ALASKA LEGISLATURE COMMITTEE FILES, 2003-2004 8672
10918 HOUSE LABOR & COMMERCE

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.075, AS 43.20.014, **43.20.019,** AS 43.55.019, AS 43.56.018, AS 43.65.018, or AS 43.77.045, exceed $150,000.

*** Sec. 15.** AS 43.75.018(d) is amended to read:

(d) A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.075, AS 43.20.014, [43.20.019,] AS 43.55.019, AS 43.56.018, AS 43.65.018, or AS 43.77.045, exceed $150,000.

*** Sec. 16.** AS 43.77.045(c) is amended to read:

(c) A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.075, AS 43.20.014, **43.20.019,** AS 43.55.019, AS 43.56.018, AS 43.65.018, or AS 43.75.018, exceed $150,000.

*** Sec. 17.** AS 43.77.045(c) is amended to read:

(c) A contribution claimed as a credit under this section may not

(1) be claimed as a credit under another provision of this title; and

(2) when combined with credits taken during the taxpayer's tax year under AS 21.89.070, 21.89.075, AS 43.20.014, [43.20.019,] AS 43.55.019, AS 43.56.018, AS 43.65.018, or AS 43.75.018, exceed $150,000.

*** Sec. 18.** AS 43.20.019 is repealed.

*** Sec. 19.** The uncodified law of the State of Alaska is amended by adding a new section to read:

REVISOR INSTRUCTION. In the event that sec. 28, ch. 46, SLA 2002, is amended to extend the sunset date of that Act, the revisor of statutes shall reconcile that Act with this Act.

*** Sec. 20.** Sections 1, 3, 5, 7, 8, 10, 12, 14, 16, and 19 of this Act take effect July 1, 2003.

*** Sec. 21.** Sections 2, 4, 6, 9, 11, 13, 15, 17, and 18 of this Act take effect July 1, 2005.

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB194
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Revenue
Title: Reginnal Development Organization Tax Credit
BRU: Revenue Operations
Component: Tax Division
Sponsor: Representative Anderson
Requester: House Labor and Commerce
Component No.: 2476

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation allows taxpayers to take a credit against their Alaska corporate income taxes of up to $10,000 per year for cash contributions to a Regional Development Organization.

This legislation would not significantly reduce state revenues, in that any tax credits claimed under this new program would have to fall within the existing statutory $150,000 limit on corporate income tax credits per year per taxpayer. It is possible, however, that a taxpayer could choose to contribute to this program and therefore reduce its contribution under an existing tax credit program to stay within the limit.

The Tax Division does not expect any significant increase in its operational expenses from the new tax credit in this legislation.

Prepared by: Mark Graber, Tax Division
Phone 269-6620
Division: Tax Division
Date/Time 4/3/03 2:46 PM
Approved by: Larry Persily, Deputy Commissioner
Date 4/3/2003
Agency: Department of Revenue

(Revised 9/2002 OMB)

HB

195

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: CS HB 195 (L&C)
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: DCED
Title: Individual Health Care Insurance
BRU: Insurance
Component: Insurance Operations
Sponsor: Representative Rokeberg
Requester: House Labor & Commerce
Component No.: 354

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

Due to the adoption of a committee substitute by the House Labor & Commerce Committee, which no longer requires the involvement of the Commissioner of Administration, this bill will now have a zero fiscal impact.

Prepared by: Representative Tom Anderson
Phone
Division: Chair, House Labor & Commerce Committee
Date/Time: 4/12/03 1:44 PM
Approved by: Representative Tom Anderson
Date: 4/12/2003
Agency: House Labor & Commerce Committee

(Revised 9/2001 OMB)

AMENDMENT

OFFERED IN THE HOUSE BY

TO: CSHB 195

Page 2, after line 7 add a new section 4 to read:

*Sec. 4. AS 21.55.300(a) is amended to read:

(a) Except as provided in this section, a state resident who is a high risk**, a TAA eligible individual,** or a federally defined eligible individual is eligible to enroll in a state plan described in AS 21.55.100.

Page 3, lines 14-15 amend to read:

(23) "qualified TAA eligible individual" means a qualifying individual as defined under 26 U.S.C. 35 (**Internal Revenue Code, as enacted by sec. 201(a) of the** Trade Adjustment Assistance Reform Act of 2002).

23-LS0690\Q
Ford
4/9/03

CS FOR HOUSE BILL NO. 195( )

IN THE LEGISLATURE OF THE STATE OF ALASKA

TWENTY-THIRD LEGISLATURE - FIRST SESSION

BY

Offered:
Referred:

Sponsor(s): REPRESENTATIVE ROKEBERG

A BILL

FOR AN ACT ENTITLED

"An Act relating to coverage offered under an individual policy of health care insurance; relating to the state health insurance plan; and providing for an effective date."

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

* **Section 1.** AS 21.51 is amended by adding a new section to read:

Sec. 21.51.350. Individual health care insurance coverage. Notwithstanding AS 21.42.353, 21.42.355, 21.42.363, 21.42.365, 21.42.375, 21.42.380, 21.42.385, 21.42.390, 21.42.392, and 21.42.395, a health care insurer may offer a health care insurance plan issued in the individual market that does not include health insurance coverage required under AS 21.42.353, 21.42.355, 21.42.363, 21.42.365, 21.42.375, 21.42.380, 21.42.385, 21.42.390, 21.42.392, and 21.42.395; however, the coverage may be offered as optional coverage.

* **Sec. 2.** AS 21.55.130 is amended by adding a new subsection to read:

(e) A state plan issued to a qualified TAA eligible individual may not impose

a preexisting condition exclusion.

* **Sec. 3.** AS 21.55.150(c) is amended to read:

(c) The board shall determine standard risk premium rates by considering the premium rates charged by members of the association offering, to residents of the state, health insurance benefits substantially equivalent to benefits under the state plan. The premium for a state plan may not exceed **150** [200] percent of the standard risk premium rates determined by the board.

* **Sec. 4.** AS 21.55.300(b) is amended to read:

(b) Except for a federally defined eligible individual **or TAA eligible individual**, a person may not be covered by the state plan

(1) while covered by another health insurance policy or subscriber contract; or

(2) if the person is eligible to be covered

(A) by a plan subject to the requirements of AS 21.56.110 - 21.56.250**;**

(B) under another state or federal law, including veterans' benefits, Native health care, or Medicaid, but not including Medicare; or

(C) under another health benefit program, including self-insurance plan, health care trust, or welfare trust.

* **Sec. 5.** AS 21.55.320 is amended to read:

Sec. 21.55.320. Plan administrator's response. Within 30 days after receiving the application described in AS 21.55.310, the plan administrator shall

(1) either **provide the applicant with a notice of rejection** [REJECT THE APPLICATION] for failing to comply with the requirements of AS 21.55.300 and 21.55.310 or [FORWARD THE ELIGIBLE PERSON] a notice of acceptance**; and**

(2) for a TAA eligible individual, send a notice to the director specifying the name, address, social security number, and effective date of coverage.

* **Sec. 6.** AS 21.55.500(18) is amended to read:

(18) "resident" means (A) except for a federally defined eligible

individual **or TAA eligible individual** [AND AN INDIVIDUAL WHO IS ABSENT FROM THE STATE FOR MORE THAN 90 CONSECUTIVE DAYS FOR REASONS OTHER THAN FOR MEDICAL TREATMENT OR EDUCATION], an individual who (i) is physically present in the state, has lived in the state for at least the 12 consecutive months immediately preceding the application for a state plan, and intends to remain permanently in the state; or (ii) is not physically present in the state if the person lived in the state for at least nine of the 12 months immediately preceding application for a state plan and the person's absence from the state is for medical treatment or education; **or** (B) for a federally defined eligible individual **or TAA eligible individual**, an individual who is legally domiciled in this state**; "resident" does not include an individual who is absent from the state for more than 90 consecutive days for reasons other than for medical treatment or education**;

*** Sec. 7.** AS 21.55.500 is amended by adding new paragraphs to read:

(23) "qualified TAA eligible individual" means a qualifying individual as defined under 26 U.S.C. 35 (Trade Adjustment Assistance Reform Act of 2002);

(24) "TAA eligible individual" means an eligible individual or a qualifying family member as defined under 26 U.S.C. 35 (Internal Revenue Code, as enacted by sec. 201(a) of the Trade Adjustment Assistance Reform Act of 2002).

*** Sec. 8.** AS 21.55.140(b) is repealed.

*** Sec. 9.** This Act takes effect July 1, 2003.

The Honorable «Governor»
Governor of «State»
«Address»
«Address2»
«City_State_ZIP»

Dear Governor «Governor_Last_Name»:

The Trade Act of 2002, Public Law No. 107-210 ("the Act"), includes important provisions to assist certain workers who lose their jobs due to the effects of international trade in paying for qualified health insurance. The Act also provides such assistance to certain beneficiaries of the Pension Benefit Guaranty Corporation. The primary mechanism for assistance is a federal tax credit equal to 65 percent of the amount paid by eligible individuals for such health insurance. An additional interim mechanism to assist in paying for qualified health insurance is through National Emergency Grants (NEGs). We estimate these provisions could help over 500,000 Americans each year – many of whom may reside in your state – continue or obtain health insurance. To make the most of this opportunity, however, we need your assistance.

Under the law, the States play an important role in providing health insurance coverage options and assisting individuals to enroll. The Department of the Treasury administers the federal tax credit under the Act. NEG assistance, which is administered by the Department of Labor, is available without any cost to the State. Certain health insurance coverage options, such as continuation health coverage under the Consolidated Omnibus Budget Reconciliation Act of 1985 (commonly known as COBRA coverage), are automatically available to all eligible individuals. Other options specified in the law are available only if the State elects them and certain conditions are met. Enclosed is more detailed guidance on how States may elect coverage options for eligible individuals under the Trade Act. Please note that funds are available to States through additional NEGs administered by the Department of Labor for start-up and administrative costs relating to the tax credit program. The Department of Health and Human Services will assist States in interpreting this guidance with respect to qualified health insurance.

We strongly encourage your state to take advantage of the benefits of these programs. We also encourage your state to elect options to increase the opportunities for eligible individuals to have health insurance.

We look forward to working with you. If you or your staff have any questions, please contact Ruben J. King-Shaw Jr., Senior Advisor to the Secretary of the Treasury for Health Insurance Initiatives, at 202-622-2336.

Sincerely,

John W. Snow
Secretary of the Treasury

Elaine L. Chao
Secretary of Labor

Tommy G. Thompson
Secretary of Health
and Human Services

Guidance for Elections of Qualified Health Insurance
Under the Trade Act of 2002

I. Purpose and Background

On August 6, 2002, President Bush signed into law the Trade Act of 2002 ("the Act"), Public Law 107-210.[1] Title II of the Act contains provisions that provide assistance to certain individuals participating in the Trade Adjustment Assistance program (TAA) or receiving a payment from the Pension Benefit Guaranty Corporation (PBGC), to enable them to purchase health insurance. (A copy of Title II of the Act is available at http://www.doleta.gov/tradeact/2002act_index.asp). The primary mechanism for such assistance is a federal tax credit that is equal to 65 percent of the amount paid by the eligible individual for coverage for the individual and qualifying family members under qualified health insurance. The end of the year tax credit became available on December 1, 2002 for individuals who claim the credit on their subsequent income tax return. By August 1, 2003, the credit will also be available on a monthly basis as the premium is paid. The government's share (65 percent of the premium amount paid by the individual) will be combined with the eligible individual's payment of the 35 percent and paid on a monthly basis, in general to the qualified health plan in which the individual has enrolled. The Department of the Treasury (Treasury) is responsible for implementing this advance credit under its Health Coverage Tax Credit program (HCTC).

The Act also authorizes two types of National Emergency Grants (NEGs) for which States may apply under the Workforce Investment Act of 1998. One type of NEG is available to assist eligible TAA and PBGC recipients, on an interim basis, in paying up to 65 percent of the premiums for qualified health insurance (equivalent to the Federal share under the tax credit) until the advance tax credit mechanism becomes available in August. The second type of NEG is available to provide resources to assist the States with start-up and administrative costs relating to the tax credit. The Department of Labor (DOL) is responsible for administering both types of NEGs (see Section V below).

The Administration estimates that as many as 260,000 people nationwide may be able to claim this credit next year. When combined with qualifying dependents, this means more than a half million people could benefit from the credit. (Attachment A provides estimates of TAA and PBGC recipients eligible in each State).

The States play a critical role in the administration of this assistance. Particularly important to the success of this assistance are the States' efforts toward ensuring the availability of coverage for which the assistance can be used, making eligible individuals aware of the program, and increasing the options available to them. The purpose of this guidance is to inform the States of the program and to explain their role in making health insurance options available.

---

[1] The law is the Trade Act of 2002. Division A of the Trade Act contains its own title: The Trade Adjustment Assistance Reform Act of 2002. Title II of the Act (Division A) contains the health coverage assistance provisions.

II. Who Is Eligible

There are two basic categories of individuals who may be eligible for the tax credit and NEG assistance under the Act: (1) certain Trade Adjustment Assistance (TAA) recipients as described below, and (2) people who have attained age 55 but who are not on Medicare or other specified coverage who receive pension payments from the Pension Benefit Guaranty Corporation (PBGC).

A. TAA Recipients:

An eligible TAA recipient is defined as any individual who is receiving a trade readjustment allowance under the Trade Act of 1974 at any time during a month, or individuals who would be eligible for such an allowance except that they have not exhausted their regular unemployment insurance benefits. In addition, individuals receiving benefits under the alternative trade adjustment assistance program, established under section 246 of the Trade Act of 1974 (which commences on August 1, 2003) also will be eligible for assistance. All TAA recipients remain eligible for the tax credit for one month after the end of the month that their eligibility for TAA status ceases.

B. PBGC Pension Recipients:

A person who is receiving a benefit payment from PBGC and who has attained age 55 (but who is not eligible for Medicare) on the first of the month may be eligible for the tax credit.

C. Other factors:

An eligible individual is not entitled to the tax credit for any month if, on the first day of the month, the individual is covered by "other specified coverage".

The tax credit can be used to purchase qualified health insurance that also covers an eligible individual's spouse or dependent (i.e., anyone who qualifies as a dependent under the Internal Revenue Code), provided the spouse or dependent does not have "other specified coverage".

"Other specified coverage" includes:

- insurance coverage through the spouse's employer, and the spouse's employer contributes at least 50 percent of the cost of coverage for the spouse, the eligible individual and dependents (or the spouse receives coverage in lieu of an employer's cash or other benefits under a cafeteria plan);
- coverage under Medicare Part A or enrolled under Part B;
- a State's Medicaid program;
- a State's SCHIP program;
- a plan in the Federal Employees Health Benefit program; or
- a Defense Department health plan.

An individual who is imprisoned cannot be an eligible individual.

Individuals with questions about their TAA status or tax credit eligibility should contact their State workforce agency. PBGC beneficiaries with questions about their eligibility for the tax credit will be able to contact a toll free telephone number that we expect to establish in the near future.

III. Qualified Health Insurance

A. Types of Plans

The law identifies ten categories of health insurance that may be "qualified" as coverage for purposes of the tax credit and NEG assistance. The coverage must be for comprehensive health coverage.[2]

The ten categories are:

1. COBRA: any continuation coverage that the eligible individual has under the federal Consolidated Omnibus Budget and Reconciliation Act of 1985.
2. State COBRA or continuation coverage: any State-based continuation coverage in a group plan that is obtained under a State law that requires such coverage.
3. High risk pool: as defined in the Public Health Service Act section 2744(c)(2), coverage that is offered through a State high risk pool that is otherwise open to "HIPAA eligibles" without imposing a preexisting condition exclusion, and is consistent with the NAIC model act entitled "Health Plan for Uninsurables" that was in effect in August, 1996. (Attachment B is a list of the State high risk pools that are qualified based on the information currently available to the Department of Health and Human Services.[3])
4. State employees' health plan: coverage under a State employees' health insurance program.
5. A State-based health insurance program that is comparable to the health insurance program offered to State employees.
6. A State arrangement: a State can enter into an arrangement with an issuer of health insurance coverage (including individual insurance) to offer coverage to eligible individuals. It can also enter into an arrangement with an administrator or an employer to offer coverage to the individual, or with a group health plan (including a multiemployer plan).
7. Purchasing pool: a State arrangement for coverage that is provided through a private sector purchasing pool.
8. Other State plans: coverage that is provided through a State operated health plan that does not receive any federal financial assistance.

---

[2] Examples of types of plans that are not eligible for the credit or NEG assistance are limited coverage plans such as dental or vision care; fixed dollar indemnity coverage; specific disease insurance; workers' compensation; health coverage under an automobile insurance policy; liability insurance; or coverage for on-site medical clinics.

[3] The Act also provides a grant program that provides up to $1 million to a State to establish a qualified high risk pool in FY 2003 or 2004, and a separate two year grant program that will provide a grant up to 50 percent of a qualified high risk pool's operating losses, up to a national total of $40 million each year. The seed grant announcement can be found at www.cms.hhs.gov/riskpool. The grant announcement for the operating losses will be forthcoming.

9. Spouse's coverage: coverage under a group health plan that is available through the employment of the eligible individual's spouse, if the spouse's employer contributes less than 50 percent of the total cost of coverage for the spouse, the eligible recipient, and any dependents. (There is a distinction for Alternative TAA recipients—those aged 50 or older who are receiving income support. If these people are eligible for spousal coverage where the employer pays 50 percent or more, they are considered to have other specified coverage, even if they are not actually covered by the spouse's plan.)
10. Individual health insurance: coverage under individual health insurance if the eligible individual was covered under the insurance during the entire 30 day period that ended on the date that such individual became separated from the employment that qualifies the person as a TAA or PBGC recipient.

B. State Election

Coverage options 1, 9 and 10 above are automatically considered to meet the definition of "qualified health insurance" for all eligible individuals, without further state action. Options 2 through 8 only meet the definition if the State elects to have one or more of these options considered to be qualified health insurance. For individuals who have had at least three months of creditable coverage[4] prior to seeking enrollment in any of these Options 2 through 8, the insurance will only be considered qualified health insurance if it meets the following four criteria:

1. Guaranteed issue: Qualifying individuals must be guaranteed enrollment regardless of their medical status and must be permitted to remain enrolled so long as they pay the premium.
2. No pre-existing condition restrictions: No pre-existing condition restriction may be imposed on qualifying individuals.
3. Nondiscriminatory premium: The premium charged for a qualifying individual may not be greater than the premium for a similarly situated person who is not receiving the credit.
4. Benefits are the same (or substantially the same) under coverage provided to similarly situated individuals who are not qualifying individuals.

Generally, periods of coverage prior to a break in coverage of 63 days or more do not count in determining whether an individual has three months of creditable coverage. However, individuals who do not have at least three months of creditable coverage may still use the tax

[4] "Creditable coverage" is defined in section 9801(c) of the Internal Revenue Code, and includes most kinds of health coverage. (The identical definition also appears in section 2701(c) of the Public Health Service Act and section 701(c) of the Employee Retirement Income Security Act (ERISA). Periods of creditable coverage prior to a "significant break in coverage" do not count in determining whether an individual has three months of creditable coverage for purposes of the tax credit or NEG assistance. This also means that there can be a break in coverage between the loss of health plan coverage and applying for a new plan elected by the State. A significant break in coverage under federal law is a break in coverage of at least 63 consecutive days (days in a waiting period in which an individual has no other coverage are not considered creditable coverage nor are they taken into account when determining if there is a significant break in coverage). However, the length of time that passes before a significant break in coverage is reached may be longer under State law that applies to HMOs and health insurance carriers.

credit or NEG assistance in connection with enrollment in health insurance that the State has elected to have treated as qualified.

