

ALASKA LEGISLATURE COMMITTEE FILES 2001-2002 8672

10620 SENATE LABOR & COMMERCE

465

**ALASKA STATE CHAMBER OF COMMERCE**  
**Survey on Minimum Wage Increase**

The following survey was faxed to approximately 600 Alaska businesses the first week of February 2000. The nearly 100 responses received by February 15 are summarized below.

1. Should the state legislature raise the minimum wage to \$6.40 next year and \$6.90 in 2003?  
 (Representative Kott's proposal)

35% Yes                      32% No                      28% Undecided

2. Should the state's minimum wage be increased to \$6.40 this year; to \$7.15 next year and be indexed to inflation thereafter? (Governor's proposal)

21% Yes                      49% No                      28% Undecided

3. Are you currently paying any of your employees the state minimum wage of \$5.65 per hour?

a. Full-time workers	5% Yes	92% No
b. Part-time workers	5% Yes	92% No

4. What impact would a raise in the minimum wage have on your business? (Select all that apply)  
 (Percentage of total respondents choosing these items.)

Would increase pay for non-minimum wage employees	15%
Would increase prices for products/services	18%
Would reduce non-wage benefits of employees	9%
Would reduce hours and/or jobs for part-time employees	14%
Would reduce hours and/or jobs for full-time employees	12%
Would have little or no impact on my business	77%

5. What is the age bracket of most of your minimum wage employees?

15 to 18 years old	14%
19 to 22	1.5%
23 to 35	9%
36 to 60	1.5%
Over 60	0%
Not applicable	77%

6. Of your minimum wage employees, about how many are the heads of a household  
 (Principal wage earner for a family)?

None or almost none	14%
One-fourth	1.5%
One-half	0%
Three-quarters	0%
All or almost all	0%
Not applicable	81.5%

Alaska State Chamber Minimum Wage Survey - Page 2

7. What is the lowest hourly wage you pay starting employees?

\$5.65	6%
\$6.00 to \$6.50	8%
\$6.51 to \$7.00	2%
\$7.01 to \$7.50	6%
\$7.51 to \$8.00	9%
\$8.01 or more	69%

8. Please circle the category below which best describes your business:

a. Resource (oil & gas, mining, timber, fish harvest, agriculture, etc.)	10%
b. Manufacturing (seafood processing, forest products, petrochemical, technology/software, etc.)	7.5%
c. Construction	7.5%
d. Transportation	6%
e. Communications/Telecommunications	6%
f. Utilities	0%
g. Retail Trade	3%
h. Wholesale Trade	10.5%
i. Finance, Insurance, Real Estate	12%
j. Restaurant	1%
k. Fast food service	1%
l. Visitor-related services	7.5%
m. Business services	4%
n. Professional services (Includes health care)	13.5%
o. Non-profit trade or business organization	7.5%
p. Other	3%

9. How many employees do you have?

1 to 5 <u>15%</u>	16 to 25 <u>17%</u>	50 to 100 <u>14%</u>	250 and up <u>14%</u>
6 to 15 <u>21.5%</u>	25 to 50 <u>4.5%</u>	101 to 250 <u>14%</u>	

**COMMENTS BEFORE HOUSE LABOR AND  
COMMERCE COMMITTEE, MONDAY, JANUARY 29,  
2001**

MY NAME IS BILL FARGETER. I AM THE OPERATING PARTNER OF APPLEBEE'S NEIGHBORHOOD GRILL & BAR IN ANCHORAGE. APPLEBEE'S IS A 1300 UNIT NATIONAL CASUAL DINING RESTAURANT CHAIN OPERATING IN 49 STATES. OUR PLAN IS TO DEVELOP FROM 5 TO 8 APPLEBEE'S THROUGHOUT ALASKA. EACH UNIT EMPLOYEES APPROXIMATELY 85 FULL TIME AND PART TIME EMPLOYEES. I HAVE OPERATED THREE OTHER INDEPENDENT CASUAL DINING RESTAURANTS IN ANCHORAGE SINCE 1980 AND IN ADDITION OWNED AND OPERATED 15 MCDONALD RESTAURANTS FROM 1970 THRU 1986.

THERE ARE SEVERAL REASONS THAT I BELIEVE INCREASING THE MINIMUM WAGE WILL HAVE LESS THAN THE DESIRED EFFECT ON THE WORK FORCE IN THE STATE.

1. AN INCREASE IN THE MINIMUM WAGE WILL CAUSE EMPLOYER'S TO REDUCE AVAILABLE JOBS AND HOURS WORKED FOR THE LOWER SKILLED POSITIONS WHILE SHIFTING OF JOBS AND HOURS TO THE MORE SKILLED EMPLOYEES. THUS THE RESULTS OF THE INCREASE WILL PLACE MORE EMPLOYEES ON THE POVERTY ROLLS.
2. NO RECOGNITION IS GIVEN TO THE INCOME OF MINIMUM WAGE EARNERS THAT THEY RECEIVE FROM TIPS. I EMPLOY APPROXIMATELY 50 INDIVIDUALS WHO RECEIVE TIPS AS ADDITIONAL INCOME FROM WORKING AT APPLEBEE'S. 75% OF THESE INDIVIDUALS ARE PAID \$5.65 PER HOUR. IN ADDITION THEY RECEIVE AN AVERAGE \$8.00 TO \$10.00 PER HOUR IN TIPPED INCOME. TO INCLUDE THESE INDIVIDUALS IN THE MINIMUM WAGE STATISTIC IS LUDICROUS. INCREASES IN THEIR MINIMUM WILL ONLY CAUSE A SHIFTING OF INCOME FROM THE LOWER SKILLED TO THE HIGHER SKILLED EMPLOYEE.

3. THE RESTAURANT INDUSTRY IS AN IMPORTANT EMPLOYER FOR FIRST TIME JOB SEEKERS. I HAD MY FIRST HOURLY PAID JOB AS A "SODA JERK" IN A WEST SEATTLE DRUG STORE. I WOULD GUESS THAT 40 TO 50 % OF YOU WERE IN THE SAME BOAT. TO DECREASE THIS OPPORTUNITY TO THE ENTRY LEVEL EMPLOYEE IS COUNTER PRODUCTIVE TO EMPLOYMENT AND INCOME GROWTH.

THE ENTRY LEVEL, MINIMUM WAGE JOB, IS A SHORT LIVED POSITION FOR ANY EMPLOYEE WORTH HIS SALT. IN OUR COMPANY AND IN MY MCDONALDS EXPERIENCE A MINIMUM WAGE EMPLOYEE IS RAPIDLY ADVANCED WITHIN 3 TO 6 MONTHS. TO LIMIT THIS LOW SKILLED JOB POSITION IS A DISSERVICE TO THE VERY GROUP THE MINIMUM INCREASE IS ATTEMPTING TO HELP.

4. NO ATTEMPT IS BEING MADE TO DIFFERENTIATE THE EFFECTS OF AN INCREASE IN THE MINIMUM WAGE AS IT EFFECTS THE JOBS OF THOSE EMPLOYED IN NOME VERSUS THOSE EMPLOYED IN ANCHORAGE. NOT ONLY WILL THE BUSH EMPLOYEE HAVE FEWER OPTIONS IF HIS LOW SKILLED JOB IS LOST BUT VERY LIKELY THE ADDITIONAL COSTS TO THE SMALL BUSINESS LOCATED THEIR WILL CAUSE MANY CLOSURES.

IN CLOSING THE EVIDENCE INDICATES THAT WORKERS WHO INTIALLY EARN NEAR THE MINIMUM WAGE ARE MOST ADVERSELY AFFECTED BY MINIMUM WAGE INCREASES. HIGHER-WAGE WORKERS, IN CONTRAST, ARE LITTLE AFFECTED. ALTHOUGH WAGES OF LOW-WAGE WORKERS INCREASE, THEIR HOURS AND EMPLOMENT DECLINE, AND THE COMBINED EFFECT OF THESE CHANGES IS A DECLINE IN EARNED INCOME. THIS MOVEMENT WILL ONLY INCREASE THE POVERTY ROLES.

I URGE YOU TO REJECT ANY INCREASE IN THE MINIMUM WAGE AND

INSTEAD FOCUS ON WORK INCENTIVES TO INCREASE LOW SKILLED JOBS.

THANK YOU FOR YOUR TIME.

Copy of testimony presented to Senate Labor and Commerce Committee  
February 22, 2001, by Pat Davidson, Legislative Auditor

The objective of the audit was to evaluate the workers' compensation program and assess the agency's administration, enforcement and functional application of the Alaska Workers Compensation Act.

The scope of the audit encompassed all major areas of the workers' compensation program including administrative, reemployment benefits and adjudicatory sections, as well as the regulation of insurance companies by the Division of Insurance.

We found there was a major re-write of the workers' compensation law in 1988. One policy goal was to reduce workers' compensation costs. This goal has been met. Since FY 89 rates have been reduced by over 40%.

Injured workers were also to be protected by strict enforcement of the provisions of the Workers Compensation Act.

As a result of our audit we found that circumstances have developed that limit the protection provided to the injured workers. These circumstances include:

- Policing of uninsured employers is largely ineffective due to shortcomings in the divisions operations and the prosecutorial philosophy of the Department of Law.
- Sanctions against frivolous controversions have been rendered ineffective by the policies and practices of the Division of Insurance.
- In addition to these administrative and interagency coordination problems, in places where the statutes may lack clarity, they have been interpreted and applied to the benefit of the insurance companies. Specifically, when calculating penalties and penalty "forgiveness" provisions of the statutes, the Division of Workers' Compensation does it in a manner that benefits insurance companies the most.

Meanwhile, provisions put in the 1988 statutes as part of a legislative desire to control, if not lower workers' compensation insurance rates have, over time, become increasingly contrary to the interests of injured workers. Specifically:

- The caps on injury awards and burial costs set out in statute in 1988 have eroded over time by inflation.

- The complexity of the disputed claims process has generally worked to the disadvantage of the injured workers who often cannot obtain appropriate representation.
- Constraints on the eligibility requirements for injured workers to qualify for retraining and reemployment benefits have proven to be overly restrictive.

This report contains 12 recommendations. The underlying themes to the recommendations are:

- A re-balance of interests of the injured workers and the employers, and
- An increase in operational efficiencies and effectiveness of the Workers' Compensation division.

Comments of the Alaska Division of Insurance on the Legislative  
Audit Findings on the Workers' Compensation Program  
Bob Lohr, Director

AS 23.30.155(o) provides: "the board shall promptly notify the division of insurance if the board determines that the employer's insurer has frivolously or unfairly controverted compensation due under this chapter. After receiving notice from the board, the division of insurance shall determine if the insurer has committed an unfair claim settlement practice under AS 21.36.125."

Finding #6 of the legislative audit was:

The Department of Community and Economic Development's director of the Division of Insurance (DOI) should implement policies and procedures that ensure timely enforcement of insurer-compliance provisions of the Workers' Compensation Act.

The Alaska Division of Insurance (DOI) responded:

The DOI agrees that AS 23.30.155(o) directs it to actively investigate frivolous controversion referrals by the AWCB. The DOI has developed investigative standards and time guidelines for doing so, and is now actively investigating insurer conduct in five cases referred by the AWCB. The DOI's plan for prompt investigation of pending and future referrals is discussed in Section I of this letter.

However, the DOI respectfully disagrees with the report's interpretation of the term "practice," which is referenced in AS 23.30.155(o), but is derived from and is an essential part of the statutory language of AS 21.36.125. For the reasons described in more detail in Section II below, the DOI believes that AS 21.36.125, as interpreted by regulation, as well as court decisions and published commentary, requires repeated acts, not just a single incident, to constitute an unfair claims settlement practice. The report asserts on page 29 that this approach "is inconsistent with the legislature's desire that frivolous controversions be strictly enforced." If the DOI's interpretation is inconsistent with the

legislature's desire to strictly enforce prohibitions on frivolous controversions, then the legislature should clarify this by changing the statute.

Senator Donley's SB 177 resolved this problem by making a single unfair claims act, as opposed to a **general business practice** a violation of AS 21.36.125 (the Unfair Claims Practice Act). That act passed the legislature and took effect January 1, 2001.

As decisions of the Alaska Workers' Compensation Board (AWCB) identify frivolous or unfair controversions that occurred after January 1, the Insurance Division's enforcement of referrals under 155(o) will be much more straightforward.

The division intends to review each case referred from the AWCB based on a finding of frivolous controversion to determine whether the facts of the case establish a violation of our 21.36.125. If they do, we will send a letter to the insurance company or the adjuster identifying this and inviting their reply. The goal will be to put a plan in place to eliminate future frivolous controversions by that company. If there is a recurrence, administrative action would be appropriate and the DOI will initiate this.

2/22/01

Dear Legislative Committee,

Thank you for this opportunity to speak with you today. My name is Barbara Williams I am the executive director of the Alaska Injured Workers Alliance. We have some 500 members and process thousands of request for information yearly. Since we serve these injured persons we feel that we have valuable insight for your committee members to use in their efforts to understand workers compensation. As you may or may not know, I was personally active in requesting this audit and worked very hard to help the legislative audit division understand some of these complex issues. We have known from the beginning that workers have a hard time obtaining benefits as well as understanding this complex legal process. Many workers are affected by this system statewide and we are grateful that the audit was done and the audit team worked so hard to come up with this fine report.

1. Alternate Dispute resolution could greatly assist workers. Workers who lose benefits and have no income during this loss would benefit from dispute resolution. It could potentially also be used in need for medical treatment and other payment issues for workers.
2. The latest law changes more mutually benefited insurers and again reduced benefits for workers. Workers are still earning below poverty level wages. The average worker on the low end received \$20.00 and on the high end about 70.00. This still does not equal anything close to inflation or meaningful economic relief for workers. Workers waited 12 years for any start of adjustment. The other legislative changes made it much easier for the employer's doctors to interfere or dictate care that workers will receive while injured. Rehabilitation benefits waivers are another issue. How are workers to evaluate whether this benefit is of value or not. With out clear information on what these benefits could entail they will be unable to realize the benefits that they may be waiving.
3. We are still with out basic education for workers, and healthcare providers. All these parties are required to perform task yet there is no clear idea available to educate the parties as to their responsibilities. Complex legal issues for the regular worker is hard enough combine that with brain injuries, or mental health issues and the task are impossible for many. Since there are no clear numbers of how many people this affects the division should be more sensitive to the needs of unrepresented parties. Many workers have no idea how to pursue their rights much less whom the parties are that they deal with. Many people lump Workers Compensation in to one conversation and many do not know the difference between their insurance companies and the State's division office. By educating workers and healthcare provider education classes we have seen first hand that education is key to their success.

The Alliance is the only organization providing education to workers and healthcare providers. The Alliance helps workers and healthcare providers understand their complex roles in the workers compensation system. The Alliance explains not only the law but also the process that has to be followed to receive the benefits. We make Title 23 available to as many people as we can in written form. They have the rules and information needed to process their claims.

We serve the entire state. Workers need more material, more money and more access to see that every worker in this state that would potentially be entitled to benefits has the necessary information to work with. That their providers have a clear idea of what their legal requirements are and how to pursue them none of the new legislation begins to attempt to address this issue.

4. The AWCB should be using more proactive measures to see that uninsured employers pay benefits to those who are entitled to them. Case in point Jerry Flock. His employer not only denied his benefits but also took a contract out on his life in order not to pay benefits owed. To this day Mr. Flock is still trying to not only receive benefits but also see that the state pursues the claim against the employer for his misconduct in relation to this employee. The state has the ability to make the employer post bonds that could cover certain cost for employees. More should be done to see that employers are and stay insured. Again in the above referenced incident the employer was allowed to not insure 16 consecutive times, This is in no way acceptable.
  5. Without sanctioning employers for failure to insure we are allowing these employers to basically not follow the law and receive no consequences.
  6. We should be holding the division of insurance accountable for assisting in the prosecution of uninsured employers. The division of insurance should be looking out better for these consumers.
  7. Annual Reports: there is still a great need for information on the annual reports to have some sort of verification. Legal reporting requirements go unheralded by insurers and defense attorneys this misinformation does not adequately allow the legislature to appropriate proper funding for the AWCB.
- 8-12 Assessing penalties needs to be addressed by the AWCB. Many insurers and employers laugh at the division because of the inadequate ineffective measures for penalties.

Overwhelming the audit concluded that the division of Workers Compensation works with insurers, employers and risk managers, the most critical part of the equation that is missing is the worker and how it effects them. What are the repercussions of leaving them out of legislative ad hoc committees? Just the conclusion of the reduction in needed benefits for them and their families. We are to view these workers as an enlightened community not a community that no sensivity for the workers that have to survive on these benefits. Many insurance adjusters are really playing Russian Roulette with people's lively hoods. It is not based on anything other than having more pull with the state's division of workers compensation.

On page 19 "The legislature, as discussed in this section, achieved its policy objective of lower workers' compensation cost. However in achieving this goal, a situation has developed due to a variety of circumstances that have left injured worker disadvantaged by the statute. Such circumstances, that we believe are an unintended by-product of the 1988 amendments, have resulted in a situation where more consideration is provided to employers, and insurance companies than to injured workers.

We really need to assist workers in education and better laws to ensure their survival as victims of work related injuries.

