

# Unemployment Insurance Program

A Guide to Understanding the UI Trust  
Fund and Tax Contributions  
Senate Commerce Committee

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Kansas Department of Labor  
January 24<sup>th</sup>, 2012

Senate Commerce Committee

Date: January 24, 2012

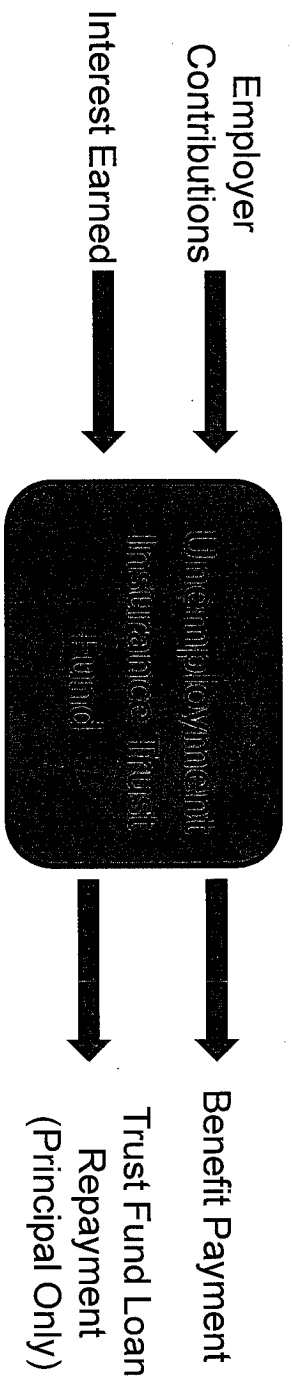
Attachment 1



# Trust Fund Borrowing

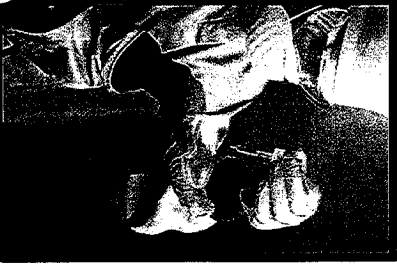
- The Kansas UI Trust Fund was fully depleted in February 2010 and advances were issued from the U.S. Treasury during February, March, and April.
- In January 2011, the UI Trust Fund was again depleted and additional advances were issued from the U.S. Treasury during January, February, March, and April.
- Funds are transferred into the Kansas Trust Fund daily and on an as needed basis.
- Kansas draws down all available funds from its own Trust Fund. If that amount is not sufficient to satisfy the UI benefit payments for that day, then the remaining amount is drawn from the Federal Unemployment Account.
- In order to reduce the amount of interest paid on these advances, payments on the principal amount of loans were made in October 2011 and November 2011.
- The effect of these payments was to draw down the balance of the U.I. Trust Fund so additional advances were issued from the U.S. Treasury in October, November, and December 2011 as well as January 2012.
- As of Jan. 21st, the current outstanding loan balance was \$84.8 million.

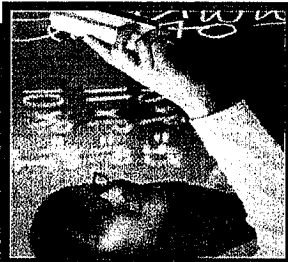
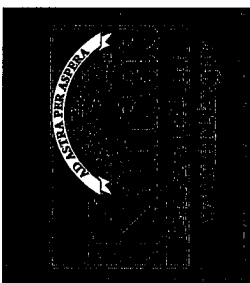
# Unemployment Insurance Trust Fund



- UI Trust Fund monies can only be used to pay benefits and principal loan payment
- Trust Fund Balance as of 1/21/2012 = \$0.7 million
- Trust Fund Loans as of 1/21/2012 = \$84.8 million

• Total Amount Borrowed in 2010	\$ 88,159,421
• Total Amount Borrowed in 2011	\$134,043,201
• Total Amount Borrowed in 2012 (through Jan. 21)	\$ 21,791,489
• Total Amount Paid Down in 2011	\$159,155,840
<b>Net Loan Amount (through Jan. 21, 2012)</b>	<b>\$ 84,838,271</b>





# Interest Payment On UI Loan

- Interest payment on Sept. 30<sup>th</sup> 2011 = \$4,601,743.91
- Currently paying down loan on a daily basis
  - Approximately \$1.0 million in savings in interest payments
- Current Estimate of 2012 Interest Payment
  - Approximately \$2.82 million

Note: No interest is due on advances made January 1 through September 30 and repaid in full before October 1 in the same calendar year provided no additional advances are obtained before January 1 of the succeeding calendar year.

# **Federal Unemployment Tax Act (FUTA)**

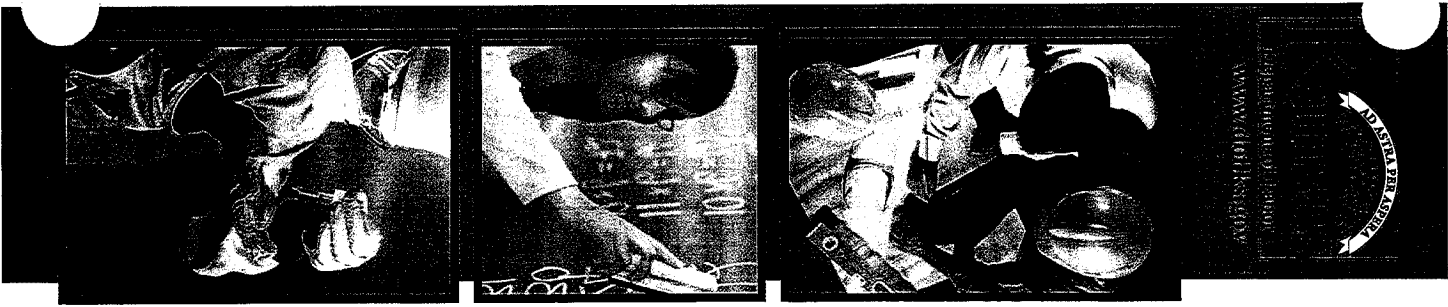
•FUTA currently provides that the tax rate is 6.0 percent (Until mid- year 2011 the rate was 6.2%). FUTA tax is based on the first \$7,000 paid to an employee in a calendar year. Thus, the maximum FUTA tax an employer would owe for an employee is \$420 ( $\$7,000 \times .060$ .)

