HB 740

Department of Legislative Services

Maryland General Assembly
2009 Session

FISCAL AND POLICY NOTE

House Bill 740 (Delegate Harrison, *et al.*)
Economic Matters Finance

Unemployment Insurance - Maximum Benefit - Increase

This bill alters the unemployment insurance schedule of benefits to increase the maximum allowed weekly benefit amount from $380 to $410 for claims establishing a new benefit year on or after October 4, 2009. For claims establishing a new benefit year on or after October 3, 2010, the maximum weekly benefit is then increased from $410 to $430.

The bill takes effect October 1, 2009.

Fiscal Summary

State Effect: State expenditures to reimburse the Unemployed Insurance Trust Fund (UITF) increase by $97,200 in FY 2010 and $403,900 in FY 2014.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	97,200	324,400	390,700	397,000	403,900
Net Effect	($97,200)	($324,400)	($390,700)	($397,000)	($403,900)

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

Unemployment Insurance Trust Fund: UITF expenditures increase by $14.9 million in FY 2010, increasing annually as a result of increased weekly benefits paid. Revenues increase by approximately $799,600 in FY 2010. Future revenues reflect private-sector employer charge backs; quarterly reimbursement by the State, local governments, and nonprofit entities; increases in weekly benefits; and annualization.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
UITF Rev.	$799,600	$5,518,800	$11,456,900	$17,350,200	$20,372,000
UITF Exp.	14,946,500	28,286,400	30,647,900	30,501,300	31,258,500
Net Effect	($14,146,900)	($22,767,600)	($19,191,000)	($13,151,100)	($10,886,500)

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

Local Effect: Local jurisdictional expenditures to reimburse the trust fund increase by $127,000 in FY 2010 and $528,200 in FY 2014.

Small Business Effect: Meaningful. Small businesses are subject to increased unemployment taxes and increased employer charge backs.

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. The 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 $380 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 $380, a claimant must have earned at least $9,096 in the "high quarter" of his or her base period. The maximum duration that weekly benefits may be paid is 26 weeks. Through federal tax revenues, a 20-week extension of benefits is currently in effect for eligible claimants who have exhausted their first 26 weeks of benefits.

Additionally, total wages in the base period must be 1.5 times the amount of wages earned in the high quarter. 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 (UI) 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 the unemployment insurance program. Funding for the program is provided by employers through unemployment insurance taxes paid to both the federal government for administrative and other expenses and to the states for deposit in the unemployment insurance trust funds. Using federal tax revenues, the 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 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 in the Department of Labor, Licensing, and Regulation (DLLR) and funds are deposited into the Maryland Unemployment Insurance Trust Fund.

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 UITF 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.

State and local governments and some nonprofit organizations reimburse UITF dollar for dollar in lieu of paying State and federal UI taxes. Nonprofits post a certain percentage of collateral specified in law when choosing the reimbursement option.

Under federal law, each state must maintain a trust fund 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 trust fund balance on September 30 as a percentage of total taxable wages for the four quarters proceeding 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
UITF Tax Rate Tables

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, 2008, the balance in UITF was $895.3 million, with a taxable wage base of $19.0 billion. The ratio of UITF fund balance and the taxable wage base was 4.72%, resulting in tax Table B being used to determine employers' tax rates in 2008. Should the balance of UITF decrease below 4.5% of the taxable wage base, a different tax table would be used and an increased tax rate would be paid by employers.

Under Chapter 298 of 2007, the maximum weekly benefit amount was increased from $340 to $380. 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 may 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 Expenditures: UI benefits are chargeable to the State and reimbursed on a quarterly basis. Approximately 1.3% of UI benefits are charged to the State. In fiscal 2010, payments for two quarters of the fiscal year are collected. Thus, total State expenditures (general funds, special funds, and federal funds) increase by $97,152 in fiscal 2010. In fiscal 2014, one quarter of fiscal 2013 and three quarters of fiscal 2014 are collected, thus expenditures increase by $403,900 in fiscal 2014.

