# SUMMARY OF FINDINGS ON THE ALTERNATIVE BASE PERIOD
## (Volume I)

by

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# PREFACE

Planmatics is pleased to offer this final report on the evaluation of the alternative base period (ABP) for unemployment insurance (UI). The project was funded under Department of Labor Contract No. K-54255008030. The authors are Lalith de Silva, Saurabh Mittal, Philip Raptis, Roksana Houge, and Eugene Klein of Planmatics and Wayne Vroman of the Urban Institute. The Department of Labor project officers for the study were Ronald Wilus and Wayne Gordon. This report concludes over two years of evaluation involving six states.

This report has been packaged in six separate volumes so that readers can select those volumes that interest them most. **Volume I, Summary of Findings on the Alternative Base Period,** summarizes the information presented in Volumes II through VI. **Volume II, Impact of the Alternative Base Period on Administrative Costs,** contains descriptions of the processes and procedures resulting from implementing ABP and estimates of implementation and administrative costs. **Volume III, Impact of the Alternative Base Period on Employers,** contains analyses of the effects of ABP on employers and descriptions of reporting formats and mediums used. **Volume IV, Impact of the Alternative Base Period on the Trust Fund,** contains analysis and simulations of the impact of ABP on the trust fund in five states. The Urban Institute was responsible for the contents of this volume as a subcontractor to Planmatics. **Volume V, Demographic Profile of UI Recipients under the Alternative Base Period,** contains descriptions and analyses of workers eligible for unemployment insurance in New Jersey and Washington and comparisons with regular UI recipients. **Volume VI, Handbook for States Implementing the Alternative Base Period,** contains information on lessons learned from states with alternative base periods and provides guidelines on how to design and implement such systems.

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# 1. BACKGROUND AND INTRODUCTION

The Employment and Training Administration (ETA) of the US Department of Labor (US DOL) commissioned Planmatics to conduct a study on the implications of providing an alternative base period (ABP) option to unemployment insurance (UI) claimants in order to provide detailed information for national and state policymakers. The study focused on examining the experiences of six states that provide the ABP options.

The main objective of unemployment insurance is to provide temporary relief to workers who are separated from their jobs through no fault of their own, by offering them partial replacement for lost wages. Monetary eligibility for UI benefits is determined by insured wages (also called wage credits) earned by claimants while they were employed during a specified period of time--referred to as the base period (BP). The BP spans four contiguous calendar quarters, although the specific quarters vary among states. In most states they are the first four of the last five completed calendar quarters immediately preceding the filing of a claim.

Many workers do not meet the requirements for monetary eligibility because their recent earnings are not considered when the regular BP is used. Some of them would qualify if they were allowed to use more recent wage credits. Eight states have incorporated provisions into their state laws that allow claimants the option of having their eligibility determined by using recent earnings under an ABP. Maine, Massachusetts, New Jersey, North Carolina, Ohio, Rhode Island, Vermont and Washington have such statutes. In these states, the ABP provisions allow wage credits earned during the last completed calendar quarter (lag quarter) or quarter in which the claim is filed (current quarter) to be considered for eligibility requirements. Massachusetts is the only state that allows a second benefit determination among claimants already eligible under the regular base period. In the other seven, claimants can use the ABP option only if they are ineligible under the regular BP.

The ABP option has received recent attention due to the Pennington case and the issue of the equity of UI program entitlement. Pennington vs. Doherty originated from a class action suit brought in the U.S. District Court for the Northern District of Illinois by Ms. Pennington, a claimant from Illinois. The plaintiff was denied benefits because she had insufficient wages in her regular base period, although she would have qualified under an alternative base period. The U.S. District Court for the Northern District of Illinois granted a judgment in favor of the plaintiff. When specific groups of claimants cannot qualify for benefits using established base period criteria, but could qualify based on more recent wage credits, it raises the issue of making UI entitlement more equitable. An ABP helps UI to fulfill its mission by increasing the representation of a wider range of claimants, particularly low-wage workers, part-time workers, and those with intermittent employment patterns.

The alternative base period study had five major objectives: (1) to estimate the impact of ABP provisions on costs of state UI programs; (2) to estimate the impact of implementing ABP on employers; (3) to estimate the effects of the ABP on state UI financing and trust fund solvency; (4) to analyze the demographic and labor-force characteristics of potential recipients; and (5) to provide guidance to states on how to efficiently implement an ABP option.

A case study methodology was used to collect descriptive state data on ABP processes, implementation procedures, costs and outcomes. Structured interview guides and questionnaires were used to collect quantitative data. Discussions were conducted with state UI administrators and local office representatives involved in the design and delivery of services related to the ABP. Individuals from organizations representing employer interests were also interviewed. Information on the effects of ABP on employers was also gathered by requesting a sample of employers in four states to complete questionnaires on quantifiable outcomes such as reporting time, wages, and reporting media. Relevant written materials, including court documents, published reports, wage record files, state UI databases and internal memos from state DOL agencies were used to analyze issues pertaining to the research areas. The data were used to produce cost estimates, simulation models, and a handbook of best practices. Table 1 provides a summary of the areas covered by state in the evaluation.

**Table 1: Research areas covered in the project by state**

| State | Administrative Cost Impact | Employer Cost Impact | Trust fund Impact | Recipient Profile | Handbook |
|---|---|---|---|---|---|
| Maine | | X | | | X |
| Massachusetts | | X | X | | X |
| New Jersey | X | X | X | X | X |
| Ohio | X | X | X | | X |
| Vermont | | X | X | | X |
| Washington | X | | X | X | X |

The ABP states not covered in this study are Rhode Island and North Carolina.

