Alaska's Unemployment Insurance

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The experience rating method

Experience rating, a component of state unemployment insurance systems throughout the U.S., is used to fairly allocate the share of tax burden among employers based on each employer's "experience" with unemployment benefits.

The purpose of an unemployment insurance (UI) financing system is to collect enough tax revenue to pay for the benefits being paid out and to maintain the solvency of the UI trust fund, where the tax revenue is held. (Tax money can only be used to pay benefits, not administrative costs.)[1]

Every state's financing system generally has two parts: the tax funding side that determines how much in taxes will be needed and the experience rating side that determines what share of the taxes each employer should pay. Other than that, it's probably fair to say that no two states' financing systems are exactly alike. There are, however, only four experience rating methods in use in the U.S., as outlined in this article. Alaska has used the payroll decline method since 1960; its underlying theory is that declines in payroll likely result in unemployed workers who will then use the unemployment system. The payroll decline method is fair, simple, inexpensive to administer and has proven its effectiveness over time. Alaska's system, as it was revised in 1980, has never been bankrupt and it has never had to borrow money, unlike some states in the last 25 years.

[1] The federal government pays for the administration of each state's unemployment program through administrative grants.

No experience rating method itself can ensure solvency or prevent bankruptcy, because it is only one part of the financing system. The experience rating method doesn't change the total amount of tax revenue that will be needed; it only determines each employer's share. But a good experience rating method, as part of a sound and effective financing system, is crucial.

The UI system and the insurance principle

Unemployment insurance is an economic stabilization program that has been part of the national economy since 1935. It was designed to be a self-financed system administered by each state, based on the insurance principle. To maintain solvency, tax revenues into the UI trust fund must cover the amount of benefits paid out, plus provide a reserve to carry the system through periods of recession. Under the insurance principle, everyone pays something in order to share the risk for all. To determine how much each employer pays – the experience rating – some states use the amount of UI benefits paid to former workers; other states, including Alaska, use more indirect measures.

In order for a state's UI financing system to be successful over the long term, it's critical that all the costs (the value of benefits paid) get allocated through the experience rating method. Any limitations on recapturing the true costs will eventually lead to erosion and insolvency concerns. Alaska's financing system recovers the full cost, which is why Alaska doesn't have the solvency deficit issues faced by several states. Maintaining solvency through a self-adjusting system provides the benefit of lower and more stable average tax rates over time than with a less flexible system.

Experience rating methods in the U.S.

The four experience rating methods base employers' tax rates on some experience factor in relation to an individual employer's payroll. Each method develops a "ratio" that allows each employer to be ranked by experience. Actual tax rates are assigned according to tax schedules under which employers with the most experience are assigned higher rates than those with lesser experience.

The following are examples of the experience rating methods. The first two methods use benefits paid to former workers to calculate experience ratings. The second two use indirect approaches by measuring the wages paid to benefit recipients or the changes in employers' payrolls.

Reserve Ratio Method – This is the earliest method and is used by 30 states, plus Washington, D.C., the Virgin Islands and Puerto Rico. Each employer has a reserve account, which is the result of total tax contributions paid in minus the cost of benefits to former workers paid out, for the cumulative life of the company. The employer's reserve is then divided by the average payroll for the last three years. The computed "reserve ratio" is used to assign the employer a tax rate from a tax schedule.

Benefit Ratio Method – In this method, used by 17 states, tax contributions aren't a factor like in the reserve ratio. Benefits paid to former workers are used, as in reserve ratio, but only the last few years of data are considered. A benefit ratio is computed by dividing benefit charges by payroll for the same time period; three years is typical. The tax rate could be assigned directly from the experience factor, in theory, but in practice rate tables are likely used.

Benefit Wage Ratio Method – Delaware and Oklahoma are the only states that use this method, which uses wages paid to workers receiving benefits instead of actual benefits paid. The benefit wage ratio is obtained by dividing "benefit wages" by payroll.

