Employment Security Department
WASHINGTON STATE

December 1, 2005

Joint Legislative Task Force on Unemployment Insurance Benefit Equity
PO Box 40600
Olympia, WA 98504-0600

Dear Task Force Members:

Enclosed you will find the response to your request for the dollar savings to the unemployment insurance system that are tied to changes made in Washington law.

Summary of Your Request

During the November 17 Task Force Meeting, you asked Dr. Wayne Vroman to convert into dollars his calculated effects of the law changes from Second Engrossed Senate Bill 6097 and Engrossed House Bill 2255. Members wanted a breakdown on paper summarizing each calculated restriction with its calculated effect and how that translated into dollar savings.

Parameters of the Response

Dr. Vroman targeted seven law changes from 2003 and 2005 for this summary:
- The freeze of the maximum weekly benefit amount and indexation from 70% to 63% of average annual wages. (Termed 'Restriction 1', or R1)
- The reduction in the statutory replacement rate from 52% to 50% because the weekly benefit is calculated at 3.85% of average of 2 highest quarters of base year wages rather than 4.0% of the 2 highest quarters. (R2) In this analysis, Dr. Vroman assumed that this provision does not sunset in mid-2007.
- Four quarters of wages used to calculate the weekly benefit amount. (R3)
- The reduction in maximum potential duration from 30 weeks to 26 weeks. (R4)
- The increase in voluntary quit job separation denials. (R5)
- The increased oversight of continuing claims from the Job Search Review laws and Re-employment Eligibility Assessment initiative. (R6)
- The effect that a reduced weekly benefit has on actual benefit duration. (D)

The dollar impacts of other changes passed in Second Engrossed Senate Bill 6097 and Engrossed House Bill 2255 are not addressed in this response. They include:
- Removal of the 'liberal construction' language of the preamble to Title 50 RCW.
- Repeal of law that allowed benefits when an employee was separated due to wage garnishment.
- New definitions and penalties for misconduct and gross misconduct job separations.
- The effect of granting eligibility to some part-time workers.
- Coverage provisions, including exempting stock options and exempting non-resident alien workers.
- Any benefit charging revisions.
- All experience, social and/or solvency tax changes.
- The imposition of new tax penalties.
- Changes to predecessor/successor provisions.

The methodology required establishing a baseline simulation of benefits with none of the restrictions in place (a sort of pre-2ESB 6097 scenario), and then calculating the benefit payouts given each of the new restrictions place on benefits, resulting in a total dollar amount difference in benefit payments. He then compared the costs of the system in Washington against the national average both with and without the benefit restrictions in place.

In the response, Dr. Vroman describes the assumptions he used to calculate his estimates, and he explains when and why his assumptions or estimates differ from those supplied by Employment Security Department. Both sets of assumptions and both estimates can be proven accurate, as you will discover as you review these materials.

Summary of Findings

Each benefit restriction has a dollar impact on the system. Law changes that reduced the weekly benefit amount had the consequence of increasing maximum potential duration, which has possible cost impacts rather than cost savings as reflected in the paper. Even with that impact ($28 million per year), there are significant cost savings to the system from these existing laws.

In the long run, after all cost savings provisions are allowed to take effect, the restrictions enacted in 2ESB 6097 and EHB 2255 reduce benefit payouts by 14.5 percent.

With current restrictions in place and retaining the 2 high quarter averaging method for weekly benefit calculations, Washington's ranking falls from 6th place to 14th place in the nation. Should the 2 high quarter averaging method sunset in 2007 and the state return to 4 quarter averaging, Washington's ranking would place it 21st among the 51 states (includes District of Columbia).

Savings from the restrictions increase from $164 million for 2006, to $242 million in 2010. The cumulative total in savings for the five years is estimated at $1.05 billion. Should the state return to using 4 quarter averaging on weekly benefit calculations, total reductions are estimated to reach 25.6 percent, for an estimated $1.89 billion over five years. Detailed savings by year are summarized in Table 3 in the paper.

The final page of the enclosed report is a repeat of the three tables from the text of the report displayed all together on one page, which may be useful for discussion and distribution purposes.