The information presented in this report is based on the experience of states that were studied. While only limited cost data were available from these states, enough information was obtained to provide some guidance for national and state policymakers. Estimates presented here cannot be used to accurately estimate the effect of implementing an ABP in other states, because every state has a unique set of demographic characteristics, laws, processes, and systems, which in turn have varying impacts on UI claimants, state UI agencies, employers, and trust funds. However, the information collected, and the estimating methods used in the study, can assist policymakers in making inferences about the impact of adopting an ABP.

## 2. COSTS OF IMPLEMENTING AND ADMINISTERING ABP FOR STATE UI AGENCIES (VOLUME II)

This section contains the results of the study conducted to estimate the costs of implementing and administering the alternative base period in state UI agencies. The estimates are based on data from UI agencies in Vermont, Maine, Ohio, New Jersey, and Washington, and interviews with UI staff in these states. The limited data that were available were used to obtain estimates that will be useful to national policymakers and state UI agencies.

ABP costs will vary from state to state, depending on UI requirements, the type of industries in the state, the makeup of the labor force, and the ABP laws themselves. Costs to state UI agencies can be divided into one-time implementation costs and ongoing administrative costs.

The largest one-time costs are the programming costs for modifying UI computer systems and for training personnel. Changes in literature and forms, employer/claimant education, hardware purchases, and policy formulation and implementation are the other one-time costs.

Programming costs will depend on the type of the computer system being used by the state; systems that are more adaptable will have lower costs. These costs were estimated to be $64,000 in Washington and $223,500 in New Jersey. These costs are likely to be lower if UI agency personnel familiar with the state computer system make the changes than if outside contractors are used.

The increase in ongoing administrative UI costs arises from the increased number of eligible claims and the additional procedures required for ABP. Since more claimants become monetarily eligible for UI benefits under ABP, the volume of claims for nonmonetary determinations, appeals, first payments, and continued claims will increase. This will increase the costs of handling UI claims in each of these activities. Some benefit activities also need to be modified to handle ABP claims. The initial claimstaking and monetary determination activities require additional steps and procedures, increasing the processing cost for claims monetarily ineligible under the regular base period.

Heavily populated states that have a large number of ABP claims will incur greater administrative costs for handling these claims. The ABP provisions themselves will also affect ongoing ABP costs. For example, an ABP that includes the current quarter will have higher administrative and programming costs than an ABP consisting of the last four completed calendar quarters.

The costs will also depend on the system used to obtain lag or current quarter wage information when it is not available on the computer system. Although relying on a wage records system for all ABP claims leads to minimal ABP costs, it may lead to violation of the "payment when due" clause of 42 U.S.C. §503 (a) (1). The wage request system is most commonly used by ABP states to obtain unavailable lag or current quarter wage information. The wage affidavit system avoids the wage request process but leads to a higher frequency of corrections because of inaccurate information in wage affidavits.

Many ABP costs can be avoided or reduced through proper planning. Examples are the extra processing required because of reachback provisions in the ABP law, and manual processing while the computer system is being changed. Volume VI of this report, "Handbook for Implementing ABP," contains suggestions on how to efficiently implement and administer this UI option.

## 2.1 NEW JERSEY ABP EXPERIENCE

In 1995, New Jersey's Unemployment Compensation Law was amended in response to concerns that the state's base year period may have been unfair to individuals recently entering the labor market. The amendments provided claimants who were monetarily ineligible under the regular base period the option of having their eligibility examined under a base period consisting of the last four completed calendar (lag quarter ABP). Claimants monetarily ineligible under the regular BP and the lag quarter ABP could have their eligibility examined under a base period consisting of the last three completed calendar quarters plus weeks in the filing quarter (current quarter ABP). The amendments also provided an alternative base week amount and an alternative earnings test within each of the three base periods. The amendments resulted in fifteen eligibility provisions for unemployment insurance that are applied in a definite sequence. Only by failing the prior provisions, may a claimant qualify for benefits under a subsequent provision. These changes resulted in both one-time implementation costs and increased administrative costs for the New Jersey Department of Labor.

The one-time ABP implementation cost for New Jersey was estimated to be $1,391,519. This included the cost of programming changes to the computer system ($223,500), training personnel, preparation of training material ($606,504), hardware purchases ($214,195), and support personnel ($347,320).

The New Jersey DOL was unable to provide estimates of the ongoing costs because there had been no study to estimate such costs. Based on interviews with program administrators and local office personnel, UI processes were mapped out, and the time taken to complete the various processes following the implementation of ABP were estimated. These estimates were then combined with the volume of ABP claims and the wages of UI staff to arrive at an estimate of annual ongoing costs of administering ABP in New Jersey of $1,264,577. The costs would have been lower if New Jersey had implemented a smaller and simpler set of ABP options (as other ABP states have).

## 2.2 WASHINGTON ABP EXPERIENCE

In April 1987, the Washington state legislature passed a law (RCW 50.04-020) providing claimants the option of using an alternative base year. According to the law, if a benefit year was not established using the first four of the last five calendar quarters as the base year, claimants have the option of using the last four completed calendar quarters as the base year (alternative base period).

The one-time cost of programming changes due to ABP was estimated to be $64,000. The Washington Department of Employment Security was unable to provide information that could be used estimate other one-time costs.

The department was also unable to provide estimates of the ongoing costs. These costs were estimated through interviews with state UI personnel and the process time and cost data they provided. The annual cost of activities added to the initial claimstaking and monetary determinations was estimated to be $170,039. The annual cost of the increased volume of appeals, non-monetary determinations, first payments and continued claims due to ABP was

estimated to be $358,136. Thus, in Washington the total increase in the annual ongoing administrative costs due to ABP was estimated to be $528,175.