Payroll Decline Method – Alaska is the only state to use this method, although several states have used it in the past. Experience is measured, indirectly, by calculating changes in payroll from quarter to quarter. A minimum of four quarters of wage experience is required and a maximum of 12 quarters are used in the calculation.

New Alaska employers with fewer than four quarters of wage history are not experience-rated; instead they're assigned an industry average rate based on the average of rates assigned to experience-rated firms in the same industry.

A quick contrast

It is important to remember that there is no perfect experience rating method. Each has strengths and weaknesses, which is a technical topic beyond the focus of this article.

But overall, the initial appeal of the most common methods – reserve ratio and benefit ratio – is that they use cost data, the actual benefits paid from the UI system, rather than an indirect measure. These methods are referred to as charge-back methods because they attempt to account for costs that are charged against specific employers.

These methods, however, require a lot to administer: each employee is tracked; when an employee receives UI benefits, the cost of those benefits is traced back to each employer the employee worked for that year. Policymakers must determine how the costs are allocated when one employee works for several companies in a year, which costs should be paid by the entire employer pool and which should be paid by individual employers.

The methods that use indirect measures – benefit wage ratio and payroll decline – can avoid the complexity of the administrative detail required to track and assign benefit costs. The appeal of these methods is that they're simple and they allocate costs fairly.

An important feature of the payroll decline method is that employers are not charged for the workers who actually do collect benefits.

The 1980 reforms

The Alaska Legislature in 1980 approved changes to Alaska's UI financing system, creating the self-adjusting system in place today. Those changes have been a key to the success of Alaska's system, particularly following the 1986 crash in the state's oil prices.

The Legislature changed the number of rate classes in Alaska's system, but, overall, determined that due to its simplicity and fairness, the payroll decline method was the best of the four methods for Alaska.

Assigning UI tax rates in the payroll decline method

For each Alaska employer, declines in payroll, as a percent, or ratio, are computed for quarters in which a decline occurs. Payroll increases get a score of zero, which is good, as it indicates no decline has occurred. The average of all payroll declines, up to 12 quarters, is computed for the year.

All employers are then arrayed, from the smallest decline to the largest decline, so that roughly 5 percent of the employers fall into each of the 20 UI tax rate classes. Class 1 has the lowest tax rate; Class 20 has the highest. Class 21 is the penalty class; employers are put in this class as an administrative penalty.

Alaska Statute 23.20.290 provides a table that defines the 21 tax rate classes and a corresponding "experience factor" for each class.[2] (See Exhibit 1.)

The average employer tax rate is the result of a series of calculations that ends up being expressed as the statewide "average benefit cost rate," or ABCR, for the program. By definition, 80 percent of the ABCR is the "average employer tax rate" and 20 percent is the "employee tax rate" that's assigned to all employees covered by unemployment insurance. Alaska is just one of the three states that require workers to share the tax burden of the UI system. All workers in Alaska covered by unemployment insurance[3] pay the same UI tax rate.

Tax rate Classes 10 and 11 in the middle of the tax rate table receive the "average employer tax rate" and an experience factor of 1.00. The experience factor is a multiplier applied to the

[2] The statute also requires that computed tax rates must fall within defined minimums and maximums. For employers, the minimum UI tax rate is 1 percent of an employer's taxable payroll; the maximum tax rate is 6.5 percent of an employer's taxable payroll. For employees, the minimum tax rate is 0.5 of an employee's taxable gross earnings; the maximum tax rate is 1 percent of an employee's taxable gross earnings.

[3] The workers who are typically not covered by UI insurance include full-commission salespeople, elected and appointed officials, fishermen, domestics, unpaid family workers and the self-employed. This group has been 1.7 percent of the Alaska work force for the last 10 years.

"average rate" which reduces the tax rate when going toward Class 1. Conversely, the experience factor ratio increases as the tax rate class moves higher toward Class 20.

