

# Employment Security Department Update

November 30, 2020

Suzi LeVine, ESD Commissioner



**Employment  
Security  
Department**  
WASHINGTON STATE

# Questions posed

What to expect next session and the next few years regarding UI rates

Clarity on the solvency tax (when and how it is triggered)

What to expect regarding increases in experience ratings due to COVID 19

How the various federal infusions impact experience ratings; and

Details on how increases in rates are determined (what framework -- statutory or other -- will be used to determine increases).

# Questions summarized

How will employers be impacted by the utilization of the unemployment system during this crisis to pay out that \$12.5B?

What are the structural elements of the system that caused and, more importantly, can mitigate that impact?

How will the December 26th expiration of the Federal CARES Act and other Federal provisions impact Washingtonians?

# How much have we paid and from which sources?

**\$12.5 Billion**

Total paid

For payments made since  
March 8, 2020 – November 21, 2020


**\$ 4,057,116,705**

State unemployment insurance

**\$ 5,853,074,635**

Federal Pandemic Unemployment Compensation 

**\$ 1,254,262,891**

Pandemic Unemployment Assistance 

**\$ 678,967,146**

Lost Wages Assistance 

**\$ 516,595,825**

Pandemic Emergency Unemployment Compensation 

**\$ 97,630,337**

Extended Benefits

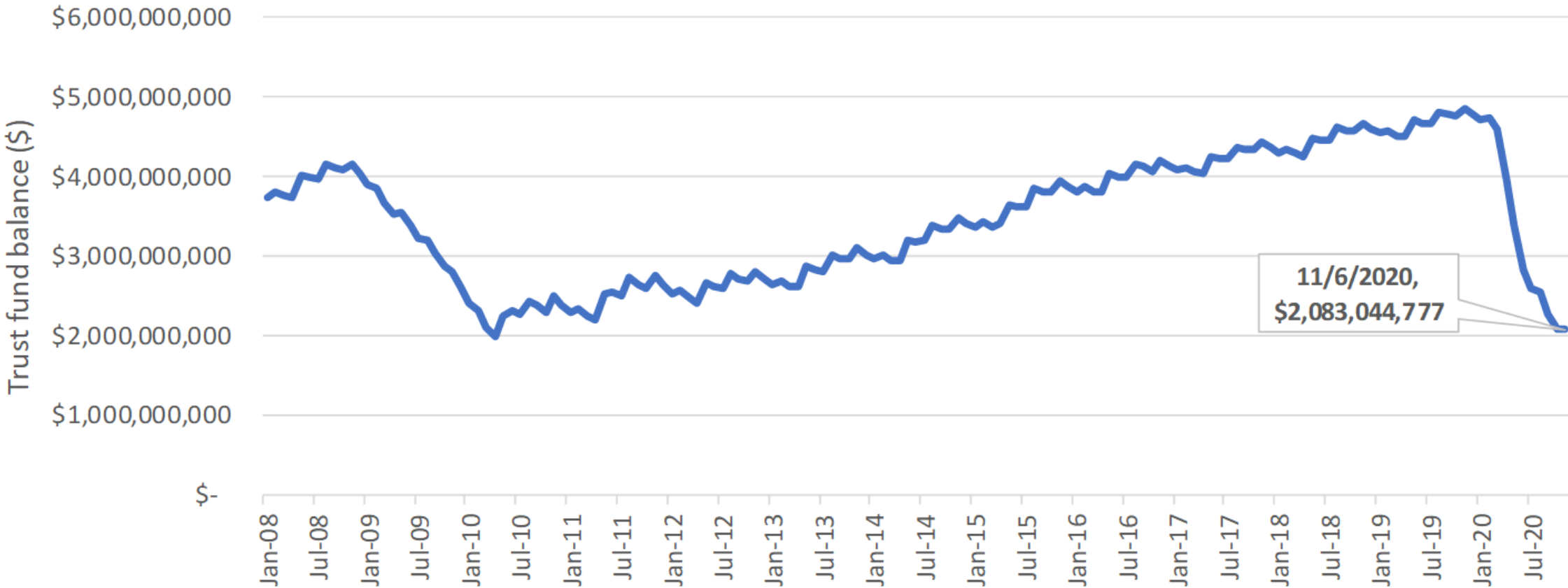
<https://esd.wa.gov/unemployment/dashboard>

