

Jobless benefits out of sync

Part of Alaska's system self-adjusts and part of it doesn't

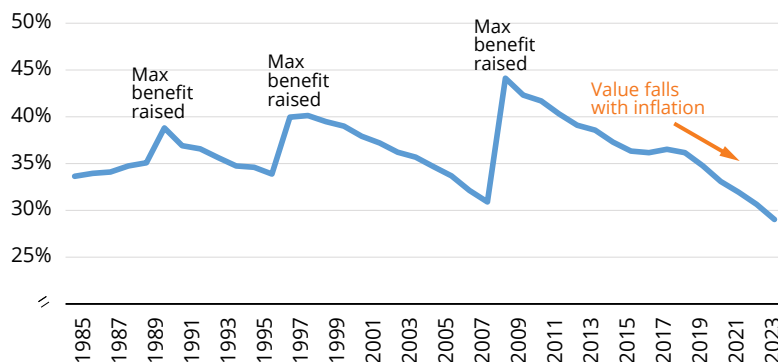
By LENNON WELLER

In statute and by design, unemployment insurance tax rates self-adjust each year according to specific formulas. The system seeks to recover costs while keeping enough money in reserve to weather economic downturns — periods with high unemployment when the benefits paid out exceed the amount collected.

However, the amounts claimants receive in weekly benefits do not self-adjust. The Alaska Legislature has to raise or lower the benefit amounts and set the maximum weekly benefit, and these amounts have remained constant since the last increase in 2009.

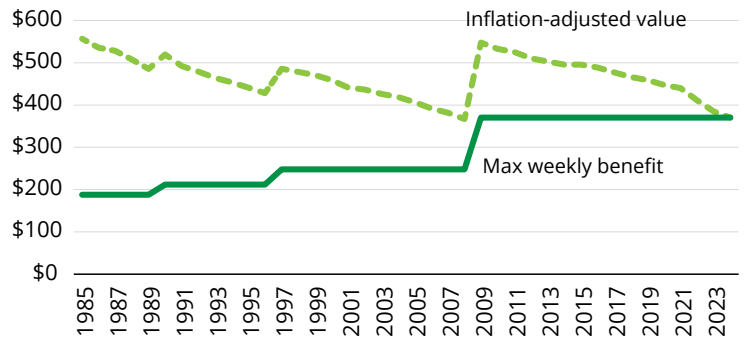
Because of inflation and wage increases, unemployment benefits have replaced increasingly smaller percentages of workers' lost wages since then. The value of those benefits has also declined in the longer term, even with a handful of legislative increases to benefit schedules since the 1980s. (See the exhibit below.)

Maximum weekly benefit replacement rate for the average earner in Alaska, 1985 to 2023



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

Alaska's maximum weekly benefit over time



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

At the same time, even while collecting at the lowest tax rates allowed, the unemployment insurance trust fund has grown to a much larger balance than is statutorily targeted.

Increases didn't outpace inflation

In 1985, Alaska provided a maximum weekly unemployment benefit of \$188, not including any allowance for dependents. Since then, legislators have increased the maximum amount at irregular intervals and by subjective amounts.

The maximum was raised to \$212 a week in 1990, coinciding with a mild national recession. Another increase followed in 1997, to \$248 a week. In 2009, lawmakers increased it again, to \$370, where it has remained for the last 16 years.

Adjusting these amounts to 2024 dollars shows that even with the increases, the real value of the maximum benefit has never again reached that of the 1980s. For a brief period in 2009, it came close.

For example, in 1985, the \$188 maximum was equivalent to \$556 today. After the increase in 2009, it reached nearly \$548 in today's dollars, then began to decline again.

Adjusting for inflation shows that since 2009, the maximum weekly unemployment benefit has lost nearly 32 percent of its purchasing power.

Wage replacement rate fell 9 points in 15 years

While Alaska's average annual wage has risen 128 percent since 1985, the maximum benefit a claimant can collect has risen 97 percent.

Looking at whether the maximum benefit has kept pace with inflation is one way to evaluate Alaska's unemployment system. Another is to look at replacement rates over time — that is, the percentage of a claimant's lost wages the weekly benefit can replace.

Although the U.S. Department of Labor recommends a wage replacement rate of 50 percent, it's important to note that Alaska doesn't explicitly use a replacement percentage to calculate someone's qualifying benefit amount.

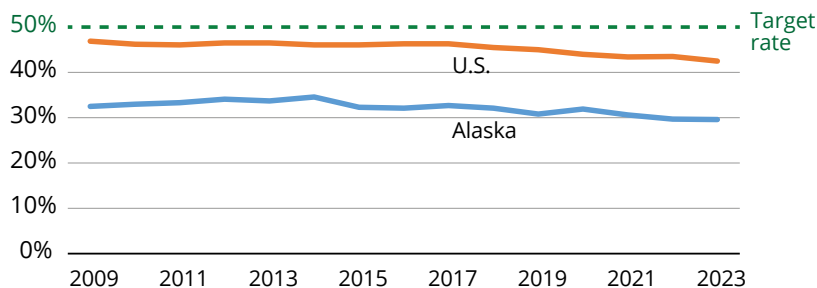
The state has a benefit schedule that begins at \$2,500 in annual wages, which qualifies for \$56 a week in unemployment benefits. Every additional \$250 earned increases the weekly benefit by \$2, to a maximum of \$370 a week for \$41,750 earned. Workers who earned more than that do not qualify for additional benefits.

