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525

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 525
Title: "An Act relating to
Unemployment Insurance"
Sponsor: Senate Labor/Commerce
Requestor: Senate Labor/Commerce
Date of Request: March 7, 1984

FISCAL DETAIL

Agency Affected: All
Program Category Affected: All
BRU, Program or Subprogram(s) Affected:
All

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES		186.4	510.6	571.6	576.0	580.1
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING		186.4	510.6	571.6	576.0	580.1
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		139.8	382.9	428.7	432.0	435.1
FEDERAL FUNDS		13.1	35.8	40.0	40.3	40.6
OTHER		33.5	91.9	102.9	103.7	104.4
TOTAL		186.4	510.6	571.6	576.0	580.1

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Personal Service benefits would increase for all agencies based on the projected increase in unemployment insurance paid to ex-state employees and seasonal employees.

ANALYSIS: Attach a separate page for analysis

Prepared By: ^{MS} John W. Shay, Jr. Phone: 465-2712
Division: Employment Security Division Date: 3/2/84
Approved by Commissioner: ^{MS} Jim Robinson Date: 3/12/84
Agency: Labor

LEG:A:4

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget
- Impacted Agency(ies)

12/1/83

fiscal note

FISCAL NOTE

THE LEGISLATURE OF THE STATE OF ALASKA
THIRTEENTH LEGISLATURE
BILL/RESOLUTION NO: SB 525
TITLE: "An Act relating to Unemployment Insurance."
AGENCY AFFECTED: Department of Labor
Page 2

The following assumptions were made in preparing the forecasted costs:

1. State employment will continue to increase through FY 1986. Thereafter, state employment will level off with consolidation of administrative jobs and belt tightening being offset by jobs based on increased population.
2. There is no wage increase for calendar year 1984. The wages through FY 1986 reflect the recent agreement with APEA. A 5 percent yearly increase continues throughout the remainder of the forecast period.
3. As provided in this bill, the maximum weekly benefit amount paid for unemployment insurance claims will increase from \$156 to \$198, effective January 1, 1985.

As a result, the State of Alaska would be required to pay more in its personal service benefit costs for unemployment insurance. The total amount of the increased costs (which would affect all Departments in the State) is projected from past experience and a computerized modeling technique. The estimated increase in the average payment using this method is 14%. This increase would not occur immediately in FY '85, because claimants are paid for an entire year at the rates in effect when they first claim benefits. The total effect of the increase would not be felt until FY '87.

LEG:A:4

STATE OF ALASKA 1984 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 525
 Title: "An Act relating to
 Unemployment Insurance"
 Sponsor: Senate Labor/Commerce
 Requestor: Senate Labor/Commerce
 Date of Request: March 7, 1984

FISCAL DETAIL

Agency Affected: Labor
 Program Category Affected: Social Services
 BRU, Program or Subprogram(s) Affected:
Employment Security, Unemployment
 Insurance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL		5.0				
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS						
800 MISCELLANEOUS						
TOTAL OPERATING	0	5.0	0	0	0	0
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS		5.0				
OTHER						
TOTAL	0	5.0	0	0	0	0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

Federal funds will be requested to fund reprogramming of automated programs.
 [125 hours x \$40 per hour.]

ANALYSIS: Attach a separate page for analysis

Prepared By: ¹⁴² John W. Shay, Jr. Phone: 465-2712
 Division: Employment Security Division Date: 3/12/84
 Approved by Commissioner: ¹⁰³ Jim Robinson Date: 3/12/84
 Agency: Labor

LEG:A:5
 Distribution (by Agency preparing fiscal note):
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

12/1/83

fiscal note

Bill No. Senate Bill 525

Date March 12, 1984

Title "An act relating to Unemployment Insurance; and providing for an effective date."

Contact: Eileen Plate
465-2700

Jack Shay
465-2712

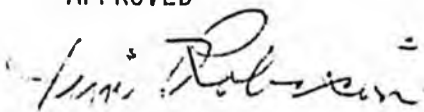
Senate Bill 525 incorporates a number of housekeeping and conformity provisions and makes several technical changes to Alaska's unemployment insurance law. It also increases the maximum weekly unemployment insurance benefit amount.

Passage of SB 525 will assure that Federal Unemployment Tax Act (FUTA) credits presently available to Alaska employers are not jeopardized; and will assure that federal grants to the Alaska Department of Labor for administration of the unemployment insurance program are not withheld. Sections 8 and 11 of SB 525 are conformity items and must pass for Alaska to remain in conformity with Federal Law. Sections 2 and 3 amend employer unemployment insurance tax rates in line with recent Federal legislation. Without this legislation, FUTA taxes paid by Alaskan employers will increase approximately \$2 million annually.

The increase in the maximum weekly unemployment insurance benefit amount will provide approximately two-thirds of the UI claimants with a 50 percent replacement of their average weekly wages. The benefit schedule was amended in 1980 to provide a 50 percent wage replacement to two-thirds of the claimants. Wage inflation since 1980 has eroded this level of wage replacement to the extent that today only about 50 percent of the claimants received the 50 percent wage replacement.

The Department of Labor supports passage of SB 525. A fiscal note is attached.

APPROVED



Jim Robison
Commissioner

POSITION PAPER/Department of Labor

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

December 5, 1983

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: *for* *Norman C. Gorsuch*
Norman C. Gorsuch
Attorney General

RE: Attached bill on employment insurance
Our file: 377-043-84

Attached is a bill containing changes to the unemployment insurance statutes in AS 23.20. The changes were developed by the Department of Labor and for the most part are in response to changes and requirements of the federal statutes under which the department operates the unemployment insurance program Alaska.

The bill contains other "housekeeping" measures, including the provision for effective dates for certain sections, again in order to conform to effective dates for federal requirements in the unemployment insurance program.

A draft transmittal letter to the legislature, explaining the bill in more detail, is also attached.

NCG:GIA:bap

cc w/enc.: Honorable James Robison
Commissioner
Department of Labor

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to unemployment insurance. In large part this bill is a response to changes in federal requirements for the operation of Alaska's Unemployment Insurance Program.

Section 1 of the bill involves the training and building fund created under AS 23.20.130. State law presently requires that any unobligated money in excess of \$100,000 in the fund must be transferred to the Unemployment Trust Fund on the last day of the fiscal year. Often the legislature does obligate that excess money, but just as often, the bill accomplishing that action is not signed into law until after the end of the fiscal year. Therefore, by the time a bill is signed obligating the money, it has technically already passed into the Unemployment Trust Fund. By providing a 30-day "grace period" following the last day of each fiscal year, this problem should not arise.

Sections 2 and 3 of this bill are in response to certain 1982 amendments to the Federal Unemployment Tax Act (FUTA), effective January 1, 1985. Under the amended version of the FUTA, employers in the State of Alaska will not receive a full credit for the contributions made to the state unemployment fund unless state law includes a maximum tax rate of at least 5.4 percent, a tax rate which

must actually be assessed against at least one employer in the state. Sections 2 and 3 will create that standard rate and identify a class of employers which are assessed that rate, thus insuring that all employers in the State of Alaska can receive the full credit for their contributions to the state unemployment trust fund.

Section 4 of the bill will amend AS 23.20.350(d) by increasing the maximum unemployment insurance benefit amount to \$198 per week, not including an allowance for dependents. This increase will provide approximately two-thirds of unemployment insurance claimants with a replacement of at least 50 percent of their average weekly wages. These increases were developed in order to fight the impact of inflation and to more closely parallel suggested federal benefit adequacy guidelines for wage replacement.

Sections 5 and 6 of the bill rewrite AS 23.20.350(f), which provides for an allowance for dependents in addition to a weekly unemployment benefit amount. The amount of the allowance for dependents remains unchanged. The amendments contained in sec. 5 will permit the Department of Labor to administer the program in a manner more likely to accomplish its purpose, i.e., to provide additional wage replacement income to claimants with dependents. The present law artificially and perhaps unreasonably

restricts certain claimants from obtaining the benefits of the allowance for dependents.

The amendment will permit an allowance for dependents to be paid to a claimant having physical custody of a child or to a claimant who provides over 50 percent of support for the child. If two claimants qualify to claim the allowance, it will be paid to the claimant who provides over 50 percent of support. In addition, unlike under present law, a claimant need not claim the allowance for dependents when he or she first files a claim for unemployment benefits. The bill does continue to prohibit the allowance for dependents from being claimed by more than one individual.

Wendy Dimond v. Department of Labor, State of Alaska, 1JU-83-341 Civil, is an appeal of an administrative decision of the Employment Security Division's Appeal Tribunal. The litigation involves an interpretation of AS 23.20.350(f). Sections 5 and 6 of the bill would correct some of the more serious legal questions about the statute.

Section 7 of the bill will amend AS 23.20.362(c) by permitting severance and termination pay to be deductible from unemployment insurance benefits in the same way that other wage replacement payments are presently deducted.

Sections 8, 9, and 11 of the bill are responses to changes in federal law which directly effect the administration of our unemployment insurance program. Section 8 extends the disqualifications under AS 23.20.381(e) to all employees of educational institutions, employees of "educational service agencies" serving educational institutions, and to those same employees for any established vacation period or holiday recess. Section 9 modifies the disqualification for failing to actively seek work by exempting a claimant who is hospitalized or serving on jury duty. Section 11 brings the state into conformity with federal law by repealing AS 23.20.526(a)(22)(D), which the U.S. Department of Labor interprets as a waiver of benefit rights. A waiver of benefit rights is prohibited by sec. 303(a)(1) of the Social Security Act and AS 23.20.395.

Section 10 of the bill closes a "loophole" in the current unemployment insurance law by prohibiting individuals on "R and R" from collecting unemployment insurance benefits.

The Department of Labor supports this bill. I urge your prompt action on it.

Sincerely,

Bill Sheffield
Governor

LLR 1-5A

BILL ANALYSIS

Section 1. This is a "housekeeping" amendment which would make a technical change to the training and building fund provision so that unobligated money in the training and building fund could be held an additional 30 days past the end of the fiscal year. The law currently requires that any unobligated money over \$100,000 in the training and building fund must lapse to the unemployment trust fund on the last day of the fiscal year. This money is obligated in appropriations bills prior to the end of the fiscal year, but the bills are often not signed until after the end of the fiscal year. The money is therefore not technically obligated until after the money has already lapsed back to the unemployment trust fund. The proposed amendment solves this "accounting" problem by holding the money in the training and building fund until the appropriation is signed.

Sections 2 and 3. The Tax Equity and Fiscal Responsibility Act of 1982 (Public Law 97-248) amended the Federal Unemployment Tax Act (FUTA) to increase the gross FUTA tax on employers from 3.5 percent to 6.2 percent. It also increased the additional credit against the FUTA tax for contributions to a state unemployment fund from 2.7 percent to 5.4 percent. These amendments are effective January 1, 1985. Because of the language of the FUTA, all employers in the state cannot be guaranteed the full FUTA credit of 5.4 percent unless the state law includes a maximum (standard) state tax rate of at least 5.4 percent.

Section 2 of the bill amends AS 23.20.170 to enact a standard rate of 5.4 percent. Rates below 5.4 percent would continue to be granted under AS 23.20.290.

Section 3 of the bill amends AS 23.20.290 by adding a 21st rate class comprised of employers with the highest quarterly decline quotients whose cumulative payroll is .01 percent of the total payroll in the state. This small minority of employers would receive a rate not less than 5.4 percent. The FUTA requires that the 5.4 percent rate be actually assessed at least one employer in the state, in order for all employers in the state to be guaranteed the maximum additional FUTA credit of 5.4 percent. This amendment meets the requirements of the FUTA with the least distortion to the present rate structure.

Section 4. This section amends the benefit schedule in AS 23.20.350(d) to provide a maximum UI weekly benefit amount of \$198, not counting dependents allowance. This increase will provide approximately two-thirds of claimants with replacement of 50 percent of their average weekly wages. Federal benefit adequacy guidelines suggest that a state's benefit schedule should provide 50 percent wage replacement for at least 80 percent of claimants. However, Alaska's liberal eligibility provisions make application of the federal guidelines too costly. The benefit schedule was amended in 1980 to provide a maximum weekly benefit of \$150. This schedule did replace 50 percent of wages for approximately two-thirds of claimants, but wage inflation since 1980 has steadily eroded this level of wage replacement. Although a small increase of \$6 was approved in 1982, only about 56 percent of claimants receive 50 percent wage replacement under the current schedule. The proposed schedule would increase costs to the trust fund by about 14 percent.

Sections 5 and 6. These two sections would change the requirements for the receipt of dependents allowance. The amendments do not change the amount of the allowance.

Under the current statute, an individual claiming dependents allowance must certify (and be able to prove) that he or she is providing more than 50 percent of the dependents' support. The dependents must be claimed when the claimant first files for benefits, and the number of dependents cannot be changed during the benefit year unless the claimant acquires an additional dependent by birth or adoption. These two features of the present law -- the "primary support" requirement and the requirement that dependents must be claimed at the beginning of the benefit year -- are not necessary for the administration of the dependents provision, and they may frustrate its purpose.

In households where both parents work, the children are jointly supported. However, under the "primary support" requirement only one parent may claim dependents in the household, even though the other parent may be providing a larger percentage of his or her wages for support of the children. The proposed changes would pay dependents allowance to either parent having physical custody of the child. The same dependent could not be claimed by both parents, but a parent could claim any dependents in the household which are not being claimed by the other parent. The "primary support" requirement has been retained as an alternative, so that a non-custodial parent may qualify for the dependents allowance. In other words, "dependent" has been redefined to mean one who is either in the physical custody of the claimant or dependent on the claimant for more than 50 percent of support. However, to claim a dependent over 18 years of age the claimant would still be required to show primary support, the same as in the current law.

The proposed changes would also allow a claimant to add dependents (up to a limit of three) for any reason while drawing regular benefits during his benefit year. For example, a claimant whose wife is claiming their two children would not be able to claim the children when he first files his claim. However, he would be able to claim the children after his wife's benefit year ends, for the remainder of his own benefit year. Under the current law, this claimant would be unable to claim the dependents for his entire benefit year, even if he filed only one week before the end of his wife's benefit year.

