

of information on individuals unemployed at the time of induction. The Bureau is also continuing negotiations with officials of the Selective Service System and of the War Department to develop further the informational procedures already suggested and to discover others.

Appropriate provisions for State interchange of wage credits and of necessary records and information exist in some State laws but will have to be

introduced into others. There will also be the problem of preserving the wage and benefit records of individuals covered by the proposed legislation during their period of service. For segregating and preserving these records, each State agency will presumably develop the procedures best adapted to its existing wage-record process. It may be necessary for State agencies to preserve all wage records for a limited period of time.

## Experience Rating in Indiana, 1940\*

*The present analysis for Indiana, like similar analyses for Nebraska and Wisconsin published in the January and February Bulletins, respectively, summarizes data reported by the State agency and covering 1939 experience on which modification of employer contribution rates in 1940 was based. Similar data are available for South Dakota, where a relatively small group of employers was able to obtain modified rates in 1940, and also for Delaware, where rate modifications will not be effective until January 1942. Copies of releases summarizing information for these two latter States may be obtained, on request, from the Bureau of Employment Security, Research and Statistics Division.*

UNDER PROVISIONS of the Indiana law, outlined subsequently, only a small group of employers could qualify for reduced rates of contribution in 1940, the first year for which such rates could be assigned on the basis of an employer's experience rating. Rate reductions for this year therefore affected only 428 employer-reserve accounts, about 4 percent of the total, which was 10,217. It is estimated that the reduced rates caused a decline of considerably less than 1 percent from the amount which would have become payable had all employers paid the 2.7-percent rate. Reductions were made possible largely by a decline in an employer's pay roll in 1939, or by his payment of voluntary contributions, rather than by employment stabilization.

Among the total 10,217 employer accounts in the State, approximately 11 percent were overdrawn as of December 31, 1939—that is, the amount of benefits charged exceeded the contributions made by the employers and credited to their accounts. The mining and construction

industries had relatively the largest number of overdrawn accounts, while manufacturing accounted for three-fourths of the total amount overdrawn on that date.

### Statutory Provisions

Under the terms of the Indiana statute, each employer's reserve account was credited with five-sixths of his contributions during 1936, 1937, and 1938, and the remaining one-sixth was credited to a State-wide pooled account.<sup>1</sup> Beginning with 1939, the pooled account has been credited with 0.135 percent, or one-twentieth of 2.7 percent, and the remainder of the employer's contributions have been credited to his reserve account. In addition, employers are permitted to make voluntary contributions to their accounts, which are treated as required contributions.

Thus, the reserve account of an employer whose taxable pay roll has remained uniform since 1936 would have been credited with 7 percent

\*Prepared in the Research and Statistics Division, Bureau of Employment Security.

<sup>1</sup> In addition to Indiana, the laws of North Carolina, South Dakota, and Vermont are of the combined employer-reserve and pooled-fund type, under which a portion of each employer's contributions is credited to the State-wide pooled account and the remainder is credited to his own reserve account.

of his annual pay roll at the close of 1939, provided that no benefits had been charged to his account.

| Year       | Contributions as percent of annual pay roll |                                |
|------------|---|--------------------------------|
|            | Paid  | Credited to employer's account |
| Total..... | 8.1   | 7.003                          |
| 1939.....  | .9  | .75                            |
| 1937.....  | 1.8   | 1.50                           |
| 1938.....  | 2.7   | 2.25                           |
| 1939.....  | 2.7   | 2.005                          |

The statute requires that an employer's reserve balance must be equal to at least 7.5 percent of his preceding year's pay roll in order to entitle him to a rate reduction. This requirement undoubtedly accounts for the fact that so few employers obtained rate reductions in 1940. Of the 428 employers who obtained rate reductions, 352 received the 2-percent rate, 24 the 1-percent rate, and 52 the minimum rate of 0.135. These rate reductions decreased by less than 1 percent<sup>2</sup> the yield which would have been obtained for 1940 if all employers had had the 2.7-percent rate.

