

# Unemployment Insurance

by  
Gaile Haynes  
Employment Security Analyst

## Service delivery in tune with claimant need

**A**s recently as 20 years ago, unemployed workers in Alaska cities and towns lined up in unemployment offices statewide at rigidly scheduled times, showed their identification, answered questions on their availability for work and eligibility for benefits, and received bank payment authorization forms for their weekly benefits. Today, unemployed workers can file by telephone at times convenient to their own schedules. Automated telephonic inquiries replace the claims-taker, and claimants answer by pushing the designated numeral on their telephone keypads.

The Alaska Department of Labor's Employment Security Division has been changing the way unemployment

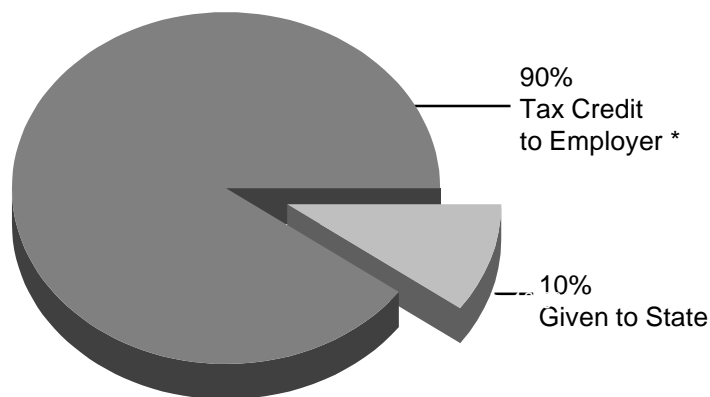
benefits are paid at a pace in synch with technological advances and claimant need. From 1939 to 1980, benefits were calculated by hand and paid directly to the workers, who, except in rural areas, needed to report in person every other week to collect a benefit payment authorization that could be cashed at a participating bank. In 1980, computerization went into effect, replacing the hand calculation. In 1983, unemployed workers no longer were required to file for benefits in person, but could claim benefits by mail or drop box, receiving a check good at any bank. Since 1996, workers have been able to file for benefits telephonically to Anchorage, Fairbanks or Juneau. The next advance, expected in January 1999, will be direct deposit, which will give workers the option of having their unemployment payments deposited directly to their bank accounts. In the near future, additional technologies, such as Internet and voice recognition, will be used to further enhance the delivery of unemployment insurance services.

Need for these changes came from several directions—primarily a result of proposed federal legislation that would decrease administrative funding with no corresponding decrease in workload. In Alaska, using technology to pay benefits positions the Employment Security Division to weather future funding cuts, while helping the unemployed receive payments quicker, so that they can devote more of their time and energy to looking for work. But why and how does the federal government control the way that Alaska pays its unemployment insurance claimants?

## History and philosophy shape federal-state partnerships

In 1932, Wisconsin passed the first unemployment insurance law, the Huber Bill. No other state followed

## 1 Distribution of FUTA Taxes (Federal Unemployment Tax Act)



\* If employer pays timely and Alaska complies with federal law

Source: Alaska Department of Labor, Employment Security Division

Wisconsin's example, probably because to do so would have put employers in that state at a competitive disadvantage with employers in states with no unemployment tax laws. The resulting loss of revenue and jobs in the state that did have unemployment tax laws would have increased unemployment rather than relieved it. The only solution seen by those in favor of unemployment compensation was for the federal government to take action directly.

This action was the Social Security Act, signed by President Franklin Roosevelt on August 14, 1935. Part of the Act, the Economic Security Bill, had as its purpose the protection of the economy by maintaining the buying power of persons who, through no fault of their own, were no longer working. Within the two years following the passage of the Social Security Act, legislatures of all states and territories had passed unemployment insurance laws. In order to let funds accumulate to make payments, no benefits were paid until two years after employer contributions began.

The portion of the Social Security Act affecting unemployment taxes is the Federal Unemployment Tax Act, commonly called FUTA, which is managed by the Social Security Board. Under FUTA, most employers must pay a federal tax on their payrolls, whether or not they are subject to the unemployment insurance laws of any state. Ninety percent of this money returns to employers as a tax credit under two conditions:

- The states in which these employers do business must also collect payroll taxes and pay unemployment benefits in accordance with federal requirements.
- The individual employer must properly report and pay unemployment contributions to the state.

A portion of the remaining 10% of the FUTA taxes is returned to the state to pay its administrative expenses on the condition that its law and the administration of it are in accordance with federal standards. (See Exhibit 1.)

