SB670 Support.pdf

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Written Testimony of

Rico Albacarys, Assistant Business Agent, IBEW LOCAL 24

Before the Senate Finance Committee On

SB 670 Unemployment Insurance Modernization Act of 2023

Support

February 20, 2023

Madame Chair Griffith and Committee Members,

I am writing to express my strong **support** for **SB 670**. When workers who were gainfully employed lose their job through no fault of their own, it can have a devastating effect on them and their families. The current unemployment payments are equal to less than the Maryland State minimum wage, and these payments are not enough for recently unemployed workers to meet their basic needs.

An increase in unemployment payments would help families meet these needs, pay bills, and put food on the table. Additionally, studies have shown that providing sufficient financial resources to individuals in need can help them find new employment and boost the overall economy.

Therefore, I urge you to vote **favorably** on **SB 670**.

Sincerely,

Rico Albacarys

Assistant Business Agent IBEW Local 24

Private Equity, Bankruptcies, and Layoffs (2-9-202

Uploaded by: Chris Noble

Position: FAV

PRIVATE EQUITY
STAKEHOLDER
PROJECT
PEstakeholder.org

February 9, 2023

Private Equity, Bankruptcy, and Layoffs

1. Introduction

Historical data showing employee layoffs at private equity owned portfolio companies suggests that there is likely a close nexus between (1) highly leveraged portfolio companies, (2) the private equity business model that relies on such leverage, (3) bankruptcies at private equity-owned companies, and (4) job layoffs.

This brief seeks to demonstrate that private equity investments increase the likelihood of bankruptcy and job layoffs.

Private equity firms tend to use high leverage when acquiring companies. During times of economic stress such as the 2008 financial crisis or the initial Covid-19 economic shock or in sectors experiencing distress, such companies are more likely to default on debt, go bankrupt, and lay off employees than similarly situated companies that are not similarly leveraged.

This brief will use three studies and one article to explain the phenomena of the corporate debt-layoff nexus, and why such debt strategies must be addressed and/or accounted for to curb current, anticipated, and unexpected unemployment levels.

2. Studies

a. California State Polytechnic University

A 2019 study by Profs. Brian Ayash and Mahdi Rastad highlights the connection between leveraged buyouts and higher incidents of bankruptcies at the acquired companies.[1] From a private equity perspective, this is important because acquiring companies through leveraged buyouts is a tried-and-true private equity investment strategy.[2]

Tracking a sample of 484 public to private leveraged buyouts for 10 years after going private, the authors found a bankruptcy rate of approximately 20%, which was greater than the 2% bankruptcy rate for the control sample (i.e. non-leveraged buyout firms).[3]

The authors went to conclude that, **"[g]iven the large number of recent high profile private equity backed LBO bankruptcies, it is difficult for policy makers to ignore the impact of these controversial transactions on their constituents and society as a whole. Moreover, given the economic significance of the typical LBO target firm, its bankruptcy not only affects the welfare of its shareholders and lenders, but it also directly impacts the lives of tens of thousands of employees. Finally, while suppliers, customers, local economies, pension funds, state and federal government tax revenues all feel the burden when an LBO company goes under, the partners at the private equity funds do not share the burden."**[4]

b. National Bureau of Economic Research (NBER)

A 2019 NBER study argues that **"[a]n employee's annual earnings fall by 10% the year her firm files for bankruptcy and fall by a cumulative present value of 67% over seven years. This effect is more pronounced in thin labor markets and among small firms that are ultimately liquidated."**[5]

This study is unique because it directly addresses the impact of bankruptcy at highly leveraged companies on their employees rather than just job loss. This includes employees that remain with the company but that also experience a decrease in wages as a result of the bankruptcy.[6]

Interestingly, in a later analysis of the paper that same year, an NBER article calls for increasing wages for employees at highly leveraged companies as a means to account for the bankruptcy/wage decrease risk. Although not exactly on point for our purposes, one could argue that requiring highly leveraged firms to pay more into unemployment insurance addresses the same issue.

c. Center for Economic Studies (CES)

