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# A BILL FOR AN ACT

RELATING TO EMPLOYMENT SECURITY.

**BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:**

1 PART I

2 SECTION 1. In 2007, due to low unemployment rates in  
3 Hawaii and a large amount of reserves in the unemployment  
4 compensation fund (fund), the legislature passed Act 110, which  
5 reduced rates employers paid into the fund. Given that at the  
6 time the fund had approximately \$500 million in reserves,  
7 providing employers with some relief from unemployment insurance  
8 (UI) contributions appeared to be prudent. However, Act 110  
9 also contained provisions that would trigger the old  
10 contribution rates if the reserves in the fund became  
11 inadequate.

12 Since that time, Hawaii, as well as the rest of the nation,  
13 has experienced what is being called "The Great Recession" which  
14 has resulted in numerous business closures and massive layoffs,  
15 causing unemployment rates to skyrocket. Prior to the current  
16 recession, Hawaii experienced unemployment rates in the  
17 neighborhood of two per cent. Presently, Hawaii is experiencing

1 unemployment rates of around seven per cent, a five percentage  
2 point increase. This increased unemployment has strained the  
3 fund to the point where, according to the department of labor  
4 and industrial relations (DLIR), the fund will have a zero  
5 balance by October or November of this year.

6       The rapidly decreasing amount of the fund initiated the  
7 trigger established in Act 110, and will cause the UI  
8 contribution rates to increase, to rates which for many  
9 businesses will be substantial. On average, the UI contribution  
10 rate will increase from \$90 per employee per year to almost  
11 \$1,070 per employee per year, which will be difficult for  
12 businesses to bear and may have an enormous impact on the  
13 overall economic recovery of the state. Striking a balance that  
14 provides necessary relief for employers from dramatic increases  
15 in UI contribution rates against the need to maintain an  
16 adequate level of fund reserves is one way to work toward  
17 improving Hawaii's economy.

18       The future adequacy of the fund and the potential need for  
19 financial support for workers who may be affected by continually  
20 lagging economic conditions have been major considerations in  
21 attempts to determine how to resolve the difficulties that are  
22 attributed to trying to maintain an adequate reserve fund while

1 using contribution rates that are calculated based on the  
2 previous calendar year. One way to address this conflict and to  
3 help mitigate drastic rate increases in the future is to perform  
4 UI contribution rate calculations semi-annually rather than  
5 annually.

6 However, DLIR has stated that converting their current  
7 system that is based upon annual calculations, to one based on  
8 semi-annual calculations will require time, manpower, and  
9 financing. Accordingly, the purpose of this part is to require  
10 DLIR to conduct a study to determine the cost of converting  
11 their current unemployment contribution rate calculations system  
12 from one that calculates rates annually to one that does so  
13 semi-annually.

14 SECTION 2. (a) DLIR shall conduct a study of the  
15 unemployment compensation fund to determine the cost and  
16 feasibility of converting the present system for calculating  
17 unemployment contribution rates from one that makes these  
18 calculations annually to one that makes these calculations on a  
19 semi-annual basis. The study shall include equipment costs,  
20 computer software costs, labor costs, maintenance costs, and any  
21 other costs that may be incurred with the establishment of the  
22 semi-annual system. The report shall also include the timeframe

1 necessary for the establishment of a semi-annual system,  
2 including the time the department finds will be necessary to  
3 inform employers of the new semi-annual system, and shall  
4 include the department's plan for the implementation of  
5 implementing a new semi-annual system.

6 (b) The director of labor and industrial relations shall  
7 submit a report of the department's findings and  
8 recommendations, including any proposed legislation, to the  
9 legislature no later than twenty days prior to the convening of  
10 the regular session of 2011.

11 PART II

12 SECTION 3. Section 383-68, Hawaii Revised Statutes, is  
13 amended by amending subsection (d) to read as follows:

14 "(d) Subject to the requirements of section 383-63 to 383-  
15 69, an employer's contribution rate for calendar year 1992 and  
16 for each calendar year thereafter shall be that rate [~~which~~  
17 that appears on the same line as the employer's reserve ratio  
18 for that year in the contribution rate schedule applicable for  
19 the year as specified in subsection (c) [~~-~~]; provided that for  
20 calendar years 2010 and 2011, any employer beginning operations  
21 during the 2010 calendar year shall be subject to a reserve  
22 ratio of .0800 to .0899 and any employer already in operation

1 during the 2010 calendar year that hires new employees or re-  
 2 hires former employees who were laid off prior to January 1,  
 3 2010, shall be subject to a reserve ratio that is:

4 (1) Five reserve ratios lower than what that employer is  
 5 currently paying for their employees; or

6 (2) If paragraph (1) does not apply, the lowest reserve  
 7 ratio;

8 and shall only be applicable to those new hires or rehired  
 9 former employees.

