KDOL Update

Deputy Secretary Peter Brady

Unemployment Compensation Modernization & Improvement Council

May 17, 2022

Kansas Department of Labor

Agency Operations

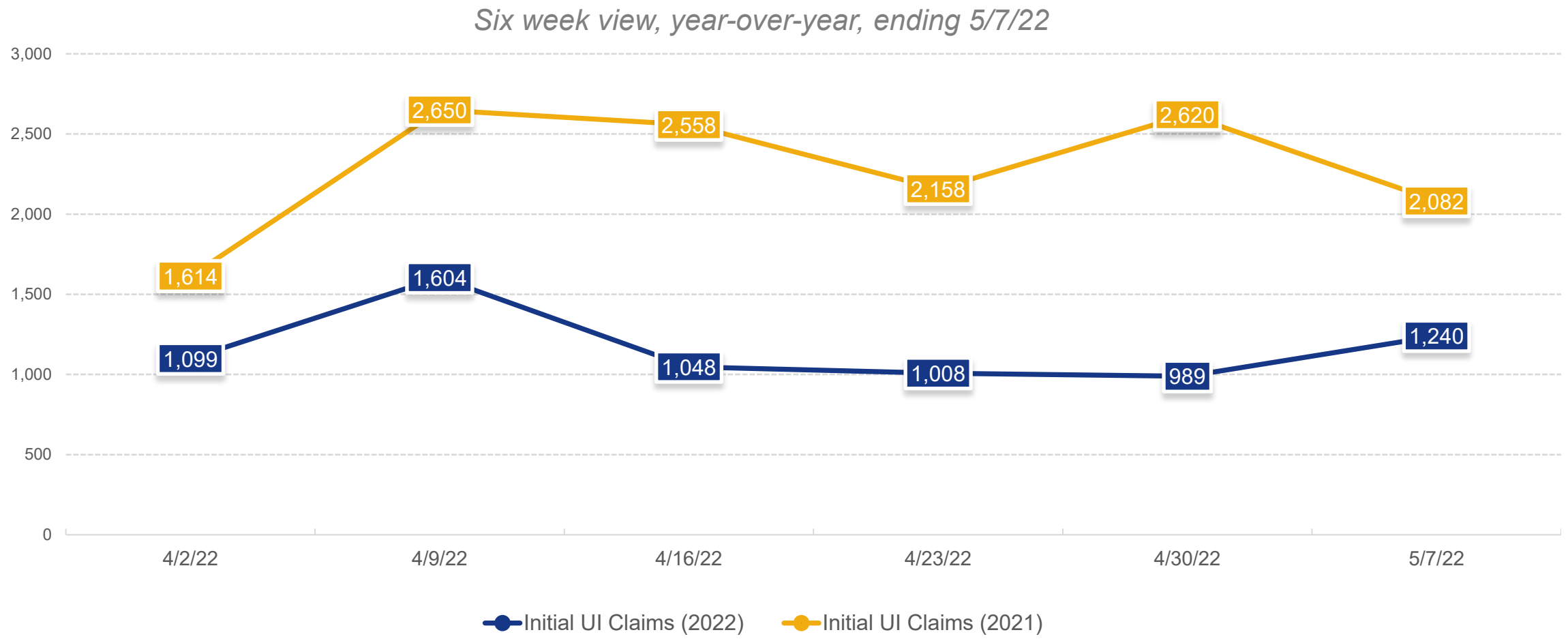
Kansas
Department of Labor

Agency Operations

- Metrics indicate that the current claim volume is slightly lower than the agency's pre-pandemic workload.
  - March Unemployment Rate: 2.5%
  - 4-week initial claim range[1]: 989 – 1,604
  - 4-week continued claim range: 4,232 – 4,761

