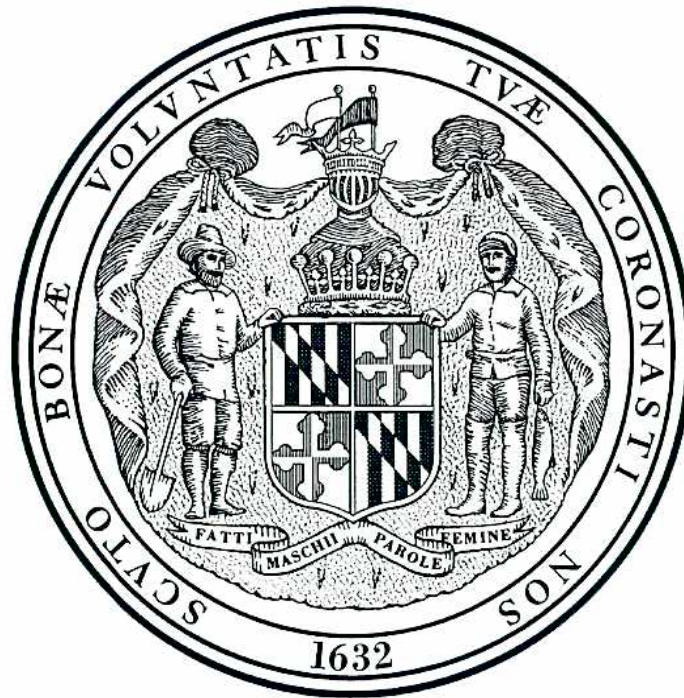


# UNEMPLOYMENT INSURANCE FUNDING TASK FORCE

2003 Interim Report



ANNAPOLIS, MARYLAND  
FEBRUARY 2004

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MARYLAND GENERAL ASSEMBLY  
UNEMPLOYMENT INSURANCE FUNDING TASK FORCE  
February 13, 2004

The Honorable Robert L. Ehrlich, Jr., Governor  
The Honorable Thomas V. Mike Miller, Jr., President of the Senate  
The Honorable Michael E. Busch, Speaker of the House of Delegates  
The Honorable Members of the Maryland General Assembly

Ladies and Gentlemen:

The Unemployment Insurance Funding Task Force was created pursuant to Chapter 269 of 2003. The task force is charged with examining the fairness of the existing charging and taxation system under current State law, the fairness of the existing eligibility and benefit provisions under current State law, the need for altering the current system of charging and taxation in order to maintain the Unemployment Insurance Trust Fund at a level sufficient to meet benefit needs, and the impact of changes in the national and State economies and their relationship to changes in the fund.

Under the legislation, the task force's report on its findings and recommendations was to be completed by December 1, 2003. However, in a letter sent to the Governor and the Presiding Officers on November 24, 2003, the task force postponed its report until the end of January 2004. The 13-member task force met six times between August 2003 and January 2004.

The report provides background information, describes the task force's activities, identifies alternatives that the task force considered, and presents the task force's findings and recommendations. Due to the complexities of the system, the consideration of the needs of both businesses and labor, and the time needed to fully understand cost implications of all alternatives to develop a reform package, the task force recommends that it continue to meet. The task force will introduce legislation to continue its charge through December 31, 2004. Since the task force has not completed its work, this report is considered an interim report.

The task force expresses its appreciation for the time and effort invested by all members.

Respectfully submitted,

Handwritten signature of Thomas McLain Middleton in cursive.

Thomas McLain Middleton  
Senate Co-Chair

Handwritten signature of Ann Marie Doory in cursive.

Ann Marie Doory  
House of Delegates Co-Chair

TMM:AMD/TDB/ncs



# Maryland General Assembly Unemployment Insurance Funding Task Force 2003 Membership Roster

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Senator Thomas McLain Middleton, Co Chairman  
Delegate Ann Marie Doory, o-Chairman  
Senator Nathaniel Exum  
Senator Delores G. Kelley  
Delegate Carolyn Krysiak  
Delegate John G. Trueschler

*Representative of the Department of Labor, Licensing, and Regulation*

Mr. Thomas Wendel, Executive Director  
Department of Labor, Licensing, and Regulation

*Representative of the Department of Business and Economic Development*

Mr. Pradeep Ganguly, Chief Economist, Economic Research  
Department of Business and Economic Development

*Representative of the Maryland Retailers Association*

Mr. Tom S. Saquella, President  
Maryland Retailers Association

*Representative of the Job Opportunities Task Force*

Ms. Deborah Povich, Executive Director  
Job Opportunities Task Force

*Representative of Union Labor (Maryland State and District of Columbia AFL-CIO)*

Mr. Nicholas M. Weiner, Research Director  
Hotel Employees and Restaurant Employees International Union

*Representative of the Maryland Chamber of Commerce*

Mr. Ronald L. Adler  
Laurdan Associates, Inc., H.R. Consulting

*Representative of the Academic Profession*

Anirban Basu, M.A., M.P.P., J.D.  
Chairman & CEO, Optimal Solutions Group & Senior Lecturer  
Towson University, Optimal Solutions Group

**Committee Staff**

Tami Burt  
Mitchell McCalmon

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# Unemployment Insurance Funding Task Force

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## Introduction

With the known possibility that the assessment of a surcharge on the State's employers was inevitable in the near future, the General Assembly passed Chapter 269 of 2003 to establish the Unemployment Insurance Funding Task Force for the purposes of reviewing Maryland's overall unemployment insurance system.

Specifically, the task force is charged with examining the fairness of the existing charging and taxation system under current State law, the fairness of the existing eligibility and benefit provisions under current State law, the need for altering the current system of charging and taxation in order to maintain the Unemployment Insurance Trust Fund at a level sufficient to meet benefit needs, and the impact of changes in the national and State economies, and their relationship, on changes in the fund. The task force is comprised of legislators, representatives of business and labor, a State agency representative, an economist, and an academic professional.

The task force began its work in August 2003 and held its last meeting in early January 2004. Since the task force has not completed its work, this report is considered an interim report.

The report provides background information and describes the task force's activities. Further, the report identifies alternatives that the task force considered and presents the task force's findings and recommendations. In addition, enclosed with this report are appendices that include information prepared by the Department of Labor, Licensing, and Regulation; other interested parties; and the staff of the task force.

## Background

From employer tax contributions, the unemployment insurance system pays benefits to workers unemployed through no fault of their own. Although the system was established in federal law, it is administered through state laws. Generally, the system is designed to provide income security, stimulate the economy during recessions, promote labor market stability, and improve productivity.

### **Status of the State's Unemployment Insurance Trust Fund and the Assessment of a Surcharge**

Under federal law each state must maintain an unemployment insurance trust fund which is comprised of employer tax contributions and interest. The trust fund may only be used to pay unemployment benefits. In Maryland, a surcharge triggers on the following January 1 when the Maryland Unemployment Insurance Trust Fund balance on September 30 of any year is less than 4.7 percent of the total taxable wages in covered employment for the preceding four calendar

quarters. The surcharge varies from 0.1 to 2 percent, with the amount depending on the degree to which the trust fund balance is underfunded. Total taxable wages for fiscal 2003 are estimated at \$17.6 billion.

During fiscal 2003, tax revenues amounted to approximately \$260 million and benefit payments to approximately \$518 million. On September 30, 2003, the balance in the trust fund was \$646 million, \$176 million below the level that is required to prevent triggering the State's surcharge and a significant decrease from last year's \$5 million cushion that was over the required level. Since the balance of the trust fund was below the required \$822 million, State's employers will be assessed a 1.1 percent surcharge in calendar 2004 (1.1 percent brings in an additional \$192 million; however, the non-charging provisions described below negate about \$160 million of this amount). The 1.1 percent surcharge translates into an additional cost to employers of \$93.50 per employee per year. Unlike the basic rate that is charged to employers, all employers pay the same surcharge amount. Reimbursers (non-profit organizations that reimburse the trust fund dollar for dollar for benefits paid) and new employers are not assessed a surcharge.

Without federal assistance, a surcharge of 0.8 percent would have been assessed on the State's employers in calendar 2003. Under the federal Job Creation and Worker Assistance Act of 2002, the federal government distributed \$8 billion to the states for unemployment insurance programs. Maryland's share of this "Reed Act" transfer, \$142.9 million, was deposited into the State's unemployment insurance account and used to pay benefits during fiscal 2003.

The last year the surcharge was assessed was in calendar 1996 (0.6 percent). A surcharge was also assessed in calendar 1993, 1994, and 1995 (1.7 percent, 1.7 percent, and 1.1 percent, respectively). Because the trust fund was growing after calendar 1993, legislation was enacted in 1994 and 1995 to bypass the statutory surcharge schedule for these calendar years in order to suppress the surcharge to a lower percentage than the tables would have required.

Maryland is not unique in having to assess a surcharge on its employers for calendar 2004. Many states are assessing surcharges on their employers for purposes of replenishing their trust funds. Moreover, the economic downturn has significantly impacted seven states that face bankruptcy, forcing them to either seek bailout loans from the federal unemployment insurance trust fund managed through the U.S. Department of Labor (Illinois, California, and New York) or float bonds (Texas). Loans are granted in three-month installments to cover whatever losses are incurred during that period. If the first installment is not paid back by September 30, interest is charged, adding to the cost to taxpayers (through general funds).

### **The State's Taxation System and Non-charging Provisions (Leakage)**

Under current law, monies are paid into the trust fund through a basic tax on employers paid on the first \$8,500 of each employee's annual income (the taxable wage base). There are approximately 2.3 million employees for whom employers pay the basic rate. The basic tax is experience rated, with employers with the least turnover paying the minimum tax of 0.3 percent

and employers with the highest turnover paying a maximum tax of 7.5 percent. A new employer (less than two years experience) is charged a rate that is based on the higher of 1 percent, the State's five-year benefit cost rate, or the rates assigned to employers with the lowest rate for that year. The current new employer rate for calendar 2003 is 1.9 percent (1.8 for calendar 2002).

Benefits are chargeable to employers' accounts in proportion to the wages the employer paid which were used to establish the individual's eligibility for benefits. However, employers may only be charged up to the maximum rate (7.5 percent). Further, benefits are not chargeable to employers' accounts under certain circumstances listed below. With these charging limitations, less than two-thirds of all benefits are charged back to employers (64 percent in fiscal 2002 and 65 percent in fiscal 2003).

### **General Non-charging Provisions**

The ability of the Maryland unemployment insurance tax structure to provide adequate trust fund reserves to avoid a surcharge is affected by several factors relating to the "non-charging" or partial charging of employers for benefits claimed by former employees of those employers. By not charging particular employers for these benefits, the costs are spread to all employers through the trust fund. Non-charging circumstances, also called "leakage," under current law include:

- not charging an employer's account for a former employee's subsequent unemployment after reemployment, particularly where the employee requalifies for benefits after **voluntarily quitting** the earlier employer (accounts for about 13 percent of all benefits -- approximately \$57 million in fiscal 2002 and \$58 million in fiscal 2003);
- not charging an employer's account for a former employee's subsequent unemployment after reemployment, particularly where the employee requalifies for benefits after being discharged for **gross misconduct or aggravated misconduct** (accounts for about 1 percent of all benefits -- approximately \$5 million in fiscal 2002 and 2003);
- the non-charging of **closed businesses** (accounts for about 9 to 12 percent of all benefits -- approximately \$54 million in fiscal 2002 and \$45 million in fiscal 2003); and
- the partial charging of businesses with experience ratings (turnover rates) that would theoretically place them at a tax rate greater than the maximum 7.5 percent tax rate that can be charged under the State schedule (called **ineffective charge**) (accounts for about 9 to 13 percent of all benefits -- approximately \$42 million in fiscal 2002 and \$61 million in fiscal 2003).

### **State Unemployment Tax Acts (SUTA Dumping) – Form of Leakage**

“Leakage” includes the practice of an employer avoiding a high unemployment insurance tax rate based on its history in the system by either forming a new company to get a lower unemployment tax rate or buying an existing firm with a low number of unemployment claims and use the second firm’s lower rate. Either way, the employer is “dumping” its original high tax rate since the employer shifts the employees to the company or firm with the lower rate. Several states, including North Carolina, Arkansas, Maine, and Washington recently passed legislation imposing heftier fines (making the penalty a felony) on employers who manipulate state unemployment rates to lower their unemployment taxes; the problem is known as “State Unemployment Tax Acts (SUTA)” dumping.

Congress is studying this situation and many states, including Maryland, are developing ways to determine violators through matching names of employees of one company with a newly formed other company. To date, the Maryland Division of Unemployment Insurance has not identified violators.

### **The State’s Benefit and Eligibility Requirements**

Under current law, benefits range from \$25 to \$310 per week, with the exact amount based on the claimant’s high-quarter wages for the first four of the last five completed calendar quarters, up to maximum qualifying wages of approximately \$6,700 in a calendar quarter and approximately \$10,080 in a four-quarter period. The maximum weekly benefit (increased from \$280 under Chapter 239 of 2002) replaces approximately 43 percent of the State’s average weekly wage. The average weekly wage is about \$732 for fiscal 2003 (\$712 in fiscal 2002). The amount of money an individual may earn is \$90 while still receiving the full weekly benefit amount. Wages of more than \$90 are deducted from a claimant’s weekly benefit amount on a dollar-for-dollar basis.

In addition to the weekly unemployment insurance benefits to which a claimant is entitled, a claimant is paid \$8 per week for each child, adopted child, or stepchild who is wholly or partly supported by the claimant and under 16 years old, not to exceed five dependents. The unemployment benefit plus the dependents’ allowances in any one week may not exceed the highest weekly benefit amount in the schedule of benefits, which is currently \$310. Approximately 14 percent of claimants receive dependents’ allowances (18,000 in fiscal 2003).

Eligible claimants may receive benefits for up to 26 weeks, known as the “uniform method of benefits.” The average duration for fiscal 2003 is 16 weeks (15 weeks in fiscal 2002).

To be eligible, an individual must be (1) able to work; (2) available for work; and (3) actively seeking work full-time. Claimants must be physically able to work at the time the claim is filed and must be available for customary hours of work in his or her occupation. A claimant may not restrict his/her availability to work (*e.g.*, only part-time, limited hours, etc.). Although there is no express requirement that an individual seek “full-time” work, Maryland Court of

Appeals decisions have determined that a claimant is not eligible if the claimant restricts his/her ability to work or search for work.

If an individual is released from a job due to a “job abolishment,” the individual’s weekly benefits are not reduced by a severance amount paid by the employer. However, if the individual is released for other reasons, the individual’s benefit is reduced based on the receipt of severance.

## **Task Force Activities**

The 13-member task force met six times between August 2003 and January 2004. On August 26, 2003, Mr. Thomas Wendel, Executive Director, and Ms. Susan Bass, Legislative Liaison, Division of Unemployment Insurance, Department of Labor, Licensing, and Regulation provided the task force with a briefing on the status of the Unemployment Insurance Trust Fund and an overview of Maryland’s unemployment insurance system. See **Appendix A** for the materials prepared by the Department of Labor, Licensing, and Regulation.

Each member of the task force provided their initial comments concerning their expectations regarding the work of the task force.

On September 30, 2003, the task force discussed a comprehensive draft “menu of items to consider” that was developed by the staff for the task force from suggestions of the task force members. See **Appendix B** for the document prepared by the staff of the task force. Mr. Wendel and Ms. Bass provided additional information on each of these items. Task force members requested additional fiscal information from the division.

On October 14, 2003, two panels of presenters provided comments to the task force. The first panel, representing labor’s interests, included Ms. Susan Levitan, Legislative Director, Maryland State & D.C. AFL-CIO; Mr. Christopher Costello, Government Affairs, Job Opportunities Task Force; Mr. Patrick Lester, Senior Policy Analyst, Maryland Budget & Tax Policy Institute; Mr. Andrew Stettner, Policy Analyst, National Employment Law Project; and Mr. Keith Wilkerson, member HERE Local 7, Morgan State University cafeteria worker. The second panel, representing businesses’ interests, included Ms. Pegeen A. Townsend, Senior Vice President, Legislative Policy, Maryland Hospital Association; Ms. Ellen Valentino, National Federation of Independent Business; Ms. Louise Johnson, Maryland Black License Beverage Association; and Mr. Miles Cole, Maryland Chamber of Commerce. See **Appendix C** for materials distributed by these parties at the meeting.

The last three meetings of the task force were devoted to work sessions. During these work sessions, the task force focused mainly on discussing alternatives that impact the taxation system, the non-charging provisions (“leakage”), and benefits and eligibility requirements. The task force deliberated the impact of each alternative, including cost implications on the trust fund.

## **Alternatives**

The task force considered numerous alternatives. For each alternative, the task force discussed whether the alternative should be further discussed for possible inclusion in a reform package or should no longer be included in the list of possible alternatives. The comprehensive list of alternatives discussed is summarized below. The estimated impact on the trust fund is indicated, as appropriate; estimates are based on current economic conditions.

**Table 1**  
**Alternatives Discussed**  
**Cost Impact Is Estimated for 2005**

	<b>Increase (+)/Decrease(-) in the Cost to the Trust Fund (<u>\$ in Million</u>)</b>
Raise all tax rates by 0.3% (new range: 0.6% to 7.8%)	+\$52.5
Raise all tax rates by 0.6% (new range: 0.9% to 8.1%)	+105.0
Raise minimum rate only 0.6% (new range: 0.9% to 7.5%)	+10.6
Collapse tax table into 0.2% intervals	+6.8
Collapse tax table into 0.3% intervals	+14.3
Collapse tax table into 0.5% intervals*	+28.4
Raise taxable wage base to \$10,000 and index 2	+9.8
Raise taxable wage base to \$12,000 and index 2	+19.0
Raise (or gradually raise) taxable wage base to \$10,000	undetermined
Raise (or gradually raise) taxable wage base to \$12,000	undetermined
Index current taxable wage base	undetermined
Experience rate the surcharge ( <i>i.e.</i> , tax rate schedules) <sup>1</sup>	undetermined
Use different tax rate tables in different economic climates	undetermined
Suppress surcharge for calendar 2004 or later years by 0.1%	-17.5
Raise maximum rate to 8.25%	+2.5
Raise maximum rate to 8.5%	+3.3
Raise maximum rate to 9.5%	+6.3
Raise maximum rate to 10.5%	+9.4
Charge employers for voluntary quit (VQ) employment by charging last 30-day employer's account*	+20.0
Charge employers for voluntary quit (VQ) employment by charging voluntary quit employer's account*	+60.0
Increase VQ penalty to 20 or 25 x weekly benefit amount*	+1.0
Take out gross misconduct wages before calculating benefit	+3.5

**Table 1**  
**Alternatives Discussed**  
**Cost Impact Is Estimated for 2005**

	<b>Increase (+)/Decrease(-) in the Cost to the Trust Fund (<u>\$ in Million</u>)</b>
Charge employers gross misconduct (GM) employment by charging last 30-day employer's account*	+2.0
Charge employers gross misconduct (GM) employment by charging gross misconduct employer's account*	+3.5
Increase GM penalty to 25 x weekly benefit amount*	+1.0
Require the posting of security/letter for new employers*	undetermined
Charge formula for new employers to require 3 years (current is 2) before experience rated	undetermined
Change formula for new employers to add 1%	+12.0
Impose surcharge on new employers*	+5.6
Impose surcharge on nonprofits (reimbursers)*	+44.2
Use an alternative base period (most recent 4 quarters)	-35.0
Require only 1 quarter of wages, instead of 2	-30.0
Use a "% of base period wages" (2%) to determine benefit and keep 2 quarters)	-5.0
Change to "variable duration" (benefit weeks based on weeks worked)	+15.0
Impose a 1 week waiting period all the time	+22.1
Impose a 1 week waiting period only in times of full employment	undetermined
Impose a 1 week waiting period to only those who qualify for less than 4 weeks	+3.2
Impose a 1 week waiting period to only those who qualify for more than \$250	undetermined
Extend benefits to certain part-time workers	-40.0
Deduct all severance payments from weekly benefits***	+1.5
Raise dependents' allowances to \$25 per child per week**	-8.3
Raise dependents' allowances to \$25 AND eliminate cap**	-19.1



**Table 1**  
**Alternatives Discussed**  
**Cost Impact Is Estimated for 2005**

	<b>Increase (+)/Decrease(-) in the Cost to the Trust Fund (<u>\$ in Million</u>)</b>
Eliminate dependents' allowances from the law**	+4.0
Raise weekly benefit to \$340 in 2005 and index 2	-26.0
Raise weekly benefit to \$340 in 2005 (no index)	-26.0
Drop bottom benefit amounts so that the minimum is \$50/week*	+2.5
Eliminate sick claims	+20.0
Eliminate stoppage of work clause	+1.0
Reduce benefits 5% when trust fund hits a low level*	+25.5
Enhance penalty provisions "SUTA dumping" by strengthening the "fraud with intent to evade a tax" penalty to be equal to 50% of total deficiency in payment of tax; strengthening the "attempt to evade tax" penalty to be a felony; and specifying that a "fraudulent act by contribution tax return preparer" is subject to a felony penalty.	undetermined
Continue the task force next interim for the purpose of: researching trends and recent dynamics of the employment market (by sectors and full-time/part-time work) and determining if changes should be made in the unemployment insurance law to accommodate the recent dynamics; and researching ways to combat the leakage.	not applicable

## Notes:

\*Alternatives that the task force voted to no longer include in the list of possible alternatives.

\*\*Alternatives that the task force voted to no longer include in the list of possible alternatives; however, the task force may reconsider this decision.

\*\*\*Alternatives that the task force voted to include in a reform package.

