

A photograph showing the silhouettes of several people sitting around a table in a meeting room, with a bright light source creating a lens flare effect. The image is positioned on the left side of the slide, partially overlapping the dark blue background.

# Unemployment Insurance ADVISORY COMMITTEE



**Employment Security Department**  
WASHINGTON STATE

November 12, 2020

# UI Tax Policy Options



**Employment  
Security  
Department**  
WASHINGTON STATE

## **Unemployment Insurance Advisory Committee Presentation**

*November 12, 2020*

Dan Zeitlin, Employment System Policy Director  
Employment Security Department

# Agenda



## **Social Tax Policy**

- Multi-year social tax relief
- Individual employer impacts
- Lowering the social tax/increasing the taxable wage base
- Federal borrowing

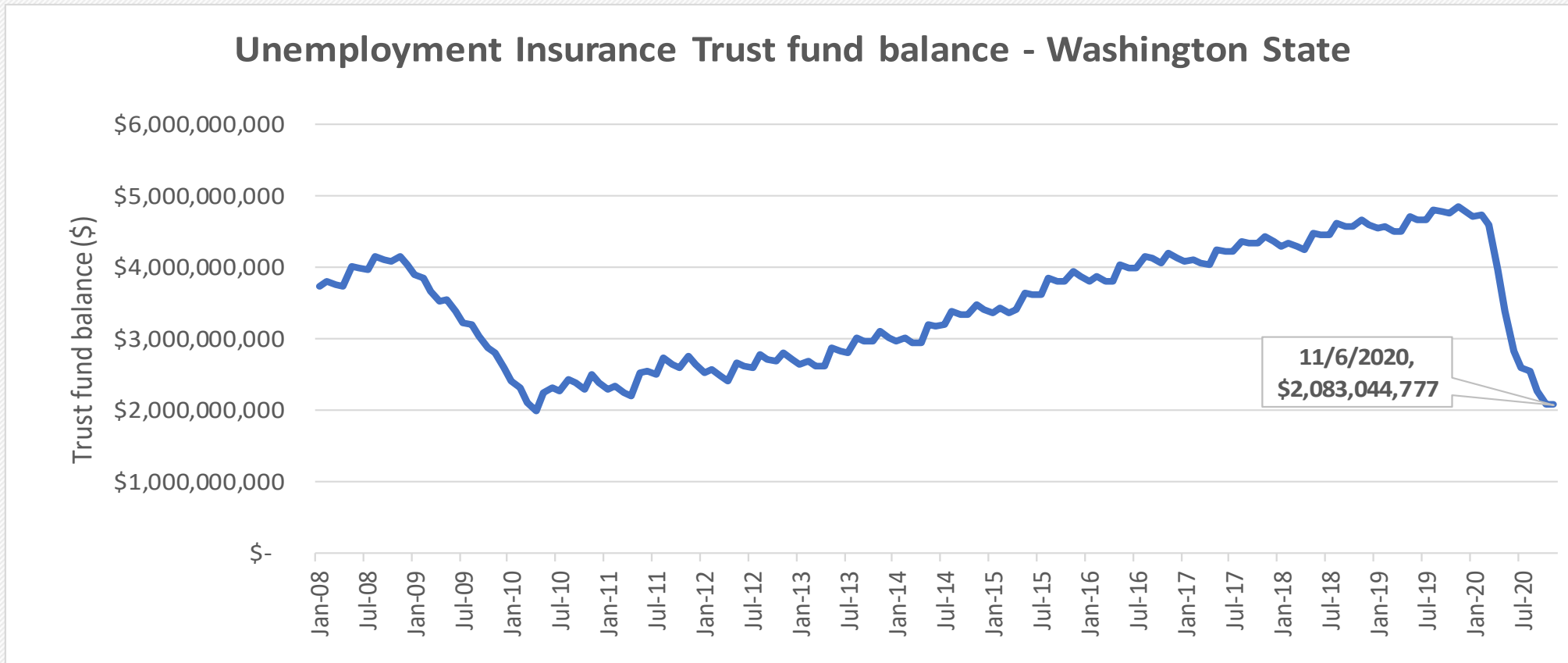
## **Experience Rate Tax Policy**

- HB 2965 COVID Unemployment Account Update
- Voluntary Contributions Program
- Federal Conformity Considerations

