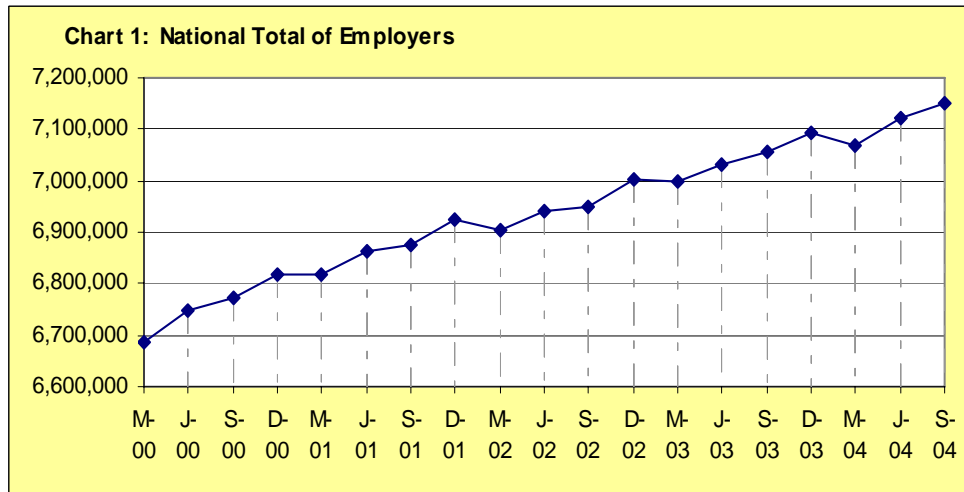


Analysis of ETA 581, Contribution Operations Data - Quarter Ending 09/30/2004

Subject Employers

During the quarter ending (Q/E) September 30, 2004, the number of employers subject to state unemployment compensation laws rose to 7,123,106, an increase of 28,617 from the previous quarter and 97,325 over the same quarter one year ago. As illustrated in Chart 1 below, growth for the June and September quarters 2004 was



slightly more robust than for those quarters in the previous years shown on Chart 1. National annual growth for calendar years 2000 through 2004 (March through December) has averaged about 100,000

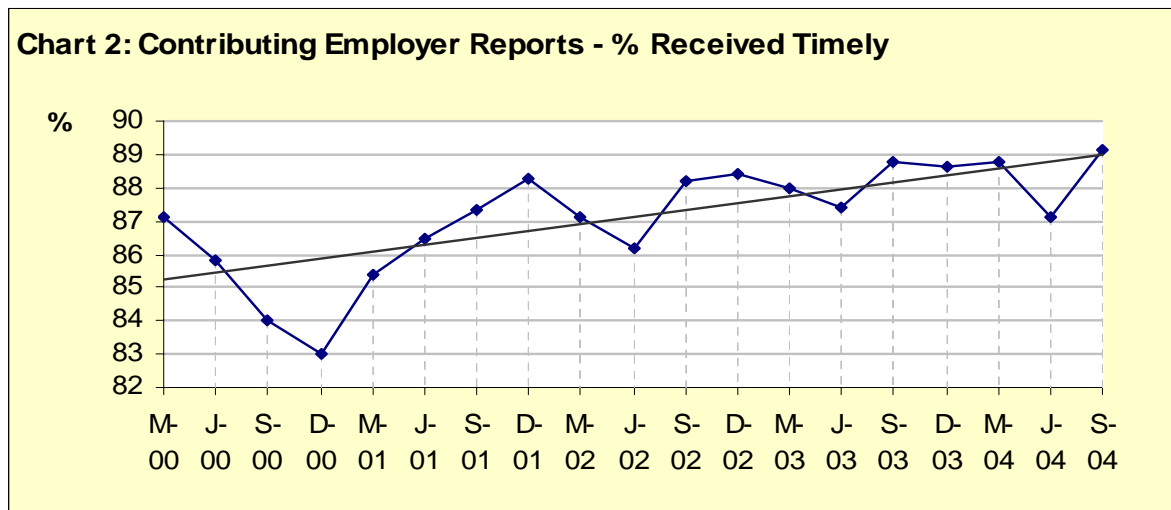
employers per year. Six states reported growth of 2.0% or more between March 31 and September 30, 2004. The states and their growth percentages in alphabetical order are: California 2.4%, Florida 3.3%, Georgia 2.1%, Idaho 2.7%, New Hampshire 2.1% and Nevada 2.5%. Only one state reported a decline in the number of covered employers greater than 1.0% for the March – September period; Tennessee reported a loss of 1,128 employers, approximately 1.02% of their 110,301 employers counted on 3/31/2004.

