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HOUSE COMMITTEE REPORT

(11)

Date Referred: March 31, 1989

FURTHER REFERRALS:

Date of Committee Action: 4/4/89

The FINANCE Committee considered:

HB 147

HOUSE BILL NO. 147

[UNEMPLOYMENT INSURANCE]

"An Act relating to unemployment insurance and unemployment insurance contribution overpayments; establishing a priority for payment; and providing for an effective date."

RECOMMENDATIONS:

- be replaced with CS HB 147 (Judiciary) the same title
- be replaced with CS HB 147 (Judiciary) a new title
- have attached amendment(s)
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):
(Dept)

APPROVES PREVIOUS:

(Date/Dept)

- fiscal impact Labor
- zero fiscal note _____
- zero with analysis _____

- fiscal note(s) _____
- zero fiscal note(s) _____
- zero fn/analysis _____

SIGNING DO PASS:

SIGNING:

(Check approp. column)

Do Not
Pass No Rec Amend

Ronald J. Larson LARSON

Ray Wallis WALLIS

Cliff Swack SWACK

Heena Koponen KOPONEN

Tom Ulmer ULMER

<u>Jan Brown</u> BROWN		X	
<u>Barbara Barnes</u> BARNES		X	
<u>Rod Phillips</u> PHILLIPS		✓	
<u>Don Shultz</u> SHULTZ		X	
<u>John Heffner</u>		X	

Ronald J. Larson
CO-chairman's Signature

**STATE OF ALASKA
1989 LEGISLATIVE SESSION**

BILL VERSION : CSHB 147 (Jud)

PUBLISH DATE : _____

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: All
 Title: " An Act relating to
unemployment insurance..." BRU: All
 Sponsor: Rules Committee Components: All
 Requestor: House Judiciary

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES	0.0	44.0	44.0	44.0	44.0	44.0
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND&STRUCTURES						
GRANTS,CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0.0	44.0	44.0	44.0	44.0	44.0

CAPITAL						
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REVENUE	0.0	150.0	150.0	150.0	150.0	150.0
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FUNDING: (Thousands of Dollars)

GENERAL FUND	0.0	30.8	30.8	30.8	30.8	30.8
FEDERAL FUNDS						
OTHER	0.0	13.2	13.2	13.2	13.2	13.2
TOTAL	0.0	44.0	44.0	44.0	44.0	44.0

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

See Attached

Prepared by: Judy Knight, Deputy Director Phone: 465-2712
 Division: Employment Security Division Date: 4/3/89

Approved by Commissioner: Jim Sampson Date: 4/3/89
 Agency: Department of Labor

Distribution (by preparer) :
 Legislative Finance
 Legislative Sponsor
 Requestor
 Office of Management and Budget
 Impacted Agency(ies)

Adopted

Fiscal Note Analysis
for

"An Act relating to Unemployment Insurance..."

Three sections of this bill carry expenditure impact; one section will generate revenue.

Section 11 requires the department to adopt regulations to follow the notice and publication provisions of the Unclaimed Property Act. The minimal costs associated with this requirement will be paid for out of currently budgeted federal operating funds.

Section 18 would pay unemployment benefits to individuals who attend school if they became laid off while both attending school and working at least thirty hours a week.

There would be a cost to the State if state employees were laid off and qualified under this bill for unemployment benefits. Under existing law, the State reimburses the Unemployment Insurance Trust Fund for benefits paid to its employees. We estimate that 7 employees a year would qualify for benefits. At an average benefit of \$2,000 each, this would equate to \$14,000 a year.

Section 26 would change the provisions for dependent allowance. Both parents would receive the allowance if they are unemployed at the same time. We estimate this would cost the State \$30,000 per year in benefits to ex-state employees.

The total impact of these two provisions would be \$44,000 per year. However, since approximately 70% of the state operating budget is general funds, we estimate that \$30,800 (70% of \$44,000) of general fund money would be used while \$13,200 would be other funds. Other funds include federal, inter-agency, user fees, etc.

Section 22 of this bill provides for a penalty of 50% to be assessed claimants who are disqualified for fraudulent receipt of UI benefits. When collected, this penalty will be deposited in the General Fund as unrestricted revenue. The calculations used to arrive at estimated anticipated revenues are as follows:

- | | |
|---|------------|
| 1. Total detected fraudulent payments made per year | \$500,000. |
| 2. 50% penalty on detected fraudulent payments | \$250,000. |
| 3. A 60% collection rate on the established penalties | \$150,000. |

Assumptions:

1. An effective date for sections 18, 22, and 26 of July 2, 1989.
2. Detected fraudulent overpayments will remain at about \$500,000/year through 1994.
3. The fraud penalty must be collected in cash, therefore we have assumed a 60% collection rate on established penalties. The penalty cannot be collected by reducing a claimants future benefit entitlement due to a conflict with federal law.

Original sponsor: Rules/Governor

1 IN THE HOUSE BY THE JUDICIARY COMMITTEE
2 CS FOR HOUSE BILL NO. 147 (Judiciary)
3 IN THE LEGISLATURE OF THE STATE OF ALASKA
4 SIXTEENTH LEGISLATURE - FIRST SESSION

5 A BILL
6 For an Act entitled: "An Act relating to unemployment insurance and to
7 unemployment insurance contribution overpayments;
8 establishing a priority for payment; relating to
9 disclosure of certain wage and unemployment compensa-
10 tion information; and providing for an effective
11 date."

12 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

13 * Section 1. AS 16.10.290(a) is amended to read:

14 (a) A person applying for a license as a fish processor or
15 primary fish buyer shall file with the commissioner of labor a surety
16 bond running to the State of Alaska conditioned upon the promise to
17 pay (1) all persons furnishing labor to a fish processor or primary
18 fish buyer, including contractual employee benefits; [AND] (2) in-
19 dependent registered commercial fishermen for the price of the raw
20 fishery resource purchased from them; and (3) unemployment insurance
21 contributions. If the surety bond is insufficient to satisfy all
22 obligations under this subsection, the obligations to persons furnish-
23 ing labor and to independent registered commercial fishermen shall be
24 paid before unemployment insurance contributions are paid. The surety
25 or sureties must [SHALL] be satisfactory, in the determination of the
26 commissioner.

27 * Sec. 2. AS 23.20.110 is amended by adding a new subsection to read:

28 (k) If an individual who is applying for or participating in a
29 housing assistance program administered by the United States

1 Department of Housing and Urban Development gives authorization, the
2 department shall disclose, to the United States Department of Housing
3 and Urban Development or to representatives of the housing assistance
4 program operating the program, wage information and unemployment com-
5 pensation information. The authorization shall be made by the indi-
6 vidual on a consent form approved by the department. The form must
7 state the information authorized to be released and require the signa-
8 ture of the individual. In this subsection,

9 (1) "unemployment compensation information" means whether
10 the individual is receiving, has received, or has applied for unem-
11 ployment compensation, and the amount of unemployment compensation
12 that the individual is receiving or will receive;

13 (2) "wage information" means the social security number, or
14 numbers if there are more than one, and quarterly wages of an em-
15 ployee, and the name, address, state, and, if known, federal employer
16 identification number of an employer reporting wages under this chap-
17 ter.

18 * Sec. 3. AS 23.20.145(f) is amended to read:

19 (f) Money credited to the account of this state in the unemploy-
20 ment trust fund by the Secretary of the Treasury of the United States
21 under 42 U.S.C. 1103 (Sec. 903, Social Security Act) may not be requi-
22 sitioned from this state's account or used except for the payment of
23 benefits and for the payment of expenses incurred for the adminis-
24 tration of this chapter. This money may be requisitioned under (b) of
25 this section for the payment of benefits. This money may also be
26 requisitioned and used for the payment of expenses incurred for the
27 administration of this chapter but only under a specific appropriation
28 by the legislature and only if the expenses are incurred and the money
29 is requisitioned after the enactment of an appropriation law that

1 [WHICH]

2 (1) specifies the purpose for which the money is appropri-
3 ated and the amount appropriated;

4 (2) limits the period within which the money may be ob-
5 ligated to a period ending not more than two years after the date of
6 the enactment of the appropriation law; and

7 (3) limits the amount that [WHICH] may be obligated during
8 a fiscal year to an amount that [WHICH] does not exceed the amount by
9 which [(A)] the aggregate of the amounts credited to the account of
10 this state under 42 U.S.C. 1103 (Sec. 903, Social Security Act) during
11 that fiscal year and the 34 [24] preceding fiscal years exceeds [(B)]
12 the aggregate of the amounts obligated for administration and paid out
13 for benefits and charged against the amounts credited to the account
14 of this state during those 35 [25] fiscal years.

15 * Sec. 4. AS 23.20.145(g) is amended to read:

16 (g) Amounts credited to this state's account in the unemployment
17 trust fund under 42 U.S.C. 1103 (Sec. 903, Social Security Act) that
18 [WHICH] are obligated for administration or paid out for benefits
19 shall be charged against equivalent amounts that [WHICH] were first
20 credited and that [WHICH] are not already so charged. However, an
21 amount obligated for administration during a fiscal year specified in
22 this section may not be charged against any amount credited during
23 [SUCH] a fiscal year earlier than the 34th [24TH] preceding fiscal
24 year.

25 * Sec. 5. AS 23.20.195(a) is amended to read:

26 (a) If the contributions are unpaid after 30 days from the date
27 of mailing or personal delivery of a written demand for payment, the
28 department may [SHALL] assess and collect in the same manner as con-
29 tributions a penalty equal to the greater of 10 percent of the

1 contributions due or \$10. [IN NO EVENT MAY THE PENALTY BE LESS THAN
2 \$1.]

