

“GENEROUS” UNEMPLOYMENT INSURANCE SYSTEM ALSO COSTLY



Washington state's chamber of commerce

Background

In a state that leads the nation in unemployment insurance (UI) system costs, UI policies have a direct effect on Washington's economic competitiveness.

"You have, by far, the most generous system in the country," says Cheye Calvo of the National Conference of State Legislatures. With unemployment taxes per employee currently running more than three times the national average, he's probably right. Only Alaska is higher (See Table 1).

Largely due to current economic conditions, other state legislatures are unlikely to reduce benefits any time soon. Calvo says current high unemployment levels are spurring benefit and eligibility expansions in state systems that fall below the national averages.

In order to provide some context and to understand our UI policy issues better, we have selected 14 other states with which to compare Washington. These states, selected because of geographic proximity, economic similarity or because they compete directly with Washington for jobs and investment, are shown in Table 2.

Tied to the Seattle-Everett consumer price index (CPI) and well ahead of national averages for many years, Washington's maximum-weekly benefit amount is now \$496. This is nearly 48 percent higher than the national average of \$336 (See Table 3).

Washington is one of only eight states in which the weekly maximum benefit amount is computed based on a worker's highest two quarters of earnings. With the seasonality of many of the state's industries this results in higher benefit amounts for many unemployed workers than they would otherwise qualify for if their earnings were averaged over four quarters. This feature of Washington's system has prompted some to characterize it as "paying benefits on unearned earnings." Moving to four-quarter averaging decreases the average weekly benefit. Depending upon the seasonality of an industry's employment, four-quarter averaging can reduce the average weekly benefit amount by up to 15 percent, according to UI system administrators.

Washington's maximum weekly benefit represents 70 percent of the average weekly wage of workers in the state. Even Massachusetts provides a maximum weekly benefit amounting to only 50 percent of the state average weekly wage.

**TABLE 1
Taxes per Employee**

State	2001-3rd Qtr
Alaska	\$676.00
Washington	\$556.50
New Jersey	\$470.00
Oregon	\$450.00
Virgin Islands	\$429.30
Rhode Island	\$360.00
Hawaii	\$351.60
Idaho	\$331.20
Maine	\$324.00
Pennsylvania	\$288.00
Nevada	\$271.70
New York	\$255.00
Massachusetts	\$248.40
Michigan	\$247.00
Puerto Rico	\$238.00
West Virginia	\$232.00
Iowa	\$223.20
Connecticut	\$210.00
North Dakota	\$208.80
Montana	\$207.90
Wisconsin	\$199.50
District of Columbia	\$198.00
Illinois	\$189.00
Minnesota	\$189.00
California	\$182.00
Wyoming	\$176.40
Arkansas	\$162.00
Vermont	\$160.00
Delaware	\$144.50
New Mexico	\$143.10
Kentucky	\$136.00
Ohio	\$126.00
Maryland	\$119.00
Utah	\$110.00
North Carolina	\$108.50
Texas	\$108.00
Louisiana	\$105.00
Tennessee	\$105.00
Kansas	\$104.00
Missouri	\$98.00
South Carolina	\$98.00
Alabama	\$96.00
Mississippi	\$91.00
Colorado	\$90.00
Florida	\$77.00
Indiana	\$77.00
Nebraska	\$70.00
New Hampshire	\$64.00
Arizona	\$63.00
Virginia	\$48.00
Georgia	\$42.50
Oklahoma	\$42.00
South Dakota	\$42.00
United States	\$177.96

**TABLE 2
Comparison States**

- Alabama
- Arkansas
- California
- Colorado
- Georgia
- Idaho
- Illinois
- Minnesota
- New York
- North Carolina
- Oregon
- Texas
- Utah
- Virginia

**TABLE 3
Benefits and Duration
(as of January 2002)**

STATE	Maximum Weekly Benefit	Duration
Illinois	\$326-431	26
Washington	\$496	30
Minnesota	\$452	26
New York	\$405	26
Oregon	\$400	26
North Carolina	\$396	26
Utah	\$365	26
Colorado	\$358	26
Arkansas	\$333	26
California	\$330	26
Texas	\$319	26
Idaho	\$315	26
Georgia	\$284	26
Virginia	\$268	26
Alabama	\$190	26
U.S. Average	\$336	---