A 2017 CES study by Profs. Xavier Giroud (MIT) and Holger M. Mueller (NYU) found that, **"when faced with a drop in consumer demand, more highly levered firms are less apt (or able) to raise additional short- and long-term debt during the Great Recession. As a consequence, they experience more layoffs, are more likely to close down establishments, and cut back more on investment. Altogether, our results suggest that firms with higher leverage not only appear to be**

more financially constrained, but they also act like financially constrained firms in the Great Recession.”[7]
Focusing on the Great Recession, the authors argue that firms’ balance sheets were instrumental in propagating consumer demand shocks, meaning that companies owned by highly leveraged firms were more likely to lay off employees in response to drops in consumer demand. Other factors like declines in productivity, overextension prior to the Great Recession, or generally more sensitive to fluctuations in either aggregate employment or house prices did not drive this phenomenon, according to the authors.[8]

At the county level, they found that “**counties with more highly levered firms experience significantly larger job losses in response to county-wide consumer demand shocks.”** Thus, they conclude that firms’ balance sheets also matter for aggregate employment.[9]

d. Do Buyouts (Still) Create Value? **(2011)**

The authors, Shourun Guo, Edith Hotchkiss, and Weihong Song examined how leveraged buyouts from the 1990-2006 wave of public to private transactions created value.

Of the LBOs reviewed in the study, 20% subsequently resulted in bankruptcy.[10]

e. The evolution of capital structure and operating performance after leveraged buyouts: Evidence from U.S. corporate tax returns **(2014)**

The authors, Jonathan B. Cohn, Lillian Mills and Erin M. Towery used corporate tax return data to examine the evolution of firms' financial structure and performance after leveraged buyouts (LBOs) for a comprehensive sample of 317 LBOs taking place between 1995 and 2007.

The study found that firms do not reduce leverage after LBOs, even if they generate excess cash flow.

The study documented that of the 353 LBOs studied only 224 had exited private equity control, and of these 49 firms (22%) had bankruptcy exits.[11]

f. The new demography of private equity **(2008)**

The author, Per Strömberg, found that highly leveraged private equity-owned firms experienced higher bankruptcy rates than comparable publicly-traded firms. **Strömberg found that for the LBOs that occurred between 1970 and 2002, the rate of bankruptcy or reorganization was twice as high as it was for publicly-traded companies.**

For LBOs completed by 2002, a total of 7 percent of the deals ended in bankruptcy or reorganization while the acquired company was in PE hands. Assuming that firms are held on average for 6 years, Strömberg calculates that this works out to an annual default rate of 1.2 percent a year. He notes as a comparison that the annual default rate for publicly-traded companies over this period was 0.6 percent.[12]

3. "Private Equity-Owned Companies Fuel Surge in Defaults," Institutional Investor, Jul 17, 2020.

"*More than half of companies that defaulted in the second quarter* [of 2020] *are owned by private equity firms, Moody's said in a report . . .*"

4. "Private Equity Has a Retail Problem," American Bankruptcy Institute Journal, January 2018.

"*The authors queried The Deal Pipeline and identified 481 large chapter 11 filings (liabilities in excess of $100 million at filing) from mid-2011 through mid-2017. Here are the findings:*

• Approximately 25 percent of these 481 filings over this six-year period were PE-owned companies, but that percentage moved appreciably higher in 2016 and 2017 (as shown in the exhibit), with 40 percent of chapter 11 filers in 2017 (through September) being PE-owned companies (26 of 65).

• Overall, 55 percent (24 of 44) of chapter 11 filings by retailers since 2011 occurred in 2016 or 2017, but for PE-owned retailers, 80 percent (16 of 20) of such filings occurred in 2016 or 2017.

• Two-thirds (16 of 24) of chapter 11 filings by retailers in 2016 and 2017 were sponsor-owned/controlled companies. Six of these 16 PE-owned retail filings in 2016-17 were buyouts done in 2005-08, two were done in 2010, and eight were done in 2012-15. On average, these chapter 11 filings occurred 6.3 years after a buyout was consummated, with a median time of 5.5 years.

• The retail sector accounted for a disproportionate share of LBO busts. LBOs of retailers accounted for 9 percent of all large LBO transactions (>$50 million) completed in the last decade, yet accounted for 17 percent of chapter 11 filings by PE-owned companies in the most recent six-year period. In short, private equity appears to have a retail problem."

