

## Legislators increase benefits and shift the tax burden

**T**he 25th Alaska Legislature has made two significant changes to Alaska's unemployment insurance system. One increases the maximum weekly benefit by 49 percent from \$248 to \$370 (see Exhibit 1) and raises the ceiling for qualifying wages from \$26,500 to \$41,750. The second shifts more of the tax burden from employers to workers. Workers pay 20 percent of the cost now; their portion will gradually increase to 27 percent by 2010.

Gov. Sarah Palin signed Senate Bill 120 into law May 28, and the changes will take effect Jan. 1, 2009. Many consider the changes, particularly the increased benefit and ceiling for qualifying wages, as an overall improvement to Alaska's unemployment insurance system.

Alaska's benefit schedule hasn't been updated since 1997. The ratio of the state's maximum benefit amount to its average weekly wage – ideally, the benefit should be at least half – had declined markedly. (See Exhibit 2). Secondly, Alaska's average-wage replacement rate was the lowest in the U.S. in 2006.

The changes will add an estimated \$17 million a year to the cost of Alaska's unemployment insurance benefits, which now is about \$105 million a year, based on a current three-year average.

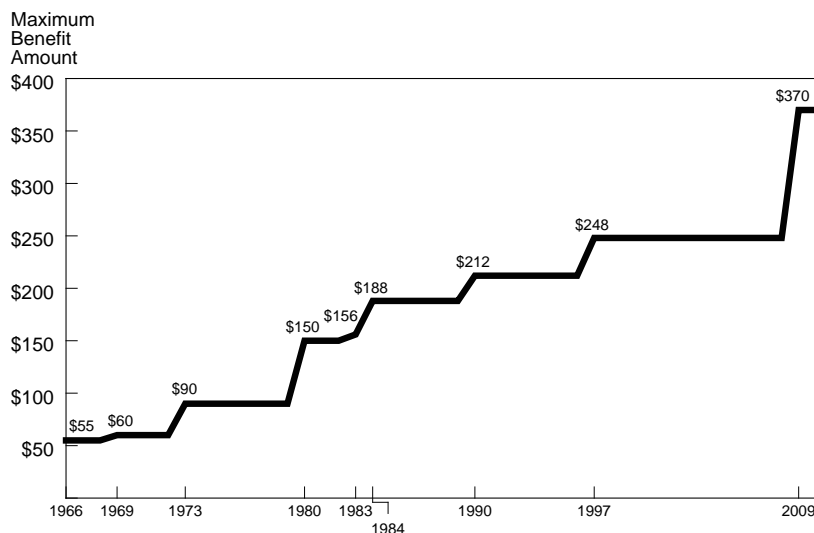
Employers and workers pay for the cost of Alaska's program – unemployment insurance tax rates are calculated to collect revenue equal to the amount of benefits paid out.<sup>1</sup> Based on cost estimates, the average employer will see a \$25 increase in unemployment insurance tax for each worker by 2013, from the current \$470 to \$495, and workers will pay an additional \$37 each by 2013. Each worker's annual share of the tax will go from the present \$157 maximum to about \$194 for those earning at or above the current taxable wage base. (The taxable wage base this year is \$31,300.)<sup>2</sup>

Because costs to the unemployment insurance system are based on three years of data, 2013 will be the first year the full costs will be realized in the system.

<sup>1</sup> The federal government pays for the administration of each state's unemployment insurance program.

<sup>2</sup> The taxable wage base is the maximum amount of each worker's wages that are subject to state unemployment insurance taxes; wages earned in excess of that amount aren't taxed. Alaska's taxable wage base is always 75 percent of the statewide average annual wage. Because the statewide average annual wage changes each year, the taxable wage base does too.

### 1 Alaska's Maximum Weekly Benefit Unemployment insurance, 1966 to 2009



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Alaska's situation

Alaska has a high-cost unemployment insurance system, largely because of the highly seasonal nature of its economy and the high usage of the system by its work force. Alaska also has a relatively high average wage and its unemployment insurance benefits tend to be low.