States may find that the four requirements can be met most easily by selecting as the State option(s) the coverage arrangements that now qualify as the State's alternative mechanism under section 2744 of the Public Health Service Act. These are typically either a high risk pool (#3) or individual coverage (#6).

The Department of Health and Human Services will assist States in interpreting this guidance with respect to qualified health insurance. Questions should be directed to:

Stephen Finan
Office of the Assistant Secretary for
Planning and Evaluation
Dept. of Health and Human Services
Room 442E
200 Independence Ave, SW
Washington, DC 20201
Telephone: 202.690.7387
E-mail: Stephen.Finan@hhs.gov

IV. State Elections

A. Elections Letter

Options 1, 9 and 10 are automatically considered to meet the definition of "qualified health insurance" for all eligible individuals without any further State action. However, under the law, the remaining options are available only if the State elects to provide one or more of them.

To facilitate implementation of the law, we request that the Governor, or the Governor's representative, send a letter indicating which options (2-8, above) the State is electing to make available to eligible recipients under the tax credit. (Note: DOL expects the coverage options for the interim assistance NEG to be identified in the application for the grant and will coordinate the review of these options with HHS). Please send the letter to:

John Hoff, Deputy Assistant Secretary
Office of the Assistant Secretary for
Planning and Evaluation
Dept. of Health and Human Services
Room 424E
200 Independence Ave, SW
Washington, DC 20201

B. Information Requested

The letter should:

1. Identify the State official responsible for implementing this decision, including address and telephone number.
2. State the option(s) chosen by the State (of options 2-8).
3. Provide the name, policy form number or other unique identifier for each qualifying plan under each option. Also, provide a name and contact number for the plan administrator or insurance carrier official who can provide additional information, if necessary.
4. Certify that the four requirements (III. B. above) are met for each plan under each option.
5. Certify that the benefits made available to tax credit recipients are the same or substantially the same as those in the plans who do not receive the tax credit.

C. Public Information

To assist eligible individuals, the State should take steps to publicize the options available to eligible individuals in their State. Such steps can include the listing of qualified plans on a website, providing lists at State TAA offices, unemployment offices, and other locations where eligible recipients may obtain information.

V. National Emergency Grant Assistance

As noted above, the Trade Adjustment Assistance Reform Act of 2002 authorizes two new NEG mechanisms relating to the provision of health insurance coverage assistance that are to be administered by the Department of Labor. The Department of Labor and the Department of Health and Human Services will work closely together to facilitate the provision of technical assistance to the States regarding these NEGs.

A. System Development Grants. These grants are intended to help States cover certain start-up and administrative costs. Guidance for applying for these grant funds have been issued in Training and Employment Guidance Letter (TEGL) 10-02. These grants may be used to establish and implement systems for:

--eligibility verification;
--certification of State-based health insurance coverage;
--notification to eligible individuals of available qualified health insurance options;
--providing assistance to individuals in enrolling in qualified health insurance;
--processing of certificates confirming eligibility of individuals for the advance payment of the tax credit;
--developing and installing necessary data management systems; and
--other expenses, as determined appropriate by the Secretary of Labor, including the start-up and ongoing administration of State-elected health-insurance coverage options.

B. Health Insurance Interim Assistance Grants. These grants are available to States to assist eligible TAA and PBGC recipients in paying up to 65 percent of the monthly premiums for

qualified health insurance coverage until the advance payment mechanism for the tax credit becomes available. The grants may also be used to provide additional support services to eligible individuals. Draft guidance was published in the Federal Register on December 4, 2002 (67 FR 72222-72234), and guidance for applying for Health Insurance Interim Assistance Grants will soon be issued through another TEGL .

C. Contact. For further assistance regarding these NEGs please contact:

Shirley M. Smith
Office of National Response
U.S. Department of Labor
Employment and Training Administration
Room N5420
200 Constitution Ave., NW
Washington DC 20210
202-693-3501

Attachment A: Estimated Eligibles by State 2002 Level Under The Trade Act of 2002

	Estimated Population[5]		
	Total	TAA	PBGC
Alabama	8,100	5,500	2,600
Alaska	200	100	100
Arizona	2,500	1,000	1,500
Arkansas	3,000	1,700	1,300
California	14,300	7,100	7,200
Colorado	1,800	500	1,300
Connecticut	2,600	1,100	1,500
Delaware	200	0	200
District of Columbia	100	0	100
Florida	13,000	1,700	11,300
Georgia	10,700	4,700	6,000
Hawaii	600	0	600
Idaho	1,100	800	300
Illinois	11,900	4,800	7,100
Indiana	9,700	5,100	4,600
Iowa	1,900	600	1,300
Kansas	3,600	2,600	1,000
Kentucky	4,200	2,900	1,300
Louisiana	1,400	400	1,000
Maine	1,600	1,300	300
Maryland	1,200	100	1,100
Massachusetts	3,900	2,000	1,900
Michigan	7,500	4,000	3,500
Minnesota	4,900	2,800	2,100
Mississippi	3,100	2,300	800
Missouri	6,500	1,300	5,200
Montana	100	0	100
Nebraska	500	200	300
Nevada	900	200	700
New Hampshire	1,300	800	500
New Jersey	5,900	1,200	4,700
New Mexico	600	300	300
New York	11,900	4,200	7,700
North Carolina	14,600	9,900	4,700

[5] These estimates are intended to provide states with rough guidance as to the size of the eligible population at 2002 levels. States listed as having zero TAA eligibles may have a few participants. Actual enrollment will depend on many factors, including the size of the population currently eligible for TAA and PBGC benefits, the number and type of health plans available to the eligible population, and take-up rates. Moreover, in some states the number of workers eligible for Trade Adjustment Assistance varies significantly from year to year.

	Estimated Population		
	Total	TAA	PBGC
North Dakota	100	0	100
Ohio	19,600	5,200	14,400
Oklahoma	3,400	2,400	1,000
Oregon	5,100	4,500	600
Pennsylvania	20,000	8,400	11,600
Rhode Island	500	200	300
South Carolina	5,200	3,400	1,800
South Dakota	200	100	100
Tennessee	9,000	4,700	4,300
Texas	15,500	10,700	4,800
Utah	600	300	300
Vermont	500	300	200
Virginia	6,700	3,800	2,900
Washington	11,600	10,300	1,300
West Virginia	1,700	700	1000
Wisconsin	5,300	3,300	2,00
Wyoming	200	100	100

Source: TAA data are based on information from the Employment and Training Administration, U.S. Department of Labor. PBGC estimates are based on data provided by the Pension Benefit Guaranty Corporation.

Attachment B: Currently "Qualified" State High Risk Pools[6]

Alabama
Alaska
Arkansas
Colorado
Connecticut
Idaho
Illinois
Indiana
Iowa
Idaho
Kansas
Kentucky
Louisiana
Minnesota
Mississippi
Montana
Nebraska
New Hampshire
North Dakota
Oklahoma
South Carolina
Texas
Wisconsin
Wyoming

Note: To be "qualified," a high risk pool (as defined in the Public Health Service Act section 2744(c)(2)) must be open to "HIPAA eligibles" without imposing a preexisting condition exclusion and be consistent in its premium rates and benefits with the NAIC model act entitled "Health Plan for Uninsurables" that was in effect in August, 1996.

[6] These States' risk pools meet the criteria set forth in section 2744(c)(2) of the Public Health Services Act. In addition, to be qualified health insurance under the credit or NEG assistance, the risk pools must meet the four conditions in III.B. above.

Subject: Re: Quick Questions
Date: Wed, 09 Apr 2003 11:32:20 -0800
From: Katie Campbell <katie_campbell@dced.state.ak.us>
To: Heather Nobrega <Heather_Nobrega@legis.state.ak.us>
CC: Linda S Hall <linda_hall@dced.state.ak.us>, Sally A Saddler <sally_saddler@dced.state.ak.us>

Hi Heather,
According to the 2001 Health Insurance Survey the number of individual health policies in force at the end of 2001 was 5,843. The number of individuals covered under those policies (i.e. includes dependents) was 14,946. The premium collected during 2001 was about $24 million.

Katie

Heather Nobrega wrote:

> *Katie,*
> *Rep. Rokeberg would like to know the current number of individual health insurance policies currently issued in the state for today's meeting?*
> *Thanks Katie.*
> *Heather*

PREMERA | BLUE CROSS BLUE SHIELD OF ALASKA

Jack C. McRae
Senior Vice President

April 11, 2003

Representative Norman Rokeberg
House of Representatives
State Capitol, Room 24
Juneau, AK 99801-1182

Re: Alaska House Bill 195

Dear Representative Rokeberg:

Blue Cross Blue Shield of Alaska is pleased to support the proposed Committee Substitute for House Bill 195 (version "Q"). We believe this bill represents an important step forward for Alaska in addressing increasing costs of health care coverage and the problem of the uninsured.

HB 195 gives health insurers the flexibility of offering a benefit plan to individuals that is not subject to state mandated health insurance benefits. We strongly believe that Alaska consumers should have choice in the insurance products available for purchase. The product allowed under HB 195 will be welcomed by many individual consumers looking for an alternate to plans currently available in the marketplace.

We are also pleased to see that version "Q" of HB 195 recognizes important new options available through the Federal Trade Act of 2002. The Trade Act contains important provisions for workers whose health coverage could be affected because of unemployment related to foreign trade agreements. Given that the Alaska Comprehensive Health Association is already a federally qualified HIPAA high-risk pool, the ACHIA amendments made by HB 195 are a fiscally responsible way to leverage federal dollars to assist in covering workers eligible under the Trade Act.

Blue Cross Blue Shield of Alaska congratulates Representative Rokeberg for introducing a bill that will benefit Alaskans seeking new alternatives for health insurance. We urge the committee to advance the bill to the next step in the legislative process.

Respectfully,

Jack C. McRae

Cc: Jerry Reinwand
Jeff Davis

P.O. Box 327
Seattle, WA 98111

tel 425.918.5757
fax 425.918.5635
jack.mcrae@premera.com

www.premera.com

HOUSE COMMITTEE REPORT

(7)

Date Referred to Committee: March 14, 2003 **FURTHER REFERRALS: HES**

Date of Committee Action: April 11, 2003

The LABOR AND COMMERCE Committee considered: **HB 195**

HOUSE BILL NO. 195 **INDIVIDUAL HEALTH CARE INSURANCE**

"An Act relating to coverage offered under an individual policy of health care insurance; and providing for an effective date."

Recommends it be replaced with [ ] HCS *or* [X] CS *for* HB 195 (L&C)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_____ **[ ] Same Title [ ] New Title**

[ ] attach amendments
[ ] add new referral to _____Committee
[ ] Letter of Intent_____Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

NEW FISCAL NOTES *Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
CED				✓

PREVIOUS FISCAL NOTES				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	LYNN	X			
	GATTO	X			
	CRAWFORD			✓	
	GUTTENBERG			✓	
	DAHLSTROM	X			
	ROKEBERG	X			
Chair:	ANDERSON	X			
Chair:					

ALASKA STATE LEGISLATURE
House of Representatives

COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: http://www.akrepublicans.org/rokeborg/

INTERIM:
716 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

MEMORANDUM

To: House Labor & Commerce Committee

From: Representative Norman Rokeberg

Date: April 9, 2003

Re: Health Care Mandates

The health mandates are located in AS 21.42:

42.353: Acupunture coverage (offer only, does not mandate coverage)
42.355: Coverage for services of midwives
42.363: Eye care (if plan provides for eye care, can use an optometrist)
42.365: Substance abuse treatment coverage
42.375: Mammography coverage
42.380: Phenylketonuria
42.385: Dental, Vision, Health coveage (offer only, does not mandate coverage)
42.390: Coverage for diabetes treatment
42.392: Requirements relating to dental (if coverage is provided)
42.395: Prostate and cervical cancer screening

Federal Mandates

42.345: Coverage of newly born children
42.347: Postpartum hospital stay coverage
42.400: Reconstructive surgery following mastectomies

Subject: Re: Quick Questions
Date: Wed, 09 Apr 2003 11:32:20 -0800
From: Katie Campbell <katie_campbell@dced.state.ak.us>
To: Heather Nobrega <Heather_Nobrega@legis.state.ak.us>
CC: Linda S Hall <linda_hall@dced.state.ak.us>, Sally A Saddler <sally_saddler@dced.state.ak.us>

Hi Heather,
According to the 2001 Health Insurance Survey the number of individual health policies in force at the end of 2001 was 5,843. The number of individuals covered under those policies (i.e. includes dependents) was 14,946. The premium collected during 2001 was about $24 million.

Katie

Heather Nobrega wrote:

> *Katie,*
> *>*
> *Rep. Rokeberg would like to know the current number of individual health*
> *insurance policies currently issued in the state for today's meeting?*
> *>*
> *Thanks Katie.*
> *Heather*

AMENDMENT

OFFERED IN THE HOUSE BY

TO: CSHB 195

Page 2, after line 7 add a new section 4 to read:

*Sec. 4. AS 21.55.300(a) is amended to read:

(a) Except as provided in this section, a state resident who is a high risk, **a TAA eligible individual,** or a federally defined eligible individual is eligible to enroll in a state plan described in AS 21.55.100.

Page 3, lines 14-15 amend to read:

(23) "qualified TAA eligible individual" means a qualifying individual as defined under 26 U.S.C. 35 (**Internal Revenue Code, as enacted by sec. 201(a) of the** Trade Adjustment Assistance Reform Act of 2002).

ALASKA STATE LEGISLATURE
House of Representatives

COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: http://www.akrepublicans.org/rokeberg/

INTERIM:
716 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

SPONSOR STATEMENT FOR HB 195
BY: Representative Norman Rokeberg

TITLE: An Act relating to coverage offered under an individual policy of health care insurance; and providing for an effective date.

Alaska and the nation are in the midst of a health care financial crisis. Alaskan's are being asked to contribute a greater percentage of their disposable income to the increasing costs of health care insurance. It is the legislature's responsibility to help contain these costs. This legislation is intended to lower the cost of insurance for individuals and families who are not part of a group health plan. In most group plans, employers typically contribute to the employee's cost of health insurance. Individuals seeking coverage do not have this benefit.

HB 195 allows a health insurance company to offer a new type of health insurance policy. This legislation gives insurance companies the authority to offer an individual health insurance plan that does not provide coverage for all of the insurance mandates currently required in state statute.

Alaska law requires insurance companies to provide for specific types of coverage; these are called "mandates." For example, some of the mandates required are coverage for services of midwives, substance abuse treatment, treatment of diabetes, and screening for prostate and cervical caner. This legislation allows a health insurance company to offer an individual plan without covering these mandates, thus giving Alaskans a more affordable health insurance option.

In addition, the legislation calls for a change in public policy by granting an exemption from premium tax for individual/family policies. This small amount of waived tax is a recognition of the high cost of individual/family health care insurance.

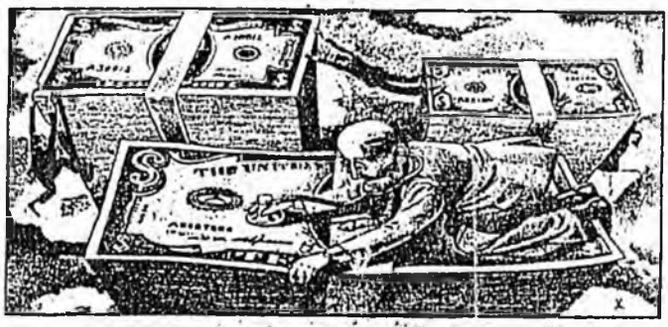
HB 195 is a small step towards creating more affordable health care in Alaska. I encourage your support of this legislation.

ED 1: 3/31/03

5-18-02

ALASKAALMANAC

Got health insurance? You're lucky



116,000 – Estimated number of Alaskans without health coverage

19 – Percentage of Alaskans without health coverage

3 – Number of states that have a higher percentage of uninsured residents than Alaska does

$9,076 – Amount a typical 45-year-old Alaskan will pay each year for an individual health policy covering his family with a $1,000 deductible

184 – Percentage increase in Alaska medical care costs since 1983

3:1 – Ratio by which the increase in Alaska medical costs has exceeded overall inflation since 1983

$297,500 – Minimum amount state health insurance will pay toward the $300,000 of medical bills recently incurred by a state legislator (assuming no dispute over the price or necessity of the treatment)

Unknown – Number of Alaskans who will be able to afford health coverage if Alaska creates an unsubsidized insurance-buying pool for small businesses and nonprofit groups

Source: Daily News files; state division of retirement and benefits.

In Alaska, health insurance depends on job

Falling Through the Cracks

ALASKA'S HEALTH INSURANCE CRISIS

■ **HEALTH INSURANCE:** This story and others in the Life section look at the health insurance problems facing Alaskans. The series continues Tuesdays in Life & Health through May.

■ **WITHOUT:** Small-business employees, self-employed, young can seldom afford it.

By ANN POTEMPA
Anchorage Daily News 5/12/02

Studies show that the 116,000 Alaskans without health insurance aren't always whom you expect.

They're working people. They're self-employed. They're twenty-somethings who assume youthful good health will see them through. Often they work for small businesses that cannot afford to offer benefits.

They're your neighbors.

People like Steven Small. He has repaired cars in Anchorage for almost 20 years and has never had health insurance, even since he opened his own shop.

Doctors diagnosed liver cancer last fall. Small has been paying his medical bills out of pocket and with the help of donations. With a family to support and employees who need work, Small can't stop. After his chemotherapy infusion last week, he worked an eight-hour-plus day.

Rep. Sharon Cissna, D-Anchorage, has met many families like the Smalls.

"It's not like they made all the wrong choices in life," she said. "It's not like they weren't hard workers."

See Back Page, INSURANCE

INSURANCE: *116,000 are not covered*

Continued from A-1

Cissna has opened her office and invited the public in to talk about solutions to rising health care and insurance. She's not the only one paying attention. Local and state agencies have spent the past few years studying the problem and publishing data. They have discovered a disparity in who gets health insurance and who doesn't, and that difference often centers on one thing: where Alaskans work.

"Some folks get a Cadillac (plan)," Cissna said. "Some folks get bare bones."

And some folks get nothing at all. Well over 100,000 Alaskans, 19 percent of the state, lack health insurance. About 26,000 live in Anchorage.

Nancy Cornwell, the state's health policy analyst, said this total reflects Alaska's population in the late 1990s, but more recent data suggest that number is rising.

The U.S. Census Bureau and the Henry J. Kaiser Family Foundation, an independent agency tracking national health issues, have ranked all 50 states according to uninsured residents. In both studies, Alaska falls in the bottom five states.

New Mexico ranks lowest, with almost 24 percent uninsured; Rhode Island has the best performance, with only about 6 percent uninsured. The United States as a whole is almost in the middle, with 14 percent of Americans lacking health insurance.

Cornwell said some people wonder whether Alaska really has 116,000 residents without health insurance. They question whether Alaska Natives might have responded that they have no insurance, even though they receive health care through tribal programs like Indian Health Services, she said.

That issue aside, the deciding factor for whether Alaskans have benefits often comes down to whom they work for. The smaller the company, the less likely its workers are to have health insurance, studies show.

Fewer than half of Anchorage companies offer health insurance to full-time employees, according to data collected by the Anchorage Access to Health Care Coalition. Companies with more than 250 employees are most likely to offer it. But the local marketplace is filled with companies of fewer than 10 employees. Only 35 percent of those offer health insurance to full-time workers.

Compare that to the nation, and Alaska falls short. Coast to coast, almost 60 percent of small businesses offer employees health insurance, according to the coalition.

Expensive premiums are the main reason employers give for not offering the benefit. Premiums escalate for many reasons, including rising health care costs.

Studies show Alaskans pay more for medical services than people in the Lower 48.

Last year, the state Department of Labor concluded that health care costs for Alaskans are increasing at a faster rate than any other cost-of-living category, including housing, food and transportation. The state Division of Medical Assistance studied the 300 most common dental, medical and surgical procedures performed nationwide. It reported that health care costs Alaskans 25 percent more than the average for all states.

