TESTIMONY OF PORTIA WU

SECRETARY, MARYLAND DEPARTMENT OF LABOR

SENATE FINANCE COMMITTEE HEARING

SENATE BILL 104 - UNEMPLOYMENT INSURANCE MODERNIZATION ACT OF 2024

MARCH 5, 2024

Maryland Department of Labor is pleased to provide informational testimony regarding Senate Bill 104, the Unemployment Insurance Modernization Act of 2024. We appreciate Senator Washington's leadership in this area and agree that there are structural challenges within the state's Unemployment Insurance (UI) system that must be addressed. Maryland needs an unemployment insurance program that supports workers and employers as intended and remains solvent for the long term.

Unemployment insurance is a critical program for workers, employers, and the economy. It supports labor force attachment and buffers economic shocks. The program provides temporary income to workers who have lost their jobs and are actively seeking work, while supporting local economies by maintaining the purchasing power of unemployed workers. This helps to keep available workers in the labor market, thus supporting businesses that are looking to expand.

The Department supports this Committee's interest in reform. We believe that any approach should be transparent, simple, predictable, and equitable. In addition, as the Committee undertakes this effort, we urge legislators to consider not only the necessary resources to support long-term health of the UI Trust Fund and benefit adequacy, but also the flexibilities and resources needed for technology and infrastructure to administer a secure, efficient, and responsive UI system.

With respect to provisions within the proposed bill, we offer specific comments as follows.

<u>Benefit Reforms</u>
SB 104 would increase benefits through setting a higher benefit range, a larger dependent allowance, and a higher "income disregard."

In Maryland, UI benefits last up to 26 weeks, and the weekly benefit amount (or WBA) ranges from $50 to $430. About 6 in 10 claimants receive the maximum amount.

The state's benefit levels, last updated in 2010, do not reflect our economy. We have the 17th lowest weekly maximum benefit amount but the 7th highest cost of living in the nation. Among neighboring jurisdictions, only Virginia provides a lower maximum benefit.

SB 104 would replace the current weekly benefit maximum with an amount indexed to the state's average weekly wage: maximum benefit levels would gradually increase until they reached two-thirds of average weekly wage by calendar year 2027. Maryland's average weekly wage was approximately $1,365 in 2022; two-thirds of that is about $910.[1]

Washington, D.C. and 32 states set their benefits levels to a portion of the average weekly wage as a way to keep pace with inflation.

On the lower end, the bill calls for the minimum benefit amount to increase from its current flat level of $50 to 15 percent of the state average weekly wage by calendar year 2027. In 2022, that would have been about $215.

The bill also increases the dependent allowance, last set in 1982, from $8 per dependent to $25 per dependent. Additionally, it increases the income disregard to encourage part-time work during an individual's benefits and job search period. The income disregard is the amount of a part-time worker's earnings ignored when calculating how much to reduce a weekly benefit amount. Current law sets the income disregard at $50, requiring a dollar for dollar reduction in benefits after that amount. SB 104 would increase that to $250. The bill would index both the dependent allowance and the income disregard to inflation.

Employer Tax Reforms

Reforms to the tax structure of the UI system have a number of aims. The first is to ensure that workers who lose their job through no fault of their own receive an appropriate level of financial assistance and at the same time ensure that the UI Trust Fund remains solvent with the resources needed to support workers and employers. A second is to protect employers from the shocks experienced during the pandemic and past recessions when tax rates increased dramatically. A third goal is to avoid the need to borrow from the state or federal government because our trust fund balance drops to a risky level. A final aim is to relieve the uneven pressure that a low taxable wage base exerts on smaller employers and employers with lower-wage workers.

To fund the increased benefits described above and to improve the long-term solvency of the state trust fund, SB 104 proposes increasing the employer tax base and indexing to inflation. The bill also proposes to change the calculation used to set an employer's tax rate and to limit the magnitude of year-to-year tax rate increases.

