



# **Unemployment Insurance Trust Fund**

**Annual Report  
CY 2019**

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# Kentucky Unemployment Insurance Trust Fund

## Annual Assessment 2019\*

### 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 against the Kentucky Unemployment Insurance (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 from the federal government in Title XII loans to meet benefit payment obligations. Eventually, the total amount borrowed was \$972 million. By Jan. 1, 2016, Kentucky's Title XII advance balance was eliminated and solvency restored. This was achieved through major changes in Kentucky UI laws and the overall improvement of the health of the economy, both locally and nationally.

### Trust Fund Solvency

In 2019, the trust fund continued to grow, ending with a balance of \$618.704 million. Employers contributed over \$363 million and unemployed workers received \$271.2 million in state benefits during the year. Payments made under federally funded programs netted an additional \$4.8 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 Office of Unemployment Insurance (OUI) collected approximately \$13.7 million in SCUF during the 2019 calendar year, which increased the total raised to more than \$16 million collected in SCUF. At the end of calendar year 2019, projections for 2020 estimated that another \$15 million would be collected bringing OUI to the midpoint of the \$60 million goal. There is a five year, \$60 million limit on the SCUF fund.

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

### Unemployment Insurance Program

OUI continues to promote the States Information Data Exchange System (SIDES), an e-filing system allowing employers to file responses to OUI 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.

OUI has shown progress in curbing and slowing the rate of improper payments. Kentucky's three-year average for the period from July 1, 2016 through June 30, 2019, shows an improper payment rate of 17.4 percent, down from last years' average of 22.3 percent. The UI improper payment rate is based on the percentage of payments estimated to be improper by the Benefit Accuracy Measurement (BAM) program. In September 2019, Kentucky was recognized and presented with an award for being the "Most Improved" medium state for improper payments by the United States Department of Labor.

During 2019, efforts continued to identify misclassified workers in the employer community. OUI conducted 1,341 audits resulting in the identification of 3,984 misclassified workers for a total of nearly \$28.5 million in unreported wages. Kentucky exceeded the minimum federal requirements in each of the four categories for employer records audited.

In 2018, OUI rolled out a redesign of the Employer Self-Service website. Employers, payroll processors and third-party administrators expressed a positive experience utilizing the upgrades that allow for more online management functions and move toward a paperless environment. 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 online registration for a reserve account has helped to prevent fictitious employer accounts or schemes. With assistance from the Commonwealth Office of Technology, OUI strives to protect employer records and data from any unauthorized access and protect employer's data and records.

**Table 1**  
**Kentucky Unemployment Insurance Key Metrics 2019**

	<b>Taxation</b>	
Number of liable employers as of Dec. 31, 2019		94,862
Minimum tax rate (Schedule A in effect )		0.30%
Maximum tax rate		9.00%
Average tax rate (2019) (taxable wages) +		1.76%
Average tax paid per employee (2019)*		\$186.00
Net employer UI contributions (2019)		\$363,098,443
Gross revenue deposits in UI clearing account (2019)		\$288,765,463
Taxable wage base CY2019		\$10,500
	<b>Benefits</b>	
Initial claims filed - regular UI state program	Federal, State and Military	141,815
Number of people receiving benefits		75,385
Benefits paid out, by program and total	Gross Regular State UI (State UI Trust Fund)	\$288,765,463
ETA 2112	Net Regular State UI	\$271,243,430
	Net Regular Federal (UCFE)	\$2,735,563
	Net Regular Military (UCX)	\$2,144,810
	<b>TOTAL NET</b>	\$276,123,803
Exhaustion rate		31.4%
Balance of federal advances		\$00.00
Average weekly benefit (Total UI)		\$360.15
Maximum weekly benefit		\$552.00
Average duration in weeks		18.7
	<b>Labor Force</b>	
Reciency Rate - all programs		19.63%
Total covered employment		1,853,000
Number unemployed (unduplicated headcount)		89,000
Average Total Unemployment Rate (TUR)		4.3%
Average Insured Unemployment Rate (IUR)		.93%

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	2019
Contributions	\$498,596	\$513,258	\$527,740	\$543,369	\$477,099	\$381,736	\$363,098
Interest Earned	N/A	N/A	\$233,653	\$3,227	\$7,892	\$11,544	\$14,512
Benefits Paid	\$441,791	\$338,145	\$279,922	\$310,760	\$284,595	\$279,560	\$276,124
Fund Balance	\$0	\$0	\$3,501	\$223,913	\$433,218	\$540,208	\$618,704
Total Wages	\$69,599	\$71,627	\$74,926	\$78,363	\$82,023	\$84,889	\$86,341
Federal Loan Balance 12/31	\$639,788	\$361,502	\$0	\$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.

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)			
Year	Employer Contributions	State Benefit Payments	+ Surplus/ - 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
2019	\$363.1	\$288.8	+\$74.3

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** 2018 and 2019 (millions)		
Quarter Ending	2018	2019
March 31	\$10,440.5	\$10,896.4
June 30	\$3,376.8	\$3,480.6
September 30	\$2,094.0	\$2,150.2
December 31	\$1,866.4	N/A
<b>Total</b>	\$17,781.7	To be determined

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

\*Preliminary, subject to change until October 2019.

