

TRAINING AND EMPLOYMENT NOTICE

NO. 4-08

DATE

August 14, 2008

TO: STATE WORKFORCE AGENCIES

FROM:

for CHERYL ATKINSON *Joe Zepi*
Administrator
Office of Workforce Security

SUBJECT: Selected Unemployment Insurance (UI) Tax Data from Form ETA 581, Contribution Operations for the Calendar Year (CY) Ending December 31, 2007

1. **Purpose.** To provide a summary of selected ETA 581 data with associated charts and tables for CY 2007.
2. **References.** ET Handbook No. 401, 4th Edition, May 9, 2007, Section II, Chapter 2; ET Handbook No. 407, 4th Edition, November 20, 2003; Unemployment Insurance Program Letter (UIPL) No. 14-05, "Changes to UI Performs"; UIPL No. 14-05, Change 1; UIPL No. 19-08, "Call Memo for the Fiscal Year (FY) 2009 UI State Quality Service Plan (SQSP)".
3. **Background.** CY 2007, UI tax performance data and computed measures (CMs) presented in this summary report are derived primarily from the quarterly ETA 581 Contribution Operations report. Although this is a summary of CY 2007 activity, many of the charts in this analysis show quarterly data, due to the cyclical nature of tax functions.

State and Regional CM percentages for each of the 19 measures, along with the raw data used for computation of the percentages, are displayed in 13 CM tables that may be viewed on the Office of Workforce Security (OWS) website at: http://www.workforcesecurity.doleta.gov/unemploy/nat_sum_tables_2007.asp.

The information displayed on the referenced tables is based on data in the database as of May 27, 2008. Due to occasional ETA 581 report adjustments made by states, the attached charts and tables may differ from more current information. Current CM information is available on the web page, although displayed in less detail at: <http://www.workforcesecurity.doleta.gov/TPSWP-CM-CMC/web.jsp>.

4. **Action.** State Administrators are requested to distribute this advisory to appropriate tax program staff.
5. **Inquiries.** Inquiries should be directed to the appropriate regional office (RO).
6. **Attachments.**
A-Summary of National UI Tax Performance Data for CY 2007
B-Analysis of ETA 581 Data for CY 2007

Attachment A – Summary of National UI Tax Performance Data

Summary of National UI Tax Performance Data Selected Data from State ETA 581 Reports Calendar Year Ending December 31, 2007

Subject Employers – National Totals

	<u>Contributory Employers</u>	<u>Reimbursing Employers</u>	<u>Total Employers</u>
Totals as of 12/31/2006	7,420,395	100,663	7,521,058
Totals as of 12/31/2007	7,567,651	99,283	7,666,934
Change during CY 2007	147,256	(1,380)	145,876

Status Determination Promptness – CMs 1-4 (Detailed on Table 1)

	<u>Determinations</u>	<u>90 Days or Less</u>	<u>180 Days or Less</u>
New Employers	923,932	85.7%	91.7%
Successor Employers	124,211	66.6%	79.6%

Employer Report Filing - CMs 5-10 (Detailed on Tables 2-3)

	<u>% Filed Timely</u>	<u>% Secured</u>	<u>% Resolved</u>
Contributory Employers	88.3%	92.3%	97.0%
Reimbursing Employers ¹	90.2%	95.6%	97.0%

Collections Activity – CMs 11-16 (Detailed on Tables 4-9)

	<u>% Paid Timely</u>	<u>% of Receivables Declared Uncollectible/Doubtful</u>	<u>% of Amt. Due Remaining Unpaid at Year End</u>
Contributory Employers	90.5%	1.1%	2.2%
Reimbursing Employers	77.8%	1.5%	4.2%

Receivables (Delinquency) (See Tables 6-9) ²

	<u>Beginning Bal (1/1/07)</u>	<u>Ending Bal (12/31/07)</u>	<u>Removed due to Uncollectible & Age -2007</u>
Contributory Employers	\$852,437,577	\$812,792,586	\$373,752,832
Reimbursing Employers	\$76,673,915	\$72,276,751	\$25,689,523
Total Receivables	\$929,111,492	\$885,069,337	\$399,442,355

