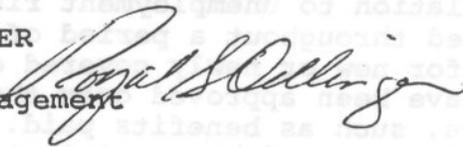


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|  | DATE<br>June 23, 1983          |

DIRECTIVE : UNEMPLOYMENT INSURANCE PROGRAM LETTER NO. 29-83

TO : ALL STATE EMPLOYMENT SECURITY AGENCIES

FROM : ROYAL S. DELLINGER  
Administrator  
for Regional Management 

SUBJECT : General Principles of Experience Rating Under  
Section 3303(a)(1), FUTA

1. Purpose. To explain the requirements of Section 3303(a)(1) of the Federal Unemployment Tax Act (FUTA) to assist States in assuring that employers subject to the experience rating provisions of State laws will qualify for full allowable credits against the Federal unemployment tax.

2. References. Section 3303(a)(1), FUTA, P.L. 97-248, and UIPL 4-83.

3. Background. Employers subject to the Federal unemployment tax imposed by Section 3301, FUTA, are allowed two types of credits against that tax, the limit on which will be 5.4 percent in 1985 and thereafter, if certain requirements of the Federal law are satisfied. "Normal credit" is credit granted to each employer equal to the amount paid as contributions by each to an approved State unemployment fund if the State is certified on October 31, of a taxable year under Section 3304(c), FUTA. "Additional credit" is credit allowed to employers with reduced rates of contributions as though they had paid contributions at the highest rate under experience rating or 5.4 percent in 1985 and thereafter, whichever rate is lower.

The objectives of experience rating are (1) the prevention of unemployment by inducing employers to stabilize their operations and thus their employment, and (2) the equitable allocation of the costs of compensable unemployment. Under the first objective, differential contribution rates are taxes to discourage unemployment insofar as employers have the power to control their operations. Under the

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second objective, sound fiscal policy suggests allocating the cost of doing business to the entities deemed responsible under the State law for those costs.

Section 3303(a)(1), FUTA, prescribes the conditions under which States may permit employers reduced rates of contributions payable to their unemployment funds. Any reduced rate must be based on the individual employer's experience with respect to unemployment or other factors bearing a direct relation to unemployment risk. The experience must be measured throughout a period of not less than three years (or less for new or newly covered employers). Various factors have been approved over the years for measuring experience, such as benefits paid. To translate such experience into a variable contribution rate, it is necessary to have an index to reflect comparisons among employers' individual experience and then to apply the index to actual individual contribution rates. Finally, contribution rates on taxable wages under a State law are the measure of liabilities for contributions.

The experience of all employers subject to contributions under a State law must be measured by the same factor throughout the same period of time. If there is to be an adjustment to the method of measuring experience or in the computation of rates, the adjustment should apply uniformly; otherwise, there would be a distortion of relative experience.

The standard rate, as defined in Section 3303(c)(8), FUTA, is the rate from which variations therefrom are computed. Reduced rates are rates lower than the standard rate computed on the basis of an employer's experience as described above. Experience is the only available method of adjusting revenues to benefit costs, without amendment of a State law. It is also, however, a method of allowing reduced rates which are not commensurate with benefit costs. It is desirable, therefore, to assure that experience rating not only satisfies the requirements of the Federal law, but also that it produces the revenue needed to finance benefit costs adequately.

4. Action Required. SESAs should assure that in amending the experience rating provisions of their State laws to satisfy the amendments of the Federal law effective in 1985 that the State law amendments satisfy the requirements of Section 3303(a)(1), FUTA.

5. Inquiries. Question concerning experience rating should be addressed to the appropriate regional office.

6. Attachment. Experience Rating Principles.

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Experience Rating Principles

To assist State agencies in their review of their State laws, there is a more detailed explanation below of Federal law requirements on experience rating.

