THE STATE of ALASKA

GOVERNOR SEAN PARNELL

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Department of Labor and Workforce Development

Office of the Commissioner

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March 14, 2013

The Honorable Kurt Olson, Chair
House Labor and Commerce Committee
State Capitol, Room 24
Juneau, AK 99801-1182

Dear Representative Olson,

Thank you for hearing House Bill 76 in the House Labor and Commerce Committee. Below and attached is additional information for your consideration regarding this bill.

One of the primary goals of this legislation is to keep unemployment insurance tax rates responsibly low while simultaneously protecting the solvency of the fund. The discretion to suspend a portion or all of a tax increase provided by HB76, conditioned on the current average high cost multiple being 0.8 or greater, allows for the use of current economic conditions to evaluate the need for potential tax increases. Alaska's Unemployment Insurance (UI) trust fund is designed to meet both Alaska's near- and long-term unemployment insurance liabilities.

HB76 further requires that the Commissioner consult with the department's actuarial staff regarding the next year's expected unemployment rate, funds needed to pay claims and unemployment revenue. The 0.8 average high cost multiple condition and required consultation with the department's actuarial staff put in place sound measures to allow tax relief when prudent while ensuring solvency of the unemployment insurance trust fund. (See the attached bar chart that depicts the maximum rate that could have been suspended last year if this legislation had been enacted.)

Questions have been raised about how best to measure or define a healthy fund balance and while there is no universally accepted standard recommended by Unemployment Insurance trust fund experts, the National Employment Law Project (NELP) recommends a "pre-recession reserve ratio of at least 2.0" for a trust fund balance as a "wise" policy goal. With a 3.0 – 3.3 trust fund balance target, Alaska's UI system is 50% higher than the level recommended by NELP.

Concerns were voiced during committee hearings about the effects of a tax rate suspension on employers and employees downstream, whether or not future rates would rise as a result of suspended tax increases. And the answer is "it depends."

If an annual rate increase is suspended and the formula calls for a tax increase in the following year that is at the maximum level allowed for any one individual year regardless of the suspension, then the suspension will not have caused an increase. Everything depends on the level of funds in any particular year. If a rate increase is suspended and the rate of contributions pushes the balance above

3.0 under the current formula, and the fund is considered solvent, then the suspension will not have caused a rate increase.

Another scenario is where employers and employees are in times when the state is emerging from economic downturns when relief is most needed. The years in which rates would increase, subsequent to rate increase suspensions, would be in times when the economy is growing and employment is strong. Overall, there would be no net increase in tax.

It is possible under some scenarios for taxes to be slightly higher in subsequent years than they would have if the increases had not been previously suspended. It is our belief, however, that even if tax relief were short-term, the near-term economic benefit outweighs minor tax increases in future years.

It should be noted that employees would never have to pay higher taxes downstream due to the tax increase suspension included in HB76 because the portion of the tax rate calculation that applies to them, called the "average benefit cost rate" in statute (AS 23.20.290(e)), is not affected by the trust fund balance. A separate part of the tax calculation, called the "fund solvency adjustment" (AS 23.20.290(f)) applies only to employers and is affected by the trust fund balance. As a result, to the extent a tax rate suspension lowered the trust fund balance, that amount would be recouped at some point by a temporarily higher solvency adjustment.

During committee hearings, concern was expressed about a "run on the fund" during economic downturns. Section 5 of the bill has safeguards, such as the restriction on suspending tax rate increases to only when the average high cost multiple is 0.8 or greater and required consultation with the department's actuarial staff, to sustain solvency if there were increased unemployment during times of economic downturn. HB76 provides unemployment insurance tax relief to employers and employees during economic downturns, thus putting more money in the Alaska economy when most needed.

One of the key duties of the Commissioner of Labor and Workforce Development is ensuring that the unemployment insurance trust fund balance remains solvent, a responsibility I take very seriously. None of the provisions of HB76, including Section 5, put this responsibility at risk.

Sincerely,

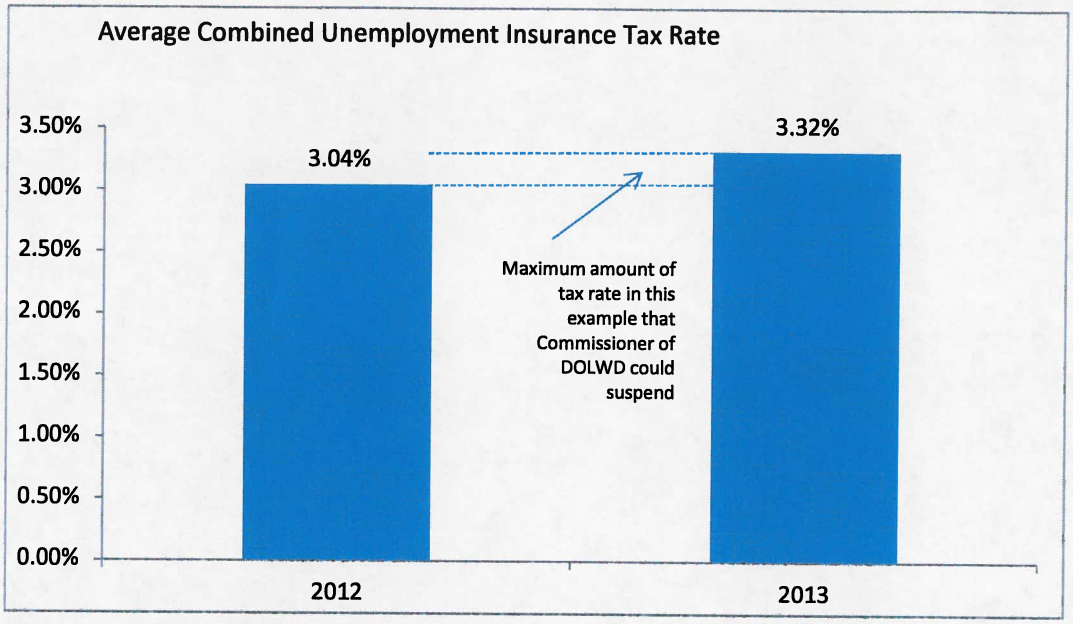
Dianne Blumer

Dianne Blumer
Commissioner

Enclosure

cc: All members of the House Labor and Commerce Committee

**Limits on Discretion to Suspend an Unemployment Insurance Tax Increase under SB25/HB76**




Note: In this example, if SB 25/HB76 had been in effect, the Commissioner could not have determined that the 2013 tax rate could be anything lower than 3.04 percent because the 2012 tax rate was 3.04 percent.

Prepared by Alaska Department of Labor and Workforce Development, March 14, 2013.