

Department of Legislative Services
Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 270

(The President, *et al.*) (By Request - Administration)

Finance

Economic Matters

Unemployment Insurance - Eligibility - Part-Time Work

This emergency Administration bill makes an individual whose availability to work is restricted to part-time work eligible for unemployment benefits, if the individual works predominantly throughout the year on a part-time basis for at least 20 hours per week.

Fiscal Summary

State Effect: State expenditures to reimburse the Unemployment Insurance Trust Fund (UITF) increase by \$291,600 in FY 2010 and \$265,600 in FY 2013. No effect on revenues.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	0	291,600	270,400	263,600	265,600
Net Effect	\$0	(\$291,600)	(\$270,400)	(\$263,600)	(\$265,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Unemployment Insurance Trust Fund: UITF expenditures increase by \$5.6 million in FY 2009. UITF revenues do not increase in FY 2009. Out-year estimates reflect higher than average unemployment levels; projected increases in weekly benefit amounts; private-sector employer charge backs; a full year of quarterly reimbursement by the State, local governments, and nonprofit entities; and annualization.

(in millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
UITF Revenues	\$0	\$3.5	\$7.6	\$11.4	\$14.2
UITF Expend.	5.6	22.4	20.3	20.3	20.5
Net Effect	(\$5.6)	(\$18.9)	(\$12.7)	(\$8.9)	(\$6.3)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local jurisdictional expenditures to reimburse UITF increase by approximately \$381,400 in FY 2010 and \$347,300 in FY 2013. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: The Administration has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

Analysis

Bill Summary: A part-time worker is eligible for benefits based on wages predominantly earned from part-time work; must be actively seeking part-time work; must be available for part-time work for at least the number of hours worked at the part-time worker's previous employment; cannot impose any other restrictions on the part-time worker's ability or availability to work; and must be in a labor market in which a reasonable demand exists for part-time work. A qualified part-time worker with a disability may not have the disability used as a disqualifying factor. A part-time worker is not considered to be unemployed if working all hours for which the part-time worker is available.

Current Law: In order to be eligible for unemployment benefits, an individual must be able to work, available for work, and actively seeking work. A claimant may not impose conditions and limitations on his or her willingness to work and still be available. Although not explicitly stated in statute, eligibility applies only to full-time work.

Background: Unemployment insurance (UI) provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for the unemployment insurance program. Funding for the program is provided by employers through unemployment insurance taxes paid to both the federal government for administrative and other expenses and to the states for deposit in the unemployment insurance trust funds. Using federal tax revenues, the program is administered pursuant to state law by state employees. Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Benefits paid from the unemployment insurance trust fund are based on the amount of money that the employee earned during the base period (the first four of the last five completed calendar quarters prior to the date the employee filed a claim). The weekly benefit amount provided by the Maryland Unemployment Insurance Law ranges from

\$25 to a maximum of \$380. The maximum duration that weekly benefits may be paid is 26 weeks. Through federal tax revenues, a 20-week extension of UI benefits is currently in effect for eligible claimants who have exhausted their first 26 weeks of benefits.

The unemployment insurance program is financed by the Federal Unemployment Insurance Administration through employer taxes. The federal tax is 6.2% of the first \$7,000 in wages paid to each employee. Employers receive credit of up to 5.4% for the taxes they pay under state unemployment compensation laws. The net tax (0.8%) collected by the federal government is used to finance state and federal administrative costs. Funds are distributed to states based on each state's claim load. The Maryland program is administered by the Office of Unemployment Insurance in the Department of Labor, Licensing, and Regulation (DLLR) and funds are deposited into the Maryland Unemployment Insurance Trust Fund.

All private business employers and nonprofit organizations employing one or more persons, at any time, are subject to the Maryland Unemployment Insurance Law. Each employer is assigned a particular tax rate based on its experience with unemployment, in relation to the experience of other employers, and the fund balance of the Maryland UITF from the preceding September. Taxable wages are defined as the first \$8,500 earned by each employee (both full- and part-time employees) in a calendar year.

State and local governments and some nonprofit organizations reimburse UITF dollar for dollar in lieu of paying State and federal UI taxes. Nonprofits post a certain percentage of collateral specified in law when choosing the reimbursement option.