Unemployment Insurance Trust Fund: The fiscal impact of increasing the maximum weekly UI benefit is dependent on a number of factors; the number of claimants eligible for the maximum allowed benefit and the number of weeks each recipient receives benefits are the major components of this estimate. As shown in **Exhibit 2**, new UI weekly benefits established represents the number of people who become unemployed, are eligible for benefits, and begin receiving benefits. As shown in the exhibit, the second and third quarters of 2008 saw a significant increase in new benefits when compared to prior periods. In the final quarter of 2008 the increase in new benefits established was even more dramatic – an increase of 61% when compared to the same period in the prior year. This trend continues throughout the first two months of 2009.

Exhibit 2
New Weekly UI Benefits Established

Calendar Year	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2004	37,131	22,516	24,270	25,287	109,204
2005	34,269	21,049	22,203	21,866	99,387
2006	29,934	20,043	22,947	22,991	95,915
2007	33,591	20,102	23,347	28,614	105,654
2008	36,097	26,820	30,558	46,066	139,541
% Difference 2007-2008	**7%**	**33%**	**31%**	**61%**	**32%**

Source: U.S. Bureau of Labor and Statistics

Trust Fund Expenditures

UITF expenditures increase by an estimated $14.9 million in fiscal 2010, reflecting the October 1 effective date of the bill. In fiscal 2011, UITF expenditures increase by $28.3 million due to the increase in UI benefits paid. The following facts and assumptions were used in determining the increase in UITF expenditures:

- the total number of individuals receiving new benefits uses 2008 actual claim data as baseline, and assumes that the number of weekly UI benefits established is 20% higher than the baseline in fiscal 2010 and 5% higher than the baseline in fiscal 2011. Fiscal 2012 is 2% higher than the baseline, with claim levels returning to the baseline in fiscal 2013;
- each benefit recipient receives on average 15.7 weeks of benefits. This estimate is used in each fiscal year. To the extent that this estimate varies, UITF expenditures increase by $2.0 million annually for each additional week of benefits paid;

- in fiscal 2010, 33% of all benefit recipients are eligible for an increase in weekly benefits, with 29% of claimants eligible for the increased maximum weekly benefit amount of $410;
- in fiscal 2011, 26% of all benefit recipients are eligible for the increased maximum weekly benefit amount of $430; and
- wages for eligible claimants increase by 1.5% annually, resulting in a minimal increase in the number of claimants eligible for the maximum allowed benefit. Otherwise, the ratio of claimants eligible for the maximum benefit remains the same.

Trust Fund Revenues

Of the amount paid on behalf of private employers in fiscal 2010, $8.6 million (or 64.1% of benefits paid) is charged back to one or more previous employers over a three-year period beginning the year following benefits payment. The $4.8 million that cannot be charged back to private-sector employers is, ultimately, recovered through premiums paid by all employers. Payments made for State, local government, and nonprofit employers are charged in the same year and reimbursement is made on a quarterly basis. In fiscal 2010, payments for two quarters are collected; annually thereafter payments for one quarter of the prior year and three quarters of the current year are collected. Thus, UITF revenues increase by $799,637 in fiscal 2010, $5.5 million in fiscal 2011, and increase to $20.4 million in fiscal 2014.

Local Fiscal Effect: UI benefits are chargeable to the local governments and reimbursed on a quarterly basis. Approximately 1.7% of UI benefits are charged to local governments. In the first year, payments for only two quarters are collected. Thus, local jurisdictional expenditures increase by $127,045 in fiscal 2009 and $528,177 in fiscal 2014.

Small Business Effect: Employer charge backs for small businesses increase beginning in fiscal 2010. In addition, unemployment insurance taxes may increase, depending on the unemployment history of the actual employer. Any increase in benefits paid results in an increase in an employer's unemployment insurance tax rate.

Additional Information

Prior Introductions: None.

Cross File: SB 576 (Senator Middleton, *et al.*) - Finance.

Information Source(s): Department of Legislative Services

Fiscal Note History: First Reader - March 9, 2009
ncs/rhh

Analysis by: Erik P. Timme

Direct Inquiries to:
(410) 946-5510
(301) 970-5510