3 * Sec. 6. AS 23.20.205(a) is amended to read:

4 (a) If the department finds that a contribution including inter-
5 est or penalty on the contribution is delinquent, the department may
6 issue a notice of assessment specifying the amount due and may serve
7 it on the delinquent employer. The notice must inform the employer of
8 the department's rights under (c) of this section. A peace officer or
9 an authorized representative of the department may serve the notice
10 personally or the department may mail the notice by certified or
11 registered mail with return receipt requested.

12 * Sec. 7. AS 23.20.205(c) is amended to read:

13 (c) Unless an appeal is filed under AS 23.20.220, if [IF] the
14 amount assessed is not paid within 30 days after personal service or
15 mailing of the notice as required by (a) of this section, the depart-
16 ment may [, SUBJECT TO AS 23.20.220,] collect the amount stated in the
17 assessment by the distraint, seizure, and sale of the property, goods,
18 chattels, and effects of the delinquent employer. Goods and property
19 exempt from execution under the laws of this state are exempt from
20 distraint and sale under this section.

21 * Sec. 8. AS 23.20.220(a) is amended to read:

22 (a) When a notice of assessment is delivered or mailed to a
23 delinquent employer, the employer may within 30 days file an appeal [A
24 PETITION] in writing with the department, stating that the assessment
25 is unjust or incorrect and requesting a hearing on it. The period for
26 filing an appeal may be extended for a reasonable period for good
27 cause. The appeal must [PETITION SHALL] set out the reasons the
28 assessment is objected to and the amount of contributions that [WHICH]
29 the employer admits is due, and must be accompanied by a bond or

1 deposit of other security in the amount of the assessment to ensure
2 [INSURE] collection. The department may waive the security require-
3 ment if the employer submits proof of solvency or reasonable assur-
4 ance, as prescribed by regulations, that the contributions, interest,
5 and penalties due are not in jeopardy. If [NO PETITION IS FILED
6 WITHIN THE TIME PRESCRIBED, OR IF] the employer fails to provide the
7 required security, the collection under AS 23.20.205(c) is not stayed
8 [THE ASSESSMENT IS PRIMA FACIE CORRECT]. The department shall adopt
9 regulations for procedures for an appeal under this subsection [HOW-
10 EVER, THE DEPARTMENT MAY ENTERTAIN A SUBSEQUENT APPLICATION FOR
11 REFUND, AND, IF DENIED A REFUND, A HEARING ON THE APPLICATION IN
12 ACCORDANCE WITH AS 23.20.225].

13 * Sec. 9. AS 23.20.220(b) is amended to read:

14 (b) If the appeal is accompanied by the required security or the
15 department has waived the security requirement, filing an appeal
16 [FILING A PETITION] on a disputed assessment with the department stays
17 the sale provided for in AS 23.20.210 until a final decision on the
18 assessment is made. However, the filing of an appeal [A PETITION]
19 does not affect the right of the department to perfect a lien as
20 provided in AS 23.20.200.

21 * Sec. 10. AS 23.20.220(c) is amended to read:

22 (c) After granting the appellant [PETITIONER] reasonable oppor-
23 tunity for fair hearing, the department shall make a decision on the
24 appeal [PETITION]. The department's decision is final unless the
25 appellant [PETITIONER] initiates a proceeding for judicial review in
26 the manner provided by AS 23.20.445.

27 * Sec. 11. AS 23.20.225 is amended by adding a new subsection to read:

28 (e) The department shall adopt regulations providing for the
29 disposition of excess contributions paid to the unemployment

1 compensation fund under AS 23.20.130. The regulations must be sub-
2 stantially similar to the provisions of AS 34.45.110 - 34.45.430.

3 * Sec. 12. AS 23.20.240(a) is amended to read:

4 (a) If after notice an employer defaults in the payment of
5 contribution or interest, the amount due may be collected by a person
6 authorized by law and authorized by the department, by civil action in
7 the name of the state, or by both methods. The department shall
8 include in the amount due the fees or costs charged the department by
9 the person for the collection of the delinquent amount. An [AND THE]
10 employer who is [IF FOUND] liable shall pay the cost of the collec-
11 tion, including collection fees charged, and the costs of legal
12 action.

13 * Sec. 13. AS 23.20 is amended by adding a new section to read:

14 Sec. 23.20.242. APPEALS BY OFFICER, MEMBER, OR EMPLOYEE. The
15 department shall permit each officer or employee of a corporation or a
16 member or employee of a partnership who is required to pay the contri-
17 butions and interest owed by the corporation or partnership under
18 AS 23.20.165 - 23.20.278 to appeal individually their duty to pay
19 under those sections.

20 * Sec. 14. AS 23.20.277(b) is amended to read:

21 (b) At the end of each calendar quarter, or at the end of any
22 other period as determined by the department, the department shall
23 bill each government entity, nonprofit organization, or group of
24 nonprofit organizations that [, WHICH] has elected to make payments in
25 place of contributions, for benefits paid during the quarter or other
26 prescribed period that are attributable to service in the employ of
27 the government entity, nonprofit organization, or group. In the case
28 of nonprofit organizations and groups of nonprofit organizations, the
29 amount billed is an amount equal to the full amount of regular

1 benefits plus [ONE-HALF OF THE AMOUNT OF] extended benefits that are
2 not reimbursable by the federal government. In [AND IN] the case of
3 a government entity the amount billed is [WHICH HAS ELECTED TO MAKE
4 PAYMENTS UNDER THIS SECTION] an amount equal to the full amount of the
5 regular benefits plus the full amount of the extended benefits paid
6 [DURING THE QUARTER OR OTHER PRESCRIBED PERIOD THAT IS ATTRIBUTABLE TO
7 SERVICE IN THE EMPLOY OF THE NONPROFIT ORGANIZATION].

8 * Sec. 15. AS 23.20.277(e) is amended to read:

9 (e) At the end of each taxable year, the department shall deter-
10 mine whether the total of payments for the year made by a nonprofit
11 organization or group of nonprofit organizations is less than, or in
12 excess of, the total amount of regular benefits plus [ONE-HALF OF THE
13 AMOUNT OF] extended benefits not reimbursable by the federal govern-
14 ment paid to individuals during the taxable year based on wages attri-
15 butable to service in the employ of the nonprofit organization or
16 group. In [; AND IN] the case of a government entity that has elected
17 to make payments under this section, the department shall determine
18 whether the total of payments for the year is less than, or in excess
19 of, the total amount of regular benefits plus the total amount of
20 extended benefits as determined in this subsection. Each organization
21 or group whose total payments for the taxable year are less than the
22 amount so determined is liable for payment of the unpaid balance to
23 the fund in accordance with (f) of this section. If the total pay-
24 ments exceed the amount so determined for the taxable year, all or
25 part of the excess may, at the discretion of the department, be
26 refunded from the fund or retained in the fund as part of the payments
27 that [WHICH] may be required for the next taxable year.

28 * Sec. 16. AS 23.20.277(1) is amended to read:

29 (1) Each employer that is liable for payments in place of

1 contributions shall pay to the department for the fund the amount of
2 regular benefits plus the [AMOUNT OF ONE-HALF OF] extended benefits
3 not reimbursable by the federal government paid to individuals that
4 are attributable to service in the employ of that employer. However,
5 a government entity that [WHICH] has elected to make payments under
6 this section is liable for the amount of regular benefits plus the
7 full amount of extended benefits that [WHICH] are attributable to
8 service in the employ of that entity. If benefits paid to an indi-
9 vidual are based on wages paid by more than one employer and one or
10 more of these employers is [ARE] liable for payments in place of
11 contributions, the amount payable to the fund by each employer that is
12 liable for payments shall be determined by the department in accor-
13 dance with regulations adopted by the department.

14 * Sec. 17. AS 23.20.340(b) is amended to read:

15 (b) Within one year from the date of the initial determination
16 of the weekly benefit amount and the maximum potential benefit amount
17 established under AS 23.20.350, the department shall reconsider only
18 the determination of the monetary amounts and shall issue a redeter-
19 mination amending the initial determination if it finds that an error
20 in computation or identity has been made or that additional wages
21 pertinent to the claimant's insured status have become available, or
22 that the initial determination resulted from a nondisclosure or mis-
23 representation of a material fact concerning the determination of
24 monetary amounts.

25 * Sec. 18. AS 23.20.378(c) is amended to read:

26 (c) An insured worker is disqualified for waiting-week credit or
27 benefits for a week of unemployment while the insured worker is pursu-
28 ing an academic education [ATTENDS AN ESTABLISHED SCHOOL IN A COURSE
29 OF STUDY PROVIDING ACADEMIC INSTRUCTION OF 10 OR MORE CREDIT HOURS PER

1 WEEK, OR THE EQUIVALENT]. A disqualification under this subsection
2 begins with the first week of academic instruction and ends with the
3 week immediately before the first full week in which the insured
4 worker is no longer pursuing an academic education. However, an
5 insured worker who has been pursuing an academic education for at
6 least one school term and who was working at least 30 hours a week
7 during a significant portion of the time that the worker was pursuing
8 an academic education is not disqualified for waiting-week credit or
9 benefits under this subsection if the worker's academic schedule does
10 not preclude full-time work in the worker's occupation and if the
11 insured worker became unemployed because the worker was laid off or
12 the worker's job was eliminated [ATTENDING CLASSES IF THE INSURED
13 WORKER CERTIFIES THAT THE PERIOD OF NONATTENDANCE WILL LAST AT LEAST
14 60 DAYS]. In this subsection,

15 (1) "pursuing an academic education" means attending an
16 established school in a course of study providing academic instruction
17 of 10 or more credit hours per week, or the equivalent;

18 (2) [THE TERM] "school" includes primary schools, secondary
19 schools, and institutions of higher education.