The state continues to have one of the highest participation rates in the country: it ranked fourth in 2007 in terms of the percentage of unemployed workers who receive unemployment benefits. It ranked third in 2006 and second in 2005. Since the purpose of unemployment insurance programs is to both aid unemployed workers and inject money into the local economy, an above-average participation rate is a good indicator for a state program.

Alaska paid out \$103.4 million in unemployment insurance benefits in 2007 to 47,776 people – 16 percent of the state's work force covered by unemployment insurance. Roughly 98 percent of the state's nonagricultural wage and salary workers are covered by unemployment insurance.<sup>3</sup>

Alaska ranked 18th among all states for its state-wide average weekly wage (\$782) in 2006 and came in 48th place with an average weekly benefit of \$198 that year.

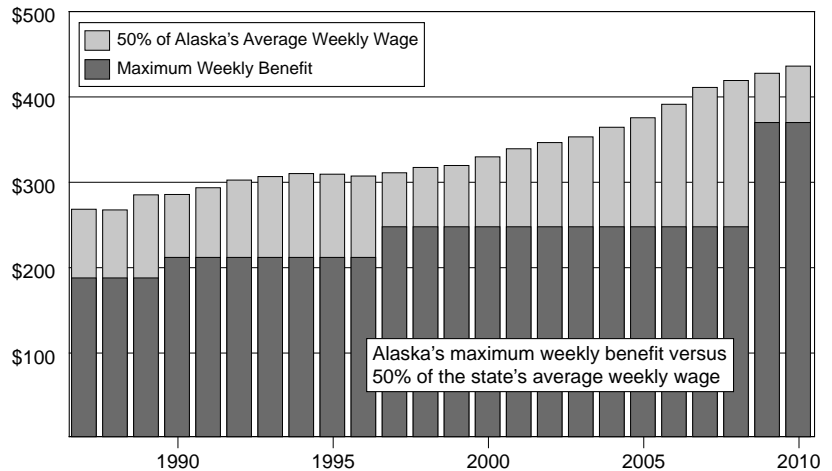
Since the start of unemployment insurance in the United States, one of the underlying principles has been that the benefit amount should equal roughly 50 percent of a worker's wage and it would therefore "replace" those wages.

The state was in last place in the nation in 2006, as mentioned earlier, and in 2005, based on its U.S. Department of Labor average-wage replacement rate.<sup>4</sup> Alaska has historically placed low.

<sup>3</sup> Wage and salary workers who are typically not covered by unemployment insurance include full-commission salespeople, domestic workers, unpaid family workers, and elected and appointed officials. Self-employed workers, including fishermen, are generally not covered by unemployment insurance.

<sup>4</sup> The rate is an artificial measuring tool used to compare states. For more detail, see *Trends'* February 2007 issue.

## The Benefit System is Updated Alaska, 1987 to 2010 **2**



Note: Wages for 2008 to 2010 are projections assuming a growth rate of 2 percent.

Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

## Some history

Since 1939, when Alaska, then as a territory, paid its first benefit payment to unemployed workers, Alaska lawmakers have increased the benefit schedule to keep up with the growing value of wages over time. These changes affected the benefit schedule in different ways – sometimes all benefits were increased, while other changes increased the minimum or maximum benefit amount.

The body of the current benefit schedule was put in effect in 1990 and was designed, roughly, following the 50 percent wage replacement principle.<sup>5</sup>

The 1990 benefit schedule began with a \$44 minimum benefit and \$212 maximum benefit, based on wages between \$1,000 and \$22,000.

The last changes were in 1997, when the Legislature added 20 steps to the top of the schedule, raising the maximum weekly benefit from

<sup>5</sup> That doesn't mean, though, that the entire schedule meets the 50 percent principle. With the 1990 schedule, for instance, the wage replacement was well above 50 percent at the lower end of the schedule. It hit 50 percent when the weekly benefit amount reached \$200. After that, the wage replacement declined below 50 percent as the benefit amounts increased to \$212, the 1990 maximum benefit.

