Enhancing Unemployment Insurance Wage Records
Potential Benefits, Barriers, and Opportunities

Final Observations and Recommendations

Prepared for the Workforce Information Council by the Administrative Wage Record Enhancement Study Group September 2015
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Executive Summary

In late 2012, the federal-state Workforce Information Council established the Administrative Wage Record Enhancement Study Group to examine the feasibility of adding variables to the quarterly wage record reports that employers submit to all states as part of the Unemployment Insurance (UI) Program. The Study Group explored using the administrative records as an alternative source for improving local and state labor market information amid concerns over the adequacy of existing survey-based statistical data for state and local education and training program planning and accountability, economic analysis, career planning, and workforce program administration.

Over the course of this project, the Study Group has surveyed state agencies responsible for UI wage record collections, user organizations that might benefit from wage record enhancement, payroll services/software companies that compile and report the wage records for many employers, and individual employers who have the ultimate responsibility for the human resources and payroll records upon which the quarterly UI wage records are based.

The Study group also compiled and reviewed previous research on this topic, developed tools to capture case study information from states that had enhanced or were in the process of enhancing their wage records, and developed proposed standardized titles, definitions and reporting instructions for the data elements that have been considered in the enhancement discussions.

This report summarizes all of the Study Group’s findings and observations and presents their final recommendations for future action.

Key findings

The Study Group found several structural factors that could contribute favorably to wage record enhancement:

- **Employers Maintain Much of the Data**: Several of the data elements that have been the focus of discussions on wage record enhancement are currently available in the payroll systems of most employers.
- **Employers Already Report Enhanced Data**: In thirteen states, employers and their agents have been able to purchase, build and/or adapt systems to report additional variables.
- **Reliance on commercial payroll services and software**: substantial numbers of employers use either commercial payroll software or contract providers to prepare and report their payroll. In our 2014 survey of payroll companies, most of the respondents could accommodate many of the possible enhancement variables.
• **Time Needed to Add Data Elements:** nearly 90 percent of employers that gave an estimate of the amount of time needed to add data elements indicated it would take less than a year.

• **Employers Want Simplified Reporting:** unifying reporting through a single administrative system may offer an opportunity to achieve simplification, automate reporting, and eliminate duplicative data collection. Clarifying and standardizing data element definitions also could make reporting simpler.

• **Stronger Support from Human Resources:** employer survey respondents associated with human resources functions seemed to assign greater importance to the potential benefits of wage record enhancement and significantly less opposition to enhancement than respondents associated solely with payroll functions.

• **Growth in Electronic Reporting:** more states are requiring more employers to report electronically which facilitates modifications to the wage records and lowers the marginal costs of adding variables and collecting data.

• **Increased Reporting Frequency:** Illinois now requires some employers to report monthly which, if expanded to other states, could broaden the benefits and uses of the wage records.

• **Improvements in State UI Automated Systems:** many states have replaced decades-old technology with modern databases that are more flexible in handling modifications such as added wage variables.

• **Employers Already Report Enhanced Data:** twelve states collect one or more of ten different enhanced wage variables demonstrating that employers are capable of producing the desired data.

• **Payroll Service Providers Can Accommodate Enhanced Records:** a majority of payroll services firms contacted are capable of handling most of the enhanced wage record variables.

• **Wide Usage of Wage Records:** state UI agencies currently work with many potential customers/users that are calling for enhanced wage records.

• **Strong User Support:** user organizations across a wide spectrum are enthusiastic about possible access to the enhanced wage records and found the labor market information goals those records could help achieve important to their organizations and those they serve.

• **Federal Statutes Support Enhanced Wage Records:** a number of current laws require employers to compile variables being considered for enhancement.

• **Enhanced Wage Records Could Reduce Employer Survey Burden and Improve Labor Market Statistics:** several federal statistical programs use surveys and reports to collect the same information that the enhanced wage records could provide. In addition, the geographic detail from the wage records would enable far greater precision and timeliness at the state and local level than current surveys.
The Study Group also found a number of conditions that, without attention, could hinder wage record enhancement:

- **Employer Skepticism Regarding Purported Benefits**: while business associations highly valued the potential benefits of enhanced wage records, only about half of individual employers responding to our survey assigned any importance to the same list of potential benefits.
- **Difficulty of Adding Data Elements**: firms that do not have data elements available to report rated their addition as moderately or very difficult.
- **Fear of the Potential Drawbacks**: a majority of employers responding to our surveys were moderately or greatly concerned about the potential drawbacks of enhanced wage record reporting.
- **Overall Employer Support for Enhancement is Weak**: about half of all employer survey respondents opposed adding data elements to the quarterly UI wage records, with 30 percent strongly opposed.
- **Small Employer Effects**: many small employers felt they were at a disadvantage in access to resources necessary to make additional reporting practical.
- **Perceived Excessive Reporting Burden**: some employers do not view data capture and storage of the additional data elements to be part of normal business practice but rather as a no-value-added, unnecessary burden.
- **Some Data Elements Not Generally Available**: some items, such as employees’ alternate work locations, Standard Occupation Classification coding, and weeks worked presented challenges to employers in our surveys.
- **Lack of Coordination**: wage record enhancement costs are magnified when the states are not working together or with employers to develop solutions. Similarly the overall benefits are understated when all the different users and organizations involved are not recognizing and communicating their common needs.
- **Competing Priorities**: economic conditions and the need to deal with antiquated systems keep many states focused solely on paying benefits, not on enhancing the system.
- **Continued Use of Paper Transactions**: even as more employers are using electronic means to report wage data, a large number still rely on paper and fax, which makes wage record enhancement much more difficult and costly.
- **Lack of Adequate Employer Incentives for Complete, Accurate, and Timely Reporting**: requiring additional variables on the wage records is pointless unless employers report the data and do so correctly and timely.
- **Uncertainties Over Ongoing Funding Support**: to date, the costs of wage record enhancement have not been determined and no funding sources have been identified.
- **Data Security Concerns**: public concerns are heightened with any increase in the compilation and storage of additional confidential information.
- **Inflexible State Systems**: many states have not yet replaced legacy UI systems with technology that can handle additional wage record variables.
• *Inconsistent Definitions*: definitions for wage record elements often differ among the states and between states and the federal government; this increases the complexity and cost of reporting for employers and leads to inaccurate and late reports.

