

HOUSE BILL ANALYSIS

HB 2413

Brief Description: Changing unemployment insurance.

Sponsors: Representatives Conway and Reardon

Hearing: January 17, 2000

Brief Summary of Bill

- Modifies unemployment insurance taxes by reducing tax rates, by applying a three-year average to the determination of the taxable wage base, and by changing the calculation date and reducing the triggers for determining the tax rate schedule.
- Establishes a training benefits program for qualified dislocated workers to receive additional unemployment insurance benefits for up to 52 weeks including their regular unemployment insurance benefits while they are in retraining and making satisfactory progress toward completion of their training plan. Through June 30, 2002, qualified dislocated aerospace, timber and fin fish workers are eligible for up to 74 weeks of benefits including their regular benefits.

BACKGROUND:

UNEMPLOYMENT INSURANCE TAXES

Washington's unemployment insurance system requires each covered employer to pay contributions on a percentage of his or her taxable payroll. These contributions are held in trust to pay benefits to unemployed workers.

Tax schedule and rates. Employers' contribution rates are determined by two factors: the employer's position in the tax array and the statutory tax schedule in effect. The employer's position in the tax array depends on the employer's layoff experience relative to other employers' experience. Based on this relationship, employers may be placed in any one of

20 tax rate classes.

The rates in these classes are determined by the tax schedule in effect. The statute establishes seven different tax schedules, AA through F. The tax schedule that will be in effect for any given calendar year depends on the fund balance ratio, which compares the unemployment insurance trust fund balance on June 30 of the previous year to the total payroll in covered employment in the state for the completed calendar year prior to that June 30.

When the reported fund balance ratio, expressed as a percentage, is greater than 2.9 percent, the lowest tax schedule, AA, will be in effect. If the fund balance ratio is less than 1 percent, the highest tax schedule, F, will be in effect. Tax schedules A through E will be in effect as specified by the following fund balance ratio intervals:

Tax schedule	Fund balance ratio interval
AA	2.9 and above
A	2.5 to 2.89
B	2.1 to 2.49
C	1.7 to 2.09
D	1.4 to 1.69
E	1.0 to 1.39
F	below 1.0

Under this statute, the tax schedule in effect for 2000 is schedule B. In 1999, schedule A was in effect.

Taxable wage base. The amount of tax that an employer pays is determined by multiplying the employer's tax rate times the employer's taxable wage base. The taxable wage base is the amount of each employee's wages subject to tax. This amount increases by 15 percent each year from the previous year's taxable wage base, with a cap of 80 percent of the state "average annual wage for contribution purposes." The taxable wage base for 2000 is \$26,500. In 1999, the taxable wage base was \$24,300.

UNEMPLOYMENT INSURANCE BENEFITS

Regular unemployment insurance benefits. To qualify for unemployment insurance benefits, a claimant must have worked at least 680 hours in his or her base year. (Generally, the base year is the first four of the last five calendar quarters completed before applying for benefits.) Once this work threshold is met, a weekly benefit amount is calculated for that

individual using wage information provided by the person's employer. From that information, the individual's weekly benefit amount and the maximum number of weeks for which that individual may receive the benefit are determined.

To continue to receive regular benefits, a claimant must be able to work and must be actively looking for work. The requirement that the individual actively search for work can be excused if the Commissioner of the Employment Security Department determines that the individual's long-term employment prospects will improve if the individual completes a training plan. The individual may enroll in training and continue to receive his or her regular weekly benefit amount as long as the individual is making satisfactory progress toward completing the training plan.

Each June 30, the Employment Security Department determines the new maximum and minimum weekly benefit amounts for new claims filed in the following fiscal year. The maximum and minimum weekly benefit amounts for the period from July 1, 1999, to June 30, 2000, are \$441 and \$94 per week, respectively. The maximum number of weeks that any individual can receive benefits is set in statute at 30 weeks. Not all individuals qualify for the 30 week maximum.

Additional benefits programs. A dislocated worker is one who is unemployed, has exhausted his or her regular unemployment insurance benefits and is unlikely to return to previous employment because of a diminishing demand for his or her skills.

Since 1991, there have been additional benefits programs for dislocated workers in the timber industry who are in retaining. In 1995, the program was extended to dislocated fin fish workers. The eligibility requirements varied over the years. The most recent program was subject to termination under a sunset review. The program did sunset and no new applications for claims have been accepted since July 1, 1999.

Under the additional benefits program, if a person was in training and was making satisfactory progress toward completion of his or her training plan, the person was eligible to receive unemployment insurance benefits in addition to their regular benefits. Under the various programs over the past 10 years, the maximum weeks of training benefits ranged from 52 weeks to 122 weeks including up to 30 weeks of regular unemployment insurance benefits.

