

HOUSE BILL REPORT

HB 1350

As Reported By House Committee On:
Commerce & Labor

Title: An act relating to authorizing voluntary contributions for unemployment insurance.

Brief Description: Authorizing voluntary contributions for unemployment insurance.

Sponsors: Representatives Lisk, Chandler and Veloria; by request of Joint Task Force on Unemployment Insurance.

Brief History:

Committee Activity:

Commerce & Labor: 2/1/95, 2/15/95 [DPS].

HOUSE COMMITTEE ON COMMERCE & LABOR

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 11 members: Representatives Lisk, Chairman; Hargrove, Vice Chairman; Thompson, Vice Chairman; Romero, Ranking Minority Member; Conway, Assistant Ranking Minority Member; Cairnes; Cody; Cole; Fuhrman; Goldsmith and Horn.

Staff: Chris Cordes (786-7117).

Background: Washington's unemployment insurance system requires each covered employer to pay contributions that are a percentage of his or her taxable payroll. These contributions are held in trust to pay benefits to unemployed workers. A qualified employer's contribution rate is determined by the statutory tax schedule in effect and by the employer's tax rate class within that tax schedule.

To determine a qualified employer's tax rate class, the Employment Security Department first computes each employer's benefit ratio. The benefit ratio is the ratio of the benefit charges made against the employer's experience rating account in the last four fiscal years of the employer's experience divided by the employer's taxable payroll. The employers are then listed in an array from lowest to highest benefit ratio. The array of employers is divided into 20 classes, using the first 5 percent of taxable wages of the employers with the lowest benefit ratios to identify

employers in rate class one, and continuing through the array until each class contains employers with approximately 5 percent of total taxable payroll.

The Joint Task Force on Unemployment Insurance reviewed the impact that the experience rating system had on small employers and recommended in its draft report that employers should be permitted to make voluntary contributions to reduce their experience rate. The task force draft report notes that "[c]ontribution rates for smaller employers rise more severely after a layoff because of the relative size of the layoff compared to the total workforce of the employer. For example, an employer with five employees who lays off one employee will have a 20 percent workforce reduction. An employer of 150 employees must lay off 30 employees to experience the same rate impact."

Summary of Substitute Bill: Beginning in tax rate year 1996, the unemployment insurance program is modified to permit the payment of voluntary contributions so that an employer may obtain a reduction in his or her scheduled contribution rate. Voluntary contributions may be made only by qualified employers with payrolls that are no more than 25 times the amount of wages that are taxable for unemployment insurance purposes.

For voluntary contributions to be used for rate reductions, the contributions must be received by the Employment Security Department by February 15 after the employer receives notice of his or her scheduled contribution rate. The amount of the voluntary contributions may equal all or part of the benefits charged to the employer's experience rating account in the most recently completed two years used for rating purposes. The amount must also include a surcharge of 10 percent of the amount of the contribution.

If voluntary contributions are timely paid, the department will reduce the charges against the employer's experience rating account by the amount of the voluntary contributions, excluding the surcharge. The employer's benefit ratio will be recomputed and the employer will be assigned a new contribution rate based on the new benefit ratio. The minimum amount of a voluntary contribution must be an amount that results in reducing the employer's tax rate class by at least two classes.

Substitute Bill Compared to Original Bill: The substitute bill adds a provision making the minimum voluntary contribution an amount that results in reducing the employer's tax rate class by at least two classes.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: For small employers who rarely lay off any employees, the employer pays significantly more in contributions than are ever received in benefits by the former employees. But one layoff can still cause the employer's rate class to jump from class one to class 20, the highest rate. This rate volatility is an especially critical problem for small employers because their wage base is comparatively small. Other states permit employers to make voluntary contributions to reduce that rate jump. Agency studies indicate that about 1,400 employers had increases in tax rates in 1995 with payrolls that qualify under the bill. There is a need to evaluate the impact of this bill on all the employers in the unemployment insurance system.

Testimony Against: None.

Testified: Dale Ziegler, Employment Security Department; Leo Bowman, Leo's Lineup & Tires; Gary Smith, Independent Business Association; Carolyn Logue, National Federation of Independent Business; and Clif Finch, Association of Washington Business (with concerns).