

# Changes in Unemployment Benefits

## Economic effects of bigger payouts and new maximum

In Alaska, a fixed legislative schedule determines a person's weekly unemployment benefits. Inflation erodes the value of the benefit amounts over time, and statutory changes are required to adjust benefit amounts upward.

Before the Alaska Legislature adopted the most recent revision in early 2009, the last time the schedule was amended was 1997, making this the longest period without changes since the 1960s. (See Exhibit 1.)

### Legislature expands benefit schedule

The latest round of changes went into effect on Jan. 1, 2009. Senate Bill 120 updated the unem-

ployment insurance benefit payment schedule by adding a net 55 steps — 61 tacked on to the end and six removed from the beginning.<sup>1</sup> (See Exhibit 2.)

This change increased the maximum weekly benefit amount from \$248 to \$370, as those earning \$26,750 or more in base period<sup>2</sup> wages became eligible to receive up to \$122 more per week. A person qualifies for an extra \$2 in weekly benefits for every \$250 in earnings during the qualifying base period.

Under the new schedule, a claimant with wages of at least \$2,500 per year (previously \$1,000) qualifies for \$56 in weekly benefits (previously \$44). At the higher end, \$41,750 in wages (previously

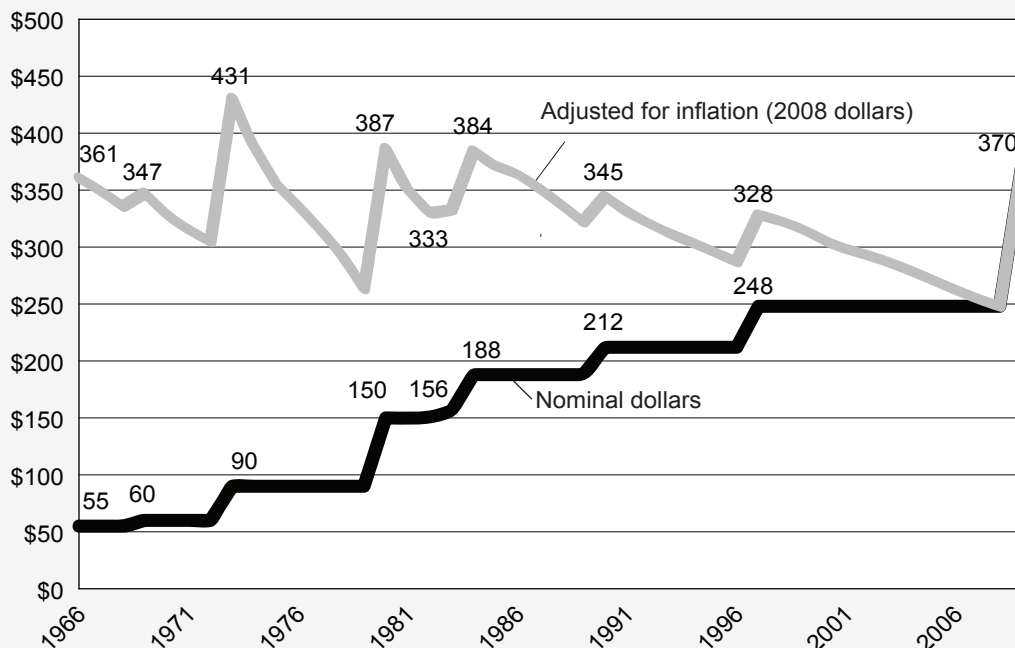
\$26,500) means a new maximum of \$370 (previously \$248). Any earnings beyond \$41,750 won't provide additional compensation. However, this is an increase of \$15,000 from the previous ceiling on base period wages.

### 41.7 percent stuck at prior maximum

Of the 63,630 total claimants in 2009, 26,506 reported annual earnings of at least \$26,750 — that means

### 1 Maximum Weekly Benefit Amount

Alaska Unemployment Insurance, 1966 to 2009



Note: The adjustment for inflation reflects the true purchasing power of the maximum weekly benefit amount, while the nominal dollar values are the actual numbers reflected in the schedule.

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

<sup>1</sup> For the complete 2009 revision table, see the August 2008 issue of *Trends* at <http://labor.alaska.gov/trends/aug08.pdf>.

