Department of Legislative Services
Maryland General Assembly
2016 Session

FISCAL AND POLICY NOTE
Third Reader

Senate Bill 84 (Chair, Finance Committee)(By Request - Departmental - Labor, Licensing and Regulation)

Finance Economic Matters

Unemployment Insurance - Calculation and Application of Table of Rates - Revision

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This departmental bill requires specified federal funding requirements to be met for the Unemployment Insurance Trust Fund (UITF) in order for a lower unemployment insurance (UI) tax rate table to apply in a following calendar year.

The bill takes effect July 1, 2016.

Fiscal Summary

State Effect: The Department of Labor, Licensing, and Regulation (DLLR) can implement the bill with existing resources. The bill helps ensure conformity with recent federal funding requirements for interest-free unemployment trust fund loans. If UITF does not meet these federal funding requirements and were to need a loan from the federal government, general funds would be necessary to pay interest charges. The bill does not otherwise affect State finances or operations.

UITF Effect: No direct effect on UITF revenues or expenditures. The bill adds another requirement in the determination of which UI tax rate table applies in a given year.

Local Effect: None. Local governments do not pay UI taxes; instead, they reimburse UITF for any UI benefit payments for which they are responsible.

Small Business Effect: DLLR has determined that this bill has minimal or no impact on small business (attached). The Department of Legislative Services concurs with this assessment.

Analysis

Bill Summary: For any calendar year beginning on or after January 1, 2017, the tax rate table in effect for the immediately preceding calendar year must continue to apply if:

- the UITF balance on September 30 of the immediately preceding calendar year was at a level that would result in a tax rate table that had lower rates applied under current law; and
- specified federal funding requirements were not met as of December 31 of the second immediately preceding calendar year.

Current Law/Background: Unemployment insurance 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. If the employer's former employees receive benefits that result in benefit charges, the employer will have a higher tax rate.

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 1** 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.

Exhibit 1
Unemployment Insurance Tax Rates

		Minimum	Maximum	Taxes Per Employee	
Table	**Ratio of UITF to Taxable Wages**	**Rate**	**Rate**	**Minimum**	**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

New Federal Solvency Requirements

In 2014, the U.S. Department of Labor implemented regulations that altered the eligibility requirements for a state seeking a cash-flow (interest-free) loan to pay UI benefits. Previously, any state that borrowed from the U.S. Treasury and agreed to repay within a specified period of time was eligible to obtain an interest-free loan to pay benefits. For example, Maryland's UITF received an interest-free loan in February 2010 for $133.9 million and repaid the loan in December 2010. However, the new funding goal requires a state to have a sufficient trust fund balance based on the state's historical highest payout period. Failure to meet the new funding goal will result in an interest-bearing loan. Payment of the interest due on such a loan must come from state general funds – not UI taxes. The requirement is phased in from 2014 (which started at 50% of the full funding goal) through 2018, increasing by 10% each year. DLLR advises that the approximate UITF balance necessary to meet the full requirement in 2019 is anticipated to be approximately $1.5 billion.

Exhibit 2 shows for each year since 2006 the balance of UITF on September 30 and the tax tables in effect during the calendar year.

Exhibit 2
UI Trust Fund Balance and Tax Rate Table
Calendar 2006-2016

Calendar Year	Tax Rate Table in Effect	UI Trust Fund Balance* ($ in Millions)
2006	B	$1,032.5
2007	A	1057.8
2008	A	895.4
2009	B	301.7
2010	F	273.4
2011	F	460.2
2012	F	794.5
2013	C	954.7
2014	A	910.7
2015	B	983.7
2016	A	N/A

*Balance as of September 30, which determines the rate table for the following year.

Source: Department of Labor, Licensing, and Regulation; Department of Legislative Services

UITF Effect: There is no direct effect on UITF revenues or expenditures. The bill adds another requirement in the determination of which UI tax rate table applies in a given year. The bill never requires moving from a lower tax rate table to a higher tax rate table. For example, the bill does *not* require moving from Table A (the current table) to Table B to meet the federal funding requirement for interest-free loan eligibility. Rather, if the funding requirement is not met, the bill requires staying at the current tax rate table (for example, staying in Table B, rather than moving to Table A). Whether or not the bill's provisions will apply in a given year depends on the UITF balance – which is largely a function of the business cycle.

Additional Information

Prior Introductions: None.

Cross File: None.

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

Fiscal Note History: First Reader - January 15, 2016
min/ljm

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ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

TITLE OF BILL: Unemployment Insurance – Table of Rates – Calculation and Application

BILL NUMBER: SB 84

PREPARED BY: Susan Bass, Chief of Policy and Planning, Division of Unemployment Insurance, DLLR

PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

_x_ WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND SMALL BUSINESS

OR

__ WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND SMALL BUSINESSES

PART B. ECONOMIC IMPACT ANALYSIS

This bill will have an insignificant impact on Maryland small business. If a business is covered under the Maryland Unemployment Insurance Law, any increases or decreases in the unemployment insurance table of rates, affect small employers in the same manner as large employers. Under this bill, it is assumed that the UI Table of Rates will be stable over the next 5 years. Any changes in individual tax rates would be based on an individual employer's experience rating based on the employer's unemployment insurance benefit charges.