Section 7. This section amends AS 23.20.362(c) by adding severance and termination payments to the list of income which is deducted from UI benefits. Under the provision as it now stands, wages in lieu of dismissal notice, and payments for accrued vacation, sick leave, and holidays are deducted dollar for dollar from UI benefits payable. These payments are treated differently from regular wage payments, which are deducted under AS 23.20.360 at the rate of \$.75 for every \$1 earned for the week in excess of \$50. The vacation, sick, and holiday pay, and wages in lieu of notice, unlike regular wage payments, do not show any new attachment to the labor market, but are paid on the basis of past employment. The more strict dollar-for-dollar deduction for these payments is justifiable on the basis that unemployment insurance should not be paid for a week if the claimant is already receiving a "wage replacement" for that week based on his previous work, such as these payments are. However, because of the language of the provision, "severance" and "termination" pay are not deductible, even though the rationale for deducting them is the same as for the other "wage replacement" payments.

6 6
Section 8. AS 23.20.381(e) currently disqualifies an individual working in an instructional, research, or principal administrative capacity in an educational institution, during the period between two academic years or terms, or during a period of paid sabbatical leave. This provision is required in all state laws for conformity with Sec. 3304 (a)(6)(A) of the Federal Unemployment Tax Act (FUTA).

The FUTA has now been amended by Public Law 98-21 to extend the disqualification to:

1. All employees of educational institutions.
2. Employees of "educational service agencies" serving in educational institutions.
3. Any established vacation period or holiday recess.

These changes are required in all state laws to avoid denial of certification for the FUTA tax offset credit and administrative grants.

Section 9. Section 202 of the Federal-State Extended Unemployment Compensation Act previously required the indefinite disqualification of an extended benefit claimant who did not actively engage in seeking work, regardless of the reason the claimant did not seek work. This requirement has been relaxed by P.L. 98-21. A State is now permitted to apply regular state able and available provisions if the extended benefit claimant failed to seek work because he was hospitalized or on jury duty. This is entirely optional, but we recommend enactment of conforming legislation to take advantage of the relaxation of federal requirements.

Section 10. This amendment to AS 23.20.505 addresses circumstances under which workers on "R and R" might qualify as "unemployed" and thus be potentially eligible for benefits under the Act. Under current Sec. 505 a person is "unemployed" for a week in which he performs no service and receives no wages. This allows potential abuse by individuals who are fully employed but receive "R and R" for a week (or more) as part of their regular work schedule. For example, an individual may work 60 hours per week for two weeks and then receive a week off. This "two weeks on, one week off" schedule may continue indefinitely. This individual is technically unemployed under Sec. 505 during his week off. But we do not believe it is correct to pay benefits when the employment relationship has not been severed and the individual is actually fully employed, i.e., working an average of at least 40 hours per week or receiving "excess" earnings (prorated over the period of work and leave).

Section 11. AS 23.20.526(a) was amended in 1982 by adding paragraph (22) to exclude from UI coverage certain corporate officers who control at least 25 percent of corporate stock. Subparagraph (D) of paragraph (22) specifies that the corporate officer must agree to noncoverage. The U.S. Department of Labor now believes that subparagraph (D) constitutes a waiver of benefit rights. This raises an issue of conformity with Sec. 303(a)(1) of the Social Security Act, which is interpreted as forbidding any waiver, assignment, pledge, or encumbrance of a right to unemployment compensation. (Such a waiver would also be contrary to AS 23.20.395.)

This conformity issue could result in the withholding of administrative grants to Alaska. The proposed repeal of subparagraph (D) would remove the "waiver", resulting in an outright exclusion of coverage for these corporate officers and resolving the conformity problem.

Bill No. Senate Bill 525

Date March 12, 1984

Title "An act relating to Unemployment Insurance; and providing for an effective date."

Contact: Eileen Plate
465-2700

Jack Shay
465-2712

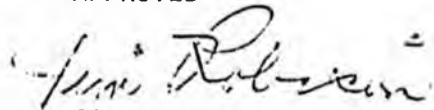
Senate Bill 525 incorporates a number of housekeeping and conformity provisions and makes several technical changes to Alaska's unemployment insurance law. It also increases the maximum weekly unemployment insurance benefit amount.

Passage of SB 525 will assure that Federal Unemployment Tax Act (FUTA) credits presently available to Alaska employers are not jeopardized; and will assure that federal grants to the Alaska Department of Labor for administration of the unemployment insurance program are not withheld. Sections 8 and 11 of SB 525 are conformity items and must pass for Alaska to remain in conformity with Federal Law. Sections 2 and 3 amend employer unemployment insurance tax rates in line with recent Federal legislation. Without this legislation, FUTA taxes paid by Alaskan employers will increase approximately \$2 million annually.

The increase in the maximum weekly unemployment insurance benefit amount will provide approximately two-thirds of the UI claimants with a 50 percent replacement of their average weekly wages. The benefit schedule was amended in 1980 to provide a 50 percent wage replacement to two-thirds of the claimants. Wage inflation since 1980 has eroded this level of wage replacement to the extent that today only about 50 percent of the claimants received the 50 percent wage replacement.

The Department of Labor supports passage of SB 525. A fiscal note is attached.

APPROVED



Jim Robison
Commissioner

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LABOR

OFFICE OF THE COMMISSIONER

P.O. BOX 1149
JUNEAU, ALASKA 99802
PHONE:

465-2700

March 20, 1984

The Honorable Richard Eliason
Chairman, Senate Labor and
Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

This is in response to the question you asked during your meeting with Jack Shay, Director of the Employment Security Division, on March 16. My staff has compared the benefit increase proposed in SB 525 to the 1980 law change. However, because of the many other changes implemented in 1980, and changes in the extended benefit program since then, it is difficult to isolate the issues and provide comparable figures. As a result of the changes, several assumptions had to be incorporated into the model used to derive the cost estimates. Some estimates are outlined below.

	<u>1979</u> <u>benefit schedule</u>	<u>1983</u> <u>benefit schedule</u>	<u>Percent</u> <u>Change</u>
Employer Contributions	\$64.2 million	\$73.5 million	14.5%
Employee Contributions	\$14.0 million	\$16.1 million	15.0%
Benefits Paid Out of Trust Fund	\$71.5 million	\$85.4 million	19.4%
Average Weekly Benefit Amount	\$87.58	\$134.40	53.5%

The original cost projection provided in 1980 estimated that the average weekly benefit amount would increase 51%, and that the variable duration concept would partially offset this for a net increase of 27%. Since

Honorable Richard Eliason

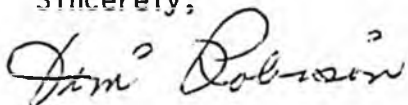
- 2 -

March 20, 1984

1980, changes affecting the extended benefit program plus a different economic picture have resulted in an actual increase of 19.4%. With the benefit increase proposed in SB 525 the increased cost is projected at 14%.

If you have any questions please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Jim Robison".

Jim Robison
Commissioner

STATE OF ALASKA

DEPARTMENT OF LABOR

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

P.O. BOX 1149
JUNEAU, ALASKA 99802
PHONE: (907) 465-2700

March 14, 1984

The Honorable Richard Eliason
Chairman, Senate Labor and
Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

This is in reply to the questions asked by the Senate Labor and Commerce Committee on March 13 concerning SB 525, the unemployment insurance bill.

Question: What will be the total cost to employers and employees if we raise maximum benefits from \$156 to \$198 per week?

As indicated during the hearing, the employer rates are projected to decline after 1984 (even with an increase in benefits); however, the rates will not go down as fast when benefits are raised. The tax base is also expected to increase somewhat. The projected tax base figures were compiled by the Research and Analysis section of the Department and reflect an approximate increase of 2½ percent annually. The net result is projected as:

Year	Tax Base	Maximum Employer Tax Rate		Employee Tax Rate		Total Cost of Increase To Employers to Employees	
		w/o/incr.	w/incr.	w/o/incr.	w/incr.		
1985	\$22,600	4.08%	4.08%	.6%	.6%	\$ 0	\$ 0
1986	23,000	3.84	4.02	.5	.6	3.7 million	.8 million
1987	23,600	3.70	4.03	.5	.6	7.1 million	1.5 million
1988	24,500	3.42	3.90	.5	.5	10.3 million	2.3 million

Question: What sections of the bill are conformity items with the Federal Government?

Sections 8 and 11 are conformity items. Sections 2 and 3, while not strictly conformity items, are necessary to have our law relate to the federal FUTA law and save employers in this state between \$1.5 and \$2.0 million annually in increased FUTA taxes.

The Honorable Richard Elison

-2-

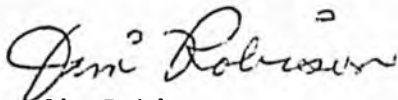
March 14, 1984

Question: Do you have information on firms affected by Sections 2 and 3 of the bill?

Yes, the enclosed listing identifies the industry make-up of the 163 firms potentially eligible for the 21st rate class. If this law change had been in effect currently, it would have affected 163 employers in 1983 for a total increase of \$2,800, or an average of \$17 per employer. In 1984, it would not have affected any employers in the state.

I hope this answers the questions posed by your committee. We will respond to the query from Senator Pettyjohn concerning tax base period calculations in a separate memorandum. If you need additional information, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Jim Robison".

Jim Robison
Commissioner

Enclosures

FIRMS POTENTIALLY ELIGIBLE FOR A "21ST RATE CLASS"

<u>Major Industry Division</u>	<u>Number of Employers</u>
Agric. Forestry Fisheries	7 ✓
Mining	4
Construction	51
Food Processing	4
Wood Products	1
Transp-Commun-Public Util.	9
Wholesale Trade	10
Retail Trade	15
Finance Insur-Real Estate	10
Services	49
Government	1
Unspecified	2
	<u>163</u>

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

December 5, 1983

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: *for* Norman C. Gorsuch
Norman C. Gorsuch
Attorney General

RE: Attached bill on employment insurance
Our file: 377-043-84

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A draft transmittal letter to the legislature, explaining the bill in more detail, is also attached.

NCG:GIA:bap

cc w/enc.: Honorable James Robison
Commissioner
Department of Labor

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to unemployment insurance. In large part this bill is a response to changes in federal requirements for the operation of Alaska's Unemployment Insurance Program.

Section 1 of the bill involves the training and building fund created under AS 23.20.130. State law presently requires that any unobligated money in excess of \$100,000 in the fund must be transferred to the Unemployment Trust Fund on the last day of the fiscal year. Often the legislature does obligate that excess money, but just as often, the bill accomplishing that action is not signed into law until after the end of the fiscal year. Therefore, by the time a bill is signed obligating the money, it has technically already passed into the Unemployment Trust Fund. By providing a 30-day "grace period" following the last day of each fiscal year, this problem should not arise.

Sections 2 and 3 of this bill are in response to certain 1982 amendments to the Federal Unemployment Tax Act (FUTA), effective January 1, 1985. Under the amended version of the FUTA, employers in the State of Alaska will not receive a full credit for the contributions made to the state unemployment fund unless state law includes a maximum tax rate of at least 5.4 percent, a tax rate which

must actually be assessed against at least one employer in the state. Sections 2 and 3 will create that standard rate and identify a class of employers which are assessed that rate, thus insuring that all employers in the State of Alaska can receive the full credit for their contributions to the state unemployment trust fund.

Section 4 of the bill will amend AS 23.20.350(d) by increasing the maximum unemployment insurance benefit amount to \$198 per week, not including an allowance for dependents. This increase will provide approximately two-thirds of unemployment insurance claimants with a replacement of at least 50 percent of their average weekly wages. These increases were developed in order to fight the impact of inflation and to more closely parallel suggested federal benefit adequacy guidelines for wage replacement.

Sections 5 and 6 of the bill rewrite AS 23.20.350(f), which provides for an allowance for dependents in addition to a weekly unemployment benefit amount. The amount of the allowance for dependents remains unchanged. The amendments contained in sec. 5 will permit the Department of Labor to administer the program in a manner more likely to accomplish its purpose, i.e., to provide additional wage replacement income to claimants with dependents. The present law artificially and perhaps unreasonably

restricts certain claimants from obtaining the benefits of the allowance for dependents.

The amendment will permit an allowance for dependents to be paid to a claimant having physical custody of a child or to a claimant who provides over 50 percent of support for the child. If two claimants qualify to claim the allowance, it will be paid to the claimant who provides over 50 percent of support. In addition, unlike under present law, a claimant need not claim the allowance for dependents when he or she first files a claim for unemployment benefits. The bill does continue to prohibit the allowance for dependents from being claimed by more than one individual.

Wendy Dimond v. Department of Labor, State of Alaska, 1JU-83-341 Civil, is an appeal of an administrative decision of the Employment Security Division's Appeal Tribunal. The litigation involves an interpretation of AS 23.20.350(f). Sections 5 and 6 of the bill would correct some of the more serious legal questions about the statute.

Section 7 of the bill will amend AS 23.20.362(c) by permitting severance and termination pay to be deductible from unemployment insurance benefits in the same way that other wage replacement payments are presently deducted.

Sections 8, 9, and 11 of the bill are responses to changes in federal law which directly effect the administration of our unemployment insurance program. Section 8 extends the disqualifications under AS 23.20.381(e) to all employees of educational institutions, employees of "educational service agencies" serving educational institutions, and to those same employees for any established vacation period or holiday recess. Section 9 modifies the disqualification for failing to actively seek work by exempting a claimant who is hospitalized or serving on jury duty. Section 11 brings the state into conformity with federal law by repealing AS 23.20.526(a)(22)(D), which the U.S. Department of Labor interprets as a waiver of benefit rights. A waiver of benefit rights is prohibited by sec. 303(a)(1) of the Social Security Act and AS 23.20.395.

Section 10 of the bill closes a "loophole" in the current unemployment insurance law by prohibiting individuals on "R and R" from collecting unemployment insurance benefits.

The Department of Labor supports this bill. I urge your prompt action on it.

Sincerely,

Bill Sheffield
Governor

EMPLOYMENT SECURITY ADVISORY COUNCIL
AUGUST 29-30, 1983
JUNEAU, ALASKA

Council Members Present: Dennis Osterdock, Chairman
Jack Simpson
Ed Janzen
Edwin Johnson

Council Members Absent: Irving Igtanloc

Agency Representatives: A. G. Zillig, Director
Leland T. Dalby, Deputy Director
Harry Sturrock, Assistant Director, UI
Edward Musslewhite, Assistant Director, ES
Lottie Fleeks, Northern Regional Manager
Darwin Walter, Central Regional Manager
Dan Travis, Southeast Regional Manager
Jim Robison, Commissioner

Minutes Taken By: Karen Reyes, Secretary I
Director's Office, ESD

Dennis Osterdock called the meeting to order at 1:30 p.m., August 29, 1983. A. G. Zillig introduced the Commissioner of Labor, Jim Robison, to present the "Opening Remarks".

