

TESTIMONY OF
CARL T. CAMDEN
PRESIDENT AND CHIEF OPERATING OFFICER
KELLY SERVICES, INC.

BEFORE THE

HOUSE WAYS AND MEANS COMMITTEE
SUBCOMMITTEE ON HUMAN RESOURCES
AND
SUBCOMMITTEE ON OVERSIGHT

JUNE 19, 2003

Good afternoon Chairman Herger, and Chairman Houghton, and members of the Subcommittees on Oversight and Human Resources. I appreciate the opportunity to speak with you today regarding our shared goal of a strong, viable and sustainable unemployment insurance program.

I am Carl Camden, President and Chief Operating Officer of Kelly Services. For those who may not be familiar with Kelly, the company was founded in 1946 and today is the second largest staffing services company in the United States. Our employees work in 50 states and in 26 nations. We own and operate our own branch network of 2,400 offices. Last year Kelly employed nearly 700,000 people.

Kelly Services recognizes the importance of an effective unemployment insurance system for workers, employers, and the economy as a whole. We applaud today's hearings to examine ways to improve and protect the system and to serve the needs of the unemployed.

Employers pay unemployment taxes at rates commensurate with claims activities by their employees. Employers with high unemployment activity are assigned higher unemployment tax rates, and employers with lower activity pay less. This fundamental principle – called experience rating – has worked well for years, but is now being undermined. A growing number of employers are engaged in tax avoidance schemes designed to disguise their claims experience. This practice, known as SUTA dumping, is a threat to the integrity and health of our unemployment system. The practice harms both workers and employers who play by the rules.

Workers are harmed because this questionable practice eliminates the incentive for employers to keep employees working – they can escape the financial harm that otherwise comes with laying off workers. State trust funds are depleted, taking away the flexibility to even consider benefit or eligibility changes.

Employers are harmed because they must pay more to make up for the taxes that other companies avoided through SUTA dumping.

It is important that Congress act promptly to solve this problem. The long-term labor market trends that make this practice attractive to some employers will continue - and accelerate. The adverse impact on the financial health of the unemployment insurance system will also continue to grow significantly.

As the proportion of service workers in the economy continues to increase – they comprised 16% of the workforce in 1960, and grew to 36% by 2000– so will the temptation to engage in SUTA dumping. This is because payroll taxes are a large and important part of a service company's total tax burden.

Because of the economic slow down, unemployment rates have risen significantly. Therefore, it is important to realize that the most opportune time for SUTA dumping is following a slowdown, when unemployment tax rates are high, as they are now and will be for several years.

As you know, state unemployment trust funds are under significant stress with the states of Illinois, Minnesota, Missouri, New York, North Carolina and Texas already borrowing from Federal accounts. California and Massachusetts will likely need to borrow before the end of the year.

In the staffing industry, people are our business. Therefore, payroll is our largest single cost. In 2002, Kelly's total U.S. payroll was \$2.1 billion. Our taxable payroll was \$1.4 billion, or 66% of our total payroll. If Kelly can reduce our unemployment tax rate by just one tenth of a percent, we can save \$1.4 million. Small rate changes have a big impact.

Because it is such a significant cost, we manage our unemployment compensation activities closely. We work hard to return employees to work as quickly as possible when economic conditions force layoffs. We provide training to upgrade employees' skills and increase the number of jobs they qualify for. We contest claims that we think are without merit.

The staffing industry has been particularly hard hit by the current state of the economy. In 2003, Kelly's unemployment taxes increased by \$12 million. But this is how the system is supposed to work. Tax rates increase following periods of high claims activity. On top of the 2003 increase, we estimate an additional increase for 2004 of \$14 million. Through a systematic SUTA dumping program, we could have avoided the entire \$26 million dollar increase. These are the kinds of increases that some companies have avoided through SUTA dumping.

These numbers are certainly large enough to get attention. Therefore, it is easy to understand why SUTA dumping is very tempting for labor-intensive organizations. I assure you that the numbers are significant enough to impact the competitive balance in the market place.

Kelly and the other companies who have said no to SUTA dumping are faced with two basic choices.

- We can ignore the issue, and allow a questionable practice to continue to threaten our competitiveness.
- Or, we can seek appropriate changes to eliminate SUTA dumping, and to protect and preserve the unemployment insurance system.

At Kelly Services, we choose the latter. We therefore urge Congress to act quickly to protect the integrity of the experience rating principle. We are suggesting that Congress:

- Require that state laws be revised to require the mandatory transfer of experience for mergers, acquisitions, and transfers of trade or business, regardless of the ostensible reason for the transaction.
- Direct the Department of Labor to develop tools and provide funding to train state agencies to detect the practice.
- Require appropriate enforcement by the states, of laws already on the books.

Chairman Herger, Chairman Houghton, we appreciate the work of your committees, the work of the Department of Labor, and of the state of North Carolina - and other states - on this important issue. Thank you for the opportunity to appear today. We look forward to working with you in any way we can.