

Department of Legislative Services
Maryland General Assembly
2026 Session

FISCAL AND POLICY NOTE
First Reader

Senate Bill 3
Finance

(Senator Kramer)

Unemployment Insurance Modernization Act of 2026

This bill generally expands the State's unemployment insurance (UI) program by increasing both employee benefits and employer UI taxes and indexing certain major components to wages. **The bill takes effect July 1, 2026.**

Fiscal Summary

State Effect: Special fund revenues increase significantly beginning in FY 2027 due to the taxable wage base increasing. Any increase in special fund expenditures to implement the bill can be absorbed within existing resources. State expenditures to reimburse the Unemployment Insurance Trust Fund (UITF) increase significantly beginning in FY 2027. State finances are also affected beginning in FY 2027 due to the tax treatment of UI benefits and employer UI taxes. Nonbudgeted UITF revenues and expenditures increase significantly beginning in FY 2027, concurrent with changes to employer UI taxes and UI benefits. Assumptions used and context for these effects are discussed below.

Local Effect: Meaningful. Local governments are affected in much the same way as the State government, as employers and recipients of tax revenues, as discussed below.

Small Business Effect: Meaningful.

Analysis

Bill Summary/Current Law: Changes to employee benefits and taxable wages are shown in **Exhibit 1**. Estimated dollar amounts are shown in **Exhibit 2**. Actual amounts depend on wage growth and the percentages the Secretary of Labor chooses to use to phase in the maximum weekly benefit amount (WBA) and the taxable wage base.

Exhibit 1
Changes to Employee Benefits and Employer Taxable Wages under the Bill

<u>Current Law</u>	<u>The Bill</u>
Minimum WBA is \$50 per week.	Minimum WBA is 15% of State AWW.
Maximum WBA is \$430 per week.	Maximum WBA must increase (annually as an increasing percentage) to reach 40% of AWW beginning in calendar 2027.
There are no annual updates.	Amounts are updated July 1 each year.
WBA approximates one twenty-fourth of high-quarter wages in base period.	WBA is one twenty-fourth of high quarter wages in base period.
Dependent allowance is \$8, limit of five. Cannot increase maximum WBA.	Allowance is unchanged; bill reflects technical modification to conform to other statutory changes.
The first \$50 in weekly wages is disregarded for determining WBA.	Disregard amount is unchanged; bill reflects technical modification to conform to other statutory changes.
Taxable wage base is \$8,500.	Taxable wage base must increase annually in 2027 and 2028 to reach 16% of AAW beginning in calendar 2029.

AAW: average annual wage (in the State)

AWW: average weekly wage (in covered employment)

WBA: weekly benefit amount

Source: Department of Legislative Services

Exhibit 2
Illustrative Dollar Amounts for Weekly Benefits and Employer Taxable Base¹
Under the Bill, by Calendar Year

	<u>2026</u>	<u>2027</u>	<u>2028</u>	<u>2029</u>	<u>2030</u>	<u>2031</u>
Applicable AWW	\$1,550	\$1,595	\$1,645	\$1,690	\$1,745	\$1,785
Minimum WBA	\$230	\$240	\$245	\$255	\$260	\$265
Maximum WBA ²	\$465	\$640	\$655	\$675	\$695	\$715
Employer Taxable Wage Base ²	\$8,500	\$10,500	\$12,615	\$14,850	\$15,295	\$15,755

AAW: average annual wage (in the State)

AWW: average weekly wage (in covered employment)

WBA: weekly benefit amount

TWB: taxable wage base

¹ All dollar amounts shown are rounded to the nearest \$5 and are for illustrative purposes only. AWW is based on the 2024 AWW of \$1,459.50 with an assumed annual growth rate of 3%. Under the bill, WBAs are effective July 1 of the listed calendar year; all WBAs shown assume an initial change from current law coincident with the bill's July 1, 2026 effective date. Employer TWBs are effective in each full calendar year.