## 2.3 ABP EXPERIENCE IN OTHER STATES

### Ohio

The ABP in Ohio consists of the last four completed calendar quarters preceding the application date and may be used whenever a claimant has insufficient weeks or wages to establish a valid claim using the regular BP. Ohio is the only ABP state that uses a wage affidavit system if information on the lag quarter is unavailable on the database. Amendments to monetary determination are made when the quarterly wage report from the employer is received in a timely fashion and that information causes a change in the determination.

Ohio incurred the one-time cost for manually processing ABP claims while the computer system changes were being implemented. The Ohio Bureau of Employment Services (OBES) estimated this cost to be $563,212. Information regarding other one-time costs was not available.

The two UI administrative processes in Ohio that were affected by ABP are initial claimstaking and corrections. OBES estimated an additional annual ongoing cost of $185,859 in the initial claimstaking process. The annual ongoing cost of corrections was estimated to be $142,711. Therefore in Ohio, the annual ongoing cost of administering ABP for these two activities is estimated to be $328,571.

### Maine

The ABP in Maine consists of the last four completed calendar quarters preceding the application date and may be used whenever a claimant has insufficient earnings to establish a valid claim using the regular base period. The Maine Department of Labor had not tracked the one-time costs of implementing ABP. Only limited information about programming changes and training was provided. The Maine DOL estimated that 120 hours were spent on writing code and another 60 hours were spent on conference with benefits staff, but no details of the changes made

to the computer system were available. Training consisted of a half-day session for 90 people (this is a part of an annual seminar) and a half-day session at each of the 15 local offices.

**Vermont**

The base period in this state was the last 52 weeks when Vermont was using the wage requests system for handling all UI claims. On converting to a wage records system, the base period was changed to the first four of the last five completed quarters. However, having the base period consisting of the first four of the last five completed calendar quarters would have denied benefits to claimants who would have been eligible under the 52-week base period. Thus, two alternative base periods were included in the ABP law. Since Vermont converted from a wage request to a wage records system, the computer system was radically modified. The cost of redesign of the entire system was estimated to be between $1.3 and $1.5 million. The changes required for implementing ABP were only a small portion of the total cost; however, the Vermont Department of Employment and Training was unable to provide estimates.

## 3. IMPACT OF ABP ON EMPLOYERS (VOLUME III)

This section contains an analysis of the impact of implementing the ABP on employers' administrative costs: reporting burden, timing, and methods of wage reporting. The analysis is limited to states using the wage request system to obtain information not available in UI databases. Employers experience inconvenience and incur costs in complying with these wage requests. Additional administrative costs are generated if the UI agency decides to change the timing and/or the method of the quarterly reporting. These costs will vary with the size and type of employer, and the type of payroll system used. The other effect of ABP on employer costs, namely, changes in experience-rated taxes and state UI taxes, is covered in the Section 4 of this report.

The findings are based on interviews with representatives of employer organizations, payroll services, and state UI program administrators, and responses to a questionnaire sent to a

selected group of employers. The estimates presented in this section are not intended to represent national parameters.

## 3.1 COSTS OF PROCESSING WAGE REQUESTS

The most significant cost for employers is the cost of responding to wage requests. Using 1996 data from New Jersey, it was estimated that 54% of lag quarter ABP claims result in wage requests. All current quarter ABP claims result in wage requests. Wage requests add to reporting burdens because employers have to search company wage records to find information that will be reported to the state UI agency (or that has already been reported).

Based on the responses to the questionnaire, employers spend an average of 39 minutes in processing a wage request. The average wage rate of the person processing these requests was reported to be $14.27 per hour. The average processing cost to employers was calculated to be $9.76.

The relationship between the type of employer and the cost of responding to a wage request was analyzed. The employers were classified on the basis of the number of employees and the type of business. No strong correlation between type of business and the time and cost to process a wage request was observed. However, the time to process a wage request was found to be greater for smaller employers. The primary reason is that smaller employers use less sophisticated systems for recording and retrieving wages. Many smaller employers have to respond to wage requests by finding this information from a paper system which is cumbersome and often takes much longer than a computerized system. Also, in many small companies, payroll is handled by employees who do not have the experience equivalent to that of payroll personnel in large companies.

## 3.2 REPORTING WAGES EARLIER

If the wage reporting deadline were moved to an earlier date in the month, the number of wage requests would decrease. Massachusetts is the only state that has moved its wage reporting deadline to an earlier date, the 15th of the month following the quarter.

Using 1996 New Jersey data, it was estimated that if the reporting deadline were moved to the 15th of the month, the number of ABP claims resulting in wage requests would drop from 54% to 42% (a 22% decrease in the number of wage requests). However, it is difficult and sometimes infeasible for many employers to report wages earlier because of the activities required to process and report the information, make adjustments, and correct errors. According to the responses to the study questionnaire, only 59% of employers can report wages earlier than the last day of the month, and only 45% can report by the 15th of the month.

Small employers find it easier to report wages earlier. The reasons are: they have a smaller number of wage records to handle; they have fewer forms of noncash compensations, such as group life insurance, group legal services, and company automobiles; they have a lower number of payments made out of payroll processing procedures, such as educational assistance, moving assistance, and termination paychecks; and few small employers are multistate employers and do not have to deal with meeting different wage reporting deadlines in different states. In most cases, the larger employers find it more difficult to process wage records earlier than the last day of the month.

