SB

56

AMENDMENTS TO SENATE BILL 56 BY RAY

Page 4, lines 14-17: Delete all material and replace with the following:

(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.

Page 8, Lines 15 and 16: Delete all material and replace with the following:

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

Page 11, Line 19: After the word "payment" insert the following:

"set out in (a) of this section"

A M E N D M E N T

TO: SB 56

Page 10, line 24, after (d):

Delete "An annuity share" and insert "Except as provided in (e) of this section, an annuity account"

Page 10, line 28 through page 11, line 1:

Delete all material and insert "(e) If a person dies before age 65, that person's account balance shall, subject to appropriation, be paid as a lump sum to the surviving spouse by right of survivorship unless a different beneficiary was designated. When no spouse survives and no beneficiary was designated, the account balance shall be paid to the decedent's estate."

# COMMITTEE REPORT

# SENATE

FURTHER: FINANCE

1/15/85

Date January 29 1985

Mr. President

The Committee on STATE AFFAIRS considered SB 56
amending the longevity bonus program and the permanent fund dividend program, establishing an annunity program; efd.

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

[X] do pass

[ ] do pass with attached amendment(s)

[X] replace with/or adopt CS for SB 56 (SA)
[ ] new title
[ ] same title and recommends ______

[X] and attached a "LETTER OF INTENT" [X] NEW FISCAL NOTE

[ ] reports it back without recommendation

[ ] recommends referral to ______ Committee

| MEMBERS SIGNING DO PASS | MEMBERS HAVING OTHER RECOMMENDATIONS |
|---|---|
| Tom Kelly | |
| Fred Ray | |
| V. Fischer | |
| Ed Dankworth | |

Chairman

Chairman recommendation

# A M E N D M E N T

TO: SB 56

Page 10, line 24, after (d):

Delete "An annuity share" and insert "Except as provided in (e) of this section, an annuity account"

#3

Page 10, line 28 through page 11, line 1:

Delete all material and insert "(e) If a person dies before age 65, that person's account balance shall, subject to appropriation, be paid as a lump sum to the surviving spouse by right of survivorship unless a different beneficiary was designated. When no spouse survives and no beneficiary was designated, the account balance shall be paid to the decedent's estate."

POSITION PAPER

BILL NO.: SENATE BILL NO. 56 | DATE: 1-24-85

TITLE: "An Act amending the longevity bonus program and the permanent dividend program, establishing an annuity program, and providing for an effective date."

CONTACT: DHSS/3030
DOA/2200
DOR/2300

1. INTRODUCTION -

Senate Bill 56 amends various sections of the Alaska Statutes regarding the longevity bonus and the Permanent Fund and thereby creates three major impacts:
a) Continues the bonus program for all persons age 65 by 1986 and pays these persons a benefit level of $250 per month plus 3% per annum for life. b) Phases out the bonus program for everyone younger than 65 (in 1986) and pays these persons an ever-reducing benefit level until sometime in the early part of the 21st Century when the benefit reaches zero. c) Creates a state supplemental retirement program (the annuity program) for those under 65 (in 1986) who choose to defer/invest their annual permanent fund dividends.

This position paper contains analyses provided by the Departments of Health and Social Services, Administration, and Revenue. The Departments of Revenue and Administration have provided fiscal notes for the costs of administration of both the altered Longevity Bonus Program and the Annuity Program.

Fiscal notes are limited to the administrative costs of implementation of this Act, because the program costs (the cost of living escalator in the Longevity Bonus Program and the front loading costs in the annuity program) are so interrelated and dependent upon one another that the variables generate a multitude of different estimated costs of the program.

When this bill was presented to the Alaska Longevity Bonus Task Force, the authors of the bill envisioned a 3% escalator in the longevity bonus and a front loading match of 25% of the Permanent Fund dividend checks which were deferred. The number of checks deferred was based upon an assumption that 30% of those eligible to defer would defer 100% of their check. Based upon all of these assumptions, the costs of the program would be an additional $25.2 million in FY 86, $26.5 million in FY 87, and $27.7 million in FY 88 above that which is already budgeted for the current longevity bonus payment. The drafters also assumed that these front loading costs would cease after FY 88.

Therefore the costs of the bill using these assumptions would be as follows:

| | FY86 | FY87 | FY-88 | Source |
|---|---|---|---|---|
| Front-Loading | 25,200.0 | 26,500.0 | 27,000.7 | Gen. Fund/Reserve Acct. PF |
| PFD BRU | 1,306.2 | -0- | -0- | Annuity Fund |
| Treasury BRU | 9.3 | 11.1 | 14.8 | Annuity Fund |
| Public Svcs BRU | 635.7 | 450.5 | 339.3 | General Fund |
| Longevity Bonus BRU | 10.0 | -0- | -0- | General Fund |
| Annuity DP BRU | 814.5 | 67.7 | 71.2 | Annuity Fund |
| Annuity Mgt BRU | 150.1 | 174.8 | 183.6 | Annuity Fund |
| SB 56 Cost: | 28,125.8 | 27,204.1 | 27,609.6 | |
| ALB Program | 50,200.0 | 53,900.0 | 57,300.0 | General Fund |
| Total Cost: | 78,325.8 | 81,104.1 | 84,909.6 | |

2. DEPARTMENT OF ADMINISTRATION -

The Department of Administration has two concerns about the 3% annual escalation of the longevity bonus proposed in SB56. First, it is artificial, not based on real inflation projections. Second, the cost-of-living increase is only for grandfathered seniors, paid for by the reduction in benefits paid to those seniors who were not grandfathered.

Under the annuity program described in Senate Bill 56, the Department of Administration will administer individual annuity accounts for 30% of the Permanent Fund dividend eligibles. This account management will include approximately 145,500 accounts in FY 86.

| FY | # of PFD Eligibles | | | | # of Annuity Accounts |
|---|---|---|---|---|---|
| FY86 | 485,000 | x | 30% | = | 145,500 |
| FY87 | 490,000 | x | 30% | = | 147,000 |
| FY88 | 500,000 | x | 30% | = | 150,000 |
| FY89 | 510,000 | x | 30% | = | 153,000 |
| FY90 | 521,000 | x | 30% | = | 156,300 |

The Department will also make annuity payments to those persons over the age of 65 who were eligible. The payment stream of each individual account will be based on actuarial tables. Each year the analysis will have to be redone because account balances and fund balances would vary. The attached fiscal notes describe the resources required to manage these accounts.

3. DEPARTMENT OF REVENUE -

The proposed legislation directly impacts four divisions within DOR:

- Division of Administrative Services
- Division of Enforcement
- Division of Treasury
- Division of Public Services

For purposes of convenience, we have consolidated our responses into categories instead of along division lines:

I. Introduction - The Annuity Program

II. Section-by-Section Analysis of Amendments to AS 43

III. Proposed Amendments

IV. Division(s) Fiscal Notes

## I
## Introduction
## The Annuity Program

### Annuity Program

Under the annuity program established by SB 56, an eligible Alaska resident under the age of 65 as of January 1, 1986 may forego all or a portion, but not less than 25%, of their permanent fund dividend in exchange for a credit to an individual annuity account. Upon reaching the age of 65, that person will receive a monthly annuity for the remainder of their life that is based on the accumulated value of their annuity account, including interest, at age 65.

As it does currently, the Enforcement Division of the Department of Revenue will determine eligibility for a dividend. Under SB 56 the division of Administrative Services will provide to the Department of Administration, the amount, if any, each resident's annuity account would be credited as a result of electing such credit rather than a cash dividend. The total of such credits will be transferred to the annuity investment fund from the dividend fund.

The Treasury Division of the Department of Revenue will invest the annuity investment fund. Investments permitted are the same as those of the Public Employees Retirement Fund except that the fund may also be invested in commercial insurance contracts. *Periodically, the Treasury Division will notify the Department of Administration of the income realized by the fund. The Department of Administration will allocate this as a pro-rata credit to each person's annuity account based on the balance in their account.

At age 65, a monthly annuity payment will be established for each individual. It will be determined by either the annuity available on the market which can be purchased with the amount in the annuitant's account or an amount determined by the Department of Administration based on then current interest rates, mortality tables, and amounts on the account if an "in-house" option is chosen to meet the liability for annuity payments. Under the "in-house" option the State would continue to manage the investment of the funds in annuitants' accounts at age 65 and thereafter.

Each year, the legislature may appropriate from the annuity investment account the amount required to make the monthly payments to annuitants who are 65 or older. The amounts required will be transferred to the Department of Administration which will make the payments.

The appropriation could be of "the amount required by AS 43.23.130" or the Department of Administration could provide an estimate each year which would be inexact due to deaths during the year of annuitants or those who would become annuitants in that year.

Comments

The private insurance option transfers from the fund the risk of inadequate earnings on post-65 annuitants' accounts to cover liabilities for payments. Of course the risk is not totally avoided since there is always some credit risk that the insurer will fail.

However, by incorporating the private insurance option into the investment fund as an investment, a conflict can arise with AS 43.23.110(c) which required crediting annuity accounts with investment fund earnings. If average fund rate-of-return is less than that on the insurance contracts, full payment of monthly annuities to those over 65 cannot be made while also crediting under-65 accounts at the average rate of return. This is because in this case the average rate of return on under-65 accounts would be higher than the actual returns. Of course, the credits can be made since they don't require cash payment and over time the problem may be eliminated by years on which average fund earnings exceed insurance contract rates of return.

A more definitive solution might be to credit under-65 accounts only with earnings net of annuity payments, to establish separate funds for those over and under 65, or to make the insurance contracts simply contracts of the Department of Administration and not investments of the annuity investment funds. In the case of "in-house" management, similar conflict would exist AS 43.23.110(c) when assumed rates of return and mortality differ from that realized.

The other major aspect of the annuity program which may present technical problems is the allocation from "front-loading" in AS 43.23.110(b)(2) and (3). If the base amount in (b)(2) is a separate appropriation or allocation in the legislation appropriating the "front-loading", then that base amount can be determined. In any event, (b)(3)'s derivation remains ambiguous.

II

Alaska Department of Revenue

Section by Section Analysis of SB 56

January 21, 1985

Section 1: Intent section, no effect on Department of Revenue except that paragraph (4), lines 3-5 sets up the relationship of two choices: annuity is the default unless applicant chooses cash. This affects form design and programming.

Section 2: Amends AS 43.23.005(c). Replaces the word "payment" with "dividend," for consistency reasons. There is no direct effect on the Department of Revenue.

Section 3: Amends AS 43.23.005 by establishing alternatives for PFD applicants:

a) If person is 65 or older on December 31, 1985, there is only one choice - 100% cash dividend.

b) If person is under 65 on December 31, 1985, there are two basic choices:

1) 100% cash.

2) At least 25% cash, and between 1 and 75% annuity.

Section 4: Amends AS 43.23.015(a). This change would appear to have no effect on the Department of Revenue unless the intent is to limit the Department of Revenue's ability to adopt regulations defining residency, etc., as opposed to just establishing the process.

Section 5: Amends AS 43.23.015(b) by changing the affidavit printed on the application, so that the applicant signs a statement that he or she understands that they will lose all dividends and interest credited to his/her annuity account. It should be amended to say the person also loses all the legislative appropriations credited under AS 43.23.110 (Section 16 of this bill). This represents a major forms change, and more importantly, creates substantial collection problems leaving many questions unanswered. For example, it is clear that the Department of Revenue can use collection procedures to collect money paid to applicants as cash dividends and within the limits of Section 10, as well as collect funds transferred to the Department of Administration based on an option for annuity, however what about:

1) Collecting annuities already paid to a person over 65? Who collects it and how?
2) If Revenue attempts to retrieve money from the Department of Administration after conviction or discovery of error, which agency goes after money from the annuitant? Under what provision of law? What if there aren't enough funds in the dividends account?

Section 6: Amends AS 43.23.015(e) in an attempt at consistency. But given the extreme difficulties that exist in administering a trust for persons in custody of a public agency (typically children in custody of the Department of Health & Social Services) and the animosity that is generated in the parents, giving a state agency the option of irrevocably placing a custodial person's dividend in an annuity account seems certain to generate extreme animosity from those parents and potential law suits for the recovery of the funds.

Section 7: Amends AS 43.23.015(f) for consistency with the new concept of the PFD annuity. It is important to note that this does nothing to correct the potential problem mentioned in the analysis of Section 6. Otherwise there is no effect on the Department of Revenue.

Section 8: Amends AS 43.23.015 by adding a paragraph directing the Department of Revenue to provide an option on the PFD application. For consistency's sake, the wording on line 16-17 should be changed to reflect the wording of the option as given in Section 3. Section 8 implies only two choices: 100% cash or 100% annuity. This doesn't square with Section 3, which provides that every applicant receives at least 25% of the dividend value in cash. It should also be noted that the use of the term "permanent fund dividend" on line 17 in juxtaposition to the term "cash" implies that the term "permanent fund Dividend" is defined as meaning annuity credit. This is not the definition provided in Section 15. The only effect on the Department of Revenue of this section is to modify the form and explain the choices to the public.

Section 9: Amends AS 43.23.035 to reflect the new concept of the PFD annuity option. It is unclear as to whether "additional credits" on line 24 means an allocation of future legislated appropriations and/or interest accrued to original annuity credits. The language here should be coordinated with the language in Section 5. Again, there are enforcement/collection problems. What if annuity payments have already started and there is not enough left to pay back all the erroneously credited dividends? How is the balance collected, and by whom? To what fund(s) are collections credited?

Section 10: Amends AS 43.23.035 to provide a mechanism for the Department of Revenue to collect dividends erroneously credited to the annuity investment account. This section also distinguishes between the remedy available to the Department of Revenue when the error is the fault of the state and when the error is the fault of the individual. It is difficult to evaluate which date starts the clock - date credited, or date discovered.

Section 11: Amends AS 43.23.055 to redefine the duties of the Department of Revenue to reflect the new concept of a PFD annuity option. Lines 19-20 again implies two choices - 100% cash or 100% annuity. Under the provisions of Section 3, everyone receives at least 25% cash. Lines 11-13 on page 6 requires the Department of Revenue to provide information to the Department of Administration necessary to maintain the individual annuity account records and administer the annuity program. It would appear that this information exchange would consist of the following:

1) Each week, starting with the first PFD payment run in October, the Department of Revenue would notify the Department of Administration (via a computer tape) of those applicants who came up for payment and who chose that a percentage of their dividend be credited to their annuity account. This will allow the Department of Administration to credit the account with the proper amount and as of the date on which the applicant would have otherwise been paid cash. This reporting will go on weekly as long as the Department of Revenue is making payments from that particular year's file.

2) On a regular basis, the Department of Revenue would have to provide the Department of Administration with the interest rate that reflects the earnings of the annuity investment fund.

3) On a case by case basis over a 10-year period the Department of Revenue - Enforcement would notify the Department of Administration of erroneous payments and seek reimbursement from the annuity investment fund.

Sections 12 & 13: Amend AS 43.23.065 to reflect the new concept of a PFD annuity option. The general effect of Sections 12 and 13, taken together, seems to be that the portion of a dividend which is taken as a credit to an annuity is not subject to levy, execution, garnishment, attachment, or other remedies for the collection of debt. As a statute change unrelated to the annuity concept, Section 12 provides for 100% attachment of a cash dividend to satisfy a court-ordered restitution under AS 12.55.045 - 12.55.051 or 12.55.100. It is important that the court order will serve to attach the dividend only if served on the Department of Revenue timely, as in the case of any other attachment order (CSED, IRS, etc.). Section 13 goes further by providing that in the case of a CSED arrearage or in the case of a civil judgement or order of restitution, the Department of Revenue or the Alaska courts, respectively, may require the defendant to take his/her entire PFD in cash. First of all, it is important to note that neither the Department of Revenue nor the court can force a person to apply for a dividend, but can force a selection of cash once the applicant has filed. There are two potential problems with Section 13:

1) The Department of Revenue cannot determine that an applicant meets the criteria of Section 13 until either CSED or a court agency serves an attachment order on the Department of Revenue - Enforcement, and in the case of CSED, indicating a past-due debt, and

2) Given that the overall thrust of Sections 12 and 13 is to exempt dividends selected as annuity credits from attachment, in the case of a person who owes (under Section 13) less than the amount of the total dividend, and originally chose the annuity option, it would seem that only an amount necessary to satisfy the debts under both the proposed AS 43.23.065(b) and (c) could be converted to the cash option, with the residual amount still protected from general attachment. This needs to be clarified.

Section 14: Amends AS 43.23.075 to reflect the new concept of a PFD annuity option. There is no effect on the Department of Revenue.

Section 15: Amends AS 43.23.095(b) to change the definition of "permanent fund dividend" to include the PFD annuity option. There is no effect on the Department of Revenue, save substantial changes to existing regulations.

Section 16: This section establishes the Annuity Program, to be administered by the Department of Administration. Although this section of the bill has very little impact on the Department of Revenue - PFD BRU, the following thoughts are offered for consideration:

1) AS 43.23.110(a), as proposed, provides for the gross amount selected as annuity credits to be transferred from the PFD fund to the annuity investment fund <u>annually</u>. As previously noted, the Department of Revenue could provide a magnetic file weekly as annuity participants come up for payment. The question is when does the interest envisioned in the proposed AS 43.23.110(c) begins to accrue: at payment of the residual cash dividend, or at some annual date upon transfer of the gross amount.

