



# **Unemployment Insurance Trust Fund**

**Annual Report  
CY2013**

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Office of Employment and Training**

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# Kentucky Unemployment Insurance Trust Fund

## Annual Assessment 2013\*

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 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](http://www.kentuckycareercenter.com)).

### **Introduction**

In 2009, the trust fund became insolvent. By the end of that year, Kentucky had borrowed more than \$500 million from the federal government to meet unemployment insurance benefit payment obligations. Due to the insolvency, Gov. Beshear created an Unemployment Insurance Task Force in 2009. The task force made recommendations to restore stability to the trust fund. These recommendations were implemented in 2011-2012. The recommendation to increase the taxable wage is ongoing. The taxable wage base increased from \$9,000 in 2012 to \$9,300 in 2013, and will continue to increase at a rate of a \$300 each subsequent year to a taxable wage base of \$12,000 in 2022.

### **2013 Trust Fund Solvency**

On Jan. 1, 2013, Kentucky's Title XII advance balance was \$837.7 million. OET developed cash management strategies to reduce the outstanding balance owed the federal government. Implementing these plans along with other ongoing improvements referenced in this report will continue to strengthen the fiscal health of the trust fund.

In 2013, unemployed workers received \$734.9 million in state and federal unemployment benefits. Net state benefit payments amounted to \$411.7 million. Payments made under the federally funded programs totaled \$323.2 million for the year. Federally funded programs include: Unemployment Compensation for Federal Employees (UCFE), Unemployment Compensation for Military Employees (UCX), and Emergency Unemployment Compensation (EUC).

Kentucky employers paid \$498.6 million in unemployment insurance contributions. Employer contributions exceeded benefits by \$86.9 million in 2013. This was the second consecutive year employer contributions exceeded benefits. From 1999-2011, benefits exceeded contributions. Employer contributions, recovered overpayments and Federal Unemployment Tax Act (FUTA) offsets, allowed Kentucky to reduce the outstanding Title XII advance balance by \$197.9 million.

On Dec. 31, 2013, the outstanding balance had been reduced to \$639.8 million.

### **2013 Unemployment Insurance Taxes**

FUTA requires states with a Title XII advance loan balance on January 1 of two consecutive years to be subject to an annual credit reduction of 0.3 percent from the standard federal tax credit. Kentucky has been under credit reduction since 2011. Thus, employers were subject to a 0.6 percent reduction of their FUTA tax credit (5.4

percent reduction became 4.8 percent reduction) when filing their 2012 tax returns due on Jan. 31, 2013. The loss of the FUTA tax credit resulted in employers paying 1.2 percent federal unemployment tax on their federal taxable wage base of \$7,000. The 0.6 percent increase was applied toward the state's outstanding debt, which was reduced to \$639.8 million as of Dec. 31, 2013.

The tax credit reduction will increase by 0.3 percent each year while the state continues to have an outstanding loan balance, but shall not exceed the maximum federal unemployment tax of 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 a given year 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 Trust Fund, 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 was not able to meet the third criteria and therefore could not take advantage of this FUTA tax credit reduction cap for 2013.

### **2013 Unemployment Insurance Program Enhancements**

In 2013, OET continued to improve all unemployment insurance processes, increase efforts to inform the public about fraud detection efforts, improve information sharing between OET and other state agencies, re-examine forms and publications for readability and effective communications, provide training programs for employers on managing the unemployment process, and enhance re-employment strategies and services. Those portions of the unemployment insurance system that are not mainframe based were enhanced through an upgrade from Siebel 7.8 to 8.2 Public Sector, which was finalized in 2013 and will allow for a more robust platform on which to build other system enhancements to improve integrity, quality and efficiency of the program.

OET continued to promote the new 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 is beginning to have a positive effect on prevention of improper payments resulting from delay or non-receipt of employer responses. OET signed up several large employers and employer agents during 2013. OET has an increasing number of smaller employers utilizing the new system as well. Kentucky is leading the nation in bringing employers onto the national SIDES system.

In 2013, OET finalized implementation of the Internet Response Module for Employers (IRME). This allows employers to respond electronically to weekly work and earnings requests, resulting in improved response time and more accurate reporting of work and earnings. It ensures that claimants who have returned to work are properly reporting their work and earnings, especially those who are still able to collect partial unemployment benefits based on earning less than their maximum weekly benefit amount. This system will help reduce the main cause of unemployment insurance overpayments in Kentucky.

