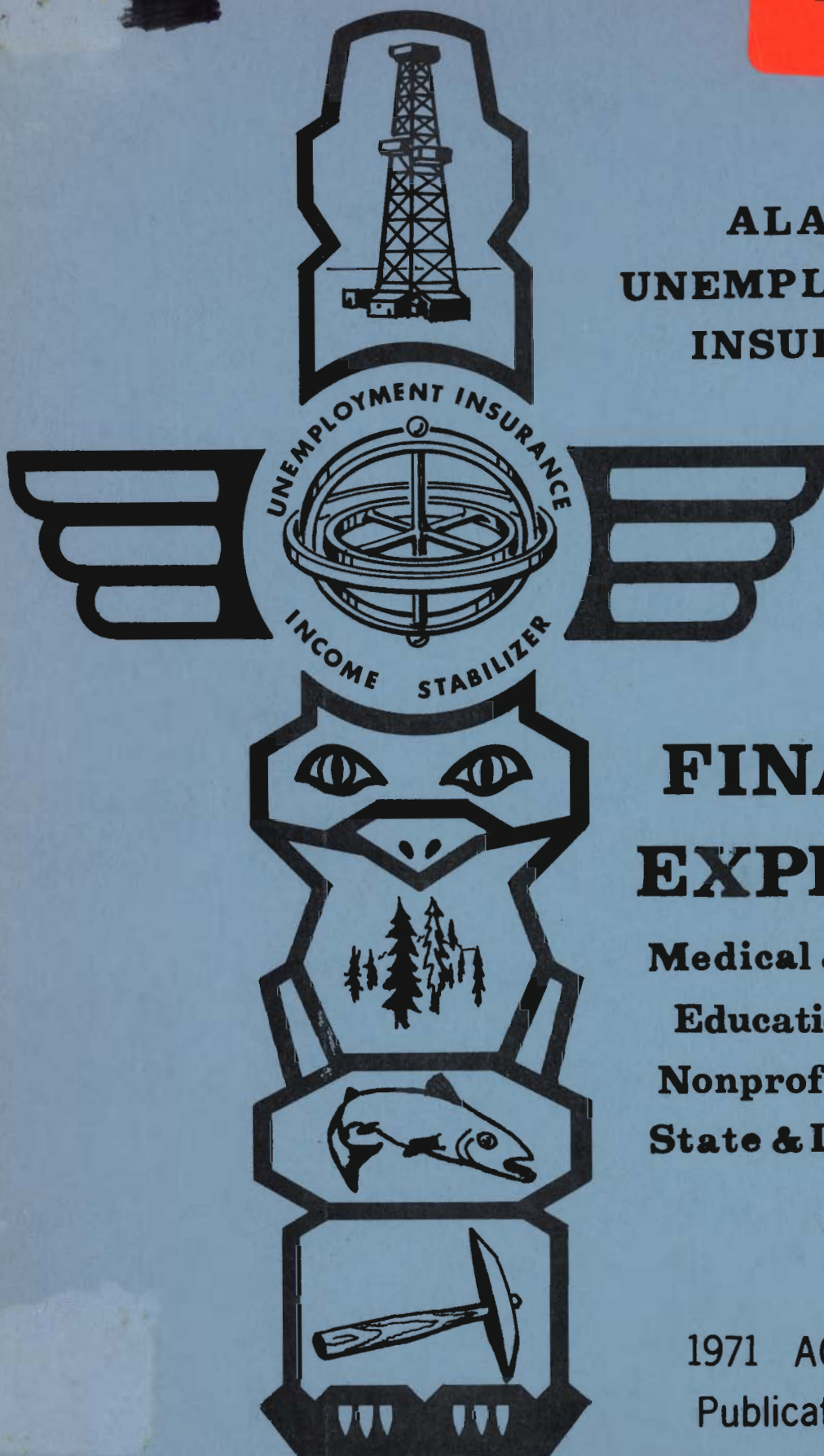


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**ALASKA  
UNEMPLOYMENT  
INSURANCE**



**FINANCIAL  
EXPERIENCE**

**Medical & Health Services  
Educational Institutions  
Nonprofit Organizations  
State & Local Government**

**1971 ACTUARIAL STUDY  
Publication Number Four**

**STATE OF ALASKA  
DEPARTMENT OF LABOR**

**Employment Security Division  
Research and Analysis Section**

Alaska Unemployment Insurance

# **FINANCIAL EXPERIENCE**

**Medical & Health Services  
Educational Institutions  
Nonprofit Organizations  
State & Local Government**

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JUNE 1973



# ALASKA UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE

## PREFACE

*The largest sector of workers not protected by unemployment insurance are those in state and local government. Governor Egan introduced House Bill 159 in the Seventh Alaska Legislature to extend protection to most state government workers on a reimbursable financing basis. This Bill preceded the passage of Federal conforming legislation, Public Law 91-373, which mandatorily extended coverage effective January 1, 1972 to state hospitals and institutions of higher education and provided the right to elect coverage to the same local government entities. In recognition of their worthwhile contribution to society, Congress granted these entities and certain tax exempt nonprofit organizations the right to reimburse the cost of benefits rather than make regular contributions.*

*House Bill 159 and P.L. 91-373 stressed the need for comparative financial experience and resulted in the preparation of this publication during the 1972 Alaska Legislature. Data contained herein such as employment, payroll, contributions, and cost of coverage should prove to be of interest to Alaska Legislators, administrators of the Alaska Unemployment Insurance program, economists, as well as administrators in those entities affected by the above legislation.*



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**PART I**  
**INTRODUCTION**

## INTRODUCTION

### Coverage

This document contains data on certain types of employment which, to date, have been only partially covered by the Unemployment Insurance Program in Alaska. They are: medical and health services, educational institutions, nonprofit organizations, and State and Local government. Resulting from the passage by Congress of P. L. 91-373, a large share of these organizations will be required to be covered by January 1, 1972 or have the right to elect unemployment insurance protection. Many will also have the right to elect financing on a reimbursable basis.

FIGURE 1. NONCOVERED EMPLOYMENT IN 1970

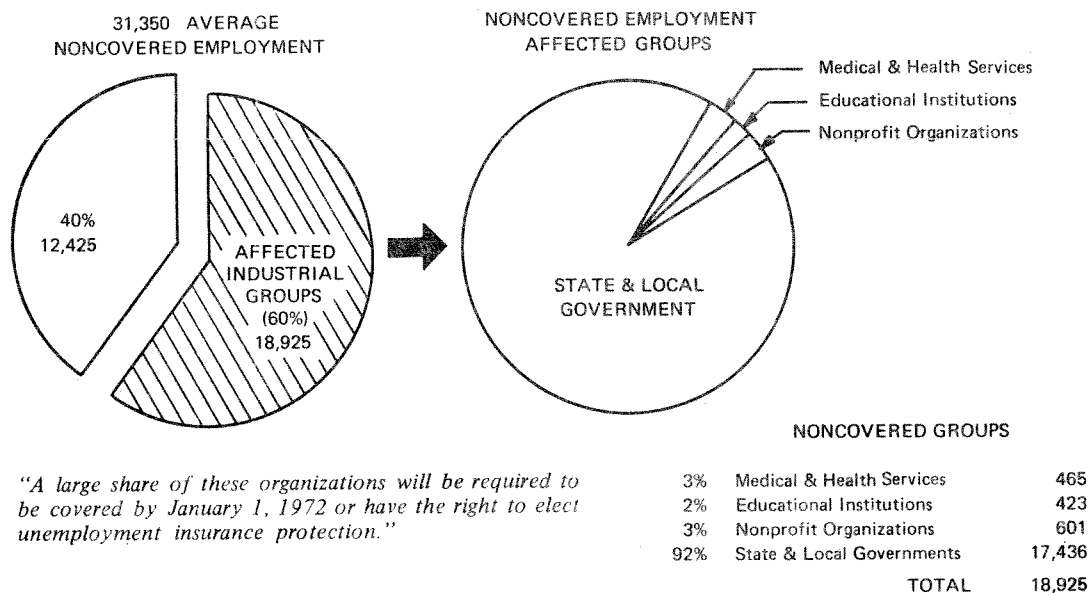


FIGURE 2. COVERED EMPLOYMENT IN 1970

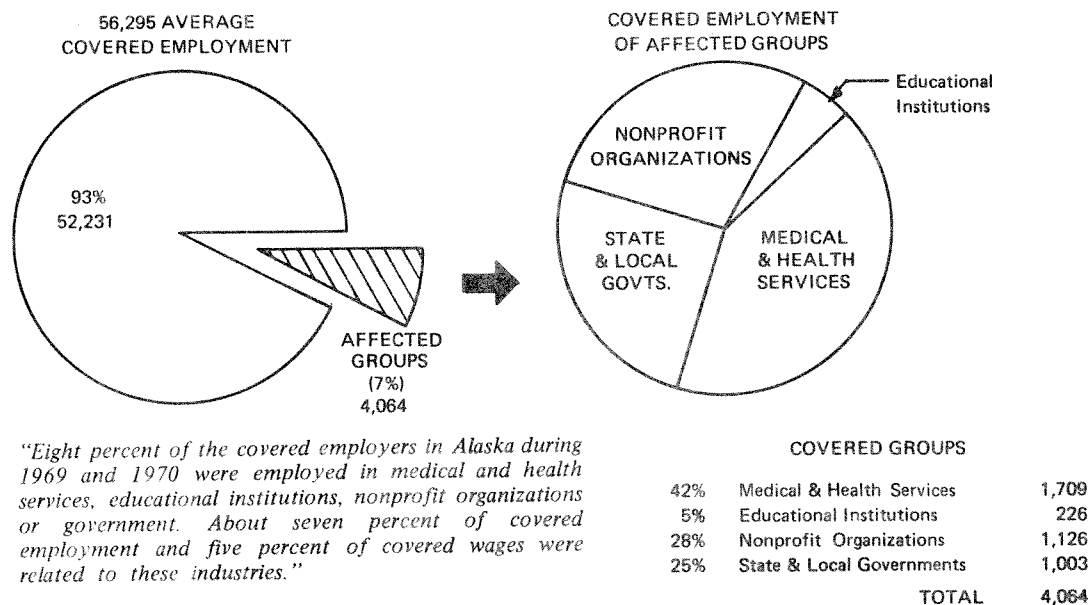


TABLE 1  
PRESENT, P.L. 91-373, AND PROPOSED EMPLOYMENT (Thousands) AND PAYROLL (Millions) COVERAGE UNDER  
ALASKA'S UNEMPLOYMENT INSURANCE PROGRAM 1/  
(Noncovered & P.L. 91-373 Employment estimated)

	1 9 6 7		1 9 6 8	
	Employment	Payroll	Employment	Payroll
<u>PRESENT LAW COVERED AND NONCOVERED 1/</u>	88.0	\$ INA	90.9	\$ INA
Total Alaska Covered	44.3	422.5	47.0	472.0
Total Noncovered 2/	26.2	INA	27.1	INA
Transportation	.2	1.0	.2	1.1
Services 3/	1.2	6.4	1.3	6.6
State Government	7.6	63.4	8.1	70.7
Local Government	6.0	49.3	6.4	57.9
<u>P.L. 91-373 MANDATORY CHANGES</u>	INA	INA	2.0	INA
Private Inst. of Higher Education				
Presently Covered 4/	.1	.4	.1	.4
P.L. 91-373 Coverage	.2	INA	.2	INA
State Hospitals	INA	INA	.3	2.3
State Inst. of Higher Education	1.3	10.7	1.4	13.0
<u>RIGHT TO ELECT COVERAGE</u>	.8	5.9	INA	INA
Presently Covered	.7	5.6	.8	7.4
State Government	.5	4.3	.6	6.0
Local Government	.2	1.3	.2	1.4
Required by P.L. 91-373				
Local Gov't. Hosp. & Inst. of Higher Ed. 5/	.1	.3	INA	INA
<u>SUGGESTED ADDITIONAL MANDATORY COVERAGE</u>	13.6	112.7	14.5	128.6
State Government	7.6	63.4	8.1	70.7
Local Government	6.0	49.3	6.4	57.9

	1 9 6 9		1 9 7 0	
	Employment	Payroll	Employment	Payroll
<u>PRESENT LAW COVERED AND NONCOVERED 1/</u>	98.3	\$ INA	104.8	\$ INA
Total Alaska Covered	52.5	564.7	56.3	626.6
Total Noncovered 2/	29.3	INA	31.4	INA
Transportation	.2	1.1	.1	.9
Services 3/	1.4	7.5	1.5	7.8
State Government	8.7	80.9	9.6	98.6
Local Government	7.3	66.9	7.8	79.2
<u>P.L. 91-373 MANDATORY CHANGES</u>	2.1	18.3	2.1	19.3
Private Inst. of Higher Education				
Presently Covered 4/	.1	.4	.1	.5
P.L. 91-373 Coverage	.2	.9	.2	1.3
State Hospitals	.3	2.5	.3	2.6
State Inst. of Higher Education	1.5	14.5	1.5	14.9
<u>RIGHT TO ELECT COVERAGE</u>	1.1	9.7	1.2	12.3
Presently Covered	.9	8.7	1.0	11.1
State Government	.7	7.2	.7	9.1
Local Government	.2	1.5	.3	2.0
Required by P.L. 91-373				
Local Gov't. Hosp. & Inst. of Higher Ed. 5/	.2	1.0	.2	1.2
<u>SUGGESTED ADDITIONAL MANDATORY COVERAGE</u>	16.0	147.8	17.4	177.8
State Government	8.7	80.9	9.6	98.6
Local Government	7.3	66.9	7.8	79.2

- 1/ Includes coverage of federal employees and exservicemen under the federal system for unemployment compensation (UCFE and UCX, Title XV, of the Social Security Act).
- 2/ Employment includes domestics, self-employed workers and unpaid family workers, but payroll does not.
- 3/ Includes hospitals, health services, private schools and colleges, and religious and charitable organizations.
- 4/ Alaska presently covers the services of all employers (including nonprofit organizations) who pay \$250 or more in one calendar quarter to anyone at any time except those individuals performing services defined in A.S. 23.20.525. Under the provisions of P.L. 91-373, the services of all organizations defined in section 501 (c) (3) of the Internal Revenue code except certain services performed for religious organizations are required to be covered. Those defined in section 501 (c) (3) may elect to finance benefit costs on a reimbursable basis as provided in Alaska's conforming legislation.
- 5/ There are no local government institutions of higher education in Alaska to date.

## Experience of All Covered Employment in 1969 and 1970

In 1969, an average of over five thousand employers were covered by Alaska's Employment Security Act. Average covered employment was 52,544 and covered wages totaled \$564,707,517. Unemployed workers received \$7,787,165 in benefits. The average number of covered employers rose to over six thousand in 1970 employing an average of 56,295 covered employees with total wages of \$626,583,607.

The amount of benefits rose significantly to \$11.2 million in 1970 or about 1.8 percent of total wages. Although the insured unemployment rate rose from 6.8 percent in 1969, the lowest since 1952, to 8.4 percent in 1970, moderate growth in wages and employment was experienced during 1970. The initial North Slope buildup in 1969 generated increased employment in all industrial sectors. The high rate of unemployment in 1970 resulted from the large number of workers from outside the state migrating to Alaska looking for work and later unemployed as petroleum related projects were brought to a standstill.

