

# Chapter 5. Employment and Wages Covered by Unemployment Insurance

The Covered Employment and Wages program, commonly called the ES-202 program, is a cooperative endeavor of the Bureau of Labor Statistics and the employment security agencies of the 50 States, the District of Columbia, Puerto Rico, and the Virgin Islands. Using quarterly data submitted on magnetic media or electronically by the agencies, BLS summarizes employment and wage data for workers covered by State unemployment insurance (UI) laws and for civilian workers covered by the program of Unemployment Compensation for Federal Employees (UCFE).

The ES-202 program is a comprehensive and accurate source of employment and wage data, by industry, at the national, State, and county levels. It provides a virtual census of nonagricultural employees and their wages. In addition, about 47 percent of all workers in agricultural industries are covered.

## Background

The ES-202 program can trace its origins back to the Social Security Act of 1935, which authorized collection of information to determine if State unemployment compensation programs were in compliance with the act. From the inception of the national UI system in 1938, when the Federal Unemployment Tax Act became effective, until 1972, collection of the data, publication, and technical expertise were the responsibilities of the U.S. Department of Labor's Manpower Administration or its predecessor agencies. Semiannual reports summarizing the data were issued until 1950, when the periodical *Employment and Wages* began quarterly publication. In 1972, BLS assumed responsibility and continued quarterly publication until 1975. *Employment and Wages* then became an annual publication.

## Concepts and Methodology

### Scope of coverage

In 1938, UI coverage and, consequently, ES-202 reporting requirements, extended only to private firms employing eight or more persons at least 20 weeks a year; certain employee groups were exempt. Insurance coverage was successively broadened, to include Federal civilian employ-

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ees<sup>1</sup> (1955); firms employing four to seven employees (1956) and ex-military personnel<sup>2</sup> (1958); firms employing one to three employees; and State colleges, universities, and hospitals (1972). In 1978, coverage was extended to nearly all other State and local public employees, to agricultural firms employing a minimum of 10 workers in at least 20 weeks a year or having a \$20,000 quarterly payroll; and to employers paying a quarterly minimum of \$1,000 to domestic workers.

UI coverage is broad and basically comparable from State to State. In 1994, UI and UCFE covered over 112 million jobs, or over 96 percent of total wage and salary civilian jobs. Covered workers received \$3.0 trillion in pay, or 92.5 percent of the wage and salary component of national income.

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<sup>1</sup>Under the Unemployment Compensation for Federal Employees (UCFE) program.

<sup>2</sup>Under the Unemployment Compensation for Ex-Servicemen (UCX) program.

Over the years, many States have legislated unemployment insurance protection for additional categories of workers above the base established through Federal legislation. Details on coverage laws are provided in *Comparisons of State Unemployment Insurance Laws*, available upon request from the Employment and Training Administration of the Department of Labor.

When UI-covered private industry employment data are compared directly with other employment series, the industry exclusions also should be taken into account. Excluded from private-sector coverage in 1994 were approximately 0.2 million wage and salary agricultural employees, 1.6 million self-employed farmers, 9.0 million self-employed nonagricultural workers, 0.6 million domestic workers, and 0.2 million unpaid family workers. Also excluded were 1.4 million members of the Armed Forces stationed in the United States, 0.3 million workers covered by the railroad unemployment insurance system, and about 0.7 million State and local government workers. In addition, certain types of nonprofit employers, e.g., religious organizations, are given a choice of coverage or noncoverage in a number of States.

### Establishments and reporting units

An establishment is an economic unit, such as a farm, mine, factory, or store, which produces goods or provides services. It usually is at a single physical location and engaged in one, or predominantly one, type of economic activity, for which a single industrial classification may be applied. Occasionally, a single physical location encompasses two or more distinct and significant activities. Each activity should be reported as a separate establishment if separate records are kept and the various activities are classified under different 4-digit Standard Industrial Classification (SIC) codes.

Most employers have only one establishment; thus, the establishment is the predominant reporting unit or statistical entity for reporting employment and wage data. Most employers who operate more than one establishment in a State file a Multiple Worksite Report (MWR) each quarter, in addition to their quarterly UI Contribution Report. The MWR form is used to collect separate employment and wage data for each establishment of these employers. Some very small multi-establishment employers do not file a MWR. When the total employment in an employer's secondary establishments (all establishments other than the largest) is less than 10, the employer will generally file a consolidated report for all establishments. Some employers either cannot or will not report at the establishment level and thus group establishments into one consolidated unit, or possibly several units, though not at the establishment level.

