

Experience-Rating Operations in 1941

A Preliminary Survey *

PRELIMINARY DATA reported by 8 of the 17 States where experience-rating provisions are effective in the calendar year 1941 indicate that 60 percent of all employers eligible for rate modification obtained rate reductions, while contribution rates in excess of 2.7 were assigned to 19 percent. Such "penalty" rates, however, were assigned in only 3 of the 8 States under consideration. These 8 States reported average monthly employment of 2.5 million in 1939, or 12 percent of the total for the United States. They also represent 46 percent of the average monthly employment in the 17 States with experience rating in operation during the current year. It is estimated that the rate variations assigned employers will reduce the yield to the 8 State funds by about one-third from that which would be collected from a uniform 2.7-percent contribution rate.

Although experience-rating provisions have been incorporated in 38 State laws, varied contribution rates under only 17 laws¹ are effective this year; in only 4 States² had modified rates been in effect in 1940. In 3 States, rate modifications became effective on April 1, and in 1 State on July 1; modified rates were effective in all the other 13 States as of January 1.³

Variations in Employers' Rates

Not all employers in the States were eligible for rate modification, since under pooled-fund laws employers must have had at least 3 years' experience with the risk of unemployment, and under employer-reserve laws at least 1 year's experience (chart 1). About 22,000 of the 83,000 employer accounts were ineligible for rate modification, and

* Prepared in the Research and Statistics Division, Bureau of Employment Security. This analysis does not deal with the factors responsible for rate modifications in the several States in which experience rating was in operation or with the distribution of modified rates by industry or size of firm. A discussion of these topics will be presented in a subsequent issue of the Bulletin.

¹ Alabama, California, Connecticut, Hawaii, Indiana, Kansas, Kentucky, Minnesota, Nebraska, New Hampshire, Oregon, South Dakota, Texas, Vermont, Virginia, West Virginia, and Wisconsin.

² Indiana, Nebraska, South Dakota, and Wisconsin. In Indiana and South Dakota, modified rates were applied to very few employers in 1940.

³ The effective date for rate modification was changed by amendments adopted during the 1941 legislative sessions in Connecticut, Hawaii, and Kansas, while in California, Indiana, Texas, and West Virginia other statutory provisions affecting rate modifications were also amended.

all these employers continued to pay the standard rate of 2.7 percent; of the 60,000 accounts which were rated, 60 percent received reduced rates, 19 percent received rates in excess of 2.7, and 21 percent continued to pay the 2.7 rate (table 1). In only three⁴ of the eight States does the law provide for penalty rates.

The rate structure of the State laws has had an important bearing on the rates assigned employers. In Minnesota and Texas, no rated employer received a contribution rate of 2.7, because the rate schedules in the State statutes do not contain such an assigned rate. Only in Minnesota were penalty rates assigned to a substantial proportion of employers (40 percent), because the law provides for an array of employers around the 2-percent rate, with rates in excess of 2 percent assigned to the same amount of pay roll as receives lower rates. At least one-fifth of all employers eligible for rate modification in six States obtained rates of less than 1 percent, and in one of these States, Nebraska, 45 percent of the employers obtained these low rates.

Although the minimum and maximum rates assigned vary considerably among the various States, the contribution rates of a fairly large proportion of all employers in some of the States tended to be concentrated at either the minimum or maximum rate, while in others there were concentrations at both the minimum and maximum. In both Minnesota and Nebraska, between 34 and 45 percent of all rated accounts obtained the minimum rate of 0.5 and approximately similar proportions of employers received the maximum rates of 3.25 and 2.7, respectively; in Wisconsin 24 percent and in Texas 30 percent obtained the minimum rates of zero and 0.5, respectively (table 1).

In most of the States with no provision for contribution rates in excess of 2.7 percent, employers' rates were concentrated at the maximum rate. In four⁵ of the five States where the maximum contribution rate is 2.7 percent, from one-half to two-thirds of all accounts received the

⁴ Minnesota, Texas, and Wisconsin.

⁵ Indiana, Nebraska, New Hampshire, and Vermont.

2.7-percent rate; only one-fifth of the rated accounts in the fifth State⁶ received this rate.