2) AS 43.23.110(b), as proposed, provides that the Legislature may appropriate additional funds to the annuity investment fund. Since this appropriation will likely be made during January - May of a given year, it should be clarified as to whether the appropriation is to be allocated between annuity participants of that same calendar year, or amongst those who selected the annuity option for the prior calendar year. If as the bill implies, the former is the case, then the Legislature will be making an appropriation without prior knowledge of the number of participants or the total amount of dividends selected as annuity credits. The applications are filed between April 1 - June 30 and the information is not on computer file until approximately July 31.

AS 43.23.110(b)(1), as proposed, appears to have the same constitutional flaws that caused the Legislature to include the children of Alaska in the PFD program in 1982.

AS 43.23.110(b)(2), as proposed, does not specify what portion of the appropriation should be used as the "base" amount. Also there needs to be definitions of the formula for determining the base amount, i.e. half the appropriation divised by the number of eligible annuitants.

AS 43.23.110(b)(3), as proposed, is a very confusing paragraph and makes no comprehensible sense. The formula for showing the appropriation must be clarified and simplified to the point that it can be easily explained to the public, in written form in the application booklet, in person during the required rural assistance program, and to the tens of thousands of Alaskans who will be asking the Department of Revenue's Public Services Assistance Centers for a lucid explanation.

AS 43.23.110(b)(4), as proposed, again implies that a person has an option of opting for 100% annuity, in contradiction of Section 3.

AS 43.23.110(c), as proposed, requires the Department of Revenue to provide the Department of Administration with the appropriate interest rate. The question unanswered is how often? The other implication is that the monies in the annuity investment fund are not to be co-mingled with other monies in the General Fund, but truly invested as a <u>separate fund</u>. This needs to be nailed down.

AS 43.23.130, as proposed, describes the benefit PFD applicants would receive in exchange for the option of receiving their whole dividend in cash, versus accepting up to 75% of the dividend in annuity credit. For this reason, it is extremely important that this section be very clear to the reader, and it is. In (f) of this section, there appears to be an attempt to shelter the original dividend given up, in part, for an annuity credit, from taxation by the federal government as income in the year the dividend was available in cash. The doctrine of "constructive receipt" would hold the dividend taxable in the current year and this will have to be pointed out to recipients of the dividend at the time their dividend is paid, whether it is paid in credits or in cash.

Section 22: Provides an implementation schedule for the provisions of this bill and makes the Act applicable to PFD years 1986 and thereafter. This defines the time period in which the Department of Revenue has to accomplish all of the necessary program changes. The Department of Revenue will have from the date this bill becomes law until March 31, 1986. This accelerated schedule will be costly and will make it very difficult to get everything on line by the 1986 filing period.

Section 23: Provides an effective date.

III

Alaska Department of Revenue

Suggested Amendments to SB 56

January 21, 1985

Submitted by Division of Administrative Services:

Eliminate Internal Contradictions Regarding Cash vs Annuity

1. Section 1 and Section 3 are contradictory as to the options available and should be modified.

   Page 2, lines 3 - 5 implies that the entire dividend is applied to the annuity account absent a conscious election by the applicant.

   Page 2, lines 22-24 says that the only choice other than 100% cash is 25% or more cash and between 1 and 75% annuity. Per Section 3, there does not appear to be a 100% annuity option.

2. Page 4, lines 16-17 should be amended to reflect the same wording of Section 3, to eliminate the contradiction regarding the available options.

Making Annuity/Cash Election Irrevocable

3. Page 5, lines 17-20 like Section 1, implies only two choices: 100% cash or 100% annuity. This should be amended to square with Section 3.

4. It is important that the election be binding and irevocable. If people change their mind, make a mistake, or whatever, there should be no opportunity to change election. Otherwise, the cost of this program will go up dramatically.

Limit Choice

5. Page 2, lines 19-25 should be amended to limit the choice of hybrid payments to:
   a) 100% cash,
   b) 25% cash, 75% annuity credit,
   c) 50% cash, 50% annuity credit, or
   d) 75% cash, 25% annuity credit.

   As it currently reads, there are at least 76 real options, significantly complicating the administration of the program.

Avoidance of Debts to State Agencies

6. Page 7, line 13 should be amended by adding a new subsection (d) to include debts to a state agency as a valid reason for compelling an applicant to elect a cash dividend.

Submitted by Division of Treasury: Comments on SB 56

1. Page 6, line 15

   "(a)" should be inserted before "Fifty."

2. Page 8

   Sec. 43.23.110(a) should include the statement that "Income of the annuity investment fund shall be added to the principal of the annuity investment fund." However, the Attorney General in a November 30, 1982 opinion expressed some doubt about whether a retention of investment earnings by a fund is permissible under the Constitution's prohibition of dedicated revenues.

3. Page 10, line 6

   Add "purchased from insurance companies which have a Best's Policyholders' Rating of A or better and belong to Best's financial size Group XV at the time of purchase" at the end of the sentence.

4. Page 10, line 23

   "received" should be "receive"

4. DEPARTMENT OF HEALTH AND SOCIAL SERVICES-

a) Alaska Longevity Bonus - Enactment of the amendments to the Longevity Bonus Program included in SB56 would not adversely affect nursing home residents but would continue to seriously jeopardize many needy elderly Alaskans who currently receive old age assistance, medicaid, and federal supplemental security income payments as outlined below. This negative impact is a direct result of the federal and state statutes specifying which longevity bonus payments must be counted as income when determining these individuals' eligibility for assistance.

Nursing home residents are excluded from receiving the longevity bonus and therefore will be protected from either the loss of their medicaid coverage or a loss or decrease in their state assistance grant.

Federal supplemental security income (SSI) recipients are not protected and therefore would suffer either a reduction of their SSI grant or a termination of their federal SSI grant.

Old Age Assistance (OAA) recipients would also suffer either a reduction in their state grant or a termination of their grant.

Medicaid recipients who are not residing in a nursing home and who have a gross income in excess of 300% of the SSI need standard (i.e., $975) will become ineligible for medicaid.

These low-income longevity bonus recipients can be protected from financial harm by the enactment of the following amendments to the Adult Public Assistance statutes (AS 47.25.430ff) to provide that:

(i) The department shall 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

(ii) 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.

The costs of protecting these individuals from the harm caused by the loss of their assistance coverage would be:

| | FY86 | FY87 |
|---|---|---|
| Federal (SSI) Payment | 1,400,000 | 1,530,517 |
| State (OAA) Payment | 760,000* | 830,737* |
| Non Nursing Home Medical | 413,847 | 471,609 |
| Nursing Home Medical | -0-@ | -0-@ |
| | $1,813,847 | $2,002,126 |

* As these costs are already budgeted for FY 86- this is a non-add item.

@ No cost if the exclusion is effective upon enactment of SB56.

The majority of these individuals receive most of their income from the federal SSI and the state APA programs while their primary source of payment for medical bills is medicaid.

The department believes that it is therefore absolutely essential for basic humanitarian reasons that enactment of SB56 be accompanied by enactment of a "hold-harmless" program that would protect those harmed by receipt of the proposed longevity bonus.

b) Annuity Program - Enactment of the annuity program proposed in SB56 would not have a substantial effect on most public assistance and medicaid recipients. These individuals, whose annual incomes are less than $10,000, cannot afford to defer their Permanent Fund checks as they have an immediate need for these funds to buy basic necessities.

c) Federal Waiver - Currently, people who are eligible to receive the longevity bonus before October 1, 1985, have grandfathered eligibility rights to federal SSI and medicaid because federal law prohibits counting their bonus payments as income. People not eligible to receive the longevity bonus by this date are not covered under this grandfather clause. As they begin to receive countable bonus payments, their SSI assistance and OAA is reduced or terminated. Those whose assistance is terminated become ineligible for medicaid.

This change from the previous universal exclusion of consideration of the longevity bonus as income was precipitated by the 1984 change in the residency eligibility standards for the Longevity Bonus Program.

The Department is unable to make any commitments as to whether any changes in the Longevity Bonus Program will again alter the federal government's position and, perhaps, end the special exclusion for 25-year residents who receive the Bonus. If this were to occur, the number of recipients placed in jeopardy and the costs of providing them with a "hold-harmless" protection would grow substantially beyond the estimate provided above.

Approved:

Commissioner Mary Nordale
Department of Revenue

Commissioner Lisa Rudd
Department of Administration

Commissioner John Pugh
Department of Health and Social Services

# STATE OF ALASKA 1985 LEGISLATIVE SESSION
# FISCAL NOTE

Revision Date

**REQUEST**
Bill/Resolution No: SB 56
Title: An act amending the Longevity Bonus and PFD programs
Sponsor: Ray, Halford, et al
Requestor: Senate State Affairs
Date of Request: 1/17/85

**FISCAL DETAIL**
Agency Affected: Revenue
Program Category Affected: General Govt.
BRU, Program of Subprogram(s) Affected: PFD BRU - Administrative Services, Enforcement, Public Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| OPERATING | | | | | | |
| 100 PERSONAL SERVICES | - | 229.2 | - | - | - | - |
| 200 TRAVEL | - | 2.5 | - | - | - | - |
| 300 CONTRACTUAL | - | 1073.5 | - | - | - | - |
| 400 SUPPLIES | - | 1.0 | - | - | - | - |
| 500 EQUIPMENT | - | - | - | - | - | - |
| 600 LANDS & STRUCTURES | - | - | - | - | - | - |
| 700 GRANTS, CLAIMS | - | - | - | - | - | - |
| 800 MISCELLANEOUS | - | - | - | - | - | - |
| TOTAL OPERATING | - | 1306.2 | - | - | - | - |
| CAPITAL | - | - | - | - | - | - |
| REVENUE | - | - | - | - | - | - |

FUNDING: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| GENERAL FUND | - | - | - | - | - | - |
| FEDERAL FUNDS | - | - | - | - | - | - |
| OTHER | - | 1306.2 | - | - | - | - |
| TOTAL | - | 1306.2 | - | - | - | - |

POSITIONS:

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| FULL-TIME | - | 4 | - | - | - | - |
| PART-TIME | - | 3 | - | - | - | - |
| TEMPORARY | - | - | - | - | - | - |

ANALYSIS: Attach a separate page for analysis.

(See attached)

Prepared By: Ervin B. Jones, Director
Phone: 465-2313
Division: Administrative Services
Date: 1/21/85

Approved by Commissioner:
Date: 1/23/85
Agency:

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

SB 56
Fiscal Note Analysis
Department of Revenue
PFD BRU - Administrative Services Component
January 21, 1985

As can be seen from the attached analysis of the bill, section by section, the primary impact on the Administrative Services component of the Permanent Fund Dividend BRU is going to be in Data Processing. This impact can be summarized in three areas:

1) The need to completely re-program the 1985 PFD system, with its approximately one hundred DP programs, both batch and on-line. These programs are for both the IBM mainframe and for the WANG VS system that is used in Anchorage and in Juneau.

2) The dramatic changes wrought by this bill will push the Department to combine all years in some fashion. Carrying multiple, separate systems on-line, and maintaining these separate systems has become very costly in terms of data processing resources. Revenue has been looking at a modified system that allows both look-up and interaction with prior year accounts, but the addition of the annuity based 1986 system will severely complicate that system design.

3) The addition of the annuity choice and its related edit requirements will impact the data entry section.

The incremental costs of performing these functions between the assumed effective date of approximately July 1, 1985 and the end of FY86 is estimated as follows:

Personal Services

1) Reprogram for 1986 PFD system

| | |
|---|---|
| 1 Analyst/Programmer V, R21, @ $4,653.05/Mo including salary and benefits for 12 months | $55,836 |
| 1 Analyst/Programmer IV, R19, @ $4100.75/Mo including salary and benefits for 12 months | $49,209 |

2) Project to consolidate 1986 system with prior four years (online, same as above)

| | |
|---|---|
| 1 Analyst/Programmer V, R21, @ $4,653.05/Mo including salary and benefits for 12 months | $55,836 |
| 1 Analyst/Programmer IV, R19, @ $4100.75/Mo including salary and benefits for 12 months | $49,209 |

3) Data capture of additiona data required on PFD applications.

| | |
|---|---|
| 3 Data Entry Clerk I's, R8, @ $2,120.77/Mo including salary and benefits, for 3 Mos each | $19,087 |

SB 56
Fiscal Note Analysis
Department of Revenue
PFD BRU - Administrative Services Component
January 21, 1985

TOTAL Personal Services $229,200

Travel (all 3 projects) $2,500

To pay travel/per diem costs of system analysts attending meetings in Anchorage and Juneau to map out the needed changes to the current PFD system.

TOTAL Travel $2,500

Contractual

1) To contract with Wang Labs, Inc to modify the existing garnishment system for PFD's. The Analyst/Programmer who built the original garnishment system currently works for Wang Labs, Inc as a systems consultant. Assuming he was available, he could redesign the system much faster than any other programmer available. This amount is calculated at $80/hour X 8 hour days X 5 day weeks X 16 weeks = $51,200

2) 4 Wang 4250 workstations rented for 12 Mos, @ $398/Mo including emulator boards @ $805 each, so they may be used as IBM terminals or Wang terminals = $22,300

3) Data Processing chargeback to the Department of Administration for development on the mainframe. This is a very difficult figure to estimate before knowing more specifically how the system will be designed. Based on our past experience, however when the 1982 PFD system was completely redone during FY83, the cost is estimated as $1,000,000

TOTAL Contractual $1,073,500

Supplies 1,000

TOTAL Administrative Services Cost $1,306,200

Alaska Department of Revenue
Enforcement Division
Fiscal Impact of SB 56
January 21, 1985

The fiscal impact of SB 56 is $-0- given the following assumptions.

1. Garnishment EDP programming changes can be accomplished at least three months before the 1986 payment schedule begins.

2. Orders of Restitution are served on the Division just as any other garnishment document, such as writs or Orders to Withhold.

3. Language is included that assures a creditor may not defeat a State agency by electing an annuity. If this is not done, the potential impact is a loss of revenue. Although not readily estimateable it is not anticipated to be significant.

4. Deposit and fund crediting procedures for collections of erroneously paid annuities are kept simple and/or allocation between funds are determined by the Department of Administration.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date ___________

REQUEST
Bill/Resolution No: SB 56
Title: Longevity Bonus, Permanent Fund Dividend, and Annuity Programs
Sponsor: Ray
Requestor: Senate State Affairs
Date of Request: January 17, 1985

FISCAL DETAIL
Agency Affected: Department of Revenue
Program Category Affected: ___________
BRU, Program of Subprogram(s) Affected: Treasury

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 | - | 9.3 | 11.1 | 14.8 | 19.3 | 24.7 |
| 400 SUPPLIES | - | - | - | - | - | - |
| 500 EQUIPMENT | - | - | - | - | - | - |
| 600 LANDS & STRUCTURES | - | - | - | - | - | - |
| 700 GRANTS, CLAIMS | - | - | - | - | - | - |
| 800 MISCELLANEOUS | - | - | - | - | - | - |
| TOTAL OPERATING | - | 9.3 | 11.1 | 14.8 | 19.3 | 24.7 |
| CAPITAL | - | - | - | - | - | - |
| REVENUE | - | - | - | - | - | - |

FUNDING: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| GENERAL FUND | - | - | - | - | - | - |
| FEDERAL FUNDS | - | - | - | - | - | - |
| OTHER Annuity Investment Fund | - | 9.3 | 11.1 | 14.8 | 19.3 | 24.7 |
| TOTAL | - | 9.3 | 11.1 | 14.8 | 19.3 | 24.7 |

POSITIONS:

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

ANALYSIS: See attached analysis.

Prepared By: Milt Barker MB
Division: Treasury
Phone: 465-2350
Date: January 22, 1985

Approved by Commissioner: [signature]
Agency: Department of Revenue
Date: 1/23/85

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

SB 56
Fiscal Note Analysis

Costs in this fiscal note are based on the following projected balances of the annuity investment fund:

| Fiscal Year | Average Fund Balance ($ Millions) |
|---|---|
| 1986 | $ 53 |
| 1987 | 88 |
| 1988 | 159 |
| 1989 | 244 |
| 1990 | 347 |

These projections assume three years of front-loading , 30% participation by eligibles, and 12% rate of return on investments.

