Department of Legislative Services

Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE

Senate Bill 982 (Senator Astle)
Finance

Unemployment Insurance - Payment of Benefits - Total Benefit Amount

This bill establishes a new method to determine the total benefit amount payable to an individual eligible for unemployment insurance benefits. The bill allows for the lesser of either • 26 times the claimant's weekly benefit amount; or • 25% of the claimant's base period wages.

The bill takes effect January 1, 2009.

Fiscal Summary

State Effect: State expenditures to reimburse the Unemployment Insurance Trust Fund would decrease by $308,389 in FY 2009 and $694,190 in FY 2013.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	(308,400)	(635,300)	(654,300)	(674,000)	(694,200)
Net Effect	$308,400	$635,300	$654,300	$674,000	$694,200

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

Unemployment Insurance Trust Fund: UITF expenditures could decrease by $22.0 million in FY 2009, which reflects the January 1, 2009 effective date. UITF revenues would decrease by a lesser amount, approximately, $14.7 million in FY 2009. Out-year estimates reflect projected decreases in weekly benefit amounts, reduced charge backs and reimbursement, and annualization.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
NonBud Rev.	($14,713,400)	($30,309,700)	($31,219,000)	($32,155,500)	($33,120,200)
NonBud Exp.	(22,027,800)	(45,377,300)	(46,738,600)	(48,140,800)	(49,585,000)
Net Effect	$7,314,480	$15,067,600	$15,519,700	$15,985,200	$16,464,800

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

Local Effect: Local government costs to reimburse the trust fund could be reduced by approximately $396,500 in FY 2009 and $892,500 in FY 2013.

Small Business Effect: Meaningful as employer charge backs for small businesses with employees would decrease.

Analysis

Current Law: To eligible for unemployment insurance benefits, an individual who files a claim for benefits must be unemployed. Benefits are awarded based on wage requirements, and higher earning levels result in higher weekly benefit amounts. For unemployment insurance, weekly benefit amounts (WBA) range from $25 up to a maximum allowable of amount of $380. WBA are determined through a base period calculation, which is comprised of the first four of the last five totally completed calendar quarters of employment prior to the date a claim. Claimants must have earnings in at least two of the four quarters of the base period, and an individual's highest level of wages in a particular quarter of the base period determines the WBA. Additionally, total wages in the base period must be one-and-a-half times the amount of wages earned in high quarter. Eligible claimants who remain totally unemployed may receive 26 times the WBA; if partial benefits are claimed additional weeks are available to a claimant.

Background: Unemployment insurance provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for unemployment compensation. The Unemployment Insurance Program is administered pursuant to state law by state employees. Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

The administration of the unemployment insurance program is financed by the Federal Unemployment Insurance Administration through employer taxes. The federal tax is 6.2% of the first $7,000 in wages paid to each employee. Employers receive credit of up to 5.4% for the taxes they pay under state unemployment compensation laws. The net tax (0.8%) collected by the federal government is used to finance state and federal administrative costs. Funds are distributed to states based on each state's claim load. The Maryland program is administered by the Office of Unemployment Insurance and funds are deposited into the Maryland Unemployment Insurance Trust Fund.

With certain exceptions, all private business employers and nonprofit organizations employing one or more persons, at any time, are subject to the Maryland Unemployment Insurance Law. Each employer is assigned a particular tax rate based on its experience with unemployment, in relation to the experience of other employers, and the fund balance of the Maryland Unemployment Insurance Trust Fund from the preceding September. Taxable wages are defined as the first $8,500 earned by each employee (both full- and part-time employees) in a calendar year.

Chapter 169 of 2005 altered the UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in UITF (**Exhibit 1**). If the balance of UTIF exceeds 5.0% of total taxable wages in the State, as it did in 2006, the lowest tax rate would be imposed. The balance of the trust fund (as measured on September 30, 2007) is anticipated to be at a level that will allow employers to pay tax rates from the lowest tax rate table (Table A) in 2008. Table A provides a minimum tax rate of 0.3%, or $25.50 per employee; in 2005, employers paid from Table B where the lowest tax rate is 0.6%.

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, 2007, the balance of the UITF was $1.058 billion and had a taxable wage base of $19.02 billion. The ratio of UITF fund balance and the taxable wage base was 5.56%, resulting in tax table A being used to determine employers' tax rates in 2008. 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.

State Fiscal Effect: UI benefits are chargeable to the State at 1.4%. Thus, total State expenditures (general funds, special funds, and federal funds) could decrease by $308,389 in fiscal 2009 and $694,190 in fiscal 2013.

UITF: The Department of Labor, Licensing, and Regulation advises that UI expenditures could decrease by $22 million in fiscal 2009, given the reduced benefits and the bill's January 1 effective date. Revenues to the trust fund from lower employer charge backs and other reimbursement could also be reduced – but by a lesser amount – $14.7 million.

Local Fiscal Effect: UI benefits are chargeable to local governments at 1.8%. Thus, local jurisdictional expenditures could decrease by $396,500 in fiscal 2009 and $892,530 in fiscal 2013.

Small Business Effect: Employer charges for small businesses with employees would decrease.

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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