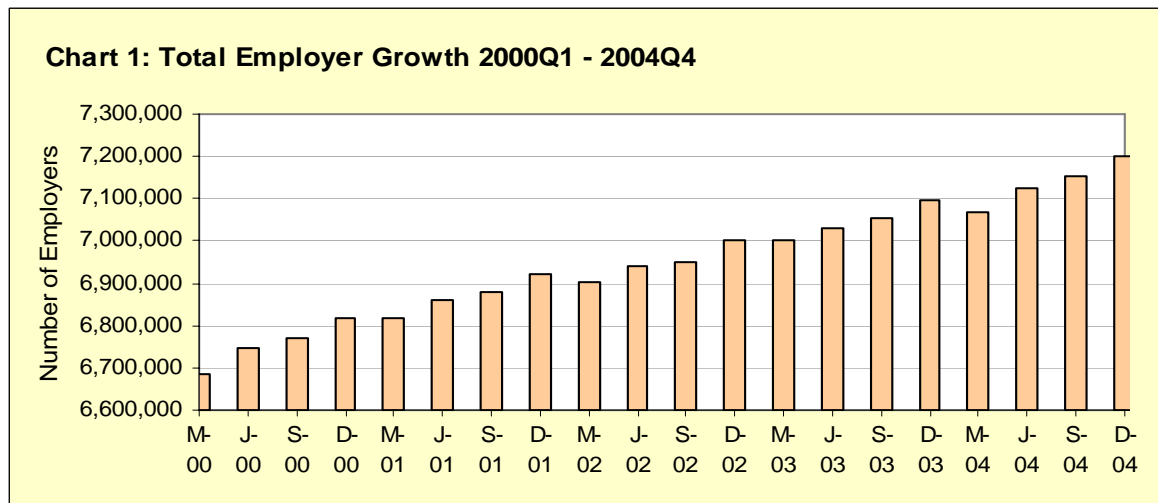


Analysis of ETA 581, Contribution Operations Data - Quarter Ending 12/31/2004

Subject Employers

By the end of calendar year (CY) 2004, the number of employers covered under state unemployment insurance compensation laws reached a new high of 7,201,182. This total includes both contributing and reimbursing employers and is an increase of 49,459



over the quarter ending (Q/E) September 30, 2004, and an increase of 106,019 for the CY 2004¹. The count of reimbursing employers also reached a new high of 100,064 employers surpassing the 100,000 plateau for the first time. Inactivations and terminations have declined. During the report quarter, State Workforce Agencies (SWAs) reported closing 185,146 accounts compared to 189,314 one year ago.