I hope that this information will meet your needs and prove beneficial in your deliberations. Any comments, questions or concerns should be directed to Judy Johnson who will coordinate responses. She can be reached at (360) 902-9348 or by email at jjohnson@esd.wa.gov.

Sincerely,

Annette M. Copeland
Assistant Commissioner, Unemployment Insurance

Enclosure

Savings on Benefit Payments
from Recent UI Legislation and Modified Administrative Activities

by Wayne Vroman

December 1, 2005

Unemployment Insurance (UI) in Washington has undergone a number of important changes during the past five years. Several have resulted in reductions in benefit payments to claimants. This memo describes the changes and provides quantitative estimates of the amount of savings in the UI trust fund outlays. It uses a methodology first described in a powerpoint presentation made before the Joint Legislative Taskforce on Unemployment Insurance Benefit Equity on November 17, 2005. The memo specifies dollar amounts of estimated savings in several future years.

The cost framework

Total UI benefit payments in any year can be expressed as 52 times the average weekly benefit times the average weekly number of beneficiaries. It is convenient to express total benefit payments as a percent of payroll since the long run costs of a UI program are driven by benefit payouts.

Total benefits as a percent of payroll can be expressed as the product of three factors: 1) the replacement rate (or RRate, weekly benefits as a ratio to weekly wages), 2), the recipiency rate (NBen/TU, the ratio of weekly beneficiaries to weekly unemployment) and 3) an indicator of unemployment in the labor market (the ratio of the unemployment rate (or TUR, for total unemployment rate, measured as a percentage of the labor force) to (100-TUR)[1] This indicator includes unemployment arising from all sources including employer-initiated separations (layoffs and discharges), voluntary quits as well as unemployment among first time labor force entrants and reentrants. While many of the unemployed are not eligible for UI benefit payments, the absence of good sources of data on the numbers eligible for UI and the participation rate (or take-up)

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[1] The total unemployment rate (or TUR) is measured for each state in the monthly household labor force survey. The recipiency rate then is the ratio of weekly beneficiaries from UI program data to unemployment as measured in the labor force survey.

makes the labor force survey estimate of unemployment a source that is consistently available for every state and convenient for use in interstate comparisons.

Using the terms just introduced, the benefit cost rate equation for Washington (or any other state, or the U.S. as a whole) is as follows:

(1) B% = RRate*(NBen/TU)*[TUR/(100-TUR)]

where B% is UI benefit costs expressed as a percent of payroll in UI covered employment, and the other terms are as defined above. In words, UI benefits are more costly as the replacement rate is higher, as the recipiency rate is higher and as the unemployment rate is higher. The effect of unemployment on the benefit cost rate in (1) is twofold because high unemployment not only increases benefit payouts, it also reduces employment and thus the payrolls and associated taxes paid by covered employers.

Washington has historically operated a generous UI program. Since UI is financed by payroll taxes on covered employers, this means Washington employers have paid above-average UI taxes. Table 1 summarizes the cost factors for Washington State during the ten years 1995 to 2004. During these years Washington's UI costs were just less than twice the average for the country as a whole. The tax cost rate was 91 percent above the national average while the benefit cost rate exceeded the national average by 84 percent.

Table 1. Costs of Unemployment Insurance, Washington State and the U.S., 1995 to 2004

	Washington	United States	Wash./U.S. Ratio
Taxes/Payroll %	1.26	0.66	1.91
Benefits/Payroll %	1.40	0.76	1.84
Recipiency rate – NBen/TU	0.429	0.326	1.32
Replacement Rate – RRate	0.413	0.346	1.20
Unemployment Rate – TUR%	5.98	5.07	1.18
Benefit generiosity = (NBen/TU)*RRate	0.177	0.113	1.57

Note in Table 1 that each of the three factors in cost equation (1) were above-average in Washington during 1995-2004. The recipiency rate was 32 percent above the

national average (0.429 versus 0.326) while the replacement rate was 20 percent above average (0.413 versus 0.346). The state's average unemployment rate of 5.98 percent was nearly a full percentage point above the national average of 5.07 percent for the same period. Thus all three factors identified in cost equation (1) contributed to Washington's above-average UI costs with the recipiency rate showing the largest deviation from the national average.

