

Washington State Unemployment  
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# UI Taxes in Washington State

# The Taxable Wage Base

- \$30,200 in 2004
- \$30,500 in 2005
- High base linked to indexation
- Washington tax base = 80% of lagged annual wages

# States with tax base indexation

- Total number – 16 of 51 “states”
- Indexation is a western U.S. phenomenon
- 14 of 16 with indexation west of Mississippi
  - 6 of 8 states from Mountain census division
  - 4 of 5 from Pacific census division
- Only New Jersey and North Carolina with indexation east of the Mississippi

# Tax base indexation percentages across the 16 states

- Range from 47.5 percent to 100.0 percent of lagged annual wages
- 100% - Hawaii and Idaho
- 80% - Montana, Oregon and Washington
- 70-75% - Alaska, North Dakota and Utah
- 60-67% - Iowa, Minnesota, Nevada and New Mexico
- 47-55% - New Jersey, North Carolina, Oklahoma and Wyoming

# State tax bases and indexation

UI Tax Base in 2004	# States	# Indexed
\$25,000 and up	5	5
\$20,000-24,999	5	5
\$15,000-19,999	6	5
\$12,000-14,999	4	1
\$7,001-11,999	21	0
\$7,000	10	0

# Taxable Wage Share

- Definition: Ratio of taxable wages to total wages (for taxable covered employers)
- Linked to the ratio of the tax base to average wages



# Tax base and the taxable wage share

- Tax base to average wage ratio and taxable wage share are closely linked
- Across the 51 “states” their correlation in 2004 was 0.99
- Washington in 2004
  - Tax base to average wage ratio = 0.780
  - Taxable wage share = 0.604
  - Washington’s taxable wage share ranked 6<sup>th</sup> in 2004

# Contributions as a percent of total wages

- Product of the average contribution rate on taxable wages and the taxable wage share
- Average contribution rate in 2004 was 2.81 pct.
- Taxable wage share in 2004 was 0.604
- Contributions as a pct. of total wages - 1.67 pct.
  - U.S. average pct. of total wages was 0.78 pct. in 2004
  - Wash. was 2.14 times the national average in 2004
  - Washington averaged 1.91 times the national average during 1995-2004

# UI Benefits in Washington State

# Benefit Topics

- Entry (base period) monetary eligibility
- Weekly benefits and the replacement rate
- Benefit duration

# Entry monetary eligibility

- Most states specify two earnings thresholds for monetary eligibility
  - High quarter earnings
  - Base period earnings
- Washington is unique in using hours worked (680) as an entry eligibility criteria
- Monetary criteria are typically low, representing less than five weeks of earnings at the statewide average weekly wage

# Base period earnings at the statewide average weekly wage

- Calculation: Base period minimum earnings for eligibility/Statewide AWW
- Calculation done for 2005 for all 51 “states”
- Calculation used statewide AWW for 2004
- Average for 51 states – 3.04 weeks
- 11 states with averages of 4 weeks or higher
- Washington – current 2 quarter calculation – 7.74 weeks highest in U.S.

# Alternative earnings requirements

- Several states allow an alternative monetary eligibility calculation for those ineligible under the regular requirements
- These calculations use earnings in the state's regular base period
- 12 states had alternative earnings requirements in Jan. 2005

# Additional earnings requirements

- Several states have requirements in addition to minimum base period and minimum high quarter (or two quarter) requirements
- 7 states in January 2005
- Indiana:
  - Base period - \$2750
  - High quarter - \$2200
  - Last 2 quarters of base period - \$1650



# Alternative base period

- Allows more recent earnings to be recognized in determining monetary eligibility
- Standard base period: usually the earliest four of the five most recent fully completed quarters
- Alternative base period (ABP): usually the last four fully completed quarters
- 19 states including Washington State have the alternative base period in 2005
- ABP works to the advantage of low wage workers and increases UI reciprocity