20 * Sec. 19. AS 23.20.382(b) is repealed and reenacted to read:

21 (b) An otherwise eligible individual may not be denied benefits
22 or waiting-week credit for any week because the individual is in
23 training approved under 19 U.S.C. 2296(a)(1) (sec. 236(a)(1), Trade
24 Act of 1974), if

25 (1) while attending the training, the individual is not
26 available for work, fails to seek work, or refuses work; or

27 (2) the individual left work that was not suitable employ-
28 ment to enter training.

29 * Sec. 20. AS 23.20.382 is amended by adding a new subsection to read:

1 (d) An otherwise eligible individual may not be denied benefits
2 or waiting-week credit for any week because the individual is in any
3 training approved under 29 U.S.C. 1651 - 1658, as amended by P.L.
4 100-418, and, while attending the training, is not available for work,
5 fails to seek work, or refuses work.

6 * Sec. 21. AS 23.20.387(a) is amended to read:

7 (a) An insured worker is disqualified for benefits for the week
8 with respect to which the false statement or misrepresentation was
9 made and for an additional period of not less than six weeks or more
10 than 52 weeks if the department determines that the insured worker has
11 knowingly made a false statement or misrepresentation of a material
12 fact or knowingly failed to report a material fact with intent to
13 obtain or increase benefits under this chapter. The length of the
14 additional [THIS] disqualification and the beginning date of that
15 [THE] disqualification shall be determined by the department according
16 to the circumstances in each case.

17 * Sec. 22. AS 23.20.390 is amended by adding a new subsection to read:

18 (f) In addition to the liability under (a) of this section for
19 the amount of benefits improperly paid, an individual who is disqual-
20 ified from receipt of benefits under AS 23.20.387 is liable to the
21 department for a penalty in an amount equal to 50 percent of the
22 benefits that were obtained by knowingly making a false statement or
23 misrepresenting a material fact, or knowingly failing to report a
24 material fact, with the intent to obtain or increase benefits under
25 this chapter. The department may, under regulations adopted under
26 this chapter, waive the collection of a penalty under this section.
27 The department shall deposit into the general fund the penalty that it
28 collects.

29 * Sec. 23. AS 23.20.530(a) is amended to read:

1 (a) In this chapter, "wages" means all remuneration for service
2 from whatever source, including, but not limited to, insured work,
3 noninsured work, or self-employment; commissions, bonuses, back pay
4 and the cash value of all remuneration in a medium other than cash
5 shall be treated as wages; gratuities customarily received by an
6 individual in the course of service from persons other than the indi-
7 vidual's employing unit may be treated as wages received from the
8 employing unit only to the extent the individual reports the gratu-
9 ities to the employing unit. The reasonable cash value of remunera-
10 tion in a medium other than cash, and the reasonable amount of gratu-
11 ities, shall be estimated and determined in accordance with regula-
12 tions adopted by the department; notwithstanding AS 23.20.350(a), back
13 pay awards shall be allocated to the weeks or quarters with respect to
14 which the pay was earned. If the remuneration of an individual is not
15 based upon a fixed period of time or if the individual's wages are
16 paid in irregular intervals or in a manner that [WHICH] does not
17 extend regularly over the period of employment, the wages shall be
18 allocated to weeks or quarters in accordance with regulations adopted
19 by the department. The regulations must [SHALL], so far as possible,
20 produce results reasonably similar to those that [WHICH] would prevail
21 if the individual's wages were paid at regular intervals. When an
22 employer has filed for bankruptcy, unpaid wages earned for services
23 performed for the employer are considered wages for the quarter in
24 which they were earned.

25 * Sec. 24. AS 23.20 is amended by adding a new section to read:

26 Sec. 23.20.533. APPLICATION FOR DEMONSTRATION PROJECT. (a) The
27 Department of Labor shall pursue application with appropriate agencies
28 to qualify this state as a pilot state for demonstration programs
29 related to helping unemployed Alaskans regain employment, if

1 administrative money is available to operate the project.

2 (b) The Department of Labor may waive provisions of this chapter
3 for individuals who participate in a demonstration project, to the
4 extent required for the state to participate in the project.

5 * Sec. 25. AS 34.45.760(10) is amended to read:

6 (10) "intangible property"

7 (A) includes

8 (i) money, checks, drafts, deposits, interest,
9 dividends, and income;

10 (ii) credit balances, customer overpayments, gift
11 certificates, security deposits, refunds, credit memos,
12 unpaid wages, and unidentified remittances;

13 (iii) stocks and other intangible ownership inter-
14 ests in business associations;

15 (iv) money deposited to redeem stocks, bonds,
16 coupons, and other securities, or to make distributions;

17 (v) amounts due and payable under the terms of
18 insurance policies; and

19 (vi) amounts distributable from a trust or custo-
20 dial fund established under a plan to provide health, wel-
21 fare, pension, vacation, severance, retirement, death, stock
22 purchase, profit-sharing, employee savings, supplemental
23 unemployment insurance, or similar benefits;

24 (B) does not include

25 (i) unused airline tickets; [OR]

26 (ii) shares of stock issued by a corporation
27 organized under 43 U.S.C. 1601 - 1629a (Alaska Native Claims
28 Settlement Act) or unclaimed dividends payable on the
29 shares of stock; or

1 (iii) overpaid contributions by employers to the
2 unemployment compensation fund under AS 23.20.130;

3 * Sec. 26. AS 23.20.175(a), 23.20.175(b), 23.20.175(c)(1), 23.20.350-
4 (f)(4), and 23.20.350(f)(5) are repealed.

5 * Sec. 27. Section 25 of this Act is retroactive to September 7, 1986.

6 * Sec. 28. Sections 11, 25, and 27 of this Act take effect immediately
7 under AS 01.10.070(c).

8 * Sec. 29. Sections 1 - 10, 12 - 24, and 26 of this Act take effect
9 July 2, 1989.

SECTION-BY-SECTION ANALYSIS
CS for House Bill 147 (Jud)

Section 1:

The proposed amendment of AS 16.10.290(a) enhances the Department's ability to collect delinquent unemployment insurance contributions from fish processors and fish buyers. The Department's figures indicate that, as of December 1987, about 25 percent of all fish processors and buyers were delinquent in their contributions. Those delinquencies resulted in a loss to the unemployment trust fund of about \$610,000 as of that date. Under the proposed amendment, the Department may assert claims for contributions against the fish processors' and buyers' surety bonds, such claims having next priority after claims for wages and payments for raw fish.

Section 2:

The Stewart B. McKinney Homeless Assistance Amendments Act of 1988 requires, as a condition of receiving administrative grants under Title III of the Social Security Act, that states must disclose certain information contained in employment security records, upon request, to HUD and representatives of a public housing agency. It also provides for reimbursement of costs and appropriate safeguards of the information. The proposed amendment to AS 23.20.110 would allow the Department of Labor to comply with these federal requirements. This is a federal conformity issue and passage is required by September 30, 1989. The U.S. Secretary of Labor may withhold administrative funding for the Employment Security Division if this disclosure provision is not timely enacted.

Sections 3 and 4:

These sections provide for extension of the Reed Act for ten years. Title IX of the Social Security Act makes excess funds collected under the Federal Unemployment Tax Act (FUTA) available to pay benefits or for administration of employment security programs. Federal law extended the time limits in which the funds may be used by ten years. Unless Congress increases the maximum allowable levels in these funds, we anticipate that there will be excess funds to distribute back to the states in the near future. Current statute does not permit the Employment Security Division to receive or use these funds. This proposal, by extending the Reed Act, would allow Alaska to accept its share of the funds.

Section 5:

The amendment of AS 23.20.195(a) in this section provides that the ten percent penalty on delinquent employer reports and taxes may be discretionary instead of mandatory. It also increases the minimum penalty to \$10 from \$1. A discretionary penalty would remove the requirement for the Department to assess and collect penalties when it was not cost effective to do so.

Section 6:

This section requires the Department to inform an employer, at the time a notice of assessment for delinquent contributions is served on the employer, of the Department's rights. This includes the right to collect the amount stated in the assessment by distraint, seizure and sale of the property or, goods of the delinquent employer.

Sections 7, 8, 9 and 10:

The amendments to AS 23.20.205(c) and AS 23.20.220(a), (b) and (c) in these sections clarify the procedures for the appeal by an employer of the Department's assessment against the employer for unemployment contributions. The Department may extend the 30-day appeal filing deadline for good cause. Also, the amendments clarify that if the employer files security with the appeal, the collection of the assessment will be stayed pending determination of the appeal.

In addition, extraneous language in AS 23.20.220 is being deleted.

Section 11:

This section provides for the Department to adopt regulations for the disposition of excess contributions paid to the unemployment compensation fund. Section 25 of this bill exempts these funds from the Unclaimed Property Act, instead, retaining the funds in the Unemployment Trust Fund. Section 11 directs the Department to adopt regulations substantially similar to the provisions of the Unclaimed Property Act to address the handling of these unclaimed funds.

Section 12:

This amendment to AS 23.20.240 would allow the Department to use private collection facilities (or individuals) to collect outstanding employer contributions from employers. The Department is owed large amounts of contributions, especially by out of state employers, that are difficult to collect. This would provide a means to collect these delinquent contributions. The amendment provides for adding the collection fee to the amount of the debt owed, as Federal law prohibits the use of trust fund (or employer contributions) to pay collection costs. This provision would provide the Department a means, not currently available, to collect delinquent contributions.

Section 13:

Under current law, an officer or employee of a corporation, or partner or employee of a partnership may be liable for delinquent unemployment contributions in a civil action if they have been determined to have the duty to pay the contributions. These individuals have no prior appeal rights regarding the determination of their duty to pay the contributions. This section provides a new section, AS 23.20.242, that allows these individuals to appeal, at an administrative level, the determination of "duty to pay," prior to civil action.