Prior to 1991, employers provided covered employment and wages data on a "reporting unit" basis. Reporting unit data typically provided detail only for different county lo-

cations and/or industrial operations within a State. Non-standard forms, similar in concept to the MWR and called the Statistical Supplement, were used by States to collect these county/industry data. Although reporting units were, for the most part, individual establishments, employers could provide a summary of their employment and wages data for multiple establishments within a county that were conducting the same type of industrial activity. For example, a fast-food business may have submitted a report that covered all its operations within a county prior to 1991; on the MWR, the employer reports employment and wages data for each individual location.

In government, the reporting unit is the installation (a single location at which a department, agency, or other government instrumentality has civilian employees). Federal agencies follow slightly different criteria from private employers in breaking down their reports by installation. They are permitted to combine as a single statewide unit (1) all installations with 10 workers or fewer and (2) all installations which have a combined total in the State of fewer than 50 workers. In addition, when there are fewer than 25 workers in all secondary installations in a State, they may be combined and reported with the major installations. Lastly, if a Federal agency has fewer than five employees in a State, the agency headquarters office (regional office, district office) serving each State may consolidate the wage and employment data for that State with the data reported to the State in which the headquarters is located.

As a result of these reporting rules, the number of reporting units is always larger than the number of employers (or government agencies) but smaller than the number of establishments (or installations).

### Employment

Employment data represent the number of workers on the payroll during the pay period including the 12th day of the month. The pay period varies in length from employer to employer; for most employers, it is a 7-day period but not necessarily a calendar week. An employer who pays on more than one basis (such as weekly for production employees and semimonthly for office employees) reports the sum of the number of workers on each type of payroll for the period.

The employment count includes all corporation officials, executives, supervisory personnel, clerical workers, wage earners, pieceworkers, and part-time workers. Workers are reported in the State and county of the physical location of their job. Persons on paid sick leave, paid holiday, paid vacation, and so forth are included, but those on leave without pay for the entire payroll period are excluded.

Persons on the payroll of more than one firm are counted in each firm. Workers are counted even though their wages may be nontaxable for UI purposes during that period (having reached the taxable limit for the year).

The employment count excludes employees who earned

no wages during the entire applicable period because of work stoppages, temporary layoffs, illness, or unpaid vacations, and employees who earned wages during the month but not during the applicable pay period.

### Total wages

Total wages, for purposes of the quarterly UI reports submitted by employers in private industry in most States, include gross wages and salaries, bonuses, stock options, tips and other gratuities, and the value of meals and lodging, where supplied. In some of the States, employer contributions to certain deferred compensation plans, such as 401(k) plans, are included in total wages. Total wages, however, do not include employer contributions to Old-age, Survivors', and Disability Insurance (OASDI); health insurance; unemployment insurance; workers' compensation; and private pension and welfare funds.<sup>3</sup>

In most States, firms report the total wages paid during the calendar quarter, regardless of the timing of the services performed. Under laws of a few States, however, the employers report total wages earned during the quarter (payable) rather than actual amounts paid.

For Federal workers, wages represent the gross amount of all payrolls for all pay periods paid within the quarter. This gross amount includes cash allowances and the cash equivalent of any type of remuneration. It includes all lump-sum payments for terminal leave, withholding taxes, and retirement deductions. Federal employee remuneration generally covers the same types of services as those for workers in private industry.

### Taxable wages and contributions

Taxable wages are that part of wages subject to the State unemployment insurance contribution tax. Contributions (i.e., monies that are deposited in trust funds in order to pay unemployment claims) are calculated on taxable wages and are reported quarterly.

Under Federal Law, certain units of State and local governments and certain nonprofit establishments may elect to reimburse the State for any unemployment insurance claims that have been filed against them. These reimbursable accounts are not subject to the quarterly assessment for unemployment insurance funds; therefore, their taxable wages and contributions are not reported.

In mid-1996, approximately 20 percent of the States required that employers pay UI taxes on the first \$7,000 of employee wages—the minimum established by Federal laws. The remaining States established higher limits on taxable earnings. The portion of wages subject to taxation has varied substantially over time. As of 1996, about one-half of the States allowed employers to obtain lower tax rates by

<sup>3</sup> Employee contributions for the same purposes, as well as money withheld from the employee's gross pay for income taxes, union dues, etc., are included in the UI reports.

making voluntary contributions to the unemployment tax fund. The few States which tax employees in addition to employers are requested to include employees' contributions in their ES-202 report.

### Industrial classification

Employment and wage data under the ES-202 program have been classified by industry since 1938. Industrial codes are assigned by State agencies to each reporting unit based on responses to questionnaires in which employers indicate their principal product or activity. If a private or government employer conducts different activities at various establishments or installations, separate industrial codes are assigned to each establishment, to the extent possible.