5. Forbes Article

A 2019 Forbes article examined the relationship between private equity firms and job loss. With respect to the debt-layoff nexus, the author warns that **"[t]he companies to look at for potential future layoffs are those private-equity backed companies, which have recently defaulted on their debt payments, and those with distressed credit ratings. [In 2019] 14 private equity backed rated companies defaulted. The highest number are in the retail sector."**[13]

Explaining the how the nexus operates, she goes on to state:

"[Private equity] backed distressed rating companies, those that are rated B- or worse and which also have a negative outlook, have risen by almost 30% since last year. Consumer products and industrials are the majority of [private equity] backed companies that have distressed credit ratings. These distressed rating companies are the ones to watch for potential cost cutting to service the debt, that is, people are at risk of losing their jobs. To avoid defaulting, these distressed rated private-equity backed companies are likely to be pressured to lay off employees in order to service their debt.[14]

6. Counterarguments

a. Do private equity owners increase risk of financial distress and bankruptcy? **(2011)**

> "*Our paper suggests that private equity investors select companies which are less financially distressed than comparable companies and that the distress risk increases after the buyout. Despite this increase, private equity-backed companies do not suffer from higher bankruptcy rates than non-buyout companies. In fact, when companies are backed by experienced private equity funds, their bankruptcy rates are even lower.*"

b. Private Equity and the Resolution of Financial Distress **(2020)**

> "*When firms do default, PE-backed firms restructure more often out of court, restructure faster, and are more likely to remain an independent going*

> *concern following the restructuring. PE owners are also more likely to retain control of the firm following the restructuring. The propensity for PE owners to infuse capital as firms approach distress is positively related to measures of the success of the restructuring. Overall, our results show that PE sponsors resolve distress in portfolio firms relatively efficiently*."

7. Conclusion

The private equity business model relies on high leverage to acquire companies and extract revenue from them. This business model is risky from a labor-employment standpoint because studies show that there is likely a nexus between highly leveraged companies, bankruptcies, and layoffs. As national and state economies continue to recover from the economic shocks of the COVID-19 pandemic, policymakers should take steps to protect the job security of their constituents by preempting the proliferation of the debt-layoff nexus in their jurisdictions and ensure that private equity firms and private equity owned companies are appropriately paying into unemployment insurance funds relative to the risk they create. This could look like requiring highly leveraged private equity-owned companies to pay more in unemployment insurance based on credit risk, thereby increasing the safety net for at risk employees.

[1] *Leveraged Buyouts and Financial Distress,* Brian Ayash and Mahdi Rastad, July 19, 2019.

[2] https://online.hbs.edu/blog/post/types-of-private-equity

[3] *Leveraged Buyouts and Financial Distress,* Brian Ayash and Mahdi Rastad, July 19, 2019, pg. 1.

[4] *Leveraged Buyouts and Financial Distress,* Brian Ayash and Mahdi Rastad, July 19, 2019, pg. 14.

[5] https://www.nber.org/system/files/working_papers/w25922/w25922.pdf, pg. ii.

[6] https://www.nber.org/system/files/working_papers/w25922/w25922.pdf, pg. 3.

[7] https://www2.census.gov/ces/wp/2017/CES-WP-17-01.pdf, pg. 4.

[8] https://www2.census.gov/ces/wp/2017/CES-WP-17-01.pdf, pg. ii.

[9] https://www2.census.gov/ces/wp/2017/CES-WP-17-01.pdf, pg. ii.

[10] *Guo, S., E. S. Hotchkiss, and W. Song (2011). Do Buyouts (Still) Create Value? The Journal of Finance 66 (2), 479–517.*

[11] *Cohn, J. B., L. F. Mills, and E. M. Towery (2014). The evolution of capital structure and operating performance after leveraged buyouts: Evidence from U.S. corporate tax returns. Journal of Financial Economics 111 (2), 469–494.*

[12] Strömberg, P. 2008. "The New Demography of Private, Equity." The Globalization of Alternative Investments Working Papers Volume 1: The Global Economic Impact of Private Equity Report 2008, World Economic Forum, January: 3-26.