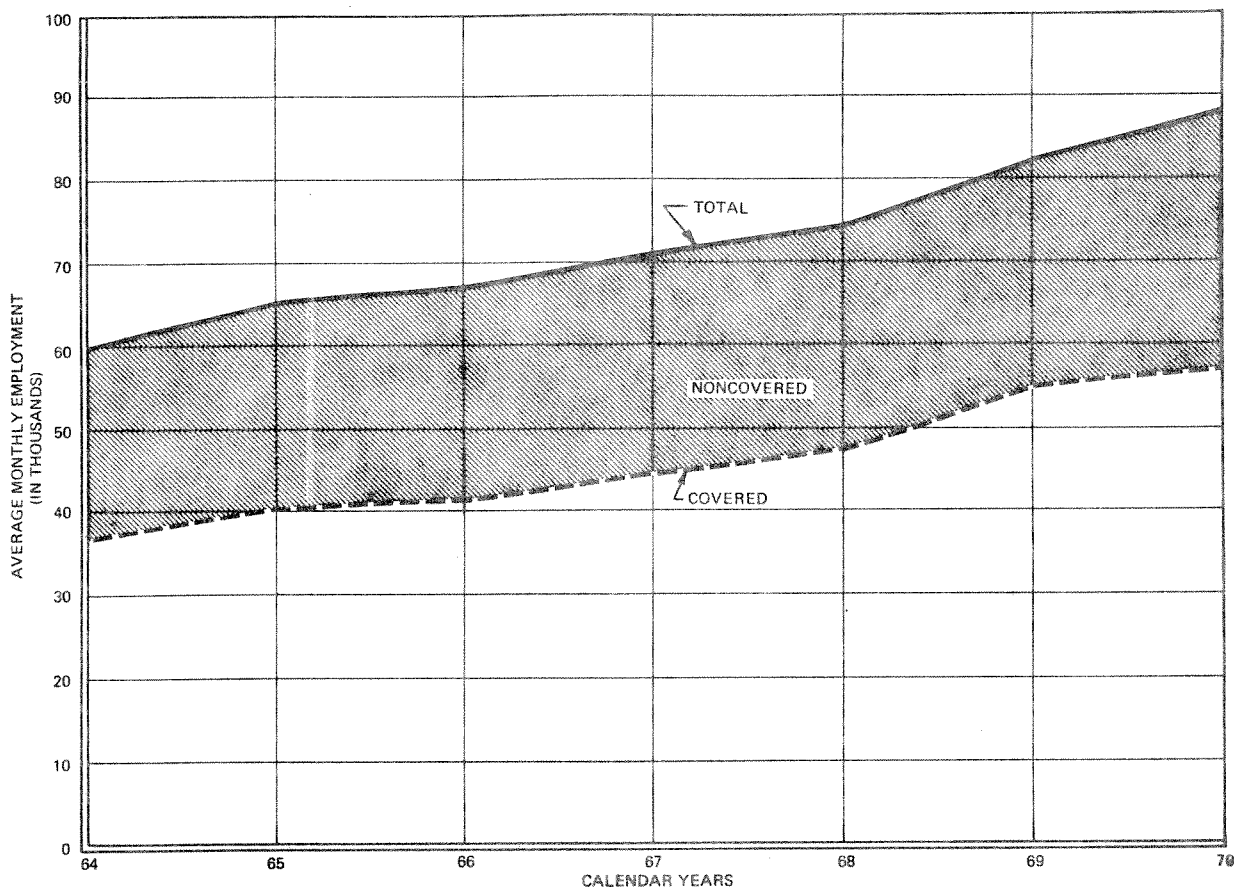


FIGURE 3. COVERED AND NONCOVERED ALASKA EMPLOYMENT

### Specific Covered and Noncovered Employment

Eight percent of the covered employers in Alaska during 1969 and 1970 were employed in medical and health services, educational institutions, nonprofit organizations or government. About seven percent of covered employment and five percent of covered wages were related to these industries. Fifty-five percent of the State's estimated "noncovered" employment is in State and Local Government (less than six percent of government employment is protected by unemployment insurance), primarily because current coverage is elective requiring a much higher tax than a reimbursable financing method.

TABLE 2  
UNEMPLOYMENT INSURANCE COVERED 1/ AND ESTIMATED NONCOVERED  
FINANCIAL EXPERIENCE OF SPECIFIC EMPLOYERS  
1969

	Average Monthly Employment	Total Wages	Taxable Wages	Average Annual Wage	C o n t r i b u t i o n s		
					Employer	Employee	Total
<u>Total Covered 2/</u>	52,544	\$564,707,517	\$409,417,130	\$10,747	\$11,923,369	\$2,629,385	\$14,552,754
Medical & Health Services	1,436	9,289,763	7,815,362	6,469	170,939	36,910	207,849
Educational Institutions	243	1,224,249	1,176,931	5,038	31,858	6,931	38,789
Nonprofit Organizations	971	6,516,745	5,222,659	6,711	139,851	30,100	169,951
State & Local Government	906	8,744,512	6,324,247	9,652	161,071	33,548	194,619
<u>Total Noncovered 2/</u>	29,300	NA	NA	NA	NA	NA	NA
Medical & Health Services	481	2,538,800		5,278			
Educational Institutions	355	1,635,040		4,606			
Nonprofit Organizations	601	3,358,080		5,587			
State & Local Government	15,969	147,807,676		9,255			
	Benefits	Benefits as Percent of Total Taxable Wages		Benefits of Contributions	Insured Unemployment Rate	Average Duration	
<u>Total Covered 2/</u>	\$7,787,165 3/	1.4	1.9	\$ .54	6.8 4/	14.8	
Medical & Health Services	62,051	.7	.8	.30	2.5	15.0	
Educational Institutions	69,979	5.7	5.9	1.80	19.8	23.2	
Nonprofit Organizations	113,590	1.7	2.2	.67	6.8	19.3	
State & Local Government	116,644	1.3	1.8	.60	6.5	17.8	

See Table 3 for Footnotes

TABLE 3  
UNEMPLOYMENT INSURANCE COVERED 1/ AND ESTIMATED NONCOVERED  
FINANCIAL EXPERIENCE OF SPECIFIC EMPLOYERS  
1970

	Average Monthly Employment	Total Wages	Taxable Wages	Average Annual Wage	C o n t r i b u t i o n s		
					Employer	Employee	Total
<u>Total Covered 2/</u>	56,295	\$626,583,607	\$427,951,063	\$11,130	\$12,309,500	\$2,718,386	\$15,027,886
Medical & Health Services	1,709	13,379,052	9,540,775	7,829	197,359	42,769	240,128
Educational Institutions	226	1,324,302	1,225,895	5,860	33,638	7,350	40,988
Nonprofit Organizations	1,126	7,599,842	5,974,238	6,749	154,916	33,486	188,402
State & Local Government	1,003	11,110,512	7,506,086	11,077	189,129	39,256	228,385
<u>Total Noncovered 2/</u>	31,350	NA	NA	NA	NA	NA	NA
Medical & Health Services	465	2,455,200		5,280			
Educational Institutions	423	1,997,600		4,722			
Nonprofit Organizations	601	3,358,080		5,587			
State & Local Government	17,436	177,781,284		10,196			
	Benefits	Benefits as Percent of Total Taxable Wages		Benefits of Contributions	Insured Unemployment Rate	Average Duration	
<u>Total Covered 2/</u>	\$11,181,797 3/	1.8	2.6	\$ .74	8.4 4/	15.0	
Medical & Health Services	87,747	.6	.9	.36	2.5	16.6	
Educational Institutions	31,776	2.4	2.6	.78	8.4	20.3	
Nonprofit Organizations	124,959	1.6	2.1	.66	5.8	14.7	
State & Local Government	136,255	1.2	1.8	.60	6.5	14.6	

1/ Does not include Federal Employees.

2/ Totals include all covered employment under Alaska's Employment Security Act or total statewide estimated noncovered employment.

3/ The insured unemployment rate is estimated by inflating the calendar year's intrastate weeks compensated to weeks claimed and dividing by the average covered employment. Yearly ratio may not reflect any group of employers' experience; however, we have determined it is valid for these industry comparisons.

4/ Taken from Table 3 of the Alaska Unemployment Insurance Financial Handbook, January 1972.

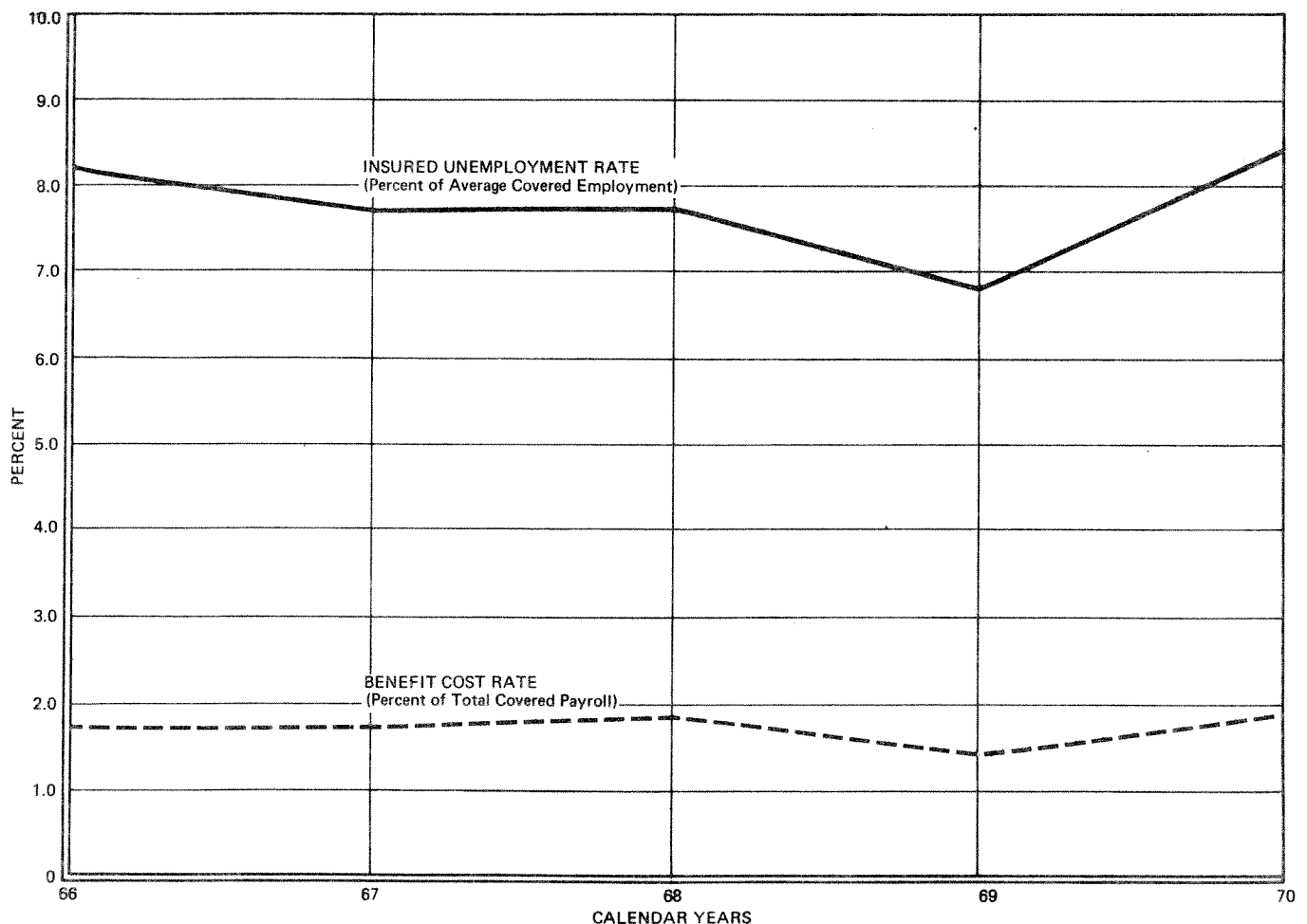
## Benefit Cost Rate

The benefit cost rate (benefits as a percent of total wages) ranged in 1969 from 0.7 percent for medical and health services, to 1.7 percent for nonprofit organizations, and 5.7 percent for educational institutions. The abnormally high cost rate and insured unemployment rate for educational institutions were brought about by a large number of former employees becoming unemployed when funds were depleted in certain Federal and/or State funded educational related programs.

In 1970 the benefit cost rate declined slightly to 0.6 percent for medical and other services and 1.6 percent for nonprofit organizations. The declining unemployment influence of some Federal and/or State funded educational programs was evident as the benefit rate declined to 2.4 percent.

The benefit cost rate for State and Local government was 1.33 percent in 1969, 0.77 percent for State and 4.09 percent for Local. In 1970 the rate declined for government to 1.23 percent entirely the result of lower benefit costs in Local government. The State government rate remained at 0.77 percent while the Local government rate significantly declined to 3.31 percent. The high percentage of smaller communities electing coverage has caused the cost rate for Local government to be substantially higher than what it would be if all Local government was covered.

The insured unemployment rate in 1969 for all of the above "covered" organizations was about 5.9 percent and 4.7 percent in 1970. Since the majority of these organizations are generally not subject to changes in economic conditions, it is estimated that if "all" employment were covered in these specific organizations, the rate would remain less than 6.0 percent.



**FIGURE 4. ALASKA COVERED INDUSTRIES**  
Comparison of Unemployment and Benefit Costs

**P A R T   I I**  
**M E D I C A L   A N D**  
**H E A L T H   S E R V I C E S**



**TABLE 4**  
COVERED AND NONCOVERED MEDICAL AND HEALTH SERVICES  
EMPLOYMENT AND WAGES

	Calendar Year	Employers	Av. Monthly Employment	Total Wages
<u>U.I. Covered</u>				
	1964	148	950	\$ 4,672,910
	1965	154	968	4,722,504
	1966	161	1,028	5,463,695
	1967	174	1,117	6,020,265
	1968	189	1,302	7,197,198
	1969	200	1,436	9,289,763
	1970	208	1,709	13,379,052
<u>Noncovered 1/</u>				
	1964	4	399	\$ 1,966,800
	1965	5	463	2,221,200
	1966	3	479	2,300,800
	1967	3	479	2,528,680
	1968	3	399	2,106,720
	1969	4	481	2,538,800
	1970	4	465	2,455,200
<u>Total</u>				
	1964	152	1,349	\$ 6,639,710
	1965	159	1,431	6,943,704
	1966	164	1,507	7,764,495
	1967	177	1,596	8,548,945
	1968	192	1,701	9,303,918
	1969	204	1,917	11,828,563
	1970	212	2,174	15,834,252

1/ Estimates of noncovered data are based on the sample of employers utilized by the Federal-State cooperative Current Employment Statistics program.

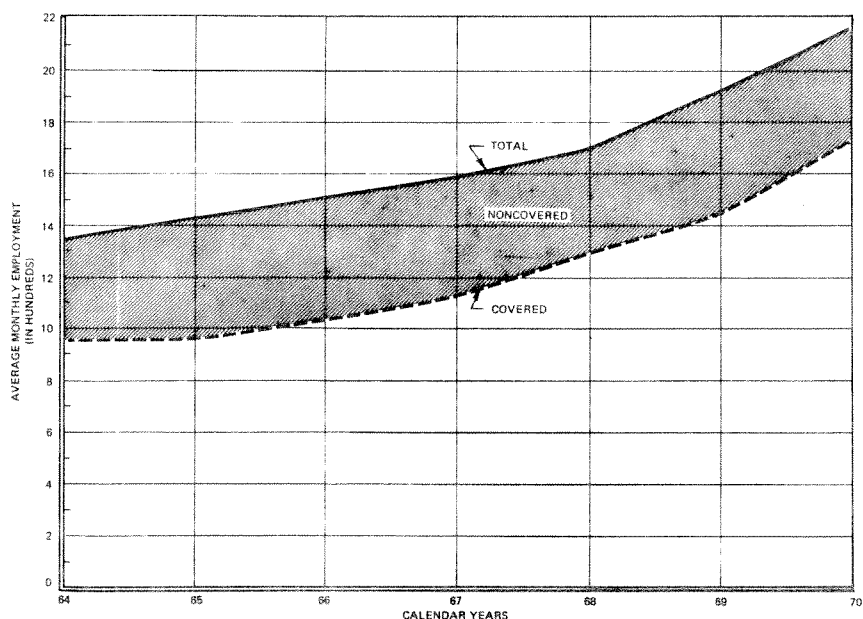


FIGURE 5. COVERED AND NONCOVERED MEDICAL AND HEALTH SERVICES EMPLOYMENT

## MEDICAL AND HEALTH SERVICES

Information on Tables 4 through 7 relates to those services classified under Code 80 of the Standard Industrial Classification Manual.

### Coverage

The majority of the employees in medical and health services employment are covered by Alaska's Unemployment Insurance Program. The noncovered employment is made up of nurses, technicians, and other professional employees in hospitals who are specifically excluded under AS 23.20.525 (c) (4) of the Alaska Employment Security Act. Under the provisions of P. L. 91-373, similar professional employees in State hospitals will be required to be extended the same unemployment insurance protections as their counterparts presently have in private industry (conforming legislation in effect extended coverage by amending AS 23.20.525 (c) (4) with 525 (a) (4) and 526 (a) (17)).

