



**Employment Security Department**  
WASHINGTON STATE

April 20, 2009

Gary Chandler  
Association of Washington Business (AWB)  
1414 Cherry Street SE  
Olympia, Washington 98507

Dear Mr. Chandler:

You asked Employment Security Department a series of questions:

- Question 1:** If the benefit multiplier is moved from 3.85 to 4 percent what employees and employers will be affected? Will some employers be more affected than others?
- Question 2:** Based upon what is currently happening in the economy will unemployment tax rates increase?
- Question 3:** If unemployment continues to grow, what will the impact be on small and medium-sized businesses that have been able to maintain a stable workforce? How will the 6.0 percent tax cap on unemployment insurance (UI) rates impact these businesses?
- Question 4:** If the Legislature were to increase UI benefits to workers, will that impact UI taxes paid by employers?

I hope that the information meets your needs. If you have any questions or concerns, please contact me at (360) 902-9317 or by e-mail at [jsacks@esd.wa.gov](mailto:jsacks@esd.wa.gov).

Sincerely,

*Joel Sacks*

Joel Sacks  
Assistant Commissioner

**Question 1: If the benefit multiplier is moved from 3.85 to 4 percent what employees and employers will be affected? Will some employers be more affected than others?**

**Background on how benefits are calculated**

Currently unemployment insurance (UI) benefits are calculated by reviewing the wages an employee earned in the past year and identifying the **two-quarters** in which a person earned the most money. The department averages those “**two high quarters**” of earnings and multiplies the average by the benefit multiplier (currently 3.85 percent) to determine the weekly benefit amount.

**Impact of benefit multiplier increase**

SSB 5963, as passed by the House on April 10, would increase the benefit multiplier used to calculate unemployment insurance benefits from the current 3.85 percent up to 4 percent **unless** additional benefit payments are authorized by the American Recovery and Reinvestment Act of 2009, the state economic stimulus package, or other substantially similar federal or state law. The increase would **not** go into effect if the balance in the unemployment compensation fund would provide fewer than eight months of benefits. These limitations are removed for claims effective after January 3, 2016.

**Impact on employees**

The department has estimated that the average impact on benefits of this change would be an \$8.00 per week increase in benefits. However, not all workers would see the same increase. In broad terms, people with the lowest and highest earnings would not be affected by the multiplier change, while UI recipients in the middle would receive an increase in their benefits if the multiplier were changed. Table 1 provides some examples.

*Table 1: Impact of increased multiplier on workers with different earnings levels*

Employee Example	Average Annual Wage	Average of Highest 2 Quarters of Wages	Weekly Benefit Amount using 3.85% Multiplier	Weekly Benefit Amount using 4% Multiplier	Weekly change in benefits for this employee
Example #1	\$ 10,000	\$ 2,500	\$ 129.00	\$ 129.00	\$ -
Example #2	\$ 20,000	\$ 5,000	\$ 192.50	\$ 200.00	\$ 7.50
Example #3	\$ 30,000	\$ 7,500	\$ 288.75	\$ 300.00	\$ 11.25
Example #4	\$ 40,000	\$ 10,000	\$ 385.00	\$ 400.00	\$ 15.00
Example #5	\$ 55,000	\$ 13,750	\$ 529.38	\$ 541.00	\$ 11.63
Example #6	\$ 65,000	\$ 16,250	\$ 541.00	\$ 541.00	\$ -

*\*Minimum Benefit = \$129*

*\*Maximum Benefit = \$541*

- **Employees whose benefits would increase.**<sup>1</sup> In the current fiscal year, all UI claimants who earn between \$13,400 and \$56,200 per year **would be impacted** by a change in the multiplier and see an increase in their average weekly benefit amount.
- **Employees whose benefits would not increase.**<sup>2</sup> Workers earning more than \$56,200 this fiscal year have their benefits capped at \$541 per week and their employers' experience-account **would not** be affected by a change in the multiplier.

Some workers earning less than \$13,400 per year, who earn less than the minimum benefit level, **would not** be affected by a change in the multiplier, because even with the increase, they would still fall below the minimum.

### *Impact on employers*

The department has projected that the benefit increases that would result from moving the multiplier from 3.85 to 4 percent would also result in an overall annual tax increase of a little less than 2 percent. The impact on individual employers will vary; some will see a greater impact on the UI taxes they owe than others. As discussed above, those employers of UI claimants who earn between \$13,400 and \$56,200 are more likely to see an impact on their individual tax rates because of Washington's experience-rated tax system. Tax rates are tied directly to the amount of benefits paid to former workers of an employer.

