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Iowa Employment Security Commission  
1000 East Grand Avenue  
Des Moines, Iowa 50319

# EMPLOYER EXPERIENCE RATING



*Under the*  
**IOWA EMPLOYMENT  
SECURITY LAW**

**1942**

STATE OF IOWA

Issued to Assist the  
Employer to a Better  
Understanding of  
**EMPLOYER EXPERIENCE RATING**  
As Prescribed by the  
Iowa Employment Security Law

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**IOWA  
EMPLOYMENT SECURITY  
COMMISSION**

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# EMPLOYER EXPERIENCE RATING

## As Prescribed by the Iowa Employment Security Law

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Employer experience rating or merit rating as prescribed by the Iowa Statute became effective January 1, 1942. It applies to all Iowa and out-of-state employers subject to the Iowa Employment Security Law. Under this plan employer payroll contributions payable to the Employment Security Commission are no longer a flat two and seven-tenths per cent for all employers subject to the law but are graduated according to the employment experience of the individual employing unit. Funds thus contributed are deposited by the Commission in the Employment Security trust fund, to be used only for the payment of benefits to eligible unemployed workers.

An employer who has maintained a fairly steady employment record may be rewarded by a lower contribution rate; whereas, the employer whose employment record shows that unemployment has caused more benefits to be charged against his account than he has paid into it will be given a higher rate. Rates may be as low as nine-tenths of one per cent or as high as three and six-tenths per cent according to the employment experience of the individual employer.

### General Requirements

The Iowa Statute prescribes that no employer's rate of payment shall be less than two and seven-tenths per cent upon his annual payroll unless the total assets of the fund, including contributions not yet paid at the beginning of the calendar year, exceed the total benefits paid from the fund within the last preceding calendar year, and no employer's rate shall be less than one and eight-tenths per cent unless such assets at such time were at least twice the total benefits paid from the fund within such last preceding calendar year.

The total amount on deposit in the Iowa Employment Security Trust Fund on January 1, 1942 was \$23,151,-537.55. The total amount of unemployment compensation benefits paid in Iowa during the calendar year 1941 was \$2,550,992.45. This leaves a surplus of \$20,600,-545.10 which is over and above the amount necessary to meet the foregoing requirements.

Another basic provision in the Iowa law relates to liability experience. Section 1551.13 C-3, Code of Iowa

1939 reads as follows: "No employer's rate shall be less than two and seven-tenths percentum after December 31, 1937 unless and until there shall have been three calendar years after he became liable for contributions under this chapter throughout which any individual in his employ could have received benefits if eligible." The date, therefore, when eligibility was established is a determining factor as to eligibility for a reduced contribution rate.

In order to administer the experience rating provision the Commission has opened a special account with each of the 8,600 Iowa and out-of-state employers subject to the law. Each employer has been credited with all contributions made as taxes on his payrolls during the period since he first became subject to the law. Benefit payments made to former employees have been charged against such account, in accordance to the provisions as set out in the law.

Wages reported to the Commission as having been paid to an individual, which constitutes the basis of contributions made by an employer, are credited to the individual worker's account. One-sixth of such wages, but not to exceed \$65 in any one quarterly period, may be available for benefit payments to the individual.

### **Benefit Chargebacks**

When a worker is paid unemployment benefits, the amount so paid is charged against the account of employer or employers in his base period beginning with his most recent employer and continuing in inverse chronological order. If he has worked for more than one employer during his base period, the credits accumulated under the last employer are exhausted first; then, if they are not sufficient, the next last employer's credits are used. In this manner charges are made against the accounts of employers whose former employees have drawn benefits.

If an employer has had no charges against his account or if such charges have not exceeded a certain relative percentage as prescribed by law, the experience rating provisions will entitle such employer to a reduced contribution rate. If, however, the benefit experience of the employer is unfavorable, his contribution rate may be increased.

The theory back of this provision of the law is to set up a standard which will give an advantage in contribution rates to the employer who has maintained an even

employment record; that is, he has had a relatively light turnover in his working force. At the same time the employer who has had a heavy turnover has caused a heavier drain on the benefit fund and under provisions of the law is assessed a heavier tax for its support.

### Computing the Chargeback

To illustrate the method employed in charging benefit payments against employer accounts, the following example is given. It is assumed that the claimant is eligible for a maximum benefit amount of \$15 per week for 15 weeks, a total of \$225, and that he remained unemployed and drew the entire amount.

Benefit payments in the examples hereinafter given are computed in accordance with provisions of the present law. However, the original Iowa Unemployment Compensation law allowed the use of the lag and incomplete calendar quarter to determine amount and duration of benefit payments. This practice was in use previous to May 5, 1939 and will account for minor differences in computations prior to that time.

