

ATTACHMENT V TO UIPL NO. 3-92

ANALYSIS OF ERI CHANGES BY STATE RATE YEARS 1988—1990

(Note: States were requested to analyze significant changes in their ERIs. Specifically, changes of 10 or more points from one year to the next and/or 15 or more points over two years should have been addressed. The following are the unedited responses from the States.)

COLORADO

1988 ERI	1989 ERI	1990 ERI
45	53	60

From Rate Year 1988 to Rate Year 1990, the Experience Rating Index (ERI) for Colorado displayed a major improvement, moving from 45 to 60. Economic factors played a major part in the change, with improvement in the economy causing total benefits to decline by 33.9% while at the same time contributions increased by 5.6%. As a result, ineffective charges (IEC) for negative rating account percentage accounts, in particular for those accounts at the maximum negative excess level, were reduced substantially. There was a general drift of accounts upward from negative to positive excess balances.

For maximum negative excess accounts the following ETA204 data shows the contribution to the decline in the IEC.

ETA204-Maximum Negative Excess Accounts Only

Rate Year	Number of Accounts	Contributions	Benefits	Difference
1990	2,322	\$11,284,362.89	\$20,346,456.92	(\$9,062,094.03)
1989	2,593	\$10,796,293.37	\$27,390,461.82	(\$16,594,168.45)
1988	2,299	\$ 10,107,206.12	\$33,022,641.21	(\$22,915,435.09)
Percent Change				
1988—1990	11.6%	-38.4%		

For total contributions and benefits the changes in activity levels are as follows:

ETA2112 Data corresponding to ETA204 Rate Year Periods

Rate Year	Year Ending	Total Contributions	Total Benefits	Difference
1990	6/30/89	\$214,998,728.23	\$153,935,324.85	\$61,063,403.38
1989	6/30/88	\$208,557,824.52	\$188,962,868.90	\$19,594,955.62
1988	6/30/87	\$203,505,202.25	\$232,843,594.08	(\$29,338,391.83)
Percent Change 1988—1990				
		5.6%	-33.9%	

DELAWARE

1988 ERI	1989 ERI	1990 ERI
INA	51	71

No analysis provided.

DISTRICT OF COLUMBIA

1988 ERI	1989 ERI	1990 ERI
47	56	72

No analysis provided.

FLORIDA

1988 ERI	1989 ERI	1990 ERI
68	66	50

The ERI in Florida dropped 16 points from 1989 to 1990 and over a two year period from 1988 to 1990, the ERI dropped 18 points. We reviewed Florida's experience rating system to determine the reason for the declines and found the most significant factor was the increase in Ineffective Charges. Ineffective Charges are the differences between benefits charged and estimated contributions. Benefit charges over the last two years have increased by 28% for eligible rated employers while estimated contributions have decreased by 17%. Also, contributing to the decline was the trust fund balance adjustment ratio used in calculating rates. The ratio has been (-.0018), (-.0021), and (-.0028) in 1988, 1989, and 1990, respectively. These negative factors resulted from the trust fund balance exceeding 5% of taxable payroll. The ratio is designed to maintain a trust fund between 4% and 5% of reported taxable payroll.

HAWAII

1988 ERI	1989 ERI	1990 ERI
71	56	66

Hawaii's ERI for rate year 1989 (56%) is understated by 14-15 percentage points due to the use of unusually low 1988 taxable wages in computing ineffective charges. For 1988 only, Hawaii's taxable wage base was set at 50% of our normal computed taxable wage base because of our large trust fund reserves.

INDIANA

1988 ERI	1989 ERI	1990 ERI
81	91	94

The change in the ERI from 1988 to 1989 was ten (10) points. The ERI was lower in 1988 due to the amount of benefits charged to deficit account employers at the 5.4% tax rate being significantly high, and the payroll for that same group being unusually low. This was apparently the last vestige of the earlier recession.

IOWA

1988 ERI	1989 ERI	1990 ERI
78	77	67

Iowa's Experience Rating Index (ERI) dropped from 77 in 1989 to 67 in 1990.

The drop was caused by increases in both the ineffective and noncharged totals.

The ineffective charge increase was in the group paying the highest tax rate. An increase in the trust fund balance triggered a decline in tax rates. The rate paid by this group dropped from 8.4% in 1989 to 7.4% in 1990, dropping the group's contributions \$3 million. The benefits charged to the group increased \$3 million, creating an additional \$6 million in ineffective charges.

The factor that contributed most to the noncharge increase was a court decision allowing benefits. A decision that a group of claimants were on strike and therefore not eligible for benefits was overturned in the courts. Over \$1 million in benefits were paid because of this decision and these benefits are not chargeable to the employers.

LOUISIANA

1988 ERI	1989 ERI	1990 ERI
42	87	85

The economic conditions in Louisiana prior to 1988 caused the failure of many employers resulting in inactive charges in excess of \$45 million for Fiscal Year 1987.

As a result of the economic conditions, layoffs caused benefit payout during Fiscal Year 1987 to be much greater than taxes collected. This contributed to the ineffective charges of over \$226 million. Law changes in 1988 and 1989 decreased the maximum weekly benefit amount and increased the amount of base period wages necessary to qualify for the maximum benefit amount. Benefit payout for fiscal year ending 6-30-87 was approximately \$513 million as compared to \$238 million and \$158 million, respectively, for Fiscal Years 1988 and 1989.

