

2024 GBCC SB 821 PEOs Support.pdf

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Position: FAV



Testimony on behalf of the Greater Bethesda Chamber of Commerce

In Support of

Senate Bill 821—Maryland Insurance Administration—Professional Employer Organizations--Study

February 16, 2024

Senate Finance Committee

The Greater Bethesda Chamber of Commerce (GBCC) was founded in 1926. Since then, the organization has grown to more than 550 businesses located throughout the Greater Bethesda area and beyond. On behalf of these members, we appreciate the opportunity to provide written comments on Senate Bill 821—Maryland Insurance Administration-Professional Employer Organizations--Study.

Senate Bill 821 is a simple, straightforward bill to study professional employer organizations and to report on their findings to the General Assembly by December 31, 2024. Our members have always been supportive of this concept and, in fact, have supported related legislation in past years. Most small business owners do not have the time or the expertise to manage all aspects of human resources. Professional employer organizations can be a huge asset to small businesses like our members by taking over the administrative human resources tasks and compliance responsibilities while letting small businesses focus on what they know best: their business.

We appreciate Senator Feldman’s thoughtful approach to this issue. Gathering data, including best practices from other states, ensures Maryland moves forward in a responsible manner. For this reason, we urge a favorable vote on Senate Bill 821.

SB821_ExecutiveSummary_TransformingManufacturingIn

Uploaded by: Brian Feldman

Position: FAV



Transforming Manufacturing in a Digital Economy Workgroup Final Report

1.0 Executive Summary

Maryland has a proud history in Manufacturing and is still home to some of the global brands that speak to our competitive advantages and economic strengths, from Under Armour to McCormick, and from Northrop Grumman to AstraZeneca. Despite significant manufacturing job losses due to offshoring and technological advancement over the past half century, manufacturing is coming back. In fact, there has never been a better alignment of market forces and political leadership than now to grow Maryland manufacturing.

The pandemic has made it abundantly clear that beefing up domestic production is not only a market necessity but also a national security imperative. With the Biden administration's focus on "Buy America" and "Make it in America," this is an opportune time to revive Maryland's manufacturing leadership and usher in a new era of modernization that reflects Maryland's rich institutional and human assets. The recently passed Inflation Reduction Act includes approximately \$28 billion in new manufacturing investment, and the CHIPS and Science Act provides another \$52.7 billion for American semiconductor research, development, manufacturing, and workforce development.

Maryland is well-positioned to capitalize on these opportunities. The state's manufacturing jobs in 2022 are well above pre-pandemic levels and since the pandemic, the recovery in manufacturing jobs has outpaced the overall Maryland economy. Maryland has already seen success in new manufacturing companies and jobs directly associated with pandemic-related domestic production such as Ellume in Frederick County make COVID home test kits, and United Safety Technology in Baltimore County making nitrile gloves.

Manufacturing is a key sector (or industry cluster) of Maryland's economy. Manufacturing accounts for 4.3% of Maryland jobs, but 8% of Maryland economic activity and 62% of Maryland exports. Manufacturing jobs in our state pay an average annual wage of \$88,979, well above the State average. Five-year employment grew at 5%, while the overall private sector employment in the state fell.

But compared to the rest of the country, Maryland is punching below our weight in manufacturing capacity. Maryland has a relatively small manufacturing industry, ranking 46th in the proportion of private-sector workers employed in manufacturing. In fact, the state would have twice as many manufacturing workers if manufacturing made up the same proportion of the Maryland economy as it does nationwide. According to data from the Jacob France Institute, Maryland's manufacturing sector has the 8th highest employee compensation and 4th highest productivity. This demonstrates significant room for growth and increasing the size of Maryland's manufacturing sector would be a strong strategy to provide a pathway to the middle class for even more Marylanders.

The manufacturing sector is undergoing a rapid transformation. Increasingly, manufacturers are incorporating advanced technologies, automation, big data, and more interconnected systems into their production processes. These changes, often referred to as Industry 4.0, come with an increased



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up-front cost to producers but enable companies to make increasingly complex products more efficiently than ever before.

The Industry 4.0 initiative aligns with Maryland's strategic focus of advanced manufacturing and continues to extend Maryland's rich manufacturing heritage and technological know-how to develop the innovative, high-tech products of the future. An increased investment in advanced manufacturing workforce in the state secures continued opportunity and stability for Maryland's manufacturing workforce for years to come.