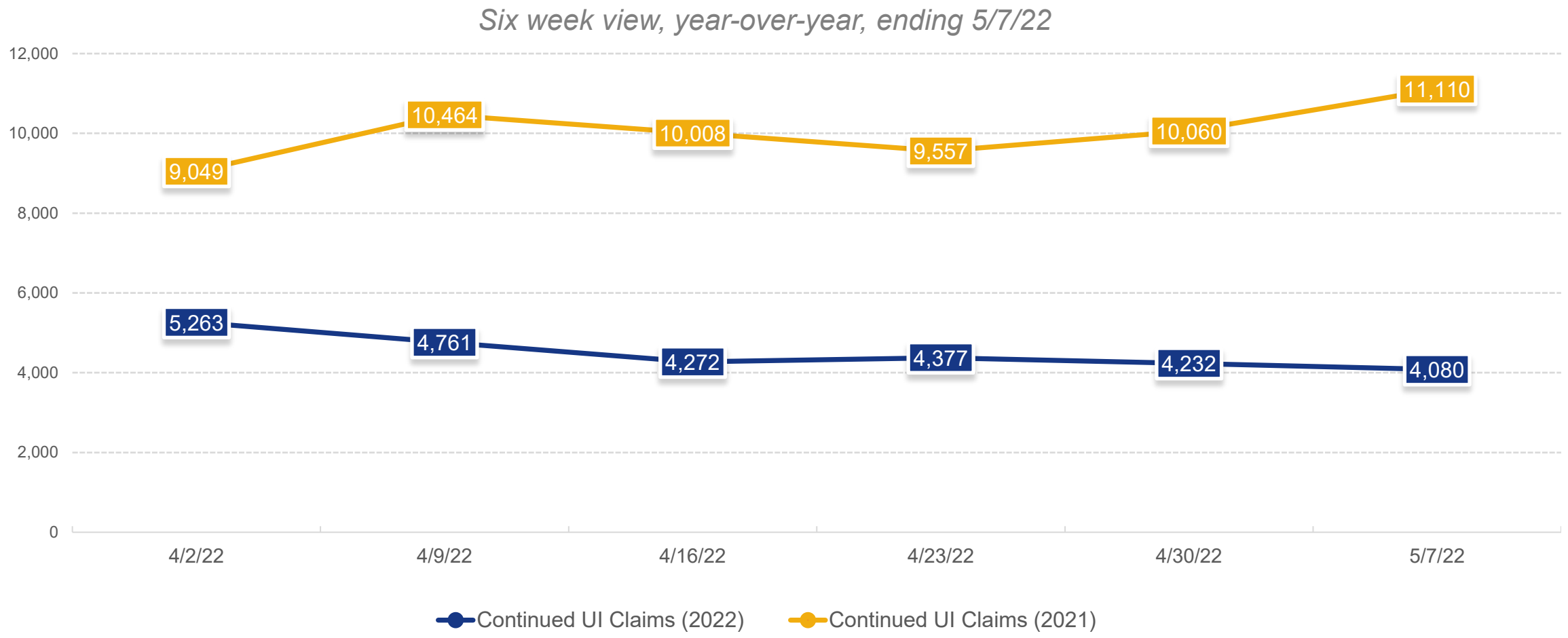
[1] Weeks ending 4/9/2022 - 4/30/2022

Initial UI Claims



Note: This chart shows continued claims for Regular UI. PEUC, PUA, and EB claims are not included
Source: Kansas Department of Labor, Labor Market Information Services; Unemployment Insurance Statistics

Continued UI Claims



Note: This chart shows continued claims for Regular UI. PEUC, PUA, and EB claims are not included. Continued claims include all claims filed following the initial claim.
Source: Kansas Department of Labor, Labor Market Information Services; Unemployment Insurance Statistics

Agency Operations

- All call center surge support ended in April 2022. Today the call center is staffed entirely by state employees.
- The agency continues to hear appeals related to the pandemic era programs, both at the lower and higher authority levels.
- The agency continues to investigate many different types of fraud, issue determinations, and refer cases for prosecution when possible.
- **KDOL Proposal:** If the council agrees, the agency would like to shift the content of the biweekly report to focus on the UI Modernization project since agency operations have largely stabilized.

