



UNEMPLOYMENT INSURANCE

ANNUAL REPORT 2018

The Honorable Larry Hogan
Governor
State House
100 State Circle
Annapolis, Maryland 21401

Re: MSAR # 824 - 2018 Unemployment Insurance Annual Report

Dear Governor Hogan:

Maryland Annotated Code, Labor & Employment Article § 8-311, et seq., requires the Department of Labor, Licensing and Regulation (DLLR) to submit an annual report on the administration and operation of the Division of Unemployment Insurance.

The 2018 report includes a balance sheet for the Unemployment Trust Fund and notice that DLLR is not proposing any amendments to laws that affect the Division of Unemployment Insurance.

For additional information regarding the report, please contact Grason Wiggins, Legislative Director for DLLR, at grason.wiggins1@maryland.gov or (410) 230-6009.

Sincerely,

A handwritten signature in black ink that reads "James E. Rzepkowski". The signature is written in a cursive, flowing style.

James E. Rzepkowski
Acting Secretary

UNEMPLOYMENT INSURANCE ANNUAL REPORT 2018

PREFACE

Pursuant to Labor and Employment Article, § 8-311, the Division of Unemployment Insurance is required to provide the Governor with an Annual Report for the State Fiscal Year Ending June 30, 2018. This report provides (I) the balance sheet for the Unemployment Trust Fund and (II) notice that the Department did not propose any amendments to the Unemployment Insurance Law during the 2018 legislative session.

The information presented in this section is from Fiscal Year 2018.

I. FINANCIAL STATEMENTS

STATEMENT OF NET POSITION (BALANCE SHEET) As of June 30, 2018 and June 30, 2017

ASSETS	2018	2017	(%change)
Cash and cash equivalents (MD UI Bank Accounts)	\$3,110,478	\$2,904,756	7.08%
Cash on deposit with Federal Unemployment Trust Fund	\$1,235,395,306	\$1,180,750,281	4.63%
Accounts receivable, net ¹ (Employers & Claimants)	\$143,661,777	\$153,215,990	-6.24%
Total Assets	\$1,382,167,561	\$1,336,871,027	3.39%
LIABILITIES			
Bank overdrafts (Program Deficits)	\$1,822,095	\$1,114,906	63.43%
Accounts payable for unemployment benefits	\$47,072,307	\$39,276,272	19.85%
Total Liabilities	\$48,894,402	\$40,391,178	21.05%
Net Position			
Restricted for unemployment benefits ²	<u>\$1,333,273,159</u>	<u>\$1,296,479,849</u>	2.84%

¹ Amount of accruals for claims for benefits made prior to July 1 state fiscal year cutoff.

² UI Trust Fund balance after netting assets and liabilities.

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STATEMENTS OF REVENUE, EXPENSES, AND CHANGE IN NET POSITION For the Years Ended June 30, 2018 and June 30, 2017

Operating Revenue	2018	2017	(%change)
Charges for services and sales (Taxes)	\$519,301,229	\$560,401,753	-7.33%
Allowance for uncollectible accounts	\$861,649	\$5,269,016	-83.65%
Operating Revenue, Net of Provision	\$520,162,878	\$565,670,769	-8.04%
Operating Expenses			
Benefits - State	\$508,317,575	\$534,099,590	-4.83%
Benefits - Federal	\$9,871,909	\$12,315,475	-19.84%
Total Operating Expenses	\$518,189,484	\$546,415,065	-5.17%
Operating Gain/(Loss)	\$1,973,394	\$19,255,704	-89.75%
Non-Operating Revenue	2018	2017	(%change)
Federal grants (Federal Programs)	\$9,050,334	\$10,006,362	-9.55%
Interest (on Trust Fund Balance)	\$25,769,582	\$24,215,799	6.42%
Total Non-Operating Revenue	\$34,819,916	\$34,222,161	1.75%
Change in net position	\$36,793,310	\$53,477,865	-31.20%
Net position, beginning of FY	\$1,296,479,849	\$1,243,001,984	4.30%
Net Position, End of FY	<u>\$1,333,273,159</u>	<u>\$1,296,479,849</u>	2.84%

