

Employer Misclassification Predictive Analytics Overview

A Predictive Analytics Solution to Reduce Improper Payments

UI Integrity Symposium
December 7-8, 2016

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Status Update Topics

Project Purpose, Scope and Objectives

Review Initial Analysis and Approach

Design and Implementation

Next Steps

Q&A

Project Purpose



Presently, New Mexico has approximately 45,000 active registered employers and is required to meet a one percent penetration rate. Of these, 450 required audits, NMDWS is required to detect 450 misclassified workers. Approximately 50% of these audits are “clean audits,” meaning there were no wage discrepancies detected 225 of the 450 annual audits.



The purpose of this project is to improve the overall efficiency of NMDWS by prioritizing field audit work, reduce the number of employers misclassifying wages and providing mechanisms for better managing performance standards required by the US DOL.



The project was funded supplemental budget request with additional grant funding provided by the Center for Employment Security Education and Research for an assessment on applicability to other UI state programs.

Data Analysis

Conduct Data Analysis to determine patterns and recommend treatment approaches and work prioritization alternatives

Phase 1

Detail Design

EMPA Engine Development and Detail Design for EMPA Engine for employers, selected treatment approaches and workflows

Phase 2

UIA Integration

Integrate the EMPA Engine within the UIA application, including configuration of input and output data streams to the EMPA Engine and design and development of a user interface.

Phase 3

Business Implementation

Implement treatment streams into business processes within UIA to minimize employer misclassification

Phase 4

Business Objectives



To be an integral part of all economic development and education initiatives.



To be efficient and responsive to the diverse needs of New Mexico's employers and workforce.



Deliver targeted messaging designed to educate, inform, and remind employers of their obligation under Unemployment Insurance (UI) Tax law in an effort to realize significant reductions in the need for targeted audits, saving staff time, and enhancing collections to the UI Trust Fund.



Prioritize employer outreach and audit activities to better identify employers who have historically misclassified employees, further reducing the incidence of misclassification, improving efficiency use of staff time and enhance collections to the UI Trust Fund.



Improve the overall efficiency of NMDWS to reduce the number of employers misclassifying wages by 50%.

Technical Objectives



Ensure reuse of existing architecture, specifically the IPPI engine with integration into the UIA



Secure additional data sources that can be securely stored and reused for a range of purposes