Sections 14, 15 and 16:

Under current law, nonprofit organizations pay 50 percent of extended benefits (which is the amount not reimbursable by the federal government). Under the Gramm-Rudman-Hollings Act (the Federal Balanced Budget and Emergency Deficit Control Act of 1985), the reimbursable share of extended benefits payments may decrease because it is subject to sequestration. This action will increase the amount of extended benefits payments not reimbursable by the U.S. Department of Labor. To offset the anticipated loss of some portion of the federal money, nonprofit organizations that choose to reimburse the Department for benefits paid to their former employees, instead of paying contributions under AS 23.20.165, will, under the amendments to AS 23.20.277(b), (e) and (l), be required to reimburse the Department the full amount of extended benefits paid to their former employees that is not reimbursable. The amount charged government entities will not change because they currently reimburse 100 percent of extended benefits paid.

Section 17:

This section clarifies the intent of the law that the proviso for redetermining an initial claim applies only to the weekly benefit amount and the maximum potential benefit. This monetary redetermination will take place if the Department finds that an error in computation or identity was made, additional wages for a claimant have become available or the initial determination resulted from the nondisclosure or misrepresentation of a material fact.

Section 18:

This amendment provides for the payment of benefits to individuals who have been working full time while attending school and who are laid off from work. Under present law, a person who is taking ten (10) or more credit hours of classes in an academic program is not eligible for unemployment insurance benefits, with no exceptions. Current law unfairly penalizes individuals who have demonstrated that they can attend school without affecting their availability to work full time.

Section 19:

This amendment would correct the language in AS 23.20.382 so the restrictions would apply only to claims under the Trade Act, as intended. Current language applies restrictions to all claimants that were only intended to apply to Trade Act claimants.

Section 20:

Federal law precludes states from denying benefits to individuals because they are in training approved under Title III of the Job Training Partnership Act (JTPA). This amendment provides that all individuals who are attending training approved under JTPA will not be denied their unemployment insurance benefits. This conforming legislation is needed to pay benefits to those individuals, regardless of whether their training is academic or vocational.

Section 21:

This provision disqualifies the week in which a fraudulent act occurs in addition to the period of disqualification currently imposed. Under current law, an individual can be paid for a week in which he commits fraud, because the disqualification begins the week the fraud decision is issued.

Section 22:

Under proposed AS 23.20.390(f), individuals who fraudulently obtain benefits incur an additional monetary penalty of 50 percent of the amount improperly received, unless the Department waives the penalty, with any penalties collected to go to the general fund. Currently, under AS 23.20.387, a person who fraudulently receives benefits is disqualified from receiving benefits for a specified period of time, and, under AS 23.20.390(a), must repay the benefits fraudulently received (a situation similar to an interest-free loan). As a further disincentive for fraud, the 50 percent penalty is proposed.

Section 23:

Under current law, an individual's eligibility for unemployment insurance benefits is based upon wages paid to the individual. Thus, if an individual works for an employer who files for bankruptcy and does not pay its employees, the individual does not qualify for unemployment benefits. The proposed amendment to AS 23.20.530(a) in this section rectifies this situation. This section expands the definition of "wages" to include earnings for work that an employee performs but is not paid when the employer files for bankruptcy.

Section 24:

This provision allows the Department to participate in demonstration or pilot projects with the U.S. Department of Labor (USDOL) that test innovative ways to assist unemployed individuals to return to work. The Department may waive eligibility requirements if needed. Participation in these projects will be incumbent upon availability of administrative funds for operating the project.

Section 25:

This amendment provides for employer overpayments of unemployment insurance contributions that are not claimed by the employer to remain in the Unemployment Trust Fund. The Unclaimed Property Act (AS 34.45) requires state agencies to transfer unclaimed property to the Department of Revenue. Since expenditures from the Unemployment Trust Fund are automatically replaced by employers in the state under the contribution formula, employers should receive the indirect benefit (through lower contribution rates) of the unclaimed overpayments. This exemption from the Unclaimed Property Act would permit these funds to remain in the Unemployment Trust Fund if not claimed.

Section 26:

This section modifies the provisions covering dependents' allowance payments. Currently, a dependent claimed by one parent cannot be claimed by another parent until the first person's benefit year has expired (even if the first parent is not claiming benefits or has no remaining benefits to receive). A portion of every parent's wages goes to support their children. UI is for temporary, partial wage replacement of every eligible claimant. It is, therefore, inequitable for any parent with children to support to be denied dependents' allowance. This proposal allows each unemployed parent in a family unit to claim dependent children. Three dependents would still be the most that could be claimed by any claimant.

It also repeals outdated subsections of AS 23.20.175.

Sections 27, 28 and 29 provide for effective dates.

The Unemployment Insurance System: It Works for Alaskans When Alaskans Cannot Work

by Michael Hurst

The recession that began in late 1985 had a serious impact on almost every sector of the Alaskan economy. It was the individual Alaska worker, though, who was among the most gravely affected and also was among the first affected. More than 20,000 workers' jobs disappeared from the economy in two short years, 1986 and 1987. Average yearly earnings per job declined by 3% during the same period. Many workers were forced to move south. More than 10,000 properties went into foreclosure.

The 1980s recession eventually touched nearly every industry, occupation, and geographic area. Among industries, construction was hit first and hardest, actually starting to decline in 1984. The transportation, communications and utilities sector followed close behind. The services, trade, finance and real estate industries began to sustain losses in 1987 when the recession's secondary effects — loss of wages — were triggered. In all, over \$750 million in Alaska payroll was lost between 1985 and 1987.

**More than 20,000
workers' jobs
disappeared from the
economy in 1986 and 1987.**

UI System: Alaska's 3rd Largest Employer' During Recession

If it hadn't been for Alaska's Unemployment Insurance (UI) system, the impact of the recession would have been much more severe on both unemployed workers and on Alaska's economy in general. Between 1985 and 1988 more than 138,000 unemployed workers received unemployment compensation totalling over \$578 million. Over \$111 million more was paid out in benefits between November 1985 and April 1988 than was collected in taxes and reimbursements in that same period. This provided a direct stimulus to the economy. If the UI system's benefits were considered payroll, the system would have been the third largest employer in the state during this period.

Why Employers' Tax Rates Are Fluctuating Drastically

Both employees and employers benefit from the UI system. It is self-financed, primarily through employer and employee taxes. The financing method is automatic and is designed to be countercyclical. The countercyclical design explains why average employer tax rates are still fluctuating drastically. Evidence of this wild fluctuation is the fact that in 1985 the average employer tax rate amounted to 2.17%. In the present calendar year, the average tax rate on employers will be 4.14%, the highest in history. What are the reasons for the hike? Alaska employers are paying in 1989 for the increased benefit payments disbursed during the past recessionary year and they are rebuilding the UI savings account as a buffer against future recessions.

Purpose of the Unemployment Compensation System is Twofold

The Alaska Employment Security Act was enacted by the territorial legislature in 1937 because state lawmakers recognized that "...involuntary unemployment is a serious menace to the health, morale, and welfare of the people of the state." With this legislative mandate in mind, there is a twofold purpose of the unemployment compensation system. The system is designed to: 1) Ease the

Many Alaskans were able to remain in the state during the last recession largely because of the unemployment insurance compensation they received while out of work.

financial distress of lost income to unemployed workers and their families, and 2) Maintain purchasing power to help stabilize the state's economy.

Focuses of this article:

Having briefly sketched out an overview of the Alaska Unemployment Insurance system and its recent effects on the state's economy, it's now pertinent to outline where this article is going. This commentary will focus primarily on the recessionary years of 1985 through 1988, and this article will —

- Evaluate the support that UI gave to unemployed workers.
- Examine how the Unemployment Insurance system in Alaska successfully achieved its goals during the recent recession.
- Show how the UI trust fund helped stabilize the economy.
- Explain why UI employer tax rates are so high in 1989, and
- Explain why the rates will decline in 1990 and 1991.

**George and Jean —
A typical, fictitious case**

George had worked as a heavy equipment operator at a Fairbanks concrete plant since moving to Alaska in 1974. His wife Jean had been a loan officer at the local bank for six years. When the price of oil fell in late 1985, the concrete plant operation was closed and George was laid off. Jean was not affected immediately. But, eventually, the loss of wages in Fairbanks forced many residents to move south; many defaulted on their home loans. The bank began to lose assets and was forced to cut back. In late 1986 Jean was laid off.

George and Jean's story was a common one in Alaska between late 1985 and early 1988. About 20,000 jobs disappeared from the Alaska economy in 1986 and 1987. Many workers were indeed forced to move south. Home foreclosures and bankruptcies were a common occurrence.

Yet like many others who were laid off

during the recession, George and Jean chose to remain in Fairbanks. Luckily, George was rehired after a few months of being out of work. He went back to work at the Fairbanks concrete plant after new military-related construction projects allowed the plant to reopen. Jean also returned to work after a few jobless months, having been hired by owners of a local tourism business.

The Fairbanks couple survived financially and were able to remain in the state largely because of the unemployment insurance compensation they received while out of work.

In order to better understand how the UI system helped George and Jean during their time of joblessness, and how it has helped thousands of other couples like them, it's pertinent to briefly explain UI's major programs. The system has two major programs — regular and extended benefits. Also important in coming to understand the UI benefits program are questions regarding adequacy of the benefits, and how much compensation individual claimants are entitled to receive.

Regular Benefits: \$260 Per Week for 26 Weeks Is Maximum

The chief type of unemployment insurance benefits paid in the U.S. is called simply 'regular benefits'. How much a claimant receives in total regular benefits is determined by two elements: the claimant's weekly benefit amount and the number of weeks that the claimant receives benefits.

In Alaska, the claimant's weekly benefit amount is determined by his earnings in his 'base period'. (The base period is defined as the first four of the prior five complete calendar quarters.) The minimum benefit amount is \$38 per week for total earnings of \$1,000. The maximum is \$188 per week for total earnings of \$19,750 and over. A claimant may also receive dependents benefits, allowing him \$24 for each dependent — up to three dependents. In all, therefore, it's possible for a claimant to receive up to \$260 per week in benefit payments.

