



KENTUCKY LABOR CABINET

Andy Beshear
Governor

Jacqueline Coleman
Lieutenant Governor

Mayo-Underwood Building
500 Mero Street, 3rd Floor
Frankfort, KY 40601
Telephone: (502) 564-3070

Jamie Link
Secretary

Vickie L. Wise
Deputy Secretary

December 1, 2021

Via Electronic Mail

Hon. Wil Schroder, Co-Chair
Hon. Russell Webber, Co-Chair
Interim Joint Committee
Economic Development & Workforce Investment
Legislature Research Commission
700 Capital Ave.
Frankfort, Kentucky 40601

**Re: Cabinet Annual Reports to Governor and IJC on Economic
Development and Workforce Investment – December 1, 2021**

Senator Schroder and Representative Webber:

On behalf of the Kentucky Labor Cabinet, and in accordance with KRS 341.127, I am submitting the following annual report to the Interim Joint Committee on Economic Development and Workforce Investment. The following report meets the requirements outlined in the Kentucky Revised Statutes.

The language of KRS 341.127 requires the following report:

(a) The status of the unemployment trust fund, including any federal advances required for trust fund solvency.

As of November 30, 2021, the Trust Fund Cash Balance is \$346,684,198.26. Federal Unemployment Account Loan Balance is \$0.00. See KRS 341.127(1)(a).

(b) The average claim duration for individuals receiving unemployment Benefits.

The average claim duration for fiscal year (FY) 2020 was as follows: 14.4 weeks in Quarter 1; 9.5 weeks in Quarter 2; 12.6 weeks in Quarter 3; and 13.3 weeks in Quarter 4. *See* KRS 341.127(1)(b).

(c) The average weekly wage for individuals receiving unemployment benefits.

The average weekly benefit for FY 2020 was as follows: \$383.60 in Quarter 1; \$329.36 in Quarter 2; \$281.67 in Quarter 3; and \$294.80 in Quarter 4. *See* KRS 341.127(1)(c).

Furthermore, KRS 341.127(2) requires the Cabinet to report, by December 2021, and annually thereafter until expiration of the statute on January 31, 2026, the Governor and the IJC a review of the amount of wages subject to tax, to include:

(a) An analysis of the equitable treatment of employers based on the amount of wages subject to tax;

On March 16, 2021, the Kentucky General Assembly passed 2021 R.S. House Bill (“HB”) 413. The language of HB 413 suspended the scheduled increase in the taxable wage base for 2021. This leaves the taxable wage based at \$10,800 for 2021. The wage base is assumed to increased to \$11,000.00 in 2020. *See* KRS 341.030. The Kentucky Labor Cabinet has worked with the Unemployment Insurance Reform Taskforce through the interim of 2021. The Unemployment Insurance Reform Taskforce conducted its final meeting on November 30, 2021 and voted to send certain to recommendations to House and Senate Majority Caucus Leadership, including an amendment that would charge employers a “proportion to base-period wages” method.

(b) A comparison of the percentage of wages subject to tax for small, medium, and large businesses; and

See Exhibit A.

(c) Examples of how changes to the amount of wages subject to tax would impact trust fund balances and employer contributions.

See Exhibit B, Unemployment Insurance Trust Fund Forecast – 11/1/2021
See Exhibit C, Projected 2022 Contribution Comparison Excel Sheet