<sup>1</sup>The surcharge is not experience rated causing all employers to pay the same surcharge amount regardless of their basic tax rate. As an alternative to eliminating the surcharge, the Chamber of Commerce presented a proposal to implement a series of tax tables, depending upon the ratio of the trust fund balance to total taxable wages. See **Appendix D** for a copy of the proposal. Minimum and maximum rates would shift depending on the level of the trust fund for each year.

<sup>2</sup>The cost estimates do not reflect the indexing factor.

## **Findings and Recommendations**

The task force finds that the unemployment insurance system should be reformed. The task force has attempted to identify a list of alternatives that could be included in a reform package. However, the task force recognizes that there may be other alternatives that have not been identified at this time.

The task force finds that it will need to consider a multitude of alternatives as a package which mesh together to reform the unemployment insurance system. The needs of both business and labor representatives will need to be considered in the package.

The task force understands that businesses are concerned with the forthcoming assessment of a 1.1 percent surcharge on businesses for calendar 2004 and the possibility of a surcharge for several more years. The surcharge is not experienced-rated, causing all employers to pay the same surcharge. Business representatives are concerned that this places an unfair burden on the employers whose basic tax rate is at the minimum level.

The task force is concerned about the significant cost burden that “leakage” places on all employers. Businesses accept some forms of leakage, including not charging an employer’s account for a former employee’s subsequent unemployment after reemployment, particularly where the employee requalifies for benefits after voluntarily quitting the earlier employer. However, other forms of “leakage” may be unacceptable, including the inability to charge closed businesses.

Further, the task force understands that labor representatives are concerned that part-time workers are ineligible to access the unemployment insurance system. The dynamics of the employment market has shifted (a move toward more part-time work) which may translate into the need to accommodate these changes in an unemployment insurance system.

The task force understands that labor is concerned about enhancing other benefits under the unemployment insurance system, including increasing the maximum weekly benefit amount and the amount paid for dependents’ allowances. Benefits have not kept up with the increases in the statewide average weekly wage, causing recipients to receive a wage replacement level lower than intended many years ago.

The task force finds that, during the period of recovery of the trust fund, any benefit enhancement may need to be part of a prioritization of benefits so as to neutralize the impact on the trust fund.

The task force finds that business representatives are interested in improving the status of the trust fund but not to the point of over-compensating the trust fund, causing monies to be taken out of the economy. Labor representatives stress the need to forward fund the system with indices as a way for the benefit levels to grow over time.

Under the current taxation and benefit structure, it is anticipated that improved economic conditions and lower unemployment levels will assist in bringing stability to the trust fund within a few years; however, the task force recognizes the need to make changes to the unemployment insurance system to prevent the depletion of the trust fund to dangerously low levels in future economic downturns.

Maryland's Division of Unemployment Insurance, as obligated by its fiduciary responsibilities to protect the fund, has stressed to the task force the need to take action to address the fiscal solvency of the trust fund.

**Due to the complexities of the system, the consideration of the needs of both businesses and labor, and the time needed to fully understand cost implications of all alternatives to develop a reform package, the task force recommends that it continue to meet. The task force will introduce legislation in the 2004 session to continue its charge through December 31, 2004.**



# Appendix A

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# **UNEMPLOYMENT INSURANCE FUNDING TASK FORCE**

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## **UI PROGRAM OVERVIEW AND STATISTICS**

**Prepared by the Department of Labor, Licensing and Regulation  
August 26, 2003**





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## UI PHILOSOPHY

- ▶ **BENEFITS – ELIGIBLE CLAIMANTS**
- ▶ **TAXES – EXPERIENCE RATED**
- ▶ **TRUST FUND – ADEQUATE RESERVES**

Maintaining adequate trust fund reserves for the payment of benefits to workers unemployed through no fault of their own, funded through employer taxes.

## OFFICE OF UNEMPLOYMENT INSURANCE

### PROGRAM OVERVIEW

The Unemployment Insurance (UI) Program is designed to help relieve the financial burden of those individuals separated from work through no fault of their own. The primary functions are to promptly pay benefits to eligible individuals, notify those individuals determined ineligible for benefits and collect unemployment insurance tax contributions from employers. The program is administered through 5 regional claim centers and three adjudication centers. All individuals filing for UI benefits file their claims either by telephone or by internet. The Program is managed through six major central office components: Employer Contributions Section, Benefits Section, Appeals Division, Internal Analysis, Support Services and Benefit Payment Control (includes overpayment and fraud prevention and detection and repayments).

The UI program is a unique federal-state partnership, grounded in federal law, but administered through state laws by state officials. It was created by the Social Security Act of 1935

### FUNDING SOURCES

The administration of the Office of Unemployment Insurance is 100% federally funded. Revenues from employers' federal unemployment (FUTA) taxes provide all of the funding. Employers pay a federal unemployment tax equal to .8% of each employee's first \$7,000 of earnings each calendar year (\$56 per employee per year). No state funds are used for the administration of the UI program.

Unemployment insurance benefits are funded through Maryland employers' state unemployment insurance taxes. This is an experience rated tax based on UI benefit charges to employers' accounts. These taxes are placed in the Maryland Unemployment Insurance Trust Fund. This is a dedicated trust fund that can only be used to pay UI benefits. Funds cannot be withdrawn for any other purpose, other than the payment of The Maryland UI Trust Fund is held in the Federal Treasury and is currently earning approximately 6% interest annually. There are no employee contributions.

## PHILOSOPHY AND GOALS OF UI PROGRAM

### PROVIDE INCOME SECURITY

- Wage replacement value
- Based on prior individual earnings, not household income
- Eligibility tied to labor force attachment

### STIMULATE THE ECONOMY DURING RECESSIONS

- Infusion of spendable income during recessions (2X multiplier effect of benefits paid as moving through the economy)
- Minimum tax rate during recessions
- Fund building surtaxes during business recovery and upturns – counter cyclical effect

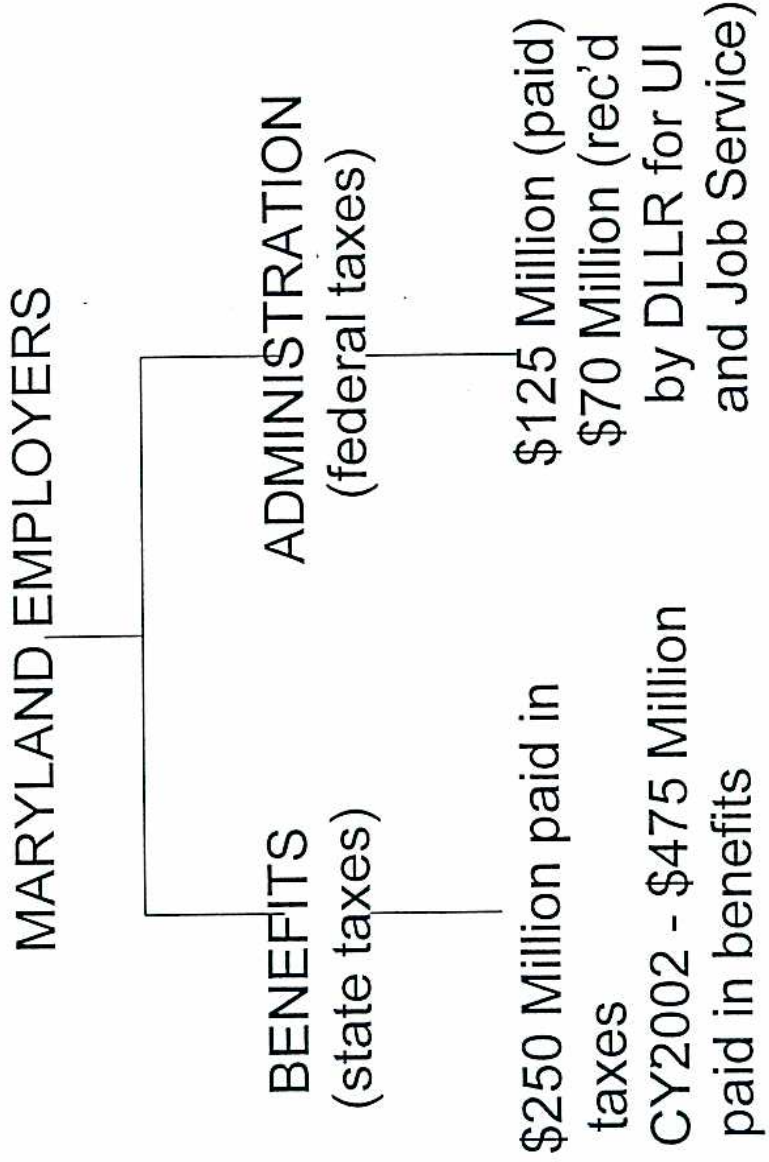
### PROMOTE LABOR MARKET STABILITY

- Low tax rates for stable, non-cyclical employers - .3% - \$25.50/employee
- High tax rates for unstable, cyclical employers – 7.5% - \$637.50/employee
- High wages rewarded by system
- Maximum tax rate and taxable wage base limit liability
- Penalties assessed to workers for unstable labor market behavior

### IMPROVE PRODUCTIVITY

- Work search requirement puts people back to work
- Emphasis on retraining for dislocated workers
- Work sharing maintains productive capacity
- Tax structure rewards productive use of human resources

# TAXES PAID BY MARYLAND EMPLOYERS FOR THE UNEMPLOYMENT INSURANCE PROGRAM



## UNEMPLOYMENT INSURANCE TAX PROGRAM

### BASIC RATES

- Determined by dividing 3 years of charged benefits by 3 years of taxable wages.
- Benefit ratio yields a tax rate that is slightly higher. Provides a small basis for paying socialized costs.
- Basic minimum rate is 0.3%.
- Basic maximum rate is 7.5%.
- Rates computed annually and are effective January 1<sup>st</sup>.
- Employer must have two years of experience to be assigned an earned rate.

### NEW EMPLOYER RATE

- Tax rate is assigned to employer with less than two years experience in UI
- The rate is based on the higher of 1.0%, the State's five year benefit cost rate, or the rates assigned to employers with no UI experience.
- The new employer rate for 2003 is 1.8%.
- Foreign (out of state) construction companies are assigned a new employer rate that is the average rate for the construction industry. The 2003 rate is 3.1%.

### ADJUSTMENTS TO BASIC RATES (SURTAX)

- Additional tax is assessed if the Trust Fund balance is less than 4.7% of the prior year's total taxable wages on September 30<sup>th</sup>.
- All employers are charged the same surtax.
- Surtax covers benefits which are paid out due to high claim loads and due to benefits which are paid but are not chargeable to employers' accounts:
  - Non-charging provisions
  - Closed businesses
  - Businesses at the maximum rate
- There is no surtax for 2003, however the trigger for a surtax was missed by approximately \$5 million (benefit payments this year have averaged \$8-\$10 million/week). If there had not been a distribution of \$142.9 million in Reed Act funds, the surtax would have been a.8% surtax for 2003.

- There will be a surtax in 2004.

### TAXABLE WAGE BASE

- Taxable wage base is the maximum amount of an individual's salary that is subject to UI taxation.
- Taxable wage base calculation begins each January 1<sup>st</sup>.
- Taxable wage base calculation begins for each employee hired by an employer during a calendar year.
- Current taxable wage base is \$8,500.
- Current taxable wage base is approximately 22.4% of the average private sector annual wage in Maryland.

### CHARGING PROVISIONS

- Benefits are chargeable to employers' accounts in proportion to the wages the employer paid which were used to establish the individual's eligibility for benefits.
- Benefits are not chargeable to employers' accounts if an individual is disqualified as outlined below, **serves the penalty and subsequently becomes eligible for benefits:**
  - Benefits paid to an individual who quits a job without good cause;
  - Benefits paid to an individual who is discharged for gross misconduct or aggravated misconduct;
- Benefits are also not chargeable if:
  - Employer provides continuous part-time employment which continued when the individual is unemployed from full-time employment;
  - Benefits paid that are found to be overpaid after an appeal.



# UI TRUST FUND

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- ▶ Adequacy 4.7% to 5.5% of TAXABLE WAGES (required by law)

Taxable wages for FY 2003 are estimated to be \$17.68 billion statewide  
(1<sup>st</sup> \$8,500 of each employee's wages)

AN ADEQUATE TRUST FUND (9/30/03) SHOULD BE  
\$831 Million - \$972.4 Million  
(4.7% - 5.5%)

- ▶ Computation Date – September 30 (each year)

- ▶ Surcharge - .1% to 2.0% for all employers

↗ When mandated by law (\$8.50 to \$170 per employee)  
[Last surcharge (.6%) in 1996]

[Estimated surcharge of 1% in 2004]

## UNEMPLOYMENT INSURANCE REIMBURSER PROGRAM

### SELF-INSURANCE OPTION FOR CERTAIN EMPLOYERS

- Reimburseurs repay for all UI benefits paid without a fixed minimum or maximum.
- Reimburseurs do not pay any socialized costs (surtax).
- Reimburseurs do not pay for program administration through the Federal Unemployment Tax Act (FUTA).
- Reimburseurs are not entitled to non-charging provisions with the exception of employees who are continuously employed on a part-time basis.

### LIMITATIONS ON ELIGIBILITY FOR REIMBURSER STATUS

- Governmental entities
- Not-for-profit organizations

### REQUIREMENTS

- Reimbursers not-for-profit employers must post cash, a surety bond, irrevocable letter of credit or other collateral. Amount based on size of organization.
- Election of reimbursers status is for a 2 year period.
- Failure to meet standard results in forfeiture of reimbursers status.
- Estimated bills are paid quarterly and reconciled at year end.

## **FEDERAL UNEMPLOYMENT TAX ACT (FUTA)**

### **FUTA TAX IS 6.2% OF TAXABLE PAYROLL**

- Taxable wage base is \$7,000.
- FUTA tax credit of 5.4% is available.
- Effective FUTA tax rate is 0.8%.

### **FUTA TAX CREDIT**

- Available for all employers if state law conforms to federal law and if individual employers make timely state UI tax payments.
- FUTA tax credit is reduced if State UI Trust Fund is in debt to Federal fund and federal regulations for repayment and changes to state law are not met.

### **FUTA REVENUES ARE USED TO PAY:**

- Costs of administering the UI Program at Federal and State level.
- Federal share of Extended Benefits
- All costs of Federal extension programs.

## **FEDERAL CONFORMITY STANDARDS**

### **DEFINITION**

- Provisions of the Federal Unemployment Tax Act (FUTA) and the Social Security Act which must be contained in the State's unemployment insurance law;
- The requirement that the State's unemployment insurance law shall not be amended to contain law which is contradictory to certain provisions of FUTA and the Social Security Act; and
- The requirement to achieve certain standards in the prompt and accurate payment of unemployment insurance benefits and collection of taxes.

### **PENALTIES FOR BEING OUT OF CONFORMITY**

- Loss of federal administrative funds for the Maryland Office of Unemployment Insurance (OUI). The office of 100% federally funded.
- Loss of federal unemployment tax credits for Maryland employers, increasing the federal unemployment tax from .8% to 6.2% of taxable wages.
- Impact on Maryland
  - Loss of approximately \$50 million in administrative funds.
  - Loss of approximately \$810 million in federal tax credits to Maryland employers.

# UNEMPLOYMENT INSURANCE BENEFIT STRUCTURE

## BENEFIT YEAR

- Fifty-two week period beginning the first day of the first week in which an individual files a new claim.

## DURATION

- Individuals may receive benefits equaling 26 times their weekly benefit amount.

## BASE PERIOD

- First four of the last five completed calendar quarters prior to filing a claim.

## BENEFIT AMOUNT

- Minimum - \$25    High Quarter Wages - \$ 576.01  
                                Total Wages -               \$ 900.00
- Maximum - \$310    High Quarter Wages - \$ 7,416.01  
                                Total Wages -               \$11,160.00

## DETERMINATION OF WEEKLY BENEFIT AMOUNT

- Must have covered wages in two of the four quarters of the base period.
- Benefits based on individual's high quarter earnings during the base period.
- Wages must equal 1 ½ times the high quarter wages in order to receive the weekly benefit amount in the corresponding division.
- A "step down" provision may be used if total base period wages are less than 1 ½ times the high quarter wages.

## WAGE REPLACEMENT RATE

- Unemployment insurance (UI) benefits, up to the maximum weekly benefit amount, replace 54% of the individual's former gross wages (calculated in the table)
- Historically, the maximum weekly benefit amount replaces approximately 54% of Maryland's average weekly wage. Current maximum of \$310 places approximately 43% of Maryland's average weekly wage.

## TAX IMPLICATIONS

- Unemployment insurance benefits are taxable for federal and state income tax purposes.
- Federal and state income taxes may be withheld from UI benefits.

## **ELIGIBILITY REQUIREMENTS FOR THE RECEIPT OF UNEMPLOYMENT INSURANCE BENEFITS**

### **MONETARY ELIGIBILITY (8-802, 8-803)**

- Claimant must have been paid wages for covered employment during at least two calendar quarters in the base period.
- The total base period earnings must be at least 1.5 times the highest quarter earnings.
- Base period is the first four of the last five completed calendar quarters prior to the effective date of the claim.
- Maximum weekly benefits amount (WBA) is \$310. Minimum WBA is \$25.
- Maximum benefits payable during the benefit year (one-year period from effective date of claim) is equal to 26 times the individual's weekly benefit amount.
- Benefits replace 54% of the individual's former gross wages, up to the maximum WBA allowed by law.
- The current maximum WBA replaces 43.5% of the State's average weekly wage.

### **ABILITY AND AVAILABILITY FOR WORK (8-903)**

- Claimant must be physically able to work at the time the claim is filed and must be available for customary hours of work in his or her occupation. If the claimant becomes unable to work due to illness or disability after the effective date of the claim, the claimant may be eligible to file for "sick claims."
- Claimant must not restrict his or her availability to work, e.g., only part-time, limited hours, etc.

### WORK SEARCH REQUIREMENTS (8-903)

- Law requires reasonable efforts which an unemployed individual is expected to make if honestly seeking work.
- Work search may be limited to the claimant's primary occupation in early weeks of unemployment, but is expected to widen the longer the duration of employment.
- Agency may verify job contacts with the employers the claimant has listed.
- Work search requirements may be waived under certain circumstances.

### WAGE CERTIFICATION REQUIREMENTS (8-910)

- When filing for a second or subsequent benefit year, the claimant must have earned wages in covered employment equal to ten times the weekly benefit amount he or she would receive in the new benefit year during the time period between the effective date of the first benefit year and the effective date of the second benefit year. The wage requirement serves as a test of the claimant's attachment to the labor force.

## MARYLAND UNEMPLOYMENT INSURANCE LAW DISQUALIFICATIONS

### VOLUNTARY QUIT PROVISIONS (8-1001)

- Good cause is directly attributable to, arising from, or connected with employment conditions or employer actions and includes voluntarily quitting to take a better job.
- Valid circumstance is a substantial cause attributable to employment conditions or employer actions for a compelling cause that afforded the claimant no reasonable alternative.
- A claimant is disqualified until he or she becomes reemployed, earns wages equal to 15 times his or her weekly benefit amount (15 x WBA) in insured work and then becomes unemployed through no fault of his or her own if:
  - the claimant voluntarily quit without good cause or valid circumstances;
  - quit to attend school;
  - quit to become self-employed; or
  - quit to accompany spouse to a new locality.
- A claimant is disqualified for five to ten weeks from his or her last day of work if the claimant quit for valid circumstances and took all reasonable actions to retain the job.
- Burden of proof is on the claimant to show either good cause or valid circumstances for quitting.

### DISCHARGE FOR SIMPLE MISCONDUCT (8-1003)

- Misconduct must be connected with the work.
- Inability to perform work is not misconduct
- The weekly time delay penalty of five to ten weeks is applicable.
- Burden of proof is on the employer.

### **DISCHARGE FOR GROSS MISCONDUCT (8-1002)**

Gross misconduct must be connected with the work and must be either:

- Deliberate and willful disregard of standards of behavior which his or her employer has a right to expect, showing a gross indifference to the employer's interests; or
- Series of repeated violations of employment rules proving that the employee regularly and wantonly disregarded his or her obligations.
- Burden of proof is on the employer.
- Mandatory 20 x WBA penalty is applicable.

### **DISCHARGE FOR AGGRAVATED MISCONDUCT (8-1002.1)**

A category of discharge due to "aggravated misconduct" which means behavior committed with actual malice and deliberate disregard for the property, safety or life of others that results in the following:

- Physical assault upon or bodily injury to the employer, fellow employees, subcontractors, invitees of the employer, members of the public or the ultimate consumer of the employer's product or services; or
- Property loss or damage to the property to the categories of individuals outlined above; or
- Mandatory 30 x WBA penalty is applicable.

### **FAILURE TO APPLY FOR OR ACCEPT SUITABLE WORK (8-1005)**

Suitability of the work is based on the following factors:

- Degree of risk involved to individual's health, safety and morals;
- Individual's physical fitness and prior training;
- Individual's experience and prior earnings;
- Distance of available work from residence; and
- Length of unemployment of the individual.



Basis for a determination that work is unsuitable:

- Position offered is vacant due directly to a strike, lockout or labor dispute;
- Wages, hours or other conditions of work offered are substantially less favorable than those prevailing for similar work in the locality; or
- As a condition of employment, the claimant would be required to join a company union, to resign, or to refrain from joining any bona fide labor organization.

Penalties for suitable work:

- A weekly time delay penalty of five to ten weeks may be imposed if mitigating circumstances exist, or a 10 x WBA penalty.

### **LABOR DISPUTE (8-1004)**

The individual who is participating in a labor dispute which causes a "stoppage of work" is denied for duration of the work stoppage.

"Stoppage of work" is defined as a substantial curtailment of production at the employer's facility. Consequently, there is no disqualification under 8-1004 if the employer, who is the subject of the strike, maintains production.

