Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Commerce & Labor Committee

ESSB 6885

Brief Description: Modifying unemployment insurance provisions.

Sponsors: Senate Committee on Labor, Commerce, Research & Development (originally sponsored by Senators Kohl-Welles, McAuliffe, Thibaudeau, Keiser and Fairley).

Brief Summary of Engrossed Substitute Bill

- Retains the weekly benefit using "two quarter averaging" and a 3.85 multiplier.
- Retains liberal construction of the unemployment compensation law.
- Modifies the voluntary quit provisions applicable to mandatory military transfers.
- Reduces the maximum tax rate for specified industries, including agriculture and fishing, to 5.7 percent beginning with tax rate year 2007.
- Reduces the social cost factor rate depending on the trust fund balance.
- Reduces the maximum taxable wage base to 75 percent of the state average annual wage beginning with tax rate year 2007.

Hearing Date: 2/20/06

Staff: Jill Reinmuth (786-7134) and Chris Cordes (786-7103).

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. Eligible unemployed workers receive benefits based on their earnings in their base year. Most covered employers pay contributions (payroll taxes) to finance benefits.

In 2003, and again in 2005, the Legislature enacted a number of changes to the unemployment insurance system. The changes included revisions to unemployment benefits and taxes.

I. Benefits

An individual is eligible to receive regular benefits if he or she: (1) worked at least 680 hours in his or her base year; (2) was separated from employment through no fault of his or her own or quit work for good cause; and (3) is able to work and is actively seeking employment. Regular benefits are based on the individual's earnings in his or her base year; they are not based on financial need.

A. Weekly Benefit Amount

Prior to the 2003 legislation, a claimant's weekly benefit amount (WBA) was calculated using 4 percent of the claimant's average wages in the two quarters of the base year in which wages were highest ("two quarter averaging").

The 2003 legislation modified the formula used to calculate the WBA as follows:

- *On or after January 4, 2004, and before January 2, 2005*: The WBA was calculated using 4 percent of the claimant's average wages in the three quarters of the base year in which wages were highest ("three quarter averaging").
- *On or after January 2, 2005*: The WBA was 1 percent of the claimant's total wages in the base year ("four quarter averaging").

The 2005 legislation further modified the formula used to calculate the WBA as follows:

- *On or after April 24, 2005, and before July 1, 2007*: The WBA is calculated using 3.85 percent of the claimant's average wages in the two quarters of the base year in which wages were highest ("two quarter averaging").

B. "Good Cause" Quits

Individuals are disqualified from receiving benefits if they leave work voluntarily without good cause.

Prior to the 2003 legislation, there were a variety of reasons considered to be good cause for leaving work voluntarily. One reason was to relocate for a spouse's employer-initiated mandatory job transfer.

The 2003 legislation limited the reasons considered to be good cause for leaving work voluntarily. One reason is to relocate for a spouse's mandatory military transfer, so long as the relocation is to a state that similarly does not consider the individual to have left work without good cause.

C. Construction

Prior to the 2003 legislation, the Employment Security Act was to be liberally construed to reduce involuntary unemployment to the minimum. The 2003 legislation repealed this requirement. The 2005 legislation restored this requirement until June 30, 2007.

II. Contributions

Contributions are payroll taxes used to finance unemployment compensation benefits. Most private employers are required to pay contributions. The amounts of the contributions are based on the tax rate assigned to the employer and the taxable wage base.

A. Tax Rates

The 2003 legislation specified that the tax rate for most covered employers is determined by the combined array calculation factor rate and the social cost factor rate, subject to a maximum rate, and a solvency surcharge, if any. These rates are determined as follows:

- *Array calculation factor*: Employers are placed in one of 40 rate classes, with rates from 0 percent to 5.4 percent. The assigned rate class depends on the employer's layoff experience.
- *Social cost factor*: A flat social cost rate is calculated as the difference between benefits paid and taxes paid, divided by total taxable payroll. The amount is then adjusted for the months of benefits in the trust fund above 10 months, but the rate may not be less than 0.6 percent. Employers pay a graduated social cost factor rate, ranging from 78 percent to 120 percent of the flat rate, depending on the employer's rate class.
- *Maximum rate for the sum of the array calculation factor and the social cost factor*: For employers in fishing, agriculture, and food and seafood processing, the maximum rate is 6 percent. For employers in all other industries, the maximum rate is 6.5 percent.
- *Solvency surcharge*: Up to an additional 0.2 percent surcharge is added to the contribution rate in the next rate year if the unemployment trust fund has fewer than 6 months of benefits on a specified annual date.