² The Secretary of Labor must increase the maximum WBA and the employer TWB, as specified, before ongoing percentages apply beginning in 2027 and 2029, respectively. For the maximum WBA, this example assumes 30% wage replacement beginning 7/1/2026 and 40% beginning 7/1/2027. For employer TWBs, this example reflects no change in 2026 and assumes annual growth of 3% for the AAW, phase in of 12% of AAW in 2027 and 14% of AAW in 2028, and the required 16% of AAW applied beginning in 2029.

Source: Department of Legislative Services

Unemployment Insurance Program – Generally

For a general overview of the State UI program, see the **Appendix – Unemployment Insurance**.

Administrative Fee

Chapter 604 of 2025 (the Budget Reconciliation and Financing Act of 2025) established a new administrative fee of 0.15% on the taxable wage base of all taxable employers beginning January 1, 2026. Revenues from this fee are deposited into the Special Administrative Expense Fund (SAEF) in the Maryland Department of Labor (MD Labor) and can only be used for specified administrative expenses of the department's Division of Unemployment Insurance, including those to collect and administer the fee. Thus,

beginning in fiscal 2026, special fund revenues for MD Labor (specifically, SAEF) increased by approximately \$33.0 million annually.

State Fiscal Effect: The bill significantly increases employee benefits and employer taxes/reimbursements under the State UI program. Taxable wages increase beginning January 1, 2027. Consistent with the effective date of the bill, and the requirement that the Secretary of Labor determine the minimum and maximum WBAs on July 1 each year, employee benefits are assumed to begin increasing July 1, 2026. The bill's changes affect MD Labor as the program administrator, the State as an employer, income tax revenues, and UITF revenues and expenditures, as discussed below.

Special Fund Revenues

The bill increases the taxable wage base and indexes it to AAW each year beginning in calendar 2027. Under current law, the taxable wage base is held constant at \$8,500 each year, so the 0.15% administrative fee is projected to generate roughly the same amount of revenue each year. However, as the taxable wage base is increased and indexed to AAW under the bill, the amount of revenue generated by the administrative fee increases annually in proportion to the growth in the taxable wage base. As early growth in the taxable wage base is based, in part, on decisions at the discretion of the Secretary of Labor, a reliable estimate of any such increase in special fund revenues is not feasible, but is likely significant. *For illustrative purposes only*, based on the assumptions used for this analysis, the taxable wage base is projected to increase by 23.5% in calendar 2027. Therefore, special fund revenues for SAEF would be projected to correspondingly increase by \$7.8 million for that period (23.5% of \$33 million).

Maryland Department of Labor

MD Labor advises that special fund expenditures increase annually by approximately \$700,000 beginning in fiscal 2027 for system and programming modifications, as well as salaries and benefits for nine new positions necessary to support ongoing operations. However, the Department of Legislative Services (DLS) disagrees that MD Labor requires additional staff. Any additional expenditures for programming in fiscal 2027 and 2028 can be absorbed within existing resources, as discussed below.

As noted above, the administrative fee enacted in fiscal 2026 generates significant additional revenue to cover administrative costs for the Division of Unemployment Insurance. Moreover, the bill is expected to increase those revenues significantly, as described above. Finally, the fiscal 2026 budget as enacted added 125 new positions to the Division of Unemployment Insurance, funded in large part by the increased revenue from the administrative fee. Based on the additional revenues and positions it has already received, and the additional revenues that will be generated by the bill, DLS

concludes that MD Labor can use the additional positions and existing revenue to administer the bill's provisions, including any related programming costs.

State as an Employer

The State, as an employer, reimburses UITF dollar-for-dollar for UI benefits paid to former employees on a quarterly basis and has historically reimbursed approximately 1.3% of State UI benefits paid. This estimate assumes that UI benefits increase beginning July 1, 2026; accordingly, State expenditures for reimbursements increase significantly beginning in fiscal 2027. Amounts could exceed \$1.0 million annually.