Summary

Alaska has a financially sound UI trust fund because its financing system was designed to be self-adjusting to economic changes. Benefit levels are fixed in statute, providing some control over the source of cost to the system, while taxes are determined by economic computations that maintain system solvency. Alaska's experience rating method, while mathematically more complex in its foundation than other major methods, is easy to understand, simple to administer and is an effective component of its financing system.

Economists periodically discuss in* Alaska Economic Trends *the different aspects of Alaska's unemployment insurance system. See the February 2005 issue for a detailed look at the program's financing system, specifically the computation of UI tax rates. See the March 2004 issue for an overview of when UI supplemental benefit programs kick in after the 26 weeks of regular UI benefits. The March 2003 issue takes a look at UI claimants from 1992 to 2001, their characteristics and the changes in the population.

Tax Rate Classes and Experience Factors, AS 23.20.290 1

Tax Class	Experience Factor
1	0.40
2	0.45
3	0.50
4	0.55
5	0.60
6	0.65
7	0.70
8	0.80
9	0.90
10	1.00
11	1.00
12	1.10
13	1.20
14	1.30
15	1.35
16	1.40
17	1.45
18	1.50
19	1.55
20	1.60
21	1.65

Source: Alaska Statute 23.20.290

By Susan Erben
Trends Editor

Ted Burke: An architect of change

A lot of Ted Burke's philosophy is right there at the front door when you walk into the Juneau Job Center: someone is sitting at a receptionist desk in the middle of a big open room. It happens to be a woman this time, and she asks what she can do to help you. It doesn't matter what you're there for – whether it's a job listing, vocational rehabilitation training or to find out how to apply to Medicaid – she'll direct you to the right place.

"Our whole intention is to make that person walking in through the door feel welcome," says Ted Burke, the Alaska Job Center's Southeast regional manager. "When people looking for jobs walk in that door, they don't need more stress. They need someone to immediately connect them with the service they need."

When you first see Burke, you notice three things: his giant smile, his short-cropped white hair that seems to stick straight out and a huge nametag on a string around his neck that says "Welcome" and "Ted" in big bold letters with "May I help you?" Looking around, everyone has similar nametags.

Burke's very essence is customer service. It drives just about everything he does. He led a massive overhaul of the three-story Juneau Job Center building that houses the job center and two other agencies – all to improve customer service. He convinced the building's tenants – another Department of Labor and Workforce Development division and an entirely different state agency – to join forces and work together as a team, to take a whole new approach to what they did, to combine forms and to share paperwork, conference rooms and some counseling. He even convinced them to trade furniture.

And for that, Burke, a 31-year Coast Guard veteran who started with the Department of Labor in 1992, received a national award in September and an Alaska governor's award in October. For the latter award, the Governor's Committee on Employment and Rehabilitation of People with Disabilities chose Burke because the committee members say he developed a "cross-agency management team that redesigned a three-story, multi-agency and multi-tenant building into a customer-focused and accessible job center. His disarming and non-threatening style allowed him to break down barriers."

For the national award, the employment security division directors in all 50 states submitted nominees and their national association, the National Association of State Workforce Agencies, chose Ted. The award is the "James F. Walls One-Stop Employee of the Year Award for Customer Service Excellence," named after a South Carolina state worker who was killed on the job.

"One-Stop" to some people might sound something akin to a convenience store, but

Burke explains that it's been an idea for government agencies since about the mid-1990s: to make "one-stop" centers where people could go to one place to get all the help and answers they need from various government agencies, instead of having to shuffle from place to place on a bureaucratic treasure hunt.

"We've got a unified and streamlined service delivery at the Juneau Job Center unlike anywhere in the state," says Tom Nelson, the director of the Department of Labor's Employment Security Division, which oversees the state's 24 job centers, among other units.

Ted Burke works with Tosha Scharen in the job center's resource room. Photo by Michael Hutcherson

Why redesign the building? "So customers could navigate it all easier. They could walk into the building with an idea and come out knowing where it all was," Nelson says.

