

# Unemployment Insurance

by Corine Geldhof  
Communications Coordinator

## An income safety net system for the temporarily unemployed

**I**n the depths of the Great Depression in 1935, the U.S. Congress passed the Social Security Act, establishing an economic stabilization program of partial wage replacement for workers during periods of temporary, involuntary unemployment. Under the federal-state partnership created by the Act, each state designs its own system using federally established guidelines. Alaska's participation in this program is governed by the Alaska Employment Security Act, passed in 1937, which continues to be administered by the Alaska Department of Labor and Workforce Development.

One provision of Alaska's Act requires the preparation of an actuarial study of the unemployment insurance tax and benefit structures. A significant source of demographic information, this biennial study reveals many facts, such as who files for unemployment insurance benefits, their age, gender, geographic location, industry, ethnicity, earnings, and number of dependents. (See Exhibit 2.) It also lists benefit totals for all the program's components and shows how benefits are paid, why, where, when, and for whom.

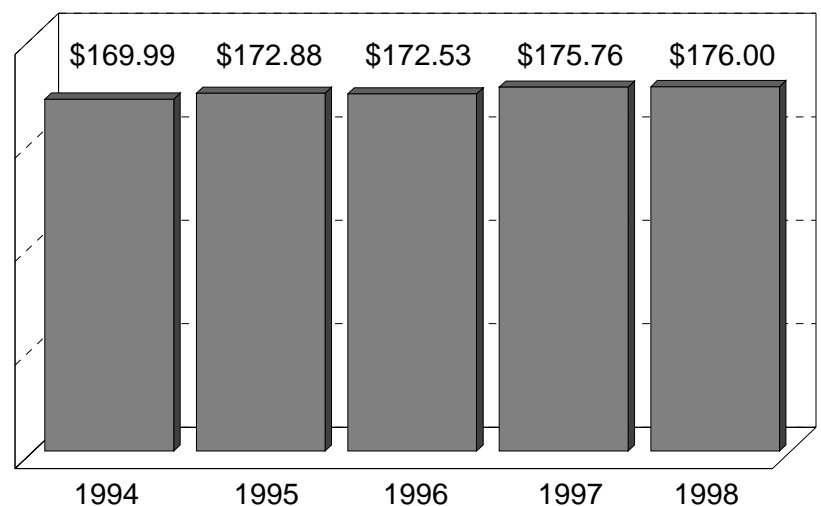
### 1998 benefit totals

In 1998, the calendar year for which the most up-to-date information is available, Alaska's UI program covered an average of 267,000 workers, or 98.3% of all nonagricultural wage and salary

workers. Workers not covered are full-commission salespersons, elected and appointed officials, fishers, unpaid family and domestic workers, and the self-employed. About \$119 million in benefits was paid to 53,800 unemployed workers in 1998, 81.5% filing within the state, and 18.5% filing from outside the state. Interstate claimants are those workers who file claims against Alaska based on work they performed in state but who live elsewhere. For 1998, \$22,493,584 in

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## Average Weekly Benefits Alaska UI claimants, 1994-1998



In 1997 the maximum weekly benefit amount was raised from \$212 to \$248.

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

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## Alaska claimant characteristics, 1998