**TABLE 4
Work Requirements
(as of Jan. 2001)**

STATE	Suitable Work		Usual Occupation
	Work	Work	Occupation
Alabama			x
Arkansas		x	
California	x		
Colorado		x	
Georgia	x		
Idaho	x		
Illinois	x		
Minnesota	x		
New York			x
North Carolina	x		
Oregon		x	
Texas	x		
Utah	x		
Virginia	x		
Washington			x

And Washington and Massachusetts are the only states in the country that allow claimants to receive benefits for 30 weeks. All other states top out at 26 weeks of benefits. Here, some recipients can even qualify for 22 additional weeks if they are participating in approved training programs.

Economists point out that the more and longer you pay people for not working, the more likely they are to avoid work. According to Bill Conerly, an Oregon economist with a long history in social insurance systems, “Research has clearly documented that more generous benefits lead to longer spells of unemployment. Less diligent job search effort is the obvious culprit,” he says.¹ If our objective is to provide unemployed workers some relief in the event of losing their jobs and to help them to resume working again as soon as possible, then our unemployment insurance systems need to encourage greater individual self-sufficiency, he says.

Research from the Upjohn Institute confirms these conclusions, indicating that a 10 percent increase in wage replacement amounts can be expected to increase length of unemployment of the average claimant by 2 to 8 days. In addition, Upjohn research finds that a 10-week extension of benefits increases expected unemployment duration by 3.5 days to 2 weeks. From employer, employee, and economic competitiveness perspectives, these conditions have costly consequences. A 1998 Washington Research Council study estimated that if Washington’s UI system were to simply mimic the national average on the three main factors influencing overall cost (number of claims paid, benefit level, and duration of benefits), we would save upwards of \$240 million a year.² And these savings would not go just to employers and shareholders. According to Conerly, a large portion of these savings would be captured by workers in the form of higher wages.³

Comparing Washington’s High-Cost System

Several other system characteristics contribute to Washington’s higher costs.

- **Work requirements for UI claimants.** Most states require UI claimants to be able and available to work...period. Washington on the other hand allows UI claimants to hold out for work in their “usual occupation or for which [they are] reasonably fitted by prior training or experience.” Of our comparison states, only Alabama and New York have similar policies (See Table 4.)
- **Non-Charges.** There are several categories of “non-charges” – those charges that end up being born by all employers, rather than being “charged” to the account and experience rating of a particular firm. These included unemployment benefits associated with claimants who have voluntarily quit their jobs, those who have been terminated for misconduct, the state share of benefit costs, system overpayments and the like.

Washington's non-charges represented the largest proportion of total benefits of any of our comparison states, averaging \$43 million a year from 1988 to 1997 (See Table 5).⁴

Marginal Labor Force Attachment (MLFA). One category of non-charges – Marginal Labor Force Attachment – is unique to Washington and accounts for nearly 25 percent of this state's non-charges. With MLFA, employers are automatically relieved of responsibility for certain charges involving employees with irregular earning patterns. According to a study of Washington's UI system by Wayne Vroman of the Urban Institute,⁵ "MLFA is an automatic noncharging feature in Washington that does not depend on the reason for separation. Layoffs are as eligible for noncharging as quits." He points out that this is contrary to the reasoning for most non-charges, which normally reflect situations largely outside an employer's control.

Overpayments. Another category of non-charges of concern here is that of overpayments. Although they amounted to a relatively minor portion of total benefits during the period covered by Vroman's study, this category has been climbing in the last couple of years totaling \$825 million in 2000, amounting to more than 16 percent of total benefits paid (See Table 6). Employment Security department representative, Bob Wagner, says that the increase in 2000 was mostly a function of the economy. He reports that the department has instituted new automation that he believes will resolve much of the overpayment problem. Still, although our percent of overpayments came down to about 11 percent in 2001, the amount of our overpayments rose by more than 49 percent to more than \$1.2 billion and continues to exceed the national average of about eight percent.

