

**Department of Legislative Services**  
Maryland General Assembly  
2010 Session

**FISCAL AND POLICY NOTE**  
**Revised**

Senate Bill 107

(The President, *et al.*) (By Request - Administration)

Finance

Economic Matters

**Unemployment Insurance - Tax Deferment, Trust Fund Solvency, and Cost-Neutral Modernization Act**

This emergency Administration bill makes changes to the State unemployment insurance (UI) benefits by allowing an “alternative base period” to be used to determine eligibility and expanding eligibility for UI benefits to include individuals enrolled in a qualifying job training program. The bill eliminates UI benefits for claimants who become sick or disabled, increases the penalty for claimants who are dismissed for misconduct or gross misconduct, and decreases the amount of disregarded wages a claimant may earn while receiving UI benefits. The bill also increases the minimum earnings necessary to qualify for UI benefits. The Department of Labor, Licensing, and Regulation (DLLR) must immediately offer employers payment plan options for UI contributions in calendar 2010 and 2011 and reduce the monthly interest penalty from 1.5% to 0.5% under certain conditions. The modifications to Maryland UI law provided in the bill make Maryland eligible for a one-time payment of \$126.8 million in federal incentive funds.

Provisions in the bill affecting UI benefit eligibility take effect March 1, 2011, and apply to new benefit claims made after March 6, 2011. Provisions increasing the minimum earnings required for UI eligibility take effect March 1, 2012, and apply to new benefits established after March 4, 2012. Other provisions affecting permanent changes for payment plan options and interest payments in specified circumstances take effect January 1, 2012, and apply to UI contributions beginning January 1, 2012.

**Fiscal Summary**

**Unemployment Insurance Trust Fund (UITF):** UITF revenues increase by \$126.8 million in FY 2010 as a result of federal stimulus funds. UITF revenue reductions reflect a reduction in investment revenues and, in future years, a decrease in employer contributions and reimbursements. UITF expenditures decrease beginning in FY 2011, reflecting changes to UI eligibility. Future years reflect inflation and annualization.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
UITF FF Revenues	\$126,800,000	\$0	\$0	\$0	\$0
UITF Revenues	(375,000)	(1,504,900)	(781,400)	(91,700)	(179,400)
UITF Expenditures	0	(93,400)	(213,400)	(515,900)	(133,800)
Net Effect	\$126,425,000	(\$1,411,500)	(\$567,900)	\$424,200	(\$45,600)

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

**State Effect:** Special fund revenues to the Special Administrative Expense Fund (SAEF) decrease by \$375,000 in FY 2010, by \$1.5 million in FY 2011, and by \$750,000 in FY 2012 as a result of decreased interest penalties charged to employers. State expenditures to reimburse UITF decrease by \$900 in FY 2011 and \$2,400 in FY 2012.

(in dollars)	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
SF Revenue	(\$375,000)	(\$1,500,000)	(\$750,000)	\$0	\$0
GF/SF/FF Exp.	\$0	(900)	(2,400)	(5,700)	(3,000)
Net Effect	(\$375,000)	(\$1,499,100)	(\$747,600)	\$5,700	\$3,000

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

**Local Effect:** Local jurisdictions' expenditures to reimburse UITF decrease by approximately \$1,200 in FY 2011, by \$3,100 in FY 2012, by \$7,500 in FY 2013, and by \$3,900 in FY 2014.

**Small Business Effect:** The Administration has determined that this bill has a meaningful impact on small business (attached). Legislative Services concurs with this assessment. (The attached assessment does not reflect amendments to the bill.)

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## Analysis

### Bill Summary:

#### *Alternative Base Period*

If an individual does not qualify for UI benefits under the currently defined "base period," an alternative base period consisting of the four most recently completed calendar quarters preceding the start of the benefit year may be used for calculation of benefits beginning March 1, 2011, for claims filed on or after March 6, 2011. Currently, the first four of the last five preceding calendar quarters are considered for UI eligibility.