The number of weeks that a claimant can receive benefits depends upon the

steadiness of the claimant's work history during his base period. The maximum number of weeks that a claimant can receive regular benefits is 26 weeks, presuming he received his earnings equally over four quarters. The minimum number of weeks is 16, presuming he received all of his earnings in one quarter.

Extended Benefits Payable Only When Statewide Insured Unemployment Rate is 6%

When a claimant exhausts all of the regular benefits to which he is entitled, he becomes eligible for an additional benefit program called 'extended benefits'. He may claim up to one-half of the amount of regular benefits for which he was found eligible. There is an additional eligibility restriction, however. Extended benefits are only payable when Alaska's statewide unemployment is above a certain level. Specifically, the statewide 'Insured Unemployment Rate' (IUR) must be at least 6.0%. The statewide IUR is a weekly ratio of:

$$\frac{\text{Claims Actually Filed}}{\text{Average Employment}}$$

In Alaska, extended benefits are usually payable beginning in January; they usually end in July or August. Figure 1 shows the insured unemployment rates for 1986 and 1988. Note that in 1986 the IUR never fell below 6.0%. This means that extended benefits were payable year-round in 1986.

Benefit Adequacy: A Critical Measure of the UI System's Success

A critical function of the UI system is to partially replace an individual's lost income while he is unemployed. An important measure of the system's success is determined by the percentage of earned income replaced by UI. This is often referred to as 'benefit adequacy.' In 1988 the average weekly benefit amount for regular benefits was \$156.57. In that same year, the average weekly earnings for UI recipients were \$366. Thus, the average UI benefit replaced about 43% of the average earned income for UI claimants.

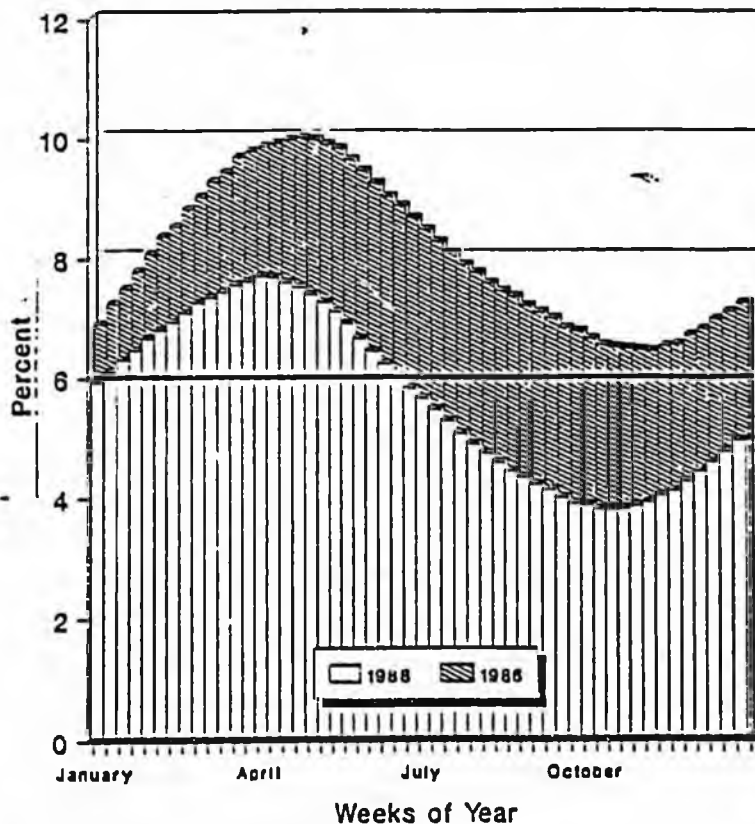
Table 1 provides data on the two main programs in Alaska — regular and extended benefits — for the five years 1984 to 1988. It lists the number of first payments (an approximation of the number of UI recipients), the total number of weeks claimants received payments, the amount of money they received in benefits, and the number of 'exhausts'. (Exhausts is defined as the number of recipients who have received the maximum benefits they were eligible to receive.) Table 1 also shows the 'Exhaustion Rate', and the average number of weeks each recipient has received compensation. (Exhaustion Rate is defined as the percentage of recipients who exhaust their eligible benefits.)

Note in Table 1 that all of the categories peaked in 1986; peaking in 1987, though, were the Exhaustion Rate and the average number of weeks per recipient. This indicates that while

In 1988, the average UI benefit replaced about 43% of claimants' average earned income.

Figure 1

Insured Unemployment Rate - 1986 and 1988

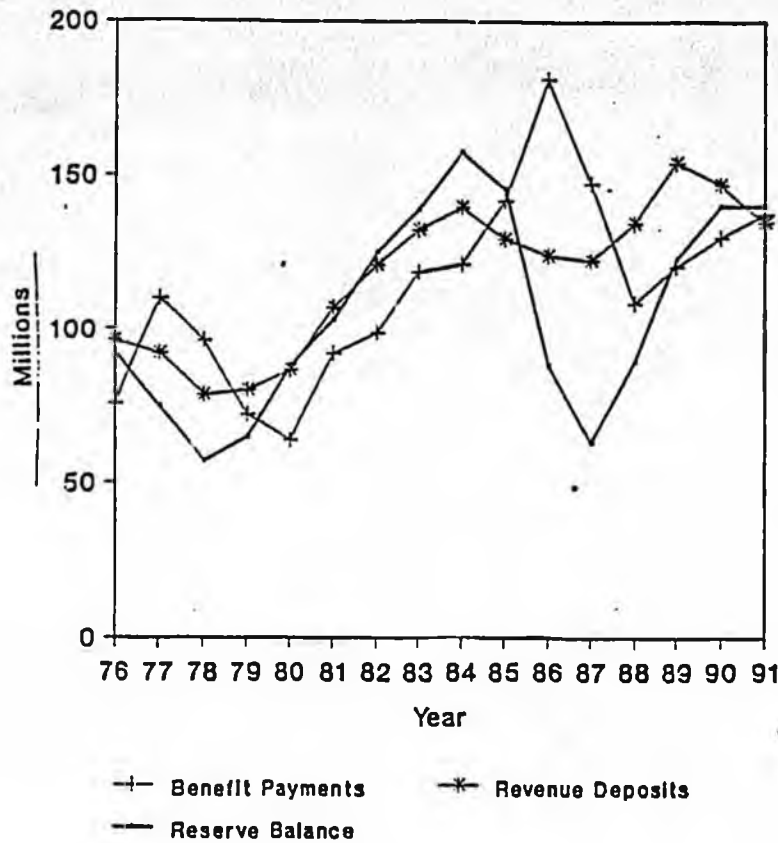


Extended Benefits payable when IUR is at least 6.0%

Source: Alaska Department of Labor, Research & Analysis

Figure 2

UI Trust Fund Cash Flow
Payments, Revenues, Reserve Balance



Source: Alaska Department of Labor, Research & Analysis

actual total claims began to decline after 1986, those who remained unemployed were out of work for a longer period of time. Even though there were fewer total recipients in 1987, the situation was worse in 1987 than 1986 for the individual UI recipient.

UI Disbursements
Reduces Negative
Income Multiplier Effect

When George lost his job his wages were not lost to just him. His wages were lost to the entire Fairbanks community because of his lost ability to purchase goods and services. This loss of demand for goods and services often results in further job layoffs. This turn of events is commonly known as a negative 'multiplier effect'. Using the multiplier effect, most economists estimate that no less than two jobs are lost for every initial layoff.

Part of UI's purpose is to diminish the negative multiplier's effect in causing additional lost jobs or wages. The UI system performed this function well during the past recession. More than \$750 million was lost in total payroll in Alaska in 1986 and 1987. Much of this loss had already been induced by the multiplier effect. Yet at the same time unemployment compensation was pumping back into unemployed Alaska workers' hands more than \$257 million.

Table 1

UI Recipients and Payments, 1984-1988

Year	First Payments	Weeks Paid	Amount Paid (\$)	Final Payments (Exhausts)	Exhaust Rate	Average Duration (Weeks)
<u>Regular Benefits</u>						
1984	45,453	662,704	96,612,962	20,704	0.46	14.6
1985	49,348	767,652	123,967,863	24,291	0.49	15.6
1986	55,514	911,807	147,359,435	30,148	0.54	16.4
1987	45,345	770,406	123,528,576	26,496	0.58	17.0
1988	36,090	579,422	92,974,600	18,670	0.52	16.1
<u>Extended Benefits</u>						
1984	9,736	52,056	7,403,330	2,712	0.28	5.3
1985	12,158	69,368	10,715,479	3,749	0.31	5.7
1986	20,678	136,180	21,946,702	8,486	0.41	6.6
1987	13,145	94,773	15,230,837	6,246	0.48	7.2
1988	8,281	51,385	8,158,738	2,806	0.34	6.2

Source: ETA 5-159 report to the U.S. Department of Labor.

(Another \$72 million was paid to former Alaska workers living outside of the state.) Altogether, the four years 1985-through-1988 the UI system accounted for over \$451 million of income in Alaska. (In those same years, another \$127 million was paid to former workers living out-of-state.)

UI Trust Fund Account Dropped Dangerously Low in 1987-88

The UI Trust Fund is designed to act as a savings account which can be drawn down during difficult economic times and built up when times have improved. As mentioned earlier the trust fund paid out \$111 million more in benefits than it received in revenue between November 1985 and April 1988. This very large outflow of funds would not have been possible without adequate reserves in the UI Trust Fund. At the end of November 1985 the balance in the state's trust fund account was \$157 million. The account hit bottom in late April 1988, falling to \$46 million. (Figure 2 shows benefit disbursements, revenue deposits, and the reserve balance of the trust fund from 1976 to 1988. Figure 2 also depicts forecasts for 1989-91.)