Part-time Workers

Nationwide, part-time workers received UI benefits at a rate of 29%, compared to 50% for full-time workers in a study conducted by the U.S. Government Accountability Office (GAO). The GAO report, released in September 2007, also indicates that low-wage workers (earning less than \$8.97 an hour in 2003) were found to be over twice as likely to be unemployed than higher wage earners but half as likely to receive unemployment benefits. Thirty states now allow UI benefits for part-time workers, according to the National Law Project.

The Wenger Study – Unemployment Insurance and Part-time Workers in Maryland

In 2008, DLLR commissioned a study by Dr. Jeffrey B. Wenger to analyze the part-time labor market in Maryland and estimate the cost of extending UI benefits to cover the unemployed who search for part-time work. Completed in January 2009, the study identified several important factors to consider. The study cites research indicating that each dollar paid in unemployment benefits results in \$2.15 worth of economic activity.

The study states that 42% of part-time labor in Maryland is concentrated in 10 industries, as shown below in **Exhibit 1**.

Exhibit 1
Maryland Part-time Jobs by Industry
2005-2007

Restaurants and Other Food Services	11.57%
Elementary and Secondary Schools	6.86%
Colleges and Universities	4.13%
Hospitals	4.09%
Construction	3.78%
Grocery Stores	3.12%
Real Estate	2.24%
Department Stores and Discount Stores	2.15%
Other Amusement, Gambling, and Recreation	1.89%
Child Day Care Services	1.80%

Source: Wenger, 2009

Based on 2007 data, the study estimates the annual cost of providing unemployment benefits to part-time workers. The study assumes 5,754 part-time beneficiaries annually, receiving benefits for 15.5 weeks with a median weekly benefit of \$163. Based on these assumptions, offering unemployment benefits to part-time workers would cost \$14.5 million annually. If the mean weekly earnings data is used (average weekly benefit of \$199), the annual cost increases to \$17.8 million.

State Fiscal Effect: UI benefits are chargeable to the State and reimbursed on a quarterly basis. Approximately 1.3% of UI benefits are charged to the State. In fiscal 2010, payments for one quarter of fiscal 2009 and three quarters of fiscal 2010 are collected. Thus, total State expenditures (general funds, special funds, and federal funds) increase by \$291,635 in fiscal 2010 and \$265,601 in fiscal 2013.

Unemployment Insurance Trust Fund Effect: The fiscal impact of expanding UI benefits to include individuals seeking part-time work is dependant on a number of factors. The number of eligible claimants, the wage base determining the weekly benefit amount, and the number of weeks benefits are received are the major components of this estimate. As shown in **Exhibit 2**, new UI weekly benefits established represents the number of people who become unemployed, are eligible for benefits, and begin receiving benefits. As shown in the exhibit, the second and third quarters of 2008 saw a significant

increase in new benefits when compared to prior periods. In the final quarter of 2008 the increase in new benefits established was even more dramatic – an increase of 61% when compared to the same period in the prior year.

Exhibit 2
New Weekly UI Benefits Established

Calendar Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	37,131	22,516	24,270	25,287	109,204
2005	34,269	21,049	22,203	21,866	99,387
2006	29,934	20,043	22,947	22,991	95,915
2007	33,591	20,102	23,347	28,614	105,654
2008	36,097	26,820	30,558	46,066	139,541
% Difference 2007-2008	7%	33%	31%	61%	32%

Source: U.S. Bureau of Labor and Statistics

UITF expenditures increase by an estimated \$5.6 million in fiscal 2009, assuming this emergency bill is enacted and claimants are eligible for benefits April 1. In fiscal 2010, UITF expenditures increase by \$22.4 million due to the increase in UI beneficiaries. This estimate reflects the following information and assumptions used to determine the fiscal impact of the bill on the trust fund:

- the number of new weekly UI benefits established continues to be higher than average throughout the end of fiscal 2009 and through the first half of fiscal 2010;
- new weekly UI benefits begin returning to fiscal 2008 levels in the second half of fiscal 2010;
- the 422,095 part-time workers in the Maryland labor force comprise 14% of the total Maryland labor force (3,008,198 forecast for fiscal 2009);
- in fiscal 2010, 2.24% of the part-time workers receive at least one week of benefits, which is half the rate that the full-time labor force receives (4.48%) (this percentage is greater than in prior years to reflect higher than average levels of unemployment);