# ALASKA STATE LEGISLATURE

Senate  
Health, Education &  
Social Services  
Committee

Senate  
Labor & Commerce  
Committee

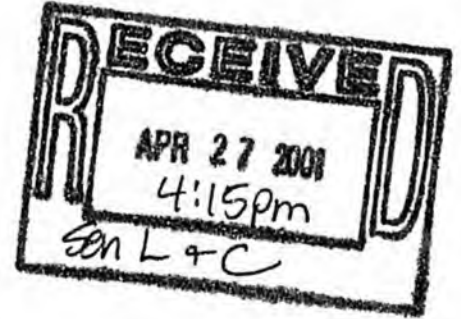
Senate  
State Affairs  
Committee

*While in Session*  
State Capitol  
Juneau, Alaska 99801  
(907) 465-3822  
Fax: (907) 465-3756

*While in Anchorage*  
716 West 4th Ave.  
Anchorage, Alaska 99501  
(907) 269-0144  
fax: (907) 269-0148

SENATOR BETTYE DAVIS

## Memorandum



To: Senator Randy Phillips, Chair  
Senate Labor & Commerce Committee

From: Senator Bettye Davis

Date: April 17, 2001

RE: Request for Hearing, SB 132

---

I respectfully request a hearing for Senate Bill 132, Minimum Wage.

At \$5.65 an hour, Alaska's present minimum wage is the lowest on the West Coast, eighty-five cents under the next lowest minimum wage. Alaska's minimum wage is tied to federal law. The state has not raised its minimum wage since 1959.

I ask for your support on this issue.

22-LS0395\C  
Cramer  
4/27/01

CS FOR SENATE BILL NO. 132( )

IN THE LEGISLATURE OF THE STATE OF ALASKA  
TWENTY-SECOND LEGISLATURE - FIRST SESSION

BY

Offered:  
Referred:

Sponsor(s): SENATOR DAVIS

A BILL

FOR AN ACT ENTITLED

1 "An Act relating to minimum wages."

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

3 \* Section 1. AS 23.10.065(a) is amended to read:

4 (a) Except as provided under (b) of this section, an employer shall pay to each  
5 employee wages at a rate of not less than the greater of (1) \$6.90 an hour or (2)  
6 \$1.00 [50 CENTS] an hour more [GREATER] than the prevailing federal minimum  
7 wage law for hours worked in a pay period, whether the work is measured by time,  
8 piece, commission, or otherwise. An employer may not apply tips or gratuities  
9 bestowed upon employees as a credit toward payment of the minimum hourly wage  
10 required by this section. Tip credit as defined by the Fair Labor Standards Act of 1938  
11 as amended does not apply to the minimum wage established by this section.

12 \* Sec. 2. The uncodified law of the State of Alaska is amended by adding a new section to  
13 read:

14 APPLICABILITY AND TRANSITION. (a) AS 23.10.065(a), as amended in sec. 1  
15 of this Act, applies to work performed beginning on January 1, 2003, and thereafter.

1 (b) Notwithstanding the minimum wage amount established in AS 23.10.065(a), as  
2 amended in this Act, for work performed beginning on

3 (1) January 1, 2002, through December 31, 2002, the minimum wage amount  
4 is the greater of \$6.40 an hour or \$1.00 an hour more than the prevailing federal minimum  
5 wage law; and

6 (2) the effective date of this Act through December 31, 2001, the minimum  
7 wage amount is 50 cents an hour greater than the prevailing federal minimum wage law.

8 (c) Notwithstanding AS 23.10.065(b) and (c), beginning on the effective date of this  
9 Act through December 31, 2002, an employer shall pay to each person employed as a public  
10 school bus driver wages at a rate of not less than two times the minimum wage established  
11 under (b) of this section for hours worked in a pay period, whether work is measured by time,  
12 commission, or otherwise. An employer may not apply fringe benefits as a credit toward  
13 payment of the minimum wage established under this subsection. An employer who contracts  
14 with the Department of Education and Early Development, a school district, or a regional  
15 educational attendance area to provide school bus transportation services is not required to  
16 adjust school bus driver wages under this subsection except when entering into or renewing  
17 the contract.

18 (d) Beginning on the effective date of this Act through December 31, 2002, references  
19 in state law to the state minimum wage under AS 23.10.065 shall be considered to refer to the  
20 state minimum wage under (b) of this section.

# ALASKA STATE LEGISLATURE

Senate  
Health, Education &  
Social Services  
Committee

Senate  
Labor & Commerce  
Committee

Senate  
State Affairs  
Committee

*While in Session*  
State Capitol  
Juneau, Alaska 99801  
(907) 465-3822  
Fax: (907) 465-3756

*While in Anchorage*  
716 West 4th Ave.  
Anchorage, Alaska 99501  
(907) 269-0144  
fax: (907) 269-0148

SENATOR BETTYE DAVIS

Senate Bill 132

"An Act relating to Minimum wage."

## Sponsor Statement

---

***At \$5.65 an hour, Alaska's present minimum wage is the lowest on the West Coast, eighty-five cents under the next lowest minimum wage. Alaska's minimum wage is tied to federal law. The state has not raised its minimum wage since 1959.***

**This bill would insure that the minimum wage would remain at 50 cents an hour above any changes to current Federal Minimum Wage Law for the remainder of 2001. It would then increase the minimum wage to \$6.40 an hour on January 1, 2002, followed by a raise to \$6.90 a year later.**

**While it does not inflation proof the minimum wage it does attempt to assist minimum wage earners to provide food, clothing and housing for their families.**

# LEGAL SERVICES

DIVISION OF LEGAL AND RESEARCH SERVICES  
LEGISLATIVE AFFAIRS AGENCY  
STATE OF ALASKA

(907) 465-3867 or 465-2450  
FAX (907) 465-2029  
Mail Stop 3101


State Capitol  
Juneau, Alaska 99801-1182  
Deliveries to: 129 6th St., Rm. 329

## MEMORANDUM

April 17, 2001

**SUBJECT:** Sectional Summary of Sectional summary of SB 132

**TO:** Senator Bettye Davis  
Attn: Richard Benavides

**FROM:** Teresa B. Cramer   
Legislative Counsel

You have requested a sectional summary of the above-described bill. As a preliminary matter, note that a sectional summary of a bill should not be considered an authoritative interpretation of the bill and the bill itself is the best statement of its contents.

**Section 1** of the bill amends AS 23.10.065(a), the state minimum wage law, to raise the minimum to \$6.90 per hour.

**Section 2** provides for transition to the new minimum wage set in sec. 1.

Subsection (a) directs that the new statutory wage rate set in bill sec. 1 applies to work performed on or after January 1, 2003.

Subsection (b) provides for a transition to the new wage rate. For work performed during calendar year 2002, the minimum wage is \$6.40. For work performed in calendar year 2001, the minimum wage is unchanged from the current statutory minimum wage (50 cents greater than the federal minimum wage).

Subsection (c) applies the transition wage rates set out in subsection (b) to the minimum wages of school bus drivers, set out in AS 23.10.065(b) and (c).

Subsection (d) applies to the transition wage rates to any references to state minimum wages in the Alaska Statutes.

TC:jhb  
01-047.jhb

## ANALYSIS: (continued)

## Assumptions:

On average, minimum wage ATAP recipients work 120 hours/month.

Currently, the average wage for ATAP recipients earning between \$5.65 and \$6.40 is \$5.87/hour. The average monthly ATAP grant for these recipients is \$593.

Effective January 1, 2002, 292 Temporary Assistance recipients will receive an earnings increase from \$5.85/hour to \$6.40/hour. The average monthly ATAP grant for these recipients is \$555, a \$38 decrease.

Effective January 1, 2003, 418 ATAP recipients will receive an earnings increase from \$6.40/hour to \$6.90/hour. The average monthly ATAP grant for these recipients is \$518, a \$75 decrease.

## Calculations:

FY02	\$38/month x 6 months x 292 recipients =	\$ 66,576
FY03	\$38/month x 6 months x 292 recipients =	66,576
	\$75/month x 6 months x 418 recipients =	188,100
	Total =	\$ 254,676
FY04-FY07	475/month x 12 months x 418 recipients =	\$ 376,200

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: SB 132  
 Bill Version: \_\_\_\_\_  
 ( ) Publish Date: \_\_\_\_\_

Revision Date/Time (Note if correction): \_\_\_\_\_ Dept. Affected: Labor  
 Title: Minimum Wage BRU: Labor Standards & Safety

Sponsor: Senator Davis Component: Wage & Hour Admin  
 Requester: Senate L&C Component Number: 345

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>						
-----------------------------	--	--	--	--	--	--

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

FUND SOURCE	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
New# Bldg Safety Acct						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: None

**POSITIONS**

Full-time						
Part-time						
Temporary						

**ANALYSIS:** (Attach a separate page if necessary)

This bill proposes to amend AS 23.10.065(a) by increasing the Alaska minimum hourly wage by \$0.50 above the prevailing federal minimum wage through December 31, 2001, and then to \$6.40 effective January 1, 2002 and to \$6.90 effective January 1, 2003. The bill further provides that public school bus drivers will be paid at a rate of not less than twice the current minimum wage as established in the bill. The department does not anticipate a significant increase in operating costs as a result of this legislation.

Prepared by: Richard Mastriano, Director Phone 269-4900  
 Division: Labor Standards & Safety Date/Time 4/18/01 12:00 AM  
 Approved by: Ed Flanagan, Commissioner Date 4/18/2001  
 Agency: Department of Labor and Workforce Development

For distribution information, call the Governor's Legislative Office

# Kenai Peninsula Online

Powered By

Web posted Sunday, January 14, 2001

## Bill would boost **minimum wage**

By PAUL QUEARY  
Associated Press Writer

JUNEAU (AP) -- Alaska's **minimum wage** would increase under a House Republican's bill that partly echoes a proposal floated by Gov. Tony Knowles earlier this week.

The measure sponsored by Rep. Pete Kott, R-Eagle River, would boost the **minimum wage** from the current \$5.65 to \$6.40 in 2002 and \$6.90 in 2003.

"At least it brings that small group of individuals -- the working poor -- up to a different level," said Kott. Although Knowles proposed a **minimum wage** increase in his State of the State speech on Wednesday, Kott said he'd been thinking about the idea since his campaign for mayor of Anchorage last year.

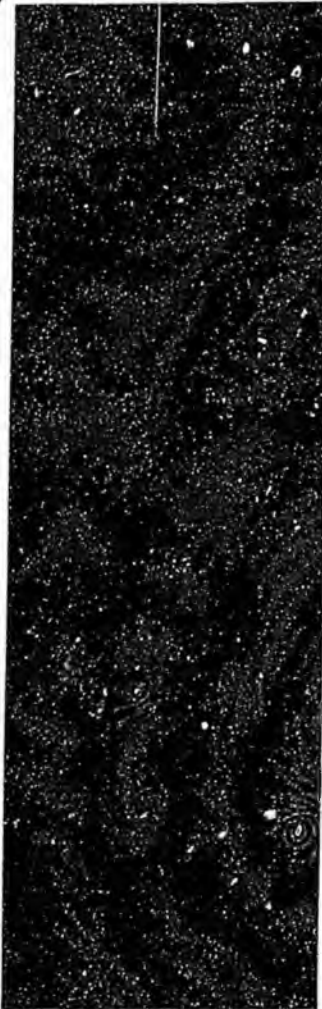
Kott, the powerful chairman of the House Rules Committee, said relatively few workers make the **minimum wage** in Alaska anyway. The state's **minimum wage** is the lowest on the West Coast and often becomes irrelevant in a tight labor market.

"I don't think it will have a dramatic impact on businesses and employers," said Kott, who figures workers in the restaurant, tourism and fish processing businesses will see the most benefit.

Employers of **minimum-wage** employees often oppose increases because they raise the cost of doing business.

It's difficult to tell just how many Alaskans earn the **minimum wage** because the state has no payroll tax, said Brynn Keith, a labor economist with the Department of Labor and Workforce Development.

A department survey during the fourth quarter of 1998 found that 5.5 percent of workers who are paid on an hourly basis -- about 14,000 people -- earned between \$5.65 and \$6.74 per hour, Keith said. Because



the survey was conducted near the end of the year instead of during the busy summer fishing and tourist season, it could underestimate the number of **minimum-wage** jobs, Keith said.

Kott's bill doesn't contain one part of Knowles' proposal -- automatic increases for inflation. Kott and other Republicans in the Legislature seem dubious about a law that would allow for open-ended increases.

A spokesman for Knowles said the governor, a Democrat, would continue to advocate a provision that would boost the **minimum wage** automatically to keep up with inflation.

"It's a good start," said Bob King, Knowles' press secretary.

With Kott and other prominent lawmakers backing the measure, it may have a good chance in the Republican-controlled Legislature. Senate President Rick Halford, R-Chugiak, said he would support it.

"We pay babysitters more than the **minimum wage**," Halford said.

The bill was referred to the House Labor and Commerce committee, where Kott expects a hearing later this month.

Discuss this story in our [Discussion Forum](#)

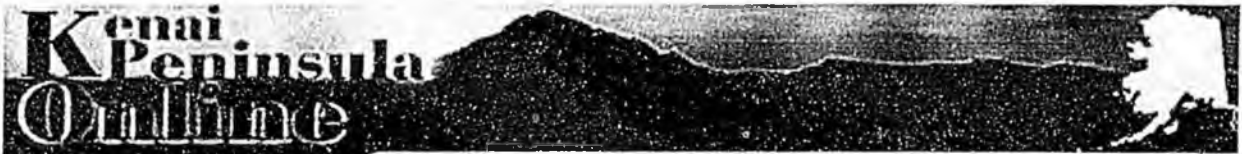
[E-mail this story to a friend](#) 

Comments or questions? Contact the web master at [Peninsula Clarion](#)

Copyrighted by Peninsula Clarion, a Division of Morris Communications  
[Privacy and terms of use.](#)

Search text: **minimum wage**  
6/100

[Previous Document](#) [Search Results](#) [Next Document](#)



Powered By

Web posted **Friday, March 30, 2001**

## Labor leaders pursuing **minimum wage** increase initiative

By **CATHY BROWN**  
Associated Press Writer

JUNEAU (AP) -- State labor leaders say they plan to take their case for a **minimum wage** increase to the voters instead of waiting for the Legislature to act.

Alaska AFL-CIO leader Mano Frey is one of the sponsors of a proposed **wage** increase initiative that calls for increasing the **minimum wage** from the current \$5.65 an hour to \$7.15 an hour in 2003 and automatically adjusting it for inflation thereafter.

The measure, which was certified earlier this month by the Division of Elections, also would set Alaska's **wage** at \$1 above the federal **minimum**.

If labor supporters can gather about 29,000 signatures by early next year, the initiative would go on the November 2002 ballot.

Frey said labor leaders are going ahead with the ballot proposal because two bills that would bump up the **wage** are stalled in the Legislature.

"We're concerned that the legislation seems to be mired down in the Labor and Commerce Committee in the House," Frey said. "We'd like to add a little incentive to them to do the right thing."

He said the state's **minimum wage** is the lowest on the West Coast and is not high enough to keep a family of three out of poverty.

Gov. Tony Knowles introduced a bill that would raise the **wage** to \$6.40 in October and then to \$7.15 a year later. It calls for automatic increases after that to reflect inflation.

Rep. Pete Kott, R-Eagle River, introduced a bill that would raise the **minimum wage** to \$6.40 in 2002 and \$6.90 in 2003. It would not



provide automatic increases for inflation.

The governor's bill has had no hearings.

When Kott's bill was heard early in the session in Labor and Commerce, restaurant owners testified the bill could hurt their businesses and force them to lay off employees or cut benefits. It has not moved since.

Committee Chairwoman Lisa Murkowski, R-Anchorage, said she's looking at a couple of issues that came up in those hearings.

One is the possibility of a tip credit, which would allow employers to pay less to workers who make tips. It's a difficult issue, Murkowski said. Some people have said they will not support the bill without a tip credit, while others refuse to consider the bill with a tip credit.

Murkowski said she's also looking at ways to make an existing provision that lets employers pay teen-agers less than the **minimum** more usable for employers.

She plans to bring the bill before the committee again before the session ends, Murkowski said.

Frey said labor groups are going ahead with their initiative plans partly because they can't wait. They attempted to put a **minimum wage** hike on the ballot in 2000, but got a late start and fell short of collecting enough valid signatures.

Labor advocates also hope the move might spur action in the Legislature, Frey said.

If the initiative's supporters collect enough signatures to put the measure on the ballot next fall, the only way the Legislature can keep it from going to voters is to pass substantially similar legislation.

That gives legislators less flexibility than they would have this session if they want to pre-empt a ballot effort.

Discuss this story in our [Discussion Forum](#)

[E-mail this story to a friend](#)



Comments or questions? Contact the web master at [Peninsula Clarion](#)

Copyrighted by Peninsula Clarion, a Division of Morris Communications  
[Privacy and terms of use.](#)

Search text: **minimum wage**  
9/100

[Previous Document](#) [Search Results](#) [Next Document](#)

Previous Document

Search Results

Next Document

Search text: **minimum wage**  
Collection: ken\_2001 3/100

Kenai Peninsula Online

Powered By

Web posted **Monday, January 29, 2001**

## January 26: Peninsula Clarion on boosting Alaska's **minimum wage**:

In one of the first acts of the new legislative session, Gov. Tony Knowles presented his proposal last week to increase the state's **minimum wage** to \$6.40 an hour. While the proposal likely elicited groans from the business community, it is an idea whose time has not only come, but is long overdue.

The governor introduced his proposal on Jan. 17, nearly 200 years to the day after Thomas Jefferson noted in his inaugural address that "a wise and frugal government ... shall not take from the mouth of labor the bread it has earned." While we have come a long way since then, the quality-of-life issues that inspired Jefferson remain constant.

We must ensure that every working Alaskan has the opportunity to earn a decent, livable **wage**, the governor said in his introduction of the **wage** increase proposal during his State of the State address.

