Alaska's Unemployment Insurance Benefits

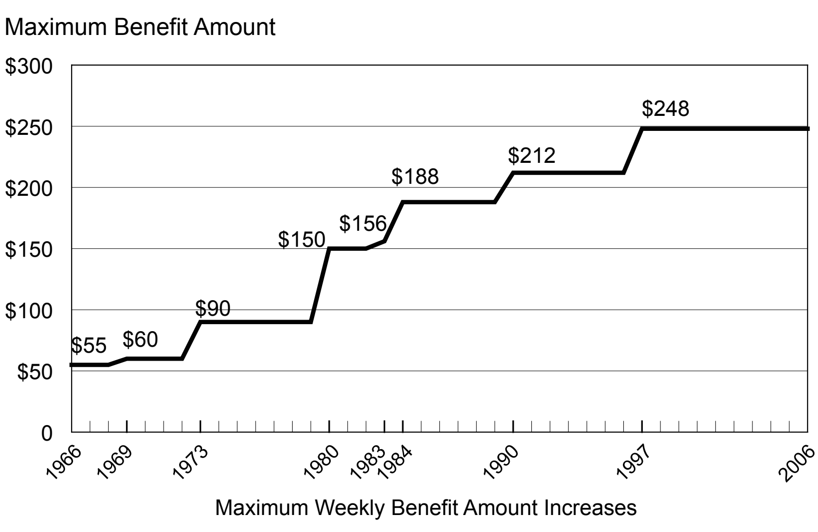
By James Wilson, Economist

The economic value and the cost

One of the primary duties of the Alaska Department of Labor and Workforce Development is to pay unemployment insurance benefits to unemployed workers. The department continually evaluates the health of Alaska's unemployment insurance system and identifies areas where it can be improved.

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

1 Alaska's Maximum Weekly Benefit
Unemployment insurance, 1966 to 2006



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

This article will look at the major issues surrounding unemployment insurance benefits, the cost of those benefits and how Alaska compares with the rest of the nation.[1]

Alaska's unemployment insurance system pays a low weekly benefit in comparison to other states.

Yet Alaska has relatively broad eligibility requirements that enable Alaska's program to have one of the highest participation rates in the country: it ranked second in 2005 in terms of the percentage of unemployed workers who receive unemployment insurance benefits.

Alaska paid out $119.8 million in unemployment insurance benefits in 2005[2] to 53,053 people – almost 18 percent of the state's work force. Roughly 98 percent of the state's nonagricultural wage and salary workers are covered by unemployment insurance.[3]

The weekly benefit

Unemployment insurance has been a part of the national economy since 1935, when the country was in the midst of the Depression. The intent was that workers would be paid something when they were out of work and employers would have a more stable work force because experienced workers, collecting benefits, would be available

[1] All references in this article are to regular benefits.
[2] The year 2005 is the most recent year for which data are complete.
[3] 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.

to return to work. Local economies would also benefit from the money that unemployed workers would spend while receiving benefits.

When the national program began, individual states and territories (such as Alaska) were charged with administering the programs. Alaska's program authorized its first benefit payments to unemployed workers on Jan. 1, 1939, when the state's minimum benefit was $5 a week and the maximum was $15 a week.

Now Alaska's weekly benefit amount ranges from $44 to $248, depending on a person's annual wages. People who make $1,000 a year – actually during their base period, which is the first four of the five most recently completed quarters, plus at least $100 in a second quarter – get $44 in benefits each week. People who earn at least $26,500 a year – in their base period – qualify for the maximum $248 benefit. (See Exhibit 2.)[4]

The length of time a person may claim benefits in Alaska varies with each individual. Workers qualify for 16 to 26 weeks of benefits, depending on how their wages are spread over the base period. Claimants with wages more concentrated in their highest quarter receive fewer weeks than claimants with wages less concentrated in the high quarter of their four-quarter base.

The intent is to provide a duration of benefits that relates to the duration of employment: the higher the ratio of base period earnings to high quarter earnings,[5] the more stable the earnings stream, and therefore, the higher potential duration of benefits. (See Exhibit 3.)

The average number of weeks of benefit payments in 2005 was 14.3 weeks.

Claimants with dependents

Alaska is one of 13 states that provides additional benefits to claimants with dependents.

[4] Alaska Statute 23.20.350(d) defines the benefit schedule, which rises in $2 increments, and sets the qualifying annual wage for each benefit, which rises in $250 increments.

[5] Alaska sets the potential duration of benefits for each claimant by dividing the amount of base period earnings by the amount of earnings in the highest quarter.