Average High Cost Multiple (AHCM) is the typical measure used to discuss trust fund solvency. Roughly speaking, the AHCM represents where a state stands with respect to paying out a year of benefits based on prior high cost years. An AHCM of 1.0 means a state could meet a year's worth of benefits, .5 indicates six months of benefits, etc. States must have an AHCM score of 1.0 to borrow interest-free from the federal

[1] Average weekly wages are for those covered by regular unemployment insurance (e.g., the wages do not include those covered by UFCE). This data is available from the US Department of Labor's Employment and Training Administration in Financial Data Handbook 394. This source was used by the Upjohn Institute in their report and may be viewed at the following link: https://oui.doleta.gov/unemploy/hb394.asp

government, and interest required to be paid on such a loan cannot be paid from the UI Trust Fund.

The W.E. Upjohn Institute for Employment Research's projections, which appear in a 2021 study commissioned by the Department on UI reform, show that if Maryland maintained its current benefits levels and taxable wage base, our AHCM would drop to .45 by 2032. Upjohn's simulations include assumptions about key economic factors that impact benefits and taxes, like labor force growth and the unemployment rate. If the actual values of these factors prove different from the assumed values, the reality in 2032 might differ from projections. Maryland Department of Labor is working with U.S. Department of Labor on an updated version of that modeling, based upon more recent data. Nevertheless, possibly hitting such a low level of solvency in less than a decade is an indicator that action is needed.

Maryland's taxable wage base is currently $8,500, the 9th lowest in the country. SB 104 would increase employer contributions by gradually increasing the taxable wage base from $8,500, where it has remained since 1992, to 25 percent of the state average annual wage by calendar year 2027.

Maryland's average annual wage was about $71,000 in 2022, which is 11th highest in the country. A quarter of that is about $17,700, at which level Maryland would rank 19th for its taxable wage base.

The bill includes two provisions to soften the impact of a recession on employers. It would increase the number of years in the "benefit ratio," a factor used to calculate an employer's tax rate, from three years to five. It would also restrict how much an employer's tax rate can change year to year. Maryland has a complicated tax structure of six tax tables. Table A has the lowest rates and is in effect when the Trust Fund balance is high. Table F has highest rates and is used when the trust fund requires replenishment. To minimize stress on businesses from a sharp increase in tax rates, the bill would prohibit the Department from shifting more than two tables from one year to the next if the shift would result in higher earned rates of contribution for employers.

The Department supports an approach that seeks to smooth out or dampen swings in employer tax rates in order to avoid the phenomenon we often see during recessions, where employers face spikes in taxes when they can least afford them. However, such levers must be employed in a manner consistent with securing long-term solvency for the Trust Fund. Limiting sharp swings in both directions will provide greater predictability for employers and give the Trust Fund recovery time after paying out more benefits in times of higher unemployment. Additionally, we understand that the current provision in the bill restricting tax table changes was not included in the Upjohn simulations and thus the effect of this provision on the UI Trust Fund is not reflected in the projections that have been shared.

Administrative Considerations

Finally, the Department recommends that rules, benefit amounts, taxes tables, and other administrative elements be simplified to the extent possible. The UI program is already complicated and confusing to many, and workers and employers benefit from greater clarity and predictability.

For example, there are important equity and policy reasons for adjusting benefits levels as average wage increases, but we recommend that the Committee consider an approach where smaller elements remain set over a period of time for simplicity. That could include income disregard and dependent allowance. Minor variable amounts might be confusing to claimants, would require complicated programming, and might lead to unpredictable downstream effects.

Estimated Expenditures and Timeline

SB 104 represents major changes to the UI system in Maryland, and the Department is continuing to analyze potential costs and time needs for implementation of the provisions of the bill. In addition, the Department is undertaking the build of IT systems and processes for paid family and medical leave insurance, with a plan to launch by 2026.

Federal administrative funding has declined over the years, but fraud and costs to run IT systems have increased exponentially. Relying on federal funding alone to support the program will not be sufficient. We need to consider other approaches. Some states collect very small “administrative fees,” the funds from which can be used to pay for administrative costs required for administering the UI program, technology modernization efforts, training, and other purposes. The Division of Unemployment Insurance has researched other states’ administrative fees and would be happy to provide information to the Committee if that would be helpful or of interest.

Conclusion

Maryland’s key UI program elements are long overdue for updates. Without reform, workers will fall further behind, smaller employers will continue to be treated inequitably, and our system’s solvency could be at risk in the next downturn. We look forward to working with the bill sponsors - and the Committee - to accomplish this reform.