A report prepared by the Indiana agency indicates that declining pay rolls in 1939 and voluntary contributions were largely responsible for the 1940 rate reductions. The report points out that "Since it was necessary for an employer to have an annual pay roll in 1939 far below the annual pay roll in the preceding years in order to attain a . . . reserve ratio [of more than 7.5 percent], we can safely say that the reductions in contribution rates for 1940 cannot in any way be attributed to any successful attempts to stabilize employment."<sup>3</sup> The principal factors responsible for lower pay rolls in 1939 included (1) curtailment of employment, (2) disposal of a portion of the employer's business, or (3) cessation of business during the year. Analysis of the records of 279 firms obtain-

<sup>1</sup> Recent estimates prepared by the Indiana unemployment compensation agency show that experience rating will affect a much larger proportion of accounts during 1941. Approximately 3,460 employers will probably have contribution rates lower than 2.7 percent; 1,340 will receive rates higher than 2.7 percent; and about 5,320 will pay contributions at the normal rate of 2.7 percent. These estimates indicate that, if it is assumed that pay rolls for 1941 will remain at the same level as in 1939, the decline in yield during 1941 would be approximately \$900,000, or slightly more than 4 percent of the contributions which would be derived from the application of the uniform rate of 2.7 percent. Indiana Unemployment Compensation Division, *The Effects of Experience and Penalty Rating Provisions on Contributions for 1941*, Memorandum No. 23, Oct. 29, 1940. See footnote 8, below.

<sup>2</sup> Indiana Unemployment Compensation Division, *Savings to Employers Under the Operation of the 1940 Experience Rating Provisions of the Indiana Unemployment Compensation Law*, Memorandum No. 16, Apr. 16, 1940.

ing rate reductions without payment of voluntary contributions indicates that, for the most part, firms which experienced curtailed employment during 1939 received a 2-percent rate, those which disposed of a portion of their business reduced their pay rolls to the point at which the 1-percent rate was assigned, while employers who ceased operations for a portion of the year inflated their reserve ratios sufficiently to attain the minimum rate of 0.135 percent.<sup>4</sup>

#### Voluntary Contributions

One hundred fifty-six additional employers, or 1.5 percent of all accounts in the State, qualified for rate reductions by making voluntary contributions of amounts sufficient to raise their reserve balances to 7.5 percent or more of their 1939 pay rolls. Such voluntary contributions, which are encouraged by the procedures used by the State agency, totaled over \$11,000, or 0.05 percent of the 1939 collections, and were made more frequently by small than by large employers. The 1939 pay roll of these 156 employers totaled \$3.3 million, or an average annual pay roll of slightly more than \$21,000, in contrast to an average of nearly \$60,000 for all accounts in the State. While 49 percent of all accounts in the State which reported pay rolls in each of the 3 years 1937, 1938, and 1939 had an average annual pay roll of less than \$20,000, 61 percent of the accounts making voluntary contributions were classified in this pay-roll group. Although the small number of accounts involved limits the validity of size comparisons, it may be noted that about 2.6 percent of all accounts with average annual pay rolls below \$20,000 made voluntary contributions, as compared with 1.6 percent of the accounts with pay rolls above \$20,000.

Seventy-one of the accounts making voluntary contributions were in wholesale and retail trade. Although there are more than 4 times as many accounts in manufacturing (2,521) as in finance, insurance, and real estate (613), 28 firms in the latter group made voluntary contributions compared with 30 in manufacturing.

All accounts which made voluntary contributions obtained rate reductions, and in each case the rate assigned was next below the one which would have been assigned had no such contribution been made. Only seven of these accounts would

<sup>4</sup> *Ibid.*

**Table 1.—Number and percent of Indiana experience-rating accounts, and accounts with 1940 rate reductions, by industry**

| Industry   | All accounts |         | Accounts with rate reduction |         |
|--|--------------|---------|------------------------------|---------|
|  | Number       | Percent | Number                       | Percent |
| Total.....   | 10,217       | 100.0   | 428                          | 100.0   |
| Agriculture, forestry, and fishery.....                        | 25           | .3      | 3                            | .7      |
| Mining.....  | 287          | 2.8     | 7                            | 1.6     |
| Construction.....  | 707          | 7.5     | 12                           | 2.8     |
| Manufacturing.....   | 2,821        | 24.7    | 68                           | 15.9    |
| Transportation, communication, and other public utilities..... | 572          | 5.6     | 14                           | 3.3     |
| Wholesale and retail trade.....                                | 4,190        | 41.0    | 200                          | 46.1    |
| Finance, insurance, and real estate.....                       | 613          | 6.0     | 59                           | 13.8    |
| Service industries.....  | 1,241        | 12.1    | 59                           | 13.8    |

have obtained such reductions if they had not made voluntary contributions.

### Industry and Size-of-Firm Variations

About two-thirds of all experience-rating accounts in the State are found in the trade and manufacturing groups—41 percent for trade and 25 percent for manufacturing (table 1). The service industry with about 12 percent of all accounts was the third largest group in the State. No more than 8 percent of the accounts are found in any of the remaining groups.

About 48 percent of all accounts with reduced rates are found in the trade group, and 16 percent in manufacturing. On the other hand, 14 percent of all reduced rates went to employers in finance, insurance, and real estate, which represented only 6 percent of all accounts in the State.