[13] https://www.forbes.com/sites/mayrarodriguezvalladares/2019/10/30/private-equity-firms-have-caused-painful-job-losses-and-more-are-coming/?sh=5c93e4727bff

[14] https://www.forbes.com/sites/mayrarodriguezvalladares/2019/10/30/private-equity-firms-have-caused-painful-job-losses-and-more-are-coming/?sh=5c93e4727bff

SB670_Maryland Center on Economic Policy_FAV.pdf

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Position: FAV

MDCEP
MARYLAND CENTER
ON ECONOMIC POLICY

FEBRUARY 21, 2023

Improving Maryland’s Unemployment Insurance System Will Strengthen our Economy

Position Statement in Support of Senate Bill 670

Given before the Senate Finance 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, our current unemployment insurance system does too little to support unemployed workers and has no mechanism to keep up with changing economic realities. **The Maryland Center on Economic Policy supports Senate Bill 670** because it would better enable unemployed workers to afford necessities, put the Unemployment Insurance Trust Fund on a stronger footing, and ensure that Marylanders do not foot the bill when private equity companies initiate mass layoffs.

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:[i]

- 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; 1 in 5 said they didn’t always get enough to eat; 1 in 9 were behind on their most recent mortgage or rent payment; and one-third weren’t sure they can make their next housing payment.

Senate Bill 670 would make several improvements to Maryland’s unemployment insurance system:

- Increases the deeply inadequate minimum and maximum benefit and sets them to keep up with future wage growth rather than falling further behind each year.
- Increases dependent benefits to ensure unemployed workers can afford to feed and house their families.
- Increases the amount workers are allowed to earn before losing benefits, ensuring that our unemployment system supports workers who lose a significant portion of their work income.
- Updates the rules governing unemployment payroll contributions to put the trust fund on a strong footing to pay benefits, including collateral requirements for private equity funds.

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:[ii]

- 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 Finance Committee make a favorable report on Senate Bill 670.

Equity Impact Analysis: Senate Bill 670

Bill summary

Senate Bill 670 updates several components of Maryland's unemployment insurance system:

- Increases the minimum weekly benefit from a flat $50 to 15% of the state average weekly wage.
- Increases the maximum weekly benefit from a flat $430 to two-thirds of the state average weekly wage.
- Increases the dependent benefit and earnings disregard used in calculating benefit amounts.
- Increases the wage base subject to payroll contributions to support the Unemployment Insurance Trust Fund and modifies the rules governing contribution rates.
- Requires private equity funds to deposit collateral with the state to support benefit payments in the event of mass layoffs.

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.[iii] 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.[iv] 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; 1 in 5 said they didn't always get enough to eat; 1 in 9 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.

- 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.

Impact

Senate Bill 670 would likely **improve racial and economic equity** in Maryland.

[i] 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-workforc

[ii] Meyer, 2021.

[iii] BLS Local Area Unemployment Statistics.

[iv] See Meyer, 2021.

SB670 - PJC - fav.pdf

Uploaded by: David Rodwin

Position: FAV

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SB 670: Unemployment Insurance Modernization Act of 2023

Hearing of the Senate Finance Committee, February 21, 2023

Position: Favorable

The Public Justice Center (PJC) is a not-for-profit civil rights and anti-poverty legal services organization which seeks to advance social justice, economic and racial equity, and fundamental human rights in Maryland. Our Workplace Justice Project works to expand and enforce the right of low-wage workers to receive an honest day's pay for an honest day's work. The PJC **supports SB 670**, which would modernize and strengthen Maryland's unemployment insurance (UI) system by updating benefit amounts and shoring up the system's finances.

Maryland's wage replacement rate – the percentage of average wages that UI benefits replace – is too low to meet unemployed Marylanders' basic needs.

- The wage replacement rate shows how much of workers' average weekly wages are replaced with UI benefits. Experts recommend a replacement rate of at least 50%.[1]
- Maryland's average weekly wage is $946 while the average weekly UI benefit is just $351, making Maryland's replacement rate just 37%.
- This very low rate places Maryland in the same category as Arkansas (34%) and South Carolina (36%) and far below Pennsylvania, where the average weekly benefit amount is $438 and the replacement rate is 46%, and New Jersey, where the average weekly benefit amount is $505 and the replacement rate is 45%.
- Maryland's low weekly benefit amount and low replacement rate make it nearly impossible for unemployed Marylanders to cover rent, food, and other essentials for themselves and their families while they look for a new job.
- SB 670 will have the effect of increasing Maryland's replacement rate by increasing the maximum and minimum benefit amounts.

