



THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

HB 724- UNEMPLOYMENT MODERNIZATION ACT OF 2023

TESTIMONY OF DELEGATE LORIG CHARKOUDIAN

FEBRUARY 21, 2023

Chair Wilson, Vice Chair Crosby, and Members of the Economic Matters Committee,

Unemployment Insurance (UI) is crucial for the health of the economy, businesses, and communities. On an individual level, sufficient unemployment insurance can put food on the table, pay the rent, and keep a family from falling into poverty. On the level of the broader economy, UI serves as a countercyclical injection of funds to stave off recessions during economic downturns.¹ At a community level, it keeps small businesses open and can support local economies by ensuring community members have enough money to circulate in the economy. Sufficient UI benefits also support the functioning of the labor market and improve job matching efficiency.²

Legislation in the 2021 Session required the Maryland Department of Labor to study several features of the state's UI system. MDL contracted with the Upjohn Institute, who provided a comprehensive report. This legislation implements many based on the analysis from those reports.

The intent of this legislation is to establish sufficient benefits to allow for economic security during the work search period and balance incentives for work search to ensure job matching is ideal for employers and employees.

This bill implements the following changes:

1) Maximum & Minimum Weekly Benefit

This legislation will set the maximum weekly benefit to 2/3 times the average weekly wage and the minimum weekly benefit to 15% of the average weekly wage. The maximum benefit is phased in between now and 2027, when it reaches 2/3. Twenty-six other states index their maximum to the average weekly wage. Maryland last updated the maximum and minimum benefits in 2010, but did not index them to inflation.

2) Income Disregard

This legislation sets the income disregard to 50% of individual's entitled weekly benefit amount. The

¹ Marco Di Maggio and Amir Kermani, "The Importance of Unemployment Insurance as an Automatic Stabilizer", *National Bureau of Economic Research*. (2016). <https://www.nber.org/papers/w22625>

² Ammar Farooq, Adriana D. Kugler, and Umberto Muratori, "Do Unemployment Insurance Benefits Improve Match and Employer Quality? Evidence from Recent U.S. Recessions". *National Bureau of Economic Research*. (2020). <https://www.nber.org/papers/w27574>

income disregard was changed in 2010 to go from \$100 to \$50. The income disregard is the amount of income from another job that is considered when determining the weekly benefit amount. Maryland's currently low income disregard means that someone who depends on two jobs and loses one, will be left with almost no wage replacement for the lost job. This change will reduce the current economic disincentive for part-time work.

3) **Dependent allowance**

This legislation sets the dependent allowance at 1/4 of minimum weekly benefit amount (WBA) for up to 4 dependents.

4) **Taxable Wage Base**

This legislation indexes the taxable wage base to 25% of the average annual wage. This taxable wage base is phased in between now and 2027. Maryland's taxable wage base was set at \$8500 in 1992 and has not been updated since. This is crucial to support the trust fund to maintain an AHCM above 1.0. The Maryland AHCM has been below 1.0 since 2010 when the federal government established an AHCM of 1.0 as the requirement to borrow federal funds with zero interest.

5) **Tax Structure**

This legislation changes the number of years in the benefit ratio for employer experience rating from 3 to 5. By extending the number of years for a business to pay the benefits charges, there is less of an impact in the years immediately following an economic downturn, as the costs are spread over a longer period.

6) **Cushioning Recessionary Increases**

To cushion the blow of a recession, this legislation prohibits moving more than two tables "down" in any one year. (That is, if the tables would have jumped from A to D in one year, instead they go from A to C in the first year and then down to D in the next year.)

7) **Requiring a Bond for Private Equity Firms with High Debt Ratio**

Another key feature of this legislation is the requirement for private equity firms with portfolio companies with high amounts of debt to post a bond with the state so their contribution to the trust fund will be paid even if the portfolio company shuts down.

All Maryland employers pay a tax to sustain the unemployment trust fund which provides benefits to Marylanders who are laid off from their jobs. Each employer's tax rate is partially determined by their past track record of keeping jobs or laying people off. Currently, an employer with a great track record that is purchased by a private equity firm will still pay a lower tax rate. However, it has been proven that buyouts by private equity firms can increase the likelihood of layoffs³ and bankruptcies.⁴ When companies go bankrupt, they stop paying taxes into the unemployment insurance fund altogether so that other employers must pay the costs of replenishing the fund.

This legislation establishes financing for the UI trust fund that is sufficient to maintain an average high-cost multiple (AHCM) of at least 1.0. The AHCM is a commonly used actuarial measure of the Unemployment Trust Fund adequacy. A 1.0 AHCM means that the trust fund should be able to pay a year of recession level benefits using the money already in the fund without any other funding sources. Thus,

³Davis, J. S. et al. (2021) "The (Heterogenous) Economic Effects of Private Equity Buyouts". Becker Friedman Institute, University of Chicago [Working Paper]. https://bfi.uchicago.edu/wp-content/uploads/BFI_WP_2019122.pdf

⁴ Ayash, B. and Rastad, M. (2019) "Leveraged Buyouts and Financial Distress". https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3423290

the AHCM is a test of the health of the trust fund. However, it is also important because the federal government has required states to maintain a 1.0 AHCM in order to borrow from the federal government at zero interest. The combination of the changes proposed in this legislation has been modeled by the Upjohn Institute and determined to meet the goals of maintaining the AHCM above 1.0.

To reiterate, some portions of Maryland's UI statute have not been updated since 1988. This legislation modernizes the UI system to make sure the payments are sufficient for our current economic landscape. It updates the system to maintain an AHCM of 1.0. And, it ensures that private equity companies are paying their fair share into the system.

Therefore, I respectfully request a favorable report on HB 724.