[1] Weeks ending 4/9/2022 - 4/30/2022

Unemployment Insurance Modernization Project

Kansas
Department of Labor

UI Modernization Project

- The agency has entered into an agreement with Tata Consultancy Services (TCS) for the Unemployment Insurance Modernization project. TCS was chosen pursuant the state's procurement process and the specific provisions of 2021 HB2196 codified in statute.
- On April 5, 2022, the agency announced the vendor selection and immediately began work on the project. Since that time, KDOL staff began working with the vendor on gap analysis, kick-off meetings, and selection of UI staff to serve as subject matter experts for the project.
- KDOL's IT staff is now working to submit a vendor specific detailed project plan to the Department of Administration's KITO Office.

Unemployment Insurance Trust Fund Update

Kansas
Department of Labor

Trust Fund Solvency Measures

- Trust fund adequacy is measured using the **average high cost multiple** or the ratio of the reserve fund ratio to the average high benefit cost rate.

$$\textit{Average High Cost Multiple} = \frac{\textit{Reserve Fund Ratio}}{\textit{Average High Benefit Cost Rate}}$$

- **Reserve fund ratio** is the ratio of the trust fund balance to total wages of contributing employers.

- **Benefit cost rate** is the ratio of benefits paid during a period to total covered wages for the same period.

$$\textit{Benefit Cost Rate} = \frac{\textit{Benefits Paid}}{\textit{Total Wages Paid}}$$

- **Average high benefit cost rate** is the average of the three highest benefit cost rates experienced in the last 20 years. In Kansas, the three highest years used are 2009, 2010, and 2021.

Trust Fund Solvency Certifications

State of Kansas

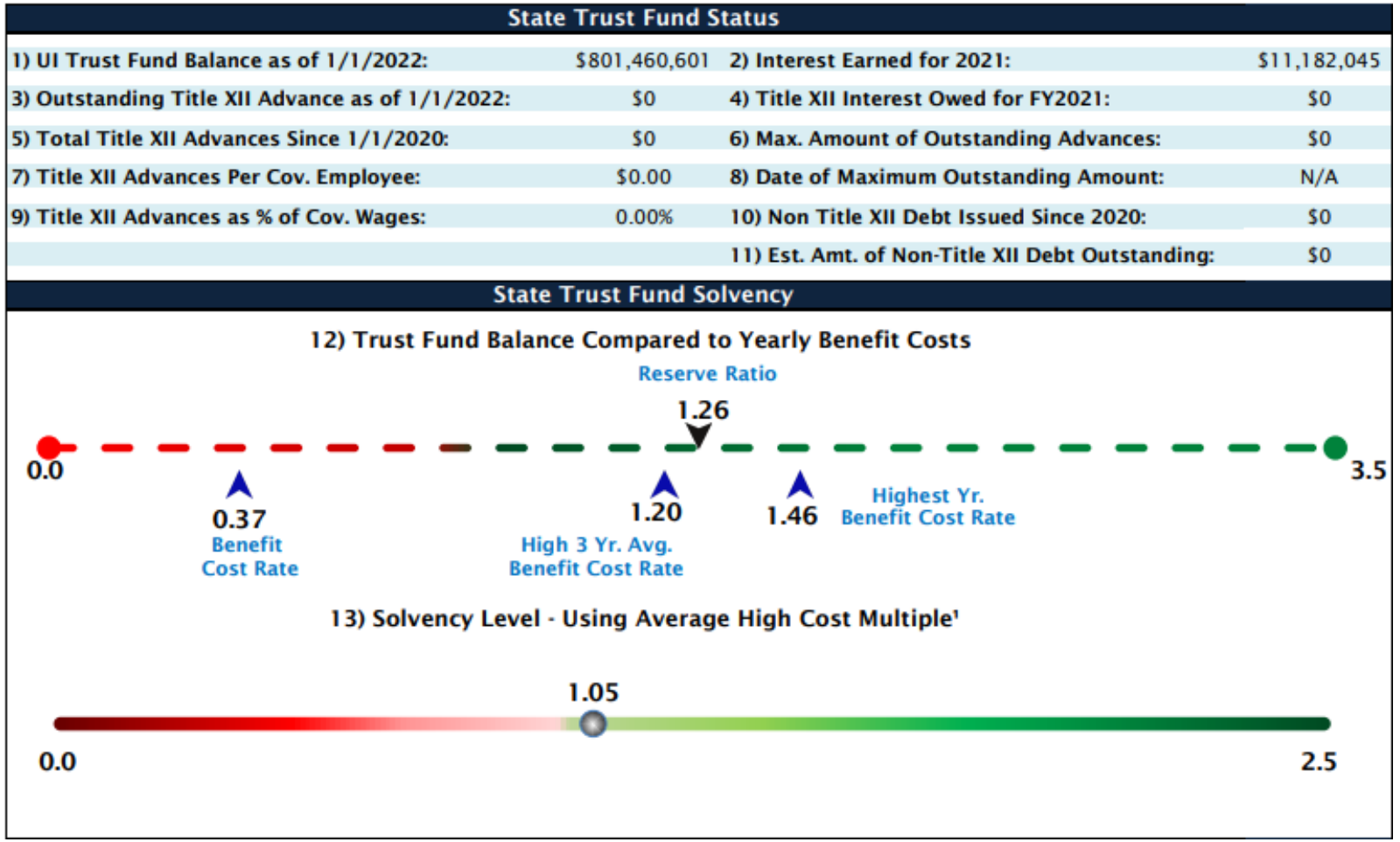
- The Kansas Employment Security Law (K.S.A. 44-710a(f)) requires the agency provide an annual certification of the solvency of the UI Trust Fund by December 1st of each year. This certification is used to determine the credit schedule that impacts Kansas employers.