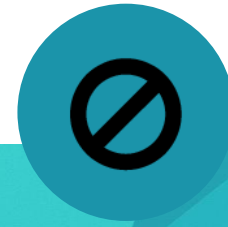




Meeting the
effective audit
measures



Identify and
prevent
misclassification



Do no harm



Back to Basics – Common Definitions



New Mexico Tax & Rev

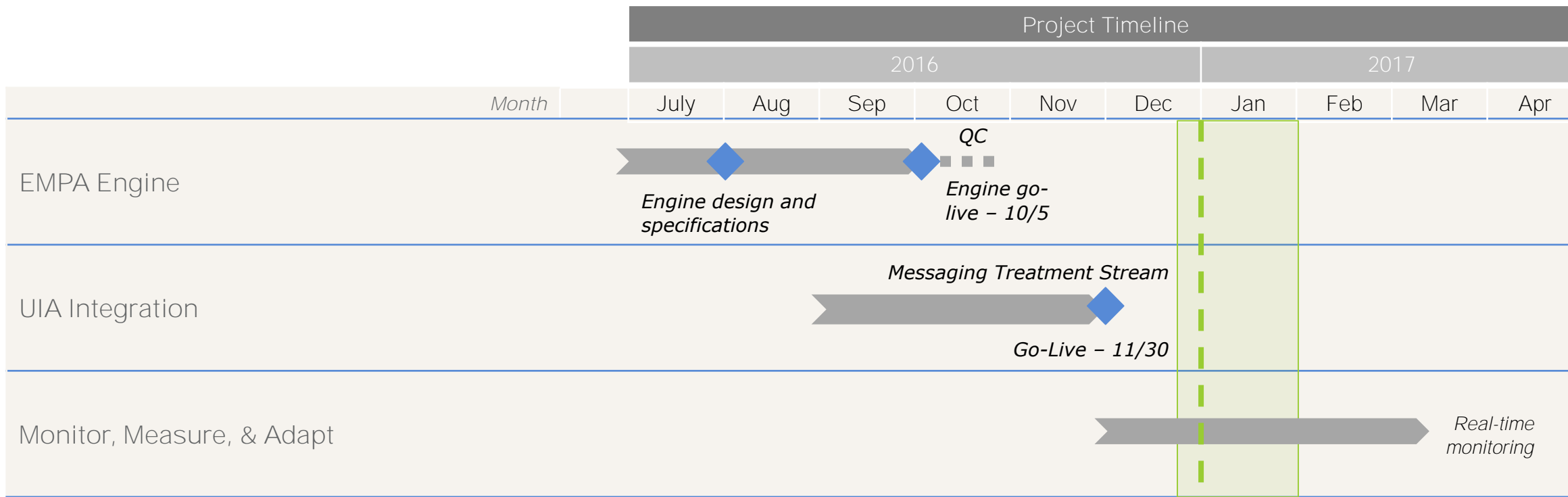


IRS



NMDWS UI and
Wage & Hour

Overall Project Timeline



◆ Project Milestone

□ Expected Q4 Wage Reporting Time for 75% of Employers

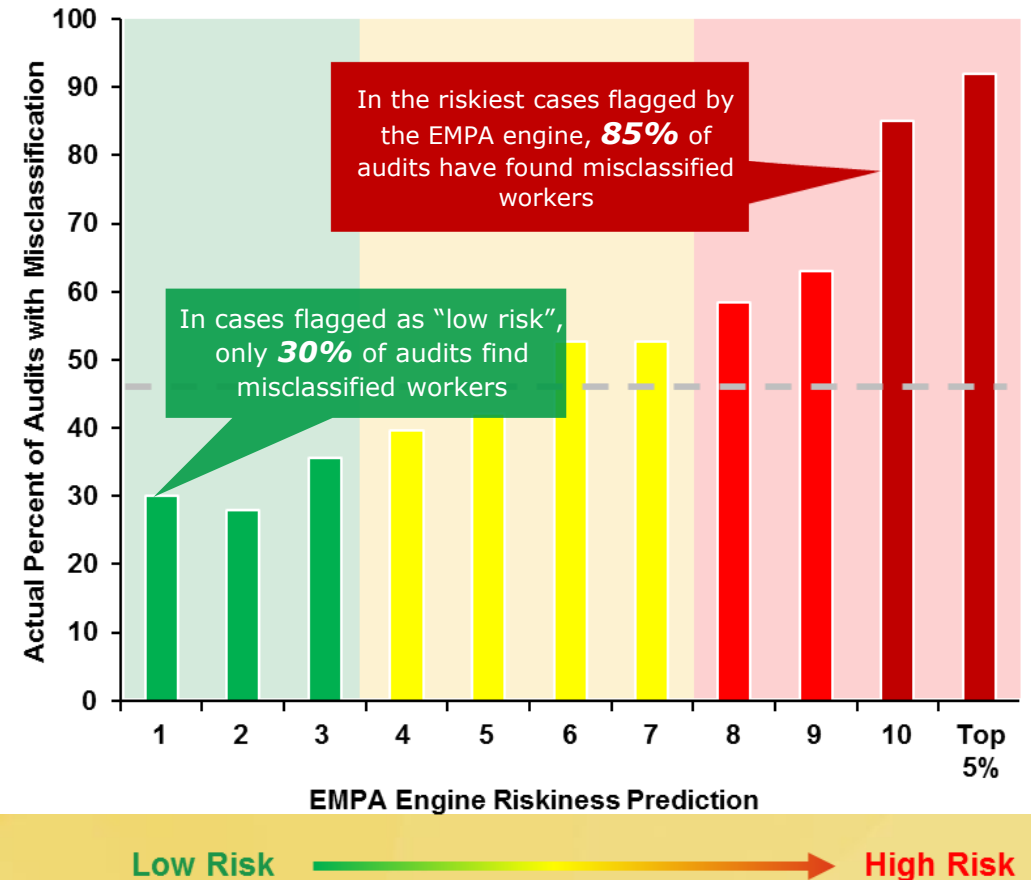
Q4 Wage Reporting

The EMPA Engine predicts each employer's risk of misclassification, which is determined by predictive variables such as employer industry, demographic, and behavior.

Industry Misclassification Risk

- EMPA Engine **risk assessment results (RARs)** estimate how likely an employer is to misclassify a worker before the audit begins
- These RARs allow us to **prioritize and refine** audit searches, as well as **predict** where misclassification issues will arise
- In high risk cases, **85%** of audits find misclassified workers
- Certain industries are more likely to misclassify than others
- Audits of the highest risk employers completed Oct 2015 – Sep 2016:
 - Are **42% more likely** to find misclassified workers
 - Identify **5x more misclassified workers** per audit
 - Result in **6x more taxable wages identified** than audits of low risk employers

EMPA Risk Assessment



Behavioral nudging techniques used in emails sent the week before wage report filing will encourage employers to accurately report their employees and wages.