# All the Federal Funding Elements

- Previously described – all expire 12/26
  - Pandemic Unemployment Assistance (PUA): the expansion to those previously ineligible.
  - Pandemic Emergency Unemployment Compensation (PEUC): Additional 13 weeks
- Previously described and already expired
  - Federal Pandemic Unemployment Compensation (FPUC): Additional \$600/week
  - Lost Wages Assistance (LWA): Additional \$300/week
- Additional Federal distributions – all expire 12/26
  - 100% Extended Benefits (EB) – usually funded at 50% (was at 20 wks, drops to 13 wks on 12/12)
  - 100% SharedWork Reimbursement
  - 100% Waiting Week Reimbursement
  - 50% of Reimbursable Employers Reimbursement

# Unemployment Insurance Trust fund

## Unemployment Insurance Trust fund balance - Washington State



# Four components to state UI tax

ALL tax rates are calculated based on authorization in RCW

- **Experience rate tax** – business specific
  - An annual tax calculation based on a ratio of Benefit claims charged to the employer over the preceding four years (July through June), and “Taxable wages” reported by the employer.
  - Based on the experience rating for the prior 4 years (ie 7/2016 to 6/2020)
- **Social tax** – 1.22% ceiling - determined for all employers based on the collective monies in AND the trust fund balance
- **Solvency surcharge** - .2% - happens when/if the trust fund balance has less than seven months of benefits
- **Employment Administrative Fund Tax** – flat tax - not impacted by economic conditions

How State law  
determines rate  
increases

## Experience rates

- Experience rate charging is a federal requirement for unemployment trust funds.
- Evaluated through June 30 each year.
- Calculated on an individual, employer-by-employer basis.
- Evaluated by each employer's history of employees receiving unemployment benefit.
  - These are then charged to the employer's account compared to the taxable wages of its employees.

Generally, the more chargeable unemployment benefits paid to an employer's employees, the higher the tax rate.