Alaska's Unemployment Insurance 2
Weekly benefit amount schedule

Base Period Wages: At Least	Base Period Wages: But Less Than	Weekly Benefit Amount Starting Oct. 1, 1990
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
$2,500	$2,750	$56
$2,750	$3,000	$58
$3,000	$3,250	$60
$3,250	$3,500	$62
$3,500	$3,750	$64
$3,750	$4,000	$66
$4,000	$4,250	$68
$4,250	$4,500	$70
$4,500	$4,750	$72
$4,750	$5,000	$74
$5,000	$5,250	$76
$5,250	$5,500	$78
$5,500	$5,750	$80
$5,750	$6,000	$82
$6,000	$6,250	$84
$6,250	$6,500	$86
$6,500	$6,750	$88
$6,750	$7,000	$90
$7,000	$7,250	$92
$7,250	$7,500	$94
$7,500	$7,750	$96
$7,750	$8,000	$98
$8,000	$8,250	$100
$8,250	$8,500	$102
$8,500	$8,750	$104
$8,750	$9,000	$106
$9,000	$9,250	$108
$9,250	$9,500	$110
$9,500	$9,750	$112
$9,750	$10,000	$114
$10,000	$10,250	$116
$10,250	$10,500	$118
$10,500	$10,750	$120
$10,750	$11,000	$122
$11,000	$11,250	$124
$11,250	$11,500	$126
$11,500	$11,750	$128
$11,750	$12,000	$130
$12,000	$12,250	$132
$12,250	$12,500	$134
$12,500	$12,750	$136
$12,750	$13,000	$138
$13,000	$13,250	$140
$13,250	$13,500	$142
$13,500	$13,750	$144
$13,750	$14,000	$146
$14,000	$14,250	$148
$14,250	$14,500	$150
$14,500	$14,750	$152
$14,750	$15,000	$154
$15,000	$15,250	$156
$15,250	$15,500	$158
$15,500	$15,750	$160
$15,750	$16,000	$162
$16,000	$16,250	$164
$16,250	$16,500	$166
$16,500	$16,750	$168
$16,750	$17,000	$170
$17,000	$17,250	$172
$17,250	$17,500	$174
$17,500	$17,750	$176
$17,750	$18,000	$178
$18,000	$18,250	$180
$18,250	$18,500	$182
$18,500	$18,750	$184
$18,750	$19,000	$186
$19,000	$19,250	$188
$19,250	$19,500	$190
$19,500	$19,750	$192
$19,750	$20,000	$194
$20,000	$20,250	$196
$20,250	$20,500	$198
$20,500	$20,750	$200
$20,750	$21,000	$202
$21,000	$21,250	$204
$21,250	$21,500	$206
$21,500	$21,750	$208
$21,750	$22,000	$210
$22,000	and over	$212
Amendment Effective Jan. 1, 1997		
$22,000	$22,250	$212
$22,250	$22,500	$214
$22,500	$22,750	$216
$22,750	$23,000	$218
$23,000	$23,250	$220
$23,250	$23,500	$222
$23,500	$23,750	$224
$23,750	$24,000	$226
$24,000	$24,250	$228
$24,250	$24,500	$230
$24,500	$24,750	$232
$24,750	$25,000	$234
$25,000	$25,250	$236
$25,250	$25,500	$238
$25,500	$25,750	$240
$25,750	$26,000	$242
$26,000	$26,250	$244
$26,250	$26,500	$246
$26,500	$26,750	$248
$26,750	and over	$248

Note: To calculate whether a weekly benefit meets the 50 percent principle for wage replacement, divide the annual wages by 52 weeks, then divide by two. So, for $20,750 in wages, the $200 weekly benefit would replace 50 percent of the wages ($199.52).

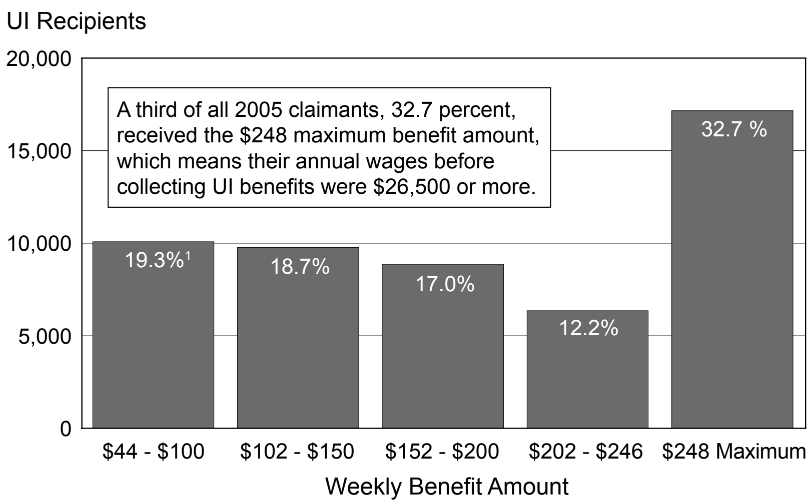
Source: Alaska Statute 23.20.350(d). The schedule was amended Jan. 1, 1997, to provide for wages over $22,000.