National Audit Activity CY 2007 (See Audit Tables 10-13)

Field Audits Completed ³	117,486	% Audit Penetration – Objective 2%	1.6%
Large Emp. Audits completed ⁴	3,332	% of Completed Audits that were Large	2.3%
Number of Change Audits	50,032	% of Audits Resulting in Changes	42.6%
Total Wages Audited (pre-audit)	\$79,487,822,573	% of Total Wages Audited - Annualized	1.7%
Total Wages Changed	\$9,702,400,977	% of Total Wages Changed	12.2%
Total Wages Under Reported	\$9,290,360,049	Contributions Under Reported	\$38,044,985
Total Wages Over Reported	\$412,040,928	Contributions Over Reported	\$6,082,150
Total Wages Audited (post-audit)	\$88,366,141,694	Gross Change (contributions)	\$44,127,135
Average Time Per Audit	7.4 Hours	Average Quarters Audited	4.5 Quarters
Employees discovered in audits that had been misclassified as independent contractors			151,039

Footnotes

- 1 Computations exclude Massachusetts (MA), since MA does not report data for this item.
- 2 Mississippi receivable data has been excluded from CM tables, but the data is included in balances shown on this summary.
- 3 The Employment Security Manual (ESM) requires states to audit 2% of the count of contributing employers taken on 9/30 of the preceding year. Using this formula, the national objective was 147,519 audits for CY 2007.
- 4 The ESM requires that 1% of the above 2% audit objective qualify as large employer audits, which computes to 1,475 audits.

Attachment B – Analysis of ETA 581 Data

Analysis of ETA 581, Contribution Operations Data for CY 2007

Subject Employers

The number of active employers subject to state unemployment compensation coverage grew to 7,666,934 by the end of December 2007, an increase of 145,876 (1.9%) employers for the 2007 calendar year (CY). The count includes both contributory and reimbursing employers from all 50 states, the District of Columbia, the Virgin Islands, and Puerto Rico.