- **Inactive employer accounts.** Inactive accounts reflect unemployment benefits paid to former employees of firms no longer doing business. In Washington these charges averaged more than 11 percent of total benefits paid from 1988 to 1997

(See Table 7). According to Vroman, Washington's high ranking in this category – averaging about \$90 million a year – was due to unusually high turnover among Washington's employers. He says that, "At this point in time we do not know how much of this turnover reflects the normal functioning of Washington's labor market and how much reflects "gaming" by employers looking to secure lower UI tax rates." Any new Washington employer is automatically assessed a UI tax rate equal to the average for their industry until they have

TABLE 5
Non-Charges as a Percent of Total Benefits
(Avg. for 1988-97)

STATE	Percent
Washington	24.9%
Arkansas	22.0%
Utah	18.4%
Idaho	17.7%
Oregon	17.0%
Texas	16.9%
Alabama	14.8%
Georgia	13.0%
North Carolina	13.0%
Minnesota	12.2%
Virginia	9.9%
California	6.5%
Illinois	6.3%
Colorado	5.9%
New York	1.6%
U.S. Total	10.6%

TABLE 6
Overpayments as a Percent of Total Benefits 2000 & 2001

STATE	2000		2001		Growth in Amount 2000 to 2001
	Amount	Percent	Amount	Percent	
Virginia	\$179,200,000	17.9	\$310,149,461	22.2%	73%
Texas	\$943,400,000	17.5	\$1,477,468,530	14.3%	57%
Colorado	\$145,300,000	16.3	n/a		
Washington	\$824,800,000	16.3	\$1,231,626,090	10.9%	49%
Arkansas	\$184,300,000	13.4	\$277,085,564	12.7%	50%
Utah	\$109,100,000	12.7	\$168,498,847	13.7%	54%
Idaho	\$105,500,000	12.4	\$146,449,236	15.6%	39%
Illinois	\$1,227,300,000	10.4	\$1,895,045,346	11.5%	54%
Minnesota	\$393,500,000	10.4	\$609,317,950	8.8%	55%
North Carolina	\$494,000,000	8.8	\$930,968,455	11.1%	88%
Alabama	\$193,400,000	6.1	\$263,644,096	7.7%	36%
Oregon	\$385,300,000	5.4	\$550,472,041	7.5%	43%
New York	\$1,697,000,000	5.3	\$2,648,135,067	4.8%	56%
California	\$2,476,600,000	5.1	\$3,392,291,011	5.6%	37%
Georgia	\$295,100,000	4.1	\$554,124,359	2.1%	88%
U.S.	\$20,175,000,000	8.5	\$29,897,623,916	8.2%	48%

TABLE 7
Inactive Account Charges as a
Percent of Total Benefits
(Avg. for 1988-97)

STATE	Percent	New Company Rate (as of 2002)
Arkansas	12.8%	3.3
Texas	12.0%	2.7
California	11.9%	3.4
Colorado	11.3%	1.7*
Washington	11.3%	1.0*
Oregon	10.8%	3
North Carolina	9.8%	1.2
Utah	9.3%	1.0-8.1
Georgia	8.2%	2.7
Minnesota	7.4%	1.0-5.4
New York	6.9%	4.1
Virginia	6.6%	2.5
Alabama	4.3%	2.7
Idaho	2.5%	1.5
Illinois	2.3%	3.1
U.S. Total	8.6%	---

* Minimum - New company rate tied to higher of industry average or minimum rate.

