HB 1633

Department of Legislative Services
2016 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 1633 (Delegate Glenn)
Rules and Executive Nominations

Unemployment Insurance - Maximum Benefit - Increase

This bill alters the unemployment insurance (UI) schedule of benefits to increase the maximum weekly benefit amount from $430 to $470 for claims establishing a new benefit year on or after January 2, 2017. If rate table A or B is in effect for 2018, the maximum weekly benefit for claims establishing a new benefit year on or after January 1, 2018, is increased from $470 to $480 and remains at that amount absent a legislative change. If a different rate table is in effect for 2018, then the maximum weekly benefit remains $470.

The bill generally takes effect January 1, 2017; specified provisions relating to the second benefit increase take effect January 1, 2018.

Fiscal Summary

State Effect: State expenditures to reimburse the Unemployment Insurance Trust Fund (UITF) increase by $73,300 in FY 2017, escalating to $631,300 in FY 2021, to reimburse the fund for benefits paid, as discussed below. Revenues are not affected.

(in dollars)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Revenues	$0	$0	$0	$0	$0
GF/SF/FF Exp.	73,300	411,600	577,900	628,500	631,300
Net Effect	($73,300)	($411,600)	($577,900)	($628,500)	($631,300)

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

UITF Effect: UITF expenditures increase by $11.3 million in FY 2017, escalating to $48.6 million in FY 2020 and annually thereafter, due to increased weekly benefits paid. UITF revenues increase by $0.2 million in FY 2017, escalating to $27.0 million by FY 2021, due to employer charge backs and reimbursements by State/local governments.

($ in millions)	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
UITF Rev.	$0.2	$3.1	$10.3	$19.7	$27.0
UITF Exp.	11.3	34.7	47.7	48.6	48.6
Net Effect	($11.1)	($31.6)	($37.4)	($28.8)	($21.6)

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

Local Effect: Local government expenditures to reimburse UITF increase by $95,900 in FY 2017, escalating to $825,600 by FY 2021, as discussed below. Revenues are not affected.

Small Business Effect: Potential meaningful.

Analysis

Current Law: Generally, 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, or if the individual does not qualify under that definition, the four most recently completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from $50 to $430 per week, based on earnings in the base period. The history of maximum weekly benefit amounts is shown in **Exhibit 1**. Benefit amounts have been increased over time through legislation to keep a fairly steady wage replacement rate of between 42% and 46%.

Exhibit 1
Increases to Maximum Weekly Benefit Amount and Wage Replacement Rates

Year of Increase	Maximum Weekly Benefit Amount	Average Weekly Wage of Prior Year*	Wage Replacement Rate
2000	$280	$628	44.6%
2002	310	681	45.6%
2005	340	788	43.2%
2007	380	856	44.4%
2009	410	969	42.4%
2010	430	982	43.8%

*Excludes governmental employment.

Source: Department of Labor, Licensing, and Regulation

Background: UI provides temporary, partial wage replacement benefits to individuals 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 UI programs. Funding for the program is provided by employers through UI taxes paid to both the federal government for administrative and other expenses and to the states for deposit in their UI trust funds. Using federal tax revenues, the UI 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.

A Maryland employer's State tax rate is based on the employer's unemployment history and ranges within a certain percentage of the total taxable wages of the employer's employees. The taxes are deposited in UITF and can be used only to pay benefits to eligible unemployed individuals. A Maryland employer is assigned one of three different types of tax rate: the new account rate; the standard rate; or the experience (earned) rate. After an employer has paid wages to employees in two rating years prior to the computation date, the business is entitled to be assigned a tax rate reflecting the amount of UI benefits claimed by former employees.

An employer's earned rate (benefit ratio) is determined by finding the ratio between the benefits charged to the employer's account and the taxable wages reported in the three fiscal years prior to the computation date. The benefit ratio is then applied to the tax rate table in effect for the year. The table in use for a particular calendar year is determined by measuring the adequacy (on September 30 of the immediately preceding year) of UITF to pay benefits in the future. There are six tables, ranging from the lowest (Table A) to the highest (Table F).

If the balance of UITF exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest rate table (Table A) is used to calculate employer rates for the following calendar year. When UITF is depleted to the point the balance is less than 3.0% of the taxable wages, the highest rate table (Table F) is used to determine employer rates. State and local governments and some nonprofit organizations reimburse UITF, dollar for dollar, in lieu of paying State and federal UI taxes. **Exhibit 2** shows the six rate tables that determine the amount charged to each employer. Taxable wages are defined as the first $8,500 earned by each covered employee in a calendar year.

As of September 30, 2015, the balance in UITF was approximately $983.7 million, with a taxable wage base of $18.9 billion. The ratio of UITF fund balance to the taxable wage base was 5.19%, resulting in Table A being used to determine employers' tax rates in 2016. Should the balance of UITF decrease to 5.0% or less of the taxable wage base, a different rate table would be used and an increased tax rate would be paid by employers.