Filing Reports – Contributory Employers

A review of Tables 2 and 3 (current and past quarters) revealed that approximately 16 - 18 states consistently report resolving delinquent employer reports from more than 100% of their contributing and reimbursing employers. States that are reporting resolved percentages over 100% should ensure that their systems are set to count resolved delinquent employers rather than resolved reports. In some states (perhaps all states) certain employers file multiple tax reports per quarter. These may be professional employer organizations (PEOs), leasing companies or employers with multiple reporting unit (MRU) accounts. Data validation Module 3's and ETA Handbook 401, Change 12 guidelines clearly specify that states should count employers whose reports are filed timely, secured or resolved, rather than the number of reports that employers submit per quarter. As explained in previous reports, the low percentages shown for Timely Reports Received for the last three quarters ending on June 30 (Chart

2 below) can probably be attributed to the higher tax liability that is due on the first quarter tax reports. Because a higher percentage of the employer's wages are taxable early in the year, the employer's tax liability is highest for the wages paid during January, February and March and reported during the Q/E June 30.

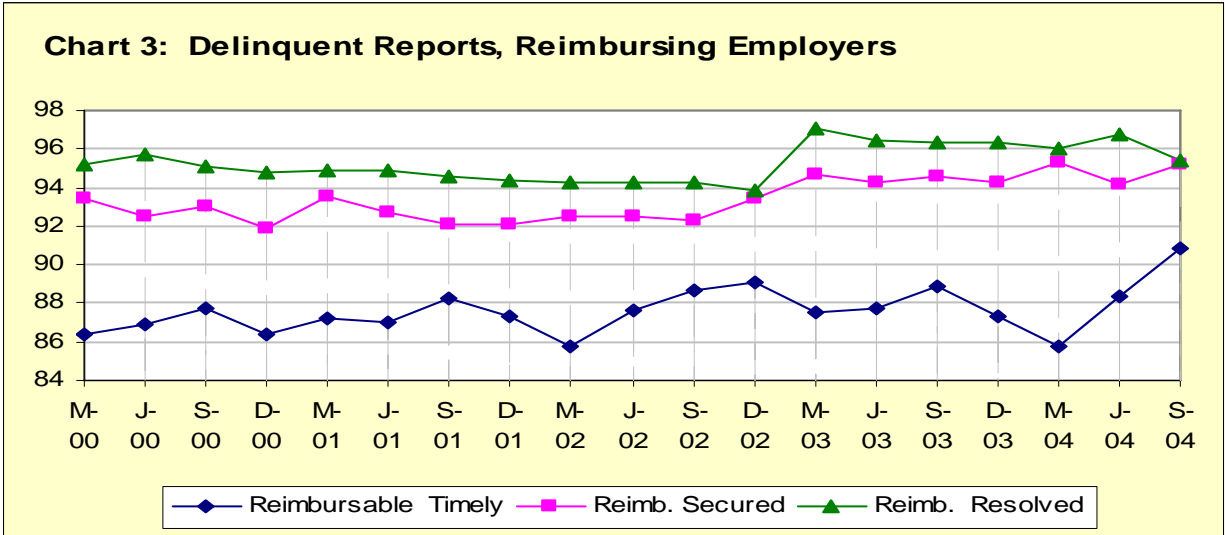
Chart 2 visually illustrates the improving percentage of contributory employers filing timely contribution reports. For the period from September 30, 2000, to September 30, 2004, the timely percentage has improved from 84.0% to 89.1%. The low performance of 83% (Chart 2) for the Q/E December 31, 2000, may have been due to a combination of the Y2K effort taking place at that time and a slump in the economy. Surprisingly, the events of September 11, 2001, did not appear to have a negative impact on timeliness of report filing.



Filing Reports – Reimbursing Employers

Of the 90,467 wage reports expected nationally from reimbursing employers, approximately 91% were received timely, and by the end of the quarter, 95.2% of the second quarter tax reports were secured. Looking back two quarters at the resolved percentage measure, SWAs were able to resolve 95.4% of the first quarter reports by September 30, 2004. See Table 3 for more details about timely filing, securing and resolving delinquent reimbursing employer quarterly reports.