As premiums climb, businesses make choices. They shop for a cheaper insurance provider, cut positions or ask employees to pick up more of the tab.

Jan MacClarence faced this choice just a few months ago. The executive director for Abused Women's Aid in Crisis learned that her health insurance provider would no longer serve the nonprofit organization in 2002. The best option she found more than doubled her premiums, jumping, per employee, from about $300 to $765 a month.

AWAIC pays all its employees' full premiums, but continuing to do so has meant sacrifices. MacClarence has had to leave positions unfilled to cover the expense.

For the self-employed, the story is even more grim. They buy their own policies and pay all costs. Premera Blue Cross writes about 90 percent of all individual health insurance policies in Alaska, said Bob Lohr, director of the Division of Insurance. The average annual premium for a 35-year-old Alaskan with a $1,000 deductible is $2,484, Lohr said. The family rate is $6,828.

And numbers climb with age. A 45-year-old will pay $3,768 in premiums, $9,096 if the whole family is covered, Lohr said.

People who cannot afford that kind of coverage often go without health care.

"I think there's a perception that not having health insurance is not a big deal," said Catherine Schumacher, chairwoman for the steering committee of the Anchorage Access to Health Care Coalition. "That people can just go to the emergency room and get the care they need."

The coalition's data show otherwise. Almost half of uninsured Anchorage residents couldn't see a doctor during the past year because of cost. Many have chronic conditions like high blood pressure but aren't able to pay for medications needed to manage them, Schumacher said. And forget about preventive checkups.

"They don't get their mammograms, their pap smears," she said. "They don't get their cholesterol checked."

So when they do end up in an emergency room, their conditions are often more serious — and more expensive.

■ Reporter Ann Potempa can be reached at apotempa@adn.com or 257-4581.

How states rank

Percent of state population without health insurance, 1999-2000

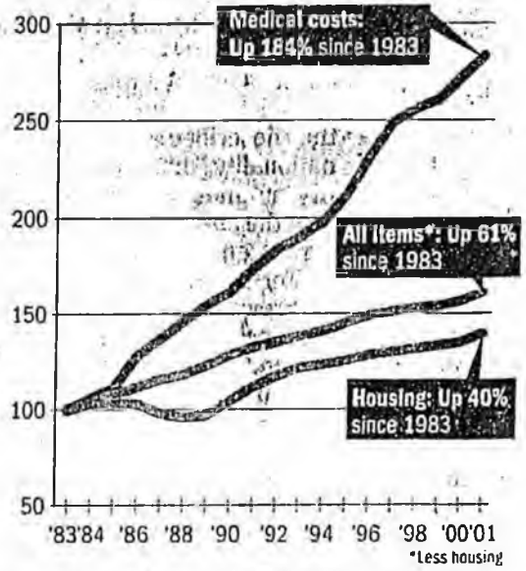
Most Insured Rank	State	Percent not insured
1	Rhode Island	6%
2	Pennsylvania	8%
2	New Hampshire	8%
2	Minnesota	8%
2	Iowa	8%
2	Connecticut	8%
	U.S. average	14%
Least Insured		
46	California	19%
47	Alaska	19%
48	Louisiana	21%
49	Texas	22%
50	New Mexico	24%

Source: Henry J. Kaiser Family Foundation

RON ENGSTROM / Anchorage Daily News

Medical costs have soared

Anchorage Consumer Price Index for selected costs, 1983-2001



Source: U.S. Bureau of Labor Statistics, Alaska Department of Labor

RON ENGSTROM / Anchorage Daily News

STATE OF ALASKA

Department of Community and Economic Development

DIVISION OF INSURANCE
64th ANNUAL REPORT

Calendar Year 2001 ◆ Fiscal Year 2002

IX

Statistical & Financial Data

200[illegible] ALASKA HOSPITAL AND MEDICAL SERVICE CORPORATIONS ($000)

PREMIUMS WRITTEN

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL
	Individual	Group					
PREMERA/ BLUE CROSS	15,353	183,269	1,597	0	0	48,535	248,754
ALASKA VISION	0	0	0	1,074	0	0	1,074

PREMIUMS EARNED

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL
	Individual	Group					
PREMERA/ BLUE CROSS	15,269	184,247	1,573	0	0	48,966	250,055
ALASKA VISION	0	0	0	1,121	0	0	1,121

CLAIMS INCURRED

INSURER	COMPREHENSIVE		MEDICARE SUPPLEMENT	VISION ONLY	DENTAL ONLY	FEDERAL EMPLOYEES HEALTH PLAN	TOTAL	NUMBER OF SUBSCRIBERS*
	Individual	Group						
PREMERA/ BLUE CROSS	12,406	153,369	1,087	0	0	45,524	212,386	104,763
ALASKA VISION	0	0	0	919	0	0	919	19,187

*Numbers not rounded to the nearest thousand.

2001 ALASKA ACCIDENT & HEALTH MARKET SHARE

01 - GROUP ($000)

COMPANY NAME	PERCENT OF MARKET	DIRECT PREMIUMS WRITTEN
Aetna Life Ins Co	15.43	18,188
Principal Life Ins Co	15.28	18,011
United Healthcare Ins Co	10.03	11,823
Great West Life & Annuity Ins Co	6.22	7,329
Golden Rule Ins Co	5.33	6,279
Unum Life Ins Co of Amer	5.23	6,166
United of Omaha Life Ins Co	4.34	5,115
Mega Life & Health Ins Co The	4.22	4,973
Guardian Life Ins Co of Amer	2.89	3,405
Hartford Life & Accident Ins Co	2.22	2,615
Safeco Life Ins Co	2.18	2,566
Stonebridge Life Ins Co	1.89	2,229
Standard Ins Co	1.79	2,104
States West Life Ins Co	1.48	1.748
Fortis Benefits Ins Co	1.47	1,733
Union Labor Life Ins Co	1.44	1,700
Metropolitan Life Ins Co	1.28	1,509
Life Ins Co of North Amer	1.23	1,451
Mutual of Omaha Ins Co	1.09	1,289
John Alden Life Ins Co	0.96	1,133
TOTAL FOR TOP 20 RANKED INSURERS	86.01	101,367
TOTAL FOR ALL 151 INSURERS WRITING THIS LINE	100.00	117,859

02 - CREDIT ($000)

COMPANY NAME	PERCENT OF MARKET	DIRECT PREMIUMS WRITTEN
Cuna Mut Ins Society	21.33	1,055
American Bankers Life Assur Co of FL	21.30	1,053
American Natl Ins Co	19.66	972
Union Security Life Ins Co	11.78	583
Minnesota Life Ins Co	9.82	486
North Central Life Ins Co	5.30	262
Resource Life Ins Co	4.77	236
Centurion Life Ins Co	2.25	111
Household Life Ins Co	1.01	50
Stonebridge Life Ins Co	0.73	36
Protective Life Ins Co	0.46	23
American Gen Assur Co	0.33	16
Life Investors Ins Co of Amer	0.31	15
Union Fidelity Life Ins Co	0.29	14
Associates Financial Life Ins Co	0.24	12
Allstate Life Ins Co	0.24	12
Balboa Life Ins Co	0.18	9
American Heritage Life Ins Co	0.11	5
USAA Life Ins Co	0.02	1
Central States H & L Co of Omaha	0.01	0
TOTAL FOR TOP 20 RANKED INSURERS	100.14	4,952
TOTAL FOR ALL 30 INSURERS WRITING THIS LINE	100.00	4,945

2001 ALASKA ACCIDENT & HEALTH MARKET SHARE

9 - ALL OTHER ($000)

COMPANY NAME	DIRECT PERCENT OF MARKET	PREMIUMS WRITTEN
American Family Life Asr Co Columbus	32.51	5,434
New York Life Ins Co	6.94	1,160
Physicians Mut Ins Co	4.49	750
Mutual of Omaha Ins Co	3.52	589
Unum Life Ins Co of Amer	3.31	553
Northwestern Mut Life Ins Co	3.17	530
Provident Life & Accident Ins Co	2.92	488
General Electric Capital Assur Co	2.87	481
Life Investors Ins Co of Amer	2.85	477
Golden Rule Ins Co	2.81	470
Paul Revere Life Ins Co	2.65	443
Colonial Life & Accident Ins Co	2.31	387
Guardian Life Ins Co of Amer	2.21	370
John Hancock Life Ins Co	1.77	296
Mony Life Ins Co	1.76	294
Equitable Life Assr Soc of The US	1.74	290
Continental General Ins Co	1.40	234
Conseco Senior Health Ins Co	1.38	230
USAA Life Ins Co	1.34	223
Bankers Life & Cas Co	0.89	149
TOTAL FOR TOP 20 RANKED INSURERS	82.83	13,846
TOTAL FOR ALL 164 INSURERS WRITING THIS LINE	100.00	16,716

10 - TOTAL ($000)

COMPANY NAME	DIRECT PERCENT OF MARKET	PREMIUMS WRITTEN
Aetna Life Ins Co	13.06	18,224
Principal Life Ins Co	12.98	18,104
United Healthcare Ins Co	8.44	11,823
Great West Life & Annuity Ins Co	5.26	7,342
Golden Rule Ins Co	4.84	6,749
Unum Life Ins Co of Amer	4.82	6,719
American Family Life Asr Co Columbus	3.90	5,438
United of Omaha Life Ins Co	3.67	5,115
Mega Life & Health Ins Co The	3.57	4,975
Guardian Life Ins Co of Amer	2.71	3,775
Hartford Life & Accident Ins Co	1.87	2,616
Safeco Life Ins Co	1.84	2,566
Stonebridge Life Ins Co	1.66	2,323
Standard Ins Co	1.51	2,112
Mutual of Omaha Ins Co	1.35	1,878
New York Life Ins Co	1.31	1,828
States West Life Ins Co	1.25	1,748
Fortis Benefits Ins Co	1.24	1,736
Union Labor Life Ins Co	1.22	1,704
Metropolitan Life Ins Co	1.14	1,590
TOTAL FOR TOP 20 RANKED INSURERS	77.67	108,364
TOTAL FOR ALL 224 INSURERS WRITING THIS LINE	100.00	139,519

HEALTH INSURANCE BY PRODUCT LINE

INDIVIDUAL – CALENDAR YEAR 2001

PRODUCT	# POLICIES IN FORCE BEG OF YEAR	# INDIVIDUALS COVERED BEG OF YEAR	# NEW POLICIES ISSUED DURING THE YEAR	# INDIVIDUALS NEWLY ISSUED COVERAGE DURING THE YEAR	# POLICIES TERMINATED DURING THE YEAR	# COVERED INDIVIDUALS TERMINATED DURING THE YEAR	# POLICIES IN FORCE END OF YEAR	# INDIVIDUALS COVERED END OF YEAR	EARNED PREMIUM*	INCURRED CLAIMS*
Accident	10,929	18,489	5,016	8,811	4,604	7,347	11,461	20,146	2,875,162	1,161,898
Comp MedPPO	5,163	9,308	725	1,320	461	991	5,427	9,637	15,268,979	12,405,798
Non-PPO	263	474	3	3	41	81	229	396	1,125,263	740,664
Dental PPO	0	0	0	0	0	0	0	0	0	0
Non-PPO	29	34	488	867	90	161	424	740	87,030	4,972
Disability Income	6,131	6,052	1,193	1,207	1,711	1,691	5,662	5,555	5,332,179	5,515,180
Hospital Expense	883	1,325	94	146	194	301	780	1,170	1,418,883	1,557,964
Hospital Indemnity	3,800	5,854	1,324	2,066	1,350	2,158	3,778	5,768	1,209,738	416,712
Limited Benefit	66	66	13	13	1	1	79	79	136,657	0
Long Term Care	1,072	1,103	578	593	55	61	1,593	1,648	2,196,447	509,619
Medical Expense	9	11	2	2	1	1	10	12	9,504	-8,426
Medicare Supplement	2,008	2,029	160	161	204	209	1,968	1,985	2,910,614	1,855,132
Specified Disease	4,658	9,053	2,341	4,103	1,320	2,500	5,703	10,690	1,823,060	693,468
Vision PPO	19	1,589	6	96	1	54	24	1,631	95,683	78,147
Non-PPO	0	0	0	0	0	0	0	0	0	0
All Other	2,976	6,083	1,279	2,465	1,112	2,149	3,143	6,399	476,293	108,310
TOTAL	38,006	61,470	13,222	21,853	11,145	17,705	40,281	65,856	34,965,491	25,039,438

Note: This health survey report was compiled from data provided by the companies. The Division of Insurance does not warrant the accuracy of this information.

Alaska Insurance Consumer Guide

Health Insurance

Everyone runs the risk of becoming ill or suffering an accident that results in doctor or hospital bills, and sometimes in loss of income. Most Alaskans need protection from unexpected and sometimes devastating expenses associated with an illness or accident.

How do you choose from the hundreds of medical plans available? To wisely purchase medical care protection you must:

- Determine your family's needs
- Know the different types of protection available
- Choose a plan on the basis of coverage, costs, and services

Before buying a health insurance policy, know what insurance or other benefits you already have. This will help prevent duplicating coverage and will help you determine if you have enough coverage, inadequate coverage, or no coverage at all. Make sure you have up-to-date information on medical insurance, disability benefits, and sick leave benefits provided by your employer. Your first priority should be assuring that you have either a comprehensive major medical insurance policy or both basic medical insurance and supplemental major medical insurance.

How Health Insurance Policies are Sold

Individual Insurance

An individual insurance policy provides coverage to a specific individual or to an individual and their family under a policy issued to that individual. In order to be considered for individual insurance coverage, you will be asked to provide evidence of insurability that may require you to undergo a medical examination. This is called medical underwriting. The same requirements would apply to any dependents you may insure under the policy.

Group Insurance

A group insurance policy provides coverage to individuals under a single master policy issued to the group policy owner. Certificates of insurance are provided to the individuals. The policy owner may be an employer, an association, a labor union, or other entity. Unless the group is small, no individual medical underwriting is performed. Instead, insurers require minimum employee or member participation levels and minimum employer contribution levels in order to assure that there are sufficient individuals in the group in good health to balance those in the group in poor health.

Back to Consumer Guide Index of Topics

Thank you for visiting ourweb site. For help or information,
please send an e-mail message to the Division of Insurance at: Insurance@dced.state.ak.us

Alaska Insurance Consumer Guide

Considerations in Purchasing Health Insurance

Whether you have individual or group health insurance coverage, it is important to understand what your coverage is and what charges you may be responsible for paying. Read your policy or certificate thoroughly and consider the following:

- What services and supplies are covered?
- What limits are set on the benefits for these services and supplies?
- What are the deductible, coinsurance and other charges you will be responsible for paying?
- How are benefit payments coordinated with other health coverage you may have?
- What are the managed care features and requirements of the plan?
- What level, type, and quality of service can be expected from the insurer?

Back to Consumer Guide Index of Topics

Thank you for visiting ourweb site. For help or information,
please send an e-mail message to the Division of Insurance at: Insurance@dced.state.ak.us

Alaska Insurance Consumer Guide

Types of Health Insurance Plans

Following is a summary of several types of health insurance plans sold as group and individual health insurance. The actual health insurance benefits will vary from policy to policy. Therefore, it is important to read and understand your insurance contract. The term **provider** is commonly used in health insurance and in this guide to refer to physicians and other providers of medical care.

Basic Medical

A basic medical insurance policy provides coverage for basic hospital, provider and other services. There are limits placed on the benefits for covered services such as a limited number of hospital days, a maximum payment for each day of hospital confinement, or a surgical schedule where a specific payment maximum is established for each procedure. These benefits are provided without deductibles or coinsurance.

Supplemental Major Medical

Under a supplemental major medical policy, benefits are structured to supplement a basic medical insurance policy. The policy would pay for any covered services and supplies not covered by the basic medical insurance policy after the required deductible has been paid and subject to the coinsurance requirements. A basic medical policy in combination with a supplemental major medical policy results in coverage similar to a comprehensive major medical policy.

Comprehensive Major Medical

A comprehensive major medical policy provides coverage for almost all types of medical care services and supplies and has high benefit limits. These policies cover hospital, provider, and other services subject only to the required deductible, coinsurance, and benefit maximums. Unlike basic medical, individuals are required to share in the cost of their medical expenses. These policies have replaced most of the basic medical insurance policies.

Limited Benefit

Limited benefit plans are offered as independent, noncoordinated benefits provided under a separate policy and paid without regard to any other insurance plan. Examples of these types of plans include **hospital indemnity policies** that pay a fixed amount for each day of hospital confinement, and **specified or dread disease policies** that only pay for medical expenses associated with a specified disease (such as cancer or heart disease).

Long-Term Care

Long-term care insurance policies provide nursing home or home health care benefits for individuals with a prolonged physical illness, disability or mental disorder, medical condition, or a deficiency affecting activities of daily living or lifestyle. Benefits are provided as a reimbursement for services, but subject to a fixed dollar maximum per day. Usually a waiting period called an **elimination period** of 0, 30, 90, 180, or 360 days is required before the plan will pay benefits. Long-term care insurance may be available as a rider to a life insurance or annuity policy, as well as a separate health insurance policy.

Medicare Supplement

Medicare supplement (also called Medigap) insurance is sold to people age 65 and older and helps pay for medical costs that Medicare Parts A & B do not pay, such as the deductible and coinsurance amounts. Medicare supplement insurance is regulated by both state and federal laws. This coverage can only be provided through ten standard health plans that vary in the amount and type of coverage provided. Coverage is available to individuals without medical underwriting for six months following the date the individual first becomes eligible for Medicare Part B. The Division of Insurance produces, on an annual basis, a rate comparison guide that outlines the basic characteristics of Medicare supplement insurance, describes the ten standard health insurance plans, and shows the current premium rates charged by the insurers selling this insurance in Alaska. There is also a pamphlet entitled "Health Insurance for People with Medicare" produced by the 50 states and the federal government that summarizes the Medicare and Medicare supplement programs. Both publications are available from the Division of Senior Services, 3601 C Street, Suite 310, Anchorage, Alaska 99503, telephone number (907) 269-3680 or (800) 478-6065.

Dental Insurance

Dental insurance covers costs associated with the care of teeth. Benefits for preventive services, such as cleanings and exams are generally limited to once every six months. Most plans contain coinsurance and deductible cost-sharing requirements. The coinsurance provisions will vary based on the type of procedure.

Vision Coverage

Vision coverage provides benefits for glasses, contact lenses, and eye examinations up to a specified amount per year. Vision benefits are often subject to a set schedule of benefits and limits on the frequency of services. A typical vision plan covers the cost for one examination per year, with coverage for glasses and contact lenses limited to once every two years.

Back to Consumer Guide Index of Topics

Thank you for visiting ourweb site. For help or information,
please send an e-mail message to the Division of Insurance at: Insurance@dced.state.ak.us

Alaska Insurance Consumer Guide

Things to be Aware of Regarding Health Insurance Policies

Benefit Limits

- Most health insurance plans set a maximum benefit amount that will be provided for all covered services and supplies over the lifetime of the covered individual. This is called a **lifetime maximum**. This maximum is often set at $1,000,000.
- Most health insurance plans set a maximum benefit amount that provides for particular services and supplies, such as a maximum benefit of $250,000 for organ transplants.
- Some health insurance plans limit the benefit that will be provided per day for a covered service. This is called a **daily maximum**. They may also limit the number of days that a service will be covered. These types of limits are generally used for services including mental and nervous disorders, skilled nursing facilities, and home health care.
- Many health insurance plans limit the total benefit that will be provided per year for covered services. This is called an **annual maximum**. These limits are generally used for those services where it is difficult to assess whether the service is medically necessary.
- Most health insurance plans exclude or limit coverage for a period of time for medical conditions that existed within a certain period, commonly six months, prior to the date coverage began for which medical advice, diagnosis, care or treatment was recommended or received. This is called a **preexisting condition waiting period**. The waiting period is commonly 12 months. In most cases, insurance companies must reduce this waiting period by the number of days you were covered under prior health insurance plans, as long as you had no more than a 90-day break in your health insurance coverage.

