

Department of Legislative Services  
 Maryland General Assembly  
 2008 Session

FISCAL AND POLICY NOTE

House Bill 1580 (Delegate Harrison, et al.)  
 Economic Matters

Unemployment Insurance - Maximum Benefit - Increase

This bill increases the weekly unemployment insurance benefit amounts for all new claims established after October 6, 2008. For all claims establishing a new benefit between October 7, 2008 and October 4, 2009, the weekly benefit amount is increased by \$40 over the current rate. For claims establishing a new benefit between October 5, 2009 and October 3, 2010, the weekly benefit amount is increased by \$80 over the current rate. For claims establishing a new benefit after October 4, 2010, the weekly benefit amount is increased by \$120 over the current rate.

Fiscal Summary

**State Effect:** State expenditures to reimburse the trust fund would increase by \$738,100 in FY 2009 and \$3,960,600 in FY 2013.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Revenues	\$0	\$0	\$0	\$0	\$0
GF/SF/FF Exp.	738,100	2,238,600	3,353,400	3,847,300	3,960,600
Net Effect	(\$738,100)	(\$2,238,600)	(\$3,353,400)	(\$3,847,300)	(\$3,960,600)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

**Unemployment Insurance Trust Fund:** UITF expenditures increase by \$79.1 million in FY 2009, increasing annually as a result of increased weekly benefits paid. Revenues could increase by approximately \$3.3 million in FY 2009. Future revenues reflect private-sector employer charge backs; quarterly reimbursement by the State, local governments, and nonprofit entities; increases in weekly benefits; and annualization.

(in dollars)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
NonBud Rev.	\$3,268,700	\$26,942,800	\$70,220,600	\$128,399,400	\$172,108,600
NonBud Exp.	79,081,800	178,052,700	260,023,500	279,735,300	283,955,400
Net Effect	(\$75,813,100)	(152,165,800)	(193,235,900)	(158,240,300)	(121,430,100)

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

**Local Effect:** Local jurisdictional expenditures to reimburse the trust fund could increase by \$949,000 in FY 2009 and \$5,092,200 in FY 2013.

**Small Business Effect:** Meaningful. Small businesses would be subject to increased unemployment taxes and increased employer charge backs.

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## Analysis

**Current Law:** The weekly benefit amount a claimant is eligible for is based on the quarterly wages that the claimant was paid for covered employment in the calendar quarter of the claimant's base period in which those wages were highest. Base period is the first four of the last five completed calendar quarters immediately preceding the start of the benefit year.

Weekly benefit amounts range from \$25 to \$380 per week, based on earnings in the base period. To claim the minimum weekly benefit of \$25, a claimant must have earned at least \$576 in the "high quarter" and at least \$324 in the remaining quarters in that base period. To qualify for the maximum weekly benefit amount of \$380, a claimant must have earned at least \$9,096 in the "high quarter" of his or her base period.

Additionally, total wages in the base period must be one-and-a-half times the amount of wages earned in high quarter. A claimant may earn \$100 in a week and still receive his or her full benefit. Any amount earned in a week over \$100 is deducted from the weekly benefit that the claimant would be eligible to receive.

**Background:** Unemployment insurance benefits are funded through Maryland employers' State unemployment insurance taxes. An employer's tax rate is based on the employer's unemployment history and the balance of funds in the UITF. The taxes are deposited in the UITF and can be used only to pay benefits to eligible unemployed individuals.

Under federal law, each state must maintain a UITF from which unemployment benefits are to be paid. A series of six tax rate tables determine the applicable tax rate. The table used for a particular year depends on the UITF balance on September 30 as a percentage of total taxable wages for the four quarters proceeding September 30 as shown in **Exhibit 1**. Employer contribution rates range from 0.3% to 13.5%, depending on the applicable tax table and the employer's unemployment history.