## Contribution and Cost Experience

Contributions in 1969 were 2.2 percent of total wages or 2.7 percent of taxable wages. Unemployed workers received \$62,051 in benefits or for every dollar paid in only thirty cents was paid out. In 1970 the respective rates declined to 1.8 and 2.5 percent. Although the amount of benefits increased substantially in 1970 to \$87,747, the benefit cost rate declined from 0.7 to 0.6. Although the significant increase in wages during 1970 accounted for a greater potential liability to the fund in terms of dollars, the additional wages were primarily associated with stable employment which accounted for the decline in the benefit cost rate even though benefits increased. The large increase in wages from \$9.3 million in 1969 to \$13.4 million in 1970 was primarily caused by a 57.0 percent increase (\$2.9 million) in the amount of wages paid by private practice medical and health service employers. For every dollar paid in thirty-six cents was paid out in 1970.

TABLE 5  
HISTORICAL UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
MEDICAL AND HEALTH SERVICES 1/

	Average Number of Employers	Average Monthly Employment	Total Wages	Taxable Wages	Av. Annual Wage	Contributions		
						Employer	Employee	Total
1955	72	633	\$2,275,949	\$1,968,957	\$ 3,595	\$ NA	\$ NA	\$ 61,323
1956	77	770	2,811,466	2,501,434	3,651	67,536	12,504	80,040
1957	79	692	2,499,103	1,946,452	3,611	52,539	9,724	62,263
1958	93	610	2,384,384	1,925,704	3,909	51,979	9,624	61,603
1959	108	656	2,495,553	2,102,397	3,804	56,747	10,505	67,252
1960	121	728	2,662,741	2,577,075	3,658	71,720	14,806	86,526
1961	129	742	3,115,010	3,014,878	4,198	72,338	15,932	88,270
1962	138	790	3,420,048	3,309,877	4,329	73,193	15,484	88,677
1963	145	896	3,920,546	3,720,318	4,376	79,385	17,224	96,609
1964	148	950	4,672,910	4,119,698	4,919	82,529	17,249	99,778
1965	154	968	4,722,504	4,428,388	4,879	93,809	20,315	114,124
1966	161	1,028	5,463,695	5,107,908	5,315	105,558	22,848	128,406
1967	174	1,117	6,020,265	5,653,737	5,390	115,825	25,057	140,882
1968	189	1,302	7,197,198	6,425,677	5,528	120,226	28,039	148,265
1969	200	1,436	9,289,763	7,815,362	6,469	170,939	36,910	207,849
1970	208	1,709	13,379,052	9,540,775	7,829	197,359	42,769	240,128
Benefits								
	Benefits as Percent of		Total Wages	Taxable Wages	Benefits to Contributions	Insured Unemployment Rate 2/	Average Duration	
	Total							
1966	\$47,462	.8	.9		\$ .36	3.0	18.6	
1967	58,517	1.0	1.0		.42	2.8	15.3	
1968	51,307	.7	.8		.34	2.3	15.1	
1969	62,051	.7	.8		.30	2.5	15.0	
1970	87,747	.6	.9		.36	2.5	16.6	

1/ Includes services classified under code 80 in the Standard Industrial Classification Manual.

2/ The insured unemployment rate is estimated by inflating the calendar year's intrastate weeks compensated to weeks claimed and dividing by the average covered employment. Yearly ratio may not reflect any group of employers' experience; however, we have determined it is valid for these industry comparisons.

TABLE 6  
MEDICAL AND HEALTH SERVICES CONTRIBUTIONS  
AS PERCENT OF WAGES

Calendar Year	Employer Contributions As Percent Of		Employee Contributions As Percent Of		Total Contributions As Percent Of	
	Total Wages	Taxable Wages	Total Wages	Taxable Wages	Total Wages	Taxable Wages
1956	2.4	2.7	.4	.5	2.8	3.2
1957	2.1	2.7	.4	.5	2.5	3.2
1958	2.2	2.7	.4	.5	2.6	3.2
1959	2.3	2.7	.4	.5	2.7	3.2
1960	2.7	2.7	.6	.6	3.3	3.3
1961	2.3	2.4	.5	.5	2.8	2.9
1962	2.1	2.2	.5	.5	2.6	2.7
1963	2.0	2.1	.4	.5	2.4	2.6
1964	1.7	2.0	.4	.4	2.1	2.4
1965	2.0	2.1	.4	.5	2.4	2.6
1966	1.9	2.1	.4	.4	2.3	2.5
1967	1.9	2.1	.4	.4	2.3	2.5
1968	1.7	1.9	.4	.4	2.1	2.3
1969	1.8	2.2	.4	.5	2.2	2.7
1970	1.5	2.1	.3	.4	1.8	2.5

Under the financing provisions of P.L. 91-373, hospitals operated exclusively by religious organizations for religious or charitable purposes (Internal Revenue Code 501 (c) (3) organizations) desiring to discontinue payments of contributions on a tax basis may elect under conforming legislation AS 23.20.276 (b) and 277 (b) or (c) to make payments in lieu of contributions (reimbursement of actual benefit costs). In recognition of the worthwhile contribution to society of these organizations not organized for "profit" and their low unemployment, Congress amended the experience rating provisions of the Federal Unemployment Tax Act to allow reimbursement of benefit costs.

Although the insured unemployment rate of 2.5 for both 1969 and 1970 was low for medical and health services when compared to the 6.8 and 8.4 percent rate for all covered employment, the unemployed in medical and health services deserve the same unemployment insurance relief for wages lost during spells of unemployment as those unemployed in other profit making industries.

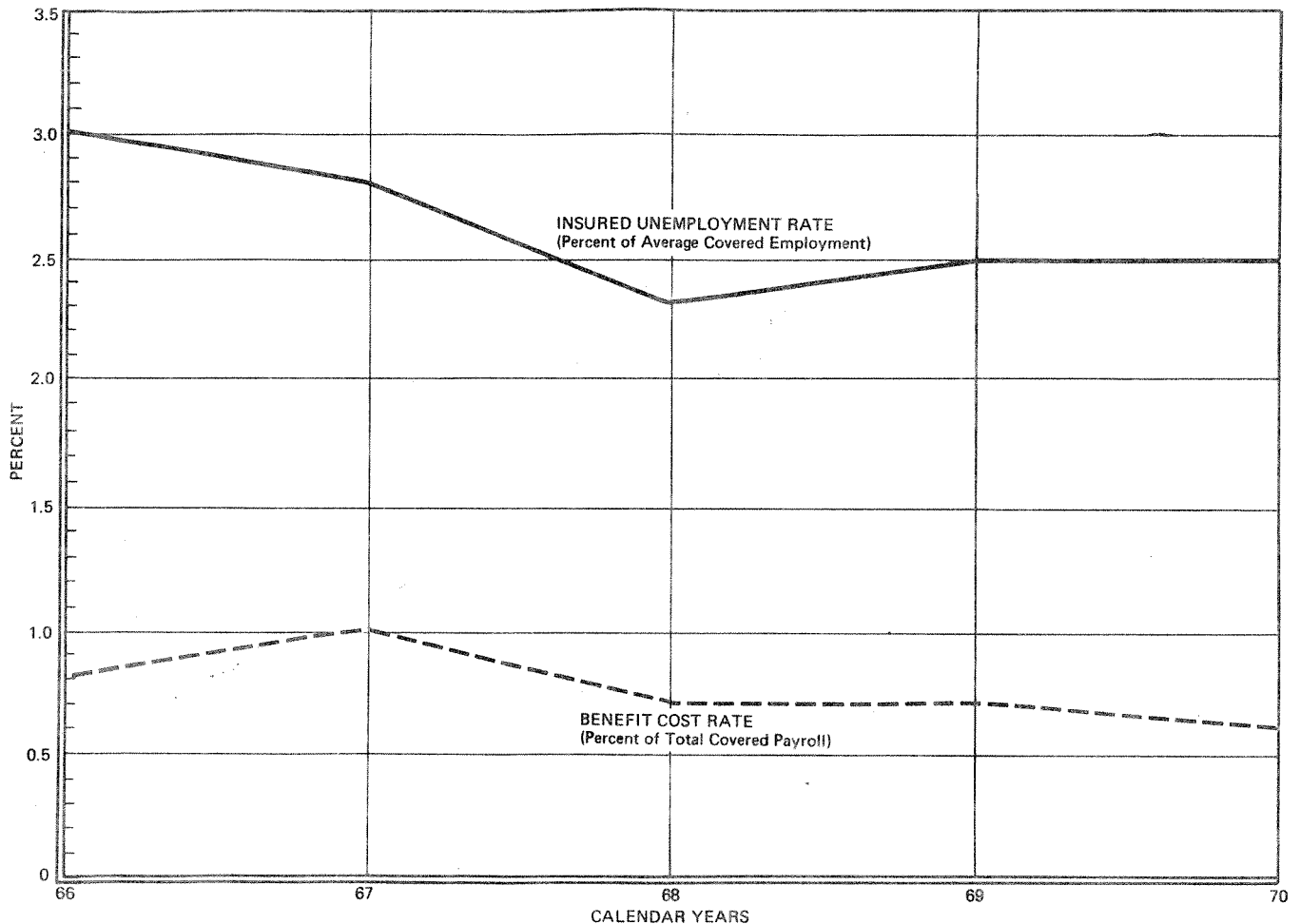


FIGURE 6. MEDICAL AND HEALTH SERVICES  
Comparison of Unemployment and Benefit Costs

## Wage Experience

While about 80.0 percent of the health services covered employers in 1969 and 1970 were in private practice and only 6.0 percent were in hospitals, the average covered employment was evenly divided. About sixty percent of the total wages were earned in private practice compared to about 30.0 percent earned in hospitals.

TABLE 7  
UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
SPECIFIC MEDICAL AND HEALTH SERVICES

		Average Number of Employers	Average Monthly Employment	Total Wages	Average Annual Wage	Taxable Wages	C o n t r i b u t i o n s			Benefits
							Employer	Employee	Total	
1969	Total	200	1,436	\$ 9,289,763	\$ 6,469	\$7,815,362	\$170,939	\$36,910	\$207,849	\$62,051
	Private Practice	163	656	5,087,543	7,755	3,955,873	94,648	20,853	115,501	NA
	Hospitals	12	618	3,153,261	5,102	3,008,363	57,761	12,024	69,785	NA
	Other	25	162	1,048,959	6,475	851,126	18,530	4,033	22,563	NA
1970	Total	208	1,709	\$13,379,032	\$7,829	\$9,540,775	\$197,359	\$42,769	\$240,128	\$87,747
	Private Practice	166	763	7,991,885	10,474	4,805,006	111,838	24,689	136,527	NA
	Hospitals	13	745	3,695,523	4,960	3,548,871	58,245	12,080	70,325	NA
	Other	29	201	1,691,644	8,416	1,186,989	27,276	6,000	33,276	NA

The 1969 and 1970 average annual wages in medical and health services was substantially below the \$10,747 and \$11,130 averages for all covered workers. Average annual wages increased significantly in private practice from \$7,755 to \$10,474 while surprisingly decreasing in hospitals from \$5,102 to \$4,960. The increase in private practice was most likely due to the addition of high paid technical staff as the number of employers was virtually the same. The hospital decrease was most likely the result of hiring a greater proportion of low paid or part time workers.



PART III  
EDUCATIONAL INSTITUTIONS

TABLE 8  
COVERED AND NONCOVERED EDUCATIONAL INSTITUTIONS  
EMPLOYMENT AND WAGES

## EDUCATIONAL INSTITUTIONS

Information on Tables 8 through 11 in this section relates to those Educational Institutions classified under Code 82 of the **Standard Industrial Classification Manual**.

### Coverage

The sharp increase in covered employment and wages beginning in 1967 and tapering off in 1969 reflects employment related to the initiation to certain Federal and/or State programs and the later decline in employment when the funding of the programs terminated.

Only about 35.0 percent of educational institution employment is protected by unemployment insurance, however, 60.0 percent of the employers are covered. Presently excluded from coverage by the Employment Security Act are: faculty members of nonprofit colleges, universities, and parochial or denominational schools, and services performed by students enrolled in an educational institution. All services including service in an instructional, research, or principal administrative capacity for a State institution of higher education will be required to be covered by P. L. 91-373 (conforming legislation AS 23.20.520 (24) and 525 (4)). The same service in "nonprofit" institutions of higher education is also required coverage under P. L. 91-373. As we construe the provisions of P. L. 91-373, "all" services for the Sheldon Jackson Junior College and Alaska Methodist University are required coverage except services excluded under conforming legislation AS 23.20.526 (d).

#### U.I. Covered

<u>Calendar Year</u>	<u>Employers</u>	<u>Av. Monthly Employment</u>	<u>Total Wages</u>
1964	19	87	\$ 399,830
1965	21	126	517,420
1966	28	153	723,739
1967	69	303	1,312,885
1968	62	277	1,339,376
1969	37	243	1,224,249
1970	41	226	1,324,302

#### Noncovered <sup>1/</sup>

1964	24	320	\$1,236,180
1965	25	294	1,175,600
1966	24	348	1,440,800
1967	23	360	1,660,560
1968	23	363	1,677,280
1969	23	355	1,635,040
1970	24	423	1,997,600

#### Total

1964	43	407	\$1,636,010
1965	46	420	1,693,020
1966	52	501	2,164,539
1967	92	663	2,973,445
1968	85	640	3,016,656
1969	60	598	2,859,289
1970	65	649	3,321,902

<sup>1/</sup> Estimates of noncovered data are based on the sample of employers utilized by the Federal-State cooperative Current Employment Statistics program.

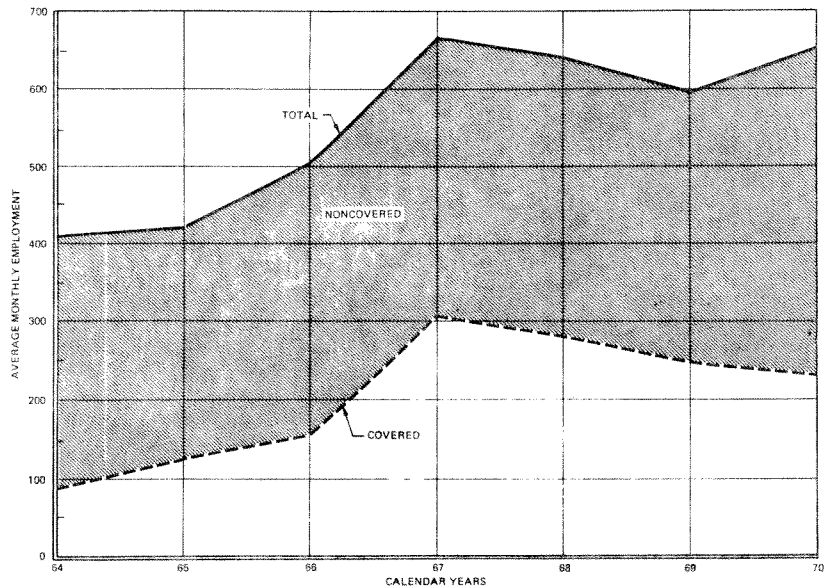


FIGURE 7. COVERED AND NONCOVERED EDUCATIONAL INSTITUTION EMPLOYMENT

## Contribution and Cost Experience

Previous to 1970 contributions were about the same percent of total and taxable wages, indicating average annual wages were significantly less than the \$7,200 base upon which is assessed an unemployment insurance tax in Alaska.

Benefits amounting to \$69,979 were paid out in 1969 or for every \$1.00 paid in \$1.80 was paid out in unemployment compensation. This was equivalent to a very high benefit cost rate of 5.7 percent of total wages. The high cost rate was directly the result of the aforementioned programs' unemployment, since before the programs were initiated the benefit cost rate was only 0.8 percent. Benefits at \$31,776 in 1970 were less than half of those in 1969 and the benefit cost rate declined to 2.4 percent. Additional Federal and/or State educational work related programs undoubtedly took up the slack in 1970.

