

Washington State Unemployment
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Presentation by

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Effects of Legislation and Administrative Changes on UI Costs in Washington

Determinants of Unemployment Insurance Benefit Costs

- The unemployment rate (or TUR)
- The UI reciprocity rate
(beneficiaries/unemployment or b/u or $NBen/TU$)
- The replacement rate
(weekly benefits/weekly wages or wb/ww or WBA/AWW)

The UI Benefit Cost Equation

- $B\% = (b/u) * (wb/ww) * [TUR / (100 - TUR)]$
- $B\%$ = benefit cost rate, benefits as a percent of payroll
- (b/u) or $(NBen/TU)$ = the reciprocity rate
- (wb/ww) or (WBA/AWW) = the replacement rate
- TUR = the unemployment rate (a percent)
- Double effect of unemployment because it both raises benefit payouts and lowers tax receipts

Washington and U.S., Costs of Regular UI: 1995-2004 Averages

	United States	Washington	Wash./ U.S.
Taxes/Payroll %	.66	1.26	1.91
Benefits/Payroll%	.76	1.40	1.84
(b/u) or (NBen/TU) – reciprocity rate	.326	.429	1.32
(wb/ww) or (WBA/AWW) – replacement rate	.346	.413	1.20
TUR – unemployment rate	5.07	5.98	1.18
Benefit generosity = reciprocity rate*replacement rate	.113	.177	1.57

Recent Legislation and Administrative Changes

- 2ESB 6097 of 2003
- EHB 2255 of 2005
- Enhanced job search oversight by ESD
 - Job Search Review (JSR) from 2001
 - Reemployment and Eligibility Assessments (REA) from mid-2005

Estimated Effects

- Several changes to consider
- Changes have not been fully implemented
- Some uncertainties as to the effects of individual provisions
- Intention here is to provide ballpark estimates of individual changes and then to combine them for an overall assessment

Restriction 1 (R1). Freezing the Maximum WBA

- The freeze and eventual activation of the 63% indexation percentage will reduce the replacement rate (wb/ww ratio).
- The 63% maximum will become operative in 2008 under 3% annual wage growth
- Regression estimate: reducing the indexation percentage by 7 percentage points will reduce the replacement rate by 2.9 percentage points (say from 0.413 to 0.385) in 2008 when the 63% maximum becomes operative

Restriction 2 (R2) – Lower Statutory Replacement Rate

- Reduction from 0.52 to 0.50 in 2005
- Effect on the replacement rate (wb/ww) or (WBA/AWW) is modest
- Replacement rate may be about 1.5 percentage points lower (say from 0.413 to 0.398)
- ESD estimate is a reduction in WBA of \$8 or about 2.6 percent

Restriction 3 (R3) - Changing the the WBA Calculation

- 3 quarter averaging used in 2004
 - ESD calculation with 2004 data indicates the average WBA reduced by \$24
 - 76.2 percent of claimants had a reduced WBA
- 4 quarter averaging used in first five months of 2005
 - ESD calculation with 2004 data indicates the average WBA reduced by \$49
 - 81.4 percent of claimants had a reduced WBA
- Reversion to 2 quarter averaging in EHB 2255

Restriction 3 (R3) - Changing the the WBA Calculation

- $R3 = 1.0$ if 2 quarter averaging continues to be used
- If 4 quarter averaging used, R3 is less than 1.0
- 4 quarter avg. used in first five months of 2005
- ESD calculation with 2004 data
 - Avg. WBA lowered \$49 and 81.4% had lower WBA
- Assume WBA reduced by \$40
 - \$40 is 0.129 of \$310, the actual WBA in 2004
- $R3 = 0.871$ if 4 quarter averaging is active

Restriction 4 (R4) – Shorter maximum benefit duration - 1

- Reduction from 30 weeks to 26 weeks in 2004
- Background data on duration 1995-2003
 - Average duration 17.92 weeks
 - Average duration of exhaustees 25.16 weeks
 - Average exhaustion rate 0.331
 - Share of exhaustees paid 27-30 weeks 0.480,
or 0.159 of all recipients
 - Avg. dur. for 27-30 week group 29.6 weeks

Restriction 4 (R4) – Shorter maximum benefit duration - 2

- Calculated effect of shorter potential duration
- Persons who received 27-30 weeks will now only receive 26 weeks (0.159 of all claimants, $0.159 = 0.48 * 0.331$)
- All others not affected
- 1995-2003 average duration 17.92 weeks
- 30 weeks $17.92 = (0.841 * 15.55) + (0.159 * 29.6)$
- 26 weeks $17.34 = (0.841 * 15.55) + (0.159 * 26.0)$
- Reduction of 0.58 weeks represents 3.2% of 17.92

Restriction 5 (R5) – Restrictions on Voluntary Quits - 1

- Several categories of voluntary quits (VQ) deemed not compensable in 2ESB 6097
- Associated disqualifications are typically for the duration of the unemployment spell
- Study of voluntary quits mandated by 2ESB 6097 found that the VQ denial rate was 0.118 higher for 16,825 cases during the last half of 2004 when the new law and the old law were applied to each case (denial rates of 0.729 versus 0.611)

Restriction 5 (R5) – Restrictions on Voluntary Quits - 2

- Several categories of voluntary quits (VQ) deemed not compensable in 2ESB 6097
- Total VQ determinations in Wash. in 2004 = 45,233
- Added VQ disqualifications = $.118 * 45,233 = 5,337$
- Average duration per disqualification?
 - Overall average duration 1995-2003 = 17.92 weeks
 - Assume those disqualified would collect for 12.0 weeks
- Estimate of added weeks disqualified,
 - $5,337 * 12.0 = 64,044$, or 1.8% of 3,626,672 total weeks compensated in 2004