In compliance with federal mandates, House Bill 102 was passed and implemented during 2013. This law encourages employers to respond to inquiries from OET in a timely and adequate manner to improve the speed and accuracy of determinations that affect the qualifications and eligibility of unemployment insurance claimants in Kentucky. The law also established a 15 percent penalty for those who acquire benefits to which they are not eligible through fraudulent or misleading means, discouraging such activity and potentially increasing funds owed to the trust fund by as much as \$1.5 million per year. This bill combined with SIDES, IRME and other ongoing integrity improvement efforts will help reduce improper payments and fraud. Kentucky's improper payment rate has been among the lowest in the country for more than five years running, and according to numbers from the United States Department of Labor's (USDOL) website, <http://www.dol.gov/dol/maps/map-ipia.htm>, is at a low 3.95 percent.

In addition to decreasing improper payments, which in turn helps improve the solvency of the trust fund, OET continues to make efforts to increase the recoupment of benefits improperly paid to claimants. These efforts include enhancements to our recovery system and the utilization of the Treasury Offset Program (TOP). TOP increased collection of unemployment debts from those individuals collecting benefits fraudulently or through a failure to properly report earnings. The collection is accomplished by referral of unemployment insurance compensation debt for collection through federal tax refund offset. OET recouped around \$7.4 million of outstanding overpayments through the program in 2013. This along with other improved recovery methods allowed Kentucky to recoup overpayments at a rate of over 86 percent of the annually established overpayments.

OET annually recovers more than \$16 million in overpayments while establishing around \$19 million in overpayments annually (Based on Employment and Training Administration (ETA) 227 Reports to USDOL and the USDOL website, <http://www.dol.gov/dol/maps/state/KY.htm>). The TOP program also allows OET to intercept payments being made to contractors with the federal government who owe the state delinquent taxes. In 2013, the agency intercepted more than \$500,000 through this portion of the program.

OET continued efforts to identify misclassified workers in the employer community. During 2013, Kentucky's Division of Unemployment Insurance conducted 1,399 audits. These audits resulted in the identification of 2,964 misclassified workers with a combined total of unreported wages of nearly \$7.3 million. Kentucky exceeded the minimum federal requirements in each of the categories for employer records audited. These efforts will continue into 2014.

In addition to these program, policy, law and system efforts, OET began processes to repay trust fund loans, both the outstanding federal loans and private loans utilized to make interest payments. This includes the use of "sweeping," where funds collected are either paid out in benefits due to claimants for the day or applied toward the outstanding loan balances daily. This decreases loan balances on days when collections exceed funds paid out and increases loan balances on days when the benefits paid to claimants exceed collections. Sweeping increased the reduction in the outstanding principal and saved Kentucky more than \$1 million in interest payments during 2013.

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

## Kentucky Unemployment Insurance Key Metrics 2013

Table 1

	<b>Taxation</b>	<b>National Ranking **</b>
Number of liable employers as of Dec. 31, 2013	88,000	27
Minimum tax rate (Schedule E in effect )	1.00%	
Maximum tax rate	10.00%	
Average tax rate (2013) (taxable wages) +	3.43%	14
Average tax paid per employee (2013)*	\$370	
Net employer UI contributions (2013)	\$498,596,000	
Other UI Deposits (2013)	\$26,858	
Gross revenue deposits in UI clearing account (2013)	526,881,000	27
Taxable wage base CY2013	\$9,300	37
<b>Benefits</b>		
Initial claims filed- regular UI state program	Includes federal and military 245,494	22
Number of people receiving benefits	161,522	
Benefits paid out, by program and total	Gross Regular State UI (State UI Trust Fund) \$441,791,000	24
	UI Benefits Recovered and Deposited \$30,055,560	
	Net Regular State UI \$411,735,000	
	Net Regular Federal (UCFE) \$5,044,598	
	Net Regular Military (UCX) \$16,894,553	
	Net Federal Extended (EUC) \$301,251,308	
	<b>TOTAL NET</b> 734,925,899	
Exhaustion rate	46.2%	17
Balance of federal advances as of Dec. 31, 2013	\$639,787,795.32	6
Average weekly benefit (Total UI)	\$291.79	30
Maximum weekly benefit	\$415	
Average duration in weeks	22.0	1
<b>Labor Force</b>		
Reciency Rate - all programs	32%	39
Total covered employment	1,731,000	26
Number unemployed (unduplicated headcount)	170,800	23
Average Total Unemployment Rate (TUR)	8.3%	8
Average Insured Unemployment Rate (IUR)	2.0%	31

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 to be used for each calendar year.