Deductibles, Coinsurance, and Other Charges

- A **deductible** is a specified dollar amount an individual must pay in each policy period before reimbursement for expenses begin. The primary purpose of the deductible is to encourage individuals to use health care services only when necessary. A separate deductible may be required for specified services such as hospital admissions or prescription drugs. Some health plans may include a provision that allows any claims incurred in the last quarter of the policy period to be carried over and applied to meet the deductible in the next quarter.
- **Coinsurance** is that per-centage of covered services and supplies the insurer will pay for after the individual pays the de-ductible. The individual is responsible for the amount the insurer does not pay. A common coinsurance arrangement is for the insurer to pay 80% of charges for covered services and the individual 20%.
- **Out-of-pocket maximum** is the maximum dollar amount the individual pays for covered services and supplies during a specified period, generally a calendar year. This maximum may be defined to include or exclude the deductible. Once the out-of-pocket maximum is paid, benefits are paid at 100% of the costs incurred after that time.
- A **copayment** is the fixed dollar amount that the individual is required to pay at the time each covered service takes place. Copayments vary by type of service. They are commonly used with emergency services and prescription drugs.
- A **usual, customary and reasonable** (UCR) charge is an established maximum amount that an insurance company will reimburse for a medical expense covered under your health insurance policy. UCR charges are generally determined based on charges that are actually billed by providers for each medical procedure or service in a geographical area. In order to

determine a reasonable charge, UCR charges are commonly calculated as a percentile of the charges billed by providers. The percentile is generally set so that a large percentage, such as 80% or 90%, of charges actually billed by providers are reimbursable in full. Note that UCR charges are determined by each insurer and will vary.

- Under most health insurance plans, you will be responsible for paying any amount billed by a hospital or physician that is larger than the insurer's established UCR charges for the service or procedure. However, service corporations, such as Blue Cross, contract with various hospitals and providers who agree to accept the service corporation's payment as payment in full. Therefore you would not be responsible for paying any amount that exceeds their UCR charges, unless you chose to use a hospital or provider that does not have a contract with the service corporation.
- The following is an example of how the various charges described above impact the amount you may be responsible for paying for medical services:

The limits specified by your insurance policy:

Deductible	$ 500
Coinsurance	80%
Out-of-pocket maximum	$1,000

Amount Insurer Owes:

Charges billed by provider	$4,200
Amount greater than the UCR for the procedure	-$ 550
Amount you owe for your deductible	-$ 500
Charges eligible for reimbursement by insurer	$3,150
Insurer's coinsurance	80%
Amount insurer owes before out-of-pocket limit applied	$2,520
Amount that is greater than your out-of-pocket limit	$ 130
Total amount insurer owes after out-of-pocket limit applied	**$2,650**

Amount You Owe:

Deductible	$ 500
Coinsurance amount (20% of $3,150)	$ 630
Amount of eligible charges before out-of-pocket limit applied	$1,130
Amount greater than your out-of-pocket limit	-$ 130
Amount of eligible charges after out-of-pocket limit applied	$1,000
Amount greater than the UCR for the procedure	$ 550
Total amount you owe	**$1,550**

Covered Services and Supplies

There are two basic categories of services and supplies covered by health insurance policies.

- **Hospital Benefits** include expenses associated with stays at hospitals and other covered facilities, such as skilled nursing facilities, nursing homes and outpatient surgery centers. Benefits for hospital services often require that the individual or their physician contact the insurer or the employer to obtain prior approval for the number of days of hospital stay. Without this approval the benefits may be reduced.
- **Physician or Provider Benefits** include services provided by licensed physicians and other medical providers.

There are a number of other charges and services generally excluded from coverage under most health insurance plans. Following are examples of common exclusions:

- Services determined by the insurer to be medically unnecessary
- Services considered experimental by an accepted medical authority
- Services related to cosmetic surgery
- Services for mental or nervous disorders, vision, hearing
- Services that are provided without charge
- Services provided due to war
- Services provided as a result of a work-related injury
- Services provided by a relative
- Services related to normal pregnancy and routine well-baby care (these are generally excluded from individual policies and included in group policies).

Alaska law mandates that the following specific charges or services be covered in health insurance plans sold in Alaska. These requirements do not apply to employers with self-insured health plans.

- Coverage for newly born or adopted children for at least 30 days, if coverage includes dependents
- Coverage for treatment of alcoholism or drug abuse
- Low-dose mammograp screening if the contract covers mastectomies and prosthetic devices and reconstructive surg.
- Treatment of phenylketonuria
- Coverage for not less than 48 hours after vaginal birth and 96 hours after a cesarean birth, if the contract covers the costs of childbirth
- Coverage for prostate cancer screening and cervical cancer screening

Coordination of Benefits

This provision applies to the situation where an individual is covered under two different health insurance plans. It is included in almost all group insurance plans. It requires that payments made under the two plans be coordinated so that the individual does not receive duplicate payments for a service, thereby being reimbursed more than what was spent. Duplicate coverage frequently occurs when an individual is covered under both their own and their spouse's insurance plans. Most coordination of benefits provisions require that the individual's own plan pay first on a claim, and the other plan only pay the amounts not covered by the first plan. It is important that this provision be reviewed so that misunderstandings can be avoided regarding the benefit payments each insurer will make.

Back to Consumer Guide Index of Topics

Alaska Insurance Consumer Guide

Federal Laws Affecting Health Insurance

COBRA

COBRA is the federal law that requires employers to continue to provide their health insurance coverage to employees who have been laid off or terminated. The coverage may extend from 18 to 36 months. To obtain coverage under COBRA, the employee or their dependent must apply to the employer within 60 days of termination of their employment. The U.S. Department of Labor handles all inquiries regarding COBRA coverage. Inquiries should be sent to:

Office of Program Services
Pension and Welfare
Benefits Administration
U.S. Department of Labor
200 Constitution Ave., N.W.
Washington, DC 20210
(202) 219-8776

ERISA (Employee Retirement Income Security Act)

Many people who believe that they have a health insurance policy through their employer are actually covered under what is called a self-insured health plan. A **self-insured health plan** exists when an employer chooses to pay for medical bills directly, instead of purchasing insurance for that purpose. Most self-insured plans are regulated by the federal government through the Department of Labor under the authority of ERISA and are exempt from state regulation. Most large employers have self-insured health plans. The State of Alaska changed to a self-insured health plan for employees and retirees effective July 1, 1997.

Employers choosing to self-insure their health plans are not subject to state insurance laws such as benefit mandates, state premium taxes, capital and surplus requirements, and reserve requirements. They are also able to gain more control over their cash flow and have more freedom in determining benefits to be provided to their employees. Most employers with self-insured health plans purchase stop-loss insurance from insurance companies to protect themselves against large losses.

Employees who receive health coverage under a self-insured plan are not afforded the protections of state insurance laws and regulations. These protections include financial solvency requirements as well as requirements applying to the payment of claims. If a self-insured plan fails, Alaska benefits and managed care protections, such as standards for grievance procedures, fair disclosure of plan provisions, fair claims settlement practices and consumer services, are not available to employees. The federal laws governing these self-insured plans limit damages to actual costs and may not even cover attorney fees. Individuals covered under a self-insured plan must assume responsibility for all claims if the plan fails. Also, individual employees are required to obtain their own legal counsel to settle disputes, since the U.S. Department of Labor will not become involved in individual disputes over coverage. One other important consideration is that a self-insured employer may make material changes to the health plan (such as reducing or eliminating benefits) without providing advance notice.

HIPAA (Health Insurance Portability and Accountability Act of 1996)

This Act establishes federal standards for group and individual health insurance plans. The Act sets minimum standards for guaranteed renewability, preexisting condition waiting periods, and crediting for prior health insurance coverage. Alaska has enacted into law these federal standards which are

discussed in the health insurance sections of this guide.

Medical Savings Accounts

Under this federal law a bank, insurance company, or other federally approved entity may set up an individual savings account called a Medical Savings Account (MSA) where you can set money aside to pay for qualified medical expenses. The deposits (called contributions) in the account are tax deductible. Qualified medical expenses are those expenses paid by you for medical care including any deductible and coinsurance payments. Medical Savings Accounts are regulated by the federal government, not the Alaska Division of Insurance. One advantage to establishing an MSA is that contributions are not subject to tax and qualified medical expenses paid out of the account are not included in gross income for federal income tax purposes.

In order for a savings account to qualify as an MSA, you must be covered by a high deductible health plan offered by a small employer (2-50 employees) or be self-employed and have purchased a high deductible health plan. A high deductible health plan is an individual health insurance policy with deductibles between $1,500 and $2,250 and out-of-pocket limit of $3,000, or a family health insurance policy with deductibles between $3,000 and $4,500 and out-of-pocket limit of $5,500. These high deductible health plans are regulated by the Division of Insurance in the same manner as other health insurance policies.

If you are seeking information on setting up an MSA account, the best place to start is by contacting your financial advisor or producers selling health insurance in Alaska. Producers should have knowledge of the high deductible plans that are available in Alaska and any MSAs that may be offered in conjunction with those plans.

Back to Consumer Guide Index of Topics

FISCAL NOTE

STATE OF ALASKA
2003 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 195
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: DCED
Title: Individual Health Care Insurance
BRU: Insurance
Component: Insurance Operations (116)
Sponsor: Representative Rokeberg
Requester: House Labor & Commerce
Component No.: 354

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES (1004)	*	*	*	*	*	*

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	*	*	*	*	*	*
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	*	*	*	*	*	*

Estimate of any current year (FY2003) cost: 0.0
Mark this box (X) if funding for this bill is included in the Governor's FY 2004 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

This bill allows insurers to offer an individual health insurance policy that excludes state mandated health insurance benefits and exempts premiums collected for such policies from premium tax. Since premium taxes are general fund revenue, general fund revenues would be reduced depending on how many of the individual health insurance policies that exclude the state mandated benefits are issued and health care premium trend. The following estimates assume a 12% annual increase in premium and that between 5% and 100% of individual health policies sold exclude state mandated benefits.

Estimated impact by year:

2003	$22,000 - $445,000	2006	$31,000 - $626,000	2009	$50,000 - $985,000
2004	$25,000 - $500,000	2007	$40,000 - $785,000		
2005	$28,000 - $560,000	2008	$44,000 - $880,000		

Prepared by: Linda Hall, Director — Phone 907-269-7900
Division: Insurance — Date/Time 4/4/03 2:42 PM
Approved by: Edgar Blatchford, Commissioner — Date 4/4/2003
Agency: Department of Community & Economic Development

(Revised 9/2002 OMB)

HB

199

FISCAL NOTE

STATE OF ALASKA
2002 LEGISLATIVE SESSION

Fiscal Note Number:
Bill Version: HB 199
() Publish Date:

Revision Date/Time (Note if correction):
Dept. Affected: Labor & Workforce Dev
Title: Delete Minimum Wage Inflation-Proofing
BRU: Wage & Hour
Component:
Sponsor: Representative Rokeberg
Requester: House Labor & Commerce
Component No.:

Expenditures/Revenues (Thousands of Dollars)

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

OPERATING EXPENDITURES	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Personal Services						
Travel						
Contractual						
Supplies						
Equipment						
Land & Structures						
Grants & Claims						
Miscellaneous						
TOTAL OPERATING	0.0	0.0	0.0	0.0	0.0	0.0
CAPITAL EXPENDITURES						
CHANGE IN REVENUES ( )						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF						
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (Specify Type--Do not abbreviate)						
TOTAL	0.0	0.0	0.0	0.0	0.0	0.0

Estimate of any current year (FY2002) cost: 0.0
Check this box (X) if funding for this bill is included in the Governor's FY 2003 budget proposal:

POSITIONS

Full-time						
Part-time						
Temporary						

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

This legislation has no fiscal impact on state spending.

Prepared by: Representative Tom Anderson
Phone
Division: Chair, House Labor & Commerce Committee
Date/Time 4/26/03 9:54 AM
Approved by: Representative Tom Anderson
Date 4/26/2003
Agency: House Labor & Commerce Committee

(Revised 9/2001 OMB)

HOUSE COMMITTEE REPORT

(7)
Date Referred to Committee: March 19, 2003 **FURTHER REFERRALS: Finance**

Date of Committee Action: April 25, 2003

The LABOR AND COMMERCE Committee considered: **HB 199**

HOUSE BILL NO. 199 **DELETE MINIMUM WAGE INFLATION - PROOFING**

"An Act removing the annual adjustment to the minimum wage based on the rate of inflation; and providing for an effective date."

Recommends it be replaced with [ ] HCS *or* [ ] CS *for* _____ (_____)
For Senate Bills with new title: [ ] Technical Title [ ] New Title: HCR_____ **[ ] Same Title [ ] New Title**

[ ] attach amendments
[ ] add new referral to _____Committee
[ ] Letter of Intent_____Committee

List of Abbrev for Depts.:
ADM
CED
COR
CRT
EED
DEC
DFG
GOV
HSS
LEG
LAW
LWF
MVA
DNR
DPS
REV
DOT
UA

NEW **FISCAL NOTES** *Assigned by Chief Clerk's Office				
List by Dept(s):	*FN#	Fiscal	Indet.	Zero
LWF				—

PREVIOUS **FISCAL NOTES**				
List by Dept(s):	FN#	Fiscal	Indet.	Zero

Signing with recommendations	Printed Last Name	DP	DNP	NR	AM
	LYNN	X			
	GATTO		X		
	CRAWFORD		√		
	GUTTENBERG		X		
	DAHLSTROM		X		
	ROKEBERG	X			
Chair:	ANDERSON			X	
Chair:					

ALASKA STATE LEGISLATURE
House of Representatives

COMMITTEE ASSIGNMENTS:

RULES COMMITTEE, CHAIRMAN
LABOR & COMMERCE COMMITTEE, MEMBER
LEGISLATIVE COUNCIL, MEMBER
SPECIAL COMMITTEE ON OIL & GAS, MEMBER
LEGISLATIVE ETHICS COMMITTEE, MEMBER

website: http://www.akrepublicans.org/rokeberg/

INTERIM:
716 WEST 4TH AVENUE, SUITE 300
ANCHORAGE, AK 99501
PHONE: (907) 269-0117
FAX: (907) 269-0119

SESSION:
ALASKA STATE CAPITOL
JUNEAU, AK 99801-1182
PHONE: (907) 465-4968
FAX: (907) 465-2040

Representative Norman Rokeberg

e-mail: Representative_Norman_Rokeberg@legis.state.ak.us

SPONSOR STATEMENT FOR HB 199
BY: Representative Norman Rokeberg

Title: An Act removing the annual adjustment to the minimum wage based on the rate of inflation; and providing for an effective date.

In 2002, the 22nd Legislature enacted HB 56 repealing the minimum wage formula, which tied Alaska's minimum wage to the federal minimum wage PLUS $.50 per hour or $5.65. The bill established a base minimum wage of $7.15 per hour, an increase of $1.50 or 37.67%. In addition, HB 56 created a two-pronged formula annually adjusting the minimum wage by the Consumer Price Index (Anchorage), or increasing i. by $1.00 over the federal minimum wage, which ever is greater. Therefore, every January small businesses must increase their labor costs in spite of particular business circumstances, sector trends or economic conditions.

The rational for increasing the minimum wages is to increase income for lower income people and reduce poverty. Indexing is supposed to allow these workers to keep up with inflation, give "certainty" to employers, and keep a divisive issue off the legislatures calendar.

Sound economic analysis argues against such results. Forced wage hikes lead entry-level employers to eliminate jobs or reduce working hours. The evidence suggests that such increases do not help the poor, but on the contrary, increase unemployment, effect only a small percentage of the target group, create inflation and fail to account for worker mobility.

This issue is of such importance that the legislature should be required to periodically take up the issue of the appropriate amount of the minimum wage. By doing so, this will allow the business community to have a seat at the table when bargaining for a change to the wage rate. The principle of collective bargaining requires employees and employers to be at the table when negotiating wage rates and other conditions of employment. However, when the legislature acts unilaterally the effected employers have no say or input to the amount of the minimum wage.

In the four months since the minimum wage increase has occurred, Alaskan' business have already reacted in a negative manner to low-income workers. This includes the closing of a business in Anchorage, directly related to the minimum wage increase, and the loss of 54 jobs.

Indexing the minimum wage has failed in its primary objective. I urge your support of this legislation.

ED 1: 4/24/03

EMPLOYMENT POLICIES INSTITUTE

Indexing the Minimum Wage: A Vise on Entry-Level Wages

March 2003

The Employment Policies Institute (EPI) is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors non-partisan research that is conducted by independent economists at major universities around the country.

Indexing the Minimum Wage: A Vise on Entry-Level Wages

Employment Policies Institute

Introduction

Indexing the minimum wage is a rising trend at the state and local levels. Whether through a ballot initiative, as in Washington and Oregon, or state legislature, as was the case in Alaska, efforts have increased in the recent years to tie minimum wage increases to specific economic indicators such as the Consumer Price Index (CPI):

Washington, Oregon, and Alaska all have minimum wages exceeding the federal standard that also increase annually based on changes in the CPI. In the 2001 legislative session, 24 other states considered increasing their minimum wages, and 15 of these considered linking those increases to indexing.

The arguments in favor of indexing are deceptively simple. Advocates argue indexing helps low-wage workers keep up with inflation and gives "certainty" to employers about wage increases. And besides, raising the minimum wage every year keeps a divisive issue off the legislative calendar.

But mandated wage increases are proven to be vastly inefficient. Moreover, there is a general consensus that forced wage hikes lead entry-level employers to eliminate jobs or reduce work hours. Even if jobs are not cut, employers respond to higher labor costs by shifting their hiring focus to better skilled employees or more capital-intensive production, leaving the least skilled out of the labor market.[1]

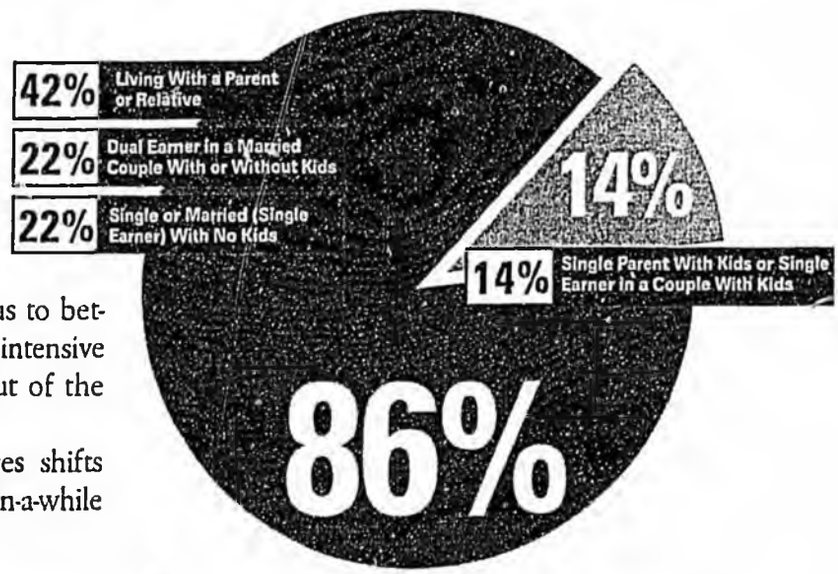
Automating minimum wage increases shifts these negative effects from a once-in-a-while occurrence to an annual event, albeit in an incremental fashion. Indexing is little more than an effort to institutionalize on auto-pilot a cycle of rising labor costs leading to reduced job growth, annual harm to job opportunities for the least skilled, and constant inflationary pressure, all without any measurable reduction in poverty.[2]

1. Targeting the Wrong People

Few people will deny that the stated goal of increasing the minimum wage is to get more money to families who are supported only by a minimum wage earner. However, even a casual examination of recent minimum wage proposals shows that minimum wages fail to target the families they are intended to help.

