensurate with what they could have claimed if they had not lost their jobs. Specifically:

[137]The UI program provides temporary financial assistance to eligible workers who become unemployed through no fault of their own. While states follow the same federal law guidelines, each state administers a separate UI program and may set additional requirements for eligibility, benefit amounts, and length of time benefits can be paid. Generally, to be eligible for UI compensation, a worker must be able to work and available for work.

- Taxpayers who had an income near or in the phase-in range could have the option to include UI compensation as an earned income, and
- Taxpayers who had an income near or in the phase-out range could have the option to exclude UI compensation from their adjusted gross income.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government excluded up to $10,200 of Unemployment Insurance (UI) compensation from gross income received by certain taxpayers. According to Department of the Treasury officials, the exclusion had the effect of reducing their adjusted gross income for taxpayers in or above the Earned Income Tax Credit (EITC) phase-out range, which could have led to an increase in the amount of EITC they received. Temporarily excluding UI compensation from gross income allowed more taxpayers to benefit from the EITC during the COVID-19 pandemic. Specifically, according to Internal Revenue Service (IRS) officials, about 7.3 million taxpayers who received UI compensation also received the EITC in tax year 2020, more than 7 times than the number of comparable taxpayers in tax year 2019. The temporary changes only applied to tax year 2020.

Source: Treasury and IRS officials, and GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

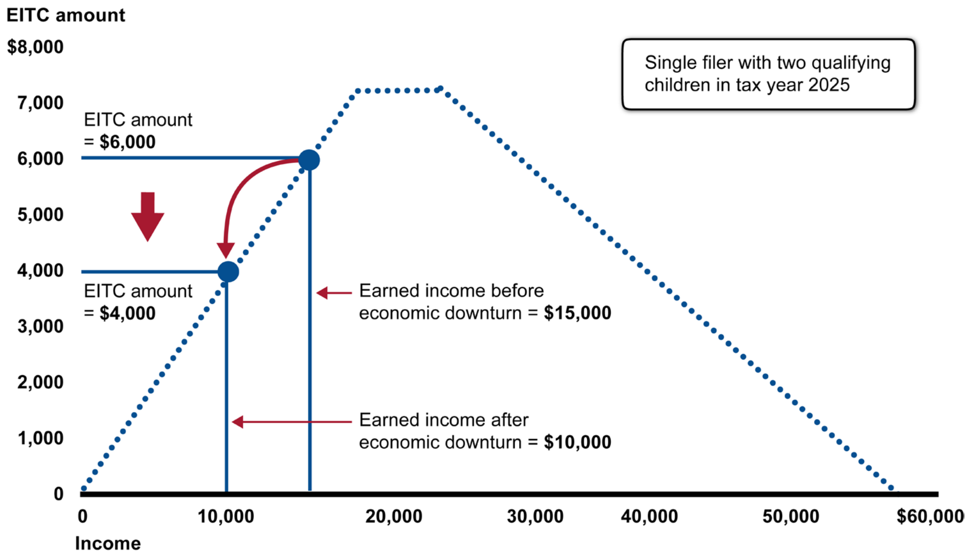
Currently, receiving UI compensation cannot increase the EITC amount a taxpayer is eligible to receive, and in some cases, UI compensation can decrease a taxpayer's EITC amount. However, the specific effects of including or excluding UI compensation when calculating a taxpayer's EITC amount varies depending on how much income they previously earned.

EITC eligibility is generally based on a taxpayer's earned income, which does not include UI compensation.[138] Therefore, taxpayers who had earned incomes near or within the phase-in range but lost their jobs and received UI would receive smaller EITCs compared to previous years because their new earned incomes would be lower (see fig. 5). Allowing taxpayers in the phase-in range to include UI compensation as an earned income could either increase their credit amounts, ensure they maintain their eligibility, or help offset their income tax liability related to their UI benefits.[139]

[138]Money collected from interest, dividends, pensions, annuities, Social Security, alimony, and child support do not count as an earned income for EITC.

[139]UI compensation recipients pay taxes on their benefits.

Figure 5: Illustrative Example of a Taxpayer in the Phase-In Range Where the Earned Income Tax Credit (EITC) Amount Decreases with Their Earned Income



Source: GAO analysis of IRS Revenue Procedure 2024-40, and 26 U.S.C. § 32. | GAO-25-106455

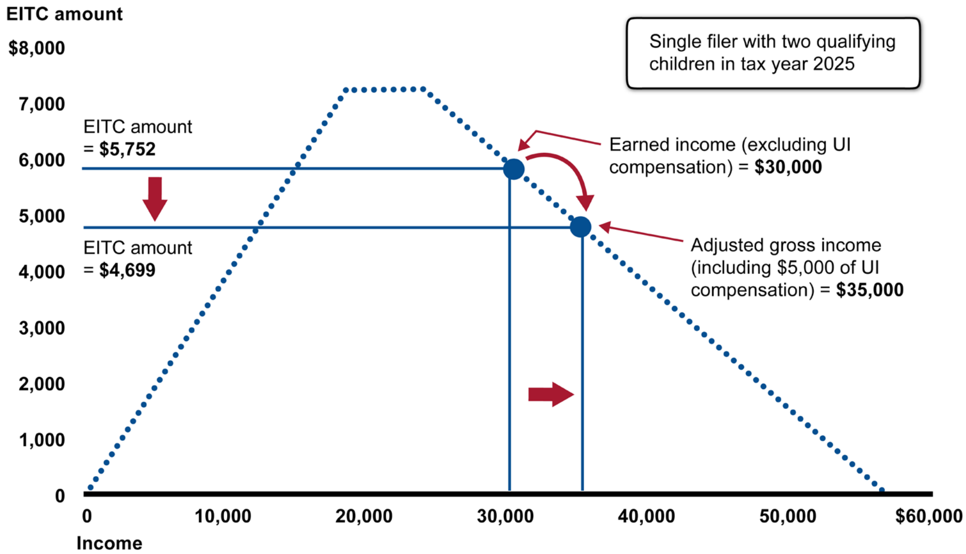
Notes: A single filer is a taxpayer who is unmarried, divorced, or legally separated.

The EITC amount that a taxpayer receives is based on their earned income. Generally, earned incomes include all the taxable income and wages received from working. However, not all income is counted toward the EITC earned income calculation. Specifically, money collected from interest, dividends, pensions, annuities, Social Security benefits, alimony, child support, and Unemployment Insurance compensation do not count as an earned income for EITC.

Taxpayers who had an earned income within the phase out range could receive a smaller EITC amount because of their UI compensation. Specifically, taxpayers within the phase-out range calculate the credit twice as part of the EITC calculation formula: first based on their earnings, such as wages, and again based on their adjusted gross income (AGI), which generally includes their unemployment compensation.

Based on the formula, if a taxpayer's AGI is higher than their earned income, which it generally would be because of the inclusion of UI benefits, the taxpayer would receive the lesser credit amount (see fig. 6). Allowing taxpayers in the phase-out range to exclude some or all of their UI compensation from the adjusted gross income could either increase their credit amount, make them eligible for the credit, or help offset their income tax liability related to their UI benefits.

Figure 6: Illustrative Example of a Taxpayer in the Phase-Out Range Where Unemployment Insurance (UI) Compensation Decreases Their Earned Income Tax Credit (EITC) Amount



Source: GAO analysis of IRS Revenue Procedure 2024-40, and 26 U.S.C. § 32. | GAO-25-106455

Notes: A single filer is a taxpayer who is unmarried, divorced, or legally separated.