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## Exhibit 1

<u>Table</u>	<u>Ratio of UITF to Total Taxable Wages</u>	<u>Minimum Rate</u>	<u>Maximum Rate</u>
A	UITF exceeds 5%	0.3%	7.5%
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	9.0%
C	UITF exceeds 4%, but not in excess of 4.5%	1.0%	10.5%
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%
F	UITF is 3% or less	2.2%	13.5%

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As of September 30, 2007, the balance of the UITF was \$1.058 billion and had a taxable wage base of \$19.02 billion. The ratio of UITF fund balance and the taxable wage base was 5.56%, resulting in tax Table A being used to determine employers' tax rates in 2008. Should the balance of UITF decrease below 5% of the taxable wage base, a different tax table would be used and an increased tax rate would be paid by employers.

Under Chapter 298 of 2007, the maximum weekly benefit amount was increased from \$340 to \$380. Under Chapter 169 of 2005, the maximum weekly benefit amount was increased from \$310 to \$340, which equaled 47% of the State average weekly wage in 2005; also the amount of wages that a claimant could earn in a week before unemployment insurance payments would be deducted was increased from \$90 to \$100. Prior to Chapter 169, which reflected the recommendations of the Unemployment Insurance Funding Task Force, the maximum benefit amount had not been increased since 2002.

**State Expenditures:** UI benefits are chargeable to the State at 1.4% and reimbursed on a quarterly basis. In the first year, payments for only two quarters would be collected. Thus, total State expenditures (general funds, special funds, and federal funds) could increase by \$738,097 in fiscal 2009 and \$3,960,605 in fiscal 2013.

### **Unemployment Insurance Trust Fund:**

#### *Trust Fund Expenditures*

The weekly benefit allowance increases by \$40 each over the next three years, resulting in expected increased benefit payments of \$79.1 million in fiscal 2009, \$178.1 million in fiscal 2010, \$260.0 million in fiscal 2010, and \$279.7 million in fiscal 201. The following facts/assumptions were used in determining the increase in UITF expenditures:

- the total number of individuals receiving new benefits uses 2001 actual claim data as baseline, with the number of claimants expected to increase on average by 1.67% annually; and
- the average duration of benefits is 20 weeks – while the actual average duration for 2007 was 15.2 weeks, it is assumed that the benefit increase would result in a lengthier average duration.

### *Trust Fund Revenues*

Trust fund revenues would increase by \$3.3 million in fiscal 2009, \$25.9 million in fiscal 2010, \$66.82 million in fiscal 2011, \$121.5 million in fiscal 2012, and \$162.5 million in fiscal 2013 as the increased benefit amounts are phased in, based on the following assumptions:

- 64.6% of any increased benefits paid would be recovered from increased charge backs to private-sector employers, recovered over the following of three years;
- the State, local governments, and nonprofits would reimburse the trust fund each year (at 1.4%, 1.8%, and 3.0%, respectively), payable on a quarterly basis beginning in fiscal 2009; and
- the unemployment tax rate continues to utilize Table A, although any substantial increase in benefits paid may result in movement to a tax table with higher rates to employers and higher revenues to the UITF.

**Local Fiscal Effect:** UI benefits are chargeable to local governments at 1.8% and reimbursed on a quarterly basis. In the first year, payments for only two quarters would be collected. Thus, local jurisdictional expenditures could increase by \$948,982 in fiscal 2009 and \$5,092,206 in fiscal 2013.

**Small Business Effect:** Employers charge backs for small businesses would increase beginning in fiscal 2010. In addition, unemployment insurance taxes could increase, depending on the unemployment history of the actual employer. Any increase in benefits paid would result in an increase in an employer's unemployment insurance tax rate.

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## **Additional Information**

**Prior Introductions:** A similar bill was introduced as HB 1180 in 2007, amended by the Economic Matters Committee and enacted as Chapter 298 of 2007.

**Cross File:** None.

**Information Source(s):** Department of Labor, Licensing, and Regulation; Department of Legislative Services

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