• *Lack of Occupational Coding Skills and Tools*: employers often do not understand the definitional distinctions in the Standard Occupational Classification structure and do not know how to access or use online tools to assign and maintain these codes.

• *Inertia*: As with any change, there will be resistance from some quarters to wage record enhancement if only because it is something different. Continuing to do things the same way often seems easier, especially over the short run.

**Recommendations**

Finally, the Study Group recommends the wider community of participants, including the Bureau of Labor Statistics, Employment and Training Administration, NASWA, and the states take the following steps:

• *Create a Communications Infrastructure*: provide opportunities for affected parties to participate in wage record enhancement planning, including ETA, BLS, state LMI, Tax, and UI organizations, the payroll services and software industry, business, organized labor, and the information user community

• *Establish National Standards*: DOL, based on input from the WIAC, and working in conjunction with NASWA and the state practitioners group, should identify and pursue:
  o Common data elements that, at a minimum, should be collected by all states
  o Standardized data element titles, definitions, and reporting requirements
  o Appropriate employer incentives for accurate, complete, and timely reporting
  o Alternative implementation strategies
  o Standard reporting formats and data transfer methods
  o Legislative actions
  o Common system capabilities

• *Identify Performance Metrics*: DOL and the states should define how to assess progress toward readiness and the attainment of objectives

• *Resolve Questions About Ongoing Funding*: consider a variety of options to identify allowable and appropriate funding mechanisms

• *Provide Incentives to Build Capacity*: DOL should provide financial assistance and/or other incentives to encourage states to:
  o Complete UI systems modernization projects that can accommodate wage record enhancement
  o Adopt national system standards
  o Increase electronic reporting
  o Begin or expand enhanced data collection
• **Share Best Practices**: DOL should recognize state accomplishments in the collection and use of enhanced wage records and compile and share information about the wage record enhancement experiences of states

• **Consolidate Similar Reporting**: DOL and NASWA should thoroughly review the collection of related data by federal and state agencies to identify opportunities to consolidate systems and eliminate substantially duplicative sources

• **Develop Tools to Assist with Occupational and Geographic Coding**: work together with employer organizations, payroll software providers to ensure that easy to use options for assigning and maintaining accurate codes are available to employers

• **Build the User Base**: explore options for public access to non-confidential wage records to encourage development of new applications of the data

• **Develop Training and Technical Assistance Materials**: DOL should work with the American Payroll Association to develop online training modules for employers to explain new requirements, their benefits, and methods for complying.
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Chapter One:
Overview of the Study

Introduction

This report summarizes the findings, observations and recommendations resulting from the investigation of the Administrative Wage Record Enhancement Study Group into the potential benefits of, and barriers to, enhancing labor market information by adding data elements to the wage records collected by states as part of the administration of the Unemployment Insurance (UI) Program. It does not delve in the specific responses or detailed tables compiled from the surveys and other research conducted by the Study Group. For those, the reader should refer to the Study Group’s previous reports listed at the end of this chapter.

If enhanced wage record collection is to be successfully undertaken, many supporting entities will need to play a role: potential users, employer advocates, federal and state legislators, and state executives and staff, among others. Ultimately, however, three players are fundamental to the successful compilation of enhanced wage records: 1) individual employers, who compile, maintain and report wage records for their employees; 2) third-party service providers such as payroll services and software companies, who serve as intermediaries with UI agencies on behalf of many employers; and 3) state UI agencies, who must collect, edit, analyze, and distribute the information for it to have value. If any of these three entities does not have the resources and systems to perform their roles, enhanced wage record collection will fail.

Over the past two and a half years, the Study Group has surveyed state UI agencies, potential user organizations, payroll services/software companies, and individual employers. We have also prepared supplemental materials designed to help states share their wage record enhancement experience and to help standardize definitions and instructions used to collect enhanced data.

In this final report, we highlight the significant findings from those previous reports to present a broad picture of the environment within which wage record enhancement is being considered, the opportunities that have been found—current conditions that might contribute favorably toward a broad implementation of wage record enhancement, and potential barriers that remain—current conditions that reflect ongoing challenges to adding variables to the wage records.

We also present the Study Group’s recommendations for further action by the Department of Labor and its new Workforce Information Advisory Council; the National Association of State Workforce Agencies and its UI, Tax, and LMI subcommittees; individual states as they consider possible enhancements to the wage records; and other federal and state agencies that collect similar data through other systems.
Background

Following the enactment of the Social Security Act in 1935, states established Unemployment Insurance programs for the purpose of providing wage stabilization during weak economic periods. In all states, payments to unemployed individuals are based on the individual’s previous work. In order to establish that work history, all states collect a few basic data elements from employers about each employee, including their social security number and the amount of wages paid to them during the most recent quarter. Over the decades, these wage data records have become essential not only for the administration of the UI Program but also for many other purposes, which were described in the Study Group’s report: Enhancing Unemployment Insurance Wage Records, Potential Barriers and Opportunities—A Summary of First-Year Study Activities and Findings.