In two of the three States providing for penalty rates, the proportion of employers receiving such rates is far smaller than the proportion with reduced rates. While only 19 percent of all rated accounts in Texas and 9 percent of those in Wisconsin received contribution rates in excess of 2.7, the proportion of accounts receiving reduced contribution rates was from three to four times greater.

The tendency of experience-rating formulas to produce a greater proportion of reduced than increased contribution rates is further illustrated when attention is given to the proportion of accounts to which reduced rates are assigned. In Wisconsin, for example, 65 percent of all rated accounts obtained rates of 1 percent or less. In Alabama and Texas the fact that more than 60 percent of all rated accounts received contribution rates of less than 2 percent is probably ac-

⁶ Alabama.

counted for by the low benefit expenditures in 1939-40, coupled with the fact that the rate structure is designed to replenish the fund for average annual benefit expenditures.

Effect of Modified Rates Upon Yield

The assignment of reduced contribution rates to a larger proportion of employers and of the taxable pay roll than is subject to penalty rates will reduce the yield to the 8 State funds to two-thirds of that which would be obtained from a 2.7-percent contribution rate if the distribution of 1941 pay roll by contribution rates is the same as in 1940. The degree of reduction will vary considerably, from State to State, depending on the rate structure in the State's law and also on employment conditions. Rising pay rolls in 1941 as a result of the defense program will somewhat obscure the effects of experience rating upon the yield to State funds, since expanding employment and pay rolls will provide additional revenues to the State

Chart 1.—Significant experience-rating provisions of unemployment compensation laws of eight selected States, 1941

State	Effective date	Type of fund	Re-quired years of ex-perience with unem-employment risk	Index of experience with unem-employment risk	Employer charged for compensable unemployment	Method of rate computation	Contribution rate	
							Mini-mum	Maxi-mum
Alabama.....	April 1941.....	Pooled.....	3	Benefit wages for past 3 years di-vided by pay roll for same period.	All base-period em-ployers in propor-tion to wages.	Benefit-wage ratio correlated with State experience factor.	0.5	2.7
Indiana.....	January 1940..	Combined em-employer-reserve and pooled.	1	56 of 1936-38 contributions plus 95 percent of 1939-40 contribu-tions minus all past benefits divided by average 3-year pay roll.	Base-period employ-ers in inverse or-der.	Schedule of reserve ratios.	.135	2.7
Minnesota.....	January 1941..	Pooled.....	3	Benefit wages for past 3 years di-vided by pay roll for same period.	All base-period em-ployers in propor-tion to wages.	Benefit-wage ratio correlated with State experience factor.	.5	3.25
Nebraska.....	January 1940..	Employer-re-serve.....	1	Cumulative contributions minus cumulative benefits divided by pay roll. ¹	Base-period employ-ers in inverse or-der.	Schedule of reserve ratios. ²	1.5	2.7
New Hampshire.	January 1941..	Pooled.....	3	All past contributions minus all past benefits divided by higher of past 3 or 5 years' pay roll.	Most recent em-employer.	Schedule of reserve ratios.	.5	2.7
Texas.....	January 1941..	Pooled.....	3	Benefit wages for past 3 years di-vided by pay roll for same period.	All base-period em-ployers in propor-tion to wages.	Benefit-wage ratio correlated with State experience factor.	.5	4.0
Vermont.....	January 1941..	Combined em-employer-reserve and pooled.	3	Benefits for preceding 3 years ⁴ di-vided by pay roll for same period.	Base-period employ-ers in inverse or-der.	Schedule of benefit ratios.	.54	2.7
Wisconsin.....	January 1938..	Employer - re-serve.	1	All past contributions minus all past benefits divided by higher of last year's or average 3-year pay roll. ⁴	Most recent em-employers in inverse order.	Schedule of reserve ratios.	0	4.0

¹ 3.7-percent rate postponed by State legislation until 1943.

² Index of unemployment experience and rate schedule for 1941 established by agency regulation.

³ Statute permits zero minimum; 0.5-percent minimum for 1941 established by agency regulation.

⁴ Computation of 1941 index established by agency regulation.