In recognition of a rapidly growing global transformation in manufacturing based on Industry 4.0 technologies, Maryland manufacturers advocated for legislation in 2021 to put Maryland on a competitive playing field with other states and countries. The Regional Manufacturing Institute of Maryland, the state's primary advocacy group for Maryland manufacturers, was instrumental in initiating and advocating for the legislation during the 2020 and 2021 legislative sessions. SB444 was introduced by Senator Chris West (R-Baltimore County, MD) and HB658, was introduced by Delegate Lily Qi (D-Montgomery County, MD). These companion bills became law on July 1, 2021. The bills created the "Transforming Manufacturing in a Digital Economy Workgroup (Making It in Maryland)" to address the need for policies and programs to help Maryland manufacturers adopt new Industry 4.0 technologies and to identify skills gaps in emerging advanced tech environments. The Department of Commerce was assigned to staff the workgroup.

Now is the time for the State to step up our support of Maryland manufacturing. Not only has the sector experienced strong recent employment growth, but the national trend of reshoring coupled with the productivity enhancing capabilities of Manufacturing 4.0 have the potential to support a manufacturing renaissance nationally and in Maryland. Providing incentives to manufacturers to invest in advanced production technologies and expanding the pipeline of skilled workers is critical to creating quality jobs, growing Maryland's economy, and expanding the State's tax base.

While there needs to be a comprehensive roadmap for rebuilding manufacturing, this workgroup was tasked with helping Maryland manufacturers ease the transition to the digital economy by derisking the adoption of new technologies. In particular, the workgroup focused on supporting **small and medium enterprises** that make up the vast majority of Maryland manufacturing landscape.

The 24-member workgroup, made of industry, academic, nonprofit and government representatives, started its work since September 2021 and concluded with this report in December 2022. The detailed meeting minutes can be found on our webpage at <https://commerce.maryland.gov/commerce/boards-and-commissions>. The Jacob France Institute of the University of Maryland Baltimore County was engaged by the workgroup through the Department of Commerce to conduct research and analysis in support of the workgroup.

At the conclusion of the workgroup, members voted on and approved the following recommendations to enable manufacturers to adopt Industry 4.0 technology and to better prepare Maryland workers for the jobs of the future:



Transforming Manufacturing in a Digital Economy Workgroup Final Report

1. Establish a special fund of \$50,000,000 in FY24 to be used for small and mid-sized (SME) manufacturers to be used for the purchase, implementation and related employee training of industry 4.0 technology. This would include advanced sensors, embedded software, robotics that collect data, ERP and supply chain integration, cloud computing, AI, and the infrastructure needed to implement these solutions.
2. Commit \$10,000,000 as seed funding to establish a Manufacturing Innovation Center, with an industry-led partner to be selected by the state to manage and operate the center. As a public-private partnership, the Center would raise additional funds to support the operations. The purpose of the center is to build a national showcase for next-generation manufacturing technology, talent, and transformation. The Center will be a public-private sector digital network and physical Center offering a quick response system that promotes the technological Future of Maryland manufacturing. The Center is a catalyst for forging new systems of success serving manufacturers with an improved system of service.
3. Align manufacturing industry skills needs with statewide curriculum development through the efforts of the CTE Committee and other reforms resulting from the Kirwan legislation. Require the CTE Committee to partner with MD Labor's Division of Workforce Development Adult Learning, RMI, MD MEP, and local workforce boards to analyze existing programs, identify gaps, and make investments in programs to fill those gaps.
4. Pass legislation that would open PEO (professional employer organization) access to any manufacturer under 50 employees. Manufacturers want to offer the best benefits to our employees, but Maryland law currently prohibits manufacturers under 50 employees to get together to offer "large company benefits" to their employees.
5. To further encourage manufacturers to invest in Industry 4.0 technologies and to help enable the free flow of information from factory floor to cloud and other computer systems, amend Sec. 03.06.01.32-2, Section C (1) to include indirect digital product purchases, such as software.
6. Pass legislation to create a Buy Maryland Manufacturing tax credit program – modeled after the Buy Maryland Cyber program, a Buy Maryland Manufacturing Tax Credit would promote the manufacturing industry in Maryland by encouraging other Maryland businesses to purchase products manufactured in Maryland.
7. Encourage local land use and zoning regulations, as well as local incentives, to ensure an adequate inventory of properties for the expansion of existing, and attraction of new manufacturers in the state. State agencies should work with local officials to identify best practices in land use and zoning regulations to meet the needs of today's manufacturing sector.



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8. Create a state matching fund to buy-down the costs and improve the ROI to 3-4 years for the purchase of major facility systems such as HVAC systems, electrical switchgear, transformer, industrial logic controllers and similar advanced controls. This fund would be managed by the Maryland Energy Administration and promoted by the Regional Manufacturing Institute (RMI) and Maryland MEP.