A classification<sup>6</sup> by size of annual pay roll (table 2) indicates that 23 percent of the accounts have pay rolls of less than \$10,000, 49 percent less than \$20,000, and 63 percent less than \$30,000. Thirteen percent have pay rolls in excess of \$100,000, and 24 percent in excess of \$50,000. In contrast, 38 percent of all rate reductions were obtained by the accounts with pay rolls under \$10,000, 69 percent by accounts with pay rolls of less than \$20,000, and 84 percent with accounts with pay rolls of less than \$30,000. Only 5 percent represent accounts with pay rolls in excess of \$50,000.

It is clear that accounts with small pay rolls and those in trade, service, and finance and insurance

<sup>6</sup> Only 7,401, or 72.4 percent of all accounts, were classified by size. This classification, based on size of average annual pay roll, was applied only to accounts with pay rolls reported in each of the years 1937, 1938, and 1939. The remaining 2,816 accounts, which had no pay roll reported in 1 or more of these years, were not classified by size.

obtained the greatest proportion of the rate reductions; these accounts may either have had declining pay rolls during 1939 or have found it most practicable to make the necessary voluntary contributions in order to raise their reserve ratios above 7.5 percent.

### Overdrawn Accounts

On December 31, 1939, 1,150 or 11 percent of the 10,217<sup>6</sup> experience-rating accounts were overdrawn (table 3). The excess of benefits charged over contributions credited to these accounts was more than \$3.4 million. These employers would have been required to pay contributions at the 3.7-percent rate,<sup>7</sup> had the statute not provided that no rate in excess of 2.7 percent would go into effect until 1941; under the existing statute increased rates will not be assigned until 1943.<sup>8</sup>

Disproportionately large numbers of overdrawn accounts were found in the mining and construction industries; 50 percent of the accounts in mining and 31 percent of those in the construction

**Table 2.—Number and percent of Indiana experience-rating accounts, accounts with 1940 rate reductions, accounts overdrawn, and amount overdrawn, by average annual pay-roll group**

| Average annual pay roll <sup>1</sup> | All accounts |         | With rate reduction |         | Overdrawn |         |                      |         |
|--------------------------------------|--------------|---------|---------------------|---------|-----------|---------|----------------------|---------|
|                                      | Number       | Percent | Number              | Percent | Accounts  |         | Amount               |         |
|                                      |              |         |                     |         | Number    | Percent | Total (in thousands) | Percent |
| Total.....                           | 10,217       |         | 428                 |         | 1,150     |         | \$3,426              |         |
| Classified.....                      | 7,401        | 100.0   | 357                 | 100.0   | 753       | 100.0   | 2,976                | 100.0   |
| Under \$5,000.....                   | 324          | 7.1     | 62                  | 17.3    | 109       | 14.5    | 23                   | .8      |
| 5,000-9,999.....                     | 1,181        | 15.7    | 72                  | 20.2    | 148       | 19.6    | 53                   | 1.8     |
| 10,000-19,999.....                   | 1,959        | 26.6    | 112                 | 31.4    | 200       | 26.6    | 475                  | 15.0    |
| 20,000-29,999.....                   | 1,031        | 13.9    | 52                  | 14.6    | 77        | 10.2    | 90                   | 3.0     |
| 30,000-39,999.....                   | 677          | 9.2     | 34                  | 9.5     | 41        | 5.4     | 68                   | 2.3     |
| 40,000-49,999.....                   | 374          | 5.0     | 6                   | 1.7     | 27        | 3.6     | 62                   | 2.1     |
| 50,000-99,999.....                   | 796          | 10.8    | 15                  | 4.2     | 78        | 10.4    | 208                  | 7.0     |
| 100,000-999,999.....                 | 871          | 11.8    | 4                   | 1.1     | 63        | 8.4     | 693                  | 23.3    |
| 1,000,000 and over.....              | 76           | 1.0     |                     |         | 10        | 1.3     | 1,302                | 43.7    |
| Not classified.....                  | 2,816        |         | 71                  |         | 397       |         | 450                  |         |

<sup>1</sup> Average of 1937-39 annual pay rolls.

group were overdrawn, as compared with 11 percent for the State as a whole. In contrast to this experience, only 6 percent of the accounts in trans-

<sup>6</sup> In accordance with the instructions supplied by the Bureau of Employment Security, the agency reported on the modified rates assigned to the 10,217 experience-rating accounts active as of Mar. 31, 1940, but supplied data on the 1,150 accounts which were overdrawn as of Dec. 31, 1939.

<sup>7</sup> A study prepared by the Indiana agency indicates that such employers "saved" \$795,000 by retaining the 2.7-percent rate during 1940, assuming that their 1940 pay roll was identical with their 1939 pay roll. See *Savings to Employers*, op. cit.

