

Kentucky Unemployment Insurance Update

National Conference of State Legislatures (NCSL)

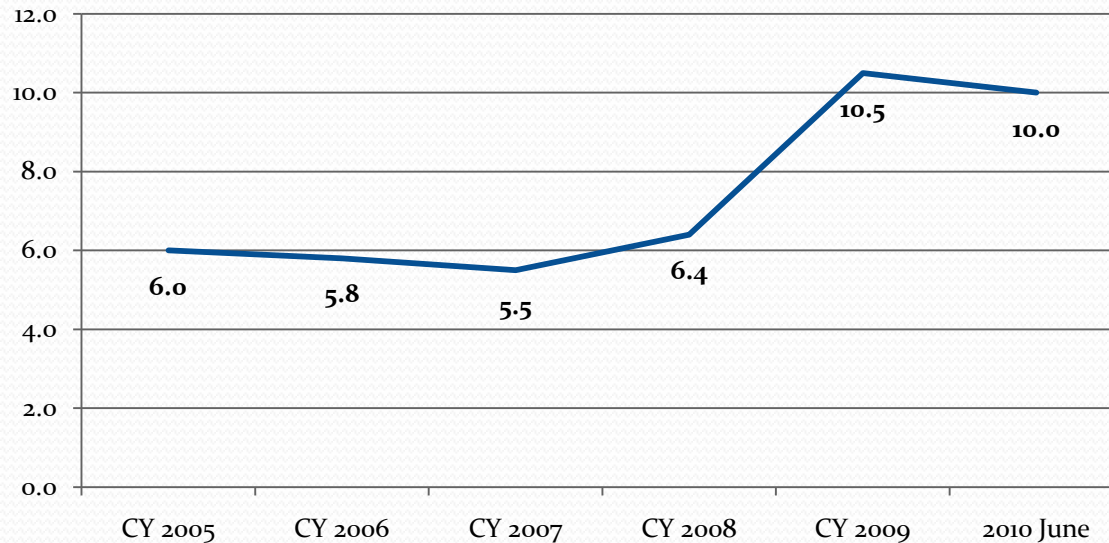
July 28, 2010 Louisville, KY

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Kentucky

Kentucky Unemployment – June 2010

Unemployment Rate: 10.0% - U.S. 9.5%

Total Unemployment Rate



Kentucky's annual unemployment rate surged in 2009 to 10.5 percent from 6.6 percent in 2008, resulting in the highest annual rate in Kentucky since 1983 when it was 11.3 percent -- higher than most surrounding states.

Kentucky Unemployment – June 2010

- Kentucky's seasonally adjusted preliminary unemployment rate fell to 10 percent in June 2010, the lowest rate in 16 months.
- Most job losses during recent recession were in construction, manufacturing, and information services.
- Job losses in both 2008 and 2009 - a net total of 25,900 nonfarm jobs have been lost over the past 10 years.
- 2009 marked 9th straight year of manufacturing job losses.

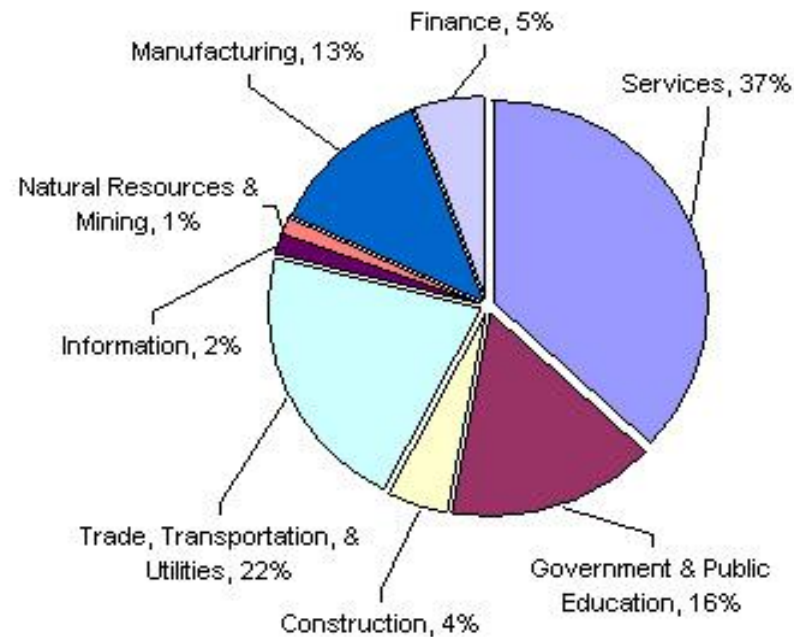
The decreased unemployment rate reported for June resulted from a decline in the civilian labor force – discouraged workers dropping out of the labor force