"We weren't talking to one another. Here we had three federally funded programs, two run by the Department of Labor," Nelson says, referring to the building's three occupants: the Juneau Job Center, the Division of Vocational Rehabilitation and the Division of Public Assistance, which is a part of Health and Social Services. "It was compartmentalized. The 'silo effect' is what we call it," he says, referring to a farm silo, where a group or division in an agency operates on its own, but has no idea what the group next door is doing. They could be duplicating efforts, but no one would know.

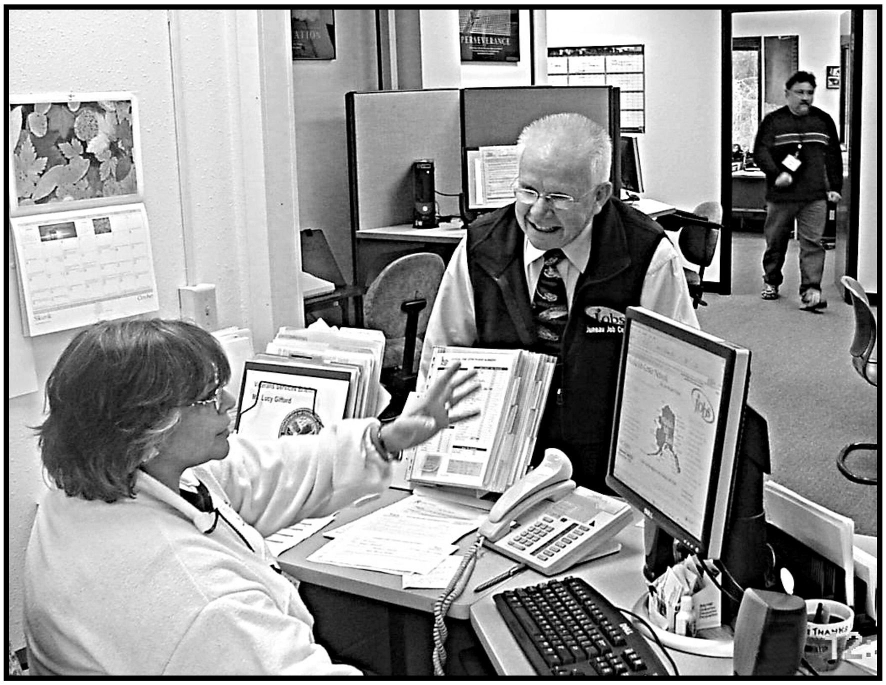
Nelson says one example is the interest inventories that employment or vocational counselors give people exploring new fields or careers. "They all (all three divisions) did similar interest inventories. Sometimes to the same people," he says.

"Now they do the interest inventory, but it doesn't have to be done three separate times. The results of one are shared with the others (other divisions)," he says.

Nelson says the job center serves more disabled clients now. "In the past, we'd refer them directly to DVR," but now, since they're all working as a team, they've discovered that some disabled clients don't need DVR's services; they can help them right there at the job center.

"Ted put all like functions in the same room," Nelson says. "They all learn from each other. They're all focused on the customer. They can cover (fill in) for each other."

One day a week the "greeter" at the front desk on the first floor is from Public Assistance, which is on the Juneau Job Center's second floor; another day he or she is from Vocational Rehabilitation on the third floor. The rest of the week the greeter is from the job center on the first floor. Burke says working in different areas helps to ensure people remain connected, that they keep learning about what everyone else does.



Nadine Lefebvre, an employment security specialist, and Ted Burke discuss the new job postings on the Alaska's Job Bank Web site. Danny Lakip, a community development specialist, is in the background.

Photo by Michael Hutcherson

Two case managers on contract for Health and Social Services work full time on the first floor; they work in the job center's resource room (where job seekers can use 12 computers) and help facilitate the 8:30 a.m. "Job Club." That's where people looking for jobs get together for 30 minutes to an hour each day to network, share job-hunting tips and learn about everything from resumes to positive body language.

