

Department of Legislative Services
Maryland General Assembly
2008 Session

FISCAL AND POLICY NOTE
Revised

Senate Bill 328

(Senator Kelley, *et al.*)

Finance

Economic Matters

Unemployment Insurance - Eligibility - Part-Time Work

This bill makes an individual whose eligibility to work is restricted to part-time work eligible for unemployment benefits, if the individual works predominantly throughout the year on a part-time basis for at least 15 hours per week.

The bill takes effect June 1, 2008; provisions related to benefits for part-time workers take effect July 1, 2009.

Fiscal Summary

State Effect: State expenditures to reimburse the trust fund would increase by \$193,100 in FY 2010 and \$279,600 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.	0	193,100	263,500	271,600	279,600
Net Effect	\$0	(\$193,100)	(\$263,500)	(\$271,600)	(\$279,600)

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

Unemployment Insurance Trust Fund: UITF expenditures could increase by \$18.4 million in FY 2010. UITF revenues would increase by \$854,900 in FY 2010. Out-year estimates reflect projected increases in weekly benefit amounts; private-sector employer charge backs; and a full year of quarterly reimbursement by the State, local governments, and nonprofit entities; and annualization.

(\$ in Millions)	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
NonBud Rev.	\$0	\$0.9	\$4.9	\$8.7	\$12.7
NonBud Exp.	0	18.4	19.0	19.5	20.1
Net Effect	\$0	(\$17.5)	(\$14.1)	(\$10.8)	(\$7.4)

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 approximately \$248,200 in FY 2010 and \$359,500 in FY 2013. **This bill imposes a mandate on a unit of local government.**

Small Business Effect: To the extent that small businesses are more likely to have part-time employees and lay off employees, this bill could significantly increase their unemployment insurance costs.

Analysis

Bill Summary: The part-time worker • is eligible for benefits based on wages predominantly earned from part-time work; • must be actively seeking part-time work; • must be available for part-time work for at least the number of hours worked at the part-time worker's previous employment; • cannot impose any other restrictions on the part-time worker's ability or availability to work; and • must be in a labor market in which a reasonable demand exists for part-time work. A qualified part-time worker with a disability may not have the disability used as a disqualifying factor. A part-time worker is not considered to be unemployed if working all hours for which the part-time worker is available.

The Department of Labor, Licensing, and Regulation must report to the Legislative Policy Committee on the status of the balance of the Unemployment Insurance Trust Fund and the fiscal impact of unemployment insurance legislation passed during the 2008 regular session on the small business community. DLLR must report by December 31, 2008.

Current Law: In order to be eligible for unemployment benefits, an individual must be able to work, available for work, and actively seeking work. A claimant may not impose conditions and limitations on his willingness to work and still be available. Although not explicitly stated in statute, eligibility applies only to full-time work.

Background: Unemployment insurance provides temporary, partial wage replacement benefits to persons who are unemployed through no fault of their own and who are willing to work, able to work, and actively seeking employment. Both the federal and state governments have responsibilities for unemployment compensation. The unemployment insurance program is administered pursuant to state law by state employees. Each state law prescribes the tax structure, qualifying requirements, benefit levels, and disqualification provisions. These laws must, however, conform to broad federal guidelines.

The unemployment insurance program is financed by the Federal Unemployment Insurance Administration through employer taxes. The federal tax is 6.2% of the first \$7,000 in wages paid to each employee. Employers receive credit of up to 5.4% for the taxes they pay under state unemployment compensation laws. The net tax (0.8%) collected by the federal government is used to finance state and federal administrative costs. Funds are distributed to states based on each state's claim load. The Maryland program is administered by the Office of Unemployment Insurance and funds are deposited into the Maryland Unemployment Insurance Trust Fund.

All private business employers and nonprofit organizations employing one or more persons, at any time, are subject to the Maryland Unemployment Insurance Law. Each employer is assigned a particular tax rate based on its experience with unemployment, in relation to the experience of other employers, and the fund balance of the Maryland Unemployment Insurance Trust Fund from the preceding September. Taxable wages are defined as the first \$8,500 earned by each employee (both full- and part-time employees) in a calendar year.

Chapter 169 of 2005 altered the UI charging and taxation system by creating a series of six tax rate tables based on the balance in UITF to determine the applicable tax rate. If the balance of UITF exceeds 5.0% of total taxable wages in the State, the lowest tax rate (Table A) would be imposed. Table A provides a minimum tax rate of 0.3%, or \$25.50 per employee. Likewise, if the balance of UITF is 3.0% or less, the highest tax rate (Table F) would be imposed. Table F provides a minimum tax rate of 2.2%, or \$187.00 per employee.