U.S. Department of Labor (USDOL)

- Each year the U.S. Department of Labor (USDOL) calculates the solvency of each state's UI trust fund for the purpose of determining the states eligibility for interest free borrowing in the upcoming calendar year.
- This year's report and previous year reports can be found online here: https://oui.doleta.gov/unemploy/solvency.asp

USDOL's Report on Kansas

- USDOL has calculated Kansas' AHCM at 1.05.
- This indicates that Kansas' trust fund meets the minimum solvency standard of 1.0.
- This means that the Kansas UI Trust Fund has a sufficient balance to payout 12 months of benefits at the average of our three highest years.



State Trust Fund Status

1) UI Trust Fund Balance as of 1/1/2022:	$801,460,601	2) Interest Earned for 2021:	$11,182,045
3) Outstanding Title XII Advance as of 1/1/2022:	$0	4) Title XII Interest Owed for FY2021:	$0
5) Total Title XII Advances Since 1/1/2020:	$0	6) Max. Amount of Outstanding Advances:	$0
7) Title XII Advances Per Cov. Employee:	$0.00	8) Date of Maximum Outstanding Amount:	N/A
9) Title XII Advances as % of Cov. Wages:	0.00%	10) Non Title XII Debt Issued Since 2020:	$0
		11) Est. Amt. of Non-Title XII Debt Outstanding:	$0

State Trust Fund Solvency

12) Trust Fund Balance Compared to Yearly Benefit Costs

13) Solvency Level - Using Average High Cost Multiple[1]

USDOL's Report on Kansas

- Kansas has met USDOL's solvency requirements to be eligible for interest free borrowing in calendar year 2022.
- For 2022, only 20 out of 53 jurisdictions met the eligibility criteria for interest free borrowing.