#### *Expansion of Unemployment Benefits for Employment Training*

Individuals who are unemployed and have exhausted all rights to UI benefits under State and federal law may seek the equivalent of 26 times the individual's average weekly benefit amount by enrolling in an employment training program authorized by the Workforce Investment Act of 1998, as amended, that prepares the individual for entry into a demand occupation. These provisions take effect March 1, 2011, and apply to

claimants in approved training on or after March 6, 2011. The individual must be separated from a declining occupation or must have been involuntarily terminated from employment as a result of a permanent reduction of operations at the individual's former place of employment. An individual must enroll in training before the end of the benefit year established for the employment separation that made the individual eligible for the training benefit. Training benefits may not be payable for more than one year following the end of the benefit year established. Additionally, an individual may not receive UI training benefits if that individual is receiving similar stipends or other allowances for nontraining costs. An individual cannot be denied additional training benefits if the individual is unavailable to work or not actively seek work.

#### *Part-time Unemployment Insurance Benefits*

The bill requires that, in order for an individual seeking part-time work to be eligible for UI benefits, the individual must be seeking hours that are comparable to the individual's work at the time of the most recent separation from part-time employment and must be at least 20 hours per week. The bill removes the requirement that an individual be available for *at least* the number of hours worked at the part-time worker's previous employment. The bill also removes the prohibition from a part-time worker imposing any other restrictions on the part-time worker's ability or availability to work. A part-time worker must have worked for a majority of weeks in the base period in order to qualify for benefits. The bill does not substantively alter eligibility for part-time UI benefits. The changes are needed to comply with federal requirements to receive stimulus funds and take effect March 1, 2011, for claims filed beginning March 6, 2011.

#### *Interest Penalty Charged for Late Employer Payments*

The bill reduces the interest rate charged to businesses that fail to make employer contributions or reimbursement when payment is due under certain circumstances. The monthly interest rate is reduced from 1.5% to 0.5% of the outstanding balance for calendar 2010 and 2011 and any year thereafter in which employer contributions are calculated using tax rate Table F. This equates to reducing the interest penalty from 18% to 6% on an annualized basis.

#### *Alternative Payment Plans*

For calendar 2010 and 2011, DLLR must offer a variety of payment plan options to employers. These payment options must allow contributions due on taxable wages for the first nine months of the calendar year to be paid through December. DLLR must implement regulations offering employers a payment plan for any calendar year after 2011 in which employer contributions are to be calculated using Table F. These payment plans must allow payments for contributions due for the first six months of the year to be spread through August of that year.

### *Increasing Minimum Earnings for UI Eligibility*

The minimum amount of qualifying wages an individual must earn during the base period to be eligible for UI benefits is increased from \$900 to \$1,800 effective March 1, 2012, for claims filed beginning March 4, 2012. Accordingly, the minimum weekly available benefit amount is increased from \$25 to \$50, reflecting the current amount available to a claimant with at least \$1,800 in qualifying earnings. Currently, weekly benefit amounts range from \$25 to \$410 per week, increasing to \$430 in October 2010, based on earnings in the base period.

### *Elimination of Sick Claims*

Under current law, an individual who is eligible for UI benefits and becomes ill or disabled after filing for benefits may continue to receive UI benefits if the individual is unable to work or to seek work due to the illness or disability. The bill removes this provision from State UI law effective March 1, 2011, for claims filed on or after March 6, 2011.

### *Misconduct or Gross Misconduct Penalty*

The amount of time an individual who is terminated from employment for misconduct must wait before being eligible for UI benefits is increased to range between 10 to 15 weeks, depending on the seriousness of the misconduct. The current waiting period for these individuals is 5 to 10 weeks.

The bill increases the penalty for individuals who are terminated from employment for gross misconduct. Under current law, employees discharged for gross misconduct are disqualified from receiving benefits until they are reemployed and have earned wages equal to 20 times their weekly benefit amount. The bill increases this penalty to 25 times the weekly benefit. The bill does not change the standards governing discharges for misconduct or gross misconduct.

These provisions take effect March 1, 2011, for claims filed on or after March 6, 2011.

### *Disregarded Wages for Purposes of Partial Employment*

The bill reduces the amount the amount of earnings a UI claimant who becomes partially employed may receive that do not affect a claimants weekly benefit. This amount is decreased from \$100 to \$50 effective March 1, 2011, for claims filed on or after March 6, 2011.

