UNEMPLOYMENT INSURANCE SERVICES

Testimony for KS. Commerce House Committee
HB 2261 Employment Security Law; Reform of UI Tax rate system

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I am Jeff Oswald of Unemployment Insurance Services and I am representing a broad coalition of employers who have voiced their support for this bill. This group includes clients of my company, industry associations and groups, as well as many other individual employers. For the past year, a group containing many of these same employers and associations have engaged in an exhaustive review of the unemployment tax rate methodology currently used by the State of Kansas. As a result of this review, this group has formulated a reform to this methodology that would shift the method from the current arrayed system to a fixed tax rate schedule. Our goals in this project have been to provide a predictable and stable, but responsible method of funding the unemployment trust fund.

The consensus of Kansas employers has been that the current system over-taxes their organizations and is prone to huge variances in their annual tax liability. These variances make it difficult to plan and budget for this important expense. This frustration is only exacerbated by the feeling that they are being over-taxed by a system that does not reward "good players" in the system. This frustration is amplified further when a comparison is made of surrounding states and how their individual experience rating would be reflected in those tax rate systems. All of the employers that we engaged in this process would have a significantly better tax rate in the surrounding states if their experience was applied to the comparison states tax tables.

We believe that this reform will accomplish several key items. First, it will provide a method in which to responsibly finance the trust fund, but provide employers with much needed tax relief. Second, it will put a premium on each individual employer to properly manage their claims and charge experience. Employers who are not utilizing the system will be merit rated accordingly and will experience downward mobility if they maintain favorable reserve ratios. Third, it will not over-penalize employers who experience growth or have an isolated poor year in experience. These employers will see an increase in their tax rate, but the increase will be slower and modest compared to the current system. Fourth, we believe that this reform will make the Kansas system more competitive with surrounding states. Finally, the system has been built with automatic "solvency surcharges" to help the trust fund account for variances in the payment of benefit charges. These surcharges are based on the overall health of the trust fund and will be automatically implemented to reflect the actual balance of the trust fund.

To assist in the ensuring the solvency of the trust fund, this bill contains other key elements in addition to the solvency surcharges. This bill will cease the indexing of the maximum weekly benefit amount to the average wages of the state. Currently, Kansas has the ninth highest weekly benefit amount in the US. The bill will freeze the benefit amount at the current rate and future increases will be addressed statutorily. We are also maintaining the increase of the taxable wage base to $14,000 per employee.

Historically, part of the issues with the funding mechanism has been that the taxable wage base has been static at $8,000 since 1983 while at the same time the benefit amounts were increasing annually. These two elements combined will allow the taxable wage base to be more in line with weekly benefit amount and can be addressed statutorily in the future as a combined unit.

In conclusion, for the past year, our group has performed detailed analysis and comparisons of not only how the trust fund would perform in our proposed system, but how this system would impact individual employers. It is our opinion that we have devised a system that will responsibly finance the trust fund, but at a more measured rate of growth. This measured growth will allow employers to receive a merit rating that is based on their actual experience and use of the system. It will make it a premium for employers to be engaged in this process and to manage their claim activity in a proper manner. This reform will allow Kansas to have a more competitive tax rate system that is comparable with other states. Finally, it will provide tax relief for a vast majority of Kansas employers and provide them with a responsible and more predictable funding mechanism.

Thank you for your time and consideration of our proposed legislation,

Jeff Oswald
President/CEO
Unemployment Insurance Services

KS Unemployment Insurance Reform Bill Summary Information

Current Arrayed System (No Rate Schedules) KS Employers Total Annual Contribution Summary	
Years	Total Contributions
2015	
2014	$381,728,490
2013	$401,530,406
2012	$401,512,998
2011	$388,535,350
2010	$350,391,756
2009	$200,866,566
2008	$216,832,816
2007	$228,187,000
2006	$328,504,192
2005	$343,853,455
2004	$298,182,587
2003	$226,508,847
2002	$182,442,799
2001	$172,883,381
2000	$142,974,512
3 Yr. *(Actuals)* Avg.	$394,923,965
5 Yr. *(Actuals)* Avg.	$384,739,800
10 Yr. *(Actuals)* Avg.	$324,194,303
15 Yr. *(Actuals)* Avg.	$284,325,010