3 The Duration of Weekly Benefits
Alaska

Ratio of Base Period Wages to High Quarter Wages	Duration of Benefits
Less than 1.50	16 weeks
1.50 to 1.99	18 weeks
2.00 to 2.49	20 weeks
2.50 to 2.99	22 weeks
3.00 to 3.49	24 weeks
3.50 or more	26 weeks

Source: Alaska Statute 23.20.350(e)

4 Alaska Unemployment Insurance
Recipients by weekly benefit amount, 2005



Note: A claimant must make $8,000 a year to get a $100 weekly benefit, $14,250 to get $150, $20,500 to get $200, $26,250 to get $246 and $26,500 to get $248. (See Exhibit 2.)
[1] Percentages don't add to 100 due to rounding.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Claimants can receive $24 per dependent for up to three dependents in addition to their weekly benefit amount. The Alaska Legislature started the dependent benefits program some 30 years ago to help families, particularly those in areas of the state where people have a subsistence lifestyle and annual wages are low. Typically, 40 percent of UI claimants claim dependents; 10 percent of those report at least three dependents. Dependent allowances represent 10 percent of the benefits Alaska's UI program pays out each year.

The $26,500 ceiling

Alaska's current program tops out at $26,500: If claimants make more than $26,500 in a year, they're still limited to a $248 maximum weekly benefit, even though the state's average annual wage in 2005 was $39,058. Someone earning $26,500 a year receives the same maximum weekly benefit – $248 – as someone making $60,000 a year.

As wages in Alaska's economy grow steadily over time, more workers become qualified for the $248 maximum weekly benefit. In 2005, a third of Alaskans receiving unemployment benefits each year fell into that category. (See Exhibit 4.)

Changes to the benefit schedule

Throughout its history, there have been periodic upgrades to Alaska's UI benefit schedule to adjust to the rising value of wages in the economy. Before 1990, the minimum benefit was $38 and the maximum benefit was $188 (both were increased in 1984). (See Exhibit 1.)

The schedule changed in 1990. The minimum benefit was moved up to $44 and the maximum to $212. The last change was in 1997, when additional increments were added to the schedule to bring it to the current $248 maximum. (See Exhibit 2.)

The wage replacement principle

Since the start of the UI system, one of the underlying principles was that the benefit amount should equal roughly 50 percent of a worker's wage and it would therefore "replace" those wages. Various presidents and national commissions have reinforced that view in the last 35 years, adding that the 50 percent should apply to four-fifths of all recipients. President Nixon declared that stance in the 1970s; the National Commission on Unemployment Compensation endorsed the stance in 1980 and the Advisory Council on Unemployment Compensation did so in 1995.[6]

Each year the National Foundation for Unemployment Compensation and Workers' Compensation publishes its "Highlights of State Un-

[6] According to the 1996 National Advisory Council Report, Chapter 4

employment Compensation Laws," which contrasts the features of each state's UI program. Although only the brave should venture into the details, on the subject of the states' computation of the weekly benefit amount, it says:

> *"Implicit in all these methods are two longstanding principles: (1) The weekly benefit amount should be directly related to the individual's usual wage, and (2) the benefit generally should replace 50 percent of wages."*