• Educational Email:

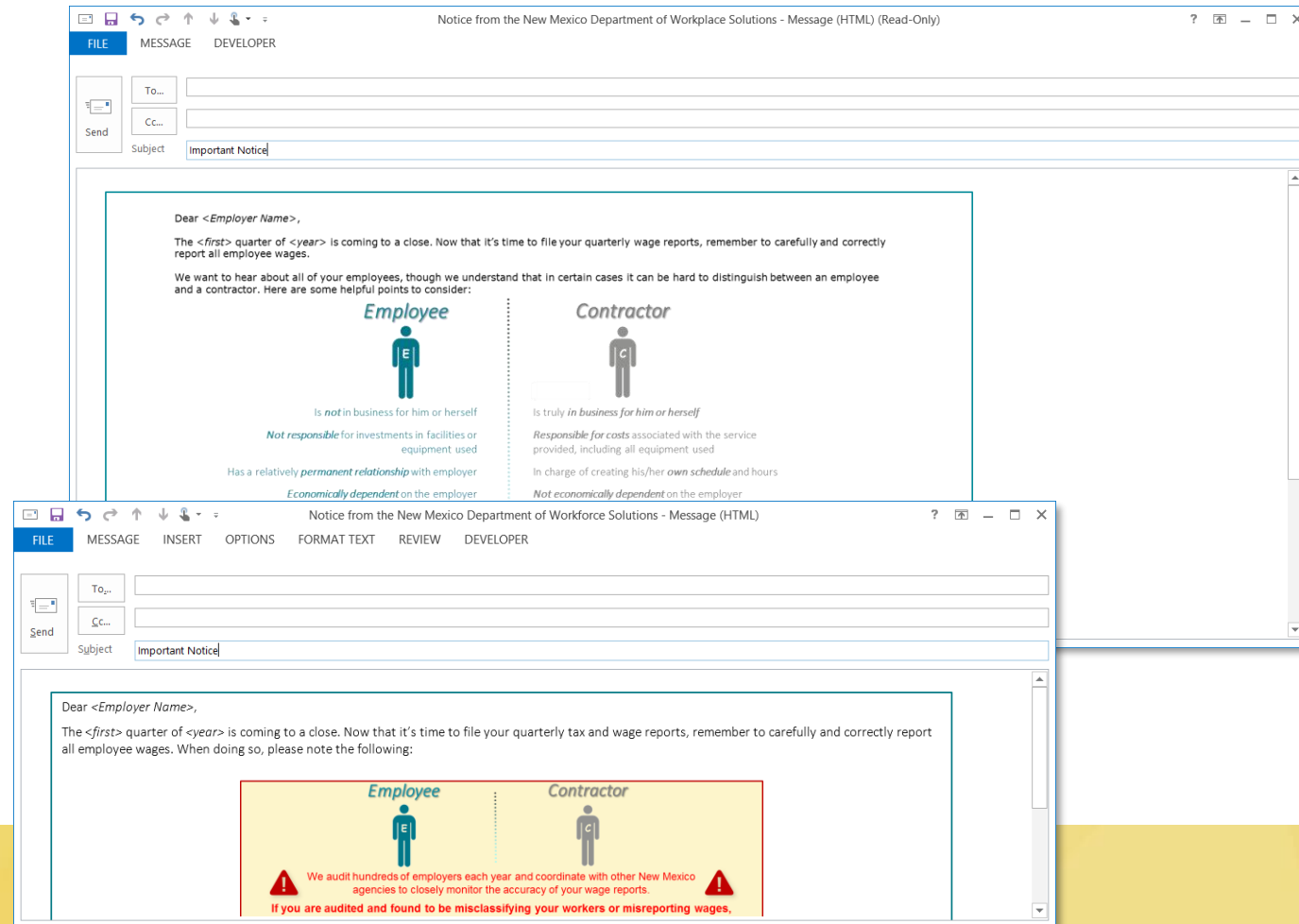
- Aimed towards people who are **unintentionally** misclassifying workers
- **Informs** readers the difference between an employee and a contractor

• Verification Email:

- Readers **intentionally** misclassifying workers
- Wage reports are being monitored and checked against data from other agencies
- Gives a feeling of a **"smart system"**

• Cautionary Email:

- Readers **intentionally** misclassifying workers
- There will be **penalties to your business** if you are found to be misclassifying workers



On-screen, action-based persuasive messaging will further prompt users to report all employees and wages.