## 3.3 TYPES OF WAGE REPORTING

A second method of reducing the number of wage requests is to require more employers to use more efficient reporting media, such as magnetic or electronic media. The reporting media used by most states are paper forms, magnetic tapes/cartridges, and computer diskettes. Between 50% and 65% of wages are reported on magnetic media in the states studied. Paper forms are used for between 35% and 50% of wage reporting. A much larger percentage of small employers

report wages on paper. This is because in many states large employers must report wages using magnetic media.

Wage information submitted on paper may take 3 to 6 more weeks to be entered into the state UI agency's automated database than information submitted on magnetic media. If more employers reported wages using magnetic media, the number of wage requests would decrease. Using 1996 New Jersey data, it was estimated that if all employers reported on magnetic media, the number of ABP claims resulting in wage requests would drop from 54% to 44%, a 19% decrease in the number of wage requests. With computer use becoming increasingly common in business settings, many employers have the ability to convert to magnetic media. According to the responses to the study questionnaire, 71% of employers currently reporting on paper can switch to magnetic media at a reasonable cost. However, state UI agencies will encounter resistance to making wage reporting on magnetic media a requirement because many small employers lack such capability.

The two methods of reducing the number of wage requests--advancing reporting deadlines and requiring all employers to report wages on magnetic media—may be difficult to implement because of the difficulties and inconvenience to employers. A method that may be more acceptable to employers is a combination of the two. State UI agencies could require wage information on paper forms to be reported earlier than the last day of the month (e.g., the 15$^{th}$), while maintaining the current reporting deadlines for magnetic media. This a method would give small employers the option of either reporting earlier on paper forms or later using magnetic media, accomplishing the objective of expedited availability of wage information without appearing to be discriminatory or unduly burdensome to employers.

## 3.4 INCLUDING THE CURRENT QUARTER IN ABP PROVISIONS

Including the current quarter in ABP provisions increases the number of claimants who become eligible for UI payments. However, it also increases the administrative burden and costs to both employers and state UI agencies. Current quarter wage information is never available on state UI agencies' databases because wages are reported after the end of the calendar quarter.

Thus eligibility determinations using wages in the current quarter always result in wage requests. The methods and options recommended in Section 3.3 for reducing the cost to employers will not be applicable when the ABP includes the current quarter because these methods will only make the wages of the last four completed quarters available earlier on state UI agencies' databases. In addition to the increased administrative costs due to additional wage requests, the experience-rated taxes of employers may increase because of the increased possibility of claimants becoming eligible for UI payments. This issue is discussed in greater detail in Section 4.

## 4. IMPACT OF ABP ON THE TRUST FUND (VOLUME IV)

The effects on UI trust funds were examined using simulation models, and model-based estimates were developed in five states: Washington, Vermont, Ohio, Massachusetts, and New Jersey. These states include the four with the highest levels of covered employment and three with multiple definitions of the ABP. Where states had more than one ABP, the analysis estimated the effects of the individual elements of its ABP. The simulation models relied on common macro assumptions, e.g., the rate of wage inflation and the underlying unemployment rate for the baseline analyses, and emphasized the period from the start of its ABP program through the year 2005.

The models were spreadsheets that made deterministic simulations using annual data. Each model had five sections or modules that characterized important relationships in the labor market--UI benefits, UI taxes, trust fund interest, and the UI trust fund balance. The models incorporated important state-specific features in their behavioral equations. Included within each model was a section to simulate ABP benefits which could be "on" and "off". The estimated effects of the ABP on the trust fund and other variables were estimated by comparing paired simulations with ABP "on" and "off". Differences in outcome were attributed to the ABP.

States that offer an ABP have had increased UI benefit payouts because total eligibility for benefits have been expanded. The immediate effect of this was to reduce UI trust fund balances. Lower balances, in turn, lead to increased employer taxes through experience rating. In some

situations, the increases in taxes may be large enough to completely offset the increased outflow of benefits, leaving the long-run trust fund balance unchanged. In other cases, the increase in taxes is insufficient and the state's trust fund balance is reduced.

## 4.1 BASELINE RESULTS

In an environment of stable unemployment and stable inflation, the ABP causes a measurable but modest increase in total UI benefit payouts. The ABP is most important in Vermont where it represents 8.1 percent of total benefit payments over the ten years it has been in effect. In New Jersey, Ohio, and Washington, the additions to total payouts range from 3.2 to 7%. ABP benefits make the smallest contribution of 1.5% to total benefit payments in Massachusetts. Since its regular BP is the last four completed quarters, this is not surprising.

The simulations consistently show that ABP eligibles have lower weekly benefits than regular base period eligibles. When the weekly benefit amounts (WBAs) of ABP eligibles are expressed as a percentage of the overall average WBA, the percentages consistently fall into the range from 58.8% in Massachusetts to 74.5% in Vermont. As claimants gain eligibility based on more recent BPs, their WBAs tend to be systematically lower than those of persons with eligibility based on earlier BPs. Because ABP eligibles have below average earnings and below- average WBAs, they constitute a larger share of weeks compensated than their share of total benefit payments. The simulation averages during 1996-2005 range from 10.2% of weeks in Vermont to 2.2% in Massachusetts.

Differences in the definition of the ABP in the individual states influence the outcomes of the simulations. Because Massachusetts operates with a unique definition of the BP, its results are of little relevance for states considering adoption of an ABP. The other four states have important differences in their ABP programs that influence the simulation results. (1) New Jersey and Vermont have relatively large ABP payouts because they have more than one ABP provision. (2) Uniform duration of benefits among ABP eligibles may increase the relative importance of ABP payouts. Part of the high costs in Vermont may be attributed to its uniform duration. (3) Washington bases eligibility for UI benefits on hours worked during the BP. This works to the

advantage of its low-wage workers relative to those in other states in gaining eligibility under the regular BP. If so, this explains why Washington has comparatively lower benefit costs in its ABP program.

