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## Kentucky Will Forego \$90 Million for Jobless Workers Unless Unemployment Insurance Updates Made by August

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### Summary

Kentucky stands to miss out on \$90 million in federal incentive monies unless it enacts measures by August 2011 to modernize its unemployment insurance system. Those changes would increase access for a portion of low-wage workers, women, part-time workers and the long-term unemployed. In the last two years, 38 states have acted to receive at least partial incentive monies, and 32 states have made changes to access their full incentives. Kentucky did not include “unemployment insurance modernization” in changes enacted in a 2010 special session, and remains one of the holdout states. Action on this issue would provide assistance to Kentucky’s struggling families, inject additional dollars into a sluggish economy and begin to address major holes in the state’s unemployment insurance system.

### What is at risk

The American Recovery and Reinvestment Act, passed in January 2009, included incentive money for states to modernize their unemployment insurance systems to take into account changes in the economy and the labor market since unemployment insurance was founded in 1935, as well as technological advances in claims processing. In response, 38 states have made at least some of the changes to receive partial incentive monies,

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**Only one in four unemployed workers in Kentucky currently collect state unemployment benefits, ranking Kentucky 47<sup>th</sup> among the states.**

and 32 states have made all of the changes to access their full incentives (Table 1). Kentucky is one of the 12 states that have received no incentive dollars.<sup>1</sup> The state has until August 2011 to modernize its system and access \$90 million for unemployed workers.

In addition to receiving incentive money, modernization efforts would expand access to unemployment insurance for groups of workers who have the hardest time collecting benefits, including low-wage workers, women, part-time workers and the long-term unemployed. In the current recession, Kentucky has only a 25 percent unemployment insurance reciprocity rate, meaning that only one in four unemployed workers collect state unemployment benefits.<sup>2</sup> This is one of the lowest reciprocity rates in the

country, ranking Kentucky 47th among the states.<sup>3</sup> And Kentucky has the eighth-highest unemployment rate among the states, at 10.2 percent.<sup>4</sup> Of the seven states with higher unemployment rates, all but one (Florida) have acted to receive full incentive funding.

To modernize its unemployment insurance system and access the incentive dollars, Kentucky first must adopt the “Alternative Base Period” for calculating eligibility. The existing eligibility system looks at the first four of the last five completed quarters (three month periods) of work when determining whether an individual can qualify. That approach fails to take into account the most recent three to six months of work, and is a relic of a time when paper processing made for significant delays in information. Too often, the result is the exclusion of newer workers and people in high turnover jobs from benefits. As the National Employment Law Project has shown, it is often very low-income workers--those most in need of unemployment insurance benefits-- who are prevented from receiving benefits as a result.<sup>5</sup>

**Table 1: State Action to Modernize Unemployment Insurance and Access Federal Incentives**

Full Incentive Funding	Partial Incentive Funding	No Incentive Funding
Alaska	Michigan	Alabama
Arkansas	Ohio	Arizona
California	Utah	Florida
Colorado	Virginia	Indiana
Connecticut	Washington	<b>Kentucky</b>
Delaware	West Virginia	Louisiana
DC		Mississippi
Georgia		Missouri
Hawaii		North Dakota
Idaho		Pennsylvania
Illinois		Texas
Iowa		Wyoming
Kansas		
Maine		
Maryland		
Massachusetts		
Minnesota		
Montana		
Nebraska		
Nevada		
New Hampshire		
New Jersey		
New Mexico		
New York		
North Carolina		
Oklahoma		
Oregon		
Rhode Island		
South Carolina		
South Dakota		
Tennessee		
Vermont		
Wisconsin		

Source: National Employment Law Project

In states with an Alternative Base Period, if an individual doesn’t qualify by the conventional method of determining eligibility, their eligibility is reconsidered using the most recent four completed quarters. If Kentucky enacted this change, it could access one-third of the federal incentive dollars, or \$30 million. Kentucky is one of just a dozen states that have not yet adopted the Alternative Base Period.

