



# **Unemployment Insurance Trust Fund**

**Annual Report  
CY2012**

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Office of Employment and Training**

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## Executive Summary

Since 2010, each spring 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 the Kentucky General Assembly. The assessment is made available on the OET website ([www.oet.ky.gov](http://www.oet.ky.gov)).

In 2012, a credit agreement was entered between the Kentucky Education and Workforce Development Cabinet and JP Morgan Chase Bank. Now, pursuant to Section 7.1, Reporting Requirements of that contract, this annual assessment is required to be created and distributed every year through 2018.

In 2012, Kentucky employers paid more than \$489.8 million in unemployment insurance contributions. Unemployed workers received a total of nearly \$1.0 billion in state and federal unemployment benefits. Federally funded programs included emergency unemployment compensation (EUC) and extended benefits (EB). Nearly \$476.2 million of the unemployment benefits paid in 2012 were regular state benefits paid for through the state's Unemployment Insurance Trust Fund.

Contributions exceeded benefits by \$13.6 million in 2012. This was the first time in 14 years that Kentucky took in more unemployment revenue than OET paid out in state benefits. Coupling the surplus employer contributions with recovered overpayments and Federal Unemployment Tax Act (FUTA) offsets,<sup>1</sup> Kentucky was able to pay more than \$111.0 million<sup>2</sup> toward the outstanding balance on its federal loan during 2012.

In 2010, Governor Beshear's Unemployment Insurance Task Force developed a way to restore stability to the Unemployment Insurance Trust Fund. These efforts were codified in House Bill 5. Twelve of the 17 recommendations were implemented in 2011. During 2012, the other five recommendations were also deployed. Three items: increasing the taxable wage base from \$8,000 to \$9,000; implementation of a waiting week for new claims; and a reduction in the wage replacement rate took effect January 2012. The final two recommendations: work search verifications and changing the procedures for notifying employers of new claims were implemented during the year.

Several recommendations were further advanced in 2012: increased efforts to inform the public regarding fraud detection efforts; improved information sharing among agencies; continuing to re-examine and revise unemployment insurance forms; ongoing training programs for employers managing the unemployment process; an ongoing outreach program to explain voluntary contributions; enhanced re-employment strategies and services; and enhanced processes for recovering the subsidized cost from reimbursing employers (non-profits or governmental entities).

In 2012, OET implemented a system that allows employers to respond to separation issues electronically called the State Information Data Exchange System (SIDES). More than 50 employers utilized SIDES by the end of the year. OET will continue to promote SIDES with employers in 2013.

<sup>1</sup> 26 USC § 3302 (c); <http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/FUTA-Credit-Reduction>

<sup>2</sup> including an \$80 million cash management payment referenced at UI Trust Fund Activity, ETA 2112, October and November 2012

Further, OET can now intercept federal income taxes through the Treasury Offset Program (TOP). TOP will be effective in 2013 and allow for increased recoupment of outstanding benefit overpayments. TOP will also allow OET to intercept payments made to contractors with the federal government who owe OET back taxes.

Also in 2012, OET continued to modernize the system. Many efforts have been made over the last 10 years to update OET operating systems, despite these efforts and the improvements that accompanied them, several systems utilized by OET are still based on platforms that are 30 plus years old. Further, OET had a third-party analyze the unemployment insurance program. The final report recommended 61 changes to Kentucky's unemployment insurance program and the processes for implementing most of these changes were started in 2012.

Based on current economic conditions, tax law changes, and data from the ETA 2112 report, it is projected that approximately \$458.0 million in regular state unemployment benefits will be paid in 2013. This amount would be \$18.2 million less than benefits paid in 2012. Employer contributions for 2013 are estimated to be \$500.4 million in 2013. This is \$10.6 million higher than 2012 as a result of an expected improvement in the economy and an additional \$300 increase in the taxable wage base.

As of January 1, 2012, Kentucky had borrowed \$948.7 million from the Federal Unemployment Account to pay unemployment benefits, but as of December 31, 2012, Kentucky had an outstanding balance on these borrowed funds of \$837.7 million. Under FUTA, states with loan balances on January 1 of two consecutive years are subject to credit reduction of their FUTA tax credits for that year. Despite having reduced the outstanding balance by \$111.0 million through making \$80 million in payments and receiving more than \$31.0 million in FUTA credit for 2012, a balance still remains. Thus, employers in Kentucky are subject to another year of a 0.3 percent reduction in their FUTA tax credit offset this year; from 4.8 percent in tax year 2012 to 4.5 percent for tax year 2013. Receipts from the credit reduction are applied to the federal advance outstanding balance.