# Unemployment Insurance Trust fund



- On November 6, the UI trust fund balance was \$2.083 billion



Unemployment-insurance trust fund: September 2020 Baseline Forecast							
(based on reported in the September 16th, 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)</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	\$0.0	\$30.0	\$150.0	\$0.0	\$0.0	\$0.0	\$0.0
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	\$3,027.0	\$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>\$3,614.1</b>	<b>\$5,335.2</b>	<b>\$6,580.2</b>
<b>Months of benefits available (as of 9/30)</b>	<b>15.0</b>	<b>7.0</b>	<b>1.8</b>	<b>4.8</b>	<b>9.7</b>	<b>14.1</b>	<b>17.4</b>

# Social Tax Rate



- Per state statute, the taxable wage base was \$52,700 in 2020 and is \$56,500 in 2021.
- The flat social tax rate has a maximum tax cap of 1.22%.
- The tax is adjusted for each rate class.

### Current Policy: Social Tax Rates

CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
.25%	1.22%	1.22%	.60%	.60%	.35%

# Components of Annual Tax calculation – Social tax



Rate class	Graduation factor	Flat Social Cost Factor (2020)	Graduated Social Cost Factor (2020)	Flat Social Cost Factor (2021 - projected)	Graduated Social Cost Factor (2021 - projected)	Difference
1	40%	0.25%	0.10%	1.22%	0.49%	0.39%
2	44%	0.25%	0.11%	1.22%	0.54%	0.43%
3	48%	0.25%	0.12%	1.22%	0.59%	0.47%
4	52%	0.25%	0.13%	1.22%	0.63%	0.50%
5	56%	0.25%	0.14%	1.22%	0.68%	0.54%
6	60%	0.25%	0.15%	1.22%	0.73%	0.58%
7	64%	0.25%	0.16%	1.22%	0.78%	0.62%
8	68%	0.25%	0.17%	1.22%	0.83%	0.66%
9	72%	0.25%	0.18%	1.22%	0.88%	0.70%
10	76%	0.25%	0.19%	1.22%	0.93%	0.74%
11	80%	0.25%	0.20%	1.22%	0.98%	0.78%
21-40	120%	0.25%	0.30%	1.22%	1.46%	1.16%

# 2021-2025 Policy Options: Social and Solvency Tax



- Social tax smoothing assuming no interest on federal loans and removal of solvency surcharge.