Alaska is low in average-wage replacement

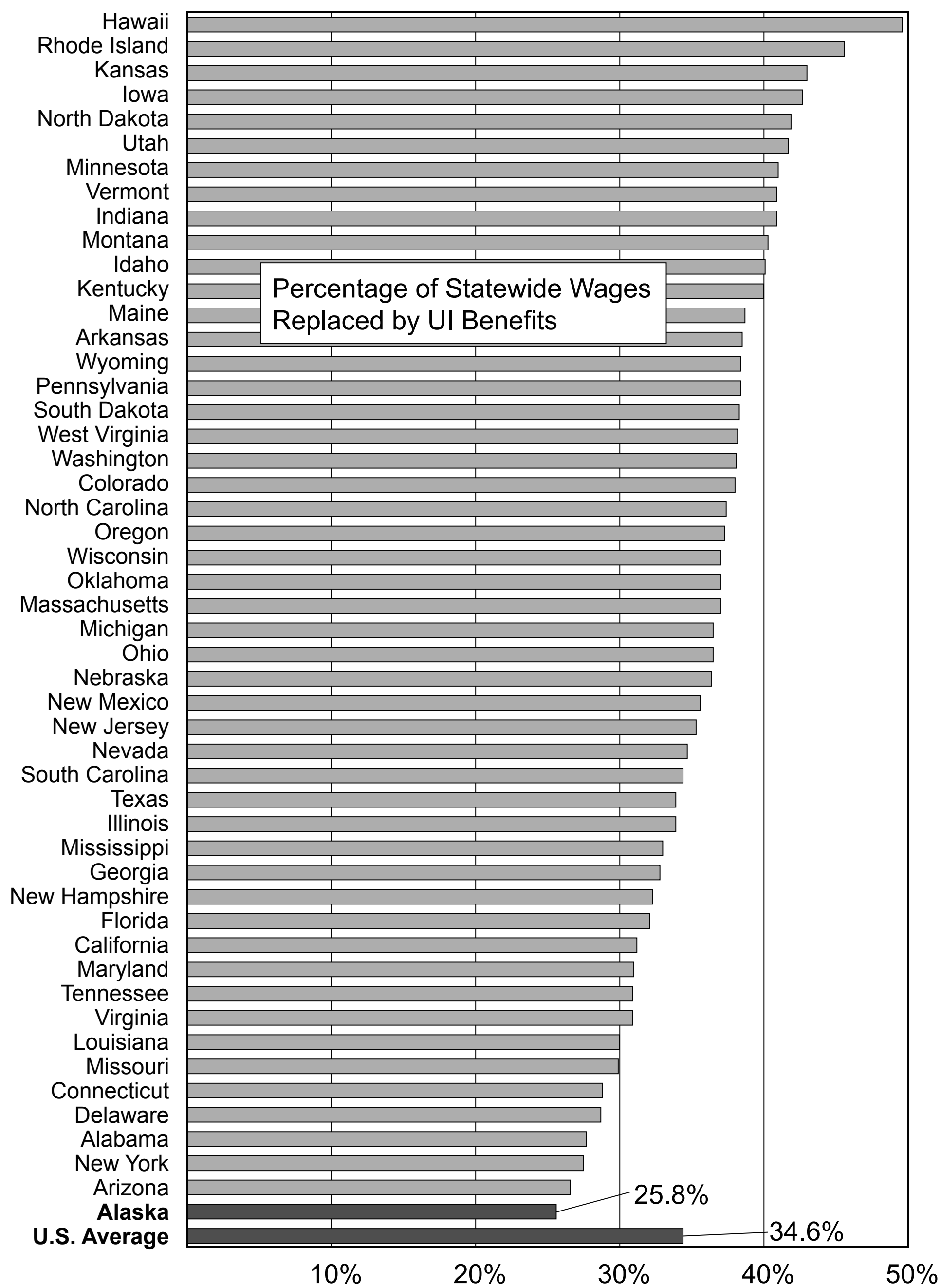
The U.S. Department of Labor compiles data on employment, wages and UI benefits that allow for comparisons of all state-managed UI programs, which vary a great deal.

Alaska ranked 18th among all states for its state average weekly wage ($750.50) in 2005 and came in at 48th place with an average weekly benefit of $193.91 that year.

The state has historically placed low, but it dropped into last place in the nation in 2005 as far as its USDOL average-wage replacement rate. (See Exhibits 5 and 6.) The rate is an artificial measuring tool used to compare states, as no individual state data exists to unravel how well UI benefits replace the wages of people who are actually unemployed and receiving benefits.[7]

To compile the rate for each state, the USDOL matches data on two different populations: (1) *all* workers earning wages (instead of only the recent wages of the unemployed), and (2) unemployed workers collecting benefits.

Average-Wage Replacement Rates 5
By state, 2005[1]