Exhibit 2
Unemployment Insurance Tax Rates

Table	Ratio of UITF to Taxable Wages	Minimum Rate	Maximum Rate	Taxes Per Employee Minimum	Taxes Per Employee Maximum
A	UITF exceeds 5%	0.3%	7.5%	$25.50	$637.50
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	9.0%	51.00	765.00
C	UITF exceeds 4%, but not in excess of 4.5%	1.0%	10.5%	85.00	892.50
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%	119.00	1,003.00
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%	153.00	1,096.50
F	UITF is 3% or less	2.2%	13.5%	187.00	1,147.50

Source: Department of Legislative Services

State Expenditures: UI benefits are chargeable to State government. The benefits are charged for State, local government, and some nonprofit employers at the end of each quarter, but are actually paid within the following month. Approximately 1.3% of UI benefits paid are charged to State government.

Therefore, in fiscal 2017, one payment (billed at the end of March) that reflects the first benefit increase is paid by the State. Annually thereafter, payments for the final quarter of the preceding fiscal year and the first three quarters of the current fiscal year are made. Thus, State expenditures (all funds) increase by $73,300 in fiscal 2017, escalating to $631,300 by fiscal 2021.

UITF Effect: The fiscal impact of increasing the maximum weekly UI benefit is dependent on a number of factors, such as the number of claimants eligible for the maximum allowed benefit and the number of weeks each recipient receives benefits. Based on recent data, approximately 37% of claimants receive the maximum $430 benefit amount. Currently, the volume and average duration of UI claims is relatively stable, reflecting the broader trend of slow but steady economic growth in the last few years. Therefore, the estimates below assume that the future volume and duration of UI claims remains steady at current levels. Based on recent data, approximately 39% of the claimants receive benefits for 26 weeks; the average duration is 16.5 weeks. An increase in UI claims (for example, during a recession) magnifies the effects of the bill.

Trust Fund Expenditures

UITF expenditures increase by an estimated $11.3 million in fiscal 2017, reflecting the January 2, 2017 effective date of the first benefit increase. UITF expenditures increase by $34.7 million in fiscal 2018, reflecting the January 1, 2018 effective date of the second benefit increase. UITF expenditures increase by $47.7 million in fiscal 2019 and by $48.6 million annually thereafter as the full costs of the benefit increases are experienced beginning in fiscal 2020. The following facts and assumptions were used in determining the increase in UITF expenditures:

- 52,536 claimants are currently eligible for $430;
- 7,014 claimants currently eligible for $430 are eligible for $431 to $469;
- 44,923 claimants currently eligible for $430 are eligible for $470;
- 1,600 claimants currently eligible for $430 are eligible for $471 to $479;
- 43,323 claimants currently eligible for $430 are eligible for $480;
- 77% of individuals eligible for $430 received at least one week of benefits;
- 39% of claimants who exhausted all benefits were eligible for $430;
- 12,914 claimants eligible for $430 exhausted all benefits;
- in the first year of a benefit increase, costs only increase 50%, as only *new* claimants are eligible;
- claims volume, the duration of claims, employer charge back timing and amounts, and employer reimbursement trends remain constant at 2015 levels; and
- the maximum weekly benefit for new claimants is increased to $480 beginning in 2018.

Trust Fund Revenues

In fiscal 2015, 65% of UI benefits that had been previously paid on behalf of *private-sector employers* were successfully charged back. The remaining 35% that could not be charged back to private-sector employers is, ultimately, recovered through premiums paid by all employers. One-third of the recoverable benefits in a fiscal year are collected in each of the following three fiscal years. For example, fiscal 2017 recoverable benefits are collected in fiscal 2018, 2019, and 2020.

UI benefits are chargeable to the State, local governments, and some nonprofit employers and reimbursed on a *quarterly* basis in the same manner as discussed above. In fiscal 2017, UITF receives one payment for benefit increases that year (billed at the end of March and paid the following month). Annually thereafter, UITF receives payments for the final quarter of the preceding fiscal year and the first three quarters of the current fiscal year.

Therefore, UITF revenues increase by at least $169,200 in fiscal 2017, $3.1 million in fiscal 2018, $10.3 million in fiscal 2019, $19.7 million in fiscal 2020, and $27.0 million in fiscal 2021, which reflects successful employer charge backs beginning in fiscal 2018 and employer reimbursements beginning in fiscal 2017. These amounts do not reflect any reimbursements that may be received from nonprofits.

Local Fiscal Effect: UI benefits are chargeable to local governments and reimbursed on a quarterly basis in the same manner as discussed above for State government. Approximately 1.7% of UI benefits are charged to local governments. Therefore, local government expenditures increase by $95,900 in fiscal 2017, $538,300 in fiscal 2018, $755,700 in fiscal 2019, $821,900 in fiscal 2020, and $825,600 in fiscal 2021.

Small Business Effect: The benefit ratios (which determine UI tax rates) for some employers (including small businesses) increase under the bill beginning in 2017. The magnitude of the effect on any particular employer depends on the extent to which UI claimants are eligible for higher weekly benefits and whether the benefit ratio increase leads to a higher UI tax rate (an employer could already be paying the maximum rate).

Additional Information

Prior Introductions: None.

Cross File: SB 1145 (Senator Middleton) - Finance.

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

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