Budget Staff Working Papers: Improper Payments

The federal bureaucracy too often treats taxpayer dollars with disdain, wasting hundreds of billions each year on improper payments with no accountability.

What are Improper Payments?

The Government Accountability Office (GAO) defines improper payments as "payments that should not have been made or were made in the incorrect amount." While the definition of improper payments can include underpayments, only 2 percent of all improper payments in 2022 were underpayments. The Federal government does not track all programs' improper payments, and those that are tracked can be difficult to pin down. Consequently, **actual improper payments are likely higher than reported.**

A Culture of Unaccountability

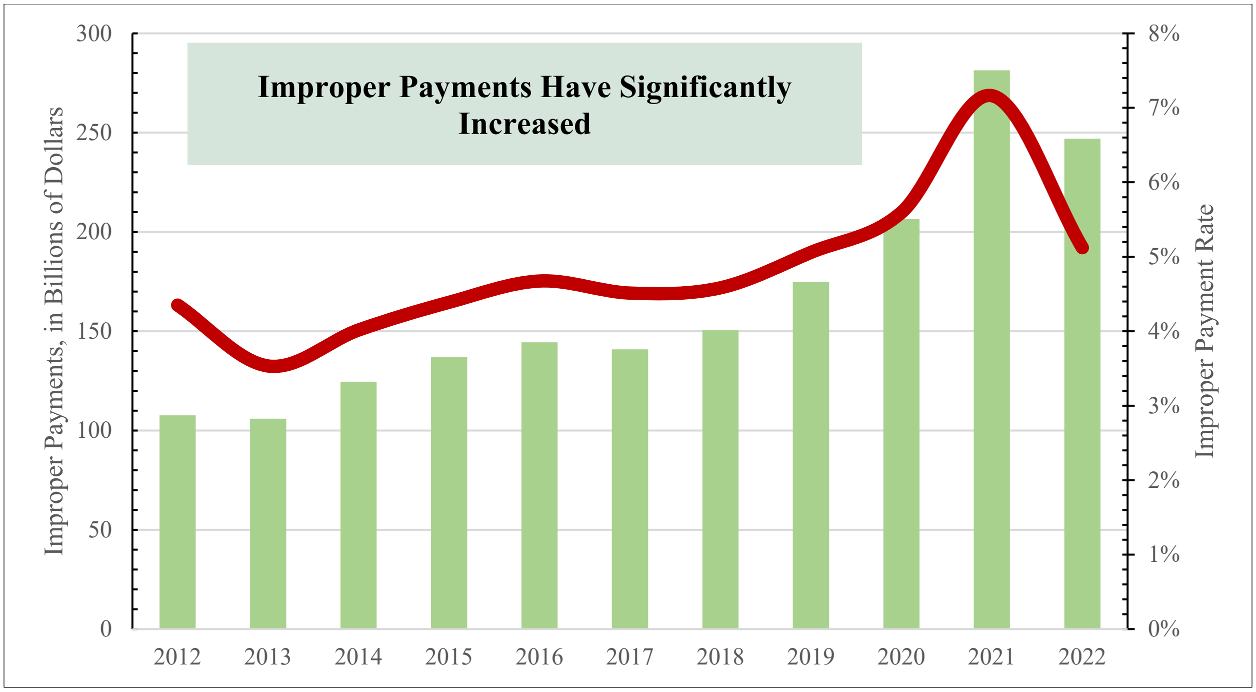
Too often, success in government programs is measured by how many people are served and how quickly money is spent. This incentive structure leads to widespread failures in verifying people's identities and eligibility for government programs. While these failures cost taxpayers hundreds of billions of dollars per year, there are no consequences for the agencies and programs themselves.

Hundreds of Billions Wasted on Improper Payments

In 2022 alone, the federal government spent at least $247 billion of taxpayers' money on improper payments according to the GAO. That translates into a 5.12 percent improper payment rate across all the government's programs.

- If improper payments were considered its own budgetary category, it would be the **sixth largest category** in the federal budget, after Social Security, Medicare, national defense, Medicaid, and interest on the debt.
- Improper payment spending was seven times larger than funding for the Department of Justice.

