Updating the jobless benefits system

Why the fund has grown so large and what is proposed

By LENNON WELLER

The Social Security Act of 1935 created the unemployment insurance system, a worker safety net that remains in place today.

The program was intended to partially replace workers' wages after losing a job. On a broader level, keeping money in people's pockets also protects the economy by allowing them to continue buying necessities, supporting consumer demand.

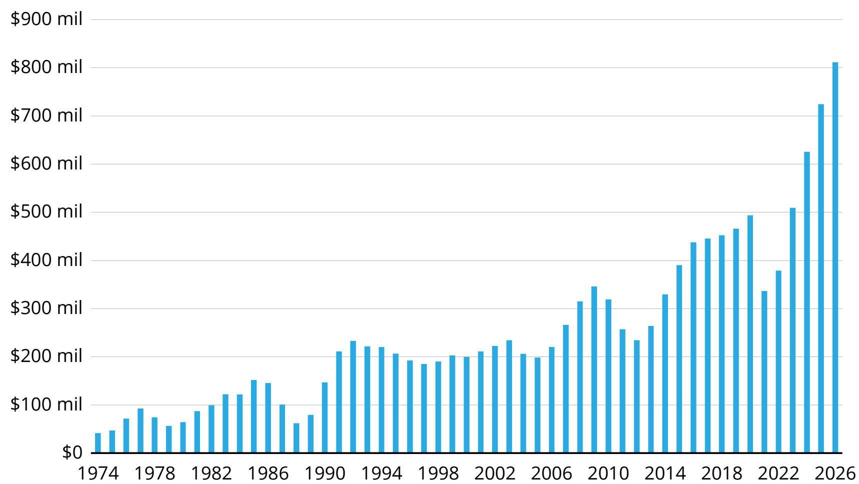
Structured as a federal-state hybrid, the program provides a framework with a few required elements, giving states the flexibility to otherwise customize their programs to fit their local labor market needs.

For example, each program must mandate work search requirements for claimants and create experience ratings for employers, but each state can decide how to best fulfill those requirements.

For decades, this program has paid benefits to tens of thousands of Alaskans every year. In stable times, unemployment insurance benefits provide a bridge for those looking for a different job and those out of work seasonally. In uncertain times, it becomes a key economic stabilizer that provides high "bang for the buck," as benefits are largely spent quickly on basic needs.

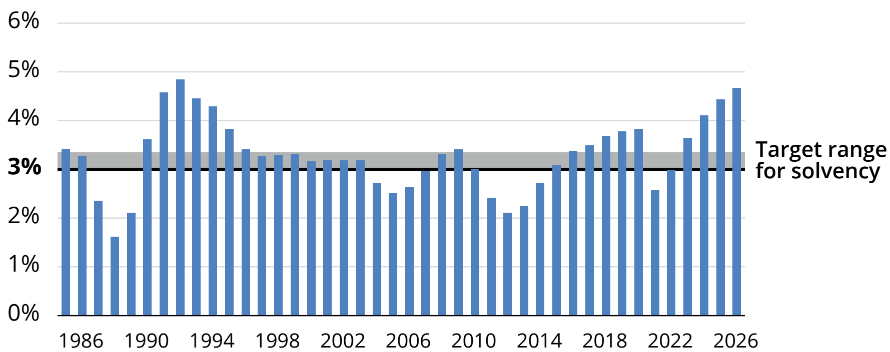
Multiple national studies have determined that every dollar in benefits the government pays a claimant during a downturn generates up to $2 in subsequent economic activity as that money circulates through the economy.