TABLE 9  
HISTORICAL UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
EDUCATIONAL 1/ INSTITUTIONS

	Average Number of Employers	Average Monthly Employment	Total Wages	Taxable Wages	Av. Annual Wage	C o n t r i b u t i o n s		
						Employer	Employee	Total
1955	4	46	\$ 279,628	\$ 192,774	\$ 6,079	\$ NA	NA	\$ 6,030
1956	7	56	163,100	159,058	2,912	4,295	795	5,090
1957	9	61	177,652	177,391	2,912	4,782	885	5,667
1958	13	32	111,841	99,918	3,495	2,699	502	3,201
1959	14	32	132,585	118,809	4,143	3,202	592	3,794
1960	15	92	390,427	379,503	4,244	10,599	2,227	12,826
1961	20	106	458,834	428,513	4,329	11,696	2,497	14,193
1962	19	81	337,605	332,309	4,168	7,305	1,585	8,890
1963	19	80	343,073	339,830	4,288	8,077	1,711	9,788
1964	19	87	399,830	396,389	4,596	10,331	2,252	12,583
1965	21	126	517,420	513,320	4,106	12,808	2,712	15,520
1966	28	153	723,739	707,575	4,730	16,467	3,512	19,979
1967	69	303	1,312,885	1,280,300	4,333	32,247	6,736	38,983
1968	62	277	1,339,376	1,307,950	4,835	34,348	7,303	41,651
1969	37	243	1,224,249	1,176,931	5,038	31,858	6,931	38,789
1970	41	226	1,324,302	1,225,895	5,860	33,638	7,350	40,988
	Benefits		Benefits as Percent of		Benefits to Contributions	Insured Unemployment Rate 2/	Average Duration	
	Total Wages	Percent of Taxable Wages	Total Wages	Percent of Taxable Wages			Total Wages	Percent of Taxable Wages
1966	\$ 1,998	.3	.3	.3	.10	0.8	10.4	
1967	10,872	.8	.8	.8	.28	2.6	9.2	
1968	79,672	5.9	6.1	6.1	1.91	20.0	16.3	
1969	69,979	5.7	5.9	5.9	1.80	19.8	23.2	
1970	31,776	2.4	2.6	2.6	.78	8.4	20.3	

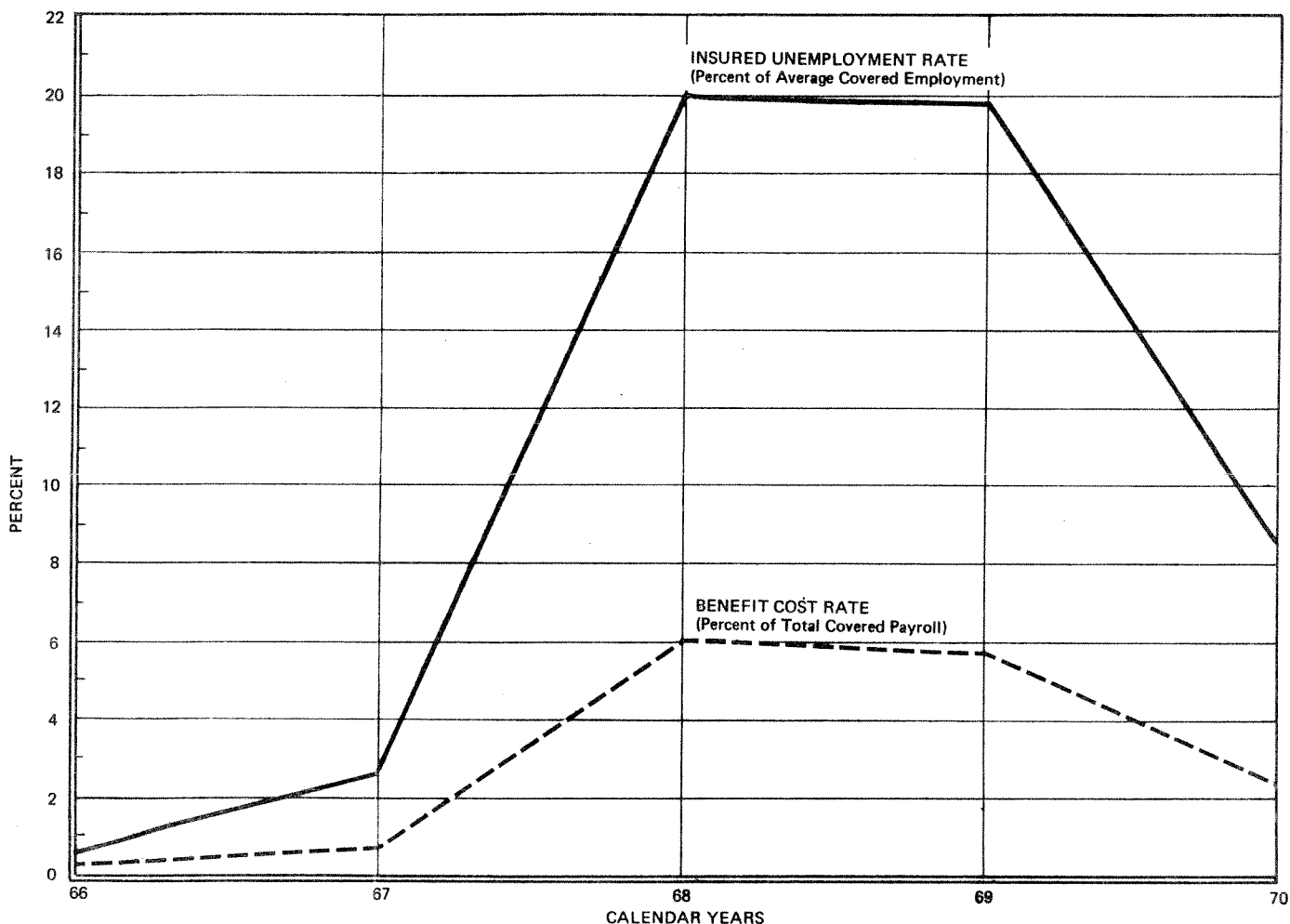
1/ Includes services classified under code 82 of the Standard Industrial Classification Manual.

2/ The insured unemployment rate is estimated by inflating the calendar year's intrastate weeks compensated to weeks claimed and dividing by the average covered employment. Yearly ratio may not reflect any group of employers' experience; however, we have determined it is valid for these industry comparisons.

TABLE 10  
EDUCATIONAL INSTITUTIONS CONTRIBUTIONS  
AS PERCENT OF WAGES

Calendar Year	Employer Contributions		Employee Contributions		Total Contributions	
	As Percent Of Total Wages	As Percent Of Taxable Wages	As Percent Of Total Wages	As Percent Of Taxable Wages	As Percent Of Total Wages	As Percent Of Taxable Wages
1956	2.6	2.7	.5	.5	3.1	3.2
1957	2.7	2.7	.5	.5	3.2	3.2
1958	2.4	2.7	.5	.5	2.9	3.2
1959	2.4	2.7	.4	.5	2.8	3.2
1960	2.7	2.8	.6	.6	3.3	3.4
1961	2.6	2.7	.5	.6	3.1	3.3
1962	2.2	2.2	.5	.5	2.6	2.7
1963	2.4	2.4	.5	.5	2.9	2.9
1964	2.6	2.6	.6	.6	3.2	3.2
1965	2.5	2.5	.5	.5	3.0	3.0
1966	2.3	2.3	.5	.5	2.8	2.8
1967	2.5	2.5	.5	.5	3.0	3.0
1968	2.6	2.6	.6	.6	3.2	3.2
1969	2.6	2.6	.6	.6	3.2	3.2
1970	2.5	2.7	.6	.6	3.1	3.3





**FIGURE 8. EDUCATIONAL INSTITUTIONS**  
Comparison of Unemployment and Benefit Costs

The insured unemployment rate ranged from 0.8 and 2.6 percent in 1966 and 1967 to about 20.0 percent in 1968 and 1969 before falling to 8.4 percent in 1970.

### Wage Experience

Most of the present employment covered is in elementary and secondary schools or colleges and universities (Alaska Methodist University and Sheldon Jackson Junior College). Their employment and wages in 1969 made up 80.0 percent of the employment and wage totals for the educational institutions group as a whole.

However, in 1970 the growth in wages and employment in "other" educational institutions (SIC 8299) caused the employment and wage composition in lower and higher institutions of education to decline to 70.0 percent.

TABLE 11  
UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
SPECIFIC EDUCATIONAL INSTITUTIONS

		Average Number of Employers	Average Monthly Employment	Total Wages	Average Annual Wage	Taxable Wages	C o n t r i b u t i o n s			Benefits
							Employer	Employee	Total	
1969	Total	37	243	\$1,224,249	\$5,038	\$1,176,931	\$31,858	\$6,931	\$38,789	\$69,979
	Elementary & Secondary Schools	25	122	492,807	4,039	492,240	15,096	3,201	18,297	NA
	Colleges, Universities, etc.	3	69	440,952	6,391	421,172	8,934	1,998	10,932	NA
	Vocational Schools	4	30	198,686	6,623	171,715	4,670	1,029	5,699	NA
	Other	5	22	91,804	4,173	91,804	3,158	703	3,861	NA
1970	Total	41	226	\$1,324,302	\$5,860	\$1,225,895	\$33,638	\$7,350	\$40,988	\$31,776
	Elementary & Secondary Schools	26	82	412,866	5,035	407,178	12,671	2,724	15,395	NA
	Colleges, Universities, etc.	4	79	484,006	6,127	450,798	9,848	2,200	12,048	NA
	Vocational Schools	5	27	219,380	8,125	166,791	4,606	999	5,605	NA
	Other	6	38	208,050	5,475	201,128	6,513	1,427	7,940	NA

The covered employment in educational institutions is primarily janitors, cooks, clerks, typists, etc., which accounts for the very low wages. Those in "vocational schools" and "colleges and universities" had average annual wages of \$6,623 and \$6,391, while the average wage of those in elementary and secondary schools was much lower at \$4,039. The annual wages in vocational schools and secondary schools increased substantially to \$8,125 and \$5,035, respectively, while the annual wages in universities declined slightly to \$6,127. Salary adjustments and a higher composition of high paid professional staff were apparently the cause of the increase in annual wages during 1970. The average annual wage in the industry as a whole was \$5,038 in 1969 and \$5,860 in 1970.



**P A R T   I V**

**NONPROFIT**

**ORGANIZATIONS**

TABLE 12  
COVERED AND NONCOVERED NONPROFIT ORGANIZATIONS  
EMPLOYMENT AND WAGES

## NONPROFIT ORGANIZATIONS

Information on Tables 12 through 15 relates to those nonprofit membership organizations classified under Code 86 of the **Standard Industrial Classification Manual**. They consist of business associations; labor unions; civic, social and fraternal associations; religious; charitable and other nonprofit organizations.

### Coverage

About forty-five percent of these organizations are covered under the Alaska Unemployment Insurance Program. The covered employment and wages related to these covered organizations makes up about 70.0 percent of the total covered and noncovered employment and wages. Ministers in the exercise of their ministry and members of religious orders in the exercise of duties required by the order are excluded from coverage.

The nonprofit organizations that are not covered in industry Code 86 are predominately smaller entities paying little or no wages and established for short times and for specific purposes (such as fund raising organizations, small athletic associations, etc.).

The financing provision of P.L. 91-373 provides that the State law must allow nonprofit employers defined in Section 501 (c) (3) of the Internal Revenue Code to elect to finance benefits on a reimbursable basis (conforming legislation AS 23.20.276 and 277). Generally these tax exempt employers would include corporations, and any community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific or educational purposes. (See conforming legislation AS 23.20.525 (6), 526 (d) and Appendix A).

	Calendar Year	Employers	Av. Monthly Employment	Total Wages
<u>U.I. Covered</u>				
	1964	175	486	\$2,908,830
	1965	170	528	3,256,972
	1966	188	590	3,694,041
	1967	192	772	4,804,906
	1968	195	823	5,427,361
	1969	209	971	6,516,745
	1970	209	1,126	7,599,842
<u>Noncovered <sup>1/</sup></u>				
	1964	127	413	\$2,088,000
	1965	156	414	2,097,000
	1966	153	408	2,066,400
	1967	150	401	2,236,080
	1968	201	501	2,797,080
	1969	252	601	3,358,080
	1970	252	601	3,358,080
<u>Total</u>				
	1964	302	899	\$4,996,830
	1965	326	942	5,353,972
	1966	341	998	5,760,441
	1967	342	1,173	7,040,986
	1968	396	1,324	8,224,441
	1969	461	1,572	9,874,825
	1970	461	1,727	10,957,922

<sup>1/</sup> Estimates of noncovered data are based on the sample of employers utilized by the Federal-State cooperative Current Employment Statistics program.

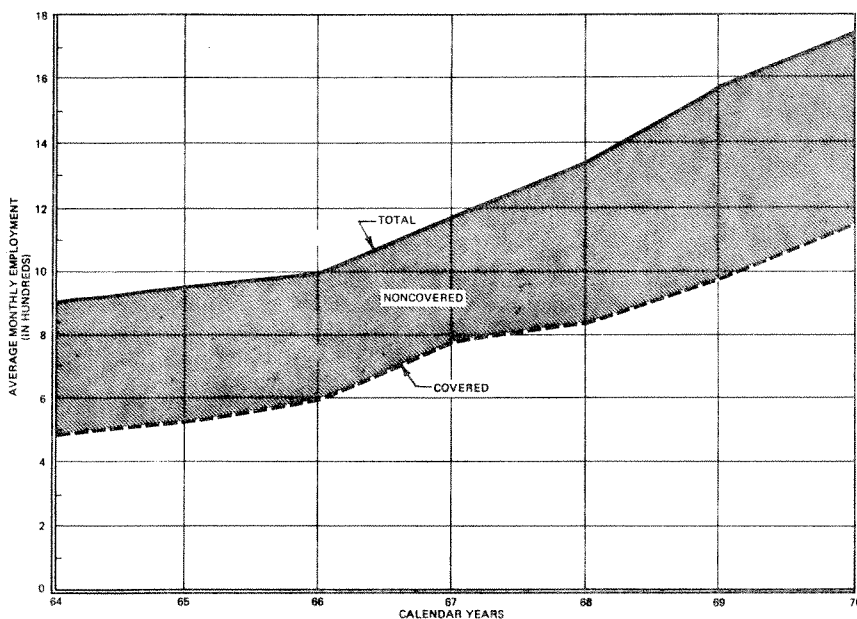


FIGURE 9. COVERED AND NONCOVERED NONPROFIT ORGANIZATION EMPLOYMENT

## Contribution and Cost Experience

Unemployment insurance contributions of nonprofit organizations in 1970 were 2.5 percent of total wages or 3.2 percent of taxable wages. Benefits of \$113,590 were paid to their unemployed workers during 1969 or for every dollar paid in sixty-seven cents was paid out. The corresponding benefit cost rate was 1.7 percent of total wages in 1968 and 1969, rising from 1.0 percent in 1966 and 1967. There was an unusually large rise in the insured unemployment rate from 3.7 and 3.2 percent in 1966 and 1967 to 6.2 and 6.8 percent in 1968 and 1969, which could be accounted for by changes in ownership or the decline in activity of one or more large organizations.

TABLE 13  
HISTORICAL UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
CERTAIN 1/ NONPROFIT ORGANIZATIONS

	Average Number of Employers	Average Monthly Employment	Total Wages	Taxable Wages	Av. Annual Wage	Contributions		
						Employer	Employee	Total
1955	108	340	\$1,355,999	\$ 903,497	\$ 3,988	\$ NA	\$ NA	\$ 27,282
1956	112	331	1,498,448	1,020,421	4,527	27,539	5,057	32,596
1957	119	330	1,669,934	1,183,993	5,060	31,961	5,915	37,876
1958	173	530	2,595,898	1,824,812	4,898	49,242	9,116	58,358
1959	180	511	2,311,683	1,725,400	4,524	46,585	8,605	55,190
1960	186	513	2,513,856	2,198,865	4,900	62,249	12,739	74,988
1961	193	477	2,306,816	1,962,725	4,836	50,814	11,044	61,858
1962	195	476	2,429,028	2,067,687	5,103	51,762	11,118	62,880
1963	185	514	2,752,049	2,378,449	5,354	60,538	13,173	73,711
1964	175	486	2,908,830	2,412,462	5,985	58,520	12,623	71,143
1965	170	528	3,256,972	2,696,382	6,168	66,560	14,276	80,836
1966	188	590	3,694,041	3,020,594	6,261	74,591	16,023	90,614
1967	192	772	4,804,906	4,089,398	6,224	104,265	22,181	126,446
1968	195	823	5,427,361	4,483,395	6,595	110,886	23,804	134,690
1969	209	971	6,516,745	5,222,659	6,711	139,851	30,100	169,951
1970	209	1,126	7,599,842	5,974,238	6,749	154,916	33,486	188,402

	Benefits	Benefits as Percent of		Benefits	Insured	Average
		Total	Taxable	to	Unemployment	Duration
		Wages	Wages	Contributions	Rate 2/	
1966	\$ 35,551	1.0	1.2	\$ .39	3.7	15.5
1967	45,691	1.0	1.1	.36	3.2	15.7
1968	93,515	1.7	2.1	.69	6.2	14.1
1969	113,590	1.7	2.2	.67	6.8	19.3
1970	124,959	1.6	2.1	.66	5.8	14.7

1/ Includes only the organizations classified under code 86 in the Standard Industrial Classification Manual.