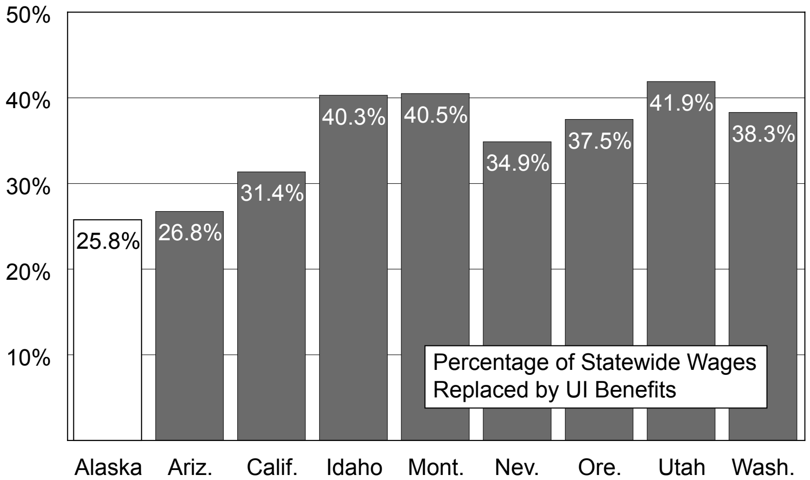


Note: This exhibit is based on the U.S. Department of Labor average-wage replacement rate for each state.
[1] These percentages were calculated by dividing the average weekly benefit by the statewide average weekly wage. The wages of only those who were unemployed in 2005 aren't available.
Source: U.S. Department of Labor, Employment and Training Administration

Matching the benefits of UI recipients to the wages of all workers, however, could well give an understated wage replacement percentage. The measurement makes somewhat of an apples-to-oranges comparison, but it's useful be-

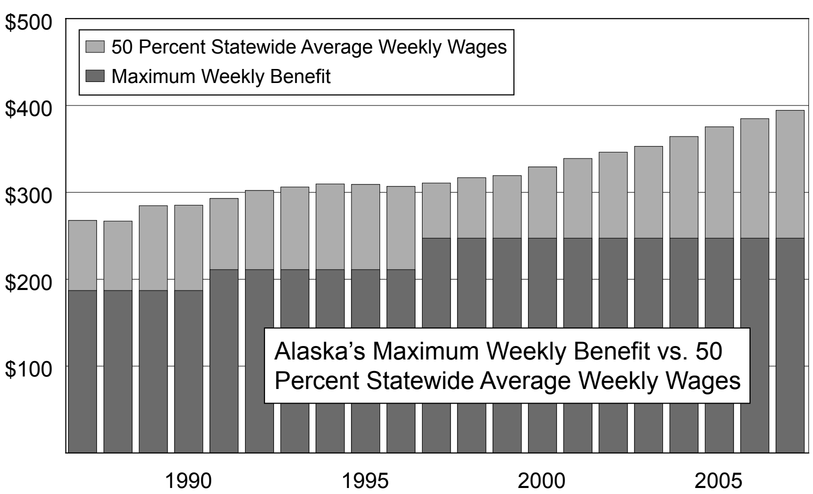
[7] According to the 1996 National Advisory Council Report

6 Replacement Rates
Western states, 2005



Note: This exhibit is based on the U.S. Department of Labor average-wage replacement rate for each state.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

7 The Target Gets Farther Away
Alaska, 1987 to 2007



Note: Earnings for 2006 and 2007 are projections assuming a growth rate of 2.5 percent.
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

cause it uses established data sources and gives comparative information over time.

The flip side – Alaska's high participation rate

As mentioned earlier, Alaska had the second-highest participation rate in 2005. (See Exhibit 8.) The participation rate is the percentage of all unemployed workers who receive unemployment insurance. Since the purpose of unemployment insurance programs is to both aid unemployed workers and put money into the local economy, an above-average participation rate is a good indicator for a state program.

Alaska's program is easy to qualify for

Alaska's participation rate is high compared to other states because it's generally easy for workers to qualify for a minimum benefit. A person has to make only $1,000 a year to get the minimum weekly benefit, $44.

If a worker is paid Alaska's minimum wage of $7.15 per hour, it would take him or her 140 hours of work to reach $1,000, or the equivalent of 18 eight-hour days.

Going up the benefit schedule, it takes $8,000 in annual wages for a $100 weekly benefit amount, which is 40 percent of the $248 maximum. In 2005, 19 percent of all claimants received a benefit of $100 or less. (See Exhibit 4.)

The 50 percent principle

Looking at Alaska's weekly benefit amount schedule (see Exhibit 2), it appears that the whole schedule meets the 50 percent principle (replacing 50 percent of the wages for four-fifths of the claimants), but it's important to remember that a third of Alaska's UI claimants aren't on the schedule – they make more than $26,500 a year ($510 a week) and are limited to the $248 weekly benefit maximum. Their benefits, therefore, don't equal 50 percent of their wages.

The wage replacement is well above 50 percent at the lower end of the schedule. It hits 50 percent when the weekly benefit amount reaches $200. After that, the wage replacement declines below 50 percent as the benefit amounts increase.

Comparing states' costs

Each state has its individual UI financing and tax systems and no two are the same. In order to get some sense of comparison, the USDOL uses the total wages, taxable wages, the taxable wage base[8] and tax rates for each state to calculate its own version of the "tax rate" – not to be confused with employers' or employees' UI tax rates – as a percentage of total wages.