**This is the planned/anticipated yield (employer contributions) for Calendar Year 2015.*

Kansas UI Benefits Summary Including *The Great Recession* (1995-2014)		
Averages	Weekly	**Annual
2014	$5,630,605	$292,791,467
3 Yr. Avg.	$6,634,149	$344,975,735
5 Yr. Avg.	$7,636,067	$397,075,488
10 Yr. Avg.	$7,294,137	$379,295,118
15 Yr. Avg.	$6,733,093	$350,120,821
20 Yr. Avg	$5,741,543	$298,560,225
High Yr. (2009)	$14,881,228	$773,823,847
Low Yr. (1998)	$2,510,933	$130,568,497

Kansas UI Benefits Summary Prior to *The Great Recession* (1989-2008)		
Averages	Weekly	**Annual
2008	$6,173,148	$321,003,702
3 Yr. Avg.	$4,987,367	$259,343,085
5 Yr. Avg.	$5,108,423	$265,638,005
10 Yr. Avg.	$5,095,931	$264,988,427
15 Yr. Avg.	$4,330,397	$225,180,637
20 Yr. Avg	$4,069,486	$211,613,278
High Yr. (2003)	$7,464,547	$388,156,425
Low Yr. (1998)	$2,510,933	$130,568,497

*** KS UI bill provisions passed in 2013:*

KS HB 2105 - Inc. Tax Wage Base (2015, 2016), Amends Alternate Base Period, Hol./Vac. Pay Provisions, Defines Good Cause, Drug Tests.

KS SB 149 - Requires Drug Screening for Recipients of Cash Assistance and UI Benefits.

KS SB 187 - Establishing Workers Compensation and Employment Security Boards Nominating Cmte.

*** KS UI bill provisions passed in 2014:*

KS HB 2576 - Amends Criteria for Eligibility for New Employer Rate for Entering & Expanding Employers.

KS SB 371 - Amends Disposition of Penalty Funds and Disclosure of Confidential Information.

KS SB 372 - Amends Work Sharing Plan, Requires Benefits and Retirement Paid and Same Level.

Kansas UI Trust Fund Balance Summary (7/31)

Year	Balance	Year	Balance
2017	**$454,843,805*	1999	$519,654,159
2016	**$498,393,624*	1998	$574,987,475
2015	*$407,917,659*	1997	$621,436,243
2014	$232,809,126	1996	$675,364,102
2013	$169,323,408	1995	$729,808,088
2012	$47,127,702	1994	$724,639,490
2011	($7,973,318)	1993	$666,700,054
2010	$29,218,341	1992	$623,380,400
2009	$348,964,208	1991	$581,678,435
2008	$666,960,942	1990	$534,998,085
2007	$654,374,058		
2006	$619,927,139	1990 - 2008 Summary	
2005	$487,157,612	3 Yr. *(Actuals)* Avg.	$647,087,380
2004	$372,863,939	5 Yr. *(Actuals)* Avg.	$560,256,738
2003	$395,206,626	10 Yr. *(Actuals)* Avg.	$526,255,591
2002	$515,427,630	20 Yr. *(Actuals)* Avg.	$572,586,087
2001	$508,852,962	High Yr. (1995)	$729,808,088
2000	$522,130,844	Low Yr. (2004)	$372,863,939

** Estimated balance under the KS UI Work Group Fixed System Proposal*

KS Unemployment Insurance Reform Bill Summary Information

Summary Comparison for 7 of 44 States w/ Fixed System Contribution Rates & Est. Contributions for Rated Employers Only								
State	# of Rate Schedules	Reserve Ratio for Best Rate Group	# of Rate Groups	Min. Contribution Rate & Amount per EE		Max. Contribution Rate & Amount per EE		Taxable Wage Base
CA	8	20.000%	38	0.10%	$7.00	6.20%	$434.00	$7,000.00
DC	6	10.000%	17	0.10%	$9.00	7.40%	$666.00	$9,000.00
LA	6	9.500%	62	0.10%	$7.70	6.20%	$477.40	$7,700.00
MO	6	15.000%	38	0.00%	$0.00	7.80%	$1,014.00	$13,000.00
NM	7	10.000%	15	0.03%	$7.02	5.40%	$1,263.60	$23,400.00
TN	6	20.000%	24	0.01%	$0.90	10.00%	$900.00	$9,000.00
WV	5	18.000%	15	0.00%	$0.00	4.50%	$540.00	$12,000.00