**Table 2**

Unemployment Compensation Fund Components (‘000)						
COMPONENT	CY2008	CY2009	CY2010	CY2011	CY2012	CY2013
Contributions	\$369,774	\$367,904	\$422,431	\$443,302	\$489,850	\$498,596
Interest Earned	\$9,129	\$160	N/A	N/A	N/A	N/A
Benefits Paid	\$562,853	\$1,071,403	\$690,083	\$553,248	\$476,163	\$441,791
Fund Balance	\$81,861	\$3,996	\$2,702	\$63,925	\$36,605	\$0
Total Wages	\$64,907,277	\$62,719,760	\$63,894,429	\$66,255,977	\$68,946,856	\$69,599,044
Federal Loan Balance as of Dec. 31	N/A	\$576,700	\$804,700	\$948,700	\$837,665	\$639,788

Source: Kentucky Education and Workforce Development Cabinet, Office of Employment and Training, 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 2014 to \$423.6 million.
- **Contribution and Interest Revenues:** Employer contributions are expected to increase to \$520.0 million in 2014 because of higher experience ratings, and an increase in the taxable wage base to \$9,600. There will not be any interest revenue in 2014 due to the insolvency of the trust fund.
- **Taxable Wages:** Taxable wages increased from \$14.0 billion in 2012 to \$14.4 billion in 2013. Taxable wages for 2014 are expected to be approximately \$14.5 billion. Total wages includes all gross wages or remuneration paid to workers subject to the state UI law. Taxable wages represents the first \$9,000 in 2012 and \$9,300 in 2013 in gross wages or remuneration paid to each covered employee per year who are subject to the state UI law.

**Table 3**

<b>State UI Contributions and Benefits</b>			
<i>(millions)</i>			
<b>Year</b>	<b>Employer Contributions</b>	<b>State Benefit Payments</b>	<b>+ Surplus / - Deficit</b>
2008	\$369.8	\$562.9	-\$193.1
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	+\$13.7
2013	\$498.6	\$441.8	+\$56.8
<i>2014*</i>	<i>\$520.0</i>	<i>\$423.6</i>	<i>+96.4</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**

<b>Taxable Wages**</b>		
<i>2012 and 2013 (millions)</i>		
<b>Quarter Ending</b>	<b>CY2012</b>	<b>CY2013</b>
March 31	\$8,317.0	\$8,531.3
June 30	\$2,703.1	\$2,806.3
September 30	\$1,632.2	NA
December 31	\$1,399.9*	NA
<b>Total</b>	<b>\$14,052.2</b>	

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

\*Preliminary, subject to change until October 2014.

\*\*There is a six-month lag in wages. The September 30 and December 31 taxable wages for CY2013 will be reported in the first and second quarters of CY2014 respectively.



## Kentucky Unemployment Insurance Tax Rates

In 2013, Kentucky employers were taxed at the same rate as in 2012, and the rate is projected to continue into 2014. Schedule E tax rates will range from a minimum of 1 percent to a maximum of 10 percent.

Table 5 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 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 (Schedule E)	1.00%	10.00%	\$9,300
Illinois	0.55%	9.45%	\$12,900
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 USDOL shows that Kentucky has the sixth lowest total unemployment rate in the bordering state region. Kentucky also has the second lowest aggregate taxable wages and the fifth lowest average weekly benefit.

The average tax rate is a composite of the aggregate experience ratings assigned to employers. In 2013, Kentucky's taxable wage base was \$9,300.

**Table 7**

Comparison of Revenue Sources and Expenditures CY2013 Through Q2						
State	2013 Taxable Wage Base	Average Tax Rate on*		Total Wages*+ (millions)	Total Unemployment Rate*	Average Weekly Benefit
		Taxable Wages	Total Wages			
Kentucky	\$9,300	3.43	0.90	\$17,610.6	7.6	\$294.06
Illinois	\$12,900	4.63	1.22	\$70,594.6	8.6	\$322.14
Indiana	\$9,500	3.04	0.79	\$28,225.3	6.6	\$245.17
Missouri	\$13,000	2.27	0.71	\$26,929.2	5.8	\$245.09
Ohio	\$9,000	2.90	0.67	\$54,099.4	6.9	\$322.98
Tennessee	\$9,000	2.70	0.64	\$27,939.1	7.6	\$239.55
Virginia	\$8,000	2.88	0.53	\$42,455.6	5.1	\$302.24
West Virginia	\$12,000	3.06	1.01	\$6,822.0	5.7	\$278.09

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.

+Total Wages Excludes Reimbursable Employers

**Table 8**

2013 Comparison of Gross Revenues (millions)	
Kentucky	\$526,881
Illinois	\$2,998,586
Indiana	\$759,026
Missouri	\$648,983
Ohio	\$1,197,653
Tennessee	\$617,232
Virginia	\$791,121
West Virginia	\$216,445

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 2013, a total of 160,597 new UI claims were filed in Kentucky. Of these, 146,433 were monetarily eligible and the rest were not established as claims. Of the eligible claims established, 58,718 (40.1 percent) were protested by employers. Of these protested claims, a total of 34,814 (59.3 percent) were denied benefits and the remainder were potentially approved for benefit payments. An additional 25,752 (17.6 percent of established claims) were determined to have non-separation issues. Of these claims with non-separation issues, 23,295 (90.5 percent) were denied benefits.