Mr. Robison announced that A. G. (Art) Zillig is retiring September 15, 1983. He added that Robert Landau has been selected for the position of Assistant Commissioner.

Mr. Zillig then presented the "Division Status Report".

Mr. Zillig stated that this will be the last time he will be meeting with the Council. He extended his appreciation to the Council for the time, effort, and support they have provided to the Department.

Mr. Zillig gave a brief review of what will be discussed through the course of the meeting and a brief run down of what has been happening since the previous Council meeting.

1. The computer systems have been upgraded.
 - a. Benefit and Tax system incorporating the latest series of law changes are both operating well.
 - b. The ES system will be on-line October 1, 1983.

Federal funding for the Central Processing Unit (CPU) upgrade in DP is not anticipated. Alternative funding sources are being explored.

2. A discussion of alternatives for funding federal shortfalls included:
 - a. Using money from the Trust Fund that employees pay in.
 - (1) A draft proposal went to the Assistant Attorney General for his legal opinion in using Trust Fund monies. (A copy of the Assistant Attorney General's response is attached.)
 - b. Using money out of the Building & Training Fund would be legal. Legislative approval is required.

This fund is money from delinquent employers. If an employer does not pay his taxes on time an interest and penalty charge is assessed. The interest and penalties go into this fund.

Mr. Zillig stated that federal funding is being provided for operating a Random Audit Unit of six people in UI. The Random Audit Unit provides an indepth review of an individuals week claimed to ascertain if all eligibility requirements were observed.

Mr. Zillig then introduced Edward Musslewhite for presentation of the "ES Activity Report".

Mr. Musslewhite reviewed the ES Progress Report with the Council. The production level has increased substantially with a reduction in staff. (A copy of the report is attached.)

Edward gave a brief review of JTPA activities. JTPA is administered by the Department of Community & Regional Affairs. The ES program staff works closely with C&RA in implementing JTPA.

Employment Service has developed a Statewide ES Plan which must be reviewed by the State Job Training Coordinating Council. A meeting with SJTCC has been scheduled for September 14, 1983, to review the ES State Plan.

The Job Training Partnership Act (JTPA) replaces the CETA program and amends the Wagner-Peyser Act.

There are three Private Industry Councils in the State. They are: Anchorage/Mat-Su Borough, Fairbanks North Star Borough, and the Balance of the State which is named the Alaska Statewide PIC.

Goals mentioned in the ES State Plan for FY'84 are:

1. Provide an effective labor exchange system.
2. Provide linkages in other employment and training activities to successfully participate in the job market.

Harry Sturrock presented the "UI Legislation Report" as follows:

Mr. Sturrock passed out the UI Legislation proposal bill and it was discussed in detail. The various sections that had changes were:

1. Section 1. AS 23.20.350(d) - AMOUNT OF BENEFITS
 - a. Increases current maximum benefits from \$158 to \$198/week. This proposed change to be effective October 1, 1984.
2. Section 2. and 3. AS 23.20.350(f) and (g)(1) - DEPENDENTS ALLOWANCE
 - a. Maximum Dependents Allowance (DA) that is currently in the UI bill states that only three dependents from one family may be claimed. The proposed bill allows that three per parent may be claimed where both parents are eligible for UI benefits.
 - b. Primary support is defined as physical custody of providing 50 percent. The change would pay DA to either parent having physical custody of the child. The same child may not be claimed by both parents.
 - c. The change would also allow a claimant to add dependents (up to a limit of three) while drawing regular benefits during his/her benefit year. Once the benefit year expires, the other parent may then pick up the dependents on his/her claim.
 - d. Proposed changes includes the definition of "dependent".

October 1, 1984 is the proposed effective date for all changes.

The Advisory Council members asked how many claimants are currently drawing benefits where both parents are filing. There are currently 121 claims where both are claiming dependents allowance.

3. Section 4. AS 23.20.362(c) - DEDUCTIBLE INCOME
 - a. Is amended by adding severance and termination payments to the list of income which is deducted from UI benefits. (Deducted dollar for dollar.)

This change will be effective immediately.

The Advisory Council members suggested that "Vacation Pay" be clarified in the proposal.

4. Section 5. AS 23.20.381(e) - SCHOOL EMPLOYEES

- a. All school employees will be ineligible for UI between school terms. Previous law stated that teachers or principally administrative positions in an educational institute would be ineligible for UI between school terms. Now it is proposed to read that all school employees (janitors, cooks, etc.).

This change will be effective April 1, 1984.

The Advisory Council members suggested that this should be addressed to the Congressional Delegation, because of the conformity issue, pointing out that problems may arise by singling out one category of seasonal workers.

5. Section 6. AS 23.20.526(a)(22) - CORPORATE OFFICERS

- a. Was amended by adding paragraph (22) "to exclude from UI coverage certain corporate officers who control at least 25 percent of corporate stock."
- b. Subparagraph (D) has been deleted. This paragraph specifies that the corporate officer must agree to noncoverage.

This change will be effective January 1, 1984.

6. AS 23.20.130(d) - TRAINING & BUILDING FUND

- a. (d) is an amendment which would make a technical change to the Training & Building Fund provision so that unobligated money in the Fund could be held an additional 30 days past the end of the fiscal year.

(A copy of the proposed UI legislative bill is attached for your review.)

Mr. Sturrock gave a report on the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) as follows:

This Act was passed by Congress last year. The Act increased the FUTA contributions for employers as follows:

- a. Increased federal FUTA tax base from \$6,000 to \$7,000 and contribution rate from 3.4% to 3.5%.
- b. Effective January 1985, increased federal contribution rate from 3.5% to 6.2% of first \$7,000.
- c. For states with conforming laws left employers FUTA rate at .8% of first \$7,000.

- d. All states with less than a maximum rate of 5.4% will have to:
 - (1) Increase state contribution rate to at least 5.4%; or
 - (2) Allow some employers to lose federal tax credits.

Mr. Sturrock presented six options which Alaska can take to bring the State in conformity with the Tax Equity and Fiscal Responsibility Act. They are:

- a. No Action. If this option is chosen, the low rate employers would be effected more.
- b. We could request a federal law change.
- c. A proposal to the Federal government that employee contributions be added to the definition of our tax effort. So that we would have an employer tax of 3.8%. Add the employee tax for a total of 4.3%. The effect of the FUTA offset to employers would only be effected by that much less of the employee contributions.
- d. Implement a 5.4% rate and have it apply only to delinquent employers.
- e. Add a rate class of 21 for .01% of total statewide payroll.
- f. Reduce the tax base to 50% of average annual wage with provision that the maximum tax not be below 5.4%.

After much discussion in detail with the Advisory Council members, the Council took a vote and the outcome of the vote was unanimous to go with option (e.) above and to follow-up with option (b.).

There being no further business, the meeting adjourned at 12:00, August 30, 1983.

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

PREPARED BY

THE ALASKA DEPARTMENT OF LABOR

and

THE ALASKA HOUSE OF REPRESENTATIVES RESEARCH AGENCY

August 1983

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

SUMMARY

Since the mid 1970s, this nation's unemployment insurance system has been plagued with shortages of funds for administrative purposes and for payment of unemployment compensation. The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) made changes to the unemployment tax system which provided additional administrative funds and which were intended to bolster the state trust funds used for payment of unemployment benefits. The changes which provide additional administrative funds were implemented in 1983. Alaska strongly supports the 1983 TEFRA changes. However, the State cannot support the changes scheduled for implementation in 1985. In that year, states must adopt a maximum tax rate of at least 5.4 percent or face the prospect of employers in the state losing federal tax credits. The loss of tax credits would cause employers to make additional contributions to the federal unemployment insurance system.

If the intent of the 1985 TEFRA revisions was to encourage increased tax collection efforts by those states which have failed to provide collections necessary to finance unemployment compensation, the legislation clearly fails to fulfill its objective. When TEFRA was passed in 1982, only three of the 30 states affected by the revisions had insolvent trust funds, while 13 of the 20 states not affected by the revisions were insolvent. Clearly, the legislated attempt to increase tax collection efforts fails to affect the majority of states that have demonstrated by their insolvency that increased revenue is necessary. In addition to the misdirected encouragement of fiscal responsibility, the 1985 TEFRA revisions are likely to cause some states to reverse fiscally responsible actions of the past.

Although technical problems associated with adopting a 5.4 percent state tax rate are not insurmountable, adoption of that state tax rate may redistribute the burden of financial support of the unemployment insurance system among employers and could upset the program balance that some states have achieved. The cause of the redistribution and imbalance is TEFRA's focus on tax rates rather than tax effort. Tax effort depends on the amount of earnings subject to tax as well as the rate at which those earnings are taxed. Although the State of Alaska mildly objects to the 1985 TEFRA revisions because they fail to encourage fiscal responsibility where a need for such responsibility has been demonstrated, we strongly object to the failure of the law to recognize collection efforts other than increases in tax rates. The treatment (under the 1985 TEFRA revisions) of states that have demonstrated fiscal responsibility adds insult to injury because other tax efforts--such as employee contributions and high tax bases--are recognized under provisions dealing with states that have insolvent trust funds.

As is often the case with federal intervention in the unemployment insurance system, compliance with the revisions is optional. However, the incentive to comply with the 1985 TEFRA revisions is so strong that "mandate" is an accurate description of states' potential courses of action. This paper discusses potential state actions, but the only attractive option is a revision of federal law. A revision need not remove the incentive to increase tax efforts at the state level; it could simply give states the flexibility to demonstrate effort in ways other than tax rates. We urge others to join the campaign to revise the TEFRA provisions so that states have a voice in the determination of tax effort.

CHANGES IN FEDERAL UNEMPLOYMENT TAX CREDITS UNDER THE
TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

Prepared by
The Alaska Department of Labor and
The Alaska House of Representatives Research Agency
August 1983

The unemployment insurance system in the United States is administered as a partnership of the federal and state governments. Employers contribute a portion of their payroll to both the federal and state partners. Contributions to the federal government are used for program administration and for unemployment compensation for which the federal government is liable. Contributions to state governments are used only for payment of unemployment compensation.

In recent years, the federal unemployment insurance tax has been 3.4 percent of the first \$6,000 paid to each employee in each calendar year. However, employers could receive credit for contributions made to an approved state unemployment insurance program. These tax credits could reduce employers' net federal contribution to .7 percent of the first \$6,000 paid to each employee in each year, or \$42 dollars per employee. Each state was free to set a tax base (the amount of earnings subject to state tax) and contribution rates which it deemed sufficient to support the unemployment compensation paid through its own program. However, full federal credit could be obtained by all employers in a state only if the tax base was at least \$6,000 and the highest state contribution rate was at least 2.7 percent. Alaska's tax base in 1983 is \$20,200, and Alaska employers pay state rates that range from 1.0 percent to 3.8 percent.

REVISIONS TO THE CONTRIBUTION SYSTEM UNDER TEFRA

Contributions to the unemployment insurance system in recent years have provided insufficient administrative funds and have seriously underfinanced benefit payments in many states. It was in this context of inadequate federal administrative funds and insolvent state trust funds that system changes were made by the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA). Effective in 1983, the federal unemployment insurance contribution rate was raised to 3.5 percent and the federal tax base was increased to \$7,000. The provision for a federal tax credit of 2.7 percent for contributions to an approved state program was unchanged, so contributions to the federal government by employers eligible for full federal tax credits were increased by \$14 to \$56 per employee per year.

The 1983 TEFRA changes also had an impact on state financing of unemployment compensation. In those states which use the federal tax base as the amount of earnings subject to state tax, the acceptance of a higher tax base can increase revenue to state unemployment insurance programs.

TEFRA also included revisions scheduled for implementation in 1985. In that year, the federal contribution rate will increase from the current 3.5 percent to a rate of 6.2 percent. Simultaneously, the potential federal tax credit for contributions to state programs will be increased to 5.4 percent. These changes appear to leave employers' net rate of contributions to the federal government unchanged (from the 1983 level) at .8 percent of each employee's first \$7,000 of earnings, or \$56 per employee per year.

IMPACT OF REVISIONS EFFECTIVE IN 1985

Although the 1985 TEFRA revisions maintain the \$56 per year net federal unemployment insurance contribution that is currently applicable and therefore appear to have no effect on employers' costs, that appearance is deceptive. The revisions effective in 1985 force states with maximum state contribution rates of less than 5.4 percent to choose between 1) increasing their maximum state contribution rate to at least 5.4 percent or 2) allowing some employers in the state to lose federal tax credits.¹ Loss of federal tax credits would cause affected employers to pay additional federal taxes for support of the unemployment insurance system.

The 1983 TEFRA changes were clearly designed to increase contributions for both administrative purposes and for state benefit trust funds, but the 1985 changes leave the net federal contributions unchanged and are clearly designed to encourage states to take additional action that will increase their tax collection efforts. Alaska supports national efforts to improve the fiscal integrity of the unemployment insurance system, but we strongly object to the way in which the 1985 TEFRA revisions address the problem of insolvent state trust funds.

Although some states or groups of employers may have seen national legislation as an attractive alternative to state action, we do not believe that the 1985 TEFRA revisions will significantly reduce the number of states with insolvent trust funds. Insolvency occurs when benefits exceed contributions. The states themselves have been given--and should retain--the ability to implement a benefit schedule of their own choice. Along with that freedom comes the responsibility to implement an experience rating system that will adequately

¹Section 3302(a) of the Federal Unemployment Tax Act (FUTA) allows credit against federal tax liabilities for amounts actually paid to an approved state unemployment insurance program. Section 3302(b) of FUTA provides an employer with additional credit against the tax for the difference between actual payments to a state system and the amount he would have paid "if throughout the taxable year he had been subject under such State law to the highest rate applied thereunder in such 12-month period to any person having individuals in his employ, or to a rate of 5.4 percent, whichever rate is lower." Unless a state has a tax rate of at least 5.4 percent after 1984, some employers are likely to lose additional credits provided by section 3302(b).

support the chosen level of benefits.² We are convinced that tax collection efforts depend on the amount of earnings subject to tax as well as the rate at which those earnings are taxed. The 1985 TEFRA revisions address tax rates but ignore the equally important function of the tax base. Further, the revisions do not appear to address the problem of solvency where that problem needs to be addressed.