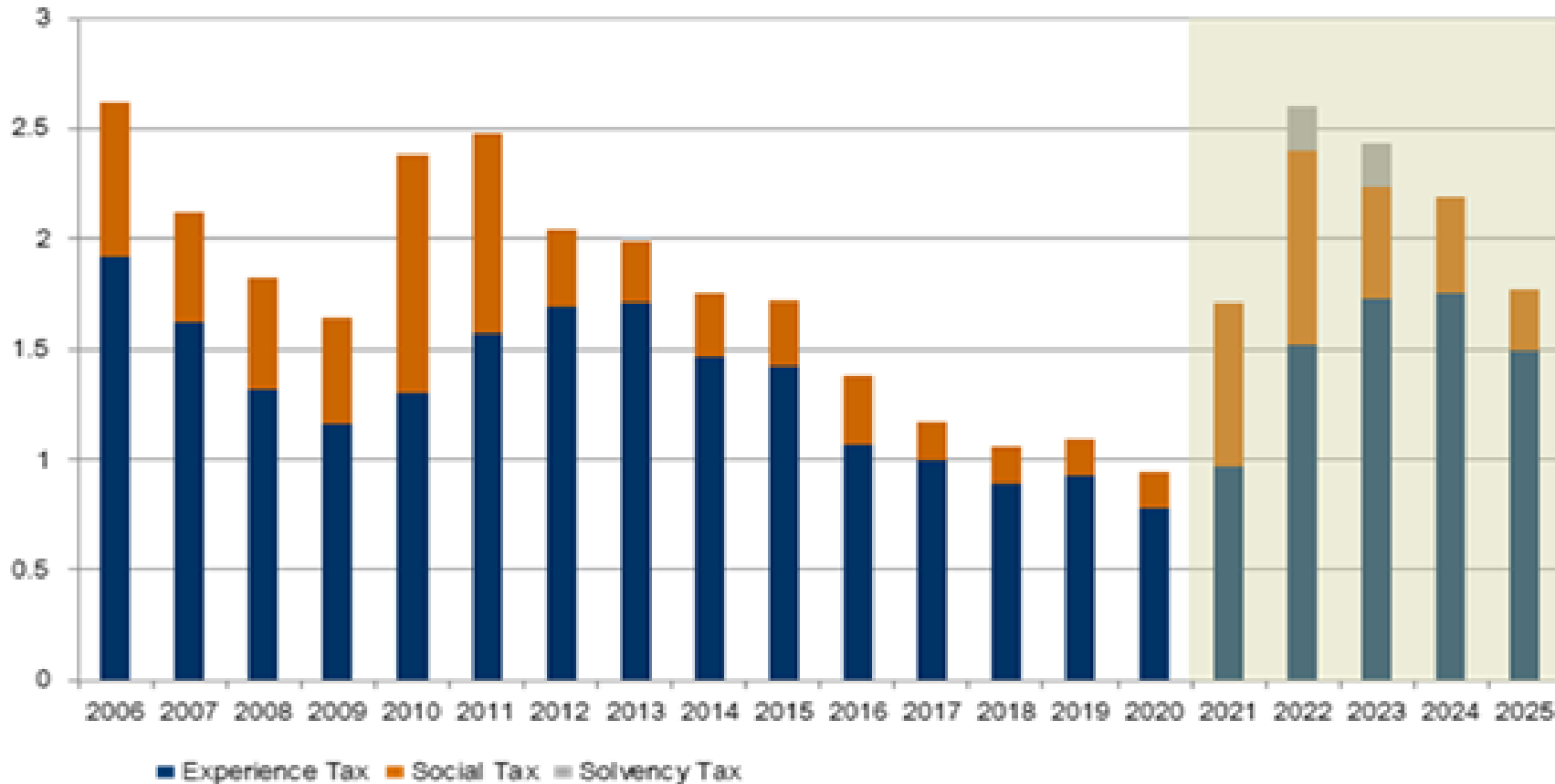
How State law  
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## Social taxes

- This is a fixed number based on taxes coming in, benefits going out and the amount of money in the trust fund.
  - **Employers with higher experience rates** will pay more than the flat social cost factor (Rate Class 17-40)
  - **Employers with lower experience rates** will pay less than the flat social cost (Rate Class 1-15)

State taxes cannot exceed 6% of taxable wages  
(\$56,500 in 2021)

# Current Tax Policy/September Report Projections Through 2025



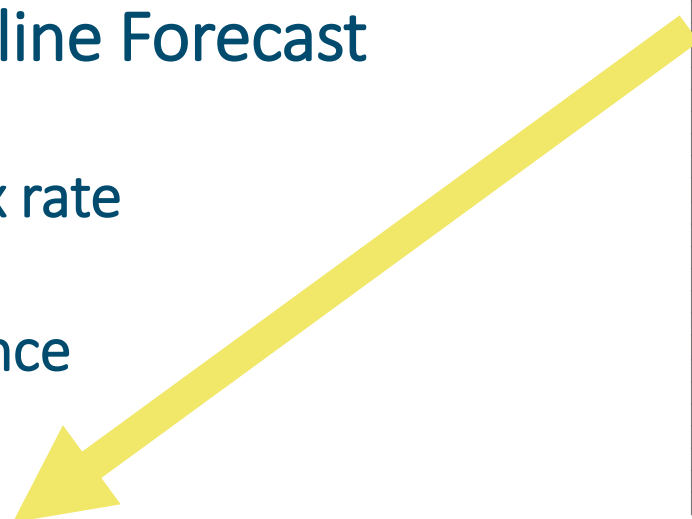
- Unemployment Insurance use increases during economic downturns.
- Employers pay taxes to finance the system and, by federal design, those taxes then increase as we come out of (or even during) downturns.
- While 4-year experience rate smoothing helps, taxes increased before coming down after the Great Recession and are projected to do so again with this COVID-19 recession.