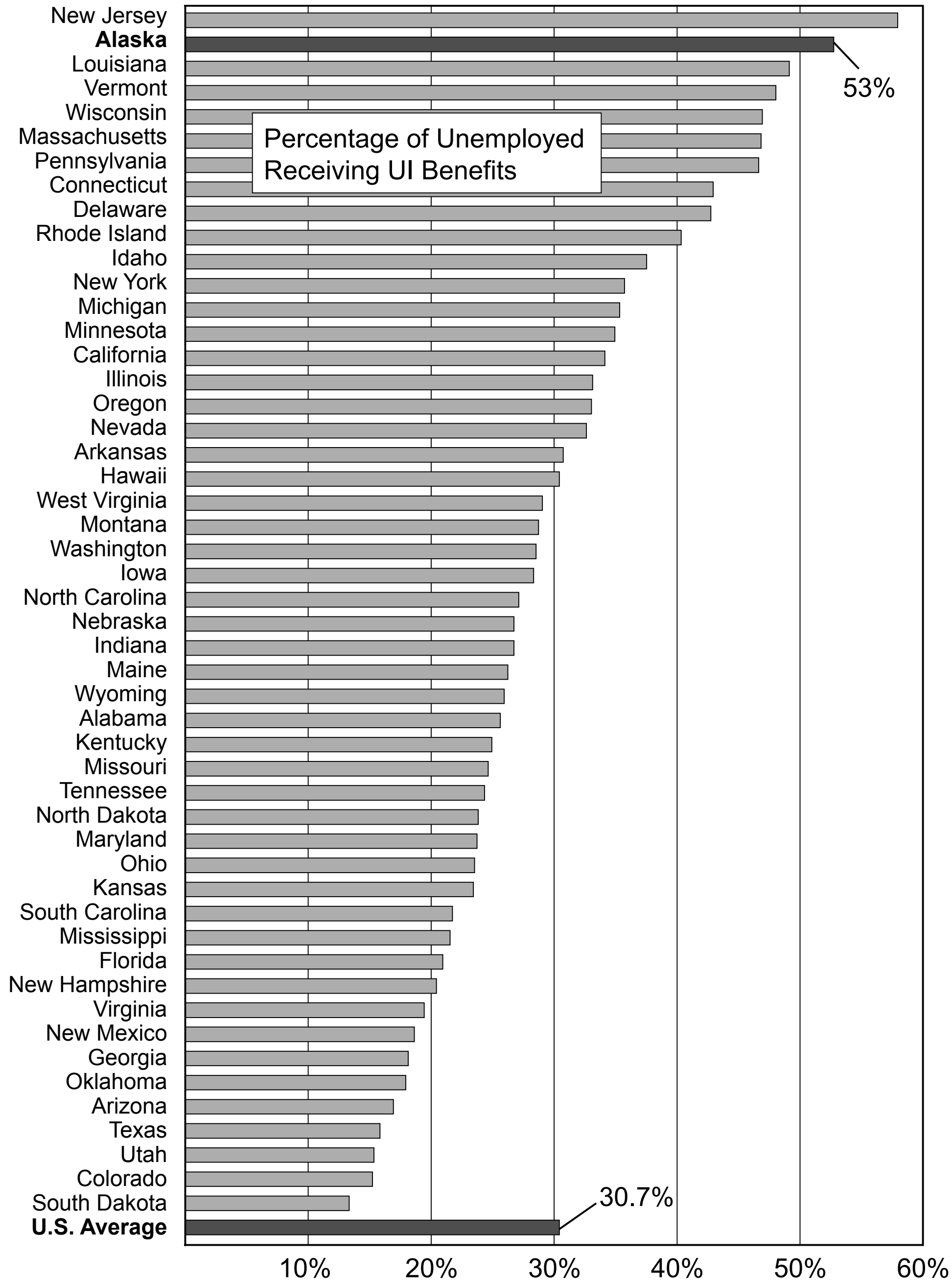
Alaska's rate in 2004[9] tied with Oregon's and they were just behind Washington. (See Exhibit 9.) In other words, the percentage of total wages that employers in Washington, Alaska and Oregon paid in UI taxes was highest in Washington (1.7 percent) and second-highest in Alaska and Oregon (1.68 percent) when compared to other states.

Alaska's small size and seasonality drive costs

It's natural to compare Alaska to Washington, its nearest neighbor and economic partner. Why does Washington have a USDOL tax rate similar to Alaska but its maximum weekly benefit is $496, exactly double Alaska's?

The answer is seasonality and economies of scale. Washington has 6 million people and a labor force of 3 million, whereas Alaska's population is near 660,000 and its work force is around 345,000. Washington has seasonal industries, of course, but a large part of its economy has stable employment, with many more employers to share the tax support.