# 3 The Number of Steps Increase by About a Third in 2009

## Unemployment insurance weekly benefit schedule, Alaska

Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009	Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009	Base Period Wages		Weekly Benefit Amount Starting Jan. 1, 2009
At Least	But Less Than		At Least	But Less Than		At Least	But Less Than	
0	\$2,500	0	\$15,250	\$15,500	\$158	\$28,250	\$28,500	\$262
\$2,500	\$2,750	\$56	\$15,500	\$15,750	\$160	\$28,500	\$28,750	\$264
\$2,750	\$3,000	\$58	\$15,750	\$16,000	\$162	\$28,750	\$29,000	\$266
\$3,000	\$3,250	\$60	\$16,000	\$16,250	\$164	\$29,000	\$29,250	\$268
\$3,250	\$3,500	\$62	\$16,250	\$16,500	\$166	\$29,250	\$29,500	\$270
\$3,500	\$3,750	\$64	\$16,500	\$16,750	\$168	\$29,500	\$29,750	\$272
\$3,750	\$4,000	\$66	\$16,750	\$17,000	\$170	\$29,750	\$30,000	\$274
\$4,000	\$4,250	\$68	\$17,000	\$17,250	\$172	\$30,000	\$30,250	\$276
\$4,250	\$4,500	\$70	\$17,250	\$17,500	\$174	\$30,250	\$30,500	\$278
\$4,500	\$4,750	\$72	\$17,500	\$17,750	\$176	\$30,500	\$30,750	\$280
\$4,750	\$5,000	\$74	\$17,750	\$18,000	\$178	\$30,750	\$31,000	\$282
\$5,000	\$5,250	\$76	\$18,000	\$18,250	\$180	\$31,000	\$31,250	\$284
\$5,250	\$5,500	\$78	\$18,250	\$18,500	\$182	\$31,250	\$31,500	\$286
\$5,500	\$5,750	\$80	\$18,500	\$18,750	\$184	\$31,500	\$31,750	\$288
\$5,750	\$6,000	\$82	\$18,750	\$19,000	\$186	\$31,750	\$32,000	\$290
\$6,000	\$6,250	\$84	\$19,000	\$19,250	\$188	\$32,000	\$32,250	\$292
\$6,250	\$6,500	\$86	\$19,250	\$19,500	\$190	\$32,250	\$32,500	\$294
\$6,500	\$6,750	\$88	\$19,500	\$19,750	\$192	\$32,500	\$32,750	\$296
\$6,750	\$7,000	\$90	\$19,750	\$20,000	\$194	\$32,750	\$33,000	\$298
\$7,000	\$7,250	\$92	\$20,000	\$20,250	\$196	\$33,000	\$33,250	\$300
\$7,250	\$7,500	\$94	\$20,250	\$20,500	\$198	\$33,250	\$33,500	\$302
\$7,500	\$7,750	\$96	\$20,500	\$20,750	\$200	\$33,500	\$33,750	\$304
\$7,750	\$8,000	\$98	\$20,750	\$21,000	\$202	\$33,750	\$34,000	\$306
\$8,000	\$8,250	\$100	\$21,000	\$21,250	\$204	\$34,000	\$34,250	\$308
\$8,250	\$8,500	\$102	\$21,250	\$21,500	\$206	\$34,250	\$34,500	\$310
