

UI EMPLOYER CAUCUS STATEMENT

Before the Joint Legislative Committee on Unemployment Insurance Benefit Equity

7-26-05

Background Statement & Intent of UI – Jan Gee

The employer community in Washington State recognizes the importance of a functional and financially viable unemployment insurance (UI) system. Such a system can benefit workers by providing a temporary bridge to the next job when they are laid off through no fault of their own. It can also provide a benefit to employers by helping to maintain a stable, experienced workforce in the state. However, when the costs and benefits of this system adversely impact the ability to attract and retain businesses, and to create new jobs and hire workers, reform is needed.

Washington State's employer community has been working on reforming our system for 12 years as our state's UI costs continued to rise. In 2003, major reforms were made that we believe started our state's UI system on a road towards becoming stronger and better able to suit the needs of today's workforce while not jeopardizing job creation or business competitiveness. We remain committed that the 2003 reforms are on target and create greater equity among employers on the distribution of the tax burden and greater equity among all workers in the eligibility and calculation of benefits. However, we recognize the desire of the legislature to review these reforms and to assure that our state's UI system is fair, adequate, cost effective and competitively priced and that the 2003 reforms enhance these goals. We have come to this Task Force united in our commitment to the 2003 reforms but with an open mind and willingness to consider options that will serve our state well and protect the integrity of the UI system. We believe that through these deliberations, three overarching policy principles should be integrated throughout the system:

1. The regulatory and dispute resolution process of the UI system should be impartial and treat both the employer and the unemployed worker without preference. Repeal of the "liberally construed" language" in the statute's preamble that tilts the preference to the claimant would restore fairness;
2. The UI system should provide workers who infrequently lose their jobs through no fault of their own with an income bridge to their next job. This bridge should not serve as a repetitive, revolving replacement for off-season wages.
3. The UI system in Washington State should provide balance between the cost of benefits for workers and the ability of Washington employers to pay those costs and remain competitive in a national and global economy and create jobs.

Our goal for participation in this task force is to address the priority concerns that arose out of the last legislative session. In our collective minds this includes the 2003 reforms of seasonal worker benefits; restoring the sustainability of the new UI tax system; and, the overall cost of the taxes as it relates to global competitiveness. Norm, Brian and Chris will touch on each of these

topics in more detail. We urge the task force to keep their energies focused on these priority issues so that resolution can be achieved within the short timeline allotted. If we accomplish our task and have time to spare we are open to expanding our discussions into less pressing but important issues of the unemployment insurance system.

Priority Goal: Reduce UI Tax Burden to No More Than 200% of the National Average – NormRaffael:

The UI system ceases to benefit both employers and workers when the costs paid into the system impact job creation and thus reduce the number of jobs available to laid-off workers. Payroll taxes are a significant portion of the cost of doing business in Washington State and they influence our ability to compete for economic development and job creation. As a result, the employer community's priority goal for the past 12 years and today is that the cost of UI taxes does not exceed 200 percent of the national average.

- **(Review chart #1)** The average UI tax cost on the taxable wage base must be reduced from its current level of 297% (\$854 per employee) of the national average (\$287.56) to no more than 200% of the national average. This will increase the ability of our state's employers to create jobs and be competitive while maintaining reasonable benefits to laid-off workers.
- **(Review chart #2)** Washington state's average weekly wage has only been just slightly higher than the national average in prior years and in 2004 exactly (\$757 state) the same as the national average (\$757). Considering that our wages are comparable to the national average but our UI costs are nearly 300 % that of the national average, the business community believes a goal of reducing cost to 200% of the national still provides for an extremely generous UI benefit system.
- **(Review chart #3)** The most important measure of the cost of the system is an individual business' analysis of its own costs of UI per employee state to state. Weyerhaeuser's tax comparison for state-to-state operations are displayed in this chart.

UI Tax Integrity & Fairness – Chris Cheney:

It is important for the public and all interested parties to understand that the unemployment insurance system is fully funded through employer taxes. This is often misunderstood by employees who believe that they pay a tax to fund their own reserves for use in the future. This is an insurance fund paid by employers for all workers, and like car insurance you hope that you never have to use it – employment is preferred to unemployment. However, when unemployment does occur, employer taxes increase proportionally. Therefore, we believe that if the employer community has a tax structure that we agree is fair and equitable and provides reasonable surety of future solvency then the legislature should honor the system.