The last concerted effort by the U.S. Department of Labor (DOL) to explore the use of administrative wage data for labor market information (including evaluating the impact of training services on employment and wages) was presented at their New Tools for a New Era Symposium1 in 2003. The Workforce Information Council and the Bureau of Labor Statistics sponsored this symposium as part of their Administrative Data Research and Evaluation Project, which was followed by a report in 20052. The report concluded that linked administrative reports offer states attractive opportunities for estimating the impact of the Workforce Investment Act (WIA) and its related services at a relatively low cost. The report also noted that administrators should strive to improve the quality and accessibility of these data while ensuring the appropriate privacy and confidentiality protections.

In a more recent publication by the Workforce Information Council3, it was noted that a wide range of individuals and organizations use labor market information (LMI) for personal, business, education, and government policy decisions. Sound decisions regarding careers, jobs, education, business expansion and contraction, and taxes and revenues all can hinge on accurate, valid LMI. Much of the available information supporting these decisions is produced by federal and state agencies based on surveys of employers and households. As federal and state budgets tighten, LMI surveys are often among the first activities curtailed—meaning less reliable information produced for fewer geographical areas. While the national statistics are based on surveys with large samples, much less reliable information is available for state and local areas.

To mitigate the effects of shrinking budgets, states and local jurisdictions must explore alternative sources if they are to continue to provide high quality information to support critical personal, business, and government policy decisions. One important alternative

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1 Kevin Hollenbeck, Christopher T. King, and Daniel Schroeder “Preliminary WIA Net Impact Estimates: Administrative Records Opportunities and Limitations”
2 Kevin Hollenbeck, Christopher T. King, Wei-Jang Huang and Daniel Schroeder “Net Impact Estimates for Services Provided through the Workforce Investment Act
source is the employment and wage record data reported by employers for administration of the unemployment insurance (UI) programs in all states. These data, and the system used to collect them, offer an opportunity to enhance labor market information for state and local areas at a relatively low cost. Many states have begun using the UI wage records to enhance LMI and to measure program performance. Some states have begun to collect additional items with the wage records, including job titles, hours worked, and location of work. Some states are looking at accelerating the reporting time frame so that information can be made available more timely.

To assist state workforce agencies, the US Department of Labor, and labor market information producers and users better assess the potential of using enhanced administrative data to improve labor market information, at the end of 2012 the Workforce Information Council (WIC) established an Administrative Wage Record Enhancement Study Group. The Study Group was comprised of Labor Market Information Directors and staff from several states and representatives from the Department of Labor’s Employment and Training Administration and Bureau of Labor Statistics, and the National Association of State Workforce Agencies. The WIC selected Raj Jindal, Director of Information Technology at the Louisiana Workforce Commission, as Chair of the Study Group. In addition the WIC hired a project coordinator to facilitate the work of the Committee.

The Study Group was charged with exploring the benefits and barriers to adding data elements to wage records collected in the administration of the UI Program, as a source for enhanced labor market information. The Study Group has documented current practices associated with collecting and using various wage record data elements to produce information that benefits a wide variety of users, determined that enhancements to those wage record data may provide even greater value, and identified potential barriers and opportunities for collecting such enhanced data.

**Study Activities**

The Study Group began their efforts by reviewing previous research into the subject of wage record enhancement. Since the early 1990s, states have discussed the possibility of adding to the wage records in order to improve labor market information and program accountability. Materials the Study Group gathered during that phase of the study were compiled into a library for future reference.

Next, the Study Group surveyed state workforce agencies regarding their practices for collecting and using UI wage records. Forty-four states and territories, representing three-quarters of the nation’s employers and employment, provided input that described their information technology capabilities, data access practices, enhanced data collected, data uses, and employer reporting methods.

Another survey was sent to potential user organizations. Forty-seven national, state and regional organizations responded. These organizations represented over 20 million users in business, education, labor, policy development, economic research, and workforce preparation fields. They were asked to express their views on the importance, to their
organizations and those they served, of workforce information goals that could be supported with enhanced wage records and the potential value that could be derived from enhancements to the wage record reporting system.

The Study Group sent a third survey to payroll services/software companies. The responding firms, which served approximately 1.2 million employers across the country, were asked about filing methods, pricing factors, capacity to store and report enhanced data elements, and costs for adding items.

The final survey conducted by the Study Group was of individual employers. Five states volunteered to participate in the survey and nearly 10,000 employers responded. Employers were asked about their current capabilities to report new data elements, the difficulty of adding items, their opinions on the potential benefits and possible concerns with wage record enhancement, and their overall position on enhancing the wage records.

The Study Group developed two additional products. Having heard concerns from the payroll industry regarding inconsistent definitions used by states to gather data, the Study Group developed a framework of proposed standardized titles, definitions, and reporting instructions for data elements that might be added to wage records. Finally, the Study Group distributed a questionnaire/tool for states to document the decisions, experiences, and processes used to add wage record enhancements. This tool was intended to help states share information that could help ease other states’ transition to wage record enhancement and to facilitate conversations and planning on the subject.

Seven documents/reports were prepared along the way that presented the specific results of the Study Group’s research and surveys:

2. *Phase II Interim Report—Current Views of User Organizations Regarding Enhanced Wage Record Collection and Use*
3. *Phase III Interim Report—Potential Barriers and Opportunities Regarding Enhanced Wage Record Collection and Use*
4. *Enhancing Unemployment Insurance Wage Records, Potential Barriers and Opportunities—A Summary of First-Year Study Activities and Findings*
5. *Wage Record Enhancement Case Study Development Tool—Questionnaire for States That Already or Plan to Enhance Wage Records*
6. *Enhancing Unemployment Insurance Wage Records, Potential Barriers and Opportunities—Employer Perspectives, The Results of Surveys in Five States*
7. *Enhancing Unemployment Insurance Wage Records, Potential Barriers and Opportunities—Moving to Standardized Titles, Definitions, and Reporting Instructions for Optional Wage Record Data Elements*
Chapter Two:  
Summary of Findings and Observations 

As the Study Group stated after our first year of research, it is clear that, at this point in time, the nation’s employers and their agents, and the state UI shops are not yet prepared for universal enhancement of the wage records. Through our surveys of employers, payroll services and software companies, state UI agencies, and information user organizations, as well as related background research, we have found a number of challenging factors that, at least at present, hinder nationwide enhancement.