(in millions)	UI tax options					
	Social Tax of 0.25% in 2021 and 2022, no Solvency tax	Social Tax of 0.25% in 2021, and 0.5% in 2022, with no Solvency Tax	Social Tax of 0.25% in 2021, and 0.75% in 2022, with no Solvency Tax	Social Tax of 0.5% in 2021 and 2022, no Solvency tax	Social Tax of 0.5% in 2021, and 0.75% in 2022, with no Solvency Tax	Social Tax of 0.75% in 2021 and 2022, no Solvency tax
Trust fund balance (12/31/2021)	\$ (345,562,306)	\$ (345,562,306)	\$ (345,562,306)	\$ (177,988,068)	\$ (177,988,068)	\$ (11,078,965)
Trust fund balance (12/31/2022) with loan - 1/2 loan paid back	\$ 569,892,363	\$ 756,464,980	\$ 942,212,767	\$ 850,912,461	\$ 1,036,660,248	\$ 1,130,315,894
Trust fund balance (12/31/2023) with loan paid back	\$ 1,697,800,139	\$ 1,919,911,967	\$ 2,141,041,848	\$ 1,719,242,863	\$ 1,940,372,745	\$ 2,533,891,825
Trust fund balance (12/31/2024)	\$ 3,331,300,180	\$ 3,559,017,078	\$ 4,002,186,189	\$ 3,353,284,019	\$ 3,796,453,130	\$ 4,404,949,874
Trust fund balance (12/31/2025)	\$ 4,719,206,834	\$ 4,952,670,248	\$ 5,442,792,566	\$ 4,741,745,442	\$ 5,231,867,761	\$ 5,737,383,673
Estimated amount of advance needed to maintain 3 months of future benefits	\$ 1,338,000,000	\$ 1,338,000,000	\$ 1,338,000,000	\$ 1,145,000,000	\$ 1,145,000,000	\$ 953,000,000
Estimated amount of borrowing	\$550m	\$550m	\$550m	\$350m	\$350m	\$150m
Flat social tax in 2023-2025	(.60%, .60%, .60%)	(.60%, .60%, .60%)	(.60%, .60%, .60%)	(.60%, .60%, .60%)	(.60%, .60%, .50%)	(.60%, .60%, .50%)
Reduction in Tax collections in 2021	\$646m	\$646m	\$646m	\$480m	\$480m	\$314m



# Tax Policy Impact on Individual Employers



## Spreadsheet Presentation

- Input for 2020, 2021 and 2025:
  - Taxable wages
  - Flat Social Tax Rate
  - Solvency Tax
  - Number of employees
- Find tax rate, tax paid and average tax per employee in each rate class.

# Tax Policy Options: Reduce Rate and Increase Taxable Wage Base



- Social tax smoothing assuming no interest on federal loans and removal of solvency surcharge. Increase in taxable wage base.

(in millions)	Taxable wage base increased to \$66,500 (2021) - Flat social tax rate ceiling of .25%-no solvency tax
Trust fund balance (12/31/2021)	\$ (200,248,264)
Trust fund balance (12/31/2022) with loan - 1/2 loan paid back	\$ 867,648,458
Trust fund balance (12/31/2023) with loan paid back	\$ 1,942,800,419
Trust fund balance (12/31/2024)	\$ 3,346,380,837
Trust fund balance (12/31/2025)	\$ 4,459,632,913
Estimated amount of advance needed to maintain 3 months of future benefits	\$ 1,250,000,000
Estimated amount of borrowing	\$350m
Flat social tax in 2023-2025	(.25%, .25%, .25%)
Reduction in Tax collections in 2021	\$502m

# Federal Borrowing Interest Rate Charges



- Loans are currently interest free through 2020 with an extension by Congress and the Administration needed to provide interest free loans in 2021.
- Loans from federal government accrue interest daily.
- Annual interest rate charged for the year is the same rate as what the trust fund earned during the fourth quarter of the previous year (Per [Treasury Direct](#), the 3rd quarter 2020 rate was 2.2783%).
- Cannot use trust fund to pay interest; can only use trust fund to pay principal.
- Per [RCW 50.16.070](#), ESD can charge a separate 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.

# Federal Borrowing Interest Rate Charges



[20 C.F.R. § 606.32\(b\)](#): To qualify for an interest-free “cash flow” loan in 2021, Washington must:

- Pay all borrowed money back by September 30, 2021;
- Not borrow again in October, November, and December 2021; AND
- The ratio of taxes paid divided by total wages reported must be greater than or equal to 80% of the previous year’s ratio; OR
- The ratio of taxes paid by taxable employers divided by total wages reported must be greater than or equal to 75% of the 5-year average ratio of benefits paid divided by total wages.

# Experience Tax Rate



- The experience rate tax is an annual calculation based on the ratio of benefit claims charged to the employer and “taxable wages” reported by the employer over the preceding four fiscal years.
- Per state statute, the taxable wage base was \$52,700 in 2020 and is \$56,500 in 2021.
- Maximum state UI tax is 6%.