[1] Data in this written testimony comes from The Century Foundation's Unemployment Insurance Dashboard, available at https://tcf.org/content/data/unemployment-insurance-data-dashboard/.

The Public Justice Center is a 501(c)(3) charitable organization and as such does not endorse or oppose any political party or candidate for elected office.

SB 670 will bring Maryland's UI system up to date, allowing unemployed Marylanders to afford the basics until they find a new job.

- SB 670 will set the maximum weekly benefit to 2⁄3 (66.6%) of the average weekly wage and the minimum weekly benefit to 15% of the average weekly wage. It would phase in this change between now and 2027.
- Although 26 other states (including Pennsylvania and New Jersey) index their maximum weekly benefit to inflation, Maryland does not – and our state has not updated the maximum benefit since 2010.
- Especially now, during a period of above-average inflation, it is more important than ever to update and index the maximum weekly benefit amount.

Maryland's UI trust fund lacks enough money to pay even a year of recession-level benefits – SB 670 would fix that.

- Maryland has enough funds in its UI trust fund to pay only about 10 months of recession-level benefits, putting our system in danger if a recession strikes. States from Delaware to Oregon are able to pay more than a year of recession-level benefits.
- SB 670 would address this serious danger by shoring up the strength of our UI trust fund.

For the foregoing reasons, the PJC **SUPPORTS SB 670** and urges a **FAVORABLE** report. Should you have any questions, please call David Rodwin at 410-625-9409 ext. 249.

The Public Justice Center is a 501(c)(3) charitable organization and as such does not endorse or oppose any political party or candidate for elected office.

SB 670 - Unemployment Insurance Modernization Act

Uploaded by: Donna Edwards

Position: FAV

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President	*Secretary-Treasurer*
Donna S. Edwards	Gerald W. Jackson

SB 670 - Unemployment Insurance Modernization Act of 2023
Senate Finance Committee
February 21, 2023

SUPPORT

Donna S. Edwards
President
Maryland State and DC AFL-CIO

Madame Chair and members of the Committee, thank you for the opportunity to submit testimony in support of SB 670. My name is Donna S. Edwards, and I am the President of the Maryland State and District of Columbia AFL-CIO. On behalf of Maryland's 300,000 union members, I offer the following comments.

Unemployment insurance provides a safety net for workers to prevent them from total financial ruin if they lose their job. During the height of the pandemic Maryland's unemployment system was put to the test and underlying issues were exposed. Legislation was passed in 2021 requiring Maryland's Department of Labor to explore potential improvements and updates. MDOL partnered with the Upjohn Institute which published its recommendations in April 2022. This is Maryland's opportunity to modernize its system to adopt best practices and recommendations of the study.

SB 670 expands maximum and minimum weekly benefit amounts to indexes that will change with economic conditions over time. This removes the need for the General Assembly to modify benefit amounts directly, which last occurred in 2010. This approach is shared by 26 other states.

The bill creates an income disregard, ending unemployment insurance rules that penalized workers with two jobs. Under the current system, if you lose one of your jobs and you file for unemployment insurance on that position, the income from your second or third job decreases your weekly benefit amounts. Additionally SB 670 creates a dependent allowance that is tied to the weekly benefit amount, updating the amount for the first time in 35 years.

The stability of our unemployment insurance program depends on having enough revenue to fund and sustain benefits during economic downturns. Maryland's unemployment insurance system is currently funded only on worker and employer contributions on the first $8500 of annual income. This amount has been fixed since 1992. The bill expands and indexes this to 25% of the average annual wage in Maryland. This change brings in enough new revenue to maintain an "average high cost multiple" (AHCM) of 1.0, which was the stated goal of the Upjohn report. This AHCM ratio allows the state to borrow interest free from the federal government.