If Kentucky first adopted the Alternative Base Period, the state could then access the other two-thirds of the incentive dollars (\$60 million) by adopting two of the following four expansions of eligibility:

- Prohibiting disqualification for eligible part-time workers who are seeking part-time work (currently, they must be seeking full-time work).
- Prohibiting disqualification for those who quit their jobs for compelling family reasons, including domestic violence, illness or disability of immediate family members, and those who are moving because of a spouse.
- Allowing an additional 26 weeks of eligibility for workers enrolled in training programs.
- Allowing an income allowance of at least \$15 per week for each dependent in the worker's household.

These options seek to bring the unemployment insurance system in alignment with the current reality facing workers: the spread of part-time work, the reality of increased geographic mobility, the role many people take on as family care-givers, the challenges facing individuals in abusive relationships, the increased need for training to access new and better jobs, and the meagerness of benefits for those with families. These common-sense expansions are becoming the norm, and the National Employment Law Project estimates that 14,217 workers in Kentucky would benefit from the modernization changes each year.<sup>6</sup> Among the states that have adopted some or all of these modernization reforms are Arkansas, Georgia, West Virginia, Tennessee, North Carolina, South Carolina, Virginia and Ohio.

### Unemployment insurance reforms of 2010

In 2009, Governor Beshear announced the creation of an unemployment insurance task force to examine issues related to the solvency of Kentucky's unemployment insurance trust fund. The recession greatly expanded demand for benefits, and in January 2009 Kentucky ran out of dollars in its trust fund to cover existing claims. Kentucky is one of 31 states that have had to borrow from the federal government to pay unemployment insurance benefits. As of the end of October, the state had borrowed \$795 million.<sup>7</sup>

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Although the recession was the immediate cause of trust fund insolvency, the problem was exacerbated by a structural imbalance in the unemployment insurance system. Since 2000, the state paid out more in unemployment insurance benefits than it received through employer taxes, and made up the difference by drawing on trust fund reserves. According to the report, the imbalance was created by past decisions of the legislature to expand benefits while reducing unemployment insurance taxes.

The Governor established the task force in part because federal unemployment insurance taxes were set to automatically increase to begin paying back the federal balance, and the Governor wanted to take an approach that included both tax increases and benefit reductions. The task force met throughout 2009 and issued a final report in January 2010.<sup>8</sup> The report included 17 recommendations aimed at gradually restoring solvency to the trust fund and long-term sustainability to the unemployment insurance system. Those reforms include increasing the amount of wages for which employers must pay unemployment insurance taxes and decreasing the share of

wages that unemployment benefits replace. The plan would result in smaller employer tax increases than the automatic increase would mandate, and would lead to a much higher Trust Fund balance than not taking action.

While trust fund solvency was the focus of the task force, the group also looked at unemployment insurance modernization reforms but decided to delay action. The report addressed some of the costs associated with modernization but did not examine the ways in which modernization would align the unemployment insurance system with the current reality facing workers. An analysis by Dr. Christopher O’Leary suggested that the cost of moving to an alternative base period would exceed the bonus stimulus monies by between 2.5 to 5.4 years. However, the report also noted that UI benefit payments would increase between only 1.17 percent and 1.55 percent as a result. An analysis of the costs of the four options in the second phase of modernization expansions was only partially completed.

The report concluded that “the task force believes that the decision to accept modernization monies would best be saved for a later date. The ARRA permits states to consider modernization through 2011. Because of the current financial condition of the UI Trust Fund, it is appropriate to address program expansion only after the structural imbalance issues are addressed.”

In the 2010 Special Session of the General Assembly, the legislature passed and the Governor signed House Bill 5, which contained the recommendations of the task force. Like the task force report, the bill did not include unemployment insurance modernization measures.

### [Making unemployment insurance accessible](#)

Unemployment insurance provides a basic safety net for workers who have lost their jobs and helps prevent poverty and homelessness. But Kentucky currently ranks near the bottom nationally when it comes to the share of the unemployed who collect state benefits. That problem in part reflects the erosion of a program that has failed to adjust to changing times. Among those excluded are some of the lowest-wage workers.