During 2012, Kentucky developed cash management strategies to reduce the outstanding balance owed the federal government on the unemployment trust fund loans in 2013. These plans include taking advantage of the last year of interest free cash advances and coupling them with account sweeping techniques. Implementing these plans along with the other ongoing improvements referenced in this report will continue to strengthen the fiscal health of the Unemployment Insurance Trust Fund in Kentucky.

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

## 2012 Assessment

### Kentucky Unemployment Insurance Key Metrics 2012

Table 1

	<b>Taxation</b>		<b>National Ranking **</b>
Number of liable employers as of Dec. 31,2012		87,000	27
Minimum tax rate (Schedule E in effect )		1.00%	
Maximum tax rate		10.00%	
Average tax rate (2012) (taxable wages) +		3.53%	14
Average tax paid per employee (2012)*		\$363	
Employer contributions		\$489,848,993	
Average tax rate (2011) (taxable wages) +		3.54%	15
Average tax paid per employee (2011)*		\$336	
Taxable wage base CY2012		\$9,000	39
	<b>Benefits</b>		
Initial claims filed - regular UI state program (includes federal and military)		266,984	22
Number of people receiving benefits		195,291	
Benefits paid out, by program and total	State UI Trust Fund	\$476,162,280	
	Federal Emergency Unemployment (EUC)	\$482,364,928	
	Federal (UCFE &UCX)	\$23,788,879	
	Federally Funded Extended Benefits (EB)	\$35,936,362	
	Federal Additional (FAC)	\$4,272	
	<b>TOTAL</b>	<b>\$1,018,256,721</b>	
Exhaustion rate		37.8%	45
Balance of federal advances as of Dec. 31, 2012		\$837,665,000	8
Average weekly benefit (Total UI)		\$289.73	28
Maximum weekly benefit		\$415	
Average duration		19.8 Weeks	5
	<b>Labor Force</b>		
Recipiency Rate - all programs		41%	34
Number working (covered employment – most recent 12 months – 2nd quarter 2012)		1,709,000	26
Total nonfarm employment		1,824,400	
Number unemployed (unduplicated headcount)		170,900	24
Average Total Unemployment Rate (TUR)		8.2%	20
Average Insured Unemployment Rate (IUR)		2.2%	28

Sources: US Department of Labor, Division of Fiscal and Actuarial Services, [Unemployment Insurance Data Summary](#) and ETA 2112, UI Financial Transaction Summary Unemployment Fund; ETA 5159, Claims and Payment Activities.

\* 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 to be used for each calendar year.

**Table 2**

<b>Unemployment Compensation Fund Components</b> (‘000)						
<b>COMPONENT</b>	<b>CY2007</b>	<b>CY2008</b>	<b>CY2009</b>	<b>CY2010</b>	<b>CY2011</b>	<b>CY2012</b>
Contributions	\$349,958	\$369,774	\$367,904	\$422,431	\$443,302	\$489,850
Interest Earned	\$12,119	\$9,129	\$160	N/A	N/A	N/A
Benefits Paid	\$423,884	\$562,853	\$1,071,403	\$690,083	\$553,248	\$476,163
Fund Balance	\$237,766	\$81,861	\$3,996	\$2,702	\$63,925	\$36,605
Total Wages	\$63,683,821	\$64,907,277	\$62,719,760	\$63,894,429	\$66,255,977	\$68,946,856
Federal Loan Balance as of Dec. 31	N/A	N/A	\$576,700	\$804,700	\$948,700	\$837,665

Source: Kentucky Education and Workforce Development Cabinet, Office of Employment and Training, ETA 2112 and ETA 5159 Reports.

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 CY2009

## 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.

- **Benefit Outlays:** Based on improved economic conditions and changes in the benefit rate, benefit outlays are expected to decrease for 2013 to \$458.0 million.
- **Contribution and Interest Revenues:** Employer contributions are expected to increase to \$500.4 million in 2013 because of higher experience ratings, and an increase in the taxable wage base to \$9,300. There will not be any interest revenue in 2013 due to the insolvency of the trust fund.
- **Taxable Wages:** Taxable wages increased from \$12.5 billion in 2011 to \$14.0 billion in 2012. Taxable wages for 2013 are expected to be approximately \$14.0 billion. Total wages includes all gross wages or remuneration paid to workers subject to the state UI law. Taxable wages represents the first \$8,000 in 2011 and \$9,000 in 2012 in gross wages or remuneration paid to each covered employee per year that are subject to the state UI law.