Despite the potential barriers, we also recognize that some states, employers, and payroll service and software companies are taking the next steps to enhance the wage records, and we have identified a number of conditions that represent positive factors that will support further enhancement of the wage records.

If we can find ways to support continued progress on the positive factors and work together to address the challenges, it is reasonable to foresee a not-too-distant point in the future when nationwide wage records enhancement, based on a common approach, is possible. In this chapter we discuss the encouraging and challenging factors we have observed.

Findings That Support Wage Record Enhancement 

Employers Maintain Much of the Data

Several of the data elements that have been the focus of discussions on wage record enhancement are currently available in the payroll systems of most employers. Seventy percent of the respondents indicated that 11 or more of the variables discussed in our employer survey were available to report. In particular, employers generally kept data on employees’ paid time and compensation, as well as their primary work location. Intuitively, maintaining these data seems logical from a business perspective, as they are important for paying employees and managing resources. A high percentage of employers also maintained the job title of their employees.

Employers Already Report Enhanced Data

Thirteen states already enhance their wage records with one or more of ten variables. This is important as it indicates that employers with employees in those states, and their agents, have been able to purchase, build and/or adapt systems to report those additional variables.
Reliance on commercial payroll services and software

Substantial shares of employers used either commercial payroll software or contract providers to prepare and report their payroll. A coordinated federal/state effort to work with the industry to adapt their software will enable the states to reach a large percentage of employers with the necessary tools to provide enhanced wage records. The capability and support of these service and software companies is critical to successful wage record enhancement. In our 2014 survey of payroll companies, most of the respondents could accommodate many of the possible enhancement variables.

Time Needed to Add Data Elements

Nearly 90 percent of employers that gave an estimate of the amount of time needed to add data elements indicated it would take less than a year. On average, smaller firms estimated less time would be required. About ten percent of larger firms estimated more than two years. As many states will need significant time to adapt their systems to accommodate enhanced wage records, employers should have adequate time to respond if given reasonable advance notice.

Employers Want Simplified Reporting

Many employers’ comments focused on finding more streamlined methods for transmitting data from payroll software into state systems, and simplifying what seems to them to be an excessive number of reporting requirements. Unifying reporting through a single administrative system may offer an opportunity to achieve simplification, automate reporting, and eliminate duplicative data collection. Clarifying and standardizing data element definitions also could make reporting simpler.

Stronger Support from Human Resources

Employer survey respondents associated with human resources functions seemed to assign greater importance to the potential benefits of wage record enhancement and significantly less opposition to enhancement than respondents associated solely with payroll functions.

Growth in Electronic Reporting

Employers are increasingly using electronic means to report wage records. Even in states where electronic reporting is not mandatory, most employers transmit the data electronically. States responding to our survey indicated that over two-thirds of employers—covering nearly 90 percent of wages paid—report electronically. Not surprisingly, given advances in technology and changing state requirements, these numbers continue to grow.

As of September 2014, 40 states and territories required electronic wage record reporting for some employers. And a growing number of states are lowering the

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4 This figure has been updated since the survey of states and includes all 52 states and territories that have a UI Program. Source: The Bridge: Tax, Web. https://thebridge.adp.com/community/tax, September 2014.
employment threshold at which employers are required to report electronically; as of 2014, at least 12 states required it for all employers.

Historically, all wage reports were prepared manually and transmitted to the states on paper. Under those circumstances, asking employers to double the amount of information transcribed onto the paper forms represented an unacceptable additional burden, not to mention that the limited amount of space on the paper forms simply couldn’t accommodate additional fields. Paper records also require substantially more state staff effort to enter the data and check for errors. Electronic reporting of data enables more efficient processing of the wage records, and substantially lowers the marginal cost of handling additional wage record variables.

**Increased Reporting Frequency**

Another interesting development is Illinois’ requirement to report wage records monthly rather than quarterly, as part of Medicaid reform. Their "SMART" Act was “designed to root out waste, fraud and abuse in the State's Medicaid program.” It requires monthly UI wage records from employers who are required to submit their contribution and wage reports electronically, currently those with 25 or more employees. This change in reporting frequency could only be accommodated with the advances in electronic data management and reporting.

More timely reporting of these data will not only assist with Illinois’ efforts to improve health care administration but will also increase the usefulness of the data for other purposes such as more timely economic analysis, something users often seek; for alternative base period calculations in the UI Program; for more timely follow-up on training participants’ work outcomes under the Workforce Innovation and Opportunity Act, as a possible substitute for the New Hire Registry required for child support programs in every state, or as an enhanced measure for more timely local and regional economic analysis.

**Improvements in State UI Automated Systems**

Bolstered by federal grants, more states are replacing legacy UI computer systems, built in the 1970s and 1980s, with modern flexible databases, ones that can accommodate additional variables more easily. According to NASWA, 23 states have completed or are actively working on modernization of their UI benefits and tax systems. Five others are making similar progress on their UI tax systems alone, the most important element from the standpoint of enhancing the enhanced wage records.