Calculations of Federal Borrowing Statutes and FUTA Credit Reductions	
Eligibility for Interest Free Borrowing in 2022	
14) Last year in which State achieved a 1.0 Avg. High Cost Multiple[2]:	2021
15) Lowest Percentage Avg. Tax rate is of the Previous 5 yr. Ben Cost Rate (>75% elig. Req.)[2]:	N/A*
16) Lowest Percentage Avg. Tax Rate is of the Previous Avg. Year's Tax Rate (>80% elig. Req.)[2]:	N/A*
	Eligible

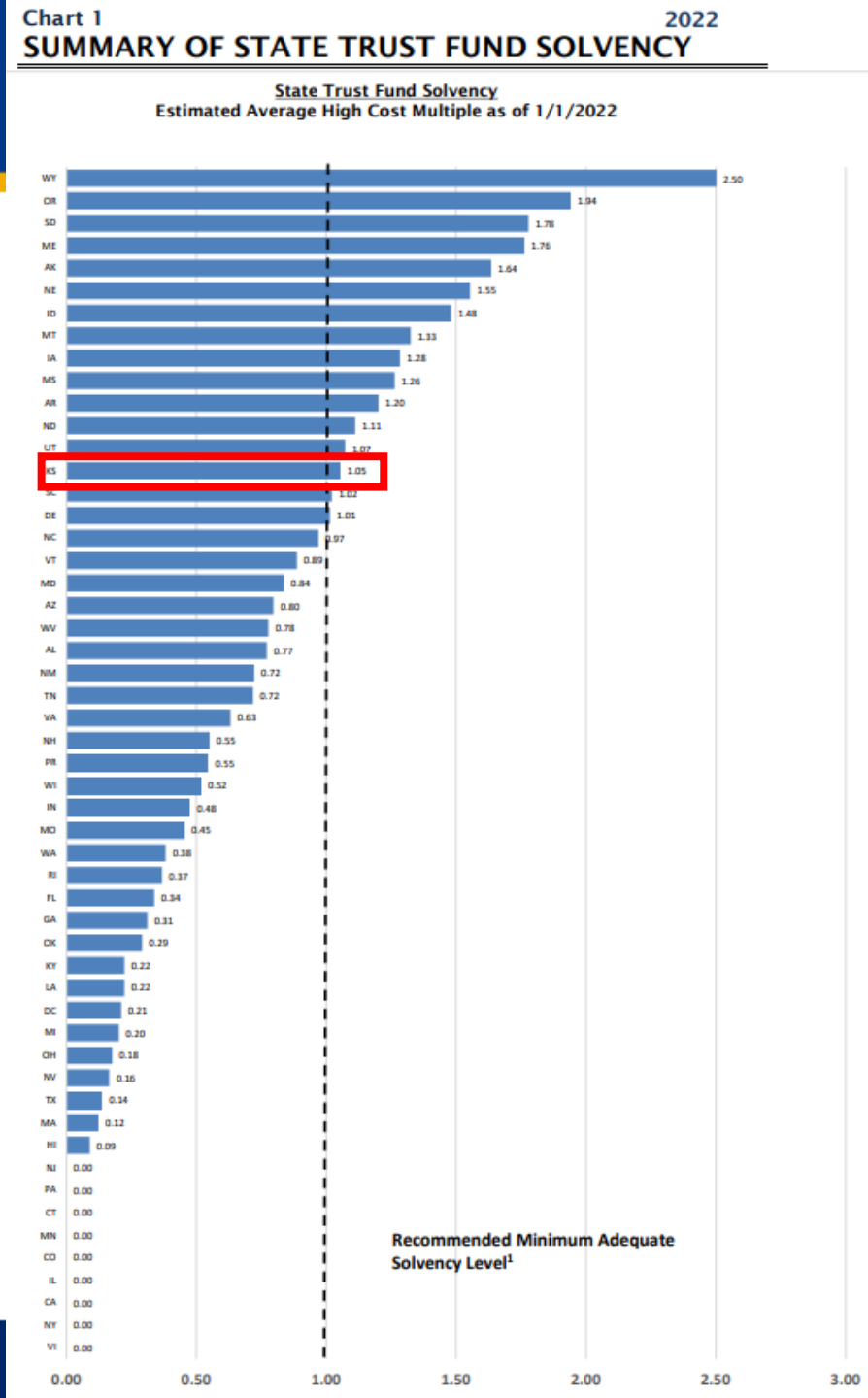
USDOL's Report on Kansas

- Kansas has remained in full compliance with federal requirements and will continue to receive a 5.4% FUTA tax credit for 2022.