2/ The insured unemployment rate is estimated by inflating the calendar year's intrastate weeks compensated to weeks claimed and dividing by the average covered employment. Yearly ratio may not reflect any group of employers' experience; however, we have determined it is valid for these industry comparisons.

TABLE 14  
NONPROFIT ORGANIZATIONS CONTRIBUTIONS  
AS PERCENT OF WAGES

Calendar Year	Employer Contributions As Percent Of		Employee Contributions As Percent Of		Total Contributions As Percent Of	
	Total Wages	Taxable Wages	Total Wages	Taxable Wages	Total Wages	Taxable Wages
1956	1.8	2.7	.3	.5	2.1	3.2
1957	1.9	2.7	.4	.5	2.3	3.2
1958	1.9	2.7	.3	.5	2.2	3.2
1959	2.0	2.7	.4	.5	2.4	3.2
1960	2.5	2.8	.5	.6	3.0	3.4
1961	2.2	2.6	.5	.6	2.7	3.2
1962	2.1	2.5	.5	.5	2.6	3.0
1963	2.2	2.5	.5	.6	2.7	3.1
1964	2.0	2.4	.4	.5	2.4	2.9
1965	2.0	2.5	.4	.5	2.4	3.0
1966	2.0	2.5	.4	.5	2.4	3.0
1967	2.1	2.6	.5	.5	2.6	3.1
1968	2.1	2.5	.4	.5	2.5	3.0
1969	2.1	2.7	.5	.6	2.6	3.3
1970	2.0	2.6	.5	.6	2.5	3.2

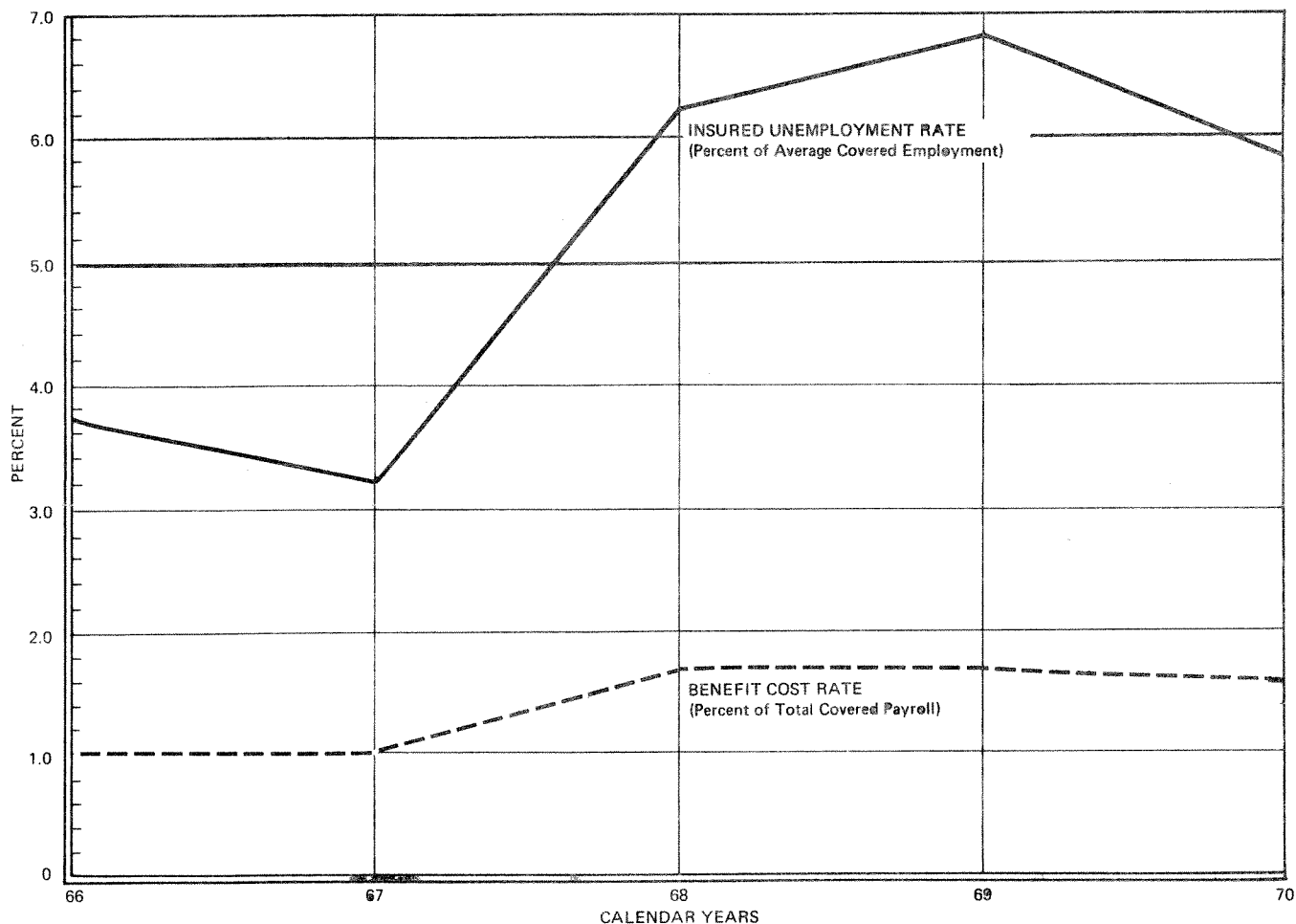


FIGURE 10. NONPROFIT ORGANIZATIONS  
Comparison of Unemployment and Benefit Costs

Little change was seen in 1970 as benefits increased very slightly to \$124,959 and the benefit cost rate declined to 1.6 percent. However, this small change did account for a drop in the insured unemployment rate to 5.8 percent in 1970.

### Wage Experience

Business associations and charitable organizations make up the smallest number of covered nonprofit employers classified in industry 86. Their employment and wages make up about 30.0 percent of the Code 86 nonprofit employment and wages covered by Alaska's Employment Security Act.

TABLE 15  
UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
SPECIFIC NONPROFIT ORGANIZATIONS

		<u>Average Number of Employers</u>	<u>Average Monthly Employment</u>	<u>Total Wages</u>	<u>Average Annual Wage</u>	<u>Taxable Wages</u>	<u>C o n t r i b u t i o n s</u>			<u>Benefits</u>
							<u>Employer</u>	<u>Employee</u>	<u>Total</u>	
1969	Total	209	971	\$6,516,745	\$ 6,711	\$5,222,659	\$139,851	\$30,100	\$169,951	\$113,590
	Business Associations	19	57	511,236	8,969	350,427	7,474	1,649	9,123	NA
	Labor Unions	64	169	1,671,819	9,892	1,067,691	27,818	5,997	33,815	NA
	Civic, Social & Frat. Assn.	40	228	1,497,740	6,569	1,232,358	32,774	7,380	40,154	NA
	Religious Organizations	43	97	479,700	4,945	456,351	12,386	2,654	15,040	NA
	Charitable Organizations	27	166	779,657	4,697	727,359	19,350	4,058	23,408	NA
	Other	16	254	1,576,593	6,207	1,388,473	40,049	8,362	48,411	NA
1970	Total	209	1,126	\$7,599,842	\$ 6,749	\$5,974,238	\$154,916	\$33,486	\$188,402	\$124,959
	Business Associations	17	60	577,193	9,620	387,864	8,065	1,800	9,865	NA
	Labor Unions	62	172	1,843,105	10,716	1,127,539	29,426	6,436	35,862	NA
	Civic, Social & Frat. Assn.	38	217	1,523,044	7,019	1,228,176	29,696	6,668	36,364	NA
	Religious Organizations	44	104	470,350	4,522	461,677	12,233	2,740	14,973	NA
	Charitable Organizations	28	261	1,200,989	4,601	1,036,595	29,992	6,305	36,297	NA
	Other	20	312	1,985,161	6,363	1,732,387	45,504	9,537	55,041	NA

The 1969 average annual wages of \$9,892 and \$8,969 for labor unions and business associations, respectively, was near the \$10,747 average for all covered workers. Moderate increases in annual wages were experienced in labor unions and business associations, rising to \$10,716 and \$9,620, respectively. Lower annual wages of \$6,569 in 1969 and \$7,019 in 1970 were paid in civic, social, and fraternal organizations. The wages of employees in religious and charitable organizations were much lower at \$4,945 and \$4,697. The corresponding wages declined slightly in 1970 to \$4,522 and \$4,601, respectively. The lower wages of the latter three organizations are to a large extent a result of less than full-time employment and account for the low average annual wage of \$6,711 in 1969 and \$6,749 in 1970 for all covered employees in industry 86.





PART V  
STATE AND LOCAL  
GOVERNMENT

## STATE AND LOCAL GOVERNMENTS

### State Government Coverage

Less than 10 percent of state government employment and wages are presently covered by Alaska's Unemployment Insurance Program. To date, two State Divisions, Employment Security of the Department of Labor and Marine Transportation of the Department of Public Works, have elected coverage under AS 23.20.325 of the Employment Security Act. This statute provides that any noncovered entity may elect to be covered but must pay contributions as any other employer covered under the Act.

Since the benefit cost rate for state government is 1.2 percent of taxable wages and the lowest tax rate in Alaska's Act is 1.5 percent for employers and 0.3 percent for employees, this excess cost on a tax basis has been one of the obvious reasons why few state government agencies have elected coverage.

Congress recognized that entities not organized to make a profit and yet experiencing unemployment should also be granted the protection of unemployment insurance. Their much lower benefit costs, tax exempt status, and consideration of the type of service they perform led Congress to permit certain nonprofit and government entities to finance benefits on a reimbursable basis, which assures that their contributions would not subsidize the benefit costs of profit-making employers. Estimated benefit cost rates attributable to unemployment in State government are given in Appendix B.

Under the provisions of P.L. 91-373, a state law must provide to state political subdivision hospitals and institutions of higher education the right to elect coverage (conforming legislation AS 23.20.326). If such entities elect coverage, they must make reimbursement payments in lieu of contributions. In addition P.L. 91-373 requires that coverage be extended to State hospitals and institutions of higher education, meaning employees in Alaska Psychiatric Institute in Anchorage, Harborview Memorial in Valdez and the University of Alaska would be covered under Alaska's Employment Security Act (conforming legislation AS 23.20.520 (23) and (24) and 525 (4). These entities may also make reimbursement payments in lieu of contributions (conforming legislation AS 23.20.278). It is estimated that the new State coverage would make up about 20.0 percent of all State government employment.

TABLE 16  
COVERED AND NONCOVERED STATE AND LOCAL GOVERNMENT  
EMPLOYMENT AND WAGES

State			Local		
Calendar Year	Av. Monthly Employment	Total Wages	Calendar Year	Av. Monthly Employment	Total Wages
<u>U.I. Covered</u>			<u>U.I. Covered</u>		
1966	443	\$ 3,906,725	1966	153	\$ 899,929
1967	481	4,312,586	1967	238	1,300,087
1968	552	6,011,926	1968	209	1,382,205
1969	660	7,256,896	1969	246	1,487,616
1970	724	9,126,673	1970	279	1,983,839
<u>Noncovered <sup>1/</sup></u>			<u>Noncovered <sup>1/</sup></u>		
1966	7,212	\$55,444,333	1966	5,565	\$43,163,809
1967	7,628	63,370,055	1967	6,040	49,278,960
1968	8,131	70,676,193	1968	6,432	57,866,884
1969	8,668	80,867,669	1969	7,301	66,940,007
1970	9,639	98,628,334	1970	7,797	79,152,950
<u>Total</u>			<u>Total</u>		
1966	7,655	\$59,351,058	1966	5,718	\$44,063,738
1967	8,109	67,682,641	1967	6,278	50,579,047
1968	8,683	76,688,119	1968	6,641	59,249,089
1969	9,328	88,124,565	1969	7,547	68,427,623
1970	10,363	107,755,007	1970	8,076	81,136,789

<sup>1/</sup> Estimates of noncovered data are based on the sample of employers utilized by the Federal-State cooperative Current Employment Statistics program.

## State Government Contribution and Cost Experience

Contributions in 1969 and 1970 of the Employment Security and Marine Transportation Divisions were 2.0 percent of total wages or 3.0 percent of taxable wages. Benefits of \$55,860 were paid to unemployed State government workers in 1969 or for every \$1 paid in \$.38 was paid out. In 1970 benefit costs rose to \$70,659, reflecting the increased potential liability with the growth in wages; whereas, the benefit cost rate remained at 0.77 percent. For every \$1 received in 1970, \$.43 was paid out. The insured unemployment rate for these divisions has remained at less than 4.0 percent since 1965, rising in 1970 to 4.5 percent.

TABLE 17  
HISTORICAL UNEMPLOYMENT INSURANCE FINANCIAL EXPERIENCE OF  
STATE AND LOCAL GOVERNMENT COVERAGE

Calendar Year	Average Monthly Empl.	Total Wages	Taxable Wages	C o n t r i b u t i o n s			Benefits as a Percent of		Benefits to Contrib.	Insured Unempl. Rate 1/	Aver. Dura- tion	
				Employer	Employee	Total	Benefits	Total Wages				Taxable Wages
Total State and Local												
1966	596	\$4,806,654	\$4,034,547	\$74,741	\$15,324	\$90,065	\$ 77,642	1.62	1.92	\$ .86	7.6	17.4
1967	719	5,612,673	4,561,290	114,042	23,738	137,780	86,422	1.54	1.89	.63	6.6	16.9
1968	761	7,394,131	5,754,944	148,402	30,925	179,327	96,262	1.34	1.72	.55	6.5	14.6
1969	906	8,744,512	6,324,247	161,071	33,548	194,619	116,644	1.33	1.84	.60	6.5	17.8
1970	1,003	11,110,512	7,506,086	189,129	39,256	228,385	136,255	1.23	1.82	.60	6.5	14.6
Total State												
1966	443	3,906,725	3,242,631	52,177	10,462	62,639	12,281	.31	.38	.20	1.3	9.3
1967	481	4,312,586	3,406,530	78,139	15,991	94,130	29,071	.66	.84	.30	2.9	12.8
1968	552	6,011,926	4,529,918	108,441	22,242	130,683	33,512	.56	.74	.26	2.8	11.3
1969	660	7,256,896	5,061,357	120,440	24,699	145,139	55,860	.77	1.10	.38	3.7	14.8
1970	724	9,126,673	5,816,887	137,315	28,152	165,467	70,659	.77	1.21	.43	4.5	14.2
Employment Security Division												
1966	198	1,645,680	1,376,164	20,618	4,104	24,722	NA	NA	NA	NA	NA	NA
1967	212	1,812,645	1,472,941	22,073	4,397	26,470	NA	NA	NA	NA	NA	NA
1968	230	2,102,365	1,635,833	24,518	4,885	29,403	NA	NA	NA	NA	NA	NA
1969	255	2,498,799	1,879,350	28,169	5,613	33,782	NA	NA	NA	NA	NA	NA
1970	291	3,226,940	2,238,689	33,555	6,689	40,244	NA	NA	NA	NA	NA	NA
Marine Transportation Division												
1966	245	2,261,045	1,866,467	31,559	6,358	37,917	NA	NA	NA	NA	NA	NA
1967	269	2,499,941	1,933,589	56,066	11,594	67,660	NA	NA	NA	NA	NA	NA
1968	322	3,909,561	2,894,085	83,923	17,357	101,280	NA	NA	NA	NA	NA	NA
1969	405	4,758,097	3,182,007	92,271	19,086	111,357	NA	NA	NA	NA	NA	NA
1970	433	5,899,725	3,578,198	103,760	21,463	125,223	NA	NA	NA	NA	NA	NA
Local												
1966	153	899,929	791,916	22,564	4,862	27,426	65,361	7.26	8.25	2.38	25.9	20.3
1967	238	1,300,087	1,154,760	35,903	7,747	43,650	57,816	4.44	5.01	1.32	14.0	19.8
1968	209	1,382,205	1,225,026	39,961	8,683	48,644	62,750	4.54	5.12	1.29	16.4	17.1
1969	246	1,487,616	1,262,890	40,631	8,849	49,480	60,784	4.09	4.81	1.23	14.0	21.1
1970	279	1,983,839	1,689,199	51,814	11,104	62,918	65,596	3.31	3.88	1.04	11.7	15.1

1/ The insured unemployment rate is estimated by inflating the calendar year's intrastate weeks compensated to weeks claimed and dividing by the average covered employment. Yearly ratio may not reflect any group of employers' experience; however, we have determined it is valid for these industry comparisons.

