

# LEGISLATIVE RESEARCH REPORT

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## ALASKA'S MINIMUM WAGE ADJUSTED FOR INFLATION

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INFLATION-PROOFING THE MINIMUM WAGE ..... 1

*Figure 1: The Inflation Rate and the Inflation Adjusted Minimum Wage,*  
    *2004 through 2009, and Projected for 2010.....3*

HISTORY OF THE MINIMUM WAGE.....4

*Table 1: The Minimum Wage in Alaska and the Federal Minimum Wage.....5*

You asked for information regarding Alaska's minimum wage. Specifically, you wished to know what the minimum wage would be today if the minimum wage inflation-proofing provisions of HB 56, passed in 2002, had not been repealed in 2003. You also asked us to project what the minimum wage would be in 2010. Based on our calculations, had the minimum wage been adjusted for inflation each year since October 2003, the current minimum wage in Alaska would be \$8.46 per hour and the projected minimum wage for 2010 would be \$8.78 per hour.



## INFLATION-PROOFING THE MINIMUM WAGE

As you may know, an inflation-proofing provision was added to the Alaska minimum wage law through the enactment of HB 56 in 2002, which also raised the minimum wage from \$5.65 (which was 50 cents above the federal minimum wage) to \$7.15 per hour. The bill, which took effect on January 1, 2003, also instructed the Department of Labor and Workforce Development (DOLWD) to calculate the first inflation-adjusted minimum wage rate by October 1, 2003, and each year thereafter. Because HB 199, which removed the inflation-adjustment provision, passed prior to October 1, 2003, the DOLWD was never required to calculate inflation-related minimum wage increases.

The annual rate of inflation for each calendar year is not available until January of the following year. Since the inflation-proofing provisions of HB 56 required the minimum wage be adjusted by October 1<sup>st</sup> of each year, we adjusted the minimum wage using the previous two semi-annual Anchorage Consumer Price Index (CPI) figures.<sup>1</sup> Based on our calculations, if the minimum wage had been adjusted for inflation each year since October 2003, the current minimum wage would be \$8.46 per hour.

You also asked us to project the minimum wage, using a forecasted inflation rate, for 2010. Using the projected rate of inflation used by the Alaska Permanent Fund Corporation (APFC) for 2009 of 3.85 percent, the inflation-adjusted minimum wage for 2010 would be approximately \$8.78 per hour.<sup>2</sup> Please use caution when considering this figure. As you know, we are in a period of significant economic uncertainty, and as such, the APFC's projected rate of inflation for 2009 is unlikely to reflect actual events.

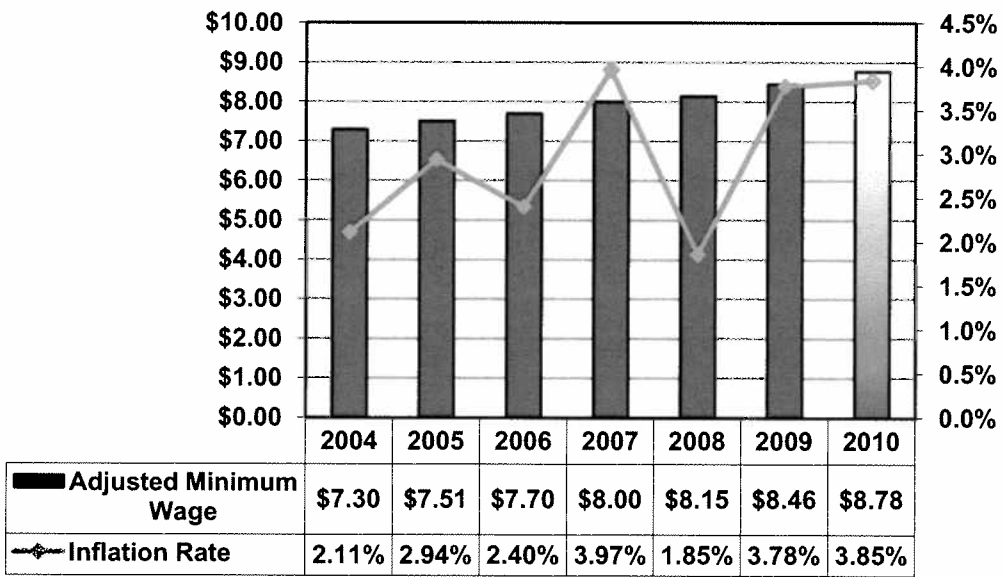
In Figure 1 we provide the inflation rate and the inflation adjusted minimum wage for each year since 2003, as well as the projected inflation rate for 2010.

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<sup>1</sup> The U.S. Department of Labor, Bureau of Labor Statistics (BLS) only calculates the consumer price index for Anchorage.

<sup>2</sup> According to Laura Achee, Director of Communications for the Alaska Permanent Fund Corporation (APFC), the methodology used by the APFC to calculate the rate of inflation can be found in AS 37.13.145(c). Ms. Achee can be contacted at 907-796-1522. We obtained the projected inflation rate from [http://www.apfc.org/\\_amiReportsArchive/2008\\_12\\_PROJ.pdf](http://www.apfc.org/_amiReportsArchive/2008_12_PROJ.pdf).