FUTA Tax Rate					
17)	Credit Reduction Due to Outstanding Loans	2.7% Add-on	BCR Add-on	Total Credit Reduction	FUTA Tax Rate[3]
2020	0.0%	0.0%	0.0%	0.00%	**0.6%**
2021	0.0%	0.0%	0.0%	0.00%	**0.6%**
Potential 2022 [4]	0.0%	0.0%	0.0%	0.00%	**0.6%**

National Perspective

- 53 States and Territories administer Unemployment Insurance programs. For 2022, only 16 met the minimum solvency standard, including Kansas.
- As of January 1, 2022, 10 states had outstanding Title XII loans with USDOL totaling $39.9 billion. Kansas did not require any loans to remain solvent during the pandemic.
- 10 states and territories had Title XII balances at the start of the last two years, meaning those states could see a FUTA Tax Credit reduction in 2023 if the balances are not paid back by November 10, 2022.



FUTA Tax Credit – Importance of Solvency

- The Federal Unemployment Tax Act (FUTA) establishes a 6.0% tax rate levied on the first $7,000 of an employee's earning. States in full compliance with federal requirements receive a credit of 5.4% (90% of the total) against the FUTA Tax.
- Failure to meet federal requirements, including timely repayment of title XII loans, will result in a FUTA tax credit reduction.

FUTA Tax Credit Reduction - Examples

	Kansas	9 States Facing a FUTA Credit Reduction*	U.S Virgin Islands**	Cost of 0.3% FUTA Credit Reduction
Potential 2022 FUTA Tax Rate	0.6%	0.9%	4.7%	
Cost Per Employee	$ 42	$63	$329	
Employer Cost - 1,000 Employees	$42,000	$63,000	$329,000	$21,000
Employer Cost - 5,000 Employees	$210,000	$315,000	$1,645,000	$105,000
Employer Cost - 20,000 Employees	$840,000	$1,260,000	$6,580,000	$420,000

*California, Colorado, Connecticut, Illinois, Massachusetts, Minnesota, New Jersey, New York, & Pennsylvania
** U.S. Virgin Islands face a 3.6% FUTA tax credit reduction and an additional 0.5% Benefit Cost Rate Add-On for a total FUTA tax rate of 4.7% (6.0% FUTA tax rate - FUTA Tax Credit (5.4% - 3.6% = 1.8% reduction) = 4.2% + 0.5% (BCR Add-On) = 4.7%

- Even a modest tax credit reduction of 0.3% will result in a six-figure increase to the tax bills of employers with more then 5,000 employees in those 9 states.
  - California for example, must satisfy $19 billion in title XII loans by November 10, 2022, to avoid the expected tax credit reduction.

UI Trust Fund Balance

- Pandemic benefits were funded by the federal government and had **no effect** on the trust fund.
- Kansas entered the pandemic with one of the healthiest trust funds in the nation. The fund remained cash flow positive and outperformed projections during the pandemic, and today our balance has effectively returned to the pre-pandemic level.
- 19 states have taken out loans from USDOL to continue payment of benefits during the pandemic.