Rate Schedules	Trust Fund Control (TF Balance)			KS UI Work Group Fixed System Contribution Rates & Est. Total Contributions				
	Lower	Upper	Solvency Adjustment (%)	Min. Contribution Rate & Amount per EE		Min. Contribution Rate & Amount per EE		Total Calendar Year Est. Contributions***
1	-$7,090,777,141.23	$141,815,542.81	1.60	1.80%	$252	9.20%	$1,288	$463,682,903
2	$141,815,542.82	$212,723,314.22	1.40	1.60%	$224	9.00%	$1,260	$436,877,746
3	$212,723,314.24	$319,084,971.34	1.20	1.40%	$196	8.80%	$1,232	$410,072,589
4	$319,084,971.36	$425,446,628.46	1.00	1.20%	$168	8.60%	$1,204	$383,267,432
5	*$425,446,628.47*	*$709,077,714.11*	*0.00*	*0.20%*	*$28*	*7.60%*	*$1,064*	*$249,241,647*
6	$709,077,714.12	$815,439,371.23	-0.20	0.00%	$0	7.60%	$1,064	$226,267,687
7	$815,439,371.24	$957,254,914.06	-0.40	0.00%	$0	7.60%	$1,064	$219,799,955
8	$957,254,914.07	$7,090,777,141.23	-0.60	0.00%	$0	7.60%	$1,064	$213,695,771

****** *New/Inelegible Employers account for $18M-$24M annually in past years. $22M is used for the Total Calendar Year Est. Contributions for each rate schedule.*

Rate Schedules	Est. Annual SUTA Cost Comparison ER with a 17.00% Reserve Ratio: *Rate Group 6*				Est. Annual SUTA Cost Comparison ER with a 5.00% Reserve Ratio: *Rate Group 21*			
	Co. A: 20 EEs	Co. B: 100 EEs	Co. C: 500 EEs	Co. D: 1,000 EEs	Co. A: 20 EEs	Co. B: 100 EEs	Co. C: 500 EEs	Co. D: 1,000 EEs
1	$6,720	$33,600	$168,000	$336,000	$16,240	$81,200	$406,000	$812,000
2	$6,160	$30,800	$154,000	$308,000	$15,680	$78,400	$392,000	$784,000
3	$5,600	$28,000	$140,000	$280,000	$15,120	$75,600	$378,000	$756,000
4	$5,040	$25,200	$126,000	$252,000	$14,560	$72,800	$364,000	$728,000
5	*$2,240*	*$11,200*	*$56,000*	*$112,000*	*$11,760*	*$58,800*	*$294,000*	*$588,000*
6	$1,680	$8,400	$42,000	$84,000	$11,200	$56,000	$280,000	$560,000
7	$1,120	$5,600	$28,000	$56,000	$10,640	$53,200	$266,000	$532,000
8	$560	$2,800	$14,000	$28,000	$10,080	$50,400	$252,000	$504,000

Kansas UI Work Group - Standard Rate Schedule & Employer Impact w/ Schedule 3

Standard Rate Schedule: Schedule 5			"Fixed" Reserve Ratio Limits	
Rate Group	Standard Rate	$UTA Tax per EE	Lower RR Limit	Upper RR Limit
1	0.20%	$28	18.590	1,000,000
2	0.40%	$56	17.875	18.589
3	0.60%	$84	17.160	17.874
4	0.80%	$112	16.445	17.159
5	1.00%	$140	15.730	16.444
6	1.20%	$168	15.015	15.729
7	1.40%	$196	14.300	15.014
8	1.60%	$224	13.585	14.299
9	1.80%	$252	12.870	13.584
10	2.00%	$280	12.155	12.869
11	2.20%	$308	11.440	12.154
12	2.40%	$336	10.725	11.439
13	2.60%	$364	10.010	10.724
14	2.80%	$392	9.295	10.009
15	3.00%	$420	8.580	9.294
16	3.20%	$448	7.865	8.579
17	3.40%	$476	7.150	7.864
18	3.60%	$504	6.435	7.149
19	3.80%	$532	5.720	6.434
20	4.00%	$560	5.005	5.719
21	4.20%	$588	4.290	5.004
22	4.40%	$616	3.575	4.289
23	4.60%	$644	2.860	3.574
24	4.80%	$672	2.145	2.859
25	5.00%	$700	1.430	2.144
26	5.20%	$728	0.715	1.429
27	5.40%	$756	0.000	0.714
N1	5.60%	$784	-0.714	-0.001
N2	5.80%	$812	-1.429	-0.715
N3	6.00%	$840	-2.144	-1.430
N4	6.20%	$868	-2.859	-2.145
N5	6.40%	$896	-3.574	-2.860
N6	6.60%	$924	-4.289	-3.575
N7	6.80%	$952	-5.004	-4.290
N8	7.00%	$980	-5.719	-5.005
N9	7.20%	$1,008	-6.434	-5.720
N10	7.40%	$1,036	-7.149	-6.435
N11	7.60%	$1,064	-1,000,000.000	-7.150