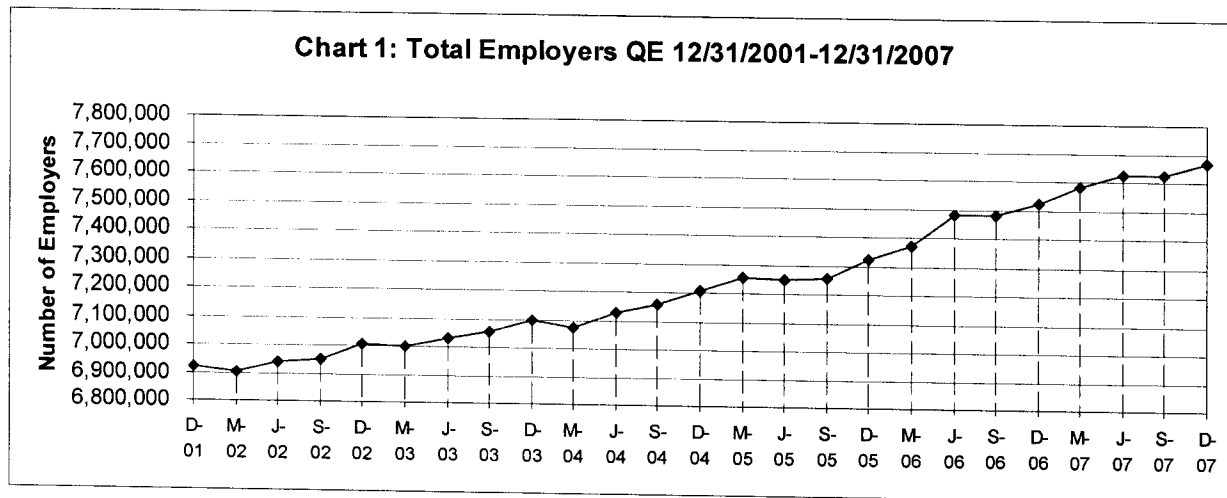


Chart 1 above illustrates the relatively stable quarterly growth of covered employers over the last six years (12/31/2001-12/31/2007). Average annual growth, including both contributory and reimbursing employers, for this six year period has been 124,015 new employers per year. Growth in 2007 in the amount of 145,876 was greater than the six year average, but lower than the growth in 2006 (201,858). Contributory employers grew by 147,256, while reimbursing employers declined by 1,380 in 2007.

The Tax Performance System Review and Computed Measures (CM)

An important element of the Tax Performance System (TPS) review is the calculation and evaluation of the nineteen CMs. CM percentages are based on aggregate information taken from the quarterly ETA 581 reports, the monthly ETA 2112 reports, and the quarterly ES 202 program. CMs indicate the timeliness and completeness with which basic and essential unemployment insurance tax transactions occur.

Aggregate national CMs provide a basis for comparing individual state performance with national performance. It is important to note that national CMs are aggregate percentages rather than an average of individual state scores. Therefore, large states and small states each affect the national scores in direct proportion to the volume of transactions reported.

Status Determinations: New Employers

Timely discovery of liable employers and establishment of new accounts are tax functions vital to the successful operation of a state UI tax program, timely processing of UI claims, and payment of benefits to eligible recipients. Computed measures 1- 4, as shown on Attachment A, concern the timeliness in which states determine liability and establish accounts for new and successor employers. These measures indicate successful state UI tax program management. For a complete listing of the CMs for CY 2007 for new and successor determinations, see CM Table 1 at: http://www.workforcesecurity.doleta.gov/unemploy/nat_sum_tables_2007.asp

Due to the importance placed on New Status Determinations, UI Performs established a core measure that sets a minimum level of performance for timely discovery and establishment of new employers. The expected minimum level of performance for this measure for CY 2007 was to establish 70% of new accounts within 90 days from the last day of the quarter in which the new entities first became liable. For CY 2007, 50 of the 53 reporting states achieved the 70% or greater acceptable level of performance. Puerto Rico (50.7%), Vermont (66.9%), and Kansas (64.2%) did not meet the timely determinations measure for the CY. Nationally, 85.7% of new status determinations were made within 90 days for CY 2007. Table 1, which appears at the end of the next section "Status Determinations: Successor Employers", provides a summary of the performance over the last six CYs for both new employer determinations and successor employer determinations.

OWS also established a Government Performance and Results Act (GPRA) goal for New Determinations. The GPRA goal, in contrast to the 70% UI Performs minimum acceptable level of performance, was set higher at 82.8% for FY 2007 (10/1/2006 – 9/30/2007). Nationally, OWS met the FY 2007 goal with a new employer timely status determination percentage of 84.7%. The national goal for FY 2008 (10/1/2007 – 9/30/2008) is 85.0%. The national goal for FY 2009 (10/1/2008 – 9/30/2009) will be 85.1%. Additional information about GPRA goals for FY 2009 is available in Unemployment Insurance Program Letter 19-08.

The number of new employer status determinations declined during CY 2007. States reported making 923,932 new employer liability status determinations in CY 2007 compared to 933,726 reported for CY 2006, a decrease of 9,794 determinations. The count of new status determinations, as reported in item 14 on the ETA 581 report, includes all determinations of liability made within the ETA 581 report quarter of employers who have actually met a state threshold of liability, plus determinations that reactivate inactive accounts.

Chart 2 below displays graphically the typical surge in the number of new status determinations that occurs during the January – March quarters, contrasted with the lower count of determinations during the quarters ending in December.