Effect on States

If the intent of the 1985 TEFRA revisions was to encourage increased tax collection efforts by those states which have failed to provide the collections necessary to finance unemployment compensation, the legislation clearly fails to fulfill its objective. If the legislation does encourage increased tax collection efforts, it will do so primarily in those states that have the least need to generate additional collections. In addition, the legislation may have the unintended effect of encouraging states to reverse fiscally responsible acts of the past.

According to figures published by the Nevada Employment Security Department, 20 states already had maximum tax rates greater than 5.4 percent in 1982. If the TEFRA revisions requiring a 5.4 percent tax rate had been effective in that year, only those states with maximum tax rates below 5.4 percent would have been affected. Table I shows that Alaska is one of the 30 states affected by the 1985 TEFRA revisions.

The significance of this observation does not lie in the number of states affected by the revisions, but in which states are affected. Thirteen of the 20 states which would not be affected by the federal revisions have insolvent state trust funds. In addition, only one of those 20 states has a

² Experience rating is a system whereby employers are assigned reduced contribution rates if they demonstrate a history of low unemployment risk for their employees. Theoretically, experience rating should increase employers' motivation to stabilize employment and to monitor the claims of the unemployed. When benefit payout is high and there is a need for additional tax collections, states with a low tax base must place more and more employers in higher tax brackets. As employers crowd into the higher tax brackets, the experience rating concept is eroded; a good record of unemployment risk has diminished influence on tax rates when all employers are at or near the top of the tax rate schedule.

We realize that some states may face great difficulty in moving tax increases through state legislatures and that states may therefore passively await federal "mandates" to increase taxes. We also realize that the simple solution to the erosion of experience rating--increasing the tax base--is unpopular in the majority of states which still use the antiquated "reserve ratio" experience rating system. (A mathematical quirk in that rate-making formula causes tax rates to rise when the tax base is increased.) However, we believe that adjustments to experience rating systems should be made by the individual states, not by the federal government.

TABLE I

Maximum Tax Rate
Percent On Taxable Payroll

1	Kentucky	10.00
2	Michigan	9.00
3	West Virginia	8.50
3	Delaware	8.30
5	South Dakota	7.70
5	Minnesota	7.50
7	Wisconsin	7.10
8	Tennessee	7.00
9	Virginia	6.30
10	Massachusetts	6.20
11	Pennsylvania	6.60
12	New Hampshire	6.50
12	Iowa	6.50
14	New Jersey	6.20
15	Arkansas	6.10
18	Rhode Island	6.00
18	Connecticut	6.00
18	North Carolina	5.70
17	Illinois	5.70
20	Vermont	5.50
21	Georgia	5.20
22	New York	5.20
23	North Dakota	5.00
23	Maryland	5.00
23	Maine	5.00
26	Alaska	4.88
27	Ohio	4.80
28	Hawaii	4.50
28	Florida	4.50
28	Colorado	4.50
31	Montana	4.40
32	Missouri	4.40
33	Kansas	4.30
34	New Mexico	4.20
35	California	4.20
36	Wyoming	4.12
37	South Carolina	4.10
38	Texas	4.00
38	Mississippi	4.00
38	Idaho	4.00
38	Alabama	4.00
41	Oregon	3.80
43	Nebraska	3.70
44	Nevada	3.60
45	Louisiana	3.50
46	Indiana	3.30
47	Oklahoma	3.10
48	Washington	3.00
48	Utah	3.00
50	Arizona	2.80

tax base greater than \$9,000 and only three have a ratio of trust fund balance to total wages that exceeds one percent.³ Of the 30 states that would be affected by the revisions, only three are insolvent, eight have a tax base greater than \$9,000 and 15 have a ratio of trust fund balance to total wages that exceeds one percent.

Clearly, the legislated attempt to increase tax collection efforts fails to affect the majority of states that have demonstrated by their insolvency that increased revenue is necessary. The law does affect many states which have a trust fund of a size that indicates that additional collection efforts are unnecessary. Further, the law affects many states that have responded to the need for increased tax collections by increasing their tax base as an alternative (or supplement) to increased tax rates.

For those states that have already raised their tax base above the federal tax base in order to keep pace with increases in wages and unemployment compensation, the federal revisions are particularly troublesome. The new federal law may be counterproductive because it encourages states to reverse the fiscally responsible act of increasing their tax base. Although we mildly object to the law because it fails to encourage fiscal responsibility where a need for such responsibility has been demonstrated, we believe that the indirect encouragement for states to lower their tax bases is unconscionable. Lower tax bases diminish the ability of states to control total tax revenue and can distort an otherwise equitable distribution of program costs.

Effect on Employers

Adoption of a maximum unemployment tax rate of at least 5.4 percent is a state option. If a state fails to implement a tax rate at or above that level, some employers in that state may lose a portion of the additional credits granted by section 3302(b) of the Federal Unemployment Tax Act (FUTA). The attached table shows the cost to selected Alaska employers under the current contribution rate schedule and under the following scenarios applicable after 1984: 1) Alaska's maximum tax rate remains at 3.8 percent; and 2) Alaska adopts a 5.4 percent maximum tax rate with no change in the tax base. The impact of these scenarios on various groups of employers is summarized below.

Low Wage/Low Rate Employers

Employers who pay annual wages under \$7,000 and contribute at the minimum state tax rate will be strongly affected if the state does not adopt a 5.4 percent maximum tax rate. These employers would lose federal tax credits and thus pay additional federal taxes. The maximum additional federal tax would be \$112 per employee for employers paying annual wages of \$7,000. In Alaska, trade and service employers tend to be in this category.

³The ratio of trust fund balance to total wages is a measure of the adequacy of the trust fund. The one percent level is arbitrary. All figures concerning tax rates and tax bases are for 1982, the latest year for which data are available.

ANNUAL PER EMPLOYEE CONTRIBUTIONS TO THE UNEMPLOYMENT INSURANCE SYSTEM*

	Annual Average Earnings per Employee								
	\$1,000	\$3,000	\$5,000	\$7,000	\$8,000	\$9,000	\$10,000	\$11,000	\$20,000
<u>Alaska Taxes</u>									
<u>Current</u>									
Minimum (1%)	\$10	\$ 30	\$ 50	\$ 70	\$ 80	\$ 90	\$100	\$110	\$ 200
Maximum (3.8%)	38	114	190	266	304	342	380	418	760
<u>After 1984</u>									
Minimum (1%)	10	30	50	70	80	90	100	110	200
Maximum (3.8%)	38	114	190	266	304	342	380	418	760
<u>5.4% After 1984</u>									
Minimum (1%)	10	30	50	70	80	90	100	110	200
Maximum (5.4%)	54	162	270	378	432	486	540	594	1,080
<u>Federal Taxes</u>									
<u>Current</u>									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	0	0	0	0	0	0	0	0	0
<u>After 1984</u>									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	16	48	80	112	74	36	0	0	0
<u>5.4% After 1984</u>									
Normal Tax	8	24	40	56	56	56	56	56	56
Additional Tax	0	0	0	0	0	0	0	0	0
<u>Total Taxes</u>									
<u>Minimum Tax Rate</u>									
Current	18	54	90	126	136	146	156	166	256
After 1984	34	102	170	238	210	182	156	166	256
5.4% After 1984	18	54	90	126	136	146	156	166	256
Increase**	(16)	(48)	(80)	(112)	(74)	(36)	0	0	0
<u>Maximum Tax Rate</u>									
Current	46	138	230	322	360	398	436	474	816
After 1984	62	186	310	434	434	434	436	474	816
5.4% After 1984	62	186	310	434	488	542	596	650	1,156
Increase**	0	0	0	0	54	108	160	176	320

*Contributions under current law assume a state tax base of \$20,200 and a maximum state tax rate of 3.8%.

**"Increase" refers to additional taxes owed by employers if the state adopts a maximum tax rate of 5.4% after 1984. Negative numbers show savings associated with adopting a maximum tax rate of 5.4% relative to retaining the current law after 1984.

Low Wage/High Rate Employers

Employers who pay annual wages under \$7,000 but contribute at the maximum state tax rate would pay increased taxes regardless of which alternative is chosen. Contributions to the state by this group of employers would, of course, be higher if the maximum state tax rate were increased to 5.4 percent. However, the increased state contribution under a 5.4 percent state tax rate would be the same amount that would be paid in additional federal taxes if a 5.4 percent state tax rate were not adopted. The sum of federal and state contributions would therefore be the same for this group of employers whether or not the state adopts a 5.4 percent maximum tax rate. Although total contributions would be unchanged, a larger share of total contributions would go to the federal government if the state does not adopt a maximum state tax rate of 5.4 percent. In Alaska, many fish processors are in this group of employers.

High Wage Employers

Under Alaska's current maximum tax rate of 3.8 percent, employers paying annual average wages of at least \$10,000 would earn sufficient federal tax credits to offset the loss of tax credits on wages below \$7,000. That is, there would be no net loss of federal tax credits--and no additional federal taxes owed--by these employers even if the state does not adopt a 5.4 percent maximum tax rate. If the state does adopt a 5.4 percent maximum tax rate, the amount of state contributions owed would depend on the tax base adopted by the state and the tax rate assigned to the employer.

For those employers paying annual average wages between \$7,000 and \$10,000, total contributions can decline as wages increase. Between those levels of earnings, the gain in federal tax credit may exceed the higher taxes owed to the state. (See attached table.)

Impact on the Equity of the State Program

Alaska faces no significant technical problems in adopting a 5.4 percent state tax rate; our objections to the 1985 TEFRA revisions focus on the damage to Alaska's "user pay" philosophy of financial support for unemployment compensation. As the attached table shows, adoption of a 5.4 percent state tax rate will redistribute the tax burden among Alaska employers.

Alaska expended a good deal of effort to develop a contribution system that fits the needs of the state. In Alaska, many high-wage occupations tend to be seasonal, which allows employees in those occupations to collect unemployment compensation despite their high earnings. By raising the tax base while lowering tax rates, Alaska has been able to redistribute program costs so that employers in high-wage, seasonal industries contribute approximately as much as employees in those industries draw in unemployment compensation.

Adoption of a 5.4 percent state tax rate without a corresponding reduction in the tax base would cause Alaska to collect contributions that are un-

necessary. Alaska's benefit payment account is adequate and our contribution system is designed to protect the financial integrity of the fund in the future. Alaska has accepted the responsibility of providing adequate funds for unemployment compensation and currently collects a maximum tax over twice as large as the \$378 annual contribution that the federal revisions attempt to encourage. Unless adoption of a 5.4 percent state tax rate is accompanied by a corresponding reduction in the state tax base, potential employer contributions at the maximum rate would increase by 42 percent to nearly \$1,100 per employee per year. In order to avoid this unnecessary drain on the state economy, Alaska may be forced to reduce its tax base.

A reduced tax base is objectionable not only because it implies acceptance of the federal view that tax effort can be measured by tax rates instead of by tax rates and tax base in combination, but also because a reduced tax base would introduce serious problems of equity. The above discussion mentioned that the tax base can be used to redistribute the tax burden among employers. A lower tax base in Alaska would disturb the balance we have achieved in this area.

In addition, a reduction in the state tax base would disturb the balance between benefit eligibility and taxes paid. Unless the tax base is equal to the amount of wages that are used to compute the amount of weekly compensation a claimant may receive, the system is unbalanced. If the tax base exceeds the earnings used to determine benefit eligibility, taxes are being paid on wages that cannot contribute to claimants' compensation. If the tax base is set at a level below the amount of earnings used to determine benefit eligibility, compensation is being paid on wages that have no corresponding tax liability.

If the Alaska Employment Security Act had been revised to ensure a maximum tax rate of 5.4 percent in 1983 under the current rate formula, adequate collections would have been obtained at a tax base of \$13,400. Alaska's benefit schedule currently reaches a maximum at \$16,000 in annual earnings and the state is preparing legislation to extend the schedule to \$20,200, which is the 1983 state tax base. The options for designing a benefit schedule that peaks at \$13,400 in annual earnings are not attractive to the state.

Impact on Program Costs

The costs associated with the decision to adopt a 5.4 percent state tax rate are difficult to estimate because there are many options and the cost of each option may change over time. One approach is to examine the effects of retaining the current law. Under this approach, it is clear that some employers will lose federal tax credits and will therefore have greater federal tax liability if a 5.4 percent maximum state tax rate is not adopted. This option could drain an additional \$2 million per year from employers in Alaska. The additional contributions would go entirely to the federal government.

If Alaska does adopt a 5.4 percent state tax rate, any additional contributions would go to the state trust fund rather than to the federal govern-

ment. There are several options that could maintain total state collections at the current level, but all of the options redistribute the tax burden among Alaska employers. In summary, failure to adopt a 5.4 percent maximum state tax rate will redistribute the tax burden among employers and increase total contributions, while the impact of adopting a 5.4 percent maximum state tax rate may be limited to a redistribution of the tax burden.

OPTIONS FOR ACTION

Under current federal law a "no action" option would cost Alaska employers an estimated \$2 million per year in increased contributions to the federal government. Unless it can be shown that a "no action" option is preferable to the distortion that would be introduced by adopting a 5.4 percent state tax rate, failure to act is obviously not an economically attractive option.

Another option is to work to enact a change in federal law that will recognize Alaska's tax collection efforts and will revise the criteria for obtaining federal tax credits. This option is clearly preferable to the "no action" alternative, but there is limited time to enact revised legislation before the scheduled implementation date of 1985.

Prior to the implementation date, the state may wish to examine alternatives that meet the requirements of the law to determine which alternative introduces the least amount of distortion to the present system. State action in this direction need not preclude attempts to revise the federal criteria. Some options for state action are discussed below.

