

UNEMPLOYMENT INSURANCE TRUST FUND

Annual Report
CY 2018

Education and Workforce Development Cabinet

Derrick K. Ramsey Secretary
300 Sower Blvd., 4th floor
Frankfort, Ky. 40601
502-564-0372

Department of Workforce Investment

Josh Benton
Deputy Secretary
300 Sower Blvd., 4th floor
Frankfort, Ky. 40601
502-564-0372

Lana Gordon Commissioner
275 E. Main St., 2WB
Frankfort, Ky. 40621
502-564-5331

Office of Unemployment Insurance

Katie Houghlin
Executive Director
275 E. Main St., 2CD
Frankfort, Ky. 40621
502-564-5331

Anthony Hudgins
Staff Assistant
275 E. Main St., 2ED
Frankfort, Ky. 40621
502-564-0754

Kentucky Unemployment Insurance Trust Fund

Annual Assessment 2018*

Pursuant to KRS §341.125 (4), the Department of Workforce Investment within the Kentucky Education and Workforce Development Cabinet prepares an assessment of the Unemployment Insurance (UI) Trust Fund for review by the Governor and the General Assembly. This report meets the agency's obligations and is available to the public online through the Kentucky Career Center website (www.kentuckycareercenter.com).

Introduction

In January 2009, at the height of the Great Recession, employer taxes and trust fund reserves were no longer sufficient to cover the claims filed against the Kentucky UI Trust Fund. The recession was the largest economic downturn in post-World War II history. By the end of 2009, Kentucky had borrowed more than \$500 million in federal Title XII loans to meet benefit payment obligations. The total amount borrowed was \$972 million. Kentucky's Title XII advance balance was eliminated and solvency restored by Jan. 1, 2016. Solvency of the UI Trust Fund was achieved through the implementation of updates to Kentucky's unemployment insurance laws, including a reduction in benefits, the introduction of a waiting week period, and increases to the taxable wage base.

Trust Fund Solvency

In 2018, the trust fund continued to grow ending with a balance of \$540.2 million. Employers contributed over \$381.7 million and unemployed workers received \$279.6 million in state benefits during the year. Payments made under federally funded programs netted an additional \$6.4 million for the year. Federally funded programs include Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Military Employees (UCX).

Unemployment Insurance Service Capacity Upgrade Fund (SCUF)

The Kentucky General Assembly enacted an employer tax reduction of 0.075% in 2018. The tax reduction was applied to collections for the sole use of acquiring and upgrading the technology base, program integrity functions and service delivery capacity in support of the programs administered by the Office of Unemployment Insurance (OUI). During the third and fourth quarters of 2018, \$2.8 million SCUF monies were collected. There is a five year, \$60 million limit on the SCUF fund. An analysis of the old application is underway and a request for proposal is planned for the second quarter of 2019 to modernize the system.

*All references to years in this document refer to the calendar year unless otherwise noted.

Unemployment Insurance Program

In 2018, the Department of Workforce Investment was reorganized in an effort to streamline and centralize Kentucky's workforce services. As a result of the reorganization, the Office of Unemployment Insurance (OUI) was created and centralized unemployment services and operations.

Based on the three-year average from July 1, 2015 - June 30, 2018, Kentucky reported an estimated improper payment rate of 22.26 percent which can be attributed to a 17.9 percent failure rate to register UI claimants for referral to work or re-employment services. The UI improper payment rate is based on the percentage of improper payments estimated by the Benefit Accuracy Measurement (BAM) program. As a result, Kentucky was designated as an UI improper payment "high-rate/high-impact" state and is being closely monitored by the U.S. Department of Labor. As of Dec. 31, 2018, the improper payment rate had declined by 6.96 percent to a rate of 15.3 percent, and is continuing to make progress toward reaching the 10 percent level required by the federal government.

OUI continues to remain committed to the promotion of the States Information Data Exchange System (SIDES), an e-filing system that allows employers to file responses to unemployment notices electronically. Kentucky continues to be a leader nationally in employer participation in the SIDES system. SIDES has decreased the response time for employers and the risk of mishandling documents, and has curbed the rate of improper payments caused by delayed and non-response.

