

**DEPARTMENT OF LEGISLATIVE SERVICES**  
**OFFICE OF POLICY ANALYSIS**  
**MARYLAND GENERAL ASSEMBLY**

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**To:** President Bill Ferguson  
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**From:** Stephen Ross, Senior Policy Analyst  
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**Date:** April 8, 2020

**Re:** Impact of COVID-19 on the State Unemployment Insurance System

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## **Overview**

This memorandum provides (1) a brief overview of the administration of the State's unemployment insurance (UI) program as necessary context; (2) a summary of the recent federal and State enhancements to UI eligibility and benefit payments in response to COVID-19; (3) a timetable and related considerations for the effects on Maryland employers; and (4) a chart showing the surge of initial claims against the Unemployment Insurance Trust Fund (UITF). Under the expanded UI program, eligible Maryland workers will receive up to \$1,030 per week, instead of up to \$430 per week, through July 31, 2020. Eligibility has been expanded to include independent contractors, "gig workers," and the self-employed, in addition to individuals who have exhausted their unemployment benefits or are otherwise affected by COVID-19. Benefits are available for an additional 13 weeks, up to a maximum of 39 weeks.

## **Unemployment Insurance – Generally**

Both the federal and state governments have responsibilities for state UI programs. Funding for each state 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. Standard Maryland weekly UI benefits are up to \$430 per week, based on income, for up to 26 weeks. Generally, to be eligible for UI benefits an individual must be able to work, available for work, and actively seeking work.

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Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse UITF for claims paid in lieu of paying taxes. An employer’s State tax rate is a function of both (1) the employer’s unemployment claim history and (2) the solvency of UITF, which determines the tax table.

More specifically, the ratio of the benefits charged to the employer’s account (amounts paid to unemployed individuals) and the taxable wages reported in the three fiscal years prior to the computation date is used to calculate the benefit ratio. Taxable wages are defined as the first \$8,500 earned by each covered employee in a calendar year. The benefit ratio is then applied to the tax rate table in effect for the year, which is determined by measuring the adequacy of UITF to pay benefits in the future. The tax table determination is made September 30 each year for the upcoming year. The six rate tables that determine the amount charged to each employer based on benefit ratios are shown below; the State is in Table A and has been for several years.

<b>Table</b>	<b>Ratio of UITF to Taxable Wages</b>	<b>Taxes Per Employee</b>			
		<b>Minimum Rate</b>	<b>Maximum Rate</b>	<b>Minimum</b>	<b>Maximum</b>
A	UITF exceeds 5.0%	0.3%	7.5%	\$25.50	\$637.50
B	UITF exceeds 4.5%, up to 5.0%	0.6%	9.0%	51.00	765.00
C	UITF exceeds 4.0%, up to 4.5%	1.0%	10.5%	85.00	892.50
D	UITF exceeds 3.5%, up to 4.0%	1.4%	11.8%	119.00	1,003.00
E	UITF exceeds 3.0%, up to 3.5%	1.8%	12.9%	153.00	1,096.50
F	UITF is 3.0% or less	2.2%	13.5%	187.00	1,147.50

## **Recent Federal and State Enhancements to Unemployment Insurance**

### **Federal CARES Act Expands Eligibility, Amount, and Duration of Benefits**

On March 27, 2020, the “Coronavirus Aid, Relief, and Economic Security Act” or the “CARES Act” became law. Under the Act, various workers either become eligible for unemployment benefits and/or gain access to additional benefits (in the form of a \$600 supplement to the weekly benefit) or extended benefits (based on a 13-week extension) under three new temporary programs that work in tandem. Of note, the additional \$600 weekly benefit is only available through July 31, 2020, and the federal government is required to reimburse the State for both the cost of the enhanced benefits and additional approved administrative expenses incurred under the programs.

