

Preview of the Comprehensive Revision of the State Personal Income Statistics

In September 2013, the Bureau of Economic Analysis (BEA) will begin releasing a comprehensive revision of its state personal income statistics. The purpose is to introduce data revisions, changes in definitions, and updated statistical methods from the comprehensive revision of the national income and product accounts (NIPAs); to incorporate new and revised regional source data; and to introduce improvements in regional statistical methods. Initially, revised annual and quarterly statistics from the first quarter of 2001 to the first quarter of 2013 will be released; these statistics were compiled according to the North American Industry Classification System (NAICS). In the spring of 2014 revisions will be made to statistics covered by the Standard Industrial Classification: quarterly revisions will be carried back to the first quarter of 1948 and annual revisions back to 1929.

Several definitional and statistical changes in the upcoming 2013 comprehensive revision of the NIPAs, listed

in table C, will affect state personal income.¹ In most cases, state-level source data are lacking to replicate the changes that will be made to NIPA estimation methods. In these cases, a revised national estimate from the NIPAs will control the sum of the state estimates, but state estimation methods will remain largely unaltered. In two cases, the new accrual treatment of defined benefit (DB) pension plans and the improved statistical methods for estimating employer contributions to state and local government-sponsored defined contribution (DC) pension plans, some state-level data exist and state estimation methods will change to use these data.

Employer contributions to DB pension funds. As part of the comprehensive revision of the NIPAs and the state personal income accounts, BEA will begin measuring the transactions of DB pension plans on an accrual

1. See "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts; Changes in Definitions and Presentations," SURVEY OF CURRENT BUSINESS 93 (March 2013): 13–39 and Nicole M. Mayerhauser and Sarah J. Pack, "Preview of the 2013 Comprehensive Revision of the National Income and Product Accounts: Statistical Changes," SURVEY 93 (May 2013): 6–14.

Table C. Major Definitional and Statistical Changes in the National Income and Product Accounts Affecting State Personal Income

Changes	Major components affected
Definitional changes	
Recognize expenditures by business, on research and development as fixed investment	Proprietors' income.
Recognize expenditures by business on entertainment, literary, and other artistic originals as fixed investment	Proprietors' income.
Expand the ownership transfer costs of residential fixed assets that are recognized as fixed investment and improve the accuracy of the associated asset values and services lives.	Proprietors' income and rental income of persons
Measure transactions of defined benefit (DB) pension plans on an accrual-accounting basis by recognizing the costs of unfunded liabilities	Compensation of employees, supplements to wages and salaries, and personal interest income
Harmonize the treatment of wages and salaries by using accrual-based estimates consistently throughout the accounts	Compensation of employees and wage and salaries.
Statistical changes	
Improve estimates of implicit services of commercial banks	Personal interest income
Improve estimates of employers' contributions to state and local government-sponsored defined contribution (DC) pension plans	Compensation of state and local government employees
Improve methodology for estimating the corporate partners' adjustment made to nonfarm proprietors' income.	Nonfarm proprietors' income.
Update measures of misreporting	Wages and salaries and nonfarm proprietors' income.
Improve methodology for distributing the income of regulated investment companies by type	Personal dividend income and personal interest income.
Improve measures of wages paid by Indian tribal governments	Compensation of state and local government employees
Incorporate new data on supplemental unemployment insurance.	Compensation of employees

Preview of the Comprehensive Revision of the State Personal Income Statistics

accounting basis by recognizing the costs of unfunded liabilities. An employer who offers a defined benefit pension plan promises that an employee will receive a specified amount of future benefits that usually increases with each year of service. Claims to benefits accrued through service (also referred to as normal cost by pension actuaries) represent the present value of the additional benefits that plan participants earn from employment during the accounting period. Normal cost provides a more accurate measure of the compensation of employees than the employers' cash contributions to the pension plans, which may have little relationship year by year with the benefits that employees are accruing. To measure pension entitlements when they are accrued, BEA will adopt the accrual accounting approach for measuring pension income, relying on actuarial estimates of pension costs.

For the private sector and for the federal civilian and military sectors, state-level source data are lacking to replicate the changes that will be made to NIPA estimation methods. In these cases, a revised national estimate from the NIPAs will control the sum of the state estimates, but state estimation methods will remain largely unaltered.

For the state and local government sector, state-level data exist and will be used as follows.² Estimates of normal costs for state and local government sponsored plans will be drawn from a sample of actuarial valuation reports for the plans beginning for 2000. BEA will adjust these data to reflect an accumulated benefit obligation (ABO) actuarial cost method and a common discount rate. The discount rate assumption will be based on the AAA corporate bond rate published by the Federal Reserve Board.³

2. Currently, employer contributions to state and local government DB pension funds are estimated using state-level cash contributions data from the Census Bureau's Survey of Public Pension Plans.