The EITC amount that a taxpayer receives is based on their earned income. Generally, earned incomes include all the taxable income and wages received from working. However, not all income is counted toward the EITC earned income calculation. Specifically, money collected from interest, dividends, pensions, annuities, Social Security benefits, alimony, child support, and UI compensation do not count as an earned income for EITC. However, taxpayers within the phase-out range calculate the credit twice as part of the EITC calculation formula: first based on their earnings, such as wages, and again based on their adjusted gross income, which generally includes their unemployment compensation.

In evaluating this option, policymakers could consider:

- For taxpayers in the phase-in range, how much UI compensation should be included in the EITC calculation?
- For taxpayers in the phase out range, how much UI compensation should be excluded from the EITC calculation?
- What trigger would be used to allow taxpayers to include or exclude UI compensation from the EITC calculation during economic downturns?

Option 14: Temporarily Increase EITC Amounts for Eligible Taxpayers Without Qualifying Children

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could automatically expand the credit amount that taxpayers without qualifying children could receive during an economic downturn by increasing one or more of the following: the credit percentage (the rate at which the credit is phased in), the phase-out percentage, the earned income amount, and the phase-out amount.

In general, to be a considered a qualifying child for EITC and other tax purposes, a person must satisfy four tests:

- **Relationship.** The person is the taxpayer's child, including an adopted child, or stepchild, foster child, sibling, stepsibling, or a descendant of one of these.
- **Residence.** The person has the same principal residence as the taxpayer for more than half the tax year in the United States.
- **Age.** The person is under the age of 19 at the end of the tax year, under the age of 24 if a full-time student for at least 5 months of the year, or permanently and totally disabled at any time during the year.
- **Filing Status.** The person did not file a joint return with their spouse.

Some EITC recipients may have children who do not meet these eligibility criteria. Also, some taxpayers who receive EITC do not have children at all. A temporary increase in the EITC for taxpayers without qualifying children could increase these taxpayers' overall income.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government temporarily changed the Earned Income Tax Credit (EITC) by increasing for taxpayers without qualifying children the credit percentage, the phaseout percentage, the earned income amount, and the phase-out amount. This meant the maximum credit amount for taxpayers without qualifying children increased from $543 to $1,502 for tax year 2021. Specifically, the federal government increased the income level at which the credit begins to phase out, which is adjusted for inflation, from $8,880 to $11,610 for taxpayers without qualifying children (or from $14,820 to $17,560 for married taxpayers filing a joint tax return). The rate that the higher temporary credit phased out—or the amount that the credit decreases for every additional dollar of income—increased from 7.65 percent to 15.3 percent for taxpayers without qualifying children. These temporary changes expired at the end of 2021.

Source: Congressional Research Service, The "Childless" EITC: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2), IN11610 (Washington, D.C.: May 3, 2021), and GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

Increasing EITC amounts for taxpayers without qualifying children during economic downturns would provide additional funds and stability to many workers, who normally would not be eligible for the larger refundable tax credits available to taxpayers with qualifying children. IRS data show that before the COVID-19 pandemic, in tax year 2019, 28.3 percent (7.6 million) of the taxpayers who claimed EITC did not have qualifying children.[140] Those taxpayers received about 3.5 percent ($2.3 billion) of the total in EITC that taxpayers claimed.

Studies we reviewed found that the increased EITC amount to taxpayers without qualifying children in response to the COVID-19 pandemic could help support the economy and the well-being of individuals and families. Specifically, one study found that the increased EITC amount for workers without qualifying children in 2021 reduced housing hardships by around 28 percent among young adults.[141] Additionally, a separate study found that increasing EITC for taxpayers without children could generate $1.20 in economic activity per dollar in EITC provided.[142]

In evaluating this option, policymakers could consider:

- How much would the maximum credit amount be for taxpayers without qualifying children during an economic downturn?
- At what rate would the credit be phased in and phased out?
- At what income level would the phase-out rate start?
- What internal controls would be used to ensure that payments are made only to eligible individuals, in the correct amount?
- How long would taxpayers without qualifying children receive the increased credit amount?
- What trigger would be used to expand credit amounts during economic downturns and return them to standard levels once economic conditions improve?

[140]IRS, *Individual Income Tax Returns Complete Report 2019*, Publication 1304 (Washington, D.C.: December 2021).

[141]Jiwan Lee, Katherine Michelmore, Natasha Pilkauskas, and Christopher Wimer, *Effects of The Expansion of The Earned Income Tax Credit for Childless Young Adults on Material Wellbeing* (Cambridge, Ma.: National Bureau of Economic Research, 2024). The paper states that someone is experiencing housing hardship when they are not caught up with rent or mortgage payments.

[142]Mark Zandi, *HEROES Act to the Rescue* (Washington, D.C.: Moody's Analytics, 2020).

Option 15: Temporarily Allow Taxpayers the Option to Use Income from a Prior Year to Calculate EITC Amounts

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could establish a trigger that would allow taxpayers the option to use a prior year's earned income rather than their current year income to calculate the EITC amount.

Allowing taxpayers the option to use income from a prior year to calculate tax benefit amounts is generally known as a lookback rule. The implementation of a temporary lookback rule specifically for EITC could ensure that if taxpayers' earnings decline year to year, eligible taxpayers would be able to maintain their spending levels during economic shocks by either increasing their credit amounts or ensuring that they do not lose their existing credits.

Previous Discretionary Actions

Legislation has been enacted several times in the past to give taxpayers the option of using their prior-year income rather than their current-year income to calculate their Earned Income Tax Credit (EITC). The "lookback" rule has generally been implemented to help individuals and families recover after a natural disaster, such as in response to a hurricane.

In response to the COVID-19 pandemic, the federal government authorized an EITC lookback rule for tax years 2020 and 2021. Specifically, the lookback provisions allowed taxpayers to use their 2019 earned income instead of their 2020 or 2021 earned income to calculate their EITC amount if doing so made their credit larger.

Source: Congressional Research Service, The Earned Income Tax Credit (EITC): Legislative History, R44825 (Washington, D.C.: Apr. 28, 2022), and GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021); Consolidated Appropriations Act, 2021, Pub. L. No. 116-260, 134 Stat. 1182 (2020); Disaster Tax Relief and Airport and Airway Extension Act of 2017, Pub. L. No. 115-63, 131 Stat. 1168 (2017); and the Katrina Emergency Tax Relief Act of 2005, Pub. L. No. 109-73, 119 Stat. 2016 (2005). | GAO-25-106455

Generally, for the purposes of calculating EITC amounts, the earned income for a given tax year includes wages, salaries, tips, and other compensation that is included in gross income received from working during that year. During an economic downturn, for some taxpayers, reduced earnings could be accompanied by lower EITC amounts.

Generally, using a lookback rule to determine EITC eligibility would increase the number of taxpayers eligible for the credit as well as increase EITC amounts. Specifically, during economic downturns, many employed individuals experience a furlough, job loss, or other reduction in income. Reduced or lost income could also result in a reduction or loss of EITC refund for these individuals.

However, allowing taxpayers to choose between using income from the current year or a prior year could add complexity and lead to additional mistakes and improper payments.[143]

In addition, allowing taxpayers to use a prior year's income as qualifying income could create a disincentive for unemployed individuals to seek employment because they still would qualify for the EITC even if they are not working.