Max WBA Rank (High to Low)	State	Min	Max	AWW Adjustment
1	Washington	$323	$1,109	x
2	Massachusetts	$58	$1,015	x
3	New Jersey	$156	$830	x
4	Oregon	$190	$812	x
5	Hawaii	$5	$763	x
6	North Dakota	$43	$748	x
7	Utah	$41	$712	x
8	Colorado	$25	$710	x
9	Vermont	$86	$705	x
10	Rhode Island	$66	$705	x
11	Connecticut	$15	$703	x
12	Montana	$207	$698	x
13	Kentucky	$39	$665	x
14	West Virginia	$24	$662	x
15	Pennsylvania	$68	$605	x
16	Wyoming	$43	$595	x
17	Kansas	$147	$589	x
18	Nevada	$16	$585	x
19	Iowa	$86	$582	x
20	Illinois	$51	$578	x
21	Texas	$72	$563	x
22	Ohio	$157	$561	x
23	Minnesota	$33	$552	x
24	New Mexico	$101	$542	x
25	Maine	$94	$538	x
26	Idaho	$72	$532	x
27	South Dakota	$28	$514	x
28	Nebraska	$70	$514	x
29	New York	$124	$504	
30	Oklahoma	$16	$493	x
31	Arkansas	$81	$451	x
32	Delaware	$20	$450	
33	California	$40	$450	
34	District of Columbia	$50	$444	x
35	Maryland	$50	$430	
36	New Hampshire	$32	$427	
37	Indiana	$37	$390	
38	Virginia	$60	$378	
39	Wisconsin	$54	$370	
40	Alaska	$56	$370	
41	Georgia	$55	$365	
42	Michigan	$160	$362	
43	North Carolina	$15	$350	x
44	South Carolina	$42	$326	x
45	Missouri	$35	$320	
46	Arizona	$216	$320	
47	Tennessee	$30	$275	
48	Florida	$32	$275	
49	Louisiana	$35	$275	x
50	Alabama	$45	$275	
51	Mississippi	$30	$235	

Mean Max WBA	**$534**
Median Max WBA	**$532**

For more details, see Comparison of State Unemployment Insurance Laws at https://oui.doleta.gov/unemploy/pdf/uilawcompar/2023/complete.pdf.

Taxable Wage Base Ranked (High to Low)	State	Taxable Wage Base
1	Washington	$67,600
2	Hawaii	$56,700
3	Oregon	$50,900
4	Idaho	$49,900
5	Alaska	$47,100
6	Utah	$44,800
7	New Jersey	$41,100
8	North Dakota	$40,800
9	Nevada	$40,600
10	Montana	$40,500
11	Minnesota	$40,000
12	Iowa	$36,100
13	New Mexico	$30,100
14	North Carolina	$29,600
15	Wyoming	$29,100
16	Rhode Island	$28,200
17	Oklahoma	$25,700
18	Colorado	$20,400
19	South Dakota	$15,000
20	Connecticut	$15,000
21	Massachusetts	$15,000
22	Mississippi	$14,000
23	New Hampshire	$14,000
24	South Carolina	$14,000
25	Wisconsin	$14,000
26	Kansas	$14,000
27	Vermont	$13,500
28	Illinois	$13,271
29	New York	$12,300
30	Maine	$12,000
31	Kentucky	$11,100
32	Delaware	$10,500
33	Missouri	$10,500
34	Pennsylvania	$10,000
35	Indiana	$9,500
36	Georgia	$9,500
37	Michigan	$9,500
38	West Virginia	$9,000
39	District of Columbia	$9,000
40	Nebraska	$9,000
41	Texas	$9,000
42	Ohio	$9,000
43	Maryland	$8,500
44	Alabama	$8,000
45	Virginia	$8,000
46	Arizona	$8,000
47	Louisiana	$7,700
48	Tennessee	$7,000
49	Florida	$7,000
50	California	$7,000
51	Arkansas	$7,000

Mean Taxable Wage Base	**$20,962**
Median Taxable Wage Base	**$14,000**

For more details, see Comparison of State Unemployment Insurance Laws at https://oui.doleta.gov/unemploy/pdf/uilawcompar/2023/complete.pdf.