Trust Fund Balance

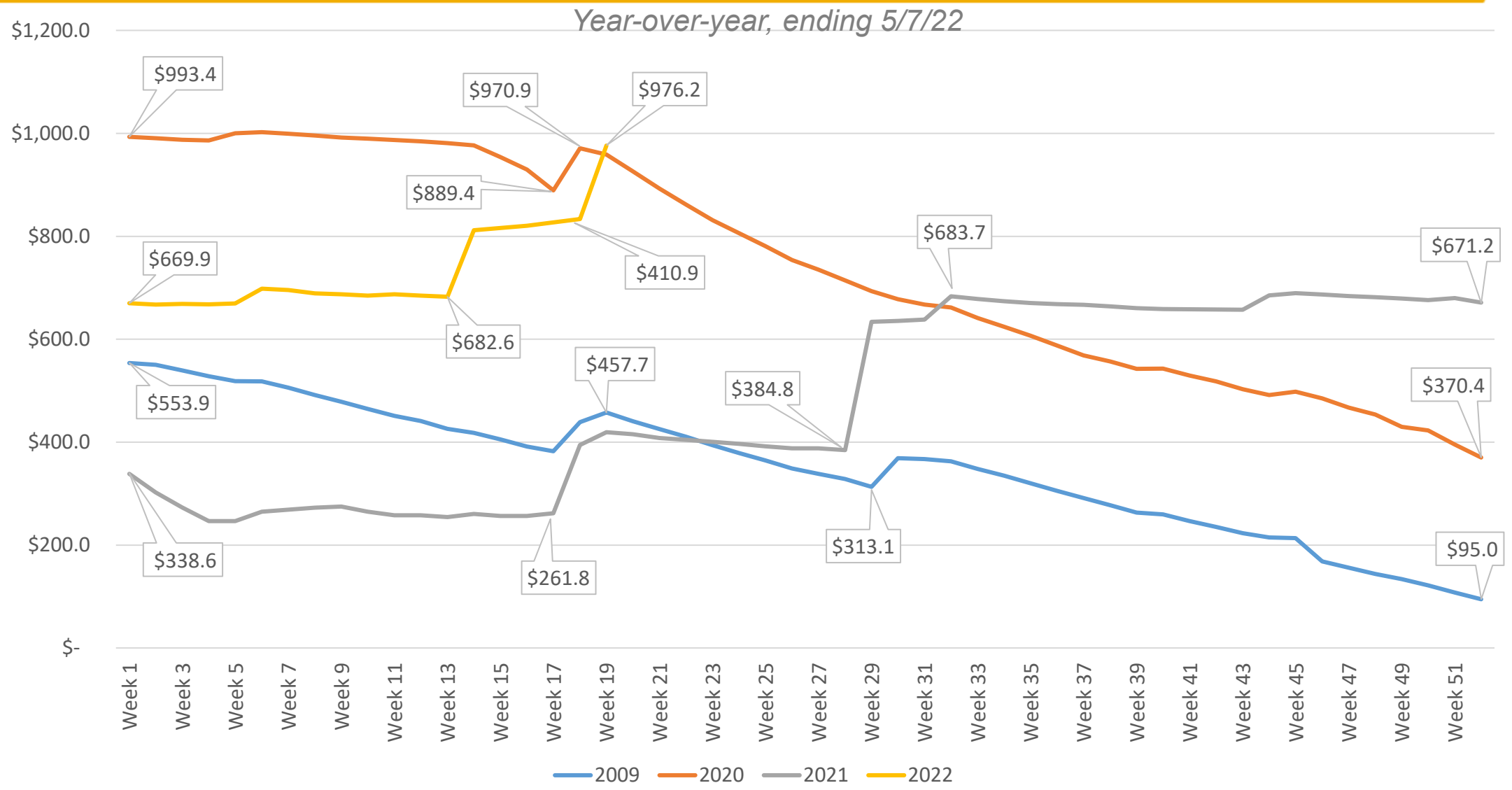
$976,170,651
Trust Fund Balance (May 7, 2022)

$801,460,601
Trust Fund balance (January 1, 2022)

$445,843,307
Trust Fund balance (January 1, 2021)

$998,544,728
Trust Fund balance (January 1, 2020)

Trust Fund Balance (in Millions)



Source: Kansas Department of Labor, Labor Market Information Services; Fiscal 2112 Files

Questions?

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