
MARYLAND DEPARTMENT OF LABOR TESTIMONY ON HB0554

TO: Economic Matters Committee
FROM: Secretary Portia Wu, Maryland Department of Labor
DATE: 2/26/2025
BILL: Unemployment Insurance Modernization Act of 2025

Maryland Department of Labor (“MD Labor” or “Department”) is pleased to provide informational testimony regarding House Bill 0554, the Unemployment Insurance Modernization Act of 2025. The Department recognizes the 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. UI 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 economic growth.

In response to interest in strengthening the UI program, MD Labor conducted an analysis of the UI Trust Fund at the request of this Committee and the Chairs of the Joint Committee on Unemployment Insurance Oversight. For this analysis, MD Labor used the UNIS model from the U.S. Department of Labor (USDOL) to forecast the long-term outlook for the trust fund. While these forecasts are only preliminary and rough estimates, they provide a framework that enables comparison of different potential policy choices.

One of the key findings from the analysis is that, without adjustments to the UI program, the trust fund is projected to decline. The rate of the decline will largely depend on future unemployment rates. Proactively addressing potential risks to the fund could help the state better weather economic downturns. Maintaining an adequate level of funds is also necessary for the state to qualify for interest-free borrowing from the USDOL. The analysis also reveals how the proposed reforms in HB0554 may impact the solvency of the trust fund.

The Department believes that any approach to reform should be transparent, simple, predictable, and equitable. As the Committee undertakes this effort, we urge legislators to consider not only the necessary resources to support the 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 more efficient, responsive, transparent, and secure UI system.

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

Benefit Reforms

HB0554 seeks to enhance unemployment benefits by increasing the benefit range, expanding the dependent allowance, and indexing benefit amounts to the state average weekly wage. The bill requires the Secretary to set the state average weekly wage by July 1 of each year to determine the minimum and maximum benefit amounts.

Under current law, unemployment benefits in Maryland last up to 26 weeks, with weekly benefit amounts ranging from \$50 to \$430. About 60% of claimants receive the maximum benefit. The weekly benefit amount is calculated using a Schedule of Benefits based on the claimant's highest quarter of earnings.

Maryland's benefit levels were last updated in 2010. While Maryland has the 18th lowest maximum weekly benefit in the country, it has the 7th highest cost of living. Among neighboring states, only Virginia offers a lower maximum benefit.

HB0554 proposes a new method to determine the weekly benefit amount by dividing the wages earned in the claimant's highest quarter by 24. The legislation would gradually replace the current benefit structure with one tied to the state's average weekly wage, so that by 2028, the maximum weekly benefit amount would be set at 50% of the average weekly wage. Washington, D.C., and 32 other states already link benefit levels to a percentage of the average weekly wage to help keep pace with inflation.

The bill also proposes an increase in the minimum benefit amount. Currently set at a flat \$50, the minimum benefit would instead be set at 15% of the state average

weekly wage. In 2023, the state average weekly wage was \$1,399. Under the proposed bill, this would have resulted in a minimum weekly benefit amount of \$210 and a maximum benefit amount of \$700.

Additionally, HB0554 increases the dependent allowance, which has remained at \$8 per dependent since 1982, raising it to \$25 per dependent. The bill also expands the income disregard to encourage part-time work while receiving benefits. Under current law, the first \$50 of part-time earnings is disregarded before benefits are reduced dollar for dollar. HB0554 would increase this amount and index both the dependent allowance and the income disregard to inflation.

Employer Tax Reforms

Reforms to the UI system's tax structure would ideally achieve several objectives. Ensuring the UI Trust Fund remains solvent can better support both workers and employers, while minimizing the need for state or federal borrowing when the trust fund balance reaches a risky level. Additionally, revising the tax structure could reduce the disproportionate burden that a low taxable wage base places on smaller employers and employers with lower-wage workers, as well as mitigate the potential for sudden sharp increases in tax rates in the event of an economic downturn.

