

SENATE BILL REPORT

ESB 5925

As Passed Senate, March 2, 1995

Title: An act relating to determining unemployment insurance compensation rates.

Brief Description: Modifying the determination of unemployment insurance contribution rates.

Sponsors: Senator Pelz.

Brief History:

Committee Activity: Labor, Commerce & Trade: 2/15/95, 2/22/95 [DP, DNP].
Passed Senate, 3/2/95, 44-5.

SENATE COMMITTEE ON LABOR, COMMERCE & TRADE

Majority Report: Do pass.

Signed by Senators Pelz, Chair; Heavey, Vice Chair; Franklin, Fraser and Wojahn.

Minority Report: Do not pass.

Signed by Senators Deccio, Hale and Palmer.

Staff: Patrick Woods (786-7430)

Background: Washington State employers pay unemployment insurance (UI) taxes on each employee in order to fund the payment of unemployment benefits. The current system of taxation was established by the Legislature in 1984, and provides for the adjustment of employer rates as follows:

Tax Schedules/Trust Fund: There are seven distinct tax schedules: AA, A, B, C, D, E, and F, with AA containing the lowest, and F the highest average tax rates. The schedule is determined by the level of monies in the UI trust fund as compared to the state's total wages (trust fund balance divided by total wages expressed as percentage) with the lowest tax schedule AA in effect when the fund balance ratio is at 3.9 percent or higher. The highest tax schedule, schedule F, is in effect when the fund balance ratio is less than 1.4 percent.

Interval of Fund Balance Ratio

Effective Tax Schedule

3.9% and above	AA
3.4% to 3.89%	A
2.9% to 3.39%	B
2.4% to 2.89%	C
1.9% to 2.39%	D
1.4% to 1.89%	E
Less than 1.4%	F

On June 30 of each year the Employment Security Department is statutorily required to determine which of the seven tax rates schedules will be in effect for the following year. Based on this process, the unemployment insurance tax schedule is set to transition from the existing AA to A schedule on January 1, 1995.

Rate Class/Experience Rating: Within each tax schedule there are 20 rate classes ranging from .36 percent to 5.4 percent of taxable payroll (\$19.9 K, 1994). Employers are placed in each of the 20 rate classes based on their history of reducing their work force. This is termed "experienced rating." Employers with a high experience rating pay a higher UI tax rate.

Summary of Bill: The method of determining the state's unemployment insurance tax schedule is modified as follows:

AA Schedule: The tax schedule AA is maintained in effect for calendar year 1995.

Trigger Mechanism: The UI tax rate trigger mechanism is modified permanently in 1996 as follows:

Interval of Fund Balance Ratio	Effective Tax Schedule
2.90% and above	AA
2.50% to 2.89%	A
2.10% to 2.49%	B
1.70% to 2.09%	C
1.30% to 1.69%	D
1.00% to 1.29%	E
Less than 1.00%	F

Interim Study: The Employment Security Department is directed to conduct a study of the UI trust fund, outlining the advantages and disadvantages of modifying the existing funding mechanism.

Appropriation: None.

Fiscal Note: Requested.

Effective Date: The bill contains an emergency clause and takes effect immediately.

Testimony For: The bill will provide employers with immediate tax relief by keeping the tax schedules of AA for 1995 and possibly 1996, and will allow time to study the trust fund issue.

Testimony Against: The trust fund triggers need to be adjusted this year on a permanent basis.

Testified: Dale Ziegler, ESD (pro); Clif Finch, AWB (con).