One of the main obligations of all states' financing mechanisms is maintaining the solvency of the trust fund. Alaska's system is designed to remain perpetually solvent by way of a formula that automatically raises tax rates when benefits are high or when the trust fund is low. Yet in 1987 it appeared that the system's solvency might fail. To cope with that unexpected possibility, legislation was passed that year enabling the state to borrow money (and pay interest on the borrowed funds) to maintain the fund's solvency. The main reason for the falling trust fund balance was a massive rise in benefit payment outlays — from \$121 million in 1984 to \$142 million in 1985 and \$182 million in 1986. In 1987, payments declined to \$147 million; that outlay, though, still amounted to \$25 million over revenues for 1987.

The trust fund did not go broke, though, and no money actually was borrowed to maintain its solvency. It was in April 1988 that the fund's steady negative momentum was finally halted. This past calendar year of 1988 saw a

continuing decline in benefit payment outlays (to \$108 million), and an increase in revenue (to \$137 million). The increase can be attributed to higher UI taxes. At the end of 1988 the fund had recovered to a balance of about \$89 million. By the end of 1989 it is expected to reach \$120 million. And by the end of 1990 it is expected to reach \$140 million. Alaska's UI trust fund hasn't been forced to borrow money since 1960. Barring any future recession of the same magnitude as that which occurred between 1985 and 1987, the fund should never have to borrow any funds. This likelihood is due to the state's automatic financing mechanism, which is the next subject of this article.

Current UI Rates: Why They Are Now So Historically High

George's employers were hard hit by the drop in oil prices just as were many other businesses throughout Alaska. They had to cut back to a skeleton crew, sell some of their equipment, and restructure some of their loans. For a couple of years they were constantly on the verge of bankruptcy. To make matters worse, the owners feared that George and their other best employees would leave the Fairbanks area. If those fears proved true, they would have had to pay additional expense to train new employees when their business revenues improved.

Fortunately, the concrete plant's unemployment insurance taxes were reasonably low during the time when the owners were on the verge of bankruptcy. In 1985 the owners' rates were 2.17% of each employee's taxable wages — about \$473 per year per employee. By 1986 taxes had increased to \$555 per employee. But in 1987 the taxes that the plant paid per employee rose to \$866. And in 1988 the UI taxes soared to \$1,097. Finally, the 1989 taxes that the concrete plant owners have been assessed are the highest they have ever been, \$1,137.

What caused the tax rates to rise so much? And why such a rapid increase over the past three years? Two factors influenced the rates for the concrete plant. First, the plant's unique unemployment problems placed them in a higher 'tax bracket'. Second, and more important, average rates for all Alaska employers rose over the past

Alaska's UI system is designed to remain perpetually solvent by way of a formula that automatically raises tax rates when benefits are high or when the trust fund is low.

three years. All rates rose automatically to help the system recover from the 'benefits shock' of 1985 and 1986.

Before we examine in detail why rates are so high in this calendar year, it's relevant to understand how UI tax rates—both individual employers' and average UI tax rates—are calculated in the first place.

An Explanation of Individual Employers' Business Rates:

As Figure 3 shows, the greatest proportion of revenue flowing into the UI trust fund comes from employer and employee 'tax contributions'. In fact, tax contributions are the only source of revenue that significantly affects the balance of the trust fund; all other deposits are direct reimbursements. These revenues are tax contributions because they are assessed on employers by the state Department of Labor in advance of future UI payments to their employees.

Each employer is assigned to one of 21 different rate classes, each of which has a different tax rate. The assignment decision is linked to a couple of factors: If the employer has been operating a business for at least one year, the business' individual rate class is based

on the employer's own individual experience with unemployment. If the business has been in operation for less than one year, it is assigned the average rate class shared by other employers in the same industry. This process is termed 'experience rating'.

In Alaska, an employer's experience rating is first determined by measuring declines in payroll from one quarter to the next. This figure is averaged over three years' time. (This method of measurement is used because declines in payroll are primarily caused by reductions in the business' work force. Reductions in the work force cause a rise in UI payments.) Employers with a low payroll decline receive a more favorable UI tax experience rating than employers showing high declines in payroll.

Each of every 21 rate classes is assigned a tax rate that is a percentage of the 'average'—or base—tax rate. The percentages range from 40% (for Rate Class 1) to 165% (for Rate Class 21). (The percentage for the average rate—which comes in at rate classes 10 and 11—is 100%.) These percentages are actually called 'experience factors'. Table 2 shows the 21 different rate classes, the experience factors, and the 1989 tax rates for each rate class.

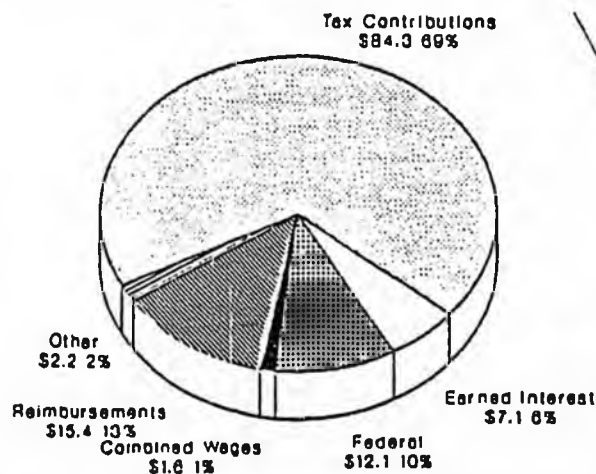
For the employer to determine the business' maximum UI contribution paid on each employee, the employer can take the business' assigned tax rate and multiply it by each employee's taxable wages. (Taxable wages are determined by each state's UI tax base; Alaska's UI tax base is equal to 75 percent of the statewide average annual wage.) For 1989, the state's tax base is \$20,900, down from \$21,800 in 1985. Thus, in 1989, the maximum tax an employer will be required to pay per employee—for an employer in the 'average rate class' (rate classes 10 or 11)—will be \$865.26, or 4.14% of \$20,900.

How Average UI Tax Rates Are Calculated:

Although this article has first addressed individual employers' business rates, it is the average tax rate which is first computed and determined by the Alaska Department of Labor according to Alaska statutes.

Figure 3

UI Trust Fund Revenue Sources 1987, Total and Percentage of Total (\$ = Millions)



'Combined Wages' are reimbursements from other states for shared UI, due to wages earned both in Alaska and other states.

Source: Alaska Department of Labor, Research & Analysis

Indeed, it is the average tax rate which is the real substance of Alaska's UI financing system. The level of the average tax rate determines how much total tax contributions are collected each year. Individual employers either pay lesser or greater percentages of this average rate.

Guts of the UI: Benefit Costs and the Benefit Cost Ratio

In order to understand how the average UI tax rates are calculated, it is first important to understand the 'guts' of the UI system, benefit costs and the 'benefit cost ratio'. Benefits paid to claimants are called 'benefit costs' because they are a cost to the system. (UI benefits have also been considered a cost of doing business to all U.S. employers ever since the Social Security Act was enacted in 1935.) Benefit costs

do not include all benefits paid; instead, benefit costs are that portion of benefits paid to employees by taxable employers.

Benefit cost data alone are insufficient to determine the financial condition of the UI system. Wages paid are also a critical element because the total amount of wages paid in the state determines the amount of taxes being collected and the amount of potential future benefits for which the system might be liable. The fundamental driving force, then, of average UI tax rates, is what is known as the 'benefit cost rate' (BCR). The BCR is computed as: benefits paid in the current year divided by wages paid in the prior year.

Since the Unemployment Insurance system is self-financing, taxes collected in the long run must be equal to benefits paid in the long run. This is achieved when the long-run average tax rate is

equal to the long-run benefit cost rate. (In 1980, the Alaska Legislature recognized the need to balance these two factors. As a result, lawmakers adopted it as the prime equation for determining tax rates.) Average UI tax rates are designed to be — in their most fundamental form — equal to the benefit cost rate.

Alaska UI System Designed to be Countercyclical and to Respond Rapidly to Economy's Changes

However, Alaska's UI system is not so simple. The design of this state's system has been devised so that it can respond quickly to changes in the economy and so that it can work in a countercyclical fashion. The system is designed to delay tax increases so that employers are not hit by the tax hikes during the worst part of a recession.

Table 2

UI Employer and Employee Contribution Rates, 1989

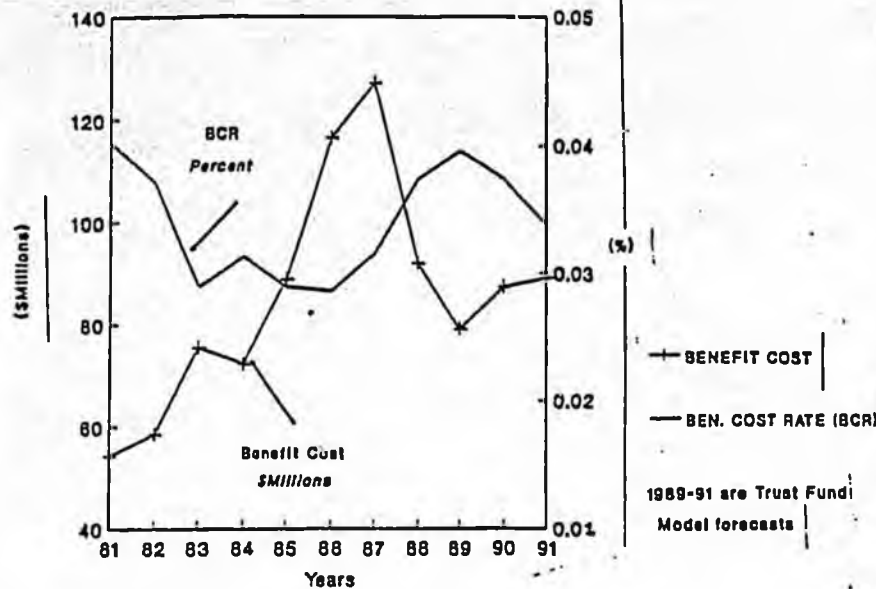
Rate Class	Experience Factor	Employee Contribution Rate	Employer Contribution Rate	Total Contribution Rate
1	0.40	0.7%	2.20%	2.90%
2	0.45	0.7	2.36	3.06
3	0.50	0.7	2.52	3.22
4	0.55	0.7	2.68	3.38
5	0.60	0.7	2.85	3.55
6	0.65	0.7	3.01	3.71
7	0.70	0.7	3.17	3.87
8	0.80	0.7	3.50	4.20
9	0.90	0.7	3.82	4.52
10	1.00	0.7	4.14	4.84
11	1.00	0.7	4.14	4.84
12	1.10	0.7	4.47	5.17
13	1.20	0.7	4.79	5.49
14	1.30	0.7	5.12	5.82
15	1.35	0.7	5.28	5.98
16	1.40	0.7	5.44	6.14
17	1.45	0.7	5.60	6.30
18	1.50	0.7	5.77	6.47
19	1.55	0.7	5.93	6.63
20	1.60	0.7	6.09	6.79
21	1.65	0.7	6.25	6.95