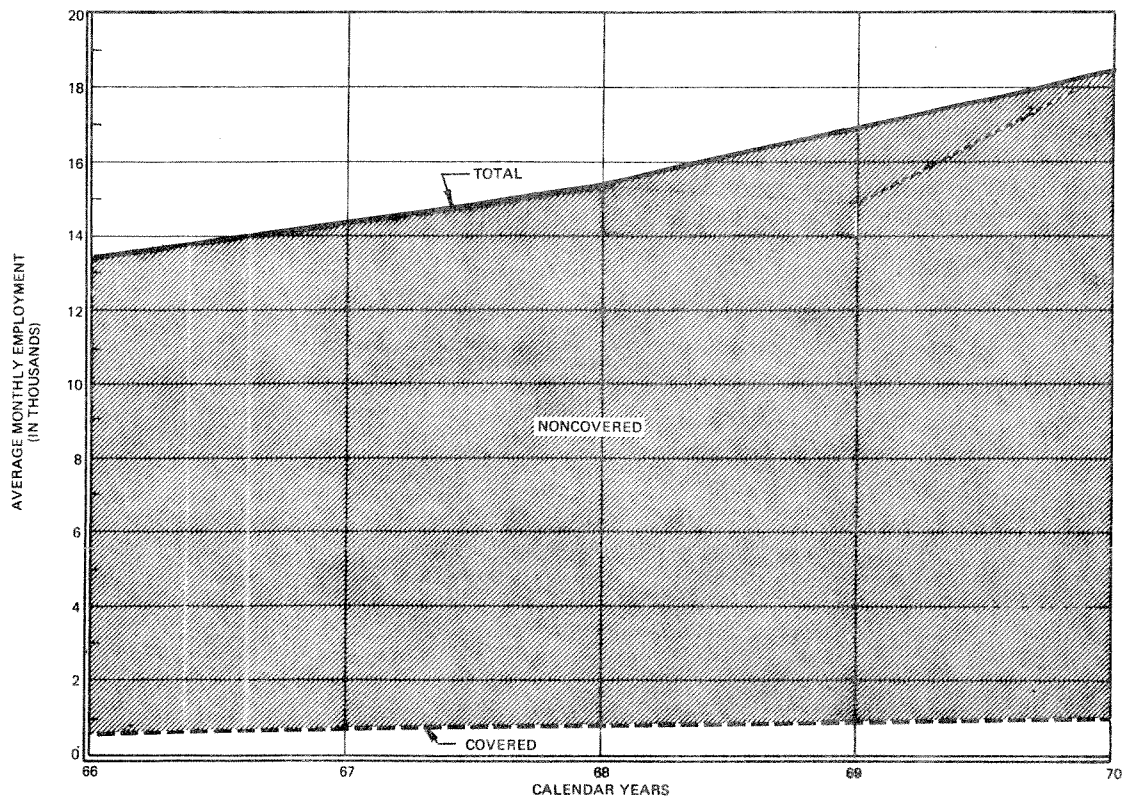


FIGURE 11, COVERED AND NONCOVERED STATE AND LOCAL GOVERNMENT EMPLOYMENT

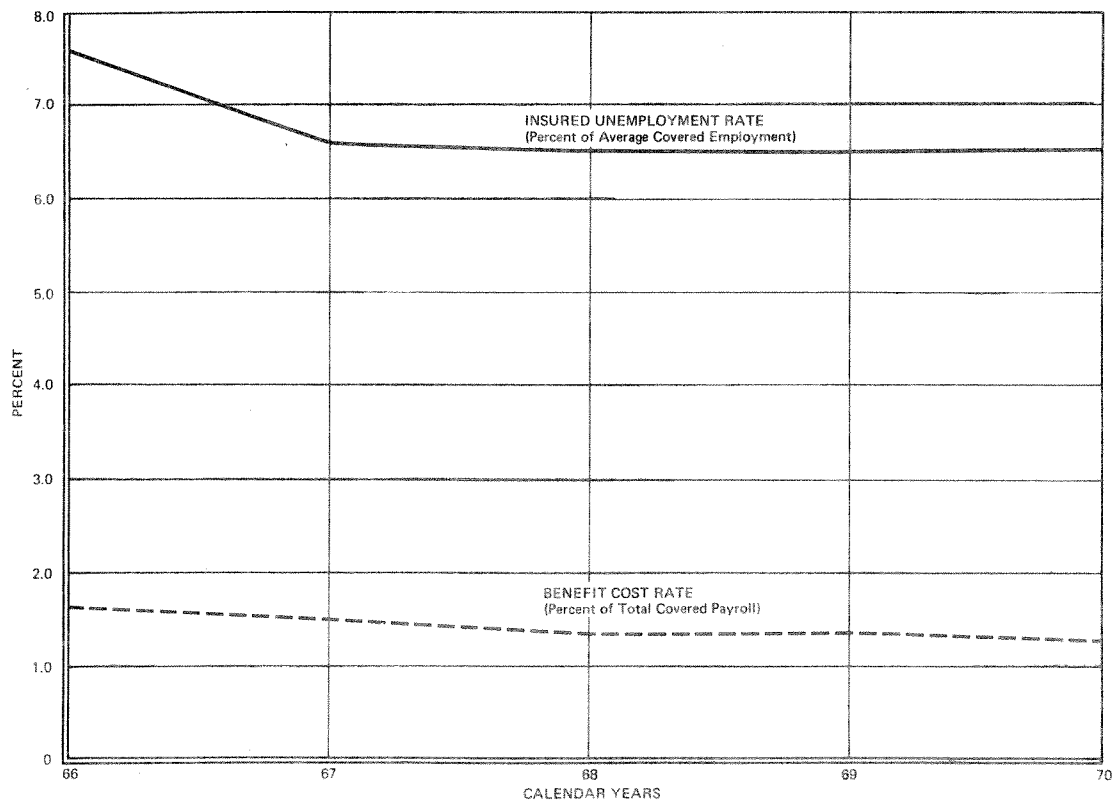


FIGURE 12, STATE AND LOCAL GOVERNMENT  
Comparison of Unemployment and Benefit Costs

## State Government Wage Experience

Tables 18 and 19 contain data from the State payroll tabulations and are included in this section to provide a comparison between the employment and wages of teachers and other state government employees. About thirteen percent of all state government payroll and employment is related to teachers. Average annual wages in 1970 for both teachers and other State government employees was about \$10,900, signifying that wages were commensurate for both classes.

TABLE 18  
TEACHER AND NON-TEACHER STATE GOVERNMENT 1/  
PAYROLL AND EMPLOYMENT

1970	P A Y R O L L			E M P L O Y M E N T		
	Total State Gov't.	Teachers	Non- Teachers	Total State Gov't.	Teachers	Non- Teachers
Total	\$90,636,923	\$11,691,933	\$78,944,990	99,801	12,922	86,879
January	6,481,689	831,306	5,650,383	7,574	1,064	6,510
February	6,631,409	841,451	5,839,958	7,814	1,087	6,727
March	6,630,287	836,562	5,793,725	7,784	1,110	6,674
April	6,813,804	833,903	5,979,901	7,846	1,061	6,785
May	6,976,419	827,967	6,148,452	8,089	1,068	7,021
June	7,357,593	834,789	6,522,804	8,619	1,035	7,584
July	7,644,335	909,418	6,734,917	8,473	918	7,555
August	8,148,462	737,347	7,411,115	8,405	772	7,633
September	8,555,965	1,180,245	7,375,720	8,844	1,033	7,811
October	8,606,571	1,255,433	7,351,138	8,855	1,190	7,665
November	8,441,191	1,297,216	7,143,975	8,807	1,266	7,541
December	8,299,198	1,306,296	6,992,902	8,691	1,318	7,373
Average						
Payroll	\$10,898	\$10,856	\$10,904			
Employment				8,317	1,077	7,240

1/ This table was compiled from State payroll tabulations which do not include data from Alaska State Housing Authority, the University of Alaska, or the Geophysical Institute so totals will not agree with other tables in this publication.

TABLE 19  
TEACHER AND NON-TEACHER STATE GOVERNMENT 1/  
PAYROLL AND EMPLOYMENT

1968	P A Y R O L L			E M P L O Y M E N T		
	Total State Gov't.	Teachers	Non- Teachers	Total State Gov't.	Teachers	Non- Teachers
Total	\$61,843,958	\$8,143,170	\$53,700,788	80,777	10,864	69,913
January	4,629,055	638,359	3,990,696	6,187	959	5,228
February	4,744,726	647,527	4,097,199	6,307	1,000	5,307
March	4,772,884	653,528	4,119,356	6,394	998	5,396
April	4,829,792	650,413	4,179,379	6,435	987	5,448
May	4,861,832	646,427	4,215,405	6,508	981	5,527
June	5,416,404	879,445	4,536,959	6,989	927	6,062
July	5,458,018	495,767	4,962,251	6,914	641	6,273
August	5,466,691	500,574	4,966,117	6,955	625	6,330
September	5,470,525	729,226	4,741,299	7,094	805	6,289
October	5,534,948	787,995	4,746,953	7,125	951	6,174
November	5,351,673	757,945	4,593,728	6,992	994	5,998
December	5,307,410	755,964	4,551,446	6,877	996	5,881
Average						
Payroll	\$9,188	\$8,999	\$9,217			
Employment				6,731	905	5,826
1969	P A Y R O L L			E M P L O Y M E N T		
	Total State Gov't.	Teachers	Non- Teachers	Total State Gov't.	Teachers	Non- Teachers
Total	\$71,662,286	\$9,225,813	\$62,436,473	88,738	11,375	77,363
January	5,254,569	752,110	4,502,459	6,767	977	5,790
February	5,433,816	764,583	4,669,233	6,938	1,000	5,938
March	5,398,070	769,401	4,628,669	6,989	1,021	5,968
April	5,415,370	765,661	4,649,709	7,027	1,022	6,005
May	5,525,721	761,068	4,764,653	7,193	1,009	6,184
June	5,959,360	960,191	4,999,169	7,583	981	6,602
July	5,998,790	678,018	5,320,772	7,597	704	6,893
August	6,559,843	568,743	5,991,100	7,604	649	6,955
September	6,710,163	784,395	5,925,768	7,987	917	7,070
October	6,514,040	805,874	5,708,166	7,709	1,002	6,707
November	6,511,795	808,224	5,703,571	7,715	1,055	6,660
December	6,380,749	807,545	5,573,204	7,629	1,038	6,591
Average						
Payroll	\$9,691	\$9,732	\$9,685			
Employment				7,395	948	6,447

1/ See Table 18, footnote number 1.

## Local Government Coverage, Contribution and Cost Experience

In 1969 and 1970 less than 3.5 percent of the employees in Local government were covered by Alaska's Unemployment Insurance Program which consisted of twelve, generally small, municipalities.

Contributions in 1969 were 3.3 percent of total wages or 3.9 percent of taxable wages. In 1970 contributions equaling 3.2 percent of total wages and 3.7 percent of taxable wages were paid. Benefits amounting to \$60,784 were paid or for every \$1 paid in \$1.23 in unemployment compensation was paid out to unemployed Local government workers.

Benefits increased slightly in 1970 to \$65,596, however, the benefit cost rate declined to 3.31 percent, the lowest since coverage was extended on an elective tax basis. The ratio of benefits to contributions was about even since for every \$1 paid in \$1.04 was paid out. For the first time in recent years the average number of weeks (duration) of unemployment benefits received dropped substantially in 1970 to 15.1 from 21.1 in 1969. These statistics show that Local government workers in small communities are working longer periods each year, therefore, drawing benefits for a shorter number of weeks.

The relatively high unemployment experienced by small communities is responsible for the high insured unemployment rates, averaging about 16.5 percent for the 1966-1969 period. The insured unemployment rate in 1969 for all covered employment in government at 6.5 percent was slightly less than the 6.8 percent rate experienced by all industries in 1969. The rate in 1970 remained at 6.5 percent even though the rate for all industries increased to 8.4 percent. This shows quite dramatically that unemployment in government does not increase when economic conditions deteriorate in other industries.





## APPENDIXES



## APPENDIX A

### INTERNAL REVENUE CODE SECTION 501 (c) (3)

- (3) Corporations, and any community chest, fund or foundation, organized and operated exclusively for religious, charitable, scientific, testing for public safety, literary, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private shareholder or individual, no substantial part of the activities of which is carrying on propaganda, or otherwise attempting to influence legislation, and which does not participate in, or intervene in (including the publishing or distributing of statements), any political campaign on behalf of any candidate for public office.

## APPENDIX B

### EXTENDING UNEMPLOYMENT INSURANCE PROTECTION TO ALASKA STATE GOVERNMENT WORKERS<sup>1/</sup>

House Bill 159 introduced by Governor Egan would extend unemployment insurance protection to most state government workers at the least cost to the state. The bill passed the House almost unanimously and presently lies in the Senate Labor and Management Committee chaired by Senator C. R. Lewis.<sup>2/</sup>

Alaska is one of 41 states providing some sort of coverage, either mandatory or elective, for state and local government. As of January 1, 1973 mandatory coverage is provided for state government workers in 21 states and for some local government workers in 9 states. Benefits for state government workers in 18 states and local government workers in 4 states are financed on a reimbursable basis. Local governments in 3 other states have a choice of using either the reimbursable or contribution financing method.

Before 1972, 60 percent of the estimated number of workers not covered by unemployment insurance in Alaska were employees of state and local government. Even though federal employees have been protected since 1954, only the State Division of Employment Security and Marine Transportation have elected coverage. The election by other state departments has not been encouraged because the required contributions would greatly exceed the cost of coverage.

However, resulting from legislation passed last year bringing Alaska's Employment Security Act into conformity with Congressional action, unemployment compensation protection was extended to government workers for state hospitals (Harborview Memorial at Valdez and Alaska Psychiatric Institute in Anchorage) and state institutions of higher education (University of Alaska) on a reimbursable financing basis.

All of the employees recommended for coverage in H. B. 159 would already be covered if they had been employed in private, nonprofit, or federal government employment. Generally, all state government employees under H. B. 159 would be extended coverage except certain workers in the exempt service, such as elected or appointed officials, justices of the supreme and superior courts, and members of boards, commissions, or authorities. Specifically, exempt service not covered would be that defined in subsections (1), (2), (3), (4), (6), (9), (10) and (11) of AS 39.25.110. In addition, state government workers could not draw benefits unless they satisfied the same eligibility criteria as other covered unemployed workers. For example, they must earn at least \$750 in covered employment (\$100 of which must be earned outside of one quarter) and be available for work in their primary occupation if work exists.

Actual experience of five states with mandatory coverage reveals cost rates ranging from 0.1 to 0.7 percent of total wages. Alaska's experience with the coverage of 700 employees in Employment Security and Marine Transportation has shown in recent years a cost rate of 0.3 to 0.8 percent of total payroll. Comparable experience shows that costs to cover employees in private industry have averaged 1.8 percent of total payroll.

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<sup>1/</sup> This analysis was prepared during the 1971 legislative session and later updated in October of that year. Although this appendix repeats some remarks contained in the previous chapters it is included to provide the reader with further insight into the issues concerning the coverage and financing of Alaska State government employees.

<sup>2/</sup> The Senate Labor and Management Committee seemed to favor at least partial coverage but the management and labor factions opposed financing on a reimbursable basis. The AFL/CIO representative of labor indicated in a public hearing convened by the committee that they would remove their objection to reimbursable financing if it would lead to passage of the bill. One attempt was made to draft a committee substitute which would have provided coverage to only nonpermanent workers, with the choice between experience rating or a special method of financing to be decided before final drafting.

Estimated costs to cover Alaska State government workers as provided in House Bill 159 would range between 0.8 to 1.0 percent of total payroll or \$900,000 to \$1,100,000 during 1972, if the law were in effect and beneficiaries could receive full entitlement. About 25 percent of this cost would be shared by the federal government resulting from federal financing received for state programs. The latter reimbursable method results in a 20 percent savings to the state over the regular contributions or experience rating basis.