Furthermore, for taxpayers whose income increased year to year such that they were no longer eligible for the EITC, a lookback rule could potentially allow taxpayers who would otherwise have an income that is too high to qualify to claim the EITC.

In evaluating this option, policymakers could consider:

- What would the lookback period be?
- Would the lookback apply to all taxpayers, or only to those whose income decreased year-to-year?
- What internal controls would be used to ensure that payments are made only to eligible individuals in the correct amount?
- What trigger would be used to initiate the lookback rule and end it once economic conditions improve?

Option 16: Temporarily Increase the EITC Phase-In Rate

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could automatically increase the EITC's phase-in rate.[144]

The rate at which the EITC phases in depends on a taxpayer's marital status, number of qualifying children, and earned income. To provide an incentive to earn more income, the EITC amount phases in as income increases until the credit reaches the maximum amount. For example, the phase-in rate for a married couple filing a joint tax return that has two qualifying children is 40 percent. For this category of taxpayer, the EITC amount rises by 40 cents for each dollar earned up to $17,880 in qualified earned income for tax year 2025. At that income level the couple is

143We previously reported that the EITC has a relatively high rate of improper payments. See GAO-24-107482.

144For purposes of this report, we use "phase in rate" to mean credit percentage.

eligible for the maximum credit amount of $7,152. A higher phase-in rate allows taxpayers to reach the maximum credit amount based on a lower income.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government temporarily increased the Earned Income Tax Credit (EITC) phase-in rate for workers without children from 7.65 percent to 15.3 percent for tax year 2021. Therefore, for every additional dollar of qualified earned income that taxpayers without qualifying children earned, their EITC amounts increased by 15.3 cents instead of 7.65 cents until they reached the maximum qualified earned income amount (resulting in a maximum credit). The temporary change expired at the end of 2021.

Source: Congressional Research Service, The “Childless” EITC: Temporary Expansion for 2021 Under the American Rescue Plan Act of 2021 (ARPA; P.L. 117-2), IN11610 (Washington, D.C.: May 3, 2021), and GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

Temporarily increasing the EITC phase-in rate during economic downturns would help taxpayers with low incomes who are in the current EITC phase-in range. It would also provide stability to taxpayers who lost some of their income and otherwise would receive a smaller EITC as their income declined.

However, increasing the phase-in rate could create a disincentive for EITC recipients to work more or to find a higher paying job because they could receive a higher EITC amount for the same amount of qualified earned income than before a temporary increase to the phase-in rate.

In evaluating this option, policymakers could consider:

- What would the temporary phase-in rate be?
- How would the temporary change to the phase-in rate be phased out?
- What internal controls would be used to ensure that payments are made only to eligible individuals in the correct amount?
- What trigger would be used to increase the phase-in rate and return it to its normal level once economic conditions improve?

Policy Area: Child Tax Credit

The Child Tax Credit (CTC) is a partially refundable tax credit to help ease the financial burden that families incur when they have children.[145] Under current law, the CTC generally reduces a taxpayer's income tax liability by up to $2,000 per qualifying child.[146] If the value of the credit exceeds a taxpayer's tax liability, the taxpayer may be eligible to receive a full or partial refund of the difference. The refundable portion of the credit is referred to as the additional child tax credit (ACTC). For 2025, ACTC is calculated as 15 percent of earnings that exceed $2,500 up to maximum ACTC of $1,700 per child. Therefore, for every dollar earned above $2,500, a taxpayer receives 15 cents as a refundable tax credit until they reach the maximum refund amount.

According to the Congressional Budget Office (CBO), the CTC does not currently operate as an automatic stabilizer because claims do not appear to increase during economic downturns. According to Treasury officials, CTC's role as an automatic stabilizer is limited because the amount of the credit is the same over a wide range of incomes. In addition, ACTC does not function as an automatic stabilizer because declines in income tend to reduce, rather than increase, ACTC amounts by lowering the amount of earnings above the $2,500 threshold.

Based on our review of literature and interviews with experts on economic, tax, and social policy, the federal government has an option to make CTC automatically react to economic downturns, but this option involves trade-offs and considerations (see option 17).

Option 17: Temporarily Provide an Advance Child Tax Credit

Our literature review and interviews with experts on economic, tax, and social policy found that to enhance the income tax system as an automatic stabilizer, policymakers could automatically initiate an advance CTC program based on economic conditions to provide timely support to households with children.

[145] A partially refundable tax credit is a tax credit where eligible taxpayers may receive only part of the credit as a tax refund, even if they do not have a tax liability. The Child Tax Credit was first created in the Taxpayer Relief Act of 1997, (Pub. L. No. 105-34, 111 Stat. 788 (1997) and made partially refundable as part of the Economic Growth and Tax Relief Reconciliation Act of 2001 (Pub. L. No. 107-16, 115 Stat. 38 (2001).

[146] Pub. L. No. 115-97, § 11022, 131 Stat. 2054, 2073 (2017), codified at 26 U.S.C. § 24(h). The amount is set to revert to $1,000 per child in 2026. The CTC is reduced by $50 for each $1,000 of adjusted gross income above beyond $200,000, or $400,000 for married taxpayers filing jointly.

An advance CTC payment would be sent out to eligible taxpayers every month and could be calculated by dividing the taxpayer's expected total CTC amount by the number of months it is in effect.

Previous Discretionary Actions

In response to the COVID-19 pandemic, the federal government temporarily authorized the Internal Revenue Service (IRS) and the Department of the Treasury to issue advance payments of the Child Tax Credit (CTC) in 2021. Generally, eligible taxpayers were those who lived in the United States for more than half the year, had a qualifying child, and made less than certain income limits. Taxpayers must also have filed a 2019 or 2020 tax return and claimed the child tax credit, or previously provided IRS with information to claim Economic Impact Payments. Although taxpayers could provide updates to IRS when their circumstances changed, taxpayers could not make changes to their filing status or add additional qualified children until they filed their tax returns.

Treasury estimated a taxpayer's annual advance amount at 50 percent of the taxpayer's total CTC for 2021 based on information reported on the taxpayer's 2020 individual income tax return (or 2019 return if the 2020 return was not available). IRS distributed these advance payments monthly from July to December of 2021. IRS reported that, as of April 6, 2022, it had disbursed more than 216.8 million advance payments totaling nearly $93.5 billion.

Source: GAO, COVID-19: Current and Future Federal Preparedness Requires Fixes to Improve Health Data and Address Improper Payments, GAO-22-105397 (Washington, D.C.: April 2022), and GAO analysis of the American Rescue Plan Act of 2021, Pub. L. No. 117-2, 135 Stat. 4 (2021). | GAO-25-106455

Distributing monthly CTC payments to eligible taxpayers could provide timely financial assistance that could encourage spending to support the economy and the well-being of families during an economic downturn. While the current CTC provides funds or lowers the tax liability of households with qualifying children, some taxpayers may only receive a financial benefit once a year during the tax return filing season.[147] As a result, the benefit is not responsive to sudden economic downturns for these taxpayers.