First, the Pandemic Unemployment Assistance Program covers individuals who are typically ineligible for regular unemployment benefits and who cannot work due to COVID-19. These individuals include those who are self-employed, independent contractors, gig workers, or meet other specified criteria. Second, the Federal Pandemic Unemployment Compensation Program increases the maximum weekly benefit amount for UI benefits by \$600, totaling a maximum of \$1,030 for benefit weeks ending on or before July 31, 2020. Third, the Pandemic Emergency Unemployment Compensation Program extends the timeframe within which a worker may receive unemployment benefits from 26 weeks to 39 weeks. The State is required to provide flexibility in the requirements that an individual be able and available to work and actively seeking work if the individual is unable to meet the requirements because of COVID-19. During the additional 13 weeks, a worker may still receive the extra \$600 per week. The Act further establishes additional provisions for “reimbursing employers” like nonprofit organizations and local governments to provide them with flexibility and support.

### **Enacted State Legislation Expands Eligibility to Affected Employees**

Consistent with guidance offered by the U.S. Department of Labor during the final days of the 2020 legislative session, Chapters 13 and 14 of 2020 authorize the Secretary of Labor to determine that an individual is eligible for UI benefits if: (1) the individual’s employer temporarily ceases operations due to COVID-19, preventing employees from coming to work; (2) the individual is quarantined due to COVID-19 with the expectation of returning to work after the quarantine is over; or (3) the individual leaves employment due to a risk of exposure or infection of COVID-19 or to care for a family member due to COVID-19. An individual need not separate from the individual’s employment to be eligible for benefits.

### **Timetable and Related Considerations for the Effects on Maryland Employers**

The first State UI tax increase for employers will be due April 30, 2021, and mitigated to some extent by prior-year UI claims and a possible waiver of benefit charges. However, if the State moves to a higher tax table, it will remain there until federal UTF solvency metrics are achieved under current State law.

- Employer benefit charges for State-backed UI payments will first accrue to the benefit year ending June 30, 2020. Those charges will determine the benefit ratio based on the three fiscal years ending June 30, 2018, 2019, and 2020. Employers will not be charged for the extra \$600 federal payment; it will not affect their State UI taxes.
- The benefit ratio will be applied to employer tax tables beginning January 1, 2021, meaning no change in employer taxes until 2021. The tax rate for each employer/benefit ratio at that

time depends on which tax table the State is in, which will be determined based on the balance of UITF as of September 30, 2020.

- Based on current timing, Q1 2021 tax payments are due April 30, 2021. That first tax increase will include about 4 months out of the 36 months used to determine employer taxes (March through June 2020).
- Under State law, the Secretary of Labor may waive the benefit charges against the earned rating record of an employer during a state of emergency if the benefits are paid to the claimant during a period in which the claimant is temporarily unemployed because the employer shut down due to a natural disaster.