If you go up to the second floor, where Adult Public Assistance is based, you'll find a hotel conference-room type sign planted in front of you announcing the job center workshops that day on the first floor. (The job center holds 10 different workshops every two weeks, usually at least two a day, covering everything from Workplace Alaska – the State of Alaska's job application system – to employer expectations and customer service. The resume workshop is once a week.)

Burke says a lot of his ideas for changing things came from listening and watching. He says he figured out how to make a more effective job center bulletin board simply by plopping down across from it and watching people. Another day he discovered that the greeters were constantly asked the whereabouts of the resource room, which moved from the second to the first floor. So he had Sign Pro make a 4-foot by 5-foot banner that he hung that night, so you see it as soon as you open the building's front door: "Welcome to the Juneau Job Center. Resource Room 1st Floor."

He says listening was critical for his building redesign team. He says they got input from everyone throughout the process: job seekers, employers and the many job center "partners," such as the Tlingit and Haida Central Council, the Center for Community and the University of Alaska Southeast.

One person had the idea of a cowbell for job seekers to ring when they landed a job. When it rings, everyone stops what they're doing to give a standing ovation. Now some eight job centers have cowbells, Burke says.

Nelson says Burke took one idea started years ago that fell by the wayside and beefed it up: getting business clothes together for people who don't have interview clothes, or even appropriate clothes for their first few days of work. Burke recruited the Valley Rotary Club; they bring in women's and men's clothes, many of them just dry-cleaned, for job seekers to have for free.

"I feel extremely strong about never setting a person up for failure," Burke says.

Burke started another popular program: essentially on-the-spot mock interviews. The staff does six or seven every week. People sign up, and within 30 minutes, an employment specialist will have 10 questions culled from a database of 350, tailored for the specific job the client is interested in. The interviews usually last 45 minutes; then the interviewer critiques the interview, giving the person ideas about how to approach a difficult question or to make better eye contact. Videotaping is optional.

Burke says people love the mock interviews once they've done them because they make the real interview so much easier. He says one young woman wanted to prepare for her dental school interview, so the employment specialist talked to a local dentist to prepare the questions.

He says the first time around, the woman didn't do so hot, but she came back the next week and did a second mock interview that went extremely well. He says the difference in the woman's confidence level was dramatic.

In the midst of the redesign, Burke's team planned the logistics of the move: How do you move three different agencies to all new places – easily? Nelson says Burke came up with the idea that since it was all state equipment, it'd be easiest and the least expensive to leave all the furniture where it was and just move the people and computers.

"He convinced them," to think outside the box, Nelson says. "It was a little rough at first. But a change can be kind of refreshing and we didn't have to move a lot of stuff."

The redesign took nearly a year to plan and put into place. It was finished in August 2004. To keep the pace up, Burke says he was adamant that he wanted three people from each agency on the team and all three had to be given the authority to make decisions. He says he wanted three so the momentum wouldn't stop when someone was traveling or was sick.

Nelson says he's so impressed with what Burke has done for the Juneau Job Center, he wants him to do the same thing for job centers statewide. "We need to get our job centers energized and prepared to meet the demands of the new jobs created by Alaska's increased economic activity," he says. "Ted will be perfect for that."

Sharon Durley, who ran a daycare out of her home for the last 20 years, worked at the Juneau Job Center for six months as part of the MASST program, which stands for "Mature Alaskans Seeking Skills Training," an on-the-job training program for workers 55 and older re-entering the work force. Now a full-time employment security specialist at the center, Durley says Burke's approach has had a big impact on her, including his openness and willingness to help.

"He'll sit next to you in the resource room and help you with what you're doing. It doesn't matter who you are," she says.

Mary Rodman-Lopez, who oversees the employment and training part of the job center, says it all comes back to customer service – even Burke's around-the-neck nametags. "It makes us more open. They all call us by our first names. It gives you that one-on-one contact with individuals," she says.

About Burke, "His No. 1 priority is customer service. He fills in, in front, just like everyone else. He very much cares about every person who walks through that door.

"He makes it positive for everyone. Everyone in the building," she says.