Characteristics	All Recipients		Characteristics	All Recipients	
	Number	% of Total		Number	% of Total
TOTAL	53,788	100.0%	AVERAGE ANNUAL EARNINGS (\$):		
GENDER:			\$1,000-\$9,999	14,769	27.5%
Male	33,697	62.6	10,000-19,999	16,675	31.0
Female	20,091	37.4	20,000-29,999	10,363	19.3
AGE:			30,000-39,999	5,423	10.1
Under 21	1,265	2.4%	40,000-49,999	3,113	5.8
21-24	4,183	7.8	50,000-59,999	1,689	3.1
25-34	15,118	28.1	60,000-69,999	888	1.7
35-44	17,279	32.1	70,000-79,999	438	0.8
45-54	11,181	20.8	80,000-89,999	217	0.4
55-64	4,052	7.5	90,000+	213	0.4
65+	710	1.3	GEOGRAPHIC LOCATION:		
NUMBER OF DEPENDENTS:			Aleutians East Borough	160	0.3%
0	31,079	57.8%	Aleutians West Census Area	322	0.6
1	8,907	16.6	Anchorage Municipality	13,468	25.0
2	7,809	14.5	Bethel Census Area	1,087	2.0
3+	5,993	11.1	Bristol Bay Borough	143	0.3
ETHNIC BACKGROUND:			Denali Borough	237	0.4
Alaska Native/American Indian	9,703	18.0%	Dillingham Census Area	275	0.5
Asian and Pacific Islander	3,795	7.1	Fairbanks North Star Borough	5,420	10.1
Black	1,848	3.4	Haines Borough	290	0.5
Hispanic	2,391	4.4	Juneau Borough	2,010	3.7
White	34,927	64.9	Kenai Peninsula Borough	4,836	9.0
Other	340	0.6	Ketchikan Gateway Borough	1,298	2.4
No Information	784	1.5	Kodiak Island Borough	1,650	3.1
INDUSTRY:			Lake & Peninsula Borough	104	0.2
Agriculture, Forestry and Fishing	436	0.8%	Matanuska-Susitna Borough	4,256	7.9
Mining	1,964	3.7	Nome Census Area	656	1.2
Oil and Gas	1,503	2.8	North Slope Borough	345	0.6
Other Mining	461	0.9	Northwest Arctic Borough	478	0.9
Contract Construction	8,763	16.3	Prince of Wales-Outer Ketchikan CA	926	1.7
Manufacturing	8,694	16.2	Sitka Borough	573	1.1
Food Products	6,401	11.9	Skagway-Hoonah-Angoon CA	497	0.9
Lumber and Wood Products	1,266	2.4	Southeast Fairbanks Census Area	538	1.0
Paper Products	361	0.7	Valdez-Cordova Census Area	952	1.8
Other Manufacturing	666	1.2	Wade Hampton Census Area	614	1.1
Trans., Communications and Utilities	4,376	8.1	Wrangell-Petersburg Census Area	729	1.4
Trade	9,397	17.5	Yakutat Borough	103	0.2
Finance, Insurance and Real Estate	1,989	3.7	Yukon-Koyukuk Census Area	549	1.0
Services	12,705	23.6	Alaska Area Unknown	1,340	2.5
Public Administration	5,192	9.7	Total In-State	43,856	81.5%
Unclassified	272	0.5	Out-of-State	9,932	18.5
OCCUPATION:			LOCAL OFFICE:		
Agriculture, Forestry, and Fishing	1,509	2.8%	Anchorage	25,911	48.2%
Benchwork	208	0.4	Central - Interstate Claims	9,932	18.5
Clerical and Sales	9,671	18.0	Central - Rural Mail Claims	8,097	15.1
Machine Trades	1,769	3.3	Fairbanks	5,543	10.3
Processing	5,415	10.1	Juneau/SE Urban	4,305	8.0
Professional, Technical, Managerial	7,506	14.0			
Service	7,634	14.2			
Structural Work	13,738	25.5			
Miscellaneous and Unknown	6,338	11.8			

Notes: Percentages may not add to 100% due to rounding.  
Starting in 1996, the UI claims processing work at many offices was consolidated into regional centers in Anchorage and Juneau. All UI claims filing is now done by mail or telephone. The Anchorage Center serves clients in Anchorage, Bethel, Dillingham, Eagle River, Glennallen, Homer, Kenai, Kodiak, Kotzebue, Mat-Su, Nome, Seward, Tok, and Valdez. Juneau/SE Urban office serves Juneau, Ketchikan, Petersburg & Sitka.

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

(Continued from page 3)

UI benefits was paid to interstate claimants, the majority of them from manufacturing industries (food products, including seafood processing, lumber and wood, and paper products).

Regular benefits amounted to \$113 million, and an additional \$5.6 million was paid out under the extended benefits program. Extended benefits kick in when a federal formula indicates the insured unemployed rate exceeds six percent. This happens in Alaska every year, typically beginning in February when there is less work available for workers attached to seasonal industries. The average weekly benefit payment for regular benefits in Alaska was \$176.00, up about \$3.50 from 1996. (See Exhibit 1.) On the average, those claiming regular benefits received 15 weeks of payments, and those qualifying for extended benefits received an average of six additional weeks of payments.

### Claimant characteristics

Distinct patterns were evident among temporarily unemployed workers who filed for one or more weeks of UI benefits in 1998. More men filed than did women, a total of 33,697 or 62.6% of all claimants, whereas 20,091 women filed, 37.4% of the total. (See Exhibit 3.) Most claimants' income from work covered by unemployment insurance placed them at the low end of the income scale. More than 27 percent earned less than \$10,000 and another 30 percent earned less than \$20,000. At the high end of the income range, just over three percent of all UI claimants, representing fewer than 2,000 claimants, earned \$50,000 or more.