Based on these average balances the following costs would be incurred ($000):

| Fiscal Year | Securities Custody |
|---|---|
| 1986 | 9.3 |
| 1987 | 11.1 |
| 1988 | 14.8 |
| 1989 | 19.3 |
| 1990 | 24.7 |

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date ____________

REQUEST
Bill/Resolution No: SB56
Title: An Act Amending the Longevity Bonus Program & Permanent Fund Dividend Program Establishing an Annuity Program and Providing an Effective Date.
Sponsor: Ray (et all)
Requestor:
Date of Request: January 22, 1985

FISCAL DETAIL
Agency Affected: Revenue
Program Category Affected: Revenue Collections

BRU, Program or Subprogram(s) Affected
Public Services

EXPENDITURES/REVENUES: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| OPERATING | | | | | | |
| 100 PERSONAL SERVICES | - | 60.7 | 159.9 | 172.7 | 183.1 | 197.2 |
| 200 TRAVEL | - | 13.5 | 25.2 | 27.2 | 28.8 | 31.1 |
| 300 CONTRACTUAL | - | 554.5 | 264.6 | 138.5 | 138.7 | 138.0 |
| 400 SUPPLIES | - | 2.0 | .8 | .9 | 1.0 | 1.1 |
| 500 EQUIPMENT | - | 5.0 | -0- | -0- | -0- | -0- |
| 600 LANDS & STRUCTURES | - | - | - | - | - | - |
| 700 GRANTS, CLAIMS | - | - | - | - | - | - |
| 800 MISCELLANEOUS | - | - | - | - | - | - |
| TOTAL OPERATING | - | 635.7 | 450.5 | 339.3 | 351.6 | 367.4 |
| CAPITAL | - | - | - | - | - | - |
| REVENUE | - | - | - | - | - | - |

FUNDING: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| GENERAL FUND | - | 635.7 | 450.5 | 339.3 | 351.6 | 367.4 |
| FEDERAL FUNDS | - | - | - | - | - | - |
| OTHER | - | - | - | - | - | - |
| TOTAL | - | 635.7 | 450.5 | 339.3 | 351.6 | 367.4 |

POSITIONS:

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| FULL-TIME | - | 5 | 5 | 5 | 5 | 5 |
| PART-TIME | - | - | - | - | - | - |
| TEMPORARY | - | - | - | - | - | - |

SOURCE OF FUNDS TO OFFSET FISCAL IMPACT OF BILL:

ANALYSIS: See attached.

Prepared By: Sally Smith, Director
Division: Public Services
Phone: 465-2392
Date: January 22, 1985

Approved by Commissioner: [signature]
Agency:
Date: 1/23/85

Distribution (by Agency preparing fiscal note):

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

ASSUMPTIONS — Fiscal Note SB56

490,000 eligible individuals
1986 application period (April 1st)

PROGRAM SUMMARY

Public education and application assistance will be provided in rural and urban areas. Phone, letter and computer response to inquiries as well as application assistance will be provided at Public Service Centers in Anchorage, Fairbanks and Juneau and forms distribution and application assistance will be available at various Legislative Information and Governor's Office locations throughout the state.

Hearings on regulations to be promulgated for the new law will be conducted in various cities (Juneau, Anchorage, Fairbanks, Nome, Kotzebue, Barrow, Kodiak and Ketchikan).

Technical training will be provided for those individuals who will be assisting the general public in completing their applications.

BUDGET

Personnel Services

| | FY86 | FY87 |
|---|---|---|
| 2FT Document Proc. Clk 3 in Anchorage | 23.7 | 62.5 |
| 2FT Document Proc Clk 3 in Juneau | 23.7 | 62.5 |
| 1FT Document Proc. Clk in Fairbanks | 13.3 | 34.9 |

Travel

| | FY86 | FY87 |
|---|---|---|
| Regulation Hearings | | |
| Two Employees to Anch, Fbks, Nome, Kotzebue, Kodiak, Barrow, Ketch | 3.1 | -0- |
| Administrative | | |
| Anch, Fbks, and Legislative Info. & Governor's Office locations | 10.4 | 25.2 |

Contractural

| | FY86 | FY87 |
|---|---|---|
| Advertising Campaign | 250.0 | 50.0 |
| Postage | 10.0 | 11.0 |
| Long distance charges | 250.0 | 100.0 |
| Computer Terminals (2) | 8.5 | 17.2 |
| Space rental (Anch & Juneau) | 36.0 | 86.4 |

Office Supplies

| | FY86 | FY87 |
|---|---|---|
| Office supplies | 2.0 | .8 |

| | | |
|---|---|---|
| Office Equipment (desk, chair, file cabinet, etc. for each new position) | 5.0 | -0- |

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:



REQUEST
Bill/Resolution No.: SB 56
Title: An act amending the longevity bonus program
Sponsor: Ray
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Department of Administration
Program Category Affected: Centralized Administrative Services
BRU, Program or Subprogram(s) Affected: Data Processing Services/Annuity Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

| Operating | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| 100 Personal Svcs | | 60.0 | 63.0 | 66.2 | 69.5 | 72.9 |
| 100 Rtmnt & Bnfts | | | | | | |
| 200 Travel | | | | | | |
| 300 Contractual | | | | | | |
| 400 Supplies | | .5 | .5 | .6 | .6 | .6 |
| 500 Equipment | | 4.0 | 4.2 | 4.4 | 4.6 | 4.9 |
| 600 Land & Struct | | | | | | |
| 700 Grants, Claims | | | | | | |
| 700 TRS Match | | | | | | |
| TOTAL OPERATING | -0- | 64.5 | 67.7 | 71.2 | 74.7 | 78.4 |
| CAPITAL | | 750.0 | | | | |
| REVENUE | | | | | | |

FUNDING: (Thousands of Dollars)

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | 814.5 | 67.7 | 71.2 | 74.7 | 78.4 |
| TOTAL | -0- | 814.5 | 67.7 | 71.2 | 74.7 | 78.4 |

POSITIONS:

| | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| | -0- | | | | | |
| FULL-TIME | | 1 | 1 | 1 | 1 | 1 |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

J.K. Humphreys

Prepared By: J.K. Humphreys, Director Phone: 465-4470
Division: Retirement & Benefits Date: 1-22-85

Approved by Commissioner: Lisa Rudd Date: 1/23/85
Agency: Department of Administration

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

Rev. 7/1/84

Senate Bill 56
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration

January 22, 1985

IV Analysis:

This Fiscal Note addresses costs in the Data Processing Services BRU. We estimate that the annuity program will be fully automated to reduce the need for staff. We estimate that system analysis, development and construction costs would be $750,000 and would be a capital appropriation from "other funds".

We anticipate the need for one full-time programmer/analyst IV to provide guidance in the development of the annuity systems with the contractors and, after implementation, to provide ongoing maintenance.

We estimated an inflation rate of 5%. Further, we assumed that "other funds" would be available for FY 86 costs.

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:



REQUEST
Bill/Resolution No.: SB 56
Title: An act amending the longevity bonus program
Sponsor: Ray
Requestor:
Date of Request:

FISCAL DETAIL
Agency Affected: Department of Administration
Program Category Affected: Labor Services
BRU, Program or Subprogram(s) Affected: Annuity Management

EXPENDITURES/REVENUES: (Thousands of Dollars)

| Operating | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| 100 Personal Svcs | | 124.5 | 164.7 | 173.0 | 181.6 | 190.7 |
| 100 Rtmnt & Bnfts | | | | | | |
| 200 Travel | | | | | | |
| 300 Contractual | | 8.0 | 8.4 | 8.8 | 9.3 | 9.7 |
| 400 Supplies | | 1.6 | 1.7 | 1.8 | 1.9 | 1.9 |
| 500 Equipment | | 16.0 | | | | |
| 600 Land & Struct | | | | | | |
| 700 Grants, Claims | | | | | | |
| 700 TRS Match | | | | | | |
| TOTAL OPERATING | -0- | 150.1 | 174.8 | 183.6 | 192.8 | 202.3 |
| CAPITAL | | | | | | |
| REVENUE | | | | | | |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | | | | | | |
| FEDERAL FUNDS | | | | | | |
| OTHER | | 150.1 | 174.8 | 183.6 | 192.8 | 202.3 |
| TOTAL | -0- | 150.1 | 174.8 | 183.6 | 192.8 | 202.3 |

POSITIONS: -0-

| | | | | | | |
|---|---|---|---|---|---|---|
| FULL-TIME | | 4 | 4 | 4 | 4 | 4 |
| PART-TIME | | | | | | |
| TEMPORARY | | | | | | |

ANALYSIS: (Attach a separate page if necessary)

J.K. Humphreys

Prepared By: J.K. Humphreys Director
Phone: 465-4470
Division: Retirement & Benefits
Date: 1-22-85

Approved by Commissioner: Lisa Rudd LSR
Date: 1/23/85
Agency: Department of Administration

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

Rev. 7/1/84

Senate Bill 56
Fiscal Note Analysis
Prepared by Division of Retirement & Benefits
Department of Administration

January 22, 1985

IV: Analysis: This Fiscal Note addresses costs in the Labor Services Program Category. The cost of the annuity program is anticipated to be borne entirely by the participants. We estimate that approximately four full-time employees will be needed to administer this program on a continuing basis. We estimate that the program supervisor and chief accountant will be needed for the entire first year to assist in the development and analysis of the computer system needs with the other two staff members being needed for only half of FY 86 to assist with the implementation and testing.

We estimated an inflation rate of 5% in all categories. Further, we assumed that "other funds" would be available for FY 86 costs.

We estimate that four positions are needed to administer this program.

| | |
|---|---|
| Supervisor: | Retirement & Benefits Specialist III |
| Accountant: | Accountant II |
| Technician: | Retirement & Benefits Technician I/II<br>(6 months FY86, full-time thereafter) |
| Clerk: | Accounting Clerk III<br>(6 months FY86, full-time thereafter) |

STATE OF ALASKA 1985 LEGISLATIVE SESSION
FISCAL NOTE

Revision Date:



REQUEST
Bill/Resolution No.: S.B. 56
Title: Longevity Bonus/Annuity Program
Sponsor: Ray
Requestor:
Date 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 Program

EXPENDITURES/REVENUES: (Thousands of Dollars)

| OPERATING | FY 85 | FY 86 | FY 87 | FY 88 | FY 89 | FY 90 |
|---|---|---|---|---|---|---|
| 100 PERSONAL SERVICES | 0 | 0 | 0 | 0 | 0 | 0 |
| 200 TRAVEL | | | | | | |
| 300 CONTRACTUAL | 0 | 10.0 | 0 | 0 | 0 | 0 |
| 400 SUPPLIES | 0 | 0 | 0 | 0 | 0 | 0 |
| 500 EQUIPMENT | 0 | 0 | 0 | 0 | 0 | 0 |
| 600 LAND & STRUCTURES | | | | | | |
| 700 GRANTS, CLAIMS | | | | | | |
| 800 MISCELLANEOUS | | | | | | |
| TOTAL OPERATING | 0 | 10.0 | 0 | 0 | 0 | 0 |
| CAPITAL | 0 | 0 | 0 | 0 | 0 | 0 |
| REVENUE | 0 | 0 | 0 | 0 | 0 | 0 |

FUNDING: (Thousands of Dollars)

| | | | | | | |
|---|---|---|---|---|---|---|
| GENERAL FUND | 0 | 10.0 | 0 | 0 | 0 | 0 |
| FEDERAL FUNDS | | | | | | |
| OTHER | | | | | | |
| TOTAL | 0 | 10.0 | 0 | 0 | 0 | 0 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 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: E. Louis Keller, Director
Phone: 465-4400
Division: Pioneers' Benefits
Date: January 22, 1985

Approved by Commissioner: Lisa Rudd LSR
Date: 1/23/85
Agency: Department of Administration

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

1/7D1/0122-02/2

Rev. 7/1/84

S.B. 56
Fiscal Note Analysis
Prepared by Division of Pioneers' Benefits
Department of Administration
January 22, 1985

ASSUMPTIONS

This fiscal note addresses administrative costs only for the Longevity Bonus Program.

Two payment systems will be run in the Division of Pioneers' Benefits. The first would pay a monthly target amount for those eligibles age 65 before January 1, 1986. The second would pay monthly payments, varying each year, for those age 65 after January 1, 1986. The second system would be impacted by information from the Annuity program.

The Longevity Bonus program would need additional resources for modifications to data processing files.

FY 86 Administrative Costs (Start-up)

| | |
|---|---|
| Contractual Services<br>Computer System Modification by Contractor | $10,000 |

Printing Costs already in 86 Budget

FY 87 Administrative Costs (Operations)

No Additional Cost

A M E N D M E N T

TO: SB 56

Page 10, line 24, after (d):

Delete "An annuity share" and insert "Except as provided in (e) of this section, an annuity account"

Page 10, line 28 through page 11, line 1:

Delete all material and insert "(e) If a person dies before age 65, a lump sum payment shall, subject to appropriation, be paid to the surviving spouse by right of survivorship unless a different beneficiary was designated. When no spouse survives and no beneficiary was designated, the lump sum shall be paid to the decedent's estate. The lump sum payment shall include all permanent fund dividend contributions made by the individual, together with interest, but shall not include any credits to the individual's account made pursuant to AS 43.23.110(b), or interest on those credits."

RECEIVED
ALASKA DEPARTMENT OF REVENUE
JAN 22 1985
OFFICE OF THE COMMISSIONER

# ALASKA PERMANENT FUND

# CORPORATION

# MONTHLY FINANCIAL REPORT

# DECEMBER 1984

**Alaska Permanent Fund Corporation**
Pouch 4-1000 Juneau, Alaska 99802
*TEL 907/465-2047 TLX 099-46-323*

MEMORANDUM

DATE: January 17, 1985

TO: Recipients of December 1984 Financial Statements

FROM: David A. Rose
Executive Director

SUBJECT: Report Highlights

This report indicates that the Fund's total assets approximate \$6.2 billion as of the close of the calendar year.

The increase during the month of December is primarily attributable to: a capital contribution in the amount of \$200,000,000, deposited by Governor Sheffield in final satisfaction of the special \$1.8 billion appropriation made by the Legislature in 1981; receipt of dedicated state revenues in the amount of \$29,871,000; and net income from operations of \$54,499,000.

During the first half of the fiscal year, the Fund posted net income of \$306,335,000. Operating expenses totalled less than one-half of one percent of gross revenues.

A comparison of marketable securities held at the end of December, valued in terms of both cost and market, reflects unrealized gains as follows:

| | Cost | Market | Unrealized Gains |
|---|---|---|---|
| Marketable debt securities | \$5,337,261,000 | \$5,379,234,000 | \$41,973,000 |
| Common stock | 503,811,000 | 514,908,000 | 11,097,000 |

Net gains realized on the purchase and sale of marketable securities for the first half of the year are as follows:

| | Realized Net Gains |
|---|---|
| Marketable debt securities | $1,040,000 |
| Common stock | 498,000 |

Updated projections for the period July 1, 1984 through June 30, 1985, based upon half year operations, are as follows:

| | |
|---|---|
| - Realized net income: | $618,600,000 |
| - Transfer to State for payment of dividends: | $213,800,000 |
| - Transfer to corpus for inflation-proofing: | $230,800,000 |
| - Additions to reserves: | $174,000,000 |

In making these projections, we continue to estimate a 10.80 percent realized nominal return, an inflation rate of 4.20 percent, and a realized real rate of return of 6.60 percent.

The Corporation's official projection analysis sheet is attached to the monthly financial report.

