

**IMPACT OF THE ALTERNATIVE BASE PERIOD
ON EMPLOYERS
(Volume III)**

This volume, **Impact of the Alternative Base Period on Employers**, was prepared by Planmatics. It is one of six volumes on the evaluation of the alternative base period for unemployment insurance, conducted by Planmatics for the U.S. Department of Labor Contract No. K-54355008030. **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. INTRODUCTION

1.1 BACKGROUND

In states where unemployment insurance eligibility is determined under alternative base period (ABP) provisions, employers may experience increased costs. These costs can be separated into two categories: increases in UI taxes and additional administrative costs related to the processing of wage requests.

Experience-rated taxes may increase because more claimants become eligible under the ABP provisions. This issue is discussed in Volume III of this report, “Effect of Alternative Base Period on the Trust Fund.”

Employers may also incur administrative costs in responding to requests for wage information on ABP claimants when the required information is not available in the database of the state UI agencies. Additional operating costs are also generated if the UI agency decides to change the timing and/or the method of the quarterly reporting. These costs vary with the size and the type of employer, and the type of payroll system used.

This report contains an analysis of the impact of the ABP on employers’ administrative costs: reporting burden, timing, and methods of wage reporting. Issues relating to administrative costs incurred by the state UI agencies when ABP provisions are adopted are presented in Volume II of this report, “Impact of the Alternative Base Period on Administrative Costs.”

1.2. OBJECTIVES

The objectives of this employer cost study were as follows:

- Estimate costs imposed on employers when they have to expand their wage record searches to establish eligibility for ABP claimants,

- Estimate ongoing administrative and data processing costs for employers that are associated with various ABP arrangements, and
- Determine the extent to which different types of employers could report wage credits earlier than they are currently reported and how much earlier they might report within a reasonable cost.

The cost and feasibility of submitting required quarterly data reports using different types of media (paper forms, diskettes, and tapes) were also analyzed.

1.3 METHODOLOGY

The analysis of the impact of ABP on employer operating costs was based on data from Ohio, Vermont, Maine, and Massachusetts. Four sources were used:

- Organizations representing employer interests such as chambers of commerce, Unemployment Benefit Advisors (UBA) and the National Federation of Independent Businesses.
- UI program administrators in states that currently have ABP provisions in place
- Companies that prepare payrolls for clients such as Automatic Data Processing (ADP) and the American Payroll Association (APA)
- Individual employers.

The organizations and people contacted as part of this study are given in Appendix A.

Initially, a series of open-ended interviews were conducted with representatives of employer organizations, UI program administrators, and companies. Some descriptive data on the types of reporting media and time needed to enter wage data into the UI database were obtained during these interviews. However, these sources were unable to provide numerical data that could be used to estimate ongoing administrative and data processing.

Some employer organizations requested a list of questions that they could circulate among their members. A one-page questionnaire was prepared and given to UBA and the Associated Industries of Vermont to distribute among their membership. ADP included the questionnaire in their monthly newsletter. Responses were returned to these organizations and delivered to Planmatics. (A copy of the questionnaire is included in Appendix C). State UI agencies in Massachusetts, Ohio, New Jersey, Vermont, and Maine provided the names of the ten largest employers in their states, and copies of the questionnaire were mailed to them.

The findings in this report are based on information derived from the interviews and the responses to the questionnaire. Since the data do not come from a sample developed using statistical techniques, the results presented cannot be defended statistically. The calculations are not intended to provide estimates of national parameters. The data were used to calculate preliminary values for the average time to process a wage request, the average wage of the processor, the average annual cost to employers, and related measures. The information obtained from interviews and questionnaires was also helpful in understanding factors hindering early reporting, the reporting formats used by types and sizes of employers, and the time it takes for wage data to become available in the UI databases.

2. FINDINGS

This section contains discussions on the time and cost of responding to wage requests; the feasibility, costs and benefits of moving the quarterly wage reporting deadline; the different types of wage reporting media as well as the capability of employers to convert to magnetic media for wage reporting; and briefly, the impact of including the current quarter in the alternative base period.

2.1 COSTS OF PROCESSING WAGE REQUESTS

In most states, employers must report quarterly wages by the end of the month following each quarter. These wages are then entered into the automated wage records system of the state

UI agency. When a claim is filed, the determination of monetary eligibility is based on the information in this system. If the necessary information is not available from the wage records system, state UI agencies request this information from employers. Since ABP claims use more recent wage information, they result in wage requests being made more frequently than claims under regular base period provisions.

This section contains a brief description of the increased administrative activities due to wage requests, a summary of questionnaire responses related to the time and the cost of processing a wage request, and a method for computing the increased costs of wage requests due to ABP for all the employers in a state.

Administrative Activities Associated with 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). Employers who use electronic media (tapes and diskettes) for wage reporting must respond to wage requests in writing. The workload of employers reporting wages on paper is increased because the personnel processing these wage requests are often unfamiliar with the forms used.

