

Department of Legislative Services
Maryland General Assembly
2005 Session

FISCAL AND POLICY NOTE

Senate Bill 703

(Senator Middleton, *et al.*)

(Unemployment Insurance Funding Task Force)

Finance

Economic Matters

**Unemployment Insurance - Charging and Taxation - Benefits - Oversight
Committee**

This bill alters the unemployment insurance charging and taxation system. It incorporates three recommendations of the Unemployment Insurance Funding Task Force: (1) replacing the experienced tax rates and flat rate surcharge system with a single overall experienced tax rated system; (2) increasing the maximum weekly benefit amount; and (3) establishing an oversight committee to determine the effect of the bill's changes.

The bill takes effect July 1, 2005, except tax contribution rates take effect January 1, 2006 and the maximum weekly benefit increase is effective October 1, 2005 and applies to claims filed on or after October 2, 2005.

Fiscal Summary

State Effect: The bill would not directly affect State operations or finances.

Unemployment Insurance Trust Fund (UITF): Trust fund revenues increase by approximately \$56.7 million in FY 2006; future revenues increase by varying amounts depending on the UITF fund balance. Expenditures increase by \$7.2 million in FY 2006 and by \$22.6 million in FY 2007 from increased weekly benefits.

(\$ in millions)	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010
NonBud Rev.	\$56.7	\$39.6	\$5.3	\$14.3	\$14.3
NonBud Exp.	7.2	22.6	26.3	33.9	39.5
Net Effect	\$49.6	\$17.0	(\$21.1)	(\$19.5)	(\$25.2)

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

Local Effect: None.

Small Business Effect: Meaningful. In the first several years, small businesses will be paying increased unemployment taxes.

Analysis

Bill Summary:

Employer Contributions: The bill establishes a single experienced tax rate system to replace the current experienced rates and flat-rate surcharge system. A series of six tax rate tables are established. The table used for a particular year depends on the UITF balance from the preceding September. The table used depends on the UITF balance on September 30 as a percentage of total taxable wages for the four quarters preceding September 30 as shown in **Exhibit 1**. The minimum employer contribution rate is changed from .1% to .3% and the maximum rate is changed from 7.5% to 13.5%, depending on the applicable table. The new contribution rate tables are in effect for calendar years beginning on or after January 1, 2006.

Exhibit 1

<u>Table</u>	<u>Ratio of UITF to Total Taxable Wages</u>	<u>Minimum Rate</u>	<u>Maximum Rate</u>
A	UITF exceeds 5%	.3%	7.5%
B	UITF exceeds 4.5% , but not in excess of 5%	.6%	9.0%
C	UITF exceeds 4% , but not in excess of 4.5%	1.0%	10.5%
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%
F	UITF is 3% or less	2.2%	13.5%

Maximum Weekly Benefit: The bill increases the maximum weekly benefit amount from \$310 to \$340 and the amount a claimant may earn before a reduction in benefits from \$90 to \$100.

Oversight Committee: The bill establishes a Committee on Unemployment Insurance Oversight to study the condition of the unemployment insurance system resulting from the effects of the bill. The committee may examine the need for additional alterations to the system, including the charging and taxation provisions and the eligibility and benefit provisions.

The Department of Legislative Services will staff the oversight committee and the Department of Labor, Licensing, and Regulation must report to the committee on the condition of unemployment insurance in the State. The committee must report its preliminary findings and recommendations by December 31, 2005 and its final report by December 31, 2006 to the Governor and the General Assembly.

Current Law:

Employer Contributions

Monies are paid into the UITF through a basic tax on employers paid on the first \$8,500 of each employee's annual income. The basic tax is experience rated, with employers with the least turnover paying the minimum tax of 0.1% and employers with the highest turnover paying a maximum tax of 7.5%. A new employer is charged a rate that is based on the higher of 1%, the State's five-year benefit cost rate, or the rates assigned to employers with the lowest rate for that year with a maximum of 2.3%. The new employer rate for calendar 2004 was 1.9%.

Under federal law, each state must maintain an unemployment insurance trust fund from which unemployment benefits are to be paid. In Maryland, a surcharge on employers is triggered on the following January 1 when the UITF balance on September 30 of any year is less than 4.7% of the total taxable wages in covered employment for the preceding four calendar quarters. The surcharge varies from 0.1% to 2%, with the amount depending on the degree to which the balance is underfunded. A surcharge of 1.1% was assessed in 2004 and 0.8% is assessed for 2005.

Weekly Benefits

Weekly benefit amounts range from \$25 to \$310 per week, based on earnings in the base period, defined as the first four of the last five completed calendar quarters. To qualify for the maximum weekly benefit amount of \$310, a claimant must have earned at least \$7,416 in the "high quarter" of his or her base period and an additional amount of at least \$3,744 in the remaining quarters in the base period. A claimant may earn \$90 and still receive his or her full benefit. Any amount earned in a week over \$90 is deducted from the weekly benefit that the claimant would be eligible to receive.