<sup>8</sup> Prior to an amendment to the Indiana law approved in March 1941, increased rates were to become effective in 1941.

**Table 3.—Number and percent of Indiana experiencing accounts and of accounts overdrawn, and percent of accounts overdrawn, by industry, as of Dec. 31, 1939**

| Industry  | All accounts |         | Overdrawn |         |                      |         |   |
|---|--------------|---------|-----------|---------|----------------------|---------|---|
|   | Number       | Percent | Accounts  |         | Amount               |         | Percent of accounts in industry overdrawn |
|   |              |         | Number    | Percent | Total (in thousands) | Percent |   |
| Total.....  | 10,217       | 100.0   | 1,159     | 100.0   | \$3,426              | 100.0   | 11.2                                      |
| Agriculture, forestry, and fishery.....           | 20           | .3      | 7         | .6      | 6                    | .2      | 26.9                                      |
| Mining.....                                       | 287          | 2.8     | 143       | 12.4    | 393                  | 11.5    | 49.8                                      |
| Bituminous and other soft-coal mining.....        | 140          | 1.4     | 92        | 8.0     | 349                  | 10.2    | 65.7                                      |
| Construction.....                                 | 767          | 7.5     | 234       | 20.4    | 321                  | 9.4     | 30.5                                      |
| Manufacturing.....                                | 2,521        | 24.7    | 337       | 29.3    | 2,541                | 74.2    | 13.4                                      |
| Apparel and other finished products.....          | 111          | 1.1     | 26        | 2.3     | 105                  | 3.1     | 234.                                      |
| Furniture and finished lumber products.....       | 274          | 2.7     | 51        | 4.4     | 230                  | 8.2     | 18.6                                      |
| Stone, clay, and glass products.....              | 155          | 1.5     | 39        | 3.4     | 166                  | 4.8     | 25.2                                      |
| Iron and steel and their products.....            | 265          | 2.6     | 48        | 4.2     | 231                  | 8.2     | 18.1                                      |
| Machinery (except electrical).....                | 198          | 1.9     | 31        | 2.7     | 342                  | 10.0    | 15.6                                      |
| Automobiles and automobile equipment.....         | 61           | .6      | 21        | 1.8     | 889                  | 25.9    | 34.4                                      |
| Transportation, communication, and utilities..... | 572          | 5.6     | 30        | 3.1     | 32                   | .9      | 6.3                                       |
| Wholesale and retail trade.....                   | 4,190        | 41.0    | 223       | 19.4    | 63                   | 1.8     | 5.3                                       |
| Finance, insurance, and real estate.....          | 613          | 6.0     | 15        | 1.3     | 4                    | .1      | 2.4                                       |
| Service industries.....                           | 1,241        | 12.1    | 155       | 13.5    | 66                   | 1.9     | 12.5                                      |

portation and communication, 5 percent of those in trade, and 2 percent of those in finance were overdrawn. In the manufacturing and service groups, the proportion of overdrawn accounts was only slightly higher than the State-wide average, although the amount overdrawn in manufacturing represented three-fourths of the total for the State.

An examination of employment data reported to the Social Security Board by the Indiana agency indicates that the range of fluctuations in monthly employment, in comparison with the average monthly employment in 1938 was 3 and

5 times greater, respectively, in mining and construction than in all industries combined; in 1939 it was 1½ and 5 times greater, respectively.\*

Of the approximately \$3.4 million overdrawn by all accounts, almost 75 percent is attributable to accounts in the manufacturing groups and about 12 percent to those in mining. Of the individual major industry divisions, the amounts overdrawn by employers in automobile manufacturing represented 26 percent of all overdrawn amounts in the State, and the amounts overdrawn by accounts in machinery manufacturing (except electrical) and in bituminous coal mining each represented 10 percent of the State total. The accounts in these three of the most important industries in the States were charged with \$1.6 million in benefits in excess of their credited contributions, or 46 percent of all overdrafts in the State. Since analysis of the experience of other States has indicated that industries characterized by large numbers of overdrawn accounts are those in which increased contribution rates are most common, it may be expected that, if this experience continues, a high proportion of increased rates will be assigned to employers in these groups in subsequent years.

The data also indicate that a disproportionately large number of employers with average annual pay rolls under \$10,000 have overdrawn accounts (table 2). While 23 percent of all employers in the State are found in this pay-roll group, 34 percent of those with overdrawn accounts are so classified.

\* Social Security Board, *Employment and Payrolls in State Unemployment Compensation Systems, 1938*, Employment Security Memorandum No. 6, April 1940.