

ALASKA's unemployment insurance

How the UI program performed in 2016

By **LENNON WELLER**

The unemployment insurance system has been in place in the United States for 80 years, created by the Employment Security Act of 1937 to replace lost wages while those who are unemployed look for work. While the act mandated the program's implementation and some elements are federally required, the system was largely left up to states to administer as they saw fit.

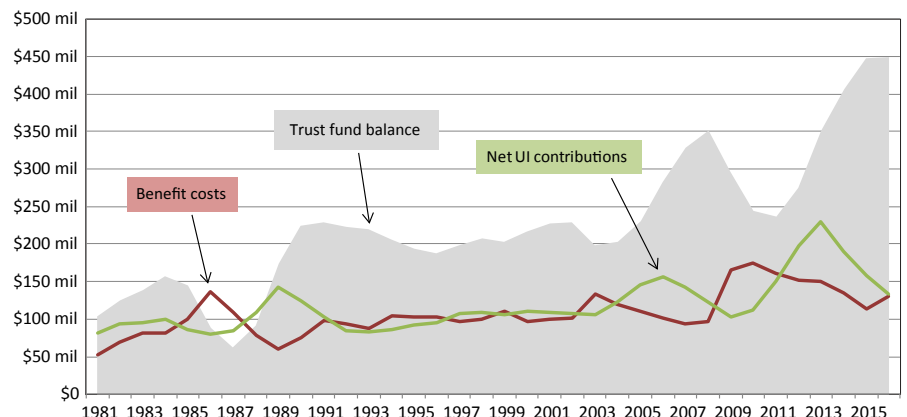
Each state's UI program differs by eligibility requirements, benefit amounts, and system financing. Alaska's system is unique in that it is self-adjusting, unlike some other states where policymakers can set tax rates.

Alaska's program is set up to keep the UI trust fund's reserve within a certain target range — enough to pay out 3.0 percent to 3.3 percent of all covered wages in the state in the event of an economic downturn — and tax rates adjust each year to maintain that solvency.

To help monitor the UI system's performance, the Department of Labor and Workforce Development re-

1 Fund Balance, Costs, and Contributions

ALASKA UNEMPLOYMENT INSURANCE, 1981 TO 2016



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

leases a comprehensive report each year, and the following is a brief overview of the 2016 report's findings. For more data and in-depth explanations of how the system works, please see the full report at http://live.laborstats.alaska.gov/uiprog/UI_Actuarial_Study.pdf.

Benefit payments and revenue

In 2016, Alaska disbursed \$177.8 million in unemployment compensation payments, of which \$130.6 million was chargeable to the trust fund for tax calculation purposes. These payments were up by \$18.1 million

from the \$159.7 million disbursed in 2015 (\$112.9 million in chargeable costs). In the same year, employers and employees contributed a combined \$133.3 million in UI taxes.

At the end of 2016, the trust fund had \$449.17 million in reserves, an increase of roughly \$892,000 from 2015. (See Exhibit 1.) The trust fund also earned \$9.95 million in interest, which is deducted from annual benefit costs to offset contribution rates.

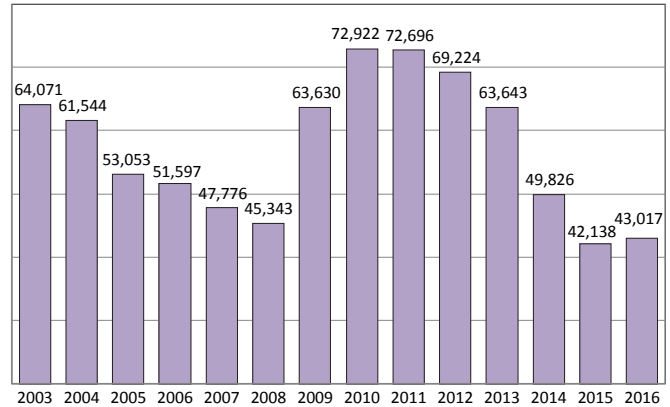
Yearly tax rates and how they are calculated

The objective of UI financing is to both recapture costs and maintain a balance adequate to handle temporary shocks. Cost recapture is achieved through calculation of an average benefit cost rate, or ABCR. The ABCR reflects benefits paid as a percentage of total covered wages over a three-year period, and that becomes the base for the following year's tax rates.

If at tax time the trust fund balance falls within the target range of 3.0 to 3.3 percent of covered wages, no additional adjustment is necessary. If the fund falls outside of that range, the final rate will include an additional solvency adjustment as either a surcharge or a credit. If the adjustment is a surcharge, the increase can be no more than three-tenths of a percentage point per year.

In 2016, the average combined total tax rate was 1.78 percent (0.50 percent for employees and 1.28 per-