Respectfully,

/s/Jamie Link

Jamie Link, Secretary
Kentucky Labor Cabinet

Cc: J. Michael Brown, Secretary
Executive Cabinet
Office of the Governor

EXHIBIT A

YR QTR	NUMBER EMPLOYEES	GROSS	TAXABLE	TAXABLE AS % OF GROSS	*TAXABLE AS % OF GROSS
20201	0001-0010	1,925,825,340.00	1,193,515,941.95	61.97%	
20201	0011-0050	3,181,815,581.51	2,015,605,200.27	63.35%	
20201	0051-0100	1,885,891,293.69	1,117,799,432.18	59.27%	61.87%
20201	0101-0250	3,030,694,029.25	1,656,287,097.64	54.65%	
20201	0251-1000	5,167,204,128.53	2,605,140,519.46	50.42%	51.98%
20201	1001 and higher	6,602,178,545.95	2,464,882,033.41	37.33%	37.33%
20202	0001-0010	1,819,730,758.93	398,097,761.28	21.88%	
20202	0011-0050	2,981,852,190.93	576,248,630.02	19.33%	
20202	0051-0100	1,734,385,385.60	286,055,163.29	16.49%	19.28%
20202	0101-0250	2,706,219,228.98	374,004,683.91	13.82%	
20202	0251-1000	4,448,105,243.48	465,748,553.27	10.47%	11.74%
20202	1001 and higher	6,329,840,056.24	738,413,514.75	11.67%	11.67%
20203	0001-0010	1,916,196,150.05	252,633,681.62	13.18%	
20203	0011-0050	3,245,518,152.57	403,131,834.89	12.42%	
20203	0051-0100	1,918,645,965.35	203,669,881.91	10.62%	12.14%
20203	0101-0250	2,840,786,722.05	254,093,476.93	8.94%	
20203	0251-1000	4,549,476,437.34	320,857,254.06	7.05%	7.78%
20203	1001 and higher	5,972,826,669.12	505,832,356.69	8.47%	8.47%
20204	0001-0010	2,322,019,847.66	232,244,219.91	10.00%	
20204	0011-0050	3,737,648,046.30	357,318,267.03	9.56%	
20204	0051-0100	2,163,732,601.81	194,164,489.29	8.97%	9.53%
20204	0101-0250	3,193,648,280.70	251,753,784.38	7.88%	
20204	0251-1000	5,269,924,920.26	393,878,021.04	7.47%	7.63%
20204	1001 and higher	7,545,846,133.19	594,565,346.02	7.88%	7.88%
20211	0001-0010	1,968,390,258.93	1,209,895,969.45	61.47%	
20211	0011-0050	3,050,140,572.45	1,981,418,839.49	64.96%	
20211	0051-0100	1,838,530,617.70	1,124,102,201.27	61.14%	62.93%
20211	0101-0250	2,657,830,669.99	1,583,921,322.86	59.59%	
20211	0251-1000	4,344,769,701.65	2,460,709,287.92	56.64%	57.76%
20211	1001 and higher	6,085,553,460.79	2,561,626,765.86	42.09%	42.09%
20212	0001-0010	2,034,278,878.91	464,807,963.43	22.85%	
20212	0011-0050	3,355,261,899.53	732,450,683.05	21.83%	
20212	0051-0100	2,442,390,013.01	382,486,589.46	15.66%	20.17%
20212	0101-0250	3,042,119,591.91	495,696,213.09	16.29%	
20212	0251-1000	5,029,644,327.68	675,215,593.30	13.42%	14.51%
20212	1001 and higher	7,120,123,557.56	900,100,651.29	12.64%	12.64%
20213	0001-0010	1,985,049,235.23	245,742,787.54	12.38%	
20213	0011-0050	3,439,735,389.33	463,699,071.22	13.48%	
20213	0051-0100	2,162,571,329.43	258,359,585.48	11.95%	12.76%
20213	0101-0250	3,131,977,607.83	338,608,905.02	10.81%	
20213	0251-1000	5,154,849,178.37	470,756,943.46	9.13%	9.77%
20213	1001 and higher	6,834,963,531.20	565,579,575.00	8.27%	8.27%

* CALCULATED AS SMALL (1-100), MEDIUM (101-1000), LARGE (1001 AND HIGHER)

EXHIBIT B

November 1, 2021

Secretary Jamie Link
Kentucky Labor Cabinet
Frankfort KY 40601

Subject: Unemployment Insurance Trust Fund Forecast – 2021 Q4

Secretary Link:

This letter provides the fourth quarter 2021 forecast of the Kentucky Unemployment Insurance Trust Fund.

Unemployment Rates

Over the past quarter, Kentucky's economy has continued to recover losses incurred during the pandemic. Employers have expanded their payrolls by 18,800 jobs from June to September. With these additional gains, Kentucky has now recovered 75% of the jobs lost during the COVID-19 recession. These hiring gains are reflected in the state's unemployment rates. Kentucky's rate for September was 4.3%. The national unemployment rate for September was 4.8%. While these lower unemployment rates do reflect improved economic activity, they also reflect a significant reduction in labor force participation as fewer workers have looked for employment during the pandemic. Kentucky labor force participation rate was 56.5 in September, down from 59.5 in the months prior to the pandemic.

