

## **The Vital Importance of the Unemployment Insurance (UI), Quarterly Census of Employment and Wages (QCEW), and Local Area Unemployment Statistics (LAUS)**

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The Unemployment Insurance (UI) data files are key inputs for several federal statistical programs. These data files are the source of one of the most important administrative databases, the Quarterly Census of Employment and Wages (QCEW). They are also a vital input for Local Area Unemployment Statistics (LAUS) estimation. The QCEW and LAUS programs are administered by the Bureau of Labor Statistics (BLS) and rely on close coordination between each state's UI office and Labor Market Information (LMI) office to ensure timeliness and accuracy. When engaging in UI modernization activities, it is important to consider the downstream impact of changes because they could significantly impact files, interfaces, and processes that are critical for the reporting of accurate data to BLS. Below are some of the important uses of these files.

### **State UI Departments:**

- State UI departments use the fourth quarter wage data to set the average annual covered wage that is used in calculating the weekly benefit amount paid for unemployment.
- Some states use the North American Industry Classification System (NAICS) codes to determine initial tax liability and some state governments offer tax incentives to businesses classified in specified NAICS industries.
- Many states load NAICS code changes from the Annual Refiling Survey (ARS) into their tax systems.
- The BLS QCEW program has been a partner with UI departments to identify State Unemployment Tax Authority (SUTA) dumpers. SUTA dumping involves the manipulation of an employer's unemployment tax rate and/or payroll reporting to owe less in unemployment taxes. Employers engaging in this activity compromise the integrity of the UI system, adversely affect tax rates for all employers, and cost the UI Trust Fund hundreds of millions of dollars each year.

### **The Employment and Training Administration (ETA):**

- ETA uses QCEW monthly employment data to project revenues and unemployment fund balances. QCEW data are used to compute federal trust fund account ceilings, employer experience ratings, trust fund solvency measures, and tax schedule/surcharge triggers.
- ETA also uses QCEW monthly employment data to estimate taxable wages for purposes of determining the share of the Federal Unemployment Tax Act (FUTA) tax returned and each state's share of any Reed Act distribution.
- ETA uses LAUS data to identify Labor Surplus Areas (LSAs). The data are used by other agencies such as the Small Business Administration (SBA), which utilizes them for Historically Underutilized Business Zones (HUBZones). QCEW monthly employment is a critical input to LAUS, used to forecast monthly employment by place of residence and

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to benchmark the forecasted data during annual revisions for substate areas not covered by Current Employment Statistics (CES).

- ETA uses LAUS data to determine when Federal-State Extended Benefits (EB) programs are triggered on and off. This program can provide up to 13 additional weeks of benefits when a state is experiencing high unemployment.
- ETA provides funds to LMI to do data analysis as part of the workforce grant. It would be impossible to meet the analysis deliverables without QCEW data.

### **ETA and State UI Agencies:**

- Both ETA and state UI agencies use QCEW data to measure the extent of UI covered employment as a percentage of all workers, to monitor employment and wage trends, calculate insured unemployment rates and extended benefits trigger rates, and research taxable wage bases and tax rates.
- State agencies use LAUS data to delineate Areas of Substantial Unemployment (ASUs). ETA uses these data in allocation formulas to distribute funds to the states for various Workforce Innovation and Opportunity Act (WIOA) employment and training services.

### **The Bureau of Labor Statistics (BLS):**

- BLS produces the QCEW from quarterly contribution reports (QCRs) filed by employers to state UI departments. The state UI program provides these employer-level data to the state LMI office which supplements, edits, and processes these data to submit an Enhanced Quarterly Unemployment Information (EQUI) file. Wage records from UI are an invaluable crosscheck on QCR employment and wages and also are used to identify predecessor/successor transactions.
- BLS produces the LAUS estimate of total employment and unemployment for approximately 7,000 areas and uses UI claims and QCEW employment data as inputs. State monthly model-based estimates are controlled in “real time” to sum to national monthly employment and unemployment estimates from the Current Population Survey (CPS). These models combine current historical data from the CPS, CES survey, and state UI systems.
- QCEW monthly employment data is used by LAUS to forecast place-of-residence employment and to benchmark the monthly forecasted data during annual revisions for substate areas not covered by CES.
- BLS uses QCEW worksite data as a sampling frame for a number of critical surveys, including the CES survey, the Occupational Employment Statistics (OES) survey, and others. QCEW data is also used as the source of benchmark employment to ensure a high level of quality in these survey data.