Balance of the trust fund from 1974 to 2026



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

The trust fund is well over the solvency target

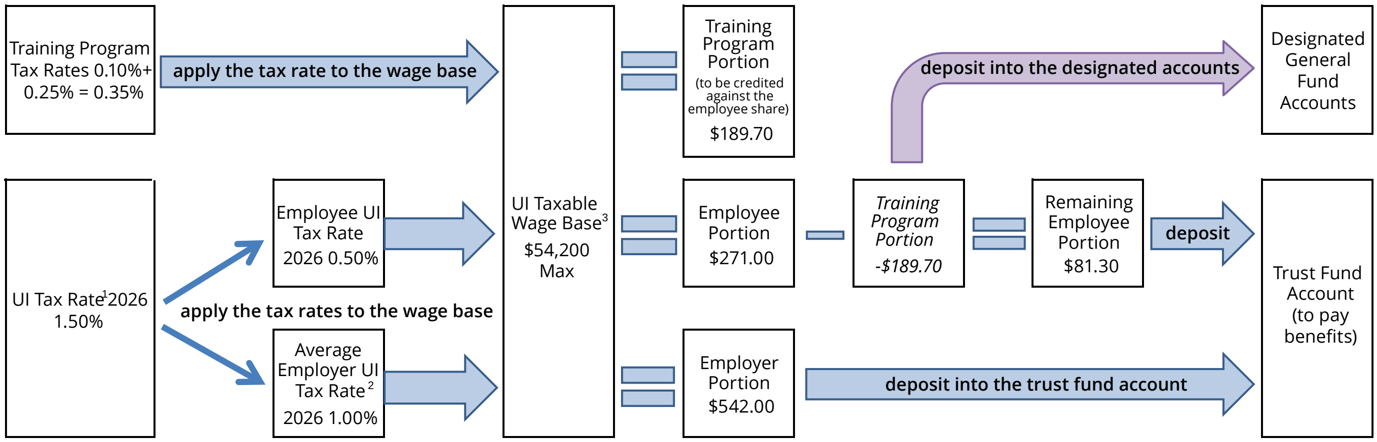


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Alaska's system was set up for stability

The system was designed to be self-financed. Employers and employees pay into a system that covers costs while maintaining a reserve to handle downturns in the economy.

How the unemployment insurance financing system works in Alaska



[1]The tax rate is calculated each year to ensure fund solvency and cover benefit payments.
[2]The rate varies by employer, so the rate provided here is the average.
[3]The maximum taxable wage base is 75 percent of the average annual Alaska wage.

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

This system has served Alaska well for decades, never having had to borrow to pay benefits the way most states have.

However, while parts of the system are self-adjusting, others require regular updating to keep the system functioning and balanced, as it was intended. In recent years, with rapid wage growth, outdated parts of the system have grown the trust fund far beyond what it needs to pay benefits and remain solvent.

How the finances work and performed historically

Alaska's unemployment insurance system is financed through employer and employee payroll taxes. State statutes dictate the minimum and maximum tax rates that employers and employees are charged: between 0.5 percent and 1.0 percent of wages for employees and 1.0 percent to 6.5 percent for employers.

The taxable wage base is set at 75 percent of the average Alaska wage during the most recent fiscal year, so the base in 2026 is $54,200. Any wages above that in a year are not taxed by the unemployment insurance system.

Taxes are calculated using a rate schedule that aims to recapture costs and keep the fund within a targeted solvency range. In Alaska, that's enough money to pay between 3 and 3.3 percent of all wages covered by the system, a range based on what has been necessary to pay benefits during past historical downturns. The reserves must be sufficient to meet both seasonal filing needs and to cushion significant economic shocks.

The biggest shock so far came in the mid-to-late 1980s, when oil prices collapsed on the back end of a ramp-up in global petroleum production after the 1970s Middle East oil embargo.

For Alaska, this came when the Trans-Alaska Pipeline System was nearing its peak throughput of roughly 2 million barrels a day, amplifying the shock.

When prices fell, the state budget constricted and the unemployment rate shot up to a peak of 11.3 percent in the summer of 1986. Tales of the collapse are legendary and include Alaskans walking into local banks and handing them the keys to a house they'd purchased, or simply leaving their keys in the mailbox, before leaving the state.

Even during that time, the unemployment insurance system responded as intended, paying out the largest benefit load relative to wages covered by the program in its history.

For a full breakdown of the program and how rates are calculated on an annual basis, see the Unemployment Insurance Handbook we publish every year at live.laborstats.alaska.gov/article/unemployment-insurance-research-program.