Rate Schedule	Estimated Total
1	$463,682,903
2	$436,877,746
3	$410,072,589
4	$383,267,432
5	$249,241,647
6	$226,267,687
7	$219,799,955
8	$213,695,771

Schedule 3: Employer Distribution Summary by Rate Group

Rate Groups	Rated Employers #	Rated Employers %	Contributions #	Contributions %	Taxable Wages #	Taxable Wages %
1	35,497	70.77%	$115,543,598	29.77%	$8,253,114,122	61.58%
2	692	1.38%	$2,908,384	0.75%	$181,773,989	1.36%
3	644	1.28%	$4,286,956	1.10%	$238,164,243	1.78%
4	589	1.17%	$4,545,718	1.17%	$227,285,910	1.70%
5	525	1.05%	$7,843,907	2.02%	$356,541,212	2.66%
6	435	0.87%	$3,608,925	0.93%	$150,371,882	1.12%
7	426	0.85%	$4,798,559	1.24%	$184,559,973	1.38%
8	399	0.80%	$4,688,378	1.21%	$167,442,070	1.25%
9	375	0.75%	$4,598,933	1.19%	$153,297,768	1.14%
10	343	0.68%	$2,965,501	0.76%	$92,671,913	0.69%
11	335	0.67%	$4,568,554	1.18%	$134,369,225	1.00%
12	336	0.67%	$5,898,976	1.52%	$163,860,457	1.22%
13	310	0.62%	$3,344,339	0.86%	$88,008,932	0.66%
14	274	0.55%	$5,111,101	1.32%	$127,777,529	0.95%
15	234	0.47%	$3,767,497	0.97%	$89,702,304	0.67%
16	259	0.52%	$3,217,620	0.83%	$73,127,735	0.55%
17	254	0.51%	$3,891,061	1.00%	$84,588,282	0.63%
18	230	0.46%	$4,563,971	1.18%	$95,082,728	0.71%
19	231	0.46%	$4,038,594	1.04%	$80,771,871	0.60%
20	212	0.42%	$4,806,437	1.24%	$92,431,486	0.69%
21	212	0.42%	$4,682,747	1.21%	$86,717,538	0.65%
22	193	0.38%	$3,584,444	0.92%	$64,007,930	0.48%
23	183	0.36%	$3,669,685	0.95%	$63,270,434	0.47%
24	179	0.36%	$3,832,545	0.99%	$63,875,754	0.48%
25	183	0.36%	$3,640,229	0.94%	$58,713,369	0.44%
26	130	0.26%	$2,831,942	0.73%	$44,249,095	0.33%
27	177	0.35%	$4,699,352	1.21%	$71,202,297	0.53%
	43,857	87.44%	$225,937,954	58.22%	$11,486,980,048	85.71%
N1	141	0.28%	$9,206,388	2.37%	$135,388,055	1.01%
N2	132	0.26%	$2,690,515	0.69%	$38,435,926	0.29%
N3	133	0.27%	$3,934,049	1.01%	$54,639,567	0.41%
N4	115	0.23%	$2,457,384	0.63%	$33,207,892	0.25%
N5	135	0.27%	$3,788,029	0.98%	$49,842,484	0.37%
N6	133	0.27%	$2,435,993	0.63%	$31,230,679	0.23%
N7	114	0.23%	$2,197,680	0.57%	$27,471,003	0.20%
N8	101	0.20%	$3,303,733	0.85%	$40,289,426	0.30%
N9	90	0.18%	$5,817,346	1.50%	$69,254,124	0.52%
N10	92	0.18%	$2,164,653	0.56%	$25,170,384	0.19%
N11	5,112	10.19%	$124,138,866	31.99%	$1,410,668,927	10.53%
	6,298	12.56%	$162,134,635	41.78%	$1,915,598,467	14.29%
Rated Employers (ERs)	50,155	100.00%	$388,072,589	100.00%	$13,402,578,514	100.00%
New/Ineligible ERs			$22,000,000			
Total Est. ER Contributions			$410,072,589			