Improper payments have significantly increased, from $108 billion in 2012 to more than $281 billion in 2021.



Source: [PaymentAccuracy.gov]()

Drivers of Improper Payments

The federal government's improper payment rate largely stems from a dozen broken programs. In 2022, seven programs accounted for 76% of all improper payments:

Federal Programs with the Highest Improper Payment Rates in FY2022
(Percent of Total Outlays)

Medicare	$31.5 billion	**7.46%**
Supplemental Security Income	$4.9 billion	**8.72%**
Medicaid	$80.6 billion	**15.62%**
Additional Child Tax Credit	$5.2 billion	**15.78%**
Federal State Unemployment Insurance	$18.3 billion	**21.52%**
Children's Health Insurance Program	$4.3 billion	**26.75%**
Earned Income Tax Credit	$18.2 billion	**31.60%**

Source: [PaymentAccuracy.gov]()

COVID-19 made existing problems worse. Facing an unprecedented public health and economic crisis, agencies moved swiftly to distribute funds and implement additional programs to help people and businesses. The consequence was jaw dropping levels of improper and unknown payments.

- The Department of Labor Inspector General determined COVID-19 era Unemployment Insurance (UI) experienced levels of fraud "likely higher than 21.52 percent" totaling "at least $191 billion." In June of 2021 Axios reported that UI fraud could account for half or $400 billion of the federal UI relief spending during the pandemic.

- NBC News reported that fraud stemming from the Paycheck Protection Program (PPP) could be as much as $80 billion – ten percent of the $800 billion allocated for the program. The Small Business Administration's (SBA) inspector general estimated that at least 70,000 PPP loans were potentially fraudulent.

- Less than less than 9 percent of Biden's $1.9 trillion American Rescue Plan (ARP) package actually went to combatting COVID-19. The bill provided a $350 billion state and local government slush fund which was spent on unrelated COVID-19 initiatives like $783.5 million in stimulus checks to hundreds of thousands of convicted prisoners.

An Irresponsible Administration

Since President Biden took office in 2021, improper payments have increased significantly.

- Before Biden, improper payments averaged 4.5 percent. But improper payments jumped in 2021 to 7.16 percent (costing taxpayers $281 billion) and in 2022 to 5.12 percent (costing $247 billion).
- President Biden's administration has spent $528 billion in just two years on improper payments.
- If the Biden administration had simply kept improper payments at the historical rate – which is still too high – taxpayers would have saved $133 billion.

Republicans Have a Plan. Democrats Don't.

Improper payments can be reduced by improving identity verification, utilizing the Do Not Pay database, establishing a pilot program to allow states to keep a percentage of improper payments collected, and conditioning federal funds to agencies on basic compliance standards.

H.R. 1163, the Protecting Taxpayers and Victims of Unemployment Fraud Act, would be an important step to implement common sense reforms that protect taxpayers from fraud in the UI program, including incentivizing states to recover improper payments, improving data and eligibility verifications, and allowing prosecutors to hold criminals accountable.

By setting reasonable spending reductions and reining in unspent COVID-19 funds, H.R.2811, the Limit, Save, Grow Act of 2023 would force the bureaucracy to treat taxpayer dollars responsibly.

In contrast, President Biden would double down on the failed status quo and massively increase spending on some of the worst performing programs in the entire federal budget — a position that furthers the disturbing tradition of improper payments.

Program/Agency	Improper Payment Rate (Amount)	Biden FY24 Budget
Earned Income Tax Credit	31.6% rate in 2022 ($18.2 billion)	Permanently expands the EITC program, costing $156 billion.
Medicaid	15.6% rate in 2022 ($80.6 billion)	Encourages states to expand Medicaid, costing $200 billion.
Additional Child Tax Credit	15.8% rate in 2022 ($5.2 billion)	Expands tax credit for three years, costing $429 billion.
Internal Revenue Service	In just four programs, wasted nearly $26 billion on improper payments in 2022	$43 billion funding increase on top of the $80 billion increase in the Inflation Reduction Act.

Source: PaymentAccuracy.gov