DAR:bm

ALASKA PERMANENT FUND CORPORATION

STATEMENT OF PORTFOLIO ASSETS, LIABILITIES AND FUND EQUITY

DECEMBER 31, 1984

| | % | AMOUNT |
|---|---|---|
| **ASSETS** | | |
| Cash | | $ 350,000 |
| Receivables and prepaid expense | 3 | 151,797,000 |
| Investments: | | |
| Marketable debt securities - | | |
| Repurchase agreements | | 24,100,000 |
| Short-term issues | 2 | 147,525,000 |
| Intermediate and long-term issues | 83 | 5,165,636,000 |
| Total marketable debt securities | 85 | 5,337,261,000 |
| Preferred & common stock, net of valuation allowance | 8 | 503,811,000 |
| Real estate equity pools | 1 | 46,250,000 |
| Participating real estate mortgages | | 8,000,000 |
| Conventional mortgages | 1 | 43,033,000 |
| Alaska certificates of deposit | 2 | 102,500,000 |
| Total investments | 12 | 6,040,855,000 |
| Property and equipment, net of accumulated depreciation | --- | 150,000 |
| Total assets | 100 | $ 6,193,152,000 |
| **LIABILITIES** | | |
| Accounts payable | | $ 406,000 |
| **EQUITY** | | |
| Contributed equity | 86 | 5,329,063,000 |
| Reserve for inflation and dividends | 14 | 863,683,000 |
| Total equity | 100 | 6,192,746,000 |
| Total liabilities & equity | 100 | $ 6,193,152,000 |

ALASKA PERMANENT FUND CORPORATION

STATEMENT OF REVENUES AND OPERATING EXPENSES
DECEMBER 31, 1984

| | CURRENT MONTH | YEAR-TO-DATE |
|---|---|---|
| **REVENUES** | | |
| Interest | $ 52,671,000 | $295,685,000 |
| Dividends | 2,108,000 | 10,105,000 |
| Realized loss/gain on the sale of: | | |
| Marketable debt securities | (482,000) | 1,040,000 |
| Common stock | 331,000 | 498,000 |
| Net loss/gain | (151,000) | 1,538,000 |
| Reimbursement of consulting fees | | 100,000 |
| Gross Revenues | 54,628,000 | 307,428,000 |
| **OPERATING EXPENSES** | | |
| Salaries and benefits | 60,000 | 332,000 |
| Travel | 7,000 | 36,000 |
| Trustee Honoraria | 3,000 | 18,000 |
| Communications | 9,000 | 73,000 |
| Consulting and studies, advisors | 7,000 | 93,000 |
| Printing and advertising & public info. pgm. | 1,000 | 11,000 |
| Office rent | 8,000 | 46,000 |
| Custody and safekeeping fees | | 59,000 |
| Common stock and real estate management fees | 7,000 | 253,000 |
| Conventional mortgage service fees | 13,000 | 55,000 |
| Public Information Program | | 48,000 |
| Depreciation | 8,000 | 45,000 |
| Other | 6,000 | 24,000 |
| Total Operating Expenses | 129,000 | 1,093,000 |
| Net Income | $ 54,499,000 | $306,335,000 |

ALASKA PERMANENT FUND CORPORATION

STATEMENT OF CHANGES IN FUND EQUITY
DECEMBER 31, 1984

| Current Month | Total | Contributed Equity | Reserve for Inflation and Dividends | Unrealized Loss on Stock | Undistributed Income |
|---|---|---|---|---|---|
| Balance, November 30, 1984 | $ 5,908,005,000 | $ 5,099,192,000 | $809,184,000 | (371,000) | |
| Net income from operations | 54,499,000 | | | | $ 54,499,000 |
| Dedicated state revenues | 229,871,000 | 229,871,000 | | | |
| Provision for 1985 dividends | | | 18,084,000 | | (18,084,000) |
| Provision for 1985 inflation proofing | | | 17,256,000 | | (17,256,000) |
| Allowance for unrealized loss on preferred and common stock | 371,000 | | | 371,000 | |
| Provision for future inflation and dividends | | | 19,159,000 | | (19,159,000) |
| Balance, December 31, 1984 | $ 6,192,746,000 | $ 5,329,063,000 | $863,683,000 | $ | $ |
| **Year-to-Date** | | | | | |
| Balance, June 30, 1984 | $ 5,374,820,000 | $ 4,838,344,000 | $557,347,000 | $(20,871,000) | |
| Net income from operations | 306,336,000 | | | | $306,336,000 |
| Dedicated state revenues | 490,718,000 | 490,718,000 | | | |
| Citizen Contribution | 1,000 | 1,000 | | | |
| Provision for 1985 dividends | | | 106,459,000 | | (106,459,000) |
| Provision for 1985 inflation | | | 110,047,000 | | (110,047,000) |
| Allowance for unrealized loss on preferred & common stock | 20,871,000 | | | 20,871,000 | |
| Provision for future inflation and dividends | | | 89,830,000 | | (89,830,000) |
| Balance, December 31, 1984 | $ 6,192,746,000 | $ 5,329,063,000 | $863,683,000 | $ | $ |

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF CHANGES IN CONDITION
DECEMBER 31, 1984

| | CURRENT MONTH | YEAR-TO-DATE |
|---|---|---|
| **FUNDS WERE PROVIDED BY:** | | |
| Investment operations: | | |
| Net income | $ 54,499,000 | $ 306,335,000 |
| Items not affecting funds- | | |
| Amortization | (357,000) | (836,000) |
| Depreciation | 8,000 | 45,000 |
| (Increase)/Decrease in receivables & prepaid expenses | (22,123,000) | 19,453,000 |
| Decrease in accounts payable | (205,000) | (443,000) |
| Total provided by operations | 31,822,000 | 324,554,000 |
| Sale of: | | |
| Marketable securities | 110,845,000 | 1,489,912,000 |
| Common stock | 8,280,000 | 38,560,000 |
| Total sales | 119,125,000 | 1,528,472,000 |
| Maturity of debt obligations | | 612,504,000 |
| Conventional mortgage repayments | 207,000 | 2,189,000 |
| Increase in value of common stock | (371,000) | (20,871,000) |
| Citizen Contribution | | 1,000 |
| Contributions from the State of Alaska | 229,871,000 | 490,719,000 |
| Total funds provided | 380,654,000 | 2,937,568,000 |
| **FUNDS WERE USED FOR:** | | |
| Purchases of: | | |
| Marketable securities | 377,600,000 | 2,521,057,000 |
| Conventional mortgages | 2,150,000 | 10,672,000 |
| Common stock | 52,757,000 | 230,666,000 |
| Real estate equity | | 38,750,000 |
| Property & Equipment | 7,000 | 73,000 |
| Alaska certificates of deposit | 1,000,000 | 102,500,000 |
| Total purchases | 433,514,000 | 2,903,718,000 |
| Provision for increase in value of preferred & common stock | (371,000) | (20,871,000) |
| Payments to the State of Alaska | | 155,130,000 |
| Total funds used | 433,143,000 | 3,037,977,000 |
| Net change in funds | $ (52,489,000) | $ (100,409,000) |

ALASKA PERMANENT FUND CORPORATION
STATEMENT OF CHANGES IN CONDITION

(continued)

| | CURRENT MONTH | YEAR-TO-DATE |
|---|---|---|
| SUMMARY OF CHANGES | | |
| (Decrease)/Increase in cash | $ (389,000) | $ 91,000 |
| Decrease in repurchase agreements | (52,100,000) | (100,500,000) |
| Net Change in Funds | $ (52,489,000) | $ (100,409,000) |

ALASKA PERMANENT FUND CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1984

1. ENTITY

The Constitution of the State of Alaska was amended by public referendum in 1976 to provide for the dedication of certain natural resource revenues to the Permanent Fund. The principal of the Permanent Fund is invested in perpetuity. In 1980, the State Legislature created the Alaska Permanent Fund Corporation (the "Corporation"), a public corporation separate from the agencies of State government and governed by a Board of Trustees, (the "Trustees"), to manage the investments of the Permanent Fund. In 1982, the Legislature amended the law to provide that a portion of the annual earnings would be made available to the State for the payment of dividends and that a portion would be contributed to the principal of the Permanent Fund sufficient to offset the impact of inflation. The balance was to be retained by the Corporation in an undistributed income account.

2. SIGNIFICANT ACCOUNTING POLICIES

Contributions -

Contributions by operation of statute are recorded when they become due from the State, i.e., when certain revenues are received by the State Department of Natural Resources.

Contributions by appropriation are recorded when they are received.

Depreciation -

Furniture and equipment are depreciated on a straight-line basis over a three year useful life. Other property is depreciated on a straight-line basis over a five year useful life.

Dividend appropriations -

Current law directs that one-half of a five year moving average of the net income of the Corporation be made available for the payment of dividends each year.

Funds -

For purposes of the Statement of Changes in Financial Position, the term "Funds" has been defined as cash and repurchase agreements.

Inflation Impact -

The impact of inflation is measured by the United States Consumer Price Index previous calendar year average for all urban consumers applied against the balance of contributed equity at the end of the fiscal year.

Interest Income -

Interest income on all securities is accrued monthly as earned.

Interest income is shown net of amortization of premiums and accretion of discounts.

Investments -

In accordance with Statement of Position of the Accounting Standards Division No. 78-10, investments in the aggregate are valued as follows:

| Type | Basis |
|---|---|
| Marketable debt securities | Cost adjusted for amortization of premiums and accretion of discounts |
| Common stock | Lower of cost or market value |
| Real estate equity pools | Market value |
| Participating real estate mortgages | Market value |
| Conventional mortgages | Cost |
| Alaska certificates of deposit | Cost |

Realized gains or losses on the sale of investments are determined by specific identification.

Undistributed Income -

Net earnings are credited to the undistributed income account at the end of the fiscal year. Earnings attributed to the investment of undistributed income are based upon the balance at the beginning of the fiscal year.

3. RECEIVABLES AND PREPAID EXPENSES

Receivables and prepaid expenses consisted of the following as of December 31, 1984:

| | |
|---|---|
| State of Alaska dedicated revenues | $ 19,692,000 |
| Purchased interest receivable | 4,683,000 |
| Accrued interest receivable | 124,940,000 |
| Dividends receivable | 2,441,000 |
| Prepaid expenses | 41,000 |
| | $151,797,000 |

4. MARKETABLE DEBT SECURITIES

The estimated market values of debt securities at December 31, 1984 are as follows:

| | AMOUNT | YIELD |
|---|---|---|
| Repurchase Agreements | $ 24,100,000 | 8.46% |
| Short Term Issues | 147,857,000 | 9.36% |
| Intermediate and Long Term Issues | 5,207,277,000 | 11.61% |
| | $5,379,234,000 | 11.53% |

All of the Corporation's investment securities are held by commercial lending institutions pursuant to custodial agreements.

5. COMMON STOCK

At December 31, 1984, the investment in preferred and common stock was valued at cost, which was less than the aggregate market value of $514,908,000 on that date. The dividend yield on preferred and common stock amounted to 4.49 percent.

6. REAL ESTATE EQUITY POOLS

At December 31, 1984, the investment in real estate equity pools was valued at market, which approximates cost. Future adjustments to market value will be based upon independent appraisals of the properties which constitute the pools.

7. PARTICIPATING REAL ESTATE MORTGAGES

The investment in participating real estate mortgages conveys an undivided interest in real property acquired in connection with a loan made on and collateralized by certain real estate. At December 31, 1984 the investment was valued at market, which approximates cost. Future adjustments to market value will be determined by the combined total of (i) an annual appraisal of the real property, and (ii) the difference between the present value of the mortgage and the outstanding principal balance of the note. Terms of the mortgage note provide for interest at 10.5 percent per annum. In addition, the Corporation will participate to the extent of its percentage of ownership in future net cash flow derived from leasing the property. The total amount of interest and net cash flow each year is limited to the maximum rate for interest allowed under applicable State of Texas or federal law.

8. CONTRIBUTED EQUITY

The principal balance of the Alaska Permanent Fund at December 31, 1984 was composed of the following elements:

| | |
|---|---|
| Dedicated state revenues | $ 2,246,936,000 |
| Appropriations from the State | 2,700,000,000 |
| Provision for inflation | 382,127,000 |
| | $ 5,329,063,000 |

9. RESERVE FOR INFLATION AND DIVIDENDS

The Trustees of the Permanent Fund have designated the balance of the undistributed income account to be continuously reserved for future inflation impact and dividend payments. Although the State Legislature could legally appropriate this amount for other purposes, in the opinion of the Trustees, this designation is in accordance with the stated purpose of undistributed income, i.e., to provide a reserve for the current statutory uses of Corporation income against the possibility of future declines in that income. Such a reserve is intended to enable the Corporation to fully offset the impact of inflation and still maintain a constant level of dividends in years when Permanent Fund earnings are not enough to do both.

* * * * * *

The Board of Trustees
Alaska Permanent Fund Corporation

Gentlemen:

The financial report and statements presented herein were prepared from the books of account without audit, and no independent opinion on the fairness of these statements has been rendered.

Sincerely,

Peter A. Bushre

Peter A. Bushre
Comptroller

ALASKA PERMANENT FUND CORPORATION

FINANCIAL PROJECTIONS AS OF 1/17/85

| | PRINCIPAL: ACTUAL & PROJECTED (in millions) | | | | | | | INCOME: ACTUAL & PROJECTED (in millions) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | Distributions | | | | Reserves | | | |
| FY | Beginning Balance | Appropriations | Dedicated State Revenues* | Inflation Proofing | Ending Balance | Inflation Proofing Shortfall | Adjusted Ending Balance | Net Income | Dividends | Inflation Proofing | State General Fund | Trans. Adj.** | Add (Delete) | Balance | Total Assets | FY |
| 78 | | | 54.4 | | 54.4 | | 54.4 | 1.8 | | | 1.3 | .5 | | | 55.0 | 78 |
| 79 | 54.4 | | 84.1 | | 138.5 | | 138.5 | 8.0 | | | 6.6 | 1.4 | | | 140.5 | 79 |
| 80 | 138.5 | | 344.4 | .3 | 483.2 | | 483.2 | 32.4 | 11.8 | .3 | 11.8 | 8.5 | | | 502.9 | 80 |
| 81 | 483.2 | 900.0 | 385.1 | .2 | 1,768.5 | | 1,768.5 | 149.9 | 27.5 | .2 | 27.5 | 36.0 | 58.7 | 58.7 | 1,874.6 | 81 |
| 82 | 1,768.5 | 800.0 | 400.5 | | 2,969.0 | | 2,969.0 | 368.4 | 71.1 | | 71.1 | 41.1 | 185.1 | 243.8 | 3,301.7 | 82 |
| 83 | 2,969.0 | 400.0 | 421.0 | 231.2 | 4,021.2 | | 4,021.2 | 471.1 | 107.9 | 231.2 | 109.5 | ( 87.5) | 110.0 | 353.8 | 4,593.0 | 83 |
| 84 | 4,021.2 | 300.0 | 366.2 | 150.9 | 4,838.3 | | 4,838.3 | 529.5 | 175.0 | 150.9 | | | 203.6 | 557.4 | 5,530.8 | 84 |
| 85 | 4,838.3 | 300.0 | 358.1 | 230.8 | 5,727.2 | | 5,727.2 | 618.6 | 213.8 | 230.8 | | | 174.0 | 731.4 | 6,672.4 | 85 |
| 86 | 5,727.2 | | 359.9 | 365.2 | 6,452.3 | | 6,452.3 | 597.5 | 258.5 | 365.2 | | | ( 26.2) | 705.2 | 7,416.0 | 86 |
| 87 | 6,452.3 | | 345.3 | 407.9 | 7,205.5 | | 7,205.5 | 659.7 | 287.6 | 407.9 | | | ( 35.8) | 669.4 | 8,162.5 | 87 |
| 88 | 7,205.5 | | 356.6 | 453.7 | 8.015.8 | | 8,015.8 | 724.8 | 313.0 | 453.7 | | | ( 41.9) | 627.5 | 8,956.3 | 88 |
| 89 | 8,015.8 | | 361.7 | 502.7 | 8,880.2 | | 8,880.2 | 794.2 | 339.5 | 502.7 | | | ( 48.0) | 579.5 | 9,799.2 | 89 |
| 90 | 8,880.2 | | 353.8 | 554.0 | 9,788.0 | | 9,788.0 | 867.3 | 364.4 | 554.0 | | | ( 51.1) | 528.4 | 10,680.8 | 90 |
| 91 | 9,788.0 | | 342.6 | 607.8 | 10,738.4 | | 10,738.4 | 943.9 | 399.0 | 607.8 | | | ( 62.9) | 465.5 | 11,602.9 | 91 |
| 92 | 10,738.4 | | 342.8 | 664.9 | 11.746.1 | | 11,746.1 | 1,023.8 | 435.4 | 664.9 | | | ( 76.5) | 389.0 | 12,570.5 | 92 |
| 93 | 11,746.1 | | 338.9 | 725.1 | 12,810.1 | | 12,810.1 | 1,107.4 | 473.7 | 725.1 | | | ( 91.4) | 297.6 | 13,581.4 | 93 |
| 94 | 12,810.1 | | 319.6 | 787.8 | 13,917.5 | | 13,917.5 | 1,194.1 | 513.7 | 787.8 | | | ( 107.4) | 190.2 | 14,621.4 | 94 |
| 95 | 13,917.5 | | 324.1 | 854.5 | 15,096.1 | | 15,096.1 | 1,284.3 | 555.4 | 854.5 | | | ( 125.6) | 64.6 | 15,716.1 | 95 |
| 96 | 15,096.1 | | 306.9 | 844.1 | 16,247.1 | 80.1 | 16,327.2 | 1,378.3 | 598.8 | 844.1 | | | ( 64.6) | | 16,845.9 | 96 |
| 97 | 16,247.1 | | 290.2 | 831.4 | 17,368.7 | 160.8 | 17,529.5 | 1,475.3 | 643.9 | 831.4 | | | | | 18,012.6 | 97 |
| 98 | 17,368.7 | | 282.2 | 885.1 | 18,536.0 | 174.0 | 18,710.0 | 1,575.9 | 690.8 | 885.1 | | | | | 19,226.8 | 98 |
| 99 | 18,536.0 | | 265.8 | 940.8 | 19,742.6 | 187.3 | 19,929.9 | 1,680.2 | 739.4 | 940.8 | | | | | 20,482.0 | 99 |
| 0 | 19,742.6 | | 253.2 | 998.4 | 20,994.2 | 201.4 | 21,195.6 | 1,788.2 | 789.8 | 998.4 | | | | | 21,784.0 | 0 |

* Source: Alaska Department of Revenue

** Chapter 81, SLA 1982, Sec. 15(b)

ASSUMPTIONS: 30% CASE FORECAST - 2nd Qtr FY85

25% Pre-1980 Contribution Rate
50% Post-1979 Contribution Rate
4.20% Inflation FY85
10.81% Return FY85
6% Average Inflation FY86-FY00
9% Average Return FY86-FY00

Chart 5

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

| | |
|---|---|
| 3% Escalation | |
| Annuity Program | 69.9 |
| Annuity Program w/1986 Stairstep | 285.3 |
| House Stairstep | 588.3 |
| No Escalation | |
| Annuity Program | 0 |
| Annuity Program w/1986 Stairstep | 128.4 |
| House Stairstep | 291 |

BILL SHEFFIELD, GOVERNOR

REPLY TO:

☐ 1031 W 4th AVENUE
SUITE 200
ANCHORAGE, ALASKA 99501
PHONE: (907) 276-3550

☐ 1st NATIONAL CENTER
100 CUSHMAN ST.
SUITE 400
FAIRBANKS, ALASKA 99701
PHONE: (907) 452-1568

☒ POUCH K - STATE CAPITOL
JUNEAU, ALASKA 99811
PHONE: (907) 465-3600

# DEPARTMENT OF LAW

*OFFICE OF THE ATTORNEY GENERAL*

January 25, 1985

The Honorable Mitch Abood
Chairman, Senate State Affairs Committee
Alaska State Legislature
Pouch V
Juneau, Alaska 99811

Dear Senator Abood:

Yesterday, after the teleconference on SB 56 (the bill which would replace the longevity bonus program with an annuity program) you asked that I draft a proposed amendment to the bill which would provide for death benefits if a person who had made annuity contributions died before reaching age 65. I have drafted a proposed amendment which provides that, in the event of death prior to age 65, the balance of an individual's account (which would include permanent fund dividend contributions, interest, and any front-loading) would be paid to the individual's surviving spouse unless another beneficiary were selected.