There is no disqualification under 8-1004 if the employer institutes a lockout.

Individuals who will not benefit from or participate in a strike are not disqualified.

A special examiner adjudicates labor disputes.

# **CHARTS AND STATISTICS**

**UNEMPLOYMENT INSURANCE ACTIVITIES COMPARISON**

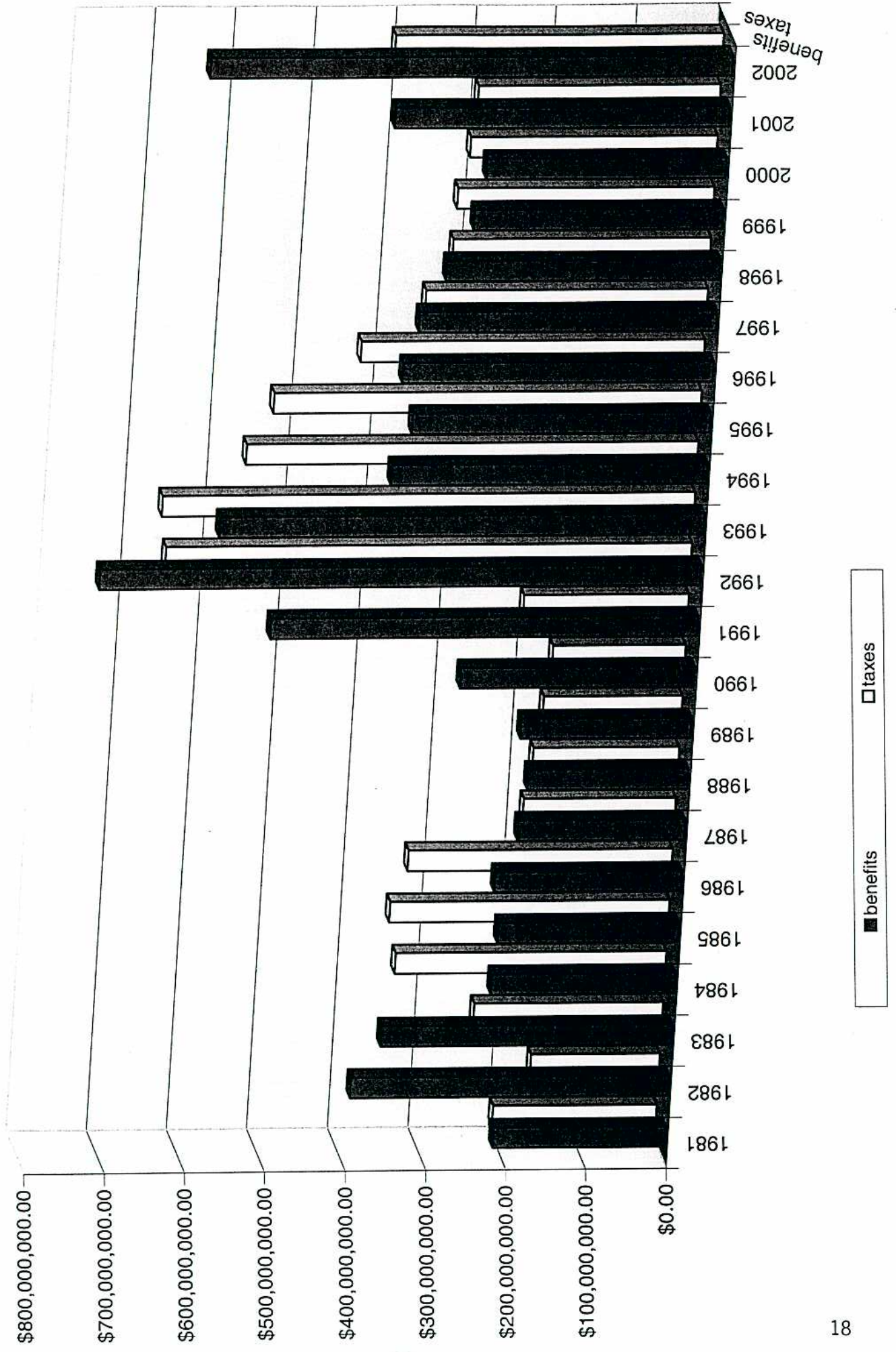
**FISCAL YEARS 1993, 2001, 2002 and 2003**

	FY 2003	FY 2002	FY 2001	FY 1993
Initial Claims (new and addl.)	259,565	253,630	202,384	306,241
Weeks Claimed		2,440,320	1,681,101	2,887,361
Claimants Receiving Benefits	133,010	132,019	102,425	128,932
Amount of Benefits Paid	\$518,664,531	\$475,365,528	\$313,246,727	\$395,001,161
Avg. Duration of Benefits (weeks)	16.1	15.2	13.7	17.0
Avg. Weekly Benefit Amount	\$246	\$240	\$226	\$181
Exhaustion Rate	~ 36%	32.8%	26.2%	26.5%
Unemployment Rate (annual avg.)	4.4% (est.)	4.6%	3.9%	6.2%
Employers' Tax Receipts	\$260,112,000	\$246,789,122	\$267,442,041	\$393,732,497
				(inc. surtax of 2.2% for 7/1-12/31/92 & 1.7% for 1993)

**TWELVE MONTH PERIOD ENDING MARCH 31, 2003 AND MARCH 31, 2002**

	2003	2002
Initial Claims (new and addl.)	277,097	263,230
Weeks Claimed	2,566,417	2,200,841
Claimants Receiving Benefits	132,147	130,149
Amount of Benefits Paid	\$504,507,000	\$437,884,000
Ave. Duration of Benefits (weeks)	16	14.4
Ave. Weekly Benefit Amount	\$245	\$238
Exhaustion Rate	36.5%	31.5%
Unemployment Rate (12 mos. avg.)	4.3%	4.4%
Employers' Tax Receipts	\$272,344,000	\$276,312,000

**UI Benefits Paid & Taxes Collected - Includes Regular & Extended Programs & Reimbursement  
(Calendar Years - Through December 2002)**

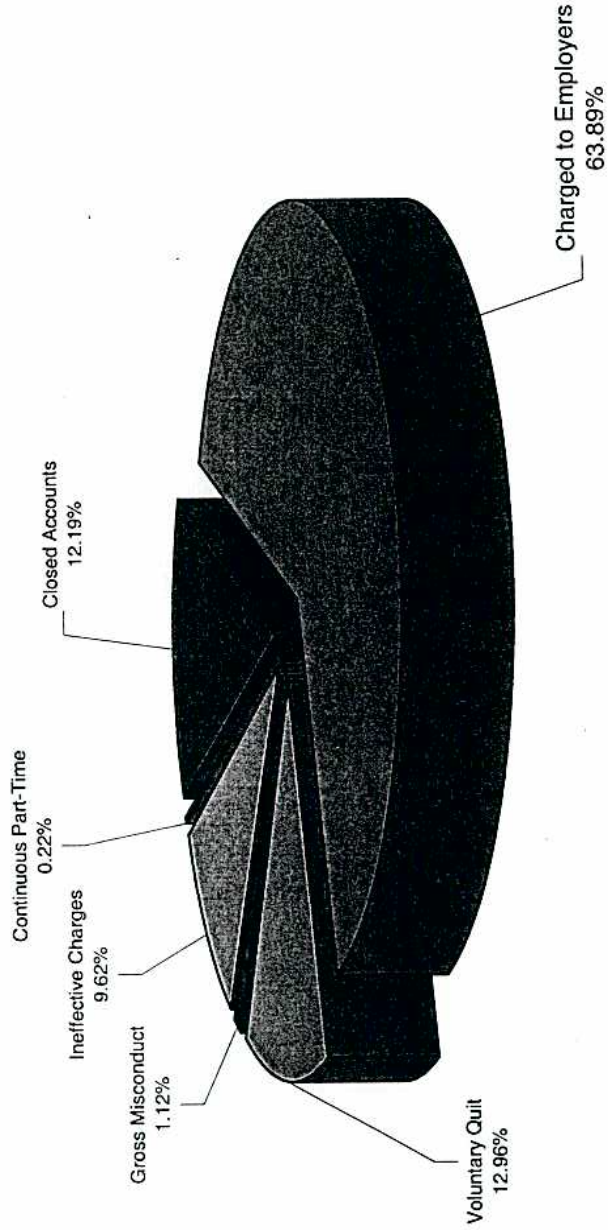


FY 2002 BENEFIT CHARGING SUMMARY  
SOURCE OF INFORMATION: RATING AUDIT REPORT

1	Charged to Employers	\$281,766,165	63.89%
2	Voluntary Quit	\$57,178,890	12.96%
3	Gross Misconduct	\$4,935,471	1.12%
4	Ineffective Charges	\$42,443,033	9.62%
5	Continuous Part-Time	\$956,528	0.22%
6	Closed Accounts	\$53,750,985	12.19%
	<b>Total Chargeable Benefits F/Y 2001</b>	<b>\$441,031,073</b>	<b>100.00%</b>

7	Reimbursable (Non-Profit & Federal)	\$46,989,354
8	Extended Unemployment (Reimbursed by Federal Govt)	\$52,439,637
	<b>Total Benefits Paid F/Y 2002</b>	<b>\$540,460,064</b>

Chart of Chargeable Benefits  
State Fiscal Year 2002

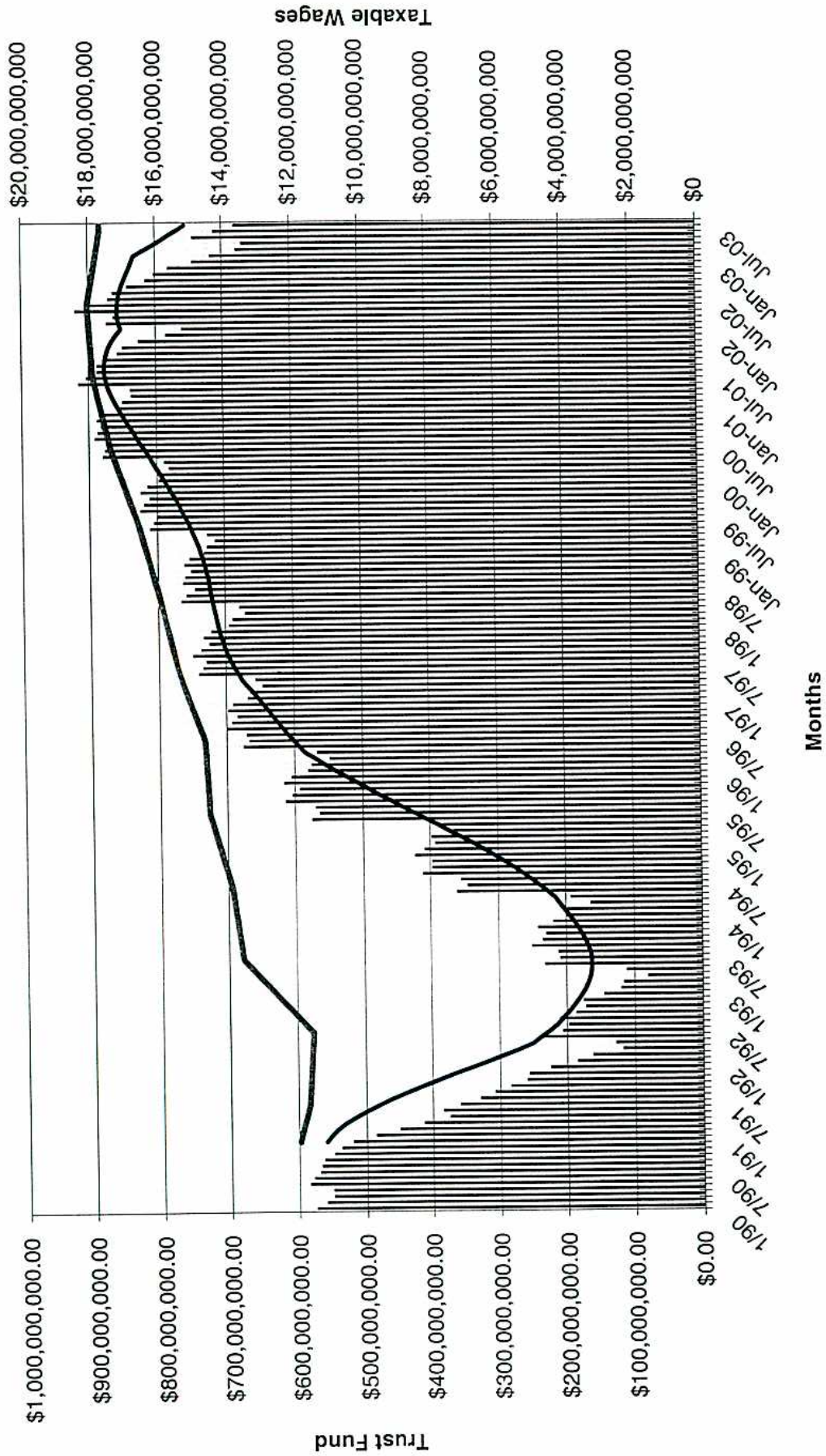


## Trust Fund Surcharge Window

(Annual Measurement Points are as of September 30)



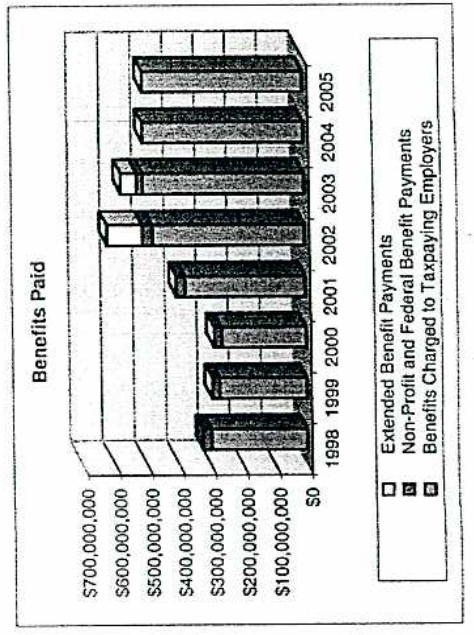
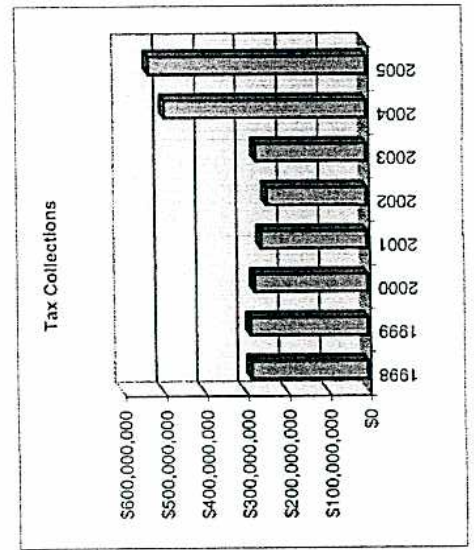
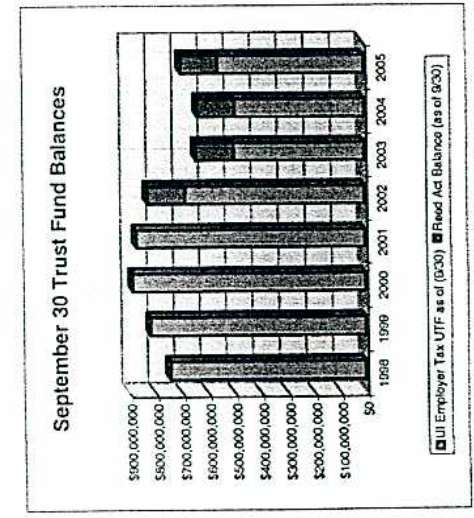
### Trust Fund and Taxable Wage Totals (Through July, 2003)



Trust Fund
  12 per. Mov. Avg. (Taxable Wages)
  12 per. Mov. Avg. (Trust Fund)

FISCAL PROJECTIONS FOR THE OFFICE OF UNEMPLOYMENT INSURANCE  
CALENDAR YEARS

	1998	1999	2000	2001	2002	2003 (Estimated) (Actual thru June)	2004 (Estimated)	2005 (Estimated)
<b>Revenue:</b>								
Tax Collections	\$284,349,738	\$285,942,378	\$275,717,303	\$259,569,643	\$245,660,793	\$271,089,789	\$494,388,562	\$531,412,280
Penalty & Interest	\$2,761,199	\$2,898,321	\$2,488,536	\$4,150,830	\$2,970,896	\$2,059,568	\$0	\$0
Non-Profit and Federal Reimbursement	\$26,397,882	\$24,161,332	\$24,797,988	\$28,428,469	\$33,588,720	\$20,882,273	\$0	\$0
Extended Benefit Federal Reimbursement	\$0	\$0	\$0	\$0	\$104,818,000	\$48,436,000	\$0	\$0
Reed Act Distributions	\$0	\$0	\$0	\$0	\$142,929,005	\$0	\$0	\$0
Interest Earned on Trust Fund Deposits	\$49,167,724	\$64,560,130	\$56,133,087	\$56,513,769	\$53,214,575	\$41,569,042	\$35,724,046	\$38,985,372
<b>Total Revenue</b>	<b>\$362,957,000</b>	<b>\$379,600,284</b>	<b>\$361,127,749</b>	<b>\$350,672,390</b>	<b>\$583,181,990</b>	<b>\$384,036,672</b>	<b>\$530,112,608</b>	<b>\$570,397,652</b>
<b>Disbursements:</b>								
Benefits Charged to Taxpaying Employers	\$295,807,177	\$268,184,020	\$260,197,088	\$374,290,186	\$474,107,885	\$504,756,688	\$504,756,688	\$504,756,688
Non-Profit and Federal Benefit Payments	\$27,195,958	\$24,431,025	\$25,376,377	\$28,475,441	\$34,853,051	\$20,227,170	\$0	\$0
Extended Benefit Payments	(\$12,875)	\$0	\$0	\$0	\$109,694,486	\$49,093,827	\$0	\$0
Reed Act Funds Withdrawn	\$0	\$0	\$0	\$0	\$0	\$6,319,250	\$0	\$0
Transfer to SAEF	\$2,761,199	\$2,898,321	\$2,488,536	\$4,150,830	\$2,970,896	\$2,059,568	\$0	\$0
Employer Tax Refunds	\$4,456,716	\$4,987,965	\$8,506,665	\$9,039,992	\$6,535,032	\$2,382,830	\$0	\$0
<b>Total Disbursements</b>	<b>\$330,208,174</b>	<b>\$300,481,331</b>	<b>\$296,568,666</b>	<b>\$415,956,448</b>	<b>\$628,161,349</b>	<b>\$584,839,333</b>	<b>\$504,756,688</b>	<b>\$504,756,688</b>
<b>December 31 Trust Fund Balance</b>	<b>\$735,150,717</b>	<b>\$814,269,670</b>	<b>\$878,828,753</b>	<b>\$813,544,695</b>	<b>\$768,565,335</b>	<b>\$567,762,675</b>	<b>\$593,118,595</b>	<b>\$658,759,559</b>
<b>Reed Act Funds Available W/O Affecting Surcharge</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$31,941</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>Reed Act Balance (as of 9/30)</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$142,929,005</b>	<b>\$142,928,850</b>	<b>\$142,928,850</b>	<b>\$142,928,850</b>
<b>UI Employer Tax UTF as of (9/30)</b>	<b>\$741,627,857</b>	<b>\$815,851,707</b>	<b>\$882,823,375</b>	<b>\$866,946,938</b>	<b>\$681,779,884</b>	<b>\$494,223,878</b>	<b>\$489,005,903</b>	<b>\$552,054,969</b>
<b>September 30 Trust Fund Balance</b>	<b>\$741,627,857</b>	<b>\$815,851,707</b>	<b>\$882,823,375</b>	<b>\$866,946,938</b>	<b>\$624,708,889</b>	<b>\$637,152,728</b>	<b>\$631,934,752</b>	<b>\$694,983,819</b>
<b>Surtax</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>1.10%</b>	<b>1.20%</b>
<b>Surtax (Implied W/O Reed Act Distributions)</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.80%</b>	<b>1.90%</b>	<b>1.90%</b>





**Unemployment Insurance Trust Fund Report - March 2000/March 2003**

<u>STATE</u>	<u>March 2000</u>	<u>March 2003</u>	<u>Change</u>
New Hampshire	\$305,141,831	\$256,416,410	-16.0%
New Jersey	\$2,600,336,264	\$1,858,375,565	-28.5%
New Mexico	\$510,963,319	\$587,861,171	15.0%
New York	\$564,191,305	\$168,340	-100.0%
Ohio	\$2,020,738,510	\$1,156,290,417	-42.8%
Oklahoma	\$576,231,623	\$397,556,866	-31.0%
Oregon	\$1,343,978,510	\$1,129,888,489	-15.9%
Pennsylvania	\$2,391,845,021	\$1,059,018,703	-55.7%
Puerto Rico	\$495,620,988	\$499,838,525	0.9%
Rhode Island	\$239,881,673	\$205,894,036	-14.2%
South Carolina	\$739,216,541	\$455,850,343	-38.3%
South Dakota	\$46,042,419	\$42,934,096	-6.8%
Tennessee	\$844,628,191	\$465,655,611	-44.9%
Texas	\$581,192,405	\$26	-100.0%
Utah	\$615,040,327	\$438,574,731	-28.7%
Virginia	\$1,018,693,723	\$407,080,764	-60.0%
Virgin Islands	\$52,701,098	\$48,772,060	-7.5%
Vermont	\$272,315,067	\$261,338,785	-4.0%
Washington	\$1,664,023,561	\$1,012,054,823	-39.2%
West Virginia	\$168,650,651	\$206,658,264	22.5%
Wisconsin	\$1,670,348,029	\$1,031,430,016	-38.3%
Wyoming	\$173,168,801	\$185,207,334	7.0%