•Note that before July 2011, FUTA tax rate was 6.2% and with full 5.4% credit the effective FUTA tax rate was 0.8%. After July 2011, with full 5.4% credit the effective FUTA tax rate is 0.6%.

•For states which have approved Unemployment Insurance programs, employers in those states get a credit of up to 5.4%. Thus the effective FUTA tax rate is 0.6 percent or  $\$42 (\$7000 \times .006)$ .

•FUTA Credit Reduction: Starting with the second year after the initial loan, if a State has a loan outstanding on January 1, and has not repaid completely by November 10, the State's employers are subject to a FUTA offset credit reduction to repay the loan.

•Receipts from the FUTA credit reduction are credited against the loan balance of the state. The FUTA reduction schedule is as follows:





# Schedule of FUTA Offset Credit Reductions

FUTA Reduction Schedule - Kansas			
Tax Year	Basic Reduction	Additional Reduction	FUTA Rate
2011	0.00%	0.00%	0.6%
2012	0.3	0	0.9%
2013	0.6	2.7 Add-on	1.2 or more
2014	0.9	2.7 Add-on	1.5 or more
2015	1.2	BCR Add-on	1.8 or more
2016	1.5	BCR Add-on	2.1 or more

Note: FUTA rate with full 5.4% credit was 0.8% which dropped to 0.6% in July 2011.  
 FUTA tax amount is due to the federal government by January 31<sup>st</sup> of the following year

# Types of Employers

www.dhhs.gov



## In-Force Employers

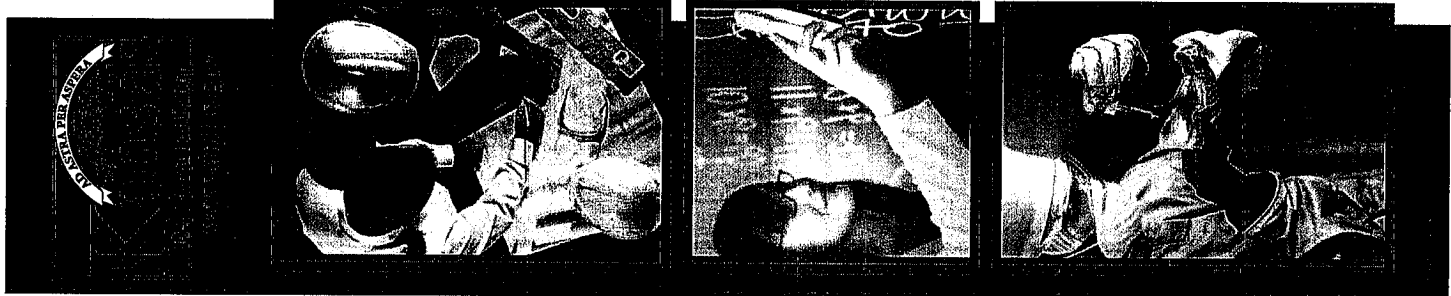
More employers who do not have 24 consecutive months of chargeability are not eligible for experience rating  
6% (Construction / 4% All Other Industries)

## Negative Rating Employers

Employers who have had more money charged against their account for benefits than they have paid in contributions  
5.4% plus surcharge (0.3% to 4.0%)

## Positive Rating Employers

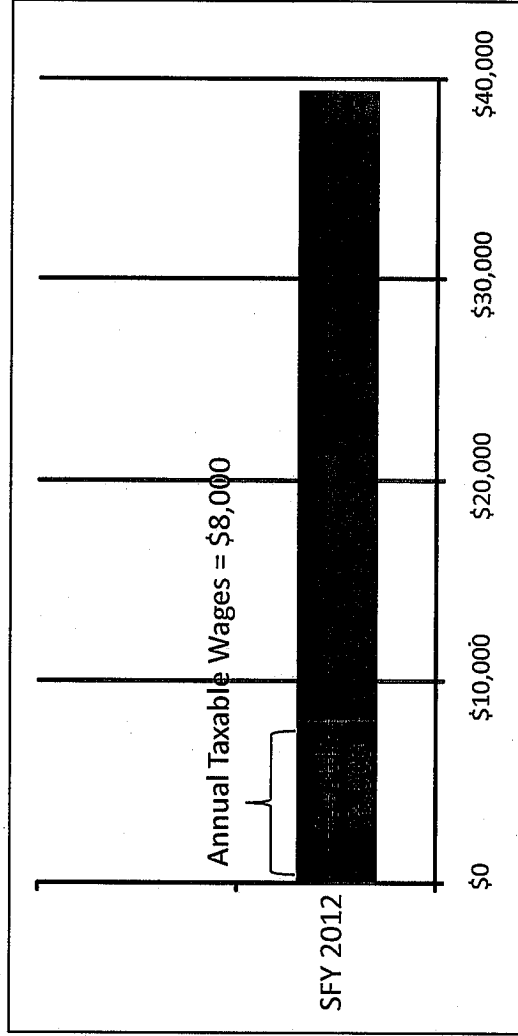
Employers who have paid in more money in contributions than the amount of benefits charged against their account  
Awarded in 5.1 rating groups  
Rates range from 0.0% to 5.4%