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.

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%

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 5.0% of the taxable wage base, a different tax table (*i.e.*, Table B through Table F) would be used and an increased tax rate would be paid by employers.

Part-time Workers

Nationwide, part-time workers received UI benefits at a rate of 29%, compared to 50% for full-time workers in a study conducted by the U.S. Government Accountability Office. The GAO report, released September 2007, also indicates that low-wage workers (earning less than \$8.97 an hour in 2003) were found to be over twice as likely to be unemployed than higher wage earners but half as likely to receive unemployment benefits. Thirty states now allow UI benefits for part-time workers, according to the National Law Project.

Unemployment Insurance Trust Fund Effect: UITF expenditures could increase by an estimated \$18.4 million in fiscal 2010, due to an increase in UI benefits paid to qualified part-time workers. This estimate, which reflects the bill's July 1, 2009 effective date for provisions related to benefits for part-time workers, is based on the following information and assumptions to determine the fiscal impact of the bill on the trust fund:

- the 333,321 part-time workers in the Maryland labor force comprise 13.0% of the total Maryland labor force (2,564,008 in 2007);
- 1.9% of the part-time workers would receive at least one week of benefits, which is half the rate that the full-time labor force receives (3.8%);
- thus, 6,333 part-time employees would receive benefits each year (333,321 part-time workers multiplied by 1.9% receiving at least one week of benefits);
- for fiscal 2008, the average weekly benefit amount for full-time workers in Maryland is \$277, and a part-time worker's average weekly wage is 65.0% of this amount or \$180;
- the projected average weekly benefit from fiscal 2010 through 2013 would increase by 3.0% a year as follows: 2010 = \$191; 2011 = \$197; 2012 = \$203; and 2013 = \$209;
- the average duration of the benefit paid to a qualified part-time individual would be the same as for a full-time individual (*i.e.*, 15.2 weeks);
- the amount of benefit charged back to private-sector employers would be 64.6%, payable over the following three years; and

- the State, local governments, and nonprofits would reimburse the trust fund each year, payable on a quarterly basis.

Of the amount paid on behalf of private employers, \$11.5 million (or 64.6%) would be charged back to one or more previous employers over a three-year period *beginning the year following* benefits payment. The \$5.8 million that cannot be charged back to private-sector employers would, ultimately, be recovered through premiums paid by all employers. Payments made for State, local government, and nonprofit employers would be charged in the same year and reimbursement would be made on a quarterly basis. In the first year, payments for only three quarters would be collected. Thus, UITF revenues would increase by \$855,947 in fiscal 2010 and \$12.7 million in fiscal 2013.

Out-years reflect the projected increases in the weekly benefit amount, while the number of individuals (6,333), duration of benefit (15.2 weeks), and percentage charged back to employers (64.6%) all remain the same.

State Expenditures: UI benefits are chargeable to the State at 1.4% and reimbursed on a quarterly basis. In fiscal 2010, payments for three quarters would be collected. Thus, total State expenditures (general funds, special funds, and federal funds) could increase by \$193,053 in fiscal 2010 and \$279,640 in fiscal 2013.

Local Expenditures: UI benefits are chargeable to local governments at 1.8% and reimbursed on a quarterly basis. In fiscal 2010, payments for three quarters would be collected. Thus, local jurisdictional expenditures could increase by \$248,210 in fiscal 2010 and \$359,537 in fiscal 2013.

Small Business Effect: Employer charge backs for small businesses would increase beginning in fiscal 2011. The Department of Labor, Licensing, and Regulation reports that 35.0% of Maryland retail employees are part-time employees; 60.0% of these part-time workers work 15 to 25 hours per week. While employing 28.2% of the Maryland workforce, the majority of Maryland retail services (85.0%) employ fewer than 20 employees. More than a third of the Maryland workforce works for retailers with staffing levels between 20 and 99 employees.

Additional Information

Prior Introductions: A similar bill was introduced as SB 251 in the 2003 session and received an unfavorable report from the Senate Finance Committee.

Cross File: Although designated as a cross file, HB 627 is not identical.

Information Source(s): Department of Labor, Licensing, and Regulation; Jobs Opportunity Task Force; U.S. Department of Labor; Department of Legislative Services

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