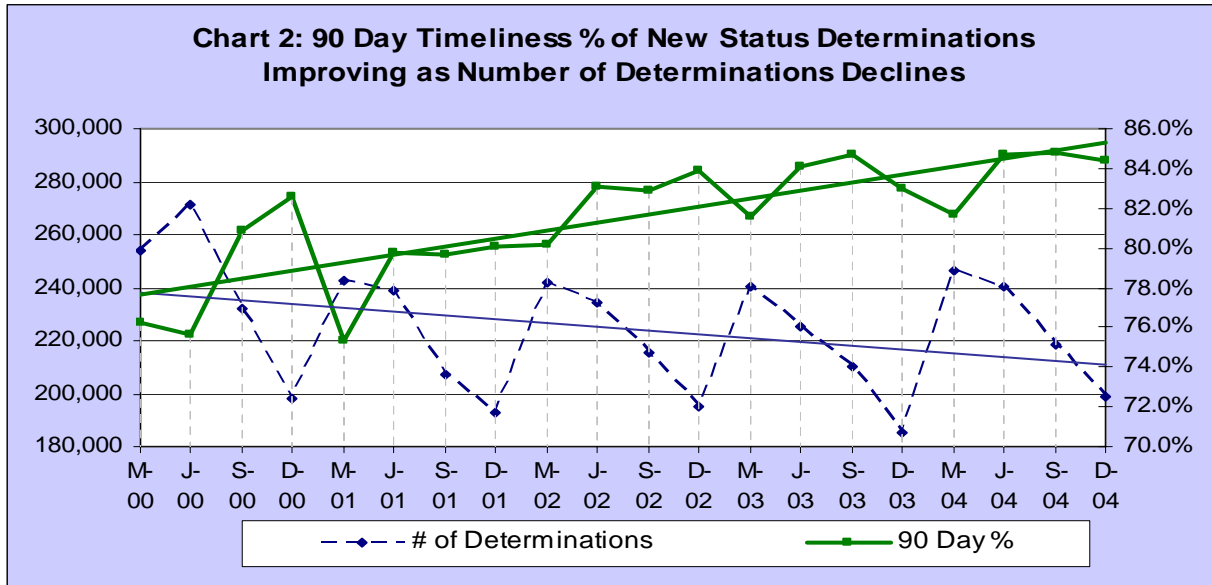
Status Determinations

The volume of status determinations establishing liability for new employers appears to have reversed the declining trend established over the past three years, as shown on Chart 2 (Note the left axis and dash data line). Status determinations were up for each quarter in 2004 compared to corresponding quarters for 2002 and 2003. Although determinations for the quarter ending December 31, 2004, declined to 199,079 from 218,406 the previous quarter, the total for the 2004 CY year was up by 13,675 compared to the previous year.

Of the 199,079 determinations made during the quarter, 167,952 (approximately 84.4%) were made within 90-days-or-less from the end of the quarter in which the employer first became liable. The axis on the right (Chart 2) shows the national aggregate percentages for timely (within 90 days of the end of the quarter in which liability occurred) determinations. By displaying both the performance percentage and the

¹ Totals do not include approximately 3,200 contributing and 100 reimbursing employers for the Virgin Islands.

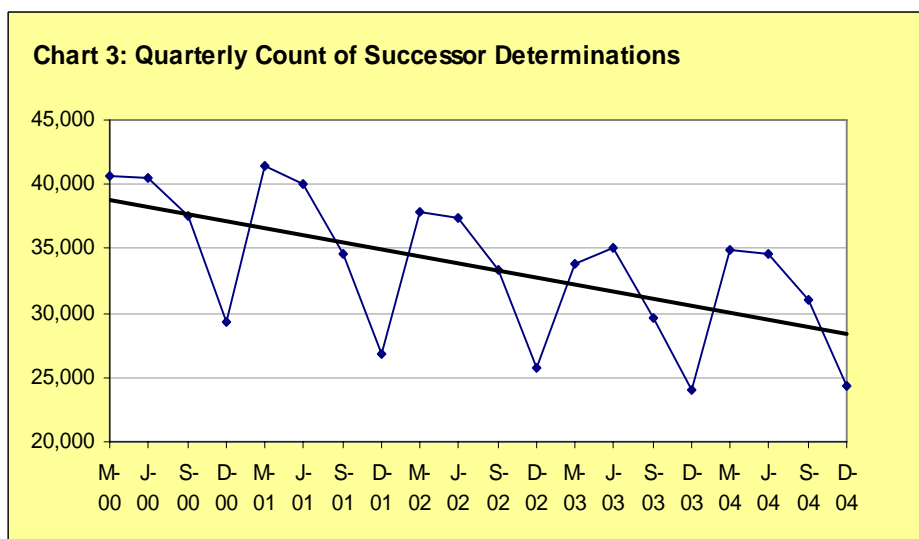
volume of new status determinations on the same chart, a relationship can be seen



between the volume of work and performance. In most quarters, an increase in volume fosters a corresponding decline in performance. This is most evident on Chart 2 for quarters ending in March.