<u>Civilian</u>	<u>Covered Employment</u>	<u>Unemployed Workers</u>
June 2010 – 2,070,254	1,649,000 (CYQ – 2010.1)	June 2010 – 207,780
May 2010 - 2,080,911	1,687,000 (12 months)	May 2010 – 215,578
June 2009 - 2,088,769		June 2009 – 225,247

Employment by Industry

Trend toward service-producing industries away from goods-producing industries likely to continue for 2010, although manufacturing is experiencing some growth. Most projected job growth during next decade will occur in service industries.

**Kentucky Employment by Industry
2009 Annual Average**



Kentucky Unemployment Benefits

- Max Weekly Benefit Amount - \$415
(frozen since 2007 (60% SAWW) (Indexed but frozen based on Trust Fund Balance)
- Average Weekly Benefit Amount - \$304
(U.S. - \$307)
- Max Duration - 26 weeks
(U.S. Average - 26 weeks)
- Average Duration - 20.4 weeks
(U.S. - 20.1 weeks)
- Exhaustion Rate - 42%
(U.S.- 54%)
- Recipiency Rate - 31%
- No ARRA Modernization

Taxable Wage Base (TWB)/Tax Rates

- TWB - \$8,000
(1982, not indexed) (U.S. Average - \$12,000)
- Minimum Tax – 1.00%
(\$80 per employee)
- Maximum Tax – 10%
(\$800 per employee)
- Taxable Wages - \$12.3 billion (12 mos.)
- Total Wages (Taxable Employers) - \$49.2 billion (12 mos.)
- Subject Employers – 85,000

