
Labor & Workforce Development Committee

HB 1091

Brief Description: Modifying the unemployment insurance program.

Sponsors: Representatives Sells, Reykdal and Kenney; by request of Governor Gregoire.

Brief Summary of Bill

- Makes changes to the formulas used to calculate the social cost factor for rate year 2011 and thereafter.
- Establishes caps on the flat social rate and reduces the multipliers used for certain graduated social rates.
- Makes changes to the training benefits program, including changes related to the federal modernization incentive payment.
- Expands the definition of "dislocated worker," eliminates certain deadlines and requirements for dislocated workers, and modifies the funding cap for training benefits.
- Provides for noncharging of regular benefits upon approval of a training benefits plan.

Hearing Date: 1/14/11

Staff: Jill Reinmuth (786-7134).

Background:

The unemployment compensation system is designed and intended to provide partial wage replacement for workers who are unemployed through no fault of their own. Most covered employers pay contributions (taxes) to finance benefits. Eligible unemployed workers receive benefits based on their earnings in their base year. The Employment Security Department (Department) administers this system.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Taxes.

An employer's taxes are based on the tax rate assigned to the employer and the taxable wage base. The tax rate includes an experience rated factor, a social cost factor, and when the balance in the unemployment insurance trust fund meets certain conditions, a solvency surcharge. (There is currently no solvency surcharge.)

The experience rated factor (or "array calculation factor") is based on the employer's rate class. An employer is assigned to one of 40 rate classes depending on the employer's layoff experience. For rate classes 1 and 40, the rates are 0.00 percent and 5.40 percent, respectively. For rate classes 2 through 39, the rates range from 0.11 percent to 5.30 percent.

The social cost factor is a percentage of costs not directly charged to an employer. First, a flat rate is calculated as the difference between benefits paid and taxes paid, divided by total taxable payroll. The flat rate is adjusted for months of benefits in the unemployment insurance trust fund. (For rate year 2010, the flat rate was 1.22 percent. For rate year 2011, the flat rate is calculated to be 1.70 percent). Then, multipliers are used to calculate graduated rates. For rate classes 1 through 11, the multipliers range from 78 percent to 118 percent. For rate classes 12 through 40, the multiplier is 120 percent.

The tax rate is the sum of the experience rated factor and the social cost factor, and may not exceed 6.0 percent. The tax rate may be capped at 5.4 percent for certain seasonal industries (agricultural crops, livestock, agricultural services, food and seafood processing, fishing, and cold storage).

Benefits

1. Modernization incentive payment.

As part of the federal American Recovery and Reinvestment Act of 2009, Congress approved up to \$7 billion in special transfers or "modernization incentive payments" to states with unemployment insurance laws that meet certain requirements.

One-third of the payment is contingent on state law providing for an alternative base period. Washington has already received the one-third payment (approximately \$49 million).

Two-thirds of the payment is contingent on state law providing for at least two of the following:

- No disqualification from benefits for voluntarily quitting employment for compelling family reasons.
- No denial of benefits to part-time workers seeking only part-time work.
- Continuation of weekly benefits for exhaustees in state-approved training.
- Dependents' allowances of at least \$15 per dependent per week.

Washington has not yet qualified to receive the remaining two-thirds payment (approximately \$98 million).

The deadline by which states must apply to receive the payment is August 22, 2011.

2. Training benefits.

The training benefits program allows an eligible individual to receive additional benefits while he or she is in retraining.

The following individuals who are unemployed may be eligible to receive training benefits: dislocated workers; low-wage workers; military personnel and National Guard members; and persons who are disabled.

A dislocated worker is defined as an individual who: (1) has been terminated or received a notice of termination from employment; (2) is unlikely to return to employment in his or her principal occupation or previous industry because of a diminishing demand for his or her skills; and (3) is eligible for or has exhausted benefits.

The individual must submit a training plan to the Department within 90 days of the individual's notification of the program's requirements, and must enter the approved training program within 120 days (unless these deadlines are waived for good cause). The individual must be enrolled in training on a full-time basis (except when a disability precludes such enrollment).

The training must target a high demand occupation and may 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.

An individual may qualify for this program only once every five years. The Department must verify that an individual is eligible to work in the United States before the individual receives training benefits.

The maximum amount of training benefits payable in an individual's benefit year is 52 times the individual's weekly benefit amount (less weeks of regular benefits and extended benefits paid).

The weekly benefit amount is the same as the amount the individual receives as regular benefits. The amount is reduced if the individual receives any "remuneration" in the week. The reduction is based on a statutory formula (75 percent of the amount of the remuneration in excess of \$5).

Training benefits are subject to available funding from the Unemployment Trust Fund. Funding is capped at \$20 million for each fiscal year. Any funds not obligated in one fiscal year may be carried forward to the next fiscal year. Training benefits are not charged to the experience rating accounts of employers.

Summary of Bill:

Taxes.

The formulas used to calculate the social cost factor are changed for rate year 2011 and thereafter.

For rate classes 1 through 20:

- The flat rate is capped. If there are more than 10 months of benefits in the trust fund, the cap is 1.22 percent. If there are ten months of benefits or less in the trust fund, the cap is 1.22 percent or 150 percent of the previous year's flat rate, whichever is greater.
- The multipliers used to calculate the graduated rates are reduced. The range is 40 percent to 116 percent of the flat rate (instead of from 78 percent to 120 percent).

For rate classes 21 through 40:

- The flat rate is capped in the same manner as for other rate classes.
- The graduated rate continues to be 120 percent of the flat rate.

Benefits.

The training benefits program is modified for claims on or after January 15, 2012.

The definition of "dislocated worker" is expanded. A dislocated worker is an individual who: (1) has been involuntarily and indefinitely separated from employment as a result of a permanent reduction of operations at the individual's place of employment, or has separated from a declining occupation; and (2) is eligible for or has exhausted benefits.

For dislocated workers, certain deadlines and requirements are eliminated. These are: the 90-day application deadline and the 120-day enrollment deadline; the full-time enrollment requirement; and the five-year limitation on qualifying for training benefits. The requirement that the Department verify employment eligibility is continued.

The maximum amount of training benefits payable is modified. The maximum amount is reduced only by weeks of regular benefits (instead of regular benefits and extended benefits).

The reduction to an individual's weekly benefit amount for any remuneration in the week is changed. The reduction is 50 percent (instead of 75 percent) of the remuneration in excess of \$5.

The cap on funding for training benefits is modified. Funding continues to be limited to \$20 million per fiscal year, in addition to any funds carried forward from previous fiscal years. However, if available funding is equal to or less than \$5 million, training benefits are not obligated for low-wage workers, military personnel and National Guard members, and persons who are disabled. If funds are exhausted, training benefits are obligated to dislocated workers only, and available funding for the following year is reduced by a corresponding amount.

Upon approval of an individual's training benefits plan, regular benefits are not charged to the experience rating accounts of employers.

Appropriation: None.

Fiscal Note: Requested on 01/11/2011.

Effective Date: The bill contains multiple effective dates. Sections 1 through 8, relating to the training benefits program, take effect January 15, 2012, unless the U.S. Department of Labor determines within 90 days after adjournment of the legislative session in which the bill is enacted that the changes do not meet the requirements for unemployment insurance modernization incentive funding. Sections 9 through 11 of the bill, relating to the social cost factor, take effect immediately.