Income Tax Revenues

UI benefits are taxable income, although not all Maryland UI benefits paid show up on Maryland tax returns, for a variety of reasons. The bill significantly increases UI benefits, which increases State (and local) government revenues from income taxes on those benefits. However, increased employer UI tax payments also decrease employer federal income taxes (as a deductible expense), which reduces State and local income tax revenues. The net effect on State (and local) government finances from increasing both UI benefits and employer UI taxes is unknown at this time; however, given the magnitude of the changes, it could be significant beginning in fiscal 2027. The effect on local highway user revenues (LHURs) depends on the extent of corporate income tax revenue changes.

UITF Effect: Broadly, nonbudgeted UITF revenues and expenditures increase beginning in fiscal 2027, concurrent with changes to employer UI taxes and UI benefits. DLS cannot reliably estimate the effects at this time, although amounts are likely several hundred million dollars annually once *fully* phased in (fiscal 2028 and 2030, respectively). Generally, the bill appears to roughly double employer UI taxes and UI benefits. For additional context:

- In 2024, UITF revenues were approximately \$425 million (under Table A), and UITF expenditures were approximately \$415 million.
- Based on its own wage growth and unemployment assumptions, MD Labor estimates UITF revenues of approximately \$806 million (and another \$43 million in SAEF revenues) and UITF expenditures of approximately \$868 million in calendar 2030 under the bill.

Under current law, due to diminishing UITF fund balance as benefit payments exceed revenues, MD Labor anticipates needing to switch to Table B in calendar 2031, Table D in calendar 2032, and Table E for multiple years beginning in calendar 2033. Under the bill, MD Labor projects that the deterioration in the UITF fund balance accelerates, resulting in

a switch to Table C in calendar 2030 and then fluctuating among Tables B, C, and E thereafter.

Local Fiscal Effect: Local government reimbursements to UITF for UI benefits paid to former employees increase significantly beginning in fiscal 2027. The amount is unknown at this time but should approximate the overall UI benefit increases for them under the bill.

Local government revenues are affected, potentially significantly, from changes associated with enhanced UI benefits and employer UI taxes beginning in fiscal 2027. The effect on LHURs depends on the extent of corporate income tax revenue changes. The amount is unknown at this time.

Small Business Effect: Small businesses pay significantly higher State UI taxes due to the increased taxable wage base beginning in the second half of fiscal 2027. They are also affected by the likely acceleration to a tax table with a higher rate.

While not considered small businesses for purposes of fiscal and policy notes, small nonprofit employers must reimburse UITF for the cost of increased employee UI benefit payments under the bill, which are assumed to begin in fiscal 2027.

Additional Information

Recent Prior Introductions: Similar legislation has been introduced within the last three years. See SB 752 and HB 554 of 2025, SB 104 and HB 205 of 2024, and SB 670 and HB 724 of 2023.

Designated Cross File: HB 188 (Delegate Charkoudian) - Economic Matters.

Information Source(s): Maryland Association of Counties; Maryland Department of Labor; U.S. Department of Labor; Department of Legislative Services

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Appendix – Unemployment Insurance

Program Overview

Unemployment Insurance (UI) provides temporary, partial wage replacement benefits of up to \$430 per week 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. Generally, 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. The Maryland Department of Labor’s (MD Labor) Division of Unemployment Insurance administers the State’s UI program.

Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

Employer Contributions

Most Maryland employers pay State UI taxes, although State and local governments and some nonprofit organizations reimburse the Unemployment Insurance Trust Fund (UITF) for claims paid in lieu of paying taxes. Therefore, for most Maryland employers, the State UI tax rate is a function of:

- the employer’s specific unemployment claims history; and
- the applicable tax table, which is based on the State’s UITF balance and applies to most taxable employers.

Exhibit 1 shows the range of State UI taxes a typical employer owes based on the tax table in effect; there are other rates for new employers and in other limited circumstances. State UI taxes and reimbursements are typically due quarterly. As UI taxes are applied to the *first* \$8,500 earned by each employee, each calendar year, the first two quarterly tax payments are typically the largest.

