HB 193 Alaska Unemployment Insurance (UI) Trust Fund Analysis
April 30, 2025

Historical and current UI Trust Fund (UITF) information:
Revenue coming into the UITF is exceeding expenditures. In FY2024, the UITF brought in $165.9 million in revenue and paid out $45.3 million in benefits.

- Tax rates for the upcoming calendar year are calculated each fall using a three-year average of the UI benefits costs compared to wages of contributory employers, and the UITF balance as of September 30th. This gives a picture of the solvency of the UITF (benefit costs as a percentage of covered wages in Alaska) and results in a solvency adjustment to employer tax rates within statutory limits.
- The statutory target reserve ratio is 3-3.3 percent of total wages of tax paying employers.
- As of September 30, 2024, the UITF balance was $724.4 million, which represented a reserve ratio of 4.44 percent of total wages. This is $186.2 million more than the statutory target reserve ratio of 3.3 percent of total wages of tax paying employers.
- See the first of the three charts following this narrative for UITF levels from January 2015 through January 2025.

The department's UI Actuarial Economist conducted different baseline and recession projection scenarios from calendar year (CY) 2025 through CY2030. The underlying assumptions for these scenarios are referenced below. The recession scenarios were put to an extreme level lasting over three years so that the full tax implications could be experienced and ensure the UITF would be able to withstand the proposed changes.

- The first three baseline scenarios do not alter the current trajectory of the UITF. Only in the fourth baseline scenario does the UITF solvency start to head back towards the target range.
    - See the second of the three charts following this narrative for the reserve ratios from CY2025 through CY2030 for each of the baseline scenarios that were run.
- Under all recession-based scenarios, there is an expected fall in the UITF balance and resulting reserve ratio. However, even after incorporating all elements, the UI financing system remains solvent.
    - See the third of the three charts following this narrative for the reserve ratios from CY2025 through CY2030 for each of the recession scenarios that were run.

Baseline scenarios assumptions and key takeaways:

- All baseline scenarios:
    - Employment and wages continue to grow based on current trends at roughly an additional couple hundred million in wages per year.
        - This means starting at current taxable wage levels of around $10 billion and growing by a couple hundred million dollars each year.
    - Claims levels remain at the historic lows that have been experienced in recent years.
- Scenario #1 – no UI system changes:
    - No changes to the UI system (tax rates, benefit costs…)
    - Benefit costs hover around $71 million per year for the first few years, then grow to $83 million in CY2030.
- Scenario #2 – benefit increase alone:
    - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
    - Benefit costs start at $86 million in the first year and grow to $120 million in CY2030.

- Scenario #3 – benefit increase and paid family leave diversion:
  - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
  - Diversion of employee contribution, 0.15 percent, to paid family leave account.
  - Benefit costs remain the same as scenario #2.
  - Revenue to the UITF decreases around $15 million.
- Scenario #4 – benefit increase, employee paid family leave diversion, and employer diversion and rate reduction:
  - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
  - Diversion of employee contribution, 0.15 percent, to paid family leave account.
  - Employer tax rate changed from a one percent minimum, to a diversion of 0.25 percent to paid family leave and a further reduction of 0.25 percent for an effective rate to the UITF of 0.5 percent.
  - Benefit costs remain the same as scenario #2.
  - Revenue to the UITF decreases around $65 million.
    - $15 million for the employee paid family leave diversion.
    - $25 million for the employer paid family leave diversion.
    - $25 million for the employer tax rate decrease.

Recession scenarios assumptions and key takeaways:

- All recession scenarios:
  - Modeled after a combination of the 2008 recession and the pandemic in magnitude of impact to claims and employment and wages.
  - Exaggerated the actual experience by quadrupling the benefit costs experience from the baseline projection and extending that experience for three years, as tax rates are built on a three-year average of benefit costs.
  - The division wanted to stress the system and verify that it could accommodate the proposed changes in an extreme instance.
- Scenario #5 – no UI system changes:
  - No changes to the UI system (tax rates, benefit costs…)
  - Benefit costs start at $300 million in CY2026 and end at $250 million in CY2030.
  - Employer tax rates stay at the statutory minimum until CY2029 when they increase to 1.44 percent and in CY2030 they increase to 1.48 percent.
    - Rates would continue to be above the statutory minimum until the UITF reserve ratio again exceeded the statutory target reserve ratio of three percent
- Scenario #6 – benefit increase alone:
  - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
  - Benefit costs start at $436 million in CY2026 and end at $363 million in CY2030.
  - Employer tax rates stay at the current statutory minimum until CY2028 when rates increase to 1.78 percent, then 2.79 percent in CY2029, and 3.04 percent in CY2030.
    - Rates would continue to be above the statutory minimum until the UITF reserve ratio again exceeded the statutory target reserve ratio of three percent