Include Employee Contributions in the Definition of Tax Effort

Alaska is one of three states in which employees contribute to the unemployment insurance system. In Alaska, employees provide 18 percent of the contributions to the state trust fund. Despite this significant support, the Federal Unemployment Tax Act does not recognize employee contributions as a part of Alaska's tax effort for purposes of determining normal federal tax credits. The Act does, however, include employee contributions in the definition of "employer contribution rate" for purposes of determining federal tax credits in those states that have insolvent state trust funds and have outstanding advances under Title XII of the Social Security Act.

If employee contributions were included for normal FUTA tax credit purposes, the impact of increasing Alaska's maximum tax rate to 5.4 percent would be diminished by about one-third. State action to consolidate employer and employee contributions might face a legal challenge if the employee contribution were then interpreted as a deduction from employees' paychecks for the purpose of paying employers' taxes. A better approach toward the goal of achieving recognition of employee contributions is to push for a revision of federal law so that the rules concerning employee contributions are applied consistently. Whatever the approach on this issue, action taken to ensure recognition of employee contributions can be used in combination with, rather than as a substitute for, other actions discussed below.

Assign the Maximum Rate only to Delinquent Employers

Federal law may allow full federal tax credits to employers in those states that charge a 5.4 percent rate to some or all delinquent employers, even if no other employers are charged that rate. Section 3302(b) of the Federal Unemployment Tax Act (FUTA) states that all employers in a state may be eligible for full federal tax credits if the maximum state tax rate is at least 5.4 percent (after 1984) and any reduced tax rates meet the criteria of Section 3303. The provision allows employers to claim federal tax credits each year as if they had been subject under state law to "the highest rate applied thereunder in such 12-month period to any person having individuals in his employ, or to a rate of 5.4 percent, whichever rate is lower." (Emphasis added.)

Section 3303 of FUTA discusses criteria for assigning reduced contribution rates. That provision says that for a pooled benefit payment account such as exists in Alaska, a "taxpayer shall be allowed an additional credit under section 3302(b) with respect to any reduced rate of contributions permitted by State law" if reduced tax rates are assigned solely "on the basis of his (or their) experience with respect to unemployment or other factors bearing a direct relation to unemployment risk."

The implication of these provisions is that all employers could be assigned a standard tax rate of 5.4 percent, with reductions from that rate assigned to non-delinquent employers on the same basis as is currently accepted by the Secretary of Labor for rate assignments in Alaska. The 5.4 percent tax rate would then be the standard rate and any reductions from that rate would be based on an accepted experience rating system. The fact that some employers would be ineligible for reduced tax rates because of their delinquent status is irrelevant; the law does not require states to grant reduced rates, it requires only that no reduced rates be granted unless they are based solely on employers' experience with respect to unemployment or other factors bearing a direct relationship to unemployment risk. This option appears to meet the legal criteria for obtaining the additional tax credits allowed under the Federal Unemployment Tax Act.

Add a Rate Class with a 5.4 Percent Rate

Addition of a rate class to Alaska's experience rating system is a potential solution to the problem of assigning a 5.4 percent state tax rate. As an example, rate class 20 could be redefined to include employers whose payroll consists of 4.99 percent of total statewide payroll instead of the current 5 percent.⁴ Employers with the remaining .01 percent of total

⁴Alaska's experience rating system currently includes 20 rate classes, each containing five percent of total statewide payroll. Starting with employers with the best unemployment experience, employers are placed in rate class 1 (lowest tax rate) until five percent of total statewide payroll is accounted for. The next-best-ranked employers are placed in rate class 2 until it also contains employers whose total payroll equals five percent of total statewide payroll. This continues through all 20 rate classes.

statewide payroll would then be assigned to (the new) rate class 21. Employers in that rate class would be assigned a contribution rate of 5.4 percent. This alternative would probably affect fewer employers than the option discussed above particularly if delinquent employers were no longer assigned the highest tax rate on the rate schedule.

The above options would introduce minimal distortion to the current program, but their legal support should be examined before implementing them. Other options involving adjustments to the state tax base could ensure a state tax rate of 5.4 percent while maintaining secure legal standing. The most attractive option is to work toward a revision of federal law; that option would cause no distortion and would leave no grounds for legal challenge.

RECOMMENDED REVISIONS TO FEDERAL LAW

This paper has shown that tax effort can be measured only by considering both the amount of wages subject to tax and the tax rate applied to those wages. The 1985 TEFRA revisions focus only on tax rates and therefore penalize those states that have increased their tax efforts by increasing the state tax base. Incorporation of provisions similar to those adopted recently in Public Law 98-21 would substantially alleviate this penalty.

Public Law 98-21 revised the formula for computing the tax effort of states that have outstanding advances from the federal government. The revised formula recognizes the role of the state tax base in determining tax effort and may grant additional credit to employers in states which have a tax base higher than the federal tax base.

If a similar provision were applied to the tax credits available to those states without insolvent state trust funds, the penalties (in the form of lost federal tax credits) scheduled to take effect in 1985 would be decreased, but a problem would still exist. The problem relates to the amount of tax effort that is required in a state. States with liberal benefit provisions obviously need a greater tax effort than states with stringent eligibility requirements and/or low levels of unemployment compensation.

The level of tax effort that is adequate for a state is easy to determine; if total revenue to a state trust fund equals or exceeds benefit payments in the long-run, tax effort in that state is adequate. Determination of the tax base and tax rates used to produce the necessary revenue is the responsibility of the state. When states fail to accept that responsibility, federal action should be taken. The number of states with insolvent trust funds indicates that federal action is needed now. This paper has shown, however, that the 1985 TEFRA revisions fail to address the solvency problem where it needs to be addressed.

A provision that bases federal tax credits on adequacy of contributions rather than simply on maximum tax rates would be fair to all states and would allow the flexibility for state action that is necessary in a true partnership. We strongly urge that federal law be revised to reflect the principles of equity and flexibility.



HAINES CHAMBER OF COMMERCE

P.O. BOX 518
HAINES, ALASKA 99827

Mar 3, 84

Senator Richard I. Eliason

The Alaska State Chamber of Commerce has advised us the Senate Labor and Commerce Committee has introduced SB-525 dealing with unemployment Insurance; which increases maximum weekly benefits from \$156.00 to \$198.00 per week.

With the economy in a poor state in our area, the feeling of small business is that a raise at this time is inadvisable.

We do not understand how this raise could decrease anything for the small business man, contrary to labors stand.

We would like to see this bill tabled for the present.

Sincerely,

Jane Bell
Ex. Sec. Chamber of Commerce

March 29, 1984

Dear Richard Eliason,

This is concerning the proposed legislation SB 525. Regarding the denial of unemployment compensation for the nine and ten month classified employees of the school district.

We would like to state our objections to this legislation:

- 1) We are not employed during the summer months, which would mean no income.
- 2) We are being discriminated against. Other employees of the school district are covered or have the option to be covered during the full 12 month period. We have no such opportunity. Furthermore, no employer will hire someone to work for them for just 2 months at a comparable pay scale.
- 3) We are being singled out as a group and being denied this unemployment compensation when we pay in to this program out of our pay checks.

In conclusion, the undersigned classified employees of the Fairbanks School District would appreciate your "NO" vote on the above legislation.

Ryan School

Sincerely,

Sharon M. Angelle
Linda D. Allen
Starlette J. Satterton
Perry Secora
Adeline Reimer
LaDonna Mornton
Fayone Oates

P.O. Box 1237
Seward, Alaska 99664
April 27, 1984

Senator Richard Eliason
Pouch V
Juneau, Alaska 99811

Dear Senator:

It has come to my attention that there is a bill before the legislature that, among other things, will do away with the classified school employees' right to draw unemployment compensation during the summer months.

I am a single parent and work only 9½ months. I prefer to spend my summer months with my daughter; however, do work as a substitute in clerical positions when there are temporary summer jobs available that I can cover. My salary during the 9½ working months is not enough to be able to save enough to cover expenses during the summer months. I do rely on the unemployment compensation in the summertime as I have a house payment, car payment, utilities, food, etc. that still need to be taken care of. I know there are many other school employees in the same situation.

Until two years ago my salary was low enough that my daughter was eligible to receive the reduced lunch rate (20¢ per meal vs. the full price of \$1.60). My salary now is just above the limit. There are many school district employees that still qualify for the free and reduced lunch program.

I would urge you to vote against any bill that would take away our right to unemployment compensation.

Thank you for your attention.

Sincerely,

Marilyn K. Pollard

Box 1096
Seward, Alaska 99664

Senator Richard Eliason
Pouch V
Juneau, AK 99811

Dear Senator:

I understand that Senate Bill 525 (now in Finance Committee) will soon be on the Senate floor. Among other things contained in this bill is a clause deleting unemployment benefits for classified school employees during the summer months. For the record, and since this bill seems to be a perpetual one around the legislature each year, I would like to help you understand the plight of 9 and 10 month classified School District employees.

As a member of the Kenai Peninsula Borough School District Classified Association, I know that our employees have some benefits not enjoyed by other school districts, and since this is so, the majority of School Districts' classified employees have a hard lot.

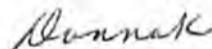
KPBSD classified employees who work 9, 9½, and 10 months work for lower than average pay in their respective jobs, receive no annual leave, receive no pay for Christmas vacation, Good Friday, or Spring Break, and are scheduled to work only 180 to 210 days per year. Several of the lower paid employees also work short days; i.e., 6 or 7 hours per day, which means an additional hardship. We have KPBSD employees whose children qualify for reduced lunches.

Knowing these things, and assuming that such wages do not facilitate saving enough money to get through the summer, I sincerely hope you will not bring further hardship on our people by allowing them to remain penniless through the summer months.

Our people do not receive a contract in the spring for return in the fall. Instead we receive a paper called "Classified Employees Personnel Action", with the words INFORMATIONAL PURPOSES ONLY - NOT A CONTRACT firmly emblazoned across the top.

I am not as familiar as I would like to be with the Anchorage School District's agreement with their employees; however, I know it has much better benefits than ours, including annual leave. Therefore, perhaps the Anchorage Senators are unaware of the plight of other school district classified people.

Sincerely,



DONNA L. KOWALSKI
Secretary

P.S. Take the plight of a 6-hour a day assistant cook who works 180 days a year for a salary of 8.40/hour = under \$10,000 per year. This person may be making a small monthly payment (along with paying the rent, food bill, utilities, etc.) How will they get along after deductions?

March 22, 1984.

Dear Richard L. Eliason,

I have been an employee for the Fairbanks North Star Borough School district for a little over 3 years now. I've also been a member of the Classified Personnel Organization. I hold a 10 month job.

Every year I've been asked to sign in writing that I intend to return to work. This, however, isn't considered a contract, but it does insure my rehirement for the next school year.

Every spring I don't have a job for 2 months. I find it impossible to live for 2 months without any income! I also find it impossible to find a job for this short time! Employers are reluctant to hire me on these conditions because they consider me "job attached".

It seems to me the whole problem would be solved if employees in my predicament were given a 12 month pay option. We are not!

I strongly resent the
chance that unemployment
benefits be denied me!

Please vote no to SB 525.

Thanks you,

Melinda Modene



Official Business

Alaska State Legislature

Senate

Office of the President

Pouch V
State Capitol
Juneau, Alaska 99811

April 6, 1984

Ms. Jane Bell, Executive Secretary
Haines Chamber of Commerce
Box 518
Haines, Alaska 99827

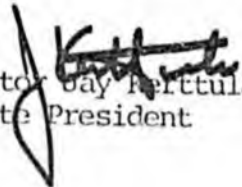
Dear Ms. Bell:

Thank you for contacting me regarding SB 525, relating to unemployment insurance.

Your letter has been forwarded to Senator Eliason, Chair of the Senate Labor & Commerce Committee, for the committee's consideration.

Thank you for letting me know of your concerns.

Sincerely,


Senator Jay Perttula
Senate President

JK/jl/blm

LAUREL A. KENT
96-A Trinidad St.
Fairbanks, Alaska 99701

March 29, 1984

The Honorable Richard I. Eliason, Chairman
Senate Labor and Commerce Committee
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Senator Eliason:

Re SB 525, I find it hard to imagine that responsible state officials would even consider passage of such ridiculously foolish legislation. Perhaps you are unaware of the extensive training required for some of the 9- and 10-month positions. Your bill could force extremely valuable and hard to replace people to seek employment elsewhere or, alternatively, to lobby for year-round pay arrangements equal to that of regular teachers. You also run the risk of reducing the quality of persons willing to accept these very difficult and often thankless jobs.

Passage of your proposed bill would essentially force every employee (most of whom have held these positions for many years and are extremely competent) who is dependent on a year-round income to reconsider their needs, and you effectively reduce the labor pool for these positions to only those people who can't find any other jobs. Are these the level of people you want to take care of your children? How about the more specialized positions, i.e., teacher's aides in special education, where lives could be endangered? Do you want to be responsible for risking the loss that could occur through employing less competent people?

I assure you there are many of us who would be placed in untenable positions through passage of SB 525 and I believe the resulting problem would be ten times more costly in the long run. Do yourself a favor, you already look ridiculous for allowing SB 525 to be introduced. Kill it now. Surely our state leaders have enough imagination and insight to come up with something better than this? How about a reduced salary spread over 12 months? It would solve both problems.

Sincerely,



Laurel A. Kent

cc: Kenneth Burnley, Superintendent of Schools
Senate Labor and Commerce Committee

1. Bob Mulcahy
2. Fritz Pettyjohn
3. John C. Sackett
4. Patrick Rodey

Senator Don Bennett
Senator Bettye Fahrenkamp
Senator H. Pappy Moss
Fairbanks Daily News Miner

Sent to finance 4/3/84

March 29, 1984

Dear Richard I. Eliason,

This is concerning the proposed legislation SB 525. Regarding the denial of unemployment compensation for the nine and ten month classified employees of the school district.

We would like to state our objections to this legislation:

- 1) We are not employed during the summer months, which would mean no income.
- 2) We are being discriminated against. Other employees of the school district are covered or have the option to be covered during the full 12 month period. We have no such opportunity. Furthermore, no employer will hire someone to work for them for just 2 months at a comparable pay scale.
- 3) We are being singled out as a group and being denied this unemployment compensation when we pay in to this program out of our pay checks.

In conclusion, the undersigned classified employees of the Fairbanks School District would appreciate your "NO" vote on the above legislation.