Since 1938, the industrial classification of business establishments and government installations has undergone a number of modifications. Until 1945, classification was based on the *Social Security Board Classification Manual*. At that time, the basis was changed to the *Standard Industrial Classification Manual*, which has since been revised several times. Establishments were originally classified into 20 manufacturing and 60 nonmanufacturing groups, on a 2-digit basis. The number of such groups has remained fairly constant. Three-digit groupings were added in 1942, and 4-digit groupings were added for manufacturing in 1956 and for nonmanufacturing in 1968. In the Covered Employment and Wages program, statewide 4-digit classification of nonmanufacturing became mandatory in 1978.

Since 1988, the *1987 Standard Industrial Classification Manual* has been used to classify the industry of each establishment. (See appendix B.) The manual provides for 1,005 4-digit industries, 416 3-digit industries, 83 major industry groups, and 11 industry divisions. Of the 1,005 4-digit industries, 7 are not used in the Covered Employment and Wages program because of problems in obtaining systematic and accurate information to code sufficiently at the 4-digit level.

In order to insure the highest possible quality of data from the ES-202 program, BLS and the States verify and update, if necessary, the SIC, location, and ownership classifications of all units on a 3-year cycle. Government units in the public administration industry division, however, are verified less frequently.

### Collection methods

State agencies collect ES-202 data on the quarterly UI Contribution Report or MWR as a byproduct of the administration of the UI program. Once new employers have met the criteria for UI liability and registered with the State agency, they begin the ongoing process of submitting a quarterly UI report. Employers who have ceased operations no longer report and are dropped from ES-202 data.

State agencies send magnetic tapes or cartridges, or electronically transmit their ES-202 data for nearly 7.0 million active establishments to BLS each quarter. Each establish-

ment is classified by its industrial activity and then independently by 1 of 4 ownership categories. Private industry has 6.6 million establishments; Federal Government, 48,000; State government, 61,000; and local government, 121,000. The State agencies code and summarize the raw data from the UI Contribution and Multiple Worksite Reports; check for missing information and errors; prepare imputations of data for delinquent reports; and finally, machine process the data. Five months following the end of each quarter, the agencies send these data to Washington.

In order to assure accurate data, BLS conducts several additional edits of the data each quarter and then requests State agencies to review questionable entries and provide updates or explanations where necessary. BLS has also developed an exportable macro-edit system for State agency use so that there may be consistent and efficient review of the ES-202 report. The macro-edit permits State agencies to use their resources effectively in the processing, review, and correction of data.

### Comparison of the ES-202 Program with Other Series

A number of other statistical data series are comparable in some respects to those provided in the ES-202 program. These series all have certain applications, strengths, and shortcomings. Because of its broad universe coverage, continuity, and currency, the ES-202 program is one of the most useful.

### Current Employment Statistics

The Current Employment Statistics (CES) program uses a sample of about 390,000 establishments to provide current estimates of monthly nonfarm employment, average weekly hours, and average hourly and weekly earnings. Employment estimates derived from the CES are benchmarked primarily to ES-202 records, which cover about 98 percent of all nonfarm employees and 98 percent of those in the private nonfarm sector. For the remaining industries, the CES program uses other sources to estimate employment not covered by State UI laws.

In addition to being both sample-based rather than a universe count and more current, the CES program differs from the ES-202 program in that the former provides paid hours and weighted weekly earnings estimates for production workers in manufacturing and nonsupervisory workers in nonmanufacturing. The ES-202 program provides total quarterly payroll data for all employees, unrelated to hours paid. Also, the CES program data are available monthly, whereas ES-202 data are available quarterly.

### Current Population Survey

The Current Population Survey (CPS) is a sample survey of about 50,000 households selected to represent the entire civilian noninstitutional population and designed to mea-

sure overall employment, unemployment, and those not in the labor force. In terms of employment, the sample thus includes categories of workers which are entirely or partly excluded from the ES-202 program: Certain farm and domestic workers, the self-employed, persons working 15 hours or more in the survey reference week as unpaid workers in a family-operated enterprise, employees of certain nonprofit organizations, and railroad workers. The CPS also counts employees uncompensated because of temporary absence but excludes workers under 16 years old.

Because the CPS is a sample and surveys households rather than establishments, it cannot present employment and wage data in the industrial and geographical detail available under the ES-202 program, but it does provide demographic characteristics. As a household survey, its focus is on individuals, whereas establishment-based surveys such as the ES-202 program focus on jobs. When providing geographic information, the CPS program tabulates data by the location of the residence. On the other hand, the ES-202 program provides its State and county data by the location of the job. Both CPS and CES data are released within 1 month of the reference period; ES-202 data become available several months after the reference quarter.