TABLE 8
Ineffective Charges as a
Percent of Total Benefits
(Avg. for 1988-97)

STATE	Percent
North Carolina	31.40%
Idaho	25.10%
Colorado	23.40%
California	22.00%
Alabama	20.20%
New York	19.50%
Texas	18.10%
Oregon	16.20%
Virginia	14.30%
Minnesota	13.70%
Georgia	12.40%
Illinois	11.30%
Arkansas	10.40%
Washington	9.50%
Utah	5.20%
U.S. Total	17.80%

enough time in the system to be experienced rated. The effect of this may be to create an incentive for businesses to close and to reopen under a new name. The math goes like this: If an employer has 15 employees receiving more than \$28,500 (the current taxable wage base) and is experienced rated at the top rate (5.4%), then its annual UI tax bill would be about \$23,000. If that business then closed its doors and reopened as a new business, it would be liable for UI taxes at the average rate for its industry or a minimum of 1 percent. Let’s assume the average rate for the industry is 2.5 percent. The new UI tax bill would be \$10,688, or an annual savings of more than \$12,000. The more employees, the bigger the savings. Other states have higher minimums, like Oregon at 3 percent. Washington UI officials, although familiar with Vroman’s concern, say they have not yet assessed the issue of employer turnover sufficiently to determine the nature or extent of the problem.

- **Ineffective Charges and Cross-Subsidies.** Ineffective charges are those UI benefits that cannot be charged to the appropriate employer because the employer has paid into the UI fund at the maximum rate and the resulting revenues have still been insufficient to cover all the claims against them. Again, Vroman explains. “To the extent that benefit charges are not effectively assigned... it increases the... cross subsidies among employers,” he says. And, indeed, this is the issue facing voters in November as the home-builders and other small construction contractors, together with the National Federation of Independent Business, attempt through Referendum 53 to reverse HB 2901, passed by the 2002 Legislature. HB 2901 raised the maximum tax rate paid by employers from 5.4 percent to a rate that ranges from 5.7 to 6.0 percent, depending on the schedule being used. And, it reduces the rates in other schedules with the intended effect of minimizing the cross subsidy flowing from stable employers (manufacturing, transportation, communications and utilities, finance, insurance and real estate, and wholesale trade) to less stable employers (agriculture, forestry, and fisheries, construction, and services)

Averaging about 9.5 percent per year between 1988 and 1997, ineffective charges represent about \$60 million annually (See Table 8).

- **Federal Extended Benefits.** As a result of changes adopted by the 1993 Legislature, Washington is one of only a few states using a relatively costly set of dual “triggers” – indexes that automatically dictate system characteristics during up and down economic conditions – that determine the amount and term of extended UI

benefits. According to Clif Finch, Governmental Affairs Director with the Association of Washington Business, “because of Washington’s unusually high seasonal unemployment, the alternative federal trigger that Washington has adopted will result in the state paying extended benefits during normal economic periods.” Vroman, in a study published in 1996 on Washington’s provisions, estimated that Washington “would pay out somewhat less than half” [its benefits] if it were to use the more common single-trigger mechanism.⁶

- **Call Centers.** The 1998 Legislature granted an Employment Security Department request to move to call centers for initial claims filing. It expressed "serious concerns" for eliminating face-to-face contact and directed the Joint Legislative Audit and Review Committee (JLARC) to compare the old and new systems to determine whether the change produced the desired fiscal savings and enhancements to decision quality and timeliness. In its subsequent report, JLARC found that savings did not materialize (due both to over-estimating savings and under-estimating costs), and that problems meeting Federal standards for decision quality and timeliness were exacerbated with the move to call centers.

The Department says that it is continuing to automate and refine call center operations and to train staff in order to overcome the problems outlined in the JLARC report. A status report is scheduled for release by the Department in the next several months.

Cases

Other states have managed their unemployment insurance costs to maintain a competitive business climate and move unemployed workers more swiftly into the productive labor force. Below we consider three such states: Illinois, Oregon and North Carolina. And for an innovative international experience, we look to Chile.

- **Illinois**

Illinois' UI system is much less costly on average than Washington's. Overall, UI taxes come to just \$189 per covered employee – about a third of Washington's costs. Several features contribute: In Illinois employers pay taxes on the first \$9,000 in wages, compared with Washington's \$28,500. Illinois' maximum tax rate is set at 6.8 percent compared with Washington's 5.4 percent.

Illinois' maximum weekly benefit amount is \$431, \$60 less per week than Washington's \$496. And, with only 26 weeks of benefits and a requirement that employees be able and available to work, Illinois' overall rates of UI taxes amounted to just \$189 per covered employee in 2001, compared with Washington's \$556.50.