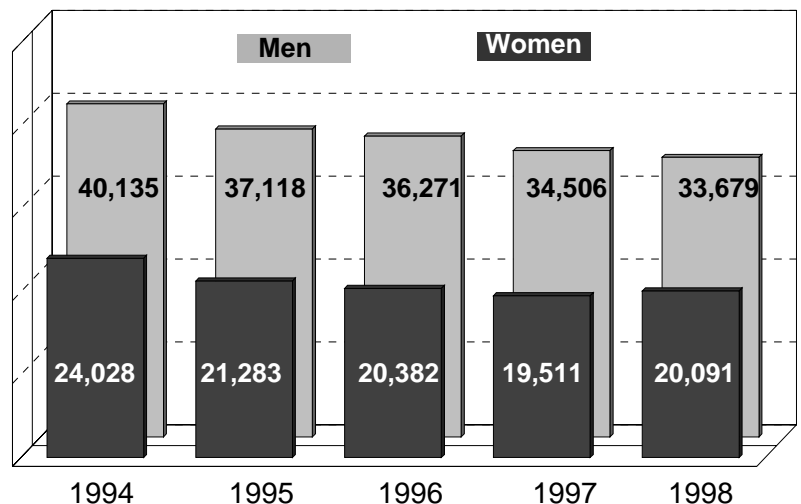
When looked at by age, the largest group (32 percent) of claimants in 1998 was between the ages of 35 and 44. Most claimants (57.8%) had no dependents, and 64.9% of the total were Caucasian. By industry, the highest percentages were in services (23.6%) and in the retail and wholesale trade industries (17.5%).

### A look at five years of benefit payments

Although the number of claimants filing for benefits declined during the 1994-1998 period, dollars paid out remained relatively stable, due in part to state legislation introduced in 1996 that increased the maximum weekly benefit amount from \$212 to \$248. Claimant characteristics data disclose little variation overall in filing patterns for this five-year period. For instance, the average duration of claiming has remained the same with only small fractions of a percentage point differential over the last five years. The increase in average weekly payments has been small, from \$169.99 in 1994 to \$176.00 in 1998. (See Exhibit 1.)

Similarly, the industries from which claimants came show very little variation over the last five years, indicating that trends in seasonal

### UI Claimants by Gender 1994-1998 **3**



Source: Alaska Department of Labor and Workforce Development

unemployment in Alaska remain constant. (See Exhibit 4.) The months of highest filing are in winter—growing in December and January, rising again in March, and declining by April. (See Exhibit 5.) Summer months show the fewest weeks claimed. These patterns correlate with those of Alaska's seasonal industries, such as seafood processing, tourism and construction.

The percent of payment distribution for UI claimants across industries has remained consistent the last five years, from highest to lowest in services, construction, trade and manufacturing respectively. The geographic regions where most claimants file reflect the concentration of population in urban areas, with Anchorage and the Matanuska-Susitna Borough leading, followed by Fairbanks, Kenai and Juneau respectively. (See Exhibit 6.)