For any state, unemployment in the short run is largely beyond its control. In contrast, UI statutes and administrative practices exert a large effect on the generosity and associated costs of a UI program. The product of the recipiency rate and the replacement rate can be a termed generosity index. It provides a short-hand summary of the liberality of a state's UI program. Factors such as the statutory replacement rate, the maximum weekly benefit, monetary eligibility criteria, the linkage between base period earnings and the maximum potential benefit entitlement as well as the conduct of program administration (frequency of eligibility reviews, determination rates on separation and nonseparation issues and associated denial rates) all determine how much is paid to UI claimants. Note in Table 1 that Washington's generosity index during 1995-2004 of 0.177 was 57 percent above the national-average generosity index of 0.113. Based on data from 1995-2004 Washington operated a UI program which was measurably more generous and expensive than the national average for the same period. At the same time, this generosity made Washington's program more effective in supporting the incomes of individuals and families and more effective in stabilizing the state's economy, both important objectives of UI.

Recent legislative changes

Washington has implemented several important legislative and administrative changes in its UI program in recent years. The most far reaching changes were made in 2003 in bill 2ESB 6097 which modified several provisions affecting both UI taxes and benefits.[2] Four changes in benefits to be examined here were: 1) the freeze on the weekly benefit maximum at $496 and a reduction in the indexation percentage from 70 percent of average weekly wages to 63 percent, 2) changes in computing weekly benefits from using

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[2] The present discussion will focus just on changes in UI benefits.

earnings in the two high quarters of the base period to using three high quarters starting in 2004 and using all four quarters starting in 2005, 3) a reduction in the maximum potential duration of regular benefits from 30 to 26 weeks and 4) increased disqualifications for voluntary quits.[3] These changes all operate to reduce benefit payments.

In early 2005, bill EHB 2255 was enacted with two important benefit provisions. 1) The basis for computing weekly benefits was changed back to two high quarters rather than four quarters which had been used from January 2005. 2) The statutory replacement rate was reduced from 52 percent to 50 percent of two high quarter wages. These provisions are temporary and will sunset at the end of June 2007 unless extended by new legislation.

Over the past five years Washington has also made other changes in eligibility and program administration. Even prior to legislation of 2003, other restrictions on eligibility following voluntary quits were enacted.[4] Starting in 2001 a new program of Job Search Reviews was instituted that required selected claimants to appear in local one-stop offices and document their job search activities. In mid-2005, a second program focused on continuing eligibility was also initiated. The Reemployment and Eligibility Assessment (REA) program has been operative since July 2005 and will interview about 40,000 claimants in local offices during its first nine months of operation. REA participants are required to appear in local offices when contacted by ESD and must keep written logs of their job search activities. Administrative data show that the number of determinations and denials on issues related to continuing eligibility (mainly able and available for work and reporting requirements) have increased measurably since 2000. Increased administrative oversight is an ongoing feature of UI in Washington.

Cost Savings from the Changes

The approach to be followed here utilizes the cost framework previously introduced. It starts with the cost equation (1) and modifies the recipiency rate and the

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[3] There were also increased disqualifications for misconduct but the changes were much less extensive than ones affecting voluntary quits. Also changed was the administration of the state's Job Search Review program which verifies continuing eligibility for benefits among claimants. ESD administration was directed to conduct "all weeks" reviews with increased potential disqualification penalties for claimants who did not provide adequate evidence of active job search.

[4] For example, quit-to-follow one's spouse in a job transfer was restricted.

replacement rate to reflect each of the changes in benefit availability previously discussed. For each of six individual restrictions in benefits, the methodology for estimating its effect is described. The individual changes affect either the replacement rate or the recipiency rate. After the methodologies for estimating the effects of individual changes are described, a total cost estimate is then derived.

Restriction 1 (R1). – Freezing the maximum WBA at $496 and reducing indexation to 63% of average weekly wages

These changes will affect the maximum WBA in all future years. Assuming 3 percent annual wage growth, the maximum will remain at $496 through 2007 and then increase to $500 in 2008, $515 in 2009 and $531 in 2010. These latter three maximums will be respectively $56, $58 and $59 below the levels that would have been reached under a continuation of indexation at 70% of average weekly wages.

