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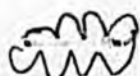
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REPORT
TO THE FOURTEENTH LEGISLATURE - FIRST SESSION
AND
TO GOVERNOR BILL SHEFFIELD
FROM
THE STATE SPECIAL COMMITTEE ON THE
ALASKA LONGEVITY BONUS PROGRAM



February 1, 1985

REPORT TO THE FOURTEENTH LEGISLATURE - FIRST SESSION
AND TO GOVERNOR BILL SHEFFIELD FROM THE STATE SPECIAL
COMMITTEE ON THE ALASKA LONGEVITY BONUS PROGRAM

together with

DISSENTING VIEWS AND ADDITIONAL COMMENTS

February 1, 1985

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Introduction.

In June, 1984, the Alaska Longevity Bonus Program (AS 47.45) was declared unconstitutional because it required recipients to have resided in Alaska both prior to statehood and for 25 consecutive years. The Thirteenth Legislature, 2nd Sess., repealed these lengthy residency requirements, thus opening the program to new participants. Ch. 38, SLA 1984. However, the amended law, by its own terms, is to be repealed effective June 30, 1985. Id., Sec. 11.

The legislation also established the State Special Committee on the Alaska Longevity Bonus Program to "determine the feasibility of replacing the longevity bonus program, as amended by this Act, with an annuity program, a needs-based program, or other longevity program." Id., Sec. 7. This is the committee's report.

Recommendation: Annuity Approach.

The committee has developed a proposal which would phase out the existing longevity bonus program and replace it with individual annuity accounts funded primarily by the permanent fund dividends of participants. 1/ The proposal has been

1/ Three different annuity approaches were initially considered by the committee: (1) SB 465, introduced in the 1984 legislature by several senators; (2) an amended version of HB 700, also introduced in that legislature; and (3) a draft bill prepared by Senator Bill Ray (D., Juneau). The Ray bill became the vehicle for the Committee's proposal. All three proposals involved

introduced in this legislature as SB 56. Under the committee bill, Alaskans who choose to participate in the program will receive monthly benefits, after reaching age 65, of at least the \$250 which is currently provided by the bonus program, inflated by three percent annually.

The program is available to those who reach age 65 after 1985. Under the bill, Alaska's existing elderly will receive their current \$250 bonus, inflated by three percent annually, without having to forego their permanent fund dividends.

The committee bill provides that each year every Alaskan (except those who are 65 or older before 1986) will receive his or her permanent fund dividend in the form of a credit to an annuity account, unless the individual affirmatively elects to receive cash. 2/ Section 2 of the bill envisions that the

foregoing a permanent fund dividend in return for some type of future annuity benefit.

SB 465 would have paid \$16.50 per month to each elderly Alaskan for every permanent fund dividend foregone -- to a limit of \$250 per month.

HB 700 would have given each Alaskan one annuity share for each foregone dividend. Each year, one third of the money available for permanent fund dividends would then be divided by the number of annuity shares held by those over the age of 65. Each elderly Alaskan would receive a portion of that annuity fund commensurate with the number of shares held.

The committee was advised by legal counsel that HB 700 and SB 465 created greater constitutional risks than did the Ray proposal; the committee therefore focused on the concept embodied in Senator Ray's bill.

2/ This aspect of the committee proposal reflects a change from

legislature may, at least in the early years, "front-load" the program by appropriating additional funds into the annuity account, which will be attributed to individual accounts on a prescribed formula. Under that formula, state contributions are greatest for those approaching retirement age, and decline for younger Alaskans. Beginning at age 65, a participant receives an annuity based on his contributions and any front-loading -- plus earnings accumulated on those amounts. 3/

Even with front-loading, it will be years before annuity payments are sufficient to replace the longevity bonus. The ALB program is thus retained at a level which, for those turning 65 after 1985, will be reduced annually. 4/ Under the bill, a "target amount" for the ALB is established (Section 8), which is \$250 per month (in FY 1986) inflated by 3% each year. That target amount is then reduced by the maximum possible annuity which would be available to a 65-year old who has participated in

earlier annuity bills, which required an election to forego cash payment. Because, in the future, the annuity program will be the only state source of non-need-based retirement assistance, the committee believes that each Alaskan should be required to come to grips with the long-term consequences of a decision to take the dividend in cash.

3/ Under the committee bill a participant who dies before age 65 will forfeit his accumulated annuity credits (see the discussion of survivor options at 17, post); the amounts forfeited will be reallocated to surviving participants and thus will increase their annuities.

4/ The longevity bonus itself is, of course, available to all elderly Alaskans whether or not they have also established annuity accounts.

the program in each year since the program's inception. For example, if the inflated ALB "target" for a particular year is \$280, and a person turning 65 who received an annuity credit in each year of the program would be entitled to an annuity of \$100 per month, the ALB payment for all recipients would be \$180. That \$180 will not vary according to the actual participation histories of individual ALB recipients.

Over the years, individual annuity accounts will become greater, and each year the longevity bonus payable to new recipients becomes correspondingly smaller. By the year 2003, the committee projects that the maximum possible annuity will be sufficient to bring an end to the general-funded ALB program, except for those relatively few who were 65 or older before 1986, and are still receiving ALB payments in that year. This is best illustrated by the following chart:

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Maximum Possible Annuity 5/ ALB (for all new recipients)

1986	4.37	\$245.63
1990	32.50	248.88
1995	106.27	219.92
2000	255.70	122.45
2005	533.39	-0-

Other Options Considered

The committee invited its members, and others, to suggest alternatives other than an annuity program. Only one was advanced -- a "means test" program under which elderly Alaskans earning less than \$25,000 per year would receive a payment of \$250 per month. Those earning more than \$25,000 would receive a payment of \$100 per month. To qualify for the \$250 bonus, the applicant would be required to submit his or her tax return to the Department of Administration.

This program is intended as a permanent replacement for the ALB. However, the program envisions that the size of the payments, and the \$25,000 income limit, remain constant over the years. In terms of real income, the effect is as follows:

5/ Annuity projections are without "front-loading."

	<u>Maximum Income Eligibility for Bonus (year)</u>	<u>Amount of Bonus</u>	<u>Size of Alternate Bonus</u>
1986	\$25,000	\$250	\$100
2000	\$10,569	\$104	\$41.60
2010	\$ 5,902 <u>6/</u>	\$ 59	\$23.60

It is estimated that, initially, 80% of Alaska's elderly will be eligible for the \$250 bonus. Because that maximum income requirement drops each year in terms of real income, so too does the percentage of eligible elderly. Thus, less than half of Alaska's elderly will be eligible for the bonus in the year 2000, and only 30% will be eligible in the year 2010.

The committee rejected this means test proposal for the following reasons:

1. Any welfare program is contrary to the intent of the ALB program and is vigorously opposed by Alaska's elderly. The Longevity Bonus Program now says to Alaska's elderly that they are a precious human resource, and that it is in the state's interest to provide them with the wherewithall to remain in Alaska after retirement. The means test payment, on the other hand, carries with it quite different, and less favorable connotations.

6/ This is below Alaska's \$7032/year poverty level.

2. Of those who are potentially eligible for the \$250 means test payment, many may not apply because of its welfare connotations. This is strongly suggested by available statistics. Currently, nearly 6,700 ALB recipients -- or 40% of all recipients -- have incomes below the current eligibility limit for existing Old Age Assistance and Medicaid benefits. These benefits are substantial -- averaging \$2,640 per year for OAA and an additional \$2,500 per year for Medicaid. Yet, of the income-eligible, only 2,526 -- or roughly 38% -- have in fact applied for OAA and Medicaid. Certainly, some of the remaining income-eligible have not applied because they have more assets than current law allows. Nonetheless, these statistics manifest an aversion to need-based assistance which has deterred many of Alaska's apparently eligible elderly from applying for substantial benefits.

3. Thus, while 20% of Alaska's elderly will be ineligible for the \$250 bonus, an additional percentage of existing ALB recipients will lose their current benefits because of their unwillingness to participate in a welfare program. For these reasons, this means test proposal fails a threshold test which should be a cornerstone of any longevity bonus legislation. Any ALB alternative, the committee believes, should provide those who have received the ALB over the years with the same benefits as under current law.

4. The proposal hurts both existing and new ALB recipients in another way. Because the real value of both the benefits and

the income ceiling will decrease over the years, fewer elderly will find themselves eligible, and those who are eligible will receive smaller benefits. By the year 2000, for example, less than half of Alaska's elderly will be eligible for a benefit with a real value of \$104 per month, while the majority will receive a token payment with a real value of \$41.60.

5. The proposal is substantially more expensive than the committee bill. Even though: (1) the committee bill protects existing elderly, while this means test proposal does not; and (2) the committee bill inflates the ALB annually, while the means test proposal does not, enactment of this means test proposal would cost nearly \$2 billion more than the committee bill over the next 50 years. Moreover, that cost would be born when the state could least afford it -- after the turn of the century, when oil revenues are projected to rapidly decline. It is important to the committee to develop an ALB alternative which phases out general fund obligations after the year 2000. As part 12 of this report discusses, while post-1999 costs under the committee bill are projected to be \$285 million, 21st century costs under the means test proposal would be roughly \$2.28 billion.

6. The committee has several concerns regarding the \$100 payment for which all elderly would be eligible. First, the committee does not know what that payment is intended to accomplish. It is doubtful that \$100 per month is a sufficient sum to allow any elderly to remain in the state who would

otherwise be financially required to leave. The payment may thus at once be too small to accomplish any social goal, and yet large enough to constitute a substantial drain on the state treasury.

Additionally, many elderly may view the \$100 payment as tokenism. If that is not the case now, it will certainly become so in the future when the real value of that payment shrinks to \$41 (2000) and \$23 (2010).

Finally, since the \$100 and \$250 payments are fundamentally different in purpose, the committee believes that they should be administered under separate programs. The \$100 payment is apparently intended as a residual ALB. On the other hand, the \$250 payment is a form of welfare. This payment, the committee believes, should be administered by the Department of Health and Social Services under the state's welfare laws. Otherwise, the state will, in essence, be creating two welfare bureaucracies -- one for Old Age Assistance, and one for the mis-named "longevity bonus."

7. Fewer people will meet the \$25,000 eligibility requirement as the years go by. Thus, by the year 2010, only 30% of Alaska's elderly will be eligible for this means test payment. Why, it might fairly be asked, are 80% of today's elderly in "critical" need of the higher payment, while only 30% will require the payment in years hence? For one who is currently denied the larger payment, or who may be denied it in the future solely because of inflation, this precise question will invariably be asked, and may be asked in the courts.

8. Finally, in requiring one year's residency in order to receive the \$250 means test payment, the proposal raises a substantial constitutional issue. The current ALB's one-year durational residency requirement is constitutional because the bonus is not dependent upon "need." Under both the federal and Alaska constitutions, if a program provides "the basic necessities of life," a 30-day residency requirement is the maximum constitutionally permissible. Memorial Hospital v. Maricopa County, 415 U.S. 250, 259 (1974); Shapiro v. Thompson, 394 U.S. 618 (1969). Generally, benefits which are accorded on the basis of the recipient's income tend to be viewed by the courts as involving "basic necessities." For example, in Jeffrey v. Colorado State Department of Social Services, 599 P.2d 874 (Col. 1979), the Colorado Supreme Court struck down the lengthy durational residency requirement of that state's old age pension program, and held that the program provided basic necessities of life. The state argued, unsuccessfully, that its program was more akin to an income supplement, rather than a form of welfare. The court, however, ruled that because the size of the pension was a function of the applicant's other income, a 30-day residency requirement was required:

[The state attempt[s] to avoid the strict scrutiny - compelling state interest test mandated by Shapiro by characterizing the old age pension program as an 'annuity.' However, unlike true annuity or pension programs which are unaffected by a recipient's other income, the old age pension benefit is directly and proportionately reduced by the amount of other income. Thus, the characterization of the old age pension program as an "annuity" puts form over substance and

disregards the nature of the program, which is to fulfill basic needs and not to supplement separate income.

599 P.2d at 879. Emphasis added.

The means test proposal has been defended because of its high income limits. This does make the program different from that involved in Jeffrey, and the committee agrees that this defense could be made in good faith. To the committee, however, that is not enough. Early in the committee's deliberations, the committee agreed to develop a proposal which would avoid serious new constitutional issues and the threat of continued litigation. While any legislation which treats some people differently than others may result in litigation, the means test proposal raises a serious and substantial residency discrimination issue, and therefore does not meet the committee's goal. 7/

For these reasons, the committee does not believe that the means test proposal is a viable alternative to the existing ALB program.

The committee was also aware of the "stair-stepping approach," under which the ALB program is slowly phased out through an annual increase in the eligibility age. Under legislation which passed the House of Representatives during the

7/ Additionally, it should be noted that the issue will become more serious in future years. This is because while the income level is high at the outset, it shrinks dramatically, and in real value falls below the state's existing poverty level in the year 2008.

previous legislature, the eligibility age would begin to rise above 65 in 1991. Although no "stairstepping" proposal was ever advanced by anyone for formal committee review or action, the committee is aware of some continued interest in developing this concept outside of this committee's deliberations. The proposal thus warrants some comment.

First, the term "stairstepping" is a misnomer, since it connotes a gradual phasing out of the ALB program. In truth, the stairstepping approach causes the most abrupt program termination of any option considered, and also results in the most severe discrimination between groups of Alaskans. Under the stairstepping approach, if a person was born on or before June 30, 1925, the state would pay him or her \$250 per month for life. For persons born on July 1, 1925 and thereafter, the state would pay nothing. And, it is irrelevant whether that person is now an Alaskan. A current non-resident who is now 62 would receive \$250/month when he or she moved to Alaska, while a current 59-year old Alaskan would receive nothing. There is thus nothing gradual, or "stairstepped," about this process.

The stairstepping approach would be more expensive than the committee bill, 8/ and much of this added expense would be born after the turn of the century when the state can least afford it. See Section 12. Yet, despite its high cost, stairstepping would

8/ Assuming, of course, that the two had similar provisions dealing with the erosion of the real value of the bonus.

benefit fewer Alaskans. For example, some have assumed that participation in the annuity program is necessary in order for future elderly to benefit from the committee bill. This is not true. Under stairstepping, a person turning 65 in 1991 would receive no ALB whatsoever, while that same person would receive a 1991 ALB of \$222.61 under the committee bill, even if that person had never participated in the annuity program. Thus, for similar total costs, and substantially lower 21st century costs, the committee bill extends the benefits of the ALB program to many more Alaskans.

Most fundamentally, the committee believes that there is a need for future state participation in the building of retirement security that is not recognized in the stairstepping approach standing alone. Apart from the ALB, the principal form of non-need based assistance is, of course, Social Security. Yet Alaska's elderly receive the same Social Security payments as those who reside where the cost of living is much lower. Moreover, Alaska has a uniquely high percentage of elderly who are ineligible for Social Security because of a lack of wage-earning history. Thus, in one area of the state -- Northwest Alaska -- 66% of the region's elderly reported the ALB as their principal source of income.

As oil revenues decline, and economic activity in the state becomes more uncertain, it is entirely possible that the state's future elderly will find themselves in a more precarious position

than today. And, at that point, the state -- for these same economic reasons -- may be unable to help.

One obvious impact of abolishing the ALB program through "stair-stepping" is an increased Old Age Assistance case load. Certainly, when those near the poverty line are denied \$250 per month, they will simply turn to the welfare system, and the state will realize no net saving. Moreover, and as discussed previously, many ALB recipients who are apparently eligible for OAA and Medicaid have in fact not applied for these benefits. Over the years, the ALB program has been defended on the ground that it has enabled many Alaskan elderly to remain off the welfare rolls. Statistics bear this out, indicating that many of those ALB recipients who are eligible for OAA and Medicaid have been able to remain off these programs because of the bonus.

For these reasons, stair-stepping by itself is also not being recommended to the legislature.

On the other hand, the principal advantage of "stair-stepping" is the protection which it affords those who are currently on the ALB program, and who have come to rely on both the Longevity Bonus and the permanent fund dividend to sustain themselves. The committee concluded that forcing Alaska's existing elderly to forego their Permanent Fund Dividend in order to assure continued receipt of the "target" Longevity Bonus might work a hardship on these older Alaskans. As a result, the committee decided to include in the bill a so-called "grandfathering" provision which allows those reaching age 65

before 1986 to take their Permanent Fund Dividend in cash and still receive a full Longevity Bonus for the remainder of their lives. The committee legislation, then, is intended to blend the most salutary aspects of both an annuity approach and "stair-stepping."

The virtue of an annuity approach is that it enables the state and each individual Alaskan to set aside funds now for those perhaps more difficult years ahead. It is a program designed to substitute private thrift for public largesse. The committee also believes that the permanent fund dividend is an appropriate source of funds for the annuity program. The purpose of the annuity program is much like the purpose of the permanent fund itself. Moreover, one purpose of the dividend program -- to give each Alaskan a stake in the management of the permanent fund -- will be enhanced if Alaskans' retirement security is at least in part dependent on wise stewardship of that fund.

Major Features.

1. Front-loading. The committee envisions that the legislature may add additional sums to individual annuity accounts. Under "front-loading," a person will receive an annuity account credit greater -- and perhaps substantially greater -- than the amount of cash he or she could have received. It is the committee's hope that the legislature will consider front-loading for each of the program's first three years.

The committee initially analyzed the annuity concept without front-loading. Even without front-loading, annuity payments eventually replace longevity bonus payments from the general fund. Nonetheless, the committee feared that because annuity payments were low in the early years, those Alaskans who are now near retirement age would not participate in the program. Moreover, general fund contributions did not begin to see significant reductions for about 10 years.

Front-loading provides a substantial incentive to individuals to forego immediate cash in favor of retirement security. While it costs more in the initial years, that cost is incurred in years in which oil revenues are expected to remain high. Moreover, general fund contributions to the ALB program taper off rapidly. In other words, because front-loading causes the maximum possible annuity payment to increase, residual longevity bonus payments decrease more rapidly. Thus, dollars invested in early years through front-loading result in a decrease in general fund obligations in later years.

Under the committee bill, substantial front-loading now would actually result in a net savings over the life of the ALB program -- at least in nominal dollars. Thus, if \$79 million were appropriated for front-loading over the next three years, that investment would result in a return of \$82 million in reduced ALB payments over the next 25 years. In constant 1986 dollars, the ultimate cost of investing \$79 million now is \$30 million.

Additionally, front-loading serves other important purposes which the committee believes warrant the cost in constant dollars:

(1) The committee bill will work only if Alaskans participate. If they do not, Alaska's future elderly may still place demands on the general fund; and

(2) A premium may fairly be placed on the current availability of funds. If \$1.00 of general funds front-loaded now returns 75¢ (in constant dollars) years hence, the fact that the general fund has that \$1.00 now, but may not have the 75¢ later, is of some relevance.

Whether front-loading extends beyond the three-year period envisioned by the committee depends on the availability of funds, actual participation rates, and the projected rate of return on subsequent front-loading investments. If front-loading has succeeded in creating substantial participation, continuation would seem unnecessary, since those Alaskans already in the annuity program would be unlikely to drop out. On the other hand, if participation is low, the legislature may wish to consider inducements other than front-loading.

The committee settled on a front-loading concept weighted in favor of older Alaskans. Several other options were also considered. The first was a per-capita contribution made to each Alaskan who chose an annuity credit. Under this option, the annuity accounts of those near retirement age did not increase enough to substantially increase the "maximum possible annuity."

Thus, it did not significantly reduce long-term general fund obligations. Nor did it satisfy the goal of providing the greatest incentives to those who may need them most.

To better accomplish this goal, the committee next considered a straight \$10 incremental increase in front-loading based on age: that is, participants would receive \$10 for each year that they were older than age 17 -- up to age 65. 9/ This option produced a better result in terms of reduced general fund obligations, but it still did not increase annuity payments fast enough to be a significant incentive -- to older Alaskans in particular -- to participate in the program.

Finally, projections were run on the option embodied in the bill: persons 18-34 years old would receive a base amount of front-loading in addition to the dividend -- for example, \$50. Those over 34 would receive a percentage increase (for example, 10%) for each year of age over 34, up to age 65. Under this option, front-loading increases on a curve rather than a straight line -- increasing dramatically as an individual approaches age 65. Thus, a \$50 base with 10% per year increases results in a 34 year old receiving \$50, a 50 year old \$211, and a 64 year old approximately \$800.

The incentive to join the program, then, increases dramatically as retirement age approaches. It is this aspect

9/ Thus, an 18 year old would receive \$10, a 38 year old \$210, and a 65 year old \$480.

which is most appealing to the committee, for the following reasons:

First, older Alaskans are most in need of incentives to participate. Because initial annuity payments are small, many may be tempted to take a cash payment which is larger than the annual annuity which it will yield. Then, years later, that person will suffer materially reduced benefits because of that short-sighted decision. On the other hand, younger Alaskans need not participate in the program every year in order to build a sizeable annuity. Based upon projections available to the committee, a 47 year old (in 1986) would be required to participate every year in order to achieve the target annuity when he reaches 65 in the year 2004 -- the year the ALB program disappears. Recognizing that financial circumstances may require a cash election in some years, and that some individuals may be ineligible for a dividend in some years, the committee concluded that additional incentives are appropriate beginning at age 35 in order to help ensure that the maximum possible number of Alaskans will achieve the target annuity.

Second, while older Alaskans will receive more at the outset, the front-loading given younger Alaskans will be invested for a longer period of time. To the extent that the percentage differential is commensurate with account earnings, the eventual return to both old and young will be quite similar.

Finally, this option actually costs less in front-loading dollars than the straight line approach -- even though the now-elderly receive larger amounts.

Two additional points regarding front-loading warrant note. First, and as discussed earlier, under the committee bill those who reach age 65 before 1986 do not participate in the annuity program because they are guaranteed a full longevity bonus for life. As a result, in 1985, there will be no front-loading for any individual over the age of 64. In future years, the incremental increase in front-loading will end at age 65, and those over age 65 will receive the same amount of front-loading as a 65-year-old.

Second, the committee bill envisions that the source of front-loading funds may be the earnings of the undistributed income account of the Alaska permanent fund. In past years, permanent fund earnings have exceeded the amount necessary to pay dividends and inflation-proof the fund itself. The resulting surplus comprises the undistributed income account, which has a current balance of \$557 million. That account itself yields annual earnings which are greater than that necessary to provide front-loading, and which are available for appropriation.

The committee concluded that these earnings are an appropriate source of funds for front-loading for one obvious reason: as with the basic structure of the annuity program itself, this aspect of the bill will devote current permanent fund earnings in a manner which will substantially decrease

general fund obligations in later and perhaps leaner years. Once again, however, only earnings are involved. It must be stressed that nothing in the committee bill in any way impairs the integrity of the permanent fund itself.

2. The 3% Escalator.

Since the beginning of the ALB program in 1972, the original \$100 payment has been periodically increased to its current \$250 limit. While that increase seems large, it has, in fact, roughly kept pace with inflation. If the ALB is retained, the committee believes that it is unreasonable to assume that no increase in the ALB will ever be made. The persistent erosion in the real value of the ALB would at some point become so severe that relief would be necessary. For example, assuming a 6% inflation rate, a \$250 ALB now will be worth only \$104 in 15 years.

There are two ways of dealing with the gradual erosion of the value of the ALB. The first is to leave the problem to future legislatures. The second is the approach taken in the committee bill, which provides a modest 3% annual adjustment intended not to precisely keep pace with inflation, but rather to provide certainty in the amount of the payment.

3. Administrative Costs of the Program. The committee bill provides that the legislature may appropriate funds from the annuity account to pay the administrative costs of the annuity

program. 10/ Thus, the costs of the program will be borne by the annuity participants, whether the funds are privately placed or not.