## Current Policy: Average Experience Tax Rates

CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
.78%	.97%	1.52%	1.73%	1.75%	1.49%

# HB 2965 COVID-19 UI Account: Applications Approved



## 5283 applications received:

- Approved – 72% (3,804)
- Denied – 28% (1,479)

### Benefits not charged/otherwise relieved – 13%

- Weren't charged to employer
- Eligible for relief, not offset

### Employer not eligible for the program – 6%

- Reimbursable employer
- Inactive employer
- Employer account in arrears

### Employer did not submit proper application – 9%

- Not enough information
- Late application
- Not submitted as instructed
- Quarterly reports not submitted

# COVID-19 Unemployment Account: Industry Breakdown



Accommodation and Food Services – 786 (70%)

Administrative, Support, Waste Management – 321 (58%)

Agriculture, Forestry, Fishing and Hunting – 34 (47%)

Arts, Entertainment, and Recreation – 109 (68%)

Construction – 523 (82%)

Educational Services – 52 (62%)

Finance and Insurance – 62 (34%)

Health Care and Social Assistance – 1411 (87%)

Information – 70 (40%)

Management of Companies and Enterprises – 14 (43%)

Manufacturing – 281 (70%)

Mining, Quarrying, and Oil and Gas Extraction – 5 (60%)

Other Services – 261 (76%)

Professional, Scientific, and Technical Services – 279 (54%)

Real Estate and Rental and Leasing – 90 (59%)

Retail Trade – 534 (69%)

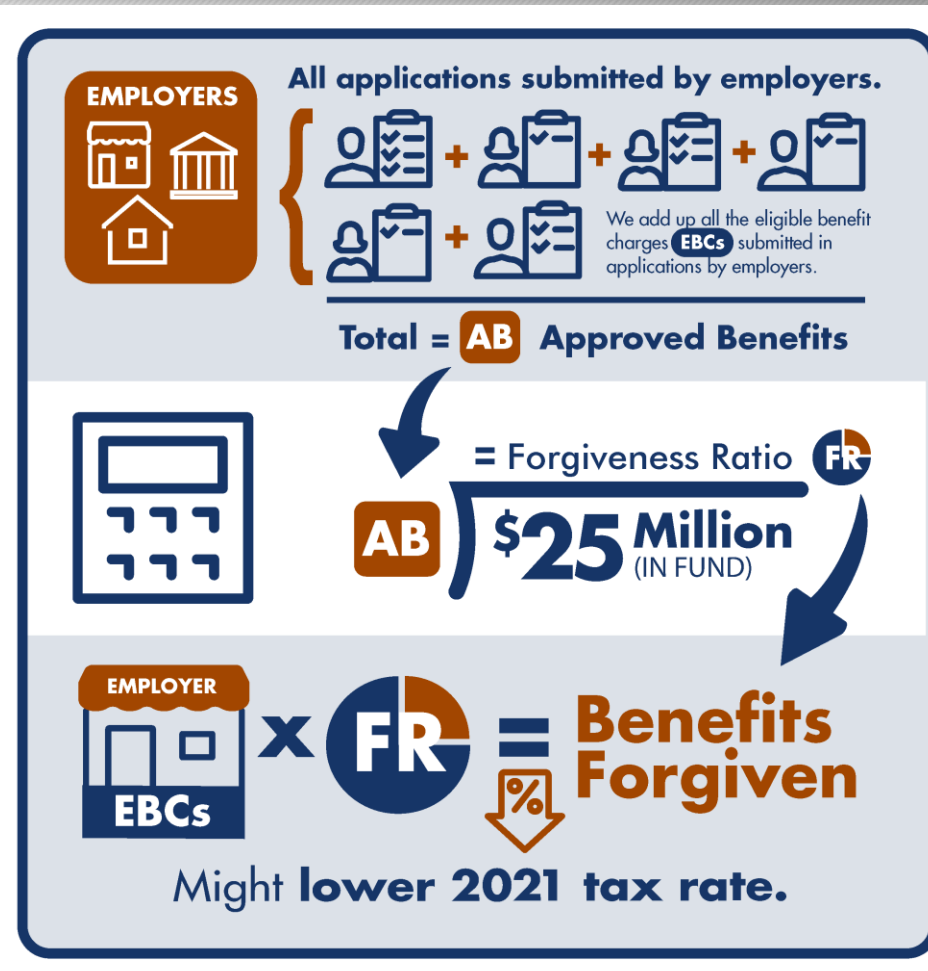
Transportation and Warehousing – 131 (58%)