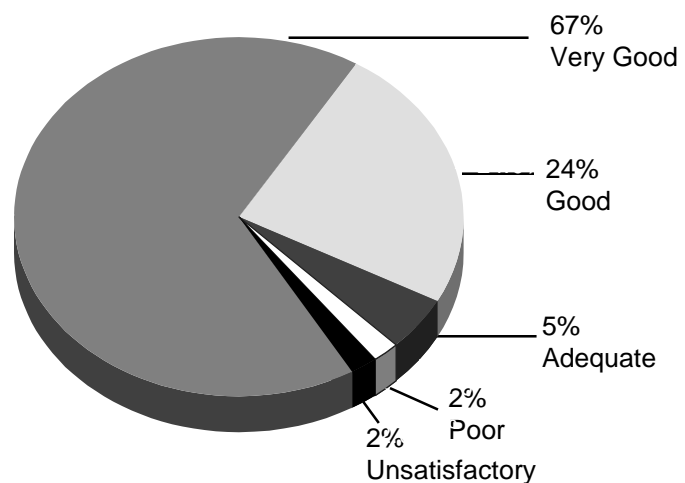
Because Alaska is small in population and vast in geographic area, its per-person costs are disproportionately high, and the Social Security Board takes this factor into account in the distribution of FUTA money, giving Alaska a larger share than is actually earned. Most states receive 60 percent or less of the taxes employers pay into FUTA. Alaska and five other states receive more than a 100 percent return from the fund. The Employment Security Division's cost of doing business is only 10 cents for every dollar of benefits paid, with seven cents of this cost going to benefits administration and three cents for the cost of collecting revenue.

Alaska's employers contribute to the Alaska Unemployment Trust Fund, which, by FUTA regulations, may be used only to pay unemployment benefits. Federal and state agencies do not contribute to the Trust Fund, but instead are charged directly for all benefits paid to their former employees. Non-profit employers may also use this option if they feel it is to their advantage. If unemployed workers were employed in other

## Satisfaction with VICTOR\* 2

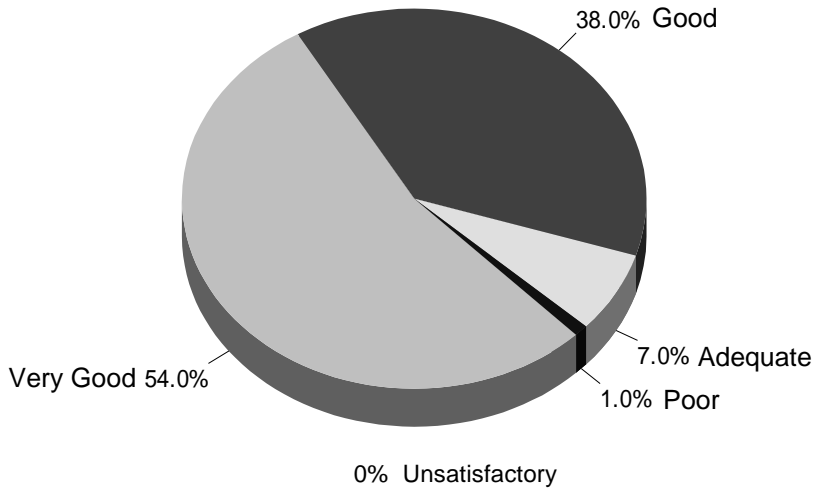
From UI client surveys

\*Telephonic claim filing system



Source: Alaska Department of Labor, Employment Security Division

### 3 Overall Service Satisfaction



Source: Alaska Department of Labor, Employment Security Division

states, those states are charged in proportion to the workers' wages for the unemployment benefits paid on Alaska claims.

The current federal emphasis is two-fold.

- States are required to pay claims accurately, both in terms of the correct monetary amount and in terms of allowing benefits to eligible recipients and denying them to those who are ineligible.
- States are required to pay benefits according to stringent federal standards for promptness.

#### Compliance with federal requirements controls cost of doing business

In an attempt to control its cost of doing business, the Alaska Department of Labor, Employment Security Division has separated employment and unemployment services. In 1996, telephonic Call Centers were set up in Anchorage, Fairbanks and Juneau to handle all unemployment claims. This division did not, however, sever the link between the two arms of Employment Security Division. Those workers identified as likely to remain unemployed and exhaust their benefits due to

changing labor market conditions are given extensive assistance by the Employment Service. Special programs assist them in writing resumes, interviewing techniques, and choosing and training for new careers. In that way, the Employment Service offices spend their resources helping laid-off workers become re-employed.

Concurrent with the move of unemployment insurance to the telephonic Call Center environment was the change in filing procedures. Unemployment insurance claimants need not wait to receive paper forms to request benefits.