Background: The Unemployment Insurance Funding Task Force was created pursuant to Chapter 269 of 2003 and continued for an additional year under Chapter 260 of 2004. The task force was charged with examining the fairness of the existing charging and taxation system, the fairness of the existing eligibility and benefit provisions, and the need for altering the current system of charging and taxation in order to maintain the UITF at a level sufficient to meet benefit needs.

Although the task force considered an extensive list of potential options to Maryland's current unemployment insurance system, the recommendations were limited based on consensus by the various groups representing employers, employees, and unemployed workers. The following recommendations were made and incorporated into this bill:

- Replace the current single schedule of experienced tax rates and the flat-rated surcharge system with an overall experienced rated system, effective January 1, 2006.
- Increase the maximum weekly benefit amount from \$310 to \$340, effective October 1, 2005. Further, this recommendation increases the amount from \$90 to \$100 an individual may earn while still receiving the full weekly benefit amount.
- Establish an oversight committee for two years, composed of the same representatives as are currently serving on the task force. The oversight committee would be charged with reviewing the effect of the implemented changes and making further recommendations to improve the unemployment insurance system.

Unemployment Insurance Trust Fund:

Trust Fund Revenues

It is estimated that employer contributions will significantly increase under the new tax structure during the first two years, increase only slightly during the third year, and then increase by a steady amount in the out-years. **Exhibit 2** represents the anticipated revenue under the existing tax structure and under the bill's provisions.

Exhibit 2

<u>Fiscal Year</u>	<u>Existing Tax Structure</u>		<u>Proposed Tax Structure</u>		<u>Net Increase Trust Fund Revenue</u>
	<u>Surcharge</u>	<u>Revenue</u>	<u>Table</u>	<u>Revenue</u>	
2006	0.10%	\$364,423,869	B	\$421,171,305	\$56,747,436
2007	0.20%	381,618,647	B	421,171,305	39,552,658
2008	0.40%	415,876,171	B	421,171,305	5,295,134
2009	0.00%	347,273,101	A	361,618,647	14,345,546
2010	0.00%	347,273,101	A	361,618,647	14,345,546

The following facts/assumptions were used to determine the effect of changing the taxing structure:

- for comparative purposes, taxable wages used are constant with fiscal 2004, the most current completed fiscal year;
- all computed taxes are assumed to be collectable, without consideration of noncharging provisions;
- fiscal 2005 benefit levels are used because the economy continues to improve, using fiscal 2004 levels would distort estimated future years;
- as discussed further in the additional comments section, the impact of increasing the maximum weekly benefits were not taken into account for future employer rate calculations as it takes three years of benefit charges to impact employer rates; and
- it is anticipated that a surcharge would be assessed under the current tax structure of 0.1% in 2006, 0.2% in 2007, 0.4% in 2008, and no surcharge would be assessed in out-years.

Unemployment Benefit Payments

Unemployment benefits will increase by raising the maximum weekly allowance \$30 from \$310 to \$340 and increasing the amount allowed to be earned without a reduction in benefits from \$90 to \$100. Fiscal 2006 payments are expected to increase by \$7.2 million and fiscal 2007 payments by \$22.6 million. Fiscal 2006 payments increase 35% of the total projected increase because the effect of a benefit increase is modified by claimants with benefit years already established.

The following facts/assumptions were used in determining the increase in UITS expenditures:

- average weekly wage is \$753;
- number of individuals receiving at least one week of benefits per year is 112,601;
- total number of individuals at the maximum weekly benefit amount is 56,120;
- average weekly benefit amount is \$257;
- average duration of benefits is 16.7 weeks; and
- assume that 70% of those receiving the current maximum will be eligible for the new maximum.

Small Business Effect: Based on the assumption that the new unemployment tax structure will utilize the rates in Table B for the first several years, employers will be paying additional unemployment insurance taxes. The actual increase in taxes would depend on the unemployment history of the actual employer. However, as examples, employers with minimal unemployment experience would pay an additional \$17 per employee while employers with high unemployment experience would pay an additional \$128 per employee.

Additional Comments: Although the estimate of the increase in UITF revenues is exceeded by the increase in UITF benefit payments, appearing that the UITF balance would decrease, it does not equate to a direct reduction in the fund balance. The increased benefits will enter into the individual employer tax rates with the chargeable benefits which will generate future additional revenue to recover the increased benefit payments.

Additional Information

Prior Introductions: None.

Cross File: HB 798 (Delegate Doory, *et al.*) – Economic Matters.

Information Source(s): Department of Labor, Licensing, and Regulation; Department of Legislative Services

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ncs/jr

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