Maryland's current taxable wage base of \$8,500 is the ninth lowest in the country and has remained unchanged since 1992. When adjusted for inflation, this amount equates to roughly \$19,500 in today's dollars. HB0554 proposes raising the employer taxable wage base and indexing it to the state average annual wage. The Secretary must publish the state average annual wage by January 31 of each year. The Department currently reports data relating to annual wages on its website: <https://www.labor.maryland.gov/lmi/emppay/annualmd.shtml>

The bill authorizes the Secretary to set the taxable wage base annually as an increasing percentage of the state average annual wage until it reaches 20% in 2028. In 2023, the state average annual wage was \$76,052. Under the proposed bill, this would result in a taxable wage base of \$15,210.

To provide rough estimates of the potential impacts of the changes proposed in this legislation, Table A provides calculations that estimate taxable wage base and benefit adjustments projected over the next few years. These projections are based on the U.S. Department of Labor's UNIS model, and assume that wages grow at a

rate of 3.4 percent each year, roughly the amount wages grew between 1990 and 2023, excluding 2020.

Table A					
Illustrative Dollar Amounts by Calendar Year (estimated projections)					
	2024	2025	2026	2027	2028
Applicable Average Weekly Wage	\$1,447	\$1,496	\$1,547	\$1,599	\$1,654
Minimum Weekly Benefit Amount	\$50	\$50	\$116	\$182	\$248
Maximum Weekly Benefit Amount	\$430	\$430	\$562	\$695	\$827
Dependent Allowance	\$8	\$8	\$25	\$25	\$25
Employer Taxable Wage Base	\$8,500	\$8,500	\$11,399	\$14,298	\$17,197

TABLE A: Average Weekly Wage (in covered employment)

Average Weekly Wage for future years is based on historic data in the UNIS model and a 3.4 percent growth rate for future years (1990-2023 average, excluding 2020). Estimates are based on the U.S. Department of Labor UNIS Model

Source: Maryland Department of Labor - Workforce Development and Adult Learning

Impact on the Solvency of the Trust Fund

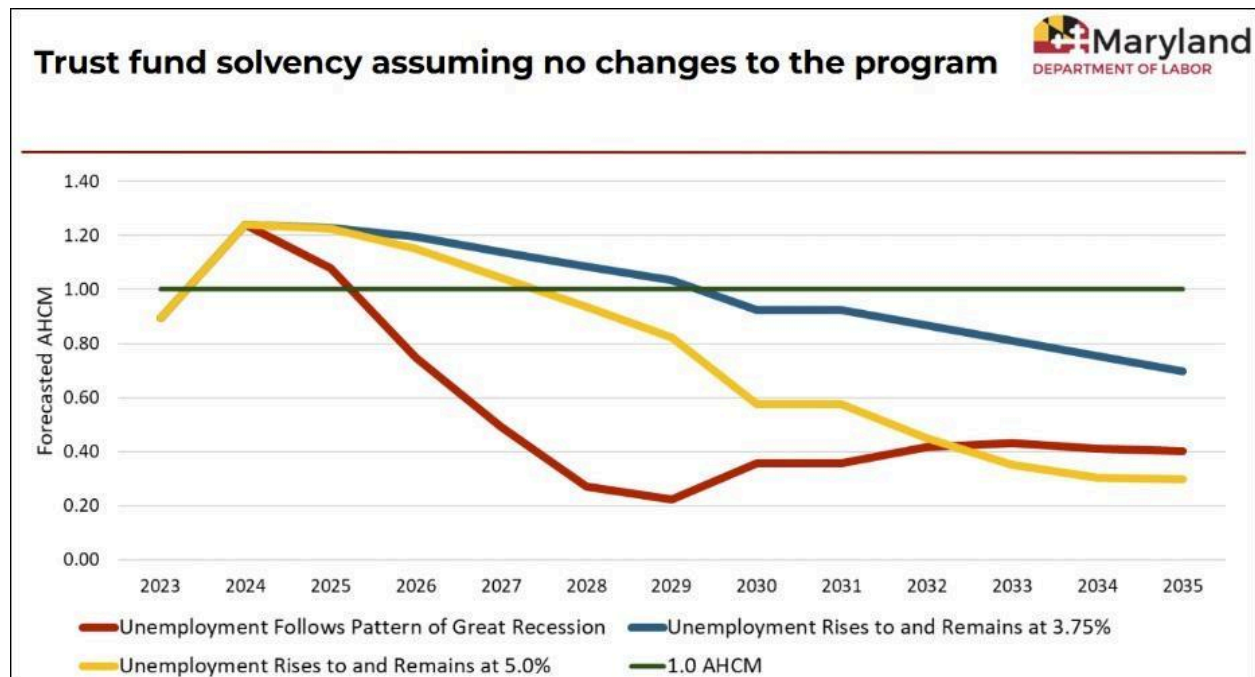
MD Labor, at the request of members of the Committee and the Chairs of the Joint Committee on Unemployment Insurance Oversight, modeled the impact of different scenarios on trust fund solvency. Specifically, the Department gauged potential impacts against the Average High Cost Multiple (AHCM), which measures a state's