Reducing the maximum weekly benefit will lower the average replacement rate. To estimate the size of the reduction two multiple regressions were fitted. In both, the dependent variable was the replacement rate (weekly benefits as a fraction of average weekly wages or AWW) and one of the explanatory variables was the ratio of the maximum WBA to the AWW. Both regressions yielded coefficients that show the response of the replacement rate to the maximum weekly benefit.

The first regression used annual data from Washington for the 38 years 1967 to 2004. Besides the ratio of the maximum WBA to the AWW, the equation also included the state unemployment rate and the unemployment rate lagged one year. This equation explained 84 percent of the variation in the replacement rate with both the maximum WBA/AWW ratio and the unemployment rate entering significantly. The equation indicated the replacement rate is higher in years of high unemployment and when the maximum WBA/AWW ratio is higher. The coefficient on the latter variable was 0.3910 indicating that the replacement rate increases by 0.00391 for each increase in the maximum WBA/AWW ratio of 0.01.

The second regression used ten year averages of data from 51 state UI programs during 1995-2004. Again the replacement rate was the dependent variable and again the maximum WBA/AWW ratio was among the explanatory variables. Other significant

explanatory variables in the equation were the statutory replacement rate (entering positively) and a dummy for states that use 4 quarter averages for determining the weekly benefit (entering negatively). This regression explained 79 percent of the interstate variation in the replacement rate. The coefficient on the maximum WBA/AWW ratio was 0.4646, and it was by far the most significant variable in the regression with a t ratio (a statistical measure of significance) of 11.2.

The results of the two regressions are quite similar. When the maximum WBA/AWW ratio decreases by 0.01 the replacement rate decreases by about 0.004. Of the two regression coefficients, I have used the first one (0.3910) which was based on Washington State time series data.

The maximum WBA/AWW ratio in 2003 was 0.668. Under the freeze at $496 this ratio gradually decreases to 0.606 in 2007 and then to 0.594 in 2008 and later years when the 63% indexation is operative. The full decrease of 0.074 in the maximum WBA/AWW ratio (from 0.668 to 0.594) when multiplied by the regression coefficient of 0.3910 implies a total reduction in the replacement rate of 0.029 in 2008 and later years or 7.0 percent of the 1995-2004 average of 0.413 as shown in Table 1. The time path of this decrease in the replacement rate is from 0.413 for the ten year average to 0.403 in 2005, 0.396 in 2006, 0.389 in 2007 and 0.384 in 2008 and later years. The full effects of the freeze on the replacement rate will not be apparent until 2008.

Restriction 2 (R2). Lowering the statutory replacement rate from 52% to 50%

One element of EHB 2255 reduced the statutory replacement rate from 52 to 50 percent of average wages in the two high quarters.[5] The Washington Employment Security Department (ESD) estimated its effect on the actual weekly benefit amount (WBA) in a tabulation of data for persons who established their benefit years in 2004. The tabulation indicated that the WBA was lowered by $8 or 2.6 percent of the actual average of $310 for the year.

The effect on the actual WBA is small enough that actual size of its impact on the WBA may not be apparent from aggregate data. While there is no reason to suspect the

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[5] The actual calculation of the weekly benefit amount (WBA) previously used the fraction 0.04 of the two high quarter average earnings. This was reduced to 0.0385.

accuaracy of the calculation, it does weigh each individual recipient equally regardless of how long they remain in benefit status. If each claimant was weighted by actual weeks in benefit status the resulting weighted average could differ from $8. In calculations used here, I have assumed the change reduced the replacement rate by 1.5 percentage points or from 0.413 to 0.398, a reduction of 3.5 percent. Note that use of the $8 estimate made by ESD would imply a larger reduction in the replacement rate.

Restriction 3 (R3). Changing from the two quarter to the four quarter calculation of the WBA

Use of four quarters in calculating the WBA lowers the computed amount for most claimants. The only ones whose WBAs would not be adversely affected are persons with identical earnings streams during all four quarters of their base period. The impact of the change is largest on persons with the most irregular and seasonal earnings patterns.