⁵ Or 60 percent of largest pay roll for preceding 3 years.

funds. For this reason, comparisons of yield during the current year with 1940 collections will not be as revealing as comparisons of current yield with that which would have been obtained this year under a uniform 2.7 contribution rate. The latter comparison will have to await the accumulation of data on 1941 employment and pay rolls in order to ascertain the relative trends in pay rolls among the employers assigned given rates of contributions.

For the eight States under consideration, it is estimated that the yield during 1941 will be reduced below 2.0 percent of pay rolls in Nebraska, Texas, and Wisconsin; to 2.0 percent in Alabama; to 2.1 percent in Minnesota; and in Indiana, New Hampshire, and Vermont to 2.3, 2.5, and 2.4 percent, respectively (table 2). In Wisconsin and Nebraska, where experience rating was also operative last year, the estimated average yield of 1.4 percent of pay rolls for this year will represent declines of 13 and 26 percent, respectively, from 1940 levels. The 1.5-percent average rate in Texas represents a decline of 44 percent from the yield obtained in 1940. Although Indiana also had experience rating in effect last year, there was practically no reduction in the yield to the fund

then because few employers were eligible for reduced rates; this year it is estimated that the yield will be reduced to 2.3 percent of pay rolls.

About 25 percent of the pay rolls of all rated accounts in Wisconsin are exempt from contributions during 1941, while an additional 42 percent are taxed at only the 1-percent rate. About 54 percent of the pay rolls in Nebraska and 37 percent in Texas are being taxed at less than 1 percent.

In contrast, only about 6 percent of the State's pay roll is subject to contribution rates in excess of 2.7 percent in Wisconsin, while 11 percent of the pay roll in Texas and 30 percent in Minnesota are subject to penalty rates. In general, a greater proportion of larger firms tend to obtain reduced contribution rates than their proportionate representation in the State.

About 22,000, or one-fourth of all active accounts, did not receive modified rates, because their experience with the risk of unemployment was too short to make them eligible for rate modifications. That these accounts were of relatively small size is apparent from the fact that they represented only 7.7 percent of the aggregate 1940 pay roll of all these States, as compared with 27

Table 1.—Distribution of experience-rating accounts in eight selected States, by 1941 contribution rate

State	All accounts	Total unratd	Experience-rating accounts							
			Total	1941 contribution rate						
				0.0	0.135-0.9	1.0-1.8	1.0-2.6	2.7	2.75-3.6	3.7-4.0
Number										
Total.....	82,614	22,115	60,400	2,302	15,319	13,627	5,363	12,433	9,835	1,620
Alabama.....	5,334	2,169	3,165		686	1,239	589	651		
Indiana.....	10,628	1,716	8,912		1,851	1,415		5,640		
Minnesota.....	28,826	7,777	21,049		8,139	2,543	1,800		8,567	
Nebraska.....	3,517	389	3,128		1,424	198	13	1,523		
New Hampshire.....	3,916	1,182	2,734			177	1,094	1,463		
Texas.....	16,871	6,013	10,858		3,219	3,766	1,782		827	1,264
Vermont.....	1,597	615	982			317		640		
Wisconsin.....	11,895	2,251	9,644	2,302		3,972		2,510	501	356
Percentage distribution										
Total.....	100.0	26.8	100.0	3.8	25.3	22.5	8.0	20.5	16.3	2.7
Alabama.....	100.0	40.7	100.0		21.7	39.1	18.6	20.6		
Indiana.....	100.0	16.1	100.0		20.8	15.9		63.3		
Minnesota.....	100.0	27.0	100.0		38.7	12.1	8.8		40.4	
Nebraska.....	100.0	11.0	100.0		45.1	6.3		48.2		
New Hampshire.....	100.0	30.2	100.0			6.5	40.0	53.5		
Texas.....	100.0	35.6	100.0		20.7	34.7	16.4		7.6	11.6
Vermont.....	100.0	38.5	100.0			32.3	2.5	65.2		
Wisconsin.....	100.0	18.9	100.0	23.9		41.2		26.0	5.2	3.7

percent of all employers (tables 1 and 2). Such unrated accounts varied from 11 percent of all accounts in Nebraska to 41 percent in Alabama and from 2.8 percent of all pay rolls in Wisconsin to 13 percent in Texas.