## QUALITATIVE ANALYSIS

There are generally two issues which emerge when extending unemployment insurance protection to government workers is proposed. Is it needed? If yes, how should it be financed? These two issues will be treated independently in the following analysis.

### IS IT NEEDED?

Alaska's state and local government workers constitute 60 percent of the employment not protected by unemployment insurance (Figure 13). Before attempting to answer the basic question, "Do Government workers need unemployment insurance?", one must agree that society needs a program such as unemployment compensation to alleviate the economic hardships accompanying unemployment. If otherwise, then any decisions made on the issues will be influenced by an initial bias against the system, which may result in less reasonable and open minded conclusions in answering the question. The following sections will contain discussions on, one, some basic reasons for extending coverage to government workers, two, elective or mandatory coverage, three, restrictions on coverage and, four, some issues pertaining to coverage.

**Why Cover Government Employees?** Many of the same forces which operate to produce temporary unemployment in the private economy also have an impact on government. Thus, in the performance of usual governmental functions it is expected that some people will find themselves in a spell of involuntary unemployment.

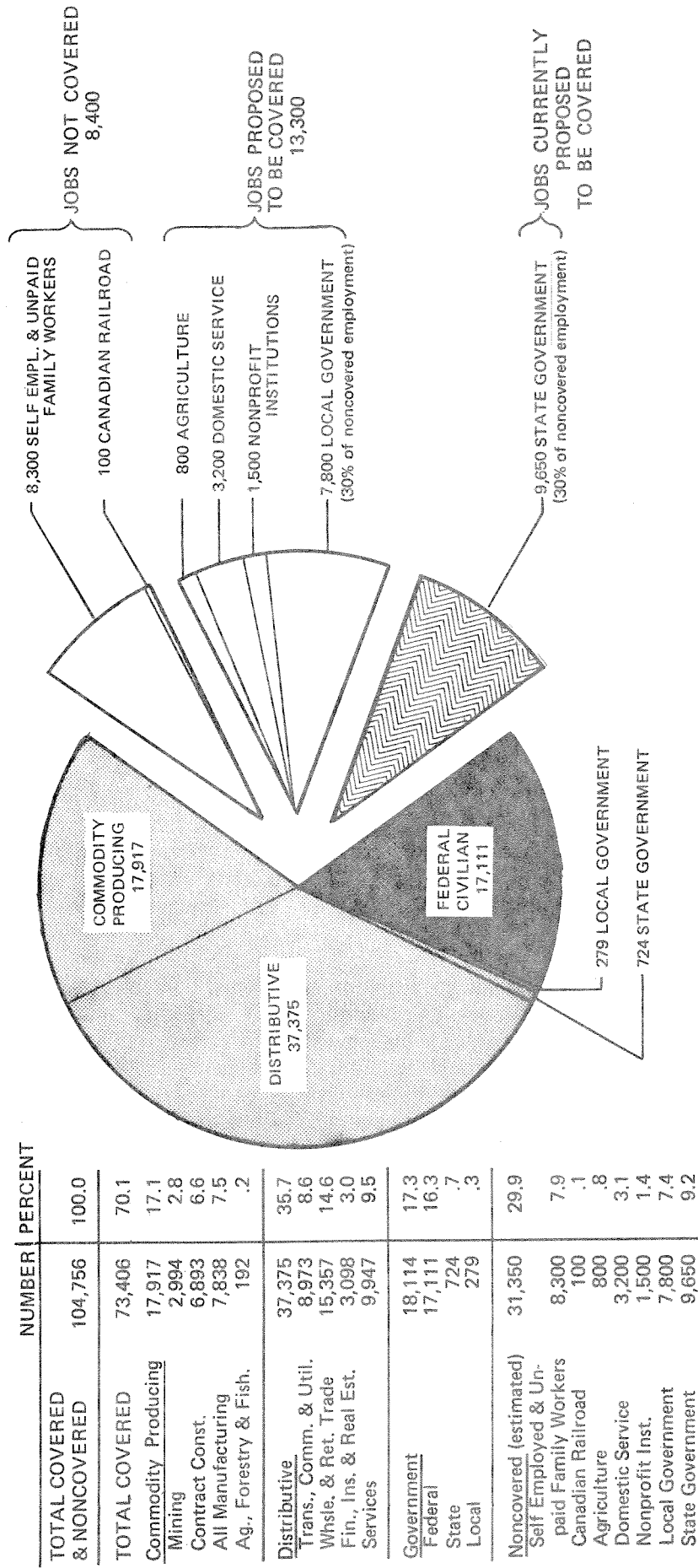
Although there may be differences in the activities engaging the private and governmental sectors of the economy, many of the same skills required for one are also used in the other. To carry out the variety of jobs required for conduction of government affairs, the State employs accountants, engineers, equipment operators, and many other kinds of workers. With few exceptions, all of these workers would be covered by unemployment insurance if their service had been performed in private or Federal government employment.

Extending coverage to Federal government employees beginning in 1955 has been particularly important in broadening the overall scope of unemployment insurance protection, by giving impetus to a number of states to enact legislation requiring coverage. Coverage was again spurred by President Nixon, who in his address which accompanied H. R. 12625 and H. R. 14705, later enacted as P. L. 91-373, stated, "With the passage of this legislation, the majority of those remaining uncovered will be employees of State and local governments. I urge the States and localities to take action, in the light of their local circumstances, to include their own employees in unemployment insurance coverage."

FIGURE 13.  
ALASKA

PRESENT AND PROPOSED UNEMPLOYMENT INSURANCE COVERAGE OF WAGE AND SALARY EMPLOYMENT

Calendar Year 1970



The coverage extensions currently proposed provide a significant advance toward bringing into the program workers in need of wage loss protection.

**Elective or Mandatory Coverage.** The Federal government because of constitutional limitations cannot tax state and local governments or their instrumentalities. This constitutional barrier, however, does not prohibit the states from covering their own or local government employees.

Most states have taken the initiative and provide some form of coverage for their own or local government workers. Presently Alaska is one of 41 states providing some sort of coverage, either mandatory or elective, for state and local government. As of January 1, 1973, 21 states (Table 1) provide or will provide through recently enacted legislation mandatory coverage for state workers and two provide mandatory coverage for both State and local government workers. Most of those states which provide for mandatory coverage of state employees finance benefits through reimbursement. Many states passed laws during 1971 covering both state and local government workers. Washington, for example, presently under a budget crunch resulting from recessional conditions, noted that unemployment insurance protection was necessary during such economic conditions and passed coverage effective February 1, 1971 in their P. L. 91-373 conforming bill.

TABLE I

STATES WITH MANDATORY COVERAGE OF STATE AND LOCAL GOVERNMENT WORKERS

	<u>State</u>	<u>Local</u>		<u>State</u>	<u>Local</u>
Connecticut	X	X	New York	X	
Delaware	X		Ohio	X	
Florida	X		Oklahoma	X	
Hawaii	X	X	Oregon	X	
Idaho	X		Pennsylvania	X	
Illinois	X		Rhode Island	X	
Iowa	X		Texas	X	
Louisiana	X		Utah	X	
Michigan	X		Washington	X	
Minnesota	X		Wisconsin	X	
New Hampshire	X				

Alaska has permitted State and local government employers to elect coverage since 1939 (A.S. 23.20.325). Alaska's experience, like that of most other states having similar elected options, has shown the elective coverage device has been ineffective in implementing unemployment insurance protection for government employees. Perhaps this has been due to, (1) unawareness of such a provision, (2) the belief that involuntary unemployment does not strike government workers, or (3) the realization that more would be paid in contributions (since taxes by Alaska law would be assessed under experience rating provisions in the regular program) than what would be paid in benefits. The former and the latter are generally the reasons why more state entities have not elected coverage.

To conform to P. L. 91-373 the Alaska legislature during 1971 extended unemployment insurance coverage, effective January 1, 1972, to workers in state hospitals, Harborview Memorial in Valdez and Alaska Psychiatric in Anchorage, and state institutions of higher education, University of Alaska. The right to finance benefit costs on either a regular (the same as other employers) or a reimbursable basis was provided. The Commissioner of Health and Welfare and the University of Alaska chose the cheaper reimbursable method. In addition the right to elect coverage on a mandatory reimbursable basis was provided to local



government hospitals and institutions of higher education as required by the Conformity Act.

**Restrictions on Coverage.** Many of those states providing coverage for government workers exclude and even prevent coverage-by-election of appointed or elected public officers, consultants, employees of work relief projects, temporary workers at state fairs, or persons employed in such emergency jobs as fire fighting, flood control, and snow removal.

However, the coverage provisions do not follow a set pattern. In some cases the legislation enacted has been ambiguous in defining the people for whom the coverage was provided, thereby forcing determination of what was intended. To avoid this, most states specifically identify the employees to be covered, usually in terms of the classified service, with particular additions or deletions from it. Following this lead, the cost rates which were first established in the 1962 Department of Labor study entitled **Unemployment Insurance for Alaska State Government Employees** did not include coverage of teachers or exempt service. The following are some of the reasons why coverage is not recommended for the exempt service.

It is the objective of Unemployment Insurance to cover only positions that are considered subject to involuntary unemployment. Some consider that persons elected or appointed to office (and their appointers) have some control over their employment, therefore, their unemployment is not considered truly involuntary. Also, it is not the intent of Unemployment Insurance to cover officials whose unemployment results from a change in administration, failure to be re-elected or a decision not to run. Those employed on a fee basis which is essentially the same as self-employment are not recommended for coverage. Also not recommended are patients and inmates employed in state institutions, or members of boards, commissions or authorities since they have a loose attachment to the labor market.

Teachers are not covered for certain distinct reasons. Many teachers are available for and able to work when school is not in session, but are under contract or will contract to resume teaching at the beginning of the school year. Most states have entirely excluded them from coverage on the contention that benefits should not be paid during summer months when few jobs are available. However, a provision disqualifying teachers from receiving benefits between or during certain contracted periods could be provided.<sup>3/</sup>

For reasons explained above, unemployment insurance coverage of exempt employees is not considered appropriate or justified with the following exception. Coverage is justified for teachers if an exclusion from receiving benefits during certain periods is provided.

**Issues Pertaining to Coverage.** The fact that all federal government employees, including exservicemen, have unemployment insurance protection does not alone mean that other government employees deserve the same protection. The principles which created the unemployment compensation program for federal employees in 1954 should be analyzed for validity rather than assuming the protection is valid merely because similar occupations are protected.<sup>4/</sup>

The question which generally deserves attention first is, "Do government workers experience a sufficient amount of unemployment to deserve unemployment insurance protection?" In answer to this question one must compare government experience to other industries. This immediately raises the question, "What differentiates government from other industries?" In the following discussion attention will be devoted first to the latter which will in turn set the framework to answer the former.

Government is an industry with four classes of employers, federal; state; municipal; and instrumentalities thereof; each performing similar functions. Government in the United States is distinguished by the type of service it provides to a free enterprise system. It is not primarily motivated to make a profit, whereas,

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<sup>3/</sup> Conformity legislation passed in 1971 included such a provision for employees of state institutions of higher education, AS 23.20.375 (c).

<sup>4/</sup> As a side note, employees at BIA facilities will lose their current unemployment insurance protection provided by the federal government if these facilities are relinquished to the state.

private industry is. Government generally provides employment security as it is not subject to the competitive nature of private industry which brings financial ruin to some employers and consequently unemployment. Its risk of unemployment therefore, is generally much lower than the average private industry employer. Government is not entirely financed from private capital but indirectly by a combination thereof, perhaps more appropriately termed public capital since it stems from employers and employees. Past experience shows that the greatest amount of revenue financing the functions of Alaska government, surprisingly to some, comes from the federal government which in turn receives its major revenue from employer and employee tax dollars. The greatest source of revenue potentially to the State of Alaska may be from oil revenues.

With this background, the specifics are now treated. Should this revenue be used to pay for unemployment attributable to state government? The experience of two divisions presently covered in Alaska (Marine Transportation and Employment Security) shows that their insured unemployment rate in the last four years has increased from 1.4 percent in 1966 to 3.8 percent in 1969. This increase in unemployment has been to a large extent the result of employment expansion in the area of nonpermanent hires and not the result of worsening economic conditions. Generally, a government worker's unemployment is not brought about by his own action but by temporary and seasonal hiring restrictions or other rules governing the hiring practices of state government. Similar restrictions, one could say, characterize the hiring practices of many private industry employers particularly those in seasonal industries. Therefore, it is concluded that unemployment does exist and the conditions which surround the unemployment are in many cases similar to the conditions which cause unemployment in private industry which is compensated by unemployment insurance.

When each division electing coverage is examined separately, it is apparent that Marine Transportation suffers the most unemployment and consequently pays a higher unemployment insurance tax. While Marine Transportation pays at the middle rate of the tax schedule, Employment Security contributes the lowest rate. If each division were compared to other employers in their rate class, one would undoubtedly find many similarities as to the conditions surrounding their unemployment. Consequently, the protection that unemployment insurance provides to the large majority of employers in private industry should be extended to the remaining state government workers on a similar mandatory basis.

If all state government were covered and experience rated as a private employer, state government would most likely enjoy the lowest rate in the schedule. If such were the case, as will be pointed out in the technical section which follows the "Quantitative Analysis," many current employers would be required to pay increased taxes. Many contend that the merits of the alternative reimbursable method of financing should be recognized without the necessity to technically show why the regular tax basis is an unreasonable method of financing unemployment compensation for state government employees. The acceptance of the reimbursable method seems to have greater merit as further stressed by the following points brought out in the treatment of the second issue.

#### **HOW SHOULD IT BE FINANCED?**

There are indeed many issues and questions which arise when consideration is given as to how state government should finance unemployment compensation. If the answer to the question proposed in the previous section is yes, then the expenditure for covering some, if not all, government workers is approved. The questions now are "Which government workers should receive coverage?" and; "Given alternative methods of financing, which should be chosen?"

The guidelines presented in the previous section can be used to determine which government workers deserve unemployment insurance coverage, therefore, the following sections will be confined to pointing out the most often expressed advantages of the two basic methods.

Should the method be chosen which will result in the greatest savings to Alaska's general fund, as the administration proposes, or the method which would result in subsidizing the benefit costs of private industry, as management proposes? The former reimbursable method would give special treatment to state government workers by allowing them to avoid the employee tax that most other employees in nongovernment

occupations are required to pay.<sup>5/</sup> This method would also require the state to pay considerable more into the fund than would be paid out as their share of benefit costs.

**Advantage Under Regular Method.** This method would treat everyone equally and allow the unemployment insurance reserve fund to be increased by the excess (contributions less benefit costs) government contributions. Some contend that this would put the fund in a more favorable financial position and lead to tax reductions. Few realize that the nominal \$420,000 (43% state, 57% employees) average yearly excess would amount to an increase of less than 0.1 percent based on the taxable payroll for all covered employers. Growth in wages alone, which accounts each year for higher individual benefit payments, would more than absorb the yearly excess.<sup>6/</sup> The following points should be considered with regard to the reimbursement method.

**Advantage Under Reimbursement Method.** One, the savings to the general fund could be used to fund many needed state projects, such as upgrading and expanding the educational facilities in rural areas.

Two, Congress recognized, through the reimbursement option extended certain nonprofit entities, that nonprofit organizations should not be required to subsidize the benefit costs of profit making employers. On a regular tax basis state government, similar to a nonprofit entity, would be paying taxes at the lowest tax rate and paying considerable more into the fund than their actual costs of benefits, indeed subsidizing the profit making employer.

Three, local and state government hospitals and institutions of higher education have the privilege of financing benefit costs on a reimbursable basis. If state government is on a regular tax basis, there would be a disparity between the method both employers would finance costs for similar workers in the same municipality. The employment in those state entities participating under reimbursement is about 20 percent of the total state government employment.

Finally, the tax rates in the schedule were set to yield revenue to meet the higher unemployment risks of the greatest majority of private industry employers. These higher unemployment risks are evidenced by the ratio of benefits to contributions; the higher the industry ratio, the higher the unemployment risk as measured by experience rating. The state government ratio is \$.43 meaning forty-three cents in benefits is paid for every dollar in contributions, while the average for all industries is \$.74, the lowest and highest being \$.31 and \$1.26 for employers in the finance, insurance, & real estate, and construction industries, respectively. As explained in the following section entitled "Experience Rating Alaska State Government Payroll", the experience rating of state payroll would lower the ratio for the finance industry to perhaps as low as \$.25, which would further increase the low risk finance industry's subsidy of higher risk industries.