Unemployment insurance is on the legislative agenda a lot, according to Mark Densler of the Illinois Manufacturer's Association, but there have been "no substantial changes in UI since the \$128 million cut of the mid-1990s." This cut represents only the second time since 1937 that political conditions have combined to cause a break with a process that both Densler and Jim Nelson, Legislative Liaison for the Department of Employment Security, agree is, "hands down," the "cornerstone of [Illinois' UI] system."

The "agreed-bill" process – which functions by mutual agreement, according to Nelson – requires that business and labor hammer out bill language, agreeing on any change (benefit enhancements, tax increases, even administrative changes) before going to the legislature. Until business and labor have an agreement, "the general assembly will not consider and the Governor will not approve," says Nelson. Without this process, says Densler, "we wouldn't get anywhere."

A Republican House, Senate and Governor in the mid-1990's resulted in the most recent, business-backed cut. The only other time in the history of Illinois' UI system that politics allowed a break with the agreed-bill practice was in 1975 when Democrats held the governorship and both houses of the legislature. In that year, labor won system enhancements over business opposition.

Nelson says that another aspect that makes Illinois' system a strong one is that both business and labor use the state employment agency as their sole source of information. The department, acting as neutral party, will draft any legislation anyone asks them to and will not oppose anything that has both labor and business backing. The department generates a lot of information for both sides without taking sides or providing any editorial comment. It will model proposals confidentially for anyone at no charge, releasing the analysis for general review only when asked to do so by the initiating person or organization.

Nelson says that Illinois touts the stability of its UI system to employers inquiring about possible location in the state. There has been no increase in the state taxable wage base (a flat \$9,000) since 1988 and no UI tax increases unless absolutely necessary, he says.

The department tries to make the administrative hearings process as simple as possible for everyone concerned, Nelson says, providing free legal representation to both employers and employees, as necessary, with \$1 million budgeted each year for both sides.

Finally, the state has never bought into the national standard basis for trust fund balances, according to Nelson. In 2001 their UI trust fund had grown to \$2.1 billion and business was urging elimination of the fund-building surcharge. Economic recession and rising unemployment have combined to reduce the fund balance, however, and both Densler and Nelson anticipate a tax increase later this year.

- **Oregon**

More similar to Washington, Oregon's taxable wage base is \$25,000. The maximum weekly benefit is \$405, about \$90 less than Washington. And, like most states, Oregon allows only 26 weeks of benefits. Oregon requires that unemployed workers accept suitable work, but stops short of Washington's relatively liberal rule, which allows workers to turn down employment that is not in their field. Still, Oregon employers pay an average UI tax of \$450 per covered employee – high by national standards, but still substantially less – by more than \$100 – than in Washington.

How well the UI systems works is "kind of in the eye of the beholder," according to Frank Richey of Oregon's Employment Security department. The success or failure of a system depends on your goals, he says.

In 2001 the Oregon legislature modified a 1990 ballot measure by which voters in 1990 enacted a new welfare system, called JOBS Plus. The recent changes extended some of the provisions of this program, providing UI claimants a 13-week work experience option. The program attempts to get unemployed workers back into the workforce more quickly so they can earn wages, upgrade skills, receive retraining, possibly, and identify new job opportunities. At the same time, advocates say, a participating employer can observe a participant's work prior to making a permanent hiring decision; train the participant on the company's business practices; receive a wage subsidy of \$5 an hour; and apply for federal tax credits that may be available for certain participants. "The JOBS Plus system...provides a safety net for those who truly need it, and encourages rather than discourages people to find jobs...We could be off by half in our estimates and there would still be great savings from the program," says Conerly.⁷

According to Lisa Trussel of the Association of Oregon Industries (AOI), however, the bulk of Oregon's major employers are not looking for subsidized wages. This is a potentially expensive program paid for by all employers that only serves a few companies, she says. Although a few of her members have used the new program and support it, she says there is no evidence that it has been a "resounding success." AOI supported the recent JOBS Plus legislation because it was written as a pilot and the bill directed the employment department to collect data measuring the program's cost effectiveness. Trussel says the program has been heavily marketed, but refers to a March 2002 letter from Oregon's Employment Department director, Debbie Lincoln. In it, Lincoln reports that 516 employers – primarily in the services sector – and 833 employees have so far participated in the program. With unemployment running in the tens of thousands, this does not represent a solution for many workers, Trussel says.

