

SENATE BILL REPORT

ESB 6480

AS PASSED SENATE, FEBRUARY 15, 1994

Brief Description: Regulating unemployment insurance compensation.

SPONSORS: Senators Moore, Vognild, Prentice, Sheldon, Pelz, Nelson, Sutherland and McAuliffe

SENATE COMMITTEE ON LABOR & COMMERCE

Majority Report: Do pass as amended.

Signed by Senators Moore, Chairman; Prentice, Vice Chairman; Fraser, McAuliffe, Newhouse, Pelz, Prince, Sutherland, Vognild and Wojahn.

Staff: Patrick Woods (786-7430)

Hearing Dates: February 2, 1994; February 3, 1994

HOUSE COMMITTEE ON COMMERCE & LABOR

BACKGROUND:

Washington's unemployment insurance (UI) program receives funding from two sources: (1) State UI Employer Tax, and (2) Federal Unemployment Tax.

(1) State UI Employer Tax. These taxes are paid by all covered employers on each employee. The UI tax rate schedule increases or decreases in accordance with the level of the UI trust fund, e.g., when trust fund is high, the rate schedule is decreased to AA schedule. Within the effective tax rate schedule, there are 20 rate classes ranging from .48 percent to 5.4 percent of taxable payroll (\$19.4 K, 1994), which is based on an employer's history of reducing its workforce which is termed "experience rating."

"Noncharging" of benefits. Currently, a business that lays off employees for certain specific reasons, primarily when the layoff was beyond its control, does not have its account directly charged for the UI benefits paid out. These costs are pooled among existing employers. This practice is termed "noncharging." The UI Task Force recommended that noncharging be eliminated in the following circumstances: when benefits are paid under a combined wage claim with another state; when claimants are participating in certain training programs or fail to successfully complete an on-the-job training program.

"Ineffective" charges. When an employer's UI tax rate is already at the ceiling of 5.4 percent, all additional charges are termed ineffective as they no longer impact their

premiums. These surplus costs are pooled among existing employers.

(2) Federal Unemployment Tax Act. These taxes are levied on employers through the federal Internal Revenue Service. The tax is .8 percent of the first \$7,000 paid to each employee. These funds are deposited in a FUTA fund controlled by the Department of Labor. These moneys are primarily used to fund the administrative costs of the state's unemployment insurance program.

Government/not-for-profit exemptions. Currently, government and not-for-profit agencies may opt out of the state's experience rating system and directly reimburse the trust fund for any benefits paid to their laid off workers. These employers do not pay for the administrative costs of the state's UI program. The Unemployment Insurance Task Force recommended that reimbursable employers pay their portion of administrative costs.

"Successor employer" rates. Currently, when a company is acquired, it may lose its specific existing experience rating and may be reclassified under the rate in its general industry class. The result may be a UI tax that is greater than its historical experience.

Technology/implementation. The 1993 report of the UI Task Force recommended that the Department of Employment Security continue to use advanced technology in providing services to claimants and employers. A greater use of technology is considered a key element in reducing the level of conditional payments to claimants which later prove to be ineligible to receive benefits.

SUMMARY:

Technology/implementation. The Employment Security Department is required to report to the standing committees of the Legislature by July 1, 1995, regarding the use of technology in order to reduce the need for conditional payments of UI benefits.

"Noncharging" of benefits. Benefits paid to employees of businesses under the following circumstances are now directly charged to the employer's account and may no longer be considered as nonchargeable costs: (1) UI beneficiaries participating in commissioner-approved training; (2) UI beneficiaries participating in timber retraining programs; (3) beneficiaries that one paid under a combined wage claim with another state; (4) beneficiaries who do not successfully complete an approved on-the-job training program; and (5) beneficiaries that are unemployed due to an on-the-job temporary total disability.

Benefits paid to an individual that has a temporary total disability and received crime victim compensation for a nonwork-related injury are not charged to an employer's "experience rating."

Successor employer. A company that is newly acquired may choose between its existing unemployment experience tax rate or the average industry rate in its class.

Appropriation: none

Revenue: none

Fiscal Note: available

Effective Date: January 1, 1998 for the tax schedule modifications

TESTIMONY FOR:

The bill will address several recommendations of the Task Force on Unemployment Insurance.

In addition, the modifications to the unemployment tax rate schedule are needed to adequately reflect the high cost of certain employer groups.

TESTIMONY AGAINST:

The modifications to the rate schedule will adversely impact seasonal industries which already bear extremely high costs due to the nature of their businesses, i.e., food processing and crop harvesting.

TESTIFIED: Kevin Groff, Safeway (pro); Ray Gonzales, Boeing (pro); Norm Raffaell, Weyerhaeuser (pro); Bob Dilger, WA State Building Trades; Tom Frick, WA Assn. of Wheat Growers (con); Jim Boldt, WA Food Dealers (pro); Lisa Thatcher, WA Food Dealers (pro); Ron Reed, Supervalu (pro); Jan Gee, Don Chandler, John Knox, WA Retail Assn. (pro)

HOUSE AMENDMENT(S):

Currently when the balance of the unemployment trust fund declines, the UI tax schedule is gradually increased in order to ensure fund solvency. The existing tax schedule is clarified and maintained except that during 1995 the lower AA tax rate is in effect.

In addition the Joint Task Force on Unemployment Insurance is directed to study UI trust fund adequacy and the effectiveness of the existing mechanisms that determine tax rate schedules.