## Tax Rate on Total & Taxable Wages

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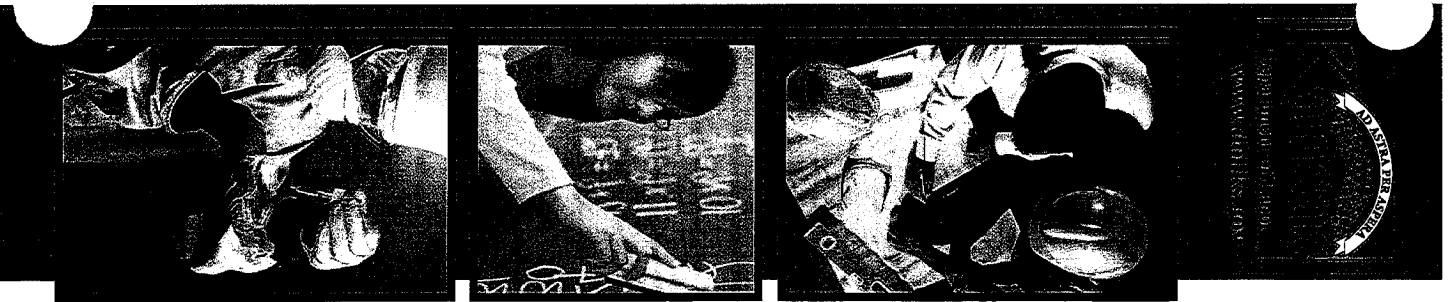
- Schedule III provides the tax rate on total wages needed to generate the required yield



\* Avg. Annual Wages = \$39,290



# Rates For Positive Balance Employers (2012)



Positive Eligible Employers (Array)

Rate Group	Number of Employers	Contribution Rate Per HB 2676/SB 77	Rate Group	Number of Employer	Contribution Rate Per HB 2676 / SB 77
1	4,186	0.11	26	612	4.23
2	2,496	0.17	27	542	4.40
3	2,595	0.34	28	802	4.57
4	2,024	0.51	29	500	4.74
5	1,871	0.68	30	701	4.90
6	1,681	0.85	31	785	5.07
7	1,263	1.01	32	911	5.24
8	1,292	1.18	33	625	5.40
9	1,709	1.35	34	637	5.40
10	1,821	1.52	35	903	5.40
11	1,763	1.69	36	753	5.40
12	658	1.86	37	767	5.40
13	591	2.03	38	745	5.40
14	645	2.20	39	719	5.40
15	536	2.37	40	1,039	5.40
16	709	2.54	41	707	5.40
17	694	2.71	42	665	5.40
18	545	2.88	43	605	5.40
19	410	3.04	44	533	5.40
20	563	3.21	45	834	5.40
21	710	3.38	46	589	5.40
22	596	3.55	47	546	5.40
23	382	3.72	48	173	5.40
24	58	3.89	49	748	5.40
25	393	4.06	50	573	5.40
			51	3,092	5.40

Total Amount for  
2012 from  
Positive Balance  
Employers =  
\$263.3 Million

# Rates For Negative Balance Employers (2012)

Upper & Lower Negative Reserve Ratio (in percent)		Number of Employers	Assigned Rate (in percent)	Surcharge to Trust Fund (in percent)	Surcharge to Interest Assessment Fund (in percent)	2012 Rate (in percent)
Upper	Lower					
-0.01	-1.999	590	5.40	0.20	0.10	5.70
-2.000	-3.999	490	5.40	0.40	0.10	5.90
-4.000	-5.999	478	5.40	0.60	0.10	6.10
-6.000	-7.999	442	5.40	0.80	0.10	6.30
-8.000	-9.999	382	5.40	1.00	0.10	6.50
-10.000	-11.999	328	5.40	1.20	0.10	6.70
-12.000	-13.999	309	5.40	1.40	0.10	6.90
-14.000	-15.999	267	5.40	1.60	0.10	7.10
-16.000	-17.999	258	5.40	1.80	0.10	7.30
-18.000	-19.999	215	5.40	2.00	0.10	7.50
-20.000	-21.999	175	5.40	2.00	0.20	7.60
-22.000	-23.999	196	5.40	2.00	0.40	7.80
-24.000	-25.999	192	5.40	2.00	0.60	8.00
-26.000	-27.999	169	5.40	2.00	0.80	8.20
-28.000	-29.999	153	5.40	2.00	1.00	8.40
-30.000	-31.999	125	5.40	2.00	1.20	8.60
-32.000	-33.999	118	5.40	2.00	1.40	8.80
-34.000	-35.999	128	5.40	2.00	1.60	9.00
-36.000	-37.999	102	5.40	2.00	1.80	9.20
-38.000	-99.999	2585	5.40	2.00	2.00	9.40

