Case Over the Michigan Unemployment Insurance Agency's Faulty Automated System Finally Settled

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Case Summary

In late January 2024, Michigan's Court of Claims approved a long-awaited settlement in *Bauserman v. Michigan Unemployment Insurance Agency* (UIA), a case investigating the agency's use of an automated system resulting in thousands of wrongful accusations of unemployment insurance fraud.[1] The plaintiffs in this class-action lawsuit consisted of approximately 3,000 Michiganders falsely accused of fraud by UIA's Michigan Integrated Data Automated System (MiDAS). They will receive a $20 million settlement for the severe financial damages inflicted upon them by MiDAS.[2] The state will refund plaintiffs over 100% of what UIA falsely claimed the plaintiffs owed.[3] Intended to improve efficiency, reduce fraud, and raise revenue in the UIA, the state implemented MiDAS to identify fraudulent unemployment insurance cases; instead, the automated system wrongly accused approximately 40,000 Michiganders of fraud between 2013 and 2015 and subsequently stripped these individuals of their benefits.[4] In fact, during this time, the system's error rate reached 93%.[5] The affected Michiganders have waited nearly 9 years for this settlement.

Why Michigan First Implemented MiDAS

Shortly before MiDAS's implementation, Michigan faced financial trouble worsened by the 2008 economic crisis. The Great Recession hit the state hard with unemployment peaking at 15.3% (one of the highest rates in the nation).[6] Incomes stagnated compared to the rest of the U.S., and the state government's revenue fell, leading to $3 billion in spending cuts from 2009 to 2011.[7] UIA was hit especially hard by the recession, owing the federal

government $3.8 billion in 2010.[8] Previously, the agency had taken out loans from the U.S. Department of Labor.[9] Around this time, the Michigan Auditor General found that the agency may have overlooked millions of dollars in overpayments and did not collect fraud penalties for over 3 years. This dire economic context prompted the agency to contract with various private technology vendors to create an automated system, programmed to verify unemployment eligibility, track and monitor potential fraud, and intercept these cases.[10]

Consequences of MiDAS's Errors

Beyond the immediate suspension of benefits, those wrongly accused of fraud by MiDAS experienced immense financial injury and downstream consequences. Many plaintiffs suffered wage garnishments and lost their homes to foreclosures due to MiDAS's errors.[11] Others had their tax returns seized, vehicles and property repossessed, and their ability to get a mortgage or sign a lease taken away.[12] Many of these financial consequences were life-altering for unemployment insurance claimants, causing their already precarious financial situations to become more dire and impacting them long after MiDAS was fixed and their UIA appeals were filed. With their benefits stripped, properties foreclosed, and wages disrupted, many claimants were unhoused and forced into bankruptcy; they continue to fail credit checks to this day, all of which will impact these families for years to come and create undue emotional hardships.[13, 14] MiDAS's fraud allegations disrupted UIA claimants' job searches and prospects, perpetuating cycles of unemployment and putting individuals at risk of falling into poverty.[15]

As plaintiffs began challenging their fraud claims, an alarming trend was discovered by lawyers—neither the agency nor the state itself could offer evidence backing MiDAS's fraud claims.[16] After years of public criticism and outrage for its error-prone system and limited government oversight of its implementation, UIA intervened, finally making changes in 2015.[17] As this case has gone through Michigan's state courts since 2015, the state has provided some financial remedies to the affected parties, reimbursing individuals for the money they lost in benefits.[18] Many used this financial relief to pay for the legal fees they incurred in appealing their fraud accusations.[19] The latest $20 million settlement goes beyond the state's initial reimbursement by addressing damages caused by the downstream consequences of benefit

suspension and fraud allegations.[20] Michigan's leaders, including state Attorney General Dana Nessel, have expressed hope following the settlement that this monetary relief will finally begin to correct the years of harm that have outlived the initial fraud accusations.[21]

Conclusion and Implication of MiDAS

In response to public outcry and pressure from state lawmakers, Governor Gretchen Whitmer began replacing UIA's leadership in 2021.[22] In October 2021, Gov. Whitmer replaced the agency's acting director, Liza Estlund Olsen, with UIA's current director, Julia Dale.[23] Estlund Olsen's tenure began after former director Steve Gray resigned in 2020 as the case against UIA strengthened.[24] Now, Director Dale says the agency is working to operationalize a new automated system by 2025 that would serve the dual purpose of improving efficiency and ensuring accuracy.[25] The state has contracted Deloitte to design and implement this new system.[26] Beyond this new system, the plaintiffs' lawyers call on lawmakers to introduce legislation that generates algorithmic accountability and ensures administrative agencies use credible automated systems that undergo public review.[27, 28]

Through this settlement and reimbursements, the state is working on moving past MiDAS's harmful impact and focusing on the future. However, this case does not exist in a silo; other states like Rhode Island, Arkansas, and Idaho, face similar challenges as they implement automated systems to save money and time.[29] Michigan's failed experience with MiDAS and these other states' experiences serve as cautionary tales of how the perceived benefits of implementing civic technology to streamline services can overshadow the real dangers and downstream consequences these systems can inflict on citizens who are trying to receive their much-needed and deserved government benefits.

ENDNOTES

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