You have asked what effect, if any, such an amendment would have on the tax deferrability of permanent fund dividend contributions. As you know, the State Special Committee on the Alaska Longevity Bonus Program contracted with an expert on IRS tax law, Mr. Thomas Terry of the firm of Morrison and Foerster. His conclusions on the taxation of dividends appear in the draft committee report. I called Mr. Terry yesterday and asked him about the proposed amendment. He said that the inclusion of the amendment in the bill would have no negative effect on tax deferrability, and might even slightly enhance our arguments that contributions should not be taxed.

I should point out a number of policy considerations that may enter into your committee's deliberations on this point. First, the adoption of the amendment would increase, to some degree, the administrative costs of the program, since the department of administration would have to keep track of beneficiaries and handle death claims. Under the bill, administrative costs come out of annuity accounts, so that the provision would reduce - perhaps to a small degree - the annuity available to participants.

Second, under the bill without the amendment, the annuity account of a person who does not survive to age 65 is distributed among other contributors, so that those who do survive will receive an enhanced payment. This enhancement would be removed by the amendment.

Finally, since the present longevity bonus program is available only to individuals who survive to age 65, the bill without the amendment is consistent with the objective of replacing the retirement security presently available under the bonus program with a substitute program.

These considerations must be weighed against the concerns expressed at the teleconference yesterday that younger individuals may be reluctant to participate in the program if contributions would be lost upon death. Participation in the program is obviously an important consideration.

In short, the proposed amendment would have no substantial legal effect on the bill as a whole. The decision is a policy decision.

Sincerely,

NORMAN C. GORSUCH
ATTORNEY GENERAL

By: Deborah Vogt

Deborah Vogt
Assistant Attorney General

DV:jf

# SUMMARY SB 56

This bill will phase out the existing longevity bonus program and replace it with individual annuity accounts funded primarily by the permanent fund dividend of participants.

The 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. When the individual reaches age 65, they will receive their annuity whether they live in Alaska or anywhere else. Since it will be years before annuity payments are sufficent to replace the longevity bonus, the ALB program is reduced annually (except for those who reached 65 before Jan 1, 1985).

Alaskans who choose to participate in the program will receive monthly benefits after reaching age 65 of at least $250 per month. Alaska's existing elderly (65 or older before Jan 1, 1986) will receive their current $250 bonus inflated by 3% annually and still receive their permanent fund dividends.

There is a "target amount" for the longevity bonus which is $250 per month inflated by 3% each year. That target amount is then reduced by the maximum possible annuity that would be available to a 65-year old individual who has participated in the program every year since the program started.

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. If the person had not participated in the annuity program and turned 65 in that year, they would receive only the ALB payment of the $180.

| FISCAL YEAR | MAXIMUM Possible Annuity | ALB (for 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- |

## Residency

You must be a resident of Alaska at least one year to receive the Longevity Bonus payment. Permanent Fund dividends are, of course, only available to Alaska residents--so an individual must be an Alaskan to contribute to an annuity account. However, you do not have to be a resident of the State to receive your annuity.

### 1. Front-loading

Section 16 of the bill provides that the Legislature may "front-load" the annuity program by appropriating additional funds from general funds or earnings of the undistributed income account. Substantial front-loading in the first three years saves money over the length of the program as general fund obligations decrease at a faster rate. Also, with front-loading there is a substantial incentive for individuals to forgo immediate cash in favor of retirement security.

SECTIONAL SB 56

SECTION 1

Findings and Purpose

SECTION 2

A parent, guardian, or other authorized representative may elect to receive an annuity share on behalf of the eligible minor or individual in lieu of a cash dividend.

SECTION 3

A person who is eligible to receive a permanent fund dividend may elect to receive an annuity share in lieu of a cash dividend. Alternatively, a person may elect up to 75% in cash and the remainder as a annuity credit.

SECTION 4

The Commissioner of Revenue shall adopt regulations establishing the process for determining eligibility of individuals for permanent fund dividend.

SECTION 5

The permanent fund application form shall be prepared to allow an applicant to elect to receive cash in lieu of a permanent fund dividend.

SECTION 6

If a public agency claims a cash dividend on behalf of individuals, the public agency shall hold the dividend in trust for the individual.

SECTION 7

The state is not responsible for a guardian or parents decision for an individual on whether to take an annuity credit or cash dividend.

SECTION 8

The permanent fund dividend application form shall be prepared to allow an applicant, other than a person who is 65 before January 1, 1986 to elect to receive cash in lieu of a permanent fund dividend.

SECTION 9

Conforms the penalties and enforcement laws to include annuity credits.

SECTIC ? 10

Sets up a procedure so if a permanent fund dividend is credited to an individuals account erroneous a debit can be made against the account. 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 3 years.

SECTION 11

Adds duties to the Department of Revenue to maintain records of annuity shares for individuals and adopt regulations (to the extent allowable) to structure the annuity program so that annuity benefits are not taxable to people until they actually receive the annuity money.

SECTION 12

Allows only cash payments exempt from attachment for collection of debt.

SECTION 13

Allows only cash payments for those ordered by the courts or attached for collections.

SECTION 14

Conforming language to contain annuity credits within the eligibility laws and regulations for public assistance,

SECTION 15

New definition of permanent fund dividend to include annuities.

SECTION 16

Establishes the Annuity Investment Fund within the state treasury. An amount, equal to the permanent fund dividend multiplied by the number of persons electing to receive an annuity share, shall be annually credited to the Annuity Account. The Legislature may appropriate either general funds or earnings from the undistributed income account in the Alaska Permanent Fund. The definition of permanent fund dividend is amended to include annuities. Establishes the Annuity Fund. Money in the Annuity Fund is appropriated by the Legislature to pay annuities. An individual who holds one or more annuity shares may receive an annuity upon reaching the age of 65. The annuity will be paid monthly using a straight life annuity with a defined contribution plan. The annuity is cancelled upon the death of the individual receiving the annuity.

SECTION 17

Deletes the dollar amount in the Longevity Bonus program.

SECTION 18

Makes the Longevity bonus payment $250 plus a 3% annum minus the maximum possible annuity.

SECTION 19

Adds people residing in nursing homes, and the nursing home wing of of Pioneer Homes as unqualified persons to receive Longevity bonus payments. (This is to protect those people on Medicaid who were adversely impacted by Federal regulations)

SECTION 20

Repealers of Longevity Bonus Program

SECTION 21

Repealers of Longevity Bonus Program

SECTION 22

Applies to Permanent Fund dividends for years beginning after December 31, 1985.

SECTION 23

Immediate Effective Date

## ALB CASES WITH ZERO FRONT LOADING AND NO ESCALATOR

| FISCAL YEAR | ----MONTHLY PAYMENTS---- TARGET | MAXIMUM POSSIBLE ANNUITY | ALB | ----POPULATIONS---- 65 & OVER | 65 BEFORE 1986 | 65 AFTER 1985 | 65 BEFORE 1991 | 65 AFTER 1990 | ----PROGRAM COSTS (MILLIONS)---- COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1986 | $250.00 | $4.37 | $245.63 | 16,744 | 15,039 | 1,705 | 16,744 | -0- | $49.4 | $50.1 | $50.2 | $50.2 | $50.7 |
| 1987 | $250.00 | $9.70 | $240.30 | 17,768 | 14,349 | 3,419 | 17,768 | -0- | $51.2 | $52.9 | $53.3 | $53.3 | $53. |
| 1988 | $250.00 | $16.03 | $233.97 | 18,769 | 13,660 | 5,109 | 18,769 | -0- | $52.7 | $55.3 | $56.3 | $56.3 | $56. |
| 1989 | $250.00 | $23.55 | $226.45 | 19,828 | 12,974 | 6,854 | 19,828 | -0- | $53.9 | $57.5 | $59.5 | $59.5 | $59. |
| 1990 | $250.00 | $32.50 | $217.50 | 20,913 | 12,293 | 8,620 | 20,913 | -0- | $54.6 | $59.4 | $62.7 | $62.7 | $62. |
| 1991 | $250.00 | $43.06 | $206.94 | 21,908 | 11,616 | 10,292 | 19,981 | 1,927 | $54.4 | $60.4 | $64.7 | $59.9 | $65. |
| 1992 | $250.00 | $55.44 | $194.56 | 22,849 | 10,943 | 11,906 | 19,046 | 3,803 | $53.3 | $60.6 | $66.0 | $57.1 | $68. |
| 1993 | $250.00 | $69.89 | $180.11 | 23,861 | 10,273 | 13,588 | 18,111 | 5,750 | $51.6 | $60.2 | $66.8 | $54.3 | $71. |
| 1994 | $250.00 | $86.72 | $163.28 | 24,799 | 9,606 | 15,193 | 17,183 | 7,616 | $48.5 | $58.6 | $66.5 | $51.5 | $74. |
| 1995 | $250.00 | $106.27 | $143.73 | 25,891 | 8,945 | 16,946 | 16,262 | 9,629 | $44.7 | $56.1 | $65.4 | $48.8 | $77. |
| 1996 | $250.00 | $128.70 | $121.30 | 26,863 | 8,291 | 18,572 | 15,345 | 11,518 | $39.1 | $51.9 | $62.8 | $46.0 | $80. |
| 1997 | $250.00 | $154.42 | $95.58 | 27,692 | 7,644 | 20,048 | 14,431 | 13,261 | $31.8 | $45.9 | $58.5 | $43.3 | $83. |
| 1998 | $250.00 | $183.86 | $66.14 | 28,657 | 7,012 | 21,645 | 13,544 | 15,113 | $22.7 | $38.2 | $52.6 | $40.6 | $86. |
| 1999 | $250.00 | $217.46 | $32.54 | 29,556 | 6,396 | 23,160 | 12,623 | 16,933 | $11.5 | $28.2 | $44.5 | $37.9 | $88. |
| 2000 | $250.00 | $255.10 | -0- | 30,511 | 5,799 | 24,712 | 11,733 | 18,778 | -0- | $17.4 | $35.2 | $35.2 | $91. |
| 2001 | $250.00 | $298.96 | -0- | 31,459 | 5,225 | 26,234 | 10,855 | 20,604 | -0- | $15.7 | $32.6 | $32.6 | $94. |
| 2002 | $250.00 | $347.74 | -0- | 32,440 | 4,676 | 27,764 | 9,995 | 22,445 | -0- | $14.0 | $30.0 | $30.0 | $97. |
| 2003 | $250.00 | $402.63 | -0- | 33,448 | 4,156 | 29,292 | 9,155 | 24,293 | -0- | $12.5 | $27.5 | $27.5 | $100. |
| 2004 | $250.00 | $464.27 | -0- | 34,483 | 3,666 | 30,817 | 8,340 | 26,143 | -0- | $11.0 | $25.0 | $25.0 | $103. |
| 2005 | $250.00 | $533.39 | -0- | 35,721 | 3,210 | 32,511 | 7,552 | 28,169 | -0- | $9.6 | $22.7 | $22.7 | $107. |
| 2006 | $250.00 | $610.77 | -0- | 37,130 | 2,788 | 34,342 | 6,794 | 30,336 | -0- | $8.4 | $20.4 | $20.4 | $111. |
| 2007 | $250.00 | $697.21 | -0- | 38,489 | 2,402 | 36,087 | 6,072 | 32,417 | -0- | $7.2 | $18.2 | $18.2 | $115. |
| 2008 | $250.00 | $793.66 | -0- | 40,309 | 2,050 | 38,259 | 5,388 | 34,921 | -0- | $6.2 | $16.2 | $16.2 | $120. |
| 2009 | $250.00 | $901.13 | -0- | 42,194 | 1,778 | 40,416 | 4,746 | 37,448 | -0- | $5.3 | $14.2 | $14.2 | $126. |
| 2010 | $250.00 | $1,020.72 | -0- | 44,012 | 1,449 | 42,563 | 4,224 | 39,862 | -0- | $4.3 | $12.7 | $12.7 | $132. |
| 2011 | $250.00 | | -0- | 45,000 | 1,213 | 43,787 | 3,669 | 41,331 | -0- | $3.6 | $11.0 | $11.0 | $135. |
| 2012 | $250.00 | | -0- | 45,000 | 1,003 | 43,997 | 3,161 | 41,839 | -0- | $3.0 | $9.5 | $9.5 | $135. |
| 2013 | $250.00 | | -0- | 45,000 | 819 | 44,181 | 2,698 | 42,302 | -0- | $2.5 | $8.1 | $8.1 | $135. |
| 2014 | $250.00 | | -0- | 45,000 | 658 | 44,342 | 2,340 | 42,660 | -0- | $2.0 | $7.0 | $7.0 | $135. |
| 2015 | $250.00 | | -0- | 45,000 | 521 | 44,479 | 1,907 | 43,093 | -0- | $1.6 | $5.7 | $5.7 | $135. |
| 2016 | $250.00 | | -0- | 45,000 | 405 | 44,595 | 1,596 | 43,404 | -0- | $1.2 | $4.8 | $4.8 | $135. |
| 2017 | $250.00 | | -0- | 45,000 | 309 | 44,691 | 1,320 | 43,680 | -0- | $.9 | $4.0 | $4.0 | $135. |
| 2018 | $250.00 | | -0- | 45,000 | 231 | 44,769 | 1,078 | 43,922 | -0- | $.7 | $3.2 | $3.2 | $135. |
| 2019 | $250.00 | continues | -0- | 45,000 | 169 | 44,831 | 866 | 44,134 | -0- | $.5 | $2.6 | $2.0 | $135. |
| 2020 | $250.00 | to | -0- | 45,000 | 114 | 44,886 | 686 | 44,314 | -0- | $.3 | $2.1 | $2.1 | $135. |
| 2021 | $250.00 | increase | -0- | 45,000 | 76 | 44,924 | 533 | 44,467 | -0- | $.2 | $1.6 | $1.6 | $135. |
| 2022 | $250.00 | | -0- | 45,000 | 48 | 44,952 | 407 | 44,593 | -0- | $.1 | $1.2 | $1.2 | $135. |
| 2023 | $250.00 | | -0- | 45,000 | 31 | 44,969 | 304 | 44,696 | -0- | $.1 | $.9 | $.9 | $135. |
| 2024 | $250.00 | | -0- | 45,000 | 18 | 44,982 | 222 | 44,778 | -0- | $.1 | $.7 | $.7 | $135. |
| 2025 | $250.00 | | -0- | 45,000 | 10 | 44,990 | 150 | 44,850 | -0- | $.0 | $.5 | $.5 | $135. |
| 2026 | $250.00 | | -0- | 45,000 | 5 | 44,995 | 100 | 44,900 | -0- | $.0 | $.3 | $.3 | $135. |
| 2027 | $250.00 | | -0- | 45,000 | 3 | 44,997 | 63 | 44,937 | -0- | $.0 | $.2 | $.2 | $135. |
| 2028 | $250.00 | | -0- | 45,000 | 1 | 44,999 | 41 | 44,959 | -0- | $.0 | $.1 | $.1 | $135 |
| 2029 | $250.00 | | -0- | 45,000 | | 45,000 | 24 | 44,976 | -0- | $.0 | $.1 | $.1 | $135 |
| 2030 | $250.00 | | -0- | 45,000 | | 45,000 | 13 | 44,987 | -0- | $.0 | $.0 | $.0 | $135 |
| 2031 | $250.00 | | -0- | 45,000 | | 45,000 | 7 | 44,993 | -0- | $.0 | $.0 | $.0 | $135 |
| 2032 | $250.00 | | -0- | 45,000 | | 45,000 | 4 | 44,996 | -0- | $.0 | $.0 | $.0 | $135 |
| 2033 | $250.00 | | -0- | 45,000 | | 45,000 | 1 | 44,999 | -0- | $.0 | $.0 | $.0 | $135 |
| 2034 | $250.00 | | -0- | 45,000 | | 45,000 | | 45,000 | -0- | $.0 | $.0 | $.0 | $135 |

| | | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|
| ALB PAYMENTS | NOMINAL DOLLARS, 1986-2010 | $619 | $864 | $1,148 | $1,040 | $5,4 |
| | CONSTANT 1985 DOLLARS, 1986-2010 | $432 | $539 | $647 | $586 | $1,3 |
| | PRESENT VALUE IN 1985 | $369 | $444 | $516 | $470 | $8 |
| FRONT LOADING PAYMENTS | NOMINAL DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | |
| | CONSTANT 1985 DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | |
| | PRESENT VALUE IN 1985 | $0 | $0 | $0 | $0 | |
| COMBINED PAYMENTS | NOMINAL DOLLARS | $619 | $864 | $1,148 | $1,040 | $5,4 |
| | CONSTANT 1985 DOLLARS | $432 | $539 | $647 | $586 | $1,3 |
| | PRESENT VALUE IN 1985 | $369 | $444 | $516 | $470 | $8 |