# Unemployment Insurance Trust Fund September 2020 Baseline Forecast

- Average experience tax rate
- Flat social tax rate
- Ending trust fund balance

**Unemployment insurance trust fund: September 2020 baseline forecast**  
(Based on reported in the September 16, 2020 Washington State Economic and Revenue Forecast Council)

Taxes	CY 2019	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Average experience tax rate (percent)	0.93%	0.78%	0.97%	1.52%	1.73%	1.75%	1.49%
Experience tax contributions	\$933.7	\$909.7	\$1,095.9	\$1,787.1	\$2,099.3	\$2,179.4	\$1,903.7
Flat social tax rate (percent)	0.16%	0.25%	1.22%	1.22%	0.60%	0.60%	0.35%
Social tax contributions	\$160.4	\$188.8	\$837.4	\$1,036.6	\$612.5	\$552.6	\$353.5
Solvency tax rate (percent)	0.00%	0.00%	0.00%	0.20%	0.20%	0.00%	0.00%
Solvency tax contributions	\$-	\$-	\$-	\$203.4	\$242.8	\$34.2	\$-
<b>Total average tax rate (experience tax + social tax + solvency)</b>	<b>1.08%</b>	<b>0.94%</b>	<b>1.70%</b>	<b>2.57%</b>	<b>2.43%</b>	<b>2.22%</b>	<b>1.77%</b>
<b>Total tax contributions</b>	<b>\$1,094.1</b>	<b>\$1,098.6</b>	<b>\$1,933.3</b>	<b>\$3,027.0</b>	<b>\$2,954.6</b>	<b>\$2,766.2</b>	<b>\$2,257.2</b>
Benefits							
Weeks compensated (in millions) - regular benefits	2.1	10.5	5.5	2.5	2.2	2.0	2.0
Average weekly benefit amount	\$477.84	\$511.68	\$560.75	\$574.93	\$590.83	\$607.09	\$626.15
Regular benefit payments	\$1,010.6	\$5,254.5	\$3,058.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
Total benefit liability	\$949.9	\$4,969.2	\$3,024.8	\$1,368.0	\$1,217.3	\$1,155.4	\$1,161.8
Reimbursable benefit payments	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
<b>Total benefit payments</b>	<b>\$1,010.6</b>	<b>\$5,284.5</b>	<b>\$3,208.3</b>	<b>\$1,455.3</b>	<b>\$1,295.0</b>	<b>\$1,229.1</b>	<b>\$1,236.0</b>
Trust fund							
Beginning trust fund balance	\$4,731.1	\$4,988.3	\$1,200.7	\$130.6	\$1,810.7	\$3,614.1	\$5,335.2
Trust fund interest	\$113.0	\$83.1	\$21.5	\$21.1	\$66.1	\$110.3	\$149.6
Total tax contributions	\$1,094.1	\$1,098.6	\$1,933.3	\$3,027.01	\$2,954.6	\$2,766.2	\$2,257.2
Reimbursements from reimbursables	\$60.6	\$315.3	\$183.5	\$87.3	\$77.7	\$73.7	\$74.2
Total benefit payments	\$1,010.6	\$5,284.5	\$3,208.3	\$1,455.3	\$1,295.0	\$1,229.1	\$1,236.0
<b>Ending trust fund balance (as of 12/31)</b>	<b>\$4,988.3</b>	<b>\$1,200.7</b>	<b>\$130.6</b>	<b>\$1,810.7</b>	<b>\$3,641.1</b>	<b>\$5,335.2</b>	<b>\$6,580.2</b>
Months of benefits available (as of 9/30)	15.0	7.0	1.8	4.8	4.8	9.7	14.1