Only three states failed to meet the CY 2004 State Quality Service Plan (SQSP) objective of making at least 60% of their determinations within the 90 day measure; Arizona (42.3%), Puerto Rico (49.8%) and the Virgin Islands (no report). Nationally, SWAs reported that 182,824 fourth quarter determinations (91.8%) were made within the 180-days-or-less measure.

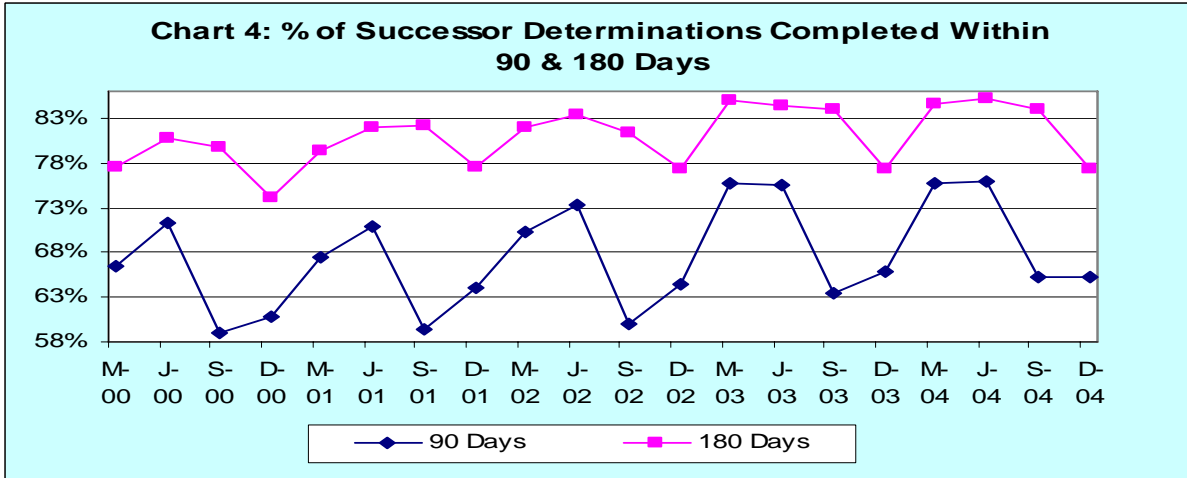
Successor Determinations



SWAs made 24,339 successor determinations during the quarter, a decline of 6,683 from the Q/E September 30, 2004, but an increase of 269 determinations over the same quarter one year ago (see Chart 3). Volume for the 2004 calendar year increased by 2,145

determinations compared to CY 2003. Although the trend for successor determinations

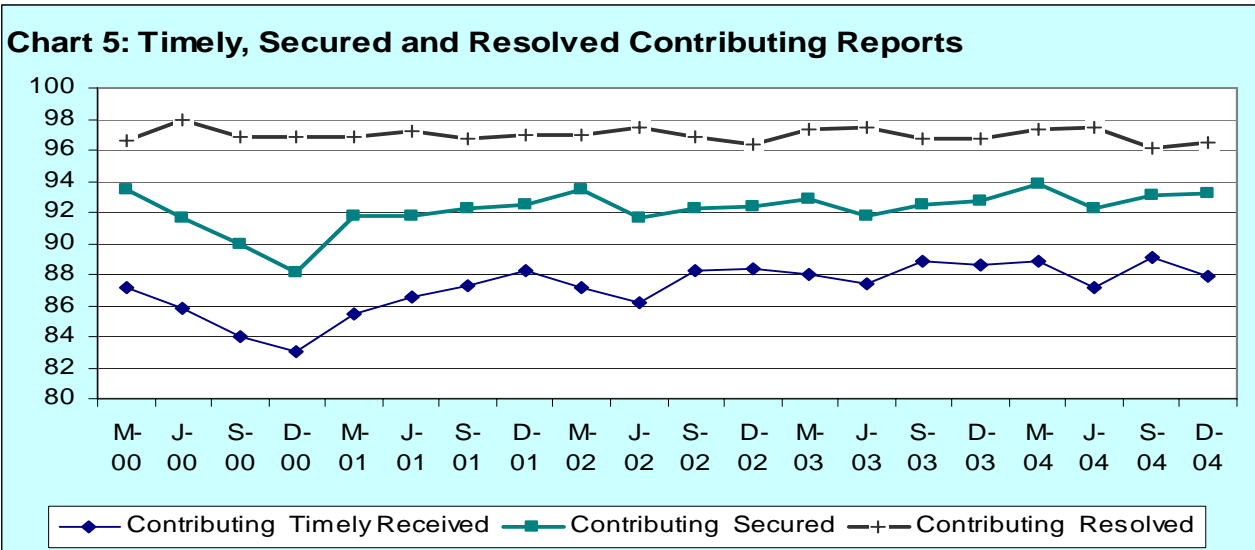
is declining in a pattern similar to that of new status determinations, the volume for the last year is up.