Exhibit 1

Tax Tables and Applicable Employer Tax Rates

Tax Table	As of Sept. 30, if the Trust Fund Balance, As a Percentage of Taxable Wages		Trust Fund Balance (\$ in Millions)		Then Next Year's Tax Rates Range from		Annual Tax Per Employee (Rate x \$8,500)			
	Exceeds	Up to	Exceeds	Up to	No Claims	Single Claim	Up to	No Claims	Single Claim	Up to
A	5.00%	n/a	\$1,043.8	n/a	0.30%	0.60%	7.50%	\$25.50	\$51.00	\$637.50
B	4.50%	5.00%	939.4	\$1,043.8	0.60%	0.90%	9.00%	51.00	76.50	765.00
C	4.00%	4.50%	835.0	939.4	1.00%	1.50%	10.50%	85.00	127.50	892.50
D	3.50%	4.00%	730.6	835.0	1.40%	2.10%	11.80%	119.00	178.50	1,003.00
E	3.00%	3.50%	626.3	730.6	1.80%	2.60%	12.90%	153.00	221.00	1,096.50
F	0.00%	3.00%	0.0	626.3	2.20%	3.10%	13.50%	187.00	263.50	1,147.50

n/a: not applicable

Notes: Fund balance threshold dollar amounts are based on the 2024 taxable wage base and are subject to modest changes each year. State law also generally requires a federal solvency goal to be met prior to moving to a tax table with lower rates (*i.e.*, from Table F to Table A). The federal solvency goal, which is designed to ensure the State's ability to pay claims during periods of high unemployment, is approximately \$1.7 billion and varies with the total wages paid in the State and benefits paid during recent recessions.

A "single claim" represents the tax rate applicable to the lowest possible rate associated with nonzero (.0001 to .0027) benefit ratios. Taxes are applied to the first \$8,500 earned by each employee, each year; compensation less than that amount reduces taxes owed accordingly.

Table F was in effect in 2021 due to the COVID-19 pandemic; prior to that, Table A had been in effect since 2016. Table C was in effect in 2022 and 2023 pursuant to Chapter 73 of 2021, which also resulted in an \$830 million infusion of federal funds into the trust fund in 2021. Table A went into effect starting in 2024 and will remain in effect through 2026.

As of January 1, 2026, the trust fund balance was \$1.9 billion.

Source: Department of Legislative Services

Benefit Payments

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. There is also a dependent allowance of \$8 per dependent, for up to five dependents, although the allowance cannot raise the weekly benefit amount above \$430. The first \$50 of any wages earned by an individual receiving UI benefits in a given week is disregarded for purposes of calculating the weekly benefit amount, after which the benefit payment is reduced dollar for dollar. These amounts do not adjust for inflation. Generally, during a benefit year, a claimant is entitled to 26 times the claimant's weekly benefit amount. During periods of high unemployment, extended benefits may also be available.

2021 Legislation Enhanced and Required Evaluation of the State Unemployment Insurance System

The unprecedented volume of claims and benefit payments due to COVID-19 strained the State UI system to its limit, which raised numerous concerns about the system's ability to effectively meet the needs of claimants and employers. Consequently, during the 2021 legislative session, the General Assembly required several system reforms, including an [MD Labor-led study](#) regarding various longer-term reforms.

2025 Legislation Established Administrative Fee, Reducing Future Trust Fund Revenues

Chapter 604 of 2025 (the Budget Reconciliation and Financing Act) established, beginning January 1, 2026, an administrative fee of 0.15% on each taxable employer, while generally reducing the UI tax rate assigned to each taxable employer by the same amount. The administrative fee accrues to a special fund and is to be used by MD Labor for specified administrative expenses. While there is generally no effect on the total amount each taxable employer pays to MD Labor each year, the reallocation was estimated to reduce UITF revenues by approximately \$33.0 million annually.