Chart 2: Volume of New Status Determinations by Quarter

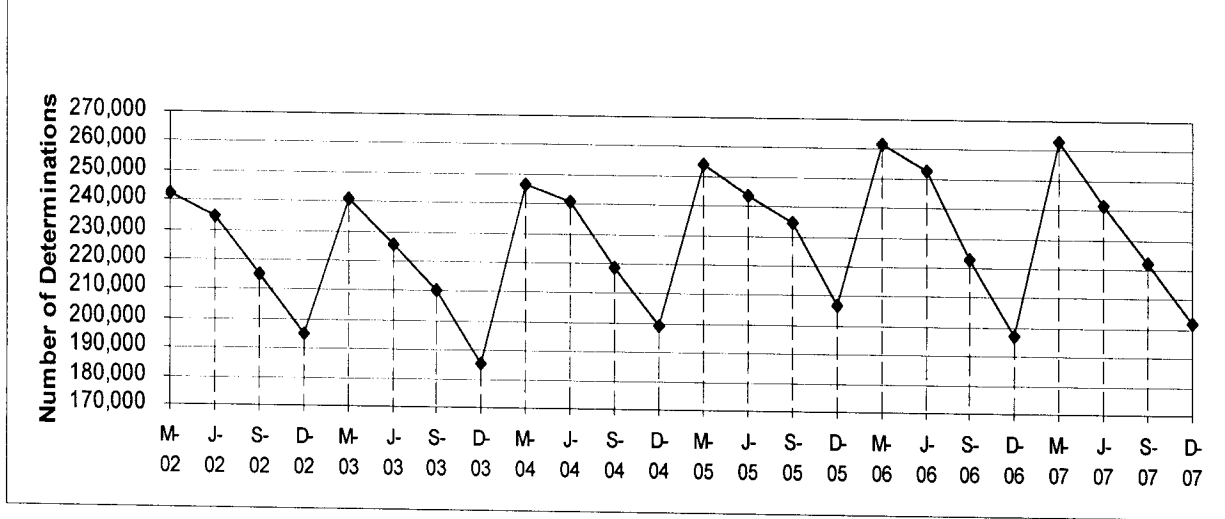
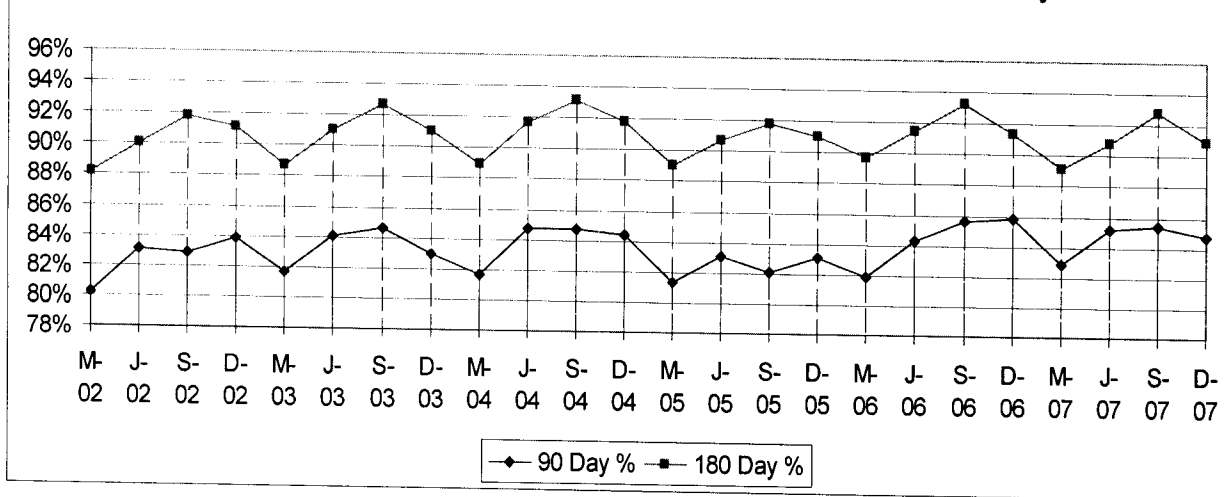


Chart 3 below shows how the quarterly percentage of timely determinations typically declines in the first quarter of the CY and peaks in the September quarter. The chart also illustrates how the percentages for determinations completed within 180 days parallel the 90 day percentages and fluctuate in a regular quarterly cycle.