Opponents might contend that at its present level \$5.65 an hour the **minimum wage** in Alaska already is 50 cents an hour higher than the federal **minimum** and, therefore, should not be raised. But this is the worst kind of denial. In addition to pockets of the state being among the most expensive in the nation in which to live, Alaska's **minimum wage** is 85 cents less than the next lowest on the West Coast.

Additionally, these are prosperous times. Our country's economy has seen unprecedented growth in recent years. Alaska may be lagging a bit behind in general terms, but, as the governor noted in his speech, the state of our state is strong.

"We began this new century with more Alaskans working than ever before -- nearly 282,000 earning a record \$9.5 billion. We've created more than 22,000 new jobs, and enjoy the lowest unemployment rates in a generation. With three-quarters of all Alaska jobs in the private sector, our economy is more diversified than ever.

"Hidden in all the economic good news is the gap between the haves and have nots, which, disturbingly, is widening nationwide even in these prosperous times. An increase in the **minimum wage**, while hardly leading to wealth, will help ensure that no one who wants to work is left behind."

Anyone tempted to dismiss the increase as unnecessary because it only affects young and part-time workers should think again. According to the Alaska Department of Labor and Workforce Development, approximately 14,000 Alaska workers, 5.5 percent of the states total workforce, received hourly wages between \$5.65 and \$6.74 an hour. More than 70 percent of those receiving **minimum wages** are adults.

A single parent working year-round in Alaska at **minimum wage** earns only two-thirds of the poverty level for a family of three and cannot hope to rise out of poverty, Knowles said. These are disturbing facts that must change.

We agree. The governor's bill makes good sense for everyone. It will give a shot in the arm to an already successful welfare-to-work program, which has helped reduce welfare rolls dramatically and saved the state \$51 million in the last four years. At least as important, it will help provide fundamental dignity and respect and a decent quality of life for all who want to work.

If his proposal is passed, as it should be, it would take effect Oct. 1, followed by an increase to \$7.15 a year later. The **wage** would then adjust annually to match inflation, increasing by pennies per year, the governor noted, but helping to ensure that **minimum wage** earners don't lose ground as they provide food, clothing and housing for their families.

Jefferson was aware, 200 hundred years ago, that a wise and frugal government should never underestimate the importance of workers to the national identity. This is necessary, he said, to close the circle of our felicities. By pushing an increase in the **minimum wage**, Knowles is doing his part on the state level. After all, as he said, working for a **minimum wage** in Alaska should not mean a **minimum** quality of life.

Discuss this story in our [Discussion Forum](#)

E-mail this story to a friend



Comments or questions? Contact the web master at [Peninsula Clarion](#)

Copyrighted by Peninsula Clarion, a Division of Morris Communications  
[Privacy and terms of use.](#)



Previous Document

Search Results

Next Document

Search text: **minimum wage**  
Collection: ken\_2001 1/100

Kenai  
Peninsula  
Online

Powered By

Web posted **Monday, January 22, 2001**

## January 19: Anchorage Daily News on **minimum wage** legislation:

There appears to be agreement in Juneau that Alaska's lowest-paid workers are due for a raise.

Democratic Gov. Tony Knowles has proposed a two-step increase to \$7.15, and then automatic increases tied to the Consumer Price Index. Republican Rep. Pete Kott of Eagle River has proposed a two-step increase to \$6.90, with no CPI-linked raises.

Either way, we raise the floor for Alaska's lowest-paid workers, and that's good.

Since Alaska's first year of statehood, the **minimum wage** here has been 50 cents more than the federal **minimum**, by law.

In 1959, that made a bigger difference than it does now. With the federal **minimum** then at \$1.00, most Alaskans could be paid no less than \$1.50, or 50 percent more than low-**wage** workers Outside.

Today, Alaska's **minimum wage** of \$5.65 is less than 10 percent more than the federal **minimum** of \$5.15. Here's how Alaska stacks up against the rest of the West Coast.

--California, \$6.75;

--Washington, \$6.72;

--Oregon, \$6.50, and

--Alaska, \$5.65.

"We pay baby sitters more than the **minimum wage**," said Senate President Rick Halford, saying he'd support an increase.

As Rep. Kott and others have pointed out, according to the latest available (1998) Department of Labor figures, only about 14,000 Alaskans are classified as low-**wage** workers, in the range \$5.65-\$6.74. That's 5.5 percent of all **wage** and salary workers.

What an increase in the **minimum wage** would do is take some of these workers closer to a living **wage**. That's closer -- not there.

State Labor Commissioner Ed Flanagan said a decent **minimum wage** is part of the social contract. An honest day's work should fetch an honest day's pay, no matter how menial or unskilled the work in some people's eyes.

The Department of Labor says a single parent with two children working full time at the current \$5.65 **minimum wage** will make \$11,752, far below the federal poverty level of \$17,690. Even at \$7 an hour, that parent will make only \$14,560.

The governor's proposal to link yearly increases to the Consumer Price Index is intriguing. Essentially, **minimum-wage** workers would get raises to match cost-of-living increases. In terms of purchasing power, these wouldn't be raises at all, but a means to keep many low-end workers and their families from sinking further below the poverty line.

The state of Washington is alone among the states in linking **minimum wages** to the Consumer Price Index. Voters there passed a **minimum-wage** initiative in 1998, and their first automatic increase just kicked in this month, raising the **minimum** by 22 cents to \$6.72.

That idea needs study, especially an evaluation of Washington state's experience. But there's little dispute about whether to increase basic **minimums** now.

"An implicit moral code operates just under the surface of our otherwise impersonal economy," former U.S. Labor Secretary Robert Reich said during a 1996 battle to raise the federal **minimum wage**. " ... the vast majority of the time, the vast majority of us are content to allow the market to dictate who should get what, and how much.

Capitalism works best when it is unfettered.

"But there are times and there are conditions when we insist on a **minimum** standard of fairness ...

"This implicit moral code stands for the simple proposition that anyone who works hard should earn at least enough to keep themselves and their immediate families clothed, fed and sheltered."

A fair **minimum wage** is one of the ways we live by that code. Gov. Knowles' and Rep. Kott's proposals are welcome.



Powered By

Web posted **Sunday, January 14, 2001**

## Bill would boost **minimum wage**

By **PAUL QUEARY**  
Associated Press Writer

JUNEAU (AP) -- Alaska's **minimum wage** would increase under a House Republican's bill that partly echoes a proposal floated by Gov. Tony Knowles earlier this week.

The measure sponsored by Rep. Pete Kott, R-Eagle River, would boost the **minimum wage** from the current \$5.65 to \$6.40 in 2002 and \$6.90 in 2003.

"At least it brings that small group of individuals -- the working poor -- up to a different level," said Kott. Although Knowles proposed a **minimum wage** increase in his State of the State speech on Wednesday, Kott said he'd been thinking about the idea since his campaign for mayor of Anchorage last year.

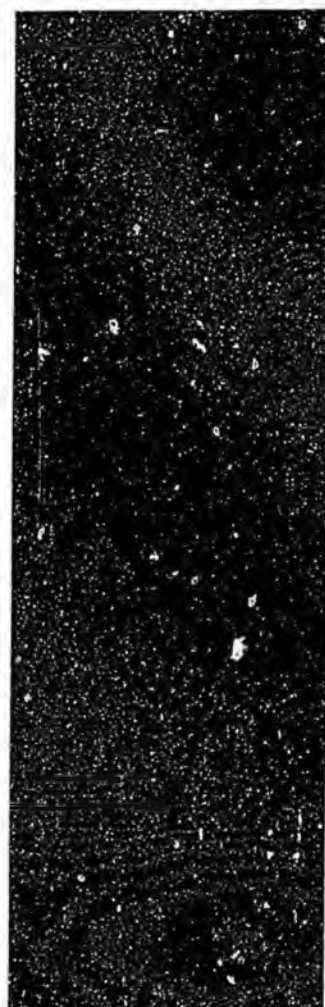
Kott, the powerful chairman of the House Rules Committee, said relatively few workers make the **minimum wage** in Alaska anyway. The state's **minimum wage** is the lowest on the West Coast and often becomes irrelevant in a tight labor market.

"I don't think it will have a dramatic impact on businesses and employers," said Kott, who figures workers in the restaurant, tourism and fish processing businesses will see the most benefit.

Employers of **minimum-wage** employees often oppose increases because they raise the cost of doing business.

It's difficult to tell just how many Alaskans earn the **minimum wage** because the state has no payroll tax, said Brynn Keith, a labor economist with the Department of Labor and Workforce Development.

A department survey during the fourth quarter of 1998 found that 5.5 percent of workers who are paid on an hourly basis -- about 14,000 people -- earned between \$5.65 and \$6.74 per hour, Keith said. Because



the survey was conducted near the end of the year instead of during the busy summer fishing and tourist season, it could underestimate the number of **minimum-wage** jobs, Keith said.

Kott's bill doesn't contain one part of Knowles' proposal -- automatic increases for inflation. Kott and other Republicans in the Legislature seem dubious about a law that would allow for open-ended increases.

A spokesman for Knowles said the governor, a Democrat, would continue to advocate a provision that would boost the **minimum wage** automatically to keep up with inflation.

"It's a good start," said Bob King, Knowles' press secretary.

With Kott and other prominent lawmakers backing the measure, it may have a good chance in the Republican-controlled Legislature. Senate President Rick Halford, R-Chugiak, said he would support it.

"We pay babysitters more than the **minimum wage**," Halford said.

The bill was referred to the House Labor and Commerce committee, where Kott expects a hearing later this month.

Discuss this story in our [Discussion Forum](#)

**E-mail this story to a friend**

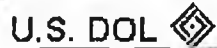


Comments or questions? Contact the web master at [Peninsula Clarion](#)

Copyrighted by [Peninsula Clarion, a Division of Morris Communications](#)  
[Privacy and terms of use.](#)

Search text: **minimum wage**  
6/100

[Previous Document](#) | [Search Results](#) | [Next Document](#)



## Questions and Answers About the Minimum Wage

---

### What is the new minimum wage?

The federal minimum wage increased to \$5.15 an hour effective September 1, 1997. The federal minimum wage provisions are contained in the Fair Labor Standards Act (FLSA).

### Why did the minimum wage need to be increased?

By 1996, the minimum wage adjusted for inflation was approaching a 40-year low. Inflation had largely wiped out the last increase in the minimum wage approved by Congress in 1989. That's why in August, 1996 Congress passed and President Clinton signed into law a two-step increase, lifting the minimum wage from \$4.25 to \$5.15. The first part of that increase went into effect Oct. 1, 1996; today we are implementing the second step to bring the minimum wage to \$5.15.

### When was the federal minimum wage last increased? How often does it increase?

In 1989 a law was passed raising the minimum wage, in two steps, from \$3.35 to \$4.25. That increase was fully implemented on April 1, 1991. The minimum wage was still \$4.25 when, last August, Congress and the President authorized another two-step increase to \$5.15.

The minimum wage does not increase automatically -- Congress must pass a bill which the President signs into law in order for the minimum wage to go up.

### Who makes sure workers are paid the minimum wage?

The Wage and Hour Division of the U.S. Department of Labor is responsible for enforcing the minimum wage. Using both enforcement and public education efforts, Wage and Hour strives to ensure that workers are paid the minimum wage.

The Wage and Hour Division has offices throughout the country. The phone numbers and addresses for these offices can be found in the federal government "blue pages" section of the telephone book under "Labor Department."

The Department of Labor's Internet web site also provides information about the minimum wage. Check out the "Minimum Wage" hot button at [www.dol.gov](http://www.dol.gov).

### Who will get a pay raise?

The minimum wage law (the FLSA) applies to employees of enterprises that do at least \$500,000 in business a year. It also applies to employees of smaller firms if the employees are engaged in interstate commerce or in the production of goods for commerce, such as employees who work in transportation or communications or who regularly use the mails or telephones for interstate communications. It also applies to employees of federal, state or local government agencies, hospitals and schools, and it generally applies to domestic workers.

The FLSA contains a number of exemptions from the minimum wage that may apply to some workers. The

law establishes a youth sub-minimum wage of \$4.25 that employers can pay employees under 20 years of age during their first 90 consecutive calendar days of employment with an employer. The youth sub-minimum wage is not affected by the September 1, 1997 increase.

The Wage and Hour Division has a Handy Reference Guide to the Fair Labor Standards Act that explains how the law applies. Write to the nearest office of the Wage and Hour Division for a copy of the guide, or access it from the Department of Labor's Internet web site.

**What happens if state law requires a different minimum wage that federal law?**

Where state law requires a higher minimum wage, that higher standard applies.

---

 [DOL Home Page](#) |  [ESA Home Page](#) |  [Top of Document](#)

IDEA  
CENTRAL

## The Minimum Wage Debate

### Quick Links:

[Idea Central - Working America](#)  
[Works Cited](#)  
[Additional Articles](#)  
[Web Links](#)

### Works Cited:

["Leadership's Tax Plan Reinforces Inequities in Health and Pension Coverage"](#)

Center on Budget and Policy Priorities [10.26.00]

["State-by-State Analysis of Income Trends"](#)

Economic Policy Institute and Center on Budget and Policy Priorities [1.18.00]

["Devil in the Details: Minimum Wage Careers"](#)  
*The American Prospect*  
 [4.10.00]

["Some Surprising Facts About Minimum Wage Workers"](#)

National Center for Policy Analysis [11.9.99]

["Do Institutions Affect the Wage Structure?"](#)

Jerome Levy Economics Institute [12.99]

["Remarks by the President on Welfare-to-Work Initiatives"](#)

The White House Office of the Press Secretary [12.25.99]

["A Living Wage Without Inflation"](#)

by Robert Kuttner  
 [09.19.99]

["Federal Reserve Research Roundup"](#)

- [Latest Update on Minimum Wage](#)
- [Previous Information Compiled at EPN](#)  
[Keeping Up with Inflation ; Waging War](#)  
[Federal Legislation ; State Legislation](#)  
[The Living Wage Campaign](#)

### The Latest on the Minimum Wage

*(by Chris Mooney, November 2000)*

As recently as last August, congressional Republicans and the White House seemed close to a deal on raising the federal minimum wage from \$5.15 to \$6.15 an hour. There's ample evidence that the measure is needed now more than ever before: in September, the National Low Income Housing Coalition released a study finding that federal minimum wage earners are unable to pay for "modest" two-bedroom housing in any county in the country. While Republican and Democratic representatives have fought over contrasting wage hike legislation, landlords have apparently not been so hesitant about rent hikes. Indeed, in October California's Industrial Welfare Commission decided to up the state minimum wage by \$1 to \$6.75 over the next two years, which will exceed even the progressive minimum wage standard set by Oregon and Washington (\$6.50).

But since summer, the President and congressional Republican leaders have found themselves in a budget battle, and minimum wage legislation will likely prove a casualty. The President has threatened to veto a Republican tax package which included a minimum wage increase, because of other aspects of the bill. According to the [Center on Budget and Policy Priorities](#), however, Clinton is right to oppose the legislation: Despite the minimum wage increase, the tax package will largely distribute wealth to the upper class.

With the election now quickly approaching and the federal budget not yet finished, it seems unlikely that a minimum wage increase will be a legislative priority anytime soon, despite its popularity.

Once again, Congress and several states are debating the idea of giving the lowest paid workers a raise. The nation saw its last wage hike in 1997 when Congress upped a five-year-old \$4.25 to \$5.15 an hour. Since

Financial Markets Center

[Q1.2000]

"New Findings From Oregon Suggest Minimum Wage Increases Can Boost Wages for Welfare Recipients Moving to Work"

Center on Budget and Policy Priorities [5.29.98]

"The Minimum Wage Can Be Raised: Lessons from the 1999 Levy Institute Survey of Small Business"  
Jerome Levy Economics Institute [1999]

"Raising the Minimum Wage: An Overdue Pay Raise for America's Working Families"  
The White House Office of the Press Secretary [3.8.2000]

"House Resolution 3081"  
THOMAS

"Senate Bill 625"  
THOMAS

"The Rhetorical Evolution of the Minimum Wage"  
Jerome Levy Economic Institute [9.99]

"Special Section: Making Work Pay"  
*The American Prospect* [7.3.00]

"The Effects of the Living Wage in Baltimore"  
Economic Policy Institute [2.99]

---

**Additional resources:**  
*Articles/studies:*

"The Effect of Minimum Wage on TANF Caseloads"

Joint Center for Policy

then, the country's economic expansion has accelerated, but wages at the low end of the pay scale do not reflect the boom. A popular issue among voters, the minimum wage also falls victim to election tides, and the presidential race is certainly stirring up the waters.

### **Keeping Up with Inflation**

Proponents of the minimum wage hike frame the debate as an opportunity to help the working poor make up for the earnings depreciation they have experienced over the past decade. Instituted nationally in 1938 at 25 cents per hour, \$5.15 per hour is a considerable improvement from 62 years ago, but it hasn't kept pace with the rising cost of living. As some economists have pointed out, real wages for people at the bottom of the pay scale have actually decreased when inflation is taken into consideration. This trend is reflected in the growing gap between the rich and the poor, in which the prosperous are reaping most of the benefits of economic growth.

For example, a recent analysis conducted by the Economic Policy Institute and the Center on Budget and Policy Priorities shows that state income inequality continued to grow in the 1990s despite economic expansion and tight labor markets. From the late 1980s to the late 1990s, two-thirds of states saw their income gaps increase significantly between the top 20 percent of families and the bottom 20 percent, continuing a trend that began in the 1970s.