Sincerely,

Jana N. Chandler
Jayce Thomas
Gloria J. Batchelar
Deborah C. Alcorn
Lynette J. Smith

Cherita J. P. Ozen
Rosie Stearns
Shelley Szypozky
Jane Alkire

SR 90385
Fairbanks, AL
99701
March 26, 1989

To Whom It May Concern;

I am opposed to HSB 525, Sec 8, for the following reasons:

- ① This discriminates against non-teaching personnel who are denied the full year retirement credit that teachers have:
- ② Non teaching personnel do not ave the option of 12 monthly paychecks for 9 months of work as do teachers:
- ③ Non teaching personnel do not share the same leave benefits as do teachers.

What is the difference between public school support personnel and non-public school people, school bus drivers or construction workers. Nothing! Being laid off due to lack of work is the same throughout. Food still needs to be purchased; bills need to be paid.

Please reconsider this bill. Thank you.

Sincerely,
Lee Grieme
Lee Grieme

March 23, 1984

Senate Labor and Commerce Committee
and

Fairbanks Area Legislators

Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Legislator;

This letter is written to express my concern regarding
S.B. 525.

This bill discriminates against school district employees.
They are being denied by this bill unemployment benefits
during the summer months when they are unemployed, and
willing to work.

The bill is completely unfair singling out a segment of
the work force. It is contradictory in that the employees
are denied the benefit of a year credit in their retirement
by the State of Alaska on the one hand (the State by this
action saying they are unemployed for 2 to 3 months of the
year) and then reversing their stand by stating they have a
12 month job and are thus ineligible for unemployment comp-
ensation.

I am deeply concerned that any such legislation could even
come out of committee. This bill would create an undue
hardship on many people who are sole support of their families.
Some would be forced to look for other permanent employment.
This bill would effect lower income people while those who
earn large salaries on the north slope would continue to reap
benefits.

Your assistance in defeating this bill is appreciated.

Sincerely,



March 23, 1984

Senate Labor and Commerce Committee
and

Fairbanks Area Legislators

Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Legislator;

This letter is written to express my concern regarding
S.B. 525.

This bill discriminates against school district employees. They are being denied by this bill unemployment benefits during the summer months when they are unemployed, and willing to work.

The bill is completely unfair singling out a segment of the work force. It is contradictory in that the employees are denied the benefit of a year credit in their retirement by the State of Alaska on, the one hand (the State by this action saying they are unemployed for 2 to 3 months of the year) and then reversing their stand by stating they have a 12 month job and are thus ineligible for unemployment compensation.

I am deeply concerned that any such legislation could even come out of committee. This bill would create an undue hardship on many people who are sole support of their families. Some would be forced to look for other permanent employment. This bill would effect lower income people while those who earn large salaries on the north slope would continue to reap benefits.

Your assistance in defeating this bill is appreciated.

Sincerely,

Bobbie Mansour

March 21, 1984

S.R. Box 60600
Fairbanks, Ak 99701

Senate Labor & Commerce Committee
and
Fairbanks Area Legislators
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska 99811

Dear Legislator:

I am writing to express my concern regarding
S. B. 525.

This bill discriminates against school district
employees. They are being denied by this bill
unemployment benefits during the summer months
when they are unemployed.

The bill is completely unfair singling out a segment
of the work force. It is contradictory in that the
employees are denied the benefit of a year credit in
their retirement by the state of Alaska on the one
hand (the state by this action saying they are unemployed
for 2 to 3 months of the year) and then reversing their
stand by stating they have a 12 month job and are thus
ineligible for unemployment compensation.

I am deeply concerned that any such legislation could
even come out of committee. This bill would create an
undue hardship on many people who are sole support of
their families. Some would be forced to look for other
permanent employment. This bill would affect lower
income people while those who earn large salaries on the
north slope would continue to reap benefits.

Your assistance in defeating this bill is appreciated.

Sincerely,


Mary Jean (Cornelius) Mc Evoy

Linda Boisseau
706 24th. Avenue
Fairbanks, Alaska
99701

Senate Labor and
Commerce Committee
Chairperson Richard Eliason.
Pouch V (MS 3100)
Juneau, Alaska
99811

Dear Mr. Eliason:

Please find enclosed three letters that I have sent to my legislatures, concerning SB 525. I have urged them all to vote NO on that specific bill, as I feel it is most unfair.

Thank-you for your time.

Sincerely,
Linda Boisseau
Linda Boisseau

Linda Boisseau
706 24th.Avenue
Fairbanks, Alaska
99701

Senator Don Bennett
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska
99811

Dear Senator Bennett:

Senate Bill 525, which has been introduced by the Senate and Commerce Committee is another attempt at denying benefits to select persons working in the school district. Specifically, nine and ten month Classified Employees.

I am the Community School Monitor for Denali Elementary School, here in Fairbanks. I make the salary of \$9.04 an hour, and manage to clear \$484.33 every other week. If I am denied unemployment compensation during the period of time school is not in session, then feeding my family, may be harder then it is at the present.

If one seeks employment during the summer, it is usually not a temporary position, but a permanent one. Consideration on or for any jobs are then cut down to literally non existence.

Classified Employees in the school district do not have the same benefits as the Certified Employees, with understanding. But there are many discreptionies:

CERTIFIED EMPLOYEES

Are paid for the entire school year, while many only work nine months.

Their nine months count as a full year towards their retirement.

Their personal leave is carried over from year to year. They are not forced to use it up before the close of the school year or lose it.

CLASSIFIED EMPLOYEES

Are not paid for entire year. Only for the nine or ten month position.

Their nine or ten months service counts as only nine or ten months service, not an entire year.

Our personal leave has to be used up before the close of the school year, or it is lost. We are not allowed to carry it over one year to the next.

Since we do our jobs, we would like to have the opportunity to draw unemployment compensation during the period that school is not in session.

Please vote NO on SB 525. Thank-you for your time on this matter.

Sincerely,

Linda Boisseau
Linda Boisseau

Linda Boisseau
706 24th. Avenue
Fairbanks, Alaska
99701

Senator Pappy Moss
Alaska State Legislature
Pouch V (3100)
Juneau, Alaska
99811

Dear Senator Moss:

Senate Bill 525, which has been introduced by the Senate and Commerce Committee, is another attempt at denying benefits to select persons working in the school district. Specifically, the nine and ten month Classified Employees.

I am the Community School Monitor, for Denali Elementary School, here in Fairbanks. I make the salary of \$9.04 an hour, and manage to clear \$484.33 every other week. If I am denied unemployment compensation during the period that school is not in session, then feeding my family, may be harder than it is at the present.

If one seeks summer employment, it is usually not a temporary position, but a permanent one. (if you can find one) Consideration on or for any job are then cut down to literally non-existence.

Classified Employees in the school district do not have the same benefits as the Certified Employees, with understanding. But there are many discreptionies.

CERTIFIED EMPLOYEES

Are paid for the entire school year, while many only work nine months.

Their nine months are counted as a full year towards their retirement.

Their personal leave is carried over from one year to the next.

CLASSIFIED EMPLOYEES

Are paid only for their nine or ten months of work. They rely on the unemployment compensation for their time off in the summer.

Their nine or ten months of service counts only as nine or ten months toward their retirement.

Their personal leave is not carried over from year to year. They are required to take it before the close of the school year or lose it. (Three days of personal leave)

Since we do our jobs, we would like to have the opportunity to draw unemployment compensation during the period that school is not in session.

Please, vote NO on SB525. Thank-you for your time on this matter.

Sincerely

Linda Boisseau
Linda Boisseau

Linda Boisseau
706 24th.Avenue
Fairbanks, Alaska
99701

Senator Betty Fahrenkamp
Alaska State Legislature
Pouch V (MS 3100)
Juneau, Alaska
99811

Dear Senator Fahrenkamp:

Senate Bill 525, which has been introduced by the Senate and Commerce Committee, is another attempt at denying benefits to select persons working in the school district. Specifically, the nine and ten month Classified Employees.

I am the Community School Monitor, for Denali Elementary School, here in Fairbanks. I make the salary of \$9.04 an hour, and manage to clear \$484.33 every other week. If I am denied unemployment compensation during the period of time school is not in session, then feeding my family, may be harder then it is at the present.

If one seeks summer employment, it is usually not a temporary position, but a permanent one. Consideration on or for any job are then cut down to literally non-existence.

Classified Employees in the school district do not have the same benefits as the Certified Employees with understanding. But there are many discreptionies;

CERTIFIED EMPLOYEES

Are paid for the entire school year, while many only work nine months.

Their nine months counts as a full year towards their retirement.

Their personal leave is carried over from year to year.

CLASSIFIED EMPLOYEES

Are paid only for the nine or ten months they work. They rely on unemployment compensation for their time off.

Their nine or ten month service counts as only nine or ten months toward their retirement.

Their personal leave is not carried over from year to year. They have to use it up before each school year is over.

Since we do our jobs, we would like to have the opportunity to draw unemployment compensation during the period that school is not in session.

Please vote NO on SB 525. Thank-you for your time on this matter.

Sincerely,

Linda Boisseau
Linda Boisseau

March 20, 1984

Alaska State Legislature
Pouch V (MS 3100)
Juneau, Ak. 99811

Dear Richard I. Eliason

I have been working for the Fairbanks North Star Borough School District since 1975 or a total of nine (9) years, and am a member of The Classified Personnel Organization.

Every year for these past nine (9) years I have been asked to sign an "intent" form stating (in writing) that I do intend to return to my job the following school year. While I am asked to sign this form to guarantee my job, I have never been asked to sign a contract.

Each spring when school is out I do not have a job for the next following 2½ months until school resumes in the fall. As a result I have no income for that period of time. I FIND IT IMPOSSIBLE TO LIVE WITHOUT ANY INCOME DURING THESE 2½ MONTHS. However, I also find it impossible to get work in my field for such a short time as I am still considered job attached, and employers are reluctant to hire someone for that length of time.

It seems to me the problem could be resolved if employees such as myself were given an option of receiving their pay on a 12 month basis.

I strongly resent the position taken that unemployment benefits be denied me.

PLEASE, vote against SB 525.

Sincerely,



Charlotte J. Eudy
P. O. Box 284
Fairbanks, Alaska 99707

SR Box 40025
1319 Summit Drive
Fairbanks, AK 99701

April 10, 1984

Richard I. Eliason, Chairperson
Senate Labor and Commerce Committee
Alaska State Legislature
Pouch V
Juneau, AK 99811

Dear Mr. Eliason,

This letter is written in support of SB 525 which would make it impossible for 9 and 10 month employees of school systems to be eligible for unemployment compensation during the summer.

I myself am a 10 month administrative secretary of an elementary school in Fairbanks. Previous to that, I was a 12 month secretary in the personnel department for the same school district. While in my previous position, part of my duties included processing the hundreds of unemployment compensation forms that passed through our offices. With each one I would become more and more angry.

The large majority of people who accept 9 and 10 month positions do so that they may enjoy the summers off. How can they then turn around and file for unemployment? If they need the money during the summer, then let them find employment. These people supposedly go on a work list and are called for positions for which they qualify - they may turn down the job and still continue to receive their unemployment if the job offered pays less than their current position. We are paid good wages and with seniority, these temporary jobs are almost always paid less.

Several of my co-workers say that the money is there because of the current law, and thus they will take advantage of it. I feel this is wrong and so is the current law.

I waited for 8 years for the opportunity to transfer to a 10 month position so that I could have the summers off to enjoy with my family. Yes, I took a pay cut, but that was my decision. If you queried the 9 and 10 month employees, I bet you would find very few who would move to a 12 month position. Why should they when the state makes it easy for them to stay home in the summer,

enjoy the weather. and each week collect an unemployment check?

The money wasted on this current situation could so much benefit other areas. such as direct support for education in the classroom.

Thank you for taking the time to read my letter. I feel this is a long needed change in the current law.

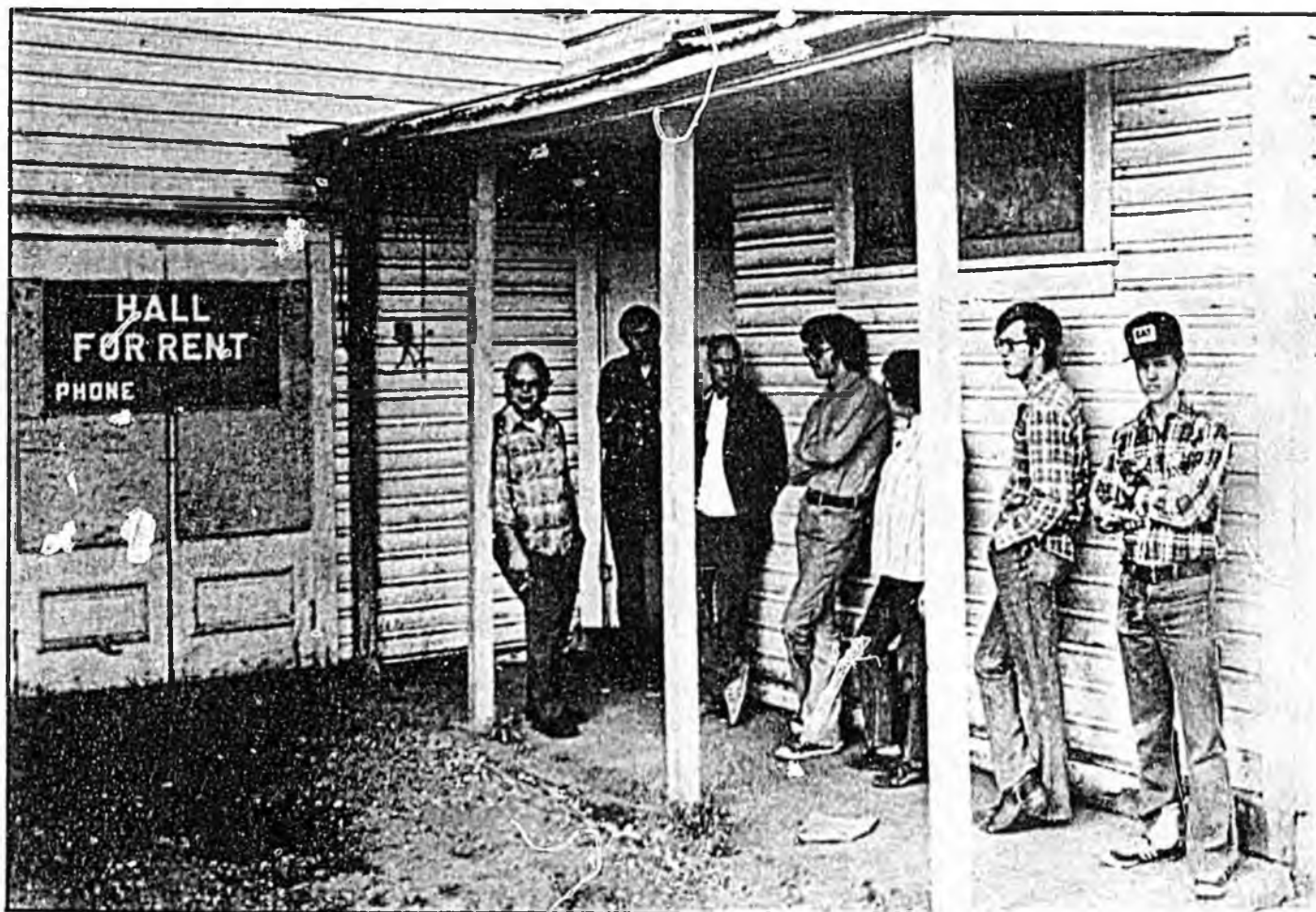
Sincerely.

