

10 POSSIBLE REASONS UNEMPLOYMENT CLAIMS ARE LOW

Why unemployment insurance claims don't reflect state recession

By **TIFFANY WADEL**

It's no secret that the state is in a recession. Alaska has been losing jobs since the fourth quarter of 2015 (see Exhibit 1), and total and average wages have both declined.

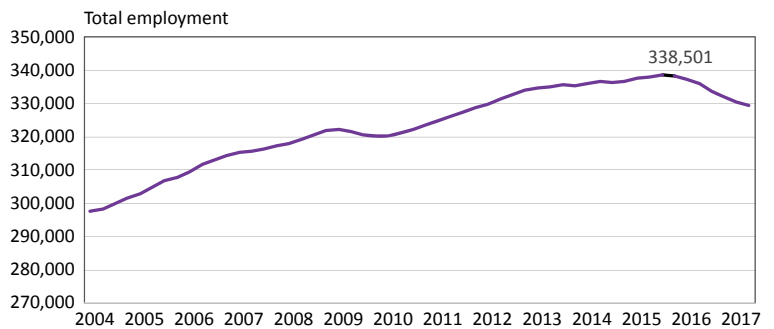
At the same time, Alaska's unemployment rate has slowly increased from a low of 6.4 percent in mid-2015 to 7.2 percent in October 2017. (See Exhibit 2.) This triggered extended benefits for unemployment insurance, effective as of November. EB allows for up to an additional 13 weeks of benefits on top of the regular allowed maximum of 26 weeks.

When employment decreases and the unemployment rate rises, claims for unemployment insurance benefits typically increase — but Alaska's claims have

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Job Loss Began in Late 2015

ALASKA, 4-QUARTER MOVING AVERAGE, 2004 TO 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

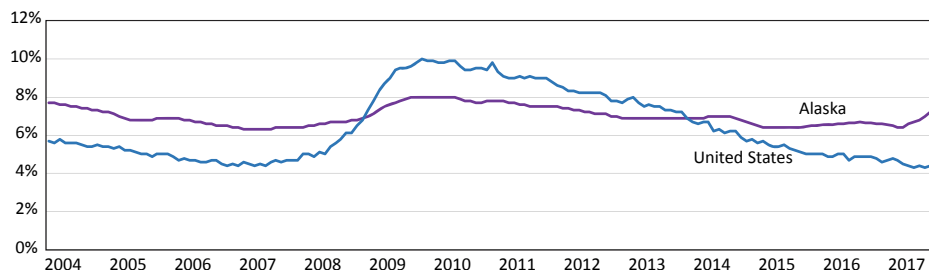
fallen to historic lows.

Exhibit 3 shows the insured unemployment rate — a measure of how many people are claiming benefits adjusted for the number of people covered by the

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Alaska Unemployment On The Rise

ALASKA AND THE U.S., 2004 TO 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

program — from 1981 until now. Since the fourth week of 2017, the IUR has been at a record-setting low compared to the same week in any prior year. This means the fewest people ever are receiving unemployment benefits, when adjusted for the size of the covered workforce.

Why is it that during this recession, unemployment insurance claims don't reflect the changes in the economy from job losses, declining wages, and an increasing unemployment rate? While the answer is speculative, the following 10 reasons are likely factors in why UI claims are not on the rise.

Job loss among those with more than one job

Job losses could be among people who held multiple jobs but only lost one job. Although these people lost a job, they're still employed so they can't collect unemployment benefits.

Because employment figures reflect the number of jobs and not the number of workers, this would show up as a decline in employment but wouldn't materialize as an increase in the unemployment rate or claims.

An increase in retirements as the workforce ages

Job losses could be from retirements. When a worker retires but the position isn't filled, that creates both a lost job and a decline in total wages but no associated rise in unemployment or claims because retired people by definition are not unemployed.