## QUANTITATIVE ANALYSIS

### 1969 AND 1970 EXPERIENCE

In 1969 and 1970, respectively, \$55,860 and \$70,659 in benefits were paid to former employees of two state agencies, Marine Transportation and Employment Security.

Both agencies pay taxes and are experience rated as any other covered employer. The Employment Security Division has the most favorable experience paying taxes in the lowest tax bracket (rate class one), where the employer tax is 1.5 percent and the employee tax is 0.3 percent on wages up to \$7,200.

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<sup>5/</sup> The reimbursable privilege also extends to certain nonprofit employers described in Appendix A and AS 23.20.525 (a) (6).

<sup>6/</sup> The rate structure was actuarially designed in 1960 to provide, among others, for growth in wages over a period of time. The twelve year lapse without enacting financial improvements makes consideration of any excess important when financial issues arise. With constantly changing economic conditions, the actuarial soundness of the financial provisions should be determined at least every 5 years and legislation enacted if necessary to avoid the unnecessary burdens of remedial action.

The Marine Transportation Division had less favorable experience paying taxes in the middle tax bracket (rate class five) where the employer tax is 2.9 percent and the employee tax is 0.6 percent.

Both divisions contributed \$145,139 in 1969 and about \$165,534 in 1970. Almost 70 percent of wages were taxed in 1969 and declined to about 62 percent in 1970. The decline was largely due to the pay increase effective July 1, 1970. The decline in the taxable to total wage ratio over a period of years shows quite dramatically the amount of wages which continually escape taxation as more and more workers earn more than the limited \$7,200 tax base. The average taxable to total wage ratio for all industries in 1970 was about 70 percent. The lowest ratio for any major industry was about .60 for the mining industry. In 1970 the combined employer and employee "effective" tax on "total" wages was about 1.8 percent (1.5 for employer and 0.3 for employee).<sup>1/</sup>

When benefits are expressed as a percent of "total" wages, the 1970 experience shows a benefit cost rate equal to about 0.8 percent. The average cost rate of ten states which cover some or all government employees is 0.55 percent. Costs range from 0.1 to 0.7 percent. Hawaii, who has covered both state and local government workers since July 1959 had a 1969 cost rate of about 0.3 percent.

Comparing the benefit cost rate, 0.8 percent to the "effective" contribution rate, 1.8 percent, shows that the State of Alaska and its employees contributed 1.0 percent on total wages more than the cost of benefits. This means for every \$1 paid out in 1970 about \$2.34 was paid in.

#### EXPECTED COSTS IF H. B. 159 HAD BEEN IN EFFECT IN 1970

It has been estimated for budgetary purposes that the likely benefit costs would be 1.0 percent of the total state payroll in 1970 (\$91 Million) or about \$900,000, if the law had been in effect and all beneficiaries were eligible to receive full entitlement. After consultation with the Department of Administration, it was estimated that about 25 percent of the cost would be shared by the federal government resulting from federal funding received by various agencies.

#### TWO TYPES OF FINANCING

The State could participate in the program (1) as any other employer and pay employer and employee taxes based on the State's experience rated payroll; (2) on a reimbursable basis, or (3) on a special tax basis where the state sets its own rates (not discussed). Of the nineteen States which presently provide mandatory coverage of state government workers, all participate on a reimbursable financing basis.

The expected tax rates on a "regular" financing basis and the benefit costs on the "reimbursable" basis are shown in the following table as a percent of total wages. The estimated percent of total wages taxed is 69 percent.

TABLE 2  
1970 RATES BASED ON TOTAL PAYROLL

BENEFIT COSTS	Least Likely	Likely	Most Likely
Regular Basis <sup>1/</sup>			
Total Tax Rate	1.8	1.5	1.2
Employee	.3	.3	.2
Employer	1.5	1.2	1.0
Reimbursable Basis			
Benefit Cost Rate	1.3	1.0	.8

<sup>1/</sup> On a regular tax basis the "least likely", "likely", and "most likely" cases correspond to the assignment of taxes in rate classes 3, 2, and 1 (AS 23.20.290), respectively.

<sup>2/</sup> Refer to Table 90 of the 1971 actuarial study publication No. 1, January 1972.

TABLE 3

## 1970 RATES BASED ON TAXABLE PAYROLL

BENEFIT COSTS	Least Likely	Likely	Most Likely
Regular Basis			
Total Tax Rate	<u>2.6</u>	<u>2.2</u>	<u>1.8</u>
Employee	.5	.4	.3
Employer	2.1	1.8	1.5
Reimbursable Basis			
Benefit Cost Rate	1.9	1.4	1.2

Benefit costs for the proposed coverage in H. B. 159 will most likely be 0.8 percent of total wages, meaning if the state participated on a regular tax basis the total cost would be 0.4 percent higher or about \$364,000. Half of this increase would be borne by employee contributions as shown in the following table.

TABLE 4

## 1970 ESTIMATED DOLLAR COSTS (\$ THOUSANDS)

BENEFIT COSTS	Least Likely	Likely	Most Likely
Regular Basis			
Total	<u>\$1,638</u>	<u>\$1,365</u>	<u>\$1,092</u>
Employee	273 <sup>1/</sup>	273 <sup>1/</sup>	182
Employer	1,365	1,092	910
Reimbursable Basis			
Total	\$1,183	\$ 910	\$ 728
Cost Savings of Reimbursable	\$ 455	\$ 455	\$ 364

<sup>1/</sup> Agrees due to rounding of rates in this table and the following tables.

As shown in Table 5, the "net" cost to the state (less federal monies) under both types of financing would "most likely" have been \$682,000 on a regular basis and \$546,000 on a reimbursable basis in 1970. Therefore, the "most likely" net cost to the state on a regular tax basis would have been \$136,000 more than on a reimbursable basis. State employees would have been required to pay an additional \$182,000.

TABLE 5

## 1970 NET COST TO STATE (\$ THOUSANDS)

BENEFIT COSTS	Least Likely	Likely	Most Likely
Regular Basis			
Total	\$1,638	\$1,365	\$1,092
Less Employee contributions	273	273	182
Total state cost	\$1,365	\$1,092	\$ 910
Less federal funds (25%)	341	273	228
Net state cost	\$1,024	\$ 819	\$ 682
Reimbursement Basis			
Total	\$1,183	\$ 910	\$ 728
Less federal funds (25%)	296	228	182
Net state cost	\$ 887	\$ 682	\$ 546

## EXPECTED COSTS IN 1972

Based on a total state payroll of \$118 million in 1972, the estimated most likely "net" cost to the state on a regular tax basis is \$885,000 and \$707,000 under the reimbursable. In 1972, the increased cost to the state on a regular tax basis would be about \$178,000 and about \$236,000 in contributions would be required from state employees.

TABLE 6

## 1972 ESTIMATED NET COST TO STATE (\$ THOUSANDS)

BENEFIT COSTS	Least Likely	Likely	Most Likely
Regular Basis <sup>1/</sup>			
Total	\$2,006	\$1,770	\$1,416
Less employee contributions	354	354	236
Total state cost	\$1,652	\$1,416	\$1,180
Less federal funds (25%)	413	354	295
Net state cost	\$1,239	\$1,062	\$ 885
Reimbursement Basis			
Total	\$1,535	\$1,118	\$ 943
Less federal funds (25%)	384	280	236
Net state cost	\$1,151	\$ 838	\$ 707

<sup>1/</sup> Assuming same estimated tax rates on total wages and 1972 taxable to total wage ratio of 0.65.

In addition to the above costs to the state, the costs are estimated not to exceed \$100,000 in 1972 for institutions of higher education.

## EXPERIENCE RATING ALASKA STATE GOVERNMENT PAYROLL

If all state government were covered and experience rated as a private employer, the state would most likely enjoy the lowest rate in the schedule (rate class one in AS 23.20.290). The greatest number of employers in rate class one are in the service, trade, and finance, insurance & real estate industries which represent 39.1, 25.2, and 14.3 percent, respectively, or about 80 percent of all employers paying the lowest rate.<sup>8/</sup>

However, when payroll is considered, they represent 21.3, 22.1 and 18.3 percent or about 60 percent of the payroll that is taxed at the lowest rate. Government represents 0.4 percent of the number of employers in rate class one but 4.9 percent of the payroll. Mining represents 3.4 percent of the employers yet 10.9 percent of the payroll.

If one understands the method<sup>9/</sup> used to assign rates based on an employer's risk with unemployment, he should immediately recognize the influence the present state payroll has in rate class one with only the payroll of one agency. One would then most likely ask the question, "What if all state government payroll were included?" One could then reasonably deduct that a great share of the payroll in rate class one could be state government. This would inevitably mean many employers formerly in rate class one enjoying the lowest rates would in fact be paying a higher rate if state government participates as any other employer and is experience rated.

The taxable wages (excluding the payroll of the University of Alaska and Alaska State Housing Authority) of state government have been estimated at about 70 percent of total payroll (\$91,000,000 in 1970) or about \$64,000,000. Only two employers in Alaska had taxable payroll exceeding \$10,000,000. The total taxable payroll that was experience rated for determining 1970 rates equaled \$354,060,432 and \$35,452,541 was taxable in rate class one. It can be reasonably assumed that the state, if treated as a separate employing unit, would have the lowest payroll decline quotient since no payroll decline between quarters is indicated in Table 18.<sup>10/</sup> Therefore, all the state payroll would be in rate class one requiring employers and employees formerly taxed in rate class one to pay the higher taxes of rate class two. The latter conclusion is explained in more detail in the following paragraph.

After the payroll decline quotients are arrayed in sequence from the smallest to the largest, rate classes are assigned for each 10 percent distribution of taxable payroll associated with payroll decline quotients. Adding a \$64,000,000 state taxable payroll to the 1971 total rated payroll of about \$400,000,000 would mean the first rate class would contain 10% of the total ratable payroll or about \$46,400,000 ( $.10 \times (\$400,000,000 + \$64,000,000)$  or  $.10 \times \$464,000,000 = \$46,400,000$ ). Since state government would have the lowest payroll decline quotient, all the taxable payroll in rate class one would be that of state government as its taxable payroll of \$60,000,000 would be greater than the \$46,400,000 allocated for rate class one. Therefore, all employers presently in rate class one except the Employment Security Division would be required to pay increased taxes in rate class two if state government payroll were rated. In addition a certain number of employers and employees presently in rate classes 2 through 9 would be required to pay increased taxes in rate classes 3 through 10. Generally, it would not be reasonable to assume that one employer could have taxable payroll equivalent to ten percent of all payroll that is taxed. The Alaska experience rating system was not designed to accommodate a situation where state government as one employer under the law (AS 23.20.520 (12)) would make up the greatest share of an industry, particularly the largest industry, government.

<sup>8/</sup> Source is from pages 81 and 96 of the 1971 Alaska U. I. Actuarial Study (publication No. 1) entitled **Alaska Unemployment Insurance Financial Handbook**, January 1972, which contains the payroll experience of those employers used to determine the 1970 rates for employers and employees.

<sup>9/</sup> Alaska uses a quarterly payroll decline experience rating system which assigns the greatest risk and highest tax to the employers and employees which have the greatest total payroll decline between quarters.

<sup>10/</sup> Refer to the Department of Labor report entitled **Handbook Explaining Experience Rating and Variable Contribution Rates in Alaska** for a discussion of Alaska's system and the calculation of the "payroll decline quotient".

One of the purposes of any experience rating system is to provide incentive to those employers in the upper rate classes to stabilize their employment. However, an employer the size of state government would prevent other employers from achieving the lowest rates even though they had achieved nearly zero payroll declines.

Even if state agencies could satisfy the "employing unit" requirements of 520 (12) and were experience rated, the above effect would not be significantly diminished as is explained below.

One might also ask the question "What impact would the coverage of only state hospitals, state institutions of higher education, the Employment Security Division, and the Marine Transportation Division have on the experience rating system?" Most likely all such entities except the Marine Transportation Division would be assigned to rate class one. Their taxable payroll would be about \$14,000,000. The impact of their payroll in rate class one would undoubtedly cause some employers formerly paying in rate class one, to pay the higher taxes of rate class two, as a result of the inclusion of just \$14,000,000 in state payroll.

Whether most state government workers are covered or just 20 percent of them on a regular basis, the impact of the state payroll on Alaska's experience rating system would inevitably cause certain employers to pay higher taxes. Alaska's experience rating system was not designed to accommodate an employer the size of state government without being overly disadvantageous to other higher risk employers. For example, the finance industrys' benefits to contributions ratio would decrease from \$.31 to about \$.25, resulting from assignment of the higher taxes in rate class two. In fact, if coverage were passed on a regular basis, amendments may have to be made to certain statutes governing the experience rating system.<sup>11/</sup> These amendments would not prevent the increased taxes but merely allow the system to be administratable.

The amount of money paid into the fund whether for covering most state government employees or just a certain sector will have a nominal effect on Alaska's U. I. fund. If "values" are attached to the "building up of the fund" or the use of the money for other projects (such as funding needed public work projects), one might conclude that under the present economic conditions a significant savings each year to the general fund could reap a much greater return than money held essentially in trust.

#### **SPECIFIC RECOMMENDATION IF REIMBURSABLE METHOD OF FINANCING IS CHOSEN**

There are essentially two methods of accounting for reimbursement payments, the pay-as-you-go cash basis or the accrued accounting concept. From a budgetary and actuarial standpoint the accrued concept is considered more acceptable. Specific recommendations and procedures are discussed below.

Instead of formally "tying our feet", so to speak, by spelling out specific financing limitations in a statute, the program could be more effectively and efficiently administered through administrative regulations established by the Department of Labor. Such is the case in other states covering state government workers. These states generally prescribe in statutes that the amount of payment shall be ascertained by the Commissioner or Director yearly or quarterly and shall be paid in such a manner as they prescribe.<sup>12/</sup> The reimbursement payments could be deposited monthly, quarterly, or yearly in Alaska's Unemployment Compensation trust fund account or possibly in a separate fund provided by statute.

Assuming state government monies are commingled quarterly with those of regular covered employees under a pay-as-you-go system, money would be expended from the pooled fund as claims are paid during the

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<sup>11/</sup> However, a government entity is not bound by the tax or contribution provisions of the Federal Unemployment Tax Act; therefore, the state could establish its own method of paying contributions. The state is only bound by the experience rating provisions if no other provision is made to eliminate the state from these provisions.

<sup>12/</sup> For example, see "Idaho Employment Security Law" 72-1316.1.



quarter. At the end of each quarter the state would be billed and required to make payment by the end of the following quarter. Therefore, the pay-as-you-go system would result in a 3 to 6 month lag in benefit reimbursements. To avoid the lag and attendant loss of interest, it is advised that the amount of payments be actuarially ascertained by the Department of Labor on a yearly basis. Under this proposed accrued method the Department on a designated date would estimate the total cost to be incurred each year plus a reserve for unpredictable contingencies. The Department of Administration would budget for the estimated costs by using a "flat" rate for each department (or program) or by applying a presumed cost rate on an individual department (or program) basis. Advance appropriations to cover the expected benefit costs would be sent to the Department of Labor and as benefits are paid the respective budget entities would be charged. At the end of each year the next year's cost rate would be determined and a request for an appropriation made taking into consideration the remaining reserve.

It is also recommended that benefit costs and charges be proportioned in accordance with wages paid out of a special, administrative, or federal fund. Although it is presumed that the Department of Administration would automatically proportion the charges, the Department of Labor could stipulate the procedure in administrative regulations. By accurately allocating the costs of the benefits between various types of state or federal funds, the cost to the State would be minimized. Consistent with this recommendation it is advised that wages and employment be reported by department (or program) each quarter to the Department of Labor for all services covered by the Act on forms similar to the quarterly contribution reports required of regular covered employers. This method of reporting would enable 1) more timely and accurate determinations of benefit eligibility and entitlement; 2) more precise actuarial costs determined by department (or program); and 3) costs to be more efficiently allocated by department, program, type of fund, or combination thereof. The Divisions of Employment Security and Marine Transportation currently report in this manner. The advantages of this system far outweigh the "wage request" procedure used in administering the program for federal employees.

The above recommendations are proposed for future discussion and contended to be more efficient from an accounting or budgeting standpoint as well as practical methods of financing the program while maintaining fund integrity.