**Table 3**

State UI Contributions and Benefits (millions)			
Year	Employer Contributions	State Benefit Payments	+ Surplus / - Deficit
2007	\$350.0	\$392.7	-\$42.8
2008	\$369.8	\$541.3	-\$171.5
2009	\$367.9	\$1,040.5	-\$672.6
2010	\$422.4	\$689.3	-\$266.8
2011	\$443.3	\$554.6	-\$111.3
2012	\$489.8	\$476.2	+\$13.6
2013*	<i>\$500.4</i>	<i>\$458.0</i>	<i>+\$42.4</i>

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

\* Forecasted data in italics.

**Table 4**

Taxable Wages (millions)		
Quarter Ending	CY2011	CY2012
March 31	\$7,437.1	\$8,317.0
June 30	\$2,359.2	\$2,703.1
September 30	\$1,485.3	\$1,632.2
December 31	\$1,240.0	\$1,390.2*
<b>Total</b>	<b>\$12,521.6</b>	<b>\$14,042.5</b>

Source: US Department of Labor, Division of Fiscal and Actuarial Services, [Unemployment Insurance Data Summary](#)

\*Preliminary, subject to change until October 2013.

According to the U.S. Department of Labor, Kentucky's trust fund revenue in 2012 ranked 27th and its trust fund level was 40th among 53 states and territories.

Table 5 compares those states bordering Kentucky to the national average for trust fund solvency. The accepted standard for trust fund solvency according to the U.S. Department of Labor is to have reserves sufficient to pay at least 52 weeks of benefits at the current payout rate.

The three most used financial measures for trust fund solvency are reserve ratio, high-cost multiple and average high-cost multiple.

- **Reserve Ratio:** The trust fund balance as a percentage of estimated wages for the most recent 12 months
- **High-Cost Multiple:** The highest historical ratio of benefits to wages for a 12-month period
- **Average High-Cost Multiple:** The calendar year reserve ratio divided by the average high-cost rate

**Table 5**

<b>Trust Fund Solvency Comparisons</b>			
<b>State</b>	<b>Reserve Ratio</b>	<b>High-Cost Multiple (HCM)</b>	<b>Average High-Cost Multiple (AHCM)</b>
Kentucky	0.07	N/A	N/A
Illinois	0.24	N/A	N/A
Indiana	0.02	N/A	N/A
Missouri	0.04	N/A	N/A
Ohio	0.01	N/A	N/A
Tennessee	0.58	0.27	0.57
Virginia	0.03	0.02	0.04
West Virginia	0.52	0.13	0.33
U.S. Average	0.33	N/A	N/A

Source: US Department of Labor, Division of Fiscal and Actuarial Services, [Unemployment Insurance Data](#).

## Kentucky Unemployment Insurance Tax Rates

In 2013, Kentucky employers will continue to be taxed at the same rate as in 2012. Schedule E tax rates will range from a minimum of 1 percent to a maximum of 10 percent.

Table 6 is the current 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 the calendar year end.

**Table 6** **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 7** **Comparison with Surrounding States**

State	Minimum Tax Rate	Maximum Tax Rate	Taxable Wage Base
Kentucky (Schedule E)	1.00%	10.00%	\$9,000
Illinois	0.55%	9.45%	\$13,560
Indiana	0.50%	7.40%	\$9,500
Missouri	0.00%	9.75%	\$13,000
Ohio	0.70%	9.10%	\$9,000
Tennessee	0.50%	10.0%	\$9,000
Virginia	0.83%	6.93%	\$8,000
West Virginia	1.50%	8.50%	\$12,000

Source: US Department of Labor, Employment and Training Administration, [Significant Provisions of State UI Laws](#).

## Comparison of Revenue Sources and Expenditures

The most recent data released by the U.S. Department of Labor shows that Kentucky has the third highest total unemployment rate in the bordering state region. Kentucky also has the second lowest aggregate taxable wages and the sixth lowest average weekly benefit.

The average tax rate is a composite of the aggregate experience ratings assigned to employers. In 2012, Kentucky's taxable wage base was \$9,000 which is \$1,580 below the average of regional states reflected in Tables 8 and 9 below.