- Scenario #7 – benefit increase and paid family leave diversion:
    - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
    - Diversion of employee contribution, 0.15 percent, to paid family leave account.
    - Benefit costs remain the same as scenario #2 but revenue to the UITF decreases around $15 million.
    - Employer tax rates stay at the statutory minimum until CY2028 when rates increase to 1.78 percent, then 2.80 percent in CY2029, and 3.30 percent in CY2030.
        - Rates would continue to be above the statutory minimum until the UITF reserve ratio again exceeded the statutory target reserve ratio of three percent
- Scenario #8 – benefit increase, employee paid family leave diversion, and employer diversion and rate reduction:
    - Increases the maximum weekly benefit amount from $370 to $675 by raising the qualifying base period wages from $42,000 to $72,000.
    - Diversion of employee contribution, 0.15 percent, to paid family leave account.
    - Employer tax rate changed from a one percent minimum, to a diversion of 0.25 percent to paid family leave and a further reduction of 0.25 percent for an effective rate to the UITF of 0.5 percent.
    - Benefit costs remain the same as scenario
    - Revenue to the UITF decreases between $40 million to $65 million each year.
        - $15 million for the employee paid family leave diversion.
        - $25 million for the employer paid family leave diversion.
        - $25 million for the employer tax rate decrease (CY2026 and CY2027).
    - Employer tax rates decrease to the new statutory minimum in CY2026 and CY2027 resulting in an effective contribution of 0.5 percent to the UITF, then increase to 1.78 percent in CY2028, 2.81 percent in CY2029, and 3.32 percent in CY2030.
        - Rates would continue to be above the statutory minimum until the UITF reserve ratio again exceeded the statutory target reserve ratio of three percent

