Attachment B – Analysis of ETA 581 Data

Analysis of ETA 581, Contribution Operations Data for CY 2006

Subject Employers

The number of active employers subject to state unemployment compensation coverage grew to 7,521,058 by the end of December 2006, an increase of 201,858 (2.76%) employers for the 2006 calendar year (CY). The count includes both contributing and reimbursing employers from all 50 states, the District of Columbia, the Virgin Islands, and Puerto Rico.

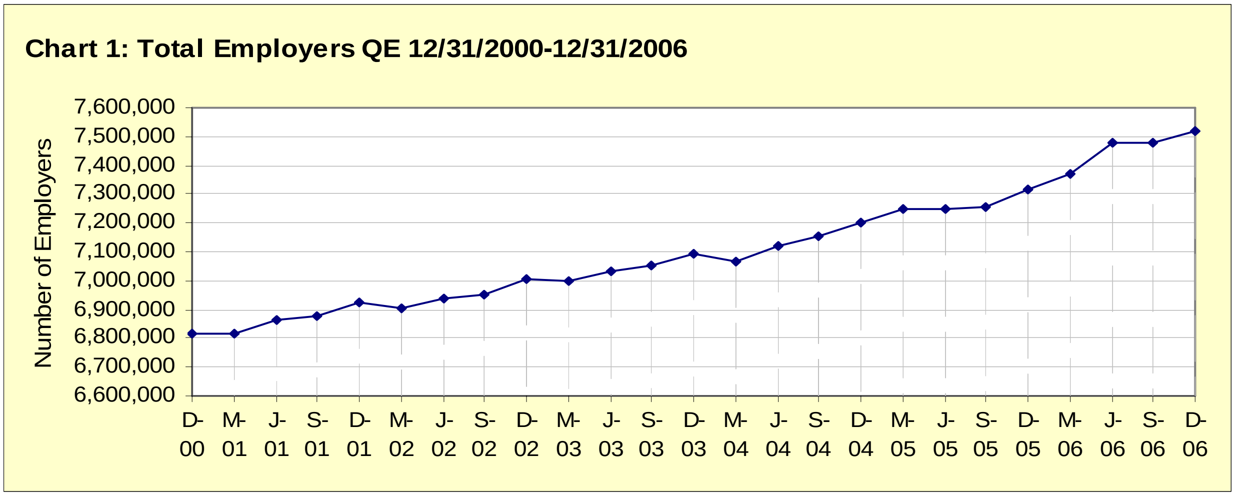


Chart 1 above illustrates the relatively stable quarterly growth of covered employers over the last six years (12/31/2001-12/31/2006). Average annual growth, including both contributing and reimbursing employers, for this six year period has been 117,343 new employers per year. Four states added more than 10,000 new employers in CY 2006; California (+71,203), Florida (+15,516), Texas (+11,788) and Arizona (+10,593). States with the highest percentage of growth for CY 2006 were: Arizona 9%, California 7%, Idaho 7% and Utah 7%. Alabama (-1,461) and Ohio (-3,555) were the only states to experience a loss of employers during the year. Both states declined by 2%.

The Tax Performance System Review and Computed Measures

An important element of the Tax Performance System (TPS) review is the calculation and evaluation of the nineteen computed measures. 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. The measures are indicators of 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 the national CMs provided 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

