

Approved: 3-11-99
Date

MINUTES OF THE HOUSE COMMITTEE ON BUSINESS, COMMERCE AND LABOR.

The meeting was called to order by Chairperson Al Lane at 9:05 a.m. on March 10, 1999 in Room 521-S of the Capitol.

All members were present except: Rep. Broderick Henderson - excused
Rep. Dale Swenson - excused

Committee staff present: Bob Nugent, Revisor of Statutes
Jerry Donaldson, Legislative Research Department
Bev Adams, Committee Secretary

Conferees appearing before the committee: Bill Layes, KDHR
Terry Leatherman, KCCI

Others attending: See attached list

Rep. Grant made a motion to approve the minutes of March 4 and 5. The motion was seconded by Rep. Ruff. The motion carried and the minutes were approved as written.

The fiscal note for **SB 219** was handed out to the committee.

Committee Discussion: Reserve Ratio vs Benefit Ratio System

Bill Layes, Chief of Labor Market Information Services, Kansas Department of Human Resources (KDHR), appeared to discuss the two methods by which employers may be taxed for purposes of unemployment insurance. Kansas now operates under the "reserve ratio" system. Converting to a "benefit ratio" system would alter the state's method of "experience rating" or the way taxes are assessed for unemployment insurance. It would shift the tax burden across the employer base, but would not affect the overall amount of annual contributions received. (See Attachment 1)

Roger Aeschliman spoke from the audience saying that if the "benefit ratio" system is adopted, there will be winners and losers. It will be a significant change. He suggested that an official group be appointed to discuss the two systems. A good place to start the discussion would be to answer the question "What outcomes do we want?"

Terry Leatherman, Kansas Chamber of Commerce and Industry (KCCI), spoke on why "reserve ratio" vs "benefit ratio" is being discussed this year. It was part of the original **SB 270**, which the KCCI requested, but was removed from the bill because that part was flawed. When asked what kind of changes they wanted, the KCCI members said they want equity when paying unemployment taxes, and they feel that the "benefit ratio" system will bring this about. Negative pay employers pay only about one-half of what they collect.

Hal Hudson also spoke from the audience saying that the National Federation of Independent Businesses are letting their members know about the end of the moratorium and they are also discussing the "benefit ratio" system.

During the discussion, many questions were asked by the committee.

Chairman Lane appointed a sub-committee to further discuss the matter and to notify the committee of their conclusions. Rep Beggs will serve as Chairman. Committee members will be Rep. Ruff, Rep. Rehorn and Rep. Humerickhouse. They will meet next week in place of the regular committee meeting.

Chairman Lane adjourned the meeting at 9:48 a.m.

The next scheduled meeting is March 11, 1999.

TESTIMONY
HOUSE BUSINESS, COMMERCE AND LABOR COMMITTEE
RESERVE RATIO/BENEFIT RATIO SYSTEM
MARCH 10, 1999

Good morning Mr. Chairman and members of the Committee. My name is Bill Laves. I am Chief of Labor Market Information Services at the Kansas Department of Human Resources. I welcome the opportunity to appear before you today to discuss two methods by which employers may be taxed for purposes of unemployment insurance. The first is the reserve ratio system. The second is the benefit ratio system.

Experience Rating

Unemployment insurance is financed by a tax on employer payrolls. Employers are assigned a tax rate based on "experience rating." Under this concept, taxes are assessed based on each employer's experience with unemployment. Employers placing greater demand on the state's trust fund pay higher taxes and thus bear a greater share of the system's cost. Employers with lesser unemployment pay lower taxes. Converting from a "reserve ratio" system to a "benefit ratio" system would alter the state's method of "experience rating," that is to say, the way taxes are assessed for unemployment insurance. The change would not affect the overall amount of annual contributions received. Rather, it would shift the tax burden across the employer base.

Reserve Ratio System

Currently, each employer's standing for purposes of "experience rating" is determined through use of a "reserve ratio" system. The formula involves the subtraction of benefits paid from total contributions divided by average annual payroll. This is done to rank or "array" all employers. The higher the reserve ratio, the more favorable the tax rate the

employer is assigned. Conversely, the lower the reserve ratio, the higher the tax rate assigned. At present, there are 51 rate groups. Kansas has utilized the "reserve ratio" system as its funding mechanism since inception of its UI program in 1937.

Benefit Ratio System

Enactment of a "benefit ratio" system would revise the formula by which employers are ranked or "arrayed" for "experience rating" purposes. The formula involves the division of total benefits charged for the past five years by total annual taxable payrolls for the same period. The "benefit ratio" system removes employer contributions from the "experience rating" formula. This implies that the employer's experience rating account will no longer maintain an account balance (contributions minus benefits charged). Negative account employers will not exist under a "benefit ratio" system.