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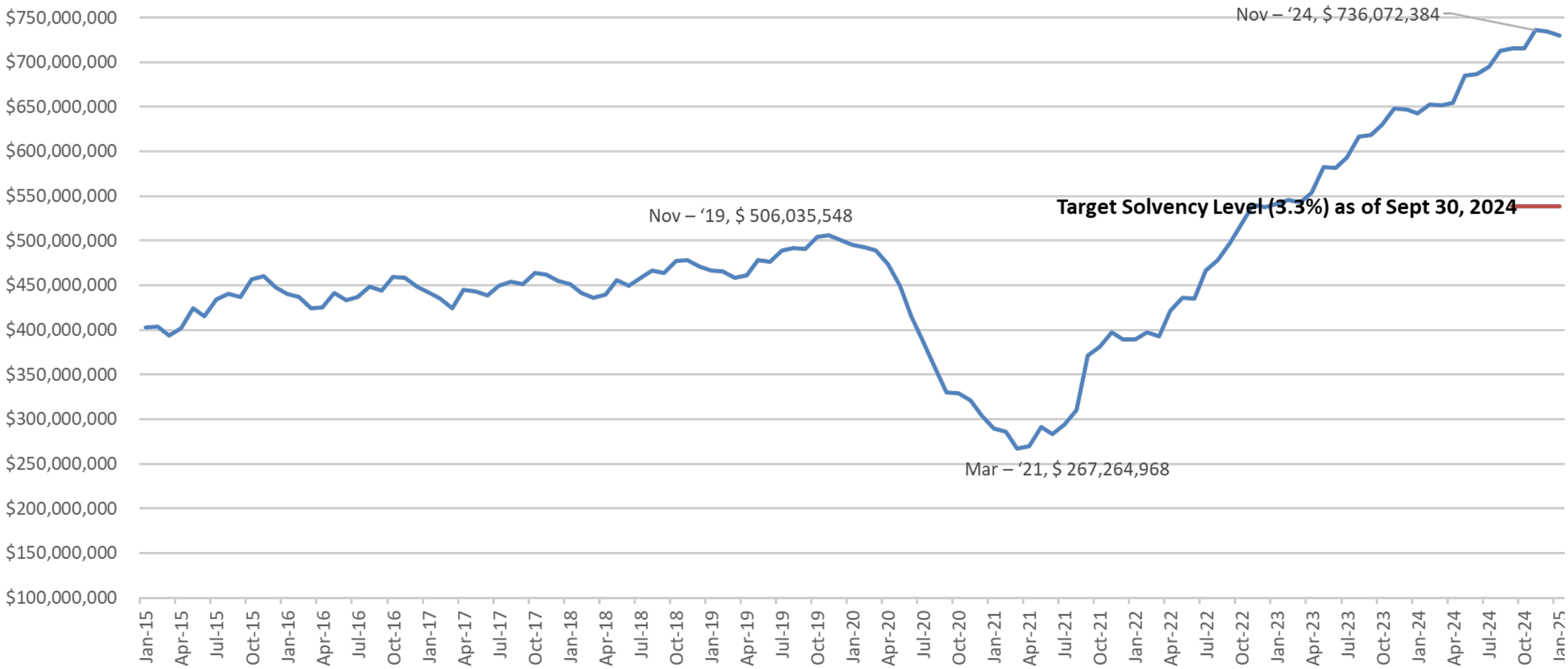
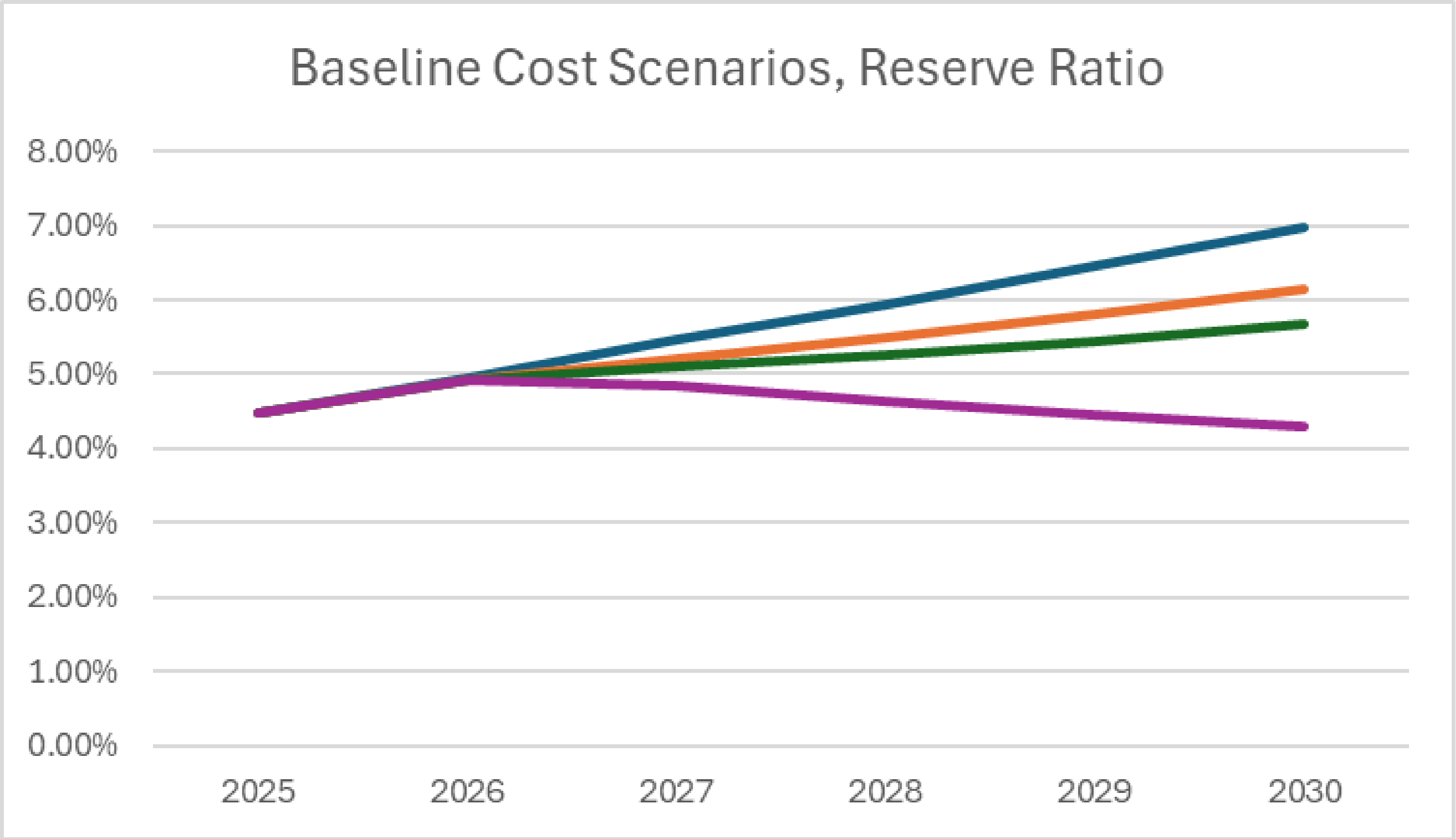
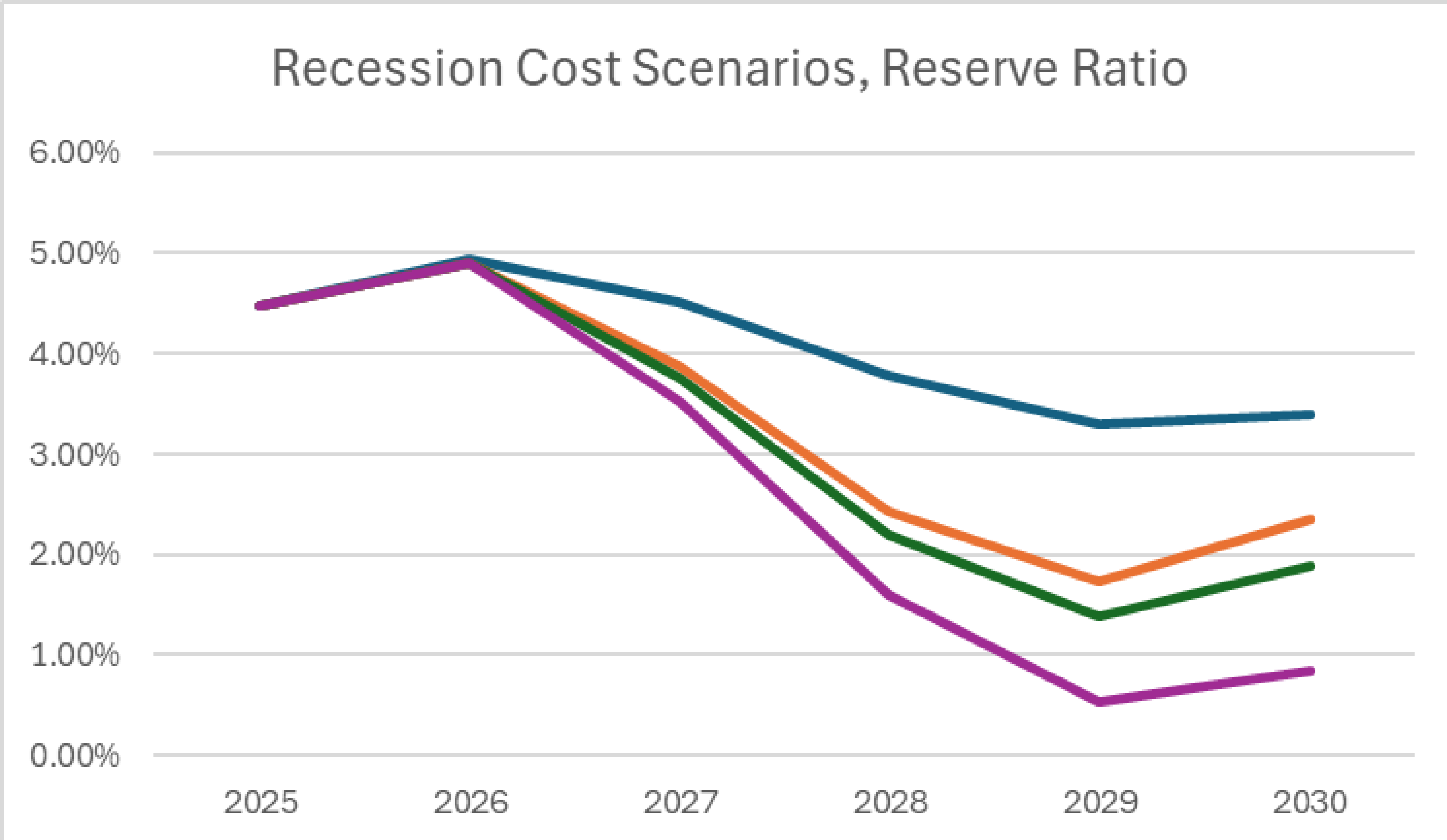



Baseline Cost Scenarios, Reserve Ratio
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2025
2026
2027
2028
2029
2030


Recession Cost Scenarios, Reserve Ratio
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
2025
2026
2027
2028
2029
2030