The bill states that administrative costs will be "equitably allocated" among annuity accounts; it is the committee's intent that an equitable allocation will take into account such factors as numbers of participants, age, and relative account balances.

4. Choice of Benefits. Most annuity programs offer participants a choice of options, such as joint and survivor benefits. The primary reason for survivor benefits in employment annuity programs is that among married couples there is often only one wage earner. Survivor benefits are thus available to insure that the dependent spouse is not left without income. Since the annuity program is available to both spouses, just as is the present longevity bonus program, the committee opted for simplicity and did not include a choice of benefits. 11/

5. Setting the Amount of the Longevity Bonus Payment. Section 8 of the bill provides that the longevity bonus payment -- for those who have not reached 65 before 1986 -- is determined by deducting from that payment the maximum possible annuity

10/ If the states chooses to place the funds with private carriers, any costs shifted to the carrier under the contract would also be paid from the annuity accounts.

11/ A death benefit for those who die prior to reaching age 65 has been included in the Senate State Affairs Committee substitute for SB 56.

available to a person who turns 65 in the year in question. The bill uses the annuity available to a 65-year-old because that annuity is the smallest available (among those who have received the maximum possible credits). A 75-year-old with the identical contribution of a 65-year-old will receive a larger annuity because his life expectancy is shorter, and his capital will be returned faster. Thus, some Alaskans will receive more than the target amount during the early years of the program, and no elderly Alaskans (with full participation) will receive less.

6. Residency Questions. The bill has no residency requirements for receipt of annuity payments. Permanent fund dividends are, of course, only available to Alaska residents -- so that an individual must be an Alaskan to contribute to an annuity account. 12/

7. Federal Income Tax Considerations. Currently, both the permanent fund dividend, and the ALB, are taxable as ordinary income under the Internal Revenue Code. The committee engaged tax counsel to determine whether the result would be any different under the committee bill. Specifically, the committee asked whether a person will be taxable on the cash he could have received as a dividend even though, under the new program, he is only credited with the right to receive a future annuity from the state. Counsel advised the committee that, because the annuity

12/ The longevity bonus program will still require that an individual be a one-year resident to receive a bonus.

program is unique, there is no legal precedent which provides a definite answer.

Based on analogous federal tax authorities, tax counsel believes that a crucial factor in determining whether or not an Alaskan receiving an annuity credit will avoid current federal income taxation is the amount with which the legislature "front-loads" the annuity credit in the year the credit is granted. If the legislature provides a substantial front-load to the annuity credit for a particular year, an Alaskan receiving a credit that year should not be subject to tax until annuity payments are actually made on retirement. However, if the legislature provides little or no front-loading in a particular year, there would be a substantial risk that those receiving annuity credits would be taxable immediately on the amount of cash they could have elected in lieu of the credit.

Tax counsel also advised the committee that available precedent does not provide firm guidance on the minimum front-load necessary to support deferred tax treatment of annuity credits. There is an example in the IRS regulations which suggest that a front-load of 25% or more of the annuity credit would be sufficient; however, tax counsel believes that a lesser amount may suffice. Because of this uncertainty, tax counsel suggests that if the committee proposal is enacted, it would be in the state's best interest to obtain an advance ruling from the Internal Revenue Service on the question.

The uncertainty surrounding the tax status of annuity credits, and the substantial risk of taxability when front-loading ends, did not weigh heavily in the committee's recommendation. This is because, at worst, Alaskans would be required to pay taxes on the amount of the dividend just as they do now. Moreover, the committee saw its job as finding an alternative to the ALB program which met the basic goals expressed in this report. It was not charged with simply finding a tax shelter.

Finally, apart from the potential taxability of a permanent fund dividend credited to an annuity account, two favorable tax aspects of the committee proposal should be mentioned:

1. All interest income credited to individual annuity accounts would, under current IRS regulations, be taxable only as it is paid out after reaching age 65; and

2. Front-loading credits would not be currently taxable.

8. Annuity Credits Are Not a Vested Right. The committee bill provides that an individual does not receive a vested or property right to an annuity payment until that payment is made. Funds must be appropriated annually by the legislature from the annuity account to make annuity payments. Although the clear legislative intent of the bill is to provide annuity payments to those who have participated in the program, the committee bill neither binds future legislatures nor creates a dedicated fund. Thus, the legislature may legally appropriate annuity funds for any public purpose. An individual's right to an annuity payment

prior to dispersal is an unfunded, unsecured promise of the state. Thus, a future annuitant is in no better legal position than any unsecured creditor of the state.

As a result, the bill is silent with regard to the garnishment of annuity credits. Prior to annuity payments, there is nothing to garnish or attach, nor anything that can properly be regarded as "income" or an "asset."

9. Protection of Alaska's Existing Elderly. As noted previously, persons who reach the age of 65 before 1986 will not be required to forego their permanent fund dividend in order to receive a \$250 per month Longevity Bonus, inflated 3% annually. The committee decided to integrate this aspect of "stair-stepping" because it concluded that many retired Alaskans have come to rely upon both the ALB and the permanent fund dividend, and -- since they are now retired -- would be unable to make adequate arrangements to mitigate the impact of an abrupt denial (or reduction) in either payment.

Under last session's House bill, those who had reached the age of 60 before 1986 would have received a full ALB for life, although the amount of that bonus would not be increased in future years. The committee considered and rejected the option of extending this protection to 60-year-olds for three reasons:

1. Assuming a retirement age of 65, those under that age will have 1-5 years to make necessary arrangements to accommodate either the loss of a cash dividend, or incremental reductions in the ALB payment. Current retirees, on the other hand, have

little or no ability to alter their financial condition. Thus, while any age group might be said to have some "expectancy" to both an ALB and a cash dividend, that "expectancy" is more immediate, and more critical, for existing retirees;

2. Exempting 60-year-olds from the ALB reduction of the committee bill would not simply postpone the inevitable financial disparity between two groups of Alaskans -- it would aggravate it. Under the House bill, the first reduction in payments would occur in 1991. Because of the growth in the "maximum possible annuity" by that time, the initial difference in monthly ALB payments between an exempt recipient, and a non-exempt recipient who did not forego his dividend, would be \$67.21 per month. Conversely, under the committee bill, differential payments will begin in 1986, and will initially be \$11.92 per month. The committee felt that if some smaller differential were felt immediately, the need to begin participation in the program now would be more apparent to non-exempt recipients. In other words, immediate "stair-stepping" may well encourage higher annuity participation, which in turn will reduce the actual differential treatment between exempt and non-exempt recipients; and

3. The ALB program cannot go on forever. Indeed, it has been a goal of the committee to develop a proposal which phases out general fund obligations near the turn of the century -- when oil revenues are predicted to dramatically decline. If the bill were to protect existing 60-year-olds, the committee projects that the state would still be making general fund ALB payments of

\$74.9 million in the year 2000, and general fund obligations would not end until the year 2029. Moreover, extending the bill's protection to 60-year-olds would cost an additional \$330 million over the life of the program. In drawing the necessary dividing line between those who can continue to receive the full benefits of existing law, and those who cannot, economic feasibility plays an appropriate role. For the reasons above-stated, the committee believes that the line is best drawn at age 65.

10. Possible Participation Rates. The committee attempted to estimate likely participation rates for the legislation's annuity program. Currently, participation rates in certain voluntary employee retirement plans exceed 50%. There are, however, differences between those plans, and the annuity program established by the committee's bill. Under most employee plans, contributed funds can be withdrawn upon termination, or in case of substantial hardship. Under the committee bill, however, no benefits can accrue until retirement. Additionally, high participation rates in employee plans are, in large part, a function of intensive educational efforts which cannot be duplicated on a statewide basis -- particularly in Alaska. Finally, participation rates for employee plans may be irrelevant in predicting participation by the jobless and very poor.

On the other hand, with front loading, matching contributions which participants receive may be, at least for older Alaskans, substantially more than typical matching payments

by employers. Additionally, under any employee plan, an employee must dedicate a portion of his or her regular monthly salary -- each dollar of which may already have been budgeted for regular family needs. The permanent fund dividend, on the other hand, is an irregular source of income which (for some Alaskans) is not a component of the regular family budget, and hence more readily disposable.

Given these differences, and the unique nature of the annuity program established by this bill, the committee does not believe that any meaningful projection, or even range of projections, can be provided.

If participation rates are very high, by the year 2003 state Old Age Assistance payments may be substantially decreased. Indeed, it is conceivable that a successful annuity program could virtually eliminate the need for old age welfare payments. For example, by the year 2010, every elderly Alaskan who has fully participated in the program will be receiving a monthly annuity of \$1,047.88.

On the other hand, if participation is very low, the state may experience increased old age assistance obligations as the residual longevity bonus phases out.

The only way to guard against future increases in OAA clientele is either to maintain the existing ALB program -- an option which the committee believes is cost-prohibitive -- or convert the ALB itself into a form of welfare. Other options studied (including stairstepping) would not simply threaten, but

inevitably lead to higher OAA obligations. The committee bill, on the other hand, offers Alaska's future elderly at least the opportunity to ultimately avoid the need for OAA assistance -- an opportunity which at least some Alaskans will accept. In other words, even with modest levels of participation, the result would be better than under "stair-stepping."

11. Impact Upon Eligibility For Old Age Assistance and Medicaid.

If an elderly Alaskan earns \$586 or less per month, he or she is eligible to receive federal Supplemental Security Income and/or state Old Age Assistance. There are currently some 2,450 elderly receiving this assistance, and the average benefit is \$240 per month.

Elderly who are eligible for OAA are also eligible for Medicaid. Medicaid benefits are accessed by almost half of the OAA recipients, and the average non-nursing home benefit is \$2,500 per year.

If an elderly Alaskan earns less than \$900 per month, he or she is eligible for nursing home benefits under Medicaid. These benefits are substantial -- averaging \$135 per day, or \$50,000 per year for each individual.

Until 1984, and by virtue of a specific exclusion in federal law, ALB payments did not count as "income" in determining eligibility for SSI or Medicaid. See 42 U.S.C. §1982a(b)(2)(B). However, when the ALB program was changed in

1984, Congress also amended the exclusion to protect only those who:

1. are 65 years of age on or before September 30, 1985; and
2. have 25 years of continuous residency in Alaska by that date.

This change in federal law has had the following effect on the SSI, OAA and Medicaid eligibility in Alaska:

1. Some 750 current recipients of OAA will experience a loss or reduction in benefits because they are now eligible to receive the ALB, but fall outside the amended federal exclusion. These individuals have not, however, suffered a net loss in cash benefits, since ALB payments have merely replaced previous OAA/SSI payments. While these individuals are the subject of discrimination, since they cannot retain both their ALB and their previous OAA/SSI benefits (as can long-time Alaskans), that discrimination is solely the product of federal law. If the state undertook to cure this discrimination by replacing lost federal SSI benefits, \$1.4 million would be required for FY 1986.

2. Some 314 of the 750 affected OAA/SSI recipients will also lose non-nursing home Medicaid coverage -- a benefit which averages \$2,500 per year. This is a substantial loss which is not compensated for by the ALB program. The amount of lost federal Medicaid benefits to these 314 individuals is only \$413,847 for FY 1986. The state could therefore compensate for these lost federal benefits at relatively small cost.

3. The most substantial impact of the recent federal law change is upon nursing home patients. 36 elderly Alaskans who are currently in nursing homes may lose their Medicaid nursing home coverage as a result of this change. To pay these individuals' nursing home costs entirely through state funds would require a \$720,000 additional appropriation in FY 1986.

The committee bill neither alleviates nor aggravates the problems associated with OAA/SSI benefit reductions, or reductions in non-nursing home Medicaid payments. Unless the legislature were to adopt a needs-based ALB program, virtually any option which the legislature might chose would leave the affected elderly in the same position as under current law. 13/

The committee proposal would, however, probably benefit existing nursing home residents. Under the bill, persons residing in a nursing home are ineligible to receive the ALB. This exclusion, the committee believes, is consistent with and furthers the intent of the ALB program. Its effect is to benefit existing nursing home residents who will lose access to the \$250 a month ALB, but at the same time will retain their eligibility for \$50,000 per year nursing home payments.

13/ Under current federal law, payments which are predicated on need are not counted as "income" for federal assistance purposes. Thus, the means test proposal discussed earlier may avoid the problems discussed in this section -- assuming that federal officials were willing to treat a \$25,000 income limit as truly differentiating the "needy" from the "non-needy."

12. Costs of Various ALB Alternatives. The committee has estimated the costs of various alternatives. Although population figures (and hence program costs) in future years are difficult to predict, several of the alternatives studied -- including the stair-stepping approach and the means test proposal -- envision general fund expenditures well into the next century. The committee felt that it was particularly important to at least estimate costs beyond the year 2000 for two reasons.

First, it has been a goal of the committee to develop a program which phases out general obligations after the turn of the century -- when oil revenues are projected to dramatically decline. Estimating post-2000 expenditures is thus particularly important.

Second, some options envision higher immediate investment in return for lower long term obligations. Others involve smaller near-term expenditures -- an attribute which is paid for in the years to come. A fair comparison, then, can only be made by looking at total expenditures over the life of each alternative.

Chart 1 indicates the costs of making continued ALB payments under four alternatives. This chart assumes that -- whatever program is chosen -- an escalation in the ALB payment will be made as the years go by. As the chart indicates, the cost of continuing the current, expanded ALB program is prohibitive. The second option, the "Annuity Program," reflects the committee bill without grandfathering Alaska's existing elderly. Under this

option, in order to receive the target amount, existing elderly would be required to forego their permanent fund dividends.

The third option -- the "Annuity Program w/1986 Stairstep" -- reflects the ALB costs of the committee bill itself. The "Stairstep" approach refers to last session's legislation, which would begin stair-stepping in FY 1991. Finally, projections on the means test proposal which assume escalation have not been run.

Assuming that the legislature provides a 3% per annum increase in the ALB payment, the ALB costs of the options considered are as follows:

Chart 1

ALB COSTS THROUGH 2034
WITH 3% ESCALATOR (in millions)

	<u>Nominal \$</u>	<u>Constant \$</u>	<u>Present Value</u> ^{14/}
Current Law	13,087	2,501	1,393
Annuity Program	964	605	496
Annuity Program w/1986 Stairstep	1,290	735	584
Stairstep	1,455	745	577
Means Test	N/A	N/A	N/A

14/ The term "Nominal \$" is self-explanatory. The term "Constant \$" refers to costs expressed in 1986 dollars -- assuming 6% annual inflation. The term "Present Value" refers to the amount of money which, if invested now, would endow the various options through the duration of each.

Conversely, if the legislature held the amount of the ALB constant over the years instead of providing a regulator escalator, the ALB costs of the option would be:

Chart 2

ALB COSTS THROUGH FY 2034
WITHOUT ESCALATION (in millions)

	<u>Nominal \$</u>	<u>Constant \$</u>	<u>Present Value</u>
Current Law	5,419	1,391	880
Annuity Program	619	432	369
Annuity Program w/1986 Stairstep	864	539	444
Stairstep	1,040	586	470
Means Test	3,199	945.9	634.9

In addition to the general fund costs of (1) continuing the current ALB for existing recipients, and (2) providing a gradually reduced ALB for new recipients, the committee bill envisions that individual annuity accounts will be "front loaded" with funds drawn from the earnings of the undistributed income account of the Alaska permanent fund.

Estimating the costs of "front loading" is a three step process. First, the committee assumed that the legislature would provide sufficient front loading to allow those 35 and younger to receive a \$50 base supplement, and those over 35 to receive a supplement which is increased 10% for each year of age up to 65. Second, the committee assumed that participation rates would be very low in younger Alaskans, and extremely high for those older Alaskans receiving the greatest front-loading. The cost of "front load payments" under those assumptions -- with and without

the grandfathering of existing recipients are reflected in Chart 3.

Finally, the effect of front loading is to more rapidly reduce the "target" ALB, and hence reduce general fund obligations. Thus, the net cost of any front loading must be offset by "ALB savings," which are also reflected in Chart 3:

Chart 3

EFFECT OF 3-YEAR FRONT LOADING
(in millions)

	<u>Nominal \$</u>	<u>Constant \$</u>	<u>Present Value</u>
<u>Annuity Program (3% Esc.)</u>			
Front-Load Payments	113	101	96
(ALB Savings)	<u>(126)</u>	<u>(69)</u>	<u>(31)</u>
Net Cost (Savings)	(13)	32	65
<u>Annuity Program (No Esc.)</u>			
Front-Load Payments	113	101	96
(ALB Savings)	<u>(91)</u>	<u>(57)</u>	<u>(46)</u>
Net Cost (Savings)	22	44	50
<u>Annuity & 1986 Stairstep (3% Esc.)</u>			
Front-Load Payments	79	71	67
(ALB Savings)	<u>(82)</u>	<u>(41)</u>	<u>(31)</u>
Net Cost (Savings)	(3)	30	36
<u>Annuity & 1986 Stairstep (No Esc.)</u>			
Front-Load Payments	79	71	56
(ALB Savings)	<u>(56)</u>	<u>(30)</u>	<u>(23)</u>
Net Cost Savings	23	41	44

The net costs (or savings) of front loading for any particular program can then be added (or subtracted) from the appropriate column of Charts 1-2. From that exercise, it is

apparent that front loading does not materially affect the cost ranking of any of the options considered.

Finally, under stair-stepping, those who do not reach age 65 by FY 1990 will receive no longevity bonus. Of those who are denied the bonus in the future, a portion will apply for state Old Age Assistance. As noted previously, a number of current ALB recipients are apparently eligible for OAA and Medicaid but have not applied because of the bonus. There is thus a segment of Alaska's elderly who are now eligible for OAA and Medicaid, and who might apply for benefits under those programs if the ALB were denied.

It is difficult to predict the number of elderly who would actually turn to state welfare assistance if and when the ALB program were terminated. Currently, one out of every 2.65 income-eligible ALB recipients actually applies for OAA. Under the "moderate low" scenario of Chart 4, one half of those elderly would apply for OAA. Under the "moderate high" scenario, two-thirds of the eligible elderly would apply for assistance once the bonus program were terminated. Cumulative costs, 15/ in increased OAA and Medicaid benefits, through the year 2010 under these two scenarios are as follows:

15/ The cost estimates in Chart 4 should be viewed as substantially equivalent to constant 1986 dollar estimates. Although they are technically nominal dollars, they assume no increase in OAA or Medicaid benefits as the years go by. If one assumes that OAA and Medicaid benefits keep close pace with inflation, these estimates would then better reflect constant

Chart 4

INCREASED OAA/MEDICAID COSTS THROUGH 2010
(in millions)

Moderate Low

81.3

Moderate High

150.2

It is possible that increased OAA costs would also result from the committee bill. Although, under the bill, the ALB is gradually phased out, rather than abruptly terminated, those new elderly who have not participated in the annuity program may eventually find themselves in need of welfare assistance. The degree of that problem, of course, is a function of participation rates -- which are difficult to determine. However, because -- under the committee bill -- the ALB is phased out, rather than abruptly terminated, 16/ and because a portion of Alaska's population will participate in the annuity program, the committee believes that -- even with low participation rates -- the impact of the bill ~~on~~ old age assistance programs is likely to be less severe than under the stairstepping approach.

Finally, the committee looked at the cost of various options after 1999. As noted previously, it has been a goal of the

dollar costs.

15/ Thus under stairstepping, a person turning 65 in 1991 would receive no ALB whatsoever. On the other hand, under the committee bill, a person turning 65 in 1991, and who has not participated in the annuity program, will still receive a longevity bonus of \$222.61 per month.

committee to develop a longevity bonus program in which general fund obligations would be minimized as oil revenues declined. Chart 5 indicates the cost of stairstepping, the means test proposal and the annuity program with and without stairstepping, which would be incurred in the 21st century:

Chart 5

COSTS INCURRED AFTER YEAR 1999
(in millions: Nominal \$)

<u>3% Escalation</u>	
Annuity Program	69.9
Annuity Program	
w/1986 Stairstep	285.3
Stairstep	588.3
Means Test	N/A
<u>No Escalation</u>	
Annuity Program	0
Annuity Program	
w/1986 Stairstep	128.4
Stairstep	291
Means Test	2,486.2

The Benefit Concept's Proposal

The committee investigated an approach proposed by Benefit Concepts, Inc. and Kidder Peabody & Co., Inc. The proposal is essentially an investment program for endowing the longevity bonus program. That is, a substantial investment (approximately \$350 million) would be made in the initial years of the program, and the return from that investment is estimated to be sufficient

to make the declining longevity bonus payments required under the committee's annuity approach. 17/

Benefit Concepts proposes that the state invest in single premium whole life insurance policies (SPL's) taken out on Alaska's elderly. The state would be the owner and beneficiary of the policies. Benefit Concepts' projections indicate that this type of investment would be superior to other options which they believe would be appropriate for such an investment plan, such as guaranteed investment contracts (GIC's), corporate bonds or government securities.

The Benefit Concepts proposal was analyzed by the actuarial firm of Johnson & Higgins at the committee's request. That firm concluded that (1) the costs of the program may be understated when compared with data used by OMB (see footnote); (2) should the state consider "endowing" the ALB program, it should not limit its choices to the low risk alternatives considered by

17/ Subject to available funds, the state could "endow" any program by investing enough cash to produce the revenue to pay the costs of the program. Indeed, the concept of "endowment" is implicit in the "present value" calculations made by the Office of Management and Budget for the longevity bonus alternatives analyzed. Two points deserve attention. First, in order to avoid dedicated fund problems, the income from any such investment would be deposited in the general fund, and subject to annual appropriation to pay program costs. Second, the assumptions used by Benefits Concepts in making their cost estimates differ in two important respects from the assumptions used by OMB. Benefit Concepts used different population projections, and assumed a different interest environment. Both these differences understate the cost of their proposal when compared with programs using OMB estimates. The committee, therefore, cautions against direct cost comparisons.

Benefit Concepts, but should also examine other investment options; and (3) the primary advantage of the SPL approach over other low risk investments is the substantial tax advantage available to some insurance companies in providing this type of policy. These tax advantages are under scrutiny by the federal Treasury Department, and could well be eliminated through revisions to the Internal Revenue Code in the near future. It would be likely that an insurance company would insist on passing any tax changes through to the policy holder, thus removing the advantage of this type of investment.

The committee is unable to make a firm recommendation regarding this proposal to the legislature but believes that the concept may warrant further consideration by the state's financial experts.

The Alaska Pioneers' Home

On July 30, 1984, Governor Sheffield requested the committee to consider expanding its inquiry to include Alaska's Pioneers' Home Program. Because of time constraints, and the fact that the committee developed an alternative to the ALB program which has no application to the Pioneers' Home, the committee was unable to consider alternatives to this program in any depth.

The committee, however, shares Governor Sheffield's concerns over the program. Under AS 47.25.030, an individual must have resided in Alaska for 15 consecutive years, or 30 total years, in

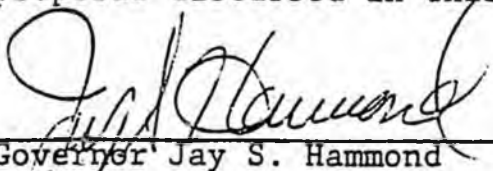
order to be eligible for admission to the homes. Plainly, that requirement raises substantial constitutional questions.

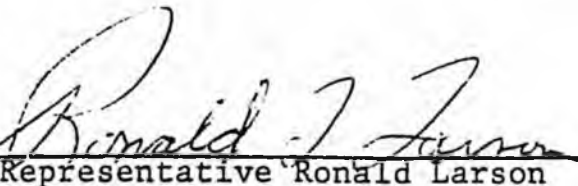
To date, no one has filed suit over the Pioneers' Home eligibility requirements. It is this committee's recommendation that the legislature develop and consider alternatives to the existing residency requirements during this session. The pressure and tension created by the Vest litigation has made it more difficult, over the past 2½ years, to develop a sound replacement for the ALB program. That experience need not, and should not be repeated for the Pioneers' Homes.