Total Amount for 2012 from Negative Balance Employers = \$73.4 Million

# Unemployment Insurance Recent Legislative Changes

- **Reduced tax rates or Standard Tax rates – 2007 SB 83**

- In effect in 2007, 2008 & 2009

- **House Bill 2676 / Senate Bill 77 – Reduced Rate**

- \$43 Million relief CY 2010

- \$75.8 Million relief CY 2011

- \$86.3 Million relief CY 2012

- Similar savings for CY 2013 and 2014

- **Senate Bill 77 (2011)**

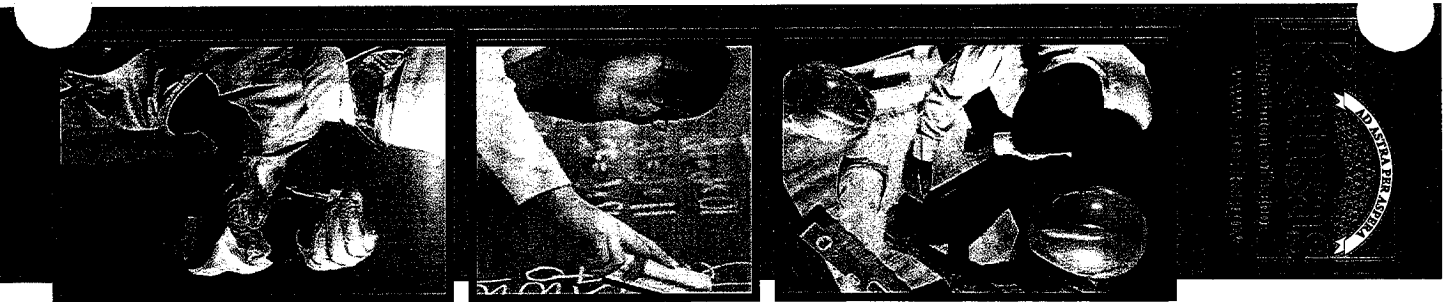
- Establishment of an Employment Security Interest Assessment Fund

- Reinstatement of the Waiting Week

- Elimination of Benefit Eligibility for Relocating Spouses (Excluding Armed Forces)

- Negative Balance Employer Rate Groups and Increase in Surcharge

- Optional Withholding of State Taxes from Unemployment Compensation



# Available UI Benefits

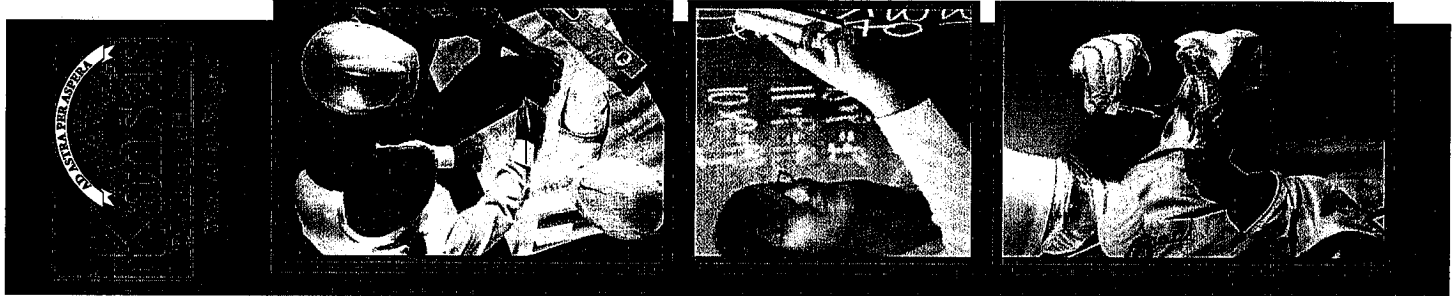
**What unemployment benefits are available?**  
*Up to 86 weeks of unemployment benefits available*



26 weeks Regular Unemployment Benefits	20 weeks Emergency Unemployment Compensation 2008 (EUC 08) Benefits	14 weeks Tier II EUC Benefits	13 weeks Tier III EUC Benefits	13 weeks State Extended Benefits
<ul style="list-style-type: none"> <li>Available for up to 26 weeks (length depends on employment history and earnings).</li> <li>To receive unemployment benefits, you must be:                             <ul style="list-style-type: none"> <li>Able and available to work;</li> <li>Actively seeking employment; and</li> <li>Unemployed due to no fault of your own.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Program began July 6, 2008.</li> <li>Up to 20 weeks of extended unemployment benefits are available under the Emergency Unemployment Compensation (EUC08) Act.</li> <li>Workers potentially eligible for extended benefits:                             <ul style="list-style-type: none"> <li>Have filed a valid UI claim effective May 2, 2006, or after.</li> <li>Are not eligible for a new state unemployment insurance claim in any state or in Canada.</li> <li>Have had 20 weeks of full-time insured employment or the equivalent in insured wages; and</li> <li>Are fully or partially unemployed on or after July 6, 2008, and meet all eligibility criteria such as being ready, willing and able to work.</li> </ul> </li> <li>The EUC program will expire the week ending March 10, 2012, unless action is taken by Congress to extend these benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Effective June 7, 2009.</li> <li>Originally provided up to 13 weeks of additional benefits.</li> <li>Legislation passed on Nov. 6, 2009, extended the total weeks available from 13 to 14. One-week extension effective week ending Nov. 14, 2009.</li> <li>Nov. 6 legislation removed a requirement that the state's average seasonally adjusted unemployment rate be 6.0 percent or higher for three consecutive months in order to trigger on to the program.</li> <li>If you received EUC Tier I benefits, you are likely to be eligible for Tier II benefits; benefits will roll over from Tier I to Tier II and claimants will not need to fill out an additional application if you are not eligible for a new state unemployment insurance claim in any state or in Canada.</li> <li>The EUC program will expire the week ending March 10, 2012, unless action is taken by Congress to extend these benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Effective Nov. 8, 2009.</li> <li>Up to an additional 13 weeks of benefits are available under Tier III EUC.</li> <li>To be eligible for Tier III benefits, individuals must meet the following criteria:                             <ul style="list-style-type: none"> <li>Exhausted regular state benefits;</li> <li>Exhausted original EUC benefits;</li> <li>Exhausted Tier II EUC benefits; and</li> <li>Not eligible for a new state unemployment insurance claim in any state or in Canada.</li> </ul> </li> <li>The EUC program will expire the week ending March 10, 2012, unless action is taken by Congress to extend these benefits.</li> </ul>	<ul style="list-style-type: none"> <li>To be eligible you must have exhausted Tier III EUC benefits and not be eligible for a new state unemployment insurance claim in any state or in Canada.</li> <li>The State Extended Benefits program "triggers on" when the Kansas seasonally adjusted unemployment rate meets certain criteria. Kansas was "triggered on" because the average three-month unemployment rate was at or above 6.5 percent AND was 110 percent of the unemployment rate of the same three-month period at any time during the last three years (the "look-back provision"). Beginning Jan. 1, 2012, the "look-back provision" will change to comparing the current three-month average unemployment rate to the previous same period two years back instead of the previous three years back.</li> <li>The EB program has been extended to the week ending March 10, 2012.</li> </ul>
Funded 100% with State UI Trust Fund	Funded 100% with Federal Funds	Funded 100% with Federal Funds	Funded 100% with Federal Funds	Funded 100% with Federal Funds through March 7, 2012