United States	\$47,685,459,312	\$28,502,821,263	-40.2%
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<u>STATE</u>	<u>March 2000</u>	<u>March 2003</u>	<u>Change</u>
Alabama	\$413,646,950	\$265,327,453	-35.9%
Alaska	\$186,293,199	\$202,507,675	8.7%
Arkansas	\$223,331,521	\$69,311,774	-69.0%
Arizona	\$929,913,813	\$872,872,699	-6.1%
California	\$4,775,275,233	\$2,663,951,547	-44.2%
Colorado	\$709,720,700	\$347,533,042	-51.0%
Connecticut	\$792,353,756	\$369,413,800	-53.4%
Delaware	\$310,926,301	\$263,873,272	-15.1%
District of Columbia	\$208,884,030	\$277,475,026	32.8%
Florida	\$2,075,342,080	\$1,549,644,862	-25.3%
Georgia	\$1,941,414,789	\$1,090,519,332	-43.8%
Hawaii	\$253,542,765	\$297,244,289	17.2%
Idaho	\$250,641,776	\$150,989,407	-39.8%
Illinois	\$1,805,265,221	\$2,499,051	-99.9%
Indiana	\$1,481,492,539	\$931,150,535	-37.1%
Iowa	\$733,194,591	\$660,222,574	-10.0%
Kansas	\$454,246,919	\$344,477,277	-24.2%
Kentucky	\$637,910,511	\$372,446,186	-41.6%
Louisiana	\$1,483,149,432	\$1,512,331,945	2.0%
Maine	\$243,072,586	\$429,387,069	76.6%
Maryland	\$782,249,075	\$679,311,693	-13.2%
Massachusetts	\$1,795,771,351	\$450,380,895	-74.9%
Michigan	\$2,568,244,424	\$1,555,343,840	-39.4%
Minnesota	\$600,534,809	\$578,929	-99.9%
Mississippi	\$650,048,954	\$654,815,761	0.7%
Missouri	\$469,848,171	\$1,152,420	-99.8%
Montana	\$160,439,628	\$190,796,913	18.9%
North Carolina	\$1,203,852,695	\$9,073,334	-99.2%
North Dakota	\$19,682,159	\$32,408,788	64.7%
Nebraska	\$175,150,646	\$127,079,030	-27.4%
Nevada	\$455,068,830	\$421,835,469	-7.3%

Unemployment Insurance Trust Fund Report - May 2000/July 2003 w/ Reed Act

<u>STATE</u>	<u>May 2000</u>	<u>July 2003</u>	<u>Reed Act Transfers (\$M)</u>	<u>July Balance Less Reed Act (without int.)(\$M)</u>	<u>Change 2000 to 2003</u>
Alabama	\$456,315,030	\$306,128,836	\$111	\$195,128,836	-57.2%
Alaska	\$201,453,440	\$201,069,583	\$15	\$186,069,583	-7.6%
<b>Arkansas</b>	<b>\$284,450,434</b>	<b>\$101,319,609</b>	<b>\$144</b>	<b>-\$42,680,391</b>	<b>-115.0%</b>
Arizona	\$992,439,973	\$837,965,421	\$64	\$773,965,421	-22.0%
<b>California</b>	<b>\$5,760,484,871</b>	<b>\$2,353,552,760</b>	<b>\$940</b>	<b>\$1,413,552,760</b>	<b>-75.5%</b>
Colorado	\$766,546,961	\$266,203,380	\$142	\$124,203,380	-83.8%
Connecticut	\$892,418,438	\$469,245,964	\$101	\$368,245,964	-58.7%
Delaware	\$331,512,024	\$260,029,127	\$26	\$234,029,127	-29.4%
District of Columbia	\$246,716,313	\$299,872,126	\$26	\$273,872,126	11.0%
Florida	\$2,198,118,433	\$1,604,666,485	\$447	\$1,157,666,485	-47.3%
Georgia	\$1,954,830,797	\$915,093,367	\$249	\$666,093,367	-65.9%
Georgia	\$282,993,145	\$317,562,428	\$31	\$286,562,428	1.3%
Hawaii	\$260,172,669	\$134,954,212	\$32	\$102,954,212	-60.4%
Idaho	<b>\$2,209,825,773</b>	<b>\$0</b>	<b>\$376</b>	<b>-\$376,000,000</b>	<b>-117.0%</b>
<b>Illinois</b>	<b>\$1,602,067,044</b>	<b>\$918,642,043</b>	<b>\$174</b>	<b>\$744,642,043</b>	<b>-53.5%</b>
Indiana	\$779,692,546	\$682,533,529	\$82	\$600,533,529	-23.0%
Iowa	\$500,186,543	\$366,885,887	\$78	\$288,885,887	-42.2%
Kansas	\$725,156,208	\$395,172,848	\$104	\$291,172,848	-59.8%
Kentucky	\$1,512,397,669	\$1,521,558,417	\$105	\$1,416,558,417	-6.3%
Louisiana	\$280,438,240	\$431,883,625	\$33	\$398,883,625	42.2%
Maine	\$879,988,350	\$682,068,761	\$143	\$539,068,761	-38.7%
Maryland	<b>\$2,080,109,261</b>	<b>\$379,713,111</b>	<b>\$194</b>	<b>\$185,713,111</b>	<b>-91.1%</b>
<b>Massachusetts</b>	<b>\$3,002,455,262</b>	<b>\$1,737,972,676</b>	<b>\$292</b>	<b>\$1,445,972,676</b>	<b>-51.8%</b>
Michigan	<b>\$591,601,468</b>	<b>\$0</b>	<b>\$163</b>	<b>-\$163,000,000</b>	<b>-127.6%</b>
<b>Minnesota</b>	<b>\$691,998,517</b>	<b>\$669,755,392</b>	<b>\$65</b>	<b>\$604,755,392</b>	<b>-12.6%</b>
Mississippi	\$548,317,985	\$3,942,436	\$161	-\$157,057,564	-128.6%
Missouri	\$168,414,472	\$189,959,879	\$19	\$170,959,879	1.5%
Montana	<b>\$1,253,141,085</b>	<b>\$0</b>	<b>\$240</b>	<b>-\$240,000,000</b>	<b>-119.2%</b>
<b>North Carolina</b>	<b>\$23,839,740</b>	<b>\$43,144,347</b>	<b>\$19</b>	<b>\$24,144,347</b>	<b>1.3%</b>
North Dakota	\$186,112,820	\$147,478,627	\$48	\$99,478,627	-46.5%
Nebraska					

<u>STATE</u>	<u>May 2000</u>	<u>July 2003</u>	<u>Reed Act Transfers (\$M)</u>	<u>July Balance Less Reed Act (without int.)(\$M)</u>	<u>Change 2000 to 2003</u>
Nevada	\$494,546,922	\$427,434,152	\$68	\$359,434,152	-27.3%
New Hampshire	\$315,751,164	\$248,283,131	\$38	\$210,283,131	-33.4%
New Jersey	\$2,978,575,763	\$1,798,025,892	\$244	\$1,554,025,892	-47.8%
New Mexico	\$528,934,051	\$586,147,057	\$39	\$547,147,057	3.4%
<b>New York</b>	<b>\$1,345,755,331</b>	<b>\$0</b>	<b>\$492</b>	<b>-\$492,000,000</b>	<b>-136.6%</b>
Ohio	\$2,262,398,109	\$1,122,782,211	\$343	\$779,782,211	-65.5%
Oklahoma	\$582,286,883	\$398,724,886	\$81	\$317,724,886	-45.4%
Oregon	\$1,445,532,270	\$1,040,868,385	\$98	\$942,868,385	-34.8%
Pennsylvania	\$2,970,353,740	\$1,212,309,581	\$339	\$873,309,581	-70.6%
Puerto Rico	\$475,463,563	\$520,767,406	\$49	\$471,767,406	-0.8%
Rhode Island	\$281,557,413	\$212,787,923	\$27	\$185,787,923	-34.0%
South Carolina	\$803,486,453	\$466,400,367	\$108	\$358,400,367	-55.4%
South Dakota	\$49,559,336	\$42,289,381	\$19	\$23,289,381	-53.0%
Tennessee	\$943,823,392	\$574,805,381	\$162	\$412,805,381	-56.3%
<b>Texas</b>	<b>\$923,408,011</b>	<b>\$0</b>	<b>\$594</b>	<b>-\$594,000,000</b>	<b>-164.3%</b>
Utah	\$618,557,048	\$396,440,329	\$62	\$334,440,329	-45.9%
Virginia	\$1,067,780,628	\$364,792,327	\$16	\$348,792,327	-67.3%
Virgin Islands	\$53,056,629	\$40,971,905	\$2	\$38,971,905	-26.5%
Vermont	\$292,665,206	\$259,453,469	\$214	\$45,453,469	-84.5%
Washington	\$292,665,206	\$1,037,737,660	\$168	\$869,737,660	197.2%
West Virginia	\$217,367,485	\$226,598,934	\$36	\$100,508,934	-12.3%
Wisconsin	\$1,795,550,850	\$986,099,420	\$166	\$820,099,420	-54.3%
Wyoming	\$176,151,017	\$179,683,116	\$12	\$167,683,116	-4.8%
United States	\$52,579,421,981	\$28,381,777,790	\$8,001	\$20,380,777,790	-61.2%

MARYLAND DEPARTMENT OF LABOR,  
SUMMARY OF UI ACTIVITIES  
FISCAL YEARS 1992 - 2002

FY	Initial Claims		Monetary Determinations		Number Exhausting Benefits	Number Receiving Benefits	Percent Exhausting
	Total	New	Total	No. Eligible			
1992	346,475	232,641	255,993	213,449	54,391	152,816	32.8
1993	306,241	205,207	218,883	176,169	38,382	128,932	26.5
1994	265,514	193,062	198,430	162,241	42,746	123,466	35.1
1995	251,589	183,965	193,167	163,048	38,262	114,507	32.2
1996	267,571	191,707	208,407	175,805	38,495	121,558	32.9
1997	233,346	170,349	187,612	156,508	35,971	107,909	30.5
1998	233,523	169,618	180,394	150,056	34,171	104,127	31.9
1999	204,780	150,688	189,207	152,803	31,313	99,637	30.5
2000	192,396	145,680	159,436	129,985	27,767	94,443	28.7
2001	202,384	150,261	145,891	119,003	26,878	102,425	26.2
2002	253,630	188,472	236,024	198,492	40,695	132,019	32.8

FY	Weeks Claimed	Weeks Compensated	Amount Benefits Paid	Average Duration (Weeks)	Nonmonetary Determination	Appeal Decisions (Authority)	
						Lower	Higher
1992	3,597,404	2,743,223	\$495,193,717	18.0	147,202	26,889	3,696
1993	2,887,361	2,188,062	\$395,001,161	17.0	137,214	26,888	4,397
1994	2,608,849	1,964,621	\$353,732,254	14.9	129,775	25,693	4,106
1995	2,412,372	1,819,103	\$331,027,306	15.9	126,891	23,600	4,130
1996	2,535,436	1,909,265	\$368,607,978	15.7	128,248	27,649	4,598
1997	2,153,770	1,705,571	\$333,927,755	15.8	145,387	26,048	4,403
1998	1,943,520	1,639,931	\$326,504,032	15.8	205,729	23,263	4,028
1999	1,872,007	1,461,122	\$295,114,335	14.7	222,296	22,385	3,466
2000	1,619,734	1,350,980	\$277,463,886	14.3	228,469	20,138	2,922
2001	1,681,101	1,406,548	\$313,246,727	13.7	272,569	21,324	2,877
2002	2,440,320	2,012,044	\$475,365,528	15.2	337,356	27,886	3,597

**UNEMPLOYMENT INSURANCE STATISTICS - REGIONAL COMPARISON**  
(Fiscal Year 2002 except as noted)

	Data is Based on Fiscal Year 2002	Maryland	North Carolina	Pennsylvania	Virginia	District of Columbia	Delaware	West Virginia
A	Tax Rate Ranges for 2003	.3% - 7.5%	0% - 5.7%	1.554% - 9.5312%	.2 - 6.3%	1.3% - 6.6%	.3% - 8.2%	1.5% - 8.5%
B	Taxable Wage Base for 2003	\$8,500	\$15,900	\$8,000	\$8,000	\$9,000	\$8,500	\$8,000
C	Covered Employment	2,296,000	3,741,000	5,454,000	3,290,000	452,000	401,000	664,000
D	Total Wages	\$85,062,975,000	\$119,166,136,000	\$189,067,317,000	\$118,187,797,000	\$23,822,088,000	\$15,376,562,000	\$18,188,276,000
E	Taxable Wages	\$17,607,083,030	\$43,910,760,000	\$38,380,061,000	\$25,426,407,000	\$3,879,936,000	\$3,142,344,000	\$4,564,282,000
F	Average Weekly Wage	\$712.37	\$612.56	\$667.89	\$690.81	\$1,013.78	\$737.38	\$ 526.81
G	Maximum Weekly Benefit Amount	\$310	\$408	\$442	\$318	\$309	\$330	\$351
H	Waiting Week	NO	YES	YES	YES	YES	NO	YES
I	Duration of Benefits	26 weeks	13-26 weeks	16-26 weeks	12-26 weeks	19-26 weeks	18-26 weeks	26 weeks
J	Average Duration	15.2 weeks	12.4 weeks	16.6 weeks	12.7 weeks	17.6 weeks	12.0 weeks	13.5 weeks
K	Dependents' Allowances	YES	NO	YES	NO	NO	NO	NO
L	Sick Claims	YES	NO	NO	NO	NO	YES	NO
M	Average Weeks Claimed (weekly)	46,929	107,711	202,744	47,230	6,997	7,884	16,396
N	Benefits Paid	\$475,365,528	\$1,196,732,000	\$2,582,740,000	\$626,323,000	\$96,616,000	\$96,616,000	\$144,856,000
O	Exhaustion Rate	32.8%	29.2%	31.4%	32.8%	49.6%	26.1%	21.6%
P	Trust Fund Balance as of 12/31/2002	\$781,334,024	\$188,529,449	\$1,710,127,876	\$538,000,000	\$289,870,143	\$294,465,899	\$257,054,929

**OFFICE OF UNEMPLOYMENT INSURANCE  
UNEMPLOYMENT INSURANCE TRUST FUND SOLVENCY**

**Problems**

- Trust Fund balance on September 30, 2002 was within \$5 million of triggering on a surcharge. This was after the infusion of \$142.9 million in federal Reed Act funds. NOTE: This was the first ever large-scale deposit of Reed Act funds and is not a normal source of revenue for the Trust Fund. Without the Reed Act funds, the surcharge would have been .8% for calendar year 2003. Benefits during this summer are averaging approximately \$10 million per week. It is estimated that the Trust Fund will be below \$650 million and that there will be a 1.0%-1.1% surtax in 2004.
- The balance on September 30, 2001 was within \$35 million with unemployment at a 20 year low and after six years of below average payouts.
- Trust Fund balance may not withstand average/severe recession without borrowing.
- Employers are assessed surcharges when they can least afford it (coming out of a recession).
- Reserves must be built before a recession, not in reaction to it.
- Current system and taxable wage base make it difficult to adequately cover higher wage workers.
- Only 64% of taxpaying employers' benefit charges are effectively charged.

The Maryland Unemployment Insurance Trust Fund balance as of September 30, 2002 was approximately \$832 million. On the surface, this appears to be a substantial reserve. This number, however, must be placed in perspective. The highest fund balance after receipt of first quarter taxes was \$906 million. During State fiscal year 2002, \$475 million was paid out to eligible claimants. During the same time period, employers' tax receipt totaled \$246.7 million. It is not possible to estimate future levels of unemployment.

During the State fiscal year 2003, \$504 million was paid out to eligible claimants. During the same period, tax receipts totaled \$260 million. The highest balance was on May 31, 2003, when the balance was \$742,834,666. This balance is approximately \$90 million dollars below the statutory amount for Trust Fund solvency. It is estimated that the Trust Fund balance on September 30, 2003 will be below \$650 million, which is more than \$182 million less than the September 30, 2002 level.

During the late 1990s with the unprecedented levels of low unemployment, tax revenues barely covered benefit payments. Only the interest on the Trust Fund resulted in a surplus of revenues over payout. In fiscal year 1999, revenues were approximately \$320 million and benefit payments were approximately \$310 million.

In the past, this Agency has notified the General Assembly that a recession similar to those experienced in the 1980s, and 1990s could result in Maryland borrowing money in

order to continue paying benefits. Unless the money is borrowed and repaid within tight time constraints, interest will accrue. And, as we have noted before, when interest accrues on the loans, the interest cannot come from employers' UI taxes. The interest must be paid out of State general funds or some other employer assessment.

The ability of the Maryland UI tax structure to provide adequate reserves in the Maryland Unemployment Insurance Trust Fund is reduced due to the following factors:

- Non-charging provisions
- Closed businesses
- Businesses at or above the maximum rate

These factors cause what has become known as "leakage" to the Trust Fund, totaling approximately 40% on average (\$120 million per year)!

### Non-Charging Provisions

Benefits are chargeable to employers' accounts in proportion to the wages the employer paid which were used to establish the individual's eligibility for benefits. Benefits are not chargeable to employers' accounts if an individual is disqualified as outlined below, serves the penalty, most often including subsequent employment and then becomes eligible for benefits.

- Benefits paid to an individual who quits without good cause;
- Benefits paid to an individual who is discharged for gross misconduct or aggravated misconduct;

Benefits are also not chargeable if:

- Employer provides permanent part-time employment when the claimant is unemployed from a full-time job;
- Benefits paid that are found to be overpaid after an appeal.

**In fiscal year 2002, \$63 million in benefits were paid to eligible claimants that were not charged to employers' accounts, as a result of non-charging provisions (14.3%).**

### Closed Businesses

When a business closes its doors, any benefits paid to eligible claimants which are based, partially or totally, on wages paid by the closed business, become part of the pooled or socialized costs which must be absorbed by the Trust Fund.

**In fiscal year 2002, \$53.7 million in benefits were paid to eligible claimants that were not charged to employers' accounts, as a result of closed businesses (12.2%).**

### **Businesses at the Maximum Rate**

The unemployment insurance tax structure is an experienced rated system, similar to other insurance systems. The higher the experience, i.e. charges to the account, the higher the rate. Unlike many other insurance programs, the Maryland UI Law dictates the maximum rate that an employer can be assigned and no employer's coverage can be canceled. The current maximum tax rate, without a surtax, is 7.5%.

In fiscal year 2002, \$42.4 million in benefits were paid to eligible claimants that were not charged to employers' accounts as a result of ineffective (rates greater than the maximum rate) charges (9.6%).

### **Inadequacy of Tax Tables to Account for Leakage and Restore Solvency**

Each benefit ratio and resultant tax rate in the Table of Basic Rates contains a very small percentage to allow for the pooled or socialized costs. The table, however, was designed before the non-charging provisions were placed into the law. When the tax table was last amended, during the 1992 General Assembly Session, the minimum rate was increased from .1 % to .3% and the maximum rate was increased to 7.5% over a five year period. The basic structure of the table was not altered.

The Schedule of Basic Rate Adjustments, sometimes known as the "surtax table" was altered, to be somewhat more responsive to Trust Fund adequacy, during the 1992 General Assembly Session. A surtax will trigger on when the ratio of the Trust Fund balance on September 30 to total taxable wages for the prior fiscal year is below 4.7%. The increments of the table were increased which would result in the surtax triggering on more often, but at lower levels. However, the General Assembly artificially limited the surtax each year it triggered on since then, with the exception of the last year that it was in place.

### **Conclusion**

The Maryland unemployment insurance tax structure needs to be restructured to provide for more effective charging of unemployment insurance benefits paid to eligible claimants and to provide for adequate reserves to pay for future downturns in the economy.



STATE	DURATION OF BENEFITS (WKS)	WAITING WEEK	SEASONALITY DISQUALIFICATIONS	SICK CLAIM BENEFITS	DEPENDENTS' ALLOWANCES
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**MARYLAND DATA**

	26	No	No	Yes	Yes-\$8
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**STATES PAYING PART-TIME EMPLOYEES UI BENEFITS**

Arkansas	9-26	Yes	Yes		
California	14-26	Yes			
Colorado	12-26	Yes	Yes		
Delaware	18-26		Yes		
D.C.	19-26	Yes			
Florida	9-26	Yes			
Hawaii	26	Yes			
Illinois	26	Yes			Yes- \$5
Iowa	9-26				Yes-\$2-27
Louisiana	lesser of 27% of wages or 26	Yes			
Massachusetts	9-30	Yes	Yes	Yes (3 wks)	Yes-\$25
Minnesota	10-26	Yes	Yes		
Missouri	12-26	Yes			
Nebraska	15-26	Yes			
New Jersey	15-26	Yes			Yes-\$4-34
New York	26	Yes			
N. Dakota	12-26	Yes		Yes	
Oklahoma	lesser of 50% of wages or 26	Yes			
Pennsylvania	16-26	Yes	Yes		Yes-\$5
Rhode Island	11-26	Yes			Yes-\$10
S. Dakota	15-26	Yes	Yes		
Vermont	26				
Wyoming	lesser of 30% of wages or 26	Yes			

Prepared by the Department of Labor, Licensing and Regulation

## Part-time Workers and Unemployment Insurance Benefits

- Unemployment insurance benefits are based on wages paid to individuals, regardless of whether the wages were paid in full-time or part-time employment.
- Claimants must be able and available and actively seeking full-time work.
- Seeking full-time work is defined as whatever is considered full-time for the industry, as long as the individual is not limiting his/her hours to part-time work. \*Thus, if an industry has lowered its “normal hours” below, for example, 35 hours/week, the individual would continue to be eligible to benefits. (The argument has been advanced that industries have lowered available hours below 35 hours per week.)
- If due to a disability, the claimant’s normal working hours are less than 35 hours per week, this is considered “full-time” for that individual.
- Individuals who are only interested in working part-time are considered to be limiting their attachment to the labor force and are not eligible for UI benefits.