Kay S. Hendrickson

Kay S. Hendrickson

NOTE REGARDING THE FOLLOWING FRAME(S) ON MICROFILM:
COMPLETE DOCUMENT IS AVAILABLE IN ORIGINAL FILES.
TITLE PAGE ONLY HAS BEEN FILMED.

Unemployment Insurance Actuarial Study and Financial Handbook December 1983



Alaska Department of Labor, Bill Sheffield, Governor, State of Alaska

PROPOSED TITLE: HCSC95B 525(FIN)
AN ACT RELATING TO UNEMPLOYMENT INSURANCE, AND PROVIDING
FOR AN EFFECTIVE DATE

PRIME SPONSOR: SENATE LABOR&COMM COMMITTEE.
GENERAL DOLLARS: \$2,742,000 (F. NOTE)
OTHER DOLLARS: \$47,300

CO-SPONSORS:
CURRENT STATUS: 5/30/84 (S) CONCURRD (H) AM

DATE	SEQ	PAGE	LEGISLATIVE ACTION
03/07/84	01	2277	FIRST READING -- COMMITTEE REPORTS
03/23/84	02	2447	L&C -- DP03, NR02
03/23/84	03	2447	L&C F/NOTE SEN SUPPL #66
05/03/84	04	2906	FIN -- CS05
05/03/84	05	2906	FIN F/NOTES SEN SUPPL #79
05/07/84	06	2953	RLS -- FIN CS03, NR01, OTHER04 TAKEN UP IMMEDIATELY
05/07/84	07	2956	SECOND READING
05/07/84	08	2956	FIN CS ADOPTED BY UNAN CONSENT
05/07/84	09	2956	ADVANCED TO 3RD READING BY UNAN CONSENT
05/07/84	10	2956	THIRD READING
05/07/84	11	2957	PASSED BY DIV 20-00-00
05/07/84	12	2957	EFF DATE VOTE SAME SEC 14,15,16,17,18
05/29/84	28	3325	POSTPONED UNTIL 05/30/84 BY UNAN CONSENT
05/30/84	29	3305	CONCURRED IN HOUSE AMS BY DIV 16-02-02
05/30/84	30	3305	EFF DATE VOTE SAME UNAN CONSENT

DATE	SEQ	PAGE	LEGISLATIVE ACTION
05/08/84	13	3750	FIRST READING -- COMMITTEE REPORTS
05/16/84	14	3870	L&C -- CS04, OTHER02
05/16/84	15	3870	L&C F/NOTES HSE SUPPL #143
05/25/84	16	4063	FIN -- CS07, NR01, OTHER01
05/25/84	17	4063	FIN F/NOTE HSE SUPPL #147
05/29/84	18	4130	SECOND READING
05/29/84	19	4130	FIN CS ADOPTED BY UNAN CONSENT
05/29/84	20	4131	AM01 NOT ADOPTED BY DIV 04-34-02
05/29/84	21	4131	ADVANCED TO 3RD READING BY UNAN CONSENT
05/29/84	22	4131	THIRD READING
05/29/84	23	4131	PASSED BY DIV 38 00-02
05/29/84	24	4132	EFF DATE CLAUSES VOTE SAME UNAN
05/29/84	25	4132	NOTICE OF RECONSIDERATION GIVEN
05/29/84	26	4134	PASSED ON RECONSIDERATION BY DIV 32-00-01
05/29/84	27	4134	EFF DATE CLAUSES VOTE SAME UNAN

COMMITTEE REPORT

SENATE

FURTHER:

EVANCO

3/7/64

Date 3/2/64

Mr. President

The Committee on LABOR AND CAPITAL considered SB 305

UNEMPLOYMENT INSURANCE; RFD.

and (a majority of the committee) (the committee) reports it back with the following recommendations:

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for _____
- new title
- same title and recommends _____
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

**MEMBERS SIGNING
DC PASS**

[Signature]

[Signature]

**MEMBERS HAVING
OTHER RECOMMENDATIONS**

[Signature]

[Signature]

[Signature]
Chairman

[Signature]
Chairman recommendation

STATE OF ALASKA

DEPARTMENT OF LABOR

OFFICE OF THE COMMISSIONER

BILL SHEFFIELD, GOVERNOR

P.O. BOX 1149
JUNEAU, ALASKA 99802
PHONE:

465-2700

March 20, 1984

The Honorable Richard Eliason
Chairman, Senate Labor and
Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

This is in response to the question you asked during your meeting with Jack Shay, Director of the Employment Security Division, on March 16. My staff has compared the benefit increase proposed in SB 525 to the 1930 law change. However, because of the many other changes implemented in 1980, and changes in the extended benefit program since then, it is difficult to isolate the issues and provide comparable figures. As a result of the changes, several assumptions had to be incorporated into the model used to derive the cost estimates. Some estimates are outlined below.

	<u>1979</u> <u>benefit schedule</u>	<u>1983</u> <u>benefit schedule</u>	<u>Percent</u> <u>Change</u>
Employer Contributions	\$64.2 million	\$73.5 million	14.5%
Employee Contributions	\$14.0 million	\$16.1 million	15.0%
Benefits Paid Out of Trust Fund	\$71.5 million	\$85.4 million	19.4%
Average Weekly Benefit Amount	\$87.58	\$134.40	53.5%

The original cost projection provided in 1980 estimated that the average weekly benefit amount would increase 51%, and that the variable duration concept would partially offset this for a net increase of 27%. Since

Honorable Richard Eliason

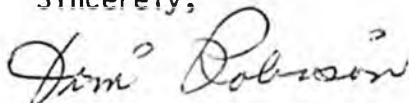
- 2 -

March 20, 1984

1980, changes affecting the extended benefit program plus a different economic picture have resulted in an actual increase of 19.4%. With the benefit increase proposed in SB 525 the increased cost is projected at 14%.

If you have any questions please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Jim Robison".

Jim Robison
Commissioner

STATE OF ALASKA

BILL SHEFFIELD, GOVERNOR

DEPARTMENT OF LABOR

OFFICE OF THE COMMISSIONER

P.O. BOX 1149
JUNEAU, ALASKA 99802
PHONE: (907) 465-2700

March 14, 1984

The Honorable Richard Eliason
Chairman, Senate Labor and
Commerce Committee
Pouch V
Juneau, Alaska 99811

Dear Senator Eliason:

This is in reply to the questions asked by the Senate Labor and Commerce Committee on March 13 concerning SB 525, the unemployment insurance bill.

Question: What will be the total cost to employers and employees if we raise maximum benefits from \$156 to \$198 per week?

As indicated during the hearing, the employer rates are projected to decline after 1984 (even with an increase in benefits); however, the rates will not go down as fast when benefits are raised. The tax base is also expected to increase somewhat. The projected tax base figures were compiled by the Research and Analysis section of the Department and reflect an approximate increase of 2½ percent annually. The net result is projected as:

Year	Tax Base	Maximum Employer Tax Rate		Employee Tax Rate		Total Cost of Increase To Employers to Employees	
		w/o/incr.	w/incr.	w/o/incr.	w/incr.		
1985	\$22,600	4.08%	4.08%	.6%	.6%	\$ 0	\$ 0
1986	23,000	3.84	4.02	.5	.6	3.7 million	.8 million
1987	23,600	3.70	4.03	.5	.6	7.1 million	1.5 million
1988	24,500	3.42	3.90	.5	.5	10.3 million	2.3 million

Question: What sections of the bill are conformity items with the Federal Government?

Sections 8 and 11 are conformity items. Sections 2 and 3, while not strictly conformity items, are necessary to have our law relate to the federal FUTA law and save employers in this state between \$1.5 and \$2.0 million annually in increased FUTA taxes.

The Honorable Richard Elison

-2-

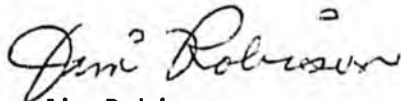
March 14, 1984

Question: Do you have information on firms affected by Sections 2 and 3 of the bill?

Yes, the enclosed listing identifies the industry make-up of the 163 firms potentially eligible for the 21st rate class. If this law change had been in effect currently, it would have affected 163 employers in 1983 for a total increase of \$2,800, or an average of \$17 per employer. In 1984, it would not have affected any employers in the state.

I hope this answers the questions posed by your committee. We will respond to the query from Senator Pettyjohn concerning tax base period calculations in a separate memorandum. If you need additional information, please contact me.

Sincerely,



Jim Robison
Commissioner

Enclosures

FIRMS POTENTIALLY ELIGIBLE FOR A "21ST RATE CLASS"

<u>Major Industry Division</u>	<u>Number of Employers</u>
Agric. Forestry Fisheries	7 ✓
Mining	4
Construction	51
Food Processing	4
Wood Products	1
Transp-Commun-Public Util.	9
Wholesale Trade	10
Retail Trade	15
Finance Insur-Real Estate	10
Services	49
Government	1
Unspecified	2
	<u>163</u>

STATE OF ALASKA

Bill Sheffield, Governor

DEPARTMENT OF LAW

OFFICE OF THE ATTORNEY GENERAL

POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

December 5, 1983

M E M O R A N D U M

TO: Honorable Bill Sheffield
Governor

FROM: *for* *Norman C. Gorsuch*
Norman C. Gorsuch
Attorney General

RE: Attached bill on employment insurance
Our file: 377-043-84

Attached is a bill containing changes to the unemployment insurance statutes in AS 23.20. The changes were developed by the Department of Labor and for the most part are in response to changes and requirements of the federal statutes under which the department operates the unemployment insurance program Alaska.

The bill contains other "housekeeping" measures, including the provision for effective dates for certain sections, again in order to conform to effective dates for federal requirements in the unemployment insurance program.

A draft transmittal letter to the legislature, explaining the bill in more detail, is also attached.

NCG:GIA:bap

cc w/enc.: Honorable James Robison
Commissioner
Department of Labor

D R A F T

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to unemployment insurance. In large part this bill is a response to changes in federal requirements for the operation of Alaska's Unemployment Insurance Program.

Section 1 of the bill involves the training and building fund created under AS 23.20.130. State law presently requires that any unobligated money in excess of \$100,000 in the fund must be transferred to the Unemployment Trust Fund on the last day of the fiscal year. Often the legislature does obligate that excess money, but just as often, the bill accomplishing that action is not signed into law until after the end of the fiscal year. Therefore, by the time a bill is signed obligating the money, it has technically already passed into the Unemployment Trust Fund. By providing a 30-day "grace period" following the last day of each fiscal year, this problem should not arise.

Sections 2 and 3 of this bill are in response to certain 1982 amendments to the Federal Unemployment Tax Act (FUTA), effective January 1, 1985. Under the amended version of the FUTA, employers in the State of Alaska will not receive a full credit for the contributions made to the state unemployment fund unless state law includes a maximum tax rate of at least 5.4 percent, a tax rate which

must actually be assessed against at least one employer in the state. Sections 2 and 3 will create that standard rate and identify a class of employers which are assessed that rate, thus insuring that all employers in the State of Alaska can receive the full credit for their contributions to the state unemployment trust fund.

Section 4 of the bill will amend AS 23.20.350(d) by increasing the maximum unemployment insurance benefit amount to \$198 per week, not including an allowance for dependents. This increase will provide approximately two-thirds of unemployment insurance claimants with a replacement of at least 50 percent of their average weekly wages. These increases were developed in order to fight the impact of inflation and to more closely parallel suggested federal benefit adequacy guidelines for wage replacement.

Sections 5 and 6 of the bill rewrite AS 23.20.350(f), which provides for an allowance for dependents in addition to a weekly unemployment benefit amount. The amount of the allowance for dependents remains unchanged. The amendments contained in sec. 5 will permit the Department of Labor to administer the program in a manner more likely to accomplish its purpose, i.e., to provide additional wage replacement income to claimants with dependents. The present law artificially and perhaps unreasonably

restricts certain claimants from obtaining the benefits of the allowance for dependents.

The amendment will permit an allowance for dependents to be paid to a claimant having physical custody of a child or to a claimant who provides over 50 percent of support for the child. If two claimants qualify to claim the allowance, it will be paid to the claimant who provides over 50 percent of support. In addition, unlike under present law, a claimant need not claim the allowance for dependents when he or she first files a claim for unemployment benefits. The bill does continue to prohibit the allowance for dependents from being claimed by more than one individual.

Wendy Dimond v. Department of Labor, State of Alaska, 1JU-83-341 Civil, is an appeal of an administrative decision of the Employment Security Division's Appeal Tribunal. The litigation involves an interpretation of AS 23.20.350(f). Sections 5 and 6 of the bill would correct some of the more serious legal questions about the statute.

Section 7 of the bill will amend AS 23.20.362(c) by permitting severance and termination pay to be deductible from unemployment insurance benefits in the same way that other wage replacement payments are presently deducted.