According to studies we reviewed, the advance CTC payments that were sent out in response to the COVID-19 pandemic helped support the economy and the well-being of families. Specifically, the Department of Health and Human Services (HHS) projected that the advance CTC payments kept around 2.9 million people out of poverty in 2021, including 1.8 million children. In general, HHS projected that the 6 months of

[147]Employees can reduce the amount of income tax that employers withhold from their pay to account for the child tax credit, thus getting the benefit of the credit throughout the year in the form of increased take-home pay.

advance CTC payments reduced child poverty by 23 percent.[148] Likewise, one academic study found that advance CTC payments helped low-income households with children cover basic expenses and improve their financial circumstances.[149] Specifically, about half of adults who received the advance CTC reported spending it on food, with the next most common purchases including clothing, utilities, and schoolbooks and supplies. Additionally, the report estimated that between 44 to 54 percent of adults with incomes below $25,000 reported receiving an advance CTC payment.

IRS officials stated a temporary advance CTC could leverage the infrastructure used in 2021, and therefore, it would not need to collect new data, stand up all new infrastructure, or establish new requirements to implement the change. TIGTA found that 98 percent of the advance CTC payments IRS issued from July through November 2021 were made to eligible taxpayers.[150] Additionally, a temporary advance CTC would not affect government revenue or spending because the total amount of the credit would not change.[151]

However, the dissemination of monthly payments is not a normal part of IRS operations and would require IRS to quickly estimate eligible taxpayers' monthly CTC payments. Additionally, there could be overpayments because the advance amount is based on previous tax returns. As a result, taxpayers could have a larger balance due at time of filing or a smaller refund if they received advance CTC payments based

[148]Suzanne Macartney, Robin Ghertner, Laura Wheaton, and Linda Giannarelli, *Federal Economic Stimulus Projected to Cut Poverty in 2021, Though Poverty May Rise as Benefits Expire* (Washington, D.C.: U.S. Department of Health and Human Services, 2022).

[149]Michael Karpman, Elaine Maag, Genevieve Kenney, and Doug Wissoker, *Who Has Received Advance Child Tax Credit Payments, and How Were the Payments Used? Patterns by Race, Ethnicity, and Household Income in the July–September 2021 Household Pulse Survey* (Washington, D.C.: Urban Institute, 2021).

[150]Treasury Inspector General for Tax Administration, *American Rescue Plan Act: Accuracy of Advance Child Tax Credit Periodic Payments*, 2022-47-070 (Washington, D.C.: Sept. 21, 2022). However, improper payments related to the CTC have been a persistent challenge. Treasury data show that for fiscal year 2024, the improper payment rate for the refundable part of the CTC was 10.7 percent, resulting in about $3.5 billion in improper payments.

[151]In some cases, taxpayers' advance CTC payments might exceed their allowable CTC amount for the taxable year. According to Treasury officials, if a safe harbor option were in place, allowing taxpayers in this situation to keep their advance CTC payments, the advance CTC could reduce government revenue or increase spending.

on income from a prior year that is less than their income from the current year.

In evaluating this option, policymakers could consider:

- What percentage of the CTC payment would be available for advance disbursement?
- For how many months would a taxpayer receive advance payments?
- To what extent would a household's characteristics (e.g., income) affect eligibility for the monthly CTC advance?
- What internal controls would be used to ensure that payments are made only to eligible households in the correct amount?
- To what extent would taxpayers need to repay advance CTC payments that exceed their allowable CTC amount for the taxable year?
- What trigger would be used to provide an advance CTC during economic downturns and phase out this change once economic conditions improve?

Agency Comments and Our Evaluation

We provided a draft of this report to Treasury, OMB, DOL, USDA, HHS, IRS, the Department of State, and the Council of Economic Advisors for review and comment. Treasury, DOL, USDA, and HHS provided technical comments, which we incorporated as appropriate. We also provided excerpts of the draft report to CBO and to cognizant ministries and offices of the Canadian, German, and UK national governments.

We are sending copies of this report to the Secretaries of the Treasury, Labor, Agriculture, HHS, and State; the Director of OMB; the Commissioner of Internal Revenue; the Council of Economic Advisors; and representatives of the Canadian, German, and UK national governments, as well as interested congressional committees and other interested parties. This report will be available at no charge on our website at https://www.gao.gov.

If you or your staff has any questions about this report, please contact Jeff Arkin at arkinj@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of our report. Key Contributors to this report are listed in appendix III.

//SIGNED//

Jeff Arkin
Director
Strategic Issues

Appendix I: Objectives, Scope, and Methodology

We were asked to review several issues related to automatic stabilizers. This report (1) examines the factors that contribute to the effective design of automatic stabilizers, (2) describes how triggers can be used to support automatic stabilization, and (3) identifies policy options to enhance automatic stabilizers, along with related trade-offs and other considerations.

We focused this report on two categories of automatic stabilizers: existing automatic stabilizers and potential new automatic stabilizers. The major existing automatic stabilizer programs, as identified by the Congressional Budget Office (CBO), are Unemployment Insurance (UI), the Supplemental Nutrition Assistance Program (SNAP), Medicaid, and several provisions in the tax code.[1] According to CBO officials, CBO considers programs to be automatic stabilizers for the purposes of its budget estimates when their level of spending is most affected by temporary fluctuations in economic activity. CBO excludes programs that are too small to be considered a major stabilizing program or are not affected by the economy.[2]

For the purpose of this report, potential new automatic stabilizers include both current federal programs and past discretionary policy actions that have the potential to operate as automatic stabilizers. For example, potential new automatic stabilizers could include existing federal programs that currently do not automatically respond to changes in economic conditions and previous temporary programs that have been enacted in response to prior economic downturns.

To inform all objectives, we conducted a literature review and interviewed knowledgeable experts. For the literature review, we identified studies that analyzed how automatic stabilizers operate in other advanced economies; factors that make them effective in supporting the economy and the well-being of individuals and families, including the use of triggers; and policy options for enhancing current automatic stabilizers and for developing new automatic stabilizers in the U.S. We conducted this literature search as part of our previous report on this topic.[3] For that report, we identified 319 documents from peer reviewed journals,

---

[1]GAO, *Economic Downturns: Effects of Automatic Spending Programs and Taxes*, GAO-24-106056 (Washington, D.C.: Nov. 16, 2023).

[2]Frank Russek and Kim Kowalewski, *How CBO Estimates Automatic Stabilizers*, Congressional Budget Office (Washington, D.C.: November 2015).

[3]GAO-24-106056.

government-issued reports, working papers, and publications from nongovernmental organizations. We also identified 69 documents based on expert recommendations; searches for related CBO, Congressional Research Service, and inspector general work; relevant article citations; and our prior work. Overall, our literature search contained 388 documents.

For the purposes of this report, two analysts separately reviewed each document to agree on relevance. We considered documents relevant if they (1) analyzed the characteristics that make automatic stabilizers effective, (2) suggested policy options for enhancing existing automatic stabilizers in the U.S. or developing new ones, or (3) provided useful background and analysis relevant to potential policy options. In addition, we identified 16 new documents for this report based on expert recommendations, relevant article citations, and our own prior work. We determined 104 documents were relevant to this analysis.

We interviewed 21 external subject matter experts from government, nongovernmental organizations, organizations representing state and local governments, and academia knowledgeable about economic policy, social policy, and automatic stabilizers in general and specifically about UI, SNAP, Medicaid, and taxes. We identified these experts from our literature review and recommendations from other experts. We selected experts who represented a broad spectrum of views and expertise relevant to our audit objectives. We spoke to the experts about:

- the ability of current automatic stabilizers to support the U.S. economy,
- the characteristics of automatic stabilizers that make them more or less effective in supporting the economy and the well-being of individuals and families during recessions, and
- what temporary changes to programs or tax provisions in recent recessions were more effective in stabilizing the economy.