9. Establish a program within Maryland Commerce to identify Maryland companies that make products or components that support sustainability and reduce carbon footprints. Identify strategies for developing this emerging sector. Market Maryland as a State that wants to attract Green Manufacturing companies. Research shows that younger workers are attracted to companies that support green initiatives. Promote in schools and colleges careers in Maryland Green Manufacturing companies.

SB 821_MDCC_Maryland Insurance Administration – Pr

Uploaded by: Hannah Allen

Position: FAV



MARYLAND
Chamber of Commerce

LEGISLATIVE POSITION:

FAVORABLE

Senate Bill 821

Maryland Insurance Administration – Professional Employer Organizations – Study

Senate Finance Committee

Friday, February 16, 2024

Dear Chairwoman Beidle and Members of the Committee:

Founded in 1968, the Maryland Chamber of Commerce (the Chamber) is the leading voice for business in Maryland. We are a statewide coalition of more than 6,800 members and federated partners working to develop and promote strong public policy that ensures sustained economic growth and recovery for Maryland businesses, employees, and families.

Senate Bill 821 would require the Maryland Insurance Administration to study professional employer organizations (PEO) in Maryland and determine the potential impact of proposed statutory changes in the state relating to the offering of health coverage by PEOs on the small group market.

PEOs offer a suite of services such as payroll, HR, workers compensation benefits, healthcare and more. They act as an administrative and strategic partner to businesses, especially small and medium sized businesses who sometimes do not have the resources to administer employee benefits themselves. Outsourcing certain functions allows businesses to streamline their operations, stay compliant with employment laws and regulations, reduce administrative burdens, and save costs associated with internal management of certain benefits.

The Chamber has increasingly heard from small businesses about how, in Maryland, they cannot participate in certain PEO benefits, including aggregated health care plans. Maryland is unique in not allowing PEOs to offer aggregated healthcare plans to their clients. 47 states and the District of Columbia allow it, however Alaska, Maine and Maryland do not. It is important to note that PEOs are not insurers, they are group purchasers. We believe that data and research on the potential effects of allowing PEOs greater flexibility in offering health coverage for businesses is a helpful and important step for the state and General Assembly to make informed decisions, ultimately resulting in businesses being able to stay competitive and attract employees, creating a positive work environment to work in.

For these reasons, the Chamber respectfully requests a **favorable report** on SB 821.

MDCHAMBER.ORG

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SB 821 - MIA - FAV Final.pdf

Uploaded by: Kathleen Birrane

Position: FAV

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Commissioner

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Date: February 16, 2024

Bill # / Title: Senate Bill 821 – Maryland Insurance Administration – Professional Employer Organizations - Study

Committee: Senate Finance

Position: Support

The Maryland Insurance Administration (MIA) appreciates the opportunity to share its support for Senate Bill 821.

Senate Bill 821 requires the MIA to conduct a comprehensive study of professional employer organizations (PEOs). PEOs typically are engaged by businesses to perform HR administrative tasks such as payroll, benefits, workers compensation and employee training. In addition, PEOs often sponsor health and welfare benefit plans that the business may elect to make available to their workers. In many PEO arrangements, the PEO is designated as the “employer” or “co-employer” of the individuals working for the business, which is referred to under the arrangement as the “workplace employer.”

Currently, Maryland is one of three states in the country that effectively prevent a small employer that has engaged a PEO from participating in the PEO’s large group health plan. A Maryland small employer may engage a PEO to perform human resource and payroll services and may take advantage of pension and retirement plans sponsored by the PEO. However, with respect to health insurance, Maryland law looks at the number of people at the workplace employer level in determining whether the health insurance issued to those individuals must meet small group vs large group requirements.

The study required by SB 821 will include the identification and comparison of the regulation of PEOs under federal and State law in and other states; the history of PEOs in the State and in other jurisdictions, including changes in the PEO industry over time; the review of PEO health plans and benefit designs; the review of the requirements related to the engagement of PEO services and access to PEO sponsored health plans that must be met by a business; the examination of which other states determine an employer’s group size at the level of the workplace employer; and address potential impacts to the Maryland small group market if Maryland were to change the current law regarding group size.

The MIA will be required to report its findings to the House Health and Government Operations Committee and the Senate Finance Committee by December 31, 2024.