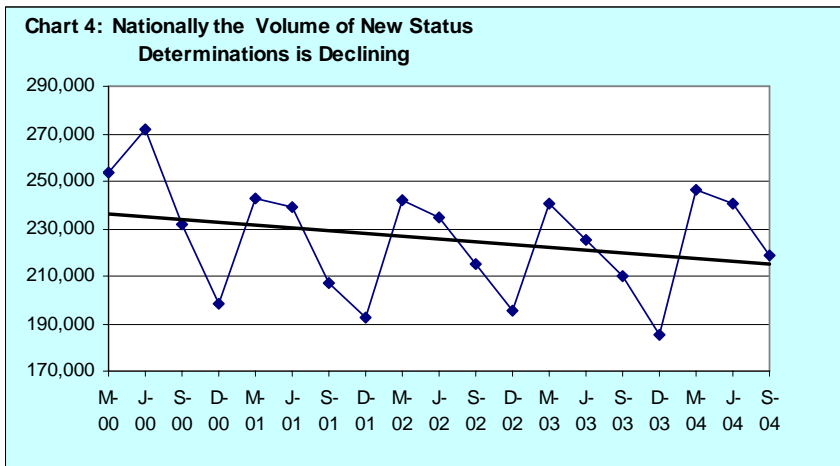
Chart 3 shows a dramatic rise in the national percentage of resolved reports from reimbursing employers that occurred in the first quarter of 2003. A large state, in this case New York, can have a significant impact on the national aggregate performance percentage. For the quarter ending March 31, 2003, New York reported an increase in resolved reports from 6,146 reports (62%) for the fourth quarter of 2002 to 8,113 reports (81%) for the first quarter of 2003. New York has continued to report performance in a range from 81% to 83% since March 31, 2003. The New York increase was a major factor in the increase of the national percentage from 93.9% (12/31/2002) to 97.1% (3/31/2003). The sharp decline of 1.4% for third quarter 2004



(3Q2004) performance (Reimb. Resolved) appears to be the result of another large state (California) dropping from 98.9% (2Q2004) to 86.7% (3Q2004). Refer to Table 3 for a breakdown of the performance of each state and region pertaining to reimbursing employer tax report delinquencies.

New Status Determinations

Although the number of employers in the nation has been increasing steadily at a rate of approximately 100,000 new employers per year, the trend line for the volume of determinations has been declining for several years, as shown on Chart 4. However,



for the quarter ending September 30, 2004, determinations increased to 218,406 from the 210,047 determinations reported for the third quarter 2003. Status determinations either establish a new employer account number or re-establish the account of a formerly inactive or terminated

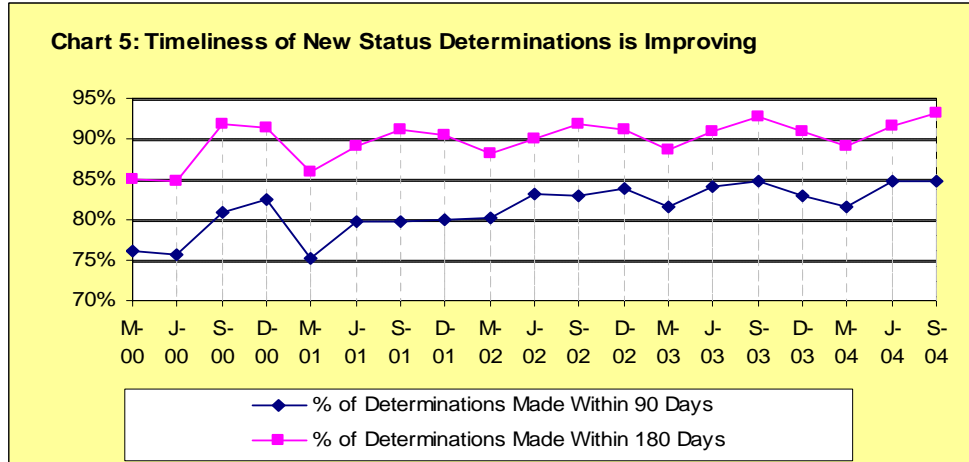
employer if the account again meets the state's definition of an employer.