## *Unemployment Oversight Committee Study Requirements*

The Joint Committee on Unemployment Insurance Oversight is directed to study changes and make recommendations by December 1, 2010, on a cost-neutral plan to implement a graduated increase of the maximum weekly benefit to equal 54% of the average weekly wage. The study, including any research findings, must include a determination of whether: (1) the impact of lowering the earnings disregard serves as a disincentive for claimants to return to work (possibly part-time work which may turn into full-time work); and (2) the earnings disregard should be changed from a flat amount to a fraction of weekly wages or benefits. If the study indicates that the amount of the wages that may be subtracted in the calculation of the weekly benefit amount should be increased above \$50, the oversight committee is required to determine an offset with other savings to the trust fund that approximates the increased payout of benefits attributed to an increase in the disregarded wages over \$50 in the bill. If the study is inconclusive, the oversight committee is required to monitor the impact of lowering the earnings disregard.

**Current Law:** Unemployment benefits are funded through Maryland employers' State unemployment insurance taxes. All private business employers and nonprofit employers employing one or more persons, at any time, are subject to the Maryland Unemployment Insurance Law. Legislation enacted in Maryland in 2005 (Chapter 169) altered Maryland's UI charging and taxation system by creating a series of experience tax rate tables that are based on the balance in the Maryland UITF. An employer's unemployment experience determines the rate charged within each of the six tables.

If the balance of UITF exceeds 5.0% of total taxable wages in the State (as measured on September 30 of the current year), the lowest tax rate table (Table A) is used to calculate employer rates for the following calendar year. When UITF is depleted to the point the balance is less than 3.0% of the taxable wages, the highest rate table (Table F) is used to determine employer rates. State and local governments and some nonprofit organizations reimburse UITF dollar-for-dollar in lieu of paying State and federal UI taxes. **Exhibit 1** shows the six rate tables that determine the amount charged to each employer. Taxable wages are defined as the first \$8,500 earned by each covered employee in a calendar year.

Employers that fail to make a contribution or reimbursement when payment is due must pay a monthly interest penalty of 1.5% until the contribution or payment in lieu of contributions and interest is paid.

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**Exhibit 1**  
**Unemployment Insurance Tax Rates**

<u>Table</u>	<u>Ratio of UITF to Taxable Wages</u>	<u>Minimum Rate</u>	<u>Maximum Rate</u>	<u>Taxes Per Employee</u>	
				<u>Minimum</u>	<u>Maximum</u>
A	UITF exceeds 5%	0.3%	7.5%	\$25.50	\$637.50
B	UITF exceeds 4.5%, but not in excess of 5%	0.6%	9.0%	51.00	765.00
C	UITF exceeds 4%, but not in excess of 4.5%	1.0%	10.5%	85.00	892.50
D	UITF exceeds 3.5%, but not in excess of 4%	1.4%	11.8%	119.00	1,003.00
E	UITF exceeds 3%, but not in excess of 3.5%	1.8%	12.9%	153.00	1,096.50
F	UITF is 3% or less	2.2%	13.5%	187.00	1,147.50

Source: Department of Legislative Services

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In order to qualify for UI benefits an individual must be able to work, available for work, and actively seeking work. UI benefits are calculated based on wages during the first four of the last five completed calendar quarters preceding when an individual makes a first claim for UI benefits. The most recently worked quarter is not considered when determining a UI benefit payment. A benefit year is defined in current law as beginning the first day of the first week which an individual first files a claim for UI benefits. If an individual already has had a benefit year, the benefit year begins on the first day of the first week for which the individual files a claim for benefits after the termination of the preceding benefit year.

Maryland does not currently offer State UI benefits to individuals enrolled in employment training, although federal payments are available under certain conditions.

Chapters 5 and 6 of 2009 expanded UI benefits to individuals seeking part-time employment. To be eligible for UI benefits, an individual must be predominantly seeking part-time work; must be available for part-time work at least the number of hours worked at that 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.

**Background:** The balance of UITF has fluctuated historically, growing in strong economic times to over \$1.0 billion in each of calendar 2007 and 2008. On September 30, 2009, the balance in UITF fell to \$301.7 million. This significant decline combined with a recent decline of over \$1.0 billion of the taxable wage base to \$17.8 billion, places the State and Maryland employers in the highest tax table beginning in January 2010. Table F requires employers to pay a minimum of 2.2% and a maximum of 13.5% (\$187 to \$1,147.50 per employee) depending on their UI experience rating.