Federal National Reserve Grant

A federal National Reserve Grant may be awarded through the U.S. Department of Labor

when there is a large industry or company layoff. The aerospace industry in this state has experienced layoffs in sufficient numbers to qualify for a National Reserve Grant. One of the benefits for which workers may qualify is income support or "needs-related payments." These payments are available to those who qualify within a particular time period, have exhausted their regular unemployment insurance benefits and who need this income support to participate in necessary retraining. Under the current grant, eligibility for these needs-related payments will end April 1, 2000. There were a number of aerospace workers who otherwise qualify but for whom funding is not available under the grant.

SUMMARY OF BILL:

UNEMPLOYMENT INSURANCE TAXES

Tax schedule determination. Effective beginning with 2000, the date for calculating the unemployment trust fund balance for determining the unemployment insurance tax schedule in the following rate year is changed from June 30 to September 30. In addition, the fund balance ratio intervals that will determine the tax schedule are changed as follows:

<u>Tax schedule</u>	<u>Fund balance ratio intervals</u>	
	<u>from</u>	<u>to</u>
AA	2.9 and above	(no change)
A	2.5 to 2.89	2.1 to 2.89
B	2.1 to 2.49	1.7 to 2.09
C	1.7 to 2.09	1.4 to 1.69
D	1.3 to 1.69	1.0 to 1.39
E	1.1 to 1.29	0.7 to 0.99
F	under 1.0	0.7

Using this new method of calculation, schedule A remains in effect for 2000. (NOTE: The tax rates in the schedules are revised. See below.)

Tax rates. Effective beginning with 2000, the average tax rate in the various tax rate schedules is reduced by reducing the rate in classes 1 through 18 by 0.08. (For example: The rate in schedule A's rate class 1 is reduced from 0.48 percent to 0.40 percent. This across-the-board change in the rates reduces the average tax rate for schedule A from 2.28 percent to 2.16 percent.) The rates in classes 19 and 20 are not changed.

Taxable wage base. For 2000, employers will pay unemployment taxes on the first \$24,300 of each employee's wages (the same as the wage base in 1999). For 2001 and beyond, the

taxable wage base will be capped using an "average annual wage for contribution purposes" based on the average of the three previous years' wages.

Technical changes in the tax provisions. For 2000, the period of time for employers to file voluntary contributions is extended from February 15 to March 31. Other technical changes are made, including clarifying references to delinquent contributions and deleting obsolete provisions.

UNEMPLOYMENT INSURANCE BENEFITS

Training benefits program.

A training benefits program is established for dislocated workers who need retraining to reenter to job market. The program allows a qualified unemployed dislocated worker to receive additional unemployment insurance benefits while he or she is in retraining and making satisfactory progress toward completion of a training plan.

Eligibility requirements.

Dislocated worker. To qualify, an unemployed individual must be a dislocated worker. A dislocated worker is someone who is unlikely to return to his or her previous employment because of a diminishing demand for his or her skills.

Work history. The individual must have worked in an occupation or with a particular set of skills for at least 3 of the last 5 years. This requirement does not apply to dislocated aerospace, timber, or fin fish workers until July 1, 2002.

Retraining necessary. The individual, through an assessment of his or her skills, must need job-related training to find suitable employment in his or her labor market. The assessment includes a determination that the individual's skills are not in demand in his or her labor market.

Training plan. The individual must develop a training plan that is approved through the Employment Security Department and is submitted within 60 days of the individual's notification of the requirements of the training benefits program. The individual must be enrolled in training on a full-time basis and must continue to make satisfactory progress toward completion of the training plan. The training must target skills in a high demand occupation and must include vocational training or courses needed as a prerequisite to that training. The training may not include courses primarily intended for completion of a baccalaureate degree.

Benefits.

Duration of benefits. A qualified individual may receive up to 52 weeks of benefits that include any regular benefits to which he or she is entitled. Until July 1, 2002, aerospace, timber and fin fish workers may receive up to 74 weeks of benefits including their regular UI benefits. Any aerospace worker receiving needs-related payments under a National Reserve Grant may not receive training benefits until the needs-related payments terminate. The weekly benefit amount is the same as the amount the individual receives as regular UI benefits. An individual may qualify for this program only once every five years.

Limited to available funds. This program is subject to available funding. Funding is limited to \$60 million for the two fiscal years ending June 30, 2002, and the remainder of fiscal year 2000. Thereafter, the total amount that may be obligated from the Unemployment Insurance Trust Fund is \$20 million annually. Any unobligated amounts available in any given fiscal year may be carried over to the subsequent fiscal year and added to that year's \$20 million maximum.

Study. The Workforce Training and Education Coordinating Board, in cooperation with the State Board for Community and Technical Colleges and the Employment Security Department, is directed to review the program and report to the Legislature by December 1, 2002. The review must include a demographic analysis of the participants, the duration of training benefits actually claimed per claimant, the type of training provided, each participant's subsequent employment and wage history, and the impact of the program on employers' unemployment insurance contributions.

RULES AUTHORITY: The bill does contain provisions addressing the rule making powers of the Employment Security Department to implement the training benefits program.

FISCAL NOTE: Requested January 12, 2000.

EFFECTIVE DATE: The bill contains an emergency clause and takes effect immediately.