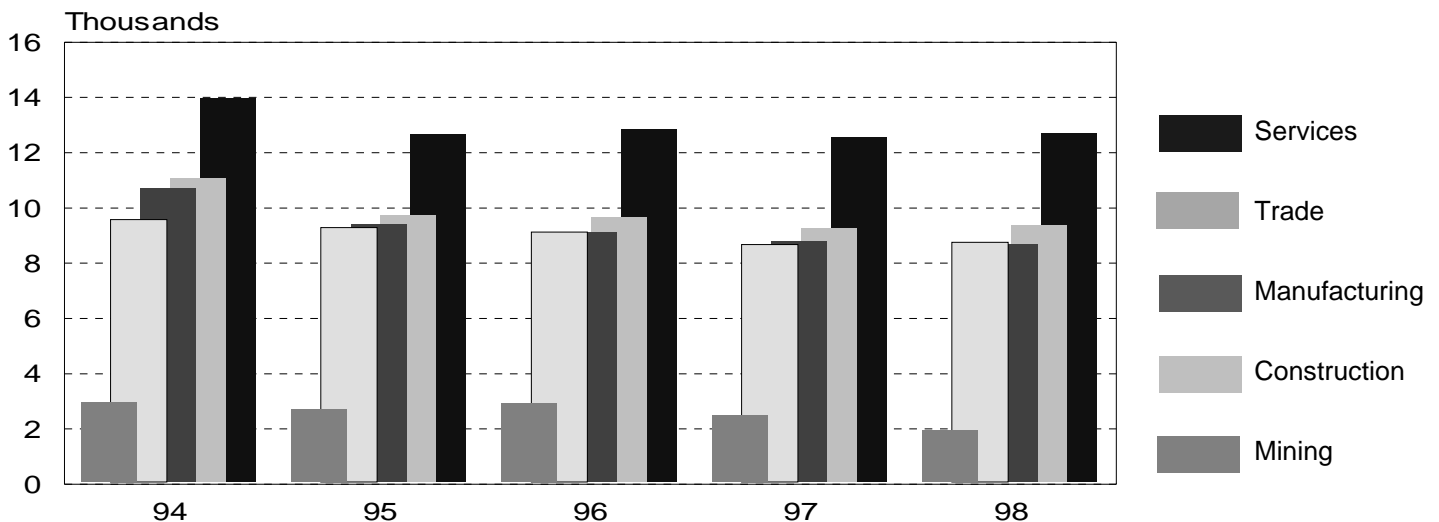
### Claimant qualifying provisions

A claimant qualifies for benefits under the Alaska

Employment Security Act on the basis of wages earned in a "base period," defined by statute as the first four of the five completed calendar quarters preceding the date the claim is filed. Earnings during this period must be equal to or greater than \$1,000 with at least \$100 earned outside the quarter in which the most wages were paid. The claimant must also be ready and able to work. The claimant is disqualified for a waiting week and five additional weeks if they have voluntarily left work without good cause, or been discharged for work related misconduct.

In some states eligibility provisions are more limiting than in Alaska, and national concern has been expressed over the decline in the percent of unemployed collecting UI benefits. There are now proposals on the national level that would make UI systems more responsive to changes in the workplace. President Clinton issued an Executive Memorandum on May 28, 1999, calling for new regulations that will enable states to develop "innovative ways" of using the unemployment insurance system to support parents on leave following the birth or adoption of a child. Concerns about payments in Alaska have

## 4 UI Claimants by Industry Alaska 1994-1998



Source: Alaska Department of Labor and Workforce Development

not to date been so wide ranging, but there are concerns over the low rate of wage replacement that are addressed later in this article.

## The role of Alaska's Trust Fund in paying benefits

Each state has a trust fund for the sole purpose of paying unemployment insurance benefits. Withdrawals are made from the UI trust fund as needed to make payments to claimants. Taxes, reimbursements, interest, and other sources of contributions are deposited into the fund to build reserves.

Maintaining the solvency of the trust fund is vital to the UI system. Occasionally, a recession may be severe enough that money drawn from the fund to pay benefits exceeds revenues and fund reserves. If a state's fund becomes insolvent, the state may borrow from the federal government. Between 1955 and 1960, the State of Alaska borrowed \$9 million from the federal government to keep the trust fund solvent. Annual benefit payments from 1952 through 1959 exceeded collections, breaking the fund temporarily in 1955 and then again in 1957. To replenish the fund, the amount of wages subject to taxes was increased, and beginning in 1955, taxes were levied on employees. Although many states borrowed to pay benefits in the early 1980s, Alaska has not borrowed to pay UI benefits since 1960.