Average Benefit Cost Rate (ABCR) =	0.039558
.82 x ABCR =	0.032438
Trust Fund Solvency Adjustment (TFSA) =	0.009
Employee Tax Rate = 0.18 (ABCR) =	0.7%
Average Employer Tax Rate = 0.82 (ABCR) + TFSA =	4.14%
Individual Employer Tax Rates = 0.82 (ABCR) (Experience Factor) + TFSA	

Sources: Alaska Statutes 23.20.290. Alaska Department of Labor, 1988. Table 1, UI Tax Rate Calculations, 1989.

Figure 4

UI Benefit Costs and Rate (BCR) State Fiscal Years 1981 - 1991



Source: Alaska Department of Labor, Research & Analysis

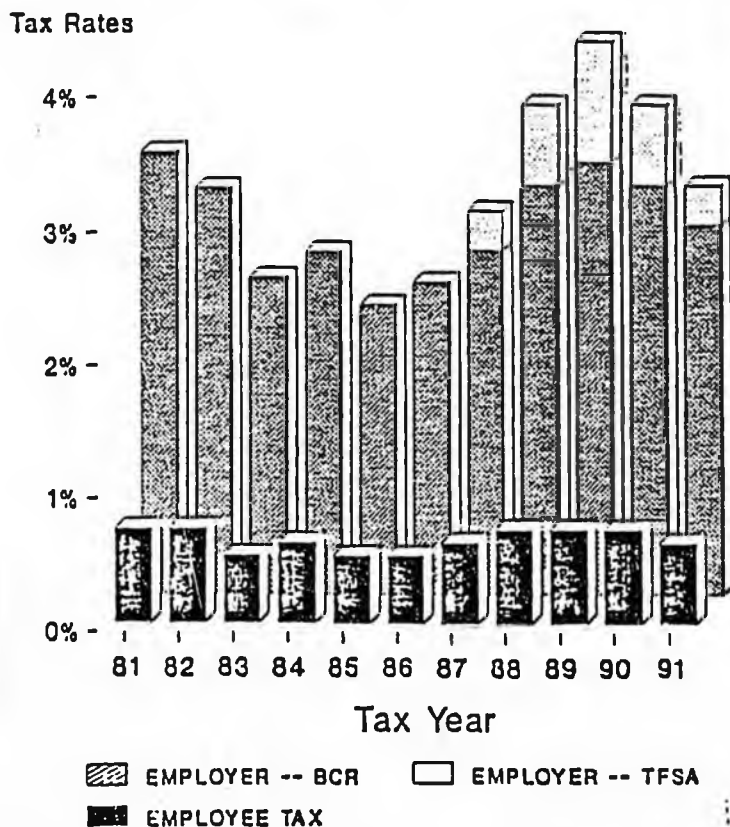
In theory, a system that is strictly countercyclical is one which has a single tax rate year after year. In contrast, a system that is not countercyclical — but instead responds rapidly to changes — computes rates according to benefit payments of the prior year.

Alaska's UI system, as mentioned beforehand, is a compromise between a state's need to respond quickly to changes in its economy and the need for the system to work in a countercyclical fashion. Rather than using a one-year formula to compute the benefit cost rate, Alaska uses an average of the three prior years. (Figure 4 depicts benefit costs and the three-year benefit cost rate for state fiscal years 1981 through 1988. Figure 4 also depicts forecasts for 1989 through 1991).

Employers Pay 82% of Benefit Cost Rate, Employees 18%

Figure 5

Components of Average UI Tax Rate Employer and Employee Taxes



Employer taxes are sum of BCR and TFSA

Source: Alaska Department of Labor, Research & Analysis

Once the three-year benefit cost rate is determined, employers are assigned 82% of that rate, employees the other 18%. All employees' taxes are equal. The average employer tax varies, however. The employer's tax rate is a result of the average employer tax multiplied by the individual employer's experience factor. In a stable economy, this is all there is to the computation of tax rates.

Additional Surtax Ensures Trust Fund's Solvency

However, in a severe recession like the state has experienced over the past few years, this system — as designed so far — is unlikely to recover quickly enough to ensure a solvent trust fund. In order then to ensure trust fund solvency during recessionary years, an additional 'surtax' is added to employer tax rates. This surtax is called the Trust Fund Solvency Adjustment (TFSA). The TFSA is determined by a schedule dictated by Alaska statutes. It ranges from -0.4% (when the trust fund balance is excessively high) to 1.1% (when the trust fund balance is dangerously low). The TFSA also acts in a countercyclical fashion; it cannot rise or drop by more than 0.3% from one year to the next. In 1985 the TFSA

was -0.2%. In 1987 and 1988, it was 0.3% and 0.6%. In this calendar year, 1989, the TFSA is 0.9%.

Altogether, George's employers' tax rate is calculated this way: It is the total of two computations; that is, 82% of Alaska's three-year benefit cost rate is multiplied by the plant's own experience factor. And added to this sum is the Trust Fund Solvency Adjustment.

Now, after having gained a basic understanding of the formula which determines the UI tax rate, it's possible to comprehend why the tax rates were so high in 1988 and continue to be high in 1989. It's also possible to perceive why UI tax rates in Alaska are expected to decline in 1990 and 1991.

Average Tax Rates Tracked Between 1981 and 1991

Figure 5 illustrates the components of employee and employer tax rates; the rates are depicted as a percent of taxable wages. The employer tax rates include both portions attributable to the benefit cost rate, as well as the Trust Fund Solvency Adjustment.

(The sum of these two elements is the total average employer tax rate.) These employer rates are the average tax rates for each year listed. The figure includes data as far back as 1981, the first year of Alaska's current financing system. The 1989 tax rates are actual rates, having already been assigned. The 1990 and 1991 rates are forecasts generated by DOL Research & Analysis economists using the department's UI Trust Fund Model.

We can see from Figure 5 that tax rates declined steadily through the early 1980s, then began to rise in 1986. Over the last 20 years, the average tax rate has been about 3.2%. This tells us that the rates between 1983 and 1986 were substantially lower than average. Figure 5 also points out, though, that benefit costs were actually increasing during these same years, and that they nearly peaked in 1986. During this time, benefit cost rates were declining while benefit costs were rising. This apparent contradiction can be explained via two factors: total wages were rising faster than benefit costs, and the benefit cost rate is a three-year average.

The Surtax (TFSA) and Rising Benefit Costs Are the Causes of Higher UI Taxes

It is pertinent to note in Figure 5 that the benefit cost rate portion of employer taxes is about the same for SFY 1989 as it was for SFY 1981. The reason that total taxes are higher is due to the TFSA. Figure 2 demonstrates the fact that rising UI Trust Fund revenues (caused by lower tax rates, coupled with higher employment and payroll) kept pace with rising benefits until 1984. Between 1985 and 1987 trust fund reserves plunged sharply. This sudden plunge caused the first positive TFSA — amounting to +0.3% — to be added to 1987 tax rates. Through this calendar year, 1989, the TFSA has risen to 0.9%

By adding together the two portions of employer tax rates — the benefit cost rate and the TFSA — it's possible to come to two conclusions: 1) That the higher tax rates of 1987 through 1989 represent a delayed reaction to the rapidly rising benefit costs amassed between 1984 and 1987, and 2) That the higher tax rates of 1987 through 1989 represent a move to recapture UI trust funds lost during the precipitous decline of its reserve balance between 1985 and 1988.

It's worthy to again note that if a countercyclical financing system did not exist, the highest tax rates would have occurred in 1986 and 1987, the two worst years of the recession.

Thus, higher tax rates are being levied this year so that prior benefit payments can be adequately covered. Further, the higher tax rates are being levied so that the trust fund can be rebuilt to cover any possible, future recession.

UI Tax Rates To Drop In 1990 and 1991, and Possibly in 1992

It's encouraging to point out that the same elements that have caused tax rates to increase (benefit costs and TFSA) will combine to produce lower tax rates in 1990 and 1991. It's likely, too, that 1992 will also be a year marked by lower UI taxes. Here are the reasons: Benefit costs began to decline in the

If the countercyclical financing system did not exist, the highest tax rates would have occurred in 1986 and 1987, the two worst years of the recession.

**These projections
- that UI tax rates
will drop in 1990
and 1991, and
possibly in 1992 -
could prove
overly optimistic if
the state's current
budget shortfall
results in added
job losses in 1989.**

latter half of 1987 and should continue to decline until mid-1989. So that portion of tax rates attributed to benefit costs will begin to decline in 1989 and continue to decline through 1991. Meanwhile, the UI trust fund reserve began to recover in 1988 and will continue to recover through 1991. So the Trust Fund Solvency Adjustment will begin to decline in 1990.