Setting up employers with account numbers in a timely manner is an important element in the overall success of the unemployment insurance program. Establishing accounts promptly after employers meet a threshold of liability enables states to have the wage credits for claimants in their wage record files prior to the filing of unemployment insurance claims. Having the wage records on file enables the prompt payment of

benefits to unemployed workers. Because of the importance of this function SWAs are expected, under the State Quality Service Plan (SQSP), to make at least 60% (2004) of their new

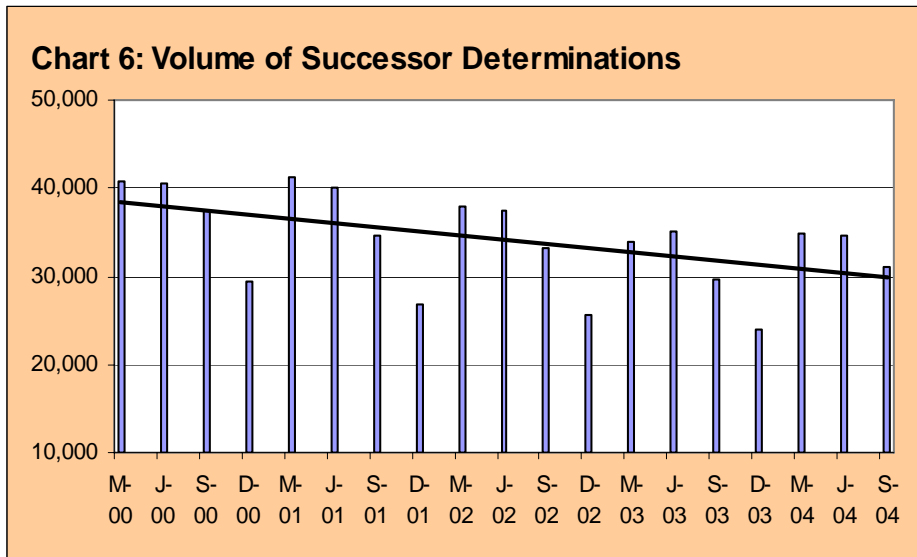
employer status determinations within ninety days of the ending date of the quarter in which the employer met a state threshold of liability. This standard has been raised to

70% for CY 2005. As shown in Table 1, almost all states report timeliness percentages that exceed these minimum standards. The aggregate national percentage for the September quarter status determinations made within 90 days was 84.8%. SWAs made 93.2% of their determinations within 180 days. This was a slight improvement over the September quarter 2003, which was 84.7% in 90 days and 92.7% for 180 days as shown on Chart 5.



Successor Determinations

As in the new status determinations, although the number of employers is growing the trend line for the volume of successor status determinations shown on Chart 6 has

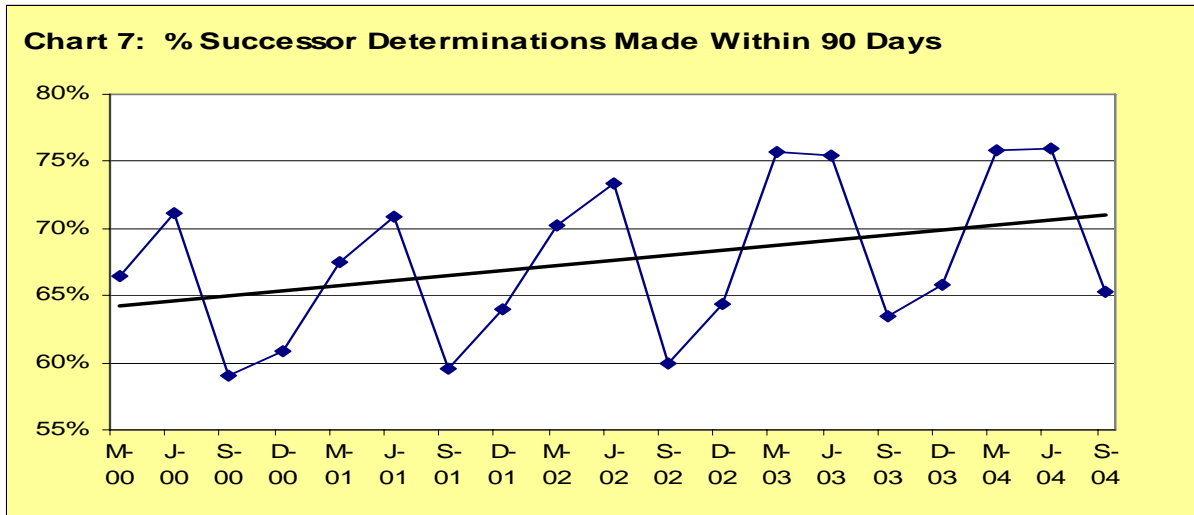


declined from over 40,000 for the March 2000 quarter to approximately 35,000 determinations for the March 2004 quarter.