For a State's subject employers to qualify for additional credit, the State law must have been certified by the Secretary of Labor to the Secretary of the Treasury under Section 3303(b)(1), FUTA, for a 12-month period ending on October 31 of a taxable year, "with respect to which he finds that reduced rates of contributions were allowable with respect to such 12-month period, only in accordance with the provisions of subsection (a)" of Section 3303, which provides:

"(a) STATE STANDARDS.--A taxpayer shall be allowed an additional credit under Section 3302(b) with respect to any reduced rate of contributions permitted by a State law, only if the Secretary of Labor finds that under such law-

"(1) no reduced rate of contributions to a pooled fund or to a partially pooled account is permitted to a person (or group of persons) having individuals in his (or their) employ except on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk during not less than the 3 consecutive years immediately preceding the computation date;

\* \* \*

"For any person (or group persons) who has (or have) not been subject to the State law for a period of time sufficient to compute the reduced rates permitted by paragraphs (1), (2), and (3) of this subsection on a 3-year basis (i) the period of time required may be reduced to the amount of time the person (or group of persons) has (or have) had experience under or has (or have) been subject to the State law, whichever is appropriate, but in no case less than 1 year immediately preceding the computation date, or (ii) a reduced rate (not less than 1 percent) may be permitted by the State law on a reasonable basis other than as permitted by paragraphs (1), (2), or (3)."

All States have for many years maintained pooled funds, that is, funds into which the total contributions of employers contributing thereto are payable, in which all contributions are mingled and undivided, and from which benefits are payable to all individuals eligible therefor from such funds. Paragraphs (2) and (3) referred to in the provisions quoted above relate to types of unemployment fund accounts not used by any State, and are therefore of no concern in this discussion.

Section 3303(a)(1) is implicitly designed to accomplish, through differentiation of rates among employers, one or both of the objectives of experience rating--the promotion of stability of employment and an equitable allocation of the costs of benefits. Since unemployment compensation as a program insures the worker

against the risks or hazards of unemployment--hazards which are his rather than the employer's--the terms "unemployment" and "unemployment risk" refer to the unemployment or the unemployment risk of insured individual workers, and the reference in the Federal law to an employer's experience with respect to these is to the employer's experience with respect to factors directly related to his workers' risk of unemployment. Accordingly, the elements of experience rating for granting reduced rates of contributions payable to a pooled fund are described below.

1. Interpretation of "Other Factors Directly Related to Unemployment Risk"

Since the unemployment risk of the worker is the basic phenomenon which is to be measured in any formula for the computation of reduced rates of contributions to a pooled fund, the factors referred to in section 3303(a)(1) are limited to those basic elements which may reasonably be counted for the purpose of establishing the frequency or the frequency and severity of an employer's experience with the impact of unemployment upon his workers. For the purpose of determining the relative significance of the employer's experience, it will of course be necessary to relate such experience to the payroll or other measurement of exposure to the insured risk.

The following types of experience now or previously in State laws constitute factors directly related to the unemployment risk of workers, in that measurement of such experience reflects the frequency or the frequency and severity with which the worker of any given employer suffers the impact of unemployment: benefit payments, separations, compensable separations, benefit wages, and payroll variations, or a combination of such factors.

Experience with any of the foregoing reflects the basic element, the unemployment of the individual worker. Separation is only another name for the initial impact of unemployment upon the individual worker. Compensable separations limit the type of separation counted to those compensable under the unemployment compensation law; benefit payments are compensable separations weighted by the duration of compensable unemployment; and benefit wages are compensable separations weighted by the worker's base-period wages. Of these factors, benefit payments alone give some reflection of the severity as well as the frequency of the impact of unemployment. Weeks or other periods of unemployment, not at present used as factors in any State law, also would reflect severity as well as frequency.

