

S B

56

Offered: 3/3/87
Referred: Health, Education and
Social Services, Judiciary,
and Finance

5-0363B

Original sponsors: Kerttula, Halford
and Fischer

1 IN THE SENATE

BY THE STATE AFFAIRS COMMITTEE

2 CS FOR SENATE BILL NO. 56 (State Affairs)

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act amending and making effective an annuity
7 program and amendments to the longevity bonus program
8 and the permanent fund dividend program provided for
9 in secs. 2 - 18, ch. 99, SLA 1985; and providing for
10 an effective date."

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

12 * Section 1. AS 43.23.110(a) is amended to read:

13 (a) The annuity investment fund is established as a separate
14 fund in the state treasury. The annuity investment fund consists of
15 money transferred from the dividend fund, cash contributions under
16 AS 43.23.125, and income earned by the annuity investment fund.
17 Notwithstanding AS 37.13.145, an amount equal to the permanent fund
18 dividends taken as annuity credits under this chapter shall be annual-
19 ly transferred from the dividend fund to the annuity investment fund.

20 * Sec. 2. AS 43.23 is amended by adding a new section to read:

21 Sec. 43.23.125. CASH CONTRIBUTIONS. An individual who is eligi-
22 ble to receive the permanent fund dividend as an annuity credit under
23 AS 43.23.005(d) but does not elect to do so or who elects to receive
24 only a portion of the permanent fund dividend as an annuity credit may
25 make a cash contribution to that individual's annuity account. The
26 total amount credited and contributed to an annuity account in a year
27 may not exceed the amount of the permanent fund dividend for that
28 year.

29 * Sec. 3. AS 43.23.130(a) is amended to read:
S

SB0056b

CSSB 56(SA)

COMMITTEE COPY

CS SB 56 (State Affairs)

1 (a) An individual with one or more annuity credits or cash
2 contributions under AS 43.23.125 may receive an annuity upon reaching
3 the age of 65.

4 * Sec. 4. AS 43.23.130(e) is amended to read:

5 (e) If a person elects to credit a permanent fund dividend or
6 make a cash contribution to an annuity account in a particular year,
7 that person may make an irrevocable choice regarding death benefits
8 with respect to that credit or contribution. If a person dies before
9 age 65 and that person has selected death benefits in at least one
10 year, a lump sum payment shall, subject to appropriation, be paid to
11 the surviving spouse by right of survivorship unless a different
12 beneficiary was designated. When no spouse survives and no benefi-
13 ciary is designated, the lump sum shall be paid to the decedent's
14 estate. The lump sum payment includes all dividends credited to the
15 person's annuity account in years in which death benefits were select-
16 ed and interest on those dividends. Dividends credited and cash
17 contributed to a person's annuity account in years for which death
18 benefits were not selected and interest on those dividends and contri-
19 butions shall, if the person dies before age 65, be distributed equi-
20 tably among the annuity accounts of all individuals for which death
21 benefits were not selected.

22 * Sec. 5. AS 43.23 is amended by adding a new section to read:

23 Sec. 43.23.135. EMERGENCY WITHDRAWALS. An individual may make a
24 withdrawal from that individual's annuity account before reaching the
25 age of 65 if the individual establishes to the satisfaction of the
26 commissioner that the withdrawal is necessary to meet an unforeseeable
27 emergency. The amount withdrawn may not exceed the total amount in
28 the individual's annuity account or the amount actually necessary to
29 meet the emergency, whichever is less. The commissioner shall define

1 the term "unforeseeable emergency" by regulation. An individual may
2 only make one withdrawal under this section and may pay it back with
3 interest under terms established by the commissioner.

4 * Sec. 6. Section 1, ch. 99, SLA 1985, is repealed.

5 * Sec. 7. Chapter 99, SLA 1985, and secs. 1 - 5 of this Act apply only
6 to permanent fund dividends for years beginning after December 31, 1987.
7 Notwithstanding the amendments to AS 43.23 made by ch. 99, SLA 1985, and
8 this Act, permanent fund dividends for 1987 and prior years shall be made
9 under the law as it existed before the effective date of this Act.

10 * Sec. 8. This Act takes effect immediately under AS 01.10.070(c).
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Introduced: 1/19/87
Referred: Health, Education and
Social Services, Judiciary
and Finance

5-0363A

1 IN THE SENATE

BY KERTTULA, HALFORD,
AND FISCHER

2 SENATE BILL NO. 56

3 IN THE LEGISLATURE OF THE STATE OF ALASKA

4 FIFTEENTH LEGISLATURE - FIRST SESSION

5 A BILL

6 For an Act entitled: "An Act making effective an annuity program and
7 amendments to the longevity bonus program and the
8 permanent fund dividend program provided for in secs.
9 2 - 18, ch. 99, SLA 1985; and providing for an effec-
10 tive date."

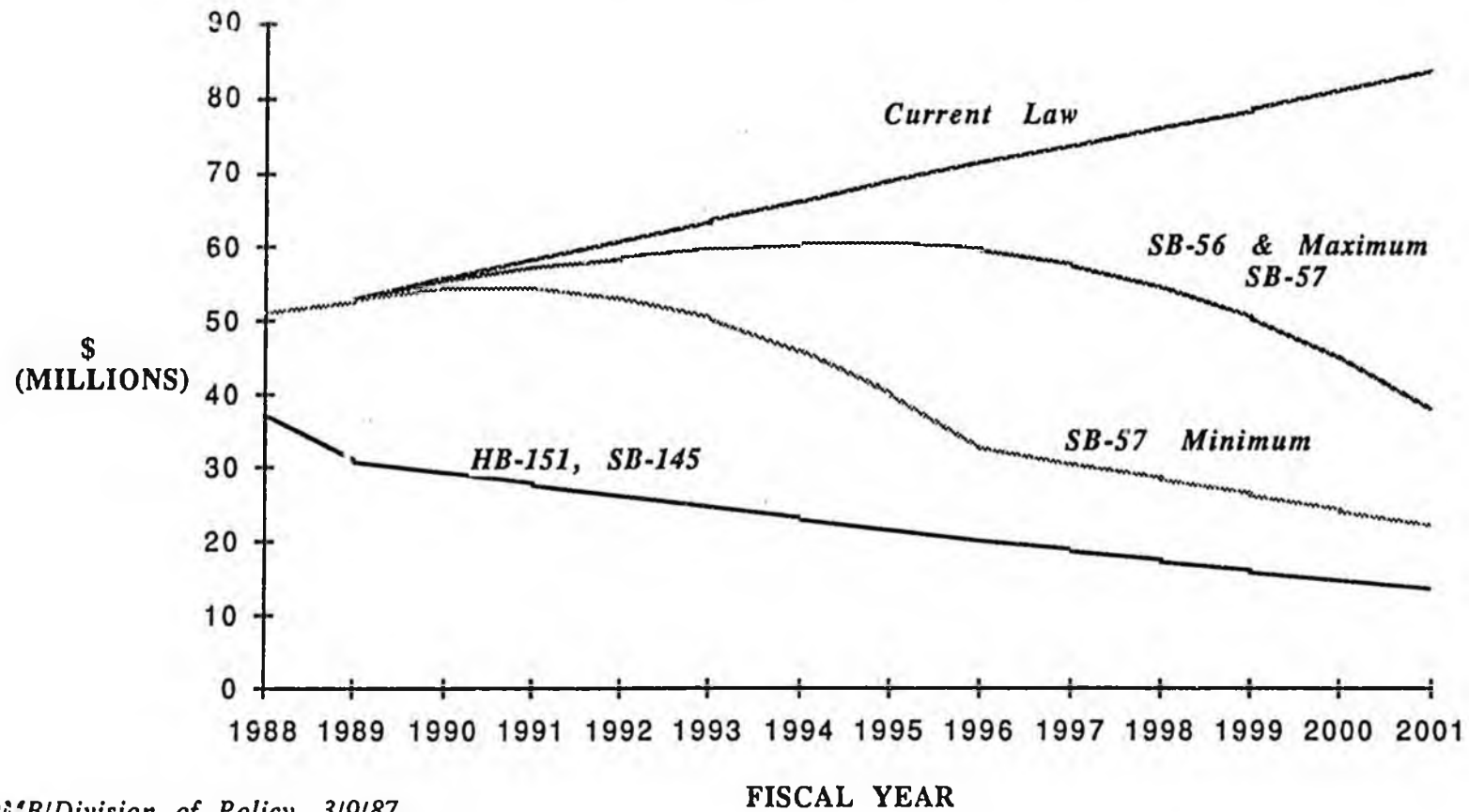
11 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF ALASKA:

12 * Section 1. Section 1, ch. 99, SLA 1985, is repealed.

13 * Sec. 2. Chapter 99, SLA 1985, applies only to permanent fund
14 dividends for years beginning after December 31, 1987. Notwithstanding the
15 amendments to AS 43.23 made by ch. 99, SLA 1985, permanent fund dividends
16 for 1987 and prior years shall be made under the law as it existed before
17 the effective date of this Act.

18 * Sec. 3. This Act takes effect immediately under AS 01.10.070(c).
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ALB Program Costs



OMB/Division of Policy, 3/19/87

FISCAL YEAR

LONGEVITY BONUS PROGRAM COSTS*
(millions of dollars)

Fiscal Year	Current Law	SB-56† Annuity Program	SB-57†		HB-151, SB-145 Governor's Proposal
			Annuity Maximum	Program Variant Minimum	
1988	51.2	51.2	51.2	51.2	37.3
1989	52.7	52.7	52.7	52.7	30.9
1990	55.6	55.3	55.3	54.2	29.3
1991	58.2	57.2	57.2	54.2	27.7
1992	60.7	58.6	58.6	52.7	26.1
1993	63.4	59.7	59.7	50.0	24.6
1994	65.9	60.2	60.2	45.6	23.1
1995	68.8	60.3	60.3	39.7	21.6
1996	71.4	59.3	59.3	32.5	20.1
1997	73.6	57.2	57.2	30.3	18.7
1998	76.1	54.3	54.3	28.2	17.3
1999	78.5	50.1	50.1	26.1	15.9
2000	81.1	44.5	44.5	24.1	14.6
2001	83.6	37.4	37.4	22.1	13.3

*Grants only. Does not include administrative costs.

†Assumes first annuity contribution is from October 1988 dividend, with first annuity payment in July 1989.

OMB/Division of Policy, 3/2/87 (additional footnote 3/9/87)

Position Paper

CSSB No. 56 (State Affairs)

SUMMARY OF POSITION

A comprehensive position statement on the proposal for an annuity program to replace the existing Alaska Longevity Bonus program is attached. The highlights of the Department of Health and Social Services position are as follows:

We believe that low income Alaskans who may in the future be served by the federal Supplemental Security Income (SSI) program and the State Old Age Assistance (OAA) program will elect not to participate in the annuity program because it will cost them much more in Permanent Fund Dividend payments than it will return them in annuity payments. Few would elect to invest a large annual Permanent Fund Dividend now in a program that will probably return them nothing later. The reason an annuity will return SSI and OAA recipients nothing is that their public assistance grant will be reduced by the amount of any annuity payment they receive. Only those fortunate enough to have a retirement income that allows them to avoid welfare will receive a net benefit from the annuity.

Low income seniors on federal and state assistance will see their net income gradually decline as the annuity replaces the Bonus, regardless of whether they participate in the annuity or not. This is due to the gradual loss of hold harmless protection for any annuity they receive and the gradual decline of the bonus payment if they do not participate in the annuity.

Ultimately, some low income seniors who do participate in the annuity program will risk loss of eligibility for Medicaid as their income that must be counted for welfare purposes climbs above the Medicaid eligibility limit. We do not anticipate this result for several years, but inevitably some seniors will eventually reach that point, thereby losing essential medical coverage.

POSITION PAPER

Senate Bill No. 56

"An Act making effective an annuity program and amendments to the Longevity Bonus program and the Permanent Fund Dividend program provided for in secs. 2 - 18, ch. 99, SLA 1985; and providing for an effective date."

BACKGROUND:

Senate Bill No. 56 would provide for an annuity program to replace the existing Alaska Longevity program. Alaskans would contribute to their individual annuity account by dedicating all or part of their Permanent Fund Dividend payments to that account.

We wish to call your attention to how the approximately 2,600 needy elderly Alaskans who currently receive Old Age Assistance ("OAA") would be affected by an annuity program. Federal Medicaid regulations require that Alaska's OAA program follow many of the eligibility rules of the federal Supplemental Security Income ("SSI") program, a monthly cash assistance program administered by the Social Security Administration. Thus, the way in which Social Security would treat an annuity payment in its SSI program potentially affects all Old Age Assistance recipients, not just those recipients who receive SSI. (Approximately 45 percent of all OAA recipients also receive SSI.)

SSI federal regulations require that applicants and recipients apply for and pursue any entitlements for which they may be eligible. For example, any Alaskan who is 65 and a one-year resident must apply for the countable Bonus, or they lose all eligibility for SSI. However, Social Security does not view the Permanent Fund Dividend cash payment as one of these mandatory "prior resources", so there would be no eligibility penalty for giving up all or part of any cash Dividend in order to participate in the annuity program. Also, SSI will not require anyone to contribute to an annuity account which may produce an entitlement in the future. However, anyone who has established an annuity credit will be required to apply for annuity payments once they become 65 and apply for SSI. Thus SSI (and therefore OAA and Medicaid) policies will not impinge on any individual's freedom to choose any of the options SB No. 56 proposes.

The SSI rules also require that any annuity payment actually being received be counted virtually dollar-for-dollar against SSI eligibility qualifying standards, thus reducing SSI payments to annuity recipients by the amount of the monthly annuity payment. Old Age Assistance must treat the annuity the same way. Currently, this is how the Longevity Bonus payments that are received by about 840 of our 2,600 Old Age Assistance clients are treated. (About 1,600 OAA recipients receive the "25 year" Bonus, which SSI rules disregard as income.)

The Legislature enacted the Alaska Longevity Bonus "Hold Harmless" program (AS 47.45.422) in order to assure that needy elderly who receive a federally countable Bonus did not end up with \$250 less in monthly income than those who receive the federally exempt Bonus, and to make sure that necessary medical coverage (through the Medicaid program) was not lost by those whose total retirement income placed them so close to federal and state eligibility limits that receipt of the countable Bonus cost them eligibility for Medicaid. This program replaces the amount of cash lost to countable Bonus recipients when their federal SSI payments are decreased or ended, and it provides state funding in lieu of federal matching

Medicaid funds to continue Medicaid coverage to those who lost regular Medicaid eligibility because of their Bonus income.

