Department of Legislative Services

Maryland General Assembly
2021 Session

FISCAL AND POLICY NOTE
Third Reader - Revised

House Bill 1139 (Delegate Carey)
Economic Matters Finance

Unemployment Insurance – Weekly Benefit Amount – Income Disregard

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This emergency bill increases, from $50 to $200, the wages that are disregarded for purposes of determining an unemployment insurance (UI) claimant's weekly benefit amount. **The bill terminates concurrent with the expiration of the state of emergency declared by the Governor due to the COVID-19 pandemic.**

Fiscal Summary

State Effect: Federal fund revenues and federal/general fund expenditures for the Maryland Department of Labor (MDL) increase to the extent that the department requires additional administrative funding to implement the bill in FY 2021. State expenditures increase by an unknown amount in FY 2021 and 2022 due to increased reimbursements. Nonbudgeted Unemployment Insurance Trust Fund (UITF) expenditures increase by an unknown amount in FY 2021 and potentially FY 2022 for additional benefit payments. UITF revenues increase from reimbursements in FY 2021 and 2022.

Local Effect: Local expenditures increase by an unknown amount in FY 2021 and 2022 due to increased reimbursements. Revenues are not affected.

Small Business Effect: Minimal, although small nonprofits are affected, as discussed below.

Analysis

Current Law: Generally, an eligible claimant must be paid a weekly benefit amount that is computed by:

- determining the claimant's weekly benefit amount based on qualifying income;
- adding any allowance for a dependent to which the claimant is entitled; and
- subtracting any wages exceeding $50 payable to the claimant for the week.

Chapter 2 of 2010 reduced the income disregard from $100 to $50 as part of several modifications to the State's UI law affecting program eligibility.

For more information on the State's UI program, see the **Appendix – Unemployment Insurance**.

State Fiscal Effect:

Administrative Costs

MDL indicates administrative costs of approximately $120,000 are necessary to implement the bill (information technology and mailings). If existing federal administrative funds are insufficient to cover such expenses, additional above-base federal funding will be provided, assuming that the expenses are allowable, in fiscal 2021. Otherwise, general funds are needed to cover those costs.

Unemployment Insurance Trust Fund

Nonbudgeted UITF expenditures increase by an unknown amount in fiscal 2021 and potentially in fiscal 2022 as claimants are eligible to receive up to $150 more each week due to the income disregard. While the total amount is unknown, based on previous MDL estimates for a $300 income disregard, had this provision been in effect in 2020, UITF would have paid out approximately $30 million more (UITF paid out $1.8 billion in 2020). Based on that information and recent claims history, an additional $300,000 to $420,000 in benefit payments each week through the duration of the bill could be expected – specifically, $7.8 million to $10.9 million in total if the bill were in effect for six months.

Under Chapter 39 of 2021 and a related executive order, employer pandemic experience does not increase employer taxes through the duration of the COVID-19 pandemic. Therefore, UITF revenues increase only from reimbursements in fiscal 2021 and 2022.

In light of Chapter 73 of 2021 and the anticipated $1.1 billion infusion of federal funds into UITF, there should be no other effect. Absent that legislation, the bill's enhanced benefit payments would likely represent an increase in net borrowing, which would need to be repaid, potentially with interest, depending on the extent and duration.

State as an Employer

The State, as an employer, reimburses UITF dollar for dollar for UI benefits paid to former employees. As the bill increases the weekly amount that may be paid out, State expenditures for reimbursements increase in fiscal 2021 and 2022.

Local Expenditures: Local governments reimburse UITF in the same manner as the State government and are affected in the same way as described above.

Small Business Effect: Under Chapter 39 of 2021 and a related executive order, employer pandemic experience does not increase employer taxes through the duration of the COVID-19 pandemic. As such, the bill does not affect small (for-profit) businesses beyond the employment incentives discussed below. However, while not considered a small business for purposes of fiscal and policy notes, small nonprofits are affected, as they reimburse UITF for benefits paid to former employees – normally dollar for dollar, but under federal stimulus legislation reimbursers have received a 50% or 75% credit during the COVID-19 pandemic, and they are currently receiving a 75% credit through early September 2021. Chapter 39 also allows small employers to defer payments to UITF until January 31, 2022.

Under the bill, weekly UI benefit payments increase by as much as $150 for some individuals. Whether these increased weekly payments increase the total amount of benefits paid to a particular former employee depends on whether the duration of the benefits changes due to the changing employment incentives. The bill incentivizes part-time work while an individual is receiving UI benefits, which may lead to a quicker transition to full-time employment and the cessation of UI benefits. However, the enhanced income disregard may be a disincentive to seek full-time work, which may extend the duration of UI benefits.

The effect is reversed for employers seeking to hire new employees: they benefit from an increased incentive for individuals to seek out part-time work, and a potential disincentive for individuals to seek out full-time work.

Additional Information

Prior Introductions: None.

Designated Cross File: SB 819 (Senator Klausmeier)(Chair, Joint Committee on Unemployment Insurance Oversight) - Finance.

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

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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

Tax Table	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages: Exceeds	Up to	Trust Fund Balance ($ in Millions): Exceeds	Up to	Then Next Year's Tax Rates Range from…: No Claims	Single Claim	Up to	Annual Tax Per Employee (Rate x $8,500): 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; 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.