SB 670 strengthens the unemployment system for employers by changing the number of years used for calculating employer experience ratings to five years. This prevents temporary economic downturns from penalizing employers with worse ratings by spreading it out over 5 years instead of 3 and caps the number of tables that an employer can change from to 2. This helps insulate employers from challenging business years with high turnover or layoffs.

One of the strongest improvements to Maryland’s unemployment system comes from the requirements for highly indebted companies, like private equity firms purchasing retail establishments, to post bonds for their unemployment obligations even if they shut down. This fixes loopholes in the current unemployment system where private equity firms that take on large employers with the full intent of laying off hundreds or thousands of workers pay the same unemployment insurance contribution rates that honest employers pay. This forces the rest of Maryland’s businesses to take on the burden of replenishing the fund.

We urge the committee to issue a favorable report to SB 670 as written.

UI Fact Sheet.pdf

Uploaded by: Jim Rosapepe

Position: FAV

Maryland UI Modernization Act of 2023 (SB 670)

Unemployment Insurance is crucial for individuals experiencing unemployment and for the health of the economy and businesses. 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, this keeps small businesses open and supports the local economy through a challenging period, because community members have money to circulate in the economy. Sufficient UI benefits also support the functioning of the labor market and improve job matching efficiency.[2]

Goal of this legislation: 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. Establish financing sufficient to maintain an average high-cost multiple (AHCM) of at least 1.0. The AHCM is the measure of the ability of the trust fund to pay a year of recession level benefits, a test of the health of the trust fund that also impacts the state's ability to borrow from the federal government at zero interest.

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 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. It was last updated in 1988.

[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 Quality? Evidence From Recent U.S. Recessions," National Bureau of Economic Research, July 2020,

https://www.nber.org/system/files/working_papers/w27574/revisions/w27574.rev0.pdf.

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.)

Note: Legislation in the 2021 Session required the Maryland Department of Labor to study several features of Maryland's UI system. MDL contracted with the Upjohn Institute, who provided a comprehensive report. Changes 1-6 above, proposed in this legislation are from those analyses and reports. The combination of the changes outlined above have been modeled by the Upjohn Institute and determined to meet the goals of maintaining the AHCM above 1.0.

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

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. But an employer with a great track record that is purchased by a private equity firm is paying a lower tax rate, even though the private equity firm is more likely to lay people off. And 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.

To protect Maryland businesses and make sure the costs of likely layoffs from private equity are considered, this bill will require private equity firms with high amounts of debt to post a bond with the state so their taxes will be paid even if they shut down some of the companies they own.

(2.20) SB 670 -Unemployment Insurance Modernizatio

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Position: FAV

CASH CAMPAIGN OF MARYLAND

SB 670 - Unemployment Insurance Modernization Act of 2023
Senate Finance Committee
February 21st, 2023
SUPPORT

Chairwoman Griffith, Vice-Chair and members of the committee, thank you for the opportunity to submit testimony in support of Senate Bill 670. This bill will ensure that Maryland's Unemployment Insurance System (UI) will be adequate to support unemployed Marylanders until they are reconnected to the workforce.

The CASH Campaign of Maryland promotes economic advancement for low-to-moderate income individuals and families in Baltimore and across Maryland. CASH accomplishes its mission through operating a portfolio of direct service programs, building organizational and field capacity, and leading policy and advocacy initiatives to strengthen family economic stability. CASH and its partners across the state achieve this by providing free tax preparation services through the IRS program 'VITA', offering free financial education and coaching, and engaging in policy research and advocacy. **Almost 4,000 of CASH's tax preparation clients earn less than $10,000 annually. More than half earn less than $20,000.**

UI is a basic and essential safety net for workers who are temporarily unemployed through no fault of their own. It can be difficult for people to reconnect to the workforce once disconnected. UI is a critical safety net for unemployed people because it helps to combat some of the barriers to finding employment. These barriers include affording food, housing, and transportation. Having a robust safety net protects workers from excessive debt or falling behind in paying their debts. This ensures that once they find employment, they will not be as financially strained.