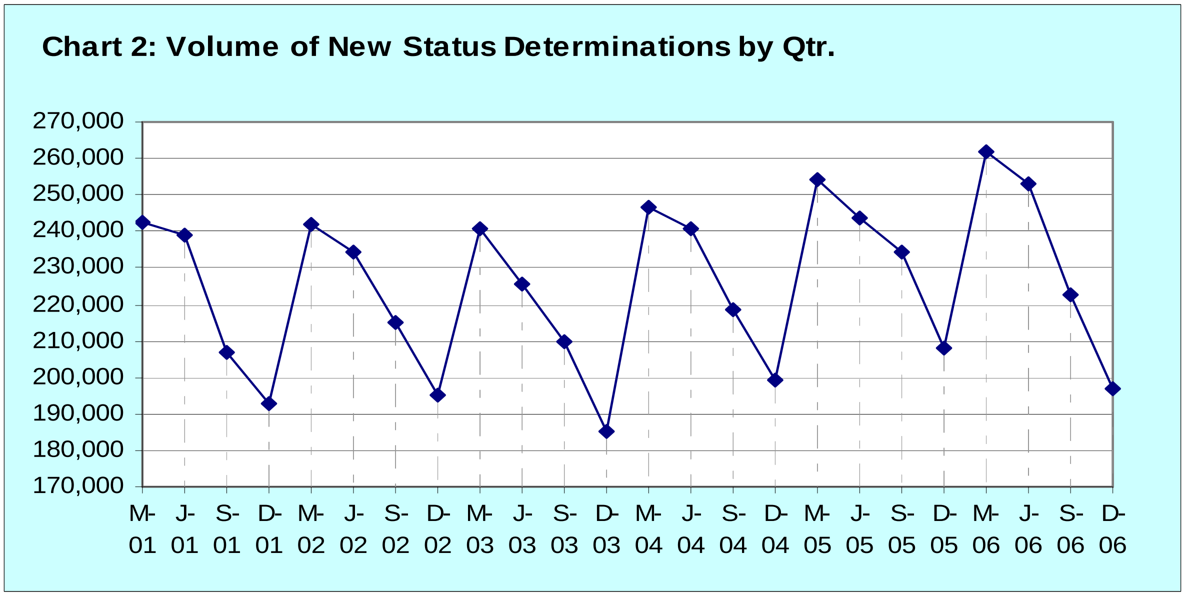
Timely discovery of liable employers and establishment of new accounts is a tax function vital to the successful operation of a state Unemployment Insurance (UI) tax program, timely processing of unemployment insurance claims, and payment of benefits to eligible recipients. Computed measures 1-4, as 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 unit management. For a complete listing of the CMs for CY 2006 for new and successor determinations, see Table 1 on the previously referenced OWS Web site.

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 2006 was 70%. For CY 2006, 49 of the 53 reporting states achieved the 70% or greater acceptable level of performance. Four states; Puerto Rico (65.1%), Iowa (69.9%), Kansas (66.3%) and Arizona (55.8%) did not meet the timely determinations objective for the CY. Nationally, 84.2% of new status determinations were made within the 90 day objective for CY 2006. A summary of the CY performance over the last six years for both new employer determinations and successor determinations is provided at the end of the next section on Status Determinations: Successor Employers.

ETA 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, is set higher at 82.5% for FY 2006 (10/1/2005 – 9/30/2006). Nationally, that FY 2006 goal was met by ETA with a new employer timely status determination percentage of 83.6%. Additional information about GPRA goals is available in Training and Employment Guidance Letter No. 06-07.

The number of new employer status determinations declined during CY 2006. States reported making 933,981 new employer liability status determinations in CY 2006 compared to 938,942 reported for CY 2005, a decrease of 4,961 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 temporarily inactive accounts.

Chart 2 below graphically displays 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.



As illustrated in Chart 3 below, the quarterly percentage of timely determinations typically declines in the first quarter of the CY and peaks in the September quarter.