For similar reasons, the Legislature has also established a "Hold Harmless" program for the Permanent Fund Dividend (AS 43.23.075). This program protects all assistance recipients, not just the elderly, against loss of cash assistance and Medicaid when they receive their Dividends. In effect, the annual Dividend is therefore the only cash "windfall" assistance recipients can receive and still keep full assistance benefits.

Since the proposed annuity payment would reduce monthly OAA and SSI payments essentially dollar-for-dollar, and recipients of any assistance program would have to give up all or part of their "free" Dividend income to participate in the annuity program, we seriously doubt that any assistance recipients under 65 who fully understand their choices would choose the annuity option. They are better off financially taking a \$500-\$700 windfall each year and suffering a much smaller total annual decrease in their Bonus income at some time in their future.

Chapter 99, SLA 1985, amends AS 43.23.075(c) to provide a four month hold-harmless for persons who might become ineligible for assistance because of a Dividend credit. SSI, OAA, and Medicaid will not count the credit as income, but AS 43.23.075, as amended, provides no protection against actual annuity payments being counted as available income. (Also, if SB No. 56 were modified to make the balance in the annuity account available to participants in an "emergency", AS 43.23.075 would offer no protection if SSI and other federal assistance programs decided to count the annuity balance as an available resource.)


Thus the long-range effect on those future OAA recipients who will not enjoy the guaranteed continuation of their current Bonus, whether or not they choose the annuity, is that their monthly spendable income will shrink as the Bonus amount shrinks. Those few who may choose to participate in the annuity program will still see their monthly spendable income shrink, but as their countable annuity income rises, some of them will suffer OAA income ineligibility. Worse, some will eventually lose Medicaid eligibility.

We find that many of our OAA recipients could possibly adapt to small changes in their monthly cash flow. What they tell us that they fear most, and cannot adapt to, is loss of their Medicaid coverage. Most clients whose retirement income will be high enough so that they might lose Medicaid eligibility when they begin receiving annuity payments have Medicare coverage through Social Security. However, the annual increases in Medicare deductibles and decreases in covered services make Medicaid an increasingly important source of medical protection for seniors. Losing Medicaid may produce cases of real financial or medical hardship.

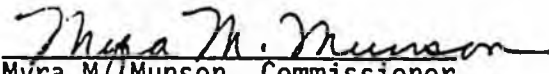
We believe it is premature to suggest that, if Senate Bill No. 56 were to pass, it should contain a medical hold-harmless clause for annuity recipients. We are reasonably certain that there will be little or no need for such a protection in the first few years of an annuity program. However, we do want the Legislature to be aware that the longer-range possibility exists that some of those we serve may need this protection in the future.

RECOMMENDATION:

The Department neither supports nor opposes SB No. 56. We do note that the only proposal for Longevity Bonus redesign we have seen to date that will not penalize assistance recipients and will not result in a future need for some type of hold-harmless coverage is the proposal that the Bonus be needs-based. Both Social Security and Medicaid totally disregard all state needs-based payments.

Recommended by: 
John R. Taber, Director
Division of Public Assistance

Date: 2/20/87

Approved by: 
Myra M. Munson, Commissioner
Department of Health &
Social Services

Date: 3/9/87

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____
 Revision Date: _____
 Title: An act Relating to the Alaska
Longevity Bonus Program
 Sponsor: _____
 Requestor: _____

Bill Version: CSSB No. 56
 Publish Date: _____

Agency Affected: Health & Social Services
 BRU: Assistance Payments BRU
 Components: OAA-ALB Hold Harmless

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	-0-	-0-	-0-	-0-	-0-	-0-
TRAVEL	-0-	-0-	-0-	-0-	-0-	-0-
CONTRACTUAL	-0-	-0-	-0-	-0-	-0-	-0-
SUPPLIES	-0-	-0-	-0-	-0-	-0-	-0-
EQUIPMENT	-0-	-0-	-0-	-0-	-0-	-0-
LAND & STRUCTURES	-0-	-0-	-0-	-0-	-0-	-0-
GRANTS, CLAIMS	-0-	622.4	3608.3	4162.4	4617.2	5020.1
MISCELLANEOUS	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL OPERATING	-0-	622.4	3608.3	4162.4	4617.2	5020.1

CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
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REVENUE	-0-	-0-	-0-	-0-	-0-	-0-
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FUNDING: (Thousands of Dollars)

GENERAL FUND	-0-	622.4	3608.3	4162.4	4617.2	5020.1
FEDERAL FUNDS	-0-	-0-	-0-	-0-	-0-	-0-
OTHER	-0-	-0-	-0-	-0-	-0-	-0-
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

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)

The FY88 Governor's budget assumes elimination of the Old Age Assistance - Alaska Longevity Bonus Hold Harmless (OAA-ALBHH) program, effective January 1, 1988. It is important to note that the dollars saved by this proposed legislation have been removed from the Governor's FY88 budget request. If this legislation does not pass, projected FY88 costs of \$622.4 must be restored to the Public Assistance BRU FY88 Budget. This analysis assumes continuation of the ALB Hold Harmless program.

Prepared by: John R. Taber, Director Phone: 465-3347
 Division: Division of Public Assistance Date: 3-4-87

Approved by Commissioner: John M. Munn Date: 3/9/87
 Agency: Department of Health & Social Services

Distribution (by preparer):

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

Division of Public Assistance

Assistance Payments BRU

Old Age Assistance - Alaska Longevity Bonus Hold Harmless (OAA-ALBHH)

1. The Governor's FY88 budget presumes a needs-based Longevity Bonus, which would eliminate the need for a Hold Harmless program. CSSB No. 56 continues the Hold Harmless program; costs reflect restoration of a full Hold Harmless for the Bonus, but no Hold Harmless provision for annuity payments.
2. We assume the first annuity payments will be made in July, 1989, but that no Old Age Assistance applicants or recipients will elect to participate.
3. We assume that the Annuity and Bonus payments will be as follows:

	<u>Bonus</u>	<u>Annuity</u>
FY88	\$250	0
FY89	\$250	0
FY90	\$242	\$ 7.74
FY91	\$233	\$16.71
FY92	\$223	\$26.76

4. Costs assume average age of new applicants for Old Age Assistance will be 65.

	6-Month Impact				
	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>
OAA-ALB Hold Harmless Program expenditure	1556.0	3608.3	4162.4	4617.2	5020.1
Amount of OAA-ALB HH that replaces lost SSI payments	622.4	1443.3	1687.9	1902.2	2089.1
Amount of OAA-ALBHH that replaces State OAA payments	933.6	2165.0	2474.5	2715.0	2931.0

DIVISION OF PUBLIC ASSISTANCE
OLD AGE ASSISTANCE AND ALB HOLD HARMLESS

ALB HOLD HARMLESS NO CHANGE					
	OAA	OAA	SSI	TOTAL	
Aged	APA	Replace	Replace	OAA and	
Cases	Component	ALBHH	ALBHH	ALBHH	
FY88 Jul-Dec	2736	3271.2	821.5	574.6	4640.3
FY88 Jan-June	2806	3258.6	933.6	622.4	4814.6
FY88 TOTAL	2773	6529.8	1755.1	1170.0	9454.9
FY89	2893	6479.3	2165.0	1443.3	10087.6
FY90	3013	6451.8	2551.0	1700.7	10703.5
FY91	3133	6448.3	2913.1	1942.0	11303.4
FY92	3253	6463.2	3256.7	2171.1	11891.0

5-year cost of Old Age Assistance(OAA) and OAA-ALB Hold Harmless program that assumes no change in the ALB program (\$250 payment, no needs-based, no annuity).

OAA recipients that receive the "25 year" Bonus, which SSI rules disregard as income are replaced with aged clients whose Bonus is countable (as income). Over time OAA expenditures decrease (no growth) and an increasing portion of the "OAA supplemental" is expended under the OAA-ALB Hold Harmless allocation.

ALB NEEDS-BASED EFFECTIVE 1/1/88					
	OAA	OAA	SSI	TOTAL	
Aged	APA	OAA	SSI	OAA and	
Cases	Component	ALBHH	ALBHH	ALBHH	
FY88 Jul-Dec	2736	3271.2	821.5	547.6	4640.3
FY88 Jan-June	2806	4192.2	0	0	4192.2
FY88 TOTAL	2773	7663.4	821.5	547.6	8832.5
FY89	2893	8644.3	0	0	8644.3
FY90	3013	9002.8	0	0	9002.8
FY91	3133	9361.4	0	0	9361.4
FY92	3253	9719.9	0	0	9719.9

The FY88 Governor's (amended) budget assumes an ALB program that becomes needs-based effective 1/1/88. Both Social Security (SSI payment level) and Medicaid (for program eligibility) disregard all state needs-based payments.

Assuming the Governor's proposed ALB needs-based is enacted then the Social Security Administration's SSI payments that are restored result in net general fund savings.

FY88 Savings (6 month impact)	622.4
FY89 Savings	1443.3
FY90 Savings	1700.7
FY91 Savings	1942.0
FY92 Savings	2171.7

The Amount of ALB Hold Harmless that had replaced State OAA payments shifts back to the Old Age Assistance (APA budget component)

FY88 OAA from ALBHH	933.6
FY89	2165.0
FY90	2551.0
FY91	2913.1
FY92	3256.7

CSSB NO. 56 ALB ANNUITY					
	OAA	OAA	SSI	TOTAL	
Aged	APA	Replace	Replace	OAA and	
Cases	Component	ALBHH	ALBHH	ALBHH	
FY88 Jul-Dec	2736	3271.2	821.5	547.6	4640.3
FY88 Jan-June	2806	3258.6	933.6	622.4	4814.3
FY88 TOTAL	2773	6529.8	1755.1	1170.0	9454.9
FY89	2893	6479.3	2165.0	1443.3	10037.6
FY90	3013	6528.3	2474.5	1687.9	10690.7
FY91	3133	6646.4	2715.0	1902.2	11263.6
FY92	3253	6788.9	2931.0	2089.1	11809.0

CSSB No. 56 provides for a redesign of the ALB to include an annuity and assumes continuation of a full hold harmless for the Bonus.

The impact of this proposed change is two-fold as the ALB payments decrease (FY88 \$242, FY91 \$233, FY92 \$223) then the amount of ALB Hold Harmless for SSI replacement also decreases (FY90 savings 12.7, FY91 39.8, FY92 82.0). The drop in ALBHH for SSI replacement is a net savings to the State. As the Bonus payment decreases the amount of ALB Hold Harmless for OAA replacement decreases and shifts back to OAA. The amount of this decrease is a dollar for dollar shift back to Old Age Assistance (APA component).

The above cost out assumes the first annuity payment will be made in July 1989, but that no Old Age Assistance recipients will elect to participate.

GRAND IGLOO
PIONEERS OF ALASKA

ORGANIZED AUGUST 4, 1908



OFFICE OF GRAND PRESIDENT

Petersburg Alaska
March, 5, 1987

Hon. Fran Ulmer; Chairman,
Committee On State Affairs.

Dear Representative Ulmer;

I just want to formally inform you, that at
the last Pioneers convention held in Juneau last
Sept.
We took a vote on the Annuity Program, and it
carried by a majority vote.

The Pioneers of Alaska will greatly appreciate
your support for Senate Bill #50, which will activate
the Annuity Program and leave the Longevity Bonus
as is.

Yours Truly,

Arnold P. Wasvick
Grand President PIONEERS OF ALASKA

SENATE COMMITTEE REPORT

FURTHER:

JUDICIARY
FINANCE

DATE TURNED INTO OFFICE _____

3/3/87

Mr. President:

HESS Committee considered SB 56

making effective an annuity program and amendments to the longevity bonus program and the permanent fund dividend program provided in secs. 2 - 18, ch. 99, SLA 1985; efd.

and recommended:

replace with CS FOR _____) same title
 or adopt CS FOR SB 56(SA)) new title
 attached amendment(s) and

do pass

do not pass

no recommendation

individual recommendations

further referral to _____

letter of intent adopted _____

Committee attached or adopted fiscal note(s)

new updated or previous
 zero fiscal impact

MEMBERS SIGNING DO PASS

OTHER RECOMMENDATIONS

[Signature]
[Signature]
[Signature]
[Signature]
[Signature]

Paul A. Frick Do Pass
Chairman signature and recommendation

Committee Backup Attached

Alaska State Legislature

INTERIM OFFICE
1024 WEST SIXTH AVENUE
ANCHORAGE, ALASKA 99501
(907) 274-2843

IN SESSION:
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4714



Senator Mitch Abood
CHAIRMAN

Senate Committee on State Affairs

LETTER OF INTENT

The Senate State Affairs Committee has considered CSSB 56 (State Affairs) "An Act making effective an annuity program and amendments to the longevity bonus program and the permanent fund dividend program provided in secs. 2-18, Ch.99, SLA 1985; and providing for an effective date.

It is the intent of the Senate State Affairs committee that the Department of Revenue and the Department of Administration take steps to educate and inform the public about the annuity program and the changes to the permanent fund dividend program and the Alaska longevity bonus program that are made effective by this Act.



CHAIRMAN, SENATE STATE AFFAIRS COMMITTEE

3/2/87
DATE

STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE

Bill Version: CS SB 56 SA
Publish Date: 3-3-87

REQUEST _____

Revision Date: _____
Title: * (see below) _____

Agency Affected: Administration
BRU: Longevity Bonus

Sponsor: Kerttula
Requestor: Senate State Affairs

Components: Administration, Grants

* Making Effective an Annuity Program and Amending Alaska Longevity Bonus and Permanent Fund Dividend.