Taking into account all the preceding UI program structural features helps in narrowing the range of costs to be expected by a state considering adopting an ABP. Suppose a state instituted an ABP defined to be the past four completed quarters, i.e., ABP1. Suppose this state had a variable benefit duration along with average requirements for base period earnings and high quarter earnings. Such a state could find that the ABP represents from 4.0 to 5.5% of annual benefit costs and from 5.0 to 7.0% of annual weeks compensated.

## 4.2 EFFECTS ON TRUST FUND BALANCES

The trust fund effects of the ABP depend on the definition of the ABP used by a state and the state's overall financing situation. Many states have a structural imbalance in their financing due to differential indexation of benefits and taxes. About two-thirds of the UI programs in the United States index the maximum weekly benefit. This maximum increases automatically when the average weekly wage in UI-covered employment increases. However, only about one third of the states index their taxable wage base. For the other two thirds, the tax base is static and increases only through legislation. For these states, the long-run historical experience is that with the passage of time taxable wages increase more slowly than total covered wages, i.e., the taxable wage share of total wages decreases. Several states have increased their tax base only when it is required by federal legislation that increases the tax base for the federal UI tax, currently $7,000 per employee. Thus, about one-third of the states, including many larger ones, have automatic increases on the benefit side but not on the tax side of their programs when money wages increase. This situation holds for three of the five states where ABP models were developed- Massachusetts, Ohio, and Vermont. This asymmetry in UI financing strongly affected the results of the simulations.

Sustained increases in trust fund outflows due to the ABP could have effects on trust fund balances. While the benefit flows are not that large- below 10% of total payouts in all five states-

their cumulative impact could be important. Taxes increase and interest income to the trust fund decreases in all five states. For four of five states, the increase in UI taxes is insufficient to offset the combined effects of increased benefit outflows coupled with reduced trust fund interest. The reduction in interest income typically represents 20 to 27% of the increased benefit outflow attributable to the ABP.

The tax response of the individual states ranges from 0.71 of increased benefit payments in Massachusetts to 1.35 of increased benefits in Washington. However, because interest income is also reduced by the introduction of the ABP, reductions in ending trust fund balances are larger than would be inferred based just on the response of UI taxes. In three states, the reductions represent about 40% of the increased flow of benefit payments attributable to the ABP. Thus in the baseline simulations, a measurable decrease in the end-of-period trust fund balance can be attributed to the introduction of the ABP program. Only in Washington was the response of UI taxes sufficiently large to prevent a reduction in the ending trust fund balance. While taxes increased substantially in the other four states-from 71% to 100% of the increased benefit outflow-the response was insufficient to prevent the ending trust fund balance from being reduced.

### 4.3 THE EFFECTS OF HIGH UNEMPLOYMENT

Recessions affected trust fund balances even five years after the end of high unemployment in the year 2000. In New Jersey, Ohio and Vermont the ending balance in the high employment simulation was much lower than in the baseline case. The differences exceeded $1 billion in New Jersey and Ohio and $150 million in Vermont. This trio of states does not have enough capacity in their UI tax systems to restore the trust fund balances by the year 2005, while the year 2005 balances in Massachusetts and Washington are nearly as high in the high unemployment simulations as in the baseline.

When the payouts due to the ABP are then added in the high unemployment simulations, the ending balance in New Jersey is further reduced by almost another $1 billion. Vermont's ending balance decreases by $93 million. In these two states most of the added payouts due to

the ABP translate into further reductions in the ending trust fund balance even though the recession ended a five full years prior to the end of the simulation period. The Ohio simulations yield a different picture. The fund balance at the end of 2005 decreases by $305 million. But this decrease represents only 0.29 of the increase in UI benefits attributable to the ABP ($1.53 billion). The state's minimum safe level tax generates substantially higher revenues when the trust fund balance has been depleted. This tax continues to increase total tax payments throughout all years after the recession ends. As a consequence, the ratio of added tax revenues to added benefits in Ohio is 0.78 and there is a much smaller additional reduction in the ending trust fund balance due to the ABP. In Massachusetts there is also a responsive tax, at least sufficiently responsive given the modest increase in benefit payments implied by the state's current ABP arrangements. The increase in UI taxes totals $267 million or 88% of the increase in benefits attributable to the ABP.

The results from Washington stand in sharp contrast to the other four states. Here the ending balance is about the same with the ABP "off" and "on." The difference of $94 million should probably be interpreted as a zero difference. The important point is that fund balance is fully restored after a very serious recession. While the rates in its tax schedules are not very high, the high taxable wage base makes a major contribution to revenues, especially during and after recessions. Taxing 60% of covered wages generates much more revenues than taxing only 25-30% of covered wages.

Among the five states examined here only Washington has the taxing capacity to restore its UI trust fund when it has a serious recession and continues to pay ABP benefits. States with more limited taxation capacity would be expected to experience additional medium-term trust fund reductions as a consequence of having an ABP program. Such states would see only slow restoration of trust funds following a major recession. Paying ABP benefits would further retard the rate of restoration of the trust fund balance.

## 4.4 ESTIMATED COSTS OF ADOPTING THE ABP

The preceding model-based estimates can be used to make inferences about the costs of adopting an ABP by a state that currently does not offer one. Obviously, many state-specific

factors would influence the costs of such a change At least four factors are relevant: (1) the definition of the regular BP; (2) the definition of the ABP; (3) the earnings requirements of the regular BP, both high quarter-earnings and total BP earnings; and (4) the determination of potential benefit duration.