Chart 3: New Employer Determinations % Completed Within 90 & 180 Days



Status Determinations: Successor Employers

Similar to status determinations for new employers, the largest volume of status determinations for successor employers occurred in the first and second quarters of each calendar year. Chart 4 below shows graphically the quarterly fluctuations of status determinations for successor employers.

Chart 4: Number of Successor Determinations by Quarter

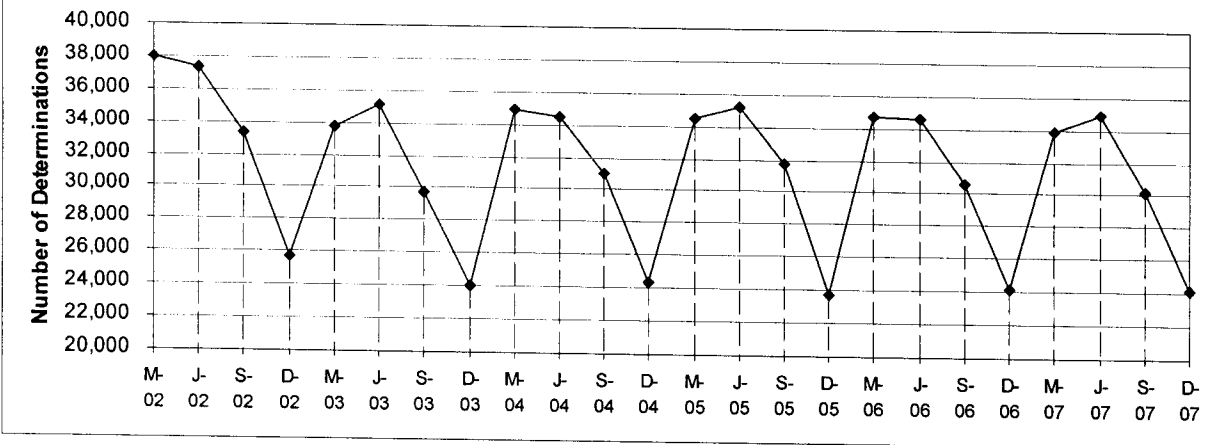
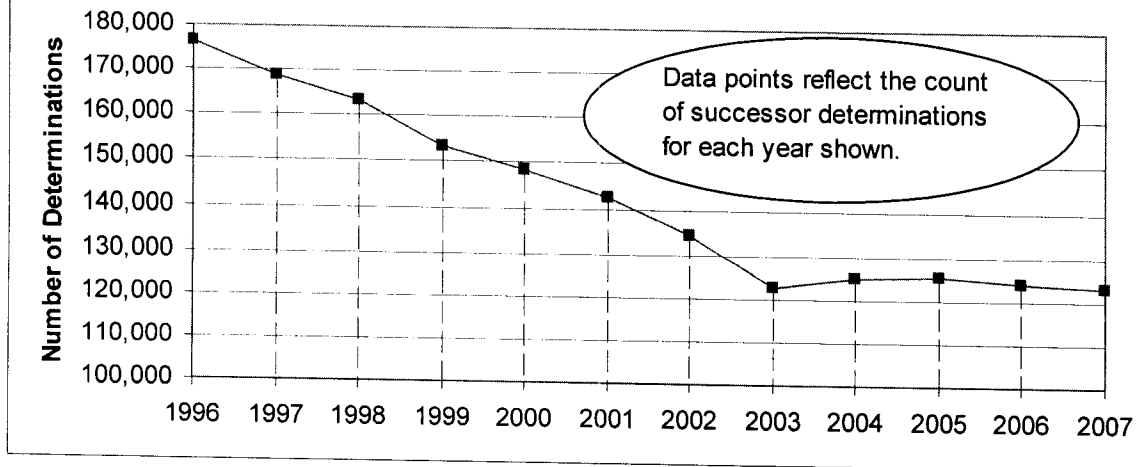


Chart 5 below summarizes the trend of successor determinations made by states since 1996. From 1996 through 2003, total successor determinations decreased each year. While total successor determinations for 2007 were slightly less than successor determinations for 2006, yearly successor determinations since 2003 have remained fairly constant.