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES	0	184.5	184.5	184.5	184.5	184.5
TRAVEL	0	0	0	0	0	0
CONTRACTUAL	0	81.0	81.0	81.0	81.0	81.0
SUPPLIES	0	11.1	11.1	11.1	11.1	11.1
EQUIPMENT	0	20.0	4.0	4.0	4.0	4.0
LAND & STRUCTURES	0	0	0	0	0	0
GRANTS, CLAIMS	0	0	(300.0)	(800.0)	(1,600.0)	(2,800.0)
MISCELLANEOUS	0	0	0	0	0	0
TOTAL OPERATING	0	296.6	(19.4)	(519.4)	(1,319.4)	(2,519.4)
CAPITAL	0	750.0	0	0	0	0
REVENUE	0	0	0	0	0	0

FUNDING: (Thousands of Dollars)

GENERAL FUND	0	0	(300.0)	(800.0)	(1,600.0)	(2,800.0)
FEDERAL FUNDS	0	0	0	0	0	0
OTHER	0	1,046.6	280.6	280.6	280.6	280.6
TOTAL	0	1,046.6	(19.4)	(519.4)	(1,319.4)	(2,519.4)

POSITIONS:

FULL-TIME	0	5	5	5	5	5
PART-TIME	0	0	0	0	0	0
TEMPORARY	0	0	0	0	0	0

ANALYSIS: Attach a separate page if necessary. The implementation of the annuity program to replace the Longevity Bonus Program will result in a decrease in general funds committed to the program. The difference is shown on the Grants and Claims line. The amount is based on the difference in costs of the annuity program and the current law as shown in Appendix A of 1986 Ballot Measure No. 3, Questions and Answers About Proposed Longevity Bonus Alternatives prepared by the Division of Strategic Planning, September 1986.

Funds for operating the program will come from the annuity investment fund (AS 43.23.110) as provided in AS 43.23.110(d).

Prepared By: Michael P. McMullen Phone: 465-2200
Division: Commissioner's Office Date: 2/11/87

Approved by Commissioner: Garrey Peska Date: 2/11/87
Agency: Department of Administration

Distribution (by preparer):
Legislative Finance
Legislative Sponsor
Requestor
Office of Management and Budget
Impacted Agency(ies)
Senate Secretary

CONTINUATION of FISCAL NOTE ANALYSIS

For SB 56

We estimate that approximately four full-time employees will be needed to administer this program on a continuing basis. We estimate that a program supervisor and chief accountant will be needed with two other staff members.

We are basing this fiscal note on the assumption that the Department of Revenue will verify ages of those who elect to participate in the annuity program. This is critical.

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

Supervisor: Retirement and Benefits Specialist III
Accountant: Accountant II
Technician: Retirement and Benefits Technician I/II
Clerk: Accounting Clerk III

We propose that a notification will be sent to all Alaska boxholders to inform them of the provisions of the bill and to advise them of the contact persons or agencies. We estimate an annual cost of \$20.0 for independent audits. We also propose that there will be annual statements of account that will be sent to approximately 150,000 participants. This cost is estimated to be \$41.0.

We estimate that the annuity program will be fully automated to reduce the need for staff. We estimate that one-time system analysis, development, and construction costs would be \$750,000.

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 also estimate a cost of \$20.0 for computer records storage.

A zero inflation rate is assumed for this fiscal note.

as of
2-26-87

Alaska State Legislature

INTERIM OFFICE
1024 WEST SIXTH AVENUE
ANCHORAGE, ALASKA 99501
(907) 274-2843

Senator Mitch Abood
CHAIRMAN



IN SESSION
POUCH V
JUNEAU, ALASKA 99811
(907) 465-4714

Senate Committee on State Affairs

SECTIONAL ANALYSIS FOR CSSB 56 STATE AFFAIRS

Section 1
Allows for cash contributions into the annuity accounts.

Section 2
If a cash contribution is made, the cash contribution may not exceed the amount of the permanent fund dividend for that year.

*/ @ right of
as above*

Section 3
Conforming language so that a cash contribution can be made.

Section 4
Conforming language so that a cash contributions can be made.

Section 5
Adds language to allow for an emergency withdrawal. The amount withdrawn shall be limited to amount sufficient only to meet the emergency. Regulated by the Commissioner of Revenue.

*@ right of
Jde
[but check w/
D. VOGT]*

Section 6
Repeals the stair-stepping plan contained within Chapter 99, SLA 1985.

Section 7
This Act applies only to those permanent fund dividend after December 31, 1987.

Section 8
Immediate effective date clause.

2/14/87
 J. H. Coff
 SB de

* REVISED *

LONGEVITY BONUS PROGRAM COSTS*
 (millions of dollars)

Fiscal Year	Current Law	SB-56 Annuity Program	SB-57	
			Annuity Minimum	Program Variant Maximum
1988	51.2	51.2	51.1	51.2
1989	52.7	52.4	51.4	52.4
1990	55.6	54.8	51.8	54.8
1991	58.2	56.6	50.6	56.6
1992	60.7	57.9	48.1	57.9
1993	63.4	58.9	44.2	58.9
1994	65.9	59.2	38.8	59.2
1995	68.8	59.2	34.6	59.2
1996	71.4	58.2	32.5	58.2
1997	73.6	56.1	30.3	56.1
1998	76.1	53.2	28.2	53.2
1999	78.5	49.1	26.2	49.1
2000	81.1	43.7	24.1	43.7
2001	83.6	36.8	22.1	36.8

*Grants only. Does not include administrative costs.

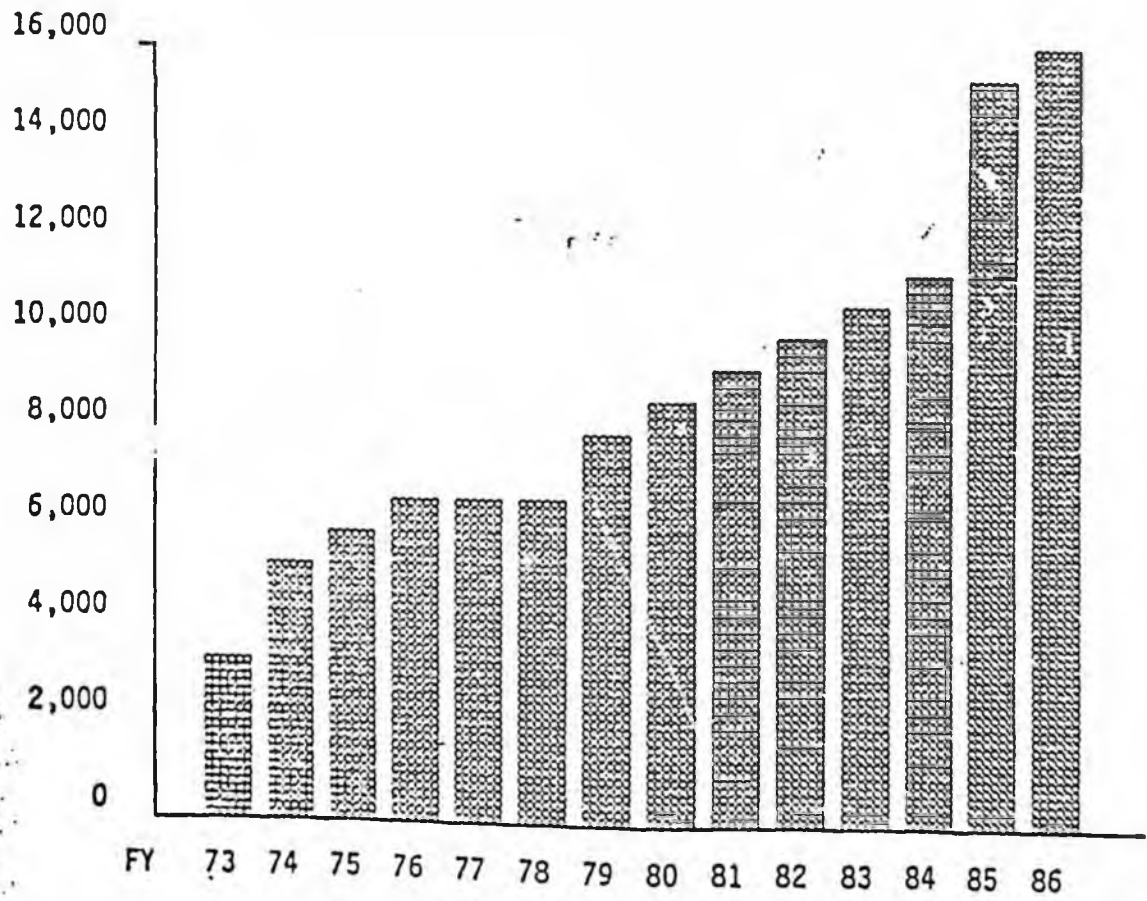
OMB Policy, 2/16/87 (revised).

NEW FIGURES

DUNCAN'S IS CHEAPER
 bc only people
 between 52-65.
 (cuts out a LOT
 of people).

2-16
S. S. S. S.
SBS

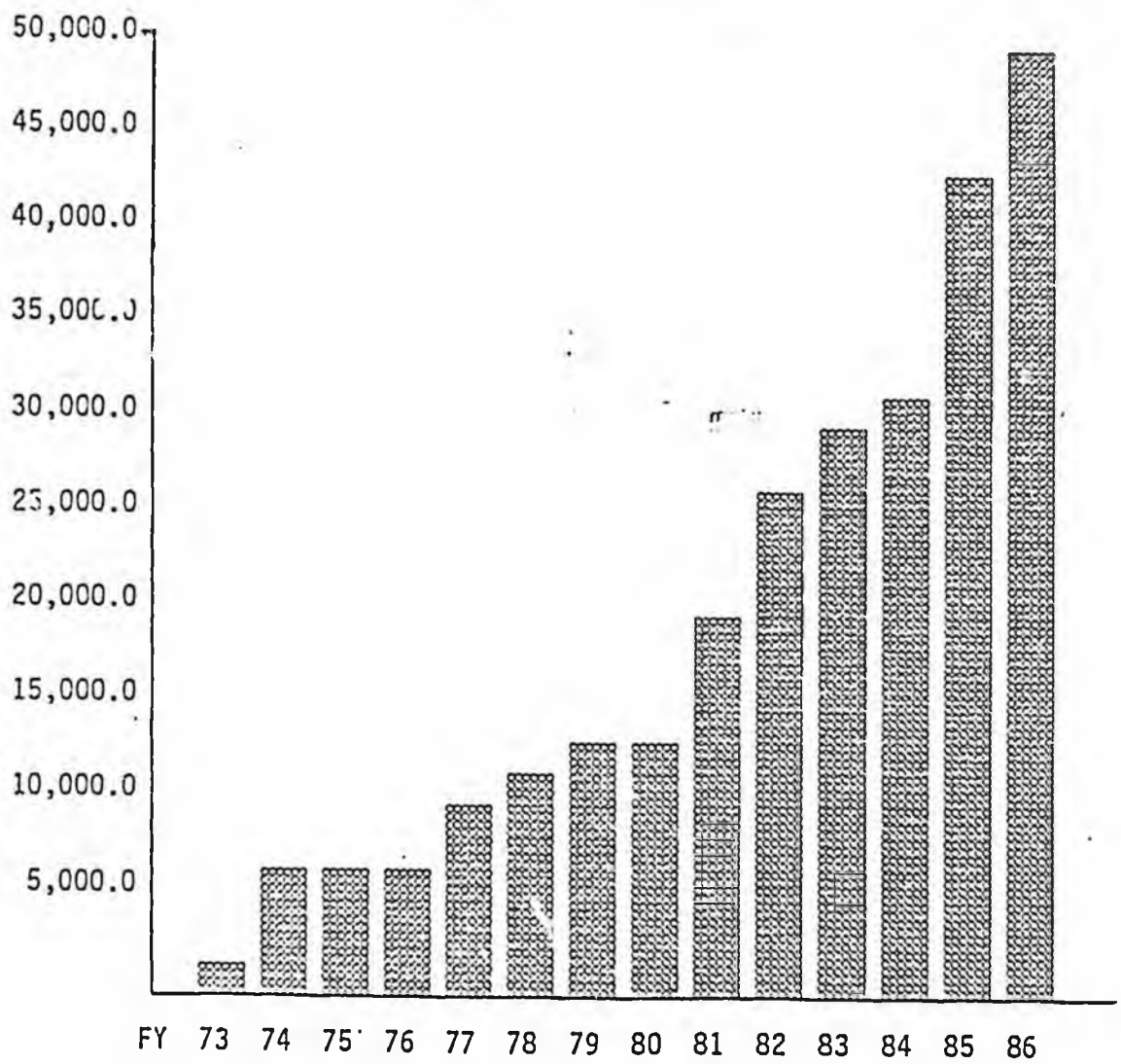
QUALIFIED RECIPIENTS LONGEVITY BONUS PROGRAM



9/7C1/1220-14

2-16
2-27-82
SP
ae

ANNUAL EXPENDITURES (IN THOUSANDS)
LONGEVITY BONUS PROGRAM



9/7C1/1220-16

3/1/59

OPAG POSITION PAPER

ON

LONGEVITY BONUS, RENTER'S REBATE & PROPERTY TAX EXEMPTION LEGISLATION

Introduction: The Older Persons Action Group (OPAG), a statewide nonprofit advocate for Alaska's senior citizens, believes that all residents of the state should share equally in our oil wealth. Consequently, we maintain that the Longevity Bonus and the Property Tax Exemption/Renters Rebate Programs must be continued undiminished.

Background: What purpose was the bonus and the exemptions supposed to serve? It was to provide elderly, longtime Alaskans with "incentive to continue uninterrupted residency in the state." In 1972, only 2.3 percent of all Alaskans were 65 years of age or older, compared with 10 percent for the nation as a whole. The 1972 legislature concluded that the high costs and rigors of Alaska life were forcing "pioneers....to live out their retirement years in areas far away from the land they loved and nurtured,...(thus) depriving future generations of Alaskans of the benefits of their wisdom and experience." The lawmakers went out of their way to emphasize that the payments were not to be considered as any "form, type or manner of public relief," but rather a reward for hardships suffered during territorial days and an incentive to remain in the state.

These elders established homes, communities and envisioned a new state. They paid Territorial and state income and property taxes, selected Prudhoe, other state lands and made statehood a reality.

Discussion: Younger people will benefit, quite properly, from the oil income and the Permanent Fund for many years to come. Older Alaskans have much less time to share these benefits; therefore, older Alaskans are receiving a Longevity Bonus and a tax exemption on their residences to compensate for the shorter time available to them. To reduce or eliminate either of these programs will create inequity of benefits for seniors.

The population mix should contain a proper proportion of seniors. They do not fill the jails, require schools or child care centers, nor compete for jobs, student loans, or business or farm loans. They do spend money, stimulate the economy, create employment, do very extensive free volunteer work and contribute to charities. The annual volunteer work that seniors do statewide with many agencies is valued in thousands of hours, worth millions of dollars.

