

# SENATE BILL REPORT

## SB 5558

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As of January 27, 1999

**Title:** An act relating to financing unemployment insurance.

**Brief Description:** Financing unemployment insurance.

**Sponsors:** Senators Prentice, Fraser, Horn, Oke, Jacobsen and Kline.

**Brief History:**

**Committee Activity:** Labor & Workforce Development: 1/28/99.

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### SENATE COMMITTEE ON LABOR & WORKFORCE DEVELOPMENT

**Staff:** Jill Reinmuth (786-7452)

**Background:** In 1998, the Employment Security Department, together with business and labor, undertook a project known as the Unemployment Insurance Tax Evaluation Study or UnITE. The study examined a number of issues related to setting unemployment insurance tax rates for employers. One issue related to concerns that some employers have tax payments that consistently exceed benefits paid to their former employees and charged to their accounts ("benefit charges"), while other employers have benefit charges that consistently exceed tax payments. The study explored patterns of benefit charges that are not effectively assigned back to the employers where the job separations occurred. These costs become the general responsibility of the unemployment insurance system, and thus, are labeled as "socialized" costs. The Tax Equity Study Final Report summarizes the study's findings and makes recommendations to reduce socialized costs.

Contribution Rates: State law currently provides that unemployment insurance tax rates are based on two criteria: the employer experience rating and the tax schedule.

The employer experience rating is based on benefit charges against the employer over a four-year period. One of 20 rate classes becomes applicable to a qualified employer each year. The highest rate class ("rate class 20") applies to employers with the most job separations that lead to benefit payments. Lower rate classes apply to employers with fewer job separations that lead to benefit payments.

The tax schedule is based on the balance in the unemployment insurance trust fund as compared to total wages. One of seven rate schedules becomes effective each year. The highest rate schedule is triggered when the fund has a small surplus or is in deficit. Lower rate schedules are triggered when the fund has larger surpluses. The maximum tax rate paid by employers in rate class 20 is 5.4 percent. The minimum tax rate paid by employers in rate class 1 ranges from .48 percent to 2.48 percent.

Ineffective charges are the portion of an employer's benefit charges that exceed its tax payments. These ineffective charges become socialized costs. The recent study found that

ineffective charges were approximately \$96 million in rate year 1997. To reduce ineffective charges, the study recommended increasing the maximum tax rate paid by employers in rate class 20.

Marginal Labor Force Attachment: State law currently includes a provision for identifying individuals considered to have "marginal labor force attachment." A portion of benefits paid to such individuals is not charged to employer accounts or reflected in employer experience ratings. These MLFA noncharges also become socialized costs. The recent study found that total noncharges averaged \$140 million per year in rate years 1995 through 1998. The MLFA noncharges averaged nearly \$43 million per year during the same period. To reduce noncharges, the study recommended eliminating MLFA noncharges.

**Summary of Bill:** Two features of the current system of financing unemployment insurance are changed. First, the schedule of employer contribution rates is revised. Second, the noncharging of benefits paid to individuals with marginal labor force attachments is eliminated.

Contribution Rates: The tax schedule is revised to generate revenues that cover at least 100 percent of benefit costs in all classes except rate class 20, and at least 80 percent of benefit costs in rate class 20. These revisions: (1) increase the maximum tax rate paid by employers in rate class 20 from 5.4 percent to 6.25 percent to 8.65 percent; (2) increase the rates for rate class 19; and (3) decrease the rates for rate classes 4 through 15 in most tax schedules. In addition, the maximum rate for employers in agricultural crop production is capped at 5.4 percent.

Marginal Labor Force Attachment: The provisions for identifying individuals with a "marginal labor force attachment" and permitting the noncharging of a portion of benefits paid to these individuals are repealed. These benefits become the specific responsibility of employers, and are no longer socialized costs.

**Appropriation:** None.

**Fiscal Note:** Requested on January 27, 1999.

**Effective Date:** January 1, 2000.