One alternative for replacing the current residency requirements warrants note. The legislature may wish to develop a point system that would determine eligibility for Pioneers' Home admission based upon the hardship that would be suffered if the applicant were forced to seek housing out of state. Location of home, family and friends would all be relevant to assessing that hardship; yet hard and fast residency rules would be avoided.

Conclusion

The undersigned members of the committee respectfully recommend that the legislature consider and enact the annuity proposal discussed in this report.


Governor Jay S. Hammond


Representative Ronald Larson

Bill Ray

Senator Bill Ray

Olga T. Steger

Olga T. Steger

[Signature]

Senator Valmar M. Kerttula

Robert C. Kallenberg

Robert C. Kallenberg

JAN 12 1985

IN THE _____

BY _____

_____ BILL NO.

IN THE LEGISLATURE OF THE STATE OF ALASKA

FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act amending the longevity bonus program and the permanent fund dividend program in order to establish an annuity program; and providing for an effective date."

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

* Section 1. FINDINGS AND PURPOSE. The legislature finds and declares that

(1) it is in the public interest to continue the longevity bonus program. However, as oil reserves decline over the years, it will become increasingly difficult to provide the benefits of the longevity bonus program through the general fund. As a result, that program must be phased out over the years;

(2) it is appropriate that individuals save for their own retirement, and it is also appropriate that the state establish both means and incentives for Alaska residents to set aside retirement funds. Accordingly, it is a purpose of this legislation to create an annuity program, and to encourage Alaskans to participate in that program by authorizing general fund supplements which would result in annuity payments which are larger than an individual could earn through private investment of the permanent fund dividend;

(3) many retired Alaskans have made their retirement plans in reliance on the availability of both the existing longevity bonus and the permanent fund dividend. Accordingly, the legislature finds that it is appropriate to continue both those programs for these individuals;

(4) the most suitable source of funds for the annuity program created by this Act are those permanent fund earnings currently distributed as dividends. This Act applies the annual permanent fund dividend of younger Alaskans to annuity accounts unless the individual alternatively elects to receive cash. In so doing, this Act will promote wise stewardship of the permanent fund by giving each participant a direct financial stake in its long-term profitability; and

(5) neither the longevity bonus program, nor the annuity program, should be viewed as a form of welfare. Other state and federal programs are available to meet the basic necessities of life, and amounts received by any individual under this Act are not calculated on the basis of need.

* Sec. 2. AS 43.23.005 is amended to read:

(c) A parent, guardian, or other authorized representative may claim a permanent fund dividend on behalf of an unemancipated minor or on behalf of an incompetent individual who is eligible to receive a dividend [PAYMENT] under this section.

* Sec. 3. AS 43.23.005 is amended by adding a new subsection to read:

(d) A person who is eligible to receive a permanent fund dividend under this section, or who is authorized to claim a dividend on behalf of another under (c) of this section, may elect to receive cash in lieu of an annuity share. Alternatively, a person may elect to receive not less than 25 percent of his dividend in cash and the remainder as an annuity credit. A person exempt under AS 47.45.015(b) will automatically receive cash without the necessity of election.

* Sec. 4. AS 43.23.015 is amended to read:

Sec. 43.23.015. APPLICATION AND PROOF OF ELIGIBILITY. (a) The commissioner shall adopt regulations under the Administrative Procedure Act (AS 44.62) establishing the process for determining the eligibility of individuals for permanent fund dividends. The

commissioner may require an individual to provide proof of eligibility, and the commissioner may use other information available from other state departments or agencies to determine the eligibility of an individual.

(b) The department shall prescribe and furnish an application form for claiming a permanent fund dividend. The application must contain a statement of eligibility and a certification of residency in substantially the following form:

I certify that

() I am a state resident on the date of this application and I have been a state resident for at least six months immediately preceding the date of this application; or

() (name), the individual on whose behalf I am applying, is a state resident and has been a state resident for at least six months immediately preceding the date of this application.

I understand that a false claim of residency to obtain a permanent fund dividend for myself or for another is a criminal offense and that if convicted I will forfeit future permanent fund dividends and that I will lose or must repay all permanent fund dividends that have been credited or paid to me, including any accrued interest in my annuity account. I understand that this penalty is in addition to any criminal penalties imposed.

(signature of individual,
parent, guardian, or other
authorized representative)

(c) Except as provided in (d) of this section or as may be provided by regulations adopted by the department, an individual must personally sign the application for permanent fund dividends,

including the certification of residency required under (b) of this section.

(d) The application and certification of residency of an unemancipated individual under 18 years of age or of an incompetent individual must be signed by the individual's parent, legal guardian, or other authorized representative.

(e) If a public agency claims a cash [PERMANENT FUND] dividend on behalf of an individual under (i) of this section, the public agency shall hold the dividend in trust for the individual. Money held in trust under this subsection shall be invested by the commissioner in accordance with AS 37.10.070.

(f) A minor or an incompetent individual may not maintain a claim against the state or any officer or employee of the state based either on the manner in which the parent, guardian, or authorized representative other than a public agency of the state managed or disposed of permanent fund dividends received on behalf of the minor or incompetent, or any election made or not made on that individual's behalf under AS 43.23.005(d).

(g) If an individual is aggrieved by a decision of the department determining the individual's eligibility for a permanent fund dividend or the individual's authority to claim a permanent fund dividend on behalf of another, the individual may appeal that decision to the superior court in accordance with AS 44.62.560. An appeal under this section does not entitle the aggrieved individual to a trial de novo. The appeal shall be based on the record of the administrative proceeding from which appeal is taken and the scope of the appeal is limited to matters contained in the record of the administrative proceeding.

(h) The penalty and enforcement provisions of AS 43.23.035 apply to an individual who claims a permanent fund dividend on behalf of another.

(i) The permanent fund dividend application form shall be prepared to allow an applicant, other than a person exempt under AS 47.45.015(b), to elect to receive cash in lieu of a permanent fund dividend.

* Sec. 5. AS 43.23.035 is amended to read:

Sec. 43.23.035. PENALTIES AND ENFORCEMENT. (a) In addition to any criminal penalties imposed by state law, if an individual is convicted of a crime in connection with a false statement made in a certification required under AS 43.23.015, and the conviction is not reversed, that individual forfeits all permanent fund dividends credited or paid, together with any additional credits to his annuity account and is not eligible for a future permanent fund dividend.

(b) If the commissioner determines that a cash [PERMANENT FUND] dividend should not have been claimed by or paid to an individual, the commissioner may use all collection procedures or remedies available for collection of taxes under this title to recover the payment of a permanent fund dividend that was improperly made. A notice of an improperly paid dividend must be sent to the individual within 10 years after the improper payment. If notice is not sent within the 10-year period, proceedings may not be commenced in court for recovery of the improper payment.

(c) If the commissioner determines that a permanent fund dividend should not have been credited to an individual's annuity account, the commissioner may after notice and opportunity for hearing, direct the commissioner of administration to debit the individual's annuity account for the amount wrongly credited. If the

credit is the fault of the individual, the debit must be made within 10 years. If the credit is the fault of the state, the debit must be made within three years.

* Sec. 6. AS 43.23.055 is amended to read:

Sec. 43.23.055. DUTIES OF THE DEPARTMENT. The department shall

(1) annually [PAY PERMANENT FUND DIVIDENDS FROM THE DIVIDEND FUND] make payments to exempt individuals under AS 47.45.015(b) and those who elect cash under AS 43.23.005(d);

(2) adopt regulations under the Administrative Procedure Act (AS 44.62) that establish procedures and time limits for claiming a permanent fund dividend or for making election under AS 43.23.005(d); the department shall set the time limit for applications for permanent fund dividends so that the number of eligible applicants is determined by October 1 of the year for which the dividend is declared and permanent fund dividends for a year are paid before April 30 of the year following the year;

(3) adopt regulations under the Administrative Procedure Act (AS 44.62) that establish procedures and time limits for an individual upon emancipation or upon reaching majority to apply for permanent fund dividends not credited or received during minority because the parent, guardian, or other authorized representative did not apply on behalf of the individual; [AND]

(4) assist residents of the state, particularly in rural areas, who because of language, disability, or inaccessibility to public transportation need assistance to establish eligibility and to apply for permanent fund dividends; and

(5) provide the commissioner of administration with information necessary to maintain individual annuity account records and administer the annuity program.

* Sec. 7. AS 43.23.065 is amended to read:

Sec. 43.23.065. EXEMPTION OF PERMANENT FUND DIVIDENDS. (a) Fifty percent of a cash payment received under AS 43.23.005(d) [THE ANNUAL PERMANENT FUND DIVIDEND PAYABLE TO AN INDIVIDUAL] is exempt from levy, execution, garnishment, attachment, or any other remedy for the collection of debt. This exemption applies to an eligible individual's permanent fund dividend both before and after payment is made to the individual. An exemption is not available under this section for cash payments [PERMANENT FUND DIVIDENDS] taken to satisfy (1) child support obligations required by court order or decision of the child support enforcement agency under AS 47.23.140 -- 47.23.220; (2) a debt owed by an eligible individual to an agency of the state, unless the debt is contested and an appeal is pending, or the time limit for filing an appeal has not expired, or (3) court ordered restitution under AS 12.55.045 -- 12.55.051 or AS 12.55.100. A child support obligation under (1) of this section has priority over a debt owed to an agency of the state, and a permanent fund dividend may not be taken to satisfy a debt under (2) of this section until any portion of the dividend necessary to satisfy a child support obligation has been taken.

(b) When an individual owes a past due debt described in (a)(1) of this section, the department shall require that the individual take his or her permanent fund dividend in cash.

(c) The courts of this state may, as a condition of any civil judgment or restitution order under AS 12.55.045 -- 12.55.051 or AS 12.55.100, require the defendant to take his or her permanent fund dividend in cash.

* Sec. 8. AS 43.23.075 is amended to read:

Sec. 43.23.075. ELIGIBILITY FOR PUBLIC ASSISTANCE. (a) In determining the eligibility of an individual under a public assistance program administered by the Department of Health and Social Services in which eligibility for assistance is based on financial need, the Department of Health and Social Services may not consider a permanent fund dividend as income or resources received by the recipient of public assistance or by a member of the recipient's household unless required to do so by federal law or regulation. The Department of Health and Social Services shall notify all recipients of public assistance of the effects of [RECEIVING] a permanent fund dividend credit or cash payment.

(b) An individual who is denied medical assistance under 42 U.S.C. 1396 -- 1396p (Social Security Act, Title XIX) solely because of the credit or receipt of a permanent fund dividend by the individual or by a member of the individual's household is eligible for state-funded medical assistance under the general relief assistance program (AS 47.25.120 -- 47.25.300). The individual is entitled to receive, for a period not to exceed four months, the same level of medical assistance as the individual would have received under 42 U.S.C. 1396 -- 1396p (Social Security Act, Title XIX) had there been no permanent fund dividend program.

(c) An individual who is denied assistance solely because permanent fund dividends credited to or received by the individual or by a member of the individual's household are counted as income or resources under federal law or regulation is eligible for cash assistance under the general relief assistance program (AS 47.25.120 -- 47.25.300). Notwithstanding the limit in AS 47.25.130, the individual is entitled to receive, for a period not to exceed four months, the same amount as the individual would have

received under other public assistance programs had there been no permanent fund dividend program.

* Sec. 9. AS 37 is amended by adding a new chapter to read:

CHAPTER 16: ANNUITY PROGRAM

Sec. 37.16.010. ANNUITY INVESTMENT FUND. (a) The annuity investment fund is established as a separate fund in the state treasury. Notwithstanding the provisions of AS 37.13.145, an amount equal to the permanent fund dividends taken as annuity credits under AS 43.23 shall be annually transferred from the div'dend fund to the annuity investment fund.

(b) The legislature may appropriate either general funds, or earnings upon the undistributed income account in the Alaska permanent fund, to the annuity investment fund. Any funds appropriated under this subsection shall be allocated to the individual annuity accounts of those who are eligible to receive a dividend for that year and do not elect cash under AS 43.23.005(d). The allocation shall be made in the following manner:

(1) A credit will be made to the account of each individual who is at least 18 years old;

(2) The credit for each person from the age of 18 through age 35 is the base amount. The size of the base amount is determined according to the amount of the appropriation;

(3) The credit for persons over the age of 35 is the base amount, increased for each year of age over 35 up to and including the age of 65. The incremental increase for each year of age is a percentage over the credit for the prior year of age. That percentage shall be established with due regard for historical and projected permanent fund returns on investment;

(4) If a person elects to receive a portion of his dividend in cash under AS 43.23.005(d), the allocation to which he is otherwise entitled will be proportionately reduced.

(c) Money in the annuity investment fund shall be invested by the commissioner of revenue in investments authorized under AS 39.35.110. The commissioner of administration shall credit individual annuity accounts with earnings at a rate equal to the rate of interest earned by the annuity investment fund.

(d) The legislature may annually appropriate to the Department of Administration an amount sufficient to pay monthly annuity payments for the subsequent fiscal year under AS 37.16.030 from the annuity investment fund. Funds appropriated under this subsection shall be transferred from the annuity investment fund to the Department of Administration in order to meet the current demands of the annuity program.

(e) The legislature may annually appropriate from the annuity investment fund an amount sufficient to administer the annuity program. Any costs of administration funded under this subsection shall be equitably allocated among all individual annuity accounts.

(f) Notwithstanding AS 39.35.110 or (c) of this section, the commissioner of revenue may invest all or part of the annuity investment fund in commercial insurance contracts.

Sec. 37.16.020. ANNUITY PROGRAM. (a) The annuity program is administered by the commissioner of administration. The commissioner of administration shall adopt regulations necessary to implement the annuity program.

(b) The commissioner of administration shall maintain records of individual annuity accounts and make annuity payments under AS 37.16.030.

Sec. 37.16.030. PAYMENT OF ANNUITIES. (a) An individual with one or more annuity credits may receive an annuity upon reaching the age of 65.

(b) An annuity under this section is a monthly payment during the life of the annuitant. The amount of the monthly payment shall be based upon the principal and accrued interest in the person's annuity account and shall be paid in the form of a straight life annuity. The size of the annuity may not vary on account of sex.

(c) An individual need not be a resident of the state to be eligible to receive an annuity payment from his or her account.

(d) An annuity share may not be assigned, sold, or otherwise transferred from one individual to another. The right to receive an annuity under this section terminates upon the death of the person who is eligible for the annuity and does not pass to that person's estate.

(e) If a person dies prior to age 65, his account shall be equitably distributed among the annuity accounts of all individuals of the same age.

(f) An individual does not receive a vested property right in an annuity payment until that payment is made. Notwithstanding the provisions of this section, the state is not obligated to provide annuity payments for annuity credits granted under AS 43.23.005.

* Sec. 10. AS 43.23.095(6) is repealed and re-enacted to read:

(6) "permanent fund dividend" means a credit to an annuity account under AS 37.16, unless the individual is either exempt under AS 47.45.015(b) or elects cash under AS 47.23.005(d);

* Sec. 11. AS 47.45.010(a) is amended to read:

(a) A person who is 65 years of age or over, who resides in the state for at least one year immediately preceding application for a

longevity bonus under this chapter may apply to the commissioner of administration for qualification to receive a monthly bonus [CF \$250].

* Sec. 12. AS 47.45 is amended by adding a new section to read:

Sec. 47.45.015. AMOUNT OF BONUS. (a) Subject to (b) of this section, the monthly longevity bonus is equal to \$250, increased by three percent each year beginning in fiscal year 1987, minus the maximum possible annuity for a person 65 years of age under the annuity program (AS 43.23.110 -- 43.23.120), as determined by the commissioner of administration.

(b) A person who is 65 years of age or over prior to January 1, 1986 is exempt from the annuity program reduction established in (a) of this section.

* Sec. 13. AS 47.45.070 is amended to read:

Sec. 47.45.070. UNQUALIFIED PERSONS. An unqualified person is one who

(1) does not meet the age or residence requirements as provided for under this chapter;

(2) meets the age and residence requirements of this chapter but either is confined in a state or federal mental health institution or facility and is certified by the state as unable to manage personal affairs, or resides in a nursing home as that term is defined in AS 08.70.180(5); however, if that person, at the time of commitment or commencement of residence, provided the principal support of a spouse, the commissioner of administration may determine to pay the confined person's bonus to the person's spouse until the spouse is qualified for a bonus;

(3) is otherwise qualified but confined in a penal or correctional institution or facility; upon completion of sentence or upon the conferral of a pardon, parole or probation, the person may

make application; confinement outside the state shall be considered as residence in the state if a person was convicted and sentenced from a court in Alaska; revocation of parole or probation shall be cause for immediate disqualification until release from confinement is again effected;

(4) voluntarily leaves the state and remains absent from the state for a continuous period of more than 180 days.

* Sec. 14. Section 11, ch. 38, SLA 1984 is amended to read:

Sec. 11. Sections 7 and 9 of this [THIS] Act [AND AS 47.45] are repealed June 30, 1985.

* Sec. 15. AS 43.23.045(c) is repealed.

* Sec. 16. This Act applies only to permanent fund dividends for years beginning after December 31, 1985.

* Sec. 17. This Act takes effect January 1, 1986.

REPORT OF THE MINORITY MEMBERS OF THE GOVERNOR'S LONGEVITY
BONUS TASK FORCE TO THE FOURTEENTH ALASKA STATE
LEGISLATURE AND GOVERNOR BILL SHEFFIELD

February 1, 1985

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I. INTRODUCTION

The purpose of this report is to provide a broad view of the issues involved in resolving the future of the longevity bonus program. Each of the options discussed before the committee has both its merits and drawbacks. The minority members of the task force believe a more complete discussion of the various proposals is necessary so that policy makers can decide which of the options is the best one for the State.

The options covered in this report are the annuity proposal, the means test proposal, the stairstepping proposal, and maintaining the current program.

II. PHILOSOPHICAL DIFFERENCES

Each of the options considered represents a significantly different philosophy about the future of the program.

The philosophy underlying the annuity proposal is that the current bonus program should be replaced with a retirement program for all of the state's citizens. The majority report states, "[t]he Committee believes that there is a need for future State participation in the building of retirement security ..." The annuity proposal presumes that individuals need encouragement from the State to prepare for their final years, even though a majority of Alaskans save for their retirement through private sector investments and employer retirement programs.

The annuity proposal also assumes that there is still a need to provide cash assistance to elders regardless of their length of residency. And finally, this proposal would require Alaskans to choose between the alleged short term benefits of the permanent fund dividend program and the supposed long term benefits of the annuity program.

In contrast, stairstepping emphasizes three facts: (1) the original program was always intended to end if the courts ever declared it to be unconstitutional; (2) there are a large number of older Alaskans who have counted the bonus into their retirement plans, despite its constitutional status; and (3) the State faces a declining revenue picture.

Stairstepping takes care of the needs of Alaska's elders at the expense of the needs of younger Alaskans. The proposal also assumes that younger individuals will provide for their own retirement security through the private sector or will be eligible for public assistance. Further, fiscal reality is faced by phasing out the program (and the general fund cost) entirely, not shifting the general fund cost to another funding source. And finally, stairstepping does not

take need into account because many Alaskan elders reject need as a criteria for receipt of a bonus.

The philosophy behind the means test proposal can be contrasted with both the annuity and stairstepping proposals. It assumes the longevity bonus program should continue, but provides a larger benefit to those who need it the most. In other words, even though we cannot afford to continue the current program at its present cost forever, poorer individuals need a larger bonus payment. Also, the means test proposal is crafted to mesh with federal entitlement programs so the State can provide more benefits for the poor overall with less State cash.

The last option, maintaining the current program, assumes that the bonus should continue in its present form because all Alaskans rely on it, regardless of whom it was originally intended to benefit. Also, it emphasizes the importance of the bonus and its priority for State funding in spite of declining revenues and competition with other statewide needs.

III. ANNUITY PROPOSAL

Although the committee majority favors the annuity, there are certain aspects of the proposal that the majority report does not discuss.

A. Summary

The annuity proposal has three basic features: (1) Continuing the bonus program for all persons age 65 by 1986, and paying these persons a benefit level of \$250 per month, plus 3 percent cost of living increase, for life. (2) Phasing out the bonus program for every one under 65 in 1986, and paying these persons an ever reducing benefit level until sometime in the early part of the next Century. (3) Creating a State supplemental retirement program for those under 65 by 1986 who choose to invest their permanent fund dividends in it.

B. Front-loading

The annuity bill allows the Legislature to increase the monthly annuity amount by subsidizing or "front-loading" the account with annual appropriations.

The purpose of front-loading is to increase the amount of the monthly annuity check and to provide a tax shelter for those who invest their dividends in the program. Both of these aspects are considered necessary inducements to increase participation in the program.

Though the cost of front-loading depends on the number of people who participate in the program, the task force majority estimates that at least \$79 million will be required in the first three years, in addition to the funding necessary to continue the phase out bonus program. Since the revenue picture is a clear obstacle to getting this funding from the general fund, the majority proposes that front-loading dollars come from the permanent fund reserve account. We do not support use of the reserve account to pay for the annuity program, since the appropriate uses of the account are already spelled out in statute.

It is also likely that front-loading will be necessary far beyond 1989. Tax counsel has advised the committee that tax shelters will only be available in the years in which the program is front-loaded.

It also seems likely that once the subsidizing begins, it will be difficult to end. This appears especially true if short term front-loading increases the annuity checks of elder Alaskans more than those of younger Alaskans, as the majority report indicates.

It is also possible that the Legislature could decide not to front-load the program at all.

The amount of the bonus each year is tied to the maximum annuity of a 65 year old. Since the maximum annuity will be smaller if it is not subsidized, the general fund cost of the phase out bonus program would be more than the majority report indicates.

C. 3% Escalator

The bonus and the cost of the program itself are increased dramatically by a 3% annual escalator. If this is really intended to be an automatic cost of living increase, it should be tied to some acknowledged COLA indicator. In the past, the bonus amount has been increased for valid economic reasons, not automatically.

D. Participation

The more Alaskans that participate in the annuity program, the more likely it is to succeed. We are skeptical, however, about the ability of the program to achieve a high and continuous rate of participation.

According to the Governor's Office of Management and Budget, 40% of current bonus recipients have annual incomes of less than \$10,000. According to the IRS, only 2% of taxpayers within this income category buy

IRAs even though it is to their advantage to do so. The statistics on deferred compensation plans are similar. Generally, people without spare cash do not put off receiving income because they cannot afford to. Under this proposal, bonus checks will be reduced each year, yet individuals will have to give up their permanent fund dividends in order to make up the difference.

By grandfathering in current ALB recipients, the bill does protect the current income of today's elders who are at least 65. But what about everyone else? According to the Permanent Fund Corporation's recent report on the dividend program, about 18% of adult recipients making less than \$26,000 annually used their 1982 dividend to reduce debt and another 22% used it to help with regular expenses. Clearly, these individuals are using their dividends to meet basic needs.

The annuity proposal asks the Alaskans who can least afford it to make a very difficult choice -- either they take the cash now to meet basic needs or they skimp on basic needs and defer their dividend for a promise of a future payment. And they have to trust that the program will still be in existence, and that they will live to 65.

Even those Alaskans who can afford the program may be reluctant to participate. Consider the following facts:

1. The tax deferrable status is uncertain even with front-loading because the IRS has not yet ruled on it. If this program is not considered a shelter by the IRS, there are many other tax shelters available in the private sector.
2. There are no survivor benefits. No matter how long you defer your dividend, if you die, your account is split up amongst all the other accounts in your age category. None of your heirs, nor your estate, have a right to any part of the balance in the account.
3. An individual can never liquidate or transfer his annuity account if he decides to change investment strategy. In other words, the money goes in, you cannot take it out.
4. Even if you live to 65, there is still no assurance that you will get any or all of your annuity. Because there is no vested property right, the State could either end the program

at any time without owing you any money or could pay you less than you originally invested.