Most states considering an ABP currently use the earliest four of the last five completed quarters as their BP. Three definitions of the ABP seem especially likely to be considered by a state. Two have been already introduced: the last four completed quarters, and the 52 weeks preceding the filing of a claim for benefits. The latter is closely approximated by the ABP in Vermont. The third ABP is closely related to California's BP but with dates three months closer to the present. While this definition of the ABP is not at present used in any state, it deserves some added discussion.

Obtaining the earnings information needed to make monetary eligibility determinations during the first month of each calendar quarter presents difficult challenges. Employer quarterly wage reports are typically due at the end of the first month of the following quarter. During these months, the UI agency will not have wage data for the lagged quarter through employer quarterly wage reports. For these four months, a state might consider retaining the regular BP, whereas for the second and third months of each quarter, when employer-reported data are more routinely available, a later BP might make sense. Thus there is an argument (linked to ease of UI program administration) for using lag quarter earnings for the ABP only during the second and third quarters. This definition of the ABP can be termed the "California BP updated one quarter."

Using the last four completed quarters as the definition of the ABP is estimated to raise benefit costs from 4.2% (low estimate) to 5.8% (high estimate). The percentages are somewhat higher in moving to an ABP defined as the last 52 weeks before filing the claim, i.e., additions of from 6.0% to 8.3%. Finally, using the California regular period updated one quarter as the ABP yields low and high estimates of 2.8% and 3.9% increases in costs respectively. These cost increments, while measurable, are not large enough to pose immediate threats to trust fund

solvency. Most states could adopt an ABP without fearing an immediate and large drawdown of their UI trust funds.

## 5. DEMOGRAPHIC PROFILE OF ABP RECIPIENTS (VOLUME V)

The objectives of this part of the study were to determine whether the ABP benefits categories of workers who find it more difficult to meet the eligibility requirements under the regular BP, and to investigate whether ABP eligibles have a different demographic profile than regular BP eligibles. Four separate factors associated with using the ABP were examined. These are: (1) the relationship between total wages, hours of work in the base period, and wage rates of workers and their ABP use; (2) the relationship between types of industries and ABP use, as well as the reasons for job separation; (3) the differences in ABP use by age, gender, ethnicity, and education; and (4) repeat filing in successive benefit years and use of the ABP option.

The analysis was based on data provided by the Washington Department of Employment Security and the New Jersey Department of Labor. The Washington data were drawn from a 10% random sample of UI claims for 1987 to 1996. The analysis was performed on the eligible claims from August 1987 (when the ABP law was passed in Washington) to December 1996. New Jersey implemented the ABP option in late 1995 and therefore data on claimant characteristics are available only for 1996.

The general finding was that ABP allowed a wider range of the unemployed, especially those with low wages, part-time, seasonal, and temporary work, to qualify for unemployment insurance benefits. In Washington, persons eligible under the ABP represented 6% of all eligible UI claims while in New Jersey they accounted for 7.3%. These percentages do not necessarily imply that the number of monetarily eligible claimants increased by that percentage. These claimants would have become eligible for UI benefits using the regular BP if they had waited to apply for benefits until the beginning of the next quarter.

## 5.1 WAGES IN BASE PERIOD AND ABP USE

Unemployment insurance eligibles with low wages are more likely to use the ABP option. The average of BP wages for ABP eligibles was 57% lower than for regular BP eligibles in Washington and 69% lower in New Jersey. Statistical tests showed these differences to be significant. Wages of ABP claimants are lower because they are paid less per hour, and on average work far fewer hours than BP claimants. In Washington, the average BP wage rate of ABP eligibles was 16% lower than for regular BP eligibles and the average number of hours worked was 41% lower. The lower number of hours worked in the BP has a more significant impact on ABP use than a lower wage rate.

## 5.2 INDUSTRY AND REASONS FOR JOB SEPARATION

Industries with low wage rates and those that use contract labor, part-time, or seasonal workers have a higher than average percentage of ABP claimants. Industries that traditionally pay low wages -- agriculture, forestry, fishing, retail trade, and personal services -- display a higher ABP eligibility than industries, such as manufacturing, finance, insurance, and real estate, that are characterized as high wage sectors with stable workforce attachment. Industries using part-time and seasonal workers such as construction and public administration also exhibit high ABP eligibility.

There were only minor differences in the reasons for job separation of regular BP and ABP eligibles. "Temporary lack of work" is the predominant reason stated for job separation by 45% of regular BP and 54% of ABP eligibles. However, workers laid off due to seasonal/temporary work, completion of their contracts and temporary lack of work benefited more from ABP than workers laid off for reasons such as plant/company closure and permanent reduction in the workforce.

## 5.3 AGE, GENDER, EDUCATION, AND ETHNICITY

The difference in demographic characteristics of regular BP and ABP eligibles was studied by examining ABP claimants by age, gender, education and ethnicity categories. The following formula was used to measure the use of ABP within a category:

$$\text{ABP use in category} = \frac{\text{Number of ABP eligibles in category}}{\text{Number of total UI eligibles in category}}$$

Although middle-aged workers constituted a majority of both regular and ABP eligibles, ABP use is higher among younger workers and senior citizens. The age group who benefits most from ABP are teenagers, who are recent entrants into the labor force and tend to have low wages and part-time jobs. ABP use declines among the older age groups because middle-aged workers with steady jobs and high salaries are less likely to use this option. ABP use increased slightly for the oldest age groups (over 64 years), probably because these were workers who were supplementing retirement income with intermittent or part-time jobs.