The main driver of the decline of UITF is the increased claims for UI benefits resulting from the economic downturn. The State's unemployment rate increased from 5.4% in December 2008 to 7.5% by December 2009. Average monthly payouts from UITF grew from \$36 million in 2007 to \$89 million in 2009. Benefit payouts reached a peak in March 2009 of \$24 million per week. Initial claims grew from about 203,000 in calendar 2006 to about 362,000 in calendar 2008 and over 416,000 in calendar 2009. Unemployment benefits remain an important factor in the decline of UITF balances, as payment rates have been slow to decrease. For the weeks ending January 9, 2010, and January 16, 2010, weekly UI benefits paid were \$21.8 million and \$23.5 million, respectively.

**Exhibit 2** shows for each year since 2004 the balance of UITF on September 30, the annual benefit payout amounts, and Maryland's seasonally adjusted unemployment rate. The historic high unemployment rate for Maryland was 8.3% in August 1982, and the historical low was 3.3% in March 2000. Also shown in Exhibit 2 are the tax tables employers paid from during calendar 2006 to 2009 and will pay from during calendar 2010.

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**Exhibit 2**  
**Maryland's Unemployment Rate, UI Trust Fund Balance,**  
**and Annual Benefit Payouts**  
**2004-2010**

<b>Tax Calendar Year</b>	<b>Percentage Unemployment Rate at End of Year</b>	<b>UITF Balance as of Prior September 30 (\$ in Millions)</b>	<b>Tax Rate Table in Effect</b>	<b>Annual Benefit Payouts (\$ in Millions)</b>	<b>Average Taxes Per Employee</b>
2004	4.2	\$638.5		\$430.8	N/A
2005	3.9	703.6		384.7	\$231
2006	3.6	883.1	B	383.5	191
2007	3.6	1,032.5	A	433.3	149
2008	5.4	1,057.8	A	633.5	155
2009	7.5	895.4	B	1,069	212
2010 est.*	N/A	301.7	F	N/A	442

\*Estimate assumes average employer experience rating increases by .0027.

Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation; Department of Legislative Services

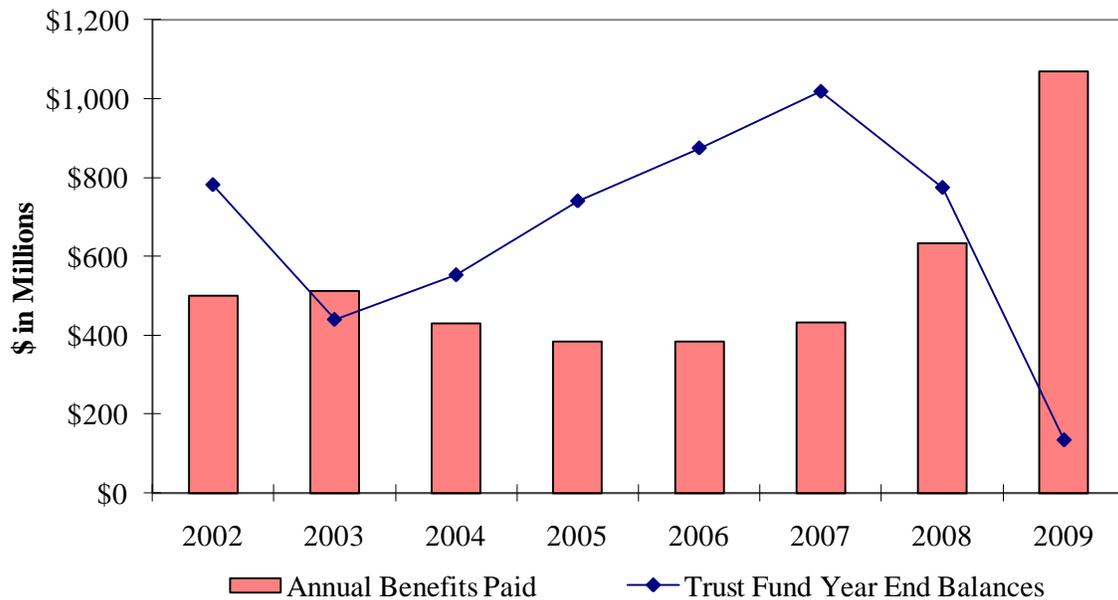
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**Exhibit 3** is an alternative presentation of UITF activity since the infusion of the federal Reed Act funds in 2002. In the two-year aftermath of September 11, withdrawals from the trust fund significantly outpaced deposits, resulting in a 10-year low in the first quarter of 2004. Conversely, in healthier economic times from calendar 2004 to 2006,

