Department of Fiscal Services

Maryland General Assembly

FISCAL NOTE

Senate Bill 588 (Senator Bromwell)
Finance

Unemployment Insurance - Employer Contribution Rates

This bill raises the level at which the unemployment insurance contribution surcharge is eliminated. Under current law, if the Unemployment Insurance Fund balance exceeds 4.7% (but is not in excess of 5.5%) of total taxable wages, then no unemployment insurance contribution surcharge is imposed. Under the bill, that balance must exceed 5.6% (but cannot exceed 6.3%) for no surcharge to be imposed. The bill is effective July 1, 1997.

Fiscal Summary

State Effect: No impact on the State as an employer because the State pays unemployment costs on a reimbursement basis, rather than on an insurance basis.

Local Effect: No effect in calendar 1998 or 1999. Potential minimal impact in the out-years for local governments that pay unemployment insurance due to the surcharge, which will stay in effect longer than under current law. If the local government pays unemployment costs on a reimbursement basis, there is no impact from this bill.

Unemployment Insurance Trust Fund Effect: No effect projected for calender 1998 or 1999 because the trust fund is not near the threshold. Potential increase in trust fund revenues in the out-years, as discussed below.

Small Business Effect: No effect in calendar year 1998 or 1999. Potential minimal impact in the out-years for small businesses that pay unemployment insurance due to the surcharge, which will stay in effect longer than under current law.

Fiscal Analysis

Unemployment Insurance Trust Fund Effect: Under current law, if the ratio between the Unemployment Insurance Trust Fund balance on September 30 of the current year and taxable wages for the prior fiscal year is greater than or equal to 4.7%, there will be no increase to the basic rate. If the ratio is greater than 4.6% but less than 4.7%, the basic rate will increase by 0.1%, and continuing up a sliding scale so that if the ratio is less than 2.8%, the basic rate increases by 2%.

The bill would raise the minimum threshold for a 0.1% rate increase from a ratio of 4.7% to a ratio of 5.6%. Under current taxable wages, benefit payments, and revenues, the ratio would only exceed the proposed 5.6% threshold and trigger off the 0.1% surcharge if the trust fund balance was approximately $800 million. As of December 1996, the trust fund balance was $671.8 million.

The Office of Unemployment Insurance forecasts that the ratio for calendar 1998 will be between 4.5% and 4.6%, causing the basic rate to be increased by 0.2%. It forecasts that the ratio for calendar 1999 will be between 4.4% and 4.5% causing the basic rate to increase by 0.3%. Because the ratios forecasted are not affected, the bill would not affect the surcharge in 1998 or 1999, as illustrated below.

Calendar Year	Forecasted Ratio	Current Surcharge	Proposed Surcharge
1998	4.5-4.6%	0.2%	0.2%
1999	4.4-4.5%	0.3%	0.3%

Because the ratio must exceed 5.6% under the bill to trigger off the surcharge, the surcharge is likely to stay on longer than under current law. How long the surcharge will stay in effect -- under either current law or under the proposal -- depends on economic conditions within the State. Assuming there are no economic downturns, the additional years with the surcharge will increase the Unemployment Insurance Trust Fund balance slightly. Assuming no change in the current taxable wage base of $14.3 billion (as of June 30, 1995), the 0.1% surcharge would generate $14.3 million per year to the trust fund if the surcharge was imposed in a year in which it would not be imposed under current law.

Information Source(s): Department of Labor, Licensing, and Regulation (Office of Unemployment Insurance)

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