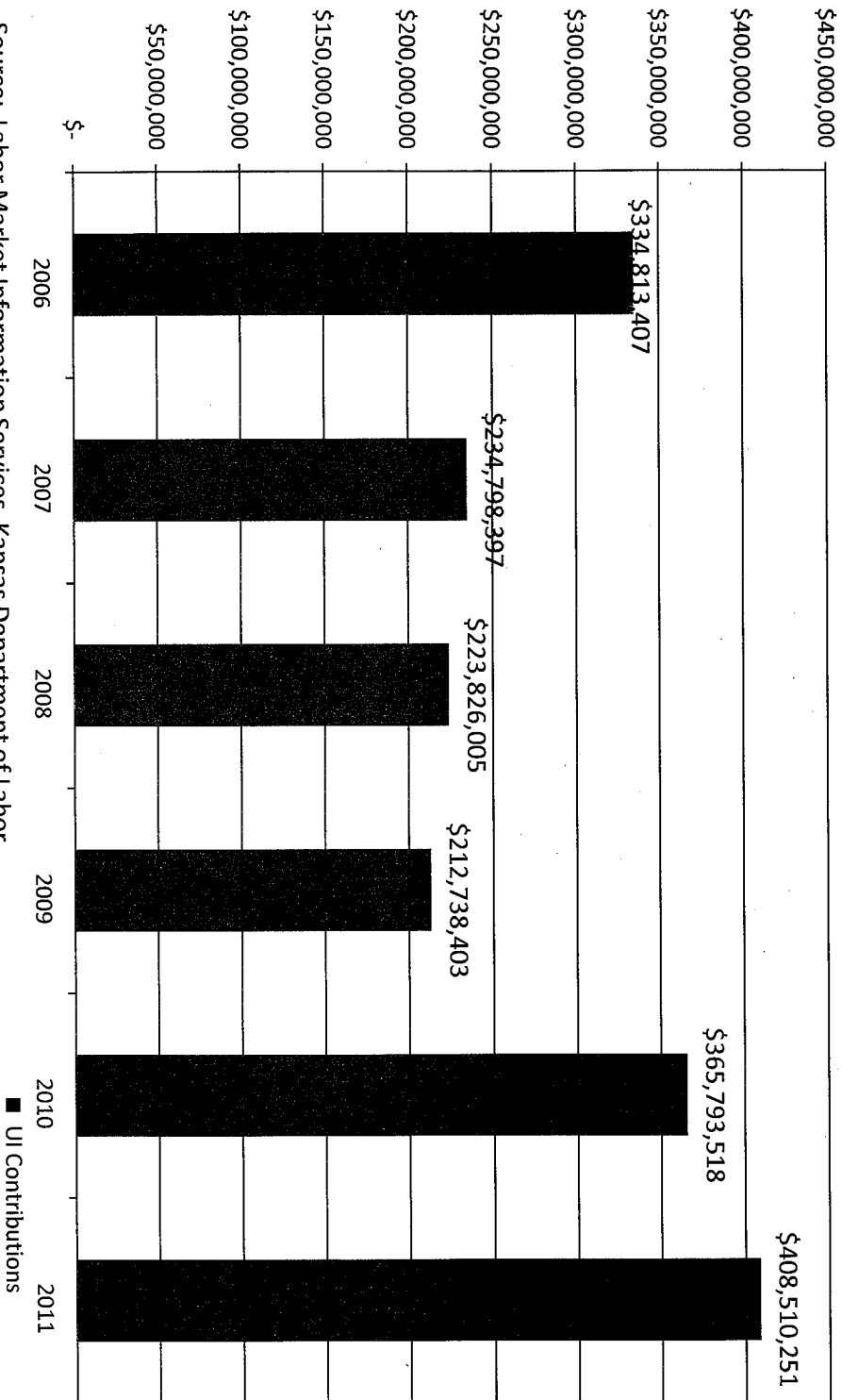
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Last Updated 1-23-12