\$8,500	\$8,750	\$104	\$21,500	\$21,750	\$208	\$34,500	\$34,750	\$312
\$8,750	\$9,000	\$106	\$21,750	\$22,000	\$210	\$34,750	\$35,000	\$314
\$9,000	\$9,250	\$108	\$22,000	\$22,250	\$212	\$35,000	\$35,250	\$316
\$9,250	\$9,500	\$110	\$22,250	\$22,500	\$214	\$35,250	\$35,500	\$318
\$9,500	\$9,750	\$112	\$22,500	\$22,750	\$216	\$35,500	\$35,750	\$320
\$9,750	\$10,000	\$114	\$22,750	\$23,000	\$218	\$35,750	\$36,000	\$322
\$10,000	\$10,250	\$116	\$23,000	\$23,250	\$220	\$36,000	\$36,250	\$324
\$10,250	\$10,500	\$118	\$23,250	\$23,500	\$222	\$36,250	\$36,500	\$326
\$10,500	\$10,750	\$120	\$23,500	\$23,750	\$224	\$36,500	\$36,750	\$328
\$10,750	\$11,000	\$122	\$23,750	\$24,000	\$226	\$36,750	\$37,000	\$330
\$11,000	\$11,250	\$124	\$24,000	\$24,250	\$228	\$37,000	\$37,250	\$332
\$11,250	\$11,500	\$126	\$24,250	\$24,500	\$230	\$37,250	\$37,500	\$334
\$11,500	\$11,750	\$128	\$24,500	\$24,750	\$232	\$37,500	\$37,750	\$336
\$11,750	\$12,000	\$130	\$24,750	\$25,000	\$234	\$37,750	\$38,000	\$338
\$12,000	\$12,250	\$132	\$25,000	\$25,250	\$236	\$38,000	\$38,250	\$340
\$12,250	\$12,500	\$134	\$25,250	\$25,500	\$238	\$38,250	\$38,500	\$342
\$12,500	\$12,750	\$136	\$25,500	\$25,750	\$240	\$38,500	\$38,750	\$344
\$12,750	\$13,000	\$138	\$25,750	\$26,000	\$242	\$38,750	\$39,000	\$346
\$13,000	\$13,250	\$140	\$26,000	\$26,250	\$244	\$39,000	\$39,250	\$348
\$13,250	\$13,500	\$142	\$26,250	\$26,500	\$246	\$39,250	\$39,500	\$350
\$13,500	\$13,750	\$144	\$26,500	\$26,750	\$248	\$39,500	\$39,750	\$352
\$13,750	\$14,000	\$146	\$26,750	\$27,000	\$250	\$39,750	\$40,000	\$354
\$14,000	\$14,250	\$148	\$27,000	\$27,250	\$252	\$40,000	\$40,250	\$356
\$14,250	\$14,500	\$150	\$27,250	\$27,500	\$254	\$40,250	\$40,500	\$358
\$14,500	\$14,750	\$152	\$27,500	\$27,750	\$256	\$40,500	\$40,750	\$360
\$14,750	\$15,000	\$154	\$27,750	\$28,000	\$258	\$40,750	\$41,000	\$362
\$15,000	\$15,250	\$156	\$28,000	\$28,250	\$260	\$41,000	\$41,250	\$364
						\$41,250	\$41,500	\$366
						\$41,500	\$41,750	\$368
						\$41,750	\$42,000	\$370
						\$42,000		\$370