SB 670 will strengthen Maryland's UI system by increasing the Weekly Benefit Amount (WBA). Maryland's Average Weekly Wage (AWW) in 2021 was $1,338. Currently, the WBA in Maryland ranges from a minimum of $50 to a maximum of $430. If a claimant is making the AWW then they would be receiving only 1/3 (33%) of their previous income. This is not sufficient to supplement a claimant's income until they can find work. SB 679 will set the maximum weekly benefit to 2/3 (66%) of the AWW and the minimum weekly benefit to 15% of the AWW. This means that UI will consistently provide adequate benefits even as the AWW changes in the future.

The bill also accounts for the increased cost of the program by adjusting the tax structure and increasing the taxable wage base. These changes ensure that the cost of the program is spread fairly between employers and employees and it ensures that the program will be able to fund the increase of WBA.

Thus, we encourage you to return a favorable report for SB 670.

SB 670_MDCC_UI Modernization Act of 2023_UNFAV (1)

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Position: UNF

MARYLAND
Chamber of Commerce

LEGISLATIVE POSITION:
Unfavorable
Senate Bill 670
Unemployment Insurance Modernization Act of 2023
Senate Finance Committee
Tuesday, February 21, 2023

Dear Chairwoman Griffith and Members of the Committee:

Founded in 1968, the Maryland Chamber of Commerce is the leading voice for business in Maryland. We are a statewide coalition of more than 6,400 members and federated partners working to develop and promote strong public policy that ensures sustained economic health and growth for Maryland businesses, employees, and families.

As introduced, SB 670 makes four primary changes to Maryland's unemployment insurance program:

1. Changing the taxable wage base used to determine employment contributions into the Unemployment Insurance Trust Fund and setting new protocols for determining the maximum and minimum weekly benefit amounts
2. Preventing the shifting of the table of rates to no more than two tables in one year
3. Requiring venture capitalist firms to post a surety bond to invest in Maryland companies
4. Extending the lookback period for purpose of calculating an employer's experience rating

The proposals in SB 670 make serious changes to the state's unemployment insurance program and businesses are rightfully concerned by those leading to increased costs on employers. To put some of the proposals in context, the required increased employer contributions would come against the backdrop of persistently high inflation, the implementation of the new paid family and medical leave payroll tax and the soon to pass increase in minimum wage. It is not hard to understand why Maryland businesses are concerned.

However, the Maryland Chamber would like to call special attention to the proposed collateral requirement for business investment. In our understanding, this proposal would be the first of its kind in the nation and would both act as a deterrent to investment while also placing Maryland companies at a significant disadvantage to businesses in other states when seeking venture capital funding. Further, a proposal of this nature was not recommended in the 2021 Upjohn Institute report on Maryland unemployment program reforms.

Nevertheless, concern over some components of the bill is not to say that all the items in SB 670 are without merit. However, the Maryland Chamber believes that a broader conversation with all impacted parties is necessary and review by the Joint Oversight Committee on Unemployment Insurance would be a more appropriate venue to address the value of each proposal in SB 670.

For these reasons, the Maryland Chamber of Commerce respectfully requests an **Unfavorable Report** on **SB 670.**

2023 GBCC SB 670 UI Modernization.pdf

Uploaded by: Ashlie Bagwell

Position: UNF

THE GREATER BETHESDA
CHAMBER of COMMERCE

Testimony on behalf of the Greater Bethesda Chamber of Commerce

In Opposition to
Senate Bill 670—Unemployment Insurance Modernization Act of 2023

February 21, 2023
Senate Finance Committee

The Greater Bethesda Chamber of Commerce (GBCC) was founded in 1926. Since then, the organization has grown to more than 550 businesses located throughout the Greater Bethesda area and beyond. On behalf of these members, we appreciate the opportunity to provide written comments on Senate Bill 670—Unemployment Insurance Modernization Act of 2023.

Senate Bill 670 expands the overall size of the State's unemployment insurance program by increasing employee benefits and increasing employer taxable wages. We have a lot of concern about this as it stands to have an enormous impact on our small business members and on small businesses across the State. If it is determined that the unemployment insurance system in Maryland needs modernizing, all voices—employers and employees—need to be at the table to determine the best course forward. In addition, we would hope more time and study would be given to such a discussion, especially since it has such a significant impact on employers' tax liability.

For these reasons, we would respectfully request an unfavorable vote on Senate Bill 670. Thank you for the opportunity to provide written comments.