A tabulation by ESD with 2004 data suggested that 81.6 percent of persons would experience a lower WBA under four quarter averaging compared to two high quarter averaging. Their tabulation suggested that the overall average reduction in the WBA would be nearly $50 with 38.2 percent of claimants experiencing a reduction of more than $50. Since the actual WBA in 2004 was $310, a large fraction would experience a reduction in their WBA of more than 15 percent compared to using two high quarters.

Again using a conservative estimate, I have assumed the overall average reduction in the WBA due to 4 quarter averaging is $40. This represents 12.9 percent of the average WBA ($310) for 2004.

This change has temporarily been reversed under EHB 2255. However, it will become effective again in July 2007 unless overridden by new legislation. Since we cannot foresee with certainty what will occur, the estimates to be shown later are made both ways, with and without an extension of two quarter averaging.

Of the three restrictions on the replacement rate just discussed, the largest effect arises from the use of four quarter averaging.

All restrictions in the WBA will be partially offset by increases in potential benefit duration. None of Washington's recent legislative changes have affected the linkage between base period earnings (BPE) and a claimant's maximum potential benefit

entitlement (or MBA). The MBA/BPE ratio has remained at 0.3333. A claimant cannot receive more than one third of base period earnings in benefit payments. ESD is conducting tabulations of the effect of WBA reductions on potential benefit duration using data from 2004. The added potential duration effect will be modest as persons affected will only receive these benefits if they pursue their claims into the later weeks of their full entitlement. Note also that those already eligible for 26 weeks will not experience longer potential entitlements.

The initial results of the ESD tabulations indicate that potential duration under EHB 2255 in 2004 data was 24.05 weeks compared to 25.55 weeks under 2ESB 6097 an increase of 1.50 weeks or 6.2 percent. This increase in potential duration will increase actual benefit duration to some degree, but the exact amount is not known with certainty. In the present analysis, the increase in actual benefit duration is assumed to be third of the increase in potential duration, i. e., 2.1 percent. This estimate of an one-third response of actual duration to increased potential duration is based partly on the average exhaustion rate over the 1995-2003 period (0.331) and partly on an assumed partial response of claimant duration to higher potential duration.

Restriction 4 (R4). The reduction of maximum potential weeks from 30 to 26

For all claimants filing after April 2004 maximum potential weeks have been limited to 26. Those who previously could have collected from 27 to 30 weeks will be affected by this restriction. Data from the ETA 218 reports show actual duration for those who exhaust benefits in three relevant duration intervals: 26-27 weeks, 28-29 weeks and 30 and above weeks. The counts of exhaustees in these intervals were averaged for the period 1995 to 2003 when the 30-week maximum was operative. Their average duration was 29.6 weeks indicating that most did collect for 30 weeks.[6]

Exhaustees represented 0.331 of all recipients during 1995-2003, and of the exhaustee group nearly half collected for 27-30 weeks. These persons represented 0.159 of all recipients during 1995-2003. Under a 26-week maximum potential duration, their average actual weeks would have been 26.0 rather than 29.6. A reduction in duration of

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[6] The calculation of average duration assumed that half in the 26-27 week interval collected for 26 weeks and half for 27 weeks. Those who received 26 weeks were unaffected by the change.

3.6 weeks for these claimants would have reduced overall average duration by 0.58 weeks from 17.92 to 17.34 weeks This shorter average duration represents 3.2 percent of the average of 17.92 weeks for the 1995-2003 period

Restriction 5 (R5). Restrictions on compensable voluntary quits in 2ESB 6097

While this legislation affected disqualifications for both misconduct and voluntary quits (VQ), its effects were concentrated in VQ disqualifications. Because the VQ restrictions that became effective in January 2004 were controversial, ESD was directed to study their effects. The ESD-VQ report was completed in June 2005.[7]

ESD examined 16,825 VQ determinations made between July and December 2004. For each decision, it made eligibility determinations under previous rules and then under rules that became effective in January 2004. It found that 1,989 denials would have been decided as awards under previous rules. The average VQ denial rate was 0.729 under 2004 rules but 0.611 under earlier rules, an increase in 0.118.