### **Initial Claims Against the Trust Fund are Significant**

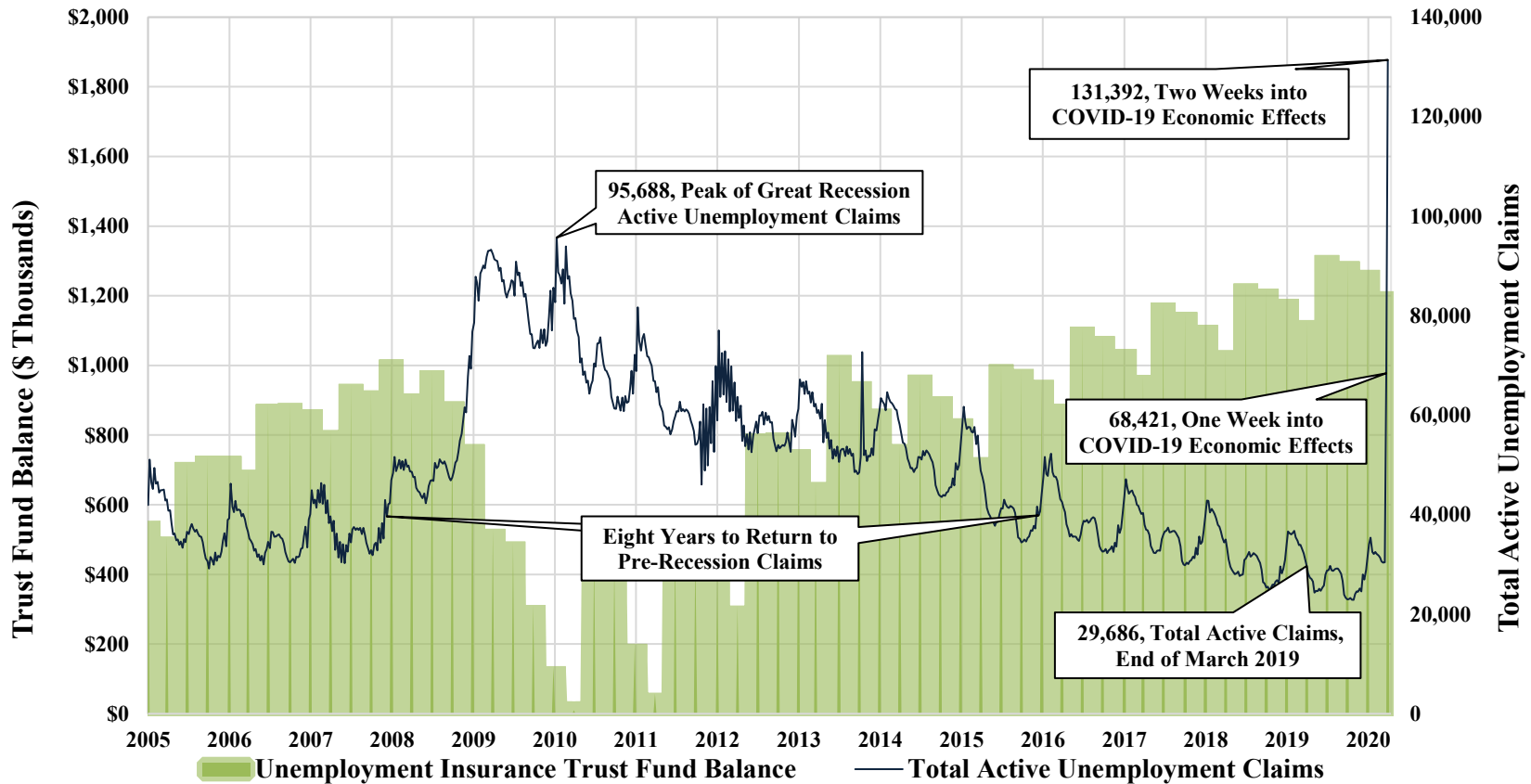
Exhibit 1 shows the past 15 years of UI claims data and the concurrent balance of UITF. For context, the effects of sustained unemployment claims during the Great Recession can be seen beginning in 2008; the State even took out a \$134 million loan from the federal government in 2010 to cover payments. In comparison, the first two weeks of claims against UITF due to COVID-19 and the resulting number of individuals receiving benefits (131,400) already exceeds the highest number of active claims (95,700) during the Great Recession. One positive factor is that the UITF balance just prior to the COVID-19 unemployment effect was at an all-time high for the time of year, at more than \$1.2 billion. Nevertheless, unemployment claims and resulting payments from UITF over at least the next several months are likely to be substantial; if necessary, the State has access to an interest free federal loan through 2020 under the CARES Act.

If you have any questions or concerns, please contact Steve Ross ([Steve.Ross@mlis.state.md.us](mailto:Steve.Ross@mlis.state.md.us)) and Laura Atas ([Laura.Atas@mlis.state.md.us](mailto:Laura.Atas@mlis.state.md.us)).

SR/LA/mta

Enclosure (1)

**Exhibit 1**  
**Unemployment Insurance Trust Fund Balance and Total Active Unemployment Claims**  
**2005–Present**



Source: U.S. Department of Labor; U.S. Department of Treasury; Department of Legislative Services