Prepared by the Division of Strategic Planning, OMB. 12/27/84

ALB CASES WITH ZERO FRONT LOADING AND NO ESCALATOR

| FISCAL YEAR | ----MONTHLY PAYMENTS---- TARGET | MAXIMUM POSSIBLE ANNUITY | ALB | ----POPULATIONS---- 65 & OVER | 65 BEFORE 1986 | 65 AFTER 1985 | 65 BEFORE 1991 | 65 AFTER 1990 | ----PROGRAM COSTS (MILLIONS)---- COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1986 | $250.00 | $4.37 | $245.63 | 16,744 | 15,039 | 1,705 | 16,744 | -0- | $49.4 | $50.1 | $50.2 | $50.2 | $50.2 |
| 1987 | $250.00 | $9.70 | $240.30 | 17,768 | 14,349 | 3,419 | 17,768 | -0- | $51.2 | $52.9 | $53.3 | $53.3 | $53. |
| 1988 | $250.00 | $16.03 | $233.97 | 18,769 | 13,660 | 5,109 | 18,769 | -0- | $52.7 | $55.3 | $56.3 | $56.3 | $56. |
| 1989 | $250.00 | $23.55 | $226.45 | 19,828 | 12,974 | 6,854 | 19,828 | -0- | $53.9 | $57.5 | $59.5 | $59.5 | $59. |
| 1990 | $250.00 | $32.50 | $217.50 | 20,913 | 12,293 | 8,620 | 20,913 | -0- | $54.6 | $59.4 | $62.7 | $62.7 | $62. |
| 1991 | $250.00 | $43.06 | $206.94 | 21,908 | 11,616 | 10,292 | 19,981 | 1,927 | $54.4 | $60.4 | $64.7 | $59.9 | $65. |
| 1992 | $250.00 | $55.44 | $194.56 | 22,849 | 10,943 | 11,906 | 19,046 | 3,803 | $53.3 | $60.6 | $65.0 | $57.1 | $68. |
| 1993 | $250.00 | $69.89 | $180.11 | 23,861 | 10,273 | 13,588 | 18,111 | 5,750 | $51.6 | $60.2 | $66.8 | $54.3 | $71. |
| 1994 | $250.00 | $86.72 | $163.28 | 24,799 | 9,606 | 15,193 | 17,183 | 7,616 | $48.6 | $58.6 | $66.5 | $51.5 | $74. |
| 1995 | $250.00 | $106.27 | $143.73 | 25,891 | 8,945 | 16,946 | 16,262 | 9,629 | $44.7 | $56.1 | $65.4 | $48.8 | $77. |
| 1996 | $250.00 | $128.70 | $121.30 | 26,863 | 8,291 | 18,572 | 15,345 | 11,518 | $39.1 | $51.9 | $62.8 | $46.0 | $80. |
| 1997 | $250.00 | $154.42 | $95.58 | 27,692 | 7,644 | 20,048 | 14,431 | 13,261 | $31.8 | $45.9 | $58.5 | $43.3 | $83. |
| 1998 | $250.00 | $183.86 | $66.14 | 28,657 | 7,012 | 21,645 | 13,544 | 15,113 | $22.7 | $38.2 | $52.6 | $40.6 | $86. |
| 1999 | $250.00 | $217.46 | $32.54 | 29,556 | 6,396 | 23,160 | 12,623 | 16,933 | $11.5 | $28.2 | $44.5 | $37.9 | $88. |
| 2000 | $250.00 | $255.10 | -0- | 30,511 | 5,799 | 24,712 | 11,733 | 18,778 | -0- | $17.4 | $35.2 | $35.2 | $91. |
| 2001 | $250.00 | $298.96 | -0- | 31,459 | 5,225 | 26,234 | 10,855 | 20,604 | -0- | $15.7 | $32.6 | $32.6 | $94. |
| 2002 | $250.00 | $347.74 | -0- | 32,440 | 4,676 | 27,764 | 9,995 | 22,445 | -0- | $14.0 | $30.0 | $30.0 | $97. |
| 2003 | $250.00 | $402.63 | -0- | 33,448 | 4,156 | 29,292 | 9,155 | 24,293 | -0- | $12.5 | $27.5 | $27.5 | $100. |
| 2004 | $250.00 | $464.27 | -0- | 34,483 | 3,666 | 30,817 | 8,340 | 26,143 | -0- | $11.0 | $25.0 | $25.0 | $103. |
| 2005 | $250.00 | $533.39 | -0- | 35,721 | 3,210 | 32,511 | 7,552 | 28,169 | -0- | $9.6 | $22.7 | $22.7 | $107. |
| 2006 | $250.00 | $610.77 | -0- | 37,130 | 2,788 | 34,342 | 6,794 | 30,336 | -0- | $8.4 | $20.4 | $20.4 | $111. |
| 2007 | $250.00 | $697.21 | -0- | 38,489 | 2,402 | 36,087 | 6,072 | 32,417 | -0- | $7.2 | $18.2 | $18.2 | $115. |
| 2008 | $250.00 | $793.66 | -0- | 40,309 | 2,050 | 38,259 | 5,388 | 34,921 | -0- | $6.2 | $16.2 | $16.2 | $120. |
| 2009 | $250.00 | $901.13 | -0- | 42,194 | 1,778 | 40,416 | 4,746 | 37,448 | -0- | $5.3 | $14.2 | $14.2 | $126. |
| 2010 | $250.00 | $1,020.72 | -0- | 44,012 | 1,449 | 42,563 | 4,224 | 39,862 | -0- | $4.3 | $12.7 | $12.7 | $132. |
| 2011 | $250.00 | | -0- | 45,000 | 1,213 | 43,787 | 3,669 | 41,331 | -0- | $3.6 | $11.0 | $11.0 | $135. |
| 2012 | $250.00 | | -0- | 45,000 | 1,003 | 43,997 | 3,161 | 41,839 | -0- | $3.0 | $9.5 | $9.5 | $135. |
| 2013 | $250.00 | | -0- | 45,000 | 819 | 44,181 | 2,698 | 42,302 | -0- | $2.5 | $8.1 | $8.1 | $135. |
| 2014 | $250.00 | | -0- | 45,000 | 658 | 44,342 | 2,340 | 42,660 | -0- | $2.0 | $7.0 | $7.0 | $135. |
| 2015 | $250.00 | | -0- | 45,000 | 521 | 44,479 | 1,907 | 43,093 | -0- | $1.6 | $5.7 | $5.7 | $135. |
| 2016 | $250.00 | | -0- | 45,000 | 405 | 44,595 | 1,596 | 43,404 | -0- | $1.2 | $4.8 | $4.8 | $135. |
| 2017 | $250.00 | | -0- | 45,000 | 309 | 44,691 | 1,320 | 43,680 | -0- | $.9 | $4.0 | $4.0 | $135. |
| 2018 | $250.00 | | -0- | 45,000 | 231 | 44,769 | 1,078 | 43,922 | -0- | $.7 | $3.2 | $3.2 | $135. |
| 2019 | $250.00 | continues | -0- | 45,000 | 169 | 44,831 | 866 | 44,134 | -0- | $.5 | $2.6 | $2.6 | $135. |
| 2020 | $250.00 | to | -0- | 45,000 | 114 | 44,886 | 606 | 44,314 | -0- | $.3 | $2.1 | $2.1 | $135. |
| 2021 | $250.00 | increase | -0- | 45,000 | 76 | 44,924 | 533 | 44,467 | -0- | $.2 | $1.6 | $1.6 | $135. |
| 2022 | $250.00 | | -0- | 45,000 | 48 | 44,952 | 407 | 44,593 | -0- | $.1 | $1.2 | $1.2 | $135. |
| 2023 | $250.00 | | -0- | 45,000 | 31 | 44,969 | 304 | 44,696 | -0- | $.1 | $.9 | $.9 | $135. |
| 2024 | $250.00 | | -0- | 45,000 | 18 | 44,982 | 222 | 44,778 | -0- | $.1 | $.7 | $.7 | $135. |
| 2025 | $250.00 | | -0- | 45,000 | 10 | 44,990 | 150 | 44,850 | -0- | $.0 | $.5 | $.5 | $135. |
| 2026 | $250.00 | | -0- | 45,000 | 5 | 44,995 | 100 | 44,900 | -0- | $.0 | $.3 | $.3 | $135 |
| 2027 | $250.00 | | -0- | 45,000 | 3 | 44,997 | 63 | 44,937 | -0- | $.0 | $.2 | $.2 | $135. |
| 2028 | $250.00 | | -0- | 45,000 | 1 | 44,999 | 41 | 44,959 | -0- | $.0 | $.1 | $.1 | $135 |
| 2029 | $250.00 | | -0- | 45,000 | | 45,000 | 24 | 44,976 | -0- | $.0 | $.1 | $.1 | $135 |
| 2030 | $250.00 | | -0- | 45,000 | | 45,000 | 13 | 44,987 | -0- | $.0 | $.0 | $.0 | $135 |
| 2031 | $250.00 | | -0- | 45,000 | | 45,000 | 7 | 44,993 | -0- | $.0 | $.0 | $.0 | $135 |
| 2032 | $250.00 | | -0- | 45,000 | | 45,000 | 4 | 44,996 | -0- | $.0 | $.0 | $.0 | $135 |
| 2033 | $250.00 | | -0- | 45,000 | | 45,000 | 1 | 44,999 | -0- | $.0 | $.0 | $.0 | $135 |
| 2034 | $250.00 | | -0- | 45,000 | | 45,000 | | 45,000 | -0- | $.0 | $.0 | $.0 | $135 |

| | | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|
| ALB PAYMENTS | NOMINAL DOLLARS, 1986-2010 | $619 | $864 | $1,148 | $1,040 | $5,4 |
| | CONSTANT 1985 DOLLARS, 1986-2010 | $432 | $539 | $647 | $586 | $1,3 |
| | PRESENT VALUE IN 1985 | $369 | $444 | $516 | $470 | $8 |
| FRONT LOADING PAYMENTS | NOMINAL DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | |
| | CONSTANT 1985 DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | |
| | PRESENT VALUE IN 1985 | $0 | $0 | $0 | $0 | |
| COMBINED PAYMENTS | NOMINAL DOLLARS | $619 | $864 | $1,148 | $1,040 | $5,4 |
| | CONSTANT 1985 DOLLARS | $432 | $539 | $647 | $586 | $1,3 |
| | PRESENT VALUE IN 1985 | $369 | $444 | $516 | $470 | $8 |

Prepared by the Division of Strategic Planning, OMB. 12/27/84

## ALB CASES WITH ZERO FRONT LOADING AND THREE PERCENT ESCALATOR

| FISCAL YEAR | ----MONTHLY PAYMENTS---- | | | ----POPULATIONS---- | | | | | ----PROGRAM COSTS (MILLIONS)---- | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | TARGET | MAXIMUM POSSIBLE ANNUITY | ALB | 65 & OVER | 65 BEFORE 1986 | 65 AFTER 1985 | 65 BEFORE 1991 | 65 AFTER 1990 | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL with escalator | CURRENT LAW with escalator |
| 1986 | $250.00 | $4.37 | $245.63 | 16,744 | 15,039 | 1,705 | 16,744 | -0- | $49.4 | $50.1 | $50.2 | $50.2 | $50.2 |
| 1987 | $257.50 | $9.70 | $247.80 | 17,768 | 14,349 | 3,419 | 17,768 | -0- | $52.8 | $54.5 | $54.9 | $54.9 | $54.9 |
| 1988 | $265.23 | $16.03 | $249.20 | 18,769 | 13,660 | 5,109 | 18,769 | -0- | $56.1 | $58.8 | $59.7 | $59.7 | $59.7 |
| 1989 | $273.18 | $23.55 | $249.63 | 19,828 | 12,974 | 6,854 | 19,828 | -0- | $59.4 | $63.1 | $65.0 | $65.0 | $65.0 |
| 1990 | $281.38 | $32.50 | $248.88 | 20,913 | 12,293 | 8,620 | 20,913 | -0- | $62.5 | $67.3 | $70.6 | $70.6 | $70.6 |
| 1991 | $289.82 | $43.06 | $246.76 | 21,908 | 11,616 | 10,292 | 19,981 | 1,927 | $64.9 | $70.9 | $75.2 | $69.5 | $76.2 |
| 1992 | $298.51 | $55.44 | $243.07 | 22,849 | 10,943 | 11,906 | 19,046 | 3,803 | $66.6 | $73.9 | $79.3 | $68.2 | $81.8 |
| 1993 | $307.47 | $69.89 | $237.58 | 23,861 | 10,273 | 13,588 | 18,111 | 5,750 | $68.0 | $76.6 | $83.2 | $66.8 | $88.0 |
| 1994 | $316.69 | $86.72 | $229.97 | 24,799 | 9,606 | 15,193 | 17,183 | 7,616 | $68.4 | $78.4 | $86.3 | $65.3 | $94.2 |
| 1995 | $326.19 | $106.27 | $219.92 | 25,891 | 8,945 | 16,946 | 16,262 | 9,629 | $68.3 | $79.7 | $89.1 | $63.7 | $101.3 |
| 1996 | $335.98 | $128.70 | $207.28 | 26,863 | 8,291 | 18,572 | 15,345 | 11,518 | $66.8 | $79.6 | $90.5 | $61.9 | $108.3 |
| 1997 | $346.06 | $154.42 | $191.64 | 27,692 | 7,644 | 20,048 | 14,431 | 13,261 | $63.7 | $77.8 | $90.4 | $59.9 | $115.0 |
| 1998 | $356.44 | $183.86 | $172.58 | 28,657 | 7,012 | 21,645 | 13,544 | 15,113 | $59.3 | $74.8 | $89.2 | $57.9 | $122.6 |
| 1999 | $367.13 | $217.46 | $149.67 | 29,556 | 6,396 | 23,160 | 12,623 | 16,933 | $53.1 | $69.8 | $86.0 | $55.6 | $130.2 |
| 2000 | $378.15 | $255.10 | $123.05 | 30,511 | 5,799 | 24,712 | 11,733 | 18,778 | $45.1 | $62.8 | $81.0 | $53.2 | $138.5 |
| 2001 | $389.49 | $298.96 | $90.53 | 31,459 | 5,225 | 26,234 | 10,855 | 20,604 | $34.2 | $52.9 | $73.1 | $50.7 | $147.0 |
| 2002 | $401.18 | $347.74 | $53.44 | 32,440 | 4,676 | 27,764 | 9,995 | 22,445 | $20.8 | $40.3 | $62.5 | $48.1 | $156.2 |
| 2003 | $413.21 | $402.63 | $10.58 | 33,448 | 4,156 | 29,292 | 9,155 | 24,293 | $4.2 | $24.3 | $48.5 | $45.4 | $165.9 |
| 2004 | $425.61 | $464.27 | -0- | 34,483 | 3,666 | 30,817 | 8,340 | 26,143 | -0- | $18.7 | $42.6 | $42.6 | $176.1 |
| 2005 | $438.38 | $533.39 | -0- | 35,721 | 3,210 | 32,511 | 7,552 | 28,169 | -0- | $16.9 | $39.7 | $39.7 | $187.9 |
| 2006 | $451.53 | $610.77 | -0- | 37,130 | 2,788 | 34,342 | 6,794 | 30,336 | -0- | $15.1 | $36.8 | $36.8 | $201.2 |
| 2007 | $465.07 | $697.21 | -0- | 38,489 | 2,402 | 36,087 | 6,072 | 32,417 | -0- | $13.4 | $33.9 | $33.9 | $214.8 |
| 2008 | $479.03 | $793.66 | -0- | 40,309 | 2,050 | 38,259 | 5,388 | 34,921 | -0- | $11.8 | $31.0 | $31.0 | $231.7 |
| 2009 | $493.40 | $901.13 | -0- | 42,194 | 1,778 | 40,416 | 4,746 | 37,448 | -0- | $10.5 | $28.1 | $28.1 | $249.8 |
| 2010 | $508.20 | $1,020.72 | -0- | 44,012 | 1,449 | 42,563 | 4,224 | 39,862 | -0- | $8.0 | $25.8 | $25.8 | $268.4 |
| 2011 | $523.44 | | -0- | 45,000 | 1,213 | 43,787 | 3,669 | 41,331 | -0- | $7.6 | $23.0 | $23.0 | $282.7 |
| 2012 | $539.15 | | -0- | 45,000 | 1,003 | 43,997 | 3,161 | 41,839 | -0- | $6.5 | $20.5 | $20.5 | $291.1 |
| 2013 | $555.32 | | -0- | 45,000 | 819 | 44,181 | 2,698 | 42,302 | -0- | $5.5 | $18.0 | $18.0 | $299.9 |
| 2014 | $571.98 | | -0- | 45,000 | 658 | 44,342 | 2,340 | 42,660 | -0- | $4.5 | $16.1 | $16.1 | $308.9 |
| 2015 | $589.14 | | -0- | 45,000 | 521 | 44,479 | 1,907 | 43,093 | -0- | $3.7 | $13.5 | $13.5 | $318.1 |
| 2016 | $606.82 | | -0- | 45,000 | 405 | 44,595 | 1,596 | 43,404 | -0- | $2.9 | $11.6 | $11.6 | $327.7 |
| 2017 | $625.02 | | -0- | 45,000 | 309 | 44,691 | 1,320 | 43,680 | -0- | $2.3 | $9.9 | $9.9 | $337.5 |
| 2018 | $643.77 | | -0- | 45,000 | 231 | 44,769 | 1,078 | 43,922 | -0- | $1.8 | $8.3 | $8.3 | $347.6 |
| 2019 | $663.08 | continues | -0- | 45,000 | 169 | 44,831 | 866 | 44,134 | -0- | $1.3 | $6.9 | $6.9 | $358.1 |
| 2020 | $682.98 | to | -0- | 45,000 | 114 | 44,886 | 686 | 44,314 | -0- | $.9 | $5.6 | $5.6 | $368.8 |
| 2021 | $703.47 | increase | -0- | 45,000 | 76 | 44,924 | 533 | 44,467 | -0- | $.6 | $4.5 | $4.5 | $379.9 |
| 2022 | $724.57 | | -0- | 45,000 | 48 | 44,952 | 407 | 44,593 | -0- | $.4 | $3.5 | $3.5 | $391.3 |
| 2023 | $746.31 | | -0- | 45,000 | 31 | 44,969 | 304 | 44,696 | -0- | $.3 | $2.7 | $2.7 | $403.0 |
| 2024 | $768.70 | | -0- | 45,000 | 18 | 44,982 | 222 | 44,778 | -0- | $.2 | $2.0 | $2.0 | $415.1 |
| 2025 | $791.76 | | -0- | 45,000 | 10 | 44,990 | 150 | 44,850 | -0- | $.1 | $1.4 | $1.4 | $427.5 |
| 2026 | $815.51 | | -0- | 45,000 | 5 | 44,995 | 100 | 44,900 | -0- | $.0 | $1.0 | $1.0 | $440.4 |
| 2027 | $839.97 | | -0- | 45,000 | 3 | 44,997 | 63 | 44,937 | -0- | $.0 | $.6 | $.6 | $453.6 |
| 2028 | $865.17 | | -0- | 45,000 | 1 | 44,999 | 41 | 44,959 | -0- | $.0 | $.4 | $.4 | $467.2 |
| 2029 | $891.13 | | -0- | 45,000 | | 45,000 | 24 | 44,976 | -0- | $.0 | $.3 | $.3 | $481.2 |
| 2030 | $917.86 | | -0- | 45,000 | | 45,000 | 13 | 44,987 | -0- | $.0 | $.1 | $.1 | $495.6 |
| 2031 | $945.40 | | -0- | 45,000 | | 45,000 | 7 | 44,993 | -0- | $.0 | $.1 | $.1 | $510.5 |
| 2032 | $973.76 | | -0- | 45,000 | | 45,000 | 4 | 44,996 | -0- | $.0 | $.0 | $.0 | $525.8 |
| 2033 | $1,002.97 | | -0- | 45,000 | | 45,000 | 1 | 44,999 | -0- | $.0 | $.0 | $.0 | $541.6 |
| 2034 | $1,033.06 | | -0- | 45,000 | | 45,000 | | 45,000 | -0- | $.0 | $.0 | $.0 | $557.9 |

| | | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL with escalator | CURRENT LAW with escalator |
|---|---|---|---|---|---|---|
| ALB PAYMENTS | NOMINAL DOLLARS, 1986-2034 | $964 | $1,290 | $1,723 | $1,455 | $13,087 |
| | CONSTANT 1985 DOLLARS, 1986-2034 | $605 | $735 | $879 | $745 | $2,501 |
| | PRESENT VALUE IN 1985 | $496 | $584 | $674 | $577 | $1,393 |
| FRONT LOADING PAYMENTS | NOMINAL DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | $0 |
| | CONSTANT 1985 DOLLARS, 1986-1988 | $0 | $0 | $0 | $0 | $0 |
| | PRESENT VALUE IN 1985 | $0 | $0 | $0 | $0 | $0 |
| COMBINED PAYMENTS | NOMINAL DOLLARS | $964 | $1,290 | $1,723 | $1,455 | $13,087 |
| | CONSTANT 1985 DOLLARS | $605 | $735 | $879 | $745 | $2,501 |
| | PRESENT VALUE IN 1985 | $496 | $584 | $674 | $577 | $1,393 |

Prepared by the Division of Strategic Planning, OMB. 12/27/84

ALB CASES WITH THREE YEAR FRONT LOADING AND NO ESCALATOR

| FISCAL YEAR | ----MONTHLY PAYMENTS---- TARGET | MAXIMUM POSSIBLE ANNUITY | ALB | ----POPULATIONS---- 65 & OVER | 65 BEFORE 1986 | 65 AFTER 1985 | 65 BEFORE 1991 | 65 AFTER 1990 | ----PROGRAM COSTS (MILLIONS)---- COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1986 | $250.00 | $11.92 | $238.08 | 16,744 | 15,039 | 1,705 | 16,744 | -0- | $47.8 | $50.0 | $50.2 | $50.2 | $50.2 |
| 1987 | $250.00 | $24.86 | $225.14 | 17,768 | 14,349 | 3,419 | 17,768 | -0- | $48.0 | $52.3 | $53.3 | $53.3 | $53.3 |
| 1988 | $250.00 | $39.05 | $210.95 | 18,769 | 13,660 | 5,109 | 18,769 | -0- | $47.5 | $53.9 | $56.3 | $56.3 | $56.3 |
| 1989 | $250.00 | $46.94 | $203.06 | 19,828 | 12,974 | 6,854 | 19,828 | -0- | $48.3 | $55.6 | $59.5 | $59.5 | $59.5 |
| 1990 | $250.00 | $56.27 | $193.73 | 20,913 | 12,293 | 8,620 | 20,913 | -0- | $48.6 | $56.9 | $62.7 | $62.7 | $62.7 |
| 1991 | $250.00 | $67.21 | $182.79 | 21,908 | 11,616 | 10,292 | 19,981 | 1,927 | $48.1 | $57.4 | $64.2 | $59.9 | $65.7 |
| 1992 | $250.00 | $79.93 | $170.07 | 22,849 | 10,943 | 11,906 | 19,046 | 3,803 | $46.6 | $57.1 | $64.9 | $57.1 | $68.5 |
| 1993 | $250.00 | $94.67 | $155.33 | 23,861 | 10,273 | 13,588 | 18,111 | 5,750 | $44.5 | $56.1 | $65.1 | $54.3 | $71.6 |
| 1994 | $250.00 | $111.73 | $138.27 | 24,799 | 9,606 | 15,193 | 17,183 | 7,616 | $41.1 | $54.0 | $64.2 | $51.5 | $74.4 |
| 1995 | $250.00 | $131.53 | $118.47 | 25,891 | 8,945 | 16,946 | 16,262 | 9,629 | $36.8 | $50.9 | $62.5 | $48.8 | $77.7 |
| 1996 | $250.00 | $154.20 | $95.80 | 26,863 | 8,291 | 18,572 | 15,345 | 11,518 | $30.9 | $46.2 | $59.3 | $46.0 | $80.6 |
| 1997 | $250.00 | $180.13 | $69.87 | 27,692 | 7,644 | 20,048 | 14,431 | 13,261 | $23.2 | $39.7 | $54.4 | $43.3 | $83.1 |
| 1998 | $250.00 | $209.76 | $40.24 | 28,657 | 7,012 | 21,645 | 13,544 | 15,113 | $13.8 | $31.5 | $47.9 | $40.6 | $86.0 |
| 1999 | $250.00 | $243.52 | $6.48 | 29,556 | 6,396 | 23,160 | 12,623 | 16,933 | $2.3 | $21.0 | $39.2 | $[illegible]7.9 | $88.7 |
| 2000 | $250.00 | $281.92 | -0- | 30,511 | 5,799 | 24,712 | 11,733 | 18,778 | -0- | $17.4 | $35.2 | $35.2 | $91.5 |
| 2001 | $250.00 | $325.34 | -0- | 31,459 | 5,225 | 26,234 | 10,855 | 20,604 | -0- | $15.7 | $32.6 | $32.6 | $94.4 |
| 2002 | $250.00 | $374.26 | -0- | 32,440 | 4,676 | 27,764 | 9,995 | 22,445 | -0- | $14.0 | $30.0 | $30.0 | $97.3 |
| 2003 | $250.00 | $429.25 | -0- | 33,448 | 4,156 | 29,292 | 9,155 | 24,293 | -0- | $12.5 | $27.5 | $27.5 | $100.3 |
| 2004 | $250.00 | $490.97 | -0- | 34,483 | 3,666 | 30,817 | 8,340 | 26,143 | -0- | $11.0 | $25.0 | $25.0 | $103.4 |
| 2005 | $250.00 | $560.18 | -0- | 35,721 | 3,210 | 32,511 | 7,552 | 28,169 | -0- | $9.6 | $22.7 | $22.7 | $107.2 |
| 2006 | $250.00 | $637.63 | -0- | 37,130 | 2,788 | 34,342 | 6,794 | 30,336 | -0- | $8.4 | $20.4 | $20.4 | $111.4 |
| 2007 | $250.00 | $724.15 | -0- | 38,489 | 2,402 | 36,087 | 6,072 | 32,417 | -0- | $7.2 | $18.2 | $18.2 | $115.5 |
| 2008 | $250.00 | $820.68 | -0- | 40,309 | 2,050 | 38,259 | 5,388 | 34,921 | -0- | $6.2 | $16.2 | $16.2 | $120.9 |
| 2009 | $250.00 | $928.22 | -0- | 42,194 | 1,778 | 40,416 | 4,746 | 37,448 | -0- | $5.3 | $14.2 | $14.2 | $126.6 |
| 2010 | $250.00 | $1,047.88 | -0- | 44,012 | 1,449 | 42,563 | 4,224 | 39,862 | -0- | $4.3 | $12.7 | $12.7 | $132.0 |
| 2011 | $250.00 | | -0- | 45,000 | 1,213 | 43,787 | 3,669 | 41,331 | -0- | $3.6 | $11.0 | $11.0 | $135.0 |
| 2012 | $250.00 | | -0- | 45,000 | 1,003 | 43,997 | 3,161 | 41,839 | -0- | $3.0 | $9.5 | $9.5 | $135.0 |
| 2013 | $250.00 | | -0- | 45,000 | 819 | 44,181 | 2,698 | 42,302 | -0- | $2.5 | $8.1 | $8.1 | $135.0 |
| 2014 | $250.00 | | -0- | 45,000 | 658 | 44,342 | 2,340 | 42,660 | -0- | $2.0 | $7.0 | $7.0 | $135.0 |
| 2015 | $250.00 | | -0- | 45,000 | 521 | 44,479 | 1,907 | 43,093 | -0- | $1.6 | $5.7 | $5.7 | $135.0 |
| 2016 | $250.00 | | -0- | 45,000 | 405 | 44,595 | 1,596 | 43,404 | -0- | $1.2 | $4.8 | $4.8 | $135.0 |
| 2017 | $250.00 | | -0- | 45,000 | 309 | 44,691 | 1,320 | 43,680 | -0- | $.9 | $4.0 | $4.0 | $135.0 |
| 2018 | $250.00 | | -0- | 45,000 | 231 | 44,769 | 1,078 | 43,922 | -0- | $.7 | $3.2 | $3.2 | $135.0 |
| 2019 | $250.00 | continues | -0- | 45,000 | 169 | 44,831 | 866 | 44,134 | -0- | $.5 | $2.6 | $2.6 | $135.0 |
| 2020 | $250.00 | to | -0- | 45,000 | 114 | 44,886 | 686 | 44,314 | -0- | $.3 | $2.1 | $2.1 | $135.0 |
| 2021 | $250.00 | increase | -0- | 45,000 | 76 | 44,924 | 533 | 44,467 | -0- | $.2 | $1.6 | $1.6 | $135.0 |
| 2022 | $250.00 | | -0- | 45,000 | 48 | 44,952 | 407 | 44,593 | -0- | $.1 | $1.2 | $1.2 | $135.0 |
| 2023 | $250.00 | | -0- | 45,000 | 31 | 44,969 | 304 | 44,696 | -0- | $.1 | $.9 | $.9 | $135.0 |
| 2024 | $250.00 | | -0- | 45,000 | 18 | 44,982 | 222 | 44,778 | -0- | $.1 | $.7 | $.7 | $135.0 |
| 2025 | $250.00 | | -0- | 45,000 | 10 | 44,990 | 150 | 44,850 | -0- | $.0 | $.5 | $.5 | $135.0 |
| 2026 | $250.00 | | -0- | 45,000 | 5 | 44,995 | 100 | 44,900 | -0- | $.0 | $.3 | $.3 | $135.0 |
| 2027 | $250.00 | | -0- | 45,000 | 3 | 44,997 | 63 | 44,937 | -0- | $.0 | $.2 | $.2 | $135.0 |
| 2028 | $250.00 | | -0- | 45,000 | 1 | 44,999 | 41 | 44,959 | -0- | $.0 | $.1 | $.1 | $135.0 |
| 2029 | $250.00 | | -0- | 45,000 | | 45,000 | 24 | 44,976 | -0- | $.0 | $.1 | $.1 | $135.0 |
| 2030 | $250.00 | | -0- | 45,000 | | 45,000 | 13 | 44,987 | -0- | $.0 | $.0 | $.0 | $135.0 |
| 2031 | $250.00 | | -0- | 45,000 | | 45,000 | 7 | 44,993 | -0- | $.0 | $.0 | $.0 | $135.0 |
| 2032 | $250.00 | | -0- | 45,000 | | 45,000 | 4 | 44,996 | -0- | $.0 | $.0 | $.0 | $135.0 |
| 2033 | $250.00 | | -0- | 45,000 | | 45,000 | 1 | 44,999 | -0- | $.0 | $.0 | $.0 | $135.0 |
| 2034 | $250.00 | | -0- | 45,000 | | 45,000 | | 45,000 | -0- | $.0 | $.0 | $.0 | $135.0 |

| | | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL | CURRENT LAW |
|---|---|---|---|---|---|---|
| ALB PAYMENTS | NOMINAL DOLLARS, 1986-2034 | $528 | $811 | $1,122 | $1,040 | $5,419 |
| | CONSTANT 1985 DOLLARS, 1986-2034 | $375 | $509 | $633 | $586 | $1,391 |
| | PRESENT VALUE IN 1985 | $323 | $421 | $506 | $470 | $880 |
| FRONT LOADING PAYMENTS | NOMINAL DOLLARS, 1986-1988 | $113 | $79 | $56 | $0 | $0 |
| | CONSTANT 1985 DOLLARS, 1986-1988 | $101 | $71 | $50 | $0 | $0 |
| | PRESENT VALUE IN 1985 | $96 | $67 | $47 | $0 | $0 |
| COMBINED PAYMENTS | NOMINAL DOLLARS | $641 | $890 | $1,178 | $1,040 | $5,419 |
| | CONSTANT 1985 DOLLARS | $476 | $580 | $683 | $586 | $1,391 |
| | PRESENT VALUE IN 1985 | $419 | $488 | $553 | $470 | $880 |