Prior to introduction of the Bonus and Exemption, most seniors who could afford it moved "south" when they retired. They sold or rented their homes, withdrew check/savings accounts, and took their pensions, annuities, social security, health care benefits, and other assets and left to survive in a warmer and less expensive climate.

Things have changed. Now our studies show that more seniors stay in Alaska. They are neither rich nor poor, but are most often middle income. If these benefits, namely Bonus and Tax Exemption, are withdrawn or greatly reduced as proposed recently by the Governor, we predict that many seniors will feel the pinch and head "south" taking with them income and assets.

To find out how important these incomes and assets are, OPAG directed its Board to make a study of the money received by Alaskan seniors residing in Alaska, and funds spent by agencies that support the elderly in Alaska. We contacted the Social Security Administration, Unions, Military, Veterans Administration, the state retirement programs, etc. and asked, "What do you spend in Alaska in support of Alaskan senior citizens? Please include all monies for direct or indirect support of such seniors, including but not limited to expenditures for health care, staff salaries, rentals, disability compensation, retirement pay etc." We were amazed as we added the answers:

<u>SOURCE</u>	<u>\$ PER YEAR</u>
Social Security Administration	136,562,000
Medicare	35,000,000
SSI	10,000,000
Medicaid	42,340,000 (seniors only)
Teachers' Pensions	25,740,293
Unions and Industry Pensions	100,000,000 (est.)
Retired Military, all services	66,940,192
Retired Federal Workers	60,925,872
Retired State Workers	38,842,061
Veterans Administration Seniors	24,595,783
Retired State National Guard	<u>505,200</u>
	\$541,451,401

Analysis: Annually, roughly half a billion dollars are spent in support of Alaskan seniors through retirement/medical programs. In addition, a sizeable amount is contributed to the economy by other senior incomes and investments. It is obvious that this

large sum for direct and indirect support does affect the economy significantly.

It is also obvious that if large numbers of seniors feel they must leave the state, the negative impact experienced by the economy will be very depressing to it. Please note that the cost of the Longevity Bonus/Exemptions of some 50 million dollars is not included in the above total; and that seniors being in Alaska are the cause of dollar infusion into the economy at a rate of approximately eleven times more than the Bonus/Exemption cost.

A spot survey taken February 13 at the Anchorage Senior Center indicated that 57% of the Alaskan elder present would leave Alaska if both the Longevity Bonus and Tax Exemption/Renters Rebate were eliminated.

Conclusions: The Older Persons Action Group has concluded that reduction or elimination of the Longevity Bonus or Property Tax Exemption/Renters Rebate would:

- a. impact most middle income and all lower income senior in a significantly adverse manner.
- b. force many seniors to leave the State for less expensive areas.
- c. have a severe impact on the State economy in proportion to the loss of their incomes and capital assets.
- d. cause a loss of population balance resulting in a reduction of maturity and experience levels in that population.
- e. impact not only the economy, but impact all the agencies and services that use volunteer labor throughout the State.

P O S I T I O N

Therefore, it is recommended to the public and to our elected officials that the Longevity Bonus and the Property Tax Exemption/Renters Rebate Programs be left intact in such manner that they continue to meet the objective of encouraging retired Alaskans to remain in the state.

Copies of this position paper may be obtained by contacting:
The Older Persons Action Group (OPAG), 325 East 3rd Avenue,
Anchorage, Alaska 99501 Telephone (907) 276-1059

Alaska State Legislature



SENATE ADVISORY COUNCIL

Pouch V
State Capital
Juneau, Alaska 99811
Phone: (907) 465-3114

MEMORANDUM

TO: Senator Mitch Abood
Alaska State Senate

ATTN: Carol Horos

FROM: Paula d. Scavetta *PS*
Researcher

DATE: January 26, 1987

RE: Longevity Bonus

Attached is the information you requested on longevity bonus. The first page is a simplified form on where longevity bonus is. The second is a status on the Vest vs. Alaska court case.

As soon as the other information is compiled I will forward it to you.

WHERE ARE WE ON LONGEVITY BONUS?

The 14th Alaska Legislature considered two alternatives to the present longevity bonus program. Both were adopted, but neither will take effect unless the legislature repeals the other. The legislature asked for an advisory vote on the annuity option in the last general election and the vote was 99,222 for and 65,789 against.

WHAT IS THE ANNUITY OPTION?

The annuity option that was voted on provides that every individual who reaches 65 by January 1, 1988 (and has one year residency) including those already receiving the bonus would receive a longevity bonus payment of \$250 per month. A person under age 65 on January 1, 1988 could participate in an optional annuity program by depositing all or part of his or her permanent fund dividends in an account held by the state. Upon reaching age 65, a person could receive a monthly payment in an amount determined by how much was contributed to the account. The annuity payments would be supplemented with a declining longevity bonus payment paid for with general funds.

WHAT WAS THE OTHER ALTERNATIVE ADOPTED?

The other alternative provides that anyone who is 65 years old by January 1, 1988 and have one year residency will receive a longevity bonus. Therefore, if you are not 65 years of age by January 1, 1988 you would not receive the bonus.

WHAT IF THE LEGISLATURE DOESN'T REPEAL EITHER ALTERNATIVE?

If the Legislature doesn't repeal either alternative the existing longevity bonus would continue. The existing program being that anyone 65 or older with one year residency shall receive \$ 250 per month bonus. The estimated cost for this is \$ 51 million in FY 88.

VEST VS. ALASKA

The Alaska Supreme Court ruled in the case Vest vs. Alaska, that the residency requirements of the longevity bonus program violated the equal protection provisions of the Alaska and United States Constitutions. That was in 1984.

Within the next few weeks, Judge Carpeneti will rule on whether or not elderly Alaskans that were denied longevity bonuses because of residency requirements are entitled to retroactive longevity bonuses because the residency requirements of the original statute unconstitutionally discriminated against them.

If the state is ordered to pay retroactive longevity bonus payments, the real question is how far back would they have to go (that could be 10 years, 5 years, 1 year or anything in between). There is a chance that the judge could order no retroactive payments at all.

Every year that the state is ordered to issue retroactive payments could possibly result in about a \$15 million expenditure (assuming 5,000 individuals were made eligible by the reduction of the residency requirement, \$250 per month times 12 months for 5,000 individuals).

Oral arguments by the state and Mr. Vest's attorney's were presented to Judge Bud Carpeneti on June 10, 1986. Judge Carpeneti is late with his ruling; it has been over 6 months, so a ruling will be coming very shortly.

The attorney for the state is Deborah Vogt. 465-3500 She is located in the Attorney General's office on the 4th floor of the Capital Building and she has copies of all briefs.

The attorney for Mr. Vest is Henry Camarot of Camarot, Sandberg, Hunter and Smith in Anchorage.

STATE OF ALASKA
THE LEGISLATURE

POUCHY STATE CAPITOL
JUNEAU, ALASKA 99801
907 465 3800

LEGISLATIVE AFFAIRS AGENCY

MEMORANDUM

February 7, 1987

SUBJECT: Durational residency requirement for
longevity bonus (SB 56 and SB 57)

TO: Senator Mitch Abood, Chair
Senate State Affairs Committee

FROM: Keith B. Levy ^{KBL}
Legislative Counsel

You have asked whether making the Alaska longevity bonus a "needs based" program with an income cap for eligibility of \$20,000 or \$25,000 would require reducing the residency requirement for the program from one year to 30 days. While it is difficult to predict with certainty the maximum durational residence requirement that is constitutionally permitted under any particular set of facts, it is true that making the longevity bonus "needs based" would open the current one year requirement up to serious attack.

A one year durational residency requirement presents potential constitutional problems in any state legislation. In the case of a program which provides the "basic necessities of life," however, the invalidity of such a durational residence requirement is almost certain. Thus, a one year residence requirement for the longevity bonus program, even in its current form, is open to constitutional challenge. Making the program "needs based" would make a successful challenge more likely if the court views the program as providing the basic necessities of life.

In Shapiro v. Thompson, 394 U.S. 618, 22 L.Ed.2d 600 (1969), the United States Supreme Court struck down various state provisions requiring indigents to be state residents for one year before being eligible for state welfare benefits. The court observed that in each case there was no question that the indigents were state residents, but they were being denied welfare benefits solely because they had not been residents for the one year period. The court concluded

that, while the state may require that welfare recipients be state residents, the one year requirement penalized the constitutional right to travel:

' . . . any classification which serves to penalize the exercise of that right, unless shown to be necessary to promote a compelling governmental interest, is unconstitutional. (Emphasis in original.) Shapiro, 22 L.Ed.2d, at 615.

The court rejected various arguments of the states involved, including the argument that the one year waiting period served to prevent fraudulent receipt of benefits. The court pointed out that fraud can be prevented and residency established without the extensive waiting period. Shapiro, 22 L.Ed.2d, at 616 - 617.

In a footnote, the Shapiro court did state that its ruling was limited to the facts of the case:

We imply no view of the validity of waiting-period or residence requirements determining eligibility to vote, eligibility for tuition-free education, to obtain a license to practice a profession, to hunt or fish, and so forth. Such requirements may promote compelling state interests on the one hand, or, on the other, may not be penalties upon the exercise of the right of interstate travel.

Shapiro, 22 L.Ed.2d, n. 21, at 617.

The holding in Shapiro was extended to apply to medical benefits in Memorial Hospital v. Maricopa County, 415 U.S. 250, 39 L.Ed.2d 306 (1974):

Whatever the ultimate parameters of the Shapiro penalty analysis, it is at least clear that medical care is as much "a basic necessity of life" to an indigent as welfare assistance. And governmental privileges or benefits necessary to basic sustenance have often been viewed as being of greater constitutional significance than less essential forms of governmental entitlements. (Footnotes omitted. Memorial Hospital, 39 L.Ed.2d, at 315.)

The court acknowledged that a one year residence requirement may sometimes be justified, as in the case of charging lower tuition to one year residents attending a state university:

While we fully recognize the value of higher education, we cannot equate its attainment with food, clothing and shelter. Shapiro involved the immediate and pressing need for preservation of life and health of persons unable to live without public assistance, and their dependent children. Thus, the residence requirement in Shapiro could cause great suffering and even loss of life. The durational residence requirements for attendance at publicly financed institutions of higher learning do not involve similar risks. (Memorial Hospital, 30 L.Ed.2d, n. 15, at 316.)

Accordingly, the court left open the possibility that a one year residence requirement could be upheld in certain instances, but not where the benefit involved is one of the basic necessities of life.

It is difficult to say whether the Alaska Supreme Court would view an income cap of \$20,000 or \$25,000 as making the longevity bonus a benefit involving the "basic necessities of life" within the meaning of the Shapiro and Memorial Hospital cases. It can certainly be argued that any income cap would make the program a "welfare" benefit so that the court would view it as providing basic necessities. And the lower the income cap gets, the more likely the court will reach this conclusion. Thus, a \$20,000 income cap is more subject to challenge than a \$25,000 cap.

Section 1(b), ch. 38, SLA 1984, states:

The longevity bonus program is not a form of welfare and is not a substitute for or supplement to public assistance. Other programs are available to provide the basic necessities of life. The longevity bonus program is intended to encourage elderly Alaskans to spend their retirement years in the comfort of their homes.

This language is obviously intended to protect against a challenge under Shapiro and Memorial Hospital. However, setting an income cap on eligibility for the bonus would seem to repudiate that language by making the bonus available only to those Alaskans who need it.

In Dunn v. Blumstein, 405 U.S. 330, 31 L.Ed.2d 274 (1972), the United States Supreme Court struck down a one year residence requirement for the right to vote as penalizing that important constitutional right. In a similar case, the Alaska Supreme Court struck down a 75 day residence requirement for voting in state elections. State v. Van Dort, 502 P.2d 453, 454 (Alaska 1972). In each case, however, the court did find that a 30 day residence requirement would serve the compelling state interest in preventing voter fraud and voting by nonresidents.

In subsequent cases, the Alaska Supreme Court seems to have taken an even broader interpretation of the right to travel and a more critical view of durational residence requirements than the United States Supreme Court. For example, in State v. Adams, 522 P.2d 1125 (Alaska 1974), the court held that a one year residence requirement to obtain a divorce in a state court violates the state constitution. This is in contrast to the United States Supreme Court opinion in Sosna v. Iowa, 419 U.S. 393, 42 L.Ed. 2d 532 (1976), in which the court upheld Iowa's one year residence requirement for seeking a divorce in the state, under the federal constitution. The court in Adams went so far as to say:

All durational residency requirements inherently infringe upon the fundamental constitutional right of interstate travel. Hence, all such requirements are prima facie invalid and will be countenanced only when they serve a compelling state interest. (Footnotes omitted. Adams, at 1131.)

In State v. Wylie, 516 P.2d 142 (Alaska 1973), the court struck down a one year residence requirement for public employment, saying the state had failed to advance a compelling justification for the requirement.

The standard for reviewing durational residence requirements in Alaska was altered somewhat after the Alaska Supreme Court adopted a new test under which state equal protection challenges are considered:

The classification must be reasonable, not arbitrary, and must rest upon some ground of difference having a fair and substantial relation to the object of the legislation, so that all persons similarly circumstanced shall be treated alike. (Isakson v. Rickey, 550 P.2d 359 (Alaska 1976).)

Even under the new standard, however, the court requires the state to provide a high level of justification before it will sustain a durational residence requirement. Applying this new standard, the court struck down a borough ordinance requiring one year of residence in the borough to participate in the borough's land lottery. Gilman v. Martin, 662 P.2d 120 (Alaska 1983).

The significance of the Adams, Wiley, and Gillman cases is that the court struck down the one year residence requirements even though they did not involve "basic necessities of life." Thus, it appears that the Alaska Supreme Court goes much further than the United States Supreme Court in durational residence challenges. Accordingly, even if the longevity bonus is not viewed as providing the basic necessities of life, the one year residence requirement could be overturned by the court. The Alaska Supreme Court has upheld durational residence requirements for eligibility to run for the state legislature (Gilbert v. State, 526 P.2d 1131 (Alaska 1974)); for eligibility to perform jury duty (Hampton v. State, 569 P.2d 138 (Alaska 1977)); and for eligibility to run for a municipal office (Casner v. City of Homer, 598 P.2d 953 (Alaska 1979)). However, the distinguishing factor in each of these cases is that the residence requirement was for a position involving important policy making responsibilities.