<sup>2</sup> Base period: The first four of the last five completed calendar quarters immediately preceding the first day of an individual's benefit year.

## 2 Steps Deleted from Start of Schedule 2009 changes from prior benefit rate revision

2008			2009		
Base Period Wages		Weekly Benefit Amount	Base Period Wages		Weekly Benefit Amount
At Least	But Less Than		At Least	But Less Than	
0	\$1,000	0			
\$1,000	\$1,250	\$44			
\$1,250	\$1,500	\$46			
\$1,500	\$1,750	\$48			
\$1,750	\$2,000	\$50			
\$2,000	\$2,250	\$52			
\$2,250	\$2,500	\$54	0	\$2,500	0
\$2,500	\$2,750	\$56	\$2,500	\$2,750	\$56
\$2,750	\$3,000	\$58	\$2,750	\$3,000	\$58
\$3,000	\$3,250	\$60	\$3,000	\$3,250	\$60

Note: Beginning Jan. 1, 2009, benefits were deleted for wages of at least \$1,000 but less than \$2,500, and benefits were added for wages of at least \$26,750 but less than or equal to \$41,750.

Source: Alaska Statute 23.20.350(d), amendment effective Jan. 1, 2009.

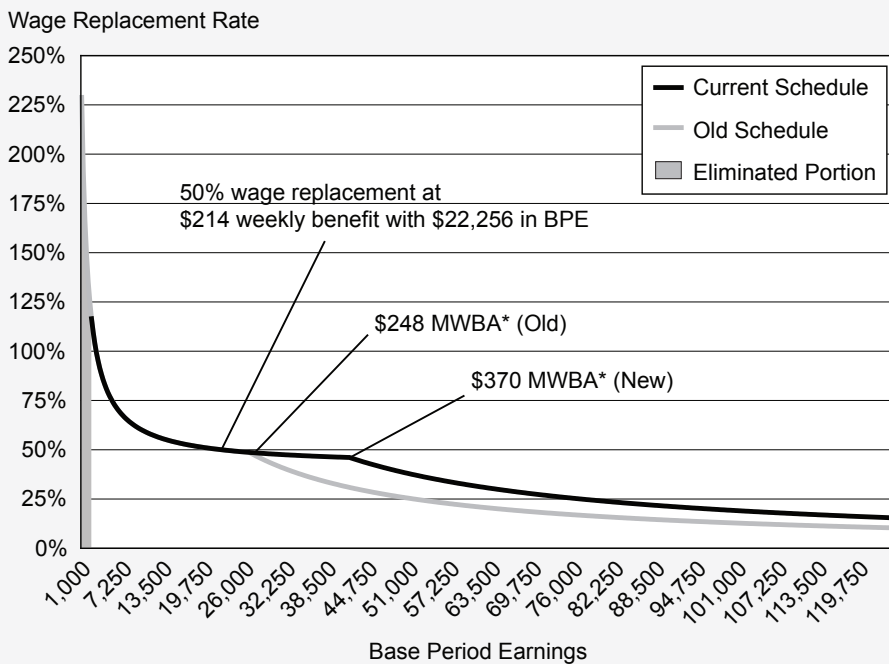
41.7 percent would have received the previous \$248 weekly maximum benefit. Once the 2009 changes went into effect, those 26,506 claimants who made more than \$26,750 per year (and whose claims began 2009) were eligible for up to an additional \$122 per week. Of that group, 20,697 received more than \$248 in weekly benefits.

A total of 11,600 individuals — or 18.2 percent of claimants — received the new \$370 maximum weekly benefit amount in 2009, the first year of the new schedule.

### Replacement of lost wages

The goal for the replacement of lost wages is 50 percent, a compromise between the parties in Congress who crafted the 1935 legislation creating the unemployment insurance program. This measure aims to provide enough to cover basic expenses without discouraging people from getting back to work as quickly as possible given economic conditions.

## 3 UI Wage Replacement Rates Benefits as a percentage of weekly earnings



\*MBA: Maximum weekly benefit amount

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

Within the current schedule, wage replacement is exactly 50 percent when the qualifying wage is \$22,256. (See Exhibit 3.)