# Weekly Benefits and the Replacement Rate

- The level of the weekly benefit amount (WBA) has 3 main determinants
- 1. The statutory replacement rate (the response of benefits to added earnings)
- 2. The maximum weekly benefit amount
- 3. The earnings base for the benefit calculation

# The earnings base for WBA calculations – Five possibilities

1. High quarter earnings 27 states
2. High 2 quarter earnings 13 states
3. High 3 quarter earnings 1 state
4. Annual (4 quarter) earnings 7 states
5. Average weekly wages 3 states

For a given level of base period earnings, the high quarter calculation yields the highest WBA and an annual calculation yields the lowest WBA

# Statutory replacement rates, 51 “States” in 2005

Above 0.60	4 states
0.55 - 0.599	7 states
0.53 - 0.549	5 states
0.51 - 0.529	13 states
0.49 - 0.509	20 states
Below 0.49	2 states
Wash. 2005 - 0.50	Wash. 2004 – 0.52

# Ratio of maximum weekly benefit to average weekly wage

0.65 - 0.700	6
0.60 - 0.649	5
0.55 - 0.599	7
0.50 - 0.549	9
0.45 - 0.499	7
0.40 - 0.449	9
Below 0.40	8
Washington State - 0.666	Third highest of 51

# Indexation linked to high maximum weekly benefits

Maximum WBA/AWW	Number of States	Max WBA Indexed	Max WBA Not Indexed
0.65 - 0.700	6	6	0
0.60 - 0.649	5	5	0
0.55 - 0.599	7	6	1
0.50 - 0.549	9	7	2
0.45 - 0.499	7	4	3
0.40 - 0.449	9	3	6
Below 0.40	8	1	7

# Washington Maximum Weekly Benefit

- Was indexed at 70 percent of statewide AWW from mid-1990s to 2003.
- Maximum currently frozen at \$496
- Maximum will increase above \$496 when 63 percent of statewide AWW exceeds \$496, perhaps in 2007 or 2008
- Replacement rate averaged 0.413 - 1994-2003
- A regression estimate suggests the current freeze and lower maximum will reduce the replacement rate by about 0.03

# Washington's Benefit Replacement Rate

- Will decline due to the current freeze on the maximum WBA and the lowered indexation percentage (63 percent, down from 70 pct.)
- Will decline due to the reduced statutory replacement (50 pct, down from 52 pct.)
- Full effect of these changes will not be observed until 2007 or 2008, perhaps a 5 percent reduction in the replacement rate



# Recent History of WBA

	AWW	WBA	Max WBA	Replace. Rate	Max WBA AWW
2000	709	281	441	.40	.62
2001	715	311	478	.44	.67
2002	729	329	496	.45	.68
2003	743	324	496	.44	.67
2004	748	310	496	.41	.66
2005			496		.64

# Benefit duration - 1

- Maximum duration now 26 weeks
- Maximum benefit amount (MBA) -  $\$12,896 = \$496 \times 26$
- Washington limits benefits in a single benefit year to one third of base period earnings (BPE)
- To be potentially eligible for  $\$12,896$ , earnings in the base period (BPE) would have to be at least  $\$38,688$

# Benefit duration - 2

- Maximum potential benefit duration = 26 weeks
- Potential duration for any individual =  $MBA/WBA$
- Irregular base period work patterns lower the  $MBA/WBA$  ratio and reduce potential duration for those with irregular patterns
- Wash. potential duration - 12 to 26 weeks

# Benefit Duration - 3

- States set a ratio of maximum potential benefit amount (MBA) to base period earnings (BPE)
- Washington State MBA/BPE ratio, 0.3334
- Washington State MBA/BPE ratio roughly matches the national average (median)
- Washington has had a MBA/BPE ratio of 0.3334 since 1971

# MBA/BPE Ratios for Maximum Potential Benefits

MBA/WBA Ratios	Number of States
0.60 and Above	6
0.50 - 0.599	6
0.40 - 0.499	4
0.35 - 0.399	2
0.30 - 0.349	20
0.25 - 0.299	12
Below 0.25	1