Additionally, we asked experts what current or past federal programs could become an automatic stabilizer, including potential trade-offs and other considerations of those potential changes. The views from these expert interviews are not generalizable.

To describe how automatic stabilizers operated in other advanced economies, we reviewed literature from the Organisation for Economic Co-Operation and Development (OECD) and International Monetary Fund

(IMF). We also conducted a case study analysis of three countries—Canada, Germany, and the United Kingdom (UK)—to use as illustrative examples. To select these countries, we started with the Group of 7 (G7) nations since they represent some of the world's largest economies and are also OECD members.[4] Of those seven countries, we selected three with current programs that operate as automatic stabilizers based on several characteristics. Descriptions of how automatic stabilizer programs operate in Canada, Germany, and the UK are based on information received from relevant foreign government officials, and our review of secondary sources and government reports.[5]

Specifically, we chose the countries to ensure there was a balance of subnational governance structures represented (i.e., centralized governments versus governments that share power between the federal government and regional entities). Additionally, we selected only one European Union (EU) member nation because EU monetary policy is generally determined by the European Central Bank and fiscal policy is influenced by EU fiscal rules, which are not directly comparable to the U.S.[6]

As part of the country selection process, we spoke with experts from OECD and IMF to determine their suitability. We conducted a literature search to obtain background information on the selected countries. We searched multiple databases, including Scopus, ProQuest, and EBSCO. Our search identified 77 studies, including scholarly articles, working papers, and reports from nongovernmental organizations. We then reviewed relevant documentation from the case study countries and interviewed governmental and nongovernmental officials who administer or are knowledgeable about each country's automatic stabilizers. We spoke to these officials and organizations to understand how the automatic stabilizers function generally, how they functioned during

[4]G7 is an informal forum of Canada, France, Germany, Italy, Japan, the UK, and the United States. OECD members are committed to democracy based on the rule of law and human rights, and adherence to open and transparent market-economy principles. OECD member nations also have significant budget and financial sector infrastructure and progressive tax systems that are regularly monitored by OECD officials.

[5]We did not conduct an independent legal analysis to verify the information we obtained about the laws, regulations, or policies of the foreign governments selected for this study.

[6]For more information on fiscal rules see GAO, *The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets*, GAO-20-561 (Washington, D.C.: Sept. 23, 2020).

recent economic downturns, and how they fit within the country's fiscal policy.

To identify the factors that make automatic stabilizers effective in supporting the economy and the well-being of individuals and families, we evaluated information from the literature review and from the expert interviews to identify common themes. We synthesized these themes into an initial list of factors. We shared the list with experts to obtain their feedback before finalizing it. We also used information from the literature review and expert interviews to identify and analyze potential economic triggers.

To illustrate how a potential economic trigger would have functioned during past recessions, we reviewed data on unemployment rates and the business cycle. Specifically, we used data from 2001 to 2024 from the National Bureau of Economic Research and the Federal Reserve. We assessed the reliability of these data sources and found them to be sufficiently reliable for the purposes of this report.

To select policy options for both enhancing current automatic stabilizers and for creating potential new ones, we first identified potential policy options from a literature review of academic, government, and nongovernmental organization publications as well as interviews with experts knowledgeable about economic policy, social policy, and automatic stabilizers in general and specifically about UI, SNAP, Medicaid, and taxes.

Next, we conducted an initial review and excluded policy options that:

- are targeted to businesses and do not specifically focus on improving the well-being of individuals or families;
- are not administered or at least partially funded by the federal government;
- do not resemble previous discretionary policy actions, because less is known about the practical strengths and limitations of more novel options; or
- focus on general program improvements rather than automatic stabilizer functions.

We then assessed the remaining policy options by evaluating evidence of their strengths and limitations, including their alignment with the factors that make automatic stabilizers effective. This assessment did not include consideration of specific funding mechanisms, such as whether the program is funded through mandatory or discretionary spending.[7] We then discussed the various policy options with the federal agencies that would administer or provide oversight to these programs and tax provisions.

Based on this process, we selected the final set of 17 potential policy options included in this report. These options are neither listed in any specific order nor comprehensive of all potential policy options and trade-offs for enhancing or creating new automatic stabilizers, and we do not endorse the options, except for one option that we previously recommended to Congress. For each policy option, we provided questions that policymakers could consider when evaluating these options because each policy option could be implemented in different ways that could influence its effectiveness.

We conducted this performance audit from December 2022 to June 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[7]Mandatory spending refers to budget authority that is typically provided in laws other than appropriation acts and the outlays that result from such budget authority. Discretionary spending refers to outlays from budget authority that is provided in and controlled by appropriation acts.

Appendix II: Examples Of Automatic Stabilizers in Other Advanced Economies

Below are illustrative examples of automatic stabilizers from Canada, Germany, and the United Kingdom (UK). While these three countries' automatic stabilizers operate in different ways, they all demonstrate how automatic stabilizers can be used to support the economy and the well-being of individuals and families. Descriptions of these automatic stabilizer programs in Canada, Germany, and the UK are based on information received from interviews with foreign government officials and nongovernmental organizations, as well as our review of government reports, academic literature, and publications from nongovernmental organizations.[1]

Canada's Employment Insurance Program

Overview

The Employment Insurance (EI) program is one of Canada's primary automatic stabilizers, according to Canadian government officials. Established in 1940, it provides temporary support for individuals who are unemployed and have a valid reason for leaving work.[2] The system is set up to provide higher benefits in areas of the country with the greatest economic need. Specifically, each month Statistics Canada calculates a 3-month moving average unemployment rate for each of Canada's 62 economic regions. This determines for how long benefits are provided, how much is provided, and how many hours of insurable employment a worker needs to qualify for benefits. All individuals who work in insurable employment pay premium contributions through deductions from their wages when they are employed, which are supplemented by their employer. They then receive income support when they become unemployed. Those receiving EI benefits must meet requirements for a minimum number of insurable hours worked and must be available for and actively seeking work, according to a Canadian government report.[3]

The EI program has been modified over time to expand coverage and make changes to benefit amounts and eligibility requirements. In 1971,

[1]We did not conduct an independent legal analysis to verify the information we obtained about the laws, regulations, or policies of the governments selected for this study.

[2]The EI program provides regular benefits for workers who have lost their jobs through no fault of their own and special benefits for workers who take time off due to illness or caregiving responsibilities. For the purposes of this profile, we focus on EI regular benefits that support workers when they lose their jobs.

[3]Canada Employment Insurance Commission, *Employment Insurance Monitoring and Assessment Report for the fiscal year beginning April 1, 2022 and ending March 31, 2023* (March 2024).

the EI program added special benefits for those experiencing significant life events like illness and maternity. In 1996, the program introduced an hours-based eligibility system, which Canadian officials said was a change from the previous weeks-based eligibility system.