The average weekly wage for all covered employment<sup>3</sup> in 2009 was \$881 — or \$45,812 annually — so the previous maximum weekly benefit was a 28.1 percent wage replacement rate.

In contrast, the average weekly wage for the claimant population in 2009 was \$568, or \$29,536 per year. At this level, the wage replacement rate would have been 43.6 percent under the old schedule, and under the new schedule it's 47.9 percent: the result of a \$24 increase in the benefit amount based on the average claimant's wages.

<sup>3</sup> Covered employment is the number of people working during the pay period that includes the 12th of each month, by place of work. Workers who are not covered include agricultural workers, the self-employed, some employed students, most fishermen, full commissioned sales workers, private railroad workers, and elected and appointed officials.

## Economic implications of increase

Just as the new benefit schedule went into effect, a national recession (which technically started a year earlier) began to take its toll on Alaska's economy. After three years of continuous declines in the number of active claimants, the tide turned in 2009 with a 40 percent increase from the previous year.

The simultaneous increase in the maximum weekly benefit amount and the recession had a compounding effect on the volume of payments in the same year. Claimants went up by 18,287 and regular benefit payments rose by \$64.7 million with an additional \$65 million for extension programs — \$129.7 million more than compensation in 2008. Of that total increase in payments, \$27.8 million can be attributed to the change in the maximum weekly benefit amount.<sup>4</sup>

<sup>4</sup> The \$27.8 million was determined by taking the difference between what was actually paid to those with a weekly benefit amount of greater than \$248 and what would have been paid to them by multiplying the number of weeks paid by the previous maximum weekly benefit amount of \$248. This hypothetical amount doesn't take into account dependence allowances, garnishments, or any other monetary adjustments; all of which occur after determination of the eligible benefit amount.

Broken down by program, the change in the maximum weekly benefit increased regular UI compensation by an estimated \$24.1 million, by an additional \$2.7 million for extended benefits, and by \$1 million for emergency unemployment compensation. However, only regular UI payments were chargeable to the trust fund, because the federal government picked up the tab on extension program payments made in 2009.

On the flip side, the effect of injecting an extra \$27.8 million into the economy is significant. Money that goes into the hands of the unemployed is very likely to be spent; they tend not to save their benefit dollars.

Further, the U.S. Department of Labor estimates the multiplier for UI benefits at 1.6, meaning that every dollar paid in benefits generates an additional \$0.60 of activity in the local economy. Therefore, the increase in the maximum weekly benefit amount alone could have pumped as much as an extra \$44.5 million into the economy.

## A Safety Minute

### Heavy snow is in the forecast this winter, so take extra precautions

We expect significant snowfall across the state this year, and Alaskans should take extra care during and after a snowstorm to avoid accidents.

Most seasoned Alaskans own a trusty snow shovel and have more experience with it than they really care to have, and some are lucky enough to have a willing youngster with a strong back around the house. However, everyone can benefit from some key advice when shoveling:

- Dress for the weather and use the right equipment for conditions. Wear boots with good traction or use over-the-shoe traction enhancers.
- Use proper body mechanics. Remember to bend your knees and lift with your legs while keeping your back straight. Avoid excessive twisting, and take your time. It may help to warm up and stretch before strenuous snow shoveling.
- If you have a snow blower, make sure it's well-maintained with operable safety guards. Never attempt to clear a jammed snow blower while it's running.

- If you have to get on the roof to remove snow, protect yourself from falls.

Alaska has some of the most efficient snow removal professionals in the world. You can help them by watching for snow removal equipment and taking precautions. Slow down and give them as much room as possible. Drive with your lights on and don't assume the equipment operator sees you.

During extreme snowfall, power lines and trees are susceptible to damage. Limit travel during and immediately after a snowstorm, and avoid downed power lines. Wear protective clothing and use eye, hearing, and face protection when using a chainsaw to remove downed trees. If the power goes out, do not operate a generator in an enclosed space where carbon monoxide fumes could create a fatal health hazard.

For more information on winter safety, contact the AKOSH Consultation and Training program at (800) 656-4972, or 269-4955 in Anchorage.