Like 31 other states, Kentucky has had to borrow from the federal government to address its current deficit in unemployment insurance, and was forced to address the solvency of its trust fund. But many of the other states that have had to borrow from the federal government also enacted unemployment insurance modernization at the same time. Those states are acting to access the incentive money, but also because a modernized system that better aligns with the reality now facing workers is becoming the recognized standard around the country.

If Kentucky takes action now rather than further delaying making necessary updates, it can access \$90 million to help workers who have lost their jobs at a time of serious economic troubles. Kentucky has worked to establish a plan that will bring the system to financial solvency over time—and did so in a way that helped keep employers from facing higher taxes. Now that that work is done, the state should turn to modernizing its outdated eligibility rules. It has until August 2011 to take this action.

*The Kentucky Center for Economic Policy (KCEP) was founded in 2011 with the purpose of conducting research, analysis and education on important state fiscal and economic policy issues. KCEP seeks to create economic opportunity and improve the quality of life for all Kentuckians. The center is an initiative of the Mountain*

*Association for Community Economic Development (MACED) and is supported by foundation grants and individual donors. Please visit KCEP's website at [www.kypolicy.org](http://www.kypolicy.org).*

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<sup>1</sup> Additionally, Kentucky is one of five states (along with Alabama, Florida, Mississippi and Missouri) that have never enacted any of the unemployment insurance modernization reforms. Some states have enacted some of the measure but because they have not put in place the Alternative Base Period, which is explained in the brief, they are not yet eligible for incentive monies.

<sup>2</sup> A total of 53 percent of unemployed Kentuckians received either state or federal unemployment insurance benefits in the most recent quarter. That number is also comparatively low, ranking Kentucky 42<sup>nd</sup> among the states. U. S. Department of Labor, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services, "UI Data Summary: 3<sup>rd</sup> Quarter Calendar Year 2010," December 2010, <http://www.oui.doleta.gov/unemploy/content/data.asp>.

<sup>3</sup> U. S. Department of Labor, Office of Unemployment Insurance, Division of Fiscal and Actuarial Services, "UI Data Summary: 3<sup>rd</sup> Quarter Calendar Year 2010."

<sup>4</sup> Bureau of Labor Statistics, Local Area Unemployment Statistics, Unemployment Rates for States November 2010, <http://www.bls.gov/web/laus/laumstrk.htm>.

<sup>5</sup> Andrew Stettner, Heather Boushey and Jeffrey Wenger, "Clearing the Path to Unemployment Insurance for Low-Wage Workers: An Analysis of Alternative Base Period Implementation," National Employment Law Project and Center for Economic and Policy Research, August 2005, [http://nelp.3cdn.net/b0d0ea6db2fd39091\\_lrm6bqi7l.pdf](http://nelp.3cdn.net/b0d0ea6db2fd39091_lrm6bqi7l.pdf).

<sup>6</sup> National Employment Law Project, "Unemployment Insurance Modernization Question and Answer: Filling the Gaps in the Unemployment Safety Net While Stimulating the Economy," December 14, 2010, [http://nelp.3cdn.net/d2e0a0eb686ddc0826\\_v4m6bx17s.pdf](http://nelp.3cdn.net/d2e0a0eb686ddc0826_v4m6bx17s.pdf).

<sup>7</sup> National Employment Law Project, "Unemployment Insurance Solvency—Key Measures, November 2010," <http://www.nelp.org/page/-/UI/2010/uisolvencykeymeasures.pdf?nocdn=1>.

<sup>8</sup> Governor's Task Force on Unemployment Insurance, "Ensuring Long-Term Stability of Kentucky's UI System: Final Report of the Unemployment Insurance Task Force Established by Governor Steven L. Beshear," January 2010, <http://workforce.ky.gov/news/UITFReport.pdf>.