## Relevant Statistics

- Nationally, 17.4% of workers classify themselves as part-time.
- 11.4 % of part-time workers are part-time for economic reasons, which include involuntary part-time work, unfavorable labor market conditions, inability to find full-time work. All individuals in this category are looking for full-time work.
- 82.1% of part-time workers are part-time for non-economic reasons, which include medical reasons, child care or family obligations, school/training, limitations on earnings due to retirement or social security. All individuals in this category do not want full-time work and/or are not available for full-time work.
- Extrapolation of Current Population Survey (CPS) statistics to Maryland’s work force
  - 2002 average employment in Maryland – 2,427,396
    - 422,367 part-time workers
    - 48,752 part-time workers for economic reasons (want full-time work)
    - 346,763 part-time workers for non-economic reasons (do not want full-time work)

## Conclusion

- Maryland’s unemployment insurance program covers approximately 86% of all workers in Maryland
- As the unemployment insurance program in Maryland is an insurance program funded by employers, the question remains whether employers should be funding benefits for individuals who only want to work part-time.
- The Office of Unemployment Insurance is requesting guidance from the Office of the Attorney General whether the definitions of the current law and legal opinions concerning full-time work search can include categories of (1) individuals who

due to labor market conditions or tradition, have held two part-time jobs concurrently, lose one of the jobs and are then searching for a replacement part-time job; and (2) individuals who work in industries where traditional full-time hours may no longer be available (e.g. restaurants, certain retail, etc.), thus working all available hours may never equal 32+ hours.



# Appendix B

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# Appendix B

## Unemployment Insurance Task Force Menu of Items to Consider

September 30, 2003 Meeting  
DRAFT

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This menu of items was developed from ideas put forth by the task force members to date. There may be other items that the task force may wish to consider.

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Note:

This document presents information to allow the task force to compare individual aspects of Maryland's unemployment insurance structure to other states.

A more accurate state-to-state comparison should include a comparison of overall states' structures since individual aspects of states' structures may vary depending on other aspects of their structures.

For example, Virginia may be able to have a lower minimum rate and a lower maximum rate than Maryland's respective rates because Virginia's structure fully charges the last 30 day employer (no non-charging) while Maryland does not charge certain employers for voluntary quits; these non-charging costs become leakage. Another example is that Delaware pays part-time benefits but has a seasonal disqualification.

## Minimum Rate and Steps in the Table of Basic Rates

### Current law (Section 8-612):

The minimum basic rate is .3%. An employer paying the .3% minimum rate pays up to \$25.50 per employee per year (\$8,500 taxable wage base x .003). Rating is based on experience rating. About 130,000 total number of employers; of these, about 73,000 pay .3% to .9%. Of the 130,000, about 9,000 employ more than 50 employees.

<u>Rate</u>	<u>Average Number of Employers at this Rate</u>	<u>Estimated Tax Collected Annually</u>	<u>Taxable Wages</u>
.3%	About 71,053	\$7.4 million	\$2.7 billion
.4% to .6%	About 6,274	\$10.7 million	
.7% to .9%	About 3,804	\$19.7 million	

Small business: (fiscal 2002 data) employers with 20 or fewer employees and employers with 10 or fewer employees

	<u>Total Taxable Wages</u>	<u>Average Tax Rate</u>	<u>Number of Employers at Minimum Rate</u>
< 20 Employees	\$4.638 billion	1.35%	63,893
< 10 Employees	\$3.108 billion	1.34%	59,688

### Other States:

Minimum rates range from: 0 to 1.8 percent.

0	(10 states, includes NC)
.05	(4 states)
.1	(6 states)
.2	(2 states, includes VA)
.3	(4 states, includes MD and DE)
.4	(3 states)
.5	(3 states)
.7	(2 states)

1 state each for the following: .04, .06, .08, .14, .18, .25, .49, .55, .6, .66, .74, 1.15, 1.33, 1.4, 1.47 (PA), 1.5 (WV), 1.6 (DC), 1.66, 1.8



## **Suggested Options:**

1. Raise minimum rate and increase every step of the table by the same amount (by .3%). (For example, a .3 increase means that the minimum .3% increases to .6%; the 1.0% step increases to 1.3%; and the maximum 7.5% increases to 7.8%.) Note: A similar change was made in 1993 – every step increased by .2%.
2. Raise minimum rate only from .3% to .6%.

Reasoning: The minimum rate does not collect sufficient revenues to cover leakage.

## **Employer Impact:**

Affects employers who are currently at the minimum rate, especially those with low lay off experience.

For each additional .1%, the cost to an employer is \$8.50 per employee per year.

## **Employee Impact:**

None.

## **Trust Fund Impact:**

### **Option 1 (raise minimum rate and every step by .3%):**

For each additional .1% to all employers, additional revenue to the trust fund is estimated at \$17.5 million (based on \$17.5 billion in taxable wages).

### **Option 2 (raise the minimum rate only to .6%):**

For .3% employers to go to .6%: additional revenue to the trust fund is estimated at \$8.1 million (\$2.7 billion taxable wages for .3% employers x an additional .3%).

For .4 and .5% employers to go to .6%: additional revenue to the trust fund is estimated to be minimal.

## Ineffective Charges\* (Maximum Rate)

### Current Law (Section 8-612 and 8-608):

The maximum basic rate is 7.5%. An employer paying the 7.5% maximum rate pays up to \$637.50 per employee per year (\$8,500 taxable wage base x .075). Rating is based on experience rating. About 130,000 total number of employers; of these about 4,210 pay 7.5%.

\*Ineffective charges means that certain employers are charged the maximum rate but should be charged, if the law allowed, a higher rate based on the experience ratings of the employers.

<u>Rate</u>	<u>Average Number of Employers at this Rate</u>	<u>Tax Collected Annually (Fiscal 02)</u>
7.5%	About 4,210	About \$28 million
*\$375,483,072 taxable wages x .075 = \$28,161,230		
7.5%	About 140	
7.6% and 8.5%	About 466	
8.6% +	<u>About 3,604</u>	
	Total 4,210	

Small business: (fiscal 2002 data) employers with 20 or fewer employees and employers with 10 or fewer employees

	<u>Total Taxable Wages</u>	<u>Average Tax Rate</u>	<u>Number of Employers at Maximum Rate</u>
< 20 Employees	\$4.638 billion	1.35%	2,824
< 10 Employees	\$3.108 billion	1.34%	2,715

Ineffective charges\* account for 9.62% of benefits or \$42.4 million (fiscal 2002).

### Other States:

Maximum rates range from: 5.4% to 10.09%

5.4 (18 states)

2 states each for the following: 7.0, 8.1, 6.3 (VA), 8.5 (WV)

1 state each for the following: 5.5, 5.6, 5.7 (NC), 5.9, 6.0, 6.2, 6.37, 6.4, 6.5, 6.54, 6.56, 6.6 (DC), 6.7, 6.8, 7.23, 7.4, 7.5 (MD), 8.0, 8.2 (DE), 8.4, 9.0, 9.07 (PA), 9.58, 9.97, 9.97, 10.0, 10.09

### **Suggested Options:**

1. Raise maximum rate to 8.25%, 8.5%, or 9.5%

Reasoning: The maximum rate does not collect sufficient revenues from employers that impose costs on the system that would warrant a higher tax rate.

### **Employer Impact:**

Affects employers that are currently at a 7.5% rate, especially those with high lay off experience, including large employers and seasonal employers.

For each additional .1%, the cost to an employer is \$8.50 per employee per year.

### **Employee Impact:**

None.

### **Trust Fund Impact:**

Raising the maximum rate is estimated to increase trust fund revenues as follows:

<u>Raise Maximum Rate To</u>	<u>Additional Annual Revenue</u>
8.25%	\$2.5 million
8.5%	\$3.3 million
9.5%	\$6.3 million
10.0%	\$7.9 million
10.5%	\$9.4 million
11.0%	\$11.0 million

## Taxable Wage Base

### Current law (Section 8-607; 8-612):

The taxable wage base is the first \$8,500 in wages that an employer pays to each employee during a calendar year. An employer pays its rate on wages up to \$8,500 for each employee. Current taxable wage base is approximately 28% of average annual wages (\$31,000). An employer pays \$8.50 per employee per year for each .1% tax rate (\$8,500 x .001). Note: the taxable wage base has been at \$8,500 since 1994.

An employer's tax rate (on a three-year rolling experience) is computed by taking benefits paid during the three rating years immediately preceding the computation date and dividing by the total reported taxable wages for the same period.

### Other States:

Taxable wage bases range between \$7,000 and \$30,200.

\$7,000	11 states
\$8,000	8 states (includes VA, PA, WV)
\$8,500	4 states (includes MD, DE)
\$9,000	6 states (includes DC)
\$12,000	2 states
\$18,000	2 states

1 state each for the following: \$7,500, \$10,000, \$10,500, \$10,800, \$11,700, \$14,700, \$15,000, \$15,900, \$16,000, \$19,200, \$19,700, \$21,500, \$22,000, \$22,500, \$23,900, \$26,000, \$26,700, \$27,600, \$28,500, \$30,200

2 states increase/decrease wage base depending on fund balances (RI: between \$12,000 and \$19,000; OH: max. \$9,000; MO: between \$7,000 and \$10,500)

18 states use a flexible wage base (13 states use a % of SAWW; 5 other)

### Suggested Options:

1. Raise taxable wage base to \$10,000 or \$12,000.
2. Index taxable wage base to a fixed percentage of the average wage in the State.

Reasoning: Social security taxes (beginning 2003) will be applied to wages up to \$87,000. The social security wage base is indexed to wage growth and increases automatically every year. The average week wage is \$729 or about \$38,000 per year.

### **Employer Impact:**

Affects all employers. An increase of the taxable wage base to \$10,000 (about 33% of the average annual wages) increases the cost per employee per year by \$1.50 for each .1% tax rate.

### **Employee Impact:**

None.

### **Trust Fund Impact:**

#### **Option 1 (raising taxable wage base):**

Raising the taxable wage base provides the trust fund with additional revenue in two different ways. Initially, it injects short-term additional income by raising the wage base without affecting tax rates. Over a three-year period, however, the overall effect of the wage base increase is ameliorated when the higher wages enter the rating calculation, reducing the rates for employers with earned rates. A small portion of the increase will, however, be permanent. Employers at the minimum rate and employers assigned the new account rate are not affected by higher taxable wages in their rate calculations. The wage base increase for them would be constant over time. The first year increase in revenue without a surcharge is an estimated \$49.2 million.

A surcharge coupled with a wage base increase would significantly increase the estimated revenue figures provided below. For example, the additional revenue for year one, with a 1.1% surcharge, at the \$10,000 base would rise to \$77.7 million and at the \$12,000 wage base additional revenue would increase to \$151.1 million.

	<u>\$10,000 Wage Base</u>	<u>\$12,000 Wage Base</u>
Additional wages for employers with new account rates	\$67.5 million	\$131.3 million
Average tax rate	1.9%	1.9%
Additional tax every year	1.3 million	\$2.5 million
Additional wages for employers at the minimum rate	\$445.9 million	\$867.0 million
Average tax rate	1.9% million	1.9% million
Additional tax every year	\$8.5 million	\$16.5 million
Total constant increase each year	\$9.8 million	\$19.0 million
Additional taxable wages for all employers	\$2,590.9 million	\$5,037.8 million
Average tax rate	1.9%	1.9%
Additional tax in year 1	\$49.2 million	\$95.7 million
Additional tax in year 2	\$36.1 million	\$70.2 million
Additional tax in year 3	\$22.9 million	\$44.5 million
Additional tax in year 4	\$9.8 million	\$19.0 million

**Option 2 (indexing taxable wage base):** Same as above, but increases each year.

## Voluntary Quit Employment (Non-Charging Provision)

### Current law (Section 8-611, 8-1001):

*Good cause* is directly attributable to, arising from, or connected with employment conditions or employer actions.

*Valid circumstance* is a substantial cause attributable to employment conditions or employer actions for a compelling cause that afforded the claimant no reasonable alternative. The individual must have taken all reasonable actions to retain the job.

GOOD CAUSE: An individual still qualifies for UI benefits if the individual voluntarily leaves work WITH GOOD CAUSE. Benefits are chargeable to employers.

WITHOUT GOOD CAUSE: An individual is disqualified from receiving benefits if the individual voluntarily leaves work WITHOUT GOOD CAUSE. However, the individual may receive POSTPONED benefits.

1. A claimant who voluntarily quits without good cause and without valid circumstances is disqualified for benefits until the claimant returns to work and has served the “penalty” by earning at least 15 times the weekly benefit amount in the subsequent employment and loses that job through no fault of his/her own. \*Note: this includes leaving work to (1) attend school; (2) become self-employed; or (3) accompany spouse.

\*Benefits are not chargeable to an employer’s accounts for an employee who voluntarily quits from that employment without good cause, and eventually becomes eligible for benefits by serving the penalty and being laid off by a subsequent employer. The subsequent employer is charged its share (if the wages are in the base period) and the rest is non-charged called “leakage” (a shared cost by all employers which is recovered through a surcharge, also called “socialized cost” or “pooled cost”).

2. A claimant who voluntarily quits without good cause but has valid circumstances is disqualified for 5 to 10 weeks from his/her last day of work (postponed benefits).

Non-charges due to benefits paid after claimants “serve the voluntary quit penalty and become eligible for benefits” account for 12.967% of benefits or \$57 million (fiscal 2002).

### Other States:

Fully charges last 30 day employer (no non-charging)                      2 states (VA, IL)

Most recent base period employer (varying): ME, NH, SC, KY

Proportional charging (no charging vol. quit employer): MD, WV, PA, DE, DC, NC

Disqualification penalties:

MD: 15 x weekly benefit amount (WBA)

Other states (examples):

10 x WBA: 8 states

5 x WBA: 3 states

17 x WBA: 1 state

Some states require the claimant to work for a period of time (i.e., 4 weeks, 6 weeks, or 8 weeks) and earn a WBA in each of those weeks.

### **Suggested Options:**

1. Charge employers for the share of UI attributable to the voluntary quit employment
  - a. charge the last 30-day employer's account for all benefits paid which is based on all wages in the employee's base period.
  - b. charge the voluntary quit employer's account its share (based on the wages the employee earned with that employer).
2. Increase penalty from 15 x WBA to 25 x WBA (but, still do not charge employers for the share of UI attributable to the voluntary quit employment)

### **Employer Impact:**

#### **Option 1 (charging employers):**

If the last employer is charged, that employer would be assuming all UI costs in the base period including employers from whom the employee quit.

If the voluntary quit employer is charged for benefits that are attributable to the wages that the employee earned with that employer, that employer would be assuming the cost of benefits for employees that voluntarily separated from employment.

Charging this group of employers would lessen the UI burden on other employers as these other employers would no longer "share the cost" of this leakage.

#### **Option 2 (increasing penalty provision):**

insignificant potential decrease in cost to employers if employees get less UI benefits.

### **Employee Impact:**

For Option 1 (charging employers): none

For Option 2 (increasing penalty provision):

Under current law, the individual has to “voluntary quit, become re-employed, earn 15 times the weekly benefit amount, and lose that job through no fault of his/her own”. This amounts to earning \$4,650 (at \$310 WBA x 15).

Under a “25 times” qualification requirement, the individual would have to earn \$7,750 (at \$310 x 25 WBA). Those not earning this amount would be disqualified from UI. The employee would have to work an additional 5 weeks.

**Trust Fund Impact:**

For Option 1 (charging employers):

By charging employers, leakage would decrease by about \$50-\$60 million annually.

For Option 2 (increasing penalty provision):

By increasing the penalty, benefit payments are estimated to decrease slightly.



## **Gross Misconduct and Aggravated Misconduct Disqualification (Non-charging Provision)**

### **Current law (Section 8-611, 8-1002.1, and 8-1003):**

Benefits are not chargeable to employers' accounts if an individual is disqualified for aggravated misconduct or gross misconduct, serves the penalty, and subsequently becomes eligible for benefits.

A claimant who is charged with gross misconduct or aggravated misconduct is disqualified for benefits until the claimant returns to work and has served the "penalty" by earning the required amount in the subsequent employment and loses that job through no fault of his/her own.

Penalties: (1) gross misconduct penalty is disqualification until the individual earns 20 x the individual's weekly benefit amount at the subsequent employer; and (2) aggravated misconduct penalty is disqualification until the individual earns 30 x the individual's weekly benefit amount at the subsequent employer.

Actual malice for "aggravated" is difficult to determine. Aggravated misconduct amounts for .02% of chargeable benefits or \$70,000.

Gross misconduct non-charges account for 1.12% of benefits or \$5 million (FY 2002).

Aggravated misconduct:	about a few employees per year
Gross misconduct:	about 9,000 per year

### **Other States:**

Maryland is the only state that has an aggravated misconduct disqualification provision.

17 states take out the wage amount the claimant earned with the "gross misconduct" employer before calculating benefit amount.

Every state non-charges gross misconduct, except IL and VA (these states charge the last employer).

### **Suggested Options:**

1. Take out the wage amount the claimant earned with the "gross misconduct" employer before calculating benefit amount (therefore, this means that the wages the employee earned at the gross misconduct employer is not in the base period).
2. Charge employers for the share of UI attributable to the gross misconduct employment
  - a. charge the last 30-day employer's account for all benefits paid which is based on all wages in the employee's base period.

- b. charge the gross misconduct employer's account its share (based on the wages the employee earned with that employer).
3. Increase penalty from 20 x WBA to 25 x WBA (but, still do not charge employers for the share of UI attributable to the gross misconduct employment)

### **Employer Impact:**

For Option 1 (taking out the wage amount the claimant earned with the "gross misconduct" employer before calculating benefit)

All employers are affected. No socialized cost (decrease in leakage).

For Option 2 (charging employers):

If the last employer is charged, that employer would be assuming all UI costs in the base period including employers from whom the employee had gross misconduct.

If the gross misconduct employer is charged for benefits that are attributable to the wages that the employee earned with that employer, that employer would be assuming the cost of benefits for employees that were charged from gross misconduct.

Charging this group of employers would lessen the UI burden on other employers as these other employers would no longer "share the cost" of this leakage.

Employers at the maximum rate may be unaffected.

For Option 3 (increasing penalty provision): insignificant potential decrease in cost to employers if employees get less UI benefits.

### **Employee Impact:**

For Option 1 (taking out gross misconduct wages before calculating benefit)

Benefit payments to claimants who serve the gross misconduct penalty and become eligible for benefits are estimated to be reduced by only about 33-50%. The majority of claimants have more than 1 base period employer (2.5 base employers).

For Option 2 (charging employers): none

For Option 3 (increasing penalty provision):

Under current law, the individual has to "be discharged for gross misconduct, become re-employed, earn 20 times the weekly benefit amount, and lose that job through no fault of

his/her own". This amounts to earning \$6,200 (at \$310 WBA x 20). For aggravated misconduct, the individual must earn \$9,300 (at \$310 WBA x 30).

Under a "25 times" qualification requirement, the individual would have to earn \$7,750 (at \$310 x 25 WBA). Those not earning this amount would be disqualified from UI.

### **Trust Fund Impact:**

For Option 1 (taking out gross misconduct wages before calculating benefit)

By taking out the misconduct wages before calculating benefits, leakage would decrease by \$5-\$6 million annually.

For Option 2 (charging employers)

By charging employers, leakage would decrease by about \$5-\$6 million annually. (Leakage would not be completely eliminated since there may be some employers who should be charged under this option but who are already at the maximum rate.)

For Option 3 (increasing penalty provision):

By increasing the penalty, benefit payments are estimated to decrease slightly.

## **Closed Accounts (Non-Charging Provision)**

### **Current law (Section 8-609, 8-618):**

As an example, current law provides that reimbursing non-for-profit employers must post cash, a surety bond, irrevocable letter of credit or other collateral. Amount is based on size of organization.

Closed accounts account for 12.19% of benefits or \$54 million (fiscal 2002).

About 17,000 employers go out of business (i.e., bankruptcy, leave state) each year; while, about 17,500 to 18,000 new businesses start up each year.

The formula for new employers provides that the rate cannot be higher than 2.3% based on a 5 year benefit cost rate. The rate cannot be lower than the best rate. (currently, set at 1.9%)

Note: The “new corporate identity” issue is the subject of federal hearings (concerns the closing of a business and the opening of the same business under a different name for the purpose of avoiding taxes).

### **Other States:**

#### **Suggested Options:**

1. Require the posting of security/letter of credit for all employers.
2. Require the posting of security/letter of credit for new employers.
3. Change formula for new employers (i.e., set a higher rate).

### **Employer Impact:**

A determination would have to be made how the amount of security/letter of credit would be determined for a new employer with no experience and prior taxable wages.

This would be an added cost to employers.

### **Employee Impact:**

None.

### **Trust Fund Impact:**

By requiring the posting of security/letter of credit, leakage is estimated to decrease (depends on the security set).

## Surcharge

### Current law (Section 8-612):

The surcharge for a given calendar year may be .1% to 2%, depending on the balance of the trust fund on September 30 of the immediately preceding calendar year.