Gender had relatively little effect on the claimants— 5.8% males versus 6.4% females in Washington and 6.9% males versus 7.9% females in New Jersey used the ABP option.

Years of education also had relatively little effect on the number of claimants. In both states, those with less than 12 years of schooling appear to have benefited slightly more than those with 12 plus years. But statistical tests failed to show the difference in the average years of schooling to be significant.

Analysis by ethnicity showed that white claimants were the biggest ethnic group both in regular BP and ABP eligible categories. However, minorities had higher ABP use than whites. ABP represented 6% of all UI claims in Washington and all four minority ethnic groups had above-average ABP use. American/Alaskan natives had the highest percentage (8.8%), followed by Hispanics (8.2%) and blacks (7.9%). In New Jersey, where ABP represented 7.3% of all UI claims, Hispanics had the highest ABP use (11%), followed by blacks (10%) and American/ Alaskan natives (8%). Asian Americans and whites had the lowest ABP use among the ethnic groups, at 7% and 6% respectively.

### 5.4 REPEAT CLAIMANTS

Repeat claimants are more likely to use the same type of base period, regular and alternative, in consecutive benefit years. Ninety eight percent of repeat claimants who had used the regular BP in the first benefit year used the regular BP again. Twenty seven percent of repeat claimants who had used the ABP in the first benefit year used the ABP option again. This was significantly higher than the overall ABP use of 6%. The reason is that if a claimant uses the ABP in the first benefit year and the regular BP in the second benefit year, his/her last quarter of the ABP from the first benefit year overlaps with the first quarter of the regular BP from the second benefit year.

## 6. EFFICIENT IMPLEMENTATION OF ABP (Volume VI)

This section summarizes the volume that provides guidance on how to reduce costs and promote efficiency in implementing an alternative base period.

ABP implementation consist of five main steps. These are: (1) change the law; (2) determine and design necessary changes in the process; ( 3) implement the process changes; (4) determine and design changes in the computer system; and (5) implement computer system changes.

Changing the law includes choosing the type of ABP, choosing a method of obtaining wage information from employers, determining the additional statutory changes that are required, and drafting the model law.

UI agencies have a choice of three types of ABPs: the last four completed quarters (lag quarter ABP), the last three completed quarters plus weeks in filing quarter (current quarter ABP), or the last 52 weeks. Most ABP states have adopted the lag quarter ABP. Two states have adopted the current quarter ABP as a second option. Although the current quarter ABP and the ABP consisting of the last 52 weeks allow the claimants to use more recent wages, they also result in higher administrative costs to state UI agencies and employers.

Relying on a wage records system for all ABP claims leads to minimal ABP costs, but it may lead to violation of the "payment when due" clause of 42 U.S.C. §503 (a) (1). The wage request system is most commonly used by ABP states to obtain unavailable lag or current quarter wage information. The wage affidavit system avoids the wage request process but leads to a higher frequency of corrections because of inaccurate information in wage affidavits.

Statutory changes may be required to ensure timely response to wage requests, to avoid reuse of wages by claimants, to modify the ABP for claimants under disabilities, and for any changes in reporting requirements.

Reachback provisions should be avoided in the ABP legislation because they may lead to significant administrative costs. The UI law should become effective in a quarter that has low claims volume because UI personnel will be less busy during this period.

The business community should be involved in planning ABP changes at the earliest point possible and their opinions considered in drafting the legislation.

In determining and designing necessary changes in the process, the agency must prepare for the changes before the ABP law comes into effect. All UI groups that will be affected by the changes must be involved in planning to ensure an efficient transition and low administrative costs. Modifications and additions to the initial claimstaking and monetary determination processes will be needed. Rules and regulations governing the more specific aspects of implementation and administration of the ABP (e.g., reporting deadlines and reporting mediums) may require changes.

Implementing process changes involves designing new forms, manuals and literature, and providing training to UI agency personnel. Conducting a pilot ABP program on a reduced scale prior to full-scale implementation will also help in designing an efficient and error-free set of processes for handling ABP claims. Informing and educating employers about the impending

changes will help them prepare for the changes and assist in a smooth transition. Establishing a single central source for ABP-related information will help the local offices in getting quick solutions to their ABP-related problems. It will also help the UI agency in compiling the most frequently asked questions and disseminating the answers to the entire organization.

Programming changes should automate as many ABP processes as possible, thus reducing the ongoing administrative costs. Computers should be programmed to make ABP monetary eligibility calculations, to generate wage requests, to monitor wage requests, to change the screens, to enhance the online help modules, and to avoid the reuse of wage credits. If a wage affidavit system is being adopted, the whole corrections process should be automated.

Computer system changes should be implemented ahead of time to provide the UI agency the opportunity to work out hardware and software problems prior to the arrival of ABP claims.. Testing ABP changes on a subset of the agency's computers offers state UI agencies an excellent opportunity to work out "bugs" prior to the full-scale implementation. Running tests on a selected subset of computers prior to full implementation can significantly reduce or even eliminate administrative costs from errors, omissions, or oversights that might otherwise have occurred during the full implementation of the ABP. The one-time costs of implementing changes to the UI software system will be significantly lower if internal personnel already familiar with the UI software system implement these changes

## 7. FINDINGS AND RECOMMENDATIONS

This study examined the costs and benefits of providing the alternative base period option. The evaluation focused on the costs to the state UI agencies, the state trust fund, and employers, and the benefits to the claimant population who gain eligibility due to the alternate base period provision. The principal finding of this study is that the costs of implementing ABP are not significant when compared with the benefits to a wider range of claimants.