### **Impact of employer rate class structure on tax increases**

Employers are placed in 1 of 40 rate classes for a given year based upon the amount of UI benefits their workers collected in the past 4 years. This four-year averaging reduces the impact of benefit charge increases in any single year. Moving between classes also depends upon whether or not the employer is already close to the top of the range for that rate class.

While the bulk of the costs associated with a change in the multiplier will be shouldered by individual employers who lay off workers, some of the added costs would be socialized and could result in slightly higher social tax rates for all employers.

The specific amount of the tax increase would vary from year to year, depending on the economy. However, this tax increase is not likely to be distributed evenly among all employers.

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<sup>1</sup> In the current fiscal year, employees who earn less than \$6,701 in their high two quarters and qualify for UI receive a statutory minimum \$129 weekly benefit. Increasing the benefit multiplier would in many cases not affect their employers' tax rates.

<sup>2</sup> Also, some employees earning less than \$56,200 a year hit the maximum benefit level. That is because benefits are based on the average of the highest two quarters of an employee's earnings. An employee earning more than \$28,100 in the two high quarters will hit the maximum benefit level, even if his or her earnings were significantly lower in the remaining two quarters.

For example, an employer who is in rate class 40 would not see any tax increase as a result of the increase in the benefit multiplier, and the resulting increased benefit costs would be socialized through the social tax.

**Question 2: Based upon what is currently happening in the economy will unemployment taxes increase?**

Yes, the department is projecting that based upon the current economic recession, UI tax rates will increase in coming years.

**Question 3: If unemployment continues to grow, what will the impact be on small and medium-sized businesses that have been able to maintain a stable workforce? How will the 6.0 percent tax cap on UI rates impact these businesses?**

As a result of rising unemployment, UI tax rates will also rise in the next few years to recover the costs of the increased benefits being paid out by the unemployment insurance system. Under existing law however, no employer's combined experience and social tax rate can be higher than 6.5 percent.

**Impact of SSB 5963 on tax rates**

Under SSB 5963 as passed by both the House and Senate, this maximum tax rate is lowered to 6.0 percent. Using the Revenue Forecast Council's updated March 2009 economic assumptions, the cap would reduce tax collection in three of the next six years. The lower cap would result in less tax collections and a lower balance in the trust fund. In future years, the lower trust fund balance may result in a higher social tax which is paid by all employers.

During a recession, the social tax in the UI system is likely to rise. When that happens, those employers who are in the higher rate classes (have had lay-offs in the prior 4 years) will benefit from the cap on UI taxes. They will not be required to pay the full social tax in a given year. Those employers in lower tax rates (those who have had fewer lay-offs) will not be impacted by the cap on UI taxes and will therefore be required to pay the entire social tax charged for a given year.

In the example below, the department is projecting that in 2011 the flat social tax will rise to 1.31 percent<sup>3</sup>. While in 2015 the social tax will drop to .35 percent. In 2011, an employer in rate class 12 will pay a social tax of 1.57 percent but an employer in rate class 40 who is impacted by the 6 percent cap will only pay a social tax of .6 percent. In 2015, when the social tax for the system is lower each of the two employers would pay the same social tax:

**Table 2:** *Examples of projected employer tax rates in 2011 and 2015—impact of tax cap on social tax rates*

	Experience tax in 2011	Social tax in 2011	Total tax rate in 2011	Experience tax in 2015	Social tax in 2015	Total tax rate in 2015
Rate class 12 employer	1.28%	1.57%	2.85%	1.28%	0.42%	1.7%
Rate class 40 employer	5.4%	0.6%	6.0%	5.4%	0.42%	5.82%

**Source:** Employment Security Department: 4/17/09

**Question 4: If the Legislature were to increase UI benefits to workers, will that impact UI taxes paid by employers?**

Under the unemployment insurance experience tax system, if benefits charged to an employer are increased, then experience taxes may also increase in future years to cover the costs of benefits directly attributable to an employer’s history of lay-offs. Also, the costs of benefits that are not covered by experience taxes are “socialized.” Increasing benefits may increase these socialized costs, which may trigger an increases the overall social tax charged to all employers.

<sup>3</sup> If SB 5963 as passed by the Senate is adopted