Asked what was working in Oregon's UI system, Trussel pointed to the state's "forward funding" of its UI trust fund. Unlike many states that fund their trust funds on a pay-as-you-go basis, Oregon and Washington conform more closely to the national standard for trust fund funding. Oregon, in particular, bases the amount required for its fund on the worst 18-month period in the last rolling 10 years, according to Trussel. The result for Oregon, she says, is that when the economy is in recession and unemployment hits eight percent as it is currently, there is less need for a large employer tax increase. "The purpose of the trust fund," she says, "is to be there for local communities when the economy is in the tank."

Richey agrees, saying that Oregon does not want to end up with a zero balance in the trust fund at the end of a recession. This might work for some states, he says, but Washington and Oregon both experienced back-to-back recessions in the 1970's and 1980's, and prudence requires that we be prepared for the possibility in the future.

Like Richey, Trussel says it's a matter of philosophy. Some people view the UI system the same way they do the welfare entitlement system. Her members, on the other hand, "view UI as an insurance system based on eligibility. They don't want their workers taking the first job that comes along, since they may be able to re-employ them again in four to six weeks."

- **North Carolina**

North Carolina has a much different approach to UI than Washington. Unlike this state, where unemployment claimants can refuse work outside their specific occupations and where work search requirements are relatively lax, work search in the North Carolina system "is not just an academic exercise," according to David Clegg of the state's Employment Security Commission (ESC). New claimants have six weeks to find work in their area of expertise, but if a job has not materialized by then, in his words, "the work search must extend beyond what you *want* to do, to what the labor market is willing to *have* you do. "We are very serious about work search" to the extent, that "a bunch of people have been cut off" from benefits, when ESC determined that they were not serious about finding employment.

Clegg emphasized that the ESC acronym for their department stands for "Economic Stability for Communities." The department believes its mission goes beyond just administering benefits. Work search is a "hugely important component" of our mission; so is bucking the federal mandate to consolidate and centralize ESC activities and move to call centers where claimants call in to let the system know they are still unemployed and looking for work. North Carolina still maintains its 90 local offices, according to Clegg, allowing "one-on-one, face-to-face contact and mentoring with employment advisors. We have seen our trust funds [balances] go up and claims come down as a direct result," he says.

An additional system feature is North Carolina's on-line employer services. Employers can compute their insurance payments or list new job openings over the Internet with very little intrusiveness from ESC, Clegg says. "I've been to other states' websites and – I'm sorry – if I was an employer, I'd just be mad!"

"We're not ga-ga for employers; we're not ga-ga for claimants. We're very serious about economic stability and that means keeping people employed," he says.

Leslie Bevacqua of the North Carolina Citizens for Business and Industry says, "We've been fortunate in North Carolina." Until last year, she explains, like many states, North Carolina's UI trust fund was over-funded. This led the state in 1996 (with the encouragement of the business community) to place a moratorium on employer contributions (depending on individual employer experience ratings). With the recent recession, unemployment payouts have begun to draw the trust fund down below a specific trigger point, and business and ESC are sorting out how to address fund replenishment.

- **Chile**

With economic competition increasingly a global issue, it pays to look at what other countries are doing. When it comes to UI, Chile has taken a particularly innovative approach.

Like Oregon, the system is too new for a track record, but it takes us "outside the box" somewhat to consider systems with reward structures that can target the needs of individuals without affecting the overall costs of the system.

"...Chile introduced new legislation that could lead to a new generation of reforms in unemployment insurance matters," according to the International Labour Office.⁸ Under this system, which is both more conservative and more liberal than typical UI programs in the US, employees contribute to IRA-type accounts that are invested in a mixture of stocks and bonds.

