# House Bill 76 -- CSHB 76(L&C)
# Clarification to testimony on Section 6 in House Finance, April 7, 2013
# Alaska Department of Labor and Workforce Development

House Bill 76 authorizes suspension of unemployment insurance (UI) tax <u>increases</u>, in whole or part, under restrictions prescribed in section 6 – when the Average High Cost Multiple is 0.8 or greater and after consultation with the department's actuarial staff. The discretion to suspend unemployment insurance taxes included in the bill is restricted to tax increases and does not affect the base tax rate.

HB 76 provides for unemployment insurance tax relief during times when most needed, during periods of economic recovery. While any tax increases that are suspended would be deferred into subsequent periods when the economy is growing, there is a greater value in giving the tax relief during economic recovery because it provides relief to employers and employees and puts more money into the economy when most needed.

Given the pattern of normal business cycles, discretionary suspensions of tax increases under the limited circumstances set forth in HB 76 would create very little risk to the short-term or long-term solvency of the unemployment insurance trust fund.

According to U.S. Department of Labor (USDOL) information, Alaska's UI trust fund as a percentage of wages (2.26) was, the fourth highest in the nation in the fourth quarter of 2012. The national average for that quarter was 0.33. USDOL information for fourth quarters of each year between 2006 and 2011 reflects that Alaska's UI trust fund as a percentage of wages was well above the national average and proportionately similar to 2012 for each of those years. Alaska's relatively high rate reflects the health of our fund and our ability to meet future UI benefit demands.

HB 76 does not affect the amount of funds deposited into the State Training and Employment Program (STEP) and the Alaska Training and Vocational Education Program (TVEP) programs under AS 23.15.625 and AS 23.15.830, respectively. Funds for both programs are components of the employee tax that is not affected by this legislation.

The UI trust fund model is dissimilar to the Alaska Public Employees' Retirement System (PERS) model in multiple ways. The primary difference is that the UI trust fund model determines the level of funding and taxation needed on an annual basis using a three year historical period, whereas PERS funds must take into account projections of costs over a long period of time covering several decades.