Participation Rates 8
By state, 2005



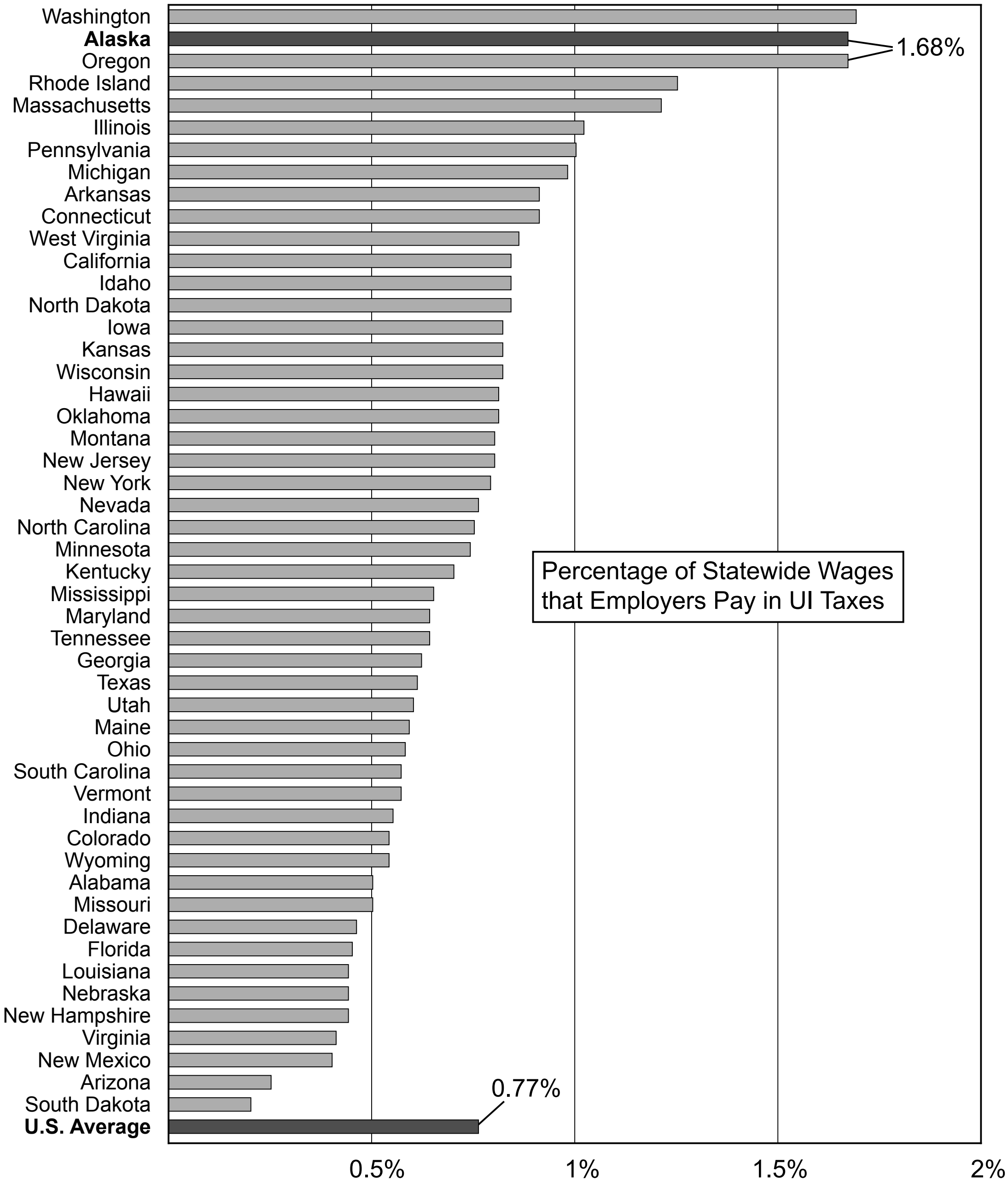
Source: U.S. Department of Labor, Employment and Training Administration

Washington's construction workers, for instance, can work virtually year-round, while Alaska's construction workers, particularly on road projects, are more limited by the seasons. Alaska's economy has matured over the years, but it still has a large seasonal component and seasonal workers tend to utilize the UI system in the winter months.

Alaska's UI financing system – basically, how much the state's employers and employees

[8] The taxable wage base is the maximum amount of each employee's earnings that are subject to state UI taxes. Alaska's is 75 percent of the state's average annual earnings.
[9] The year 2004 was chosen for the comparison because that was the year Alaska's average tax rate was closest to its 10-year average.