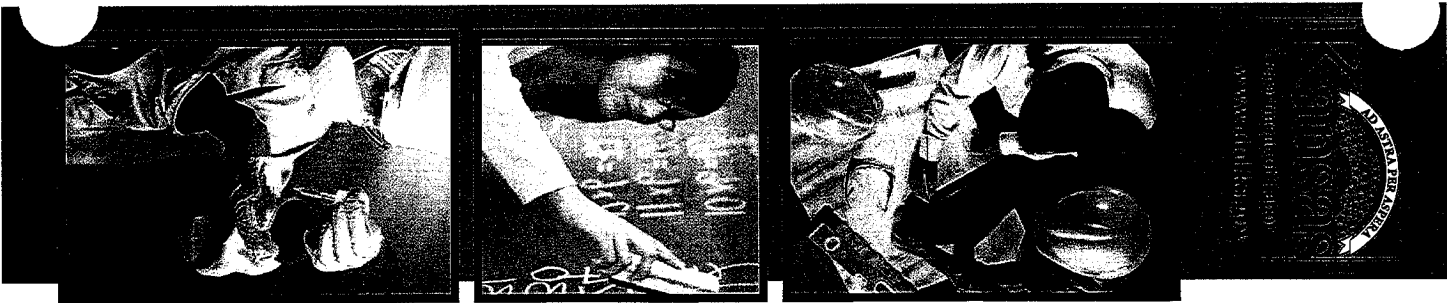
# UI Contributions

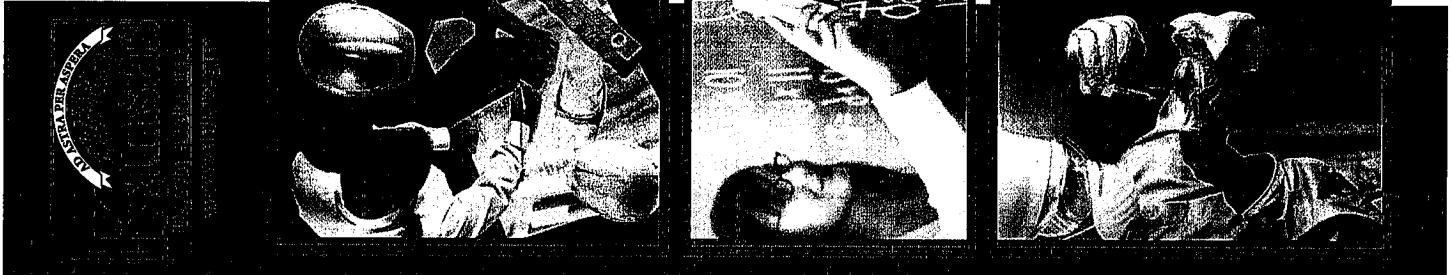
## Kansas - 2006 to 2011



Source: Labor Market Information Services, Kansas Department of Labor

Note: Most of the increases in contributions from 2010 to 2011 was due to increase in wages





# Unemployment Insurance Tax Rates - Summary

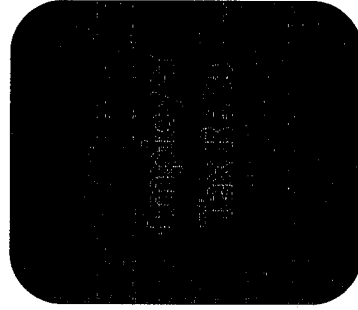
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Length of time in  
business & industry

Experience using  
UI system

Average Annual  
Payroll

Trust Fund Balance



Avg. Tax Rate 2012 (with  
HB 2676) :