**Table 8**

Comparison of Revenue Sources and Expenditures CY2012						
State	2012 Taxable Wage Base	Average Tax Rate on*		Total Wages*+ (Taxable Employer) (millions)	Total Unemployment Rate	Average Weekly Benefit
		Taxable Wages	Total Wages			
Kentucky	\$9,000	3.53	0.91	\$53,453.8	8.2	\$289.73
Illinois	\$13,560	4.98	1.35	\$229,574.6	8.9	\$314.41
Indiana	\$9,500	3.14	0.83	\$90,295.3	8.4	\$284.28
Missouri	\$13,000	2.36	0.75	\$84,083.1	6.9	\$239.38
Ohio	\$9,000	3.53	0.84	\$167,700.7	7.2	\$305.08
Tennessee	\$9,000	3.30	0.80	\$91,459.2	8.0	\$235.17
Virginia	\$8,000	2.84	0.53	\$142,642.1	5.9	\$289.61
West Virginia	\$12,000	3.18	1.07	\$20,344.5	7.3	\$273.30

Source: US Department of Labor, Division of Fiscal and Actuarial Services, [Unemployment Insurance Data](#).

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

+Total Wages Excludes Reimbursable Employers

**Table 9**

2012 Comparison of Revenues (millions)	
Kentucky	\$522.2*
Illinois	\$3,359.4
Indiana	\$782.3
Missouri	\$673.6
Ohio	\$1,451.1
Tennessee	\$749.9
Virginia	\$787.0
West Virginia	\$229.2

Source: US Department of Labor, Division of Fiscal and Actuarial Services, [Unemployment Insurance Data](#).

\*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 2012, a total of 158,702 UI new claims were filed in Kentucky. Of this total, 79,494 (50.1 percent) were protested by employers. Of the 79,494 protested claims, a total of 52,612 (66.2 percent) were denied benefits and the remainder were approved for benefit payments.

**Table 10**

<b>New Claims</b>	<b>158,702</b>	
Protested by Employers	79,494	50.1%
Denied Benefits	52,612	66.2%
Benefits Approved	26,882	33.8%

Source: ETA 207, Nonmonetary Determinations Activity

## Appeals

In 2012, a total of 22,205 cases were appealed to the lower authority appeals branch. The appeals branch released 21,030 decisions in 2012. Of the decisions released in 2012, 15 percent were appealed by employers, and 85 percent were appealed by claimants. Of the cases appealed by employers, 32 percent were in favor of the employer. Of the 17,788 claimant appeals, 29 percent were in favor of the claimant.

**Table 11**

<b>Appeals Released</b>	<b>21,030</b>	
Protested by Employers	3,242	15%
Decisions in favor of Employers	1,026	32%
Protested by Claimants	17,788	85%
Decisions in favor of Claimants	5,124	29%

Source: ETA 5130, Benefit Appeals Report

Of the decisions rendered by lower authority appeals, 3,769 decisions were further appealed to the UI Commission. Of the decisions rendered by the UI Commission, 107 cases were appealed to the circuit court.

**Table 12**

<b>Appeals to Lower Authority</b>		
Cases on Hand, Start of Year	4,236	
Cases Received	22,205	
Cases Released	21,030	
Cases on Hand, End of Year	5,411	
<b>Time Lapse</b>		
30 days	8,530	40.6%
31 to 45 days	5,362	25.5%
46 to 60 days	3,955	18.8%
61 to 75 days	1,241	5.9%
76 to 90 days	699	3.3%
91 to 120 days	691	3.3%
> 120 days	522	2.6%
<b>Total</b>	<b>21,030</b>	
<b>Appeals to UI Commission – Higher Authority</b>		
Cases on Hand, Start of Year	548	
Cases Received	3,769	
Cases Released	4,016	
Cases on Hand, End of Year	301	
<b>Time Lapse</b>		
< 45 days	2,747	68.4%
46 to 60 days	530	13.2%
61 to 75 days	320	8.0%
76 to 90 days	124	3.1%
91 to 120 days	133	3.3%
> 120 days	162	4.0%
<b>Total</b>	<b>4,016</b>	

Sources: ETA-5130, Benefit Appeals Report  
ETA-9054, Higher Authority Appeals Report

## 2012 in Review

During 2012, further legislative and administrative changes were implemented which had been identified by the Governor's Task Force on Unemployment Insurance in 2010. Those changes included an increase in the taxable wage base from \$8,000 to \$9,000 and a \$300 increase each subsequent year to a taxable wage base of \$12,000 in 2022. The changes also included the implementation of a waiting week beginning with any new claims filed on or after January 1, 2012, and a reduction in the wage replacement rate from 68 percent to 62 percent.