Of the 42 states and territories responding to our survey in late 2013, 18 indicated that their systems were, or would be soon, capable of handling enhanced wage records. In addition, another 10 states indicated that they might be able to accommodate wage record enhancements. A few states have indicated that they plan to enhance their wage records in some fashion and 14 states indicated that they have considered it.

**Payroll Service Providers Can Accommodate Most Enhanced Variables**
Most of the payroll service companies responding to our survey already feature thirteen of 20 possible data elements in their technology systems. And for those that are not, most payroll services and software companies that responded to our survey indicated that adding them would not be a high cost. Also, for most companies, handling more wage record variables did not seem to affect the price they charge clients.

Wide Usage of Wage Records

The state survey illustrated that a very broad range of organizations currently use the wage records for a vast number of purposes including performance assessment, eligibility determination, and economic analysis. These organizations serve as a ready customer base for the enhanced wage record information, and may be willing to pay for its availability.

Broad User Support Exists

The user groups surveyed expressed strong support for the LMI goals associated with wage record enhancement. The diverse array of responding user organizations, from business and trade associations to organized labor to educational agencies, uniformly found achieving the goals below either important or very important to their organizations and those they serve.

- Helping to align education programs with employer needs
- Enhancing information to support economic development efforts
- Delivering accessible information on education and training program outcomes
- Monitoring local, regional, and statewide economic trends
- Assessing the effects from economic disruptions (recession, natural disaster, etc.)
- Informing the community of economic and social needs
- Reducing employer survey burden through better use of administrative data
- Providing accurate information on employment opportunities available to job seekers

The forty-seven national, state, and local entities that responded not only represented a wide array of user types but also served over 20 million individuals. Support from these kinds of organizations could be extremely important if and when federal legislation is needed to enact wage record enhancement.

When asked about the value of 14 information types made possible by wage record enhancement, all but one were rated of high value to at least one type of user organization. The responding organizations assigned the highest value to knowing the occupation and hourly earnings of individual workers. The lowest rated items were gender and commute information, although even these were rated of moderate value overall by the respondents.

In addition to indicating value, the user organizations were able to identify specific applications for the enhanced data. In general, these uses fell along the following lines:

- Aligning education and workforce training supply with employer demands for labor
• Increasing knowledge and understanding about the dynamics of local, regional and statewide labor markets
• Developing more effective education and training programs
• Providing consumers information for improved decision making
• Supporting more efficient labor markets
• Strengthening economic development efforts
• Helping businesses compete more effectively
• Improving corporate hiring/retention practices
• Promoting greater accountability in public spending on education and training programs
• Supporting effective policy development to address economic and social challenges
• Evaluating public policies and programs related to labor markets and the workforce
• Better benchmarking of national survey-based statistics

Federal Statutes Support Enhanced Wage Records

The question of employer reporting burden is often expressed about wage record enhancement, assuming that employers are not already maintaining the data. However, federal statutes require employers to compile such data.

• Fair Labor Standards Act (FLSA); 29 C.F.R. 516.2-516.8, 570.6
• Age Discrimination in Employment Act (ADEA); 29 C.F.R. 1627.3(a)
• Family and Medical Leave Act of 1993 (FMLA); 5 C.F.R. 630.1211; 20 C.F.R. 825.500
• Equal Pay Act of 1963 (EPA); 29 U.S.C. 206; 29 C.F.R. 1620.1, 1620.32

All of the above federal laws require employers to maintain records that contain some or all of the following: name, address, social security number, date of birth, date of hire, date of termination, gender, occupation, rate of pay, basis on which wages are paid (hourly, commission, piecework), total weekly earnings broken out by straight time and overtime premium, wages paid during each pay period, dates of payment and pay period covered.

These laws don’t specify how the records are to be maintained or that they are to be reported but the fact that employers must have these data means there should not be additional costs to employers to compile the data. This does not mean that wage record enhancement will not add to employers’ costs, only that costs of gathering those data should not be attributed to enhanced reporting.

Enhanced Wage Records Could Reduce Employer Survey Burden and Improve Labor Market Statistics

The BLS, states, educational institutions, training agencies, and the US Equal Employment Opportunity Commission (EEOC), among others, use reports and surveys to gather information from employers on employees’ occupations, hours worked, work location, gender, etc. It is likely that these data could be collected more efficiently through the wage records. This would reduce the data collection cost to these organizations and to the employers who must complete those reports and surveys.
For example, under the Civil Rights Act of 1964 as amended by the Equal Employment Opportunity Act of 1972, the EEOC collects the following information from most public and private employers: firm information on location, ownership, industry, single vs. multiple establishment, and total employment; and individual employee data on occupation in 10 SOC-based categories and race/ethnicity by establishment location. The Paycheck Fairness Act requires the EEOC to collect from employers pay information regarding the sex, race, and national origin of employees for use in the enforcement of federal laws prohibiting pay discrimination.

BLS and the states collect information on employee occupations, work locations, gender, and work hours through millions of surveys annually in the Current Employment Statistics, Occupational Employment Statistics, and Employment and Payroll programs. The payroll firm ADP uses data they receive monthly from their client employers to produce an alternative estimate of monthly national job growth—that compares to the Bureau’s Current Employment Statistics Program.

The surveys at the state and local level are often subject to large sampling and non-sampling error, and volatility due to small sample sizes and non-response. Collecting data on the wage records could dramatically improve the accuracy and detail of these labor market statistics. In addition, some of these surveys are conducted over many months; using the wage records could improve the timeliness of the resulting data.