Benefit Ratio vs. Reserve Ratio System

The effects of converting to a "benefit ratio" system are illustrated in the following attachments:

- Case Histories of Employers upon Converting to a Benefit Ratio System
- Status of Employer Accounts in a Benefit Ratio System, Rate Year 1999
- Tax Rate Comparison between Reserve Ratio and Benefit Ratio, Rate Year 1999

Conclusion

Mr. Chairman this concludes my presentation. I will answer any questions the Committee might have.

Comparison of Actual Employer 1999 Tax Rates Reserve Ratio vs. Benefit Ratio

1-3

Reserve Ratio Formula

Benefit Ratio Formula

$$\frac{\text{Total Contributions Minus Total Benefits Charged}}{\text{Average Taxable Payroll Last Three Years}} = \text{Reserve Ratio}$$

$$\frac{\text{Total Benefits Charged Last Five Years}}{\text{Total Taxable Payrolls Last Five Years}} = \text{Benefit Ratio}$$

Employer A is a long time major retailer whose account balance has been positive for many years. It has experienced significant layoffs over the last five years. The Benefit Ratio ignores the employer's past good history, therefore the higher tax rate.

$$\frac{\$6.7\text{M} - \$3.5\text{M}}{\$13.1\text{M}} = 0.24427$$

1999 Tax Rate is **0.06**
\$4.80 Per Employee

$$\frac{\$687,000}{\$54.0\text{M}} = 0.01272$$

1999 Tax Rate is **2.62**
\$209.60 Per Employee

Employer B is a large employer, relatively new to the state. Since the employer has a limited history the use of the Benefit Ratio would result in a lower tax rate.

$$\frac{\$443,000 - \$67,000}{\$9.5\text{M}} = 0.03958$$

1999 Tax Rate is **2.41**
\$192.80 Per Employee

$$\frac{\$55,000}{\$29.7\text{M}} = 0.00185$$

1999 Tax Rate is **0.92**
\$73.60 Per Employee

Employer C is a long time mid-size manufacturing firm. It has been in business many years and although it has had some turnover, employment has remained stable. The tax rate varies little under either formula.

$$\frac{\$1.4\text{M} - \$968,000}{\$4.4\text{M}} = 0.09818$$

1999 Tax Rate is **1.66**
\$132.80 Per Employee

$$\frac{\$99,600}{\$20.0\text{M}} = 0.00498$$

1999 Tax Rate is **1.57**
\$125.60 Per Employee

Employer D is a mid-size employer in the construction industry. It has a high negative balance. Since the Benefit Ratio does not recognize negative employers the tax rate would be more favorable using that method.