### County Business Patterns

Covered employment and wages data from the ES-202 program differ from employment data published in *County Business Patterns* (CBP) of the Bureau of the Census in the following major areas: (1) CBP data exclude administrative and auxiliary units from "operating" unit data at the 4-digit level and include these data at the industry division level only. ES-202 covered employment, on the other hand, includes data for these units at the 4-digit SIC level. (2) CBP excludes agricultural production workers and household workers, some of whom are included in ES-202 covered employment data. CBP also excludes government units, all of which are included in the ES-202 program. (3) Every 5 years, data are collected for all multi-units within the scope of business and economic censuses and included in the CBP for that year. Annual updates for the larger multi-units are obtained from the sample selected for the Report of Organization Survey, and data for nonsample multi-units are estimated. Annual updates for single units come from the Internal Revenue Service and the Social Security Administration. ES-202 covered employment and wages data, on the other hand, include data collected from all active units each quarter.

### Office of Personnel Management

The Office of Personnel Management (OPM) maintains and publishes a statistical series on Federal employment and payrolls with information by agency, type of position and appointment, and characteristics of employees. Both the OPM and ES-202 series exclude the Central Intelligence Agency and the National Security Agency, the Armed Forces,

temporary emergency workers employed to cope with catastrophes, and officers and crews of certain American vessels. OPM data, but not ES-202 data, include employees working in foreign countries, workers paid on a fee or commission basis, and paid patients, inmates, and certain employees of Federal institutions. Conversely, ES-202 data, but not OPM data, include Department of Defense employees paid from nonappropriated funds as well as employees with Federal appointments to the Agricultural Extension Service, County Agricultural Stabilization and Conservation Committees, and State and Area Marketing Committees.

In comparison with the OPM data, ES-202 program data provide more industry, local employment, and wage detail and more frequently updated detail on employment by State. The OPM data series, of course, have certain statistics that have no parallel in the ES-202 program.

### Presentation

Employment and Wages, an annual BLS publication, presents State and national totals for covered employment and wages by broad industry division, major industry group, and detailed 4-digit industry. Data for government workers are shown by State and selected industries. The publication includes distributions of employment and wages by size of reporting unit for each major industry division for the United States as a whole. These data are distributed into 10 employment-size categories.

A comparison of the average annual pay across States, and the pay levels by industry division within States is made in an annual news release issued in late Summer or early Fall. A comparison of average annual pay in metropolitan areas is made in a news release that follows shortly after the State and Industry comparison. Both news releases can be accessed from BLS's Internet site.

To preserve the anonymity of establishments, BLS withholds publication of data for any geographic industry level in which there are fewer than three firms or in which the employment of a single firm accounts for over 80 percent of the industry. At the request of a State, data are also withheld where there is reason to believe that the "fewer than three" rule would not prevent disclosure of information pertaining to an individual firm or would otherwise violate the State's disclosure provisions. Information concerning Federal employees, however, is fully disclosable.

In addition to published information, county and metropolitan data and historical information are available from the BLS Washington office either on hard copy or on machine-readable media such as magnetic tapes and diskettes on a cost reimbursable basis. The charge for this service varies according to the complexity and volume of the re-

quest. Write to the Division of Occupational and Administrative Statistics, Office of Employment and Unemployment Statistics, U.S. Department of Labor, Bureau of Labor Statistics, Washington, DC 20212.

The individual States, which have a wide variety of uses for the data, usually publish their own reports containing ES-202 data.

### Uses

The ES-202 data series is the most complete universe of monthly employment and quarterly wage information by industry, county, and State. The series have broad economic significance in evaluating labor trends and major industry developments in time series analyses and industry comparisons, and in special studies such as analyses of wages by size of establishment.

The program provides data necessary to both the Employment and Training Administration and the various State employment security agencies in administering the employment security program. The data accurately reflect the extent of coverage of the State unemployment laws and are used to measure UI revenues; National, State, and local area employment; and total and taxable wage trends. The information is used as an input for actuarial studies, determination of experience ratings, maximum benefit levels, and areas needing Federal assistance. It also assists in determining the solvency of unemployment insurance funds.

The ES-202 data are used by a variety of other BLS programs. They serve, for example, as the basic source of benchmark information for employment by industry and by size of establishment in the Current Employment Statistics (CES) program. The Unemployment Insurance Name and Address File, developed in conjunction with the ES-202 report, also serves as a national sampling frame for establishment surveys by the Producer Price Index, Occupational Safety and Health Statistics, Employment Cost Index, and other compensation programs.

The Bureau of Economic Analysis of the U.S. Department of Commerce uses ES-202 wage data as a base for estimating a large part of the wage and salary component of national income and gross domestic product. A subdivision of these accounts, personal income, is instrumental in determining Federal allocation of program grants to State and local governments. The Social Security Administration and State governments also use ES-202 data in updating economic assumptions and forecasting trends in their taxable wage base.

Finally, business and public and private research organizations find the ES-202 program one of the best sources of detailed employment and wage statistics.

## Technical References

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