During 2018, efforts continued to identify misclassified workers in our employer community. The Division of Unemployment Insurance conducted 1,385 audits resulting in the identification of 4,451 misclassified workers for a total of \$39.9 million in unreported wages. Kentucky exceeded the minimum USDOL requirements in each of the four categories of the Effective Audit Measurement as listed below.

Factor	Effective Audit Measurement	USDOL Minimum	KY
1	Percent Of Contributory Employers audited	1.0	1.5
2	Percent of wages changed as a result of the audit	2.0	4.9
3	Percent of States total wages that were audited	1.0	1.5
4	Average number of misclassified workers discovered per audit	1.0	3.2
TOTAL		7.0	11.1

Kentucky Unemployment Insurance Key Metrics 2018

Table 1

Taxation		
Number of liable employers as of Dec. 31, 2018		94,000
Minimum tax rate (Schedule B in effect)		0.40%
Maximum tax rate		9.25%
Average tax rate (2018) (taxable wages) +		2.10%
Average tax paid per employee (2018)*		\$270.30
Net employer UI contributions (2018)		\$381,736,000
Gross revenue deposits in UI clearing account (2018)		\$492,773,000
Taxable wage base CY2018		\$10,200
Benefits		
Initial claims filed- regular UI state program	Federal, State and Military	104,384
Number of people receiving benefits		83,764
Benefits paid out, by program and total	Gross Regular State UI (State UI Trust Fund)	\$296,957,000
ETA 2112	Net Regular State UI	\$273,815,000
	Net Regular Federal (UCFE)	\$2,701,800
	Net Regular Military (UCX)	\$3,700,800
	TOTAL NET	\$280,217,600
Exhaustion rate		32.6%
Balance of federal advances		\$00.00
Average weekly benefit (Total UI)		\$341.09
Maximum weekly benefit		\$502.00
Average duration in weeks		18.7
Labor Force		
Reciency Rate - all programs		20%
Total covered employment		1,840,667
Number unemployed (unduplicated headcount)		89,500
Average Total Unemployment Rate (TUR)		4.3%
Average Insured Unemployment Rate (IUR)		.99%

Sources: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary; ETA 2112, UI Financial Transaction Summary Unemployment Fund.

* Excludes Reimbursable Employers.

+ Lags the rest of the data reported by two quarters.

Recent Unemployment Insurance Trust Fund History

Historical data of the principal components of the state UI Trust Fund are shown in Table 2. These components determine the tax rate schedule for each calendar year.

Table 2

Component	2013	2014	2015	2016	2017	2018
Contributions	\$498,596	\$513,258	\$527,740	\$543,369	\$477,099	\$381,736
Interest Earned	N/A	N/A	\$233,653	\$3,227	\$7,892	\$11,544
Benefits Paid	\$441,791	\$338,145	\$279,922	\$310,760	\$284,595	\$279,560
Fund Balance	\$0	\$0	\$3,501	\$223,913	\$433,218	\$540,208
Total Wages	\$69,599	\$71,627	\$74,926	\$78,363	\$82,023	\$84,889
Federal Loan Balance 12/31	\$639,788	\$361,502	\$0	\$0	\$0	\$0

Source: Kentucky Education and Workforce Development Cabinet, Office of Employment and Training, ETA 2112 Reports; U.S. Dept. of Labor, Division of Fiscal & Actuarial Services, Unemployment Insurance Data Summary.

* Numbers reflect millions of dollars

The components of the trust fund are defined as follows:

- **Contributions:** Contributions received from employers as of Dec. 31
- **Interest Earned:** Quarterly federal treasury interest posted to each state's trust fund account
- **Benefits Paid:** State-funded benefit payments less benefit overpayment recoveries
- **Fund Balance:** Adjusted trust fund balance
- **Total Wages:** Total covered payroll wages reported by all covered employers for the period Jan. 1- Dec. 31
- **Federal Loan Balance:** Amount borrowed from the Federal Unemployment Account to help pay state unemployment benefits, reflects the balance as of Dec. 31 of each year beginning with 2009

Unemployment Insurance Trust Fund Outlook

The financial condition of the UI Trust Fund depends on three factors: state benefit payments, contributions and interest revenues, and taxable wages.