EPI Economist Jared Bernstein notes, "The strong economic growth in the U.S. results from the contributions of people in all walks of life, from laborers to corporate executives. The fact that many families are not sharing the resulting prosperity stands as our nation's most serious economic problem." Most startlingly, for the U.S. as a whole, the average income of families in the top 20 percent of the income distribution now stands at more than 10 times the income of the poorest 20 percent.

### **Waging War**

Critics argue that increasing the minimum wage does not solve the wealth gap problem since the minimum wage is little more than an "entry-level" wage -- not one that sustains a worker over many years. But as John Schmitt reports in The American Prospect, April 10, 2000, a recent government study suggests otherwise. The study, entitled "Minimum Wage Careers?" followed young people for up to 10 years after they finished high school. In those ten years researchers found that 13.2 percent of all workers had spent half or more of their careers within \$1.50 of the minimum wage. Thus, the report concludes that legislation affecting the minimum wage can have "non-negligible effects on the lifetime opportunities of a

- Reasearch  
[7.00]

"The Impact of the Minimum Wage: Higher wages, low-wage market maintained"

Economic Policy Institute  
Briefing Paper  
[6.00]

"Finally, Real Wage Gains: Lower unemployment, higher minimum wage spur recent wage growth"

Economic Policy Institute  
Issue Brief #127  
[7.17.98]

"The Next Step: The new minimum wage increase and the old opposition"

Economic Policy Institute  
Issue Brief #130.  
[4.27.99]

"Low-Wage Workers Deserve Pay Raise"

Thomas R. Michl  
Albany Times Union  
[5.21.99]

The proposed federal minimum wage increase from \$5.15 an hour to \$6.15 would benefit working women, according to the **Economic Policy Institute**. This September 1999 report found that 58 percent of the 11.8 million workers who would receive a pay raise are women. Almost one million of these working women are single mothers.

#### Web Links:

Association of Community Organizations for Reform Now (ACORN)

Consumer Price Index Homepage

Bureau of Labor Statistics

significant minority of workers."

In a similar vein, the Jerome Levy Economics Institute asks why the minimum wage is worth significant public debate if, as critics note, the wage only affects a small segment of the labor force. In a December 1999 policy brief, the Institute counters that the minimum wage does in fact affect the entire wage scale, not just those working at the minimum wage. Moreover, the group adds that the wage is particularly important in states with right-to-work laws -- places where employees can opt out of unions at any time. The brief shows that workers in these states have a higher probability of earning the minimum wage than those in ones with a high level of unionization, even when educational and market factors are accounted for.

Many critics add, however, that unskilled workers may not see the benefits of that minimum wage since they can't jump on the economic ladder in the first place: higher wages only further price them out of the market. Particularly with President Clinton's promotion of "welfare-to-work" programs sponsored by the private sector, firms are making noise about employing low-skilled workers at higher wages. As the U.S. Chamber of Commerce notes, "A raise in the minimum wage will be directly counter-productive to that effort [of on-the-job training of former welfare recipients] for the simple reason that a mandated increase in salary requirements will drive employers to hire better-skilled workers-typically not those individuals attempting to transition from welfare to work."

Critics also argue that raising the minimum wage forces employers, particularly small businesses, to lay off some of their workers, a phenomenon often called the *disemployment effect*. Republicans and business proponents claim that raises in the minimum wage stymie the creation of new jobs. While the most recent minimum wage increases have not dampened job growth, critics also question whether the implications of these raises have been delayed until the economy begins to sour.

In "A Living Wage Without Inflation," American Prospect Co-Editor Robert Kuttner wonders whether raising wages really forces employers to lay off workers, pointing out that higher wages and better benefits could ensure greater employee loyalty. Plus, Kuttner explains that if the Federal Reserve allows the economy to support full employment -- essentially the situation we currently enjoy -- employers will be forced to absorb the higher wages in order to attract workers.

The Financial Markets Center would concur with Kuttner. In its Federal Reserve Research Roundup for the First Quarter of 2000, the center writes that employers may actually find it easier to fill jobs as a

- The [Economic Opportunity Institute](#), based in Washington state, has links to statistics about the minimum wage and a rebuttal of arguments against an increase.

[The Economic Policy Institute's Issue Guide](#) provides broad coverage of the minimum wage with many links to resources across the Web.

[Inflation Calculator](#)  
Bureau of Labor Statistics

[The U.S. Chamber of Commerce](#)

result of a rising minimum wage. Without the prodding of the federal government, the center says, firms are reluctant to raise wages at the bottom for fear of triggering broad-based pay hikes. At the same time, many employers find it difficult to keep entry-level positions filled since employees think their skills are worth more than minimum-wage pay. Thus, once wages are raised by mandate, employers may be better able to attract workers to take and keep these jobs.

Boosting the minimum wage to at least keep pace with inflation becomes increasingly important as more and more people leave welfare systems to find work. The Center on Budget and Policy Priorities [found that a minimum wage increase in Oregon provided a hike in earnings for people trying to enter the workforce](#). Using information from the state's welfare agency, the Center found that increases to \$5.50 and \$6.00 per hour had an impact on the earnings of people trying to get off public assistance -- people who often end up on the bottom rungs of the income scale. For example, in 1997 nearly one third of former welfare recipients were making the minimum wage of \$5.50.

Moreover, the center concluded that minimum wage increases did not adversely affect the availability of jobs. This was indicated by the growth -- not decline -- of employment in the retail sector, which is considered the most vulnerable to wage fluctuations, and the high proportion of former welfare recipients who were able to find work.

Recent surveys of small businesses by the [Jerome Levy Economics Institute](#) support the argument that the economy could handle another increase. In a [1998/99 survey](#), most small businesses said the 1997 increase to \$5.15 did not change their employment practices. In a more recent survey, only 13 percent of businesses said a raise to \$6.00 an hour would affect their hiring decisions, although 39 percent indicated a hike to \$7.25 per hour would have more impact.

#### **Federal Legislation**

At the federal level, President Clinton and others [have proposed increasing the minimum wage to \\$6.15 an hour over a two-year period](#). The raise would affect 11.8 million people, or 10.1 percent of the workforce, according to EPI. That raise would mean an extra \$2000 per year in the pockets of minimum-wage earning Americans.

Republicans, meanwhile, are attempting to link tax breaks for businesses and richer Americans with minimum wage legislation. Republicans assert that tax breaks offset the costs of a higher minimum wage, which many in the GOP contend will limit the number of new jobs created and stymie new investment -- "tax

relief to cushion the blow," as bill sponsor Representative Rick Lazio (R-NY) describes. House Resolution 3081, passed March 9, 2000, increases the minimum wage by \$1 over two years, but cuts taxes by \$122 billion over 10 years. The tax cuts include a number of small-business oriented measures, but more controversially, a reduction of the top estate tax rate from 55% to 48% by 2004.

Quick to criticize these tax cuts are policy organizations such as Citizens for Tax Justice, the Campaign for America's Future, and the Economic Policy Institute. A CTJ/EPI release notes that the bill offers \$11 in upper-income tax breaks for every \$1 in wage hikes for low earners.

Four months prior to the House bill, the Senate passed its own version of minimum wage legislation, S. 625, on November 9, 1999. Containing \$18.4 billion in tax breaks, the legislation raises the minimum wage by \$1 over 38 months. The two bills are now awaiting a House-Senate conference agreement. But regardless, the President has vowed to veto the bills, and furthermore, any minimum wage legislation that isn't "clean" and "straightforward."

#### **States on the Debate**

While Washington politics continue to thwart passage of national minimum wage legislation, ten state governments and the District of Columbia have managed to put differences aside and pull the wage above \$5.15 per hour. Most recently, Rhode Island set its minimum wage at \$6.65 beginning in September 2000, while neighboring Massachusetts will see \$6.75 starting in July 2001. The eight other states with wages above the national minimum are Alaska, California, Connecticut, Delaware, Hawaii, Oregon, Vermont and Washington.

#### **The Living Wage**

As Oren M. Levin-Waldman of the Jerome Levy Economic Institute points out in "The Rhetorical Evolution of the Minimum Wage," early arguments for the minimum wage, in the late 19th century, centered around dignity for wage labor and the ability to be economically independent. In the hundred years since then, the din of Washington politics hushed that line of reasoning, but the living wage movement is hoping to clear the air and refocus the debate on these basic arguments.

The Association of Community Organizations for Reform Now (ACORN), the nation's largest organizer of living-wage campaigns, describes the concept behind the movement simply: "Our limited public dollars should not be subsidizing poverty-wage work." It follows then these local ordinances require private

businesses that benefit from public money to pay their workers a living wage. More controversial are the exact definitions of "public money" and "living wage." However, examples of those falling under that description include large contractors, non-profits who receive tax breaks (including universities), and other economically subsidized organizations. And for most, this living wage means pay equivalent to the poverty line for a family of four, although more recent campaigns have brought much higher wages, health care benefits, and support for union organizing.

*The American Prospect* reports that, since 1994, 41 local governments have passed some sort of living-wage legislation. A special issue of the magazine entitled "Making Work Pay" spent time on the living wage, a subject which Robert Kuttner calls "the most interesting (and underreported) grass-roots enterprise to emerge since the civil rights movement." He adds, "It signals a resurgence of local activism around pocketbook issues."

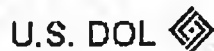
ACORN saw its first major living-wage win in Baltimore in 1994. Since then, cities such as Boston, Oakland, and Minneapolis have enacted similar ordinances. Research on the effect of the living wage, however, continues to center on Baltimore since it provides the longest period of time for gathering data. A study done in February 1999 by EPI and carried out by researchers at Johns Hopkins University confirms that the Baltimore living wage ordinance has had a direct positive impact on a relatively modest number of workers without significant financial cost to the city. Despite the apparent success of the legislation, the study finds that the City may also be failing to sufficiently implement the ordinance.

The living wage battle continues as movements in such major cities as Philadelphia, Denver, and Dallas gain steam. And as long as localities carry healthy budgets thanks to a strong economy, this issue is sure to stay on the front burner.

---

[home](#) | [idea central](#) | [issues in depth](#)

Written and compiled by Michael Talis and  
Laura Maggi for the  
*Electronic Policy Network.*

**SMALL BUSINESS HANDBOOK***Wage, Hour and Other Workplace Standards***Minimum Wage and Overtime Pay**[Accessibility Information](#)[Disclaimer](#)

Updated: February 12, 2001

**Fair Labor Standards Act of 1938, as Amended**  
**(29 USC §201 et seq.; 29 CFR 510-794)****Who is Covered**

The Fair Labor Standards Act (FLSA) establishes minimum wage, overtime pay, record-keeping and child labor standards that affect over 100 million full- and part-time workers in the private sector and in federal, state and local governments.

The Act applies to enterprises that have employees who are engaged in interstate commerce, producing goods for interstate commerce, or handling, selling or working on goods or materials that have been moved in or produced for interstate commerce. For most firms, an annual dollar volume of business test of \$500,000 applies (i.e., those enterprises under this dollar amount are not covered). The following are covered by the Act regardless of their dollar volume of business: hospitals, institutions primarily engaged in the care of the sick, aged, mentally ill or disabled who reside on the premises; schools for children who are mentally or physically disabled or gifted; preschools, elementary and secondary schools and institutions of higher education; and federal, state and local government agencies.

Employees of firms that do not meet the \$500,000 annual dollar volume test may be individually covered in any workweek in which they are individually engaged in interstate commerce, the production of goods for interstate commerce, or an activity which is closely related and directly essential to the production of such goods. Domestic service workers, such as day workers, housekeepers, chauffeurs, cooks, or full-time babysitters, are also covered if they receive at least \$1,000 (1995) in cash wages from one employer in a calendar year, or if they work a total of more than 8 hours a week for one or more employers.

An enterprise that was covered by the Act on March 31, 1990, and that ceased to be covered because of the increase in the annual dollar volume test to \$500,000, as required under the 1989 amendments to the Act, continues to be subject to the overtime pay, child labor and recordkeeping requirements of the Act.

Some employees are exempt from the Act's overtime pay provisions or both the minimum wage and overtime pay provisions under specific exemptions provided in the law. Because these exemptions are generally narrowly defined, employers should carefully check the exact terms and conditions for each by contacting local offices of the Wage and Hour Division listed in most telephone directories under U.S. Government, Department of Labor, Wage and Hour Division.

The following are examples of employees exempt from both the minimum wage and overtime pay requirements:

- Executive, administrative and professional employees (including teachers and academic administrative personnel in elementary and secondary schools), outside sales

- employees, and certain skilled computer professionals (as defined in Department of Labor regulations);
- Employees of certain seasonal amusement or recreational establishments;
  - Employees of certain small newspapers and switchboard operators of small telephone companies;
  - Seamen employed on foreign vessels;
  - Employees engaged in fishing operations;
  - Employees engaged in newspaper delivery;
  - Farm workers employed on small farms (i.e., those that used less than 500 "man-days" of farm labor in any calendar quarter of the preceding calendar year);
  - Casual babysitters and persons employed as companions to the elderly or infirm.

The following are examples of employees exempt from the Act's overtime pay requirements only:

- Certain commissioned employees of retail or service establishments;
- Auto, truck, trailer, farm implement, boat or aircraft salesworkers, or parts-clerks and mechanics servicing autos, trucks or farm implements, who are employed by non-manufacturing establishments primarily engaged in selling these items to ultimate purchasers;
- Railroad and air carrier employees, taxi drivers, certain employees of motor carriers, seamen on American vessels, and local delivery employees paid on approved trip rate plans;
- Announcers, news editors and chief engineers of certain non-metropolitan broadcasting stations;
- Domestic service workers who reside in their employer's residence;
- Employees of motion picture theaters;
- Farmworkers.

Certain employees may be partially exempt from the Act's overtime pay requirements. These include:

- Employees engaged in certain operations on agricultural commodities and employees of certain bulk petroleum distributors;
- Employees of hospitals and residential care establishments which have agreements with the employees to work a 14-day work period in lieu of a 7-day workweek (if the employees are paid overtime premium pay within the requirements of the Act for all hours worked over 8 in a day or 80 in the 14-day work period, whichever is the greater number of overtime hours);
- Employees who lack a high school diploma or who have not completed the eighth grade may be required by their employer to spend up to 10 hours in a workweek in remedial reading or training in other basic skills that are not job-specific, as long as they are paid their normal wages for the hours spent in such training. Such employees need not be paid overtime premium pay for their remedial training hours.

## Basic Provisions/Requirements

The Act requires employers of covered employees who are not otherwise exempt to pay these employees a minimum wage of not less than \$5.15 an hour beginning September 1, 1997. Youths under 20 years of age may be paid a minimum wage of not less than \$4.25 an hour during the first 90 consecutive calendar days of employment with an employer. Employers may

not displace any employee to hire someone at the youth minimum wage. Employers may pay employees on a piece-rate basis, as long as they receive at least the equivalent of the required minimum hourly wage rate. Employers of tipped employees, i.e., employees who customarily and regularly receive more than \$30 a month in tips, may consider the tips of these employees as part of their wages, but must pay a direct wage of at least \$2.13 per hour if they claim a tip credit. Certain other conditions must also be met.

The Act also permits the employment of certain individuals at wage rates below the statutory minimum wage under certificates issued by the Department:

- Student learners (vocational education students);
- Full-time students in retail or service establishments, agriculture, or institutions of higher education;
- Individuals whose earning or productive capacity is impaired by a physical or mental disability, including those related to age or injury, for the work to be performed.

The Act does not limit the number of hours in a day or days in a week an employee (at least 16 years old) may be required or scheduled to work, including overtime hours. The Act requires that covered employees, unless otherwise exempt, be paid not less than one and one-half times their regular rates of pay for all hours worked in excess of 40 in a workweek.

Employers are required to keep records on wages, hours and other items as set out in the Department of Labor's regulations. Most of this information is of the type generally maintained by employers in ordinary business practice.

Performance of certain types of work in an employee's home is prohibited under the Act unless the employer has obtained prior certification from the Department of Labor. Restrictions apply in the manufacture of knitted outerwear, gloves and mittens, buttons and buckles, handkerchiefs, embroideries, and jewelry (where safety and health hazards are not involved). Employers wishing to employ homeworkers in these industries are required to, among other things, provide written assurances to the Department that they will comply with the Act's wage and other requirements. The manufacture of women's apparel (and jewelry under hazardous conditions) is generally prohibited, except under special certificates that allow homework in these industries when the homemaker is unable to adjust to factory work because of age or physical or mental disability, or is caring for an invalid in the home.

Special provisions apply to state and local government employment.

It is a violation of the Act to fire or in any other manner discriminate against an employee for filing a complaint or for participating in a legal proceeding under the Act. The Act also prohibits the shipment of goods in interstate commerce which were produced in violation of the minimum wage, overtime pay, child labor, or special minimum wage provisions.

## Assistance Available

More detailed information on the FLSA, including copies of explanatory brochures and regulatory and interpretative materials, may be obtained by contacting local Wage-Hour offices listed in most telephone directories under U.S. Government, Department of Labor, Wage and Hour Division.

The Fair Labor Standards Act Advisor answers questions about workers and businesses that

are subject to the FLSA and its minimum wage and overtime rules.

## Penalties

Enforcement of the Act is carried out by Wage and Hour Division investigators stationed throughout the country. A variety of remedies is available to the Department to enforce compliance with the Act's requirements. When investigators encounter violations, they recommend changes in employment practices in order to bring the employer into compliance and request the payment of any back wages due employees. Willful violations may be prosecuted criminally and the violators fined up to \$10,000. A second conviction may result in imprisonment. Employers who willfully or repeatedly violate the minimum wage or overtime pay requirements are subject to civil money penalties of up to \$1,000 per violation. When a civil money penalty is assessed, employers have the right, within 15 days of receipt of the notice of such penalty, to file an exception to the determination. When an exception is filed, it is referred to an administrative law judge for a hearing and determination as to the appropriateness of the penalty. If an exception is not filed, the penalty becomes final.

