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.