Note: Beginning Jan. 1, 2009, when the amendment is effective, benefits will be deleted for wages of at least \$1,000 but less than \$2,500 and benefits will be added (the shaded area) for wages of at least \$26,750 but less than or equal to \$41,750.

Source: Alaska Statute 23.20.350(d), amendment effective Jan. 1, 2009.

\$212 to \$248 and increasing the qualifying wages from \$22,000 to \$26,500.

## The First Six Steps Are Deleted

### The start of the benefit schedule

# 4

### The new ceiling

The Legislature's change for 2009 adds 61 steps to the existing benefit schedule's 105 steps to accommodate the new \$370 maximum weekly benefit and \$41,750 ceiling for base period qualifying wages. (See Exhibit 3.) The base period refers to the first four of the five most recently completed quarters.

Just as it is with the current \$26,500 ceiling, if claimants make more than \$41,750 in a year, they'll be limited to the \$370 maximum weekly benefit. Someone earning \$41,750 a year will receive the same \$370 maximum weekly benefit as someone earning \$60,000 a year.

With the \$26,500 ceiling, typically a third of all workers receiving unemployment benefits qualified for the maximum benefit amount. With the new \$41,750 ceiling, it's estimated that roughly 15 percent of all workers receiving benefits will receive the maximum benefit amount.

### Changes at the bottom of the benefit schedule

Alaska's unemployed workers have qualified for a minimum weekly benefit amount, based on \$1,000 in annual wages since October 1980 – 28 years ago. Many legislators say the \$1,000 starting point is out-of-date, and it raises questions about a worker's attachment to the labor force.

The new legislation addresses that concern by eliminating the first six steps from the benefit schedule. (See Exhibit 4.) The starting point, beginning on Jan. 1, 2009, will be a minimum benefit of \$56, based on earnings of \$2,500.

At today's \$7.15 an hour minimum wage, with the \$1,000 minimum, it takes 18 days of full-time work to qualify for a benefit. After the \$2,500 minimum takes effect Jan. 1, 2009, 44 days of full-time work will be required to qualify for a benefit.

2008			2009		
Base Period Wages		Weekly Benefit Amount	Base Period Wages		Weekly Benefit Amount
At Least	But Less Than		At Least	But Less Than	
0	\$1,000	0			
\$1,000	\$1,250	\$44			
\$1,250	\$1,500	\$46			
\$1,500	\$1,750	\$48			
\$1,750	\$2,000	\$50			
\$2,000	\$2,250	\$52			
\$2,250	\$2,500	\$54	0	\$2,500	0
\$2,500	\$2,750	\$56	\$2,500	\$2,750	\$56
\$2,750	\$3,000	\$58	\$2,750	\$3,000	\$58
\$3,000	\$3,250	\$60	\$3,000	\$3,250	\$60

Note: Beginning Jan. 1, 2009, when the amendment is effective, benefits will be deleted for wages of at least \$1,000 but less than \$2,500 and benefits will be added for wages of at least \$26,750 but less than or equal to \$41,750.

Source: Alaska Statute 23.20.350(d), amendment effective Jan. 1, 2009.

### Dependent's benefits

Dependent's benefits didn't change. Alaska is one of 13 states that provides additional unemployment insurance benefits to claimants with dependents. Claimants can receive \$24 per dependent for up to three dependents in addition to their weekly benefit amount. Typically, 40 percent of Alaska's claimants claim dependents and 10 percent of the benefits that Alaska pays each year go to dependent allowances.

### Standard for setting the maximum benefit

The prevailing practice among the states is to set the maximum weekly benefit amount as a percentage of each state's average annual weekly wage, with 50 percent being the minimum. The majority of states do it automatically with an economic adjustment feature that recalculates each year.

The Alaska Legislature chose to keep the state's fixed benefit schedule. Changes to the schedule, as in the past, must be approved by the Legislature.

In January 2007, at the start of the first session of the 25th Legislature, the most current aver-

# 5 Mechanics of Tax Rate Calculations Alaska's unemployment insurance system

Economic Inputs
<ol style="list-style-type: none"> <li>1. Statewide benefit costs for the last three fiscal years<sup>1</sup></li> <li>2. Total wages of taxable employers statewide for the first three of the last four fiscal years</li> <li>3. Taxable wages statewide in the last fiscal year</li> <li>4. Total wages statewide in the last fiscal year</li> </ol>
Basic Calculations
<p>A = Benefit cost as a percent of wages [(1) divided by (2)]            B = Percent of wages that are taxable [(3) divided by (4)]            A divided by B = Average Benefit Cost Rate (ABCR)</p>
Employer and Employee Shares (For 2008)
<p>80 percent of the ABCR = Average Employer Tax Rate            20 percent of the ABCR = Employee Tax Rate</p>
Employer Calculations
<ol style="list-style-type: none"> <li>1. A solvency tax, solvency credit or none are applied to employer tax rate. (A solvency credit is in effect for 2008).</li> <li>2. Employers are assigned to 20 rate classes:            Classes 1 to 9 have less-than-average tax rates            Classes 10 to 11 have the average tax rate            Classes 12 to 20 have higher-than-average tax rates</li> <li>3. New employers are assigned an industry average rate.</li> </ol>
<p><sup>1</sup> References to the fiscal year are to the state fiscal year. For instance, fiscal year 2009 runs from July 1, 2008, to June 30, 2009.  <i>Source: Alaska Statutes 23.20.285 to 23.20.290; and Alaska Department of Labor and Workforce Development, Research and Analysis Section</i></p>