The Secretary of Labor may also bring suit for back pay and an equal amount in liquidated damages and obtain injunctions to restrain persons from violating the Act. Employees may also bring suit, where the Department has not done so, for back pay and liquidated damages, as well as attorney's fees and court costs.

## Relation to State, Local and Other Federal Laws

State laws also apply to employment subject to this Act. When both this Act and a state law apply, the law setting the higher standards must be observed.

[DOL Home Page](#)[OASP Home Page](#)[Table of Contents](#)[Overview](#)

---

U.S. Department of Labor

-- [Privacy and Security Statement](#) --

CY 1999 Workers by Median Age and Occupation  
Sorted Median Wage

O.E.S. Occupations with 1st qrtl < \$7.15	OES			ODB				
	1st Quartile Wage Max	Median Wage	4th Quartile Wage Min	Total Number of Workers	Total Number of Resident Workers Without regard to wage	Resident Worker Median Age	Resident Worker by Gender % Male % Female	
Ushers, Lobby Attendants, Ticket Takers	5.87	5.92	6.51	74	70	18.0	47.1%	52.9%
Graders & Sorters: Agricultural Products	5.95	6.08	7.55	133	52	32.0	78.8%	21.2%
Waiters & Waitresses	5.94	6.26	7.33	9,654	7,161	29.0	20.7%	79.3%
Food Servers, Ex Restaurant	6.08	6.57	11.32	3,844	3,248	20.0	29.7%	70.3%
Dancers & Choreographers	6.08	6.65	10.08	549	321	25.0	13.9%	86.1%
Amusement & Recreation Attendants	6.15	6.68	10.38	3,496	3,074	28.0	43.1%	56.9%
Dining Room/Cafeteria Attendant/Bar Help	5.98	6.75	7.97	2,161	1,694	20.0	52.5%	47.5%
Taxi Drivers & Chauffeurs	5.97	6.94	8.90	408	346	36.0	70.7%	29.3%
Comb Food Prep/Service Wkrs: Fast Food	6.11	7.01	8.07	6,647	5,257	19.0	52.9%	47.1%
Cooks: Specialty Fast Food	6.05	7.10	8.56	325	260	21.5	64.2%	35.8%
Telemarketers/Door-to-Door Sales Wkrs	6.15	7.39	12.11	537	440	24.0	45.0%	55.0%
Baggage Porters & Bellhops	6.62	7.46	8.33	1,218	1,019	31.0	78.2%	21.8%
Hosts/Hostess: Rest/Lounge/Coffee Shop	6.66	7.50	8.37	2,180	1,848	35.0	48.2%	51.8%
Vehicle Washers & Equipment Cleaners	6.59	7.63	8.71	2,007	1,621	24.0	83.7%	16.3%
Service Station Attendants	6.81	7.65	8.50	1,499	1,303	25.0	87.0%	13.0%
Property & Real Estate Managers & Admin	6.49	7.66	8.91	522	482	44.0	39.2%	60.8%
Child Care Wkrs	6.65	7.82	9.47	4,058	3,327	27.0	16.4%	83.6%
Musical Instrument Repairs/Tuners	6.36	7.84	13.71	4	4	49.0	100.0%	0.0%
Cannery Wkrs	6.62	7.85	10.09	19,784	6,349	32.0	65.9%	34.1%
Marking Clerks***	6.88	7.95	9.12	3,884	3,519	38.0	23.7%	76.3%
Photographic Processing Mach Oper	6.32	8.07	11.82	159	120	27.0	55.8%	44.2%
Pressing Mach Oper: Textile, Garment	7.12	8.08	9.28	204	155	40.0	20.6%	79.4%
Cooks: Short Order	7.10	8.13	9.47	2,317	1,781	21.0	59.1%	40.9%
All Oth Sales Wkrs	6.47	8.15	11.03	443	385	34.0	59.8%	40.2%
Cashiers	7.14	8.18	9.78	8,165	7,008	28.0	30.4%	69.6%
Driver/Sales Wkrs	6.99	8.41	11.71	1,180	972	29.0	86.4%	13.6%
Food Preparation Wkrs	7.00	8.45	10.68	5,364	4,317	28.0	47.7%	52.3%
Laundry/Dry-cleaning Mach Oper, Ex Press	7.08	8.51	10.66	449	381	37.0	35.0%	65.0%
Mach Feeders & Offbearers	6.14	8.87	13.25	235	176	38.0	58.0%	42.0%
File Clerks	6.98	8.90	11.09	909	810	26.0	18.4%	81.6%
Mail Mach Oper: Prep & Handling	6.58	8.94	11.17	79	77	38.0	35.1%	64.9%
Hand Packers & Packagers	6.75	9.39	11.15	1,285	995	28.0	83.0%	17.0%
Shoe Repairs	6.42	9.52	11.68	13	13	19.0	92.3%	7.7%
Hairdressers/Hairstylists/Cosmetologists	6.17	9.66	13.41	930	805	31.0	7.1%	92.9%
Guides	6.13	10.42	12.68	2,030	1,025	31.0	69.5%	30.5%
Veterinary Assistants	6.49	11.21	19.23	522	415	28.0	23.0%	77.0%
Public Admin Chief Exec/Leg/General	6.16	11.69	13.25	469	448	47.0	48.9%	51.1%
Total				87,737	61,278	28.0	43.8%	56.2%

Age and gender data is available only for those with PFD information in 1994-99. Totals of resident workers for gender may be less than the number of resident workers by age due to missing gender information. Occupational titles and wage rates are from the Occupational Employment Statistics program.

The number of workers is based on data from the Occupational Database and does not include federal government or the self-employed. A worker is counted if he/she worked in that occupation at any time during the calendar year. Workers who worked for more than one employer are counted only once.

Due to the different coding taxonomies used by these programs, some occupational titles are combined when calculating the number of workers and median age.

\*\*\* Marking Clerks are included in the larger category of Administrative Support Occupations, including Clerical, Not Elsewhere Classified.

Industry	Percent of Total Minimum Wage <sup>1/</sup> Employment	Total Minimum Wage <sup>1/</sup> Employment by Industry
Eating And Drinking Places	32.31	4,564
Amusement & Recreation Services	8.76	1,265
Educational Services	5.61	810
Government	4.39	634
Food And Kindred Products	4.27	617
Hotels And Other Lodging Places	4.09	590
General Merchandise Stores	4.05	564
Food Stores	3.75	542
Miscellaneous Retail	3.47	501
Social Services	3.29	475
Real Estate	3.00	433
Membership Organizations	2.30	332
Automotive Dealers & Service Stations	2.01	290
Health Services	1.61	233
Motion Pictures	1.49	215
Personal Services	1.39	200
Wholesale Trade-nondurable Goods	1.22	176
Transportation By Air	1.21	174
Local And Interurban Passenger Transit	1.11	160
Miscellaneous Repair Services	1.10	159
Auto Repair, Services, And Parking	1.08	156
Business Services	.98	142
Communications	.80	115
Holding And Other Investment Offices	.79	114
Apparel And Accessory Stores	.69	99
Building Materials & Garden Supplies	.63	91
Engineering & Management Services	.53	76
Printing And Publishing	.42	60
Wholesale Trade-durable Goods	.40	58
Transportation Services	.36	52
Special Trade Contractors	.35	50
Agricultural Services	.33	48
Transportation Equipment	.20	29
Museums, Botanical, Zoological Gardens	.20	29
General Building Contractors	.19	28
Insurance Agents, Brokers, & Service	.19	27
Oil And Gas Extraction	.15	21
Lumber And Wood Products, Except Furni	.15	21
Security And Commodity Brokers	.15	22
Trucking And Warehousing	.13	19
Water Transportation	.12	17
Depository Institutions	.12	17
Heavy Construction, Ex. Building	.11	16
Legal Services	.10	15
Furniture And Homefurnishings Stores	.08	11
Nonmetallic Minerals, Except Fuels	.06	8
Electric, Gas, And Sanitary Services	.06	9
Insurance Carriers	.06	8
Miscellaneous Manufacturing Industries	.05	7
Petroleum And Coal Products	.03	4
Rubber And Misc. Plastics Products	.03	4
Services, Nec	.02	3
Apparel And Other Textile Products	.01	2
Chemicals And Allied Products	.01	1
Leather And Leather Products	.01	1
Instruments And Related Products	.01	1
<b>Total</b>	<b>100</b>	<b>14,435</b>

<sup>1/</sup> For the purpose of this analysis, "minimum wage" comprises the \$5.65-\$6.74 wage range.



# CENTER ON BUDGET AND POLICY PRIORITIES

May 29, 1998

## New Findings from Oregon Suggest Minimum Wage Increases Can Boost Wages for Welfare Recipients Moving to Work

by Ed Lazere

### Introduction and Summary

Debates over raising the minimum wage often focus on the issue of who will benefit from lifting the wage floor. Some claim that increasing the minimum wage does little for low-income families, because minimum wage earners frequently are teenagers or secondary workers in middle-class families. While the benefits of minimum wage increases are not targeted solely on low-income families, many of the workers whose earnings rise as a result of such increases are in low-income families. In addition, the large majority of minimum wage workers are adults, and many are the primary breadwinner in their family.

#### Table of Contents

- The Wages of Oregon Families Who Found Work Before and After the State's Minimum Wage Increase
- Assessing the Employment Effects
- Implications for a Federal Minimum Wage

New evidence from Oregon suggests that minimum wage increases can have a significant effect on parents who leave welfare for work. As a result of a successful state ballot initiative, the Oregon minimum wage rose from \$4.75 an hour to \$5.50 an hour in January 1997 and then to \$6.00 an hour in January 1998.<sup>(1)</sup> Data from Oregon's welfare agency show that the earnings of parents who moved from welfare to work were boosted as a result of these increases.

- The average starting wage of Oregon parents leaving welfare fell five percent, adjusting for inflation, during the three years *prior* to the January 1997 increase in the state minimum wage.
- This trend reversed itself immediately after the increase. The average starting wage jumped from \$6.15 an hour in the last quarter before the 1997 minimum wage increase took effect to \$6.43 an hour in the first quarter following the increase. By the fourth quarter of 1997, the average starting wage had reached \$6.65 an hour, an increase of more than five percent, adjusting for inflation, over the same quarter of the prior year.

These wage increases are unlikely to have occurred simply as a result of the state's strong economy. Economic growth in Oregon was solid prior to the state's minimum wage increase in 1997, but real wages for welfare recipients still declined during that period.

- The average starting wage for welfare recipients rose again following the second increase in the minimum wage. In the first quarter of 1998, welfare

recipients who found work earned an average of \$6.91 an hour, up substantially from the end of 1997. Overall, the average wage for these workers is now 76 cents an hour higher than before the state minimum wage increase took effect.

The minimum wage increase in Oregon boosted the earnings both of welfare recipients who found jobs at the minimum wage and of many who found jobs paying slightly above the minimum wage. For example, among welfare recipients who found full-time jobs, the proportion earning more than \$6 an hour rose from roughly half in 1996 to two-thirds in 1997.

This analysis also examines whether the increase in Oregon's minimum wage had a negative overall effect on employment opportunities of welfare recipients. While no systematic study of this issue has been conducted, the available evidence does not suggest a negative change in employment opportunities. The share of welfare recipients finding work rose modestly in 1997 following the increase in the minimum wage. In addition, employment growth in retail trade, the industry most likely to be affected by a minimum wage increase, was positive in 1997 and followed the same pattern as overall employment growth in Oregon. Both overall employment and retail employment rose in 1997, although at a somewhat slower rate than in 1996. The change in employment growth between 1996 and 1997 reflects a modest general slowdown in the state's rate of economic growth, not the increase in the minimum wage. If the minimum wage increase had reduced job growth significantly, it is likely that the trend in retail trade employment would have been significantly worse than the trend in overall employment.

The Oregon findings have implications for the debate over raising the federal minimum wage. The Oregon minimum wage hikes have raised the state's minimum wage from a level equal to the federal minimum wage to a level somewhat above the current federal minimum wage. (In late 1996, the federal minimum wage rose to \$4.75 an hour, which made it equal to the 1996 Oregon minimum wage. The federal minimum wage then rose to \$5.15 an hour in September 1997, below the 1997 Oregon minimum wage of \$5.50 an hour at that time.)

In addition, academic studies and recent findings from state welfare-to-work efforts indicate that adults who leave welfare for work typically have very low earnings, often at the minimum wage or just slightly above it. As a result of these low earnings, many families in which parents leave welfare for work continue to live in poverty. Thus, the Oregon experience suggests that an increase in the national minimum wage to a level modestly above \$5.15 an hour would be likely to have positive effects nationwide on the wages of adults leaving welfare for work. For the same reasons, the Oregon findings also suggest that increases in state minimum wages could boost the earnings of welfare recipients when they find work.

### **The Wages of Oregon Welfare Recipients Who Found Work Before and After the State's Minimum Wage Increase**

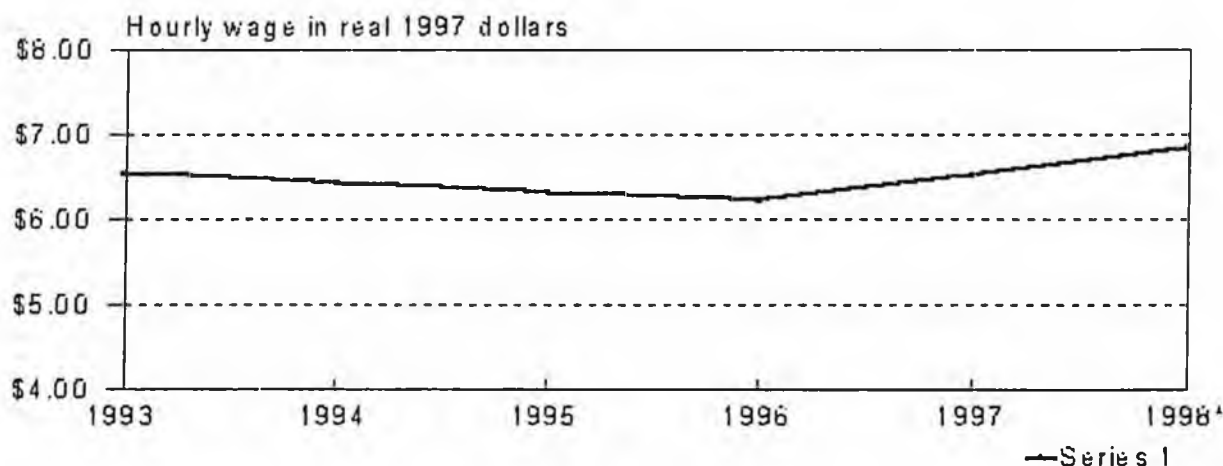
The Adult and Family Services Division of the Oregon Department of Human Resources is the agency responsible for the state's welfare to work programs. The agency regularly collects information on the earnings of welfare recipients who move

into the labor force.<sup>(2)</sup> The Oregon data show a distinct change in the wage trend among welfare recipients who found work in 1997, following the increase in the state's minimum wage. Between 1993 and 1996 the state's minimum wage remained at \$4.75 an hour. During that period:

- The average hourly starting wage of welfare recipients who found jobs — including both part-time and full-time jobs — went from just under six dollars an hour in 1993 to just above that level in 1996.
- When adjusted for inflation, the average starting wage of welfare recipients who found work was five percent *lower* in 1996 than the average in 1993. (See figure and [table](#).)

These trends changed markedly immediately following the increase in Oregon's minimum wage on January 1, 1997. The average wage of Oregon's welfare recipients moving to work began to rise noticeably after the first boost in the state's minimum wage, and again after the second boost.

## Average Starting Wages for Oregon Welfare Recipients Who Found Work, 1993 to Early 1998



Center on Budget and Policy Priorities  
 Source: Oregon Adult and Family Services Division  
<sup>^</sup> 1st Quarter only

- Between the last quarter of 1996 and the first quarter of 1997, the average wage for this group rose 28 cents an hour. This was the largest quarter-to-quarter change in the entire period from 1993 through 1997.
- By the last quarter of 1997, the average wage stood at \$6.65 an hour, or 50 cents higher than in the similar period of 1996. Adjusting for inflation, this represented a one-year wage increase of 5.4 percent.
- The Oregon minimum wage rose to \$6.00 an hour in January 1, 1998. Early

data following this increase suggest that it also has had a significant positive impact on the wages of welfare recipients who find work. The average wage for newly employed welfare recipients reached \$6.91 in the first quarter of 1998.

The minimum wage increase appears to have affected a substantial proportion of Oregon's welfare recipients who found work in 1997. In the last quarter of 1997, for example, nearly one-third of the welfare recipients who found work — including half of those who found part-time work — earned the state's new minimum wage of \$5.50 an hour. This substantial clustering of wages at the new minimum wage level strongly suggests that many of these workers would have earned less than \$5.50 without the increase in the state's wage floor.<sup>(3)</sup>

In addition to raising the earnings of minimum wage workers directly, the Oregon minimum wage increase also appears to have raised the wages of workers with earnings modestly above the

new minimum wage level. During Oregon's 1996 fiscal year (from July 1995 to June 1996), roughly half — 48 percent — of the welfare recipients who found full-time work earned more than six dollars an hour. By the last quarter of calendar year 1997, more than two-thirds — 68 percent — of welfare recipients who found full-time work had earnings this high. Most of this increase occurred in the share of workers earning between six dollars and eight dollars an hour, or somewhat above the new minimum wage level of \$5.50 an hour. Minimum wage increases typically have such a "ripple effect," which may reflect attempts by employers to maintain pay differences between minimum wage workers and those with slightly higher earnings when minimum wages rise.