BPE = base period earnings, MBA =  
maximum potential benefit amount

# Actual Benefit Duration in 2004

Avg. Duration (weeks)	Number of States
18 and above	
16 – 17.9	
14 – 15.9	
12 - 13.9	
Washington - 17.9	Wash. Rank – Tied for 6th
U.S. Average – 16.1	

# Benefits - Summary

- **Weekly benefits**
  - High replacement rate due to indexation at 70 percent of past weekly wages
  - Will decline due to freeze and transition to maximum of 63 percent of past weekly wages
  - Will decline due to lower statutory replacement rate – 50 percent compared to 52 percent in the past
- **Benefit duration**
  - High in the past
  - Will decline with shorter potential duration of 26 weeks
  - Will decline with lower replacement rate of 0.50

# What States are Comparable to Washington?



# Cost Factors, Census Divisions, 1995-2004

Census Division	Number of States	Unemployment Rate	Reciency Rate	Replacement Rate	Generosity = Recip Rt * Repl Rt
New Eng.	6	4.28	.422	.366	.156
Mid Atl.	3	5.33	.432	.353	.155
EN Cent.	5	4.73	.358	.373	.134
WN Cent.	7	3.67	.295	.401	.119
So. Atl.	9	4.99	.285	.344	.097
ES Cent	4	5.30	.279	.334	.094
WS Cent.	4	5.26	.239	.373	.091
Mountain	8	4.87	.267	.380	.102
Pacific	9	6.14	.427	.366	.153

# Washington and National Costs, Averages 1995 - 2004

Cost Factor	United States	Pacific Div.	Washington
Unemp. Rate	5.07	6.14	5.98
Recip. Rate	.326	.427	.429
Replace. Rate	.346	.366	.413
Generosity	.113	.153	.177
Ben. % Payroll	.760	1.278	1.402
Tax % Payroll	.662	1.184	1.262

# Considerations in Comparing Washington with Other States

- Benefit ratio experience rating – 15 states
- Indexed Taxable wage base – 15 states
- Indexed maximum weekly benefit – 31 states
- Nearby states – Idaho, Oregon, California
- States with similar UI costs
- States with similar UI benefit generosity
  - Washington's generosity in 1995-2004 ranked 6<sup>th</sup>
- Compare to national average

# Comparing Washington with Other States: Specific Provisions

- The taxable wage base
- Socialized charges
- Turnover of subject employers
- The maximum weekly benefit
- The statutory benefit replacement rate
- Entry (monetary) earnings requirements

# Responses to selected questions posed by task force members

# Repeat Claims

- ESD tabulation of 990,788 records for the seven years 1998-2004
- The wheel or donut chart
- Measurement of repeat claims
- 642,847 (65%) had only a single claim
- Probability of repeat claims increases with higher usage in the past
- Highest repeat claims in Ag. and Construction

# Effect of changing WBA calculation in 2ESB6097-1

- ESD data on 187,207 claimants in 2004
- Change from 2 qtr to 3 qtr – lowered WBA by about \$24
- Change from 2 qtr to 4 qtr – lowered WBA by about \$49
- Reduction of replacement rate from 52% to 50% - lowered WBA by about \$8
- WBA-2003 = \$324, WBA-2004 = \$309

# Effect of changing WBA calculation in 2ESB6097-2

- Most experienced a reduction in the WBA
- Change from 2 qtr to 3 qtr – lowered WBA for 76% of claimants
- Change from 2 qtr to 4 qtr – lowered WBA for 81% of claimants
  - 80% of whites (83% of women, 78% of men)
  - 82 % of Asian/Pacific Islander
  - 83% of African Americans