Table 3

State UI Contributions and Benefits (millions)			
	Employer Contributions	State Benefit Payments	+ Surplus/Year - Deficit
2010	\$422.4	\$690.1	-\$267.7
2011	\$443.3	\$553.2	-\$109.9
2012	\$489.8	\$476.2	+\$13.6
2013	\$498.6	\$441.8	+\$56.8
2014	\$513.3	\$338.1	+\$175.2
2015	\$527.7	\$279.9	+\$247.8
2016	\$527.9	\$310.8	+\$217.1
2017	\$477.1	\$284.6	+\$192.5
2018	\$381.7	\$279.6	+\$102.1

Sources: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary and ETA 2112, UI Financial Transaction Summary Unemployment Fund.

Table 4

Taxable Wages** 2017 and 2018 (millions)		
Quarter Ending	2017	2018
March 31	\$10,278.2	\$10,440.5
June 30	\$3,301.3	\$3,377.0
September 30	\$2,049.1	N/A
December 31	\$1,843.1	N/A
Total	\$17,471.7	To be determined

Source: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary

* Preliminary, subject to change until October 2018.

** There is a six-month lag in wages. The September 30 and December 31 taxable wages for CY2018 will be reported in the second and third quarters of CY2019, respectively.

Additional Information

2018 Surcharge Collected: \$56,114 (Source: ETA 2112)

2018 Surcharge Interest: \$35,603

2018 Combined Surcharge & Surcharge Interest: \$91,716

2018 FUTA Credits: \$6,669

2018 SCUF Collected \$2,844,531

Kentucky Unemployment Insurance Tax Rates

In 2018, Kentucky employers were taxed based upon rates established by Schedule B, the lowest rate schedule since 2007. Scheduled tax rates range from a minimum of 0.40 percent to a maximum of 9.25 percent.

Table 5 reflects the tax rate schedules set forth in KRS 341.270. Employers move from one tax rate schedule to another based upon the balance of the Trust Fund as of Sept. 30 of the preceding calendar year.

Table 5

Tax Rate Schedules						
Reserve Ratio	Trust Fund Adequacy Rate	A	B	C	D	E
8.0% and over	0.000%	0.30%	0.40%	0.50%	0.60%	1.00%
7.0% but under 8.0%	0.000%	0.40%	0.50%	0.60%	0.80%	1.05%
6.0% but under 7.0%	0.008%	0.50%	0.60%	0.70%	0.90%	1.10%
5.0% but under 6.0%	0.208%	0.70%	0.80%	1.00%	1.20%	1.40%
4.6% but under 5.0%	0.508%	1.00%	1.20%	1.40%	1.60%	1.80%
4.2% but under 4.6%	0.808%	1.30%	1.50%	1.70%	2.10%	2.30%
3.9% but under 4.2%	1.008%	1.50%	1.70%	2.20%	2.40%	2.70%
3.6% but under 3.9%	1.308%	1.80%	1.80%	2.40%	2.60%	3.00%
3.2% but under 3.6%	1.508%	2.00%	2.10%	2.50%	2.70%	3.10%
2.7% but under 3.2%	1.608%	2.10%	2.30%	2.60%	2.80%	3.20%
2.0% but under 2.7%	1.708%	2.20%	2.50%	2.70%	2.90%	3.30%
1.3% but under 2.0%	1.808%	2.30%	2.60%	2.80%	3.00%	3.40%
0.0% but under 1.3%	1.907%	2.40%	2.70%	2.90%	3.10%	3.50%
-0.5% but under 0.0%	6.500%	6.50%	6.75%	7.00%	7.25%	7.50%
-1.0% but under -0.5%	6.750%	6.75%	7.00%	7.25%	7.50%	7.75%
-1.5% but under -1.0%	7.000%	7.00%	7.25%	7.50%	7.75%	8.00%
-2.0% but under -1.5%	7.250%	7.25%	7.50%	7.75%	8.00%	8.25%
-3.0% but under -2.0%	7.500%	7.50%	7.75%	8.00%	8.25%	8.50%
-4.0% but under -3.0%	7.750%	7.75%	8.00%	8.25%	8.50%	8.75%
-6.0% but under -4.0%	8.250%	8.25%	8.50%	8.75%	9.00%	9.25%
-8.0% but under -6.0%	8.500%	8.50%	8.75%	9.00%	9.25%	9.50%
Less than -8.0%	9.000%	9.00%	9.25%	9.50%	9.75%	10.00%