The Oregon minimum wage increase thus affected both welfare recipients who found work at the minimum wage and those who found jobs paying slightly above the minimum wage, which together represent a sizable share of Oregon welfare recipients who move into jobs. As a result of the broad effect, the average increase in the wages of all welfare recipients who moved into the workforce — 50 cents an hour from the end of 1996 to the end of 1997 — equaled a substantial fraction of the 75 cent increase in the state's hourly minimum wage.

It should be noted that the wage increases revealed by the Oregon data could reflect

	<b>Average Starting Wage</b>	
	<b>In Nominal Dollars</b>	<b>In 1997 Dollars</b>
<b>Before Minimum Wage Hike*</b>		
1993	\$5.89	\$6.54
1994	5.95	6.44
1995	6.01	6.33
1996	6.08	6.22
4th Quarter, 1996	6.15	6.27
<b>After 1997 Minimum Wage Hike</b>		
Average	6.52	6.52
1st Quarter	6.43	6.47
2nd Quarter	6.47	6.48
3rd Quarter	6.55	6.54
4th Quarter	6.65	6.61
<b>After 1998 Minimum Wage Hike</b>		
1st Quarter	6.91	6.85

\* Annual figures reflect averages of quarterly figures for the relevant year.  
Source: Oregon Adult and Family Services Division, Department of Human Resources

in part the state's growing economy and its impact on wages. For three reasons, however, the economy appears unlikely to be the primary cause. First, Oregon experienced solid economic growth prior to the 1997 minimum wage hike. Per capita income of Oregon residents rose seven percent between 1993 and 1996, adjusting for inflation. This was greater than the five percent growth in inflation-adjusted per capita income for the nation as a whole during this period. Yet despite this strong growth, the starting wages of Oregon welfare recipients who found work *fell* in inflation-adjusted terms during this period.

Second, while the state's continued economic expansion could have resulted in a growing shortage of available workers, which would have placed upward pressure on wages, this does not appear to be the case. The state's unemployment rate fell from 7.3 percent in 1993 to 4.8 percent in 1995, but then rose to 5.9 percent in 1996. The rate then remained steady at 5.8 percent in 1997. If the state were experiencing a significant shortage of workers, it would be reflected in a declining unemployment rate in recent years.

Third, the 1997 wage increases among Oregon welfare recipients stand out when compared with wage data for the nation as a whole. While national-level data on the wages of adults who move from welfare to work are not available, the Oregon findings can be compared with the wage trend nationally for a similar group of low-wage working women.<sup>(4)</sup> The comparison shows that prior to the Oregon minimum wage increase, the wage trend was worse among Oregon welfare recipients who found work than among low-wage working women nationally. Following the 1997 state minimum wage increase, however, wage growth for Oregon welfare recipients was greater than among low-wage women nationwide.

- Between 1993 and 1996, the average wage among welfare recipients in Oregon fell nearly five percent, adjusting for inflation, compared with a one percent decline in the real wages of the typical low-wage female worker nationally.
- In 1997, the average hourly wage for Oregon welfare recipients moving into jobs rose 5.4 percent, also adjusting for inflation, while the typical low-wage female worker experienced a one percent increase in real wages.<sup>(5)</sup>

### **Assessing the Employment Effects**

One of the major concerns raised about raising the minimum wage is that it can reduce employment prospects for low-skilled workers, under the assumption that some employers reduce the number of employees or the hours they work to offset the increase in wage costs per employee. In recent years, some have argued that the employment prospects of welfare recipients in particular would be adversely affected by an increase in the minimum wage. At the state level, some also argue that an increase in the state minimum wage would result in the migration of jobs to neighboring states.

While these concerns are important and must be considered, the weight of recent research findings on the minimum wage suggests that moderate increases from current minimum wage levels would not have adverse employment effects. No

systematic studies of the employment impact of the Oregon minimum wage increase have been conducted to date. Two available measures, however — the proportion of welfare recipients moving to work and employment growth in retail trade, the industry most affected by the minimum wage — do not suggest that the state's minimum wage increase had a significant adverse effect on employment opportunities.

### **Employment Trends Among Welfare Recipients**

The Oregon Adult and Family Services Division reports that the share of welfare recipients who found work in 1997 — 7.3 percent in an average quarter — was slightly higher than in 1996 before the state's minimum wage was increased. In 1996, an average of 6.4 percent of welfare recipients found work in an average quarter. At the same time, the *number* of welfare recipients who found jobs declined during this period, from an average of 5,850 a quarter in 1996 to an average of 4,875 per quarter in 1997. Because the state's total welfare caseload fell by a greater magnitude during this period, the *percentage* of all recipients who found work rose modestly.

These findings support an interpretation that job opportunities for Oregon welfare recipients did not worsen in 1997. It is reasonable to expect that as the total number of welfare recipients declines, the number finding jobs would also decline, simply because the number of welfare recipients who potentially could find work would be smaller. If job opportunities for welfare recipients had worsened significantly, both the number and proportion of welfare recipients finding work would likely drop, as more welfare recipients stayed on the rolls without a job.

At the same time, welfare caseloads may fall for a variety of reasons, including welfare policy changes. If caseloads decline significantly among groups of families that would not have been likely to find work had they remained on welfare, the number of welfare recipients finding jobs would not necessarily drop significantly. This could occur, for example, if changes in welfare programs made assistance less attractive or more difficult to obtain or if some families chose to leave welfare or not to begin receiving welfare to avoid using up time-limited assistance. (Such families may be able to get support from friends or relatives.) It is important to note that welfare caseloads have declined faster in Oregon in recent years than in almost every other state. While the state's caseload decline is partly the result of a strong economy, it clearly reflects policy changes as well.

Because welfare caseloads in Oregon have declined dramatically, and because the characteristics of the state's welfare recipients may have changed significantly, it is difficult to use the data on the proportion of welfare recipients finding work to assess with certainty whether job opportunities for welfare recipients have changed significantly. Nevertheless, the data do not indicate that finding a job became harder for welfare recipients in 1997.

### **Retail Trade Employment**

Retail trade is the industry with the largest proportion of employees earning at or near the minimum wage. It is likely that employment growth in retail trade would be weaker than employment trends in other industries if an increase in the minimum wage had led businesses to reduce the number of employees. This did not happen in Oregon in 1997 following the increase in the state's minimum wage.

Table II shows the growth rate in retail trade employment and in all other industries in Oregon since 1995. There are two things to note about this table. First, each year during this period, retail trade employment rose at a slower pace than the rest of the labor force. Because employment in retail trade was growing more slowly than employment in other industries before the state's minimum wage was raised, the lower growth rate of retail employment in 1997 reflects a continuation of a trend and does not appear, at first blush, to be related to the minimum wage increase.

Second, the table shows that the overall growth rate in Oregon employment was lower in 1997 than in 1996, a reflection that the state's strong economic growth had slowed somewhat. The data also show that the slowdown in the rate

	1995	1996	1997
<b>Total non-farm trade</b>	4.1%	4.0%	3.4%
<b>Retail trade</b>	3.4%	3.1%	2.8%
<b>Total less retail trade</b>	4.2%	4.2%	3.5%

Source: U.S. Bureau of Labor Statistics

of retail trade employment growth — from 3.1 percent in 1996 to 2.8 percent in 1997 — was actually smaller than the decline in the growth rate for employment in all other industries — from 4.2 percent to 3.5 percent.<sup>(6)</sup> If the minimum wage increase had adversely affected employment opportunities for low-wage workers, it is likely that the growth rate in retail trade employment would have fallen by a greater margin than the fall in the overall employment growth rate. Because the slowdown in job growth was more modest in retail trade than in other industries these data also suggest that the minimum wage increase was not a leading factor behind the modest slowdown in the state's economic growth rate in 1997.

The Oregon Employment Department did expect some reduced growth in retail trade employment as a result of the minimum wage increase. After factoring in the impact of the state's 1997 minimum wage increase, the department estimated that there would be 282,200 retail jobs in Oregon in 1997. That is one percent lower than the department's estimate of 285,100 retail trade jobs in the absence of the minimum wage increase.<sup>(7)</sup> Actual figures for 1997 — which show that Oregon had 284,400 retail jobs, or slightly more than the number projected for the year — support the Employment Department's forecast of modest job losses following the minimum wage increase.<sup>(8)</sup>

### **Research on the Minimum Wage's Effect on Employment**

These indicators from Oregon are consistent with recent academic research showing that at the current level, moderate increases in the minimum wage would not have adverse employment effects. This includes studies of increases in the federal minimum wage in the early 1990s and in 1996, as well as increases at the state level.

Among the research on state minimum wages are studies of an increase in the California minimum wage in 1988 and in the New Jersey minimum wage in 1992. The New Jersey minimum wage was raised to \$5.05 an hour in 1992. Adjusting for inflation, that equals \$5.90 in 1998 dollars, or roughly the same as the 1998 Oregon minimum wage level. The study of the New Jersey minimum wage increase compared employment growth in fast-food restaurants in the state with employment growth in

nearby eastern Pennsylvania, where the minimum wage was not raised. The study found that employment trends were as favorable in New Jersey as in Pennsylvania.<sup>(9)</sup> In response to questions about this study's methods, the authors prepared a 1998 re-analysis using new data from the Bureau of Labor Statistics. The new research confirms the initial findings.

Studies of recent increases in the federal minimum wage also have found no adverse effect on employment nationally. A May 1998 study by the Economic Policy Institute used four different tests to measure the employment effects of the 1996-97 increase in the federal minimum wage to \$5.15 an hour. The tests typically showed small changes in employment for most groups — in some cases positive and in other cases negative — with virtually all of the changes being statistically insignificant. The one test that showed fairly substantial and statistically significant employment effects found that the minimum wage increase boosted the employment of low-wage workers. The authors concluded that the tests "fail to find any systematic, significant job loss associated with the 1996-97 increases."<sup>(10)</sup>

### **Implications for a Federal Minimum Wage**

The Oregon findings have significant implications for the federal minimum wage debate. Just as in Oregon, parents who leave welfare for work throughout the nation tend to earn at or near the minimum wage. Nationwide, half of the single mothers who received welfare assistance for at least part of the year but also worked at least part of the year earned less than \$5.15 an hour in 1996 — the most recent year for which data are available — while 63 percent earned less than \$6.15 an hour. (The federal minimum wage, which stood at \$4.25 an hour at the beginning of 1996 was raised to \$4.75 an hour in October 1996 and to \$5.15 an hour in September 1997. The leading proposal to raise the federal minimum wage would lift the wage floor to \$6.15 an hour by 2000.)

In addition, the Oregon data are consistent with research showing that the recent increase in the federal minimum wage boosted the earnings of low-income families generally. A study by the Economic Policy Institute on the two-step increase in the minimum wage from \$4.25 an hour in 1996 to \$5.15 an hour in 1997 found that minimum-wage workers frequently reside in low-income working families and that low-income families benefited the most from the increase. The EPI study found that among working families with a working adult, those in the bottom fifth of the income distribution received five percent of total family income nationally, but they received 35 percent of the benefit from the minimum wage increase. The study also found that 58 percent of the earnings gains from the minimum wage increase went to the bottom two-fifths of families in terms of income. The EPI study also looked at the impact on wages for adults with less than a high school education and for teenagers; it found that there were substantial wage increases among these groups, particularly among minorities.<sup>(11)</sup>

Together, these findings suggest that the recent increases in the federal minimum wage are likely to have raised the incomes of a substantial share of the parents who left welfare for work. It further suggests that additional increases in the federal minimum wage would lift the earnings of these families even more, helping families

make a successful transition to work and remain off welfare.

---

### End Notes

1. The ballot initiative called for a three-step increase in the state's minimum wage. The third step will be an increase to \$6.50 an hour in January 1999.
2. The wage data reflect hourly wage information provided by welfare recipients to the welfare department. The large majority of recipients reporting wage information are participants in the state's welfare-to-work program. The remainder are recipients who find work outside of the state's JOBS program and report their wage information to caseworkers for benefit re-determination purposes. It is likely that the state data do not include all recipients who find work; for example, some recipients may choose to leave the welfare program when they find a job and thus would not need to report other wage information. Nevertheless, these data were collected in a consistent manner throughout the period covered in this report and thus are likely to accurately reflect changes over time. In addition, these data are used by the state as a performance measure for its welfare reform efforts.
3. Data from Oregon's Adult and Family Services division on the distribution of wages prior to the minimum wage increase are limited. They reflect only those welfare recipients who found full-time work, and the only figures on welfare recipients with earnings below the new minimum are for those earning less than \$5.00 an hour. The available figures show that 17 percent of welfare recipients who found full-time work in the 1996 fiscal year earned less than \$5.00 an hour. Since the vast majority of workers are covered by minimum wage laws, most of the workers earning less than five dollars an hour would have benefited from the state's minimum wage increase.
4. The national comparison group was selected to match as closely as possible the profile of Oregon welfare recipients who moved into work. The comparison group was limited to working women because most adult welfare recipients are women. The *low-wage* level is the 20th percentile wage level among all female workers, as calculated by the Economic Policy Institute. Some 80 percent of women earned more than this level and 20 percent earned less. Between 1993 and 1996, the 20th percentile wage level among women was slightly more than \$6 an hour, or roughly equal to the average wage of Oregon welfare recipients who moved into jobs in that period.
5. The hourly wage for the typical low-wage female nationwide — i.e., the 20th percentile wage among women — equaled \$6.13 an hour in 1993, \$6.08 an hour in 1996, and \$6.15 an hour in 1997, with all figures measured in 1997 dollars. It is worth noting that the increase between 1996 and 1997 may in part reflect the increase in the federal minimum wage from \$4.75 an hour to \$5.15 an hour in September 1997. In other words, the wage growth at this level may have been less than one percent if the federal minimum wage had not been increased.
6. When the change is measured in percentage terms, the 1997 growth rate in retail trade employment was 10 percent lower than the 1996 growth rate. The 1997 employment growth rate for all other industries was 15 percent lower than the 1996 growth rate.
7. Oregon Employment Department, unpublished data, March 1997. The simulation also estimated that when the minimum wage increase enacted in 1996 was fully implemented, i.e. when the state's minimum wage reaches \$6.50 an hour in 1999, retail employment will be about three percent lower than it would have been if the minimum wage had not been increased. The simulation also estimated that the number of non-health service jobs will be about one percent lower in 1999 than it otherwise would have been as a result of the minimum wage increases. Overall, the department estimated that there would be 12,600 fewer jobs in the state in 1999 as a result of the minimum wage increase, a reduction of less than one percent.
8. As part of its standard measurement of employment, the Oregon Employment Department will revise all 1997 employment figures early in 1999. The revised figure for the number of retail trade jobs thus may differ slightly from the figure noted in this report.
9. David Card and Alan Krueger, "Minimum Wages and Employment: a Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economics Review*, September 1984, and "A

Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with *Representative Payroll Data*," Princeton University, January 1998.

10. Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase*, Economic Policy Institute, Washington, D.C., May 1998, page 1.

11. Bernstein and Schmitt, *op cit*. The study shows, for example, that 30 percent of working women aged 20 to 54 with less than a high school degree earned \$5.15 an hour or less in the six months prior to the first step of the recent federal minimum wage increase in October 1996. During the six months following the second step of the increase, to \$5.15 an hour, the share of teens with earnings below this level dropped to 13 percent. (According to EPI, some workers continued to earn below \$5.15 despite the increase in the federal minimum wage because not all workers are covered by the minimum wage law, because some employers may not have been complying with the law, and because some workers may have inaccurately reported their earnings in the Census Bureau survey from which these data were drawn.)

- 
- [Press Release](#)

Access additional [labor market](#) and [state safety net](#) reports.

---

[Home](#) | [Background Information](#) | [Board of Directors](#) | [Center Staff](#)  
[Publication Library](#) | [Search this site](#) | [Job Opportunities](#) | [Internship Information](#)  
[International Budget Project](#) | [State Fiscal Analysis Initiative](#)  
["Start Healthy, Stay Healthy" Child Health Insurance Outreach](#)

---

To join the Center's e-mail notification list, ask questions,  
or send comments, write to [bazle@cbpp.org](mailto:bazle@cbpp.org)  
[Center on Budget and Policy Priorities](#)  
820 First Street, NE, Suite 510  
Washington, DC 20002  
Ph: (202) 408-1080  
Fax: (202) 408-1056

**S B**

**1 3 8**

# FISCAL NOTE

**STATE OF ALASKA**  
**2001 LEGISLATIVE SESSION**

Fiscal Note Number: 1  
 Bill Version: SB 138  
 (S) Publish Date: 3/13/01

Revision Date/Time (Note if correction): 02/21/2001 12:10p.m. Dept. Affected: DCED  
 Title: Gram-Leach-Bliley Act & Other Insurance BRU: Insurance Operations  
 Component: Insurance Operations  
 Sponsor: Rules Committee  
 Requester: Governor Component Number: 354

**Expenditures/Revenues** (Thousands of Dollars)

Note: Amounts do not include inflation unless otherwise noted below.