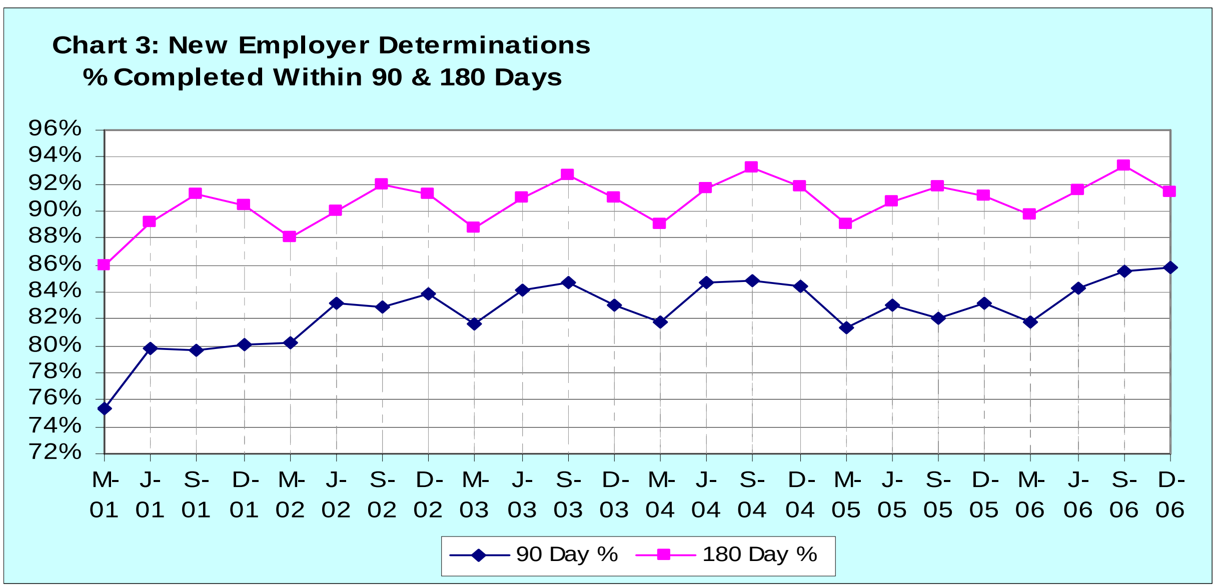
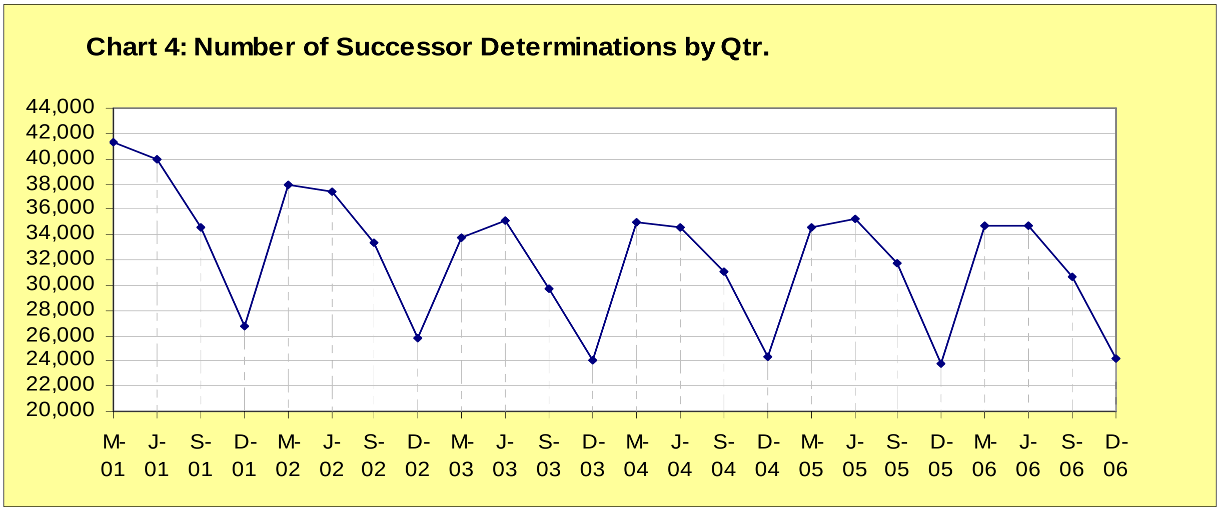
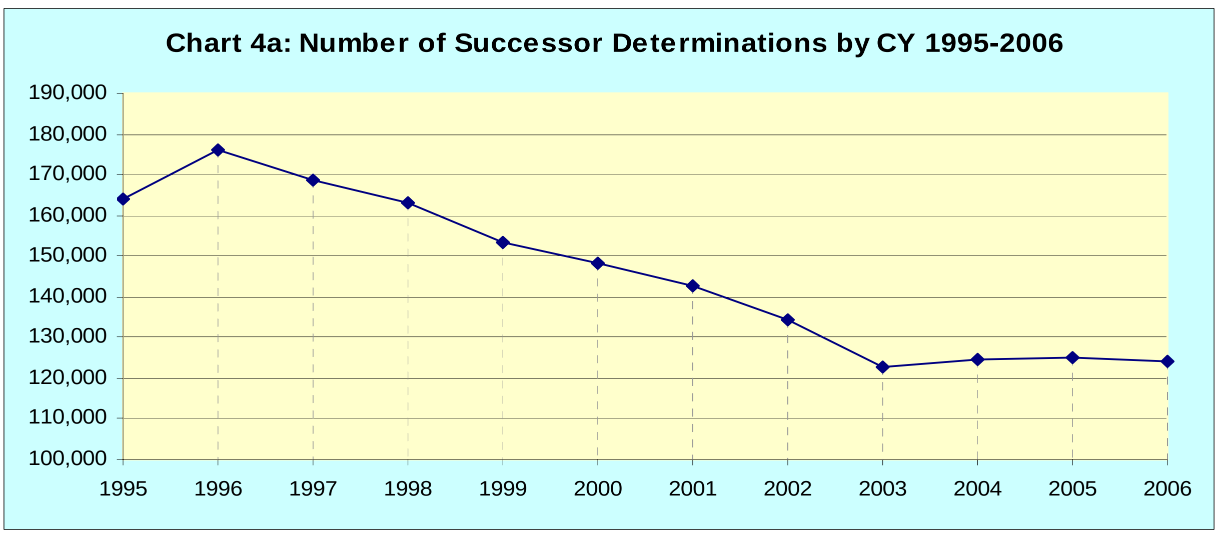