The economic gains are also reflected in Kentucky's insured unemployment rate (IUR). IUR equals the number of continuing UI claims divided by the number of workers covered by unemployment insurance. After peaking at 13.8% in April 2020, Kentucky's IUR declined quickly as business reopened and consumers returned. In recent months, Kentucky's IUR reached pre-pandemic levels. As of October 9th, IUR stood at 0.73%. Kentucky's IUR is projected to remain low through 2021 (Figure A) and should begin returning to typical seasonal patterns.

Trust Fund Forecast

Weeks Compensated: The number of weeks compensated under the regular unemployment insurance program continued to decline during the 3rd quarter of 2021 (Figure B). The number of weeks compensated during the 3rd quarter of 2021 was 6% below the number during the 3rd

quarter of 2019. As usual, three main factors likely contributed to this decrease: recipients who exhausted their regular benefits; fewer workers who filed new claims; and unemployed workers who found employment. Weeks compensated are projected to continue declining but at a slower pace.

Average Weekly Benefits: Maximum weekly benefits (MWB) increased to \$569 per week as of July 1, 2020. However, given the Trust Fund's balance as of September 30, 2020, the maximum weekly benefit amount did not increase on July 1, 2021. As the trust fund continues to improve, the maximum weekly benefit amount is projected to increase to \$611 in July 2022.

Average weekly benefits were unusually volatile during the pandemic as job losses disproportionately affected lower wage workers. Average weekly benefits were \$369 per week during the 3rd quarter of 2021, down from the \$380 average during the prior quarter. Average weekly benefits are projected to remain around \$370 per week but should increase again during the second half of 2022 due to the increase maximum weekly benefits.

Contribution Rates: HB 413 directed that schedule A be used to determine employer contribution rates for 2021. The average contribution rate is estimated to be 1.7% for 2021. Average rates have increased in recent months, possibly due to new employers. New employers pay a minimum rate of 2.7% (9% to 10% for new construction employers) until the employer has established 12 consecutive quarters of experience. After 2021, the trust fund balance will again be used to determine which schedule is used to set contribution rates. The trust fund balance, not including outstanding federal loans, is projected to increase. As a result of these increases, it is projected that schedule C will be used to set employer contribution rates. The average contribution rate is projected to be 2.32% in 2022.

Past projections of employer contributions were adjusted to reflect the allocation of 0.075% of employers' contribution rates to the Service Capacity Upgrade Fund (SCUF). However, the SCUF assessment was suspended for 2021. As a result, this adjustment was not included in contribution projections for 2021 but was included in the projections for 2022.

Taxable Wage Base: HB 413 suspended the scheduled increase in the taxable wage base for 2021. This leaves the taxable wage base at \$10,800 for 2021. The wage base is assumed to increase to \$11,100 in 2022 per KRS 341.030.

Trust Fund Balance: As of September 30, the UI Trust Fund had a balance of \$342.7 million (Table 2). Benefits paid are projected to total \$338.5 million in 2021 and \$288.8 million in 2022. Employer contributions are projected to total \$334.9 million in 2021 and \$451.9 million in 2022. The trust fund is projected have a balance of \$307.7 million at the end CY 2021 and \$479 million at the end of CY 2022.

Additional Notes:

Several changes in the Kentucky economy are likely to affect the UI trust fund. Kentucky's labor market has tightened. This could cause employers to be less likely to dismiss employees. This would likely reduce the number of workers filing for benefits. The tight labor market is also creating an opportunity for workers to find better jobs with higher pay. This results in a higher rate of job turnover. Data from the US Bureau of Labor Statistics shows that Kentucky's quit rate and hiring rate have both increased in recent months (Figure C). This additional turnover could increase employer contributions as employers must pay UI contribution rates of the first \$10,800 in income paid to each worker.

Please note that this forecast does not include any surcharges that might be imposed in the future. The forecast also does not include any additional funds from other sources that might be deposited in the trust fund.