age weekly wage was \$751.<sup>6</sup> The \$370 maximum benefit amount is nearly 50 percent of that amount – 49.3 percent. The state's average weekly wage was \$783 in 2006 and \$822 in 2007; \$370 represents 47.3 percent and 45.0 percent, respectively, of those amounts.

Without a change to the system, the replacement rate in 2007 would have been re-

<sup>6</sup> The \$751 is based on 2005 wage data, the most current available in January 2007.

duced to 30.2 percent of the average weekly wage.

## The split

The total amount of revenue needed to pay for annual benefit costs is expressed as a percentage of total wages in Alaska's economy subject to taxation, called the "average benefit cost ratio," or ABCR.<sup>7</sup> (See Exhibit 5.) The split has been 80/20 since 1997: 80 percent of the ABCR is the average employer tax rate, and 20 percent of the ABCR is the tax rate for all workers. (See Exhibit 6.)

On Jan. 1, 2009, that split will change to 76 percent of the ABCR for the average employer tax rate and 24 percent for the tax rate for all workers.

Then on Jan. 1, 2010, the split will shift to 73 percent of the ABCR for the average employer tax rate and 27 percent for the tax rate for all workers.

Alaska is one of three states where workers are required to help finance the unemployment insurance system. Pennsylvania only collects taxes from workers when there are solvency problems with its trust fund. New Jersey collects worker taxes each year. Workers there pay a tax rate of 0.3825 percent on a taxable wage base of up to \$27,700 for a maximum tax of \$106.

Alaska's statute dictates that tax rates must fall within defined minimums and maximums. For employers, the minimum tax rate is 1.0 percent of an employer's taxable payroll; the maximum rate is 6.5 percent. For workers, the minimum tax rate is 0.5 percent of a worker's taxable gross wages; the maximum is 1.0 percent.

For 2008, average employers are paying 1.5 percent on wages up to \$31,300 for a maximum tax of \$470 and workers are paying 0.5 percent on wages up to \$31,300 for a maximum tax of \$157. Because that taxable wage base – the \$31,300 amount in 2008 – changes each year, the tax rates and maximum taxes will also change.

<sup>7</sup> The ABCR is expressed as a decimal. For 2008, it's 0.019979.

After the new changes become effective Jan. 1, 2009, the tax rates for Alaska employers should begin a slow decline immediately; the exact amount isn't known.

Since Alaska workers have been paying the minimum legal unemployment insurance tax rate (0.5 percent) for several years, that rate will likely continue for 2009, despite the changes in tax share in 2009.

*The Department of Labor and Workforce Development's Research and Analysis Section is responsible for identifying how changes to Alaska's unemployment insurance system will impact employers, workers, the unemployed and the overall health of the unemployment insurance trust fund, where the tax revenue is held.*

## The Tax Burden Shifts Workers pay a bigger share **6**

Employer and Employee Percentage Share of the Average Benefit Cost Rate		
Year	Average Employer	All Employees
1981	82 %	18 %
1997	80 %	20 %
2009	76 %	24 %
2010	73 %	27 %

*Source: Alaska Statute 23.20.290(c); and Alaska Department of Labor and Workforce Development, Research and Analysis Section*