For convenience the eight quarters constituting the calendar years of 1939 and 1940 are selected as the base period of the claimant whose record we are examining. Let us suppose that he became unemployed and filed a claim some time during the second quarter, 1941. It is found by consulting wage records in the Commission office made up from the quarterly payroll reports covering the period, that he has wage credits amounting to \$355 as shown in column 4, under "wage credits." This claimant worked for four employers, A, B, C, and D and one of these, A, on two different occasions, as follows:

#### Example 1

Quarterly Period	Employer Account	Quarterly Earnings	Wage Credits	Charge Against Employer
1-'39	.....A	\$300.00	\$ 50.00	
2-'39	.....A	180.00	30.00	
	.....B	180.00	30.00	
3-'39	.....B	450.00	65.00	\$ 40.00
4-'39	.....B	240.00	40.00	40.00
1-'40	.....B	180.00	30.00	30.00
2-'40	.....C	150.00	25.00	25.00
3-'40	.....C	180.00	30.00	30.00
	.....D	180.00	30.00	30.00
4-'40	.....A	180.00	30.00	30.00
			\$355.00	\$225.00

During the first quarter of 1939 he worked for employer A. He earned \$300. When this was reported to the Commission he was credited with one-sixth of the amount which is \$50, as wage credits. He worked for A until the middle of the second quarter when he started working for employer B. He was paid \$180 by each employer and his wage credits showed on the Commission records as \$60 for the quarter. He worked for B until the second quarter of 1940 when he started working for C. He stayed with C until the middle of the third quarter when he went to D. The last quarter finds him back with A.

The first four columns in the table tell the story of the wage credits up to the end of the base period, but when he is laid off at the end of this period and is allowed benefits, the amount drawn is charged against the wage credits accumulated in column four in the inverse order; that is, the credits last earned are first used, so that his first benefit check is charged against his last employer, which in this case is employer A. Had he become employed at the end of one or two weeks and ceased to draw benefits, no charge would have been made against other employers in the base period, but as he remained unemployed and continued to draw his remaining benefits, charges are next made against employers D, C, and B, until the entire \$225 is drawn.

All contributions received to January 31, 1942 and benefit payments made to December 31, 1941 will be considered in the computation of rates for the year 1942.

### **Average Annual Payroll**

The average annual payroll as used in computing employer payroll contribution rates is determined by taking the average of the annual payrolls of the employer for the last three or five years whichever is the larger. For the purpose of merit rating the payroll of an employer will be such an amount of wages as is reported to the Commission as having been paid to individuals in his employ. If the average as thus computed for the last three years is higher than the average for the last five years, then the three year average will be used.

An employer who has been liable for the payroll tax since its inception in 1936, has, if we consider that his payroll has remained the same each year, contributed a total of 13.5 per cent. This is arrived at as follows: The tax for 1936 was nine-tenths per cent, for 1937 it

was one and eight-tenths per cent, for 1938, 1939, 1940, and 1941 it was two and seven-tenths per cent each year making a total of 13.5 per cent due the state.

If at the beginning of a calendar year the total of all contributions made by an employer paid on his own behalf for all past years exceeds the total benefits charged to his account for all such years, his contribution rate shall be nine-tenths of one per cent if such excess equals or exceeds ten per cent of his average annual payroll as herein computed.

#### Example 1

Employer's Average Annual Payroll .....	\$100,000.00	
Contributions Paid (13.5 Per Cent) .....	13,500.00	
Benefits Charged Against Account .....	2,200.00	
Excess of Contributions Over Benefit Payments .....		\$ 11,300.00
	\$ 11,300.00	
	<hr/>	— 11.3 Per Cent
	100,000.00	

The excess is more than 10 per cent; therefore, his rate shall be nine-tenths of one per cent.

If at the beginning of a given calendar year the total contributions made by a contributor for all past years exceeds the total benefits charged to his account and such excess equals or exceeds seven and one-half per cent but is less than ten per cent of his average annual payroll, the said employer will be entitled to a contribution rate of one and eight-tenths per cent of his payroll.

#### Example 2

Employer's Average Annual Payroll .....	\$100,000.00	
Contributions Paid (13.5 Per Cent) .....	13,500.00	
Benefits Charged Against Account .....	5,500.00	
Excess of Contributions Over Benefit Payments .....		\$ 8,000.00
	\$ 8,000.00	
	<hr/>	— 8 Per Cent
	100,000.00	

The excess is more than seven and five-tenths per cent but less than ten per cent; therefore, his rate shall be one and eight-tenths per cent.

If at the beginning of a given calendar year the total contributions made by an employer for all past years, exceeds the total benefits charged to his account and such excess is less than seven and one-half per cent, his annual payroll rate shall be two and seven-tenths per cent.

### Example 3

Employer's Average Annual Payroll .....	\$100,000.00
Contributions Paid (13.5 Per Cent) .....	13,500.00
Benefits Charged Against Account .....	8,500.00
Excess of Contributions Over Benefits Paid .....	\$ 5,000.00
	\$ 5,000.00
	————— 5 Per Cent
	100,000.00

The excess is less than seven and five-tenths per cent; therefore, his rate shall be two and seven-tenths per cent.

If at the beginning of a given calendar year the total of all contributions paid by an employer on his own behalf for all past periods or for the past 60 consecutive calendar months, whichever period is most advantageous to such employer, is less than the total benefits charged against his account during the same period, his rate shall be three and six-tenths per cent.