Perhaps as a result of the declining volume of determinations, SWAs have improved their efficiency in

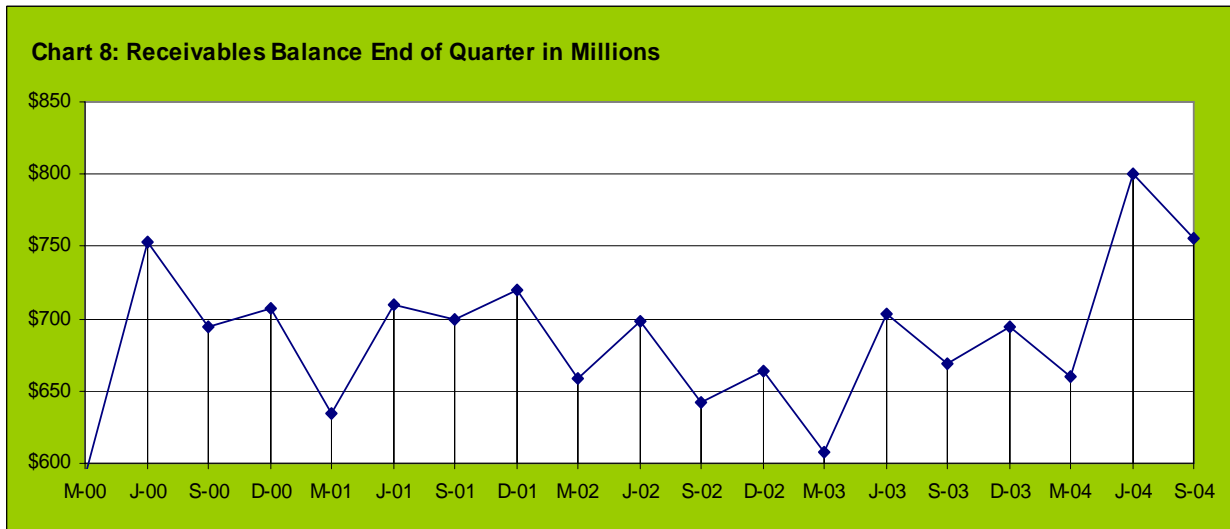
making timely determinations, as shown on Chart 7. The national aggregate percentage of successor determinations made within 90 days has improved from 59.0%

for the Q/E 9/30/2000 to 65.3% for the Q/E 9/30/2004.



Receivables

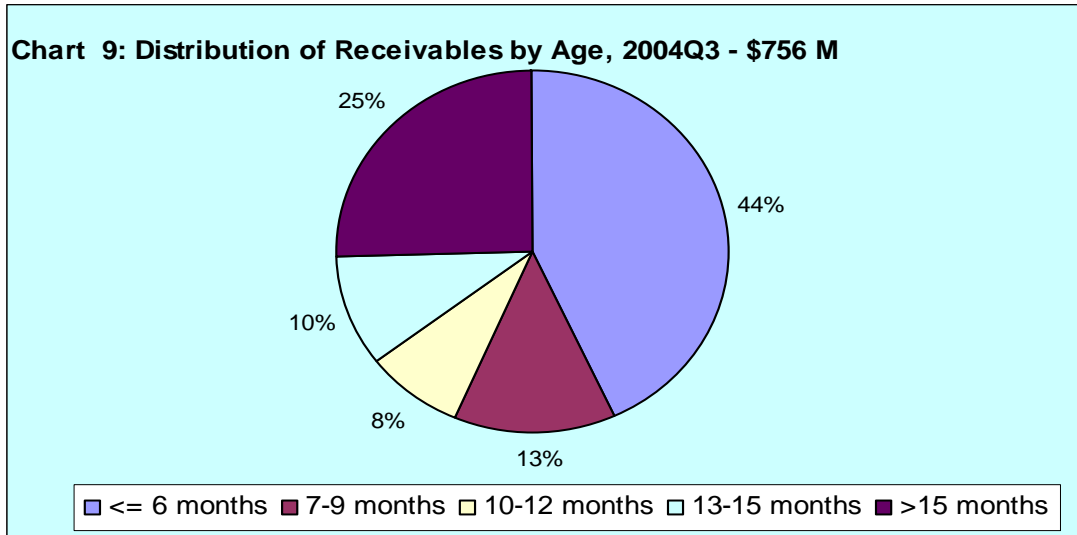
At the end of September 2004, past due contributions and reimbursements for the nation totaled \$752,021,683, which is an increase of \$83.4 million (M) over the amount reported due at the end of the September quarter of 2003. Thirty-one states reported