While successor determinations declined by 6,683 from the previous quarter, performance did not show the expected increase in response to the lower volume. See Chart 4. Reasons for the slight decline, rather than the usual increase, are not clear.

Filing Reports – Contributory and Reimbursing Employers

SWAs were expecting over 7.1 million contributing employers to file third quarter contribution and wage reports during the report quarter, of which 87.9% were received "timely" by the states' due dates. By the end of the report quarter (December 31, 2004), 93.2% of the reports had been "secured" either by voluntary filing or as a result of state



collection efforts.

The "resolved" measure of 96.5% represents, as of the end of December, the status of reports that were due during the quarter ending September 30, 2004, i.e., the

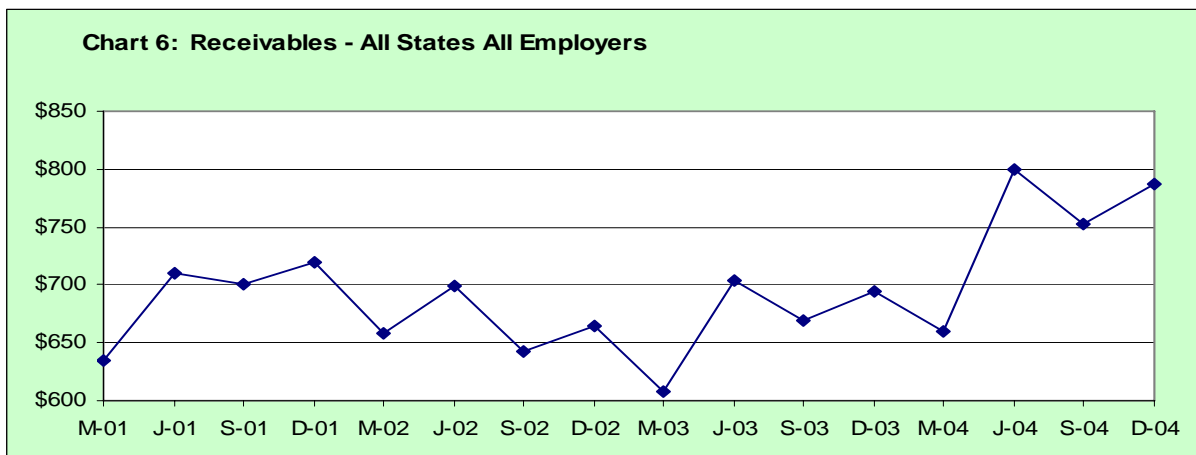
contribution and wage reports reporting wages that were paid during April, May, and June 2004. The resolved score represents a percentage derived from a cumulative count of those second quarter tax reports that were filed timely, plus the secured reports that were secured by September 30, 2004, plus the reports that were resolved by other means during the report quarter ending December 31, 2004. For example, the resolved reports measure includes reports that were determined to not be due as a result of inactivation or closure of the account and reports for which SWAs have established legally due and collectable assessments, levies or judgments.