The 2005 legislation made adjustments to the social cost factor as follows:

- For fiscal years 2006 and 2007, the social cost factor rate is zero for employers in agricultural crops, livestock, agricultural services, food and seafood processing, fishing, and cold storage.
- For tax rate year 2007, the flat social cost factor is the lesser of the rate applicable with the new WBA calculations in effect or the rate that would have been applicable if the WBA had been calculated as 1 percent of a claimant's annual wages.
- The formula is adjusted for determining the social cost factor in rate year 2007 to account for benefits that are not effectively charged because of these changes in the social cost factor.

B. Taxable Wage Base

The taxable wage base is the amount of each employee's wages subject to tax for a given rate year. This amount increases by 15 percent each year from the previous year's taxable wage base, with a cap of 80 percent of the state "average annual wage for contribution purposes."

C. Experience Rating

Most benefits paid to claimants are charged to their base year employers' accounts. Some benefits, however, are pooled costs within the system and are generally referred to as socialized costs.

The 2005 legislation specified that certain socialized costs be paid with certain funds. Beginning in fiscal year 2006 and through calendar year 2007, funds are first requisitioned from the Reed Act funds in the amount of the benefits that are not effectively charged because the social cost factor rate is reduced to zero for certain industries and in the amount of benefits paid that exceed the benefits that would have been paid if the weekly benefit amount had been calculated as 1 percent of a claimant's annual wages.

Summary of Bill:

Further revisions to unemployment benefits and taxes are made.

I. Benefits

A. Weekly Benefit Amount

The language expiring "two quarter averaging" is removed. The formula specifying that the weekly benefit amount be calculated using 3.85 percent of the claimant's average wages in the two quarters of the base year in which wages were highest is made permanent.

B. "Good Cause" Quits

The language limiting good cause quits for mandatory military transfers is removed. One reason considered to be good cause is to relocate for the spouse's mandatory military transfer, regardless of where the individual relocates.

C. Construction

The provision expiring the liberal construction requirement is repealed. The requirement that the Employment Security Act be liberally construed to reduce involuntary unemployment to the minimum is made permanent.

II. Taxes

A. Tax Rates

Beginning in 2007, the maximum tax rate for specified industries, including agriculture and fishing, is reduced from 6.0 percent to 5.7 percent.

The expiration date for the "zero" graduated social cost factor rate for specified industries, including agriculture and fishing, is changed from July 1, 2007, to July 1, 2006.

The method used to reduce the flat social cost factor rate (under which the rate is reduced depending on the trust fund balance on September 1) is modified as follows:

- *If 11 months of benefits are in the fund*: The maximum reduction is 0.2 and the minimum rate is 0.6 percent.
- *If 12 to 13 months of benefits are in the fund*: The maximum reduction 0.3 and the minimum rate is 0.55 percent.
- *If 14 or more months of benefits are in the fund*: The maximum reduction is 0.4 and the minimum rate is 0.50 percent.

The total social cost is calculated using four years of contribution and benefit data rather than one year of data.

Various changes in the calculation of the social cost factor rate that applied only to rate year 2007 are deleted.

The solvency tax applies only if the trust fund balance has fewer than eight months of benefits rather than six months of benefits.

B. Taxable Wage Base

Beginning in 2007, the cap on the taxable wage base is reduced from 80 percent to 75 percent of the state "average annual wage for contribution purposes."

C. Experience Rating

The language specifying that, in 2007, funds are first requisitioned from the Reed Act funds in an amount equal to certain socialized costs is removed.

Rules Authority: The bill does not contain provisions addressing the rule-making powers of an agency.

Appropriation: None.

Fiscal Note: Available.

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