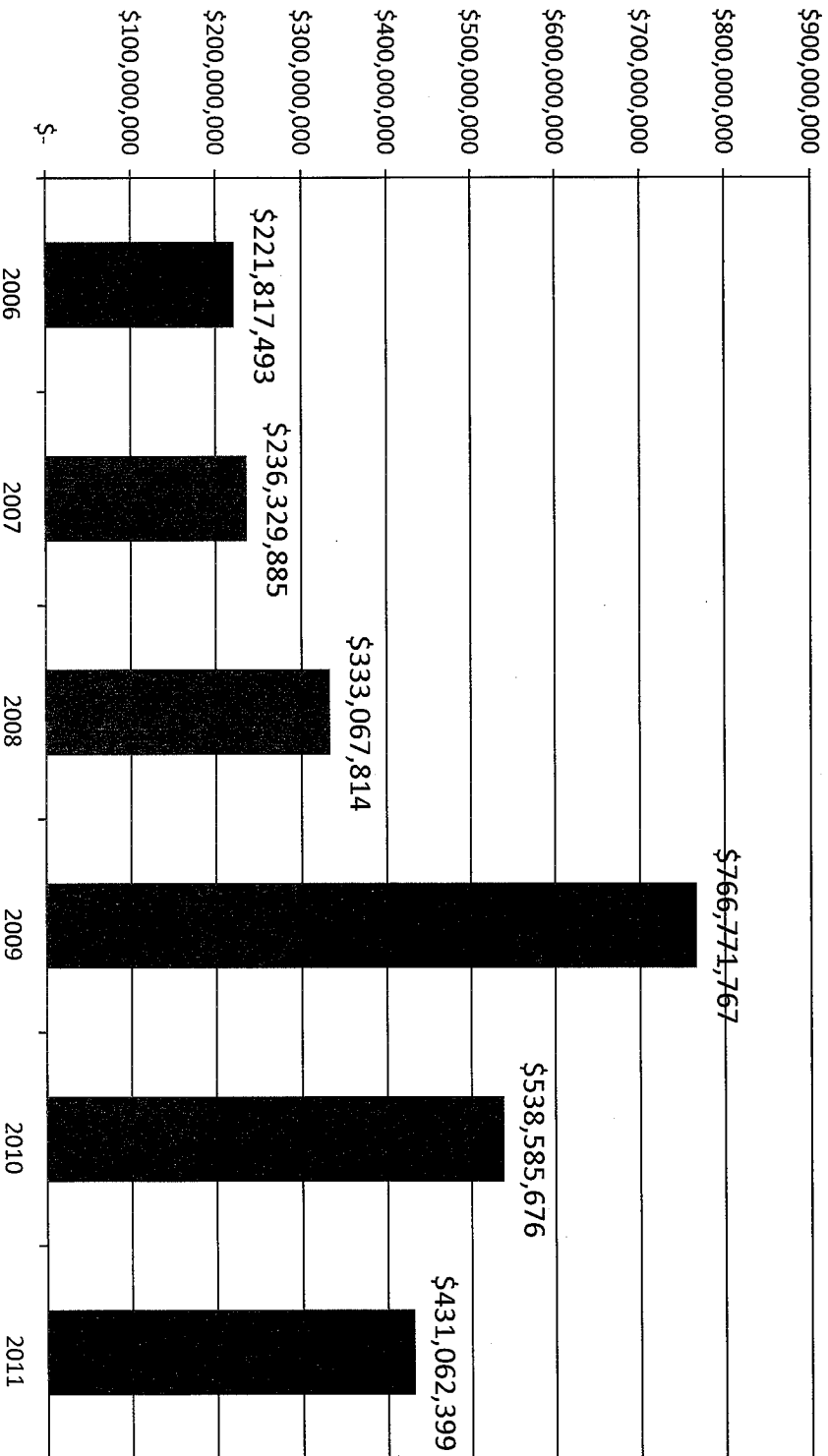
Total Wages = 0.88%

Taxable Wages = 3.92%

\$313.60 per employee  
annually

# Benefits Paid

## Unemployment Benefits Paid – Regular Program Kansas - 2006 to 2011



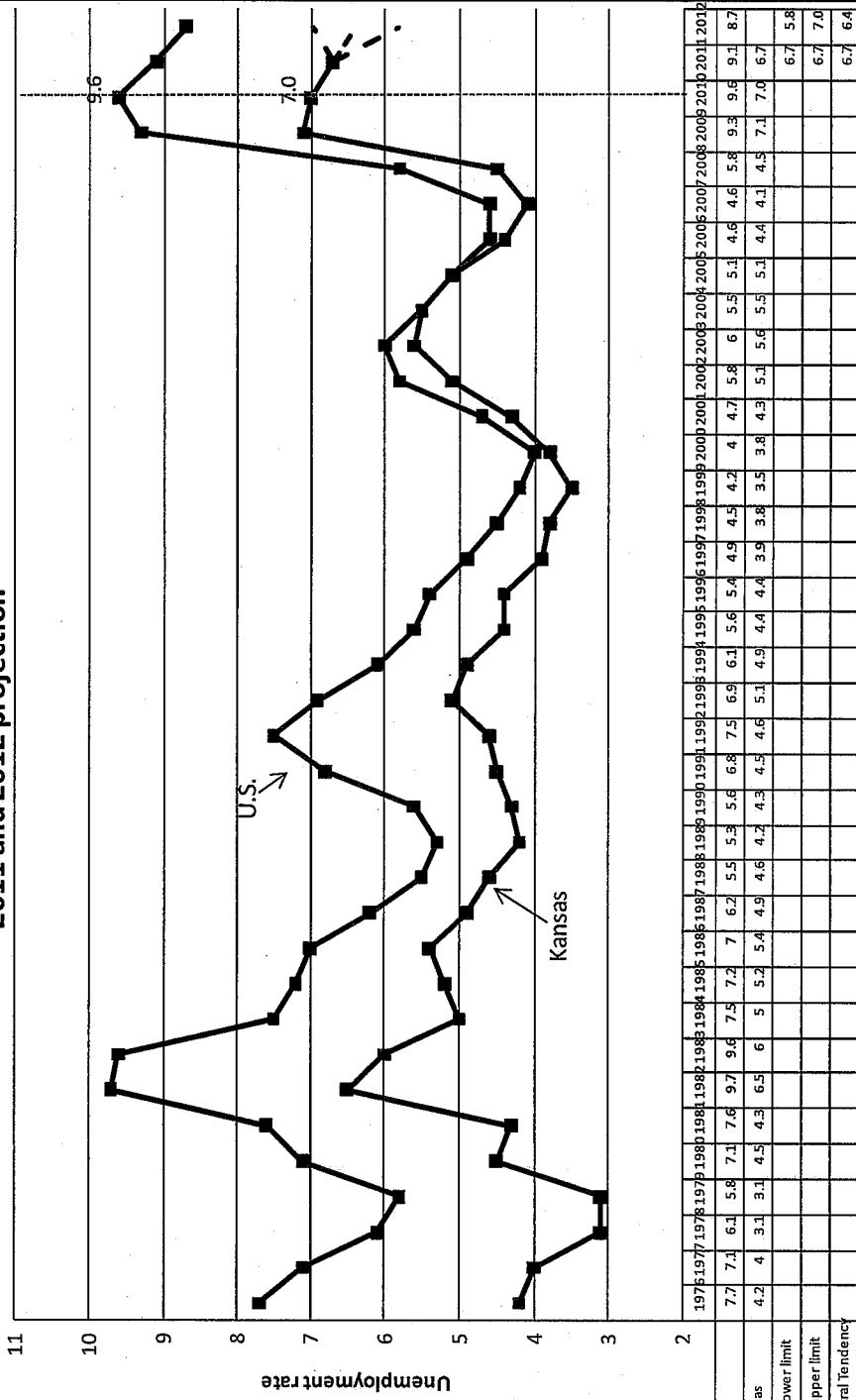
Source: Labor Market Information Services, Kansas Department of Labor