2. Interpretation of "except on the basis of his (or their) experience"

Rate differentials are essential to any system under which an

employer's rate is based on his experience, because only by the use of differentials is there a genuine reflection of the individual experience of an employer. Within the limits of the maximum and minimum rates, the smaller the intervals between the variant rates, the greater the effect of the individual experience upon the rate at which any given employer must pay contributions, i.e., the more nearly is his rate based on his experience with unemployment or other factors bearing a direct relation to unemployment risk. Numerous differentials make the transition from one contribution rate to another more equitable because, if the interval between contribution rates is small, inequities to borderline employers are less than under a system in which the intervals are larger. In other words, using a large number of different contribution rates, with smaller intervals between such rates, would prevent slight variations in employer experience from resulting in large variations in rates assigned to different employers with nearly the same relative experience. Moreover, there may be greater incentive for stabilization if the transition from one rate to another is more possible in a relatively short period of time.

On the other hand, administrative considerations indicate the desirability of some limitation on the number of differentials within the span of the maximum and minimum rates. It is recognized also that the number of reduced rate classes which a State experience rating system should provide, in order to assure suitable reflection of the relative unemployment experience of different employers, may depend on the degree of favorable experience required of an employer under the State law before he can qualify at all for a reduction below the standard contribution rate. In any case, to assure that the differentiation of experience will be reflected in the rates assigned to individual employers, the rate schedule must contain rate intervals that will reasonably reflect their relative experience. A range of rates, for example, from 5.4 to 0.1, but with a highest reduced rate of 2.5 would not permit a reasonable reflection of relative experience.

Although the degree of favorable experience required for a reduced rate is not specified in section 3303(a)(1), it would be desirable (in order that the fund be maintained for its purpose of paying benefits) that there be a minimum standard under the State law to the effect that there must be a favorable relationship between the individual employer's contributions and the benefits attributable to him as a prerequisite to any rate reduction. A reduced rate granted to an employer should be calculated at least to maintain or restore a balance between his contributions and the benefits paid.

A general factor designed to replenish drains upon the fund or to prevent the fund from falling below a prescribed minimum level may require a secondary adjustment in rates which

results in a more limited range of rate reductions than would otherwise be accorded. Such an adjustment merely subordinates the operation of the experience rating plan to a more fundamental objective of any unemployment insurance system: the maintenance of a fund adequate to pay benefits. However, when a factor unrelated to the employer's individual experience serves to relax the conditions for reduced rates, the reduced rate of an employer as finally computed may be determined primarily by the general factor and, therefore, cannot be said to be based upon his individual experience. In order to insure that the individual employer's experience is the basic determinant of his reduced rate, reduced rates may not be permitted when the influence of the basic experience factor has been so impaired by combination with factors unrelated to the employer's experience that such employer's own experience is no longer the basic determinant of such employer's reduced rate.

### 3. Interpretation of Three Years of Experience

Under section 3303(a)(1), the reduced rate under the State law must be based on the employer's experience during not less than the three consecutive years immediately preceding the computation date. Because an employer's experience with unemployment or with a factor directly related to unemployment risk might differ radically from year to year, the minimum three-year requirement, it was thought, will usually provide a more representative measurement. The factors used for the measurement of experience during the three-year period need not be identical for each of the years but one or more of the factors must be used with respect to each year. A period of less than three years is acceptable, if the State law so provides, at State option, for new or newly covered employers, under a 1954 amendment to the experience rating requirements.

Under that amendment, a new or newly covered employer who has not had sufficient experience to satisfy the three-year requirement may be allowed a reduced rate based on experience for a shorter period, but only if he has had at least one year of experience. When the same employer has experience for a longer period, such longer period must be used for computing a rate based on experience until the three-year requirement is satisfied.

Under a 1970 amendment to the experience rating requirements, a new or newly covered employer may be assigned a reduced rate (not less than 1 percent) on any reasonable basis other than his workers' risk of unemployment, until he qualifies for a computed rate based on experience in accordance with the State law. Such a reduced rate not based on experience is permissible under the Federal law only so long as an employer is a new or newly covered employer.

### 4. Methods of Measuring Experience

The methods used for measuring the experience factor provided in

the State law are the methods for allocating responsibility for a worker's unemployment among his employers. They are found in the charging provisions of the State law--provisions which vary widely among States but which may be generally classified into the categories listed below.