E. Legality of the Proposal

In general, this proposal appears to be constitutional-ly sound. It should be noted, however, that the grandfathering of current bonus recipients would create a protected class of persons. Any law that establishes such a classification is subject to an equal protection challenge. However, it seems unlikely that such a challenge would succeed, since the classification is a rational one that furthers a legitimate public purpose. Please refer to the discussion in section IV - E for further information.

F. Conclusion

The question for policy makers is whether this particular annuity proposal makes good economic sense on both a State and a personal level.

IV. STAIRSTEPPING PROPOSAL

A. Summary

The stairstepping proposal continues the current program for five years and then begins to phase out the program by increasing the age of eligibility by one year, each year beginning in July, 1991. In effect, any one who is 60 or older by July of 1985 would qualify for a \$250 monthly bonus from age 65 until death.

B. Impact on Younger Alaskans

The proponents of stairstepping do not dispute the fact that the proposal protects today's elders, but does not protect those who will turn 60 after July of 1985. In fact, its purpose is to ensure that those who have counted on the bonus for their retirement years receive it throughout the rest of their lives. Since we do face a gloomy revenue picture, backers of this proposal believe the only affordable method of protecting the bonus for current elders is to discontinue the program for everyone else.

This should not be interpreted as a lack of concern for the retirement years of individuals under age 60. Instead, it reflects a philosophy of truly "substituting private thrift for public largesse", the alleged theme of the annuity proposal. It reflects a belief that there are plenty of savings options

available in the private sector for those individuals who are in a position to defer cash until some future time. Further, it reflects the belief that the annual permanent fund dividend can be used for this purpose now and that establishing a State annuity program to encourage saving the dividend for retirement is unnecessary.

Finally, it is important to reiterate that the original bonus program was intended to self-destruct if it was ever declared unconstitutional. The stairstepping proposal accomplishes this task while minimizing the harm which would otherwise occur.

C. Why Protection for 60 Year Olds Instead of 65 Year Olds

The group of Alaskans who do count on the bonus extends beyond those who are currently eligible to those who are about to become eligible. In general, it is accurate to state that the older and poorer an individual is, the more that individual needs both the bonus and the dividend.

It is true that any age cut off is arbitrary. The reason that age 60 has been chosen, however, is that those who are within five years of retirement are most in need of the bonus. Also, five years appears to be adequate to allow Alaskans in their 50s to prepare for a retirement without the bonus. At the very least, it gives these Alaskans plenty of notice that they can no longer expect to receive a bonus.

It should be noted that if the method of stairstepping is changed, the bonus of more Alaskans will be protected. For example, instead of waiting five years and then stairstepping one year each year, stairstepping could begin immediately but occur every other year. This would allow a much larger group of Alaskans to receive a bonus, but receipt would begin at a more advanced age.

D. Legality of the Proposal

Stairstepping creates two classes of people: those who receive bonuses and those who do not. Any law that establishes classifications is subject to an equal protection challenge under both the Federal and State constitutions. A challenge will not succeed, however, if the classifications embodied in the law are rational, and further legitimate governmental purposes. They do not need to meet the test of furthering a compelling State interest, as other laws do.

The stairstepping approach would not affect any constitutional right beyond general equal protection. It would provide benefits to newcomers who met the one year age requirement, and thus would not thwart the right to travel.

Stairstepping embodies a balance between recognition that our elders need the bonus on the one hand, and a perception that the State cannot continue to fund an ever expanding program indefinitely. In a recent case, the Alaska Supreme Court reaffirmed that the recognition of "grandfather right" and "hardship" are legitimate goals of the limited entry law under equal protection analysis. Kalmakoff v. State, Op. No. 2900 (January 11, 1985). It appears that court would find it legitimate for the Legislature to "grandfather" those who are presently receiving the bonus or expecting to receive it in the near future, since those individuals would suffer the most hardship if the program were suddenly ended. Individuals younger than 60 at the date of enactment would have considerable notice that the program would not be available to them at retirement, and would have some wage-earning years to adjust their expectations. Also, the State's revenue expectations are certainly a legitimate element in deciding what program should be enacted.

In sum, it appears that stairstepping is constitutional and would withstand any legal challenge.

E. Conclusion

Stairstepping continues to be a valid method of dealing with the current longevity bonus crisis. Though not all Alaskans would benefit from it, it is a fair, rational approach to a problem that does not have any easy solutions.

V. MEANS TEST PROPOSAL

A. Summary

Under the means test proposal, an individual age 65 or over may apply for a bonus of \$250 a month if his or her adjusted gross income was less than \$25,000 for the year prior to application. An individual who does not meet the income requirement, or who chooses not to apply for \$250, is eligible for a bonus of \$100 per month.

The \$25,000 income cap will allow 80% of Alaskan elders to continue to receive the \$250 monthly bonus. At the same time, the proposal would reduce payments to those elderly Alaskans for whom a monthly bonus is not a

financial incentive to remain in the State. These wealthier individuals will continue to be honored with a smaller monthly bonus that can be viewed as a psychological incentive to remain in Alaska.

B. Reasons for a Means Test Program

Many elder Alaskans have vehemently opposed creation of a "welfare" bonus program. These individuals feel that the bonus was originally intended to reward them for their contributions to Alaska and that it never was intended to be a form of public assistance. Indeed, some of these elders appear to prefer no future for the bonus program at all if that future is based on need.

Why then should the Legislature seriously consider a means test proposal? One important reason is the federal government's position on the impact of future bonus income on public assistance. Since federal officials insist that the \$250 bonus be counted when determining public assistance eligibility for some Alaskan elders, this proposal represents a direct method of cancelling the affect of the federal action. It would eliminate the loss of Federal Supplemental Security Income and Old Age Assistance for 750 Alaskans and non-nursing home medicaid benefits for 314 Alaskans.

Also, federal officials have indicated that they will be flexible in determining whether a program meets their definition of need. Though this proposal still allows 80% of current recipients to continue to get \$250 a month, federal officials believe it will fall within their definition.

The proponents of this proposal are not insensitive to the wishes of those elders who are opposed to any needs based program. Rather, they have attempted to craft a proposal that does alleviate the federal concern as well as the concern of these elders. Actually, this proposal would not implement a "welfare" program. It is only a needs based one in the sense that it does draw distinctions among elders based on income. But it is not a "welfare" program because it is not only for the very poor. All elders get a bonus and most elders get the same bonus; only the wealthiest 20% get less than the others.

Moreover, there are many elders who do not share the strong feelings about a potential "welfare" stigma. These individuals are not always the most vocal, but they are still important. This proposal emphasizes their importance and points out another method of dealing with the state's fiscal reality by giving a

larger bonus to those who need it the most.

C. Legality of the Proposal

The largest legal question posed by this proposal is whether the one year residency requirement would be valid for the \$250 bonus since its receipt would be based on a person's income. The United States Supreme Court has held that a one year residency requirement infringes on the federally protected right to travel when used in a program which provides the "basic necessities of life." Thus, in Shapiro v. Thompson, 394 U.S. 618 (1969), the court struck down a one year residency requirement for welfare assistance.

But every government program does not provide for "basic necessities of life." For example, in Hawaii Boating Association v. Water Transportation Facilities, 651 F.2d 661 (9th Cir. 1981), the court found that a one year residency requirement for reduced rates for boat moorage did not impair the right to travel, since the benefit involved was not significant.

While the courts have ruled that some programs clearly fall within the "basic necessities" definition (such as welfare, hospitalization, and federal low rent housing) and some programs are clearly outside of that definition (such as moorage fees, practicing law without taking a bar exam, running for city council and COLAs in workers compensation benefits), there is no precise dividing line. A strong argument could be made that this proposal does not provide a "basic necessity" and that the one year requirement is valid.

First, the State has other programs such as old age assistance and medicaid which are available to new Alaskans to provide basic necessities.

Second, the income cap requirement is not typical of a test for welfare eligibility. A welfare program test looks at a person's total assets (i.e., value of their home, boats, cars, etc.), but this proposal only looks at a person's adjusted gross income. The income cap provisions are more properly viewed as a retirement supplement to all but the most wealthy, rather than as a program to fulfill basic needs.

Finally, the purpose of the one year requirement would be to determine, without too much administrative burden, which elders are bona-fide Alaskans as opposed to mere visitors. Like students, older Alaskans tend to travel for extended periods. So long as seniors are not denied basic necessities such as medical care and funds for food and shelter if they are destitute, we

believe the one year requirement would withstand a challenge. The two year residency requirement for student loans was recently upheld for similar reasons.

D. Conclusion

This proposal is valid because it addresses the federal support of the public assistance question and because it favors those Alaskans who need the bonus the most. As such, it should be the subject of serious legislative consideration, even though some seniors have reservations about it.

VI. STATUS QUO PROPOSAL

A. Summary

This proposal would continue the present program -- \$250 monthly bonus to all one year residents at least 65 years old -- indefinitely.

B. The Bonus as a Priority for State Funding

This proposal asserts that the bonus in its present form is a major priority and should be continued for all Alaskans despite the high cost. If our revenues were not dwindling at an everincreasing pace, we would look more favorably on this proposal. We fear, however, that other statewide needs such as roads, water and sewer, education, and health care will suffer if the bonus program continues in its present form. There are simply not enough oil dollars to meet all our needs. Many other State programs reward and assist elder Alaskans. We hope to continue funding these programs as well as a less expensive bonus program.

C. Continuing the Status Quo in FY 86

Although we are uncomfortable with the notion of continuing the program in its present form forever, we feel strongly that if the Legislature and the Governor cannot reach agreement on any other proposals during this session, the current bonus program should be extended for another year. We do not prefer this approach, but we do not want to end the program altogether if 120 days is not enough time to reach consensus on this important issue.

VII. The Immediate Impact on Public Assistance Eligibility

A. How to Protect the Bonus Income of Public Assistance Recipients

Federal and State law treat the longevity bonus payment

in a manner that results in a devastating form of "legal" discrimination for many senior citizens on public assistance. These laws require the senior citizen to apply for the longevity bonus. Then, these same laws reduce or eliminate the amount of public assistance payments, dollar for dollar. The senior citizens on public assistance, unlike the middle and high income seniors who receive the longevity bonus on top of all other income, realize no material gain in their income from receipt of the longevity bonus. Additionally, many of the seniors also lose their entitlement to public assistance medical benefits that the longevity bonus payment does not replace. The poorest of our seniors -- those who need the bonus the most -- are actually harmed by the Alaska longevity bonus.

This "catch 22" affects all seniors who fall into either of two categories:

1. Seniors who reached the age of 65 during 1984 through September 30, 1985, and who did not meet the unconstitutional residency requirements.
2. Seniors who reach the age of 65 after September 30, 1985, irrespective of their residency. This category would include all seniors who would have met the unconstitutional residency requirements.

The effect of this "catch 22" is that the federal government saves federal funds and Alaska's longevity bonus program becomes a cash benefit program for the middle and upper classes of seniors who need the money far less than the poor.

There are only two ways to extend the benefits of the longevity bonus program to our low income senior citizens:

1. create a means test longevity bonus program, or
2. create a "hold-harmless" provision in State public assistance statutes to ensure that the State makes up the difference in federal benefits lost and continues to pay State public assistance to individuals effected by the "catch 22."

The cost to the State would be:

HOID-HARMLESS COSTS - FY86

	<u>Already Budgeted</u>	<u>Required Fiscal Note</u>
Federal (SSI) Payment	0	1,400,000
State (OAA) Payment	760,000	0
Non-nursing Home Medical	0	413,847
	<u>760,000</u>	<u>1,813,847</u>

If the Nursing Home Exclusion Amendment (see "B", page 13) is not adopted, then the hold-harmless fiscal note should be increased by \$514,982 for FY86.

STATUTE CHANGES

One Statute change would be needed to hold recipients harmless under all currently proposed longevity bonus programs:

Amend Article 4, AS 47.25.430f, to provide that

- (1) The Department must increase the amount of an individual's Adult Public Assistance payment by the amount of any reduction in assistance provided under Title XVI of the Social Security Act which occurs solely because of considering payments made under AS 47.45 as available income; and
- (2) Notwithstanding AS 47.25.435, in determining eligibility for Adult Public Assistance and the amount of Adult Public Assistance payment, the Department will not consider any payment made under AS 47.45 as income available to the applicant or recipient.

Note: Regardless of which longevity bonus proposal is enacted, the hold-harmless provisions above must have an effective date of July 1, 1985. If the means test proposal is enacted, these hold-harmless provisions should sunset on the effective date of the new act to protect funding level of adult public assistance programs.

B. Exclusion of Individuals in Nursing Homes from Eligibility for the Bonus

The bonus can preclude a poor elder from receiving Medicaid assistance while in a nursing home even though it does not offset the cost of care in the nursing home (approximately \$4000/month). Also, the federal government requires that the individual apply for the bonus to get Medicaid. While the State could hold

these individuals harmless at a cost of \$514,982 (General Fund), the Legislature could make nursing home residents ineligible for a bonus.

It should be emphasized that this suggestion is not intended to harm nursing home residents or to judge their worthiness for receipt of a bonus. Rather, it is intended to protect such elders from the exorbitant cost of nursing home care. Irrespective of personal income before entering a nursing home, 97% of Alaskans in nursing homes in the state eventually turn to Medicaid to pay their bills.

VIII. COST INFORMATION

A. Long Term Costs

The following chart compares the cost of the four proposals in nominal dollars through fiscal year 2034. The chart shows that the general fund costs of both the annuity and stairstepping proposals eventually disappear whereas the means test and status quo proposals continue to need general funds. For the next 50 years, the total costs are as follows:

Annuity proposal	\$1.29 billion
Stairstepping proposal	\$1.13 billion
Means test proposal	\$3.20 billion
Status Quo	\$5.42 billion

The present value (the amount of funding necessary to endow the program today) of the cost of these proposals is:

Annuity proposal	\$620.02 million
Stairstepping proposal	\$496.88 million
Means test proposal	\$634.9 million
Status Quo proposal	\$879.78 million

B. Population Forecast

The cost chart is based on a forecast of Alaska's elderly population. This forecast may overstate the number of people who will actually participate in any of the proposed programs, at least in the near term. For example, the population forecast predicts 16,744 eligibles for FY 86, yet only 14,547 elders are currently receiving a bonus. Also, after 2010, the forecast assumes that the elder population remains constant, which does not account for death, migration, etc.

If the population projections do turn out to be too high, then the cost estimates are also too high.

COMPARISON OF ALB ALTERNATIVES

FISCAL YEAR	-----MONTHLY PAYMENTS-----					-----POPULATIONS-----				-----ANNUAL COSTS----- (millions)			MEANS TEST BILL
	--MEANS TEST BILL--		-----ANNUITY BILL-----			65 & OVER	65 BEFORE 1986	65 AFTER 1985	65 BEFORE 1992	ANNUITY BILL*	STAIRSTEP BILL**	CURRENT LAW	
	UNIVERSAL ALB	ALB TO PERSONS BEFORE 1986	ALB TO MAXIMUM POSSIBLE ANNUITY	RESIDUAL ALB	65 & OVER								
1986	\$250.00	\$100.00	\$250.00	\$11.92	\$238.08	16,744	15,039	1,705	16,744	\$75.2	\$50.2	\$50.2	\$50.2
1987	\$250.00	\$100.00	\$257.50	\$24.86	\$232.64	17,768	14,349	3,419	17,768	\$80.4	\$53.3	\$53.3	\$46.7
1988	\$250.00	\$100.00	\$265.43	\$39.05	\$226.18	18,769	13,660	5,109	18,769	\$85.0	\$56.3	\$56.3	\$48.6
1989	\$250.00	\$100.00	\$273.18	\$46.94	\$226.24	19,828	12,974	6,854	19,828	\$61.1	\$59.5	\$59.5	\$50.6
1990	\$250.00	\$100.00	\$281.38	\$56.27	\$225.11	20,913	12,293	8,620	20,913	\$64.8	\$62.7	\$62.7	\$52.4
1991	\$250.00	\$100.00	\$289.82	\$67.21	\$222.61	21,908	11,616	10,292	21,908	\$67.9	\$65.7	\$65.7	\$54.0
1992	\$250.00	\$100.00	\$298.51	\$79.93	\$218.58	22,849	10,943	11,906	22,849	\$70.4	\$62.5	\$68.5	\$55.3
1993	\$250.00	\$100.00	\$307.47	\$94.67	\$212.00	23,861	10,273	13,588	19,890	\$72.6	\$59.7	\$71.6	\$56.6
1994	\$250.00	\$100.00	\$316.69	\$111.73	\$204.96	24,799	9,606	15,193	18,823	\$73.9	\$56.5	\$74.4	\$57.7
1995	\$250.00	\$100.00	\$326.19	\$131.53	\$194.66	25,891	8,945	16,946	17,940	\$74.6	\$53.8	\$77.7	\$59.0
1996	\$250.00	\$100.00	\$335.98	\$154.20	\$181.78	26,863	8,291	18,572	16,873	\$73.9	\$50.6	\$80.6	\$59.9
1997	\$250.00	\$100.00	\$346.06	\$180.13	\$165.93	27,692	7,644	20,048	15,819	\$71.7	\$47.5	\$83.1	\$60.5
1998	\$250.00	\$100.00	\$356.44	\$209.76	\$146.68	28,657	7,012	21,645	14,934	\$68.1	\$44.8	\$86.0	\$61.3
1999	\$250.00	\$100.00	\$367.13	\$243.52	\$123.61	29,556	6,396	23,160	13,969	\$62.5	\$41.9	\$88.7	\$61.8
2000	\$250.00	\$100.00	\$378.15	\$281.92	\$96.23	30,511	5,799	24,712	13,031	\$54.9	\$39.1	\$91.5	\$62.5
2001	\$250.00	\$100.00	\$389.49	\$325.34	\$64.15	31,459	5,225	26,234	12,098	\$44.6	\$36.3	\$94.4	\$63.2
2002	\$250.00	\$100.00	\$401.18	\$374.26	\$26.92	32,448	4,676	27,764	11,193	\$31.5	\$33.6	\$97.3	\$64.0
2003	\$250.00	\$100.00	\$413.21	\$429.25	-0-	33,448	4,156		10,306	\$20.6	\$30.9	\$100.3	\$64.7
2004	\$250.00	\$100.00	\$425.61	\$490.97	-0-	34,483	3,666		9,438	\$10.7	\$28.3	\$103.4	\$65.4
2005	\$250.00	\$100.00	\$438.38	\$560.18	-0-	35,721	3,210		8,639	\$16.9	\$25.9	\$107.2	\$66.7
2006	\$250.00	\$100.00	\$451.53	\$637.63	-0-	37,130	2,708		7,850	\$15.1	\$23.5	\$111.4	\$68.3
2007	\$250.00	\$100.00	\$465.07	\$721.15	-0-	38,489	2,402		7,043	\$13.4	\$21.1	\$115.5	\$69.7
2008	\$250.00	\$100.00	\$479.03	\$820.68	-0-	40,309	2,050		6,359	\$11.8	\$19.1	\$120.9	\$71.9
2009	\$250.00	\$100.00	\$493.40	\$928.22	-0-	42,194	1,778		5,640	\$10.5	\$16.9	\$126.6	\$74.0
2010	\$250.00	\$100.00	\$508.20	\$1,047.88	-0-	44,012	1,449		4,950	\$8.8	\$14.9	\$132.0	\$76.1
2011	\$250.00	\$100.00	\$523.44	-0-	-0-	45,000	1,213		4,243	\$7.6	\$12.7	\$135.0	\$76.7
2012	\$250.00	\$100.00	\$539.15	-0-	-0-	45,000	1,003		3,660	\$6.5	\$11.0	\$135.0	\$75.6
2013	\$250.00	\$100.00	\$555.32	-0-	-0-	45,000	819		3,161	\$5.5	\$9.5	\$135.0	\$74.5
2014	\$250.00	\$100.00	\$571.98	-0-	-0-	45,000	658		2,698	\$4.5	\$8.1	\$135.0	\$73.5
2015	\$250.00	\$100.00	\$589.14	-0-	-0-	45,000	521		2,340	\$3.7	\$7.0	\$135.0	\$72.4
2016	\$250.00	\$100.00	\$606.82	-0-	-0-	45,000	405		1,907	\$2.9	\$5.7	\$135.0	\$71.3
2017	\$250.00	\$100.00	\$625.02	-0-	-0-	45,000	309		1,596	\$2.3	\$4.8	\$135.0	\$71.0
2018	\$250.00	\$100.00	\$643.77	-0-	-0-	45,000	231		1,320	\$1.8	\$4.0	\$135.0	\$70.7
2019	\$250.00	\$100.00	\$663.08	continues	-0-	45,000	169		1,078	\$1.3	\$3.2	\$135.0	\$70.4
2020	\$250.00	\$100.00	\$682.98	to	-0-	45,000	114		866	\$0.9	\$2.6	\$135.0	\$70.1
2021	\$250.00	\$100.00	\$703.47	increase	-0-	45,000	76		686	\$0.6	\$2.1	\$135.0	\$69.9
2022	\$250.00	\$100.00	\$724.57	-0-	-0-	45,000	48		533	\$0.4	\$1.6	\$135.0	\$69.6
2023	\$250.00	\$100.00	\$746.31	-0-	-0-	45,000	31		497	\$0.3	\$1.2	\$135.0	\$69.3
2024	\$250.00	\$100.00	\$768.70	-0-	-0-	45,000	18		304	\$0.2	\$0.9	\$135.0	\$69.0
2025	\$250.00	\$100.00	\$791.76	-0-	-0-	45,000	10		222	\$0.1	\$0.7	\$135.0	\$68.7
2026	\$250.00	\$100.00	\$815.51	-0-	-0-	45,000	5		150	\$0.0	\$0.4	\$135.0	\$68.1
2027	\$250.00	\$100.00	\$839.97	-0-	-0-	45,000	3		100	\$0.0	\$0.3	\$135.0	\$68.1
2028	\$250.00	\$100.00	\$865.17	-0-	-0-	45,000	1		63	\$0.0	\$0.2	\$135.0	\$67.8
2029	\$250.00	\$100.00		-0-	-0-	45,000			41	\$0.0	\$0.1	\$135.0	\$67.5
2030	\$250.00	\$100.00		-0-	-0-	45,000			24	\$0.0	\$0.1	\$135.0	\$67.2
2031	\$250.00	\$100.00		-0-	-0-	45,000			13	\$0.0	\$0.0	\$135.0	\$67.0
2032	\$250.00	\$100.00		-0-	-0-	45,000			7	\$0.0	\$0.0	\$135.0	\$66.7
2033	\$250.00	\$100.00		-0-	-0-	45,000			4	\$0.0	\$0.0	\$135.0	\$66.4
2034	\$250.00	\$100.00		-0-	-0-	45,000			1	\$0.0	\$0.0	\$135.0	\$66.1

NOTES:

TOTAL COSTS, 1986-2034:	\$1,287.8	\$1,131.0	\$5,418.9	\$3,199.2
CONSTANT 1985 DOLLARS, 1986-2034:	\$764.38	\$625.01	\$1,391.12	\$945.9
PRESENT VALUE, 1986-2034:	\$620.37	\$496.88	\$879.78	\$634.9

* Persons 65 before 1986 grandfathered (i.e., stairstepping starts in 1986). Annual costs include three years of "front loading" (\$25.2 in '86, \$26.5 in '87, and \$27.7 in '88).
 ** Persons 65 before 1992 grandfathered (i.e., stairstepping starts in FY 1992).