Employment and Wage Detail Submission Process

1 Select Filing Method → 2 Submit Wage Information → 3 Confirm Submission → 4 Process and Calculate → COMPLETE

Reporting Information
Employment and Wages Paid for the Quarter: **October, November, December (Q4)**
Year **2010**
Submission Type **Original**

Employee Employment and Wage Detail Records

- Enter employee information in space provided. If you have more than 25 employees and need to enter employee information across MULTIPLE pages select 'Add'.
- To permanently delete an employee record from the employment and wage report check the 'Delete' checkbox and select 'Save'.
- Click 'Next' after you have entered all of your quarterly employee information.
- If an adjustment to the **NM Income Tax Amount Withheld** of any employee results in an over/underpayment of your company's withholding tax, you must separately amend your withholding tax return(s) with the Taxation & Revenue Department (TRD) <http://www.tax.state.nm.us>

REMINDER: Employee vs. Contractor

Employee

Is *not* in business for him or herself
Not responsible for investments in facilities or equipment used
Has a relatively *permanent relationship* with employer
Economically dependent on the employer
Under the control of the business or organization with regards to how the job is executed
Keep in mind—no single factor determines if a worker is an employee or contractor

Contractor

Is *truly in business* for him or herself
Responsible for costs associated with the service provided, including all equipment used
In charge of creating his/her *own schedule* and hours
Not economically dependent on the employer
Has complete control over the service provided to the business or organization that is paying him/her

SI#	SSN	Last Name	First Name	MI	Unit #	UI Gross Wages	NM Tax Withholding	WC Fee	Employment Month1	Month2	Month3	Owner/ Officer	Delete
1	024574393	Jones	Tammy	P	0000	1200.00	12000.00	2855.00				Y	<input type="checkbox"/>
2	011934562	Carter	Spike		0000	10375.00	10375.00	2100.75				Y	<input type="checkbox"/>
3	296452874	Jamesones	Rob	T	0000	4000.00	4000.00	755.00				N	<input type="checkbox"/>
4	092769834	Hawk	Larry										<input type="checkbox"/>
5	486902361	Smith	William										<input type="checkbox"/>
6													<input type="checkbox"/>
7													<input type="checkbox"/>
8													<input type="checkbox"/>
9													<input type="checkbox"/>
10													<input type="checkbox"/>

Does your company hire contractors?

Your Wage Report Summary

Wage Report Summary for Company X

Quarter	# Employees
2016 Q2	11
2016 Q3	11
2016 Q4	12
Current	14

Thank you for submitting your employment and wage reports for this quarter. Do you have any edits or updates you'd like to make to **past** quarter reports?

No

Wage Report Accuracy Check

Do you have any other employees or wages to report? If so, please go back and add them on the previous page.

Edit Next

• Wage Report Filing Screens:

- Educational, verification, or warning** message displayed above employee reporting area on filing screen
- Same message that the reader has been **"primed"** for in the behavioral emails
- Informational link and tax rep. contact info** also provided

• Action-Informed Pop-Ups:

- Given employer's action on the previous page, pop-up will nudge employer to check their entries or **update past quarter reports**
- Enforces feeling of a **"smart system"**

• Prompt to Update Past Quarters:

- Maximizes the employer's chance of updating or correcting reports from past quarters

Field auditors will be able to hone in on risky employers in two new audit search functionalities.

• Targeted Audits: Risk Filter

- Field auditors are able to not only filter employers by various demographics and number of employees, but also by **how likely the employer is to misclassify** workers
- Can choose "**low**", "**medium**", or "**high**" level of misclassification risk
- Simple query that instantly **refines** and **improves** an audit search

• Random Audits: Risk Distribution

- Auditors can indicate the **desired distribution** of misclassification risk level in a random audit
- Can also **define** what risk scores are considered "low", "medium", and "high" risk

EMPA Engine and Treatment Streams are running live in the New Mexico UI Application

Treatment Streams

- In late December, high risk employers will receive emails to “nudge” them to correctly classify workers.
- Wage reporting for Q4 2016 begins in January, during that time high risk employers will receive behavioral messaging in the system.
- Field audits for Q1 2017 will be selected in mid-December, focused on high risk employers.

Measurement and Evaluation

- New Mexico, Deloitte, and NASWA will collaborate to measure the impact of the treatment streams
- By June 2017, the team will produce a final report:
 - Implementation Study: the “what”, “why”, and “how” related to implementation
 - Outcomes Study: quantitative evaluation of the impact on worker classification
 - Cost-Benefit Study: evaluation of the costs and benefits of the program

Q&A