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Increasing the Amount of Wages Exempt from Garnishment Will Ensure Financial Stability for Low-Income Marylanders in Debt.

Position Statement Supporting HB 661

Given before the House Economic Matters Committee

Low-income Marylanders struggling to provide for their needs of their families shouldn't have to be subjected to more financial hardship as a result of their wages being garnished because of debt owed. Currently in Maryland, a debtor can protect 75% of their income from wage garnishment, 30 times the Maryland minimum wage. This means that low-income Maryland workers can protect \$450 per week or \$23,400 per year from wage garnishment – an income that is still below the federal poverty guidelines for a family of four (\$30,000 a year) and well below the United Way's ALICE report survival threshold (\$34,680 a year for a single earner and \$81,948 for a family of four).¹

The current law passed in 2020 fails to account for drastic increases in prices for necessities fueled by inflation as well as the rise in cost of living in Maryland. The United Way's "survival income" threshold increased from \$26,052 a year in 2018 to \$34,680 in 2021. Hence, there is need to change the amount of wages that are exempt from garnishment because for low-income debtors, many of whom have families and dependents to take care of, the wages garnished from their income can mean the difference between financial stability and inability to provide their basic needs. **The Maryland Center on Economic Policy supports House Bill 661 because it will ensure financial stability for workers subject to wage garnishment.**

HB 661 will increase the amount of wages an individual can protect from garnishment from 30 times the state minimum wage or 75% of weekly wages to a flat rate of \$750 a week or 85% of weekly wages, whichever is greater. The highest rates of garnishment are among workers who earn between \$25,000 and \$40,000, but the numbers are nearly as high for those who earn even less.² With inflation and increases in cost of living, this is a critical legislation that will address the financial challenges faced by low-income individuals and families. This amount protected will also be adjusted according to changes in the Consumer Price Index every three years in order to account for further changes to cost of living.

The bill will further protect low-income workers by requiring creditors to provide written statement showing each payment that was credited to the account of the debtor that month, and the manner in which each

¹ United Ways of Maryland 2023 ALICE Report 2: MD Rule 3-646, westlaw.com

² Paul Kiel and Annie Waldman, The Color of Debt: How Collection Suits Squeeze Black Neighborhoods Our first-of-its-kind analysis shows that the suits are far more common in black communities than white ones. ProPublica October 8, 2015 <https://www.propublica.org/article/debt-collection-lawsuits-squeeze-black-neighborhoods>

payment was credited (direct payment or wage garnishment). This would help prevent overpayment and stop debt collectors from further taking advantage of individuals struggling financially.

Maryland has a grade of “C”, according to the National Consumer Law Center’s evaluation of state wage protection practices, with workers being able to protect \$450 a week or 75% of their weekly wages. To increase our grade to “B”, which is where Washington DC is currently ranked, the state must allow workers to protect enough wages so that their weekly paycheck does not drop below the federal poverty line, around \$600 per week for a family of four. ³ This will ensure that Marylanders can keep more of their hard-earned money and can continue providing for basic needs as they repay their debt.

Marylanders of color are more likely to be affected by wage garnishment. According to a study by Kellogg and the Massachusetts Institute of Technology, the monthly prevalence of garnishment is approximately 0.7 % in ZIP codes with the lowest shares of Black residents and more than doubles to 1.8 % in ZIP codes that are more than 75% black. ⁴ Despite having a low poverty rate at 9.4 %, areas of concentrated populations of people of color in Maryland have much higher poverty rates, with a majority Black city like Baltimore having a poverty rate of nearly 22 %⁵. Considering the racial disparities in wealth and income, Black and Brown communities are especially impacted by debt and burdensome debt collection practices. In 2016, over 50,000 people had their wages garnished. ⁶ Considering a majority of these people lived in counties with high populations of people of color such as Prince George’s County and Baltimore City, wage garnishment is also an issue racial equity.

This will enable low-income debtors supporting families to avoid financial instability that would put them and their dependents in precarious situation. Individuals and the families they support must not be made to face a situation where they have to choose between paying their debt and providing for essential needs such as food and shelter.

For these reasons, the Maryland Center on Economic Policy respectfully requests that the Economic Matters Committee make a favorable report on House Bill 661.

Equity Impact Analysis: House Bill 661

Bill summary

HB 661 will change the amount of wages that are exempt from wage garnishment, allowing workers to keep more of their hard-earned dollars. This bill changes the amount eligible for protection from 30 times the state minimum wage or 75% of weekly wages to the greater of either \$750 a week or 85% of weekly wages. This

³ Michael Best and Carolyn Carter, No Fresh Start 2022: Will States Let Debt Collectors Push Families Into Poverty as the Cost of Necessities Soars? National Consumer Law Center, December 21, 2022 <https://www.nclc.org/resources/no-fresh-start-2022-will-states-let-debt-collectors-push-families-into-poverty/>

⁴ Anthony A. DeFusco, Brandon Enriquez and Maggie Yellen, Wage Garnishment in the United States: New Facts from Administrative Payroll Records <https://static1.squarespace.com/static/5b674378af2096c5aae02deo/t/63f8e796bcoe862f9cdcedec/1677256630321/garnishment.pdf>

⁵ Maryland Matters. Survey Shows Md.’s Poverty Rates — and the Racial Gap Beneath Them <https://www.marylandmatters.org/2020/09/07/survey-shows-md-s-poverty-rates-and-the-racial-gap-beneath-them/>

⁶ Brooks Dubose, Md.’s consumer advocates push for new debt collection laws, Maryland Capital News Services <https://cnsmaryland.org/2019/05/20/md-s-consumer-advocates-push-for-new-debt-collection-laws/>

amount protected is also adjusted according to changes in the Consumer Price Index every three years in order to account for further changes to the cost of living. It also requires creditors to provide a written statement showing each payment that was credited to the account of the debtor that month, and the manner in which each payment was credited (direct payment or wage garnishment). This would help to prevent overpayment and stop debt collectors from further taking advantage of those struggling financially.

Background

Currently, a debtor can protect 75% of their income from wage garnishment, 30 times the Maryland minimum wage. In other words, low-wage Maryland workers can protect \$450 per week or \$23,400 per year from wage garnishment – an income which is still below the federal poverty guidelines for a family of four (\$30,000 a year), and well below the United Way’s ALICE report survival threshold (\$34,680 a year for a single earner and \$81,948 for a family of four). Additionally, debt collectors, under court rules, are required to provide receipt of each payment to a debtor after their wages have been garnished to show the total amount paid and amount remaining. However, many debt collectors fail to do this, which often results in debtors paying beyond what they owed with no chance at reimbursement.

Equity Implications

- The monthly prevalence of garnishment is approximately 0.7% in ZIP codes with the lowest shares of Black residents and more than doubles to 1.8% in ZIP codes that are more than 75% Black. House Bill 547 would take a meaningful step towards correcting this imbalance.
- Due to centuries of discriminatory policies, Marylanders of color have much higher poverty rates, with a majority Black city like Baltimore having a poverty rate of nearly 22 %. Considering the racial disparities in wealth and income, Black and Brown communities are especially impacted by debt and burdensome debt collection practices.
- In 2016, over 50,000 people had their wages garnished. A majority of these people lived in counties with high populations of people of color such as Prince George’s County and Baltimore City.

Impact

House Bill 661 would likely **improve racial and economic equity** in Maryland.