Taxable Wage Base (TWB)/Tax Rates

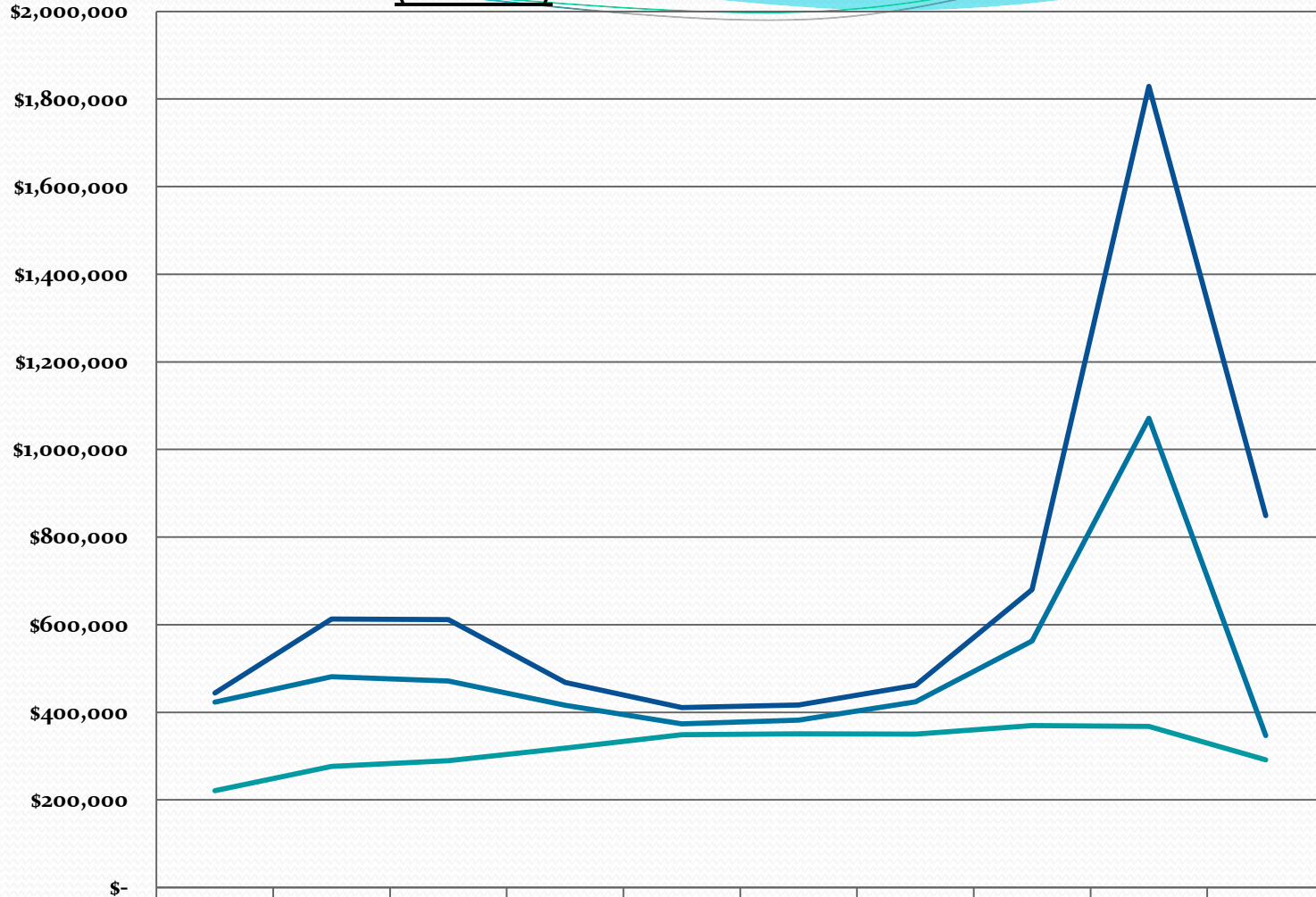
- Average Employer Tax (Taxable Wages) – 3.04%
- Average Employer Tax (Total Wages) – 0.76%
- New Employer Tax – 2.7% (Excluding Construction)
- New Employer Tax/Construction – Maximum Rate 10%
- Tax Schedules tied to Trust Fund Balance – Highest schedule in effect since 2009

Evolution of KY UI Trust Fund Financial Crisis

- 2000 – Trust Fund Balance = \$725 million
- 1998 and 2000 – Benefit increases and employer tax reductions
- 2000 – Benefit payments began exceeding employer contributions (tax collections)