Sections 8, 9, and 11 of the bill are responses to changes in federal law which directly effect the administration of our unemployment insurance program. Section 8 extends the disqualifications under AS 23.20.381(e) to all employees of educational institutions, employees of "educational service agencies" serving educational institutions, and to those same employees for any established vacation period or holiday recess. Section 9 modifies the disqualification for failing to actively seek work by exempting a claimant who is hospitalized or serving on jury duty. Section 11 brings the state into conformity with federal law by repealing AS 23.20.526(a)(22)(D), which the U.S. Department of Labor interprets as a waiver of benefit rights. A waiver of benefit rights is prohibited by sec. 303(a)(1) of the Social Security Act and AS 23.20.395.

Section 10 of the bill closes a "loophole" in the current unemployment insurance law by prohibiting individuals on "R and R" from collecting unemployment insurance benefits.

The Department of Labor supports this bill. I urge your prompt action on it.

Sincerely,

Bill Sheffield
Governor

Alaska Tomorrow

The Actuarial Unit of the Research and Analysis Section has used two computer models since 1978 to aid in the analysis of proposed legislation. One model enables rapid and accurate computation of an average payment for a variety of benefit schedules. Once a relationship is established between the current schedule and an alternate schedule, a second mathematical model uses the established relationship to project costs and other significant variables under three different scenarios. In this way it is possible to evaluate a variety of changes to the law which would have a financial impact on the Trust Fund.

The following four exhibits are the output from the mathematical model designed to simulate various actions affecting Alaska's unemployment insurance system. All four runs use the same assumptions: that the number of claimants, total earning and financing provisions are the same for each alternative. By holding input assumptions constant, the effect of a specific change in state law can be evaluated.

The current system is the basis for comparison. Exhibit 9 was run using the most likely growth scenario

Exhibit 9 Trust Fund Model

AID DESCRIPTION: CURRENT LAW - NO CHANGES
 RUN DATE: 24 SEPTEMBER 1983
 SCENARIO: MOST LIKELY GROWTH

YEAR	AVERAGE ANNUAL EMPLOY	TOTAL ANNUAL EARNINGS	AVERAGE WEEKLY WAGE	ANNUAL AVERAGE SUR	WEEKS COMPENSATED REGULAR	WEEKS COMPENSATED EXT BEN	AVERAGE WEEKLY BENEFIT	TRUST FUND INT RATE
1982	133,720	3,789,058,000	365	7.5	521,430	78,215	129.50	10.0
1983	140,600	4,214,562,400	577	7.5	548,340	85,801	132.89	10.0
1984	140,700	4,243,512,000	580	9.0	658,476	79,017	133.89	9.0
1985	141,200	4,383,412,400	597	8.0	587,322	70,447	134.89	8.0
1986	141,800	4,534,764,000	615	7.5	553,020	66,382	135.90	8.0
1987	141,300	4,709,123,000	640	7.5	551,850	66,222	136.92	7.0
1988	141,600	4,856,528,000	665	7.5	552,240	66,269	137.95	7.0

CURRENT TAX RATE IS 75 PERCENT OF AAW
 PROPOSED TAX RATE IS 75 PERCENT OF AAW BEGINNING 1985

MODEL OUTPUT (DOLLARS IN MILLIONS UNLESS OTHERWISE NOTED)

YEAR	INITIAL FUND BALANCE	TAX BASE (\$)	TAXABLE WAGE RATIO	TAXABLE WAGES	RESERVE RATIO	AVERAGE TAX RATE	MIN TAX RATE	MAX TAX RATE	LE TAX RATE	TOTAL EMPLOYER CONTRIB	TOTAL EMPLOYEE CONTRIB	TRUST FUND INTEREST	TOTAL REVENUE	BENEFITS PAID BY ALASKA	BENEFIT COST RATE	FINAL FUND BALANCE	FEDERAL SHARE OF BEN	SOLV TAX RATE
1982	103.6	14,600	0.62	2,343.6	0.036	0.0304	0.0122	0.007	0.007	69.1	15.7	11.7	96.5	74.0	0.026	126.1	4.0	
1983	126.1	20,200	0.78	3,290.5	0.036	0.0238	0.0100	0.0280	0.005	78.2	16.5	12.6	107.3	81.6	0.019	151.8	4.4	
1984	151.8	21,900	0.76	3,225.1	0.036	0.0257	0.0103	0.0410	0.006	82.7	18.4	13.7	115.4	94.7	0.023	169.8	5.3	
1985	168.4	22,800	0.75	3,287.6	0.038	0.0255	0.0102	0.0408	0.006	83.4	19.7	13.5	117.1	88.7	0.020	197.2	4.8	
1986	157.2	23,000	0.75	3,401.1	0.044	0.0240	0.0100	0.0384	0.005	81.7	17.0	15.8	114.5	64.2	0.019	227.5	4.5	
1987	227.5	23,600	0.75	3,531.1	0.049	0.0232	0.0100	0.0370	0.005	81.8	17.7	15.9	115.4	84.6	0.018	258.7	4.5	
1988	258.7	24,500	0.75	3,672.4	0.054	0.0215	0.0100	0.0342	0.005	78.9	18.4	18.1	115.4	85.3	0.017	288.2	4.6	

TOTAL EMPLOYER CONTRIBUTIONS: \$ 556 MILLION
 TOTAL REVENUE: \$ 382 MILLION
 REGULAR AND ALL EXTENDED BENEFITS PAID: \$ 639 MILLION
 FEDERAL SHARE OF EXTENDED BENEFITS: \$ 32 MILLION

REASONABLE UNEMPLOYMENT AND UNEMPLOYMENT IS EXCLUDED FROM SCENARIO

Chart indicating employer's rate

under the assumption that no changes will occur in either financing provisions of the law or in benefit provisions. In the years 1986, 1987, and 1988, the average insured unemployment in this scenario is assumed to remain unchanged. In spite of this, the benefit cost rate drops year to year, even though the actual amount of benefits paid increase. This displays the impact of inflation where benefits do not increase as rapidly as wages. The \$156 cap in maximum weekly benefits prevents more and more claimants from achieving the intended return of 50 percent of their own average weekly wage.

Exhibit 10 assumes that the maximum WBA will increase to \$198 effective January 1, 1985 but that everything else will remain unchanged. This model demonstrates the effectiveness of the self-correcting feature of the current tax system. Without a change in the tax rate schedule, the benefit cost increases cause an increase in tax rates over the prior scenario. The benefit cost rate will still drop, indicating a need to frequently adjust the benefit maximum as long as wages increase through inflation.

Exhibit 11 assumes that alternative #2 in response to TEFRA would be put into effect along with increasing maximum WBA to \$198. Since we are looking at millions of dollars, the impact of the 21st rate class at 5.4 percent cannot be detected. It was expressed earlier that this alternative would have the least impact on employers' state unemployment insurance contributions, while preserving the full 5.4 percent FUTA credit for certified employers.

Exhibit 12 shows the impact of reducing the tax base to 50 percent of average annual wage, along with the increase of maximum WBA to \$198. Although no maximum of 5.4 percent employer tax was specified for this example, the maximum exceeded 5.4 percent in all years shown from 1985 through 1988. Total employer tax collections remain unchanged; however, in this example the proportion of taxes from low-wage employers would increase.

**Exhibit 10
Trust Fund Model**

RUN DESCRIPTION: MAXIMUM WBA INCREASED TO \$198 EFF. 1/1/85, EVERYTHING ELSE REMAINS UNCHANGED
 RUN DATE: 24 SEPTEMBER 1983
 SCENARIO: MOST LIKELY GROWTH

YEAR	AVERAGE ANNUAL EMPLOY	TOTAL ANNUAL EARNINGS	AVERAGE WEEKLY WAGE	ANNUAL AVERAGE IUR	WEEKS COMPENSATED REGULAR	EXT BEN	AVERAGE WEEKLY BENEFIT	TRUST FUND INT RATE
1982	132,700	1,789,058,000	545	7.5	521,430	78,215	129.50	10.0
1983	140,800	4,218,561,400	577	7.5	548,140	85,801	132.89	10.0
1984	140,700	4,243,512,000	580	7.0	658,476	79,017	133.89	9.0
1985	141,700	4,383,412,800	597	8.0	587,392	111,487	153.77	8.0
1986	141,800	4,314,764,000	615	7.5	553,020	66,362	154.91	8.0
1987	141,500	4,704,126,000	640	7.5	551,850	66,222	158.09	7.0
1988	141,600	4,896,578,000	665	7.5	552,240	84,364	157.26	7.0

CURRENT TAX RATE IS 7.5 PERCENT OF AAV
 PROPOSED TAX RATE IS 7.5 PERCENT OF AAV BEGINNING 1985

NOTE: OUTPUT (DOLLARS IN MILLIONS UNLESS OTHERWISE NOTED)

YEAR	INITIAL FUND BALANCE	TAX BASE (\$)	TAXABLE WAGE RATIO	TAXABLE WAGES	RESERVE RATIO	AVERAGE TAX RATE	MIN TAX RATE	MAX TAX RATE	ER TAX RATE	TOTAL EMPLOYER CONTRIB	TOTAL EMPLOYEE CONTRIB	TRUST FUND INTEREST	TOTAL REVENUE	BENEFITS PAID BY ALASKA	BENEFIT COST RATE	FINAL FUND BALANCE	FEDERAL SHARE UP LB	STATE RATE
1982	103.6	14,600	0.62	2,343.6	0.036	0.0304	0.0122	0.0487	0.007	69.1	15.7	11.7	96.5	74.0	0.026	126.1	4.0	5.4
1983	126.1	20,203	0.78	3,280.5	0.038	0.0238	0.0100	0.0380	0.005	78.2	16.5	12.6	107.3	81.6	0.019	151.8	4.4	5.4
1984	151.8	21,900	0.76	3,225.1	0.036	0.0257	0.0103	0.0410	0.006	82.7	19.4	13.7	115.8	98.7	0.021	180.8	5.3	5.4
1985	188.8	22,600	0.75	3,287.6	0.038	0.0255	0.0102	0.0404	0.006	81.9	19.7	12.5	117.1	101.2	0.021	180.8	5.4	5.4
1986	184.8	21,000	0.75	3,401.1	0.041	0.0251	0.0100	0.0400	0.006	85.4	20.4	14.8	120.6	96.0	0.021	209.4	5.1	5.4
1987	209.4	21,600	0.75	3,531.4	0.045	0.0257	0.0101	0.0403	0.006	88.9	21.2	14.7	124.8	96.5	0.020	237.7	5.2	5.4
1988	237.7	24,500	0.75	3,675.4	0.049	0.0244	0.0100	0.0390	0.003	89.6	18.4	16.6	124.6	97.2	0.020	265.1	5.2	5.4

TOTAL EMPLOYER CONTRIBUTIONS: \$ 578 MILLION
 TOTAL REVENUE: \$ 807 MILLION
 REGULAR AND ALL EXTENDED BENEFITS PAID: \$ 680 MILLION
 FEDERAL SHARE OF EXTENDED BENEFITS: \$ 35 MILLION

NONRECURRING EMPLOYMENT AND UNEMPLOYMENT IS EXCLUDED FROM SCENARIO

the claimant shall be promptly notified of the determination and the reason for it. The claimant may appeal the determination in the same manner prescribed in this chapter for appeals of initial determinations and redetermination. Benefits may not be paid while a determination is being appealed for any weeks for which the determination of disqualification was made. However, if a decision on the appeal allows benefits to the claimant, those benefits must be paid promptly.

(g) If, after the initial determination, benefits with respect to a week for which a claim has been filed are denied for reasons other than matters included in the initial determination, the claimant shall be promptly notified of the denial and the reasons for it and may appeal in accordance with the procedures prescribed in this chapter for an appeal from an initial determination.

Sec. 23.20.345.

PAYMENT OF BENEFITS

Benefits are payable from the fund. All benefits shall be paid through employment offices in accordance with regulations prescribed by the department.

Sec. 23.20.350.

AMOUNT OF BENEFITS

(a) An individual who is paid at least \$1,000 in wages during his base period for employment covered by this chapter is eligible to receive benefits under this chapter if those wages were paid in at least two of the calendar quarters of his base period.

(b) This paragraph is repealed as of 6/26/82.

(c) For the purposes of computing the benefits payable under this chapter, the base period wages of an insured worker shall be determined as follows:

(1) if the insured worker is paid 90 percent of his wages in the calendar quarter of his base period in which he was paid the greatest amount of wages, the base period wages are the wages paid in the quarter of the base period other than the one in which the greatest amount of wages were paid, multiplied by 10; and

(2) if the insured worker is paid less than 90 percent of his wages in the calendar quarter of his base period in which he was paid the greatest amount of wages, the base period wages are the wages paid to him during the base period.

(d) An individual who is eligible under (a) of this section is entitled to receive the weekly benefit amount set out in column (B) of the table in this subsection which is opposite the amount set out in column (A) of the individual's base period wages determined under (c) of this section:

(A) Base Period Wages		(B) Weekly Benefit Amount
0	1,000	\$ 0
1,000	1,250	34
1,250	1,500	36
1,500	1,750	38
1,750	2,000	40
2,000	2,250	42

2,250	2,500	44
2,500	2,750	46
2,750	3,300	48
3,000	3,250	50
3,250	3,500	52
3,500	3,750	54
3,750	4,000	56
4,000	4,250	58
4,250	4,500	60
4,500	4,750	62
4,750	5,000	64
5,000	5,250	66
5,250	5,500	68
5,500	5,750	70
5,750	6,000	72
6,000	6,250	74
6,250	6,500	76
6,500	6,750	78
6,750	7,000	80
7,000	7,250	82
7,250	7,500	84
7,500	7,750	86
7,750	8,000	88
8,000	8,250	90
8,250	8,500	92
8,500	8,750	94
8,750	9,000	96
9,000	9,250	98
9,250	9,500	100
9,500	9,750	102
9,750	10,000	104
10,000	10,250	106
10,250	10,500	108
10,500	10,750	110
10,750	11,000	112
11,000	11,250	114
11,250	11,500	116
11,500	11,750	118
11,750	12,000	120
12,000	12,250	122
12,250	12,500	124
12,500	12,750	126
12,750	13,000	128
13,000	13,250	130
13,250	13,500	132
13,500	13,750	134
13,750	14,000	136
14,000	14,250	138
14,250	14,500	140
14,500	14,750	142
14,750	15,000	144
15,000	15,200	146
15,200	15,400	148
15,400	15,600	150
15,600	15,800	152
15,800	16,000	154
16,000	and over	156

Effective
1/1/83

(e) An individual who is eligible under (d) of this section is