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# Unemployment Insurance Advisory Committee

- Goals
  - Recommendations to improve the unemployment benefits and tax system
  - Suggestions to enhance the solvency and stability of the unemployment trust fund
  - Consider and provide comment on ESD UI rulemaking
  - Consider and provide recommendations to improve ESD and its system partners' ability to prepare for, respond to and recover from major economic shifts
- Committee Members

<b>Julia Gorton</b> Hospitality Association	<b>Sybill Hyppolite</b> Washington State Labor Council (WSLC)	<b>Kevin Perkey</b> Washington Workforce Association
<b>Tammie Hetrick</b> Washington Food Industry Association (WFIA)	<b>Cindy Richardson</b> UNITE/HERE Local 8	<b>Daniel Zeitlin</b> Employment Security Department
<b>Jerry Vanderwood</b> Association of General Contractors (AGC)	<b>Josh Swanson</b> Operating Engineers 302	<b>Suzan LeVine</b> Employment Security Department
<b>Robert Battles</b> Association Of Washington Business, (AWB)	<b>Brenda Wiest</b> Teamsters 117	

# 2021 Industry Breakdown By Numbers

INDUSTRY SECTOR	EMPLOYERS	+ 8 RC	+12 RC
Accommodation and Food Services	16,406	5,536 (34%)	3,990 (24%)
Administrative, Support, Waste Management	13,804	1,541 (11%)	981 (7%)
Agriculture, Forestry, Fishing and Hunting	7,086	374 (5%)	205 (3%)
Arts, Entertainment, and Recreation	3,150	807 (26%)	588 (19%)
Construction	29,887	4,451 (15%)	2,800 (9%)
Educational Services	3,605	533 (15%)	350 (10%)
Finance and Insurance	6,533	390 (6%)	262 (4%)
Health Care and Social Assistance	78,945	6,746 (9%)	4,885 (6%)
Information	5,225	347 (7%)	236 (5%)
Management of Companies and Enterprises	317	28 (9%)	15 (5%)

INDUSTRY SECTOR	EMPLOYERS	+ 8 RC	+12 RC
Manufacturing	7,931	1,398 (18%)	866 (11%)
Mining, Quarrying, and Oil and Gas Extraction	140	12 (9%)	9 (6%)
Other Services (except Public Administration)	20,991	3,714 (18%)	3,016 (14%)
Professional, Scientific, and Technical Services	30,191	1,892 (6%)	1,276 (4%)
Public Administration	416	7 (2%)	5 (1%)
Real Estate and Rental and Leasing	7,414	763 (10%)	538 (7%)
Retail Trade	14,933	3,091 (21%)	2,052 (14%)
Transportation and Warehousing	5,324	581 (11%)	384 (7%)
Utilities	329	10 (3%)	6 (2%)
Wholesale Trade	12,922	1,386 (11%)	899 (7%)

# Voluntary Contributions Program

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- Allowable by federal law
- Voluntary Contributions Program (VCP): Authorized in state statute, RCW 50.29.026, the VCP allows employers to spend their own money to offset benefit charges to receive a lower tax rate for the next four years.

## State limitations:

1. Employers must pay a 10% surcharge on the benefit charges they want to offset.
2. Employers must have jumped 12 rate classes or more over the previous year.
3. Employers must pay enough money to drop at least 4 rate classes.
4. Money used to offset benefits charges must be paid by February 15.

# Voluntary Contributions Program: Example

- Example: A business has annual taxable payroll of \$200,000 every year. The business had \$0 in benefit charges before 2020 placing it in Rate Class 1 with a 0% experience tax rate.
- The business incurs \$15,000 in benefit charges in March – June 2020. For 2021-2024, the business would jump to Rate Class 40 with a 5.40% experience rate tax and \$10,800 in taxes owed annually for 4 years (\$43,200 from 2021-2024).
- Under the VCP, if the business pays \$15,000 (\$16,500 with surcharge) to offset the benefit charges, it goes back to Rate Class 1 saving \$28,200 (\$26,700 with surcharge) from 2021-2024.