Funding Structure

EI is funded by employer and employee contributions, which are adjusted over time to keep the program from accruing deficits or surpluses. Officials explained that employee contribution rates are based on a fixed premium rate that is applied to earnings up to a maximum level. Employers pay premiums at 1.4 times the employee contribution. The maximum amount of insurable earnings and the premium rate paid by employees change annually to ensure that program funding covers expenditures over a 7-year period. According to Canadian officials, the premium rate cannot be increased or decreased by more than 5 cents per $100 of insurable earnings per year, which provides stability for employee and employer expectations. Canadian government officials said that the annual premium rate calculation schedule and the cap on increases allow the contribution rate to remain relatively stable despite increases in new claims during periods of large economic downturns. These officials also explained that the EI program has flexibility to go into a deficit during an economic downturn because it has 7 years to generate annual surpluses to make up for unanticipated costs. According to Canadian officials, when the EI program has a deficit, the Canadian government's general tax revenues can be used to fund EI benefits. Officials explained that the accounts are reconciled over time to ensure that general tax revenue stream is reimbursed for the payment of EI benefits.

Adjustment for Regional Economic Conditions

EI benefits are adjusted to be more generous in regions with higher unemployment, according to Canadian officials. Specifically, officials said that the EI program divides the country into 62 EI economic regions with the objective of providing similar treatment to workers residing in labor markets with similar conditions. The unemployment rate specific to each EI economic region is updated monthly and is then used to determine the minimum number of hours of insurable employment a worker needs to qualify for regular benefits—which ranges from 420 to 700 hours—the duration of these benefits—which ranges from 14 to 45 weeks—and the calculation of their weekly benefit rate. For example, in a region with a higher unemployment rate, an individual would need fewer hours of insurable employment to qualify for benefits and would be eligible to receive benefits for a longer period of time compared to a region with a lower unemployment rate. See illustrative examples in table 3 below. This variability reflects the difficulties in keeping or finding employment when the unemployment rate is higher.

Benefit rate calculations also vary based on the regional unemployment rate. Benefit rates for EI claimants are calculated as 55 percent of their prior insurable earnings using an average of the highest weeks of these earnings during their qualifying period. The number of weeks included in the average insurable earnings calculation varies from 14 to 22, depending on the regional unemployment rate when the claim is initially made. For example, claimants in a region with a higher unemployment rate would have their benefit rates calculated based on fewer weeks of insurable earnings, compared to claimants from a region with a lower unemployment rate. This calculation would allow a claimant whose earnings vary over the qualifying period, for example, due to a drop in pay or reduction in hours worked to receive a benefit rate that better reflects their weeks of higher earnings.

Table 3: Example of Variation in Canadian Employment Insurance (EI) Benefits

	Regional unemployment rate	Highest weeks of earnings used to calculate EI benefits	Required hours of insurable employment to qualify for EI benefits	Minimum weeks of benefits
Person A	6% and under	22	700	14
Person B	More than 13%	14	420	26-32[a]

Source: GAO analysis of Canada Employment Insurance Commission, Employment Insurance Monitoring and Assessment Report for the fiscal year beginning April 1, 2022 and ending March 31, 2023, (March 2024), and information from Canadian government officials. | GAO-25-106455

[a]In cases where the unemployment rate exceeds 13 percent, the number of hours required to qualify is the same (420 hours), according to Canadian officials. However, the minimum number of weeks of regular benefits vary from 26 to 32 weeks based on the regional unemployment rate. Claimants who have accumulated additional hours of insurable employment may be eligible for up to 45 weeks of EI benefits.

The use of a 3-month moving average regional unemployment rate to tailor EI benefits involves trade-offs. Canadian government officials said that the variation in benefits provides automatic economic stability and transparency. However, the officials stated that because the program is designed to limit volatility and prevent excessive changes in benefits, it may not respond as quickly to sudden economic shocks.

Changes During the COVID-19 Pandemic

During the COVID-19 pandemic, Canada implemented temporary measures to expand access to and increase the generosity of the Employment Insurance (EI) program. According to Canadian officials, these measures were intended to provide financial support to affected workers that were reflective of the unique labor market conditions that were prevalent during the pandemic. Canadian officials told us that the EI systems were not designed to handle the sudden influx of millions of claimants and normal program parameters would not have been reflective of the rapid and severe economic effects of the pandemic. Specifically, the 3-month moving unemployment rate normally used to calculate benefits did not adjust quickly enough to address the crisis.

As a result, officials said that the Canadian government temporarily implemented new emergency benefits to stabilize the economy and ensure benefits could be accessed quickly. Officials said these temporary programs also provided benefits to workers who are not typically eligible for EI, such as the self-employed or gig workers.

Source: Canadian government officials and documentation. | GAO-25-106455

Germany’s Short-Time Work Program

Overview

Germany’s short-time work (STW) program allows employers to retain workers during recessions, unanticipated shocks, and cyclical economic downturns by reducing the number of hours worked. According to German officials, STW is administered by the Federal Employment Agency (FEA), which is responsible for ensuring that companies comply with the STW application process, reimbursing companies that participate in the program, and assessing ongoing compliance with reporting requirements.

STW is available to workers who make contributions to the social insurance system. During the time that they receive STW, workers keep health insurance and other benefits, and FEA pays a portion of lost wages. Officials explained that companies are required to pay a portion of participating workers’ social insurance costs for the hours lost while participating in the program. They stated that certain individuals who are employed on a temporary or part-time basis and those who are self-employed do not pay into the social insurance system and are ineligible to participate in STW.

STW helps to stabilize the economy by providing households consistent income for basic needs and allows for a rapid return to full employment and productivity as the economy improves. As such, it has provided substantial stability to German labor markets during recent recessions.

For example, FEA officials told us that during the COVID-19 pandemic in April 2020, there were approximately 6 million workers participating in STW. In contrast, 2.6 million workers received full unemployment insurance compensation. Officials told us that the STW program preserved a significant number of jobs during the same month by avoiding layoffs.

STW Qualifications and Application Process

To qualify for STW, officials explained that employers must fulfill several requirements, including:

- exhausting all other flexibility measures, such as reducing overtime and requesting that employees use accrued leave;
- demonstrating a need for participation by showing that there is a temporary loss in gross wages of 10 percent or more that will affect at least one-third of employees in the company or within a department of the company; and
- completing the application review process, which includes company management negotiating the terms of the STW agreement with the works council (see below) and providing notice of their intention to use the program.

Once approved, employers can access the program for up to 12 months.[4]

The Role of the Works Council

The works council plays a key role in some German companies. It is a body that is elected by a company's employees and is responsible for working with company management to ensure that employee rights are protected. For example, works councils monitor the implementation of collective bargaining agreements that are negotiated by unions and management. They also hear grievances and negotiate with company management on personnel matters. Short-time work (STW) agreements are negotiated between works councils and company management. The terms of an agreement must be approved by company employees. Works councils are mandatory in firms with five or more permanent employees who make social insurance contributions, according to German officials. Officials also explained that companies without works councils can be eligible for STW if they meet certain criteria.

Source: German government officials and documentation. | GAO-25-106455

Fraud Detection and Prevention

According to German officials, STW has very little fraud due to safeguards in the STW application process and early detection. The works council, employers, employees, and FEA each have a role in the

[4]According to German officials, companies can have the duration of STW extended up to 24 months in the case of an emergency.

prevention and detection of fraud. Officials explained that works councils work with management to identify employees who will participate in the program, employers are responsible for providing monthly wage calculations for participating employees to FEA, and there is a process for employees to report instances of fraud or abuse. German officials told us that the requirement for employers to continue paying social insurance contributions also serves as a deterrent to abuse of the program. In addition, FEA uses software to detect patterns of abuse in employer data (e.g., payroll records and other documentation employers must submit as part of the program). The agency reviews documentation and makes a final determination of compliance with the program rules at the end of the work agreement period. FEA officials said that if fraud is detected, they can request that employers reimburse the government immediately or face prosecution.

