



Unemployment Insurance Trust Fund

**Annual Report
CY 2016**

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Kentucky Unemployment Insurance Trust Fund

Annual Assessment 2016*

Each year, the Office of Employment and Training (OET) prepares an assessment of Kentucky's Unemployment Insurance Trust Fund for review by the Governor and members of Kentucky's General Assembly. This report meets the obligations of KRS §341.125 (4). It also meets the requirements of the credit agreement between the Kentucky Education and Workforce Development Cabinet and JP Morgan Chase Bank. The report is available on the OET website (www.kentuckycareercenter.com).

Introduction

The recent recession was the largest economic downturn in post-war history. Between 2008 and 2010, Kentucky lost 6 percent of its job base, and the unemployment rate rose to over 10 percent. In January 2009, at the height of the Great Recession, employer taxes and trust fund reserves were no longer sufficient to cover the claims against the Kentucky UI Trust Fund. By the end of 2009, Kentucky had borrowed more than \$500 million from the federal government to meet benefit payment obligations. Eventually, the total amount borrowed was \$972 million.

Trust Fund Solvency

By Jan. 1, 2016, Kentucky's Title XII advance balance had been eliminated, compared to \$361.5 million a year earlier. This was achieved through major changes in Kentucky's unemployment insurance laws, including a reduction in benefits, the introduction of a waiting week period, and increases to the taxable wage base.

By August 2015, the Title XII advance had been repaid. More importantly, to avoid credit reduction when filing 2015 federal UI tax returns, the trust fund balance was \$36.6 million on Nov. 10, 2015. The Federal Unemployment Tax Act (FUTA) requires states with a Title XII advance loan balance on January 1 for two consecutive years to be subject to an annual credit reduction of 0.3 percent from the standard federal tax credit. Kentucky employers came under credit starting with tax year 2011. A positive trust fund balance on Nov. 10, 2015 meant that Kentucky employers were not subject to a credit reduction for tax year 2015, saving them an estimated \$165 million.

In 2016, unemployed workers received \$319.07 million in state and federal unemployment benefits. Payments made under the federally funded programs netted \$8.3 million for the year. Federally funded programs include Unemployment Compensation for Federal Employees (UCFE) and Unemployment Compensation for Military Employees (UCX).

Unemployment Insurance Surcharge

An employer surcharge was established as a result of legislation enacted by the Kentucky General Assembly in 2012. The money from the surcharge (KRS 341.614) secured funds for interest payments due on advances under Title XII of the Social Security Act, or for the repayment of money, including any interest, received from any source related to the payment of interest. Beginning in 2014, a surcharge of 0.22 percent was assessed on the taxable wage base. The total surcharge received from employers during 2016 was \$34.5 million. In September 2016, Unemployment Insurance announced the suspension of the surcharge. The successful implementation and partnership with employers from the first quarter of 2014 through the 2nd quarter of 2016 resulted in collections of \$95.6 million.

Unemployment Insurance Program

In 2016, OET successfully deployed a document upload feature to the existing online claim filing application. Document upload allows unemployment insurance claimants to return required information to the agency without an additional trip to a career center. Initially designed to assist our federal and military claimants, the project was later expanded and made available to all of our claimants, regardless of claim type. The expansion proved even more valuable as a tool to communicate with and provide service to those individuals needing unemployment insurance assistance who no longer lived in a city with a career center. Also in response to the career center realignment, UI created an assistance line designed to provide unemployment insurance support and assistance to those individuals who need staff assistance and choose to do so over the phone.

OET continues to promote the States Information Data Exchange System (SIDES), an e-filing system allowing employers to file responses to Division of Unemployment Insurance notices electronically, decreasing the time necessary to receive the response and reducing the risk of mishandling documents. SIDES has a positive effect on prevention of improper payments resulting from delay or non-receipt of employer responses. Kentucky continues to be a leader nationally in employer participation in the SIDES system.

During 2016, efforts continued to identify misclassified workers in our employer community. The Division of Unemployment Insurance conducted 1,455 audits. These audits resulted in the identification of 2,253 misclassified workers with a combined total of unreported wages of nearly \$20.9 million. Kentucky exceeded the minimum federal requirements in each of the four categories for employer records audited.