Taxes only pay benefits, with one major exception

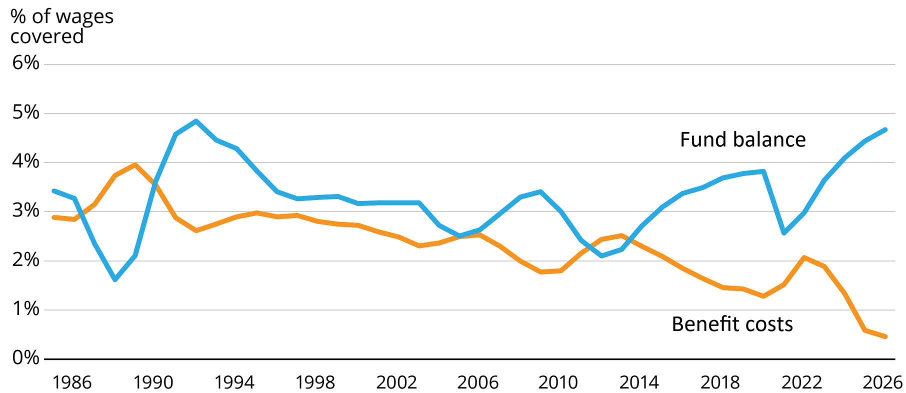
While federal statute dictates that employer taxes can only be used to pay benefits, it doesn't prohibit diverting employee contributions, which most states do not collect. Their systems are financed entirely by employer taxes.

For years, the Alaska Legislature has allowed certain workforce-related programs to draw from the employee UI funding stream. The two current recipients of that funding are the State Training and Employment Program, or STEP, and the Technical Vocational Education Program, or TVEP, which support noncompetitive grants to technical and vocational training institutions across the state.

Given that the statutory tax contribution to the fund is 73 percent from employers and 27 percent from employees, employers already cover most of the program's costs and fund the reserves. In practice, though, it's nearly all, as most employee contributions are diverted to the two training programs.

Historically, the uniform employee tax rate has remained low and stable while the employer rates have done most of the system's adjustment work, as well as bearing costs. The system wasn't designed for that imbalance, but it has had enough flexibility to manage the distortion.

Benefit costs, fund balance continue to diverge

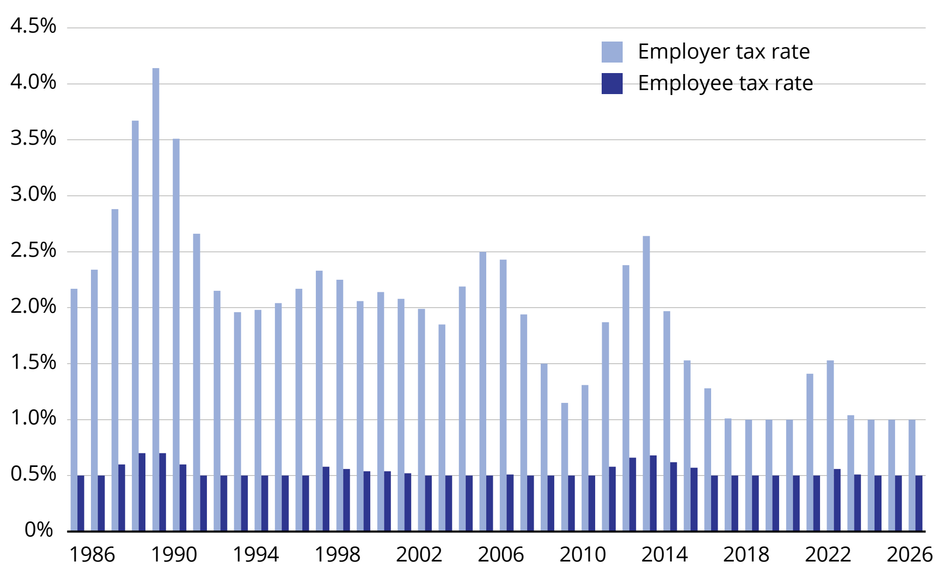


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Benefits are increasingly low, and tax rates can't adjust

For the system to remain functional and actuarially sound, it needs to balance benefit costs with revenue needs in a structured and sound way.

Employer, employee UI tax rates over time



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

For decades, unemployment benefit amounts have been based on a table set in statute. The table provides minimum and maximum weekly amounts, currently $56 for at least $2,500 in annual wages, up to a maximum of $370 based on at least $41,750 earned. While there's an additional dependent benefit for some claimants, the weekly amount doesn't increase for earnings above $41,750 a year.

Between the minimum and maximum wage, for every additional $250 in wages, the weekly benefit increases by $2. These amounts have not been updated since 2009. Wages have risen by about 59 percent since then.

While this structure is simple and efficient to administer, one tradeoff is that it requires periodic updates to the amounts as wages rise. Another is that the longer any fixed maximum remains in place, the more it drives down costs as a percentage of covered wages.