10 CONTRIBUTION RATE SCHEDULES (rates in percentages)

11 Reserve Ratio	A	B	C	D	E	F	G	H
12 .1500 and over	0.0	0.0	0.0	0.2	0.6	1.2	1.8	2.4
13 .1400 to .1499	0.0	0.0	0.1	0.4	0.8	1.4	2.0	2.6
14 .1300 to .1399	0.0	0.0	0.2	0.6	1.0	1.6	2.2	2.8
15 .1200 to .1299	0.0	0.1	0.4	0.8	1.2	1.8	2.4	3.0
16 .1100 to .1199	0.0	0.2	0.6	1.0	1.4	2.0	2.6	3.2
17 .1000 to .1099	0.1	0.3	0.8	1.2	1.6	2.2	2.8	3.4
18 .0900 to .0999	0.3	0.5	1.0	1.4	1.8	2.4	3.0	3.6
19 .0800 to .0899	0.5	0.7	1.2	1.6	2.0	2.6	3.2	3.8
20 .0700 to .0799	0.7	0.9	1.4	1.8	2.2	2.8	3.4	4.0
21 .0600 to .0699	0.9	1.1	1.6	2.0	2.4	3.0	3.6	4.2
22 .0500 to .0599	1.1	1.3	1.8	2.2	2.6	3.2	3.8	4.4

<b>1</b>	.0300 to .0499	1.3	1.5	2.0	2.6	3.0	3.6	4.2	4.8
<b>2</b>	.0000 to .0299	1.7	1.9	2.4	3.0	3.4	4.0	4.6	5.2
<b>3</b>	-.0000 to -.0499	2.1	2.3	2.8	3.4	3.8	4.4	5.0	5.4
<b>4</b>	-.0500 to -.0999	2.5	2.7	3.2	4.0	4.4	5.0	5.4	5.4
<b>5</b>	-.1000 to -.4999	2.9	3.1	3.6	4.6	5.0	5.4	5.4	5.4
<b>6</b>	-.5000 to -.9999	3.4	3.6	4.2	5.2	5.4	5.4	5.4	5.4
<b>7</b>	-1.0000 to -1.4999	4.1	4.2	4.8	5.4	5.4	5.4	5.4	5.4
<b>8</b>	-1.5000 to -1.9999	4.7	4.8	5.4	5.4	5.4	5.4	5.4	5.4
<b>9</b>	-2.0000 and less	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4"

**10** PART III

**11** SECTION 4. In 1982, with the ongoing recession, high  
**12** unemployment, and a growing number of jurisdictions unable to  
**13** pay unemployment insurance benefits except from loans obtained  
**14** from the federal government, the legislature passed House  
**15** Concurrent Resolution No. 103, House Draft 1, which requested  
**16** the auditor to review the administration and adequacy of the  
**17** state's unemployment compensation fund and determine whether any  
**18** statutory changes needed to be made to maintain the solvency of  
**19** the fund.

**20** The findings and recommendations of this review were  
**21** published and submitted to the legislature by the auditor in a

1 report entitled "Study of the Financing of the Unemployment  
2 Compensation Fund of the State of Hawaii" in February of 1983.

3 The legislature finds that economic conditions similar to  
4 those faced in 1982 currently exist and that a review of the  
5 financing mechanisms of the unemployment compensation fund is  
6 prudent at this time.

7 Accordingly, the purpose of this part is to require the  
8 department of labor and industrial relations to review the study  
9 conducted by the auditor in 1982, reassess the recommendations  
10 of that report, and report back to the legislature on their  
11 findings and recommendations, including any proposed  
12 legislation, to address challenges facing the financing  
13 mechanisms of the unemployment compensation fund.

14 SECTION 5. (a) The department of labor and industrial  
15 relations shall review and reassess the findings and  
16 recommendations of the study conducted by the auditor in 1982 in  
17 accordance with House Concurrent Resolution No. 103, House Draft  
18 1. The review and reassessment shall consider any of the  
19 recommendations contained in the report that may be relevant and  
20 applicable to the current fiscal situation facing the  
21 unemployment compensation fund.

1 (b) The department of labor and industrial relations shall  
2 also review any recommendations contained in the study, or any  
3 other recommendations, regarding the fairness and equitability  
4 of the contribution rate schedules and determine whether there  
5 is a need to increase the fairness and equitability of the  
6 contribution rate schedules and how to accomplish this and shall  
7 include their findings and recommendations in the report  
8 required under subsection (c).

9 (c) The director of labor and industrial relations shall  
10 prepare a report on the department's review and reassessment of  
11 the study, including the review and assessment of any relevant  
12 recommendations proposed in the 1982 study, and submit their  
13 findings and recommendations, including any proposed  
14 legislation, to the legislature no later than twenty days prior  
15 to the convening of the regular session of 2011.

16 PART IV

17 SECTION 6. This Act shall not affect rights and duties  
18 that matured, penalties that were incurred, and proceedings that  
19 were begun before its effective date.

20 SECTION 7. Statutory material to be repealed is bracketed  
21 and stricken. New statutory material is underscored.

22 SECTION 8. This Act shall take effect upon approval.



**Report Title:**

Employment Security; Contribution Rate Schedules; Adequate Reserve Fund; Assessments

**Description:**

Requires the Department of Labor and Industrial Relations to conduct a study on the cost and feasibility of changing from annual to semi-annual the contribution rate schedules for unemployment contributions. Provides for fixed reserve ratios for calendar years 2010 and 2011 for employers commencing operations in 2010 and employers currently in operation who hire new employees or rehire employees that were laid-off prior to January 1, 2010. Requires the department of labor and industrial relations to review the auditor's study conducted in 1982 regarding the financing mechanisms of the unemployment compensation fund. Requires reports. (PROPOSED HB2702 HD1)

*The summary description of legislation appearing on this page is for informational purposes only and is not legislation or evidence of legislative intent.*