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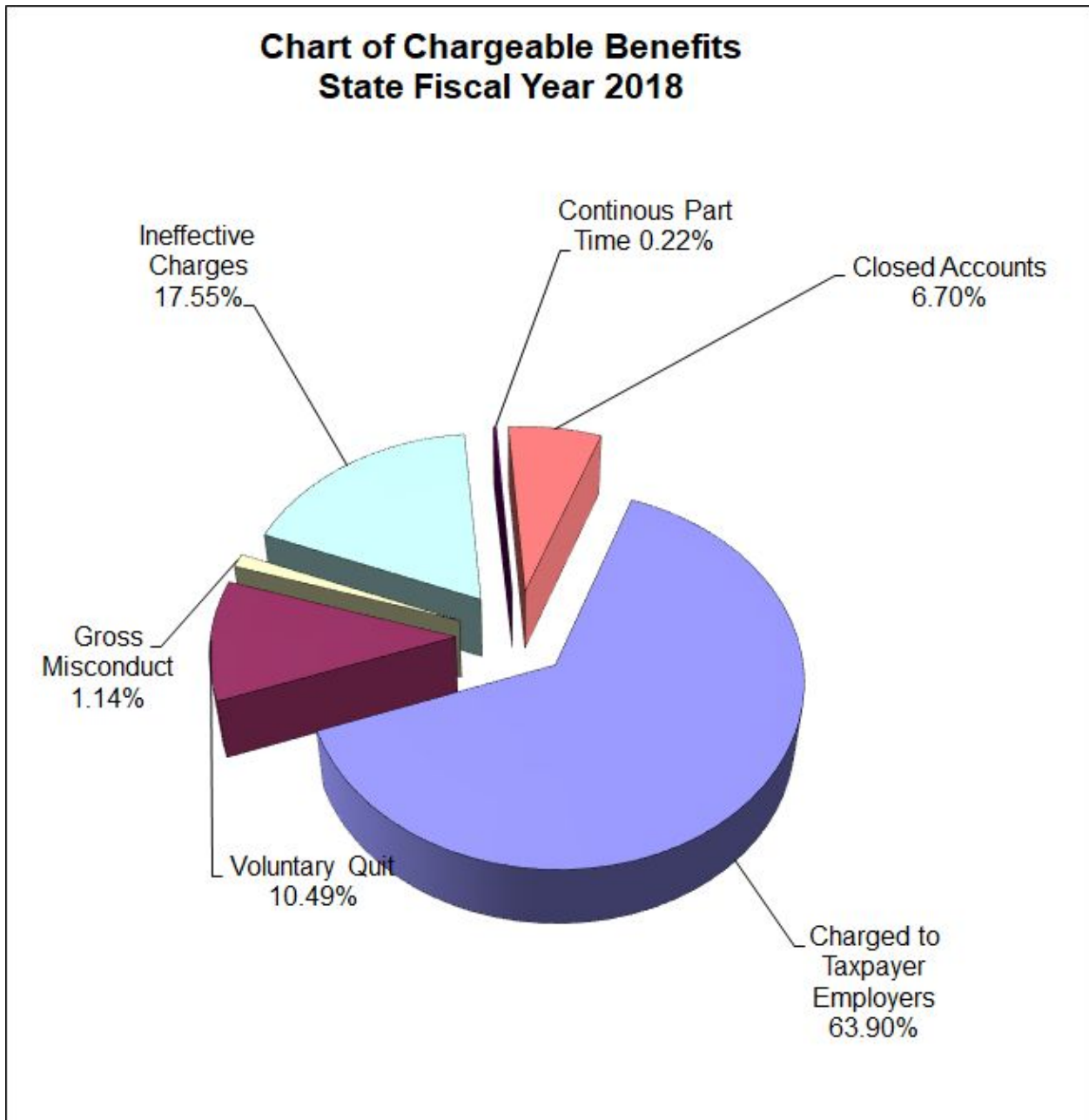
STATEMENTS OF CASH FLOW For the Years Ended June 30, 2018 and June 30, 2017