(a) Charging base-period employers proportionately.--The benefits paid to any individual are charged against each of his base-period employers in the proportion that the wages paid by each employer bear to his total base-period wages. Base-period charging places the measure of an employer's experience with unemployment risk on the same basis as that used for the establishment of a worker's rights to unemployment compensation. The charging of benefits proportionately is equitable and is not subject to the chance factors which arise in the case of charging the most recent employer.

(b) Charging the most recent employer.--Those States which have provisions for charging the most recent employer have adopted them on the theory that the worker's most recent employer is responsible for his unemployment, if that unemployment is involuntary on the part of the worker. This theory is based on the assumption that only the proximate cause of unemployment should be taken into consideration in assessing responsibility--that all other causes are remote and undeterminable and, therefore, ineffective as incentives for the stabilization of employment.

(c) Charging the most recent employer in the base-period.--The theoretical basis in support of this method is that in most cases the most recent base-period employer is both the worker's most recent employer and his principal base period employer. The method is also considered administratively simple.

(d) Charging employers in inverse chronological order.--The charging of employers in inverse chronological order represents a combination of the theory of charging the most recent employer and the theory that charges should bear some relation to the extent of employment provided by the employer, i.e., the amount of wages earned by the worker with each employer.

The benefit provisions and wage-reporting requirements in most States make this an especially intricate and involved charging procedure, since the information needed for charging is not available until lag and current-quarter wage reports are processed.

(e) Charging base-period employers in inverse chronological order.--A modified form of charging employers in inverse chronological order is found in States which charge base-period

employers in inverse order, beginning with the most recent employer in the base period.

(f) Transition from one method of charging to another.--When a State agency is considering a change in the charging provisions of its law, it is advisable to incorporate in the amendment a statement as to whether the new provisions will be retroactive in effect. If the amendment is not retroactive, then a transition provision should be included to deal with problems arising because of the change from one system to another.

(g) Noncharging.--An experience rating plan must measure all of an employer's experience, and not merely selected or partial experience, except under provisions of a State law, at the option of a State, providing for noncharging consistently with Federal law requirements.

After several years of administration of the unemployment compensation program by the States, it appeared to the Social Security Board, the original administrator of the Federal law, that experience rating had a distinct effect upon the provisions in State laws on disqualification for benefits. The Board, as a result, issued on December 29, 1944, an interpretation of the provisions of section 3303(a)(1), FUTA, in Unemployment Compensation Program Letter 78 "to separate, to the extent necessary, the decisions with respect to the worker's rights to benefits from the charging decisions with respect to experience rating. This can be accomplished /the UCPL continued/ by noncharging of benefits which may be considered not a reasonable charge against individual employers..."

The Board interpreted the Federal law as not requiring--

"that all benefits paid be charged as a part of the experience of employers, provided that those which are charged assure a reasonable measurement of the experience of employers with respect to unemployment risk....The test is one of reasonableness in the measurement of each employer's experience in relation to other employers and to the purposes of experience rating." (Original emphasis)

\* \* \*

"In determining the circumstances under which there will be no charging of employers' accounts, it is important to consider the potential quantitative effect of such noncharging upon employers' contribution rates, to the end that the ability of the State's unemployment fund to finance the payment of benefits over a reasonable period of time not be impaired."

UCPL 78 also described specific situations of noncharging that were accepted as consistent with Federal law, such as, in part, "when benefits are paid, without any disqualification, to a worker who has left work voluntarily for good cause not attributable to the employer" and also "when benefits are paid for unemployment immediately after the expiration of a period of disqualification for (a) voluntary leaving without good cause, (b) discharge for misconduct, or (c) refusal of suitable work without good cause." When, later, there was a need for clarification of the phrase "immediately after" in connection with the expiration of a period of disqualification, UCPL 85 was issued on April 16, 1945, to limit noncharging to benefits based on wage credits earned prior to the disqualifying act.