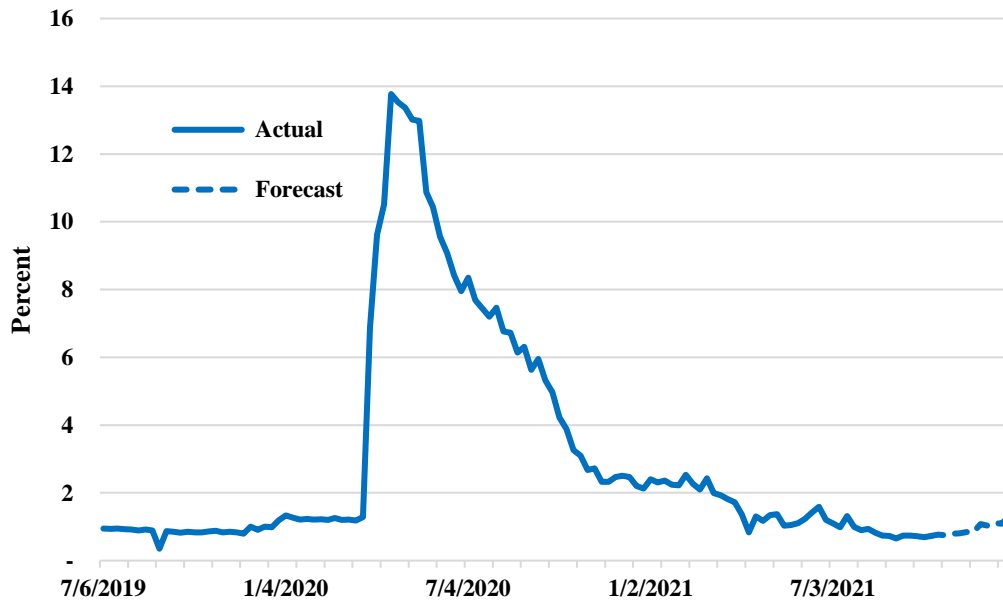
If you have any questions, please feel free to contact me.

Sincerely,



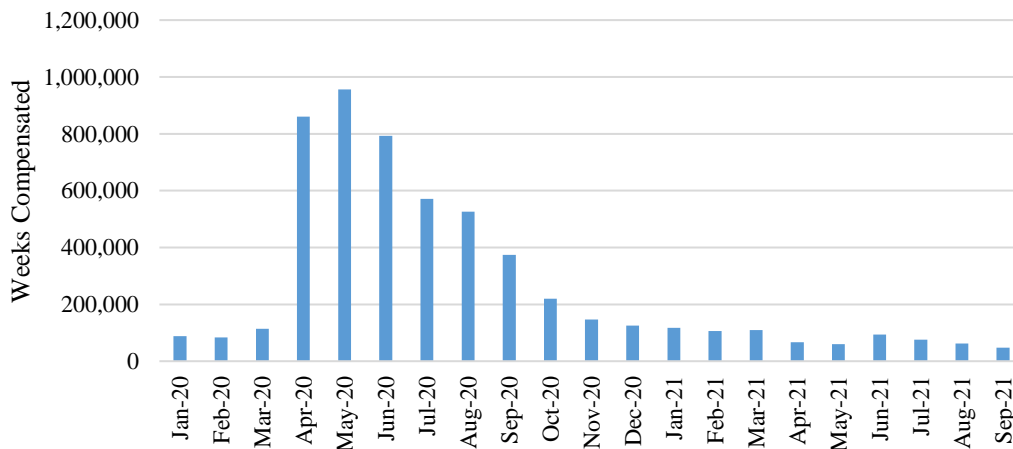
Mike Clark, Ph.D.
Associate Professor of Economics
Director, Center for Business and Economic Research

Figure A
Kentucky Weekly Insured Unemployment Rates



Notes: Insured unemployment rate is the number of continuing UI claim divided by number of covered workers.

Figure B
Number of Weeks Compensated
Regular Unemployment Insurance
Kentucky



Source: US Department of Labor, Employment and Training Administration. ETA 5159.