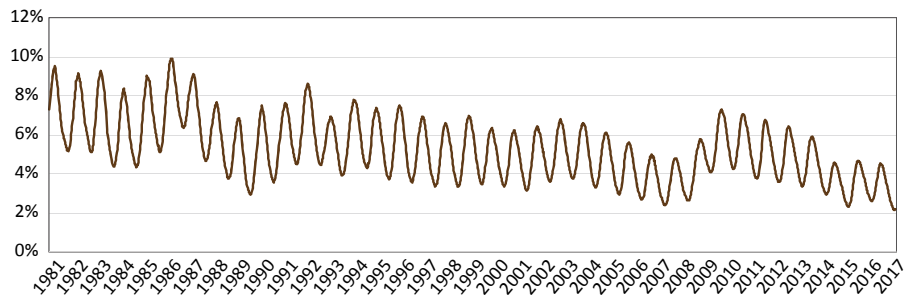
Retirements prompt a decline in the labor force participation rate, however, which is the percentage of the population that is working or looking for work. (See Exhibit 4.) Alaska's labor force participation rate has been declining since 2008, from 51.85 percent to 48.71 percent. This decline is in line with an aging population and the large cohort of baby boomers reaching retirement age in recent years.

Finding a new position outside Alaska quickly

Some workers may have left the state when they lost

3 Eligible People Filing At a New Low

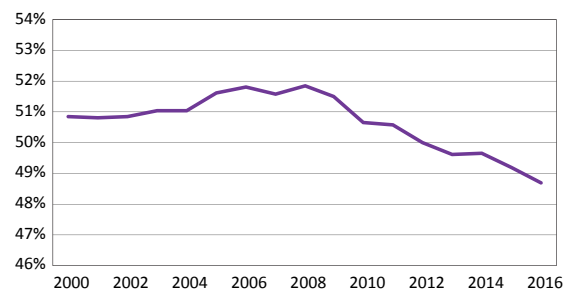
ALASKA INSURED UNEMPLOYMENT RATE, 1981 TO 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

4 Labor Force Participation

ALASKA RATE, 2000 TO 2016



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

their jobs and quickly found work elsewhere, never needing to file for benefits. The Lower 48 has a comparatively healthy job market right now, and this is especially true for workers in the oil and gas and construction industries, which have been hit hardest in Alaska's recession.

Whether these people found work quickly or not, they wouldn't increase the IUR because they're no longer living in Alaska. But if workers were leaving the state and applying for benefits in Alaska while looking for jobs in other states, out-of-state claims would increase, and that hasn't happened. Exhibit 5 shows the 12-month moving average percentage of UI claims attributed to out-of-state claimants, which has steadily decreased since 2015.

More people leaving Alaska to take or look for jobs elsewhere would show up as negative net migration — more people leaving the state than moving in — but whether the recession has prompted more people

to leave isn't yet clear.

While natural increase has kept the overall population growing in recent years, Alaska's net migration has been negative for at least the past four years, which predates the state's recession.

Exhausting benefits but still unemployed

If unemployed workers collect benefits but exhaust all available weeks and haven't yet found a job, they can no longer collect benefits even if they're still unemployed. These people would still show up in the unemployment rate if they continued looking for work.

If people continue to file after exhausting their allowance, that shows up as increases in the both the number of claimants denied benefits due to insufficient wages and in "final" payments, which are the last allotted benefit check — but both of these have been declining. (See exhibits 6 and 7.)

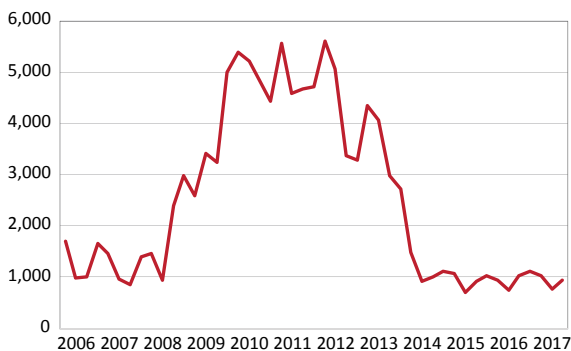
When employers decide to hire fewer people

Employers may be hiring fewer workers than they did in previous seasons. This would show up as a decline in employment and total wages, but wouldn't increase claims or unemployment.

If employers hire fewer workers at the beginning of a season, fewer people have eligible wages at the end of the season.