The last time the maximum weekly benefit was increased, in 2009, the average weekly wage was \$838, or \$43,600 yearly. At that time, the maximum benefit would have replaced roughly 44 percent of the average worker's earnings.

In 2024, that same maximum weekly benefit replaces just 29 percent of the average weekly wage, the lowest replacement rate in Alaska's program history.

Even in 1985, when the weekly maximum was at its highest real value, it still replaced just 34 percent of the average wage. Every increase in the benefit schedule since then shows an upward correction to the replacement rate followed by a decline in value until the next adjustment.

Average wage replacement rate for Alaska, U.S.



Sources: Alaska Department of Labor and Workforce Development, Research and Analysis Section; and the U.S. Department of Labor

The U.S. Department of Labor publishes comparable replacement rates for all states, using a weighted average of the weekly benefit amount and a "normalized" hourly wage of the typical claimant. While this measure is a bit massaged, it allows rough comparisons not just between states but with regions and the national average.

Alaska's wage replacement rate was the lowest among states last year and has historically been near the bottom. The federal measure put Alaska's replacement rate at 29.6 percent in 2023 and the national rate at 42.5 percent. While the gap has narrowed, both have fallen by several percentage points in the last decade and a half.

Alaska's wage replacement rate in 2009 was 32.5 percent. It peaked in 2014 at 34.6 percent, and since then, our rate has fallen five percentage points. During the pandemic, it ticked up briefly, but the long-term trend has been decidedly downward.

While our replacement rate and weekly amounts are low, Alaska's system is among the most lenient in the nation in terms of who qualifies to receive benefits. Alaska is one of the few states that allow claimants who left their jobs voluntarily to collect, for example, after a waiting period.

More claimants hit the ceiling of the allowed benefit schedule

To get the full picture of how well Alaska's system covers its claimants, it's important to look at the filers who are stuck at the maximum benefit, given the amount of qualifying wages they earned, and that number is increasing.

Continued on page 14

JOBLESS BENEFITS

Continued from page 9

Between 2015 and 2023, the percentage of claimants who qualified for the maximum amount rose from 30 percent to 40 percent.

Over the same time, the percentage receiving at least 50 percent wage replacement fell from 35 percent to 24 percent of claimants.

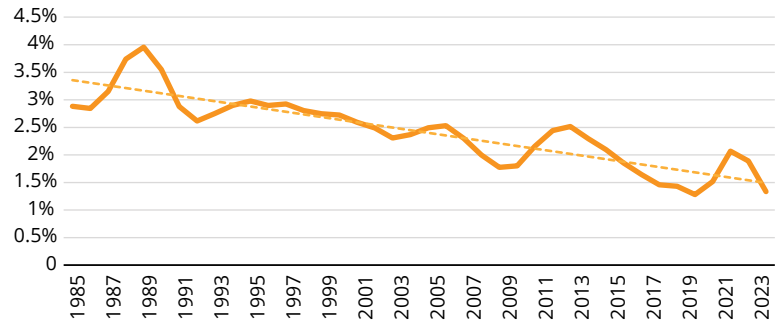
In essence, more and more unemployed people are hitting the ceiling where the maximum benefit replaces a progressively smaller percentage.

Unemployment insurance system ability to buffer downturns

Unemployment insurance provides income relief at critical times in U.S. and state-level economic downturns. These dollars flow directly to a group most likely to need support, and that money recirculates into their local economies as they pay their bills and buy goods and services.

This reduces the broad hardships the economy would weather if the program didn't exist and alleviates the financial strain on the unemployed until they can find work again.

System benefit costs* have fallen since 1985



*The cost rate is measured as what the system pays out in benefits as a percentage of the total wages it covers, and the target rate is 3 to 3.5 percent. In Alaska, about 98 percent of all jobs are covered by the unemployment insurance system.

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

As mentioned earlier, Alaska's benefit schedule is the only provision in state statute for the unemployment insurance system that isn't linked to fluctuations in wage levels. The system's financing targets a certain percentage of covered wages to recoup its costs and calculate taxes. While these occur automatically, the benefit schedule relies on legislative action for updates.

If the trend of out-of-sync benefit amounts continues and no changes are made to the way taxes are calculated, the trust fund balance will continue to grow, employers will continue to pay more taxes than required to maintain adequate reserves, and benefit amounts will continue to lose ground to inflation.

Lennon Weller is an economist in Juneau. Reach him at (907) 465-4507 or lennon.weller@alaska.gov.