

Department of Legislative Services
 Maryland General Assembly
 2009 Session

FISCAL AND POLICY NOTE

House Bill 242
 Economic Matters

(Delegate Harrison, *et al.*)

Finance

Unemployment Insurance Benefits - Determination Based on Severance or Dismissal Payments

This bill expands the severance and dismissal payments that are deductible from unemployment insurance benefits. The bill specifies that *all* severance and dismissal payments are deductible from unemployment insurance benefits, regardless of whether the unemployment is a result of job abolition.

The bill takes effect June 1, 2009, and applies to claims establishing a new benefit on or after June 7, 2009.

Fiscal Summary

State Effect: State expenditures to reimburse the trust fund may decrease by a minimal amount beginning in FY 2010 from potentially less unemployment insurance benefits paid to State employees who are terminated and receive severance payments. No effect on revenues.

Unemployment Insurance Trust Fund (UITF) Effect: UITF expenditures decrease by \$6.5 million in FY 2010 and decrease annually thereafter due to an anticipated reduction in the number of weeks certain claimants receive benefits. Revenues decrease beginning in FY 2011 primarily due to private-sector employer charge backs.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
UITF Rev.	\$0	(\$1,383,000)	(\$2,688,800)	(\$3,911,500)	(\$3,787,900)
UITF Exp.	(6,538,200)	(6,173,100)	(5,780,300)	(5,953,700)	(6,132,300)
Net Effect	(6,538,200)	(4,790,100)	(3,091,500)	(2,042,200)	(2,344,400)

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

Local Effect: Local government expenditures to reimburse the trust fund may decrease by a minimal amount beginning in FY 2010 from potentially less unemployment insurance benefits paid to local government employees who are terminated and receive severance payments. No effect on revenues.

Small Business Effect: Meaningful. Small businesses may be subject to decreased unemployment taxes.

Analysis

Current Law: If an individual's job has been abolished, any severance or dismissal payments received are not deductible from unemployment insurance benefits. If an individual's job *has not* been abolished, he or she cannot receive unemployment benefits until any severance or dismissal pay has been exhausted.

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 the unemployment insurance programs. 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 their unemployment insurance trust funds. Using federal tax revenues, 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.

Benefits paid from the unemployment trust fund are based on the amount of money that the employee earned during the base period (the first four of the last five completed calendar quarters prior to the date the employee filed a claim). The weekly benefit amount provided by the Maryland Unemployment Insurance Law ranges from \$25 to a maximum of \$380. The maximum duration that weekly benefits may be paid is 26 weeks. Through federal tax revenues, a 20-week extension of unemployment insurance benefits is currently in effect for eligible claimants.

State Expenditures: Unemployment insurance benefits paid to State government employees who are terminated through no fault of their own are chargeable to the State and reimbursed by the State on a quarterly basis to UITF. The number of State employees that may be terminated and receive severance payments cannot be reasonably ascertained at this time, but the bill is not expected to have a significant impact on any single unit of State government.

Unemployment Insurance Trust Fund:

Trust Fund Expenditures

Making all severance payments deductible from benefits received decreases unemployment insurance benefit payments by \$6.5 million in fiscal 2010, \$6.2 million in fiscal 2011, and \$5.8 million in fiscal 2012. The following information and assumptions were used in determining the decrease in UITF expenditures:

- the total number of individuals receiving new benefits utilizes fiscal 2008 claim data as a baseline and assumes an increase in new claims in both fiscal 2009 and 2010 with a return to the base level thereafter;
- the average severance/dismissal pay equates to four weeks of wages;
- the receipt of severance pay delays the start of unemployment insurance benefits;
- a reduction in the total benefits paid is only realized for individuals who do not receive the maximum allowed weeks of unemployment insurance benefits;
- 38% of all individuals receiving unemployment insurance benefits exhaust benefits; and
- the average weekly benefit amount increases 3% each year.

Trust Fund Revenues

Trust fund revenues decrease by \$1.4 million in fiscal 2011, \$2.7 million in fiscal 2012, and \$3.9 million in fiscal 2013 due to the corresponding decreases in private-sector employer charge backs, which are recovered over a three-year period. Any potential impact associated with State and local government employees abolition is assumed to be minimal and has not been accounted for in the estimate.

Local Fiscal Effect: Unemployment insurance benefits paid to local government employees who are terminated through no fault of their own are chargeable to local governments and reimbursed by the local governments on a quarterly basis to UITF. Local governments that terminate employees due to job positions being abolished and offer severance pay may see a reduction in expenses to reimburse the UITF, as severance payments reduce the total amount of unemployment benefits paid. The extent to which employees may be laid off from local governments and receive severance pay cannot be reasonably ascertained at this time.

Small Business Effect: Private-sector charge backs may decrease beginning fiscal 2011. In addition, depending on the employment history of the actual employer, unemployment

insurance taxes may decrease. Any decrease in total benefits paid decreases an employer's unemployment insurance tax rate.

Additional Information

Prior Introductions: None.

Cross File: SB 123 (Senator Kelley) - Finance.

Information Source(s): Department of Legislative Services

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

Analysis by: Erik P. Timme

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