Changes to STW During the COVID-19 Pandemic

During the COVID-19 pandemic, the German government made several temporary changes to STW that increased the duration of the program and provided additional benefits to employees and employers, according to German officials. For example:

- **Extended duration of benefits.** Employers could participate in the program for up to 28 months instead of the typical 12 months.
- **Expanded eligibility.** Employers were eligible to participate in STW if at least 10 percent of employees lost wages, instead of the typical one-third of employees.
- **Increased benefits.** The portion of lost wages covered by STW increased from 60 percent (for individuals without children) or 67 percent (for individuals with children) up to 80 or 87 percent, depending on the number of months an employee participated in the program and the amount of wages lost.
- **Social insurance reimbursement**. Employers typically pay 100 percent of employees' social insurance contributions while participating in STW. During the pandemic, the federal government reimbursed employers 100 percent of employee social insurance contributions.

Officials noted that all changes to STW in response to the COVID-19 pandemic ended by June 2023.

UK's Universal Credit

Overview

Universal Credit (UC) is a means-tested direct payment that the UK government distributes monthly to eligible recipients to help them with living costs. UC, which is administered by the Department for Work and Pensions (DWP), merged six existing welfare and tax benefit programs into a single monthly payment. As a result, all benefits for both employed and unemployed people are now administered by one institution rather than two different federal departments and local authorities. According to UK government officials, UC was meant to help simplify both the social security and tax system in the UK and to help address difficulties in administering benefit programs through the tax system.[5] Additionally, combining these benefits in one system provides continuity by providing a single source of payments with the ability to be adjusted as recipients experience changes in their circumstances.

[5]In part because of the structure of the UK's tax system, approximately two-thirds of UK taxpayers end each year having already fully and accurately satisfied their tax liabilities, and therefore do not need to submit a tax return.

The United Kingdom's Legacy Benefit Programs

The United Kingdom (UK) merged six welfare and tax benefit programs into Universal Credit.

- Jobseeker's Allowance: an unemployment benefit for people who are unemployed and actively seeking work, which was administered by the Department for Work and Pensions (DWP).
- Employment and Support Allowance: a payment for people with a disability or health condition that affected how much they would work, which was administered by DWP.
- Income Support: a payment for people with no or low income, which was administered by DWP.
- Housing Benefit: a means-tested benefit to help meet housing costs, which was administered by local housing authorities.
- Child Tax Credit: a payment to parents with children, which was administered by His Majesty's Revenue and Customs (HMRC).
- Working Tax Credit: a tax benefit for low income working people, which was administered by HMRC.

Source: Information from the UK Parliament, National Audit Office, and HMRC. | GAO-25-106455

UC benefits are paid once a month and are usually deposited directly into a recipient's bank account. The income-based payment consists of a standard amount, which is adjusted to the recipient's circumstances. For 2025, the standard amount for a recipient who is single and over the age of 25 was £393.45. This payment is adjusted to account for a recipient's age, whether they live with a partner, number of children, location, housing costs, capacity to work, caring responsibilities, and childcare costs. The amount of UC benefits that a recipient can receive in a year is capped. For example, the maximum yearly total for a single adult with no children who lives in the greater London area was £16,967 in 2024. Additionally, various circumstances can reduce a recipient's benefit, such as having a paid job or a certain level of assets.

DWP announced the UC program in 2010 and rolled it out from 2013 to 2018. DWP plans to move all legacy benefit claimants to UC by March 2026, completing the rollout and closing all legacy benefits. In December 2023, 6.3 million people were claiming UC.

Work Requirements

According to UK officials, one of the goals of the UC program is to promote work. The UK National Audit Office reported that, through UC, DWP aims to encourage more people into work through better financial incentives, simpler processes, and increasing requirements on claimants to search for jobs.[6] Under the UC program, if recipients fail to meet any applicable job search requirements, their benefit payments are reduced, known as a sanction.[7] DWP work coaches monitor compliance with the work-related requirements and issues sanctions for noncompliance.

UC Adjustments Using Real-Time Wage and Tax Data

DWP continuously uses data on UC recipients' wages and taxes to automatically adjust their UC payments. His Majesty's Revenue and Customs (HMRC) uses the National Insurance and Pay As You Earn Service (NPS) to compile and maintain records relating to wages and taxes in a single location.[8] NPS collects and accounts for income tax on earnings from employment and pensions. NPS collects these data from employers, who send the pay details to HMRC using a real-time reporting system every time they pay their employees. DWP officials stated that data sharing was a top priority in the design of the program and a part of the UC implementing legislation. As a result, DWP receives daily wage and tax updates from HMRC about UK taxpayers, which allows them to make quick adjustments to benefit amounts.

UC During the COVID-19 Pandemic

During the COVID-19 pandemic, there was a large increase in the number of working-age people who received UC benefits. Between February 2020 and February 2021, the number of UC claims increased from 2.9 million to 5.9 million people. DWP officials stated that because the application and claims system was fully in place with online functionality prior to the pandemic, DWP could quickly process this large influx of applications without needing to make major changes or updates to the system.

In response to the pandemic the UK government also increased UC standard payment amounts for all family types by £20 a week and increased the housing allowance payments to cover a higher percentage of the local market rent for eligible recipients. Additionally, according to UK government publications, all the working and job search requirements were suspended from March 2020 to July 2020.

[6]National Audit Office, *Progress in Implementing Universal Credit*, HC 552 (London, United Kingdom: Feb. 27, 2024).

[7]Office for Budget Responsibility, *Welfare Trends Report*, Cm 9562 (London, United Kingdom: January 2018).

[8]HMRC is the department responsible for collecting of taxes in the UK. See *The Administrative cost of the tax system*, HC 675 (London, United Kingdom: Feb. 10, 2025).

Appendix III: GAO Contact and Staff Acknowledgments

GAO Contact

Jeff Arkin, arkinj@gao.gov

Staff Acknowledgments

In addition to the contact named above, Thomas McCabe (Assistant Director), Laurel Plume (Assistant Director), Jacqueline Chapin, Yiwen (Eva) Cheng, Sherrice Kerns, Samantha Lalisan, Félix Muñiz Jr., Robert Robinson, Rachel Schultz, and Chris Woika made key contributions to this report.

Appendix IV: Additional Source Information for Graphics

This appendix contains credit, copyright, and other source information for figures in this product when that information was not listed adjacent to the figure.