Nationally, SWAs reported that reimbursing employers filed 89.1% of their reports timely, 94.6% were secured and 96.4% were resolved. For comparison, these scores for the Q/E September 30, 2004, were 90.8% timely, 95.2% secured and 95.4% resolved.

See Tables 2 and 3 for report delinquency scores of contributory and reimbursing employers, reported by state and region.

Total Receivables – Contributory and Reimbursable Employers Combined

Past due contributions and reimbursements rose by 4.6% during the quarter to a total of \$786.7 million. This is an increase of \$34.7 million for the three month period from October 1 through December 31, 2004. Compared to one year ago, receivables are up by \$91.8 million, an increase of 13.2%. For the CY, thirty-one states experienced an increase in receivables, and twenty-one states reported that receivables declined. Four states experienced gains exceeding \$10 million; California – \$24,432,891, Florida – \$18,235,910, Mississippi - \$13,957,202, North Carolina – \$17,541,113. The largest reductions for CY 2004 were reported by Maryland – \$4,808,536, and Puerto Rico – \$5,620,643. Chart 6 below presents a visual representation of the growth of the national total for receivables for years 2001 through 2004.

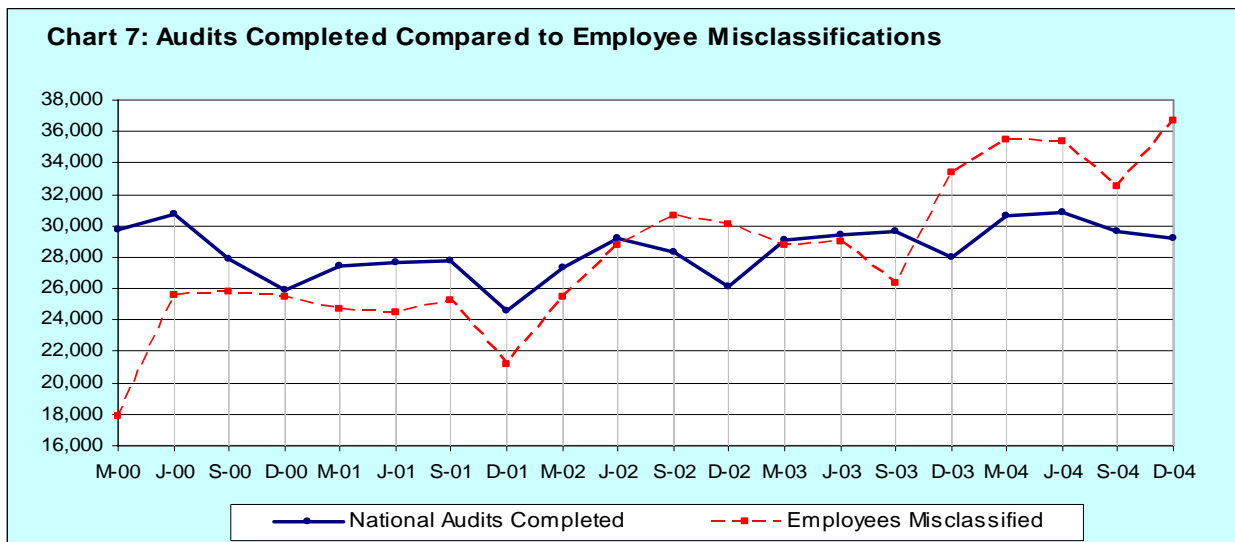


See Table 4 for collection activities and state receivable balances as of the end of December 2004.

Audit Activity

For the quarter ending December 31, 2004, state field auditors completed 29,201 audits of employers' records to ensure that payments to workers for services were being reported correctly. For CY 2004, SWAs completed 120,243 audits, an increase of 3,962 audits over CY 2003. Chart 7 shows the number of audits completed per quarter along with the number of employee misclassifications discovered as a result of the audits.