ability to cover a full year of UI benefits based on past high-cost years. An AHCM of 1.0 indicates that a state could fund a full year of benefits, while a score of 0.5 suggests coverage for only six months. Under the Code of Federal Regulations (CFR) 606.32, states must maintain an AHCM of at least 1.0 to qualify for interest-free federal borrowing, and any interest on such loans cannot be paid from the UI Trust Fund.

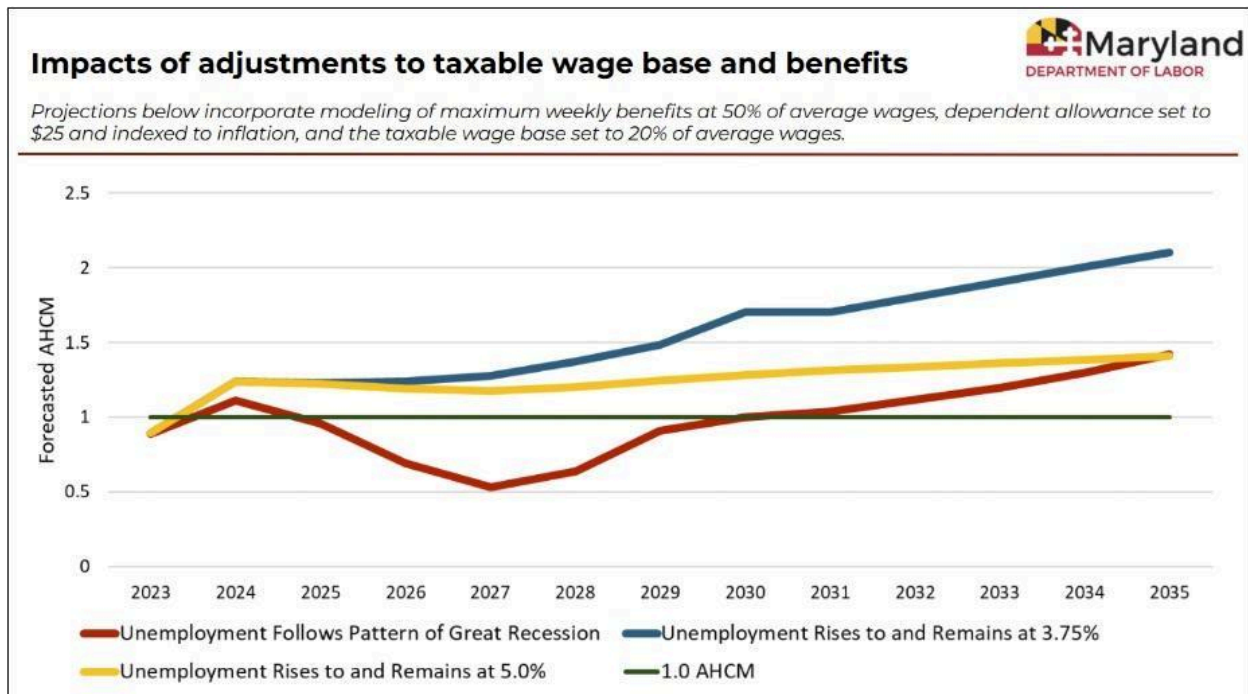
MD Labor used the UNIS model from the US Department of Labor to estimate the solvency of Maryland's UI Trust Fund under different scenarios. MD Labor found that, within the UNIS model, changes in the unemployment rate had the largest impact on the AHCM of potential macroeconomic variables (e.g., growth in employment or labor force participation). A lower unemployment rate may lead to a more gradual decrease in the AHCM, whereas a higher unemployment rate could lead to a sharper reduction in the AHCM. MD Labor modeled solvency assuming three different unemployment rate scenarios:

