HB 1180

Department of Legislative Services

Maryland General Assembly
2007 Session

FISCAL AND POLICY NOTE
Revised

House Bill 1180 (Delegate Harrison, *et al.*)
Economic Matters Finance

Unemployment Insurance - Schedule of Benefits

This bill alters the unemployment insurance schedule of benefits to increase the maximum allowed weekly benefit amount from $340 to $380.

The bill takes effect October 7, 2007 and applies to all claims establishing a new benefit year on or after that date.

Fiscal Summary

State Effect: Potential meaningful increase in unemployment insurance expenses.

Unemployment Insurance Trust Fund (UITF): Expenditures increase by $21.9 million in FY 2008, increasing annually as a result of increased weekly benefits paid. Revenues could increase by approximately $4.8 million in FY 2009; future revenues reflect annualization and increase as additional unemployment taxes are paid.

($ in millions)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
NonBud Rev.	$0	$4.8	$11.2	$17.7	$19.6
NonBud Exp.	21.9	29.5	29.9	30.4	30.8
Net Effect	($21.9)	($24.7)	($18.7)	($12.6)	($11.2)

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

Local Effect: Potential meaningful increase in unemployment insurance expenses.

Small Business Effect: Meaningful. Small businesses will be subject to increased unemployment taxes.

Analysis

Current Law: 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. Base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year. Weekly benefit amounts range from $25 to $340 per week, based on earnings in the base period. To claim the minimum weekly benefit of $25, a claimant must have earned at least $576 in the "high quarter" and at least $324 in the remaining quarters in that base period. To qualify for the maximum weekly benefit amount of $340, a claimant must have earned at least $8,136 in the "high quarter" of his or her base period and an additional amount of at least $4,104 in the remaining quarters in the base period. A claimant may earn $100 in a week and still receive his or her full benefit. Any amount earned in a week over $100 is deducted from the weekly benefit that the claimant would be eligible to receive.

Background: Unemployment insurance benefits are funded through Maryland employers' State unemployment insurance taxes. An employer's tax rate is based on the employer's unemployment history and the balance of funds in the UITF. The taxes are deposited in the UITF and can be used only to pay benefits to eligible unemployed individuals.

Under federal law, each state must maintain a UITF from which unemployment benefits are to be paid. A series of six tax rate tables determine the applicable tax rate. The table used for a particular year 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**. Employer contribution rates range from 0.3% to 13.5%, depending on the applicable tax table and the employer's unemployment history.

Exhibit 1

Table	Ratio of UITF to Total Taxable Wages	Minimum Rate	Maximum Rate
A	UITF exceeds 5%	0.3%	7.5%
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	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%

As of September 30, 2006, the balance of the UITF was $1.03 billion and had a taxable wage base of $19.04 billion. The ratio of UITF fund balance and the taxable wage base was 5.04%, resulting in tax table A being used to determine employers' tax rates in 2007. Should the balance of UITF decrease below 5% of the taxable wage base, a different tax table would be used and an increased tax rate would be paid by employers.

Under Chapter 169 of 2005, the maximum weekly benefit amount was increased from $310 to $340, which equaled 47% of the State average weekly wage in 2005; also the amount of wages that a claimant could earn in a week before unemployment insurance payments would be deducted was increased from $90 to $100. Prior to Chapter 169, which reflected the recommendations of the Unemployment Insurance Funding Task Force, the maximum benefit amount had not been increased since 2002.

State Effect: The State reimburses UITF for 100% of unemployment insurance benefits paid. Any increase in benefits paid would result in additional unemployment expenses paid by the State.

Unemployment Insurance Trust Fund:

Trust Fund Revenues

Trust fund revenues will increase by $4.8 million in 2009, $11.2 million in 2010, $17.7 million in 2011, and by $19.6 million in 2012 due to higher unemployment taxes paid by employers, based on the following assumptions:

- 65.4% of any increased benefits paid will be recovered from increased unemployment taxes on employers, which will be recovered over a period of three years; and
- the unemployment tax rate continues to utilize Table A, although any substantial increase in benefits paid may result in movement to a tax table with higher rates to employers and higher revenues to the UITF.

Trust Fund Expenditures

The maximum allowed weekly benefit allowance increases by $40 in October 2007, resulting in expected increased benefit payments of $21.9 million in fiscal 2008, $29.5 million in fiscal 2009, and $29.9 million in fiscal 2010. The following facts/assumptions were used in determining the increase in UITF expenditures:

- the total number of individuals receiving new benefits uses 2006 actual claim data as baseline. The number of claimants is expected to increase on average by 1.37% annually; and

- the average duration of benefits is 20 weeks. While the actual average duration for 2006 was 15.5 weeks, it is assumed that the benefit increase would result in a lengthier average duration.

Local Fiscal Effect: Local governments reimburse UITF for 100% of unemployment insurance benefits paid. Any increase in benefits paid would result in additional unemployment expenses paid by a local government.

Small Business Effect: The actual increase in unemployment insurance taxes would depend on the unemployment history of the actual employer. Any increase in benefits paid would result in an increase in an employer's unemployment insurance tax rate.

Additional Information

Prior Introductions: None.

Cross File: None.

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

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