Although we think it is important to point out this data limitation to policy makers, we do not suggest that another set of data be used. Rather, we wish to only point out the conservative nature of the projections.

C. Cost of the Annuity Proposal

This particular chart shows the cost of the annuity program if an average participation rate of 30% is achieved, if 100% of each PFD check is deferred if the Legislature chooses to subsidize the program for the first three years, and if the annuity investment achieves a 3% real rate of return. The actual cost of the annuity program depends on several variables not easily predicted, in addition to population. The value of the dividend each year, the amount of subsidy provided each year, the cost of administering the program, and the real rate of return on the money invested all affect the overall cost of the program.

For example, if front-loading is provided every year and all other assumptions remain the same, the additional 50 year cost would be \$1.95 billion. Every time a variable is changed, the cost estimate also changes.

D. Cost of the Stairstepping Proposal

The stairstepping cost is based on the Adams proposal. If stairstepping began immediately, but the age of eligibility was only increased every other year, the cost of the program would be \$1,641.6 billion.

E. Cost of the Means Test Proposal

It is important to point out that under this proposal, more elders get the higher bonus until FY 2000. At that time, the percentage switches, since the value of money erodes over time.

F. Cost of the Status Quo Proposal

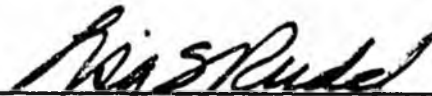
The cost of extending the current program for one year only would be \$50.2 million.

CONCLUSION

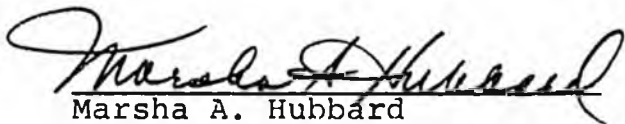
We realize that the majority of the Governor's Task Force favors the annuity proposal, and the majority report reflects that. However, we believe that the report does not adequately address some of the problems with that proposal, nor does it refute what we see as the advantages of the stairstepping and means test proposals. This report is intended to provide additional information on all the proposals being considered. As the Legislature and the Governor begin the process of deciding the future of the longevity bonus, we hope the pros and cons of each proposal will be seriously examined.



Representative Al Adams
Member of the Committee



Commissioner Lisa Rudd
Member of the Committee



Marsha A. Hubbard
Member of the Committee

file SB128

Introduced: 3/4/85
Referred: Rules

BY HURLEY, ADAMS, GRUSSENDORF,
CLOCK SIN, KOPONEN, LARSON, SUND,
TAYLOR AND BOUCHER

1 IN THE HOUSE

2

HOUSE CONCURRENT RESOLUTION NO. 16

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

Relating to the longevity bonus program.

6

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

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WHEREAS the state of Alaska has always been committed to the elderly;

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and

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WHEREAS that commitment has been evidenced by the Alaska longevity

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bonus program since 1972; and

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WHEREAS the ruling of the Alaska Supreme Court in Schafer v. Vest

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compels the legislature to replace the original longevity bonus program;

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and

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WHEREAS the discussion of what form the longevity bonus program should

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take in the future has caused uncertainty among recipients;

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BE IT RESOLVED that the Alaska State Legislature is committed to the

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principle that those currently receiving the longevity bonus will continue

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to receive it regardless of what form the program may take in the future.

Senator Halford has asked that the
Committee consider this bill in lieu
of the original.

Levy
2/15/85

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IN THE SENATE BY HALFORD, RODEY,
KERTTULA AND RAY

^{COMMITTEE}
SPONSOR SUBSTITUTE FOR SENATE BILL NO. 128 (HESS)

IN THE LEGISLATURE OF THE STATE OF ALASKA
FOURTEENTH LEGISLATURE - FIRST SESSION

A BILL

For an Act entitled: "An Act relating to the use of longevity bonus pay-
ments in determining adult public assistance; and
providing for an effective date."

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

- * Section 1. AS 47.45 is amended by adding new sections to read:
 - Sec. 47.45.122. ELIGIBILITY FOR PUBLIC ASSISTANCE. An individ-
ual for whom public assistance is denied or reduced solely because of
the receipt of a bonus by the individual or by a member of the indi-
vidual's household is eligible for assistance under the general relief
assistance program under AS 47.25.120 - 47.25.300. Notwithstanding
the limit in AS 47.25.130, the individual is entitled to receive the
same amount as the individual would have received under other public
assistance programs had there been no longevity bonus program.
 - Sec. 47.45.124. ELIGIBILITY FOR STATE PROGRAMS. A program
administered by the state or any of its instrumentalities or munici-
palities, the eligibility for which is based on financial need, may
not consider a bonus as income or resources unless required to do so
by federal law or regulation.
- * Sec. 2. This Act takes effect July 1, 1985.

FYI

Revised Draft Recommended
by Rod Betit

TO: Representative Koponen

FROM: Deborah Niedermeyer, Aide to House HESS Committee

RE: Longevity Bonus Hold Harmless

DATE: 10 February, 1985

Current public assistance programs for those over 65

If an elderly person has not worked enough to be entitled to at least \$325 per month in social security, then the federal government will supplement the social security payments up to \$325 per month through the Supplemental Security Income (SSI) program. Social Security plus SSI always adds up to \$325 per month.

The State of Alaska does not feel that \$325 per month is enough to live on, so the state further supplements the elderly person's income up to \$586 per month. Thus, most elderly Alaskan recipients of SSI also receive \$261 per month under the state's Adult Public Assistance program (see AS 47.25.430). Eligibility for Adult Public Assistance also entitles an individual to Medicaid. This is important because losing Adult Public Assistance means losing Medicaid as well.


Some people over 65 are entitled to Medicare in order to help pay for their health care costs. Medicare is 100% federally funded, but only pays about 65% of a person's health care costs. For those receiving Adult Public Assistance, Medicaid pays for the other 35%. Medicaid is about 50% state funded. For those not on Medicare, Medicaid pays 100% of their medical costs.

The Alaska Adult Public Assistance law is written to conform to the federal SSI law. IF the SSI program counts money from a certain source as income, federal law requires that Alaska's Adult Public Assistance Program count that income too.

The problem

When a low income senior who is a recipient of SSI and Adult Public Assistance receives the \$250 per month Longevity Bonus, the SSI laws count that as income. By law, Alaska's Adult Public Assistance must also count it.

The first effect of the Longevity Bonus is that the federal government cuts the SSI grant dollar for dollar, thus the income of the recipient does not go up. In addition, if the bonus puts the recipient's income over \$586 a month, the recipient loses eligibility for Medicaid.



The net result is that an Alaskan over 65 who makes \$586 per month or less will not be helped by the Longevity Bonus and may be seriously hurt because they lose Medicaid benefits. There are 333 such Alaskans estimated in FY86.

Emergency regulation

For now, the Department of Health and Social Services has put an emergency regulation into effect insuring that Alaskan seniors who otherwise qualify for Medicaid and Old Age Assistance will not be denied those benefits. The Department has been granted authority to do this by federal officials until July 1. There has been no relief granted for Alaskans who are having their SSI cut and therefore they receive no advantage from the Longevity Bonus.

SB 128

SB 128 (by Halford) requires the state to make up the difference when the federal government cuts an SSI or Adult Public Assistance grant due to the Longevity Bonus. However, the bill does not hold-harmless a person's lost Medicaid benefits.

The problem with SB 128 is two fold. First, approximately 333 Old Age Assistance recipients will lose Medicaid benefits because of the Longevity Bonus in FY86 and SB 128 does not prevent this from happening. Second, by placing the APA/SSI hold-harmless in the APA statute the State may be vulnerable to federal officials declaring the State APA program out of compliance with federal law. This would jeopardize Medicaid benefits for APA clients. A safer approach to the hold-harmless would be to place it completely outside of the State APA program, for example place it in the State General Relief Program.

Koponen proposal

The bill you have asked drafted is based on the hold-harmless provisions of the Permanent Fund Dividend Program. Like SB 128, your bill requires the state to make up for SSI and APA lost because of the Longevity Bonus, but it goes a step further. It requires the state to also hold-harmless the lost Medicaid benefits for the 333 persons mentioned above. Your bill puts those 333 people under the 100% state funded General Relief Medical program. Thus, the low-income recipient of the longevity bonus gets the full benefit of the bonus without losing crucial medical coverage. The Bonus thus brings the income from \$586 per month to \$836 per month for low income Alaskans WITHOUT LOSS OF THEIR MEDICAL COVERAGE.

FY86 Cost = \$1,813,847 assuming nursing home clients will be excluded from receiving the Bonus.

file SB56

OPINION

Governor, committee debate annuity

Editor's note: Last month Senior Voice ran an editorial calling for a complete airing of SB 56, the annuity proposal which would replace the Longevity Bonus program for seniors. The editorial sought to stir debate over the merits of the annuity plan, which would set up an optional retirement plan for all Alaskans.

The bonus program that now gives \$250 a month to all one-year residents 65 and over is

an interim plan that expires in July. The original bonus law, passed in 1972, was declared unconstitutional last year because of its 25-year residency requirement.

Following are excerpts from letters by two members of the Special Committee on the Alaska Longevity Bonus program, which recommended the annuity program, as well as excerpts from Gov. Bill Sheffield's response to our editorial.

Annuity solves 'complex' problem

Dear editor,

The annuity bill is the special committee's solution to a very complex and complicated problem. We should also consider the other solutions.

Seniors not yet 65 and the seniors of tomorrow will receive whatever the bonus may be at any given year. The amount of the bonus will decrease as the amount that the annuity increases, and together will meet the \$250/month target amount.

Individuals may elect to receive all or part of the Permanent Fund dividend distribution in cash. The decision of annuity fund or cash is made each year when applying for the Permanent Fund dividend.

The annuity fund will be managed in the same way as the teacher's retirement fund and the permanent employee's fund.

The annuity plan is designed to provide a supplemental income at age 65. It is not designed to build an estate.

However, SB 56 as amended, provides that the contributions of a person dying before 65 will become a part of his estate.

There is a lot of public support for the annuity concept. This support should indicate wide participation in the annuity plan.

Appropriations to the annuity fund are not necessary, either now or in the future. Money appropriated now shortens the time and amount of general fund money required for the bonus program.

Any non-needs based program will impact recipients of medical and/or cash public assistance.

The governor requested the committee to consider making the residents of nursing homes ineligible for the bonus and the committee bill does that.

The needs based bill requires constant funding from the general fund for the duration of the program if it is truly needs based, and it has no impact on those receiving medical and/or cash public assistance. It is also the most costly solution.

The stair-stepping approach causes the most abrupt termination of any option considered. If a person was born on or before June 30, 1925, the state would pay him or her \$250 per month when he or she moved to Alaska; a current 59-year-old Alaskan would receive nothing.

The stair-stepping approach would be more expensive than the committee bill, and much of this cost would be born after the turn of the century.

The committee has looked at the problem from every conceivable direction, and has forwarded draft legislation and a report to the Governor and the Legislature. The committee considers the annuity concept to be in the best interests of all the people in Alaska.

Bob Kallenberg
Special Longevity Bonus
Committee member

Sheffield not choosing sides

by Gov. Bill Sheffield

Right now, there's only one sure thing about the Alaska Longevity Bonus program: The courts have changed the original intent, and we have to change our program.

The debate about what form that program will take is far from over. It may be an annuity program, a "stair-stepping" approach, a program with a special emphasis on helping low- and middle-income senior citizens — or any combination of the three.

I'm not choosing sides yet; as long as the final proposal is sound, I'll sign the bill.

The important thing is to debate the proposals, choose the best one, and get it done this year.

The "stair-stepping" approach, proposed last year by Rep. Al Adams (D-Kotzebue), comes close to meeting the intent of the original Longevity Bonus program.

Simply put, the bill limits the number of recipients by setting a cut-off date (to be eligible, you must turn 65 by 1992) and raising the age of eligibility each year (65 in 1992, 66 in 1993, 67 in 1994).

The annuity program, introduced as a bill with 17 cosponsors in the Alaska State Senate, combines the "stair-stepping" approach with a retirement insurance program. Like the "stair-stepping" program, the current group of older Alaskans would continue to receive

a Longevity Bonus, but the amount would get smaller every year, and eventually disappear.

Payments from the annuity fund would take the place of the bonus — but only if you bought into the annuity program. The price is your annual Permanent Fund dividend.

Senior Voice raised a number of those questions in a recent editorial. Among them were these:

- Will enough younger Alaskans give up their dividends, join the plan and make the annuity financially sound?
- Will the plan provide any benefit to the poor and near-poor who can't afford to give up their dividends?
- Will the program offer a secure investment for younger Alaskans? And,

• What will happen to the approximately 800 needy senior citizens who will lose federal benefits because the Alaska program isn't based on need?

I have similar concerns. First of all, there's no guarantee people will contribute their Permanent Fund dividends to the annuity program. The incentive to join the program is a tax break: If you put your check in now, you won't have to pay federal income tax on it until you retire.

However, according to the federal tax code, the annuity would not be a tax-exempt investment without the state's \$79 million "front-loading."

Without the "front-loading,"

there's no tax break; without the tax break, many people would probably choose to invest their Permanent Fund dividends differently.

I'm concerned that tying the annuity to Permanent Fund dividends could make it difficult for many Alaskans to invest in the program. Low-income families, working mothers and rural Alaskans might have a hard time giving up needed cash now for a long-term investment.

Then there's a question the Voice didn't ask: What about the \$79 million in state money needed to build up the annuity fund over the first three years?

Considering the recent downturn in our revenue forecasts, that three-year, \$79 million commitment could reduce our financial flexibility, along with our ability to meet other needs.

All these questions need to be answered before we create a new longevity program. But whatever we choose, it must be fair, it must be cost-effective, and it must be created this year.

The Longevity Bonus is a way to help keep older Alaskans in the state. That's not welfare; it's an investment in Alaska's future. Because without the wisdom and experience of the past, we would not have much of a future.

Seniors nix needs based idea

Dear editor,

I am a member of the Special Committee on the Alaska Longevity Bonus program. The Administration has been proposing a needs based bill as an alternative to the annuity approach.

Recently a hearing was held by the Senate State Affairs Committee regarding the longevity bonus annuity plan. Seniors from Hoonah to Nome spoke overwhelmingly against a "needs based" program. I have received many letters and phone calls from seniors in my district with the same convictions.

When we originally conceived the idea of a longevity program the purpose was to keep old-timers in Alaska so they might share their experience and knowledge with other Alaskans, as well as to reward them for their efforts in settling and developing our state.

Old timers have for some time looked forward to their retirement with the extra income the bonus provides. The realities are that with the rising cost of living in Alaska many of our seniors will be forced to leave the state.

The elders of Alaska are valuable. To lose their knowledge and experience would be detrimental to our state.

Sen. Jay Kerttula
Anchorage

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Senior Voice - March, 1986

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The Secretary announced receipt of:

ALASKA POWER AUTHORITY ANNUAL PROJECT STATUS REPORT, January 1985, received from Larry Crawford, Executive Director, January 29, in accordance with AS 44.83.210(b)

RECREATION ANNUAL REPORT TO THE LEGISLATURE, dated January 25 from Esther Kunnicke, Commissioner of Natural Resources in accordance with AS 41.17.320

THE ALASKA STATE PROFESSIONAL TEACHING PRACTICES COMMISSION ANNUAL REPORT for Fiscal Year 1984 received January 30 in accordance with AS 14.20.450-460

The reports are on file in the Office of the Secretary of the Senate.

STANDING COMMITTEE REPORTS

SB 56

The State Affairs Committee considered SENATE BILL NO. 56 (amending the longevity bonus program and the permanent dividend program, establishing an annuity program; efd) and recommended it be replaced with

CS FOR SENATE BILL NO. 56 (SA)

and do pass. The report was signed by Senator Abood, Chairman and concurred in by Senators Kelly, Ray, Vic Fischer and DeVries.

Six fiscal notes appear in Supplement No. 10.

"Letter of Intent"

The legislature is aware that changes in the federal statutory scheme for determining eligibility for assistance programs have created problems for individuals newly eligible to receive the Alaska Longevity Bonus. Specifically, eligibility for the Bonus is resulting in some needy individuals losing the benefits for which they were previously eligible. The Department of Health and Social Services has informed the legislature that they can rectify the most serious aspects of the problem if sufficient funds are appropriated, and if the legislature expresses its intent that the Department do so. The funds needed are estimated to be \$413,847.00. This letter is evidence of that legislative intent.

SB 56 cont'd

Prior to the last Congress, federal law provided that income from the Alaska Longevity Bonus program would not be counted as income for the purpose of determining eligibility for Supplemental Social Security (SSI). 42 U.S.C. 1382(b)(2)(B). Last year, the Alaska Longevity Bonus program was amended to open the program up to any individual over age 65 who had resided in the state for one year. Congress amended the above-cited statute to provide that income from the bonus would not be counted only if an individual became eligible prior to September 30, 1985 and if that individual met the 25 year residency requirement of the former law. Thus, individuals who either do not meet the 25 year requirement or who become eligible for the bonus after September 30, 1985 will have the bonus counted as income for SSI and, as a result, for Medicaid. Further, even if an individual does not apply for the bonus, the bonus is treated as a prior resource which must be exhausted before assistance can be claimed.

For those individuals without medical problems, these changes in the law mean that what they receive from the bonus is deducted from what they would have received from assistance programs. They do not pass off but they do not receive the benefit of the bonus. However, if receipt of the bonus makes them ineligible for assistance, they also lose eligibility for Medicaid, and receipt of the bonus does not offset lost medical benefits. SB 56 provides that a resident of a nursing home is not eligible for the bonus, but that pursuing home residents are protected from losing medical benefits because of the bonus. It is the individual who is not in a nursing home, but who receives medical assistance through Medicaid, who may be harmed by receipt of the bonus.

It is the intent of the legislature that the Department of Health and Social Services take steps to insure that eligibility for the Alaska Longevity Bonus not deprive needy individuals of necessary medical care.

/s/ Senator Mitch Abood
Senator Mitch Abood, Chairman
Senate State Affairs Committee"

SENATE BILL NO. 56 was referred to the Finance Committee.

The presence of Senator Josephson was noted.

Dept. is preparing a revised fiscal note / position paper on the proposed committee substitute.
POSITION PAPER
SENATE BILL NO. 128

For "An Act relating to the use of longevity bonus payments in determining adult public assistance; and providing for an effective date."

Prior to the passage of the federal Deficit Reduction Act of 1984 (P.L. 98-369), the federal Supplemental Security Income (SSI) Program disregarded all Alaska Longevity Bonus (ALB) payments made to its applicants and recipients. The \$250 Longevity Bonus payments did not count as income in determining SSI eligibility or payment amounts. The Deficit Reduction Act reduced this blanket disregard to apply only to those ALB recipients who have been continuously resident in Alaska for 25 years and, for SSI prior to October 1, 1985. For all other Longevity Bonus recipients, SSI now counts the Bonus payment as income, which reduces or terminates monthly assistance.

Approximately 1200 elderly Alaskans receive SSI assistance; almost all of them also receive Old Age Assistance. In addition, Old Age Assistance is provided to another 1250 persons whose countable income is over the SSI limits but under the much higher Old Age Assistance limits. With the granting of Old Age Assistance comes automatic eligibility for Medicaid coverage. Under the current Adult Public Assistance statute, (AS 47.25.435), Old Age Assistance must follow the income rules of the SSI Program, including disregarding or counting the Longevity Bonus payments.

1200
1250
2450

Without the changes proposed by Senate Bill No. 128, approximately 750 Old Age Assistance recipients will experience a \$230 to \$250 reduction in their total spendable monthly income as SSI and/or Old Age Assistance begins counting their non-exempt Longevity Bonus as income. This raises serious questions of equity, since approximately 1700 elderly recipients will retain their Longevity Bonus exemption and will, thereby, have \$230-\$250 per month more spendable income than their less-fortunate peers.

750
1700
2450

The situation of approximately 330 of these 750 recipients is of even greater concern. These 330 have other income that places them over the SSI income standards, and beginning to count their non-exempt Longevity Bonus payments will place them over the Old Age Assistance limits. By losing Old Age Assistance, they will lose their Medicaid coverage. Since Alaska's medical costs are so high, and the aged frequently need substantial medical services, loss of Medicaid coverage is often of more importance to them than loss of assistance income.

Senate Bill No. 128 would correct the cash assistance inequities introduced by the Deficit Reduction Act by mandating that all Old Age Assistance recipients have their Longevity Bonus payments disregarded.

Senate Bill No. 128 would also guarantee continued Medicaid coverage to those who would lose coverage if their non-exempt Bonus payments were counted as income.

However, federal Medicaid officials have recently reiterated regulatory objections to disregarding income by source rather than solely by amount. The Department has argued this issue extensively, but Medicaid officials remain adamant. Currently, it appears very likely that they would, at the least, disallow federal Medicaid matching funds to anyone who qualifies for Old Age Assistance only because the Department is disregarding the otherwise countable Bonus payment. In the worst case, the issue could result in a federal finding that the Adult Public Assistance program does not comply with Medicaid requirements, and all federal matching Medicaid funds would be withheld.

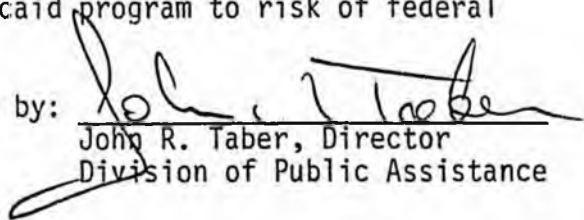
Although these issues might be successfully litigated, the need for stable, continuing medical coverage is too important to elderly recipients to address in the lengthy and uncertain legal arena.

RECOMMENDATIONS

While the Department supports Senate Bill No. 128 as written, there is an alternative approach that presents no risk to federal funding. We propose that Senate Bill No. 128 be amended to provide for an "Alaska Longevity Bonus Hold-Harmless Program" that would be statutorily and fiscally distinct from the Adult Public Assistance program, and that this new program provide for a full medical hold-harmless that would be distinct from the Medicaid program. We suggest that the Department's General Relief statutes be amended (perhaps by adding a subsection to AS 47.23.250) to establish this cash and medical hold-harmless with General Relief and General Relief Medical funding sources. 47.25.250

Under our existing mandate in AS 47.05.010(7) and (8) to maximize federal matching funds, which could be strengthened by a specific statement of legislative intent, the Department would then be free to take every step possible to requalify hold-harmless recipients for Medicaid federal matching funds, without exposing the Medicaid program to risk of federal fiscal penalties.

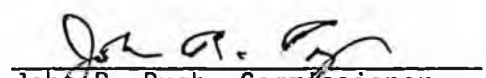
Recommended by:


John R. Taber, Director
Division of Public Assistance

Date:

2-12-85

Approved by:


John R. Pugh, Commissioner
Department of Health & Social
Services

Date:

2/13/85

POSITION PAPER/Department of Health & Social Services

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB No. 128
 Title: An Act relating to the use
of Longevity Bonus payments
 Sponsor: Halford, Rodey, Kerttula, Ray
 Requestor: _____
 Date of Request: 2/5/85

FISCAL DETAIL

Agency Affected: Health & Social Service
 Program Category Affected: Soc and Econ
assistance for general population
 BRU, Program or Subprogram(s) Affected:
Old Age Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS		1,400.0	1,530.5			
800 MISCELLANEOUS						
TOTAL OPERATING		1,400.0	1,530.5			
CAPITAL						
REVENUE						

FUNDING: (Thousands of Dollars)

GENERAL FUND		1,400.0	1,530.5			
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

Costs reflect only replacing loss of Supplemental Security Income monthly payments to 750 individuals in FY'86 and 794 individuals in FY'87. Current operations of Old Age Assistance already provide for full disregard of ALB payments, so OAA costs are already budgeted. Were SB No. 128 not enacted, and OAA began counting non-exempt ALB payments for all affected recipients effective July 1, 1985, OAA expenditures would be reduced by 760.0 for FY'86 and 830.7 for FY'87.