Specifically, when the ratio of the Trust Fund balance on September 30 to the total taxable wages for the prior fiscal year is less than 4.7%, a surcharge (based on the table in law) will be assessed for the next calendar (tax) year. The table is called the "Schedule of Basic Rate Adjustments."

The surcharge is the same for all employers (not experienced rated). Surcharges range from .1% (\$8.50 per employee per year) to 2% (\$170 per employee per year). The projected 1.1% surcharge would equal \$93.50 per employee per year.

The last surcharge was .6% in 1996.

The estimated surcharge for calendar 2004 is 1.1%. It is anticipated that there will be surcharges in calendar years 2005 and 2006. The percent will be determined by benefits paid and revenues collected.

Employer annual rate notices, including surcharge assessments, are anticipated to be distributed in December 2003 to notify employers of their obligation for calendar 2004. Employers have traditionally requested that notices be mailed prior to the tax year so that they may plan for this expense.

Impact on small businesses of a 1.1% surcharge (as estimated for calendar 2004):

	<u>Total Taxable Wages</u>	<u>Surcharge</u>	<u>Additional Tax Expense</u>
< 20 Employees	\$4.638 billion	1.1%	\$51.2 million
< 10 Employees	\$3.108 billion	1.1%	\$34.2 million

1.1% brings in an estimated \$192.5 million (taxable wage base of \$17.5 billion x 1.1%). However, leakage takes away an estimated \$160 million (FY 2002 leakage), leaving a net increase of \$32.5 million.

### Other States:

Majority of states: reserve ration system (looks at all taxes paid against benefits charged since the business opened to present; when benefits charged exceed taxes paid, then the employer is charged a surcharge based on multiple tax tables).

17 states – benefit ratio system (includes MD) (looks at a 3-year rolling experience of benefits charged).

### **Suggested Options:**

1. Experience rate the surcharge.
2. Different tax rate tables in different economic climates.
3. Suppress surcharge for calendar 2004.
4. No change.
5. Lower surcharge and make it take effect more often.

### **Employer Impact:**

Options 1 and 2 (experience rate surcharge and use different tax rate tables in different economic climates): employer impact depends on the experience of each employer, on economic climates, and the surcharge/tax table used.

Option 3 (suppress surcharge for calendar 2004):

Affects all employers.

In order for employers to be notified of the change, legislation would need to be passed as soon as possible during the 2004 session. Also, notices that are sent out in December 2003 to 130,000 employers would need to be postponed.

### **Employee Impact:**

None.

### **Trust Fund Impact:**

**Options 1 and 2 (experience rate surcharge and use different tax rate tables in different economic climates):**

These options would require complete restructuring of Maryland's UI tax structure.

**Option 3 (suppress surcharge):**

For every .1% reduction of the surcharge, revenues are estimated to be reduced by \$17.5 million. Since it is estimated that a surcharge will be assessed for several more years, suppressing it would increase the amount of the surcharge that would have to be assessed in future years.

## **Base Period**

### **Current law (Section 8-101, 8-802, 8-803):**

The base period is the first 4 of the last 5 completed calendar quarters immediately preceding the start of the benefit year (so look at wages for all employers in a 15 month to 18 month period). Therefore, the worker's most recent work experience (the current quarter and the most recent completed calendar quarter of earnings) is not counted when determining eligibility. (Note: this was done to show attachment to the work force over time.)

A claimant does not qualify for benefits if the claimant is from the most recent employer with qualifying reason. However, if the claimant is eligible for benefits based on separation from the most recent employer, that employer may not be charged if wages from this employer are not in the base period.

The amount of UI benefits are based on labor force attachment over time. As a minimum: A worker must have: (1) earned at least \$576.01 in one quarter; and (2) earned paid wages that, during at least 2 calendar quarters combined, are at least 1.5 times \$600 (or \$900). The law provides a chart of "schedule of benefits." Weekly benefit amounts range from \$25 to \$310.

An eligible claimant is paid a weekly benefit amount that is computed by: (1) determining the benefit under the "schedule of benefits"; (2) adding any allows for a dependent to which the claimant is entitled (up to the maximum weekly benefit amount); and (3) subtracting any wages the claimant earns while receiving UI benefits (except \$90 per week is not subtracted). (\$90 was increased from \$70 during the 2002 session.) Once wages equals the weekly benefit amount, the claimant no longer receives UI benefits.

### **Other States:**

All states use the same base period as Maryland (first 4 of the last 5 completed calendar quarters).

13 states ALSO use an alternative base period, if not eligible for the current base period:

10 states count most recent completed 4 quarters: ME, MI, NH, NY, NC, OH, PA, RI, WA, WY. Another three states have some other variation: MA, NJ, VT

### **Suggested Options:**

1. Use an alternative base period such as the most recently completed 4 quarters (if an individual does not have sufficient wages in the base period to qualify for benefits, the individual's alternative base period is the last 4 complete calendar quarters immediately preceding the first day of the individual's benefit year.) (SB 675 of 2003) – also, could cap the number of weeks of eligibility not to exceed the number of weeks worked.
2. Require only 1 quarter of wages, instead of 2.

Reasoning: Workers who have been on the job for less than 6-9 months are not eligible for benefits. This affects people who have recently entered the work force. These rules were implemented to ensure labor force attachment over time. Most wage information is available from employers within 90 days of the end of the quarter.

### **Employer Impact:**

Since employers file on a quarterly basis and the reports are due 30 days after the end of the quarter, employers may have to manually report the most recent quarter in many cases where a claimant is requesting the alternative base period.

### **Employee Impact:**

Based on FY 2003 data, an additional 10,506 individuals would be eligible for UI benefits. Individuals would be eligible for 26 weeks of benefits although they may have worked less than 26 weeks.

### **Trust Fund Impact:**

An additional 10,506 individuals would be eligible for benefits. The impact on the Trust Fund: an estimated \$41.6 million based on the average weekly benefit amount and average duration of receipt of benefits (10,506 x \$246 average WBA x 16.1 average duration).



## Duration of Benefits

### Current law (Section 8-803(a)(2) and 8-808( c)):

Claimants receive benefits for up to 26 weeks (uniform method). The duration of benefits is not varied in accordance with the length of employment and amount of wages earned in the base period. A claimant could be eligible for 26 weeks of benefits if the individual has wages in 2 calendar quarters.

The average duration is 16.1 weeks (FY 2003).  
About 36% get the full 26 weeks (FY 2003).

FY 2003 statistics: Of all monetary eligible claimants:

#claimants with wages in 1 quarter:	3,927 (not eligible now for UI)
# claimants with wages in 2 quarters:	9,805
# claimants with wages in 3 quarters:	22,163
#claimants with wages in 4 quarters:	<u>134,656</u>
Total	166,624

### Other States:

	<u>Average Duration</u>	<u>MIN/MAX</u>	<u>Method of Computing</u>
MD	16.1	26/26	Uniform duration
NC	12.4	13/26	Variable duration
VA	12.7	12/26	Variable duration
WV	13.5	26/26	Uniform duration
DE	12	24/26	Variable duration
PA	16.6	16/26	Variable duration
DC	17.6	20/26	Variable duration

9 states use uniform AND 26/26 (MD, CT, HI, IL, NH, NY, PR, VT, WV)

44 states use other methods of computing (variable duration): the maximum duration of benefits is limited to a fraction of base period wages or weeks of work.

For example, a state with a variable duration of “1/3 BPW” means that a claimant with base period wages of \$9,000 and a weekly benefit of \$150 would be entitled to a maximum potential of 20 weeks of benefits ( $1/3 \times \$9,000 / \$150 = 20$  weeks).

#### Minimum/Maximum Durations:

- 26/26 (9 states)
- all states have max. at 26 weeks, except WA is 30 weeks
- minimum ranges from 3 to 24 weeks

### **Suggested Options:**

1. Change to variable duration of benefits.
2. Change to allowing a certain number of weeks if the employee has wages only in 1 quarter and more weeks if wages in 2 quarters, 3 quarters, etc.
3. Change to using weeks worked as a base for number of benefit weeks.
4. No change.

### **Employer Impact:**

Employer would have to report the weeks each employee works in a quarter.

### **Employee Impact:**

Benefit payments would probably decrease. No data is available for the number of weeks individuals work in a quarter. All estimates would be based on assumptions.

### **Trust Fund Impact:**

An estimated 10,506 claimants would be monetary eligible using the most recent completed 4 quarters. (These include claimants who have high quarter wages but not enough overall and claimants who have wages only in 1 quarter.)

## **Waiting Period Before Providing Benefits**

### **Current law (no provision):**

No waiting period – the unemployment insurance office has 21 days to provide the first check.

Generally, a claimant receives the first benefit checks within 14 days following the filing of a claim. Even though there is a delay, the claimant is paid for the first week following the layoff.

The average duration is 16.1 weeks (FY 2003).

About 36% of claimants exhaust all 26 weeks (FY 2003).

FY 2003 statistics:

# of claimants who received at least 1 week check	133,010
# of claimants who received only 1 week check	7,664
# of claimants who received only 2 weekly checks	5,151
# of claimants who received 3 to 25 weekly checks	<u>76,924</u>
<b>TOTAL</b>	<b>89,739</b>
# of claimants who exhausted benefit weeks	43,271
# of claimants who would lose 1 week of benefits	89,739

Average weekly benefit amount \$246

### **Other States:**

No waiting week: 12 states (MD, DE, AL, GE, NH, CN, IO, MI, WI, KY, NV, VT)

Waiting week: 39 states (includes NC, PA, VA, DC, WV)

### **Suggested Options:**

1. Impose a 1 week waiting period all the time
2. Impose a 1 week waiting period only in times of full employment (6% or less)
3. No change.

### **Employer Impact:**

Affects all employers, especially those who have high layoffs. By delaying the benefit payment, the claimant may have found a job prior to exhausting the 26-week duration period.

**Employee Impact:**

An estimated 89,739 claimants would receive 1 less weekly check.

**Trust Fund Impact:**

Benefit payments are estimated to be reduced by \$22.1 million per year (89,739 claimants who would lose 1 week x \$246 average weekly benefit).

## Part Time

### Current law (Section 8-903, 8-801):

To be eligible, an individual must be: (1) able to work; (2) available for work; and (3) actively seeking work. Claimant must be physically able to work at the time the claim is filed and must be available for customary hours of work in his or her occupation. If the claimant becomes unable to work due to illness or disability after the effective date of the claim, the claimant may be eligible to file for “sick claims”. Claimant may not restrict his/her availability to work (e.g., only part-time, limited hours, etc.).

There is no express requirement that an individual seek “full-time” work. Based on Maryland Court of Appeals decisions, a claimant is not eligible if the claimant restricts his/her ability to work and his/her searching for work.

Unemployment insurance benefits are based on wages paid to individuals, regardless of whether the wages were paid in full-time or part-time employment. Claimants must be able and available and actively seeking full-time work. Individuals who are only interested in working part-time are considered to be limiting their attachment to the labor force and are not eligible for UI benefits.

Seeking full-time work is defined as whatever is considered full-time for the industry, as long as the individual is not limiting his/her hours to part-time work.

Thus, if an industry has lowered its “normal hours” below, for example, 35 hours/week, the individual would continue to be eligible to benefits. (The argument has been advanced that industries have lowered available hours below 35 hours per week.) If due to a disability, the claimant’s normal working hours are less than 35 hours per week; this is considered “full-time” for that individual.

### Relevant Statistics

- Nationally, 17.4% of workers classify themselves as part-time.
- 11.4 % of part-time workers are part-time for economic reasons, which include involuntary part-time work, unfavorable labor market conditions, inability to find full-time work. All individuals in this category are looking for full-time work.
- 82.1% of part-time workers are part-time for non-economic reasons, which include medical reasons, child care or family obligations, school/training, limitations on earnings due to retirement or social security. All individuals in this category do not want full-time work and/or are not available for full-time work.
- Extrapolation of Current Population Survey (CPS) statistics to Maryland’s work force:
  - 2002 average employment in Maryland – 2,427,396
  - 422,367 part-time workers
  - 48,752 part-time workers for economic reasons (want full-time work)

- 346,763 part-time workers for non-economic reasons (do not want full-time work)
- average weekly wage for part-time workers in Maryland is \$270

### Other States:

23 states pay at least partial benefits to PT workers (varying degrees). The following chart shows that states may provide part-time workers with benefits but also have other restrictions, such as waiting week or seasonal disqualification.

	<u>Duration of Benefits</u>	<u>Waiting Week</u>	<u>Seasonality Disqualification</u>	<u>Sick Claim Benefits</u>	<u>Dependents' Allowance</u>
AK	9-26	yes	yes		
CA	14-26	yes			
CO	12-26	yes	yes		
DE	18-26		yes		
DC	19-26	yes			
FL	9-26	yes			
HI	26	yes			
IL	26	yes			yes - \$5
IA	9-26				yes - \$2-27
LA	Lesser of 27% Of wages or 26	yes			
MA	9-30	yes	yes	yes (3 wks)	yes - \$25
MN	10-26	yes	yes		
MO	12-26	yes			
NB	15-26	yes			
NJ	15-26	yes			yes - \$4-34
NY	26	yes			
ND	12-26	yes		yes	
OK	Lesser of 50% Of wages or 26	yes			
PA	16-26YES	yes			yes - \$5
RI	11-26	yes			yes - \$10
SD	15-26	yes	yes		
VT	26				
WY	Lesser of 30% of wages or 26	yes			

### Suggested Options:

1. Extend benefits to certain part-time workers (individual is: (1) able to work on a part-time basis; (2) available for part-time work; and (3) actively seeking part-time work). (SB 251 of 2003)
2. No change.

Reasoning: Employers pay UI for their PT workers. But, PT workers are not eligible for benefits if they get laid off. PT workers get UI if they said they are seeking FT work.

Note: The Office of Unemployment Insurance is requesting guidance from the Office of the Attorney General whether the definitions of the current law and legal opinions concerning full-time work search can include categories of (1) individuals who due to labor market conditions or tradition, have held two part-time jobs concurrently, lose one of the jobs and are then searching for a replacement part-time job; and (2) individuals who work in industries where traditional full-time hours may no longer be available (*e.g.* restaurants, certain retail, etc.), thus working all available hours may never equal 32+ hours.

### **Employer Impact:**

Significant increase in UI costs for employers that are charged-back for employees who would receive additional benefits. (Those employers hiring significant part-time help would be impacted: retail, restaurants, construction,...)

Also, significant increase in UI costs for all employers for leakage. This could amount to a .1% to .2% surcharge.

### **Employee Impact:**

An estimated 16,608 “part-time” claimants would be available for UI benefits.

### **Trust Fund Impact:**

Extend benefits to certain part-time workers (individual is: (1) able to work on a part-time basis; (2) available for part-time work; and (3) actively seeking part-time work)

Impact on the Trust Fund: estimated at \$37.1 million annually. This is based on 16,608 individuals who would receive part-time benefits (an estimated 4.8% of the total 346,000 part time employees). (4.8% is the percentage of full-time workers that generally receive benefits).

If 16,608 individuals receive an estimated \$147 in average weekly benefits for 16.1 weeks (average duration), Trust Fund expenditures increase by \$39.3 million annually. Of this amount, an estimated 63.89% will be charged back to one or more previous employers over a three-year period beginning the year following benefits payments. The remaining that cannot be charged back to employers is leakage and paid by all employers.

## Severance

### Current law (Section 8-1009):

Not resulting from abolishment of job: For each week that an individual who is otherwise eligible for UI receives severance pay:

- if the severance payment at least equals the individual's weekly UI benefit amount, the individual is disqualified from receiving UI.
- if the severance payment is less than the individual's weekly benefit amount, the individual may receive UI benefits *reduced* by the amount of the severance payment.

Resulting from abolishment of job: For each week that an individual who is otherwise eligible for UI receives severance pay:

- if the severance payment at least equals the individual's weekly wage amount, the individual is disqualified from receiving UI.
- if the severance payment is less than the individual's weekly benefit amount, the individual may receive UI benefits (these may NOT be reduced by the amount of the severance payment).

In another words, if an individual is released from a job for reasons other than job abolishment, the individual's weekly UI benefit is reduced based on the receipt of severance. Severance payments are allocated based on the individual's last pay rate. (There is a delay for the beginning or amount of benefits paid.) If the individual is released from a job due to job abolishment, the individual's weekly UI benefit is not reduced by the severance amount.

### Other States:

All but 11 states either reduce weekly benefits or pay no weekly benefit in a week that severance payments are received.

### Suggested Options:

1. Deduct all severance payments from weekly benefits (treat all workers the same regardless of whether or not their job was abolished).

### Employer Impact:

Employers have the option of whether to pay severance payments. They may not prohibit former employees from filing a claim. Employers have, however, requested that employees hold-off from filing claims until severance payments are exhausted. There is a decrease in the benefits



charged to an employer's account for those benefits postponed and subsequently not paid if the claimant becomes re-employed before receiving all UI benefits.

**Employee Impact:**

Under current law, if an individual's job is abolished, UI benefits and severance payments may be paid concurrently. If all severance payments were deductible, then in most cases, UI benefits would begin after the exhaustion of severance payments. (UI benefits are delayed.)

**Trust Fund Impact:**

Difficult to quantify. (Based on prior severance, could be about \$3-5 million per year.)

## Dependents' Allowances (DA)

### Current law (Section 8-804):

A claimant is eligible for dependent allowance of \$8 per child per week. There is a cap of up to five children. The children must be wholly or partly supported by the claimant and be under the ages of 16. An unemployed worker who qualifies for the maximum benefit (\$310) is not eligible for DA. (Benefits and the allowance in any 1 week may not exceed the highest weekly benefit amount in the schedule of benefits.)

This provision is the only "needs based" aspect of the UI Program. Employers' accounts are charged based on DA payments. Also, it currently adds \$3 million to "leakage."

The majority of claimants do not receive DA.

FY 2003 statistics:

# of claimants who received DA:	18,292 (13.7% of claimants received DA)
Amount of DA paid:	\$3,075,075 (\$3.6 mill. in FY 2002)
# of dependents:	30,382 (32,794 in FY 2002)

<u>Weekly Benefit Amount</u>	<u>Number of Claimants Receiving DA</u>
\$25-99	1,340
\$100-149	2,428
\$150-199	3,745
\$200-249	4,193
\$250-299	4,868
\$300-310	1,718
<b>Total</b>	<b>18,292</b>

## Other States:

Only 12 states have DA.

<u>State</u>	<u>Age of Child</u>	<u>Spouse Eligible</u>	<u>Maximum No. Dependents</u>	<u>Per Dependent</u>
AL	< 18	No	3	\$24
CN	< 18	Yes	5	\$15
IL	< 18	Yes	2	\$3-96
IA	< 18	Yes	4	\$5-15
ME	< 18	Yes	>5	\$10
MD	< 16	No	5	\$8
MA	< 18	No	> 5	\$25
MI	< 18	Yes	>5	\$6
NJ	< 19	Yes	3	\$4-30
OH	< 18	Yes	3	\$1-100
PA	< 18	Yes	2	\$3-5
RI	< 18	No	5	\$10+

## Suggested Options:

1. Raise in the dependents' allowances for workers receiving benefits (to \$25 per child per week). Eliminate the requirement that the benefits and the allowance in any 1 week may not exceed the highest weekly benefit amount in the schedule of benefits. (HB 338 of 2003)
2. Delete the dependents' allowances from the law.

## Employer Impact:

### Option 1 (raising the DA):

Increase in UI costs for employers that are charged-back for employees who would receive additional benefits.

Also, increase in UI costs for all employers for leakage.

### Option 2 (deleting the DA):

Decrease in cost to all employers.

## Employee Impact:

### Option 1 (raising the DA):

Additional benefits would be provided to less than 18,000 claimants annually.

**Option 2 (deleting the DA):**

Benefits for about 18,000 claimants each year would be reduced.

**Trust Fund Impact:**

**Option 1 (raising the DA):**

	<b>Impact on Trust Fund</b>
Raising the DA amount to \$25 per child per week	\$8.3 million *
Allowing DA in excess of max. weekly benefit schedule	\$10.8 million
Total	\$19.1 million
*\$17 additional DA x 30,382 dependents x 16.1 average duration	

Employers are charged for DA's. An estimated \$11.3 million (or 63.89%) will be charged back over a 3-year period to 1 or more previous employers beginning the year after the benefits are paid. The \$6.6 million that cannot be charged back to employers is leakage and paid by all employers.

**Option 2 (deleting the DA provision):**

Deleting the DA provision from current law would reduce benefit payments by an estimated \$3.1 million.

## **Maximum Benefit**

### **Current law (Section 8-803):**

A claimant is eligible for a maximum of \$310 per week. This was increased beginning in January 2003 from \$280 under legislation passed during the 2002 session. \$310 is about 34% of the State average weekly wage.

The average weekly payout is about \$242 per week.

### **Other States:**

The highest is \$760 in MA; the lowest is \$205 in AZ.  
37 states have an amount over \$300; 16 have an amount under \$300.

### **Suggested Options:**

1. Raise and index to inflation or the State average weekly wage to \$330, \$345, \$360 over 3-year period.

### **Employer Impact:**

### **Employee Impact:**

### **Trust Fund Impact:**



# Appendix C

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## Maryland Unemployment Insurance Benefits Are Among the Nation's Lowest

- **Too Few Marylanders Receive Benefits:** Over the last three years ending June 30, 2003, 34.7 percent of Maryland's unemployed received benefits. This is significantly less than the national average of 42.6 percent during the same time period.

Maryland could be brought closer to the national average by adopting an Alternative Base Period that counts a worker's most recent wages when determining eligibility. It could also extend benefits to part time workers, who are currently ineligible for benefits if they are unavailable for full time work even though their employers are paying into the system on their behalf.