Chart 3 also illustrates how the percentages for determinations completed within 180 days parallel the 90 day percentages and fluctuate in a regular quarterly cycle. The quarterly fluctuations also show why these measures must be set for CY and FY measurements to be meaningful.

Status Determinations: Successor Employers

Charts 4 and 4a below reveal an unexpected decline in the volume of successor determinations. Although the number of employers and the number of new liability determinations continue to show a steady growth trend, the volume of successor determinations declined from CY 1996-2003.





The actual numbers for the decline can be seen more precisely on the table below (2001-2006). Although the volume of successor determinations increased slightly in 2005, they again declined in 2006. A comparison of CY 1996, a peak year in number of successor determinations, to CY 2003, the low point, revealed that during that period 44 states reported a decline in successor determinations. During those 11 years there was a net decline of 53,547 determinations. However, 38% of the decline consisted of only three states; California (-12,943 determinations), Maryland (-4,061) and Florida (-3,121).

California's successorship law, commonly referred to as the Unity of Enterprise statute, became effective in September 1994 and may have been a factor in the decline. Other states (such as Maryland) also had law changes that liberalized requirements concerning successorship. Changes in state laws and perhaps other unknown factors appear to have brought about this decline in successorship determinations.

The tendency for successor determinations to take longer than new liability determinations can be seen by making a comparison of the percentages in the New - 90 Days column with the Successor - 90 Days column. The percentage of timely successor determinations is lower than new liability determinations for all six of the CYs shown below.

New and Successor Status Determinations						
Year	**New Determinations**	**New 90 Days**	**New 180 Days**	**Successor Determinations**	**Successor 90 Days**	**Successor 180 Days**
2001	880,964	78.6%	89.0%	142,671	65.9%	80.4%
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%

Timely, Secured and Resolved Filing of Contribution Reports

There are six computed measures that show the promptness with which employers file quarterly contribution and wage reports to the SWAs. Three of the measures relate to contributing employers and three similar measures relate to reimbursing employers. The measures for report filing are:

1) The percentage of timely contribution reports received by the SWAs. Timely reports are 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. Secured reports are 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.