an increase in their receivables while twenty-one states reported reducing their receivables during the September to September period. The largest increases came from Georgia (\$18.5 M), California (\$18.4 M), Florida (\$16.8 M), Michigan (\$9.6 M), Massachusetts (\$9.3 M) and Pennsylvania (\$5.5 M). States reporting substantial reductions in receivables were: New Jersey (\$4.6 M), Ohio (\$2.8 M) and the District of Columbia (\$2.8 M). During the quarter, \$660.6 million in new receivables were established, \$630.4 million was collected, \$15.3 million was declared uncollectible, and \$59.5 million was removed from state receivables balances due to age.

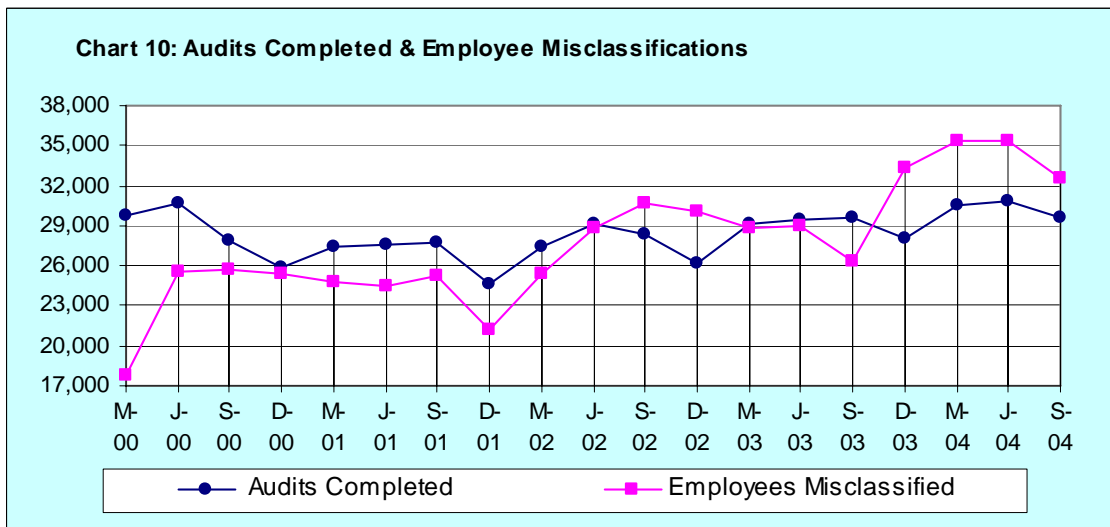
See Table 4, Collection Activities, for details about individual states and regions.

At the end of the quarter, the national distribution of receivables by age (Table 5) showed 43.1% at "6 months or less," 12.9% "7-9 months", 8.3% "10-12 months", 10.1% "13-15 months", and 25.6% "Over 15 months." Chart 9 visually illustrates that the major portions of unpaid receivables are in the "<= 6 months" and "> 15 months" categories.



Audit Activity

States conducted a total of 29,598 audits of employers' records during the quarter, a decline of 2,845 from the preceding June quarter. Of the audits completed, 823 (approximately 2.8%) were large employer audits. The large employer objective is 1.0% of the 2% annual objective for all audits. For the quarter, audits averaged covering 4.6 quarters and taking 7.2 hours to complete.



A change in the amount of wages and/or contributions reported was discovered in

12,683 of the 29,598 audits completed for a 42.9% discrepancy rate. SWAs reported pre-audit total wages of \$13.288 billion. Auditors discovered that total wages were underreported by \$513.9 million (3.86%) and overreported by \$143.7 million (1.08%) for a gross change in wages of \$657.6 million (4.94%). Contributions were underreported by \$7.5 million and overreported by \$1.6 million resulting in a gross change of \$9.1 million and a net change or yield of \$6.0 million. Net contributions per audit averaged \$201.45 and ranged from California's recovery of \$3,462.10 per audit in unpaid contributions to a negative \$110.25 in Hawaii. States averaged recovering \$28.10 per hour while doing audits.

As shown on Chart 10, the number of employee misclassifications discovered in audits over the last four quarters, is averaging about five thousand per quarter more than the number of audits completed or about 1.1 misclassifications per audit. This ratio will probably increase as more states begin using the IRS 1099 MISC extract tapes to assist in selecting higher yield audits.

See Tables 6 & 7 for a complete report on audits for each state, region and the nation.