Because these amounts have not been updated since 2009, and the system also has mandatory minimum tax rates, the fund has been taking in far more than it needs to pay these benefits and keep reserves within the targeted range.

Since 2009, the state has weathered two national recessions: the Great Recession and the COVID-19 pandemic. The unemployment insurance system weathered both without borrowing or even approaching insolvency, then emerged from each by quickly exceeding the needed reserves.

As mentioned earlier, the statutorily targeted reserve ratio, which is the share of all covered Alaska wages the fund would be able to pay, is between 3 and 3.3 percent. When 2026 tax rates were calculated last fall, the ratio was 4.67 percent. In dollar terms, the fund had about $240 million more than it needed for solvency, and the balance continues to grow.

The financing system was never intended to accommodate benefit costs this low. With a benefit schedule frozen in 2009 and minimum tax rates, the system can't adjust downward to match lower costs. Diverting most employee contributions to training programs also forces the employer rate to carry nearly all the system's adjustments. The result is a financing structure that continues to over-collect, pushing the fund balance further over its intended reserves.

Proposals on the table

Several proposals before the Legislature aim to update Alaska's unemployment insurance system, each addressing different parts of the structural issues described above. Broadly, they fall into two categories: those that would restore the original mechanics of the system, and those that would expand it to address broader worker and family support goals.

While the following proposals reflect competing visions for how Alaska should modernize its unemployment system, recognition of the need to rebalance the system is widely shared.

1. Increasing benefits

Multiple bills (SB 217 and HB 193) propose increasing the maximum weekly benefit amount and adjusting the wage bands to reflect today's labor market.

Supporters argue that benefits have fallen too far behind wages, reducing the program's value to working families. Updating benefit amounts would also align taxes with actual benefit costs.

Most proposals would use the state's current average wage as the new maximum. Other proposals would change the static wage schedule to one that's indexed to allow benefits to automatically keep up with wage growth.

At the end of the 2026 regular session in May, the Alaska Legislature approved increasing the maximum weekly benefit by $100, to $470, and increasing the allowance for dependents to from $24 to $72. It also indexes benefit amounts to the percent rise in the taxable wage base, which would increase benefit amounts every year by roughly the same percentage as the average wage. The legislation now goes to the governor's desk for the final decision on whether to make it law.

2. Reducing employer tax rate minimums

Employers paying a minimum of 1.0 percent is the main reason the system can't align revenue with costs and solvency right now.

Current proposals would set the minimum to zero, allowing the system to collect only what it needs on a three-year basis.

3. Adjusting the tax split between employers and employees

Another proposal would modify the 27/73 split to reflect the reality that most employee contributions are diverted to workforce training programs.

This could be achieved by simply eliminating the employee cost share to explicitly tax employers for

100 percent of program costs. Employee taxes would go entirely to the training programs, eliminating the distortion and complexity of the diversion and then the credit.

4. Expanding the training programs it funds

Some suggest expanding the training programs currently funded through the employee tax diversions. Proponents view these programs as essential workforce development tools in a state facing worker shortages and increasing percentages of nonresident workers.

If the required minimum employer tax rate for the unemployment insurance system were lowered to zero, that would give the flexibility to enact these new taxes with no additional burden on employers or the labor market.

5. Creating a paid parental leave program

HB 193 proposes using the fund to pay a statewide parental leave benefit. While that isn't a traditional UI function, supporters argue that it would help retain workers and support families.

Again, though, the only portion of the fund that could be used for anything but unemployment benefits is what was paid by employees. Employer taxes can only be used for benefits, by federal law.

The system fits into a broader debate about Alaska's future

The debate over how to manage the unemployment insurance trust fund reflects a larger conversation about Alaska's economic direction as it faces persistent worker shortages, persistent net migration losses, and a smaller share of the population participating in the workforce. Ongoing demographic challenges affecting the entire country include an aging population and, as a result, fewer working-age adults.

The unemployment insurance trust fund, once a relatively quiet corner of state government, has become a focal point for competing visions of how Alaska should support workers, families, and the economy under these changing conditions.

Whether Alaska chooses to modernize the system, expand its mission, or both, the underlying need is the same: a financing system calibrated to today's labor market rather than the one we had in the past. As is, the state's system is actuarially imbalanced, collecting and holding more money than required to pay existing claims.

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