For instance, as seen in Figure 1, of every 100 workers affected by the $6.65 minimum

Figure 1 Distribution of Workers Affected by a Proposed $6.65 Minimum Wage



wage recently proposed in Congress, only 14 are single parents supporting children with just that low-wage job. The other 86 beneficiaries—who by definition are the actual "target" of the policy—are either teenagers living with their parents, single adults, married adults without children or one of multiple workers in a family with children.[3]

Indexing the minimum wage does not address the poorly targeted nature of the program itself. The overwhelming majority of "new dollars" created by annual wage hikes will still be delivered to people who are neither living in poverty nor supporting children.

2. Failing to Reduce Poverty

The 2001 study *Does the Minimum Wage Reduce Poverty?* conducted by Drs. Richard K. Vedder and Lowell E. Gallaway of Ohio University shows conclusively, "that minimum wage laws cannot be justified as a poverty-reducing device."[4] Their research shows that no matter which groups are examined, how one defines poverty or where in the country you look, minimum wages have had no negative effect on poverty.

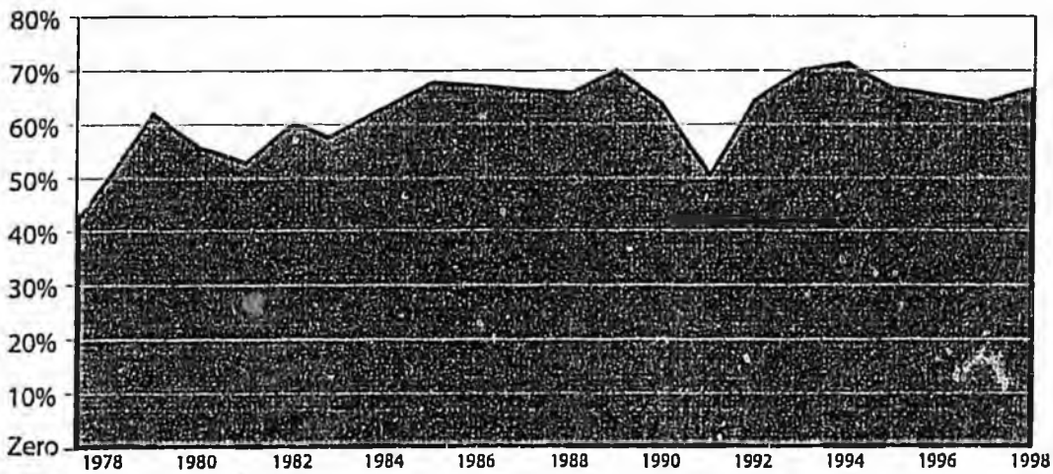
This study examines all poor households, and reveals that poverty exists primarily among nonworkers. In fact, for every full-time poor worker, there are seven who either do not work or only work part time. These people are helped out of poverty through first getting employed, improving their skills and then having increased job opportunities.[5]

3. Ignoring "Natural" Wage Growth

At the heart of the case for indexing is the notion that the bulk of minimum wage workers remain at the minimum wage and experience increasing financial strains brought on solely by annual inflationary pressures. In reality, it is difficult to find employees who stay at the minimum wage year after year. Those who do often have serious skill deficiencies or other problems that will not be solved with an indexed minimum wage.

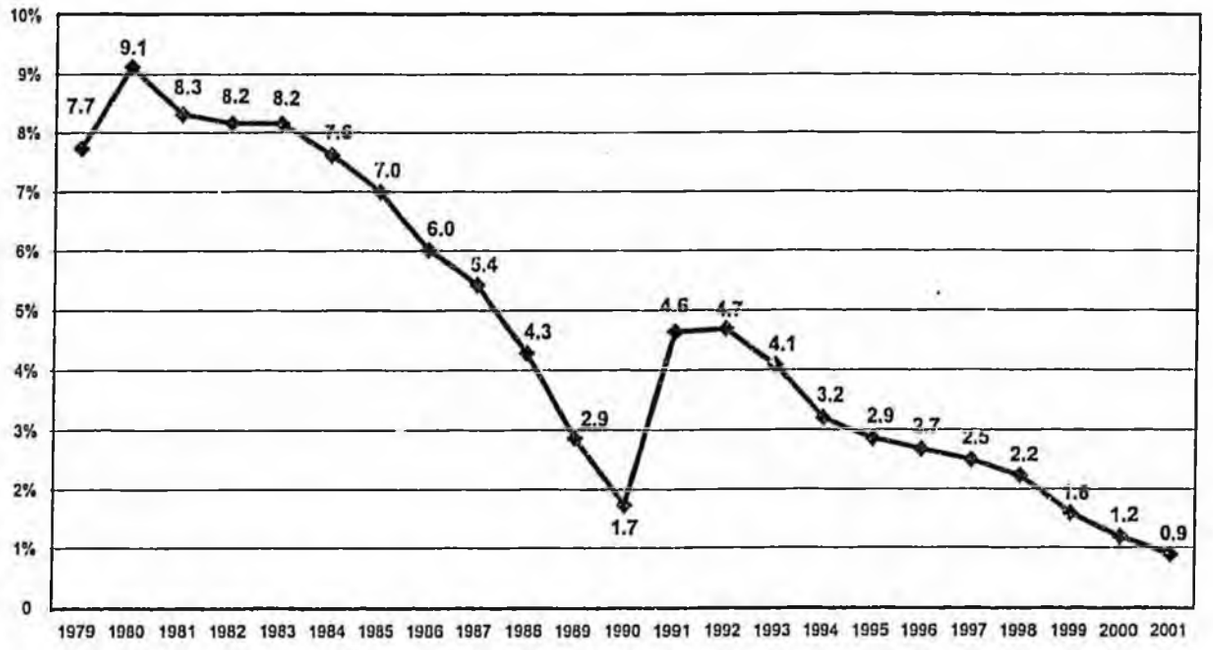
The fact is that wages for most minimum wage workers rise quickly without any intervention from the government. These wage increases come as workers increase their skill and experience levels, switch jobs, take on more responsibility, or improve their educational credentials.

Figure 2 Time Line of Exit Rates* from 1977-1997



* The "exit rate" is defined as the percentage of minimum wage workers that have sufficient wage growth to earn above the minimum wage one year later. If the minimum wage increases over the year, a person's wage must increase beyond the level of the new minimum to be counted as an exit.

Figure 3 Percentage of Hourly Workers Earning the Minimum Wage



*The prevailing Federal minimum wage was $2.90 in 1979, $3.10 in 1980, and $3.35 in 1981-89. The minimum wage rose to $3.80 in April 1990, to $4.25 in April 1991, to $4.75 in October 1996, and to $5.15 in September 1997. Thus, the Federal minimum was $4.25 for the 1992-95 period, and $5.15 in 1998-2001. Data for 1990-91 and 1996-97 reflect changes in the minimum wage that took place in those years.
SOURCE: Unpublished tabulations from the Current Population Survey (CPS), Bureau of Labor Statistics.

Research from Dr. William E. Even from Miami University of Ohio and Dr. David Macpherson from Florida State University shows in Figure 2 that between 1977 and 1997, on average 65% of minimum wage employees made more than that wage the following year, with typical wage growth exceeding 10%.[6] Even the most ardent proponents of indexing have not suggested raising wages by 10% per year, yet this is exactly what most minimum wage workers accomplish on their own.

4. Declining Numbers of Minimum Wage Employees

A corollary to the natural wage growth described above is the well-documented decline in the share of the population that is even affected by the minimum wage. Bureau of Labor Statistics (BLS) data show that the number of workers at the minimum wage has been declining steadily over the past decade as seen in Figure 3. In 1992, 4.7% of the workforce was at the minimum wage, while in 2001 just 0.9% of workers earned the minimum wage.[7]

Between 1980, when 9.1% of the workforce was earning the minimum wage, and 2001, there was an 86% decline in the number of employees working at the minimum wage – a drop of over 4 million workers. During the same time span the workforce added over 21 million more hourly workers.[8]

This decline can be attributed largely to the wage hikes earned by entry-level workers. It also points out the fallacy behind the argument that indexing is necessary if the government is to "help" minimum wage workers.

5. Overstating the Effects of Inflation

Foremost among the faulty arguments cited by indexing proponents is the one referencing the effects of inflation on the real value of the minimum wage.

A representative of the Oregon Center for Public Policy (a left-leaning advocate of indexing) said, "Each year families working at or close to the minimum wage find it harder to make ends meet because prices go up. Indexing the minimum wage to inflation stops the erosion of its value."[9]

Accepting this statement at face value means ignoring the substantial wage growth that minimum wage workers experience each year. The population of minimum wage employees is a constantly-changing mix of labor market entrants. As noted above, to suggest that folks who are earning the minimum wage today are the same people who earned this wage last year or the year before is demonstrably false.

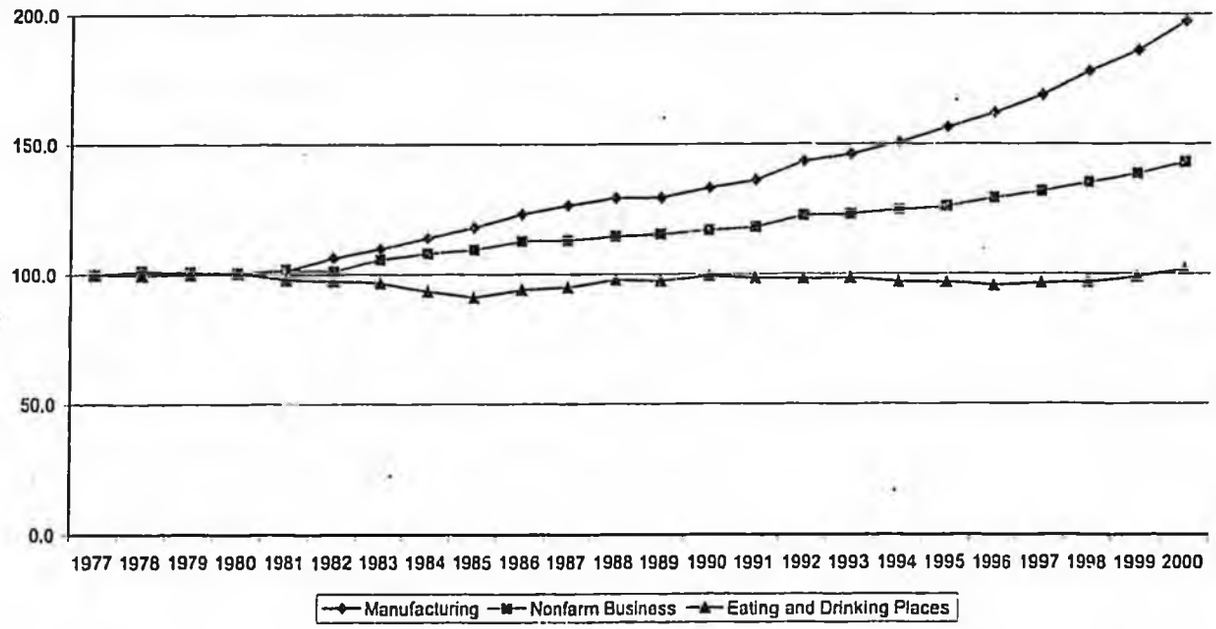
But the pitfalls of the inflation argument go beyond the composition of the minimum wage workforce. Even if one accepts constant inflationary pressures on minimum wage workers, the fact remains that the CPI is a crude tool for indexing because it has been shown to overstate inflation. Even some proponents of minimum wage increases have denounced linking automatic wage increases to the CPI as it does not accurately reflect market-caused price increases.[10,11]

If the CPI overstates inflation as research has shown, then indexed minimum wages based on the CPI would actually cause inflation, creating the need for greater and greater minimum wage increases every year.

6. Productivity of Low-Skill Workers Fails to Justify Indexing

A study by Oren M. Levin-Waldman (1998) proposes to instead link the minimum wage to productivity increases which the BLS has measured

Figure 4 Productivity Indexes for Various Sectors (1977 = 100)



as increasing by an average of 2.7% annually since 1949.[12] Alternatively, this paper suggests adjusting the minimum wages by tying them to the median wages for low-skilled jobs, so minimum wages do not increase too far out of line with wages of the least skilled. Under this scenario, the median wage of the lowest-wage workers is used as a proxy for the productivity of the least skilled workers.

However, this approach also has serious pitfalls. If one examines the Bureau of Labor Statistics measures of productivity in the eating and drinking industry (one of the largest employers of entry-level workers), it is clear from Figure 4 that since 1977 the eating and drinking industry has seen only a negligible increase in productivity.[13] In fact, when Dr. Levin-Waldman uses the median wages of low-wage employees as a proxy for productivity linked to the $3.35 minimum wage of 1983, the estimated minimum wage index was only $0.06 different in 1997 than the current $5.15 minimum wage.[14]

This is hardly a sound basis for arguing the need for indexing. On the contrary, from this analysis, it would seem that suggestions of the "declining value of the minimum wage" are simply untrue.

7. Siphoning Off Wage Increases

Supporters of indexing also rarely mention the lost benefits and additional taxes families incur following mandated wage increases.

In 2002, families supported by a single minimum wage employee with two children could receive $4,140 in refundable Earned Income Tax Credit benefits, about $3,500 annually ($300 monthly) in food stamp benefits, thousands of dollars in Section 8 benefits if they qualify, and free or low-cost health insurance for their children in every state.

Any family taking advantage of all these programs and subsequently "benefiting" from a mandated increase in the minimum wage would lose between 50% and 100% of every extra dollar they earn (up to about $15.00 per hour).[15] This is because eligibility for these well-targeted assistance programs falls rapidly as wages rise. In the end, the overall income available to poor families does not rise at all, or rises just marginally, after an indexed wage hike takes effect.

8. Risks of Economic Uncertainty

In times of economic uncertainty, policymakers are motivated by a desire to enhance job creation and improve the business environment. Thus, minimum wage hikes rarely pass in the midst of a recession. Indexing the minimum wage would change that. Indexing puts minimum wage hikes on automatic pilot, forcing labor costs to rise even during times when no rational public servant would force this kind of mandate, such as periods of high unemployment or otherwise slow economic growth.

Historically, business cycles rise and fall over time. This has become evident (again) in recent years. With an unpredictable economic environment, it is important to remember that the labor market needs a certain amount of flexibility to deal with changing demands.

9. Better Targeted Programs Save Money and Provide More Assistance

For the small number of individuals who are supporting children on a minimum wage income, there already exist a number of tightly-focused programs that are far better suited to delivering income to those in need. These programs can either be better promoted, expanded or combined to provide even more assistance to poor families.

Since 1968 several programs have been created or expanded that are vastly more efficient than the minimum wage at getting

money to the poorest and most needy families. However, proponents of wage mandates wrongly criticize these programs as reasons for wage increases. Robert Pollin, often called the father of the living wage movement, said in the December 2002 *Journal of Economic Issues,* "[T]he need for such programs to support families which include full-time workers only emphasizes further the low level to which the national minimum wage has fallen."[16]

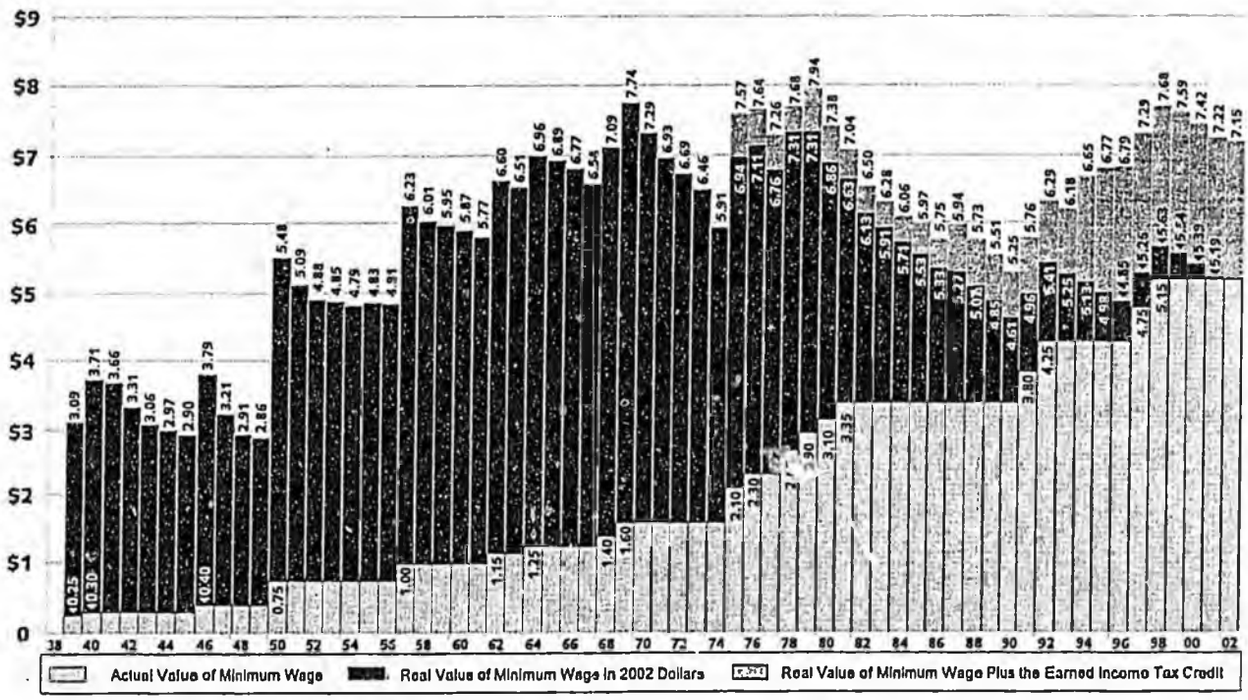
What Mr. Pollin fails to acknowledge is that these programs are not a symptom of the national minimum wage, but well-targeted policies superior to the minimum wage, specifically designed to target poor families with children. The programs that exist are far more efficient and cost effective than the general wage mandates he proposes.

Parents who cannot provide for their children with their earnings now have access to in-kind programs such as food stamps, Section 8 or public housing, Medicaid and state Children's Health Insurance Programs (sCHIP), as well as cash-benefit programs like Temporary Aid for Needy Families (TANF) and the refundable Earned Income Tax Credit (EITC). Funds from each of these programs are targeted solely to low-income families with children, unlike minimum wage increases where a substantial portion of the benefit goes to middle and upper class families or teenagers.

Restricting one's focus to the inflation-adjusted value of the minimum wage fails to take account of the EITC which has expanded greatly over the past 25 years. Expansions of the EITC increase hourly income for a single full-time minimum wage worker by over $2.00 per hour as seen in Figure 5. This $4,000 is delivered directly to families with children, rather than wasted on individuals and families outside of those most in need.

Unfortunately, advocates of indexing would prefer that policymakers consider their proposal in a vacuum, ignoring the reality that poor families have a wide variety of resources available to supplement their incomes until their skill levels rise to a point where they can command higher wages.

Figure 5 Comparison of the Real and Actual Value of the Minimum Wage Plus the Earned Income Tax Credit (as of January 1st each year)



Conclusion

There are several key questions legislators should ask when considering indexing wage mandates:

- Who are we trying to help by indexing wages?
- Is wage indexing an efficient way to deliver assistance to the target population?
- Is the CPI the proper tool for indexing wages, or could using the CPI cause more inflation or exacerbate unemployment?
- How will employers react to automatic increases in the wages they pay? Will they welcome the "certainty" offered by indexation? Or will employers seek out more efficient and productive employees, cut back on jobs and hours or switch to more capital intensive production?