**Table 9**

New UI Claims Filed	160,597		Protested by Employers	58,718
Monetarily Eligible Claims Established	146,433		Denied Benefits	34,814
Monetarily In-Eligible Claims Filed	84,470		Benefits Approved	23,904

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

**Table 10**

Non-Separation Issues	25,752	
Denied Benefits	23,295	90.5%
Benefits Approved	2,457	9.5%

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

## Appeals

In 2013, a total of 19,999 cases were appealed to the lower authority appeals branch. The appeals branch released 20,851 decisions in 2013. Of the decisions released in 2013, 16.5 percent were appealed by employers, and 83.5 percent were appealed by claimants. Of the cases appealed by employers, 30.8 percent were in favor of the employer. Of the cases appealed by claimants, 29.7 percent were in favor of the claimant.

**Table 11**

Reportable Appeals Released	20,851	% Reversed
Protested by Employers	3,433	
Decisions in favor of Employers	1,058	30.8
Protested by Claimants	17,418	
Decisions in favor of Claimants	5,175	29.7

Source: ETA 5130, Benefit Appeals Report

Of the decisions rendered by lower authority appeals, 3,812 decisions were further appealed to the UI Commission, and the commission issued 3,769 decisions. Of the decisions rendered by the UI Commission, 96 cases were appealed to the circuit court.

## 2014 and Forward

Based on current economic conditions, tax law changes and data from the ETA 2112 and ETA 5159 reports, it is projected that approximately \$423.6 million in regular state unemployment benefits will be paid in 2014. This amount would be \$18.6 million less than benefits paid in 2013. Employer contributions for 2014 are estimated to be \$520.0 million in 2014. This is \$21.4 million higher than 2013 as a result of an expected improvement in the economy and an additional \$300 increase in the taxable wage base.

Despite projected improvements in 2014, Kentucky will not meet the requirements to take advantage of the cap on FUTA reduction for 2014 and Kentucky employers will see another .3 percent reduction in their FUTA credit. However, evaluation will be ongoing and projections indicate Kentucky will likely be able to take advantage of the cap in 2015.

In addition to this ongoing tax credit reduction, states that continue to have an outstanding federal Title XII advance balance for five years trigger an additional FUTA tax increase on employers called the Benefit Cost Rate (BCR) add-on. The actual amount of the BCR add-on depends on a state's tax and benefit structure. Because Kentucky is in the fifth year of loan status, employers will face this prohibitively high credit reduction in 2014 unless it is waived and substituted.

The BCR add-on can be waived if no legislative, judicial or administrative action is taken by Kentucky between Oct. 1, 2013 and Sept. 30, 2014 to reduce the solvency of the trust fund. The waiver must be requested by July 1, 2014.

Kentucky is submitting an application and will likely meet the qualifications for this waiver and substitution for 2014. If the state receives the waiver, Kentucky's employers will avoid having to pay an additional \$112 million to the federal government for the year. Kentucky will continue to request this waiver for future years as well.

In looking forward:

- The state will continue its emphasis on fraud cases and the collection of overpayments. The Division of Unemployment Insurance will continue seeking civil judgments in order to collect overpayment debt through wage garnishment and its use of making telephone contacts to collect overpayment amounts. Efforts to prosecute fraud cases through prompt execution of criminal charges will continue with steps being taken to decrease the time lapse between the determination of fraud and filing of charges.
- The surcharge provided for in the 2012 House Bill 495, which will be used to repay interest and private loans will be implemented and assessed in 2014 and continue until all loans are paid in full. Current projections have the payoff being 2017.
- In 2014, requirements gathering, programming and testing will continue on more than 30 planned projects and 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 has begun and will continue through 2015.
- 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 2014 as well, but may not be completed until 2015 and beyond.

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

### **Summary**

Overall, 2013 was a good year for the UI Program and the UI Trust Fund. Kentucky was able to pay off nearly a quarter of the outstanding principal balance on the trust fund, reducing the amount owed from \$837.7 million to start the year to \$639.8 million to end the year. Kentucky saw a decline in the unemployment rate, a decline in unemployment insurance benefits, and an increase in unemployment contributions and recoupments. Kentucky's UI Trust Fund remained insolvent through 2013, but based on current data, solvency is expected to be reached by 2017, five years ahead of earlier projections.

Since the trust fund first became insolvent in 2009, Kentucky has implemented numerous program and system enhancements. These enhancements have helped turn the trust fund around and will result in its solvency in the near future; however, Kentucky cannot grow complacent and allow the trust fund balance to decline again. Kentucky will continue to review best practices, implement new processes and continue to enhance the program and the systems in 2014 and beyond.

## 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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