**Findings That May Hinder Wage Record Enhancement**

*Employer Skepticism Regarding Purported Benefits*

While business associations highly valued the potential benefits of enhanced wage records, only about half of individual employers responding to our survey assigned any importance to the same list of potential benefits. Study Group members questioned whether respondents fully understood the potential benefits to their firms. Effective communications strategies will be needed to highlight benefits expected and realized. The apparent conflict between the importance of the goals of wage record enhancement expressed by business associations in our user survey and the relatively low rating by respondents in the employer survey needs to be explored and understood. Employer survey respondents in human resource positions seemed to assign a higher value to the potential benefits than did those in payroll positions.

*Difficulty of Adding Data Elements*

For most of the possible additional data elements, minorities of firms do not have them available to report. However, for those firms that do not have a particular data element, generally 40 to 50 percent rated its addition as moderately or very difficult. The reasons given for this most commonly included:

- Commercial software capability is outside of their control
- New internal company data collection schemes would be needed
- Mobile employee work locations are hard to capture
- Staff time would be needed to set up and maintain systems
• Internal software modifications would be needed
• Cost
• Manual processing would be required

These firms are likely to be very vocal in their opposition to wage record enhancement.

**Fear of the Potential Drawbacks**

A majority of employers responding to our surveys were moderately or greatly concerned about the potential drawbacks of enhanced wage record reporting. Their concerns included the possibility of having to integrate data from multiple systems, revise payroll software, increase staff time allotted to payroll functions, and/or train staff on occupational coding. They also had concerns about data confidentiality, duplicative reporting, and inconsistent reporting standards. Of all of the potential drawbacks listed, requirements for electronic reporting were of least concern and possible penalties for inaccurate or untimely reporting of most concern.

**Overall Employer Support for Enhancement is Weak**

About half of all employer survey respondents opposed adding data elements to the quarterly UI wage records, with 30 percent strongly opposed. Those most opposed tended to have the fewest data elements available, and believed that adding items would be very difficult. They also appeared to be the most concerned, among all respondents, about electronic reporting.

Such opposition may raise political obstacles to wage record enhancement, and make achievement of high quality reporting a challenge.

**Small Employer Effects**

Many small employers felt they were at a disadvantage in access to resources necessary to make additional reporting practical.

**Perceived Excessive Reporting Burden**

Some employers did not view data capture and storage of the additional data elements to be part of normal business practice but rather as a no-value-added, unnecessary burden imposed on them by the government—that they had to subsidize. Nearly one-third of respondents objected strongly to the concept of adding variables to the wage records. However it must be considered that the respondents were not given a specific proposal to evaluate.

**Some Data Elements Not Generally Available**

Some items, such as employees’ alternate work locations, Standard Occupation Classification coding, and weeks worked presented greater challenges to employers in our surveys. For some employers, with employees who regularly move among job sites, tracking time at primary or alternate locations was particularly problematic.
While some employers used an internal job classification system or the Standard Occupational Classification system to categorize their employees, many did not or didn’t maintain the data in a manner that was available to report. Many were unfamiliar with job classification in general and felt it served no business purpose.

**Lack of Coordination**

One of the difficulties in building a case for wage record enhancement is that often there is little communication or coordination among the potential users of the data. Individual organizations assume that their needs alone will not justify the expense and effort to build a new system. They work in their silo and don’t look at other organizations that may have different purposes for the data. For example, the Equal Employment Opportunity Commission, health care organizations, education and training institutions, and workers’ compensation insurance companies all use occupational information about individuals, and all have independent means of obtaining them, likely at a much higher cost and at lower quality than if they worked together. There is not a forum for communication among federal, state, local and private organizations that use the kinds of data that could come from wage record enhancements.

This lack of coordination also exists among states that are considering improvements to their UI and LMI systems. The cost and complexity rise because the development of solutions is often not shared among potential beneficiaries.

**Competing Priorities**

In many states, if not most, UI Program staff were overwhelmed after the Great Recession simply trying to pay unemployment benefits to an extremely high number of unemployed workers, while at the same time attempting to adapt or replace decades-old technology systems. Having the time to step back to look at new ways to produce quality labor market information, or help education and training agencies better achieve their goals was not a luxury many had. It certainly wasn’t their highest priority. Some questioned whether those should be goals for the UI Program at all. Exploring the idea that wage record enhancement might help improve the economy, thereby reducing unemployment, has not been at the forefront of thought for many.

**Continued Use of Paper Transactions**

Despite growth in the amount of data employers submit using electronic formats, there are still many, especially smaller, employers that use paper or fax to send wage record information to states or to their payroll service providers. To achieve universal wage record enhancement, all of these employers would need to adopt new methods, which may increase their costs in the short run. We have not yet had direct discussions with employer groups to ascertain the degree to which this may be true.

**Lack of Adequate Incentives for Complete, Accurate, and Timely Reporting**

Even in states that currently enhance the wage records, many employers, and in some cases the majority of employers do not report accurately, completely, or timely. In some cases this occurs when the state fails to enforce their own requirements. In other cases, instructions from service providers can lead them astray. When improper or incomplete
reporting occurs, either the costs to the state rise because of increased follow-up efforts to collect and clean the data, or they use the data they receive but accept lower quality and reliability in their estimates, or they simply ignore the data, meaning that some employers are wasting their time reporting it. Unless, the states and/or the federal government can work with employers and their agents to determine incentives that result in high quality data being reported, there won’t be value in enhancing the wage records.

*Uncertainties Over Ongoing Funding Support*

Some have questioned from where funding for wage record enhancement should come. Some state and ETA representatives have stated the UI Program funds cannot be used for such activities unless the state UI Program law specifically requires the additional variables in UI Program administration. Whether a case can be made that the data contribute to economic improvement and that such improvement benefits the UI or Job Service programs is unknown. Whether UI laws permit UI tax rates to be adjusted, as a possible incentive to employers that report accurate, complete, and timely wage records is also unknown to the study group. No clear solution has been suggested.