The variation in the relative number of unrated accounts may be attributed in part to the differences in the coverage provisions of the State laws. States with more inclusive coverage provisions had large numbers of unrated accounts, because many newly established small firms were subject to their laws. In Minnesota, for example, which covers employers of one or more (in cities of 10,000 and over), more than one-fourth of all accounts

were unrated, while in New Hampshire, with four-or-more coverage, between one-fourth and one-third of the accounts were unrated. In part, too, the number of unrated accounts depended upon whether or not employers were required to have 1 or 3 years of experience under State unemployment compensation laws in order to be rated. Thus, the large numbers of unrated accounts in Alabama, Texas, and Vermont may be attributed to the fact that 3 years of experience was a prerequisite; conversely, the relatively small number in Nebraska may be attributed to the requirement of 1 year's experience as a condition for the assignment of modified rates.

Table 2.—Distribution of 1940 pay rolls in eight selected States,¹ by 1941 contribution rate

State	Esti- mated average 1941 em- ployer contri- bution rate	1940 tax- able pay roll	Total unrated pay roll	1940 pay rolls of employers eligible for rate modification									
				Total	1941 contribution rate								
					0.0	0.135- 0.9	1.0-1.8	1.9-2.6	Total below 2.7	2.7	Total above 2.7	2.75-3.0	3.7-4.0
Amount (in thousands)													
Total.....	2.0	\$3,242,602	\$248,434	\$2,994,168	\$156,086	\$521,030	\$902,004	\$306,157	\$1,886,177	\$881,023	\$226,068	\$167,927	\$59,041
Alabama.....	1.8	267,967	23,438	244,529	.....	30,378	78,481	88,447	197,306	47,223	.....	.....	.....
Indiana.....	2.3	814,737	28,172	786,565	.....	118,005	128,804	.....	216,989	539,576	.....	.....	.....
Minnesota.....	2.1	454,771	55,885	398,886	.....	61,301	122,654	94,072	278,027	.....	120,859	120,859	.....
Nebraska.....	1.4	117,905	4,564	113,341	.....	61,506	16,120	739	78,365	34,976	.....	.....	.....
New Hampshire.....	2.5	108,215	12,654	95,561	.....	.....	3,772	40,294	44,060	51,495	.....	.....	.....
Texas.....	1.5	777,912	100,469	677,443	.....	250,740	274,717	81,044	606,501	.....	70,912	32,868	38,074
Vermont.....	2.4	56,410	5,394	51,016	.....	.....	12,206	1,561	13,767	37,249	.....	.....	.....
Wisconsin.....	1.4	644,685	17,858	626,827	156,086	.....	265,070	.....	421,156	170,504	35,167	14,200	20,967
Percentage distribution													
Total.....	.....	100.0	7.7	100.0	5.2	17.5	30.1	10.2	63.0	29.4	7.6	5.6	2.0
Alabama.....	.....	100.0	8.7	100.0	.....	12.4	32.1	36.2	80.7	19.3	.....	.....	.....
Indiana.....	.....	100.0	3.5	100.0	.....	7.7	23.7	.....	31.4	68.6	.....	.....	.....
Minnesota.....	.....	100.0	12.3	100.0	.....	15.4	30.7	23.6	69.7	.....	30.3	30.3	.....
Nebraska.....	.....	100.0	3.9	100.0	.....	54.3	14.2	.6	69.1	30.9	.....	.....	.....
New Hampshire.....	.....	100.0	11.7	100.0	.....	.....	3.9	42.2	46.1	53.9	.....	.....	.....
Texas.....	.....	100.0	12.9	100.0	.....	37.0	40.5	12.0	89.5	.....	10.5	4.9	5.6
Vermont.....	.....	100.0	9.6	100.0	.....	.....	23.9	3.1	27.0	73.0	.....	.....	.....
Wisconsin.....	.....	100.0	2.8	100.0	24.9	.....	42.3	.....	67.2	27.2	5.6	2.3	3.3

¹ Variable rates are applicable to pay rolls for last 3 quarters of 1941.