The state UI agencies incur two categories of costs as a result of ABP: implementation costs(one-time) and administrative costs(on-going). Among the one-time costs, the largest components are the programming costs for modifying UI computer systems and the costs for training personnel. ABP does not require a significant modification of the computer systems. In Washington, the programming cost was estimated to be $64,000. New Jersey had a higher programming cost of $223,500, because it implemented a complicated set of eligibility provisions. Other one-time costs are the changes in literature and forms, employer/claimant education, hardware purchases, and policy formulation and implementation. In New Jersey, the total one-time cost of implementing ABP was estimated to be $1,391,519.

The ABP increases ongoing administrative costs of UI agencies because it increases the volume of monetarily eligible claimants and requires additional steps in the initial claimstaking and monetary determination processes. In New Jersey, the total annual ongoing cost of administering ABP was estimated at $1,264,577. In Washington, the estimate was $528,175. The estimate of annual ongoing cost provided by Ohio, the only state using the wage affidavit to handle ABP claims, was $328,571.

The costs to the UI agency can be substantially reduced through judicious selection of ABP options, careful advance planning, and timely and efficient implementation of ABP. An ABP option that includes the current quarter will have higher administration costs. Reachback

provisions and late changes to the computer system in Ohio resulted in one-time costs that could have been avoided. Implementing ABP in a low-volume quarter, involving all stakeholders, and having a single central source of ABP information during the implementation phase will also help reduce costs.

ABP impacts the state trust fund balances and increases employers' experience-rated taxes. Baseline simulations showed that the ABP caused a measurable but modest increase in total UI benefit payouts. The increase was 1.5% in Massachusetts with its unique definition of the regular BP and ABP. In states having one ABP, it ranged from to 3.2 to 5.3%, and in states having two ABPs, it ranged from 7 to 8.1%. The benefit expansion reduced the interest income to the trust fund and the trust fund balance itself. The simulations showed a substantial increase in employer taxes, but the tax increase was insufficient to prevent a reduction in the ending trust fund balance. In Washington, the increase in employer taxes was large enough to offset the increased outflow of benefits, leaving the long run trust fund balance unchanged. In Vermont, Maine, Ohio, and Massachusetts, the tax increase was not sufficient and the state's trust fund balance was reduced. A high unemployment simulation showed similar results. During a recession only Washington had the taxing capacity to restore its trust fund and continue to pay benefits. The other states showed a much slower restoration of their trust funds as a consequence of having ABP.

The estimated impact of ABP on the trust fund will be smaller if delayed filing in the absence of the ABP is considered in the simulations. The preceding analysis assumed that the percentage of ABP elgibles among total UI eligibles is the same as the percent increase in the number of eligibles due to ABP. However, if claimants do not have the ABP option, they can reapply for benefits under the regular base period after the end of the quarter, thereby making the actual increase in the number of eligibles due to ABP smaller than the percentage of ABP eligibles. Further study is needed in this area.

The third area of cost analyses was the impact of ABP on employers. The increase in UI taxes to employers due to ABP was discussed earlier. Employers also incur administrative costs

in responding to wage requests. The principal finding from the study is that these costs are not very significant. According to responses to a questionnaire sent to employers in four states, the average cost of responding to a wage request was approximately ten dollars.

Two options to reduce the number of wage requests are: mandatory reporting of wage information on magnetic media by all employers, and moving the quarterly deadline to an earlier date. Since all employers may not be able to comply with the above options, the recommendation is for state UI agencies to require wage information reported on paper forms to be filed earlier (e.g., the 15th), while maintaining the current reporting deadlines for magnetic media. Such a method would provide small employers the option of either reporting earlier on paper forms or later using magnetic media. This would also expedite the availability of wage information to the UI agency without appearing to be discriminatory or unduly burdensome to employers.

The lag quarter ABP results in lower costs than the current quarter ABP because it leads to a significantly lower number of wage requests. The number of wage requests can be further reduced by adopting Washington's method of requesting wages only in the first month of a quarter, and expediting the internal processing of wage reports needed for ABP determinations in the rest of the quarter. An alternative recommendation is not having an ABP option in the first month of the quarter and using the lag quarter ABP during the second and third months of the quarter. This BP definition would completely avoid the need for wage requests.

In conclusion, the costs to the UI agency, trust fund, and employers do not pose a significant obstacle to offering the ABP. The extent of the additional administrative and financial burdens depend upon the definition of the ABP adopted and the method of administration.

As for the benefits of offering an ABP, the major finding is that ABP makes the UI program more equitable by enabling a larger percentage of low wage and intermittent workers who are excluded under the present definition of the regular base period to become eligible for UI benefits. ABP claimants have significantly fewer hours of work and lower wage rates than regular claimants. Claimants in low wage industries (such as agriculture, forestry, and fishing), seasonal

industries (such as construction and public administration), and industries using a lot of part-time labor (such as public administration) have higher than average ABP use. As with regular BP claimants, the majority of ABP eligibles are middle-age workers, but ABP use is highest among teenagers and senior citizens, both of whom tend to have part-time jobs. Although white claimants were the largest ethnic group in both ABP and regular BP categories, minorities have above-average ABP use.

Some similarities between the demographic profiles of ABP eligibles and welfare recipients exist. Implementing ABP may reduce the burden on welfare programs by providing the workers who are ineligible for UI benefits under the regular BP definition, an income source they are entitled to. With the recent federal initiatives in the Welfare to Work program, an increasing proportion of welfare recipients will transition into the workforce. Since many of these workers are low-wage workers with recent employment histories, they may use the ABP option frequently. This phenomenon merits additional research, especially in states that do not have ABP provisions, but have large welfare caseloads.