Chart 5: Number of Successor Determinations by CY 1996-2007



There was no change to the tendency for successor determinations to take longer than new liability determinations in 2007. This can be seen in Table 1 below by comparing the percentages in the New within 90 Days column with the Successor within 90 Days column. The percentage of timely successor determinations is lower than new liability determinations for all six of the calendar years shown below. Moreover, the time needed to complete successor determinations has increased in each year since 2004.

Year	New Determinations	New within 90 Days	New within 180 Days	Successor Determinations	Successor within 90 Days	Successor within 180 Days
2002	887,307	82.4%	90.2%	134,367	67.5%	81.3%
2003	861,661	83.3%	90.8%	122,628	70.7%	83.1%
2004	904,784	83.8%	91.3%	124,819	71.2%	83.1%
2005	939,097	82.3%	90.6%	125,286	69.1%	81.6%
2006	933,981	84.2%	91.4%	124,125	68.8%	81.5%
2007	923,932	85.7%	91.7%	124,211	66.6%	79.6%

Timely, Secured and Resolved Filing of Contribution Reports

Six computed measures show the promptness with which employers file quarterly contribution and wage reports to the states. Three CMs measure contributory employers and three similar CMs measure reimbursing employers. The measures for report filing follow:

1) The percentage of timely contribution reports received by the states. This CM measures reports for the quarter immediately preceding the ETA 581 report quarter that were filed prior to the delinquency date during the ETA 581 report quarter.

2) The percentage of secured delinquent contribution reports obtained by the state during the ETA 581 report quarter. This CM measures reports from the quarter immediately preceding the ETA 581 report quarter that are either secured by state staff or voluntarily filed between the date on which the reports first became delinquent and the end of the ETA 581 report quarter. Since the secured report count (items 7 and 10 on the ETA 581 report) includes all of the timely reports, the number of secured reports must always be equal to or greater than the number of timely reports reported in items 6 and 9 on the ETA 581 report.

3) The percentage of delinquent reports that are resolved by the end of the report quarter. This CM measures delinquent reports from the second quarter preceding the ETA 581 report quarter that are resolved by the end of the report quarter. States may count a delinquent report as resolved by: a) determining that the report is no longer due, inactivating the account, or closing the account; b) establishing a judgment or assessment that is legally due and collectable for the estimated amount of tax due; or c) by receipt of the report through some other means such as voluntarily filing, field auditor contacts, subpoenaing records, etc. Because resolved reports (items 8 and 11) include all of the secured reports reported for the second tax report quarter prior to the ETA 581 report quarter, the number of resolved reports reported in item 11 on the ETA 581 report must be equal to or greater than the number of secured reports reported in items 7 and 10 on the previous ETA 581 report.

Additional information about the computed measures for report filing data can be found at: <http://www.uis.doleta.gov:8080/OWS-MENU/index.xml> under TPS/ Computed Measures/Data Compilation.

Filing Reports – Contributory Employers

Table 2 below provides a comparison of the national computed measures for contributory employers for the last six years. CM Tables 2 and 3 on the web page provide a detailed summary of the filing of tax reports for both contributory and reimbursing employers for CY 2007.