deposits to UITF were greater than withdrawals leading to a steady climb in the trust fund balance. The recent economic downturn has manifested itself in the fluctuations in the trust fund balance in calendar 2007, 2008, and 2009. In general, withdrawals have significantly outpaced deposits, driving down the balance, and triggering a move from Table B in 2009 to Table F in calendar 2010.

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**Exhibit 3**  
**Annual Benefits Paid as Compared to Year-end**  
**Unemployment Insurance Trust Fund Balances in Maryland**



Source: U.S. Department of Labor; Department of Labor, Licensing, and Regulation; Department of Legislative Services

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Depletion of UITF is not isolated to Maryland. As of March 8, 2010, 32 states, including Maryland, have borrowed money from the federal government to pay benefits. **Exhibit 4** lists the states that have received loans from the federal government. In order to prevent interest from accruing, loans must be repaid by January 2011.

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**Exhibit 4**  
**Outstanding Loans from the Federal Unemployment Account**  
**Balances as of March 8, 2010**  
**(\$ in Millions)**

<u>State</u>	<u>Loan Balance</u>	<u>State</u>	<u>Loan Balance</u>
Alabama	\$224.5	Nevada	\$272.8
Arkansas	293.0	New Hampshire	6.8
California	7,862.6	New Jersey	1,313.8
Colorado	104.5	New York	2,697.8
Connecticut	332.2	North Carolina	1,987.2
Florida	1,325.9	Ohio	2,088.9
Georgia	257.2	Pennsylvania	2,555.9
Idaho	157.1	Rhode Island	177.8
Illinois	1,804.0	South Carolina	809.7
Indiana	1,724.4	South Dakota	16.9
Kansas	16.8	Texas	1,800.3
Kentucky	713.7	Vermont	9.2
Maryland	35.4	Virgin Islands	12.0
Massachusetts	120.4	Virginia	253.4
Michigan	3,593.7	Wisconsin	1,221.3
Minnesota	502.6		
Missouri	623.0	<b>Total</b>	<b>\$34,914.8</b>

Source: U.S. Department of Labor

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The American Recovery and Reinvestment Act of 2009 (ARRA) included \$7 billion in federal incentives to be provided to states that enact specified UI system alterations. Maryland's allotment of the total funding is estimated at \$126.8 million if the State accepts additional Reed Act funds that would only be available if UI benefits are expanded in the specified ways. This is in addition to the additional federal emergency compensation that added \$25 in weekly benefits and up to 33 weeks of additional benefits. In March 2010, 30 days of additional benefits were authorized by the U.S. Congress. In order for a state to access its additional federal funds, the required benefit expansions must be in place by August 31, 2011, and the effective date of the legislation must be on or before September 21, 2012.

In order to qualify for the full \$126.8 million in federal stimulus funds, Maryland must adopt an alternative base period. Adopting an alternative base period will qualify the State for one-third of the \$126.8 million allotment. Once a state adopts the alternative base period into law, two-thirds of the remaining allotment would be awarded if the state adopts at least two of four additional changes specified by the legislation. These changes include (1) making part-time workers eligible for benefits; (2) providing coverage to individuals who separate from work for compelling family reasons (illness of a family member, safety reasons due to domestic violence, change in spouse's employment location); (3) providing Workforce Investment Act (WIA) training benefits for at least 26 weeks in high demand industries; or (4) adding a \$15 weekly allowance to UI payments for dependents.

Many states have taken action to secure the federal incentive funds for UI modernization. Currently, 36 states have qualified for the initial one-third federal funds by adopting an alternative base period either before or after ARRA. Additionally, 22 of these states have qualified for the other two-thirds of incentive funds by adopting additional benefits eligibility. **Exhibit 5** summarizes legislative action taken by states. This exhibit does not identify states currently offering a form of these benefits that does not conform to the requirements to receive federal stimulus funds. For example, Maryland currently offers part-time benefits, compelling family reasons for military spouses, and a dependents allowance for certain claimants but does not qualify for federal incentives. The U.S. Department of Labor has notified the Department of Labor, Licensing, and Regulation (DLLR) that Maryland's part-time benefit law (enacted as Chapter 5 and 6 of 2009) does not conform to federal guidelines required to receive federal incentive funds.