3) The percentage of delinquent reports that are resolved by the end of the report quarter. Resolved reports are 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.

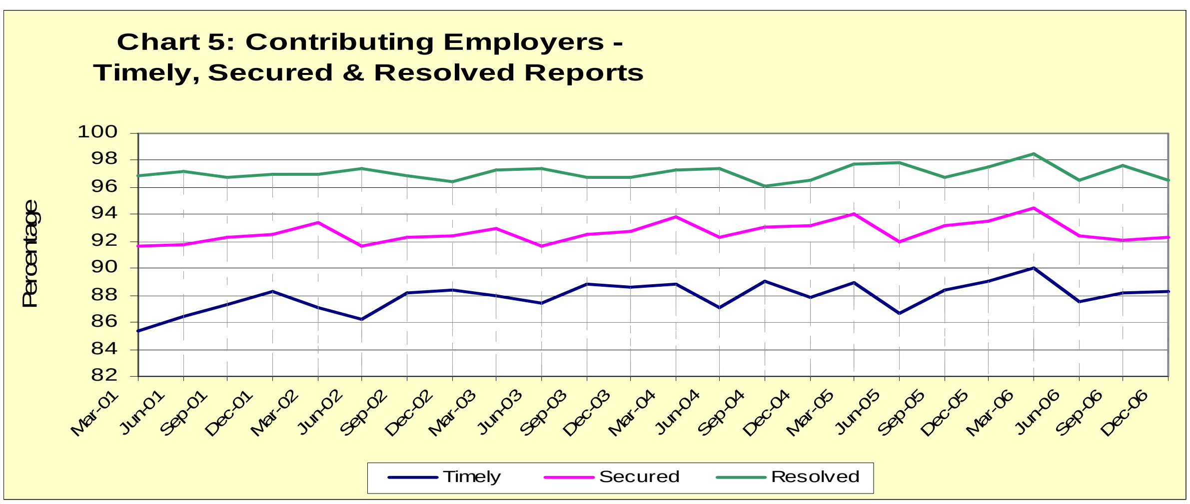
Additional information about the computed measures for report filing data can be found at: http://www.uis.doleta.gov:8080/OWS-MENU/index.xml under TPS/ Computed Measures/Data Compilation.

Filing Reports – Contributing Employers

The table below provides a yearly comparison of the national computed measures for contributing employers for the last six years. As shown, the percentage of timely filers has been slowly improving. Tables 2 and 3 on the web page provide a detailed summary of the filing of tax reports for both contributing and reimbursing employers for CY 2006.

Filing Contribution and Wage Reports – Contributory Employers			
Calendar Year	**% Timely**	**% Secured**	**% Resolved**
2001	87.2	92.1	96.9
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

Chart 5 below illustrates the higher compliance for timely reports for the filing of the fourth quarter contribution reports during the quarter ending March 31.