Wholesale Trade – 320 (58%)

# COVID-19 Unemployment Account: Benefit Charge Offsets



- \$25 million available
- 3,804 businesses approved
- Businesses approved represent 40,451 workers
- Approximately \$105.26 million in relief approved
- 23.75% proportional benefit relief





# COVID-19 Unemployment Account: Increased Funding



- The 3,804 businesses approved represent roughly 2% of all WA businesses (184,120 qualified employers in 2020). Increased funding would increase the ratio of benefit forgiveness for business that applied.

Increased Funding	Forgiveness Ratio
\$25 million	23.75%
\$50 million	47.5%
\$75 million	71.25%

# Voluntary Contributions Program



- **Federal Law:** Per [26 U.S.C. § 3303\(d\)](#), states do not violate experience tax rate principles “if they permit voluntary contributions to be used in the computation of reduced rates” so long as the contributions are made within 120 days of the beginning of the year (April 29/30).
- **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:**
  - Employers must pay a 10% surcharge on the benefit charges they want to offset.
  - Employers must have jumped 12 rate classes or more over the previous year.
  - Employers must pay enough money to drop at least 4 rate classes.
  - 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.

# VCP Potential Amendments



- **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.

# 2021 Industry Breakdown By Numbers



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

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

# 2021 Industry Breakdown By Percentage



INDUSTRY SECTOR	EMPLOYERS	+ 8 RC	+12 RC
Accommodation and Food Services	16,406	34%	24%
Administrative, Support, Waste Management	13,804	11%	7%
Agriculture, Forestry, Fishing and Hunting	7,086	5%	3%
Arts, Entertainment, and Recreation	3,150	26%	19%
Construction	29,887	15%	9%
Educational Services	3,605	15%	10%
Finance and Insurance	6,533	6%	4%
Health Care and Social Assistance	78,945	9%	6%
Information	5,225	7%	5%
Management of Companies and Enterprises	317	9%	5%

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

# Experience Rate Federal Conformity Issues



## **Experience charging required to maintain federal UI tax (FUTA) credit:**

- WA employers currently pay .6% FUTA tax. Per USDOL guidance, [UIPL 29-83](#), the FUTA tax rate cannot be lowered below 5.40% unless the calculation of the lower tax rate is based on that employer's experience with unemployment claims.

## **Benefit noncharging permissible if one or both of the following conditions are met:**

- The worker's unemployment is the result of the worker's own action; or
- The worker's unemployment is beyond the direct or indirect control of the employer, except under circumstances where the unemployment is due to general economic, trade, or other business reasons (e.g. seasonal layoffs).

# Experience Rate Conformity Issues



## All businesses must be treated equally:

- [UIPL 24-77](#): Oregon's statute gave special benefit charge relief to employers in the food processing industry. USDOL guidance affirmed that all benefits and all employers must be charged by the same charging rule over the same time period.

## COVID-19 flexibilities:

- [The Families First Coronavirus Response Act Section 4102\(b\)](#): States are still in conformity with federal law if they change their laws and policies with respect to employment experience rating "on an emergency temporary basis as needed to respond to the spread of COVID-19."



# Next Steps



**Additional Questions/Needs**