Although particular kinds of noncharging (or adjustments in another factor measuring experience) were acceptable, it was also required under UCPL 78 that the experience rating plan would continue, by the charges to be made, to assure a reasonable measurement of employers' experience with unemployment or unemployment risk. It was also required that an experience rating plan would reasonably measure each employer's experience in relation to other employers and to the purposes of experience-rating.

5. Measurement for Required Period Immediately Preceding Computation Date

Reduced rates must be based on an employer's experience during not less than the three consecutive years, or during not less than one year (as provided under the 1954 amendment described above), preceding the computation date. The requirement that the period used must "immediately precede the computation date" results in the use of recent experience as opposed to the possible use of experience so remote as to have little validity in relation to the experience of the employer at the time the rate is computed and for the period with respect to which the rate is effective. Assurance on this point is found in the definition of "computation date" in section 3303(c)(7), FUTA, as follows:

"The term 'computation date' means the date, occurring at least once in each calendar year and within twenty-seven weeks prior to the effective date of new rates of contributions, as of which such rates are computed."

It should be noted that the term is defined not only as the date as of which rates are computed but also as a date which occurs at least once in each calendar year and which is so fixed that the rates determined as of that date must be effective some time within the 27 weeks which immediately follow that date. In other words, under the Federal requirements for additional credit, a State

agency must compute rates at least once a year and must put those rates into effect within a reasonable period of time. The definition does not require that the rates determined as of the computation date be immediately effective because it was recognized that a time lapse between the computation date and the effective date might be desirable for administrative reasons.

#### 6. Beginning of Period of Chargeability

An employer's account first becomes chargeable when the unemployment of a worker who is or has been employed by him could be reflected in the employer's account. The unemployment would be reflected by means of the factor selected in the individual State to measure unemployment risk: benefit payments, benefit wages, or the like, which would be charged to the employer's record.

In States charging base-period employers, an employer would not become chargeable until a calendar quarter in which he had paid taxable wages which could be included in the base period of one of his workers who might become unemployed and eligible. If the base period consists of the first 4 out of 5 calendar quarters preceding the benefit year, thus providing for a lag quarter, chargeability could not begin until the second quarter following the first quarter of taxable payroll.

#### 7. Continuity of Chargeability

Since additional credit may be granted under section 3302(b), FUTA, only for reduced rates granted on the basis of experience during the three years (or less under the 1954 amendment described above), other than reduced rates granted to new or newly covered employers under the 1970 amendments, immediately preceding the computation date, there must be chargeability throughout that period. Any lapse in chargeability will interrupt the required experience period.

#### 8. End of Period of Chargeability

The requirement for measuring experience throughout the period that immediately precedes the computation date means that not only must all experience be included up to the computation date, but experience that occurs after that date must not be included for that rate year. This prohibition does not preclude the inclusion of charges for benefits paid subsequent to the computation date for unemployment occurring prior to that date. As an example, if a claimant has compensable unemployment during the latter part of December but does not receive his benefit check until January, the benefit payments represented by that check could and should be

charged to the employer's account even though the computation date is December 31. The important fact is that the unemployment occurred prior to the computation date.

Because of delayed payments due to appeals or other situations beyond the agency's control, as a practical matter it is desirable for the agency to establish a date subsequent to the computation date, as of which information must have been received by the agency if it is to be included in the computation. Such a date is commonly called the cut-off date. State agencies have adopted the practice of including in the charges all benefits for unemployment occurring prior to the computation date if paid before the computation date or within the month following.

#### 9. Exposure to Risk of Unemployment

The extent of unemployment among the workers of any given employer is significant as a measure of the risk of unemployment among his workers only if considered in relation to the number of workers he employs or to another factor which reflects the number of workers employed, a factor which indicates the exposure of those workers to possible unemployment. Obviously, if employer A, with a \$100,000 payroll, has \$5,000 in benefits charged to his account, the risk of unemployment for the workers in his establishment is greater than the risk in employer B's establishment with the same amount of charges but a \$200,000 payroll.