### Example 4

Employer's Average Annual Payroll.....	\$100,000.00
Contributions Paid (13.5 Per Cent).....	13,500.00
Benefits Charged Against Account.....	13,505.00

Benefits paid and charged to account are in excess of contribution payments; therefore, his rate shall be three and six-tenths per cent.

### Lower Contribution Rates

The state of Iowa operates under what is known as a pooled fund system of unemployment compensation. All employer contributions are deposited in this fund.

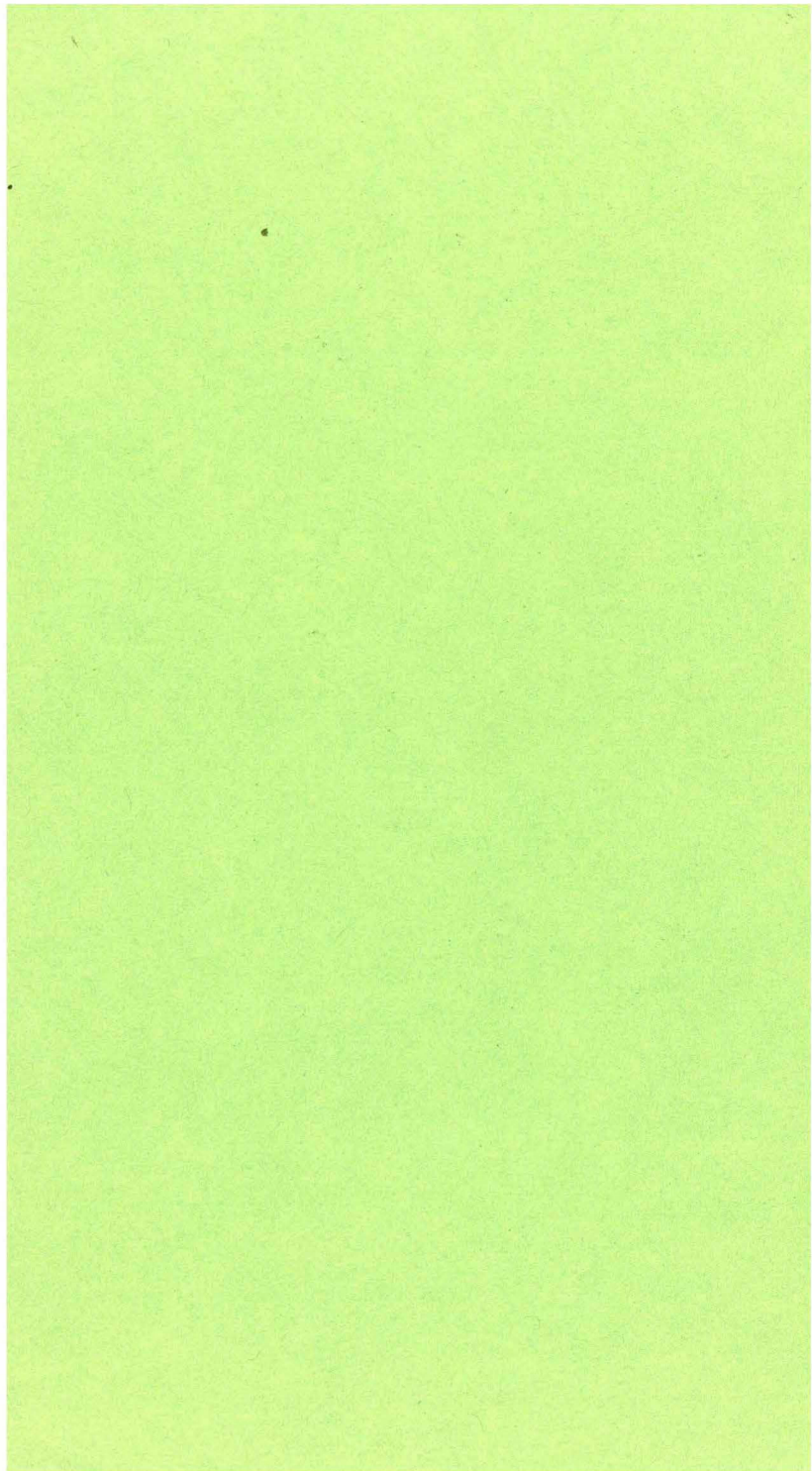


From this fund all unemployment benefits are paid. Individual employer accounts are maintained for experience rating purposes.

As computation of individual employer accounts are completed and determination of payroll contribution rates are made, the Commission will notify each employer of his 1942 rate.

Experience rating is designed to give the employer the advantage of lowered costs of unemployment insurance effected by improved employment conditions, elimination of any necessity to further increase the amount of funds in reserve, and by the employer's control of labor turnover in his own business.

Employer experience rating makes it possible for the employer to select his own rate of contribution. If, by constant, steady and uninterrupted employment, workers remain employed, there is no unemployment benefit charges against the account of the employer. In justice such an employer is entitled to a lower rate. By planning work in advance, by providing steady employment, by the elimination of the peaks and valleys in employment, the employer is able to secure a lowered rate of contribution.



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