The longevity bonus in any form seems to be more akin to the cases in which the durational residence requirements were struck down than the cases in which they were upheld. It is simply a state benefit, not a policy making position. The kinds of justifications the state could put forth for the one year requirement -- protection of fiscal integrity of the program and preventing people from moving to the state solely to obtain the benefit -- have been rejected by both the Alaska Supreme Court and United States Supreme Court. However, setting an income cap for eligibility for the program will certainly add to the arguments against the one year requirement, since such a change is likely to make the program more of a "basic necessity of life" rather than a mere supplement to income.

In Jeffrey v. Colorado State Department of Social Services, 599 P.2d 874 (Colorado 1979), the Colorado Supreme Court struck down a state old-age pension plan which contained a durational residence requirement. The court rejected the argument that the pension was merely an income supplement

because, under state law, the pension benefit was reduced in proportion to the amount of an individual's other income. This provision made it clear to the court that the pension was intended to meet the basic necessities of life, not to supplement other income. Similarly, setting an income cap on eligibility for the longevity bonus would add to the arguments that the program provides basic needs and the one year durational residence requirement is unconstitutional.

In conclusion, it is possible that the Alaska Supreme Court would find the one year residence requirement for the longevity bonus unconstitutional even in the program's present form. However, setting an income cap for eligibility for the program will certainly add to the likelihood that the residence requirement would be struck down if challenged. The strength of such a challenge will depend, in part, on the details of how the "needs based" program would operate. The lower the level of income at which an individual becomes eligible, the greater the likelihood that the court will view the program as providing the basic necessities of life, thus increasing the chance that the one year requirement will be struck down.

If I may be of further assistance, please advise.

KBL:mkr
m8/105

**Ballot Language For
Advisory Vote on Longevity
Bonus Annuity Program**

The Fourteenth Alaska State Legislature considered two alternatives to the present longevity bonus program. Both were adopted into law, but neither will take effect unless the legislature chooses one of them. The legislature has asked for an advisory vote of the public on the annuity option which is described below.

The annuity option provides that every individual who reaches age 65 by January 1, 1988, including those already receiving the bonus, would receive a longevity bonus payment of \$250 per month. In addition, a person under age 65 on January 1, 1988, could participate in an optional annuity program by depositing all or part of his or her permanent fund dividends in an account held by the state. Upon reaching age 65, a person would receive a monthly payment in an amount determined by how much was contributed to the account. The annuity payments would be supplemented with declining longevity bonus payments paid for with general funds until the annuity accounts were large enough to provide monthly payments of \$250 a month.

The second option provides that every individual who is 65 years old by January 1, 1988, including those already receiving the bonus, will receive a longevity bonus payment of \$250 per month, but that anybody younger than age 65 by January 1, 1988, would not be eligible for benefits.

Should the legislature adopt the annuity option?

YES () NO ()

1986 Ballot Measure No.3

Questions and Answers About Proposed Longevity Bonus Alternatives

September 1986

Division of Strategic Planning

OMB

STATE OF ALASKA
BILL SHEFFIELD, GOVERNOR

STAFF PAPERS AND REPORTS

OFFICE OF MANAGEMENT AND BUDGET

QUESTIONS AND ANSWERS
ABOUT PROPOSED
LONGEVITY BONUS ALTERNATIVES

By Gregg Erickson

September 1986

Division of Strategic Planning
Office of Management and Budget
State of Alaska

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Introduction

In November 1986 Alaska's voters will be asked to advise lawmakers on the future of the Alaska longevity bonus program. The voter's pamphlet prepared by the Division of Elections contains a description of the ballot measure, including *pro* and *con* statements. This report provides a more detailed analysis of the alternative proposals, and why the legislature decided to put the matter before the electorate.

Gordon S. Harrison
Associate Director
September 1986

QUESTIONS AND ANSWERS ABOUT PROPOSED LONGEVITY BONUS ALTERNATIVES

What is the Alaska Longevity Bonus?

The bonus program pays \$250 per month to almost every Alaskan resident who is 65 or older and who has lived in the state for the one year immediately preceding the date of application.

How long has the state been making these payments?

The program was established in 1972, and the first checks were sent out in January of 1973. Initially, the monthly check was \$100, but increases were granted in 1976, 1978, 1980, and finally in 1981, when the present level of \$250 per month was established. Until 1984, eligibility was restricted to persons who were present in Alaska during territorial days, and who had 25 years continuous residency in Alaska. In 1984, however, the residency requirement was reduced to one year, opening the program to most elderly Alaskans.

Isn't it pretty unusual for a state to pay its residents money just because they happen to be above a certain age?

Alaska is the only state where age alone entitles a person to a cash benefit, but it is quite common for non-cash benefits or various subsidies to be awarded solely on the basis of age. For example, persons 65-and-over are entitled to an additional federal income tax deduction, and many states allow property tax credits to the elderly.

What purpose was the bonus supposed to serve?

It was to provide elderly, longtime Alaskans with "an incentive to continue uninterrupted residency in the state." In 1972, only 2.3 percent of all Alaskans were 65 years of age or older, compared with 10 percent for the nation as a whole. The 1972 legislature concluded that the high costs and rigors of Alaska life were forcing "pioneers...to live out their retirement years in areas far away from the land they loved and nurtured,...[thus] depriving future generations of Alaskans of the benefits of their wisdom and experience." The lawmakers went out of their way to emphasize that the payments were not to be considered as any "form, type or manner of public relief," but rather a reward for hardships suffered during territorial days and an incentive to remain in the state.

If the purpose of the bonus program was to keep oldtimers from leaving, why did the state open the program to newcomers in 1984?

In April 1984, in the case of *Vest v. Alaska*, the Alaska Supreme Court ruled that the residency requirements of the bonus program violated the equal protection provisions of the Alaska and U.S. constitutions. Rodney Vest, the plaintiff, had

established residence in Alaska in April 1959. Under the original law, Vest would never have been eligible to receive the bonus because he arrived in the state three months after it ceased to be a territory. In 1982, at the age of 67, Vest argued that it was unfair and unconstitutional to deny him the payments just because he was a relative newcomer.

The court agreed, explaining that "[i]t is [the] supposition that living in territorial Alaska makes an individual entitled to special *legal* stature that is impermissible. The federal Constitution prohibits states from making such determinations. The basic predisposition to take care of one's own -- and no one else's -- is no longer a permissible goal for a state that has joined the federal union." The court did not order the state to pay Mr Vest the bonus. Instead, it struck down the entire program. With the final Supreme Court decision in the Vest case coming in early April of 1984, the legislature had to produce some sort of constitutional replacement for the bonus in the final two months of the session, or see the program expire altogether.

Even though it never directly benefited more than about two percent of the state's population, the residency-based bonus program had enjoyed broad political support. Sudden financial dislocations to the 10,000 elderly receiving the bonus in early 1984 would not have been desirable under any circumstances; legislators had no trouble agreeing that it was particularly undesirable in a year when 51 of the 60 legislative seats were up for election. Although a number of other approaches were proposed, legislators soon decided that it was better to extend the bonus to the 5,000 elderly not then receiving the entitlement, than to cut off, "cold turkey," the 10,000 who were. A bill was passed which re-established the bonus as a program for almost everyone over 65 with one year of Alaska residency. (To avoid loss of federally funded welfare benefits, the legislature later removed the eligibility of persons in nursing homes.)

The new law was to be temporary, and by its own terms was to be repealed in June of 1985, though the next legislature put that date off into the indefinite future. A special committee was established, chaired by former Governor Jay Hammond, to report in early 1985 on the feasibility of replacing the bonus "with an annuity program, a needs based program, or other longevity program." Establishment of the Hammond committee and the limited life assigned to the newly universalized bonus reflected the view that the fundamental changes in the bonus program forced by the courts and growing costs required a major rethinking of this part of the state's policy toward the elderly.

How much additional cost resulted from opening the program to everyone 65-and-over?

The program cost \$27.5 million in fiscal 1983, the last full fiscal year of the residency-based program; in the first full fiscal year of the universalized program (FY 85) the cost was \$43.1 million, a 57 percent increase. Costs of the universal program (which we still have) are currently growing at a rate of about 6 percent per year. Some evidence suggests that the availability of the bonus has caused a

slight increase in elderly migration to Alaska, mostly by individuals with adult children in the state. But even without this effect other demographic factors suggest that the number of 65-and-over Alaskans will get larger, even if the state as a whole loses population. Unless there are program changes, OMB estimates that the bonus's share of the state's general revenues will grow, due to the combination of declining spending elsewhere and an expanding elderly population, from about 1.8 percent in fiscal 1986 to the neighborhood of 4 percent in fiscal 1990. The prospect of this fiscal growth has forced politicians to search for alternatives to the current bonus program.

What alternatives have been considered?

More than a dozen proposals have been advanced, but in general there have been four different approaches.

1. Phase-out the bonus over a relatively extended period, either by gradually reducing the monthly benefit (say, by \$25 per year), or by progressively raising the eligibility age. The latter approach was sometimes described as "stairstepping," and in 1985 was generally the approach taken by the House of Representatives

2. Transform the bonus into a welfare program. Only those elderly able to demonstrate "need" in relation to some measure of wealth or income would receive payments.

3. Two plans were advanced that would require recipients to provide some sort of public service work to maintain eligibility for the bonus, but would otherwise leave the universal elderly benefit unchanged.

4. Gradually replace the publicly funded bonus payment (which would be phased-out over a period of years) with the proceeds of an individually purchased annuity. (An annuity is a contract which guarantees the holder regular payments under specified circumstances, for example monthly payments after the holder reaches a certain age.) Funds for purchase of the annuity contract would come from the individual's own permanent fund dividend. Those who chose to keep their dividend would receive no annuity payments and after the phase-out, no bonus payments either.

The Hammond committee recommended a type of annuity plan tied to the Permanent Fund dividend, although a minority on the committee favored either a more straightforward phase-out of the bonus or its transformation into a public assistance program with a "needs" test for eligibility. In 1985, legislators were able to agree on phasing-out the bonus as a universal entitlement for elderly Alaskans, but could not agree on how to accomplish that objective.

The House supported a relatively uncomplicated phase-out, accomplished by restricting eligibility to individuals who reach 65 before January 1, 1988. Costs would begin to decline in 1988 as mortality gradually reduces the size of the eligible population. The Senate favored a version of the Hammond committee's annuity plan. The Senate would also phase-out payments from general revenue, though not as quickly as the House proposal. Costs under the Senate plan would continue to increase until about 1994. Individuals who had opted to enroll in the annuity part of

the Senate plan (and had given up their dividends) could eventually receive annuity payments comparable to the old bonus payments.

After the two sides had been deadlocked for several weeks, they adopted both ideas into law, but made neither effective until the other is repealed. The idea was that one or the other plan would be repealed in 1987. To help the 1987 legislature decide, the advice of the voters will be solicited at the November 1986 election. Until the legislature acts again the current bonus program -- with its growing population of beneficiaries -- remains on the books.

So in November voters will be choosing between the Senate's plan and the House's plan?

Not exactly. The ballot measure will briefly describe both proposals, and note that both were adopted into law but that neither will take effect unless the legislature chooses one of them. Then it will ask "Should the legislature adopt the annuity option?" -- yes or no.

But if a majority votes "no" on the Senate's annuity plan, won't the House plan be put into effect?

Not necessarily. Although the legislature's actions imply that a "no" vote is a vote for the House plan, the members of the 1987 legislature may see it only as a vote against the Senate approach. Even an unambiguous "yes" vote does not insure that the legislature will act to put the annuity phase-out plan supported by the Senate into effect. This is only an advisory ballot; regardless of what voters may intend by voting "yes" or "no," legislators are legally free to disregard the results of the advisory ballot.

Why didn't the legislature put both options directly before the voters, and have whichever plan the voters approved become law?

It is not clear why the legislature decided to put the question to the voters as a "yes" or "no" on the Senate proposal rather than a choice between the alternatives on which the legislature deadlocked. We do know why the vote is advisory only: According to attorneys, allowing the voters to actually choose which proposal becomes law would be an unconstitutional and illegal delegation of legislative power.

Who actually wrote the language of the ballot measure?

The legislature included language for the ballot measure in the 1985 act. The language that will appear on the ballot is slightly different, having been revised for clarity by the lieutenant governor, the state's chief elections officer. The wording that will appear on the ballot is found in Appendix B. The original ballot language can be found on page 12 of the current longevity bonus law, reprinted here in Appendix D.

How would the bonus be changed if the 1987 legislature adopts either of the two proposals?

Let's start with the House proposal since it is simpler. If you were born before January 1, 1923, the bonus program will continue for you as if nothing had changed. If you were born on or after that date you will get nothing. Looking at it another way, if you turn 65 before 1988, you are grandfathered "in;" if your 65th birthday comes in 1988 or anytime after, you are "out."

Among the effects of the House plan is that everyone getting the bonus now will remain eligible in the future. Another effect of this arrangement is that the minimum age to qualify for the bonus will increase by one year each year. At the beginning of 1989, eligibility will be restricted to those 66 and older; at the beginning of 1990, the only persons eligible will be age 67 and older. By the year 2034 the eligibility age will have risen to 111. Somewhere around that time the last eligible individual in Alaska will have died, and the program will end.

What about a person born before 1923 who just arrived in Alaska? Do newcomers get the bonus too?

Yes, after they have lived in Alaska for the required one year. A person arriving in Alaska in 1990 at age 70, for example, would be eligible sometime in 1991, after he or she had established residency by living here for one year.

How about an eligible person who leaves Alaska and then returns?

Before receiving each month's check, recipients certify with a postcard that they are physically present in Alaska. Bonus recipients who plan to be absent from the state for more than 30 days are required to notify the state so that payments can be stopped. Payments immediately resume when the person returns if the total time voluntarily spent out of state during the preceding 12 months was less than 90 days. If the total voluntary absence is greater than 90 days the individual is treated like any other newcomer, and must wait a full year to again qualify.

Until 1985, the limit on voluntary absences was 180 days. Analysts have long noted a seasonal cycle in bonus payments with peaks occurring in late summer and troughs in late winter which were believed to reflect increased travel out-of-state during the colder months. After shortening the length of a permitted absence, several hundred otherwise eligible recipients dropped out of the program, suggesting that some elderly Alaskans may be willing to forgo the financial benefits of the bonus in favor of maintaining the practice of prolonged winter trips out-of-state.

Would this 90 day limit also apply under the Senate plan?