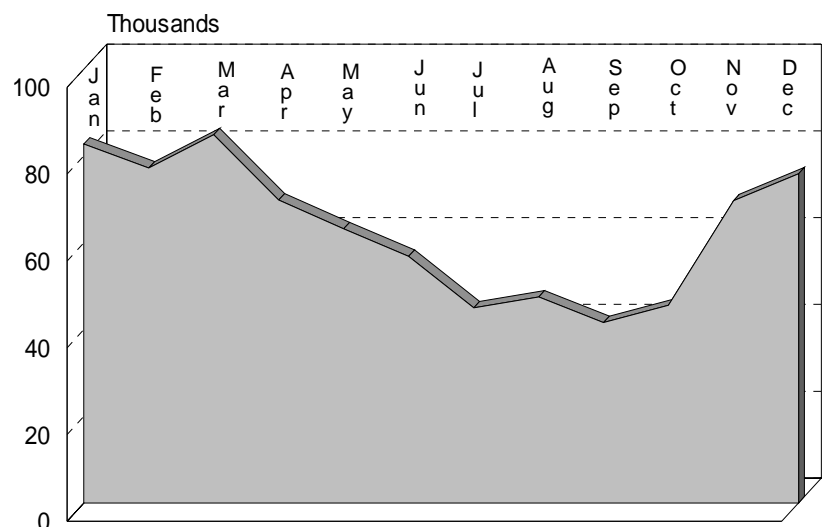
The level of employment and payroll in the economy has a direct effect on the amount of benefits that will potentially need to be paid. Therefore, the capacity of trust fund reserves to pay benefits during recessions cannot be measured simply by the level of reserves. A better measure is the reserve rate, which is the ratio of reserves to total wages subject to contributions. A trust fund reserve rate of approximately 3.2 percent of wages subject to contributions is generally considered adequate in Alaska.

The recession of 1986-87 had a serious impact on Alaska's UI trust fund, but reserves were adequate to maintain solvency. At the end of 1985, Alaska's trust fund reserves were \$145.4 million, and the reserve rate was 3.3%. By 1987, trust fund reserves had fallen to \$63.0 million with a reserve rate of 1.7%. The fund reserve balance bottomed out in April 1988 at \$45.9 million. By the end of 1990, fund reserves had rebuilt to \$224.3 million, with a reserve rate of 4.8%. At the end of 1998, the reserve rate was 3.3%, where it has remained for the past three years. Alaska's UI trust fund had a healthy reserve balance of \$207.5 million.

## Administrative funding

In addition to state unemployment taxes, employers pay taxes to the federal government to cover administrative costs. In 1985, these FUTA

## UI Claim Seasonality 5 Total weekly claims by month—1998

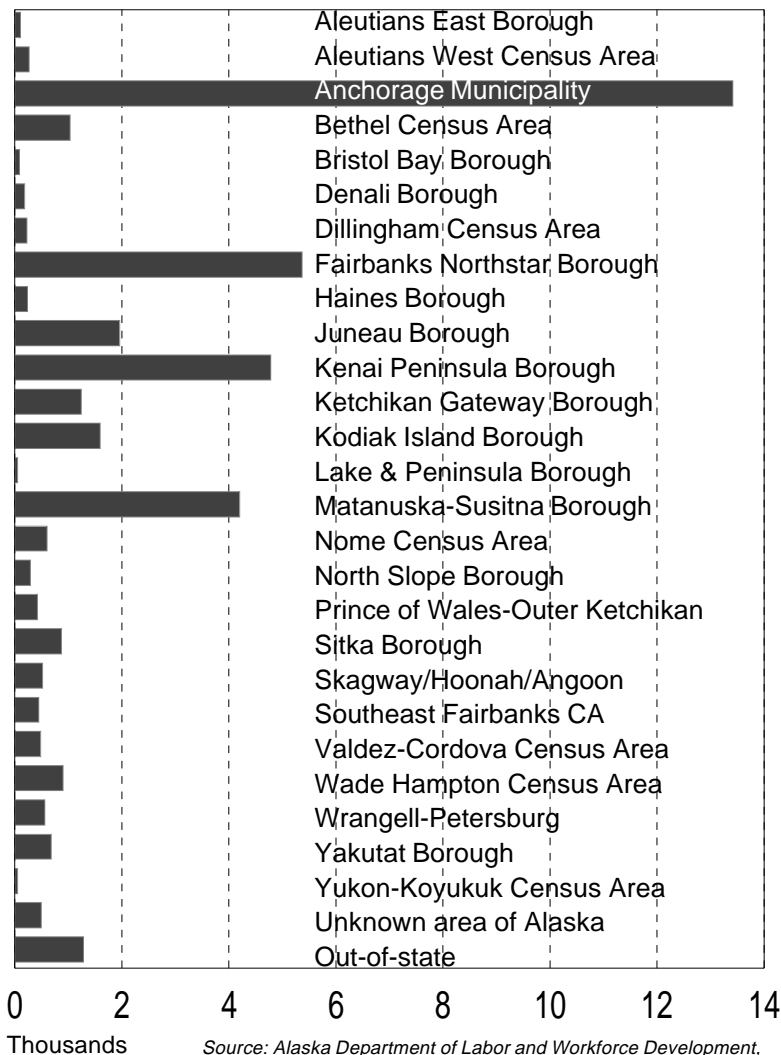


Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

(Federal Unemployment Tax Act) taxes were raised to 6.2% of payroll up to a base of \$7,000 per worker. However, as long as state law conforms to federal law, employers receive a credit of 5.4% against their FUTA tax. This credit makes an employer's effective tax rate 0.8%, or \$56 for each employee earning \$7,000 or more annually. Alaska qualifies for this credit, as do the other states. In federal fiscal year 1998, the federal government estimated employers in Alaska