OPERATING EXPENDITURES	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

<b>CAPITAL EXPENDITURES</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
-----------------------------	------------	------------	------------	------------	------------	------------

<b>CHANGE IN REVENUES ( )</b>						
-------------------------------	--	--	--	--	--	--

**FUND SOURCE** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Estimate of any current year (FY2001) cost: 0.0

Check this box (X) if funding for this bill is included in the Governor's FY 2002 budget proposal:

**POSITIONS**

Full-time						
Part-time						
Temporary						

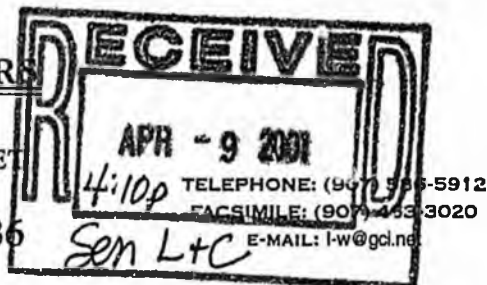
**ANALYSIS:** (Attach a separate page if necessary)  
 This bill has no fiscal impact on this component. It is covered by funds currently appropriated to the division in the operating budget.

Prepared by: Robert A. Lohr, Director Phone 907-269-7900  
 Division: Insurance Date/Time 02/21/2001 12:10p.m.  
 Approved by: Commissioner Deborah B. Sedwick Date 2/21/2001  
 Agency: Department of Community & Economic Development

For distribution information, call the Governor's Legislative Office

MICHAEL L. LESSMEIER  
GREGORY W. LESSMEIER  
SHELDON E. WINTERS  
COLBY J. SMITH

**LESSMEIER & WINTERS**  
LAWYERS - LLC  
431 NORTH FRANKLIN STREET  
SUITE 400  
JUNEAU, ALASKA 99801-1186



April 9, 2001

Via Hand Delivery

Senate Labor and Commerce Committee  
c/o the Honorable Randy Phillips, Chair  
Alaska Legislature  
State Capitol, Room 103  
Juneau, Alaska 99801-1182

Re: CS SB 138

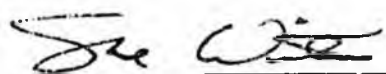
Dear Senator Phillips and Committee Members:

I represent State Farm Insurance Companies. State Farm can support the current version of CS SB 138 as set forth in the L&C work draft.

Sincerely,

LESSMEIER & WINTERS

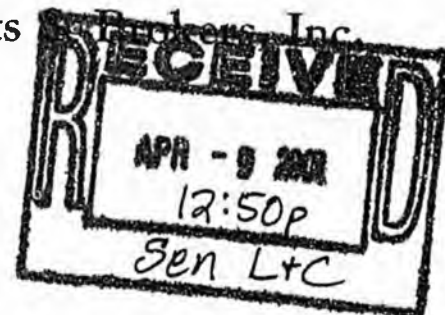
By:

  
Sheldon E. Winters

SEW/sgw  
0015-006/Phillips-01-SEW



Alaska Independent  
Insurance Agents and Brokers, Inc.



April 3, 2001

The Honorable Randy Phillips  
Alaska State Senate  
State Capitol, Room 103  
Juneau, Alaska 99801-1182

Dear Chairman Phillips:

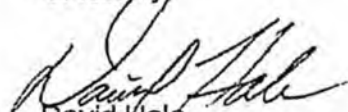
On behalf of the Alaska Independent Insurance Agents and Brokers and the Independent Insurance Agents of America, I write you to express our support for the consumer protection provisions contained in Senate Bill 138, a bill scheduled to be considered by the Senate Labor and Commerce Committee later this week.

The enactment of the Gramm-Leach-Bliley Act (GLBA) in November 2002 was the most fundamental revision of financial services law in over a half-century, and both policymakers and private industry are now faced with the impact of this new law. While the drafters of the GLBA sought to modernize financial services regulation, they made every effort to ensure that such reform would not come to the expense of consumers. To this end, the act specifically protects the rights of the states to enact certain consumer protections, including the types of protections that have been included in Senate Bill 138.

We strongly support the common-sense protections contained in SB 138. Similar protections are already in place in over one-half of the states, and these provisions have afforded consumers a measure of protection while not unduly burdening private industry. Perhaps more than any other aspect of the bill, these provisions address issues that have a meaningful real-world impact on the insurance-buying public. In our view, the ultimate adoption of SB 138 will help prove that financial services modernization and effective consumer protection are not mutually exclusive goals.

For these reasons, we commend you and your colleagues for considering SB 138, and we urge you and your committee to approve the bill and the consumer protection provisions that are currently included. Naturally, if the consumer protection elements of SB 138 are modified or altered in any way, we will be forced to reconsider and reevaluate our endorsement.

Sincerely,

  
David Hale  
President / AIIAB

*Alaska*

**Department of Community  
and Economic Development**

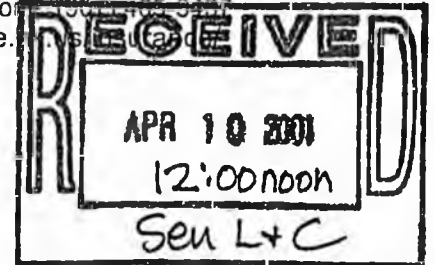
**Division of Insurance**

P.O. Box 110805, Juneau, AK 99811-0805

Telephone: (907) 465-2515 • Fax: (907) 465-3422 • Text Telephone: (907) 465-5197

Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us

April 10, 2001



The Honorable Alan Austerman  
Alaska State Senate  
State Capitol, Room 417  
Juneau, AK 99801

Dear Senator Austerman:

Re: Work Draft CSSB 138, Sec. 45. Nondisclosure of person information

I am pleased to update you on the privacy provisions in the Sec. 45. of the work draft CSSB 138(L&C). This provision represents a carefully drawn balance between Alaskans' right to privacy and the ability of the insurance industry to operate within a consistent national framework. I respectfully request your support for this provision and the rest of the bill.

The Gramm-Leach-Bliley (GLBA) federal law establishes opt-out as the minimum standard those financial institutions must comply with relative to the sharing of nonpublic consumer information. GLBA clearly allows states to set a higher privacy standard than the opt-out standard in GLBA and provides that state authority will be upheld if it does so. The work draft CSSB 138(L&C) would require the director to adopt regulations "consistent with, but no less restrictive than Title V, the privacy provisions of GLBA.

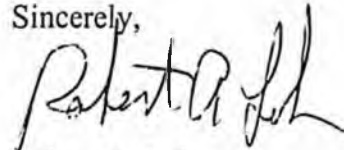
CSSB 66 now specifies an opt-out standard for financial information held by banks. I believe that "opt out" is the appropriate standard for financial information collected by insurance companies for the following reasons:

- The financial information collected by an insurance company is less comprehensive and less sensitive than financial information collected by a bank.
- An opt-in standard for financial information would create additional administrative burdens, costs and an unlevel playing field for insurers operating in Alaska compared to other states, which have an opt-out standard. This would be a factor for insurers to weigh in deciding whether to offer insurance products in Alaska's small, relatively fragile insurance market.
- Pursuant to GLBA and federal regulations implementing GLBA, national banks and other financial institutions must comply with an opt-out standard for sharing of financial information. To the extent that insurance companies are subject to a more stringent opt-in standard, they will be at a competitive disadvantage compared with national banks, who are now competitors selling insurance products.

- A national standard for privacy is desirable because a patchwork of privacy standards across the nation could negatively influence the debate of state regulation of insurance. The states' ability to enact uniform regulations that satisfy GLBA requirements is viewed by many as a test of states' ability to be an effective functional regulator in the new financial world created by GLBA.
- Consumers are well served by enacting uniform privacy standards. Under the GLBA Title V privacy standards consumer privacy will be well protected and consumers will have some certainty that these protections will not change depending upon the state in which they reside or where their insurance company is located.

If SB 138 were enacted, the division would issue for public comment a privacy regulation as the starting point for public comment. The public comment process would guide the division toward a final rule on this subject. Thank you for your considering the division's views on this important issue.

Sincerely,



Robert A. Lohr  
Director

cc: Honorable Randy Phillips, Chair  
Senate Labor & Commerce Committee

## Privacy Standards

The privacy provisions in both insurance bills (SB 138 and CS SB 138 (L&C) Work Draft) establish minimum privacy standards for insurance companies and would allow the director to adopt standards that provide greater privacy protections for consumers. This is consistent with the federal Gramm-Leach-Bliley Act (GLBA) privacy standards, which explicitly allows states to adopt privacy standards that provide greater protection to consumers' privacy. The privacy provisions in both banking bills (SB 66 and CS SB 66 (L&C)) directly set privacy standards for other financial institutions.

The following compares insurance and banking privacy provisions in the originally introduced bills and in the current version of the bills:

	<u>Financial</u>	<u>Health</u>
<u>Current Bills</u>		
Banking – CS SB 66 (L&C)	Opt-out	Opt-out
Insurance – CS SB 138 (L&C)	Opt-out	Opt-out
<u>Bills Originally Introduced</u>		
Banking - SB 66	Opt-in	None
Insurance - SB 138	Opt-out	Opt-in

Current banking law sets an opt-in standard for sharing financial information. Current insurance law does not restrict sharing of consumer information.<sup>1</sup>

## Explanation of Terms

**Opt-Out:** means your information may be shared with others unless you state otherwise.

**Opt-In:** means your information may not be shared with others unless you give written permission.

**Insurance Financial Information:** Examples include how much premium you pay, value of your home, your name, address, phone number, birth date, occupation, income, credit information, claims made against your policy, driving history, vehicle identification and features, vehicle citations, amounts of coverage.

**Insurance Health Information:** Examples include medical and mental health records, payment records that indicate what type of doctors you see, types of medications you take, types of treatments you receive, your height and weight, whether you use tobacco.

**Banking Financial Information:** Examples include income, details on all your assets and liabilities, credit information, where and on what you spend money.

<sup>1</sup>However, HB211 was adopted last year and will become effective 7/1/2001. It restricts sharing of financial and health information, but only for health insurers who sell managed care plans in the state. HB 211 disallows any sharing of financial information and sets an opt-in standard for sharing health information.

## Amendments to SB 138

Page 2, line 6, remove "otherwise"

Page 4, after line 17 add a new subsection (9) to read:

(9) is an officer, director or employee of an admitted insurer who does not receive any commission on policies written or sold to risks resident, located or to be performed in this state, and the officer, director, or employee's functions are executive, administrative, managerial, clerical or a combination of these and are only indirectly related to the transaction of insurance; relates to underwriting or loss control; or are in the capacity of an agency supervisor where the activities are limited to providing technical assistance to insurance producers and whose activities do not include transacting insurance business.

Page 18, line 1, add "and (d)" after (c)

Page 18, line 5, add "and (d)" after (c)

Page 18, line 20, add a new subsection (d) to read:

(d) An insurer or insurance producer may compensate an insurance agency or another person as long as that person does not transact the business of insurance in this state, unless the payment would violate AS 21.36.100 or 21.36.120.

Page 23, after line 4, add a new section to read:

Sec. 39. AS 21.27.790(2) is amended to read

(2) the director may adopt by regulation a requirement that a surplus lines broker maintain a bond as described in AS 21.27.190 in an amount acceptable to the director [HAVE AND MAINTAIN WHILE LICENSED, A BOND IN THE SUM OF NOT LESS THAN \$200,000 AGGREGATE LIABILITY AND] with the conditions that the surplus lines broker conduct business under the provisions of this title, promptly remit the taxes and fees provided by law, return premiums promptly when due, and pay proper losses promptly.

Page 26, delete lines 23 to 31

Page 27, delete lines 1 to 9

Page 30, line 2, after "(Home Owners Loan Act)" add "a credit union under 12 U.S.C.1752 (Federal Credit Union Act),"

Page 30, line 4, change "or" to "and"

Page 30, line 9, after "institution." add the sentence "A financial institution does not include an insurance company."

Page 30, line 26, after "based" add "only"



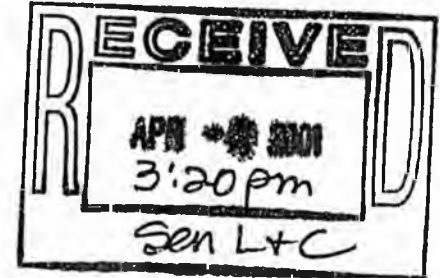
Tony Knowles, Governor

Department of Community and Economic Development

Division of Insurance

P.O. Box 110805, Juneau, AK 99811-0805
Telephone: (907) 465-2515 • Fax: (907) 465-3422 • Text Telephone: (907) 465-5437
Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us/insurance/

April 4, 2001



The Honorable Randy Phillips
Chair, Senate Labor and Commerce Committee
Alaska State Senate
State Capitol, Room 103
Juneau, AK 99801-1882

Dear Senator Phillips:

Re: Response to Testimony Given on SB 138
at the Hearing on Tuesday, March 20, 2001

In response to your request at the March 20, 2001 hearing, the Division has carefully reviewed the written testimony provided by the American Council of Life Insurers (ACLI) and the National Association of Independent Insurers (NAII) as well as the comments made by committee members and others who testified on the SB 138 and offers the following response. The Division continues to work cooperatively with the interested parties to address their concerns. In fact, amendments to address many of these concerns have been submitted in anticipation of a possible Committee Substitute for SB 138.

Producer Licensing

Written testimony from ACLI identified three provisions in the PLMA that they would like to see added in the producer licensing section of SB 138. First, Section 4(B)(1)(a) of the PLMA provides for an exemption from licensure for officers and directors of a company, as long as their activities do not include the sale, solicitation or negotiation of insurance. Second, Section 13(D) of the PLMA allows an insurer to pay commissions to an insurance agency or person who does not sell, solicit, or negotiate insurance. The division believes these two provisions should be included in SB 138 and has worked with the ACLI and other interested parties to develop amendments to accomplish this. Third, Section 15(E) provides immunity from prosecution for providing information about agents to regulators or federal authorities. The division has worked with the ACLI and this issue has been resolved without amendment.

Privacy

Under GLBA if the Federal Trade Commission (FTC) determines that a state is not enforcing, by July 1, 2001, at least the minimum privacy provisions established in Title V of GLBA, the state may lose authority to enforce certain consumer protection standards.

July 1, 2001 is the date that financial institutions regulated by the federal government must comply with federal privacy regulations.

In developing the NAIC Privacy of Consumer Financial and Health Information Regulation (NAIC Privacy Model), the NAIC solicited input from and worked with interested parties including consumer groups and the insurance industry. The NAIC determined that an opt-out rather than an opt-in standard for financial information was appropriate because national banks and other financial institutions regulated by the federal government must comply with an opt-out standard under GLBA and insurers would be put at a competitive disadvantage, if they are required to comply with a more stringent opt-in standard. However, given the more sensitive nature and large amount of health information held by insurance companies, the NAIC determined that an opt-in standard was the only appropriate standard for health information.

Written testimony by ACLI supports establishing the NAIC Privacy Model as the maximum privacy protection that may be enacted. However, Section 507 of GLBA relating to consumer information privacy clearly gives states the authority to enact laws and regulations that are more protective than GLBA, which establishes an opt-out standard for financial information. Sec. 44 of SB 138 confirms Alaska's authority to set higher privacy standards by setting the NAIC Privacy Model provisions as a floor. It is my understanding that ACLI has now agreed with the approach in this section.

Written testimony by the NAII expresses concerns with extending privacy protections to third party claimants, beneficiaries, persons entitled to coverage under group plans, employee benefit plans, and worker's compensation plans consistent with the NAIC Privacy Model. GLBA applies only to those individuals that apply for insurance. However, GLBA is a banking law that was written primarily for banks not insurance companies. Therefore it must be interpreted to fit the business of insurance and insurance regulation. A consumer should not receive less privacy protection because they receive their insurance through a policy held by another person or commercial entity. For example, workers compensation insurers hold personal financial and health information about individuals who have made a claim. These individuals' personal information should not be afforded less protection simply because they are not the policyholder. An injured person does not consent to share their personal information by becoming injured. The division believes that expanding the privacy protections to these individuals is important consumer protection.

Written testimony by NAII also expresses concern with adopting privacy standards at this time given that the U.S. Department of Health and Human Services (DHHS) rules are still subject to question. The division believes that the uncertainty of the DHHS regulations make passage of health privacy protections in Alaska even more critical. Also, property and casualty insurers are not subject to DHHS rules and; therefore, if privacy protections are not passed health information health by property and casualty insurers will be without protection. The NAIC Privacy Model clearly provides for an exemption from the privacy

protections, if an insurer complies with the DHHS rules. This is intended to eliminate any conflicts between the DHHS privacy rules and a state's privacy regulations.

#### Consumer Protections

GLBA establishes important consumer protections for individuals who purchase insurance through financial institutions. Sec. 45-47 of SB 138 set out these consumer protections in order for the state to be able to enforce the provisions on entities regulated under Title 21.

Written testimony by the ACLI states opposition to inclusion of these consumer protections in SB 138 because the NAIC model incorporating these provisions has not been completed. In drafting the consumer protection provisions in 45-47 of SB 138 the division relied on the provisions in GLBA, the federal regulations implementing the consumer protections in GLBA, model provisions developed by the Independent Insurance Agents of America (IIAA) and a draft of the NAIC model act that is still under development. SB 138 uses the definition of a financial institution recommended by the IIAA, which is broader than the federal or NAIC definition. This was to assure that financial institutions that are not banks or savings associations are also required to comply with the provisions.

Also, the ACLI states that "Alaska will be the ONLY state to adopt non-uniform provisions in this area." However, although most states do not have an active bill, it is the division's understanding that as many as 26 states have already adopted similar consumer protections into law.

The division feels that these provisions are important protections for Alaskans who may purchase insurance through a financial institution and that these provisions should remain in the bill. Since the hearing, the division has corresponded with ACLI numerous times to work through solutions to their concerns. The division agrees that clarifying amendments to the definition of "financial institution" are appropriate and has drafted such amendments. The first amendment specifically adds credit unions to the definition, the other two amendments narrows the scope of the provision to more accurately represent the financial institutions for which the protections are intended to apply. Another area of agreement is in Sec. 45., Sec. 21.36.164(4) of the bill relating to consumer information privacy. Since consumer privacy is addressed in a comprehensive manner in Sec. 44. of the bill, the division agrees that this provision is not necessary and should be deleted. I believe that ACLI's concerns have been addressed with these proposed amendments.