MARYLAND

1988 ERI	1989 ERI	1990 ERI
INA	72	62

No analysis provided.

MICHIGAN

1988 ERI	1989 ERI	1990 ERI
80	67	72

We strongly concur with your previous analysis that the Experience Rating Index (ERI) is best suited as an indicator of the change in the level of experience rating in a single state over a period of time. Because it measures a state's experience rating at a single point in time, several years of data should be considered before drawing any conclusions. For example, the decline in Michigan's ERI from 80 percent in 1988 to 67 percent in 1989 reflected the highly cyclical economic conditions in the state's automobile industry rather than a true decline in the degree of experience rating. With the exception of a small adjustment in the maximum weekly benefit amount due to inflation, there has been no Unemployment Insurance (UI) tax law change in Michigan to account for the sharp fluctuation in the ERI between 1988 and 1989.

According to the ERI methodology, ineffective charges more than doubled over the year. In reality, these charges were not truly ineffective but reflected mass layoffs and plant closures in the automotive industry in early 1988 (part of the computation period for Rate Year 1989). The automotive industry as a whole is positive-balance and the methodology does not adequately take into account the recovery of past benefit outlays due to future tax increases. Ineffective charges should primarily occur when benefits are charged to employers whose UI tax rates are already at the maximum because their reserve accounts have been exhausted by prior year benefits (i.e. negative-balance firms).

MISSISSIPPI

1988 ERI	1989 ERI	1990 ERI
40	54	53

The agency has determined that the ERI was lower for Rate Year 1988 due to the experience rating adjustment factor which was in effect during the year. Additionally, charges were significantly higher. Because of the adjustment factor, numerous employers, who were eligible for a modified tax rate, received a reduction in their rates.

NEW MEXICO

1988 ERI	1989 ERI	1990 ERI
51	59	63

Improvement in the ERI from 1988 to 1989 reflected the decline in total benefit payments charged and noncharged. Higher benefit outlays reflected the decline in the NM oil and gas industries. Many of these companies had very high benefit liabilities as reflected in the amount of Ineffective Charges.

NEW YORK

1988 ERI	1989 ERI	1990 ERI
80	73	61

Decline in ERI from 1988 to 1989

The drop in the ERI from 80 percent in 1988 to 73 percent in 1989 was due primarily to the increase (55%) of ineffective charges (IEC), while total benefits charged to experience rated firms dropped by 2%. The increase in IEC is primarily attributed to the dropping of the subsidiary tax in 1989. (Ineffective charges (IEC) are defined as the cumulative differences between benefits charged and estimated contributions for a class of firm, and defined for the ETA-204 report in Employment and Training Administration guidelines.)

Decline in the ERI from 1989 to 1990

The drop in ERI in 1990 to 61 percent from 73 percent in 1989 was due primarily to the large increase of ineffective charges to 408 million (an increase of 217 million, or 114 percent) from 191 million in 1989. The other components of the ERI did not increase as much as the 29 percent increase in total benefits.

OKLAHOMA

1988 ERI	1989 ERI	1990 ERI
50	64	60

The increase in the ERI from 50% in 1988 to 64% in 1989 can be traced to the record benefit payout of over \$222 million in 1986 and the subsequent business failures in 1987. Ineffective and inactive charges were unusually high in 1987 which held the 1988 ERI to only 50%. Improved economic conditions and a significant drop in benefit payments helped to improve the ERI to 64% in 1989.

SOUTH DAKOTA

1988 ERI	1989 ERI	1990 ERI
59	38	48

The calculation method, in measuring ineffective charges as the amount by which benefits exceed contributions, ignores the amount accumulated in employer accounts during prosperous economic periods. South Dakota has had three tax decreases in the past four years because our fund balance exceeds our projected need. The result is contributions decrease, benefits remain relatively stable, and the ERI predictably declines.

UTAH

1988 ERI	1989 ERI	1990 ERI
61	70	70

A review of Utah's ERI shows that it has improved from 61 for rate year 1988 to 70 for rate years 1989 and 1990. Overall social costs have decreased at a faster rate than the decrease in benefit costs, thereby producing a more favorable ERI. Social costs have decreased from 39 percent to approximately 30 percent during this time period. All three years of social costs (Ineffective Charges, Inactive Charges, and NonCharges) decreased.

WEST VIRGINIA

1988 ERI	1989 ERI	1990 ERI
83	51	56

1988—Charging data was not available when corrections to the ETA-204 extract program was completed. Therefore, data for this year cannot be verified.

The change in the ERI for these years appears to be caused by the correction in the computer extract program which occurred after the 1988 data report.

WYOMING

1988 ERI	1989 ERI	1990 ERI
38	62	INA

Inactive Charges was the area where we did not have the available information, and consequently did not report any. An estimate was requested from Computer Technology Division (formerly—Data Services Division) for the purpose of acquiring this needed information. Unfortunately, the cost to retrieve the data is quite prohibitive and the length of time necessary for the special programming needed, very extensive. It is hopeful that in future reports we will be able to include the category of Inactive Charges. An estimate has been requested to determine the cost of adding this data to the ETA 204 Report, on a permanent basis.