*Data Security Concerns*

The public is ever more concerned about breaches of data systems that contain confidential information about individuals. A majority of employers surveyed also expressed strong concern about the government’s ability to protect the privacy of employees’ information. While the agencies involved in wage record collection have systems in place to protect the confidential data they already have, any attempt to increase the amount and/or detail of that information may face resistance.

*Inflexible State Systems*

While many states have succeeded in modernizing their old legacy UI systems, many others have not. Estimates of the cost to replace these old, inflexible systems range into the billions, often without an identified funding source. Without more modern technology, wage record enhancement would be impractical and extremely costly for both UI Program staff and employers working in those states.

*Inconsistent Definitions*

One point highlighted by the National Payroll Reporting Consortium was the recordkeeping complexities and costs resulting from the fact that states and the federal government often use differing definitions for wage record elements, such as employer, employment, and wages in different programs and jurisdictions. An example was shared by the NPRC: the hours an employee is on paid vacation are excluded from hours worked in the state of Oregon, but included in Washington State. These inconsistent definitions add to employer burden and provide a dis-incentive to report more data or to report accurately. As states add enhanced wage record data elements, definitional inconsistencies would also reduce the utility of labor market information generated with the data, as uncertainty of meaning would be introduced into any comparison across states.
Employers Lack of Occupational Coding Skills and Tools

Employers surveyed expressed concerns regarding the need to train staff on occupational coding. Enabling employers to maintain accurate records on each employee’s job title and occupational code may be challenging. Electronic tools exist that can assist in translating employer job titles into Standard Occupation Codes. However, today not all employers have access to these tools or knowledge of how to use them appropriately. Thought would have to be given as to how to make such tools widely available and easy to use. In addition, new approaches would need to be developed to ensure that employers were maintaining up-to-date codes for their employees.

Inertia

As with any change, there will be resistance from some quarters to wage record enhancement if only because it is something different. Continuing to do things the same way often seems easier, especially over the short run. Many employers expressed displeasure at the thought of additional reporting; believing that it will bring added cost and unproductive time demands on their organization. Government agencies also expressed concern over changing systems and methods to collect additional data. As this discussion moves forward, a critical focus must be on how the burden for both employers and government agencies can be minimized or even reduced. It remains to be seen whether federal and state governments will choose to work together and with the payroll industry to find ways that technology can simplify data gathering, reporting, processing, and analysis; whether public agencies that collect similar data will abandon those duplicative systems; whether states that collect data under differing definitions and specifications will agree to centralize and/or standardize practices. If they will, greater usage of enhanced administrative reporting systems may offer an opportunity to generate greater support and reduce costs in both private and public entities.
Chapter Three:
Final Recommendations

We offer the recommendations in this chapter based on the following assumptions/guiding principles:

- To the extent possible, cross agency/program duplicative data collection should be eliminated.
- Individual employers and payroll services and software companies should be allowed adequate time to adapt their systems and train clients and staff.
- Not all states will be prepared to enhance the wage records at the same time.
- Wage record enhancement in any state is best implemented in three phases: voluntary reporting, required-but-no-penalty reporting, and required reporting.
- To the degree possible, administrative data reporting should be a simple and transparent by-product of, not a disruption to, normal business processes.
- Data definitions should be consistent across states—consistent definitions support valid analysis and comparison of multi-state data, lessen complexity for employers, and reduce reporting error.
- Solutions pursued should minimize data compilation and processing costs for both employers and public agencies.
- The benefits and costs of administrative data collection should be measured.
- Broad-based support exists for achieving the LMI goals associated with wage record enhancement.
- The data possible through wage record enhancement has high value for improving program operations, making more effective business and personal decisions, and reducing fraud.

Build a Framework for Wage Record Enhancement

In order for national efforts to enhance wage records to achieve success, we believe that the organizations involved must share a common vision of the future. Ultimately, participants in the quest are best positioned to craft a meaningful vision statement. We offer the following as a starting point.

Draft vision statement:

Labor market information based on enhanced administrative wage records is used broadly at national, state, and local levels and has enabled more effective business and personal decision making, career planning, education and training program accountability measurement, program management, and policy making. Standardized and consolidated administrative data collection has simplified reporting for employers, eliminated duplicative reporting, reduced
employer survey burden, and minimized data processing costs for employers and public agencies.

The most important recommendation we can make is that DOL and the states work together to create a common framework for wage record enhancements. It is especially important that standards be set before more states opt to enhance their wage records. Without such a framework, each state considering enhancements is more likely to feel that they need to start from scratch and establish their own standards, making it more difficult to achieve consistent application nationwide. We feel the following actions are important components of, and contributors to, the common framework.

Create a Communications Infrastructure

A formal communication and working infrastructure is needed. It should provide opportunities for affected parties to participate in wage record enhancement planning. Those parties include, but are not limited to, ETA, BLS, state LMI, Tax, and UI organizations, the payroll services and software industry, business, organized labor, and the information user community. The Workforce Information Advisory Council, which the Secretary of Labor is forming in response to the Workforce Innovation and Opportunity Act, seems like an integral part of the framework. The Department of Labor should seek the Council’s input regarding the development of an enhanced wage record reporting system. Further, the Department should form technical work groups and convene public forums, as needed, to explore topics related to wage record enhancement.

In addition to seeking WIAC input, DOL and NASWA should work together to create a State Wage Record Enhancement Practitioners Working Group—for states that have enhanced their wage records, those working on it, and those interested in pursuing it. The practitioners group should include UI, IT, Tax, and LMI program representatives. The group should share innovative practices, address common issues, and make recommendations on the development of uniform approaches to reporting enhanced variables. Such forums could provide insights to help explain the apparent conflict between business associations’ and individual employers’ views on the benefits of wage record enhancement or the special circumstances faced by small businesses, or explore possible funding approaches, or help develop communication strategies.