contributed \$13.1 million in FUTA tax revenues. The federal government pays for administration of the state's unemployment program through administrative grants. A portion of FUTA collections, kept in a federal account and not in the state trust fund, funds the grants. In federal fiscal year 1998, Alaska received \$28.1 million in administrative grants (\$20.0 million for unemployment insurance administrative costs and \$8.1 million for employment services). In federal fiscal year 1998, Alaska's total administrative grants amounted to 214.5% of state FUTA contributions, representing more than two dollars returned for every dollar paid in.

## 6 UI Claimants by Location 1998



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

### Financing the benefits

State UI tax revenues collected from employers and employees are the principal source of income to the unemployment insurance trust fund. In 1998, tax contributions to the UI trust fund were \$109.5 million, 74.3% of total revenues. This marks the third straight year of increasing tax contributions. Employers are, however, experiencing lower than average tax rates, and have been since 1991. For employers, the 1999 tax year will mark the eighth year in a row when the average employer tax rate will fall below the 10-year average from 1989 to 1998. In 1999, the average employer tax rate was 2.06% of taxable payroll.

State taxes are assessed on wages up to a set taxable wage base. The tax base is defined in AS 23.20.175(c) as 75 percent of the average annual earnings in covered employment for the immediately preceding year ending June 30. The state taxable wage base was \$24,100 in 1998, and \$24,500 for tax year 1999.

The system of collecting taxes from employers and workers is self-regulating and counter-cyclical, designed to respond quickly to changes in the state's economy. It is set up to delay tax



increases so that the tax hikes do not hit employers during the worst part of a recession. The counter-cyclical effectiveness of the UI program is an economic stabilizer, offsetting negative effects of recessions. A good example was the recession that began in late 1985, when more than 138,000 unemployed workers received unemployment insurance compensation totaling over \$578 million.

### **The system is effective but wage replacement is low**

The UI program has proven its efficacy many times over in the state's history, ranging from the 1964 Good Friday earthquake, the Fairbanks flood of 1967, to the recession in the mid-eighties and, within the last decade, following mill closures in Sitka, Wrangell and Ketchikan. However, it is only as effective as its ability to restore wages lost to unemployment. In Alaska, the current maximum weekly benefit of \$248 is 39 percent of the state's average weekly wage. This is far below the U.S. Department of Labor's 1999 UI program performance goal recommendation that the maximum weekly benefit amount be at least two-thirds the state's average weekly wage. The result is that the average worker in Alaska has become less able to weather a period of unemployment.

While 1998 earned Alaska the distinction of being ranked the highest in the nation in terms of the percentage of eligible unemployed workers who actually received benefits, it ranked 46th in the nation in terms of benefit adequacy, the percentage of average weekly earnings replaced by unemployment benefits. The generally accepted guideline is that the weekly benefit amount should provide a wage replacement that is high enough to cover the claimant's non-deferrable expenses, but not so high as to undermine the incentive to return to work. A generally accepted concept is that the weekly benefit amount should be 50 percent of former

wages. There is no record of the rationale for choosing this percentage. Nevertheless, 50 percent of wages has become so firmly established as a concept in unemployment insurance that it is often referred to as the "principle" of 50 percent of wages. Currently, there are approximately 30 states with a maximum weekly benefit amount equal to or greater than 50 percent of the average weekly wage for the state.

### **Summary**

Alaska's UI benefit paying system is well established and trends in filing patterns remain relatively constant. The trust fund is solvent and tax rates are low. It is clear that the program extends positive impacts across the economy. It is unlikely that the future holds sweeping changes for the system. The challenge in Alaska will be to provide reasonable purchasing power for the unemployed through wage replacement while maintaining incentives to return to work. With proper funding, the program's ability to be the economic stabilizer that it has been in the past will be sustained.

*James Wilson, Labor Economist,  
and Thom Wylie, UI Actuary,  
contributed to this article.*