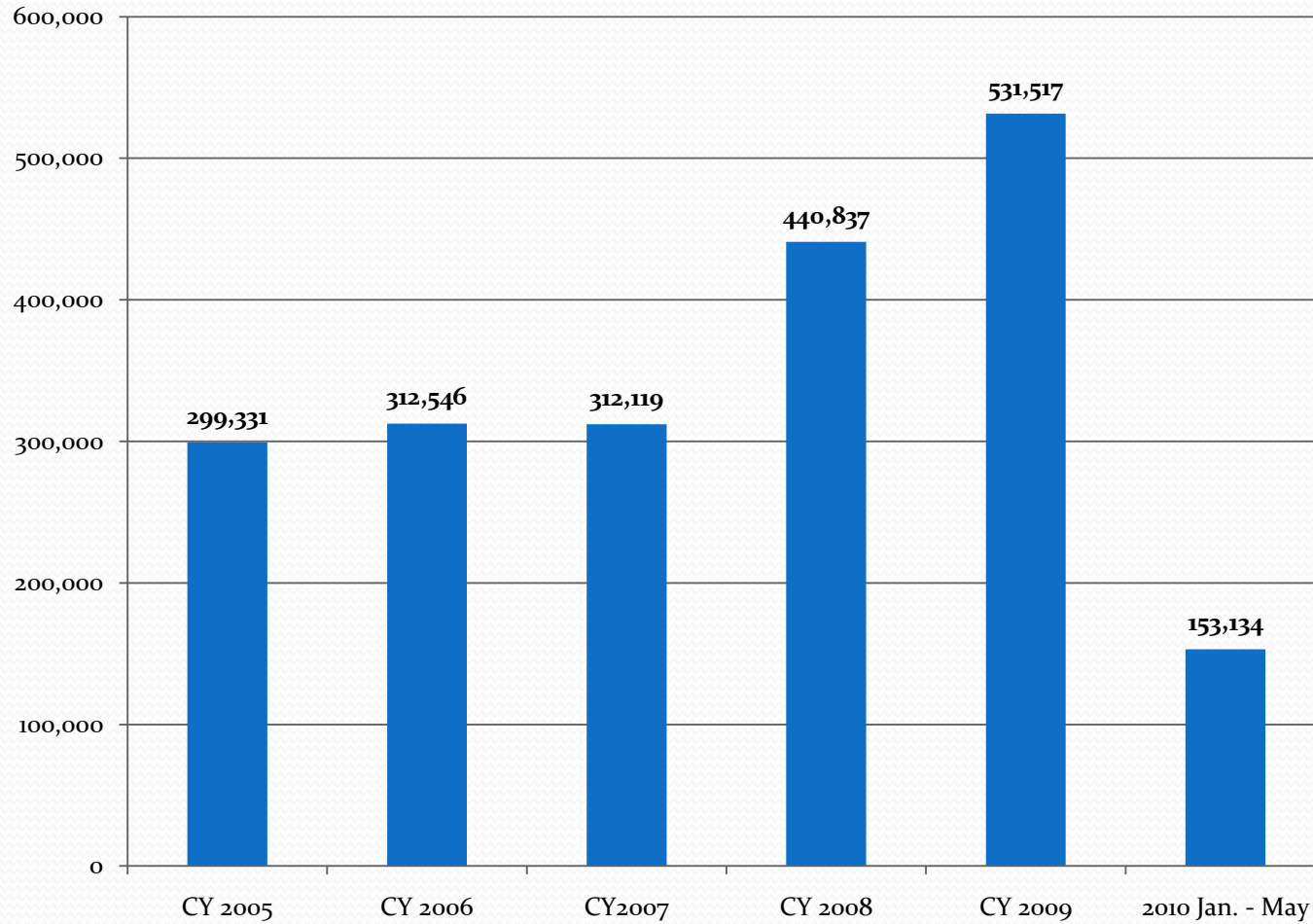
Benefit Payments and Contributions

(in 000's)



	CY 2001	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	2009	2010 Jan- June
Total Benefits Paid (State & Extended)	\$443,811	\$612,959	\$611,511	\$468,176	\$410,629	\$416,568	\$461,949	\$680,125	\$1,828,93	\$849,092
Regular State Total Benefits Paid	\$423,186	\$481,311	\$471,186	\$415,986	\$373,314	\$381,950	\$423,884	\$562,853	\$1,071,40	\$346,995
Contributions-Employer Taxes Received	\$220,792	\$276,280	\$289,233	\$318,045	\$348,956	\$350,674	\$349,958	\$369,774	\$367,904	\$291,734

Initial Claims



Evolution of KY UI Trust Fund Financial Crisis

- December 2007 – Major Recession Declared
- High Unemployment
- January 2009 – Tax collections and trust fund reserves were insufficient to meet benefit obligations
- January 28, 2009 – Borrowing from Federal Unemployment Account (FUA) began
- Total Federal loans (July 2010) = \$800 million