Establish National Standards

A consistent national approach is critical to producing valid, wage-record-based LMI. DOL, based on input from the WIAC, and working in conjunction with NASWA and the state practitioners group, should identify and pursue:

- Common data elements that, at a minimum, should be collected by all states.
- Standardized data element titles, definitions, and reporting requirements—standardizing reporting definitions and reporting requirements across states would make the system easier for employers, thus increasing compliance and reducing costs and the likelihood of inaccurate and late reports. It would also
increase information comparability across geographic areas. The Administrative Wage Record Enhancement Study Group’s draft Reference Guide provides a starting point for this discussion.

- **Appropriate employer incentives for accurate, complete, and timely reporting**—these might take the form of penalties or rewards. For example, employers reporting correctly could be excused from selected federal surveys. Or, states could assess a ‘collection-and-cleaning’ fee on employers that do not report accurate, complete, and timely wage records. Such a fee could be assessed based on the number of wage records submitted and be waived for those employers that provide clean files.
- **Alternative implementation strategies**—such as starting with larger employers or specific industries or payroll services firms; and setting a reasonable timeline for achieving broad wage record enhancement.
- **Standard reporting formats and data transfer methods to be accepted in all states, while allowing states to use additional state-developed formats. These could rely on the UI reporting format established by NASWA’s predecessor ICESA or the Federal/State Employment Taxes (FSET) XML approach.**
- **Legislative actions required for universal wage record enhancement.**
- **Common system capabilities—both for payroll software and state UI systems**

**Identify Performance Metrics**

As the saying goes, “What gets measured, get done.” DOL and the states should define how to assess progress toward readiness and the attainment of objectives. Such metrics might include the:

- **Number of states with UI systems that can accept enhanced wage record variables**
- **Percentage of employers reporting electronically**
- **Number of states collecting enhanced variables**
- **Number of states adopting standardized titles, definitions, and reporting instructions**
- **Number of certified compliant payroll software systems**
- **Federal and state programs using enhanced wage records**
- **Number of federal and state data collection programs eliminated by transition to enhanced wage records**
- **Changes in employer opinions of new data collection methods**
- **Number of LMI products available based on enhanced wage records**
- **Changes in user decision strategies**

**Resolve Questions About Ongoing Funding**

Identify allowable and appropriate funding mechanisms—these might include fees assessed on employers or on programs that would benefit from wage record enhancement such as those mandated by the Carl D. Perkins Career and Technical Education Act, Civil Rights Act, Federal Unemployment Tax Act, Trade Adjustment
Support Transition Efforts

Provide Incentives to Build Capacity

DOL should provide financial assistance and/or other incentives to encourage states to:

- Work collaboratively with other states to complete UI systems modernization projects that can accommodate wage record enhancement.
- Adopt the national system standards.
- Increase electronic reporting. States not yet requiring electronic reporting for all employers should be encouraged to offer benefits to employers that report through electronic and magnetic media. A 2011 study conducted by Ernst and Young for the National Payroll Reporting Consortium suggested offering electronic filers additional features such as confirmation of filing receipt and electronic account access.
- Begin or expand enhanced data collection.

Share Best Practices

DOL should recognize state accomplishments in the collection and use of enhanced wage records. States considering wage record enhancement should have at their disposal not only the national guidelines and standards but also information about the experiences—successes and challenges—of other states. The Study Group developed a tool to assist states that have already enhanced their wage records or that are currently undertaking wage record enhancement to share their experiences. This tool can be used to document the steps involved, considerations made, costs incurred, barriers encountered, solutions developed, and actions taken by these states. It would attempt to capture the reasoning behind their decisions, the benefits they perceive, the data uses they hope for, and the costs and funding for enhancement.

DOL and states should consider establishing a certification program for payroll software that meets national enhancement standards.

Consolidate Similar Reporting

DOL and NASWA should thoroughly review the collection of related data by federal and state agencies to identify opportunities to consolidate systems and eliminate substantially duplicative sources. DOL should also consider legislative options to require federal programs that use employee information to rely on the wage record system for that information in order to reduce reporting burdens.

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5 “Business Processes and Considerations in Meeting Employee Wage Reporting Deadlines,” Ernst & Young, September 2011,
Develop Tools to Assist with Occupational and Geographic Coding

One of the more challenging aspects of wage record enhancement will be equipping employers to accurately assign and maintain occupation and work location codes for their employees. Some states that currently require these codes have developed tools to assist with this task. O*NET OnLine has a working occupational coding tool. ETA, NASWA and the states should work together with employer organizations, payroll software providers to ensure that the options are easy to use to assign and maintain accurate codes, incorporate suggested improvements, and are integrated into the payroll systems used by employers.

Build the User Base

Explore options for public access to non-confidential wage records to encourage development of new applications of the data.

Develop Training and Technical Assistance Materials

DOL should work with the American Payroll Association to develop online training modules for employers to explain new requirements, their benefits, and methods for complying.

Final Thoughts

The idea for enhancing wage records has been around for a long time, with states discussing it as early as the 1980s. Since that time, technological advances have dramatically transformed the nature of business practices involving data collection, compilation, maintenance, reporting and use. That revolution has certainly changed the prospects for augmenting the wage records at a reasonable marginal cost. However, whether now is the right time to begin universal wage record enhancement or not, we are at a critical point in terms of establishing guidelines and standards for those who are willing to move forward. The Department of Labor and the states should be leading efforts to create a sound foundation for future wage record enhancement, not waiting to clean up a mess created in the void.
Prepared for the
Workforce Information Council
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