Yes. With respect to people born before 1923 (e.g., people who reach 65 before 1988) the two proposals and the current law are identical -- those people are grandfathered and for them it will be as if the law were never changed. People born after 1937 (e.g. people now younger than 49) would also be treated identically under either the House or Senate proposal -- they will never get a bonus.

The differences between the Senate and House plans must be particularly important for people born between 1923 and 1937, since the choice doesn't seem to matter for anybody else.

The only individuals with a direct personal stake in the choice between the two alternatives for phasing-out the bonus are people born between 1923 and 1937, i.e., people who are now between age 49 and age 63. Under the House plan they will never receive a bonus. Under the Senate plan they would receive a bonus after they turn 65, but the amount of the bonus check would be reduced each year in step with the increasing maximum possible annuity payment obtainable under the Senate annuity proposal.

In a general sense, of course, everyone has a stake in the choice of plan, as citizens in a more or less just society and as taxpayers whose money is redistributed to the elderly by means of the bonus program.

What is "the maximum possible annuity payment" under the Senate plan, and how does it relate to the bonus that the Senate plan would give to persons who become 65 in 1988 or later?

The Senate plan would create an optional annuity purchase program funded with permanent fund dividends. If you chose the maximum level of participation in the program (which would be available only to those born in 1923 or later) you would receive no dividend. Instead, the state would use your money to establish an annuity account on your behalf. Interest earned on your investment would accrue to the account, and on reaching age 65 the money in the account would be used to purchase an annuity, probably from a large insurance company, with you as the beneficiary. For the rest of your life you would get a fixed monthly annuity check. The amount of the declining bonus received by persons with birth dates in 1923 or later is determined by amount of the maximum possible monthly straight life annuity payment for a person giving up all possible permanent fund dividends, subtracted from \$250. The idea was that the combined bonus and annuity of those who made the maximum contributions would never fall below \$250 per month.

For example, a person turning 65 in 1988 (i.e., born in 1923) would have had the opportunity to give up only one dividend, of about \$600. The maximum straight life annuity that could be purchased with \$600 for a person age 65 would be about \$5 per month, so the bonus in 1988 for persons turning 65 in that year would be about \$245 per month.

A person turning 65 in the year 2000 (i.e., someone now age 51) could have contributed a maximum of 13 full permanent fund dividends. OMB estimates that the maximum annuity obtainable from this investment in 2000 will be about \$164 per month. Thus the bonus received in 2000 by everyone between the ages of 65 and 77 would be \$86 (\$250 minus \$164). This bonus would be received regardless of whether or not the individual had participated in the proposed annuity program. As shown in the table below, sometime around 2003, the maximum annuity will exceed \$250 per month. Thereafter no bonuses will be paid to persons born in 1923 or

later. The table is necessarily based on guesswork concerning future permanent fund dividends, annuity investment earnings, and the implementation of the annuity mechanism in the Senate bill. The exact amounts will not be known until a few months before they are paid.

Table 1.
SENATE ANNUITY PLAN
Estimated Monthly Bonus Payments For Persons
Reaching Age 65 in 1988 or Later (Born in 1923 or Later)

<u>Fiscal Year</u>	<u>Maximum Monthly Annuity</u>	<u>Monthly Bonus</u>
1988	\$5	\$245
1989	\$12	\$238
1990	\$29	\$231
1991	\$27	\$223
1992	\$36	\$214
1993	\$46	\$204
1994	\$57	\$193
1995	\$70	\$180
1996	\$85	\$165
1997	\$101	\$149
1998	\$120	\$130
1999	\$141	\$109
2000	\$164	\$86
2001	\$190	\$60
2002	\$219	\$31
2003 and after	further growth	\$-0-

Remember, persons who reach 65 before 1988 are not affected by the declining bonus. They continue to get the full \$250 per month under either the House or Senate proposals.

Who will be responsible for managing my annuity account investment?

The state Commissioner of Revenue.

Suppose I put my dividend into the annuity. Can I get my money out if I have a sudden financial emergency?

No. Once invested in the state sponsored annuity your money will not be available to you until you become 65, and then only as monthly annuity payments.

Do I lose my annuity if I leave the state?

No. If you invested in the annuity program and are 65 or over, you are entitled to your monthly annuity check, regardless of where you reside. The checks won't necessarily start coming by themselves, however; you will probably have to apply for them.

What if I should die? Will my survivors get anything?

Persons contributing to the annuity will be able to choose a survivor benefits option, but doing so will reduce the monthly annuity amount that you will receive. The declining bonus amounts shown in Table 1 are calculated using the "maximum possible straight life annuity," which is obtained by foregoing all dividends and not choosing the survivors option. The annuity investments of those who die before age 65, without having chosen the survivor option will be divided equitably among the accounts of those who survive.

Assuming the Senate plan is adopted, can I avoid paying income taxes on my permanent fund dividend by giving it to the state to put in my annuity account?

No. Regardless of whether you take the dividend in cash or have it put in your annuity account, you still will be required to report it as taxable income on your federal income tax return.

What about the interest earned by my annuity account or the monthly annuity payments? Would taxes be due on either of these?

Under the current federal income tax law, the interest earned on your annuity account is not taxable as it accrues. Any tax liability on the interest accruals is avoided through wording in the statute that denies any legal obligation to pay anything to you. When you do receive your annuity payments, however, you will have to pay taxes on the part of each annuity payment that is paid from the interest earnings on your contributions.

Are you saying that the state is not legally bound to pay me back any of the permanent fund dividend money I might deposit in my annuity account?

That is correct. The law says that notwithstanding anything else, the state "is not obligated to provide annuity payments for annuity credits..." (AS 43.23.130 .) Without this language you would be required to pay taxes each year on the interest accruing to your account. According to the attorney general's office, the state's deferred compensation plan for its own employees operates under similar language.

How would the proposed revisions to the federal tax code affect the Senate's annuity plan?

The effects of the new tax bill on the annuity program are not yet clear.

Could I take my permanent fund dividend to an insurance company right now, and use it to buy an annuity much like the one that the state would be offering under the Senate plan?

Yes, many such plans are available from insurance companies, banks, and other institutions.

Will the state annuity proposed under the Senate plan be more attractive than plans now available from insurance companies and others?

Alaskans will choose or not choose to give up their dividend based on the details of the annuity program available from the state, the earnings rate that they expect to receive from the state, and how well the program is marketed. None of these details are known, but there are reasons to anticipate that few people will opt for the annuity.

Why might the annuity plan not be popular?

A dividend recipient must first decide that he or she wishes to devote the proceeds of the dividend to obtaining additional retirement security. National economic data indicates that Americans devote less than 10 percent of incremental income to savings as a whole. Retirement saving, such as the proposed annuity plan, is a smaller subcategory. Demographic and economic factors suggest that the marginal savings rate in Alaska is lower, although surveyed recipients of the 1982 and 1983 dividends reported that they devoted from 18 to 20 percent of those dividends to savings generally. In any event, the percentage of their dividend that most Alaskans would wish to save is likely to be less than the minimum 25 percent annuity contribution allowed under the Senate proposal.

But if a dividend recipient should wish to devote as much as 25 percent of the dividend to retirement savings, will he or she prefer the state's annuity plan over the alternatives? Insurance industry sources, though naturally disposed to favor their own annuity products, are confident that few will choose the state plan over their own offerings, in part due to the inaccessibility of the individual's investment under the Senate plan. "When I sell annuities to people, the one thing everyone asks about is the ability to get their money out in an emergency," noted one agent. "I just don't think anyone will be very interested in a plan that doesn't have that escape hatch, even if it did offer a better earnings rate."

These factors might be overcome by aggressive marketing or relative ease in obtaining the state sponsored annuity. If the Senate annuity plan is adopted, however, a section along the following lines will have to be added to the permanent fund dividend application.

SECTION 11.

(CHECK ONLY ONE BOX.)

- A. I wish to receive 100 percent of my dividend as cash in a check from the state
 If you checked box A you have completed your dividend application. Be sure it is properly signed and witnessed and received by the Department of Revenue or postmarked before June 30, 1987.
- B. I wish to have all or part of my dividend used to create an annuity account which will be maintained for me by the state.
 If you checked box B, you must use the boxes in Section 12 on the next page to choose the options you prefer.

SECTION 12.

A. How much of your dividend should go to you as cash and how much to your annuity account (CHECK ONLY ONE BOX).

- 100 percent to my annuity account.
- 75 percent to my annuity account, 25 percent to me as cash in a check from the state.
- 50 percent to my annuity account, 50 percent to me as cash in a check from the state.
- 25 percent to my annuity account, 75 percent to me as cash in a check from the state.

B. Indicate below whether or not you wish to choose the survivor's option. Remember, you may not change your choice once an annuity credit is issued to your account.

(CHECK ONLY ONE BOX).

- I do not want the survivor's option. I understand that my survivors will receive nothing from my annuity should I die before reaching age 65.
- I want the survivor's option. I understand that my annuity payments on reaching age 65 will be reduced as a result of this choice.

Experts will no doubt word the application differently. Even so, the natural inclination of most applicants will be to choose the cash and skip the rest.

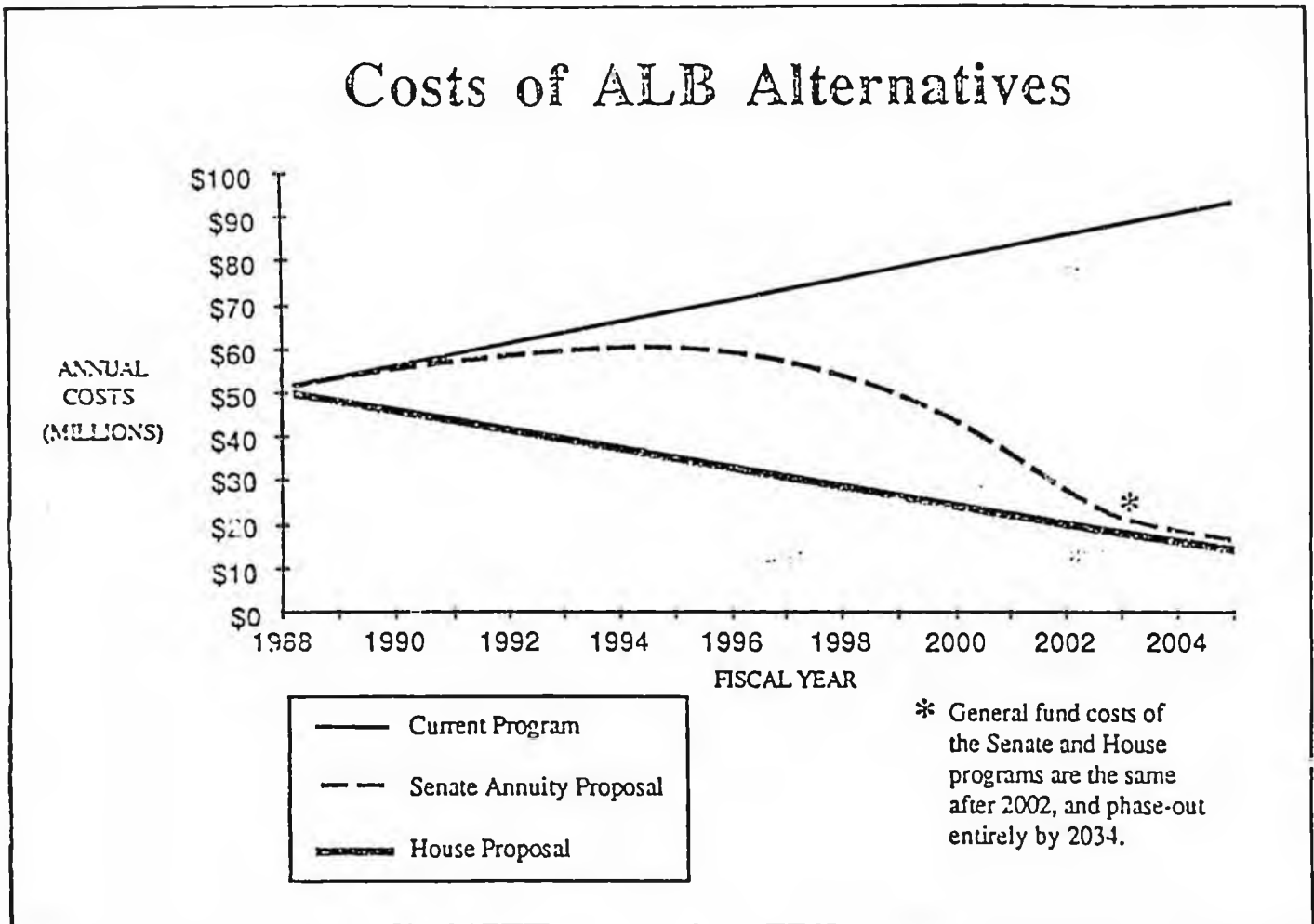
Will a shortage of annuity participants create any problems?

The administrative costs of the annuity program are to be deducted from the annuity investment fund. These deductions will likely be a proportionately greater burden if relatively few Alaskans choose to participate in the annuity program.

What about the cost to the taxpayers? The Senate plan is better for folks who are now 49 to 63, but doesn't that also mean it is going to cost more?

Yes, because it pays bonuses to those younger individuals the Senate annuity plan will cost more than the House approach, especially during the 1990s. For example, OMB estimates that in 1995 the cost of the House program will be \$34.6 million, compared with \$59.2 million for the Senate bill in that year. After about 2002, the declining bonuses which the Senate program will pay to these younger individuals will have been eliminated by the increasing maximum annuity, so the costs of both programs will be the same after that year. The total costs through the year 2002 are \$521 million for the House plan, \$774 million for the Senate plan, and \$1,026 million for the current law. Under either the House or Senate program all costs will end by 2034. Here is a chart showing the annual estimated costs of the House and Senate alternatives and the costs of the current law if it is left unchanged. The annual costs are also shown in the Table in Appendix A.

Chart 1



What happens if the permanent fund dividends are eliminated sometime in the future?

Under the Senate proposal, permanent fund dividends play a critical role in the phase-out of bonus payments. Indeed, if the dividends were eliminated in 1987, the result -- under the Senate proposal -- would be an indefinite continuation of the bonus. In the Senate plan the declining dividend going to those born in 1923 or later is determined by subtracting the maximum possible monthly annuity from \$250. But what if the maximum possible annuity is zero, as it would be if the dividend program were eliminated in 1987? In that case the bonus of those born in 1923 and later would never decline below \$250 per month, and no phase-out would occur. Costs of the Senate program would then be the same as costs of continuing the current program.