Source: Kentucky Revised Statute 341.270. <http://www.lrc.state.ky.us/krs/341-00/CHAPTER.HTM>

Table 6

Comparison with Surrounding States			
State	Minimum Tax Rate	Maximum Tax Rate	Taxable Wage Base
Kentucky	0.04%	9.25%	\$10,200
Illinois	0.525%	6.925%	\$12,960
Indiana	0.50%	7.40%	\$9,500
Missouri	0.00%	9.75%	\$12,500
Ohio	0.30%	9.00%	\$9,500
Tennessee	0.01%	10.0%	\$7,000
Virginia	0.11%	6.21%	\$8,000
West Virginia	1.50%	8.50%	\$12,000

Source: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary and 2017 Highlights of State Unemployment Compensation Laws.

Comparison of Revenue Sources and Expenditures

The tables below compare key UI variables for Kentucky and contiguous states.

Table 7

Comparison of Revenue Sources and Expenditures 2018 Q2						
State	2018 Taxable Wage Base	Average Tax Rate on*		Total Taxable Wages* (thousands)	Total Unemployment Rate*	Average Weekly Benefit
		Taxable Wages	Total Wages			
Kentucky	\$10,200	2.10	0.56	\$16,481,963	3.7	\$345.70
Illinois	\$12,960	2.62	0.63	\$67,863,537	4.2	\$383.20
Indiana	\$9,500	1.81	0.44	\$27,832,726	3.3	\$296.30
Missouri	\$12,500	1.21	0.35	\$25,684,358	2.6	\$269.40
Ohio	\$9,500	2.38	0.53	\$50,282,102	4.4	\$375.30
Tennessee	\$7,000	1.12	0.21	\$29,188,203	3.1	\$241.70
Virginia	\$8,000	1.41	0.24	\$41,953,349	2.6	\$315.60
West Virginia	\$12,000	2.96	0.95	\$5,495,596	4.7	\$297.40

Source: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary.

*Average Tax Rates and Total Wages lag the rest of the data by two quarters.

Table 8

2018 Comparison of Gross Revenues (millions)	
Kentucky	\$394,333
Illinois	\$1,942,990
Indiana	\$508,103
Missouri	\$376,396
Ohio	\$1,135,077
Tennessee	\$265,058
Virginia	\$433,257
West Virginia	\$216,767

Source: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary.

*State revenues are funds deposited in state accounts in the Trust Fund. These revenues are used to pay state UI Benefits and the state share of extended benefits (EB).

Employer Protests (Disputed Claim Investigations)

In 2018, a total of 104,384 new unemployment insurance claims were filed in Kentucky. The Office of Unemployment Insurance determined 93,915 claims to be monetarily eligible.. Employers protested 39,560 (42.12 percent), and a total of 19,878 (50.25 percent) were denied benefits. The remainder of the claims were potentially approved for benefit payments. An additional 27,423 (29.20 percent of established claims) were determined to have non-separation issues, and 19,774 (72.11 percent) were denied benefits.