Traditionally, policy makers have expressed concern that access to large group coverage through a PEO could adversely impact Maryland's small group market. The argument traditionally raised is that joining a PEO would only be beneficial to small employers with young and healthy employees who would benefit from the experience rating in the large group market, and that small employers with older and sicker employees would benefit more from the community rating in the small group market. It is perceived that as the healthier groups join PEOs, the experience of the remaining small group risk pool would deteriorate, driving up rates for small employers. However, there is currently no actuarial data to support or refute these concerns, and this study to conduct research on the issue will be an important tool should future legislation arise seeking to allow small employers who join PEOs to obtain large group health insurance.

For these reasons, the MIA urges a favorable committee report on Senate Bill 821 and thanks the Committee for the opportunity to share its support.

SB0821 Favorable.pdf

Uploaded by: Michael Galiazzo

Position: FAV

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Maryland Department of

Commerce

Baltimore County Economic &

Workforce Development



February 14, 2024

To: Senator Pamela Beidle, Maryland Senate Finance Committee Chair and Finance Committee Members

From: Michael Galiazzo, Ph.D., President, Regional Manufacturing Institute of Maryland

A handwritten signature in black ink that reads 'Mike Galiazzo'.

Re: Favorable SB0821 Senator Feldman - Maryland Insurance Administration – Professional Employer Organizations – Study

On behalf of the private sector members of the Regional Manufacturing Institute of Maryland, I am writing to support SB0821. Most Maryland manufacturing companies are small to medium-sized, including women and minority-owned manufacturing. Manufacturing is an economic engine that brings work, wages, and wealth to Marylanders. This study, proposed by Senator Feldman, will allow for an objective assessment of the current conditions facing the entire small group market in the State. Hopefully, this study will make recommendations to improve Maryland's economic competitiveness and create wealth.

Thank you for your consideration.

SB821_MRA_FAV.pdf

Uploaded by: Sarah Price

Position: FAV

MARYLAND RETAILERS ALLIANCE

The Voice of Retailing in Maryland



**SB821 Maryland Insurance Administration – Professional
Employer Organizations – Study
Finance Committee
February 16th, 2024**

Position: Favorable

Background: SB821 would require the Maryland Insurance Administration to study professional employer organizations in the State to review regulations, history, health plans, membership requirements, regulatory structures in other states, and determine the potential impact of proposed statutory changes in the State relating to the offering of health coverage by professional employer organizations on the small group market in the State.

Comments: The Maryland Retailers Alliance strongly supports SB821 which would explore options for allowing certain membership organizations to offer healthcare plans for their members. Our members, particularly small business owners, regularly request an affordable healthcare plan as a benefit option that they could provide to their employees through our organization. We would strongly urge the Committee to consider any policies that would allow membership organizations to reduce healthcare costs for businesses by offering group rates or plan options for members.

Thank you for your consideration.

MD SB 821 NAPEO Statement for Record 021624 Hearin

Uploaded by: Caitlin McDonough

Position: INFO



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**The National Association of Professional Employer Organizations (NAPEO)
Statement for the Record**

**The Honorable Pamela Beidle, Chair, Senate Finance Committee
Hearing on Senate Bill 821 February 16, 2024
*Submitted February 15, 2024***

Letter of Information – Senate Bill 821

The National Association of Professional Employer Organizations (NAPEO) thanks Chair Beidle, Senator Feldman and the members of the Senate Finance Committee for the opportunity to provide comments on Senate Bill 821 under consideration by the Committee.

The following is being provided for informational purposes.

NAPEO is the voice of the PEO industry. Professional employer organizations (PEOs) provide human resource services to small and mid-size businesses—paying wages and taxes under the PEO’s EIN, offering workers’ compensation and risk management services, and providing compliance assistance with employment-related rules and regulations.

PEOs are champions for their small business clients and their employees. Through a PEO, the employees of small businesses gain access to Fortune 500-level employee benefits such as: health insurance, dental and vision care, life insurance, retirement savings plans, job counseling, adoption assistance, educational assistance and other benefits. And, by providing payroll, HR and compliance assistance services, PEOs allow small businesses to focus on their core mission, improve productivity and profitability, and grow.

There are almost 500 PEOs located throughout the United States that provide payroll, benefits, risk management, regulatory compliance assistance and other HR services to nearly 200,000 small and mid-size businesses employing 4.5 million people. Approximately 17 percent of businesses with between 10 and 99 employees’ partner with a PEO.

If NAPEO can provide additional information to the committee that would be helpful, please contact our legislative advocate in Annapolis, Caitlin McDonough.

Thank you again for the opportunity to provide comments on SB 821.