(continued on attachment)

Prepared By: John R. Taber *John R. Taber* Phone: 465-3347
 Division: Public Assistance Date: Feb. 8, 1985

Approved by Commissioner: *John R. Pugh* Date: 2/13/85 *JCC*
 Agency: _____

Distribution (by Agency preparing fiscal note):

- Legislative Finance
- Legislative Sponsor
- Requestor
- Office of Management and Budget

Fiscal Note
Senate Bill No. 128

Page Two

No costs for related Medicaid hold-harmless are included; see Position Paper. The Medicaid coverage for non-exempt ALB recipients (Approximately 314 in independent living situations and 36 in nursing homes) for FY'86 is already budgeted.

SB 128, Relating to the use of longevity bonus payments in determining adult public assistance.

The federal Supplemental Security Income (SSI) program requires that Alaska senior citizens apply for the longevity bonus. The Federal Deficit Reduction Act of 1984 (PL 98-369) requires those bonus recipients who have not been Alaska residents for 25 years prior to September 9, 1985 to count the bonus as income in determining SSI eligibility. Further, under the state's Adult Public Assistance (APA) statute, Old Age Assistance (a facet of APA) must follow the income rules of SSI.

Both the federal SSI program and the state's Old Age Assistance (OAA) program are needs-based programs available to citizens over the age of 65. SSI supplements a citizen's prior resources to ensure income of \$325/month. OAA further supplements to ensure income of \$586/month. When a recipient of SSI receives the \$250/month longevity bonus payment, the federal government cuts the SSI grant dollar for dollar, which effectively negates the advantage of receiving the longevity bonus. The Department of Health and Social Services has identified approximately 750 elderly recipients so effected by this provision.

In addition, 314 of these recipients have enough income to also lose eligibility for state Old Age Assistance, and therefore for Medicaid coverage.

CS SB 128, which has been prepared at the request of the bill sponsor, would require the state to make up for SSI payments lost due to receipt of the longevity bonus. It would also place those recipients who have lost Medicaid eligibility under the General Relief Medical program, which provides state funded medical coverage.

Early fiscal information on the proposal is attached. The Department of Health and social Services will present more complete fiscal information at the committee hearing, and will discuss revising the bill to

- 1) limit the public assistance programs covered to Supplemental Security Income (SSI), Medicaid, Adult Public Assistance (APA), and Aid to Families with Dependent Children (AFDC), and
- 2) exempt nursing home Medicaid recipients from eligibility for the longevity bonus.

SCR 10, Requesting the State Board of Education to require the study of Alaska history and government in the schools of the state.

SCR 10 requests that the State Board of Education adopt regulations requiring at least one unit of credit in the study of Alaska history and government for graduation from high school.

Current Board regulations (4 AAC 06.075) require a minimum of 21 units of credit before graduation, as follows:

Should the bill cover all Public Assistance programs? (i.e. move all ~~Adult~~ Public Assistance from Medicaid to General Relief)
According to Gordon Landes of Adult Public Assistance:

1. AFDC.

The Department moves elderly from AFDC into Adult Public Assistance when they reach age 65 because it is to their advantage to be there.

2. Aid to Blind and Disabled.

The Department automatically converts them to Old Age Assistance at age 65.

3. Food Stamps.

Elderly people don't use the Food Stamp program very much, nationally as well as state-wide, according to Landes. They avoid appearance of welfare. In addition, it isn't worth it for them, because they frequently live alone and the deduction for one person is small.

4. General Relief Medical.

Some drugs are covered.

5. General Relief Assistance

Almost no elderly apply for this help.

In general, Landes feels that holding harmless these assistance programs would cost the Department more in paperwork than it would benefit the elderly recipients.

6. Energy Assistance

REVISED
POSITION PAPER
SENATE BILL NO. 128

For "An Act relating to the use of longevity bonus payments in determining adult public assistance; and providing for an effective date."

Prior to the passage of the federal Deficit Reduction Act of 1984 (P.L. 98-369), the federal Supplemental Security Income (SSI) Program disregarded all Alaska Longevity Bonus (ALB) payments made to its applicants and recipients. The \$250 Longevity Bonus payments did not count as income in determining SSI eligibility or payment amounts. The Deficit Reduction Act reduced this blanket disregard to apply only to those ALB recipients who have been continuously resident in Alaska for 25 years and may apply for SSI prior to October 1, 1985. For all other Longevity Bonus recipients, SSI now counts the Bonus payment as income, which reduces or terminates monthly assistance.

Approximately 1200 elderly Alaskans receive SSI assistance; almost all of them also receive Old Age Assistance. In addition, Old Age Assistance is provided to another 1250 persons whose countable income is over the SSI limits but under the much higher Old Age Assistance limits. With the granting of Old Age Assistance comes automatic eligibility for Medicaid coverage. Under a current Adult Public Assistance statute, (AS 47.25.435), Old Age Assistance must follow the income rules of the SSI Program, including disregarding or counting the Longevity Bonus payments.

Without the changes proposed by Senate Bill No. 128, approximately 750 Old Age Assistance recipients will experience a \$230 to \$250 reduction in their total spendable monthly income as SSI and/or Old Age Assistance begins counting their non-exempt Longevity Bonus as income. This raises serious questions of equity, since approximately 1700 elderly recipients will retain their Longevity Bonus exemption and will, thereby, have \$230-\$250 per month more spendable income than their less-fortunate peers.

The situation of approximately 333 of these 750 recipients is of even greater concern. These 333 have other income that places them over the SSI income standards, and beginning to count their non-exempt Longevity Bonus payments will place them over the Old Age Assistance limits. By losing Old Age Assistance, they will lose their Medicaid coverage. Since Alaska's medical costs are so high, and the aged frequently need substantial medical services, loss of Medicaid coverage is often of more importance to them than loss of assistance income. The sponsor of SB 128 assumes that this problem will be remedied by provisions of CSSB 56, however, the Department cannot assume that a measure containing this medical hold harmless will be enacted prior to July 1, 1985. Therefore, we have priced the impact of SB 128 as if no medical hold harmless would exist for nursing home and non-nursing home recipients in FY86.

RECOMMENDATIONS

While the Department supports SB 128 as written, there is a "safer" approach that presents no risk to federal funding. We propose that Senate Bill No. 128 be amended to provide for an "Alaska Longevity Bonus Hold-Harmless Program" that would be statutorily and fiscally distinct from the Adult Public Assistance program, and that this new program provide for a full medical hold-harmless that would be distinct from the Medicaid program. We suggest that the Department's General Relief statutes (AS 47.25.120 - AS 47.25.300) be amended to establish this cash assistance hold-harmless under General Relief. We also recommend that the medical assistance hold harmless provisions be added to this bill to insure that medical benefits continue to be available to these persons if CSSB 56 does not pass this session.

CSSB 128

Under our existing mandate in AS 47.05.010(7) and (8) to maximize federal matching funds, which could be strengthened by a specific statement of legislative intent, the Department would then be free to take every step possible to requalify hold-harmless recipients for Medicaid federal matching funds, without exposing the Medicaid program to risk of federal fiscal penalties.

Recommended by:

John R. Taber
John R. Taber, Director
Division of Public Assistance

Date:

3-6-85

Recommended by:

Rod Betit
Rod Betit, Director
Division of Medical Assistance

Date:

3/6/85

Approved by:

John R. Pugh
John R. Pugh, Commissioner
Department of Health & Social
Services

Date:

3/8/85

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: 3/5/85

REQUEST

Bill/Resolution No. SB No. 128
Title: An Act relating to the use
of Longevity Bonus payments

Sponsor: Halford, Rodey, Kerttula, Ray
Requestor: _____
Date of Request: 2/5/85

FISCAL DETAIL

Agency Affected: Health & Social Service
Program Category Affected: Soc. and Econ.
assistance for general population

BRU, Program or Subprogram(s) Affected: Old Age Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS		2160.0	2361.2	2576.1	2810.4	3005.3
800 MISCELLANEOUS						
TOTAL OPERATING		2160.0	2361.2	2576.1	2810.4	3005.3

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
GENERAL FUND		2160.0	2361.2	2576.1	2810.4	3005.3
FEDERAL FUNDS						
OTHER						
TOTAL		2160.0	2361.2	2576.1	2810.4	3005.3

POSITIONS:

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
FULL-TIME		0	0	0	0	0
PART-TIME		0	0	0	0	0
TEMPORARY		0	0	0	0	0

ANALYSIS: Attach a separate page if necessary

See analysis attached.

Prepared By: John R. Taber Phone: 465-3347
Division: Public Assistance Date: March 5, 1985

Approved by Commissioner: John R. Pugh Date: 3/5/85
Agency: Health & Social Service *fcc*

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

1. Costs reflect replacing lost Supplemental Security Income federal payments with increased Old Age Assistance:

FY Cost

FY86: 750 persons/month = 1,400.0
FY87: 794 persons/month = 1,530.5
FY88: 838 persons/month = 1,669.8
FY89: 884 persons/month = 1,821.6
FY90: 933 persons/month = 1,987.4

2. Old Age Assistance formula need for the Adult Public Assistance component for FY86 to fund the 760.0 or the estimated FY86 cost of preventing bonus-related Old Age Assistance grant reductions:

FY Cost

FY86: 750 persons/month = 760.0
FY87: 794 persons/month = 830.7
FY88: 838 persons/month = 906.3
FY89: 884 persons/month = 988.8
FY90: 933 persons/month = 1,017.9

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 128
 Title: "An Act relating to use of Longevity Bonus in determining APA"
 Sponsor: Halford, Rodney, Kerttula
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Health & Social Services
 Program Category Affected: Soc. & Econ. Assistance for General Pop.
 BRU, Program or Subprogram(s) Affected: Medical Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)
800 MISCELLANEOUS						
TOTAL OPERATING		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)
CAPITAL						
REVENUE		(934.9)	(1,062.3)	(1,217.1)	(1,386.0)	(1,584.9)

FUNDING: (Thousands of Dollars)

GENERAL FUND		(1,284.3)	(1,417.9)	91,625.7	(1,851.4)	(2,117.7)
FEDERAL FUNDS		(934.9)	(1,062.3)	(1,217.1)	(1,386.0)	(1,584.9)
OTHER						
TOTAL		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

SB 128 eliminates Medicaid coverage for OAA recipients who because of receipt of ALB/Annuity become ineligible for Medicaid. The attached table projects the reductions in the number of recipients (line f and h) and FFP (line g and i). Table I shows the State General Fund and FFP reductions.

federal financial participation

Prepared By: Rod Betit, Director
 Division: Medical Assistance

R Betit

Phone: 465-3355
 Date: 3/6/85

Approved by Commissioner: J. R. P.
 Agency: Health & Social Services

Date: 3/1/85

JCC

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

7/1/84

FFP
Table I

This table shows the State general fund match and federal financial participation in the Medicaid program for those expenditures likely to be affected by changes in the current ALB statute. By simply eliminating Medicaid coverage both state and federal expenditures would be reduced. Any change which established an ALB hold harmless provision would result in the loss of FFP. ALB hold harmless program would be funded by transferring the general fund match in the Medicaid program to the ALB hold harmless and adding to it new State general fund in an amount equal to the lost FFP. Because there are a number of legislative proposals seeking to amend the current ALB statute, the following two tables were developed to use in analyzing the impact of these proposals. The comment section on the fiscal note of each bill states whether Medicaid is being eliminated or hold harmless.

Line G. Distribution: Expenditures for non-nursing home clients who may lose Medicaid eligibility.

	FY85	FY87	FY88	FY89	FY90
FED	413,847	471,609	537,173	611,285	697,133
GF	466,678	531,814	605,748	689,321	786,128
TOTAL	880,525	1,003,423	1,142,921	1,300,606	1,483,261

Line I distribution: Expenditures for nursing home clients who may lose Medicaid eligibility.

FED	521,070	590,716	679,971	774,727	887,715
GF	781,605	886,074	1,019,956	1,162,090	1,331,572
TOTAL	1,302,675	1,476,790	1,699,927	1,936,817	2,219,287

Table II

The attached table was prepared to project the offset of various ALB legislative proposals on the Medicaid program. The table represents: a) the nursing home daily rate; b) the nursing home cost for 365 days of services; c) the average cost per non nursing home recipient; d) the recipient share of nursing home costs; e) the number of monthly OAA eligibles; f) the number of ineligible non nursing home OAA due to receipt of ALB; g) the FFP for non nursing home OAA ineligibles; h) the number of ineligible OAA nursing home clients and; i) the FFP for ineligible nursing home clients.

MEDICAL ASSISTANCE COST ANALYSIS

	<u>FY85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
a. NH cost per day (7.5% annual increase)	\$123.	132.50	142.	153.	164.	177.
b. NH cost per year ((365 days)(a))	\$44,895.	48,362.	51,830.	55,845.	59,860.	64,605.
c. Non-NH medical cost/recipient/yr(7.5% annual)	\$2,617	2,813.	3,024.	3,251.	3,494.	3,756.
d. NH recipient cost sharing per year	\$11,304	11,705	12,660	13,152	12,692	14,232
e. Medicaid eligibles (monthly average)	2,609	2,768	2,937	3,107	3,293	3,491
f. OAA Med ineligibles due to ALB	314	333	353	374	396	420
g. OAA ineligibles cost (Federal Share at 47%) [(f)(c)]	363,044	413,847	471,609	537,173	611,285	697,133
h. NH ineligibles	31	33	35	37	39	41
i. NH ineligibles cost (Federal Replacement at 40%) (hb+hc - hd)	448,979	521,070	590,716	679,971	774,727	887,715

Assumptions:

1. FY84 was used as the base year for calculating recipients and expenditures.
2. In FY84 the average non-nursing home OAA recipient cost was \$2,434 per year.
3. The average cost per year was inflated yearly by a 4.5% inflation factor as indicated by the Anchorage Medical Services CPI. and a 3% intensity of service factor. The intensity factor includes such items as increases in technology, construction of new hospital beds, increases in morbidity and mortality and changes in method of treatment. The division feels the intensity factor is necessary to reflect the high medical risk in the elderly population.
4. The projected number of recipients will increase at 6% per year in line with the general population growth projected in the aged population.
5. In FY86 the number of non-nursing home OAA eligibles who will lose Medicaid coverage will be 333. Of these 94% will utilize medical services.
6. Since Medicaid non-long term care expenditures are composed of 47% federal and 53% state money, the state will need to provide state general funds to replace the 47% federal financial participation. The FFP rate for nursing homes is 40% federal 60% state.
7. The above table represents the cost associated with providing a medical hold harmless program for those OAA recipients who would lose Medicaid eligibility. Line "f" represents the FFP replacement cost for all nursing home hold harmless recipients. Line g is the FFP replacement for non-nursing home recipients.

Introduced: 3/6/85
Referred: Health, Education &
Social Services and Finance

BY KOPONEN, CLOCKSIN, DUNCAN,
GRUENBERG, HURLEY, M.M.MILLER,
SUND, TAYLOR, PIGNALBERI,
UEHLING AND GOLL

1 IN THE HOUSE

2

SPONSOR SUBSTITUTE FOR HOUSE BILL NO. 212

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to the use of longevity bonus pay-
7 ments in determining adult public assistance; and
8 providing for an effective date."

9

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

10

* Section 1. AS 47.45 is amended by adding new sections to read:

11

Sec. 47.45.122. ELIGIBILITY FOR PUBLIC ASSISTANCE. (a) An

12

individual for whom public assistance is denied or reduced solely

13

because of the receipt of a bonus by the individual or by a member of

14

the individual's household is eligible for assistance under the

15

general relief assistance program under AS 47.25.120 - 47.25.300.

16

Notwithstanding the limit in AS 47.25.130, the individual is entitled

17

to receive the same amount as the individual would have received under

18

other public assistance programs had there been no longevity bonus

19

program.

20

(b) In this section "public assistance" means

21

(1) Supplemental Security Income (42 U.S.C. 1381 - 1385)

22

(2) Medical Assistance (42 U.S.C. 1396 - 1396p);

23

(3) Adult Public Assistance (AS 47.25.430 - 47.25.615); and

24

(4) Aid To Families With Dependent Children (AS 47.25.310 -

25

47.25.420).

26

Sec. 47.45.124. ELIGIBILITY FOR STATE PROGRAMS. (a) A program

27

administered by the state or any of its instrumentalities or munici-

28

palities, the eligibility for which is based on financial need, may

29

not consider a bonus as income or resources unless required to do so

1 by federal law or regulation.

2 (b) A person who is ineligible for participation in the National
3 Older American Volunteer Programs (42 U.S.C. 5001 - 5023) or the Older
4 American Community Service Employment Program (42 U.S.C. 3056 - 3056f)
5 because a bonus received by the person was considered as income or
6 resources is eligible to participate in similar programs funded by the
7 state.

8 * Sec. 2. This Act takes effect July 1, 1985.

9

FACT SHEET - CSSB 128

FEDERAL SUPPLEMENTAL SECURITY INCOME \$325/mo.

Feds. look at your prior resources, which for certain Alaska seniors includes the \$250/mo. longevity bonus, and provide the difference between current monthly income and \$325.

STATE ADULT PUBLIC ASSISTANCE \$586/mo.

State looks at your prior resources, which includes SSI (above), and provides the difference between current monthly income and \$586.

NOTE: THE STATE ADULT PUBLIC ASSISTANCE LAW CONFORMS TO THE FEDERAL SSI PROGRAM. BOTH ARE NEEDS BASED, WITH AN AGE 65 ELIGIBILITY.

MEDICAID COVERAGE

Eligibility for Adult Public Assistance automatically qualifies the recipient for Medicaid coverage. Medicaid costs are shared with the federal government on roughly a 50/50 basis.

MEDICAID NURSING HOME COVERAGE

Whereas standard Medicaid eligibility conforms to the \$586/mo. threshold of the Adult Public Assistance Program, long term care is treated differently under the Medicaid program. Long term care income threshold is \$975/mo.

ELDERLY PERSONS AFFECTED (NUMBERS ARE APPROXIMATE)

Federal SSI and Adult Public Assistance Recipients	2,450
Number of these who must "count" longevity bonus	750
Number of these who also lose Medicaid	330
Number of these who will lose nursing home benefits	36

COSTS (APPROXIMATE)

To make up difference on SSI payments	\$1,400,000
To provide General Relief Medical coverage in place of Medicaid	880,500*
To provide General Relief Medical in place of Medicaid nursing home coverage	1,302,700*

(NOTE: \$466,700 and \$781,600 of these amounts respectively are contained in the Governor's FY 86 budget for the State share of this coverage under the existing Medicaid program.)

Alaska State Legislature

BETTYE FAHRENKAMP, Chairman
ARLISS STURGULEWSKI, Vice Chairman
JOE JOSEPHSON
PAUL FISCHER
EDNA ARMSTRONG-DE VRIES



POU
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Senate Committee on Health, Education and Social Services

MEMORANDUM

TO: Members, Senate Committee on Health, Education and Social Services

FROM: Committee Staff

RE: Committee Meeting, March 14, 1985

DATE: March 13, 1985

On Thursday, March 14, at 1:30 pm in the Beltz Room, the Senate Committee on Health, Education and Social Services will hear the following bills:

SSSB 117, Alzheimer's disease and related disorders.

SSSB 117, which would authorize grants for the operation of adult day care centers, establish an Alzheimer's disease task force, and authorize operation of a diagnostic center, received a preliminary hearing by the Senate HESS Committee on March 7, 1985. While testimony provided was generally supportive, there was recognition that funding for all aspects of the proposal may not be available. A letter to the Senate Finance Committee prioritizing the proposed services has been prepared.

SB 128, Relating to the use of longevity bonus payments in determining adult public assistance.

The federal Supplemental Security Income (SSI) program requires that Alaska senior citizens apply for the longevity bonus. The Federal Deficit Reduction Act of 1984 (PL 98-369) requires that bonus recipients who have not been Alaska residents for 25 years prior to September 9, 1985 count the bonus as income in determining SSI eligibility. Further, under the state's Adult Public Assistance (APA) statute, Old Age Assistance (a facet of APA) must follow the income rules of SSI.

Both the federal SSI program and the state's Old Age Assistance (OAA) program are needs-based programs available to citizens over the age of 65. SSI supplements a citizen's prior resources to ensure income of \$325/month. OAA further supplements to ensure income of \$586/month. When a recipient of SSI receives the \$250/month longevity bonus payment, the federal government cuts the SSI grant dollar for dollar, which effectively negates the advantage of receiving the longevity bonus. The Department of Health and Social Services has identified approximately 750 elderly recipients so effected by this provision.

In addition, 314 of these recipients have enough income to also lose eligibility for state Old Age Assistance, and therefore for Medicaid coverage.

CS SB 128, which has been prepared at the request of the bill sponsor, would require the state to make up for SSI payments lost due to receipt of the longevity bonus. It would also place those recipients who have lost Medicaid eligibility under the General Relief Medical program, which provides state funded medical coverage.

Fiscal information on the proposal is attached. The Department of Health and Social Services will discuss revising the bill to

- 1) limit the public assistance programs covered to Supplemental Security Income (SSI), Medicaid, and Adult Public Assistance (APA), and
- 2) exempt nursing home Medicaid recipients from eligibility for the longevity bonus.

SB 140, Rights of the terminally ill.

SB 140, which would allow for signing of a declaration that life-sustaining procedures be withheld or withdrawn, received a preliminary hearing in the Senate HESS Committee on March 5, 1985. A committee substitute, which addresses concerns raised at that time, has been prepared. Specifically, the committee substitute:

- 1) defines an adult as a person 18 years or older,
- 2) clarifies that health care professionals and health care facilities are not liable for actions taken under this chapter, and
- 3) provides for an immediate effective date.

SCR 10, Requesting the State Board of Education to require the study of Alaska history and government in the schools of the state.

SCR 10 requests that the State Board of Education adopt regulations requiring at least one unit of credit in the study of Alaska history and government for graduation from high school.

PROPOSED AMENDMENTS TO SB 128, RELATING TO USE OF LONGEVITY BONUS
PAYMENTS IN DETERMINING ADULT PUBLIC ASSISTANCE.

TO BE DISCUSSED BY DEPARTMENT OF HEALTH AND SOCIAL SERVICES.

#1

Add a new section to amend AS 47.45.070(2):

Sec. 47.45.070 UNQUALIFIED PERSONS. An unqualified person is one who

(2) meets the age and residence requirements of this chapter but either is confined in a state or federal mental health institution or facility and is certified by the state as unable to manage personal affairs, or resides in a nursing home as that term is defined in AS 08.70.180; however, if that person, at the time of commitment or commencement of residence, provided the principal support of a spouse, the commissioner of administration may determine to pay the confined person's bonus to the person's spouse until the spouse is qualified for a bonus;

RATIONALE: By excluding nursing home patients from receiving the Alaska Longevity Bonus, state expenditure would be reduced by \$521,100. This exclusion is provided for in SB 56, the Senate's annuity proposal.

#2

Add a definition of "public assistance" under AS 47.45.122:

(b) In this section "public assistance" means

- (1) Supplemental Security Income (42 USC 1381-1385);
- (2) Medical Assistance (42 USC 1396-1396p); and
- (3) Adult Public Assistance (AS 47.25.430-47.25.615).

RATIONALE: These are the public assistance programs most often accessed by elderly recipients, and the Department's fiscal information is based on the hold-harmless provision being applied only to these programs. Other public assistance programs include Food Stamps, Aid to Blind and Disabled, Energy Assistance, Aid to Families With Dependent Children, General Relief Medical.