- **Average Weekly Benefits Are Low:** The average benefit of \$253.84 per week replaces just 34.7 percent of the average weekly wage, a percentage that ranks Maryland 40th out of 50 states.

This could be fixed by raising the maximum benefit and indexing it to inflation or the average weekly wage, as has been done in many states. Raising the maximum weekly benefit to \$363 would reach 50 percent of Maryland's average weekly wage of \$726. The state's \$8 per week dependent allowance could also be raised.

- **Unemployment Tax Revenues Are Low:** Despite years of record low unemployment and relatively low benefits, Maryland's unemployment insurance trust fund is only minimally solvent because the state's UI tax rates are so low. The average tax rate as a percentage of total wages is 0.3 percent, which is below the national average of 0.5 percent.

Program finances could be shored up by increasing the taxable wage base (now \$8,500) and indexing it to either inflation or the average weekly wage. Overall rates could be increased. These changes would help prevent surcharges on businesses during economic slowdowns, when they are least affordable.

For more information: See Maryland Budget and Tax Policy Institute, "Maryland Unemployment Insurance: Underfunded and Out of Date," January, 2003. Available online at [http://www.marylandpolicy.org/BTpubs.htm#Unemployment\\_Insurance](http://www.marylandpolicy.org/BTpubs.htm#Unemployment_Insurance)

Contact: Patrick Lester, Senior Policy Analyst, 301-565-0505 x22



# Md.'s jobless benefits rated among worst

Wage replacement ratio is 43rd lowest in U.S.

Business leaders dispute study

Average payout of \$241.57 ranks 25th among states

By WILLIAM PATALON III  
SUN STAFF

Maryland may be one of the wealthiest states in the nation, but its unemployment benefits rank near the bottom, and should be upgraded immediately, concludes a new study by the Maryland Budget and Tax Policy Institute.

Some business leaders and state officials, however, said the study is seriously flawed, and that Maryland actually offers one of the best jobless-benefits packages in the nation.

But that's not what the new study found, said Patrick Lester, the author of the study, which is entitled: "Maryland Unemployment Insurance: Underfunded and Out of Date."

"Maryland is generally perceived as a high-tax, high-spending state that supports government social programs in spades," said Lester, a policy analyst with the institute, which has offices in Silver Spring and Baltimore.

"But it's not true. When it comes to unemployment insurance — who gets it and how much they get — we're well behind the rest of the country."

While 43 percent of the nation's unemployed receive benefits, the study said that only 34 percent of Maryland's unemployed receive them.

And for those who receive benefits, the average weekly payout of \$241.57 per week in Maryland replaces only 33.9 percent of the average weekly wage. That ratio ranks Maryland 43rd out of 50 states.

The \$241.57 average weekly payout ranks Maryland 25th out of 50 states, and places it below the national average of \$257.90.

That average weekly payout "is as if someone is working for minimum wage," Lester said.

Arizona is at the bottom, with an average unemployment payment of \$205 per week, while Washington state is at the top, with an average payout of \$496 per week, Lester said his research found.

According to the 2000 Census, Maryland's median household income of \$52,868 ranked it third, behind New Jersey and Connecticut. More recent estimates place that income at \$53,530 — second behind Alaska's \$57,363, according to economy.com analyst Scott Hoyt.

Such high-income levels warrant a major boost in Maryland's unemployment benefits, which rank among the nation's worst, the nonpartisan tax policy institute said in its study, which was partially financed by

the liberal Open Society Institute-Baltimore.

While Maryland's average is \$241.57, its maximum weekly payout was boosted to \$310 last year, an increase of \$30, or 11 percent, said Thomas Wendel, executive director of the Maryland Office of Unemployment Insurance.

"Overall, we feel we're in the top five or 10 in terms of overall benefits," Wendel said.

Created by Congress during the Great Depression, unemployment insurance is administered individually by the states, which have substantial latitude in designing their benefits packages.

And while [See Benefits, 6D]

[Benefits, from Page 1D]

some states finance benefits via a mixture of payroll taxes on employers and employees, in Maryland, employees do not contribute to the state unemployment trust fund.

The study said there are other problems with Maryland's unemployment-insurance benefits.

For instance, while the state provides additional benefits to unemployed workers with children, that benefit is capped at \$8 per child per week. Those receiving the \$310 maximum do not get that extra money.

And though 24 states provide at least partial benefits to part-time workers who lose their jobs, Maryland does not, Lester said.

The study concluded that the state's unemployment system is underfinanced, that benefits are too low and that too many of the state's jobless are unfairly barred from receiving the weekly unemployment payments.

All of these problems can be fixed without worsening Maryland's already-critical state budget woes, the study said.

Among its recommendations:

- Raise the minimum and maximum weekly payouts, and then index them — either to inflation, or to average wage levels around the state — so that they increase automatically, and aren't reliant on the political uncertainty of legislative intervention.

- Increase the allowance for dependents from \$8 to \$25 per child per week, for up to five children, and separate that payment from the maximum benefit level.

- Make part-time workers eligible for payments.

- Make unemployment payments available to workers for longer than the current maximum of 26 weeks.

- Improve the health of the unemployment benefits trust fund, without forcing the state to kick in money, in two ways: first, by boosting the payroll tax rate levied on employers, and second, by increasing the wage base those taxes are levied against — currently the first \$8,500 a worker earns — to as much as \$87,000.

State business leaders and

lawmakers contend that such a piecemeal approach will bring trouble, saddling companies with higher payroll taxes at the state economy's nadir, perhaps heightening job losses.

In a roundabout way, that would hit the state, too, they said, since lower profits and higher unemployment would gnaw into tax revenue.

Also, unemployment benefits are aimed at helping out workers who are between jobs. But the benefits shouldn't be made so alluring that someone who loses a job will be content with remaining unemployed — and will stop looking for new employment, experts said.

Instead, business leaders and lawmakers are working together to study the state unemployment insurance system. One just-introduced bill would use this year to study the system, and develop recommendations that would go into effect next year. Hearings on this bill and other unemployment benefits bills are expected to be held in several weeks.

With the allegations it made, the Maryland Budget and Tax

Policy Institute study is certain to be part of any debate that arises.

Business leaders blasted the study, alleging that its approach and its findings obscure the fact that Maryland actually offers one of the top overall packages of unemployment benefits of any state in the country.

Not only does the study fail to mention areas where Maryland benefits are among the best, it also ranks the benefits individually — instead of as a total package, said Ronald L. Adler, president of the consulting firm

Laurdan Associates Inc. in Montgomery County, and co-chairman of the Unemployment Insurance Committee for the Maryland Chamber of Commerce.

For instance, while the study criticized Maryland's dependent allowance as insufficient, Adler pointed out that only 11 other states even offer that benefit.

Moreover, while most states tie the length of unemployment payouts to work tenure, Maryland is one of only 10 states to offer a fixed payout duration of 26 weeks, he said.

Maryland also is one of the few states to start unemployment payments the first week a person is out of work. Most others have a one-week waiting period before benefits begin — uncomfortable for a person who suddenly is without that paycheck, Adler said.

The bottom line: When these three benefits are viewed as a package, Maryland is one of only two states in the country to offer a dependent allowance, a fixed payout duration and no waiting period. The other is Connecticut, Adler said.

STATEMENT TO THE UNEMPLOYMENT INSURANCE

TO: Unemployment Insurance Task Force  
 FROM: Job Opportunities Task Force  
 DATE: October 14, 2003

Unemployment Insurance was designed to assist workers who lost their jobs through no fault of their own by “lightening the burden” of unemployment, “which often falls with a crushing force on the unemployed worker and the family of the unemployed worker.” Involuntary unemployment creates economic insecurity. The Unemployment Insurance Law serves to: promote an economically secure society, encourage employers to provide more stable employment, and provide benefits to workers when unemployed, “maintaining their purchasing power and limiting the social consequences of poor relief assistance.” [Maryland Unemployment Insurance Law, Section 8-102. Legislative findings and policy.]

The financing structure of Maryland Unemployment Insurance Trust Fund has been inadequate to develop the reserves needed to achieve the purposes of the program. Ironically, the benefits have also failed to keep pace with the changing economy, with benefits falling below the level that allows a worker to cover basic necessities and only a small portion of workers who lose their jobs being able to access benefits.

We encourage the Unemployment Insurance Task Force to recognize the insufficiency of the current financing system, adjust the financing to create a solvent trust fund, and adjust provisions in the eligibility requirements to be in line with the needs of the workers.

Response to Menu of Items to Consider:

- 1) **Minimum Rate and Steps in the Table of Basic Rates** – Maryland’s minimum rate of 0.3% is one of two major reasons the Trust Fund is low after years of economic strength. The minimum rate and each step should be raised.
- 2) **Ineffective Charges (Maximum Rate)** – The maximum rate is 7.5%. The over 7,000 employers at that rate create a \$42 million drag on the Trust Fund in 2002. The maximum rate should be raised to 9.5% to recoup at least \$6.3 million.
- 3) **Taxable Wage Base** – Maryland’s taxable wage base is only \$8,500. This rate was set when the average weekly wage was \$510. With the average weekly wage now at \$729, the taxable wage base should be increased to \$12,000, and should be indexed to avoid this problem in the future. In addition, the ratio should be adjusted to allow more than a three year infusion into the Trust Fund.

- 4) **Voluntary Quit Employment** – This caused a significant drain on the Trust Fund, \$57 million in 2002. The employer who laid the person off from their job should pay the full cost of the benefits.
- 5) **Gross Misconduct** – Maryland is the only state that has an aggravated misconduct disqualifying provision. The wages of the employee should be deducted from the benefit calculation during the gross misconduct period.
- 6) **Closed Accounts** – The Trust Fund lost \$54 million in 2002 because of employers who laid off workers and went out of business. Since new businesses have a higher rate of failure, the formula for new businesses should be changed to charge a higher rate.
- 7) **Surcharge** – Maryland’s surcharge system is agreed to in times of plenty and balked at when it is triggered. By changing the minimum rate, maximum rate, and taxable wage rate, the surcharge should not kick in. Maintain the surcharge requirement for solvency purposes, but restructure several items so the surcharge is less likely to kick in.
- 8) **Base Period** – Maryland does not allow a worker who has recently entered the work force to obtain benefits. Maryland should use an alternative base period for workers who are not eligible under the current base period, which would include the last 4 quarters, but cap the number of weeks of eligibility not to exceed the number of weeks worked.
- 9) **Duration of Benefits** – While Maryland allows workers to receive benefits for up to 26 weeks, the average duration of benefits is only 16 weeks. Nothing needs to be done in this area.
- 10) **Waiting Period Before Providing Benefits** – Maryland does not require a waiting week for workers who lose their jobs before being able to collect benefits. Certain occupations pay workers on a current time basis. The impact of instituting a waiting week would weigh heavily on these workers who do not have another paycheck coming. Nothing needs to be done in this area.
- 11) **Part Time** – A significant number of workers are part-time employees. The employers pay into the system for these workers. If a part-time worker loses his or her job and doesn’t think to lie to the claim agent about their availability of work, they are denied benefits. Maryland should make workers who lose their jobs and are available, able, and seeking part-time work eligible for unemployment insurance benefits.
- 12) **Severance** – All workers who are released from work and get severance pay should be treated the same whether or not their job was abolished. Their weekly benefits should be reduced by the amount of the severance pay.

- 13) **Dependants' Allowance** – Claimants with eligible dependents receive \$8 per week per child, subject to the maximum cap. The dependent allowance should be raised to \$25 per dependant per week.
  
- 14) **Maximum Benefit** – Maryland's maximum benefit is \$310, below 50% of the weekly wage. The maximum benefit should be raised to \$330, \$345 and \$360 over a three year period, and then be indexed.







# OPPOSE MEMORANDUM

Fred D. Mason, Jr., *President*  
Donna S. Edwards, *Secretary-Treasurer*

**For more information, contact:**  
**Sue Levitan, Legislative Director**  
**MD State & DC AFL-CIO**  
**410-2691940**

## **The MD State & DC AFL-CIO Opposes Implementation of a Waiting Week For Unemployment Insurance benefits in Maryland**

### **WAITING WEEK Q & A**

**Question:** What is a "waiting week" in state unemployment insurance laws?

**Answer:** The "waiting period" or "waiting week" is a common feature of unemployment insurance (UI) laws. Despite its name, waiting weeks involve a "no benefits" week of unemployment for the first week of a spell of unemployment. As a result, unemployed workers that exhaust UI benefits draw their 26th and final payment in their 27th week of unemployment. Claimants that do not exhaust benefits (usually 26 weeks in duration) are effectively denied one week of benefits.

**Question:** How many states have waiting weeks?

**Answer:** Thirteen states (Alabama, Connecticut, Delaware, Georgia, Iowa, Kentucky, Maryland, Michigan, Nevada, New Hampshire, New Jersey, Vermont, and Wisconsin) have No waiting week. Another three states pay their waiting week if unemployment continues for a fixed period (Tennessee and Texas, 3 weeks; Missouri, 9 weeks). The remaining states all have a waiting period of one week's duration.

**Question:** What reasons are given for having waiting weeks?

**Answer:** In the early days of unemployment insurance there was concern that paying benefits for longer durations would not be affordable, so waiting periods of two, and even four weeks, were found in state UI laws. In addition, it was not possible to pay claims rapidly in the early days of UI programs, so the delay was administratively necessary. By the 1960s, no state had a waiting period over one week in length and a few states had no waiting week. More states repealed waiting weeks, and by 1980 a majority of states did not have waiting weeks. Congress passed an amendment to the federal-state Extended Benefits law in 1980. At that time, states without waiting weeks became financially responsible for paying 100 percent (rather than 50 percent as usual) of the first week of Extended Benefits. The next year 16 states adopted a waiting week. Since that time there has been little legislative activity.

**Question:** What are the arguments against waiting weeks?

**Answer:** Most individuals that work for a living do not have sufficient savings to sustain their families' spending for essential goods and services in the event of job loss. Jobless individuals and their families already wait up to 21 days to get their first UI check. Since weekly benefits only replace half of pre-layoff wages up to a maximum of \$310 a week in Maryland, asking families to suffer the additional burden of losing even that meager level of income replacement for even a week is a recipe for hardship in many cases.

The Maryland Department of Labor, Office of Unemployment Insurance, recently estimated that about 90,000 jobless individuals would have lost a week of benefits during the 2003 fiscal year if Maryland had a waiting week. The public policy underlying UI programs is to boost the economy by maintaining consumer spending during layoffs. Since only a third of unemployed individuals typically exhaust their benefits by drawing all weeks of UI benefits, a waiting week would effectively reduce benefits for two thirds of jobless workers. This undercuts the program's policy and deprives the economy of needed economic stimulation.



# SUPPORT MEMORANDUM

Fred D. Mason, Jr., *President*

Donna S. Edwards, *Secretary-Treasurer*

## PROPOSAL TO UNEMPLOYMENT INSURANCE TASK FORCE

Endorsed and Submitted by: MD State & DC AFL-CIO  
Job Opportunities Task Force

### Maryland Unemployment Insurance: Critical Issues and Solutions

#### ISSUE 1: Weekly Benefit Amounts Are Too Low

- 2nd quarter 2003 benefits averaged only \$254 a week. This level of average benefits replaced only 35 percent of average weekly wages, ranking Maryland 40th in wage replacement.
- The maximum weekly benefit of \$310 is only 42 percent of the statewide average weekly wage of \$732.
- 34 states index their maximum weekly benefit to statewide average weekly wages, with maximum benefits ranging between two-thirds and one half of a state's average wage.
- Maryland's low maximum weekly benefit hurts middle income and higher salaried workers, leaving their benefits far below pre-layoff wages.

#### SOLUTION: Raise Maximum Benefits and Index Them to Statewide Average Weekly Wages

- A maximum benefit of 50 percent of 2003 average wages would be around \$363 a week.
- Maximum benefit levels should be raised incrementally over a 3-year period to reach 55 percent of the statewide weekly wage by 2006. Maximum benefits would be \$335 in 2004, \$347.50 in 2005, and \$360 in 2006 and then 55 percent of statewide average weekly wages thereafter. Through 2006, this reform would pay out approximately \$104 million in UI benefits.

#### ISSUE 2: UI Financing Is Broken

- Maryland taxes only the first \$8500 of wages and salaries. This taxable wage base amount has not been raised since 1994 although average wages have grown 40 percent over this time.
- Rather than building trust fund reserves, Maryland's UI financing is designed to keep the trust fund within a narrow range (4.7 to 5.5 percent of taxable wages). Taxes rise or fall steeply whenever the trust fund falls outside this range. Overall, UI taxes in Maryland are well below the national average.
- When claims rise in a downturn, the state's trust fund balances are too low to pay increased benefit claims and taxes must increase before economic conditions have improved. When claims are lower during good times, taxes fall because the trust fund approaches the upper limits of its target range.
- Because of this method, Maryland foregoes significant sums of federal interest. If Maryland's UI taxes would have been at the national average from 1997-2002 (0.4% higher on total wages), the state would have garnered \$100 million in free federal interest and avoided the current funding problems.
- Maryland's UI financing method turns things on their head. Instead of using forward financing of trust fund reserves, Maryland lowers taxes in good times and raises them in bad times.

## **SOLUTION: Adopt Forward Financing and Stop Relying Upon Solvency Taxes**

- Rather than trying to keep the UI trust fund in a narrow range, Maryland should permit its trust fund to build reserves during economic good times. This permits the state to ride through recessions without big UI payroll tax increases and results in higher federal interest payments to the trust fund.
- The taxable wage base should be raised to \$12,000 in 2004 and indexed to growth in the statewide average weekly wage in future years. Solvency taxes in 2004, 2005 and 2006 could be suspended to reflect the extra income produced initially by raising the taxable wage base (estimated at \$210 million by the state agency in that time period).
- Maryland's should reduce its reliance on solvency taxes by revising its tax rate schedule. The basic rates should be increased by 0.3% in 2004 and then by 0.4% across the board in 2005. The minimum tax rate would finally be 0.7% of taxable wages and the maximum tax rate would be 7.8% of taxable wages. Solvency taxes should be reduced across the board.

## **ISSUE 3: Not Enough Jobless Marylanders Get UI Benefits**

- One way Maryland has kept UI taxes low is by paying a lower-than-average portion of jobless workers benefits. Over the last 5 years, about 33 percent of jobless Marylanders got UI benefits, while nationally about 40 percent of unemployed workers got UI benefits.
- As a result, demand on other social services is higher and jobless workers and their families experience severe loss of income and hardships.
- Business suffers as well because its customers cannot maintain essential household spending.

## **SOLUTION: Expand Eligibility to Cover Part-time Workers**

- 22 states have favorable policies toward part-time workers. Maryland, like a majority of states, requires that all jobless workers be available for and seek full-time work even if they have earned qualifying wages in part-time jobs or need to work part-time for compelling reasons.
- Part-time workers' wages are subject to UI taxation, but they are not eligible for UI in Maryland if they limit their search to part time work.
- Many workers, especially working mothers, need or prefer part-time work. Many employers use part-time workers as a valuable component of their workforces.
- UI policies requiring full-time work reflect outdated assumptions about part-time and women workers. In the past few years, states have been reexamining policies around part-time work.
- Maryland can expand eligibility for part-time jobless workers without undue costs, by permitting experienced part-time workers to search for part-time work and receive UI benefits. The U.S. Department of Labor estimated that if Maryland had adopted this policy in 2001 it would have cost the state only \$4.4 million dollars in benefits.

**Contacts:** Sue Levitan, Legislative Director, MD State & DC AFL-CIO: 410-269-1940  
Nick Weiner, Labor representative, UI Task Force: 202-661-3693  
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*opeiu2, aflcio*

**Testimony by Andrew Stettner, National Employment Law Project  
Maryland Unemployment Insurance Task Force**

Good morning, my name is Andrew Stettner, and I am a Policy Analyst with the National Employment Law Project, based in New York City. We are currently working on efforts in more than 30 states to strengthen the UI Safety Net to meet the needs of the 21<sup>st</sup> century economy and we are happy to offer our observations and assistance to this commission.

**1. Unemployment Insurance is a remarkably efficient part of state economies.**

When the economy slows down, as it currently has, unemployment insurance benefits are there to help make up for the loss of consumer demand. With little red tape, jobless workers quickly spend their checks on groceries, clothing, rent, gas, and other necessities at local businesses impacted by the slowdown in the economy. Indeed, the economic consulting firm Economy.com found that increasing jobless benefits would give the economy the biggest dollar-for-dollar jolt of any government stimulus proposal.

At the human level, unemployment insurance has been shown to prevent families from falling from working and middle class into poverty, effectively preventing hunger, foreclosures, and the loss of retirement savings.

**2. In recent years the effectiveness of the UI safety net has diminished.**

The proportion of jobless workers receiving benefits has dropped from over 50% in the early 1960s to below 30% in the late 1980s. The decline largely occurred because the laws and regulations written in the 1930s, have not kept pace with a labor force that now includes many more women, low-wage and part-time workers. Such unemployed workers are substantially less likely than male, high-wage and full-time workers to receive benefits. The pattern is particularly acute in Maryland, where the percentage of jobless workers receiving has been consistently low, trailing the depressed national average by 7% on average over the last 5 years.

**3. Many states have already taken action to upgrade the rules, and Maryland should follow their example.** Because the rules were set up before computers, states ignore up to six months of the workers most recent earnings when checking their eligibility. 18 states now use the alternate base period, which counts at least 3 months of more recent earnings. This reform has been particularly shown to help low-wage and other workers with uneven work histories qualify for benefits – at little cost to states, because benefit amounts per worker are low. This is a growing trend, with 7 states adopting the ABP in the last two years.