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**Exhibit 5**  
**UI Modernization**  
**State Legislative Activity**

<u>States</u>	<u>Alternative Base Period</u>	<u>Part-time Benefits</u>	<u>Employment Training</u>	<u>Compelling Family Reasons</u>	<u>Dependents Allowance</u>
With Qualifying Benefits Prior to ARRA	18	2	0	0	1
With Qualifying Benefits Since ARRA	18	15	13	14	2
<b>Total</b>	<b>36</b>	<b>17</b>	<b>13</b>	<b>14</b>	<b>3</b>

Source: National Association of State Workforce Agencies

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As a result of work by the Committee on Unemployment Insurance Oversight, Maryland has enacted legislation expanding UI benefits in recent legislative sessions. Chapter 298 of 2007 increased the maximum weekly benefit amount from \$340 to \$380. Chapters 287 and 288 of 2009 increased the maximum weekly benefit amount from \$380 to \$410 in October 2009 and will increase it further to \$430 in October 2010. UI benefits were

also expanded in 2009 through Chapters 5 and Chapters 6 of 2009, which provided UI benefits to part-time employees.

### *Alternative Base Period*

The base period is the time period during which a claimant's wages earned are examined to determine a claimant's eligibility for UI benefits. In Maryland, and most states historically, the first four of the last five calendar quarters preceding the claim are considered the base period. Using the traditional base period, a lag of up to six months between the end of the base period and the date on which an individual becomes unemployed and files an unemployment claim may occur. As a result, the worker's most recent employment history is not considered when determining eligibility for UI benefits. Adoption of an alternative base period, considering the most recent four quarters of employment, increases eligibility for UI benefits by including individuals who are not currently eligible because they do not meet the minimum duration of employment or the minimum wage earnings during the established base period.

### *Disregarded Earnings and Partial Employment*

Disregarded wages allow an individual receiving UI benefits to perform a limited amount of part-time work without being penalized for those earnings. Under current law, in Maryland, an individual who is receiving UI benefits may earn up to \$100 each week from part-time work without a reduction in UI benefits so long as that individual is still available, seeking, and willing to work full time. If an individual earns more than \$100 through partial employment, the individual's UI weekly benefit payment is reduced by that amount. Disregarded earnings provide an additional incentive for unemployed individuals to seek part-time work, which may eventually lead to full-time employment. Reducing the amount of earnings that are disregarded for UI purposes may create a disincentive for people receiving UI benefits from seeking partial employment, as any additional earnings would be subtracted from UI benefits. Conversely, reducing the amount of disregarded wages may also increase the incentive for an individual to actively seek full-time work instead of partial employment.

**State Fiscal Effect:** UI benefits are chargeable to the State and reimbursed on a quarterly basis. Approximately 1.3% of UI benefits are charged to the State. In fiscal 2011, payments for approximately one quarter are collected. Thus, total State expenditures (general funds, special funds, and federal funds) due to the expansion of UI benefits decrease by \$900 in fiscal 2011. In fiscal 2012, benefits paid in one quarter of fiscal 2011 and three quarters of fiscal 2012 are collected, thus expenditures decrease by \$2,400 in fiscal 2012, by \$5,700 in fiscal 2013, and by \$3,000 in fiscal 2014.

Requiring DLLR to offer payment plans to all employers will alter the periods in which revenues are received, both reducing investment revenues to UITF and the amount of revenues from interest penalties charged to employers to the Special Administrative

Expense Fund. SAEF revenues in 2009 totaled \$4.6 million, of which \$1.7 million were interest penalties. DLLR estimates that reducing the monthly interest rate from 1.5% to 0.5% will reduce penalties paid into SAEF by \$1.5 million annually. As a result, SAEF revenues decrease by \$375,000 in fiscal 2011, by \$1.5 million in fiscal 2011, and by \$750,000 in fiscal 2012, taking into account the bill will immediately reduce interest penalties charged to employers through the end of calendar 2011. This estimate assumes that interest penalties will return to their normal level in calendar 2012. To the extent Table F is still in use, lower revenue levels would continue.