Prepared by D.H.S.S. Effect of increasing eligibility threshold for Medicaid and Old Age Assistance by \$250/month.

YEAR	OAA EXEMPT	OAA NON-EXEMPT	OAA TOTAL	(1)	(2)				(1) MINUS (2)	
				RAISE ALL OAA BY \$250/MO COST	HOLD HARMLESS	NON-EXEMPTS				COMPARISON
					MEDICAL	OAA	SSI	TOTAL		
1	1,750	750	2,500.0	7,500.0	413.7	760.0	1,400.0	2,573.7	4,926.3	1
2	1,610	990	2,600.0	7,800.0	546.1	1,003.2	1,848.0	3,397.3	4,402.7	2
3	1,470	1,230	2,700.0	8,100.0	678.5	1,246.4	2,296.0	4,220.9	3,879.1	3
4	1,330	1,470	2,800.0	8,400.0	810.9	1,489.6	2,744.0	5,044.5	3,355.5	4
5	1,190	1,710	2,900.0	8,700.0	943.2	1,732.8	3,192.0	5,868.0	2,832.0	5
6	1,050	1,950	3,000.0	9,000.0	1,075.6	1,976.0	3,640.0	6,691.6	2,308.4	6
7	910	2,190	3,100.0	9,300.0	1,208.0	2,219.2	4,088.0	7,515.2	1,784.8	7
8	770	2,430	3,200.0	9,600.0	1,340.4	2,462.4	4,536.0	8,338.8	1,261.2	8
9	630	2,670	3,300.0	9,900.0	1,472.8	2,705.6	4,984.0	9,162.4	737.6	9
10	490	2,910	3,400.0	10,200.0	1,605.2	2,948.8	5,432.0	9,986.0	214.0	10
11	350	3,150	3,500.0	10,500.0	1,737.5	3,192.0	5,880.0	10,809.5	(309.5)	11
12	210	3,390	3,600.0	10,800.0	1,869.9	3,435.2	6,328.0	11,633.1	(833.1)	12
13	70	3,630	3,700.0	11,100.0	2,002.3	3,678.4	6,776.0	12,456.7	(1,356.7)	13
14	0	3,800	3,800.0	11,400.0	2,096.1	3,850.7	7,093.3	13,040.1	(1,640.1)	14
15	0	3,900	3,900.0	11,700.0	2,151.2	3,952.0	7,280.0	13,383.2	(1,683.2)	15
16	0	4,000	4,000.0	12,000.0	2,206.4	4,053.3	7,466.7	13,726.4	(1,726.4)	16
17	0	4,100	4,100.0	12,300.0	2,261.6	4,154.7	7,653.3	14,069.6	(1,769.6)	17

ASSUMPTIONS:

- 1) OAA Exempt declines by 140 cases per year - 8% Death Rate
- 2) OAA total cases increases by 100 cases per year
- 3) Raising qualifying limit by \$250 for OAA would not cause higher caseload growth
- 4) All costs projected in current dollars
- 5) If all OAA cases were raised by \$250; APD and ABL cases will not receive same increase

CONCLUSION:

Hold Harmless is most cost effective solution until year 10

ROD BETIT, DIRECTOR
 DIVISION OF MEDICAL ASSISTANCE
 March 8, 1985
 EXEMPTS.WKS

FROM: Report to 14th Legislature from State Special
Committee on AK Longevity Bonus Program (Minority Report)

believe the one year requirement would withstand a challenge. The two year residency requirement for student loans was recently upheld for similar reasons.

D. Conclusion

This proposal is valid because it addresses the federal support of the public assistance question and because it favors those Alaskans who need the bonus the most. As such, it should be the subject of serious legislative consideration, even though some seniors have reservations about it.

VI. STATUS QUO PROPOSAL

A. Summary

This proposal would continue the present program -- \$250 monthly bonus to all one year residents at least 65 years old -- indefinitely.

B. The Bonus as a Priority for State Funding

This proposal asserts that the bonus in its present form is a major priority and should be continued for all Alaskans despite the high cost. If our revenues were not dwindling at an everincreasing pace, we would look more favorably on this proposal. We fear, however, that other statewide needs such as roads, water and sewer, education, and health care will suffer if the bonus program continues in its present form. There are simply not enough oil dollars to meet all our needs. Many other State programs reward and assist elder Alaskans. We hope to continue funding these programs as well as a less expensive bonus program.

C. Continuing the Status Quo in FY 86

Although we are uncomfortable with the notion of continuing the program in its present form forever, we feel strongly that if the Legislature and the Governor cannot reach agreement on any other proposals during this session, the current bonus program should be extended for another year. We do not prefer this approach, but we do not want to end the program altogether if 120 days is not enough time to reach consensus on this important issue.

→ VII. The Immediate Impact on Public Assistance Eligibility

A. How to Protect the Bonus Income of Public Assistance Recipients

Federal and State law treat the longevity bonus payment

in a manner that results in a devastating form of "legal" discrimination for many senior citizens on public assistance. These laws require the senior citizen to apply for the longevity bonus. Then, these same laws reduce or eliminate the amount of public assistance payments, dollar for dollar. The senior citizens on public assistance, unlike the middle and high income seniors who receive the longevity bonus on top of all other income, realize no material gain in their income from receipt of the longevity bonus. Additionally, many of the seniors also lose their entitlement to public assistance medical benefits that the longevity bonus payment does not replace. The poorest of our seniors -- those who need the bonus the most -- are actually harmed by the Alaska longevity bonus.

This "catch 22" affects all seniors who fall into either of two categories:

1. Seniors who reached the age of 65 during 1984 through September 30, 1985, and who did not meet the unconstitutional residency requirements.
2. Seniors who reach the age of 65 after September 30, 1985, irrespective of their residency. This category would include all seniors who would have met the unconstitutional residency requirements.

The effect of this "catch 22" is that the federal government saves federal funds and Alaska's longevity bonus program becomes a cash benefit program for the middle and upper classes of seniors who need the money far less than the poor.

There are only two ways to extend the benefits of the longevity bonus program to our low income senior citizens:

1. create a means test longevity bonus program, or
2. create a "hold-harmless" provision in State public assistance statutes to ensure that the State makes up the difference in federal benefits lost and continues to pay State public assistance to individuals effected by the "catch 22."

The cost to the State would be:

HOLD-HARMLESS COSTS - FY86

	<u>Already Budgeted</u>	<u>Required Fiscal Note</u>
Federal (SSI) Payment	0	1,400,000
State (OAA) Payment	760,000	0
Non-nursing Home Medical	0	413,847
	<u>760,000</u>	<u>1,813,847</u>

If the Nursing Home Exclusion Amendment (see "B", page 13) is not adopted, then the hold-harmless fiscal note should be increased by \$514,982 for FY86.

STATUTE CHANGES

One Statute change would be needed to hold recipients harmless under all currently proposed longevity bonus programs:

Amend Article 4, AS 47.25.430f, to provide that

- (1) The Department must increase the amount of an individual's Adult Public Assistance payment by the amount of any reduction in assistance provided under Title XVI of the Social Security Act which occurs solely because of considering payments made under AS 47.45 as available income; and
- (2) Notwithstanding AS 47.25.435, in determining eligibility for Adult Public Assistance and the amount of Adult Public Assistance payment, the Department will not consider any payment made under AS 47.45 as income available to the applicant or recipient.

Note: Regardless of which longevity bonus proposal is enacted, the hold-harmless provisions above must have an effective date of July 1, 1985. If the means test proposal is enacted, these hold-harmless provisions should sunset on the effective date of the new act to protect funding level of adult public assistance programs.

B. Exclusion of Individuals in Nursing Homes from Eligibility for the Bonus

The bonus can preclude a poor elder from receiving Medicaid assistance while in a nursing home even though it does not offset the cost of care in the nursing home (approximately \$4000/month). Also, the federal government requires that the individual apply for the bonus to get Medicaid. While the State could hold

these individuals harmless at a cost of \$514,982 (General Fund), the Legislature could make nursing home residents ineligible for a bonus.

It should be emphasized that this suggestion is not intended to harm nursing home residents or to judge their worthiness for receipt of a bonus. Rather, it is intended to protect such elders from the exorbitant cost of nursing home care. Irrespective of personal income before entering a nursing home, 97% of Alaskans in nursing homes in the state eventually turn to Medicaid to pay their bills.

VIII. COST INFORMATION

A. Long Term Costs

The following chart compares the cost of the four proposals in nominal dollars through fiscal year 2034. The chart shows that the general fund costs of both the annuity and stairstepping proposals eventually disappear whereas the means test and status quo proposals continue to need general funds. For the next 50 years, the total costs are as follows:

Annuity proposal	\$1.29 billion
Stairstepping proposal	\$1.13 billion
Means test proposal	\$3.20 billion
Status Quo	\$5.42 billion

The present value (the amount of funding necessary to endow the program today) of the cost of these proposals is:

Annuity proposal	\$620.02 million
Stairstepping proposal	\$496.88 million
Means test proposal	\$634.9 million
Status Quo proposal	\$879.78 million

B. Population Forecast

The cost chart is based on a forecast of Alaska's elderly population. This forecast may overstate the number of people who will actually participate in any of the proposed programs, at least in the near term. For example, the population forecast predicts 16,744 eligibles for FY 86, yet only 14,547 elders are currently receiving a bonus. Also, after 2010, the forecast assumes that the elder population remains constant, which does not account for death, migration, etc.

If the population projections do turn out to be too high, then the cost estimates are also too high.

Sponsor Substitute for SB - 128

The purpose of the bill.

This bill would eliminate discrimination for some senior citizens who are on public assistance.

The discrimination.

The discrimination results from the federal government's Deficit Reduction Act of 1984. This act requires any low-income Longevity Bonus recipient who has NOT been a resident of Alaska for 25 years to apply for the Longevity Bonus and then "count" it as income when determining the amount of public assistance benefits.

As a result:

- (1) When the Longevity Bonus is distributed, low-income Alaskans who have lived in the state continuously for 25 years increase their income by \$250 -- the amount of the Bonus. (They are not required to "count" the Bonus as income when determining their public assistance benefits.)

There are about 1700 of these Alaskans.

- (2) However, low-income Alaskans who have NOT lived in the state 25 years lose \$250 -- the equivalent of their Bonus -- when collecting benefits. The amount of their Bonus is subtracted from their federal Supplemental Security Income. (The law first requires them to "count" the Bonus and then cuts their Supplemental Security Income by that amount.)

There are about 750 of these Alaskans.

- (3) Of these 750 less-than-25-year-residents, 333 have enough other income to put them in a worse position: they lose their Medicaid benefits when they receive the Longevity Bonus.

This happens because their other income pushes them over the limit (\$586) for the state's Adult Public Assistance program. Medicaid eligibility is tied by law to Adult Public Assistance. When low-income seniors lose their assistance, they also lose Medicaid.

The bill.

Sponsor Substitute for SB 128 "holds harmless" the Longevity Bonus. It allows the state to make up for public assistance payments which are lost due to federal law. The bill also places the "hold harmless" program under the General Relief Medical program, removing the threat to Medicaid by making this program statutorily and fiscally distinct from the Adult Public Assistance program.

(2) the following new to an individual (or an spouse if any) of resources the dollar figure specified 1(a) by \$50 or less, such emed for purposes of the e been without fault in adjustment or recovery ch paragraph, unless the ividual (and spouse if n a timely manner was

COM RESOURCES

curity Act is amended— semicolon at the end of end of paragraph (6) and

(6) the following new

United States which is fits due for one or more II, to such individual (or income is deemed to be s) income for purposes of aragraph in the case of e if any), with respect to d States, shall be limited h in which such amount limitation shall be given the payment of such

F RETROACTIVE BENEFITS

curity Act is amended to

JNT OF RETROACTIVE II

provision of this Act, in

II that were not paid in / due; and eligible for supplemen- more months in which regularly due, regularly due in such ncome benefits for such not been paid to such l by an amount equal to

so much of the supplemental security income benefits, whether or not paid retroactively, as would not have been paid or would not be paid with respect to such individual or spouse if he had received such benefits under title II in the month or months in which they were regularly due.

"(b) For purposes of this section, the term 'supplemental security income benefits' means benefits paid or payable by the Secretary under title XVI, including State supplementary payments under an agreement pursuant to section 1616(a) or an administration 'gree- ment under section 212(b) of Public Law 93-66.

"(c) From the amount of the reduction made under subsection (a), the Secretary shall reimburse the State on behalf of which supple- mentary payments were made for the amount (if any) by which such State's expenditures on account of such supplementary payments for the month or months involved exceeded the expenditures which the State would have made (for such month or months) if the individual had received the benefits under title II at the times they were regularly due. An amount equal to the portion of such reduction remaining after reimbursement of the State under the preced- ing sentence shall be covered into the general fund of the Treasury."

(b) The amendment made by this section shall apply for purposes of reducing retroactive benefits under title II of the Social Security Act or retroactive supplemental security income benefits payable beginning with the seventh month following the month in which this Act is enacted; except that in the case of retroactive title II benefits other than those which result from a determination of entitlement following an application for benefits under title II or from a reinstatement of benefits under title II following a period of suspension or termination of such benefits, it shall apply when the Secretary of Health and Human Services determines that it is administratively feasible.

EXCLUSION FROM INCOME OF CERTAIN ALASKA BONUS PAYMENTS

SEC. 2616. (a) Section 1612(b)(2)(B) of the Social Security Act is amended to read as follows:

"(B) monthly (or other periodic) payments received by any individual, under a program established prior to July 1, 1973 (or any program established prior to such date but subsequently amended so as to conform to State or Federal constitutional standards), if (i) such payments are made by the State of which the individual receiving such payments is a resident, (ii) eligibil- ity of any individual for such payments is ~~not based on need and is based solely on attainment of age 65~~ or any other age set by the State and residency in such State by such individual, and (iii) ~~on or before September 30, 1985,~~ such individual (I) first becomes an eligible individual or an eligible spouse under this title, and (II) ~~satisfies the twenty-five-year residency require- ment~~ of such program as such program was in effect prior to January 1, 1983."

(b) The amendment made by subsection (a) shall become effective on the date of the enactment of this Act.

Perm Fund

*longevity bonds
language (CSSB 128)
is patterned after
this*

1 permanent fund dividend may not be taken to satisfy a debt under (2)
2 of this section until any portion of the dividend necessary to satisfy
3 a child support obligation has been taken.

4 * Sec. 13. AS 43.23.065 is amended by adding new subsections to read:

5 (b) When an individual owes a past-due debt described in (a)(1)
6 of this section, the department shall require that the individual take
7 the individual's permanent fund dividend in cash.

8 (c) The courts of this state may, as a condition of any civil
9 judgment or restitution order under AS 12.55.045 - 12.55.051 or
10 12.55.100, require the defendant to take the defendant's permanent
11 fund dividend in cash.

12 * Sec. 14. AS 43.23.075 is amended to read:

13 Sec. 43.23.075. ~~ELIGIBILITY FOR PUBLIC ASSISTANCE.~~ (a) In
14 determining the eligibility of an individual under a public assistance
15 program administered by the Department of Health and Social Services
16 in which eligibility for assistance is based on financial need, the
17 Department of Health and Social Services may not consider a permanent
18 fund dividend as income or resources received by the recipient of
19 public assistance or by a member of the recipient's household unless
20 required to do so by federal law or regulation. The Department of
21 Health and Social Services shall notify all recipients of public
22 assistance of the effects of [RECEIVING] a permanent fund dividend
23 credit or cash payment.

24 (b) An individual who is denied medical assistance under 42
25 U.S.C. 1396 - 1396p (Social Security Act, Title XIX) solely because of
26 the credit or receipt of a permanent fund dividend by the individual
27 or by a member of the individual's household is eligible for state-
28 funded medical assistance under the general relief assistance program
29 (AS 47.25.120 - 47.25.300). The individual is entitled to receive,

1 for a period not to exceed four months, the same level of medical
2 assistance as the individual would have received under 42 U.S.C.
3 1396 - 1396p (Social Security Act, Title XIX) had there been no perma-
4 nent fund dividend program.

5 (c) An individual who is denied assistance solely because perma-
6 nent fund dividends credited to or received by the individual or by a
7 member of the individual's household are counted as income or re-
8 sources under federal law or regulation is eligible for cash assis-
9 tance under the general relief assistance program (AS 47.25.120 -
10 47.25.300). Notwithstanding the limit in AS 47.25.130, the individual
11 is entitled to receive, for a period not to exceed four months, the
12 same amount as the individual would have received under other public
13 assistance programs had there been no permanent fund dividend program.

14 * Sec. 15. AS 43.23.095(6) is repealed and reenacted to read:

15 (6) "permanent fund dividend" means a credit to an annuity
16 account under this chapter except that, as applied to an individual
17 who may receive only cash under AS 43.23.005(d) or 43.23.065, it means
18 a cash payment under this chapter;

19 * Sec. 16. AS 43.23 is amended by adding new sections to read:

20 ARTICLE 2. ANNUITY PROGRAM.

21 Sec. 43.23.110. ANNUITY INVESTMENT FUND. (a) The annuity
22 investment fund is established as a separate fund in the state trea-
23 sury. Notwithstanding AS 37.13.145, an amount equal to the permanent
24 fund dividends taken as annuity credits under this chapter shall be
25 annually transferred from the dividend fund to the annuity investment
26 fund.

27 (b) The legislature may appropriate either general funds, or
28 earnings of the undistributed income account in the Alaska permanent
29 fund, to the annuity investment fund. Funds appropriated under this

DATE: MARCH 6, 1985

SUMMARY OF LONGEVITY BONUS HOLD HARMLESS
DIVISION OF MEDICAL ASSISTANCE

BILL NO.	HOLD HARMLESS COVERAGE				FY86 HOLD HARMLESS COSTS (SAVINGS) IN STATE DOLLARS				
	MEDICAL	NURSING HOME	OAA	SSI	MEDICAL	NURSING HOME	OAA	SSI	TOTAL
CSSB56	YES	YES	NO	NO	\$413.8	-0-	-0-	-0-	413.8
CSSB128	YES	YES	YES	YES	413.8	521.1	760.0	1400.0	3094.9
HB210	NO	YES	NO	NO	(466.7)	-0-	-0-	-0-	(466.7)
HB212	YES	YES	YES	YES	413.8	521.1*	760.0	1400.0	3094.9
HB222	NO	YES	NO	NO	(466.7)	-0-	-0-	-0-	(466.7)**
HB239	NO	NO	NO	NO	(466.7)	-(781.6)	-0-	-0-	(1248.3)

* Note: This \$521.1 could be avoided if a nursing home exclusion is added to HB212, or the exclusion passes the Legislature in a separate piece of legislation (ie SB56, HB210, HB222)

** Note: In FY87 an additional savings of \$496.1 would occur in the Department's Permanent Fund (PFD) Hold Harmless budget. This is due to HB222's mandatory PFD contribution to the annuity which will reduce the Department's PFD Hold Harmless costs for AFDC (240.8), Aid to the Disabled (100.0), and Medicaid (155.3).

R. Jett
10/23/84

CASE TYPE I

CASE TYPE II

CASE TYPE III

	Client with exempt ALB and no other income	Client with countable ALB and no other income	Client with countable ALB and \$400 other income (INC)
	SSI + OAA + ALB = TOTAL	SSI + OAA + ALB = TOTAL	SSI + OAA + ALB + INC = TOTAL
BEFORE LATEST ACTION TAKEN BY CONGRESS	314 252 250 = \$816	314 252 -0- = \$566	-0- 186 -0- 400 = \$586
1) APPLY RULE PASSED BY CONGRESS (EMER REG)	314 252 250 = \$816	84 252 250 = \$586	-0- -0- 250 400 = \$650
2) HOLD HARMLESS OAA BENEFITS ONLY	314 252 250 = \$816	84 252 250 = \$586	-0- 186 250 400 = \$836
3) HOLD HARMLESS SSI AND OAA BENEFITS	314 252 250 = \$816	84 482 250 = \$816	-0- 186 250 400 = \$836

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TO: BETTYE FROM: SANDRA MARCH 7, 1985
SB 128 - USE OF LONGEVITY BONUS IN DETERMINING ADULT PUBLIC ASSISTANCE
HALFORD HAS ASKED THAT WE CONSIDER A PROPOSED C.S.

ALTHOUGH THE ACTUAL DETAILS AND THE DOLLAR THRESHHOLDS CAN GET COMPLICATED, WHAT THIS BILL REALLY DOES IS REQUIRE THE STATE TO PAY LONGEVITY BONUS RECIPIENTS THE AMOUNT OF FEDERAL SUPPLEMENTAL SECURITY INCOME (SSI) THEY LOSE BY ACCEPTING THE LONGEVITY BONUS.

COMPLICATORS:

1. ONLY RECIPIENTS WHO HAVE NOT LIVED IN THE STATE 25 YEARS MUST COUNT THE BONUS AS INCOME. (PER FEDERAL LAW)
2. THE FEDERAL SSI PROGRAM REQUIRES THAT YOU ACCEPT THE BONUS. SO RIGHT NOW WE HAVE 2 CLASSES OF OVER-65 YEAR OLDS -- THOSE WHO'VE LIVED IN THE STATE 25 YEARS AND THOSE WHO HAVEN'T. THE POLICY QUESTION IS, DO WE WANT TO MAINTAIN THIS CLASS DISTINCTION (WHICH SOME WILL POINT OUT WAS ESTABLISHED ON THE FEDERAL LEVEL), OR DO WE WANT TO ENSURE THAT ALL SENIORS ARE RECEIVING THE SAME AMOUNT OF SPENDABLE INCOME MONTHLY?

QUESTIONS:

1. HOW ARE PERMANENT FUND CHECKS TREATED?
(There is a "hold harmless" provision in the Permanent Fund law. The feds. count the dividend toward SSI eligibility, and the state makes up the difference, just as we're proposing for longevity bonus.)
2. WILL THE COSTS OF THIS PROPOSAL CONTINUE TO GROW AS MORE ALASKANS TURN 65? (Yes.)
3. ARE PEOPLE BEING AFFECTED NOW?
(Yes. Dept. has adopted regulations to allow them to continue paying the maximum \$261 public assistance, but federal SSI benefits are being lost.)
4. WHAT IS EFFECT OF MOVING MEDICAID PATIENTS INTO GENERAL RELIEF MEDICAL?
(State pays full share of this medical coverage, whereas Medicaid is shared roughly 50% with the feds. We face federal sanctions if we tamper with the Medicaid program, say by trying to exclude longevity bonus recipients from the financial eligibility criteria.)

5. HOW DOES THIS PROPOSAL COMPARE WITH WHAT'S BEING PROPOSED IN SB 56, THE SENATE'S LONGEVITY BONUS BILL?

SB 56 would not require the state to make up what a senior would lose from the federal government.

It would disqualify nursing home residents from receiving the longevity bonus, thus enabling them to continue receiving Medicaid coverage (otherwise the state would have to pick up the full tab for their nursing home care under the General Relief Medical program).

Letter of Intent accompanying SB 56 encourages funds be appropriated to provide medical coverage for those not living in nursing homes who would lose Medicaid eligibility by counting the longevity bonus.

SB 56 is currently in Senate Judiciary, and will undoubtedly continue to see revisions.

SEE ATTACHED FACT SHEET WITH APPROXIMATE NUMBERS AND COSTS.

COMMITTEE REPORT
SENATE

FURTHER: FINANCE

2/20/85

Date 2-11-85

Mr. President

The Committee on HESS considered SB 128
relating to the use of longevity bonus payments in determining adult
public assistance; efd.