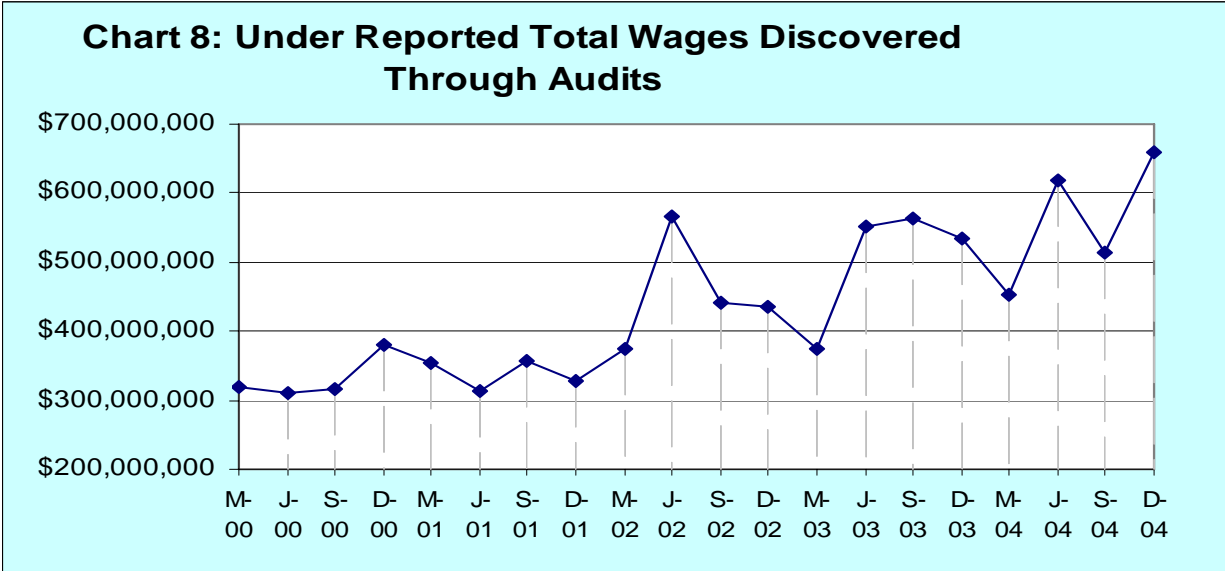
Employee misclassifications have been showing a steady increase since the requirement for reporting this information became effective with the quarter ending March 31, 2000. Two factors probably account for the increase: first, with the passage of each quarter, more states are developing the electronic capability of accurately counting and reporting this information (Only one state failed to report misclassifications in 2004); and second, with the increased attention and usage of the 1099 MISC extract tape that is provided to interested states by the Internal Revenue Service (IRS), states are becoming more adept at selecting employers for audit that are likely to be misclassifying employees.



Five of the six regions and 36 states either met or exceeded their 2.0% penetration objective for audits during CY 2004. New York completed 10,577 audits (2.3%) for the highest yearly total. Vermont was the state with the highest percentage of completed audits at 4.2%. New Jersey audited 245 large employers, 4.5% of their total audit objective, which was more than any other state. In addition, New Jersey discovered 15,921 employees that had been misclassified as independent contractors averaging 2.5 per audit, also high for the nation. The CY 2004 national average for misclassifications was 1.24 employees per audit.

The increase in unreported total wages discovered through the audit program, as shown on Chart 8, is primarily the result of the additional 3,962 audits for the year (over CY 2003) that were completed by the SWAs and the Department's focus on integrity issues.

These include joint DOL and IRS telephone conferences encouraging more SWAs to utilize the 1099 MISC extract tapes and the recently passed federal legislation requiring



SWAs to incorporate SUTA dumping detection functions into their state tax systems. Both are DOL initiatives now in process that should continue to promote greater employer compliance with UI laws.