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

Kentucky Unemployment Insurance Key Metrics 2016

Table 1

	Taxation		National Ranking **
Number of liable employers as of Dec. 31, 2016		93,000	27
Minimum tax rate (Schedule E in effect)		1.00%	
Maximum tax rate		10.00%	
Average tax rate (2016) (taxable wages) +		3.05%	10
Average tax paid per employee (2016)*		\$311	
Net employer UI contributions (2016)		\$543,368,000	
Gross revenue deposits in UI clearing account (2016)		\$559,797,000	24
Taxable wage base CY2016		\$10,200	36
Benefits			
Initial claims filed- regular UI state program	Includes federal and military	186,781	17
Number of people receiving benefits		99,921	
Benefits paid out, by program and total	Gross Regular State UI (State UI Trust Fund)	\$332,290,000	23
ETA 2112	Net Regular State UI	\$310,760,000	
	Net Regular Federal (UCFE)	\$2,855,882	
	Net Regular Military (UCX)	\$5,458,666	
	TOTAL NET	\$319,074,548	
Exhaustion rate		34.8%	24
Balance of federal advances as of Dec. 31, 2015		\$00.00	3
Average weekly benefit (Total UI)		\$320.53	30
Maximum weekly benefit		\$415.00	
Average duration in weeks		18.8	3
Labor Force			
Reciency Rate - all programs		23%	34
Total covered employment		1,815,000	26
Number unemployed (unduplicated headcount)		99,700	27
Average Total Unemployment Rate (TUR)		5.0%	26
Average Insured Unemployment Rate (IUR)		1.3%	36

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.

** Ranked by the U.S. Department of Labor, Office of Unemployment Insurance, Division of Actuarial Services.

+ 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

Unemployment Insurance Trust Fund Data (thousands)

Component	2010	2011	2012	2013	2014	2015	2016
Contributions	\$422,431	\$443,302	\$489,849	\$498,596	\$513,258	\$527,740	\$543,369
Interest Earned	N/A	N/A	N/A	N/A	N/A	\$233,653	\$3,227,
Benefits Paid	\$690,083	\$553,248	\$476,163	\$441,791	\$338,145	\$279,922	\$310,760
Fund Balance	\$2,702	\$63,925	\$36,605	\$0	\$0	\$3,501	\$223,913
Total Wages	\$63,894	\$66,255	\$68,946	\$69,599	\$71,627	\$74,926	\$78,363
Federal Loan Balance 12/31	\$804,700	\$948,700	\$837,665	\$639,788	\$361,502	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.

The components of the trust fund are defined as follows:

- **Contributions:** Contributions received from employers as of December 31
- **Interest:** Quarterly federal treasury interest posted to each state's trust fund account
- **Benefits:** 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 January 1 through December 31
- **Federal Loan Balances:** Amount borrowed from the Federal Unemployment Account to help pay state unemployment benefits, reflects the balance as of December 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 outlays, contribution and interest revenues, and taxable wages.

Table 3

State UI Contributions and Benefits (millions)			
Year	Employer Contributions	State Benefit Payments	+ Surplus/ - Deficit
2009	\$367.9	\$1,071.4	-\$703.5
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	\$543.3	\$310.8	+232.5

Sources: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary and ETA2112, UI Financial Transaction Summary Unemployment Fund.

Table 4

Taxable Wages** 2015 and 2016 (millions)		
Quarter Ending	2015	2016
March 31	\$9,387.2	\$9,766.1
June 30	\$3,316.0	\$3,514.1
September 30	\$2,031.2	NA
December 31	\$1,873.2	NA
Total	\$16,607.6	To be determined

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

*Preliminary, subject to change until October 2016.

**There is a six-month lag in wages. The September 30 and December 31 taxable wages for CY2016 will be reported in the second and third quarters of CY2017, respectively.

Additional Information

2016 Surcharge Collected: \$34.5 million (Source: ETA 2112)
2016 Surcharge Interest: \$112,754
2016 Combined Surcharge & Surcharge Interest: \$34.6 million
2016 FUTA Credits: \$2.1 million

Kentucky Unemployment Insurance Tax Rates

In 2016, Kentucky employers were taxed at rates set by Schedule E. The rate schedule has remained unchanged since 2008. Schedule E tax rates range from a minimum of 1 percent to a maximum of 10 percent.

Table 5 has the tax rate schedules set forth in Kentucky statutes. The triggers that move employers from one tax rate schedule to another are a function of the balance in the trust fund as of September 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 -	6.750%	6.75%	7.00%	7.25%	7.50%	7.75%
-1.5% but under -	7.000%	7.00%	7.25%	7.50%	7.75%	8.00%
-2.0% but under -	7.250%	7.25%	7.50%	7.75%	8.00%	8.25%
-3.0% but under -	7.500%	7.50%	7.75%	8.00%	8.25%	8.50%
-4.0% but under -	7.750%	7.75%	8.00%	8.25%	8.50%	8.75%
-6.0% but under -	8.250%	8.25%	8.50%	8.75%	9.00%	9.25%
-8.0% but under -	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	0.30%	10.00%	\$10,200
Illinois	0.00%	6.40%	\$12,960
Indiana	0.00%	10.20%	\$9,500
Missouri	0.00%	7.80%	\$13,000
Ohio	0.00%	6.70%	\$9,000
Tennessee	0.01%	10.0%	\$8,000
Virginia	0.00%	6.20%	\$8,000
West Virginia	0.00%	8.50%	\$12,000