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

- do pass
- do pass with attached amendment(s)
- replace with/or adopt CS for SB 128
- new title
- same title and recommends
- and attached a "LETTER OF INTENT" NEW FISCAL NOTE
- reports it back without recommendation
- recommends referral to _____ Committee

MEMBERS SIGNING
DO PASS

Edna De Vries
Patricia Thompson

MEMBERS HAVING
OTHER RECOMMENDATIONS

Bette Thompson
Chairman

DO PASS
Chairman recommendation

TO: Bettye
FROM: Sandra
RE: SB 128, Use of Longevity Bonus in Determining Adult
Public Assistance
DATE: March 14, 1985

HALFORD HAS ASKED THAT WE CONSIDER A PROPOSED C.S.

ALTHOUGH THE ACTUAL DETAILS AND THE DOLLAR THRESHOLDS CAN GET COMPLICATED, WHAT THIS BILL REALLY DOES IS REQUIRE THE STATE TO PAY LONGEVITY BONUS RECIPIENTS THE AMOUNT OF FEDERAL SUPPLEMENTAL SECURITY INCOME (SSI) AND ANY SUBSEQUENT STATE ASSISTANCE THEY LOSE BY ACCEPTING THE LONGEVITY BONUS.

COMPLICATORS

- 1) ONLY RECIPIENTS WHO HAVE NOT LIVED IN THE STATE 25 YEARS MUST COUNT THE BONUS AS INCOME. (PER FEDERAL LAW)

- 2) THE FEDERAL SSI PROGRAM REQUIRES THAT YOU ACCEPT THE BONUS.

SO RIGHT NOW WE HAVE 2 CLASSES OF OVER - 65 YEAR OLDS -- THOSE WHO'VE LIVED IN THE STATE 25 YEARS AND THOSE WHO HAVEN'T. THE POLICY QUESTION IS, DO WE WANT TO MAINTAIN THIS CLASS DISTINCTION (WHICH SOME WILL POINT OUT WAS ESTABLISHED ON THE FEDERAL LEVEL).

OR DO WE WANT TO ENSURE THAT ALL SENIORS ARE RECEIVING THE SAME AMOUNT OF SPENDABLE INCOME MONTHLY?

QUESTIONS:

- 1) HOW ARE PERMANENT FUND CHECKS TREATED?

There is a "hold harmless" provision in the Permanent Fund law. The fed. count the dividend toward SSI eligibility, and the state makes up the difference, just as we're proposing for longevity bonus.

- 2) WILL THE COSTS OF THIS PROPOSAL CONTINUE TO GROW AS MORE ALASKANS TURN 65?

Yes.

- 3) ARE PEOPLE BEING AFFECTED NOW?

Yes. The Department has adopted regulations to allow them to continue paying the maximum \$261 public assistance, but federal SSI benefits are being lost. These state regulations have placed Alaska technically out of compliance with the federal SSI statute, but the feds have agreed not to dispute in light of the state's commitment to resolving the longevity bonus problem by July 1985.

- 4) HOW DOES CS SB 128 COMPARE WITH WHAT'S BEING PROPOSED IN SB 56, THE SENATE'S LONGEVITY BONUS BILL?

SB 56 would not require the state to make up what a senior would lose from the federal government.

It would disqualify nursing home residents from receiving the longevity bonus, thus enabling them to continue receiving Medicaid coverage (otherwise the state WOULD have to pick up the full tab for their nursing home care under the General Relief Medical program).

Letter of Intent accompanying SB 56 encourages funds be appropriated to provide medical coverage for those not living in nursing homes who would lose Medicaid eligibility by counting the longevity bonus.

SB 56 has passed through Senate State Affairs, Judiciary and is now in Senate Finance.

5) WHAT EFFECT OF MOVING MEDICAID PATIENTS INTO GENERAL RELIEF MEDICAL?

The state pays full share of this medical coverage, whereas Medicaid is shared roughly 50% with the feds. We face federal sanctions if we tamper with the Medicaid program, say by trying to exclude longevity bonus recipients from the financial eligibility criteria.

- 6) IF WHAT WE'RE REALLY TRYING TO PROTECT ARE MEDICAL BENEFITS, IS THERE A LESS COSTLY WAY OF DOING THIS?

We could hold just the Medicaid recipients harmless, by moving them from the Medicaid program to general relief, and not worrying about the federal SSI. The Department's budget already contains the state share of these Medicaid costs; the federal share we'd need to make up would be \$413,847.

If we exclude nursing home patients from receiving the bonus, there would be an additional state savings of \$521,070.

- 7) INSTEAD OF MOVING THESE PEOPLE OUT OF THE MEDICAID PROGRAM INTO GENERAL RELIEF, WOULD IT BE CHEAPER TO ADJUST THE ELIGIBILITY THRESHOLD FOR STATE ADULT PUBLIC ASSISTANCE AND MEDICAID SO YOU'D BE ELIGIBLE EVEN WITH RECEIPT OF THE BONUS?

For the next 10 years, raising the threshold would cost the state more (figures are in your book-- approximately \$30 million more over the next 10 years). As our number of senior citizens in the bonus program who haven't lived here 25 years increases, it would be cheaper (approximately \$10 million cheaper in years 11-17).

Note that raising the threshold does not solve the equity problem, as we'll still have some seniors who receive federal SSI, and some who don't. The state cannot adjust the federal SSI threshold.

8) ONE SUGGESTION HAS BEEN TO PUT A 5 OR 10 YEAR SUNSET PROVISION ON THE HOLD HARMLESS OF SB 128, THEN ONCE WE'VE INCREASED OUR POPULATION OF NEWLY - RESIDENT SENIORS, RAISE THE ELIGIBILITY THRESHOLD AND GO BACK TO MEDICAID AND THE FEDERAL DOLLARS ATTACHED TO IT. WOULD THIS ABILITY BE HAMPERED IF WE'RE LIMITED, THROUGH A CAP, IN THE AMOUNT OF FEDERAL MEDICAID DOLLARS WE CAN RECEIVE?

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

Page 1 of 2

REQUEST

Bill/Resolution No.: CSSB 128 (HESS)
 Title: Eligibility and Use of Longevity Bonus in Determining Adult Public Assist.
 Sponsor: Halford
 Requestor: _____
 Name of Request: _____

FISCAL DETAIL

Agency Affected: Administration
 Program Category Affected: Social and Economic Assistance for the Aged
 BRU, Program or Subprogram(s) Affected: Longevity Bonus and Pioneers' Homes

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES	0	0	0	0	0	0
200 TRAVEL	0	0	0	0	0	0
300 CONTRACTUAL	0	0	0	0	0	0
400 SUPPLIES	0	0	0	0	0	0
500 EQUIPMENT	0	0	0	0	0	0
600 LAND & STRUCTURES	0	0	0	0	0	0
700 GRANTS, CLAIMS	0	(1,712.4)	(1,712.4)	(1,712.4)	(1,712.4)	(1,712.4)
800 MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	(1,712.4)	(1,712.4)	(1,712.4)	(1,712.4)	(1,712.4)
CAPITAL	0	0	0	0	0	0
REVENUE	0	(399.0)	(399.0)	(399.0)	(399.0)	(399.0)

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	(1,313.4)	(1,313.4)	(1,313.4)	(1,313.4)	(1,313.4)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	0	0	0	0	0
TOTAL	0	(1,313.4)	(1,313.4)	(1,313.4)	(1,313.4)	(1,313.4)

POSITIONS:	0	0	0	0	0	0
FULL-TIME	0	0	0	0	0	0
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: (Attach a separate page if necessary)

Prepared By: Joyce Munson, Director
 Division: Pioneers' Benefits

Phone: 465-4400
 Date: March 21, 1985

Approved by Commissioner: Lisa Rudd
 Agency: Department of Administration

Date: 3/27/85

Distribution (by Agency preparing fiscal note):

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

CSSB 128 (HESS)
Fiscal Note Analysis
Prepared by the Division of Pioneers' Benefits
Department of Administration
March 21, 1985

This bill would make persons who reside in nursing homes and government operated mental health facilities ineligible for the Longevity Bonus. This would have the effect of holding harmless those who would lose governmental benefits such as SSI, Adult Public Assistance and Medicare by receipt of the Longevity Bonus in other than Pioneers' Homes.

ASSUMPTIONS

1. The number of persons who would be affected in mental health facilities, Pioneers' Homes and nursing homes was approximately 608 as of February 1985. For the purpose of this fiscal note, it is assumed this number would remain unchanged. ($608 \times 12 \times \$250 = \$1,824,000$ saving)
2. There are approximately 133 nursing care residents of the Pioneers' Homes who need the Longevity Bonus in order to pay their monthly charges for care. Loss of the Longevity Bonus to these people would result in loss of revenue as program receipts for the Pioneers' Homes. ($133 \times 12 \times \$250 = \$399,000$ est. loss of program receipts)
3. Of the approximately 133 residents in Pioneers' Homes who would be affected, approximately 93 would have incomes reduced to the point they would become eligible for the monthly stipend payable under AS 47.25.020 (b) and (c). ($93 \times 12 \times \$100 = \$111,600$)

No consideration has been given to persons who may occupy the Juneau Pioneers' Home beginning in FY 88 because information is not available at this time about their incomes or needs.

CSSB 128 (FIN) ELIGIBILITY FOR LONGEVITY BONUS PAYMENTS AND
EXTENDING THE LONGEVITY BONUS PROGRAM FOR 1 YEAR.

IN 1984 A FEDERAL LAW WAS PASSED REQUIRING THAT RECIPIENTS OF THE LONGEVITY BONUS (WHO HAVE NOT BEEN ALASKA RESIDENTS FOR 25 YEARS) COUNT THE BONUS AS INCOME, WHICH RENDERS MANY OF THEM INELIGIBLE FOR MEDICAID BECAUSE IT PUSHES THEM OVER THE QUALIFYING THRESHHOLD. SB 128 "HOLDS HARMLESS" THESE PEOPLE BY SAYING THAT IF THEY'RE DENIED MEDICAID (WHICH IS A SHARED STATE AND FEDERAL PROGRAM) THEIR MEDICAL COSTS WILL BE COVERED THROUGH THE GENERAL RELIEF ASSISTANCE PROGRAM (WHICH IS ALL STATE FUNDS). FISCAL IMPACT IS THAT THE STATE PAYS 100% OF THE COST OF THEIR MEDICAL CARE RATHER THAN 50%.

TO ADDRESS NURSING HOME RESIDENTS, WHOSE MEDICAL COSTS ARE FAR GREATER THAN THE MONTHLY BONUS, SB 128 DISQUALIFIES THEM FROM RECEIVING THE LONGEVITY BONUS. THIS WAY THEY REMAIN ELIGIBLE FOR MEDICAID AND THEIR MEDICAL COSTS ARE SHARED BETWEEN THE STATE AND THE FEDERAL GOVERNMENT.

THE SENATE FINANCE COMMITTEE SUBSTITUTE ADDS A NEW SECTION 3 WHICH EXTENDS THE EXISTING LONGEVITY BONUS PROGRAM (\$250/MONTH FOR EVERY RESIDENT OVER THE AGE OF 65) FOR AN ADDITIONAL YEAR -- WHICH SUGGESTS WE WON'T SEE A "SOLUTION" THIS YEAR!

Offered: 5/7/85
Referred: Rules

Original sponsors: Halford, Rodey,
Kerttula, et al

1 IN THE SENATE

BY THE FINANCE COMMITTEE

2

CS. FOR SENATE BILL NO. 128 (Finance)

3

IN THE LEGISLATURE OF THE STATE OF ALASKA

4

FOURTEENTH LEGISLATURE - FIRST SESSION

5

A BILL

6

For an Act entitled: "An Act relating to eligibility for longevity bonus

7

payments and the use of longevity bonus payments in

8

determining program eligibility, extending the lon-

9

*Added in
Finance C.S.*

gevity bonus program for one year; and providing for

10

an effective date."

11

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

12

* Section 1. AS 47.45.070 is amended to read:

13

Sec. 47.45.070. UNQUALIFIED PERSONS. An unqualified person is

14

one who

15

(1) does not meet the age or residence requirements as

16

provided for under this chapter;

17

(2) meets the age and residence requirements of this chap-

18

ter but either is confined in a state or federal mental health insti-

19

tution or facility and is certified by the state as unable to manage

20

personal affairs, or resides in a nursing home as that term is defined

21

in AS 08.70.180; however, if that person, at the time of commitment or

22

commencement of residence, provided the principal support of a spouse,

23

the commissioner of administration may determine to pay the confined

24

person's bonus to the person's spouse until the spouse is qualified

25

for a bonus;

26

(3) is otherwise qualified but confined in a penal or

27

correctional institution or facility; upon completion of sentence or

28

upon the conferral of a pardon, parole or probation, the person may

29

make application; confinement outside the state shall be considered as

Revised in Finance.
HESS CS addressed
public assistance

1 residence in the state if a person was convicted and sentenced from a
2 court in Alaska; revocation of parole or probation shall be cause for
3 immediate disqualification until release from confinement is again
4 effected;

5 (4) voluntarily leaves the state and remains absent from
6 the state for a continuous period of more than 180 days.

7 * Sec. 2. AS 47.45 is amended by adding a new section to read:

8 Sec. 47.45.122. ELIGIBILITY FOR MEDICAID. An individual for
9 whom medicaid (42 U.S.C. 1396 - 1396p) is denied or reduced solely
10 because of the receipt of a bonus by the individual or by a member of
11 the individual's household is eligible for assistance under the gener-
12 al relief assistance program under AS 47.25.120 - 47.25.300. Notwith-
13 standing the limit in AS 47.25.130, the individual is entitled to
14 receive the same amount as the individual would have received through
15 medicaid had there been no longevity bonus program.

16 * Sec. 3. Section 11, ch. 38, SLA 1984 is amended to read:

17 Sec. 11. This Act and AS 47.45 are repealed June 30, 1986

18 [1985].

19 * Sec. 4. This Act takes effect immediately in accordance with AS 01.-
20 10.070(c).

Added in Finance.
Extends longevity
bonus program
one year.

**STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE**

Revision Date: 3/5/85

REQUEST

Bill/Resolution No. SB No. 128
 Title: An Act relating to the use of Longevity Bonus payments
 Sponsor: Halford, Rodey, Kerttula, Ray
 Requestor: _____
 Date of Request: 2/5/85

FISCAL DETAIL

Agency Affected: Health & Social Service
 Program Category Affected: Soc. and Econ. assistance for general population
 BRU, Program or Subprogram(s) Affected: Old Age Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS		2160.0	2361.2	2576.1	2810.4	3005.3
800 MISCELLANEOUS						
TOTAL OPERATING		2160.0	2361.2	2576.1	2810.4	3005.3

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE						
----------------	--	--	--	--	--	--

FUNDING: (Thousands of Dollars)

GENERAL FUND		2160.0	2361.2	2576.1	2810.4	3005.3
FEDERAL FUNDS						
OTHER						
TOTAL						

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

See analysis attached.

Prepared By: John R. Taber
 Division: Public Assistance

Phone: 465-3347
 Date: March 5, 1985

Approved by Commissioner: [Signature]
 Agency: Health & Social Service

Date: 3/5/85 *JCC*

Distribution (by Agency preparing fiscal note):

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

1. Costs reflect replacing lost Supplemental Security Income federal payments with increased Old Age Assistance:

FY Cost

FY86: 750 persons/month = 1,400.0
FY87: 794 persons/month = 1,530.5
FY88: 838 persons/month = 1,669.8
FY89: 884 persons/month = 1,821.6
FY90: 933 persons/month = 1,987.4

2. Old Age Assistance formula need for the Adult Public Assistance component for FY86 to fund the 760.0 or the estimated FY86 cost of preventing bonus-related Old Age Assistance grant reductions:

FY Cost

FY86: 750 persons/month = 760.0
FY87: 794 persons/month = 830.7
FY88: 838 persons/month = 906.3
FY89: 884 persons/month = 988.8
FY90: 933 persons/month = 1,017.9

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date: _____

REQUEST

Bill/Resolution No.: SB 128
 Title: "An Act relating to use of
 Longevity Bonus in determining APA
 Sponsor: Halford, Rodney, Kerttula
 Requestor: _____
 Date of Request: _____

FISCAL DETAIL

Agency Affected: Health & Social Services
 Program Category Affected: Soc. & Econ.
 Assistance for General Pop.
 BRU, Program or Subprogram(s) Affected: Medical Assistance

EXPENDITURES/REVENUES: (Thousands of Dollars)

	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90
OPERATING						
100 PERSONAL SERVICES						
200 TRAVEL						
300 CONTRACTUAL						
400 SUPPLIES						
500 EQUIPMENT						
600 LAND & STRUCTURES						
700 GRANTS, CLAIMS		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)
800 MISCELLANEOUS						
TOTAL OPERATING		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)

CAPITAL						
----------------	--	--	--	--	--	--

REVENUE		(934.9)	(1,062.3)	(1,217.1)	(1,386.0)	(1,584.9)
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FUNDING: (Thousands of Dollars)

GENERAL FUND		(1,284.3)	(1,417.9)	91,625.7	(1,851.4)	(2,117.7)
FEDERAL FUNDS		(934.9)	(1,062.3)	(1,217.1)	(1,386.0)	(1,584.9)
OTHER						
TOTAL		(2,183.2)	(2,480.2)	(2,842.8)	(3,237.4)	(3,702.6)

POSITIONS:

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

ANALYSIS: Attach a separate page if necessary

SB 128 eliminates Medicaid coverage for OAA recipients who because of receipt of ALB/Annuity become ineligible for Medicaid. The attached table projects the reductions in the number of recipients (line f and h) and FFP (line g and i). Table I shows the State General Fund and FFP reductions.

Federal financial participation

Prepared By: Rod Betit, Director
 Division: Medical Assistance

R Betit

Phone: 465-3355
 Date: 3/6/85

Approved by Commissioner: J. R. P.
 Agency: Health & Social Services

Date: 3/8/85

JCC

Distribution (by Agency preparing fiscal note):

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

FFP

Table I

This table shows the State general fund match and federal financial participation in the Medicaid program for those expenditures likely to be affected by changes in the current ALB statute. By simply eliminating Medicaid coverage both state and federal expenditures would be reduced. Any change which established an ALB hold harmless provision would result in the loss of FFP. ALB hold harmless program would be funded by transferring the general fund match in the Medicaid program to the ALB hold harmless and adding to it new State general fund in an amount equal to the lost FFP. Because there are a number of legislative proposals seeking to amend the current ALB statute, the following two tables were developed to use in analyzing the impact of these proposals. The comment section on the fiscal note of each bill states whether Medicaid is being eliminated or hold harmless.

Line G. Distribution: Expenditures for non-nursing home clients who may lose Medicaid eligibility.

	FY86	FY87	FY88	FY89	FY90
FED	413,847	471,609	537,173	611,285	697,133
GF	466,678	531,814	605,748	689,321	786,128
TOTAL	880,525	1,003,423	1,142,921	1,300,606	1,483,261

Line I distribution: Expenditures for nursing home clients who may lose Medicaid eligibility.

FED	521,070	590,716	679,971	774,727	887,715
GF	781,605	886,074	1,019,956	1,162,090	1,331,572
TOTAL	1,302,675	1,476,790	1,699,927	1,936,817	2,219,287

Table II

The attached table was prepared to project the offset of various ALB legislative proposals on the Medicaid program. The table represents: a) the nursing home daily rate; b) the nursing home cost for 365 days of services; c) the average cost per non nursing home recipient; d) the recipient share of nursing home costs; e) the number of monthly OAA eligibles; f) the number of ineligible non nursing home OAA due to receipt of ALB; g) the FFP for non nursing home OAA ineligibles; h) the number of ineligible OAA nursing home clients and; i) the FFP for ineligible nursing home clients.

EMERGENCY REGULATIONS

file ~~SB 128~~
SB 128

(Edie 1-18-85)

The Emergency Regulations were adopted to prevent recipients of the Longevity Bonus from being disqualified from the Medicaid program.

Medicaid coverage depends on what level of Social Security Income (SSI) received per month. Need for more than the minimum SSI supplement is required in order to be eligible for Medicaid.

In many cases this year the Longevity Bonus payments raised the recipient's monthly income to a level where they were receiving the minimum SSI, and therefore becoming ineligible for Medicaid. This is an extremely simplified explanation of the case.

Alaska Legal Services, Inc. of Fairbanks threatened to sue the State, DHSS, if they did not immediately adopt emergency regulations discounting Longevity Bonus as a part of base monthly income in applying the SSI formula.

Rep. Koponen is considering introducing legislation that could rectify this dilemma much in the same way that the Permanent Fund legislation did.

*Edie - call + find out why
changes necessary, how
affect current recipients.
Let me know - S.*

JAN 11 1985

NOTICE OF ADOPTION OF EMERGENCY REGULATIONS

As required by AS 44.62.250, notice is given that, under authority vested by AS 47.05.010, the Department of Health & Social Services amended on this date, as an emergency regulation, 7 AAC 40.320, relating to income exclusions in determining eligibility for benefits in the Adult Public Assistance program and 7 AAC 43.020, relating to eligibility for Medicaid. 7 AAC 40.320(a)(16) is amended so Adult Public Assistance payments will not be changed when changes occur in SSI eligibility or payment amounts as a result of the receipt of countable Longevity Bonus Payments.

7 AAC 43.020(a) is amended to add that, to be eligible for Medicaid, a person may not have a gross income in excess of 300 percent of the current Supplemental Security Income payment standard.

7 AAC 43.020(a)(2) is amended to clarify that when determining eligibility for Medicaid, no income is excluded in the determination of the 300 percent income limit.

This action is not expected to require an increased appropriation.

Copies of this regulation may be obtained by writing to Gordon Landes, Division of Public Assistance, Pouch H-07, Juneau, Alaska 99811.

Notice is also given that the Department of Health & Social Services intends to make this amendment or other amendments dealing with the treatment of the Alaska Longevity Bonus in determining eligibility for Adult Public Assistance and for Medicaid permanent under AS 44.62.260 and any person interested may present written statements or arguments pursuant to the action proposed at Room 310, Alaska Office Building, 350 Main Street, Juneau, Alaska, or may mail such statements or arguments to the above address to be received no later than 4:30p.m. on February 11, 1985.

Date:

January 4, 1985

Alaska Legal Services

Judy Bush - Legal Services

*Connie J. Sipe, Acting
Commissioner*
Connie J. Sipe, Deputy Commissioner
Department of Health & Social Services

EMERGENCY REGULATIONS

Register , 1985 HEALTH & SOCIAL SERVICES 7 AAC 40.320

7 AAC 40.320 (a)(16) is amended as follows:

(16) payments made under AS 47.45; the division will not increase or decrease the amount of any payment made under this chapter to reflect changes in SSI eligibility or payment amounts caused by receipt of countable longevity bonus payments; (Eff. 5/12/82, Reg.82; am 9/30/83, Reg.87, am / / , Register)

Authority: AS 47.05.010
AS 47.25.430
AS 47.25.435
AS 47.25.640
AS 47.25.810

EMERGENCY REGULATIONS

Register, HEALTH AND SOCIAL SERVICES 7 AAC 43.020

7 AAC 43.020 (a) is amended to read:

(a) To be eligible for medicaid coverage, a person must be eligible to receive a cash assistance payment under either the AFDC or APA programs with a gross income that does not exceed 300 percent of the current SSI payment standard. A person need not receive a cash assistance payment, but he or she must be eligible to receive one. Exceptions to this general principle exist as follows: (Eff 8/18/79, Reg. 71; am / / , Register)

Authority: AS 47.05.010
AS 47.07.050

7 AAC 43.020(a)(2) is amended to read:

(2) For persons in health care facilities on an inpatient basis whose income does not exceed 300 percent of the current SSI payment standard; for purposes of determining the 300 percent limit, no income is excluded; (Eff 8/18/79, Reg. 71; am / / , Register)

Authority: AS 47.05.010
AS 47.07.050