Calendar Year	% Timely	% Secured	% Resolved
2002	87.9	92.5	97.0
2003	88.2	92.5	97.0
2004	88.2	93.1	97.1
2005	88.3	93.1	97.4
2006	88.5	92.8	97.8
2007	88.3	92.3	97.0

Filing Reports: Reimbursing Employers

Fifty-two states are now reporting their count of timely, secured and resolved reimbursing employer contribution reports that are received and processed during the ETA 581 report quarters. The final state, Massachusetts, is expected to begin receiving and reporting reimbursing employer report data soon. The performance percentages shown in Table 3 below for calendar years 2002 through 2006 include approximately 2,845 Massachusetts reimbursing employers. Because Massachusetts did not report a count of the timely, secured and resolved reports from reimbursing employers, including them in the employer count lowered the national aggregate percentages for those years. However, reimbursing employers for Massachusetts were excluded from performance percentages for 2007. Consequently, the national aggregate percentages for 2007 are higher than previous years.

Calendar Year	% Timely	% Secured	% Resolved
2002	80.5	84.8	86.3
2003	80.4	86.4	88.3
2004	81.7	86.8	88.1
2005	83.7	88.2	87.8
2006	86.3	92.0	90.6
2007	90.2	95.6	97.0

Receivables – Contributory and Reimbursing Combined

Chart 6 tracks the amount of receivables past due as of the end of each quarter for calendar years 2002 to 2007. The amounts were reported by states on quarterly ETA 581 reports. Chart 6 includes receivables past due from contributory and reimbursing employers, and includes data reported by Mississippi even though Mississippi's past due receivable balance as of 12/31/2007 was overstated. However, CM Table 8, which may be viewed on the OWS website at:

http://www.workforcesecurity.doleta.gov/unemploy/nat_sum_tables_2007.asp, excludes Mississippi's data

Although the trend line on Chart 6 below shows that past due receivables have generally increased over the years, the ending balance as of December 31, 2007, is lower than the balances at the end of 2005 and 2006.

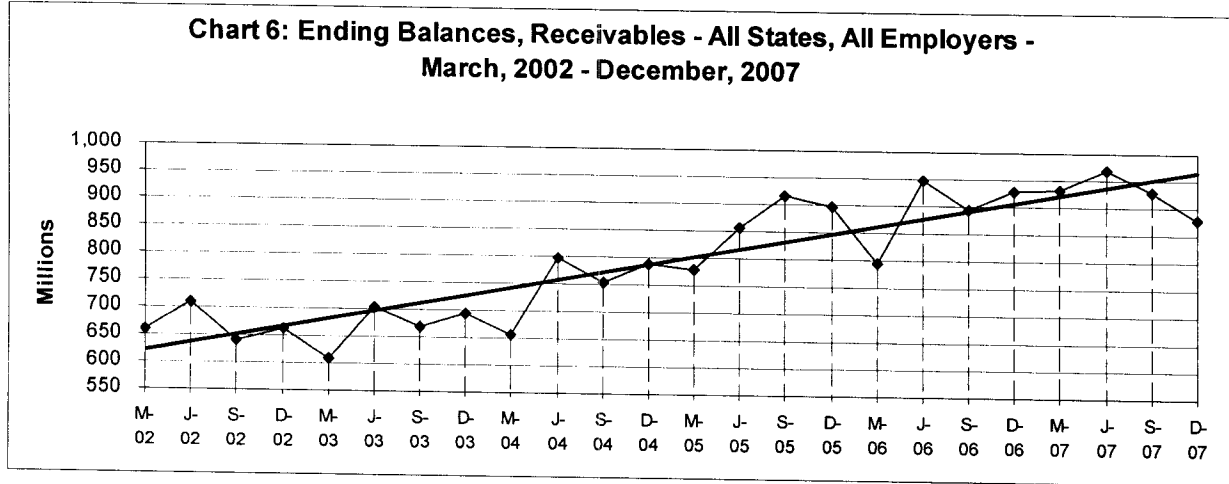


Table 4 below shows the actual amount of past due receivables as of the end of each calendar year and the changes between years. Similar to Chart 6 above, Table 4 includes Mississippi's data. CM Table 8, which may be viewed on the Office of Workforce Security (OWS) website, excludes Mississippi's data.