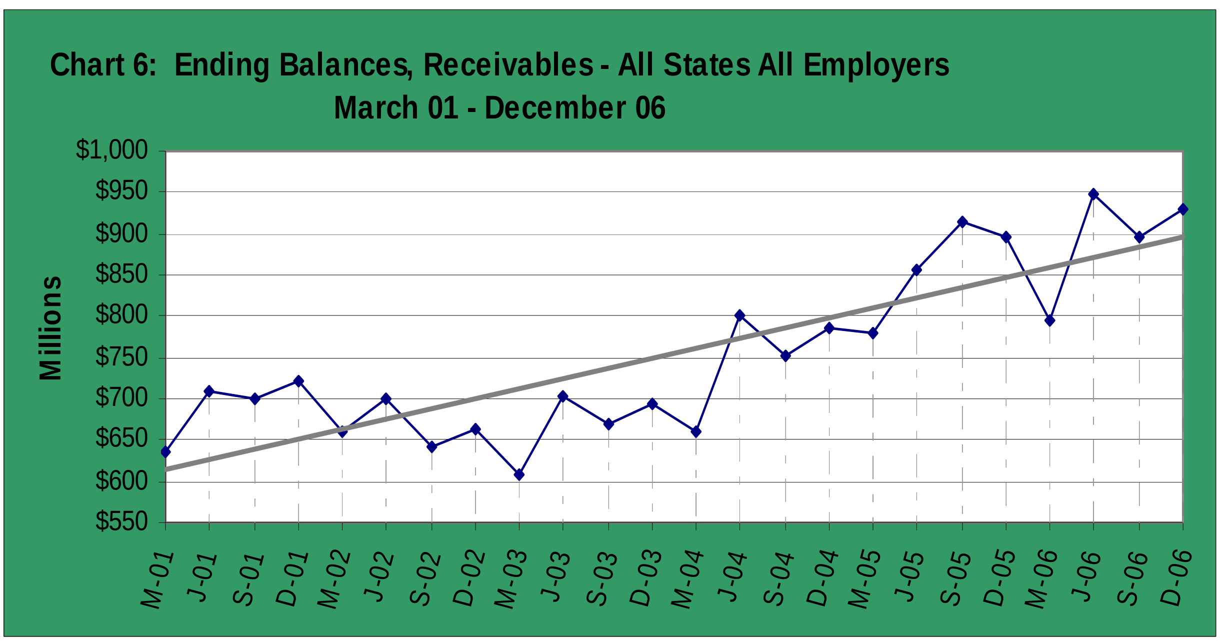
Filing Reports: Reimbursing Employers

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 below do include approximately 2,817 Massachusetts reimbursing employers. Because Massachusetts does not report a count of the timely, secured and resolved reports from reimbursing employers, including them in the employer count lowers the national aggregate percentages.

National Aggregate, Filing Contribution and Wage Reports – Reimbursing Employers			
Calendar Year	**% Timely**	**% Secured**	**% Resolved**
2001	80.3	84.9	86.8
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

Receivables – Contributing and Reimbursing Combined

Receivables normally decline in the March ETA 581 report quarter due to most employees exceeding the state taxable wage bases during the fourth quarter. However, most of the wages paid in the January – March quarter are taxable causing employers to owe the maximum tax on the tax report filed during the April – June quarter. States typically establish the highest amount of receivables in the April – June quarter, as shown on the chart below. Chart 6 below shows a typical surge in receivables for the June 2006 quarter. However, the quarter ending September 30, 2005, is unusual. Rather than the expected drop in receivables, due to some employees reaching the taxable wage base limit with wages paid during the second quarter, receivables increased. Perhaps this unusual spike was partly due to the effects of hurricane Katrina which occurred on August 29, 2005.



The table below shows the percentage of growth (except for the CY 2002 decline of 7.79%) for the ending receivables balances for pertaining to contributing and reimbursable employers for years 2001-2006.

Growth of Receivables - All Employers All States					
Year	**CY Ending Balance Contributing**	**CY Ending Balance Reimbursable**	**Total CY Receivables**	**Growth/(decline)**	**% Change**
2001	641,934,074	78,108,222	720,042,296	13,019,227	1.84%
2002	589,738,905	74,204,420	663,943,325	(59,098,971)	(7.79%)
2003	601,726,827	93,638,818	695,365,645	31,422,320	4.73%
2004	699,471,080	87,540,250	787,011,330	91,645,685	13.18%
2005	820,822,945	75,497,768	896,320,713	109,309,383	13.89%
2006	852,437,577	76,653,700	929,091,277	32,770,564	3.66%

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, starting with the first quarter of 2000, states began counting and reporting the number of employees misclassified as independent contractors that were discovered in audits.