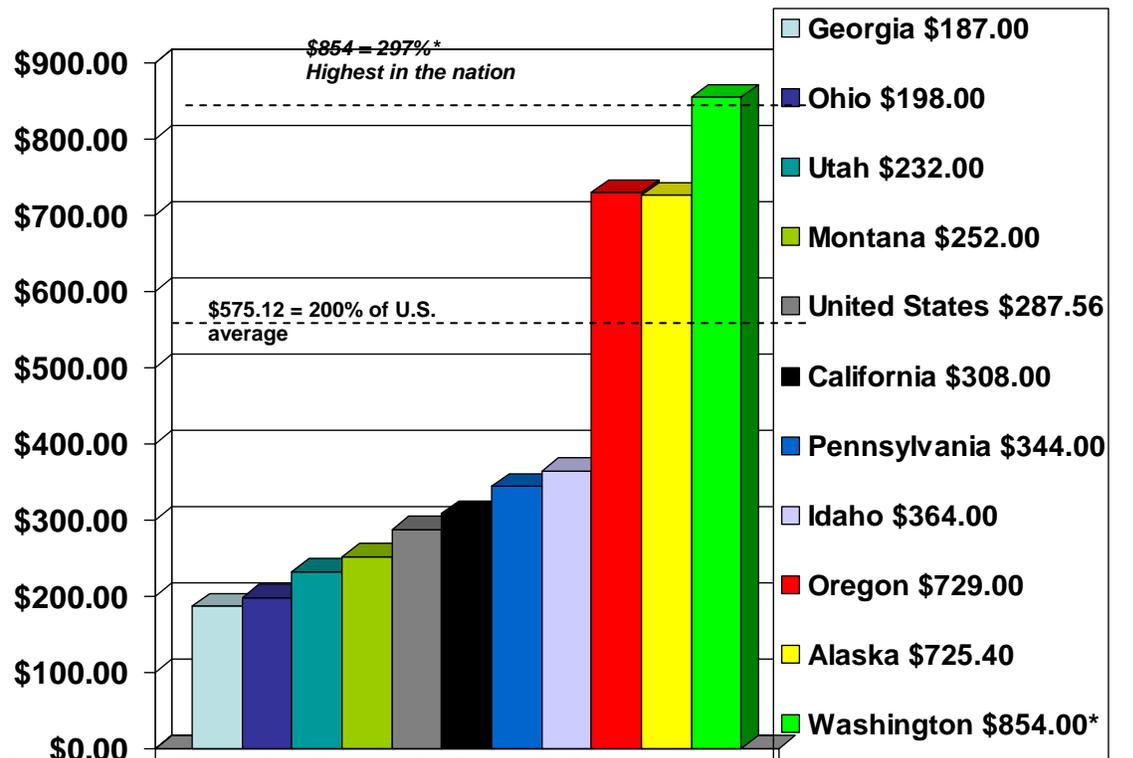
- The 2003 reformed employers' tax system is composed of an experience rated base tax, a social tax and a solvency surcharge when necessary. The combination of these taxes represents the "fair share" of each employer to assure solvency of the fund. The integrity of this tax system should not be corrupted by special exemptions from any portion of this tax to benefit an industry or group of industries. Further, under the old system, before the reforms, a common theme that occurred over and over was to "non-charge" against an employer's experience rated tax any new, special benefit created for a select group of workers. The cost of these benefits were pooled and paid by all employers instead of the unemployed worker's employer. The tax system should reflect every employer's actual cost to the system to the greatest extent possible and special exemptions such as these only shift costs to other employers creating inequity in the tax system
- The UI tax system reforms created in 2003 were phased-in to allow employers to adjust to the new tax burden and were not fully implemented until January 2005. We would like the system restored and allowed time to demonstrate its ability to fund the system in a manner that maintains solvency and fairness to all employers. Segments of the Ag and Food Processing Industry did receive a cap on their taxes under the 2003 reforms. This was in recognition of our inability to control a significant portion of the costs of repetitive claims due to our state's liberal eligibility laws for seasonal workers. Our preferred action is not to provide special tax breaks to employers but to reform benefits so that seasonal benefits are not a repetitive cycle of unemployment insurance each year, year after year paid for by UI taxes. We would also like this task force to investigate legislative language that will place greater protections around this tax system to protect from future degradation.
- Reed Act monies are employer paid federal UI taxes returned to the state UI trust fund by the federal government on an infrequent and irregular basis. These rebates should be used exclusively to reduce UI tax rates for ALL employers in a manner that does not create bow wave spending that could result in future tax increases. The most recent Reed Act refund was not managed in this fashion and we would like to investigate legislative language that will place greater protections around this portion of our UI taxes and future rebates.
- Finally, the UI penalty and interest fund diversions to the general fund should cease and also be protected by legislative language. These monies should be dedicated to the UI system and used solely for improvements in administration of the UI system and fraud detection. These monies, prior to diversions that began in the 90's, were used to improve service to laid-off workers, get their benefit checks in their pockets faster and more accurately, help them get back to work sooner and to detect fraud by either employers or workers.