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

Comparison of Revenue Sources and Expenditures

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

Table 7

Comparison of Revenue Sources and Expenditures 2016 Q2						
State	2016 Taxable Wage Base	Average Tax Rate on*		Total Taxable Wages* (thousands)	Total Unemployment Rate*	Average Weekly Benefit
		Taxable Wages	Total Wages			
Kentucky	\$10,200	3.05	0.84	\$17,177,056	5.0	\$320.53
Illinois	\$12,960	3.15	0.79	\$66,092,012	5.9	\$362.44
Indiana	\$9,500	2.28	0.58	\$26,464,506	4.4	\$273.92
Missouri	\$13,000	1.88	0.57	\$29,514,656	4.5	\$253.45
Ohio	\$9,000	2.44	0.55	\$43,356,143	4.9	\$354.32
Tennessee	\$8,000	1.17	0.26	\$23,936,555	4.8	\$234.34
Virginia	\$8,000	1.95	0.35	\$28,671,431	4.0	\$307.16
West Virginia	\$12,000	2.81	0.92	\$6,598,330	6.0	\$310.23

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

2016 Comparison of Gross Revenues (millions)	
Kentucky	\$559,797
Illinois	\$2,191,260
Indiana	\$599,202
Missouri	\$570,952
Ohio	\$1,087,782
Tennessee	\$299,886
Virginia	\$566,326
West Virginia	\$191,852

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 2016, a total of 124,515 new UI claims were filed in Kentucky. Of these, 113,006 were monetarily eligible and the rest were not established as claims. Of the eligible claims established, 44,349 (39.2 percent) were protested by employers. Of these protested claims, a total of 22,521 (50.7 percent) were denied benefits while the remainder were potentially approved for benefit payments. An additional 34,772 (30.7 percent of established claims) were determined to have non-separation issues. Of these claims with non-separation issues, 25,745 (74.0 percent) were denied benefits.

Table 9

New UI Claims Filed	124,515		Protested by Employers	44,349
Monetarily Eligible Claims Established	113,006		Denied Benefits	22,521
Monetarily In-Eligible Claims Filed	11,509		Benefits Approved	21,828

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

Table 10

Non-Separation Issues	34,772	
Denied Benefits	25,745	74.0%
Benefits Approved	9,027	26.0%

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

Appeals

In 2016, a total of 17,107 cases were appealed to the lower authority appeals branch. The appeals branch released 15,532 decisions in 2016. Of the decisions released in 2016, 19.7 percent were appealed by employers, and 80.3 percent were appealed by claimants. Of the cases appealed by employers, 28.4 percent were in favor of the employer. Of the cases appealed by claimants, 27.0 percent were in favor of the claimant.

Table 11

Reportable Appeals Released	15,532	% Reversed
Protested by Employers	3,056	
Decisions in favor of Employers	868	28.4
Protested by Claimants	12,476	
Decisions in favor of Claimants	3,368	27.0

Source: ETA 5130, Benefit Appeals Report

Of the decisions rendered by lower authority appeals, 3,311 decisions were further appealed to the UI Commission, and the commission issued 3,514 decisions. Of the decisions rendered by the UI Commission, 39 cases were appealed to the circuit court.

2017 and Forward

The UI Trust Fund position continues to improve. We are on the road to accomplishing the goal of having a healthy UI Trust Fund in the future. We recognize that solvency, according to the federal government, is not a zero balance in the trust fund but the ability to weather a recession without having to borrow from the federal government. We must continue our efforts to achieve a level of reserve required to meet UI benefit requirements in a future downturn.

OET continues to look for ways to improve services, particularly as it relates to our systems. In the ever-evolving world of technology, we are committed to providing state of the art systems to our customers.

In the next year, employers will see vast improvements to the Division's Employer Self-Service website. The updated, user-friendly site will offer several new features and options, such as enhanced online report filing and payments that allow users to file their reports electronically. A new "pay now" button gives employers the option to make an electronic payment immediately after filing their report. In addition, the employer's information will now transfer to the payment portal, along with the total amount due, to make payments quick and easy. Payroll Processors and Third Party Administrators (TPAs) can make a single payment for their multiple account electronic files instead of making individuals payments.

Other self-service enhancements scheduled for next year include giving employers the option of resetting PIN numbers themselves by providing responses to established security questions, closing or making inactive a reserve account online, and completing an electronic refund request. In addition, an improved registration process will provide the Division detailed information about the business while giving the employer an overview of "what to expect next" after completing the registration process.

The Division is also actively educating employers and workers about the laws, rules and guidelines involving worker misclassification. Worker misclassification has become a huge area of concern at the national and state levels due to the avoidance of some employers to pay the required taxes and coverage. On the other hand, employees who are not aware of the differences between an employee and a contractor may be forfeiting their rights to worker protections. Users who visit the employer website can obtain further information and clarity regarding this issue and can report anonymously on worker misclassification and/or unemployment fraud.

Providing employers, employees, and other stakeholders the ability to manage more functions online increases efficiencies for everyone and helps us serve our customers more effectively.

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. (ES 202)
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 trustfund. (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.
Reciency 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. (ES202)
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 Fund (UTF)	A fund established in the Treasury of United States 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.

If you have comments, suggestions or would like more information, please contact:

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