In the balance between government, families and employers, creating an environment where business is challenged annually through an untargeted and unfunded mandate cannot have positive effects for any party. Because it offers few benefits, is foolishly targeted to those individuals who are not in need, and substantially increases risks for low-skill workers, indexing must be viewed for what it is: a politically-motivated tool with no place in a balanced approach to assisting the working poor.

Endnotes

1 See David Neumark, Mark Schweitzer and William Wascher, *The Effects of Minimum Wages Throughout the Wage Distribution,* Working Paper 9919 (Cleveland: Federal Reserve Bank of Cleveland, December 1999), for an overview of current minimum wage research on displacement and substitution effects of minimum wage increases.

2 See Richard K. Vedder and Lowell E. Gallaway, *Does the Minimum Wage Reduce Poverty?* (Washington, D.C.: Employment Policies Institute, 2001), which concludes that changes to the minimum wage have not had an effect on poverty.

3 See Employment Policies Institute, *Winners and Losers of Federal and State Minimum Wages,* October 2002; available from http://www.epi-online.org /50states_all.html; accessed 22 January 2003.

4 Vedder and Gallaway, Minimum Wage, 1.

5 Ibid. 16.

6 See William Even and David Macpherson, *Rising Above the Minimum Wage,* (Washington, D.C.: Employment Policies Institute, 2000).

7 These calculations are based on unpublished data from the U.S. Department of Labor, Bureau of Labor Statistics.

8 Ibid.

9 Jeff Thompson as quoted in Oregon Center for Public Policy, "Good Economic News for the New Year: Thousands of Low Wage Oregonians Will get a Raise on January 1st," 30 December 2002; available from http://www.ocpp.org/2002/nr021230.htm; accessed 22 January 2003.

10 See Michael J. Boskin, et al., "Toward a More Accurate Measure of the Cost of Living," (Washington, D.C.: Advisory Commission to Study the Consumer Price Index, U.S. Senate, 1996).

11 See Dimitri B. Papadimitriou and L Randall Wray, *Targeting Inflation: The Effects of Monetary Policy on the CPI and Its Housing Component,* Public Policy Brief no. 27 (Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1996).

12 See Oren M. Levin-Waldman, Automatic *Adjustment of the Minimum Wage: Linking the Minimum Wage to Productivity,* Public Policy Brief no. 42 (Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1998).

13 Figures calculated using published statistics by the U.S. Department of Labor, Bureau of Labor Statistics, "Industry Productivity Data Tables," 16 October 2001; available from http://www.bls.gov /lpc/iprdata1.htm; accessed 22 January 2003.

14 Waldman, Automatic Adjustment, 29.

15 Based on unpublished analysis of interactions of tax and benefit programs in a number of states.

16 See Robert Pollin, Mark Brenner, and Stephanie Luce, "Intended Versus Unintended Consequences: Evaluating the New Orleans Living Wage Ordinance," Journal of Economic Issues 36, no. 4 (December 2002), 843-876.

References

Neumark, David, Mark Schweitzer and William Wascher. *The Effects of Minimum Wages Throughout the Wage Distribution.* Working Paper 9919. Cleveland: Federal Reserve Bank of Cleveland, December 1999.

Vedder, Richard K. and Lowell E. Gallaway. *Does the Minimum Wage Reduce Poverty?* Washington, D.C.: Employment Policies Institute, 2001.

Employment Policies Institute. *Winners and Losers of Federal and State Minimum Wages.* October 2002. Available from http://www.epionline.org/50states_all.html. Accessed 22 January 2003.

Even, William and David Macpherson. *Rising Above the Minimum Wage.* Washington, D.C.: Employment Policies Institute, 2000.

Oregon Center for Public Policy, "Good Economic News for the New Year: Thousands of Low Wage Oregonians Will get a Raise on January 1st." 30 December 2002. Available from http://www.ocpp.org/2002/nr021230.htm. Accessed 22 January 2003.

Boskin, Michael J., et al., "Toward a More Accurate Measure of the Cost of Living." Washington, D.C.: Advisory Commission to Study the Consumer Price Index, U.S. Senate, 1996.

Papadimitriou, Dimitri B. and L. Randall Wray. *Targeting Inflation: The Effects of Monetary Policy on the CPI and Its Housing Component.* Public Policy Brief no. 27. Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1996.

Levin-Waldman, Oren M. *Automatic Adjustment of the Minimum Wage: Linking the Minimum Wage to Productivity.* Public Policy Brief no. 42. Annandale-on-Hudson, N.Y.: The Jerome Levy Economics Institute, 1998.

U.S. Department of Labor, Bureau of Labor Statistics. "Industry Productivity Data Tables." 16 October 2001. Available from http://www.bls.gov/lpc/iprdata1.htm.Accessed 22 January 2003.

Pollin, Robert, Mark Brenner, and Stephanie Luce. "Intended Versus Unintended Consequences: Evaluating the New Orleans Living Wage Ordinance." *Journal of Economic Issues* 36, no. 4 (December 2002), 843-876.

Recent Publications

Living Wage and Earned Income Tax Credit: A Comparative Analysis, Mark D. Turner, Georgetown University/Optimal Solutions Group, Burt S. Barnow, Johns Hopkins University, January 2003.

The Economic and Distributional Consequences of the Santa Monica Minimum Wage Ordinance, Richard H. Sander, University of California at Los Angeles, E. Douglass Williams, University of the South Joseph Doherty, Empirical Research Group at UCLA, October 2002.

Measuring Poverty in America, by the Employment Policies Institute, April 2002.

The Economic Well-Being of Low-Income Working Families, by John P. Formby, Hoseong Kim, University of Alabama and Dr. John A. Bishop, East Carolina University, March 2002.

The Long-Term Effects of Youth Unemployment, by Thomas A. Mroz, University of North Carolina at Chapel Hill, Timothy H. Savage, Welch Consulting Economists, October 2001.

National Good Times, Local Bad Times: The Local Area Unemployment Crisis, by Employment Policies Institute, August 2001.

Who Would Benefit from a $6.65 Minimum Wage? A State-by-State Profile: 2001 Edition, by Employment Policies Institute, July 2001.

The Case for a Targeted Living Wage Subsidy, by Employment Policies Institute, June 2001.

The Effect of Minimum Wages on the Labor Force Participation Rates of Teenagers, by Walter J. Wessels, North Carolina State University, June 2001.

Winners and Losers of Federal and State Minimum Wages, by Thomas MaCurdy and Frank McIntyre, Stanford University, June 2001.

Does the Minimum Wage Reduce Poverty? by Richard K. Vedder and Lowell E. Gallaway, Ohio University, June 2001.

State Flexibility: The Minimum Wage and Welfare Reform, by Employment Policies Institute, March 2001.

Evaluating the Effects of Medicaid on Welfare and Work: Evidence from the Past Decade, by Aaron S. Yelowitz, University of California at Los Angeles, December 2000.

Higher Minimum Wages Harm Minority and Inner-City Teens, by Mark Turner and Berna Demiralp, Johns Hopkins University, September 2000.

The Living Wage: Survey of Labor Economists, by The Survey Center, University of New Hampshire, August 2000.

The Relative Compensation of Part-Time and Full-Time Workers, by Barry Hirsch, Trinity University, April 2000.

Living Wage Policy: The Basics, by Employment Policies Institute, March 2000.

Rising Above the Minimum Wage, by William Even, Miami University of Ohio, and David Macpherson, Florida State University, January 2000.

Economic Analysis of a Living Wage Ordinance, by George Tolley, University of Chicago, Peter Bernstein, DePaul University, and Michael Lesage, RCF Economic & Financial Consulting, July 1999.

The Employment Impact of a Comprehensive Living Wage Law: Evidence from California, by Employment Policies Institute, July 1999.

Effective Marginal Tax Rates on Low-Income Households, by Daniel N. Shaviro, New York University School of Law, February 1999.

An Analysis of the Baltimore Living Wage Study, by Employment Policies Institute, October 1998.

Targeted Jobs Tax Credits and Labor Market Experience, by Frederick J. Tannery, University of Pittsburgh, June 1998.

Job Loss in a Booming Economy, 2nd Edition, by Employment Policies Institute, May 1998.

Work Ethic and Family Background, by Casey B. Mulligan, University of Chicago, May 1997.

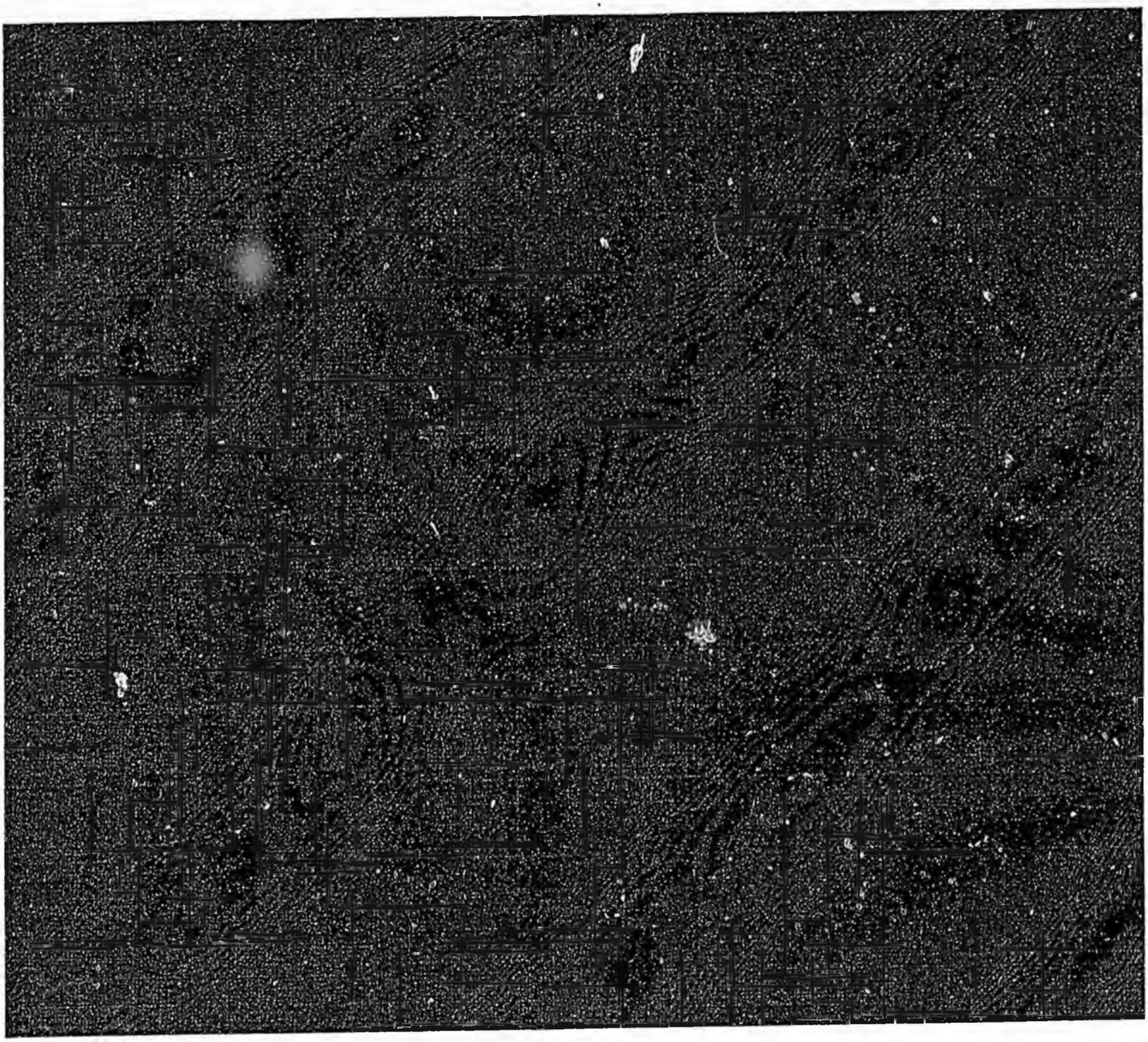
The Minimum Wage Debate: Questions and Answers,: Third Edition, by Employment Policies Institute, May 1997.

From Welfare to Work: The Transition of an Illiterate Population, by Employment Policies Institute, February 1997.

Who Are The "Low-Wage" Workers? by Derek Neal, University of Chicago, July 1996.

Jobs Taken by Mothers Moving from Welfare to Work: And the Effects of Minimum Wages on this Transition, by Peter D. Brandon, Institute for Research on Poverty, University of Wisconsin—Madison, February 1995.

Minimum Wage Laws and the Distribution of Employment, by Kevin Lang, Boston University, January 1995.



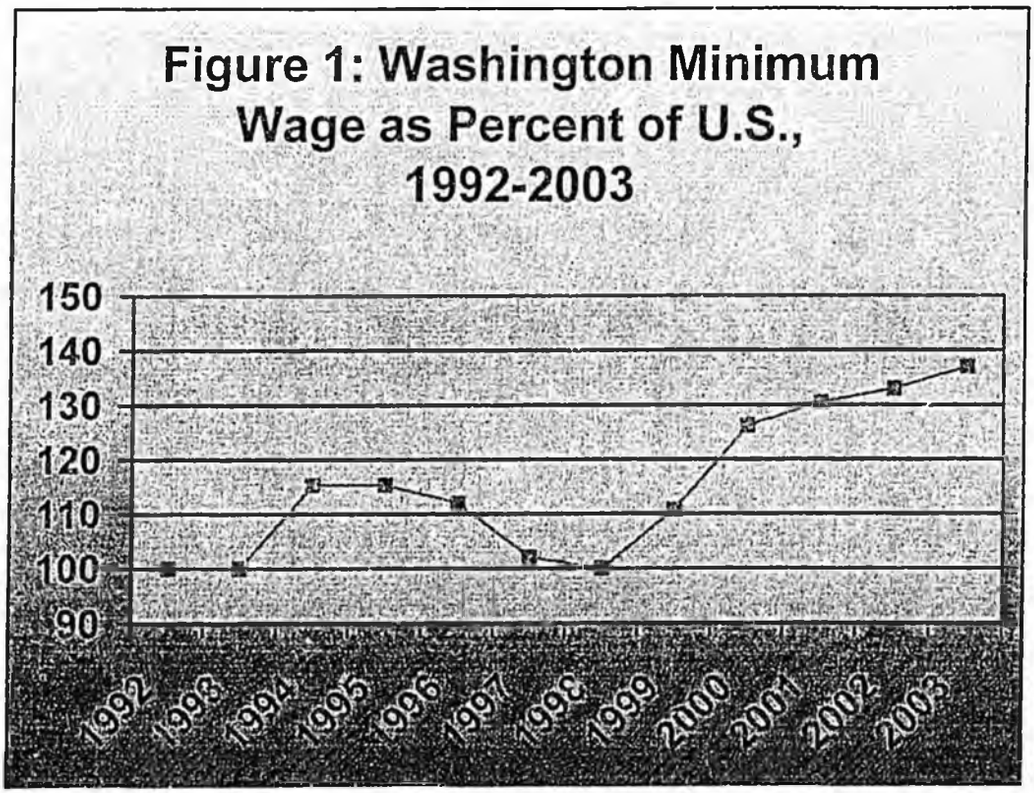
Suite 1200 | 1775 Pennsylvania Ave., NW | Washington D.C. 20006 | Tel. 202.463.7650 Fax. 202.463.7107 www.EPIonline.org

The Economic Impact of Washington's Minimum Wage Law

By Richard Vedder and Lowell Gallaway
Ohio University

Introduction

On January 1, 1999, the minimum wage for workers in Washington rose as a result of a voter initiative. Subsequent increases have brought the Washington minimum wage to more than 36 percent higher than the national average. As Figure 1 shows, in much of modern history, the Washington state minimum wage was at, or relatively close to, that determined nationally via the Fair Labor Standards Act of 1938 as amended. The 1998 decision of the voters, however, has led to an unprecedentedly high minimum wage in Washington relative to national norms. Today, the Washington state minimum wage is the highest, relative to the national standard, at any time in history.



The increase in the minimum wage approved by the voters was presumably motivated by a desire to create income for lower income people. The hope was that it would reduce poverty. Yet the Law of Demand suggests that when the price of something rises, the quantity the people wish to purchase falls. Government mandated higher minimum wages mean the price of labor is being increased, which should induce some

reduction in the amount of workers who will be hired[1]. Thus the income-generating effect of higher wages might be offset by the income-destroying impact of falling employment opportunities arising from higher wages. The Nobel Prize winning economist Jospeh Stiglitz, who was Chair of the Council of Economic Advisers under President Clinton, put it well: "a higher minimum wage does not seem to be a particularly useful way to help the poor. Most poor people earn more than the minimum wage when they are working; their problem is not low wages."[2] Secondarily, if a significant percentage of low paying jobs were held by persons from non-poor families, the minimum wage might be ineffective in achieving its objective even if the unemployment effects of higher wages are small. [3]Moreover, the longer term ability to increase worker income is closely tied to experience and training, and if the minimum wage hike were to lead to reduced training, and if unemployment lowered opportunities to gain experience, the longer term prospects of lower skilled workers would be further reduced.[4]

The first empirical question, then, is: have economic conditions for lower income citizens of Washington improved since the enactment of the high state minimum wage? Is, for example, the rate of poverty higher or lower? Does Washington's poverty experience in recent years mirror that of the nation? If no, is it plausible to argue that the minimum wage law has played a role in the deterioration in the income position of relatively disadvantaged Washingtonians?

---

[1] The evidence in this respect is persuasive. A review of earlier studies is found in Charles Brown, Curtis Gilroy and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature* 46(1), October 1982, pp. 487-528. For a more recent review, see Charles Brown, "Minimum Wages, Employment and the Distribution of Income," in Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics*, 3B, 1999, pp. 2101-2163. On the impact of changes in the federal minimum wage instituted in 1990 and 1991, see Donald Deere, Kevin M. Murphy and Finis Welch, "Employment and the 1990-1991 Minimum Wage Hike," *American Economic Review*, 85(2), May 1965, pp. 232-237. David Neumark and his colleagues have also performed much valuable recent research. See, for example, David Neumark and William Wascher, "A Cross-National Analysis of the Effects of Minimum Wages on Youth Employment, National Bureau of Economic research (NBER) Working Paper No. 7299, August 1999, Neumark's "The Employment Effects of Recent Minimum Wage Increases: Evidence from a Pre-Specified Research Design," NBER Working Paper No.7171, June 1999, and David Neumark, William Wascher and Mark Schweitzer, "The Effects of Minimum Wages Throughout the Wage Distribution," NBER Working Paper No. 7519, February 2000. For the NBER studies, go to http://www.nber.org. See also Richard V. Burkhauser, Kenneth A. Couch and David C. Wittenburg, "Who Minimum Wages Bite: An Analysis Using Monthly Data," *Southern Economic Journal* 67(1), 2000, pp. 16-40; David Macpherson, "The Effects of the Proposed California Minimum Wage Hike," Employment Policies Institute, October 2000. The only major dissenting voice to the consensus that minimum wages cause unemployment comes from David Card and Alan Krueger, whose research are discussed below.

[2] See his *Economics* (New York: W.W. Norton, 1993), pp. 130-133.

[3] For statistics on work experience and earnings of poor and near-poor persons, see U.S. Department of Commerce, Bureau of the Census, Current Population Reports No. 219, *Poverty in the United States:2001* (Washington, D.C.: Government Printing Office, 2002), available at www.census/gov/hhes/www/poverty.html.

[4] Empirical evidence that minimum wages reduce training is provided in Masanori Hashimoto, "Minimum Wage Effects on Training on the Job," *American Economic Review*, 72(5), December 1982, pp. 1070-1087. For a more recent affirmation of that evidence, see David Neumark and William Wascher, "Minimum Wages and Training Revisited," NBER Working Paper, W6651 available at www.nber.org.