### **The Bureau of Economic Analysis (BEA):**

- BEA produces quarterly estimates of employment and personal income for the nation, every state and county. These estimates are based on accurate UI monthly employment

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and quarterly wages provided to QCEW, as well as administrative records (from sources such as the Internal Revenue Service (IRS)). The wages portion of personal income is almost completely dependent on UI wages via QCEW. UI/QCEW wages account for 94% of this critical statistic. UI/QCEW employment account for 95% of BEA wage and salary employment.

- Gross Domestic Product (GDP) and Personal Income estimates at the national, state, and now county levels are extremely dependent on accurate monthly employment and quarterly wages from UI/QCEW.
- Inaccurate UI data can distort BEA's GDP estimates.

### **Examples of Other State and Federal Government Uses:**

- State government agencies use labor market information derived from the UI files and QCEW to formulate workforce development plans.
- State Departments of Revenue and Finance use QCEW data as a major input in the state revenue forecast, a process that is closely watched by Governors' offices and state legislative bodies. Inaccurate UI data can have serious negative impacts on state budget decisions.
- State Economic Development Agencies and local economic development professionals use the QCEW files extensively in their work to attract businesses to the state or local community.
- State Transportation Departments use the QCEW files in their planning on a regular basis to identify businesses and employment concentration.

### **Further considerations regarding state UI modernization efforts:**

- **Development of the UI Tax System Including the Customer (Employer/QCR Reporter) Interfaces:**
  - It is imperative that State LMI staff and BLS regional staff be included in discussions regarding changes to information collected by UI Tax and held in the UI processing systems. LMI staff need advance notice of the planned go live dates or changes made to the benefits and taxes portion of the UI system. UI tax should offer periodic demos of the parts of the system relevant to LMI and allow them the opportunity to provide feedback on the screens as they are developed. When warranted, changes should be made to the screens to ensure they meet LMI's needs.
  - State LMI staff have a particular interest in specific modules of the customer interface. Developers should consult with LMI:
    - When developing collection screens for employment and wages to ensure that the definitions of the data elements are applied correctly.
    - Collection screens should enable employers to correctly report monthly employment and quarterly wages.

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- When developing collection screens for claimants' personal and demographic information to ensure that data is captured according to LMI needs.
- During the development of the new registrations module. LMI can provide UI developers with examples of the information needed from these screens to provide a new company with industrial codes. If the company is introducing self-coding, current NAICS codes should be obtained from LMI. The codes obtained from Census are not complete for BLS purposes. The new system should be able to readily accept new NAICS codes as they are updated every five years.
- On modules that collect location information. The information is valuable to LMI when assigning and verifying location information to businesses.
- Changing UI numbers on existing accounts is a major issue for state LMI shops and BLS. BLS strongly urges UI Tax not to change UI numbers on existing accounts, but if it is unavoidable, LMI and BLS need at least 12-18 months lead time to prepare for this change.
- UI modernization projects must ensure that QCRs continue to collect monthly employment and quarterly wage totals. Deriving monthly employment and quarterly wage totals from wage records is not an acceptable practice.
- **Development of UI extracts:**
  - It is important to use the BLS-provided extract guides in development of the new extracts.
  - LMI and UI need to have a common set of definitions. Both groups should go over each element using the data dictionary to ensure the appropriate information is included in the BLS extracts.
  - In addition to the base program extracts, extracts of wage records in the Longitudinal Employment – Household Dynamics (LEHD) format will need to be made available to LMI offices.
  - If there are extracts from other sources, for example a state government data extract, that utilize UI Tax resources to facilitate their delivery to LMI, those extract processes will need to continue post modernization. They should be tested prior to going live.
  - Each program has specific requirements for the timing and frequency of extracts. Developers should consult with LMI to find optimal times for extracts.
  - UI and LMI offices should work together to ensure that LMI offices have access to UI screens required for meeting all deliverables that rely on QCEW data.
  - BLS recommends parallel testing new extracts, two quarters for the QCEW and three months for the LAUS program, prior to the “go live” date.