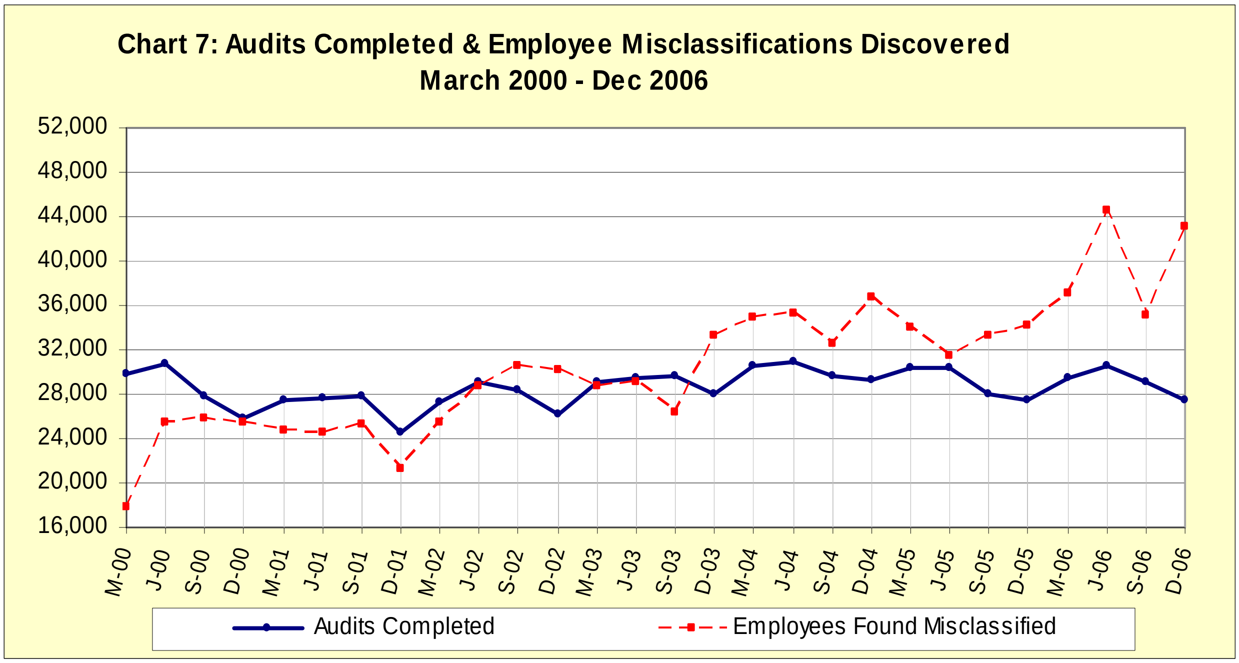
As set out in the Employment Security Manual (ESM), states are expected to audit 2% of their contributing employers each year. The ESM also requires that 1% of the 2% requirement qualify as large employers. Large employers are defined as employers with at least 100 employees during the current or preceding year or with at least one million dollars in taxable wages in the year preceding the audit. For computing the number of audits required per year, states should multiply 2.0% times the number of contributing employers counted at the end of the third quarter of the preceding year.

The following table shows national totals for each of the three audit computed measures plus additional audit information.

Year	Audits Complete	Change Audits	% of Contributing Employers Audited	% of Audits Qualified as Large Audits	% of Pre-audit Total Wages Changed	% of Total Wages Audited (annualized)	Employees Misclassified as ICs
2001	107,429	44,895	1.6%	2.4%	4.4%	0.9%	107,210
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

For CY 2006 states completed 116,463 audits which compute to a national penetration rate of 1.6% of the contributing employers counted on September 30, 2005. Discrepancies were found in 50,437 (43%) of the audits, and auditors discovered 160,000 employees that employers had misclassified as independent contractors. As shown on Table 13, for CY 2006 twenty-nine states were successful in meeting the 2% penetration objective.

Chart 7 provides a quarterly comparison of audits to the number of misclassified employees that are discovered and reported on the quarterly ETA 581. The chart also shows the tendency of states to audit the fewest employers during the December quarter and the most employers during the quarter ending June 30. Although states were required to begin reporting a count of employee misclassifications discovered in their audits beginning with the quarter ending 3/31/2000, only 31 states were able to meet that objective. It was not until the second quarter of 2005 that all states began providing this information. This gradual increase in the number of states reporting misclassification data would have some impact on the upward trend shown on chart 7.