Rising Poverty in Washington

Despite rising incomes in the late 1990s and into the new century, the poverty rate has gone up in the state of Washington. Table 1 looks at the poverty rate in 1998, the year prior to the beginning of the state's higher minimum wage, and 2001. Note that in Washington, the rate rose by 1.9 percentage points, going from 8.9 to 10.8 percent, implying an increase of the actual number of poor persons of substantially over 20 percent. By contrast, nationally, the poverty rate fell by a percentage point, and in the neighboring states of Idaho and Oregon the decline was even greater. Whereas in 1998, the poverty rate was dramatically lower in Washington than in Oregon (8.9 vs. 15.0 percent), by 2001, the rate was actually *higher* in Washington.

Table 1
Changes in the Poverty Rate, Washington and the Nation, 1998-2001

State or Area	1998 Poverty Rate	2001 Poverty Rate	Change, Poverty Rate, 1998-2001
Washington	8.9%	10.8%	+1.9%
U.S.	12.7	11.7	-1.0
Oregon	15.0	10.6	-4.4
Idaho	13.0	11.2	-1.8

Source: U.S. Bureau of the Census, authors' calculations.

The use of single year poverty rate data is somewhat hazardous, however, because the samples on which poverty rates are calculated at the state level are rather small. To reduce that problem, the Bureau of the Census prefers to use averages of the poverty rate over two or more years. We can compare 1997 and 1998, the last two years prior to the implementation of the voter mandated minimum wage increase, with 2000 and 2001, after the law had been fully in effect. The results, presented in Table 2, are similar to those derived from the single year data. Poverty rates are falling elsewhere, but rising in Washington during the period following the implementation of the higher state minimum wage.

Table2
Changes in the Poverty Rate, Washington and the Nation, 1997-98 to 2000-01

State or Area	1997-98 Poverty Rate	2000-01 Poverty Rate	Ch., Pov. Rate, 97-98, 2000-01
Washington	9.1%	10.8%	+1.7%
U.S.	13.0	11.5	-1.5
Oregon	13.3	11.3	-2.0
Idaho	13.8	12.0	-1.8

U.S. Bureau of the Census, authors' calculation

Moreover, Table 2 looks only at Washington, two bordering states, and the aggregate figure for all Americans. A detailed examination of changes in the two-year poverty rate from 1997-98 to 2000-2001 reveals that *the poverty rate rose far more in Washington than in any other state in the Union.* Indeed, only six of the 50 states had rising poverty rates during this period of general prosperity (despite the mild 2001

recession), and the second highest increase in the poverty rate, 1.1 percentage points in Oklahoma, was more than one-third smaller than in Washington.

It is at least conceivable that Washington's rise in poverty happened coincidentally with the introduction of sharply higher minimum wages. That possibility would be strengthened if the period in question was one of economic stagnation and decline in Washington. The evidence, however, does not support that possibility. Real per capita personal income rose 9.65 percent from 1997 to 2001, which, other things equal, should have led to some reduction in poverty. Moreover, the real income growth in Washington exceeded the national average for the same period. The median real per capita income growth for the 50 states and the District of Columbia was 7.96 percent, suggesting that Washington's real per head income growth was more than one-fifth larger than the typical state. In most of the rest of the U.S., poverty rates were falling as real income was rising – but not in Washington.

More sophisticated statistical analysis confirms the descriptive statistical evidence. We regressed the 2000-01 poverty rate for the 50 states plus the District of Columbia against the 1997-98 poverty rate and against the growth in real personal income per capita. As expected, there was a positive observed relationship between the recent poverty rate and the earlier rate, and a negative relationship observed between the 2000-01 poverty rate and the rate of economic growth. From the model, we can estimate what the 2000-01 poverty rate in the state of Washington would have been. The actual rate, 10.8 percent, was almost precisely one-third higher than the predicted rate of 8.14 percent. Why the big error (for a model that explained well over 82 percent of the interstate variations in the poverty rate)? The unique event in Washington was the sharp increase in the minimum wage, not observed in the typical other state.

Why would poverty rates rise in a state that had significantly rising income levels and a simultaneous increase in the state minimum wage? While several factors are no doubt at work, the minimum wage increase would only reduce poverty if the "income effect" on higher wages is greater than the "substitution effect" associated with reduced employment arising from higher wages. Elaborating, proponents of minimum wages would argue that increasing pay to relatively low paid workers often would increase their income sufficiently to raise them above the poverty level. This income effect, however, may be completely offset by the substitution effect that arises when the increased minimum wage leads to behavioral changes on the part of employers.

What are these behavioral changes? First, employers respond to the Law of Demand – when the price of something rises, people want to buy less of it. In the case of labor, workers are hired for the revenues that their efforts provide to the firm. If the extra cost to a firm of hiring another worker is less than the extra revenue that worker will provide, it is profitable to hire the worker, and employment will be increased. For example, suppose a worker's effort is expected to add $6 per hour in revenue to the firm. If the wage is, say, the federal minimum wage of $5.15 per hour, the firm will hire the worker because she or he is expected to enhance the firm's profitability. If, however, the wage is mandated under state law to be over $7 (as is currently the case in Washington), the decision will be made not to employ the worker, as her addition to the payroll of the business would actually lower profits.

If the unemployment effects of the minimum wage are sufficiently large, than one would expect the reduction in poverty associated with some workers receiving a higher wage would be offset by the loss of income from reduced employment among lower skilled workers. Moreover, the employment decision is not simply a "yes" or "no" one where workers either work fulltime or are unemployed. There is considerable

evidence that increases in real minimum wages lead to reductions in hours worked. Consider a worker who works 40 hours a week at $5.15 per hour for 50 weeks a year, providing him or her with $10,300 income. Suppose the minimum wage goes up to $6.25, but the employer, feeling cost pressures, reduces the hours of employment to 30 hours per week. Annual compensation of the worker would fall to $9,375, or by nine percent, which might actually work to bring the worker into poverty from non-poverty status (that depends on the income of other members of his or her household).[5]

There are other ways in which increases in the mandated minimum wage could increase worker poverty. First, employers, to reduce costs, might eliminate certain fringe benefits, such as health insurance or company subsidized retirement plans. Second, the firm might cut back on worker training, reducing the probability of the worker gaining on the job skills that would increase earnings over the long run.

This brings us to two other problems with using minimum wages as a means of eliminating poverty, or more generally, to redistribute income. First, most poor persons (over 88 percent in 2001) do not work full-time, and a large percent (over 61 percent in 2001) do not work at all. The poverty rate among full-time workers is a paltry 2.6 percent.[6] Thus, most adult poor people have no wage income, so minimum wage laws can have but a marginal impact. Moreover, a significant percentage of persons working minimum wage jobs are second or third wage-earners in a household which often has income levels substantially above the poverty levels (e.g., teen-age children from two parent middle class families). Thus there is a significant targeting problem with the minimum wage as a poverty reduction strategy.

The second problem relates to income mobility. Today's poor are tomorrow's non-poor. There is a good deal of movement of persons up and down the income distribution. While there may be some long-term poor who have little opportunity to improve their lot because of various disabilities (a group for which minimum wages are largely irrelevant), most poor move out of the poverty condition as job opportunities present themselves.[7] If minimum wages deny individuals opportunities for initial employment, they retard the move up the job ladder that provides a means out of poverty for many.

We have previously estimated statistically the relationship between state minimum wages and poverty rates using data for the 50 states and the District of Columbia.[8] To summarize our findings, we consistently found *positive* relationships between the presence of state minimum wages above the federally mandated level and the rate of poverty. While the results were not always robust statistically, the opposite contention that state minimum wage laws help reduce poverty is completely rejected. This is consistent with several studies using federal data, including some by us, that show either no relationship between the minimum wage and poverty or even a positive one – higher minimum wages are associated with greater poverty.

---

[5] Consistent with this argument are the findings of David Neumark and William Wascher, "Do Minimum Wages Fight Poverty?" NBER Working Paper No. W6127, August 1997, available at www.nber.org. See also their paper with Mark Schweitzer, "Order from Chaos? The Effects of Early Labor Market Experiences on Adult I abor Market Outcomes," *Industrial and Labor Relations Review*, 51(2), January 1998, pp.299-322.

[6] This is for persons 16 years of age or over. The statistics are from the U.S. Census Bureau, Current Population Survey 2002, annual demographic supplement. Available on the Internet at www.census.gov.

[7] William Even and David Macpherson, *Rising Above the Minimum Wage* (Washington, D.C.: Employment Policies Institute, January 2000); web address: www.epioline.org/even-macpherson.htm.

[8] Richard K. Vedder and Lowell E. Gallaway, *Does the Minimum Wage Reduce Poverty?* (Washington, D.C.: Employment Policies Institute, June 2001); see also our "The Minimum Wage and Poverty Among Full-Time Workers," *Journal of Labor Research* 23(1), Winter 2002, pp. 41-47.

In conclusion, the actual evidence of the past four years along with the findings for other states leads us to reject the major rationale for the Washington state minimum wage law, namely that it helps alleviate financial distress among the poorest members of the population. If anything, the evidence suggests that the state minimum wage law is a cruel albatross around the necks of Washington's poor, preventing them from participating in the market economy in a way that can alleviate their economic situation.

Unemployment Effects

If it is true that the increase in the Washington minimum wage has not brought about its intended objective of improving conditions for low income persons, and indeed, likely had the opposite effect, then this is strong circumstantial evidence that the state's minimum wage is causing some unemployment and job loss. What is the actual unemployment experience in Washington in the years since the institution of the high minimum wage?

Table 3

Changing Unemployment Rates, Washington and 10 Other Western States, 1998-2001

State or Area	1998 Unemp. Rate	2001 Unemp. Rate	Change, Unemp. Rate
WASHINGTON	4.8%	6.4%	+ 1.6%
UNITED STATES	4.5	4.8	+ 0.3
Arizona	4.1	4.7	+ 0.6
California	5.9	5.3	- 0.6
Colorado	3.8	3.7	- 0.1
Idaho	5.0	5.0	0.0
Montana	5.6	4.6	- 1.0
Nevada	4.9	5.3	+ 0.4
New Mexico	6.2	4.8	- 1.4
Oregon	5.6	6.3	+ 0.7
Utah	3.8	4.4	+ 0.6
Wyoming	4.8	3.9	- 0.9

Source: U.S. Department of Labor, Bureau of Labor Statistics

Table 3 shows that from 1998, the last year before the minimum wage increase, to 2001, unemployment showed little change in the nation as a whole or in the 10 other contiguous Western states. Nationally, the unemployment rate rose by a modest 0.3 percentage points, and in five of the other western states it rose, in four it fell, and in one it remained the same. No state had an increase in its state unemployment rate of over 0.7 percentage points – except Washington. The increase in the unemployment rate in Washington was more than double for any other state in the region. By 2001, Washington had the highest unemployment rate of any American state, whereas in 1998 its unemployment rate was exactly the median (middle) of the states in the region.

We asked ourselves: what would the Washington unemployment rate have been if it had followed the pattern, relative to the U.S. or its neighbors, that it did in the years prior to the adoption of the new Washington minimum wage? We estimated two regression equations, both using monthly data for the 84 months prior to the effective date of the new law (the years 1992 through 1998). In one, we estimated the Washington unemployment rate based on the national rate, and in the second, we estimated the Washington rate based on the average of its two bordering states, Oregon and Idaho. In both regressions, there was a

highly significant statistical relationship between the national or neighboring unemployment rate and that in Washington – Washington typically followed national and regional patterns.

We then took the estimated coefficients from the regression equations and forecast what the Washington unemployment rate should have been in September 2002, the last month for which data were available at the time of this analysis. That forecast implicitly assumes that the historic (1992-98) pattern of relationship between the Washington and national (or neighboring) unemployment rates still existed. The actual unemployment rate in September 2002 was 7.4 percent. The rate predicted from the model using national data was 6.04 percent, and with neighboring (Oregon and Idaho) data was 6.63 percent. Thus unemployment in Washington was 0.77 percent points higher than expected using neighboring states as the guide, and 1.36 percent points higher using national data to do the calculation.

Given the fact that the September 2002 labor force in the state of Washington was 2,979,000, the implied loss of jobs arising from Washington's unemployment rate exceeding what historical patterns would predict was 22,930 jobs using neighboring state data, and 40,499 using national data. Using a mid-range estimate, we would opine that the Washington unemployment rate is slightly over one percentage point above what might be expected, implying a loss of over 31,000 jobs.

It is true that this surge in Washington unemployment after 1998 may be caused by factors other than the increase in the Washington minimum wage, notwithstanding the fact that there are voluminous scholarly studies showing that minimum wages causes unemployment. One might note that the dot.com collapse in 2000 and beyond hit Washington hard, and that the slowdown in aviation since the recession began and especially after September 11, 2001, has reduced employment at Washington's largest employer, Boeing. According to this view, the rising unemployment was caused by these factors, not the minimum wage increase.

It should be pointed out, however, that the deterioration in Washington's unemployment situation began well before the September 11 tragedy – when the minimum wage hike was already operative. Indeed, the full impact of the rise in the minimum wage in Washington was probably felt by the summer of 2000. From December 1998 to September 2000, the unemployment rate fell by 0.5 percentage points nationally, and by 0.3 percentage points in Idaho and a rousing 1.1 percentage points in Oregon. Yet it *rose* by 0.4 percentage points in Washington. If Washington's rate had responded as it did nationally after December 1998, it would have been 0.9 percentage points lower in September 2000. If it had responded at the average of Washington's two neighbors, it would have been 1.1 percentage points lower. It would appear that the Washington unemployment rate in September 2000 was about one percentage point higher than what the 1999-2000 labor market situation would have predicted – *before the onset of the recession and fully a year before the September 11 tragedy.* This supports the notion that the minimum wage hike may have boosted the state's unemployment rate by about one percentage point, meaning the loss of roughly 30,000 jobs.

To learn more about the *immediate* impact of the increase in the minimum wage in January 1999, we did a comparison of employment growth rates in Washington and its two neighbors, Oregon and Idaho, in the periods immediately before and immediately after the minimum wage increase. Specifically, we looked at total nonagricultural job growth as well as that in eight specific employment categories for the six months April through October of 1998, the last six months before the voters approved the minimum wage increase in November 1998. Then we looked at job growth from December 1998 (the last month prior to the increase in the minimum wage) and June 1999. The results are shown in Table 4.

Looking at total job growth, it declined from 3.19 to 0.75 percent as Washington moved into the higher minimum wage era. By contrast, there was little change in growth in the neighboring states. If we take the average of Oregon and Idaho, employment growth in the 1998 period was 1.18 percent, compared with 1.22 percent in the 1999 period. Growth stayed the same, roughly, while it fell sharply in Washington. Whereas in 1998, before the minimum wage change, job growth was sharply higher in Washington than in either Idaho or Oregon (where it was almost nonexistent), in the post-minimum wage increase period growth was far higher in Idaho than in Washington, and almost 95 percent of the huge differential between Washington and Oregon had been eliminated.

Table 4

Percent Growth in Employment, Washington and Neighbors: 6 Months Before and 6 Months After the Implementation of the Minimum Wage Increase

	Before Minimum Wage Change:			After Minimum Wage Change:		
Sector	Wash.	Oregon	Idaho	Wash.	Oregon	Idaho
Total Emp.	3.19%	0.21%	2.15%	0.75%	0.60%	1.85%
Services	2.16	0.56	2.46	1.72	2.12	2.70
Manufact.	-0.99	-1.54	-0.13	-4.97	-0.32	0.66
Trade	1.18	-0.31	1.37	0.41	0.55	1.72
Government	0.95	2.34	2.08	0.64	-0.96	1.63
Finance	2.55	0.74	3.56	0.22	-0.63	-0.42
Transport.	0.44	-0.13	3.19	0.95	2.64	3.47
Construction	5.35	-0.61	3.15	3.91	1.84	4.20
Mining	0.00	0.00	-6.67	-9.09	0.00	-7.41

Source: Authors' calculations from data from the U.S. Department of Labor, Bureau of Labor Statistics

Individual sectors show the same pattern. Excepting transportation, every single employment category had reduced growth in Washington after the minimum wage hike. For example, in trade (retail and wholesale), job growth had been 1.18 percent; it fell by nearly two-thirds to an anemic 0.41 percent. By contrast, in both Oregon and Idaho, a majority of sectors had higher growth in 1999 than in the 1998 period. *A sharp decline in employment growth coincides exactly with the implementation of the new state minimum wage law in Washington.*

A Tale of Two Cities

Looking at interstate comparisons in unemployment may be questioned because geographic differences in economic conditions are often profound, and the observed results may therefore reflect factors other than the Washington minimum wage experience. Accordingly, an alternative approach is to compare communities geographically close to each other that have relatively similar economies.

Accordingly, an interesting dimension of much recent minimum wage research has been the use of the methodology of making before and after comparisons of employment and unemployment in comparable geographic areas where one of the locales has experienced a change in the minimum wage rate. This is especially applicable where state minimum wage rates are involved.

A highly publicized example of the use of such a technique is the Card-Krueger analysis of the impact of an increase in the New Jersey state minimum wage rate in 1991.[9] Their strategy was to contrast changes in employment in selected fast-food restaurants in central New Jersey with employment movements in a panel of selected fast-food outlets in Southeastern Pennsylvania, where the minimum wage had not changed. Unfortunately, their data collection techniques, which were based on telephone surveys, were fatally flawed, rendering their conclusion (denying an impact of minimum wages on unemployment) meaningless. Where their analysis was replicated using actual payroll record information, significant negative employment effects were observed in New Jersey fast-food restaurants.[10]

Despite the shortcomings of the initial Card-Krueger analysis, their methodology is quite useful for our purposes by providing a way of conducting an alternative assessment of the employment effects of the 1999 increase in minimum wage rates in Washington. Our choice of an area to analyze in this fashion is the Spokane, Washington-Coeur'dAlene, Idaho region.

Coeur d'Alene is the central city in Kootenai County Idaho, a county with well over 100,000 population and a per capita income level in 2000 of $23,456, within 10 percent of that in Spokane County (per capita income $25,550), a county with over 400,000 residents.[11] Thus these two counties, physically adjacent to each other, each have reasonably similar economies and relatively large population bases. The experience of Kootenai County will serve as a control for evaluating events that transpired in Spokane County in the wake of the 1999 minimum wage increase in Washington.

We begin by describing the unemployment experience in the Idaho area, Kootenai County. In 1998 (the year before the Washington minimum wage change went into effect), the unemployment rate was 7.7 percent. The rate remained stable thereafter, falling slightly by 2000 to 7.4 percent (and rising again to 7.6 percent in 2001). At the same time, a very different pattern of events was emerging in Spokane County. The 1998 unemployment rate (according to the Washington Employment Security Department) was 4.8 percent.

---

[9] David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, 84(4), September 1994, pp. 772-793, and "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Reply," *American Economic Review*, 90(5), December 2000, pp. 1397-1420.

[10] See David Neumark and William Wascher, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *American Economic Review*, 90(5), December 2000, pp. 1362-1396.

[11] The income data in this section come from the Web site of the Bureau of Economic Analysis, U.S. Department of Commerce (www.bea.gov). The unemployment data are obtainable from the Web site of the Bureau of Labor Statistics, U.S. Department of Labor (www.bls.gov).

It rose consistently after the new minimum wage law took effect, going to 5.2 percent in 1999, 5.6 percent in 2000, and 6.3 percent in 2001. The combined effect of these changes was to dramatically reduce the gap between the unemployment rates in Kootenai and Spokane counties. In 1998, the unemployment differential was 2.9 percentage points; it was reduced by more than half (to 1.3 percentage points) by 2001.