OET continued to review and focus on improving the appeals process, increased efforts to inform the public about fraud detection efforts, improved information sharing between OET and other state agencies, re-examination of forms and publications for readability and effective communications, provided training programs for employers managing the unemployment process, and enhanced re-employment strategies and services. Two administrative recommendations (enhanced random audits of work search efforts and authorizing electronic notification of employers) are under development and improvement.

As of December 31, 2012, the UI Trust Fund remained insolvent. Consequently the maximum tax rate schedule as called for by law (Schedule E – Min. 1.00 percent / Max. 10.00 percent) will be in effect for 2013.

Because Kentucky has had an outstanding balance of federal loans for two consecutive years, employers were subject to a 0.3 percent loss of their FUTA tax credit (5.4 percent became 5.1 percent) when filing their 2011 tax returns due on January 31, 2012. The loss of the FUTA tax credit resulted in employers paying an additional 0.3 percent federal unemployment tax on the first \$7,000 of earnings, which is the federal taxable wage base. The 0.3 percent increase was applied toward the state's outstanding debt, which was reduced to \$837.7 million as of December 31, 2012.

The 0.3 percent tax credit reduction will increase each year the state has an outstanding loan balance up to the maximum 5.4 percent. The amount equal to the reduced credits, excluding penalty and interest, will be applied to reduce the state balance of advances on a first made, first repaid basis. Kentucky will be eligible to apply for a cap on the FUTA tax credit reduction in 2014 if four qualifying criteria can be met.

Those criteria are: 1) the state did not take any action (in the prior year) that would diminish the solvency of the state, 2) the state did not take any action (in the prior year) that would decrease the state's unemployment tax effort, 3) the average tax rate for the taxable year exceeds the five-year average benefit cost rate, and 4) the state's outstanding loan balance as of September 30 of the tax year is not greater than that for the third preceding September 30. Kentucky will not be able to take advantage of this FUTA tax credit reduction for 2013 because Kentucky did not meet all of the required criteria.

Kentucky is continuing to accrue interest on the outstanding loan balance. Payment of the interest amount will be due on September 30, 2013. In April 2012, Gov. Beshear signed House Bill 495, a measure that provides the resources to make that payment, saving Kentucky employers approximately \$600 million in federal tax penalties in 2012.

**Major initiatives begun or implemented in 2012 to improve the UI system in Kentucky**

- A rollout of States Information Data Exchange System (SIDES), an e-filing system that allows employers to file responses to Division of Unemployment Insurance notices electronically, decreasing the time necessary to receive the response and preventing the risk of mishandling documents. SIDES should have a positive effect on prevention of improper payments resulting from delay or non-receipt of employer responses.
- Implementation of the Treasury Offset Program (TOP). This program facilitates increased collection of unemployment debts from those individuals collecting benefits fraudulently or for failure to report earnings. The collection is accomplished through referral of unemployment insurance compensation debt for collection through federal tax return offset. OET projected at least \$4.0 million in recovery for the first year and as of the filing of this report have already recovered more than \$6.0 million of outstanding overpayments through the program. This program also allows OET to intercept payments being made to contractors with the federal government who owe the state back taxes. To date, the agency has intercepted more than \$450,000 through this portion of the program.
- Much needed ongoing system modernizations were started on OET's operating systems.
- A third-party completed its analysis of the unemployment insurance program and made recommendations to Kentucky. The final report recommended 61 changes to Kentucky's unemployment insurance program, and the processes for implementing most of these changes were started in 2012.
- Development of a system that will allow employers to respond to wage inquiries electronically is projected to be completed in 2013.
- The state continued an emphasis on fraud cases and the collection of overpayments. The Division began seeking civil judgments in order to collect overpayment debt through wage assignment and began making telephone contacts to collect overpayment amounts. Efforts to prosecute fraud cases through prompt execution of criminal charges continued with steps being taken to decrease the time lapse between the determination of fraud and filing of charges. These efforts will continue into 2013.
- Kentucky continued efforts to identify misclassified workers in the employer community. During 2012, the Division conducted 1,628 audits. These audits resulted in the Division identifying 4,125 misclassified workers with a combined total of unreported wages exceeding \$37 million. Kentucky exceeded the minimum federal requirements in each of the categories for employer records audited. These efforts will continue into 2013.
- OET served customers who experienced devastating weather events which caused destruction of property and livelihoods in 21 Kentucky counties. The Division mobilized and set up a regional Disaster Unemployment Assistance (DUA) claim site in West Liberty (Morgan County) for individuals unemployed as a result of the storm disaster.