# Voluntary Contributions Program: Policy Alternatives

- **Surcharge**: Employers pay a 10% surcharge for benefits they want to buy down. Potential Amendment: Eliminate the surcharge to lower the cost to employers.
- **Rate Class**: Only employers that saw an increase of 12 rate classes or more from the previous year can use the program. Potential Amendment: Allow employers that saw an increase of 8 rate classes or more to use the program.
- **Buy Down Amount**: Employers must buy down enough benefit charges to reduce their tax rate by at least 4 rate classes. Potential Amendment: Require a reduction of at least 2 rate classes so businesses can pay less up front to reduce their rate.
- **Payment Deadline**: Payments are due February 15. Potential Amendment: Extend deadline to March 31 as allowed under federal law.

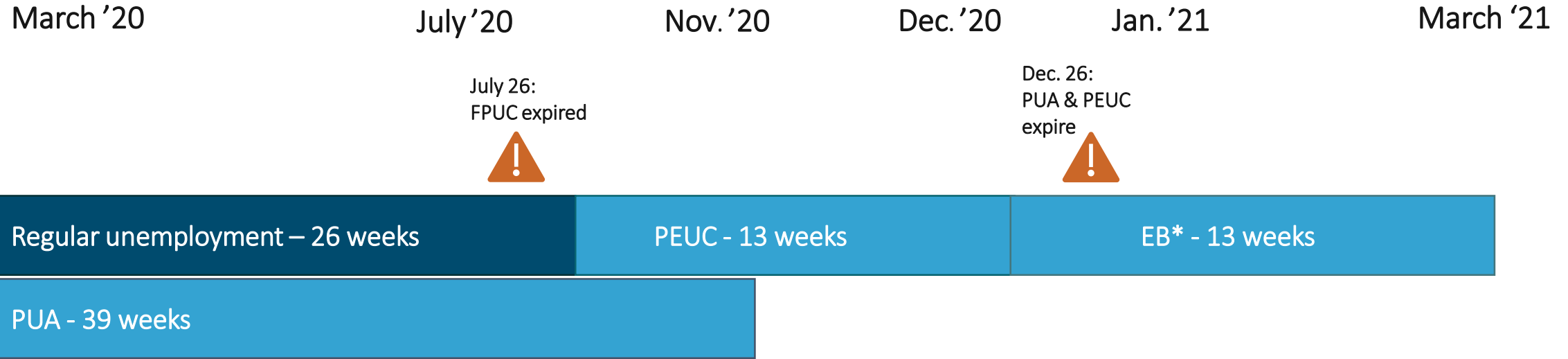


# Federal loans

We currently do not project a federal advance/loan is necessary.

- Federal loans are interest-free only through 2020. Congress would need to pass an extension of interest-free loans for 2021.
- Federal government loans accrue interest daily.
- Annual interest rates are the same rate the trust fund earned during the fourth quarter of the previous year.
- The trust fund cannot be used to pay interest.
- By law, ESD can charge the federal tax, of up to .15%, on employers for any quarter in which there will be an interest-accruing federal advance at the end of the quarter.

# Timeline: CARES Act Benefits Running Out



When benefits would run out, if someone started claiming the week of March 15

- UI/PEUC/EB: March 14
- PUA: Dec. 13
- All PUA & PEUC: Dec. 26

State funding

Federal funding

Dec. 26, 2020 is when all federal CARES Act benefits expire.

\* EB will be financed 50/50 state/federal in 2021 unless Congress acts

- We look forward to working together to mitigate the crisis' economic impact
- We're still in the throes of the crisis and need to address individuals' needs
- ESD continues to innovate to better serve Washingtonians

Key takeaways



Thank you!