Table 9

New UI Claims Filed	104,384	Protested by Employers	39,560
Monetarily Eligible Claims Established	93,915	Denied Benefits	19,878
Monetarily Ineligible Claims Filed	10,469	Benefits Approved	19,682

Source: ETA 207, Nonmonetary Determinations Activity; ETA 218 - Benefits Rights and Experience

Table 10

Non-Separation Issues	27,423	
Denied Benefits	19,774	72.11%
Benefits Approved	7,649	27.89%

Source: ETA 207, Nonmonetary Determinations Activity; ETA 218- Benefits Rights and Experience

Appeals

In 2018, a total of 12,994 UI cases were appealed to the Lower Authority Appeals Branch within the Office of Unemployment Insurance. The Lower Authority Appeals Branch released 12,957 decisions in 2018. Employers appealed 18.9 percent of the decisions and 81.1 percent were appealed by claimants. Appeals resulted in 28.9 percent of cases ruled in favor of the employer, and 27.9 percent in favor of the claimant.

Of the decisions rendered by the Lower Authority Appeals Branch, 2,874 Lower Authority decisions were appealed to the Higher Authority UI Commission. The Higher Authority UI Commission issued 2,933 decisions with, 35 cases were appealed to Circuit Court.

Table 11

Reportable Appeals Released	12,957	% Reversed
Protested by Employers	2,451	
Decisions in favor of Employers	708	28.9
Protested by Claimants	10,506	
Decisions in favor of Claimants	2,935	27.9

Source: ETA 5130, Benefit Appeals Report

2018 & Forward

The health of Kentucky's UI Trust Fund continues to improve as Kentucky works toward reaching the goal of \$1.3 billion to achieve trust fund adequacy. The Department of Workforce Investment recognizes that solvency, according to the federal government, is not a zero balance trust fund, but rather the ability to withstand a recession without assistance from the federal government. Therefore, Kentucky remains committed to continuing our efforts to achieve a level of reserve required to meet UI benefit requirements in the event of a future downturn.

OUI continues to look for ways to improve services, particularly as it relates to our technology systems. In the ever-evolving world of technology, we remain committed to providing state-of-the-art systems to our customers. A request for proposal is being finalized; a modernized system will be the result.

Kentucky was designated as a high rate/high impact improper payment state with the rate reaching over 22 percent at the height. While the majority of our improper payments were related to employment services registration, we recognize that there are improvements that can be made to address UI fraud. OUI has launched an Unemployment Insurance Fraud Prevention Campaign, and continues to work

closely with our partners in local Kentucky Career Centers to provide outreach materials and anti-fraud messages for callers. By the end of 2018, the improper payment rate had reduced by nearly 7 percent, and continues to trend downward. Kentucky is anticipated to be compliant by the third quarter 2019.

A redesign of the Employer Self-Service website was implemented at the beginning of 2018 that allows more online management functions and moves toward a paperless system. Employers, Payroll Processors and Third Party Administrators have reported a positive experience utilizing the upgraded system. Approximately 78 percent of the 95,000 employers OUI serves filed their quarterly reports electronically utilizing the self-service site.

In addition, new security features such as a security banner to let users know OUI monitors the site to prevent any fraudulent or unauthorized activities, along with a redesign of our online registration for a reserve account helps to prevent fictitious employer accounts or schemes. With assistance from the Commonwealth Office of Technology, OUI strives to protect employer records and data from unauthorized access.



Glossary

Average Duration - The number of weeks compensated for the year divided by the number of first payments. (ETA 5159)

Average High-Cost Rate - The average of the three highest calendar year benefit cost rates in the last 20 years (or a period including three recessions, if longer). Benefit cost rates are benefits paid (including the state's share of extended benefits but excluding reimbursable benefits) as a percent of total wages in taxable employment.

Average High-Cost Multiple (AHCM) - Calendar year reserve ratio (or "TF as % of total wages"); divided by the average high cost rate.