**Major initiatives planned for implementation in 2013 include the following.**

- In 2012, modernization advancements began with programming and testing the upgrade of those portions of the system that are not mainframe based from Siebel 7.8 base to 8.2 base. This is projected to be complete by mid-year 2013.
- In 2012, requirements gathering, programming and testing began on more than 61 other planned projects and upgrades. These projects and upgrades will continue into 2013.
- In 2012, Kentucky began developing IRME, which is a system that will allow employers to respond electronically to wage requests. This system is projected to be complete by mid-year 2013 along with several other upgrades.
- Several portal upgrade projects for customers have begun. These projects will allow customers single access to more of OET's services and more and easier access to their claims and information. Portal upgrades will prevent customers from having to input the same data multiple times in order to receive different services.
- Upgrades will also include an enhanced automated fact-finding system that will be done through an intelligent triage of questions and answers that will ultimately lead to a nearly automated determination writing process. This will allow for quicker, more consistent and more accurate determinations. This system will then be developed to work for the appeals levels and improve referee and commission decision-writing processes. Development of these systems began in 2012 and may continue through 2014.
- Modernization and business efficiency recommendations when complete will also improve data quality and ensure more accurate and efficient reporting.
- Plans are in place to develop an automatic scheduling system at the adjudication and appeals levels, making the process of issue handling at all levels more efficient and accurate.
- Additional upgrades and recommendations may be started in 2013 as well, but may not be completed until 2014 and beyond.

All these measures serve to protect the integrity of the Unemployment Insurance Trust Fund, prevent employers from the loss of additional tax credits, and administer Kentucky's Unemployment Insurance program in the most efficient and productive manner.

## Glossary

<b>Average Duration</b>	The number of weeks compensated for the year divided by the number of first payments. (ETA 5159)
<b>Average High-Cost Rate</b>	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.
<b>Average High-Cost Multiple (AHCM)</b>	Calendar year reserve ratio (or "TF as % of total wages"); divided by the average high cost rate.
<b>Average Tax Rate (Taxable Wages)</b>	Total employer contributions for a 12-month period divided by the total taxable wages for the same time period. (ES 202)
<b>Average Weekly Benefit Amount (AWBA)</b>	Benefits paid for total unemployment divided by weeks compensated for total unemployment. (ETA 5159)
<b>Benefits Paid</b>	The unemployment benefits paid to individuals under a state program, usually the first 26 weeks of benefits, for all weeks compensated including partial payments. (ETA 5159)
<b>Covered Employment</b>	The number of employees covered by unemployment insurance reported to the states by employers. (ETA 202)
<b>Exhaustion Rate</b>	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.
<b>Extended Benefits</b>	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.

<b>High-Cost Multiple (HCM)</b>	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.
<b>Initial Claims</b>	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)
<b>Insured Unemployment Rate (IUR)</b>	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)
<b>Interest Earned</b>	The amount of interest earned on the UI Trust Fund account. (unpublished US Treasury reports)
<b>Outstanding Loan Balance</b>	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)
<b>Rank</b>	All rankings are from highest to lowest for a particular item. Ties receive the same rank.
<b>Reciency Rate</b>	The insured unemployed in regular programs as a percent of total unemployed.
<b>State Revenue</b>	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)
<b>Subject Employers</b>	The number of employers subject to UI taxes. (ETA 581)
<b>Tax Year</b>	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.
<b>Taxable Wages</b>	Wages paid to covered employees that are subject to state Unemployment Insurance taxes. (ES 202)
<b>Taxable Wage Base</b>	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.

<b>Total Unemployed</b>	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)
<b>Total Unemployment Rate (TUR)</b>	The rate computed by dividing Total Unemployed by the Civilian Labor Force. (Bureau of Labor Statistics)
<b>Total Wages</b>	All wages or remuneration paid to workers on all payrolls covered by Unemployment Insurance. (ES 202)
<b>Total Wages (Taxable Employers)</b>	All wages or remuneration paid to workers by all taxable employers. (ES 202)
<b>Trust Fund Balance (TF)</b>	The balance in the individual state account in the UI Trust Fund. (unpublished US Treasury reports)
<b>UCFE</b>	Unemployment compensation for federal civilian employees
<b>UCX</b>	Unemployment compensation for ex-service members
<b>Unemployment Trust Fund (UTF)</b>	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 completed reading this report and have comments, suggestions or would like more information, please contact:

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