By securing the ratio between each employer's experience with the factor used for measuring unemployment and the measure of size, indices of the relative experience of the employers are established. On the basis of these indices, rates may be assigned in accordance with the relative experience of employers as compared with the experience of other employers. The payroll in terms of dollar amounts is the most common measure of exposure found in State laws.

One year's payroll would have little significance in relation to the benefit payments over a period of three years, since the size of an organization may fluctuate from year to year. For this reason, the usual measure is the average annual payroll for the last three years preceding the computation date. Obviously, it is highly desirable that the period for which the average annual payroll is computed should end with the computation date, since it is important that the payroll used be recent and represent a period comparable to that used for measuring experience. If deviations from this principle are not substantial, no serious objections will be made. Proposals have been made and accepted, for instance, for using a three-year average payroll ending on September 30, in cases in which the computation date was December 31.

## 10. Secondary Adjustments

The requirement that a reduced rate must be based on the employer's experience makes it necessary to maintain the influence of that experience in the determination of the reduced rate granted to an employer. The measurement of experience may be subjected to adjustments by the application of other factors bearing no relation to an employer's experience only if the basic experience factor has not been so impaired by combination with such other factors that the employer's own experience is no longer the basic determinant of his reduced rate.

A number of States permit an employer to make voluntary contributions. Where the experience factor is reserve balance, that is, the difference between contributions and benefits, sometimes a small additional amount of contributions will qualify an employer for the next lower rate. States which use benefits as the factor can accomplish the same result by permitting employers to make payments which "cancel" benefit charges. Section 3303(d), FUTA, authorizes a State law to permit voluntary contributions to be used in the computation of reduced rates only if such contributions are paid prior to the expiration of 120 days after the beginning of the year for which such rates are effective.

Another secondary factor, used in rate computations under the benefit-wage-ratio formula, is the State experience factor. This is used in benefit-wage-ratio laws. A ratio between each employer's benefit wages and his total payroll is determined. The ratio for total benefit wages and total payrolls for all employers is then determined to get the average percentage in the State, called the State experience factor. The rate an employer receives in any particular year depends in part on this State average experience. It has been held that the use of the State experience factor does not distort the benefit-wage factor as a measure of unemployment risk.

The usual purpose of most other secondary adjustments is to raise rates of all employers when the amount in the State fund falls below a certain danger point fixed by statute. A provision which achieves the same object is the prorating among all employers of benefits which had been "noncharged," that is, paid without being charged to any particular employer's account. A secondary adjustment that results in a reduction of rates has been found not to be an unreasonable distortion of the experience factor if the reduction is the same for all rated employers and if the reduction is not applied to employers not otherwise entitled to a reduced rate based on their own experience.

## 11. Transfers of Experience

Section 3303(a)(1), FUTA, prescribes the conditions under which a reduced rate of contributions to a pooled fund may be permitted by a State law "to a person (or group of persons) having individuals in his (or their) employ." The term "person" means any legal entity, including an individual, trust or estate, partnership, or corporation. It does not include a State or its political subdivisions. Although most, if not all, State laws contain provisions for group accounts, they are rarely used in practice. The main use of the authority in the Federal law for group accounts is as the legal basis for transfers of experience in certain circumstances.

Experience of an employer may be transferred to the successor, if permitted by State law, where the employing entity or entities are transferred in their entirety to a single legal person who may or may not have been a covered employer prior to the transfer. There may also be a transfer of experience from the predecessor employer to the successor employer who has acquired part of the predecessor's business, in proportion to the payroll or employees assignable to the transferred portion, if there is a clearly segregable and identifiable part of the predecessor's enterprise transferred. If a partial transfer is involved, the predecessor may not be allowed to retain experience assigned to the successor with respect to rate years following the transfer.