Prepared by the Division of Strategic Planning, OMB. 12/27/84

## ALB CASES WITH THREE YEAR FRONT LOADING AND THREE PERCENT ESCALATOR

| FISCAL YEAR | ----MONTHLY PAYMENTS---- TARGET | MAXIMUM POSSIBLE ANNUITY | ALB | ----POPULATIONS---- 65 & OVER | 65 BEFORE 1986 | 65 AFTER 1985 | 65 BEFORE 1991 | 65 AFTER 1990 | ----PROGRAM COSTS (MILLIONS)---- COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL with escalator | CURRENT LAW with escalator |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1986 | $250.00 | $11.92 | $238.08 | 16,744 | 15,039 | 1,705 | 16,744 | -0- | $47.8 | $50.0 | $50.2 | $50.2 | $50.2 |
| 1987 | $257.50 | $24.86 | $232.64 | 17,768 | 14,349 | 3,419 | 17,768 | -0- | $49.6 | $53.9 | $54.9 | $54.9 | $54.9 |
| 1988 | $265.23 | $39.05 | $226.18 | 18,769 | 13,660 | 5,109 | 18,769 | -0- | $50.9 | $57.3 | $59.7 | $59.7 | $59.7 |
| 1989 | $273.18 | $46.94 | $226.24 | 19,828 | 12,974 | 6,854 | 19,828 | -0- | $53.8 | $61.1 | $65.0 | $65.0 | $65.0 |
| 1990 | $281.30 | $56.27 | $225.11 | 20,913 | 12,293 | 8,620 | 20,913 | -0- | $56.5 | $64.8 | $70.6 | $70.6 | $70.6 |
| 1991 | $289.82 | $67.21 | $222.61 | 21,908 | 11,616 | 10,292 | 19,981 | 1,927 | $58.5 | $67.9 | $74.6 | $69.5 | $76.2 |
| 1992 | $298.51 | $79.93 | $218.58 | 22,849 | 10,943 | 11,906 | 19,046 | 3,803 | $59.9 | $70.4 | $78.2 | $68.2 | $81.8 |
| 1993 | $307.47 | $94.67 | $212.80 | 23,861 | 10,273 | 13,588 | 18,111 | 5,750 | $60.9 | $72.6 | $81.5 | $66.8 | $88.0 |
| 1994 | $316.69 | $111.73 | $204.96 | 24,799 | 9,606 | 15,193 | 17,183 | 7,616 | $61.0 | $73.9 | $84.0 | $65.3 | $94.2 |
| 1995 | $326.19 | $131.53 | $194.66 | 25,891 | 8,945 | 16,946 | 16,262 | 9,629 | $60.5 | $74.6 | $86.1 | $63.7 | $101.3 |
| 1996 | $335.98 | $154.20 | $181.78 | 26,863 | 8,291 | 18,572 | 15,345 | 11,518 | $58.6 | $73.9 | $87.0 | $61.9 | $108.3 |
| 1997 | $346.06 | $180.13 | $165.93 | 27,692 | 7,644 | 20,048 | 14,431 | 13,261 | $55.1 | $71.7 | $86.3 | $59.9 | $115.0 |
| 1998 | $356.44 | $209.76 | $146.68 | 28,657 | 7,012 | 21,645 | 13,544 | 15,113 | $50.4 | $68.1 | $84.5 | $57.9 | $122.6 |
| 1999 | $367.13 | $243.52 | $123.61 | 29,556 | 6,396 | 23,160 | 12,623 | 16,933 | $43.8 | $62.5 | $80.7 | $55.6 | $130.2 |
| 2000 | $378.15 | $281.92 | $96.23 | 30,511 | 5,799 | 24,712 | 11,733 | 18,778 | $35.2 | $54.9 | $74.9 | $53.2 | $138.5 |
| 2001 | $389.49 | $325.34 | $64.15 | 31,459 | 5,225 | 26,234 | 10,855 | 20,604 | $24.2 | $44.6 | $66.6 | $50.7 | $147.0 |
| 2002 | $401.18 | $374.26 | $26.92 | 32,440 | 4,676 | 27,764 | 9,995 | 22,445 | $10.5 | $31.5 | $55.4 | $48.1 | $156.2 |
| 2003 | $413.21 | $429.25 | -0- | 33,448 | 4,156 | 29,292 | 9,155 | 24,293 | -0- | $20.6 | $45.4 | $45.4 | $165.9 |
| 2004 | $425.61 | $490.97 | -0- | 34,483 | 3,666 | 30,817 | 8,340 | 26,143 | -0- | $18.7 | $42.6 | $42.6 | $176.1 |
| 2005 | $438.38 | $560.18 | -0- | 35,721 | 3,210 | 32,511 | 7,552 | 28,169 | -0- | $16.9 | $39.7 | $39.7 | $187.9 |
| 2006 | $451.53 | $637.63 | -0- | 37,130 | 2,788 | 34,342 | 6,794 | 30,336 | -0- | $15.1 | $36.8 | $36.8 | $201.2 |
| 2007 | $465.07 | $724.15 | -0- | 38,489 | 2,402 | 36,087 | 6,072 | 32,417 | -0- | $13.4 | $33.9 | $33.9 | $214.0 |
| 2008 | $479.03 | $820.68 | -0- | 40,309 | 2,050 | 38,259 | 5,388 | 34,921 | -0- | $11.8 | $31.0 | $31.0 | $231.7 |
| 2009 | $493.40 | $928.22 | -0- | 42,194 | 1,778 | 40,416 | 4,746 | 37,448 | -0- | $10.5 | $28.1 | $28.1 | $249.8 |
| 2010 | $508.20 | $1,047.88 | -0- | 44,012 | 1,449 | 42,563 | 4,224 | 39,862 | -0- | $8.8 | $25.8 | $25.8 | $268.4 |
| 2011 | $523.44 | | -0- | 45,000 | 1,213 | 43,787 | 3,669 | 41,331 | -0- | $7.6 | $23.0 | $23.0 | $282.7 |
| 2012 | $539.15 | | -0- | 45,000 | 1,003 | 43,997 | 3,161 | 41,839 | -0- | $6.5 | $20.5 | $20.5 | $291.1 |
| 2013 | $555.32 | | -0- | 45,000 | 819 | 44,181 | 2,698 | 42,302 | -0- | $5.5 | $18.0 | $18.0 | $299.9 |
| 2014 | $571.98 | | -0- | 45,000 | 658 | 44,342 | 2,340 | 42,660 | -0- | $4.5 | $16.1 | $16.1 | $308.9 |
| 2015 | $589.14 | | -0- | 45,000 | 521 | 44,479 | 1,907 | 43,093 | -0- | $3.7 | $13.5 | $13.5 | $318.1 |
| 2016 | $606.82 | | -0- | 45,000 | 405 | 44,595 | 1,596 | 43,404 | -0- | $2.9 | $11.6 | $11.6 | $327.7 |
| 2017 | $625.02 | | -0- | 45,000 | 309 | 44,691 | 1,320 | 43,680 | -0- | $2.3 | $9.9 | $9.9 | $337.5 |
| 2018 | $643.77 | | -0- | 45,000 | 231 | 44,769 | 1,078 | 43,922 | -0- | $1.8 | $8.3 | $8.3 | $347.6 |
| 2019 | $663.08 | continues | -0- | 45,000 | 169 | 44,831 | 866 | 44,134 | -0- | $1.3 | $6.9 | $6.9 | $358.1 |
| 2020 | $682.98 | to | -0- | 45,000 | 114 | 44,886 | 686 | 44,314 | -0- | $.9 | $5.6 | $5.6 | $368.8 |
| 2021 | $703.47 | increase | -0- | 45,000 | 76 | 44,924 | 533 | 44,467 | -0- | $.6 | $4.5 | $4.5 | $379.9 |
| 2022 | $724.57 | | -0- | 45,000 | 48 | 44,952 | 407 | 44,593 | -0- | $.4 | $3.5 | $3.5 | $391.3 |
| 2023 | $746.31 | | -0- | 45,000 | 31 | 44,969 | 304 | 44,696 | -0- | $.3 | $2.7 | $2.7 | $403.0 |
| 2024 | $768.70 | | -0- | 45,000 | 18 | 44,982 | 222 | 44,778 | -0- | $.2 | $2.0 | $2.0 | $415.1 |
| 2025 | $791.76 | | -0- | 45,000 | 10 | 44,990 | 150 | 44,850 | -0- | $.1 | $1.4 | $1.4 | $427.5 |
| 2026 | $815.51 | | -0- | 45,000 | 5 | 44,995 | 100 | 44,900 | -0- | $.0 | $1.0 | $1.0 | $440.4 |
| 2027 | $839.97 | | -0- | 45,000 | 3 | 44,997 | 63 | 44,937 | -0- | $.0 | $.6 | $.6 | $453.6 |
| 2028 | $865.17 | | -0- | 45,000 | 1 | 44,999 | 41 | 44,959 | -0- | $.0 | $.4 | $.4 | $467.2 |
| 2029 | $891.13 | | -0- | 45,000 | | 45,000 | 24 | 44,976 | -0- | $.0 | $.3 | $.3 | $481.2 |
| 2030 | $917.86 | | -0- | 45,000 | | 45,000 | 13 | 44,987 | -0- | $.0 | $.1 | $.1 | $495.6 |
| 2031 | $945.40 | | -0- | 45,000 | | 45,000 | 7 | 44,993 | -0- | $.0 | $.1 | $.1 | $510.5 |
| 2032 | $973.76 | | -0- | 45,000 | | 45,000 | 4 | 44,996 | -0- | $.0 | $.0 | $.0 | $525.8 |
| 2033 | $1,002.97 | | -0- | 45,000 | | 45,000 | 1 | 44,999 | -0- | $.0 | $.0 | $.0 | $541.6 |
| 2034 | $1,033.06 | | -0- | 45,000 | | 45,000 | | 45,000 | -0- | $.0 | $.0 | $.0 | $557.9 |

Prepared by the Division of Strategic Planning, OMB. 12/27/84

| | | COMM. BILL | COMM. BILL stairstep in 1986 | COMM. BILL stairstep in 1991 | ADAMS BILL with escalator | CURRENT LAW with escalator |
|---|---|---|---|---|---|---|
| ALB PAYMENTS | NOMINAL DOLLARS, 1986-2034 | $838 | $1,209 | $1,674 | $1,455 | $13,087 |
| | CONSTANT 1985 DOLLARS, 1986-2034 | $536 | $694 | $856 | $745 | $2,501 |
| | PRESENT VALUE IN 1985 | $442 | $553 | $658 | $577 | $1,393 |
| FRONT LOADING PAYMENTS | NOMINAL DOLLARS, 1986-1988 | $113 | $79 | $56 | $0 | $0 |
| | CONSTANT 1985 DOLLARS, 1986-1988 | $101 | $71 | $50 | $0 | $0 |
| | PRESENT VALUE IN 1985 | $96 | $67 | $47 | $0 | $0 |
| COMBINED PAYMENTS | NOMINAL DOLLARS | $951 | $1,287 | $1,730 | $1,455 | $13,087 |
| | CONSTANT 1985 DOLLARS | $637 | $765 | $906 | $745 | $2,501 |
| | PRESENT VALUE IN 1985 | $518 | $620 | $705 | $577 | $1,391 |

JAN - 2 1985

Draft

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

## TABLE OF CONTENTS

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 amending 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/ Under the Committee

---

1/ Three different annuity approaches were initially considered by the Committee: (1) SB 465, introduced in the 1984 legislature 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

---

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 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.

elects to receive cash. 2/ Section 2 of the bill provides that the legislature may "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.

---

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

That target amount is then reduced by the maximum possible annuity which would be available to a 65-year old individual who has participated in the program every 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:

/////

/////

/////

/////

/////

/////

| | 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- |

The Committee considered other options besides the annuity approach. Among those were a need-based program and stair-stepping.

One reason for rejecting a "need-based" program was the strenuous opposition to such a program among Alaska's elderly. Primarily, however, the Committee concluded that a need-based program would be contrary to the intent of the ALB program. That program is not and was never intended to be a form of welfare. Rather, it should be viewed as means of assisting all Alaskans to provide for their retirement security.

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 previous legislature, the eligibility age would begin to rise above 65 in 1991.

---

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

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. For example, 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. Currently, nearly 6,600 ALB recipients -- or 40% of all recipients -- are apparently eligible to apply for both OAA 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 potentially eligible, only 2,526 -- or roughly 38% -- have in fact applied for OAA and Medicaid.

Over the years, the ALB program has been defended on the ground that it has enabled many Alaskan elderly to remain off the welfare roles. Statistics bear this out dramatically, indicating that a majority 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 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 salutory 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.

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 gain 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 $81 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 precisely those substantial demands on the general fund which this bill seeks to avoid; 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.

Front-loading need not be a one time, or even short-term program. To the contrary, the Committee feels that the policy considerations behind front-loading will be with us for some time, and that -- subject to available funds -- some degree of front-loading should be considered by the legislature each year.

The Committee settled on a front-loading concept weighted in favor of older Alaskans. Several other options were also considered. First, we examined a per-capita contribution made to each Alaskan who chose an annuity credit. Assuming that the front-loading contribution was $50 million in the first year, and that 50 percent of all Alaskans chose an annuity credit, the result was that ultimate annuity payments to those now near retirement age did not increase rapidly enough to offset general fund payments for longevity bonuses. Thus, this form of front-loading did not significantly reduce long-term general fund obligations. Nor did it satisfy the goal of the Committee to provide 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. 6/ This option produced a better result in terms of reduced general fund obligations than the per-capita distribution, 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 an 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 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

---

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

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.

Additionally, 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, elderly Alaskans who are not within the Committee's grandfather clause will be required to participate in the annuity program if they wish to receive the "target" payment. The incremental increase in front-loading will end at age 65, and those over the age of 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. <u>The 3% Escalator</u>. The committee recognizes that, in legislation which passed the House last session, no automatic escalator was provided. Since the beginning of the ALB program in 1972, the original $100 payment has been periodically increased to its current $250 limit. While the amount 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 15 years hence.

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. <u>Administrative Costs of the Program</u>. Subsection 2(e) provides that the legislature may appropriate funds from the annuity account to pay the administrative costs of the annuity program. 7/ Thus, the costs of the program will be borne by the

---

7/ 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.

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 in the draft bill 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.

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 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. 8/

7. Federal Income Tax Considerations. The Committee has engaged special tax counsel to consider the federal income tax consequences of its proposal. The key income tax issue is whether an Alaskan who is entitled to a permanent fund dividend will be taxable on the cash he could have elected to receive as a dividend even though, under the new program, he or she actually is only credited with the right to receive a future annuity from the state. Tax counsel has advised the Committee that due to the uniqueness of this proposed program, there is no legal precedent currently available which definitively provides an answer to this question.

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

---

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

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-load to the credit for 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 has advised the Committee that the available tax authorities do not provide firm guidance as to the minimum amount of front-load necessary to support deferred tax treatment of annuity credits. There is an example in the regulations suggesting that a front-load of 25% or more of the amount of the annuity credit for the year would be sufficient; however, tax counsel believes that a lesser amount may suffice. Because of this uncertainty, tax counsel suggests that if the legislature enacts this proposal it would be in the state's best interest to obtain an advance ruling from the Internal Revenue Service on the question before the proposal is actually implemented.

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 legislative intent of the bill clearly 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 the 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 to maintain the existing ALB program -- an option which the committee believes is cost-prohibitive. Other options studied 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. 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 House stair-stepping approach -- 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. Finally, the "House Stairstep" approach refers to last session's legislation, which would begin stair-stepping in FY 1991.

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)

| | Nominal $ | Constant $ | Present Value 9/ |
|---|---|---|---|
| Current Law | 13,087 | 2,501 | 1,393 |
| Annuity Program | 964 | 605 | 496 |
| Annuity Program w/1986 Stairstep | 1,290 | 735 | 584 |
| House Stairstep | 1,455 | 745 | 577 |

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)

| | Nominal $ | Constant $ | Present Value |
|---|---|---|---|
| Current Law | 5,419 | 1,391 | 880 |
| Annuity Program | 619 | 432 | 369 |
| Annuity Program w/1986 Stairstep | 864 | 539 | 444 |
| House Stairstep | 1,040 | 586 | 470 |

In addition to the general fund costs of (1) continuing the current ALB for existing recipients, and (2) providing a

---

9/ 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.

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)

| | Nominal $ | Constant $ | Present Value |
|---|---|---|---|
| | Annuity Program (3% Esc.) | | |
| Front-Load Payments | 113 | 101 | 96 |
| (ALB Savings) | (126) | (69) | (31) |
| Net Cost (Savings) | (13) | 32 | 65 |
| | Annuity Program (No Esc.) | | |
| Front-Load Payments | 113 | 101 | 96 |
| (ALB Savings) | (91) | (57) | (46) |
| Net Cost (Savings) | 22 | 44 | 50 |
| | Annuity & 1986 Stairstep (3% Esc.) | | |
| Front-Load Payments | 79 | 71 | 67 |
| (ALB Savings) | (32) | (41) | (31) |
| Net Cost (Savings) | (3) | 30 | 36 |
| | Annuity & 1986 Stairstep (No Esc.) | | |
| Front-Load Payments | 79 | 71 | 56 |
| (ALB Savings) | (56) | (30) | (23) |
| 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 the House stair-stepping bill, 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, some 6,600 ALB recipients are currently eligible for OAA and Medicaid;

yet, largely because of the bonus, only 2,526 actually receive these benefits. There is thus a segment of Alaska's elderly -- currently as many as 4,000 -- 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 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, 10/ in increased OAA and Medicaid benefits, through the year 2010 under these two scenarios are as follows:

Chart 4

INCREASED OAA/MEDICAID COSTS THROUGH 2010
(in millions)

| Moderate Low | Moderate High |
|---|---|
| 81.3 | 150.2 |

10/ The cost estimates in Chart 4 should be viewed as substantially eqivalent 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 dollar costs.

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, 11/ 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 upon old age assistance programs is likely to be less severe than under the House Stairstepping approach.

Finally, the committee looked at the cost of various options after 1999. As noted previously, it has been a goal of the 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 the House stairstepping bill, and the annuity program with and without stairstepping, which would be incurred in the 21st century:

---

11/ Thus under the House bill, 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.