UI Benefit Fairness & Return to Work Incentives – Brian Minnich:

- **(Review chart #4)** The UI system should allocate benefits to workers in a method that is fair and does not result in some workers getting paid more in benefits than others with similar earnings. The benefit calculation should result in comparable benefits for comparable annual wages earned during the base year for every unemployed worker. The 2003 reforms accomplished this parity among workers as seen in this chart. HB 2255 temporarily overturned this reform.
- **(Review chart #5)** A method should be adopted that clearly defines eligibility for seasonal and intermittent workers that recognizes the unique characteristics of such employment and maintain appropriate accountability, incentives and targeted work search assistance for off-season employment. UI benefits should not serve as a yearly, repetitive revolving replacement for off-season wages. In the 2003 reforms, a very important piece of the benefit package to address repetitive claimants fell off the table in the weaning hours of the session. As a result, some seasonal employers accepted a higher tax burden than anticipated due to both the revised tax system and no reform to repetitive claimant accountability. This is a priority goal for our participation in this task force.
- UI benefit levels should minimize the disincentives for an employee to return to employment and benefit options should be investigated that provide incentives for claimants to return to work at the earliest opportunity.

Close discussion on behalf of employer caucus.

Average UI Tax Cost On Taxable Wage Base (Past 12 Months Thru 1st Quarter 2005)



Data source: US DOL: UI Data Summary 1st Quarter CY 2005. Calculation based on state average taxable wage multiplied by average tax rate.

**State Average Weekly Wage (2001 – 2004)
WA State Compared to National**

US Average

| Year | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Annual |
|-----------------------|--------|--------|--------|--------|--------|
| 2001 | 716 | 675 | 668 | 727 | 697 |
| 2002 | 718 | 687 | 683 | 740 | 707 |
| 2003 | 730 | 702 | 705 | 768 | 726 |
| 2004 | 758(P) | 723(P) | 732(P) | 812(P) | 757(P) |
| P: Preliminary | | | | | |

Washington State

| Year | Qtr1 | Qtr2 | Qtr3 | Qtr4 | Annual |
|-----------------------|--------|--------|--------|--------|--------|
| 2001 | 722 | 727 | 704 | 729 | 720 |
| 2002 | 741 | 726 | 726 | 749 | 735 |
| 2003 | 742 | 747 | 753 | 759 | 750 |
| 2004 | 748(P) | 736(P) | 752(P) | 790(P) | 757(P) |
| P: Preliminary | | | | | |

US Department of Labor
Bureau of Labor Statistics
Census of Employment and Wages
(All wages, all industries)

Weyerhaeuser UI Cost Comparison

| <u>STATE</u> | <u>WA HIGHER BY:</u> |
|----------------|----------------------|
| OREGON | 17% |
| NORTH CAROLINA | 2.7 TIMES |
| CALIFORNIA | 3.5 TIMES |
| TEXAS | 3.5 TIMES |
| KENTUCKY | 3.5 TIMES |
| TENNESSEE | 4.0 TIMES |
| SOUTH CAROLINA | 4.9 TIMES |
| LOUISIANA | 5.8 TIMES |
| MISSISSIPPI | 5.8 TIMES |
| GEORGIA | 13 TIMES |