Cash Flows From Operating Activities	2018	2017	(%change)
Receipts from employers	\$529,717,092	\$586,608,725	-9.70%
Payments to claimants	-\$510,393,449	-\$550,652,457	-7.31%
Net Cash From Operating Activities	\$19,323,643	\$35,956,268	-46.26%
Cash Flows From Investing Activities			
Interest income (on Trust Fund Balance)	\$25,769,581	\$24,215,799	6.42%
Cash Flows From Non-Capital Financing Activities			
Receipts from Federal grants	\$9,050,334	\$10,006,362	-9.55%
Bank overdrafts, net	\$707,189	-\$556,755	-227.02%
Net Cash From Non-Capital Financing Activities	\$9,757,523	\$9,449,607	3.26%
Net Change in Cash and Cash Equivalents	\$54,850,747	\$69,621,674	-21.22%
Cash and cash equivalents, beginning of year	\$1,183,655,037	\$1,114,033,363	6.25%
Cash and Cash Equivalents, End of Year	\$1,238,505,784	\$1,183,655,037	4.63%
Reconciliation of Operating Loss to Net Cash Used in Operating Activities			
Operating gain/(loss)	\$1,973,393	\$19,255,703	-89.75%
Net changes in non-cash operating assets and liabilities:			
Accounts receivable	\$9,554,213	\$20,937,956	-54.37%
Accounts payable for unemployment benefits	\$7,796,037	-\$4,237,391	-283.98%
Net Cash from Operating Activities	\$19,323,643	\$35,956,268	-46.26%

II. AMENDMENTS TO TITLE 8 OF THE LABOR AND EMPLOYMENT ARTICLE.

The Department did not propose any amendments related to Title 8 of the Labor and Employment Article for consideration during the 2019 legislative session.

III. CHART OF CHARGEABLE BENEFITS (STATE FISCAL YEAR 2018)



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The Department charged contributing employers for \$277,987,989 in benefits paid to claimants in FY2018. The Labor and Employment Article, § 8-611 provides the formula for charging employers' accounts for unemployment insurance benefits their employees have received and provides specific instances in which employers' accounts will not be charged with unemployment insurance benefits. In the latter cases, unemployment insurance benefits are paid to the eligible individuals; however, the charges are not reimbursed to the Maryland Unemployment Insurance Trust Fund.

The chart (above) shows the universe of unemployment insurance benefits paid to eligible individuals including those benefits chargeable and those paid which must be absorbed by the Trust Fund. The following are payment types that are not charged to employers' accounts:

1. Ineffective charges are benefits attributable to and charged to employers already at the maximum tax rate available under the law. In these instances, additional charges have no effect on the employer's tax rates and the employer's amount of contributions owed. For FY2018, \$76,356,632 in benefits paid were attributable to ineffective charges.
2. Voluntary quit non-charges occur if an individual voluntarily quits employment without good cause, and the individual subsequently finds other employment for a certain period of time and is then laid off, making the individual eligible for benefits. The portion of benefits attributable to the wages from employer that the individual voluntarily quit from will not be chargeable to that employer. For FY2018, \$45,622,973 in benefits paid were attributable to non-charges resulting from voluntary quit.
3. Gross misconduct non-charges occur if an individual is discharged from employment for gross misconduct and the claimant subsequently earns a certain amount of wages after being reemployed by a new employer and then becomes unemployed.. If the individual ultimately meets the requirements, the benefits will be paid, but are not chargeable to the employer who discharged the individual for gross misconduct. For FY2018, \$4,979,555 in benefits paid were attributable to non-charges resulting from gross misconduct.
4. Continuous part-time employment non-charges occur if an individual, who is continuously employed on a part-time basis by one employer, is separated from other employment. The individual may be eligible to receive partial unemployment insurance benefits. The part-time employer will not be charged for any portion of benefits paid, because there has not been any break or separation from the part-time employment. For FY 2018, \$936,505 in benefits paid were attributable to non-charges due to continuous part-time employment.
5. Closed Accounts – All unemployment insurance benefits based on employment from a closed employer account must be absorbed by the Maryland Unemployment Insurance Trust Fund. For FY2018, \$29,156,015 in benefits paid were attributable to non-charges due to the employer account being closed.