To estimate the effect on total VQ disqualifications, this higher disqualification rate was applied to the 45,233 VQ determinations made during the full year 2004. This implied a total increase in VQ disqualifications of 5,337.

Translating the increased number of disqualifications into reduced weeks compensated was not attempted in the VQ study itself. To make an estimate here recall that average benefit duration during 1994-2003 was 17.92 weeks. VQ disqualifications last for the duration of claimants' current spells of unemployment. It has been assumed the claimants would have received benefits for 12.0 weeks had they not been disqualified. Multiplying the increased number (5,337) times 12.0 yields an estimate of weeks not compensated of 64,044 weeks. This represents 1.8 percent of the 3,626,672 total weeks compensated in 2004.

Restriction 6 (R6). Enhanced job search oversight

Beneficiaries who file continuing claims for benefits in Washington now face a more proactive administration compared to five years ago. Two administrative initiatives

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[7] "Voluntary Quit Decisions in the Unemployment Insurance Program: Before and After the Implementation of Second Engrossed Senate Bill 6097," Washington Employment Security Department, (June 2005).

are now in place. Job Search Reviews (JSR) have been operative since 2001 while Reemployment and Eligibility Assessments (REA) commenced in July 2005. Both require claimants to appear in local one-stop offices, to provide verifiable evidence of active job search as well as providing enhanced services to speed reemployment.

Evidence of the effects of these initiatives is found in ETA 207 reports on activities related to nonseparation nonmonetary determinations. The number of such determinations increased from 65,586 in 2000 to 109,000 in 2004. The associated number of denials increased from 48,523 in 2000 to 82,555 in 2004 or by 34,032. Two categories of denials have increased sharply, "able and available for work" and "reporting requirements." People who do not actively search and who refuse what ESD deems to be suitable jobs are much more likely to be denied benefits than in the past.

The denials in these cases may withhold benefits for a week, may reduce entitlements for one week or may disqualify claimants for longer periods. There are no data that show the average duration of the denials and the associated reductions in weeks compensated. It has been assumed here that the average duration of the denials is 2.0 weeks. This would imply that the 34,032 increase in denials would translate into 68,064 fewer weeks compensated. Since weeks compensated totaled 3,626,672 in 2004, these increased denials would represent 1.9 percent of total weeks compensated.

Note that restrictions R4, R5 and R6 all operate to reduce total weeks compensated, hence the recipiency rate. For present purposes, it has been assumed that all three will operate with unchanged proportional effects in all years after 2005. Note also that all six restrictions are measured as proportions that fall below 1.0. Individually and combined they will operate to reduce UI benefit payments in future years.

Savings on Benefit Payments

Total benefit payments in any year can be expressed as 52 times weekly benefits times the weekly number of recipients, or

(2) TBen = 52*WBA*NBen where

TBen = total benefits,

WBA = average weekly benefits, and

NBen = average weekly number of beneficiaries.

Equation (2) can also be expressed using terms that directly reflect the generosity of Washington's UI program, that is

(3) TBen = 52*(AWW*RRate)*[TU*(NBen/TU)] where

AWW = average weekly wages,

TU = total unemployment

The term within the first right-hand expression in parenthesis is average weekly wages times the replacement rate (an alternative way to express weekly benefits) while the term within the bracketed second expression is total unemployment times the recipiency rate (an alternative way to express the average weekly number of beneficiaries).

Expression (3) identifies four factors that combine to determine total annual benefit payouts. To make projections for future years one needs to make assumptions about all four right-hand factors. Table 2 shows projections of the underlying factors based on a combination of historical averages and projections by the author. For all years 2006 to 2010 the unemployment rate has been assumed to be 5.76 percent, the average assumed by the Washington Economic Forecast Council for 2006 and 2007. This assumption along with an assumed growth in the labor force of 1.8 percent per year yields the time path of unemployment shown in Table 2. The time path of the average weekly wage was derived assuming average wages grow by 3.0 percent per year for all years of the projection period. Table 2 displays baseline projections of benefit payments assuming the recipiency rate and the replacement rate equal their historic averages from the 1995-2004 period, 0.429 and 0.413 respectively.

