

FINAL BILL REPORT

SHB 1350

C 322 L 95

Synopsis as Enacted

Brief Description: Authorizing voluntary contributions for unemployment insurance.

Sponsors: House Committee on Commerce & Labor (originally sponsored by Representatives Lisk, Chandler and Veloria; by request of Joint Task Force on Unemployment Insurance).

House Committee on Commerce & Labor
Senate Committee on Labor, Commerce & Trade

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. All of 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 this experience rating system had on small employers and recommended 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: 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 who had an increase of at least six tax rate classes from the previous tax rate year.

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.

Votes on Final Passage:

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| House | 96 | 0 | |
| Senate | 44 | 0 | (Senate amended) |
| House | 96 | 0 | (House concurred) |

Effective: July 23, 1995