1. A continued tight labor market (job vacancies outnumber the number of job seekers) where the unemployment rate gradually rises to, and then remains at, 3.75%. The maximum unemployment rate in this scenario is roughly the average rate in Maryland between 2017 and 2019.
2. A scenario where the unemployment rate gradually increases to, and then remains at, 5.0%. The maximum unemployment rate in this scenario matches the long run historical average in Maryland (1991 to 2023).
3. A scenario similar to the Great Recession. In this scenario, the unemployment rate peaks at 7.5% in 2026 before gradually declining in line with how rates recovered in Maryland. For example, the estimated rate in 2027 in this scenario is 7.28%, the same as in 2011. Likewise, in 2028 the rate is estimated to be 6.98%, the same as in 2012.

Maryland's forecasted AHCM under each of the three scenarios, assuming no changes are made to the unemployment insurance system, is illustrated in the following figure. The chart shows that the AHCM is estimated to remain above 1.0 in the near term before falling. The exact time the AHCM drops below 1.0 varies based on how fast Maryland's unemployment rate increases. In all three scenarios, the AHCM is forecasted to be at 0.7 or below by 2035. These insights reinforce the need for proactive measures to support employment and maintain the stability of the trust fund.



The graph below shows how adjustments to the taxable wage, set at 20% of the average wage, and the maximum weekly benefits, set at 50% of the average weekly wage, as proposed in HB0554, can impact the projections for the AHCM. The model indicates a positive trend toward achieving long-term solvency for the trust fund.



Estimated Expenditures and Timeline

HB0554 introduces significant changes to benefit calculations, gradually increasing both benefit levels and the taxable wage base through 2028. The bill takes effect on July 1, 2025, implementing new methods for determining weekly benefit amounts, dependent allowances, and taxable wage bases.

However, while the law will be in effect as of July 1, 2025, implementing the new benefit amounts on the same day will not be feasible. Adjustments to the BEACON system will require additional time to ensure accurate processing. Moreover, unlike current law, where the benefits scale does not change from year to year, the law would raise a number of implementation questions—for example, how benefits would be adjusted, if claimants are in mid-stream of receiving benefits when the Department sets new levels. These complexities would require new guidance and policies and a change to the existing IT infrastructure. The Department strongly recommends that changes to benefits adjustments and tax levels be phased in, allowing sufficient time for necessary system updates and procedural changes.

Finally, although this is not addressed directly in this legislation, long-term support for administration of the UI program must also be considered. Federal



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reimbursement for administrative costs has decreased at a time when fraud and identity theft have become increasingly prevalent and sophisticated. Since these administrative expenses cannot be directly funded through the UI trust fund, alternative funding solutions must be established to support the state's UI system.

Conclusion

Any reforms to the UI system should aim to provide greater support for workers, create a more equitable environment for smaller employers, and ensure a solvent UI system to address future economic challenges. We look forward to working with the bill sponsors and the Committee - to achieve these goals and position the state for growth.

If you have any questions, please contact Caroline Bauk.
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