In it, a fixed percentage of an employee's wage (Chile started with three percent – 0.6 percent contributed by the employee, along with an employer contribution of 2.4 percent) goes into an individual account for each employee. This account is, then, administered by one of several competing private funds. The government makes a flat annual payment (about \$12 million) for workers whose contributions are insufficient to guarantee minimum benefits.

Unemployed workers can draw about 40 percent of their wages for up to five months anytime they are out of work, regardless of whether they have been laid off or quit. At retirement, they may claim whatever balance remains.

Quoted in an article in the NY Times describing the system, Chilean labor minister Scolari says, "We're not doctrinaire on this question, we're just being practical." The only concern expressed by organized labor centered on whether the Chilean economy was strong enough or large enough to support the system.

Effective October 1, 2002, the system is currently in its initial phases of implementation.

Findings

1. Washington has one of the nation's most generous and most costly UI systems. Maximum weekly benefit amounts and the state's taxable wage base, which increase with an old state formula tied to state average wages, combine as the primary culprits, overstating cost-of-living increases in most years.
2. Research has clearly demonstrated that more generous benefits, on average, lead to longer bouts of unemployment.
3. Washington's UI system has supported substantial cross-subsidy over the years, an estimated average annual shift of \$60 million from stable employers to generally less stable employers. In addition benefit calculations impact some employer at the expense of others.
4. Washington has a high rate of employer turnover.
5. Washington has unusually high overpayments.
6. UI systems that place a high value on economic stability view employment as a opportunity.

Recommendations:

1. **Staunch the growth in current maximum benefit amount and taxable wage base.**
The statutory formulae used to determine increases in these system characteristics are out of line with real costs of living and are unnecessarily burdening the system with higher costs. Change the index used to the Implicit Price Deflator or some other index that more realistically reflects cost-of-living changes.
2. **Eliminate MLFA provision.**
Unique to Washington, this provision is unnecessary. It allows certain employers to socialize the UI costs of employees who only work for short periods each year, so that these employees' periods of unemployment do not affect the employer's experience rating.
3. **Reduce number of weeks of eligibility from 30 to 26.**
Bring Washington into conformity with the rest of the country by reducing the maximum number of weeks of allowable UI benefits.
4. **Revise the triggers established for UI trust fund.**

Adjust the calculations used to trigger increases and decreases in employer UI tax rates so that the fund does not build balances greater than those suggested by national standards.

5. **Adjust federal extended benefit triggers.**

Eliminate the additional federal extended benefits trigger adopted by the Legislature in 1993 to reflect treatment more typical of the majority of states.

6. **Research the causes of Washington's employer turnover.**

Determine whether potential UI saving is a motivating factor for employers terminating businesses.

7. **Revise benefits determination rules to use a four-quarter average.**

Like many other states have done in recent years, move to four-quarter averaging to determine benefits in order to smooth the impact of unemployment benefit payments on seasonal industries.

Endnotes

¹ *Unemployment Insurance: Reed Act Distributions: What Should the States Do With Their Windfalls?*, American Institute for Full Employment, William B. Conerly, no date.

² *Getting Back to Work: Reconsidering Unemployment Insurance in Washington*, Washington Research Council, November 20, 1998.

³ *Jobs, Not Unemployment: Reforming Unemployment Insurance*, Cascade Policy Institute, William B. Conerly, January 1998.

⁴ *Unemployment Insurance Tax Equity in Washington*, Wayne Vroman, The Urban Institute, January 1999, Tables on Non-Charges, Inactive Accounts, and Ineffective Charges, averaging data from 1988 to 1997, represent the most recent comparative data available.

⁵ *Unemployment Insurance Tax Equity in Washington*, Wayne Vroman, The Urban Institute, January 1999.

⁶ *An Analysis of Unemployment Insurance Financing in Washington*, Wayne Vroman, June 1996.

⁷ *Jobs, Not Unemployment: Reforming Unemployment Insurance*, William B. Conerly, Ph.D., Policy Insight, Cascade Policy Institute, January 1998.

⁸ International Labour Office, *Labour Overview*, 2001, pgs. 48-51.