Table 2. Baseline Simulation of Benefits with No Restrictions

	Unemploy- ment - TU	Recipiency NBen/TU	Avg. Weekly Wage - AWW	Replacement Rate	Total Benefits
2006	188	0.429	794	0.413	$1,375
2007	191	0.429	818	0.413	$1,439
2008	195	0.429	842	0.413	$1,513
2009	198	0.429	868	0.413	$1,583
2010	202	0.429	894	0.413	$1,664

Unemployment in thousands, total benefits in $millions.

The combination of these four assumed time paths produces the annual benefit projections shown in the final column of Table 2. Total benefit payments increase from $1,375 million in 2006 to $1,664 million in 2010. Note that unemployment is assumed to be 5.76 percent in all five years and that average weekly wages are assumed to grow by 3.0 percent per year in all years.

Recall the six restrictions examined above.

R1 – The freeze of the maximum WBA and indexation to 63% of average wages. This decreases R1 from 0.959 in 2006 to 0.930 in 2008-2010.

R2 – The reduction in the statutory replacement rate from 52% to 50%. R2 is assumed to equal 0.965 in all future years, i.e., it does not sunset in mid-2007.

R3 – Four quarter averages used to calculate the WBA. R3 equals 0.871 in future years.

R4 – The reduction in maximum potential duration from 30 weeks to 26 weeks. R4 equals 0.968 in all future years.

R5 – The increase in VQ disqualifications due to 2ESB 6097. R5 equals 0.982 in all future years.

R6 – The increased oversight of continuing claims from the JSR and REA initiatives. R6 equals 0.981 in future years

D – The effect of reducing the WBA on actual benefit duration (through the MBA/BPE ratio of 0.333). D equals 1.021 in future years.

Note that D, the effect of lower WBAs on average duration, is the only ratio that exceeds 1.0. All of these factors enter cost equation (3) multiplicatively.

Table 3 shows the estimated effects of these restrictions on benefit payouts for the period 2006 to 2010. In addition to simulated baseline payouts, two other benefit payout streams are also displayed: one with five benefit restrictions in effect (all but the movement to four quarter averaging in computing the WBA) and one with all six in effect. For both sets of estimated savings, the restrictions are fully operative during the last three years, 2008-2010. Thus the savings during 2008-2010 reflect only projected growth in the Washington economy with a larger labor force and unemployment and increases in weekly wages. The estimated savings during 2006 and 2007 grow more rapidly because increased effects from freezing the maximum weekly benefit at $496 are still being phased-in.

Table 3. Benefit Payouts Under Recent Benefit Restrictions

	Baseline Benefits	Payouts - 5 Restrictions	Savings – 5 Restrictions	Payouts – 6 Restrictions	Savings – 6 Restrictions
2006	$1,375	$1,212	$164	$1,055	$320
2007	$1,439	$1,246	$194	$1,085	$354
2008	$1,513	$1,293	$220	$1,126	$387
2009	$1,583	$1,353	$230	$1,178	$405
2010	$1,664	$1,422	$242	$1,238	$426

All estimates in $millions.

The savings shown in Table 3 are substantial. Savings from the five restrictions increase from $164 million in 2006 to $242 million in 2010. As a percent of baseline payouts, the savings are 11.9 percent in 2006, 13.5 percent in 2007 and 14.5 percent during 2008-2010. The cumulative total in savings for the five years is $1,050 million.

Adding the sixth restriction (movement to four quarter averaging) measurably increases the benefit restrictions and the estimated savings. The final column in Table 3 shows that the total reduction grows from $320 million in 2006 to $426 million in 2010. As a percent of baseline payouts, these totals grow from 23.2 percent in 2006 to 25.6 percent in 2008-2010. The five-year cumulative savings estimate under all six restrictions is $1,892 million.

Each of the six restrictions has a measurable effect on the estimates of savings. Note in Table 3 that the estimated total for all six in 2008 is $387 million. The detailed savings in 2008 are as follows.

R1 – The freeze of the maximum WBA- $96 million.

R2 – The reduction in the statutory replacement rate from 52% to 50%. - $48 million.