These projections are based on current estimates of future employment and unemployment by the state Department of Labor. These projections could prove overly optimistic if the state's current budget shortfall results in added job losses in 1989. Added unemployment in 1989 could reduce the rate of decline of employer tax rates. But because UI tax rates are calculated upon past data, new job layoffs are unlikely to alter the fact that declining tax rates will occur.

Conclusion

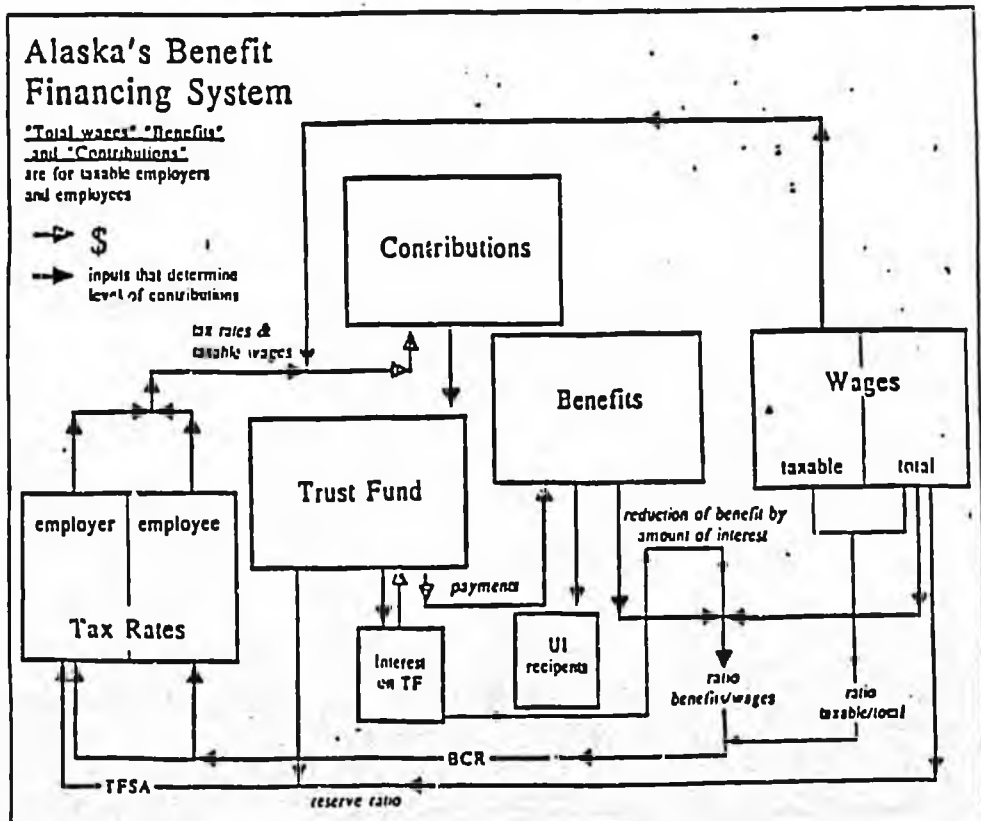
The Alaska Unemployment Insurance system is just that — an insurance system — and not a social welfare system. It is only available to persons who have worked and are temporarily unemployed. There is a limit to the

amount of benefits that can be claimed. It is financed through the payment of premiums — in this case, employer and employee taxes and reimbursements. As with other forms of insurance, these 'premiums' are often a bitter pill for employers to swallow especially when the rates rise to exceptionally high levels. As with other forms of insurance, though, when the benefits are needed they provide vital support to the recipients.

Unemployment insurance has the dual purpose of providing temporary income support for unemployed workers and providing a measure of stability to the economy. During the recession that began in late 1985, Alaska's Unemployment Insurance system has performed well. Many thousands of workers received hundreds of millions of dollars in compensation. This allowed many of the workers to stay in Alaska. Without the compensation they would have been forced to leave the state. Furthermore, the reserves in the UI trust fund account provided a critical buffer to a flagging economy. The system is now in the process of rebuilding its reserves. And barring any major economic catastrophe, the UI system will continue serving Alaska workers when called upon in the future.

About the Author:

Michael Hurst is a labor economist employed for five years with the Research & Analysis Section, Administrative Services Division, Alaska Department of Labor. Hurst is also the actuary for the Alaska Unemployment Insurance System. He is based in Juneau.



STEVE COWPER
GOVERNOR



cc
HB 147

STATE OF ALASKA
OFFICE OF THE GOVERNOR
JUNEAU

February 3, 1989

The Honorable Sam Cotten
Speaker of the House
Alaska State Legislature
P.O. Box V
Juneau, AK 99811

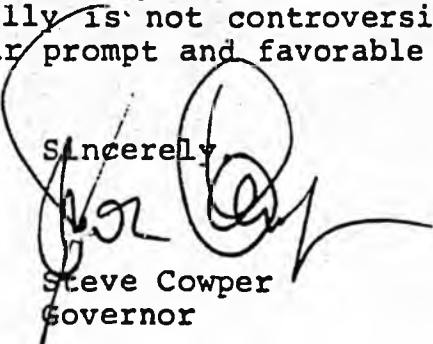
Dear Mr. Speaker:

Under the authority of art. III, sec. 18, of the Alaska Constitution, I am transmitting a bill relating to unemployment insurance and unemployment insurance contribution overpayments. Passage of the bill will bring Alaska's law into conformity with recent amendments of federal law, as well as improve efficiency in the administration of the unemployment insurance program in the state.

Many of the provisions of the bill were in last session's SCS HB 384(L&C), and one, sec. 12, was in last year's CSHB 287(Fin) am. The attached bill contains nine additional sections for your consideration. These are: required sharing of information with federal public housing programs (sec. 2); extension of the Reed Act authorization (sec. 3); a provision for use of private collection agencies for employer contributions (sec. 9); clarification that redetermination of an initial claim applies only to the monetary determination (sec. 14); correction of current law to allow for eligibility under certain conditions while an individual is in certain training programs (sec. 16); restriction of denial of benefits or waiting-week credit for individuals in certain training programs (sec. 17); correction of current law to allow an immediate disqualification for fraudulent act (sec. 18); exempting employer overpayments of contributions for unemployment insurance from the provisions of the Uniform Unclaimed Property Act (retroactive to September 7, 1986) (secs. 24 and 26); and modification of the dependent's allowance by allowing each unemployed parent in the family unit to claim dependent children (repeal of AS 23.20.350(f) (4) and (5); sec. 25).

Many of these changes are detailed and technical in nature. Department of Labor staff will be available to testify before legislative committees to answer any questions that legislators might have. Due to the extensive review of many of the sections of this bill during last session, I am confident that the bill generally is not controversial in nature. Therefore, I urge your prompt and favorable action on this measure.

Sincerely



Steve Cowper
Governor

FISCAL NOTE

REQUEST:

Revision Date: _____ Agency Affected: Commerce & Econ. Dev.
 Title: An Act relating to unemployment insurance Insurance
and unemployment insurance contribution overpayments
 Sponsor: Rules Committee by request of Governor Components: Operations
 Requestor: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 89	FY 90	FY 91	FY 92	FY 93	FY 94
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	0	0	0	0	0	0

CAPITAL	0	0	0	0	0	0
---------	---	---	---	---	---	---

REVENUE	0	0	0	0	0	0
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FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

No fiscal impact on the Division of Insurance.

Prepared by: Joan Brown, Administrative Officer Phone: 465-2597
 Division: Insurance Date: 2-7-89

Approved by Commissioner: Larry Mercurieff Date: 2/7/89
 Agency: Department of Commerce & Economic Development

Distribution (by preparer):

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

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FEB 8 1989

LEGISLATIVE FINANCE

page 1 of 1

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STATE OF ALASKA
1989 LEGISLATIVE SESSION

BILL VERSION: CE HB 147 (JJD)
PUBLISH DATE: HOUSE 2/3/89

No. 2

FISCAL NOTE

REQUEST:

Revision Date: January 13, 1989
Title: Unemployment Insurance

Agency Affected: Revenue
BRU: Income & Excise Audit

Sponsor: Rules Committee
Requestor: Governor

Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 90	FY 91	FY 92	FY 93	FY 94	FY 95
OPERATING						
PERSONAL SERVICES	0	0	0	0	0	0
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	0	0	0	0	0
SUPPLIES	0	0	0	0	0	0
EQUIPMENT	0	0	0	0	0	0
LANDS & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	0	0	0	0
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	0	0	0	0	0
CAPITAL	0	0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

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

POSITIONS:

FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Steven E. Kettel *Steven E. Kettel* Phone: (907) 465-2320
Division: Income and Excise Audit Date: January 13, 1989

Approved by Commissioner: Hugh Malone *Hugh Malone* Date: January 13, 1989
Agency: Revenue

Distribution (by preparer):

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

Prepared by: Steven E. Kettel
Income and Excise Audit Division
Department of Revenue
January 13, 1989

Fiscal Note Analysis

The uniform unclaimed property act (AS34.45) requires agencies, such as the Department of Labor(DOL), to report and pay over to the Department of Revenue (DOR), all funds which are represented by a valid claim, but where the claimant cannot be located. DOR then advertises the names of the missing claimants and takes other steps to reunite the owner with the funds. DOR holds the funds in trust for the missing owner forever.

This legislation exempts from the reporting requirements of AS34.45 overpayments of unemployment insurance. Employers occasionally overpay the state unemployment insurance contributions and are sent a refund check. If an employer has changed addresses and not notified DOR or the USPS, the check is returned and held by DOL in the unemployment compensation fund under AS23.20.130. This bill will continue DOL practice and remove these funds from the reporting requirements of AS34.45.