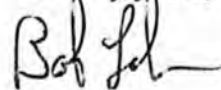
#### Domestic Violence

In the written testimony by the NAI, they expressed concern with modifications made to an existing statute protecting victims of domestic violence. Sec. 49 and 50 of SB 138 contain amendments to the statute to make the provision more consistent with the GLBA domestic violence provision. It is the division's understanding that the concern express

by the NAI in their testimony and by State Farm in conversations with them regarding this provision, is with the removal of the language "if the refusal, cancellation, denial, or increase results only from the fact that the person was". It was not the division's intent to substantially change the law, but rather to make the provision more consistent with GLBA. Therefore, as stated in testimony given at the hearing on SB 138 Tuesday, March 20, 2001, the division is supportive of and has drafted an amendment to clarify this intent by amending the phrase "based on a person's status as" to "based only on a person's status as" on page 30, line 26 of the bill.

At your request, Mr. Chairman, I contacted the Alaska Public Interest Research Group and provided a copy of SB 138 for their review. The division has received no comments from them to date.

Sincerely yours,



Bob Lohr  
Director

BL/KC/lvs7371.doc

cc: Patty Parachini, American Council of Life Insurers  
Michael Harrold, National Association of Independent Insurers

# Alaska

## Department of Community and Economic Development

### Division of Insurance

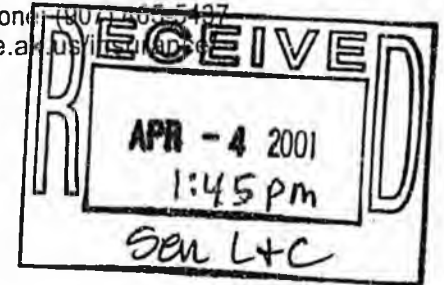
P.O. Box 110805, Juneau, AK 99811-0805

Telephone: (907) 465-2515 • Fax: (907) 465-3422 • Text Telephone: (907) 465-5497

Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us

April 3, 2001

The Honorable Alan Austerman  
Alaska State Senate  
State Capitol, Room 417  
Juneau, AK 99801



Dear Senator Austerman:

Re: SB 138, Sec. 44. Nondisclosure of person information

During the Senate Labor & Commerce Committee hearing on March 20, 2001 you expressed specific concern with establishing an opt-out versus an opt-in standard for financial information held by insurance companies and requested more information on the privacy provisions in SB 138, including a comparison of these provisions with those found in the banking bill, SB 66.

The Gramm-Leach-Bliley (GLBA) federal law establishes opt-out as the minimum standard those financial institutions must comply with relative to the sharing of nonpublic consumer information. GLBA clearly allows states to go beyond the minimum opt-out standard in GLBA and provides that state authority will be upheld if it does so. SB 138 would require the director to adopt regulations "consistent with, but no less restrictive than the National Association of Insurance Commissioners' (NAIC) privacy model regulation. The NAIC privacy model establishes an opt-out standard for financial information and an opt-in standard for health information.

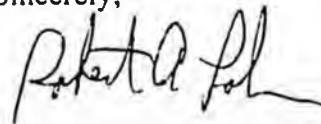
I understand your concern that financial information collected by banks should be under the tougher "opt in" provision, because of the sensitivity of the financial information banks collect and their obligation to obtain their customers' permission to share this private information with non-affiliates. However, while consistency between the banking and insurance provisions may be important, I believe that "opt out" is the appropriate standard for financial information collected by insurance companies for the following reasons:

- The financial information collected by an insurance company is less comprehensive and less sensitive than financial information collected by a bank.
- An opt-in standard for financial information would create additional administrative burdens, costs and an unlevel playing field for insurers operating in Alaska compared to other states, which have an opt-out standard. This has the potential to drive insurers out of Alaska's fragile insurance market.

- Pursuant to GLBA and federal regulations implementing GLBA, national banks and other financial institutions must comply with an opt-out standard for sharing of financial information. To the extent that insurance companies are subject to a more stringent opt-in standard, they will be at a competitive disadvantage compared with national banks.
- The NAIC model privacy regulations went through an extensive hearing process with testimony by virtually every interest group in the country including insurance companies, agents and consumers and were unanimously adopted by the NAIC.
- The NAIC privacy model is being proposed in approximately 40 state legislatures this year and will effectively set the national standard on consumer information privacy. A national standard for privacy is desirable because a patchwork of privacy standards across the nation could negatively influence the debate of state regulation of insurance. The states' ability to enact uniform regulations that satisfy GLBA requirements is viewed by many as a test of states' ability to be an effective functional regulator in the new financial world created by GLBA.
- Consumers are better served by enacting uniform privacy standards. Under the NAIC model privacy standards consumer privacy will be well protected and consumers will have some certainty that these protections will not change depending upon the state in which they reside or where their insurance company is located.

If SB 138 were enacted, the division would promulgate NAIC model privacy regulation as the starting point for public comment. The public comment process would guide the division toward a final rule on this subject. Thank you for your interest in this important issue.

Sincerely,



Robert A. Lohr  
Director

cc: Honorable Randy Phillips, Chair  
Senate Labor & Commerce Committee

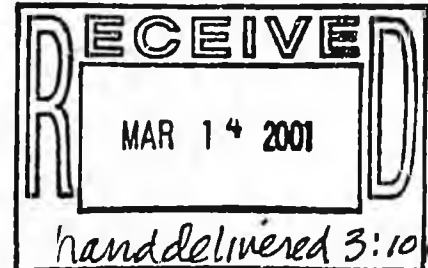


Department of Community and Economic Development

Division of Insurance

P.O. Box 110805, Juneau, AK 99811-0805
Telephone: (907) 465-2515 • Fax: (907) 465-3422 • Text Telephone: (907) 465-5437
Email: Insurance@dced.state.ak.us • Website: www.dced.state.ak.us/insurance/

March 14, 2001



The Honorable Randy Phillips
Chair
Senate Labor & Commerce Committee
Alaska State Legislature
State Capitol Room 103
Juneau, AK 99801-1182

Dear Mr. Chair:

RE: SB 138 "An Act relating to the business of insurance, including changes to the insurance code to implement federal financial services reforms for the business of insurance and to authorize the director of insurance to review criminal backgrounds for individuals applying to engage in the business of insurance; amending Rule 402, Alaska Rules of Evidence; and providing for an effective date."

On March 13, 2001, SB 138 was introduced by the Rules Committee at the request of Governor Knowles. It has been referred to your committee with a zero fiscal note.

Under this bill, significant changes would be made to the insurance code, AS 21, to accomplish insurance reforms necessitated by the federal Gramm-Leach-Bliley Act (GLBA) enacted in 1999. Under GLBA, specific standards are established for producer licensing, consumer privacy, consumer protections, and insurance sales. State authority to regulate insurance is affirmed by this new federal law. However, federal law may preempt that authority if states fail to regulate insurance in a manner that is at least consistent with GLBA, or if the states regulate in a manner that prevents or significantly interferes with the ability of a bank or bank affiliate to engage in insurance sales. GLBA requires states to streamline and coordinate their regulatory systems to make them faster, less burdensome and more effective. Enacting this bill into law will accomplish reforms consistent with GLBA and will continue the process of streamlining and coordinating insurance regulation.

One important goal of this bill is to amend AS 21.27, the licensing chapter of the insurance code, to provide for reciprocity in the licensing of nonresidents. This will avoid the forced creation of a national licensing organization

authorized under GLBA that would take over licensing authority from the states. It also addresses time-sensitive issues relating to consumer privacy and financial institution sales of insurance. GLBA establishes minimum privacy standard that a state must adopt. If a state fails to adopt minimum privacy standards consistent with the GLBA standards, the state risks losing their authority to enforce state consumer protection standards with respect to financial institution insurance sales.

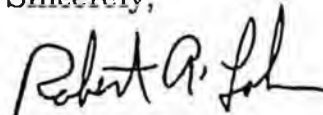
In addition to addressing the federal GLBA requirements, the bill also makes changes necessary to conform with federal laws and provides some regulatory simplifications.

Examples include provisions to:

- enable the division to obtain national criminal history record checks for any person who wants to engage in the business of insurance;
- require a person with a felony conviction involving dishonesty and breach of trust to obtain the express written consent of the director of insurance before engaging in the business of insurance, as required by and consistent with 18 U.S.C. 1033 and 1034 (Violent Crime Control and Law Enforcement Act of 1994);
- removes the current statutory requirement that an insurance firm with many branch offices license each branch office separately;
- allows multiple insurers within the insurer's holding company system or group to file a single company appointment request;
- give authority to the director to provide for the electronic submission of information and for electronic confirmation of a requested submission.

I respectfully request you to schedule SB 138 for hearing in your committee, and urge your favorable action on this bill. The Division of Insurance would be happy to meet with you and other members of the committee to brief you on the bill, and to provide any other information you may require. Thank you for considering this request.

Sincerely,



Robert A. Lohr  
Director

**STATEMENT OF THE  
NATIONAL ASSOCIATION OF INDEPENDENT INSURERS  
TO THE  
SENATE LABOR AND COMMERCE COMMITTEE  
REGARDING SB 138**

**MARCH 20, 2001**

Dear Chairman Phillips and Committee Members,

Due to a previously scheduled business trip, I'm afraid I might be in the air when the Senate Labor and Commerce Committee meets to consider SB 138 on Tuesday, March 20<sup>th</sup>. If that is the case, I at least wanted to submit some preliminary comments on behalf of the National Association of Independent Insurers (NAII).

NAII is an association of property/casualty insurance companies. NAII members are responsible for more than 30% of all property/casualty insurance premiums written in Alaska.

SB 138 is a complicated piece of legislation that co-mingles several distinct issues of importance and concern to our members. In my comments below, I will address both our support and concern with different aspects of SB 138.

**Producer Licensing**

NAII was founded on the principle that the business of insurance should be regulated by the states. We are committed to preserving state insurance regulation. The reciprocity provisions of SB 138 address the state action that is necessitated by the 1999 Gramm-Leach-Bliley Act (GLBA) and will prevent the loss of states' oversight of producer licensing to the federal government.

The NAII would especially like to offer our support of Section 2 of SB 138, which provides a limited exemption to an employee of an insurer who responds to requests from existing policyholders on existing policies. We believe the customer service representative (CSR) exemption in SB 138 is particularly salient to the needs of insurance consumers in a state characterized by the geographic and demographic expanse of Alaska. We support the exemption for the following reasons:

**1. The exemption is limited. It does not allow unlicensed employees to sell new policies.**

This is a very limited exemption. It does not allow employees of an insurance company or a producer to sell new insurance policies. Once a person purchases a policy from a licensed agent and the customer relationship is established, this exemption allows an employee of the insurer or the producer to respond to the customer's request for service on that policy.

The exemption only applies to incoming calls and other types of requests from existing policyholders. The exemption does not allow an unlicensed employee to make outbound calls to policyholders or prospects.

The exemption only allows unlicensed employees to provide services on existing policies. Under the exemption, if an auto insurance policyholder calls his or her auto insurance company and asks about purchasing homeowners insurance, the company's employee must refer the call to a licensed insurance producer. The exemption only allows employees to work on existing policies.

**2. The exemption is necessary.**

Although the exemption is limited, it is extremely important to customers, insurers and producers. In today's fast-paced, 24-hour economy, consumers expect quick, reliable and economical services from the businesses they deal with. A person who wants to make a change to his/her policy or who has a question about his/her existing coverage expects the person he/she calls at the insurer's or the producer's office to provide immediate assistance.

Many insurers have responded to this consumer expectation by establishing 24-hour customer service centers. Employees at these service centers are trained extensively on the insurer's products and policies. The employees are able to quickly respond to customer requests for assistance. The licensed insurance company stands behind the actions of its employees.

The functioning of these service centers would be severely impaired by imposing licensing requirements on all employees. The service centers typically operate on a regional or national basis. Calls to the service centers can come from any state. Without an exemption from the nonresident licensing requirement, every employee at a national service center would have to obtain fifty nonresident licenses in order to serve customers in all states and the District of Columbia. In addition to the economic burdens that such licensing imposes, the administrative difficulty of keeping track of every employee's nonresident licensing status in every state would make it very difficult to operate the type of service centers that insurance customers want and expect.

The need to license employees who simply service existing customers imposes similar difficulties on producers. Given the wide array of tasks that licensed producers must accomplish, it makes sense to allow an employee of a licensed producer to handle requests from existing customers on existing policies.

One of the goals of revising producer licensing laws is to modernize these laws. The limited exemption for employees who respond to requests from existing policyholders is consistent with this goal. The exemption recognizes the modern reality that in order to keep customers satisfied, insurers and producers must be ready, at all times, to provide quick, reliable and economical service.

**3. The exemption does not jeopardize state insurance regulation.**

The inclusion of the exemption for employees who respond to existing policyholders on existing policies does not in any way jeopardize SB 138's compliance with GLBA reciprocity requirements. Enactment of SB 138 with the exemption will allow Alaska to be included in the majority of states that have taken action to preserve state regulation over producer licensing.

### Privacy

The NAII has strong concerns with Section 44 of the bill which allows the Director of Insurance to promulgate regulations that are consistent with, and perhaps more stringent than, the model regulations adopted by the National Association of Insurance Commissioners (NAIC). Our concerns stem from the importance of having any such rule follow the federal rules implementing Title V of the Gramm-Leach-Bliley Act (Title V) as closely as possible. But the NAIC model exceeds GLBA in a number of important areas, including its overly expansive definition of "consumer" (which includes business employers), the inclusion of commercial lines, the inclusion of third party claimants, and the possible duplicity and conflicting requirements for disclosure of non-public personal health information.

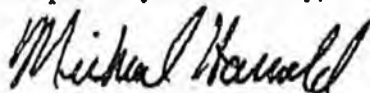
Particularly troubling is the prospect of the Division of Insurance adopting rules pertaining to the disclosure of non-public health information at a time when the Bush Administration has re-opened the rules promulgated by the Department of Health and Human Services (HHS). Even though the property/casualty industry has been exempted from complying with the HHS rules, it is necessary for the property/casualty industry to comply with portions of the rules to enable the industry to receive non-public personal health information from health providers. Thus property/casualty insurers will find themselves in a position of having to comply both with portions of the yet to be determined HHS rules and whatever provisions are contained in an Alaska health information privacy rule. Such a situation has the potential to create a morass of confusion and conflicting requirements that will not serve consumers or insurers.

### Victims of Domestic Violence

Finally, the NAII is concerned with Sections 49 and 50 of the bill that amend Alaska's current law relating to victims of domestic violence. We thought this issue had been resolved by the legislature several years ago and it is unclear to us whether the Division of Insurance simply is trying to more clearly state current law or whether it is attempting to effect a substantive change in the law. We look forward to hearing more from the Division on this issue.

The NAII appreciates the Committee's consideration of our comments as it begins work on this important but multi-faceted piece of legislation. We look forward to working with the Committee, the Division of Insurance, and other interested parties in the days ahead.

Respectfully submitted by,



Michael Harrold  
Northwest Regional Manager

# **Gramm-Leach-Bliley Financial Services Modernization Act (GLBA)**

- The Act breaks down barriers among banking, insurance and securities industries by repealing the Glass-Steagall Act, re-writing federal banking laws, and establishing a framework covering the responsibilities of federal and state regulators
- State insurance regulators' primary goal is to protect insurance consumers by taking a proactive and flexible approach to regulation

# **Gramm-Leach-Bliley Financial Services Modernization Act (GLBA)**

- State regulators must streamline processes and become more efficient in the highly competitive world economic environment
- State regulators must work cooperatively with other state officials, federal officials, consumers and interested parties
- Simplify producer licensing, protect the privacy of consumers information and protect consumers who purchase insurance through banks

## *Producer Licensing*

National Association of Registered Agents and Brokers (NARAB) will be enacted by November 2002, if at least 29 states do not achieve either uniformity or reciprocity for nonresident agents and brokers.

## **NAIC Producer Licensing Model**

In October 2000, the National Association of Insurance Commissioners (NAIC) adopted the Producer License Model Act (PLMA) for states to use as a guideline for developing legislation to meet the reciprocity elements of GLBA and move toward uniformity.

## Alaska Licensees

- Over 10,700 licensees
  - 2,900 residents
  - 7,800 nonresidents
  
- Since 1998, the Division has seen a 38% increase in the number of nonresident licensees while the trend for resident licensees has remained constant.

## **Producer Licensing Provisions**

- Based on the NAIC Model with goal of achieving reciprocity and moving towards Uniformity
- Give licenses on a reciprocal basis, which means a nonresident applicant may receive a license upon request for licensure and payment of fee, if producer is licensed and in good standing in home state
- Issue a nonresident license for the same authority granted in the home state
- Accept home state's continuing education requirement

# **Producer Licensing Provisions ....Continued**

- Eliminate any retaliatory provisions
- Remove all discriminatory requirements based on place of residency or operations
- Accept the National Uniform License Application

# **Benefits of Enacting the Producer Licensing Provisions**

- Streamlined license process and elimination of duplicative requirements for licensure
- Greater efficiency and cost savings
- No retaliatory fee requirements
- Level playing field
- Collaborative effort to identify rogue agents

# **Alaska's Constitutional Right to Privacy**

Article I, Section 22 states “The right of the people to privacy is recognized and shall not be infringed. The legislature shall implement this section.”