Elimination of the dividends in later years would mean that the maximum possible monthly annuity would grow much more slowly than anticipated, and the bonuses received by those born in 1923 or later would decline more slowly than shown in Table 1. As a result, the costs of the Senate plan would be greater than the amounts shown in Chart 1 and Appendix A, though still less than the costs of continuing the current program.

Assuming the Senate plan were adopted, doesn't the tie between the dividend and the annuity lock the state into the dividend program in the future?

That argument has been made. As a legal matter, the legislature would remain perfectly free to eliminate either the dividend, the bonus program, or both at any time it chose. As a practical matter, the connection between the two programs under the Senate proposal may make the dividend politically more difficult to eliminate. Some see that as a good result, others the opposite.

APPENDIX A

General Fund Costs of Proposed Bonus Program Alternatives

-----millions of dollars-----

<u>Fiscal Year</u>	<u>Costs of House Proposal</u>	<u>Costs of Senate Annuity Proposal</u>	<u>Costs of Current Law</u>
1988	49.3	49.9	49.9
1989	47.7	52.4	52.7
1990	45.5	54.8	55.6
1991	43.3	56.6	58.2
1992	41.1	57.9	60.7
1993	38.9	58.9	63.4
1994	36.7	59.2	65.9
1995	34.6	59.2	68.8
1996	32.5	58.2	71.4
1997	30.3	56.1	73.6
1998	28.2	53.2	76.1
1999	26.1	49.1	78.5
2000	24.1	43.7	81.1
2001	22.1	36.8	83.6
2002	20.2	28.2	86.2
2003	18.3	18.3	88.9
2004	16.5	16.5	91.6
2005	14.8*	14.8*	94.9†

*Annual general fund costs continue declining, and reach zero by 2034.
 †Annual general fund costs likely to continue increasing.

APPENDIX B

Ballot Language For Advisory Vote on Longevity Bonus Annuity Program

The Fourteenth Alaska State Legislature considered two alternatives to the present longevity bonus program. Both were adopted into law, but neither will take effect unless the legislature chooses one of them. The legislature has asked for an advisory vote of the public on the annuity option which is described below.

The annuity option provides that every individual who reaches age 65 by January 1, 1988, including those already receiving the bonus, would receive a longevity bonus payment of \$250 per month. In addition, a person under age 65 on January 1, 1988, could participate in an optional annuity program by depositing all or part of his or her permanent fund dividends in an account held by the state. Upon reaching age 65, a person would receive a monthly payment in an amount determined by how much was contributed to the account. The annuity payments would be supplemented with declining longevity bonus payments paid for with general funds until the annuity accounts were large enough to provide monthly payments of \$250 a month.

The second option provides that every individual who is 65 years old by January 1, 1988, including those already receiving the bonus, will receive a longevity bonus payment of \$250 per month, but that anybody younger than age 65 by January 1, 1988, would not be eligible for benefits.

Should the legislature adopt the annuity option?

YES () NO ()

BALLOT MEASURE NO. 3

STATEMENT IN SUPPORT OF BALLOT MEASURE NO. 3

The annuity plan is designed to assist Alaskans in retaining and continuing the longevity bonus concept.

It appears, by personal choice, to be the only way additional Alaskans can continue to qualify and then receive the bonus through the means of an annuity.

In these times of economic stress, the enactment of an annuity plan would lessen the present financial burden the state is carrying under the plan presently in effect.

Besides providing a retirement plan for Alaskans of all ages, no matter whether they are employed by the state or the private sector, continuing the bonus will help keep people off welfare and in their own homes.

It's your choice, just like the annuity would be your choice. You may not personally need the help it will provide, but thousands of other Alaskans certainly do.

Bill Ray
State Senator

STATEMENT OPPOSING BALLOT MEASURE NO. 3

In the simplest words possible, the Annuity Program would give every Alaskan the choice of banking their permanent fund dividend in yet another State controlled pension fund or simply receiving the dividend. It is offered as an apology to all the people who will not be 65 years or older on January 1st, 1988 and will not be able to participate in the current Longevity Bonus Program.

The Annuity Program is simply a smoke-screen for what your Legislator is afraid to tell you. That is we can no longer afford the Longevity Bonus Program since the Supreme Court ruled that we cannot limit the Bonus only to Alaskan Pioneers (residents before Statehood).

The Longevity Bonus costs \$50 million annually and is growing by leaps and bounds since the court threw open the doors two years ago. If you are 65 years old and resident for one year, you are eligible for the \$250 per month bonus. These simple requirements make it astonishingly easy to cheat. Alaskans should question just how much of the annual \$50 million giveaway is flying south every month. The largess of the Longevity Bonus is what caused the Legislature to dream up the Annuity Program alternative.

We don't need an Alaskan version of the Federal Social Security System. Invest your Permanent Fund Dividend in any Individual Retirement Account (IRA) and you will exceed all the benefits and security that the Annuity Program will have to offer. There are thousands of private IRAs and pension funds to invest in that offer you a lot more flexibility and control over your own money than the proposed Annuity Program.

In a letter from Governor Sheffield to House Speaker Grussendorf on June 17, 1985* the Governor said the proposed Annuity Program "...could be taxable...an individual has no vested property right...no ability to withdraw contributions or earnings...no ability to transfer or rollover to another plan..." and "There is no option for an individual to manage or direct the investment." The Governor went on to say that "It is hard to see who would utilize the Annuity Program" and "It is conceivable that the program would be such a failure that the administration costs would totally consume the contributions..."

A "NO" vote on Ballot Proposition No. 3 would send a clear signal to the next Legislature that we don't want another tax supported retirement plan. We need to phase-out or "stair step" away from the well intended but fiscally irresponsible Longevity Bonus Program.

Alaskans pride themselves on being individuals. Being an individual means freely managing our own affairs including our own retirement. Individualism does not mean living to retire off the sweat and taxes of other Alaskans.

Vote "NO" on Ballot Proposition #3.

—Jack Sanderson
P.O. Box 021031,
Juneau, AK 99802

*House Journal, page 1747

BALLOT MEASURE NO. 3

Using current forecasts of Alaska's population and economy, the State Office of Management and Budget estimates that between now and the year 2002, the General Fund costs of the annuity option will be \$774 million, compared to the General Fund costs of the second option of \$521 million. After the year 2002, the annual costs of both options will be identical, and in both cases will decline. By about the year 2034, General Fund payments under both programs will have been completely phased out.

TABLE 1: Monthly Annuity and Residual Bonus Calculation

FISCAL YEAR	PERMANENT FUND DIVIDEND	MAXIMUM ANNUITY ACCOUNT VALUE	MAXIMUM MONTHLY ANNUITY	RESIDUAL LONGEVITY BONUS PAYMENT
1988	\$ 582.32	\$ 582.32	\$ 5.39	\$244.61
1989	631.36	1,268.52	11.75	238.25
1990	664.06	2,052.04	19.00	231.00
1991	680.41	2,925.70	27.09	222.91
1992	688.14	3,889.37	36.02	213.98
1993	714.51	4,970.16	46.03	203.97
1994	751.26	6,189.48	57.32	192.68
1995	802.98	7,575.35	70.15	179.85
1996	857.42	9,146.17	84.70	165.30
1997	914.51	10,922.01	101.14	148.86
1998	974.26	12,924.84	119.69	130.31
1999	1,036.77	15,178.80	140.56	109.44
2000	1,090.37	17,698.63	163.90	86.10
2001	1,159.89	20,525.27	190.08	59.92
2002	1,232.76	23,690.98	219.39	30.61
2003	1,308.74	27,230.80	252.17	

Chronology Assumptions: November 1956—Voters approve annuity plan; February 1987—Legislature repeals staircase sections of Ch. 99 SLA 1953; April 1987—Annuity option offered on PFD applications distributed this month; October 1987—Individual annuity accounts created, and dividend deposits to them; January 1988—First reduced ALB payment paid.

Notes: Dividends from "Revenue Sources Quarterly, March 1986." Annuity accounts continuously compounded at 9 percent. Annuity based on 213 monthly payments.

TABLE 2: Forecasts of Populations and Number of Recipients

FISCAL YEAR	POPULATION 65 & OVER ON APRIL 1 (2/13/85 RUN)	POPULATION 65 & OVER BEFORE APRIL 1, 1988 ON APRIL 1 (3/26/85 RUN)	POPULATION 65 & OVER FISCAL YEAR AVERAGE	POPULATION 65 & OVER BEFORE JAN. 1988 FISCAL YEAR AVERAGE	POPULATION 65 & OVER AFTER JAN. 1988 FISCAL YEAR AVERAGE	RECIPIENTS 65 & OVER BEFORE JAN. 1988 FISCAL YEAR AVERAGE	RECIPIENTS 65 & OVER AFTER JAN. 1988 FISCAL YEAR AVERAGE
1988	18,769	18,769	18,469	18,270	199	16,443	179
1989	19,828	17,941	19,511	17,675	1,836	15,908	1,652
1990	20,913	17,109	20,579	16,855	3,723	15,170	3,351
1991	21,908	16,277	21,558	16,036	5,522	14,432	4,970
1992	22,849	15,451	22,484	15,222	7,262	13,700	6,536
1993	23,861	14,631	23,480	14,414	9,066	12,973	8,159
1994	24,799	13,815	24,403	13,610	10,792	12,249	9,713
1995	25,891	13,005	25,477	12,812	12,665	11,531	11,398
1996	26,863	12,200	26,434	12,019	14,415	10,817	12,973
1997	27,692	11,400	27,249	11,231	16,018	10,108	14,417
1998	28,657	10,607	28,199	10,450	17,749	9,405	15,974
1999	29,556	9,825	29,084	9,679	19,404	8,711	17,464
2000	30,511	9,058	30,023	8,924	21,100	8,031	18,990
2001	31,459	8,309	30,956	8,186	22,770	7,367	20,493
2002	32,440	7,580	31,921	7,468	24,454	6,721	22,008
2003	33,448	6,876	32,913	6,774	26,139	6,097	23,525
2004	34,483	6,199	33,932	6,107	27,825	5,496	25,042
2005	35,721	5,553	35,150	5,471	29,679	4,924	26,711
2006	37,130	4,941	36,537	4,868	31,669	4,381	28,502
2007	38,489	4,368	37,874	4,303	33,571	3,873	30,214
2008	42,309	3,834	39,665	3,777	35,888	3,399	32,399
2009	42,124	3,342	41,520	3,292	38,227	2,963	34,404
2010	44,312	2,892	43,309	2,849	40,459	2,564	36,413

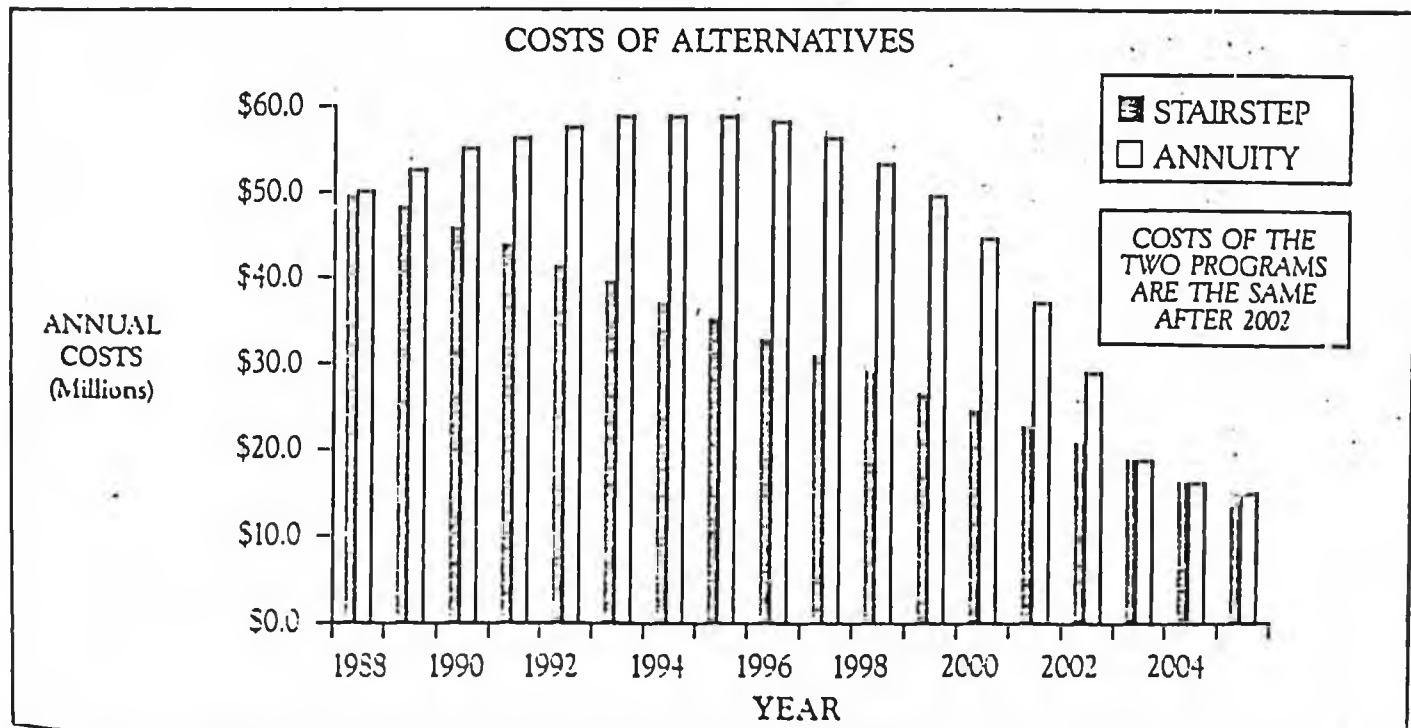
BALLOT MEASURE NO. 3

TABLE 3: Calculation of Program Costs Under Alternatives

FISCAL YEAR	(1) RECIPIENTS 65 & OVER AFTER JAN. 1988 (FISCAL YEAR AVERAGE)	(2) RESIDUAL ALB	(3) RECIPIENTS 65 & OVER BEFORE JAN. 1988 (FISCAL YEAR AVERAGE)	(4) COSTS OF STAIRSTEPPING ALTERNATIVE (MILLIONS)	(5) COST OF ANNUITY ALTERNATIVE (MILLIONS)
1988	179	\$244.61	16,443	\$ 49.3	\$ 49.9
1989	1,652	238.25	15,908	47.7	52.4
1990	3,351	231.00	15,170	45.5	54.8
1991	4,970	222.91	14,432	43.3	56.6
1992	6,536	213.98	13,700	41.1	57.9
1993	8,159	203.97	12,973	38.9	58.9
1994	9,713	192.68	12,249	36.7	59.2
1995	11,398	179.85	11,531	34.6	59.2
1996	12,973	165.30	10,817	32.5	58.2
1997	14,417	148.86	10,108	30.3	56.1
1998	15,974	130.31	9,405	28.2	53.2
1999	17,464	109.44	8,711	26.1	49.1
2000	18,990	86.10	8,031	24.1	43.7
2001	20,493	59.92	7,367	22.1	36.8
2002	22,008	30.61	6,721	20.2	28.2
2003	23,525		6,097	18.3	18.3
2004	25,042		5,496	16.5	16.5
2005	26,711		4,924	14.8	14.8
Total costs through 2002:				\$520.7	\$774.2
(Costs after 2002 are the same for the two alternatives)					

Cost=(column 3)(\$250/mo.)*(12 mo.)

