Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Labor & Workplace Standards Committee

HB 1901

Brief Description: Removing the sunset on changes to the unemployment insurance voluntary contribution program.

Sponsors: Representatives Springer, Schmidt, Berry, Ormsby and Reeves; by request of Employment Security Department.

Brief Summary of Bill

- Makes the expansion of eligibility for the Unemployment Insurance Voluntary Contribution Program permanent, rather than allowing those provisions to sunset on May 31, 2026.

Hearing Date: 1/10/24

Staff: Kelly Leonard (786-7147).

Background:

Unemployment Insurance.
The unemployment insurance (UI) system, administered by the Employment Security Department (ESD), is designed to provide partial wage replacement for unemployed workers. A worker is eligible to receive benefits if he or she: worked at least 680 hours in covered employment in his or her base year; was separated from employment through no fault of his or her own or quit work for good cause; is able to work; and is actively searching for work. The current maximum weekly benefit amount is $1,019. With some exceptions, a worker must be eligible for a one-week waiting period before receiving benefits.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not part of the legislation nor does it constitute a statement of legislative intent.

Employer Payroll Taxes.

Benefits are financed through contributions paid by employers, referred to as payroll taxes. An employer's tax rate includes an experience-rated factor (experience rating), a social-cost factor (social tax), and under certain conditions, a solvency surcharge. Some entities may qualify as reimbursable employers, allowing them to reimburse the ESD for UI benefits actually paid instead of contributing by payroll taxes.

An employer's experience rating is based on the amount of UI benefits paid to its former employees. Those benefits are charged to base year employers on a pro rata basis. A benefit ratio is computed by dividing the total amount of UI benefits charged to the account of the employer by the taxable payrolls. An employer is assigned to an experience rate class (ranging from 1 to 40) according to its benefit ratio. Notably, some UI benefits are charged only to separating employers or are not charged directly to any employer.

The social tax is generally calculated by the difference between total UI benefits paid and taxes paid, divided by the total payroll. The social tax is graduated for employers based on their experience rate classes, with a maximum rate of 1.22 percent. A solvency surcharge applies if there are fewer than seven months of UI benefits in the UI trust fund. In 2021 the state enacted Engrossed Substitute Senate Bill (ESSB) 5061, which made certain temporary changes to UI payroll taxes. Among other things, ESSB 5061 reduced the maximum social tax rate and suspended the solvency charge through 2025.

Voluntary Contribution Program.

The Voluntary Contribution Program (Program) allows an employer to reduce its experience rating by reimbursing the unemployment insurance trust fund for unemployment benefits paid to its former employees. An employer must meet certain criteria to participate in the Program. In 2021 the state temporarily expanded access to the Program by enacting temporary changes in ESSB 5061. Those changes expire May 31, 2026. Eligibility criteria are as follows:

Temporary Criteria Applicable Through May 31, 2026 (ESSB 5061)	**Permanent Criteria Applicable After May 31, 2026**
Employer must submit contribution payments by March 31.	Employer must submit contribution payments by February 15.
Employer must have had an increase of at least 8 rate classes from the previous calendar year.	Employer must have had an increase of at least 12 rate classes from the previous calendar year.
Employer is not required to pay a surcharge on contribution payments.	Employer must pay a 10 percent surcharge on all contribution payments.
Contribution payments must result in a reduction of 2 rate classes.	Contribution payments must result in a reduction of 4 rate classes.

Summary of Bill:

The temporary changes to the Program from ESSB 5661 are made permanent. In order to qualify, an employer must:

- submit contribution payments by March 31;
- have had an increase of at least 8 rate classes from the previous calendar year; and
- make payments resulting in a reduction of 2 rate classes

The surcharge on payments to the Program is eliminated.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.