\*\*There is a six-month lag in wages. The Sept. 30 and Dec. 31 taxable wages for CY2019 will be reported in the second and third quarters of CY2020, respectively.

## Kentucky Unemployment Insurance Tax Rates

In 2019, Kentucky employers were taxed at rates set by Schedule A. This reflects 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 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 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	0.03%	9.00%	\$10,500
Illinois	0.48%	6.88%	\$12,960
Indiana	0.50%	7.40%	\$9,500
Missouri	0.00%	5.40%	\$12,000
Ohio	0.30%	9.20%	\$9,500
Tennessee	0.01%	10.00%	\$7,000
Virginia	1.50%	6.00%	\$8,000
West Virginia	1.50%	7.50%	\$12,000

Source: US Department of Labor, Division of Fiscal and Actuarial Services, Unemployment Insurance Data Summary and 2019 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 2019 Q2						
State	2019 Taxable Wage Base	Average Tax Rate on*		Total Wages Taxable Employers	Total Unemployment Rate*	Average Weekly Benefit
		Taxable Wages	Total Wages			
<b>Kentucky</b>	<b>\$10,500</b>	<b>1.76</b>	<b>0.46</b>	<b>\$17,229,483</b>	<b>4.3</b>	<b>\$353.90</b>
Illinois	\$12,960	2.24	0.52	\$69,680,114	3.7	\$397.34
Indiana	\$9,500	1.61	0.38	\$28,880,759	3.1	\$294.06
Missouri	\$12,000	1.13	0.30	\$26,431,480	3.0	\$264.70
Ohio	\$9,500	2.21	0.48	\$52,327,523	3.9	\$375.78
Tennessee	\$7,000	1.08	0.19	\$30,939,874	3.3	\$239.31
Virginia	\$8,000	1.16	0.19	\$44,140,809	2.7	\$314.56
West Virginia	\$12,000	2.82	0.85	\$5,564,243	4.6	\$321.36

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**

<b>2019 Comparison of Gross Revenues (millions)</b>	
Kentucky	\$400,508
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. This revenue is used to pay state UI Benefits and the state share of extended benefits (EB).

## Employer Protests (Disputed Claim Investigations)

In 2019, a total of 103,469 new UI claims were filed in Kentucky. Of these, 92,363 were determined to be monetarily eligible and the rest were not established as claims. Of the eligible claims established, 37,175 (35.92 percent) were protested by employers. Of these protested claims, a total of 18,790 (50.54 percent) were denied benefits while the remainder were potentially approved for benefit payments. An additional 26,638 (28.84 percent of established claims) were determined to have non-separation issues. Of these claims with non-separation issues, 19,111 (71.74 percent) were denied benefits.

**Table 9**

New UI Claims Filed	103,469		Protested by Employers	37,175
Monetarily Eligible Claims Established	92,363		Denied Benefits	18,790
Monetarily In-Eligible Claims Filed	11,106		Benefits Approved	18,385

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

**Table 10**

Non-Separation Issues	26,638	
Denied Benefits	19,111	71.74%
Benefits Approved	7,527	28.26%

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

In 2019, a total of 12,015 cases were appealed to the Lower Authority Appeals Branch. The Lower Authority Appeals Branch released 11,902 decisions in 2019. Of the decisions released in 2019, 18.5 percent were appealed by employers, and 81.5 percent were appealed by claimants. Of the cases appealed by employers, 29.8 percent were in favor of the employer. Of the cases appealed by claimants, 32 percent were in favor of the claimant.

## 2019 Appeals Data

**Table 11**

Reportable Appeals Released	11,902	% Reversed
Protested by Employers	2,196	
Decisions in favor of Employers	654	29.8
Protested by Claimants	9,706	
Decisions in favor of Claimants	3,104	32

Source: ETA 5130, Benefit Appeals Report

Of the decisions rendered by the Lower Authority Appeals Branch, 2,178 were appealed to the Higher Authority UI Commission. The Higher Authority UI Commission issued 2,391 decisions. The number of decisions are not equal because some cases take longer to complete the appeals process and are pending at the beginning of the next year. Of the decisions rendered by the Higher Authority UI Commission, 40 cases were appealed to the Circuit Court.

Following the continuous improvement path started in 2018, OUI requested that the Office of Technology Services and the Commonwealth Office of Technology implement a fraud prevention tool offered by the National Association of State Workforce Agencies Integrity Center called the Suspicious Actor Repository. It is designed as an alert system for states to leverage information from other states to prevent and detect fraudulent activity based upon internet protocol addresses, Social Security numbers and other identifying information.

## 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)

**High-Cost Multiple (HCM)**

Trust fund balance 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**

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 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 UI 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**

The rate computed by dividing total unemployed (TUR) by the civilian labor force. (Bureau of Labor Statistics)

**Total Wages**

All wages or remuneration paid to workers on all payrolls covered by UI. (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 Fund (UTF)**

A fund established in the Treasury of the 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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