Table 4: Receivable Balances - All Employers - All States

Year	CY Ending Balance for Contributory Employers	CY Ending Balance for Reimbursing Employers	Total Past Due Receivables at End of CY	Change in Dollars from Previous CY	Percentage Change from Previous CY
2002	\$589,738,905	\$74,204,420	\$663,943,325	(\$56,098,971)	-7.8%
2003	\$601,726,827	\$93,638,818	\$695,365,645	\$31,422,320	4.7%
2004	\$699,471,080	\$87,540,250	\$787,011,330	\$91,645,685	13.2%
2005	\$820,906,453	\$75,708,553	\$896,615,006	\$109,603,676	13.9%
2006	\$852,437,577	\$76,673,915	\$929,111,492	\$32,496,486	3.6%
2007	\$806,337,584	\$72,276,751	\$878,614,335	(\$50,497,157)	-5.4%

Audit Activity

The National Office measures three state audit functions: 1) the percent of total wage changes resulting from audit adjustments, 2) the percent of contributory employers audited, and 3) the percent of total wages audited (annualized). Although not a computed measure, the number of employees misclassified as independent contractors were counted and reported by the states when discovered in audits, beginning in the first quarter of 2000.

As set out in the Employment Security Manual (ESM), states are expected to audit 2% of their contributory employers each year. The ESM also requires that 1% of the 2% requirement qualify as large employers. The ESM defines “large employer” as an employer with at least 100 employees during the current or preceding CY or with at least one million dollars in taxable wages for the CY preceding the first quarter being audited. To compute the number of audits required per year, states should multiply 2.0% times the number of contributory employers counted at the end of the third quarter of the preceding CY.

Table 5 below shows national totals for each of the three audit computed measures plus additional audit information.

Year	Audits Complete	Change Audits	% of Contributory Employers Audited	% of Audits Qualified as Large Audits	% of Pre-audit Total Wages Changed	% of Total Wages Audited (annualized)	Employees Misclassified as Independent Contractors
2002	110,987	46,892	1.6%	2.4%	5.2%	1.0%	125,262
2003	116,281	49,114	1.7%	2.2%	4.9%	1.3%	123,044
2004	120,243	50,998	1.7%	2.3%	5.1%	1.3%	139,554
2005	116,124	50,088	1.6%	2.3%	5.2%	1.2%	132,965
2006	116,463	50,437	1.6%	2.5%	5.3%	1.2%	160,000
2007	117,486	50,032	1.6%	2.3%	12.2%	1.7%	151,039

For CY 2007 states completed 117,486 audits, which result in a national penetration rate of 1.6% of the contributory employers reported by states as of September 30, 2006. Discrepancies were found in 50,032 (42%) of the audits, and auditors discovered 151,039 employees that employers had misclassified as independent contractors. CM Table 13, which may be viewed at:

http://www.workforcesecurity.doleta.gov/unemploy/nat_sum_tables_2007.asp, shows that twenty-five states were successful in meeting the 2% penetration objective for CY 2007.

As shown in Table 5, the percentage of “Pre-audit Total Wages Changed” increased from 5.3% in 2006 to 12.2% in 2007. The percentage of 12.2% for 2007 is correct. The percentage increased because the state of New York discovered a large amount of underreported wages as a result of auditing a high selection of large employers. This is reflected in Table 6 for 2007.

Table 6: Summary of Total Wages Adjusted Through Audits - CY 2002- 2007		
Year	Underreported Total Wages	Overreported Total Wages
2002	\$1,815,968,012	\$352,167,432
2003	\$2,022,483,640	\$577,708,747
2004	\$2,242,798,141	\$604,335,021
2005	\$2,235,658,270	\$387,940,990
2006	\$2,570,351,349	\$494,602,132
2007	\$9,290,360,049	\$412,040,928

Chart 7 below provides a quarterly comparison of audits to the number of misclassified employees that were discovered and reported on the quarterly ETA 581.