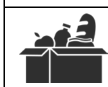
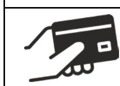
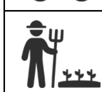
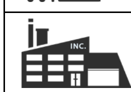
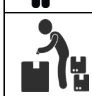
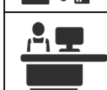
Image	Source
	Figure 01: Hand and money icon set, Puckung/stock.adobe.com
	Figure 01: Jobless claims unemployment benefits stick figure pictogram icons, leremy/stock.adobe.com
	Figure 01: Food donations glyph, bsd studio/stock.adobe.com
	Figure 01: Set of 30 quality icons about health care and medical stock vector, NicoElNino/stock.adobe.com
	Figure 01: Medicine icons graphics pack vectors, ramsey/stock.adobe.com
	Figure 01: Credit card in hand icon vector, alekseyvanin/stock.adobe.com
	Figure 01: Set of logistic, job, computer and money icons, _lori_/stock.adobe.com
	Figure 01: Shopping icon set. Online shopping, store, delivery, promotion, and shopping cart symbol. Solid icons vector collection. Icons-Studio/stock.adobe.com
	Figure 01: Agriculture vector set, Icons-Studio/stock.adobe.com
	Figure 01: Set of industrial icons with manufacturing, Anthony/stock.adobe.com
	Figure 01: Mall icon, sign, or symbol in glyph and line style isolated on transparent background. Vector illustration, mailvelous/stock.adobe.com
	Figure 01: Logistics set of pictograms, Designpics/stock.adobe.com
	Figure 01: Logistic icon set 3, vector eps10 rungrote/stock.adobe.com
	Figure 01: Business collection supermarket cashier vector, Digital Bazaar/stock.adobe.com

Image	Source
	Figure 05: Economy–Business icons set. Business thin line icon collection: Finance icon vector, growth image OpenDesigner/stock.adobe.com
	Figure 06: Federal Budget–Business icons set. Business thin line icon collection: Finance icon vector, finance image OpenDesigner/stock.adobe.com
	Figure 07: Administration–Business icons set. Business thin line icon collection: Finance icon vector, contract image OpenDesigner/stock.adobe.com
	Figure 08: Trigger Design–Business icons set. Business thin line icon collection: Finance icon vector, decrease image OpenDesigner/stock.adobe.com
	Figure 09: Improper Payments–Business icons set. Business thin line icon collection: Finance icon vector, research image OpenDesigner/stock.adobe.com
	Figure 10: Individuals and Families–Real Estate line icons set, Real estate, House, Home, Realtor, Plan, Agent icon. Real estate symbols collection vector, villa image. Business icons set. Business thin line icon collection: Finance icon vector, team image OpenDesigner/stock.adobe.com
	Figure 11: State Budget–Financial Income Line Editable Icons set. Vector illustration of business related icons: salary, money growth, profit pictograms–Stack of Bills icon Giorgi/stock.adobe.com

Related GAO Products

Improper Payments: Information on Agencies' Fiscal Year 2024 Estimates. GAO-25-107753. Washington, D.C.: March 11, 2025.

The Nation's Fiscal Health: Strategy Needed as Debt Levels Accelerate. GAO-25-107714. Washington, D.C.: February 05, 2025.

Improper Payments: USDA's Oversight of the Supplemental Nutrition Assistance Program. GAO-24-107461. Washington, D.C.: September 26, 2024.

COVID-19: Lessons Can Help Agencies Better Prepare for Future Emergencies. GAO-24-107175. Washington, D.C.: August 1, 2024.

Medicaid: Federal Oversight of State Eligibility Redeterminations Should Reflect Lessons Learned after COVID-19. GAO-24-106883. Washington, D.C.: July 18, 2024.

Improper Payments: Key Concepts and Information on Programs with High Rates or Lacking Estimates. GAO-24-107482. Washington, D.C.: June 27, 2024.

Improper Payments: Information on Agencies' Fiscal Year 2023 Estimates. GAO-24-106927. Washington, D.C.: March 26, 2024.

COVID-19 Relief: Treasury Could Improve Its Administration and Oversight of State and Local Fiscal Recovery Funds. GAO-24-106027. Washington, D.C.: December 14, 2023.

Economic Downturns: Effects of Automatic Spending Programs and Taxes. GAO-24-106056. Washington, D.C.: November 16, 2023.

COVID-19: Insights and Actions for Fraud Prevention. GAO-24-107157. Washington, D.C.: November 14, 2023.

Unemployment Insurance: Estimated Amount of Fraud During Pandemic Likely Between $100 Billion and $135 Billion. GAO-23-106696. Washington, D.C.: September 12, 2023.

A Framework for Managing Improper Payments in Emergency Assistance Programs. GAO-23-105876. Washington, D.C.: July 13, 2023.

Improper Payments: Fiscal Year 2022 Estimates and Opportunities for Improvement. GAO-23-106285. Washington, D.C.: March 29, 2023.

Thrifty Food Plan: Better Planning and Accountability Could Help Ensure Quality of Future Reevaluations. GAO-23-105450. Washington, D.C.: December 14, 2022.

Stimulus Checks: Direct Payments to Individuals during the COVID-19 Pandemic. GAO-22-106044. Washington, D.C.: June 29, 2022.

Unemployment Insurance: Transformation Needed to Address Program Design, Infrastructure, and Integrity Risks. GAO-22-105162. Washington, D.C.: June 7, 2022.

Pandemic Unemployment Assistance: Federal Program Supported Contingent Workers amid Historic Demand, but DOL Should Examine Racial Disparities in Benefit Receipt. GAO-22-104438. Washington, D.C.: June 7, 2022.

COVID-19: IRS Implemented Tax Relief for Employers Quickly, but Could Strengthen Its Compliance Efforts. GAO-22-104280. Washington, D.C.: May 17, 2022.

Emergency Relief Funds: Significant Improvements Are Needed to Ensure Transparency and Accountability for COVID-19 and Beyond. GAO-22-105715. Washington, D.C.: March 17, 2022.

COVID-19: Significant Improvements Are Needed for Overseeing Relief Funds and Leading Responses to Public Health Emergencies. GAO-22-105291. Washington, D.C.: January 27, 2022.

The Nation's Fiscal Health: Effective Use of Fiscal Rules and Targets. GAO-20-561. Washington, D.C.: September 23, 2020.

COVID-19: Federal Efforts Could Be Strengthened by Timely and Concerted Actions. GAO-20-701. Washington, D.C.: September 21, 2020.

The Nation's Fiscal Health: Action is Needed to Address the Federal Government's Fiscal Future. GAO-17-237SP. Washington, D.C.: January 17, 2017.

Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Address Noncompliance. GAO-16-475. Washington, D.C.: May 27, 2016.

Federal Low-Income Programs: Multiple Programs Target Diverse Populations and Needs. GAO-15-516. Washington, D.C.: July 30, 2015.

Unemployment Insurance: States' Reductions in Maximum Benefit Durations Have Implications for Federal Costs. GAO-15-281. Washington, D.C.: April 22, 2015.

Supplemental Nutrition Assistance Program: Improved Oversight of State Eligibility Expansions Needed. GAO-12-670. Washington, D.C.: July 26, 2012.

Medicaid: Prototype Formula Would Provide Automatic, Targeted Assistance to States during Economic Downturns. GAO-12-38. Washington, D.C.: November 10, 2011.

Advance Earned Income Tax Credit: Low Use and Small Dollars Paid Impede IRS's Efforts to Reduce High Noncompliance. GAO-07-1110. Washington, D.C.: August 10, 2007.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through our website. Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. You can also subscribe to GAO's email updates to receive notification of newly posted products.

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, https://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on X, LinkedIn, Instagram, and YouTube.
Subscribe to our Email Updates. Listen to our Podcasts.
Visit GAO on the web at https://www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact FraudNet:

Website: https://www.gao.gov/about/what-gao-does/fraudnet

Automated answering system: (800) 424-5454

Media Relations

Sarah Kaczmarek, Managing Director, Media@gao.gov

Congressional Relations

A. Nicole Clowers, Managing Director, CongRel@gao.gov

General Inquiries

https://www.gao.gov/about/contact-us