Average Tax Rate (Taxable Wages) - Total employer contributions for a 12-month period divided by the total taxable wages for the same time period. (ES202)

Average Weekly Benefit Amount (AWBA) - Benefits paid for total unemployment divided by weeks compensated for total unemployment. (ETA 5159)

Benefits Paid - The unemployment benefits paid to individuals under a state program, usually the first 26 weeks of benefits, for all weeks compensated including partial payments.

Covered Employment - The number of employees covered by unemployment insurance reported to the states by employers. (ETA 202)

Exhaustion Rate - A rate computed by dividing the average monthly exhaustions by the average monthly first payments. To allow for the normal flow of claimants through the program, the numerator lags the denominator by 26 weeks, e.g., the exhaustion rate for the third quarter of CY 2010 is computed by dividing the average monthly exhaustions for the twelve months ending September 2010, by the average monthly first payments for the twelve months ending March 2010.

Extended Benefits - The supplemental program that pays extended compensation during periods of specified high unemployment in a state to individuals for weeks of unemployment after exhaustion of regular UI benefits. One-half of EB is funded by the state trust fund. (ETA 5159). As a provision of the ARRA, the program was funded 100 percent through federal funds except for state and local government, federally-recognized Indian tribes, federal agencies and the military, which are required to reimburse and will be liable for 100 percent of benefits paid.

High-Cost Multiple (HCM) - TF as a percent of total wages divided by the high cost rate. The high cost rate is the highest historical ratio of benefits to wages for a 12-month period.

Initial Claims - Any notice of unemployment filed (1) to request a determination of entitlement to and eligibility for compensation or (2) to begin a second or subsequent period of eligibility within a benefit year or period of eligibility. Interstate claims are counted in the paying state. (ETA 5159)

Insured Unemployment Rate (IUR) - The rate computed by dividing Insured Unemployed for the current quarter by covered employment for the first four of the last six completed quarters. (ETA 539)

Interest Earned - The amount of interest earned on the UI Trust Fund account. (unpublished US Treasury reports)

Outstanding Loan Balance - Balance, as of the end of the quarter, of advances acquired by the state under Title XII of the Social Security Act. (unpublished US Treasury reports)

Rank - All rankings are from highest to lowest for a particular item. Ties receive the same rank.

Reciprocity Rate - The insured unemployed in regular programs as a percent of total unemployed.

State Revenue - Funds deposited in state accounts in the Unemployment Trust Fund (UTF). These revenues are used to pay state UI benefits and the state share of EB. (ETA 2112)

Subject Employers - The number of employers subject to UI taxes. (ETA 581)

Tax Year - The 12-month time period in which a state's tax rate schedules and taxable wage base remain constant. This is equivalent to the calendar year for most states, with the exception of NH, NJ, TN, and VT. These four states have July-June tax years.

Taxable Wages - Wages paid to covered employees that are subject to state Unemployment Insurance taxes. (ES 202)

Taxable Wage Base - For each state, the maximum amount of wages paid to an employee by an employer during a tax year which are subject to UI taxes. Wages above this amount are not subject to tax.

Total Unemployed - The average number of individuals, 16 years of age or older, who do not have a job but are available for work and actively seeking work in the week of the 12th for the three months of the quarter. This includes individuals on layoff and waiting to report to a new job within 30 days. (Bureau of Labor Statistics-Not Seasonally Adjusted)

Total Unemployment Rate (TUR) - The rate computed by dividing Total Unemployed by the Civilian Labor Force. (Bureau of Labor Statistics)

Total Wages - All wages or remuneration paid to workers on all payrolls covered by Unemployment Insurance. (ES 202)

Total Wages (Taxable Employers) - All wages or remuneration paid to workers by all taxable employers. (ES 202)

Trust Fund Balance (TF) - The balance in the individual state account in the UI Trust Fund. (unpublished US Treasury reports)

UCFE - Unemployment compensation for federal civilian employees

UCX - Unemployment compensation for ex-service members

Unemployment Trust (UTF) - A fund established in the Treasury of United States Fund which contains all monies deposited by state agencies to the credit of their unemployment fund accounts and federal unemployment taxes collected by the Internal Revenue Service.