†Cost=[(column 1)*(column 2)*(12 mo.)] + [(column 3)*(\$250/mo.)*(12 mo.)]



Benefits: Legislature considers changing bonus program

Continued from page A-1

When it began in 1973, it sent checks to 3,641 residents who arrived before 1959. As intended originally, the bonus program would end when the "pioneers" had all died or left the state.

But that vision changed in the 1980s, when a man who had arrived in Alaska three months after statehood wondered — via lawsuit — why he should be denied a monthly check.

The courts agreed and the

program was subsequently opened to everyone who was 65 and had lived in Alaska for one year. That brought thousands of new people into the program and its budget jumped from to \$30 million in 1984 to \$48 million this year.

"We have a program that grows larger every year," stated Gov. Steve Cowper in a letter to House Speaker Ben Grussendorf last week. "At the same time, we are faced with an unprecedented crisis in our budget. We can no longer afford to provide this sub-

stantial benefit to an ever-increasing population of senior citizens."

Cowper's letter accompanied a bill introduced into the legislature Friday that would cut the bonus payments from \$250 a month to \$200 for residents earning less than \$20,000 a year. The higher the income, the less the payment. Those earning \$20,400 a year, for example, would get \$183. Those earning \$25,499 would receive \$16 a month.

And those born after 1923 — those who turn 65 by next Jan. 1,

1988 — will discover themselves ineligible.

John Andrews, state deputy commissioner of administration, said the new program will save the state \$21 million in its first year.

"Cowper's proposal is very scary for a lot of seniors. They see the props being knocked out from under them," Lauzen said.

She said most seniors don't want to see the bonus program changed at all, but if there has to be a change, they prefer a plan now before the state Senate.

That plan, a compromise between the ideas of Sens. Jay Kerttula, D-Palmer, and Jim Duncan, D-Juneau, sets up an annuity-type program, whereby residents have to put money into the annuity to get money out of it later.

The Kerttula plan doesn't affect those now receiving checks. And those who aren't getting the bonus yet can ensure themselves of \$250 a month after age 65 by contributing their permanent fund dividends — or the cash equivalent — into the annuity ac-

count every year.

The idea holds that the up-front money and the interest it earns will eventually replace the state's contributions. State costs would drop from \$13 million this year to approximately \$15 million in the year 2000.

Kerttula said he's optimistic his proposal will have easier sailing in the legislature than Cowper's plan.

"I don't think we should send a message to the elderly that we don't want them here," Kerttula said.

Seniors air views about Longevity Bonus

Times Juneau Bureau

JUNEAU — Once you've gotten \$250 a month with no money down and no obligation, it's unsettling to watch government tinkering with the program that makes it possible.

That's what Sen. Rick Uehling, R-Anchorage, discovered when he asked his downtown constituents what they thought of proposed changes to the Longevity Bonus.

In a district that includes the Anchorage Pioneer Home, Anchorage Senior Center and Chugach View housing center for the elderly, he got 40 letters on the subject.

Here's a sampling of the response, mostly from those opposing Gov. Steve Cowper's plan to trim the bonus from \$250 to \$200 a month:

- "I for one, cannot do without it. I would be a street person, and at 74, I could not go that bit. If you people in Juneau want the seniors in Alaska, you will leave the longevity fund as it is and do not

cut it at all."

- "Sorry to see our new governor go off in such a radical direction. He is now referred to at the senior center as governor cow poop."

- "If that juvenile (Cowper) gets his way in cutting those payments to us who have more than paid our way and like to continue to do as much as we can, it will be a sad state of affairs."

- "I have been an Alaskan since 1947, worked paid state income tax, and I feel people like me have built Alaska. What a difference now!"

- "Talk about people leaving Alaska. If they take the little I am getting, I'll have to be one of them."

- "I feel that people like myself, who have lived in Alaska for 35 to 40 years will be shut out. The beneficiaries will be the people who have lived here four or five years. That should not be called 'Longevity Bonus.'"

Chronology of the Longevity Bonus plan

Times Juneau Bureau

JUNEAU — Here is a capsule history of Alaska's Longevity Bonus program, the only one of its kind in the United States:

- 1972: The legislature passes a Longevity Bonus law, giving \$100 a month to all residents 65 and older who have lived in Alaska since before statehood in 1959.

- 1973: 3,641 Alaskans get their first check.

- 1978: Check goes up to \$150.

- 1980: Check increases to \$200.

- 1981: Another increase, to \$250.

- 1982: Rodney Vest sues, claiming it unconstitutional for him to be denied a check because he moved to Alaska three months after statehood.

- 1983: Superior Court rules program unconstitutional the way it is set up.

- 1984: Legislature adopts new rules for the program, opening it to all residents 65 and older who have lived in Alaska at least one year. Task force begins investigating cheaper alternative to

Longevity Bonus.

- 1985: Gov. Bill Sheffield signs bill to put annuity-type substitute to the program on the 1986 ballot.

- 1986: Voters decide 99,000 to 66,000 to end the bonus by beginning an annuity program.

- 1987: Legislature begins crafting a bill to phase in the annuity program favored by a majority of voters. Gov. Steve Cowper works on bill that would cut bonus to \$200 and restrict it to those making less than \$20,000 a year.

Senior Voice

OPAG

Older Persons Action Group, Inc.

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P.O. Box 102240, Anchorage, Ak 99510

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Annuity bill jumps first Senate hurdle

by Rebecca Goodman

Following three statewide teleconferences and a committee work session on a pair of Longevity Bonus/annuity bills, Sen. Jay Kerttula's (D-Palmer) SB 56 has received the Senate State Affairs committee's preliminary nod of approval.

Throughout the teleconferences, seniors had voiced strong support for both Kerttula's SB 56 and SB 57, sponsored by Sen. Jim Duncan (D-Juneau).

In the final committee work session, however, SB 56 edged out SB 57 because committee members said it "wouldn't limit access to the annuity program" the way SB 57 might.

After one more teleconference on the bill March 2, Kert-

tula's bill is expected to be voted out of committee and sent to the Health, Education and Social Services committee.

"Senate Bill 56 would repeal stairstepping and put into place the annuity option voters approved by a wide margin during last November's election," Kerttula explained.

"Anyone now on the bonus program and anyone who turns 65 by January 1, 1988, would receive \$250 per month from the bonus program. Anyone under 65 on January 1, 1988, could participate in an optional annuity program allowing them to place their yearly Permanent Fund Dividend checks into a retirement annuity account to be drawn

Annuity jumps hurdles . . .

from page 1

upon at age 65.

"Nothing would change for current recipients. Others, upon turning 65, would receive at least \$250 per month either from the bonus or a combination of the bonus and their annuity account," he said.

Kerttula said his plan "treats seniors more fairly than other bonus proposals."

State officials in the Division of Policy estimate SB 56 would, by the year 2000, cost the state less than \$30 million to operate. Officials said the current bonus program would

cost the state an estimated \$86 million during the same time period.

Prior to the State Affairs committee's passage of SB 56, the measure underwent two changes.

One amendment recommended by Sen. Joe Josephson (D-Anchorage) would allow amounts equivalent to the yearly Permanent Fund Dividend to be contributed to an individual's annuity account.

Josephson had expressed concern for individuals who find their dividend checks have been "attached" by the

courts. Without a dividend check to place into an annuity account, those individuals would be unable to contribute to their own annuity plan.

The amendment allows individuals to use sources of money other than dividends to contribute to an annuity retirement account.

A second amendment to SB 56 allows an early withdrawal from an annuity account to accommodate the expenses of a catastrophic illness.

Kerttula said he is "extremely optimistic" about SB 56. "It's fair and it's the right thing to do," he added.

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OPINION

LETTERS

SB 56 would activate annuity

The legislative session has just begun for 1987, and there have already been a lot of suggestions and rumors about changes to Pioneers' benefits. Because of this I would like to let you know my stand on these possible changes to the different programs.

I have always supported progressive programs for pioneers. I try to listen to seniors and put into action their ideas and suggestions for programs to support good quality lifestyles.

Twice I have worked and gotten the payments increased for the Longevity Bonus. I will continue to work for the bonus and to safeguard it from being discontinued or otherwise

changed. *I feel it is absolutely essential that this program continue and that all those currently receiving bonus payments must continue to receive them in the future.* State dollars used for this important program are well spent. The program is vitally important to Alaskan citizens.

I have introduced Senate Bill 56, which puts into law the proposition approved by the people last November. This bill, when passed, will allow the annuity plan to be activated. This legislation is important because it will help strengthen the Longevity Bonus program and make it available to all Alaskan Citizens when they reach the age or 65.

The senior citizen homeowners' property tax exemption has also benefited many of Alaska's citizens. I have continually supported this exemption. I believe that property taxes are an additional burden that most retired citizens cannot afford. I will continue the fight to keep the property tax exemption for seniors.

I do not support the \$20,000 income level for annuities and I do not believe in the administration's proposal to eliminate the property tax exemption for those over 65.

Jay Kerttula
State Senate
Palmer

LEGISLATURE '87

JUNEAU EMPIRE

THURSDAY, FEBRUARY 12, 1987

Seniors oppose reductions, changes in longevity bonus

By CHUCK KLEESCHULTE

Alaska senior citizens Wednesday said it quite clear that they would prefer that lawmakers look elsewhere to save money and continue the state's longevity bonus program as is.

During a statewide teleconference before the Senate State Affairs Committee, seniors made it crystal clear they aren't in favor of Gov. Steve Wynn's proposal, yet to be formally introduced, which would convert the bonus program to a financial

needs basis limiting the bonus checks to the elderly who make less than \$20,000 a year and cutting the size of the bonus to \$200 a month from the current \$250.

The changes would save the state just over \$15 million next year.

Seniors, if they have to accept a change, seemed to favor a proposal by Sen. Jay Kerttula, D-Palmer, that would convert the program into an unlimited annuity-funded bonus. Seniors would be grandfathered into their current level of benefits, even though it would require future Alas-

kans to donate their Alaska Permanent Fund dividend checks to get into the annuity program.

In expressing support for the Kerttula proposal, they largely passed over a proposal introduced by Juncos Sen. Jim Duncan that also would set up an annuity-based bonus, but limit it only to Alaskans who are 65 or will turn 65 within the next 14 years. The Duncan concept was originally proposed by former Gov. Jay Hammond last year as an alternative to continuing the court-ordered annuity program indefinitely or

phasing out the program - so-called stair-stepping - a concept backed by the House in 1985.

"I know there is some financial problems, but I support continuation of the existing program. This is one area that should receive solid fiscal support from the legislature," said former Petersburg Rep. Ernie Haugen.

Swede Wasvick, grand president of the Pioneers of Alaska, said that seniors during his visits around the state clearly want the existing program continued. "The consensus of

opinion is that everyone wants the existing program continued without change," said Wasvick.

Past president of the pioneers, Bob Gore, also spoke against any cut in the monthly payments, arguing that a reduction would simply cut the amount of money the elderly can afford to pay for rent in the state Pioneers' Homes. He said a cut, coupled with repeal of the senior citizens property tax relief also proposed by Cosper, might force the elderly onto welfare, costing the state the same amount of money.

Overwhelmingly, seniors argued they did not want the longevity bonus to be changed to a program tied to financial need because it would then equate in their minds to welfare.

"The whole intent when the bonus was passed was that it was a reward to Alaskans who braved so much living here before statehood, that I wouldn't be a form of welfare, would rather see the whole program end than it turned into welfare," said Ruby Coil of Kenai.

Only a few seniors testified in support of cutting the program.

The Senate panel is set to resume its debate over switching the longevity bonus to an annuity program on Monday. If lawmakers do nothing, the current program continues - one that pays all seniors 65 and over with a 30-day residency the bonus.

NEW BILLS

How bills flow are the bills and resolutions introduced in the House and Senate on Tuesday and Wednesday, the 22nd, 23rd and 24th of the 1987 Alaska Legislature.

By Ed Jones, R-Ketchikan; Jim Josephson, D-Anchorage; Tom Kelly, R-Anchorage; Pat Rader, D-Anchorage; Alvin Sorensen, R-Anchorage; Rick Collins, R-Anchorage.

- SB1196 Relating to kindergarten programs and compulsory education. By Rep. Mike Miller, R-Anchorage.
- SB1197 Establishing a special research division within the Legislative Affairs Agency. By Rep. Jim Zwick, R-Ketchikan; Ray Brown, I-Anchorage; Steve Fitch, R-Fairbanks.
- HB1111 Relating to money payments for state land mineral disposal and to the disposition of the land. By Rep. Nick DePoy, D-Fairbanks.
- HB1112 Relating to the revamping of certain residential housing mortgage loans purchased by the Alaska Housing Finance Corporation. By Rep. Randy Phillips, R-Eagle River.

- HB1113 Relating to development on right-of-way lease applications. By Rep. Dick Smith, R-Fairbanks.
- HB1114 Relating to regulation of gambling and publishing the Alaska Gambling Board. By Rep. Fred Perryjohn, R-Anchorage.
- HB1115 Relating to...

- SB1198 Relating to the public school foundation program. By House Committee at request of governor.
- HB1116 Making a supplemental appropriation, a transfer of the state, and transfers in the FY 87 operating budget. By Rules Committee at request of the governor.

NEW YORK: HANNAH

A Stitch In Time