Information from Employer Organizations

The employer organizations that were contacted were unable to estimate the costs of processing a wage request. Although they did not feel that the cost to employers was excessive, they were concerned that ABP may result in additional paperwork and forms.

Information from Responses to Questionnaires

The responses to the questionnaires provided the following information. (A summary of survey responses is provided in Appendix B).

- The average estimated time needed to process a wage request was approximately 39 minutes. This was the average of 99 responses; the median was 30 minutes, and the

standard deviation was 42.3 minutes. The high standard deviation indicates the large variation in the time estimated. This may be due to the varying levels of computerization of employee wage records and the expertise and experience of personnel processing the wage requests.

- The average wage rate of the person processing such a wage request was \$14.27 per hour. This was the average of 101 responses; the median was \$13.00, and the standard deviation was \$5.20.
- The average estimated cost to process a wage request was \$9.76. For each response, the cost was estimated by taking the product of the time to process a wage request and the wage rate of the person processing the request. The average wage rate from 96 responses was \$14.27 per hour; the median was \$6.32, and the standard deviation was \$12.68. This large variance was largely due to the significant variance in the estimated time to process a wage request.

No confidence intervals were calculated for the averages reported here because the sample population was not selected in a manner that would make confidence intervals statistically meaningful.

Given the large variance in the estimated time to process a wage request and the nature of the sample, it is impossible to draw valid statistical conclusions regarding this time. The data were analyzed to determine whether support could be found for the hypothesis that larger companies would estimate lower processing times than small companies. This hypothesis was based on the perception that large employers would have more experience processing wage claims than small employers, large firms are more likely to have computerized record systems, and large employers more frequently employ payroll specialists. As shown in table 4.1 below, the time estimate was indeed lower for larger employers.

Table 2.1 Averages of estimates of the time to process a wage request

Employer size	Small (fewer than 500 employees)	Medium (between 501 and 10,000 employees)	Large (more than 10,000 employees)
Average time	45 minutes	42 minutes	31 minutes

Source: Responses to employer questionnaires

In small companies, the personnel who processed wage requests, on average, were reported to have higher wage rates than those in medium size and large companies. In small companies, payroll information is handled by employees who are involved in several aspects of the business and thus they may be paid at a higher hourly rate than personnel whose primary function is to handle payroll information. The average wage rates by size of business are shown in Table 4.2.

Table 2.2 Average wage of person processing a wage request

Employer size	Small (fewer than 500 employees)	Medium (between 501 and 10,000 employees)	Large (more than 10,000 employees)
Average wage rate	\$16.36 per hour	\$13.17 per hour	\$13.36 per hour

Source: Responses to employer questionnaires

For smaller employers, the result of taking longer to process wage requests and paying a higher wage rate than larger companies is a higher average cost. The higher cost is related to small companies having limited access to automated systems for recording and retrieving wages and fewer specially trained personnel.

Table 2.3 Average of estimates of cost to process a wage request

Employer size	Small (less than 500 employees)	Medium (between 501 and 10,000 employees)	Large (more than 10,000 employees)
Average cost	\$12.52	\$9.52	\$6.89

Source: Responses to employer questionnaires

Method for Estimating the Cost of ABP to Employers

The methodology presented in this subsection for estimating the total cost of wage requests due to ABP to the employers in a state is based on the percentage of ABP claims that result in wage requests and the average cost of processing such a request. Similar computations can be used to estimate these costs in other states.

The percentage of ABP claims that result in wage requests can be estimated by analyzing the time at which wage information becomes available on the automated systems. Only the ABP claims for which complete wage information is not available on the automated systems of the

state UI agency result in wage requests. The availability of wage information depends on several factors, such as:

- The time at which quarterly wage reports are submitted by the employers,
- The time that the state UI agency begins processing wage reports,
- The time required to process the reports received in different media (paper forms, magnetic tapes, computer diskettes), and
- The number of records reported on each type of media.

Since the bulk of the quarterly wage reports are received near the end of the month following the quarter, most of the wage reports become available on the UI system after more than a month following the quarter.

The New Jersey Department of Labor had documented the number of wage records that were available on the automated system at the end of each week for the four quarters of fiscal year 1996. This data was used to estimate the number of ABP claims that would result in wage requests.

The following assumptions were made:

- The New Jersey data represents long-term averages.
- ABP claims are received evenly throughout the quarter
- Wage request for information needed for an ABP claim goes to a single employer.

Under these assumptions, the percent of ABP claims that result in wage requests was calculated to be 54% of the total ABP claims. The formula that was used to calculate this number is as follows:

$$\sum_{p=1}^n (days_p / days_q) * (1 - WageRecords_p / WageRecords_q)$$

Where:

n is the number of reporting intervals

p is the index of the reporting interval

$days_p$ is the number of days in the reporting interval

$days_q$ is the number of days in the quarter

$WageRecords_p$ is the number of wage records available during the reporting interval

$WageRecords_q$ is the number of wage records entered during the quarter

(These computations are shown in the Appendix C).