Restriction 6 (R6) – Enhanced Job Search Oversight - 1

- Job search reviews (JSR) since 2001
- Reemployment and eligibility assessments (REA) since 2005
- Nonseparation nonmonetary determinations (decisions about continuing eligibility) increased from 65,586 in 2000 to 109,000 in 2004
- Denials on nonseparation issues increased from 48,523 to 82,555 or by 34,032 over the period
- Issues were mainly “able and available for work” and “reporting requirements”

Restriction 6 (R6) – Enhanced Job Search Oversight - 2

- Average duration per disqualification?
 - Individual disqualification period may be one week or for the duration of the spell of unemployment
 - Some disqualifications defer but do not reduce the total benefit entitlement
 - Average duration per disqualification is a guess
 - 2.0 weeks used here
- 34,032 increased denials times 2.0 = 68,064 weeks
- Estimate of added weeks disqualified
 - 68,064 weeks = 1.9% of 3,626,672 weeks compensated in 2004

Restrictions on WBA and Increased Benefit Duration (D)

- Lower weekly benefits for many imply longer potential benefit durations
- Max benefit amount (MBA) is 0.3333 times base period earnings (BPE) for many
- Lower WBA implies longer potential dur.
- ESD tabulation indicates a 6.2% increase in potential dur. in data from 2004
- Assume actual duration increases by one-third of increase in potential duration, i.e., $D = 1.021$

Projections of Benefits, 2006-2010

- $TBen = 52 * WBA * NBen$ – total annual benefits
- $TBen = 52 * (AWW * RRate) * [TU * (NBen/TU)]$
- Four factors determine total annual benefits
- Assume replacement rate - $RRate = 0.413$
- Assume reciprocity rate – $(NBen/TU) = 0.429$
- Assume unemployment rate (TUR) = 5.76%
- Assume labor force growth = 1.8%
- Assume wage growth = 3.0%

Baseline Projection of Benefits

	Unemp. - TU	Recip. Rt, NBen/TU	AWW	Replace. Rate	Annual 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

Unemp. in 000s. Benefits in
\$millions.

Review of Benefit Generosity

- Generosity = recipiency rate [(b/u) or (NBen/TU)] * the replacement rate [(wb/ww) or (WBA/AWW)]
- 1995-2004 averages:
 - (b/u) or (NBen/TU) = 0.429
 - wb/ww or (WBA/AWW) = 0.413
 - Generosity (= 0.429*0.413) = 0.177
 - National average generosity = 0.113
 - Wash./U.S. ratio = 1.57

Review of restrictions - 1

- $R1 = 0.930$ in 2008-2010 - freeze max WBA and index it to 63% of AWW – reduces (WBA/AWW) by 0.029/0.414 or 0.070
- $R2 = 0.965$ – lower statutory replacement rate from 52% to 50% – reduces (WBA/AWW) by 0.015/.414 or 0.035
- $R3 = 1.0$ (continued use of 2 high quarters for WBA) if EHB 2255 is made permanent
- $R3 = 0.871$ if 4 quarter averaging is used

Review of restrictions - 2

- $R4 = 0.968$ – shorter maximum potential duration - 0.58 weeks = 3.2% of 17.92 weeks average duration
- $R5 = 0.982$ – increased VQ disqualifications from 2ESB 6097 – 1.8% of total weeks
- $R6 = 0.981$ – increased nonseparation disqualifications from JSR and REA initiatives – 1.9% of total weeks
- $D = 1.021$ - longer duration due to reduced WBA with unchanged MBA/BPE ratio of 0.3333

Benefit Payouts After Restrictions

	Baseline Benefits	Ben. - 5 Restrict.	Savings- 5 Restr.	Ben. – 6 Restrict.	Savings- 6 Restr.
2006	\$1,375	\$1,212	\$164	\$1,065	\$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

5 restrictions exclude 4 quarter averaging, data in \$ millions

Benefit Payouts After Restrictions

	Baseline Benefits	Savings-5 Restr.	Savings 5/ Baseline	Savings-6 Restrict.	Savings 6/ Baseline
2006	\$1,375	\$164	0.119	\$320	0.233
2007	\$1,439	\$194	0.135	\$354	0.246
2008	\$1,513	\$220	0.145	\$387	0.256
2009	\$1,583	\$230	0.145	\$405	0.256
2010	\$1,664	\$242	0.145	\$426	0.256

5 restrictions exclude 4 quarter averaging, data in \$ millions

Detailed Savings - 2008

- R1 – Freeze Max WBA \$96 mill
- R2 – Lower Stat. Replace. Rate \$48 mill
- R3 – 4 Quarter Avg. for WBA \$177 mill
- R4 – Reduce max dur to 26 \$44 mill
- R5 – Increased VQ disqual. \$24 mill
- R6 – Claims admin.: JSR & REA \$26 mill
- D – Lower WBA - higher dur. -\$28 mill

Total Saving from Restrictions

- Five years 2006 to 2010
- 5 restrictions – \$1,050 million
- 6 restrictions - \$1,892 million
- Largest effect from 4 quarter averaging
- Second largest effect from freeze of max. WBA and indexation at 63%

Savings and Generosity

- No restrictions
 - Generosity index 1995-2004 = 0.177, 57% above U.S. avg.
 - U.S. generosity 1995-2004 = 0.113
 - Washington ranks 6th of 51 states
- Five restrictions (retain 2 quarter averaging)
 - Generosity index in 2008 = 0.151, 34% above U.S. avg.
 - Washington ranks 14th of 51 states
- Six restrictions (4 quarter averaging)
 - Generosity index in 2008 = 0.132, 17% above U.S. avg.
 - Washington ranks 21th of 51 states