3. In addition, the estimate for the District of Columbia will reflect the inclusion of the DB pension funds of the Washington Metropolitan Area Transportation Authority, which were recently added to the Census Bureau Survey of Public Pensions. BEA will distribute employer contributions by the Authority to the District of Columbia, Maryland, and Virginia in proportion to Quarterly Census of Employment and Wages data for local government establishments classified in NAICS industry 485111—Mixed Mode Transit Systems. In addition, the estimate for the District of Columbia will reflect employer contributions by the District to the Civil Service Retirement System (CSRS), a DB pension plan administered by the federal government. CSRS was closed to employees of the District of Columbia hired after September 30, 1987.

Employer contributions to DC pension funds for state and local government employees. Currently, BEA uses state-level data from the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF) to estimate state and local government employer contributions to defined contribution pension funds. There are many administrators of DC pension funds for state and local government employees besides TIAA-CREF, but a comprehensive data source for this sector remains elusive. As part of the comprehensive revision of the state personal income accounts, BEA will supplement the TIAA-CREF data with data compiled from the comprehensive annual financial reports (CAFRs) of the District of Columbia and 9 states that administer some of the largest public DC pension funds in the country: Alaska, California, Florida, Michigan, Nebraska, North Carolina, Ohio, South Carolina, and West Virginia. Employer contributions to the DC plans that can be identified in the CAFRs of these 9 states and the District of Columbia will be assigned to them; employer contributions to plans administered by TIAA-CREF will continue to be estimated as they currently are; and the remainder of the national estimate will be distributed to states and local governments in proportion to their wages and salaries.

Employer contributions for health insurance. Currently, national estimates of employer contributions for health insurance by industry are distributed to states in proportion to wages and salaries. As part of the comprehensive revision of the state personal income accounts, BEA will estimate employer contributions for health insurance by industry (excepting the civilian federal government and the military, for which no data sources have changed) using state-level data from the Medical Expenditure Panel Survey of the Agency for Healthcare Research and Quality, the same data source used for the national estimate.

Contributions for government social insurance for state and local government employees. Currently, the state estimates of contributions for Old Age, Survivors, and Disability Insurance (OASDI or Social Security) and for Hospital Insurance (HI or Medicare) for the state and local government sector are based on data from the 1987 Census of Governments. The data are extrapolated

Preview of the Comprehensive Revision of the State Personal Income Statistics

forward using wage and salary disbursements. As part of the comprehensive revision of the state personal income accounts, BEA will begin using Social Security taxable wages and Medicare taxable wages by state from the Social Security 1 Percent Continuous Work History Sample (derived from W-2 wage reports) to estimate contributions to these government social insurance programs. Most state and local government employees in Massachusetts, Ohio, and Nevada, and many state and local government employees in other states do not contribute to OASDI, but all contribute to HI. Using separate taxable wage estimates for the two programs and the statutory contribution rates for the two programs, an effective contribution rate will be calculated and multiplied by the BEA estimate of wages and salaries to estimate contributions.

Personal current transfer receipts—quarterly statistics. Currently, in the quarterly state personal income statistics, BEA publishes estimates of state unemployment insurance (UI) benefits and personal current transfer receipts excluding state UI benefits. As part of the comprehensive revision of the state personal income accounts, BEA will begin publishing quarterly estimates of five components of transfer receipts: (1) Social Security, (2) Medicare, (3) Medicaid, (4) state UI benefits, and (5) all other personal current transfer receipts. State estimates of personal current Medicaid transfer receipts will be based on quarterly payments data by state from the *Medicaid Financial Management Report* of the Centers for Medicare & Medicaid Services (CMS), the same data source used for the NIPA estimates. The CMS data will be seasonally adjusted by BEA using the Census Bureau X-11 ARIMA procedure. Quarterly state estimates of Social Security, Medicare, and all other personal current transfer receipts will be estimated based on trend distribution and extrapolation of the annual estimates, the method currently used for personal current transfer receipts excluding state UI benefits.⁴

Personal current transfer receipts—other income maintenance benefits. Currently, BEA distributes a national estimate of the child tax credit to states in proportion to state estimates of the earned income tax credit. The tax credit estimates are not published, but they are included in other income maintenance benefits, one of

the published components of personal current transfer receipts. Beginning with 1999, when the credit was first introduced, BEA will estimate the tax credit using refundable child tax credit data by state from the Statistics of Income Division of the Internal Revenue Service.