**Figure 1: The Inflation Rate and the Inflation-Adjusted Minimum Wage, 2004 through 2009, and Projected for 2010**



**Notes:** The 2003 minimum wage was \$7.15. We used this figure to base all subsequent adjustments. HB 56 required the Department of Labor and Workforce Development (DOLWD) to calculate an inflation adjusted minimum wage by October 1<sup>st</sup> of each year. This adjusted minimum wage would go into effect January 1<sup>st</sup> of the following calendar year. Because HB 199, which removed the inflation-adjustment provision, passed prior to October 1, 2003, the DOLWD did not calculate inflation-related minimum wage increases.

The Inflation rate is based on the Anchorage Consumer Price Index (CPI), which is the rate used to adjust the minimum wage. Since the annualized CPI rate for each year is not available until January of the following year, and because the minimum wage was to be adjusted by October 1<sup>st</sup> of each year, we used the CPI for the first half of one year and the second half of the previous year, divided by two to get the average, and then calculated the percentage difference from the year before. This is the rate we applied to the minimum wage in order to make the adjustment for inflation.

The figures for 2010 are projected.

**Sources:** Consumer Price Index information is from the Alaska Department of Labor and Workforce Development, <http://almis.labor.state.ak.us/?PAGEID=67&SUBID=198>. Projected rate of inflation is from the Alaska Permanent Fund Corporation, [http://www.apfc.org/\\_amiReportsArchive/2008\\_12\\_PROJ.pdf](http://www.apfc.org/_amiReportsArchive/2008_12_PROJ.pdf).

## HISTORY OF THE MINIMUM WAGE

As you know, the federal Fair Labor Standards Act (FLSA), first passed by Congress in 1938, addresses many employment issues including overtime and the minimum wage. Congress set the first federal minimum wage at \$0.25 per hour.<sup>3</sup> States could also set their own minimum wages, and in 1959 the first Alaska legislature established the Alaska minimum wage at \$1.50 per hour—at that time, the federal minimum wage was \$1.00 per hour.<sup>4</sup> As with the FLSA, Alaska law included several exemptions to coverage by the minimum wage requirement, including farmers, fishermen, domestic help, and public employees.<sup>5</sup>

In 1962, the Alaska legislature changed the statute so that the minimum wage in Alaska would be at least \$0.50 per hour greater than the federal minimum wage, which at that time was \$1.25 per hour.<sup>6</sup> In 1974, the Alaska legislature again addressed the issue of the minimum wage, and amended the statute to establish the minimum wage at “not less than 50 cents an hour greater than the prevailing Federal Minimum Wage Law or \$2.60 an hour, whichever is greater.”<sup>7</sup> In 1990, the legislature included a requirement that school bus drivers be paid a rate of not less than two times the minimum wage.<sup>8</sup> Table 1 shows the amount of the minimum wage in Alaska from 1959 to the present.

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<sup>3</sup> “Federal Minimum Wage Rates under the Fair Labor Standards Act,” Wage and Hour Division, Employment Standards Administration, U. S. Department of Labor, <http://www.dol.gov/esa/minwage/chart.htm>.

<sup>4</sup> Section 5, Chapter 171, SLA 1959.

<sup>5</sup> Section 2, Chapter 171, SLA 1959. According to the U. S. Department of Labor, “The 1938 Act was applicable generally to employees engaged in interstate commerce or in the production of goods for interstate commerce. The 1961 Amendments extended coverage primarily to employees in large retail and service enterprises as well as to local transit, construction, and gasoline service station employees. The 1966 Amendments extended coverage to State and local government employees of hospitals, nursing homes, and schools, and to laundries, dry cleaners, and large hotels, motels, restaurants, and farms. Subsequent amendments extended coverage to the remaining Federal, State, and local government employees who were not protected in 1966, to certain workers in retail and service trades previously exempted, and to certain domestic workers in private household employment.”

<sup>6</sup> Section 4, Chapter 2, SLA 1962.

<sup>7</sup> Section 1, Chapter 41, SLA 1974.

<sup>8</sup> Sections 3 & 4, Chapter 12, SLA 1990.

<b>Year</b>	<b>Alaska</b>	<b>Federal</b>
1959-1962	\$1.50	\$1.00
1963-1967	\$1.75	\$1.25
1968-1974	\$2.10	\$1.60
1975-1978	\$2.80	\$2.30
1979	\$3.40	\$2.90
1980	\$3.60	\$3.10
1981-1990	\$3.85	\$3.35
1991	\$4.30	\$3.80
1992-1996	\$4.75	\$4.25
1997	\$5.25	\$4.75
1998-2002	\$5.65	\$5.15
2003-2006	\$7.15	\$5.15
2007	\$7.15	\$5.85
2008	\$7.15	\$6.55

**Notes:** Minimum wages are per hour.  
The federal minimum wage provisions for covered, non-exempt employees are contained in the Fair Labor Standards Act (FLSA). The Fair Minimum Wage Act of 2007 included phased increases to the federal minimum wage. For work performed on or after July 24, 2009, the federal minimum wage will be \$7.25 per hour. <http://www.dol.gov/dol/topic/wages/minimumwage.htm>.

**Source:** U.S. Department of Labor.

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I hope you find this information to be useful. Please do not hesitate to contact us if you have questions or need additional information.