- thus, 9,515 part-time employees receive benefits in fiscal 2010, the first full fiscal year impacted by the bill – the number of part-time workers is based on estimated total employment provided by the Moody’s Economy.com forecast (424,262 part-time workers multiplied by 2.24% receiving at least one week of benefits);
- for fiscal 2010, the average weekly benefit amount for full-time workers in Maryland is \$300, and a part-time worker’s average weekly wage is 50% of this amount or \$150;
- the projected average weekly benefit from fiscal 2011 through 2013 increases by 3.0% a year as follows: 2011 = \$154; 2012 = \$159; and 2013 = \$164;
- the average duration of the benefit paid to a qualified part-time individual is the same as for a full-time individual (*i.e.*, 15.7 weeks);
- the amount of benefit charged back to private-sector employers is 64.1%, payable over the following three years; and
- the State, local governments, and nonprofits reimburse the trust fund each year, payable on a quarterly basis.

Exhibit 3 summarizes further assumptions on future unemployment levels. Actual unemployment data is utilized through the first half of fiscal 2009.

Exhibit 3
Unemployment Assumptions

	<u>Number of Part-time New Weekly Benefits</u>	<u>Percent of Part-time Labor Receiving New Part-time Benefits</u>	<u>Unemployment Rate</u>
FY 2008	8,041	1.9%	3.6%
FY 2009	11,103	2.6%	5.6%
FY 2010	9,515	2.2%	6.9%
FY 2011	8,359	2.0%	6.3%
FY 2012	8,120	1.9%	5.0%
FY 2013	7,961	1.8%	4.4%

Source: Unemployment Rate, Moodys.com

Of the amount paid on behalf of private employers in fiscal 2010, \$12.8 million (or 64.1% of benefits paid) is charged back to one or more previous employers over a three-year period *beginning the year following* benefits payment. The \$7.2 million that cannot be charged back to private-sector employers is, ultimately, recovered through

premiums paid by all employers. Payments made for State, local government, and nonprofit employers are charged in the same year and reimbursement is made on a quarterly basis. In fiscal 2009, no payments are collected; annually thereafter payments for one quarter of the prior year and three quarters of the current year are collected. Thus, UITF revenues increase by \$3.5 million in fiscal 2010 and \$14.2 million in fiscal 2013.

Out-years reflect the projected increases in the weekly benefit amount, growth in the size of the Maryland labor market, and beginning in the second half of 2010, a reduction in the percentage of part-time workers receiving new benefits. Duration of benefit (15.7 weeks) and percentage charged back to employers (64.1%) all remain the same.

It should be noted that the dramatic increase in new weekly UI benefits established exaggerates the near-term impact of a benefit increase when compared to periods of lower unemployment and steady economic growth. Under the same assumptions, using fiscal 2008 levels of unemployment, fiscal 2010 expenditures for part-time UI benefits equal \$18.6 million.

Local Fiscal Effect: UI benefits are chargeable to local governments at 1.7% and reimbursed on a quarterly basis. In fiscal 2010, payments for one quarter of fiscal 2009 and three quarters of fiscal 2010 are collected. Thus, local jurisdictional expenditures increase by \$381,369 in fiscal 2010 and \$347,324 in fiscal 2013.

Additional Information

Prior Introductions: Similar legislation was introduced in 2008 as SB 328 and HB 627. SB 328 passed the Senate and received a hearing in the House Economic Matters Committee. HB 627 also received a hearing in the House. No further action was taken on either bill.

Cross File: HB 310 (The Speaker, *et al.*) (By Request - Administration) - Economic Matters.

Information Source(s): U.S. Bureau of Labor and Statistics; Moodys Economy.com; Wenger, 2009; Montgomery County; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Unemployment Insurance – Eligibility – Part-Time Work

BILL NUMBER: Senate Bill 270

PREPARED BY: Department of Labor, Licensing and Regulation

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND
SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

Small Business Effect: To the extent that small businesses employ part-time employees and then lay off those part-time employees, this bill may have the effect of increasing Unemployment Insurance costs for such businesses.