Probably the primary difference between 1998 and 2001 in the labor market milieu facing the two counties was the Washington minimum wage increase. This suggests that the impact of increasing the state minimum wage was to increase the Spokane County unemployment rate by about 1.6 percentage points (assuming that in the absence of the minimum wage increase, Spokane would have followed the pattern prevailing in Coeur d'Alene). Given the labor force in Spokane County of about 200,000, this implies a loss of about 3,200 jobs in the county attributable to the upward movement in Washington's minimum wage rate. While that impact seems relatively small, if a proportionate impact were felt state-wide, it implies a job loss of nearly 48,000 jobs. Thus, this finding employing the Card-Krueger methodology is quite consistent with our other findings, and indeed suggests a somewhat greater unemployment impact.

The Simple Theory of Unemployment

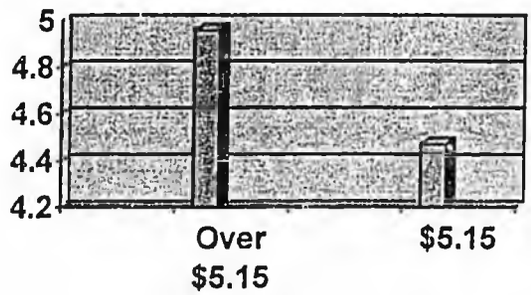
While the evidence appears strong that the 1999 minimum wage hike significantly impacted unemployment, it is circumstantial evidence. For the minimum wage hike to have unemployment effects, labor markets have to be impacted. In particular, if, as expected, the minimum wage increases heightened labor costs, this should have led to some reduction in the demand for labor, and probably also some modest increase in labor supply, both occurrences that would increase unemployment.

By definition, unemployment exists when the quantity of persons seeking jobs exceeds the number that employers wish to hire. Put differently, the quantity of labor supplied exceeds the quantity of labor demanded at the existing wage rate. Other things unchanged, an increase in wages mandated by governmental authority will reduce the quantity of labor demanded as some workers become unprofitable to hire, and increase the quantity of labor supplied, increasing unemployment. That is why economists generally believe minimum wage laws cause unemployment.

The extent to which this happens depends of the sensitivity of employers and workers to wages. While the precise response varies no doubt considerably, it is typical that when wages of workers rise by, say, one percent, the quantity of workers that employers wish to hire will also fall by almost 1 percent as well, say 0.90 percent... Economists would say that "the price elasticity of demand for labor is 0.90." By contrast, the empirical evidence suggests that the supply of labor is more inelastic – less sensitive to wage changes. Typically, a one percent increase in wages will increase the quantity of labor supplied by perhaps 0.15 percent. Thus a one percent increase in wages might well lead to a 0.90 percent decline in the number of workers employers wish to hire, but to a 0.15 increase in the number wanting to work. The combined effects would be to raise the rate of unemployment by about 1.05 percent.

A minimum wage increase obviously impacts mainly on occupations where it changes wages from what they otherwise would be, namely relatively lower skilled jobs. Restaurants, agriculture, and retail trade are three areas that employ large numbers of workers who would be impacted by mandated wage changes, whereas minimum wage laws should impact professional and managerial workers relatively little.

Figure 2: Unemployment Rates- States at $5.15 and States with Higher Wage



Before turning to wage data specific to Washington, we would note that research that we previously performed provides empirical evidence that state minimum wage laws raise unemployment by raising wages. Figure 2 compares the 11 jurisdictions that throughout 2001 had minimum wage rates at the state level above the federal minimum, with the 40 states that either had no state minimum wage law or had rates at or lower than the federal standard of $5.15. The average unemployment rates in the high minimum wage states was almost exactly one-half of one percentage point greater than that in the other states (4.96 vs. 4.47 percent). The four jurisdictions that had unemployment rates in excess of six percent all had minimum wages above the federal level – District of Columbia, Washington, Oregon and Alaska. By contrast, all five states with unemployment rates less than 3.5 percent (Maine, Iowa, Nebraska, North Dakota, South Dakota) had no minimum wage above the standard at the beginning of 2001.

The similar comparisons of unemployment rates, however, does not control for other factors that might cause unemployment. Using 1997 data, in an earlier study we observed a statistically significant (at the one percent level) positive relationship between the presence of state minimum wage laws above the federal level and the incidence of unemployment, controlling for several other possible causes of unemployment (e.g., immigration, unionization, government transfer payments). The results suggested that on average states with higher than federal minimum wage mandates had about one-third of one percentage point higher rates of unemployment. The study failed, however, to distinguish between states that had minimum wages only modestly in excess of the federal norm as opposed to states (such as contemporary Washington) where the minimum wage far outdistances the national standard. The same study also showed a positive relationship between state minimum wages (in excess of the federal mandate) and average annual pay of workers, suggesting, even using aggregate data, that state minimum wage laws raise labor costs.

The national data are supported in the Washington example. The Department of Labor data for "average annual pay" showed an unusually large upsurge in 1999, the year of the implementation of the new state minimum wage law. The average annual pay measure rose by 8.04 percent in Washington, more than double the national increase of 3.71 percent. A large part of that difference is explained by a productivity surge in Washington that outdistanced the national norm. But our estimate is that the productivity-adjusted real wage in Washington rose by 0.91 percent in 1999 – compared with a mere 0.22 percent nationally. We

have documented at great length that unemployment varies directly with the adjusted real wage.[12] The differential increase in the adjusted real wage in Washington alone can explain a 0.7 to 0.8 percentage point increase in the unemployment rate in Washington relative to the nation in that year. That is close to the suggested unemployment effects based on the national and regional labor market situation discussed above.

Case Study: The Restaurant Industry

The restaurant industry has been the focal point of much of the research dealing with the issue of the impact of minimum wage rates on employment. This stands to reason, because there are a disproportionately large number of employees in this industry earning wages at or very near the minimum wage level. Therefore, it is appropriate for us to analyze the effect on employment in this industry after the 1999 increase in the Washington minimum wage.

To set the stage for such an analysis, we collected data describing aggregate wage and salary employment and employment in eating and drinking establishments in Washington for the three years 1995, 1998, and 2001. They are shown in Table 5. The 1995-98 period is the last three years prior to the enactment of the new higher Washington state minimum wage, while the 1998-2001 period reflects activity after that mandated change.

The data displayed in Table 5 indicate that wage and salary employment in the aggregate grew much more rapidly between 1995 and 1998 – 9.51 percent – than it did from 1998 through 2001 – 3.83 percent. Not all of this decline in employment growth, however, represents the impact of the increase in the minimum wage. During that period, employment levels were adversely impacted by the national business cycle downturn. For example, if one were to assume a loss of 40,000 jobs in Washington because of the minimum wage hike, the number of those employed in 2001 in the state would have been 2,967.7 thousand, suggesting a percentage growth in jobs from 1998 and 2001 of 5.26 percent, still well below the growth in the earlier period, reflecting the business cycle downturn.

Table 5
Aggregate Wage and Salary Employment and Employment in Eating and Drinking Establishments, Washington, 1995, 1998, and 2001

Employment Category	1995	1998	2001
All Wage and Salary Employment (000s)	2,564.7	2,819.5	2,927.7
Eating and Drinking Establishments (000s)	172.8	187.2	192.7

Source: U.S. Department of Labor, Bureau of Labor Statistics

[12] See Richard K. Vedder and Lowell E. Gallaway, *Out of Work: Unemployment and Government in Twentieth-Century America*, Updated Edition (New York: New York University Press, 1997).

Turning to restaurant employment (the eating and drinking establishment category in the table), there is evidence of an even greater impact on employment. Between 1995 and 1998, for every additional 100 wage and salary jobs created, 5.97 of them were in eating and drinking places. By contrast, over the interval 1998 through 2001, the incremental restaurant employment per 100 jobs statistic drops noticeably to 4.86 – a decline of about 19 percent. The difference of 1.11 may be considered a measure of the disparate impact of the increase in the minimum wage in Washington on restaurant employment. Given the actual aggregate wage and salary employment increase of 108,200, this factor accounts for a loss of employment in the restaurant sector of about 1,200 jobs.

In addition to this impact on restaurant employment, there also is a loss of jobs that is attributable to the overall slowing of employment growth induced by the minimum wage increase. In 1998, employment in eating and drinking places account for 6.64 percent of all wage and salary jobs. Assuming the total job loss from the minimum wage legislation is 40,000, as suggested above, this indicates a decline in restaurant employment of about 2,650 than can be explained by minimum wage-induced slower employment growth. Adding the two factors together gives a job loss of 3,850, which is proportionally about one-half larger than the average for other industries.

Yet this estimate of adverse employment effects is quite conservative. The data records only the number of jobs, not the number of hours worked. If, as national empirical evidence suggests is likely, the minimum wage change induced some reduction in hours for continuing employees, the total loss of hours of employment could be far greater than suggested by the two percent drop in the number of workers. In any case, the minimum wage law had a significant adverse impact on employment in the restaurant industry.

Agriculture

Agricultural workers are typically paid far less than the average for non-agricultural workers, so this is a sector that is particularly vulnerable to laws mandating minimum wages. From 1998 to 2001, the growth in farm employment virtually stopped, falling 90 percent from 2.80 percent in the 1995-98 period, to 0.28 percent in the years after the institution of the new higher state minimum wage. Since proprietors in agriculture produce in international highly competitive markets and are "price takers" that have no control over the price of the goods sold, in the short run the minimum wage hike has a particularly egregious impact on their investment return. Accordingly, it is not surprising that there was a 2.80 percent decline in what the Bureau of Labor Statistics refers to as "farm proprietors" from 1998 to 2001, whereas from 1995-98 the number had increased substantially. Although circumstantial, the evidence strongly suggests that the cost squeeze imposed by the minimum wage may have been a major factor in a reversal in agricultural entrepreneurial activity after 1998.

Conclusions

The passage of the referendum in 1998 that has dramatically raised the state minimum wage in Washington is a quintessential example of the Law of Unintended Consequences. The goal was to improve the lot of the disadvantaged in Washington, but the effect has been for poverty to rise, not fall, and rise far more than income trends would suggest should happen. The Washington minimum wage law created not eliminated poverty. It did it largely by creating unemployment and reduced hours for workers. While various estimates of job loss were calculated, the true figure likely is not less than 24,000 (0.8 percent of the labor force) and may be as high as 48,000 – after correcting for the impact of the business cycle turndown. The job losses were found in virtually every sector of the Washington economy. Some occupations relying heavily on relatively less skilled labor were particularly impacted. The restaurant industry suffered more job losses than most industries, and if the shortening of hours is taken into account, the employment effects may well be double or triple as severe as was typical of other industries. Agriculture, competing in highly competitive markets where farmers have no control over price, probably suffered not only from job loss, but from the profit squeeze that the minimum wage imposed, as evidenced by a noticeable drop in the number of farm proprietors (unlike in earlier periods, where the number had grown).

The Washington minimum wage, then, has failed in its primary objective. Rather than a relatively cheap way to alleviate poverty, the law has cruelly and capriciously brought about job and income loss to workers and small entrepreneurs. Had the voters known this would happen, it is difficult to believe they would have endorsed this well intended but truly economically destructive mandate.

References

Addison, John T. and McKinley L. Blackburn. "Minimum Wages and Poverty. Mimeographed, University of South Carolina. 1996.

_____. "Minimum Wages and Poverty." *Industrial and Labor Relations Review.* 52(3), pp. 393-409. April 1999.

Brown, Charles. "Minimum Wages, Employment and the Distribution of Income." In Orley Ashenfelter and David Card, eds., *Handbook of Labor Economics*, 3B, pp. 2101-2163. 1999.

Brown, Charles, Curtis Gilroy and Andrew Kohen. "The Effect of the Minimum Wage on Employment and Unemployment." *Journal of Economic Literature,* 46(1), pp. 487-528. October 1982.

Burkhauser, Richard V., Kenneth A. Couch and David C. Wittenburg. "Who Minimum Wages Bite: An Analysis Using Monthly Data. *Southern Economic Journal*, 67(1), pp. 16-40. 2000.

Card, David and Alan Krueger. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania." *American Economic Review*, 84(4), pp. 772-793. September 1994.

_____. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: A Reply." *American Economic Review*, 90(5), pp. 1362-1420. December 2000.

Deere, Donald, Kevin M. Murphy and Finis Welch. "Employment and the 1990-1991 Minimum Wage Hike." *American Economic Review* 85(2), pp. 232-237. May 1995.

Even, William and David Macpherson. *Rising Above the Minimum Wage.* Washington, D.C.: Employment Policies Institute. January 2000.

Hashimoto, Masanori. "Minimum Wage Effects on Training on the Job." *American Economic Review*, 72(5), pp. 1070-1087. December 1982.

Macpherson, David. *The Effects of the Proposed California Minimum Wage Hike.* Washington, D.C. Employment Policies Institute. October 2000.

Neumark, David. "The Employment Effects of Recent Minimum Wage Increases: Evidence from A Pre-Specified Research Design." Cambridge, MA: National Bureau of Economic Research Working Paper 7171. June 1999.

_____ and William Wascher. "Do Minimum Wages Fight Poverty?" Cambridge, MA: NBER Working Paper No. W6127. August 1997.

_____. "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania: Comment," *American Economic Review,* 90(5). December 2000, pp. 1362-1366.

_____. "Minimum Wages and Training Revisted. Cambridge, MA: NBER Working Paper No. W6651. July 1998.

_____. "A Cross-National Analysis of the Effects of Minimum Wages on Youth Employment." Cambridge, MA: NBER Working Paper No. W7171. June 1999.

_____ and Mark Schweitzer. "Order from Chaos? The Effects of Early Labor Market Experiences on Adult Labor Market Outcomes." *Industrial and Labor Relations Review* 51 (2), pp. 299-322. January 1998.

Stiglitz, Joseph E. *Economics.* New York. W.W. Norton. 1993.

U.S. Department of Commerce, Bureau of the Census. Current Population Reports P-60, No. 219. *Poverty in the United States: 2001.* Washington, D.C. U.S. Government Printing Office. 2002.

Vedder, Richard K. and Lowell E. Gallaway. *Does the Minimum Wage Reduce Poverty?* Washington, D.C.: Employment Policies Institute. June 2001.

_____. "The Minimum Wage and Poverty a. ıong Ful!-Time Workers." *Journal of Labor Research* 23(1), Winter 2002.

Carolyn Logue
NFIB/Washington State Director

4160 6th Ave SE
Suite 201
Lacey, WA 98503

(360) 786-8675

Carolyn.Logue@NFIB.org

About Carolyn Logue
NFIB/Washington State Director

NFIB / WA Exclusives

Vote the WA Ballot
Vote Your Washington Ballot Now!

- Tort Reform Action Alert
- 2003 Legislative Roster Direct Line Phone Listing
- The Minimum Wage: Paving the Path to Poverty
- NFIB/Washington 2003 Member Ballot Results
- 2002 Washington State Report
- News from the Capitol - March 27, 2003
- Is There a Trial Lawyer in the House?
- Report from the Washington State Capitol - February/March 2003

Vedder Study: Economic Impact of Washington's Minimum Wage Law

Release Date: 02/03/2003

by Richard Vedder and Lowell Gallaway, Ohio University

In the fall of 1998, the voters of Washington approved a large increase in the state's minimum wage. Four years have passed since its inception. It was designed to improve economic conditions for the poorer and less advantaged members of the population. Has it achieved its objective? The evidence strongly suggests the answer is "NO" - and indicates the law has had adverse consequences.

Some specific points:
Coincident with the implementation of the new law, poverty in Washington began rising; Washington has had the greatest increase in poverty of any state in the nation since 1998.
The Washington minimum wage has caused considerable unemployment. Various estimates were made, suggesting a loss of not less than 20,000 or more than 48,000 jobs. It is a reasonably safe estimate that the law has raised the unemployment rate by at least one percentage point.
While unemployment in the Pacific Northwest has actually declined since 1998, it rose sharply in Washington. Much of the increase comes after the implementation of the minimum wage increase, but before the 2001 recession or the September 11 tragedy.
A tale of two cities: Coeur d'Alene, Idaho, unhampered by the new Washington law, has had far more robust employment growth than adjacent Spokane, Washington.
Some industries have had disproportionately large unemployment impacts from the law. The restaurant industry is a good example.
In low wage/highly competitive industries like farming, it is impossible for farmers to shift higher labor costs to consumers. It is no accident that there was a significant decline in farm proprietors after 1998, in marked contrast to robust growth in earlier years.

Make a Contril
Support other NFIB initiat

- Legal Foundatic
- Education Foun
- SAFE Trust

years.

This law is a perfect example of the Law of Unintended Consequences, achieving the opposite results to that intended - at great human cost.

View the full *Economic Impact of Washington's Minimum Wage Law* study here.

Want more? Sign up for our Newsletter

Email This **Print This** **Save This** **Back**

JOIN

Subject: Wage & Hour Legislative Support is Needed - LC
Date: Fri, 11 Apr 2003 13:40:57 -0400
From: "David Fickes" <d.ofak@gci.net>
To: "Rep Norman Rokeberg" <Representative_Norman_Rokeberg@legis.state.ak.us>

David Fickes
Rudakof Cr # 102
Anchorage, AK 99508

April 11, 2003

Dear Rep Rokeberg:

I would like to convey our support of the wage and hour legislative issues as outlined below.

- We support the elimination of the CPI provision currently in the minimum wage law which increases the minimum wage annually commensurate with cost of living increases.

- We support the elimination of the 80/20 statute currently in place which requires that exempt employees, performing non exempt work greater than 20% of the time, are paid 2 ½ times the minimum wage.

- We support the modification of Alaska’s training wage which currently allows an employer to pay the Federal Minimum wage of $5.15 per hour to employees under the age of 17 who work less than 30 hours per week. The proposed modification changes this from 30 to 40 hours per week.

- We support the introduction of a tip credit provision which freezes the min wage at it’s current hourly rate and allows employers to forgo future minimum wage increases in recognition of an employees’ tips.

The Hospitality Industry has been detrimentally impacted by legislation passed in the last several sessions Further eroding bottom line profits and has forced employers to reduce employee benefits and in many cases, lay off workers. Alaska’s Hospitality Industry is the second largest private sector employer in the state where 78% of our employees are Alaskans. We request your support of these critical wage and hour statutory changes to assure the economic well-being of Alaska’s Hospitality Industry.

Sincerely,

David Fickes

SOUTHSIDE BISTRO, INC.

1320 Huffman Park Drive
Anchorage, Alaska 99515
(907) 348-0088

04/01/03

Representative
Norman Rokeberg
State Capitol
Juneau, AK 99801-1182

Dear Mr. Rokeberg

Thank you for supporting our concerns about the minimum wage increase. At the Southside Bistro we have 45 employees. Over half of them work for minimum wage. Everyone in this group are tipped employees and make between $15 and $25 per hour. This is more than any of the non tipped skilled laborers we have working here, including management.
I am for people earning good money, however, making a living in the restaurant business is hard enough with all the various taxes and regulations we already have. The resent 26% wage increase was a bit much to accept, without some form of "tip credit" to compensate small business owners.
With the previous wage it was far easier to justify hiring young adults, many of them going to work for the first time without experience.
In order to offset the current wage we have had to trim our service staff down. This could become a double edged sword as we are known for great service.
In other words, not only is it much more expensive to operate now, but the overall long term success of my business is in jeopardy.
The CPI tie-in will continue to undermine our business and drive our prices up and our ability to serve down.

Mr. Rokeberg, I fully support your efforts to remove the CPI tie-in. As mentioned I also believe a tip credit should be implemented. The minimum wage increase was intended for people earning only that, and their W-2 should reflect that at the end of the year. It is hard for me to accept paying someone 26% more in payroll when they actually make 2-3 times the minimum wage.
My goal is to continue employing young Alaskan's and keep our economy going. I look for your support in Juneau, to keep my small family business afloat.

Thank you for looking out for me.

Respectfully yours,

Jens Nannestad
Proprietor