Similarly, states are recognizing that part-time workers are crucial participants in today's economy. This year alone, 5 states enacted legislation that removed the outdated requirement that part-time workers need to be available for full-time work to receive benefits. Now, half of states treat part-time workers favorably.

These reforms, which have been both been proposed in recent Maryland state legislative sessions, would go a long way to reducing Maryland's chronically low reciprocity among deserving unemployed workers whose payrolls' have been taxed to pay for UI benefits.

**4. Maryland should make changes to provide adequate unemployment insurance benefits**  
 Moreover, for unemployment insurance to be effective for workers and the economy, benefits must be adequate. The standard rule of thumb, a modification of which is used in Maryland, is that a UI check should replace half of a workers paycheck. However, most workers do not receive such benefits because the maximum is capped at \$310 per week, or 42% of the average weekly wage. Maryland's average unemployment benefits replace less of average wages than 40 of the 53 jurisdictions.

The maximum benefit amount should be raised, at the least, to provide half of the average workers paycheck. And this adequacy should be maintained by indexing the level of benefits to wage growth. A 50% index would give Maryland one of the lower formulas among the 34 states that index their maximum benefit amount.

Maryland is a below average on both of these crucial measures -- unemployment insurance benefit adequacy and reciprocity. This ranking is especially troubling in a high wage, Eastern state. Fixing these problems are an important of the work needed to do to improve unemployment insurance in Maryland. It has been noted that Maryland is one of the smaller number of states that do not require a waiting week, and that provide all workers with a uniform duration of 26 weeks. The value of these "generous" provisions to workers is far less than the major benefit shortcomings outlined above.<sup>1</sup>

#### **5. Maryland UI Revenue System Cannot Provide for Adequate Benefits.**

Maryland's Unemployment Insurance revenue system is not able to provide for adequate benefits. I will spent most of my time talking about the changes necessary to bring the revenue system up to par. Unemployment Insurance Benefits are paid out of a separate trust fund reserved for UI payments and funded by taxes levied on a proportion of workers' paycheck.

In 2002, Maryland businesses paid an average of just \$117.18 per employee per year in State UI taxes. That's \$50 less than the national average of \$167. In Pennsylvania, the average assessment is \$270. In the District of Columbia its \$221. And in Delaware its \$140. Its also important to note that more than half of the state's 130,000 employers pay taxes that are \$25 or less per employee.<sup>2</sup> In fact, Maryland's tax rate have been lower than the national average by 0.1 – 0.2% from 1998-2002, at a time when average UI taxes nationally were at an historic low.

#### **6. The cost of not having Forward Funding**

This may appear to be a cause for celebration. But really it was a squandered opportunity to save for today's hard times. One only needs to look at the experience of the state during the last recession for evidence. In 1990, Maryland's UI tax rates were less than half the national average. However, two years later the state's tax rates exceeded the national average and would continue

<sup>1</sup> For example, if Maryland UI benefits replaced the national average of 37.6% of the average weekly wage, workers would receive an average of \$275 per week, \$21 higher than the current average. That's a yearly total of \$45 million lost to workers, twice the amount that the state estimated would be taken from the waiting week.

<sup>2</sup> The minimum tax rate of 0.3% times the taxable wage base of \$8,500.

to do so through 1995 while the economy and state businesses struggled through a “jobless recovery.”

The reason for this poor pattern is that Maryland’s financing structure lacks important elements of “forward funding.” In states that adopt forward funding, revenues exceed benefits during good economic times, with the difference saved for economic downturns. Most importantly, this system avoids large tax increases and pressure to reduce benefits when workers and employers can least afford them.

In addition, the federal government provides incentives for savings. State UI funds are kept in a federal trust fund that provides healthy interest payments back to states, with the current rate at 5.98 %. Because it is paid quarterly on the entire trust fund balance, the interest has a compounding affect.

To illustrate the benefits of forward funding, the National Employment Law Project did a simple simulation that brought Maryland taxes basically on par with the national average from 1997-2002, after the state last imposed a solvency surcharge of 0.6% in 1996. (Note that this national average was at historic lows during this period.) Keeping taxes on par with the national average would have required rates that were 0.4% higher on taxable wages. In such a system, the state would have

- Gained an additional \$116 million in free federal interest by keeping a higher ongoing trust fund balance.
- Collected \$404 million in additional revenue over a six year period.
- Entered 2003 with a trust fund balance of \$1.3 billion, achieving an average high cost multiple solvency level of 1.32, far avoiding solvency taxes<sup>3</sup>.

In contrast, employers are now facing a tax increase of roughly \$180 million in 2003 alone. And, the state estimates that this increase will not be large enough to avoid similar assessments in 2004 and 2005. Thus, businesses are likely to pay half a billion in extra taxes over three years, where \$400 million in taxes spread over 6 years would have avoided the problems you all face today.

## 7. Steps to get to Forward Funding in Maryland

There are several steps that the task force should consider that would get the state towards forward funding:

### *Increase and Index the Taxable Wage Base*

In Maryland, Taxes are only assessed on the first \$8,500 of a workers’ paycheck, a level which has not changed since 1994. This level is known as the taxable wage base. However, since 1994, the average paycheck has increased by 40% (from \$520 to \$721). That means that taxes are levied on only 23% of a workers’ paycheck, less than 40 of the other 50 states.

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<sup>3</sup> The Average High Cost Multiple is a standard insurance statistics. It measures how many years of peak recessionary benefits currently payable out of the trust fund with no further revenue. A value of 1.0 signifies a year of reserves.

Just as car insurance rates are based on the replacement value of a vehicle, unemployment insurance needs to be based on the value of the wages that are being insured. The best way to create a stable relationship between Unemployment Insurance “premiums” and benefits, is to index the taxable wage base to a fixed percentage of the average wage in the state. Thus as benefit payments rise with increased wages, tax revenues will keep pace.

An indexed taxable wage based provides the entire system and individual employers more stability. With more wages on which taxes can be assessed on, smaller rate increases can generate sufficient revenues to avoid funding problems. And, with each employer assigned a tax rate based on the ratio of benefit charges to taxable wages – a higher taxable wage base means that changes in benefit charges will have a milder year to year effect on tax rates. In states that index their taxable wage base, the TWB increases only several hundred dollars each year.

If the taxable wage base had been allowed to grow with inflation from 1984, it would be set at \$12,000 for 2004. (31% of the average weekly wage.) It would be advisable for the state increase the taxable wage base to \$12,000 in 2004 and index it to wage growth. The tax increase scheduled for next year could be adjusted to account for the \$114 million in additional revenue that would be generated through the increase (an amount which the state estimates would stabilize over time).

#### **Reduce reliance on solvency taxes, by altering the tax structure.**

All State UI Financing systems vary tax rates to employers based on their experience with layoffs and the solvency of the trust fund. Maryland’s UI financing structure is too reliant on solvency taxes to collect large streams of revenue in the midst of economic downturns. Taxes are slated to increase so much in the next few years because the basic rates are too low to collect sufficient revenue to prevent a quick drain of the trust fund. This is the main problem for the trust fund – not leakage. As illustrated in the simulation above, an across the board increase in the basic rates by 0.4% would have avoided the current solvency problems.<sup>4</sup>

With higher basic rates and a higher indexed taxable wage base, solvency taxes could be lowered because general revenue would be more stable. That is at a given level of reserves, employers would face an additional assessment that is lower than in current law.

While solvency taxes should be lower and a smaller proportion of needed revenue, it is advisable to vary tax rates along with the condition of the trust. Such assessments should not be a last resort – but rather a regular stabilizing mechanism. The standard measure of unemployment insurance solvency is to have a year’s worth of peak level benefits saved in the trust fund. In Maryland that rate is 1.46% of total wages in the economy, which currently translates into \$993 million. If the trust fund dips below this level, some level assessment should be in place to maintain strong solvency. Our recommendation is for lower solvency taxes that take effect more often.



In conclusion, we strongly recommend that the commission take this opportunity to improve the unemployment insurance system for the long-term. Indeed, such a plan could be fashioned that would spread the burden of current funding shortfall over the next 5-7 years instead of the next three, at the same time of making important long-term changes to benefits and financing. The National Employment Law Project is happy to serve as a resource for the commission and the agency as it develops its final recommendations.

Table 1 – Unemployment Insurance Financing Data

	United States	Maryland				
	Average Tax Rate on Total Wages	Average Tax Rate on Total Wages	Benefit Payments (000s)	Year End Trust Fund Balance (000s)	Tax Revenues (000s)	Interest (000s)
1990	0.86%	0.36%	268,941	520,864	143,521	49,497
1991	1.20%	0.45%	483,489	224,970	157,218	30,553
1992	1.10%	0.95%	455,516	145,839	378,480	14,445
1993	0.92%	1.05%	363,923	219,071	422,996	13,591
1994	0.86%	1.18%	325,363	408,994	496,570	21,595
1995	0.80%	1.08%	331,405	605,415	493,048	36,123
1996	0.76%	0.77%	339,194	690,786	384,304	44,649
1997	0.64%	0.54%	308,627	720,552	299,784	48,335
1998	0.62%	0.48%	283,963	751,394	284,350	49,386
1999	0.56%	0.46%	253,092	815,177	284,192	52,044
2000	0.53%	0.40%	251,899	882,505	274,590	56,133
2001	0.51%	0.36%	373,226	826,266	259,570	56,514
2002	0.54%	0.34%	498,919	781,334	271,272	53,215

Table 2 – Tax Rate Simulation: 1997-2002

NELP Simulation - 0.4% higher tax rates on taxable wages					
	Taxable Wages	Additional Revenue from 0.4% Tax (000s)	Additional Interest (000s)	Year End Trust Fund Balance (000s)	Average Tax Rate on Total Wages
1997	15608357	62,433	4,188	787,173	0.71%
1998	16179326	64,717	9,877	911,540	0.63%
1999	16943192	67,773	15,787	1,078,244	0.59%
2000	17689451	70,758	21,965	1,249,791	0.53%
2001	17715684	70,863	29,906	1,293,418	0.49%
2002	17738622	70,954	33,938	1,313,563	0.50%
Total		407,499	115,660		

Source: Authors calculations of U.S. Department of Labor, ETA Financial Handbook 394 and UI Quarterly Data Summary.



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November 17, 2003

The Honorable Thomas M. Middleton  
Senate of Maryland  
3 East, Miller Senate Building  
11 Bladen Street  
Annapolis, Maryland 21401-1991

The Honorable Ann Marie Doory  
Maryland House of Delegates  
151 Lowes House Office Building  
Annapolis, Maryland 21401-1991

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Dear Chair Middleton and Chair Doory:

In response to Chair Doory's request at the October 28, 2003 meeting of the Unemployment Insurance Funding Task Force ("State UI Task Force"), I send this letter to you both in my capacity as Chair of the Maryland Chamber of Commerce ("Chamber") Unemployment Insurance Task Force.

After discussing the many issues being evaluated by the State UI Task Force, the Chamber offers its recommendations for those issues on which the Chamber's members have reached consensus. As for those issues not addressed in this letter, the Chamber continues to discuss them internally and will carefully monitor the State UI Task Force's direction on them.

#### GUIDING PRINCIPLES:

The Chamber bases its recommendations for improving the Unemployment Insurance system on five guiding principles:

1. Unemployment insurance ("UI") is designed to provide temporary and partial wage replacement to unemployed workers who lose their jobs through no fault of their own;
2. To be eligible for benefits, each claimant must demonstrate a previous and ongoing attachment to the labor force;
3. UI is designed to be a countercyclical economic tool;
4. Experience rating is the fairest and most effective method to finance the UI system, because it will encourage employment



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stabilization, encourage employer participation, and ensure the soundness of the State's UI Trust Fund ("Trust Fund"); and

5. The greatest benefit for an unemployed worker is a job. Thus, solutions must balance job creation and stabilization with the economic needs of separated workers.

## RECOMMENDATIONS:

### **The Surtax Should Be Experience Rated**

Under Section 8-612(e) of the Labor and Employment Article, a surtax is imposed when the Trust Fund is less than 4.7% of the total taxable wages in the previous fiscal year. The surtax can range from 0.1% to 2.0%. As a flat-rated tax, all employers are assigned the same surtax irrespective of their earned experience rates. For 2004, a surtax of 1.1% will be added to all employers' tax rates; a surtax of 1.2% is projected for 2005 and 2006. As a result of the 2004 surtax, an employer that has not had any benefits charged against its account during the last three years ("minimum-rated employer") will see its tax rate increase to 1.4% (0.3% plus 1.1%), an increase of 367 percent. At the same time, a maximum-rated employer's tax rate will increase to 8.6% (7.5% plus 1.1%), an increase of just 15 percent.

*The State UI Task Force should recommend that the surtax be experience rated to reduce the inequity of the surtax.*

### **The Maximum Tax Rate Should Be Increased**

Ineffective charging causes significant leakage in the UI system. This occurs when UI benefits are paid to separated employees of employers at the maximum tax rate, which exceeds the amount of taxes paid by these employers.

*The State UI Task Force should recommend increasing the maximum rate tax rate to 8.5% to reduce the incidents of ineffective charging, to reduce the likelihood of future surtaxes, and to reinforce experience rating.*

### **The Incremental Rate Should Be Increased**

Under the current UI tax schedule, there is a 0.1 incremental change in employer tax rates. Thus, an employer's rate may change only slightly as it incurs high levels of benefit charging.

*To further strengthen experiencing rating and decrease the likelihood of triggering the surtax, the State UI Task Force should recommend changing the incremental change in rates from 0.1 to 0.2.*

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## The Duration Of Benefits Should Be Variable

Unlike the vast majority of states, Maryland has a fixed duration of benefits, *i.e.*, each claimant is entitled to 26 weeks of benefits, irrespective of the length of employment or the amount of wages earned in his/her base period.

*The State UI Task Force should recommend varying benefit duration based on earnings and/or length of employment, which would more closely align benefits to a claimant's attachment to the labor market.*

## A One-Week Waiting Period Should Be Imposed

Unlike a vast majority of states, Maryland does not require claimants to serve a one-week waiting period at the beginning of a benefit year. Maryland pays UI benefits for the first week of unemployment.

*The State UI Task Force should recommend imposing a one-week waiting period before benefits are received. The proposed change should include language that the claimant would still be entitled to his/her full benefits entitlement and would receive this week of benefits, if still unemployed, in the 27th week of unemployment.*

## Severance Pay Should Be An Offset

In most states, when a claimant collects severance pay, the claimant either: (1) may not collect UI benefits in the same week; or (2) may collect a reduced weekly benefit amount, depending on the amount of the severance pay collected for that week. In Maryland, however, a claimant may collect UI benefits and severance pay in the same week if the claimant is replaced by technology (*i.e.*, job abolishment).

*The State UI Task Force should recommend that severance pay be an offset to UI benefits irrespective of the cause of separation from employment.*

## Employers Should Not Be Required To Post A Surety Bond Or Letter Of Credit

Closed accounts contribute to leakage in the Trust Fund. However, while addressing the issue of closed accounts is important, the State UI Task Force should be mindful of unintended consequences to Maryland businesses.

*Rather than requiring all and/or new employers to post a bond or letter of credit, the State UI Task Force should study the UI and economic development consequences of a requirement that, when the Trust Fund is below a certain level, new employers pay a higher "new employer" tax rate. The State UI Task*



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*Force should also study the consequences of increasing the length of time before an employer can become experience rated.*

### **There Should Be No Change To The Taxable Wage Base**

Raising the taxable wage would have a significant and immediate effect on all employers.

Unlike changes in tax rates, increases in the taxable wage base are not experience rated. Regardless of their experience, minimum-rated employers would see a permanent increase in their per employee tax. While raising the taxable wage base is a quick, efficient, and permanent method of obtaining Trust Fund soundness, it would not reinforce experience rating.

The Federal UI taxable wage base is \$7,000. States are allowed to establish their own taxable base as long as they at least equal the federal wage base. For 2003, the national average state taxable wage base is \$10,627 with 11 states having a \$7,000 wage base and nine states having wage bases exceeding \$20,000. Hawaii has the highest taxable wage base at \$30,200. Maryland's UI taxable wage base is \$8,500. At this level, the ratio of taxable wage base (\$8,500) to AWW (\$732) is 11.6. This compares to the national wage base to AWW ratio of 15.2. For the purpose of a regional comparison, Virginia's ratio is 11.5, while Pennsylvania's ratio is 11.7.

*The State UI Task Force should leave the taxable wage base as it is and opt instead for other aforementioned financing changes.*

### **CONCLUSION:**

The Chamber's UI Task Force continues to work on the UI issues not addressed in this letter. Once our membership reaches a consensus, we will inform you of our positions.

I thank you for asking for the business community's perspective on the future of Maryland's UI system. Please let me know if you have any questions.

Sincerely,

Ronald Adler  
President  
Laurdan Associates, Inc.

Chair, Unemployment Insurance Task Force  
Maryland Chamber of Commerce

**MARYLAND CHAMBER OF COMMERCE**  
**Senate Budget and Taxation Committee Hearing**  
**October 7, 2003**

**Economic Facts for Maryland**

**Total Employment (2001, by place of work)<sup>1</sup>**

• Private Sector	1,980,186 jobs	81.7% of all jobs
• Federal Government	126,782	5.2%
• State Government	98,134	4.0%
• Local Government	218,036	9.0%

**Tax Facts<sup>2</sup>**

- Maryland ranks third (4.26%) when comparing income taxes as a percentage of personal income FY2000. Delaware ranks 13<sup>th</sup> (3.34%), Virginia ranks 14<sup>th</sup> (3.34%) and Pennsylvania ranks 25<sup>th</sup> (2.71%)
- Maryland ranks third (\$1,351) in income taxes per capita FY2000. Delaware ranks 10<sup>th</sup> (\$988), Virginia as 11<sup>th</sup> (\$965) and Pennsylvania as 21<sup>st</sup> (\$756).
- Maryland ranks 13<sup>th</sup> in state and local taxes on high income families (\$150,000 FY2001). Pennsylvania ranks 8<sup>th</sup>, Virginia as 36<sup>th</sup> and Delaware at 38<sup>th</sup>.
- 10.3% of total state and local income tax returns earn adjusted gross incomes of \$100,000 or more. These returns represent 27.58% of the total state and local income tax paid.<sup>3</sup>
- In fiscal year 2003, all state and local taxes paid by businesses represented 42.8% of total state and local taxes collected by all states. If individual income taxes that are paid on business activity from non-corporate entities is included business's share was 45.9% of the total state and local taxes. Further, during the period 1999 to mid-2002 corporate profits declined by 8%, but state and local taxes on business rose by 6% over the same period.<sup>4</sup>

**Corporate Philanthropy – local contributions in Baltimore region, 2001<sup>5</sup>**

Giant Food	\$ 5.0 million	Bank of America Corp.	\$ 2.5 million
Constellation Energy Group	\$ 4.7 million	Allfirst Financial (M&T Bank)	\$ 2.5 million
Comcast Corporation	\$ 3.4 million	McCormick & Co.	\$ 1.5 million
Mercantile	\$ 2.5 million	Verizon – Maryland	\$ 1.3 million
T. Rowe Price	\$ 2.5 million		

**Corporate Philanthropy – local contributions in Washington metro region, 2001<sup>6</sup>**

Lockheed Martin	\$ 4.5 million	Verizon	\$ 2.3 million
Giant Food	\$ 3.5 million	PEPCO	\$ 2.2 million
Bank of America Corp.	\$ 2.9 million	Kaiser Permanente	\$ 1.5 million
Washington Post	\$ 2.8 million	PriceWaterhouse Coopers	\$ 1.3 million

<sup>1</sup> MD Department of Labor, Licensing and Regulation, Office of Labor Market Analysis.

<sup>2</sup> CQ's State Fact Finder, 2003.

<sup>3</sup> Comptroller of the Treasury, Tax Year 2001.

<sup>4</sup> *Total State and Local Business Taxes, Fiscal Year 2003*, by Robert Cline, Ernst & Young LLP; Dr. William F. Fox, University of Tennessee; Dr. Thomas S. Neubig, Ernst & Young LLP; and Andrew Phillips, Ernst & Young LLP.

<sup>5</sup> Baltimore Business Journal Book of Lists, 2002.

<sup>6</sup> Washington Business Journal Book of Lists, 2002.





MARYLAND

To: Task Force on Unemployment Insurance Reform  
From: Ellen Valentino, NFIB  
Date: October 14, 2003  
Re: General/Initial Comments

1. The NFIB opposes extending UI benefits to part-time workers. This proposal hits small business owners unfairly.
2. Maryland should enact legislation to require a waiting week. The absence of this policy is a significant cost driver.
3. Maryland should adopt a “variable duration” law. Currently workers with little attachment to work can qualify for a full 26 weeks of UI benefits in Maryland.



# Appendix D

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## Proposed UI Tax Rate Schedules

### TABLE A

0.3% to 7.5%, with 0.1% incremental changes when the ratio of the Fund Balance/Taxable Wages exceeds 5.0%

### TABLE B

0.6% to 9.0%, with 0.1% incremental changes when the ratio of the Fund Balance/Taxable Wages is greater than 4.5% but less than 5.0%

### TABLE C

0.6% to 9.0%, with 0.3% incremental changes when the ratio of the Fund Balance/Taxable Wages is greater than 4.0% but less than 4.5%

### TABLE D

0.6% to 9.0%, with 0.4% incremental changes when the ratio of the Fund Balance/Taxable Wages is greater than 3.5% but less than 4.0%

### TABLE E

0.6% to 9.0%, with 0.5% incremental changes when the ratio of the Fund Balance/Taxable Wages is greater than 3.0% but less than 3.5%

### TABLE F

0.9% to 9.9%, with 0.6% incremental changes when the ratio of the Fund Balance/Taxable Wages is less than 3.0%