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Job Opportunities Task Force Special Report

Unemployment Insurance Rescuing Maryland Workers & Buoying Local Business

Since the recession began in December 2007, there has been major job loss across the nation. Maryland has not been immune to this economic crisis. Unemployment in the state has doubled over the past two years – from 3.6% in September 2007 to 7.2% in September 2009.[1] Unemployment insurance (UI), established as part of the New Deal in 1935, provides temporary support to workers who have been laid off, so they can meet their basic needs while searching for a new job.

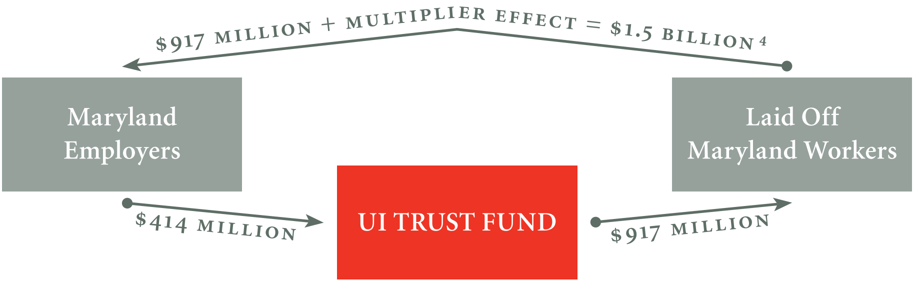
WHAT'S IN IT FOR WORKERS

In Maryland, workers can collect about half of their previous wages in UI benefits, up to $410 per week, for a maximum of 26 weeks. For many, this becomes their sole source of income while seeking new work, and their only means of paying for essentials such as housing, food, and utilities. In FY2009, 211,955 Marylanders relied on UI to make ends meet.[2] With employers hesitant to hire, many face a long and trying search for a new job. The average unemployed Marylander is out of work for over 16 weeks.[3]

WHAT'S IN IT FOR EMPLOYERS

The primary purpose of UI is to provide a safety net for laid off workers. The secondary purpose is to stabilize the economy in times of recession.[4] Unfortunately, many employers do not realize how much they benefit from the UI system. Last year the state paid $917 million in UI benefits while collecting only $414 million from employers.[3] Nearly every penny of the $917 million was likely spent at a

Economic Impact of UI in FY2009



Maryland business. In other words, the UI system pumped $503 million into our economy. Without these funds, more businesses would have suffered and more residents would have lost their jobs.

KEEPING OUR SYSTEM STRONG

UI benefits are paid out of a designated trust fund, which is replenished through a tax on wages. The more workers a company lays off, the more it pays into the system. The trust fund is designed to build up during good times and be spent down during bad. Before the recession, Maryland had a healthy reserve of over $1 billion. As expected, the recession has caused the reserve to drop significantly. High rates of unemployment coupled with limited prospects for quick re-employment have drawn down the balance to $301 million as of September 30th.[5]

While the drop has been precipitous, Maryland has fared better than most other states, with the fund remaining solvent in spite of the sudden spike in claims. In fact, at the end the 2nd quarter of 2009, Maryland had the 12th largest trust fund balance in the nation.[3] Many other states have fallen into the red and have been forced to take out federal loans.

To ensure ongoing solvency, Maryland maintains a series of tax tables with rates increasing or decreasing annually based on the health of the trust fund. The current system was adopted in 2005 with the goal of strengthening the long-term health of the trust fund and improving the equity of rates for employers. The healthy pre-recession reserve allowed tax rates to fall to the lowest possible level.

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Even after a slight tax bump in 2009, Maryland's average UI tax amounted to just ⅓ of one percent of wages – the 38th lowest in the nation.[3]

While rates will rise significantly in 2010, the system is functioning as intended – working to avert insolvency and successfully move the Maryland system through one of the worst recessions in recent memory. It is also important to keep the increases in perspective. More than 50 percent of employers pay the lowest rate based on layoffs, and will see their annual tax rise by only $136 per worker.[6] In other words, most employers will pay only an additional $11 per worker per month.

STRENGTHENING UI FOR THE FUTURE

The federal government recently passed the Unemployment Insurance Modernization Act (UIMA) to push states to update their systems. UIMA gives states the financial support needed to make improvements – for Maryland, as much as $126.8 million, which would be a major boost to the declining trust fund.

Maryland already took one step towards earning UIMA funding by expanding coverage to part-time workers (a provision which took effect in April). With a few technical amendments to this law, only two more changes are needed to claim the incentive funding. First, Maryland must adopt an Alternate Base Period (ABP) – ensuring that new entrants to the labor force are not excluded from the safety net simply because recent data is ignored. Currently in Maryland, a worker's most recent earnings are not considered when determining UI eligibility and calculating benefits. As a result, some applicants could be denied after as much as

1. Bureau of Labor Statistics

2. Maryland Department of Labor, Licensing and Regulation (DLLR), Division of Unemployment Insurance

3. US Department of Labor, Unemployment Insurance Data Summary, 2nd Quarter 2009

4. Research by Mark Zandi of Moody's Economy.com shows that income supports such as UI and food stamps are the single most effective way to quickly re-fuel the economy. This is because recipients are generally struggling financially, and quickly spend every dollar they receive on basic needs. Every $1 in unemployment benefits generates $1.63 in economic activity.

5. DLLR, "Maryland's Unemployment Insurance Trust Fund – October 2009 Update"

6. DLLR, "Unemployment Insurance Modernization Under ARRA"

7. For more details, see JOTF's Issue Brief "Patching the Leaky Pipeline"

months of full-time work.[7] ABP eliminates this problem by counting recent work for individuals ineligible under the current system.

To meet the final criteria, Maryland must adopt one of three additional reforms: provide benefits to unemployed workers who are participating in job training; increase the weekly dependent benefit from $8 to $15; or extend benefits to workers forced to leave their jobs for compelling family reasons such as domestic violence or the relocation of a spouse.

While making these changes, Maryland must not undo the key components of the current system that ensure a safety net for workers when they need it most. The economic crisis has highlighted the need to maintain adequate benefits. While Maryland workers can receive up to 26 weeks of standard UI benefits, some states have systems designed to cut off benefits earlier, even if a worker is unable to find employment. Maryland puts local workers and their families on more stable ground by ensuring that support does not end prematurely. By adopting ABP and selecting one of the three additional reforms listed above, Maryland stands to gain nearly $130 million. This lump-sum infusion would help stabilize the trust fund, reduce employer taxes in the future, and allow workers who have lost their job to receive the assistance they need.

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