Now, an automated telephone system known as 'VICTOR' enables claimants to answer recorded questions by pressing a number on their telephone keypad. Claimants in the Call Center cities can reach a claims representative or VICTOR via local numbers, while toll-free telephone numbers are available to claimants filing from other locations. Three out of four unemployment claimants use VICTOR telephonic filing. Of these, more than two-thirds rated this service "very good," and 90 percent rated it as "good" or better. (See Exhibit 2.)

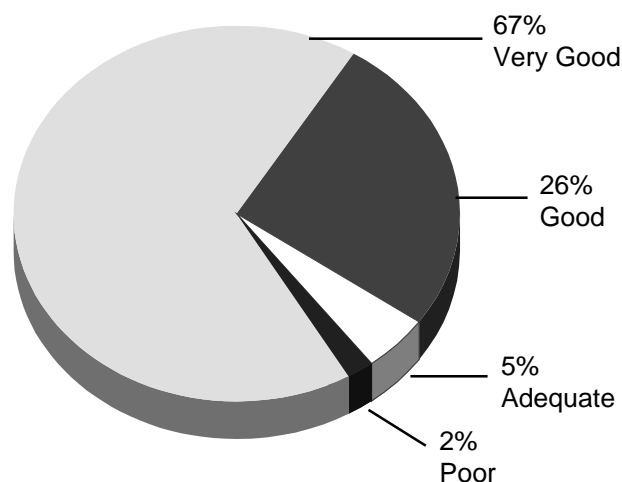
The companion technological advance, direct deposit of unemployment payments to claimants' bank accounts, will take effect in January 1999. With direct deposit, claimants will have immediate access to their benefits through any checking or savings account they designate. Both the telephonic procedures and direct deposit are especially beneficial in rural Alaska where mail can be delayed. Now, no matter how inaccessible the worker's residence, an eligible person may file for benefits and receive the payment on time.

#### Measuring customer satisfaction

Unemployment Insurance customer satisfaction surveys are becoming the basis of evaluation for program success in Alaska. Current claimants are randomly selected twice yearly and questioned about their satisfaction with various aspects of the services they receive. More than half the claimants considered the overall service they received to be "very good," and more than 90 percent rated the service "good" or better. (See Exhibit 3.)

## Courtesy and Respect

### How claimants felt they were treated



Source: Alaska Department of Labor, Employment Security Division

Training of unemployment service workers focuses on making accurate and timely determinations of eligibility. Call Centers have adopted as their mission statement: "To pay benefits accurately and promptly while treating claimants with dignity and respect." In a recent claimant satisfaction survey, when claimants were asked whether they felt they had been treated with courtesy and respect, more than two-thirds rated their treatment as "very good" and more than 90 percent rated it "good" or better. (See Exhibit 4.)

### UI mitigates economic highs and lows

The Great Depression of the early 1930s brought home the understanding that the problems of unemployment were a concern of the nation as a whole, and that a principal value of unemployment insurance was in stabilizing buying power within the community.

Unemployment is, of course, most serious for affected workers and their families, but it also is a problem to employers, to communities, and to the nation. Within the community, unemployment lowers overall buying power. Unemployment benefits keep temporarily unemployed workers in their home communities, available for work. The benefits they receive and spend help stabilize purchasing power, equalize business fluctuations, and prevent the "domino effect" of mass unemployment, where the closing of one business triggers the downfall of others.

Unlike welfare, which is needs-based and government-funded, unemployment benefits are based on an insurance model and operate in much the same way that any other insurance system works. Similarly, unemployment insurance is designed to be actuarially self-sustaining.

### Alaska unique in financing benefits

All states except Alaska have some form of "charge back" benefits financing system, in which employers' experience is measured by actual benefits paid. Alaska uses the payroll decline

quotient system. When an employer's average quarterly payroll declines, their tax rate is set higher than that of an employer whose payroll is stable. This system, unlike conventional charge-back models, does not penalize employers for turnover. Alaska is also one of only three states—New Jersey and Pennsylvania being the others—that charges both employers and employees to fund benefits. Currently employers pay 80% of the cost of benefits, and 20% is paid for by employees.

### Summary

As the delivery of unemployment services makes increasing use of automation, human resources are used more efficiently and delivery of unemployment insurance services to workers improves. Call Centers with telephonic filing for benefits have replaced mail claims and in-person filing. Shortly, payments will be deposited directly to clients' bank accounts. Alaska unemployment insurance claimants show in periodic surveys that they are satisfied with the new service delivery methods and with the degree of respect they are accorded. As time moves on, the Unemployment Insurance system in Alaska will continue to make technology its ally in providing the best and speediest possible services to its clients.