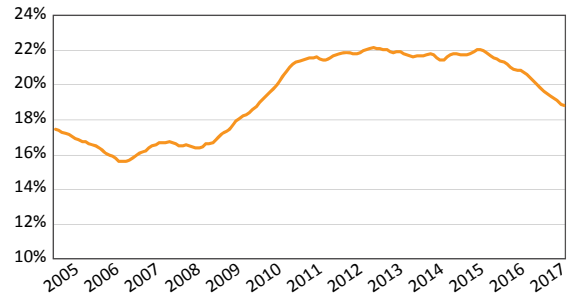
6 Fewer Claims Denied Due to Insufficient Wages

ALASKA RATE, 2006 TO 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

5 Fewer Out-of-State Claims AS A PERCENTAGE OF ALL CLAIMS, 2005-17



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

Keeping current position during economic uncertainty

In a healthy economy, people often have the confidence to quit a job without having another lined up because they believe they'll be able to find work quickly. This is one reason the unemployment rate can actually go up during an economic boom.

During economic downturns, workers are less likely to leave a job voluntarily without having another lined up. If people in Alaska were staying put in their current positions because of the recession, this would lead to a lower unemployment rate and fewer unemployment insurance claims.

Taking the first job offer, even if it's not ideal

Similarly, people who lose their job may jump into the first job they find, even if the new job is lower paying or a poor fit. This is especially true if unemployed workers don't want to move out of their current area.

In a healthy economy, unemployed people will often keep looking for work until they find a job that pays about the same or more than the job they lost and is the same kind of work. In fact, that's one purpose of the unemployment insurance system; it helps the unemployed get by longer so they can find a job locally that matches their skills. So if workers were taking less-than-ideal positions because jobs are harder to come by, that would reduce both the unemployment rate and unemployment insurance claims.

Deciding the amount is not worth the effort

If workers think the process of filing for benefits is

too onerous relative to the weekly benefit they'd receive, fewer might consider it worthwhile to file claims. The application requires multiple pieces of claimant information and past work history, and most claimants are required to document two work search attempts each week. Some are also required to go to a job center for reemployment services.

Benefit amounts range from \$56 to \$370 a week, not including additional amounts for dependents. The maximum benefit amount increased in 2009, from \$248 to \$370, but since then the weekly wage replacement rate has fallen from replacing 41.8 percent of an average worker's earnings to just 36.7 percent. This puts Alaska's wage replacement rate in last place among states.

Exhibit 8 shows the weekly wage replacement rate for a worker making the average annual wage, which was \$52,452 in 2016.

Unaware benefits available or that they may qualify

Some workers may not know benefits are available, and even if they know about the program, they may not realize they can qualify for reasons other than being laid off. Low recognition of the program would materialize in the form of lower unemployment claims but a higher unemployment rate.

Alaska has some of the most inclusive qualification standards in the United States. Unlike many states, Alaska workers who quit, were fired, or were employed less than full-time can qualify for benefits, with some restrictions and waiting periods.

A perceived stigma about filing for benefits

Although the program is insurance and a worker can't collect benefits without having paid in, the misperception remains that drawing benefits is "welfare." Some may choose not to file because they believe it has a negative connotation.

As with low program recognition, discomfort with filing would lead to a higher unemployment rate but lower claims.

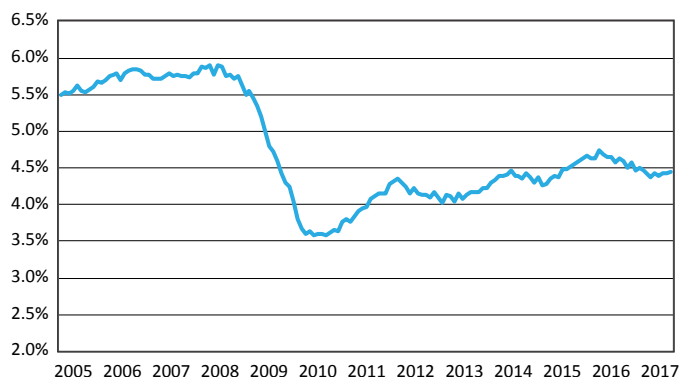
Fewer claims a long-term U.S. trend

While these 10 reasons are sure factors in historic

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Percent of Benefit Checks That Are Final Payments

ALASKA, 2005 TO 2017



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

8

Wage Replacement Rate

WEEKLY, ALASKA, 2004 TO 2016



Source: Alaska Department of Labor and Workforce Development, Research and Analysis Section

low claims, it's difficult to quantify the effect of each. That's further complicated by the fact that these reasons can have different and sometimes opposing effects on the various rates. There may also be other factors we don't yet know about.

It's important to note, though, that this trend of apparently low usage of the program is not unique to Alaska. The rate at which those eligible for the program actually use it is on the decline in almost every other state, and has been for decades.

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