R3 – Use of four quarter averaging to calculate the WBA. - $177 million.

R4 – The reduction in maximum potential duration to 26 weeks. - $44 million.

R5 – The increase in VQ disqualifications due to 2ESB 6097. - $24 million.

R6 – The increased oversight of continuing claims from the JSR and REA - $26 million.

Finally, the effect of reduced WBAs on increased benefit duration is projected to increase payouts by $28 million, an amount that offsets a small part of the six restrictions.[8] From this listing, it is clear that the biggest restrictive effect arises from instituting four quarter averaging and the second largest effect arises from freezing the maximum WBA and lowering the indexation percentage to 63%.

The benefit restrictions substantially reduce the generosity of Washington's UI program compared to the national average. Recall from an earlier presentation before the Joint Legislative Task Force that the generosity index for Washington (the product of the recipiency rate times the replacement rate) was calculated as 0.177 compared to the national average of 0.113. Washington's index during 1995-2004 was 57 percent above the national average. This was shown in Table 1 above.

The five restrictions summarized in Table 3 reduce the generosity index to 0.151 in 2008 and later years, a level that is 34 percent above the national average. The restrictions, in other words, eliminate about 40 percent of the previous upward deviation of Washington from the national average. They lower Washington's rank from number six to number fourteen when compared to 51 "state" UI programs.[9]

The six restrictions, including four quarter averaging for the WBA calculation, reduce the generosity index to 0.132 or 17 percent above the national average. This index places Washington 21st among the 51 states.

The five restrictions that have reduced long run benefit payouts by 14.5 percent have caused a major change in the generosity of UI benefits in Washington. Fully 40 percent of the upward deviation of benefit generosity from the national average during the 1995-2004 period has been eliminated. Most of the features that enter these five restrictions are already permanent in Washington. The one that remains temporary is the reduction in the statutory replacement rate from 52% to 50%, scheduled to sunset in July 2007. This could easily be made permanent. In light of the other five restrictions, I do not see a need to revert to four quarter averaging in computing the WBA.

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[8] The restrictions interact multiplicatively as six individual ratios deviate downward from 1.0 while the seventh (the reduced WBA-increased duration effect) exceeds 1.0. The absolute deviation of each restriction ratio from 1.0, e.g., the reduction in the statutory replacement rate causes R2 to be 0.965 or 0.035 below 1.0, was used to assign shares of the individual restrictions in the total reduction in benefits.
[9] The comparison includes the District of Columbia but not Puerto Rico or the Virgin Islands.

Table 1. Costs of Unemployment Insurance, Washington State and the U.S., 1995 to 2004

	Washington	United States	Wash./U.S. Ratio
Taxes/Payroll %	1.26	0.66	1.91
Benefits/Payroll %	1.40	0.76	1.84
Recipiency rate – NBen/TU	0.429	0.326	1.32
Replacement Rate – RRate	0.413	0.346	1.20
Unemployment Rate – TUR%	5.98	5.07	1.18
Benefit generiosity = (NBen/TU)*RRate	0.177	0.113	1.57

Table 2. Baseline Simulation of Benefits with No Restrictions

	Unemploy-ment - TU	Recipiency NBen/TU	Avg. Weekly Wage - AWW	Replacement Rate	Total Benefits
2006	188	0.429	794	0.413	$1,375
2007	191	0.429	818	0.413	$1,439
2008	195	0.429	842	0.413	$1,513
2009	198	0.429	868	0.413	$1,583
2010	202	0.429	894	0.413	$1,664

Unemployment in thousands, total benefits in $millions.

Table 3. Benefit Payouts Under Recent Benefit Restrictions

	Baseline Benefits	Payouts - 5 Restrictions	Savings – 5 Restrictions	Payouts – 6 Restrictions	Savings – 6 Restrictions
2006	$1,375	$1,212	$164	$1,055	$320
2007	$1,439	$1,246	$194	$1,085	$354
2008	$1,513	$1,293	$220	$1,126	$387
2009	$1,583	$1,353	$230	$1,178	$405
2010	$1,664	$1,422	$242	$1,238	$426

All estimates in $millions.