Private sector and local government sector wages and salaries in Alaska. Currently, the Quarterly Census of Employment and Wages (QCEW) from the Bureau of Labor Statistics is the primary data source for wages and salaries in Alaska (and for all other states). The QCEW is based on data collected by the state employment agencies that administer unemployment insurance programs. However, Alaska's definition of wages and salaries subject to taxation for unemployment insurance purposes differs significantly from the definition used by other states. Because of a court decision, employee contributions to retirement plans are excluded from wages and salaries reported for QCEW purposes in Alaska.⁵ In the upcoming comprehensive revision of the state personal income accounts, BEA will add to the QCEW wages for Alaska an estimate of employee contributions to retirement plans, improving the comparability of wages and salaries across states.

For local government employees, the estimate will be based on employee contributions as reported in the CAFRs of the retirement plans to which they contribute and data from the Census Bureau's Survey of Public Pension Plans. For industries in the private sector, BEA will estimate employee retirement contributions using rates of employee participation in retirement plans by industry (based on data from the March Current Population Survey) and the percentage of wages employees contribute to retirement plans (based on data from the Employee Benefit Research Institute).

Private household industry wages and salaries. Currently, state estimates of cash wages and of pay-in-kind in the private household industry are based on wages and employment in this industry from the 2000 Census of

4. See Chapter X of the *State Personal Income and Employment Methodology* available on BEA's Web site at www.bea.gov.

5. Employee contributions for health insurance are also excluded from QCEW wages in Alaska. BEA already adds an estimate of those contributions to the wages and salaries of Alaska and the other states that exclude them. See Clinton P. McCully and Steven Payson, "Preview of the 2009 Comprehensive Revision of the NIPAs: Statistical Changes," *SURVEY 89* (May 2009): 6–16. In addition, BEA already adds an estimate of employee contributions to retirement plans to the QCEW wages of state government employees in Alaska. No adjustment is made to federal civilian and military wages because the data sources for those employees do not exclude employee contributions to retirement plans.

Preview of the Comprehensive Revision of the State Personal Income Statistics

Population because QCEW coverage of the private household industry is incomplete in most states. The estimates are extrapolated forward by the civilian population. In the upcoming comprehensive revision of the state personal income accounts, the “3-year estimates” of private household wages from the American Community Survey (ACS) will be used to distribute to states a national estimate of the cash portion of wages and salaries, and the ACS private household employment estimates will be used to distribute the national pay-in-kind estimates.⁶

Residence adjustment. Estimates of wage and salary flows across the borders of the United States were substantially revised in 2011 as part of the annual revision of the international transactions accounts.⁷ These wage flows are part of the residence adjustment in the state personal income accounts, and they account for wage and salary flows between Canada, Mexico, and the United States and for the inflows of wages and salaries earned by U.S. residents employed by certain international organizations (such as the United Nations, the International Monetary Fund, and the World Bank) and by foreign embassies and consulates located within the geographic borders of the United States. No methodological changes will be made.

6. Estimates of proprietors’ income and proprietors’ employment for the private household industry (NAICS 814) will also be eliminated because BEA has determined that amounts appearing in the source data are coding errors. Typically, establishments in this industry are private households that employ domestics for the household itself. Sole proprietorships and partnerships that provide services to households (such as maid service) are generally in other industries (for example, NAICS 561720 Janitorial Services).

7. See Mai-Chi Hoang and Erin M. Whitaker “Annual Revision of the U.S. International Transactions Accounts,” SURVEY 91 (July 2011): 58.

Dividends, interest, and rent. Currently, a portion of the dividends and interest received by federal civilian and military retirement funds is distributed to states on the basis of retirement and disability payments from the *Consolidated Federal Funds Report*. The *Report* ceased publication in 2010. As part of the comprehensive revision of the state personal income accounts, BEA will begin using similar data on payments to annuitants available from the Office of Personnel Management (for federal civilian employees) and from the Department of Defense (for the military).

Changes in presentation. Two major changes will be made in the presentation of the state quarterly personal income statistics. First, the data will be presented in thousands of dollars, consistent with the presentation of all other state and county statistics from BEA. Second, a new table will be published: “SQ35 Quarterly Personal Current Transfer Receipts.” This table will present quarterly statistics for five components of transfer receipts by state: Social Security, Medicare, Medicaid, state unemployment insurance benefits, and all other personal current transfer receipts.

Wages and salaries. Lastly, wages and salaries will be measured on an accrual basis in the upcoming comprehensive revision; currently, they are measured on a cash basis—wage and salary disbursements. Because there are no source data that directly measure the difference between private wage accruals and disbursements, the wage and salary disbursements data will be treated as if they were accrual data.

Mauricio Ortiz and David G. Lenze

Tables 1 and 2 follow.