■ Benefits Paid

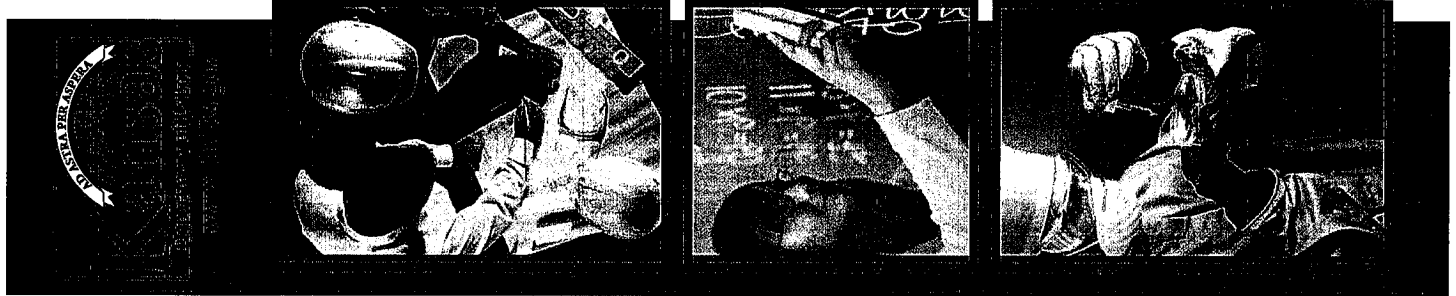


# Unemployment Rate

Annual Unemployment Rate  
U.S. and Kansas  
2011 and 2012 projection



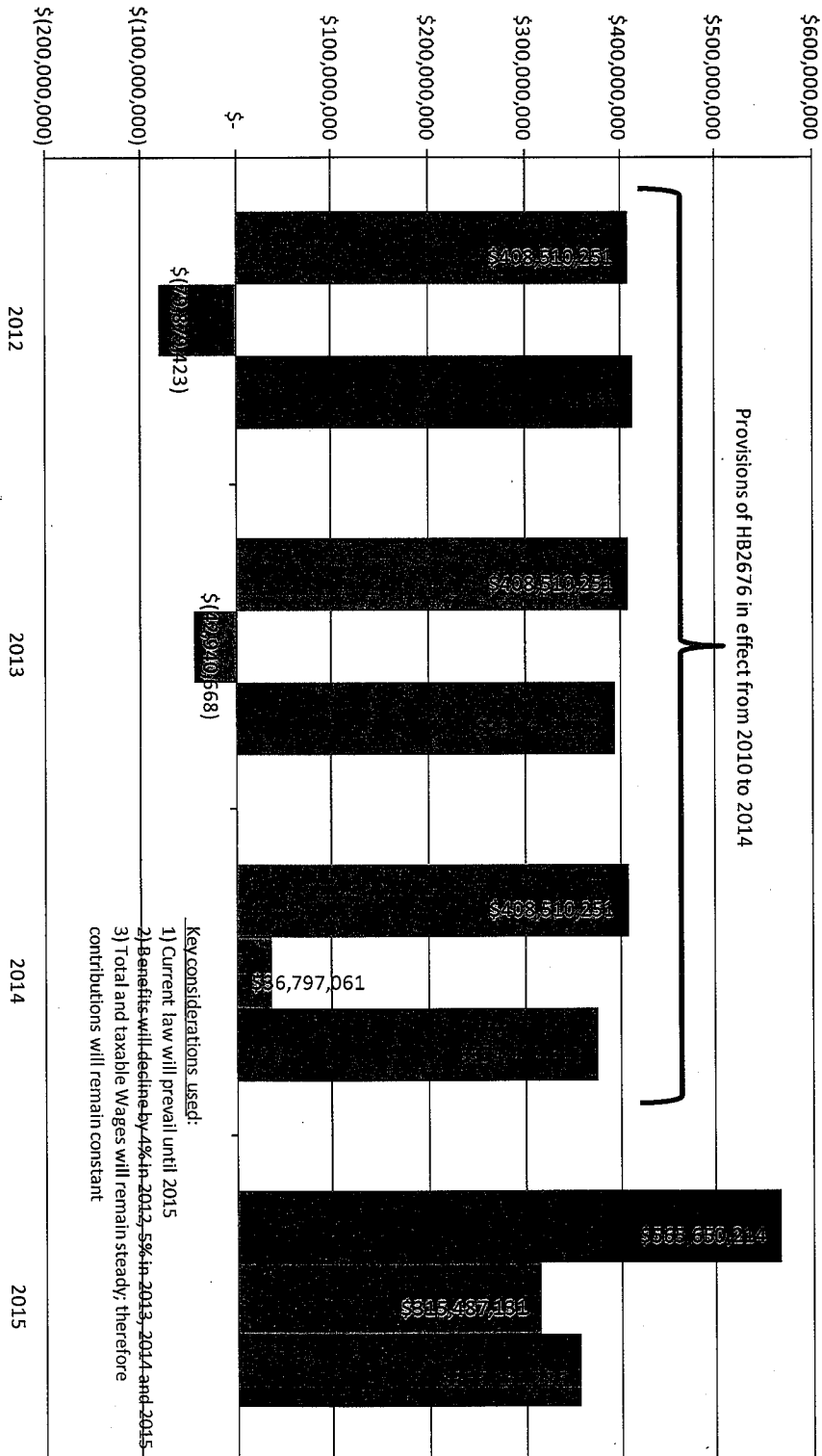
Source: U.S. unemployment rate projection is from "The Budget and Economic Outlook: Fiscal Years 2011 to 2021" (August 2011) by Congressional Budget Office; Kansas projection is by Labor Market Information Services, Kansas Department of Labor





# Unemployment Activity

## UI Benefits, Contributions and Trust Fund Loan Balance Kansas - 2012 to 2015



Key considerations used:  
 1) Current law will prevail until 2015  
 2) Benefits will decline by 4% in 2012, 5% in 2013, 2014 and 2015  
 3) Total and Taxable Wages will remain steady; therefore contributions will remain constant

Source: Labor Market Information Services, Kansas Department of Labor

- UI Contributions
- End of Calendar Year Trust Fund Loan Balance
- Benefit Payments