In New Jersey, the eligibility of an ABP claim is determined by earnings during the four most recently completed quarters (a lag quarter ABP) or the total earnings during the three most recently completed quarters together with the completed weeks of the current quarter (a current quarter ABP). The total number of lag quarter ABP claims during 1996 was 20,010. This represented 5.7% of all UI claims determined to be eligible. The total cost to all employers of the state of processing the wage requests associated with these claims was estimated to be \$105,461. This was calculated by multiplying the number of lag quarter claims (20,010) by the percent of claims resulting in wage requests (54%) and that product by the estimated cost of processing a claim (\$9.76).

There were also 5,749 current quarter ABP claims (1.6% of UI claims determined to be eligible). Since wages from the current quarter are needed for these claims, they always result in wage requests. The estimated cost to employers of these wage requests, \$56,110, was calculated by multiplying 5,479 by \$9.76. The total estimated cost to employers of processing wage requests was \$161,571 (\$105,461 plus \$56,110).

These computations demonstrate the methodology used to estimate costs to employers and are not intended to represent a national average. Using similar data from any state, these computations can be performed to obtain these estimates.

2.2 WAGE REPORTING SCHEDULE

In most states, employers must report quarterly wages within 30 days following the end of the quarter. If the reporting deadline is moved to an earlier date in the month, the number of wage requests would be reduced, thereby decreasing the administrative cost and inconvenience to both the employers and the state UI agency. Massachusetts is the only state that has moved its wage reporting deadline to an earlier date, the 15th of the month following the quarter.

Most employer organizations and employers contacted during the study stated that earlier reporting would be difficult. Employer organizations, employers, payroll and accounting firms have expressed concern to the Massachusetts Department of Revenue (to whom quarterly wages are reported in the state) regarding the difficulties of reporting by the 15th. Some of the difficulties in reporting wages earlier, the percentage and type of employers who are willing to report wages earlier are discussed in the following subsections.

Reasons for Not Being Able to Report Wages Earlier

After the last day of the quarter, employers have to perform several activities to convert their wage records into the format required for reporting. They must:

- Collect and retrieve wage data from wage records,
- Review quarterly payroll, edit records, and correct data,
- Enter wage information on paper forms, magnetic tapes or diskettes,
- Format data on magnetic media according to the specifications of the state UI agency,
- Validate data entered on forms or magnetic media, and
- Mail the wage records.

Following the end of a quarter, frequently wage information must be altered for some of the following reasons:

- Non-cash compensation not calculated, such as the value of:
 - Group term life insurance
 - Group legal services
 - Taxable value of company vehicle

- Prizes and awards, meals, lodging, and other fringe benefits
- Payments made outside of payroll processing:
 - Termination paychecks
 - Educational assistance
 - Non-accountable expense reimbursements
 - Moving expenses
- Changes that may be necessary after the last day of the quarter include:
 - Retroactive pay increases and
 - Payroll input errors (e.g., wrong hours/earnings)
- Adjustments required for new hires, rehires, and terminated individuals.

Other factors that affect earlier reporting:

- Wage information may not be accurate if it is reported earlier. The corrections that need to be made are mostly on paper and create additional costs and inconvenience to both employers and the state UI agencies. Inaccurate wage reports might result in incorrect monetary determinations, eligibility decisions, or benefit amount calculations. Such errors might necessitate time-consuming remedial measures, such as corrections in wage reports and the appeals process.
- Earlier reporting may result in conflicts with the reporting dates of other states. This is a concern for employers and payroll firms with locations in more than one state.
- Accounting firms, CPAs, and payroll services may have difficulty reporting by April 15 because it coincides with the annual federal personal income tax filing date. Employers using such services may have difficulty getting access to them.
- Third-party sick/disability pay carriers are not required to report payment information about the current year to employers until January 15th of the next year. Payments made by third-party sick pay carriers are reported by employers on quarterly wage reports and annual W-2 forms.

The job of payroll organizations becomes especially difficult because a large number of wage records must be processed within a short time. Their job is complicated

by the large number of corrections and amendments in the wage data that occur after the end of the quarter.

Estimates of Employers Who Can Report Earlier

The estimates of the percentage of employers who can report wages earlier than the last day of the month are based on responses to the questionnaires. All the conclusions reported in this subsection are drawn from these responses. (A summary of questionnaire responses is provided in Appendix B).

According to the responses, 59% of employers can report quarterly wages earlier than the last day of the month following the quarter. Of 109 employers who filled out the questionnaire, 45 employers said that they would be unable to report wages earlier than the last day of the month.

An estimated 45% of employers can report quarterly wages by the 15th of the month following the quarter. Of the 107 employers who responded to this question, 59 reported they were not prepared to report by that time.

The average for the least number of days after the end of the quarter by which employers stated they can report quarterly wages is approximately 21 days. This was based on 104 responses.

The readiness to report earlier was found to vary with the number of employees (as summarized in Tables 2.4-2.6).