**Unemployment Insurance Trust Fund:** Expanding UI benefits through creation of an alternative base period will increase the number of individuals eligible for UI benefits. According to data collected by DLLR, in 2009 approximately 1,971 individuals were monetarily ineligible for UI benefits due to wages paid in only one quarter and would likely have been eligible for UI benefits under an alternative base period. Additionally, approximately 2,802 individuals who were ineligible due to insufficient total wages in 2009 would be eligible to receive UI benefits under an alternative base period. Assuming that 75% of claimants eligible for UI benefits actually receive benefits, DLLR estimates that adopting an alternative base period will result in up to 3,580 additional individuals receiving UI benefits each year. DLLR estimates that 342 people annually will qualify for additional UI benefits by enrolling in qualifying job training. There are 116 WIA-approved occupational training providers in Maryland for which eligible claimants may receive qualifying training. The bill will not affect the number of individuals qualifying for part-time UI benefits.

#### *Trust Fund Expenditures – Increase*

Adopting an alternative base period and extending UI benefits for individuals attending qualified employee training programs increases UITF expenditures by \$18.3 million on an annualized basis. Of this total, \$16.5 million is attributed to adopting an alternative base period and \$1.8 million is attributed to employee training.

UITF expenditures increase by an estimated \$5.9 million in fiscal 2011, reflecting the March 1, 2011 effective date of the affected provisions in the bill. UITF expenditures increase by \$18.3 million in fiscal 2012 and continue to increase based on an annual 3% increase in average weekly benefits received. In fiscal 2014, UITF expenditures are expected to increase by \$19.4 million. The following facts and assumptions were used in determining the increase in UITF expenditures.

- The total number of individuals receiving new weekly benefits from an alternative base period uses 2009 actual claim data. DLS acknowledges that 2009 claim data reflects a period of significantly higher than average unemployment. However, data for prior periods were not made available for purposes of this estimate.

- Each benefit recipient receives on average 17 weeks of unemployment benefits. To the extent this estimate varies, UITF expenditures may increase/decrease by approximately \$1.0 million per each week of variation in the average duration of benefits.
- The average weekly benefit amount is \$310 and increases by 3% each year. Individuals receiving UI benefits through an alternative base period receive 15% less in weekly benefits than the average benefit under a traditional base period.

Since the expansion of UI benefits to individuals seeking part-time work through Chapters 5 and 6 of 2009, DLLR has limited information on the number of eligible claimants due to implementation of automated systems. From April to August 2009, the department has been able to document a \$500,000 impact to UITF due to part-time UI benefit payments. DLLR estimates that modifications to part-time UI eligibility, as specified in this bill, will not increase UITF expenditures.

*Trust Fund Expenditures – Decrease*

Eliminating sick claims, increasing the minimum earnings requirement for UI eligibility, increasing the penalty for individuals terminated from employment for misconduct or gross misconduct, and reducing the amount of wages that are disregarded from UI benefits will reduce the amount of benefits paid to claimants and therefore decrease UITF expenditures by an estimated \$19.2 million on an annualized basis. **Exhibit 6** shows the estimates DLLR has provided for each of these savings measures.

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**Exhibit 6**  
**Reductions in UITF Expenditures**  
**(\$ in Millions)**

<u><b>Benefit Reduction</b></u>	<u><b>Annual Expenditure Reduction</b></u>
Sick Claims	(\$2.7)
Increasing Minimum Earnings Requirement*	(1.0)
Misconduct	(2.5)
Gross Misconduct	(2.5)
Disregarded Wages	(10.5)
<b>Total</b>	<b>(\$19.2)</b>

\*Increasing the minimum earnings requirement does not take effect until March 2012; thus, the total reduction from March 2011 through February 2012 equates to \$182.million.  
Source: Department of Labor, Licensing, and Regulation

Reducing UI benefit eligibility will reduce expenditures from UITF by \$6.0 million in fiscal 2011, by \$18.5 million in fiscal 2012, by \$19.4 million in fiscal 2013, and by \$19.6 million in fiscal 2014. This estimate is based largely on the analysis of 2009 claims data performed by DLLR. It reflects a 1% annual increase in savings from each measure to reflect increases in average weekly benefit amounts for which certain claimants would be eligible.