# Seasonal Claims in Minnesota

- Two calculations of the WBA
- No. 1 -50% of AWW during base period up to 66 2/3% of statewide AWW
- No. 2 – 50% of AWW during high quarter up to 50% of statewide AWW
- Claimants are given the higher amount
- Legislation of 2003 lowered the No.2 maximum to 45% of statewide AWW

# Trust Fund Models

# Three Models Have Been Used in Washington State

1. Employment Security Department model
2. National OWS model (Mercer model)
3. Model developed by Wayne Vroman
  - The first two have been used recently in Washington
  - Both make quarterly projections
4. When the three were compared in the past (1995-1996) their projections were similar

# Main Uses

- Allow one to examine alternative scenarios
- Enforce logical consistency on projections
  - All components (variables) enter a model solution
- Allow one to examine intermediate run, e g., ten year developments
  - Accuracy greatest for the closest years

# Washington ESD Model

- Equations/decision rules for all important variables affecting the trust fund balance
- Forecasts with annual and quarterly detail
- Revenues projected using four factors:
  - 1. Taxable covered employment, 2. Average wages per employee, 3. Taxable wage proportion and 4. Average tax rate
- Benefits – historically less detail than taxes but now more extensive detail related to legislation of 2003-2005

# USDOL Actuarial (Mercer) Model

- Quarterly fund projections for ten year periods
- Two main modules: 1) Projection program (PP) and 2) Financial Forecast Program (FFP)
- PP module projects 5 variables: 1) unemployment rate (TUR or IUR), 2. level of wages, 3) labor force, 4) maximum weekly benefit, 5) tax base
- FFP module makes detailed projections of total contributions, applicable future tax rate schedules and distribution of employers by tax rate interval
- Active support from USDOL-OWS actuaries

# Vroman Model

- Annual model with five main modules: 1) labor market, 2) benefit payments, 3) tax revenues, 4) interest income and 5) trust fund accounting identity
- Was used in Washington in mid-1990s
- Quarterly detail in Washington was achieved using quarterly seasonal factors
- Model used most recently in Virginia (2002) and Montana (2003)

# Models Used in the mid-1990s in Washington

- All three addressed the question of the effects of a major tax cut (roughly \$400 million in reductions)
- All three models yielded similar findings
- Conclusion 1. Washington State trust fund would not be jeopardized by the proposed tax cuts
- Conclusion 2. Strength of the Washington UI funding is in the high tax base and the rapid response of taxes to trust fund drawdowns



# Variables that are easy to project

- The labor force
- The inflation rate
- Weekly benefits and the replacement rate
  - Maximum weekly benefit is important (70% of lagged wages in Washington)
  - Statutory replacement rate is important (0.0385 of 2High Quarter Avg. in Washington – implies 50 percent replacement of 2HQ wages)
- The taxable wage proportion (TWP)
  - Tax base is most important determinant of TWP
  - Long run trend towards larger earnings inequality reduces TWP

# Effects of associated statutes can be reliably estimated

- Raising or lowering the maximum WBA
- Raising or lowering the statutory replacement rate
- Altering the tax base

# Variables that are hard to project

- The unemployment rate or TUR
- The UI reciprocity rate (beneficiary/unemp.) ratio
  - Among the determinants are composition of unemployment by reason and duration, statutory factors, administrative activities
- Share of taxable wages in fixed benefit ratio intervals
  - Shares change over the cycle
  - Only a few recent cycles to base projections on
  - Washington has limited experience since enacting its 2003 legislation
- More uncertainty in benefit costs than in taxes

# Some Questions

1. Do you need quarterly forecasts?
2. Do you need industry detail in forecasts?
3. How much responsiveness does Washington want in its UI revenues?

# Big Question: What's the Worst Case (Costwise) to Contemplate?

- Historical experiences in Washington
- Highest costs in any twelve month period – 3.83 pct. Dec. 1971
- Highest 12 month costs in past 20 years – 2.01 pct. – Dec. 2002
- Highest 3 year average costs in past 20 yrs – 1.85 pct. Average of 1994, 2002 and 2003