Executive Response

- Governor's Task Force created in early 2009
- Consultants hired to assist Task Force
- Task Force recommendations – December 2009

Legislative Response

- 2010 Regular Session – January- April
- HB 349 introduced, but not enacted
- 2010 Special Session – May
- HB 5 introduced, same as HB349
- HB 5 – major provisions effective January 2010
- TWB increase - \$9,000 in January 2012, increased annually by \$300 until TWB reaches \$12,000 in 2022
- Statutory Wage Replacement Rate – reduced to 62% of a worker's base period wages

Legislative Response

- Waiting Week – 1 week/compensable if balance exists at end of claim
- Limits imposed on annual benefit increases based on trust fund balance, except no increase permitted if balance is below \$120 million
- Trust fund balance amounts revised to trigger tax schedules into effect
- Voluntary payments limited (negative balance employers – once every other year)
- Interest imposed on reimbursing employers
- Simulations developed by UI consultants suggest a positive trust fund balance might occur in 2017 notwithstanding additional recessions.

Unemployment Outlook

- Cautious Optimism
- Unemployment rate declining
- Slow, but steady, job creation/retention
 - June 2010 – most industry sectors reported increased employment – 4th consecutive month of job gains – highest level of nonfarm employment since January 2009
 - Manufacturing jobs increased by 4,800 jobs from June 2009 through June 2010 – indicative of increased automotive manufacturing and auto parts suppliers increasing employment

Future Considerations

- Success/failure of Unemployment Insurance Reform
- Extension of federal waiver of interest on FUA loans
- Impact of prolonged borrowing
- Loss of employer FUTA tax credit

Trust Fund Loans by State

Outstanding Loans from the Federal Unemployment Account – July 20, 2010

• <u>Alabama</u>	• <u>Idaho</u>	• <u>Missouri</u>	• <u>Texas</u>
• \$283,001,164.19	• \$202,401,700.22	• \$722,116,933.16	• \$1,430,981,954.97
• <u>Arizona</u>	• <u>Illinois</u>	• <u>Nevada</u>	• <u>Vermont</u>
• \$44,642,649.74	• \$2,239,582,343.13	• \$476,167,035.83	• \$32,657,064.94
• <u>Arkansas</u>	• <u>Indiana</u>	• <u>New Jersey</u>	• <u>Virgin Islands</u>
• \$330,853,383.31	• \$1,751,179,188.14	• \$1,749,563,533.38	• \$15,289,406.98
• <u>California</u>	• <u>Kansas</u>	• <u>New York</u>	• <u>Virginia</u>
• \$7,615,303,840.82	• \$88,159,421.40	• \$3,176,873,427.71	• \$346,876,000.00
• <u>Colorado</u>	• <u>Kentucky</u>	• <u>North Carolina</u>	• <u>Wisconsin</u>
• \$210,991,185.05	• \$795,100,000.00	• \$2,386,100,940.00	• \$1,424,768,541.29
• <u>Connecticut</u>	• <u>Maryland</u>	• <u>Ohio</u>	•
• \$498,452,705.05	• \$133,840,764.71	• \$2,314,186,799.00	• <u>Total</u>
• <u>Delaware</u>	• <u>Massachusetts</u>	• <u>Pennsylvania</u>	• \$39,270,371,381.79
• \$12,901,505.48	• \$387,313,005.04	• \$3,008,614,960.83	
• <u>Florida</u>	• <u>Michigan</u>	• <u>Rhode Island</u>	
• \$1,612,500,000.00	• \$3,814,145,999.11	• \$225,472,937.00	
• <u>Georgia</u>	• <u>Minnesota</u>	• <u>South Carolina</u>	
• \$416,000,000.00	• \$637,670,639.34	• \$886,662,351.97	