$$\frac{\$1.4\text{M} - \$2.5}{\$760,000} = -144.73684$$

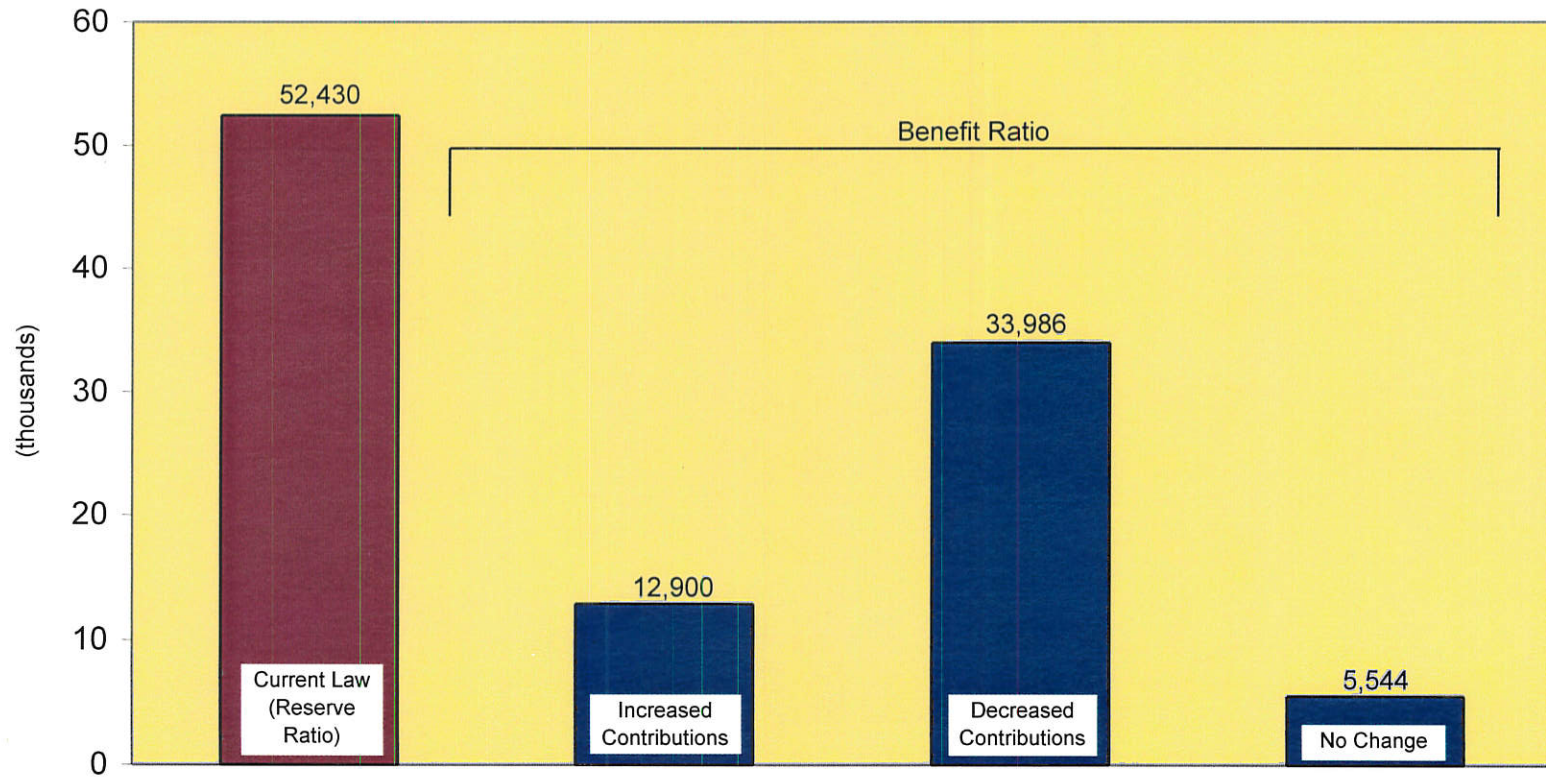
1999 Tax Rate is **6.00**
\$480.00 Per Employee

$$\frac{\$310,000}{\$3.8\text{M}} = 0.08158$$

1999 Tax Rate is **3.28**
\$262.40 Per Employee

1-4

Current Number of Accounts (Reserve Ratio) and Change in Contributions with Benefit Ratio Rate Year 1999



1-4

Table 1
 Tax Rate Comparison Between Reserve Ratio System
 and Benefit Ratio System
 Rate Year 1999

Reserve Ratio System		Benefit Ratio System	
Number of Accounts	Contribution Rates	Number of Accounts	Contribution Rates
46,918 ^{a/}		52,430 ^{a/}	
4,314	0.04	31,313	0.04
2,054	0.06	-	0.07
1,281	0.11	-	0.13
1,407	0.17	-	0.20
1,788	0.23	-	0.26
1,398	0.29	-	0.33
921	0.34	-	0.39
725	0.40	-	0.46
932	0.46	1,037	0.52
73	0.52	876	0.59
425	0.57	719	0.66
654	0.63	159	0.72
858	0.69	481	0.79
545	0.75	309	0.85
376	0.80	214	0.92
586	0.86	372	0.98
535	0.92	444	1.05
317	0.98	372	1.11
729	1.03	327	1.18
697	1.09	419	1.24
691	1.15	373	1.31
694	1.21	457	1.38
82	1.26	200	1.44
678	1.32	376	1.51
668	1.38	340	1.57
422	1.44	360	1.64
489	1.49	261	1.70
396	1.55	243	1.77
741	1.61	155	1.83
427	1.66	422	1.90
346	1.72	467	1.97
655	1.78	268	2.03
474	1.84	314	2.10
845	1.89	339	2.16
782	1.95	487	2.23
964	2.01	120	2.29
489	2.07	212	2.36
961	2.12	369	2.42
773	2.18	341	2.49
1,068	2.24	489	2.56
846	2.30	442	2.62
1,117	2.35	389	2.69
1,297	2.41	442	2.75
1,113	2.47	600	2.82
2,535	2.53	646	2.88
999	2.58	831	2.95
1,081	2.64	753	3.01
682	2.70	846	3.08
642	2.76	959	3.14
573	2.81	1,438	3.21
2,773	2.87	1,449	3.28

^{a/} Reserve Ratio System totals include positive balance accounts only.
 Benefit Ratio System totals include 5,512 negative balance accounts.