Table 1
Rate Schedules, Maximum Weekly Benefits, and Taxable Wage Base

Year	Tax Base	Rate Schedule	Average Tax Rate	MWBA (Beginning July 1 st)	
				Amount	Percent Change
2019	10,500	A	1.75%	\$552	10.0%
2020	10,800	A	1.70%	\$569	3.1%
2021	10,800	A	1.70%	\$569	0.0%
2022	11,100	C	2.32%	\$611	7.7%

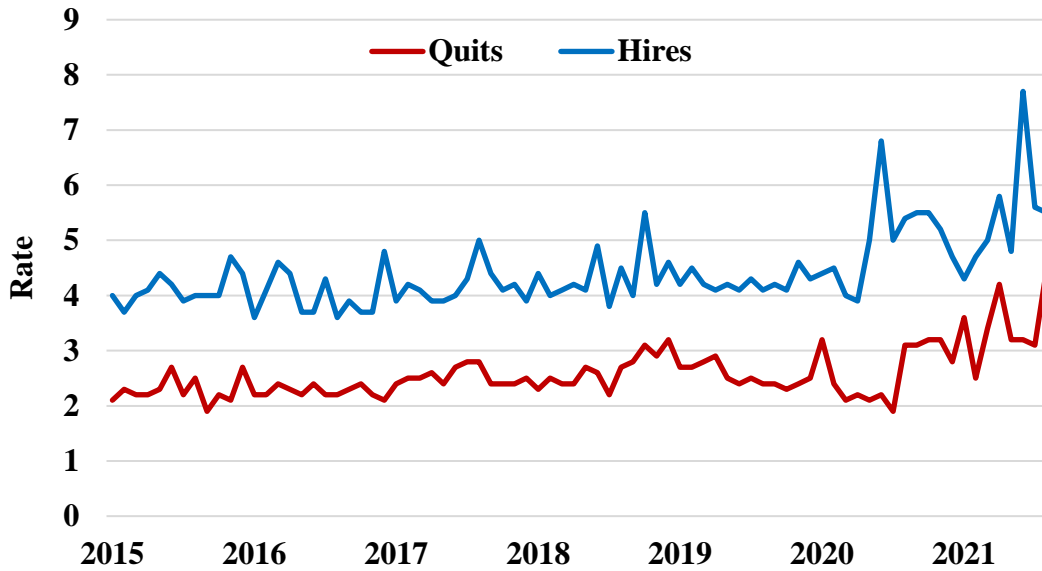
Source: University of Kentucky, Center for Business and Economic Research.

Table 2
Trust Fund Balance Forecast
CY 2021 to 2022
(\$ millions)

Calendar Year & Quarter	Employer Contributions	Benefits Paid	Interest	End of Quarter Balance
2021q1 (actual)	39.2	112.0	0.2	193.6
2021q2 (actual)	180.1	83.6	1.1	345.3
2021q3 (actual)	77.1	68.3	2.0	341.8
2021q4	37.7	74.5	2.0	307.0
Total	334.1	338.5	5.2	307.0
2022q1	38.9	74.9	1.8	272.7
2022q2	273.5	72.9	1.6	474.8
2022q3	88.1	71.1	2.7	494.5
2022q4	51.5	69.8	2.9	479.0
Total	451.9	288.8	8.9	479.0

Source: University of Kentucky, Center for Business and Economic Research.

Figure C
Quit and Hire Rates
Kentucky



Source: US Bureau of Labor Statistics. Job Openings and Labor Turnover Survey.

EXHIBIT C

Period	Gross Wages-Contributory	Gross Wages-Reimbursing	Taxable Wages	Contributions-Contributory	Reimbursing Employer Payments
1-2021 (March, April, May)	\$17,925,386,375.08	\$4,229,784,752.41	\$10,992,306,137.39	\$181,001,217.70	\$46,522,617.78
2-2021 (June, July)	\$18,112,431,127.77	\$5,378,154,486.30	\$3,732,470,421.93	\$68,090,140.67	\$2,679,575.87
2-2021 Special (Aug)	\$164,055,536.95	\$3,103,666.82	\$67,061,120.15	\$1,676,159.54	\$248,170.73
3-2021 (Sept, Oct, Nov)	\$18,121,907,427.87	\$4,143,580,284.40	\$2,265,700,289.21	\$39,939,182.18	\$846,530.99
4-2020 (Dec, Jan, Feb)	\$19,817,449,331.20	\$4,596,683,133.03	\$2,102,403,184.45	\$36,280,715.97	\$26,891,766.71

