

# SENATE BILL REPORT

## SB 6034

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As Reported By Senate Committee On:  
Commerce & Labor, March 5, 1997

**Title:** An act relating to unemployment insurance benefits and contributions.

**Brief Description:** Relating to unemployment insurance benefits and contributions.

**Sponsors:** Senator Anderson.

**Brief History:**

**Committee Activity:** Commerce & Labor: 3/5/97 [DPS, DNPS].

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### SENATE COMMITTEE ON COMMERCE & LABOR

**Majority Report:** That Substitute Senate Bill No. 6034 be substituted therefor, and the substitute bill do pass.

Signed by Senators Schow, Chair; Horn, Vice Chair; Anderson and Newhouse.

**Minority Report:** Do not pass substitute.

Signed by Senators Franklin, Fraser and Heavey.

**Staff:** Patrick Woods (786-7430)

**Background:** Under Washington's unemployment insurance (UI) tax system, an employer's tax rate is determined by the ratio between benefits charged to the employer's account and the employer's taxable payroll. This ratio when expressed as a percentage is the employer's benefit cost rate, and is often referenced to as an employer's experience rating.

Ineffective Changes: When the employer's benefit cost rate equals the employer's contribution rate, the employer is paying into the unemployment insurance system the same amount as the system is paying out in benefits to the employer's former employees. However, many employers have benefit cost rates that are higher than the employer's contribution rate. These employers are ineffectively charged— because their contribution rate does not cover the benefit costs that accrue to their accounts. These excess benefits contribute to the costs that become pooled— as part of the socialized cost of the system. Socialized costs are paid by the employers whose benefit cost rates are lower than their contribution rates.

Noncharged Benefits: Another type of socialized cost, accrue because Washington law permits certain benefits to not be charged to any employer's experiencing rating account. These noncharged benefits become part of the pooled— charges that employers pay through socialized costs.

The 1994-95 Joint Task Force on Unemployment Insurance found that socialized costs in the Washington unemployment insurance program during the fiscal year ending June 30, 1994

totaled \$399 million. During the 1993 fiscal year, ineffective charging accounted for approximately 23 percent of total socialized costs and noncharged benefits were approximately 56 percent (42 percent if extended benefits are excluded) of total socialized costs.

**Inactive Changes:** The remainder of the socialized costs are charges made to inactive–employer accounts, that are no longer in operation.

**Summary of Substitute Bill:** The unemployment insurance system is modified in three ways.

**Weekly Benefit Formula:** Beginning with weeks of unemployment in January 1998, the formula is changed for determining weekly benefit amounts for claimants. The formula is based on 1 percent of the claimant’s base year wages instead of 1/25th of the average of the claimant’s wages in the two quarters in the base year with the highest wages.

**Noncharging of Benefits.** Beginning with weeks of unemployment in January 1998, certain benefits paid to claimants who are identified as marginally attached to the labor force– are charged to employers’ experience rating accounts. Under current law, these benefits are not charged to the individual employer’s account.

**Tax Schedule Modifications.** The effective rates in the tax schedule are revised beginning with calendar year 1998 as follows:

- « the majority of tax rates are reduced in rate classes 1 through 17;
- « tax rates are increased for rate classes 18 through 20; and
- « the delinquent rate is 0.2 percent higher than the highest rate in effect.

If the changes in any of the three areas do not become law, the changes in the other two areas are null and void.

**Substitute Bill Compared to Original Bill:** The original bill was not considered.

**Appropriation:** None.

**Fiscal Note:** Not requested.

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

**Testimony For:** The proposal is a working document and is not considered to be the final draft.

**Testimony Against:** None received due to time constraints.

**Testified:** Senator Anderson, prime sponsor; Graeme Sackrison, Bob Wagner, Employment Security Department; Jan Gee, Washington Retail Association/Washington Food Industry.