Maryland
DEPARTMENT OF LABOR

Office of the Secretary
500 N. Calvert Street
Baltimore, MD 21201

December 1, 2021

The Honorable Lawrence J. Hogan, Jr.
Governor, State of Maryland
100 State Circle
Annapolis, MD 21401

The Honorable William Ferguson
President, Maryland Senate
H-107 State House
100 State Circle
Annapolis, MD 21401

The Honorable Adrienne Jones
Speaker, Maryland House of Delegates
H-101 State House
100 State Circle
Annapolis, MD 21401

The Honorable Katherine Klausmeier
Co-Chair, Joint Committee on
Unemployment Insurance Oversight
123 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

The Honorable Ned Carey
Co-Chair, Joint Committee on
Unemployment Insurance Oversight
161 Lowe House Office Building
6 Bladen Street
Annapolis, MD 2140

RE: House Bill 907 - Unemployment Insurance - Study on System Reforms

Dear Governor Hogan, Senate President Ferguson, Speaker Jones and Chairs Klausmeier and Carey:

In accordance with House Bill 907 of the 2021 Maryland General Assembly Legislative Session, Chapter 45, the Maryland Department of Labor presents the Final Report on Unemployment Insurance - Study of System Reforms**.** This report includes an assessment by the Maryland Department of Labor of several analyses conducted independently by the W.E. UpJohn Institute for Employment Research in coordination with The Jacob France Institute of the University of Baltimore.

I look forward to your review of the report and will be pleased to respond to any questions regarding the Department's assessment of these independent analyses. If my staff can be of further assistance, or if you have any questions regarding this report, please feel free to contact me at 410-230-6020.

Sincerely,

Tiffany P. Robinson

Tiffany P. Robinson
Secretary

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Study on System Reforms

The Joint Committee on Unemployment Insurance Oversight passed Maryland House Bill 907 (2021) ("H.B. 907") entitled "Unemployment Insurance - Study on System Reforms". This legislation required MDL to study: (1) expanded eligibility for unemployment benefits for various types of workers; (2) the costs and benefits of increasing the weekly maximum benefit amount, the allowance that claimants receive for their dependents, and the income disregard for part-time work; (3) alternative approaches to the experience rating process; (4) the establishment of clear standards for when an employee is entitled to claim unemployment insurance benefits if the employee leaves a job for reasons relating to unsafe working conditions; (5) the existing penalties for fraud and the need for enhancing or altering those penalties; (6) the solvency of the Unemployment Insurance Trust Fund, as adjusted based on implementation of each of the system reforms studied under the requirements of the bill; and (7) any other issue that MDL determines is necessary to include in its evaluation of the State's unemployment insurance system.

To conduct the study envisioned by H.B. 907, MDL contracted with the W.E. Upjohn Institute for Employment Research ("Upjohn") in coordination with the Jacob France Institute ("JFI") at the University of Baltimore. Upjohn and JFI conducted independent research and analysis to produce four reports and one related memo which address items 1-3, 6, and 7 outlined in the legislation. Items 4 and 5 were researched by MDL. The completed reports and memo by Upjohn and JFI, as well as the internal research conducted by MDL, are included as attachments to this report and are outlined below:

1) Report 1 Maryland UI Analysis -- Seasonal Employment
2) Report 2 Maryland UI Analysis -- Benefit Generosity
3) Report 3 Maryland UI Analysis -- Benefit Charging Rules
4) Report 4 Maryland UI Analysis -- Related Analyses
5) Memo - Related Maryland Baseline Simulations
6) A Review of the Standards for Benefit Eligibility and a Review of the Existing Penalties for Fraud

The reports and related analyses conducted by Upjohn and JFI contain findings, assumptions, and policy recommendations that are attributable to the research institutions and not representative of MDL. The findings and research within these reports are extensive. MDL has conducted a review of these reports and would like to highlight some key findings.

One critical finding of the report is that the actions of the Administration to ease the burden on employers through non-charging of COVID-19 related benefits and infusing over $1 billion in relief funds to the state unemployment insurance trust fund (UITF), which was done through bipartisan budget negotiations, has resulted in the UITF being in a financially sound position for the foreseeable future.

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Report 4, “Related Analyses”, examines and simulates the effects of 2020 changes in UI financing. Specifically, it looks at what the effect of Non-Charging employers for pandemic related benefits through 2023, mandating Tax Schedule C for 2022 and 2023, and infusing $1 billion in relief funds into the UITF will have on the fund stability and solvency in future years. This baseline simulation also assumes that no changes are made to the current tax structure or benefit standards of the current state program. The results, illustrated in the chart below, project that the UITF will reach solvency by the end of 2021, Tax Schedule A for employers will be implemented by 2024, and that both will remain true through at least 2025.