The increase from 132,965 misclassifications reported in 2005 to 160,000 misclassifications reported in 2006 occurred primarily in Region 5. Region 5 increased from 37,394 in 2005 to 56,459 in 2006. The Region 5 increase was led by Ohio which reported 13,828 Misclassifications in 2006 compared to 4,774 in 2005. The unusual drop in the number of misclassifications discovered in the September quarter of 2006 appears to be accurately reported, since the national decline resulted from small declines in 27 states.

As shown below on Chart 8, over the seven year period from 1/1/2000 through 12/31/2006, there has been a noticeable upward trend in under reported wages discovered through the audit process. Increasing wages and taxable wage bases account for some of the increase but aside from that, it appears that either states are improving their audit techniques or evasion is becoming more prevalent. Additional annual audit data detailed by state and region is available on the web page, see tables 10-13.

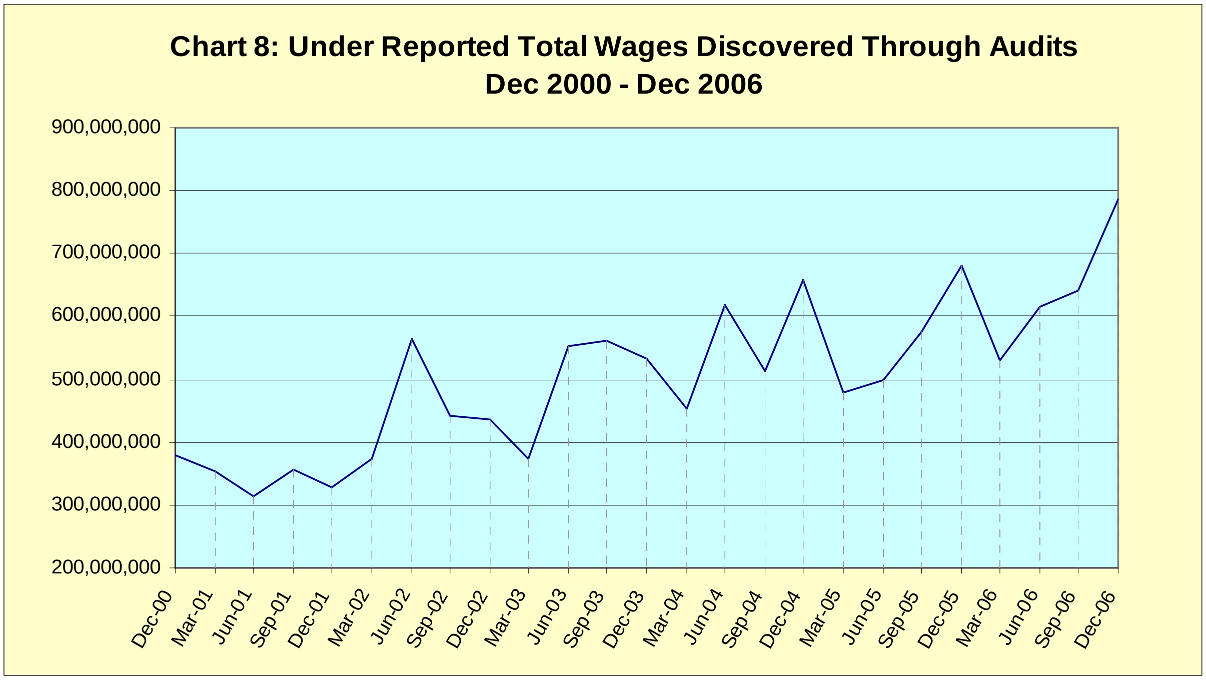


Chart 8: Under Reported Total Wages Discovered Through Audits
Dec 2000 - Dec 2006
900,000,000
800,000,000
700,000,000
600,000,000
500,000,000
400,000,000
300,000,000
200,000,000
Dec-00
Mar-01
Jun-01
Sep-01
Dec-01
Mar-02
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