9 **Alaska's Seasonality Keeps its Costs High**
2004[1]



Note: This exhibit is based on the U.S. Department of Labor tax rate for individual states.
[1] The year 2004 was chosen for the comparison because that was the year Alaska's average tax rate was closest to its 10-year average.
Source: U.S. Department of Labor, Employment and Training Administration

state's UI tax revenue is held. Yet, the fact remains that the system must pay for the benefits it provides each year in a seasonal economy.

Legislative considerations

If the Legislature decided to increase Alaska's maximum weekly benefit, it would have to decide how much those additional benefits would cost and how to pay for them, along with who would get them and what restrictions, if any, would be imposed.

The usual way to pay for an increase in benefits is for employers and employees to pay more into the system. In 1997, when the benefit schedule ceiling – the annual wages it took to get the maximum weekly benefit – was raised from $22,000 to $26,500 (see Exhibit 2), employers and employees paid more into the system to pay for it. The adjustment was also paid for by shifting the employer/employee share of the tax burden from 82 percent/18 percent to 80 percent/20 percent.

pay in UI taxes each year[10] – is designed to keep taxes as low as possible while maintaining the solvency of Alaska's UI trust fund, where the

[10] Alaska is one of three states where employees pay a share of UI taxes. Employers pay 80 percent of the tax burden and employees pay 20 percent. The 2007 average employer tax rate is 1.94 percent (see Exhibit 10) and the 2007 average employee tax rate is 0.50 percent.

Other ways to partially pay for a benefit increase include tightening up on qualification provisions. For example, Alaska allows those who quit their job to receive UI benefits after a six-week waiting period. That waiting period could be extended or those benefits could be eliminated altogether.

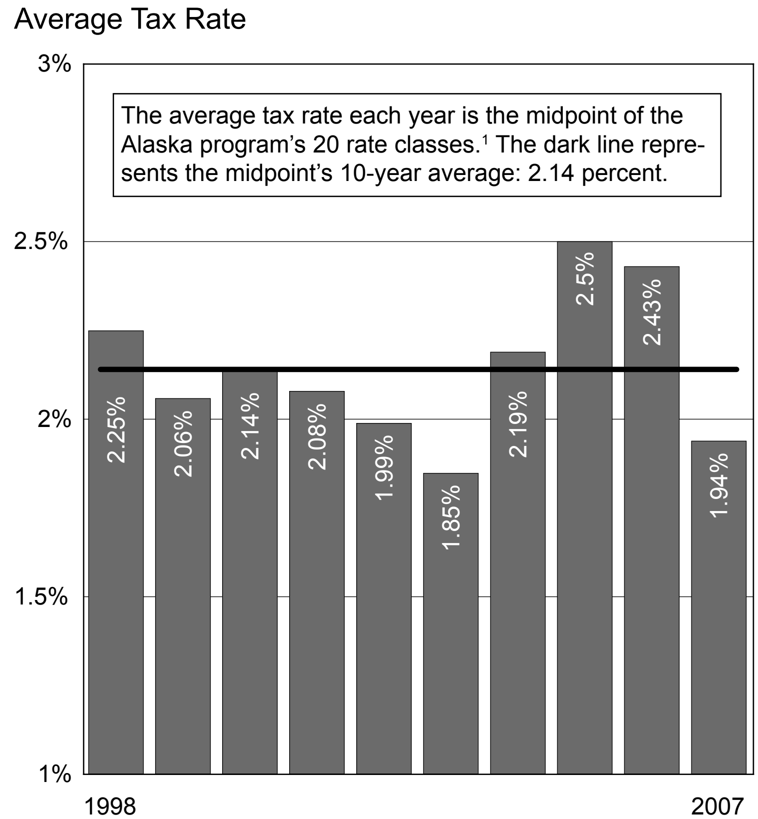
An overview

Alaska has a seasonal economy that places a high demand on its unemployment insurance system. The system makes it easy to qualify for the lowest benefit amounts and Alaska's program has one of the highest worker utilization rates in the nation. Yet Alaska's maximum weekly benefit is low compared to its annual wage and the weekly benefits of other states.

The high number of Alaska's benefit recipients who top out at the current $248 maximum weekly benefit makes the state's wage replacement statistic low – the lowest in the country in 2005.

The demands on Alaska's current system mean relatively higher tax obligations to pay for it. The call for updating Alaska's benefit structure will likely continue, but with any increase in UI benefits comes a cost. That cost, along with the potential advantages, will need to be carefully considered.

UI Average Employer Tax Rates 10
Alaska, 1998 to 2007



[1] Tax Classes 10 and 11 represent the midpoint.

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