QUARTER-YEAR	2021 TAXABLE WAGES	AVG PROJECTED TAX RATE (Schedule A)	QUARTERLY CONTRIBUTIONS	% OF THE \$300 INCREASE PAID BY QTR	PROJECTED CONTRIBUTIONS PAID BY \$300 INCREASE	TOTAL QUARTERLY CONTRIBUTION PAID
1-2022	\$10,992,306,137.39	1.70%	\$186,869,204.34	25%	\$1,704,019.65	\$188,573,223.99
2-2022	\$3,799,531,542.08	1.70%	\$64,592,036.22	25%	\$1,704,019.65	\$66,296,055.87
3-2022	\$2,265,700,289.21	1.70%	\$38,516,904.92	30%	\$2,044,823.58	\$40,561,728.50
4-2022	\$2,102,403,184.45	1.70%	\$35,740,854.14	20%	\$1,363,215.72	\$37,104,069.86
			\$325,718,999.60		\$6,816,078.60	\$332,535,078.20

2019 - # of Workforce Earning >= \$11,100	1,336,486.00
2022 TWB Increase	\$300.00
Additional Taxable Wages	\$400,945,800.00
Projected 2022 Avg Tax Rate on Schedule A	1.70%
Projected Additional Contributions Owed	\$6,816,078.60

Period	Gross Wages-Contributory	Gross Wages-Reimbursing	Taxable Wages	Contributions-Contributory	Reimbursing Employer Payments
1-2021 (March, April, May)	\$17,925,386,375.08	\$4,229,784,752.41	\$10,992,306,137.39	\$181,001,217.70	\$46,522,617.78
2-2021 (June, July)	\$18,112,431,127.77	\$5,378,154,486.30	\$3,732,470,421.93	\$68,090,140.67	\$2,679,575.87
2-2021 Special (Aug)	\$164,055,536.95	\$3,103,686.82	\$67,061,120.15	\$1,676,159.54	\$248,170.73
3-2021 (Sept, Oct, Nov)	\$18,121,907,427.87	\$4,143,580,284.40	\$2,265,700,289.21	\$39,939,182.18	\$846,530.99
4-2020 (Dec, Jan, Feb)	\$19,817,449,331.20	\$4,596,683,133.03	\$2,102,403,184.45	\$36,280,715.97	\$26,891,766.71

QUARTER-YEAR	2021 TAXABLE WAGES	UK -AVG PROJECTED TAX RATE (Schedule C)	QUARTERLY CONTRIBUTIONS	% OF THE \$300 INCREASE PAID BY QTR	PROJECTED CONTRIBUTIONS PAID BY \$300 INCREASE	TOTAL QUARTERLY CONTRIBUTION PAID
1-2022	\$10,992,306,137.39	2.32%	\$255,021,502.39	25%	\$2,325,485.64	\$257,346,988.03
2-2022	\$3,799,531,542.08	2.32%	\$88,149,131.78	25%	\$2,325,485.64	\$90,474,617.42
3-2022	\$2,265,700,289.21	2.32%	\$52,564,246.71	30%	\$2,790,582.77	\$55,354,829.48
4-2022	\$2,102,403,184.45	2.32%	\$48,775,753.88	20%	\$1,860,388.51	\$50,636,142.39
			\$444,510,634.75		\$9,301,942.56	\$453,812,577.31

2019 - # of Workforce Earning >= \$11,100	1,336,486.00
2022 TWB Increase	\$300.00
Additional Taxable Wages	\$400,945,800.00
Projected 2021 Avg Tax Rate Schedule C	2.32%
Projected Additional Contributions Owed	\$9,301,942.56

		Taxable Wage Base Freeze	Maximun UI Tax/Worker	Taxable Wage Base Increase +\$300	Maximun UI Tax/Worker
Projected 2022 Avg Tax Rate Schedule A	1.70%	\$10,800	\$184	\$11,200	\$190.40
Projected 2022 Avg Tax Rate Schedule C	2.32%	\$10,800	\$251	\$11,200	\$259.84
Difference			\$67		\$69.44

MAX WEEKLY UI BENEFIT AMOUNT	\$569
TOTAL WEEKS ELIGIBLE	26
TOTAL BENEFITS AVAILABLE	\$14,794

2021 AVG WEEKLY BENEFIT AMOUNT	\$370.00
2020 AVG CLAIM DURATION	13
TOTAL BENEFITS AVAILABLE	\$4,810.00