## 12. Types of Experience Rating Plans

Under the general provisions of the experience rating requirements contained in section 3303(a)(1), the provisions of State law on experience rating vary in a number of details. There are, nevertheless, certain common characteristics which may be grouped as four distinct systems currently used by the States, a few of which have combinations of such systems.

a. Reserve-ratio formula.--The reserve-ratio was the earliest of the experience rating formulas and continues to be the most popular. It is now used in 32 States. The system is essentially cost accounting. On each employer's record are entered the amount of his payroll, his contributions, and the benefits paid to his workers. The benefits are subtracted from the contributions, and the resulting balance is divided by the payroll to determine the size of the balance in terms of the potential liability for benefits inherent in wage payments. The balance carried forward each year under the reserve-ratio plan is ordinarily the difference between the employer's total contributions and the total benefits received by his workers since the law became effective. The payroll used to measure the reserve is ordinarily the average of the last 3 years.

The employer must accumulate and maintain a specified reserve before his rate is reduced; then rates are assigned according to a schedule of rates for specified ranges of reserve ratios; the higher the ratio, the lower the rate. The formula is designed to make sure that no employer will be granted a rate reduction unless over the years he contributes more to the fund than his workers draw in benefits. Also, fluctuations in the State fund balance affect the rate that an employer will pay for a given reserve; an increase in the State fund may signal the application of an alternate tax rate schedule in which a lower rate is assigned for a given reserve and, conversely, a decrease in the fund balance may signal the application of an alternate tax schedule which requires a higher rate.

b. Benefit-ratio formula.--The benefit-ratio formula also uses benefits as the measure of experience, but eliminates contributions from the formula and relates benefits directly to payrolls. The ratio of benefits to payrolls is the index for rate variation. The theory is that, if each employer pays contributions at a rate which approximates his benefit-ratio, the program will be adequately financed. Rates are further varied by the inclusion in the formulas of three or more schedules, effective at specified levels of the State fund in terms of dollar amounts or a proportion of payrolls or fund adequacy percentage.

Unlike the reserve-ratio, the benefit-ratio system is geared to short-term experience. Only the benefits paid in the most recent three years are used in the determination of the benefit ratios, with rare exceptions.

c. Benefit-wage-ratio formula.--The benefit-wage-ratio formula is radically different. It makes no attempt to measure all benefits paid to the workers of individual employers. The relative experience of employers is measured by the separations of workers which result in benefit payments, but the duration of their benefits is not a factor. The separations, weighted with the wages earned by the workers with each base-period employer, are recorded on each employer's experience rating record as benefit wages. Only one separation per beneficiary per benefit year is recorded for any one employer. The index which is used to establish the relative experience of employers is the proportion of each employer's payroll which is paid to those of his workers who become unemployed and receive benefits, i.e., the ratio of his benefit wages to his total taxable wages.

The formula is designed to assess variable rates which will raise the equivalent of the total amount paid out as benefits. The percentage relationship between total benefit payments and total benefit wages in the State during three years is determined. This ratio, known as the State experience factor, means that, on the

average, the workers who drew benefits received a certain amount of benefits for each dollar of benefit wages paid, and the same amount of taxes per dollar of benefit wages is needed to replenish the fund. The total amount to be raised is distributed among employers in accordance with their benefit-wage ratios; the higher the ratio, the higher the rate.

Individual employers' rates are determined by multiplying an employer's experience factor by the State experience factor. The multiplication is facilitated by a table which assigns rates which are the same as, or slightly more than, the product of the employer's benefit-wage ratio and the State factor. The range of the rates is, however, limited by a minimum and maximum. The minimum and the rounding upward of some rates tend to increase the amount which would be raised if the rates were computed without the table; the maximum, however, decreases the income from employers who would otherwise have paid higher rates.

d. Payroll variation plan.--The payroll variation plan is independent of benefit payments to individual workers; neither benefits nor any benefit derivatives are used to measure unemployment. Experience with unemployment is measured by the decline in an employer's payroll from quarter to quarter or from year to year. The declines are expressed as a percentage of payrolls in the preceding period, so that experience of employers with large and small payrolls may be compared. If the payroll shows no decrease or only a small percentage decrease over a given period, the employer will be eligible for the largest proportional reductions. The payroll variation plans use a variety of methods for reducing rates, usually by an array of declines and by groups or classes.