HB 907

Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 907 (Delegate Carey)
Economic Matters Finance

Unemployment Insurance - Study on System Reforms

This emergency bill requires the Maryland Department of Labor (MDL), in consultation with the Department of Legislative Services (DLS), to study and make recommendations regarding reforms to the unemployment insurance (UI) system in the State. In conducting the study and making recommendations, MDL must (1) report monthly to DLS and the Joint Committee on Unemployment Insurance Oversight on the status of the study; (2) consult with the U.S. Department of Labor, other state UI agencies, and other stakeholders; and (3) examine and consider any report or recommendation made by the National Academy of Social Insurance Unemployment Insurance Task Force of 2021. By July 1, 2021, MDL must submit an interim report to the joint committee, and by December 1, 2021, MDL must submit a final report to the Governor, the joint committee, the Senate Finance Committee, and the House Economic Matters Committee.

Fiscal Summary

State Effect: General fund expenditures for MDL increase by approximately $180,000 in total in FY 2021 and 2022 (for purposes of this estimate, costs are allocated evenly between fiscal years). DLS can handle the bill's requirements with existing budgeted resources. Revenues are not affected.

(in dollars)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Revenues	$0	$0	$0	$0	$0
GF Expenditure	90,000	90,000	0	0	0
Net Effect	($90,000)	($90,000)	$0	$0	$0

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

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: MDL must study:

- expanded eligibility for unemployment benefits for various types of workers, including individuals who (1) are employed on a seasonal or temporary basis; (2) have received benefits during the pandemic but are not eligible for regular unemployment benefits; or (3) leave their job for family reasons or due to job schedule volatility;
- the costs and benefits of increasing (1) the maximum weekly benefit amount, including costs and benefits of indexing the weekly benefit amount to account for inflationary change; (2) the allowance that claimants receive for their dependents; and (3) the income disregard for part-time work;
- alternative approaches to the experience rating process, including (1) the feasibility of establishing a new waiver for benefit charges incurred during a UI crisis and (2) potential methods for minimizing the impact on an employer's experience rating when the employer establishes a work sharing agreement with MDL;
- the establishment of clear standards for when an employee is entitled to claim unemployment benefits if the employee (1) leaves a job due to unsafe working conditions or in order to guard against an unreasonable risk of infection; (2) is terminated for refusing to work under unsafe work conditions; or (3) declines to accept work due to unsafe work conditions;
- existing penalties for fraud and the need for enhancing or altering those penalties;
- the solvency of the Unemployment Insurance Trust Fund, as adjusted based on implementation of each of the system reforms listed above; and
- any other issue that MDL determines is necessary to include in its evaluation of the State's UI system.

Current Law: For general information on the State's UI program, including information on the weekly benefit amount, dependent allowance, and the experience rating process, see the **Appendix – Unemployment Insurance**.

State Expenditures: MDL advises that federal funds cannot be used to conduct the study; the federal government covers expenses only if they are used to administer the UI program. Based on previous studies, MDL estimates consultant costs of $130,000 to conduct the study and complete both an interim and final report, and an additional $50,000 for data gathering services by MDL's information technology vendor. Additional minimal general fund expenditures may be needed to cover MDL staff hours dedicated to working with the consultant and preparing the reports, as federal funds may not be used for those purposes either. DLS can consult as needed with existing budgeted resources. Therefore, general fund expenditures increase by approximately $180,000 in total in fiscal 2021 and 2022.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 817 (Senator Klausmeier)(Chair, Joint Committee on Unemployment Insurance Oversight) - Finance.

Information Source(s): Maryland Department of Labor; Department of Legislative Services

Fiscal Note History: First Reader - February 19, 2021
rh/ljm Third Reader - March 24, 2021
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Appendix – Unemployment Insurance

Program Overview

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits of up to $430 per week to individuals 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 UI programs. Generally, funding for the program is provided by employers through UI taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their UI trust funds. Using federal tax revenues, the UI program is administered pursuant to state law by state employees. The Maryland Department of Labor's Division of Unemployment Insurance administers the State's UI program.

Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Employer Contributions

Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse the Unemployment Insurance Trust Fund (UITF) for claims paid in lieu of paying taxes. Therefore, for most Maryland employers, the State UI tax rate is a function of:

- the employer's specific unemployment claims history; and
- the applicable tax table, which is based on the State's UITF balance and applies to most taxable employers.

Exhibit 1 shows the range of State UI taxes a typical employer owes based on the tax table in effect; there are other rates for new employers and in other limited circumstances. State UI taxes and reimbursements are typically due quarterly; however, Chapter 39 of 2021 allows employers with fewer than 50 employees to defer 2021 State UI tax payments or reimbursements until January 31, 2022, and authorizes the Secretary of Labor to offer a similar deferment in 2022. The Act, in conjunction with a recent executive order, also generally prevents UI claims made during the COVID-19 pandemic from increasing an employer's taxes – although Table F, with its broadly higher rates, is in effect in 2021.

Exhibit 1
Tax Tables and Applicable Employer Tax Rates

	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages		Trust Fund Balance ($ in Millions)		Then Next Year's Tax Rates Range from…			Annual Tax Per Employee (Rate x $8,500)		
Tax Table	**Exceeds**	**Up to**	**Exceeds**	**Up to**	**No Claims**	**Single Claim**	**Up to**	**No Claims**	**Single Claim**	**Up to**
A	5.00%	N/A	$995.8	N/A	0.30%	0.60%	7.50%	$25.50	$51.00	$637.50
B	4.50%	5.00%	896.2	$995.8	0.60%	0.90%	9.00%	51.00	76.50	765.00
C	4.00%	4.50%	796.6	896.2	1.00%	1.50%	10.50%	85.00	127.50	892.50
D	3.50%	4.00%	697.1	796.6	1.40%	2.10%	11.80%	119.00	178.50	1,003.00
E	3.00%	3.50%	597.5	697.1	1.80%	2.60%	12.90%	153.00	221.00	1,096.50
F	0.00%	3.00%	0.0	597.5	2.20%	3.10%	13.50%	187.00	263.50	1,147.50

Notes: Fund balance threshold dollar amounts are based on the 2020 taxable wage base and are subject to change each year. A "single claim" represents the tax rate applicable to the lowest possible rate associated with nonzero (.0001 to .0027) benefit ratios. Taxes are applied to the first $8,500 earned by each employee, each year; compensation less than that amount reduces taxes owed accordingly. Table F is in effect in 2021 and is likely to be in effect for at least two more years; Table A had been in effect since 2016.

Source: Department of Legislative Services

Benefit Payments

Generally, the weekly benefit amount a claimant is eligible for is based on the quarterly wages that the claimant was paid for covered employment in the calendar quarter of the claimant's base period in which those wages were highest. The base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year, or, if the individual does not qualify under that definition, the four most recently completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from $50 to $430 per week, based on earnings in the base period. There is also a dependent allowance of $8 per dependent, for up to five dependents, although the allowance cannot raise the weekly benefit amount above $430. The first $50 of any wages earned by an individual receiving UI benefits in a given week is disregarded for purposes of calculating the weekly benefit amount, after which the benefit payment is reduced dollar for dollar. These amounts do not adjust for inflation. Generally, during a benefit year, a claimant is entitled to 26 times the claimant's weekly benefit amount. During periods of high unemployment, extended benefits may also be available.