Washington's Unemployment Benefit Costs in Relation to Other States

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In the federal state unemployment insurance (UI) program, each state has the responsibility for financing its benefit costs. State provisions should allow for balancing income and outgo over the long term and maintaining a UI reserve fund capable of meeting foreseeable recession costs.

Federal requirements on state UI financing have had to be fairly broad. A set of provisions that would ensure the sound financing of benefit costs in some states would cover only part of the liability in other states. Past data on benefit experience are helpful in determining potential reserve fund liability (both annual average costs and 12-month recession costs) for a state.

26-Year Experience by State

In state comparisons, the millions of dollars paid in benefits or the average tax rate is not useful. The significant measure is the benefit cost rate, with benefits expressed as a percent of total wages. This negates the effect of state differences in tax ceiling and/or wage level.

An analysis has been made of state benefit costs rates for the 26-year period from 1978 through 2003. Two rates were used:

- The average annual benefit cost rate, an estimate of the potential liability of the UI reserve fund over a forecast period.
- The average benefit cost rate for each state's three highest cost years, an estimate of the UI reserve fund expressed as a percent of total wages required to meet foreseeable recession costs for 12 months.

The attached chart presents the states grouped by each of these measures. Intervals of average annual costs are down the left of the chart; intervals of foreseeable recession's costs are across the top.

Washington is among the three states in the second highest interval of the average annual costs (between 1.30% and 1.59%) and the highest foreseeable recession cost interval (at least 2.8 percent). Some common elements of the high cost states in the upper right corner of the chart are high seasonal unemployment and sensitivity of their economies to general economic conditions. Some also have structural unemployment problems. In addition, during the last recession, the seven states in the upper right corner experienced higher than average unemployment rates compared to the rest of the country.

The low cost states in the lower left corner of the chart have less seasonal unemployment and generally maintain lower levels of unemployment during recessionary periods.

Average Benefit Cost Rates Over A Twenty-Six Year Period (1978-2003) (Includes both regular benefits paid and extended benefits paid) Source: U.S. Department of Labor Handbook 394					
AVERAGE *ANNUAL* BENEFIT COST RATE (53 states)	**AVERAGE *HIGH* BENEFIT COST RATE (3 highest years)**				
	Less than 1.2% (15)	**1.2% - 1.6% (12)**	**1.7% - 2.1% (13)**	**2.2% - 2.7% (7)**	**2.8% or more (6)**
1.6% or more (3)				Rhode Island	Alaska Puerto Rico
1.30% - 1.59% (6)			Idaho Michigan	Oregon	Pennsylvania WASHINGTON° West Virginia
1.00% - 1.29% (14)	Virginia	Montana New Jersey	Hawaii Illinois* Iowa Kentucky Maine Vermont Wisconsin	Arkansas Louisiana North Dakota Wyoming	Massachusetts*
.70% - .99% (18)	Delaware Minnesota* Missouri* New York*	Alabama California* Connecticut Dist. of Columbia Mississippi New Mexico South Carolina Tennessee Utah	Kansas Maryland Nevada Ohio		
Less than .7% (12)	Arizona Colorado Florida Indiana Nebraska New Hampshire North Carolina* South Dakota Texas*	Georgia Oklahoma		Virgin Islands	

*** Borrowed from the federal government since March 2002 to cover inadequate fund reserves.**

° For solvency in 2005, WA needs $1.66 billion in the Trust Fund for an "average year" or $2.387 billion for a "worst case scenario" year.