In summation, this simulation projects that the UITF will be financially sound for the foreseeable future, which provides policy makers with the time necessary to conduct a thorough review and discussion on system reforms. This is of particular importance as the effects of the pandemic continue to create economic uncertainty.

Maryland Baseline Simulation that Includes Schedule F for 2021, Schedule C for 2022-2023, Non-Charging for 2020 through 2023, and a $1 Billion Infusion in the second half of 2021

	Values in Millions of Dollars					
Year	Benefits paid	UI tax revenue	Interest	Year-end trust balance, *1	AHCM	Tax schedule
2020	1,794	444	17	84	0.04	A
2021	459	732	10	366	1.12	F
2022	448	461	28	1,399	1.12	C
2023	449	466	29	1,459	1.12	C
2024	447	386	29	1,424	1.06	A
2025	448	392	29	1,402	1.00	A
2026	446	400	28	1,382	0.95	A
2027	448	409	28	1,369	0.91	A
2028	445	416	28	1,365	0.88	A
2029	446	425	28	1,370	0.85	A
2030	444	435	28	1,386	0.83	A
2031	440	445	28	1,417	0.82	A
2032	439	454	29	1,459	0.81	A

The central finding of the reports conducted by Upjohn and JFI are suggested UI financing alternatives, to include indexing Maryland's Taxable Wage Base (TWB), which would account for a significant tax increase for Maryland employers. The report suggests that by indexing the TWB, the state may be better suited to maintain fund solvency into future years. However, this policy recommendation would represent an estimated 20.7% UI tax increase on Maryland employers. Of critical importance is that the reports suggest this tax increase would impact Small and Medium sized Enterprises (SMEs) more than the average Maryland employer, increasing their UI taxes by an average of 25.3%, which represents an additional $32 per employee on average (see table below). The reason SMEs would be more severely impacted by indexing the TWB, the report finds, is that SMEs on average pay 1.2% higher wages than the average Maryland employer.

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Effects of Changing from a Taxable Wage Base Fixed at $8,500 to
a Taxable Wage Base Indexed to Twenty-five Percent of Average Annual Wages on
All Maryland Employers and Small and Medium Sized Employers (SMEs)
having Fewer than 50 Employees

Effects on	All Maryland Employers	All Maryland SMEs
Taxable Wages (%)	54.2	54.5
Benefit Ratios (%)	31.5	31.5
Tax Rates (%)	14.8	13.8
Total Tax Payments (%)	20.7	25.3
Taxes Per Employee ($)	$31	$32

Source: Estimates from microsimulations based on Maryland UI program administrative data.

Recommendations

The economic landscape in Maryland has changed significantly over the past year and a half due to the COVID-19 pandemic. Our state, along with every other state in the nation has grappled with the unprecedented trials this pandemic brought with it. This includes the many challenges of serving our state's unemployed residents and the business community alike. The nature and speed at which these challenges presented themselves was not only unprecedented, but truly unlike any scenario ever faced before, particularly as it relates to the administration of the state's unemployment insurance program.

The Maryland Department of Labor (MDL), which houses the Division of Unemployment Insurance (DUI), administers the state's unemployment insurance program. Over the course of this pandemic, MDL has made astounding strides to not only improve the state's UI program but to implement and administer the 10 new federal unemployment insurance programs that were created by the federal government during the pandemic. Furthermore, MDL worked with the legislature and administration to ensure the expansion of benefit eligibility criteria to address pandemic circumstances, launched a new modernized UI system to enable the administration of the new federal programs, hired over 2,000 state and contractual employees, developed and provided an array of new tools for customers to connect with the agency and/or self serve their needs, implemented enhanced fraud detection and prevention tools to combat targeted nationwide, sophisticated fraud schemes, and collaborated with Governor Hogan and the Maryland General Assembly to ease the impact on employers and ensure trust fund solvency into the future.

While this pandemic has been tenuous and presented state agencies with many challenges, it has also provided policy makers and states agencies alike with an opportunity to examine lessons learned to ensure the state is prepared to handle similar crises in the future. The analysis conducted by Upjohn and JFI covers a breadth of key areas within the unemployment insurance system that should be carefully and thoroughly reviewed by policy makers.

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Given the UITF's projected solvency through at least 2025, and the regressive nature of many of the recommendations contained in the analyses conducted by Upjohn and JFI, MDL does not endorse or recommend a higher tax burden on the Maryland employer community at this tenuous economic time. MDL recommends that the Maryland General Assembly and other key policy makers conduct an in-depth review of the materials presented in these reports and collect extensive stakeholder input before implementing any UI financing reforms to the state's unemployment insurance system.

MDL also recommends that policy makers consider the following changes to address future crisis:

1) Consider suspending mitigation language during times of extreme emergency to allow for expedited claims processing.

2) Consider enhanced penalties for fraudulent activity in the system to better protect legitimate claimants and employers from what has been an onslaught of sophisticated fraud.