### *Trust Fund Revenues*

By enacting the UI modernization provided in the bill, Maryland will qualify for \$126.8 million in federal stimulus funds. These funds will be paid to the State within 45 days of enactment of the bill. Assuming the bill is enacted prior to May 16, 2010, UITF revenues increase by \$126.8 million in fiscal 2010. Otherwise, revenues will increase in fiscal 2011 instead.

Offering payment plans to employers will reduce the amount of timely UI payments received each quarter and will negatively affect the balance of UITF, thus decreasing investment revenues to UITF. For employers that choose to select a payment plan for unemployment contributions in 2010, payments would be spread out over nine months instead of the typical collection cycle. In calendar 2009, investment revenues to UITF were \$21.2 million; however, the balance of UITF is projected to be considerably lower than in prior years so total investment revenues for UITF in calendar 2010 may only total \$4.3 million. As a result, investment revenues are only expected to decrease by \$1.5 million in calendar 2010 and 2011. This equates to \$375,000 in fiscal 2011, \$1.5 million in fiscal 2012, and \$750,000 in fiscal 2013. This estimate assumes alternative payment plans will not be offered in calendar 2012. However, to the extent Table F is still in use, lower revenue levels would continue.

Of the amount of UI benefits paid to individuals, approximately 64.1% of the benefits paid are charged back to one or more employers over a three-year period, beginning the year following benefits payment. The difference that cannot be charged back to private-sector employers is, ultimately, recovered through premiums paid by all employers. Payments made for State, local government, and nonprofit employers are charged in the same year and reimbursement is made on a quarterly basis. For example, in fiscal 2011 one quarter is collected; annually thereafter payments for one quarter for the previous year and three quarters for the current year are collected.

UITF revenues decrease from employer contributions and reimbursements by State and local governments, and other reimbursing employers by \$4,900 in fiscal 2011, by \$31,400 in fiscal 2012, by \$91,700 in fiscal 2013, and by \$179,400 in fiscal 2014.

**Local Fiscal Effect:** UI benefits are chargeable to local governments and reimbursed on a quarterly basis. Approximately 1.7% of UI benefits are charged to local governments. In the first year, payments for only one quarter are collected. Thus, local jurisdictions'

expenditures decrease by \$1,200 in fiscal 2011, \$3,100 in fiscal 2012, \$7,500 in fiscal 2013, and \$3,900 in fiscal 2014 due to increased eligibility for UI benefits.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** HB 91 (The Speaker)(By Request - Administration) – Economic Matters.

**Information Source(s):** Department of Labor, Licensing, and Regulation; U.S. Department of Labor; National Association of State Workforce Agencies; Department of Legislative Services

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## ANALYSIS OF ECONOMIC IMPACT ON SMALL BUSINESSES

**TITLE OF BILL:** *Labor and Employment - Unemployment Insurance - Modernization and Tax Relief Act*

**BILL NUMBER:** SB107

**PREPARED BY:**

### PART A. ECONOMIC IMPACT RATING

This agency estimates that the proposed bill:

WILL HAVE MINIMAL OR NO ECONOMIC IMPACT ON MARYLAND  
SMALL BUSINESS

OR

WILL HAVE MEANINGFUL ECONOMIC IMPACT ON MARYLAND  
SMALL BUSINESSES

### PART B. ECONOMIC IMPACT ANALYSIS

This bill will have a substantial net positive impact on small businesses in Maryland. Businesses will receive \$83 million in unemployment insurance rate relief immediately upon passage of the bill. On an individual employer basis, moving from Table F to Table E will save employers at the lowest experience rating \$34 per employee in Unemployment Insurance taxes, and \$51 per employee at the highest experience rating. Approximately 50% of Maryland employers are in the lowest end of the table, because they have the best experience rating.

In addition, the Unemployment Insurance Fund into which small businesses must make contributions will receive \$126.8 million in federal modernization incentive funds within 45 days of enactment. These funds will shore up the solvency of the Fund. The modernization provisions will increase payments out of the Fund beginning in 2011 by \$20 million, but these payments will not constitute a net cost to the Fund until 2017. These costs are shared by all employees, not just the small business community.