



FEBRUARY 21, 2023

# Unemployment Benefit Clawbacks Should Be Subject to Reasonable Limits

## Position Statement in Support of House Bill 140

*Given before the House Economic Matters Committee*

Unemployment insurance is an essential lifeline to ensure that workers who lose their job through no fault of their own can keep up with basic expenses like food and rent. Unemployment insurance is also among the fastest, most effective tools to support the economy in a downturn. However, the COVID-19 pandemic has exposed deep cracks in Maryland's unemployment insurance system. **The Maryland Center on Economic Policy supports House Bill 140** because it would ensure basic due process protections for unemployed workers suspected of receiving overpayments.

Maryland's current unemployment insurance system is failing out-of-work Marylanders in multiple ways, as detailed in a 2021 report by the Maryland Center on Economic Policy:<sup>i</sup>

- Unemployment benefits for Maryland workers averaged \$357 per week in 2019, equivalent to \$18,553 per year. This is far below the amount needed to maintain a basic living standard anywhere in Maryland.
- Even during the temporary benefit expansion under federal pandemic relief legislation, Marylanders who use unemployment benefits to make ends meet still faced considerable hardship. Nearly half reported having difficulty paying for usual household expenses; one in five said they didn't always get enough to eat; one in nine were behind on their most recent mortgage or rent payment; and one-third weren't sure they can make their next housing payment.
- Maryland has repeatedly been among the worst-performing states on first payment timeliness since the onset of the pandemic, meaning that workers who were eligible to receive benefits often waited months to see a single cent come in. Workers' bills and daily expenses could not be delayed in similar manner.

Given the deeply inadequate benefit levels available in our current unemployment system, withholding an unlimited amount of benefits to claw back previous overpayments puts further pressure on already-struggling unemployed workers. House Bill 140 would limit withholding in the case of non-fraudulent overpayments to 50% of weekly benefits, or 25% if the weekly benefit is less than \$100. This serves the state's interest in recovering payments made in error without imposing harsh measures on workers who received inaccurate payments through no fault of their own.

An effective unemployment insurance system benefits all workers, the businesses where they spend their money, and the communities they live in. It is especially important for workers who face structural barriers built through centuries of racist policy choices.<sup>ii</sup>

- Between 2015 and 2020, Black workers in Maryland were on average slightly more than twice as likely as white workers to be unemployed – meaning they were actively looking for a job but unable to find one – at any given time. This means that downturns such as the one caused by the COVID-19 pandemic hit Black workers especially hard.
- While higher levels of education do improve a person’s prospects in the labor market, even highly educated workers of color often face barriers. For example, between 2015 and 2019 in Maryland, the average unemployment rate among Latinx women with a four-year degree was 4.3%, compared to 2.3% among white women with a four-year degree.
- These are not isolated cases. During the same period, Black and multiracial men with a four-year degree, as well as essentially all women of color with a four-year degree, faced higher unemployment rates than white men with the same level of education.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Economic Matters Committee make a favorable report on House Bill 140.**

### **Equity Impact Analysis: House Bill 140**

#### *Bill summary*

House Bill 140 limits the unemployment benefits that can be withheld to recover previous, non-fraudulent overpayments to 50% of the weekly benefit, or 25% if the weekly benefit is less than \$100.

#### *Background*

Maryland’s unemployment rate increased sharply at the onset of the COVID-19 pandemic, increasing from an average of 3.5% during 2019 to a high of 9.0% in spring 2020.<sup>iii</sup> Unemployment has since fallen gradually, reaching 4.0% in December 2022.

In 2019, unemployment benefits in Maryland averaged \$357 per week, equivalent to \$18,553 per year.<sup>iv</sup> Even during the temporary benefit expansion under federal pandemic relief legislation, Marylanders who use unemployment benefits to make ends meet still faced considerable hardship. Nearly half reported having difficulty paying for usual household expenses; one in five said they didn’t always get enough to eat; one in nine were behind on their most recent mortgage or rent payment; and one-third weren’t sure they can make their next housing payment.

Before the coronavirus pandemic, only 23.5% of unemployed workers in Maryland received unemployment benefits, a smaller share than in 28 other states.

The state’s Division of Unemployment Insurance entered the COVID-19 pandemic with 480 full-time equivalent staff (internal and contractual positions), down from a high of 702 in FY 2013. Between FY 2003 and FY 2015, the division never had less than 590 full-time equivalent staff. As unemployment surged during the pandemic, the division struggled to keep up with applications, leading to exceptionally long wait times.

## *Equity Implications*

Structural barriers in our labor market, which were built through centuries of racist policy choices, put Black workers and other workers of color at greater risk of being unemployed – actively seeking a job but unable to find one. For this reason, ineffective or overly restrictive unemployment insurance policies disproportionately harm workers of color.

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- While higher levels of education do improve a person’s prospects in the labor market, even highly educated workers of color often face barriers. For example, between 2015 and 2019 in Maryland, the average unemployment rate among Latinx women with a four-year degree was 4.3%, compared to 2.3% among white women with a four-year degree.
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## *Impact*

House Bill 140 would likely **improve racial and economic equity** in Maryland.

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<sup>i</sup> See discussion in Christopher Meyer, “Budgeting for Opportunity: Maryland’s Workforce Development Policy Can Be a Tool to Remove Barriers and Expand Opportunity,” Maryland Center on Economic Policy, 2021, <http://www.mdeconomy.org/budgeting-for-opportunity-workforce>

<sup>ii</sup> Meyer, 2021.

<sup>iii</sup> BLS Local Area Unemployment Statistics.

<sup>iv</sup> See Meyer, 2021.