2 Number of Claimants* ALASKA UI, 2003 TO 2016



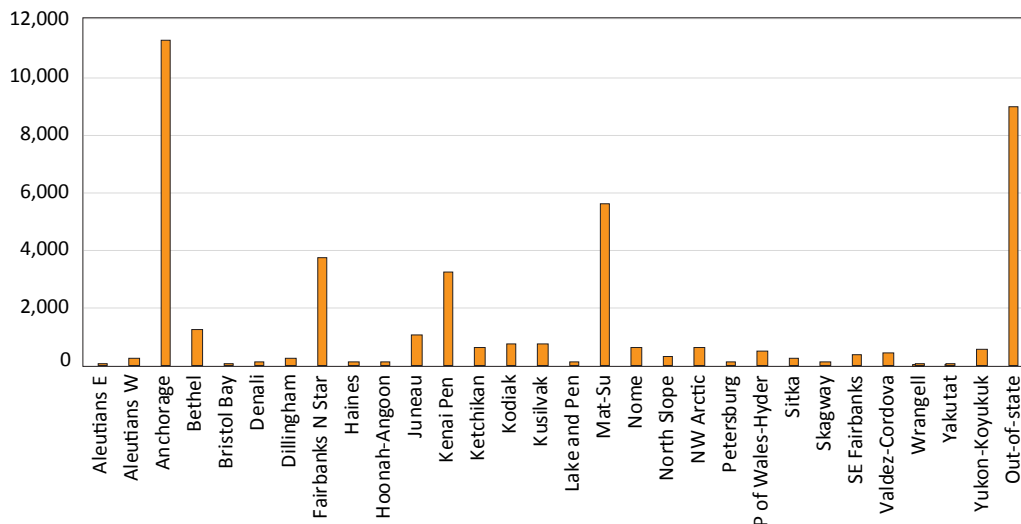
*All claimants who received at least one week of benefits during the year
Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

cent for employers) assessed on taxable wages (up to \$39,700 in 2016). Because the trust fund balance was slightly above the targeted range, the final rate combined an ABCR of 1.85 percent with a solvency credit of 0.07 percent.

Claimants by industry and area

In 2016, 43,017 claimants filed for and collected at least one week of UI benefits, up from 42,138 claim-

3 Unemployment Insurance Claimants by Area ALASKA, 2016



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

ants the year before. (See Exhibit 2.)

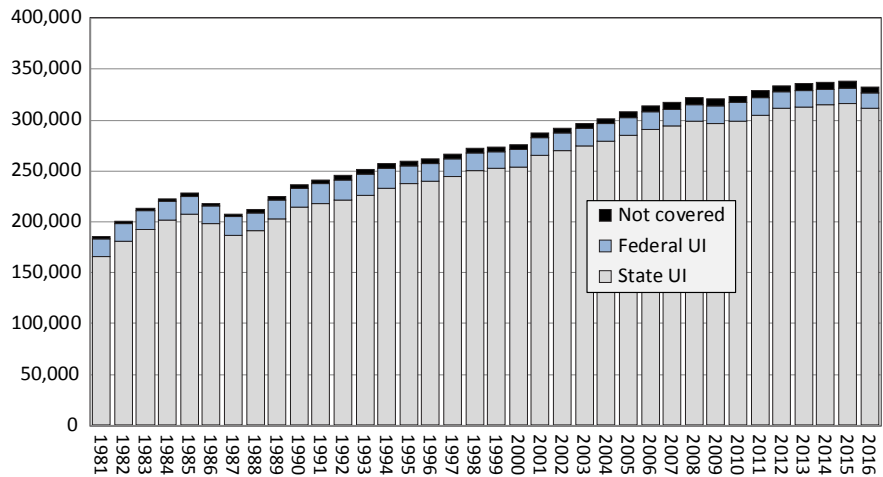
From an industry perspective, the largest share come from the heavily seasonal construction and food products manufacturing sectors. Those two industries made up 17.2 percent and 11.6 percent of all claimants respectively and they accounted for nearly 30 percent of all filers.

The next highest was trade, with about 9.5 percent of claimants. The oil and gas industry also had a large number of claimants in 2016 due to layoffs.

By area, Alaska has a significant number of claimants who earned wages in the state but filed from elsewhere. In 2016, 20.9 percent of filers were outside Alaska (8,983).

Of the remaining 34,034 people who filed from within Alaska, 49.7 percent filed from the Anchorage/Matanuska-Susitna Region (16,919). (See Exhibit 3.)

4 Employment by Type of Coverage ALASKA, 1981 TO 2016



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

Almost all workers are covered

The state and federal unemployment insurance programs in Alaska covered 98.2 percent of all wage and salary jobs in 2016 (326,280). State programs covered 93.7 percent, and federal programs covered 4.6 percent.

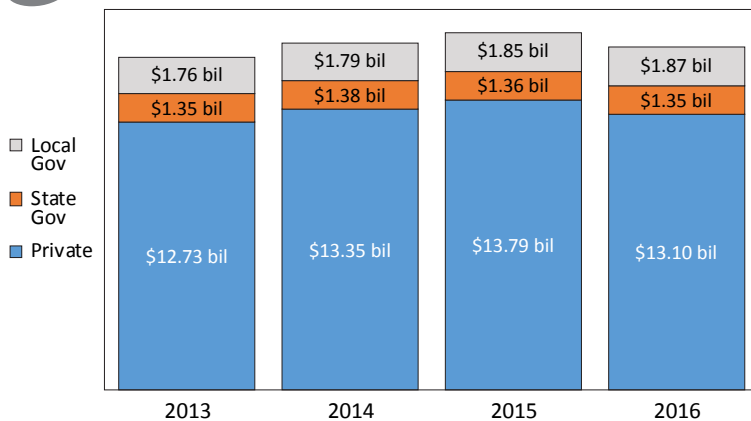
The state system's covered average monthly employment, which excludes federal jobs, declined by 5,668 — or 1.8 percent — over the year, from 316,758 jobs to 311,090. This was the largest over-the-year employment decline since 1987. (See Exhibit 4.)

Wages for those covered jobs declined by \$690.9 million (-4.1 percent) in 2016, to just over \$16.3 billion.

Of the total decline, \$694.4 million came from private industries, mostly oil and gas (-\$468 million). State government wages declined by \$12.2 million. Wages in local government, which includes tribal government and public schools, grew by \$15.7 million. (See Exhibit 5.)

Meanwhile, wages subject to UI taxation (a subset of covered wages) declined by \$171.5 million, or 2.14 percent.

5 Covered Wages by Type ALASKA UI, 2013 TO 2016



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

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